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11 March 2026

To: Department of Climate Change, Energy, the Environment and Water
Re: Feedback on Gas Market Review Implementation

Thank you for the opportunity for the Institute for Energy Economics and Financial Analysis (IEEFA) to provide input to the detailed design and implementation of the Gas Market review reforms.

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.

As outlined in the submission, IEEFA:

- Supports the implementation of a reservation scheme that applies nationally, provided it imposes domestic supply obligations on LNG exporters from 2027 to address the risks of gas shortfalls. With shortfalls projected to occur as early as 2028 in eastern Australia, and 2029 in Western Australia, the scheme must deliver additive domestic gas supply from exporters to ensure domestic energy security.
    - The reservation scheme should include a mechanism to prevent artificial domestic oversupply by allowing producers to export "excess gas" when domestic markets are oversupplied.
- Agrees that existing LNG contracts should be protected, but this should be limited to firm supply commitments that must be satisfied under existing contracts. Any contracts with extension clauses that require LNG exporter approval should be treated as new LNG supply commitments, and should not be protected under the scheme.
- Recommends approvals be required for all LNG exports to ensure sufficient domestic gas supply and energy security. Detailed criteria for export approvals should be developed to guide exporters on their obligations, and to drive good conduct from exporters. In particular, those criteria should ensure that exporters are not prioritising lower-cost gas for exports while directing higher-cost gas to the domestic market, driving up domestic prices.
- Supports these reforms replacing existing gas market mechanisms. Where this is not feasible, existing mechanisms should be streamlined to reduce regulatory burden and uncertainty.

Kind regards,

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IEEFA agrees, broadly, with the reservation policy principles set out in the Gas Market Review final paper, and outlines several high-level considerations to inform the design of the reforms. More detailed guidance on specific recommendations is outlined further in the Appendix.

A federal reservation scheme should be applied nationally

The Gas Market Review provides a much-needed opportunity to implement credible and effective policies to ensure sufficient domestic gas supply and regulatory certainty. Crucially, it is also an opportunity to streamline and, where relevant, supersede patchwork policies implemented in recent years to address broader concerns about the impact of high gas prices.

These policies, while intended to address the negative impacts of insufficient domestic gas supply (due to high exports) and high gas prices, have impacted investment certainty for gas producers.

In IEEFA's view, the key lesson from the past decade is that forward-looking, effective policies, rather than reactive and fragmented policy interventions, are needed to balance domestic supply needs with exports. This point was made in submissions to the Gas Market Review from a range of stakeholders, including the Australian Competition and Consumer Commission, Australian Energy Producers, Australia Pacific LNG and Shell Australia.

With overwhelming public support for reservation policies that prioritise domestic gas supply, it is highly likely that looming gas shortfalls, if not proactively addressed with effective policy measures, will likely lead to further regulatory interventions to ensure sufficient domestic supply, increasing investment uncertainty for industry.

Western Australia is forecast to experience gas shortfalls this decade despite having a reservation policy. A WA Parliamentary Inquiry raised concerns about the efficacy of the reservation policy, and identified that while LNG exporters are required to supply 15% of reserves domestically, collectively they had only supplied 8% at the end of 2023.

This is because the WA policy provides LNG exporters with full discretion over when they supply gas domestically. The main benefit of this approach is that it provides inherent flexibility to ensure domestic supply broadly aligns with domestic demand (thereby avoiding situations of oversupply). However, LNG exporters also have strong financial incentives to delay domestic supply when domestic prices sit below those in LNG markets as this effectively reduces the net present cost of domestic supply.

The result has been rising gas prices in WA, which are well above production costs, and forecast shortfalls from 2029 onwards.

With this in mind, and noting the limitations of WA's reservation policy, it is crucial a new federal reservation scheme also applies to WA to address the risks of shortfalls in coming years. Crucially, a federal scheme could work alongside the existing WA policy to better align domestic supply with demand, by imposing annual supply requirements when needed, thereby ensuring gas is supplied when it is needed.

IEEFA modelling shows that addressing the risks of shortfalls to 2034 would require, at most, diversion of an additional 4% of expected LNG feedgas, meaning domestic supply obligations to 2034 would likely remain within the existing 15% requirement. It is also likely that LNG exporters

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will have sufficient gas supply to avert shortfalls. IEEFA similarly found that diverting just 12% of uncontracted feedgas would be sufficient.

