MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

BRIEFING

Data centres – options to capture benefits and manage risks

Date:	2 July 2026	**Priority:**	Medium
Security classification:	In Confidence	**Tracking number:**	BRIEFING-REQ-0033553

Action sought		
	Action sought	**Deadline**
Hon Nicola Willis **Minister for Economic Growth**	Indicate whether you would like to progress further work to encourage greater spillovers from data centre investment	8 July 2026

Contact for telephone discussion (if required)			
Name	**Position**	**Telephone**	**1st contact**
Robyn Henderson	General Manager, Economic Growth	s9(2)(a)	✓
Angela Mahony	Senior Advisor, Investment Policy		

The following departments/agencies have been consulted
Department of the Prime Minister and Cabinet, Government Digital Delivery Agency, Invest NZ

Minister's office to complete:		
	☐ Approved	☐ Declined
	☐ Noted	☐ Needs change
	☐ Seen	☐ Overtaken by Events
	☐ See Minister's Notes	☐ Withdrawn

Comments

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Purpose

To provide you with further advice on the levers available to capture the spillovers from data centre investment and manage the potential risks.

Recommended action

The Ministry of Business, Innovation and Employment recommends that you:

a **Note** that if New Zealand attracts greater investment into data centres, or the Government decides to take a low-regrets, more proactive approach, there are models in other markets that New Zealand can adopt to encourage spillovers and manage potential risks

Noted

Capturing spillovers

b **Note** that the Australian approach of setting expectations for data centres provides an example of how relatively light-touch signalling could be used to influence investment that is more likely to have broader spillover benefit for New Zealand

Noted

c **Note** that officials consider there is merit in clarifying government expectations and to support social licence ahead of potential future growth of data centres

Noted

d **Indicate** whether you would like officials to do further work on this idea

Yes / No

Electricity impacts

e **Note** that we do not expect electricity price impacts from currently planned data centres, and new energy-intensive industry can benefit the electricity system if it drives investment in new generation and contributes to grid upgrades

Noted

f **Note** that a low-regrets approach with respect to electricity impacts could include developing policies to ensure generation capacity, and the transmission grid, carries on being sufficient so potential system benefits are realised

Noted

g **Forward** a copy of this briefing to the Minister for Energy, the Minister for Trade and Investment, and the Minister of Science, Innovation and Technology.

Agree / Disagree

Robyn Henderson
General Manager, Economic Growth
Labour, Science and Enterprise, MBIE

2 / 7 / 2026

Hon Nicola Willis
Minister for Economic Growth

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Background

1. We recently provided you with information on data centre investment in New Zealand, which Invest New Zealand (Invest NZ) has identified as a strategic priority area for attracting foreign investment (BRIEFING-REQ-0032237 refers). That briefing noted:

   - New Zealand is an attractive place for AI data centres due to its renewable energy profile, cooler climate, political stability and effective safeguards for the rights of individuals and data usage
   - data centre investment is most likely to deliver productivity gains where it is integrated with skills development, innovation and digital adoption, rather than as a stand-alone infrastructure investment
   - data centres are more likely to deliver net economic benefits where their large electricity demand is managed in a way that supports the broader system (eg enabling or co-financing new renewable generation and locating in regions with sufficient network capacity, or funding the network upgrades they require).

2. You asked for further advice on the levers government has to encourage economic spillovers and manage potential risks from data centres. You also asked for information on different types of data centres (ie by business model and function), which is provided in **Annex One**.

Data centre investment has global and domestic demand components

3. Attracting data centre investment can be considered from two angles:

   - responding to global growth – capitalising on our relative advantages (renewable energy profile, cooler climate etc) to attract data centres to meet global demand. On 1 July, Invest NZ released a prospectus for Data and AI Infrastructure which positions New Zealand as a secure, green solution for data centre investment. The central proposition is that New Zealand offers the fastest path to clean, scalable AI compute across the Asia-Pacific region.
   - meeting our domestic needs and ambition – ie the level and types of digital infrastructure that are desirable to be located domestically.

4. 9(2)(f)(iv) [redacted] This briefing therefore focuses on the levers available to capture the benefits and manage the risks associated with attracting data centre investment to respond to global demand.

5. To support the domestic energy system, if the Government adopts a low-regrets approach it could (as explained below) require large data centres to contribute to electricity system resilience by supporting new generation and firming capacity, offering demand flexibility, providing grid stability services, and contributing to any transmission investments driven by their demand. Government could also consider influencing data centres' decisions on location.

