3 July 2026

Our Reference: APLNG - COR - 1055207

Australian Government
Departments of Industry Science and Resources and Climate Change, Energy, the Environment & Water
GPO Box 390
Canberra ACT 2601

Dear Review Team

Domestic Gas Reservation Scheme – Draft Design Framework

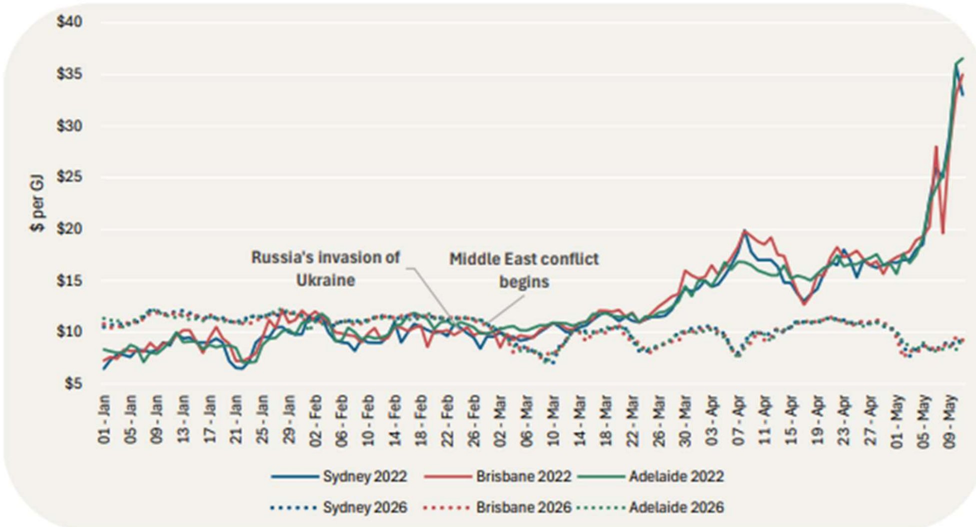
Thank you for the opportunity to provide a submission on the Domestic Gas Reservation Scheme – Draft Design Framework (Framework).

Australia Pacific LNG (APLNG) is the largest supplier of natural gas to the domestic market of the east coast LNG producers contributing over 2,400 petajoules to date, equivalent to the power used in every Australian household over seven years, with a further 600 petajoules contracted to domestic customers until 2035. Significantly APLNG has upheld its commitment to the domestic market by investing approximately AUD $3 billion a year to sustain production volumes to support both export contracts and domestic market commitments. APLNG's domestic supply of natural gas supports over 4,000 manufacturing and energy jobs in Queensland and southern markets.

APLNG supports a well-designed export licensing and permitting model commencing in 2027 with equitable domestic supply obligations across all east coast LNG exporters to address future short-term supply adequacy pressures, improve market liquidity and help maintain reasonable pricing. It is important that a reservation model recognises existing domestic supply obligations already in place in other jurisdictions across Australia.

The recent reduction in an LNG exporter's purchases of third-party gas from the domestic market, including a lapsed contract with a retailer and reduced purchases from short-term markets, has had a significant impact on domestic prices effectively delinking the domestic gas market from export prices. The 30-day rolling average price to 18 June 2026 for the Wallumbilla Gas Supply Hub has reduced to AUD $8.25/GJ while the 30-day rolling average for the JKM was AUD $25.06/GJ. The Australian Energy Regulator has also observed the decoupling of domestic and international process in its Default Market Offer 2026-27 Final Determination on electricity spot prices, noting that 'gas is significantly lower priced than in 2022' as a factor contributing to lower wholesale electricity generation prices.

Figure 4.1 Gas Short Term Trading Market ex ante prices, 2022 comparison with 2026



(Australian Energy Regulator 2026-27 Default market offer final determination page 29)

This highlights that the east coast gas market is well supplied and that changes in one LNG exporter's purchasing behaviour has already had a significant impact, de-linking domestic and LNG export prices. These recent actions have been voluntary, and it will be important that the domestic gas reservation design provides conditions that maintain these behaviours.

