

AVISTA CORPORATION

LEASE

DESIGNATED AREA: NINE MILE RESORT

PUBLIC RECREATIONAL LEASE NO.: WA-32-257.4

THIS LEASE entered into this 23rd day of January, 2007, between AVISTA CORPORATION, a Washington corporation, authorized to do business in the State of Washington, whose main address is 1411 East Mission Avenue, P. O. Box 3727, Spokane, Washington 99220-3727, hereafter referred to as "AVISTA", and WASHINGTON STATE PARKS AND RECREATION COMMISSION, whose address is 7150 Cleanwater Drive S.W., Olympia, WA 98504, hereinafter referred to as "PARKS".

On the date of this lease, AVISTA is the owner of certain real property located in Spokane County, more particularly described as follows:

That portion of the North half of the Southeast quarter of Section 36, Township 27 North, Range 41 East W.M., in Spokane County, Washington, described as follows:

Beginning at the Southwest corner of the North half of the Southeast quarter; thence along the South line of the North half of the Southeast quarter East (assumed bearing) 735.45 feet to the true point of beginning; thence East 622.02 feet; thence North 0°30' East 951.69 feet; thence South 89°30' East 50 feet; thence North 0°30' East 27 feet; thence North 89°30' West 50 feet; thence North 0°30' East 317.65 feet, more or less, to a contour line which is 1533 feet above mean sea level; thence continuing North 0°30' East to the North line of the Northeast quarter of the Southeast quarter of said Section 36; thence West along said North

line and along the North line of Government Lot 6 to a point which bears North 0°30' East of the true point of beginning; thence South 0°30' East of the true point of beginning; thence South 0°30' West to the true point of beginning. Together with the access road easement from Hedin Road to the resort containing an area of 15.57 acres, more or less, herein referred to as the "Premises" and as shown on "Exhibit A Map".

The term "PREMISES" shall further include those items listed on "EXHIBIT B", attached hereto and made a part hereof.

In consideration of the payment of rent and the performance of the mutual agreements contained in this lease, AVISTA hereby leases the Premises to PARKS.

The parties to this lease agree to the following terms and conditions:

1. USE OF PREMISES. The Premises shall be used only for "Resort" purposes that may include but not be limited to day use, overnight, and long-term camping and recreational use by the General Public. Long-term use, as has been historically allowed, shall end one (1) year from date of execution of this agreement. At the end of one year, PARKS shall enter the "Resort" into the CAMIS reservation system to be operated under WAC 352.32 "Public Use of State Park Areas". PARKS understands that the Premises (Nine Mile Resort) adjoin and may be a part of and subject to AVISTA's Spokane River Hydroelectric Development Project lands, Federal Energy Regulatory Commission (FERC) License No. 2545.

2. LAND VALUATION AND ANNUAL RENT The minimum estimated value in 2006 dollars for the land is \$500,000. The rent of \$5,700.00 annually, is waived by AVISTA for the term of this agreement, PROVIDED that PARKS does not breach or default on this agreement as provided for in Section 8. Should PARKS be placed in default by AVISTA, the annual rent described in this section will be due from the date of the default and annually charged thereafter until the default is cured. The rent waiver shall be considered as an in-kind donation by AVISTA.

3. **TERM AND RENEWAL.** Subject to PARKS' Commission approval of this agreement at its regular scheduled meeting on January 11, 2007, the period (term) of this Lease shall commence January 1, 2007, with PARKS taking possession on January 15, 2007, until December 31, 2037. During year 29 of the lease PARKS and AVISTA shall meet to decide the practicality of renewing the lease for the remainder of the FERC License term. Renewal shall be accomplished by written amendment signed by both parties. AVISTA and PARKS agree that in the event AVISTA determines to sell the Resort Property, PARKS shall have FIRST RIGHT OF REFUSAL to acquire the property at fair market value as established by an appraisal performed by a mutually agreed upon Certified/Licensed Appraiser. AVISTA shall notify PARKS in writing of their decision to sell and PARKS shall have ninety (90) days to respond in writing as to PARKS decision to either acquire or not acquire the property. Both parties to this agreement agree to negotiate in good faith as to the terms and conditions of a sale of the Resort Property.

