



30 June 2026

Submission: Domestic Gas Reservation Scheme – Draft Design Framework

Introduction

Australian Pipelines and Gas Association (APGA) is the peak body for Australia and New Zealand's pipeline industry. APGA's members are the constructors, owners, operators, advisers, engineers, regulators and suppliers of products and services to the pipeline industry. APGA provides its 180+ members with a range of services to support their businesses and people and deliver quality outcomes for the industry.

APGA welcomes the opportunity to comment on the Domestic Gas Reservation Scheme Draft Design Framework. As potentially the most important and impactful reform of Australia's gas market, it has the potential rewrite how investment in gas production and transport is undertaken. That is not necessarily beneficial, as for the most part, the gas transport industry has delivered gas where it is needed, without fail, at a reasonable price. While boosting domestic supply is a worthy outcome, care must be taken in designing the scheme to ensure that fixing problems in one aspect of a market doesn't break another.

Despite extensive gas reserves and a mature market and industry, Australia finds itself at risk of shortages of domestic gas supply in certain markets on the east coast. The interconnected nature of those markets lends itself to a cohesive national solution. The domestic reservation scheme in Western Australia has demonstrated that these types of schemes can have a stabilising effect on gas prices, while still permitting the export of significant quantities to meet contractual requirements and while still encouraging the development of new supply. That being said, these schemes come with inherent risks.

The scheme must strike an appropriate balance between adequately supplying the domestic market, without introducing implacable volatility or disincentivising investment in new supply. As presently designed, APGA does not consider these issues are adequately addressed.

APGA is confident that forecast gas supply deficits can be managed or averted if the Commonwealth enables market-led investment – in other words, the gas infrastructure industry will respond to ensure that gas gets to where it is needed, if and when policy settings are supportive of that investment. As drafted, the Domestic Reservation Scheme

does not directly act to improve the long-term investment environment by addressing risks to that investment, much of which is imposed by regulatory or policy uncertainty. As a first step, APGA recommends addressing those risks to encourage investment, particularly the “Form of Regulation Review” process.

The amount of power granted to the AER through the Form of Regulation Review process remains highly concerning to investors and signals to the market that regulatory intervention is to be expected. Given the Gas Reservation Scheme introduces new oversight through ministerial decision making, particularly around the annual DSOs, APGA considers it essential that this perspective is also brought to the Form of Regulation Review.

The scheme should avoid inducing market volatility

The main feature of the scheme, the Domestic Supply Obligation (DSO), is intended to provide a fixed and stable contribution of production to the domestic market. In practice, this contribution risks introducing volatility which will make it difficult for infrastructure investors to respond.

Mitigating potential volatility generated by the design of the reservation scheme to ensure that other parts of the market – namely gas infrastructure and investment therein – can operate as needed is essential. From there, other aspects follow, including whether an infrastructure constraint provision is necessary and, if so, how that might operate.

The application process and frequency

A key aspect of the scheme which is unclear in the consultation paper is how the annual DSO process will work in practice. Particularly, whether regulated entities will be required to submit applications for export permits on an annual basis or over the course of their proposed export contracts. This is critical because it does not provide certainty to infrastructure investors as to how to plan their investments accordingly and introduces uncertainty into forecasting future demand. Additional demand may be induced by the DSO flow but not knowing when, or the shape of delivery, makes planning for this extremely difficult.

A more appropriate way of designing would be for DSOs be determined for a longer period (such as over 5-10 years), potentially still with annual compliance plans, to provide certainty to the market on the *long-term* shape of their DSO contributions while allowing regulated entities more flexibility in how they deliver those contributions. This greater certainty over the long-term shape and size of DSO contributions is essential to giving regulated entities the confidence to enter into long term contracts for use of gas infrastructure.

The consultation paper also flags the potential for the reservation rate to be adjusted, potentially regularly, according to market conditions. While this is reasonable in theory, in practice this introduces further volatility into the market and provides opportunities for

gaming. It also further undermines long-term contracting which is necessary for infrastructure investment. The reservation rate should be set at a specific rate which is not mutable unless there are real and critical signs that the market is over or under-supplied, with variances otherwise managed through the export application process.

Minimum liquidity obligation

The consultation paper simultaneously proposes that up to 30% of reserved volumes should be withheld from long-term markets to offer short term liquidity, but also that this liquidity obligation should only apply to volumes that are unable to be accessed via long-term contracts.