For a domestic gas reservation framework to work it must apply equitably to each of the three east coast exporters and treat investors and Australia's trade partners equally. Any framework that departs from the national interest and provides favourable treatment, a carve-out, or an effective leave pass to one set of trading partners or an individual company will fail to deliver. If the commercial costs of one LNG exporter to meet a social licence obligation to supply Australia are passed onto other LNG exporters it will disincentivise investment in natural gas supply above existing contract commitments. While APLNG remains committed to do our part to reserve gas for Australia, we will not support further, ongoing interventions that make our investors and trade partners effectively pay for the costs of meeting reservation obligations for another business that is both not contributing and taking gas back out of the Australian market. An export licensing and permitting model must:

- hold to the principle that the right to export should be linked to every exporter supplying its share of gas to the Australian market; and
- prevent purchases from the Australian market, through penalties and compliance measures, where an exporter is not a net contributor.

The delivery of a well-designed Framework with the necessary enhancements outlined below will provide the certainty for investment in infrastructure, including pipelines to deliver gas to where it is needed. Exporters should not be required to directly underwrite any transport infrastructure particularly for southern markets.

Exporters should only be required to demonstrate that they are pursuing commercial arrangements to overcome infrastructure constraints to the extent that the required arrangements are readily achievable and commercially viable for the Regulated Entity (exporter).

APLNG's focus

Given the significance of the reform and the implications to markets, ensuring the scheme design Framework is robust is paramount. APLNG has focussed on six key areas of the design Framework as outlined below:

- **Export licence -** Approved for 15 – 20 years or longer subject to continued demonstration of compliance with the Domestic Supply Obligation (DSO).
- **Prevention of new third party Domestic Supply Purchases -** where an exporter's net contribution to the domestic market is below its DSO, the scheme should prevent the purchase of 3rd party domestic supply (ie, supply that is not attributed to the exporter or a purchase between LNG exporters) in order for that exporter to satisfy either its DSO or sell for export LNG.
- **Establishing the Adjusted DSO -** Adjustment of the legislated DSO to deliver the Government's intended 'modest oversupply' (adjusted DSO) upfront based on AEMO medium-term east coast domestic market supply and demand projections to provide greater clarity of obligations on a market linked basis.
- **Transparent and objective national interest criteria for DSO variation/release -** Provide transparency and certainty by establishing well defined national interest criteria for decision-making processes to minimise Ministerial or regulatory discretion in determining:
  - variation for an individual LNG exporter's Adjusted DSO;
  - the release mechanism for annual Adjusted DSO volumes where gas cannot be placed in the market; and
  - obligations to accrue unmet annual Adjusted DSO.
- **Ensuring DSO accrual and credit mechanism honours the principle of linking DSO to exports -** Management of accrued or credited DSO volumes needs to reflect the principle of linking DSOs to exports by ensuring that DSO obligations are not accrued and deferred indefinitely, and that there is a move towards equitable contributions over time.
- **Non-compliance framework -** An appropriate non-compliance framework.

A proposed process flow is provided in Appendix 1 and each of these areas is addressed in further detail below.

1. Export Licence

The consultation Framework outlines an annual cadence for determining DSO volumes. This approach is likely to work counter to the Government's intended policy outcome of restoring long-term contracting to the market.

To support the long-term investment horizons in the gas industry an export licence should be approved over 15 to 20 years or longer subject to continued demonstration of compliance with the DSO.

2. Prevention of new third party Domestic Supply Purchases

The consultation Framework includes a requirement for a DSO to be a net contribution to the domestic market with reference to timing or location-swap arrangements of gas. The Framework further includes a requirement for exporters or regulated entities to be net-suppliers of gas into the AEMO facilitated markets over a set period. APLNG considers that the design will require a mechanism to prevent the purchase of third-party domestic supply (ie, supply that is not attributed to the exporter or a purchase between LNG exporters), for an exporter to either satisfy its DSO or sell for export unless the exporter's net contribution to the domestic market exceeds its DSO. As outlined earlier, it is critical that the overall scheme design fixes the 'hole in the bucket' caused by purchases of existing domestic gas supply for export to deliver on intended outcomes.

