

A STRATEGIC APPROACH TO DATA CENTRES

FOR OUR FUTURE ECONOMY

KEY POINTS

- Sovereign compute is critical infrastructure for Australia's future economy, security and productivity.
- Australia must build secure, high-performance capacity onshore.
- Sydney and Melbourne need concentrated demand managed; other cities and regions need help attracting appropriate investment.
- National standards should guide data centres to locations with suitable power, water, land, connectivity and resilience.
- Data centres must bring additional renewable energy and firming, operate flexibly and pay the infrastructure costs they create.
- Approvals must deliver an Australian dividend: sovereign compute access, skills, research partnerships and stronger local supply chains.
- The objective is not simply more data centres, it is the right infrastructure, in the right places, delivering long-term national value.

THE CONTEXT

Data centres have moved from a commercial niche to a matter of national economic and strategic significance in the space of a few years. Government, finance, health and defence workloads increasingly depend on processing data onshore, and the Commonwealth's National AI Plan (December 2025) names sovereign digital infrastructure a strategic priority, reflected in announced or proposed investments of up to \$7 billion (the OpenAI/NEXTDC Eastern Creek MoU), \$20 billion (Amazon Web Services) and \$25 billion (Microsoft).

This growth is disproportionately urban and is unevenly distributed even among Australian cities. Industry estimates place around 80 per cent of national capacity in Sydney and Melbourne. Facility counts vary by methodology: Data Centres Australia identified 162 operational facilities nationally in April 2026, while broader datasets include planned sites. In NSW alone, the state's Investment Delivery

Authority had by March 2026 endorsed 15 data centre projects worth \$51.9 billion for progression through its pathway - a state, not Commonwealth, mechanism.

This is no longer only a planning question. AEMO forecasts data centre electricity use rising from around 2 per cent of National Electricity Market demand in 2024-25 to 6 per cent by 2029-30, and has created a standalone forecasting category for the sector for the first time.

The Commonwealth is moving quickly. Following voluntary Expectations released in March 2026, the Prime Minister announced proposed mandatory Australian Standards for AI on 15 July and established an Office of AI within the Department of the Prime Minister and Cabinet. On 5 August, Energy Minister Chris Bowen confirmed the Commonwealth would legislate on renewable supply and cost recovery even without unanimity. The measures remain proposed, with National Cabinet consideration due in August and legislation targeted for early 2027.

THE ISSUE AT HAND

In Sydney and Melbourne, the challenge is managing highly concentrated demand. Data centres are placing sustained pressure on electricity grids, water systems and industrial land, and can compete with other strategic employment uses including advanced manufacturing and R&D within existing zones. Concentrating the country's most capital-intensive digital infrastructure, and much of its subsea cable landing infrastructure, within one or two corridors is a resilience question as much as a planning one.

In other cities and regions, the problem is different. Lower investor interest means these places can miss out on one of the few asset classes attracting large-scale private capital, including potential network and transition benefits, at the same time as legacy industrial demand is declining.

THE ROLE FOR THE FEDERAL GOVERNMENT

The design of the Australian Standards for AI is the live opportunity for national input. The data-centre components currently emphasise project-level obligations: underwriting additional renewable generation and firming equivalent to at

Operational employment is modest relative to the capital invested. The larger economic value lies in what data centres catalyse around them such as research partnerships, workforce pipelines and shared compute access, but only if governments and operators structure deals to secure it, rather than treating approval as the end point.

This is creating two problems that pull in different directions: where demand is high, government needs to direct it; where demand is low, government needs to attract it and negotiate hard for catalytic value. A single, undifferentiated national position risks solving neither, and risks entrenching Sydney and Melbourne while regions in transition continue to miss out.

least a facility's consumption; demand flexibility; water and energy efficiency; and full cost recovery for grid connections and additional water infrastructure.

There is a case for the design process now underway to also address where and how growth is distributed, not only how individual facilities perform:

- ① **Build in spatial and locational guidance for diversification:** national principles covering grid capacity, water availability, land-use compatibility, climate and disaster resilience, proximity to generation and digital connectivity, explicitly differentiating high-demand metropolitan markets (directing investment already arriving) from lower-demand regional and northern economies (attracting and structuring it).
- ② **Guide land use conflict resolution:** provide a national lens for assessing data centre proposals against other national economic priorities - manufacturing, innovation precincts and R&D - so data centres do not crowd out the industries government is separately trying to grow.
- ③ **Define, sequence and enforce firm-supply preconditions:** translate the announced renewable supply, firming, flexibility and 'causer pays' commitments into transparent approval tests. Projects claiming grid benefits should demonstrate contracted supply, verified additionality, and aligned generation and transmission commissioning before load comes online. Bell Bay illustrates the need for sequencing clarity: Tasmanian supply negotiations remained under way while the developer separately secured 600MW in South Australia.
- ④ **Require catalytic development commitments, not headline job counts:** build on the national Expectations by making research and workforce partnerships, shared compute access for local universities and firms, and alignment with the industries a region is trying to grow a condition of scale approvals, following models emerging in Massachusetts, New Jersey and Wisconsin.
- ⑤ **Test the Infrastructure Priority List question with Infrastructure Australia:** the 2026 Priority List already recognises data-centre pressure on energy and water. Ask whether common-user infrastructure with a clear nexus to data-centre demand - recycled water, desalination or shared transmission - warrants Priority List recognition where it delivers wider national benefits. Project-specific connections should remain subject to 'causer pays', avoiding socialisation of private costs.
- ⑥ **Articulate the economic role of cities and regions:** release a position paper or implementation supplement under the existing National Urban Policy, finalised in November 2024, setting out the role of cities and regions in national industry and innovation policy so metropolitan and regional data-centre growth is treated as one national picture.
- ⑦ **Specify how Commonwealth legislation interacts with state planning approvals:** following the Commonwealth's stated intention to legislate even without unanimity, define scope, thresholds, approval sequencing, compliance verification and treatment of conflicting state laws, including the role of the Energy and Climate Change Ministerial Council. These questions should be resolved before legislation is introduced.

THE COMMITTEE FOR CAPITAL CITIES IS A COALITION OF THE FOLLOWING CAPITAL CITY COMMITTEES