Further, a national reservation scheme would provide additional flexibility to LNG exporters, by allowing exporters in different regions to enter into LNG swaps as required to allow them to meet both export commitments and domestic supply obligations. For example, a WA exporter could provide LNG cargoes to an east coast exporter in return for domestic gas supply on the east coast (which would count towards the WA exporter's domestic supply obligation). This would also effectively allow *intra-region movements* of gas in Australia without the need for additional infrastructure to connect WA with the east coast.

Existing contracts should be respected, with limitations

IEEFA agrees in principle with the recommendation that existing domestic and international contracts should be respected. Foreign investment is critically important for small, open economies such as Australia's, and perceptions of higher sovereign risk could affect investment.

This should, however, be limited to existing firm supply commitments, and not extend to possible future contract extensions or renewals where there is no contractual commitment. In practice, regulation of contract extensions is unlikely to raise sovereign risk considerations given the inherent uncertainty about whether the contract would have been extended. By ceding control of contract extensions, LNG buyers have implicitly accepted the possibility of non-renewal.

As an example, Gladstone LNG's sale and purchase agreement with KOGAS expires in 2031, and includes a clause that would allow, but not compel, GLNG to extend the contract for an additional five years. Under this contract, GLNG is committed to supply KOGAS only until 2031 given it has complete discretion over whether the contract is extended. Extension of this contract, given GLNG's historic reliance on third-party domestic gas purchases, would effectively represent a shift of reserves risk onto all of eastern Australia's gas users.

IEEFA notes that if a contract contains extension clauses that can be exercised solely by the buyer, and are therefore not at the discretion of the exporter, these contract extensions would also need to be respected.

Export approvals to ensure domestic supply and good conduct

The success of the proposed reservation policy will, in part, be determined by whether LNG exporters comply with their domestic supply obligations, underscoring the need for an effective enforcement regime.

The use of export approvals, particularly for new LNG contracts, could be one mechanism to encourage compliance alongside a broader enforcement regime. It would also provide government with an additional lever to prevent over-contracting and the associated sovereign risk concerns if new contracts are required to be broken in future.

In effect, gaining export approvals would require the LNG exporter to have met their previous domestic supply obligations, meaning non-compliance would prohibit or limit future LNG exports.

An export approval framework could also include approval criteria designed to encourage good conduct by LNG exporters, including criteria designed to:

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- Encourage longer-term contracting by LNG exporters (noting this requires gas buyers to also be willing to sign long-term contracts)
- Drive good faith bargaining between exporters and domestic gas buyers
- Incentivise exporters to commit greater volumes of gas domestically in advance
- Discourage exporters from withdrawing gas from the domestic market to meet exports.

An important consideration, however, will be ensuring export approvals are set in a way that avoids the domestic market being artificially oversupplied, which could artificially lower prices, affect investment in new gas supply and slow the pace of essential residential and industrial electrification.

Gas demand in eastern Australia is already falling, and while it is vital for gas-reliant industries to have access to gas on reasonable terms, continued demand reduction in households and suitable industry must not be affected. Reducing demand will help to ensure gas is available for gas-reliant industries over the longer term while reducing household and industrial energy bills.

For this reason, IEEFA supports implementation of a "release-valve" mechanism to allow greater spot exports when the domestic market is at risk of being artificially oversupplied. In assessing when to trigger a release valve, government could give consideration to domestic gas pricing and whether all domestic gas storage facilities are at capacity (including storage facilities that do not offer third-party access). We note that complementary seasonal profiles – where domestic demand is higher and more uncertain in the Australian winter, while international demand tends to be higher in the Australian summer – could support the implementation of such a mechanism.

However, it will be crucial that triggering a release valve does not allow exporters to unduly avoid domestic supply obligations, highlighting the need for enforcement to ensure exporters comply with domestic supply obligations. Existing measures allow government to prevent strategic avoidance of domestic supply obligations. Such measures include a minimum annual supply obligation to ensure sufficient supply while allowing some flexibility to enact a release valve (i.e. each exporter could be required to supply, say, 80% of the annual supply obligation in each year). Further, compliance with the domestic supply obligations could be assessed over a rolling window (i.e. five years) to ensure exporters do not artificially seek to delay domestic supply to a much later period.

A reservation scheme must ensure additive low-cost gas supply

IEEFA agrees, in principle, that LNG exporters should be afforded flexibility to meet domestic supply obligations through a range of commercial and/or market-based arrangements. All other things being equal, this is likely to lower compliance costs for exporters.

However, caution will be needed to ensure any commercial arrangements actually lead to additive gas supply and to avoid development of higher-cost reserves to supply the domestic market.

