



Revised Final LCCP

April 26, 2016



**Stewardship
Council**

Land Conservation and Conveyance Plan

Lands for Donation to University of California
Lake Spaulding Planning Unit

Executive Summary

Subject

LCCP for Lake Spaulding Planning Unit (Grouse Ridge) Parcels
Land Conservation Plan Parcel Identification Numbers 795-797 as shown on the map
attached as Exhibit 1.

Type of Property Interest Disposition

- The University of California – Center for Forestry (UC) to hold fee simple title to 1,459 acres within Parcels 795-797 of the Lake Spaulding planning unit.
- Bear Yuba Land Trust (BYLT) to hold the conservation easement on the entire 1,459 acres of Parcels 795-797 donated to UC.

Summary

1,459 acres within Parcels 795-797 will be donated to UC and, consistent with the conditions in the Settlement Agreement, the Property will be subject to a perpetual conservation easement granted by UC to BYLT. The remaining 6,757 acres within the planning unit will be addressed in future Land Conservation and Conveyance Plans (LCCPs).

Pending California Public Utilities Commission (CPUC) approval, and immediately following PG&E's conveyance of the 1,459 acres within Parcels 795-797 to UC, UC and BYLT will enter into the conservation easement.

The 1,459 acres in Parcels 795-797 to be donated to UC are outside the Drum-Spaulding FERC Project boundary (FERC #2310) 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.

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 1,459 acres of forestland north and west of Rucker and Fuller Lakes.

Economic Uses and Agreements

There are recorded encumbrances for ditches and roads on the acreage for donation to UC in the Lake Spaulding planning unit. There are no existing agreements for economic uses on the lands to be donated to UC in the Lake Spaulding planning unit.

PG&E will reserve its rights to maintain and operate existing and future utility facilities on the parcels to be conveyed in fee. The specific reserved rights are set forth in the grant deed and conservation easement, which can be found in Appendices 2 and 3, respectively.

Permanent Protection of the Beneficial Public Values

The grant deed transferring fee title to UC includes a recital that UC and PG&E acknowledge that the conveyance, together with the conservation easement transaction being entered into by UC and BYLT, is being made in the public interest with the intent to ensure the permanent protection of the beneficial public values (BPVs) on the Property as identified in the Land Conservation Plan while allowing the ongoing use of the Property by PG&E for hydroelectric operations, water delivery, and related activities, and acknowledging and honoring the existing third party uses.

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

The conservation easement on the Lake Spaulding property will ensure the permanent protection and preservation of the following BPVs:

- The Property consists primarily of mixed conifer forests with true firs (*Abies concolor* and *Abies magnifica*), Ponderosa pine (*Pinus ponderosa*), Sugar pine (*Pinus lambertiana*), Incense cedar (*Calocedrus decurrens*) and other tree species. Clear Creek and its tributary creeks drain the parcels and provide habitat for resident trout, other fish, amphibians, and other species that utilize riparian habitats. The Property and surrounding areas provide for extensive wildlife habitat for mountain lion, deer, coyote, fox, small animals and rodents, insects, birds of prey and other bird species. The property and riparian corridor is also the home to many other aquatic species.
- Conserving the scenic character of the Property, including viewsheds from adjoining public and private lands.
- Preserving plant, tree, and wildlife habitat that supports the health of the Yuba River watershed and well-managed forests, and well-vegetated stream banks, and protects against forest fires.
- Protecting historical and cultural resources, including artifacts and plants related to historic Native American uses.
- Potential for future grazing of the Property.

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, Nevada County may select the option of either receiving a lump sum payment of \$27,024 or an annual payment from a trustee selected by the Stewardship Council. Annual payments 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 on June 27, 2012 by the Stewardship Council.

Hazardous Waste Disclosure

PG&E has provided the Lake Spaulding Planning Unit Environmental Site Assessment Report, dated December 1, 2011, to UC and BYLT, fulfilling the disclosure requirements of the Land Conservation Commitment.

Consideration of Parcel Split

Within Parcel 797, approximately 25 acres have been condemned by NID for uses related to their operations. At closing, the remaining 1,459 acres to transfer to UC must comply with the California Subdivisions Map Act (Government Code Section 66410, et seq.) as a separate legal parcel. Certain exemptions to the Map Act apply to public utilities and/or to governmental entities and may apply to this conveyance.

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

The establishment of a conservation easement is categorically exempt under Section 15325 of the CEQA Guidelines (CFR Title 14, Chapter 3).

The Lake Spaulding 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

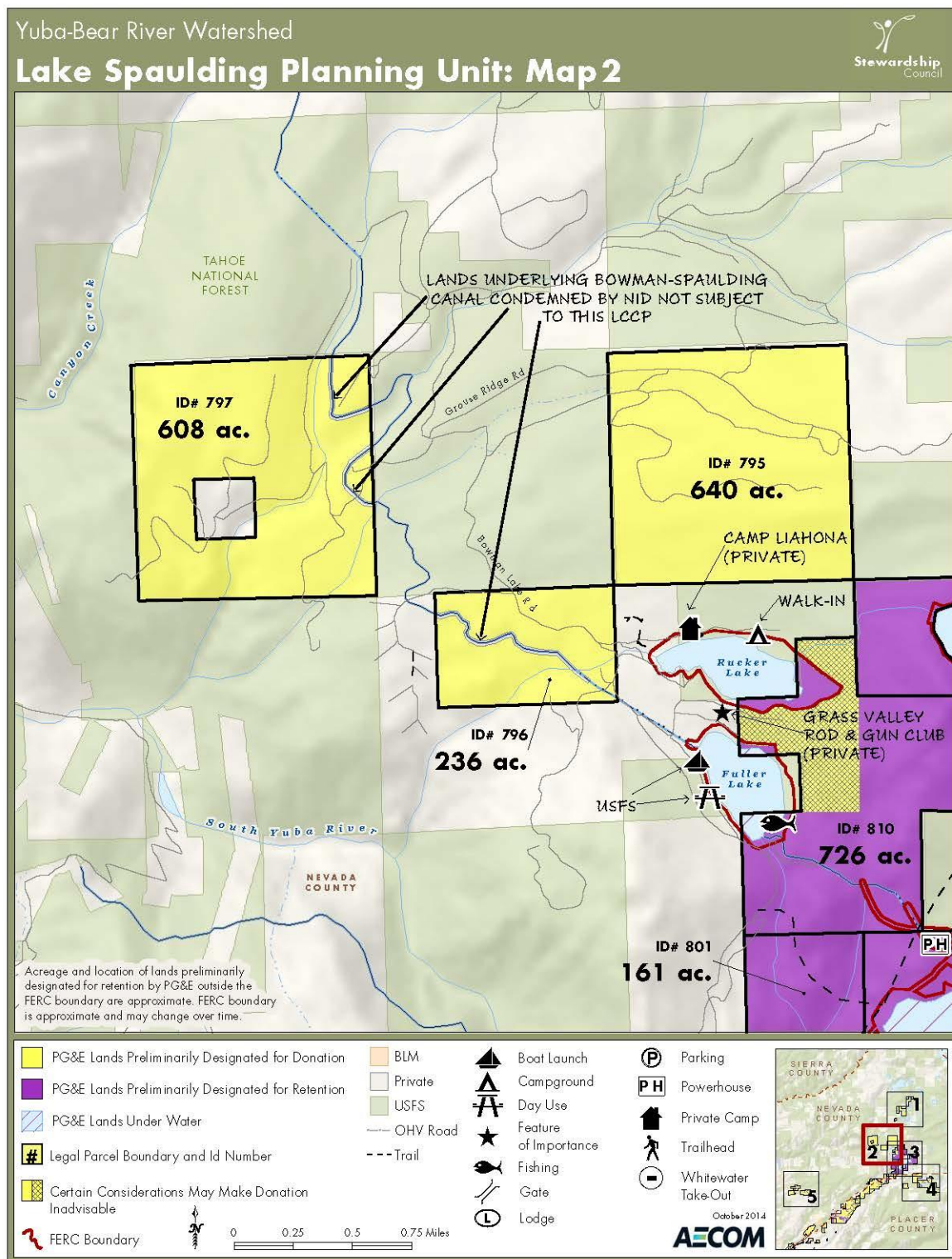


Table of Contents

Executive Summary.....	1
Introduction.....	6
1. Acreage, Existing Economic Uses and Agreements	9
2. Objectives to Preserve and/or Enhance the BPVs	11
3. Recommendations for Conservation Easement and Fee Simple Donation	13
4. Finding of Donee Funding and Other Capacity to Maintain Lands to Preserve and/or Enhance the BPVs	15
5. Analysis of Tax and Other Economic and Physical Impacts	17
6. Hazardous Waste Disclosure	20
7. Consideration of Parcel Split	21
8. Strategy for Physical Measures to Enhance the BPVs	22
9. Monitoring Plan for the Economic and Physical Impacts of Disposition and Implementation of Enhancement Measures	23
10. Implementation Schedule for Transactions and Measures	24
Appendices	
Appendix 1. Summary of Public Outreach..	25
Appendix 2. Grant Deed	30
Appendix 3. Conservation Easement.....	35
Appendix 4. Conservation Easement Funding Agreement.....	60
Appendix 5. Property Tax Neutrality Methodology	68
Appendix 6. Map	77
Appendix 7. Settlement Agreement, Appendix E	78

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 Lake Spaulding 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 University of California – Center for Forestry (UC) receive 1,459 acres within three parcels (Parcels 795-797) of the Lake Spaulding planning unit in fee and that the Bear Yuba Land Trust (BYLT) hold a conservation easement over the lands recommended for donation to UC in the Lake Spaulding planning unit.

Table 1-1 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>
<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

One thousand four hundred fifty nine acres in Parcels 795-797 of the Lake Spaulding planning unit will be donated to UC and, consistent with the conditions in the Settlement Agreement, the Property will be subject to a perpetual conservation easement granted by UC to BYLT.

The three parcels that are the subject of this LCCP are located approximately 25 miles east of Nevada City and approximately 30 miles west of Truckee, within an elevation range of approximately 6,000 feet above mean sea level.

The parcels consist of forested land that is bounded primarily by USFS lands as well as a few private holdings including Sierra Pacific Industries. Access to this property is via USFS road 14/Grouse Ridge Road, which runs through the northern half of Parcel 795, or via USFS road 18/Bowman Lake Road which runs through Parcel 796.

The property has been managed for timber production for many years and contains numerous unimproved logging roads and log decks. The existing roads are informally, but frequently, used by OHV enthusiasts, primarily in Parcel 795.

Nevada Irrigation District (NID) owns and operates both the Bowman-Spaulding Canal and a 60 kilovolt (kV) electric transmission line that run entirely through Parcels 796 and 797. The lands underlying Bowman-Spaulding Canal have been condemned by NID and are not subject to this LCCP. Rucker Creek runs through the southern half of Parcel 796 and is a natural water conveyance channel between PG&E's Rucker Lake and NID's Bowman-Spaulding Canal.

The majority of the western half of Parcel 797 burned during a wildfire in 2008. The burned area was subsequently salvage logged and has been restocked with seedling trees. The timber on this parcel has been managed for many years and numerous unimproved logging roads and log decks exist throughout the parcel. Fall Creek, Clear Creek, and Trap Creek run through the parcel, in addition to the Creek Channel and NID's Bowman-Spaulding Canal. Spillways and associated equipment are also located on the parcel.

The Lake Spaulding planning unit offers a variety of habitat for both plants and wildlife. Various special status plant species have been identified in the vicinity.

With its diverse natural setting and abundance of scenic lakes, the Lake Spaulding planning unit is a popular recreation destination for hikers, boaters, anglers, cyclists, OHV riders, cross-country skiers, and other nature and outdoor enthusiasts. Fuller Lake is a popular angling lake with a day use area and boat launch. Rucker Lake provides fishing, non-motorized boating, parking for a rustic trailhead, and camping at walk-in campground. This site is not heavily used due to a difficult access road, the walk-in nature of the campground, and the shallowness of the lake.

PG&E currently manages three Timber Management Units within Parcels 795-797; one under a Multiple-Use prescription, which promotes sustained timber production, balanced

with the goal of protecting and using other resources and facilities in the TMU, which may preclude timber harvesting as the primary focus; a second under a Sustainable Timber prescription, and a third under a Salvage prescription. Under Sustainable Timber prescriptions the principal activity is timber extraction with an emphasis on protecting water quality, wildlife and fisheries habitat, soils, carbon sequestration, and cultural resources. A Salvage prescription is not primarily managed for sustained forest production; rather, it is managed for reducing fuel loading, removing hazard trees, and improving forest aesthetics.

No agricultural activities take place on the lands to be donated to UC.

The planning unit lies within the ancestral territory of the Maidu, Washoe, and Nisenan-Southern Maidu groups. Both historic and prehistoric resources are present within the Lake Spaulding planning unit.

