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Australia's Domestic Gas Reservation Scheme #Issue 5 How Should the Domestic Gas Reservation Bill 2026 Be Interpreted? - Initial Assessment of the Bill Introduced to Parliament on 14 October 2026

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Introduction

The Australian Government introduced the Domestic Gas Reservation Bill 2026 and associated legislation into the Australian Parliament on 14 October 2026¹. The legislation is intended to establish Australia's new Domestic Gas Reservation Scheme (DGRS), requiring LNG exporters to contribute gas to the domestic market while maintaining Australia's role as a major LNG supplier.

The Institute of Energy Economics, Japan (IEEJ) participated actively in both stages of consultation:

- i. the consultation on the Draft Design Framework (DDF) ² released in May 2026³; and
- ii. the consultation on the Exposure Draft legislative package⁴ conducted during September 2026⁵.

This report assesses how the principal concerns raised by IEEJ during those consultation processes have been reflected in the legislation now before Parliament.

The purpose of this note is not to provide a comprehensive legal analysis of the Bill, but rather to examine whether the key issues previously highlighted by IEEJ have been addressed, partially incorporated, or remain unresolved.

¹ https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bId=r7559

² <https://consult.dccew.gov.au/domestic-gas-reservation-scheme-draft-design-framework>

³ <https://consult.dccew.gov.au/domestic-gas-reservation-scheme-draft-design-framework/take-the-survey/view/44>

⁴ <https://consult.industry.gov.au/domestic-gas-reservation-scheme-exposure-drafts>

⁵ <https://consult.industry.gov.au/domestic-gas-reservation-scheme-exposure-drafts/submission/view/45>

1 20% Domestic Supply Obligation (DSO)

IEEJ Concern

IEEJ questioned the rationale for adopting a 20% DSO upper bound and argued that any reservation percentage should be supported by transparent evidence, modelling and market analysis.

Position in the Bill

The legislation introduces Demand Calibration, allowing DSO percentages to be adjusted below 20%, while retaining 20% as the statutory upper limit.

Assessment

Improved, but not fully resolved.

The move away from a de facto fixed 20% obligation is welcome. However, the rationale for selecting 20% as the maximum level remains unclear.

Relevant Provision

Section 23 - *Minister may determine varied DSO percentage*

Section 24 - *Target aggregate supply of natural gas*

2 “Must Sell” Requirement

IEEJ Concern

IEEJ argued that compliance should be based on commercially negotiated supply and good-faith marketing efforts rather than effectively compulsory sales.

Position in the Bill

The legislation retains a delivery-based DSO framework and continues to require actual domestic supply. Meanwhile, the bill also introduces the target aggregate supply of natural gas for each domestic gas market.

Assessment

Largely unchanged. While additional flexibility has been introduced through take-or-pay and other arrangements, the framework remains fundamentally based on physical supply.

Relevant Provisions

Section 16 - *Licence holder must meet domestic supply obligation*

Section 17 - *Minimum total quantity for domestic supply obligation*

Section 18 - *Meaning of DSO supply*

Section 19 - *Circumstances of deemed DSO supply*

3 Existing Contracts

IEEJ Concern

IEEJ called for stronger protection of:

- i. existing LNG contracts;
- ii. extension rights;
- iii. renewal options;
- iv. UQT provisions;
- v. equity-lifting arrangements.

Position in the Bill

The legislation introduces an Adjustment Quantity mechanism and recognises certain pre-existing contracts.

Assessment

Partially improved.

Existing commitments receive greater recognition than under the Exposure Draft. However, treatment of existing contract renewals, extensions and UQT provisions remains unclear.

Relevant Provision

Section 25 - *Demand calibration*

Section 26 - *Recognition of existing contracts etc.*

Section 27 - *Limits on making DSO adjustment determinations*

4 Implementation Timing

IEEJ Concern

IEEJ questioned whether the proposed implementation period would be sufficient given the complexity of LNG commercial arrangements.

