AUSTRALIAN ENERGY COUNCIL

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Department of Climate Change, Energy, the Environment and Water
and Department of Industry, Science and Resources
Australian Government

Submitted online at: https://consult.dcceew.gov.au

Re Domestic Gas Reservation Scheme – Draft Design Framework

The Australian Energy Council (AEC) welcomes the opportunity to provide comment on the draft Design Framework for the proposed Domestic Gas Reservation Scheme.

The AEC is the peak industry body for retailers and generators operating in energy markets. Our members generate and sell energy to over 10 million homes and businesses. We seek to deliver a market that allows consumers to benefit from the transition to a reliable, affordable and decarbonised energy system. The AEC supports the transition to net zero emissions by 2050, and the role of the electricity sector in unlocking opportunities for reductions in other sectors. AEC members are major investors in the renewable energy, firming and energy security services needed to deliver an effective transition.

Whilst some AEC members do have upstream gas interests, this submission is written from the perspective of the AEC as a peak body for electricity generators and gas retailers.

Overall Views

The AEC has supported a domestic gas reservation scheme in principle, on the basis that a well-designed scheme could provide a stable and enduring framework to promote gas supply and give confidence to market participants that recent ad hoc interventions will be phased out. However, the AEC is concerned that the current design of the scheme may impede the practical operation of the gas market. In particular, it appears to introduce regular and ongoing uncertainty into the market and a high level of discretion for Ministers. This risks significant market distortion, and increases the likelihood that gas contracting may become very short term and severely undermine incentives for investment in domestic production.

Further, the proposed design does not address known infrastructure shortfalls that would impede the flow of gas to southern jurisdictions, creating compliance risks, impacting NEM dispatch and compounding uncertainty. These issues create a situation that would be a significant step backwards from current arrangements.

We suggest that a fundamental re-think of the scheme design is required. This should focus on a long-term and strategic approach that is more likely to promote the contracting and investment confidence in gas markets that would benefit all stakeholders. This should include:

- An overall target that is better aligned with forecast domestic gas demand. We suggest this should be referenced to any projected shortfalls.
- A target that is set for the long-term - say 15 years, with phases of about 5 years to allow for some adjustment over the medium term.

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- Domestic supply obligations (DSOs) set over multi-year periods of about 5 years - to encourage longer-term risk management of supply and a more stable market. This could also be supplemented with modest banking and borrowing requirements.
- Delaying scheme commencement – to align with recent demand and supply projections, as outlined in the Gas Statement of Opportunities[1].
- A multi-year transitional period - to account for the rolling-off of existing foundational LNG contracts. This should involve clear communication to the market about what overall obligations are required.

This submission also comments on a range of other issues, including:

- Role of retailers
- Obligation to supply
- The term 'modest oversupply'
- Release valve
- Minium liquidity requirement
- Renewable gases
- Interaction with state policies

Detailed Comments

Long-term policy design

As stated above, the AEC has supported the concept of a domestic gas reservation scheme in principle, on the basis it can provide a stable and enduring framework to promote gas supply and give confidence to market participants that recent ad hoc interventions will be phased out. To do this, it needs to have a long-term target, with minimal interference in the short term and clear grounds on how targets can be adjusted.

The draft design framework described in the consultation paper fails these criteria. It introduces regular uncertainty through features such as the annual nature of the potential adjustments to obligations, and a potentially high level of discretion for the Minister and AER to provide exemptions. This will most likely lead to a market with very short-term contracting, that will also severely undermine investment in new supply. This risk should not be understated – at worst, the scheme could completely remove any commercial reason to invest in new gas supply in the domestic market.

These features appear to be driven by an overall target that is too high. The 20% target, referenced to LNG exports, is a rough approximation that is generally considered far too high by industry participants. This is then driving a requirement to provide a mechanism to adjust annual obligations, which will increase uncertainty in the market.

Whilst gas will likely play an important role in the future, such as to firm up renewable electricity generation, overall gas demand appears to be in structural decline in Australia. This has been well articulated recently by AEMO[2], and also by the Grattan Institute[3]. In the 2026 Gas Statement

[1] AEMO, 2026 Gas Statement of Opportunities, 2026
[2] AEMO, 2026 Gas Statement of Opportunities, 2026
[3] Grattan Institute, *Out of gas: Managing the decline of gas in Australia*, 2026

of Opportunities (GSOO), AEMO states that total gas consumption is forecast to decline as households, businesses and industry electrify, reducing their reliance on gas. Further, In the NEM, gas-powered generation demand is also expected to fall below previous forecasts, driven by significant investment in battery storage. In fact, the recent AEMO Quarterly Energy Dynamics[4] report notes that gas-powered generation was at its lowest levels since 1999.

