

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



June 24, 2024

Ms. Kathy Emery, P. E.
Office of Water Resources
Department of Environmental Protection
601 57th St.
Charleston, West Virginia 25304

Re: Public Service Commission Staff Review Comments
Application No. 2024S-2541
City of Oak Hill, sewer system improvements
Infrastructure Preliminary Application

Dear Ms. Emery:

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

- Forward the Application
 Return the Application
 Returned to the Applicant

Please advise if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Jonathan M. Fowler".

Jonathan M. Fowler, P.E.
Engineering Division

Enclosures
JMF:vb

**PUBLIC SERVICE COMMISSION STAFF
TECHNICAL REVIEW**

DATE: June 24, 2024

PROJECT SPONSOR: CITY OF OAK HILL – (SEWER)

PROJECT SUMMARY: The project would consist of replacing the industrial park treatment plant with a pump station and force main to pump the wastewater into the Oak Hill Sanitary Board collection system as well as replacing a portion of deep sanitary sewer line that is failing.

PROPOSED FUNDING: CWSRF Principal Forgiveness Loan \$1,745,000

CURRENT RATES: \$62.86 3,400 gallons
\$73.60 4,000 gallons

PROPOSED RATES: \$72.08 3,400 gallons
\$84.80 4,000 gallons

Application No. 2024S-2541

RECOMMENDATION: forward to the Funding Committee.
 forward to the Consolidation Committee.
 return to the Applicant.

FINANCIAL: William Nelson

1. Current rates (\$62.86 for 3,400 gallons) are above the rates attributable to 1.25% (\$44.88), 1.5% (\$53.85), and 1.75% (\$62.83), of the Median Household Income (MHI), but below the rates attributable to 2% (\$71.81) of the MHI. Increasing current rates to 2% of the MHI would provide additional revenues of \$403,501.
2. Using Scenario 1, the preferred funding package consisting of a CWSRF Principal Forgiveness Loan of \$1,745,000, proposed rates (\$72.08 for 3,400 gallons) will provide a cash flow surplus of \$38,179 and debt service coverage of 147.91%.

3. Using Scenario 2, alternate loan package of \$1,745,000 (in uncommitted funds) at 5% for 40 years (paid back over 38 years), proposed rates (\$73.88 for 3,400 gallons) will provide a cash flow surplus of \$25,770 and debt service coverage of 143.73%.
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, 2023, and the Applicant's Revised Cash Flow Statement.
 - C. Staff notes the Applicant is requesting a waiver of Rule 42 Exhibit requirement.
 - D. The project sponsor's revised cash flow statement reflects going level rates (\$72.08 for 3,400 gallons), however, these are the project rates associated with Case No. 23-0788-S-CN. The City passed an ordinance for those rates and they become effective for service rendered 90 days prior to the initial installment due on the bonds issued for the former Arbuckle Public Service District area collection system improvement project or substantial completion of the former Arbuckle Public Service District area collection system improvement project, whichever occurs first. Staff's analysis takes this into consideration.
 - E. Staff calculated its Cash Flow Analysis for Scenario 2 based on the Applicant's proposed Max Rate of (\$73.88 for 3,400 gallons) and from its Scenario 1 analysis.
 - F. 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 flow provided by the project sponsor includes funding for the 1/8 cash working capital reserve. Staff accepted that

amount in its analysis. However, this amount may be reviewed by the Commission in future filings in accordance with Public Service Commission General Order 183.11.

- G. Senate Bill 234 (2015) required, pursuant to WV Code 24-2-4b (b), that municipally operated utilities shall consider a reasonable plant-in-service depreciation expense for rates and charges. The project sponsor should take this into consideration when preparing its Rule 42. Municipals that do not provide for a reasonable depreciation expense risk delays in Certificate of Convenience and Necessity filings if rates are determined to not be sufficient.
- H. The City should carefully evaluate its revenue requirements before passing a rate ordinance in order to ensure that rates are sufficient to provide a reasonable surplus and meet coverage requirements. Calculations to support the revenue projections should also be provided.

