Decision 16-10-026 October 27, 2016

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company (U39E) for Commission Approval Under Public Utilities Code Section 851 to Sell the Merced Falls Hydroelectric Project to Merced Irrigation District.	Application 15-04-003 (Filed April 1, 2015)

DECISION APPROVING SETTLEMENT AND AUTHORIZING SALE OF UTILITY PROPERTY

Summary

We approve the joint motion of Pacific Gas and Electric Company and the Office of Ratepayer Advocates for approval of a proposed settlement. We authorize the sale of the Merced Falls Hydroelectric Project to the Merced Irrigation District pursuant to the terms of the Settlement and the related ratemaking treatment of the proceeds of the sale. This proceeding is closed.

Background

On April 1, 2015, Pacific Gas and Electric Company (PG&E) filed an application under Public Utilities Code Section 851, and Articles 2, 3, and 7 of the Commission's Rules of Practice and Procedure, to Sell the Merced Falls Hydroelectric Project to Merced Irrigation District. PG&E also requests approval of a ratemaking treatment and Conservation Easement conveying a permanent conservation easement to the Sierra Foothill Conservancy in accordance with terms and conditions specified in PG&E's bankruptcy Settlement Agreement and

related Stipulation Resolving Issues Regarding the Land Conservation Commitment approved by the Commission in Decision (D.) 03-12-035.

The Commission's Office of Ratepayer Advocates (ORA) filed a protest on May 4, 2015. ORA protests PG&E's requests to burden ratepayers with the entire $5.54 million loss-on-sale as unreasonable, inconsistent with the law, and against the public interest.

On May 14, 2015 PG&E filed a Reply to the Office of Ratepayer Advocates Protest to its Application.

By Ruling dated August 3, 2015, a prehearing conference (PHC) was set for August 18, 2015.

On August 18, 2015, a PHC was held to determine the parties, positions of the parties, issues, and other procedural matters.

On December 22, 2015 the assigned Commissioner issued a Scoping Ruling.

On March 29, 2016 the parties held a settlement conference.

On April 12, 2016 the parties filed a joint motion for approval of a settlement agreement together with a copy of the proposed settlement agreement.

On July 5, 2016 PG&E filed a supplement to the Application. In this supplement, PG&E provides for approval of the final form of a Conservation Easement (CE) by and between Merced Irrigation District (MeID) and the Sierra Foothill Conservancy (SFC), in accordance with the terms and conditions of (1) PG&E's bankruptcy Settlement Agreement and related Stipulation Resolving Issues Regarding the Land Conservation Commitment approved in Decision 03-12-035, and (2) PG&E-MeID's Purchase and Sale Agreement.

This request to convey a CE is the last condition in the proposed Settlement of this application between PG&E and ORA.

Terms of the Proposed Settlement

The Settlement, a copy of which is attached to this decision, revises two key requests in PG&E's Application. These revisions result in a $1 million benefit to customers, in addition to the benefits already identified in the Application. First, the Application requested that the entire loss of sale be allocated to customers, as an exception to the Gain (Loss) on Sale rules. However, the Settlement applies the Gain (Loss) on Sale rules to the sale, but then allocates an additional $250,000 of the loss to shareholders. Second, instead of amortizing the loss of sale over a five-year period as requested in the Application, PG&E will record the entire loss in the 2016 calendar year. This ratemaking change provides an additional $750,000 in customer savings. These provisions, plus the grant of the conservation easement described above, constitute the major provisions of the Settlement Agreement.

In Article 3.3 of the Settlement Agreement, the Settling Parties agreed that sale of Merced Falls is in the best interest of customers as it represents the lowest cost path forward for the Project, meaning that the sale of the Project provides the most financial savings to customers when compared to PG&E retaining ownership of or decommissioning the Project. To address the sole issue defined in the Scoping Memo – "How to allocate the loss that is going to be incurred upon the sale of this facility" — the settling parties agreed to allocate the loss according to the following table:

Table 1
Merced Falls 851 Proceeding
Allocation of Gain/Loss On Sale
Costs Updated Through December 31, 2015

Net Book Value as of 3/15:		**Gain(Loss) on Sale**
Net Plant-Land	13,077	
Net Plant-Non-Land	3,394,248	
Net Plant	3,407,326	
CWIP (Inc. Relicensing)	3,189,090	
Net Book Value	6,596,416	
Sales Proceeds	850,000	
Total Pre-tax Gain (Loss):	**(5,746,416)**	
Allocation of Loss Per Gain/Loss on Sale Decision:		
Depreciable Assets (Net Plant Non-Land and Construction Work in Progress ("CWIP")):	100% to Ratepayers	(5,735,023)
Non-Depreciable Assets (Land):	67% to Ratepayers	(7,633)
33% to Shareholders	(3,759)	
Allocation of Loss per Settlement Agreement:		
Shareholder Contribution per Gain/Loss-on-Sale Rules	(3,759)	
Additional Shareholder Contribution per Settlement	(250,000)	
Total Shareholder Loss	**(253,759)**	
Ratepayer Contribution per Gain/Loss-on-Sale Rules		(5,742,656)
Reduction in Contribution per Settlement		250,000
Total Ratepayer Loss		**(5,492,656)**

The Settling Parties applied the Gain (Loss) on Sales rules to allocate the loss from the Project's sale, with Depreciable Assets (in this case, Net Plant Non-Land and CWIP) allocated 100 percent to ratepayers, and Non-Depreciable Assets (Land) allocated among ratepayers and shareholders, 67 percent and 33 percent, respectively. As Table 1 also reflects, the Settling Parties agreed PG&E will forego $1 million in ratepayer recovery, achieved through two regulatory revisions to PG&E's request:

1. PG&E agreed it will not recover $250,000 of the loss on the sale from customers. The Settling Parties agree that this $250,000 is

not attributed to any specific cost, liability, allegation, or action (Article 3.5).

2. PG&E will record the total loss on the sale of Merced Falls to the Utility Generation Balancing Account upon close of the sale, and PG&E will not establish a regulatory asset to amortize the loss on sale over a five-year period. Proceeding in this manner saves customers approximately $750,000 in return on the regulatory asset (Article 3.4).

In addition, the Settling Parties agreed to four additional regulatory procedures, each of which PG&E will implement after the date of closing the Purchase and Sale Agreement. First, Article 3.6 states that PG&E's revenue requirement associated with the Project's retired rate base and associated estimated Operations and Maintenance costs included as part of the 2014 general rate case (GRC) will be reduced from the base revenues recovered in customer rates.

Second, Article 3.7 states that PG&E's rate base and CWIP will be reduced by the amount of the historical cost less depreciated value at the time of the sale, less the sale proceeds. Third, Article 3.8 states that PG&E will modify its 2017 GRC request to remove the Merced Falls Project from its generation revenue requirement request. Finally, Article 3.9 states that PG&E will true-up the final financial information as of the closing of the sale and will provide it to the Commission in a compliance advice letter filing submitted within 45 days following closing. The financial information will consist of the final calculation of the loss-on-sale and tax information related to the transaction. This process is consistent with Decision 02-12-020 in which the Commission approved of the allocation of gain as proposed in the application, but deferred the determination of the actual gain allocation to a later compliance advice letter procedure.

Applicable Rules and Required Findings

Rule 12(d) of the Commission's Rules of Practice and Procedure (Rules) requires that any settlement be "reasonable in light of the whole record, consistent with law, and in the public interest." As discussed below, we find that the settlement meets these requirements.

Moreover, as the United States Court of Appeals for the Ninth Circuit has observed, in evaluating a settlement, that the agreement must stand or fall on its own terms, not compared to some hypothetical result that the negotiators might have achieved, or that some believe should have been achieved:

> Settlement is the offspring of compromise; the question we address is not whether the final product could be prettier, smarter or snazzier, but whether it is fair, adequate and free from collusion. (Hanlon v. Chrysler Corp., 150 F.3d 1011, 1027 (9th Cir. 1998)).

Based upon our review of the record, we find that the parties to the Settlement Agreement had a sound and thorough understanding of the issues and all of the underlying assumptions and data included in the record. Thus, we can consider the Settlement Agreement as the outcome of negotiations between competent and well-prepared parties able to make informed choices in the settlement process.

Rule 12.1 specifically addresses the requirements for adoption of proposed settlements, subject to certain limitations in Rule 12.5. Specifically, Rule 12.1(a) states:

> Parties may, by written motion any time after the first prehearing conference and within 30 days after the last day of hearing, propose settlements on the resolution of any material issue of law or fact or on a mutually agreeable outcome to the proceeding. Settlements need not be joined by all parties; however, settlements in applications must be signed by the applicant and, in complaints, by the complainant and defendant.

> The motion shall contain a statement of the factual and legal considerations adequate to advise the Commission of the scope of the settlement and of the grounds on which adoption is urged. Resolution shall be limited to the issues in that proceeding and shall not extend to substantive issues which may come before the Commission in other or future proceedings.
>
> When a settlement pertains to a proceeding under a Rate Case Plan or other proceeding in which a comparison exhibit would ordinarily be filed, the motion must be supported by a comparison exhibit indicating the impact of the settlement in relation to the utility's application and, if the participating staff supports the settlement, in relation to the issues staff contested, or would have contested, in a hearing.

Rule 12.1(d) provides that:

> The Commission will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with law, and in the public interest.

Rule 12.5 limits the future applicability of a settlement:

> Commission adoption of a settlement is binding on all parties to the proceeding in which the settlement is proposed. Unless the Commission expressly provides otherwise, such adoption does not constitute approval of, or precedent regarding, any principle or issue in the proceeding or in any future proceeding.

Based upon our review of the Settlement Agreement we find that it contains statements of the factual and legal considerations adequate to advise the Commission of the scope of the Settlement Agreement and of the grounds for its adoption; that the Settlement Agreement is limited to the issues in this proceeding; that the Settlement Agreement includes a comparison indicating the impact of the settlement in relation to contested issues raised by the interested parties in prepared testimony, or which they would have contested in a hearing; and that pursuant to Rule 12.5, that the Settlement Agreement would not bind or otherwise impose a precedent in this or any future proceeding.

Accordingly, we conclude, pursuant to Rule 12.1(d), that the Settlement Agreement is reasonable in light of the whole record, consistent with law, and in the public interest and should be approved.

Categorization and Need for Hearing

In Resolution ALJ 176-3355, issued on April 9, 2015, the Commission preliminarily categorized this application as ratesetting, and preliminarily determined that hearings would be necessary. Parties agreed that the proposed settlement adequately presented their positions and resolved all disputed issues, rending hearings unnecessary.

Waiver of Comment Period

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Section 311(g)(2) of the Public Utilities Code and Rule 14.6(c)(2) of the Commission's Rules of Practice and Procedure, the otherwise applicable 30-day period for public review and comment is waived.

Assignment of Proceeding

Liane M. Randolph is the assigned Commissioner and Karl J. Bemesderfer is the assigned ALJ in this proceeding.

Findings of Fact

1. Sale of the Merced Falls Hydroelectric Project to the Merced Irrigation District as contemplated in the Application, is the least costly to ratepayers disposition of the Project.
2. The Settlement Agreement provides additional benefits to ratepayers beyond those contemplated in the Application.

Conclusions of Law

1. The Settlement Agreement is reasonable in light of the whole record, consistent with law, and in the public interest and should be approved.

2. Evidentiary hearings were not necessary.
3. Application 15-04-003 should be closed.

O R D E R

1. The Settlement Agreement between Pacific Gas and Electric Company and the Office of Ratepayer Advocates attached hereto as Attachment A is approved.
2. Sale of the Merced Hydroelectric Project to Merced Irrigation District pursuant to the terms of the Settlement Agreement is approved.
3. The Gain (Loss) on Sale Rules shall apply to the Sale except that an additional $250,000 in Loss shall be allocated to shareholders.
4. Pursuant to Decision 03-12-035, disposition of the watershed lands is subject to the recommendations of the Pacific Forest Watershed Stewardship Council.
5. Evidentiary hearings are not necessary.
6. Application 15-04-003 is closed.

Dated October 27, 2016, in San Francisco, California.

MICHAEL PICKER
President
MICHEL PETER FLORIO
CATHERINE J.K. SANDOVAL
LIANE M. RANDOLPH
Commissioners

Carla J. Peterman, being necessarily absent, did not participate.

ATTACHMENT A

SETTLEMENT AGREEMENT

FILED
4-12-16
04:59 PM

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company (U 39 E) for Commission Approval Under Public Utilities Code Section 851 to Sell the Merced Falls Hydroelectric Project to Merced Irrigation District (U 39 E)	Application No. 15-04-003 (Filed April 1, 2015)

SETTLEMENT AGREEMENT BETWEEN PACIFIC GAS AND ELECTRIC COMPANY (U39E) AND OFFICE OF RATEPAYER ADVOCATES

NICHOLAS SHER

OFFICE OF RATEPAYER ADVOCATES
California Public Utilities Commission
505 Van Ness Avenue, 5th Floor
San Francisco, CA 94102
Telephone: (415) 703-4232
Facsimile: (415) 703-2200
E-mail: Nicholas.Sher@cpuc.ca.gov

Attorney for
OFFICE OF RATEPAYER ADVOCATES

WILLIAM V. MANHEIM
CHONDA J. NWAMU
DARREN P. ROACH

Pacific Gas And Electric Company
77 Beale Street, B30a
San Francisco, CA 94105
Telephone: (415) 973-6345
Facsimile: (415) 973-5520
E-Mail: Darren.Roach@pge.com

Attorneys for
PACIFIC GAS AND ELECTRIC COMPANY

Dated: April 12, 2016

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company (U 39 E) for Commission Approval Under Public Utilities Code Section 851 to Sell the Merced Falls Hydroelectric Project to Merced Irrigation District (U 39 E)	Application No. 15-04-003 (Filed April 1, 2015)

SETTLEMENT AGREEMENT BETWEEN PACIFIC GAS AND ELECTRIC COMPANY (U39E) AND OFFICE OF RATEPAYER ADVOCATES

I. INTRODUCTION

In accordance with Rule 12 of the California Public Utilities Commission's ("CPUC" or "Commission") Rules of Practice and Procedure, Pacific Gas and Electric Company ("PG&E") and the Office of Ratepayer Advocates ("ORA") (hereinafter collectively referred to as the "Settling Parties" or "Settling Party") enter into this Settlement Agreement ("Settlement") as a compromise of their respective litigation positions to resolve all disputed issues raised in the above-captioned proceeding.

Although the Settling Parties held differing views on aspects of this proceeding, they bargained earnestly and in good faith to seek a compromise and to develop this Settlement, which is the product of arms-length negotiations. Unless specifically addressed herein, any undisputed PG&E proposals addressed in its Application shall be deemed to have been supported by the Settling Parties. Any material change to this Settlement shall render it null and void, unless all of the Settling Parties agree in writing to such changes.

To avoid the risks and costs of litigation, the Settling Parties agree to the following terms and conditions as a complete and final resolution of the issues between the parties in this proceeding:

II. BACKGROUND AND PROCEDURAL HISTORY

2.1. On April 1, 2015, PG&E filed Application 15-04-003 ("A.15-04-003" or "Application") for Commission approval under Public Utilities Code Section 851 ("Section 851") to sell the Merced Falls Hydroelectric Project ("Merced Falls" or "Project") to the Merced Irrigation District ("MeID"). PG&E's Application also requests approval to convey a Conservation Easement to the Sierra Foothill Conservancy to restrict future use of land that encompasses the Project.

2.2. On April 1, 2015, concurrent with the filing of the Application, PG&E filed a motion for leave to file confidential procurement and market sensitive information pursuant to Public Utilities Code sections 454.5(g) and 583, General Order 66-C, and Decision 06-06-666. The motion sought to protect Attachment C to the Application, entitled, "Merced Falls Powerhouse Net Present Value Analysis of Continued Project Operations."

2.3. On May 4, 2015, ORA filed a Protest to PG&E's Application. ORA was the only entity to lodge a protest.

2.4. On May 14, 2015, PG&E filed a Reply to the Protest.

2.5. On June 4, June10, June 25, July 7, and July 31, 2015, PG&E provided information to ORA in response to discovery data requests. Further, PG&E and ORA participated in an in-person information conference on June 11, 2015.

