DELIVERING FOR QUEENSLAND | Queensland Government

Our Ref: QT02926-2026

Hon Chris Bowen MP
Minister for Climate Change and Energy

Email: Minister.Bowen@dcceew.gov.au

Dear Minister

Design Framework – Domestic Gas Reservation Scheme

Australia's east coast gas security depends on continued investment in Queensland gas production. For more than a decade, Queensland delivered the gas that has underpinned national energy security, supported regional communities and maintained Australia's reputation as a reliable trading partner.

Maintaining the confidence of these same trading partners in Japan, Korea and Malaysia has never been more important as the Commonwealth increasingly relies on the strength of our relationships to ensure Australia's liquid fuel security.

Queensland does not have a gas supply problem, and Queenslanders should not be disadvantaged for contributing to the national market or for the ideological decisions that southern states have made to not develop their own gas reserves.

The proposed scheme risks undermining Queensland's economy, regional prosperity, investor confidence and the trust of our trading partners. While key elements remain unclear and lack a credible evidence base, the framework sends a clear message that the Commonwealth does not support industry, is not open for investment, and takes Queensland's contribution for granted.

Queensland's policy settings have enabled continuous industry investment and recognise gas as critical for system reliability, industrial processes, manufacturing and export trade.

The Commonwealth scheme risks distorting markets and weakening the investment needed to deliver new supply. If the objective of the Commonwealth scheme is to support manufacturing, the policy should directly address manufacturing viability, including both access to gas and whether prices are sustainable for both manufacturers and producers.

Your recent letter states the scheme will apply nationally, while signalling carve-outs for Western Australia and the Northern Territory. Queensland's existing reservation policy, the *Australian Market Supply Condition*, should be recognised in the same way.

The failure of southern states to develop sufficient gas supply means the domestic supply obligation will fall disproportionately on Queensland exporters, who have collectively invested $70 billion to develop projects and meet long-term contractual commitments.

Queensland is currently penalised for the gas royalty revenue it receives through GST redistribution to southern states that have restricted gas projects. The proposed scheme disadvantages Queensland even further by deterring gas investment, which would lead to lower economic growth, lower employment, lower royalty revenue, and lower gas production.

The policy creates significant investment uncertainty and calls into question long-term export rights, which will now be at the discretion of regulators and Ministers. A requirement to supply, rather than offer gas, amounts to a forced sale and weakens incentives for new supply, while the current lack of clarity is already affecting investment decisions, and proposed oversupply could crowd out smaller producers supplying the domestic market.

Market bodies have forecast shortfalls since 2016–17 that have not materialised. Queensland has new gas discoveries that could add significant supply, but these projects require access to higher-value export markets to remain commercially viable.

Queensland's position is that the draft design framework must be redesigned to:

- Provide efficient market settings and policy certainty to support investment, retain the hard-earned confidence of Australia's trading partners, and encourage the development of new gas supply.
- Recognise Queensland's existing contribution to east coast gas security and ensure the scheme does not disproportionately burden Queensland for developing its resources and investing in national economic prosperity.
- Ensure structural reforms to the east coast gas market do not proceed unless supported by robust evidence, transparent modelling, meaningful consultation, and appropriate consideration of implementation risks.

I urge the Commonwealth to address the issues raised in the attached submission to avoid disproportionate impacts on Queensland, protect existing contracts and provide the certainty needed for continued investment.

If you require any further information, please contact my office on phone (07) 3719 7200 or email treasurer@ministerial.qld.gov.au.

Yours sincerely

DAVID JANETZKI MP
Treasurer
Minister for Energy
Minister for Home Ownership

DALE LAST MP
Minister for Natural Resources and Mines
Minister for Manufacturing
Minister for Regional and Rural Development

Encl. (1)

CC: The Honourable Jim Chalmers MP, Treasurer
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Commonwealth Government's Domestic Gas Reservation Scheme – Draft Design Framework

Queensland Government submission

DELIVERING FOR QUEENSLAND

Queensland Government

1.0 Executive summary

The proposed 20 per cent Domestic Gas Reservation Scheme is a significant intervention in the gas market. The objective of deliberately oversupplying the domestic market with otherwise exportable gas will negatively impact investment signals and undermine the long-term supply response needed to sustain gas production.

