

Exhibit 2

STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

In the Matter of the Petition of
Gordon's Corner Water Company for an
Increase in Rates and Charges for Water Service

BPU DOCKET NO. WR2311_____

DIRECT TESTIMONY OF

DAVID G. ERN
PRESIDENT

AND

ERIC C. OLSEN, P.E.
CHIEF OPERATING OFFICER

November 2023

1 **Q1. PLEASE STATE YOUR NAME AND PRESENT POSITION.**

2 **DGE.** My name is David G. Ern. I am presently employed as the President of Gordon's
3 Corner Water Company ("GCWC" or "Company") which is located at 27
4 Vanderburg Road in Marlboro, NJ. The Chief Operating Officer, Eric C. Olsen,
5 P.E., reports directly to me and others report directly on non-operation issues.

6 **ECO.** My name is Eric C. Olsen, P.E. I am presently employed as the Chief Operating
7 Officer of Gordon's Corner Water Company.

8

9 **Q2. WHAT DEGREES AND LICENSES DO YOU HOLD?**

10 **DGE.** I received my Bachelor of Science in Business Administration in 1992 from the
11 University of Richmond. I have W4 and T3 operator licenses from the NJDEP.

12 **ECO.** I received my Bachelor of Science in Civil Engineering in 1990 from New Jersey
13 Institute of Technology ("NJIT"). I hold a Professional Engineers License in both
14 New Jersey and Pennsylvania. I also have W4, T4, N1 and C2 operator licenses
15 from the NJDEP.

16

17 **Q3. WHAT IS YOUR EMPLOYMENT HISTORY IN THE WATER
18 INDUSTRY AND WITH GORDON'S CORNER WATER COMPANY?**

19 **DGE:** I began working at Gordon's Corner Water Company in 1996 as its General
20 Manager. In 2001, I was promoted to Vice President & General Manager. In
21 2013, I was again promoted to President & Chief Operating Officer. As of April,
22 2017, I hold the position of President.

23 **ECO.** From 1990 to 1997, I was an Engineer and then Operations Engineer for New
24 Jersey American Water Company.

25 From 1997 to 1998, I was a Project Engineer with Sambol Constructions Co.
26 where I managed various water and sewer projects throughout the State.

27 In 1998 I joined Shorelands Water Co as the T&D Superintendent. I have moved
28 to positions of increased responsibility and was named Chief Operating Officer in
29 2010, a position I held until the Company was sold in April 2017.

30 I began working at Gordon's Corner Water Company in April, 2017 as the Chief
31 Operating Officer.

1

2 **Q4. WHAT PROFESSIONAL EXPERIENCE HAVE YOU ACQUIRED IN**
3 **YOUR PREVIOUS POSITIONS?**

4 **DGE.** Prior to working for Gordon's Corner Water Company, I worked at Ern
5 Construction Company, a water utility contractor. Undertaking water main
6 installation projects of various sizes and degrees, I gained water distribution
7 system knowledge firsthand, including how water pipe and all the associated
8 appurtenances are installed. This experience served me well as I transitioned to
9 the General Manager position of Gordon's Corner Water Company.

10 **ECO.** I began as an Engineer with the New Jersey American Water Company and
11 progressed to Operations Engineer. I was responsible for the design and
12 construction of approximately \$25 million worth of capital projects each year. I
13 was involved with the day-to-day functions at American's different operating
14 centers throughout the State.

15 During my time with Sambol Construction, I was responsible for the bidding and
16 construction of large water and wastewater projects throughout the State.

17 I started with Shorelands Water Company, Inc. as the T&D Superintendent and
18 progressed through the Company until becoming the Chief Operating Officer. As
19 Chief Operating Officer I was responsible for all aspects of running the Company.
20 While at the Company, I developed and implemented a GIS Mapping system and
21 mobile work order system. I facilitated the installation of variable frequency
22 drives on all large pumping units which resulted in increased operating
23 efficiencies.

24
25 **Q5. WHAT ARE YOUR DUTIES WITH THE PETITIONER?**

26 **DGE.** As President of Gordon's Corner Water Company, I have ultimate responsibility
27 for all functions of the Company. I work in conjunction with our COO who has
28 direct day-to-day responsibility and reports to me. I am responsible for capital
29 planning and financing, budgeting, rate making and other regulatory matters, and
30 representing the Company in the industry and with regulators and other

1 governmental officials, often through associations such as NJUA, NAWC and
2 AWWA.

