BCA
Business Council of Australia

Business Council of Australia Submission to the Senate Standing Committees on Environment and Communications

Inquiry into Artificial Intelligence and Data Centres

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1. Executive summary

The Business Council of Australia (BCA) brings together the chief executives of many of Australia's largest companies. We welcome the opportunity to make this submission to the Senate Standing Committees on Environment and Communications' Inquiry into artificial intelligence (AI) and data centres.

Data centres are fundamental to Australia's economy. They support many of the services Australians rely on every day including healthcare, banking, financial services, communications, emergency services and government services. As AI becomes more deeply embedded across the economy, the importance of secure, reliable and resilient digital infrastructure will continue to grow.

Australia has a significant opportunity to attract investment in AI and the infrastructure that enables it. The scale of global investment in data centres is expected to reach into the trillions of dollars by 2030 as countries compete to capture the productivity, economic, and strategic benefits of AI.[1] Australia is well placed to succeed, but that outcome cannot be taken for granted.

Data centres can give Australia a foothold in the AI economy. As Assistant Minister Charlton has argued, the task is to turn that foothold into capability across the wider AI stack.[2]

The BCA welcomes the Government's commitment to AI and AI infrastructure in Australia's national interest, including the National AI Plan, the Expectations of data centres and AI infrastructure developers, and the establishment of the Office of AI in the Department of the Prime Minister and Cabinet. Business shares the Government's objectives to increase AI adoption, attract investment, strengthen economic resilience and ensure infrastructure growth occurs responsibly.

Responsible data centre growth will require balance with Australia's energy build-out, water stewardship, and transparent governance. Data centre owners already invest in the infrastructure that supports Australia's economic growth, including energy, connectivity and water. They also help lay the digital foundations for AI-enabled productivity growth across the economy.

Data centres can anchor new renewable energy investment and support the modernisation of the grid transmission infrastructure but this opportunity should be based on principles which recognise the need for energy flexibility, and are therefore pragmatic around timing and energy sources, including gas firming, and the commercial requirements to enable the investment to proceed.

The success of Australia's approach will depend on regulatory settings that are practical, proportionate and consistent in the principles applied across jurisdictions, within a national framework providing business with the certainty to invest. Data centres already are subject to established planning, environmental, energy and water approvals. Policy development should recognise these safeguards and the sector's role in enabling the wider economy. Australia's competitiveness also depends on predictable, proportionate privacy, copyright and content rules. Unresolved or excessive settings can deter the AI investment this inquiry seeks to attract.

Any new policy frameworks should focus on outcomes, allowing industry flexibility to meet Government and community expectations in efficient and innovative ways. As governments develop the next phase of policy and regulatory settings, close consultation with industry will help ensure they are grounded in operational reality, facilitate investment and deliver economic benefits for Australians.

This submission outlines a practical framework for supporting data centre growth while ensuring good outcomes on energy, water, connectivity and local communities. The BCA's recommendations are designed to help Australia capture the economic, technological and societal benefits of AI while maintaining public confidence and supporting national prosperity.

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[1] Commonwealth Bank, *AI: Boom, Bubble or Both?*, February 2026, p.1

[2] Assistant Minister for Science, Technology and the Digital Economy, *Why Australia needs to turn compute into Sovereign AI*, 18 August 2026, https://www.minister.industry.gov.au/charlton/media/anu-crawford-school-public-policy-annual-lecture

2. Key recommendations

Recommendation 1. Government must consult and co-design any AI or data centre standards with industry.

Recommendation 2. Support one national, outcomes-based data centre standard built on the following five principles:

1. National and proportionate: use one Commonwealth-state framework, with lighter requirements for smaller facilities and the full standard reserved for new or expanded grid connections above a defined materiality threshold.
2. Measured and verified: base sustainability reporting on metered, post-operation energy, water and emissions data, supported by proportionate assurance, rather than planned or projected usage.
3. Responsible for system costs: require connecting data centres to pay the efficient, incremental and independently attributable costs of their connection and any upstream network augmentation they trigger, subject to regulatory oversight, while enabling private investment in shared assets.
4. Transparent but secure: publish transparent information about data centres across the sector at a portfolio or aggregate level, while site-level data is provided securely and confidentially to regulators, utilities and government to meet legal requirements and inform planning and decision making.
5. Incentive-linked: give data centres that meet the standard expedited decisions, coordinated infrastructure planning and regulatory certainty, and avoid moratoria, capacity caps and retrospective rules.

Recommendation 3. Government to deliver a nationally consistent energy framework, based on shared principles that recognise the need for energy flexibility, and are pragmatic around timing and energy sources and the commercial requirements needed to enable investment to proceed.

- Focus national consistency on the areas that matter most: the principles sought, regulatory expectations for data centres, demand flexibility mechanisms, energy firming obligations, approval timelines, cost allocation, and transparency requirements.
- Work closely with data centre operators, generators and network businesses to ensure energy settings give operators the flexibility to draw on the most economically viable and efficient mix of generation, storage and firming solutions, and are proportionate, workable in practice, commercially viable, and staged according to a data centre's size and load impact.
- Recognise gas firming as a legitimate part of the mix, and remain pragmatic on timing and the commercial requirements needed for investment to proceed.
- Facilitate power purchase agreements and efficient network connection pathways to support new renewable generation.
- Enable data centres to support grid stability with demand response mechanisms which recognise the individual technical requirements of each data centre.

Recommendation 4. Ensure data centre growth is water-responsible through incentivised use of efficient technologies and coordinated infrastructure investment.

- Incentivise operators to meet or exceed nationally consistent water and energy efficiency standards through faster approvals and coordinated infrastructure support, consistent with Recommendation 2, Principle 5.
- Avoid arbitrary requirements that fail to account for differences across projects, for example location, environment, and interaction with energy use.

- Extend coordinated infrastructure planning to recycled water, with government and utilities removing delivery barriers to investment.

Recommendation 5. Fast-track connectivity infrastructure to support data centre growth and strengthen Australia's digital backbone.

- Prioritise and fast track land access approvals for fibre or other connectivity infrastructure, alongside other critical infrastructure.
- Create a single approval process across regulators and states for major connectivity projects.
- Provide early and transparent information to enable forward and efficient planning.

Recommendation 6. Reduce approval complexity and deliver faster, more coordinated project decisions.

