

BEFORE THE PUBLIC UTILITY COMMISSION
OF THE STATE OF OREGON

UP 384 and UP 391

In the Matter of the Joint Application for
Approval of the Sale of

SUNRIVER WATER, LLC,

to

NW NATURAL WATER OF OREGON, LLC,

Pursuant to ORS 757.480 and
OAR 860-036-2120 (UP 384)

and

In the Matter of the Application for Approval
of the Assignment of Assets by

SUNRIVER WATER, LLC

to

SUNRIVER RESORT LIMITED PARTNERSHIP,

Pursuant to ORS 757.480 and
OAR 860-036-2120 (UP 391)

DIRECT TESTIMONY OF SUNRIVER WATER, LLC

THOMAS O'SHEA

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DIRECT TESTIMONY OF THOMAS O'SHEA

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Q. Please state your name and how you are employed.

A. My name is Thomas O'Shea. I am currently employed as the Managing Director of Sunriver Resort and am Senior Vice President of Sunriver Resort Limited Partnership ("SRLP").

Q. Please describe your educational background and employment history.

A. I was graduated from Rockwell College in Ireland where I studied Hotel and Restaurant Management. I also attended Metropolitan College in London, England, where I studied Business Law and Accounting.

Prior to joining Sunriver Resort, I was Senior VP of Operations for Benchmark Hospitality in Houston, Texas. I also worked for Loews Hotels as Director of Finance for their London-based properties and General Manager at their Dallas, Texas property. I am a Board Director for the Oregon Restaurant and Lodging Association and past Chairman of the Board for the Central Oregon Visitors Association.

Q. What role have you had in the agreement to sell the membership interests of SRLP in Sunriver Water, LLC ("SRW") to NW Natural Water of Oregon, LLC ("Oregon Water")?

A. I was involved in negotiating the Membership Interest Purchase Agreement ("MIPA"). Now I am involved in the efforts to obtain Commission approval for this transaction.

Q. What role have you had in the assignment of certain assets from SRW to SRLP that is currently before the Commission for approval in Docket UP 391?

A. As we were negotiating the MIPA, SRLP identified certain assets that were owned by SRW that would have value to SRLP following the closing of the MIPA (the "Assets"). I negotiated with Oregon Water to exclude the Assets from the MIPA transaction.

Q. What topics will you cover in your testimony?

1 A. I will address the following topics:

- 2 • Background on SRLP ownership and operation of SRW.
- 3 • The reasons SRLP decided to sell SRW.
- 4 • Termination of the affiliated interest agreement.
- 5 • A description of the Assets and why assignment of the Assets to SRLP will not harm
- 6 SRW's ability to serve its customers.

7 **Q. Please describe SRW.**

8 A. SRW is a privately-owned water utility located in Sunriver, Oregon. SRW currently
9 provides water service to approximately 4,722 customers in the Sunriver area. SRW is
10 currently owned by SRLP and is managed by Gary Hutter. SRW is regulated by the
11 Commission for both service and rates.

12 **Q. How long has the owner of Sunriver Resort owned SRW?**

13 A. The owner of Sunriver Resort (the "Resort") (which has changed over time) has owned
14 and operated the water and wastewater utilities serving the Resort for many decades.
15 Since I started working at the Resort in 2008, the water utility has operated as SRW,
16 which is wholly-owned by SRLP. The wastewater utility, Sunriver Environmental, LLC
17 ("SRE") has also been wholly-owned by the owner of the Resort.

18 **Q. Is SRLP selling both SRW and SRE?**

19 A. Yes, both utilities are covered by the MIPA. My testimony generally addresses only
20 SRW because the Commission does not regulate SRE.

21 **Q. Please describe the management and operation of SRW.**

22 A. SRW has been operated professionally and responsibly throughout the years to provide
23 water service to residents and businesses located in and operating at the Resort.

24 **Q. Why did SRLP decide to sell SRW?**

25 A. SRLP is the operator of the Sunriver Resort and its associated properties and amenities.
26 While the utility business supports our ongoing businesses, operating the utilities is not

1 SRLP's primary focus. Accordingly, SRLP believes the sale of SRW to a company
2 experienced in and focused on the business of operating utilities is in the best interests of
3 the community and SRW's customers. SRLP will remain the largest customer of SRW
4 following the sale and will benefit with all other customers from the ongoing efficient
5 and well-managed operation of SRW.

6 **Q. What other transactions are related to the sale of SRW?**

7 A. There are two other transactions that are related to the sale of SRW that are within the
8 Commission's jurisdiction: (1) termination of an affiliated interest agreement between
9 SRW and SRLP; and (2) the assignment of the Assets from SRW to SRLP under the
10 General Assignment and Bill of Sale (the "Assignment").

11 **Q. What is the affiliated interest agreement?**

12 A. SRW has a Management Agreement with SRLP under which SRLP provides certain
13 services, including financial and accounting services, employment management services,
14 information and telecommunications services and support, insurance and risk
15 management and executive oversight. The Commission approved this as an affiliated
16 interest agreement in Docket No. UI 378, Order No. 16-452 (Nov. 23, 2016).

