

24 September 2026

To: Department of Industry, Science and Resources
Re: Domestic Gas Reservation Scheme: exposure drafts

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 exposure drafts of the domestic gas reservation and associated Bills.

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 exposure draft, set out in detail below. In summary, we recommend:

- The government explicitly remove the option for the Minister to set "target aggregate supply" above forecast demand to achieve oversupply (with discretion to set the level of supply between 0-10%) given the potential impacts on broader investment incentives.
- Allow exporters to carry forward "banked" supply (i.e. oversupply) into later years even when they do not have pre-existing supply debt.
- Consider additional safeguards to ensure exporter purchases of domestic gas result in additional gas production.
- Put in place more prescriptive provisions to limit Ministerial discretion, which risks increasing market uncertainty
 - This includes providing clear guidance as soon as possible on whether the government intends to allow Gladstone LNG to extend its Kogas LNG sale and purchase agreements and under what circumstances.
- Limit export licences to 10 years to provide greater certainty and minimise the risk that existing licences will be revoked or varied. This will also broadly align with the timing of expiry of existing LNG sale and purchase agreements (SPAs).
- Consider whether there is a need for greater price transparency in Western Australia to inform the Minister's determination of domestic supply obligations for exporters.

Kind regards,

Josh Runciman, Lead Analyst, Australian Gas

Meeting domestic obligations under the Gas Market code

Oversupply still presents risks for the broader market

IEEFA welcomes the revision to allow the Minister to vary the “target aggregate supply” to match domestic demand (i.e. to set the level of “oversupply” at 0%) but remains concerned that the prospect of oversupply will still have an impact on investment incentives.

The process of developing new gas supply is inherently risky and time consuming. It generally takes a minimum of five years for gas producers to obtain and analyse seismic data, drill exploration and appraisal wells, drill production wells and put in place any required infrastructure to supply gas to end users. Because of this, gas producers will require a degree of certainty about future demand for their gas and the prices they are likely to receive.

Artificial oversupply of the domestic market is likely to undermine this certainty, and therefore affect investment incentives. Uncertainty about the level of oversupply will also exacerbate this uncertainty.

IEEFA understands the government’s aim is to reduce domestic gas prices. However, IEEFA highlights the potential intertemporal trade-off if lower prices affect longer-term supply.

To avoid this, the government should consider amendments to ensure domestic supply is aligned with domestic demand plus available storage capacity at relevant storage facilities (with no oversupply). This should include storage facilities controlled by exporters or related parties (such as the Roma or Moomba storage facilities).

This would ensure gas availability in the event of higher than expected demand while avoiding the downsides of artificial oversupply. Given the amount of storage capacity across eastern Australia, this would provide more than enough supply even if all exporters supplied only 90% of their DSOs. Crucially, if Moomba storage were included, it would provide additional storage south of the South West Queensland Pipeline (the key constraint on gas flows from Queensland to the south in winter).

Exporter oversupply should be carried forward even where there is no debt

The proposal to allow exporters to supply above DSO volumes to offset any “debt quantities” will provide them with necessary flexibility to meet their DSOs while accounting for changes in domestic demand (relative to forecasts). It is a necessary element given exporters will have flexibility to reduce domestic supply to 90% of their DSO in a given year.

This flexibility could, however, be enhanced by allowing exporters to “bank” any volumes supplied above their DSOs, even if they do not have a debt quantity, if that supply is needed to meet domestic demand (say, during a period in which other exporters supply only 90% of the DSO). Exporters would then be able to use banked volumes to meet a portion of their future DSOs. In practice, this could also provide a mechanism for supply from individual exporters to increase and offset lower supply if other exporters flex down their domestic supply.

IEEFA also notes that allowing flexibility over regulatory periods may carry with it unintended consequences.

In periods of low or high LNG spot prices, exporters may have strong incentives to increase or reduce domestic supply, which may introduce relative supply scarcity (in a given regulatory period) or result in price volatility in the domestic market. For instance, the use of flexibility in a given regulatory period by all exporters might result in those exporters increasing their supply in subsequent years, potentially exacerbating the risks and impacts of oversupply.

In general, careful monitoring will be required to ensure flexibility provisions are not open to gaming by exporters (either individually or collectively), and are working as intended.

Additionality will be difficult to assess

IEEFA's previous [submission](#) highlighted the difficulty in determining whether new gas contracted to an LNG exporter is "additional gas". This reflects the difficulty in determining whether new supplies would have been developed regardless of the absence of such a contract.

Being able to reliably identify "additional gas" may be crucial for the reservation policy to increase domestic supply at the lowest cost. This is because commercial arrangements might allow for exporters to purchase gas from domestic producers that would have been produced anyway, thereby providing a means to acquit reservation obligations without a commensurate increase in domestic supply.

IEEFA previously [highlighted](#) that smaller producers and explorers do face genuine barriers in developing gas reserves, and recommended that purchases of gas from domestic producers be limited only to smaller producers (i.e. with a market capitalisation or annual production below specified thresholds).

The proposal for the Australian Energy Regulator (AER) to develop a "baseline production" forecast is unlikely to address the risks of exporters underwriting new gas that would have been developed anyway. In practice, forecasting a production baseline will be complex and subject to a significant degree of uncertainty. The AER will also be limited in its ability to develop reliable forecasts due to information asymmetry and the fact producers may have incentives to strategically position projects as unviable without exporter support.

