

30 June 2026

Mr Hew Atkin

Acting Division Head, Gas Markets

Via [online lodgement on DCCEEW website](#)

Response to DCCEEW/ DISR Consultation Paper on Domestic Gas Reservation Scheme - Draft Design Framework

Dear Mr Atkin,

Squadron Energy welcomes the opportunity to respond to the Consultation Paper published by DCCEEW and DISR in May 2026 on the Domestic Gas Reservation Scheme - Draft Design Framework (the Consultation Paper).

Squadron Energy is Australia's leading renewable energy company that develops, operates and owns renewable energy assets in Australia. We currently have 2 gigawatts of renewable energy generation in operation or under construction. Squadron Energy also owns the Port Kembla Energy Terminal (PKET), a fully constructed Liquefied Natural Gas (LNG) regasification terminal at Port Kembla in NSW and has invested in enabling infrastructure designed and built to introduce additional gas supply capacity, enhance gas supply security and support market-led supply solutions to emerging gas adequacy risks in southern markets.

Key points

1. Squadron Energy supports the Government's objective of improving domestic gas supply reliability and welcomes the proposed national Domestic Gas Reservation Scheme (DGR Scheme), including its prospective application from 1 July 2027 and the commitment to respect existing long-term contracts. The core test for the final design should be whether reserved gas can be physically delivered, when needed, to the customers and regions most exposed to supply risk - not whether gas has been notionally reserved on paper.
2. The success of the DGR Scheme will depend on physical deliverability, not headline reservation volumes. Reserved gas will not improve reliability for NSW and Victorian consumers if it remains stranded behind constrained north-to-south pipeline capacity. It should also allow obligations to be met using the most efficient source of supply, regardless of whether gas originates in Queensland, Western Australia or the Northern Territory.
3. The DGR Scheme should:
 - a. favour least-cost and infrastructure-neutral delivery pathways
 - b. explicitly recognise LNG regasification as a legitimate and cost-effective Domestic Supply Obligation (DSO) acquittal pathway
 - c. provide clarity to customers on how and when reserved gas will be delivered, so they have the confidence to enter into long-term supply agreements.
4. The objective of the DGR Scheme should be to minimise reliance on infrastructure-constraint variations to regulated entities DSOs and other forms of discretionary relief. A well-designed framework should provide regulated entities with multiple practical acquittal pathways including gas transmission pipelines; LNG regasification infrastructure; shipping

arrangements; gas storage facilities and market-based transactions. Where such pathways are available, requests for DSO variations should be expected to be the exception rather than the norm, providing greater certainty for all market participants and supporting efficient planning and investment decisions.

5. Regasified LNG represents genuine additional supply and transportation capacity to the domestic market, and existing infrastructure such as LNG regasification terminals can often improve deliverability more quickly and at lower cost than major new pipeline expansions. It can bypass pipeline bottlenecks, deliver gas close to southern demand centres and provide flexible, scalable supply, without requiring consumers or taxpayers to underwrite long-lived capital-intensive pipeline expansions that may be underutilised for much of the year (intra-year) and much of their lifetimes as the energy transition progresses.
6. Reforms to cabotage (*Coastal Trading (Revitalising Australian Shipping) Act 2012 (Cth)*) settings are critical so LNG can move freely and efficiently around the Australian coast, enabling the least-cost, most flexible means to deliver gas to meet consumer demand.

Recommendations

Squadron Energy recommends that final DGR Scheme and DSO design should:

1. Explicitly recognise LNG regasification infrastructure as a legitimate DSO acquittal pathway, including through a broad definition of 'infrastructure' in the new DGR legislation.
2. Ensure a robust, evidence-based test of commercially available alternatives as a mandatory pre-requisite to any DSO variation granted on infrastructure-constraint grounds.
3. Recognise all eligible sources of supply - domestic gas, domestically-sourced LNG and internationally-sourced LNG - as eligible to acquit a regulated entity's DSO.
4. Calibrate oversupply and refine the 'release valve' mechanism to preserve incentives for long-term contracting and avoid market instability.
5. Be complemented by urgent cabotage and coastal shipping reforms, including a dedicated LNG licence, sub-licence or standing exemption pathway where no Australian LNG carrier is available, so reserved gas can reach southern markets without unnecessary practical barriers.