2.6. On August 18, 2015, the Settling Parties participated in a pre-hearing conference with assigned Administrative Law Judge ("ALJ") Karl Bemesderfer.

2.7. On October 16 and October 28, 2015, PG&E and ORA participated in in-person settlement conferences, and exchanged communications in this time period in pursuit of a compromise.

2.8. On December 4, 2015, PG&E served its initial Testimony and Exhibits.

2.9. On December 22, 2015, Commissioner Liane M. Randolph issued the "Assigned Commissioner's Ruling and Scoping Memo" ("Scoping Memo"). The Scoping Memo stated the

issue within the scope of the proceeding was, "How to allocate the loss that is going to be incurred upon the sale of this facility [Project]."

2.10. On January 22, 2016, ORA served its Testimony and Exhibits.

2.11. On February 9, 2016, ORA served responses to PG&E's first set of data requests.

2.12. On February 12, 2016, PG&E served its Rebuttal Testimony.

2.13. From February 17, 2016 through March 8, 2016, the Settling Parties exchanged information and communications in pursuit of a negotiated compromise of pending issues. These communications included an in-person settlement conference on February 25, 2016.

2.14. On March 8, 2016, the Settling Parties achieved settlement in principle. The Settling Parties informed the ALJ, who canceled hearings scheduled for March 9-10, 2016.

2.15. ORA has reviewed PG&E's Application, testimony and attached exhibits, workpapers, and responses to ORA's discovery, and information provided during and after settlement conferences in October 2015 and February 2016; and ORA has concluded that the Commission's final decision should approve all of the relief requested in PG&E's Application, except as expressly modified by the following provisions of this Settlement.

III. SETTLEMENT TERMS, CONDITIONS, AND ACTION PLAN

3.1. This Settlement revises the Application in two significant respects. First, while the Application requested that the entire loss of sale be allocated to customers pursuant to the Gain (Loss) on Sale rules,[1/] the Settlement applies the Gain (Loss) on Sale rules to the sale, but then allocates $250,000 of the loss to shareholders. Second, instead of amortizing the loss of sale over a five-year period as requested in the Application, PG&E will record the entire loss in the 2016 calendar year. This ratemaking change provides an additional $750,000 in customer savings.

1/ *See, "Opinion Regarding Allocation of Gains on Sale of Utility Assets,"* R.04-09-003, D.06-05-041 (May 25, 2006), *as modified by, "Order Modifying Decision (D.) 06-05-041 and Denying Rehearing of Decision, as Modified,"* R.04-09-003, D. 06-12-043 (December 14, 2006).

A. Ratemaking Treatment For Allocation of Loss on Sale Of Merced Falls – Table

3.2. An issue in this proceeding is the application of the Commission's Gain (Loss) on Sale rules to the proposed disposition of Project-related assets. The Settling Parties agree to apply the Gain (Loss) on Sale Decisions to allocate the loss from the sale of the Project and ratemaking treatment as demonstrated in the following Table 1:

Table 1
Merced Falls 851 Proceeding
Allocation of Gain/Loss On Sale
Costs Updated Through December 31, 2015

Net Book Value:

Net Book Value as of 12/31/15	Net Plant - Non-Land	3,394,248
	Net Plant - Land	13,077
	Net Plant	3,407,326
	CWIP (Inc. Relicensing)	3,189,090
	Net Book Value	6,596,416
Sales Proceeds		850,000
Total Pre-tax Gain (Loss):		**(5,746,416)**

Allocation of Loss Per Gain/Loss on Sale Decision:

Depreciable Assets (Net Plant Non-Land and Construction Work in Progress ("CWIP")):	100% to Ratepayers	(5,735,023)
Non-Depreciable Assets (Land):	67% to Ratepayers	(7,633)
	33% to Shareholders	(3,759)

Allocation of Loss per Settlement Agreement:

Shareholder Contribution per Gain/Loss-on-Sale Rules	(3,759)
Additional Shareholder Contribution per Settlement	(250,000)
Total Shareholder Loss	**(253,759)**
Ratepayer Contribution per Gain/Loss-on-Sale Rules	(5,742,656)
Reduction in Contribution per Settlement	250,000
Total Ratepayer Loss	**(5,492,656)**

B. Ratemaking Treatment For Allocation of Loss on Sale Of Merced Falls – Detailed Explanation and Additional Provisions

3.3. The Settling Parties agree that the sale of Merced Falls to MeID is in the best interest of customers as it is the lowest cost path forward for the Project, meaning that the sale of the Project provides the most financial savings to customers when compared to PG&E retaining ownership of, or decommissioning the Project.

3.4. The Settling Parties agree that PG&E will record the loss on the sale of Merced Falls to the Utility Generation Balancing Account upon close of the sale. PG&E will not establish a regulatory asset to amortize the loss on sale over a five-year period, as initially requested in the Application. PG&E's customers will save approximately $750,000 in foregone return on the regulatory asset.

3.5. The Settling Parties agree that PG&E will not recover $250,000 of the loss on the sale from ratepayers. The Settling Parties agree that this $250,000 amount is not attributed to any specific cost, liability, allegation, or action.

3.6. The Settling Parties agree that, after the close of Purchase and Sale Agreement between PG&E and MeID ("PSA"), PG&E's revenue requirement associated with the Project's retired rate base and associated estimated Operations and Maintenance costs included as part of the 2014 GRC will be reduced from the base revenues recovered in customer rates.

3.7. The Settling Parties agree that as specified in the Gain (Loss) on Sale decisions PG&E's rate base and CWIP will be reduced by the amount of the historical cost less depreciated value at the time of the sale, less the sale proceeds. PG&E will record this action after close of the PSA.

3.8. The Settling Parties agree that, after close of the PSA, PG&E will update its 2017 GRC request to reflect removal of the Project from its generation revenue requirement request.

3.9. The Settling Parties agree that, after close of the PSA, PG&E will true-up the final financial information as of the closing of the sale and will provide it to the Commission in a compliance advice letter filing submitted within 45 days following closing. The financial

information will consist of the final calculation of the loss-on-sale and tax information related to the transaction.

C. Regulatory Framework for Assessment of Sales of PG&E's Small Hydroelectric Projects

3.10. The Settling Parties agree to develop a framework for future sales by PG&E of small hydroelectric projects, and agree that a framework will at a minimum accomplish the following objectives:

i. Establish a framework to expedite the regulatory process for approval of future dispositions of PG&E small hydroelectric plants.

ii. Establish a communications process to facilitate early settlement through a collaborative review of asset sales processes and agreements.

iii. Develop a template for presentation of asset sales data and application contents.

iv. Develop a ratemaking framework that applies the Commission's Gain (Loss) on Sale Decisions (D.06-05-041, *as modified by* D.06-12-043).

D. Compliance with the Land Conservation Commitment (LCC)

3.11. In its Application, PG&E requested Commission approval for MeID to convey a permanent Conservation Easement ("CE") to the Sierra Foothill Conservancy ("SFC") in accordance with terms and conditions specified in PG&E's bankruptcy Settlement Agreement and related Stipulation Resolving Issues Regarding the Land Conservation Commitment approved by the Commission in Decision 03-12-035. ORA's Protest and written testimony did not oppose this request, and settlement discussions did not dispute this LCC request.

3.12. Merced Falls' assets include approximately 20.5 acres of land.[2/] The Land Conservation Commitment Plan ("LCCP") requires PG&E to donate a CE to restrict future use of this land. As a condition to closing the sale of Merced Falls, the Purchase and Sale

---

2/ "*Application of Pacific Gas and Electric Company (U 39 E) for Commission Approval Under Public Utilities Code Section 851 to Sell the Merced Falls Hydroelectric Project to Merced Irrigation District*," A.15-04-003, at p. 2.

Agreement requires MeID to implement this CE commitment, which is pending approval by the Stewardship Council Board of Directors.[3/]

3.13. After PG&E, MeID, and SFC complete negotiations of the final form and content of the CE (a preliminary draft of the CE is provided herein for reference at Attachment A), PG&E will file a supplemental application in this proceeding that will include the final CE and the LCCP.

IV. GENERAL PROVISIONS AND RESERVATIONS

1. Scope and Approval

4.1. In executing this Settlement, the Settling Parties declare and mutually agree that the terms and conditions are reasonable, consistent with law, and in the public interest.

4.2. As a general compromise of their litigation positions, the Settling Parties hereby agree that this Settlement constitutes a full and final settlement of all disputed issues in this Application.

4.3. This Settlement embodies the Settling Parties' entire understanding of the matters described herein and supersedes any and all prior oral or written agreements, principles, negotiations, statements or understanding between the Settling Parties. The Settling Parties have bargained in good faith to achieve this Settlement. The Settling Parties intend the Settlement to be interpreted as a unified, integrated agreement.

4.4. This Settlement cannot be amended or modified without the express written and signed consent of all the Settling Parties and approved by the Commission.

4.5. In accordance with CPUC Rule 12.5, the Settling Parties agree that Commission adoption of this Settlement will be binding on the Settling Parties, including their legal successors, assigns, partners, members, agents, parent or subsidiary companies, affiliates, officers, directors, and/or employees. Unless the Commission expressly provides otherwise, and

---

3/ *Id.*, pp. 7-8; "*Pacific Gas and Electric Company (U 39 E) S851 Merced Falls Hydroelectric Project Sale, Prepared Testimony,"*A.15-04-003, pp. 2-9, line 9 through 2-10, line 14.

except as otherwise expressly provided herein, such adoption does not constitute approval or precedent for any principle or issue in this or any future proceeding.

4.6. The Settling Parties agree that this Settlement is subject to approval by the Commission. As soon as practicable after the Settling Parties have signed this Settlement, the Settling Parties shall jointly file a motion for Commission approval and adoption of the Settlement in its entirety without change. The Settling Parties will furnish such additional information, documents, and/or testimony as the ALJ or the Commission may request in granting the motion adopting this Settlement.

4.7. The Settling Parties agree to actively support the Settlement and use their best efforts to secure prompt Commission approval of the Settlement in its entirety without modification. Active support shall include written and oral testimony if testimony is required, briefing if briefing is required, comments and reply comments on the proposed decision, advocacy to Commissioners and their advisors as needed, and other appropriate means as needed to obtain the requested approval.

4.8. The Settling Parties agree that the provisions of this Settlement are not severable. The Settling Parties agree that, if the Commission, or any court of competent jurisdiction, fails to adopt this Settlement in its entirety and without modification, the Settling Parties shall convene a settlement conference within fifteen (15) days thereof to discuss whether they can resolve the issues raised by the Commission's actions. If the Settling Parties cannot mutually agree to resolve the issues raised by the Commission's actions, the Settlement shall be rescinded and the Settling Parties shall be released from their respective obligation to support the Settlement. Thereafter, the Settling Parties may pursue any action they deem appropropriate, but agree to cooperate in establishing a procedural schedule.

4.9. The Settling Parties agree to actively and mutually defend the Settlement if the adoption is opposed by any other party, person or entity.

2. Miscellaneous Provisions

4.10. If any Settling Party fails to perform its respective obligations under the Settlement, the other Settling Party may come before the Commission to pursue a remedy including enforcement.

4.11. The Settling Parties acknowledge and stipulate that they are agreeing to this Settlement freely, voluntarily, and without any fraud, duress, or undue influence by any other party. Each Settling Party states that it has read and fully understands its rights, privileges, and duties under the Settlement, including each Party's right to discuss the Settlement with its legal counsel, and has exercised those rights, privileges, and duties to the extent deemed necessary.

4.12. The Settling Parties agree that the language in all provisions of this Settlement shall be construed according to its fair meaning and not for or against any Settling Party because that Settling Party or its counsel or advocate drafted the provision.

4.13. No Settling Party has relied, or presently relies, upon any statement, promise, or representation by any other Settling Party, whether oral or written, except as specifically set forth in this Settlement. Each Settling Party expressly assumes the risk of any mistake of law or fact made by such Settling Party or its authorized representative.

4.14. The section headings contained in this Settlement are solely for reference, are not part of the Settling Parties' agreement, and shall not in any way affect the meaning or interpretation of the Settlement.

4.15. Should any dispute arise between the Settling Parties regarding the manner in which this Settlement or any term shall be implemented, the Settling Parties agree to work in good faith to resolve such difference in a manner consistent with both the express language and the intent of the Settling Parties in entering into this Settlement. If such dispute cannot be resolved through good faith negotiation between the Settling Parties, the dispute shall be submitted to the Commission for resolution through alternative dispute resolution and if it cannot be resolved to the mutual satisfaction of the Settling Parties through alternative dispute resolution, then through administrative adjudication before the Commission.

4.16. The rights conferred and obligations imposed on any party by the Settlement shall inure to the benefit of or be binding on that party's successor in interest or assignees as if such successor or assignee was itself a party to this Settlement.

4.17. This Settlement shall be governed by the laws of the State of California as to all matters, including but not limited to, matters of validity, construction, effect, performance, and remedies.

4.18. As to the Effective Date, this Settlement shall become effective among the Settling Parties, if approved by the Commission, on the date that such Commission approval becomes final and non-appealable. In the event the Commission rejects or modifies the Settlement, Settling Parties reserve all rights set forth in CPUC Rule 12.4.

4.19. None of the Settling Parties, or their respective employees, attorneys, or any other individual representative or agent, assumes any personal liability as a result of the Settling Parties signing this Settlement.

4.20. This Settlement may be executed in separate counterparts by the different Settling Parties hereto with the same effect as if all Settling Parties had signed one and the same document. All such counterparts shall be deemed to be an original and shall together constitute one and the same Settlement.

///

///

///

The Settling Parties mutually believe that, based on the terms and conditions stated above, this Settlement is reasonable in light of the whole record, consistent with the law, and in the public interest. The undersigned represent that they are authorized to sign on behalf of the Settling Party represented. The Settling Parties' authorized representatives have duly executed this Settlement on behalf of the Settling Parties they represent.

PACIFIC GAS AND ELECTRIC COMPANY

/s/Robert Kenney
Name: Robert Kenney
Job title: Vice President,
CPUC Regulatory Relations

Date: April 12, 2016

OFFICE OF RATEPAYER ADVOCATES

/s/ Elizabeth Echols
Name: Elizabeth Echols
Job title: Director,
Office of Ratepayer Advocates

Date: April 12, 2016

ATTACHMENT A

LAND CONSERVATION COMMITMENT
DRAFT CONSERVATION EASEMENT

CPDB Comments
3/7/16

RECORDING REQUESTED BY

WHEN RECORDED MAIL TO

(Space Above this Line for Recorder's Use)
A.P.N.:
Merced County: 043-130-005-000,
043-130-006-000, & 043-140-001-000
Mariposa County: 11-010

Date: _____

DEED OF CONSERVATION EASEMENT AND AGREEMENT

Between

MERCED IRRIGATION DISTRICT,
a California Irrigation District existing under Division 11 of the California Water Code,
as Grantor

and

SIERRA FOOTHILL CONSERVANCY, a California non-profit public benefit corporation,
as Grantee

Note to the County Recorder: This is a conservation easement within the meaning given to such term in California Government Code §27255 and is to be included in the index developed and maintained pursuant to such section.

DEED OF CONSERVATION EASEMENT AND AGREEMENT

THIS DEED OF CONSERVATION EASEMENT AND AGREEMENT (this "**Easement**") is made and entered into this _____ day of _____, 2016 (the "**Effective Date**") by and between MERCED IRRIGATION DISTRICT, a California Irrigation District existing under Division 11 of the California Water Code ("**Grantor**"), and SIERRA FOOTHILL CONSERVANCY, a California nonprofit public benefit corporation ("**Grantee**"), with reference to the following facts:

RECITALS

A. The Property. Grantor is the owner of approximately 20.863 acres of real property located in Merced and Mariposa Counties, State of California, as more particularly described in the attached Exhibit A (the "**Property**").

