

24 September 2026

Department of Industry, Science and Resources

Department of Climate Change, Energy, the Environment and Water

Submitted online

Gas Reservation – Exposure Draft

The Australian Financial Markets Association (AFMA) is responding to the Department of Industry, Science and Resources and Department of Climate Change, Energy, the Environment and Water's (the Departments) consultation on the Domestic Gas Reservation Scheme: exposure drafts.

AFMA is the leading industry association representing Australia's financial markets - including the capital, credit, derivatives, foreign exchange, and other specialist markets. 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. Our members include key participants in the Australian gas market.

Key Points

- **The DSO and demand calibrated quantities should be set for five-year periods**
 - **The DSO should recognise the value of flexibility offered by exporters**
 - **A number of key elements of the scheme are yet to be developed and should be consulted on promptly**
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AFMA has found it difficult to respond to this consultation both due to the limited time provided, but also because the consultation package lacks both details about a number of important elements of the scheme and clear policy statements about how the government expects it to operate in practice.

AFMA welcomes much of the package but we continue to be concerned that the scheme does not provide appropriate medium to long-term certainty to support long-term contracting and investment in domestic supply. Additionally, the consultation package does not include detail about key elements of how the AER will perform its functions and what information will be published under the information transparency provisions, or policy guidance about how the Minister intends to use their powers, which complicates AFMA's response to the consultation.

1. What we support

The exposure drafts contain a number of important reforms that AFMA members support. AFMA supports the introduction of a gas reservation scheme as a lower impact intervention that will better support the east coast gas market than the Australian Domestic Gas Security Mechanism (ADGSM) and existing Gas Market Code. As a result, we support the repeal of the ADGSM, removal of the reasonable pricing provisions and the changes to the Gas Market Code's expression of interest process. We also note that the exposure drafts have made important changes to elements of the proposal presented in your draft framework. AFMA supports allowing the Minister to set the

Australian Financial Markets Association

ABN 69 793 968 987

Level 18, 45 Clarence Street Sydney NSW 2000 Tel: +612 9776 7905

Email: info@afma.com.au Web: www.afma.com.au

Domestic Supply Obligation (DSO) for periods longer than 1 year, introducing the flexibility mechanism, aligning the regulated period with contracting years and simplification of the AER's compliance role.

2. Setting targets

2.1. Multi-year obligations

AFMA's members have consistently held the view that obligations on exporters should be set over multiple years. We consider that clarity about the scale of gas exporters are required to provide to the east coast market over the medium to long-term is necessary to provide the certainty needed for long-term contracting and investment in additional domestic production. While the move away from the ADGSM's quarterly decisions is positive we consider that the DSO and Demand Calibrated Quantities (DCQ) should be set over 5-year periods.

Our view is that the proposed 1-year regulatory periods will discourage exporters and users from long-term contracting as they will be unsure of the volume of gas that is likely to be available in future years and therefore have trouble agreeing its value. We also note that the current relatively short notice periods the Minister and AER are required to give after making their decisions mean that parties will have largely completed contracting for the next regulated period before the decisions are made, which will limit the effectiveness of the decisions in driving contracting.

We think a move to 5-year regulatory periods, supported by multi-year compliance plans, would promote long-term contracting as parties would have clarity about the available volumes of gas well in advance of regulatory periods. Multi-year compliance plans could also be used to incentivise exporters to enter into longer-term contracts by setting clear regulatory expectations regarding sales in later years.

We note that under s23 of *Domestic Gas Reservation Bill* (the Bill) the Minister may set a DSO for more than one regulatory period and that clause 60 of the proposed Code requires the AER to publish estimates out to 5 years. AFMA considers that these provisions should be amended to require these determinations to be made for 5-years. A move to longer determinations would allow much greater notice of decisions, for instance the fifth year could be set on a rolling basis giving the market 4 years notice. AFMA acknowledges that shorter notice periods would have to apply for the initial determination.

2.2. Relationship between Ministerial and AER powers

AFMA members have struggled to understand how the ministerial DSO and the AER's DCQ powers are expected to interact. Our understanding is that it is a two-stage process with the Minister determining a maximum quantity that the exporters in a market can be required to provide and then the AER determining the actual volume individual licensees are required to provide in a regulatory period.