- Create a 'single front door' approvals framework for data centre projects at both the federal and state level, enabling coordinated assessment across planning, infrastructure, energy and connectivity requirements and supporting faster, clearer and more efficient project delivery.
- Federal, state, territory and local government should speed up planning approvals, continuing to improve their processes to provide clear timelines, consistency and clarity for projects.
- Ensure regulatory certainty for compliant projects, with timely decisions and no moratoria, capacity caps or retrospective rule changes.

Recommendation 7. Ensure data centre growth delivers visible, lasting benefits for Australian communities and workers.

- Help build community understanding and support by publishing aggregate portfolio or regional-level data on data centres' economic contribution, employment and infrastructure investment.
- Pursue regional opportunities for new data centre development where technically and commercially feasible.

3. Data centres – digital infrastructure for a modern economy

Data centres are enabling digital infrastructure that underpins both Australia's economy and many essential services Australians rely on every day. They support digital banking, financial systems, transport, healthcare systems, emergency services, government operations, communication networks, and modern business activity. Yet many people have limited visibility of what data centres do, despite relying on the digital products and services they enable every day.

Australia is entering a new phase of technological development in which AI will shape productivity, economic growth, public service delivery and national competitiveness. Data centres are not an end in themselves. They are enabling infrastructure that provides the computing capacity, connectivity and digital foundations required for AI adoption across the economy.

As the economy and society digitise, the scale, speed and complexity of digital services grow considerably. Banks now process millions of digital transactions each day, while hospitals store and access large volumes of electronic health records, diagnostic tools and laboratory results. These systems and more must operate continuously, with high levels of reliability, security and performance. Data centres provide the computing and storage infrastructure that makes this possible.

3.1 The AI-driven productivity boost

The adoption of AI is driving a significant shift in demand for digital infrastructure. The Productivity Commission found that AI could lift labour productivity growth by 4.3 per cent and add around $116 billion to GDP over the next decade.[3] In 2025, the technology sector contributed around $250 billion to the Australian economy, equivalent to approximately 9 per cent of GDP. [4]

In his 15 July 2026 speech, Prime Minister Anthony Albanese positioned AI as a national priority requiring coordinated government action to advance Australia's economic and national interests. As AI adoption accelerates across the economy, demand for secure, reliable and scalable digital infrastructure will continue to increase. Access to world-class computing infrastructure will influence where investment, innovation and high-value economic activity occur.

Australia should ensure it has the AI capacity, capability and access needed to capture the economic, productivity and innovation opportunities created by AI. This means not only sufficient in-region compute and data centre capacity, but also the skills, research capability and competitive access required for Australian businesses, researchers and public institutions to use AI effectively. How Government addresses copyright protections for creators will also determine Australia's ability to attract certain types of AI investment.

Unlike previous generations of digital technology, AI systems require greater computing power and data processing capacity, and the pace and composition of that demand will keep evolving alongside technology, business adoption and market developments. As AI adoption expands across mining, manufacturing, logistics, healthcare, finance and consumer services, access to digital infrastructure will shape productivity, competitiveness and economic performance. Data centres are therefore becoming strategically important infrastructure for Australia's economy.

3.2 Managing the scale and pace of growth

Global growth in data centre investment and capacity has accelerated rapidly in recent years, particularly following the emergence of generative AI. Between 2022 and the end of 2025, AI data centre power demand

[3] Productivity Commission, *Harnessing data and digital technology Inquiry Report*, 2025, p.14
[4] Tech Council of Australia, *Technology as Australia's Productivity Engine*, 2026, p.1

increased from around 0.15 GW to 29.56 GW.[5] Demand for data centre capacity remains extremely strong. Globally, AI-focused data centres are operating at around 98 per cent utilisation,[6] indicating a likely shortfall of capacity in the near term. Australian markets also remain constrained. In Sydney, data centre vacancy rates in the second quarter of 2025 were approximately six per cent, reflecting strong demand for existing facilities.[7]

The recent uptick in Australian business investment is almost exclusively driven by data centre investment. Whereas business investment in the information, media and technology sectoincrr rose 14.6 per cent over the year ended in the June quarter, overall business investment excluding the sector rose only 2.3 per cent.

The pace of growth has intensified discussion about how data centre expansion can occur sustainably, particularly in relation to energy and water management. The International Energy Agency projects that electricity demand from data centres will double between 2024 and 2030, although data centres are still expected to account for a relatively small share (3 per cent) of total global electricity demand. [8]

3.3 Economic value and national benefits

Australia is already attracting significant investment in data centre infrastructure. Companies including AirTrunk, Telstra, AWS, Microsoft, Google, Fortescue and Goodman are investing in facilities across the country, supporting construction activity, digital infrastructure and ongoing operational employment.

The opportunity is substantial. In New South Wales alone, around $50.3 billion in data centre investment[9] — representing approximately three gigawatts of capacity — is currently progressing through planning and approval processes.[10]

The economic benefits extend well beyond data centre operators themselves. Investment in digital infrastructure supports Australian engineering firms, electricians, construction companies, equipment suppliers and fibre network providers. It also enables Australian businesses, governments and education providers to access advanced cloud and AI capabilities hosted locally, which can improve data security.

Access to digital infrastructure helps lower barriers to technology adoption across the economy. Start-ups can scale without major upfront IT investment, while established businesses can improve productivity through advanced analytics, automation and AI-enabled services.

Continued investment in data centres has the potential to:

- support higher productivity and economic growth
- create jobs across construction, engineering and digital services
- attract large-scale global investment into Australia
- accelerate renewable energy and supporting infrastructure investment
- strengthen digital capability and resilience across the economy.

Modelling commissioned by Data Centres Australia estimates that, nationally, data centre construction and operations could generate $19.8 billion in economic activity and support 18,930 construction jobs by 2030, with operational capacity by that point generating $5.6 billion in ongoing economic activity annually and supporting 23,040 jobs each year.[11] The same modelling estimates that capturing regional export demand for AI compute could add a further $2.7–4.1 billion in annual economic activity and 11,220–17,120 ongoing jobs.