These risks are material and fall disproportionately on Queensland and Queensland producers. In 2024-25, Queensland exported almost $22 billion of gas, contributing $1.7 billion in state royalties to fund essential services and supporting over 44,000 Queensland jobs. The ACCC forecasts Queensland will supply almost 90 per cent of all east coast gas production by 2027, increasing to 96 per cent by 2037 – making east coast gas supply security overwhelmingly dependent on Queensland.

Stakeholders have raised consistent concerns about the lack of genuine engagement and transparency. No modelling has been released to support the proposed scheme design, justify the 20 per cent Domestic Supply Obligation (DSO), or demonstrate the need for an implementation timeline from 1 July 2027.

The Queensland Government is focused on optimising the State's gas resources for the benefit of all Queenslanders and ensuring a sustainable gas industry. The scheme design as proposed risks undermining investment, economic growth, regional jobs, national energy security, and Australia's reputation as a reliable trading partner.

Substantive redesign is required. This must start with an evidence-based link between market fundamentals, the proposed policy response, and the stated objectives the scheme seeks to achieve – ensuring domestic users have access to the gas they need at an affordable price.

The Queensland Government is calling on the Commonwealth to defer implementation and redesign the scheme to focus on market need, supply security and supporting infrastructure; genuinely protect export commitments; and recognise Queensland's existing contribution to the domestic market.

Without Queensland, there is no domestic gas market.

2.0 Consultation, transparency and timing

The proposed scheme design raises a range of issues and risks that must be addressed through further consultation, regulatory impact assessment and transparent modelling.

To date, the Commonwealth has not released the evidence base to support the scale, complexity or timing of the proposed policy intervention. This has limited stakeholders' ability to provide genuine input into scheme design and properly assess its potential impacts.

In particular, Queensland is concerned the Commonwealth has not published modelling to justify a 20 per cent DSO and, despite a proposed legislative mechanism for review of that reservation percentage over time, uncertainty persists in respect of the assessable criteria and evidence base for any prescribed level.

Queensland has consistently heard from stakeholders that further time is needed to redesign the scheme and implementation arrangements. Queensland shares these concerns and is calling on the Commonwealth to undertake this work before proceeding.

Queensland also questions the urgency of implementing the scheme from 1 July 2027. Given the materiality of the intervention and its potential impacts on industry, Queensland, and trading partners, implementation should be deferred to allow genuine stakeholder engagement and sufficient time to redesign the scheme, test its impacts and ensure any final framework is evidence-based, proportionate and fit for purpose.

To support informed consideration by governments, industry and communities, the Commonwealth should release the evidence base, modelling and policy rationale underpinning the proposed scheme. Given the scale and potential consequences of the intervention, implementation should be deferred to allow genuine stakeholder engagement and sufficient time to redesign the scheme, test its impacts and ensure any final framework is evidence-based, proportionate and fit for purpose.

3.0 Problem definition

The east coast gas market is currently well supplied, with a quarter average to June 2026 wholesale spot price in Queensland of around $9.32 per gigajoule (GJ) – significantly below the Reasonable Price of $12 per GJ under the Commonwealth Gas Market Code.

Domestic pricing has remained stable during 2026, despite the global energy crisis arising from the Middle East conflict. This demonstrates that domestic wholesale prices are disconnected from global volatility, noting wholesale gas prices remaining well below both Asian LNG netback values – which averaged $24.50 per GJ over the period – and LNG netback values. These market conditions warrant careful, evidence-based consideration of any policy intended to deliberately oversupply the domestic gas market.

For over a decade, projected supply shortfalls identified by the Australian Energy Market Operator's (AEMO) Gas Statement of Opportunities (GSOO) have been consistently deferred or mitigated through market-led investment, supply response and evolving demand. Likewise, the Australian Domestic Gas Security Mechanism (ADGSM), as a last-resort measure, has never been triggered. This demonstrates forecast supply risks have either been resolved by the market, by LNG exporters making additional gas available to domestic consumers, and/or by infrastructure providers investing to store and deliver gas where and when it is needed. Evidently, the prevailing market environment and policy setting is sufficient.

For example, in February 2026, LNG exporter APLNG offered an additional 31 petajoules (PJ) of gas to the domestic market, supplementing 97 PJ supplied under existing contracts to support winter demand. More broadly, Queensland Treasury estimates over $2 billion has been invested in pipeline and gas storage infrastructure across the east coast gas market, since 2019.

