

Australian Government
Department of Industry, Science and Resources
Oil and Gas Division

Submitted online.

24 September 2026

Domestic Gas Reservation Scheme: Exposure Drafts

The Australian Energy Council ('AEC') welcomes the opportunity to make a submission to the Department of Industry, Science and Resources' (the 'Department' or 'DISR') consultation on the *Domestic Gas Reservation Scheme: Exposure Drafts*.

The Australian Energy Council is the peak body for energy retailers and generators operating in competitive markets. Our members generate and sell energy to over 10 million homes and businesses and are committed to delivering a reliable, affordable and decarbonised energy system for consumers. The AEC supports net zero by 2050 and recognises the electricity sector's role in reducing Australia's emissions. Our members are major investors in renewables, firming and storage technologies that are critical to ensuring customers continue to receive reliable and sustainable energy supply as we navigate the energy transition.

The AEC supports the Domestic Gas Reservation Scheme in principle. A well-designed scheme should:

- provide a durable and predictable regulatory framework to promote long-term gas supply and investment;
- support a competitive domestic gas market;
- minimise ad-hoc government interventions;
- encourage producers to invest in innovation, efficiency improvements, and cost-reduction initiatives that enhance the long-term competitiveness of the gas industry; and
- avoid settings that drive domestic gas prices to levels that are consistently uneconomic for producers.

Overall recommendations

1. Set the oversupply upper limit no higher than 5 per cent, which is near to 25 PJs and enough to maintain the Iona gas storage at maximum capacity. The current upper limit of 10 per cent is material and would significantly and adversely impact multi-year investment and contracting signals.
2. Clarify compliance of the "must sell" obligation to avoid gas being sold at non-commercial prices and crowding out domestic producers.
3. Use a rolling multi-year period, preferably five years, rather than an annual process for setting the Domestic Supply Obligations (DSO) to encourage longer-term risk management of gas supply and a more stable market.
4. Place clear consultation requirements on the Australian Energy Regulator (AER) with respect to setting and enforcing the DSO.
5. Establish a range over forecasted DSOs that becomes firmer as the given compliance year approaches.

Notwithstanding these recommendations, the AEC considers the Bill to be a step in the right direction compared to the draft Design Framework consulted on earlier in the year, particularly framing the 20 per cent DSO as an upper limit and introducing a demand calibration mechanism for DSO determinations.

The proposed six-month commencement delay, separation of markets by physical region and the winding down of the Australian Domestic Gas Security Mechanism (ADGSM) and reasonable pricing provisions are sensible and should be retained in the final legislative package.

Comments on 110 per cent oversupply

Up to 10 per cent oversupply requirement is material

Section 24(6) of the Bill gives the Minister the power to set a target aggregate supply up to 10 per cent above total forecasted supply (in effect, a total supply of 110 per cent). The Minister can lower the percentage subject to meeting some conditions contained in Section 26(7-8).

The Explanatory Memorandum describes the 10 per cent as a “modest margin” that is “intended to provide flexibility to address uncertainty in forecasting, changing market conditions and potential fluctuations in the supply or demand of natural gas in a domestic gas market during the regulated period”.¹

The AEC considers a 10 per cent oversupply to be material rather than modest. For some context, a 10 per cent margin represents nearly 50 PJs of additional gas into the east coast gas market. That is close to the total industrial gas use in Victoria and double the maximum capacity of the Iona gas storage facility which the ACCC says has ‘central importance in meeting southern state gas needs’.²