It is not entirely clear to us how this arrangement is intended to operate in practice. Partly because the rules governing the AER's DCQ decisions haven't been provided (see section 3.1), but also because no guidance has been provided about how the Minister intends to use their DSO powers. From the legislation we can envisage three ways they could be used:

- i. **Not at all** – not make a DSO decision and leave the percentage at 20%
- ii. **To exclude WA** – only use the powers to set a 0% DSO for WA, but not use them for other markets

iii. **Actively** – regularly setting targets below 20%

The first two approaches would mean the Minister would not have an active role in the scheme and the key regulatory responsibility would sit with the AER. The third could mean that they are very active in the scheme and potentially make the Minister, rather than the AER, the key operational decision maker.

AFMA would appreciate clarity about the expected roles of the Minister and the AER, particularly regarding who is expected to be the main operational decision maker. Assuming the two-stage approach is retained, we suggest that the AER should be the key operational decision maker with the Minister acting more in a rule making function, setting the bounds of the scheme over the long term. Our members think that publishing realistic worked examples demonstrating how the framework is expected to operate in different market scenarios including over and under supply, would assist participants to understand how the scheme will work.

Additionally, both the AER and the Minister should be required to consult prior to making their decisions.

2.3. Modest oversupply

In its most recent GSOO AEMO forecasts that, with currently expected investment, the east coast gas market is forecast to remain balanced until 2035. Throughout the development of the gas reservation scheme AFMA has cautioned that the domestic market has limited ability to efficiently absorb additional gas and that requiring exporters to supply gas at uneconomic prices to deliver an oversupply risks disincentivising contracting by users and undermining investment by domestic focused producers. This risk is exacerbated by the inherent difficulty of forecasting demand which means that even a market that is forecast to be balanced may end up significantly over-supplied if the demand does not eventuate as forecast. We are particularly concerned about the impact of oversupply on producers in the southern states who will play a critical role in ensuring supply to those regions.

The exposure draft introduces a new power for the Minister to set the target oversupply percentage that the AER's DCQ determination must try to achieve. Previous consultations assumed that the Government's policy objective of modest oversupply would be achieved as an outcome of setting the DSO but were vague about what level of oversupply they were trying to achieve. This new mechanism has the benefit of being explicit about what Government's target is, although there appears to be an inconsistency between the calibration formula in section 24 of the Bill which would apply a 10% buffer only to the residual demand to be met by LNG producers and the approach described in the Explanatory Memorandum which is described as targeting 110% of total domestic demand which we think should be clarified. We note that this target will have to work with the DSO level and anticipate that in most cases this target, rather than the DSO, is likely to be the binding constraint for the AER's DCQ determination.

Our view is that the east coast market will have trouble absorbing a 10% oversupply and that the main impact of imposing it would, in the short-term, be inefficient use of gas for power generation and, longer-term, reduced investment in domestic gas production and greater reliance on exporters to supply the market. AFMA thinks that the Minister should be cautious in setting the oversupply percentage and should set it over multiple years to provide the market with certainty about the trajectory of the gas reservation scheme. We think at least initially the oversupply quantity should be set at a level where exporters could use the flexibility mechanism to absorb the full amount of oversupply in the event it cannot be sold.

We also note that there is currently no restriction on when the Minister may make an instrument under s24(7) of the Bill. We consider that the Minister should be required to give adequate notice of these determinations, see discussion in section 2.1.

2.4. The meaning of supply

The exposure draft treats the supply of gas by exporters as the physical supply of molecules to the domestic market. Our members think supply should also include the provision of services to the market that give participants flexibility to manage their gas supply even when they do not result in the supply of physical molecules.

2.4.1. Providing flexibility

Accurately predicting gas demand is impossible as factors such as weather and plant outages can result in forecasts being wildly wrong on any day or over a year. The market has developed commercial mechanisms to deal with this uncertainty by giving market participants flexibility to increase or decrease their gas supply in response to market demand. LNG exporters are currently critical providers of this flexibility as the scale of their businesses allows them to supply large volumes of additional gas to meet unexpected demand and to absorb large quantities of gas that is not required by the market, such as when mild weather reduces both residential and generation demand for gas.

One of the main mechanisms exporters use to offer flexibility to the market are selling put and call options that allow domestic users to call additional gas if the market requires it and to put excess volumes of gas to the exporters when it is not required. This flexibility is valuable to the market and we do not think it is adequately recognised by the DSO. Clause 58(3) of the Code provides that unexercised call volumes are not treated as domestic sales. Meanwhile the draft legislation does not specifically deal with puts, meaning they would be treated as purchase of non-additional gas.

