



Australian Government

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

**Department of Industry, Science
and Resources**

Domestic Gas Reservation Scheme

Draft Design Framework

May 2026

DGR DRAFT DESIGN FRAMEWORK

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Acknowledgement of Country

We acknowledge the Traditional Owners of Country throughout Australia and recognise their continuing connection to land, waters and culture. We pay our respects to their Elders past and present.

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Executive Summary

Purpose

On 7 May 2026, the Australian Government announced key elements of its prospective Domestic Gas Reservation Scheme. This framework provides a greater level of detail on the Reservation Scheme and other Gas Market Review reforms on which the Government is seeking feedback from stakeholders to inform further detailed design. Feedback on this draft design framework is requested by 30 June 2026.

Domestic Gas Reservation Design Summary

The Domestic Gas Reservation Scheme aims to ensure more Australian gas is supplied to the domestic market, helping to make energy more affordable for families, protecting businesses from international shocks, and keeping our heavy industries competitive.

The Australian Government will introduce new legislation to require Liquefied Natural Gas (LNG) exporters to supply a proportion of their total production equivalent to 20 percent of their LNG exports, referred to as the domestic supply obligation (DSO).

Legislation enacting the Reservation Scheme is intended to commence in 2027, with the DSO taking effect from 1 July 2027. Administration and decision-making will be shared between Government Ministers and the Australian Energy Regulator (AER). The Reservation Scheme will apply nationally, with consultation with state and territory governments to ensure the policy objectives of the Reservation Scheme will be achieved and existing regulatory arrangements, such as domestic supply obligations under state-based schemes, are recognised. The Reservation Scheme will be governed by an export approval framework for all entities intending to export LNG. The framework will require regulated entities to meet their annual DSO in order to maintain approval to export. Compliance will be monitored and enforced by the AER. Failure to meet the DSO may result in civil penalties and variation, suspension or cancellation of approval to export. Regulated entities will be required to submit regular reporting to the AER, including an annual compliance plan.

The Government has been clear that existing contracts (entered on or before 22 December 2025) will be respected. This is a core announced design principle for the reservation scheme. Regulated entities will be required to meet their DSO from commencement but may seek to vary their obligation to account for volumes under existing contracts or existing regulatory arrangements (such as state-based reservation schemes or other arrangements with state and territory governments).

Regulated entities will be empowered to acquit their DSO by supplying gas to the domestic market through standard commercial and market-based arrangements. Where a producer is unable to meet its DSO from its own production, it may engage third parties to provide additional gas on its behalf (subject to an additionality test). For example, this could include commercial arrangements between LNG exporters and domestic producers to increase supply.

A minimum liquidity requirement will be included to ensure the Reservation Scheme places downward pressure on prices by ensuring there is always a modest oversupply. This will be complemented by a framework to manage gas volumes not immediately required by the domestic market. The Government is pursuing integrated market reforms related to the conduct of gas industry participants in the domestic market. The Gas Market Code's reporting, conduct

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and negotiation obligations will be updated to flexible principles-based requirements for selling practices and increased transparency in the domestic market.

Design Features – Summary Table

NB: The DSO is the baseline obligation. In practice, an entity’s effective DSO may be adjusted in limited circumstances (for example, for existing contracts or infrastructure constraints), but entities must meet their effective DSO once set.

Regulatory Architecture

| | |
|--------------------------|---|
| Legislative Structure | <ul style="list-style-type: none"> • New primary legislation: establish export approval process, the DSO, powers for Ministers and regulator, powers to set reservation percentage, DSO formula and obligations. • Subordinate legislation: rules specific to export approvals. • Changes to Gas Market Code: establish market-based mechanisms to govern domestic supply and market conduct obligations. |
| Regulator | <ul style="list-style-type: none"> • The AER will administer the Reservation Scheme. |
| Governance | <p>Ministerial and Executive Government decisions:</p> <ul style="list-style-type: none"> • Set the DSO percentage • Issue export approvals • Agree any individual DSO variations • Direct and delegate matters to the AER <p>Independent Regulator, AER roles:</p> <ul style="list-style-type: none"> • Undertake matters delegated by the Ministers • Develop guidelines and policies relevant to administration of the scheme • Educate industry participants • Assessing export approval applications. • Acknowledge compliance plans • Monitoring and compliance • Advise and inform ministerial and executive government decisions |
| Reservation Commencement | <ul style="list-style-type: none"> • Legislation is intended to commence in 2027 • Export approvals required from 1 July 2027 |
| Prospectivity | <ul style="list-style-type: none"> • Regulated entities will have the opportunity to propose a variation to their annual DSO (from the 2027 regulatory period onwards) to account for existing contracts entered into on or before 22 December 2025 or existing regulatory obligations. • Regulated entities must first demonstrate they cannot meet their DSO without breaking existing contracts. • Extensions or variations to existing contracts are not considered existing contracts for the purposes of this legislation, such that the arrangements to ensure existing contracts are respected will not apply to contract extensions or variations if executed after 22 December 2025. |

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| <p>Export Approval Process</p> | <ul style="list-style-type: none"> • Regulated entities will apply for export approval, providing details of export contracts (SPAs), terms and conditions and how DSO commitments will be met (for example, details of domestic contracts (GSAs) and intentions to market and sell gas). • To inform approval decisions, the AER in consultation with AEMO will provide advice on: <ul style="list-style-type: none"> - the domestic market’s demand outlook - impact of exports on domestic supply - any adjustments to DSO requirements. • The time period of any export approval is based on the application and the Ministers’ approval • An indicative flow chart for the LNG export approval process is outlined in Attachment A, based on a calendar year compliance period. Subject to consultation, a financial year obligation may be considered more appropriate. |
|--------------------------------|---|