B. PG&E Land Transfer. Pacific Gas and Electric Company, a California corporation ("**PG&E**"), conveyed to Grantor fee title in the Property pursuant to that certain [Grant Deed, Reservation of Rights and Easements, and Assignment of Rights] (the "**PG&E Deed**"), recorded immediately before the recording of this Easement, in the Official Records of the Counties of Mariposa and Merced. A copy of the PG&E Deed is attached hereto as Exhibit B and incorporated herein by reference. As set forth in the PG&E Deed, PG&E's conveyance of the Property was subject to (1) PG&E's reservation of certain rights in and to the Property, as set forth in the PG&E Deed ("**PG&E Reserved Rights**") and (2) those legally-enforceable third-party rights to use the Property in effect as of the Effective Date, as included on Exhibit C attached hereto and incorporated herein by reference (the "**Existing Third-Party Uses**").

C. FPA and FERC Jurisdiction. The Property lies within the boundaries of a hydroelectric project licensed to PG&E (FERC Project No. 2467) pursuant to Part I of the Federal Power Act, 16 U.S.C. §§792-823d ("**FPA**").

1. FPA and FERC Requirements. The FPA requires regulation of the construction, operation, and maintenance of non-federal hydroelectric power projects pursuant to licenses issued by the Federal Power Commission, or its successor, the Federal Energy Regulatory Commission ("**FERC**"). Each such license requires the licensee to undertake appropriate measures on behalf of both developmental and environmental public interest uses of a waterway, including as relevant fish and wildlife protection and enhancement, irrigation, flood control, water supply, and recreation, together with whatever other beneficial public uses the license identifies as a "Project Purpose." The license requires the licensee to acquire and retain all interests in non-federal lands and other property necessary or appropriate to carry out the Project Purposes.

2. FPA and FERC Non-Project Uses. The FPA provides FERC with authority to regulate the use of a licensed project's lands and waters not only by the licensee but also by any other entity. FERC refers to such third-party use as "non-project use of project lands and waters." Even where the third-party use may be compatible with

and even promote a specified Project Purpose, such use is "non-project," because it is not in the license as a direct obligation of the licensee. As a FERC licensee for the Property which is the subject of this Easement, Grantor must (except for very minor matters) apply to FERC for approval to convey to a third party any easement over project lands. FERC approval requires conveyance instruments to contain recorded covenants providing that that the non-project use will not interfere with Project Purposes, and requires its licensees to enforce such covenants and protect the project values.

3. Transfer of License to Grantor. In connection with the conveyance of the Property to Grantor, PG&E transferred to Grantor the FERC license applicable to Property.

4. Removal of FERC Jurisdiction. FERC jurisdiction and authority over a licensed hydropower project is removed if and when (i) the project is decommissioned and the project license is surrendered or otherwise terminated; or (ii) FERC determines that the project does not require a license to continue to operate, and the license expires or is otherwise terminated. Neither FERC nor the hydropower project license can bestow, remove, or alter water or other property rights; therefore, the end of FERC jurisdiction over the project has no effect on existing property rights in project lands and waters, including any conservation easements on such lands.

D. PG&E Party to Settlement Agreement. PG&E is a party to 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).

E. PG&E Party to Stipulation. In furtherance of the Settlement Agreement, and to provide additional detail regarding the implementation of the "Land Conservation Commitment" (defined below), the parties to the Settlement Agreement and other interested parties entered into that certain Stipulation Resolving Issues Regarding the Land Conservation Commitment dated September 25, 2003 (the "**Stipulation**").

F. Governing Documents and Beneficial Public Values. The Settlement Agreement and the Stipulation (collectively, the "**Governing Documents**") require PG&E to ensure that approximately 140,000 acres of watershed lands, all owned by PG&E (collectively, the "**Watershed Lands**"), including the Property, are conserved for a broad range of beneficial public values, including the protection of the natural habitat of fish, wildlife and plants; the preservation of open space; outdoor recreation by the general public; sustainable forestry; agricultural uses; and historic values. The obligations of PG&E to convey conservation easements and protect such beneficial public values on the Watershed Lands, as well as certain other obligations related thereto, are set forth in detail in Appendix E of the Settlement Agreement (as further explicated in Section 12 of the Stipulation), and are defined therein as the "**Land Conservation Commitment**."

G. Stewardship Council and Land Conservation Plan. Pursuant to the Governing Documents, the Pacific Forest and Watershed Lands Stewardship Council, a California non-profit 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 for the benefit of the citizens of California (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.

H. California Civil Code §815. The Legislature of the State of California, as set forth in California Civil Code §815 *et seq*., has found and declared it to be the public policy and in the public interest of this state to encourage the preservation of land in its predominantly natural, scenic, agricultural, historical, forested, or open-space condition, and that it is "the public policy and in the public interest of this state to encourage the voluntary conveyance of conservation easements to qualified nonprofit organizations." In furtherance of the Land Conservation Commitment and the above-described public policy purposes, Grantor desires to grant a conservation easement over the Property to Grantee. Grantee is a tax-exempt nonprofit organization qualified under §501(c)(3) of the Internal Revenue Code and is eligible to acquire and hold a perpetual conservation easement pursuant to §815.3(a) of the California Civil Code.

I. Continuing Hydro Project Activities. The Property has been used by PG&E and will continue to be used by Grantor for the purposes related to the generation of electricity from hydropower facilities and related to the delivery, storage, and consumptive and nonconsumptive use of water as described more fully on attached Exhibit D (the "**Hydro Project Activities**"). In furtherance of the Hydro Project Activities, portions of the Property have been improved with water- and power-related facilities, access roads, recreational facilities, buildings and other structures. The Governing Documents provide that "[c]onservation easements on 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."

J. Perpetual Protection of Beneficial Public Values. Grantee and Grantor intend through this Easement to ensure the perpetual protection of the beneficial public values on the Property as identified in the LCP, on and subject to the terms and conditions of this Easement. Specifically, the parties intend to assure that the beneficial public values identified in the LCP and set forth on Exhibit E (the "**Beneficial Public Values**") will be protected and preserved in perpetuity and that uses of the Property that are inconsistent with protecting and preserving these Beneficial Public Values will be restricted, all as set forth in this Easement, subject, however, to the PG&E Reserved Rights, Grantor's Reserved Rights and Existing Third-Party Uses and provided, however, that Grantor shall retain all other interests not transferred to Grantee by this Easement, including, but not limited to Grantor's Hydro Reserved Rights described in Section 7 below.

AGREEMENT

In consideration of the above recitals and the mutual covenants, terms, conditions, and restrictions contained herein, and pursuant to California Civil Code §815 et seq., Grantor and Grantee further hereby agree as follows:

1. Grant of Easement. Grantor hereby grants to Grantee a perpetual "conservation easement" as defined by §815.1 of the Conservation Easement Act of 1979 (California Civil Code §815 et seq.) in gross, in, on, over and across the Property (the "**Conservation Easement**"), subject to and in accordance with the terms and conditions of this Easement.

2. Purpose. It is the purpose of this Easement to protect and preserve in perpetuity the Beneficial Public Values on the Property by restricting any use of the Property that will significantly impair the Beneficial Public Values, all subject to and in accordance with the terms and conditions of this Easement (the "**Purpose**"). As used in this Easement, the terms "impair" and "impairment" mean to diminish in quantity, quality, value, strength or viability. As used in this Easement, the terms "significant" and "significantly," when used with "impair" and "impairment," respectively, mean a greater than negligible adverse impact, for more than a transient period. The parties agree that Grantor's retention of certain rights specified in this Easement, including the Hydro Reserved Rights, and the PG&E Reserved Rights are consistent with the Purpose of this Easement.

3. Baseline Documentation Report. The parties acknowledge that certain existing conditions particularly relevant to the Property are documented in a baseline documentation report (the "**Baseline Documentation Report**"). Grantor and Grantee each have a copy of the signed Baseline Documentation Report, executed by both parties to acknowledge their approval and receipt of the Baseline Documentation Report. The parties agree that the Baseline Documentation Report contains an accurate representation of such existing conditions of the Property as of the Effective Date, and is intended to serve as an objective, though non-exclusive, information baseline for monitoring compliance with the terms of this Easement. The foregoing notwithstanding, if a dispute arises with respect to any of the conditions of the Property, the parties shall not be foreclosed from utilizing any and all other relevant documents, surveys, or other evidence or information to assist in the resolution of the dispute.

4. PG&E, Commission, and FERC.

4.1 PG&E Reserved Rights. All rights and obligations of Grantor and Grantee under this Conservation Easement are subject to the PG&E Reserved Rights specified in the PG&E Deed attached as Exhibit B. In the event of a conflict between the PG&E Reserved Rights and the Conservation Purposes, this Easement shall be construed to unconditionally permit the exercise of the PG&E Reserved Rights. In the event PG&E notifies Grantor of its intention to exercise any of its Reserved Rights, Grantor shall notify Grantee, in writing, of said intention within sixty (60) days.

4.2 Commission and FERC. The terms and conditions of this Easement are also subject to any conditions imposed by the Commission pursuant to ***[Note: citation to decision/resolution to be inserted]*** or by FERC pursuant to any hydroelectric project license for the Property or any applicable orders or regulations that FERC may issue from time to time. Notwithstanding anything to the contrary in this Easement, Grantor, and its successors and assigns have the right to perform any and all acts required by an order of FERC, or its successors, without the prior approval of Grantee or any other person. Grantor expressly reserves the right to comply with all FERC orders and regulations as they may be amended from time to time. In addition, Grantee shall comply with any information requests or reporting

obligations required by the Commission or FERC, whether directly to the Commission or FERC, or through Grantor; provided that Grantor shall reimburse the reasonable costs and expenses incurred by Grantee in responding to such requests. Execution of this Easement by Grantor does not imply tacit Commission or FERC approval of a non-project use on the Property nor does it obligate Grantor to seek Commission or FERC approval for non-project uses proposed by Grantee.

5. Rights Conveyed to Grantee. Subject to the terms and conditions of this Easement, Grantor grants and conveys to Grantee the following affirmative rights:

5.1 Identification, Monitoring and Enforcement. The right to identify with Grantor the Beneficial Public Values of the Property, the right to monitor and enforce the protection and preservation of such Beneficial Public Values in accordance with the terms of this Easement, the right to enforce the terms of this Easement, the right to enjoin any activity on the Property or other use of the Property which violates the terms of this Easement, and the right to enforce the restoration of such areas or features of the Property as may hereafter be damaged in violation of this Easement.

5.2 Access. The right for Grantee and Grantee's directors, officers, partners, members, managers, employees, contractors, subcontractors, consultants, representatives, agents, permittees and invitees ("**Grantee's Representatives**") to enter onto the Property at reasonable times, during normal business hours, not more than twice per calendar year and upon not less than ten (10) business days' advance written notice in order to monitor and inspect the Property, to enforce the rights which are granted herein, to determine whether the activities conducted on the Property are in compliance with the terms of this Easement, and to enforce the restoration of such areas or features of the Property as may have been damaged in violation of this Easement, all in compliance with the provisions of Section 10. Grantee will limit the number of Grantee Representatives entering the Property to those who are reasonably necessary to undertake the inspections, and such entry will be for no more days than are reasonably necessary to carry out the inspections. Grantor's representatives shall have the right to accompany Grantee's Representatives during bi-annual monitoring visits or on any other visit permitted by this Section 5.2. Notwithstanding the foregoing, Grantee shall also have the right of entry upon the Property upon not less than twenty-four (24) hours' advance written notice where such entry is necessary to (i) prevent, terminate, or mitigate a violation of the terms of this Easement; or (ii) monitor actions taken pursuant to the bi-annual inspections contemplated by this Section 5.2. All access and entry allowed under this Section 5.2 will be made in a manner that (a) will not unreasonably interfere with the permitted use(s) of the Property by Grantor, its successors in interest, and any occupant(s) or user(s) of the Property (including without limitation, PG&E with regards to the exercise of any PG&E Reserved Rights and third-parties with regards to the exercise of any Existing Third-Party Uses) and (b) shall comply with any entry and access guidelines established by Grantor and restrictions contained in the PG&E Deed and any Third Party Use Agreements.

5.3 Grantee Signs. Grantee shall have the right, but not the obligation, at its sole cost and expense, to erect, maintain, and/or remove, one or more reasonable, non-illuminated signs or other appropriate markers in locations on the Property visible from any public roads or other adjoining property, bearing information indicating (a) that the Property is protected by the Conservation Easement, and/or (b) the participation of Grantee and of any

funder in the stewardship of the Conservation Easement, the wording, size, number, design, and location of which shall be decided upon by Grantee and Grantor, each exercising its reasonable discretion.

6. Prohibited Uses. Grantor will not engage in, or permit others to engage in, the prohibited uses set forth on Exhibit F hereto, except as otherwise provided therein and except as required or permitted pursuant to PG&E's Reserved Rights (the "**Prohibited Uses**"), which Grantor and Grantee agree are inconsistent with the Purpose of this Easement.

7. Grantor's Reserved Rights.

7.1 Hydro and Other Reserved Rights. As provided in California Civil Code §815.4, all interests not expressly transferred and conveyed to Grantee by this Easement shall remain in Grantor, including the right to engage in and permit or invite others to engage in all uses of the Property not affected by this Easement nor prohibited by this Easement or by law. In compliance with §815.4, Grantor and Grantee acknowledge and agree that Grantor expressly reserves all rights accruing from the ownership of the Property and not expressly transferred and conveyed to Grantee by this Easement, including without limitation the right to engage in or permit or invite others to engage in all uses of the Property that do not significantly impair the Beneficial Public Values and are not expressly prohibited by this Easement. Without limiting the foregoing, Grantor shall have the right to engage in and permit or invite others to engage in the permitted uses set forth in Exhibit G (the "**Permitted Uses**"). In addition and notwithstanding any other provision of this Easement, Grantor expressly reserves the right to engage in or permit or invite others to engage in those uses set forth in Exhibit H ("**Hydro Reserved Rights**"), subject to the restrictions set forth in Sections 7.3 and 7.4 below.

7.2 Definitions. As used in this Section 7, the following defined terms shall have the meanings set forth below:

7.2.1 Anticipated Significant Actions. As used herein, "**Anticipated Significant Actions**" are (a) those Required Actions (which include Specified Required Actions pursuant to Section 7.2.3), that involve a Prohibited Use and/or that Grantor determines in Grantor's reasonable discretion exercised in good faith are likely to significantly impair one or more of the Beneficial Public Values, (b) Discretionary Actions that Grantor determines in Grantor's reasonable discretion exercised in good faith are likely to significantly impair one or more of the Beneficial Public Values, and (c) Permitted Uses that Grantor determines in Grantor's reasonable discretion exercised in good faith are likely to significantly impair one or more of the Beneficial Public Values. Except as provided in Section 7.3.1, no Grantee notification, consultation or consent shall be required for actions, activities or improvements that are not Anticipated Significant Actions.

7.2.2 Required Actions. As used herein, "**Required Actions**" are those intended actions, activities or improvements that Grantor determines in Grantor's sole discretion exercised in good faith are required on the Property by any one or more of the following: (a) the Commission, FERC, or any other governmental entity having jurisdiction over Grantor's use, ownership, operation, or management of the Property, including the Hydro Project Activities, or (b) any Applicable Law (as defined in Section 8), or (c) the PG&E Reserved Rights, or (d) any

Third Party Use Agreements, or (e) to comply with professional practices, standards and/or policies governing the Hydro Project Activities. All references in this Agreement to "Required Actions" shall include Specified Required Actions (as defined below) unless otherwise noted**.**

7.2.3 Specified Required Actions. As used herein, **"Specified Required Actions"** are those Required Actions that require a specified action, activity or improvement on the Property, with respect to which Grantor has no material discretion over the specific details of implementation, including, without limitation, the manner, timing, and location of the Specified Required Action. Without limiting Grantor's notification obligations pursuant to Section 7.3.1 below, no Grantee consultation or consent shall be required with respect to any Specified Required Action.

7.2.4 Discretionary Action. As used herein, a "**Discretionary Action**" is an intended action, activity or improvement that is not a Required Action or a Permitted Use, and does not involve a Prohibited Use.

