

MINUTES OF THE CITY COUNCIL

CITY OF AUSTIN, TEXAS

Special Meeting

February 17, 1960  
10:00 A.M.

Council Chamber, City Hall

The meeting was called to order with Mayor Miller presiding.

Roll call:

Present: Councilmen Bechtol, Palmer, Perry, White, Mayor Miller  
Absent: None

The Mayor announced this was a special called meeting of the Council to hear from the TEXAS CENTRAL GAS COMPANY from Tulsa, Oklahoma. He stated the group was here on January 6th and again on the 15th of January, and the Council wanted to hear from this Company.

MR. E. A. SMITH, President, introduced their attorney, MR. JAMES KIRKPATRICK, who referred to the proposal which TEXAS CENTRAL GAS COMPANY previously made in writing on February 13, 1960, at which time they had asked for this hearing. The proposal was read as follows:

"TEXAS CENTRAL GAS CO.  
1307 South Boulder  
Tulsa, Oklahoma

"February 13, 1960

"Honorable Lester Palmer  
Mayor Pro-Tem  
City of Austin  
Austin, Texas

"Dear Sir:

"On January 6, 1960, officials of the proposed Texas Central Gas Co. met with certain of the members of the City Council of the City of Austin. This meeting was held to discuss the feasibility of our attempting to supply the City of Austin with natural gas for use as fuel in the City's electric generating plants. Our ability to so supply gas was, as the Council was advised, dependent on securing an ample supply of gas at reasonable prices and also on the other market possibilities in the Austin Area. In response to a question by one of the Councilmen, we advised that it would take us ten (10) days to intelligently survey

the possibilities and probabilities of serving the need of the City. We further advised that we would submit a firm proposal to the City at the end of said ten (10) day period.

"At the end of nine (9) days of intensive effort, on January 15, 1960, we again met with certain members of the Council. At that meeting Texas Central Gas Co. proposed in writing as follows:

'Texas Central Gas Co., a Texas Corporation, proposes to the City Council of Austin to supply the City with Natural Gas for use in its steam generation plants for a period of twenty (20) years in ample quantities to meet the requirements contained in estimates dated November 12, 1959 submitted to it by the City Council and based on its accuracy.

'Prices for delivered gas are proposed to be 21¢ per thousand cubic feet, based on a heating value of 1,000 BTU per cubic feet of gas, for the first five (5) year period.

'The purchase price would increase 1¢ per thousand cubic feet at the end of each 5 year period during the life of the contract.

'This offer is made with the understanding that the Company will meet the City's reasonable requirements as to financial responsibility, reserves of gas product, and ability to construct and maintain an adequate pipeline and facilities within a reasonable time.

'This proposal will be withdrawn unless the City indicates its interest in this proposal and within thirty (30) days moves to finalize a formal exclusive contract based on the terms of this proposal.'

"At this meeting we were advised that on January 14, 1960, by a three to two vote, the City had issued a Letter of Intent to Intra-Tex Gas Company, at prices ranging from 21¢ to 29.5¢ per MCF of gas.

"Our offer of January 15, 1960, as quoted above, contemplated the posting of a surety bond in the amount of \$500,000 conditioned upon the following:

- '1. Submission for approval by the City of reservoir studies showing a minimum of 433 billion cubic feet of gas committed to Texas Central Gas Co.
- '2. Submission for approval by the City of binding loan agreement covering the total financing of the project.
- '3. Commencement of construction of the line.
- '4. Deliveries of gas on a day certain to be determined.

"The offer was made for a period of thirty (30) days from January 15, 1960. This offer may be considered extended to March 5, 1960. We had hoped that the delivery date of gas could be set for July 20, 1960, the date that the City's new power plant is scheduled to be completed.

"On January 19, 1960, we again met with members of the Council at which time Mr. J. P. Garten, responsible for financing the project, stated his position and the feasibility of financing the project.

"Texas Central Gas Co. is ready, willing and able to serve the City of Austin by supplying natural gas to its electric generating plants at the prices set out above for a period of twenty (20) years. We feel that this offer represents the lowest and best bid heretofore submitted to, or obtainable by, the City of Austin and offers the City of Austin a substantial saving over the entire period of this proposed contract. We, therefore, request a meeting with the City Council at Austin on February 17, 1960, at 11:00 A.M. At that time we wish to present a registered petroleum engineer with a report concerning the reserves of gas available for dedication by the Texas Central to the City of Austin.

"Yours very truly,  
TEXAS CENTRAL GAS CO.  
By (S) E. A. Smith  
E. A. Smith"

MR. E. A. SMITH, introduced his Petroleum Engineer, MR. SOL SMITH who gave his background and experience with the Railroad Commission of Texas, as a Consulting engineer, representing gas operators, and natural gas pipe line companies before the Federal Power Commission in Washington. He read his letter to Mr. E. A. Smith, dated February 16, 1960, as follows:

SOL SMITH  
Consulting Petroleum and Natural Gas Engineer  
913 Brown Building  
Austin, Texas  
February 17, 1960

"Mr. E. A. Smith  
Texas Central Gas Company  
1307 South Boulder  
Tulsa 19, Oklahoma

"Dear Mr. Smith:

"In accordance with your request, I have made a study of the availability of gas in various counties of North Texas, Railroad Commission of Texas Districts No. 7-B and 9.

