

Analysis

What price power? How electricity became a political weapon

By chief business correspondent Ian Verrinder

Energy Markets

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The transition to renewables will take longer than initially thought. ([Unsplash: Matthew Henry](#)/CC licence)

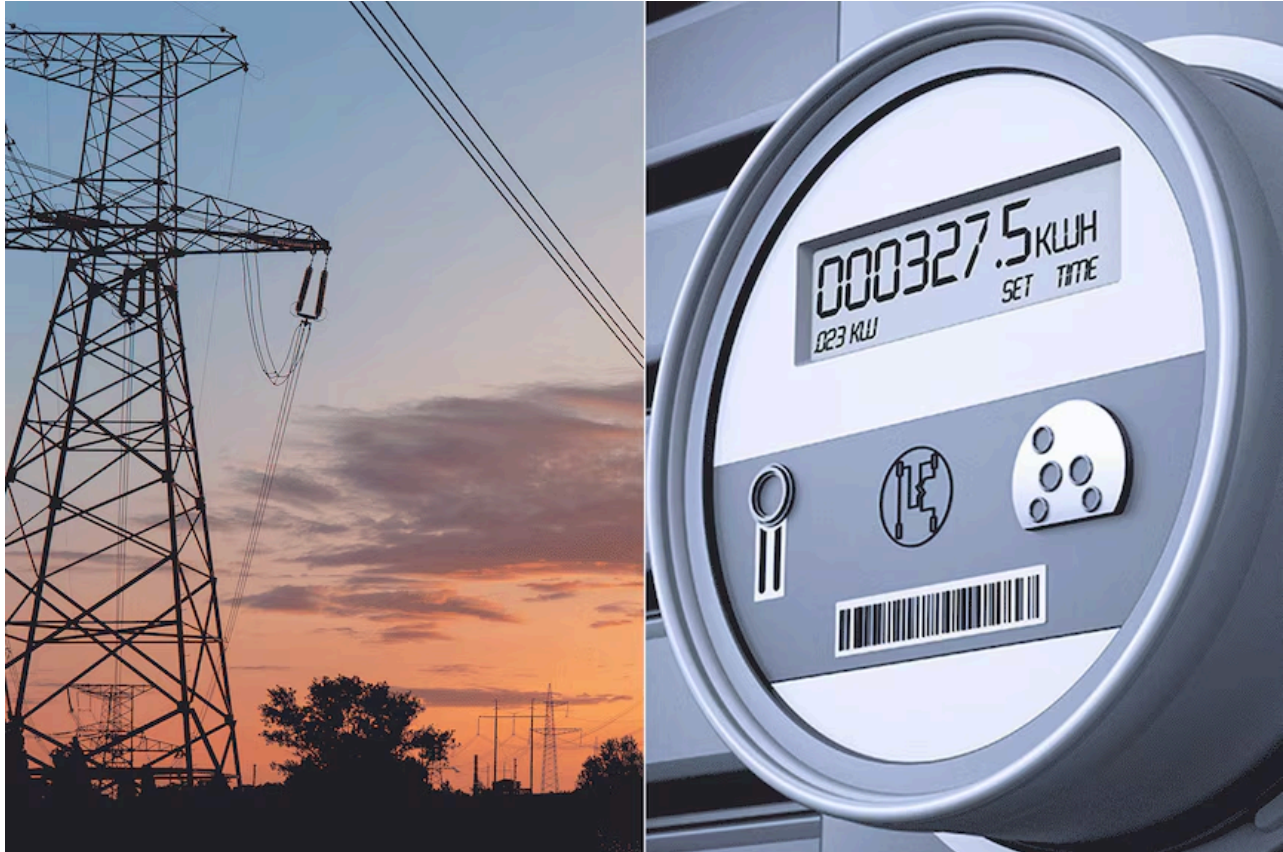
It was April 2010, and Grant King, then chief executive of Origin Energy, delivered a timely speech on the outlook for Australian energy.

Electricity prices, he predicted, could triple by 2020 and not for the reasons most of the lunchtime attendees imagined.

Tensions were running high at the time over the prospect of a carbon price and the potential damage it might cause the economy.

Just months earlier, opposition leader Tony Abbott had rolled Malcolm Turnbull, killed off negotiations on an emissions trading scheme, and set the Coalition on a course for conflict with the Rudd government over climate change and carbon emission reductions.

King, however, told those attending the Committee for Economic Development of Australia lunch that it wasn't a carbon price he feared most.



Australia appears set for a renewed battle over climate policy and power generation. (ABC News)

It was the opposite. His greatest fear, he said, was that Australia would not have a carbon price by 2020, which would leave investors in limbo, forcing them to make "the least risky decisions ... and we will end up with a mix of generation and electricity system that will not be what we want for the long term".

