

Revised Final LCCP

July 21, 2016



Stewardship
Council

Land Conservation and Conveyance Plan

Lands for Donation to the USFS at
North Fork Mokelumne River Planning Unit

Executive Summary

Subject

LCCP North Fork Mokelumne River Planning Unit (Lands for Donation to USFS)
Land Conservation Plan Identification Number (Parcel): 960 as shown on the map
attached as Exhibit 1.

Type of Property Interest Disposition

- United States Forest Service (USFS) to hold fee simple title to 77 acres within one parcel (Parcel 960) of the North Fork Mokelumne River (NFMR) planning unit.
- Sierra Nevada Conservancy (SNC) to hold the conservation covenant (“covenant”) on the entire 77 acres of Parcel 960 donated to the USFS.

Summary

The 3,464-acre NFMR planning unit includes 51 legal parcels. The Stewardship Council has recommended that 77 acres within one parcel (Parcel 960) be donated to the USFS. Pending California Public Utilities Commission (CPUC) approval, immediately following PG&E's conveyance of the 77 acres within Parcel 960 to the USFS, a conservation covenant between the USFS and the SNC will be recorded.

The 77 acres within Parcel 960 to be donated to the USFS are outside the Mokelumne River FERC Project boundary (FERC #137) and PG&E has determined this acreage does not need to be retained for existing or future utility operations. Therefore, this acreage is available for donation, subject to PG&E's reserved rights. The remaining 3,366 acres within the planning unit will be retained by PG&E or donated to the California Department of Forestry and Fire Protection and are addressed in separate Land Conservation and Conveyance Plans (LCCPs).

This transaction will not have an adverse effect on the public interest or on the ability of the utility to provide safe and reliable service to customers at reasonable rates.

Property Location

The property subject to this LCCP consists of 77 acres in Calaveras and Amador counties along the North Fork Mokelumne River.

Economic Uses and Agreements

There are no recorded or unrecorded encumbrances on the acreage for donation at the NFMR planning unit. There are no existing agreements for economic uses on the lands to be donated to the USFS.

Conservation Management Objectives to Preserve and/or Enhance the Beneficial Public Values

The conservation covenant states:

- That the USFS shall manage the Property for public uses and protection of natural resources as a component of the National Forest System;
- That the Property shall be open to the public for outdoor recreation;
- That the USFS shall manage the Property for wildlife and fish purposes;
- That the Property shall be managed for agricultural values such as forage and for sustainable forestry on suitable lands in accordance with the land and resource management plan (“LRMP”), LRMP standards and other applicable laws and regulations;
- That the Property shall be managed to protect historic, cultural, and archaeological resources;
- That the Property shall not be open to location and entry under the mining laws of the United States;
- That the USFS shall manage the Property in conformity with a LRMP prepared with public involvement pursuant to the National Forest Management Act and other applicable laws; and
- That the USFS shall amend the LRMP and incorporate language into the management area descriptions that states that the Property was donated to ensure the permanent protection of the Property’s natural resources. The amendment will include the objectives for the protection of the Beneficial Public Values identified in the Stewardship Council’s Land Conservation Plan, and will reference the Conservation Covenant.

Tax Neutrality

The Stewardship Council intends to provide funding to satisfy property tax payments in perpetuity for the Property.

Pending CPUC approval of the fee title donation of the Property, Calaveras and Amador counties may select the option of receiving a lump sum payment of \$1,212 and \$221, respectively, an annual payment from a trustee selected by the Stewardship Council, or annual installment payments for a maximum of five years totaling the lump sum amount. Annual payments from the trustee would be equal to 4% of a rolling 20 quarter average of the principal balance invested for the parcel, consistent with the methodology described in the Property Tax Neutrality Methodology adopted by the Stewardship Council on June 27, 2012, as amended on June 24, 2015 and January 21, 2016.

Hazardous Waste Disclosure

PG&E has provided the North Fork Mokelumne River Planning Unit Environmental Site Assessment Report dated June 22, 2010, to the USFS, fulfilling the disclosure requirements of the Land Conservation Commitment.

Consideration of Parcel Split

No parcel split was required to effectuate the transfer. PG&E determined that operational needs would be met sufficiently through the reservation of rights for ongoing hydroelectric operations.

Applicable CEQA Exemption(s) or Reason Why Transaction is not a “Project Under CEQA”

The NFMR transaction will not result in a direct physical change or a reasonably foreseeable indirect physical change in the environment; therefore, the Stewardship Council does not believe that the transaction is a project under CEQA.

Exhibit 1. Map of the Property

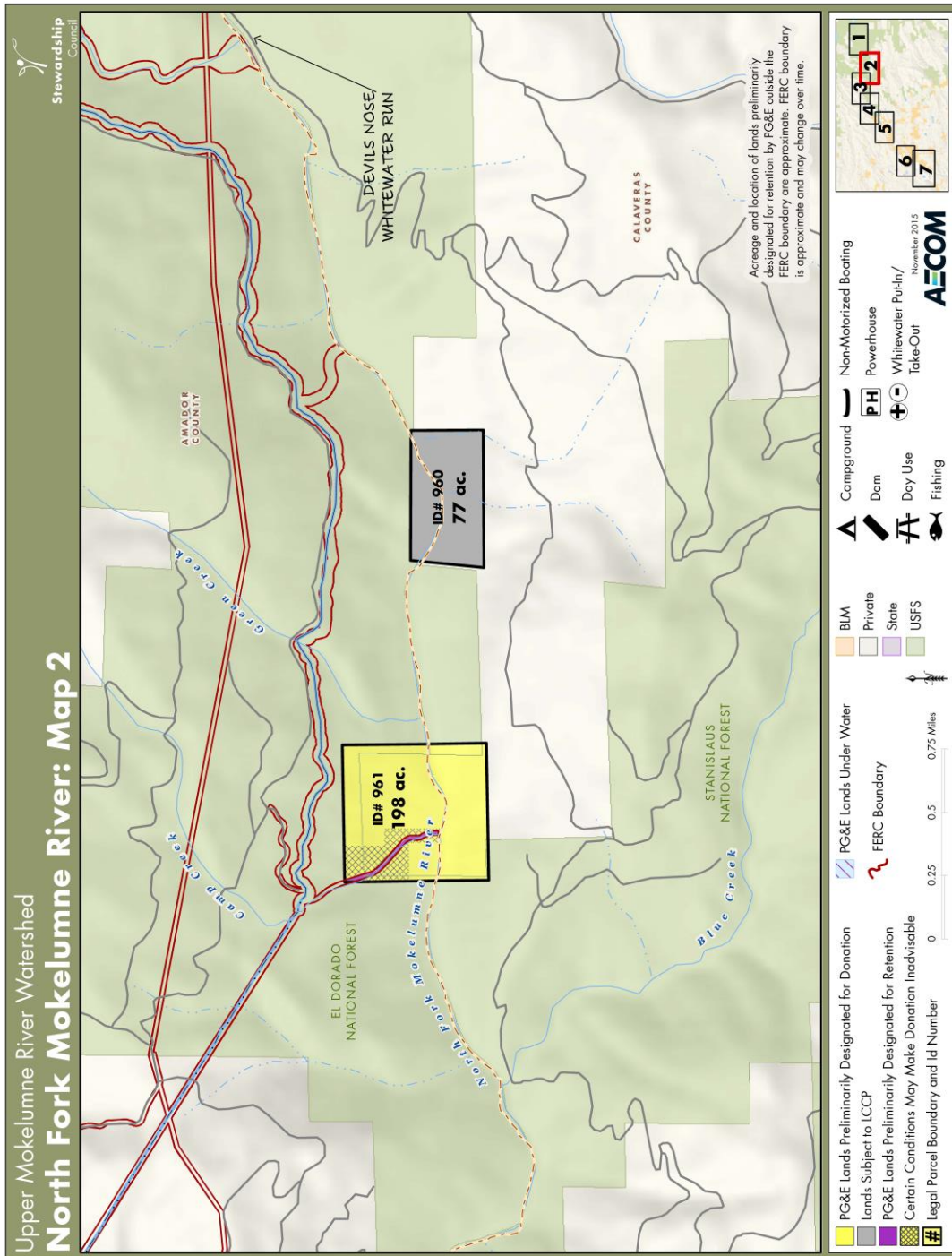


Table of Contents

Executive Summary	1
Introduction	6
1. Acreage, Existing Economic Uses and Agreements	10
2. Objectives to Preserve and/or Enhance the BPVs	12
3. Recommendations for Conservation Covenant and Fee Simple Donation	14
4. Finding of Donee Funding and Other Capacity to Maintain Lands to Preserve and/or Enhance the BPVs	16
5. Analysis of Tax and Other Economic and Physical Impacts	19
6. Hazardous Waste Disclosure	22
7. Consideration of Parcel Split	23
8. Strategy for Physical Measures to Enhance the BPVs	24
9. Monitoring Plan for the Economic and Physical Impacts of Disposition and Implementation of Enhancement Measures	25
10. Implementation Schedule for Transactions and Measures	26
Appendices	
Appendix 1. Summary of Public Outreach.....	27
Appendix 2. Grant Deed.....	32
Appendix 3. Conservation Covenant.....	40
Appendix 4. Property Tax Neutrality Methodology.....	48
Appendix 5. Settlement Agreement, Appendix E.....	58

Introduction

The Pacific Forest and Watershed Lands Stewardship Council (Stewardship Council) is a private, nonprofit foundation established in 2004 pursuant to a Settlement Agreement and a Stipulation Resolving Issues Regarding the Land Conservation Commitment approved by the California Public Utilities Commission (CPUC) in Decision 03-12-035 (Dec. 18, 2003). The Stewardship Council Board of Directors includes appointees from state and federal agencies, water districts, Native American and rural interests, forest and farm industry groups, conservation organizations, the CPUC, and Pacific Gas and Electric Company (PG&E).

The Stewardship Council has developed a plan to protect more than 140,000 acres of watershed lands (Watershed Lands) currently owned by PG&E for the benefit of the citizens of California. Protecting the Watershed Lands will be accomplished through (1) PG&E's grant of conservation easements to one or more public agencies or qualified conservation organizations so as to protect the natural habitat of fish, wildlife, and plants, the preservation of open space, outdoor recreation by the general public, sustainable forestry, agricultural uses, and historic values (collectively the Beneficial Public Values), and in some cases, (2) PG&E's donation of the Watershed Lands in fee to one or more public entities or qualified conservation organizations, whose ownership would be consistent with these conservation objectives.

Located primarily in the Sierra Nevada and Cascade Mountain range watersheds, the Watershed Lands contain some of the most pristine and resource-rich landscapes found in the state. The properties are diverse and geographically remote, located in 21 counties from the northern reaches of the state to the southern end of the Central Valley.

As required by the Settlement and Stipulation, the Stewardship Council prepared a Land Conservation Plan (LCP) to establish a framework for the conservation and/or enhancement of the Watershed Lands, and to ensure the permanent protection of these lands for the benefit of current and future generations of Californians. To address the challenge of a conservation effort of this large scope and unique nature, and to facilitate engagement of a wide range of stakeholders and interested members of the public, the Stewardship Council grouped the Watershed Lands into 47 planning units and established a phased approach to development and implementation of the LCP.

In 2007, the Stewardship Council board adopted Volumes I and II of the LCP:

- **Volume I:** The Land Conservation Framework establishes the overall framework for the LCP, including legal requirements, the planning process, methodologies, public involvement, and relevant regulatory processes.
- **Volume II:** Planning Unit Concepts documents existing conditions and presents management objectives, potential measures, and conceptual plans to preserve

and/or enhance the Beneficial Public Values (BPVs) within each planning unit. It also documents existing economic uses.

