

# **The Treasury**

## **Solid Energy Information Release**

**March 2013**

### **Release Document**

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Key to sections of the Official Information Act 1982 under which information has been withheld.

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- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people
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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

## Solid Energy: Briefing for Board meeting on Thursday 13 December 2007

|             |                                      |                 |                  |
|-------------|--------------------------------------|-----------------|------------------|
| <b>To</b>   | Minister for State Owned Enterprises | <b>Priority</b> | Routine          |
| <b>Date</b> | 5 December 2007                      | <b>Deadline</b> | 13 December 2007 |

### Purpose

You are scheduled to attend a Solid Energy board meeting on Thursday 13 December 2007 at 12.45pm in the Mowbray Room at the Bolton Hotel. It is a chance to discuss some of the current issues facing Solid Energy, in particular the future direction of its investments in new uses for New Zealand's coal resources.

### Company background

Solid Energy's core business is the mining of coking coal for export markets and thermal coal for Genesis' Huntly power station, NZ Steel and a number of industrial customers. Solid Energy is also investing in alternative energy forms such as pellet fuels, bioenergy, coal-to-gas options and developing the Southland lignite resources. The 2007/08 forecast net profit after tax of \$21.1 million is down from the 2006/07 profit of \$94.1 million which included gains from the sale of the Spring Creek mine.

### NZ Energy Strategy and NZ Emissions Trading Scheme (NZ ETS)

As referred to by the Solid Energy Chair, John Palmer at the recent Annual Function, the NZ Energy Strategy holds many challenges for a mining company such as Solid Energy. This includes the impact on its own business activities (such as higher fuel and electricity costs) but more importantly on its major customers. It also puts into doubt the economic viability of some of Solid Energy's major investment initiatives including the use of the Southland lignite resource and energy generation from coal-to-gas technologies.

Solid Energy's position is that by encouraging vigorous debate on the exact design of the NZ ETS, it will help gain the best solution for New Zealand. While Solid Energy accepts the need for New Zealand to move toward cleaner sustainable forms of energy (such as the company's investments in biofuel, biomass and solar heating), it believes this should not be done at unnecessary expense to the country's growth and prosperity.

### Domestic coal customers

Solid Energy's largest domestic customers (Genesis, NZ Steel, Holcim and Westland Dairy) will all be subject to NZ ETS carbon charges by burning coal to run their plants. Solid Energy believes carbon charges may make their businesses uneconomic in the international market place which may lead to them going offshore to countries that have not ratified the Kyoto Protocol and Solid Energy losing major customers.

As a result of the Energy Strategy, NZ Steel has delayed signing a new [2] contract with Solid Energy while it assesses the potential impact of the NZ ETS on its business. The delay, of six months to date, is likely to extend well into 2008, and is delaying required investment at the Huntly North mine to supply NZ Steel.

**Export coal customers**

Annual export sales of approximately \$220 million represent 50% of Solid Energy's total revenue. Of that, 97% is sold to countries that have ratified the Kyoto protocol, however each country is taking a different approach to reaching its 1990 emissions cap so it is unclear what the total impact on Solid Energy's export business will be.

**New investment strategies**

Solid Energy is investing in a range of alternative energy uses for coal, which are moving towards long-term commercialisation subject to ongoing viability reviews. Solid Energy is concerned that the NZ Energy Strategy and NZ ETS may have a significant impact on the commercial viability of these investments, and potentially impact New Zealand's security of energy supply.

*Coal-to-gas investments*

Solid Energy's Coal Bed Methane (extraction and burning of gas in underground coal seams) and Underground Gasification (in-situ burning of underground coal) investments over the next three years will exceed \$50 million, culminating in small initial generation or commercialisation plants. The Government ban on new thermal generation may halt development in this area, unless carbon capture and storage can be successfully applied in a commercially viable manner, which despite international progress, is not assured.

*Southland's lignite resources*

The Southland lignite resource is New Zealand's largest indigenous energy source, with the potential to supply our transport fuel needs for decades. Solid Energy has purchased \$65 million worth of land, securing 600 million tonnes of coal and will invest a further \$26 million over three years on coal testing and technology partner assessment.

It is unclear if the thermal generation ban includes the development of transport fuels, but Solid Energy is concerned this vast energy resource may not be able to be developed and that much of the company's efforts and investment to date will be lost.

**Other issues***Media recognition of Solid Energy Chair, John Palmer*

In its December 2007 issue, New Zealand Management magazine has recognised John Palmer as its 2007 Chairperson of the Year, citing his work as Chairperson of Solid Energy and Air New Zealand as examples of good communication and leading companies through strategic change.

Michael Moore  
**Manager – Energy, Land &  
Environment**  
CCMAU [1]

Hon Trevor Mallard  
**Minister for State Owned Enterprises**