Introduction

Squadron Energy welcomes the Federal Government's proposal to introduce a reservation scheme from 1 July 2027 requiring the equivalent of 20 per cent of LNG export volumes to be reserved for the domestic market. We support the Government's recognition of emerging structural supply risks and the need for new and flexible supply sources to support gas users and electricity reliability through the energy transition.

Squadron Energy also supports the principle that the DGR Scheme should apply nationally. This is important because the least-cost pathway to deliver gas to east coast customers may not always be pipeline supply from Queensland. In some circumstances, it may involve domestic gas sourced from Queensland, Western Australia or the Northern Territory, internationally sourced LNG, or a combination of domestic and international LNG cargoes delivered into a regasification terminal and contracted for the domestic market.

We support a prospective framework that respects existing contracts and replaces the existing Australian Domestic Gas Security Mechanism, Heads of Agreement and EOI arrangements with a coherent, principles-based framework. However, the final design will determine whether the scheme delivers genuine benefits for consumers.

A critical issue is not simply whether additional gas is made notionally available. It is whether gas can physically reach customers in southern markets when it is needed. The existing pipeline system connecting Queensland supply to NSW and Victoria is already a bottleneck during peak demand periods. Simply requiring additional gas to be offered into a constrained pipeline system may not solve the problem. It may instead increase competition for scarce pipeline capacity, bid up transport costs, and produce counter-productive outcomes for consumers (including increasing the need to underwrite contracts themselves, as traditional retailers may be reluctant to take on those risks).

A major expansion of long-haul pipeline capacity would be expensive, difficult to underwrite through long-term customer commitments in an uncertain and transitioning market and may require taxpayer support. It would also risk locking consumers into long-lived infrastructure investments that may not be fully utilised over their economic life as energy markets evolve. To support Australia's energy transition, it is essential that the DGR Scheme avoids creating a design bias toward pipeline-only solutions.

To ensure efficient outcomes, the scheme should also be infrastructure-neutral and allow market participants to determine the least-cost delivery pathway. LNG regasification is a practical and flexible option because it can bring gas directly from all LNG exporting states and territories to southern markets, avoid Queensland-to-south pipeline constraints, and can ramp up and down in response to market needs.

Squadron Energy recommends the DGR Scheme be assessed against the following public-interest tests:

- Does it deliver real supply to the domestic market from commencement of the scheme?
- Does it ensure gas can be delivered to southern markets (even in winter peak periods), where peak demand and reliability risks are concentrated?
- Does it provide clear access and price signals that support efficient long-term contracting and investment?

We offer more detailed design recommendations in the following sections.

SECTION 1 – Critical DGR design feature #1: ensure real supply from commencement of the scheme

1.1 Application of the scheme nationally, flexibility in acquitting DSO by making both domestic and international gas eligible, and making use of LNG regasification

Sources of supply

The DGR Scheme is designed to deliver a material increase in gas available to domestic customers from 1 July 2027.

While domestic gas production is essential, the constraints on pipeline capacity necessitate that the source of gas supply for the east coast of Australia should allow gas delivered domestically by ship from domestic sources as LNG to be counted towards reservation obligations. As such, we welcome the Consultation paper's proposal that "LNG that is regasified and contracted for the domestic market does not count as exports".

Domestic (pipeline) gas, domestically-sourced LNG and internationally-sourced LNG should each be capable of acquitting a DSO where the gas is supplied and delivered to the domestic market. This will foster competition into the heavily concentrated east-coast gas supply market, diversify sources of supply and allow the market to use the most cost-efficient gas supply and pathway available at the time.

Regardless of whether gas has been sourced from within Australia as LNG or globally, this gas should be credited under the DGR Scheme.

Physical supply

Squadron Energy supports the principle that a regulated entity's DSO should be acquitted by physical supply to the domestic market, rather than by offers that do not result in contractable and deliverable gas. This is critical to delivering additional, real supply that lowers costs for consumers.

While annual supply adequacy forecasts remain important, the key design risk for the DGR Scheme is whether reserved gas can be delivered into southern markets during peak-day and seasonal demand periods. The scheme should therefore be designed now to ensure reserved gas can physically reach NSW and Victorian consumers when it is needed, rather than leaving deliverability issues to be resolved case by case after the scheme has commenced. The Government should therefore clarify before commencement:

- the level of supply actually needed and intended to be unlocked from 1 July 2027; and
- any identified obstacles - where LNG regasification capacity is available, lack of pipeline capacity from Queensland (or WA / NT) should not automatically justify DSO relief, and the Government should clarify how alternative delivery pathways will be assessed.

