Australian Government
Department of Prime Minister and Cabinet

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AI Infrastructure Standards

The Australian Energy Council ('AEC') welcomes the opportunity to make a submission to the Department of Prime Minister and Cabinet's ('Department' or 'PMC') consultation on *AI Infrastructure Standards*.

The Australian Energy Council is the peak body for energy retailers, generators, and storage providers operating in competitive markets. Our members generate and sell energy to over 10 million homes and businesses and are committed to delivering a reliable, affordable and decarbonised energy system for consumers. The AEC supports net zero by 2050 and recognises the electricity sector's role in reducing Australia's emissions. Our members are major investors in renewables, firming and storage technologies that are critical to ensuring customers continue to receive reliable and sustainable energy supply as we navigate the energy transition.

Data centres are part of the digital infrastructure that supports the services people, businesses, and governments rely on every day. Despite the recent attention they are receiving, there are already many data centres operating across Australia, many of which have their energy load seamlessly managed through the National Electricity Market ('NEM').

The NEM is underpinned by existing market-based frameworks and rules that are designed to incentivise the reliable supply of electricity to meet demand at lowest cost. Whether that demand comes from manufacturing, smelters, data centres, or another large load is immaterial. These features include:

- Energy-only spot market – provides price signals based on real-time supply and demand that encourage the efficient dispatch of electricity.
- Derivatives market – financial contracts allow market participants to manage the intended volatility of the spot market and gives value to firm capacity.
- Market price cap – places an upper limit on dispatch prices that maintains a signal for investment in generation to meet the reliability standard.
- Interconnected electricity flow – allows generation to be mostly efficiently allocated and built where it is most needed (e.g. in the case of renewable generation, located based on optimal weather patterns).

The NEM Wholesale Market Settings Review explicitly sought to retain the energy-only features of the NEM, with the Expert Panel stating that it has "proven effective at dispatching resources in real-time and will continue to do so through the energy transition. The market provides sharp price signals that accurately reflect the balance of supply and demand in real-time and over operational time frames. It is a powerful mechanism for ensuring efficient resource utilisation and addressing near-term reliability issues as they arise".[1]

The standards proposed in this Consultation Paper ignore the NEM's existing market features and instead creates a bifurcated market structure. While the AEC has sought to constructively

[1] National Electricity Market Wholesale Market Settings Review, December 2025, p68.

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engage on the consultation questions, mandated additionality is fundamentally sub-optimal to relying on the NEM's market-based signals. It complicates investment signals for new renewable generation, reduces the ability of existing renewable generation and firming capacity to remain commercial, and ultimately creates unnecessary barriers to data centre investment in Australia.

To the extent data centres do materially increase demand, this would be a de-facto additionality signal anyway because the least-cost option for building new supply is renewable generation, backed by storage, and firmed by gas.

If the Government does proceed with a full additionality requirement, then it should seek to minimise distortions to the existing market-based framework as much as possible. This means:

- Implementing technology-neutral bridging arrangements that allows for use of existing generation and capacity while new renewable supply is being built.
- Ensuring the definition of "new" rewards plants that undertake expansions, life extensions or refurbishments.
- Removing jurisdictional restrictions on the location of new renewable generation to recognise the NEM's interconnectivity.

Consultation questions on renewable electricity certificate obligations for data centres

How could obligations be phased in to account for the time needed to build data centres and new renewable projects?
The time build difference between new data centres and new renewable projects is a key reason why mandated additionality creates confusion rather than certainty for investment. While there are project variables, research from Net Zero Australia suggests large-scale wind projects take around eight years to develop, and solar farms over five years on average. Even with financing from data centres, supply-side barriers like planning approvals, social licence, and access to critical electrical equipment means new generation cannot be built instantaneously.

There should be bridging arrangements or "glidepaths" to manage the phase-in period. This has been implemented in other jurisdictions which have mandated additionality, namely Ireland. It would mean data centres have a transitional period (e.g. Ireland allows six years) to be fully powered by new renewable generation.

These bridging arrangements should be technology-neutral and allow data centres to use existing grid-connected generation, similar to overseas requirements. If there are renewable requirements, then it should allow the purchase of LGCs as they are the current form of renewable certification.

How should 'new' renewable capacity be defined in relation to data centre investments?
The Department should avoid adopting a rigid definition of "new" as this will make it harder for new renewable generation to come online.

Any definition should consider that:

- Market participants have already started making investment decisions in generation, storage and firming assets in anticipation of future demand. Restricting "new" to assets only built after a data centre would essentially encourage energy developers and investors to delay renewable asset construction until offtakes are secured.
- Existing assets undergo expansions, life extensions, retrofitting, and refurbishment to improve their efficiency and/or total capacity. Incentives for such maintenance are

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reduced if these assets cannot capitalise on major new demand loads, such as data centres.

At what capacity threshold should an obligation to retire or surrender renewable energy certificates apply?
The AEC encourages alignment with the AEMC's inverter-based load definition which captures data centres with a nameplate capacity above 30MW.