Specifically, IEEFA has concerns about the prospect of LNG exporters entering into commercial arrangements to purchase domestic gas to meet their domestic supply obligations. In practice, this flexibility could lead to exporters purchasing gas that would otherwise have been supplied domestically anyway, resulting in no or limited additive domestic gas supply.

To the extent this occurs, it will undermine the intent of the reservation scheme, and potentially lead to ongoing supply concerns.

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It may also permit Gladstone LNG to continue purchasing domestic gas for export despite having sufficient 2P (proved and probable) reserves to meet its supply commitments. In its submission to the review, GLNG argued that its investment in smaller gas projects developed by Senex Energy and Westside Corporation led to gas supply that otherwise would not have occurred. GLNG raised this point to argue that small gas producers should not forfeit exemptions from specified provisions in the Gas Code of Conduct if they sell gas to GLNG for export, noting that the current rules had prevented GLNG from supporting new small developments. This argument may suggest GLNG intends to continue purchasing gas from the domestic market to meet its supply commitments (whether domestic or export).

An inherent challenge for government in seeking to provide flexibility to exporters is eliminating the risk of exporters purchasing gas that otherwise would have been supplied domestically. In practice, however, it will likely be impossible to design the reservation scheme in a way that eliminates this risk without completely prohibiting net purchases of domestic gas to meet domestic supply obligations. An improper design could also allow exporters to effectively siphon gas from the domestic market for export, unless regulations are implemented to require net supply to meet domestic gas supply obligations (i.e. domestic purchases are netted from domestic sales).

IEEFA notes, however, that some exporters may purchase gas for export while supplying greater volumes to the domestic market (for example, to account for seasonal demand). Further, exporters may trade in AEMO-facilitated markets on a daily basis to purchase gas on days when they are “short”, and then sell on days when they are “long”. It will be important that the design of the reservation policy does not affect this flexibility, provided exporters are not net withdrawers over longer time periods.

Allowing purchases from domestic producers may also have unintended price impacts if it leads to the development of more expensive gas reserves to meet domestic supply. For instance, development of new fields such as Narrabri or the Beetaloo, which have higher production costs than Queensland gas, will directly influence domestic prices, particularly if this gas is the marginal source of supply. This would effectively mean that more expensive gas is being supplied domestically (at least at the margin) while cheaper gas is being prioritised for export.

Similarly, IEEFA is concerned about the prospect of exporters acquiring existing tenements from other producers, which again may result in gas that otherwise would have been produced being held by exporters. Given the vast reserves already held by exporters, any reserve acquisitions could also delay development timing, ultimately delaying gas supply. As noted by Senex, “shortfalls are not a result of available resources, but rather a lack of development by existing tenure holders and other structural energy infrastructure”.

IEEFA notes the range of options available to provide flexibility to exporters, including:

- Development of their own 2P reserves (noting all of the exporters have sufficient reserves to meet their supply commitments)
- Purchases of gas from other exporters that would otherwise be exported
- Replacement of Australian LNG cargoes with portfolio LNG (for those exporters with LNG supply from other countries)
- Purchases of spot LNG cargoes to meet LNG contracts (though this may require agreement with their foundation customers). The latter may become particularly financially attractive in coming years as the looming LNG glut depresses LNG spot prices.

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Recommendations	IEEFA comment/feedback
Supply, security and trade	
Government could establish a gas reservation scheme as part of fundamental reforms.	• IEEFA supports a domestic gas reservation policy. • The start of LNG exports in eastern Australia, which does not have a reservation policy, has led to domestic demand destruction, higher gas and electricity prices, higher household and industrial energy bills, and higher inflation. This in part was caused by government approvals for the GLNG export project, which at the time had insufficient proven reserves.
Reservation policy principles	

Existing contracts respected	• This should reflect firm contractual commitments only, either with respect to LNG sales or domestic gas purchases by LNG exporters.
	  ○ Contract extensions should be treated as a new commitment when the LNG exporter's approval is required for the extension (i.e. the exporter has the option to not extend the contract).
	  ○ IEEFA acknowledges there may be instances where an LNG exporter does not have discretion to prevent extension of an LNG sales contract.
	  ○ For new contracts, government should consider measures to ensure contract extension clauses require government approval.

