30 June 2026

Department of Climate Change, Energy, the Environment and Water

Department of Industry, Science and Resources

Submitted online

Gas Reservation – Draft Framework

The Australian Financial Markets Association (AFMA) is responding to the Department of Climate Change, Energy, the Environment and Water and the Department of Industry, Science and Resources' (the Departments) Draft Design Framework for a Domestic Gas Reservation Scheme.

AFMA is the leading industry association representing Australia's financial markets - including the capital, credit, derivatives, foreign exchange, and other specialist markets such as environmental products. We have more than 140 members, from Australian and international banks, leading brokers, securities companies, and state government treasury corporations to fund managers, energy firms, and industry service providers. AFMA's members include many key participants in the east coast gas market.

Key Points

- **The gas reservation scheme should be a strategic mechanism directed at ensuring supply over the long-term, not a mechanism to deal with short-term operational challenges**
- **The reservation scheme should be designed to support long-term investment and contracting**
- **As currently proposed, the scheme does not provide certainty to either LNG exporters or the broader domestic market and as a result is likely to prove unworkable**

AFMA supports the introduction of a gas reservation scheme that can function as a strategic mechanism to ensure adequate gas supply and provide an enduring, stable framework that could provide the market with long-term certainty. Such a mechanism could support the development of a healthy domestic market with diverse supply from both domestic and export focused producers. We are concerned that, rather than being a long-term strategic mechanism, the current proposal is focused on providing government flexibility to deal with short-term operational challenges and, as a result, will not provide the market with the certainty needed to support long-term decision making.

1. What can gas reservation achieve

A well-designed gas reservation scheme could form part of an enduring regulatory framework that delivers much needed long-term certainty to the east coast gas market, while greatly simplifying compliance arrangements for market participants. Our view is that gas reservation is a strategic mechanism to provide certainty about long-term security of supply. While we think a reservation scheme can be an effective mechanism to ensure adequate volumes of gas are made available to the domestic market, we do not think it is an appropriate mechanism to resolve short-term operational challenges.

One of our members' greatest concerns with the current east coast regulatory arrangements under the Australian Domestic Gas Security Mechanism (ADGSM) is that it depend on quarterly ministerial decision making. This short-term decision making tends to focus on the market's immediate operational needs and does not provide appropriate certainty to support investment decisions by both exporters and domestic producers or long-term contracting by users. Our members anticipated that a move to a long-term focused reservation scheme would improve certainty for the market. They are concerned that the proposal presented in the draft framework is attempting to make the gas reservation scheme solve too many problems by moving beyond the strategic issue of supply and trying to resolve shorter-term operational issues related to seasonal demand and system constraints at the cost of undermining the certainty that is the key benefit of the proposal.

> **AFMA Recommendations**
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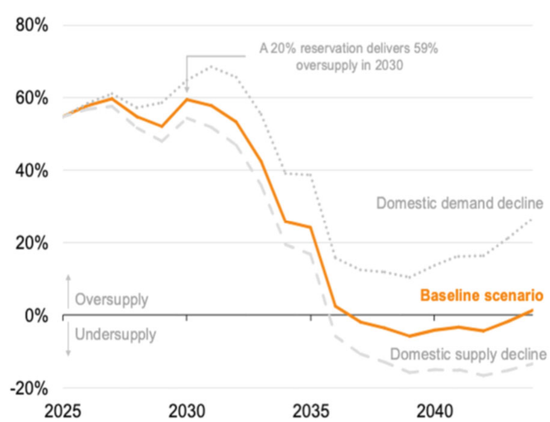
> i. The objectives of the gas reservation scheme should be limited to ensuring long-term strategic supply, with shorter-term operational issues dealt with by other mechanisms

2. Need for medium and long-term certainty

2.1. A market in transition

The east coast gas market is undergoing a complicated transition with structurally declining demand, particularly in the residential sector, and an increasing reliance on higher cost Queensland gas as traditional southern fields decline. AEMO's latest GSOO forecasts that the market is reasonably well placed to manage these issues in the medium-term with peak day shortfalls now not forecast until 2030, and with a range of anticipated projects that will push this out to 2035.[1]

Figure 6.2: Requiring 20 per cent of LNG export volumes to be supplied domestically risks flooding the domestic market with gas
Gas oversupply delivered by a 20 per cent reservation scheme, per cent of domestic supply



Note: See Reeve et al 2026 for a full outline of Grattan's proposed federal gas reservation design.
Source: Grattan analysis of AEMO (2025c), AEMO (2026a), and other sources including ACCC and AER reports.