Clarify – transportation services to ensure physical delivery of offers

The Government should clarify how regulated entities' liquidity obligations are expected to operate in facilitated markets, including who will be obliged to provide the transportation mechanism for an offer made at a facilitated market (e.g. Sydney or Adelaide Gas Short Term Trading Market (STTM)).

For example, under the proposed DGR Design Framework it is unclear how a regulated entity offering gas at, say, Sydney STTM, would be obliged to physically get the gas to that location. Would it be the responsibility of the buyer who accepts the gas at the Sydney STTM to contract with a pipeline owner or an LNG regasification facility, or would the onus be on the producer that has offered to sell it at that location.

Squadron Energy recommends that any offer of DSO gas into an AEMO-facilitated market should be accompanied by clear delivery arrangements, or at minimum clear responsibility for securing those arrangements, so buyers are not left with undeliverable gas or unpriced transport risk.

1.2 Treatment of uncontracted DSO volumes

Squadron Energy welcomes the design shift to require regulated entities under the liquidity mechanism "to make uncontracted DSO volumes available to the domestic market, under conditions determined by the Australian Energy Regulator (AER) in consultation with AEMO." This broadens the range of markets into which uncontracted reserved gas may be offered.

DGR design should further clarify that all AEMO-facilitated markets - including the Gas Supply Hub, the Sydney, Adelaide and Brisbane STTMs and the Victorian Declared Transmission System - are eligible destinations for uncontracted reserved gas, rather than funnelling volumes into already highly constrained locations such as the Wallumbilla Gas Supply Hub.

A genuinely location-agnostic approach will support more efficient price discovery, reduce delivery risk into southern markets and improve outcomes for industrial users where peak demand sits.

Nevertheless, the Government should ensure the final design does not create incentives for uncontracted DSO volumes to be offered into a single, concentrated facilitated market where this would undermine the scheme's objective of improving deliverability and reliability across southern

markets. As a safeguard, the AER could be required to publish periodic reporting on the location, volume and tenor of DSO-related offers and transactions to ensure the scheme is delivering outcomes across the domestic market rather than concentrating liquidity in a single hub.

SECTION 2 – Critical DGR design feature #2: ensure reserved gas is physically deliverable to southern markets

2.1 Flexible solutions like LNG regasification can best meet the need for increased deliverability to southern markets

As we demonstrate in this section, LNG regasification infrastructure provides a practical pathway for regulated entities to meet their DSOs. Consistent with an infrastructure-neutral approach, the final design should explicitly recognise LNG regasification infrastructure as a legitimate and cost-effective DSO acquittal pathway.

The DGR Scheme will not lower prices in southern markets unless gas can physically reach customers in NSW and Victoria during peak demand. Gas deliverability is therefore a defining challenge for the scheme, and delivery pathways must be addressed as part of the final design, more specifically which combination of infrastructure services delivers the best outcomes for consumers over time.

AEMO's 2026 GSOO confirmed, under the 'LNG regasification - PKET' scenario, that with PKET in place, peak day shortfalls in southern Australia are not forecast to emerge until 2031 and annual supply gaps will be delayed to 2034. This is the period in which the DGR Scheme will need to deliver, and in which critical design choices made today could lock in consumer costs for decades. Importantly, the DGR Scheme should not be designed solely around annual supply adequacy, as the primary challenge facing southern markets is increasingly one of seasonal deliverability and peak-day reliability.

LNG regasification provides a flexible, lower-risk pathway to address this challenge. In many circumstances, LNG regasification may also provide a lower-cost pathway than major pipeline expansions because the infrastructure already exists and can be utilised only when required. This avoids committing consumers to large capital investments in long-lived assets that may be underutilised as gas demand evolves over time.

LNG regasification offers a new entry point for gas into the east coast network, which is otherwise reliant on long-haul transport from Queensland through pipeline corridors operating close to capacity at peak demand periods. A "virtual pipeline" using LNG regasification can move gas from Western Australia, the Northern Territory and Queensland to southern markets.