ENGINEERING: Mansour Mashayekhi

1. This project may not require a Certificate of Convenience and Necessity from the PSC. The project sponsor should consult with Staff pursuant to General Order 246 for such determination. If a Certificate is required, the utility should reference this application number on the PSC's Form No. 4 when its application is filed at the Commission given the requirement of West Virginia Code §24-2-11 (c) and (e) et seq.
2. **Scope:** This project proposes to replace the failing packaged WWTP in the Lochgelly Business Park with a lift station to carry sanitary sewer flows to a nearby collection system. Additionally, this project proposes to replace a deep, failing portion of the OHSB's collection system along Blake Street with a shallower gravity line and force-main. The project is expected to require the construction of two (2) lift stations, 3,000 LF of 8" PVC gravity sewer line, 500 LF of 2" PVC force-main, 800 LF of 8" PVC force-main, 12 48" diameter manholes, 14 customer service reconnections, approximately 3,580 SY of 2" HMA overlay, and all other necessary appurtenances for a complete and operational wastewater collection system. The proposed project is estimated to cost approximately

\$1,250,000 in construction cost with an estimated total project cost of \$1,745,000. The proposed project to be funded through a DWTRF debt forgiveness loan amount of \$1,745,000.

3. **Need for Project:** The Fayette Plateau Industrial Park WWTP was installed in 1978 and had an anticipated useful life of 25 years. The steel design of the structure has now deteriorated, and it is likely that soil adjacent to the plant is being impacted by the raw sewage. There have been multiple instances of untreated discharges bypassing the treatment facility during heavy rain events and entering Wolf Creek and the surrounding areas. The current state of the WWTP is a hazard to the surrounding environment, businesses, and citizens. Additionally, the sanitary sewer collection system along Blake Street is failing and needs to be replaced.
4. **Customer Density:** This is an improvement and upgrade project; therefore, customer density will stay unchanged.
5. **Cost per Customer:** Based upon the estimated project budget of \$1,745,000 and having approximately 4,077 existing customers, cost-per-customer is approximately \$428. However, this project is debt forgiveness loan funded, therefore, existing customers bear no capital project related expenses.
6. **Project Feasibility:** The project appears to be technically feasible.
7. **Project Alternatives:** The purpose of this project is to resolve the issues of OHSB's failing Fayette Plateau Industrial Park WWTP and failing gravity sewer system. Three (3) alternatives were analyzed for both issues and were considered for the project. **Alternative A.1** (Decommissioning WWTP & Replacing with Lift Station), **Alternative A.2** (Replace WWTP with a New WWTP), **Alternative B.1** (Gravity Sewer Replacement), **Alternative B.2** (Gravity Sewer Rehabilitation), and **Alternative** (Do Nothing). **Alternative A.1** is the most economical in both upfront capital and long-term Operation and maintenance (O/M) costs. Alternative A.1 also has the benefit of eliminating discharge of untreated wastewater. For these reasons, the OHSB has selected Alternative A.1 – Decommissioning the Existing WWTP & Replacing it with a Lift Station as the most appropriate course of action. The OHSB also selected **Alternative B.1** –

Replacing the Gravity Sewer System with Force-main as the most appropriate course of action.

8. **Consolidation:** There are no consolidation issues with the selected alternatives.
9. **Inconsistencies:** None was noticed for this project.
10. **Project Permits:** The following permits and certificates are anticipated to be required for this project and will be obtained prior to beginning construction of this project: WVDEP (NPDES Construction Storm Water Permit), WV Division of Highways, WVPSC (Certificate of Convenience and Necessity), and coordination with the following Agencies: WV Division of Culture and History, State Historic Preservation Office, WV Division of Natural Resources, and United States Fish and Wildlife Service.
11. **Operation and Maintenance (O&M) Expenses:** The project's O&M expenses are estimated to increase by approximately \$3,500 to an annual approximate O&M expense of \$2,577,653.

CITY OF OAK HILL - SEWER
 CASH FLOW ANALYSIS
 YEAR ENDED: June 30, 2023
 APPLICATION NO: 2024S-2541
 June 24, 2024

**PREFERRED FUNDING PACKAGE
 SCENARIO 1**

	Cash Flow Going Level Per Application Before Project	Cash Flow Proforma Per Application with Project	Staff Adjustments	Per Staff Analysis
	1	2	3	4
	\$	\$	\$	\$
<u>AVAILABLE CASH</u>				
Operating Revenues	3,856,356	3,856,356	(308,711) (1)	3,547,645
Other Operating Revenue	64,572	64,572	-	64,572
SB 234 Annual Working Cash Collections	-	-	308,711 (2)	308,711
Interest Income & Other Misc.	131,394	131,394	-	131,394
Total Cash Available	4,052,322	4,052,322	-	4,052,322
<u>OPERATING DEDUCTIONS</u>				
Operating Expenses	2,404,439	2,469,691	-	2,469,691
Taxes	-	-	-	-
Total Cash Requirements Before Debt Service	2,404,439	2,469,691	-	2,469,691
Cash Available for Debt Servi (A)	1,647,883	1,582,631	-	1,582,631
<u>DEBT SERVICE REQUIREMENTS</u>				
Principal & Interest (B)	988,338	1,070,000	-	1,070,000
Other Debt	-	-	-	-
Reserve Account @ 10%	67,270	75,436	-	75,436
Renewal & Replacement Fund (2.5%)	101,308	101,308	(11,003) (3)	90,305
Total Debt Service Requirement	1,156,916	1,246,744	(11,003)	1,235,741
SB 234 Cash Working Capital	300,555	308,711	-	308,711
Remaining Cash	190,412	27,176	11,003	38,179
Percent Coverage (A) / (B)	166.73%	147.91%		147.91%
Average rate for 3,400 gallons	\$ 72.08	\$ 72.08	\$ -	\$ 72.08
Average rate for 4,000 gallons	\$ 84.80	\$ 84.80	\$ -	\$ 84.80

