

SESSION II
1912.
NEW ZEALAND

STATE COAL-MINES

(REPORT ON), BY THE UNDER-SECRETARY, MINES DEPARTMENT.

Presented to both Houses of the General Assembly by leave.

Wellington, 10th September, 1912.

THE State Coal-mines Act of 1901 provided for the acquisition and working of State coal-mines in New Zealand, under the direct control of the Minister of Mines.

In pursuance of such authority two mines were acquired—viz., the Point Elizabeth Mine, situated on the Grey Coalfield, and distant about five miles from Greymouth, and the Westport-Cardiff Mine (subsequently renamed the Seddonville Mine), situated on the Buller Coalfield, and distant by Government railway about twenty-nine miles from Westport. The coal produced from the coalfields in which these two mines are situated is of bituminous class, and is recognized as a superior coal for general purposes. In 1902 the Point Elizabeth Mine, included within a lease of about 4,840 acres, was taken over by the State from the Greymouth - Point Elizabeth Railway and Coal Company, the lease being determined by the Government on account of the company's failure to observe the conditions. The sum of £21,000 was paid by the Government to this company for the partly constructed line of railway from the mine to Greymouth, and the line was subsequently completed with funds set apart for State coal-mine purposes; but it was transferred to the Railway Department subsequently on payment of £65,548 (including the above sum of £21,000), being the total cost of purchase and completion, in addition to which interest thereon, amounting to £1,363, was also refunded.

The total amount of freight paid to the Railway Department by the State mine for coal carried over this railway up to the 31st March last, with a small allowance for private freights and passenger-fares, would amount to about £135,000. The working accounts of this line are not kept separately by the Railway Department, so that it is impossible to state the exact profit on its working; but being essentially a colliery railway, and very favourably situated, it should, I think, be worked at as low a percentage as the Westport Section of railway—viz., 46.19 per cent. of the total receipts—and, if so, the profit (without taking interest on capital into account) would amount to £72,643. As the interest on cost since the sale to the Railway Department only amounts to about £8,000, the net profit will therefore be about £65,000; so that the line has already practically paid for itself.

During the construction of this branch line of railway a new mine (the Point Elizabeth No. 1 State Colliery) was laid down near Runanga, the output stage being reached in 1904, and coal of uniformly superior quality has been produced ever since; but owing to the frequency of faults and the thinning of the seam to the dip it is believed that the profitable life of this mine will probably not exceed four years, unless further developments occur.

As a State colliery this mine had produced at the end of March, 1912, 1,513,427 tons of coal.

In 1900 the Westport-Cardiff lease was also determined by the Government, on the ground of failure to comply with the conditions. Acting upon a favourable report in 1901 by the Government mining experts (Messrs. H. A. Gordon, Consulting Engineer; John Hayes, Inspecting Engineer; and A. McKay, Government Geologist) the property was prospected and subsequently developed as the Seddonville State Colliery, the output stage being reached in November, 1903, since when the property has been worked continuously; but the quality of the coal has been found to be extremely variable and unsatisfactory, owing to the large proportion of crushed and soft coal, for which the demand is irregular.

It is estimated by Mr. I. A. James, the mine-manager, that all suitable or hard coal will have been won from this mine by the end of March, 1914. As a State colliery this mine had produced at the end of March, 1912, 419,530 tons of coal.

For the utilization of the large proportion of soft coal and slack produced at this colliery a briquette-manufactory was installed at Westport, at a total cost of £16,135, and in 1907 the manufacture of briquettes and eggettes was commenced; but in 1911 the works were closed down, owing to the high cost of production. The total quantity of briquettes and eggettes manufactured amounted to 32,714 tons.

In addition to the mines mentioned, as the result of a favourable report by the Government mining experts (Messrs. H. A. Gordon, Consulting Engineer, and James Bishop, Manager of State Collieries), dated 1907, a new colliery, known as the Point Elizabeth State Colliery No. 2, is now being laid down towards the head of Seven-mile Creek, to the north-east of the No. 1 State Colliery, and connected therewith by an extension of the Government railway about three miles in length, which is nearing completion. This line has been carried through extremely rough and broken country, and the expenditure thereon to the 31st March, 1912, amounted to £159,177; and it will probably cost another £10,000 or £12,000 to complete it. Messrs. Gordon and Bishop reported that six seams of high-class bituminous coal exist upon this property; and the last-named gentleman, reporting as recently as the 1st ultimo, stated that there was *in situ* 132,435,800 tons of coal, of which he estimates that 49,663,425 tons may be won, being "sufficient to provide an annual output of 500,000 tons for a period of ninety-nine years." It should be stated that this estimate was arrived at by Mr. Bishop after a considerable amount of exploration had been carried out under his directions. This colliery should reach the output stage about the end of 1912.

