

Public Service Commission of West Virginia

201 Brooks Street, P.O. Box 812
Charleston, West Virginia 25323

Phone: (304) 340-0300
Fax: (304) 340-0325



October 17, 2025

Meredith J. Vance
Office of Environmental Health Services
350 Capitol Street, Room 313
Charleston, West Virginia 25301-3713

Re: Public Service Commission Staff Review Comments
Application No. 2022W-2115
Kanawha Falls PSD – Water System Improvements
Infrastructure Change in Cost & Funding Request

Dear Ms. Vance:

As requested, the Technical Staff of the Public Service Commission of West Virginia has completed its review of the above-referenced Infrastructure request. In light of Technical Staff's comments enclosed herewith, we are recommending this request be:

☐ Forwarded to the Funding Committee

☐ Forwarded to the Consolidation Committee

☒ Returned to the Applicant

Please advise if you have any questions.

Sincerely,

Brandon Crace

Brandon Crace
Engineering Division

Enclosures

**PUBLIC SERVICE COMMISSION STAFF
TECHNICAL REVIEW**

DATE: October 17, 2025

**PROJECT SPONSOR: KANAWHA FALLS PUBLIC SERVICE DISTRICT –
(WATER)**

PROJECT SUMMARY: The Kanawha Falls PSD is proposing to make improvements to its existing water distribution system.

PROPOSED FUNDING: DWTRF Loan (.25%, .25% AF, 40 yrs.)	\$10,000,000
DWTRF Principal Forgiveness	1,500,000
IJDC District 3 Grant	<u>1,000,000</u>
Total	\$12,500,000

CURRENT RATES:	\$53.28	3,400 gallons
	\$57.68	4,000 gallons

PROPOSED RATES:	\$80.70	3,400 gallons
	\$87.36	4,000 gallons

Application No. 2022W-2115

RECOMMENDATION: ☐ Forward to the Funding Committee
☐ Forward to the Consolidation Committee
☒ Returned to the Applicant

FINANCIAL: William Nelson

1. Current rates (\$53.28 for 3,400 gallons) are above the rate attributable to 1.25% (\$45.54), of the Median Household Income (MHI), but below the rates attributable to 1.5% (\$54.65), 1.75% (\$63.76), and 2.0% (\$72.87) of the MHI. Increasing current rates to 1.5%, 1.75% and 2.0% of the MHI would provide additional revenues of \$13,792, \$105,322 and \$196,852, respectively.
2. Using Scenario 1, the preferred funding package consisting of a DWTRF Loan of \$10,000,000 at .25%, .25% Administrative Fee, for 40 years (paid back over 38 years), a DWTRF Principal Forgiveness Loan of \$1,500,000, and an IJDC District 3 Grant of \$1,000,000, proposed rates (\$80.70 for 3,400 gallons) will provide a cash flow surplus of \$106,379 and debt service coverage of 217.88%.

3. Using the Scenario 2 alternate loan package of \$12,500,000 (in uncommitted funds) at 5% for 40 years (paid back over 38 years), proposed rates (\$80.70 for 3,400 gallons) will provide a cash flow deficit of \$391,934 and debt service coverage of 87.28%. An additional 28% (for a total of \$103.30 for 3,400 gallons) increase in proposed rates will be required in order to provide a cash flow surplus of \$2,476 and debt service coverage of 140.12%.
4. Notes to Comments:
 - A. Staff's detailed adjustments are listed on Attachment A for Scenario 1 (Preferred Funding Package) and Attachment B for Scenario 2 (Loan Package).
 - B. Staff prepared the attached Cash Flow Analysis utilizing information from the Annual Report for the Fiscal Year Ended June 30, 2024, and the applicant's updated Rule 42 Exhibit submitted with the revised application.
 - C. The project sponsor included debt service in the amount of \$116,464, associated with a City National Bank loan, in its Going-Level and Proforma analysis. The project sponsor's accountant confirmed that they overstated the amount of other debt allocated to water operations. Staff corrected the amount in its analysis.
 - D. The Applicant did not provide a subsequent Cash Flow Analysis or other financial information to support its alternate loan funding for Scenario 2. However, Staff calculated its Cash Flow Analysis for Scenario 2 using the Applicant's proposed rate.
 - E. This application was last reviewed in July 2022 (Application No. 2022W-2115). The funding recommendation issued by the IJDC, at that time, consisted of an IJDC District 3 Grant of \$500,000, a DWTRF loan of \$4,053,750 at 1%, 40 years, .25% Admin. Fee, \$500,000 in DWTRF Principal Forgiveness and a WDA Economic Enhancement Grant of \$3,053,750.
 - F. On September 22, 2025, the District filed Case No. 25-0832-PWD-19A with the Commission to increase its rates and charges. The case is currently active.