AEMO forecasts that increased southern gas supply and re-gasification terminals, in addition to increased north-south transportation capacity, are likely to be required to meet southern demand over the next decade. AFMA notes that these projects will mostly rely on investment decisions by domestically focused gas market participants rather than LNG exporters, and therefore it is critical to ensure government policy does not undermine the market signals required to drive the investment needed to ensure a secure supply of gas.

[1] p15 2026 GSOO

Introducing a gas reservation scheme in this environment needs to be done sensitively to avoid jeopardising the investment needed to ensure adequate gas is available to supply the southern markets. The Grattan Institute's recent publication identified that the east coast market is currently unable to absorb the proposed 20% Domestic Supply Obligation (DSO).[2] Their analysis indicated that a 20% DSO would result in the east coast market being massively over-supplied. The over-supply would continue until the mid-2030s when a similarly massive decline in supply from, mostly southern, non-exporting producers would result in the market becoming under-supplied even with a 20% DSO. We note that the ACCC expressed similar concerns that a materially over-supplied domestic market could "crowd out other domestic suppliers or investment by those suppliers and further concentrate market power."[3]

AFMA considers that Grattan's analysis is a useful worst case for the east coast gas market where a rapid injection of gas into the east coast market causes a precipitous decline in both prices and investment. This could result in a short-term boon for users followed by a dramatic supply squeeze as existing resources are exhausted and not replaced, with the 20% DSO becoming inadequate to replace this lost volume. While we think this situation is unlikely to occur as dramatically as shown in Grattan's work, we think it highlights the importance of a well-managed transition to the gas reservation framework that preserves investment signals for non-exporting producers and domestic infrastructure providers.

2.2. Transitioning to gas reservation

As highlighted by Grattan's work, the east coast will not be able to absorb a 20% DSO for some time, and the Government's commitment that it will not interfere with existing export contracts means that LNG exporters are unlikely to be able supply these volumes while these contracts remain on foot. As a result, and as AFMA has argued in earlier submissions,[4] there will need to be a transitional period to allow both exporters and the market to adjust to the new arrangements. AFMA is concerned that formally implementing a 20% DSO and then reducing it through complicated annual adjustments will reduce certainty for all market participants compared to providing a more transparent transitional pathway.

Department staff have maintained throughout the reform process that there would be a transitional framework, but multiple consultations have failed to indicate how this will function. At the roundtables conducted during this consultation, Department staff indicated that transitional arrangements could be addressed through the export licence application process rather than through the annual compliance plans. Regardless of the mechanism used, AFMA considers that government needs to develop a transparent multi-year transitional framework to allow the market to navigate the introduction of a reservation scheme without discouraging non-exporters from making the investments AEMO has identified as necessary to ensure gas security for the next decade. At a minimum, we consider that the transition plan should identify the time period over which each LNG project will be required to transition to the 20% DSO and the volumes of gas they will be required to provide in each year throughout the transition. It is also important that the transition plan is communicated transparently to the market to allow participants to incorporate it into their decision making.

[2] https://grattan.edu.au/report/out-of-gas-managing-the-decline-of-gas-in-australia/
[3] Speech "East Coast Gas Market – ACCC perspectives" to 2026 ADGO conference reported in the AFR
[4] https://afma.com.au/policy/submissions/2026/r18-26-gas-market-review-implementation.pdf?ext=.pdf

2.3. Providing certainty

AFMA considers that the model of a gas reservation scheme presented in the consultation paper is basically unworkable and will provide certainty to neither LNG exporters or the broader domestic market. As we have argued in response to previous consultations, for the gas reservation scheme to be successful, it has to move away from the current arrangements that rely on frequent discretionary ministerial decision making, towards more stable multi-year arrangements that can provide long-term certainty to the market.

During the roundtables, Department staff indicated that the 20% of LNG producers export volume DSO is firm government policy that is not open for consultation. At one level, AFMA supports the clarity of this policy position and appreciates that a clear obligation could provide much needed clarity to the market, we also support the decision to base the DSO on export volumes rather than production. Unfortunately, the framework that is presented does not align with this seemingly clear policy position. Rather than being a clear legislated obligation, the consultation paper presents the level of the DSO as entirely within ministers' discretion and open for negotiation on an annual basis, with the 20% target being neither a cap or a floor, with government flagging that the intention is to create an oversupply of 110% of domestic demand, which would result in the market needing to absorb something in the order of an additional 70 PJ of gas each year. As a result, neither LNG exporters or domestic market participants can have any confidence about the volume of gas that LNG exporters will provide to the domestic market beyond the current year.