3. Establishing the Adjusted DSO

The proposed Framework has provided guard rails with respect to the DSO including that:

- the scheme will apply a DSO at 20% of LNG exports
- the intent is for the reservation scheme to result in a 'modest oversupply' to the market; and
- a definition of 'significant oversupply' as greater than 110% of domestic consumption.

To provide sufficient long term investment certainty to producers as well as buyers, APLNG proposes the introduction of an additional and initial step in the legislation to set an 'adjusted DSO' for demand. APLNG considers that the legislation should establish 20% of LNG exports as the default reservation volume and include provisions that require Ministers, on the advice of the Australian Energy Regulator, to determine a 'demand adjusted DSO' for a minimum period of 5 – 10 years at the level that would deliver the Government's intended 'modest oversupply' to the market.

Setting an adjusted DSO for demand upfront provides an opportunity for the market to solve how domestic supply obligations are met before applications for flexibility are made to Ministers. This addition to the process will better facilitate commercial arrangements between exporters to deliver domestic supply as well as provide greater long-term certainty for both buyers and sellers, mitigating the motivation for short-term contracting only.

The design of a domestic gas reservation must provide clear market signals for investment and encourage market participants to meet supply obligations and requirements through all commercial options available to them. This design feature will help to support a framework that avoids favourable treatment or any ongoing carve-out or leave pass to any LNG exporter on meeting domestic supply obligations that then commercially disadvantages other trade partners and investors.

4. Transparent and Objective National Interest Criteria for DSO Variation/Release

Equitable treatment

APLNG supports a fundamental policy principle that all LNG exporters must equitably contribute gas to the domestic market. The Framework document outlines several points where exporters can seek to vary or release their individual DSO.

To provide investment certainty, APLNG considers that these decisions should be based on objective and transparent criteria prescribed in regulation and not be subject to discretion.

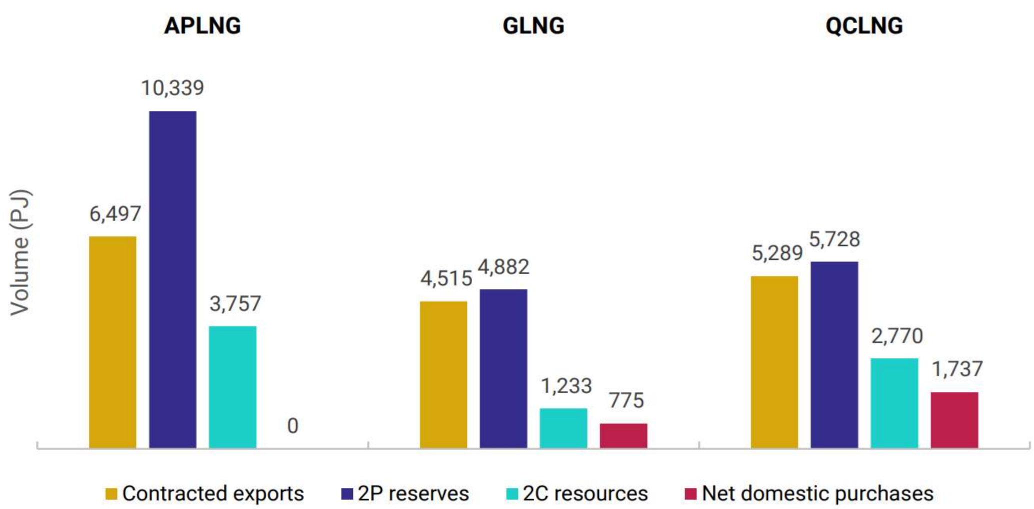
DSO variation

The Framework document outlines some of the criteria to be considered in determining whether a variation should be granted; however, it does not include the consideration of 2P reserves held by exporters to meet export contract commitments.