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[5] Stanford University 2026, *AI Index Report 2026*, p.30
[6] CBRE Research 2025, *North America Data Center Trends H1 2025: AI & Hyperscaler Demand Lead to Record-Low Vacancy*
[7] Colliers Research 2025, *The Race for Data Sovereignty: Why More Australian Data is Staying Home*, September, p.12
[8] International Energy Agency, *Energy Demand from AI*, p.63
[9] NSW Government, *NSW Data Centre Guidelines*, August, p.4
[10] Commonwealth Bank of Australia, *Renewables and Data Centres: Australia's next mining boom?*, December 2025, p.4
[11] Mandala, *The Economic Contribution of the Data Centre Industry in Australia*, August 2026, prepared for and commissioned by Data Centres Australia, August 2026, pp. 5-9, 25.

Being a trusted partner in the global AI rollout also gives Australia leverage it would not otherwise have. The global technology companies investing here are anchor customers for local capacity, long-term purchasers of Australian renewable energy, and a direct connection into the global technology supply chain. That partnership compounds over time: it draws further investment, deepens domestic capability, and gives Australia influence as the standards and norms of the AI economy take shape.

The opposite is equally true. If Australia is not competitive, it risks losing a foothold across the AI stack, from compute infrastructure and technical capability to investment networks and standard-setting. Those strategic assets will concentrate in jurisdictions that move faster, leaving Australia dependent on offshore capacity, foreign priorities and rules shaped elsewhere.

3.4 National security and sovereignty

As AI capability grows, so do AI-enabled cyber threats. Australia needs sufficient domestic compute capacity and digital infrastructure to deploy AI-powered defences for its critical systems and economy. Without it, Australia is dependent on others for its own protection. Sovereign digital infrastructure is both an economic and a national security consideration.

Having a strong domestic capacity can strengthen reliability, security oversight and operational continuity across critical sectors like finance, healthcare, government and defence. As geopolitical competition and technology supply chain risks increase, access to trusted and secure domestic digital infrastructure is becoming an important national capability.

Some sensitive datasets require special conditions, such as being physically stored in Australia and sitting under Australian legal jurisdiction. Onshore data centres give government, business and the community the ability to manage this.

3.5 Competition for investment

The global market for data centre infrastructure is expanding rapidly. Worldwide data centre capital expenditure is projected to exceed US$1 trillion annually by 2029 as demand for AI and digital services accelerates.[12] McKinsey puts the potential data centre global investment to 2030 at up to US$7 trillion[13].

Australia is an attractive destination for digital infrastructure investment, supported by renewable energy potential, strong connectivity, available land, a growing technology sector and a stable political and regulatory environment. Australia's position within the Five Eyes partnership and broader regional frameworks also strengthens its appeal as a trusted location for digital infrastructure.

Analysis by The Boston Consulting Group indicates that around 72% of projected global compute growth to 2030 will be driven by latency-tolerant AI training and inference workloads. This makes Australia an increasingly viable host for a huge demand surge from across the Asia-Pacific region and can position Australia to become a net exporter of compute capacity.[14] However, international competition for investment is intensifying. Governments across Asia-Pacific, including Singapore, Japan, India and Malaysia, increasingly view digital infrastructure as strategically important to future economic growth, AI capability and technological development. Consequently, many competitor jurisdictions are offering streamlined approvals, dedicated energy infrastructure and active government coordination to accelerate project delivery. Proximity to Australian users is an advantage, but it will not determine investment if a site cannot secure the power, water, supply chains and skilled labour needed to build and operate a data centre.

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[12] Commonwealth Bank 2026, *AI: Boom, Bubble or Both?*, February, p.1
[13] McKinsey & Company 2025, *The cost of compute: A $7 trillion race to scale data centers*, 29 April, https://www.mckinsey.com/industries/technology-media-and-telecommunications/our-insights/the-cost-of-compute-a-7-trillion-dollar-race-to-scale-data-centers
[14] Boston Consulting Group 2026, *Australia's Digital Infrastructure Challenge*, 26 May, https://www.bcg.com/publications/2026/australias-digital-infrastructure-challenge

Earlier phases of data centre expansion prioritised flexibility and location choice. Today, speed of deployment has become a critical competitive factor. Delays in planning, approvals and enabling infrastructure weaken Australia's competitive position. At the same time, growing geopolitical uncertainty makes stable and trusted countries more attractive for long-term digital infrastructure investment.

In short, the window of opportunity is open now, but it will not stay open indefinitely. The jurisdictions that provide certainty and speed will capture this opportunity. Those that hesitate will miss out.

3.6 Getting the settings right

The BCA welcomes recent Government efforts to provide a more coordinated national approach to AI policy and infrastructure planning. Greater coordination across jurisdictions can reduce duplication, improve investment certainty and support community confidence. National consistency in the outcomes and principles that apply to data centres remains preferable to fragmented approaches that create overlapping or conflicting requirements. This does not require identical technical rules in every jurisdiction. The detail of implementation can, and should, vary where there is a genuine reason to do so, such as differences in climate, grid conditions or geography.

The sector has broadly taken a renewable energy first approach, which has underpinned many new projects through long term power purchase agreements. Around 70 per cent of electricity used by data centres is already offset by renewable energy. The increased demand for energy provides an opportunity to further underpin additional investment.

However, governments should also ensure operators have the flexibility to draw on the most efficient mix of energy generation, storage and firming solutions, as well as cooling technologies, supported by close coordination between operators, generators, network businesses and government so that this flexibility remains commercially viable. Prescribing specific technologies risks locking in solutions that quickly become outdated or sub-optimal.

As implementation proceeds, policy settings should prioritise transparency, reporting and evidence gathering before introducing more prescriptive obligations. Improved data on energy consumption, water usage, infrastructure requirements and operational performance will support better policy outcomes and more targeted interventions over time. This rests on a clear principle: reporting should be aggregated rather than facility specific. Aggregation protects commercially sensitive and security-relevant site-level information, while still giving government and the community the transparency needed for genuine infrastructure planning and coordination.

Predictable, proportionate privacy, copyright and content rules are also important settings for investment decisions. Stable settings strengthen Australia's attractiveness. Uncertainty or excessive requirements can deter global operators from locating data centres and AI infrastructure here.

Australia's unresolved requirement to license material before training is relevant to where frontier AI development and infrastructure locate. Similarly, privacy rules should enable data processing and cross-border data flows with appropriate safeguards, rather than rely on restrictive processing rules or data localisation. The objective is clear, balanced rules developed with industry that protect rights while supporting investment and domestic AI capability.

