

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
- [2] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information, or who is the subject of the information
- [3] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [4] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
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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 First Public Annual Meeting; Auckland, Monday 24 November 2008

To	Minister for State Owned Enterprises	Priority	Urgent
cc	Minister of Finance Minister of Energy and Resources		
Date	21 November 2008	Deadline	24 November 2008

Purpose

You are scheduled to attend Solid Energy's first public Annual Meeting at the Langham Hotel, Auckland at 11.30am on Monday 24 November 2008. Most of the Solid Energy Board will be present, as will the senior management team. It is intended that the Chair, John Palmer, and CEO, Dr Don Elder, will be the only speakers, before taking questions from the public.

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 including use of coal seam gas and development of the vast Southland lignite coal resource. It also has small investments in renewable energy such as bio-fuel and biomass (wood pellets).

Meeting Risks

This is the first time an SOE has held a public meeting to discuss its performance and future plans. As Solid Energy's mining operations tend to polarise public opinion, it is unsure how the meeting will be received.

Solid Energy has invited a range of stakeholders, including the leaders of each major political party, television (confirmed) and print media, investment analysts and environmental activist groups such as the Save Happy Valley Coalition (SHVC).

[4]

As noted, it is expected the Chair will only accept questions directed to himself or the CEO. This is similar to the approach Mr Palmer takes as Chair at the Air New Zealand annual meetings. Solid Energy recommends Ministers do not make any public comments, which CCMAU supports, as holding the meeting was an operational decision by the Board, and it is therefore their responsibility to answer questions from the media. However, if you engage with media, you may wish to support Solid Energy's decision to hold such a meeting, or refer to the background notes below on topics the media or other stakeholders may raise.

Financial performance for the year to 30 June 2008

After a poor first half-year due to production difficulties at its Stockton export mine, Solid Energy's performance recovered thanks to a near trebling of international coal prices. However, the full year after-tax profit of \$34.4 million was 64% below the prior year's record \$96.4 million result, which included a large one-off gain from the sale of a 49% stake in its Spring Creek underground mine.

The year's highlights included a resumption of coal production from Spring Creek mine, an 18-year transport agreement with Pike River Coal, and significant improvements to water quality off the Stockton plateau, following the completion of a large water treatment plant.

Solid Energy is forecasting strong profits in the short-to-medium term, with international coal prices expected to remain high. Increased mining costs and attracting/retaining qualified, experienced staff remain areas of concern, however.

Background notes for likely areas of interest to stakeholders

Financial Performance

Since 2000, Solid Energy has been one of the strongest performing SOEs, on a return on equity basis. Revenue and production has consistently increased, and the company is one of New Zealand's largest exporters. We agree with the Chair's assessment of the 2008 year result, that the 9.7% return on equity is satisfactory, but not outstanding. Solid Energy is embracing a range of technologies in new business areas to help build New Zealand's wealth, including investigating new uses for coal (Coal Bed Methane, Underground Coal Gasification, Coal to Liquids plant) and renewable energy such as bio-fuels, biomass and solar power.

Environmental Performance

The Crown accepts that the environmental performance of Solid Energy's predecessors, i.e. Coalcorp and state coal mines, was unacceptable. Solid Energy has inherited a legacy that includes disturbed land and impacted water quality. Mining practices have improved significantly in recent years, but plenty of rehabilitation work remains, which Solid Energy acknowledges. We expect Solid Energy to continue to be more transparent and publicly accountable for its environmental performance.

Coal-to-Liquids (Diesel) Plant

Previous shareholding Ministers have been supportive of Solid Energy's investigations into using the vast Southland lignite coal deposits, possibly for a Coal to Liquids plant, requiring a \$8-10 billion investment, but a go-ahead decision remains several years away. The project has many hurdles to overcome, such as emissions management, and would be a huge undertaking, not just for Solid Energy, but the country.

Opposition to future mines

The previous Government had no policy to stop coal mining or reduce coal exports. Solid Energy's coal is of high value internationally and improves New Zealand's balance of payments providing economic benefit to the people of New Zealand. New mine developments are reviewed by the relevant authorities during the resource consent process. As part of this process, the public has the right to make submissions and appeal the decisions made by the councils.

Other Issues

Other issues that may be raised include:

- the Chief Executive's remuneration (as disclosed in its 2008 Annual Report), which increased from \$750,000 to \$1.2 million
- the Board's estimate of Solid Energy's commercial valuation (as disclosed in its 2008/09 Statement of Corporate Intent), which increased from \$500 million to \$3.0 billion, due to the Boards' aggressive approach of including the future value of several projects that are still at the investigation stage.

Key Company Background Data

Total Revenue 2007/08	\$552 million	Chair	John Palmer [1]
Profit after Tax	\$ 34 million	Deputy Chair	John Spencer
Shareholder Equity June 08	\$368 million	Chief Executive	Don Elder [1]
Total Assets	\$656 million	Chief Operating Officer	Barry Bragg
		Communications Director	Vicki Blyth
Employees	772 (+800 contractors)		

Chris Jones

**Manager – Energy, Land &
Environment**

CCMAU [1]

Hon Simon Power

Minister for State Owned Enterprises