Capacity to be national in scope	• The reservation policy must be national in scope given the possibility of shortfalls in WA. • From a first principles viewpoint, governments should implement a framework that will avoid the need for further interventions in future. A credible policy that is likely to be effective nationally will help to provide greater investment certainty to the gas industry.
Commence in 2027	• IEEFA endorses implementing the policy in 2027, noting it must lead to additive gas supply from 2027 onwards. ○ A policy design that does not have any practical impact until LNG contracts expire is unlikely to address the risks of gas shortfalls and ameliorate the impacts of high gas prices.

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	○ IEEFA notes Santos has already signalled that GLNG has some flexibility to lower its LNG exports (under existing contracts) and will be able to reduce its net purchases from the domestic market even before existing contracts expire. • Clear guidance as soon as practicable on domestic supply obligations will assist gas sellers and buyers in their negotiations for supply from 2027.
Consultation on design to ensure additional domestic supply as existing contracts expire, and to drive downward pressure on price.	• This is likely to be a good approach in WA, where contracts will soon start to expire. • However, the timing of the first contract expiry in eastern Australia, in 2031, means tying new supply solely to contract expiry will not address the risk of shortfalls. • The reservation policy must impose domestic supply obligations on LNG exporters in Queensland from 2027 to address immediate supply concerns. • Governments should, as a matter of principle, retain flexibility to impose tailored requirements in different jurisdictions to account for localised gas market conditions. However, a national approach might also impose similar conditions in different regions to share domestic supply burdens and ensure equitable burden on LNG exporters.
If the domestic gas reservation model requires export approvals, exporters will need to meet domestic supply obligations before exports are approved.	• The reservation policy should require approvals for new firm LNG export commitments at a minimum. ○ While a domestic supply obligation will help to address the risks of shortfalls in future, requiring approval for new LNG export contracts provides government with an additional lever to ensure sufficient domestic supply. ○ It will also help to mitigate the risks of LNG exporters overestimating reserves and then relying on domestic gas purchases to meet contract commitments. ○ In effect, it will enable government to manage sovereign risks concerns in future by preventing over-contracting (which could affect the ability of LNG exporters to meet their domestic supply obligations). • For LNG spot sales, there is a risk that an approval framework will impose regulatory burden on LNG exporters that increases their operating costs (which may affect domestic market pricing if costs are passed on). ○ Any approval framework should permit a specified spot export volume over a set time period (i.e. on an annual basis) to minimise regulatory burden and costs to exporters.

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	○ An alternative policy solution is an export levy to incentivise domestic sales with an export cap framework that could be implemented in specified circumstances (such as a forecast shortfall or global supply crunch). While this wouldn't create a domestic supply obligation (noting a domestic supply obligation would do so), it would nonetheless strengthen the financial incentive to supply gas domestically while giving exporters the flexibility to export excess gas. • The government should develop and publish detailed guidance on assessment criteria for export approvals. In IEEFA's view, criteria could include: ○ Domestic supply needs (informed by supply-demand forecasting in both gas and electricity sectors) ○ The exporter's forecast production over the life of the new contract relative to any existing supply commitments (with larger "excess" production increasing permitted export volumes under a new contract) ○ The exporter's net gas supply to the domestic market over a specified preceding period (with larger net supply increasing the volume permitted to be exported under a new contract, all else equal). ▪ LNG exporters that were net withdrawers in the preceding period would automatically be denied an export licence for a new contract or a contract extension (except where the extension is a contractual commitment beyond the control of the exporter). ○ Compliance with any domestic reservation obligations (both historical and prospective) (i.e. the export licence should be conditional on ensuring compliance with all domestic supply obligations). ○ Whether the LNG exporter has made any firm, enforceable commitments for future domestic gas supply over the life of the new contract (with timing of domestic supply clearly specified). ○ Compliance with decommissioning obligations (where new contracts would require new gas infrastructure). For instance, LNG exporters who have unduly delayed or failed to undertake decommissioning may be required to remedy noncompliance prior to receiving export approval.