3.6.1 The real risk is fragmentation and inconsistency

A patchwork of inconsistent rules and expectations across jurisdictions adds complexity and discourages investment in Australian infrastructure. Australia needs to reduce complexity, not increase it. Data centre operators, along with the rest of the economy, are already facing a growing compliance burden, making Australia less competitive.[15] In addition, rapid advances in technology mean that rigid rules quickly become outdated.

[15] Business Council of Australia 2026, *BCA Global Investment Competitiveness Index*, February

Consistency in the outcomes and principles applied across jurisdictions, aligned with the Commonwealth's own expectations, is an important outcome this inquiry should recommend. This is not a call for uniform technical rules. Jurisdictions can implement differently where climate, grid conditions or geography genuinely justify it, provided the underlying expectations, and the process for meeting them, do not conflict. Unaligned requirements across states and territories add cost and complexity without necessarily improving outcomes, and risk undermining the investment Australia is trying to attract.

The Committee's terms of reference also extend to existing and future deals between the Government and global AI companies. The BCA's position is straightforward. Where government enters specific arrangements to attract or support that investment, those arrangements should be transparent, demonstrably aligned with the national interest, and consistent with the *Expectations* that apply to the sector.

3.6.2 A national, outcomes-based data centre standard

The BCA supports one national, outcomes-based data centre standard, aligned with the Commonwealth's Expectations of data centres and AI infrastructure developers. A single national approach would provide governments with a credible way forward to building trust with the community about usage and impacts on energy, water and public amenity, while recognising data centres as enabling infrastructure and ensuring certainty for industry investment.

Recommendation 1. Government must consult and co-design any AI or data centre standards with industry.

Recommendation 2. Support one national, outcomes-based data centre standard built on the following five principles:

1. National and proportionate: use one Commonwealth-state framework, with lighter requirements for smaller facilities and the full standard reserved for new or expanded grid connections above a defined materiality threshold.
2. Measured and verified: base sustainability reporting on metered, post-operation energy, water and emissions data, supported by proportionate assurance, rather than planned or projected usage.
3. Responsible for system costs: require connecting data centres to pay the efficient, incremental and independently attributable costs of their connection and any upstream network augmentation they trigger, subject to regulatory oversight, while enabling private investment in shared assets.
4. Transparent but secure: publish transparent information about data centres across the sector at a portfolio or aggregate level, while site-level data is provided securely and confidentially to regulators, utilities and government to meet legal requirements and inform planning and decision making.
5. Incentive-linked: give data centres that meet the standard expedited decisions, coordinated infrastructure planning and regulatory certainty, and avoid moratoria, capacity caps and retrospective rules.

4. Energy

The energy requirements of a large and growing data centre sector present opportunities and challenges. Our energy grid itself is digitising to enable coordination of disparate energy generation sources.

The sector's scale means it can serve as a genuine partner in Australia's renewable energy transition by anchoring new renewable energy investment and supporting the expansion of modern grid transmission infrastructure. This is already occurring with the sector taking a renewable energy first approach, supported by a range of commercial mechanisms including long-term renewable power purchase agreements (PPAs) and drawing on the full range of clean and renewable technologies beyond wind and solar, including storage and geothermal.

4.1 Forecasting demand: separating real growth from 'phantom demand'

Australia's data centre sector will require significant new electricity supply over the coming decade. Australia's Energy Market Operator (AEMO) estimates data centre energy demand will increase from around two per cent of grid-supplied electricity in 2024–25 to around six per cent by 2029–30.[16] Separate analysis from Data Centres Australia estimates that operational capacity will grow from 1.4 GW in 2025 to 3.2 GW by 2030.[17]

Managing this growth effectively requires accurate forecasting and clear market signals. A key challenge for planners is distinguishing between genuine future demand and speculative connection requests lodged early in the development process.

Under the National Electricity Rules, data centre operators must provide demand forecasts to AEMO. However, developers often seek grid connection approvals well before projects reach final investment decisions to secure potential access to network capacity. In a highly competitive market, this creates strong incentives to 'get in the queue' early.

As a result, connection requests can overstate likely electricity demand. In 2025, AEMO received around 44 GW of connection enquiries associated with data centre proposals.[18] Yet only around 6 GW of project capacity is currently considered likely to proceed, with estimated mature electricity demand closer to 2.8 GW — around fifteen times smaller than headline connection figures sometimes cited publicly.

Demand forecasting is also complicated by uncertainty about the pace and composition of future AI adoption. While demand for digital infrastructure is expected to continue growing, the scale and timing of AI-related demand will depend on technology development, business uptake and commercial deployment pathways.

This issue is referred to as 'phantom demand': projects that appear in early connection data but are unlikely to be constructed or fully utilised.

Best practice energy planning therefore requires sophisticated filtering and scenario modelling. AEMO already incorporates this approach by weighting projects according to their level of development maturity, financing, land access and other indicators of credibility, rather than treating all connection enquiries equally.

Improving transparency and public understanding is also critical. Confusing speculative connection requests with actual operational demand risks distorting public debate and undermining confidence in both the energy transition and digital infrastructure investment.

AEMO is also acting to improve transparency in this space. In July 2026, AEMO lodged a rule change request with the AEMC seeking improved real-time visibility and operational integration of large loads, including data centres, to give the market operator and network businesses better data on how these loads behave once connected. As at the date of this submission, the AEMC has not yet commenced formal consultation on the request. This is a proposal the BCA will monitor closely.

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[16] Australian Energy Market Operator 2025, *Inputs, Assumptions and Scenarios Report*, August 2025, p.110
[17] Data Centres Australia 2026, *Australian Data Centre Forecast Report*, Issue 1, April 2026
[18] Oxford Economics 2025, *Surging Data Centre Connection Requests Drive Phantom Demand*, 21 November 2025, pp.1–2

4.2 Improving energy efficiency

Before data centres, businesses ran servers in their own offices, where they often sat idle and used inefficient cooling. By combining this work in purpose-built facilities, data centres provide the same computing and storage using less electricity. Globally, data centre computing output grew by 550 per cent between 2010 and 2018, while data centre energy use rose by just 6 per cent over the same period. This represents a far faster efficiency gain than other major sectors like aviation and industry.[19] By consolidating workloads, operators keep equipment busier and use advanced cooling, power management and specialised chips to extract more computing from each unit of electricity. In contrast, servers spread across homes and offices are often older, lightly used and inefficient, increasing the total energy needed to deliver the same services.