Adjacent and Nearby Landowners

The parcels subject to donation to UC are surrounded by Tahoe National Forest lands and private timber company land owned by Sierra Pacific Industries. The parcels are accessible via USFS road 14/Grouse Ridge Road and USFS road 18/Bowman Lake Road.

The Stewardship Council notified and invited landowners located within one mile of the subject parcels to provide comments during key phases of the land conservation and conveyance planning process. The US Forest Service submitted comments expressing their interest in seeing the management of lands adjacent to USFS holdings be consistent with surrounding USFS management objectives.

Existing Economic Uses and Agreements

There are recorded encumbrances for ditches and roads on the acreage for donation to UC in the Lake Spaulding planning unit. There are no existing agreements for economic uses on the lands to be donated to UC in the Lake Spaulding planning unit.

PG&E's specific reserved rights are set forth in the grant deed and conservation easement, which can be found in Appendices 2 and 3, respectively.

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 Lake Spaulding 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.

The conservation easement will protect the BPVs, subject to PG&E’s hydro and other reserved rights as provided in the conservation easement.

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

UC proposes to manage these lands as a research forest under the Center of Forestry. The conservation easement (Appendix 3) will permanently protect habitat by preserving plant, tree, and wildlife habitat that supports the health of the Yuba River watershed and well-managed forests, and well-vegetated stream banks.

2. Objective: Preserve open space in order to protect natural and cultural resources, the wilderness character of the region, and continued low-intensity recreation experiences.

The conservation easement will ensure that no further development will occur unless specifically authorized by the conservation easement and consistent with the BPVs. The conservation easement will also protect historical and cultural resources, including artifacts and plants related to historic Native American uses, and conserve the scenic character of the lands, including viewsheds from adjoining public and private lands.

3. Objective: Enhance recreational facilities in order to provide additional public access, and enhance recreation opportunities and management.

The conservation easement allows for public access to the property that is substantially consistent with the public access currently existing on the property subject to reasonable rules and regulations. The conservation easement states that public access shall not be

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

permitted for any activities prohibited by California Penal Code section 626.9(h) which restricts firearms on UC property.

No recreational facilities exist on the property recommended for donation to UC

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 and fire management.

UC is proposing to establish a research forest to help investigate and address the challenges confronting California's actively managed forests. Forest management activities will be subject to a publicly available Forest Management Plan that must be consistent with certain goals and requirements articulated in the conservation easement.

5. Objective: Identify potential grazing opportunities in order to enhance agricultural resources and related economic benefits.

The acreage proposed for transfer to UC is not currently used for grazing, however, the conservation easement will allow for potential future 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 easement will protect historical and cultural resources, including artifacts and plants related to historic Native American uses

3. Recommendations for Conservation Easement 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.

Conservation Easement

The Settlement Agreement states that “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 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, conservation 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” (Land Conservation Commitment I.02-04-026, Appendix E, pp. 38-39).

For the complete text of the conservation easement, see Appendix 3.

Conservation easements must be donated to nonprofit organizations, Native American tribes, or public agencies that meet the requirements of California Civil Code section 815.3 and possess the experience and capacity to fully and strictly implement the terms of the conservation easement. The Bear Yuba Land Trust (BYLT) will hold the conservation easement over the lands to be donated to UC in the Lake Spaulding planning unit. The qualifications of the BYLT are described in Chapter 4.

Accordingly, immediately following PG&E's conveyance of the lands to be donated to UC in the Lake Spaulding planning unit, UC will convey the conservation easement to BYLT.

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 7 for a description of PG&E's Land Conservation Commitment.

1,459 acres located within Parcels 795-797 of the Lake Spaulding planning unit were identified as available for donation, subject to PG&E's reserved rights.

Lands to be Donated by PG&E

The Stewardship Council initially recommended 1,484 acres within three legal parcels (795-797) be donated to UC. Subsequent to further review of operational considerations on the property, NID has pursued condemnation of 25 acres encompassing NID's Bowman Canal and other facility features necessary to their operations.

The remaining 1,459 acres will be donated to UC pending CPUC approval of the Section 851 filing for the transaction. The legal description of the parcels is included in the grant deed, which is provided in Appendix 2. The qualifications and capacity of UC to manage the Lake Spaulding property recommended for donation are described in Chapter 4.

The map attached in Appendix 6 shows all of the land within Parcels 795-797 in the Lake Spaulding planning unit. The map also shows key features in the planning unit and surrounding area, and the ownership of adjacent land.

Lands to be Retained by PG&E

There are no lands within Parcels 795-797 in the Lake Spaulding planning unit that will be retained by PG&E. The remaining lands within the Lake Spaulding planning unit will be retained by PG&E or donated to other entities and will be the subject of future LCCPs.

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 November 16, 2011 and January 16, 2013 respectively:

- University of California – Center for Forestry (UC) to hold fee simple title to 1,484 acres within Parcels 795-797.
- Bear Yuba Land Trust (BYLT) to hold a conservation easement over the acres to be donated to UC in Parcels 795-797.

Capacity of Selected Organizations

The Stewardship Council board finds that UC and BYLT will have the funding and other capacity to maintain the property interest so as to preserve and/or enhance the BPVs².

A. UC:

- The mission of the UC Center for Forestry is to sustain forested ecosystems through scientific inquiry. To this end, the UC Center for Forestry seeks to create and disseminate knowledge concerning ecosystem processes, human interactions and value systems, and restoration and operational management practices.
- The UC Center for Forestry assembles interdisciplinary teams of campus faculty, Cooperative Extension specialists and advisors, students, and staff from various agencies and organizations to develop research projects, outreach and public education activities, and policy analysis on issues affecting the state's forested lands.
- The UC Center for Forestry's four research stations have an explicit focus on understanding the science and stewardship of working forests. These four forests range in size from the 80 acre Baker Forest/Summer Camp in Plumas County to the 4,270 acre Blodgett Forest in El Dorado County.

B. BYLT:

- Established in 1991, BYLT's mission is to create a balance between nature and the needs of the people who make a life and a livelihood in Nevada County. BYLT promotes voluntary conservation of natural, historical and agricultural resources through protection and enhancement of natural areas, farms and ranches, trails and parks to provide a lasting community heritage.

² Stipulation, Section 12(a)(4)

- BYLT's geographic focus is western Nevada County and the Sierra Foothills areas of Yuba and Sierra Counties.
- BYLT currently holds 22 conservation easements over approximately 6,000 acres, and owns 3,000 acres in fee with an additional 2,700 acres in escrow.
- BYLT has eleven staff including an executive director, operations manager, development director, stewardship manager, conservation coordinator, program coordinator and three trail coordinators. BYLT has eight board members with expertise in wildlife biology, conservation planning, fly fishing, and forestry. BYLT is an accredited land trust by the Land Trust Alliance.

Donee Selection Process

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 Lake Spaulding 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.

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 Nevada County, the county in which the Property is located. The final LCCP submitted for all PG&E Watershed Lands located in Nevada County will address tax neutrality for the totality of all fee title transfers within the county, as required under the Settlement and Stipulation.

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 methodology it had adopted on May 2, 2012, after an opportunity for public comment and specific outreach to all potentially affected counties. The methodology establishes a standard payment process when lands are transferred to organizations that are exempt from paying property taxes (see Appendix 5). The methodology outlines two in-lieu payment options: a one-time lump sum payment from the Stewardship Council directly to counties, and 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. Regardless of the payment option selected by each 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, Nevada County may select the option of either receiving a lump sum payment or an annual payment from a trustee selected by the Stewardship Council.

The transfer of lands to UC is expected to result in the reduction of approximately \$1,081 in annual taxes paid to Nevada County (as shown in Table 2 below).

Table 2: Property Tax Detail

Parcel ID	SBE Map Number	Taxes on Acres Transferred
795	135-29-4C-1	\$531
796	135-29-4C-2	\$141
797	135-29-1-13	\$408

If Nevada County chooses the lump sum option, the Stewardship Council would make a one-time payment of approximately \$27,024 to the county. Nevada 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 parcels.

If Nevada County chooses 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 Nevada County with the annual installment fixed at approximately \$1,081 per year or (2) immediately after the donation of lands to a tax exempt entity deposit approximately \$27,024 with a third party trustee, which would be responsible for making annual payments to Nevada County. Pursuant to the methodology described in the Property Tax Neutrality Methodology adopted on June 27, 2012, the trustee will make annual payments equal to 4% of a rolling 20 quarter average of the principal balance invested for the parcels. Nevada 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 parcels.

Other Economic and Physical Impacts

The Settlement and Stipulation require an analysis of the physical and economic impacts of each fee title transfer. The transaction agreements for the donation of 1,459 acres within the Lake Spaulding planning unit have not mandated any changes to the physical or economic uses of the lands.

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 Retained by PG&E

There are no lands within Parcels 795-797 in the Lake Spaulding planning unit that will be retained by PG&E.

Lands to be Donated by PG&E

PG&E has provided the Lake Spaulding Environmental Site Assessment Report, dated December 1, 2011, to UC and BYLT, fulfilling the disclosure requirements of the Land Conservation Commitment.

Environmental Agreement

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

7. Consideration of Parcel Split

UC will receive fee title to three parcels (Parcels 795-797). There is no need for a parcel split for this transaction.

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 easement holder is required to monitor every conservation easement that it holds to ensure that the landowner is complying with the terms of the easement. The Stewardship Council will enter into a Conservation Easement Funding Agreement (Appendix 4) with each conservation easement holder whereby the holder will receive a monitoring and enforcement endowment from the Stewardship Council to fund its monitoring activities.

To further meet the requirement of monitoring the economic and physical impacts, the Stewardship Council will enter into an agreement with the Sierra Nevada Conservancy (SNC), a state agency, 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 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 (mid 2015)
- Close of escrow (end 2015)
- Stewardship Council release of funds to BYLT per conservation easement funding agreement (end 2015)

Compliance with Local Land Use Planning Requirements

Future management of the donated property at the Lake Spaulding planning unit is anticipated to comply with all applicable County ordinances and/or General Plan policies.

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.

LAKE SPAULDING 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 Lake Spaulding 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, seven public comments were submitted concerning the Lake Spaulding planning unit. These comments reflected a request to reflect water agency facilities in LCP maps, support for the US Forest Service as a potential fee donee, as well as support for protecting and enhancing the open space and recreational values of the Lake Spaulding planning unit, as well as comments on certain recreational facilities proposed for the property.

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 Lake Spaulding planning unit to a Public Information Meeting that was held in Auburn, California on April 14, 2011. 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.

III. PUBLIC INFORMATION MEETING

A Public Information Meeting workshop for several planning units in the Yuba-Bear Watershed Area was hosted by the Stewardship Council on April 14, 2011 in Auburn, California. The meeting concerned six planning units: Lower Drum, Chili Bar, Lake Spaulding, Bear River, Narrows and Fordyce Lake planning

Appendix 1: Summary of Public Outreach

unit. Attendees at the workshop included a total of 58 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 Lake Spaulding 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.

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

Appendix 1: Summary of Public Outreach

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 conservation easement recommendation at the Lake Spaulding 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

Appendix 1: Summary of Public Outreach

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.

RECORDING REQUESTED BY AND RETURN
TO:

PACIFIC GAS AND ELECTRIC COMPANY
245 Market Street, N10A, Room 1015
P.O. Box 770000
San Francisco, California 94177

Location: City/Uninc_____

No Recording Fee Pursuant to Government Code
27383

THE UNDERSIGNED GRANTOR(S) DECLARE(S)
DOCUMENTARY TRANSFER TAX IS \$0

Transfer Tax Exempt due to Revenue & Taxation
Code 11922

Signature of declarant or agent determining tax

(SPACE ABOVE FOR RECORDER'S USE ONLY)

LD

DEED

GRANT DEED, RESERVATION OF RIGHTS AND EASEMENTS, AND ASSIGNMENT OF RIGHTS

I. CONVEYANCE OF FEE

PACIFIC GAS AND ELECTRIC COMPANY, a California corporation, hereinafter called Grantor, hereby grants, without warranty express or implied, to **THE REGENTS OF THE UNIVERSITY OF CALIFORNIA**, a California public corporation, hereinafter called Grantee, the real property ("**Property**"), situated in the unincorporated area of the County of Nevada, State of California, described as follows:

NEED LEGAL

(APN # 64-140-02-000, 64-140-06-000, 64-130-08-000)
(SBE # 135-29-4C-1, 135-29-4C-2, 135-29-1-13)

In connection with such grant, Grantor and Grantee have agreed, for good and valuable consideration, that Grantor shall reserve certain easements and rights, as more fully described below.

II. RECITALS

A. Grantor is a party to that certain Settlement Agreement ("**Settlement Agreement**") as modified and approved by the Public Utilities Commission of the State of California ("**CPUC**") in its Opinion and Order of December 18, 2003 (Decision 03-12-035).

B. In furtherance of the Settlement Agreement, and to provide additional detail regarding the implementation of the "Land Conservation Commitment" (defined below), the

Appendix 2: Grant Deed

parties to the Settlement Agreement and other interested parties entered into that certain Stipulation Resolving Issues Regarding the Land Conservation Commitment dated September 25, 2003 (“**Stipulation**”).

