

The Treasury

Solid Energy Information Release

March 2013

Release Document

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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 meeting with Chair and CEO on Wednesday, 10 December 2008

To	Minister for State Owned Enterprises	Priority	Urgent
cc	Minister of Finance		
Date	9 December 2008	Deadline	10 December 2008

Purpose

You are scheduled to meet with the Chair, Mr John Palmer and CEO, Dr Don Elder of Solid Energy on Wednesday, 10 December 2008. This briefing provides a background to issues that you or Solid Energy may wish to discuss.

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 biofuel and biomass (wood pellets).

Background of Chair, John Palmer

John Palmer is Nelson-based and has considerable governance experience in New Zealand and Australia, particularly in the agricultural and finance sectors. Mr Palmer is the Chair of Air New Zealand Ltd, and a Director of AMP Life Ltd (Australia) and Rabobank Australia Ltd. Mr Palmer is one of New Zealand's leading governance practitioners and was recognised as 2007 Chairperson of the Year by New Zealand Management magazine.

Background of CEO, Dr Don Elder

Don Elder has been CEO of Solid Energy since May 2000. He previously worked for 20 years in the UK, the United States, New Zealand and Canada. He is Chairman of the World Coal Institute and a Director of ASB Bank.

Financial performance for the year to 30 June 2008

Since 2000, Solid Energy has been one of the strongest performing SOEs, on a return on equity basis. Revenue and production has consistently increased since 2000, and the company is one of New Zealand's largest exporters.

For the June 2008 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.

Forecast performance and capital investment

In its current business plan, Solid Energy forecast profits of \$170-\$180 million over each of the next three years, with dividends of \$100-\$130 million per annum. These are a significant increase over past performance due to strong international coal prices.

The increased profits will go towards Solid Energy's capital expenditure program of \$150 million per annum over the next five years. This will include the coal washery at Stockton, development of the Millerton and Cypress mines on the Stockton Plateau, extension of the Huntly North underground mine, and the biofuel and biomass plant expansions.

Solid Energy's new energy developments

In recent years, Solid Energy has invested in the research and commercialisation of new forms of energy using New Zealand's coal resources, and renewables such as biomass and biofuel. The two largest of these, which involve potentially large carbon footprints, are detailed below.

Coal to Liquids plant (CTL)

Solid Energy has invested over \$65 million in land purchases in Southland for the underlying lignite coal resource. Through overseas investment and agreements with technology partners such as Shell or Sasol, Solid Energy is proposing facilitating the building of a CTL plant capable of producing 40,000 barrels of diesel per day for over 40 years, for approximately \$US60 per barrel.

Although supportive of developing the concept, previous shareholding Ministers have expressed reservations about the large scale investment required (~\$10 billion) and the need for developing carbon sequestration to mitigate the large carbon footprint the plant would have. Solid Energy is currently progressing cautiously and assessing technology partners.

Underground Coal Gasification (UCG)

UCG is the in-situ gasification of coal. It remains at the research and development phase, but has the potential to supply a generator as large as Huntly Power Station. Commercialisation is not expected before 2015.

Other topics for discussion

In addition to the background notes above, you may wish to raise the following issues.

International coal prices

As is the industry norm, Solid Energy's coal export contracts are based on an international annual contract price set in April/May each year. This year's record prices of ~US\$300/tonne were set before recent global economic declines, which have seen coking coal spot prices closer to \$150/tonne. You may wish to ask how this is likely to impact Solid Energy's forecasts for next year and dividend payments.

Coal gas technology and usage

Given the likely removal of the ban on new thermal generation, Solid Energy's Coal Bed Methane and Underground Coal Gasification investment may be able to fill a significant role in national gas supply either through the North Island gas pipeline or to a thermal power plant.

Mine contractors

Solid Energy has experienced significant problems with its contractors at the Stockton and Rotowaro opencast mines. At Stockton, [4]

, while at Rotowaro (located near Huntly and primarily used to supply Genesis' Huntly power station) Leightons Mining is significantly behind in the extraction programme. You may wish to discuss the likelihood of Solid Energy taking back the management of these mines and the impact of doing so.

Public annual meeting

Solid Energy believes its recent first public meeting was a success and intends to hold the meeting again next year. You may wish to share your views to the Chair and CEO on the future of such meetings for Solid Energy or other state-owned enterprises.

[5]

Table 1. Board composition

Name	Position	Start/term end date
John Palmer	Chair	November 2006/ October 2009
John Spencer	Deputy Chair	June 2005/April 2011
Simon Marsters	Director	May 2008/ April 2011
Helen Cull	Director	January 2005/October 2010
John Fletcher	Director	May 2007/April 2010
John McDonald	Director	March 2007/April 2010
<i>Alan Broome</i>	<i>Director</i>	<i>May 2006/April 2009</i>
<i>Adrienne Young-Cooper</i>	<i>Director</i>	<i>November 2002/April 2009</i>

Key company background data for 2007/08

Total Revenue	\$552 million
Profit after Tax	\$ 34 million
Shareholder Equity	\$368 million
Total Assets	\$656 million
Employees	772 (+800 contractors)

Chris Jones
**Manager – Energy, Land &
Environment**
CCMAU [1]

Hon Simon Power
Minister for State Owned Enterprises