Contrary to some public perceptions, operators already work to make facilities highly energy- and water-efficient. Data centres are also among the most carefully planned and regulated forms of infrastructure, subject to established planning, environmental, energy and water approval processes. Recognising these existing commitments and benefits is important to ensuring the public debate proceeds on an accurate basis.

Data centres are constantly increasing their energy efficiency. Efficiency gains can be measured through Power Usage Effectiveness, or PUE, the standard global metric for data centre efficiency. In 2007 the global average PUE was around 2.5, meaning that for every unit of electricity used for computing, another 1.5 units were consumed by cooling and other support systems. Today the global average has fallen to around 1.58.[20] Australian facilities perform even better. Many report design PUE levels as low as 1.15, with median values around 1.30.[21]

Specific hardware is also becoming more efficient. Modern AI chips have historically doubled their energy efficiency roughly every two years.[22] This means that over time, many data centres will perform far more computing work while using comparatively less electricity.

4.3 Leveraging Australia's renewables advantage

Data centres can support Australia's renewable rollout, provided energy settings allow flexibility.

Australia is well placed to compete for data centre investment because of its growing renewable energy capacity and commitment to lower-emissions electricity generation. Increasingly, access to reliable renewable energy is becoming a competitive advantage in attracting digital infrastructure investment, particularly from companies seeking to reduce the emissions intensity of AI and cloud operations.

This advantage is reinforced by the direction of national energy policy. The AEMC has advised, and the Energy and Climate Change Ministerial Council has agreed to progress, a package of reforms under which data centres would source their own clean, firmed energy for the grid. Further detail on this package is set out in section 4.5 below. This is generating strong interest from international investors and technology partners in the region. Australia's relative advantages in clean energy availability and its potential as a location for data centre investment have attracted particular interest from Japanese investors.[23]

The economics of large-scale wind and solar projects depend on long-term revenue certainty. Renewable energy developers typically require secure, long-term PPAs before projects can obtain financing and proceed to construction. Data centre operators (and often their hyperscaler customers) are well placed to provide this certainty. Their facilities create stable and predictable electricity demand over long time horizons, making them attractive customers for renewable energy developers. Long-term PPAs are one of several commercial

[19] Masanet E, Shehabi A, Lei N, Smith, S and Koomey J 2020, *Recalibrating global data center energy-use estimates*, *Science*, 367(6481), pp.984–986
[20] Bizo D 2023, *Global PUEs — are they going anywhere?*, Uptime Institute, 4 December
[21] Mandala 2024, *Empowering Australia's Digital Future*, October, p.6
[22] Rahman R 2024, *Leading ML hardware becomes 40% more energy-efficient each year*, Epoch AI, 23 October
[23] Williams I, Armstrong S and Brookes H 2026, *Japan–Australia Investment Report 2025: Partners in Economic Security*, Herbert Smith Freehills Kramer and Australian National University, p.73

mechanisms – alongside on-site generation, storage investment and other structures – which underpin the financing of new renewable generation and storage projects that may not otherwise proceed. [24]

In this way, growth in the data centre sector can help drive broader investment in Australia's energy transition.

This transition is already underway. Since 2020, companies including Amazon, Microsoft and Equinix have contracted close to one gigawatt of renewable electricity capacity from Australian wind and solar projects. [25] Across the sector, around 70 per cent of electricity consumption is already matched or offset through renewable energy arrangements, including on-site solar generation and long-term PPAs with renewable energy providers. [26]

However, flexibility is key. NSW's guideline for data centres to use 40 per cent energy sourced from wind is the wrong kind of intervention.[27] It prescribes a technology and may prevent operators from procuring the most effective mix of new wind, solar, storage and firming.

Data centres can help anchor new renewable energy investment and support the expansion of modern grid transmission infrastructure. Realising this potential requires close coordination between industry and government so that new generation, storage and transmission capacity is planned and delivered in step with data centre demand. Investment in energy storage and firming is a critical part of this picture, helping manage the variability of renewable generation while maintaining the reliability data centres require. However, it is important to note that the core objective should be regulatory guidance that gives operators the flexibility to secure the right mix of supply for their needs, while remaining efficient and commercially viable for industry.

4.4 Connections and transmission

Data centres in Australia already pay for their own connections and any network upgrades that are needed. This is unlike the approach taken in some other countries including the United States, where the allocation of network costs for large new loads has been more contested. Facilities not connected to the National Electricity Market and sited in areas with abundant renewable energy, face fewer constraints as they do not compete for connection capacity, sit in AEMO's connection queue, or trigger the network augmentation costs that grid-connected facilities must plan around.

Expanding storage and transmission capacity will be essential to support both renewable generation and new electricity demand from emerging industries. AEMO highlights other major drivers of demand, including electrification of industry and households, along with rapid growth in electric vehicles. National energy planning suggests that around 6,000 kilometres of additional transmission lines may be required by 2050, representing roughly a 13 per cent expansion of the network.[28]

Early investment by data centres accelerates that development, enabling earlier access and connections for renewable projects. Increased utilisation of those systems can improve the efficiency of shared infrastructure and help support investment in generation, storage and transmission. Where implemented effectively, these benefits may contribute to a more efficient energy system over time.

4.5 Balancing data centre growth in a decarbonising electricity grid

The Government has set a target of 82 per cent renewable electricity by 2030, and data centres have a direct interest in helping to meet it. The sector can anchor the new generation and storage the target requires.

At its 28 July 2026 meeting, the Energy and Climate Change Ministerial Council agreed (with the exception of Queensland and the Northern Territory) with the AEMC's advice that data centres should source their own clean, firmed energy for the grid: offsetting demand through Renewable Electricity Guarantee of Origin certificates

[24] Baringa and CEFC 2025, *Getting the balance right: data centre growth and the energy transition*, December, p.3
[25] Cropp R, and McGuire A 2025, *Tech giants pitch data centres as climate saviours – not threats*, Australian Financial Review, 25 September
[26] Mandala 2025, *Data Centres as Enabling Infrastructure*, November, p.16
[27] NSW Government 2026, *NSW data centre guidelines*, August, p.16
[28] Australian Energy Market Operator 2025, *Information Toolkit - Integrated System Plan*, p.21

from new generation, demonstrating that firmed capacity is in place before connecting, registering and operating as market participants, and operating flexibly under their connection agreements.