4. **PARKS AGREES TO:**

a) Maintain and operate the Premises for general public recreation as stated hereinabove, shall police the Premises, maintain order, maintain current facilities in reasonable condition and shall keep them in good presentable condition and according to current industry standards. Current facilities shall be maintained until such time those facilities have exceeded their economic useful life or are replaced with new park facilities.

b) Use the Premises in a manner consistent with the terms of this lease and applicable local, state, or federal regulations and will commit to take reasonable steps to prevent stream bank damage or other soil erosion to occur, subject to legislative or other funding being made available.

c) Assume full responsibility to control all noxious weeds and promote conservation on the Premises and the access road. PARKS agrees that any use of herbicides or pesticides on the Premises will be in compliance with all provisions of Federal and State laws and regulations applicable to such substances. Any application of such substances must be approved, in advance in writing, by AVISTA's liaison as identified in this lease.

d) Furnish, at PARKS' expense, at all times during the term of this lease, all needed seed, fertilizers, supplies, tools, machinery, fencing materials, irrigation equipment, labor and any other type of material and/or assistance required or necessary in order to fulfill the terms and conditions of this lease.

e) Maintain, and keep in good repair, all exterior or perimeter fences, water, sewer, and electrical lines, buildings, docks, roads, ramps and other improvements on the Premises at PARKS' own expense and without cost to AVISTA. Prior to PARKS taking possession of the property, AVISTA shall have the three septic tanks pumped and the drainfields inspected by a county-approved septic pumping company. Said pumper's report shall be provided to PARKS for review and approval. If the report identifies any required repairs (work orders), AVISTA shall perform the work orders at AVISTA's expense.

f) Take all reasonable precautions to prevent fires on the Premises including any improvements located thereon.

g) Not commit waste or damage to the Premises nor allow waste or damage to the Premises by others.

h) Each party shall be responsible for the actions and inactions of itself and its own officers, employees, and agents acting within the scope of their authority.

i) Immediately upon termination or expiration of the term of this lease, peaceably surrender and deliver up the Premises to AVISTA in good order and repair, ordinary wear and tear excepted.

j) Not disturb or remove any archaeological, historical, or other cultural features or any improvements which may currently exist, or may be found to exist, on the Premises.

k) Protect the Premises from and against all deposits, spills or releases of hazardous substances or hazardous waste materials. The determination of what constitutes hazardous substances or hazardous wastes shall be in conformance with current or future definitions thereof by any local, state or federal government agency with authority to regulate these materials. PARKS shall be liable to AVISTA and shall indemnify and hold harmless AVISTA from and against any claims, liability, damages or personal injuries arising out of any condition on the Premises including cleanup costs, on account of any deposits, spill, release or discharge on the Premises of any hazardous substance or hazardous wastes during the term hereof, including damages for the diminution in value of the Premises. PARKS' obligation to indemnify and hold harmless AVISTA shall be in proportion to the degree of PARKS' negligence in comparison to the negligence, if any, of AVISTA. The obligations and covenants contained in this paragraph shall survive this lease.

l) PARKS shall not be liable to AVISTA and shall have no obligation to indemnify and hold harmless AVISTA from and against any claims, liability, damages or

personal injuries arising out of any condition on the Premises including cleanup costs, on account of any deposits, spill, release or discharge on the Premises of any hazardous substance or hazardous wastes, including damages for the diminution in value of the Premises for any such deposits, spill, release or discharge on the Premises of any hazardous substance or hazardous wastes occurring prior to the term or terms of this lease.

m) Maintain 24-hour on-site presence during the operational time as set forth in paragraph 4(p) herein and 24-hour availability during the remainder of the year.

n) Have the septic tanks inspected at least annually, pumped when sludge/scum levels approach PARKS' maintenance guidelines, and pumped at the end of the lease term, all at PARKS' expense.

o) Winterize the resort water system at the end of each season and prior to termination of the lease.

p) Operate the resort on a daily basis beginning no later than the last weekend in April, and closing no earlier than the day after Labor Day each year.

