Phelan Piñon Hills CSD
Established 2008

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MEMORANDUM

(REVISED)

DATE: March 16, 2022

TO: Board of Directors

FROM: Don Bartz, General Manager
By: Sean Wright, Water Operations Manager

SUBJECT: Discussion & Possible Approval of Purchase of Materials for the Well No. 15 Pipeline Project

STAFF RECOMMENDATION

Staff recommends that the board approve the purchase of 5,820 linear feet of 12" DI350 Ductile Iron Pipe from Inland Water Works in the amount of $258,990 + 10% material volatility contingency, plus tax and delivery.

BACKGROUND

The District will need to install 5,820 feet of pipeline to bring water from Well #15 to the storage tanks located at Well 2-1 & Well2-2. As part of the budget for F/Y 22/23, $1,555,000 is allocated for the materials purchase, pipeline installation, electrical installation, and equipping of Well #15. Due to the volatility in the petroleum sector price locks on C-900 pipe are unavailable and pricing fluctuates until delivery is made. Ductile iron price locks are available at the listed quotations. The price of Ductile Iron DI350 in comparison to C-900 DR14 is less expensive. C-900 is $56.30LF and Ductile Iron is $44.50LF/

Staff feels it necessary to size the pipeline 12" & in part to materials cost rising, the potential addition of future production wells situated to the north of Well #15, and expected growth along the eastern and northern corridors of the District.

Staff obtained the following quotes:

- Inland Water Works: $44.50 Per Linear Foot Total= $258,990
- Ferguson Water Works: $44.97 Per Linear Foot Total= $261,725
- Western Water Works: Declined to Bid
- Site One Landscape Supply: Declined to Bid

Due to the unprecedented volatility in the petroleum market, coupled with supply chain challenges and materials shortages, staff feels it necessary to purchase the necessary pipe for Well #15 as soon as possible, in addition to a 10% material volatility contingency.

FISCAL IMPACT

Entire Project Budget: $1,555,000; Pipeline Materials $258,990 + 10% Material Contingency plus tax and delivery.

ATTACHMENT(S): Inland Water Works Quotation & Ferguson Water Works Quotation

A Forterra Company

March 14, 2022

To: Valued Distribution Partners and Customers
Re: Scrap Surcharge

As you are aware, the Russia-Ukraine conflict has resulted in additional disruptions to an already stretched supply chain. This conflict has impacted multiple inputs to our manufacturing process, the biggest of which is our scrap metal costs. Given the current situation, demand for steel and iron to be supplied by other countries is quickly growing. Those manufacturers are looking to buy more scrap, the same scrap we buy for daily operations. As a result, scrap costs are rising very quickly. The restrictions on pig iron coming from Russia and Ukraine further exacerbates the demand for scrap.

Effective April 1, 2022, all product shipping from our facilities will incur a scrap surcharge to cover these increased scrap costs. While we hope this is a short-lived market condition, we have to prepare for the likely reality that this persists until the conflict has come to resolution, global sanctions on that region of the world are lifted, or some other market mechanism helps compensate for the increase in demand.

That surcharge will be based on the national increase in shredded scrap pricing as tracked by Fastmarkets (https:/www.fastmarkets.com). The prior month average is released on the first business day of the month (i.e., the increase for March will be confirmed on April 1st). It will be communicated on the second of the month and made effective the fifth day of the month. The shredded scrap index is highly correlated to the busheling index which was up $175/ton between February and March. Because of the even higher demand for busheling, we expect the shredded index to be up, but not more than busheling. Based on what we know as of this time, a good planning number should be between $125-175/ton. All surcharges will be noted as a separate line item on your invoice.

As you know, our typical approach is to absorb increases and movements in raw materials pricing both small and large; however, the movement over the last two weeks is historically unprecedented. We believe a surcharge is the most effective mechanism for an adjustment because we intend for this to be temporary. When scrap pricing returns to February 2022 levels, we will pull back the surcharge. Should the conflict last longer and scrap prices remain higher for an extended period of time, we may consider converting the surcharge to a more permanent price increase, but it would be premature to determine that now.

Also note, we will continue to strictly enforce our terms and conditions. If you wish to cancel your order for Made to Stock (MTS) material in lieu of paying a surcharge, you may do so with no cancellation fees. Cancellation fees still apply to Made to Order (MTO) materials.

We regret having to take these actions; however, the metals markets have been greatly impacted by the situation abroad. We appreciate your support and patience while we all navigate these uncertain times.

Best Regards,

Vik Bhatia
President
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