

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



September 15, 2014

Advice Letter: 4337-E

Brian Cherry
Vice President, Regulation and Rates
Pacific Gas and Electric Company
P.O. Box 770000
San Francisco, CA 94177

**SUBJECT: Deer Creek Land Donation - Request for Approval under D.08-11--043,
D.10-08-004, and PU Code, Section 851**

Dear Mr. Cherry:

Advice Letter 4337-E is effective as of August 14, 2014, per Resolution E-4644 approved on August 14, 2014.

Sincerely,

A handwritten signature in cursive script that reads "Edward Randolph".

Edward Randolph
Director, Energy Division



Brian K. Cherry
Vice President
Regulatory Relations

Pacific Gas and Electric Company
77 Beale St., Mail Code B10C
P.O. Box 770000
San Francisco, CA 94177

Fax: 415-973-7226

December 27, 2013

Advice 4337-E

(Pacific Gas and Electric Company ID U 39 E)

Public Utilities Commission of the State of California

Subject: Deer Creek Land Donation - Request for Approval under Decision (D.) 08-11-043, D.10-08-004 and Public Utilities Code Section 851

Purpose

Pursuant to the streamlined procedures adopted by the California Public Utilities Commission (Commission or CPUC) in Decision (D.) 08-11-043 (as modified by D.10-08-004), PG&E requests a Commission resolution approving PG&E's donation of fee simple title to the 151-acre Deer Creek property to the United States Forest Service (USFS). This donation is being made in the public interest with the intent to provide for: (1) the preservation of land areas to protect the natural habitat of fish, wildlife and plants; (2) the protection of open space, outdoor recreation by the general public, sustainable forestry, agricultural uses, and historic values; and (3) the prevention of any other uses that will significantly impair or interfere with those values. This donation is in accordance with the terms and conditions specified in the Settlement Agreement and Stipulation that were approved by the Commission in D.03-12-035.

Background

Pursuant to the Settlement Agreement and Stipulation, the Pacific Forest and Watershed Lands Stewardship Council (Stewardship Council) was established in 2004 to develop a plan to permanently protect, for the benefit of the citizens of California, more than 140,000 acres of watershed lands (Watershed Lands) currently owned by PG&E. This effort is known as PG&E's "Land Conservation Commitment" (LCC). PG&E is fulfilling its LCC through fee donation of certain Watershed Lands and/or the conveyance of conservation easements, or satisfactory assurance in another form that the parcel will be managed consistent with the purpose of the Land Conservation Commitment, to public agencies and/or qualified conservation organizations. A detailed description of this proposed donation, which addresses the requirements set forth in Section 12(a) of the Stipulation, is provided in the attached Land Conservation and Conveyance Plan (Attachment A) prepared by the Stewardship Council. Land Conservation and

Conveyance Plans will be issued serially and cumulatively for all Watershed Lands and together will comprise the Land Conservation Plan Volume III.

Property Specific Considerations

The USFS informed the Stewardship Council that applicable law or policy precludes it from accepting donations of Watershed Lands encumbered with conservation easements and provided the Stewardship Council with an explanation of the basis for its determination. The Stewardship Council Board determined a conservation covenant in the form attached as Attachment A, page 32 provides satisfactory assurance that the Property will be managed consistent with the purpose of the LCC. Therefore, a conservation covenant will encumber the Property rather than a conservation easement. For the complete text of the conservation covenant, see Attachment A, page 32.

In accordance with the streamlined procedure adopted by the Commission in D.08-11-043, PG&E provides the following information as required by Ordering Paragraph 2:

(1) Identity of the Conservation Property

Deer Creek is one legal parcel of approximately 151 acres located in Tehama County along USFS Road 28N29, about 25 miles north of Chico. A map showing the Deer Creek property and the surrounding area is included in Attachment A, page 3. The property is surrounded by public lands managed by the Lassen National Forest, including the Ishi Wilderness Area located immediately to the west of the property. The property provides important outdoor recreation, cultural resources and wildlife habitat within the canyons of Deer Creek and serves as a gateway to a variety of recreation activities in Lassen National Forest lands and on Deer Creek. Common recreational activities in the area include backpacking, hiking, horseback riding, mountain biking, fishing and whitewater boating. The parcel is zoned as natural resource lands and recreation district (Tehama County Ord. Code, Section 17.44.010).

The State Board of Equalization estimates the value of the Deer Creek Property is \$4,562 (Attachment B).

(2) Type of Property Interest Disposition

PG&E intends to convey fee simple title to the 151 acre Deer Creek property to the USFS. USFS will then immediately convey a conservation covenant to the Sierra Nevada Conservancy that will permanently protect the beneficial public values present on the property. PG&E will not receive nor claim any monetary proceeds or tax benefits from this transfer.

A. Property Encumbrances and Uses

There are no existing economic uses or agreements on the Deer Creek Property. No reserved rights in favor of PG&E are needed for the continued operation of PG&E's hydroelectric facilities and water delivery facilities and PG&E will not be reserving rights associated with the Property.

B. PG&E's Assumption of Liability

Section 12(f) of the Stipulation approved by the Commission in D.03-12-035 requires that PG&E hold the donee harmless for hazardous waste or substance liability. Fulfillment of that obligation as it relates to the property is reflected in the Environmental Agreement, attached hereto as Attachment C.

(3) Legal Name and Location of Receiving Parties

United States Forest Service
Attention: Jerry Bird, Forest Supervisor
Lassen National Forest
2550 Riverside Drive
Susanville, CA 96103.
Telephone: (530) 257-2151
Email: jbird@fs.fed.us

Sierra Nevada Conservancy
Attention: Executive Director
11521 Blocker Drive, Suite 205
Auburn, CA 95603
Telephone: (530) 823-4667
Email: jbranham@sierranevada.ca.gov

(4) Proposed Uses and Conservation Management Objectives:

As set forth in the Settlement Agreement and Stipulation, the cornerstone of the Land Conservation Commitment is its requirement that the Watershed Lands be preserved and enhanced for the following broad range of beneficial public values:

- A. Protection of the Natural Habitat of Fish, Wildlife, and Plants
- B. Preservation of Open Space
- C. Outdoor Recreation by the General Public
- D. Sustainable Forestry
- E. Agricultural Uses
- F. Historic Values

A. Protection of the Natural Habitat of Fish, Wildlife, and Plants

The conservation covenant (Attachment A, page 32 Recital C; and page 34 Section 1(b) and (d)), permanently protect habitat by requiring the USFS to manage the Property in conformity with a land and resource management plan (LRMP) prepared with public involvement including full compliance with the National Environmental Policy Act and the Multiple Use Sustained Yield Act. Furthermore, the USFS will manage the Property for wildlife and fish habitat consistent with the multiple uses identified in the LRMP and in full compliance with the Endangered Species Act.

The conservation covenant (Attachment A, page 35, Section 4) states the USFS will amend the LMRP to incorporate language into the management area descriptions stating the Property was donated with the intent of ensuring the permanent protection of the Property's natural resources. The amendment will include the objectives for the protection of the Beneficial Public Values identified in the Stewardship Council's Land Conservation Plan, and will require all future amendments to the LRMP include reference to the conservation covenant. Furthermore, the conservation covenant recording information will be included in LRMP revisions to assure perpetual access to the intent of the donation.

B. Preservation of Open Space

The conservation covenant provides that the Property will be managed by the USFS for public uses and protection of natural resources as a component of the National Forest System, subject to applicable laws and regulations. (Attachment A, page 32, Recital C; and page 34, Section 1(c))

C. Outdoor Recreation by the General Public

The conservation covenant states that the Property will be open to the public for outdoor recreation such as hiking, camping, hunting and fishing, subject to reasonable regulations and state fish and game laws and consistent with the long term protection of the natural resources of the Property. (Attachment A, page 32, Recital C; and page 34, section 1(c)).

D. Sustainable Forestry

The conservation covenant requires that forested lands will be managed for sustainable forestry in accordance with the LRMP and other applicable laws and regulations. (Attachment A, page 32, Recital C; and page 34, Section 1(b))

E. Agricultural Uses

The conservation covenant requires the property be managed for agricultural values such as forage on suitable lands in accordance with the LRMP and other applicable laws and regulations. (Attachment A, page 32, Recital C; and page 34, Section 1(e))

F. Historic Values

The conservation covenant protects historic, cultural and archaeological resources in conformity with the National Historic Preservation Act and the Archaeological Resources Protection Act. (Attachment A, page 32, Recital C; and page 34, section 1(f))

(5) Environmental Information

The proposed transaction constitutes a change in ownership with no proposed changes to land uses; thus, no direct or indirect environmental impacts will occur as a result. Therefore, the transaction does not constitute a “project” under the California Environmental Quality Act (CEQA). Accordingly, as stated in D.99-12-030 (page 7 and 9), this advice letter process is not subject to review under CEQA.

PG&E’s Review & Finding

PG&E has reviewed the transaction and documents herein, and has determined that the proposed transaction is compliant with requirements of the Settlement Agreement and Stipulation.

Lastly, the Stewardship Council intends to provide funding to satisfy property tax payments in perpetuity for the Property.¹ After the CPUC has approved the fee title donation of the Property, Tehama County may select the option of either receiving a lump sum payment or an annual payment from a trustee selected by the Stewardship Council. PG&E requests the Commission dispose of this advice letter by Commission resolution.