Consistent with the design elements that provide accountability under the Western Australian Gas Reservation Scheme, APLNG considers that it is important that Government should consider the resources and reserves held by LNG exporters to meet their export contractual commitments and DSOs including existing grandfathered domestic sales and purchases in determining the grant of export licences and whether to vary or release an exporter's DSO. The criteria for variation of a DSO should also require an assessment of the economic impact on other exporters that variation would cause.

All exporters have reported to the Australian Competition and Consumer Commission (ACCC) that they hold 2P reserves greater than their current export contractual commitments. Additionally, each exporter has significant 2C resources.

Chart 2: East coast LNG remaining contracted export quantities to 2036 and sources of supply to meet contracted requirements (PJ)



Source: AEMO Gas Bulletin Board; ACCC analysis of data obtained from gas producers on long-term export, domestic purchases and domestic sales forecasts.

(Source Australian Competition and Consumer Commission Gas Inquiry 2017-2030 Interim update on east coast gas market December 2024 page 10)

Data from ACCC report

PJs	Contracted exports	2P Reserves	Net Domestic Purchases	Total 2P and Domestic Purchases	2P Reserves and Domestic Purchases above contracted exports	2C Resources
APLNG	6,497	10,339	0	10,339	3,842	3,757
GLNG	4,515	4,882	775	5,657	1,142	1,233
QCLNG	5,289	5,728	1,737	7,465	2,176	2,770
TOTAL	16,301	20,949	2,512	23,461	7,160	7,760

Any individual variation to an Adjusted DSO to account for pre-existing LNG contracts signed on or before 22 December 2025 should only be available where the exporter can demonstrate to the Ministers' satisfaction that it is unable to meet its Adjusted DSO without breaching those existing LNG contracts. Such a variation should be limited to existing LNG contracts and should exclude any extension, increased supply commitments, or other variations to or in relation to such contracts.

Where volumes can be adjusted under another contractual mechanism (including flex down mechanisms) in accordance with the contract, the exporter should be ineligible for such variation. The exporter must also provide evidence that it has been unable to obtain gas from other sources to meet the Adjusted DSO, including efforts to increase its own production, that it has used all reasonable endeavours to engage with other suppliers such as exporters or domestic producer supply meeting the 'additionality test' for alternative sources of supply, and that it is unable to fulfil existing LNG contracts using LNG sourced from its portfolios or international markets. APLNG has already incurred significant costs to meet domestic supply commitments under its Conditional Ministerial Exemption granted under the Gas Market Code despite already being the largest supplier to the Australian market. Higher-cost viable alternatives should not be grounds for a variation to a DSO when there is a commercial cost on all exporters to meet domestic supply commitments. The honouring of export contracts is not in question in this design and commercial costs should not be conflated with contract risk. To provide the right market settings for investment the Framework must ensure that every east coast exporter is required to meet the proportionate commercial costs of a DSO.

Additionality test

Further clarity is required regarding the 'additionality test' applied to gas which an exporter may utilise from other domestic producers to support the acquittal of a DSO. In this regard the additionality test applied to renewable energy projects (which evaluates whether a renewable energy project produces emissions reductions that would not have occurred under a business-as-usual scenario), may be relevant, including that the investment must:

- be new (excluding development that is already underway or 'business as usual')
- not be required by law (other than law relating to the DSO itself); and/or
- not be financially viable on its own and requiring investment to proceed.

These changes are recommended to ensure that a flexibility mechanism:

- includes clear, objective and transparent criteria for meeting and varying a DSO or Adjusted DSO;
- that is determined in the national interest; and

- considering market capacity or adequacy, rather than any individual company's commercial decisions.

It is important that the regulatory system design does not discourage commercial decisions to invest in held reserves to meet export commitments as this will risk the security of gas supply to both Australia and offshore trade partners over the medium to long-term.

Release valve and minimum liquidity requirements

The Framework proposes the use of a 'release valve' for uncommitted DSO volumes, which includes tests such as demonstrating evidence of genuine attempts to offer gas on domestically competitive terms.

