BUSINESS NSW

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Legislative Council Standing Committee on Public Accountability and Works
Parliament of New South Wales
6 Macquarie Street, Sydney NSW 2000

Submission on the NSW Inquiry into Data Centres

Dear Public Accountability and Works Committee

Business NSW welcomes the opportunity to provide feedback on the NSW Inquiry into Data Centres.

Data centres are critical economic and enabling infrastructure. They underpin artificial intelligence, cloud computing, financial systems, logistics, telecommunications and essential government services. Their role in supporting productivity, competitiveness and economic growth will continue to expand.

New South Wales is Australia's leading data centre market, centred in Sydney. This positions the State to attract global investment, support high-productivity industries and strengthen its role in the national and global digital economy.

However, rapid growth in demand is placing increasing pressure on electricity networks, industrial land, water resources and planning systems. A coordinated, delivery-focused policy response is required to ensure these pressures do not constrain investment, increase costs or slow economic growth.

Global and national evidence highlights the scale of this shift. The International Energy Agency projects that data centre electricity demand could more than double by 2030, driven by artificial intelligence and high-performance computing. In Australia, Australian Energy Market Operator has identified data centres as a fast-growing and increasingly material source of demand in the National Electricity Market.

Data centres are not simply large energy users. They are enabling infrastructure that supports productivity across the economy. Mandala estimates that data centres consumed around 3.9 TWh of electricity in Australia in 2025, approximately 2 per cent of total demand, rising toward 6 per cent by 2030 as digital and AI-driven activity accelerates.

The policy task for NSW is to enable this growth in a way that maintains reliability, supports affordability and provides clear signals for investment.

Business NSW recommends a coordinated approach will ensure NSW can capture the economic benefits of the digital economy while maintaining a reliable, affordable and investable energy system.

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List of Recommendations

1. Recognise data centres as core economic and enabling infrastructure.
2. Strengthen coordination between planning and energy systems.
3. Facilitate access to clean and reliable energy to support growth.
4. Enable efficient pricing signals and demand flexibility.
5. Protect and plan for digital infrastructure within industrial land strategies.
6. Develop a coordinated NSW Data Centre Location and Infrastructure Strategy, including support for regional investment.
7. Maintain streamlined planning pathways with clear infrastructure and environmental criteria, supported by enforceable timeframes and coordination mechanisms.
8. Enable clean, firmed energy supply for data centre growth and incentivise innovative on-site solutions.
9. Integrate water planning at a precinct level and promote recycled water use, including in regional development.
10. Establish a NSW Green Data Centre Framework.
11. Enable regional data centre development through infrastructure, workforce and investment settings, including support for Australian-owned operators.
12. Develop workforce pathways across trades and digital infrastructure roles, including regional training and targeted migration settings.
13. Develop a NSW Digital Infrastructure Roadmap.
14. The NSW Government should work with the Australian Energy Market Operator and the Australian Energy Market Commission to enable demand flexibility and tariff reform for data centres.
15. Establish a data centre community benefit framework, aligned with Renewable Energy Zone principles, to strengthen social licence and deliver local economic outcomes.
16. Require enforceable decommissioning and site remediation plans at approval, including clear operator accountability and end-of-life obligations.

1. Data Centres as Economic and Enabling Infrastructure

Data centres are both economic infrastructure and enabling infrastructure and are critical to the functioning of the NSW economy.

They directly support investment, employment and high-value industries, while also providing the digital backbone for artificial intelligence, cloud computing and data-driven business operations. This dual role strengthens productivity, competitiveness and economic resilience across sectors including finance, manufacturing, logistics and services.

Data centres underpin almost every modern business activity, with reliable and scalable capacity increasingly a key driver of growth. For small and medium-sized businesses, cloud

services reduce barriers to innovation and enable faster scaling without significant upfront investment.

Maintaining NSW's position as Australia's leading data centre hub is therefore essential to supporting investment and ensuring businesses can compete in a digital economy.

Recommendation 1: Recognise data centres as core economic and enabling infrastructure

2. Electricity Demand and System Impacts

Data centres are inherently energy-intensive due to their continuous operation and significant cooling requirements. As the sector expands, it is becoming an increasingly important driver of electricity demand.

Key evidence highlights the scale of this growth:

- Data centres currently account for around 1–2% of global electricity demand[1]
- In Australia, consumption is approximately 3.9 TWh (around 2% of total demand), with forecasts suggesting this could rise to around 6% by 2030[1]
- Individual hyperscale facilities can require 50–100 MW or more, equivalent to the electricity use of tens of thousands of households

Australian Energy Market Operator has identified data centres as one of the fastest-growing load segments in the National Electricity Market. This trend will require improved demand forecasting, earlier engagement with network planning, and stronger coordination across the energy system.

