



State of Idaho
DEPARTMENT OF WATER RESOURCES

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C.L. "BUTCH" OTTER
 Governor

GARY SPACKMAN
 Director

August 10, 2018

Transmitted Via Hand Delivery and by E-mail

Paul Kjellander, President
 Kristine Raper, Commissioner
 Eric Anderson, Commissioner
 C/O Diane Hanian, Commission Secretary
 Idaho Public Utilities Commission
 472 W. Washington St.
 Boise, Idaho 83702

RECEIVED
 2018 AUG 10 PM 3:56
 IDAHO PUBLIC UTILITIES COMMISSION

Re: Case Nos. AVU-E-17-09 and AVU-G-17-05

Dear Commissioners,

I am writing to update you regarding discussions between the Idaho Department of Water Resources ("IDWR") and Avista Corporation ("Avista"). Since early 2018, IDWR and Avista have been discussing Avista's water right claims in the Coeur d'Alene-Spokane River Basin Adjudication ("CSRBA"). The main focus of our discussions has been Avista's hydropower water rights at the three dams and power plant at Post Falls ("Post Falls dam"). The State of Idaho has a history of disputes over hydropower water rights. The Swan Falls controversy of the early 1980s involving Idaho Power's hydropower water rights at Swan Falls dam led to the commencement of the Snake River Basin Adjudication ("SRBA") in 1987. Litigation in the SRBA related to Idaho Power's Swan Falls water rights did not conclude until 2012. A main reason for engaging with Avista early in the CSRBA was to avoid extended litigation over Avista's hydropower water rights, especially over the issue of subordination to existing and future water rights.

In July of 2018, IDWR was notified of the *Joint Application for an Order Authorizing Proposed Transaction* ("Joint Application") filed with the Idaho Public Utilities Commission ("PUC") by Avista and Hydro One Limited ("Hydro One"). The Joint Application sought the PUC's approval of a planned merger between Avista and Hydro One pursuant to Idaho Code § 61-328. Immediately, IDWR was concerned the merger would disrupt the adjudication claim discussions and might impede or prevent resolution of the issues. Furthermore, IDWR was concerned the merger could result in a change in the use of water authorized by Avista's hydropower water rights. To ensure that the public interest, as it pertains to Avista's use of water under its hydropower water rights, would not be adversely affected, IDWR moved to intervene in the PUC proceeding. The PUC subsequently granted IDWR's petition to intervene.

While IDWR's petition to intervene was pending before the PUC, IDWR and Avista continued discussing Avista's hydropower water rights at Post Falls dam. We are pleased to inform you that IDWR and Avista reached an agreement that addresses IDWR's concerns. Specifically, IDWR and Avista have

reached an agreement regarding subordination of Avista's water rights consistent with the historical operations at Post Falls dam. IDWR and Avista have agreed that Avista's water right claim nos. 95-4518, 95-9115, and 95-9119 shall be recommended in the CSRBA with the following subordination language:

The use of water confirmed in this right shall be junior and subordinate to permits, licenses, or decrees for all uses within the State of Idaho with a priority date of, or earlier than, July 25, 2018, diverted upstream from all three points of diversion for this right.


The use of water confirmed in this right shall be junior and subordinate to permits, licenses, or decrees for all uses, except for permits, licenses, or decrees for irrigation storage or power purposes, within the State of Idaho with a priority date later than July 25, 2018, diverted upstream from all three points of diversion for this right.

The use of water confirmed in this right shall not be subordinate to permits, license, or decrees within the State of Idaho diverted downstream from all three points of diversion for this right.

The agreement ensures that the public interest, as it relates to Avista's water use pursuant to its water rights, will not be adversely affected by the proposed transaction between Avista and Hydro One. The agreement safeguards existing and future water users from changes in historical operations, helps protect the summer lake level of Coeur d'Alene Lake, and supports the ongoing operations of Post Falls dam in a manner consistent with prior agreements and the Idaho Department of Environmental Quality 401 Certification.

A copy of the agreement between IDWR and Avista is attached to this letter. To ensure documentation of the agreement before the PUC, IDWR requests that if the PUC approves the pending transaction between Avista and Hydro One, the PUC include the agreement as an attachment or exhibit to any such order so that the resolution of this issue is documented in the order.