Spillovers could be encouraged by signalling expectations for investors

6. The extent to which benefits are captured locally depends on factors outside the data centre investment itself, particularly the depth of the domestic skills base, the capability of firms to adopt digital technologies and the presence of complementary activities. These are areas where domestic policy settings can make a difference. Where they are absent, benefits are more likely to be limited to construction activity and improvements in digital infrastructure.

7. New Zealand has previously sought to encourage investment in skills and digital adoption through cooperation arrangements with large data centre investors. For example, the Government Chief Digital Officer signed separate Memoranda of Understanding with Microsoft and Amazon Web Services, in which the tech companies undertook to develop and deploy training opportunities for New Zealanders. We could continue to engage on a case-by-case basis with data centre investors to secure wider public benefit.

8. The Australian Government has recently released a set of expectations for data centres and AI infrastructure developers to incentivise investment consistent with Australia's national interests.[1] Australia will prioritise projects that most closely align with the expectations for regulatory assessment. The expectations are:

   - Prioritising Australia's national interest (includes national security and data sovereignty)
   - Supporting Australia's energy transition
   - Sustainable and efficient water usage
   - Investment in Australian skills and workforce (eg apprenticeships and other training pathways) to support the construction and operation of data centres
   - Research, innovation and local capability (eg enabling access for Australian start-ups, innovative small businesses, researchers and not-for-profits on favourable terms).

9. The Government could take steps to encourage investment that more closely aligns with its broader economic growth goals, noting that there will be a trade-off potentially with investment attraction depending on how stringent the requirements are. The Australian approach is an example of how relatively light-touch signalling could shape outcomes without mandating specific behaviours. Providing clear guidance about the types of investments that align with New Zealand's national and economic interests may represent a low-cost, low-regrets intervention that could support more targeted actions, improve investor certainty, and help maintain public confidence in the sector as it grows. s9(2)(f)(iv) [redacted]

   - [redacted]
   - [redacted]

10. Another option could be to investigate using government's procurement levers to influence wider outcomes. For example, the research sector is a big user of compute. The Prime Minister's Science Innovation and Technology Council is currently considering the SIT system's needs for AI infrastructure given the expectation for more advanced technology research. REANNZ has also been exploring procurement of up to [redacted] GPUs for use by universities and PROs. Government could support a research sector investment in data centres and use that position to ensure large data centres benefit the local innovation system, encouraging connections to domestic research and development, local tech suppliers, or providing capacity for domestic use. However, the ability to use procurement in this way is likely to be more relevant in the context of considering our domestic data infrastructure needs, rather than responding to global demand.

New energy policy may be warranted

11. If data centre growth remains as expected and government takes actions to address dry-year risk as currently planned, we do not expect data centres to drive upwards pressure on electricity prices.

[1] Expectations of data centres and AI infrastructure developers | Department of Industry Science and Resources

12. However, if New Zealand sees significantly more data centre developments progressing towards final investment decision, or a low-regrets approach is preferred, additional policies could be developed so that this new, energy-intensive, industry benefits the electricity system. This would focus on ensuring data centres support sufficient electricity generation capacity, grid stability, and necessary investments in the transmission grid.

13. Work already underway by the Electricity Authority (EA) to support grid-scale battery energy storage systems (BESS) will be critical to ensure data centres (who usually collocate BESS) support the electricity system.

Data centres are unlikely to drive higher electricity prices in the next three years

14. Data centres, particularly large-scale facilities, are highly energy-intensive. New Zealand's data centre demand is expected to grow from 104 MW in 2025 to over 400 MW by 2035.[2] If New Zealand attracts significant additional investment, current projections may be too low.[3]

15. However only 80 MW of new demand is expected during 2026/27. Transpower's pipeline includes only three data centres connecting in 2026-27. Data centres account for 11% of Transpower's connection enquiries (see **Annex Two**). Many are competing developments targeting the same customers – not all are expected to proceed.

Actions are underway on dry-year risk, so data centre demand is unlikely to raise electricity prices

16. New Zealand has a strong pipeline of new electricity generation development projects to accommodate an increase in electricity demand. There were 288 projects in the pipeline last year (from 'in-development' to 'early stage') with a combined total capacity of 44.3 GW.

17. However, the pipeline of planned generation projects is almost all renewable generation, yet data centres typically require 'firm' electricity - generation with stored fuel that can be reliably dispatched when needed. New Zealand currently faces shortages of this firm reliable supply to cover periods (weeks or longer) of low hydro storage, so-called 'dry-year risk'. Rapid demand growth of data centres could exacerbate the current shortage of firm generation and so put upward pressure on prices. The Government is acting to address dry-year risk, including LNG imports and new market measures announced in June 2026. If these measures are implemented by 2028, data centres connecting thereafter are unlikely to increase electricity prices for others.

