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How Can Australia's *Domestic Gas Reservation Bill 2026* Be Interpreted?

- Australia's Domestic Gas Reservation Scheme #Issue 3

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Introduction

The Australian Government released on 10 September 2026 the exposure draft of the Domestic Gas Reservation Bill 2026 and associated legislation (collectively referred to in this paper as the "DGRB")¹ and conducted a consultation process inviting feedback until 24 September 2026².

The DGRB reflects revisions made following the public consultation on the Domestic Gas Reservation Scheme - Draft Design Framework (DDF), which was released in May 2026. The Institute of Energy Economics, Japan (IEEJ) previously commented on both the initial policy proposal and the DDF through publications³ and a formal consultation submission⁴. IEEJ has also submitted comments during the latest consultation process on the exposure draft, which are attached as an appendix to this report.

The exposure draft retains the core architecture proposed under the DDF but introduces a number of important modifications, clarifications and additional mechanisms. At the same time, several aspects of the framework remain unclear or require further justification. This report outlines the principal features of the legislation and highlights areas that warrant further consideration.

¹ The Hon Madeleine King MP, <<https://www.minister.industry.gov.au/king/media/securing-more-affordable-gas-australians>>, The Hon Chris Bowen MP, <<https://minister.dcceew.gov.au/bowen/media-releases/joint-media-release-securing-more-affordable-gas-australians>>, Senator the Hon Tim Ayres, <<https://www.minister.industry.gov.au/t-ayres/media/securing-more-affordable-gas-australians>>.

² <https://consult.industry.gov.au/domestic-gas-reservation-scheme-exposure-drafts>

³ IEEJ, 2026-5-14, <https://eneken.ieej.or.jp/en/report_detail.php?article_info_id=13255>.

⁴ 2026-5-28, <https://eneken.ieej.or.jp/en/report_detail.php?article_info_id=13280>

⁵ <https://consult.dcceew.gov.au/domestic-gas-reservation-scheme-draft-design-framework/take-the-survey/view/44>

1 Key Messages from the Government Announcement

1.1 The joint announcement by:

- 1.1.1 Minister for Resources, Madeleine King;
- 1.1.2 Minister for Climate Change and Energy, Chris Bowen; and
- 1.1.3 Minister for Industry and Innovation, Tim Ayres,

1.2 emphasises two core policy objectives:

- 1.2.1 to reserve a proportion of LNG export volumes for the domestic market in order to create a modestly oversupplied domestic gas market and place downward pressure on domestic gas prices; and
- 1.2.2 to secure approximately 200 PJ of annual domestic gas supply, which the Government believes exceeds projected domestic supply shortfalls identified by AEMO.

2 Core Features Retained from the Draft Design Framework

The following key elements remain substantially unchanged.

2.1 General Export Licensing Framework (Section 14)

All LNG exports remain subject to an export licensing regime.

2.2 "Must Sell" Domestic Supply Obligation (Sections 16, 17, and 20)

LNG exporters continue to be subject to a Domestic Supply Obligation (DSO). Where supply obligations are not met, the obligation does not expire and may be carried forward into future periods.

2.3 20% Reservation Requirement (Section 17)

The legislation retains a 20% reservation requirement concept. However, unlike the DDF, the legislation no longer assumes a fixed 20% reservation requirement in all circumstances and instead introduces mechanisms allowing variation of the applicable DSO percentage.

2.4 Recognition of Existing Contracts (Section 25)

Contracts entered into before 22 December 2025 continue to receive protection under the framework.

3 Key Changes Introduced by the Legislation (Specific items)

3.1 Commencement Date (Section 14)

The DDF proposed commencement of the DSO on 1 July 2027.

Under the DGRB:

- ✓ the legislation commences on 1 January 2027; and
- ✓ export licences are required for LNG exports from 1 January 2028.

This effectively provides an additional six months before mandatory DSO compliance begins.

