

The Treasury

Solid Energy Information Release

May 2013

Release Document

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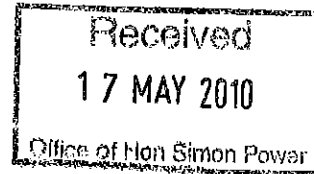


SOLID ENERGY
Coals of New Zealand

12 May 2010

Honourable John Key
Prime Minister of New Zealand
Parliament Buildings
Wellington

✓
18/5/10



Dear Prime Minister

Proposal for an integrated national Natural Resources Company

Thank you for meeting us with your ministerial colleagues on 10 May.

Why is New Zealand's natural resources opportunity so urgent?

Our proposal to you is straightforward. Our Business Plan (attached) is not driven by internal aspirations to extend Solid Energy's business. It represents our conviction that New Zealand has a short window of opportunity to achieve a major economic step change, with new export or import replacement revenue of \$5 - 20 billion pa by 2020 and \$10 - 35 billion pa by 2025. Indirect economic benefits would make the GDP step much bigger.

Major threats to this make it urgent to act now. Significant delay could lose this opportunity forever.

- Our natural resources are potentially worth \$5 - 10,000 billion or more
- About one third is already reasonably defined, with production technology understood and available
- Production with minimal net environmental impact is proven, affordable and non-negotiable
- Markets are near certain within New Zealand (import replacement) and internationally
- Prices are strong and increasing with significant upside and minor downside risk
- Business case base value is therefore highly probable and near bankable today
- Huge upside value is available from the other two thirds of resources that are probable but less well characterised, with production methods and value-adding conversion technologies ranging from mature to emerging, and end market demand and prices that are near certain and strengthening.

These projections are substantial, but they define an opportunity that others have already achieved. Without natural resources production Australia's GDP/capita would be similar to ours. Their resources are no easier to develop than ours; most are distant from infrastructure and ports. Water shortage makes exporting raw materials easier than processing to high value products.

Our window of opportunity is short. We need to act urgently. Foreign owned or controlled companies have already locked up many of New Zealand's resources, often just as a speculative option play.

We are already in the beginning of a transition to a world beyond widespread use of non-renewable resources. New Zealand's resources can provide super-profits and ease this transition. But if global resource scarcity leads to economic decline, demand and prices will eventually collapse. Alternatively, if the world rapidly adopts new technologies, markets for our resources will dwindle. In either case our resources would become nearly valueless, and New Zealand's one off opportunity would be gone.

New Zealand therefore has three primary objectives for our natural resources:

1. **Accelerate development to achieve a major economic step change**
2. **Capture the maximum possible value for New Zealand**
3. **Meet New Zealanders' expectations for protection of our environment and national brand**

Solid Energy New Zealand Ltd 2 Show Place, PO Box 1303, Christchurch 8140. New Zealand. Tel: 64 3 345 6000, Fax: 64 3 345 6016, Web: www.coalnz.com

North Operations
732 Rotowaro Rd
Huntly West 3771
Private Bag 502
Huntly 3740
Tel: 07 828 2500
Fax: 07 828 2501

Huntly Regional
Distribution Centre
137 Rotowaro Rd
Weavers Crossing
Huntly 3771
PO Box 262
Huntly 3740
Tel: 07 828 0690
Fax: 07 828 8641

Huntly East Mine
East Mine Road
Huntly 3771
Private Bag 502
Huntly 3740
Tel: 07 828 2800
Fax: 07 828 2801

Westport Office
272 Palmerston St
Westport 7825
PO Box 250
Westport 7866
Tel: 03 788 9300
Fax: 03 788 8099

Ngakawau Complex
Dole Street
Ngakawau
Westport 7822
PO Box 346
Westport 7866
Tel: 03 788 9350
Fax: 03 788 5068

Stockton Mine
Stockton Rd
Stockton 7823
PO Box 250
Westport 7866
Tel: 03 788 9400
Fax: 03 788 5098

Reefton Operations
Hattie St
Reefton 7830
PO Box 13
Reefton 7851
Tel: 03 769 9731
Fax: 03 732 8266

Spring Creek Mine
Spring Creek Rd
Dunollie 7803
PO Box 24
Runanga 7841
Tel: 03 769 9900
Fax: 03 769 9901

Ohai Operations
77 Birchwood Rd
Ohai 9635
Tel: 03 225 4333
Fax: 03 225 4343

New Vale Mine
640 Miller Road
Waimumu 9774
PO Box 151
Gore 9740
Tel: 03 208 6600
Fax: 03 203 9390

