SUBMISSION

DOMESTIC GAS RESERVATION SCHEME – DRAFT DESIGN FRAMEWORK

30 JUNE 2026

EXECUTIVE SUMMARY

This submission sets out the Energy Users' Association of Australia's (EUAA) position on the Federal Government's proposed Domestic Gas Reservation Scheme (DGRS). EUAA members—representing over one million Australian jobs and major industrial sectors—express strong, unified support for a national reservation scheme that delivers affordable, reliable, and transparently governed domestic gas supply.

The EUAA strongly endorses the intent of the DGRS and believes it can restore Australia's low-cost gas advantage, strengthen sovereign manufacturing capability, and deliver stable long-term pricing. We believe that well-designed reform implemented immediately is essential—delaying action will only increase costs, worsen supply insecurity, and accelerate industrial decline.

This submission emphasises that Australia's east coast gas market is structurally failing, with high prices, opaque conduct, and supply insecurity eroding sovereign manufacturing capability. EUAA members argue that urgent, fundamental reform is required to prevent further demand destruction and loss of industrial competitiveness.

EUAA members also believe that a well-designed and implemented DGRS will not negatively impact existing LNG export contracts nor will it result in a domestic market that is "un-investable". After an initial establishment period the DGRS will provide long-term policy certainty and balance the needs of gas producers, investors and domestic consumers.

The core messages in this submission are:

- **Affordability is the central objective**. The DGRS must de-link domestic gas prices from volatile LNG netback pricing and deliver domestic gas below $10/GJ with many members arguing that domestic prices should be closer to Tier-1 production costs (~$6/GJ). Long-term gas at or above the previous $12/GJ cap is considered too high and misaligned with Australia's competitive advantage.
- **Reservation must deliver real gas, not paper compliance.** Members insist on a must-sell obligation, not merely "make available", due to past instances where producers offered gas at $40–$60/GJ with unworkable terms—offers described as disingenuous and validated by ACCC findings. *"Members have reported… gas was offered… at prices that could not be accepted by the buyer… These offers were seen as disingenuous."*
- **Support for a 20% reservation target, with transparency on modelling.** Many members believe the target should be in the range of 15–25%, reviewed annually, but affordability must be guaranteed regardless of the percentage. Members would also appreciate gaining a clearer understanding of the modelling that underpins the reservation percentage.
- **Strong governance and transparency are essential.** EUAA argues that opaque Ministerial discretion has undermined trust in past mechanisms (Code of Conduct, ADGSM, HoA). Therefore, we call for the AER to lead a transparent, rules-based compliance framework, with public reporting of DSO plans, contract offers,

and market data and an annual statement to parliament on the performance of the DGRS in supplying the Australian domestic gas with affordable gas. In order to do this, the AER must be appropriately resourced as soon as possible.

- **Compliance flexibility must not become avoidance.** Limited flexibility is acceptable to manage demand fluctuations, but EUAA strongly opposes exemptions, indefinite deferrals, or WA-style "whole-of-life" obligations that allow obligations to be "kicked down the road".
- **Infrastructure investment is critical.** Pipeline and storage constraints must not be used to justify DSO exemptions; swaps, banking, and third-party contracting provide alternative compliance pathways. We believe the DGRS will deliver long-term certainty and provide a clear path for investment in not only new production but infrastructure to support transport and storage capacity.
- **Integrated market reforms are required.** EUAA supports enhanced transparency, mandatory price-range offers, improved Gas Bulletin Board reporting, and conduct obligations that eliminate silent auctions and information asymmetry.
- **Transition measures must remain until the DGRS is proven.** ADGSM, the Code, and HoA should not be dismantled prematurely. EUAA members remain unconvinced on the merits of LNG import terminals, with many expressing concerns it would entrench import-parity pricing and stymie new domestic production.

INTRODUCTION

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our members are the engine room of the Australian economy, producing many of the products that households and business use every day including bricks, glass, cement, steel, aluminium, paper, fertiliser, explosives, food and beverages. Combined, our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade and investment pressures.

EUAA members are focussed on making products that meet their own customers' requirements where energy is just one input to the process, albeit a critical one. Their expectation is that the energy industry continues to provide energy services that are fit for purpose and consistent with the National Gas Objectives (NGO) so that our members can continue to provide a fit for purpose product for their customers.