C. The Settlement Agreement and the Stipulation (collectively, “**Governing Documents**”) require Grantor to ensure that approximately 140,000 acres of watershed lands, all owned by Grantor (collectively, “**Watershed Lands**”), including the Property, 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. The obligations of Grantor to convey fee interests and/or conservation easements and protect such beneficial public values on the Watershed Lands, as well as certain other obligations related thereto, are set forth in detail in Appendix E of the Settlement Agreement (as further explicated in Section 12 of the Stipulation), and are defined therein as the “**Land Conservation Commitment**.”

D. Pursuant to the Governing Documents, the Pacific Forest and Watershed Lands Stewardship Council, a California non-profit public benefit corporation (“**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 for the benefit of the citizens of California (“**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.

E. Grantor has used and continues to use the Property for the purposes of generating and transmitting hydroelectric energy, managing and monitoring the flow of water over the existing waterways for consumptive and non-consumptive uses, conducting various biological and land use studies mandated by the Federal Energy Regulatory Commission (“**FERC**”) (collectively, “**Hydroelectric Facilities and associated Water Delivery Facilities**”), and for other purposes as described more fully in the Reservation of Rights contained herein.

F. Consistent with the terms of the Governing Documents, Grantor and Grantee acknowledge this conveyance, together with the conservation easement transaction being entered into by Grantee and Bear Yuba Land Trust concurrently herewith, is being made in the public interest with the intent to ensure the permanent protection of the beneficial public values on the Property as identified in the LCP while allowing the ongoing use of the Property by Grantor for hydroelectric operations, water delivery and other related activities, and acknowledging and honoring the existing third party uses.

III. RESERVATION OF RIGHTS AND EASEMENTS

Grantor expressly reserves the right to engage in or invite or permit others to engage in the activities and uses set forth below (collectively, the “**Reserved Rights**”) as Grantor may determine in Grantor's sole discretion exercised in good faith is required for Grantor's continued operation and maintenance of Hydroelectric Facilities and associated Water Delivery Facilities. Grantor will use reasonable efforts to notify and consult with Grantee in advance of the exercise

Appendix 2: Grant Deed

of the Reserved Rights, and use reasonable efforts to employ methods and practices that will not significantly impair the beneficial public values.

An exercise of Grantor's Reserved Rights shall be "required" (as used in the preceding paragraph) where Grantor determines in its sole discretion exercised in good faith that such exercise is necessary to fulfill requirements or directives of any one or more of the following: (a) the CPUC or the FERC, (b) other local, state or federal governmental entities, (c) any applicable law, ordinance, rule or regulation of local, state or federal governmental entity, (d) any third party agreement entered into by Grantor in good faith or by which Grantor is bound, or (e) professional engineering and design standards governing the ownership, maintenance, and/or operation of the Hydroelectric Facilities and associated Water Delivery Facilities.

(a) Grantor reserves, for its beneficial uses, all riparian water rights inherent in and part and parcel of the Property; all appropriative surface water rights (including, but not limited to, any appropriative surface water rights having a point of diversion, place of storage, or place of use on the Property); all prescriptive surface water rights; and all other right, title and interest of any nature whatsoever in and to the surface waters (including subsurface flow) which are now or hereafter located or flowing upon or abutting the Property.

(b) Grantor reserves the permanent right to operate, maintain, repair, alter, replace and expand existing and future Hydroelectric Facilities and associated Water Delivery Facilities, including project replacements and improvements required to meet existing and future water delivery and other requirements for power generation and consumptive water use by existing and future users, compliance with any FERC License, FERC License renewal or other regulatory or legal requirements. In furtherance of and without in any way limiting the generality of the foregoing, the following rights will be expressly reserved:

(1) The right to conduct any and all uses and activities now or at any time in the future deemed necessary or appropriate by Grantor in Grantor's sole discretion exercised in good faith in connection with the generation of hydroelectric energy, including, but not limited to the operation, maintenance, repair, alteration, replacement and expansion of existing Hydroelectric Facilities and associated Water Delivery Facilities, and the construction, operation, maintenance, repair, alteration, replacement and expansion of new Hydroelectric Facilities and associated Water Delivery Facilities; and

(2) The right to use, maintain, establish, construct, alter, expand and improve water sources, courses, and bodies within the Property, and to take, divert and appropriate water; provided, however, subject to any and all prior appropriative rights to such waters, Grantee shall be entitled to use reasonable amounts of water on the Property for domestic non-commercial uses, and to preserve the beneficial public values as identified in the LCP; and

(3) The right to conduct any and all uses and activities currently or in the future deemed necessary or appropriate by Grantor in Grantor's sole discretion exercised in good faith to comply with any applicable FERC License or other regulatory or legal requirements, including any amendments thereto and replacements thereof, and with applicable regulations and orders of the FERC or other regulatory agencies; and

Appendix 2: Grant Deed

(4) The right to conduct any and all uses and activities now or at any time hereafter deemed necessary or appropriate by Grantor in Grantor's sole discretion exercised in good faith to comply with the Federal Power Act (Title 16 United States Code, Chapter 12) and any successor statute (“**FPA**”); and

(5) The right to decommission all or any portion of existing and future Hydroelectric Facilities and associated Water Delivery Facilities in accordance with any applicable license issued by the FERC.

(c) Grantor further reserves to itself the following rights with respect to the foregoing reservations:

(1) of ingress to and egress over and across the Property by means of the existing road and/or any replacement or relocation thereof, otherwise by such route or routes as shall occasion the least practicable damage and inconvenience to Grantee and to use said roads, lanes, or routes to provide access to any of Grantor’s easements and facilities on lands adjacent to the Property; and

(2) to install, maintain and use gates in all fences which now or shall hereafter cross the Property.

IV. TERMS OF GRANT

The conveyance by Grantor to Grantee pursuant to this Grant Deed, Reservation of Rights and Easements, and Assignment of Rights is subject to: (a) a 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; and (c) all contracts, leases, licenses, covenants, conditions, easements, restrictions, liens, encumbrances and other exceptions of record or unrecorded.

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. All future conveyances of the fee interest in the Property shall be consistent with the terms of the Governing Documents. In accordance with Section 12 b (4) of the Stipulation, Grantee and its successors and assigns shall not convey all or any portion of the fee interest in the Property to any governmental entity, public agency or any Native American tribe that may currently have, or come to possess, authority to expand Grantor’s obligations under Part 1 of the FPA, without the prior written consent of the Grantor, which consent shall be in Grantor's sole discretion exercised in good faith.

VI. MISCELLANEOUS

Appendix 2: Grant Deed

If any provision of this Grant Deed, Reservation of Rights and Easements, and Assumption of Rights shall be unenforceable or invalid, the same shall not affect the remaining provisions hereof and to this end the provisions hereof are intended to be and shall be severable.

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. _____, has approved transfer of the Property under State of California Public Utilities Code Section 851.

Dated _____, 20____.

PACIFIC GAS AND ELECTRIC COMPANY,
a California corporation

By

Attested

Appendix 3: Conservation Easement

RECORDING REQUESTED BY:

Bear Yuba Land Trust

WHEN RECORDED MAIL TO:

Bear Yuba Land Trust
12183 Auburn Road
Grass Valley, CA 95949

(Space above this line reserved for Recorder's use)

No Recording Fees Pursuant to Government Code 27383

The undersigned grantor declares that the documentary transfer tax is \$ NONE (R. AND T. 11930)

GRANT DEED OF CONSERVATION EASEMENT AND VOLUNTARY AGREEMENT CREATING ENFORCEABLE RESTRICTIONS IN PERPETUITY (Lake Spaulding - Grouse Ridge Forest)

This Grant Deed of Conservation Easement and Voluntary Agreement Creating Enforceable Restrictions in Perpetuity ("Conservation Easement") is made and entered into this ____ day of _____, 2016 by and between The Regents of the University of California, a California corporation, ("Grantor") and Bear Yuba Land Trust, a California nonprofit public benefit corporation, ("Grantee"), with reference to the following facts:

RECITALS

A. Grantor is the owner of approximately 1,459 acres of real property located in the County of Nevada, State of California, as more particularly described in **Exhibit A** attached hereto and incorporated herein by reference, together with all improvements and appurtenances thereto, ("**Property**"). A map of the Property identifying the improvements existing on the Property as of the date of this Conservation Easement and various other natural features of the Property is attached hereto as **Exhibit B** and incorporated herein by reference ("**Property Map**").

B. Grantee is organized to protect and conserve natural areas and ecologically significant land, forests, agricultural land, and open space for scientific, charitable and educational purposes, and is qualified to acquire and hold conservation easements under California Civil Code Section 815.3. Grantee is a tax-exempt non-profit corporation under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended.

Appendix 3: Conservation Easement

C. The Property possesses natural, scenic, agricultural, historical, forested, or open space characteristics, valuable to the people of Nevada County, the State of California, and the public in general.

D. Pacific Gas and Electric Company, a California corporation (“**PG&E**”), transferred to Grantor fee title in the Property in accordance with that certain Grant Deed, Reservations of Rights and Easements, and Assignment of Rights recorded in the Official Records of the County of Nevada, immediately prior to the recordation of this Conservation Easement (“**Grant Deed**”), the form of which Grant Deed is attached hereto as **Exhibit C** and incorporated herein by reference, subject to (i) PG&E’s reservation of certain rights in and to the Property, as set forth in the Grant Deed (“**PG&E Reserved Rights**”), and (ii) those legally-enforceable third-party rights to use the Property in effect as of the recordation date of this Conservation Easement (“**Effective Date**”), as listed on **Exhibit D** attached hereto and incorporated herein by reference, true and complete copies of which have been provided to, and reviewed and accepted by, Grantee (“**Express Third Party Uses**”).

E. PG&E transferred fee title to the Property to Grantor in connection with PG&E’s implementation of the “Land Conservation Commitment,” defined below, provided for in the following documents and described more fully below:

(1) That certain Settlement Agreement (“**Settlement Agreement**”) as modified and approved by the Public Utilities Commission of the State of California (“**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 (“**Stipulation**”).

F. The Settlement Agreement and the Stipulation (collectively, “**Governing Documents**”) require PG&E to ensure that approximately 140,000 acres of watershed lands, all located in California and owned by PG&E as of the date the Governing Documents were entered into (collectively, “**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, “**Beneficial Public Values**” or “**BPVs**”). The Stipulation provides that conservation easements will preserve or enhance reasonable public access. The Property includes the specific Beneficial Public Values identified in **Exhibit E** attached hereto and incorporated herein by reference (collectively, the “**Conservation Values**”). The Property is included in these Watershed Lands. The “**Land Conservation Commitment**” constitutes the obligations of PG&E to convey fee title and conservation easements to Watershed Lands, and to protect the Beneficial Public Values of the Watershed Lands, as well as certain other obligations related thereto, as set forth in detail in the Governing Documents, including the Conservation Values described in Exhibit E attached hereto, as relates to the Property.

Appendix 3: Conservation Easement

G. In accordance with the Governing Documents, the PG&E Reserved Rights constitute an express reservation in favor of PG&E of certain rights to continue 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.

H. The Governing Documents also include a requirement that conservation easements encumbering Watershed Lands honor existing agreements for economic uses, including consumptive water deliveries.

I. Pursuant to the Governing Documents, the Pacific Forest and Watershed Lands Stewardship Council, a California nonprofit public benefit corporation (“**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 for the benefit of the citizens of California (“**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.

J. The Legislature of the State of California, as set forth in California Civil Code section 815 et seq., has found and declared it to be the public policy and in the public interest of this state to encourage the preservation of land predominantly in its natural, scenic, agricultural, historical, forested, or open-space condition. In furtherance of the Land Conservation Commitment and the above-described public policy purposes, Grantor desires to grant a conservation easement over the Property to Grantee.

K. Grantee and Grantor each desires through this Conservation Easement to ensure the permanent protection of the Conservation Values, subject to PG&E’s Reserved Rights and the Express Third Party Uses. Specifically, the parties desire to assure that the Conservation Values will be protected in perpetuity as provided herein, and that uses of the Property that are inconsistent with the protection of the Conservation Values as provided herein will be prevented or corrected.

L. The existing conditions of the Property that are particularly relevant to the Conservation Values are documented in a Baseline Documentation Report (the “**Report**”) of the Property prepared by a qualified professional familiar with the environs, a copy of which has been provided to Grantor, and a copy of which is held by the Grantee. A copy of the Report shall be kept on file with Grantor and Grantee at their respective addresses for notices set forth below. The Report is a material document intended to serve as an objective information baseline for monitoring compliance with the terms of this Easement. The parties acknowledge that the Report is intended to establish the condition of the Property as of the effective date of the Easement, and agree, as stated in a signed statement, a copy of which is attached hereto as **Exhibit F**, that the Report is an accurate representation of the biological and physical condition of the Property at the time of this grant. Notwithstanding the foregoing, if a controversy arises with respect to the nature and extent of the physical or biological condition of the Property, the parties shall not be precluded from utilizing any and

Appendix 3: Conservation Easement

all other relevant documents, surveys or other evidence or information to assist in the resolution of the controversy.