3.2 DSO Percentage and Volume Determination (Sections 23 and 24)

Under the DDF:

- ✓ 20% was effectively treated as a fixed reservation requirement; and
- ✓ Ministerial discretion applied broadly.

The DGRB introduces two new mechanisms:

Ministerial Determination

The Minister may determine a DSO percentage between greater than 0% and 20%, for one or more compliance periods.

Demand Calibration

The Australian Energy Regulator (AER) must determine the required domestic supply quantity for each licence holder annually.

This represents one of the most significant changes from the DDF.

3.3 Infrastructure Constraints and Domestic Markets (Section 12)

The DDF contemplated the use of swaps and alternative arrangements where infrastructure constraints existed.

The DGRB instead introduces the concept of a Physical Domestic Market, whereby compliance is linked to domestic markets physically connected by pipeline infrastructure to the LNG export facility.

As a result, the earlier references to swap-based compliance pathways largely disappear from the legislative framework.

3.4 Existing Contracts (Section 25)

The principle of respecting pre-existing contracts remains.

However, rather than providing a simple blanket exemption, the legislation introduces an Adjustment Quantity mechanism through which

existing contractual commitments are recognised when determining DSO obligations.

4 New Elements Introduced by the DGRB

4.1 Long-Term Export Licences (Sections 45 and 50)

One of the most significant changes is the introduction of export licences with terms ranging from 20 to 50 years.

This addresses concerns raised during consultation regarding annual licence renewals.

4.2 Flexibility and Banking Mechanisms (Sections 20 and 21)

The legislation introduces: deferred quantities; banking and borrowing arrangements; and credit quantities arising from surplus supply. These measures provide greater flexibility than was available under the DDF.

4.3 Recognition of Renewable Gas (Sections 19 and 34)

Renewable gas supply may contribute towards DSO compliance under conditions to be specified in the Gas Market Code.

5 Key Changes Introduced by the Legislation (Overarching matters)

5.1 Relationship with the Western Australian Domestic Gas Policy

The legislation continues to stop short of explicitly exempting Western Australian LNG projects from the Commonwealth framework. However, where the Commonwealth DGRS applies concurrently with existing Western Australian domestic gas reservation arrangements, the legislation appears to provide adjustment mechanisms through the Adjustment Quantity, Demand Calibration, and related provisions (Sections 24, 25 and 26). These mechanisms may allow the effective reservation requirement to be reduced so that only the difference between the Commonwealth obligation and the existing Western Australian reservation commitment is reserved. While this represents a significant improvement compared to the Draft Design Framework, greater clarity would still be beneficial regarding the practical interaction between the two frameworks and the treatment of future Western Australian projects.

5.2 Ministerial Discretion

The Draft Design Framework outlined broad Ministerial discretion but

provided relatively limited detail regarding its application. The Exposure Draft legislation narrows this discretion by linking decisions to specified circumstances and statutory criteria.

For example, under Section 23, determinations must be based on the Minister being satisfied that prevailing demand and supply conditions in the relevant domestic gas market justify the decision. This represents a more structured approach than was apparent in the earlier framework and provides greater transparency regarding the exercise of Ministerial powers.

5.3 Expanded Role of the Australian Energy Regulator (AER)

The legislation confirms that the Australian Energy Regulator (AER) will be the central operational regulator responsible for administering important aspects of the scheme, including demand calibration, compliance monitoring and related functions under Sections 24 and 64 - 90.

This is a significant development compared with the Draft Design Framework, which provided only limited detail regarding institutional governance arrangements.

5.4 Licence Suspension and Cancellation Powers

The legislation retains strong enforcement powers. In particular, Sections 28 and 53 provide powers for licence suspension and cancellation in circumstances involving non-compliance with DSO requirements.

While long-term Export Licences have been introduced, these powers mean that long-term licence holders remain subject to significant regulatory oversight.