His fears have proven correct. Fifteen years on, we still don't have a carbon price, a market mechanism that would dictate how our energy system should be designed and where resources should be allocated.

After his speech, King confided to your columnist his exasperation with the ongoing debate within parliament, the continued policy backflips with each newly elected government, and the debilitating impact on investment.

Australia had a 20 per cent renewable energy target along with a pledge to reduce emissions by 5 per cent, targets he estimated were unachievable without a carbon price.

"We're an energy company," he told your diarist. "We sell electricity. If the government dictates how we have to produce it, we will. We just need to know."



Origin chief Grant King speaks to the ABC's Inside Business program. (ABC TV: Inside Business)

Indecision and incompetence

A decade and a half later, the nation once again appears set for a renewed battle over climate policy and power generation.

Here's a brief but incomplete history of the policy chaos in the intervening years.

The Gillard government introduced a carbon price in 2012 via a carbon tax. The Abbott government junked that and, instead, installed a multi-billion-dollar subsidy that ultimately morphed into a voluntary carbon price, beset with problems.

A government review was conducted into the Renewable Energy Targets by businessman Dick Warburton, who argued that too much was being invested in renewables and subsidies should be removed.

"There is no need for the subsidies going forward because there is no need for extra generating power," he [told the Australian Financial Review](#).

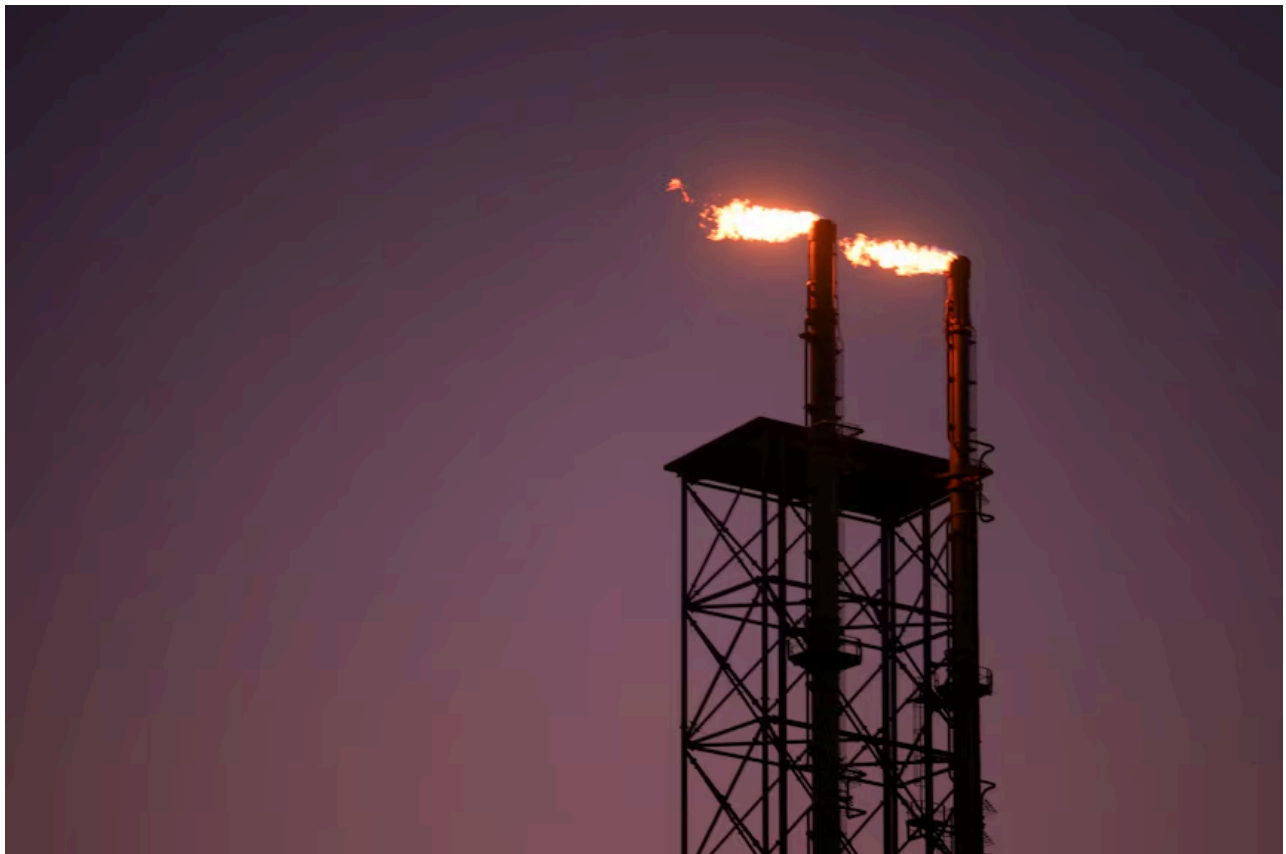
Malcolm Turnbull then bounced Abbott from the leadership and reversed the Coalition's climate and energy policies with massive government investment in Snowy Hydro. He also signed the Paris Agreement, which had been agreed to during Abbott's leadership.