Position in the Bill

Mandatory DSO compliance has been deferred until 1 January 2028 from 1 July 2027 (Draft Design Framework)

Assessment

Partially improved.

The additional six months are helpful. Nevertheless, concerns remain regarding annual delivery programmes (ADPs), long-term contracting cycles and operational readiness.

Relevant Provision

Commencement Provisions

Explanatory Memorandum

5 Ministerial Discretion

IEEJ Concern

IEEJ argued for greater transparency and predictability in the exercise of Ministerial powers.

Position in the Bill

The legislation narrows the scope of Ministerial discretion and links many decisions to defined statutory criteria.

Assessment

Improved.

The framework is significantly more structured than *the Draft Design Framework*, although practical implementation remains important.

Relevant Provisions

Sections 23 - 31

6 Physical Domestic Markets

IEEJ Concern

IEEJ highlighted:

- Western Australian reservation arrangements;
- Northern Territory infrastructure limitations; and
- physical market constraints.

Position in the Bill

The concept of Physical Domestic Markets has been introduced together with infrastructure-based adjustment mechanisms.

Assessment

Improved, but important questions remain.

The treatment of future WA projects, NT projects and practical deliverability issues remains uncertain.

Relevant Provisions

Section 12 - *References to export from a domestic gas market etc*

Section 24 - Target aggregate supply of natural gas

Section 25 - *Demand calibration*

Section 26 - *Recognition of existing contracts etc.*

Section 27 - *Limits on making DSO adjustment determinations*

7 Flexibility Mechanisms (Banking and Borrowing)

IEEJ Concern

IEEJ warned that debt quantities and carry-forward arrangements could create long-term liabilities and potentially contribute to structural oversupply.

Position in the Bill

The legislation formalises:

- Deferred Quantities;
- Borrowing;
- Banking; and
- Debt Quantities.

Assessment

Largely unchanged. The mechanisms have been retained and formalised.

Relevant Provisions

Section 21 - *Offsetting deferred quantities*

Section 33 - *Domestic supply obligation debt quantities*

8 Export Licence Tenure

IEEJ Concern

IEEJ argued that LNG projects require long-term export licences consistent with long-lived investments and contracts.

Position in the Bill

Export licences may now be granted for periods of 20 - 50 years.

Assessment

Significantly improved.

This is one of the clearest examples of concerns raised by industry and stakeholders being reflected in the legislative framework.

Relevant Provisions

Part 4 Division 2 - *Grant of export licences etc.*

Concluding Observations

The legislation introduced into Parliament on 14 October 2026 represents a substantial evolution from the Draft Design Framework released earlier this year. Compared with the original proposal, the Bill provides significantly greater flexibility, stronger recognition of regional circumstances, more structured decision-making and substantially longer export licence durations.

Many concerns identified by IEEJ during the consultation process appear to have been partially or substantially addressed.

Nevertheless, important questions remain regarding: the rationale for the 20% upper-bound DSO; the continuing delivery-based “must sell” approach; the treatment of contract renewals; debt quantities and future obligations; and the practical application of the framework to Western Australian and Northern Territory projects.

As parliamentary consideration and implementation proceed, continued attention should be paid to whether the final regime strikes an appropriate balance between domestic energy security, investment certainty, future gas supply development and Australia’s role as a reliable LNG supplier to Japan and the broader Asia-Pacific region.

IEEJ will continue to monitor developments closely and, where appropriate, contribute further observations as the legislative and implementation process progresses.

Summary Assessment

Issue Raised by IEEJ	Assessment
20% DSO Upper Bound	Partially Improved
“Must Sell” Requirement	Largely Unchanged
Treatment of Existing Contracts	Partially Improved
Implementation Timing	Partially Improved
Ministerial Discretion	Improved
Physical Domestic Markets / WA & NT Issues	Improved but Not Fully Resolved
Flexibility Mechanisms (Banking & Borrowing)	Largely Unchanged
Export Licence Tenure	Significantly Improved

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