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Producers would have flexibility to meet domestic and export obligations through a variety of standard commercial/market-based arrangements, including contracting with exporters or domestic producers so long as supply obligations are met.	• It will be crucial that the reservation scheme result in additive and low-cost domestic gas supply when needed.
	• In practice, providing LNG exporters with flexibility is likely to reduce their costs in meeting their domestic supply obligation.
	• However, it potentially creates supply risks that could undermine the objective of the reservation scheme if it results in LNG exporters sourcing gas from domestic producers to meet their DSO that would otherwise have been supplied domestically anyway.
	  ○ Given the intent of the policy to increase domestic supply, allowing LNG exporters to purchase domestic gas to meet domestic supply obligations inherently assumes this gas would otherwise have remained undeveloped.
	  ○ Further, any future assessments of the reservation policy will, in seeking to assess the impact on domestic supply, require judgements to be made about whether gas projects underpinned by commercial arrangements with exporters would have been developed otherwise.
	• IEEFA notes other options to provide flexibility, such as:
	  ○ Exporters developing their own tenements
	  ○ Contractual arrangements with other exporters to meet domestic supply obligations (which is likely to result in gas being diverted from export to the domestic market)
	  ○ LNG swaps or spot purchases to meet export commitments.
	All of the options above are likely to result in additive domestic gas supply.
	• In practice, it is likely to be highly difficult to design a policy that addresses the risks of domestic purchases undermining the intent of the policy. For this reason, LNG exporters should not be permitted to purchase gas from domestic producers or to acquire tenements that would otherwise have been developed.
	• Another risk of domestic purchases is that it leads to the development of expensive new gas fields, such as Narrabri and the Beetaloo. This could result in domestic buyers being supplied with more costly gas (and therefore facing higher prices) while less expensive gas is exported.

Encourage long-term domestic gas supply contracts to support investment decisions	• Longer-term domestic supply requirements will likely lead to LNG exporters seeking longer-term contracts with gas buyers.

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that rely on gas as an input, including commercial and industrial (C&I) users and supporting gas infrastructure providers.	• If an export approval framework is adopted, governments should incentivise longer-term domestic contracts by including related criteria in the export approval assessment framework (i.e. exporters will be rewarded for offering longer-term domestic contracts). • IEEFA notes that greater certainty around long-term pricing, which is likely to emerge if a reservation policy breaks the link with international pricing, should drive longer-term contracting by gas suppliers, gas retailers, shippers and end users.

Provide long-term certainty for commercial production and investment, including by clearly setting domestic supply requirements well in advance of establishment to minimise the impact on Australia's LNG trade partners and their energy security.	• Long-term planning, including by clearly setting out domestic supply obligations well in advance, will undoubtedly improve investment certainty for a wide range of gas market participants.
	  ○ There will be a need for flexibility to adjust supply obligations as market fundamentals shift, but long-term guidance would be valuable nonetheless.
	  ○ The implementation of an appropriate enforcement framework, with sufficient penalties for non-compliance, will also provide gas buyers and other gas suppliers with greater certainty that exporters will meet their domestic supply obligations.
	• The impact on Australia's trading partners will be minimised if existing contracts are protected.
	  ○ Market conditions are also likely to limit the impact given a looming oversupply of LNG, much of which remains uncontracted or contracted with portfolio traders that will need to find end buyers.
	  ○ LNG spot prices are forecast to fall due to new supply, meaning LNG buyers will have access to competitively priced LNG.
	  ○ In Japan, Australia's largest LNG buyer in 2024-25, LNG demand has fallen by 25% over the past decade. Japanese LNG traders have in recent years transacted significantly more LNG than required to meet domestic demand, with growing sales of LNG to third countries. In practice, diverting small volumes of Australian LNG to the domestic market will unlikely have any impact on energy security in Japan.

An appropriately designed domestic reservation scheme would enable streamlining of the regulatory framework for gas supply and security by removing	• IEEFA agrees with this recommendation.

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the Australian Domestic Gas Security Mechanism, the Conditional Ministerial Exemption framework in the Code and the HoA.	• The current regulatory instruments have clearly affected investment in new supply, and continue to create regulatory uncertainty for industry.
To complement a domestic gas reservation scheme, the Government could also:	
Amend the Code's provisions relating to how gas is offered and sold in the domestic market to ensure reserved gas must be supplied to the domestic market, rather than only offered (as under current HoA obligations). This would strengthen the bargaining position of Australian gas users to get fairer prices and secure long-term contracts that shield them from volatility and scarcity pricing.	• IEEFA has concerns about this recommendation, including how it might interact with domestic supply obligations for LNG exporters. • IEEFA's primary concern is that a requirement to supply gas following EOI offers is likely to increase regulatory risk and burden for all domestic gas producers, including those who supply domestically only. This in turn could affect the willingness of some producers to run EOI processes and result in them engaging only with certain gas buyers. • In IEEFA's view, a well-designed reservation policy that quickly increases domestic gas supply is likely to improve the bargaining position of gas buyers without any changes to the provisions in Part 3 of the Code. It is crucial, however, that LNG exporters are required to supply the domestic market, potentially including through EOI processes. • IEEFA also notes the need for a "release-valve" mechanism to address the risks of domestic oversupply. A requirement to sell gas domestically would need to operate alongside a release-valve mechanism.
Affirm the importance of AEMO's existing Stage 1 powers, introduced in 2022, to manage gas supply and adequacy and reliability risks in the short to medium term, and continue the important work of implementing Stage 2 of these reforms.	• IEEFA agrees with this recommendation.
Continue to support work under way through the Energy and Climate Change Ministerial Council to potentially expand AEMO's powers to enable it to better address gas infrastructure constraints in the east coast market, and with Resources officials, to	• In IEEFA's view, a well-designed reservation policy will minimise medium-term supply and infrastructure risks, thereby reducing the likelihood that AEMO will need to use the proposed expanded powers. • Nonetheless, recognising that the gas market will likely face ongoing uncertainty, particularly around future demand levels, IEEFA supports the expansion of AEMO's reliability and supply adequacy powers.

