



WEST BASIN MUNICIPAL WATER DISTRICT
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AGENDA NO. 9

July 17, 2008 – Water Resources

Smith (Chair), Little

July 28, 2008 – Board Meeting

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ACTION CALENDAR

UNITED WATER SERVICES AGREEMENT

SUMMARY:

West Basin contracts with United Water Services (UWS) to operate and maintain the Edward C. Little Water Recycling Facility in El Segundo and the satellite facilities in Carson, Torrance and El Segundo. UWS has operated and maintained West Basin's recycled water facilities since the start-up in 1994. The current agreement is structured such that West Basin pays UWS for labor, including salaries, fringe benefits, profit, and overhead and expires on January 31, 2009. West Basin also pays UWS for other non-labor expenses at a 12% mark-up.

UWS hires the staff to manage, operate, and maintain the facilities. Of the 46 UWS employees at the water recycling facility, eight (8) have been there since the facility began operations in late 1994. Since 1994, the agreement has been renewed three times – in 1996, 1999, and 2004. In addition to its operations and maintenance duties, UWS acts as an extension of staff, assisting West Basin staff with events, facility tours, major expansions, minor capital improvements, and research and development projects, including ocean-water desalination. West Basin's recycled water program continues to expand and the ability to attract new customers is largely dependent upon our reputation for supplying reliable, consistent quality water and responding to customer needs. Over the years, UWS has provided the operational expertise that has greatly contributed to West Basin's positive reputation.

Under the terms of the agreement, West Basin has the option to renew the agreement for an additional five (5) years. West Basin could also decide to solicit proposals from qualified firms to operate and maintain the facilities. Staff brought this as an action item to the Board in February. The Board decided at that time to defer a decision to renew the contract or issue a "Request for Proposal" (RFP) until July to allow more time to assess UWS' performance. In the meantime, the Board directed staff to develop the RFP if it decided to issue an RFP in July.

In April, the Board authorized the General Manager to enter into an agreement with the Eisenhardt Group to help develop the RFP. Six (6) firms submitted proposals in response to West Basin's request for consulting services to help with the contract operator RFP. Four (4) firms were interviewed. The Eisenhardt group was recommended as the most qualified firm. The proposed "Scope of Work" only covered this current RFP development phase. It was reported at the April Board meeting that additional funds would be needed if it was decided to issue the RFP.

As reported earlier, West Basin implemented a process to assess the condition of our microfiltration and reverse osmosis membranes. The measurements give an indication of the

overall "health" of our membranes compared to design values. The results for the last six (6) quarters are attached as Exhibit "B".

West Basin also monitored the performance of routine maintenance on the various filtration units accountable to produce the required water quality. The results for the last six (6) quarters are attached as Exhibit "C".

Finally, West Basin implemented a program to monitor the satisfaction of the refinery customers. Feedback is provided by way of a quarterly survey of the key refinery personnel and their chemical supply representatives at each refinery to gauge the satisfaction with West Basin/UWS service. The results of the last six (6) surveys are attached as Exhibit "D".

Summary graphs showing overall scores for the three (3) types of performance assessments described above are attached as Exhibit "A".

Membrane Performance Factors

Membrane Performance Factors include the ability of microfiltration (MF) and reverse osmosis (RO) filters to produce the water quality and quantity. The objective of the Membrane Condition Assessment is to develop a tool that can be used to quantitatively assess the condition of the various membrane systems operating at the El Segundo, ExxonMobil, and Carson plants on a regular (quarterly) basis.

Based on capacity and water quality criteria for both microfiltration and reverse osmosis, scores are determined for individual MF units and RO trains. The individual scores are then summed and weighted by unit or train capacity relative to total process capacity. The scores for MF Capacity, MF Water Quality, RO Capacity, and RO Water Quality are then averaged to determine each system's Average Membrane Condition Score.

The El Segundo, ExxonMobil, and Carson Average Membrane Condition Scores are finally totaled in the Performance Matrix (see Table 1) where a weighted average is identified to determine an overall Membrane Condition Assessment Score. A performance score of 95% and over is excellent (green), 85-95% is good (yellow), and below 85% is unacceptable (red).

Routine maintenance performance is likewise measured to assess the adherence to maintenance schedules. A performance score of 95% and over is excellent (green), 85-95% is good (yellow), and below 85% is unacceptable (red).

These results for the last six (6) quarters are presented in Exhibit "A" and Exhibit "B" with mixed results.

Refinery Survey

Since March 2007, staff has contacted key personnel at the refineries and their respective chemical vendors who share the responsibility for the water performance at the customer sites. Questions about the quality and quantity of the water provided along with customer service have been presented with results in Exhibit "C". A score of five (5) is considered excellent (green), four (4) is acceptable (yellow) and three (3) or less is deficient (red).

Customer perception:

- 1) Cooling tower water: shows improvement
- 2) Boiler feed water: relatively consistent
- 3) Water flow: issues with planned and unplanned outages affecting flows
- 4) Communications: results indicated improvement
- 5) Customer responsiveness: no consistent trend

Surveys have provided a reminder to address ongoing issues such as iron content and highlight items that may not have otherwise reached management attention.

These tools provide an opportunity to monitor the service provided by UWS.