M. Grantor owns and/or maintains numerous natural California habitats, located on ecologically unique lands known collectively as the University of California Center for Forestry properties (the “CFF”). The mission of Grantor with respect to the CFF is to contribute to improving the understanding of how California’s forests can continue to provide protection for our major watersheds, renewable wood products, fish and wildlife habitat, scenic and recreational opportunities and a wide array of climate benefits. This is done by utilizing CFF research forests to support university-level teaching, research, and public service. Grantor currently owns approximately 5,000 acres of research forests in El Dorado, Plumas, and Tulare counties.

N. Grantor acquired the Property for the purposes of practicing sustainable forestry for habitat protection for native plants and wildlife, research and teaching, and public environmental education, all under the auspices of the CFF.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, based on the common law and, further, pursuant to Section 815 et seq. of the California Civil Code, Grantor grants, transfers, and conveys to Grantee, its successors and assigns, a perpetual conservation easement in gross, in, on, over and across the Property (the “**Conservation Easement**”), subject to the terms and conditions hereinafter set forth, restricting forever the uses that may be made of the Property, and Grantee hereby accepts and reserves a conservation easement in perpetuity over the Property of the nature and character and to the extent hereinafter set forth and the parties further agree as follows:

1) Purposes and Permitted Uses.

- 1.1 Conservation Purposes. The purposes of this Conservation Easement are as follows (“**Conservation Purposes**”): subject to the Express Third-Party Uses (subject to Section 3) and the PG&E Reserved Rights, (a) to ensure that the Property will be retained in its natural, scenic, agricultural, historical, forested, or open-space condition; and (b) to prevent any use of the Property that will significantly impair the Conservation Values. Subject to the following terms and conditions, Grantor intends that this Conservation Easement will confine the uses of the Property to such activities that are consistent with the Conservation Purposes. As used in this Conservation Easement, the terms “impair” and “impairment” mean to diminish in quantity, quality, value, strength or viability. As used in this Conservation Easement, the terms “significant” and “significantly”, when used with “impair” and “impairment”, respectively, mean a greater than negligible adverse impact, for more than a transient period.

Grantor and Grantee acknowledge that the Governing Documents reflect the intention of the parties thereto (a) to honor Express Third-Party Uses, and (b) to continue to permit beneficial uses of the Property that preserve and/or enhance the Conservation Values. It is intended that this Conservation Easement shall allow

Appendix 3: Conservation Easement

uses on the Property that are consistent with the protection and preservation of each of the Conservation Values in harmony with each other. While permitted actions required or taken to protect and preserve one or more individual Conservation Values may impair, on an individual and stand-alone basis, one or more other Conservation Values, Grantor and Grantee understand that achieving the Conservation Purposes requires the preservation and protection, on balance, of all of the Conservation Values existing on the Property, to the extent possible. It is recognized that in protecting and/or enhancing one or more of the Conservation Values, another Conservation Value may be impaired, but this is not meant to be a permanent occurrence, nor a reason to re-prioritize one Conservation Value over another. All attempts should be made to balance on a collective basis, the Conservation Values on the whole Property whenever possible. Subject to the Express Third-Party Uses and PG&E's Reserved Rights, this Conservation Easement prohibits use of the Property for any purpose that would significantly impair the Conservation Values on a collective, not individual basis, taking into account the relative condition and quality of each of the Conservation Values on the Property as of the Effective Date. Nothing in this conservation easement precludes Grantor from complying with any and all applicable laws.

1.2 Permitted Uses. Consistent with the Conservation Purposes of this Conservation Easement, the following uses on the Property shall be permitted to the extent such uses do not significantly impair the Conservation Values:

- a) Ecological management practices (including, without limitation, exotic plant or animal removal and prescribed fire or erosion control) and scientific research and teaching (collectively, “**CFF Activities**”);
- b) The right to trim and cut down and clear away any and all trees, brush and vegetation, (i) which constitute a hazard to persons or property, and/or (ii) for purposes of fire management, disease or insect control or otherwise as necessary or appropriate for prudent land management, and/or (iii) for other vegetation management operations, including but not limited to fuel reduction projects, thinning of tree stands and meadow restoration projects. The foregoing may include pesticide use to control vegetation (brush, grass, weeds, etc.) and/or insects.
- c) The right to install, maintain, repair, replace and maintain gates and fences.
- d) Structures and Improvements.
 - (i) The right to maintain, repair, restore, replace and reconstruct all structures and improvements now or hereafter located on the Property, provided any replacement structures or improvements shall be located in substantially the same location and within the same footprint as the structure or improvement being replaced, and shall be substantially the same height as the structure or improvement being replaced.
 - (ii) The right to install minor, temporary structures necessary or appropriate in connection with the performance of prudent and

Appendix 3: Conservation Easement

customary land management activities, or the protection, preservation, or enhancement of the Beneficial Public Values.

- e) Forest Management. Grantor reserves the right to conduct forestry activities on the Property, in accordance with the following:

(i) Forest Management Goals. It is the intent of Grantor and Grantee that any timber harvesting activities conducted on the Property in accordance with this Conservation Easement maintain healthy and vigorous forest stands, protect important riparian resources, manage for sustainable stands of native tree species historically present on the landscape, encourage regeneration of oak trees where applicable, improve resilience with respect to drought and pests, address infestation of insects or disease which threatens the viability of the forest, address the build-up of fuel to reduce risks of catastrophic fire, enhance climate benefits through carbon sequestration and storage, establish and maintain a full and balanced range of stand ages and characteristics, allowed to move across the landscape over time, including early-seral, mid-seral and late-seral forest conditions, provide adequate amounts of snags and cavity trees, provide adequate amounts of downed woody debris, manage for edge effects, and maintain and enhance vegetation types and structural elements across the landscape that support fish and wildlife habitats for native species (collectively, the **“Forest Management Goals”**). The Forest Management Goals shall be accomplished by complying with the Forest Practice Act and Rules and the provisions set forth in this Section.

(ii) Research Forest. As long as the Property is owned in fee by the Regents of the University of California, Grantor may conduct timber harvest activities on the Property as a “Research Forest” in accordance with the research, teaching, public service, and management purposes laid out in the management plan that incorporates the Forest Management Goals and has been approved by the Director(s) of the research forests and the Faculty Research Oversight Committee that satisfies the following requirements (**“Research Forest Plan”**): (1) permits activities that do not significantly impair the Conservation Values of the Property; (2) complies the requirements of the California Forest Practice Act and Rules; (3) has been approved by the Director(s) of the Research Forests through a process that provides an opportunity for public input; (4) shall be publicly available; and (5) shall be subject to Grantee’s review and comment. Any Research Forest Plan shall describe the timber harvest, fire management, and related activities that Grantor intends to undertake on the Property, including without limitation, a comprehensive summary of Grantor’s forest management objectives, forest stand descriptions and locations including site classes, stand volumes, growth rates, relevant

Appendix 3: Conservation Easement

inventory information and maps, locations of soils, estimates of slope and erosion potential, locations of known wildlife habitats, especially species listed as threatened or endangered at the federal or state level, known rare plants, wetlands, description of management history, silvicultural and harvest methods, projections of harvest yields, reforestation and management activities, and ecological reserve policies (collectively, the **“Management Plan Components”**). Grantee understands that research and demonstration regarding sustainable forestry practices, other resource management goals, scientific experiments, best management practices, and other forestry-related research is an important component of Grantor’s management of the Property as a Research Forest. The Research Forest Plan will describe the range of research forest activities and projects that may be conducted on the Property.

- (iii) Alternative Forest Management Plan. If the Property is not owned in fee by the initial Grantor, the succeeding Grantor may conduct sustainable timber harvest activities on the Property in accordance with a management plan that satisfies the following requirements (**“Forest Management Plan”**): (1) incorporates the Forest Management Goals; (2) describes all of the Management Plan Components; (3) permits only activities that do not significantly impair the Conservation Values of the Property; (4) complies with legislative mandates and California Board of Forestry and Fire Protection policy and meets the requirements of the California Forest Practice Act and Rules and all other applicable laws; and (5) has been approved in advance by Grantee. Any modifications or amendments to an approved Forest Management Plan shall be subject to Grantee’s prior written approval.
- f) The right to control predatory and problem animals, including, but not limited to, wild boars, coyotes, beavers and ground squirrels and the right to control or eliminate noxious weeds and non-native plant species on the Property, all in accordance with applicable laws.
- g) The right to erect reasonably sized signs (illuminated and non-illuminated) to support and manage safety and permitted uses of the Property, including signs regarding authorized and unauthorized entry and uses or other appropriate markers in prominent locations on the Property, such as boundary fences, trails, and access roads.
- h) The installation, removal, alteration, and maintenance of such temporary infrastructure directly related to a particular project involving ecological management practices or a particular project involving scientific research and teaching (including, but not limited to, temporary tents, fencing, and research instruments) as may, in Grantor’s reasonable judgment, be necessary to conduct said project, but remaining in place for no longer a duration than that of the particular project in conjunction with which said temporary infrastructure is being used; The placement on the Property by Grantor of such small

Appendix 3: Conservation Easement

instrumentation as a permanent weather station, water gauge, or other types of equipment for long-term environmental monitoring, as well as equipment that will allow transmission and receipt of telecommunication services related to CFF Activities; and Grantor may maintain and use in their present width roads currently existing on the Property but shall not construct new roads on the Property except for roads included in the Research Forest Plan. The existing roads may be improved to the minimum extent necessary to provide access for the uses permitted by Section 1.2. For purposes of this Paragraph (h) the term “to the minimum extent necessary” shall mean the least amount of improvements necessary to comply with the Nevada County road and fire standards in effect at the time such improvements are made and with any other applicable county, state, and local laws then existing.

- i) On or before August 1 of each year, Grantor shall submit to Grantee a report (“**Annual Report**”) that contains a description of Property uses by Grantor, a summary of Property management carried out by Grantor, and the management and/or restoration activities performed by Grantor during the period commencing on July 1 of the immediately preceding calendar year through June 30 of the then current calendar year. The Annual Report shall also include any and all requests for Grantee’s approval (to the extent such approval is required by the express terms of this Agreement) of any extraordinary activities to be performed on the Property during the following 12-month period. Grantee shall promptly respond to Grantor’s request for approval or otherwise confirm that Grantee’s contemplated use is permitted hereunder.

2) Informal Uses and Public Access.

- a) Grantor and Grantee recognize that the Property has been used by third parties for recreational, cultural, and other non-commercial or informal purposes without formal written agreements to conduct such activities, (the “**Informal Uses**”). Grantor and Grantee further recognize that access to the Property is inherent or may be inherent in the enjoyment of the Conservation Values and the Informal Uses. Consistent with the objectives articulated in the Governing Documents to provide continued reasonable access by the public to the Watershed Lands, Grantor shall allow public access to the Property that is substantially consistent with the public access existing on the Effective Date of the conservation easement; provided however that public access shall not be permitted for any activities prohibited by California Penal Code section 626.9(h) or successive legislation regarding limitations on firearms on University of California property. Grantor reserves the right to make reasonable rules and regulations to control, limit, or, as necessary, exclude Informal Uses and public access. Grantor reserves the right to enforce the “California Gun Free School Zone Act of 1995 (California Penal Code section 626.9 (h)) or successive legislation regarding limitations on firearms on University of California property. Grantor shall not allow Informal Uses that significantly impair the Conservation Values.

Appendix 3: Conservation Easement

- b) New or Increased Public Access. If Grantor desires to allow new public access or informal uses or expansion of public access or informal uses on the Property, Grantee's advance written approval is required, which approval shall not be unreasonably withheld.
 - c) Limitations and Conditions. Sections 2a) and 2b) above are subject to the following:
 - (i) Liability Limitation. Grantor and Grantee claim all of the rights and immunities against liability for injury to the public to the fullest extent allowable by law.
 - (ii) Periodic Review of Informal Uses. As part of Grantee's annual compliance monitoring, (1) Grantor and Grantee shall consult on the known Informal Uses and public access on the Property for the purpose of Grantee's assessment of Grantor's compliance with the requirements set forth in Sections 2a) and 2b) above; and (2) with respect to known Informal Uses and public access on the Property, Grantor and Grantee will consult and develop recommendations, if any, regarding the necessity of controlling, limiting, or excluding Informal Uses or public access to ensure the preservation of the Conservation Values.
- 3) Express Third Party Uses. Grantor retains the right to maintain, renew, and replace all agreements memorializing the Express Third Party Uses ("**Third Party Use Agreements**") and to engage in all activities reasonably required to comply with Grantor's obligations with respect to the Express Third Party Uses, subject to the following conditions:
- a) Increases in Intensity or Expansion of Location or Size or Change in Use. Any (i) increase in the intensity, or (ii) expansion of the location or size, or (iii) a change in the use, of an Express Third Party Use (whether through a new agreement or an amendment to an existing agreement), that Grantor determines in Grantor's reasonable discretion exercised in good faith are likely to significantly impair the Conservation Values shall be subject to Grantee's prior written consent, which consent shall not be unreasonably withheld, conditioned or delayed by Grantee. Notwithstanding the foregoing, Grantee's prior written consent shall not be required in connection with any increase, expansion or change that is an unconditional right of a third party under any Third Party Use Agreement.
 - b) Renewal or Replacement of Third Party Use Agreements. All Third Party Use Agreements existing on the Effective Date are identified on **Exhibit D**. As Third Party Use Agreements are renewed or replaced (either with the existing user or a new user), Grantor, in consultation with Grantee, shall include contractual provisions to bring the continuation of the Express Third Party Use and the preservation of the Conservation Values into alignment to the fullest extent reasonably practicable. Notwithstanding the foregoing, new contractual provisions

Appendix 3: Conservation Easement

need not be included in any renewal or replacement that is an unconditional right of a third party under any Third Party Use Agreement.

