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How Can Australia's *Domestic Gas Reservation Scheme - draft Design Framework* Be Interpreted? - #Issue 2

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Introduction

The Australian Government announced on 25 May 2026 the *Domestic Gas Reservation Scheme - Draft Design Framework* (hereafter referred to as the "DDF" in this paper) following the release of the proposed domestic gas reservation scheme on 7 May 2026. With DDF, the government opened the consultation on the Domestic Gas Reservation Scheme.

The DDF demonstrates that the key issues identified in the authors' previous paper dated 14 May¹ (Issue #1) - such as the nationwide scope of the scheme, its interaction with Western Australia's (WA) existing domestic gas reservation policy, and the treatment of existing contracts - have now been formally incorporated as core elements of the policy design.

While the scheme will apply nationwide and includes mechanisms for adjustment and flexibility, these adjustments are not automatically granted. Rather, they are to be determined through case-by-case assessments subject to Ministerial discretion. The following provides an overview of the key features.

1 Nationwide Application Clarified

- 1.1 The DDF explicitly states that: "*The Reservation Scheme will apply nationally. . .*"² This confirms that the scheme is intended to apply across all of Australia. At the same time, DDF also notes that: ". . . *existing regulatory arrangements, such as domestic supply obligations under state-based schemes, are recognised.*" This indicates that the new federal scheme does not

¹ <https://eneken.ieej.or.jp/data/13255.pdf>

² "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." Page 04/24 https://storage.googleapis.com/files-au-climate/climate-au/p/prj3ce30473e51fb474d08e6/page/Domestic_Gas_Reservation_Draft_Design_Framework.pdf

simply override existing state systems. Instead, it adopts a layered approach, in which both federal and state regimes coexist, and any overlap between them is to be resolved through individual adjustment mechanisms.

- 1.2 The DDF envisions an Export Approval-Based Regulatory Structure. The scheme will be implemented through an export approval framework, under which LNG exporters must obtain government approval in order to export gas³. As a condition for approval, exporters must meet their Domestic Supply Obligation (DSO). The DSO will take effect from 1 July 2027. Exporters must apply for export approval between 1 January and 1 July 2027⁴. The obligation will apply annually, either on a calendar-year or financial-year basis (subject to consultation) ⁵. In essence, the scheme functions such that export permission is contingent on domestic supply performance.

2 Interaction with Existing State-Based Schemes (e.g. WA)

- 2.1 The DDF states: "*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).*"⁶ This establishes that: Existing state-level obligations (e.g. WA's 15% reservation policy); and they can be considered in determining a project's DSO
- 2.2 However, this is not an automatic offset mechanism. Instead: Exporters must apply for a variation. Ministers will determine approval on a case-by-case basis.
- 2.3 Furthermore, the DDF clarifies: "*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*

³ "The Reservation Scheme will be governed by an export approval framework for all entities intending to export LNG." Page 04/24

⁴ "Between 1 January 2027 and 1 July 2027, regulated entities will be required to: Apply for an export approval. . ." Page 11/24

⁵ "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." Page 11/24)

⁶ "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)." Page 04/24

*variation. . .*⁷ This places the burden of proof on the exporter.

2.4 For projects already subject to WA's reservation policy: The WA 15% obligation is not automatically credited against the federal 20% DSO. Instead, it becomes a matter of negotiated adjustment (DSO variation). Accordingly, the relationship between the state and federal regimes is not governed by a simple formula, but rather by individualised administrative decisions. In other words, the existing 15% in-state reserve in WA will not automatically be included in the new 20% scheme but rather negotiated for individual adjustments to DSO (= measures to conditionally reduce the duty amount).

3 Treatment of Existing Contracts - Tightened Scope

3.1 The DDF clarifies the scope of contract protection: "*Extensions or variations . . . are not considered existing contracts. . .*"⁸ This means that contract extensions or renewals after 22 December 2025 are not protected.

3.2 Moreover, "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."⁹ The protection of existing contracts may be interpreted narrower than might have been expected. Exporters cannot rely on new or extended LNG contracts to justify non-compliance.

4 Treatment of LNG Imports and Regasification

4.1 The DDF explicitly allows: "*Gas supplied via an LNG regasification facility*"¹⁰ to count toward DSO fulfilment and clarifies that: LNG regasified for domestic use "*does not count as exports*"

4.2 Imported LNG, once regasified and supplied domestically, can be used to meet DSO obligations. This implies that future LNG import terminals are explicitly contemplated as part of compliance mechanisms. In other words, the scheme

⁷ "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. . ." Page 11/24

⁸ "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." Page 05/24

⁹ "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." Page 12/24

¹⁰ "Gas supplied via an LNG regasification facility," Page 16/24

is not limited to reserving domestic resources; it represents a broader domestic supply obligation, allowing flexibility in sourcing

5 Spot Market Supply and Excess Gas Management

5.1 The framework introduces two new concepts: "*minimum liquidity requirement*" and "*release valve mechanism*".

5.2 Under the *liquidity requirement*, "*Regulated entities will be required to make uncontracted DSO volumes available to the domestic market*"¹¹ This implies that excess volumes cannot simply be withheld. They must be offered through short-term or spot market mechanisms.

5.3 At the same time, the release valve allows: "*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')*"¹² This introduces flexibility, but exported volumes remain subject to accounting and future obligations.

6 Other Key Features

6.1 The DDF stipulates "*physical supply requirement*" meaning that "*the regulated entity must physically supply gas to gas buyers in the domestic market.*"¹³ This is stricter than WA's policy, which focuses on marketing obligation. The federal scheme instead will mandate actual delivery.

6.2 The DDF considers "*Third-Party Supply*" and "*Additionality*". Exporters may rely on third-party gas to meet DSO. However, such arrangements must satisfy an "additionality test" (i.e. must increase total domestic supply).¹⁴

6.3 The DDF considers *Enforcement* and *Penalties* as follows. Failure to comply may result in: civil penalties and suspension or revocation of export approvals. Penalties are expected to be severe (comparable to Gas Market Code

¹¹ "Regulated entities will be required to make uncontracted DSO volumes available to the domestic market, . . ." Page 07/24

¹² "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')." Page 08/24

¹³ "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." Page 16/24

¹⁴ "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." Page 07/24

penalties¹⁵), potentially including up to AUD 100 million or up to 30% of turnover.

Overall, the proposed scheme should not be viewed as a simple extension of Western Australia's domestic gas reservation policy to the national level. Rather, it represents a new hybrid framework combining export approval controls; mandatory domestic supply obligations; and market-based flexibility mechanisms. Accordingly, it can be characterised as an evolving regulatory system that goes beyond traditional "resource reservation" toward a broader obligation to ensure domestic gas supply.

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¹⁵ <https://www.accc.gov.au/business/industry-codes/gas-market-code>