A small sample shipment of coal from this new mine has recently reached Wellington, and about 2 tons have been sent to the Parliament Buildings, and is now being used there, so that members may have an opportunity of forming their own opinions as to its quality.

The equipment at the new mine is on a scale to deal with an output of 2,000 tons per day. In addition to the expenditure on the railway-extension above stated, capital amounting to £90,145 had been expended upon this new mine on the 31st March, 1912, and a further expenditure of £10,000 or £15,000 will be needed before it is opened.

For the sale of the coal produced from the State collieries depots were established in Wellington in April, 1906, Christchurch in July, 1906, Wanganui in May, 1907, and Dunedin in July, 1908. Upon these depots, with their furniture and appliances, capital amounting to £16,768 had, on the 31st March last, been expended.

PRESENT FINANCIAL POSITION.

The total capital expenditure upon the State colliery business to the 31st March, 1912, amounted to £254,947, of which £150,000 was obtained in the form of loan debentures, as provided for by the State Coal-mines Act of 1901; the balance from profits and from sums annually set aside for depreciation and sinking fund. Included in the capital expenditure is the sum of £90,145, recently expended in laying down the Point Elizabeth No. 2 State Colliery, which has not yet reached the output stage.

The assets, as shown in the last published balance-sheet and in the specially prepared table attached hereto, total to £244,014; but several of the items are not really worth the book-value. All the assets have now been reappraised, with the following results:—

	Value as Going Concern.	Auction Values.
	£	£
Point Elizabeth No. 1 Colliery	20,008	12,500
Seddonville Colliery	11,979	6,000
Briquette-works	5,000	2,000
Wellington depot	2,000	2,000
Christchurch depot	6,500	5,803
Wanganui depot	1,510	1,200
Dunedin depot	1,450	1,450
Hulks	2,200	2,200
Office furniture	77	50
Point Elizabeth No. 2 Colliery	90,145	90,145
Charming Creek	2,965	2,965
Stocks in hand	9,903	9,903
Sundry debtors	20,634	20,500
Cash in hand	13,971	13,971
Totals	£188,342	£170,687

From this statement it will appear that, taking the fair trading values of the assets, we not only have our original debenture capital intact, but can show a surplus of £38,342, after having paid all interest charges and working-expenses, and providing for all depreciation; and even if we appraise our assets at their auction-values only, we can still show a surplus of over £20,000.

In the reappraisal of the assets the expenditure at the new No. 2 Colliery, and in connection with the proving of the coal-area at Charming Creek, has been taken as of the full value of the cost. This is in accordance with the usual commercial practice, as it is not customary to write off for depreciation until the producing-stage of a mine has been reached.

Hitherto the amounts written off for depreciation and allocated to sinking and reserve funds respectively, have not actually been withdrawn from the account, as the amounts have been expended on the development of the No. 2 Mine, and on other works fairly debitable to Capital Account. It is now proposed to withdraw these amounts from the State Coal-mines Account, and to invest them, probably through the agency of the Public Trustee. It will therefore be necessary to raise fresh capital to pay for the work already done at the new mine, and any further work that may be necessary to complete it, and provision for raising an additional £100,000 has accordingly been made in the Coal-mines Amendment Bill, which is now being prepared.

DETAILS OF OPERATIONS AND MANAGEMENT.

Output.

Previous to 1904 only a few tons of coal had been produced by the State collieries, and it was during that year that actual trading-business commenced; since then the State-owned mines have produced 1,960,084 tons of coal, being about 12 per cent. of the total output of all the collieries of the Dominion, which amounted to 14,719,796 tons during the same period.

The following is a table showing the annual output of coal from State collieries since their inception :—

Financial Year.	Point Elizabeth.	Seddonville.
	Tons.	Tons.
1903-4	5,000	7,190
1904-5	77,119	40,090
1905-6	131,816	46,085
1906-7	173,882	43,287
1907-8	233,497	48,788
1908-9	249,442	60,464
1909-10	215,809	74,464
1910-11	221,990	59,535
1911-12	204,872	66,754
Total output	1,513,427	446,657*

* Coal out of this total was used for the manufacture of the following tonnages of briquettes and eggettes :—

1908	5,094 tons.
1909	11,889 „
1910	4,160 „
1911	8,564 „
1912 (to 31/3/1912)	3,007 „
Total	32,714 tons.

Cost.

The cost of production at the Seddonville Mine, while always moderate, has generally shown a declining tendency. The low cost, while doubtless largely due to good management, is also partly accounted for by the character of the coal, which, being soft, requires the use of but few explosives. At Point Elizabeth there has been a marked tendency, especially during the last two years, for the cost to increase. This increase is due to various causes, but is principally attributable to the thinning of the seams, diminishing output, increased inflow of water into the mine necessitating much more pumping, increased rates paid to miners, altered conditions of working, &c.