3 **ECO.** As Chief Operating Officer of Gordon's Corner Water Company, I have
4 responsibility for all operating functions of the Company. Those areas of my
5 responsibilities include the operation and maintenance of the facilities, capital and
6 operations budgets and billing, as well as implementation of new technology. In
7 my position, I am intimately involved with the management, planning and
8 administration of the Company in all phases.

9

10 **Q6. DESCRIBE THE MANAGEMENT OF GORDON'S CORNER WATER**
11 **COMPANY?**

12 **DGE.** Eric C. Olsen, P.E. is our Chief Operating Officer. As stated previously, he is
13 responsible for all operating functions of the Company.

14 John P. Morro, CPA, is our Controller. He supervises our accounting system and
15 the day-to-day financial aspects of the utility. He was hired to replace our former
16 Accounting Manager who retired in 2016.

17 The three of us work closely together on all aspects of the management and
18 operation of Gordon's Corner Water Company.

19

20 **Q7. WOULD YOU BRIEFLY DESCRIBE THE UTILITY PLANT OF**
21 **GORDON'S CORNER WATER COMPANY?**

22 **ECO.** The utility plant of Gordon's Corner Water Company presently consists of nine
23 (9) wells; five (5) treatment plants; four (4) water storage tanks; 212 miles of
24 water mains; 2,465 valves; 1,226 hydrants; 14,680 meters; and related items of
25 plant necessary for safe, adequate and proper water service to our customers.

26

27 **Q8. WHY IS GORDON'S CORNER WATER COMPANY PRESENTING THIS**
28 **APPLICATION FOR A RATE INCREASE?**

29 **DGE.** Among other issues, the timing of this request for a rate increase is largely being
30 driven by the following reasons:

1 1. To offset increases in labor and benefits. The regulatory environment for water
2 utilities continues to be more challenging specifically with the introduction of the
3 new cybersecurity requirements and the Water Quality Accountability Act.
4 GCWC offers a salary and benefit structure necessary to maintain a work force
5 comparable to other Class A water utility companies to remain in compliance with
6 all regulatory requirements.

7 2. Gordon's Corner Water Company purchases bulk water from the Marlboro
8 Township Water Utility Division (MTWUD), who in turn receives its bulk
9 supplies from Middlesex Water Company. Under BPU Docket #WR23050292,
10 Middlesex Water Company has filed for an overall rate increase of 31.23%. As a
11 result, the Marlboro Township Water Utility Division rate would increase by
12 approximately 30.31% which is roughly equivalent to a \$933,000 annual increase
13 in purchased water expense to Gordon's Corner. GCWC also purchases bulk
14 water from Veolia Water-Matchaponix. Veolia Water filed for a 19.57 % increase
15 under BPU Docket #WR23110790. As a result, Veolia's rate would increase by
16 14.9% to Gordon's Corner which is equivalent to a \$235,000 annual increase in
17 purchased water expense. Certainly, whatever Middlesex and Veolia are granted
18 by the BPU because of their rate increase applications cannot be known at this
19 time, but due to the magnitude of the possible impact of these matters on GCWC,
20 Gordon's Corner cannot wait for that to be fully known. We will certainly update
21 our testimonies and data in this case based on that information when it becomes
22 known.

23 3. Gordon's Corner Water Company performs annual tank painting and well
24 maintenance and is proposing to include in base rates the ongoing annual expense
25 for this work. The Company currently has 9 production wells and proposes to
26 redevelop a well each year resulting in a 9-year maintenance cycle. To better
27 manage our regular tank painting needs, the Company will be annually incurring
28 tank painting expenses. Large tank painting projects will be spread over 3 years.
29 We currently have an annual tank painting scheduled over the next 9 years.

- 1 4. To reflect increases in operating expenses, which are certainly to be experienced
2 by the petitioner during its normal operation.
- 3 5. To establish a normalized level of revenue going forward which will better allow
4 Gordon's Corner to finance essential and continuing plant investment including
5 the installation of new mains, hydrants and services, along with continued, needed
6 and appropriate treatment plant upgrades.
- 7 6. To enable the petitioner to maintain an adequate rate of return on its current net
8 investment in used and useful property, i.e., its rate base. Our requested 9.60%
9 return on equity was chosen on the basis of the Company's last base rate case in
10 2021 (Board Order dated February 23, 2022, in BPU Docket #WR21070979), as
11 well as after a review of the results of subsequent rate case decisions by the BPU
12 which generally have resulted in that return on equity. As a small utility with a
13 smaller customer base than others across which to spread costs, decisions must be
14 made about where to allocate our limited resources and customer dollars. Based
15 on the consistent recent BPU decisions on this issue, we did not feel it was wise to
16 spend thousands of dollars to produce a separate rate of return testimony other
17 than what our management team could provide themselves in discovery. I would
18 note that our management team struggles with these issues daily.
- 19 7. To establish rates which will be sufficient to enable the petitioner, under efficient
20 and economical operation, to maintain and support its financial integrity and to
21 raise such funds as may be necessary for the proper discharge of its public duties.
- 22 8. To maintain earnings comparable to those available to investors in other
23 enterprises of similar risk.
- 24 9. To maintain cash flow of the petitioner.
- 25 10. To enable petitioner to continue to provide safe, adequate, and proper service to
26 its customers.