However, translating that ambition into workable rules raises practical considerations:

- Not all data centres can flex their demand. While some are less constrained, others host critical and continuous workloads - including government, defence and essential services - that cannot simply be switched off to relieve the grid at times of peak demand.
- Rules should distinguish new from existing facilities. Flexibility, storage and grid-support systems are far cheaper to include at the design stage than retrofit later, which can impose excessive costs for limited system benefit.
- Generally, data centres can be built faster than new generation and transmission. Policy should give enough certainty to proceed together, rather than requiring one to wait for the other.
- Additionality rules should require data centres to make credible commitments to new supply, not guarantee projects they do not control. Holding operators responsible for third-party delays would deter investment without delivering more clean energy. Where a delay originates with a third party, such as a generator, network business or approval process, a two-way transparency mechanism should apply. The data centre should disclose its original commitment, the dependency that caused the delay, the revised timeline and the steps it is taking to mitigate the impact. The responsible third party should disclose the cause of the delay and its own mitigation steps in turn. This keeps both sides accountable without penalising operators for factors outside their control.
- Finally, poorly designed policy can produce perverse outcomes, such as pushing operators towards more diesel backup generation rather than lower emissions energy supply. Industry and government should focus on practical, commercially viable requirements that can be delivered.

Case Study: Microsoft and Walla Walla Solar Farm[29]

The Clean Energy Finance Corporation (CEFC) initially committed $100 million, alongside ING and Export Development Canada, to support a 300 MW solar farm in Walla Walla, NSW. In July 2024, this shifted to a broader CEFC commitment backing a 1 GW portfolio of FRV Australia solar and battery projects, including Walla Walla.

The project is anchored by Microsoft. A 15-year power purchase agreement provides long-term revenue certainty and directly supports Microsoft's Australian data centre operations. This underpins Microsoft's commitment to run on 100 per cent renewable energy and its target to be carbon negative by 2030, with full historical emissions removal by 2050.

Recommendation 3. Government to deliver a nationally consistent energy framework, based on shared principles that recognise the need for energy flexibility, and are pragmatic around timing and energy sources and the commercial requirements needed to enable investment to proceed.

- Focus national consistency on the areas that matter most: the principles sought, regulatory expectations for data centres, demand flexibility mechanisms, energy firming obligations, approval timelines, cost allocation, and transparency requirements.
- Work closely with data centre operators, generators and network businesses to ensure energy settings give operators the flexibility to draw on the most economically viable and efficient mix of generation, storage and firming solutions, and are proportionate, workable in practice, commercially viable, and staged according to a data centre's size and load impact.
- Recognise gas firming as a legitimate part of the mix, and remain pragmatic on timing and the commercial requirements needed for investment to proceed.
- Facilitate power purchase agreements and efficient network connection pathways to support new renewable generation.
- Enable data centres to support grid stability with demand response mechanisms which recognise the individual technical requirements of each data centre.

[29] CEFC 2024, Powering Microsoft data centres with Walla Walla sunshine, August

5. Water

Any industry that seeks to utilise water resources must do so in a responsible and transparent way. Data centre operators are adopting more water-efficient cooling technologies, including recycled water systems and newer cooling designs that require little, or in some cases, no water at all.

Water availability and infrastructure capacity can vary significantly between locations. While data centres account for a relatively small share of overall water use nationally, local constraints may emerge where multiple large developments are concentrated in the same area. This highlights the importance of coordinated planning between industry, utilities and government.

5.1 Using recycled water

Recycled water infrastructure reduces reliance on potable water supplies and improves the efficiency of the broader urban water system. Data centres are well suited to support these investments because many cooling systems can operate using non-potable water.

This creates a strong commercial incentive for operators to invest in recycled water solutions. AirTrunk, for example, sources around 55 per cent of its portfolio water use from recycled supplies.[30]

The primary barrier in many cases is not industry demand or investment appetite, but the coordination required to enable projects to proceed. Utility partnerships, integrated infrastructure planning and clear planning approvals are critical to making recycled water projects commercially and operationally viable.

5.2 Better cooling technology

Cooling technology continues to evolve in ways that further reduce water demand. Modern data centres can operate cooling systems that significantly reduce or eliminate the need for continuous water supply.

Closed-loop liquid cooling uses very little water. Coolant circulates continuously through sealed pipes, absorbing heat from chips before releasing it through a heat exchanger and being reused again. Because the system is sealed, water is neither evaporated nor discharged, with only small amounts required for initial filling or occasional top-ups. In normal operation, consumption is close to zero.

Air-cooled systems can also significantly reduce water use, but through a different approach. Many modern data centres use 'dry cooling' systems, which rely on fans and heat exchangers rather than evaporative cooling to remove heat. In normal operating conditions, these systems also use little or no water.

However, dry cooling becomes less efficient during extreme heat, particularly in hot summer conditions. To maintain performance and manage electricity demand, some facilities switch to evaporative cooling during peak temperatures. This reflects a broader trade-off in data centre design between minimising water use and maximising energy efficiency: a system optimised for one can create pressure on the other. Flexibility to choose the cooling model that delivers the best overall net benefit for a given site and climate is therefore needed, so operators can make the most efficient choice for each project rather than being locked into a single approach.

The sector acknowledges the need to reduce water use. These innovations illustrate that water usage in data centres is manageable, flexible, and energy and water efficient. With the right combination of recycled water infrastructure, transparent reporting on usage and modern cooling technologies, the sector can expand while ensuring that the digital economy grows in a sustainable way.

[30] AirTrunk 2025, *Sustainability Report FY25*, p.7

Recommendation 4. Ensure data centre growth is water-responsible through incentivised use of efficient technologies and coordinated infrastructure investment.

- Incentivise operators to meet or exceed nationally consistent water and energy efficiency standards through faster approvals and coordinated infrastructure support, consistent with Recommendation 2, Principle 5.
- Avoid arbitrary requirements that fail to account for differences across projects, for example location, environment, and interaction with energy use.
- Extend coordinated infrastructure planning to recycled water, with government and utilities removing delivery barriers to investment.

6. Connectivity

When data travels long distances, performance can suffer through delays, congestion and higher network costs, particularly for AI, cloud computing, streaming and other real-time services. This means the location and quality of digital infrastructure are critical to the performance, reliability and cost of many modern digital services.

