



CENTRAL COAST WATER AUTHORITY

MEMORANDUM

July 27, 2022

TO: CCWA Board of Directors

FROM: John Brady 
Deputy Director, Operations and Engineering

SUBJECT: Amendment to Chemical Contract: Univar USA Inc. for Sodium Hypochlorite at a unit cost of \$6.97 per gallon, Estimated \$98,531.52 per year Expenditure.

BACKGROUND

The operation of CCWA requires the use of various chemicals in bulk quantities for water treatment. CCWA purchases these chemicals using yearly contracts to secure reasonable and consistent pricing. These contracts also requires each vender to maintain a Performance Bond and adequate insurance coverage, which have proved to be valuable measures to assure reliable delivery of chemicals at a fixed cost. The contracts allow for up to two one-year extensions, which are based on performance and proposed pricing for the extension period.

CCWA staff prepares for the annual contract extension negotiations through reviewing the Producer Price Index for water treatment chemicals and other sources to assess the current chemical market condition. The negotiation proceeds with a discussion of vender performance over the prior year and a discussion of the general chemical market. Through the dialog, a price point is typically negotiated for a one-year term.

Due to on-going supply chain issues as well as recent inflationary pressures, the costs for Sodium Hypochlorite have been volatile. This increased pricing volatility created a high level of risk when setting a contract price for a one year period, which impacts both CCWA and the chemical vender. CCWA has the risk of potentially paying a much higher than market rate if raw chemical prices drop and, conversely, the chemical vender may lose profits if raw chemical costs escalate to higher than anticipated levels.

Through the 2022 negotiation conducted in January 2022, Univar USA set a price of \$4.71 per gallon, which represented a 47% increase from the \$3.13 per gallon 2021 pricing. However, in July 2022, Univar USA Inc. contacted CCWA to request a price adjustment to \$6.97 per gallon, which represents a 123% increase from the \$3.13 per gallon 2021 pricing. While CCWA is not obligated to change pricing due to the fully executed contract extension, CCWA staff and Univar USA Inc. have jointly determined that it would be best to share the pricing volatility risk through conducting a quarterly pricing review.

Since the existing contact only allows annual adjustment of pricing through the one-year contract extension, a contract amendment is required to allow for a quarterly pricing review and adjustment. Accordingly, CCWA legal counsel prepared a contract amendment for the Univar USA Inc. for Sodium Hypochlorite contract. A copy of the contract amendment is attached to this report for your review.

The quarterly review process would require Univar USA Inc. to propose a price change 30 days in advance of the start of a quarter. CCWA staff would have the option to accept, negotiate a different price or to cancel the contract.

FINANCIAL CONSIDERATIONS

The original FY 22/23 budget chemical budget estimate was prepared in January 2022 and a cost of \$7.04 per acre-foot (based on \$3.13 per gallon and treatment of 9,456 AF). At the new pricing of \$6.97 per gallon, the cost will increase to \$10.42 per AF. This increase represents a 48% increase over the currently approved budget amount. A direct comparison is presented below:

- Current Approved Budget.
 - Cost: \$7.04/AF
 - Treated Volume: 9,456 AF
 - Total Estimated Cost: \$66,570.24

- Proposed Cost Adjustment.
 - Cost: \$10.42/AF
 - Treated Volume: 9,456 AF
 - Total Estimated Cost: \$98,531.52

Recommendations

That the Board:

- Authorize the Executive Director to execute the contract amendments allowing a quarterly pricing review for Univar USA Inc. for Sodium Hypochlorite 12.5% at an initial pricing of \$6.97 per gallon.

**AMENDMENT TO SODIUM HYPOCHLORITE BULK
CHEMICAL AGREEMENT**

This Amendment to Sodium Hypochlorite Bulk Chemical Agreement, is dated July 28, 2022 (“Amendment”), by and between the Central Coast Water Authority (“CCWA”), a California joint powers agency, and Univar Solutions USA, Inc., (“Univar”) and is entered into at Buellton, California, with reference to the following facts and intentions.

Recitals

A. CCWA and Univar entered into a Sodium Hypochlorite Bulk Chemical Agreement, dated April 10, 2020, (“Agreement”) for Univar to furnish bulk sodium hypochlorite to CCWA for use at its water treatment plant. The term of the Agreement commenced on August 3, 2020. The agreement provided for up to two (2) one (1) year extensions;

B. On May 7, 2021, CCWA and Univar extended the term of the Agreement for one (1) additional year until August 3, 2022;

B. The Parties desire to extend the term of the Agreement for one (1) additional year and modify the price for sodium hypochlorite; and,

D. The CCWA and the Univar desire to enter into this Amendment on the terms and conditions stated below.

NOW THEREFORE, the parties agree as follows:

1. **Term.** The term of the Agreement is extended until August 3, 2023.
2. **Price Adjustment.** The current price for sodium hypochlorite is \$4.71/gallon through August 3, 2022. Afterwards, the price for sodium hypochlorite will be \$6.95/gallon for the remainder of the extended term.
3. **Force Majeure.** Univar shall not be responsible for damages or delays caused by Force Majeure nor other events beyond its control and which could not reasonably have been anticipated or prevented by Univar. For purposes of this Agreement, Force Majeure includes, but is not limited to, adverse weather conditions, floods, epidemics, war, riot, strikes, lockouts, and other industrial disturbances; unknown site conditions, accidents, sabotage, fire, and acts of God.
4. **Effective Date.** This Amendment will be effective as of the date first above-written.
5. **Authority.** The individuals executing this Amendment represent and warrant that they have the authority to enter into this Amendment and to perform all acts required by this Amendment, and that the consent, approval or execution of or by any third party is not required to legally bind either party to the terms and conditions of this Amendment.

6. **Force and Affect.** Except as modified above, the Agreement shall continue in full force and affect. In the event of a conflict between this Amendment and the Agreement, the terms and conditions of this Amendment shall control in all respects.

7. **Entire Agreement.** This Amendment contains the entire understanding and agreement of the parties, and supersedes all prior agreements and understandings, oral and written, between the parties.

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first above written.

CENTRAL COAST WATER AUTHORITY

By: _____
Ray Stokes, Executive Director

UNIVAR SOLUTIONS USA, INC.

By: _____

_____, _____
(Name) (Title)