Protests

Anyone wishing to protest this filing may do so by letter sent via U.S. mail by facsimile or electronically, any of which must be received no later than January 27, 2014, which is 31 days² after the date of this filing. Protests should be mailed to:

¹ The Stewardship Council interprets the Settlement Agreement to include in lieu payments to counties to achieve property tax neutrality as an allowable use of a portion of the \$70 million provided to the Stewardship Council to implement the Land Conservation Commitment.

² The 30-day protest period concludes on a weekend, therefore PG&E is moving this date to the following business day.

CPUC Energy Division
ED Tariff Unit
505 Van Ness Avenue, 4th Floor
San Francisco, California 94102

Facsimile: (415) 703-2200
E-mail: EDTariffUnit@cpuc.ca.gov

Copies of protests also should be mailed to the attention of the Director, Energy Division, Room 4004, at the address shown above.

The protest also should be sent via U.S. mail (and by facsimile and electronically, if possible) to PG&E at the address shown below on the same date it is mailed or delivered to the Commission.

Brian K. Cherry
Vice President, Regulatory Relations
Pacific Gas and Electric Company
77 Beale Street, Mail Code B10C
P.O. Box 770000
San Francisco, California 94177

Facsimile: (415) 973-7226
E-mail: PGETariffs@pge.com

Any person (including individuals, groups, or organizations) may protest or respond to this advice letter; the requirements for responding to advice letters are set forth in General Order 96-B, Rules 3.11; see also Decision 08-11-043 (as modified by Decision 10-08-004).

Effective Date

Pursuant to the review process outlined in D.08-11-043 (as modified by D.10-08-004), PG&E requests that this **Category 2b** advice filing become effective upon disposition by a Commission resolution.

Notice

In accordance with General Order 96-B, Section IV, and D.08-11-043, a copy of this advice letter is being sent electronically and via U.S. mail to parties shown on the attached list, Service List A.08-04-020, Appendix A and additional parties identified by the Stewardship Council. Address changes to the General Order 96-B service list should be directed to e-mail PGETariffs@pge.com. For changes to any other service list, please contact the Commission's Process Office at (415) 703-2021 or at Process_Office@cpuc.ca.gov. Send all electronic approvals to

PGETariffs@pge.com. Advice letter filings can also be accessed electronically at:
<http://www.pge.com/tariffs>.



Vice President, Regulatory Relations

Attachments

List of Attachments:

- A Land Conservation and Conveyance Plan
- B State Board of Equalization Land Appraisal Record
- C Environmental Agreement (fee grantee)

Note: (1) the Donation Letter Agreement between PG&E and USFS is available upon request.

(2) Conservation Covenant, Exhibit B was not completed by SNC in time to include it in the filing of this Advice Letter. The forthcoming information in Exhibit B "Description of the Benefited Properties," contains no information determinative of the conditions of the fee transfer or of the conservation values protected by the Conservation Covenant and will be provided if it is received in advance of a decision from the Commission.

cc: Service List Appendix A - Advice Letter 4337-E
Service List A.08-04-020
Additional Parties Identified by the Stewardship Council

***** SERVICE LIST Advice 4337-E *****
APPENDIX A

Karen Clopton
Administrative Law Judge Division
505 Van Ness Avenue
San Francisco, CA 94102
(415) 703-2008
kvc@cpuc.ca.gov

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Brewster Fong
Division of Ratepayer Advocates
505 Van Ness Avenue
San Francisco, CA 94102
(415) 703- 2187
bfs@cpuc.ca.gov

Andrew Barnsdale
Energy Division
505 Van Ness Avenue
San Francisco, CA 94102
(415) 703-3221
bca@cpuc.ca.gov

***** AGENCIES *****

United States Forest Service
Attention: Jerry Bird, Forest Supervisor
Lassen National Forest
2550 Riverside Drive
Susanville, CA 96103.
Telephone: (530) 257-2151
Email: jbird@fs.fed.us

Sierra Nevada Conservancy
Attention: Executive Director
11521 Blocker Drive, Suite 205
Auburn, CA 95603
Telephone: (530) 823-4667
Email: jbranham@sierranevada.ca.gov

CALIFORNIA PUBLIC UTILITIES COMMISSION

ADVICE LETTER FILING SUMMARY ENERGY UTILITY

MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)

Company name/CPUC Utility No. **Pacific Gas and Electric Company (ID U39 E)**

Utility type:

ELC GAS
 PLC HEAT WATER

Contact Person: Igor Grinberg

Phone #: 415-973-8580

E-mail: ixg8@pge.com and PGETariffs@pge.com

EXPLANATION OF UTILITY TYPE

ELC = Electric GAS = Gas
PLC = Pipeline HEAT = Heat WATER = Water

(Date Filed/ Received Stamp by CPUC)

Advice Letter (AL) #: **4337-E**

Category: **2b**

Subject of AL: **Deer Creek Land Donation - Request for Approval under Decision (D.) 08-11-043, D.10-08-004 and Public Utilities Code Section 851**

Keywords (choose from CPUC listing): Compliance and Agreements

AL filing type: Monthly Quarterly Annual One-Time Other _____

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #: D.08-11-043 (as modified by D.10-08-004)

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL: No

Summarize differences between the AL and the prior withdrawn or rejected AL: N/A

Is AL requesting confidential treatment? If so, what information is the utility seeking confidential treatment for: N/A

Confidential information will be made available to those who have executed a nondisclosure agreement: N/A

Name(s) and contact information of the person(s) who will provide the nondisclosure agreement and access to the confidential information: N/A

Resolution Required? Yes No

Requested effective date: **Upon Approval**

No. of tariff sheets: N/A

Estimated system annual revenue effect (%): N/A

Estimated system average rate effect (%): N/A

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).

Tariff schedules affected: N/A

Service affected and changes proposed: N/A

Protests, dispositions, and all other correspondence regarding this AL are due no later than 31 days¹ after the date of this filing, unless otherwise authorized by the Commission, and shall be sent to:

California Public Utilities Commission

Energy Division

EDTariffUnit

505 Van Ness Ave., 4th Flr.

San Francisco, CA 94102

E-mail: EDTariffUnit@cpuc.ca.gov

Pacific Gas and Electric Company

Attn: Brian K. Cherry, Vice President, Regulatory Relations

77 Beale Street, Mail Code B10C

P.O. Box 770000

San Francisco, CA 94177

E-mail: PGETariffs@pge.com

¹ The 30-day protest period concludes on a weekend, therefore PG&E is moving this date to the following business day.

Attachment A

Land Conservation and Conveyance Plan

Final LCCP

November 14, 2013



Stewardship
Council

Land Conservation and Conveyance Plan

Deer Creek

Executive Summary

Subject

LCCP Deer Creek planning unit
Land Conservation Plan Identification Number (Parcel): 716 as shown on the map attached as Exhibit 1 (page 3).

Type of Property Interest Disposition

- United States Forest Service (USFS) to hold fee simple title to the entire Deer Creek planning unit (Property)
- Sierra Nevada Conservancy (SNC) to hold the conservation covenant (“covenant”) on the entire Deer Creek Property
- No lands within the Deer Creek Property will be retained by PG&E

Summary

The 151-acre Deer Creek Property lies within one legal parcel (Parcel 716) and has been recommended by the Stewardship Council for donation to the USFS. Pending California Public Utilities Commission (CPUC) approval, immediately following PG&E's conveyance of the Deer Creek Property to the USFS, a conservation covenant between the USFS and the SNC will be recorded.

Property Location

The Deer Creek Property is located in Tehama County along USFS Road 28N29, approximately 25 miles north of Chico.

Economic Uses and Agreements

There are no existing economic uses or agreements on the Deer Creek Property. PG&E will not be reserving any rights associated with the Property.

Conservation Management Objectives to Preserve and/or Enhance

The conservation covenant states:

- That the USFS shall manage the Property for public uses and protection of natural resources as a component of the National Forest System;
- That the Property shall be open to the public for outdoor recreation;
- That the USFS shall manage the Property for wildlife and fish purposes;
- That the Property shall be managed for agricultural values such as forage and for sustainable forestry on suitable lands in accordance with the land and resource management plan (“LRMP”), LRMP standards and other applicable laws and regulations;
- That the Property shall be managed to protect historic, cultural, and archaeological resources;
- That the Property shall not be open to location and entry under the mining laws of the United States;

- That the USFS shall manage the Property in conformity with a LRMP prepared with public involvement pursuant to the National Forest Management Act and other applicable laws; and
- That the USFS shall amend the LMRP and incorporate language into the management area descriptions that states that the Property was donated to ensure the permanent protection of the Property's natural resources. The amendment will include the objectives for the protection of the Beneficial Public Values identified in the Stewardship Council's Land Conservation Plan, and will reference the Conservation Covenant.

Tax Neutrality

The Stewardship Council intends to provide funding to satisfy property tax payments in perpetuity for the Property. After the CPUC has approved the fee title donation of the Property, Tehama County may select the option of either receiving a lump sum payment or an annual payment from a trustee selected by the Stewardship Council.