The position of EUAA members is clear, there is an urgent need to fundamentally reform the domestic gas market so as to avoid further demand destruction and the hollowing out of Australia's sovereign manufacturing capacity. The lessons from recent conflict-induced global supply constraints, is that securing sovereign capability is not only an issue of critical importance for economic resilience but also for national security.

When we engage with our members there is strong alignment across the substantive elements of a Domestic Gas Reservation Scheme (DGRS).

- There is strong support for a national domestic gas reservation scheme focused on supply obligations and affordability. There is clear consensus that a well-designed DGRS is essential to address structural failures in the east coast gas market, including high prices and supply insecurity.

- There is strong support for an export licence approach with annual physical delivery obligations on all liable entities. This shared and equal obligation is critical to ensuring additional domestic gas is developed.

- There is a strong emphasis on immediate and full implementation of reservation obligations with strong enforcement.
- There is consistent alignment on the need for greater market transparency, enforceable export licence conditions, and annual compliance reporting to ensure accountability.
- There is recognition that some degree of year to year compliance flexibility may be required to manage changes in annual gas demand. However, there is a very firm view that compliance flexibility must not be used as a clandestine way for liable entities to avoid the delivery of least-cost gas to the domestic market as per their annual obligations.
- There is support for the protection of existing, long-term contracts that underwrote the development of LNG export facilities. EUAA members are conscious of not creating sovereign risk, as many have suffered the consequences of significantly changed circumstances brought about by the lack of meaningful gas market reform.
- Infrastructure investment is highlighted by all sectors as critical to delivering reserved gas effectively.

The EUAA and its member have been advocating for some form of domestic gas reservation for over a decade and welcome the intent of the current approach by the Federal Government. While we understand that making the proposed changes will create some challenges for the gas industry we do not believe, with well-designed reform, that these are insurmountable. One thing is certain, while making these changes today may be difficult, to wait any longer will only make the challenge of reform even harder, the costs on the gas industry even higher and potential for demand destruction even greater. The volatility in international markets arising from recent conflicts, further underscores the urgency of securing domestic independence through effective market reform.

DESIGN PRINCIPLES

Price Outcomes as Central Objective

It is clear that the introduction of a DGRS must de-link the domestic gas market from the high prices and volatility of international LNG markets. It must also deliver a domestic gas price that returns the comparative advantage our manufacturers once enjoyed.

Members have been very clear that:

- Reservation must reduce delivered prices below $10/GJ if we are to remain internationally competitive.
- The previous $12/GJ cap was too high. It was determined by the cost to produce from the next marginal gas field and fails to allow Australian gas users to share the benefits of Australia's lowest cost gas resources

We acknowledge specific competitive circumstances different members find themselves in, especially those that are highly trade exposed and are in many cases competing against imports from jurisdictions where energy, including gas, is heavily subsidised. In these circumstances, additional complementary measures may be required to ensure continued competitiveness of Australian industry.

We firmly believe it is mutually beneficial for government and industry to do all that we can to ensure the domestic gas market delivers the lowest possible cost for industry and households. This will make the task of bridging the competitive gap with complementary measures easier than it otherwise would have been and see a rapid return of the low-cost energy advantage for manufacturers and industry.

While not part of this process, we observe that elongated and confusing planning approvals and onerous obligations placed on producers adds cost, delays projects and adds to the risk of doing business. We strongly recommend that government urgently address these issues as without reform in this area the goal of low-cost gas is much harder to achieve.

Low cost price outcomes are not just an outcome required by our industry and manufacturing sectors but by all Australians. Low cost gas is critical to putting downward pressure on electricity prices given the key role gas fired generators will play in the energy transition while gas will continue to play an important role in household heating and cooking for decades to come.

Gas is also a critical but often overlooked input into the products we use every day. EUAA members make things that Australian households use every day such as food and beverages including key inputs like fertiliser and mining explosives, building products like bricks, steel, aluminium, cement and glass and paper products to name but a few. Maintaining sovereign capability and ensuring these supply chains are efficient and low cost is a key aspect of addressing cost of living pressures felt by every household are constant areas of focus of our members.