Volume III, consisting of Land Conservation and Conveyance Plans (LCCPs) to be issued serially and cumulatively, will encompass a series of real estate transaction packages that will detail the specific land conservation and/or disposition requirements for each parcel or parcel cluster. LCCPs represent the Stewardship Council's recommendations for preserving and/or enhancing the BPVs of the Watershed Lands, and are intended to support required regulatory approvals of the land transactions resulting from the Stewardship Council's recommendations. The content of the LCCP spans a number of issues required by the Settlement and Stipulation, such as an express reservation of a right for continued operation and maintenance of hydroelectric facilities and associated water delivery facilities, including project replacements and improvements required to meet existing and future water delivery requirements for power generation and consumptive water use by existing users, compliance with any Federal Energy Regulatory Commission (FERC) license, FERC license renewal, or other regulatory requirements. In addition, conservation easements will honor existing agreements for economic uses, including consumptive water deliveries, and preserve or enhance reasonable public access to the Watershed Lands.

During the development of LCP Volumes I and II and the LCCPs, the Stewardship Council implemented a public outreach program to ensure local communities, elected representatives, neighboring property owners, and other key stakeholders had many opportunities to engage in the Stewardship Council's effort to preserve and enhance the Watershed Lands. To solicit additional input from the public on potential fee title recipients or conservation easement holders (referred to as donees), the Stewardship Council hosted a series of public information meetings. These meetings were designed to (1) provide an overview and update on the Stewardship Council's Land Conservation Program, (2) outline next steps, timeline, and opportunities for additional public input, and (3) solicit public input on the desired qualifications of potential donees and the future stewardship of the planning units.

Public input that the Stewardship Council received as a result of the public outreach process, including comments on Volume II of the LCP, comments from public information meetings on the selection of donees and other issues, and correspondence received by the Stewardship Council were considered by the Stewardship Council in its evaluation of the potential donees and their land stewardship proposals. In addition to public meetings, the public was given the opportunity to participate in all of the Stewardship Council's public board meetings where decisions were made on fee title and conservation easement donees. Prior to making a decision regarding the disposition of any parcel, the Stewardship Council will provide notice to the Board of Supervisors of the affected county, each affected city, town, and water supply entity, each affected Tribe and/or co-licensee, and each landowner located within one mile of the exterior boundary of the parcel, by mail or other effective manner. A summary of the public outreach process for this subject LCCP, the NFMR planning unit, is provided in Appendix 1.

Furthermore, the proposed LCCP will be made available for public review and comment before it is forwarded by the Watershed Planning Committee to the board for its review and approval.

The Stewardship Council Board of Directors recommends that the United States Forest Service (USFS) receive 77 acres within one parcel (960) in the North Fork Mokelumne River (NFMR) planning unit in fee and that the Sierra Nevada Conservancy (SNC) hold a conservation covenant over the lands recommended for donation to the USFS in this parcel of the NFMR planning unit.

Table 1 identifies Stipulation requirements that will be addressed in the LCCP and includes pertinent language from the Stipulation.

Table 1 Stipulation 12(a) Requirements

<p>(1) Acreage, Existing Economic Uses and Agreements <i>“Reasonably exact estimates of acreage, by parcel, within or outside licensed project boundaries, and existing economic uses (including all related agreements);”</i></p>
<p>(2) Objectives to Preserve and/or Enhance <i>“Objectives to preserve and/or enhance the BPVs, as defined in the Settlement Agreement, Appendix E, of each individual parcel;”</i></p>
<p>(3) Recommendations for Conservation Easement and Fee Simple Donation <i>“A recommendation for grant of a conservation easement or fee simple donation for each such parcel;”</i></p>
<p>(4) Finding of Donee Funding and Other Capacity to Maintain Lands to Preserve and/or Enhance BPVs <i>“A finding that the intended donee of such easement or fee simple has the funding and other capacity to maintain that property interest so as to preserve and/or enhance the BPVs thereof;”</i></p>
<p>(5) Analysis of Tax and Other Economic and Physical Impacts <i>“An analysis of tax and other economic and physical impacts of such disposition strategy, and a commitment by an appropriate entity to provide property tax revenue, other equivalent revenue source, or a lump sum payment, so that the totality of dispositions in each affected county under the LCC will be ‘tax neutral’ for that county;”</i></p>
<p>(6) Hazardous Waste Disclosure <i>“A disclosure of all known hazardous waste or substance contamination or other such environmental liabilities associated with each parcel;”</i></p>
<p>(7) Consideration of Parcel Split <i>“Appropriate consideration whether to split any parcel which is partly used or useful for operation of PG&E’s and/or a co-licensee’s hydroelectric facilities, where the beneficial public values of the unused part may be enhanced by such split, provided that it is consistent with Section 12(b)(4) of this Stipulation and that, in the event that governmental approval of a parcel split imposes conditions or restrictions on other PG&E property, the decision to accept or reject such conditions will be at PG&E’s sole discretion;”</i></p>

Table 1 Stipulation 12(a) Requirements

<p>(8) Strategy for Physical Measures to Enhance BPVs <i>"A strategy to undertake appropriate physical measures to enhance the BPVs of individual parcels; provided that no such measure will be in conflict with the provisions of Settlement Agreement paragraph 17(c) and Appendix E paragraph 1;"</i></p>
<p>(9) Monitoring Plan for the Economic and Physical Impacts of Disposition and Implementation of Enhancement Measures <i>"A plan to monitor the economic and physical impacts of disposition and implementation of enhancement measures on the applicable management objectives;"</i></p>
<p>(10) Implementation Schedule for Transactions and Measures <i>"A schedule for the implementing transactions and measures."</i></p>

1. Acreage, Existing Economic Uses and Agreements

Acreage and Property Description

The North Fork Mokelumne River (NFMR) planning unit contains 51 legal parcels (Parcels 959-1009) totaling approximately 3,464 acres. 77 acres in Parcel 960 will be donated to the USFS and, consistent with the conditions in the Settlement Agreement, the Property will be subject to a conservation covenant granted by USFS to SNC. The remaining 3,366 acres in the NFMR planning unit will be retained by PG&E or donated to the California Department of Forestry and Fire Protection and will be subject to conservation easements.

The NFMR planning unit is comprised of parcels scattered along a 30 mile segment of the North Fork Mokelumne River in Amador and Calaveras counties. Elevations for lands within this planning unit range from 700 feet to 4,200 feet above mean sea level and the terrain within the planning unit is generally steep and hilly, which limits road access to many parcels.

The Mokelumne River and various tributaries provide primarily coldwater stream habitat. The planning unit also provides valuable terrestrial habitat. The Salt Springs deer herd winter in the northern portion of this planning unit. The northern parcels within this planning unit also contain several miles of highly valued riparian habitat. Potentially suitable habitat for special status species, including valley elderberry longhorn beetle, western pond turtle, and foothill yellow-legged frog among others, is located in this planning unit.

The planning unit provides opportunities for both land- and water-based recreation and is particularly popular for fishing. Camping facilities are not available in the planning unit; however, the USFS provides three campgrounds adjacent to the planning unit. North Fork Mokelumne River, below Salt Spring Reservoir, provides opportunities to boat on four whitewater runs.

The lands recommended for donation to the USFS are located within two PG&E Timber Management Units (TMUs). The TMU that includes the portion of Parcel 960 north of the North Fork Mokelumne River is managed under a Multiple Use Management prescription, meaning that protection and uses of other resources and facilities may preclude sustained timber management as the highest and best use of portions of the TMU. The TMU that includes the portion of Parcel 960 south of the North Fork Mokelumne River is managed under a Sustainable Timber Management prescription, meaning that sustained timber production is regarded as the highest and best use of the land while also placing an emphasis on protecting water quality, wildlife and fisheries habitat, soils, carbon sequestration, and cultural resources.

Though there is a grazing lease in the planning unit at Lake Tabeaud, there are no agricultural activities (i.e., farming or grazing) on the lands recommended for donation to the USFS within the planning unit.

The NFMR planning unit is within the traditional territory of the Northern Sierra Miwok. The northern parcels are surrounded by the USFS-designated Mokelumne Archeological District. The northeastern most area within the planning unit contains archeological resources that have been fenced off to prevent further resource damage.

Adjacent and Nearby Landowners

The parcel subject to donation to the USFS is bounded by Sierra Pacific Industries property (to the south and east) and National Forest System lands managed by the Eldorado National Forest (to the north) and Stanislaus National Forest (to the west). Due to its remoteness, there is no road access to this parcel.

The Stewardship Council notified and invited landowners located within one mile of the subject parcel to provide comment during key phases of the land conservation and conveyance planning process.

Existing Economic Uses and Agreements

There are no recorded or unrecorded encumbrances on the acreage for donation at the NFMR planning unit. There are no existing agreements for economic uses on the lands to be donated to the USFS.

2. Objectives to Preserve and/or Enhance the BPVs

The Land Conservation Commitment provides that “PG&E shall ensure that the Watershed Lands it owns... are conserved for a broad range of beneficial public values, including the protection of the natural habitat of fish, wildlife and plants, the preservation of open space, outdoor recreation by the general public, sustainable forestry, agricultural uses, and historic values. PG&E will protect these beneficial public values associated with the Watershed Lands... from uses that would conflict with their conservation. PG&E recognizes that such lands are important to maintaining the quality of life of local communities and all the people of California in many ways, and it is PG&E’s intention to protect and preserve the beneficial public values of these lands under the terms of any agreements concerning their future ownership or management.”¹

The following text lists the objectives for each BPV at the NFMR planning unit that the Stewardship Council board approved in LCP Volume II, as well as a description of how the transaction, as summarized by this LCCP, supports each objective and preserves and/or enhances the BPVs.

1. Objective: Preserve and enhance habitat in order to protect special biological resources.

The conservation covenant (Appendix 3) states that the USFS will manage the Property in conformity with a land and resource management plan (LRMP) prepared with public involvement pursuant to the National Forest Management Act and other applicable laws, including full compliance with the National Environmental Policy Act and the Multiple Use Sustained Yield Act. The USFS agrees to manage the Property for habitat purposes consistent with the multiple uses identified in the applicable LRMP and in full compliance with the Endangered Species Act.

2. Objective: Preserve open space in order to protect natural and cultural resources, viewsheds, and agricultural land uses.

The conservation covenant states that the Property shall be managed by the USFS for public uses and protection of natural resources as a component of the National Forest System and subject to applicable laws and regulations.

3. Objective: Enhance recreational facilities in order to provide additional public access, education, and enhance the recreation experience.

The conservation covenant states that the Property will be open to the public for outdoor recreation such as hiking, camping, hunting and fishing, subject to reasonable regulations

¹ Land Conservation Commitment I.02-04-026, Appendix E, p. 38

and state fish and game laws and consistent with the long-term protection of the natural resources of the Property.

- 4. Objective: Develop and implement forestry practices in order to contribute to and promote a sustainable forest, preserve and enhance habitat, as well as to ensure appropriate fuel load management.*

The conservation covenant states that the forested lands will be managed for sustainable forestry in accordance with the LRMP and other applicable laws and regulations.

- 5. Objective: Preserve and enhance grazing in order to support associated economic benefits, as well as to protect open space and habitat resources.*

The lands recommended for donation to the USFS are not used for grazing.

- 6. Objective: Identify and manage cultural resources in order to ensure their protection, as well as to support opportunities for public education.*

The conservation covenant states that the Property will be managed to protect historic, cultural and archaeological resources in conformity with the National Historic Preservation Act and the Archaeological Resources Protection Act.