Reservation Design

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| <p>Regulated Entities</p> | <ul style="list-style-type: none"> • LNG exporters. |
| <p>Domestic Supply Obligation (DSO)</p> | <ul style="list-style-type: none"> • Regulated entities will have an annual obligation to supply the domestic market with a proportion of their total exports, referred to as the DSO. |
| <p>Calculating the DSO</p> | <ul style="list-style-type: none"> • The DSO calculation will be made in line with the following formula: $DSO = 20\% \times \text{LNG Exports}$ • Note: The DSO is calculated on the thermal energy content of the volume of LNG exported. In practice LNG exports are measured in millions of tonnes, but for the purpose of the obligation LNG exports are converted to joules to align with how usage is measured. • Note: LNG that is regassified and contracted for the domestic market does not count as exports. |
| <p>Reservation Percentage</p> | <ul style="list-style-type: none"> • The reservation percentage will be set by Government as a proportion of an exporter’s total production equivalent to 20% of LNG exports, for long-term application. |
| <p>Review Mechanism</p> | <ul style="list-style-type: none"> • The primary legislation will outline a mechanism by which Ministers may review the reservation percentage, only if clear and observable criteria based on the guiding principles for the domestic reservation are met, and with advice from the AER and AEMO. • Any such review will not be time bound. |

Meeting Reservation Obligations

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|--|--|
| <p>Acquitting the DSO through supply and swap agreements</p> | <ul style="list-style-type: none"> • Regulated entities can acquit their DSO by supplying gas through standard commercial and market arrangements. Where an entity is unable to meet its DSO from its own production it may engage third parties to provide additional gas on its behalf including via swap arrangements. |
|--|--|

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| <p>Standard commercial and market-based arrangements</p> | <ul style="list-style-type: none"> Regulated entities will be able to meet their DSOs through standard commercial and market-based arrangements, including sales through: <ul style="list-style-type: none"> Bilateral contracts (including gas delivered under gas supply agreements and other arrangements, including as available or call options). Current and any future Australian Energy Market Operator (AEMO) facilitated markets (regulated entities are expected to be net-suppliers of gas into the AEMO facilitated markets over a set period). Where a regulated entity is unable to meet its DSO from its own production, it may meet its DSO by underwriting new third-party production through investment or offtake agreements, where it can be demonstrated that this gas satisfies an additionality test. For example; a regulated entity could underwrite a third-party project that has yet to take a Final Investment Decision (FID) or has not yet received a production license. Such arrangements to meet a DSO would be subject to the application for and receipt of an export approval. |
| <p>Minimum liquidity requirement to support the spot market</p> | <ul style="list-style-type: none"> Regulated entities will be required to make uncontracted DSO volumes available to the domestic market, under conditions determined by the AER in consultation with AEMO. The minimum liquidity requirement will outline the liquidity commitment conditions which must be met for LNG producers to access the release valve mechanism. These conditions will reflect the Government’s expectations around producer conduct and supply adequacy. The liquidity requirement is intended to ensure the quantum of gas available to the domestic market supports a modest oversupply and functional spot markets. |
| <p>Infrastructure constraints</p> | <ul style="list-style-type: none"> As part of their application for export approval, Ministers will be able to agree to a varied DSO if entities are able to prove through evidence that they are unable to physically supply gas due to infrastructure constraints. Over time, regulated entities will need to demonstrate they are pursuing commercial arrangements to overcome any infrastructure constraints that may otherwise prevent them supplying their DSO gas into the domestic market over the medium-longer term. |
| <p>Treatment of Swaps</p> | <ul style="list-style-type: none"> Timing (e.g. seasonal shifting) and/or location-swap arrangements may be allowed as long as the regulated entity’s DSO provides for a net contribution to the domestic market, for example over a forward period. |

Managing Annual Supply Volumes

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|-------------------------------|---|
| <p>Annual DSO flexibility</p> | <ul style="list-style-type: none"> Regulated entities will be required to meet their DSO from the commencement of the scheme. Ministers will have the power to approve a variation to a portion of the DSO for forthcoming years in line with domestic demand plus a small buffer following requests from regulated entities as part of settling its annual compliance plan. To inform the decision, the AER in consultation with AEMO will provide advice on: |
|-------------------------------|---|

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| | <ul style="list-style-type: none"> - the domestic market’s demand outlook - impact of all regulated entity compliance plans on domestic supply to ensure there is no overall shortfall - any adjustments to DSO requirements to avoid significant¹ oversupply of the domestic market in the year ahead. |
| Release valve mechanism | <ul style="list-style-type: none"> • Upon meeting the minimum liquidity requirements, the AER may allow volumes under the DSO that are surplus to the domestic market’s demand to be exported (or ‘released’) • Gas will only be considered surplus if: <ul style="list-style-type: none"> - Market indicators show near-term supply adequacy - Regulated entities have met transparency, liquidity, marketing and conduct obligations (making gas available on reasonable terms), and - Once established, participation in a new market mechanism based on periodic auctions aimed at balancing short-term supply and demand. • Any DSO volumes that are exported through the release valve mechanism will be accrued into subsequent periods, with the ability for these volumes to support resilience of the market during any anticipated supply tightness or shortfall. • Accrual of DSO volumes by regulated entities will be limited to a share of their annual DSO, indicatively set at 30%, to reflect the current structure of contract markets (refer <i>Maximum Annual Accrual</i> section further below). |