Finally, market design that increases members ability to enter into long-term gas supply agreements at a price and on terms that reflect the risk the buyer is taking by helping to underwrite further investment in gas supply is seen as a key success indicator. Therefore, issues associated with the spectre of opaque Ministerial discretion, short-term export licence approvals and compliance plans must be dealt with in the overall design.

Low Cost Australian Gas is Our Competitive Advantage – Not Our Competitors

Member companies have been very clear that all Australians, being the ultimate owners of these resources, should get access to the lowest cost gas. There is a strong view that low cost gas is a key competitive advantage that we are currently giving away to our main trade competitors, making them stronger while we undermine our own sovereign capability and national security.

If Australia is serious about building a strong industrial sector and true national resilience, then access to the cheapest possible energy is crucial.

Members are equally very clear that:

- Industry requires domestic prices to be closer to cost of production of Australia's lowest cost tier 1 gas resources (with reasonable margin). Cost of production should not be based on the cost to produce from the next marginal gas field but on 'Tier 1' gas where cost of production is closer to $6/GJ.
- All members stress the urgent need to delink domestic prices from LNG netback and define a "reasonable" and independent domestic price benchmark that is linked to cost of production not the sellers next best alternative.
- Reservation must deliver affordability from day one.

- Prices should be as low as can be sustained, not linked to international markets and attendant volatility.
- The reservation needs to be designed to give consistent pricing, and not the price volatility seen in Western Australia.

<u>Reservation Volume</u>

Member companies are supportive of the 20% target and would welcome the opportunity to understand the modelling that was conducted to arrive at this figure along with a clear, simple methodology for determining what the annual compliance volume should be.

Our engagement with members over the last 3-6 months has revealed the following views:

- Many suggest the annual percentage should be at least 25%
- Others suggest upper end of 15–25% range, calibrated to demand and supply modelling.
- All support that targets be reviewed annually, with transparency to avoid gaming.
- All stress that regardless of the annual percentage, affordability must be guaranteed.
- As demand may differ from year to year, a degree of compliance flexibility is likely required but it can't be used to avoid or defer compliance.

<u>Scope and Application</u>

- All members support the DGRS applying to all new contracts, renewals, expansions, spot cargoes and that loopholes like blend-and-extend of existing contracts must be eliminated.
- Reservation must apply on the basis of sales of gas to the export market, not diluted by LNG processing fuel use.
- An LNG export licence is conditional based on physical supply and sale of gas to households and domestic industry with no exemptions; obligations based on actual export volumes.
- Reservation must decouple domestic market from exports with some suggesting surplus gas should remain in reserves, not exported.
- How Darwin based LNG facilities are to be included, especially requirements on physical delivery to the east coast market need to be better understood. While some physical constraints may exist, this should not be the basis of an exemption (in-part or otherwise) from DSO obligations given the degree of flexibility (i.e. swaps, third party contracts and banking) that will be made available.

<u>Obligation to Sell vs Offer</u>

- There is strong alignment that obligations must be to sell gas domestically at acceptable market prices, not merely offer gas. This is to remove a significant issue consumers face where producers have "offered" gas to the domestic market at significantly elevated prices (in some cases well above LNG Netback) and/or with unworkable terms and conditions, fully expecting the offer will be unacceptable yet still allowing them to tick a compliance box.

- It is universally agreed this is not a demonstration of good faith behaviour and in the absence of such, stronger requirements such as the obligation to sell is a necessary requirement.

Governance and Enforcement

- Net contribution/supply principle enforced at equity level with strong ACCC/AER monitoring.
- Strong transparency and conduct reforms with export permits tied to audited domestic sales.
- Annual compliance statements from the CEO or Chair of the Board to Parliament with penalties for non-compliance.
- Many have suggested that in the absence of good faith behaviour, which can never be assumed, that the introduction of a fair market price mechanism may be required and should not be ruled out. Members hope that the "must sell" provisions and greater transparency will avoid the need for such measures.
- Enforce "use it or lose it" provisions on unused gas fields that are suspected of being withheld or warehoused by larger producers.
- Retain ADGSM (and possibly other measures) until reservation proven to be effective.
- Penalties linked to future export approvals; flexibility allowed but integrity must be maintained.