7.2.5 Hydro Operating Zone. As used herein, a "**Hydro Operating Zone**" is a spatially delineated area of the Property intended to primarily contain (or immediately adjacent to an area of the Property containing) Hydroelectric Facilities and Associated Water Delivery Facilities, as defined and described on Exhibit D hereto. The initial delineated Hydro Operating Zones are set forth on Exhibit I hereto; provided, however, that, subject to Sections 7.3 and 7.4 below, Grantor shall have the right, as a Discretionary Action governed by Sections 7.3 and 7.4 below, to expand, contract, add or remove Hydro Operating Zones from time to time.

7.3 Work Plan and Annual Review Meeting Notification, Consultation and Consent Requirements.

7.3.1 Delivery and Contents of Work Plan. Within a reasonable time after the Effective Date, Grantor shall prepare and deliver to Grantee a work plan for the Property ("**Work Plan**"). The Work Plan shall identify and describe all actions Grantor intends to take on the Property at the time the Work Plan is prepared and shall include the following:

(a) a reasonably detailed description of the Anticipated Significant Actions Grantor intends to take, together with a bullet point list of those actions Grantor intends to take that Grantor determines do not constitute Anticipated Significant Actions;

(b) an indication of whether the Anticipated Significant Actions will occur within or outside of a Hydro Operating Zone;

(c) Grantor's determination of which Anticipated Significant Actions are Discretionary Actions, Required Actions, Specified Required Actions,or Permitted Uses, including a reasonably detailed explanation of the basis for Grantor’s determination;

(d) Grantor's estimated timeline for commencement and completion of each of the Anticipated Significant Actions;

(e) a description of Grantor's anticipated efforts to avoid or minimize harm to or impairment of the Beneficial Public Values from the Anticipated Significant Actions;

(f) Grantor shall use reasonable efforts to provide copies of available underlying filings, permits, orders, rulings, or other written records that require Grantor to take any actions that involve a Prohibited Use.; and

(g) any Third Party Use Agreement renewals or replacements as contemplated by Section 9.1.2 below.

7.3.2 Review of Work Plan; Updates to Work Plan. Grantor and Grantee shall meet (in person, electronically, or by telephone) within a reasonable time after Grantee's receipt of the Work Plan to review the Work Plan. Grantee has the right to request reasonable additional information regarding actions identified in the Work Plan. No later than February 15th of each calendar year thereafter, Grantor and Grantee shall meet (in person, electronically, or by telephone) to discuss the status of the Work Plan (the "**Annual Review Meeting**"). Any revisions, amendments, or changes to the Work Plan must be made in writing and provided to Grantee prior to the Annual Review Meeting. Periodically, at such Annual Review Meetings, the content requirements for the Work Plan as set forth in Section 7.3.1 above may be modified, confirmed by mutual written agreement of the parties.

7.3.3 Anticipated Significant Actions within Hydro Operating Zones. Without limiting Grantor's notification obligations pursuant to Section 7.3.1 above, no Grantee consultation or consent shall be required with respect to any Anticipated Significant Actions within a Hydro Operating Zone.

7.3.4 Anticipated Significant Actions Outside Hydro Operating Zones. The following provisions shall apply with respect to Anticipated Significant Actions outside of a Hydro Operating Zone:

(a) Specified Required Actions. Without limiting Grantor's notification obligations pursuant to Section 7.3.1 above, no Grantee consultation or consent shall be required with respect to any Specified Required Actions outside of a Hydro Operating Zone.

(b) Other Required Actions and Permitted Uses. With respect to Required Actions and Permitted Uses disclosed in the Work Plan that are not Specified Required Actions and are to be undertaken outside of a Hydro Operating Zone, Grantor and Grantee agree that, at or prior to the meeting to review the Work Plan or the Annual Review Meeting, Grantee may (but shall be under no obligation to) propose alternative methods and practices to avoid or minimize harm to or impairment of one or more Beneficial Public Values by such Anticipated Significant Actions ("**Proposed Methods and Practices**"). Grantor shall implement the Proposed Methods and Practices, to the extent Grantor determines in its sole discretion exercised in good faith that the Proposed Methods and Practices (i) may be implemented in a commercially reasonable manner balancing the harm to Beneficial Public Values with any increased cost or burden to Grantor, (ii) where applicable, will allow for the completion of a Required Action in a timely manner, and (iii) are reasonably likely to avoid

potential harm to or impairment of one or more Beneficial Public Values. If Grantor determines that one or more of the foregoing conditions has not been satisfied, Grantor shall specify the reasons for this determination in detail, and Grantor and Grantee shall cooperate in good faith and with diligence to attempt to resolve Grantor's objections to Grantee's Proposed Methods and Practices consistent with this paragraph.

(c) Discretionary Actions. With respect to Discretionary Actions disclosed in the Work Plan that are to be undertaken outside of a Hydro Operating Zone, such Discretionary Actions shall be subject to Grantee's prior written consent, which consent shall not be unreasonably withheld, conditioned or delayed by Grantee. If Grantee fails to grant or deny Grantor's request for consent within one hundred eighty (180) days following Grantee's receipt of Grantor's request for consent, Grantee shall be deemed to have consented to the particular Discretionary Action described in the request. If Grantee withholds its consent to such proposed Discretionary Action to be undertaken outside of a Hydro Operating Zone, Grantee shall specify its objections in detail and, wherever possible, propose commercially reasonable alternatives, methods and/or practices to avoid or mitigate harm to or impairment of the Beneficial Public Values while substantially achieving the purposes of Grantor's proposed Discretionary Action. Grantor and Grantee shall cooperate in good faith and with diligence to attempt to resolve Grantee's objections in a manner that sufficiently mitigates Grantee's objections to its reasonable satisfaction.

7.4 Anticipated Significant Actions Not Identified in Work Plan. If Grantor intends to undertake an Anticipated Significant Action not identified in the Work Plan, Grantor shall notify Grantee (a "**Notice of Action**"), and include the information required by Section 7.3.1 above. Additionally, Grantor and Grantee shall meet (in person or electronically) within sixty (60) days after Grantee's receipt of the Notice of Action to review Grantor's proposed Anticipated Significant Actions. Any Anticipated Significant Action (other than a Specified Required Action) identified in a Notice of Action which is proposed to occur outside of a Hydro Operating Zone shall be subject to Section 7.3.4 above. Where this Section 7.4 applies, references to the "Work Plan" in Section 7.3.4 above shall be deemed to be references to the applicable Notice of Action.

7.5 Emergency Actions. Notwithstanding any other provisions of this Section 7, in the case of an emergency or other exigent circumstance affecting the safety of persons and/or property, Grantor may exercise its Hydro Reserved Rights and take any other remedial actions in an unrestricted manner on all or any portion of the Property within or outside of a Hydro Operating Zone without consultation with Grantee and without Grantee's consent. Grantor shall provide copies of any required notifications to applicable regulatory agencies of the emergency action and shall notify Grantee of those emergency actions taken, such notice to be provided to Grantee as soon as practicable but in any event within thirty (30) days after the emergency action has occurred.

7.6 Water Rights. Parties acknowledge that this Easement does not grant or transfer any water rights to Grantee. All water rights relating to water located or flowing on or under the Property are retained by Grantor.

8. Responsibility for Operations. Nothing in this Easement shall be construed as giving any right or ability to Grantee to exercise physical or managerial control of the day-to-day operations of the Property or of Grantor's activities on the Property. Grantor shall have and retain all responsibility for, and shall bear all costs and liabilities of, the ownership of the Property. In connection with Grantor's use or occupancy of the Property, Grantor shall have and retain all responsibility for, and shall bear all costs and liabilities of, compliance with any present and future applicable laws, ordinances, rules, regulations, permits, licenses, authorizations, orders and requirements, whether or not in the current contemplation of the parties, which may affect or be applicable to the Property or any part of the Property (including, without limitation, any subsurface area), all consents or approvals required to be obtained from, and all rules and regulations of, and all building and zoning laws of, all federal, state, county and municipal governments, the departments, bureaus, agencies or commissions thereof, or any other governmental or quasi-governmental body or bodies exercising similar functions, having or acquiring jurisdiction of the Property (in each case, an "**Applicable Law**"), except as expressly stated otherwise in this Easement. Without placing any limitation on the foregoing sentence, the parties agree as follows:

8.1 Condition of Property. Grantee shall have no duty or responsibility for (a) the operation or maintenance of the Property except to the extent specifically undertaken by Grantee as permitted under this Easement, (b) the monitoring of any hazardous conditions thereon, or (c) the protection of Grantor, the public, or any other person or entity from any risks relating to conditions on the Property.

8.2 Taxes. Grantee shall have no duty or responsibility for real property taxes and assessments levied on the Property.

8.3 Permits and Approvals. Grantor shall be solely responsible for obtaining any and all applicable governmental permits and approvals for, and otherwise complying with all Applicable Laws relating to, any activity or use of the Property by Grantor which is permitted by this Easement; provided, however, Grantor shall have no responsibility pursuant to this Easement for obtaining permits and approvals required on behalf of unrelated third parties who occupy or use the Property or for an unrelated third party's failure to comply with Applicable Laws. Grantee shall be solely responsible for obtaining any and all applicable governmental permits and approvals for, and otherwise complying with all Applicable Laws relating to, any activity or use of the Property by Grantee which is permitted by this Easement.

8.4 Limitation on Restoration Obligations. Nothing in this Easement shall require Grantor to take any action to restore the condition of the Property after (a) any Act of God, which includes, without limitation, fire, climate change, flood, storm, earth movement, or natural evolutionary changes in the condition of the Property from that described in the Baseline Documentation Report; (b) any prudent action taken by Grantor under emergency conditions to prevent, abate, or mitigate significant injury to the Property or to any person resulting from such causes; or (c) the non-permitted acts of unrelated third parties so long as Grantor has satisfied its obligations under Section 9.3.

9. Third Party Use of the Property.

9.1 Express Third Party Uses. Exhibit C hereto describes the existing third party uses of the Property permitted with the express agreement of Grantor ("**Express Third Party Uses**"). Subject to Section 7 above, Express Third Party Uses shall also include any future third party use implemented by Grantor as a Required Action or as a Discretionary Action approved by Grantee in accordance with Section 7. Grantor retains the right to maintain, renew, and replace all agreements memorializing the Express Third Party Uses ("**Third Party Use Agreements**") and to engage in all activities reasonably required to comply with Grantor's obligations with respect to the Express Third Party Uses, subject to the following conditions:

9.1.1 Increases in Intensity or Expansion of Location or Size or Change in Use. Any (i) increase in the intensity, or (ii) expansion of the location or size, or (iii) a change in the use, of an Express Third Party Use (whether through a new agreement or an amendment to an existing agreement), that Grantor determines in Grantor's reasonable discretion exercised in good faith is likely to significantly impair the Beneficial Public Values shall be subject to Grantee's prior written consent, which consent shall not be unreasonably withheld, conditioned or delayed by Grantee, except if such change in Express Third Party Use constitutes a Required Action in which case the consultation provisions of Section 7 above shall apply.

9.1.2 Renewal or Replacement of Third Party Use Agreements. All Third Party Use Agreements existing on the date hereof are identified on Exhibit C. As Third Party Use Agreements are renewed or replaced (either with the existing user or a new user), Grantor, in consultation with Grantee as part of the Work Plan consultation and Annual Review Meetings in accordance with Section 7.3 above, shall include contractual provisions to bring the continuation of the Express Third Party Use and the preservation of the Beneficial Public Values into alignment to the fullest extent reasonably practicable.

9.1.3 Consultation on Express Third Party Uses. As part of the Work Plan review and Annual Review Meeting process under Section 7.3 above, Grantor and Grantee will consult on existing Express Third Party Uses, including recommendations, if any, on how to bring the Express Third Party Uses and the preservation of the Beneficial Public Values into alignment to the fullest extent reasonably practicable.

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

9.2 Informal Uses and Public Access. Grantor and Grantee recognize that the Property has been used by third parties for recreational, cultural, and other non-commercial or informal purposes without formal written agreements to conduct such activities (the "**Informal Uses**"). Grantor and Grantee further recognize that access is inherent or may be inherent in the enjoyment of the Beneficial Public Values and the Informal Uses. Consistent with the objectives articulated in the Governing Documents to provide continued reasonable access by the public to the Watershed Lands, Grantor shall allow public access to the Property (other than Hydro

Operating Zones) that is substantially consistent with the public access existing on the Effective Date, subject to Section 7 and the following limitations:

9.2.1 Rules and Regulations. Grantor reserves the right to make reasonable rules and regulations to control, limit, or, as necessary, exclude Informal Uses and public access.

9.2.2 Liability Limitation. Grantor and Grantee claim all of the rights and immunities against liability for injury to the public to the fullest extent allowable by law.

9.2.3 Periodic Review of Informal Uses. As part of the Work Plan review and Annual Review Meeting process under Section 7.3 above, Grantor and Grantee will consult on Informal Uses, including recommendations made by Grantor or Grantee, if any, regarding the necessity of controlling, limiting or excluding the Informal Uses to ensure the preservation of the Beneficial Public Values.

9.3 Unauthorized Third-Party Uses. If Grantor or Grantee discovers any unauthorized third-party use or activity on the Property (not including any third party violation covered by Section 9.1.4 above) that violates the terms of this Easement (and if Grantee makes such discovery, Grantee gives Grantor written notice thereof), Grantor shall use reasonable efforts, in consultation with Grantee, to stop or prevent any such unauthorized use of the Property, at Grantor's sole expense; provided that in no event shall Grantor's obligations under this Section 9.3 require Grantor to pursue legal action or incur other substantial costs. If Grantee demonstrates that Grantor's efforts in compliance with this Section 9.3 have not prevented, or are unlikely to prevent, the unauthorized third-party use or activity on the Property that violates the terms of this Easement, Grantee may meet and confer with Grantor to propose additional efforts to prevent such use or activity which Grantee may undertake, at Grantee's sole expense. Grantor shall consider such proposal in good faith and, if Grantor permits Grantee to use such additional efforts, the scope and duration of such efforts shall be determined by Grantor, and Grantee shall comply with any requirements imposed by Grantor in connection with such efforts.

10. Enforcement and Remedies.

10.1 Procedures Upon Violation. If a party hereto (the "**Non-Breaching Party**") determines there is a breach of the terms of this Easement or that a breach is threatened, written notice of such breach (the "**Notice of Breach**") and a demand for corrective action sufficient to cure the breach shall be given by the Non-Breaching Party to the party allegedly breaching this Easement (the "**Breaching Party**"). Within fourteen (14) days after delivery of a Notice of Breach, Grantor and Grantee shall meet at a location mutually agreed to by the parties to discuss the circumstances of the alleged or threatened breach and to attempt to agree on appropriate corrective action. If the parties mutually determine that it is appropriate and desirable, a duly qualified expert in the subject matter of the alleged breach (the "**Consulting Expert**") shall attend the meeting. Grantor and Grantee shall each pay one-half of the costs of retaining the services of the Consulting Expert for such discussion; provided, however, that if Grantor and Grantee are unable to agree upon a Consulting Expert, each party may retain the services of an expert at its own expense. If Grantor and Grantee are unable to agree on appropriate corrective action (or if any such corrective action is required) within thirty (30) days

after such meeting, then the Non-Breaching Party may, at its election, deliver a further written notice to the Breaching Party to demand reasonable, particular corrective action to cure the breach (the "**Notice of Easement Violation**"). If a violation is not cured within thirty (30) days after the delivery of the Notice of Easement Violation, or if the cure reasonably requires more than thirty (30) days to complete and there is failure to begin the cure within the 30-day period or failure to continue diligently to complete the cure, the Non-Breaching Party may commence litigation in accordance with Section 10.2 below.

