Reservation must support gas exit not dependence

June 2026

The Federal Government has released consultation documents on how it will deliver its policy to **reserve 20% of gas exports** for domestic consumption.

Since exports commenced in 2015, east coast gas prices have tripled and the domestic market has been beset by artificial shortages due to the prioritisation of gas exports over domestic consumers. In turn, manufacturing jobs have been lost and electricity prices have escalated. And while Western Australia has its own domestic supply regime, loopholes in the law mean that LNG exporters have been allowed to export gas they are required to supply to domestic industry, causing a surge in WA gas prices in recent years.

Australia has a gas export problem, not a gas supply problem. A national gas reservation policy is needed to ensure that our domestic gas markets are prioritised before exports.

However, this policy process fails to recognise that domestic gas use in Australia is in decline and that we continue to approve fossil gas developments beyond safe climate limitations. The Australian Government is also failing to prepare the Australian economy and community for an LNG export phase-out that is both necessary for climate change mitigation and looks increasingly likely due to the superior economics of renewable energy.[1]

While it is recognised that detailed design of the gas reservation policy is ongoing, our organisations hold particular concerns with the following elements within the proposed policy.

1. **Domestic Supply Obligation (DSO) compliance options must not incentivise new gas basins**
2. **20% of exports significantly exceeds forecast shortfalls, risking gas lock in**
3. **Ministerial discretion without public interest guardrails is an invitation for corporate lobbying at Australians' expense**
4. **The policy should apply nationally, with flexibility for different markets**

[1] https://www.climate-resource.com/media/decarb-futures/The_last_LNG_train_home.pdf

1. DSO compliance options must not incentivise new gas basins

While domestic gas demand is in decline, we still need a reservation policy that ensures those heavy industries that still need gas can access it at a reasonable price until viable, clean alternatives are available.

However, not all pathways for meeting a Domestic Supply Obligation (DSO) are equal: some risk unlocking dangerous new gas basins while others would simply make better use of lower cost gas that's already in production. In particular, the former option (meeting the DSO from investment in pre-FID and not yet sanctioned gas extraction) risks significant climate damage without providing any gas molecules to the domestic gas market in the near to medium term, risking both Australia's climate progress and the policy intent of the reservation scheme.

The draft policy design framework has also overlooked the significant opportunity for gas exporters to lower their DSO by funding additional and durable domestic gas demand reductions, which would unlock the many benefits of electrification for Australian households and industry.

The final reservation scheme design must not incentivise new gas basins or conflict with Australia's climate change commitments. This could be achieved by:

- Removing the option for third-party gas contracting or underwriting from new gas fields, in recognition that there are numerous alternative compliance options available.
- Including a demand-side measure in the scheme (see Appendix A), which would provide a lower-cost DSO compliance option for gas exporters to invest in domestic electrification and other fuel-switching projects rather than expensive new gas extraction and new/expanded gas infrastructure.[2] This would also help to preserve lower cost and finite gas supplies for the industries that need it until viable, clean alternatives are available; and

2. 20% of exports significantly exceeds forecast shortfalls, risking gas lock in

While it has regularly been stated that the intent of a gas reservation scheme is to create a "modest oversupply"[3] or "Goldilocks amount of gas"[4], modelling from the Grattan Institute finds that an obligation for gas exporters to supply an equivalent of 20% of LNG exports to the east coast domestic market will "flood the market for the next decade" and that "even a five per cent reservation would be sufficient for the foreseeable future".[5] This is also true for the west coast market where estimates find a 20% supply obligation would amount to over 500PJ, which is double what exporters supplied to the domestic market in 2025.

The risks of setting the reservation percentage too high include:

[2] Australian Industry Group (2026) Submission on Gas Market Review Implementation, p7
[3] https://www.minister.industry.gov.au/ministers/king/transcripts/press-conference-announcing-gas-reservation-scheme
[4] https://www.afr.com/companies/energy/looming-east-coast-gas-reserve-could-cut-prices-20pc-20251121-p5nhh1
[5] https://theenergy.co/article/gas-reservation-design-three-flaws-and-a-tightrope

- Unnecessarily incentivising the development of new gas projects for compliance purposes that may become stranded assets and liabilities; and
- Facilitating gas lock-in by flooding the market and undermining domestic electrification/ fuel switching.

In addition, requiring years of unmet annual DSO obligations to accrue on gas exporter balance sheets means that massive volumes of deferred liabilities could be called upon to unlock new gas basins in the future.

We are calling for:

- The reservation scheme to empower the AER, working in formal collaboration with independent bodies like AEMO, to set and adjust the minimum DSO on an annual basis based on the demand outlook. Under this dynamic model, individual exporter obligations may vary year on year based on independent, real-time demand-side forecasts and transition metrics.

- Exporters should be obligated to lower accrued DSO liabilities through investment in verified domestic gas demand reduction (see appendix A).