Alternatively, if the scheme is positioned to support gas use in manufacturing and industrial applications, a more effective and proportionate response would be targeted measures that directly address the needs of those sectors – rather than a market-wide intervention that risks disrupting a multi-billion-dollar industry that underpins investment, jobs and energy security.

Importantly, diverting additional gas into the domestic market does not guarantee gas will be available where and when manufacturers need it. Supply constraints in southern markets are increasingly driven by declining southern production, pipeline constraints and storage limitations – meaning additional volumes alone may not meet the needs of domestic users.

A more durable solution would focus on developing new supply and supporting strategically located infrastructure near major manufacturing and industrial demand centres. Alternatively, manufacturers could establish or expand operations in Queensland, where the Queensland Government is actively supporting the exploration and development of gas resources and long-term energy supply.

3.1 New Supply

A fundamental issue with the proposed scheme is the focus on reallocating existing supply rather than encouraging the development of new supply and supporting infrastructure. This approach is inconsistent with the Gas Market Review's broader objective of improving long-term supply security.

A sustainable solution requires policies that support exploration, appraisal, infrastructure investment and timely project approvals. A critical focus of governments should be on streamlining environmental, planning and Commonwealth approval processes to improve investment certainty and accelerate new developments.

Importantly, jurisdictions facing forecast supply shortfalls should be encouraged to develop their own gas resources and supporting infrastructure, reducing growing reliance on Queensland production. In this context, Queensland notes new supply options such as the large contingent resource at Narrabri (2,261 PJ, 2C Contingent Resources).

Long-term energy security requires all jurisdictions to contribute to supply where resources are available, rather than placing an increasing burden on Queensland producers to meet national demand.

> The problem statement is unclear. The east coast gas market is already well supplied, calling into question the need for a policy of deliberate oversupply. The focus should instead be on developing new gas supply in southern states – particularly near manufacturing and industrial demand centres – to lower costs, reduce reliance on Queensland and strengthen long-term supply security.

3.2 Deliverability versus volume

A reservation obligation based solely on annual volumes does not address the reliability risks identified by AEMO in its 2026 GSOO. AEMO continues to identify peak-day supply risks arising from constraints in production deliverability, storage and transportation infrastructure.

To deliver for domestic users, policy settings must ensure gas is available when and where it is needed, rather than focusing solely on annual volume targets. This approach is inconsistent with the Gas Market Review's broader objective of improving long-term supply security.

> Annual volume targets alone will not address the reliability challenges facing the east coast gas market. Policy settings must ensure gas is available when and where it is needed by supporting deliverability, storage and transport infrastructure.

3.3 Clear policy settings drive investment

Queensland's experience demonstrates that when government policy settings are clear, stable and targeted, the market responds by delivering investment, new supply and energy security outcomes. Over the past two decades, well-designed policy interventions have supported the sustainable growth of Queensland's gas industry, including:

- Introduction of the 'Gas Scheme' in 2005 to incentivise investment and regional development, attracting around $1 billion to commercialise Queensland coal seam gas (CSG) resources. With policy objectives achieved, the Gas Scheme was repealed in 2013.
- In the 2010s, bipartisan support and long-term foundational LNG export contracts underpinned the initial $70 billion investment in Queensland's three LNG export projects, enabling reliable supply to the domestic market and access to high value export markets. These contracts support major ongoing investment, including the $10 billion Arrow Surat Gas Project and around $3 - 4 billion annually in sustaining capital for wells, pipelines, and infrastructure.
- In 2016, the Queensland Government legislated the *Australian Market Supply Condition* (AMSC) to maximise value for Queenslanders. Queensland's experience shows pragmatic domestic gas supply obligations can support investment and energy security when implemented within a stable and predictable policy framework. The first project subject to the prospective AMSC—Senex Energy's Greater Atlas Project—attracted more than $1 billion in investment and has delivered 67 PJ of new supply to the domestic market over the period 2020–24.

Queensland's gas industry demonstrates that investment follows policy certainty. Clear, durable and market-oriented policy settings have attracted tens of billions of dollars of investment, expanded supply, supported regional jobs and strengthened energy security.

4.0 Market distortion and investment impacts

Queensland is concerned the scheme's objective of deliberately oversupplying the domestic market to reduce short-term gas prices will fundamentally distort market signals for investment in new supply.

As observed by Rystad Energy, LNG-linked developments benefit from access to international capital markets and long-term export contract structures, while domestic-only projects depend heavily on local price signals and long-term contracts to recover development costs over project lives of 15 to 20 years.