The following table shows the cost per ton of coal produced at each of the State collieries from 1905 to 1912 :—

Financial Year ending 31st March.	Point Elizabeth.	Seddonville.
	s. d.	s. d.
1905.. .. .	5 1.42	6 10.51
1906.. .. .	5 9.56	6 8.18.
1907.. .. .	5 9.25	5 11.12
1908.. .. .	6 6.60	6 3.26
1909.. .. .	6 6.87	5 5.87
1910.. .. .	6 9.36	5 7.09
1911.. .. .	7 7.17	5 11.16
1912.. .. .	8 0.55	5 3.60

The following table shows the average earnings per shift by coal-hewers employed at the mines :—

Year ending 31st March.				Point Elizabeth.		Seddonville.	
				s.	d.	s.	d.
1905..	..	..	..	12	7-50	13	0
1906..	..	..	..	13	7-33	14	1
1907..	..	..	..	14	4-35	14	1
1908..	..	..	..	14	10-54	14	8
1909..	..	..	..	14	1-22	16	2
1910..	..	..	..	14	0-53	16	6
1911..	..	..	..	15	3-10	17	0
1912..	..	..	..	16	8-15	17	8

It may at first seem strange that the cost of production at Seddonville has decreased, while the earnings of the miners have so largely increased. The explanation is that the operations in the solid coal at that mine have gradually ceased as the final stage of pillar-extraction has been entered on, pillar-coal being much easier to win than solid coal; the cost per ton is thus reduced, although the hewers have increased their daily earnings.

The earnings shown in the last table are the *gross* earnings. From this should be deducted the cost of explosives and other stores used, equal, on an average, to about 1s. per man per shift.

Sale and Distribution of Coal.

Before entering into details regarding the sale and distribution of coal, it is desirable to state that the sale price of the coal, both to Government Departments and the public, was fixed and has always been maintained at bed-rock, the policy of the Government being to sell at practically cost price. To show a handsome profit might have been attractive; but this would have defeated the purpose for which the business was entered upon.

The extent to which the public have availed themselves of the reasonable charges for State coal is illustrated by the following statement showing the quantity of coal sold at each depot annually since their inception :—

Year.	Wellington.	Christchurch.	Wanganui.	Dunedin.	Totals.
	Tons.	Tons.	Tons.	Tons.	Tons.
1906-7	13,858	7,329	..	..	21,187
1907-8	22,110	16,052	4,596	..	42,758
1908-9	28,404	25,045	6,837	3,978	64,264
1909-10	26,859	26,864	6,375	8,997	69,095
1910-11	25,428	26,415	6,112	5,595	63,550
1911-12	27,731	30,427	6,261	5,695	70,114
	144,390	132,132	30,181	24,265	330,968

It has sometimes been stated that the Railway and other Government Departments have been charged a higher price than the public for State coal supplied to them for the purpose of inflating the profit, but such is absolutely erroneous, as will be seen by the following table showing the prices per ton f.o.b. to New Zealand Railways, other Government Departments, and to the public respectively :—

Year.	New Zealand Railways.		Other Government Departments.		Public.	
	Screened.	Unscreened.	Screened.	Unscreened.	Screened.	Unscreened.
	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.
1905-6	..	11 6	..	11 6	..	11 6
1906-7	13 6	11 6	15 0	11 6	15 0	11 6
1908-9	14 0	11 6	15 0	11 6	15 0	11 6
1909	14 6	12 0	15 0	12 6	15 0	12 6
1910	15 0	12 6	15 0	12 6	15 0	12 6
1911	16 0	12 6	16 0	12 6	16 0	12 6
1912	18 0	15 0	18 0	15 0	18 0	15 0

When coal is charged to the Railway Department at higher rates than above mentioned it is on account of the State coal-mines bearing the cost of the sea-freight, and including same in the total charge for the coal.

Competition with Other Coal.

It has been stated that the Government competes unfairly with mines and coal-dealing concerns owned by public companies or private individuals, on the ground that upon State coal no royalty or wharfage is paid. No colliery-proprietor pays royalty on coal won from his own freehold property, or from property held under any other title than a coal-mining lease; and on this ground about three-fourths of the collieries of the Dominion are free of any royalty charges. The State mines are similarly free when operating on State property; but a portion of the Point Elizabeth No. 1 Mine is on land vested in the Greymouth Harbour Board; and on coal won from this portion of the mine royalty to the amount of £4,687 has been paid.

As regards wharfage, the State mines are on substantially the same footing as all other mines. On all coal sold to the public full wharfage is paid. No wharfage is paid on coal for the Railway and other Departments, whether supplied by the State mines or by private persons or mining companies, as all cargo consigned to the Government is exempt from wharfage dues. The total amount paid for wharfage since the mines started work, and up to the 31st March last, is £18,176 (paid to Harbour Boards direct), and a further large sum paid through the Railway Department, and included in freight accounts.