Amending the LRMP

The USFS shall amend the LRMP and incorporate language into the management area descriptions that states that the Property was donated to ensure the permanent protection of the Property's natural resources. The amendment will include the objectives for the protection of the BPVs identified in the Stewardship Council's LCP, and will reference the covenant.

3. Recommendations for Conservation Covenant and Fee Simple Donation

The Settlement and Stipulation require that the Watershed Lands: (1) be subject to permanent conservation easements restricting development of the Watershed Lands so as to protect and preserve the BPVs, and/or (2) be donated in fee simple to one or more public entities or qualified nonprofit conservation organizations, whose ownership will ensure the protection of these BPVs.

Section 12(d) of the Stipulation provides for two exceptions to the requirement that the BPVs of the Watershed Lands be protected via conservation easements held by qualified organizations. The pertinent exception is when “the chosen donee of fee title informs the Governing Board that applicable law or policy precludes its accepting such easement, and the Governing Board receives satisfactory assurance in another form that the parcel will be managed consistent with the purpose of the Land Conservation Commitment.”

Conservation Covenant

The USFS informed the Stewardship Council that applicable law or policy precludes it from accepting donations of Watershed Lands encumbered with conservation easements and provided the Stewardship Council with an explanation of the basis for its determination. The Stewardship Council board accepts as reasonable the basis for the determination of the USFS that applicable law or policy precludes the USFS from accepting donations of PG&E lands encumbered with conservation easements.

The Stewardship Council board has determined that a conservation covenant in the form attached as Appendix 3 encumbering the Property qualifies as a satisfactory assurance that the Property will be managed consistent with the purpose of the Land Conservation Commitment.

Therefore, a conservation covenant will be placed on the Property rather than a conservation easement. For the complete text of the conservation covenant, see Appendix 3. The conservation covenant over the Property will be held by SNC. The qualifications of SNC are described in Chapter 4.

Retention or Donation of Fee Title

The Settlement Agreement states that PG&E will not be expected to make fee simple donations of Watershed Lands with hydroelectric project features, and conservation easements and enhancements may not interfere with hydroelectric operations. In general, PG&E will retain fee title to those Watershed Lands within the boundaries of hydroelectric projects licensed by the FERC, as well as other properties required for continuing and future utility operations. However, these Watershed Lands will be conserved via a conservation easement. See Appendix 5 for a description of PG&E’s Land Conservation Commitment.

The 98 acres proposed for donation to the USFS in Parcel 960 were identified as available for donation, subject to PG&E's reserved rights.

Lands to be Donated by PG&E

77 acres within one legal parcel (960) will be donated to the USFS pending CPUC approval of the Section 851 filing for the transaction. The legal description of the parcel is included in the grant deed, which is provided in Appendix 2. The qualifications and capacity of the USFS to manage the NFMR property recommended for donation are described in Chapter 4.

The map in Exhibit 1 shows all of the land within Parcel 960 in the NFMR planning unit that will be donated. The map also shows key features in the planning unit and surrounding area, and the ownership of adjacent land.

1,070 acres within the NFMR planning unit are recommended for donation to the California Department of Forestry and Fire Protection and are the subject of a separate LCCP.

Lands to be Retained by PG&E

2,296 acres in the NFMR planning unit will be retained by PG&E and are the subject of a separate LCCP.

4. Finding of Donee Funding and Other Capacity to Maintain Lands to Preserve and/or Enhance the BPVs

Selected Organizations

At the conclusion of the selection process referenced below, the following organizations were endorsed by the Stewardship Council board on May 11, 2011:

- USFS to hold fee simple title to 77 acres within Parcel 960.
- SNC to hold the conservation covenant on the acres to be donated to the USFS in Parcel 960.

Capacity of Selected Organizations

The Stewardship Council board made a finding that the USFS and SNC will have the funding and other capacity to maintain the property interest so as to preserve and/or enhance the BPVs.²

A. USFS:

- The USFS is a public agency that was established in 1905. The USFS manages 193 million acres of public forests and grasslands. The mission of the USFS is to sustain the health, diversity, and productivity of the Nation's forest and grasslands to meet the needs of present and future generations. Congress directs the USFS to manage National Forests for multiple uses and benefits and for the sustained yield of renewable resources such as water, forage, wildlife, wood, and recreation.
- Management direction for the Eldorado National Forest is governed by the Eldorado National Forest Land and Resource Management Plan of 1989 and a variety of national and regional policies and regulations. Management direction for the Stanislaus National Forest is governed by the Stanislaus National Forest Land and Resource Management Plan of 2010 and a variety of national and regional policies and regulations. The USFS maintains a base of professional, technical and administrative expertise in a multitude of specialties and management functions and is able to draw on the expertise of over 1,000 USFS professionals within the state of California. Disciplines include wildlife biologists, archaeologists, aquatic biologists, botanists, fuels planners, conservationists, recreation specialists, landscape architects, public affairs specialists, interpretive/conservation education specialists, geographic information specialists, business management specialists, and engineers.
- The Stewardship Council's review of the USFS's financial capacity consisted of an evaluation of its annual operating budget and financial statements. Based on

² Stipulation, Section 12(a)(4)

this review, staff concluded that the USFS has the financial ability to manage the lands being recommended for donation to preserve and/or enhance the BPVs associated with these lands.

B. SNC:

- SNC is a California state agency created by bi-partisan legislation (AB 2600) that was signed into law in 2004. The mission of SNC is to initiate, encourage and support efforts that improve the environmental, economic, and social well-being of the Sierra Nevada Region, its communities and the citizens of the State of California.
- The legislation that created SNC includes program areas that incorporate all of the BPVs identified in Volume II of the LCP.
- SNC supports the Sierra Nevada Region by providing funding for local projects and offering technical assistance and other support for collaborative projects in partnership with local government, nonprofit organizations, and Native American entities.
- SNC's Board of Directors is made up of 16 members; 13 voting and 3 non-voting members. The voting members include five Governor's appointees, two legislative appointees, and six local government representatives. The non-voting members include representatives from the National Park Service, United States Bureau of Land Management, and USFS.
- SNC will receive adequate funding from the Stewardship Council to monitor the conservation covenant at the NFMR planning unit in perpetuity.

Donee Selection Process

A. USFS:

The Stewardship Council used a formal multi-step process to solicit and select organizations interested in receiving a donation of Watershed Lands or becoming a conservation easement holder at the NFMR planning unit. The process consisted of the following key steps:

- Organizations were invited to register via the Stewardship Council's Interested Donee Registry and were invited to submit a statement of qualifications (SOQ). The Stewardship Council reviewed the SOQs that were submitted to identify organizations that: (a) were determined to be a qualified nonprofit conservation organization; a federal, state or local governmental entity; or, a recognized tribe; (b) appeared to have sufficient financial and organizational capacity relative to the property interest sought within the planning unit; and, (c) appeared to be capable

of satisfying the requirements of the Settlement and Stipulation for receiving a donation of fee title or to hold the conservation easement.

- Organizations interested in a fee title donation were invited to submit a land stewardship proposal (“LSP” or “proposal”) describing their capacity and interest in preserving and enhancing the BPVs. The LSPs were posted on the Stewardship Council’s website.
- Organizations demonstrating sufficient capacity and determined by the Stewardship Council to be best-suited to receive a donation of property interest (fee or conservation easement) in particular Watershed Lands within a planning unit are being recommended to PG&E to receive fee title and/or conservation easements.

B. SNC:

SNC was selected by the Stewardship Council board to be the holder of a conservation covenant for all lands to be donated to the USFS for the following reasons:

- SNC has the organizational and financial capacity to carry out the covenant holder duties as described above.
- SNC’s program goals and objectives are compatible with the protection of the six BPVs.
- SNC’s geographic focus is the Sierra Nevada and Cascade ranges where PG&E’s Watershed Lands are located.
- SNC is willing to carry out the covenant holder role in perpetuity and the USFS is willing to enter into an agreement with SNC granting that right to SNC.
- SNC has a diverse board of directors, representing state, federal, and local agencies and the public.

5. Analysis of Tax and Other Economic and Physical Impacts

The Stipulation requires that the LCCP provide “an analysis of tax and other economic and physical impacts of such disposition strategy, and a commitment by an appropriate entity [which may be PG&E, subject to being authorized by the Commission to fully recover in rates any such costs in approving PG&E’s Section 851 application or in another appropriate Commission proceeding, Stewardship Council, donee, or a third party, depending on the individual circumstances] to provide property tax revenue, other equivalent revenue source, or a lump sum payment, so that the totality of dispositions in each affected county under this Land Conservation Commitment will be ‘tax neutral’ for that county.”

The following sections address the Stewardship Council’s plan for achieving tax neutrality for Calaveras and Amador counties, the counties in which the Property is located.

Stewardship Council Board Policies and Guidelines

The Stewardship Council board adopted a set of Guidelines Regarding Satisfaction of Tax Neutrality on March 30, 2011, after an opportunity for public comment. Under the guidelines, the Stewardship Council outlined the following overarching assumptions:

1. The Stewardship Council will address property tax neutrality based upon the most current property taxes paid by PG&E on the lands being transferred at the time of the actual transfer of fee title from PG&E to the selected donee.
2. The Stewardship Council’s achievement of property tax neutrality applies to all property taxes that would be distributed directly to County General Funds, School and Fire Districts, Regional Conservation and Water Districts, and any other special districts as defined by the applicable Tax Rate Area.
3. The Settlement and Stipulation direct the Stewardship Council to ensure that the effects of distributions be made tax neutral for the affected counties. Therefore, the Stewardship Council’s property tax neutrality commitment will not apply to any amount of property tax payments that are subject to apportionment by the State of California.

On June 27, 2012, the Stewardship Council board approved an amendment to the property tax neutrality methodology it had adopted on May 2, 2012, after an opportunity for public comment and specific outreach to all potentially affected counties. On June 24, 2015 and January 21, 2016, the Stewardship Council board approved some revisions to that methodology. The methodology establishes a standard payment process when lands are transferred to organizations that are exempt from paying property taxes (see Appendix 4). The methodology outlines three in-lieu payment options: a one-time lump sum payment from the Stewardship Council directly to counties, the Stewardship

Council's establishment of an endowment account that would be designed to generate enough investment income to make annual in-lieu payments to counties on an ongoing basis, and annual installment payments for a maximum number of five years totaling the lump-sum amount. Regardless of the payment option selected by the county, the payment methodology provides that the county will distribute funds related to the special districts as defined in the Tax Rate Area upon receipt of the lump sum payment or the annual installment payment.

On August 14, 2014 the California Public Utilities Commission approved Resolution E-4644. The resolution states that the Commission endorses the Guidelines Regarding Satisfaction of Tax Neutrality and the Property Tax Neutrality Methodology adopted by the Stewardship Council.

Achieving Property Tax Neutrality

The Stewardship Council will provide funding to satisfy property tax payments in perpetuity for the Property. After the CPUC has approved the fee title donation of the Property, Calaveras and Amador counties may select one of the three following options: a lump sum payment, an annual payment from a trustee selected by the Stewardship Council, or annual installment payments for a maximum number of five years totaling the lump sum amount.

The transfer of lands within Calaveras County is expected to result in the reduction of approximately \$48 in annual taxes paid to Calaveras County (as shown in Table 2 below). The transfer of lands within Amador County is expected to result in the reduction of approximately \$9 in annual taxes paid to Amador County.