Accordingly, an artificial oversupply of the domestic market to depress prices will most acutely impact smaller and domestic-only producers. Over time, this will reduce competition, increase market concentration, and undermine domestic security of supply which the scheme is intended to strengthen.

With the ACCC also recognising Queensland's ability to develop gas resources at scale and access high value export markets having delivered some of the lowest long-run cost gas production on the east coast, it is therefore in the national interest that policy settings preserve investment incentives, support efficient market outcomes, and maintain the competitiveness of Queensland's gas industry.

Interventions which discourage investment can only adversely impact customers over the long-term.

There is already evidence the proposed scheme is affecting market behaviour. Buyers are seeking shorter contract terms and renegotiating existing arrangements ahead of expected post-2027 price changes, undermining confidence in long-term contracting and, ultimately, investment.

Gas developments require substantial upfront capital investment, long lead times and confidence in future market conditions. Policy settings that create uncertainty around pricing, market access or supply allocation are likely to delay or prevent investment decisions.

This concern is not theoretical. In June 2026, Woodside indicated that development of up to 200 PJ of additional supply from the Gippsland Basin would depend on the final design of the reservation scheme.

Policy uncertainty is already affecting market behaviour. By undermining confidence in long-term contracting and creating uncertainty around future pricing and market access, the scheme risks discouraging the investment required to bring new gas supply to market for domestic and international users.

4.1 ‘Must supply’ obligation

The proposed ‘must-supply’ obligation appears intended to strengthen buyer bargaining power by requiring LNG producers to offer additional gas into an oversupplied domestic market. This transfer of commercial risk to producers will reduce incentives for both buyers and sellers to enter into the long-term contracts that underpin investment in new production and infrastructure.

The proposed Market-Based Release Valve effectively acts as a corrective mechanism to address oversupply created elsewhere in the scheme. Rather than relying on a secondary mechanism to manage these consequences, the scheme should be designed from the outset to avoid creating artificial oversupply – particularly of a scale that materially distorts the market. At a minimum, this would mean an evidence-based DSO grounded in market need and supply security objectives.

Further, the release mechanism must be transparent, accessible and efficient, with clear rules governing eligibility, timing, evidence requirements and commercial confidentiality.

As the Market-Based Release Valve is forced to mitigate oversupply risk created by the ‘must-supply’ obligation and 20 per cent DSO, it must be efficient, accessible, and responsive.

Clear rules are required on eligibility, timing, evidence requirements, and commercial confidentiality to ensure the mechanism is effective and predictable.

However, reliance on a release mechanism highlights a more fundamental issue with scheme design. Rather than creating artificial oversupply and then establishing a process to manage its consequences, the scheme should avoid oversupply from the outset through an evidence-based DSO grounded in market need and supply security objectives.

4.2 Export approvals, ministerial discretion and sovereign risk

Queensland's LNG industry comprises a diverse mix of domestic and international investors, including national energy companies from key trading partners such as KOGAS (Korea), CNOOC and Sinopec (China), and Petronas (Malaysia). These companies hold significant equity interests in Queensland LNG projects and have invested billions of dollars across the gas supply chain – driven by stable policy settings, long term commercial arrangements and reliable access to export markets.

The proposed scheme risks undermining investment confidence by introducing ongoing uncertainty regarding access to export markets and future compliance obligations.

The requirement for annual export approvals is inconsistent with the commercial realities of LNG projects, which are characterised by multi-decade investment horizons, long development lead times, substantial upfront capital commitments, and long-term customer contracts. This uncertainty is particularly problematic as LNG exporters seek to negotiate contract renewals and demonstrate predictable operating conditions to investors and trading partners.

These concerns are compounded by the scheme's heavy reliance on Ministerial discretion, including the ability to set annual DSOs and negotiate individual variations. While flexibility may have merit, broad discretionary powers create regulatory uncertainty, reduce transparency and increase perceptions of sovereign risk. The combination of annual export approvals, Ministerial discretion and bespoke compliance arrangements is problematic – undermining the confidence needed to support long-term investment decisions.

The foundational export contracts that underpinned investment in Queensland's LNG industry must be explicitly protected from the operation of the scheme. While the draft framework states that existing contracts will be 'respected', this language is subjective and does not provide the level of certainty required for multi-decade investments and long-term trading relationships.