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examine medium-term barriers to gas projects in bringing on supply.	• In exercising its functions, AEMO must also consider opportunities to reduce gas demand, which may have lower costs than supply-side measures. A focus on supply-side measures alone is unlikely to minimise costs for gas users.
Encourage private sector investment in pipeline networks and storage to ensure that reserved gas can be transported and stored near demand centres affordably at sufficient capacity.	• A well-designed reservation policy that improves certainty about gas supply and availability will undoubtedly encourage private sector investment in pipeline networks and storage facilities. • In anticipation of reservation, APA Group recently announced final investment decision on the Stage 3 upgrade to its East Coast Gas Grid, which will increase capacity to transport gas from Queensland to the southern states. • As noted earlier, IEEFA also supports the proposed extension to AEMO's powers, which could see AEMO supporting infrastructure projects. However, IEEFA notes that AEMO would do so only as a last resort, and would be informed by detailed system modelling. Notwithstanding this function, IEEFA cautions governments from additional measures to encourage investment that would otherwise not occur in a competitive market, which may distort investment decisions and increase the potential for stranded asset risks.
Assess the merits of amending the National Gas Law framework to: i. Extend regulatory exemptions available to greenfield gas pipeline to brownfield projects which expand capacity to incentivise developments. ii. Enable greenfield and brownfield projects to seek an exemption from the Day Ahead Auction to incentivise foundation customer contracting.	• IEEFA agrees that extending regulatory exemptions to brownfield expansion projects would create further incentives for infrastructure investment. This is because regulatory exemptions effectively prohibit designation of the relevant pipeline as a "scheme" pipeline, which prevents the regulator from regulating access prices. This in turn is likely to increase revenue and returns, and therefore incentivise additional investment. • However, such exemptions may have implications for the prices charged by pipeline operators for gas transmission services (which are ultimately borne by gas end users). Current tariffs for gas transmissions services in eastern Australia generally reflect "monopoly pricing". • In considering the merits of regulatory holidays for brownfield expansions, government will need to weigh up the benefits to consumers of additional gas transmission services (and associated gas availability) against the potential for higher prices. • Given the possibility of shortfalls and the potential for long-term demand uncertainty to undermine infrastructure investments, IEEFA nonetheless supports extending regulatory exemptions to brownfield projects that are critical for gas system reliability and supply adequacy.

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	• IEEFA does not support exemptions from the Day Ahead Auction. The inherent uncertainty of relying on the auction should provide strong incentives for shippers seeking firm capacity to enter into long-term contracts. The Day Ahead Auction also serves a crucial function in ensuring that unutilised capacity is made available, which supports efficient transport of gas across domestic gas markets.
Gas prices	

Contingent on introduction of a domestic gas reservation scheme and complementary changes putting downward pressure on domestic prices and avoiding scarcity pricing, the Government could consider phasing out the Code's reasonable price mechanism and CME framework, subject to appropriate transitional arrangements.	• IEEFA supports phasing out the reasonable price mechanism and CME framework for the following reasons:
	  ○ The "reasonable price" is difficult to determine in practice, requiring subjective judgements about the marginal source of supply, and will require routine updating as exploration and appraisal activities identify new gas fields.
	  ○ The conditional ministerial exemption is predicated on suppliers committing to additional domestic supply. However, an inherent weakness of the framework is that exemptions may be granted for gas volumes that would have been supplied domestically without an exemption.
	  ○ Phasing out the reasonable price mechanism is likely to reduce regulatory burden and risk for gas producers, thereby improving investment certainty.