G. Senate Bill 234, effective June 12, 2015, required water and sewer utilities that are political subdivisions of the state to maintain a cash working capital reserve in an amount of no less than one-eighth (1/8) of actual annual operation and maintenance expenses. It should be noted that the cash flows provided by the project sponsor include funding for the 1/8 cash working capital reserve. Staff accepted that amount in its analyses. However, this amount may be reviewed by the Commission in future filings in accordance with Public Service Commission General Order 183.11.

ENGINEERING: Brandon Crace

1. Pursuant to House Bill 2742 passed in the 2025 Legislative Session, this project will not require a Certificate of Convenience and Necessity from the PSC.
2. Scope: The Kanawha Falls PSD is proposing to make improvements to its existing water distribution system. The proposed project scope was previously reviewed and summarized in the PSC's Technical Review Comments dated July 5, 2022. The updated estimated construction cost is \$11,185,000 (includes 10% construction contingency), and the estimated total project cost is \$12,500,000 (includes project contingency).
3. Cost per Customer: Based upon the estimated total project cost is \$12,500,000, and having approximately 968 customers, the cost per customer will be approximately \$12,913. However, the proposed project is 80% loan funded; therefore, the proposed borrowing at \$10,000,000 will be approximately \$10,331 per customer.
4. Project Feasibility & Consolidation: Although the project appears to be technically feasible and poses little technical risk, the approval of this project could affect future operations, management, maintenance, and potential investments at Kanawha Falls PSD.
5. Engineering Fees: Total technical services (engineering) costs for the project are \$871,000, which is equal to 7.79% of the construction cost of \$11,185,000 (includes 10% construction contingency).
6. Deficiencies/Comments:
 - On August 25, 2023, the PSC issued an Order stating that Kanawha Falls PSD meets the definition of a "distressed utility" under PSC Case

No. 22-0631-PWD-DU, and further ordered Kanawha Falls PSD to negotiate a mutually agreed arms-length contract for the management and oversight of the PSD's water system.

- On July 2, 2025, the PSC issued an Order that West Virginia-American Water Company immediately commence operation and maintenance of the Kanawha Falls PSD.
- On July 10, 2025, Kanawha Falls PSD notified the PSC that "The KFPSD public service board held an emergency meeting on July 3, 2025 and reaffirmed its decision to not enter into the PSC O&M Agreement." This response demonstrates Kanawha Falls PSD's non-compliance with the PSC Order dated July 2, 2025.
- The Commission's recent Order indicated serious concerns regarding the District's overall management of its system and facilities. Moreover, the District's flagrant refusal to comply with a Commission Order has only served to deepen that concern among Commission Staff. As this amount of funding is significant and could impact some of the possible long-term solutions, it is recommended that this request be denied and returned to the applicant until such time as a permanent, long-term solution to the District's current distressed utility status becomes clearer.