q) Make available, at no charge, to emergency services and regulatory agency use, the boat launch, boat storage space, and space for a weather station. Also, make available to AVISTA at no charge, the boat launch, and boat and equipment storage space, as needed to comply with FERC License conditions. All requests for boat launch usage, storage space, etc. are to be reviewed and agreed to by AVISTA and PARKS, prior to their acceptance on an annual basis. PARKS shall not be liable for any loss or damage to any of the items referenced in this Section (Section 4. q.) that are stored or installed on the Premises.

r) Perform or have performed dust abatement measures, with particular emphasis on the access road, with environmentally compatible material when needed to provide quality public service or prevent impact to adjacent land owners.

s) Return all keys for the Premises to the AVISTA Real Estate Department at the end of the lease.

t) Subject to legislative or other funding being made available, work to develop and integrate additional recreational facilities with current or future park facilities developed on PARK-owned lands. Facilities may include but are not limited to new camping and campground facilities together with infrastructure and other amenities designed to offer quality recreational opportunities on both PARK-owned and leased lands to park users, invitees and the public.

u) Be responsible for securing all necessary permits and cultural resource approvals and clearances for all projects proposed and conducted by PARKS. The permits and cultural resource approvals shall be in compliance and accordance with all applicable federal, state, local laws and ordinances. All mitigation and conditions of approval for the permits will be the responsibility of the PARKS for the specified projects.

v) Provide AVISTA relevant recreation use information necessary to comply with its FERC Form 80 requirements.

5. RESERVATIONS. AVISTA reserves all rights and interests in the Premises other than those specifically granted by this lease. These reservations include but are not limited to the following:

a) Minerals and Timber. All coal, oil, gas and other minerals and all deposits of stone, gravel, gems and other non-minerals valuable for building, mining or other commercial purposes and all timber and trees, whether standing or down. PARKS shall not open any mine, quarry, pit or diggings or work or dig any of the minerals or non-minerals mentioned above from any mine, quarry, pit or diggings situated on the Premises whether such mine, quarry, pit or diggings was open at the date of this lease or not. PARKS shall not cut, remove, use or destroy any timber or trees, either standing or down, without the express prior consent of the AVISTA designated liaison. Such consent shall not be unreasonably withheld by AVISTA.

b) Right of Entry. The right to have reasonable free access to and use of the Premises for AVISTA, its officers, employees, agents, licensees and permittees for the purposes of monitoring compliance with this lease agreement, the FERC License, and for any other official business or operational purpose. If such use of all or part of the Premises shall result in the loss of resort income, or the opportunity or ability to generate resort income, then AVISTA shall reimburse PARKS for use based upon resort revenues for a like period of a preceding season and adjusted to coincide with the then prevailing and printed resort fee schedule.

c) Additional Reservations. AVISTA reserves the right to grant rights-of-way over, under, or across the Premises, that would facilitate public recreational opportunity on the Premises, and PARKS hereby consents to any such conveyances, subject, however, to the rights of PARKS under the terms of this lease. AVISTA further reserves the right to impose restrictions as necessary to adequately protect the land, water, air or improvements in the area.

d) FERC. It is understood that the Premises is adjacent to and may be included within the boundaries of the Spokane River Hydroelectric Project, FERC License No. 2545, and that PARKS assumes possession of the Premises subject to the provisions, conditions and terms of said License and said Act as now in effect or as may be hereinafter imposed, changed, modified or amended.

e) Flowage and Flooding. It is specifically understood and agreed that AVISTA makes no assurance to PARKS, or to the public, as to the water level of Lake Spokane with reference to the Premises, it being acknowledged by the parties hereto that the Premises are either wholly or partially subject to being overflowed. AVISTA reserves the right to raise or lower said water level at any time without notice to PARKS, and for any purpose it may desire without any responsibility to PARKS, the public, or to anyone else by reason thereof. AVISTA reserves the right at any time to flood, subirrigate, drain, or otherwise affect the above Premises by the regulation or control of the waters of the Spokane River through the operation of the AVISTA's Spokane River Hydroelectric Project. Prior to any action on its part to raise the water level in Lake Spokane in such a manner as to flood or overflow the Premises, AVISTA agrees to use its best efforts to notify PARKS' Eastern Region Manager by telephone at (509) 662-0420 and in writing at 2201 North Duncan Drive, Wenatchee, WA 98801-1007 of such impending action and to allow PARKS a reasonable amount of time in which it can take action to assure the safety of its invitees and employees.