AFMA is very concerned that this approach will undermine the confidence needed to support both long-term investment and contracting. In particular, we think it will be very difficult for domestically focused gas producers and infrastructure provides to invest in new production or assets, such storage or LNG import facilities, that are likely to be required to ensure system security. We also think it will undermine incentives for parties to contract gas over the longer-term as future prices will be extremely dependant on ministers' annual DSO decisions, making it very difficult for buyers and sellers to agree on pricing.

We also consider that the release valve mechanism, as currently proposed, will be essentially unusable. As proposed, the release valve can only be triggered during a compliance year, for that year, when the AER is confident that the market is well supplied. The framework assumes that exporters will be able to easily increase their export volumes at short notice during the year, which we do not think reflects the reality of the LNG market where arranging transactions and shipping takes time. In practice, we think it is unlikely that the AER will decide that the market is well supplied until after winter, meaning exporters will only be able to take advantage of the release valve in the last four months of the year.

As we have argued previously, AFMA considers that the best approach to provide certainty to the market is to design the DSO as a multi-year obligation with transparent long-term supply obligations and more granular medium-term DSO target setting out the volumes to be supplied in future years. This would provide the market with certainty about the volumes of gas they could expect to be delivered in future years allowing them to make commercial decisions to invest in new projects or contract gas over multiple years. Additionally, we think that if combined with modest borrowing banking arrangements allowing supply obligations to be moved between years, this type of scheme could remove the need for a release valve as LNG exporters would be able to independently balance their export volumes with their DSO, without the involvement of a regulator.

2.4. Price and contracting

Both the draft framework and comments by Department staff have made it clear that government policy is for LNG providers to be required to supply their DSO volumes into the domestic market regardless of the price. As expressed above, our members are concerned that forcing large volumes of gas into a domestic market that cannot absorb them is likely to result in a short-term drop in prices, probably to levels below the full life-cycle cost of production. We are concerned that this will undermine incentives for users to enter into long-term contracts as, rather than managing their supply risk through contracts, users will rely on continuing government intervention to ensure they have access to low priced gas. Over the medium to long-term the failure to contract combined with prices below the cost of production is likely to reduce production by domestic gas producers resulting in a less competitive market that is increasingly dependent on supply by LNG exporters. We therefore think that, in addition to making the DSO a multi-year obligation, the framework should preserve the incentives for long-term contracting and investment in new domestic production by respecting the legitimate commercial interests of LNG exporters.

2.5. Operational challenges

Gas exploration and development is capital intensive and technically challenging, therefore both the decisions to invest in new production and field work to bring the gas online can take a considerable amount of time. Once decisions to or not to invest are made firms will face significant operational constraints on their future actions. At its simplest once a well starts producing the gas must be supplied to someone and if a well is not drilled no gas will be available from it.

AFMA considers that the DSO should be designed in a way that gives producers appropriate flexibility to manage their businesses operational complexity. We consider that a multi-year mechanism would be much more appropriate for managing these operational challenges than the current release valve proposal. We think the release valve is poorly designed to accommodate the operational challenges of excess supply from wells that will be producing for the whole year. Additionally, the expectation that gas exported under the release valve will be subsequently replaced with additional supply to the domestic market fails to recognise the operational reality that once exported the parcel of gas is no longer available and that operationally the producers may not be in a position to supply an equivalent volume the following year.

2.6. Considered implementation

The proposed gas reservation scheme is a major change to the east coast markets regulatory arrangements that is intended to provide a durable regulatory framework. AFMA has consistently advised implementation of these changes needs to be considered to ensure broad stakeholder support and avoid unnecessary disruption to the market, similar to that experienced following the Government’s interventions since 2022. With AEMO not forecasting shortfalls until the mid-2030s there would seem to be an opportunity for considered policy making. Our members have indicated that while they support the introduction of a reservation scheme, they would prefer the current regulatory arrangements to continue rather than be subject to a rushed implementation of the proposed scheme.

The Gas Market Review recommended implementing a gas reservation scheme in December 2025 with media releases at the time indicating that consultation would start on the development of the scheme immediately in 2026 with a view to implementation in 2027. While this timeframe always appeared ambitious to us, we think the fact that no substantial detail on this proposal was released until the draft framework was published in late May means that it is unlikely that the Government will be able to prepare legislation that addresses the concerns raised in the consultation by the end of the 2026. We therefore encourage the Government to realistically review its implementation timetable to ensure adequate time to address the concerns raised in the consultation.