KANAWHA FALLS PUBLIC SERVICE DISTRICT - WATER
CASH FLOW ANALYSIS
YEAR ENDED: June 30, 2024
APPLICATION NO: 2022W-2115
October 17, 2025

**PREFERRED FUNDING PACKAGE
SCENARIO 1**

	Rule 42 Going Level Per Application Before Project	Rule 42 Proforma Per Application with Project	Staff Adjustments	Per Staff Analysis
	1	2	3	4
	\$	\$	\$	\$
AVAILABLE CASH				
Operating Revenues	952,503	1,442,396	(103,036) (1)	1,339,360
Other Operating Revenue	63,022	63,022	-	63,022
SB 234 Annual Working Cash Collections			103,036 (2)	103,036
Interest Income & Other Misc.	1,430	1,430	-	1,430
Total Cash Available	1,016,955	1,506,848	-	1,506,848
OPERATING DEDUCTIONS				
Operating Expenses	811,561	824,286	317 (3)	824,603
Taxes	27,068	27,068	-	27,068
Total Cash Requirements Before Debt Service	838,629	851,354	317	851,671
Cash Available for Debt Service (A)	178,326	655,494	(317)	655,177
DEBT SERVICE REQUIREMENTS				
Principal & Interest (B)	24,516	300,399	301 (4)	300,700
Other Debt	160,848	160,848	(78,465) (5)	82,383
Reserve Account @ 10%	-	27,588	30 (6)	27,618
Renewal & Replacement Fund (2.5%)	25,424	37,671	(2,611) (7)	35,060
Total Debt Service Requirement	210,788	526,506	(80,744)	445,761
SB 234 Cash Working Capital	101,445	103,036	-	103,036
Remaining Cash	(133,907)	25,952	80,427	106,379
Percent Coverage (A) / (B)	727.39%	218.21%		217.88%
Average rate for 3,400 gallons	\$ 53.28	\$ 80.70	\$ -	\$ 80.70
Average rate for 4,000 gallons	\$ 57.68	\$ 87.36	\$ -	\$ 87.36

**KANAWHA FALLS PUBLIC SERVICE DISTRICT - WATER
CASH FLOW ANALYSIS
YEAR ENDED: June 30, 2024
APPLICATION NO: 2022W-2115**

**Attachment A
PREFERRED FUNDING PACKAGE
SCENARIO 1**

Staff Adjustments

<u>Adjustment Description</u>				\$	Increase <Decrease>
(1)	Operating Revenues	Per Staff Analysis	1,339,360	(103,036)	
		Per Application with Project	1,442,396		
	Adjust revenues in accordance with PSC General Order 183.11.				
(2)	SB 234 Annual Working Cash Collections	Per Staff Analysis	103,036	103,036	
		Per Application with Project	-		
	Account for SB 234 (2015) funding pursuant to PSC General Order 183.11.				
(3)	Operating Expenses	Per Staff Analysis	824,603	317	
		Per Application with Project	824,286		
	To record Staff's calculation of a 0.25% DWTRF administrative fee.				
(4)	Principal & Interest	Per Staff Analysis	300,700	301	
		Per Application with Project	300,399		
	The difference in P&I is related to Staff's calculation of a loan of \$10,000,000 for 40 years (paid over 38 years) at .25%.				
(5)	Other Debt	Per Staff Analysis	82,383	(78,465)	
		Per Application with Project	160,848		
	To adjust to reflect debt service associated with outstanding loans. The project sponsor's accountant confirmed that they had overstated the amount for other debt allocated to water operations.				
(6)	Reserve Account @ 10%	Per Staff Analysis	27,618	30	
		Per Application with Project	27,588		
	Staff assumed a 10% reserve on the new debt.				
(7)	Renewal & Replacement Fund (2.5%)	Per Staff Analysis	35,060	(2,611)	
		Per Application with Project	37,671		
	Staff used 2.5% of the projection of "Operating & Other Revenues" as the basis of the renewal & replacement fund.				

