Opinion

It is cheaper to shut down Snowy 2.0 debacle than finally build it

The monument still needs more to be spent to finish it than has already been spent. The one piece of good news is that policymakers can still resist the sunk-cost fallacy.

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Updated Nov 3, 2026 – 9.44am,
first published at Nov 2, 2026 – 4.00pm

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The gods condemned Sisyphus to roll a boulder up a hill for eternity. Australians have been handed a much crueller punishment: to pump water up a mountain, forever, paid for with borrowed money.

Last week Snowy Hydro finally released its overdue Snowy 2.0 cost reassessment. [https://www.afr.com/policy/energy-and-climate/snowy-2-0-price-tag-soars-to-25b-10-times-initial-estimate-20261022-p617qx] The project, unveiled by Malcolm Turnbull in 2017 and projected to cost $2 billion, is now targeted to cost $22.2 billion, although Snowy is allowing for $25 billion. Completion has slipped to 2029, eight years late.



Snowy 2.0 has become a monument to hubris that future generations of Australians will pay for.

One of us, with former energy executive Ted Woodley, estimates the transmission needed to connect it will cost a further $12 billion. That takes the bill to $37 billion before interest. When the all-up cost at $42 billion was proposed earlier this year, Snowy's chief executive complained that transmission and interest costs were conflated. Sadly, taxpayers will pay both.

The cost to build Snowy 2.0 is all financed with borrowed money added to the already $1 trillion of Commonwealth debt. Given that 10-year bond yields are currently around 5.2 per cent, interest on $37 billion runs to almost $2 billion a year. Taxpayers will pay the original price of Snowy 2.0 every year for as long as that debt is rolled over. And on current fiscal settings, this is likely to be, as it was for Sisyphus, for eternity.

Pointing to the value of a dubiously calculated $18.3 billion of economic activity is silly.

It is worth going back to Snowy's own business case. The May 2024 update, written when the cost target was $12 billion, forecast average net revenue of about $1 billion a year. At $25 billion, interest on the power station alone is around $1.3 billion a year. That is more than the best revenue Snowy has ever claimed for it, and before maintenance, depreciation, or a cent of return to its owners.

When the cost doubled from $6.1 billion to $12 billion, the project's net present value somehow rose from $2.8 billion to $3 billion. The trick was the storage value, which almost doubled to $7.1 billion and was based on assumptions of wider price spreads and higher volumes. Storage depends on such spreads to make money but these have narrowed greatly over the last year, as expected, as electrochemical batteries have quickly flooded the market.

In Snowy's latest update, there is no updated net present value provided at all. Instead, all Snowy offered was an engineering consulting firm's analysis, commissioned by Snowy, claiming the project will add $18.3 billion to the economy during construction and cut wholesale power costs by more than $7 billion by 2075.

Pointing to the value of a dubiously calculated $18.3 billion of economic activity is silly. What matters is whether such activity delivers benefits greater than its costs, which it obviously does not. And to give the $7 billion of wholesale market savings some meaning, this is likely to be less than one third of one per cent of wholesale market revenue.

The labour bill explains a big part of the Snowy 2.0 farce. Snowy CEO Dennis Barnes told a recent Senate hearing that labour accounts for about half the latest blowout [https://www.afr.com/policy/energy-and-climate/wage-deal-adds-almost-1-billion-to-snowy-2-0-cost-20261026-p618rh]. A renegotiated workplace agreement alone adds almost $1 billion. The CFMEU is on site alongside the AWU and AMWU.

This arrangement echoes Victoria's Suburban Rail Loop, part of the Big Build program at the heart of the CFMEU scandal, whose tunnelling deal was hailed as the best-paid civil construction agreement in the country.

Draining builders, concrete and other resources

These megaprojects meanwhile drain builders, electricians, concrete, steel, and other construction resources from the rest of the economy just when Australia cannot build enough homes. Every worker on a cost-plus government tunnel is one not building houses.

Snowy 2.0 has become a monument to hubris that future generations of Australians will pay for through higher taxes and through capital locked in

wasteful liabilities, a drag on productivity that will outlive the politicians and bureaucrats that championed it.

But the monument is not yet finished and in fact more needs to be spent to finish it than has already been spent. That is the one piece of good news: with much spending still ahead, policymakers can still resist the sunk-cost fallacy.

The Snowy 2.0 debacle is the child of both the government and the opposition. It is time for both to act in the public interest and agree on a quick, independent assessment to determine whether to terminate the project promptly. This assessment should be led by an eminent person and reported publicly.

Sisyphus never got the chance to let go of the boulder. Australia still can.

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