Orange County Sanitation District

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Agenda Report

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SUBJECT:

LIQUID FERRIC CHLORIDE SPECIFICATION NO. C-2019-1037BD CONTINGENCY INCREASE

GENERAL MANAGER'S RECOMMENDATION

RECOMMENDATION:

A. Approve a unit price contingency of $175 per dry ton (26%) to the liquid Ferric Chloride Agreement with Pencco, Inc., Specification No.C-2019-1037BD, for the period beginning July 1, 2022 through June 30, 2023. New unit cost not to exceed $849 per dry ton, for a total estimated annual amount of $3,947,024;

B. Approve a unit price contingency of $277 per dry ton (40%) to the liquid Ferric Chloride Agreement with Kemira, Inc., Specification No.C-2019-1037BD, for the period beginning July 1, 2022 through June 30, 2023. New dry ton unit cost not to exceed $965 per dry ton, for a total estimated annual amount of $1,936,062; and

C. Approve a fuel surcharge of 2.5% on Ferric Chloride deliveries from Kemira, Inc. with quarterly Consumer Price Index (CPI) adjustments.

BACKGROUND

Ferric Chloride is used at both treatment plants to enhance primary solids coagulation and maintain hydrogen sulfide levels below Air Quality Management District (AQMD) permit levels. Ferric Chloride also reduces plant odors and corrosion.

When staff initiated the agreement renewal process for July 1, 2022 through June 30, 2023, both Pencco and Kemira notified staff that there will be an increase in the unit price. The unit price increase is related to higher demand, escalating raw material pricing, supply chain issues, and increases in transportation costs. Particularly, the price increases in hydrochloric acid and iron have resulted in an increase in the price of ferric chloride.

Staff recommends not to rebid these contracts at this time because of the volatile market conditions and the probability of being locked into higher pricing, based on an understanding of market conditions. The use of two vendors helps to maintain supply reliability and cost competition. Staff will evaluate rebidding both contracts next year.

RELEVANT STANDARDS

- 24/7/365 treatment plant reliability
- Zero odor incidents/events under normal operating conditions for Plant Nos. 1 and 2
- Meet volume and water quality needs for the GWRS

PROBLEM

When staff initiated the agreement renewal process with the suppliers, Pennco and Kemira, the suppliers notified staff of an increase in the unit price of ferric chloride and a fuel surcharge fee, which exceeds the Board authorized contingencies.

PROPOSED SOLUTION

Staff recommends the approval of the unit price increases and additional fuel surcharge fee. Staff will evaluate and initiate a re-bid next year for a new contract.

TIMING CONCERNS

The current contract expires on June 30, 2022.

RAMIFICATIONS OF NOT TAKING ACTION

Without action, problems with primary treatment settleability, air and water permit compliance, and odor complaints in the treatment plant are possible at both Plant Nos.1 and 2.

PRIOR COMMITTEE/BOARD ACTIONS

May 2021 - Approved a unit price contingency increase of $78.70 per dry ton (13.18%) to the liquid Ferric Chloride Agreement with Pennco, Inc., Specification No. C-219-1037BD for the term July 1, 2021 through June 30, 2022. New dry ton unit cost not to exceed $675.70 per dry ton. New contract estimated total is $2,027,100 plus applicable sales tax.

May 2019 - Awarded a Purchase Order Agreement with Pencco, Inc. for the purchase of liquid ferric chloride, Specification No. C-2019-1037BD, for the period beginning July 1, 2019 through June 30, 2020, for a unit price of $597 per dry ton delivered, for an estimated annual amount of $1,791,000 (plus applicable sales tax) with four (4) one-year renewal options; and approved a unit price contingency of 10% per agreement.

May 2019 - Awarded a Purchase Order Agreement with Kemira, Inc. for the purchase of liquid ferric chloride, Specification No. C-2019-1037BD, for the period beginning July 1, 2019 through June 30, 2020, for a unit price of $630 per dry ton delivered, for an estimated annual amount of $3,150,000 (plus applicable sales tax) with four (4) one-year renewal options; and approved a unit price contingency of 10% per agreement.

ADDITIONAL INFORMATION

Staff was notified of the additional unit price increases for liquid Ferric Chloride as well as the fuel surcharge fee. The vendors cited increase in fuel and transportation costs, energy costs, and inflation of commodities. Staff was unable to negotiate a reduction in increases for ferric chloride from the two suppliers.

Some of the reasons cited for the unit price increase are trucking and rail freight fee increases, the limited supply of critical raw materials, and tight market conditions for iron. In addition, escalating fuel costs are significantly impacting the cost of operations for the chemical manufacturers, who are imposing a temporary 2.5% fuel surcharge until the average price of diesel fuel falls below $3.50/gallon.

Staff is continuously monitoring the use of ferric chloride in the treatment plant processes and adjusting dosing rates and evaluating effects of changing ferric chloride dosing rates at primary treatment, and within the digesters, for a net reduction in the use of ferric chloride. Staff is also looking at alternative chemicals and combinations of alternative chemicals for potential use for odor control and treatment as part of an on-going Chemical Resiliency Study. Based on the study, staff will trial alternative process strategies to minimize chemical cost and usage and maximize resilient operations.

Staff intends to bid out the contract for the Fiscal Year 2023-24. The estimated usage for the Fiscal Year 2022-23 is 6,100 dry tons of ferric chloride for the two treatment plants.

CEQA

N/A

FINANCIAL CONSIDERATIONS

This request complies with authority levels of OC San's Purchasing Ordinance. This item has been budgeted in the FY 2021-22 Budget Update, Operating Expense, Operating Materials and Supplies, Paragraph 3, Page 29.

ATTACHMENT

The following attachment(s) may be viewed on-line at the OC San website (www.ocsan.gov) with the complete agenda package:

N/A

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