Data centre developers blindsided by proposed catch-all energy rules

Existing facilities and projects were expected to get in ahead of the renewables mandate. They could face obligations worth billions.

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The new rules are part of an effort to use data centre demand to support Australia's energy transition. *Shutterstock/PhillipWittke.*

Energy Minister Chris Bowen's move to force data centre developers to invest billions of dollars into renewables has blindsided the sector by potentially roping in existing facilities.

The rule change request, submitted to the Australian Energy Market Commission (AEMC) this week, proposes that "all data centre load over the threshold size ... which may include both existing and future data centres" must be powered by new renewable energy throughout the day.

Bowen's aim is to ensure Australia can continue to benefit from the ongoing AI boom through the rollout of supporting infrastructure while also minimising the impact on household power bills and aiding the country's transition away from fossil fuels.

The new obligation relates to the use of firming power, which runs when not enough solar or wind energy is being produced. This has historically been dominated by coal and gas but is increasingly being served by battery storage, backed up with diesel generators.

The industry is frustrated by the possibility that proposed rules could also apply to existing data centres. A source with knowledge of the sector said companies such as Microsoft believe any such move would not be pragmatic.

It is currently in the midst of an expected $25 billion of AI infrastructure and cybersecurity investments in Australia and has already agreed to work within the bounds of the federal government's data centre expectations.

In a submission to the joint select committee on AI, Microsoft outlined its support for "practical, investment-enabling energy requirements for data centres that deliver energy sustainability, reliability and affordability, including renewable energy requirements that recognise prior investments, provide sufficient flexibility to accommodate development timeframes, and apply market-based incentives for demand flexibility".

The company said in 2025 it had matched 100% of its annual aggregate global electricity consumption with renewable-energy purchases, including 478MW of a total 868MW of contracted capacity in Australia already supplying to the grid.

With the new rules still at an early stage of consideration, the AEMC's eventual determination could raise the bar further.

Think tank Climate Energy Finance director Tim Buckley said each dollar of data centre investment typically requires an additional dollar of investment in energy infrastructure to meet the facility's energy needs. This would likely mean billions of dollars of new investment.

"If you're talking a one-gigawatt project, then you're going to need three gigawatts of wind and solar because obviously they only run 30-35% of the time, you're going to have behind the meter energy storage, and then you're going to need a bit more grid investment," Buckley said.

However, he said data centre developers broadly accept the need to contribute to the energy transition given they're already "sailing really close to the wind" on their social licence.

Grattan Institute energy and climate change program director Alison Reeve told Capital Brief that for some operators with a "very, very marginal business case, it might be that it tips their business case the wrong way".

However, she acknowledged that applying the rules to data centres already in operation and in the planning system would help close loopholes that would otherwise violate the federal government's hope that data centres be fully powered by new renewable energy.

This includes large data centre developments that are already very close to being switched on, expansions at existing facilities that may not otherwise be considered new, and newer proposals being rushed through the planning system ahead of new regulation.

She also flagged that “it does sort of make for a level playing field” by equalising the obligations on existing operators and new entrants in having to support the expansion of the energy system.

Mallesons energy partner Josh Thorneycroft told Capital Brief that Bowen was asking the Australian Energy Market Commission to consider widening the scope of new rules.

“If these changes do apply to existing data centres, it will be interesting to see how the AEMC deals with any existing arrangements that these data centres or their customers might have in place to ensure it has firm supply of energy,” Thorneycroft said.

A spokesperson for Bowen said “the AEMC will be consulting widely about the proposed rule change in coming months and the Government will also be consulting closely about the AI rules more broadly”.

https://www.capitalbrief.com/article/data-centre-developers-blindsided-by-proposed-catch-all-energy-rules-08d0a478-43b2-4efc-b392-3474ea85cfb5/