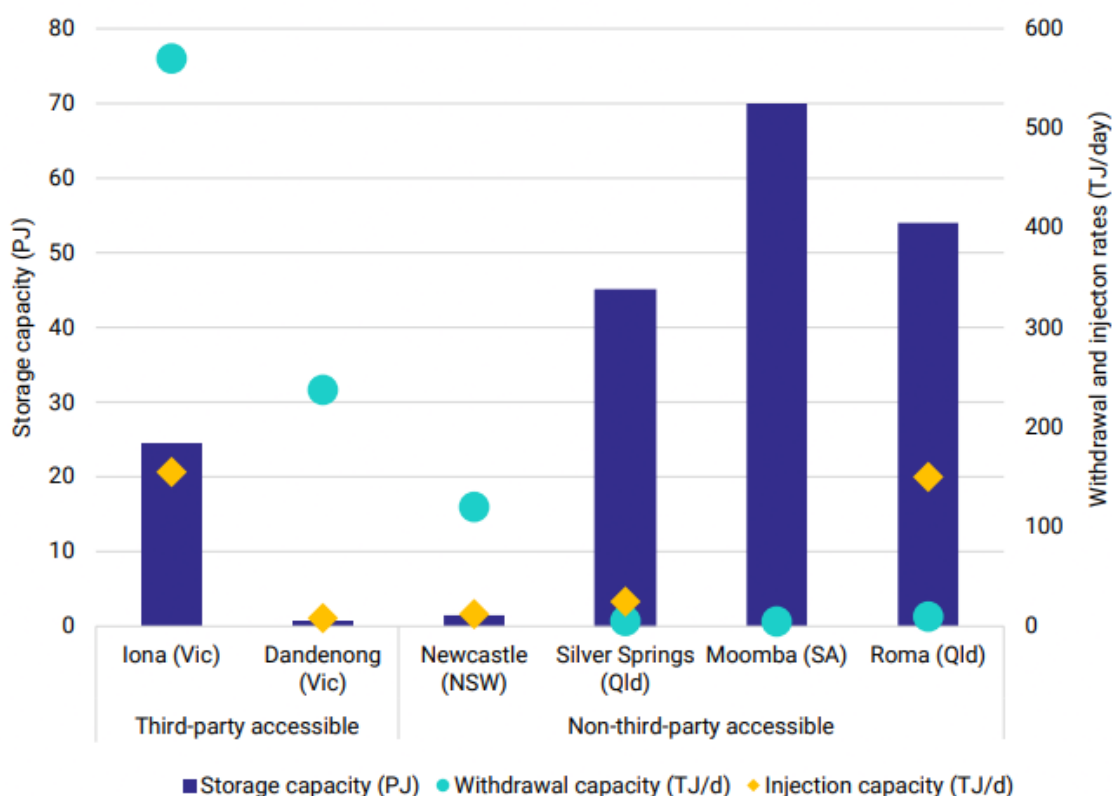
While there are larger storage facilities in Queensland, there are physical constraints to timely delivery of that supply during imminent shortfalls, and AEMO has noted that even with anticipated investment in transport and supply, it is ‘not yet sufficient to replace declining southern production or meet winter peak day demands of similar magnitude to historical peaks’.³ It is still unclear how these infrastructure gaps will be addressed.

¹ Explanatory Memorandum, paragraph 114.

² ACCC, ‘[Gas Inquiry 2017-2030: Interim update on east coast gas market](#)’, June 2026, p32.

³ AEMO, ‘[Gas Statement of Opportunities](#)’, March 2026, p12.

Figure 1: Storage, withdrawal, and injection capacity, by facility



Source: ACCC, [Gas Inquiry 2017-2030](#), p36.

A 10 per cent oversupply will have major, deleterious impacts on the domestic gas market

Such a large oversupply cannot be fully stored and would need to be absorbed by the domestic market. This might result in lower gas prices in the near-term but will have substantial and negative impacts on long-term energy security, contrary to the Objects of the Bill.

Specifically, these impacts are:

- Dampened investment signals – this will reduce the ability to maintain long-term supply adequacy. The ACCC has said that ‘there will need to be ongoing investment in gas production by both LNG exporters and domestic producers’ to prevent future shortfalls.⁴
- Crowding out of domestic producers – it will become harder for domestic buyers to contract on durable terms, and increased competition for access to storage may become cost prohibitive.
- Disruption to electricity markets – increased use of gas-powered generation to absorb excess gas could disrupt investment signals for renewable generation and storage.