3. Ministerial discretion without public interest guardrails is an invitation for corporate lobbying at Australians' expense

The framework hands Ministers extraordinary power to vary, reduce or cancel an exporter's DSO with almost no independent oversight and no hard floor. Exporters can apply for a reduced DSO by demonstrating there is 'no viable alternative,' citing a list of factors that culminate in a catch-all: '*any other relevant factors*.' That is not a legal standard. It is an open invitation to raise whatever commercial argument suits.

The framework's own worked examples make the stakes plain. An exporter whose entire production is committed to existing contracts can have its effective DSO reduced to **zero,** and even the outstanding obligation that is meant to carry forward into future years is subject to further Ministerial discretion on whether it ever has to be met at all.

We are calling for:

- Inclusion of an always-available DSO compliance option for gas exporters to fund domestic gas demand reduction projects, which would remove the "no viable alternative" argument;

- Ministerial variation powers to be bound by defined legal tests not open ended discretion. The 'any other relevant factors' standard must go;

- Independent review by the AER or ACCC in a binding, not advisory, capacity before any DSO variation is approved;

- All Ministerial Decision-making be exercised through disallowable legislative instruments; and

- Full public transparency: all variation applications, assessments and ministerial decisions.

4. The policy should apply nationally, with flexibility for different markets

While the draft framework suggests that existing state-based arrangements will simply be "recognised", the policy should apply nationally with flexibility to reflect the different market features, including in Western Australia and the Northern Territory. In particular, the DSO proportion should be adjusted for each market based on an independent demand forecast.

Western Australia

Western Australia has operated its own domestic reservation scheme since 2006. Whilst the principle of the policy is sound and it has in the past helped shield consumers from the worst of gas price volatility the system has been undermined by policy loopholes, design flaws, and a lack of rigorous enforcement. The absence of a timebound, structural requirement for exporters to supply gas to the market provides a financial incentive to delay domestic supply when domestic prices are lower than international prices which exporters have exploited..

Key issues with the Western Australian scheme include: no statutory framework, individual (and different) agreements with exporters, limited transparency, no penalties or ministerial powers to compel compliance, and the ability for operators to defray supply commitments over the lifetime of the project.

A report by the Western Australian parliament found that LNG exporters had supplied just over half of the gas that they are required to reserve for the domestic market.[6] This is because the scheme doesn't require exporters to supply domestic gas in a timely manner and therefore incentives delaying supply so long as international prices are higher. Addressing this failure would be the simplest way to ensure Western Australia has enough gas to cover the transition to renewables.

A federal reservation could work alongside Western Australia's policy to impose supply obligations on an annual basis and ensure LNG exporters provide gas to the domestic market when it is needed. This would avoid potential shortfalls without the need for new projects.

Northern Territory

In the Northern Territory, domestic gas consumption (excluding LNG terminals) is overwhelmingly dominated by government-subsidised electricity generation which is placing immense strain upon the NT government's budget. There are also physical and technical constraints that prevent significant supply of gas from the Inpex Ichthys and Santos Darwin LNG projects to the tiny domestic gas market, aside from existing arrangements for Inpex to supply gas in times of emergency to the Darwin-based power stations. As a small market, there is no scenario where 20% of NT gas exports could be absorbed. Rather than be mandated to supply more gas to the NT market, the NT gas exporters should be obligated to fund demand-side solar and storage projects across the territory, prioritising First Nations communities.This will reduce dependence on gas-fired generation, deliver energy security

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[6] *Domestic gas security in a changing world - Inquiry into the WA Domestic Gas Policy: Final Report*, August, 2024
https://www.parliament.wa.gov.au/Parliament/commit.nsf/(WebInquiries)/27F837EAB987BD9548258B790020F885?OpenDocument

benefits and reduce pressure from subsidised fossil fuel power generation upon the NT Government's budget.[7]

We are calling for:

- The DSO should be set annually by an independent authority such as the AER for the three separate gas markets across Australia - East Coast, Northern Territory and Western Australia.
- Supply obligations should require producers to supply gas in the market where the obligation has been set - i.e a DSO applying to a WA producer means additional domestic gas must be supplied to the WA market.
- The scheme should include a clear pathway for accrued Demand Supply Obligations to be reduced or extinguished through verified and additional demand reduction mechanisms - see Appendix A for further detail.
- The federal reservation scheme should apply in WA, sitting alongside the existing policy and ensuring that gas exporters are legally forced to meet their domestic supply obligations on an annual basis based on a DSO quantum set annually by the AER. This will ensure ample gas supply to WA's domestic industry for decades without exploiting new gas basins.
- The Northern Territory exporters should solely be obligated to fund demand-side measures to help reduce the role of gas in the NT power grid and the associated costs to taxpayers.

