

Petition 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. WR2107_____

DIRECT COMBINED TESTIMONY OF

DAVID G. ERN
PRESIDENT

AND

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

July 2021

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 a W-4 and T-3 operator licenses from the
12 NJDEP.

13 **ECO.** I received my Bachelor of Science in Civil Engineering in 1990 from New Jersey
14 Institute of Technology ("NJIT"). I hold a Professional Engineers License in both
15 New Jersey and Pennsylvania. I also have W4, T4, N1 and C1 operator licenses
16 from the NJDEP.

17

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

20 **DGE:** I began working at Gordon's Corner Water Company in 1996 as its General
21 Manager. In 2001, I was promoted to Vice President & General Manager. In
22 2013, I was again promoted to President & Chief Operating Officer. As of April,
23 2017, I hold the position of President.

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

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

28 In 1998 I joined Shorelands Water Co as the T&D Superintendent. I have moved
29 to positions of increased responsibility and was named Chief Operating Officer in
30 2010, a position I held until the Company was sold in April, 2017.

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

3

4 **Q4. WHAT PROFESSIONAL EXPERIENCE HAVE YOU ACQUIRED IN**
5 **YOUR PREVIOUS POSITIONS?**

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

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

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

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

26

27 **Q5. WHAT ARE YOUR DUTIES WITH THE PETITIONER?**

28 **DGE.** As President of Gordon's Corner Water Company, I have ultimate responsibility
29 for all functions of the Company. I work in conjunction with our COO who has
30 direct day-to-day responsibility and reports to me. I am responsible for capital

1 planning and financing, budgeting, rate making and other regulatory matters, and
2 representing the Company in the industry and with regulators and other
3 governmental officials, often through associations such as NJUA, NAWC and
4 AWWA.

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

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

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

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

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

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

24 **ECO.** The utility plant of Gordon's Corner Water Company presently consists of: nine
25 (9) wells; five (5) treatment plants; four (4) water storage tanks; 206 miles of
26 water mains; 2,137 valves; 1,176 hydrants; 14,779 meters; and related items of
27 plant necessary for safe, adequate and proper water service to our customers.

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

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

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

9 2. Gordon's Corner Water Company purchases bulk water from the Marlboro
10 Township Water Utility Division (MTWUD), who in turn receives its bulk
11 supplies from Middlesex Water Company. Under BPU Docket #WR21050813,
12 Middlesex Water Company has filed for an overall rate increase of 38%. As a
13 result, the Marlboro Township Water Utility Division rate would increase by
14 approximately 40% which is roughly equivalent to a \$1,002,000 annual increase
15 in purchased water expense to Gordon's Corner. GCWC also purchases bulk
16 water from Suez-Matchaponix. Suez received a 5.51% increase under a Board
17 Order dated May 19, 2021 in BPU Docket #WR20110729. This is equivalent to a
18 \$78,000 annual increase in purchased water expense. Certainly whatever
19 Middlesex is granted by the BPU as a result of their rate increase application
20 cannot be known at this time, but due to the magnitude of the possible impact of
21 that matter on GCWC, Gordon's Corner cannot wait for that to be fully known.
22 We will certainly update our testimonies and data in this case based on that
23 information when it becomes known.

24 3. Gordon's Corner Water Company is performing annual tank painting and well
25 maintenance and is proposing to include in base rates the ongoing annual expense
26 for this work. The Company currently has 9 production wells and proposes to
27 redevelop a well each year resulting in a 9 year maintenance cycle. To better
28 manage our regular tank painting needs, the Company will be annually incurring
29 tank painting expenses. Large tank painting projects will be spread over 3 years.
30 We currently have 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 in the course of 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 2018 (Board Order dated August 29, 2018 in BPU Docket #WR18030268), 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 where to allocate our limited resources and customer dollars. Based on the
15 consistent recent BPU decisions on this issue, we did not feel it was wise to spend
16 thousands of dollars to produce separate rate of return testimony other than what
17 our management team could provide themselves in discovery. I would note that
18 our management team struggles with these issues on a daily basis.
- 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 its
26 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 August 29, 2018 by 11.5%.
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.** Based on the Howard J. Woods regression analysis agreed upon in order to
11 calculate the Company's pro forma consumption in the previous base rate case,
12 BPU Docket # WR1803268, the Company has calculated a decrease to test year
13 consumption of 7 MG, which yields proforma consumption under present rates of
14 1,397,000 thousand gallons excluding sales to Englishtown. The regression
15 analysis was updated to encompass the water sales years 2011-2020. This
16 includes all the years used in the last case updated to include the post-rate case
17 years of actual experience.