Table 2: Property Tax Detail

Parcel ID	SBE Map Number	Taxes on Acres Transferred
960 (Calaveras County portion)	135-5-1-2, 135-3-2-6	\$48
960 (Amador County portion)	135-5-1-2, 135-3-2-6	\$9

If the lump sum option were selected, the Stewardship Council would make a one-time payment of approximately \$1,212 to Calaveras County and \$221 to Amador County. If the county chose the installment payment option, the lump sum amount would be paid in installments up to five years. Under either of these options, Calaveras County and Amador County would, in-turn, be required to distribute the funds to the general fund and applicable special districts consistent with the Tax Rate Area in effect for the parcel.

If Calaveras and/or Amador County choose the annual payment option, the Stewardship Council could elect to do one of the following: (1) for an initial period of time, make installment payments itself to Calaveras or Amador County with the annual installment

fixed at approximately \$48 or \$9, respectively, per year or (2) immediately after the donation of lands to a tax exempt entity deposit approximately \$1,212 or \$221, respectively with a third party trustee, which would be responsible for making annual payments to Calaveras and/or Amador County. Pursuant to the methodology described in the Property Tax Neutrality Methodology adopted on June 27, 2012 and amended on June 24, 2015 and January 21, 2016, the trustee will make annual payments equal to 4% of a rolling 20 quarter average of the principal balance invested for the parcel. Calaveras and/or Amador County would, in-turn, be required to distribute the funds to the general fund and applicable special districts consistent with the Tax Rate Area in effect for the parcel.

Other Economic and Physical Impacts

The Settlement and Stipulation require an analysis of the physical and economic impacts of each disposition. The transaction agreements for the donation of 77 acres within the NFMR planning unit have not mandated any changes to the physical or economic uses of the lands. The USFS intends to manage the lands in a manner consistent with the current physical and economic uses of the lands. No new activities are proposed that will result in physical impacts.

6. Hazardous Waste Disclosure

The Stipulation states that in the transfer of fee title and conveyance of a conservation easement, PG&E will disclose all known hazardous waste, substance contamination, or other such environmental liabilities associated with each parcel and hold the donee harmless.

Lands to be Donated by PG&E

PG&E has provided the North Fork Mokelumne River Planning Unit Environmental Site Assessment Report dated June 22, 2010, to the USFS, fulfilling the disclosure requirements of the Land Conservation Commitment.

Environmental Agreement

Pending CPUC approval of the transaction, PG&E will execute Environmental Agreements with the USFS and SNC, satisfying the requirements of Section 12(f) of the Stipulation.

7. Consideration of Parcel Split

Appropriate consideration was given to whether any portion of the NFMR planning unit is needed for operation of PG&E's and/or a co-licensee's hydroelectric facilities.

PG&E determined that retention of fee title within Parcel 960 is not needed for such operations and that reserving rights for certain activities would suffice. Therefore, the entire 77 acres within this parcel were made available for donation. Thus, no parcel split is required to effectuate transfer of the parcel to the USFS.

8. Strategy for Physical Measures to Enhance the BPVs

The Stewardship Council developed and implemented a strategy to identify and undertake appropriate physical measures to enhance the BPVs of the Watershed Lands consistent with Settlement Agreement paragraph 17(c)³ and Appendix E, paragraph 1.

During the preparation of Volume II of the LCP, a number of potential physical enhancement measures to preserve and/or enhance the BPVs were identified. These measures were identified with public input and were intended to be illustrative in nature and subject to change over time in coordination with the future landowner.

The Stewardship Council has developed a grant program to fund enhancements on the Watershed Lands in the future. Grant funding will be available to accomplish any number of potential future physical measures such as developing trails, day use areas, and other public access improvements.

³ Settlement Agreement Paragraph 17(c) states, “PG&E shall fund PG&E Environmental Enhancement Corporation with \$70 million in Cash to cover administrative expenses and the costs of environmental enhancements to the Watershed Lands... provided that no such enhancement may at any time interfere with PG&E’s hydroelectric operations maintenance or capital improvements.”

9. Monitoring Plan for the Economic and Physical Impacts of Disposition and Implementation of Enhancement Measures

The Stipulation requires that the LCCP outline a plan to monitor the economic and physical impacts of disposition and implementation of enhancement measures.

The conservation covenant holder is required to monitor every conservation covenant that it holds to ensure that the landowner is complying with the terms of the covenant in perpetuity. The Stewardship Council has entered into a Conservation Covenant Funding Agreement with SNC whereby SNC will receive a monitoring endowment from the Stewardship Council to fund its monitoring activities at the NFMR planning unit.

To further meet the requirement of monitoring the economic and physical impacts, the Stewardship Council will enter into another agreement with the SNC, whereby the agency will agree to undertake certain duties designed to monitor the impacts of PG&E's Land Conservation Commitment.

When the Stewardship Council has completed its work, it will be dissolved. Prior to its dissolution, the Stewardship Council expects to prepare a report providing an assessment of any economic and physical impacts resulting from the Land Conservation Commitment as of that time. The Stewardship Council's close-out report will include, among other things, the following information:

- How the property tax neutrality requirement was satisfied with regard to each parcel donated to a tax exempt organization.
- A report regarding the enhancements that were funded by the Stewardship Council.

It is anticipated that several years after the dissolution of the Stewardship Council, SNC will prepare a report assessing the physical and economic impacts of the Land Conservation Commitment up until that time. The report is expected to cover the following topics:

- Impact of the Land Conservation Commitment on agreements for economic uses.
- Changes in entities holding conservation easements or fee title.
- Performance of duties by conservation easement and conservation covenant holders.

In addition to preparing an assessment report, which will be submitted to the CPUC and PG&E, SNC will serve as a public repository for key transaction documents and other documents pertaining to the Land Conservation Commitment through June 2025.

10. Implementation Schedule for Transactions and Measures

Schedule for Transaction

- CPUC review and approval (2016)
- Close of escrow (2016)
- Stewardship Council begins releasing funds to SNC on a reimbursement of costs basis (2016)

Compliance with Local Land Use Planning Requirements

Future management of the donated property at the NFMR planning unit is anticipated to comply with all applicable County ordinances and/or General Plan policies that would pertain to uses and activities on federal lands.

Appendix 1: Summary of Public Outreach

SUMMARY OF PUBLIC OUTREACH PROGRAM

The Stewardship Council established a comprehensive public outreach program to both inform and solicit input from the public on the development and implementation of a plan to permanently protect over 140,000 acres of PG&E watershed lands. A variety of tools and techniques are used to engage the public, including:

- Stewardship Council Website: the website provides background information on the land conservation program and is regularly updated with board meeting agendas and minutes, proposed recommendations, and other announcements.
- Stakeholder Database and E-mailing: regular e-mail notifications are sent directly to individuals and organizations that have signed-up to receive e-mails. The e-mails provide updates on the status of the land conservation program, including pending actions by the board and upcoming public meetings.
- Targeted Newspaper Noticing and Paid Advertisements: newspaper advertisements and notices are placed in local newspapers circulated in the area where a board or public meeting is taking place or in communities that may have an interest in a particular topic on an upcoming meeting agenda.
- News Releases: news releases are issued to statewide and local media outlets at key intervals during the planning process.
- Public Information Meetings and Workshops: public information meetings and workshops are conducted throughout the watershed lands to provide updates and solicit input from interested stakeholders on the land conservation program and individual planning units. In many workshops, public comments were sought on potential measures to protect and enhance the beneficial public values on specific lands as well as the desired qualifications of potential donee organizations. Individuals and organizations unable to attend are provided an opportunity to submit comments in writing and review meeting summaries posted on the web site.
- Notice by Mail of Pending Decisions Regarding the Conveyance of Individual Parcels and Invitation to Comment:
 - Noticing of Affected Governmental Entities: prior to the Watershed Planning Committee forwarding a recommendation to the board that a proposed Land Conservation and Conveyance Plan (LCCP) be adopted by the board, a notice will be mailed to the Board of Supervisors of the affected county; each affected city, town, and water supply entity; and each affected tribe and/or co-licensee.
 - Noticing of landowners: postcards or letters are sent to all landowners located within one mile of lands that are the subject of a proposed LCCP prior to the Watershed Planning Committee forwarding a recommendation to the board that the proposed LCCP be adopted by the board.
- Individual Meetings with Stakeholders: Over the course of the preparation of Volumes I and II of the Land Conservation Plan (LCP) and the LCCP, Stewardship Council staff met, and communicated via the telephone and email, with a number of stakeholders interested in the Watershed Lands.

Appendix 1: Summary of Public Outreach

- The Stewardship Council Board of Directors meets five to six times per year, typically on a bimonthly schedule. At the board meetings, the public is invited to directly address the board on an agenda item or on any other matter. The meetings have been held at locations in northern and central California and across the watershed lands to help facilitate public participation. Agendas are available one week prior to meetings, and meeting minutes are posted on the Stewardship Council public website approximately three weeks following those meetings.

NORTH FORK MOKELUMNE PLANNING UNIT PUBLIC OUTREACH

Highlighted below are the opportunities that have been, or are being, provided for public input on key documents and decisions concerning the North Fork Mokelumne planning unit and the land conservation and conveyance process.

I. PUBLIC REVIEW OF VOLUMES I AND II OF THE LCP

The Draft Land Conservation Plan Volumes I and II were released in June 2007 for a 60-day public comment period. During this time, the Stewardship Council held ten public meetings to publicize the availability of the Draft LCP and to encourage public comment. These meetings were advertised via an e-mail sent to contacts in the Stewardship Council's database, an announcement posted on the Stewardship Council's web site, a press release issued to local newspapers, a paid advertisement in local papers, and a postcard sent to all landowners on record that reside within one mile of any PG&E parcel. Comments were received via email, the website, and hardcopy letters. The comments were reviewed, and responded to individually; and the text in the draft LCP was revised as appropriate.

During public review of Volumes I and II of the LCP, 16 public comments were submitted concerning the North Fork Mokelumne planning unit. Amador Water Agency requested that any recreational enhancements contemplated for Lake Tabeaud reflect considerations for maintaining water quality. East Bay Municipal Utility District (EBMUD) submitted several comments requesting that water quality and supplies be reflected in Recommended Concept Objectives in Volume II of the Land Conservation Plan. Five comments were received from adjacent property owners in the Lake Tabeaud region and in vicinity to the Standard Canal with concerns related to how the donation of lands and/or increased public access and recreation on adjoining PG&E parcels would impact their private lands and business interests. Friends of the River submitted a comment in support of a donation of lands to Eldorado National Forest and the BLM. Two comments were submitted suggesting recreational enhancement opportunities related to the Mokelumne Coast to Crest Trail as well as Tiger Creek whitewater put in.

II. NOTICING OF LANDOWNERS WITHIN ONE MILE

In the fall of 2006 a postcard was distributed to the approximately 26,000 landowners located within one mile of the exterior boundary of all the parcels to notify and invite comment on Volume I and II of the LCP. A postcard was also sent to notify and invite all landowners located within one mile of the parcels within the North Fork Mokelumne planning unit to a Public Information Meeting that was held in Jackson, California on October 7, 2009. In addition, simultaneous with the release of the proposed subject LCCP for public comment, adjacent landowners located within one mile of the subject parcels are noticed by mail 30 days before the Watershed Planning Committee considers forwarding the proposed subject LCCP to the board for final approval.

Appendix 1: Summary of Public Outreach

III. PUBLIC INFORMATION MEETING

A Public Information Meeting workshop for several planning units in the Mokelumne Watershed Area was hosted by the Stewardship Council on October 7, 2009 in Jackson, California. The meeting concerned two planning units: Lower Bear Area and North Fork Mokelumne River. Attendees at the workshop included a total of 36 individuals representing a wide variety of interests including local, state, federal, and tribal governments; and community organizations. The meeting was advertised via an e-mail sent to contacts in the Stewardship Council's database, an announcement posted on the Stewardship Council's web site, a press release issued to the local newspaper, and a postcard sent to all landowners on record located within one mile of any PG&E parcel associated with the North Fork Mokelumne planning unit.