10.2 Litigation. If the parties are not able to resolve a claim or dispute pursuant to Section 10.1 above, the Non-Breaching Party may bring an action at law or in equity in a court of competent jurisdiction to enforce compliance with the terms of this Easement, to recover any damages to which Non-Breaching Party may be entitled for violation of the terms of this Easement, or for any other legal or equitable relief available under California law, including, but not limited to, temporary or permanent injunctive relief, monetary damages and/or any other form of relief required to achieve the restoration of the Property to the condition in which it existed prior to any violation. To the extent that Grantee recovers any monetary damages for the cost of restoring any injury or damage to a portion of the Property that is caused by Grantor's breach of this Easement, all such damages recovered by Grantee (after appropriate costs of suit are reimbursed) shall be applied to the cost of undertaking any corrective action to the applicable portion of the Property. Notwithstanding anything to the contrary contained in this Easement, in no event shall the Breaching Party be liable to the Non-Breaching Party for, and the parties each hereby waive their right to, any indirect, special, punitive, or consequential damages resulting from the Breaching Party's breach of this Easement, whether foreseeable or unforeseeable.

10.3 Emergency Injunctive Relief. If circumstances require immediate action to prevent or mitigate a violation of this Easement and the Non-Breaching Party reasonably determines that irreparable harm would result if the Non-Breaching Party were required to complete the process set forth in Section 10.1, the Non-Breaching Party may proceed immediately to seek an injunction to stop the violation, temporarily or permanently.

10.4 Remedies Cumulative. The remedies described in this Section 10 shall be cumulative and shall be in addition to all remedies now or hereafter existing at law or in equity, including but not limited to, the remedies set forth in Civil Code §815 *et seq*., inclusive. The failure of a party to discover a violation or to take immediate legal action shall not bar taking such action at a later time.

10.5 Costs of Enforcement. All costs incurred in enforcing the terms of this Easement, including, but not limited to, costs of suit and reasonable attorneys' fees as set forth in Section 20.11, shall be borne by the Breaching Party, but only to the extent that a breach of this Easement is determined to have occurred. If, after the Non-Breaching Party delivers a Notice of Easement Violation, it is determined that there was no breach of this Easement by the Breaching Party, the Non-Breaching Party shall pay all of the Breaching Party's costs and expenses incurred in connection with the alleged breach.

10.6 No Waiver. Enforcement of this Easement against a party shall be at the discretion of the Non-Breaching Party, and any forbearance by the Non-Breaching Party to exercise its rights under this Easement in the event of any breach of any term of this Easement

shall not be deemed or construed to be a waiver by the Non-Breaching Party of such term or of any subsequent breach of the same or any other term of this Easement or of any of such party's rights under this Easement. No delay or omission by the Non-Breaching Party in the exercise of any right or remedy shall impair such right or remedy or be construed as a waiver. A party's permission to the other party to carry out, or failure to object to, any proposed use or activity by the other party shall not constitute consent to any subsequent use or activity of the same or different nature.

11. Indemnification and Insurance.

11.1 Indemnification by Grantee. Grantee shall, to the maximum extent permitted by law, indemnify, protect, defend and hold harmless Grantor, its parent corporation, subsidiaries, affiliates, and their respective officers, managers, directors, representatives, agents, employees, transferees, successors and assigns (collectively, "**Grantor Indemnitees**") from and against all claims, losses, actions, demands, damages, costs, expenses (including, but not limited to, experts' fees and reasonable attorneys' fees and costs) and liabilities of whatever kind or nature (collectively, "**Claims**") arising out of or in connection with this Easement or the Property to the extent caused by the negligence or willful misconduct of the Grantee Indemnitees.

11.2 Indemnification by Grantor. Grantor shall, to the maximum extent permitted by law, indemnify, protect, defend and hold harmless Grantee, its parent corporation, subsidiaries, affiliates, and their respective officers, managers, directors, representatives, agents, employees, transferees, successors and assigns (collectively, "**Grantee Indemnitees**") from and against all Claims arising out of or in connection with this Easement or the Property except to the extent caused by the negligence or willful misconduct of the Grantee Indemnitees.

11.3 Release. Entry onto the Property by Grantee and Grantee's Representatives shall be at Grantee's sole risk and expense, and Grantee accepts all risk relating to the condition of the Property. Notwithstanding the provisions of Section 11.2, Grantor shall not be liable to Grantee for, and to the maximum extent permitted by law, Grantee hereby waives and releases Grantor and the other Grantor Indemnitees from, any and all liability, whether in contract, tort or on any other basis, for any injury, damage, or loss to Grantee and/or Grantee's Representatives resulting from or attributable to any occurrence relating to the condition of the Property, except if arising solely from Grantor's gross negligence or willful misconduct.

11.4 Insurance. Grantee shall procure, carry and maintain in effect during all access to the Property throughout the term of this Easement the insurance specified in Exhibit J hereto, provided that Grantor reserves the right to periodically review and reasonably modify the insurance requirements specified in Exhibit J in effect to be generally consistent with requirements of other prudent property owners allowing access to their properties by conservation easement holders. All insurance shall be written on forms and with insurance carriers acceptable to Grantor in its commercially reasonable judgment. Prior to Grantee's initial entry onto the Property, and thereafter at least thirty (30) days prior to the expiration date of any policy, Grantee shall provide Grantor with evidence of the insurance coverage, or continuing coverage, as applicable, satisfying the requirements of this Section 11.4 and Exhibit J. Grantee is also responsible for causing Grantee's agents and contractors entering the Property to comply with the insurance requirements of this Easement at all relevant times, the insurance being

specified in Exhibit J. Grantee shall, to the maximum extent permitted by law, indemnify, protect, defend and hold the Grantor Indemnitees harmless against claims, losses, costs (including attorneys' fees and costs), liabilities and damages resulting from the failure of Grantee, or any of Grantee's consultants, contractors or subcontractors, to comply with the insurance requirements set forth in this Section 11.4 and Exhibit J. Except for the right to access the Property under Section 5.2 above, which shall be conditioned upon carrying insurance required herein, no failure to carry such insurance or to provide a certificate thereof by any such deadline shall alter or affect in any manner any of the rights or obligations of the parties under or with respect to this Easement. The foregoing insurance requirements shall not apply in the event that the Grantee is a governmental agency with a self-insurance program reasonably acceptable to Grantor.

12. Grantee Transfer of Easement.

12.1 Voluntary Transfer.

12.1.1 If Grantee desires to assign its interest under this Easement, Grantee shall provide Grantor and the Sierra Nevada Conservancy ("**SNC**") with written notice of such intention to transfer to an assignee which is (a) qualified to hold a conservation easement under §815.3 of the California Civil Code; and (b) willing and with the financial capability (taking into account any stewardship funds to be transferred by Grantee with this Easement) and organizational experience to assume all of the responsibilities imposed on Grantee under this Easement; and (c) acceptable to Grantor in its reasonable discretion. Grantee shall allow the SNC, in consultation with Grantor, a period of not less than sixty (60) days within which to approve the proposed assignee, which approval shall not be unreasonably withheld and shall be based on whether the proposed assignee meets the designation criteria specified in this Section 12.1.1.

12.1.2 Grantee is responsible for identifying a suitable assignee pursuant to Section 12.1.1. However, if a suitable assignee is not identified, then SNC shall have sole discretion to elect to become the assignee of Grantee's interest hereunder.

12.1.3 As conditions to any assignment of Grantee's interest under this Easement, Grantee shall (a) require the assignee to expressly agree in writing to assume Grantee's obligations hereunder, and (b) ensure that such assignee has the resources to fulfill its obligations under this Easement. Notwithstanding anything in this Section 12.1 to the contrary, this Easement shall not be transferred by Grantee to any governmental entity, public agency or Native American tribe without the consent of the Grantor, which consent shall be in Grantor's sole discretion exercised in good faith.

12.2 Involuntary Transfer. If Grantee ever ceases to exist or no longer qualifies under §815.3 of the California Civil Code, the Stewardship Council (or its designee), or if the Stewardship Council (or its designee) shall cease to exist, the Attorney General of the State of California, shall petition a court of competent jurisdiction to transfer this Easement to an organization that meets all of the designation criteria specified in Section 12.1.

13. Subsequent Property Transfers by Grantor.

13.1 Rights of Grantor. Subject to the provisions of Sections 7 and 9 above, this Section 13, Section 20.12 below, and Exhibit F, Paragraph 1 below, Grantor shall have the unrestricted right to sell, encumber, or otherwise transfer the Property or portions thereof to anyone Grantor chooses. Notwithstanding the foregoing, Grantor shall disclose the existence of this Easement (including reference to the recording information) in any deed or other legal instrument by which Grantor divests itself of a real property interest in all or a portion of the Property, including, without limitation, a leasehold interest, and all such conveyances shall be made expressly subject to the terms of this Easement and subject to the PG&E Reserved Rights. Grantor shall notify Grantee periodically of any contemplated grants by Grantor to any third party of any interest in any portion of the Property, whether such interest is a fee, easement, lease, mortgage or other interest. Additionally, Grantor shall notify Grantee in writing not more than thirty (30) days after any grant by Grantor to any third party of any interest in any portion of the Property, whether such interest is a fee, easement, lease, mortgage or other interest. The failure of Grantor to perform any act required by this Section 13 shall not impair the validity of this Easement or limit its enforcement in any way or create any obligation on the part of Grantee. Grantor recognizes that Grantee may incur direct and indirect costs for monitoring and administration of the Conservation Easement in the event fee title to the Property is transferred under this provision. Accordingly, upon Grantor's sale, transfer or conveyance of fee title of the Property, Grantor shall pay, or cause to be paid, to Grantee a one-time payment of a sum representing the increased cost of such Conservation Easement stewardship, as reasonably determined at such time by Grantee. Such one-time payment shall be in addition to any reimbursements required pursuant to Section 13.2.4 or Section 17 of this Easement.

13.2 Potential Release of Hydro Reserved Rights.

13.2.1 Conveyance of Entire Property. In the event:

(a) Grantor intends to transfer fee title to the entire Property to an unaffiliated third party;

(b) the Hydro Project Activities and any uses and facilities that are unrelated to the Hydro Project Activities but undertaken as a Required Action at the Property have been formally and permanently terminated by Grantor and, as appropriate, decommissioned pursuant to a regulatory proceeding; and

(c) no Hydroelectric Facilities and Associated Water Delivery Facilities, nor other facilities unrelated to Hydro Project Activities installed pursuant to a Required Action are located at the Property,

then, subject to any final orders or decommissioning requirements issued by the FERC and/or other agency(ies) with jurisdiction over the Hydro Project Activities and such other unrelated uses prior to said transfer of the entire Property, Grantor shall release, relinquish and forever terminate, in a manner that shall be binding upon all successors in interest to the Property, (i) all rights of Grantor described in Exhibit H, (ii) the exceptions to the Prohibited Uses for Required Actions and Specified Required Actions set forth in Exhibit F, (iii) the exceptions to the

Prohibited Uses in Exhibit F relating to activities within the Hydro Operating Zone, and (iv) Permitted Uses, to the extent related to the Hydro Project Activities, as set forth in Exhibit G (items (i), (ii), (iii) and (iv) being referred to collectively as the "**Reservations**"). Following such release, relinquishment and termination of Reservations, all Anticipated Significant Actions (except for Prohibited Uses and continuing Permitted Uses) shall be subject to Grantee's consent as Discretionary Actions and the Easement shall be interpreted more restrictively in a manner recognizing the release of Reservations.

13.2.2 Partial Conveyance. In the event:

(a) Grantor intends to transfer fee title to less than the entire Property (the "**Transferred Parcel**") to an unaffiliated third party;

(b) the Hydro Project Activities and any uses and facilities that are unrelated to the Hydro Project Activities but undertaken as a Required Action at the Transferred Parcel have been formally and permanently terminated by Grantor and, as appropriate, decommissioned pursuant to a regulatory proceeding; and

(c) no Hydroelectric Facilities and Associated Water Delivery Facilities, nor other facilities unrelated to Hydro Project Activities installed pursuant to a Required Action are located at the Transferred Parcel,

then, subject to any final orders or decommissioning requirements issued by the FERC and/or other agency(ies) with jurisdiction over the Hydro Project Activities and such other unrelated uses, prior to said transfer of the Transferred Parcel, Grantor shall release, relinquish and forever terminate, in a manner that shall be binding upon all successors in interest to the Transferred Parcel, the Reservations with respect to the Transferred Parcel. Following such release, relinquishment and termination of Reservations, all Anticipated Significant Actions (except for Prohibited Uses and continuing Permitted Uses) on the Transferred Parcel shall be subject to Grantee's consent as Discretionary Actions and the Easement shall be interpreted more restrictively in a manner recognizing the release of Reservations as to the Transferred Parcel.

13.2.3 Grantor's Continuing Reserved Rights. Nothing in Section 13.2.2 shall limit the PG&E Reserved Rights with respect to the Property or the rights of Grantor in this Easement with respect to the portion of the Property retained by Grantor.

13.2.4 Easement Amendment. In the event of a conveyance and release of Reservations pursuant to this Section 13.2, Grantor and Grantee may agree to amend this Easement, or to create a separate Easement for the Transferred Parcel and for the remaining portion of the Property in accordance with Section 17, to reflect the release of Reservations and, where appropriate, to reflect separate ownership of the Transferred Parcel and the remainder of the Property. In accordance with Section 17 below, Grantor shall reimburse Grantee for all reasonable costs incurred in connection with the drafting, review, negotiation, approval and recording of any amendment or separate Easement pursuant to this Section, including costs incurred in consideration of whether an amendment and/or new Easement(s) is/are necessary or appropriate.

13.2.5 Transfer Restrictions Remain Applicable. Nothing herein shall affect Grantor's obligations under Section 1 of Exhibit F.

14. Extinguishment and Condemnation.

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

14.2 Condemnation. If all or part of the Property is taken by the exercise of the power of eminent domain by public, corporate, or other authority, whether permanent or temporary, including a private sale in lieu of eminent domain, so as to abrogate the restrictions imposed by the Conservation Easement, Grantor and Grantee shall join in appropriate actions at the time of such taking to recover the full value of the taking and all incidental or direct damages resulting from the taking. All compensation thereby awarded will belong and be paid to Grantor and Grantee in proportion to their respective interests in the Property as determined pursuant to Section 14.3, it being expressly agreed that the Conservation Easement constitutes a compensable property right. All expenses incurred by Grantor and Grantee in such action shall be paid out of the recovered proceeds. Grantor and Grantee acknowledge that any and all awards to Grantor and Grantee may be subject to the approval of the Commission and/or the FERC.

14.3 Proceeds. Pursuant to California Civil Code §815.2(a) this Easement constitutes a real property interest immediately vested in Grantee. It is acknowledged by the parties that the purposes of establishing the value of this property right and enforcing the rights of Grantee with respect thereto is to prevent a private windfall and to protect the public investment which is involved in the conveyance of the Conservation Easement. That being the case, the parties stipulate that, for the purpose of determining the ratio for proportionate value of each party's respective interest in the Property at the time of termination or extinguishment of the Conservation Easement, the value of the Conservation Easement shall be the difference between (a) the current fair market value of the fee interest in the Property at the time of termination, as if unencumbered by the Conservation Easement, but taking into account all other existing restrictions on the improvement, construction, alteration, expansion, development, use, maintenance or operation of all or any portion of the Property (e.g., zoning laws, land use laws or other governmental laws, codes, regulations or ordinances, and private restrictions such as covenants, restrictions and agreements), and (b) the current fair market value of the Property at the time of termination, as encumbered by the Conservation Easement, but taking into account all other existing restrictions on the improvement, construction, alteration, expansion, development, use, maintenance or operation of all or any portion of the Property (e.g., zoning laws, land use laws or other governmental laws, codes, regulations or ordinances, and private restrictions such as covenants, restrictions and agreements). The values shall be determined by an appraisal prepared by a qualified appraiser familiar with appraising conservation easements jointly selected by Grantor and Grantee. The cost of the appraisal shall be paid out of proceeds in proportion to the recoveries of Grantor and Grantee. There shall be no restriction on Grantor’s or Grantee's use of proceeds received pursuant to this Section 14.3.