f) Utility Reservations and Right of Use. AVISTA reserves the right to enter upon the Premises for the purpose of inspection and also reserves the right to construct, reconstruct, and maintain electric and natural gas transmission and distribution lines, on, under or across the Premises, the right of ingress and egress for the purpose of constructing, reconstructing, maintaining or repairing any transmission lines, distribution lines, telephone lines, gas lines, or roads, and to carry on any work necessary in connection with the Long Lake hydroelectric facilities and Project lands. AVISTA reserves the right to protect the land, water, air or improvements in the area. AVISTA agrees to reimburse PARKS for any damage to any improvements belonging to PARKS as a direct result of any access, construction, reconstruction, or maintenance of AVISTA's facilities as described herein.

AVISTA is responsible for securing all necessary permits and cultural resource approvals and clearances for all projects proposed and conducted by AVISTA. The permits and cultural resource approvals shall be in compliance and accordance with all applicable federal, state, local

laws and ordinances. All mitigation and conditions of approval for the permits will be the responsibility of AVISTA for the specified projects.

6. PUBLIC ACCESS. The Premises shall remain open to the public for recreational activities, subject to applicable federal and state laws, public safety, and subject to any further rules or regulations AVISTA may from time to time impose. After one (1) year from execution of this agreement, PARKS shall impose user fees based on the current Parks Commission approved fee schedule. Each year, PARKS may close the boat launch to public access as a safety precaution for special events, from 8:00 A.M. to 2:00 P.M. on one Sunday prior to Memorial Day weekend, one Sunday after Labor Day, and one non-Holiday Sunday of PARKS' choosing.

7. IMPROVEMENTS. AVISTA and PARKS shall meet at least twice annually, once in the spring and once in the fall, or as otherwise agreed to discuss and review PARKS' past and proposed operations and/or improvements related to the resort. No improvements, other than those which have been pre-approved, may be placed upon or constructed on the Premises without prior written approval of AVISTA. AVISTA shall not unreasonably withhold approval for proposed projects or operational changes and shall, as necessary, seek approval from FERC on all proposed items requiring FERC approval. In such event, Parks will prepare and submit to AVISTA a "proposal package" containing the essential information listed in this Section. AVISTA and PARKS shall meet and come to a mutual decision as to whether the proposal should be implemented. PARKS is responsible for obtaining any and all local, regional, State or Federal permits or licenses required for approved improvements. AVISTA shall own all improvements that it provides funding for and PARKS shall own all improvements that it provides or receives funding for, not including those projects funded or provided by AVISTA. PARKS will maintain all facilities including but not limited to public boat docks and ramps, parking facilities, picnic shelters, gazebos, BBQ grills, recreation equipment, buildings, restrooms, picnic tables, trails, lighting and interpretive signs in a neat, clean, sanitary and safe condition to promote public use.

8. DEFAULT AND TERMINATION. AVISTA may terminate this lease
PROVIDED :

- a) That PARKS does not perform as described in Section 4 (a-t) of this agreement to the satisfaction of AVISTA and;
- b) AVISTA provides in writing a notice to PARKS detailing the performance failure and;
- c) AVISTA provides PARKS with 120 days to cure the performance failure or to otherwise cure the default to the satisfaction of AVISTA and;
- d) AVISTA provides PARKS with written notice that either approves PARKS cure or rejects PARKS cure;

OR

AVISTA and PARKS mutually agree in writing to terminate this agreement.

PARKS shall, upon termination of this lease, promptly and peaceably surrender possession and occupancy of the Premises, leaving them in as good a condition as existed at the beginning of the term of this lease, subject to normal wear and tear. Upon such termination, all rights of PARKS in and to the Premises shall cease.

9. SUBLEASING AND ASSIGNMENT. PARKS may not sublease or assign this lease or any interest in the Premises to any other person or entity without the prior written consent of AVISTA. Such Sublessee or Assignee shall be subject to and be bound by the same terms and provisions of this lease as fully as if Sublessee or Assignee had been a party to the execution hereof.