Squadron Energy recommends that the new DGR primary legislation expressly recognise LNG regasification as an eligible DSO acquittal pathway and remove any doubt that gas supplied through an Australian LNG regasification terminal can acquit a DSO. This should include:

- defining 'supply to the domestic market' to include gas supplied via an LNG regasification facility located in Australia (consistent with the infrastructure neutrality principle, which the draft DGR framework already applies to exclude regasified LNG from the export base); and
- listing LNG regasification among the eligible acquittal pathways, alongside bilateral contracts, AEMO-facilitated markets, third-party arrangements and swaps.

2.2 Infrastructure constraints should not justify DSO relief unless LNG infrastructure alternatives have been tested

The paper states that “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.”

A robust ‘infrastructure constraint’ test is essential to ensure the DGR Scheme delivers on its objectives of reliability, affordability and supply security particularly for NSW and Victorian consumers most exposed to peak-day supply risk. No regulated entity should receive infrastructure-constraint relief unless it has first demonstrated that commercially available alternatives, including LNG regasification and shipping pathways, are unavailable or not commercially reasonable against transparent criteria.

While not suggesting the Design Framework consultation paper implies this intention, a narrow, pipeline-only assessment would create perverse incentives, entrench single-pathway dependency, risk reserved gas being stranded by infrastructure constraints, and undermine the scheme's stated infrastructure neutrality principle and increase reliance on infrastructure-constraint variations and other forms of discretionary relief.

A stringent, evidence-based test of commercially available alternatives preserves flexibility, supports the least-cost delivery pathway in each DSO period, and ensures that DSO variations are granted only where genuinely justified. This would also require a clear demonstrated attempt by the regulated entity to engage with all infrastructure providers to address any such existing infrastructure constraint.

Under the ‘infrastructure constraint’ test, the definition of infrastructure should be broad to provide regulated entities with multiple practical acquittal pathways

The objective of the DGR Scheme should be to minimise reliance on infrastructure-constraint variations and other forms of discretionary relief and be structured to ensure WA and NT gas producers are required, and able, to contribute to the national scheme. Where multiple infrastructure pathways are available, requests for DSO variations should be expected to be the exception rather than the norm.

The new DGR legislation should define "infrastructure" broadly for the purpose of any DSO variation under the ‘infrastructure constraint’ test.

A well-designed framework should provide regulated entities with multiple practical acquittal pathways including:

- gas transmission pipelines
- LNG regasification infrastructure (including floating storage and regasification units, onshore receiving facilities and associated send-out connections to the transmission network)
- shipping arrangements (including domestic coastal LNG shipping)
- gas storage facilities and
- market-based transactions.

The definition should be aligned with the way LNG facilities are recognised elsewhere in the National Gas Law and National Gas Rules, and with the DGR Scheme’s own infrastructure neutrality principle (which excludes LNG supplied into the domestic market through a regasification terminal from the export base). This ensures that any evidence presented to the Minister addresses the full range of delivery pathways reasonably available to the regulated entity, rather than assessing infrastructure constraints solely through the lens of pipeline capacity.

Commercially available alternatives for DSO acquittal should be ruled out before Ministers approve a DSO variation under the 'infrastructure constraint' test

Demonstration of an infrastructure constraint should be a mandatory pre-condition to any DSO variation under this test, and Ministers should not be able to vary a DSO unless the regulated entity has first satisfied the AER, against published criteria, that it cannot reasonably acquit its DSO through any commercially available alternative. DGR Scheme design should assume by default that a regulated entity can meet its DSO through any commercially available pathway, including LNG regasification at an Australian terminal unless it can demonstrate that no LNG regasification capacity is available within the relevant period or that use of available capacity is not commercially reasonable against transparent criteria.

At a minimum, the regulated entity should be required to demonstrate that it has:

- Tested available pipeline pathways.
- Tested available LNG regasification pathways, including a written request to any Australian LNG regasification terminal for capacity, tolling or supply arrangements, and the terminal's response.
- Tested available shipping arrangements, including domestic and international LNG cargoes that could be delivered to an Australian LNG regasification terminal where appropriate
- Tested available facilitated and bilateral market arrangements, including swaps and third-party supply that would result in delivered gas to the relevant southern market.
- Provided supporting evidence sufficient for the AER to assess the analysis, including counterparties approached, terms sought, responses received, and a transparent statement of the commercial-reasonableness criteria applied.