While AFMA appreciates the Government's desire to prevent puts and calls being used to avoid meeting DSO obligations we consider that the current treatment is inappropriate and will result in market participants having less flexibility to manage changes in demand. We consider that completely excluding unexercised call volumes is too punitive and fails to recognise the value of calls to the domestic market and the cost of selling them to the exporter, even if they are not exercised, and we think the Code should recognise at least part of the volume made available via calls that are not exercised as a domestic supply. We also think that the Code should recognise the value of puts by providing mechanisms to exclude volumes that are put to an exporter, because they cannot be used domestically, from DSO calculation. This could include allowing exporters to offer inter-year swaps that could act as a type of storage to help manage variable demand.

2.4.2. Providing liquidity

Due to the scale of their business exporters are important providers of liquidity to spot markets, particularly the GSH. Liquid spot markets allow market participants to transact efficiently without causing significant price movements, reducing transaction costs and improving price discovery. They also enhance confidence by providing a reliable mechanism to buy and sell gas, which supports market stability and competition.

Exporters can provide liquidity both by transacting in the GSH but, importantly, also by placing bids and offers in the GSH to create open interest. The volume of unexecuted bids and offers in the market (otherwise known as market depth) is important for market participants as it gives them

confidence that they will be able to transact if they need to. Currently only the exporters' net executed spot market position counts towards their DSO targets, we think this should be expanded to recognise the service they provide to the market by offering open interest and being available to transact.

AFMA Recommendations

- i. The DSO and DCQ should be set for five-year periods with longer notice periods of changes.
- ii. There should be greater clarity about the roles of the Minister and AER under the scheme.
- iii. The Minister should provide some guidance about what their initial DSO and oversupply targets will be.
- iv. The Minister and the AER should be required to consult before making decisions.
- v. The Departments should publish realistic examples of how the scheme would operate under a range of scenarios.
- vi. The oversupply target should be set cautiously over a multi-year horizon with adequate notice to the market.
- vii. At least initially, the oversupply volume should be set at a volume that could be accommodated by the flexibility mechanism.
- viii. The Code should recognise the value of flexibility services in the DSO calculations.
- ix. The Code should recognise the value of providing liquidity to spot markets in DSO calculations.

3. Things that aren't in the consultation

AFMA is disappointed that the exposure draft package does not include a number of important elements of the scheme which have been left to delegated instruments and thinks the Government should consult on these measures as soon as practical.

3.1. AER functions

The exposure draft of the Bill gives the AER a number of new functions including, importantly, setting the DCQ and advising the Minister on their decisions, but the package does not provide any information about how the AER will perform these roles. In the case of the DCQ s24(3) of the Bill says that it must be determined in accordance with the Code but cl 59(2) of the Code then delegates it to a further AER made instrument that is not part of the consultation package. Given that the DCQ is likely to be the key regulatory decision under the framework, we think it is important that this methodology be developed and consulted on as soon as possible. We also question if the proposed regulatory structure is appropriate as it seems odd to have the double delegation from the Bill to the Code and finally to an Instrument and suggest that if the Government's intention is to have the AER determine this process this should be stated in the Bill rather than delegated to the Code. We also think that given the importance of this methodology the AER should be required to consult on it.

Similarly, s29 of the Bill requires the AER to give advice to the Minister regarding decisions the Minister makes under Part 3 Div 2 of the Bill, but does not provide any detail about how the AER

should prepare this advice. In our response to the draft framework consultation we questioned the capacity of the AER, as an economic and conduct regulator, to give useful advice on supply and demand in the gas market and pointed to the challenges that had been encountered under the ADGSM with the ACCC and AEMO producing competing forecasts.¹ While we still question the capacity of the AER to provide useful advice to the Minister, beyond what their Department could provide, if the AER is to perform this role we think it is critical that there be clear guidance about how they will do it and particularly what status AEMO forecasts will have in their advice.

3.2. Transparency measures

The potential for improved market transparency is one of the strengths of a gas reservation scheme compared to the existing arrangements. AFMA considers that providing as much transparency as possible about decisions made under the scheme and exporters behaviour is essential to support the development of a healthy east coast gas market. We are particularly keen for there to be clear multi-year information about the volumes of gas exporters are expected to supply to inform market participants long-term contracting and investment decisions.

We were therefore disappointed that the package provides little information about what material will be published with these decisions to be made in subsequent delegated rules made under s73 of the Bill. We encourage the Department to consult on these rules as soon as possible.

AFMA Recommendations

- x. The legislation should codify how the AER is expected to perform its new function, particularly:
 - a. How it will make DCQ decisions, including the role of AEMO forecasts
 - b. What it will consider when providing advice to the Minister
 - c. How they will consult.
- xi. The Departments should consult on the transparency rules as soon as possible.