Integrated Market Reforms

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|-------------------------------|---|
| Market Conduction Obligations | <ul style="list-style-type: none"> • Gas Market Code’s conduct and negotiation obligations to be replaced by selling practice requirements, proposed to include: <ul style="list-style-type: none"> - Producers to determine reasonable offer open periods. - Producers and prospective buyers should determine negotiation timeframes. - Price and non-price terms should reflect appropriate risk allocation. - Producers should not withdraw or terminate offers unless there is a material change in circumstances. - Expression of Interest (EOI) responses should receive timely feedback. - Sellers and buyers should negotiate in good faith. - EOIs for gas supply arrangements to be published on the AEMO Gas Bulletin Board. |
| Transparency Measures | <ul style="list-style-type: none"> • Measures to improve transparency of gas prices and available gas supply on the AEMO Gas Bulletin Board. |

¹ ‘Significant oversupply’ refers to a supply level that exceeds what can reasonably be consumed or stored domestically i.e. greater than approximately 110% of domestic consumption.

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Monitoring, Compliance and Enforcement

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| Compliance and reporting | <p>Annual Compliance Plan</p> <ul style="list-style-type: none"> Regulated entities must submit a forward-looking annual compliance plan to the AER covering estimated DSO, forecast gas availability and proposed compliance pathway. <p>Performance reporting</p> <ul style="list-style-type: none"> The AER will establish a performance reporting framework, leveraging existing reporting structures to the extent possible, to assess the progress of regulated entities towards meeting their DSOs. |
| Remedies | <ul style="list-style-type: none"> AER will have range of standard regulatory remedies available to pursue at its discretion including court enforceable undertakings, issuing infringement notices, injunctions or financial penalties. |

Regulatory Architecture

What we heard:

- The Reservation Scheme is an opportunity to simplify and streamline the Commonwealth regulatory architecture by removing duplicative regulatory instruments including the Australian Domestic Gas Security Mechanism, the need for a Heads of Agreement with east coast LNG exporters, and the price and supply provisions under the Gas Market Code.
- The regulatory architecture should provide long term regulatory certainty to promote contracting and investment.

Legislative Structure

The Reservation Scheme will be implemented through new primary legislation, subordinate legislation (enabled by the new Act) and changes to the existing Gas Market Code (enabled by Part IVBB of the *Competition and Consumer Act 2010*).

The Australian Energy Regulator (AER) will be the regulator for both the new legislation and the amended Gas Market Code.

New primary legislation will:

- Establish the process by which regulated entities can apply for (and be issued with) an export approval licence,
- Set the obligation to meet the DSO,
- Prescribe the ways in which export approvals can be varied, revoked, renewed, suspended or cancelled,
- Allow for variations in DSOs to that consider existing export contracts, infrastructure limitation or existing regulatory arrangements,
- Prescribe new functions and powers for the Ministers and the Regulator in relation to the Reservation Scheme,
- Provide for restrictions on export-related activities or other penalties if an LNG exporter breaches an obligation or condition attached to an export approval,
- Set the mechanism by which the reservation percentage could be reviewed or changed, and

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- Require entities with an export license to comply with rules in the Gas Market Code governing participation in domestic markets to supply reserved gas.

Subordinate legislation under the new primary Act will set the reservation percentage and could provide rules specific to export licences, such as application requirements or application fees.

The Gas Market Code will be amended to:

- Set out market conduct obligations and individual producer obligations (must not be merely offer – genuinely make supply available), and
- Include a mechanism to manage minimum liquidity requirements and DSO flexibility in the domestic market through the ‘release valve’.

Legislation governing the Reservation Scheme will be as streamlined as possible to ensure affected entities clearly understand where their obligations sit.

Regulator

The AER will administer the Reservation Scheme on behalf of the Australian Government. The AER’s regulatory functions related to the Reservation Scheme will be prescribed in legislation. The AER’s functions will include:

- Managing application processes for export approvals.
- Monitoring compliance with regulated entities’ obligations.
- Advising Ministers on market dynamics to support ongoing consideration of reservation settings, including working with AEMO on matters that may need an assessment of the domestic market’s supply-demand balance.
- Providing advice to support Ministerial decision-making.
- Education, compliance monitoring and enforcement activities to support effective operation of the Reservation Scheme.

The AER’s functions and powers will take effect upon commencement of the legislation. The AER will be given powers to make rules in relation to producer selling practice principles and producer reporting obligations.

Role of Government

Primary responsibility for day-to-day administration of the Reservation Scheme will be the responsibility of the AER as the independent regulator: Ministerial oversight will ensure the LNG industry continues to operate in the broader public interest.

Ministerial Decision-making

Ministers will have decision-making powers under primary legislation, subordinate legislation and the Gas Market Code including:

- Issuance of export approvals,
- Approval and review of DSOs,
- Any variance of the annual DSO in line with the Reservation Scheme’s variation provisions,
- Any review of the formula used to calculate the DSO, and
- Decisions relating to the operation of the domestic gas market

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For certain decisions that may affect producer obligations or have wider market impacts (e.g. reviewing the reservation percentage or revising down the DSO), there may be a requirement for broader consultation across Executive Government.

Some decisions may require advice from the AER, potentially in consultation with AEMO, as outlined throughout this paper.

Export Approval Process

Regulated entities must apply to the Ministers for export approval.

The Ministers must decide whether to grant an export licence to the applicant. The Ministers will be able to request further information from the applicant.

Ministers will have the ability to attach conditions to a licence, including where regulated entities are granted a variation in their DSO to account for existing export contracts (see *Prospectivity: Recognising Existing Contracts*).