Market efficiency reforms identified in this Review that improve competition, transparency and availability of gas can put downward pressure on domestic prices. For users who are unable to transition to alternative energy sources, and who require lower prices than gas producers can sustain, more targeted measures may be needed.	• In general, IEEFA does not support additional support for gas users unable to pay prices sufficient to incentivise new gas production (i.e. efficient market prices). In such situations, where businesses lack comparative advantage, government support risks distorting allocation of resources in Australia's economy, with flow-on impacts for productivity and growth. ○ Government support to effectively reduce gas prices creates risks that government will be locked into permanent subsidies (i.e. forever subsidies), to the detriment of Australian taxpayers. • However, government financial support for gas efficiency or electrification measures would help reduce gas demand, and therefore improve gas availability, while reducing industry energy costs and emissions. IEEFA analysis suggests there are "many untapped opportunities", including in food and beverage manufacturing.

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	○ If government support is provided, subsidies could be targeted to supporting, derisking or assessing the feasibility of transitioning to alternatives to drive efficiency improvements and mitigate the risk of subsidy lock-in. • In principle, the government's focus should be on ensuring the lowest-cost gas is directed to the domestic market, rather than subsidising ongoing gas use that supports development of higher-cost gas fields.
For industrial users unable to switch from using gas as an energy source or feedstock in the short to medium term, and who are considered critical to Australia's sovereign interests, where the impact of a gas reservation scheme and improved market conduct is not expected to sufficiently reduce prices, the Government could consider options to ensure they are able to continue operating.	• Where an industry is critical to Australia's sovereign interests, there may be a case for government support to subsidise gas prices. ○ However, this support should be through a general subsidy rather than a subsidy tied specifically to gas use, which could lock in gas even once viable alternatives become available.
Market conduct and efficiency	
To improve market efficiency and competition and complement a domestic reservation scheme, with associated benefits for price, the Code could seek to improve conduct, efficiency and operations across different market types:	
Long-term contract markets (greater than 12 months): remove the existing EOI process set out in Parts 3 and 4 of the Code, replacing it with new flexible, principles based requirements for selling practices to ensure they continue to address bargaining power imbalances between gas buyers and sellers.	• IEEFA agrees with this recommendation, but again notes that a well-designed reservation scheme that leads to additive gas supply will likely help to address undesirable selling practices. Consideration should be given to providing exemptions for smaller producers to minimise regulatory burden.

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Short-term markets (less than 12 months): optimise the efficient operation of AEMO's centralised trading markets to increase accessibility and transparency of wholesale gas, including: *i.* Requiring through the Code that, wherever feasible, uncontracted and reserved gas transactions for supply up to 12 months be undertaken via the Gas Supply Hub (GSH) and periodic auctions where this does not raise transaction costs, noting that implementation will need to be phased to align with other regulatory changes (e.g. HoA). *ii.* Working with states, territories and AEMO to encourage liquidity and longer tenor products on the GSH, along with options to increase the efficiency and reduce the cost of trading (including more efficient prudential arrangements and auction processes). *iii.* Working with states, territories and AEMO to expand the scope of the GSH to a full virtual hub to enable greater on-market participation and liquidity, with the possibility of geographic expansion across the east coast.	• IEEFA supports measures to improve liquidity and transparency. • However, we are concerned that requirements for trades to be conducted through the GSH could increase costs and undermine established contracting practices. It may also expose gas buyers to price risk that cannot be hedged. • From this viewpoint, it is vital that parties are afforded flexibility to continue to sign bilaterally negotiated contracts where necessary.

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Spot markets: In line with the National Electricity Market (NEM) wholesale market settings review (NEM Review) findings, increase liquidity to provide confidence in AEMO spot markets as a source of spot gas availability by: *i.* Working with states and territories and AEMO (described further on page 82) to establish a forward trading market on the Victorian Declared Transmission System (DTS), to provide additional price risk management options and to support price discovery. *ii.* Introducing a market-maker regime (either voluntary or mandatory) and/or a periodic auction process in the Code targeted at improving liquidity on the GSH or (if established) on a Forward Trading Market on the Victorian DTS.	• IEEFA supports the recommendation to establish a forward trading market. • However, we do not support a market-maker regime, which risks distorting the operation of the market and usual price-setting and discovery processes. A market-maker regime is also not necessary to address the underlying fundamental market issues the reforms seek to address.
To improve competition, the Government could explore opportunities to require through the Code that entities participating in the wholesale gas market are required to market and sell gas based on upstream equity interests rather than joint-venture vehicles.	• IEEFA supports this recommendation, noting there is a need for an exclusion framework. • From a first principles viewpoint, this is likely to improve upstream competition, lower prices and improve the bargaining power of gas buyers. This was the case following the implementation of separate marketing of gas developed by the Gippsland Basin Joint Venture. • However, some JV participants are unlikely to have the capacity to separately market equity gas, including because they do not have an Australian presence or marketing team. ○ In such cases, government may wish to provide exemptions from separate marketing requirements.