If Tehama County chooses the lump-sum option, the Stewardship Council would make a one-time payment of \$1,450 to the county. Tehama County would be required to distribute the funds to the general fund and applicable special districts consistent with the Tax Rate Area in effect for the parcel. If Tehama County chooses the annual payment option, the Stewardship Council would deposit \$1,450 with a third party trustee, which would be responsible for making annual payments to Tehama 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 parcel. Tehama County would, in-turn, be required to distribute the funds to the general fund and applicable special districts consistent with the Tax Rate Area in effect for the parcel.

Hazardous Waste Disclosure

The Deer Creek Environmental Site Assessment Report dated April 29, 2011, contains a discussion of the hazardous waste, substance contamination, or other such environmental conditions that were identified. PG&E has provided this report to USFS and SNC, fulfilling the disclosure requirements of the Land Conservation Commitment. The Environmental Site Assessment did not identify any hazardous waste or substance contamination on this site.

Consideration of Parcel Split

The entire Deer Creek Property lies within one legal parcel that will be transferred to the USFS, therefore, no parcel split is required to effectuate the transaction.

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

The Deer Creek transaction does not have the potential for a direct physical change or a reasonably foreseeable indirect physical change in the environment; therefore, the Stewardship Council has determined that the transaction is not a project under CEQA.

Exhibit 1. Map of the Property

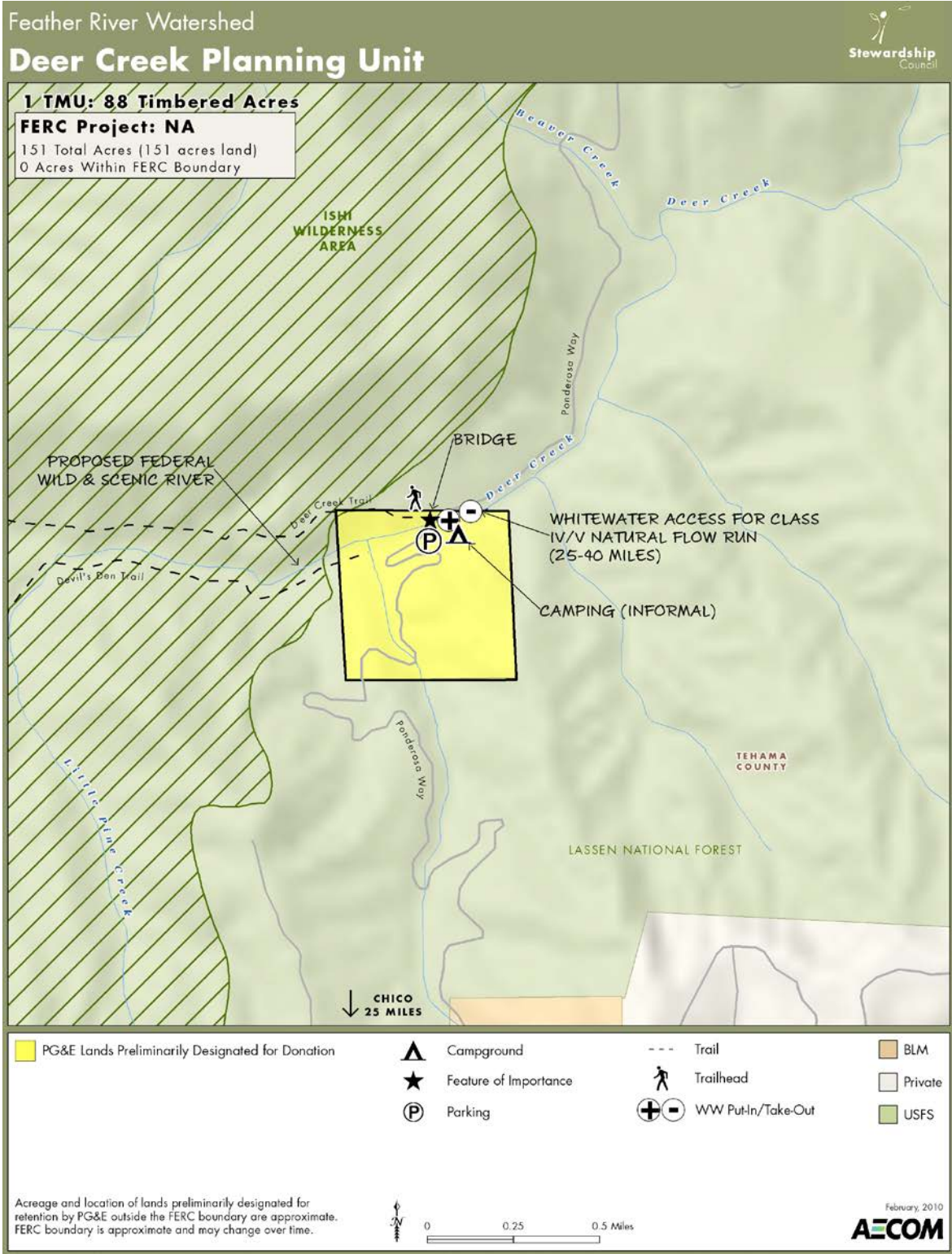


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Introduction

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 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 to PG&E, 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 this 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 Deer Creek planning unit, is provided in Appendix 1 (page 24). Furthermore, the proposed LCCP will be made available for public review and comment before it is forwarded by the Watershed Planning Committee to the Board for its review and approval.

The Stewardship Council Board of Directors recommends that the United States Forest Service receive the 151-acre Deer Creek planning unit in fee and that the Sierra Nevada Conservancy hold a conservation covenant over the Property.

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

Table 1 Stipulation 12(a) Requirements

| |
|--|
| <p>(1) Acreage, Existing Economic Uses and Agreements <i>"Reasonably exact estimates of acreage, by parcel, within or outside licensed project boundaries, and existing economic uses (including all related agreements);"</i></p> |
| <p>(2) Objectives to Preserve and/or Enhance <i>"Objectives to preserve and/or enhance the BPVs, as defined in the Settlement Agreement, Appendix E, of each individual parcel;"</i></p> |
| <p>(3) Recommendations for Conservation Easement and Fee Simple Donation <i>"A recommendation for grant of a conservation easement or fee simple donation for each such parcel;"</i></p> |
| <p>(4) Finding of Donee Funding and Other Capacity to Maintain Lands to Preserve and/or Enhance BPVs <i>"A finding that the intended donee of such easement or fee simple has the funding and other capacity to maintain that property interest so as to preserve and/or enhance the BPVs thereof;"</i></p> |
| <p>(5) Analysis of Tax and Other Economic and Physical Impacts <i>"An analysis of tax and other economic and physical impacts of such disposition strategy, and a commitment by an appropriate entity to provide property tax revenue, other equivalent revenue source, or a lump sum payment, so that the totality of dispositions in each affected county under the LCC will be 'tax neutral' for that county;"</i></p> |
| <p>(6) Hazardous Waste Disclosure <i>"A disclosure of all known hazardous waste or substance contamination or other such environmental liabilities associated with each parcel;"</i></p> |
| <p>(7) Consideration of Parcel Split <i>"Appropriate consideration whether to split any parcel which is partly used or useful for operation of PG&E's and/or a co-licensee's hydroelectric facilities, where the beneficial public values of the unused part may be enhanced by such split, provided that it is consistent with Section 12(b)(4) of this Stipulation and that, in the event that governmental approval of a parcel split imposes conditions or restrictions on other PG&E property, the decision to accept or reject such conditions will be at PG&E's sole discretion;"</i></p> |
| <p>(8) Strategy for Physical Measures to Enhance BPVs <i>"A strategy to undertake appropriate physical measures to enhance the BPVs of individual parcels; provided that no such measure will be in conflict with the provisions of Settlement Agreement paragraph 17(c) and Appendix E paragraph 1;"</i></p> |
| <p>(9) Monitoring Plan for the Economic and Physical Impacts of Disposition and Implementation of Enhancement Measures <i>"A plan to monitor the economic and physical impacts of disposition and implementation of enhancement measures on the applicable management objectives;"</i></p> |
| <p>(10) Implementation Schedule for Transactions and Measures <i>"A schedule for the implementing transactions and measures."</i></p> |

1. Acreage, Existing Economic Uses and Agreements

Acreage and Property Description

The Deer Creek Property contains one approximately 151 acre legal parcel (Land Conservation Parcel ID #716). The Property will be donated by PG&E to the USFS if and when the CPUC approves the transfer and, consistent with the conditions in the Settlement Agreement, the Property will be subject to a conservation covenant granted by USFS to SNC.

The Deer Creek Property is located in Tehama County along USFS Road 28N29, approximately 25 miles north of Chico. The Property provides important outdoor recreation, cultural resources, and wildlife habitat within the canyons of Deer Creek. The Property is surrounded by public lands managed by the Lassen National Forest, including the Ishi Wilderness Area, which is located immediately west of the Property. The Property is zoned natural resources lands and recreation district (Tehama County Ord. Code, Section 17.44.010).

