

Agenda Date: July 30, 2015  
Item Number: A2

**Docket:** UE-150715  
Company Name: Avista Corporation

Staff: Joanna Huang, Regulatory Analyst

### **Recommendation**

Issue an Order approving the Lease Agreement between Avista Corporation and Mobius Science Center in Docket UE-150715.

### **Background**

On May 1, 2015, Avista Corporation (Avista or company) filed a petition for an Order approving the Lease Agreement related to the Post Street Street Annex between Avista Corporation and Mobius Science Center (Mobius) in Docket UE-150715.

Post Street Annex is situated between the Post Street Substation, and the City of Spokane's City Hall. This substation has provided electric service to the downtown Spokane customers since 1909. Post Street Annex was built in 1911 originally to provide a housing facility for back-up power equipment for the Post Street Substation.

Post Street Annex is a 3-story facility with approximately 8,100 square feet on each floor. The top level (which is considered the ground floor) of Post Street Annex has street access, and the bottom two floors being close to river level have only limited access. Two-thirds of the building has been used for storage and company-vehicle parking and the remaining one-third has been used as the operations center for the downtown Spokane electric network for the past 60 years.

Avista will incur approximately \$550,000 of make-ready costs to accommodate the building use by a third party. The make-ready costs are to facilitate the basic mechanical and structural improvements of the building. Costs include: reinforce the roof structure, remove lead based paint on interior brick wall of the ground floor and install electrical safety and separation costs to further protect Mobius from potential electrical surges coming from the adjacent building, the Post Street Substation.

Mobius is a non-profit science center and opened in Spokane in 2012. It provides educational resources and opportunities for those who are inspired to explore the scientific world. Mobius' current lease expired on March 31, 2015. Temporarily, Mobius is housed in the Spokane Public Library in downtown Spokane.

### **Discussion**

Avista's and Mobius' management discussed the lease agreement prior to the expiration of Mobius' lease to provide Mobius the Post Street Annex as a longer term solution for their location and also provide Avista with a channel for educating Avista's electric and natural gas customers on related energy-related issues.

Brief summary of the key terms of the lease agreement is as follows:

- a) Lease term: 10 years, with options to renew another 10 years twice.
- b) Space: Mobius only leases the ground floor of the 3-story Post Street Annex. Avista will continue to use the other two floors of the Post Street Annex as a supporting facility for the Post Street Substation as it is today. If Avista determines that it no longer requires use of the bottom two floors and if Mobius wishes to lease the additional space, Mobius has the option for the lease of additional space in the Post Street Annex,
- c) Annual Lease Payment: \$1 per year.
- d) Operations and Maintenance: Mobius will be responsible for any interior operations and maintenance costs related to occupation of the space of the ground floor of the 3-story Post Street Annex. Avista will be responsible for any exterior operations and maintenance costs for the common areas of the building and grounds surrounding the Post Street Annex building.
- e) Tenant Improvements: Mobius will make all improvements and renovations required for the permitted uses specified in the Lease at its own cost and expense, but with prior approval from Avista.
- f) Exhibit Space: Mobius will develop, construct and display at least three different educational programs per year in collaboration with Avista. Avista will have input into all displays, exhibits and educational programs. These programs will demonstrate and promote electric and gas utility operations, energy efficiency, public awareness of safety issues, scientific and technological innovations related to the utility industry and Spokane River hydroelectric operations, including related protection and enhancement measures, understanding and appreciation of natural and historic resources, and water quality and fisheries protection.
- g) Board Position: Mobius agrees that during the term and any extended term of the lease, Avista will have a permanent seat on its Board of Directors in order to ensure that Avista's interests related to exhibit space are promoted.

Limitations on the building and its location:

Staff notes there are some limitations or restrictions to the building and its location that prohibit other commercial activities or uses, such as office space, restaurants or retail. Commercial constraints include:

1. Lack of Parking: Though only the ground floor of Post Street Annex has street access, there is no parking designated for the ground floor. Avista does not provide parking on or around the building. Street metered parking is very limited. Limited street metered parking could deter other commercial activities to this building.
2. Limits on Restoration: Post Street Annex is considered an historic building. No exterior alteration is allowed. The interior of the building is outdated and semi-rundown. It is not

suitable for any commercial use without substantial effort. The restoration costs for any suitable commercial use may prohibit potential commercial tenant use of the Post Street Annex. Avista currently estimates that Mobius might spend approximately \$1.1 million on its own tenant improvements to restore and make the ground level suitable for its purpose.

3. Special access clause of the lease agreement: The Mobius contract states that Avista may enter the ground floor of the Post Street Annex in the event of an emergency occurring within or upon the building without notice. Avista in its sole discretion could close the building including the ground floor of the Post Street Annex. Another commercial tenant may find this contract language onerous and an impediment to commercial success and be reluctant to offer this flexibility to Avista. Mobius accepts that Avista must safely operate the Monroe Street Hydroelectric Project and the Post Street Substation and may need to close the facility on a moments notice.

### **Discussion**

The benefit of the lease agreement to Avista is the education partnership with Mobius. Avista has hydro-dam relicensing requirements to provide educational displays on the operations and environmental aspects of hydro power. The Mobius programs will fulfill that requirement.

The Post Street Annex is adjacent not only to the Monroe Street Hydroelectric Project and to the Post Street Substation, but also to Riverfront Park, Huntington Park, City of Spokane's City Hall, and River Park Square. The location of the Post Street Annex is ideal to provide Mobius with a well-established and convenient venue. With an excellent location and a higher level of foot traffic from all different directions, Avista's educational materials will be exposed to more members of the Spokane community and the public.

Though Mobius will pay a nominal lease rate of \$1 per year for the first floor of the Post Street Annex, in exchange Avista will benefit from having the dedicated exhibition space, as well as having Mobius' technical and professional expertise in designing and displaying energy-related educational materials.

Note that the Lease Agreement for the Post Street Street Annex between Avista Corporation and Mobius is confined to this filing only. It may not be considered precedent for any future filings.

### **Conclusion**

Staff has reviewed the lease agreement between Avista and Mobius and physically visited the Post Street Annex's building. Staff find the lease agreement to be reasonable. Therefore staff recommends the commission issue an Order approving the Lease Agreement between Avista Corporation and Mobius Science Center in Docket UE-150715.