Similar processes already exist, for example where a party seeking an exemption from cabotage requirements must tender out to market to demonstrate their claim that there are no Australian-flagged ships capable of delivering the service.

The AER should publish guidelines on what constitutes "commercially reasonable" for these purposes, with worked examples, before commencement.

Finally, Ministerial decisions on infrastructure constraint variations should be supported by published AER advice and published reasons for decision (with appropriate commercial-in-confidence redactions). This ensures the test is robust, evidence-based and consistent across regulated entities.

2.3 Reforms to cabotage and shipping settings can eliminate practical constraints to gas delivery for southern markets

Cabotage and shipping settings should not prevent reserved gas from reaching southern customers.

The current cabotage regime can impose unnecessary administrative and timing burdens on LNG shipping, particularly given the absence of an Australian-flagged LNG fleet available to service the Australian coastline. Requiring parties to navigate a regime designed for conventional coastal cargoes can undermine gas market flexibility without delivering a corresponding Australian shipping benefit. This issue has been under review for many years without an outcome and is now becoming more critical.

Squadron Energy supports the resolution of cabotage and shipping setting barriers as a necessary complement to the DGR Scheme. Removing them would eliminate practical constraints on

ensuring that reserved gas can be delivered efficiently to southern markets. It would also support infrastructure neutrality, enable least-cost delivery pathways to be used at different times, and improve system resilience during periods of peak demand.

LNG shipping, which is typically very cost-competitive relative to existing long-haul pipelines, may also become increasingly competitive as a major global LNG liquefaction expansion is expected through the second half of this decade, supported by large LNG carrier shipbuilding programs. Reforms to cabotage and shipping settings would further improve the benefits from LNG regasification as a DSO acquittal pathway since that additional supply may place downward pressure on LNG prices and may also support more stable and competitive LNG freight rates.

As set out in this submission, LNG regasification provides a flexible and responsive means of delivering gas into the east coast system. However, the value of this flexibility cannot be fully realised unless LNG can move efficiently around the Australian coast. Without reform, existing cabotage settings risk limiting trade opportunities, constraining deliverability and undermining the ability of LNG regasification terminals to operate as effective entry points into the system.

Reforms to the licensing regime

Squadron Energy has previously submitted that the current coastal shipping regime is not fit for purpose for LNG and requires urgent amendment.

We are broadly supportive of the proposed tiered licensing framework emerging from the Coastal Trading Act Review, as it offers a pathway to greater flexibility. However, given the unique characteristics of LNG shipping - including spot trading, portfolio optimisation and the absence of any Australian-flagged LNG carrier fleet - the reformed regime should explicitly accommodate LNG through a dedicated licence or sub-licence. This would recognise the operational realities of LNG trade and avoid imposing conditions designed for containerised or dry bulk cargoes that are unworkable in an LNG delivery environment.

In addition, reforms could include an LNG-specific licence, sub-licence or exemption process that provides timely access to appropriate vessels where no Australian LNG vessel is available, while still preserving the objectives of coastal trading regulation.

Squadron Energy recommends that the Government progress LNG-specific coastal shipping reform in parallel with the DGR Scheme, rather than treating it as a separate or later transport reform. Without a workable coastal LNG pathway, reserved gas may remain physically unavailable to the southern markets the DGR Scheme is intended to support.

SECTION 3 – Critical DGR design feature #3: provide clear access signals to the market

Squadron Energy welcomes the introduction of a more flexible acquittal architecture and the creation of multiple acquittal pathways: physical supply plus compliance flexibility through bilateral contracts, AEMO-facilitated markets, third-party arrangements (subject to an additionality test), swaps and a 'release valve'.

This addresses some of our previous concerns raised in our response to the 2026 Gas Market Review, namely the risk of flooding the market when demand is insufficient and the disincentive to long-term contracting.

However, the architecture as drafted still leaves residual risks to long-term contracting and reliability for industrial users and does not yet fully resolve the inconsistency between requiring physical supply and encouraging long-tenor commercial arrangements that Squadron previously highlighted as inconsistent with the Gas Market Review's own recommendation 2g (encourage long-term domestic supply contracts and investment).

Key design features such as the liquidity-into-short-term-markets architecture, the conditional release valve, the cumulative accrual mechanic, and the still-undeveloped selling practices have the potential to disincentivise long-term contracting and weaken reliability signals for southern industrial users.