18 The data shows that per customer domestic usage continues to trend downwards.
19 This is most likely due to the increased use of water conserving fixtures and
20 appliances as well as a general awareness of water conservation. The use of water
21 saving appliances has been part of the BPU energy conservation rebate program
22 for several years and we believe that program, combined with the newer designs
23 of these appliances and the passage of time, have prompted customers to update
24 older appliances.
25

26 **Q12. PLEASE EXPLAIN THE PRO FORMA ADJUSTMENT TO CELLULAR**
27 **REVENUE.**

28 **DGE.** The Company currently has lease agreements with four cellular service providers
29 to occupy space on two of its water storage tanks. Sprint is one of those cellular
30 service providers. Due to its merger with T-Mobile, Sprint will be vacating both

1 of the leased sites in 2022. This equates to a \$95,000 decrease in cellular revenue
2 during the pro forma period.
3

4 **Q13. PLEASE DESCRIBE THE INHERENT FINANCIAL RISKS**
5 **ASSOCIATED WITH A SMALLER WATER UTILITY.**

6 **DGE.** The financial risk to any water utility the size of Gordon's Corner Water
7 Company is substantially greater than to larger companies. Access to capital is
8 more difficult, cash reserves are generally less. Geographic diversification of
9 service territory is absent. The cost of rate filings is disproportionate to amounts
10 sought, small increases in cost have dramatic effects on our operations and our
11 ROE, our fixed costs match up more negatively with our fixed charges, and
12 because of those factors, and probably others, regulatory lag in responding to cost
13 changes is more of a concern to a water utility of this size rather than larger, more
14 geographically diversified utilities. Because of these factors, and all else being
15 equal, we believe a larger risk premium should be recognized for smaller utilities.
16 Nevertheless, as noted above, rather than expend resources for expert testimony
17 for return on equity at this time, the Company has chosen to simply use the last
18 return on equity approved by the Board in its most recent base rate case settlement
19 in 2018. Especially given other fairly consistent regulatory practices, and due to
20 our experienced management team who deal with the reality of our operations
21 within our budgets on a daily basis and those cost considerations, Gordon's
22 Corner has chosen not to hire a separate expert witness to just deal with return on
23 equity.
24

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

27 **ECO.** Since the last base case in 2018, the Company has completed the installation of a
28 new well. Well #14 replaces Well #4 which had reached the end of its useful life.
29 The new well, which is screened in the Farrington Aquifer, will be permitted to
30 operate at the same time as Well #10 which also draws water from the Farrington.
31 Being able to run both wells will increase the overall and firm capacity of our

1 Treatment Plant #1. Well #14 is rated for 1,000gpm and will use a variable
2 frequency drive to control the speed of the pump and ensure energy efficiency.
3 As part of the Well #14 project, masonry buildings were built around the existing
4 Well #10 and the new Well #14. The new buildings provide security and protect
5 the equipment from the elements. The new buildings also help with sound
6 abatement since our facility is located in a residential neighborhood. In addition
7 to the new well, our Treatment Plant #1 has also gone through some upgrades.
8 During the winter of 2019/2020, the entire electrical system for the Plant was
9 replaced. A new 480v 3 phase service was installed and all the main distribution
10 panels, motor control equipment and the feed to Well #10 were replaced. The
11 traditional motor starters for the booster pumps were replaced with variable
12 frequency drives. In addition to the electrical work, the filter interiors were
13 sandblasted and repainted. The existing underdrain system in each filter was
14 removed and a new stainless-steel system was installed along with new filter
15 media. Lastly, the three existing booster pumps were replaced with two larger
16 booster pumps which are also controlled by variable frequency drives. In the fall
17 of this year, we plan to install an emergency generator with the capacity to run the
18 treatment plant and both wells. The above projects are adding approximately \$3
19 million to the Company's rate base before the end of the test year being used in
20 this rate proceeding.