5.5 Anti-Avoidance Provisions

Section 97 introduces a specific anti-avoidance provision. Transactions, arrangements or conduct designed primarily to avoid the operation of the scheme or reduce regulatory obligations may be treated as avoidance behaviour and subject to enforcement action.

This represents a notable addition compared with the Draft Design Framework and indicates a strong Government focus on preventing circumvention of the DGRS regime.

6 Areas Requiring Further Consideration

6.1 Justification for the 20% Upper Bound

The introduction of Demand Calibration is welcome.

However, the rationale for selecting 20% as the maximum reservation percentage remains unclear and should be supported by transparent evidence and modelling.

The relationship between the projected domestic shortfall (140 - 200 PJ) and the statutory 20% upper bound remains unclear. In particular, it has not been demonstrated that a reservation ceiling equivalent to approximately 816 PJ (based on current LNG export volumes) is required to achieve the Government's stated domestic supply objectives. Greater transparency regarding the methodology used to derive the 20% figure would therefore be beneficial.

6.2 "Must Sell" Remains Fundamentally Intact

The introduction of take-or-pay recognition and flexibility mechanisms is positive. Nevertheless, the framework remains fundamentally delivery-based rather than availability-based.

6.3 Existing Contract Rights

While existing contracts are recognised, additional clarification is still required regarding: contract extensions; renewal options; UQT provisions; and other rights embedded in existing agreements.

6.4 Timing of Implementation

Although the DSO commencement date has been deferred by six months, it remains uncertain whether this additional period will be sufficient given the legal, commercial, contractual and operational complexity of LNG supply chains.

6.5 Ministerial Discretion

The restriction of Ministerial discretion compared with the DDF is welcome. However, questions remain regarding how these powers will be exercised in practice and whether they provide sufficient certainty for long-term investors and LNG buyers.

6.6 Northern Territory Projects

The introduction of the Physical Domestic Market concept substantially improves the position of Western Australian exporters.

However, the implications for Northern Territory projects remain less clear, particularly given limited pipeline connectivity and the scale of LNG exports relative to local market demand.

6.7 Flexibility Mechanisms

Additional analysis is required to determine whether the proposed banking and borrowing mechanisms can operate effectively without creating unintended accumulations of obligations or conditions of structural oversupply.

6.8 Long-Term Export Licences

While licence terms of 20 - 50 years are welcome, annual DSO determinations and licence suspension powers may reduce the practical certainty those long-term licences appear to provide.

Clear and objective criteria for suspension or cancellation should therefore be established.

Concluding Observations

The proposed scheme, built around export licensing and domestic supply obligations, can be viewed as a significant evolution from the earlier Draft Design Framework. In particular, the exposure draft legislation introduces a greater degree of flexibility and a broader range of adjustment mechanisms, while retaining the Government's core policy objectives. At the same time, as noted throughout this report, a number of important issues remain unresolved or require further clarification. If Australia is to maintain both reliable domestic gas supply and its position as a leading LNG exporter, a stable, transparent and investment-supportive framework will be essential to facilitate ongoing gas exploration and development.

It will therefore remain important to follow the continuing policy discussion and implementation process closely, particularly to assess whether a sufficiently shared understanding of the framework can be developed among stakeholders and whether the final regime can support both Australia's domestic energy security objectives and the investment needed to underpin future LNG and gas supply.

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Introduction

The Institute of Energy Economics, Japan (IEEJ) welcomes the opportunity to provide further comments on the Australian Government's exposure draft legislative package for the proposed Domestic Gas Reservation Scheme (DGRS).

IEEJ appreciates the considerable effort undertaken by the Australian Government and its officials in preparing a detailed legislative package within a relatively short period following the initial consultation process conducted during May and June 2026. The release of the draft legislation, explanatory memoranda and supporting explanatory materials represents an important step towards improving transparency and facilitating informed stakeholder engagement.