15. Estoppel Certificates. Grantee shall, within thirty (30) days after receiving Grantor's written request therefor (not to exceed once during any twelve (12) month period), execute and deliver to Grantor a document certifying, to the actual knowledge of the person executing the document without any duty of investigation, that Grantor is in compliance with any obligation of Grantor contained in this Easement, or otherwise evidencing the status of such obligation to the extent of Grantee's actual knowledge thereof, as may be reasonably requested by Grantor.

16. Notices. Any notice or other communication required or permitted under this Easement shall be in writing and shall be either personally delivered or transmitted by registered or certified mail, return receipt requested, postage prepaid, or by a nationally recognized overnight courier, such as FedEx, UPS, or Airborne Express, addressed to the parties as follows:

If to Grantor:

If by registered or certified mail, return receipt requested:

_____
_____
_____

Attn: _____

With a copy to:

_____
_____
_____

Attn: _____

If by personal delivery or overnight courier:

_____
_____
_____

Attn: _____

With a copy to:

_____
_____
_____

Attn: _____

If to Grantee: If by registered or certified mail, return receipt requested:

Sierra Foothill Conservancy
Post Office Box 529
Prather, CA 93651
Attn: Bridget Fithian

If by personal delivery or overnight courier:

Sierra Foothill Conservancy
29143 Auberry Road
Prather, CA 93651

With a copy to:

Baker Manock & Jensen, PC
5260 N. Palm Ave., Ste. 421
Fresno, CA 93704

Attn: Christopher L. Campbell

The date of any notice or communication shall be deemed to be the date of receipt if delivered personally, or the date of the receipt or refusal of delivery if transmitted by mail or overnight courier. Any party may change the address for notice by giving notice to the other party in accordance with this Section 16.

17. Amendment. This Easement may not be amended, except by written amendment executed by Grantor and Grantee or their respective successors and assigns and recorded in the official public records of the jurisdiction where the Property is located. If circumstances arise under which an amendment would be appropriate, any such amendment shall be consistent with Grantee's conservation easement amendment policy(ies), and the Purpose of this Easement, including continuing to protect and preserve the Beneficial Public Values, and shall not affect the perpetual duration of this Easement or the qualification of the Conservation Easement as a conservation easement under California Civil Code §815 *et seq.* (or successor thereto). Grantee shall promptly record the amendment in the official records of the County in which the Property is located, and shall thereafter promptly provide a conformed copy of the recorded amendment to Grantor. The party requesting the amendment shall reimburse the non-requesting party for all reasonable costs incurred in connection with the drafting, review, negotiation, approval and recording of such amendment. Grantor shall be deemed to be the "party requesting the amendment" in connection with any amendment and/or new conservation easement(s) pursuant to Section 13 above and the "reasonable costs incurred" shall include consideration of whether an amendment and/or new conservation easement(s) is/are necessary or appropriate.

18. Hazardous Substances Definitions. The following terms have the meanings ascribed to them below for purposes of this Easement:

18.1.1 "**Environmental Requirements**" means all applicable 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, 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.

18.1.2 "**Hazardous Substances**" means any hazardous or toxic material or waste which is or becomes regulated by any local governmental authority, the State of California or the United States Government under any Environmental Requirements, including, 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; 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) which 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; or 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) which contains gasoline, diesel fuel or other petroleum hydrocarbons; or

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

(f) which contains radon gas.

18.1.3 "**Necessary Remediation**" means Remediation required by any governmental agency which has jurisdiction over the Remediation pursuant to the Environmental Requirements.

18.1.4 "**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 Environmental Requirements.

18.2 Allocation of Responsibility for Hazardous Substances.

18.2.1 Generally. Grantor shall (as between Grantor and Grantee) bear the cost for the Necessary Remediation of Hazardous Substances.

18.2.2 Environmental Reports. PG&E, as part of the Land Conservation Commitment has prepared certain environmental reports concerning the Property. Copies of these environmental reports have been provided to Grantee.

18.2.3 Grantor Responsibility for the Cost of Necessary Remediation. Grantor (as between Grantor and Grantee) shall retain responsibility for the cost of Necessary Remediation of Hazardous Substance releases in soil and groundwater, whether occurring in the past or at any time in the future, which are present on the Property, provided that Grantee did not cause, in whole or in part, such Hazardous Substance contamination.

18.2.4 No Owner or Operator Liability. The parties do not intend this Easement to be, and this Easement shall not be, construed such that it creates in or gives to Grantee any of the following solely as the result of being a holder of the Conservation Easement:

(a) The obligations or liability of an "owner" or "operator" or "arranger," as those terms are defined and used in Environmental Requirements;

(b) The obligations or liabilities of a person described in 42 U.S.C. §9607(a)(3) or (4);

(c) The obligations of a responsible person under any applicable Environmental Requirements;

(d) The right to investigate and remediate any Hazardous Substances associated with the Property; or

(e) Any control over Grantor's ability to investigate, remove, remediate or otherwise clean up any Hazardous Substances associated with the Property.

18.3 Hazardous Substances Indemnification.

18.3.1 By Grantor. Grantor agrees and covenants, at its sole cost and expense, to indemnify, protect, defend and hold Grantee harmless, from and against any and all losses (including diminution in the value of the Property and other consequential damages), costs, claims, demands, actions, suits, orders, causes of action, penalties, fines, taxes, obligations,

controversies, debts, expenses, accounts, damages (including, without limitation, punitive damages), judgments and liabilities of whatever kind or nature, and by whomsoever asserted, in law, equity or otherwise, including, without limitation, the actual fees and expenses of experts, attorneys and others and the payment of "response costs" under CERCLA or any other Environmental Requirements, arising from or relating, in whole or in part, to Hazardous Substances present at the Property, alleged to be present there, or otherwise connected in any way to the Property, whether before, on, or after the date of this Easement (collectively, "**Environmental Claims**"), except to the extent caused, in whole or in part, by the negligent or intentional act of Grantee.

18.3.2 By Grantee. Grantee agrees and covenants, at its sole cost and expense, to indemnify, protect, defend and hold Grantor harmless, from and against any and all Environmental Claims, to the extent caused, in whole or in part, by the negligent or intentional act of Grantee.

19. Carbon Rights. Promotion of Climate Stability. Grantor and Grantee anticipate that the protection and preservation of the Beneficial Public Values will promote climate stability, especially the ability of the forest to store atmospheric carbon as a means to mitigate global warming, which is recognized as being of public benefit by the 1993 United Nations Framework Convention on Climate Change, the federal Energy Policy Act of 1002, section 1605(a) and (b), the United States Climate Challenge Program, the 2007 reports of the International Panel on Climate Change, and California legislation such as that embodied in Fish and Game Code Section 1356.

19.1 Reservation of Carbon Rights. Grantor exclusively reserves to itself, and to its personal representatives, heirs, successors and assigns, any and all carbon rights and obligations appurtenant to or accruing from the Property as may exist as of the date of recordation of this Easement or as may be granted, discovered, created, declared or developed in the future, including, but not limited to, the right to (subject to and in accordance with Section 7 hereof) use, store, sequester, accumulate, and/or depreciate carbon within or on the Property and the right to trade, sell, transfer, or lease these rights. Grantor and Grantee acknowledge and agree that these carbon rights are consistent with the Beneficial Public Values, and this Easement shall not extinguish or otherwise impair the carbon rights and obligations appurtenant to or accruing from the Property.

19.2 Carbon Certification. In furtherance of Grantor's exercise of the carbon rights reserved hereunder, Grantor may elect to enter into an agreement not inconsistent with this Easement respecting such reserved rights as may be required by a third party that Grantor chooses ("**Carbon Certification Party**") in order to facilitate the sale, transfer or lease of the carbon rights and may record such agreement in the official records of any County where the Property is located. To the extent reasonably required by any Carbon Certification Party and requested by Grantor, Grantee, at Grantor's cost and expense, shall cooperate with Grantor by accommodating Grantor's establishment, verification or certification of the carbon rights in connection with the Property. Grantor agrees to notify Grantee at least thirty (30) days prior to any sale, transfer or lease of these carbon rights or the recording of an agreement with respect thereto, unless Grantor has previously notified Grantee in a Work Plan.

20. General Provisions.

20.1 Governing Laws. This Easement shall be governed by, and construed and enforced in accordance with, the laws of the State of California.

20.2 No Public Dedication. Nothing contained in this Easement shall be construed or deemed to be an express or implied dedication or gift of all or any portion of the Property for use or access by the general public nor shall this Easement or any of the rights granted hereunder be construed as an acknowledgement of any claim of prescriptive or other similar rights in or over the Property.

20.3 Liberal Construction. Any general rule of construction to the contrary notwithstanding, this Easement shall be liberally construed to effect the Purpose of this Easement and the policy and purpose of California Civil Code §815 *et seq.*, while recognizing the PG&E Reserved Rights and Grantor's reserved rights. If any provision in this Easement is found to be ambiguous, an interpretation consistent with the Purpose of this Easement, which recognizes the PG&E Reserved Rights and Grantor's reserved rights and that would render the provision valid shall be favored over any interpretation that would render it invalid.

20.4 Further Assurances. Each party hereto agrees to execute and deliver to the other party such further documents or instruments as may be necessary or appropriate in order to carry out the intentions of the parties as contained in this Easement.

20.5 Severability. If any provision of this Easement shall be unenforceable or invalid, the same shall not affect the remaining provisions of this Easement, and to this end the provisions of this Easement are intended to be and shall be severable.

20.6 Entire Agreement. This Easement sets forth the entire agreement of the parties with respect to the Conservation Easement and supersedes all prior discussions, negotiations, understandings, or agreements relating to the Conservation Easement, all of which are merged herein.

20.7 No Forfeiture. Nothing contained herein will result in a forfeiture or reversion of Grantor's title in any respect.

20.8 Successors. The easement created by this instrument shall be a servitude running with the land in perpetuity. The covenants, terms, conditions, and restrictions of this Easement shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns and shall run with the Property. However, this Easement shall not create or bestow any lien or property right in any third party, except for PG&E with respect to the PG&E Reserved Rights. Except for PG&E with respect to the PG&E Reserved Rights, Grantor and Grantee agree that no third party beneficiary to this Easement exists and that nothing contained herein shall be construed as giving any person third party beneficiary status or any right of enforcement hereunder.

20.9 Recordation. Grantee shall promptly record this Easement in the official records of the County in which the Property is located, and shall thereafter promptly provide to

Grantor a copy hereof showing the recording information. Grantee may re-record this Easement at any time as may be required to preserve its rights in this Easement.

20.10 Termination of Rights and Obligations. A party's rights and obligations under this Easement shall terminate only upon transfer of the party's interest in all or portions of either the Conservation Easement or the Property, except that liability for acts or omissions occurring prior to transfer shall survive the transfer.

20.11 Attorneys' Fees. In the event that any party shall bring an action to enforce its rights under this Easement, or relating to the interpretation hereof, whether for declaratory, injunctive or other relief, the prevailing party in any such proceeding shall be entitled to recover from the other party reasonable attorneys' fees and all costs, expenses and disbursements that the prevailing party incurred in connection with such proceeding, including appeals, remands and any other subsequent proceeding (including, but not limited to, the reasonable costs of discovery, investigation, preparation for trial, professional or expert consultation and testimony). A party shall be deemed to have prevailed in any such action (without limiting the generality of the foregoing) if such action is dismissed upon the payment by the other party of the sums allegedly due or the performance of obligations allegedly not complied with, or if such party obtains substantially the relief sought by it in the action, irrespective of whether such action is prosecuted to judgment. The non-prevailing party shall also pay the attorneys' fees and costs incurred by the prevailing party in any post-judgment proceedings to collect and enforce the judgment. Any such fees and costs incurred prior to judgment, award, or decree may be included in any judgment, award or decree entered in such proceeding in favor of the prevailing party. Any such fees, costs and expenses incurred by the prevailing party in enforcing a judgment, award or decree in its favor shall be recoverable separately from and in addition to any other amount included in such judgment, award or decree. This provision is separate and several and shall survive the merger of this Easement into any judgment on this Easement.

20.12 Mortgage Liens Subordinate. No provision of this Easement is to be construed as impairing the ability of Grantor to use the Property as collateral for any loan, provided that any lien securing such loan (a "**Mortgage Lien**"), regardless of date, shall be subordinate to the terms of this Easement and Grantee's rights under this Easement. Under no circumstances may Grantee's rights be extinguished or otherwise affected by the recording, foreclosure, or any other action taken concerning any Mortgage Lien.

20.13 Pre-Existing Water Rights. In accordance with Section 12(e) of the Stipulation, this Easement does not impact the authority of third-party holders of water rights to exercise those rights.

20.14 Table of Contents and Captions. The table of contents and captions in this Easement have been inserted solely for convenience of reference and are not a part of this Easement and shall have no effect upon construction or interpretation.

20.15 Incorporation of Recitals. All Recitals are incorporated herein by this reference.

20.16 List of Exhibits. The following exhibits are attached hereto and incorporated herein by this reference:

Exhibit A	Property Description
Exhibit B	PG&E Deed
Exhibit C	Express Third Party Uses and Third Party Use Agreements
Exhibit D	Description of Hydro Project Activities and Hydroelectric Facilities and Associated Water Delivery Facilities
Exhibit E	Beneficial Public Values
Exhibit F	Prohibited Uses
Exhibit G	Expressly Permitted Uses
Exhibit H	Hydro Reserved Rights
Exhibit I	Hydro Operating Zone(s)
Exhibit J	Insurance Requirements

20.17 Counterparts. This Easement 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. In the event of a discrepancy between counterparts, the recorded Easement shall be controlling.

IN WITNESS WHEREOF, Grantor has granted to Grantee, and Grantee has accepted, this Easement, and the parties mutually agree to the terms and covenants set forth above, as of the Effective Date.

GRANTOR:

MERCED IRRIGATION DISTRICT,
a California Irrigation District existing under
Division 11 of the California Water Code

By: _____

Its: _____

GRANTEE:

SIERRA FOOTHILL CONSERVANCY,
a California non-profit public benefit corporation

By: _____

Its: _____

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

State of California)
County of _____)

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

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

WITNESS my hand and official seal.

Signature _____

_____ (Seal)

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

.
State of California)
County of _____)

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

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

WITNESS my hand and official seal.

Signature _____

_____ (Seal)
Notary Public

EXHIBIT A__

LEGAL DESCRIPTION OF PROPERTY

THE LAND DESCRIBED HEREIN IS SITUATED IN THE STATE OF CALIFORNIA, COUNTIES OF MERCED AND MARIPOSA, UNINCORPORATED AREA, AND IS DESCRIBED AS FOLLOWS:

PARCEL ONE:
SBE 135-24-003, PCL
1 APN 043-130-005

ALL THE CERTAIN PARCEL OF LAND SITUATE IN FRACTIONAL LOT 3, IN THE SOUTHWEST ONE-QUARTER OF SECTION 4, TOWNSHIP 5 SOUTH, RANGE 15 EAST, MOUNT DIABLO BASE AND MERIDIAN, AS RECORDED IN BOOK 794, PAGE 19 OF OFFICIAL RECORDS OF THE COUNTY OF MERCED, STATE OF CALIFORNIA, PARTICULARLY DESCRIBED THEREIN AS FOLLOWS:

BEGINNING AT THE POINT OF INTERSECTION OF THE WESTERLY LINE OF WHAT IS KNOWN AS THE MERCED FALLS POWER HOUSE AND DAM SITE PROPERTY, DESCRIBED IN A DEED RECORDED FEBRUARY 2, 1911, IN VOL. 80 OF DEEDS AT PAGE 548, MERCED COUNTY RECORDS, WITH THE SOUTH LINE OF THE COUNTY ROAD; THENCE
SOUTH 23° 00' EAST ALONG SAID WEST LINE OF SAID ABOVE MENTIONED PROPERTY A DISTANCE OF 150 FEET; THENCE SOUTHWESTERLY AND PARALLEL WITH THE SOUTH LINE OF SAID COUNTY ROAD, A DISTANCE OF 100 FEET; THENCE
NORTH 23° 00' WEST, A DISTANCE OF 150 FEET TO THE SOUTH LINE
OF SAID COUNTY ROAD; THENCE
NORTHEASTERLY ALONG THE SOUTH LINE OF SAID COUNTY ROAD, A DISTANCE OF 100 FEET TO THE POINT OF BEGINNING.

