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26 June 2026

To: Department of Climate Change, Energy, the Environment and Water
Re: Domestic Gas Reservation Scheme – draft Design Framework

Thank you for the opportunity for the Institute for Energy Economics and Financial Analysis (IEEFA) to provide input to the department's consultation on the design of the domestic gas reservation scheme.

IEEFA is an independent energy finance think tank that examines issues related to energy markets, trends and policies. The Institute's mission is to accelerate the transition to a diverse, sustainable and profitable energy economy.

IEEFA's submission outlines feedback on selected aspects of the draft design, set out in detail in the table below. In summary, IEEFA recommends:

- The national scheme should be applied to Western Australia. In practice, the existing 15% (of reserves) obligation can be recognised, with an annual domestic supply obligation (DSO) applying to address the risk of gas shortfalls.

- Government should develop and publish detailed guidance for market participants, including on the responsibilities of Ministers and the Australian Energy Regulator (AER), as well as criteria that will be assessed by Ministers and the AER as part of their decision-making and determination roles.

- Adjusting DSO requirements to avoid "significant oversupply" is sensible, but the threshold of 110% of domestic consumption still risks oversupplying the domestic market and crowding out supply from non-regulated entities. It would be more appropriate to set DSO requirements based on forecast domestic consumption plus a small buffer (which could be met through minimum storage levels across a range of storage facilities). In other words, defining "significant oversupply" as 100% of what the domestic market can absorb (including storage injections) is likely to be sufficient.

- Government provide greater flexibility to regulated entities by introducing a "demand reduction" framework that would allow regulated entities to reduce their DSOs through funding of credible, effective and permanent demand reduction.

    - To the extent a regulated entity invests in demand reduction, this should only affect their DSO rather than acting to generally lower DSOs across all regulated entities.

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  - Government will need to develop guidance on how such a framework will work in practice, including how demand reductions from specific initiatives will be estimated and how this will affect DSOs.

- The "additionality test" be further tweaked to allow supply from only small domestic producers to regulated entities for the purposes of acquitting their DSOs. This could be implemented through eligibility thresholds related to size, such as market capitalisation or existing gas production.

  - In practice, larger, established gas producers are highly unlikely to require underwriting from regulated entities to develop new gas supplies given their ability to access financing and/or self-fund gas development.

  - By limiting the applicability of the "additionality test" to small producers only, the government will minimise the risk that such commercial arrangements result in regulated entities purchasing gas that would have been supplied domestically anyway.

- Government should also consider adding a cost element to the "additionality test" to ensure exporters are incentivised to underwrite the lowest-cost reserves so the intent of the reservation policy is not undermined. Regulated entity joint venture partners may, in some instances, have incentives to seek to develop higher-cost reserves in which they have separate commercial interests.

- Operation of the "release valve" will be crucial to balance gas markets in light of the approach of setting annual DSOs. It is vital that sufficient gas is held in storage before the release valve can be accessed. This will provide an important buffer while giving regulated entities the flexibility to be able to commit to LNG spot sales (noting spot sales are often organised weeks to months in advance). It will important that gas held in storage is made available if needed.

- The government consider measures to address the potential for creeping acquisitions of existing tenements (whether producing or otherwise), which may allow regulated entities to better acquit their DSOs but in turn limit how much additional gas is supplied.

Kind regards,

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Design element	Potential consequences / implications	Suggested changes or required clarification
Geographic application of the scheme		

WA's existing scheme to be recognised	• Recognition of WA's reservation scheme will, in practice, limit the regulatory burden on regulated entities.
	• However, the WA scheme provides flexibility in the timing of domestic supply, which in turn has resulted in material price increases and the risks of gas shortfalls.
	• The key issue with such flexibility is that LNG exporters have strong financial incentives to delay domestic supply if LNG prices are higher than domestic prices (as is usually the case).
	    ○ This is because an exporter can reduce the financial impact of domestic reservation by delaying domestic supply as much as possible.
	• Without reform, it is unlikely delays in supply will be addressed, meaning WA is likely to suffer shortfalls and/or demand destruction.
	• While Woodside's Browse project has been proposed as a solution, it has not yet reached FID and will not be online before shortfalls emerge in 2028 and from 2030.
	• Without a solution being implemented now, there is the risk that governments will be forced to implement reactive policy measures in coming years, which carries with it risks about policy effectiveness and impacts to investment incentives and certainty.
		• Government should consider applying the national scheme to WA exporters by setting annual DSOs for each regulated entity.
		• DSO variations should be granted initially to allow regulated entities time to make the necessary investments to increase domestic supply (i.e. expanding capacity of domestic gas plants).
		• Crucially, applying the national scheme to WA may not actually require domestic supply above the existing 15% obligation under the WA scheme (but this should be considered by the AER when setting annual DSOs).
		    ○ It may be possible to ensure sufficient domestic supply simply by changing the timing of supply required under the existing scheme.