Many modern data centres are no longer simply buildings that house servers. They function as digital connectivity hubs, bringing together telecommunications carriers, cloud providers, content networks and businesses in the same location. This allows customers to connect to multiple networks and platforms simultaneously, improving reliability, increasing redundancy and reducing dependence on any single provider or connection route.

As AI adoption accelerates, demand for high-capacity and resilient connectivity infrastructure will continue to grow. Fully realising the benefits of AI requires modern digital foundations capable of supporting large-scale data movement, real-time processing and secure cloud connectivity.

6.1 Coordinating connectivity infrastructure

Digital connectivity infrastructure requires long lead times to plan and deploy.

Data centre developers need to engage early with telecommunications providers to ensure connectivity capacity, resilience and investment requirements are understood from the outset. Early coordination supports more efficient site selection, network design, project delivery and infrastructure funding outcomes.

Appropriate information sharing between data centre developers, infrastructure providers and government can also improve system-level planning, while respecting commercially sensitive network and project information.

Government planning frameworks should include integrated digital infrastructure development, including fast-tracking planning and land access approvals for connectivity infrastructure to enable faster and more cost-effective network deployment alongside data centre projects.

6.2 Fibre and subsea cables

Connectivity infrastructure is now a core component of national economic capability and sovereignty. Investment in fibre networks and subsea cables is also essential to expand domestic and global connectivity. Metro fibre networks are being strengthened to support growing data traffic within major cities, while new subsea cable projects are increasing Australia's international connectivity and network resilience.

Data centre operators like Google[31] and Meta[32] are making considerable investments into subsea cable connectivity globally as part of broader efforts to strengthen the performance, security and resilience of digital networks. Australia must plan subsea cables, landing stations, carrier-neutral facilities and data centres as one system. Government must streamline approvals for cable landings and related works, align requirements with other landing jurisdictions, and protect critical cable corridors and landing sites. These steps will strengthen resilience, reduce latency and reinforce Australia's role as a regional connectivity hub.

[31] Quigley B 2023, *Connecting the South Pacific with new subsea cables*, Google Cloud, 26 October
[32] Forlini E 2025, *Inside Meta's Effort to Build the World's Longest Underwater Cable*, PC Mag, 4 December

Case Study: Telstra's Aura Network build[33]

Telstra is building a new next generation high-capacity low-latency backhaul fibre network spanning almost 14,000 kilometres across Australia. The dual-architecture design provides an express network between capital cities, and a foundation network that enables future expansion into regional and remote areas across the country. While this national fibre infrastructure is critical to supporting digital economies and data centre operations, the Aura Network is a complex project requiring design, planning and construction across diverse geographical landscapes and environments, as well as intensive coordination with hundreds of landowners and land managers, highlighting opportunities to improve delivery efficiency. On the Sydney–Canberra–Melbourne coastal route alone, more than 6,000 separate regulatory and site access actions have been required to deliver just over 1,000 kilometres of fibre. That equates to roughly six separate approvals, notices or assessments for every kilometre of network built.

Recommendation 5. Fast-track connectivity infrastructure to support data centre growth and strengthen Australia's digital backbone.

- Prioritise and fast track land access approvals for fibre or other connectivity infrastructure, alongside other critical infrastructure.
- Create a single approval process across regulators and states for major connectivity projects.
- Provide early and transparent information to enable forward and efficient planning.

[33] Telstra 2026, information provided to the Business Council of Australia, 26 August

7. Planning

Data centres are often large structures that have visible impacts on their local communities. Planning decisions about data centre development should help mitigate these local impacts while still delivering efficient decision making. Relevant planning laws should focus on balancing economic benefits and local impact, within a considered land use context.

7.1 Enabling infrastructure

Private infrastructure projects often require supporting public infrastructure. A new data centre, warehouse or logistics hub needs reliable power, telecommunications, water services and road access. These systems allow the facility to operate and connect with the wider economy. Developers already fund direct and attributable infrastructure upgrades through existing frameworks. Where those upgrades create broader capacity, they can also support future community and economic development.

The constraint is timing. Suitable sites are often identified before public infrastructure is available. A proposed data centre, for example, may require electricity upgrades, telecommunications, water connections, or local road improvements. This creates two separate tasks for government. First, governments must decide whether to bring forward planned public infrastructure where a major investment justifies it. Second, projects need timely approvals for supporting private infrastructure, including renewable generation, transmission, substations and telecommunications.

7.2 The renewable energy timing gap

There is a timing gap between demand for data centre capacity and the delivery of new renewable energy and transmission. Hyperscale customers commonly seek capacity within 12 to 24 months and, once land, power, approvals and equipment are secured, facilities are often required to be operational within 12 to 18 months.[34] Renewable projects generally move more slowly. Australian research found recent large-scale solar projects took an average of 41 months from development to completion, compared with 53 months for onshore wind. Wind projects in the sample took up to 85 months, or around seven years.[35]

If Australia cannot align infrastructure, energy and approval timeframes, global customers may direct capacity to competing Asia-Pacific markets with power-ready sites and faster delivery pathways. This is why the two-way transparency and non-liability protections set out in Section 4.5 (*Balancing data centre growth in a decarbonising electricity grid*) matter: without them, delays outside an operator's control risk delaying the whole project, pushing investment towards faster-moving markets instead.

A 'single front door' approach could facilitate infrastructure, planning, energy and connectivity approval, leading to streamlined and consistent decision-making. It would also improve transparency for communities by providing a clearer view of how projects are being assessed and developed. AI tools can also help speed up the approvals process itself, from AI-assisted preparation of applications by proponents through to AI-assisted assessment by regulators, reducing processing times without lowering assessment standards.

Planning and approval processes must also move more quickly to keep pace with global investment cycles. Data centre investment is highly mobile. Many developers can choose between multiple international locations, and long approval timelines can shift projects to other jurisdictions.

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[34] Corrs Chambers Westgarth 2025, *The rise of data centre arbitration*, 10 October, https://www.corrs.com.au/insights/the-rise-of-data-centre-arbitration

[35] Clapin L and Longden T 2024, *Waiting to generate : an analysis of onshore wind and solar PV project development lead-times in Australia*, Western Sydney University Urban Transformations Research Centre, Energy Economics, https://researchers.westernsydney.edu.au/en/publications/waiting-to-generate-an-analysis-of-onshore-wind-and-solar-pv-proj/

Responsibility for planning approvals for data centres largely sits with states, territories and local government. Clearer timelines, efficient assessment processes and coordinated decision making would help improve certainty for investors.