PARCEL TWO:
SBE 143-24-002, PCL 5
APN 043-130-006,
PORTION

ALL THAT CERTAIN PARCEL OF LAND SITUATE IN THE SOUTH ONE-HALF OF SECTION 4,
TOWNSHIP 5 SOUTH, RANGE 15 EAST, MOUNT DIABLO BASE AND MERIDIAN DESIGNATED PARCEL 1, AS RECORDED IN BOOK 50, PAGE 403 OF DEEDS OF THE COUNTY OF MERCED, STATE OF CALIFORNIA, AND IN BOOK 20, PAGE 8 OF DEEDS OF THE COUNTY OF MARIPOSA, STATE OF CALIFORNIA, PARTICULARLY DESCRIBED THEREIN AS FOLLOWS:

EXHIBIT "A"
LEGAL DESCRIPTION continued

PARCEL TWO (continued):
BEGINNING AT AN IRON STAKE SOUTH 67° WEST 1.45 CHAINS DISTANT FROM AN IRON STAKE 69 CHAINS SOUTH OF THE QUARTER SECTION POST OF SECTION 4, TOWNSHIP 5 SOUTH, RANGE 15 EAST, M.D.B.&M., AND RUNNING THENCE
NORTH 23_ WEST 2.63 CHAINS TO AN IRON STAKE ON THE SOUTH SIDE OF THE ROAD FROM WHICH THE SOUTHEAST CORNER OF THE ADOBE STORE BEARS NORTH 10° 30' EAST
1.13 CHAINS, AND THE NORTHEAST CORNER OF THE FACTORY BEARS SOUTH 13° 30' EAST 1.72 CHAINS, AND THE NORTHWEST CORNER OF THE FACTORY BEARS SOUTH 9° WEST 1.99 1/2 CHAINS; THENCE
SOUTH 65° 15' WEST 2.30 CHAINS TO AN IRON STAKE;
THENCE SOUTH 23° EAST 6.23 CHAINS TO MERCED RIVER; THENCE
NORTH 65° 15' EAST 2.20 CHAINS TO THE EDGE OF THE MILL RACE 2.30 CHAINS TO THE CENTER OF SAID MILL RACE; THENCE
NORTH 23° WEST 3.60 CHAINS TO THE POINT OF COMMENCEMENT.

PARCEL THREE:
SBE 143-24-002,
PCL 5
APN 043-130-006, PORTION

ALL THAT CERTAIN PARCEL OF LAND SITUATE IN THE SOUTH ONE-HALF OF SECTION 4, TOWNSHIP 5 SOUTH, RANGE 15 EAST, MOUNT DIABLO BASE AND MERIDIAN, AS RECORDED IN BOOK 51, PAGE 98 OF DEEDS OF THE COUNTY OF MERCED, STATE OF CALIFORNIA,
AND MORE PARTICULARLY SHOWN AS THE EASTERLY PARCEL IN THE RECORD OF SURVEY RECORDED MAY 29, 1936 IN VOLUME 2, PAGE 14 OF SURVEYS OF SAID COUNTY, MORE PARTICULARLY DESCRIBED AS FOLLOWS:

COMMENCING AT THE 1 1/2 INCH IRON PIPE SHOWN ON SAID RECORD OF SURVEY AS MARKING THE INTERSECTION OF THE NORTH/SOUTH QUARTER SECTION LINE OF SAID SECTION 4 WITH THE SOUTHERLY BOUNDARY LINE OF THE COUNTY ROAD, AND RUNNING THENCE SOUTH 1° 57' WEST 323.24 FEET TO A POINT ON THE EASTERLY BOUNDARY
LINE OF THE PARCEL OF LAND DESCRIBED IN THE DEED RECORDED IN BOOK 50, PAGE 403 OF DEEDS OF SAID COUNTY, BEING THE TRUE POINT OF BEGINNING; THENCE ALONG SAID EASTERLY BOUNDARY LINE NORTH 23° 00' WEST 298.06 FEET TO THE MOST
NORTHERLY CORNER OF THE PARCEL OF LAND DESCRIBED IN SAID DEED RECORDED IN BOOK 50, PAGE 403 OF DEEDS; THENCE

EXHIBIT "A"
LEGAL DESCRIPTION continued

PARCEL THREE (continued):
NORTH 70° 32' EAST 78.4 FEET ALONG THE SOUTHERLY BOUNDARY LINE OF SAID COUNTY ROAD TO A 24 INCH STEEL DRILL PIN; THENCE CONTINUING ALONG THE SOUTHERLY BOUNDARY LINE OF SAID COUNTY ROAD
NORTH 6° 09' EAST 124.2 FEET TO A 1-1/4 INCH IRON
PIPE; THENCE LEAVING SAID SOUTHERLY
BOUNDARY LINE SOUTH 22° 51' EAST 80.0 FEET;
THENCE
NORTH 67° 09' EAST 35.0 FEET TO A 1-1/4 INCH IRON PIPE; THENCE
SOUTH 22° 51' EAST 120.0 FEET TO A 1-1/4 INCH IRON PIPE;
THENCE SOUTH 22° 51' EAST 33.0 FEET; THENCE
SOUTH 01° 57' WEST 277.01 FEET; THENCE
SOUTH 33° 29' 30" EAST 281.2 FEET; THENCE
SOUTH 78° 01' 30" EAST 84.8 FEET;
THENCE NORTH 46° 30' EAST 41.8
FEET; THENCE SOUTH 57° 23' EAST
22.5 FEET; THENCE
SOUTH 05° 24' EAST 35.0 FEET TO A 1-1/4 INCH IRON PIPE;
THENCE SOUTH 48° 28' WEST 66.6 FEET; THENCE
NORTH 62° 10' WEST 116.0 FEET; THENCE
NORTH 41° 12' WEST 107.0 FEET; THENCE
NORTH 35° 37' WEST 278.5 FEET; THENCE
SOUTH 65° 15' WEST 51.3 FEET TO THE SOUTHEAST CORNER OF SAID PARCEL DESCRIBED IN BOOK 50, PAGE 403 OF DEEDS IN SAID COUNTY; THENCE ALONG SAID PARCEL NORTH 23° 00' WEST 113.12 FEET TO THE TRUE POINT OF BEGINNING.

EXHIBIT "A"
LEGAL DESCRIPTION continued

PARCEL FOUR:
SBE 143-22-001, PCL 3, 143-24-002,
PCL 6 MERCED COUNTY APN 043-
140-001

MARIPOSA COUNTY APN 11-010

ALL THAT CERTAIN PARCEL OF LAND SITUATE IN THE SOUTH ONE-HALF OF SECTION 4, TOWNSHIP 5 SOUTH, RANGE 15 EAST, MOUNT DIABLO BASE AND MERIDIAN, AS RECORDED IN BOOK 411, PAGE 397 OF OFFICIAL RECORDS OF THE COUNTY OF MERCED, STATE OF CALIFORNIA, AND BOOK 32, PAGE 302 OF DEEDS OF THE COUNTY OF MARIPOSA, STATE OF CALIFORNIA, PARTICULARLY DESCRIBED THEREIN AS FOLLOWS:

PART A

BEGINNING AT A POINT, DESIGNATED AS STATION "A" ON THE SECTION LINE COMMON TO SECTIONS 3 AND 4 OF SAID TOWNSHIP AND RANGE, WHICH POINT IS ON THE PRESENT FLOOD LINE OF THE MERCED FALLS POND AT ELEVATION 344 FEET ABOVE SEA LEVEL, U.S.G.S. DATUM, AND WHICH BEARS NORTH 01° 58' EAST 1747.6 FEET FROM THE
SECTION CORNER COMMON TO SECTIONS 3, 4, 9 AND 10 OF SAID TOWNSHIP AND RANGE; THENCE
WESTERLY ALONG PRESENT FLOOD LINE AT ELEVATION 344 FEET TO A POINT DESIGNATED AS STATION "B", WHICH BEARS NORTH 82° 42' WEST 456.5 FEET FROM STATION
"A"; THENCE
CONTINUING ALONG SAID FLOOD LINE AT ELEVATION 344 FEET TO A POINT DESIGNATED AS STATION "B1", WHICH BEARS NORTH 16° 27_ WEST 325.5 FEET FROM STATION "B";
THENCE
CONTINUING ALONG SAID FLOOD LINE AT ELEVATION 344 FEET TO A POINT DESIGNATED AS STATION "B2", WHICH BEARS NORTH 27° 48' WEST 325.2 FEET FROM STATION
"B1"; THENCE
CONTINUING ALONG SAID FLOOD LINE AT ELEVATION 344 FEET TO A POINT DESIGNATED AS STATION "B3", WHICH BEARS SOUTH 16° 45' EAST 302.7 FEET FROM STATION
"B2"; THENCE
CONTINUING ALONG SAID FLOOD LINE AT ELEVATION 344 FEET TO A POINT DESIGNATED AS STATION "C", WHICH BEARS SOUTH 22° 09' EAST 128.8 FEET FROM STATION
"B3"; THENCE

EXHIBIT "A"
LEGAL DESCRIPTION continued

PARCEL FOUR (continued):
CONTINUING ALONG SAID FLOOD LINE AT ELEVATION 344 FEET TO A POINT DESIGNATED AS STATION "D", WHICH BEARS SOUTH 55° 06' WEST 431.7 FEET FROM STATION
"C"; THENCE
CONTINUING ALONG SAID FLOOD LINE AT ELEVATION 344 FEET TO A POINT DESIGNATED AS STATION "E", WHICH POINT IS LOCATED ON THE WEST BOUNDARY OF LOT 1 OF SAID SECTION 4, AND BEARS SOUTH 64° 45' WEST 445.5 FEET FROM STATION "D";
THENCE
SOUTH 01° 58' WEST 73 FEET ALONG THE WEST BOUNDARY OF LOT 1 TO A POINT DESIGNATED AS STATION "F", WHICH POINT IS LOCATED WHERE THE WEST BOUNDARY OF SAID LOT 1 INTERSECTS THE OLD SHORE LINE OF THE MERCED FALLS POND AT ELEVATION 338.3 FEET ABOVE SEA LEVEL; THENCE
EASTERLY ALONG OLD SHORE LINE AT ELEVATION 338.3 FEET TO A POINT DESIGNATED AS STATION "G" ON THE SECTION LINE COMMON TO SECTIONS 3 AND 4 OF SAID TOWNSHIP AND RANGE; THENCE
NORTH 01° 58' EAST 23 FEET ALONG SAID SECTION LINE TO STATION "A"
AND THE POINT OF BEGINNING.

PART B
ALL THAT CERTAIN PARCEL OF LAND IN THE SOUTH ONE-HALF OF SECTION 4, TOWNSHIP 5 SOUTH, RANGE 15 EAST, MOUNT DIABLO BASE AND MERIDIAN, SITUATE, LYING AND
BEING BETWEEN THE EASTERLY AND WESTERLY SIDE LINES OF LOT 1 OF SAID SECTION
4, AS PROLONGED SOUTHERLY TO THE MIDDLE OF THE MERCED RIVER AND BETWEEN THE MIDDLE OR THREAD OF THE MERCED RIVER AND THE SOUTHERLY BOUNDARY OF HEREINBEFORE DESCRIBED PART A, BEING THE OLD SHORELINE AT ELEVATION 338.3 FEET ABOVE SEA LEVEL, U.S.G.S. DATUM, OF THE MERCED FALLS POND.

EXHIBIT "A"
LEGAL DESCRIPTION continued

PARCEL FIVE:
SBE 135-22-003, PCLS 1, 2, 3
AND 4 APN 11-010

ALL THAT CERTAIN PARCEL OF LAND SITUATE IN LOTS 3 AND 4 OF SECTION 3, TOWNSHIP 5 SOUTH, RANGE 15 EAST, MOUNT DIABLO BASE AND MERIDIAN, CONVEYED BY W.E. PORATH AND HELENE B. PORATH, HUSBAND AND WIFE, TO SAN JOAQUIN LIGHT AND POWER CORPORATION, PREDECESSOR IN INTEREST OF PACIFIC GAS AND ELECTRIC COMPANY, BY DEED DATED APRIL 10, 1930, AND A PORTION OF WHICH WAS CONVEYED BY L. GALLIANI, AND J. C. VALENZUELA AND REBECCA VALENZUELA, HUSBAND AND WIFE, TO SAN JOAQUIN LIGHT AND POWER CORPORATION BY DEED DATED APRIL 24, 1930, BOTH OF WHICH ARE RECORDED IN BOOK 31, PAGE 340 OF DEEDS OF THE COUNTY OF MARIPOSA, STATE OF CALIFORNIA, AND WHICH PARCEL OF LAND IS MORE PARTICULARLY DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT WHICH BEARS NORTH 01° 58' 15" EAST 1809.2 FEET FROM THE SECTION CORNER COMMON TO SECTIONS 3, 4, 9 AND 10, OF SAID TOWNSHIP AND RANGE, THENCE
NORTH 89° 45' EAST 689 FEET; THENCE
SOUTH 71° 15' EAST 650 FEET; THENCE
SOUTH 83° 49_ EAST 617.1 FEET;
THENCE DUE SOUTH 54 FEET; THENCE
SOUTH 56° 16_'EAST 862 FEET; THENCE
SOUTH 00° 50' WEST 149 FEET; THENCE
NORTH 56° 16' WEST 695 FEET; THENCE
NORTH 68° 55' WEST 1402.6 FEET; THENCE
NORTH 87° 40' WEST 408.3 FEET;
THENCE SOUTH 78° 35' WEST 349 FEET;
THENCE
NORTH 01° 58' EAST 116 FEET TO THE POINT OF BEGINNING; AND THE STRIP OF LAND BETWEEN SAID LOTS AND THE PRESENT SHORE LINE.

EXHIBIT B

Copy of PG&E Deed

[To be attached]

EXHIBIT C

EXPRESS THIRD PARTY USES AND THIRD PARTY USE AGREEMENTS

1. Express Third Party Uses

Express Third Party Uses on the Property are all uses permitted by and pursuant to the Third Party Use Agreements.

2. Third Party Use Agreements

The Third Party Use Agreements on the Property are the PG&E Deed and those agreements and rights disclosed on the Preliminary Report List of Exceptions following this page.

EXCEPTIONS

At the date hereof exceptions to coverage in addition to the printed Exceptions and Exclusions in said policy form would be as follows:

1. PROPERTY TAXES AS ASSESSED ON THE COUNTY UTILITY TAX ROLL BY THE STATE BOARD OF EQUALIZATION, WHICH ARE A LIEN FOR THE FISCAL YEAR 2016-2017.

2. TAXES FOR THE FISCAL YEAR 2015-2016 WHICH ARE ASSESSED BY THE STATE OF CALIFORNIA THROUGH THE STATE BOARD OF EQUALIZATION AND CARRIED ON THE COUNTY PUBLIC UTILITY ROLL. NO EXAMINATION OF THIS ROLL HAS BEEN MADE.

3. THE LIEN OF SUPPLEMENTAL TAXES, IF ANY, ASSESSED PURSUANT TO THE PROVISIONS OF CHAPTER 3.5, (COMMENCING WITH SECTION 75) OF THE REVENUE AND TAXATION CODE, OF THE STATE OF CALIFORNIA.

4. RIGHTS OF THE PUBLIC AND OF THE COUNTY OF MERCED AND MARIPOSA, AS TO THAT PORTION OF THE HEREIN DESCRIBED PROPERTY LYING WITHIN MERCED FALLS ROAD, LAKE MCLURE ROAD AND HORNITOS ROAD.

5. RIGHTS OF THE PUBLIC, THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF, OR OF THE UNITED STATES OF AMERICA IN OR TO ANY PORTION OF THE LAND LYING BELOW THE HIGH WATER LINE OF THE MERCED RIVER AND MERCED FALLS RESERVOIR AS IT EXISTS NOW OR AS IT HAS EXISTED IN THE STATE OF NATURE.