APGA opposes any proposal to mandate a specific proportion of DSO contributions be reserved for short term markets, as it fundamentally undermines long-term contracts for underwriting necessary infrastructure. Further, APGA notes that the 30% seems to have been proposed on the basis this reflects set to reflect the current structure of the contract market. This amount is not necessarily beneficial, as it reflects a significant proportion of gas is not sold being sold under bilateral contracts and hence is not contributing to the security of infrastructure and future investment, or encouraging further long-term contracting.

Regulated entities should be required to acquit their DSO contribution through long- and short-term bilateral contracting. Short term markets should be used as a release valve only for short term imbalances in the market.

Long-term contracting that provides greater certainty to producers, customers and infrastructure owners could be further encouraged through investigating a volume multiplier mechanism, whereby regulated entities who enter into long-term domestic gas supply agreements could effectively reduce their DSO contribution.

The scheme should preserve flexibility

Maintaining genuine flexibility in how obligated parties meet their DSO requirements will be key to ensuring the scheme delivers outcomes at least cost. APGA supports the Draft Design Framework's emphasis on allowing compliance through commercial, market-based arrangements, including own production, third-party sourcing, and portfolio optimisation, provided these arrangements deliver a tangible benefit to the domestic market. This approach provides an appropriate foundation that leverages existing market structures and promotes efficient outcomes.

There are some regulatory settings designed for a different era, such as cabotage restrictions, that when translated to the modern context act to constrain logistics options or increase transaction costs. These have the potential to limit the effectiveness of these pathways. APGA considers there is value in reviewing existing regulatory frameworks to ensure they remain fit for purpose and do not unintentionally limit the range of operational responses available to market participants.

Support for a renewable gas compliance pathway

APGA welcomes the recognition in the Draft Design Framework that renewable gases are a potential compliance pathway where additionality is demonstrated. Eligibility should be technology neutral and capable of accommodating the range of gas types already recognised within the National Gas Law framework, including biomethane, hydrogen and synthetic methane.

APGA notes that the renewable gas industry remains at an early stage of development and currently faces cost challenges relative to conventional gas supply. These challenges may be exacerbated if the scheme places downward pressure on domestic gas prices. This highlights the importance of targeted and coordinated policy settings across the supply chain to support the commercialisation of renewable gas and enable it to compete over time.

In this context, carefully calibrated incentives can play a role in encouraging participation in the domestic renewable gas sector. Mechanisms such as multipliers applied to new renewable gas volumes used for compliance could support the development of additional supply, and ideally be directed to support Australian emissions reductions including Safeguard Mechanism compliance.

Any incentive provided through the reservation scheme should complement, rather than replace, broader renewable gas funding, demand measures and certification arrangements required to develop the market at scale.

The infrastructure constraint provision

The 'infrastructure constraint' is one of several release valves in the design of the scheme, in this case to ensure that regulated entities are not required to supply gas they cannot physically deliver to the market. Ideally, regulated entities should be working with infrastructure providers ahead of time to efficiently resolve potential constraints. There are significant new transportation and storage projects in train, and strategic partnerships with producers could see these constraints resolved before they become a problem.

Hence, APGA does not consider that this provision is strictly necessary if the DSO scheme itself is correctly designed. However that this provision *has* been proposed reflects that the market, thanks to regulatory disruptions discussed earlier in this submission, may be unable to respond to investment signals in an efficient and timely manner. We seek a discussion as soon as possible to identify a useful framework for this provision.

If an infrastructure constraint exemption is introduced is important that it acts to encourage necessary investment to alleviate constraints before they become a problem. As currently drafted, regulated entities will be expected to address infrastructure constraints preventing them from meeting their domestic supply obligations, but how they do so is not yet outlined.

APGA offers the following principles for the design of such a provision:

- The provision should specifically seek to redress the current absence of long-term contracting, as this is the main driver for improving the investment environment and hence addressing any current or potential infrastructure constraints.
- DSO variations should only be extended as long as necessary to resolve the constraint.
- Allow market-led solutions and existing frameworks to operate, where both parties can negotiate mutually beneficial outcomes. National Gas Law s148D – *Duty to negotiate in good faith* guides these interactions and DSO variation decisions should take into account this obligation.
- Companies that invest to ensure potential constraints are addressed should receive regulatory protections for those assets.
- For proponents of new basin development who are in the process of determining their infrastructure needs, if they intend to connect to export markets, they must demonstrate that they are at the same time also making arrangements to meet future DSO obligations.

To discuss any of the above feedback further, please contact Catriona Rafael, Head of Policy, on +61 409 489 814 or crafael@apga.org.au.