

NOTICE OF SPECIAL MEETING

TO THE MEMBERS OF THE CITY COUNCIL OF THE CITY OF AUSTIN:

Notice is hereby given that a Special Meeting of the City Council of the City of Austin will be held on the 31st day of March, 1958, at the Municipal Building, Eighth and Colorado, in Austin, Texas, at 3:30 P.M. for the purpose of hearing Southern Union Gas Company and United Gas Pipe Line Company about the City's contract with them.

(Sgd) Elsie Woosley
City Clerk

(Sgd) Tom Miller
Mayor
City of Austin, Texas

ATTEST:

(Sgd) Elsie Woosley
City Clerk

CONSENT TO MEETING

We, the undersigned members of the City Council, hereby accept service of the foregoing notice, waiving any and all irregularities in such service and such notice, and consent and agree that said City Council shall meet at the time and place therein named, and for the purpose therein stated.

(Sgd) Emma Long

(Sgd) Wesley Pearson

(Sgd) Lester E. Palmer

(Sgd) Ben White

MINUTES OF THE CITY COUNCIL

CITY OF AUSTIN, TEXAS

Special Meeting

March 31, 1958
3:30 P.M.

Council Chamber, City Hall

The meeting was called to order with Mayor Miller presiding.

Roll call:

Present: Councilmen Long, Palmer, Pearson, White, Mayor Miller

Absent: None

Present also: W. T. Williams, Jr., City Manager; Doren R. Eskew, City Attorney

The Mayor announced that this was a special called meeting to hear SOUTHERN UNION GAS COMPANY and UNITED GAS PIPE LINE COMPANY about the City's contract with them.

MR. FRANK DENIUS, representing the Southern Union Gas Company, introduced officials present from both companies. The Mayor introduced the Austin people who had been appointed on a committee to advise in this matter.

MR. ZACHRY, President of Southern Union Gas Company, pointed out his interest that Austin secure gas at as cheap a price as possible, and stated that United, in his belief, had a source of supply adequate to provide additional reserves as Austin and the Power Plant grow. He discussed reasons why maximum prices for gas could not be guaranteed as had been the custom some years back. He would not make any predictions as to any future prices. He recalled that in 1955 he gave his opinion after the price had been agreed upon that he did not think it would go over 20¢ a thousand, but that he had made a mistake in making that estimate. The Mayor and Council recalled that Mr. Zachry had stated that while he could not write it down or would not write it down, that he agreed to it that 20¢ would be the ceiling price.

Mayor Miller outlined his negotiations throughout the time with the Gas Company and with Mr. Parks, President of United. He mentioned provisions of new contracts for gas which were made with the L.C.R.A. and a near-by city.

Discussion covered questions on dedication of gas to customers. MR. D. D. DILLINGHAM, Executive Vice President of UNITED, stated all of their reserves were dedicated to all of their customers, and the Company was constantly buying additional reserves to offset depletion and to sell additional gas. Dedication of gas for interstate customers was discussed.

Councilman Long asked Mr. Zachry, since he had requested a hearing on this matter although he had the present contract, if he had anything new to offer. Mr. Zachry replied his company's business would be affected by the new proposal, and he wanted to get as much information as possible before the Council about the gas business, concerning the responsibility of a supplier to furnish the needs of the Power Plant for 20 years; the amount of money necessary to furnish a line, to drill wells, gather the gas, treat it, dehydrate it and bring it into Austin, estimating it would take \$150 million dollars to get ready to take care of the requirements. Councilman Palmer asked if they would not be in a better position than anyone else to make the same type of offer as the proposed suppliers since they had a line into Austin and all the financial backing. Mr. Zachry stated the pipe line United had in Austin would not take care of the requirements in the future, and the reason he mentioned the \$150 million dollar expenditure was because United was a three-quarter of a billion dollar company and would not have any difficulty in financing lines that were needed. Councilman White inquired if it would not be worth spending \$150 million over a period of 20 years to get the contract. Mr. Zachry stated it might be justified, but he would not know what the costs would be 15 or 20 years from now.