The AEC suggests that a more effective and workable approach would be to better calibrate the overall target with expected domestic demand. We suggest this should be referenced to any projected shortfalls and could include a small buffer (say 1-2% of annual demand). This contrasts to the 'modest' oversupply noted in the consultation paper, which we believe would lead to a material oversupply that could not be reasonably absorbed in the domestic market.

We acknowledge this forecasting is not an easy task and will require more detailed analysis. However, we believe it is a prudent and logical approach when the intention is to establish an enduring framework. It may also require a transitional period (about 2030-35) as foundational export contracts roll-off (see further below).

A target that is set closer to forecast demand will require less adjustments. Further, if flexibility is built into the scheme design it can minimize the need for regular interventions and the use of discretion. A more stable scheme, with clear criteria and governance about how any variations can occur, will promote increased confidence to contract over longer terms as well as assist investment in new gas supply and infrastructure.

Flexibility to meet DSOs could be provided in a number of ways. We suggest consideration of:

- A target that is set for the long-term - say 15 years, with phases of 5 years to allow for some modest adjustment over the medium term.
- Individual DSOs could then be set for multi-year periods, say about 5 years, which would better reflect the time it takes to relieve supply constraints. A longer period would also encourage longer-term risk management of supply and a more stable market. There could be various ways to implement a multi-year approach such as a rolling 5-year period or a 5-year period set a few years in advance. Either way, the intention would be to provide a significant notice period and encourage more long-term behavior.
- This could also be supplemented with modest banking and borrowing requirements for obligated parties.

Scheme commencement

The draft design indicates an intention to commence the new domestic gas reservation scheme from 2027, and to legislate the scheme this year. However, AEMO's most recent estimates from the 2026 Gas Statement of Opportunities (GSOO) have pushed back potential supply shortfalls to 2029 or later, stating:

"The 2026 GSOO forecasts gas shortfall risks during extreme peak day demand conditions from 2029 in southern Australia, with a need for additional supply in most scenarios from 2030."

[4] AEMO, *Quarterly Energy Dynamics Q1 2026*, 2026

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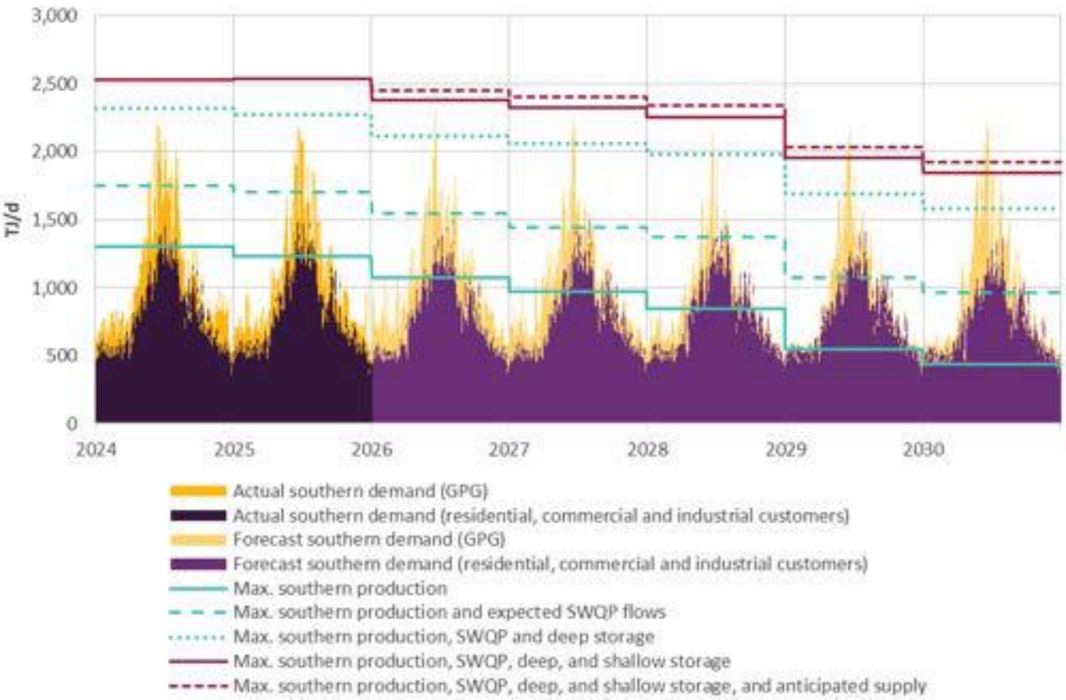
Figure 4: Actual daily southern gas system adequacy since January 2024, and forecast to 2030 using existing, committed and anticipated projects, reference year 2024 (TJ/d)