10. AMENDMENTS. This document constitutes the sole and entire agreement between the parties. No statements, promises or inducements made by either party which are not contained in this agreement are valid or binding unless evidenced in writing in an Amendment and signed by both parties.

11. SUCCESSORS IN INTEREST. All terms, conditions and provisions of this lease shall be binding upon, inure to the benefit of, and be enforceable by and upon the successors in interest of AVISTA and PARKS.

12. **AVISTA LIAISON.** AVISTA designates Elvin "Speed" Fitzhugh as liaison for AVISTA under this lease. PARKS will make all official contacts with AVISTA through the liaison. AVISTA may change this designation upon written notice to PARKS.

13. **ATTORNEY'S FEES.** In the event of the bringing of any action by either party hereto against the other hereon or hereunder, or by reason of the breach of any term, covenant, or condition on the part of the other party, or arising out of this lease, the party in whose favor final judgment shall be entered shall be entitled to have and recover from the other party, reasonable attorney's fees to be fixed by the court which shall have rendered such judgment, together with all costs and expenses expended or incurred by prevailing party in connection with such default or action.

14. **CONTACT INFORMATION:**

Avista Corporation
Speed Fitzhugh, MSC-1
Hydro Licensing Dept.
1411 E. Mission Ave.
P. O. Box 3727
Spokane, WA 99220-3727
Phone: 509-495-4998

Washington State Parks and Recreation
Ken Graham, Program Coordinator
Lands Program
7150 Cleanwater Drive S.W.
PO Box 42650
Olympia, WA 98504
Phone: 360-902-8680

IN WITNESS WHEREOF, the parties have executed this lease on the day and year first above written.

AVISTA CORPORATION

By Donald Malisani

Date 1/23/2007

WASHINGTON STATE PARKS

By Rex Derr

Rex Derr, Director
Date 1/16/07

AVISTA CORPORATION ACKNOWLEDGMENT

State of Washington)

) ss.

County of Spokane)

On this 23rd day of January, 2007, before me personally appeared Donald J. Malisani SR/WA to me known to be the Manager of Real Estate Dept. of the Corporation that executed the within and foregoing instrument, and acknowledged said instrument to be the free and voluntary act and deed of said corporation, for the uses and purposes therein mentioned, and on oath stated that he/she was authorized to execute said instrument and that the seal affixed, if any, is the corporate seal of said corporation.

GIVEN under my hand and official seal the day and year last written above.



Signed Theodore M. Baker

Printed THEODORE M. BAKER

NOTARY PUBLIC in and for the State of

Washington, residing at Mead

My commission expires: 1/31/08

Washington State Parks & Recreation Commission Acknowledgment

STATE OF WASHINGTON)
) ss.
County of THURSTON)

THIS IS TO CERTIFY that on this day, before me the undersigned Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared **Larry Fairleigh**, to me known to be the **Assistant Director** of the **Washington State Parks and Recreation Commission** that executed the foregoing instrument and acknowledged the said instrument to be the free and voluntary act and deed of said Commission, for the uses and purposes therein mentioned, and on oath stated that **he** was authorized to execute the said instrument.