Even if the Minister determines a lower percentage, market participants will still operate with knowledge that a full oversupply could be enforced in a future compliance period. This uncertainty will reduce confidence to invest and does not provide a “predictable regulatory framework” as per section 3(c).

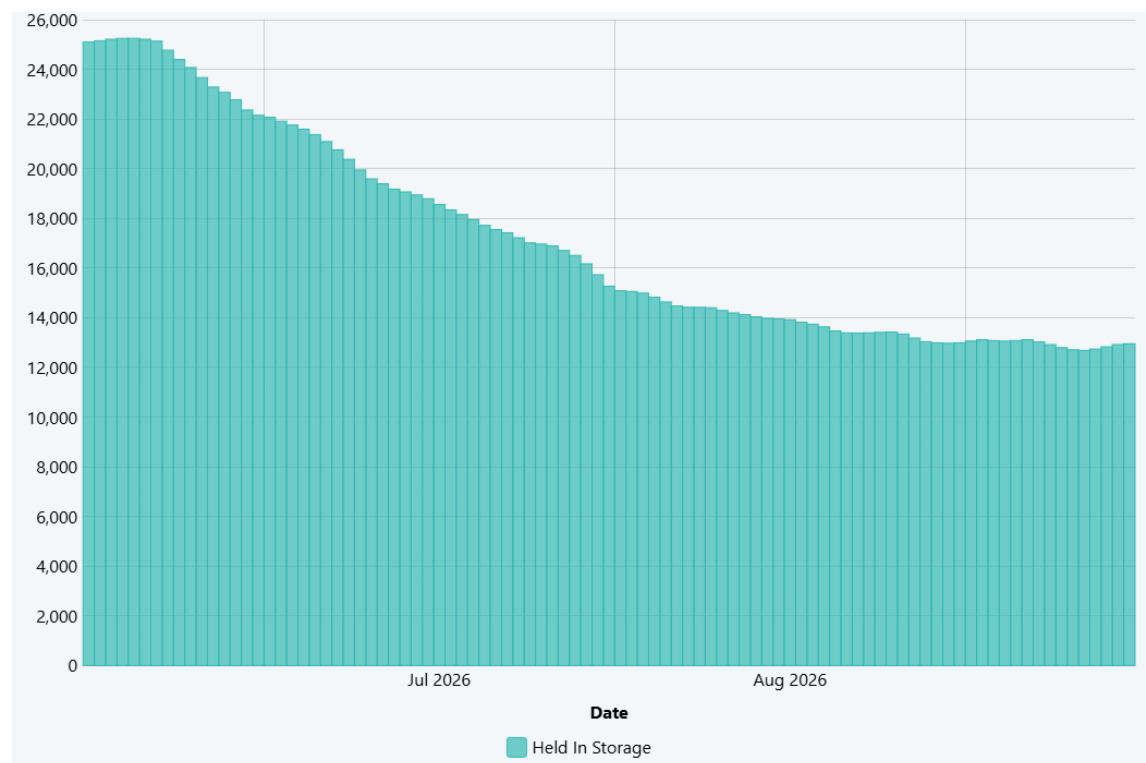
⁴ ACCC, [‘Gas Inquiry 2017-2030: Interim update on east coast gas market’](#), June 2026, p3.

The oversupply cap should be lowered to no higher than 5 per cent

The AEC strongly encourages a lower margin cap to reduce the severity of market impacts. While there is no economically optimal level of oversupply, the AEC endorses the recommendation from other stakeholders, such as the Grattan Institute, that an upper limit of 5 per cent is closer to being a “modest” margin.

For some context, an upper limit of 5 per cent (about 25 PJ) would theoretically be enough to ensure Iona maintains near maximum storage capacity in winter months, which may be a loose benchmark for the level of oversupply that can be absorbed to manage southern shortfalls and minimise impacts to the domestic market.