- c) Enforcement of Third Party Use Agreements. If Grantor or Grantee discovers any default under a Third Party Use Agreement that significantly impairs the Conservation Values (and if Grantee makes such discovery, Grantee gives Grantor written notice thereof), Grantor shall use reasonable efforts to enforce the terms of such Third Party Use Agreement at Grantor's reasonable expense.

- 4) PG&E Reserved Rights. All rights and obligations of Grantor and Grantee under this Conservation Easement are subject to the PG&E Reserved Rights specified in the Grant Deed attached hereto as **Exhibit C**. In the event PG&E notifies Grantor, in writing, of its intention to exercise any of the PG&E Reserved Rights, Grantor shall notify Grantee, in writing, of said intention within sixty (60) days after receipt of PG&E's written notice.

- 5) Prohibited Uses. Except for (a) any use expressly permitted in this Conservation Easement, (b) the PG&E Reserved Rights, and (c) the Express Third Party Uses (subject to Section 3 above), any of the following uses on the Property shall be prohibited: (i) any of the uses described below in this Section 5, and (ii) any other use that significantly impairs the Conservation Values.
 - 5.1 Without limiting the generality of the foregoing, there shall be no legal or de-facto subdivision of the Property for any purpose, including through the granting of certificates of compliance; provided, however, that boundary line adjustments to clarify boundary lines with adjacent landowners that do not result in a net reduction in the total acreage covered by this Conservation Easement and that do not significantly impair the Conservation Values of the Property shall be permitted, subject to the Grantee's prior written approval of the proposed boundary adjustment, which approval shall not be unreasonably withheld.
 - 5.2 There shall be no placement or construction of any permanent buildings, structures, or other improvements of any kind (including, without limitation, roads, parking lots, residences, dormitories, research buildings, or mobile homes), except to the limited extent expressly permitted by Section 1.2. The Property or any portion thereof shall not be used for the calculation of building density under zoning laws for any lands not subject to this Conservation Easement.
 - 5.3 There shall be no residential, commercial or industrial use of, or activity on, the Property not directly related to forest management, forest related research, wildlife management, or outdoor recreation. As used in this Conservation Easement, the term "**commercial**" shall mean any use or activity that involves the exchange of cash, goods or services, barter, forgiveness of indebtedness, or any other remuneration in exchange for goods, services, lodging, meals, entertainment in any form, or the right to occupy space over a period of time.

Appendix 3: Conservation Easement

Grantee and Grantor agree that any fund raising activities performed by Grantor at the Property, such as selling T-shirts, caps, stationery and pamphlets, shall be deemed to be directly related to CFF Activities.

- 5.4 There shall be no filling, dumping, placing, excavating, draining, dredging, mining, drilling, removing or exploring for or extracting of minerals, oil, gas, coal and other hydrocarbons, soils, sands, gravels, rocks, land fill or any other material on or below the surface of the Property.
- 5.5 There shall be no use of any motorized conveyance off of the existing roads not directly related to forest management, infrastructure management, erosion control, forest related research, or wildlife management. Notwithstanding the foregoing, in the event of an emergency, Grantor may utilize motorized vehicles off-road if reasonably necessary for human or animal safety or care or to prevent material damage to the Property or adjacent property.

6) Grantee Assignment of Conservation Easement

- 6.1 Voluntary Assignment. In the event that Grantee decides to assign its interest under this Conservation Easement, Grantee shall only assign such interest to an organization that is: (a) qualified to hold a conservation easement under Section 815.3 of the California Civil Code; (b) experienced in holding and monitoring conservation easements on properties similar to the Property; and (c) willing and financially able to assume all of the responsibilities imposed on Grantee under this Conservation Easement. Before assigning its interest under this Conservation Easement, Grantee shall provide Grantor and the Sierra Nevada Conservancy (“SNC”) with written notice of such intention to transfer (“**Transfer Notice**”). The Transfer Notice shall identify the proposed assignee and include a description of how the proposed assignee meets the assignee designation criteria set forth in this Section. Grantee shall allow SNC a period of not less than sixty (60) days to approve the proposed assignee, which approval shall not be unreasonably withheld and shall be based on whether the proposed assignee meets the designation criteria specified in this Section. If SNC does not approve the proposed assignee, SNC shall provide Grantee with the reasons behind such decision.
- 6.2 Involuntary Assignment. If Grantee ever ceases to exist or no longer qualifies under applicable state law to hold a conservation easement interest, then SNC shall, in consultation with Grantor, select an assignee that meets all the designation criteria specified in Section 6.1 above. If SNC is unable to identify an assignee that meets all the designation criteria specified in Section 6.1 above that is willing to accept such assignment, then SNC may elect to serve as such assignee. Notwithstanding the foregoing, SNC may elect to exercise the rights of Grantee hereunder during any period that a successor assignee for such Grantee is not yet in place.
- 6.3 Conditions of Assignment. As conditions to any assignment of this Conservation Easement, Grantee and/or the SNC shall: (a) require the assignee

Appendix 3: Conservation Easement

to expressly agree in writing to assume Grantee's obligations hereunder; and (b) ensure that assignee has the resources to fulfill its obligations under the Conservation Easement.

- 6.4 Successor to SNC. Upon any liquidation or dissolution of SNC, SNC or the State of California shall have the right to assign SNC's rights and obligations under this Section to another entity that has a conservation mission and level of expertise consistent with that of SNC and sufficient resources and capacity to carry out the obligations of SNC.

7) Corrective Action. Grantee also shall have the option and right to force the restoration of all or any portion of the Property affected by any breach of the covenants set forth in this Conservation Easement to the condition that existed prior to the breach at Grantor's sole cost and expense, and the right to pursue whatever other remedies are available in law or equity, it being understood that Grantor shall be under no liability or obligation with regard to restoration of any damage to the Property caused by flood, act of God, or any other cause (other than financial) beyond the control of Grantor similar thereto. Forbearance in enforcing any breach of said covenants shall not destroy the covenants and shall not constitute or be construed as a waiver by Grantee of its rights hereunder in the event of any subsequent breach of the same or another covenant. If Grantee, in its sole discretion, determines that circumstances require immediate action to prevent or mitigate significant impairment to the Conservation Values of the Property, Grantee may pursue its remedies under this Section without prior notice to Grantor. Enforcement of the terms and provisions of this Conservation Easement shall be at the discretion of Grantee, and the failure of Grantee to discover a violation or to take action under this Section shall not be deemed or construed to be a waiver of Grantee's rights hereunder in the event of any subsequent breach of the same or any other term of this Conservation Easement or of any of Grantee's rights under the same. No delay or omission by Grantee in the exercise of any right or remedy upon any breach by Grantor shall impair such right or remedy or be construed as a waiver. Grantor hereby waives any defense of laches, estoppel, or prescription.

8) Subsequent Transfer by Grantor. Any transfer by Grantor (or by any successor in interest) of all or any interest in the Property or any portion thereof shall be made expressly subject to the terms of this Conservation Easement. Grantor shall notify Grantee in writing not more than thirty (30) days after any such transfer by Grantor to any third party of any interest in any portion of the Property, whether such interest is a fee, easement, lease or other interest. The failure of Grantor to perform any act required by this Section 8 shall not impair the validity of this Conservation Easement or limit its enforcement in any way.

9) Amendment. If circumstances arise under which an amendment to or modification of this Conservation Easement would be appropriate, Grantor and Grantee may jointly amend this Conservation Easement; provided, however, that no amendment or modification shall be allowed that will adversely affect the qualification of this Conservation Easement or the status of Grantee under any applicable laws, including Section 815 et seq. of the California Civil Code and any amendment or modification shall be consistent with the Conservation Purposes of this Conservation Easement, and shall not affect its perpetual duration. Any such amendment or modification shall be in a writing

Appendix 3: Conservation Easement

signed by both Grantor and Grantee and recorded in the Official Records of Nevada County, California. This Conservation Easement is not otherwise subject to amendment or modification of any sort.

10) Inspection. Grantee, its successors, assigns and designees may enter upon the Property at any reasonable time upon reasonable notice for the purpose of determining whether the covenants, terms, and conditions of this Conservation Easement are being complied with, and for purposes of enforcing Grantee's rights hereunder.

11) Successors and Assigns. This Conservation Easement and all covenants stated herein (a) shall be binding upon and inure to the benefit of Grantor and Grantee and the respective successors and assigns of each, (b) shall continue as a servitude running in perpetuity with the Property herein conveyed, and (c) shall be incorporated by Grantor in any subsequent deed or other legal instrument by which Grantor divests all or any of the interests herein conveyed. The failure of Grantor to perform any act required by this Section shall not impair the validity of this Conservation Easement or limit its enforceability in any way. The benefits created by this Conservation Easement are in gross and are transferable in accordance with Section 6 above.

12) Costs, Legal Requirements and Liabilities. Grantor retains all responsibilities and shall bear all costs and liabilities of any kind related to the ownership, operation, use, upkeep and maintenance of the Property and agrees that Grantee shall have no duty or responsibility for the operation or maintenance of the Property, the monitoring of hazardous conditions thereon, or the protection of Grantor, the public, or any third parties from risks relating to conditions on the Property.

Grantor shall keep Grantee's interest in the Property free of any taxes (if any), assessments, and liens including those arising out of any work performed for, materials furnished to or obligations incurred by Grantor. Grantor shall be solely responsible for any costs related to the maintenance of general liability insurance covering acts on the Property. Grantor remains solely responsible for obtaining any applicable governmental permits and approvals for any activity or use permitted by this Conservation Easement, and any activity or use shall be undertaken in accordance with all applicable federal, state, and local laws, regulations, and requirements. If more than one person or entity constitutes Grantor, the obligations of each and all of them under this Conservation Easement shall be joint and several.

13) Insurance and Indemnification by Grantor. Notwithstanding any other provision herein to the contrary, Grantor hereby agrees to indemnify, defend, and hold harmless Grantee, its members, directors, officers, employees, volunteers, agents, and contractors and their heirs, successors and assigns (the "**Indemnified Parties**") from and against any costs, liabilities, penalties, damages, claims or expenses (including reasonable attorney's fees) and litigation costs which the Indemnified Parties may suffer or incur as a result of or arising out of: (a) the activities of Grantor on the Property, any representation or warranty made by Grantor being untrue, or the obligations contained in Section 12, (b) the existence or administration of this Conservation Easement, or (c) any breach of this Conservation Easement by Grantor. Grantee shall not be liable to Grantor for, and Grantor hereby releases Grantee from and waives any such liability for any bodily injury, death or property damage, in or about the Property from any cause whatsoever. Grantor shall

Appendix 3: Conservation Easement

indemnify, defend by counsel satisfactory to Grantee, protect, and hold Grantee harmless from and against any claims, loss, liability, cause of action, cost or expense (including without limitation attorneys' fees) for bodily injury, death or property damage (i) occurring in or about the Property from any cause whatsoever, except any such claim resulting solely from Grantee's gross negligence, and (ii) resulting from or caused by Grantor's negligence or willful misconduct. From and after the date of a transfer of Grantor's interest under this Conservation Easement, the successor Grantor shall maintain in full force and effect, at its sole cost and expense, commercial general liability insurance, with a minimum combined single limit of liability of \$2,000,000.00, and Workers' Compensation and related insurance as required by applicable law. Grantee shall be named as an additional insured on successor Grantor's liability policy. Any deductible on successor Grantor's insurance, and the carriers issuing successor Grantor's insurance, shall be subject to Grantee's reasonable approval. Successor Grantor's liability insurance shall include a contractual liability endorsement expressly covering Successor Grantor's indemnity obligations set forth in this Section 13. Successor Grantor's insurance policies shall expressly provide that they may not be canceled, reduced or amended until at least twenty (20) days' prior written notice is given to Grantee.