Sincerely,


Gary Spackman
Director

Attachment: Agreement Regarding Subordination of Avista's Post Falls Hydroelectric Facility Water Rights

Cc: All parties

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 10th day of August 2018, I served a true and correct copy of the foregoing document on the following by the method(s) indicated.

IDAHO PUC

Idaho Public Utilities Commissioners
C/O Diane Hanian
Commission Secretary
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Garrick L. Baxter

Agreement Regarding Subordination of Avista's Post Falls Hydroelectric Facility Water Rights

Purpose

This Agreement, reached between Avista Corporation, a Washington corporation ("Avista") and the Idaho Department of Water Resources ("IDWR") (collectively the "Parties"), is intended to capture the mutual understanding of the Parties regarding subordination of Avista's Post Falls water rights, of record with IDWR as Avista's claim nos. 95-4518, 95-9115, and 95-9119 (hereafter "Avista's water rights"). This Agreement guides the Parties' actions in settings including, but not limited to, the Coeur d'Alene-Spokane River Basin Adjudication ("CSRBA") and the currently pending proceeding before the Idaho Public Utilities Commission ("PUC") related to the proposed merger of Avista and Hydro One Limited (acting through its indirect subsidiary Olympus Equity LLC)("Hydro One").

This Agreement is built upon several interests of the Parties:

- To protect the summer lake level of Coeur d'Alene Lake;
- To ensure the public interest, as it relates to the use of water by Avista, will not be adversely affected by the proposed transaction between Avista and Hydro One; and
- To support the ongoing operations of the three dams and power plant at Post Falls ("Post Falls dam") in a manner consistent with prior agreements and as referenced by the Idaho Department of Environmental Quality 401 Certification ("401 Certification") for Post Falls dam and the Federal Energy Regulatory Commission's License for the Spokane River Project #2545 ("FERC license").

Subordination of Avista's water rights

The Parties agree that Avista's water rights are subordinated consistent with the following language, and the following language will be included in the CSRBA claims for Avista's water rights and will be incorporated in IDWR's recommendations of Avista's water rights in the CSRBA Director's Report for Basin 95 ("Director's Report"):

The use of water confirmed in this right shall be junior and subordinate to permits, licenses, or decrees for all uses within the State of Idaho with a priority date of, or earlier than, July 25, 2018, diverted upstream from all three points of diversion for this right.

The use of water confirmed in this right shall be junior and subordinate to permits, licenses, or decrees for all uses, except for permits, licenses, or decrees for irrigation storage or power purposes, within the State of Idaho with a priority date later than July 25, 2018, diverted upstream from all three points of diversion for this right.

The use of water confirmed in this right shall not be subordinate to permits, license, or decrees within the State of Idaho diverted downstream from all three points of diversion for this right.

Agreed Actions by the Parties

1. Upon both Parties' signature to this Agreement, IDWR will convey to the PUC a copy of this Agreement along with a letter stating that if the PUC approves the pending transaction between Avista and Hydro One, the PUC shall reference this Agreement in any such order. The letter will

also explain that with this Agreement, IDWR is satisfied that the proposed merger, with respect to Avista's water rights, will not be adverse to the public interest;

2. Avista will not object to the terms of subordination described above which will be included in the Director's Report for Avista's water rights, and will support those terms in the CSRBA;
3. The Parties agree on dismissal or withdrawal, as appropriate, of Avista's federal water right claims in the CSRBA, numbered 95-16663 and 95-16664; and
4. Avista also owns certain water rights for power purposes at Cabinet Gorge dam, of record with IDWR as water right nos. 96-4565, 96-2179, 96-2180, and 96-2269. IDWR and Avista agree to work, in good faith, toward reaching an agreement regarding subordination of Avista's water rights at Cabinet Gorge dam.