IEEJ also appreciates the opportunity to continue participating in this consultation process. IEEJ regards the publication of the exposure draft legislation as evidence of the Government's willingness to engage constructively with stakeholders and to refine the proposed framework in response to comments received during the earlier consultation phase. As outlined in IEEJ's June 2026 submission, IEEJ recognises and respects the Australian Government's objective of strengthening domestic energy security and ensuring reliable and affordable gas supply for Australian households and industry. IEEJ also recognises the importance of establishing a framework capable of responding to future supply challenges in the domestic gas market.

At the same time, Australia's success as one of the world's leading LNG exporters has been built upon long-term investment, stable policy settings, and trusted commercial relationships with international buyers and investors. In IEEJ's view, the long-term sustainability of Australia's domestic gas market and its continued role as a reliable LNG supplier to the Asia-Pacific region depend upon maintaining the confidence of those investors, project developers, financiers and customers who support the development of new gas supply.

Importantly, long-term domestic energy security cannot be achieved solely through the reallocation of existing gas supply. Sustainable improvements in supply security require continued investment in new gas resources and infrastructure that maintain overall supply availability to meet market demand. Such investment not only supports Australian consumers but also contributes to the energy security of LNG-importing countries across the Asia-Pacific region, many of which rely on Australian LNG as a stable and reliable source of supply.

Accordingly, IEEJ considers that a well-designed reservation framework should seek to achieve both objectives simultaneously:

- ensuring adequate domestic gas supply and energy security for Australia; and

- maintaining the investment incentives necessary to develop future gas resources, sustain LNG exports, and support long-term economic prosperity.

Domestic supply objectives should be pursued in a manner that complements, rather than undermines, future investment and Australia's role in regional energy security.

The comments set out below are offered in that spirit. They are intended as constructive and pragmatic observations on specific aspects of the exposure draft legislation, with the objective of supporting the development of a durable, balanced and investment-supportive framework that can achieve Australia's domestic energy security goals while preserving the conditions necessary for future gas supply growth.

IEEJ hopes that these comments may assist in the continued refinement of the proposed framework and contribute to the establishment of a policy regime that is both effective and sustainable over the long term.

1 20% DSO

- 1.1 Whereas the explainer document states, "LNG exporters must sell up to 20% of their exports to domestic buyers, calibrated to domestic demand."¹ and
- 1.2 The EXPOSURE DRAFT stipulates, "The domestic supply obligation requires a licence holder to supply a minimum total quantity of natural gas (or if prescribed, renewable gas) in a domestic gas market during a regulated period equivalent to 20% of the liquefied natural gas exported by the licence holder from the market during the period, less any quantities determined to recognise existing contracts, infrastructure constraints or existing reservation arrangements. The total may also be lower due to a demand calibration process undertaken by the Regulator."²
- 1.3 "17 Minimum total quantity for domestic supply obligation. . .
 - (a) the quantity of natural gas that has an energy content equal to 20% (or if a varied DSO percentage applies in relation to the market and the period, that percentage) of the energy content of the licence holder's total covered exports for the market for the regulated period"³ and
- 1.4 "20 Flexibly meeting the domestic supply obligation
Flexibility mechanisms available to licence holder
 - (1) A licence holder complies with this section for a domestic gas market for a regulated period if the licence holder:
 - (a) makes DSO supplies in that market during the period of at least 90% of the licence holder's minimum total quantity of natural gas for that market for that

¹ Page 7, Domestic Gas Reservation: legislative package explainer

² Section 4, EXPOSURE DRAFT: Domestic Gas Reservation Bill 2026

³ Section 17 (a), EXPOSURE DRAFT: Domestic Gas Reservation Bill 2026

period; and"⁴

- 1.5 While the introduction of demand calibration is welcome, the rationale for selecting 20% as the upper bound remains unclear and should be supported by transparent evidence and modelling. In addition, considering projected market balances and the operation of the demand calibration mechanism, it is difficult to see why an upper bound as high as 20% is necessary. The current proposal risks creating a structural reservation obligation significantly in excess of foreseeable domestic requirements. Particular care should be taken to avoid creating a structural oversupply of gas that could undermine investment incentives and distort normal market signals. The methodology should also specify which infrastructure constraints are taken into account, including limitations in pipeline capacity and LNG import infrastructure, as well as the availability of sufficient local demand.**