Recommendation 6. Reduce approval complexity and deliver faster, more coordinated project decisions.

- Create a 'single front door' approvals framework for data centre projects at both the federal and state level, enabling coordinated assessment across planning, infrastructure, energy and connectivity requirements and supporting faster, clearer and more efficient project delivery.
- Federal, state, territory and local government should speed up planning approvals, continuing to improve their processes to provide clear timelines, consistency and clarity for projects.
- Ensure regulatory certainty for compliant projects, with timely decisions and no moratoria, capacity caps or retrospective rule changes.

8. Community benefits

Maintaining public trust requires transparent, honest and informed engagement with the community. People need clear information about both the benefits and impacts of data centre developments so they can make informed judgements about how these projects affect their communities.

Industry recognises that communities are asking legitimate questions about the energy, water, land use and broader impacts of data centre development. Clear, evidence-based information about local amenity impacts, including operational noise and the role and use of backup generation, will be important to address community concerns and support informed public discussion. Maintaining public confidence will require transparency, responsible development practices and clear demonstration of the economic and social benefits these projects create.

This has become more challenging as the scale and pace of data centre investment has accelerated alongside the rapid emergence of AI technologies. Public concerns about data centres are often closely linked to broader questions about the role, impact and governance of AI itself.

As a result, discussions about data centre development cannot be separated from the wider public debate about AI and digital transformation.

8.1 Capturing the value

The policy objective is not simply to attract data centres, but to ensure their growth delivers enduring economic and community value for Australia.

That value can arise through several channels. Construction creates investment and employment, and can support new fibre, water and energy infrastructure. Data centres also underpin the secure, reliable delivery of services that Australians use every day, including healthcare, education, banking, communications and government services. As these services become increasingly digital and AI-enabled, resilient domestic infrastructure becomes an increasingly important public benefit.

Data centres also generate value through the compute capacity they provide. Access to onshore compute allows Australian businesses, governments and researchers to run cloud and AI workloads domestically, supporting the digital services outlined above while keeping sensitive data under Australian jurisdiction. Where Australia can also serve compute demand from the wider region, this capacity becomes an export in its own right, generating ongoing economic activity and reinforcing Australia's position in the AI value chain.

Capturing these benefits will depend on building a strong domestic ecosystem around the sector. Australia will capture more value where data centre investment helps deepen supply chains, expand the skilled workforce and grow complementary industries and services.

As Assistant Minister Andrew Charlton has recently argued, data centres can provide a foothold for Australia to capture more of the AI stack over time.[36]

Data centre development relies on a wide range of specialised capabilities. Facilities require advanced construction skills, electrical and mechanical engineering services, cooling and control systems expertise, fibre and network infrastructure, physical and cyber security, and regulatory compliance services. They support cloud solution architects, software programmers, local software companies, AI developers and digital service providers who are working in the sector already.

Workforce planning will be important. Data centre growth will increase demand for both specialised construction trades and operational capability. Electricians, HVAC technicians, software engineers, process engineers and

[36] Assistant Minister for Science, Technology and the Digital Economy, Why Australia needs to turn compute into Sovereign AI, 18 August 2026, https://www.minister.industry.gov.au/charlton/media/anu-crawford-school-public-policy-annual-lecture

more will be key roles in the sector. Expanding pathways will help ensure that local workers benefit from the sector growth and strengthen the skills base required for future investment.

There are also opportunities for data centres to be in regional communities and connected to REZs. These projects can support local employment, attract new investment and drive the development of broader infrastructure that delivers lasting community benefits. The options should be explored and pursued where technically appropriate and commercially feasible.

Recommendation 7. Ensure data centre growth delivers visible, lasting benefits for Australian communities and workers.

- Help build community understanding and support by publishing aggregate portfolio or regional-level data on data centres' economic contribution, employment and infrastructure investment.
- Pursue regional opportunities for new data centre development where technically and commercially feasible.

Case Study: Edge computing[37]

An Edge data centre in Dubbo NSW, opened in 2021, shows how regional infrastructure can support national digital growth. The facility places compute capacity closer to users in western New South Wales. This reduces latency and improves performance for services such as healthcare, education, and local business systems.

The project brings direct economic benefits. Construction creates local jobs, and ongoing operations require skilled technicians and support staff. It also attracts new digital businesses that need reliable, low-latency services outside capital cities.

[37] Leading Edge DC 2021, *Leading Edge Opens Dubbo Data Centre, Forecasting 621 New Jobs and $106m per Year in Economic Growth For the Region*, 13 December

9. Conclusion

Data centres enable our economy to grow, be more productive and support many aspects of a modern economy and society. From healthcare and emergency services to banking, communications and government services, data centres provide the digital foundations that Australians depend upon every day.

Utilising our access to abundant energy, political stability and trusted institutions, and availability of land, data centre growth will attract valuable investment into Australia. It will also reinforce Australia's reputation as a capable and reliable technology partner. With that comes further opportunities in complementary sectors that will shape our future economy, jobs and prosperity.

Data centres should be treated as a strategic entry point, not an end in themselves. As Assistant Minister Charlton has argued, the opportunity is to use computing infrastructure as a foothold to build Australian capability higher up the AI stack, in research, models, software, applications and services.

Our challenge is to ensure the increased demand for data centres is addressed through a clear set of principles and processes, which deliver the economic benefits while mitigating areas of concern, such as energy and water use. [38]

Aligning federal and state settings will be essential. A patchwork of inconsistent rules and expectations across jurisdictions adds complexity and discourages investment in Australian infrastructure, reducing our overall national resilience.

Likewise, rapid advances in technology mean that rigid rules quickly become outdated. Data centre operators, along with the rest of the economy, are already facing a growing compliance burden, making Australia less competitive.[39]

The BCA and its members want a secure and affordable grid, a successful energy transition, trusted AI adoption, and an economy made more productive by AI and the enabling infrastructure that powers it.

[38] Department of Industry, Science and Resources 2026, *Expectations of data centres and AI infrastructure developers*, 23 March
[39] Business Council of Australia 2026, *BCA Global Investment Competitiveness Index*, February, https://www.bca.com.au/bca-global-investment-competitiveness-index/