To provide improved market transparency APLNG supports the use of an 'economic threshold test' to balance long-term contracting with short-term markets and avoid prices falling below a level consistent with ongoing investment in supply. The Framework proposes to introduce a minimum liquidity requirement that must be met to secure the release of DSO volumes. While the volume of gas subject to the minimum liquidity test is limited, APLNG considers that this design feature could act against the Government's intent to restore long-term contracting behavior.

In relation to the proposed minimum liquidity requirement and within-year obligations, APLNG's position is that there should be no separate mandated within-year volume commitment in addition to the domestic supply obligation. Rather, the exporter must make available its Adjusted DSO that is not already sold or committed before the relevant year, in good faith on commercial terms (including the economic threshold test) within the compliance year. The Regulated Entity should be free to make its own determinations as to how to sell and should not be forced to only use AEMO facilitated spot markets. If the Regulated Entities are required to publish the Adjusted DSO volumes within year, then bona fide buyers have the information required to seek out gas.

5. Ensuring DSO accrual and credit mechanism honours the principle of linking DSO to exports

The Framework as outlined will result in a bank of DSO volumes, where a DSO variation or the release mechanism to the adjusted DSO have been approved to relieve an exporter of the obligation to provide gas to the Australian market, such varied or released volumes should be treated as a deficit and accrue.

The proposed Framework is silent on the use of any accrued DSO. APLNG considers that the legislation should prescribe how accrued DSO volumes are acquitted over time to ensure an equitable contribution is made by all exporters. It may also be useful to create legislative linkages to how the DSO accrual is utilised where AEMO powers are discharged to address emergent market issues. In times where DSO is not sufficient to meet demand, for example potential seasonal shortfall, the scheme should have a priority system in which unallocated DSO is first committed then accrued obligations are called first from the party with the largest proportionate accrued obligation or bank.

Specifically, in relation to the management of banked DSO volumes, before any change to future Adjusted DSO and/or in any shortfall year, Regulated Entities should be called upon to supply gas into the domestic market in the amount of difference, pro-rata and in order of the volume of their banked DSO deficit (from greatest to least volume).

To incentivise supply into the domestic market, where exporters have exceeded their DSO requirement to the market, such volumes should be credited against the Regulated Entity's DSO in a future period.

6. Non-compliance framework

Subject to a requirement for equitable contributions out of the Draft Design Framework consultation APLNG supports a compliance model to deliver on a requirement on all exporters to meet DSOs. Consequences for non-compliance should be set to provide a meaningful incentive towards compliance, including tiered civil penalties and variation, suspension or cancellation of Export Licence. Interim reviews and the availability of infringement notice penalties should provide additional incentive towards ongoing compliance.

Next Steps

APLNG is committed to working with the Federal Government to deliver on a well-designed policy outcome that delivers in the national interest. APLNG will not support any design that fails to link export licences to equitable domestic supply obligations from all east coast exporters or does not provide market outcomes that support investment in new supply.

As outlined in our initial submission to the Gas Market Review, East Coast LNG producers alone cannot be the solution for the entire projected shortfall in southern gas supply. In the longer term, targeted investment in gas field development near demand centres is critical to ensure supply security.

The reforms proposed by the Government will involve a complex framework likely to involve primary legislation, regulation and statutory guidelines. This complexity would be best managed by developing these instruments concurrently rather than a staged hierarchy of instruments to ensure that unintended consequences are avoided and transparency, clarity and certainty is provided for all stakeholders.

As a directly impacted stakeholder, APLNG looks forward to continuing to work with the Government and other stakeholders on the design of the detailed design of the export permitting scheme. Given the complexity of the intervention proposed it will be critical that key stakeholders are provided the opportunity to consult on legislative instruments as they are drafted.

Should you have any queries relating to this submission, please feel free to contact Simon Game, General Manager Commercial, APLNG directly on 07 3021 3350 or via email at simon.game@aplng.com.au.

Yours sincerely

Signed by:
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Appendix 1 – Potential Process Flow

Overview of Overall Process of Domestic Reservation Scheme

Compliance journey - from licence to acquittal and accrual