The meeting was called to order by Mr. Eli Mayfield, Chairman of the Lower Colorado River Authority (LCRA) Board of Directors.

Roll Call of LCRA Board of Directors:

Present: Sam K. Seymour, Jr.; Cecil B. Long; John W. Hancock; Charles Schreiner III; Milton Y. Tate, Jr.; Charles Jungmicheal; J. R. Thornton; M. C. Dalchau; Bill Petri; Tom Dean; Aubrey D. Voelkel; Jake Strahan; R. J. Long; Eli Mayfield

Absent: Roger G. Zercher

Roll Call of Austin City Council:

Present: Mayor Friedman, Mayor Pro Tem Snell, Councilmembers Himmelblau, Hofmann, Lebermann, Linn, Trevino

Absent: None

CITY COUNCIL/LCRA JOINT MEETING TO CONSIDER A FUEL SOURCE FOR FAYETTE POWER PROJECT II

Mr. Eli Mayfield opened the meeting by stating that LCRA was pleased to have the City of Austin as a partner in the Fayette II project. Mr. Mayfield introduced Senator Charles Herring, General Manager of LCRA, to the Council. Senator Herring extended his appreciation to the Council for attending the meeting. He said that LCRA has put much time and effort into finding a fuel source for the Fayette project. He indicated that they reviewed some 30 to 40 proposals and that they had narrowed the choice down to one main proposal.

MR. ELOF SODERBERG, Chief Engineer for LCRA, stated that transportation rates for bringing coal down from Montana were very high and so they started looking in the Colorado/New Mexico area for coal sources. He said that new mines were presently being opened in the Wyoming and Montana area. He indicated
that they had looked at a coal source near LaVentana, New Mexico, that appeared
to be a very economical source but had to drop the prospect because of questions
over coal ownership rights. They investigated two sources located in Colorado
for several months but determined that the reserves were not there to take care
of the Fayette unit.

During the latter part of 1976 the Sierra Club vs. Morton suit was
settled, removing legal restraints for the opening of mines in the Powder River
Basin of Wyoming; and the I.C.C. ruled in favor of the City Public Service
Board of San Antonio for a lower freight rate. These two actions placed the
coal in the Powder River Basin in a competitive price range and has created a
soft market in the past two months.

Mr. Soderberg pointed out that of the proposals considered, the proposals
with the most promising costs and terms were reduced to AMAX Company, Atlantic-
Richfield Company, Shell Oil Company and Mobil Oil Company. Mr. Soderberg
mentioned the Black Thunder and Coal Creek mines which will soon be opened by the
Atlantic-Richfield Company (ARCO). He stated that it was finally determined
that the proposal by the Atlantic-Richfield Company was the best one because
of a lower price and the following advantages:

1. The lowest base mine price as of January 1, 1977.
2. The lowest delivered price as of January 1, 1977.
3. The sulphur content is below the emission requirements
   assuring compliance coal. The sulphur ($S_\text{O}_2$) content
   is guaranteed on each trainload.
4. The proposal is for 15 years without price reopeners.
5. The delivery schedule allows for a 10% annual variation
   with an additional 5% variation in the second five-year
   interval and another 5% variation in the third five-year
   interval.
6. The mine is under construction, and shipments are assured
   to meet the operating schedule for Unit No. 2 barring any
   force majeur.
7. ARCO will have two mines that can supply coal to the project.

Mr. Soderberg indicated that based on the evaluation of the Bechtel
Power Corporation, LCRA, the City of Austin and the Management Committee of the
Fayette Power Project, they recommended approval of the ARCO contract.

MR. FRANK MARCON, mining engineer and consultant with the Bechtel Power
Corporation, stated that there were eleven formal proposals submitted to the
company. Of these eleven mines, eight were in Wyoming, one was in Colorado, one
in Utah and one in Montana. Mr. Marcon then referred to the attached bid
evaluation sheet. (See Att. 1)
MR. GEORGE NORCIVAGE of the Atlantic-Richfield Company addressed the meeting. He made mention of the ARCO environmental protection policy. (See Att. 2) He also pointed out the various sub-divisions within the Atlantic-Richfield Company. He said that the Black Thunder mine was under construction with delivery expected by November, 1977. The coal that is being offered to Austin/LCRA is from the Coal Creek mine. He also mentioned the Gillette and Wright mines. He indicated that ARCO has an estimated 1.3 billion tons of coal. He pointed out that production in Coal Creek mine would begin in 1980-81 and that any commitments made prior to the opening of the mine would be fulfilled by the Black Thunder mine. The capacity of the Black Thunder mine is 20 million tons. Mr. Norcavage then referred to a slide presentation which he used to show the various mining sites.

MR. CLINT SMALL, legal counsel for LCRA, stated that there would be a comprehensive coal supply agreement and an abstract of the agreement which will serve as public notice of the dedication of the reserves to the contract. Mr. Small indicated that the ARCO coal will be compatible in terms of combustion with the coal already purchased under the Decker agreement. He stated that if it is found that the coals are not compatible, they can withdraw from the contract. He pointed out that the contract was flexible in that it gave the option of reacting to future changes in the energy situation. He stated that the coal would cost $6.15 per ton with a BTU content of 8,000 BTU per pound. He indicated, however, that the contract contains escalation features that can increase or decrease the price of the coal as changes occur in the economic condition of the country. He said that the coal price would also be subject to changes made by the United Mine Workers Union (UMW) in the future. There is a provision that the cost will fluctuate on the basis of changes in the cost of materials. There would also be changes due to taxes, royalties and other elements that go into mining the coal. There is a BTU provision whereby cost can be adjusted based on the heat content, in BTU's, of the coal. There is also a cost provision if the coal does not meet the proper sulphur quantity and has to be blended with other coal. There is a provision that if the coal that arrives cannot be burned, that coal belongs to ARCO and not to the Fayette Power project. There is a provision against additional expenses incurred by the need of environmental controls imposed by the Federal government on the coal producer.