The legislation will set out the process for the revocation, renewal or extension of export licences, as well as the process by which licence conditions can be varied.

Reservation Commencement

Regulated entities' DSO would come into effect from 1 July 2027 and will apply annually on a calendar year basis, or a financial year basis, subject to consultation.

Between 1 January 2027 and 1 July 2027, regulated entities will be required to:

- Apply for an **export approval** (per the process described above),
- Submit Board-endorsed **compliance plans** for the 2027 regulatory period, and
- Propose any variation in their annual DSO to **recognise existing export contracts** (see *Prospectivity: Recognising Existing Contracts*).

Throughout the same period, Ministers (with advice from the AER) will:

- Decide applications for export approvals by regulated entities, and
- Determine individual DSOs that recognise pre-existing LNG contracts and any other matters approved by application.

Prospectivity: Recognising Existing Contracts

Regulated entities will have the opportunity to propose an individual variation in their annual DSO (from the 2027 regulatory period onwards) to account for pre-existing LNG contracts signed on or before 22 December 2025, or other relevant matters such as existing regulatory schemes or infrastructure constraints.

Further detail on the export approval process can be found in Attachment A.

If regulated entities seek a variation to ensure they can meet pre-existing LNG contracts, they must demonstrate to Ministers that there is no viable alternative to meeting their DSOs without a variation, having regard to:

- Volumes committed under current export and domestic contracts,
- Forecast LNG production,
- Volume of uncontracted gas,

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- Ability to buy gas from third parties (including domestic producers or other regulated entities to fulfil DSO, subject to satisfying an additionality test),
- Ability to conduct location swaps,
- Ability to flex down delivery volumes under export contracts,
- Ability to fulfil export contracts using LNG sourced from their portfolios or international markets,
- Infrastructure constraints, and
- Any other relevant factors.

The Ministers may grant variations to a regulated entity's DSO and attach bespoke conditions (included in their export approval) that will ensure regulated entities with varied supply obligations can continue to meaningfully support domestic supply.

Volumes committed to export under new or extended contracts executed after 22 December 2025 would not be considered acceptable reasons for not meeting a DSO. Beyond prospectivity considerations, DSOs can only be varied due to unforeseen and unavoidable circumstances, such as unplanned outage with existing infrastructure.

Reservation Design

What we heard:

- The Reservation Scheme's design should provide regulatory settings that are designed for long-term application.
- The quantum of reserved gas should support investment in domestic supply and infrastructure.
- To resolve structural challenges, the Reservation Scheme should be accompanied by complementary measures, including accelerated investment in upstream gas development, pipelines, storage and associated infrastructure.
- Any time-based review or changes to the regulatory settings will cause uncertainty and limit contracting and investment activity.

The Domestic Supply Obligation

The DSO will be an annual obligation on regulated entities to supply the domestic market with a proportion of their total production, equivalent to a fixed percentage of LNG exports. In practice:

- LNG exports are measured in millions of tonnes, but for the purpose of the DSO, LNG exports will be converted to joules to align with how domestic supply is measured.
- LNG exports will be measured at the point of loading.

The amount of LNG used to calculate the DSO will exclude LNG supplied into the domestic market, for example through an import terminal, to maintain neutrality across supply infrastructure.

Calculating the DSO

The DSO calculation will be made in line with the following formula:

$$\text{DSO} = 20\% \times \text{LNG Exports}$$

The above expression is calculated on the thermal energy content of the volume of LNG exported.

Note, the definition of exports will exclude LNG that is resupplied into the domestic market, for example through a potential regassification terminal, to maintain neutrality across supply infrastructure, such as with gas delivered to the domestic market via pipeline.

Reservation Percentage

The government has announced that the reservation percentage is 20 percent of LNG exports.

Reviewing the Reservation Percentage

The majority of industry stakeholders noted the effect of regulatory uncertainty on muting contracting and investment activity. Stakeholders were clear that any future review of the reservation percentage should be based on market-centric criteria rather than a set schedule.

The primary legislation will outline a mechanism through which Ministers may review the reservation percentage to ensure it remains fit for purpose. Ministers may decide to review the reservation rate based on advice from the AER, in consultation with AEMO and clear and observable criteria, which could include:

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- Forecast material and persistent undersupply of gas to the domestic market, beyond what’s manageable through the use of AEMO’s East Coast Gas System Reliability and Supply Adequacy Functions.
- Historical material and persistent oversupply of gas to the domestic market, for example, if the sum of any accrued-DSO volumes (refer to
- *Managing Annual Supply Volumes section*) across all LNG producers exceed a threshold level.
- Changes to the structure and composition of the domestic gas market, including any material entrants of new supply and infrastructure or material exits of gas users from the domestic market.

Worked Example

General Scenario: An entity seeking to export 100 PJ of gas will need to:

| Supply Obligation | PJs | Further detail and assumptions |
|---|------------|---|
| Total Production | ~128 | Own production, and approved arrangements with third party suppliers. |
| Domestic Supply Obligation | -20 | To meet the DSO, calculated as 20% of export volumes. |
| Feed Gas supplied to an LNG export facility | ~108 | |
| Liquefaction | -8 | Assumes ~8% of feed gas is lost through the liquefaction process. |
| Export volume | 100 | 20% of export volumes need to be supplied to the domestic market. |

DSO = 20% x LNG Exports*

*Note: LNG that is regassified and contracted for the domestic market does not count as exports.

Scenario 1: Entity A supplies more than its DSO

Entity A exports 100 PJ of LNG through a mix of export contracts entered into after 22 December 2025, and spot market sales. Entity A’s DSO is 20 PJ (i.e. 20% of 100 PJ). It supplies 30 PJ of natural gas to the domestic market, which will count towards meeting its DSO.