The purpose of the workshop was to: (1) provide an overview of the land conservation process; and, (2) solicit additional public input on future stewardship of the two planning units.

IV. PUBLIC REVIEW OF LAND CONSERVATION PROGRAM POLICIES & GUIDELINES

Public comment was sought on policies and guidelines that helped inform the Stewardship Council's land conservation and conveyance process. These documents were provided to the public in advance of being reviewed and endorsed by the Watershed Planning Committee or Fiduciary Committee and forwarded to the board for review and consideration.

Land Conservation Program Funding Policy

The Stewardship Council created a Land Conservation Program Funding Policy to help guide future planning and decision-making regarding funding of the long term management and stewardship of the watershed lands. In June and July, 2009, the draft policy was posted on the Stewardship Council's web site and made available for review and comment to a group of stakeholders consisting of all registered potential donees and representatives of the counties in which the watershed lands are located. Two comments were received during the 30-day review and comment period. Both comments were reviewed, and it was determined that neither comment necessitated a change in the draft policy. The Stewardship Council's Board of Directors adopted the policy at a public board meeting in Sonora, Calif. on September 17, 2009.

Guidelines for Achieving Property Tax Neutrality

The Stewardship Council created guidelines for achieving property tax neutrality to describe scenarios when the Stewardship Council will make property tax payments to affected counties as in lieu payments for property taxes that are lost due to the donation of PG&E watershed lands to an entity that is exempt from paying property taxes. The guidelines also defined a set of overarching assumptions regarding property tax neutrality payments. The draft guidelines were posted on the Stewardship Council's web site in December 2010. A notice inviting review and comment on the guidelines was sent to the Stewardship Council's stakeholder database. Additional targeted outreach was performed to inform the affected counties. Nine comments were received during the 60-day review and comment period. After consideration of public comments, the Stewardship Council Board adopted a set of guidelines at its public board meeting on March 30, 2011.

Appendix 1: Summary of Public Outreach

Proposed methodology for achieving tax neutrality

The proposed methodology for achieving tax neutrality on donated lands was e-mailed to all land stakeholders and posted on Stewardship Council's website for public review and comment on January 9, 2012. The deadline for submission of comments was March 9, 2012. The Stewardship Council received one request to extend this deadline, which was granted. By the new deadline March 30, 2012, six comments were received. Upon consideration of the comments received, the Stewardship Council board deferred adoption of the full methodology until the June 27, 2012 board meeting so that the affected counties could be notified of the proposed change to the capitalization rate. No comments were received on the revised capitalization rate. The revised methodology was adopted by the board at its June 27, 2012 meeting.

V. WATERSHED PLANNING COMMITTEE RECOMMENDATIONS OF FEE TITLE AND CONSERVATION EASEMENT DONEES

Staff recommendations for prospective fee title donees and conservation easement holders that are endorsed by the Watershed Planning Committee are posted on the Stewardship Council's website for public review and comment. The proposed board action is noticed via an e-mail sent to contacts in the Stewardship Council's database. In addition, public board meetings are advertised via an e-mail sent to contacts in the Stewardship Council's database, an announcement posted on the Stewardship Council's web site, a press release issued to local papers, and an advertisement placed in local newspapers in the area where a board or public meeting is taking place or in communities that may have an interest in a particular topic on an upcoming meeting agenda. The board action taken is also noted in the meeting minutes that are posted on the Stewardship Council's website following each meeting.

All public comments received by staff concerning the fee and conservation easement recommendation at the North Fork Mokelumne planning unit were provided to the board for consideration at the relevant public board meeting.

VI. PUBLIC REVIEW OF THE LAND CONSERVATION AND CONVEYANCE PLANS

The public is provided an opportunity to review and comment on the proposed Land Conservation and Conveyance Plans (LCCPs), and the comments received are shared with board members prior to the Watershed Planning Committee's forwarding the proposed LCCP to the board for its review and approval. The 30-day public review and comment periods are announced via an e-mail sent to contacts in the Stewardship Council's database, a posting on the Stewardship Council's web site, and an advertisement placed in local newspapers in communities that may have an interest in a particular planning unit. A notice inviting review and comment on the proposed LCCP is also sent to all landowners on record located within one mile of the subject PG&E parcels and to PG&E leaseholders. In addition, a notice is mailed to the board of supervisors of the affected county; each affected city, town, and water supply entity; and each affected tribe and/or co-licensee. After receiving public comment, the Watershed Planning Committee may make revisions to a proposed LCCP prior to forwarding a recommendation to the board.

VII. STEWARDSHIP COUNCIL BOARD OF DIRECTORS MEETINGS

Proposed LCCPs endorsed by the Watershed Planning Committee are posted on the Stewardship Council's website for additional public review and comment approximately 30 days prior to being considered by the board at a public board meeting. The posting of proposed LCCPs is advertised via an e-mail sent to contacts in the Stewardship Council's database. In addition, public board meetings are advertised via an e-mail sent to contacts in the Stewardship Council's database, an announcement posted on the Stewardship Council's web site, a press release issued to local papers, and an advertisement placed in local newspapers in the area where a board or public meeting is taking place or in communities that may have an interest in a particular topic on an upcoming meeting agenda. The board action taken is noted in the meeting minutes that are posted on the Stewardship Council's website following each meeting.

All public comments received will be provided to the board. There is also an additional opportunity for public comment at the public board meeting when the board considers approval of the proposed LCCP. Adoption of an LCCP by the board would be the final step in the Stewardship Council's process for selecting donees. The conservation easement donee is responsible for securing its own internal approvals prior to the transaction being completed. Transactions will be finalized upon LCCP review and transaction approval by the California Public Utilities Commission.

Appendix 2: Grant Deed

RECORDING REQUESTED BY
USDA Forest Service

WHEN RECORDED MAIL TO:
USDA Forest Service
Regional Land Adjustment Team
100 Forni Road
Placerville, CA 95667

REAL PROPERTY TRANSFER TAX \$ EXEMPT
(R&T Code 11922)
Declared: Laurence Crabtree
Forest Supervisor
By and For: Forest Service (USDA)

Amador Co. APN: 025-060-016

Calaveras Co. APN: 004-003-003

A counterpart original of this Grant Deed is being recorded concurrently in both Amador and Calaveras Counties.

GRANT DEED

I. CONVEYANCES

KNOW ALL MEN BY THESE PRESENTS, that, Pacific Gas and Electric Company, a California corporation ("Grantor"), hereby grants unto the UNITED STATES OF AMERICA ("Grantee") and its assigns, all those certain lots, pieces or parcels of land situate, lying and being in the unincorporated area, Counties of Amador and Calaveras, State of California, more particularly described as follows (the "Property"):

All that certain parcel of land situate in Section 16, Township 7 North, Range 15 East, Mount Diablo Base and Meridian, partly in the County of Amador and partly in the County of Calaveras, as recorded in Volume 48, Page 222 of Deeds of the County of Amador and in Book 84, Page 426 of Deeds of the County of Calaveras, State of California, particularly described therein as follows:

The North one-half of the Northwest one-quarter of said Section 16.

The acquiring agency is the Department of Agriculture, Forest Service. The Forest Service accepts the donation of the property as authorized by the Act of August 3, 1956 (7 U.S.C. § 428a(a)) and the Act of October 10, 1978 (7 U.S.C. § 2269).

02898.357 3246011v3

Appendix 2: Grant Deed

TOGETHER WITH all and singular the tenements, hereditaments and appurtenances thereunto belonging, or in anywise appertaining, and the reversion and reversions, remainder and remainders, rents, issues and profits thereof,

ALL SUBJECT TO (a) any applicable lien securing payment of real estate taxes and assessments; (b) all matters that would be disclosed by a physical inspection or survey of the Property or that are actually known to Grantee; (c) all contracts, leases, licenses, covenants, conditions, easements, restrictions, liens, encumbrances and other exceptions of record or unrecorded; (d) the terms and conditions of the Conservation Covenant attached hereto as Exhibit 1 (the "Conservation Covenant"); and (e) the terms and conditions of the Environmental Agreement attached hereto as Exhibit 2.

II. WATER RESTRICTION

Grantor grants the Property to Grantee, and Grantee accepts the grant of the Property from Grantor, subject to the following restrictions (the "Restriction"):

Grantee agrees that it shall not:

A. Divert or extract water from any surface water source, including but not limited to any river, stream, creek, channel, watercourse, underflow, spring, lake, pond, or reservoir on the Property ("Surface Water"), or otherwise exercise any water right to Surface Water:

1. For any of the following uses:

(a) Irrigation for agricultural use such as row crops, field crops, tree farms, irrigated pasture, or for landscape use; or

(b) Developed recreation, including campgrounds, day use areas, trailheads, visitor information centers, or stand-alone restrooms; or

(c) Administrative offices, fire stations, work centers, or crew living quarters; or

(d) Mining or Municipal use; or

2. For any purpose that is not for direct use in protecting or enhancing the Beneficial Public Values of the Property as identified in the Conservation Covenant; or

B. Sell, lease, transfer, or convey any rights to divert Surface Water or exercise any water right to Surface Water; or

Appendix 2: Grant Deed

C. License, permit, authorize, or allow any third-party to divert Surface Water or exercise any water right to Surface Water, except for:

1. Issuance of a permit to a grazing permittee for use of Surface Water, provided such use is consistent with the other terms and covenants of this Restriction; or,
2. Authorization for use of Surface Water for active fire suppression.
3. For use by a contractor during road maintenance or road construction activities.

No consent or waiver, express or implied, by Grantor to or of any breach of the above-stated Restriction shall be construed as a consent or waiver to or of any other breach of the Restriction.

III. MISCELLANEOUS

The provisions hereof shall inure to the benefit of and bind the successors and assigns of the respective parties hereto, and all covenants shall apply to and run with the Property.

The real property hereby conveyed is no longer necessary or useful to Grantor in the performance by it of its duties to the public.

The California Public Utilities Commission, in Decision No. XXXX, has approved transfer of the Property under State of California Public Utilities Code Section 851.

TO HAVE AND TO HOLD all and singular the said premises, together with the appurtenances, unto the United States of America and its assigns forever.

[Signature page follows]

Appendix 2: Grant Deed

IN WITNESS WHEREOF, **Pacific Gas and Electric Company**, a California corporation, has hereunto set its hand this _____ day of _____, 20__.

PACIFIC GAS AND ELECTRIC COMPANY,
a California corporation

By: _____

Andrew K. Williams
Vice President
Safety, Health and Environment

DRAFT

This deed is correct as to the description, consideration and conditions.

By _____ Date: _____
JANICE GORDON
Realty Specialist
Regional Land Adjustment Team
Forest Service, Pacific Southwest Region

CERTIFICATE OF ACCEPTANCE

This is to certify that the interest in real property conveyed by the attached Grant Deed in favor of the UNITED STATES OF AMERICA, is hereby accepted by the undersigned officer on behalf of the United States of America pursuant to authority granted by the Act of August 3, 1956 (7 U.S.C. § 428a(a)) and the Act of October 10, 1978 (7 U.S.C. § 2269) and the Grantee consents to the recordation thereof.

[Drafting Note: One of the following signatures may be deleted or modified.]

