

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
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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: Shareholder consultation on the purchase of \$85 million of plant for Stockton mine

To	Minister for State Owned Enterprises	Priority	Routine
cc	Minister of Finance Associate Minister of Finance (Hon Steven Joyce)		
Date	11 September 2009	Deadline	17 September 2009

Purpose

This briefing recommends sending the attached draft letter to the Chair of Solid Energy, in response to consultation on the proposed purchase of approximately \$85 million of new mining equipment for the Stockton mine.

Background

Following shareholding Ministers' approval of Solid Energy entering into an agreement with Downer EDI NZ Ltd (Downer) for the management of the Stockton mine, the Alliance management team recommended that Solid Energy purchase a range of new plant and machinery to meet the expectations of a step change in mine performance.

The equipment will essentially replace that used by the outgoing contractor Doug Hood Mining Ltd (DHML). The option of purchasing or leasing the DHML equipment was considered, but rejected due to the higher life-cycle costs, and unsuitability of the equipment for the increasingly difficult mining techniques required.

Officials' comment

In conjunction with the work officials undertook reviewing the proposed Alliance agreement, we also discussed with Solid Energy management the options for obtaining the required mining equipment.

Officials are comfortable that Solid Energy has adequately considered a range of available options and has also had regard to shareholding Ministers' expectations that debt or financing instruments, rather than equity, be used to finance these assets.

[2]

Recommendations

We recommend that you sign the attached draft letter to John Palmer, Chair of Solid Energy, noting that shareholding Ministers are comfortable with the proposed purchase of mining equipment for the Stockton Alliance, based on the Board's recommendation to proceed.

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

John Palmer
Chair
Solid Energy New Zealand Ltd
PO Box 1303
Christchurch 8140

Dear Mr Palmer

Shareholder consultation for purchase of Stockton plant

Thank you for your letter of 4 September 2009, regarding the purchase of plant for the Stockton Alliance.

On the basis of information you have supplied, the initial bulk purchase of mining equipment appears to be NPV positive, well timed given the current global mining climate, and consistent with Solid Energy's long-term plan for the Stockton Plateau to achieve a significant lift in mine performance.

We also note that Solid Energy expects to finance the purchases without restricting its ability to finance future projects, or compromising the payment of forecast dividends.

Given this, and based on the Board's recommendation that the planned purchases proceed, shareholding Ministers are comfortable with the investment, and have no further comments on the consultation document that you have supplied to us.

Yours sincerely

Hon Simon Power
Minister for State Owned Enterprises
on behalf of shareholding Ministers

cc: Dr Don Elder, Chief Executive, Solid Energy New Zealand Ltd