In IEEFA's view, the government should consider additional safeguards to ensure additional gas can be reliably identified, such as restrictions on which domestic producers exporters are able to purchase gas from.

Ministerial discretion creates uncertainty that could affect market operation

As outlined in IEEFA's previous [submission](#), we have concerns about the level of Ministerial discretion over key aspects of the reservation policy, namely determination of "adjustment quantities" and the target aggregate supply.

This is because the degree of discretion afforded the Minister may, in practice, create uncertainty about future supply, both at an aggregate level and from individual exporters. Specifically, allowing the Minister discretion to:

- set the level of oversupply between 0% and 10% of domestic demand is likely to create a large degree of uncertainty about future supply and prices — 10% of domestic demand would equate to oversupply of more than 40 petajoules (PJ), large enough to put significant downward pressure on gas prices.
- adjust DSOs for individual exporters, without clear guardrails and guidelines, will create uncertainty about the relative domestic supply requirements for each exporter over time. The largest source of uncertainty over the longer term is whether the government will approve a possible extension of Gladstone LNG's Kogas LNG sale and purchase agreement, which expires in 2031.

This is problematic as such uncertainty will affect investment incentives for new gas supply, particularly from smaller gas producers in the southern states. In IEEFA's view, new gas supply close to major demand centres is generally preferred as it is likely to reduce infrastructure requirements, and help to insulate investors (to some extent) from stranded asset risks.

Uncertainty may also affect the willingness of gas producers and buyers to enter into long-term contracts if future price signals are highly uncertain. Exporters, in particular, may be unwilling to enter long-term contracts without clarity of their DSO and those of other exporters. While there will be inherent uncertainty due to fluctuating demand forecasts, the potential for Ministerial discretion may add further uncertainty.

Any impact on long-term contracting would be detrimental to both gas producers and users, who may require as long-term contracts to make investments in either new gas supply or to refurbish existing industrial facilities.

To ameliorate the potential for uncertainty arising from Ministerial discretion, IEEFA recommends the government give consideration to more prescriptive provisions governing DSO adjustments, or at the very minimum implement procedures requiring the Minister to make determinations as early as possible to provide time for market participants to adjust. The Minister should also be required to provide a statement of reasons setting out the basis for all determinations.

This includes addressing uncertainty about whether Gladstone LNG will be permitted to extend the Kogas LNG SPA and, if so, under what conditions. This is because extension of that particular SPA may have implications for broader market supply given the potential for Gladstone LNG to utilise third-party gas purchases to secure sufficient feedgas. In IEEFA's view, there is a strong argument for government not permitting extension, as any continued third-party purchases to meet this SPA would effectively transfer Gladstone LNG's reserves risk onto all market participants.

Finally, IEEFA notes that the ability for the Minister to set very long expiry dates for export licences (up to 50 regulated periods) greatly increases the likelihood that such licences will later be revoked or otherwise amended, which may create or emphasise perceptions of sovereign risk and increase uncertainty.

In IEEFA's view, it would be more appropriate to limit the term of any export licence to a maximum of 10 years, which would:

- allow for government to more frequently consider the broader market context (domestic and international) and circumstances of individual exporters (such as their 2P reserve estimates) before granting continued export licences or licence conditions.
- ensure governments are not impeded in their ability or willingness to amend export licence conditions or revoke licences due to concerns about sovereign risk perceptions and the impact on trading partners, which may have formulated domestic energy plans around the assumption that export licences would not be revoked or amended.
- still provide a sufficiently long time horizon to provide LNG buyers with confidence to sign new LNG SPAs with Australian LNG exporters.
- provide more regular opportunities for government to consider and assess LNG export impacts on Australia's emissions reduction targets.

Greater transparency in WA will help inform DSO determinations

IEEFA welcomes the decision to apply the reservation policy to Western Australia (WA) as it may be crucial for avoiding forecast domestic gas shortfalls.

Provided the Regulator is willing to set DSOs above zero, it will provide a vital mechanism for addressing a major flaw in WA's existing reservation scheme — the inherent flexibility around when gas is supplied domestically creates incentives for exporters to delay domestic supply when international prices are higher than the domestic market.

WA also faces potential gas shortfalls despite its existing reservation scheme. IEEFA [analysis](#) shows that WA will have more than enough gas to meet domestic needs without affecting existing LNG SPAs, provided that gas is supplied domestically when needed. Further, gas supply from existing projects is much more likely to be low cost, with new gas sources potentially being above the price point that would trigger [industrial demand destruction](#) in WA.

However, IEEFA notes that information limitations in the WA market around wholesale gas prices under long-term contracts will likely limit the ability of the Regulator consider the broader pricing environment when making DSO determinations for WA exporters.

Information provided to the [WA Parliamentary Inquiry](#) into the Domestic Gas Policy in 2023 suggests that prices for new gas contracts exceeded AU\$12/GJ, which is likely to be a level that either [inhibits new demand growth or triggers demand destruction](#).

IEEFA recommends the government consider whether there is a separate need for greater transparency around gas prices in WA to inform future decisions about exporter DSOs.