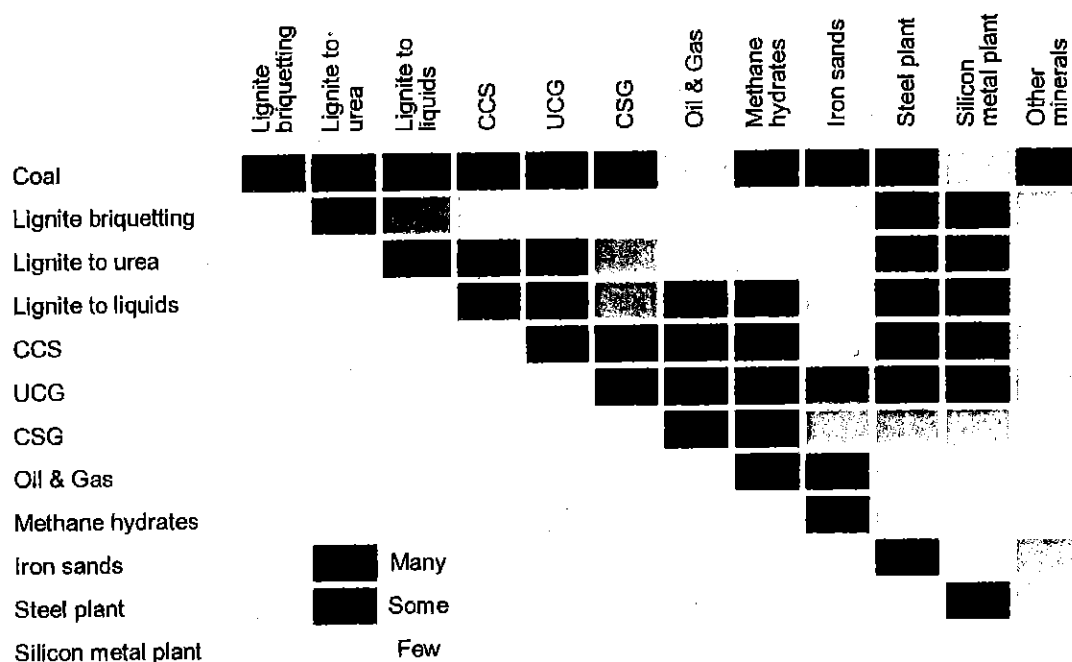
What are the key strategies?

Three core strategies need to be advanced strongly and immediately by "New Zealand Inc" to address the threats, achieve these objectives and deliver the opportunity:

1. **Accelerate development of the resources we already control**
2. **Secure other resources to preserve their future option value for NZ, not others**
3. **Build people and technology capability to be able to develop our resources ourselves**

We are aware of many resource development options currently under discussion in New Zealand. Most address only one strategy, or part of several strategies. None will deliver all three strategies. Even a new *National Oil Company*, or *National Natural Resources Company* with restricted scope and reduced synergies, would be limited by lack of initial capability, scale and funding and reduced ability to secure top international partners, technology and external capital.

Synergies in development of different resources within an integrated resource company may occur in any of exploration, production, conversion, markets, partners, technology, people capability, support services, systems and asset optimisation. The figure below illustrates the depth of synergistic benefits between the different elements of an integrated resource business considering all these factors.



Our proposed Business Plan for a fully integrated *National Natural Resources Company* delivers all three strategies in full, and achieves the objectives with near-certainty at a base level and maximum likelihood of the upside. The investment required and the risks to manage are exceptionally low relative to the returns and benefits for New Zealand.

The Way Forward

We agreed in our meeting to summarise the way forward, recognising the issues discussed. A key objective is to take accelerate actions that preserve future option value for New Zealand, and avoid decisions or actions that preclude future option value. We have separated future activities into:

- Group 1 Development activities that we are understand are acknowledged
- Phase 1 2010-2012 Core resource development activities we are proceeding with
 - Phase 2 2012 on: Likely to proceed subject to further shareholder consultation
- Group 2 Developments requiring further consideration and decisions

[2],[5]

As discussed at our meeting the following are the key areas of decisions by Government to accelerate natural resources development and capture maximum value for New Zealand:

- Integrated national Natural Resources Company
- Allocation of Kupe and other Government-owned permits or production
- Policy and regulations on resource permit allocation and administration
- RMA processes for major resource projects of high national interest
- CO2 credit allocation policy for new developments
- CCS regulations including pore space access, storage parameters, long-term liability

As agreed subsequent to the meeting with Minister Power, our Shareholding Minister, we will provide by the end of May a detailed analysis of the strengths and weaknesses, benefits and risks of our proposal for an integrated national Natural Resources Company. We will break this down by resource areas so the interdependencies between areas and the merits of a fully integrated approach can be considered relative to a similar approach but with more narrowly defined scope of business.

This assessment will include:

- assessment of NRC against other options to create a similar economic step change
- benefits and issues associated with each option, such as: timeframe, cost and impediments to full scale implementation, capability (governance, executive, technical, project development, systems), industry position and knowledge, access to production, upgrading & conversion technologies and partner capability, access to markets, synergies within portfolio, ease of access to external capital on broad or project basis, and regulatory, trade, commercial and political issues and risks.

I trust this both reflects the general nature of our discussion, and also provides sufficient detail and suggestions on the optimum way forward.

Regards



John Palmer

Chairman

cc Hon Bill English, Minister of Finance
 Hon Gerry Brownlee, Minister of Energy and Resources
 Hon Simon Power, Minister for State-Owned Enterprises