KANAWHA FALLS PUBLIC SERVICE DISTRICT - WATER
CASH FLOW ANALYSIS
YEAR ENDED: June 30, 2024
APPLICATION NO: 2022W-2115
October 17, 2025

**LOAN FUNDING PACKAGE
SCENARIO 2**

	Max Rate Going Level Per Application Before Project	Max Rate Proforma Per Application with Project	Staff Adjustments	Per Staff Analysis
	1 \$	2 \$	3 \$	4 \$
<u>AVAILABLE CASH</u>				
Operating Revenues	952,503	1,442,396	301,487 (1)	1,743,883
Other Operating Revenue	63,022	63,022	-	63,022
SB 234 Annual Working Cash Collections			103,036 (2)	103,036
Interest Income & Other Misc.	1,430	1,430	-	1,430
Total Cash Available	1,016,955	1,506,848	404,523	1,911,371
<u>OPERATING DEDUCTIONS</u>				
Operating Expenses	811,561	824,286	(12,725) (3)	811,561
Taxes	27,068	27,068	-	27,068
Total Cash Requirements Before Debt Service	838,629	851,354	(12,725)	838,629
Cash Available for Debt Service (A)	178,326	655,494	417,248	1,072,742
<u>DEBT SERVICE REQUIREMENTS</u>				
Principal & Interest (B)	24,516	300,399	465,170 (4)	765,569
Other Debt	160,848	160,848	(78,465) (5)	82,383
Reserve Account @ 10%	-	27,588	46,517 (6)	74,105
Renewal & Replacement Fund (2.5%)	25,424	37,671	7,502 (7)	45,173
Total Debt Service Requirement	210,788	526,506	440,724	967,230
SB 234 Cash Working Capital	101,445	103,036	-	103,036
Remaining Cash	(133,907)	25,952	(23,476)	2,476
Percent Coverage (A) / (B)	727.39%	218.21%		140.12%
Average rate for 3,400 gallons	\$ 53.28	\$ 80.70	\$ 22.60	\$ 103.30
Average rate for 4,000 gallons	\$ 57.68	\$ 87.36	\$ 24.46	\$ 111.82

**KANAWHA FALLS PUBLIC SERVICE DISTRICT - WATER
CASH FLOW ANALYSIS
YEAR ENDED: June 30, 2024
APPLICATION NO: 2022W-2115**

**Attachment B
LOAN FUNDING PACKAGE
SCENARIO 2**

Staff Adjustments

<u>Adjustment Description</u>			\$	Increase <Decrease>
(1)	Operating Revenues	Per Staff Analysis	1,743,883	301,487
		Per Application with Project	1,442,396	
Adjust revenues in accordance with PSC General Order 183.11. Staff also projected that an additional \$485,000 in revenue would be needed to achieve a positive cash flow and a minimum debt coverage of 115%.				
(2)	SB 234 Annual Working Cash Collections	Per Staff Analysis	103,036	103,036
		Per Application with Project	-	
Account for SB 234 (2015) funding pursuant to PSC General Order 183.11.				
(3)	Operating Expenses	Per Staff Analysis	811,561	(12,725)
		Per Application with Project	824,286	
To remove the 0.25% DWTRF administrative fee that will not apply to this scenario.				
(4)	Principal & Interest	Per Staff Analysis	765,569	465,170
		Per Application with Project	300,399	
The difference in P&I is related to Staff's calculation of a loan of \$12,500,000 for 40 years (paid over 38 years) at 5%.				
(5)	Other Debt	Per Staff Analysis	82,383	(78,465)
		Per Application with Project	160,848	
To adjust to reflect debt service associated with outstanding loans. The project sponsor's accountant confirmed that they had overstated the amount for other debt allocated to water operations.				
(6)	Reserve Account @ 10%	Per Staff Analysis	74,105	46,517
		Per Application with Project	27,588	
Staff assumed a 10% reserve on the new debt.				
(7)	Renewal & Replacement Fund (2.5%)	Per Staff Analysis	45,173	7,502
		Per Application with Project	37,671	
Staff used 2.5% of the projection of "Operating & Other Revenues" as the basis of the renewal & replacement fund.				