17 **Q. When and why will that agreement be terminated?**

18 A. Following closing of the MIPA, the affiliated interest agreement will be terminated
19 because SRW will no longer be an affiliated interest of SRLP. To the extent SRW
20 continues to obtain any of these services from SRLP on a temporary basis following
21 closing of the MIPA, that will be governed by the Transition Services Agreement
22 between SRLP and Oregon Water.

23 **Q. What property comprises the Assets that SRLP will retain following closing of the**
24 **MIPA?**

25 A. The Assets are made up of the following property:

- 26
- Well #12, which is currently used to irrigate the Crosswater golf course at Sunriver

1 Resort (the "Resort"). Included with Well #12 are the following assets and rights:

- 2 • Well structures and equipment, including valve boxes and telemetry equipment;
- 3 • Tax Lot 201108B000300, on which Well #12 is located; and
- 4 • Water Right Certificates 85484 and 85485.
- 5 • Well #4, which is no longer in use and has no associated water rights, including the
- 6 following assets:
 - 7 • Well structures and equipment; and
 - 8 • Tax Lot 201106DC00400, on which Well #4 is located.
- 9 • Portions of the fiber optic cable and conduit system utilized to provide network
- 10 services to the Resort.

11 **Q. Why did SRLP decide to retain the Assets?**

12 A. In connection with the sale of SRW to Oregon Water, SRLP evaluated assets owned by
13 SRW that are used for the benefit of SRLP and that could be retained by SRLP to
14 promote efficiency in the use of the assets while not affecting SRW's ability to serve its
15 other customers. Such assets were excluded from the MIPA. The Assets are currently
16 useful in the operation of SRW; however, the assignment of Assets will not hamper the
17 operations of SRW because they will no longer be required by SRW or because they can
18 be replaced by SRW.

19 **Q. Why did SRLP decide to retain Well #12 and its associated property and rights?**

20 A. Well #12 and its associated water rights are currently used to irrigate the Crosswater golf
21 course, which is owned and operated by SRLP. Retention of Well #12 will allow SRLP
22 to efficiently irrigate the Crosswater golf course and to control and monitor the irrigation
23 system including the withdrawal of water from Well #12.

24 **Q. What entity currently provides water service to irrigate Crosswater golf course?**

25 A. That service is currently provided by SRW. Following closing of the MIPA, SRLP will
26 irrigate the golf course itself utilizing these assets.

1 **Q. Is Well #12 currently used for any purpose other than irrigating the Crosswater golf**
2 **course?**

3 A. Yes. Well #12 is currently used to provide irrigation water to Caldera Springs Owners
4 Association ("CSOA") using other water rights held by SRW. Following transfer of the
5 Well #12 assets to SRLP, the water rights currently used to supply irrigation water to
6 CSOA will be retained by SRW and those water rights will be accessed from other wells
7 and infrastructure retained by SRW to provide irrigation water to CSOA.

8 **Q. Will the assignment of Well #12 and its associated assets and rights to SRLP harm**
9 **SRW's ability to serve its customers?**

10 A. No. The Assets associated with Well #12 being transferred to SRLP correspond precisely
11 to the removal of customer load, so SRW will not be affected by the transfer of the water
12 rights. Moreover, the water rights associated with Well #12 are restricted to use for
13 irrigation of the land that is the golf course. SRW would not be permitted to utilize that
14 water to serve other customers or for other purposes. No longer having the ability to draw
15 water from Well #12 will also not impact SRW because it has adequate access to water to
16 serve its customers through its other remaining wells.

17 **Q. What is Well #4?**

18 A. Well #4 is no longer in use, has no associated water rights, and does not supply water to
19 the SRW system. SRLP utilizes the real property associated with Well #4 to launch
20 recreational aquatic crafts for its guests into the Deschutes River.

21 **Q. Will the assignment of Well #4 and its associated assets to SRLP harm SRW's**
22 **ability to serve its customers?**

23 A. No. Well #4 and its associated property has no value to SRW. The well is no longer in
24 use and has no associated water rights. Its only current value is that the property on which
25 the well is located is used by the Resort for recreational purposes, to allow guests to
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1 launch aquatic crafts into the Deschutes River. Transfer of Well #4 will not harm SRW's
2 customers.

3 **Q. What are the fiber optic cable assets that SRW will assign to SRLP?**

4 A. One segment of the fiber optic cable and conduit system owned by SRW that is utilized
5 by the Resort will be transferred to SRLP. SRLP utilizes this fiber segment as part of the
6 network utilized by the Resort.

7 **Q. Will the assignment of these assets to SRLP harm SRW's ability to serve its
8 customers?**

9 A. No. As discussed in greater detail in Justin Palfreyman's testimony, Oregon Water will
10 make its own arrangements for an IT network. All other fiber optic and conduit assets
11 owned by SRW will continue to be owned and operated by SRW following its acquisition
12 by Oregon Water.

13 **Q. When will the Assignment be effective?**

14 A. The MIPA provides that the Assets will be assigned to SRLP before the closing of the
15 MIPA. The current intention is that the transfer of the Assets will be effective following
16 Commission approval of the MIPA and the Assignment, and shortly before the closing of
17 the MIPA.

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