



**Purchasing Supply Agreement
CITY OF AUSTIN
RECOMMENDATION FOR COUNCIL ACTION**

AGENDA ITEM NO.: 32
AGENDA DATE: Thu 11/17/2005
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SUBJECT: Authorize execution of a four-year supply agreement with ARCH COAL SALES, INC., St. Louis, MO, for coal supplies for the Fayette Power Project in an amount not to exceed \$35,700,000.

AMOUNT & SOURCE OF FUNDING: Funding will be provided through the Electric Utility Fuel Charge revenue.

FISCAL NOTE: There is no unanticipated fiscal impact. A fiscal note is not required.

REQUESTING Purchasing
DEPARTMENT:for Austin Energy;

DIRECTOR'S
AUTHORIZATION: Vickie Schubert

FOR MORE INFORMATION CONTACT: Carole M. Martindale, Purchasing Mgr. 322-6155

PRIOR COUNCIL ACTION: N/A

BOARD AND COMMISSION ACTION: N/A

PURCHASING: Best evaluated proposal as recommended by Lower Colorado River Authority (LCRA).

MBE / WBE: N/A

The City of Austin and the Lower Colorado River Authority (LCRA) each own an undivided one-half interest in Units I and II of the Fayette Power Project (FPP), a coal-fired power plant near LaGrange, Texas. As FPP Project Manager, LCRA conducts the solicitation process, evaluation and contract administration for FPP fuel and rail needs. LCRA has recommended award of the contract to Arch Coal Sales Inc. Contracts will be executed jointly by Austin Energy and LCRA.

The recommended contract will provide a substantial portion of FPP's coal requirements and will ensure a firm supply and stable pricing for low-sulfur coal over the next several years. Demand for low-sulfur coal from the Powder River Basin of Wyoming has increased in recent years and is expected to increase further as clean air legislation forces more coal users to move from higher sulfur coals to low-sulfur coals. Over the past several months, the increased demand has been reflected in higher and more volatile prices for coal from the Powder River Basin. Arch owns multiple mines in the Powder River Basin capable of originating deliveries on one or both of the railroads typically used to transport coal to FPP. The contract will provide FPP maximum flexibility in utilizing its rail transportation options with Union Pacific and Burlington Northern Santa Fe and will ensure a diverse and secure supply base.