General Terms

1. Consideration. The Parties acknowledge receiving sufficient consideration for the commitments contained in this Agreement and waive any argument that they might have in any judicial proceeding that no consideration exists to support this Agreement or that the consideration received is not sufficient.
2. Binding Effect of Agreement. This Agreement is intended to be a final and binding agreement between IDWR and Avista, jointly and severally, and inures to the benefit of, and is binding upon, the successors in interest and assigns of each entity. The Parties further agree that this Agreement is not contingent upon approval of the pending PUC merger case between Avista and Hydro One.
3. Capacity to Execute Agreement. The Parties warrant and represent that the person executing this Agreement on its behalf is empowered to do so and thereby binds it by signing this Agreement.
4. Waivers. The failure to object to any breach of any term or condition in this Agreement shall not constitute a waiver, and no failure to object shall be deemed a waiver of any prior or subsequent breach.
5. Entirety of Agreement. This Agreement represents the entire and integrated agreement between the Parties with respect to the subject matter hereof. No promise or inducement has been offered or made except as herein set forth, and this Agreement is executed by each party without reliance upon any statement or representation by any other party or its agent.
6. Modification. To the extent this Agreement may be amended or modified, it shall be only by a written agreement signed by each of the parties to this Agreement.
7. Dispute Resolution. The Parties agree to meet and discuss informally, in good faith, before filing an action arising from the Agreement.
8. Execution of Agreement in Parts. Due to time constraints, the parties acknowledge that it is not possible to have all Parties sign the same copy of this Agreement. Therefore, the parties agree that this Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

9. Signatures. In witness whereof, the parties to this Agreement through their duly authorized representatives have executed this Agreement and certify that they have read, understood, and agreed to the terms and conditions of this Agreement as set forth herein.

Agreed to, the 25th of July, 2018.



For Avista Corp
Bruce Howard, Sr. Director
Real Estate and Environmental Affairs

For IDWR
Gary Spackman, Director
Idaho Department of Water Resources

ACKNOWLEDGEMENTS

STATE OF Washington)
) ss.
COUNTY OF Spokane)

On this 25 day of July, 2018, before me, Rod Price
A notary public of the State of Washington, personally appeared Bruce Howard
Sr. Director of Avista Corporation, known or identified to me to
be the person who executed the foregoing instrument on behalf of Avista Corporation, and he/she
acknowledged to me that he/she executed the same.



Rod Price

NOTARY PUBLIC
Residing at: Spokane, WA
My commission expires: 7/19/2021

STATE OF _____)
) ss.
COUNTY OF _____)


On this ___ day of July, 2018, before me, _____
A notary public of the State of Idaho, personally appeared GARY SPACKMAN, the Director of the Idaho
Department of Water Resources, known or identified to me to be the person who executed the
foregoing instrument on behalf of the Idaho Department of Water Resources, and he acknowledged to
me that he executed the same.

NOTARY PUBLIC
Residing at: _____
My commission expires: _____

9. Signatures. In witness whereof, the parties to this Agreement through their duly authorized representatives have executed this Agreement and certify that they have read, understood, and agreed to the terms and conditions of this Agreement as set forth herein.

Agreed to, the 25th of July, 2018.

For Avista Corp
Bruce Howard, Sr. Director
Real Estate and Environmental Affairs



For IDWR
Gary Spackman, Director
Idaho Department of Water Resources

ACKNOWLEDGEMENTS

STATE OF _____)
) ss.
COUNTY OF _____)

On this ___ day of July, 2018, before me, _____,
A notary public of the State of _____, personally appeared _____
_____, a _____ of Avista Corporation, known or identified to me to
be the person who executed the foregoing instrument on behalf of Avista Corporation, and he/she
acknowledged to me that he/she executed the same.

NOTARY PUBLIC
Residing at: _____
My commission expires: _____

STATE OF Idaho)
) ss.
COUNTY OF Ada)

On this 25th day of July, 2018, before me, Kimi A. White
A notary public of the State of Idaho, personally appeared GARY SPACKMAN, the Director of the Idaho
Department of Water Resources, known or identified to me to be the person who executed the
foregoing instrument on behalf of the Idaho Department of Water Resources, and he acknowledged to
me that he executed the same.



Kimi A. White
NOTARY PUBLIC
Residing at: Boise, Idaho
My commission expires: 01/01/2022