14) Interpretation. This instrument shall be interpreted under the laws of the State of California, resolving any ambiguities and questions of the validity of specific provisions so as to give maximum effect to the Conservation Purposes. If any provision of this Conservation Easement, or the application thereof to any person or circumstances, is found to be invalid, the remainder of the provisions of this Conservation Easement, or the application of such provisions to persons or circumstances other than those as to which it is found to be invalid, as the case may be, shall not be affected. The parties acknowledge that each party and its counsel have reviewed and revised this Conservation Easement and that no rule of construction that ambiguities are to be resolved against the drafting party shall be employed in the interpretation of this Conservation Easement. If any provision in this Conservation Easement is found to be ambiguous, an interpretation consistent with the purpose of this Conservation Easement that would render the provision valid shall be favored over any interpretation that would render it invalid. In the event of any conflict between the provisions of this Conservation Easement and the provisions of any use and zoning restrictions of the State of California, the county in which the Property is located, or any other governmental entity with jurisdiction, the more restrictive provisions shall apply.

15) Notices. Any notice, demand, request, consent, approval or communication that either party desires or is required to give to the other shall be in writing and either served personally or sent by any other common method whereby receipt is confirmed, and addressed as follows or such other address as either party from time to time shall designate by written notice to the other.

To GRANTOR: The Regents of the University of California,
a California corporation
c/o Real Estate Services Group
1111 Franklin Street, 6th Floor
Oakland, CA 94607-5200
Attention: Director of Real Estate

Appendix 3: Conservation Easement

Phone: (510) 987-9632

To GRANTEE:

BEAR YUBA LAND TRUST
12183 Auburn Rd.
Grass Valley, CA 95949
Phone: 530-272-5994

To SIERRA NEVADA CONSERVANCY
(as relates to Section 6):

Sierra Nevada Conservancy
11521 Blocker Drive, Suite 205
Auburn, CA 95603
Attn: Executive Director

16) Condemnation. This Conservation Easement constitutes a real property interest immediately vested in Grantee. If the Property is taken, in whole or in part, by exercise of the power of eminent domain, Grantee shall be entitled to compensation in accordance with applicable law for the value of the Conservation Easement taken, and Grantor shall be entitled to compensation in accordance with applicable law for the value of the underlying fee title taken, subject to the Conservation Easement. Grantee shall use all proceeds received as an award in a condemnation proceeding for a taking of the Conservation Easement in a manner consistent with the Conservation Purposes.

17) Extinguishment. If circumstances arise in the future such as to render the Conservation Purposes impossible to accomplish, this Conservation Easement shall only be terminated or extinguished, whether in whole or in part, by judicial proceedings in a court of competent jurisdiction. Grantor's economic hardship shall not be a reason to extinguish this Conservation Easement.

18) Attorney's Fees. Should proceedings be brought to enforce or interpret any of the terms of this instrument, the prevailing party in any such proceedings shall be entitled to recover from the non-prevailing party its costs, including reasonable attorney's fees.

19) Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed to be an original, but such counterparts when taken together shall constitute one and the same Agreement.

SIGNATURES ON FOLLOWING PAGE

Appendix 3: Conservation Easement

IN WITNESS WHEREOF, the parties hereto have executed this GRANT DEED OF CONSERVATION EASEMENT AND VOLUNTARY AGREEMENT CREATING ENFORCEABLE RESTRICTIONS IN PERPETUITY as of the date first set forth above.

GRANTOR:

The Regents of the University of California,
a California corporation,

BY: _____

Its: _____

ACCEPTED AND AGREED:

THE BEAR YUBA LAND TRUST,
a California public benefit corporation.

By _____
President

Appendix 3: Conservation Easement

Exhibit A

Legal Description

Order No. 1415-14160
Version 2

EXHIBIT "A"
LEGAL DESCRIPTION

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

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

PARCEL 1

00DR-CFX-00003
SBE135-29-4C-1
LCP ID#0795

ALL THAT CERTAIN PARCEL OF LAND SITUATE IN SECTION 5, TOWNSHIP 17 NORTH, RANGE 12 EAST, MOUNT DIABLO BASE AND MERIDIAN, AS RECORDED IN BOOK 116, PAGE 63 OF DEEDS OF THE OFFICIAL RECORDS OF THE COUNTY OF NEVADA, STATE OF CALIFORNIA, PARTICULARLY DESCRIBED THEREIN AS FOLLOWS:

ALL OF SAID SECTION 5.

A.P.N. 64-140-02-000

PARCEL 2

00DR-CFX-00004
SBE 135-29-4C-2
LCP ID#0796

ALL THAT CERTAIN PARCEL OF LAND SITUATE IN SECTION 7, TOWNSHIP 17 NORTH, RANGE 12 EAST, MOUNT DIABLO BASE AND MERIDIAN, AS RECORDED IN BOOK 116, PAGE 63 OF DEEDS OF THE COUNTY OF NEVADA, STATE OF CALIFORNIA, PARTICULARLY DESCRIBED THEREIN AS FOLLOWS:

THE EAST ONE-HALF OF THE NORTHWEST ONE-QUARTER AND THE NORTHEAST ONE-QUARTER OF SAID SECTION 7.

EXCEPTING THEREFROM THAT PORTION AS DESCRIBED IN THE CORRECTED FINAL ORDER OF CONDEMNATION RECORDED JULY 9, 2014, AS INSTRUMENT NO. 2014-0012713, NEVADA COUNTY RECORDS.

A.P.N. 64-140-06-000 PORTION

PARCEL 3

00DR-CFX-00005
SBE 135-29-1-13
LCP ID#0797

ALL THAT CERTAIN PARCEL OF LAND SITUATE IN SECTION 1, TOWNSHIP 17 NORTH, RANGE 11 EAST, MOUNT DIABLO BASE AND MERIDIAN, AS RECORDED IN BOOK 115, PAGE 273 OF DEEDS OF THE COUNTY OF NEVADA, STATE OF CALIFORNIA, PARTICULARLY DESCRIBED THEREIN AS FOLLOWS:

Appendix 3: Conservation Easement

Order No. 1415-14160
Version 2

EXHIBIT "A"
LEGAL DESCRIPTION

ALL OF SAID SECTION 1 EXCEPT THE NORTHEAST ONE-QUARTER OF THE SOUTHWEST ONE-QUARTER THEREOF.

EXCEPTING THEREFROM THAT PORTION AS DESCRIBED IN THE CORRECTED FINAL ORDER OF CONDEMNATION RECORDED JULY 9, 2014 AS INSTRUMENT NO. 2014-0012713.

A.P.N. 64-130-08-000

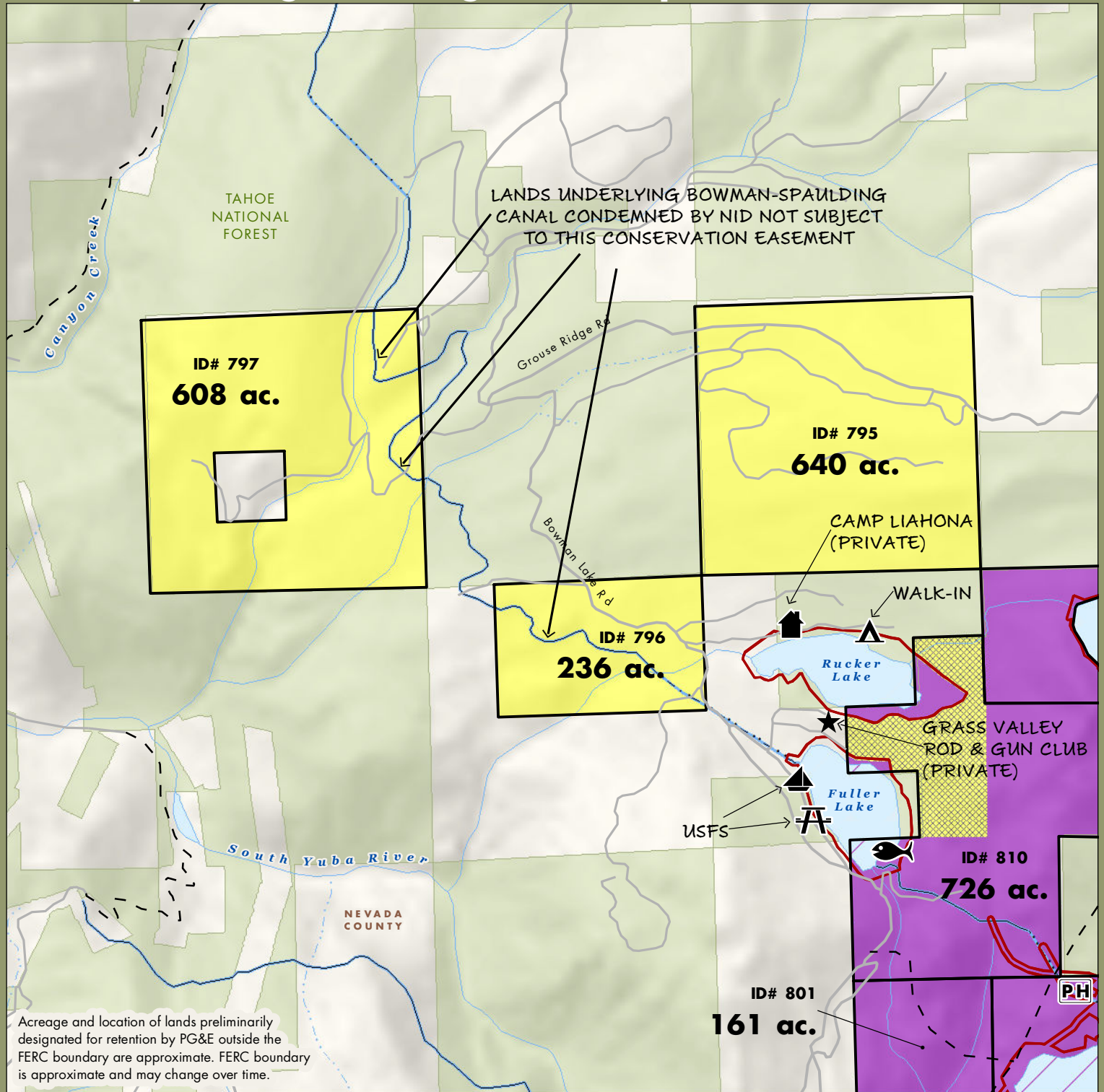
CONSULT.LLEGAL.O

Appendix 3: Conservation Easement

Exhibit B

Property Map

Lake Spaulding Planning Unit: Map 2



PG&E Lands Preliminarily Designated for Donation

PG&E Lands Preliminarily Designated for Retention

PG&E Lands Under Water

Legal Parcel Boundary and Id Number

Certain Considerations May Make Donation Inadvisable

FERC Boundary

BLM

Private

USFS

OHV Road

Trail



Boat Launch



Campground



Day Use



Feature of Importance



Fishing



Gate



Lodge



Parking



Powerhouse



Private Camp



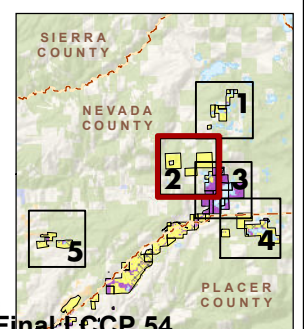
Trailhead



Whitewater Take-Out

April 2016

Lake Spaulding (UC) Revised Final ECCP 54



Appendix 3: Conservation Easement

Exhibit C

Grant Deed

Appendix 3: Conservation Easement

Exhibit D

Express Third-Party Uses

- A) Rights of the public, as to that portion of therein described property lying within the street as it now exists: Street Name: Clear Creek Road, Bowman Spaulding Conduit, Clear Creek Spur Road, Clear Creek Tunnel Road, Serpentine Road, Rucker Tunnel Road, Grouse Ridge Road, 66' R/W U.S.A. Blue Lake Road, Rucker Lake Road, Fall Creek Road, and any unnamed roads
- B) Rights and easements, including but not limited to, recreation, navigation, and fisheries, which may exist over that portion of land lying beneath Fall Creek, Trap Creek, Rucker Creek;
- C) Intentionally Deleted
- D) An easement over said land for ditch to excavate for, construct, reconstruct, maintain and use two ditches and incidental purposes, as granted to Nevada Irrigation District, in deed dated January 25, 1952. Recorded February 21, 1952 in Book 171 Official Records at Page 102, Nevada County Records. Affects Parcel Three: APN 064-130-08-09; An easement over said land for construction, reconstruction, maintenance and full, free and quiet use and enjoyment of roads 40 feet in width together with additional widths, if necessary to accommodate cuts and fills and incidental purposes, as granted to United States of America, records; and recorded December 28, 1964 in Book 371, Page 455, Nevada County Records; Affects: Parcel Three: APN 064-130-08
- E) An easement over said land for right of way for a road and incidental purposes, as granted to United States of America and its assigns, in instrument recorded July 8, 1963, in book 338, page 455, official records.

Affects: Parcel one, APN: 064-140-02

No representation is made as to the current ownership of said easement.