MR. DEXTER KINNEY went over the costs of gas in the past for the Power Plant.

Councilman Pearson stated that the Mayor had been working continuously with UNITED and SOUTHERN UNION attempting to get them to come up with a better proposition. He was hopeful when the request for a hearing came in, just as the Council was about to come to a decision on this matter, that Southern Union would have some kind of an offer. He believed the Council had no alternative to follow, in his opinion, unless Southern Union came up with a fixed price and gave some assurance that the City would not be paying a tremendous price in the future.

MR. ZACHRY asked that if the City signed the contract, that it test the reserves in everyway that they could be tested, as the City would be leaving a large and recognized source of gas and getting in with someone new and just starting out.

Discussion followed on the construction of a 20" gas line to the Power Plant and on whether or not the line would be built if Southern Union did not get the contract. Mr. Zachry stated if the City signed a contract to purchase gas from someone else, Southern Union would be glad to cooperate with the city; and if it wanted them to build a line over there even though they were not going to serve the gas, the City could reimburse them for the line.

MR. TED WIMBERLY was interested in knowing if the supply of gas ran low, would the northern cities be favored over Texas cities. MR. DILLINGHAM replied that his company was predominately interested in development and sale of gas in the South Gulf area, which is their responsibility, although they do sell gas to some pipe lines who take it out of this part of the country.

Councilman Pearson inquired about the policy used where the company has a field with four cent gas in it, and a contract up to 20¢, if the gas would be pulled from the fields of the lower priced gas and the others left out. In this particular area, there are wells producing a large amount of gas, with

some who are hooked on to the lines but not getting any revenue. Mr. Dillingham stated that the Railroad Commission regulated the amount that could be pulled from each field; and it requires reports on the amount of gas taken from each field, each reservoir, and each well. United takes its gas within the limits set by the various regulatory bodies--the Railroad Commission. Mr. Dillingham stated the Company entered into a form of proration. The gas business would not work by pulling gas from one area to the detriment of another area. They attempt to prorate and deliver among the various producers in relationship to what they can produce and what they are allowed to produce by the Railroad Commission, and the price does not have anything to do with it.

MR. HUCKABY inquired if there was anything to prohibit the Company from favoring interstate or intrastate business.

Mayor Miller pointed out the large amount of gas that would be used and the large commission that Southern Union would have. He briefly explained the letter of intent. He stated this would be a costly operation for the Gas Company to lose; and if the other producers did come in, they would be competitors for the industrial use. The Mayor had a letter from Mr. Lawlor, which he handed to Mr. Zachry. The Mayor listed the amount of commission the Company would receive from 1958 to 1962; and from 1963 to 1967; and stated that if the City kept its contract until 1977, the Southern Union would get \$14,300,000--10% of the 143 million. MR. ZACHRY stated that as far as Southern Union was concerned, it would be willing to generally leave the formula the way it is and cut Southern Union's participation at the present amount it was getting per thousand cubic feet of gas, and that they would be willing to change the contract to that extent. If it is $1\frac{1}{2}\%$ now, they would say it would be $1\frac{1}{2}\%$ for the rest of the contract instead of 10%. The Mayor asked about making arrangement about dropping the 2%, as he wanted to hear the utmost today.

Councilman White wanted to hear from United Gas Pipe Line. Mr. Dillingham stated they were in the business of purchasing, transporting, and selling gas at wholesale; that they were continuing in the business of buying gas every day, adding to their reserves. Last year they purchased over a trillion and a half feet of gas throughout their whole system. If they did not have to buy any more gas, they might give some sort of an estimate as to the cost of gas down through the years; but on the basis that they have to continue to buy to serve additional requirements of Austin and various other places, to off-set depletion in the older fields, and to build up reserves to take care of additional business, they just do not know what the cost of the gas will be. The purchase of gas has become highly competitive in the past few years.