The AEC agrees with the proposed three-tiered approach to thresholds and proportionate scaling of requirements. The associated compliance framework should recognise the different operating business models, capabilities and ownership agreements, as well as a data centre's ability, right or responsibility to procure electricity.

Should the information on REGO certificates be used to time-match electricity use in certain periods? If so, what should these periods be?
The AEC strongly advises against any time-matching requirements. Such requirements would introduce significant complexity into policy design, and place a major administrative burden on generators, regulators, and data centres with respect to implementing the supporting IT processes and systems.

Furthermore, the REGO market is currently not liquid enough to support time-matched electricity certification, and some of the proposed design principles here arguably limit it from ever reaching such maturity. For example, certificates for new renewable generation produced in a specific state at a certain time of day will be so stratified to be unable to match a data centre load profile.

Are there any complexities in how data centres could acquire certificates to meet a renewable electricity obligation?
Proposals to limit certificate procurement by the jurisdiction in which the data centre is located will have significant, distortionary effects on the efficient buildout of renewable generation. The NEM's interconnectivity across states is designed to allow renewable resources to be built in areas that maximise their economic and emissions impact value.

By contradicting this design feature, a location requirement will:

- Restrict eligible generation to a limited geographic area, shrinking the available pool of renewable generation and reducing the liquidity of certificate trading at a time when the REGO market is not mature.
- Increase the costs of renewable procurement for no benefit as the efficiency of renewable generation depends on being built in optimal locations, which state boundaries do not necessarily reflect.
- Complicate the application of the rules as jurisdictions like the ACT will either be unable to participate or require some exemption framework.

The AEC recommends that location restrictions be removed entirely.

What incentives or obligations would encourage data centres to invest in on-site generation, batteries or other flexible demand measures, to minimise energy usage during peak pricing?
The AEC's first principle is that market-based, grid-connected investment is the most economically efficient way for data centres to meet their clean energy expectations. Obligations that compel data centres to build on-site generation will limit the range of suitable locations available to data centres and make social licence harder to navigate.

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There may be some circumstances where on-site or behind-the-meter services are needed. As referenced earlier, the AEMC's inverter-based load draft rules will potentially require large data centres to have some behind-the-meter technology, such as a battery, to manage system security. This will enable data centres to provide demand management services analogous to other large industrial loads and can co-exist with a market-based approach to incentivising new generation so long as there is sufficient visibility.

Frameworks should therefore ensure that alternative solutions can be rewarded for their co-benefits above minimising energy usage (e.g. on-site emissions reductions capability, system security services, management of air pollution or local noise).

Where electricity is being purchased from a state-owned operator, what should the AER consider when assessing whether to modify a data centre's renewable electricity obligation?
The market is best positioned to determine the least-cost option for supplying electricity to data centres. The involvement of a regulator in assessing how an individual generation asset contributes to grid stability or price formation invites significant confusion given the system-wide functionality of the NEM.

If the Government insists on an exemption framework, then it should be an "equivalent benefits" test that any generation type can apply for rather than restricted to state-owned operators. Its criteria should be broadened to also capture:

- Reliability of supply
- Utilisation of existing network assets/connection points
- Contribution towards jurisdictional policy objectives

An equivalent benefits test would allow generators to present a portfolio approach to managing data centre decarbonisation that satisfies the additional obligations to ensure sufficient firming capacity and flexible operations. Where a portfolio approach is able to achieve system reliability and emissions outcomes at lower cost, then the standards should support this.

What unintended consequences or implementation challenges should the government consider in designing a renewable electricity framework for data centres?
In addition to earlier comments about the inefficiencies of having a separate set of rules for one load, there is confusion about how the various regulatory instruments affecting data centres interact with each other. This confusion exists on several levels:

- The regulatory instruments have inconsistent legal coverage. Some instruments are Commonwealth (e.g. the AI Infrastructure Standards, REGO requirements) while others only apply to the NEM (e.g. AEMC rule changes on market registration, data centre contract obligation and connection agreements).
- Who determines whether state policies are above or below the minimum standard, and to what extent states can derogate from the NEM obligations.
- The legal status of the AI Infrastructure Standards and whether they will become formal Commonwealth legislation or have a lower legal standing.
- How the contracting obligations will interact with the Electricity Services Entry Mechanism (ESEM) and any cost relief mechanisms available so that there is no double penalty.

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- How to mitigate the risk that rule changes to inverter-based loads, which are designed to capture data centres, inadvertently capture other inverter-based resources.

The AEC remains concerned that the limited understanding of how these obligations will operate will only serve to delay investment in new renewable generation and data centres and reduce incentives for existing generation to invest in extension-of-life services, refurbishment, and/or capacity expansion.

Any questions about this submission should be addressed to Rhys Thomas, by email Rhys.Thomas@energycouncil.com.au or mobile on 0450 150 794.

Yours sincerely,

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