4. Other issues

4.1. Financial markets

The consultation paper asks for feedback on the role that financial markets could play in allowing exporters to meet their DSO obligations. AFMA supports the development of liquid physical and financial markets and considers that both on-screen and OTC financial markets have a role to play in the development of the east coast gas market and supports government policy to encourage them.

AFMA supports exporters being able to use on-screen and OTC financial markets to meet their DSO obligations and would support clarifying the treatment of these transactions in the Code. Additionally, as discussed above in section 2.4.2 regarding the GSH, we think the Code should recognise providing liquidity to the financial market as a service that contributes towards meeting DSO obligations. That said AFMA wants to note that, in large part because of the uncertainty caused by the Government's interventions in the gas market, the gas financial market remains undeveloped

¹ <https://afma.com.au/policy/submissions/2026/r42-26-gas-reservation-framework.pdf?ext=.pdf>

with very limited participation by exporters. We therefore caution that it is unlikely that financial market transactions will make a meaningful contribution to the DSO in the near term.

While the financial gas market is currently small AFMA understands that the main financial products traded are forwards over the GSH, DWGM and STTM. We think it would be appropriate for sales of forwards to be recorded as domestic supplies in exporters' future looking compliance plans, but given forward are generally supported by physical deliveries it might be appropriate for the ex-post annual reports to just look at exporters' deliveries to the markets. For instance, a forward to supply 1TJ a day into the Brisbane STTM for Q1 could be recorded in a compliance plan as a 90TJ sale, while the annual report could look at total deliveries to the hub – rather than trying to reconcile directly back to the forward contract.

AFMA is keen to work with Government to explore opportunities to develop both the physical and financial gas markets but considers that this work is probably best done in a considered fashion after the gas reservation scheme is in place and the market has had time to adjust to it.

4.2. Domestic supply conditions

Section 18(5) of the Bill requires contracts for the sale of gas by exporters to the domestic market to contain domestic supply provisions and for contracts for resupply of that gas to contain equivalent provisions. AFMA is concerned that this requirement will be detrimental to the domestic market by creating two classes of gas, subject and not-subject to the domestic supply condition, and splitting liquidity between them. We also note that it will impose additional compliance burden on non-exporters and limit participation in facilitated markets as parties with gas subject to the condition, could not impose this condition on a market sale.

AFMA appreciates this provision is designed to prevent round-tripping where an exporter sells gas to a domestic user to satisfy the exporters DSO obligation, and then the gas is subsequently on-sold to an exporter. We consider that s22 dealing with the acquisition of non-additional gas and s19 dealing with facilitated market purchases already effectively mitigates this risk as exporters will have limited incentive to acquire non-additional gas, such as the gas covered by s18(5), as it will add to their DSO obligation. As a result, we think that s18(5) is unnecessary and likely to have a negative impact on the domestic market so should be removed.

4.3. Flexibility requirements

While AFMA appreciates the introduction of the flexibility mechanism we think the mechanism could be improved and consider that there still needs to be a mechanism to manage circumstances where the market is unable to absorb the full volume of the DSO.

4.3.1. Inability to sell

One of AFMA's greatest concern with the gas reservation scheme is that DSO targets will be set too high and demand will be unable to absorb the gas. This is particularly concerning as, unlike under the Western Australian reservation scheme, the DSO obligation is to actually supply the gas rather than to genuinely market it. The flexibility mechanism partially deals with this issue by allowing up to 10% of the obligation to be moved to future regulatory periods, but the exposure draft does not deal with circumstances where the oversupply is larger than can be accommodated by the flexibility mechanism. Previously the escape valve mechanism could have addressed this issue but with its removal the only provision dealing with this circumstance is the penalty provision in s16(3) of the Bill.

We consider that it is inappropriate for exporters to be fined for failure to meet a DSO obligation that was set at an inappropriate level that proves impossible for them to meet. We think the must sell obligation should be more closely aligned with the Western Australian obligation to genuinely market or the legislation should include capacity for either the AER or the Minister to grant relief in the event that meeting the DSO proves to be impossible, this could include rolling off gas accrued under the flexibility mechanism if it has not been able to be sold after 3 years.

4.3.2. Intention to sell

We consider that the requirement in cl 58 of the Code for the exporter to show their genuine intention to market the gas before they can use the flexibility mechanism imposes an unnecessary regulatory burden for little practical benefit. We appreciate that this provision is intended to require the exporter to genuinely attempt to market the gas domestically, but we feel the design of the flexibility requirements makes it unnecessary in practice.