Scott Morrison and Barnaby Joyce then committed Australia to net zero, which the Coalition has now shelved, as decisions over our future energy systems again revert to politics and ideology over economics.

While federal Labor has been consistent on its policy settings when it comes to renewables, it committed a huge mistake on gas.

The Gillard government gave the green light to three east coast gas export plants — including one led by Origin — but decided not to incorporate a gas reservation policy.

It was a catastrophic mistake that tripled the price of domestic gas and ultimately resulted in domestic shortages, sending electricity prices into orbit and stripping away Australian industry competitiveness.



The role of gas in Australia's energy transition is heavily contested. (ABC News: Andrew Seabourne)

Gas is a less carbon-intensive fuel than coal, and gas power plants don't labour under the same constraints as baseload power. They can be turned on and off in an instant, making them ideal to plug the gaps in renewable energy supplies.

But its role as the transition fuel between coal and energy storage, such as batteries, has now been severely curtailed.

The combined impact of these two events — decades of underinvestment in energy generation and the self-inflicted wound of creating gas shortages — is the primary reason electricity prices are far higher than they should be.

Time and money

A few weeks back, Australia's biggest battery encountered what project managers have described as a "catastrophic" failure.

When it is finally connected to the grid, it will be by far the biggest machine in our electricity network. But that is going to be some way off now.

One of the super battery's three transformers failed, and significant problems were discovered in a second. This occurred during final testing, requiring at least one of the transformers to be completely replaced.

Built on the site of the old Munmorah Power Station in NSW, the project could be delayed by a year or longer, threatening power shortages into the future unless some of the old coal-fired generators have their lives extended.

Cost blowouts and timing overshoots are par for the course on major projects. But when those projects involve replacing vital infrastructure with a revolutionary new system, the capacity for mistakes is heightened.

It's been a similar story with Snowy 2.0 and the oft-marooned Florence, the tunnel-boring machine. Snowy has since acquired four machines to finish the job.

When launched back in 2017 by then-prime minister Malcolm Turnbull, it was expected to be completed in three years at an estimated cost of \$2 billion.

It now isn't expected to deliver power before the end of 2028 with costs escalating to more than \$12 billion.

Add in the failed flirtation with green hydrogen, and the smooth pathway to a green energy future that beckoned just two years ago has suddenly proven to be riddled with unforeseen obstacles.

That has given ammunition to climate sceptics with something concrete upon which to focus. Arguing that climate change science is incorrect no longer cuts it. But arguing that it's too expensive can be persuasive, even if every study on electricity generation finds wind and solar to be cheaper.

Last-minute rush

Our cities are covered in solar panels, windmills dot the countryside, and electric cars are becoming commonplace.

But the pace of electrification is not taking place fast enough to meet our commitments. Arguably, the targets were always overly ambitious.

But the process has been hindered by a quarter of a century of unnecessary toing and froing, mostly to achieve a political aim.

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“ In a market economy like Australia's, unruly variables like GDP and carbon emissions can only be managed with price mechanisms — interest rates or carbon price — or with a large amount of taxpayers' money, and not at all precisely.



Author
Alan Kohler

“ When property in rental housing, you also have a statement.



Author
Gareth Hutchens

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The problem is that the investment that was so desperately required to replace our ageing power network — including the enormous rollout of new transmission lines through rural areas — has been left to the final hour.

With a full-scale rush now underway, costs are likely to blow out further. But [the nation's energy providers argue they simply cannot turn back the page](#), regardless of the political debate.

During the last election, when opposition leader Peter Dutton pledged to build a series of large and small nuclear reactors, he was forced to pledge taxpayer funds for the construction as private enterprise walked away because of the horrendous expense.

What is needed in the heat of this debate is some honesty from our leaders. Decarbonising is going to be more difficult and take longer than first anticipated. And despite renewables offering cheaper power, the build-out is going to be expensive.

If electricity and energy price relief is what's required, the east coast gas debacle needs to be resolved. Because we will need far more of it for a much longer period than first envisioned.

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