Staff Adjustments

<u>Adjustment Description</u>			\$	Increase <Decrease>
(1)	Operating Revenues	Per Staff Analysis	3,547,645	(308,711)
		Per Application with Project	3,856,356	
Adjust revenues in accordance with PSC General Order 183.11.				
(2)	SB 234 Annual Working Cash Collections	Per Staff Analysis	308,711	308,711
		Per Application with Project	-	
Account for SB 234 (2015) funding pursuant to PSC General Order 183.11.				
(3)	Renewal & Replacement Fund (2.5%)	Per Staff Analysis	90,305	(11,003)
		Per Application with Project	101,308	
Staff used 2.5% of the projection of "Operating & Other Revenues" as the basis of the renewal & replacement fund.				

CITY OF OAK HILL - SEWER
 CASH FLOW ANALYSIS
 YEAR ENDED: June 30, 2023
 APPLICATION NO: 2024S-2541
 June 24, 2024

**LOAN 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
	\$	\$	\$	\$
AVAILABLE CASH				
Operating Revenues	3,856,356	3,960,343	(308,711) (1)	3,651,632
Other Operating Revenue	64,572	64,572	-	64,572
SB 234 Annual Working Cash Collections	-	-	308,711 (2)	308,711
Interest Income & Other Misc.	131,394	131,394	-	131,394
Total Cash Available	4,052,322	4,156,309	-	4,156,309
OPERATING DEDUCTIONS				
Operating Expenses	2,404,439	2,469,691	-	2,469,691
Taxes	-	-	-	-
Total Cash Requirements Before Debt Service	2,404,439	2,469,691	-	2,469,691
Cash Available for Debt Servi (A)	1,647,883	1,686,618	-	1,686,618
DEBT SERVICE REQUIREMENTS				
Principal & Interest (B)	988,338	1,170,972	2,479 (3)	1,173,451
Other Debt	-	-	-	-
Reserve Account @ 10%	67,270	85,533	248 (4)	85,781
Renewal & Replacement Fund (2.5%)	101,308	109,219	(16,314) (5)	92,905
Total Debt Service Requirement	1,156,916	1,365,724	(13,587)	1,352,137
SB 234 Cash Working Capital	300,555	308,711	-	308,711
Remaining Cash	190,412	12,183	13,587	25,770
Percent Coverage (A) / (B)	166.73%	144.04%		143.73%
Average rate for 3,400 gallons	\$ 72.08	\$ 73.88	\$ -	\$ 73.88
Average rate for 4,000 gallons	\$ 84.80	\$ 86.92	\$ -	\$ 86.92

Staff Adjustments

<u>Adjustment Description</u>			\$	Increase <Decrease>
(1)	Operating Revenues	Per Staff Analysis	3,651,632	(308,711)
		Per Application with Project	3,960,343	
	Adjust revenues in accordance with PSC General Order 183.11.			
(2)	SB 234 Annual Working Cash Collections	Per Staff Analysis	308,711	308,711
		Per Application with Project	-	
	Account for SB 234 (2015) funding pursuant to PSC General Order 183.11.			
(3)	Principal & Interest	Per Staff Analysis	1,173,451	2,479
		Per Application with Project	1,170,972	
	The difference in P&I is related to Staff's calculation of a Loan of \$1,745,000 for 40 years (paid back over 38 years) at 5%.			
(4)	Reserve Account @ 10%	Per Staff Analysis	85,781	248
		Per Application with Project	85,533	
	Staff assumed a 10% reserve on the new debt.			
(5)	Renewal & Replacement Fund (2.5%)	Per Staff Analysis	92,905	(16,314)
		Per Application with Project	109,219	
	Staff used 2.5% of the projection of "Operating & Other Revenues" as the basis of the renewal & replacement fund.			