Data centres can also play a constructive role in the energy transition. Many operators are already supporting new renewable generation through long-term power purchase agreements. There is emerging potential for load flexibility in non-critical workloads, alongside opportunities to co-locate with storage or firming assets to support system reliability.

Without coordinated planning and investment, rapid demand growth presents material risks. These include increased network congestion, higher system costs, and delays in connecting other users, including businesses and communities.

Recommendation 2: Strengthen coordination between planning and energy systems

Recommendation 3: Facilitate access to clean and reliable energy to support growth

Recommendation 4: Enable efficient pricing signals and demand flexibility

3. Planning, Land Use and Infrastructure Coordination

3.1 Industrial Land Constraints

Data centres require access to large, serviced industrial sites supported by high-capacity electricity connections, fibre connectivity and efficient transport links. These requirements limit suitable locations and increase reliance on well-planned industrial land.

[1] International Energy Agency (2025), *Energy and AI*, IEA, Paris

Industrial land in Sydney is increasingly constrained, with strong and competing demand from logistics, advanced manufacturing and residential rezoning. This is placing upward pressure on land values and reducing the availability of development-ready sites.

Absent clear and coordinated planning direction, there is a risk that data centres either crowd out other strategic industrial uses or are pushed into suboptimal locations that increase system costs and reduce efficiency

Recommendation 5: Protect and plan for digital infrastructure within industrial land strategies

3.2 Need for a Coordinated Location Strategy

A clear approach to data centre siting is needed to support efficient infrastructure use and more balanced economic development across NSW. Current development remains concentrated in metropolitan areas, limiting opportunities to optimise land use and distribute benefits.

The Clean Energy Finance Corporation / Baringa analysis finds uncoordinated growth can lead to grid constraints, inefficient infrastructure investment and localised environmental pressures. It recommends directing development to locations with sufficient capacity across power, water and connectivity.

A coordinated strategy should guide development to suitable locations while actively encouraging investment in regional NSW. Regional areas present opportunities through lower-cost land, available industrial capacity and the ability to support local jobs, industry diversification and broader economic growth

Recommendation 6: Develop a coordinated NSW Data Centre Location and Infrastructure Strategy, including measures to support regional investment.

3.3 Planning System Efficiency

NSW has made strong progress in streamlining approvals through pathways such as State Significant Development (SSD). Maintaining these pathways is critical to attracting investment, providing certainty and ensuring NSW remains competitive.

Streamlined approvals must remain targeted and linked to infrastructure capacity and environmental outcomes. Delivery depends on clear timeframes, agency accountability and effective coordination. Aligning approvals with infrastructure sequencing, including through the Development Coordination Authority, will be essential to ensure projects progress from approval to construction without delay.

Recommendation 7: Maintain streamlined planning with clear infrastructure and environmental criteria, supported by enforceable timeframes and coordination mechanisms.

4. Environmental Sustainability and Resource Use

4.1 Energy and Emissions

Global operators are committing to renewable energy procurement, increasing demand for clean and reliable supply.

Meeting this demand requires timely delivery of renewable generation, transmission and firming capacity, including storage and gas. Data centres can also contribute through on-site or co-located clean energy solutions.

Without coordinated supply, demand growth risks increasing electricity prices and business costs.

Recommendation 8: Enable clean, firmed energy supply for data centre growth and incentivise innovative on-site solutions.

4.2 Water Use

Data centres represent a relatively small share of total water consumption, but impacts can be locally concentrated and require careful, place-based management.

Mandala notes that water use is manageable at a system level, however local planning and access to recycled water are critical to mitigating impacts. This is particularly important in growth areas and regional locations where water infrastructure may be constrained.

Coordinated, precinct-level planning can support more efficient water use, including shared infrastructure and greater use of recycled water sources.

Recommendation 9: Integrate water planning at a precinct level and promote recycled water use, including in regional development

4.3 Sustainability Standards

The Clean Energy Finance Corporation / Baringa analysis recommends establishing a formal green data centre framework to guide development.

A consistent framework would improve transparency across key areas including energy sourcing, cooling technologies, emissions and water use, while providing clearer signals for investment and sustainable outcomes.

Recommendation 10: Establish a NSW Green Data Centre Framework.

5. Regional Opportunities and Renewable Energy Zones

Data centre investment in NSW remains concentrated in Sydney. Expanding regional delivery can better leverage existing infrastructure and support broader economic outcomes.

Regional NSW offers advantages including proximity to Renewable Energy Zones, lower-cost land and opportunities for local jobs and industry diversification.