The Property primarily serves as a gateway to a variety of recreation activities on the surrounding National Forest lands and on Deer Creek, including backpacking, hiking, horseback riding, mountain biking, fishing, and whitewater boating. Two USFS trails cross portions of the Property to access the Ishi Wilderness Area. Parking and informal camping areas are located on the Property on the south side of Deer Creek, near the Ponderosa Way Bridge.

The Property provides important habitat for spring run Chinook salmon, western pond turtle, and foothill yellow-legged frog. The USFS has recommended federal Wild and Scenic River designation for Deer Creek, including the segment that runs through the Property.

The Property contains one PG&E Timber Management Unit (TMU) consisting of 88 timbered acres. Current PG&E timber management on these lands is limited to salvage activities; management activities are restricted to mitigating for watershed and forest health issues, including emergency salvage harvesting following insect attack or a catastrophic event.

Adjacent and Nearby Landowners

The entire Deer Creek Property is surrounded by the U.S. Forest Service – Lassen National Forest.

The Stewardship Council notified and invited landowners located within one mile of the subject parcel to provide comment during key phases of the land conservation and conveyance planning process. To date, the nearby landowners have not provided any comments concerning their property interests.

Existing Economic Uses and Agreements

There are no existing economic uses or agreements on the Deer Creek Property. Because there are no requirements for its ongoing hydroelectric operations or water delivery contracts associated with the Property, PG&E will not be reserving any rights in the Property as part of the transaction.

2. Objectives to Preserve and/or Enhance the BPVs

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

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

The conservation covenant (Appendix 3, page 32) states that the USFS will manage the Property in conformity with a land and resource management plan (LRMP) prepared with public involvement pursuant to the National Forest Management Act and other applicable laws, including full compliance with the National Environmental Policy Act and the Multiple Use Sustained Yield Act. The USFS agrees to manage the Property for wildlife and fish habitat purposes consistent with the multiple uses identified in the applicable LRMP and in full compliance with the Endangered Species Act.

- 2. Objective: Preserve open space in order to protect natural and cultural resources, as well as the unique character of the site.*

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

- 3. Objective: Enhance recreational facilities in order to provide educational opportunities and enhance the recreation experience.*

The conservation covenant states that the Property will be open to the public for outdoor recreation such as hiking, camping, hunting and fishing, subject to reasonable regulations and state fish and game laws and consistent with the long-term protection of the natural resources of the Property.

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

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

- 5. Objective: Agricultural uses*

The conservation covenant states that the property will be managed for agricultural values such as forage and for sustainable forestry on suitable lands in accordance with the LRMP, LRMP standards, and other applicable laws and regulations. There are no current agricultural uses within the Property.

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

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

Amending the LRMP

The USFS shall amend the LMRP and incorporate language into the management area descriptions that states that the Property was donated to ensure the permanent protection of the Property's natural resources. The amendment will include the objectives for the protection of the Beneficial Public Values identified in the Stewardship Council's Land Conservation Plan, and will reference the covenant.

3. Recommendations for Conservation Covenant and Fee Simple Donation

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

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

Conservation Covenant

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

The Stewardship Council Board has determined that a conservation covenant in the form attached as Appendix 3 (page 32) encumbering the Property qualifies as a satisfactory assurance that the Property will be managed consistent with the purpose of the Land Conservation Commitment.

Therefore, a conservation covenant will be placed on the Property rather than a conservation easement. For the complete text of the conservation covenant, see Appendix 3 (page 32). The conservation covenant over the Property will be held by SNC. The qualifications of SNC are described in Chapter 4.

Retention or Donation of Fee Title

The Settlement Agreement states that PG&E will not be expected to make fee simple donations of Watershed Lands with hydroelectric project features, and conservation easements and enhancements may not interfere with hydroelectric operations. In general, PG&E will retain fee title to those Watershed Lands within the boundaries of hydroelectric projects licensed by the FERC, as well as other properties required for continuing and future utility operations. However, these Watershed Lands will be conserved via a conservation easement. See Appendix 6 (page 51) for a description of PG&E’s Land Conservation Commitment.

The entire 151-acre Deer Creek Property is outside of any FERC Project boundary. In addition, PG&E determined it did not need to retain a fee portion of the parcel for existing or

future utility operations. Because there are no requirements for its ongoing hydroelectric operations or water delivery contracts associated with the Property, PG&E will not be reserving any rights in the Property as part of the transaction.

Lands to be Donated by PG&E

The entire 151-acre Property that lies within one legal parcel (parcel 716) will be donated to the USFS if and when the CPUC approves the transaction. The legal description of the Property is included in the grant deed, which is provided in Appendix 2 (page 28). The qualifications and capacity of the USFS to manage the Deer Creek Property are discussed in Chapter 4.

The map attached in Appendix 5 (page 50) shows the all the land within the Deer Creek Property will be donated. The map also shows key features in the Deer Creek Property and surrounding area, and the ownership of adjacent land.

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 September 16, 2010:

- SNC to hold the conservation covenant on the Deer Creek Property.
- USFS to hold fee simple title to the Deer Creek Property.

Capacity of Selected Organizations

The Stewardship Council Board made a finding that the USFS and SNC will have the funding and other capacity to maintain the property interest so as to preserve and/or enhance the BPVs.¹

A. USFS:

- The USFS is a public agency that was established in 1905. The USFS manages 193 million acres of public forests and grasslands. The mission of the USFS is to sustain the health, diversity, and productivity of the Nation's forest and grasslands to meet the needs of present and future generations. Congress directs the USFS to manage National Forests for multiple uses and benefits and for the sustained yield of renewable resources such as water, forage, wildlife, wood, and recreation.
- Management direction for the Lassen National Forest is governed by the Lassen National Forest Land and Resource Management Plan of 1993 and a variety of national and regional policies and regulations. The Lassen National Forest employs approximately 200 permanent employees and 100-200 additional temporary employees typically are hired in the summer months. The USFS maintains a base of professional, technical and administrative expertise in a multitude of specialties and management functions and is able to draw on the expertise of over 1,000 USFS professionals within the state of California. Disciplines includes wildlife biologists, archaeologists, aquatic biologists, botanists, fuels planners, conservationists, recreation specialists, landscape architects, public affairs specialists, interpretive/conservation education specialists, geographic information specialists, business management specialists, and engineers.
- The Stewardship Council's review of the USFS's financial capacity consisted of an evaluation of its annual operating budget and financial statements. Based on this review, staff concluded that the USFS has the financial ability to manage the lands being recommended for donation to preserve and/or enhance the BPVs associated with these lands.

¹ Stipulation, Section 12(a)(4)

B. SNC:

- SNC is a California state agency created by bi-partisan legislation (AB 2600) that was signed into law in 2004. The mission of SNC is to initiate, encourage and support efforts that improve the environmental, economic, and social well-being of the Sierra Nevada Region, its communities and the citizens of the State of California.
- The legislation that created SNC includes program areas that incorporate all of the BPVs identified in Volume II of the LCP.
- SNC supports the Sierra Nevada Region by providing funding for local projects and offering technical assistance and other support for collaborative projects in partnership with local government, nonprofit organizations, and Native American entities. To date, SNC has distributed nearly 40 million dollars to 175 projects throughout the Sierra Nevada.
- SNC's Board of Directors is made up of 16 members; 13 voting and 3 non-voting members. The voting members include five Governor's appointees, two legislative appointees, and six local government representatives. The non-voting members include representatives from the National Park Service, United States Bureau of Land Management, and USFS.
- SNC will receive adequate funding from the Stewardship Council to monitor the conservation covenant at the Deer Creek Property in perpetuity.

Donee Selection Process

A. USFS:

At the request of the Stewardship Council Board, Stewardship Council staff performed an evaluation of certain lands previously identified as available for donation focusing on adjacent land ownership. Parcels bounded on two sides or more by an adjacent land owner were identified and then further evaluated against the following set of criteria:

- Confirmation that the adjacent land owner is an eligible donee pursuant to the PG&E Settlement and Stipulation.
- Confirmation that the eligible adjacent land owner is interested in acquiring fee title of the subject parcel.
- A preliminary determination that the transfer of the subject parcel would not result in an expansion of FERC license conditioning authority under the Federal Power Act.

Staff then assessed whether the introduction of a new landowner would potentially complicate future land management, with the potential for little or no assurance of increased preservation or enhancement of the BPVs. Staff also evaluated whether a

donation of such acreage to the adjacent eligible landowner would promote consistent and consolidated land management, as well as achieve more efficient implementation of the land conservation program.

Based on this evaluation and that the Deer Creek Property is completely surrounded by USFS land, on September 16, 2010, following a public comment period, the Stewardship Council Board recommended the USFS for a donation of fee title to the entire Deer Creek Property, totaling approximately 151 acres.

B. SNC:

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

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

5. Analysis of Tax and Other Economic and Physical Impacts

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

Although the matter has not been settled by the CPUC, the Stewardship Council interprets the PG&E Settlement Agreement to include in lieu payments to counties to achieve property tax neutrality as an allowable use of a portion of the \$70 million provided to the Stewardship Council to implement the Land Conservation Commitment. Based on its belief that the Stewardship Council could use a portion of the \$70 million for such purposes, the Stewardship Council Board adopted the property tax neutrality policies and guidelines described below.