[7] *'Recharging the Terriroty' 2025,*
https://canopy.acf.org.au/m/2a8006d5fd70462e/original/Recharging-The-Territory-2025.pdf

Appendix A: Demand-side measures are needed in the gas reservation scheme

It is appropriate that Australia's domestic gas market is prioritised before exports through a gas reservation scheme. However, **not all domestic gas consumers are the same**. While some heavy industry has limited alternatives to gas today, the residential, commercial and low-heat manufacturing sectors have readily available, efficient and clean alternatives. These sectors represent **238 PJ or 52% of east coast domestic demand in 2027**.[8] Consequently, there is a strong case for a demand-side compliance mechanism, that is additional, verifiable, and not-double counted. to be included in the gas reservation scheme from the outset.

Enacting a mechanism which would allow a liable entity to lower its annual or accrued Domestic Supply Obligation through investment in additional domestic electrification and fuel switching projects that permanently decrease domestic gas demand would create long term, firm energy security for Australian households and businesses.

Such a mechanism could:

- Fast track the ability for Australian households to **realise the cost of living and health benefits** of living in an efficient, electric home. Priority must be given to disadvantaged households;
- Support manufacturers to realise the **energy efficiency and affordability benefits of electrification**, which in turn increases competitiveness and protects jobs;
- Provide a **lower-cost compliance option** for gas exporters compared with costly new gas extraction and transportation.[9] This option is also immediately available and would not interfere with existing export contracts.
- Help to **preserve finite gas supplies for the industries that need** it until viable alternatives are developed;
- **Reduce the need for gas infrastructure expansions** and the associated costs to industrial gas consumers; and
- Support Australia's ability to meet its **climate targets** by reducing fossil fuel consumption

The decisions made in the coming months will shape Australia's gas market for decades. A scheme that manages supply but ignores the huge opportunity and benefits of demand reduction is a half-finished policy. The Government has the evidence and technologies to go further. We urge it to do so.

Gas demand reduction has delayed gas shortfalls

Gas consumption across the East Coast is declining materially, and that trend is set to continue. In the last decade, gas use for power generation in the NEM fell 48 per cent. Overall gas consumption fell 19 per cent in both Victoria and New South Wales over the same period.[10] The Grattan Institute notes that governments have largely ignored this

[8] AEMO 2026 GSOO and AMWU and Springmount Advisory. Turning Down the Gas. Available at: https://www.springmountadvisory.com.au/turning-down-the-gas
[9] Australian Industry Group (2026) Submission on Gas Market Review Implementation, p7
[10] Australian Energy Market Operator. (2026). Gas Forecasting Data Portal.

decline, and have failed to plan for the fact that gas is transitioning to play a vital but niche role in a mostly electrified economy.[11]

Projected gas shortfalls are a function of export volumes, not demand growth or fundamental resource constraints. As demand has fallen faster than expected, AEMO has progressively revised its forecast shortfall date outward, from 2028,[12] to 2029,[13] to 2030,[14] with meaningful shortfalls not appearing until 2033. The 2026 Gas Statement of Opportunities[15] projects a maximum shortfall of only 44 PJ in 2033, down from 95 PJ in the 2025 publication. Over a 20-year horizon, projected shortfalls have fallen by a cumulative 864 PJ.

How might a demand-side compliance option work?

To obtain export approval, the proposed reservation scheme obligates gas exporters to supply the domestic market with a volume of gas equivalent to 20% of gas exports. This is known as a domestic supply obligation (DSO). The draft scheme design implies that gas exporters can only meet their DSO through their own gas production or by procuring additional gas from third parties. There are options for exporters to seek a variation of their annual DSO if they have insufficient gas and have exhausted all avenues to source it. Even where an exporter has sufficient gas to meet its DSO, if any gas is surplus to annual requirements and exported through a release valve mechanism, the surplus DSO volume will be accrued to ensure it can be available for potential shortages in future years.

A demand-side compliance option could allow a gas exporter to lower its annual *or* accrued DSO by:

- Providing exporters the option to fund additional, verified and durable reductions in domestic gas demand, which is equivalent to new gas supply.
- There are various options for how verifiable reductions could be facilitated. One option is for a central fund to be created that works alongside existing state-based crediting methods, such as those from the NSW Energy Savings Scheme[16] or the Victorian Energy Upgrades scheme, or alongside an existing or future Emissions Reduction Fund methodology. Some modest adjustments to existing methods would be necessary, including ensuring the verified gas reductions are recorded in joules.
- An exporter's annual or accrued DSO would be decreased by the equivalent volume of gas demand reduction it has funded.
- Demand-side units surrendered to meet a reservation obligation must be additional, and not double-counted, for example against targets within the state schemes.

[11] Grattan Institute (2026) Out of gas: Managing the decline of gas in Australia
[12] Australian Energy Market Operator (2024). Gas market outlook signals need for new investment. Media release.
[13] Australian Energy Market Operator (2025). Investment needed to fill forecast gas supply gaps. Media release.
[14] Australian Energy Market Operator (2026). Near-term gas supply outlook improves, longer-term investment needed. Media release.
[15] Australian Energy Market Operator (2026). Gas Statement of Opportunities.
[16] The NSW Government's committed Gas Decarbonisation Roadmap will likely see enhanced methodologies for household electrification within the Energy Savings Scheme