27

1 **Q9. WHEN WAS THE LAST RATE INCREASE TO GORDON'S CORNER**
2 **WATER BASE RATES?**

3 **DGE.** Gordon's Corner Water last increased its rates on March 1, 2022, by 11.44%.

4
5 **Q10. HAVE YOU CALCULATED THE ANTICIPATED PROFORMA SALES?**

6 **ECO.** Yes.

7
8 **Q11. WOULD YOU BRIEFLY EXPLAIN YOUR METHODOLOGY FOR**
9 **CALCULATING THE ANTICIPATED PROFORMA SALES?**

10 **ECO.** The Company has calculated an increase to test year consumption of
11 approximately 6 MG, which yields proforma consumption under present rates of
12 1,435,800 thousand gallons excluding sales to Englishtown. The proposed
13 consumption is based on a five-year average of annual sales volumes from 2019
14 to 2023. The five-year timeframe includes years with higher summer precipitation
15 and those that were drier and therefore provides an accurate representation of
16 usage for the proforma consumption.

17
18 **Q12. PLEASE EXPLAIN THE PRO FORMA ADJUSTMENT TO CELLULAR**
19 **REVENUE.**

20 **DGE.** The Company currently has lease agreements with four cellular service providers
21 to occupy space on two of its water storage tanks. The Company is showing a 3%
22 increase in its cellular revenue, which is consistent with its current lease
23 agreements.

24
25 **Q13. PLEASE DESCRIBE THE INHERENT FINANCIAL RISKS**
26 **ASSOCIATED WITH A SMALLER WATER UTILITY.**

27 **DGE.** The financial risk to any water utility the size of Gordon's Corner Water
28 Company is substantially greater than to larger companies. Access to capital is
29 more difficult, cash reserves are generally less. Geographic diversification of
30 service territory is absent. The cost of rate filings is disproportionate to amounts
31 sought, small increases in cost have dramatic effects on our operations and our

1 ROE, our fixed costs match up more negatively with our fixed charges, and
2 because of those factors, and probably others, regulatory lag in responding to cost
3 changes is more of a concern to a water utility of this size rather than larger, more
4 geographically diversified utilities. Because of these factors, and all else being
5 equal, we believe a larger risk premium should be recognized for smaller utilities.
6 Nevertheless, as noted above, rather than expend resources for expert testimony
7 for return on equity at this time, the Company has chosen to simply use the last
8 return on equity approved by the Board in its most recent base rate case settlement
9 in 2022. Especially given other fairly consistent regulatory practices, and due to
10 our experienced management team, who deal with the reality of our operations
11 within our budgets on a daily basis and those cost considerations, Gordon's
12 Corner has chosen not to hire a separate expert witness to just deal with return on
13 equity.

14
15 **Q14. WHAT FACILITIES HAVE BEEN ADDED OR REPLACED BY**
16 **GORDON'S CORNER SINCE ITS LAST RATE CASE?**

17 **ECO.** Since the last base case in 2021, the Company has completed the refurbishment of
18 4 pressure filters at its Plant 4 treatment plant. The 40-year-old filters were
19 outfitted with new underdrain systems and the interiors painted. New media was
20 also installed.

21 The company has also started design of a new 2.0 MG standpipe for its high
22 service gradient in Marlboro. The gradient currently has only one tank and the
23 additional tank will allow for the existing tank to be taken out of service and
24 painted. The company is currently moving through the Marlboro Zoning Board
25 process and is expecting to receive final approval in the 4th quarter of 2023. It is
26 expected that construction of the new tank will start in the Fall of 2024.

27 We are also in the process of designing a new above ground interconnection
28 building with Veolia-Matchaponix to replace the existing below ground chamber
29 that has reached the end of its useful life. The new interconnection will be above
30 ground and safer for our employees to operate in since they will no longer have to
31 enter a confined space.