We make improvement recommendations in the sections below.

3.1 Strengthen oversupply and minimum liquidity requirements

Calibrating level of oversupply

The objective of maintaining a modest level of oversupply is supported in principle and can be a way to support price outcomes for consumers.

However, excessive or poorly calibrated oversupply risks undermining efficient contracting, distorting price signals and ultimately reducing system resilience. Poorly calibrated oversupply could weaken incentives for long-term contracting, crowd out domestic gas volumes supplied by non-exporters, and delay investment in flexible supply and deliverability solutions. This is particularly important in southern markets, where the key challenge is not only total supply, but whether gas can be delivered when and where it is needed.

The level and operation of oversupply will therefore be critical to ensuring the scheme supports efficient market outcomes rather than short-term market distortion. Oversupply settings should be carefully calibrated and supported by mechanisms, including the release valve, that prevent excessive or poorly timed supply from undermining long-term contracting, investment signals and market resilience.

The Government should analyse current and future market conditions to set an appropriate level of oversupply and provide clarity to industry and gas customers around the proposed definition of a 'modest' level of oversupply. While the paper defines significant oversupply as "a supply level that exceeds what can reasonably be consumed or stored domestically i.e. greater than approximately 110% of domestic consumption", it does not provide similar information on what 'modest' oversupply entails.

Finally, it remains unclear how the market could be persistently and physically oversupplied if there is nowhere for the oversupplied gas to go. The Government should clarify how the liquidity framework is expected to work, including any implications for contracted volumes that may need to be backed off to facilitate physical oversupply.

Refine 'release valve' to support long-term contracting outcomes – proactive monitoring of market conditions

The design of the 'release valve' - the mechanism whereby DSO volumes that are surplus to domestic market demand, once they meet certain criteria, can be exported or released - also needs to be strengthened to avoid the risk of creating market instability and unintended consequences such as introducing volumes materially in excess of market requirements. This would be counterproductive and work against the Government's objective of promoting efficient investment, long-term contracting outcomes and a diverse range of supply pathways.

One of the proposed conditions for gas to be considered surplus is if market indicators show near-term supply adequacy. The AER should be proactive and closely monitor market conditions to avoid delayed responses that create unstable supply cycles (either flooding the market when demand is insufficient or retaining the release valve as market conditions tighten). To do so, the release valve mechanism should therefore be supported by clear monitoring obligations, timely decision-making and transparent criteria for anticipating changes in market conditions.

Refine ‘release valve’ to support long-term contracting outcomes – uncapped accruals

The paper proposes that “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”.

The Government should clarify what volumes can be accrued under this mechanism (e.g. only intra-year DSO relief volumes, or all DSO relief volumes).

In the latter case, we would expect that such an uncapped, multi-year accrual of released volumes is likely to create growing stock of deferred DSOs. This may create uncertainty regarding future compliance requirements and discourage long-term contracting and investment decisions. Instead, the AER should introduce a cumulative cap on accrued DSO liabilities and a clear, published drawdown methodology.

3.2 Transparency measures

Squadron Energy supports the Government's proposal to consolidate gas market price and supply information on the Gas Bulletin Board, with the AER taking over price monitoring across all tenors from the ACCC. This should be complemented by the publication of the additional information recommended in this submission (for example information related to the ‘infrastructure constraint’ test including a list of all infrastructure available to acquit a DSO).

We agree that improved transparency reduces information asymmetry, lowers search and transaction costs and improves price discovery, particularly for contracting reserved gas.

SECTION 4 – PKET is well-placed to support the DGR Scheme goals

PKET demonstrates the type of flexible, privately funded infrastructure that should be recognised under an infrastructure-neutral DGR Scheme:

- PKET is targeting to be in operation from winter 2028, subject to final customer commitments.
- Its onshore infrastructure is complete and commissioned.
- The recently-completed Eastern Gas Pipeline Stage 1 upgrade to enable southbound flows is now able to provide up to 200TJ/day of southbound capacity from PKET, plus a further 70TJ/day from the Orbost Gas Plant.
- There remains sufficient time and available capacity for customers to contract regasification services as a supply pathway to southern gas markets.
- There remains sufficient time for the Floating Storage Regasification Unit (FSRU) to arrive for winter 2028.