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<table>
<tr><th colspan="3">Regulatory architecture</th></tr>
<tr>
<td>Ministerial and executive government decisions:
• Set the DSO percentage
• Issue export approvals
• Agree any individual DSO variations
• Direct and delegate matters to the AER

Independent regulator, AER roles:
• Undertake matters delegated by the Ministers
• Develop guidelines and policies relevant to administration of the scheme
• Educate industry participants
• Assessing export approval applications
• Acknowledge compliance plans
• Monitoring and compliance
• Advise and inform ministerial and executive government decisions</td>
<td>• Vesting decision-making with a single Minister may lead to decisions that inadequately consider implications across the gas ecosystem (i.e. impacts on electricity markets and industrial gas users).
• Discretionary decision-making without clear guardrails and detailed guidance risks increasing market and investment uncertainty (for both gas producers and users), which could affect future gas supply and contracting behaviour.</td>
<td>• Ministerial decision-making should be jointly shared by the Ministers for Resources, Industry and Climate Change and Energy.
• Detailed guidance documents should be developed and publish to set out:
  ○ Ministerial and AER responsibilities, including specific guidance on which matters will be delegated to the AER and when.
  ○ Criteria that Ministers will be permitted and/or required to consider when assessing applications for DSO variations.
  ○ Criteria the AER will be permitted and/or required to consider when setting annual DSOs and considering export licence applications.
  ○ Dispute resolution processes for DSO variations and export approvals.
  ○ How the AER will assess exporter compliance with the scheme, including specific metrics that will be considered.
  ○ Enforcement mechanisms in cases of non-compliance.
  ○ Any other relevant matters.</td>
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<tr>
<td>If regulated entities seek a variation to ensure they can meet pre-existing LNG contracts, they must demonstrate to Ministers that there is no viable alternative to meeting their DSOs without a variation, having regard to:</td>
<td><u>Regulated entities’ own reserves</u>
• The draft design indicates forecast LNG production will be considered, but it does not state whether a regulated entity’s ability to develop its own reserves (through higher production levels) will be a consideration.</td>
<td><u>Regulated entities’ own reserves</u>
• The design should clearly establish that a producer’s own reserves will be considered when assessing DSO variation requests.
• The following point should be added to the list of options available to exporters:</td>
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• Volumes committed under current export and domestic contracts • Forecast LNG production • Volume of uncontracted gas • Ability to buy gas from third parties (including domestic producers or other regulated entities to fulfil DSO, subject to satisfying an additionality test) • Ability to conduct location swaps • Ability to flex down delivery volumes under export contracts • Ability to fulfil export contracts using LNG sourced from their portfolios or international markets • Infrastructure constraints • Any other relevant factors	• In practice, this may create incentives for regulated entities to reduce forecast LNG production to minimise their DSO, particularly when LNG spot prices are low. (IEEFA notes that LNG spot futures indicate prices below US$10/MMBtu in coming years.) • For this reason, regulated entities should be required to demonstrate that they cannot develop their own 2P reserves to meet their DSO. • IEEFA notes this may have the unintended consequence of creating incentives for regulated entities to “downgrade” 2P reserves to 2C resources. • Consideration will need to be given to measures to avoid strategic reclassification of reserves and resource estimates. <u>LNG spot market purchases</u> • The draft design notes that regulated entities will need to demonstrate that sourcing LNG cargoes from the international market is not an option. • As worded, this is unlikely to be achievable for regulated entities given the depth of LNG spot market trade. • LNG spot market trade accounts for a material share of global LNG trade, meaning LNG cargoes will almost always be available (although at high prices during periods of relative LNG market tightness).	◦ Ability to develop own gas reserves by increasing production beyond current production forecasts. • To address reserve downgrade risks, government should consider past downgrades in 2P reserve estimates when assessing export approval applications. ◦ Reserve downgrades may indicate resource assessment and/or other risks specific to the regulated entity’s reserves. ◦ Government should develop criteria to account for reservoir and reserve risk (such as not approving export contracts without the exporters retaining a sufficiently large production “buffer”). ◦ For example, a 20% reserve downgrade would result in allowable export volumes (under an export licence) being 20% lower than the volumes that may have been approved without the downgrade. <u>LNG spot market purchases</u> • The design should establish and set out requirements for regulated entities to source replacement cargoes in international LNG markets, including when they would not be required to do so. • This includes clarification of whether there will be a “commerciality test” for replacing cargoes given LNG spot cargoes are generally always available. • If a commerciality test is implemented, there will need to be clear guidance:

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	<u>Underwriting domestic demand reduction</u> • Providing flexibility to exporters to fund gas demand reduction could limit the impact on exports and avoid additional infrastructure investment while achieving the aims of the reservation policy. • There are likely to be many opportunities for gas reduction in Australia, particularly in households and low-heat applications (such as food and beverage manufacturing). • Unlike new gas supply projects, these opportunities are likely to be less risky and faster to implement.	○ On how LNG spot prices and market conditions will be considered when assessing DSO variation requests. ○ On whether regulated entities will be permitted forgo their DSO (post variation) in the event of sudden price spikes in LNG spot markets (i.e. if a regulated entity is expected to purchase spot cargoes, will there be any flexibility in the event prices materially increase?). <u>Underwriting domestic demand reduction</u> • Government should consider additional measures to allow regulated entities to fund demand reduction measures to reduce their DSOs, which in practice will give them greater flexibility. • Government should develop a detailed framework outlining how such a mechanism would work (i.e. bilateral arrangements between regulated entities and gas users, development of a tradeable certificate scheme, recognition of existing state-based crediting schemes). • Government should develop and set out clear guidance on how such funding, and resulting demand reduction, would affect DSOs, including the volume/percentage impact and when it may apply. • IEEFA notes that directly removing 1PJ of end user gas demand through electrification may increase demand for gas generation, resulting in a smaller than 1PJ reduction overall.

Extension or variations to existing contracts are not considered existing contracts	• This is essential to ensure sufficient domestic supply in the early 2030s.	• IEEFA strongly agrees with this design element.
Meeting reservation obligations		

Where a regulated entity is unable to meet its DSO from its own sources of production, it may acquit its DSO by entering into arrangements with other producers to supply gas on its behalf. Any such arrangements must be approved by Ministers as part of the assessment of an application, and must satisfy an additionality test.
 	
That is, the arrangement must result in the supply of gas to the domestic market that would not otherwise have been made available. This could include:
• Gas supplied by another LNG exporter
• Gas supplied via an LNG regasification facility
• Gas supplied by another domestic producer where the regulated entity has underwritten the development of supply from a new field, or from the expansion of an existing field, through investment and offtake
• Renewable gases, including biomethane supplied by a domestic producer, where the regulated entity has underwritten the development of supply from a production facility, or from the expansion of an existing facility.
	<u>Gas supplied by another domestic producer</u>
	• Allowing regulated entities to purchase gas from domestic producers carries the risk that regulated entities purchase gas that would otherwise have come to market (notwithstanding the additionality test).
	• This would result in less additional gas supply overall, and could undermine the intent of the reservation scheme.
	• In practice, assessing whether gas supplied by a domestic producer would otherwise have come to market anyway will be complex and subject to unavoidable information gaps and asymmetries.
	    ○ Basing the additionality test on regulated entity underwriting of pre-FID projects from new or expanded fields does not fully address this risk if these projects would have reached FID anyway.
	• IEEFA notes that some domestic producers may face genuine barriers to developing new gas supply. This is most likely, however, to apply only to small domestic producers that have limited ability to access finance or self-fund gas developments (particularly for producers with little revenue due to zero or little existing gas production and sales).
		<u>Purchases of gas that would otherwise be supplied</u>
		• Regulated entities should be permitted to acquit their DSO through supply only from domestic producers with:
		    ○ A market capitalisation below a specified threshold (which could be reviewed periodically).
		    ○ Existing gas production below a specified threshold (e.g. 50PJ).
		• Limiting to smaller producers is likely to materially reduce the risk that regulated entities purchase gas that otherwise would have been supplied.
		• Government should develop and publish guidance on how the additionality test will be applied in practice, including:
		    ○ Criteria the AER will be permitted and/or required to consider when assessing whether the "additionality test" has been satisfied.
		    ○ Criteria on which domestic producers can supply gas to regulated entities for the purposes of acquitting the DSO (noting IEEFA's recommendation above).
		    ○ Any evidentiary requirements for assessment of the additionality test (e.g. board documents, financial disclosures, bank finance documents etc).