Authorized Officer _____ Date: _____
LAURENCE CRABTREE
Forest Supervisor
Eldorado National Forest

Authorized Officer _____ Date: _____
JEANNE H. HIGGINS
Forest Supervisor
Stanislaus National Forest

ACKNOWLEDGMENT

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

State of California)
County of _____)

On _____, before me, _____, a Notary Public, personally appeared _____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature _____

EXHIBIT 1

CONSERVATION COVENANT

[Follows this page]

DRAFT

EXHIBIT 2

ENVIRONMENTAL AGREEMENT

[Follows this page]

DRAFT

Appendix 3: Conservation Covenant

RECORDING REQUESTED BY:
U.S. Department of Agriculture
Forest Service

WHEN RECORDED MAIL TO:
Sierra Nevada Conservancy
11521 Blocker Drive, Suite 205
Auburn, CA 95603

APN: 25-06-16 (Amador County), 04-003-03 (Calaveras County)
A counterpart original of this Conservation Covenant is being recorded concurrently in both Amador and Calaveras Counties.

CONSERVATION COVENANT

THIS CONSERVATION COVENANT (“Covenant”) is made and entered into this _____ day of _____, 20__ by and between the Sierra Nevada Conservancy (“Conservancy”), an agency of the State of California, and the United States of America (“United States”), acting by and through the United States Forest Service (“USFS”).

RECITALS

A. The United States is the owner of approximately 77 acres of real property located in the Counties of Amador and Calaveras, (the "Counties"), State of California, as more particularly described in the attached Exhibit A (the “Property”). The Property is located within the watershed of, and adjacent to, the North Fork of the Mokelumne River.

B. Pacific Gas and Electric Company, a California corporation (“PG&E”), transferred fee title to the United States by Grant Deed, recorded in the Official Records of the Counties of Amador and Calaveras, on _____, 20__, as Instrument Number _____, (the “Grant Deed”) subject to the restrictions as set forth in the Grant Deed. PG&E transferred fee title to the Property to the United States in connection with PG&E’s implementation of the “Land Conservation Commitment” provided for in the following documents and described more fully below:

(1) That certain Settlement Agreement (the “Settlement Agreement”) as modified and approved by the Public Utilities Commission of the State of California (the “Commission”) in its Opinion and Order of December 18, 2003 (Decision 03-12-035); and,

(2) That certain Stipulation Resolving Issues Regarding the Land Conservation Commitment dated September 25, 2003 (the “Stipulation”).

Appendix 3: Conservation Covenant

C. The Settlement Agreement and the Stipulation (collectively, the “Governing Documents”) require PG&E to ensure that approximately 140,000 acres of watershed lands owned by PG&E as of the effective date of the Governing Documents (collectively, the “Watershed Lands”) are conserved for a broad range of beneficial public values, including the protection of the natural habitat of fish, wildlife and plants; the preservation of open space; outdoor recreation by the general public; sustainable forestry; agricultural uses; and historic values (collectively, the “Beneficial Public Values”). The Property is included in the Watershed Lands.

D. Pursuant to the Governing Documents, the Pacific Forest and Watershed Lands Stewardship Council, a California nonprofit public benefit corporation (the “Stewardship Council”), was created to oversee and carry out the Land Conservation Commitment. Pursuant to the Governing Documents, the Stewardship Council developed a plan for protection of the Watershed Lands (the “Land Conservation Plan” or “LCP”). The LCP includes, among other things, objectives to preserve and/or enhance the Beneficial Public Values identified on each parcel of Watershed Lands, including the Property.

E. The Conservancy is authorized to carry out projects and activities to further the purposes of the Laird-Leslie Sierra Nevada Conservancy Act, Division 23.3 of the California Public Resources Code, and, among other things, is authorized to acquire and hold interests in real property pursuant to California Public Resources Code Sections 33347 and 33352. The Conservancy is further authorized, as an entity described in California Civil Code Section 815.3(b), to hold a “conservation easement” as defined in Civil Code Section 815.1.

F. By this instrument, the parties desire to create a Covenant providing for the permanent protection of the Property’s natural resources, and for the retention of the Property predominantly in its natural, scenic, historical, agricultural, forested, and/or open-space condition. The parties intend that the Covenant created hereby shall run with and burden the Property in perpetuity, binding the USFS and its successors as the owners of the Property, benefiting the State, and enforceable by the State acting by and through the Conservancy (or any lawful successor agency).

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, and pursuant to the laws of the United States and the State of California, the parties agree as follows:

1. **Covenants and Conditions.** In order to promote the perpetual use of the Property herein described for scenic and natural purposes including, where appropriate, provisions for open space and resource utilization, it is agreed that the Property:

(a) Shall be managed by the USFS for public uses and protection of natural resources as a component of the National Forest System and subject to the laws and regulations applicable thereto;

(b) Shall be managed by the USFS in conformity with a land and resource management plan (“LRMP”) prepared with public involvement pursuant to the National Forest Management Act (90 Stat. 2949) and other applicable laws, including full compliance with the National Environmental Policy Act (83 Stat. 852) and the Multiple Use Sustained Yield Act (74 Stat. 215).

(c) Shall be open to the public for outdoor recreation such as hiking, camping, hunting and fishing, subject to reasonable regulations and state fish and game laws and

Appendix 3: Conservation Covenant

consistent with the long-term protection of the natural resources on the Property;

(d) Shall be managed for wildlife and fish habitat purposes consistent with other multiple uses as identified in the LRMP, including full compliance with the Endangered Species Act (87 Stat. 884);

(e) Shall be managed for agricultural values such as forage and for sustainable forestry on suitable lands in accordance with the LRMP, LRMP standards and other applicable laws and regulations.

(f) Shall be managed to protect historic, cultural and archaeological resources in conformity with the National Historic Preservation Act (80 Stat. 915), and the Archaeological Resources Protection Act (93 Stat. 721);

(g) Shall have acquired status under the Weeks Act of 1911 (36 Stat. 961) and, therefore, shall not be open to location and entry under the mining laws of the United States;

(h) Shall be subject to the above referenced laws, and others generally applicable to the National Forest System, as such laws may be amended by Congress from time to time.

The United States hereby agrees that the foregoing provisions affecting the use of the Property, and all of the other terms, conditions, and restrictions set forth below, shall be binding upon and inure to the benefit of the parties and their respective successors in interest, and shall constitute a restriction running with the Property in perpetuity, enforceable by the State, acting by and through the Conservancy or any lawful successor agency, for the benefit of the Property, pursuant to California Civil Code section 1468.

2. **Disposal of the Property.** Before relinquishing title to the Property through exchange, sale or other means of disposal, the United States, acting by and through the USFS, will transfer a conservation easement over and upon the Property to, as the case may be: (a) the Conservancy, (b) the Conservancy's then-existing lawful successor agency, or (c) such other public agency as may be designated by the Conservancy or its lawful successor agency. The said conservation easement shall assure perpetual protection of the Property equivalent to the protections provided for in this Conservation Covenant. Upon conveyance of the said conservation easement, this Conservation Covenant will be dissolved and have no further force and effect.

3. **Dispute Resolution.** In the event of a disagreement or dispute related to this Covenant, the parties hereto agree first to seek an administrative resolution of the dispute by meeting first with field staff and thereafter elevating the matter for meetings with upper management, prior to resorting to legal action for enforcement of the Covenant. For the USFS, the first meeting will involve USFS Ranger Unit staff, next the matter will be elevated to the appropriate Forest Supervisor and, thereafter, if necessary, to the Regional Forester. For the Conservancy, the first meeting will involve field staff, next the matter will be elevated to the appropriate Program Manager, and thereafter, if necessary, to the Executive Officer. Each party shall bear its own costs for participation in the administrative dispute resolution (ADR) process. Unless the parties agree otherwise, at a minimum the ADR process will consist of the following: The party claiming a breach or failure of the Covenant will give written notice detailing such breach or failure and suggestions for cure of the breach or failure to the other party. The first meeting of the parties to resolve the matter shall occur no later than 30 days after the receipt of the notice, and subsequent meetings elevating the matter within the management

Appendix 3: Conservation Covenant

hierarchy shall occur as soon as reasonably practicable, but no later than 30 days after the first meeting; provided, however, that if the complaining party believes there is an imminent risk of serious harm to natural resources resulting from the dispute, then it shall so notify the other party and only one meeting involving top level management shall be required before either party may seek enforcement in a court action. If after completion of this administrative process, a dispute remains, then either party may seek relief in a court of competent jurisdiction.

4. **Amendment to Land and Resource Management Plan.** The USFS shall amend the LMRP and incorporate language into the management area descriptions that states that the Property was donated to ensure the permanent protection of the Property's natural resources. The amendment will include the objectives for the protection of the Beneficial Public Values identified in the Stewardship Council's Land Conservation Plan, and will reference this Covenant. The amendment will also require notification as addressed below and require that all future amendments to the LRMP (and any successor management plan thereto) provide reference to this Covenant. In addition, the objectives set forth in the Land Conservation Plan for the protection of the Beneficial Public Values shall be carried forward into all future amendments to the LRMP and any successor management plans thereto. This Covenant's recording information shall be included in the LRMP revision (and applicable amendments) to assure perpetual access to the intent of this donation.

5. **Right to Monitor.** The Conservancy has the right to enter and to monitor the Property for compliance with the terms of this Covenant.

6. **Notification.** The USFS shall provide the Conservancy reasonable advance written notice of any proposal to amend or revise the LRMP or any other management plans or documents relating to the management or use of the Property and shall provide the Conservancy with the opportunity to fully participate in such planning process as an interested party. In any public proceedings respecting any proposed modification to the LRMP or any other management plan or document relating to the management or use of the Property, USFS shall fully disclose and describe the existence of this Covenant and the intentions of the Stewardship Council to effect the permanent protection of the Beneficial Public Values of the Property in connection with PG&E's donation of the Property to the United States. Without limiting the foregoing, it is understood and agreed that no modification to the LRMP shall be made unless and until USFS has publicly disclosed the intention of PG&E to effect the permanent protection of the lands herein conveyed.

7. **Recording.** This Covenant will be recorded in the Official Records of the Counties in which the Property is located. Two duplicate original copies of this Covenant will be executed. Each signatory will receive one original for its records.

8. **Counterparts.** This Covenant may be executed in one or more counterparts, each of which shall be an original, but all of which shall constitute one and the same instrument.

**Remainder of this Page Intentionally Left Blank
Signatures on Next Page**

Appendix 3: Conservation Covenant

IN WITNESS WHEREOF the parties have executed this Covenant as of the day and year first above written.

SIERRA NEVADA CONSERVANCY,
an agency of the State of California

UNITED STATES OF AMERICA

By: _____

JAMES BRANHAM
Executive Officer

By: _____

[NAME]
Director, Public Services
Pacific Southwest Region
USDA - Forest Service

DRAFT

Appendix 3: Conservation Covenant

ACKNOWLEDGMENT

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

State of California

County of _____

On _____ before me, _____, a Notary Public, personally appeared _____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature of Notary Public (Notary Seal)

Appendix 3: Conservation Covenant

ACKNOWLEDGMENT

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

State of California

County of _____

On _____ before me, _____, a Notary Public, personally appeared _____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature of Notary Public (Notary Seal)

Appendix 3: Conservation Covenant

EXHIBIT "A"

Property of the United States

THE LAND DESCRIBED HEREIN IS SITUATED IN THE STATE OF CALIFORNIA, COUNTY OF CALAVERAS AND AMADOR, UNINCORPORATED AREA, AND IS DESCRIBED AS FOLLOWS:

SBE: 135-5-1-2, 135-3-2-6

00ML-CFX-00031

APN 25-06-16 (AMADOR) 04-003-03 (CALAVERAS)

LPC ID #0960

ALL THAT CERTAIN PARCEL OF LAND SITUATE IN SECTION 16, TOWNSHIP 7 NORTH, RANGE 15 EAST, MOUNT DIABLO BASE AND MERIDIAN, PARTLY IN THE COUNTY OF AMADOR AND PARTLY IN THE COUNTY OF CALAVERAS, AS RECORDED IN VOLUME 48, PAGE 222 OF DEEDS OF THE COUNTY OF AMADOR AND IN BOOK 84, PAGE 426 OF DEEDS OF THE COUNTY OF CALAVERAS, STATE OF CALIFORNIA, PARTICULARLY DESCRIBED THEREIN AS FOLLOWS:

THE NORTH ONE-HALF OF THE NORTHWEST ONE-QUARTER OF SAID SECTION 16.