Entity A is fully compliant, as its domestic supply of 30 PJ exceeds its DSO of 20 PJ.

$$\text{DSO} = 20\% \times 100\text{PJ}$$

$$\text{DSO} = 20\text{PJ}$$

$$\text{Domestic Supply} = 30\text{PJ}$$

Note: Where Entity A has supplied volumes of gas additional to its DSO, it may seek ministerial approval to seek a credit to supply a reduced DSO in future years (refer annual DSO variation section). Ministers will seek advice from the AER and consider all exporter DSO positions to ensure any variations maintain the policy objectives of the reservation scheme.

Scenario 2: Entity B receives a reduction in its DSO to manage existing LNG supply contracts

Entity B exports 100 PJ of LNG, all of which is required to meet existing export contracts. It supplies 15 PJ to the domestic market, which counts towards meeting its DSO. It is unable to produce more gas in the short term and has no other options (e.g. new or underwriting additional production, sourcing from other spot or uncontracted volumes), fulfilling its export contracts with global portfolio gas or gas sourced from international producers) to meet existing export contracts. Subject to an approved variation, the effective DSO is set at 15 PJ for the approved period.

Entity B's DSO is 20 PJ (20% x 100 PJ), but its approved, effective DSO is 15 PJ due to existing contracts. **Exporter B is fully compliant, as its domestic supply of 15 PJ meets its effective DSO of 15 PJ.**

$$\text{DSO} = 20\% \times 100\text{PJ}$$

$$\text{Effective DSO} = 20\text{PJ} - 5\text{PJ}$$

$$\text{Domestic Supply} = 15\text{PJ}$$

Scenario 3: Entity C does not supply its full DSO

Entity C exports 100 PJ, of which 70 PJ is required to meet export contracts entered into after 22 December 2025, and 30 PJ is sold on the LNG spot market. It supplies 5 PJ to the domestic market, which counts towards meeting its DSO.

Entity C has a DSO of 20 PJ (20% x 100 PJ), but its domestic sales **do not** cover its DSO, and the exporter has uncontracted gas available.

Entity C will be non-compliant with the Scheme unless it is able to supply additional gas to the domestic market. There are a range of options available to do this, including through gas swaps or purchases from other LNG producers, fulfilling its export contracts with global portfolio gas or gas sourced from international producers, or curtailing LNG exports and redirecting gas to the domestic market.

Otherwise, Entity C is non-compliant as its domestic supply of 5 PJ does not meet its 20 PJ DSO.

$$\text{DSO} = 20\% \times 100\text{PJ}$$

$$\text{DSO} = 20\text{PJ}$$

$$\text{Domestic Supply} = 5\text{PJ}$$

Note: If reducing exports, the exporter also reduces its DSO. For example, if the exporter reduces exports to 85 PJ, then its DSO falls to 20% of 85 PJ = 17 PJ.

Scenario 4: Entity D unable to meet DSO

This example has been prepared with the understanding that the DSO is not met as a result of existing contracts.

Entity D exports 75 PJ of LNG, all of which is required to meet existing export contracts. It is unable to produce more gas in the short term and has no other options (e.g. it cannot meet its DSO by purchasing gas from other exporters, supporting third-party projects, or meet its export obligations from across its portfolio or from purchases on the international spot market. Subject to an approved variation, its effective DSO could be set at zero for the approval period. The outstanding amount of the DSO of 15 PJ (determined as the difference between the entity's actual and effective DSOs) is calculated, noting a detailed forward supply schedule for the compliance period may also be included.

$$\text{DSO} = 20\% \times 75\text{PJ}$$

$$\text{Effective DSO} = 15\text{PJ} - 15\text{PJ}$$

$$\text{DSO Outstanding} = 15\text{PJ}$$

Ministerial discretion, based on assessment of domestic demand over the forward period and the conditions of the variation request, will determine the extent to which an unmet obligation is carried forward and needs to be made up in future years.

Meeting Reservation Obligations

What we heard:

- The Reservation Scheme should promote long-term contracting activity.
- The Reservation Scheme should support a range of commercial engagements and market-based activities. Both firm supply agreements and more flexible commercial arrangements are important for business activity.
- Existing contributions by LNG exporters to the domestic market should be recognised.

Acquitting the DSO

A regulated entity must sell and deliver gas into the domestic market to acquit its obligations under the Reservation Scheme.

In general, regulated entities will be able to meet their DSO through own production and standard commercial and market-based arrangements, including:

- Long and short term bilateral contracting,
- Sales into AEMO facilitated markets (i.e. the Gas Supply Hub, Declared Wholesale Gas Market and/or Short Term Trading Market, or
- Other contractual agreements that result in the delivery of gas to domestic buyers (for example, a regulated entity enters into a third-party supplier agreement that delivers additional gas to the domestic market and is approved by Ministers as part of its application).

Gas supplied by a regulated entity to the domestic market under existing supply agreements (including those entered into before 22 December 2025) can count towards the acquittal of the regulated entity's DSO.

Obligations under the Reservation Scheme differ from previous regulatory frameworks, including the Heads of Agreement with east coast LNG exporters and some of the Conditional Ministerial Exemptions granted under the Gas Market Code. Under the reservation scheme, offers to the domestic market will not be sufficient to acquit a regulated entity's DSO. Rather, the regulated entity must physically supply gas to gas buyers in the domestic market.