AFMA Recommendations

ii. The Departments should develop and consult on transitional arrangements to support the implementation of a 20% DSO

iii. The DSO should be designed as a long-term measure with multi-year obligations

iv. The DSO should include mechanisms to avoid gas being required to be supplied into the domestic market at below cost

v. The DSO should recognise the operational realities of the gas industry

vi. DSO obligations should be communicated transparently to the market

vii. Government should realistically review its implementation timetable to ensure adequate time to address the concerns raised in the consultation

3. East coast gas market observations

3.1. LNG exporters

The draft framework appears to assume that LNG exporters are active participants in the east coast gas market capable of transporting gas and transacting with users throughout the market. While AFMA supports participation in Australian markets we do not think this reflects the current state of the LNG exporters' businesses and we want to provide some observations on how the market currently operates and the extent to which it is likely to change once a reservation scheme is introduced.

Our main observation is that while the LNG exporters are major participants in the east coast market their geographical reach is limited to the Queensland wholesale market. LNG exporters' portfolios are mainly directed towards meeting the needs of their LNG trains. Their engagement with the east coast market while important, particularly regarding their ability to provide flexibility for large volumes of gas, is relatively limited focusing on supplying sophisticated wholesale customers with the capacity to transport gas to where it is needed. As a result, LNG exporters do not have transportation contracts to move gas outside of Queensland and are not set up to participate in the southern gas spot markets. We therefore caution that it will be challenging for LNG exporters to provide liquidity to the southern markets as it is wholly outside of the business that they currently conduct and as they do not have contracts with the relevant infrastructure providers there is no practical mechanism basis for them to address north/south infrastructure constraints.

The LNG exporters also employ different business models and corporate structures from each other which we think will need to be considered when designing the scheme. Applying the DSO to an incorporated joint venture with a domestic gas business will be relatively simple while applying it to the individual members of an unincorporated joint venture who do not have domestic gas marketing capability may be more challenging.

3.2. Domestic producers

The majority of gas consumed on the east coast continues to be supplied by domestically focused producers whose viability is completely reliant on east coast gas prices. In recent years, as traditional fields have declined and large volumes of gas have become available from LNG exporters, domestic producers have increasingly moved towards trying to maximise the output of their plants by providing gas with an inflexible profile and relying on retailers and LNG exporters to manage demand variability. We anticipate that if east coast prices remain favourable domestic producers will continue to invest in their businesses to maximise their output, which will be critical to ensure supply to the southern states.

3.3. Retailers

Retailers' portfolios are geared towards meeting the needs of the east coast market. Retailers' gas businesses are focused on meeting the needs of their mass market and C&I customer bases and supplying gas to generation to support their electricity businesses. Retailers, unlike producers, typically have contracts with transport and storage provides, as well as access to spot markets to allow them to move and store gas to meet the needs of their customers.

Retailers' portfolios currently provide much of the operational flexibility in the east coast market that is necessary for the balancing of short-term supply and demand and dealing with seasonal variability. Retailers will continue to be needed to perform this function once a gas reservation scheme is introduced.

3.4. What this means for gas reservation

AFMA's observation is that, while LNG exporters perform an important role providing operational flexibility by being able to supply and absorb large volumes of gas at relatively short notice, they are poorly placed to address north/south infrastructure constraints or to provide liquidity in the southern spot markets, and therefore regulation requiring them to do so is likely to be at best inefficient, and at worst, ineffective. Our expectation is that for the foreseeable future retailers, rather than LNG exporters, will be the main providers of liquidity in the southern spot markets and their contracting behaviour will be critical to address infrastructure constraints outside of Queensland.

We also anticipate that because of their ability to transport and store gas, retailers will be the main buyers of gas supplied under the DSO, as they have been under the Code. Retailers are keen to have long-term clarity about the volumes of gas that will be provided under the DSO as they need the certainty to decide if they will buy DSO gas or source it from domestic producers. They also note that the market is currently balanced with limited ability to absorb additional Queensland gas and consider that if additional significant volumes of gas are supplied the most likely outcome is the crowding out of domestic producers and potentially significant increases in gas generation run times, which would be uneconomic but for very low gas prices. We think it would be a poor result if the reservation scheme, which is intended to increase the supply of gas, resulted in both a reduction of output by domestic producers and increased inefficient gas usage.