Transition and Supplementary Measures

- Strong support that existing protections (ADGSM, HoA, Code) should not be dismantled until reservation is proven effective.
- All oppose LNG import terminals as they entrench import parity pricing.
- All stress importance of pipeline and storage infrastructure to deliver reserved gas.
- All support long-term contracts and transparency via GSA register

RESPONSE TO DRAFT DESIGN FRAMEWORK

Regulatory Architecture

Draft Design Framework	EUAA Response
Legislative Structure • 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.	• We do not have substantive comments at this point, however we intend to conduct a thorough review of proposed legislation to ensure the intent of the reform is truly delivered by the legislation. • We also note that while there is an intent to remove other gas market guardrails such as the Heads of Agreement, Code of Conduct and the ADGSM, we strongly suggest these remain until the DGRS is fully implemented and delivering the intended outcomes.

• Changes to Gas Market Code: establish market-based mechanisms to govern domestic supply and market conduct obligations.	
<u>Regulator</u> The AER will administer the Reservation Scheme.	• We agree that the AER is an appropriate regulator provided it is properly resourced for the task. This additional resourcing must commence without delay as significant work is required to build the compliance architecture, systems and competencies by the commencement date of mid 2027.

<u>Governance</u>
 	
Ministerial and Executive Government decisions:
• Set the DSO percentage
• Issue export approvals
• Agree any individual DSO variations
• Direct and delegate matters to the AER
• Independent Regulator, AER roles:
    • 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
	• Our experience with Ministerial and Executive Government decisions, such as those associated with the Code of Conduct, Heads of Agreement and ADGSM has been far from satisfactory to date. These measures have been plagued with a lack of clear and transparent process that has contributed to the information asymmetry so often described by the ACCC as a significant barrier to a fairer market and better outcomes for gas users. For example, the reasonable price exemptions framework under the Code of Conduct has been opaque at best and has added to the distrust between suppliers and users and between users and the government.
	• It is not in the interests of producers or gas users for opaque Ministerial decision making.
	• We strongly suggest that the AER is given scope to work with producers, energy users and government to develop the formal compliance regulations and other governance arrangements that will form the basis of annual DGRS compliance. This must be a public process that places transparency and clarity at the centre of regulations. This should also have formal review periods and regular market reporting.
	• Once in place this would provide a clear and transparent method by which to manage compliance where all parties involved are able to be well informed. Under this model, final Ministerial decisions are largely a formality at the end of a rigorous and transparent process.
	• This, alongside the enhanced market transparency initiatives described in the Integrated Market Reforms section of the paper, would begin to break down the information asymmetry issue that has plagued energy users for over a decade.

<u>Reservation Commencement</u> • Legislation is intended to commence in 2027 • Export approvals required from 1 July 2027	Agree.
<u>Prospectivity</u>	• We have always maintained that existing export contracts (such as LNG export foundation contracts) and related contracts (such as third-party contracts associated with

• 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.	new gas developed for the purpose of export) should be protected under a proposed DGRS and have no objection to 22 December 2025 being the cut-off date. • The definition of "cannot meet their DSO without breaking existing contracts" requires careful consideration. Given the degree to which swaps and other standard commercial arrangements will be allowed, liable entities have multiple pathways to compliance (i.e. as outlined on pages 11 and 12 of the Draft Design). • We agree that extending or varying existing contractual arrangements, where they are entered into after 22 December 2025, should not be considered existing contracts. We also consider that options to extend existing contracts be treated in the same way. An option to extend an existing contract does not bind or require a counter-party to extend the contract but to make an informed decision at a point in time to extend the contract or not. We argue that in this circumstance any option to extend where it requires a new commitment based on consideration of current and future conditions (which we believe it would), is not part of the existing contract arrangement and should be disallowed.