Data centres can support the electricity system

New large customers can support investments in generation

18. New Zealand has a strong pipeline of new generation, which data centres can help support. Large customers typically manage price risk through long-term contracts that underpin new investment. For example, Datagrid's Southland AI data centre has signed a 140 MW power purchase option agreement with Mercury Energy. Contact Energy's Te Huka Unit 3 geothermal station was backed by Microsoft, and Mercury's Turitea South wind farm by Amazon Web Services.

19. There is also the potential for data centres' waste heat to be put to productive use. Datagrid has identified opportunities to transfer heat to adjacent users, while waste heat from a Spark data centre near Auckland is being planned to heat the wave pool at a new surf park.

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[2] MBIE's Electricity Demand and Generation Scenarios (EDGS) 2024 projects national data centre demand reaching 233 MW by 2030 in the Reference scenario and 383 MW under the Growth scenario. These projections represent expected domestic growth and do not include export-oriented hyperscale developments beyond those signalled to date.

[3] Datagrid's Southland AI data centre has been consented for 280 MW, and we note has Overseas Investment Office approval to expand to 1 GW. This is twice the demand of the NZAS smelter. New Zealand's peak real-time demand is about 6 GW. The smelter and a 1 GW data centre combined could use up to one quarter of national demand (1.5 GW). However, we understand Datagrid is yet to sign with an 'anchor' data-customer.

20. Looking ahead, the market will be aware of new data centres that are coming. New connections are signalled well in advance: Transpower's connection process typically takes 2–4 years from enquiry to new connection, and resource consents and Fast-track applications are publicly notified. Also, under the updated Government Policy Statement on Electricity (June 2026), the EA will consider developing a requirement that large customers signal intention to connect, well in advance.

AI factories can offer reductions in demand, to relieve tight supply situations

21. Some large consumers provide demand response during tight supply periods. Data centres, especially those that collocate with (or contract with) a BESS, could offer similar flexibility through commercial arrangements to compensate for disruption. Given data centres' energy needs, this is likely to be for timeframes of 0-8 hours, so help relieve short-term tight capacity situations (and not dry year response).

Location matters: risks or opportunities for grid stability

22. Data centres can create system security issues due to how their power systems interact with the grid, especially if concentrated geographically. In extreme cases, frequency instability could risk outages. So location matters, particularly if datacentre growth is fast. The EA and Transpower are monitoring grid stability risks and potential mitigations. Some jurisdictions require large loads to meet stricter connection standards, such as the ability to ride through grid disturbances without tripping.

23. Datacentres co-located with BESS can instead support the system, by providing grid support. s9(2)(f)(iv) [redacted]

New connections could, but won't necessarily, drive higher grid costs for others

24. A new data centre connecting to the grid would fund its own grid-edge connection assets. It will also be allocated a share of core grid costs, as allocated by the transmission pricing methodology (the **TPM**). The presence of a 'new grid-connected industrial' could reduce core grid charges for all other customers, if the same network costs are now spread more widely.

25. However, if a new connection drives *new core transmission grid investments*, the TPM allocates costs across all parties expected to benefit from the upgrade. So new data centres that drive grid upgrades could increase transmission charges for others, which may raise social licence considerations. The EA is responsible for the TPM and could consider this challenge.

Additional energy policy may be warranted

26. If New Zealand attracts significantly more data centres, or the Government prefers a low-regrets approach, additional energy policy may be warranted.

27. Data centres could be required to:

    a. s9(2)(f)(iv) [redacted]

    b. s9(2)(f)(iv) [redacted]

    c. s9(2)(f)(iv) [redacted]

    d. s9(2)(f)(iv) [redacted]

28. The benefits and risks of aiming to influence data centre developers' **location** decisions will also be worth considering, aiming to reduce any exacerbation of grid capacity or stability risks.

New Zealand's projected demand from data centres is currently much lower than Ireland or Australia

29. New Zealand is far behind other markets in terms of anticipated data centre growth. Here, this remains relatively low, and gradual compared with Ireland and Australia. This suggests that New Zealand may not face the same degree of system pressure. **Annex Three** compares the three markets.

30. Ireland's experience highlights how rapid data centre investment can create system pressures. Data centre demand increased from 5 to 22 per cent of national consumption between 2015 and 2024 – straining the electricity system and prompting a de facto moratorium on new grid connections from 2021. Ireland requires 'BYO Power', and connection requests in grid-constrained Dublin can be refused.