Mr. Small therefore added that the cost of the coal was not a fixed price contract but that it was not open for renegotiation on a market value basis. He stated that the delivery obligation can be varied to allow a certain amount of leeway. Mr. Small indicated that he felt the contract was a good one.

Councilmember Himmelblau asked Mr. Small if the City would have a right to renegotiate the contract at the end of the 15-year period. Mr. Small indicated that they were not able to get anyone to talk about future options but he felt that if there was coal available when that time came, the City would have a shot at it.

Mr. Small was asked if the coal could be blended with lignite. He was not sure of the answer but felt that any utilization of lignite would probably be straight lignite. He was asked about the tax situation in Montana, and he answered that the Montana legislature had just passed a 4.5% tax that would be added on to the contract in 1978, when it goes into effect.
Mr. R. L. Hancock, Director of the City of Austin Electric Utility Department, stated that he felt the ARCO contract was the best one available to Austin at this time. He felt the cost of coal was about as low as it was going to get and that the contract terms were very good with respect to flexibility and protection from emissions. He stated that the staff recommended adoption of the coal contract.

Councilmember Hofmann asked Mr. Hancock what arrangements had been made for transportation of the coal. He said that the coal will be shipped over the Burlington-Northern & MKT Rail Systems. The rates are set by I.C.C. rate-making policies and once the coal contract is consummated, then work will begin on the transportation arrangements to get the coal from the mine to the Fayette project. Mr. Hancock pointed out that additional coal-carrying rail cars will have to be purchased for the project. The railroad will be responsible for maintaining the coal while it is in transit.

Senator Herring stated that this concluded the presentation. He felt that the contract was the best possible one they could get and indicated that LCRA recommended adoption of the contract without qualification.

Mr. Bill West asked that if the coal contract is voted upon, will the lignite prospects still be looked into. Senator Herring said that it would and that LCRA was starting a land use study in regards to lignite use. He stated that there were some lignite proposals that they were going to discuss.

Councilmember Linn felt that the public should be informed that the price of the coal may increase and that the current rate was not a fixed price. Senator Herring stated that if the inflation of the country accelerated, they were going to have to pay the market price. He said that they had tried to get a fixed rate, but that this was not possible.

Motion

Mr. Bill Petri moved that LCRA adopt the contract as presented by the ARCO company. The motion, seconded by Sam K. Seymour, Jr., carried by the following vote:

Ayes: Seymour, Long, Hancock, Schreiner III, Tate, Jungmichael, Thornton, Dalchau, Petri, Dean, Voelkel, Strahan, Long, Mayfield
Noes: None
Absent: Zercher

Motion

Councilmember Lebermann moved that the Council adopt the contract as presented by the ARCO company. The motion, seconded by Councilmember Himmelblau, carried by the following vote:

Ayes: Mayor Friedman, Mayor Pro Temp Snell, Councilmembers Himmelblau, Hofmann, Lebermann, Linn, Trevino
Noes: None
ADJOURNMENT

The meeting was adjourned at 11:25 a.m.

APPROVED

[Signature]

Mayor

ATTEST:

[Signature]

Grace Monroe
City Clerk
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April 21, 1977
Atlantic Richfield Company
Environmental Protection Policy

Realizing that the world's natural resources of air, water, and land are vital to mankind's global existence, progress, and continued development, we consider environmental protection to be a paramount concern in our total activities of exploration, production, transportation, manufacturing, and marketing, be they domestic or international.

Therefore, it is our policy to:

1. Manage our operations with diligence and with an awareness that our goal is minimal disruption of the surrounding environment.

2. Employ the best control mechanisms, procedures, and processes that have been proven technically sound and economically feasible.

3. Acquaint our stockholders and financial institutions with our environmental objectives, achievements, costs, and research efforts.

4. Assist all levels of government in the promulgation of sound laws, codes, rules and regulations, based on scientific facts and need.

5. Encourage and support—with technical ability, time, and money—needed research in seeking solutions to technological and ecological problems.

6. Support and participate in the various conservation programs and research efforts sponsored by the American Petroleum Institute and other associations and societies involved with progressive air and water conservation activities.

7. Train our employees on environmental matters, actions, and responsibilities relating to their particular assignments.

8. Consider the expense of environmental protection as a legitimate cost of doing business in modern society, assuming environmental regulations are uniformly applicable throughout the industry.

9. Comply with all environmental legislation and provide self-monitoring to insure compliance.

10. Secure the best ecological guidance in our long-range planning, using recognized consultants and employing the services of expert scientists of various disciplines.

11. Enhance communication and understanding with civic groups, conservation organizations, universities, and the general public through publications, speakers, exhibits, demonstrations, and the regular media.

12. Maintain a Corporate Environmental Protection Division to advise, coordinate, and implement conservation activities. However, line managers are to be directly responsible for all environmentally related actions within their jurisdiction.