Where an LNG exporter is unable to meet its DSO from its own sources of production, it may acquit its DSO by entering into arrangements with other producers to supply gas on its behalf. Any such arrangements to acquit a DSO must be approved by Ministers as part of the assessment of an application and must satisfy an additionality test. That is, the arrangement must result in the supply of gas to the domestic market that would not otherwise have been made available to the domestic market. This could include:

- Gas supplied by another LNG exporter,
- Gas supplied via an LNG regassification facility,
- Gas supplied by another domestic producer where the regulated entity has underwritten the development of supply from a new field, or from the expansion of an existing field, through investment and offtake, or

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- Renewable gases, including biomethane supplied by a domestic producer, where the regulated entity has underwritten the development of supply from a production facility, or from the expansion of an existing facility.

Regulated entities will be required to demonstrate in their export approval application to the Ministers how such arrangements result in the delivery of additional gas which would not have been supplied to the domestic market under normal conditions.

Renewable gases, such as biomethane, have emerged as potential solutions for decarbonising industrial sectors where electrification is not practical, including chemical production and high-heat industrial processes. Stakeholder feedback is welcome on how the supply of renewable gases could be used to meet the domestic supply obligation and should be treated within the design of the reservation scheme.

Minimum Liquidity Requirement

A key benefit of the Reservation Scheme is to improve buyers' access to gas, including through AEMO's facilitated markets.

The Gas Market Code will include a minimum liquidity requirement for regulated entities to support these spot markets with 'reserved' gas. Any DSO volumes that are unable to be contracted under longer term arrangements will need to be made available to the market through shorter term markets, as determined by the AER in consultation with AEMO.

Over time, this could include an AEMO-facilitated auction (available to all market participants), designed to increase the participation, transparency and accessibility of gas for domestic gas buyers. Meeting this requirement will be a precondition for use of the Reservation Scheme's flexibility mechanisms, summarised below in the *Managing Annual Supply Volumes* section.

Due to the inherent constraints of shorter-term spot markets related to prudential obligations and location-based constraints, the liquidity requirement will apply to all uncontracted DSO volumes. Subject to consultation, the volume limit of the liquidity obligation could be set to reflect the current structure of the contract market where up to 30 percent of gas is traded in spot markets, with all other gas traded under confidential bilateral contracts.

Infrastructure Constraints

As part of their application for export approval, Ministers will be able to agree to a varied DSO if entities provide evidence that they are unable to physically supply gas due to infrastructure constraints. Over time, regulated entities will need to demonstrate they are putting in place commercial arrangements to overcome any infrastructure constraints that may otherwise prevent them supplying their DSO gas into the domestic market over the medium-longer term. Regulated entities will need to demonstrate to the AER they are pursuing arrangements to ensure infrastructure constraints are not a barrier to meeting their DSO.

Treatment of Swaps

Gas swaps are an integral part of managing gas portfolios, allowing entities to balance portfolios over time and across large geographic locations, including in response to changing market conditions, and to overcome infrastructure constraints.

Timing or location-swap arrangements of gas will be allowable as long as the regulated entity's DSO is a net contribution to the domestic market with transparency via the Gas Bulletin Board.

Managing Annual Supply Volumes

What we heard:

- Sustained periods of significant oversupply will negatively impact investment signals for new production and crowd out domestic-only producers.
- Safeguards should be built into the Reservation Scheme to manage instances of significant over-and-under supply.

A key aim of the Reservation Scheme is to deliver a level of gas supply to the domestic market that modestly oversupplies the market.

A robust mechanism is therefore needed to manage instances of excessive oversupply and maintain the long-term supply and price benefits of the Reservation Scheme and reduce as far as possible negative impacts for competition and investment. The opportunity to export surplus gas in instances of oversupply should provide regulated entities an incentive to participate in domestic markets to improve buyers' access to gas.

The Reservation Scheme will include two avenues to manage periods of significant oversupply and improve liquidity and transparency in the domestic market:

- Prior to the regulatory period: The Ministers, on advice from the AER (and in consultation with AEMO), may vary the DSO following application by regulated entities to reflect the forthcoming year's expected demand forecasts in line with the domestic market's expected demand for the forthcoming year plus a buffer. Any such variation would face a high assessment threshold.
- During the regulatory period: A market-based mechanism designed to facilitate exports when the domestic market cannot absorb DSO volumes, referred to as the 'release valve' mechanism.

Prior to the Regulatory Period: Annual DSO flexibility

At the request from regulated entities either through the export approval process or through annual compliance planning, Ministers will have the power to vary a portion of the DSO for the forthcoming year in line with domestic demand plus a small buffer. This feature will preserve the Reservation Scheme's objective for a modest oversupply of the gas the domestic market such that the price effects of the reservation are maintained.

Regulated entities will submit annual compliance plans, aligned with the timeframes outlined in the *Monitoring, Compliance and Enforcement* section, including any requests to vary the DSO. The AER, in consultation with AEMO, will consider all compliance plans and provide advice to Ministers on whether the DSO should be varied for the forthcoming year.

To inform the Ministers' decision, the AER will provide advice, including on:

- The domestic market's demand-supply outlook, supported by AEMO, including through its Gas Statement of Opportunities and proposed short and medium-term Projected Assessment of System Adequacy (PASA) reports,
- The impact of all regulatory entity compliance plans on projected supply (to ensure there isn't an under supply), and

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- Any adjustments to DSOs to avoid significant oversupply of the domestic market in the year ahead.

Any approved variation to DSO volumes for a regulated entity will be carried forward into future compliance periods, i.e., unmet volumes resulting from a reduction to a DSO will accrue and must be met in future periods.