As a flexible solution, PKET can support effective operation of the DGR Scheme

The critical question is not simply whether more gas will be made available, but whether gas can be delivered to southern customers when it is needed, particularly during winter peaks.

Regasification infrastructure connected to existing pipeline pathways such as PKET - provided it is recognised as a valid DSO acquittal pathway - provides a practical means of delivering gas into NSW and Victoria without committing to inflexible, high-capital pipeline expansions that are at risk of becoming stranded assets as gas and electricity markets transition.

Relying purely on pipeline expansions to deliver reserved gas would create new risks for gas consumers who should not be required to fund pipeline expenditure unless it is clear the investment is necessary, efficient and in their long-term interests.

Because forecast supply and delivery risks are concentrated in winter during peak demand periods, LNG regasification provides a flexible source of additional gas that can be utilised when required without committing consumers to large scale pipeline expansions that may be underutilised for much of the year.

Flexible solutions like PKET can reduce consumers' need to fund major pipeline expansion costs and avoid DGR Scheme over-reliance on inflexible, capital-intensive pipeline assets.

With its onshore infrastructure already complete and commissioned, and its floating regasification capacity, funded by a private operator and capable of redeployment if market conditions change, PKET can improve supply security without exposing consumers to the risk of funding long-lived infrastructure that may ultimately prove unnecessary.

PKET can also support efficient operation of the National Electricity Market

Recognising LNG regasification terminals as a valid DSO acquittal pathway can also support the more efficient operation of the National Electricity Market (NEM).

Since gas supply constraints predominantly occur in winter, PKET is well suited to provide targeted relief during this constrained period without the need for inefficient capital expenditure to construct extensive long-distance, large diameter pipelines that are not required for much of the year. PKET will be an important complement to the Iona Gas Storage Facility as a source of deep gas supply for gas-fired generation in periods of long duration renewable drought.

This will become more important as the NEM manages periods of low renewable generation and high winter demand, when gas-fired generation may be required to firm the system.

SECTION 5 – Other recommendations to improve DGR design

5.1 Clarifying the additionality test for new third-party gas production

The paper proposes that, where a regulated entity is unable to meet its DSO from its own production, it may meet it by underwriting new third-party production as long as it can be demonstrated that this gas satisfies an additionality test.

Squadron Energy recommends that the additionality test focus on whether the gas represents additional supply to the domestic market, rather than privileging one supply source or delivery pathway over another. Gas delivered through an Australian LNG regasification terminal and contracted for domestic use should be capable of satisfying the test where it increases gas available to domestic customers.

5.2 Timing and implementation

Squadron Energy supports the Government's proposal to commence the DGR Scheme on 1 July 2027. Maintaining this date will provide certainty to customers, producers, exporters and infrastructure providers, and will help crystallise the contracting and investment decisions needed to improve supply reliability.

Implementation should proceed carefully but promptly. The scheme intersects with Commonwealth export approvals, the Gas Market Code, state and territory gas policies, coastal shipping and cabotage arrangements and existing market instruments. A clear implementation pathway is needed to avoid unintended consequences, including incentives for 'paper compliance', short-term market flooding, or inefficient duplication of pipeline infrastructure.

Conclusion

The DGR Scheme will only improve reliability and affordability if reserved gas can physically reach the customers and regions most exposed to supply risk. For NSW and Victoria, that means the

final design must look beyond headline reservation volumes and expressly recognise all practical delivery pathways, including LNG regasification, coastal LNG shipping, storage, facilitated markets, swaps and bilateral contracting.

Squadron Energy therefore recommends that the final DGR framework adopt an infrastructure-neutral design, recognise regasified LNG as an eligible DSO acquittal pathway, require regulated entities to test commercially available delivery alternatives before infrastructure-constraint relief is granted, and progress urgent cabotage reforms so reserved gas can move efficiently to southern markets.

These changes would preserve flexibility, support least-cost delivery, improve reliability for southern gas users and reduce the risk that consumers or taxpayers are required to fund unnecessary long-lived infrastructure.

If you would like to discuss this submission or any related content, please contact Marilyne Crestias, Director – Energy Policy & Regulation at marilyne.crestias@squadronenergy.com.

Yours sincerely

A handwritten signature in black ink, appearing to read 'W. Schutte'.

Walter Schutte
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