Figure 2: Iona Underground Gas Storage, June 2026 to August 2026



Source: AEMO, [Data Dashboard – Gas](#).

Deferred quantities should be reflected in forecasting to avoid market flooding

Regardless of whether the oversupply margin is lowered, there should be transparency of deferred quantities to avoid market flooding beyond the upper limit. Since the flexibility mechanisms allow for deferred quantities to be acquitted over three regulatory periods, a situation could arise where one regulatory period is flooded with volume to make up for previous deferrals. Deferred volumes should be monitored by AEMO and reflected in AEMO’s Gas Statement of Opportunities (GSOO) forecasts.

Comments on DSO Requirements

Demand calibration mechanism sensible but still needs further refinement

The AEC supports the intent to align the AER's demand calibration with forecasted domestic gas demand contained in AEMO's GSOO and provide a five-year forecasting window. These measures give market participants some visibility on potential future DSO settings, however the five-year forecasting window does not provide the necessary level of certainty needed for multi-year planning and investment.

There are ways the demand calibration mechanism and five-year forecasting window can be further refined to meet the Objects of the Bill:

- The forecast DSO should establish a range that becomes firmer as the given compliance year approaches. This will improve the predictability of the forecasting window and enable longer-term decision-making.
- Use a multi-year period, preferably five years, for setting the DSO. This would encourage longer-term risk management of gas supply and provide the market with certainty about the volumes of gas they could expect to be delivered in future years, allowing them to make commercial decisions to invest in new projects.
- The AER should be required to consult with industry when determining its approach to setting the DSO forecast. GSOOs have historically pushed out shortfall forecasts, which arguably reflects that market arrangements have solved supply gaps before they eventuate. Consultation with industry will help avoid overly conservative bands that do not properly account for market developments, as well as provide visibility about the assumptions and analysis sitting behind any forecast.
- Ministerial determinations on potential reductions to a licence holder's DSO should be made before, and therefore serve as an input, to the AER's calibration process.

The AEC notes the Bill and Gas Market Code ('Code') currently provide no guidance around how the Regulator should allocate the aggregate obligation across individual licence holders. The AEC suggests the AER should be required to adopt an equitable approach in allocating an aggregate supply target across individual licence holders.

90 per cent DSO supply requirement is unclear

If the 110 per cent oversupply target is left unchanged, licence holders are probably unable to satisfy the firm 90 per cent supply obligation without displacing domestic producers. This outcome, if realised, could mean domestic producers are forced to compete against licence holders selling gas at uncommercial prices to avoid non-compliance.

The current drafting may also disincentivise long-term contracting if the volumes under the obligation can be delivered at any point right up to the end of the obligation year. Buyers would have little reason to lock in supply early in advance which will make bilateral contracting difficult and reduce the confidence suppliers need to investment in new gas supply and infrastructure.

The Department should clarify how the "must sell" requirement will be assessed and enforced. Specifically:

- Will there be flexibility for licence holders where there is no corresponding demand for the full 90 per cent?
- What happens to the accrual of deferred volumes and will it contribute to the level of oversupply?

- What happens to licence holders that are unable to sell accrued volumes after the three-year period?

Given the complexity in assessing compliance, the Bill should require the AER to develop guidance through consultation with stakeholders on its compliance approach. The AEC's view is that compliance should require licence holders to act in good faith and undertake reasonable endeavours when pursuing commercial pathways to satisfy their full DSO. The AER's guidelines should also clarify what would constitute offering gas on "domestically competitive terms".

The Department should also consider options to relax the "must sell" aspect of the obligation to manage impacts to the competitive domestic market. This could involve setting a lower DSO calibration or "must sell" level and/or establishing a process for market participants to submit that there is no genuine, commercial demand for the full supply of the DSO within the compliance year.