The proposed flexibility mechanism is ultimately zero-sum for exporters giving limited flexibility to shift domestic deliveries between years but not to reduce their overall obligation to supply gas to the domestic market. As a result, we think there is very limited ability to game the mechanism as any gas not delivered in a year must be made up in subsequent years. We therefore suggest that it would be simpler and more appropriate for exporters to demonstrate their intention to supply gas in their compliance plans (which as discussed above we consider should cover multiple years) rather than in this separate process which we don't think will add much to the scheme.

4.4. Gas production baselines

AFMA is unsure if the proposed approach for determining volumes of additional gas based on production baselines is appropriate. The basic assumption behind the approach is that gas production facilities have a fixed base level of production, which we do not think accurately reflects the nature of upstream gas production. Typically, gas fields will have their highest level of production early in their life and this will then decline and additional investment will be required to increase the volumes. As a result, projects that have baselines set based on current production levels are likely to see their actual production drop below their baseline until they make further investments.

Our view is that any increase in gas output resulting from new investment should be considered additional gas, as it would not have occurred without that investment, but under the current framework, it may not be treated as additional if it did not increase output above the historic baseline. We recommend that the baseline setting approach be reviewed to reflect the expected decline rates of production facilities without further investment.

4.5. Financial Obligations

Section 40 of the Bill imposes obligations on licensees to maintain financial assurance sufficient to meet its obligations under the scheme and allows rules to be made regarding the types of assurance. AFMA notes that this could potentially be quite a significant obligation for exporters and is unclear why it has been included in the package. It appears to be modelled on provisions found in resources development legislation where regulators often hold bonds to cover the cost of decommissioning projects, but it is not obvious to us why it is considered necessary for this scheme as we are not aware of an equivalent tail end risk that would require the provision. It is worth noting that

jurisdictional decommissioning schemes such as Queensland's Financial Provision Scheme already apply to the LNG projects and this provision risk duplicating these requirements.

We recommend that the Government should either clarify the purpose of this provision and how it is intended to operate or remove it.

4.6. Licence expiry

AFMA welcomes the move from annual to longer term export licencing as it will provide regulatory certainty to exporters. But given s45(4) of the Bill envisages licences being granted for between 20 and 50 years we question the value in having the licences expire at all. We appreciate the intention is to align the licenses with the economic life of the projects but given the very long lifespans of both the projects and the licences we wonder whether it might be more appropriate for the licences to not expire to avoid the cost and inconvenience to everyone involved if the projects ultimately continue beyond their initial licence period and the licences need to be renewed. While this problem will probably not occur until the 2050s, we think it would be better to eliminate it all together by making licences continue until cancelled or surrendered.

4.7. Definitions

4.7.1. Additional gas

The definitions of additional gas in the Bill and the Code are circular with each defining it by reference to the other instrument. We suggest inserting an appropriate definition, defining additional gas as gas produced above the production baseline, into one of the instruments and referencing it in the other.

4.7.2. Facilitated market

AFMA is not sure that the current definition of facilitated market achieves the objective of capturing the gas spot markets administered by AEMO. We suggest that the STTM and Gas Supply Hub should be referred to as:

- Short Term Trading Market as defined in section 2 of the National Gas Law contained in the Schedule to the *National Gas (South Australia) Act 2008*.
- A gas trading exchange as defined in section 2 of the National Gas Law contained in the Schedule to the *National Gas (South Australia) Act 2008*, operated by AEMO.

We also wonder why the Declared Wholesale Gas Market was not included in this list and suggest adding a definition along the following lines:

- Declared Wholesale Gas Market as defined in section 2 of the National Gas Law contained in the Schedule to the *National Gas (South Australia) Act 2008*.

AFMA Recommendations

- xii. Financial market transactions should be able to be counted toward DSO obligations and the Code should contain detail about how to do this.
- xiii. Section 18(5) of the Bill, regarding domestic supply conditions, is unnecessary and should be removed.

- xiv. The legislation should include a mechanism to grant relief from DSO obligations if meeting them is impossible.
- xv. The must sell obligation should be aligned to Western Australia's obligation to genuinely market.
- xvi. Clause 58 of the Code, regarding evidencing exporters intentions to sell gas domestically, is unnecessary and should be removed.
- xvii. The process for setting gas production baselines should reflect the expected decline of facilities as they age.
- xviii. Section 40 of the Bill, regarding financial obligations of licence holders, should be removed.
- xix. Export licences should be granted in perpetuity.
- xx. The definitions of "additional gas" and "facilitated market" should be reviewed.

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

Yours sincerely,



Lindsay Gamble

Head of Energy and Carbon