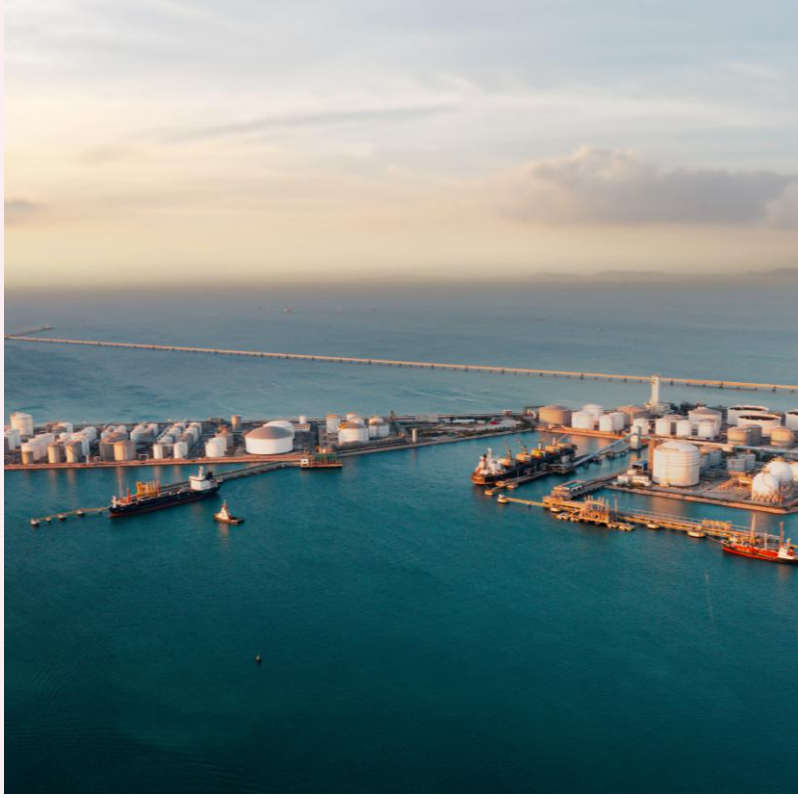
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BRIEFING



Australia's Commonwealth Domestic Gas Reservation Policy: Is WA in or out?

24 November 2026

Australia, one of the largest exporters of natural gas (or LNG) in the world, has never required domestic reservation of gas at a national level. In early 2026, the Commonwealth Government announced its intention to implement a Commonwealth Domestic Gas Reservation Policy. How this regime will impact Western Australia, which has had its own domestic gas policy for years, still appears somewhat uncertain.

In the gas sector, governments are tasked with striking a balance between promoting investment in the development of gas resources whilst ensuring that the domestic market shares in the benefits of those resources.

As can be observed from the significant recent swings in gas prices and supply availability on the east coast, achieving that balance can be challenging. A range of policy measures may be considered, including tax and royalty reform, regulatory streamlining and incentives directed at encouraging domestic supply. In this context, a domestic gas reservation policy is a tool that governments can use to try to safeguard domestic supply.

Key issues

1. The Commonwealth Policy would introduce export licensing and a domestic supply obligation of up to 20% of annual LNG export volumes.

2. Western Australia is intended to be carved out from Commonwealth Policy with its supply obligation set at zero, but questions remain about how practically this will be implemented.

3. LNG producers, project developers, Australian domestic gas customers and other gas sector participants in Australia should consider how development of the Commonwealth Policy progresses.

The Commonwealth Domestic Gas Reservation Policy

In October 2026, the Commonwealth Government introduced legislation to give effect to its Domestic Gas Reservation Policy ("**Commonwealth Policy**").

If the Commonwealth Policy is implemented, it will require exporters of natural gas (or LNG) to hold an export licence. A condition of an export licence will be an obligation to contribute up to 20% of annual export volumes to the domestic gas market (referred to as the "domestic supply obligation" or "**DSO**").

Under the Commonwealth Policy, a licence holder may apply to the Federal Minister for Resources to have their DSO adjusted, including to account for existing contracts or infrastructure constraints.

Further, the 20% DSO may be adjusted downward by the Federal Minister on an annual basis, as necessary, to ensure that the domestic gas market is supplied at no more than 110% of forecast demand (as determined by the Australian Energy Regulator).

Contracts for the supply of LNG entered into by exporters on or before 22 December 2025 will essentially be excluded from the scheme.

The Commonwealth Government has announced that applications for export licences will commence on 1 January 2027, with domestic supply obligations commencing from 1 January 2028.