Clarify treatment of legitimate domestic customer and retailer sell backs to LNG exporters

Under the Exposure Draft, it appears that any gas purchased by an LNG exporter would increase the licence holder's DSO position. As currently drafted, this is likely to create unintended outcomes where gas originally contracted for bona fide domestic consumption cannot efficiently be resold when demand falls below expected levels.

For example, many retailers and large industrial customers enter take-or-pay contracts for domestic use. If their demand subsequently falls and they remain obligated to pay for contracted volumes, the current framework appears to allow an LNG exporter to acquire and export that excess gas while the domestic buyer bears the cost of the unused gas and has limited ability to monetise the surplus. This creates a potentially perverse outcome whereby the exporter receives the benefit of excess gas volumes despite the domestic customer having paid for them.

The AEC considers there should be a mechanism in either the legislation or the Code that permits genuine domestic sell-backs where:

- the gas was originally contracted for bona fide domestic consumption;
- the resale is initiated by the domestic buyer because its demand is below contracted supply;
- the gas has first been offered domestically through a reasonable and proportionate process; and
- the transaction does not reduce gas available to domestic users over an appropriate assessment period.

In these circumstances, the acquisition of gas by an LNG exporter should not increase the licence holder's DSO or fail any additionality test.

Shape management and reallocation of surplus contracted gas will be particularly important in a market designed to maintain a modest oversupply, and surplus gas should flow to its highest-value use where domestic demand is not present.

Other comments

Supported changes

The AEC notes the Domestic Gas Reservation Bill contains improvements to the draft Design Framework consulted on earlier this year. The AEC supports the changes below and they should be retained in the final design:

- Separation by physical region – settings DSOs for markets based on their physical separation sensibly accounts for different market settings and gas infrastructure constraints.
- Six-month commencement delay – pushing back commencement to 1 January 2028 allows better alignment with recent gas supply and demand projections.
- Removal of ADGSM and reasonable pricing – these laws are no longer relevant.

Transparency and guardrails should dictate use of Ministerial discretion

The current Bill only requires the Minister to consult with other government ministers and consider the AER's advice. This does not provide market participants with transparency or confidence about the Minister's reasons for exercising discretion.

There should be prescribed decision-making criteria for the Minister to follow when using their discretion, including requirements around advanced notice (or preferably consultation) to market participants that discretion is being considered and the reasons for this. Likewise, when discretion has been exercised, the reasons and decision-making process should be provided to the market for transparency.

The AEC also encourages guidelines to be published on the scope and frequency of Ministerial discretion to help contribute to a predictable regulatory framework.

Levy Bill

It is currently unclear where the costs of administering the scheme land and how incidence will be monitored and reported. The Bill should clarify that administrative costs will either be absorbed by the Government or placed on market participants subject to the DSO. These costs should not be passed through into wholesale gas prices that are ultimately paid for by retailers and their customers.

Protecting existing, domestic contracts

The legislation should clarify that DSO obligations cannot override or deprioritise domestic contracts entered after 22 December 2025. Many gas retailers and generators hedge their exposure to gas prices through long-term bilateral contracts. It would be detrimental to prudent risk management if LNG producers are allowed to deprioritise existing domestic contracted positions to satisfy their DSO obligations.

Drafting of Bills

The current draft laws are very detailed and the two-week consultation window does not give stakeholders reasonable time to fully understand their meaning and implications. While there are some conditions, there is still a high reliance on Ministerial discretion for key decision-making which creates uncertainty about the scope of powers. This uncertainty may erode willingness to contract on any material contract term unless there are clearer guardrails in place.

To improve confidence in the scheme, the Department should continue to work with industry post-consultation to consolidate the final legislative instruments and supporting material (e.g.

guidance). One minor drafting suggestion is the meaning of “Minister” which does not seem defined. Presumably it is the Resource Minister; this should be stated clearly in the Definitions.

Any questions about this submission should be addressed to Rhys Thomas, by email Rhys.Thomas@energycouncil.com.au or mobile on 0450 150 794.

Yours sincerely,

Rhys Thomas
Policy Manager
Australian Energy Council