- E) An easement over said land for the construction, reconstruction, maintenance and full, free and quiet use and enjoyment of roads 40 feet in width together with additional widths, if necessary to accommodate cuts and fills and incidental purposes, as granted to United States of America, in deed recorded October 7, 1964, book 366, page 449, Nevada County records; and recorded December 28, 1964 in book 371, page 455, Nevada County Records.
PG&E # 2117-11-0037
Affects: Parcel three; APN 064-130-08
No representations is made as to current ownership of said easement
- F) An easement over said land for existing roads and incidental purposes as granted to United States of America, in deed recorded December 24, 1976, Book 772, Page 125, Nevada County records. Affects: Parcels three and two; APN 64-130-008 and 64-140-006;
- G) An easement over said land to construct use and maintain a line of poles and incidental purposes, as granted to Nevada Irrigation District, a California

Appendix 3: Conservation Easement

Irrigation District, in instrument recorded April 22, 1985, instrument No. 1985-8067, official records.

Correction deed recorded thereunder on February 21, 1986 as document no. 1986-3661 official records.

No representation is made as to the current ownership of said easement.

- H) An easement over said land to reconstruct, maintain and use existing roads and incidental purposes, as granted to Santa Fe Pacific Timber Company, a Delaware Corporation, in deed recorded June 30, 1986, Instrument No. 1986-15511, Nevada County Records; Affects: Parcels three ad two; APN 64-130-08, 09 and 64-140-06;
- I) An easement over said land for road purposes and incidental purposes a granted to United States of America, in deed recorded April 02, 1991, Affects: Parcel three; APN 064-130-08 and 09;
- J) The terms, conditions, and stipulations as contained in the Federal Energy Regulatory Commission License, dated June 24, 1963. Relicensing the Drum Spaulding Hydroelectric Projects no 2310;
- K) The terms, conditions, provisions, reservations and other matters disclosed by and as contained in “Grant Deed” reservation of rights and easements, and assignment of rights,” by and between Pacific Gas and Electric Company, a California corporation and The Regents of the University of California, a California corporation recorded proforma, Official Records;
- L) The terms, conditions and provisions as contained in the instrument entitled “Corrected Final Order of Condemnation,” by and between Nevada Irrigation District, Plaintiff, and Pacific Gas and Electric Company, A California Corporation, dated June 19, 2014, recorded July 9, 2014, in Instrument Number 2014-0012713, official records. Said document also contains easements, see document for full particulars.

Appendix 3: Conservation Easement

Exhibit E

Beneficial Public Values

The Purpose of the Conservation Easement is to protect the Beneficial Public Values of the Property, as summarized below and described in more detail in the Baseline Documentation Report:

- (a) The Property consists primarily of mixed conifer forests with true firs (*Abies concolor* and *Abies magnifica*), Ponderosa pine (*Pinus ponderosa*), Sugar pine (*Pinus lambertiana*), Incense cedar (*Calocedrus decurrens*) and other tree species. Clear Creek and its tributary creeks drain the parcels and provide habitat for resident trout, other fish, amphibians, and other species that utilize riparian habitats. The Property and surrounding areas provide for extensive wildlife habitat for mountain lion, deer, coyote, fox, small animals and rodents, insects, birds of prey and other bird species. The property and riparian corridor is also the home to many other aquatic species.
- (b) Conserving the scenic character of the Property, including viewsheds from adjoining public and private lands.
- (c) Preserving plant, tree, and wildlife habitat that supports the health of the Yuba River watershed and well-managed forests, and well-vegetated stream banks, and protects against forest fires.
- (d) Protecting historical and cultural resources, including artifacts and plants related to historic Native American uses.
- (e) Potential for future grazing of the Property.

Appendix 3: Conservation Easement

Exhibit F

Baseline Documentation Report Acknowledgement

STATEMENT CONCERNING BASELINE DOCUMENTATION REPORT

Grantor and Grantee have reviewed the following Baseline Documentation Report and hereby acknowledge that the Report accurately represents the condition of the Property at the time of execution of this Conservation Easement.

Grantor

Grantee



**Conservation Easement Funding Agreement
Lake Spaulding Planning Unit – Lands Donated to University of California**

This Conservation Easement Funding Agreement (“Agreement”) is entered into as of the Effective Date (defined below) by and between the **Pacific Forest and Watershed Lands Stewardship Council**, a California nonprofit public benefit corporation (the “Stewardship Council”) and the **Bear Yuba Land Trust**, a California nonprofit public benefit corporation (“Grantee”) with reference to the following facts:

A. The Stewardship Council was created to oversee the “Land Conservation Commitment” described in (1) that certain Settlement Agreement among Pacific Gas and Electric Company (“PG&E”), PG&E Corporation, and the California Public Utilities Commission (the “Commission”) as modified and approved by the Commission in its Opinion and Order of December 18, 2003 (Decision 03-12-035) (the “Settlement Agreement”); and (2) that certain Stipulation Resolving Issues Regarding the Land Conservation Commitment dated September 25, 2003 (the “Stipulation”).

B. Pursuant to the Settlement and Stipulation, certain lands owned by PG&E at the time of the Settlement (the “PG&E Watershed Lands”) are to be 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. The Stewardship Council is charged with developing a Land Conservation Plan for the protection and enhancement of the PG&E Watershed Lands.

C. Grantee is a publicly-supported, tax exempt nonprofit organization, qualified under Section 501 (c)(3) of the Internal Revenue Code (“IRC”), whose primary purpose is to preserve, protect or enhance, land in its natural scenic, historical agricultural, forested or open space condition or use and conserve natural areas for aesthetic, scientific, charitable and educational purposes. Grantee is eligible to hold a conservation easement pursuant to California Civil Code Section 815.3.

D. In connection with the Land Conservation Commitment, Grantee has agreed to accept a perpetual conservation easement created pursuant to California Civil Code Section 815 *et seq.* (the “Conservation Easement”) over a portion of the PG&E Watershed Lands that is being donated to the University of California consisting of approximately 1,459 acres of real property located in the County of Nevada, State of California, as more particularly described in Exhibit A attached hereto and incorporated herein by reference (the “Property”).

E. In consideration of Grantee’s agreement to accept the Conservation Easement and assume the duties and obligations of the easement holder, the Stewardship Council has agreed to provide funding to Grantee in the amounts and subject to the terms and conditions described below.

Appendix 4: Conservation Easement Funding Agreement

NOW, THEREFORE, the Stewardship Council and Grantee agree as follows:

1. Effective Date. This Agreement shall become effective upon the recording of the Conservation Easement in favor of Grantee in the Official Records of Nevada County (the "Effective Date"). It is understood and agreed that if for any reason whatsoever the recording of the Conservation Easement does not occur on or before June 30, 2017, this Agreement shall be of no further force or effect and the parties shall thereupon be released from any obligations under this Agreement.

2. Grant. Effective upon the Effective Date, the Stewardship Council grants ONE HUNDRED AND ONE THOUSAND AND NINE HUNDRED DOLLARS (\$101,900) (the "Grant Funds") to Grantee to be used solely for the following purposes:

a. Ninety One Thousand and Nine Hundred Dollars (\$91,900) of the Grant Funds shall be used to implement conservation easement monitoring as described in Sections 3 and 4 below (the "Monitoring Funds").

b. Ten Thousand Dollars (\$10,000) of the Grant Funds shall be used for conservation easement defense and enforcement costs as described in Section 5 below (the "Defense and Enforcement Funds").

3. Use of Grant Funds. The Grant Funds shall be payable to Grantee within thirty (30) days of the Effective Date. Grantee will use the Grant Funds for the purposes described in this Agreement and for no other purpose without the prior written consent of the Stewardship Council. The Stewardship Council reserves the right to require the total or partial return of Grant Funds in the event Grantee fails to comply with the terms and conditions of this Agreement.

a. Grantee may "pool" the Monitoring Funds with other funds Grantee uses for monitoring of other conservation easements held by Grantee and Grantee may use the Monitoring Funds to monitor any of its conservation easements as long as Grantee meets its obligations as described in Section 4 below.

b. Within thirty (30) days of receipt of funds, Grantee will provide the Stewardship Council with evidence of deposit of (1) the Monitoring Funds into an account which shall be restricted to the stewardship and monitoring of conservation easements held by the Grantee, including but not limited to the Conservation Easement on the Property; and (2) the Defense and Enforcement Funds into an account which shall be restricted to the legal defense or enforcement of conservation easements held by the Grantee, including but not limited to the Conservation Easement on the Property. The requirement to provide evidence of deposit will be satisfied when Grantee submits to the Stewardship Council the form attached as Exhibit B.

4. Conservation Easement Monitoring. From and after the Effective Date, Grantee agrees to conduct regular monitoring of the Property to ensure compliance with the terms of the Conservation Easement. Grantee shall conduct on-site monitoring of the Property not less than annually to assess compliance with the terms and conditions of the Conservation Easement and note any material changes to the Property compared to the baseline documentation report and prior monitoring reports. Upon written request, the Stewardship Council or its designee shall be permitted to accompany the Grantee on its monitoring visits and to receive a copy of any monitoring report prepared by Grantee. Permissible uses of Monitoring Funds shall include:

Appendix 4: Conservation Easement Funding Agreement

- a. Regular on-site inspection and monitoring to ensure that the terms of Conservation Easement are being met;
- b. Recordkeeping and preparation of reports, notices of violation, any written consent to be submitted to the fee title owner of the property which is subject to the easement, and other documentation related to the Conservation Easement and the Property;
- c. Communications with the fee title owner of the property which is subject to the easement regarding the provisions of the Conservation Easement and planned or completed activities on the lands to be performed or allowed by the fee title owner or a licensee/lessee;
- d. Responding to any inquiries or concerns raised by entities that have leases or licenses on the Property or other stakeholders who have an interest in ensuring the beneficial public values are protected.

5. Defense and Enforcement Funds. Grantee shall be permitted to use the Defense and Enforcement Funds for the following purposes:

- a. To make direct expenditures of attorneys' fees, costs and disbursements incurred in connection with proceedings to enforce and/or defend the provisions of the Conservation Easement against legal challenge, including any claims by third parties;
- b. To "pool" funds for legal expenses to enforce and/or defend against legal challenge conservation easements held by the Grantee, including without limitation the Conservation Easement on the Property;
- c. To pay premiums into a Conservation Defense Insurance Program offered through the Land Trust Alliance, or other nationally-recognized conservation organization of which Grantee is a member for the enforcement and defense of conservation easements held by member organizations, or to cover deductibles related to such insurance.

6. Grant Report. Grantee agrees to submit to the Stewardship Council and/or its designee the following grant Status Reports pursuant to this Agreement. The initial Status Report shall be submitted to the Stewardship Council by the second quarter of the 2019 calendar year and include data up to the date of the initial Status Report. The final Status Report shall be submitted to the Stewardship Council or its designee on or before December 31, 2023. The due dates of the initial and final Status Reports can be changed by the Stewardship Council or its designee with at least 60 days written notice to Grantee. The Stewardship Council or its designee shall notify Grantee in a timely manner of the form and content of each Status Report, which shall include, at a minimum:

- a. Copies of annual monitoring reports pertaining to the Conservation Easement for years selected by the Stewardship Council or its designee;

Appendix 4: Conservation Easement Funding Agreement

b. A statement as to whether any violations of the Conservation Easement were observed during the reporting period, and the outcome of any action taken to correct such violation;

c. A statement as to whether any amendments to the Conservation Easement were approved during the reporting period, with copies of any such amendments included in the Status Reports;

d. A statement as to whether fee title of the property was conveyed, the date of such conveyance, and the identity of the transferee; and

e. A report providing an accounting of how the Grant Funds have been invested or expended in furtherance of the purposes of this Agreement.

7. Records. Grantee will indicate the Grant Funds separately on its books of account, and maintain such records in accordance with generally accepted accounting principles. Grantee shall additionally maintain written records including the baseline documentation report, the Deed of Conservation Easement, any amendments to the Conservation Easement, other transaction documents, and copies of monitoring reports, notices to the landowner, and other communications pursuant to the Conservation Easement in accordance with the practices generally accepted in the land trust community.

8. Inspection. The Stewardship Council or its designee shall have the right to inspect the books and records of Grantee and evaluate Grantee's use of Grant Funds, so long as (i) such inspection or evaluation occurs during regular business hours; (ii) such inspection or evaluation does not unreasonably interfere with Grantee's regular operations; and (iii) the Stewardship Council or its designee provides at least three (3) days prior notice of any such inspection or evaluation.

9. Assignment and Transfer of Funds. Grantee shall not assign its interest under the Conservation Easement except in accordance with the provisions of the Conservation Easement relating to permitted assignments. In the event that Grantee assigns its interest under the Conservation Easement to a successor conservation easement holder, Grantee shall ensure that the assignee has the resources to fulfill its obligations under the Conservation Easement. Assignee's receipt of any funds from Grantee shall be conditioned upon the assignee's agreement in writing to assume all of Grantee's obligations under this Agreement.

