

Title	NZ Steel Terms Sheet Signing Authorisation and Required Input into Final Agreement
Date	24/03/2023
To	Hon Dr Megan Woods, Minister of Energy and Resources
From	Andrew Caseley, EECA Chief Executive
EECA reference number	EECA 2023 BRF 006

Purpose

1. There are two purposes to this paper:
 - To seek your authorisation for EECA's Chief Executive to sign a non-binding terms sheet with NZ Steel which sets out the key terms for a decarbonisation project at Glenbrook Steel Mill. This will then form the basis of the key commercial terms for inclusion in any final funding agreement.
 - To seek clarity as to the required oversight from Treasury (or other parts of Government) in respect to the final funding agreement, which is intended to be presented to Cabinet-delegated Ministers for consideration in early to mid-May.

Background

2. On 13 March 2023, Cabinet agreed to a proposed co-funding arrangement with NZ Steel for a significant decarbonisation project to install an electric arc furnace at the Glenbrook Steel Mill [CAB-23-MIN-0067 refers]. This project would be co-funded through the Government Investment in Decarbonising Industry (GIDI) fund, and would result in significant emissions reductions of an initial 800,000 tonnes of CO₂e per annum after becoming operational in 2027.
3. On 21 March 2023, Robin Davies, Chief Executive, NZ Steel wrote to the Ministers of Energy and Resources and Climate Change to advise that the Board of BlueScope, NZ Steel's parent company, has agreed to move formally into the feasibility stage for the project. Subject to successful conclusion of this feasibility stage and agreement on funding support from the

Crown, NZ Steel has expressed its confidence in moving forward with the proposed decarbonisation project.

4. To support this, and based on Cabinet's decision of 13 March, officials have been negotiating a non-binding terms sheet on the major commercial aspects to be included in the funding agreement with NZ Steel. These negotiations are almost complete. Once the terms sheet is signed a funding agreement (which will be conditional on numerous matters in favour of both parties) will be prepared, to be signed by the Crown (through the process agreed by Cabinet) and NZ Steel.

Process to reach formal agreement with NZ Steel

EECA wishes to seek explicit authority to sign the non-binding terms sheet

5. Based on EECA's due diligence and the negotiations to date, a terms sheet will shortly be agreed between NZ Steel and EECA. This provides the basis for the key commercial terms upon which a final funding agreement between the parties will be prepared.
6. The proposed terms sheet is non-binding on both parties as a binding agreement will only be entered into through the funding agreement. The terms sheet contains the key commercial terms which include:
 - The levels of support provided and the conditions related to these
 - The conditions to be satisfied before the funding agreement will become unconditional
 - Key definitions including the commissioning date and the minimum obligations on NZ Steel
 - Default events
 - Clawback provisions should the agreed levels of abatement not arise over the term of the agreement
 - Security provisions in the case of clawbacks being activated
 - Offramps in favour of NZ Steel and the conditions related to these, should the economics of the operation of the arc furnace at Glenbrook Steel Mmill become untenable
 - Termination provisions

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- Term of the funding agreement.
7. Given the terms sheet is not binding on either party there is no direct risk to the Crown from signing this document, beyond perhaps reputational. However, given the significance of the proposal being considered, it is important to clarify that EECA has the appropriate authority to sign the terms sheet. Hence this briefing seeks your formal authorisation for the Chief Executive of EECA to sign the non-binding terms sheet.

Cabinet has authorised delegations for a final decision to enter into a Funding Agreement

8. Cabinet's decision of 13 March authorises the Ministers of Energy and Resources, Climate Change and Finance to agree the final negotiated package of support to be provided to NZ Steel, subject to it being within scope of the options outlined to Cabinet, and not exceeding \$140m in grant funding.
9. EECA expects to be in a position to advise on the signing of a final funding agreement by mid-May 2023.
10. To date EECA (together with its legal and commercial advisors) has negotiated the terms sheet. As negotiations are now well-progressed, it is now necessary to clarify with Ministers who they expect to have oversight of the funding agreement, in addition to EECA, and who will contribute to the briefing to the delegated Ministers seeking approval to sign the funding agreement.
11. In this respect and given the nature of the agreement, it is assumed delegated Ministers will require oversight of the agreement terms from Treasury. To be clear on this matter and to ensure there are no delays at the time the funding agreement is presented for consideration, it is recommended that you clarify with the Minister of Finance his expectations as to who must review the funding agreement and contribute to the associated briefing before it is presented to delegated Ministers.

Next Steps

12. Officials will continue negotiations with NZ Steel, with the aim of securing a satisfactory funding agreement by mid-May 2023.

Recommendations

- a. **Note** the progress EECA has made to date in negotiating with NZ Steel on a proposed decarbonisation project at Glenbrook Steel Mill.

Noted

- b. **Authorise** the Chief Executive of EECA to sign a non-binding terms sheet with NZ Steel, ahead of delegated Ministers agreeing a fully binding funding agreement.

Agree / Disagree

- c. **Agree** to clarify with the Minister of Finance his expectations as to who must review the final funding agreement before it is considered by delegated Ministers.

Agree / Disagree

Andrew Caseley
CHIEF EXECUTIVE, EECA

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Hon Dr Megan Woods
MINISTER OF ENERGY AND
RESOURCES

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