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The Government could ask the ACCC to work with gas buyers to raise awareness of competition law mechanisms to facilitate buyers negotiating collectively with gas suppliers.	• IEEFA supports this recommendation.
Market transparency	
Improve gas market transparency by expanding AEMO's reporting remit on the GBB, supported by timely and appropriate information sharing arrangements with other energy market bodies and ACCC, minimising duplicative information collection regimes. AEMO's proposed expanded remit includes:	
Publishing post-trade transaction metrics, where possible in near real-time, on all gas market transactions (across all tenors including over 12 months) including volume-weighted average price, volume and delivery periods.	• This recommendation would undoubtedly improve market transparency, particularly with respect to market pricing. • However, real time price disclosure could potentially facilitate co-ordinated, anti-competitive behaviour, particularly in thinly traded periods. • While IEEFA is broadly supportive of this recommendation, caution will be needed to avoid the potential for anti-competitive behaviour.
Establishing a domestic east coast gas market forward price index based on agreed contract prices and other existing price indicators.	• IEEFA has concerns about this proposal. • While an index would improve price discovery and market transparency, this will need to be balanced against the risks that real-time price disclosures could facilitate co-ordinated conduct to the detriment of competition.
Reporting on the Code's market transparency obligations such as uncontracted gas and EOIs through AEMO's Gas Bulletin Board (GBB), instead of individual producer websites.	• IEEFA supports this recommendation.

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Facilitating the publication of buyer-led EOIs on the GBB, on a voluntary basis.	• IEEFA supports this recommendation in principle, but notes that its impact on the market will ultimately depend on how many buyers are willing to participate.
Reporting material changes to a field's 2P reserves as reported in the latest Gas Statement of Opportunities (GSOO) with producers providing timely updates to the market via the Reserves Resources Reporting page of the GBB.	• IEEFA supports this recommendation in principle as a transparency measure. • However, IEEFA notes that 2P reserves do not provide information on the timing and availability of future gas production.
Reporting on undeveloped gas reserves and projects yet to reach final investment decision.	• IEEFA supports this recommendation.
Market governance and reporting	
The AER could be the responsible regulator for administering Commonwealth gas market regulations (e.g. the Code).	• IEEFA supports this recommendation.
Consolidate market monitoring, analysis and reporting of gas markets through the AER, supported by timely and appropriate information sharing arrangements with other energy market bodies and ACCC that minimise duplicative information collection regimes. Consolidation of reporting requirements through reduced administrative and reporting burden for gas producers could translate to lower prices over time.	• IEEFA supports consolidation of information collection to minimise regulatory and compliance burden to industry.
Subject to an appropriate period of transition to allow for the implementation of AER reporting and AEMO transparency reforms, the Government could cease the ACCC Gas Inquiry in its current form. Any future inquiries by the ACCC into matters relating to	• IEEFA supports this recommendation.

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gas could be limited to short-term, focused reviews into specific gas market competition matters.	
Transitional and other matters	
The Government could develop a transition plan outlining when and to what extent existing regulation would be amended or removed, when new regulation would be in place, and a pathway for market participants to meet the requirements of the domestic gas reservation scheme. A short extension of the HoA with east coast gas exporters could be negotiated pending implementation of the recommendations of this Review.	• IEEFA supports this recommendation. • However, IEEFA notes an alternative to extending the HoA. • The introduction of an export licence framework would allow government to incentivise greater supply from LNG exporters in the short term, by tying future approvals to current supply (along with other criteria).
When implementing the outcomes of this Review, the Government could provide an opportunity for market participants and other stakeholders to give feedback on provisions of the existing regulations that are retained but would benefit from minor or technical legislative drafting improvements to support the policy intent.	• IEEFA supports this recommendation.
To provide long-term regulatory certainty for investment and contracting, the Minister for Energy and the Minister for Resources could work with the Attorney-General to explore the possibility of exempting the Code from the operation of the sunsetting provisions in the Legislation Act 2003.	• No comment.