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Department of Climate Change, Energy, the Environment and Water
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Submitted online at: <https://consult.dcceew.gov.au/gas-market-review-report>

Re Feedback on Gas Market Review Report Implementation

The Australian Energy Council (AEC) welcomes the opportunity to provide comment on the key recommendations proposed in the Gas Market Review Report.

The AEC is the peak industry body for retailers and generators operating in energy markets. Our members generate and sell energy to over 10 million homes and businesses. We seek to deliver a market that allows consumers to benefit from the transition to a reliable, affordable and decarbonised energy system. The AEC supports the transition to net zero emissions by 2050, and the role of the electricity sector in unlocking opportunities for reductions in other sectors. AEC members are major investors in the renewable energy, firming and energy security services needed to deliver an effective transition.

Overall Views

Having announced a decision to implement a domestic gas reservation scheme at the end of last year, the Government now faces a careful balancing act between implementing a scheme in a timely fashion and prudently designing the key parameters. This consultation is a good starting point and we encourage genuine ongoing consultation with stakeholders to ensure Australian gas markets return to stable policy settings that encourage investment in supply.

The Gas Market Review is broad-reaching and proposes reform to all corners of the market - spot markets, financial markets, long-term contracting and structural supply. There would be merit in the Government developing and consulting on an implementation roadmap. Each proposal should be prioritised based on the threat level and nearness, staggering implementation accordingly.

In principle, the AEC supports a domestic gas reservation scheme if it can provide a stable and enduring framework to promote gas supply and give confidence to market participants that recent ad hoc interventions will be phased out.

How the proposed domestic gas reservation scheme is implemented is of vital importance. Some of the relevant factors include the level of the obligation, what metric it is applied to and how the obligation to supply is defined. These items are discussed further below. Also of relevance are the details and timing of how the various recent ad hoc interventions are phased out.

Finally, the review recommended a range of other incremental improvements to gas markets which are briefly discussed further below.

Detailed Comments

Domestic gas reservation scheme design elements

Gas shortfalls are not forecast to materialise until 2029. It is of the utmost importance that the framework and design of a gas reservation policy are finalised and operational in time for any potential shortfalls. However, there is a balance to be struck. The current proposal for a 2027 start-date may distort the market, obliging producers to supply a domestic market that may not yet demand these volumes.

Without a formal discussion paper it is difficult for the AEC to properly comment on what might be the key design features of the proposed domestic gas reservation scheme. We suggest that a more detailed consultation on design features should also be conducted. In our view, some of the key design elements of the proposed scheme include:

- Level – the percentage of the obligation must be carefully chosen to ensure a smoothly functioning market. The AEC suggests this level should be applied consistently and for a defined period, to promote policy stability. The potential for a domestic oversupply may pose some risks to the market which could include undermining investment signals and reducing incentives for gas consumers to enter long term contracts. However, a level that does not promote enough domestic supply would also be problematic for consumers.
- Application – a metric that can be transparently applied and facilitate equitable contributions from LNG Producers will be required. Structuring the obligation as a percentage of LNG sales (contracted and spot) would be a simple approach. However, we understand the Government has a preference to apply this to a percentage of production. Therefore, it will be important to clarify what constitutes production.
- Obligation to supply – there could be practical challenges to implementing an obligation based on supplying gas (as opposed to offering gas to the market). For example, there may be insufficient demand, or not enough pipeline capacity on the South West Queensland Pipeline to ensure the physical delivery to demand centres in the south. An alternative approach would be to follow the WA framework, which requires gas to be offered domestically.
- Release valve – we agree there needs to be an ability for gas producers to sell excess gas, but a formal release valve mechanism may not be necessary. The concept potentially increases market uncertainty, if every year the AER needs to decide on whether a trigger is met that enables more exports. A simpler approach may be to ensure the requirements are clear and ensure the regulator has access to sufficient information to monitor compliance.
- Period of application – to provide policy stability, the obligation could be set for a period of around 15 years, potentially with a target range toward the latter end of the period in recognition of the level of uncertainty around forecast demand. The actual percentage could then be reviewed and locked in about every 5 years within the bounds of the initial range. There could also be a transparent and independent review process for updating the percentage. This approach would provide more certainty to the market than setting the obligation in perpetuity and only reviewing where certain conditions are met.

- Scheme start – if the obligation is to commence in 2027 as announced, this will likely require some phasing in of the target.
- Compliance – a reasonable amount of flexibility should be allowed for how producers meet their obligations, as long as the intent of supplying the domestic market is achieved. For example, existing domestic supply contracts should be included.

Removal of market interventions

Further clarity is required around the preconditions that would need to be satisfied to support removal of the reasonable pricing provisions and the Conditional Ministerial Exemptions (CME) from the Code. For example, this could include factors such as the reservation scheme being in operation, evidence LNG Producers are satisfying their obligations, and adequacy of domestic supply. The risk of price controls remaining indefinitely may undermine the intent of the reservation scheme, which is to improve investment confidence in gas supply.

Other gas market improvements

The review recommended a range of other improvements to gas markets. Some include:

- Short-term markets – participation in AEMO facilitated markets can be further supported by targeted improvements. We would support proposals to anonymise trade on the GSH and harmonise prudential requirements across markets.
- Virtual hub – the implementation of an east coast virtual hub is a major undertaking that is not viewed as a priority by the AEC. Gas markets are waiting for the design of the proposed domestic reservation scheme to be finalised and we suggest that this should remain the focus of Government reforms.
- Forward markets – the proposal to establish a forward trading market on the Victorian DWGM is not viewed as a priority. We understand the AEMC examined this in detail in 2019 and concluded that there were no net benefits.
- Market making regime – again, this is not viewed as a priority but if it is introduced it should be a voluntary regime.
- Market transparency and reporting requirements – proposals to streamline reporting under the AER are supported.

Any questions about this submission should be addressed to Matthew Kaspura, by email matthew.kaspura@energycouncil.com.au



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