31. The Australian approach now emphasises managing both the related opportunities and risks – data centres must contract for new clean generation, operate flexibly, and fund their grid impacts. The strategy learns from the Irish experience – it represents a more anticipatory approach to avoid similar constraints emerging. Australia's 2025 *National AI Plan* includes energy transition aspects, and the Australian Energy Market Commission (the rule-maker) is currently considering new rules for grid stability.

32. Australia's Energy and Climate Change Ministerial Council is also actively examining data centre issues, which MBIE could draw on where relevant.

33. EECA recently issued an RfP to inform its work on efficiency considerations for data centre energy use. The scope includes advice on future data centre growth and electricity system impacts. This adds to a growing body of related work (including recent analysis by Boston Consulting Group and TechNZ) building a New Zealand-specific evidence base to inform any future energy policy development.

Is further work needed to respond to the challenges and opportunities?

34. If data centre growth remains as expected, additional policy interventions are unlikely to be needed at this stage with respect to electricity. Under the current light-touch, market-led framework, existing wholesale market arrangements (including improvements to address dry-year risk) are likely to be sufficient.

35. However, there may be value in putting in place a small number of low-cost, low-regrets settings now, given the possibility that data centre demand could scale rapidly and the relatively limited downside of signalling future expectations in advance. Care would need to be taken to ensure new polices don't affect projected returns to an extent that overly diminishes New Zealand's attractiveness for investors.

36. If government did want to consider additional actions to capture spillovers, the Australian model could be a useful one to follow. It provides a framework for signalling expectations around energy system contributions, skills development, innovation spillovers and national-interest considerations without imposing significant regulatory costs This would provide clearer signals on the types of investment that could have greater spillovers and align with New Zealand's objectives, while still being consistent with a light-touch approach.

37. Overall, officials' judgement is that the case for substantial intervention is currently weak because projected data centre growth can likely be accommodated within existing market and regulatory frameworks. The stronger case at present is for modest preparatory actions that clarify government expectations and support social licence ahead of potential future growth. Such an approach balances the absence of an immediate problem against the relatively low downside of acting early. Should government seek to attract additional investments in data centres, the key policy challenge would be to maintain social licence by managing potential risks and ensuring communities benefit from the investment. s9(2)(f)(iv) [redacted]

- s9(2)(f)(iv) [redacted]
- [redacted]
- [redacted]
- [redacted]

Annexes

Annex One: Overview of data centre types

Annex Two: Data centres under construction or consideration: Transpower's list

Annex Three: International comparisons

Annex One: Overview of data centre types

TABLE 1: BY BUSINESS MODEL (OWNERSHIP AND STRUCTURE)				
TYPE	**DEFINITION**	**TYPICAL USERS**	**KEY CHARACTERISTICS**	**IMPLICATIONS**
HYPERSCALE (CLOUD)	Very large, purpose-built facilities operated by major cloud providers	AWS, Microsoft, Google	Massive scale; highly efficient; centralised; designed for cloud and AI workloads	Very high electricity demand; global firms dominate; raises questions of sovereignty and infrastructure resilience
COLOCATION (‘COLO’)	Third-party facilities where multiple customers install and operate their own hardware	Corporates, telecoms, cloud providers	Shared infrastructure; flexible; supports interconnection ecosystems	Key entry model for smaller economies; supports market competition and aggregation of demand
ENTERPRISE (ON-PREMISE)	Owned and operated by a single organisation for internal use	Government, banks, large firms	Smaller scale; customised; high control and security	Less efficient at system level; important for sovereignty, security, and legacy systems
EDGE	Small, distributed facilities located close to end users	Telecoms, content delivery, internet of things providers	Low latency due to proximity; smaller footprint; highly distributed	Important for digital inclusion and real-time services; requires distributed infrastructure planning

TABLE 2: BY FUNCTION (WORKLOAD TYPE)				
TYPE	**PURPOSE**	**INFRASTRUCTURE PROFILE**	**LATENCY SENSITIVITY**	**IMPLICATIONS**
GENERAL CLOUD / COMPUTE	Runs applications, SaaS, and general processing	Balanced compute, storage, and networking	Medium	Core digital infrastructure across sectors
STORAGE-HEAVY (DATA LAKES,	Stores large volumes of data	High storage density, lower compute intensity	Low	Strong relevance for data sovereignty and

