

29 October 2026

To: Senate Economics Legislation Committee
Re: Inquiry into the Domestic Gas Reservation Bills

Thank you for the opportunity for the Institute for Energy Economics and Financial Analysis (IEEFA) to provide input to the Senate Inquiry into Domestic Gas Reservation.

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 provided submissions to the Gas Market Review and the reservation scheme design process in [August 2025](#), [March 2026](#), [July 2026](#) and [September 2026](#). IEEFA's submission to the Senate Inquiry provides excerpts from previous submissions that are relevant to the legislation currently being proposed by the government. In summary, we recommend:

- The government amending the legislation to not allow the Minister to set “target aggregate supply” above domestic demand to achieve artificial oversupply, which IEEFA is concerned could impact on broader gas investment incentives, particularly in the southern states.
- Consider additional safeguards to ensure purchases of domestic gas by producers actually result in additional gas production.
- Consider whether there is a need for additional measures to prevent exporters acquiring new gas fields from other operators, which could result in exporters bringing production capacity onto their “books” without any commensurate increase in domestic gas production and domestic supply.
- Limit the term of export licences to 10 years (with exceptions where existing LNG sale and purchase agreements extend beyond a 10-year period) to provide government with more regular opportunities to assess whether licences are warranted, and to avoid the government needing to subsequently revoke licences or vary their conditions.
- 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.

We also note the importance of the proposed demand reduction flexibility for exporters.

Kind regards,

Joshua Runciman, Lead Analyst, Australian Gas

Demand reduction to acquit Domestic Supply Obligations is an important design element

IEEFA welcomes the proposal to allow exporters to acquit their Domestic Supply Obligations (DSOs) by funding demand reduction. This option may allow exporters to meet their obligations potentially at a lower cost, while also minimising the impact on LNG export volumes.

It may have several other benefits:

- Demand reduction in the southern states would reduce the volumes of Queensland gas required to avert southern state shortfalls, which in turn would reduce the need for additional transportation capacity. This is likely to reduce stranded asset risks while reducing overall gas system costs.
- Electrification has the potential to reduce ongoing costs faced by commercial and industrial gas users if electrification involves the use of highly efficient equipment.
- To the extent exporters fund residential demand destruction, this could benefit commercial and industrial gas users by freeing up gas volumes and minimising competition from the price-insensitive residential sector.

Oversupply still presents risks for the broader market

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

This is because the proposed legislation still allows the Minister to set target aggregate supply equal to 110% of forecast domestic demand, which is likely to result in oversupply even if all exporters supply only 90% of their DSOs (as allowed under the proposed legislation). This is because the actual volume of gas required to be supplied if target aggregate supply is 110% could be larger than 10% of the exporters’ DSOs.

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).

High levels of gas storage would ensure gas availability in the event of higher-than-expected demand in a given period 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).

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 existence/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 production.

[IEEFA previously highlighted](#) that smaller producers and explorers 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 Australian Energy Regulator (AER)'s proposal 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 significant degree uncertainty. The AER will also have limited 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 the domestic producers from which exporters are able to purchase gas.

Acquisition of existing gas fields could undermine the reservation scheme

IEEFA has concerns that the proposed legislation does not address the potential for “creeping acquisitions” of existing or prospective gas tenements by exporters.

Such acquisitions would have the effect of increasing an LNG exporter’s “own gas”, which could then be used to acquit DSOs without any commensurate increase in domestic gas production or supply.

The Minister will, of course, have discretion to increase DSOs to ensure sufficient domestic supply, but only up to the 20% cap. Increasing DSOs would also impose additional costs on exporters who haven’t sought to consolidate existing gas fields if this consolidation resulted in their DSOs increasing (which is likely under the current legislation).

This, in turn, will create strong incentives for exporters to acquire existing tenements, which could undermine the intent of the reservation policy, because it could result in situations where exporters supplying the maximum 20% would not be sufficient to address domestic shortfalls.

IEEFA notes that Gladstone LNG has already [announced](#) a deal to purchase Westside and Mitsui’s Meridian gas project in Queensland.

Long export licence terms may increase uncertainty

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 the circumstances of individual exporters (such as their 2P [proven and probable] 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 sale and purchase agreements (SPAs) with Australian LNG exporters.

- Provide more regular opportunities for government to consider and assess LNG export impacts on Australia's emissions reduction targets.

IEEFA recognises that longer export licences may be required where export facilities already have long-term commitments extending beyond 10 years.

Greater transparency in WA will help inform DSO determinations

IEEFA welcomes the legislative drafting that allows the Minister to in effect apply the reservation policy to Western Australia (WA).

Provided the Minister 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 fact that 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 to 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 per gigajoule, a level that is likely to either [inhibit new demand growth or trigger 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.