<u>Export Approval Process</u>
 	
• 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:
  ○ 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
	• The export approval process must add to, rather than detract from, market transparency. While there may be limits to what can be made public, information regarding existing and future SPA volumes, expected domestic volumes and forward expectations of demand, represents basic information that should be publicly available (recognising that demand side reporting via the AEMO GSOO and VGPR initially and the GSOO, VGPR and medium-term PASA (from 1 July 2028).
	• In order to improve transparency and rebuild consumer trust in the gas industry, compliance plans on how DSO commitments will be met must be made public.
	• Consideration should be given to granting multi-year export approval (i.e. 10-year conditional export licence) provided appropriate conditions including DSO commitments and well-defined role for flexibility mechanisms is in place. Export licences for longer periods could be considered depending on the level of commitment by the LNG exporter to supporting the domestic market (i.e. a higher/greater level of DSO commitment by the exporter or a high level of long-term domestic GSA's allows for a longer export licence time period).

Reservation Design

Draft Design Framework	EUAA Response
Regulated Entities • LNG exporters.	• Agree, this is the simplest approach to a DGRS.
Domestic Supply Obligations (DSO) • Regulated entities will have an annual obligation to supply the domestic market with a proportion of their total exports, referred to as the DSO.	• See also our comments under "Export Approval Process". • We note the comment on Page 13 of the Draft Design paper *"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."* We take this opportunity to again state that EUAA members <u>do not</u> support LNG import terminals.
Calculating the DSO • The DSO calculation will be made in line with the following formula: DSO = 20% x 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 tones, 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.	• Agree with this approach. We, along with others, would welcome an opportunity to understand the basis on which the 20% was chosen and the modelling undertaken that indicates the likely supply-demand balance that this will deliver. Understanding the degree of "over-supply", the likely level of accrued DSO obligations, the timeline associated with this accrual and the degree of flexibility that will be afforded liable entities are all important inputs to price formation and understanding longer-term price curves.
Reservation Percentage • 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.	• Agree with this in principle but the annual compliance targets must be carefully calibrated to expected system demand (see also our response to the previous question). The challenge is to thread the needle between affordability for consumers and investability for new gas investment. • Along with other measures to improve transparency, accountability and price discovery, the objective of the reservation percentage should be to drive the most efficient gas price possible by ensuring the domestic market is well supplied (i.e. modest over-supply), that we minimize the level of banked DSO obligations and that only once these obligations are met, additional gas should be sanctioned for export in that compliance year.
Review Mechanism • 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	• Agree in principle but any and all reviews must be transparent and involve both buyers and sellers. Care must also be taken not to create a sense of uncertainty that can result from the prospect of constant reviews.

principles for the domestic reservation are met, and with advice from the AER and AEMO. • Any such review will not be time bound.	Clear communication to market participants and well-defined review parameters will be required.

Meeting Reservation Obligations

Draft Design Framework	**EUAA Response**
<u>Acquitting the DSO through supply and swap agreements</u> • 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.	• Over time and where possible, compliance should come about via the physical delivery of equity gas or new domestic only third-party gas. In this way the dual objective of DSO compliance and the delivery of additional gas will be achieved. Transparency on how supply obligations have been met could/should be detailed in the annual compliance statement to parliament. • Given the degree to which swaps and other standard commercial arrangements will be allowed, liable entities have multiple pathways to compliance (i.e. as outlined on pages 11 and 12 of the Draft Design). • We note the following on Page 16 of the Draft Design *"A regulated entity <u>must sell</u> and deliver gas into the domestic market to acquit its obligations under the Reservation Scheme."* • The EUAA have pursued a must sell obligation due to our member experiences of the failure of past "offer" or "make available" obligations. Members have reported (and subsequently validated by the ACCC) where gas was offered/made available to the domestic market at prices that could not be accepted by the buyer (these offers ranged between \$40.00Gj to \$60Gj) and with unworkable terms and conditions. These offers were seen as disingenuous by our members and in their view amounted to a cynical manipulation of a compliance obligation under the code of conduct.

<u>Standard commercial and market-based arrangements</u>
 	
• Regulated entities will be able to meet their DSOs through standard commercial and market-based arrangements, including sales through:
    o Bilateral contracts (including gas delivered under gas supply agreements and other arrangements, including as available or call options).
    o 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).
	• As above. Over time and where possible, compliance should come about via the physical delivery of equity gas or new domestic only third-party gas. In this way the dual objective of DSO compliance and the delivery of additional gas will be achieved.
	• As we have stated in our response to the Prospectivity section of The Draft Design Framework, given the degree to which swaps and other standard commercial arrangements will be allowed, liable entities have multiple pathways to compliance (i.e. as outlined on pages 11 and 12 of the Draft Design).
	• Where they are unable to meet DSO compliance from their own production, we fully support regulated entities underwriting new third-party production.