"The counties included in this study are as follows: Stephens, Parker, Palo Pinto, Eastland, Wise, Young, and Jack. Information gained from the official files of the Railroad Commission of Texas and information supplied by your Company as to the dedicated wells and areas, reflect the following:

County	No. of Wells	Wells with Potentials	Total Potential Mcf	25% of Poten. Mcf
Stephens	36	19	80,406	20,102
Parker	13	5	18,762	4,691
Palo Pinto	32	18	129,672	32,418
Eastland	9	6	17,085	4,271
Wise	15	6	13,145	3,286
Young	33	9	44,397	11,099
Jack	24	8	17,065	4,266

Total	162	71	320,532	80,132
		3 GWT-2		<u>2,921</u> 83,053

"Deliverability of the 89 wells not as yet tested is based on open flow potentials of 2,000 Mcf per day or 500 Mcf based on 25% of potential of each well. These 89 wells would then have a deliverability of 44,500 Mcf per day. The 47 gas wells dedicated to your pipeline system would have a deliverability of 23,500 Mcf per day or a grand total deliverability of 151,000 Mcf per day.

"An overall study has been made of the recoverable gas reserves of these properties. The gas production as against the pressure decline of fields in these counties gives the best guide as to the recoverable gas reserves that may be expected from adjacent properties, and wells located in these same fields that are at present dedicated to your line or shut-in.

"Each geological zone was analyzed as to recovery against pressure drop. The zones found in these counties that carry gas in commercial quantities are as follows: Strawn, Caddo Lime, Bend Conglomerate, Marble Falls, and Atoka Conglomerate. The history of these gas fields reflect that a recovery of at least 6,000 Mcf per acre can be expected from these properties, as an average across all zones.

"The Standard proportion unit in the prorated gas fields in these counties is 320 acres. Based on this unit, the 165 gas wells would encompass a total of 52,800 acres. This would then give a total recoverable gas reserve of 316,800,000 Mcf.

"At present, there are a total of 20 gas wells dedicated to your line in Stephens County for a reserve of 38,400,000 Mcf of gas.

"The gas properties controlled by your Company in Wise, Jack, and Stephens County have a total recoverable gas reserve of 84,000,000 Mcf. This gives a grand total of 439,200,000 Mcf of recoverable gas reserves dedicated and available to your pipeline. These reserves are proven and ready to produce into your system.

"A study of the maps of these counties reflect a vast area of proven but undeveloped reserves that would be adjacent to your pipe line and which could easily double these proven and developed gas reserves.

"Respectfully submitted  
(S) Sol Smith  
SOL SMITH"

Detailed discussion with MR. SOL SMITH, MR. A. E. SMITH, MR. JAMES KIRKPATRICK, MR. BURTON, and MR. GEORGE DOWNING covered the 47 wells dedicated to the contract and the 165 wells that were available to be picked up under contract; the Texas Central Company's statement that it would furnish surety bond in the amount of \$500,000; and that it would reduce the amount of take from 25 million feet a day to 21 million, and that 400 billion cubic feet of gas would be dedicated to the contract. (For a five year term)

Covered also were discussions on reserves, the timing and cost of

construction of 489 miles of gathering system and 165 miles of pipe line; and many inquiries as to the financial structure of the Corporation and its plans for financing, as to performance bonds, and as to a signed proposal of Texas Central. It was stated that the letter of February 15 confirmed the original proposal for 30 days and was signed and individual copies sent to members of the Council. The City Manager stated the City should know about the financial arrangements with the Corporation's financiers. He also stated if the whole supply of gas was not to be dedicated at the beginning, there would be nothing to assure that the contract could be performed except \$500,000 on \$150,000,000 worth of gas and the corporate strength of the corporation.

MR. JAMES NASH (Advisory Committee member) discussed briefly the dedication of gas and the financial problems of corporations as well as what the city should look to for security; i.e. a company large enough they could cover so much area that they could always demand gas wherever they were; and that the company would present a bond of sufficient amount that if they failed to develop these reserves the city would have protection. The City Manager stated that is why some members were interested in the financial interests of the company.

MAYOR MILLER suggested engaging a geologist and set a time limit, permitting Intra-Tex, Southern Union and others, if they would like, to bring in another proposal. Councilman Perry insisted he was interested in a time limit. Councilman Palmer asked if it were a geologist that the City needed, since the question was a financial problem, a reserve problem and a performance problem.

MR. BURTON suggested since mention had been made to taking bids that the Council set a dead line and say to those who were interested to submit their bid at a certain date and a certain hour. Then the City work it over and what their answer was, all would know. MR. A. E. SMITH stated their offer closed March 5, 1960. The City Manager stated specifications would have to be drawn and many things were to be considered.

After further discussion, Councilman Palmer moved that the City Manager be instructed to contact these people (DeGolyer and MacNaughton) to determine what their fee would be to study the reserve, financial position, etc. The motion, seconded by Councilman White, carried by the following vote:

Ayes: Councilmen Bechtol, Palmer, White, Mayor Miller

Noes: None

Present but not voting: Councilman Perry

There being no further business, Councilman Bechtol moved that the Council adjourn. The motion, seconded by Councilman Palmer, carried by the following vote:

Ayes: Councilmen Bechtol, Palmer, Perry, White, Mayor Miller

Noes: None

The Council adjourned at 2:00 P.M. subject to the call of the Mayor.

APPROVED \_\_\_\_\_

Mayor

ATTEST:

*Elsie Harsley*  
\_\_\_\_\_  
City Clerk