The following sections address the Stewardship Council’s plan for achieving tax neutrality for Tehama County, the county in which the Property is located. The transfer of the Deer Creek Property represents the totality of fee title conveyances within Tehama County.

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 4, page 41). 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 which 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 the county, the payment methodology provides that the county will distribute funds related to the special districts as defined in Tax Rate Area upon receipt of the lump-sum payment or the annual installment payment.

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, Tehama 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 the USFS is expected to result in the reduction of approximately \$58 in annual taxes paid to Tehama County (as shown in Table 2 below).

Table 2: Property Tax Detail

| Parcel ID | SBE Map Number | Taxes on Acres Transferred |
|-----------|----------------|----------------------------|
| 716 | 135-52-2-12 | \$58 |

If Tehama County chooses the lump-sum option, the Stewardship Council would make a one-time payment of \$1,450 to the County. Tehama County would, in-turn, be required to distribute the funds to the general fund and applicable special districts consistent with the Tax Rate Area in effect for the parcel.

If Tehama County chooses the annual payment option, the Stewardship Council would deposit \$1,450 with a third party trustee, which would be responsible for making annual payments to Tehama 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 parcel. Tehama County would, in-turn, be required to distribute the funds to the general fund and applicable special districts consistent with the Tax Rate Area in effect for the parcel.

Other Economic and Physical Impacts

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

6. Hazardous Waste Disclosure

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

Lands to be Retained by PG&E

There are no lands within the Deer Creek Property that will be retained by PG&E.

Lands to be Donated by PG&E

The Deer Creek Environmental Site Assessment Report, dated April 29, 2011 found no potential hazardous waste, substance contamination, or other such environmental conditions on the Property.

Environmental Agreement

Pending CPUC approval, PG&E will enter into an Environmental Agreement with the USFS, satisfying the requirements of Section 12(f) of the Stipulation.

7. Consideration of Parcel Split

Appropriate consideration was given to whether any portion of the Deer Creek Property required retention for PG&E's ongoing hydroelectric operations. PG&E determined that no parcel split was required to effectuate the 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)² 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 is developing 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.

² 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 outlines a plan to monitor the economic and physical impacts of disposition and implementation of enhancement measures.

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

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 at that time. The Stewardship Council's close-out report will include, among other things, the following information:

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

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

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

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

10. Implementation Schedule for Transactions and Measures

Schedule for Transaction

- CPUC review and approval (Mid-2014)
- Close of escrow (End of 2014)
- Stewardship Council release of funds to SNC (2014)

Compliance with Local Land Use Planning Requirements

Future management of the Deer Creek Property is anticipated to comply with all applicable County ordinances and/or General Plan policies that would pertain to uses and activities on federal lands.

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 proposed Land Conservation and Conveyance Plan (LCCP) being 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 proposed LCCP being 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.
- 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.

Appendix 1: Summary of Public Outreach

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.

DEER CREEK 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 Deer Creek 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.

No public comments were submitted concerning the Deer Creek Planning Unit during public review of Volumes I and II of the LCP.

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 Deer Creek Planning Unit to a Public Information Meeting that was held in Chico on April 20, 2011. In addition, simultaneous with the release of the proposed subject LCCP for public comment, adjacent landowners located within one mile of the subject parcel 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 Feather River Watershed Area was hosted by the Stewardship Council on April 20, 2011, in Chico, California. The meeting concerned five planning units: Butte Creek, North Fork Feather River, Oroville, and Philbrook Reservoir, and Deer Creek. Attendees at the workshop included a total of 34 individuals representing a wide variety of interests including local, state, federal entities, 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 Deer Creek planning unit.

Appendix 1: Summary of Public Outreach

The purpose of the workshop was to: (1) provide a review and update on the Stewardship Council's Land Conservation Program; and, (2) solicit additional public input on future stewardship of the five planning units. Stations were set up with maps, other pertinent information, and easels with blank paper. There were no comments at the meeting specific to the Deer Creek planning unit. However, several general comments were made concerning the Feather River Watershed Area:

- Respect local land use decisions and general plans/zoning.
- Preserve and enhance public access.
- Address property tax neutrality and other socio-economic factors that may affect public entities.
- All lands should provide public recreation opportunities (hiking, horseback riding, camping, fishing, rafting, and limited OHV use).
- Where feasible, land should be made available for small scale farming and community gardens.
- Limit timber harvesting to preserve biodiversity.
- Restore land to a native state where possible.
- Ensure Native American access.

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, California on September 17, 2009.

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

Appendix 1: Summary of Public Outreach

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.

No public comments were received by staff concerning the recommendations of fee and conservation covenant holder at the Deer Creek planning unit for consideration at the September 16, 2010 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 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. 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 parcel. In addition, a notice is mailed to the board of supervisors of the affected county; each affected city, town, and water supply entity; and each affected tribe and/or co-licensee. After receiving public comment, the Watershed Planning Committee may make revisions to a proposed LCCP prior to forwarding a recommendation to the board.

VII. STEWARDSHIP COUNCIL BOARD OF DIRECTORS MEETINGS

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

WHEN RECORDED MAIL TO:
USDA Forest Service
Regional Land Adjustment Team
3644 Avtech Parkway
Redding, CA 96002
Attn: Kathy Valenzuela

REAL PROPERTY TRANSFER TAX \$ EXEMPT

Declared: Jerry Bird, Forest Supervisor
By and For: Forest Service (USDA)

APN: 053-220-10

GRANT DEED

I. CONVEYANCES

KNOW ALL MEN BY THESE PRESENTS, that, Pacific Gas and Electric Company, a California corporation, hereby grants unto the UNITED STATES OF AMERICA and its assigns, all those certain lots, pieces or parcels of land situate, lying and being in the County of Tehama, State of California, more particularly described as follows:

All that certain parcel of land situate in Section 36, Township 26 North, Range 2 East, Mount Diablo Meridian, as recorded in Liber 88, Page 439 of Deeds of the County of Tehama, State of California, particularly described therein as follows:

The Northwest Quarter of said Section 36.

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

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

ALL SUBJECT TO (a) any applicable lien securing payment of real estate taxes and assessments; (b) all matters that would be disclosed by a physical inspection or survey of the Property or that are actually known to Grantee; (c) all contracts, leases, licenses, covenants, conditions, easements, restrictions, liens, encumbrances and other exceptions

DRAFT FOR DISCUSSION PURPOSES ONLY

Grant Deed
Deer Creek Donation
APN 053-220-10

of record or unrecorded; (d) the terms and conditions of the Conservation Covenant attached hereto as Exhibit **xx**; and (e) the terms and conditions of the Environmental Agreement attached hereto as Exhibit **xx**.

II. MISCELLANEOUS

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

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

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

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

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

Pacific Gas and Electric Company

By _____

Its _____

DRAFT FOR DISCUSSION PURPOSES ONLY

Grant Deed
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APN 053-220-10

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

By _____ Date: _____

Kathleen A. Valenzuela
Lands & Realty Specialist
Regional Land Adjustment Team, North Zone
Forest Service, Pacific Southwest Region

CERTIFICATE OF ACCEPTANCE

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

Authorized Officer _____ Date: _____

Title: Forest Supervisor, Lassen National Forest

DRAFT FOR DISCUSSION PURPOSES ONLY

Grant Deed
Deer Creek Donation
APN 053-220-10

ACKNOWLEDGMENT

State of _____

County of _____

On _____, before me, _____,

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

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

Witness my hand and official seal.

Signature of Notary Public (Notary Seal)

My commission expires: _____

Appendix 3: Conservation Covenant

| | |
|------------------------|--|
| RECORDING REQUESTED BY | |
| WHEN RECORDED MAIL TO | |

CONSERVATION COVENANT

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

RECITALS

A. The United States is the owner of approximately _____ acres of real property located in the County of Tehama (the "County"), State of California, as more particularly described in the attached Exhibit A (the “Property”). The Property is located within the watershed of Deer Creek, a tributary of the Sacramento River.

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

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

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

C. The Settlement Agreement and the Stipulation (collectively, the “Governing Documents”) require PG&E to ensure that approximately 140,000 acres of

Appendix 3: Conservation Covenant

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

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

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

F. The State of California (the “State”) is the owner, in fee simple, of certain lands located within the general vicinity of the Property, all of which will benefit from the conservation of the Property predominantly in its natural, scenic, forested and open-space condition (the “Benefited Properties”). The Benefited Properties are more particularly described in Exhibit B, attached hereto and incorporated herein by this reference.

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

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

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

Appendix 3: Conservation Covenant

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

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

(c) Shall be open to the public for outdoor recreation such as hiking, camping, hunting and fishing, subject to reasonable regulations and state fish and game laws and consistent with the long-term protection of the natural resources on the Property;

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

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

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

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

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

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

2. **Disposal of the Property.** Before relinquishing title to the Property through exchange, sale or other means of disposal, the United States, acting by and through the USFS, will transfer a conservation easement over and upon the Property to,

Appendix 3: Conservation Covenant

as the case may be: (a) the Conservancy, (b) the Conservancy's then-existing lawful successor agency, or (c) such other public agency as may be designated by the Conservancy or its lawful successor agency. The said conservation easement shall assure perpetual protection of the Property equivalent to the protections provided for in this Conservation Covenant. Upon conveyance of the said conservation easement, this Conservation Covenant will be dissolved and have no further force and effect.

