



Australian Government

**Department of Climate Change, Energy,
the Environment and Water**

**Department of Industry, Science
and Resources**

Commonwealth Gas Market Review Terms of Reference

The Australian Government is committed to ensuring Australia's gas resources and the energy markets that depend on them are supported by a robust regulatory framework that prioritises efficient investment, affordability and availability of gas, and meeting legislated emission reduction obligations to ensure energy security as Australia and its key trading partners transition to net zero.

In 2025, the Gas Market Code and the Australian Domestic Gas Security Mechanism (ADGSM) are subject to legislative review. The Heads of Agreement with the east coast liquefied natural gas (LNG) exporters, a key mechanism to help safeguard Australia's domestic gas supply, expires on 1 January 2026. A combined review of these existing mechanisms creates a key opportunity to consider the long-term policy settings in Australia's gas markets. Structural adjustments in gas markets are underway, particularly on the east coast where peak day shortfalls are forecast from 2028 and structural shortfalls are forecast from 2029.¹

The Commonwealth Gas Market Review (the Review) will examine the effectiveness and coherence of these existing mechanisms and identify possible improvements. Building a best practice regulatory framework to support investment to meet energy needs is critical to ensure Australia's energy security in the longer term, including in the transition to net zero emissions and the energy security of Australia's trading partners. The focus for this combined review will be consistent with the objectives and principles of the Future Gas Strategy, including supporting decarbonisation of the Australian economy, safeguarding energy security and affordability, entrenching Australia's reputation as an attractive trade and investment destination and helping our trade partners on their own paths to net zero.

In addition to reviewing these existing mechanisms, the Australian Government will consider options to consolidate and streamline regulations and create a long-term stable regulatory environment to support investment certainty. Any reforms proposed should be mindful of existing commercial contracts (including export contracts) and trade law, including approvals under current regulations, while identifying options that secure Australia's longer term domestic gas supply needs.

Consultation on policy reforms will be conducted under a holistic review as set out within these Terms of Reference. Given challenges and opportunities facing Australia's gas markets the Australian Government's intent is to undertake a first-principles examination of current policy settings. The Review will also consider the impact(s) of laws that intersect and impact across the gas supply chain.

Scope of the Gas Market Review

The Review will consider the effectiveness of current policies and regulatory frameworks – including whether they remain suitable, and the benefits outweigh the costs of intervention for market participants including:

- a. Domestic gas supply – to ensure there is sufficient natural gas supply to meet the needs of Australian energy users and place downward pressure on domestic gas prices. Consideration will be given to the merits of alternative Commonwealth initiatives to improve the security of domestic supply in the medium to long term. Proposed reforms would recognise contributions to the domestic market when ensuring security of domestic gas supply and improving the transparency of regulatory assessments of supply and demand balances of the east coast gas market.
- b. Reasonable gas prices – including whether Australia’s wholesale and retailer domestic gas prices reflect market fundamentals and consideration of the Code reasonable pricing provisions compared to market-based pricing.
- c. Market transparency – improvements to address information asymmetries between gas producers and buyers to ensure better availability of price and supply information, while managing reporting and compliance burden.
- d. Market conduct and good faith rules – consideration of market conduct and good faith rules to minimise bargaining power imbalances.
- e. Competition in both the gas supplier and user markets – the effect on bargaining power, supply and pricing outcomes, particularly for commercial and industrial (C&I) users, noting the findings of the ACCC’s December 2024 Gas Inquiry Report.
- f. The impacts of the mechanisms on the competitiveness of Australia’s LNG export industry, investment reputation and Australia’s international trade reputation for quality and reliability.
- g. Roles of market bodies – including the Australian Energy Market Operator (AEMO), the Australian Competition and Consumer Commission (ACCC) and the Australian Energy Regulator (AER) in role, governance, information collection, reporting and implementation of the mechanisms.
- h. Other related matters.

Consultation process

The Review will include broad stakeholder consultation to ensure a range of views are considered. The Review will include public consultation processes that will invite written submissions and be supported by consultation material.

Following the conclusion of public consultation, the Review may provide opportunities for further consultation with relevant stakeholders. The Review report will be presented to the Minister for Resources and the Minister for Climate Change and Energy who will consult with the Treasurer and the Minister for Industry and Innovation. The report will reflect consultation with stakeholder groups including but not limited to:

- a. gas market participants including producers, retailers and commercial and industrial gas users (including large-scale manufacturers) and owners of gas power generation assets
- b. industry associations and gas infrastructure providers
- c. relevant trade unions and the ACTU

- d. key international trading partners
- e. the AEMO, ACCC and AER
- f. other Commonwealth stakeholders
- g. State and territory governments
- h. other interested parties.

Timeframe

The Review will commence by no later than 1 July 2025. It is anticipated that the review will take approximately 6 months to complete, with a final report then provided to government in Q4 of 2025. Agreement to the recommendations and implementation of the outcomes of the Review will be a decision for Government.

Background

Guiding principles from the Future Gas Strategy

1. Australia is committed to supporting global emissions reductions to reduce the impacts of climate change and will reach net zero emissions by 2050.
2. Gas must remain affordable for Australian users throughout the transition to net zero.
3. New sources of gas supply are needed to meet demand during the economy-wide transition.
4. Reliable gas supply will gradually and inevitably support a shift towards higher-value and non-substitutable gas uses. Households will continue to have a choice over how their energy needs are met.
5. Gas and electricity markets must adapt to remain fit for purpose throughout the energy transformation.
6. Australia is, and will remain, a reliable trading partner for energy, including LNG and low emission gases.

Australian Domestic Gas Security Mechanism (ADGSM)

The ADGSM ensures there is sufficient natural gas supply to meet the needs of Australian energy users, by providing the Minister for Resources with the ability to restrict exports of LNG in response to a forecast gas supply shortfall. The ADGSM is enabled via the Commonwealth's customs legislation and is therefore a form of export control. It is a measure of last resort to ensure domestic gas supply security and has never been activated.

The ADGSM came into effect on 1 July 2017 and expires on 1 January 2030.

Gas Market Code

The *Competition and Consumer (Gas Market Code) Regulations 2023* are intended to facilitate a well-functioning domestic wholesale east coast gas market with adequate gas supply at reasonable prices and reasonable terms for suppliers and buyers.

The Gas Market Code commenced on 11 July 2023 with most provisions coming into effect on 11 September 2023 after a two-month transition period and sunsets on 1 October 2033.

The Code requires the person or persons undertaking a review to:

- offer an opportunity for interested parties to make written submissions and
- take those written submissions into account in undertaking the review.

The person or persons undertaking the Code review must give the Energy Minister and the Resources Minister a written report of the review.

Heads of Agreement (HoA)

The HoA is a voluntary, industry-led agreement between the Commonwealth and east coast LNG exporters to ensure sufficient supply of gas to meet the forecast needs to energy users. The objective of the agreement is to prevent a gas supply shortfall through access to secure gas for the east coast domestic market at prices no greater than what international customers pay. Under the agreement, the East Coast LNG exporters commit to supply sufficient, competitively priced gas to Australian users.

The current arrangements came into effect on 1 October 2022 and are in place until 1 January 2026.