• 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.	• A combination of expanding its own equity gas expansion and underwriting new third-party production would be the preferred outcome from the DGRS. • The approaches described in our response to these issues applies equally to circumstances where a physical barrier exists to DSO compliance such as a pipeline constraint. • A number of domestic only producers have already benefited from entering into third-party arrangements with LNG shippers and we see significant potential for a number of domestic only producers to benefit from these DSO compliance obligations.
<u>Minimum liquidity requirement to support the spot market</u> • 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.	• Agree in principle as deep, liquid markets are helpful for price formation and a guide to longer-term contracting. However, we caution against creating market conditions that are too short-term (spot market) focussed and that diminishes the appeal to enter into long-term contacts. • We note that one exporter has currently stopped purchasing gas through the Wallumbilla gas hub and combined with low demand in the ECGM due to a mild start to winter has caused the short-term gas markets to at times fall below $5/GJ. This may appear to be a "win" for buyers, but we note that no contracts are being executed at this price level as it is likely below production costs and unsustainable for any meaningful period. Spot market prices at this level may also deter consumers from entering long-term contracts, which will impact liquidity. We encourage the Commonwealth to ensure it discourages market-flooding behaviour to create instability in the ECGM and strongly suggest that it is contract prices that matter more to buyers.
<u>Infrastructure constraints</u> • 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.	• As we have already stated, where possible compliance should come about via the physical delivery of equity gas or new domestic only third-party gas. In this way the dual objective of DSO compliance and the delivery of additional gas will be achieved. • However, pipeline constraints and the long-term nature of capital recovery required by these assets may result in a long-term DSO compliance problem. • Ggiven the degree to which swaps and other standard commercial arrangements will be allowed, liable entities have multiple pathways to compliance (i.e. as outlined on pages 11 and 12 of the Draft Design), including those sitting behind a physical constraint. Unlike DSO obligation issues associated with new supply of equity gas, the long-term nature of capital recovery associated with pipeline assets could mean the only solution is to enter into locational swaps or underwriting of third-

	party gas. Again, we contend that a physical constraint (such as limited pipeline capacity) is not a valid reason for DSO variations or exemptions given the role that swaps, and third-party contracts can be used. • We also contend that other forms of constraint (i.e. equipment failure or weather event) are not valid reasons for exemptions to DSO volumes given the tools available to liable entities to manage such events (i.e. swaps and banking)
<u>Treatment of Swaps</u> • 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.	• Agree with the intent. If locational/seasonal swaps simply result in the same amount of gas being recycled indefinitely around the system, then the objective of more local supply will not be met. • Swaps should be seen as a key flexibility tool that also supports the depth of market liquidity.

Managing Annual Supply Volumes

Draft Design Framework	**EUAA Response**

<u>Annual DSO flexibility</u>
 	
• 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:
  ○ 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 significant oversupply of the domestic market in the year ahead.
	• Agree to a degree of DSO flexibility but would oppose any form of DSO exemption.
	• We note the Western Australian domestic gas reservation scheme has a "whole of life" obligation linked to development of acreage. While undoubtedly providing significant flexibility for producers it has resulted in DSO obligations being indefinitely "kicked down the road". This is an extremely poor outcome and, in our view, counterproductive to the intent of a domestic gas reservation scheme.
	• Several flexibility mechanisms have been presented to the EUAA by a number of parties and we continue to engage on these issues as we are yet to form a view.
	• The outcome we are seeking is a degree of flexibility that allows liable parties to manage fluctuations in annual demand or to adjust sales approaches based on consumer contracting cycles. One approach could be to have fixed and floating DSO obligations. For example, a high fixed annual DSO obligation (i.e. 90%) that must be met and a floating DSO obligation (i.e. 10%) that deals with annual fluctuations.
	• Any flexibility must be accompanied by a high degree of transparency while maintaining the market supply objectives of the reservation scheme.
	• Members maintain strong opposition to DSO variations for issues associated with pipeline constraints. Any variations to a DSO (i.e. weather driven demand) should

	be pro-rated with spot sales to ensure local market is given higher supply priority. • Members have also expressed a view that there should be a clear oversupply ratio to cater for unfactored demand, i.e. increase in GPG consumption due to altering weather patterns that cannot be accurately forecasted. • Additionally, require a clear mandate for variations rather than opaque ministerial discretion as is current