During the Regulatory Period: Market Based Release Valve

The release valve will be governed by a clear framework for determining if the domestic market is well supplied. The framework will be established in the Gas Market Code, with further detail to be set by the AER (in consultation with AEMO) via a determination if necessary. The framework will consider near-term supply adequacy metrics, conduct requirements, as well as a new market mechanism based on periodic auctions aimed at balancing short-term supply and demand (refer table below).

If liquidity obligations have been met, and the domestic market is observably well-satisfied, the mechanism can excuse regulated entities from meeting all of their DSOs and permit them to export any excess volumes if they have met the conditions imposed by the framework outlined in the legislative instrument (refer table 1 below). These conditions will be designed to support liquidity, transparency and competition in domestic markets. Domestic producers will be able to access the release valve when it is applicable via measures such as short-term third-party offtake arrangements.

Regulated entities will report on their use of the release valve mechanism in quarterly reporting to the AER. The AER will be empowered to audit regulated entities in line with the proposed compliance framework, and issue penalties for any non-compliance with the DSO, including any misuse of the release valve mechanism.

Any DSO volumes that are exported through the release valve mechanism must be made up in subsequent years. (refer *Accrual of ‘Released’ DSO Volumes* section).

Table 1 – Release Valve Mechanism Framework

| Criteria | Detail |
|--|--|
| <p>Near-term supply adequacy metrics must be observed and adhered to show demand has been met</p> | <ul style="list-style-type: none"> • Minimum storage levels and rates of drawdowns. • No constraints on the availability of pipeline capacity and storage facilities to meet demand. • Market events that would prevent the release valve being used, including the identification of any potential shortfalls in AEMO’s short and medium PASA or GSOO, and any active AEMO threat notices. • Conditions in the National Electricity Market. |
| <p>Regulated entity conduct requirements</p> | <ul style="list-style-type: none"> • Observable evidence of genuine attempts to enter into long-term gas supply agreements: <ul style="list-style-type: none"> - Minimum marketing obligations to offer gas in a manner that’s transparent and accessible to as many buyers as possible, in line with the Gas Market Code’s updated selling practice principles (see <i>Wholesale Market Conduct Obligations</i> section). - Requirement to offer gas on domestically competitive terms. |

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| Criteria | Detail |
|---|---|
| Minimum liquidity requirement (as referenced earlier in the paper) | <ul style="list-style-type: none"> • Volume-limited participation in AEMO-facilitated short-term markets such as the Gas Supply Hub. Over time this may include a new periodic auction facilitated by AEMO (e.g., quarterly or otherwise set by AER and AEMO) aimed at balancing short-term supply and demand. • As noted below, all uncontracted DSO volumes up to a cap of 30% of a regulated entity's annual DSO, are subject to this liquidity requirement. |

Accrual of 'Released' DSO Volumes

The two proposed mechanisms to manage annual supply volumes may result in DSO volumes accruing over subsequent periods.

Accrued volumes create an ongoing liability for the regulated entity to manage. This ongoing liability is seen as beneficial to reduce any incentive to overuse these flexibility mechanisms. This interaction helps strike a balance between the need for flexibility to manage periods of oversupply with the desire to preserve the Reservation Scheme's integrity and avoid any potential perverse incentives.

Ongoing accrual of DSO volumes could lead to excessive liabilities that may be impractical or impossible for regulated entities to deliver. LNG exporters have expressed concerns that accrual volumes would be considered balance sheet liabilities which could affect investment confidence. As such, the extent to which DSO volumes accrue should be limited.

Maximum Annual Accrual

A greater level of flexibility to meet the DSO over time can help to manage the risk of oversupply within a given year.

To mitigate the risk a regulated entity views the flexibility mechanisms as ways of reducing its DSO obligation, and to promote greater long-term contracting, the AER will, subject to consultation, determine a maximum amount of gas that may be made available through shorter term markets, and subsequently 'released' and accrued.

This amount will initially be set at 30 percent of an individual DSO, to align with the structure of the contract market where around 10 percent to 30 percent of gas is traded in spot markets, with all other gas traded under confidential bilateral contracts. Accruing volumes in this way would only be available on the rare occasion that the release valve is made available by the Regulator. In practice, this would mean all other volumes of gas must be contracted.

Integrated Market Reforms

What we heard:

- Both gas buyers and sellers noted the conduct provisions (including the EOI provisions) under the Gas Market Code were too prescriptive and hindered their contract negotiations.
- Stakeholders suggested more principles-based conduct obligations be employed to support commercial negotiations.
- Most stakeholders are supportive of a consolidated reporting framework for market transparency of price and available gas information, if it reduces market participant transaction and reporting costs.

Wholesale Market Conduct Obligations

Wholesale gas market conduct provisions are critical to supporting the obligation that regulated entities will have to supply gas to the domestic market to meet their DSO. Provisions will be included in the Gas Market Code to increase market transparency and facilitate more effective commercial negotiations between gas buyers and regulated gas producers, including for reserved gas.

The proposed market conduct provisions, which will replace the existing negotiation and gas supply agreement conduct provisions in Parts 3-4 of the Gas Market Code, are intended to provide a balance between wholesale market participants by:

- Providing gas buyers and sellers sufficient flexibility to respond to market conditions, and
- Ensuring gas buyers and sellers act in good faith when negotiating and entering into gas supply agreements.