Other Factors

Estimated budget for UWS this fiscal year was \$6.6 million. Actual expenditures for the first 11 months of the fiscal year are \$7.7 million. Expenditures are projected to be \$8.3 million or about 25% over budget. Higher expenditures were caused by higher than budgeted chemical expenditures, especially in the area of membrane cleanings and polymer addition in the high rate clarifier; and higher than budgeted maintenance and repair costs.

Control of chlorine residual is important to help prevent bio-fouling in the membranes and to control costs associated with membrane cleanings. Residual should typically be in the 3 mg/L to 5 mg/L range to be effective. Residual should typically be above 3 mg/L to prevent biofouling and below 5 mg/L to avoid damaging the membranes. During the last two years the chlorine residual has been in the proper range between 3 mg/L and 5 mg/L only 60% of the time. This is one of the causes of increased expenditure on membrane cleanings.

There have been four (4) reportable spills in the last year. The spills were reported to the Regional Water Quality Control Board. In addition, this year's annual Storm Water Discharge Reports for the Edward C. Little Water Recycling Facility and the Juanita Millender-McDonald Regional Water Recycling Plant was initially missing 13 of 33 visual observation forms that are filled out through the course of the year. An additional seven (7) forms were subsequently submitted to West Basin and have since been requested to be returned to UWS.

Moving Forward

Staff has identified three (3) alternatives for the Board to consider. The alternatives are described below:

Alternative 1 – Exercise the option to renew the agreement for five (5) years. Staff believes that this would be warranted if service was consistently excellent and costs were within budget. However, as indicated in the surveys, although service is improving, and is generally good, it is still spotty and costs are substantially above budget.

Alternative 2 – Extend the agreement for one (1) year. The intent of this option is to see if service improves over the next year to warrant the remainder of a five (5) year extension.

Alternative 3 – Issue an RFP to qualified firms to operate and maintain West Basin’s water recycling facilities.

Staff recommends Alternative 3 – Issue an RFP to qualified firms. Staff believes this is the prudent action to take because of the critical nature of this contract. As shown in the performance metrics, performance is not up to expectations. Although performance has improved, there is still room for more improvement. As indicated previously, there have been four (4) spills reported to the Regional Board in the last twelve months. In the prior twelve months, there were no spills reported. This is also the first time we have had missing storm water observation forms in the annual storm water report.

Additionally, UWS has been the contract operator since 1994 and the contract renewed three (3) times since then. Staff has received “Statements of Qualifications” from six (6) firms, including UWS, that expressed interest in operating West Basin’s facilities. These firms are American Water, CH2MHill OMI, Severn Trent Services, South West Water Company, United Water Services, and Veolia Water. Staff believes each of these firms is qualified to operate the facilities. An RFP process would give West Basin an opportunity to evaluate the other potential firms.

As part of the RFP process, staff would also like to amend the agreement with Eisenhardt Group to help prepare responses to questions during the RFP process, to help evaluate the proposals, and to help with the interview process. The amendment would be for an additional \$92,100.

Staff is also developing terms for a new agreement with the successful proposer. The major terms being considered include:

- Fees to be on a time-and-material basis, similar to the current agreement;
- Implementation of performance metrics;
- Contractor financially responsible for replacements if they cannot demonstrate proper maintenance was performed;
- Contractor financially responsible for fines if influent quality is within specifications;
- Contractor to tender employment offers to at least all current non-management Plant staff after selection and required to tender equivalent to current salary and benefits.
- Initial plant staffing at 46 positions; and
- Implementation of an asset management system.

The following is a schedule for major milestones if the Board decides to proceed with an RFP process.

- Late July Issue an RFP for contract operations
- Early October Contract operations proposals due
- Mid October Interviews with proposers
- Early November Short-list to three firms, follow-up interviews and site visits
- Late November Panel recommendation of a contract operations firm
- December Board consideration of recommended contract operations firm
- January Sign agreement with selected firm

As West Basin moves forward with an RFP, the Board should consider a policy on communications so that the firms compete on a fair and level playing field. There are several different levels of communications that could be considered and are described below.

- Open communication where the companies and their consultants have unlimited communications with the Board and staff. This could result in many one-on-one meetings as companies try to gain an advantage;
- Periods of permitted communication, where communication with the Board and staff will be allowed only during certain periods of the RFP process. Ex-parte reports could be required after meetings; or
- Closed communication where only communication between designated persons could occur during the RFP process.

Staff has included a “closed communication” clause in the Draft RFP and will modify as directed by the Board.

STRATEGIC BUSINESS PLAN IMPLEMENTATION:

Goal 3, Water Quality – Provide high quality water that meets the needs of our customers.

Goal 7, Infrastructure – Manage infrastructure to ensure reliability, manage risk, and maximize the useful life of facilities.

Goal 8, Finance – Manage finances to optimize the public’s investment return and minimize risk.

COMMITMENT STATEMENT:

Water Reliability – West Basin is committed to innovative planning and investments to provide water supply reliability and drought protection.

Sound Financial and Resources Management – West Basin is committed to efficient business operations, financial planning and asset management.

Customer Service – West Basin is committed to providing value by understanding and meeting the needs of our customers and the communities we serve.

FISCAL IMPACTS:

Funds are included in the Fiscal Year 2008-09 Operations and Maintenance Budget.

ENVIRONMENTAL COMPLIANCE:

Not applicable.