Release valve mechanism
 	
• 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:
  ○ 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 Maximum Annual Accrual section further below).
	• We are not opposed to the principle of a release valve mechanism in a limited number of circumstances. However, this must be designed in such a way that continues to encourage DSO obligations to be met such that the domestic market is well supplied.
	• One approach proposed by several members is for AEMO to run an auction process through GSH for surplus gas to assess if volume of gas is "truly surplus" or hasn't been marketed in good faith by liable entities. Following low volume bids, the market will be satisfied this is genuine oversupply and there should be no objection to release valve being engaged, barring agreed tolerances for demand variations

Integrated Market Reforms

Draft Design Framework	EUAA Response

Market Conduct Obligations
 	
• Gas Market Code's conduct and negotiation obligations to be replaced by selling practice requirements, proposed to include:
  ○ Producers to determine reasonable offer open periods.
  ○ Producers and prospective buyers should determine negotiation timeframes.
	• We are supportive of the changes to market conduct obligations suggested in the Draft Design Framework.
	• Price discovery is a fundamental element of a functioning market. Therefore, in addition to reforms already proposed we would add the requirement that a price-range be included as part of all producer offers (i.e. Offers accepted between $8Gj and $10Gj depending on terms and conditions). This is required to dilute the silent auction process that has caused significant issues, including further embedding

○ 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.	information asymmetry, for EUAA member companies. This is a well-accepted practice elsewhere (i.e. such as real estate) where information asymmetry can be used to the detriment of the buyer. • We note there are a range of other recommendations that relate to transparency and accountability that must be pursued in parallel with the gas reservation scheme. For example, we would like to see a list of successful offers closed out with brief details on volume/term/delivery/price on the GBB, akin to how haulage capacity details are available. Commercially sensitive items such as flex/counter party and ToP can be omitted. This information should be made available by an enhanced AEMO Gas Bulletin Board.
<u>Transparency Measures</u> • Measures to improve transparency of gas prices and available gas supply on the AEMO Gas Bulletin Board.	• We are supportive of the transparency measures outlined in Attachment B of the Draft Design Framework. In addition, we would add the development of a domestic 5-10-year price series based on a “cost plus” assessment of existing and 2P reserves. • We would also suggest that our recommendation of including a price range in producer offers be adopted and that these price ranges be included on the AEMO GBB. This would assist with price discovery and reduce the negative impacts of information asymmetry and the silent auction approach of producers.

Monitoring, Compliance and Enforcement

Draft Design Framework	**EUAA Response**
<u>Compliance and reporting</u> Annual Compliance Plan • Regulated entities must submit a forward-looking annual compliance plan to the AER covering estimated DSO, forecast gas availability and proposed compliance pathway. Performance reporting • 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.	• We agree with the monitoring, compliance and enforcement framework set out in this section and encourage the greatest possible level of transparency. • We suggest that an annual compliance plan may lead to a reluctance by producers to enter into long-term GSA’s and therefore longer-term compliance plans should be considered. For example, a 5-year compliance plan that demonstrates how the DSO will be met each year seems reasonable. However, this must be accompanied by increased transparency of producer led EOI’s and more timely information on executed contracts so that it is clear that the producer is continuing to act in good faith by providing genuine offers to the market on an annual basis (that is also consistent with their year on year obligations they have submitted in their 5-year plan) The Minister, on advice from the AER and based on information made available via an enhanced Gas Bulletin Board would then have an ability, based on

	evidence, to decide if the producer is acting in a way that is consistent with their compliance plan.
<u>Remedies</u> • 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.	• Agree.

Andrew Richards
Chief Executive Officer