As at the date of this article, the legislation to give effect to the Commonwealth Policy has not yet been passed by the Commonwealth Parliament. The Commonwealth Government is likely to require support from either the Coalition or sufficient Green and crossbench senators in order to secure passage of the legislation. The Coalition has indicated that it may be willing to support domestic gas reservation in principle, but has called for amendments to the proposed framework.

The Commonwealth Policy has generated much debate. Although the scheme has been cheered by domestic gas consumers who have endured gas supply shortages and high prices, industry participants argue that it will effectively act as a tax on the export of gas that discourages development of new resources and will result in reduced investment in gas resources (and less domestic supply) in the long run. Similarly, major Asian LNG buyers and overseas trading partners have expressed concern over the scheme as it may result in curtailment of LNG export supply.

There is also concern that linking the policy to delivering 110% of forecasted demand will hurt smaller producers that invested specifically to serve Australian gas customers. A short-term price reduction could weaken competition and investment, resulting in higher prices and greater supply risks in the future.

The broad discretionary powers granted to the Federal Minister under the proposed regime, rather than more predictable, definitive rules, have also caused a degree of angst in the gas sector.

WA's domestic gas policy

Leaving aside the structural concerns around the Commonwealth Policy, particular concerns have arisen in Western Australia.

Although Australia has not yet had a federal gas reservation policy, the WA State Government has had a Domestic Gas Policy since 2006 (the "**WA Policy**").

Under the WA Policy, which has generally had bipartisan support from WA State Governments since it was adopted, LNG projects that fall within the jurisdiction of the WA State Government must commit to reserving the equivalent of 15% of LNG production for the domestic gas market.

However, the WA Policy is not enshrined in State legislation. Rather, the WA Policy is primarily implemented by way of domestic gas agreements with the WA State Government under which LNG participants must (among other obligations) individually market gas to domestic users.

The WA Policy is also implemented by including gas marketing obligations in State Agreements (being contracts between the State and a company seeking to develop a major project that are ratified in Parliament), such as the Barrow Island Act 2003 (WA) which was entered into with the joint venture parties to the Gorgon gas project.

The WA Policy has generally been credited for shielding Western Australia from the supply shortages and large spikes in domestic gas prices, that have plagued the eastern states in recent years.

Carving out Western Australia from the Commonwealth Policy

Various stakeholders, including the WA State Government, have publicly stated that the Commonwealth Policy, which was primarily targeted at addressing supply shortfalls in recent years on the east coast of Australia, should be varied to expressly exclude Western Australia. It is worth noting that approximately 60% of Australia's LNG exports come from projects off the coast of Western Australia.

The Western Australian domestic gas market, which is physically separate from the east coast gas market, has generally been well supplied at comparatively low prices in large part due to the WA Policy.

When the details of the Commonwealth Policy were released in September 2026, the Commonwealth Government announced that Western Australia would be included in the scheme but reserved the discretion to set the share of domestic obligations in Western Australia at zero if the Western Australian domestic gas market was assessed as being well supplied. This provided little certainty in relation to the impact of the Commonwealth Policy on Western Australia.

On 18 November 2026, WA Premier Mr. Roger Cook announced that Western Australia had secured a "carve out" from the Commonwealth Policy.

However, how this will be implemented is not entirely clear. The Commonwealth Government has indicated that amendments will be proposed to the policy that will result in Western Australia being treated as a separate market and the state's supply obligation will be permanently set at zero.

There remains some uncertainty as to how this will operate in practice and whether the allocation for Western Australia could subsequently be

changed, particularly given the broad powers conferred on the Resources Minister under the Commonwealth Policy.

If WA is to be "carved out", this begs the question as to why Western Australia has not simply been excluded from the Commonwealth Policy altogether.

The announcement that Western Australia would be carved out came one day after Hancock Energy paused its Belisama Gas Project in Western Australia, which could meet up to 20% of Western Australia's domestic gas needs. The company cited the Commonwealth Policy, as then structured, as the reason for putting the project on hold.

What next?

If the aim of the Western Australia "carve out" was to provide greater certainty for gas sector participants in Western Australia, it does not yet appear to have achieved that objective.

Whilst the intended carve out goes some way to giving that certainty, more clarity is needed as to the proposed treatment of Western Australia under the Commonwealth Policy, including in particular whether there will be a possibility that Western Australia could be brought into the scheme at a later point (and how would that occur). The devil will be in the detail of the legislation enacting the Commonwealth Policy.

Given the continued investment in energy, including LNG, as part of the energy transition in Australia and globally, gas sector participants in Australia will be closely watching how development of the Commonwealth Policy progresses.



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