Delivery will depend on enabling infrastructure and capability, particularly reliable energy supply, fibre connectivity and workforce development. There is also a case to encourage Australian-owned operators to strengthen domestic capability and retain economic value.

Recommendation 11: Enable regional data centre development through infrastructure, workforce and investment settings, including support for Australian-owned operators.

6. Workforce and Skills

Australia's data centre workforce will need to expand significantly to support projected growth. Shortages are already emerging across critical roles, including electrical trades, engineering, cooling systems, cybersecurity and network operations.

These constraints are likely to be more pronounced in regional areas, where access to skilled labour is more limited. Without targeted action, workforce gaps risk delaying project delivery and increasing costs.

Addressing this challenge will require coordinated investment in skills and training, including expanded TAFE and apprenticeship pathways, alongside targeted migration settings to address immediate shortages.

Recommendation 12: Develop workforce pathways across trades and digital infrastructure roles, including regional training and targeted migration settings

7. A Coordinated Long-Term Framework

The scale and pace of growth in the data centre sector requires a more coordinated and long-term policy approach.

The Clean Energy Finance Corporation / Baringa analysis recommends a national roadmap. A similar approach is warranted at the state level to ensure alignment across policy settings and delivery priorities.

Business NSW has previously recommended the development of a Digital Infrastructure Strategy as part of its NSW Budget submissions. Establishing a clear, whole-of-government framework would provide greater certainty for investment and support more effective coordination across agencies.

A NSW roadmap should integrate key enabling systems, including planning, energy, water, industrial land, workforce and sustainability, to support efficient delivery and long-term growth.

Recommendation 13: Develop a NSW Digital Infrastructure Roadmap.

8. Role of Pricing and Demand Flexibility

Current electricity pricing structures do not fully incentivise large energy users to shift demand to periods of high renewable output, invest in storage or participate in demand response.

Data centres have the scale and operational flexibility to support more efficient system outcomes where appropriate price signals and market mechanisms are in place.

Reform in this area could reduce peak demand pressures, improve utilisation of renewable generation and lower overall system costs

Recommendation 14: The NSW Government should work with Australian Energy Market Operator and Australian Energy Market Commission to enable demand flexibility and tariff reform for data centres.

9. Community Benefit and Local Value

Data centres deliver significant economic value, but their impacts, including land use, energy demand and water use, are often concentrated at a local level. Strengthening social licence will be critical to supporting continued growth and timely delivery.

There is an opportunity to adopt a more structured approach to community benefit, drawing on models such as Renewable Energy Zone (REZ) benefit sharing. A clear and consistent framework would ensure local communities share in the benefits of development, particularly in regional areas.

A coordinated approach to benefit sharing can support local procurement, workforce participation and targeted investment in community infrastructure and digital capability. This can improve community acceptance, support regional economies and provide more durable outcomes over the life of assets.

Embedding benefit-sharing expectations early in the development process will provide greater certainty for industry and communities, while reinforcing the sector's contribution to NSW's broader economic and transition objectives.

Recommendation 15: Establish a data centre community benefit framework, aligned with REZ principles, to strengthen social licence and deliver local economic outcomes.

10. Decommissioning and End-of-Life Responsibility

Data centres are long-life assets, but they are not permanent. As technology evolves, facilities may require repurposing, upgrading or decommissioning. Without clear frameworks, there is a risk that end-of-life costs and site remediation burdens fall to government or local communities.

A more structured approach is required to ensure operators plan for decommissioning from the outset. This should include clear expectations around site remediation, equipment disposal and the management of environmental impacts, including energy infrastructure and cooling systems.

Embedding decommissioning requirements early will provide greater certainty for communities, reduce long-term liabilities and support more efficient land reuse, particularly in strategic industrial areas.

Recommendation 16: Require decommissioning and site remediation plans as part of approvals, including clear operator accountability and end-of-life obligations.

Conclusion

Data centres are critical to the future of the NSW economy. They underpin digital transformation, support business productivity and enable the growth of emerging industries, including artificial intelligence.

Rapid expansion in the sector requires a coordinated and delivery-focused policy response. The objective is not to constrain growth, but to ensure it is aligned with system capability and broader economic outcomes.

This includes maintaining electricity system reliability and affordability, aligning development with infrastructure capacity, protecting strategic industrial land, delivering strong environmental outcomes and unlocking regional economic opportunities.

With the right policy framework, NSW can sustain its position as Australia's leading digital infrastructure hub while ensuring the benefits of growth are shared across businesses, communities and regions.

We welcome further engagement on this matter and are available for discussions at your convenience. Should you require additional information, please contact Leah Tucker, Senior Policy Manager, Energy and Infrastructure (leah.tucker@businessnsw.com).

Yours sincerely,

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