Source: AEMO, 2026 Gas Statement of Opportunities

Considering this, the AEC suggests that a prudent course of action would be to take the time to properly design the new scheme. The current proposal for a 2027 start-date may distort the market, obliging producers to supply a domestic market that does not yet demand these volumes. A scheme that starts around a few years later seems more appropriate.

Transition period

A key principle articulated in the announcement of the policy is not to impact existing contracts for supply of LNG to international markets. The period to about 2035 will likely involve transitional arrangements to account for the large amount of exemptions that such contracts will entail. We note that the consultation paper appears largely silent on this, instead covering these existing contracts in the individual variation process.

The AEC suggests that it would be better to define the net targets for this transition period up front and for a longer period (say 5 years). If a target that was referenced to any projected shortfall was used, this would also make the overall market position clearer for all participants.

Importantly, this transitional period should involve clear communication to the market about what overall obligations are required and when. This will assist with contracting and the efficient operation of the market. There may be a role for AEMO to provide this transparency.

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Other comments

- Role of retailers - retailers play a critical intermediary role in the Australian gas market because they sit between upstream producers, transportation providers, storage providers and end users, and perform a set of commercial and operational functions that most individual buyers cannot efficiently replicate. Rather than simply on-selling commodity gas, retailers aggregate diverse customer demand, manage volume and shape risk, contract across multiple supply sources, secure and optimise transport and storage capacity, and absorb mismatch risk between long-term upstream and infrastructure commitments on the one hand and shorter, more flexible downstream customer requirements on the other. These intermediation functions are central to efficient market operation and should be recognised in the design of any domestic reservation framework.

- Obligation to supply – the description of a potential obligation not just to offer but to actually supply gas appears unworkable. The AEC was concerned with discussion at an industry roundtable that implied that regulated entities will be required to supply gas even when this is not commercial. Such a proposal appears to go too far, and we would suggest that a more balanced approach be considered which includes an obligation to offer gas, on fair terms, with appropriate criteria to demonstrate how an obligated entity has attempted to fulfill this. The proposed transparency measures would also act to incentivize regulated entities to offer gas on fair terms.

- Modest over-supply – comments in the consultation paper that the government is targeting a 'modest' over-supply are concerning. Basic economy theory suggests that interventions to oversupply a market will have consequences. If the market becomes oversupplied to the extent that spot gas is below the cost of production, this threatens the long-term integrity of Australia's gas market; contract liquidity will disappear, investment will dry up, resources will diminish. This not only threatens the energy transition, but also Australia's prosperity and security.

  Further, a modest over-supply may not be manageable from an operational perspective. The domestic gas market has some storage, but it is limited. If excess gas is in the system then the next most likely use would be to burn it through gas-powered generators, which may be a sub-optimal use and lead to perverse environmental outcomes.

- Release valve – the proposed design of the release valve introduces regular uncertainty into the market. As noted above, an overall target that is better calibrated with domestic demand, coupled with some reasonable flexibility mechanisms, should reduce the need for such interventions. If the release valve is retained, we suggest that it only be used a few years in advance of any projected over-supply. There should also be clarity around the criteria the AER would apply when assessing market conditions under the release valve.

  Further, the release valve criteria as currently proposed are not practical. These should be amended in a way that reflects physical constraints on the market. For example, how Queensland-based LNG exporters could provide liquidity in southern hubs, without relevant transportation rights.

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- Minium liquidity requirement (MLR) – coupled with the uncertainty driven by an annual calibration process, the MLR is likely to create moral hazard whereby gas buyers may be incentivised to contract on a shorter-term basis or rely more on spot market trades. This would be inconsistent with the stated objective of supporting longer-term contracting to support investment in gas supply and infrastructure. We suggest that if the MLR is retained, it should be reduced to more closely align with the proportion of gas traded through the Wallumbilla Gas Supply Hub (say around 15%) and target liquidity during peak periods.

- Renewable gases – the AEC supports the inclusion of renewable gases as a potential option to acquit liability under the DSO.

- State-based legislation - the market needs sufficient notice and visibility of the interactions between state and federal policy to make informed investment decisions.

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