

- **Board of Directors**
Budget, Finance and Investment Committee

February 11, 2003 Board Meeting

10-2

Subject

Increased operations and maintenance costs of \$9.8 million because of projected increases in materials, supplies and utility charges to accommodate higher treated water demands, a higher percentage of State project water delivered throughout Metropolitan's system and unanticipated pumping costs

Description

As part of Metropolitan's fiscal year 2002/03 budget, the Board approved \$245.7 million for the total operations and maintenance (O&M) appropriation. This letter is to inform your Board that after accounting for actual activity through December and expected trends, it is estimated that budgeted amounts included in this appropriation for materials, supplies, and utilities are \$9.8 million too low. The primary reasons for the potential increase are higher chemical, electricity, and sludge management costs at the treatment plants, as well as higher pumping costs at the Wadsworth pumping station at Diamond Valley Lake and the pumping station at service connection OC-88 on the Allen McColloch Pipeline. Staff will continue to monitor the situation and will request an increase in the total O&M appropriation if necessary in April or May.

Material and supply expenditures are expected to be about \$3.1 million more than the budgeted amount because of higher water treatment chemical costs. Higher chemical costs are driven by increased flows at the treatment plants (12 percent higher than anticipated in the budget), higher blends of State project water (SPW) and higher market prices for chemicals. By utilizing elevated coagulant dosages and installing temporary facilities to handle the additional sludge, the three blend plants (Weymouth, Diemer, and Skinner) have been treating significantly higher percentages of SPW (up to 55 percent for limited durations) than was anticipated in the budget. The elevated dosages are required to comply with the recently enacted Disinfectants/Disinfection By-Products (D/DBP) Rule. The chemical unit costs (\$/ton) are higher than anticipated in the budget, particularly for ferric chloride, ammonia and caustic soda. These unit costs vary considerably from year to year, based on market conditions.

About \$6.7 million is attributed for higher utility charges to cover increased electricity (\$4.4 million) and water treatment sludge management costs (\$2.3 million). The electricity charges are trending higher because of higher retail electricity rates and projected increases in electricity use for Metropolitan's distribution system pumping operations. About \$3.6 million of the energy cost increase is attributed to additional pumping at Diamond Valley Lake to maintain higher water storage levels and at service connection OC-88 to meet higher demands.

The sludge management costs are tracking higher because higher water flows and chemical dosages have led to a greater amount of sludge that needs to be dewatered and disposed. Recently, Metropolitan entered into an agreement with an outside vendor to provide temporary sludge processing services at the Weymouth, Diemer, and Jensen plants. A mechanical belt press was installed at each facility to dewater the additional sludge resulting from the elevated dosages necessary to comply with the D/DBP Rule; without the temporary equipment, the amount of SPW treated at the plants would be severely restricted.

Policy

Metropolitan Water District Administrative Code § 8121(c): Contracts for Equipment, Materials, Supplies and Routine Services

Fiscal Impact

Potential need to increase budgeted O&M appropriation from \$245.7 million to \$255.5 million due to unanticipated materials and supplies and utilities costs.



Jill T. Wicke
Manager, Water System Operations

1/22/2003

Date



Ronald R. Gastelum
Chief Executive Officer

1/23/2003

Date

BLA #2106