3. **Dispute Resolution.** In the event of a disagreement or dispute related to this Covenant, the parties hereto agree first to seek an administrative resolution of the dispute by meeting first with field staff and thereafter elevating the matter for meetings with upper management, prior to resorting to legal action for enforcement of the Covenant. For the USFS, the first meeting will involve USFS Ranger Unit staff, next the matter will be elevated to the appropriate Forest Supervisor and, thereafter, if necessary, to the Regional Forester. For the Conservancy, the first meeting will involve field staff, next the matter will be elevated to the appropriate Program Manager, and thereafter, if necessary, to the Executive Officer. Each party shall bear its own costs for participation in the administrative dispute resolution (ADR) process. Unless the parties agree otherwise, at a minimum the ADR process will consist of the following: The party claiming a breach or failure of the Covenant will give written notice detailing such breach or failure and suggestions for cure of the breach or failure to the other party. The first meeting of the parties to resolve the matter shall occur no later than 30 days after the receipt of the notice, and subsequent meetings elevating the matter within the management hierarchy shall occur as soon as reasonably practicable, but no later than 30 days after the first meeting; provided, however, that if the complaining party believes there is an imminent risk of serious harm to natural resources resulting from the dispute, then it shall so notify the other party and only one meeting involving top level management shall be required before either party may seek enforcement in a court action. If after completion of this administrative process, a dispute remains, then either party may seek relief in a court of competent jurisdiction.

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

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

Appendix 3: Conservation Covenant

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

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

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

United States of America

Sierra Nevada Conservancy

By: _____
Ramiro Villalvazo

By: _____

Its: Director, Public Services
Pacific Southwest Region
USDA, Forest Service

Its: _____

Appendix 3: Conservation Covenant

EXHIBIT "A"
LEGAL DESCRIPTION

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

00DS-LCP-001_R1
SBE 135-52-2-12

LCP # 0716

ALL THAT CERTAIN PARCEL OF LAND SITUATE IN SECTION 36, TOWNSHIP
26 NORTH, RANGE 2 EAST, MOUNT DIABLO BASE AND MERIDIAN, AS
RECORDED IN LIBER 88, PAGE 439 OF DEEDS OF THE COUNTY OF TEHAMA,
STATE OF CALIFORNIA, PARTICULARLY DESCRIBED THEREIN AS
FOLLOWS:

THE NORTHWEST QUARTER OF SAID SECTION 36.
A.P.N. 053-220-10

EXHIBIT “B”

Description of the Benefited Properties

Appendix 3: Conservation Covenant

ACKNOWLEDGMENT

State of _____ }
 County of _____ } SS.

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

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

WITNESS my hand and official seal.

 Signature of Notary Public

(Notary Seal)

My commission expires: _____

Appendix 3: Conservation Covenant

ACKNOWLEDGMENT

State of _____ }
 } SS.
County of _____ }

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

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

WITNESS my hand and official seal.

Signature of Notary Public (Notary Seal)

My commission expires: _____



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.

Feather River Watershed

Deer Creek Planning Unit

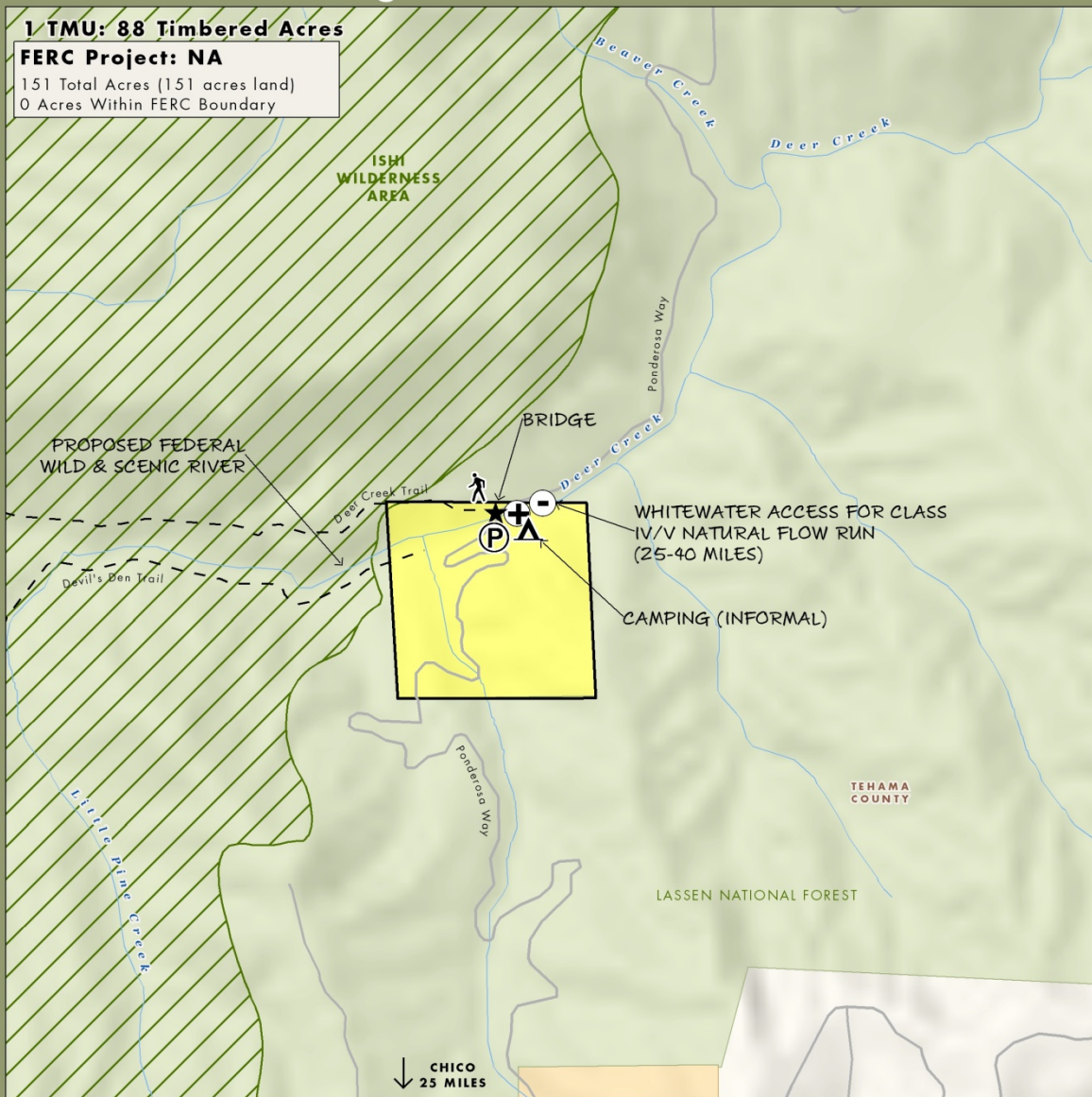


1 TMU: 88 Timbered Acres

FERC Project: NA

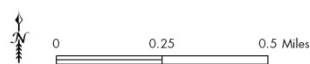
151 Total Acres (151 acres land)

0 Acres Within FERC Boundary



| | | | |
|--|--------------------|--------------------|---------|
| PG&E Lands Preliminarily Designated for Donation | Campground | Trail | BLM |
| Feature of Importance | Trailhead | Trailhead | Private |
| Parking | WW Put-In/Take-Out | WW Put-In/Take-Out | USFS |

Acreeage and location of lands preliminarily designated for retention by PG&E outside the FERC boundary are approximate. FERC boundary is approximate and may change over time.



February 2010
AECOM

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

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.

Attachment B

State Board of Equalization Land Appraisal Record

BRLNP700

State Board of Equalization
Valuation Division - Land Appraisal Record

12/17/13
2:34 PM

Record Type : Active Last Chg by: JY County: TEHAMA

Assessee Name : Pacific Gas & Electric Co.

Asse: 0135 Map Asse: 0135 County: 52 Map No.: 002 Parcel: 12

Non-Fee Status:

Map Index : Type IND No. 001 Sheet 1
Tax Rate Area : 082 - 001 Class Code : 491
Location Code : Imp. Ident. No.:
APN : 0053 - 0220 - 0100 Zoning :
Subject Use : TPZ Subject Topo : und, stp timberland
Neighborhd Use: Rec, Dry Graze Neighborhd Topo: same

Location: Ponderosa Way (at Deer Creek)

Created: 10/14/13 Last Update: 11/01/13 Appraiser: JY Comment Roll Yr: 2014

08/09 KL No compatible use for this parcel. Keep same value.
10/7/13 (JY) - Parcel is a large isolated TPZ parcel with no
compatible use. Since this parcel is classed 491 the TRA needed to
be updated to the proper TRA of 082-001.