RECOMMENDATIONS.

I recommend that the following additional sums be written off for depreciation, namely,—

	£
Point Elizabeth No. 1 Colliery	25,000
Seddonville Colliery	10,000
Briquette-works	6,000
Wellington depot	600
Dunedin depot	400
Charming Creek	2,966
Total.. .. .	£44,966

This will bring the total of the Depreciation Account up to £99,990, and will mean the practical repayment of nearly two-thirds of our original capital.

I further recommend that 10 per cent., instead of 5 per cent., be annually written off for depreciation in future in respect of both the old collieries and the briquette-works, and that such amounts be computed on the gross total capital expenditure in each case, and not merely on the balance not written off as hitherto; the present rate for depreciation (5 per cent. per annum) to be maintained as regards the depots, and to be put in force as regards the new colliery as soon as it reaches the output stage.

If these recommendations are given effect to, the different mines, works, and depots would appear in the books as assets of the following values, and such assets would (apart from interest earned on the accumulated Depreciation Funds) be entirely written off within the periods mentioned:—

	£	
Point Elizabeth No. 1 Colliery	33,771	4 years.
Seddonville Colliery	11,675	3 „
Briquette-works	7,110	4½ „
Wellington depot	2,015	12 „
Christchurch depot	5,282	15½ „
Wanganui depot	1,477	16½ „
Dunedin depot	1,400	14 „
Hulks	1,385	11 „
Office furniture	77	9 „
Point Elizabeth No. 2 Colliery	90,145	20 „

I also recommend that the amount written off for depreciations, together with the amounts set aside as sinking and reserve funds, be paid over to the Public Trustee for investment, in instalments, as the same can conveniently be spared from the State Coal-mines Account, and as the Public Trustee can advantageously invest it.

The Hon. the Minister of Mines, Wellington.

H. J. H. BLOW, Under-Secretary.

TABLE SHOWING THE POSITION OF THE STATE COAL-MINES ACCOUNT FROM INCEPTION TO 31ST MARCH, 1912.

Name of Works.	Total Capital Expenditure.		Total Amount of Depreciation written off.		Assets, Net Capital, as Balance-sheet, 1912.		Net Profits.		Net Losses.		Sinking Fund Account.		Reserve Fund Account.		General Profit and Loss Account as at 31/3/12.		Liabilities as per Balance-sheet, 1912.	
	£	s. d.	£	s. d.	£	s. d.	£	s. d.	£	s. d.	£	s. d.	£	s. d.	£	s. d.	£	s. d.
Point Elizabeth No. 1 Colliery	90,589	13 4			58,771	1 2	105,492	12 1										
Less loss by fire	460	17 8																
	90,128	15 8	31,357	14 6														
Seddonville Colliery	38,187	6 8	16,512	10 1	21,674	16 7			23,794	0 0								
Briquette-works	16,135	2 6	3,024	3 4	13,110	19 2			10,755	13 0								
Wellington depot	3,453	12 3																
Less loss on horses	75	0 0																
	3,378	12 3	762	19 11	2,615	12 4	423	8 0										
Christchurch depot	6,837	2 1																
Less loss on horse	40	0 0																
	6,797	2 1	1,514	15 0	5,282	7 1	147	17 6										
Wanganui depot	1,850	12 0																
Less loss on horse	40	0 0																
	1,810	12 0	332	18 4	1,477	13 8	90	15 2										
Dunedin depot	2,007	17 7	207	9 3	1,800	8 4			1,672	5 1								
Hulks	2,600	0 0	1,214	8 4	1,385	11 8												
Office furniture	174	13 9	97	6 4	77	7 5												
Point Elizabeth No. 2 Colliery	90,145	15 5			90,145	15 5												
Charming Creek (180 acres, 20 ft. coal)	2,965	17 8			2,965	17 8												
Grand totals	254,947	13 3																
Less losses	615	17 8																
	254,331	15 7	55,024	5 1	199,307	10 6	106,154	12 9	36,221	18 1								
Discounts							13	2 9										
Furniture depreciation									97	6 4								
Amounts charged through Point Elizabeth Account, but unpaid							4,226	8 6										
Stocks on hand					9,903	5 4	110,394	4 0	36,319	4 5	13,200	0 0	10,226	8 6	50,648	11 1	74,074	19 7
Suspense Account					197	9 5												
Sundry debtors					20,634	13 10												
Cash in hand					13,971	8 8												
Debiture loan																		
Sundry creditors																		
Accrued interest																		
					244,014	7 9											150,000	0 0
																	17,550	3 3
																	2,389	4 11
																	244,014	7 9

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EXAMINATION FOR FIRST AND SECOND CLASS
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