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	<u>Development of higher-cost reserves</u> • Allowing exporters to purchase gas from domestic producers may incentivise development of higher-cost gas reserves, which could support higher domestic gas prices if this gas is the marginal source of supply. • These incentives may arise due to existing ownership interests (i.e. an LNG export joint venture partner may be able to influence the exporter to support development of a tenement in which it separately has interests), limited availability of lower-cost undeveloped fields, or other strategic factors. • The lowest-cost reserves available to Regulated entities are likely to be their own reserves (although there may be exceptions). • Developing major new basins, such as Beetaloo or Narrabri, is likely to require high domestic prices, cross-subsidisation from LNG exports or low returns for investors. Given global competition for capital, the most likely outcome is higher domestic prices.	○ Any other evidence that might be considered, such as previous company disclosures (such as to regulators or investors) on proposed development plans by the domestic producer. <u>Development of higher-cost reserves</u> • Government should augment the additionality test with a cost impact test to assess whether commercial arrangements between exporters and domestic producers, for the purposes of satisfying the DSO, are likely to undermine the intent of the reservation policy to reduce prices • This could include assessment of: ○ Estimated reserve production costs (forward or lifecycle as relevant) for all potential new supply sources ○ The costs of infrastructure required to connect new gas supply to gas users for all potential new supply sources (expressed as a per GJ tariff)
As part of their application for export approval, Ministers will be able to agree to vary a DSO if entities are able to provide evidence they are unable to physically supply gas due to infrastructure constraints. Over time, regulated entities will need to demonstrate they are pursuing commercial arrangements to overcome any infrastructure constraints that may otherwise prevent them	<u>Potential for gaming to avoid DSOs</u> • Providing carve-outs where there are infrastructure constraints may be open to gaming where new infrastructure is required to connect new gas wells to the existing transmission pipeline network. • For example, gathering pipelines for new gas wells in the Surat Basin could be directed to infrastructure not able to supply domestically (i.e.	<u>Potential for gaming to avoid DSOs</u> • Government should recognise infrastructure limitations only for existing infrastructure, and only in instances where regulated entities are unable to enter into commercial arrangements to minimise the impact of infrastructure constraints (i.e. swaps within their own portfolios or with other producers or exporters).

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supplying their DSO gas to the domestic market over the medium-longer term.	into gas plants attached to single-direction pipelines to the Gladstone export projects).	• Where new infrastructure is developed in a way that results in constraints, there should be no variation to DSOs.
Managing annual supply volumes		

Annual DSO flexibility	• Allowing for adjustments to avoid oversupply is crucially important to avoid broader impacts on investment incentives for non-regulated entities.
	• DSO settings that artificially oversupply the domestic market are likely to inefficiently depress prices, with flow-on impacts for investment in new gas supply.
	• In practice, a 10% buffer is likely to be too large, particularly if gas storage levels are relatively high.
		• Government should revise the threshold of "significant oversupply" to match forecast demand with a very small buffer.
		  ○ Ensuring sufficient minimum storage levels (see below) across a range of storage facilities will in practice provide a buffer.
		  ○ Once minimum storage levels and liquidity requirements are satisfied, regulated entities should be permitted to access the release valve.

Release valve mechanism	<u>Minimum storage levels</u> • The draft design notes that a "near-term supply adequacy metric" could include minimum storage levels and rates of drawdown. • Limiting this to storage facilities that offer third-party access would limit domestic storage that could be called upon during unanticipated demand spikes (i.e. coal generation outages).	<u>Minimum storage levels</u> • Government should consider average minimum storage requirements across all gas storage facilities (such as Roma and Moomba underground storage), provided operators of those facilities are either owned by regulated entities or prepared to offer third-party access. • This would provide a buffer against unforeseen spikes in gas demand (such as due to cold weather or coal generation outages) while potentially taking pressure off infrastructure linking Queensland to the southern states (particularly if Moomba gas storage is in scope).
Proposed changes to improve transparency on the east coast gas market		

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Proved and probable reserves (2P)	• Publishing additional notifications of changes to reserves and project status will improve market transparency and help to inform broader investment decisions by both gas producers and users. • However, a lack of information on the costs of reserves likely to be developed, which has implications for market pricing, remains an information gap as future pricing trends will be a highly important aspect of investment decisions.	• Government should explore the feasibility of publishing production cost estimates (lifecycle and forward) for all 2P reserves in eastern Australia and the Northern Territory, based on information either from regulated entities or third-party consultants (i.e. Rystad).
Additional issues not addressed by draft design		
Creeping acquisition of gas tenements	• The reservation scheme may create incentives for regulated entities to purchase/acquire tenements (producing and prospective). • This carries risks that acquisition of tenements will allow regulated entities to meet their DSOs without a corresponding increase in domestic gas supply. • Should this occur, the intent of the reservation policy would be undermined. • The ACCC will likely be limited in its ability to block acquisitions, particularly of smaller tenements, as such acquisitions are unlikely to "substantially lower competition" (which is the relevant test in mergers law).	• Government should consider amending DSO obligations when regulated entities acquire new tenements through commercial arrangements (excluding tenements allocated by governments to regulated entities through standard tenement release processes). • In practice, this may involve a regulated entities' DSO being adjusted upwards when existing tenements (held by other producers) are acquired on commercial terms.