1 The Company continues to expand its program of replacing plastic service lines
2 which are prone to leakage. Approximately 100 service lines were replaced in
3 2023. The Company attempts to coordinate our work with paving programs of the
4 Towns in our service area to not incur the cost of final paving.
5

6 **Q15. HOW IS GORDON'S CORNER CONTINUING TO PROMOTE**
7 **CONSERVATION?**

8 **ECO.** Gordon's Corner Water Company promotes mandatory year-round odd/even
9 outdoor water usage consistent with existing ordinances in Marlboro and
10 Manalapan Townships. In addition, we read meters monthly and that allows us
11 and the customer to identify potential leaks early. Our Customer Service
12 personnel review reports which show exceptionally high-water use. We then
13 contact the customers to inform them that they may have a leak. We perform site
14 visits to check low flow indicators on the meters and we employ other resources
15 which are provided on our website.
16

17 **Q16. WHAT INNOVATIVE PRACTICES HAS GORDON'S CORNER**
18 **UNDERTAKEN TO REDUCE COSTS?**

19 **ECO.** While Gordon's Corner always strives in all our projects to both be reliable and
20 innovative, I provide here some of the more significant examples. Gordon's
21 Corner continues to utilize a Geographic Information System (GIS) to manage its
22 assets. Over the past several years we have continued to store more information
23 such as customer shut off locations throughout our service area. This information
24 reduces guess work and improves efficiency by allowing our field crews to
25 quickly find shut-off locations using photos and measurements stored in the
26 system. GIS has resulted in a much more efficient flow of work to and from the
27 field and has allowed us to maintain more detailed asset records. Our GIS System
28 is also linked to our Customer Information System so field crews can receive real-
29 time information such as shut-off locations, historical work orders and usage
30 patterns. GIS has allowed our field crews to be better informed in real time and
31 better able to address issues that arise in a timely fashion.

1 We continue to utilize a mobile work order system that runs on standard tablets.
2 This system allows our customer service personnel to dispatch work directly
3 through our Customer Information System to the field. All paper orders have
4 been eliminated. Available personnel are shown on a map, and they can be routed
5 to nearby work or emergency calls as necessary. Utilizing a mobile work-order
6 system has resulted in more efficient operations and improved customer service.
7 In addition, the system allows employees to take pictures of their completed work
8 and meter information which allows verification of information and reduces the
9 need to reschedule appointments to obtain incorrect or missing information
10 collected.

11 Gordon's Corner Water Company uses Elements XS to manage its assets.
12 Elements XS is a software product that integrates with our ESRI GIS mapping
13 system. The Elements software allows us to track maintenance on assets such as
14 hydrants, valves, and water mains. The software is also able to generate asset
15 management data which we incorporate into our Asset Management Plan required
16 by the Water Quality Accountability Act. The software provides a powerful tool
17 for assessing the condition of our assets and allows Gordon's Corner to make
18 informed decisions on where to focus our O&M and Capital expenditures. This
19 system was developed in accordance with the requirements of the Water Quality
20 Accountability Act which became effective in 2017.

21

22 **Q17. WHAT IS GORDON'S CORNER DOING TO PROMOTE AND**
23 **COORDINATE SECURITY FROM TERRORISM?**

24 **ECO.** Gordon's Corner has security cameras and alarms systems at all major facilities.
25 Each year we undergo an onsite security inspection by NJBPU personnel of our
26 critical facilities. As part of the America's Water Infrastructure Act, we have
27 performed a thorough Risk and Resilience Assessment which has been certified to
28 the EPA. Over the past year we have performed penetration testing of our
29 SCADA and business networks to test our current security measures. We have
30 also contacted our firewall and email providers to ensure we have taken advantage

1 of the security measures that are offered. Our onsite IT person reviews server and
2 event logs regularly and reviews security reports provided by our firewall
3 company. Employees have been trained in network and email security with a
4 refresher provided annually.

5 Gordon's Corner also has close working relationships with the Marlboro and
6 Manalapan Police Departments, which both have excellent security performance
7 records. We also receive communications and bulletins from the New Jersey
8 Regional Operations Intelligence Center in Trenton on any pending threats.
9 Gordon's Corner continues to harden its assets by updating and expanding its use
10 of video surveillance at all its facilities.

11 In accordance with Board Order #AO16030196, Gordon's Corner has prepared
12 and implemented a Cybersecurity Plan to protect our SCADA and business
13 network assets. We are also a member of the NJUA Cybersecurity Committee
14 and the New Jersey Cybersecurity & Communications Integration Cell.

15

16 **Q18. WILL YOU BE AVAILABLE TO SUPPLEMENT GORDON'S CORNER**
17 **RESPONSES TO DISCOVERY?**

18 **DGE.** Yes. GCWC will provide updates and supplement all aspects of Gordon's Corner
19 as the case and our test year progresses.