Roll Year : 2014 Gross Area: 160.000
Appraiser : TCM Deduct :
Percent Valued : 100.000 % Net Area : 160.000 AC

| ----- Compatible Use Valuation ----- | | | | | ----- Timber Valuation ----- | | | | | |
|--------------------------------------|----|----|-------|------------|------------------------------|----|----|-------|---------|-------|
| TV | MT | ZN | Units | \$/Unit-TV | TT | MT | SC | Units | \$/Unit | |
| 1 | | | | | 1 | PW | NU | 4 | 42.000 | 44.00 |
| 2 | | | | | 2 | PW | NU | 5 | 118.000 | 23.00 |
| 3 | | | | | 3 | | | | | |
| 4 | | | | | 4 | | | | | |
| 5 | | | | | 5 | | | | | |
| 6 | | | | | 6 | | | | | |
| 7 | | | | | 7 | | | | | |
| 8 | | | | | 8 | | | | | |
| 9 | | | | | 9 | | | | | |
| 10 | | | | | 10 | | | | | |
| 11 | | | | | 11 | | | | | |
| 12 | | | | | 12 | | | | | |

Mkt Vals: Right of Way Op Not R/W Non-Unitary Total
4,562 4,562

Attachment C

Environmental Agreement (fee grantee)

ENVIRONMENTAL AGREEMENT

THIS ENVIRONMENTAL AGREEMENT ("Agreement"), dated _____, _____, executed by and between the United States of America ("Grantee") and PACIFIC GAS AND ELECTRIC COMPANY, a California corporation ("Grantor"), is entered into with reference to that certain real property (the "Property") donated by Grantor to Grantee and described as follows:

All that certain parcel of land situate in Section 36, Township 36 North, Range 2 East, Mount Diablo Meridian, as recorded in Liber 88, Page 439 of Deeds of the County of Tehama, State of California, particularly described as follows:

The Northwest Quarter of said Section 36.

A.P.N.: 053-220-10

In consideration of, and as a material inducement to, Grantor's donation and conveyance of the Property to Grantee and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Grantor and Grantee hereby agree as follows:

1. Definitions. The following terms have the meanings ascribed to them below for purposes of this Agreement:

1.1. "Closing Date" means _____, 201_.

1.2. "Applicable Law" means all present and future laws, statutes, regulations, rules, ordinances, codes, licenses, permits, orders, approvals, plans, authorizations, judicial, administrative and regulatory decrees, directives and judgments of all governmental agencies, departments, commissions and boards that regulate the conduct of either Grantor or Grantee in the management of their respective real property or hazardous substances. Provided, however, that nothing in this agreement is intended to express or imply consent of the United States to the regulation of its conduct under any law, regulation, order, policy or other provision of any unit of State or local government to the application of which Congress has not previously expressly waived the sovereign immunity of the United States.

1.3. "Environmental Requirements" means Applicable Laws regulating the actions Grantor or Grantee relating to the protection of human health or safety, or regulating or relating to industrial hygiene or environmental conditions, or the protection of the environment, or pollution or contamination of the air, soil, surface water or groundwater, including, without limitation, all requirements and regulations pertaining to reporting, licensing, permitting, investigating and remediating emissions, discharges, releases or threatened releases of Hazardous Substances, whether solid, liquid or gaseous in nature, into the air, surface water, or land, or relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport

or handling of Hazardous Substances, whether solid, liquid or gaseous in nature. The Environmental Requirements applicable to each of the parties may differ based on the laws, regulations and policies regulating the actions of each party.

1.4. “Hazardous Substances” means any hazardous or toxic material or waste that is or becomes regulated by the laws of any local governmental authority, the State of California or the United States Government under any Environmental Requirements applicable to either Grantor or Grantee in the management of property owned by either. Hazardous Substances may be defined differently based on the laws, regulations and policies applicable to each party to this agreement. For purposes of this Agreement, Hazardous Substances may include, without limitation, any material or substance:

(a) now or hereafter defined as a "hazardous substance," "hazardous waste," "hazardous material," "extremely hazardous waste," "restricted hazardous waste" or "toxic substance" or words of similar import under any applicable local, state or federal law or under the regulations adopted or promulgated pursuant thereto, including, without limitation, the Comprehensive Environmental Response, Compensation, and Liability Act (42 U.S.C. § 9601 et seq.) ("CERCLA"); the Hazardous Materials Transportation Act (49 U.S.C. § 1801 et seq.); the Resource Conservation and Recovery Act (42 U.S.C. § 6901 et seq.); the Federal Water Pollution Control Act (33 U.S.C. § 1251 et seq.); the Clean Air Act (42 U.S.C. § 7401 et seq.); the Clean Water Act (33 U.S.C. §§1251 et seq.); the Safe Drinking Water Act (33 U.S.C. § 300f et seq.); the River and Harbors Act of 1899 (33 U.S.C. §§ 401 et seq.); the National Emission Standard for Hazardous Air Pollutants for Asbestos (40 C.F.R. §§ 61.140 et seq.), the OSHA Construction Standard (29 C.F.R. §§ 1926.1001 et seq.); the Toxic Substances Control Act (15 U.S.C. § 2601 et seq.); the Oil Pollution Act (33 U.S.C. § 300f et seq.); the Federal Insecticide, Fungicide, and Rodenticide Act (7 U.S.C. §§136 et seq.); the Emergency Planning and Community Right-to-Know Act (42 U.S.C. § 11001 et seq.); the Atomic Energy Act of 1954, (42 U.S.C. §§2014 et seq.); the Nuclear Waste Policy Act of 1982 (42 U.S.C. §§10101 et seq.); the Medical Waste Management Act (Cal. Health and Safety Code §§25015 et seq.); the Porter-Cologne Water Quality Control Act (Cal. Water Code § 13020 et seq.); the Safe Drinking Water and Toxic Enforcement Act of 1986 (Cal. Health & Safety Code § 25249.5 et seq.); the Carpenter-Presley-Tanner Hazardous Substance Account Act (Cal. Health and Safety Code §§25300 et seq.); the Hazardous Waste Control Act (Cal. Health & Safety Code § 25100 et seq.); and all rules and regulations of the United States or California Environmental Protection Agency or any successor agency, or any other state or federal department, board or agency, or any other agency or governmental board or entity having jurisdiction, as any of the foregoing have been, or are hereafter amended from time to time; or

(b) that is toxic, explosive, corrosive, flammable, infectious, radioactive, carcinogenic, mutagenic or otherwise hazardous, and is now or hereafter regulated as a Hazardous Substance by any governmental authority, agency, department, commission, board, agency or instrumentality of the United States, any State of the United States or any political subdivision thereof having jurisdiction over either party to this agreement; or, as applicable to Grantor, which cause, or are listed by the State of California as being known to the State of California to cause, cancer or reproductive toxicity; or

(c) the presence of which on the Property poses or threatens to pose a hazard to the health or safety of persons or to the environment; or

(d) that contains gasoline, diesel fuel or other petroleum hydrocarbons;
or

(e) that contains lead-based paint or other lead contamination, polychlorinated biphenyls ("PCBs") or asbestos or asbestos-containing materials or urea formaldehyde foam insulation; or

(f) that contains radon gas.

1.5. "Remediation" refers to the process of, and all work and planning performed in connection with, the investigation, testing for, monitoring, remediation, containment, transportation, removal and disposal or recycling of Hazardous Substances from the Property and any other property to which Hazardous Substances originating on the Property have migrated or may migrate in the future, and the repair and restoration of the Property, and restoration and mitigation of affected natural resources, regardless of whether such actions are required by applicable Environmental Requirements.

1.6. "Necessary Remediation" means Remediation required by any governmental agency having jurisdiction over the Remediation and the parties responsible for implementation of the Remediation pursuant to applicable Environmental Requirements to address a Hazardous Substances release or disposal, or to enable the current use of the Property as of the Closing Date.

2. History of use and current uses of the property.

2.1. An Environmental Site Assessment performed for Grantor by AMEC Geomatrix, Inc., dated April 29, 2011.

2.2. An Environmental Site Assessment performed by the Grantee, dated .

3. Environmental Agreement. Grantor and Grantee agree that each will comply with Applicable Law regulating the conduct of each with respect to any storage, disposal or release of a Hazardous Substance in, on or to the Property based on Environmental Requirements applicable to each party.

3.1. Grantor's obligations under this paragraph are supplemented by the "Stipulation Resolving Issues Regarding Land Conservation Commitment dated April 22, 2002, and filed with the Public Utilities Commission of the State of California" filed in the Commission's Investigation I02-04-026 under the Commission's "Order Instituting Investigation into the Ratemaking Implications for Pacific Gas and Electric Company (PG&E) Pursuant to the Commission's Alternative Plan of Reorganization Under Chapter 11 of the Bankruptcy Code for PG&E in the United States Bankruptcy Court, Northern District of California, San Francisco Division, In re Pacific Gas and Electric Company, Case No. 01-30923DM (U 39M)" (hereafter

“Stipulation”). In the Stipulation, Grantor agreed, among other provisions, to donate some of the lands it owns under the terms in the Stipulation to suitable donees, and further agreed as follows:

“In disposition of fee title, PG&E will hold the donee harmless for hazardous waste or substance liability, provided that PG&E may decline to agree to such disposition unless the Commission first authorizes PG&E to recover the costs of such liability and any associated mitigation or remediation in rates. In the absence of such authorization related to fee title, PG&E will convey a conservation easement that holds the donee harmless for such liability; provided that no such easement will permit any use that increases human exposure to hazardous waste or substance, unless the Commission first authorizes PG&E to recover the costs of any necessary mitigation or remediation in rates.”