MR. MATTHEWS discussed the price of gas at a fixed price on an escalator basis. The Mayor and Mr. Dillingham discussed the starting price of 14, 15, and of $19\frac{1}{2}\%$.

MR. DILLINGHAM repeated that he did not know of any major source of gas in this general area--gas that would be suitable for the needs here--that is for sale, as they were trying to buy gas every day. The Mayor asked if this source were proven, why couldn't United and Southern Union buy it in the field at a profit to these proposed suppliers, and they would have a guaranteed price from these people where they have none now.

The Mayor inquired as to the capital of the United, and Mr. Dillingham answered that it was \$300 million. Different provisions of the present contracts

were gone over with particular reference to both companies' agreeing on the long contract with the 30 days' notice of cancellation, and the 1965-78 extended contract with 30 days' termination. Mr. Dillingham stated it would not be agreeable with United; that they would not spend a great deal of money to bring gas into an area unless there was some sort of assurance they would sell that gas to somebody. United stated they had a contract with Southern Union that went to 1956, but not until 1978. The Mayor stated that Southern Union would run the line down to the new Power Plant if United did not, and Mr. Zachry stated Southern Union would cooperate 100%; but if there was a contract with somebody else, there would be an arrangement that the City would reimburse that line if they did not use it.

DR. ROBERT MONTGOMERY inquired if there was any relation between United and Southern Union. Mr. Dillingham stated that Southern Union was one of United's customers.

MR. DAVE BARROW asked Mr. Dillingham, that since the city had an offer of gas at a fixed price, would he say with his knowledge of the gas business and experience in it that it was within the realm of possibility that somebody properly financed could go out and get natural gas supplies sufficient to supply the city at that fixed price at this time. Mr. Dillingham answered that he did not think so; as based on his experience and experience they had had in this area, and the price they have to pay, and the price other pipe line companies have to pay, he did not think the situation existed along the lines they were talking about.

Further discussion on price of gas was held, and on Southern Union's participation. After a brief intermission, Mr. Denius submitted the following statement:

"Confirming our statement to you today, in order to settle the present uncertainty about the gas supply contract for your Power Plant, Southern Union Gas Company will be willing to fix the Southern Union mark-up at 1.4 cents per mcf (in lieu of the present 10% mark-up), for gas delivered to your plant."

The Mayor asked about the 30 day cancellation clause and the continuation of the contract. Mr. Dillingham stated United was willing to enter into a 20 year contract with Southern Union for the requirements of the Power Plant; that they were willing to go forward with the present contract that they have with Southern Union which has the $5\frac{1}{2}\%$ adjustable cost price in it through 1964. At that time they would submit new prices for a five year period and at five year intervals thereafter for the life of the contract. At the submission of those prices, they could be accepted or rejected; in other words, the City would have the right through Southern Union to say it would not accept those prices; or in the event it did accept them they would be in effect for a five year period and there would be a similar situation five years later. In addition to that if it would be of any benefit from the City's viewpoint, United would lower the first period; and instead of being seven years, it would be five years. The City would only commit itself to a five year period with them. At any time new prices were submitted, they would be accepted or rejected as the City saw fit at the time. Both of the proposals that he outlined, he said, would not be subject to cancellation other than at the pricing periods as he had outlined.

Mr. Dillingham and Mr. Zachry made statements regarding the 30 day cancellation clause in the Southern Union Contract, and its effects on the purchase of gas.

The Mayor thanked the officials of the companies and the members of the advisory committee. He asked that the Committee come back the next day at 3:30 P. M.

Some changes were suggested in the letter of intent with reference to Paragraph 10.

The Council recessed at 6:45 P.M.

APPROVED

Jon Miller
Mayor

ATTEST:

Elsie Hoosley
City Clerk