AFMA Recommendations

viii. Obligations on LNG exporters regarding liquidity and infrastructure constraints should reflect the nature of their businesses and the scope to which they are able to address these challenges

ix. The DSO should be set at a level that does not:

  a. discourage domestic focused gas production

  b. encourage inefficient use of gas

4. Monitoring, Compliance and Enforcement

4.1. Market conduct and reporting

AFMA supports the proposed market conduct reforms and the proposals to streamline reporting of gas data. We think the principles-based approach to market conduct will provide a better basis for commercial negotiations than the current prescriptive arrangement. AFMA also supports streamlining reporting to ensure that participants only have to report data once.

While we support the proposed market conduct reforms, we think the Government should clarify if they are intended to apply beyond LNG exporters as we note that, unlike the Code, the majority of the proposed reforms appear to only be directed at LNG exporters.

4.2. Meeting the DSO

AFMA welcomes the Government's decision to give LNG exporters flexibility in the mechanisms they use to meet the DSO. We think they should have flexibility to use the most cost-effective mechanisms including both supply of gas through pipelines and LNG regasification.

4.3. Role of the AER

AFMA would like greater clarification about the nature of the role the AER is expected to perform under the gas reservation scheme. The scheme, as proposed, appears to envisage a highly active and presumably well-resourced regulator who will be constantly active providing market insights to drive the setting of the DSO, working with LNG exporters to determine when and how gas is delivered and engaged in near real time monitoring of gas contracting and deliveries. AFMA considers that this approach is unnecessary and inefficient and think the AER's role should be more limited, similar to that of the Clean Energy Regulator's monitoring of LGC surrenders under the Renewable Energy Target legislation.

The DSO, as proposed, is fundamentally based on discretionary ministerial decisions that will rely on ministers' judgement about the national interest. In this context it is not clear to us what role the AER is expected to play advising them as we do not think that the AER will have any particular expertise about east coast supply and demand. One of industry's strongest criticisms of the current ADGSM trigger process is that the ACCC produces gas demand forecasts that compete with AEMOs. We are very keen to avoid repeating the inefficiency and confusion that comes from this and therefore think ministers should rely on AEMO forecasts rather than separate AER analysis. While we think the AER is an appropriate agency to administer the gas reservation scheme and deal with non-compliance, we do not think that it can perform a useful role in setting the DSO and consider that briefing of ministers would be better done by department staff relying primarily on AEMO's analysis.

4.4. Compliance plans

As discussed above, AFMA does not think the proposed approach of having annual compliance plans is workable and we consider that the proposed compliance approach is unnecessarily burdensome on both LNG exporters and the AER. We consider the DSO obligation should be multi-year and should operate at a much higher level than proposed in the consultation paper. Our view is that DSO percentages should be set for multiple years and that LNG exporters obligations should be limited to ensuring they supply the required volume during the compliance year (subject to appropriate borrowing and banking). The publicly available multi-year DSO obligations would provide certainty to market participants about expected supply, meaning that LNG exporters compliance plans would provide little value to the market.

In this context, we do not think there is any value in LNG exporters submitting compliance plans setting out how they will meet their obligations before the compliance year. We consider it is the exporters responsibility to determine how they will meet the obligation, and while there may be some transparency value in LNG exporters providing the market with information about how they are meeting their obligations we do not think there would be any value in the AER reviewing their plans prior to the compliance year. We consider that compliance should be done on an ex-post basis in a similar way to compliance under environmental product schemes such as the Renewable Energy Target. Our view is that the LNG exporters should only be required to submit compliance plans setting out how they met the obligation once the compliance period is complete. This approach would limit the regulatory burden on LNG exporters and limit the AER's workload to a relatively simple annual review of the compliance plan, similar to what the Clean Energy Regulator currently does for the Renewable Energy Target. If considered necessary, it would be possible for LNG exporters to provide quarterly progress updates, but we consider this would be more appropriate for a scheme focused on operational timeframes and would be unnecessary for a strategic reservation scheme.

AFMA Recommendations

x. Government should clarify if the market conduct reforms will apply to domestic producers

xi. AER should not be involved in the setting the DSO

xii. Ministerial DSO decisions should be based on AEMO forecasts and advice from their departments

xiii. Compliance should be limited to annual ex-post reporting

AFMA would welcome the opportunity to discuss this submission further and would be pleased to provide further information about this submission. Please contact me at lgamble@afma.com.au or 02 9776 7994.

Yours sincerely,

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