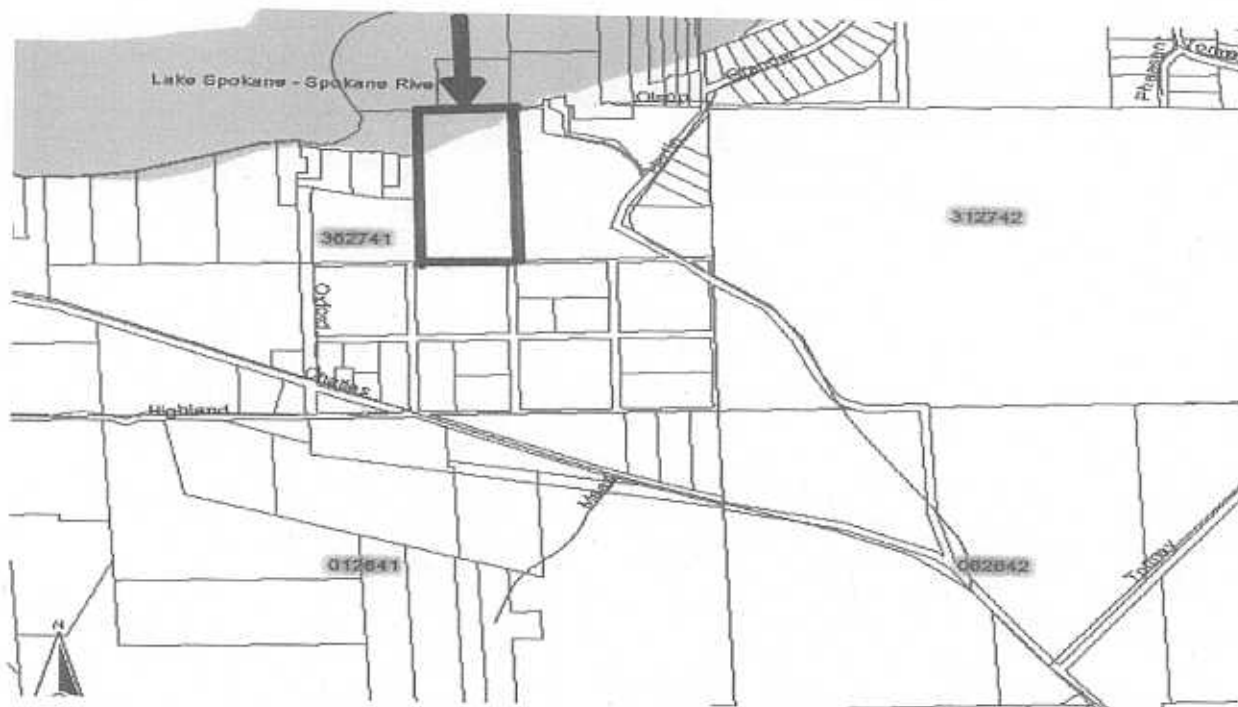
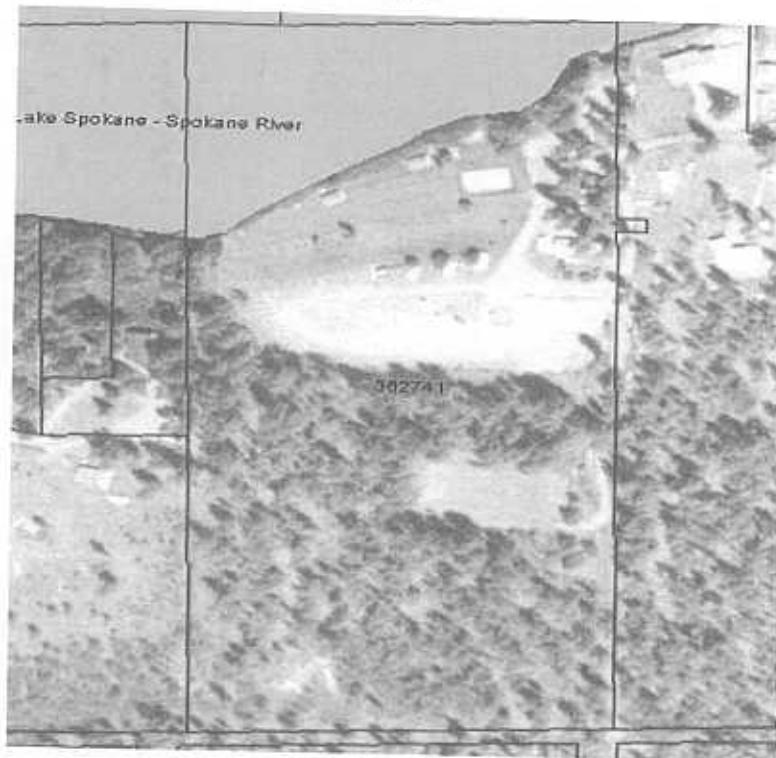
GIVEN under my hand and official seal the day and year last written above.



Signed Sreytough Ryser
Printed SREYTOUCH RYSER
NOTARY PUBLIC in and for the State of
WA, residing at Tumwater
My commission expires: 6-4-07

“EXHIBIT A”

MAP



"EXHIBIT B"

Avista to Parks Nine Mile Resort Lease
Inventory of buildings, equipment, etc., included in the Lease