The proposed market conduct provisions provide for the following:

- **Offer and negotiation timeframes:**
 - Regulated Gas Producers to determine open offer periods.
 - Regulated Gas Producers to agree with prospective buyers on the appropriate negotiation timeframes.
- **Conduct when making offers, negotiating and entering into gas supply agreements:**
 - Regulated entities would be required to respond to EOI responses in a timely manner.
 - Regulated entities should not withdraw or terminate offers unless there is a material change in circumstances.
 - Regulated entities and gas buyers and sellers would be required to act in good faith when negotiating and entering into gas supply agreements.
 - The price and non-price terms offered by Regulated Gas Producers to gas buyers should reflect an appropriate allocation of risks between the two.
- **Market transparency requirements:**
 - EOI for gas supply arrangements, whether buyers or sellers, published on the Gas Bulletin Board.

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- Available uncontracted gas should be published on the Gas Bulletin Board.

Regulated entities, gas buyers and sellers, and Regulated Gas Producers (as defined under the Gas Market Code) are to comply with AER guidelines on selling practices.

These principles align with the ACCC's draft guidance on retailer selling practices in the December 2025 interim Gas Inquiry report.

Supporting Contracting Through Increased Transparency Measures

Improving transparency of market information is critical to supporting the day-to-day operation of the Reservation Scheme once established. Additional gas price and available supply metrics on the Gas Bulletin Board, including as a result of the publication of EOIs and uncontracted available gas as outlined above, could strengthen market outcomes for all participants by reducing information asymmetry, lowering search and transaction costs, and improving price discovery.

These benefits are particularly important for contracting for gas available on the domestic market, including 'reserved' gas, where visibility of volumes, timing and market-wide price indicators is needed to support efficient negotiations and timely allocation to domestic users.

A summary of proposed transparency measures can be found in Attachment B.

Subsequent to this consultation, stakeholders will have further opportunity to engage with any proposed detailed changes to the National Gas Rules that give effect to market transparency improvements.

Monitoring, Compliance and Enforcement

What we heard:

- Regulatory decision making, monitoring and compliance should be based on complete and accurate evidence.
- Gas suppliers and buyers emphasised the importance of streamlining regulatory reporting and reducing duplicative reporting obligations.
- While the AER needs to access information to ensure it deliver its functions, existing reporting arrangements are extensive and should be leveraged before new obligations are introduced.
- Compliance obligations and any remedial powers in instances of non-compliance should be clear and predictable to support investment decisions.

Annual Compliance Plan

Regulated entities will be required to comply with a monitoring and enforcement regime which requires submitting a board-approved (or similar) annual compliance plan to the AER to determine a baseline assessment of whether they are on track to meet their DSO.

To the extent possible, regulated entities and the AER should leverage all available existing reporting arrangements, rather than requesting reproduction of that information in full. This should include information reported through the Gas Market Code and National Gas Rules, and an appropriate level of information sharing between the AER and AEMO. Entities will be required to comply with a monitoring and enforcement regime established by the AER.

The annual compliance plan must include, at a minimum:

- The regulated entity's estimated DSO and forecast gas availability
- The regulated entity's proposed approach to complying with its DSO
- Any requests by the regulated entity to utilise the Reservation Scheme's flexibility mechanisms (see *Managing Annual Supply Volumes*), and
- The regulated entity's prior-year positions, risks and mitigations.

Details on the DSO calculation, compliance pathways, flexibility mechanisms and other related matters are set out in the *Reservation Design* section of this paper. *Volumes committed* to export under new or extended contracts executed after 22 December 2025 would not be considered acceptable reasons for not meeting a DSO. Beyond prospectivity considerations, DSOs can only be varied due to unforeseen and unavoidable circumstances, such as unplanned outage with existing infrastructure.

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Performance Reporting

Regulated entities will also submit performance report against its DSO with supporting evidence including any revisions and updates to the annual compliance plan. Performance reporting should focus on actual performance against the annual compliance plan, material changes, emerging compliance risk and proposed remediation.

This will allow the AER to assess whether a regulated entity remains on track to meet its DSO and support early identification of emerging compliance risk rather than waiting until the end of the regulatory period. The regularity of reporting will be determined by the AER's assessment, balancing regulatory reporting burden against compliance risks.

The AER will be able to impose additional reporting and compliance obligations for entities at risk of or not meeting their requirements and may require entities to provide audited reporting.

Remedies

The AER will have a range of standard remedies it can pursue if it identifies a risk or evidence of non-compliance with the obligations under the Reservation Scheme, or associated market reforms. These could include court enforceable undertakings, issuing infringement notices, or applying to the Federal Court to seek injunctions or financial penalties.

Financial penalties under the Reservation Scheme will be similar to those available under the Gas Market Code (below). Where the non-compliance relates to a failure to meet the DSO, the AER will also be able to escalate the matter to the Ministers, who may then decide to vary, suspend or revoke an export approval.

With the exception of possible export restrictions, remedies available for breaches of obligations in new primary legislation are expected to be the same, or similar to, the remedies currently available under the Gas Market Code. There are no proposed changes to remedies applicable for non-compliance with the Gas Market Code.

Financial Penalties

For breaches of obligations in new primary legislation, and similar to the Gas Market Code, it is proposed a tiered civil penalty system will apply. Penalties for non-compliance with core obligations (e.g. the DSO or export license conditions) are expected to be at least as high as those available under the Gas Market Code.

For tier 1 penalty provisions in the Gas Market Code, the current maximum penalty for a body corporate is the greatest of:

- \$100 million;
- If the court can determine the value of the benefit obtained – three times the value of that benefit; or
- If the court cannot determine the value of the benefit obtained – 30 percent of the body corporate's adjusted turnover during the breach turnover period for the offence, act or omission.

For tier 2 and tier 3 penalty provisions in the Gas Market Code, the maximum penalty for individuals and body corporates is expressed as a number of penalty units.