Decisions affecting the east coast gas market should be based on transparent, evidence-based criteria, supported by published modelling, consultation with affected jurisdictions and industry, and independent review. Export approvals should either be granted in perpetuity or align with the duration of export contracts, while retaining appropriate compliance mechanisms to ensure obligations are met.

The scheme should be redesigned around a transparent, predictable and codified multi-year compliance framework, with clear decision criteria, review mechanisms and appeal rights. Such an approach would provide certainty for investors, trading partners and domestic gas users, while preserving Queensland's reputation as a reliable supplier of energy to both domestic and international markets.

The scheme's reliance on broad Ministerial discretion, annual DSO setting and ongoing export approvals creates regulatory uncertainty and sovereign risk, undermining investment confidence, long-term contracting and access to export markets.

The scheme should be redesigned around a transparent, rules-based, multi-year framework to support investment, protect trading relationships and preserve Queensland's reputation as a reliable energy supplier.

5.0 Queensland disproportionately impacted

The scheme places a disproportionate and unfair obligation on Queensland.

The ACCC forecasts Queensland will supply almost 90 per cent of all east coast gas production by 2027, increasing to 96 per cent by 2037 – making east coast gas supply security overwhelmingly dependent on Queensland.

Diverting additional gas volumes into the domestic market will also have structural implications for Queensland royalty revenue through reallocation of gas that may otherwise be exported. This is compounded by GST arrangements that currently redistribute a significant share of Queensland's resource revenues to other jurisdictions.

As a result, jurisdictions that have chosen, and continue to choose, not to develop their own gas resources benefit from the investment and risk of Queensland producers and resultant gas supply – while Queensland bears additional costs and obligations under the proposed scheme.

Given the scheme's disproportionate impact on Queensland's royalties and GST position, the Commonwealth must re-examine the GST allocation to Queensland.

Queensland is also concerned the draft framework appears prepared to recognise Western Australia's domestic reservation arrangements through proposed carve-outs, while providing no equivalent recognition of Queensland projects currently subject to the AMSC. This inconsistency raises issues of equity, competitive neutrality, and potential constitutional implications.

Queensland's AMSC, as well as the existing contribution of Queensland producers to the domestic market and the increasing burden over time, must be appropriately recognised in the scheme design.

Queensland already underpins east coast gas security. The proposed scheme places a disproportionate burden on Queensland, requiring the State to shoulder a greater share of domestic supply while absorbing impacts across investment, royalties and economic activity –allowing jurisdictions that restrict resource development to benefit from Queensland's investment and production.

6.0 Conclusion

The proposed 20 per cent Domestic Gas Reservation Scheme requires substantial redesign. As currently proposed, it seeks to create artificial oversupply in an already well-supplied market, without a clear evidence base, published modelling or a demonstrated need for commencement by 1 July 2027.

The scheme risks weakening the investment signals needed to sustain future gas supply, while failing to address the real constraints facing manufacturers and industrial users — including declining southern production, pipeline constraints, storage limitations and the location of demand. A more effective response would focus on targeted support for gas users, development of new supply in southern states and private sector investment in strategically located infrastructure.

Queensland would bear a disproportionate share of the scheme's costs and risks. Queensland already underpins east coast gas security and is forecast to supply the overwhelming majority of east coast production into the future. Any policy that damages Queensland's gas sector risks undermining national energy security, future investment, economic growth, regional jobs, royalty revenues and trading relationships

Queensland is calling on the Commonwealth to:

- **defer implementation** to allow genuine stakeholder engagement and proper scheme redesign;
- **release the evidence base, modelling and policy rationale** underpinning the proposed 20 per cent DSO and commencement date;
- **avoid artificial oversupply** by grounding any DSO in transparent modelling, market need and supply security requirements;
- **prioritise development of new supply and supporting infrastructure**, particularly in jurisdictions facing forecast shortfalls;
- **recognise Queensland's existing contribution**, including the AMSC and domestic supply already delivered by Queensland producers, as well as the increasing burden on Queensland and Queensland producers over time;
- **genuinely protect foundational export contracts** and preserve Australia's reputation as a reliable trading partner;
- **replace annual export approvals and broad Ministerial discretion** with a transparent, rules-based, multi-year compliance framework.

Without substantive redesign, the scheme risks undermining the very outcomes it seeks to achieve – investment, future supply, energy security and affordable, reliable gas for domestic users.