2 Must sell

- 2.1** Whereas the explainer document states, "If an exporter cannot find a buyer, the exporter will carry forward (accrue) that obligation. The exporter must supply the unmet obligation in a future year."⁵ and
- 2.2** The EXPOSURE DRAFT stipulates, "18 Meaning of DSO supply
(1) A licence holder makes a DSO supply of a quantity of natural gas in a domestic gas market during a regulated period if the circumstances set out in subsection (2), (3) or (4) apply in relation to the quantity and the period. . ." ⁶
- 2.3 While the introduction of take-or-pay and seasonal flexibility mechanisms is welcome, the obligation remains fundamentally delivery-based rather than availability-based. In addition, consideration could be given to recognising compliance where a licence holder has demonstrably undertaken reasonable and good-faith marketing efforts but has been unable to secure sufficient demand, particularly where market conditions indicate that additional volumes are not required. The requirement to carry forward unsold volumes when no reasonable buyer exists places an excessive obligation on suppliers and does not appear to contribute to**

⁴ Section 20 (1) (a), EXPOSURE DRAFT: Domestic Gas Reservation Bill 2026

⁵ Page 7, Domestic Gas Reservation: legislative package explainer

⁶ Section 18 (1), EXPOSURE DRAFT: Domestic Gas Reservation Bill 2026

domestic supply security. Suppliers should not be required to carry over such volumes where reasonable marketing efforts have been demonstrated. Clear rules should also be established regarding the allocation and settlement of carried-over volumes to ensure transparency and administrative practicality.

3 Existing contracts

- 3.1 Whereas the EXPOSURE DRAFT stipulates, "25 Recognition of existing contracts etc.

Determination of adjustment quantities

(1) The Minister may, in writing, determine that a quantity of natural gas is an adjustment quantity for a licence holder for a domestic gas market for a regulated period or an extended period if the Minister is satisfied it is appropriate to do so because of:

- (a) an existing contract of the licence holder for the supply, by way of export, of liquefied natural gas; or
- (b) existing domestic gas reservation arrangements that apply in relation to the licence holder and require supplies of natural gas to persons in a domestic gas market; or⁷

- 3.2 While adjustments are expected with existing LNG export contracts, the framework should explicitly protect rights embedded within pre-existing contracts. Such protection should extend beyond existing delivery obligations to include contract extensions, renewal options, UQT provisions and other contractual rights that form an integral part of existing commercial arrangements.**

4 Commencement

- 4.1 Whereas the Explainer document states, "DSOs for gas exporters will now commence on 1 January 2028 to align with contracting cycles. It was previously 1 July 2027."⁸ and "The scheme will still commence on 1 January 2027 to allow licence approvals to occur."⁹; and

- 4.2 The EXPOSURE DRAFT stipulates, "Section 4 Simplified outline of this Act
This Act regulates exporters of liquefied natural gas by:

- (a) requiring persons exporting liquefied natural gas on or after 1 January

⁷ Section 18 (1), EXPOSURE DRAFT: Domestic Gas Reservation Bill 2026

⁸ Page 7, Domestic Gas Reservation: legislative package explainer

⁹ Page 7, Domestic Gas Reservation: legislative package explainer

2028 to hold an export licence;¹⁰

- 4.3 It remains difficult to conclude that a mere six-month postponement of the mandatory DSO requirement will provide sufficient time to address the legal, contractual, commercial and operational implications of the framework. In IEEJ's view, the current implementation timetable continues to present material risks for orderly market adjustment.**