DRAFT



PROPERTY TAX NEUTRALITY METHODOLOGY

INTRODUCTION

The Settlement Agreement¹ and Stipulation² that established the Land Conservation Commitment require that the Land Conservation Plan being developed by the Stewardship Council provide property tax revenue, other equivalent revenue source, or a lump sum payment, so that the totality of dispositions in each affected county will be “tax neutral” for each county. Section 4.3 of Volume I of the Land Conservation Plan (LCP) adopted by the Stewardship Council in November 2007 described the Stewardship Council’s potential strategies and anticipated approach to achieving property tax neutrality at a programmatic level.

On September 17, 2009, the Stewardship Council adopted a funding policy. This policy further clarified the Stewardship Council’s approach to property tax neutrality and identified several potential vehicles to achieving this requirement. On March 30, 2011, the Stewardship Council adopted a set of guidelines which describe scenarios in which the Stewardship Council will make property tax payments to affected counties and further defined a set of overarching assumptions regarding property tax neutrality payments.

Table 1 in Appendix A lists the estimated acreage and estimated annual property taxes associated with PG&E watershed lands which have been recommended by the Stewardship Council Board of Directors for donation. The estimated total tax liability that would be subject to tax neutrality will depend upon the total acreage actually transferred, and the types of organizations receiving fee title to the lands. No PG&E watershed lands will be recommended for donation in counties that are not listed in Table 1.

PURPOSE OF PROPOSED METHODOLOGY

The purpose of this methodology is to establish a standard payment process when lands are transferred to organizations that are exempt from paying property taxes. The following methodology will be applied to all counties which experience a loss in property tax revenues due to a recommended donation of fee title as part of the Stewardship Council’s Land Conservation Commitment.

¹ *Opinion Modifying the Proposed Settlement Agreement of Pacific Gas & Electric Company, PG&E Corporation and the Commission Staff, and Approving the Modified Settlement Agreement*, December 18, 2003:

http://www.stewardshipcouncil.org/documents/Settlement_Agreement.pdf

² *Stipulation Resolving Issues Regarding the Land Conservation Commitment*, September 25, 2003:

http://www.stewardshipcouncil.org/documents/Stipulation_Agreement.pdf



DETERMINING TAX NEUTRALITY PAYMENT AMOUNT

Following the Stewardship Council approval of a fee-title donation, the Stewardship Council will work with the affected county to calculate the payment amount for inclusion in the Stewardship Council's Land Conservation and Conveyance Plan (LCCP).

1. Using the legal description and/or survey of lands identified for transfer to an organization which is exempt from paying property taxes, the Stewardship Council and PG&E will prepare an estimate of the annual taxes on lands to be donated. If assessed values on the lands recommended for donation change prior to the transfer of land, the Stewardship Council will revise the payment calculation included in the proposed tax neutrality funding agreement prior to its execution by the parties.
2. The reduction in annual taxes caused by the donation of acres to organizations exempt from property tax will constitute the "Annual Base Value" for the funding calculation.
3. The county will select either the lump-sum, installment payment, or annual payment in perpetuity option (described below) for the selected fee-title donation and communicate their preference in writing to the Stewardship Council.
4. The Stewardship Council will provide a draft funding agreement for county review and approval using the Annual Base Value and payment option. The draft funding agreement is expected to include, among other items, the following acknowledgements by the county:
 - a. Payment by the Stewardship Council satisfies the tax neutrality requirement as specified in the Settlement and Stipulation for the subject fee-title donation.
 - b. The county has issued (or will not reasonably withhold) a Welfare Tax Exemption for the new landowner, if required.
 - c. The county will agree to distribute the lump-sum, installment payment, or annual payment to the applicable special districts as dictated in the relevant Tax Rate Area at the time of payment. In consideration for the additional administrative responsibility of the county to set up the process to allocate payments to special districts, the Stewardship Council will make a \$3,000 payment to the county for county's anticipated costs to perform such activities for the first fee title donation of lands in the county. Said payment will be made at the time the Stewardship Council makes its lump-sum tax neutrality payment or installment payments to county or sets aside funds for an endowment account to generate funds for annual tax neutrality payments to county. For subsequent fee title donations, if a county expects to incur more than \$3,000 in costs to perform such



activities, then it shall make a request to the Stewardship Council for increased funding no later than 60 days following the recording of the grant deed for each additional fee title donation or the execution of a tax neutrality funding agreement, whichever comes later. The Stewardship Council will review each funding request and provide the county with sufficient funds to cover all reasonable anticipated costs.

5. The Stewardship Council will fund the settlement amount according to the terms of the tax neutrality funding agreement as described in number 4 above no later than 60 days following the recording of the grant deed for the fee title donation or the execution of a tax neutrality funding agreement, whichever comes later.

OPTIONS FOR FUNDING PROPERTY TAX NEUTRALITY PAYMENTS

The Stewardship Council is presenting three options for making tax neutrality payments: (1) a one-time lump-sum payment; (2) annual installment payments for a maximum number of five years totaling the lump-sum amount; or (3) funding of an independent trustee to continue annual payments in lieu of taxes in perpetuity.

Lump-sum payment

Lump-sum payments in satisfaction of property tax neutrality would be calculated based upon the net present value of the Annual Base Value at the time that lands are removed from the property tax rolls. The lump-sum payment will be calculated using a discounted cash flows analysis for perpetual payment streams, otherwise known as a Capitalization Rate (Cap Rate).

The Cap Rate calculation requires an assumption of a long-term rate of return on comparable investments, and a long-term inflation rate. In order to develop a Cap Rate for a lump-sum payment, the Stewardship Council considered multiple long-term inputs, including long term equity and fixed income returns (Dow Jones Industrial Average, S&P 500, U.S. Treasury, CalPERS), weighted average borrowing costs for subject counties, and discount rate assumptions for pension and other post-employment benefits.

Based upon the analysis described above, **the Stewardship Council is offering counties a Cap Rate of 4.0%** to be used in the calculation of a lump-sum payment in satisfaction of property tax neutrality. The calculation for arriving at a lump-sum payment is as follows:

$$\text{Lump Sum Value} = \text{Annual Base Value} \div 4.0\%$$

The following table provides an example of the application of the Cap Rate to various Annual Base Values:

Annual Base Value	\$500	\$1,000	\$5,000	\$10,000
Lump Sum at 4.0%	\$12,500	\$25,000	\$125,000	\$250,000



Lump-sum payments would be allocated based upon the applicable Tax Rate Area at the time of payment. The Stewardship Council envisions making these lump-sum payments as unrestricted payments in lieu of property taxes, subject to the distribution method described in section 4.c above. Counties and special districts would be free to determine the best use of the funds pursuant to the needs of the county or special district, including if desired, investment in a shared investment pool of the county's choosing.

Installment Payments

The Stewardship Council is willing to pay the amount calculated for the lump-sum payment in annual installment payments totaling the lump-sum amount for a maximum number of five years.

The Stewardship Council is in negotiations with a professional investment manager to act as investment manager and trustee for an endowment to support the management and monitoring of conservation covenants after the Stewardship Council's dissolution. The Stewardship Council is prepared to make this arrangement available to counties which prefer to receive an annual payment in lieu of property taxes on lands which are removed from the tax rolls.

Under this structure, the Stewardship Council will make a contribution to an endowment account which would be designed to generate enough income to compensate for the lost property tax revenues and pay for annual investment management and trustee fees. The contribution to the endowment account would be calculated based upon the Annual Base Value for lands approved for donations and the expected payout ratio of 4%.

Annual payments out of the endowment account will be calculated based upon a rolling 20 quarter average of the account's ending balance³. The practice of calculating payments based upon a rolling average (smoothing) has been shown to reduce the number of significant declines in annual distributions, and increase the total value of payments and invested assets⁴.

Annual payments to counties would be allocated based upon the applicable Tax Rate Area at the time of payment by the receiving county. The Stewardship Council envisions making these annual payments as unrestricted payments in lieu of property taxes, subject to the distribution method described in section 4.c above. Counties and special districts would be free to determine the best use of the funds pursuant to the needs of the county or special district.

³ During the initial four years, the trustee will calculate payments based upon the number of available quarters (e.g. year 1 – rolling 4 quarters, year 2 – rolling 8 quarters, etc.)

⁴ Smarter Giving for Private Foundations, AllianceBernstein, https://www.alliancebernstein.com/Research-Publications/Black-Books/Foundations-and-Endowments/Stories/Foundations_BlackBook.htm



Participating counties would be enrolled in a common service model in the investment management account. All counties would share a common investment policy and investment management agreement. Funds will be invested in a commingled account, with the investment manager providing an individual accounting to each individual county.

Considerations of the Annual Payment Approach

The viability of the annual payment option is subject to a level of participation by the counties which meets the minimum account size (estimated at \$1 million).

Under this approach annual payments may exceed the original Annual Base Value in some years, and be lower in others, as the payment amount is reliant upon the ending market value of the account.

The Stewardship Council's transaction process is expected to occur serially, over the span of several years. It is likely that the viability and pricing of the annual payment approach will not be known for the initial transactions. Therefore, the Stewardship Council may make the initial annual payments directly to counties until the minimum account size is reached.

Please see Appendix B for more details on the annual payment option.

Appendix A

Estimated acreage and annual property taxes associated with PG&E watershed lands which have been recommended by the Stewardship Council Board of Directors for donation.

Table 1

County	Acres Recommended for Donation	Estimated Annual Taxes on Lands Recommended for Donation (\$)
Alpine	410	\$2,941
Amador	2,040	\$8,577
Butte	1,263	\$12,329
Calaveras	60	\$48
Fresno	267	\$2,228
Lake	986	\$31,795
Madera	220	\$12,296
Mendocino	847	\$16,778
Nevada	1,867	\$13,103
Placer	2,683	\$57,064
Plumas	2,986	\$29,928
Shasta	23,591	\$81,872
Tuolumne	868	\$379
Yuba	41	\$530



Appendix B Annual Payment Details

TRUSTEE SELECTION

The Stewardship Council is performing due diligence for the selection of an investment manager and trustee to administer the trust account for annual payments to counties. Selection will be based upon many factors, including (but not limited to): organization history and reputation, investment management experience, fee structure, and administrative capabilities. Additional information on the selection process can be provided upon request.

Trustee's Responsibilities:

Upon the Stewardship Council's funding of the trust account, the trustee would assume all responsibilities for making annual payments to counties in lieu of property taxes, including:

Trust administration

- Interpret the trust document.
- Distribute trust assets according to the trust document.
- Perform principal and income accounting.
- Prepare and file tax returns.
- Address specific beneficiary issues, reporting, etc.

Investment management

- Invest the trust portfolio assets objectively for the benefit of all interested parties.
- Manage portfolio assets in a tax-efficient and tax-effective manner.
- Review investment performance to ensure the portfolio is meeting the established goals and objectives.

THE ANNUAL PAYMENT STRUCTURE

Using the inputs described in the term sheet, the Stewardship Council will make a contribution to the trust account on behalf of the participating county. The following example illustrates the funding and payout process.