21

22 **Q15. HOW IS GORDON'S CORNER CONTINUING TO PROMOTE**
23 **CONSERVATION?**

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

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Q16. WHAT INNOVATIVE PRACTICES HAS GORDON’S CORNER UNDERTAKEN TO REDUCE COSTS?

ECO. While Gordon’s Corner strives at all times in all our projects to both be reliable and innovative, I provide here some of the more significant examples. Gordon’s Corner utilizes a Geographic Information System (GIS) to manage its assets. Over the past several years we have continued to store more information such as as-builts of much of the subdivisions within our service area. This information reduces guess work and improves efficiency by allowing our field crews to ‘see’ not only the water assets but storm and sanitary facilities. GIS has resulted in a much more efficient flow of work to and from the field and has allowed us to maintain more detailed asset records. Our GIS System is also linked to our Customer Information System so field crews can receive real time information such as shut-off locations, historical work orders and usage patterns. That is why we are currently performing a multi-year project to GIS every customer shut-off valve in the system. GIS has allowed our field crews to be better informed in real time and better able to address issues that arise in a timely fashion.

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

Gordon’s Corner Water Company is moving to a new asset management software system in 2021. Elements XS is a software product that integrates with our ESRI GIS software. We expect to have the system up and running during the third

1 quarter of this year and should be in a position to update the parties during the
2 pendency of this case. The Elements software will allow us to track maintenance
3 on assets such as hydrants, valves and water mains. The software will also be
4 able to generate the Asset Management Report required by the Water Quality
5 Accountability Act. The software will provide a powerful tool for assessing the
6 condition of our assets and allow Gordon's Corner to make informed decisions on
7 where to focus our O&M and Capital expenditures. This system is being
8 developed in accordance with the requirements of the Water Quality
9 Accountability Act which became effective in 2017.

10 The Company has recently completed an electrical and booster pump upgrade at
11 its Plant #1 facility in Manalapan. As part of the project, two new 125hp variable
12 frequency drives were installed to control the Plant's two new booster pumps.
13 The previous pumps ran at full speed against partially closed valves.

14

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

17 **ECO.** Gordon's Corner has added security measures since 9/11 and reviews its
18 vulnerability assessment of all its facilities on a regular basis. As part of the
19 America's Water Infrastructure Act, we recently performed a thorough Risk and
20 Resilience Assessment which has been certified to the EPA. Over the past year
21 we have performed penetration testing of our SCADA and business networks in
22 order to test our current security measures. We have also contacted our firewall
23 and email providers to ensure we have taken advantage of the security measures
24 that are offered. Our onsite IT person reviews server and event logs regularly and
25 reviews security reports provided by our firewall company. Employees have been
26 trained on network and email security with a refresher provided annually.

27 Gordon's Corner also has close working relationships with the Marlboro and
28 Manalapan Police Departments which both have excellent security performance
29 records. We also receive communications and bulletins from the New Jersey
30 Regional Operations Intelligence Center in Trenton on any pending threats.

1 Gordon's Corner continues to harden its assets by updating and expanding its use
2 of video surveillance at all of its facilities.

3 In accordance with Board Order #AO16030196, Gordon's Corner has prepared
4 and implemented a Cybersecurity Plan in order to protect our SCADA and
5 business network assets. We are also a member of the NJUA Cybersecurity
6 Committee and the New Jersey Cybersecurity & Communications Integration
7 Cell.

8

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

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