BACKUPS)				archival policies
HIGH-PERFORMANCE COMPUTING (HPC)	Scientific modelling, simulation	Parallel processing; high-bandwidth interconnects	Low–medium	Strategic research capability; often publicly supported
AI TRAINING	Builds and trains large AI models	Extremely high compute density (graphics processing unit clusters); very large power and cooling requirements	Low (not user-facing)	Major driver of electricity demand; can locate away from users
AI INFERENCE	Runs AI models for real-time user interaction	Smaller, distributed deployments; latency-optimised	High	Drives need for edge infrastructure and proximity to users

TABLE 3: HOW BUSINESS MODEL AND FUNCTION INTERACT

DATA CENTRE TYPE	**TYPICAL WORKLOADS**	**WHY**	**RELEVANCE TO NZ**
HYPERSCALE	Cloud services, HPC, **AI training**	Requires very large-scale, centralised compute and power	More aligned with NZ's strengths (renewable energy, space, cooling conditions)
COLOCATION	Mixed workloads (enterprise hosting, cloud regions, some inference)	Flexible platform that can host multiple use cases	Dominant current model in NZ; enables incremental market development
EDGE	**AI inference**, real-time services, content delivery	Needs proximity to end users to minimise latency	Less competitive for global services due to geographic distance, but important domestically
ENTERPRISE	Sensitive data, regulated workloads	Driven by security and control requirements	Important for government and regulated sectors (data sovereignty)

Annex Two: Data centres under construction or consideration: Transpower's list

Projects in detailed design phase. Expected connection during 2027

Customer	Project name	Region	Transpower stage	Max MW	Status Flag	Stage % complete	Status	Estimated connection livening date
Vector Limited	Takanini 2x 33 kV Feeders (TenPeaks / Spark)	**Auckland**	Delivery	**30**	●	40%	Detailed Design	**28/02/2027**
Vector Limited	Silverdale 2x 33 kV Feeders (CDC)	**Auckland**	Delivery	**30**	●	36%	Detailed Design	**28/02/2027**
Vector Limited	Henderson 1x 33 kV Feeder (Microsoft 1/2)	**Auckland**	Delivery	**20**	●	27%	Detailed Design	**31/03/2027**

Projects that are less certain: grid connection is under investigation or early stage application received only. No certain connection date

Project ID		Region	Transpower stage	Max MW	Status Flag	Stage % complete	Status	Estimated TP scope completion date
00038096	[not supplied]	**Auckland**	Investigation	**30**	●	90%	Early Stage Design	TBA
00038113		**Auckland**	Investigation	**30**	●	85%	Early Stage Design	TBA
00038128		**Auckland**	Investigation	**30**	●	76%	Early Stage Design	TBA
00038156		**Otago-Southland**	Investigation	**300**	●C	36%	Early Stage Design	TBA
00038091		**Auckland**	Solution Proposal	**150**	●		Early Stage Design	TBA
00038170		**Auckland**	Solution Proposal	**150**	●		Early Stage Design	TBA

Project ID		Region	Transpower stage	Max MW		Ready to proceed [3]	Status	
00038564		**Auckland**	Application	**40**		Y	Requested	
00038092		**Auckland**	Application	**200**		Y	Requested	

Source: Transpower, [What's the latest with grid connections? | Transpower](). Dataset: [Load and other pipeline 20260513.xlsx]()

Annex Three: International comparisons

Data centre demand, supply vs demand balance and impacts – New Zealand, Australia and Ireland

Dimension	New Zealand	Australia	Ireland
Current share of electricity demand	~0.6% (2025)	~2% of NEM demand (FY25)	~22% (2024), up from ~5% in 2015
Demand trajectory (% of national demand)	Gradual growth to ~1.6–2.2% by 2030	Rapid growth (~6% of the NEM's grid-supplied electricity)	Rapid growth to >30% by 2030
Demand trajectory (MW)	233–383 MW by 2030; up to ~1.4 GW longer-term scenarios	Large pipeline (~8 GW prospective capacity under scenarios by 2030)	1,843 MW additional prospective grid-approved demand by 2030
Generation vs demand balance	**Largely aligned** to date (stable demand and strong generation pipeline)	**Increasing pressure** from combined electrification and data centre demand growth	**Demand has outpaced generation** expansion, especially in Dublin
Grid network impacts	**Minimal**; potential emerging constraints on Vector network (Auckland)	**Grid congestion** in Sydney and Melbourne; system security risks from large loads	**Grid constraints and congestion**; moratorium on new connections from 2021; emerging grid stability issues

Source: MBIE, using Data Centre Energy Demand (Oxford Economics Australia, 2025), The value of data centres to Ireland (KPMG, 2026), Data centres as strategic infrastructure: unlocking value for NZ Inc (BCG, 2026)