5 Ministerial discretion

- 5.1 Whereas the explainer document explains that "Ministerial discretion to reduce DSOs has been limited to recognise pre-existing contracts, infrastructure constraints and existing reservation arrangements. This will be on an application basis and as a transitional mechanism."¹¹; and
- 5.2 "The minister has the power to vary the DSO percentage for a domestic gas reservation market (either the east coast or Western Australia) and for an individual licence holder."¹²; and Sections 23, 25, 26, and 29 of the EXPOSURE DRAFT stipulate action items that apply the Minister's discretion;

- 5.3 While the narrowing of Ministerial discretion is welcome, concerns remain regarding the practical application of these provisions and the degree of certainty they provide to long-term investors and contractual counterparties.**

6 Physical domestic markets

- 6.1 Whereas the Explainer document states, "DSOs will be aligned with physical domestic gas markets."¹³ "Western Australian exporters will supply the WA market."¹⁴; and "East coast and NT exporters will supply the NT and east coast markets."¹⁵

- 6.2 Further clarification is required regarding the interaction between the proposed framework and existing domestic gas reservation arrangements in Western Australia. In particular, it should be confirmed whether the provisions allowing lower reservation percentages and multi-year compliance are intended to accommodate**

¹⁰ Section 4, EXPOSURE DRAFT: Domestic Gas Reservation Bill 2026

¹¹ Page 7, Domestic Gas Reservation: legislative package explainer

¹² Page 7, Domestic Gas Reservation: legislative package explainer

¹³ Page 8, Domestic Gas Reservation: legislative package explainer

¹⁴ Page 8, Domestic Gas Reservation: legislative package explainer

¹⁵ Page 8, Domestic Gas Reservation: legislative package explainer

existing Western Australian arrangements, and whether compliance with those arrangements would be deemed sufficient for the purposes of the Commonwealth framework. Given the long-standing operation of the Western Australian domestic gas reservation framework and the reliance placed upon it by existing and prospective investors, consideration should be given to recognising compliance with Western Australian domestic gas reservation arrangements, including for future projects, as satisfying equivalent Commonwealth requirements. This would help avoid regulatory duplication, support investment certainty, and preserve the effectiveness of an established framework that has already contributed to domestic gas supply outcomes in Western Australia.

- 6.3 Consideration should also be given to exempting projects serving isolated and limited domestic markets, including those in the Northern Territory, where pipeline connectivity is limited and local demand may be insufficient to absorb reserved volumes. Imposing reservation obligations in such circumstances may not contribute meaningfully to domestic supply security.**
- 6.4 In addition, alternative compliance mechanisms should be considered for smaller LNG exporters, including minority equity participants in LNG projects that separately market and export their own equity entitlement and therefore may be captured as individual licence holders. In such cases, the full application of the framework may impose a disproportionate compliance burden relative to the domestic supply benefits achieved. Consideration should therefore be given to compliance pathways that recognise their particular circumstances while maintaining the underlying objectives of the framework.**

7 Flexibility mechanisms

- 7.1** Whereas the explainer document states, "We have introduced guardrails on flexibility mechanisms (e.g. banking and borrowing) to reduce loopholes and ensure cheaper gas."¹⁶ and the mechanism is described in the section 24 of the EXPOSURE DRAFT in detail.
- 7.2 More detailed analysis is required to assess whether the proposed banking and borrowing framework can operate effectively without**

¹⁶ Page 8, Domestic Gas Reservation: legislative package explainer

creating unintended accumulation of future obligations or oversupply conditions.

8 Export licence tenure

8.1 Whereas the explainer document states, "Export licences will now be granted for 20-50 years to provide greater regulatory certainty and support long-term investment"¹⁷

8.2 The section 53 of the EXPOSURE DRAFT grants rather strong power of the minister for the suspension or cancellation of an export license.

8.3 Clear and objective guidelines should be developed governing the circumstances under which licence suspension or cancellation powers may be exercised.

¹⁷ Page 8, Domestic Gas Reservation: legislative package explainer