EXAMPLE: Calculation of Contribution to Trust Account

Annual Base Value:	\$5,000 per year
Annual Payout Percentage:	4.00%
Contribution Calculation:	$\$5,000 \div 0.04 = \$125,000$



The actual annual payout is dependent upon the following factors:

Annual Rate of Return: The annual rate of return will depend upon investment selections and market and economic performance. While past results are not an accurate predictor of future results, the annual return of the S&P 500 has averaged approximately 9%-10% since 1925¹.

Estimated Annual Fees: Annual investment management and trust administration fees will be deducted from the account and are expected to be approximately 1% - 2%, depending upon the selected investment manager and trustee.

As envisioned, the trustee will make annual payments based upon a rolling 20 quarter average of the account balance². The practice of calculating payments based upon a rolling average (smoothing) has been shown to reduce the number of significant declines in annual distributions, and increase the total value of payments and invested assets³. However, this does not guarantee against the possibility of losses in investment principal resulting in payments in some years being less than the county would have otherwise received from property taxes.

The following examples illustrate the payment methodology in two theoretical scenarios. Scenario A shows anticipated annual payments to a county with a stable rate of return. While it is unrealistic to expect no volatility in investment returns, Scenario A shows that the growth in annual payments should keep pace with, or exceed annual inflation, when invested in a balanced portfolio⁴.

Scenario B shows actual market returns for the S&P 500 index from 1980 to 2010. While historical returns do not predict future performance, the time period in Scenario B provides a more realistic assumption of variability in stock market returns. Please note that the proposed investment portfolio would not include a 100% allocation to the S&P 500 or to equities. A model portfolio would include diversification among equities (small cap, large cap, international) and fixed income investments. This diversification would likely reduce the estimated annual return and reduce volatility.

Please note that both of the scenarios are provided for illustrative purposes only and do not constitute a prediction of future performance on behalf of the Stewardship Council or the prospective investment manager.

¹ Based upon Historical Average Return of the S&P 500 index 1925-2010.

http://apps.finra.org/investor_information/smart/401k/401104.asp

Past performance does not guarantee future results.

² During the initial four years, the trustee will calculate payments based upon the number of available quarters (e.g. year 1 – rolling 4 quarters, year 2 – rolling 8 quarters, etc.).

³ Smarter Giving for Private Foundations, AllianceBernstein, https://www.alliancebernstein.com/Research-Publications/Black-Books/Foundations-and-Endowments/Stories/Foundations_BlackBook.htm

⁴ Bureau of Labor Statistics, CPI Rate: Jan 1913 to Nov 2011 http://www.bls.gov/data/inflation_calculator.htm

**Scenario A: \$125,000 earning a stable return⁵**

Year	Beginning Balance	Annual Return %	Annual Return \$	Annual Distribution (4%)	Fees -1%	Ending Balance
0	125,000	9.00%	11,250	-	(1,250)	135,000
1	135,000	9.00%	12,150	(5,400)	(1,350)	140,400
2	140,400	9.00%	12,636	(5,508)	(1,404)	146,124
3	146,124	9.00%	13,151	(5,620)	(1,461)	152,194
4	152,194	9.00%	13,697	(5,737)	(1,522)	158,632
5	158,632	9.00%	14,277	(5,859)	(1,586)	165,464
6	165,464	9.00%	14,892	(6,103)	(1,655)	172,598
7	172,598	9.00%	15,534	(6,360)	(1,726)	180,046
8	180,046	9.00%	16,204	(6,631)	(1,800)	187,818
9	187,818	9.00%	16,904	(6,916)	(1,878)	195,927
10	195,927	9.00%	17,633	(7,215)	(1,959)	204,387
11	204,387	9.00%	18,395	(7,526)	(2,044)	213,211
12	213,211	9.00%	19,189	(7,851)	(2,132)	222,417
13	222,417	9.00%	20,018	(8,190)	(2,224)	232,020
14	232,020	9.00%	20,882	(8,544)	(2,320)	242,038
15	242,038	9.00%	21,783	(8,913)	(2,420)	252,489
16	252,489	9.00%	22,724	(9,297)	(2,525)	263,390
17	263,390	9.00%	23,705	(9,699)	(2,634)	274,763
18	274,763	9.00%	24,729	(10,118)	(2,748)	286,626
19	286,626	9.00%	25,796	(10,554)	(2,866)	299,002
20	299,002	9.00%	26,910	(11,010)	(2,990)	311,912
21	311,912	9.00%	28,072	(11,486)	(3,119)	325,379
22	325,379	9.00%	29,284	(11,981)	(3,254)	339,428
23	339,428	9.00%	30,549	(12,499)	(3,394)	354,084
24	354,084	9.00%	31,868	(13,038)	(3,541)	369,372
25	369,372	9.00%	33,243	(13,601)	(3,694)	385,320
26	385,320	9.00%	34,679	(14,189)	(3,853)	401,957
27	401,957	9.00%	36,176	(14,801)	(4,020)	419,313
28	419,313	9.00%	37,738	(15,440)	(4,193)	437,417
29	437,417	9.00%	39,368	(16,107)	(4,374)	456,304
30	456,304	9.00%	41,067	(16,802)	(4,563)	476,005

⁵ Annual return based upon historical performance of the S&P 500 index 1925-2010. These figures are provided for illustrative purposes only and do not constitute a prediction of future performance on behalf of the Stewardship Council or the prospective investment manager.

**Scenario B: \$125,000 at historical S&P 500 returns⁶**

Year	Beginning Balance	Annual Return %	Annual Return \$	Annual Distribution (4%)	Fees (1%)	Ending Balance
1980	125,000	25.8%	32,213	0	(1,250)	155,963
1981	125,000	-9.7%	(12,163)	(6,239)	(1,250)	105,349
1982	105,349	14.8%	15,550	(4,214)	(1,053)	115,631
1983	115,631	17.3%	19,969	(4,420)	(1,156)	130,025
1984	130,025	1.4%	1,820	(4,680)	(1,300)	125,865
1985	125,865	26.3%	33,140	(4,769)	(1,259)	152,977
1986	152,977	14.6%	22,365	(5,039)	(1,530)	168,774
1987	168,774	2.0%	3,426	(5,546)	(1,688)	164,966
1988	164,966	16.6%	27,401	(5,941)	(1,650)	184,777
1989	184,777	31.7%	58,556	(6,379)	(1,848)	235,106
1990	235,106	-3.1%	(7,288)	(7,253)	(2,351)	218,214
1991	218,214	30.5%	66,490	(7,775)	(2,182)	274,747
1992	274,747	7.6%	20,936	(8,622)	(2,747)	284,313
1993	284,313	10.1%	28,659	(9,577)	(2,843)	300,551
1994	300,551	1.3%	3,967	(10,503)	(3,006)	291,009
1995	291,009	37.6%	109,361	(10,951)	(2,910)	386,510
1996	386,510	23.0%	88,743	(12,297)	(3,865)	459,090
1997	459,090	33.4%	153,152	(13,772)	(4,591)	593,880
1998	593,880	28.6%	169,731	(16,248)	(5,939)	741,424
1999	741,424	21.0%	155,996	(19,775)	(7,414)	870,230
2000	870,230	-9.1%	(79,191)	(24,409)	(8,702)	757,927
2001	757,927	-11.9%	(90,118)	(27,380)	(7,579)	632,850
2002	632,850	-22.1%	(139,860)	(28,770)	(6,329)	457,891
2003	457,891	28.7%	131,369	(27,683)	(4,579)	556,999
2004	556,999	10.9%	60,601	(26,207)	(5,570)	585,823
2005	585,823	4.9%	28,764	(23,932)	(5,858)	584,797
2006	584,797	15.8%	92,339	(22,547)	(5,848)	648,741
2007	648,741	5.5%	35,616	(22,674)	(6,487)	655,196
2008	655,196	-37.0%	(242,423)	(24,252)	(6,552)	381,969
2009	381,969	26.5%	101,069	(22,852)	(3,820)	456,366
2010	456,366	15.1%	68,729	(21,817)	(4,564)	498,715
Annualized Return :		9.6%	(1980-2010)			

⁶ Annual return based upon historical performance of the S&P 500 index 1980-2010. These figures are provided for illustrative purposes only and do not constitute a prediction of future performance on behalf of the Stewardship Council or the prospective investment manager.

I.02-04-026

APPENDIX E
LAND CONSERVATION COMMITMENT

STATEMENT OF PURPOSE

PG&E shall ensure that the Watershed Lands it owns and Carizzo Plains are conserved for a broad range of beneficial public values, including the protection of the natural habitat of fish, wildlife and plants, the preservation of open space, outdoor recreation by the general public, sustainable forestry, agricultural uses, and historic values. PG&E will protect these beneficial public values associated with the Watershed Lands and Carizzo Plains from uses that would conflict with their conservation. PG&E recognizes that such lands are important to maintaining the quality of life of local communities and all the people of California in many ways, and it is PG&E's intention to protect and preserve the beneficial public values of these lands under the terms of any agreements concerning their future ownership or management.

PG&E Environmental Enhancement Corporation will develop a plan for protection of these lands for the benefit of the citizens of California. Protecting such lands will be accomplished through either (1) PG&E's donation of conservation easements to one or more public agencies or qualified conservation organizations consistent with these objectives, or (2) PG&E's donation of lands in fee to one or more public entities or qualified conservation organizations, whose ownership would be consistent with these conservation objectives.

-

COMMITMENTS

1. PG&E Shall Place Permanent Conservation Easements on or Donate Watershed Lands: The Watershed Lands and Carizzo Plains shall (1) be subject to permanent conservation easements restricting development of the lands so as to protect and preserve their beneficial public values, and/or (2) be donated in fee simple to one or more public entities or qualified non-profit conservation organizations, whose ownership will ensure the protection of these beneficial public values. PG&E will not be expected to make fee simple donations of Watershed Lands that contain PG&E's or a joint licensee's hydroelectric project features. In instances where PG&E has donated land in fee, some may be sold to private entities subject to conservation easements and others, without significant public interest value, may be sold to private entities with few or no restrictions.

The conservation easements shall provide for the preservation of land areas for the protection of the natural habitat of fish, wildlife and plants, the preservation of open space, outdoor recreation by the general public, sustainable forestry, agricultural uses, and historic values and, shall prevent any other uses that will significantly impair or interfere with those values. Conservation easements on the Watershed Lands will include an express reservation of a right for continued operation and maintenance of hydroelectric facilities and associated water delivery facilities, including project replacements and improvements required to meet existing and

I.02-04-026

future water delivery requirements for power generation and consumptive water use by existing users, compliance with any FERC license, FERC license renewal or other regulatory requirements. In addition, easements will honor existing agreements for economic uses, including consumptive water deliveries. The conservation easements shall be donated to and managed by one or more non-profit conservation trustees, qualified conservation organizations or public agencies with the experience and expertise to fully and strictly implement the conservation easements.

2. Process For Development of the Conservation Easements and Land Donation Plan: PG&E will work with PG&E Environmental Enhancement Corporation and the Commission in the development and implementation of the conservation easements and land donation plan. PG&E Environmental Enhancement Corporation will recommend to PG&E (1) conservation objectives for the properties, including identification of conservation values, (2) criteria for ultimate disposition of the properties, (3) conservation easements guidelines, and (4) land disposition plans.

3. Reporting Responsibilities: PG&E Environmental Enhancement Corporation will prepare a report to the Commission within 18 months of the Effective Date describing the status of the conservation easement and land disposition plan. PG&E Environmental Enhancement Corporation will make the report available to the public upon request. Every two years following the first report, PG&E Environmental Enhancement Corporation will prepare a report to the Commission on the implementation of the conservation easement and land disposition plan.