

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
- [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 Meeting with Chair and CEO on Wednesday, 1 April 2009

To	Minister for State Owned Enterprises	Priority	Routine
cc	Minister of Finance Associate Minister of Finance (Hon Steven Joyce)		
Date	26 March 2009	Deadline	1 April 2009

Purpose

You are scheduled to meet with the Chair, Mr John Palmer, and CEO, Dr Don Elder of Solid Energy on Wednesday, 1 April 2009. The meeting is a chance to discuss Solid Energy's performance to 31 December 2008 and the actions the Board and management are taking in response to the dramatic impact the global recession is having on sales.

This briefing provides background to issues that you or Solid Energy may wish to discuss.

Financial performance against business plan

For the 2008/09 financial year, Solid Energy forecast a net profit after tax of \$205 million and to pay a dividend of \$100 million (far exceeding any other years result), on the back of record coal export prices of ~US\$300/tonne.

Solid Energy was on track to meet these targets until mid-November when steel mill customers in India and China delayed or cancelled coal shipments as a result of the global recession. As a result, second quarter and half year performance was far below budget, compounded by increasing cost of sales, impairments to the biodiesel and coal seam gas divisions, and foreign exchange losses caused by the rapid devaluation of the New Zealand dollar.

Table 1. Financial Performance

	Quarter 31 Dec 2008 <i>Actual</i>	Quarter 31 Dec 2008 <i>Budget</i>	Interim Report 31 Dec 2008 <i>Actual</i>	Interim Report 31 Dec 2008 <i>Plan</i>	Full Year 30 Jun 2009 <i>Plan</i>
Revenue	224.9	224.3	516.4	436.0	893.6
EBIT	16.1	75.0	118.4	153.8	300.0
Net Profit after Tax	3.8	51.5	78.4	105.4	205.5
Dividend	34.4	60.0	34.4	60.0	100.0

Solid Energy has significantly changed its focus for the next eighteen months; instead of forecasting 'boom' times, it is revising its strategy in response to falling demand. The company has noted the future is uncertain but likely to be volatile, as it responds to dramatically falling export prices, as coal suppliers try to retain customers that are renegeing on previously agreed high contract prices to find cheaper suppliers.

Solid Energy's response to the deteriorating economic climate

Solid Energy has responded in three key ways to the current economic climate to ensure it retains a strong balance sheet:

- a review of all operating and capital expenditure resulting in the re-prioritising of several projects such as biodiesel and coal seam gas
- reduced production at several mines, including Stockton from 1 July 2009
- advancing the Stockton coal washery using staff that otherwise may have been made redundant.

The Chair and CEO will be able to provide an update on production cuts and any associated staff redundancies (in addition to the comments below) at the Stockton mine which produces nearly all of Solid Energy's premium export coal.

Revised 2008/09 forecast

Prior to the March Board meeting, Solid Energy completed a reforecast of its results for the current year, to provide confidence to the Board in regards to the interim dividend of \$34.4 million. The Chair may provide an updated full year profit and dividend forecast, which we expect may only be in the range of 50% of the original plan.

The Chair may also raise the approach taken by Treasury and CCMAU in response to Solid Energy advising that, due to the downturn, it may consider reducing its interim dividend. Although Solid Energy only considered it a last resort option, we advised the CEO that shareholding Ministers would expect the company to adhere to its SCI dividend policy or advise of compelling reasons if it could not – a response the Chair/CEO may have considered inappropriate.

Response to business planning letter

Solid Energy has responded to shareholding Ministers' 2009/10 business planning letter by focusing on the impact of the global economic downturn and how the company is focused on maintaining a strong balance sheet that will give it the flexibility to respond to a range of options. Solid Energy has accepted the challenge to all SOEs to improve performance, noting the actions it has already taken to improve productivity at the Stockton and Spring Creek mines, and key performance measures placed across the business to measure improvement.

Current issues*Domestic demand*

Solid Energy has previously advised that it is yet to see significant falls in domestic demand from major customers such as NZ Steel or Holcim Cement, but was planning for it. Demand from Genesis Energy for the coal-fired Huntly Power Station has fallen due to the increased water levels of the hydro dams which reduces Huntly's operation. Solid Energy may provide an update on domestic demand from its key customers.

Union negotiations and possible job losses

Solid Energy contractor companies, which employ the majority of staff at Solid Energy mines, have commenced negotiations of the multi-employer collective agreement

(MECA). The last negotiation round, in 2007, resulted in significant disruption and cost to Solid Energy's mining operations.

At the Solid Energy's Rotowaro mine, near Huntly, contractor HWE Mining has confirmed 50 job losses will result from operations being reduced from a seven day to five day week. Job losses may also occur at the Stockton mine when production is reduced from 1 July, however construction of the new coal washery is expected to minimise the potential job losses.

Proposed Cypress Mine – removal of protestors

On 26 March 2009, Solid Energy met with LINZ, to discuss land Solid Energy leases from it to access the proposed Cypress Mine near Stockton. The proposed mine has been fully consented for some time and Solid Energy expects to develop access roads over the coming months. The Save Happy Valley Coalition (SHVC) protest group established a camp on the land in January 2006. Solid Energy discussed with LINZ the options for removing the campsite which will represent a health and safety danger once work begins. Removal of the camp, which is expected to be done while the site is not occupied, is likely to provoke a swift reaction from SHVC (which has undertaken illegal protest activities in the past) and media attention.

Spring Creek Underground Mine

The Spring Creek mine, near Greymouth, is a joint venture between Solid Energy and US firm Cargill. In November extraction was stopped due to ongoing difficult geological conditions and the decision to develop the next mining area. As a result, production targets for the year have been reduced by 40%. Solid Energy may wish to comment on the future for the mine and Cargill's response to the production delays.

Environment Report

Solid Energy's recently released Environment Report for the year to 30 June 2008, concluded that Solid Energy had once again met its objective of having a 'net positive effect on the New Zealand environment from the result of all activities'. The report details Solid Energy's positive environmental initiatives, but we hold reservations about the result, given that it is not subject to external review.

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

Hon Simon Power
Minister for State Owned Enterprises

Hon Bill English
Minister of Finance

Hon Steven Joyce
Associate Minister of Finance