10. Publicity. The Stewardship Council may include information regarding this Agreement and Grantee in its periodic public reports, press releases, or other public communications.

Appendix 4: Conservation Easement Funding Agreement

11. Representations and Warranties. Grantee warrants and represents that it is a tax exempt organization under Section 501(c)(3) of the IRC, and is not a private foundation as defined in section 509(a) of the IRC or is an exempt operating foundation described in Section 4940(d)(2) of the IRC. Grantee further represents and warrants that it shall not use the Grant Funds to attempt to influence legislation or otherwise carry out lobbying activities within the meaning of Sections 501(h), 4911, 4945(d)(1) or 4945(e) of the IRC. No part of the Grant Funds may be used to attempt to influence the outcome of any specific public election, or to carry on, directly or indirectly, any voter registration drive. No part of the Grant Funds may be used for purposes other than charitable, scientific, literary, or educational purposes within the meaning of IRC Section 170(c)(2)(B).

Grantee does not knowingly employ individuals or contribute funds to organizations found on any terrorist-related list prepared by the U.S. Government, the United Nations, or the European Union, including the Department of Treasury's Office of Foreign Assets Control Specially Designated Nationals List, the Department of Justice's Terrorist Exclusion List, or the list attached to Executive Order 13224. Should any change occur with respect to the preceding sentence, Grantee will notify the Stewardship Council within 7 days of such change.

12. Indemnification. Grantee hereby agrees to indemnify, defend, and hold harmless the Stewardship Council, and the Stewardship Council's past, present and future officers, directors, and employees, from and against any and all claims, demands, losses, costs, expenses, obligations, liabilities, damages, recoveries, and deficiencies, including interest, penalties, and reasonable attorney fees and costs, that they may incur or suffer and that result from, or are related to, the receipt and use of the Grant Funds by Grantee.

13. Limit of Stewardship Council Obligations. The Stewardship Council's obligations under this Agreement shall under no circumstances exceed the Grant Funds amount set forth in Section 2 above.

14. Assignment. This Agreement may not be assigned by the Grantee in whole or in part except as provided in Section 9 above. The Stewardship Council may assign its rights and delegate its obligations under this Agreement to a third party at the Stewardship Council's sole discretion. Subject to the foregoing, this Agreement shall be binding upon and inure to the benefit and burden of the parties and their respective heirs, successors and assigns.

15. Amendment; Entire Agreement. This Agreement may not be amended or modified except by written instrument signed by both parties. This Agreement constitutes the entire understanding of the parties concerning the subject matter hereof, and supersedes any and all previous negotiations, agreements, or understandings, if any, regarding the matters contained herein.

16. Governing Law. This Agreement shall be governed by the laws of the State of California.

Appendix 4: Conservation Easement Funding Agreement

17. Counterparts. This Agreement may be executed in counterparts which together shall constitute a single agreement.

Pacific Forest and Watershed Lands Stewardship Council,
a California Nonprofit Public Benefit Corporation

By: _____
Title: _____
Date: _____

Bear Yuba Land Trust
a California Nonprofit Public Benefit Corporation

By: _____
Title: _____
Date: _____

Exhibit A

Property Description

(to be attached)

EXHIBIT B TO CONSERVATION EASEMENT FUNDING AGREEMENT**Evidence of Grant Fund Deposit and Restriction of Use Certification**

Date:	Planning Unit/Property Title:
Grantee Name:	Grantee Address:

*Date of Deposit of Grant Funds:		Amount Deposited:
Bank Name:	Account Name:	Account #:
Certification of Deposit of Grant Funds and Restricted use of Monitoring of Conservation Easement Funds		
I, hereby state that the above referenced information is true and accurate, and understand that the above information, if misrepresented, or incomplete, may be grounds for immediate repayment of grant funds. I also agree that account activity will be restricted to the permissible uses of Monitoring Funds as set forth in Section 4 of the Grant Agreement.		
Name:		Title:
Signature:		Date:

*Date of Deposit of Grant Funds:		Amount Deposited:
Bank Name:	Account Name:	Account #:
Certification of Deposit of Grant Funds and Restricted Use of Defense & Enforcement Funds		
I, hereby state that the above referenced information is true and accurate, and understand that the above information, if misrepresented, or incomplete, may be grounds for immediate repayment of grant funds. I also agree that account activity will be restricted to the permissible uses of the Defense and Enforcement Funds as set forth in Section 5 of the Grant Agreement.		
Name:		Title:
Signature:		Date:

Return to:
 Stewardship Council
 155 Bovet Road, Suite 405
 San Mateo, CA 94402
Phone: (650) 372-9047
Fax: (650) 372-9303



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.

More recently, 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 below lists the estimated acreage and annual property taxes associated with PG&E watershed lands which are available for donation as of September 2011. The estimated total tax liability that would be subject to tax neutrality will depend upon the total acreage transferred, and the types of organization receiving lands.

COUNTY	Total Acres	Total Taxes (\$)	Acres Available for Donation	Taxes on Lands Avail. (\$)
Alpine	1,983	\$26,995	965	\$6,449
Amador	4,891	\$45,916	3,238	\$25,493
Butte	8,029	\$75,706	6,449	\$55,539
Calaveras	318	\$2,699	230	\$1,643
Fresno	1,527	\$26,917	342	\$3,552
Kern	664	\$1,734	0	\$0
Lake	5,271	\$116,467	3,355	\$80,975

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



COUNTY	Total Acres	Total Taxes (\$)	Acres Available for Donation	Taxes on Lands Avail. (\$)
Madera	2,016	\$181,650	686	\$64,396
Mendocino	2,112	\$28,181	1,799	\$22,252
Nevada	10,651	\$107,895	4,889	\$39,128
Placer	7,846	\$356,996	5,587	\$179,825
Plumas	38,094	\$304,316	4,935	\$113,228
Shasta	46,989	\$296,123	36,191	\$178,510
Tehama	1,946	\$8,839	1,564	\$4,422
Tuolumne	1,840	\$28,470	1,040	\$11,368
Yuba	41	\$612	41	\$612
Grand Total	134,216	\$1,609,516	71,310	\$787,392

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.

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.
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 or annual payment 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 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 provide a one-time reimbursement of up to \$3,000 of the county cost to perform such activities.
5. The proposed funding agreement that has been deemed acceptable by the county as evidenced by a certified board resolution will be included in the Stewardship Council's Land Conservation and Conveyance Plan (LCCP). In turn, the LCCP will be attached to PG&E' Section 851 filing with the California Public Utilities Commission, wherein PG&E will seek regulatory approval of the proposed fee title donation. 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 funding agreement prior to its execution by the parties.
6. Immediately following the transfer of lands, the Stewardship Council and the county will execute the funding agreement and the Stewardship Council will fund the settlement amount according to the terms of the funding agreement as described in number 4 above.

OPTIONS FOR FUNDING PROPERTY TAX NEUTRALITY PAYMENTS

The Stewardship Council is presenting two options for making tax neutrality payments: (1) a one-time lump-sum payment; or, (2) funding of an independent trustee to continue annual payments in lieu of taxes.

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.

Annual payments

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 anticipated dissolution in 2016 or thereafter. 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

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.)



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.

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 A for more details on the annual payment option.

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



Appendix A 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

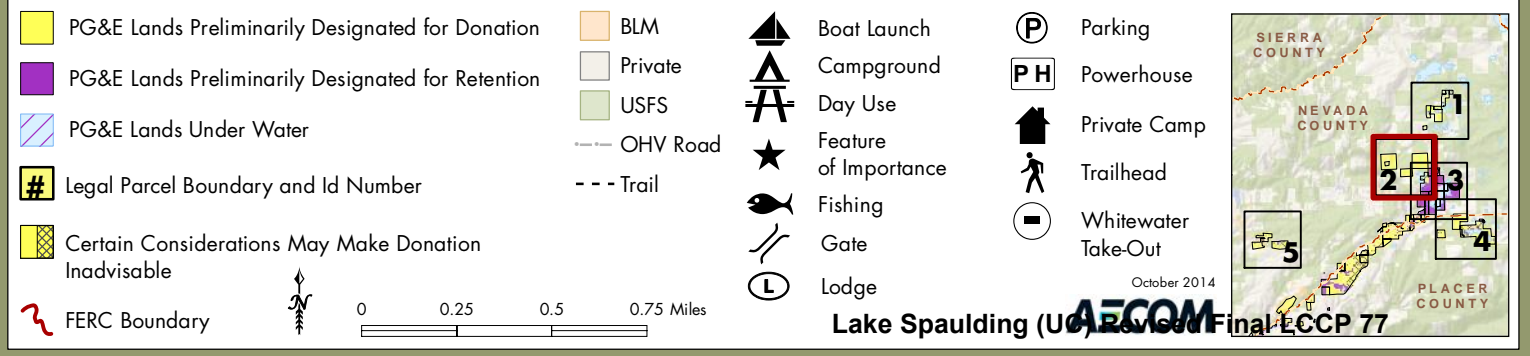
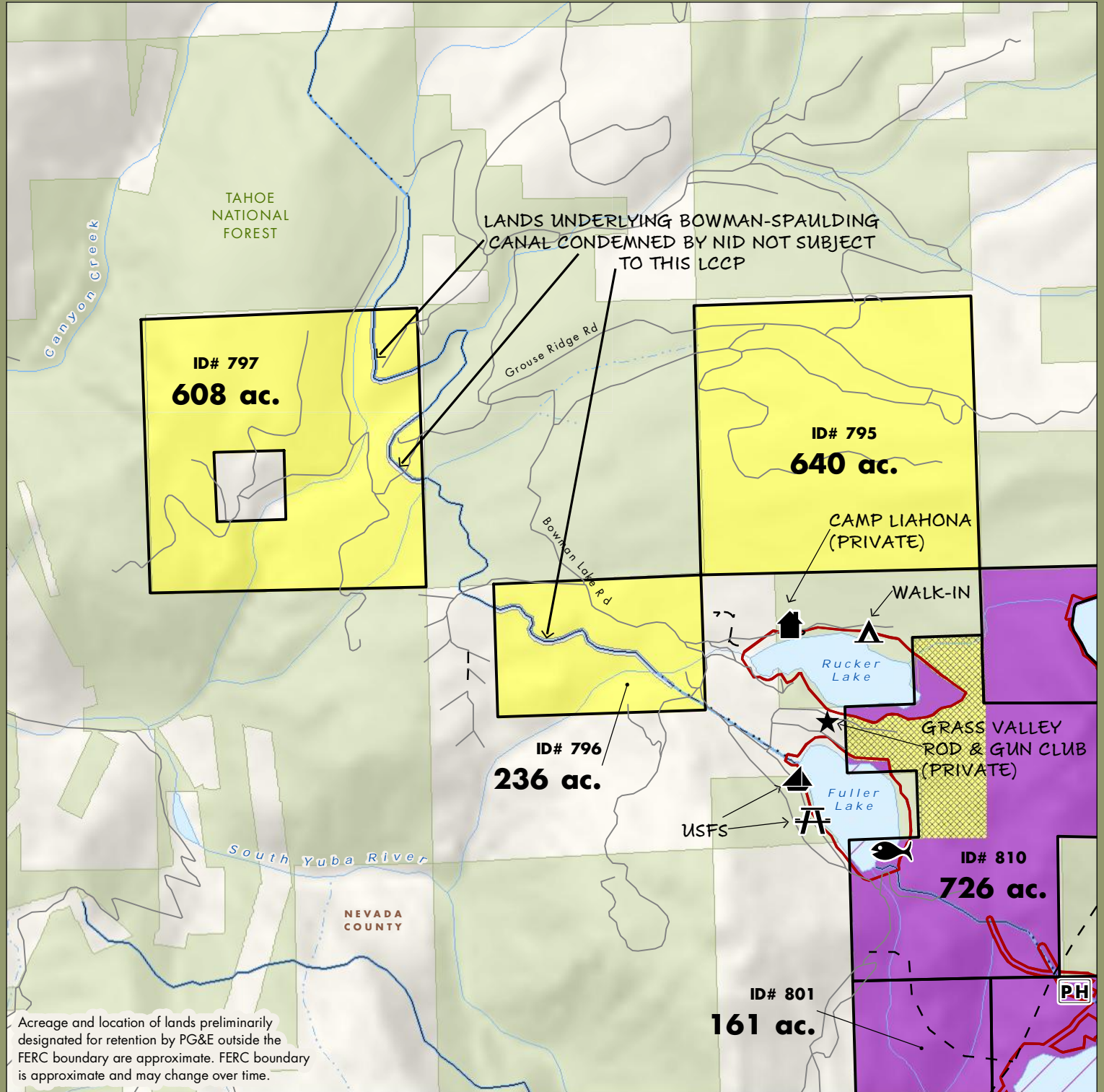
⁵ Annual return based upon historical performance of the S&P 500 index 1925-2010. These figures are provided for illustrative purposes only and do not constitute a prediction of future performance on behalf of the Stewardship Council or the prospective investment manager.

**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.

Lake Spaulding Planning Unit: Map 2



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.