The terms of the Stipulation were formally adopted and approved by the California Public Utilities Commission by Decision 03-12-035, issued December 18, 2003, in Investigation I.02-04-026 and apply to this donation.

3.2. Grantee warrants that it has no actual knowledge of any release or threatened release of Hazardous Materials in, on, to, beneath or from the Property except as disclosed in Paragraph 2, above.

3.3. Grantor’s obligation under this Agreement with regard to Hazardous Substances is limited to the Necessary Remediation of Hazardous Substances which were released onto the Property prior to the Closing Date. None of the forgoing limits Grantor’s obligations under any applicable Federal, State, or local law, regulation, or order, now or in the future.

3.4. Grantor’s retention of responsibility in this Paragraph 3 shall exclude:

- (a) Remediation of naturally-occurring Hazardous Substances;
- (b) Remediation of Hazardous Substances present at background or ambient concentrations;
- (c) Remediation of contamination to the extent caused by Grantee or as a result of Grantee’s negligence, including remediation necessitated by Grantee’s exacerbation of a Hazardous Substance release present as of the Closing Date; and
- (d) Liability to parties other than Grantee (i.e. successors and assigns of Grantee).

None of the forgoing limits Grantor’s obligations under any applicable Federal, State, or local law, regulation, or order, now or in the future.

4. Performance and Completion of Necessary Remediation. Any Necessary Remediation performed hereunder shall be conducted in a manner consistent with applicable Environmental Requirements and shall be considered complete when the party conducting the Necessary

Remediation obtains a “No Further Remedial Action Required Letter,” “Certificate of Completion,” or similar governmental certification indicating that additional Remediation is not required for the current land use from the governmental agency with jurisdiction over the performance of the Necessary Remediation. Grantee shall allow Grantor necessary and reasonable access to the property to perform any Necessary Remediation that Grantor is required to perform under the terms of this agreement on such terms and conditions as are mutually agreed by the parties.

5. Dispute Resolution. In the event of a disagreement or dispute related to this Agreement, the parties hereto agree first to seek an administrative resolution of the dispute by meeting prior to resorting to legal action for enforcement of this Agreement. The meeting will involve representatives for each of the parties with an appropriate level of authority to consider and attempt to resolve the disputed matter. Each party shall bear its own costs for participation in the administrative dispute resolution (“ADR”) process and shall be entitled to be accompanied by in-house or outside counsel. Either party may give the other party written notice of any disagreement or dispute and its election to initiate the ADR process. Within thirty (30) days after delivery of said notice, the representatives will meet at a mutually acceptable time and place, and thereafter as often as they reasonably deem necessary to exchange information and to attempt to resolve the disagreement or dispute. If the matter has not been resolved within sixty (60) days of the first meeting, then either party may seek relief in a court of competent jurisdiction. Notwithstanding the foregoing, either party may seek equitable relief to preserve the status quo prior to participating in the ADR process or at any time during the ADR process.

6. Other Provisions.

6.1. This Agreement shall be binding upon and inure to the benefit of the heirs, assignees and other successors in interest of Grantee and Grantor. No transfer of an interest in the Property or this Agreement by Grantee or its assignees shall operate to relieve Grantor or Grantee of their obligations hereunder. This Agreement shall not create or bestow any right in any third party. Grantee and Grantor agree that no third party beneficiary to this Agreement exists and that nothing contained herein shall be construed as giving any other person or entity third party beneficiary status.

6.2. The failure of Grantor or Grantee to insist upon strict compliance with any of the terms hereof shall not be considered to be a waiver of any of the other terms of this Agreement, nor shall it militate against the right of Grantor or Grantee to insist upon strict compliance with any term of this Agreement at any later time.

6.3. This Agreement shall not constitute or be construed as an admission of liability or fact by Grantor or Grantee for any purpose whatsoever.

6.4. Grantee and Grantor shall execute, acknowledge and deliver to each other all documents, and shall take all actions reasonably required by each of them from time to time to confirm or effect the matters set forth herein, or otherwise to carry out the purposes of this Agreement.

6.5. The representations, warranties, covenants, and agreements of Grantor and Grantee contained in this Agreement shall be recorded in the Official Records of Tehama County and shall survive the recordation of the Grant Deed conveying title to the Property from Grantor to Grantee.

6.6. Time is of the essence of this Agreement.

6.7. If any portion, word, clause, phrase, sentence or paragraph of this Agreement is declared void or unenforceable, such portion shall be considered independent and severable from the remainder, and the validity of the remainder of the terms of this Agreement shall remain unaffected.

6.8. This Agreement sets forth the entire understanding of Grantee and Grantor in connection with the subject matter hereof, and each acknowledges that the other has made no statement, representation or warranty relating to the Property upon which either has relied or that acted as an inducement for either to enter into this Agreement. Grantor's and Grantee's obligations under this Agreement may not be altered or amended in any respect except by a writing executed by both Grantee and Grantor and recorded in the same Official Records where this Agreement is recorded.

6.9. The covenants contained in this Agreement shall survive the conveyance of title to the Property from Grantor to the Grantee, shall be construed as running with the title to the Property conveyed by Grantor to Grantee, and may be enforced by either party, subject to the Dispute Resolution provisions in Paragraph 6, above.

6.10. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

[Signature pages follow]

IN WITNESS WHEREOF, Grantor and Grantee have executed this Agreement on the date first written above.

GRANTOR:

PACIFIC GAS AND ELECTRIC COMPANY,
a California corporation

By: _____
Janet C. Loduca
Vice President, Environmental

GRANTEE:

THE UNITED STATES OF AMERICA

By: _____
Name: Ramiro Villalvazo
Director, Public Services
Pacific Southwest Region
United States Department of Agriculture, Forest Service

[Administrative Block for PG&E Reference]

PG&E Administrative Info

Area 6

Sacramento Hydro Support Office

Operating Department: Hydro

T. 26, N., R. 2, E, MDB&M

Sec. 36, NW. 1/4

FERC License Number: N/A

PG&E Drawing Number: N/A

LD of any affected documents: N/A

LD of any Cross-referenced documents: 2126-02-0009, 0011

Type of Interest: 1, 11f, 24

SBE Parcel Number: 135-52-2-12

LCPID: Deer Creek Planning Unit 716

(For Quitclaims, % being quitclaimed): N/A

Order#2025565

County: Tehama

851 Approval Application No. -E-A Decision

Prepared By:

Checked By: AECL

STATE OF CALIFORNIA)
)
COUNTY OF SAN FRANCISCO)

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

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

WITNESS my hand and official seal.

Notary Public

(Seal)

STATE OF CALIFORNIA)
)
COUNTY OF _____)

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

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WITNESS my hand and official seal.

Notary Public

(Seal)

**PG&E Gas and Electric
Advice Filing List
General Order 96-B, Section IV**

| | | |
|---|---|--|
| 1st Light Energy | Douglass & Liddell | OnGrid Solar |
| AT&T | Downey & Brand | Pacific Gas and Electric Company |
| Alcantar & Kahl LLP | Ellison Schneider & Harris LLP | Praxair |
| Anderson & Poole | G. A. Krause & Assoc. | Regulatory & Cogeneration Service, Inc. |
| BART | GenOn Energy Inc. | SCD Energy Solutions |
| Barkovich & Yap, Inc. | GenOn Energy, Inc. | SCE |
| Bartle Wells Associates | Goodin, MacBride, Squeri, Schlotz & Ritchie | SDG&E and SoCalGas |
| Braun Blasing McLaughlin, P.C. | Green Power Institute | SPURR |
| CENERGY POWER | Hanna & Morton | San Francisco Public Utilities Commission |
| California Cotton Ginners & Growers Assn | In House Energy | Seattle City Light |
| California Energy Commission | International Power Technology | Sempra Utilities |
| California Public Utilities Commission | Intestate Gas Services, Inc. | SoCalGas |
| California State Association of Counties | K&L Gates LLP | Southern California Edison Company |
| Calpine | Kelly Group | Spark Energy |
| Casner, Steve | Linde | Sun Light & Power |
| Center for Biological Diversity | Los Angeles Dept of Water & Power | Sunshine Design |
| City of Palo Alto | MRW & Associates | Tecogen, Inc. |
| City of San Jose | Manatt Phelps Phillips | Tiger Natural Gas, Inc. |
| Clean Power | Marin Energy Authority | TransCanada |
| Coast Economic Consulting | McKenna Long & Aldridge LLP | Utility Cost Management |
| Commercial Energy | McKenzie & Associates | Utility Power Solutions |
| County of Tehama - Department of Public Works | Modesto Irrigation District | Utility Specialists |
| Crossborder Energy | Morgan Stanley | Verizon |
| Davis Wright Tremaine LLP | NLine Energy, Inc. | Water and Energy Consulting |
| Day Carter Murphy | NRG Solar | Wellhead Electric Company |
| Defense Energy Support Center | Nexant, Inc. | Western Manufactured Housing Communities Association (WMA) |
| Dept of General Services | North America Power Partners | |
| Division of Ratepayer Advocates | Occidental Energy Marketing, Inc. | |