6. ANY ADVERSE CLAIM BASED UPON THE ASSERTION THAT: (A) SOME PORTION OF SAID LAND HAS BEEN CREATED BY ARTIFICIAL MEANS, OR HAS ACCRETED TO SUCH PORTION SO CREATED. (B) SOME PORTION OF SAID LAND HAS BEEN BROUGHT WITHIN THE BOUNDARIES THEREOF BY AN AVULSIVE MOVEMENT OF MERCED RIVER AND MERCED FALLS RESERVOIR, OR HAS BEEN FORMED BY ACCRETION TO ANY SUCH PORTION.

7. RIGHTS AND EASEMENTS, INCLUDING BUT NOT LIMITED TO, RECREATION, NAVIGATION AND FISHERIES, WHICH MAY EXIST OVER THAT PORTION OF SAID LAND LYING BENEATH THE WATERS OF MERCED RIVER AND MERCED FALLS RESERVOIR.

8. RIGHTS OF UPPER AND LOWER RIPARIAN OWNERS IN AND TO THE FREE AND UNOBSTRUCTED FLOW OF THE WATER OF THE MERCED RIVER AND LAKE MCSWAIN EXTENDING THROUGH THE LAND, WITHOUT DIMINUTION.

EXCEPTIONS (continued)

9. RIPARIAN OR WATER RIGHTS, CLAIMS, OR TITLE TO WATER WHETHER OR NOT SHOWN BY THE PUBLIC RECORDS.

10. A RESERVATION OVER SAID LAND TO BUILD OR PLACE IMPROVEMENTS AND

    INCIDENTAL PURPOSES, AS RESERVED BY L. GALLIANI, ET AL, IN DEED RECORDED APRIL 30, 1930, IN BOOK 31 OF DEEDS AT PAGE 340 MARIPOSA COUNTY RECORDS.

    AFFECTS: PARCEL 5/A.P.N. 11-010
    PGE# 2205-15-0042

    NO REPRESENTATION IS MADE AS TO THE CURRENT OWNERSHIP OF SAID EASEMENT.

11. AN EASEMENT OVER SAID LAND FOR RIGHT TO WATER LIVESTOCK IN THE MERCED RIVER AT A POINT NORTH OF CULVERT ON BRIDGE ON ABANDONED Y V RAILROAD GRADE AND INCIDENTAL PURPOSES, AS RESERVED BY W. E. PORATH, ET.UX., IN INSTRUMENT RECORDED APRIL 30, 1930, IN BOOK 31, PAGE 340, DEEDS.

    AFFECTS: PARCEL 4 APN 11-010 AND 043-140-001
    PGE# 2205-15-0042

    NO REPRESENTATION IS MADE AS TO THE CURRENT OWNERSHIP OF SAID EASEMENT.

12. AN EASEMENT OVER SAID LAND FOR INSTALLING, MAINTAINING AND OPERATING A PIPELINE NOT TO EXCEED FIVE INCHES IN DIAMETER FOR THE PURPOSE OF CONVEYING WATER AND INCIDENTAL PURPOSES, AS RESERVED BY GROVER C. MCCOY, ET AL, IN DEED RECORDED JANUARY 03, 1934, IN BOOK 411 OF OFFICIAL RECORDS AT PAGER 397, MERCED COUNTY RECORDS AND RECORDED JULY 31, 1934, IN BOOK 32 OF DEEDS AT PAGE 302, MARIPOSA COUNTY RECORDS.

    AFFECTS: PARCEL 4 AND 5/A.P.N. 011-010
    PGE# 2205-15-0052

    NO REPRESENTATION IS MADE AS TO THE CURRENT OWNERSHIP OF SAID EASEMENT.

13. AN EASEMENT OVER SAID LAND FOR PUBLIC HIGHWAY AND INCIDENTAL PURPOSES, AS GRANTED TO COUNTY OF MERCED, IN DEED RECORDED SEPTEMBER 26, 1911, IN BOOK 86 OF DEEDS PAGE 80 MERCED COUNTY RECORDS.

EXCEPTIONS (continued)

NO REPRESENTATION IS MADE AS TO THE CURRENT OWNERSHIP OF SAID EASEMENT.

14. AN EASEMENT OVER SAID LAND TO CONSTRUCT THEREON CANALS, DITCHES AND OTHER CONDUITS FOR WATER AND TO DISTRIBUTE WATER FROM SAID CANALS, DITCHES AND CONDUITS AND INCIDENTAL PURPOSES, AS GRANTED TO MERCED IRRIGATION DISTRICT, IN DEED RECORDED APRIL 06, 1923, IN BOOK 43 PAGE 140 MERCED COUNTY RECORDS.

    AFFECTS: PARCELS 2 AND 3 APN 043-130-006
    PGE#2205-15-0057

    NO REPRESENTATION IS MADE AS TO THE CURRENT OWNERSHIP OF SAID EASEMENT.

15. AN EASEMENT OVER SAID LAND TO CONSTRUCT, MAINTAIN AND USE A ROAD AND INCIDENTAL PURPOSES, AS GRANTED TO COUNTY OF MERCED, IN DEED RECORDED NOVEMBER 17, 1971, IN BOOK 1872 PAGE 706 MERCED COUNTY RECORDS; AND AN EASEMENT TO CONSTRUCT, MAINTAIN AND USE A ROAD AND ALL RIGHT INCIDENTAL TO THE USE THEREOF, AS CONVEYED IN THE INSTRUMENT TO THE COUNTY OF MARIPOSA, RECORDED NOVEMBER 19, 1971, IN BOOK 131 OF OFFICIAL RECORDS
    AT PAGE 347, MARIPOSA COUNTY RECORDS.

    AFFECTS: PARCEL 4/A.P.N. 043-140-001, 11-010
    PGE# 2205-15-0084 & 0085

    NO REPRESENTATION IS MADE AS TO THE CURRENT OWNERSHIP OF SAID EASEMENT.

16. ANY CLAIM BASED ON THE INCORRECT REPRESENTATION OF SAID PROPERTY ON THE COUNTY ASSESSORS MAP BOOK 11 PAGE 10 OF MARIPOSA COUNTY.

17. TERMS, CONDITIONS AND STIPULATIONS AS CONTAINED IN THE FEDERAL ENERGY REGULATORY COMMISSION LICENSE PROJECT P-2467.

18. VESTEE, BEING A PUBLIC UTILITY, IS SUBJECT TO THE JURISDICTION OF THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA AND MAY BE SUBJECT TO THE INTERSTATE COMMERCE.

EXHIBIT D

Description of Hydro Project Activities and Hydroelectric Facilities and Associated Water Delivery Facilities

As used in this Easement, "Hydro Project Activities" are those existing and future uses of the Property, and the existing and future Hydroelectric Facilities and Associated Water Delivery Facilities (as defined below) now or hereafter located on, above, or under the Property, associated with the operation of the *Merced Falls* FERC Project (FERC Project No. 2467), located on the Merced River, and shall include any future uses of the Property, and the existing and future Hydroelectric Facilities and Associated Water Delivery Facilities now or hereafter located on, above, or under the Property, associated with compliance with any future FERC License, FERC License renewal or other regulatory requirements.

As used in this Easement, "Hydroelectric Facilities and Associated Water Delivery Facilities" are those existing and future facilities, structures, buildings, and improvements now or hereafter located on, above, or under the Property, and associated with the operation of the Merced Falls FERC Project (FERC Project No. 2467), including, but not limited to, the following existing and future improvements: Merced Falls Reservoir, Merced Falls Powerhouse, and associated infrastructure facilities; facilities necessary for the operation of the Merced Falls Powerhouse; improvements for existing and future water delivery and other requirements of power generation, transmission, distribution, and storage, for nonconsumptive and consumptive water use; gauging stations; bridges; electrical transmission lines, including distribution lines; and communications lines and facilities.

EXHIBIT E

BENEFICIAL PUBLIC VALUES

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

1. Habitat for plants and animals that are native to the area, including species protected under the California Endangered Species Act and/or the federal Endangered Species Act. The term "native" refers to plants and animals that occur naturally on the Property, and are defined as "native" by the California Department of Fish & Wildlife and its successors.

2. The scenic viewshed of the Property visible to passersby on the nearby roads and highways.

3. Watershed values, such as well-vegetated stream banks, that help maintain water quality and aquatic habitats.

4. Outdoor recreation, such as fishing.

5. Identified historical and cultural values, to the extent they are protected by state and Federal law.

EXHIBIT F

PROHIBITED USES

As provided in Section 6 of this Easement, Grantor will not engage in, or permit others to engage in, the following Prohibited Uses:

1. Number of Fee Owners; Subdivision.

(a) Limit on Number of Fee Owners. Except for Specified Required Actions, notwithstanding the fact that the Property, at any time, might be comprised of more than two (2) separate legal parcels, fee title to the Property shall be held by no more than two (2) separate owners at any given time, provided, however, that the foregoing shall not prohibit undivided ownership of the Property by multiple owners (e.g. tenants in common), subject to the restrictions on the rights of undivided owners provided below, and the terms and conditions of this Easement shall perpetually apply to the Property as a whole. The existence of any separate legal parcels shall not be interpreted to permit any use or activity on an individual legal parcel that would not have been permitted on said parcel under the terms and conditions of this Easement as applied to the Property as a whole. This section only applies to conveyances of fee ownership and not to conveyances of any property interests other than fee ownership (e.g. leasehold interests). In respect to ownership of the Property or permitted separate legal parcels, as the case may be, ownership may be (among others) in the form of a partnership, limited partnership, limited liability company, corporation or other legal entity or as undivided interests such as tenants in common, whether by choice or by operation of any Applicable Laws, but no owner of an undivided interest shall thereby have (i) the right of exclusive occupancy or exclusive use of any separate portion of the Property (or permitted separate legal parcel), or (ii) any right to have the Property (or permitted separate legal parcel), partitioned in kind, whether pursuant to California Code of Civil Procedure §872.010 et seq. ("CCP") or any successor statute or otherwise. In the event that a partition action is brought and a court determines that the remedy of partition must be granted, Grantor, on behalf of itself and its successors and assigns hereby irrevocably agrees the remedy shall not be a physical subdivision of the Property (or permitted separate legal parcel), but instead may be a partition by appraisal pursuant to CCP §873.910 or any successor statute or a judicially supervised sale of Grantor's entire estate in the Property (or permitted separate legal parcel) pursuant to CCP §873.510 or any successor statute, subject, however, to this Easement, followed by a division of sales proceeds among the parties entitled thereto. Grantor recognizes that Grantee will incur direct and indirect costs for monitoring and administration of the Conservation Easement in the event fee title to a portion of the Property is transferred under this provision. Accordingly, upon Grantor's sale, transfer or conveyance of fee title to less than all of the Property in accordance with this subsection (a), Grantor shall pay, or cause to be paid, to Grantee a one-time payment of a sum representing the increased cost of such Conservation Easement stewardship, as reasonably determined at such time by Grantee. Such one-time payment shall be in addition to any reimbursements required pursuant to Section 13.2.4 or Section 17 of this Easement.

(b) Limit on Subdivision. Except for Specified Required Actions, Grantor shall not subdivide the Property with the result of frustrating the ownership restrictions set forth in subsection (a) above. For example, the following actions would not frustrate the ownership restrictions in subsection (a) above: (i) merger and reduction of the number of separate legal parcels comprising the Property; or (ii) reconfiguring by lot line adjustment the existing internal boundaries of legal parcels within the outer boundaries of the Property; or (iii) clarifying boundary lines with adjacent landowners; or (iv) subdivisions to facilitate Hydro Project Activities. Grantor shall (i) as part of the Work Plan review and Annual Review Meetings in accordance with Section 7, or at least ninety (90) days prior to any Grantor subdivision activity (whether or not prohibited hereunder), furnish Grantee with the subdivision application or filings; and (ii) provide to Grantee reasonably sufficient information to identify the boundaries of each legal parcel. This information will become part of the Baseline Documentation Report. At the election of either party, the parties shall execute and record an amendment of this Easement to reflect any change to the legal description of the Property set forth in Exhibit A or any other changes and allocations resulting from permitted subdivision that are not established to the reasonable satisfaction of the parties by recordation in the Public Records of the plan of subdivision approved under Applicable Law.

2. Development Rights. Except for Specified Required Actions as provided in Section 7, the development rights associated with all or any portion of the Property may not be transferred to, or used or exercised in connection with, any property other than the Property, such rights of transfer, use and exercise being hereby terminated and extinguished in perpetuity. The phrase "development rights" means any and all rights, however designated, now or hereafter associated with the Property or any portion thereof that may be used pursuant to applicable zoning laws, land use laws or other governmental laws or regulations, to compute permitted size, height, bulk, or number of structures, development density, lot yield, or any similar development variable on or pertaining to the Property or any other property.

3. Mining and Drilling. There shall be no mining, drilling, removing, fracking, or exploring for or extracting of minerals, oil, gas, coal, or other hydrocarbons, soils, sands, gravel, loam, rocks or any other material on, under, or at the Property. Notwithstanding the foregoing, the following shall not be Prohibited Uses:

(a) Drilling, removal and extraction of soils, sands, gravel, loam, rocks or any other material on, under, or at the Property in connection with studies and testing to the extent related to Grantor's exercise of the Hydro Reserved Rights;

(b) Testing, drilling and operating groundwater wells, and construction or placement of any structures or improvements within the Hydro Operating Zone to the extent related to Grantor's exercise of the Hydro Reserved Rights; and

(c) The use of soil, sand, gravel and other similar material located on the Property as appropriate for road maintenance, erosion control and in connection with a Required Action subject to the following limitations: (i) such disturbance shall be kept to the minimum necessary to exercise such rights, (ii) any such soils, sands, and other materials shall not be removed from the Property, and (iii) all such utilization activities shall be conducted in a manner that minimizes to the greatest extent practicable impacts to the Beneficial Public Values.

4. Construction and Placement of Structures and Improvements. There shall be no construction or placement of any structures or improvements on the Property, including (but not limited to) residential, industrial, office, or other buildings, underground or aboveground tanks. Notwithstanding the foregoing, the following shall not be Prohibited Uses:

(a) Required Actions provided in Section 7;

(b) Permitted Uses under Exhibit G;

(c) Construction or placement of any structures or improvements within the Hydro Operating Zone which Grantor has determined relate to Grantor's exercise of the Hydro Reserved Rights; and

(d) Structures and improvements made in the course of prudent and customary land management activities and/or to protect, preserve, or enhance the Beneficial Public Values (including, for example, garbage enclosures, benches, interpretive kiosks, and appropriately located and sized caretaker structure).

5. Vehicles. Except for Required Actions provided in Section 7, or in the case of an emergency or other occurrence affecting the safety of persons and/or property, there shall be no use of any motorized vehicles off of existing roadways on the Property except vehicles used as necessary to carry out prudent and customary land management activities and/or to protect, preserve, or enhance the Beneficial Public Values. Motorized off-road recreational use shall not constitute an activity "related to the protection or preservation of the Beneficial Public Values" as provided in the preceding sentence.

6. Dumping or Salvage. Except for Required Actions provided in Section 7, there shall be no dumping, storage or other disposal on the Property of soil, trash or garbage except for (a) refuse generated on the Property which may be disposed of on the Property on a temporary basis prior to its removal from the Property in areas where the Beneficial Public Values of the Property are not significantly impaired, or (b) compostable refuse generated on the Property which may be disposed of on the Property in a responsible manner which does not significantly impair the Beneficial Public Values of the Property. Except for Required Actions provided in Section 7, there shall be no dumping, storage (other than on a temporary basis) or other disposal of ashes, sludge, Hazardous Substances, or other unsightly or dangerous materials outside of the Hydro Operating Zone. Except for Required Actions provided in Section 7, there shall be no storage or disassembly of inoperable automobiles, trucks, or other vehicles or equipment for purposes of sale, or rental of space for that purpose outside of the Hydro Operating Zone.

7. Non-Native Animal Species. Except for Required Actions provided in Section 7, there shall be no release anywhere on the Property of non-native animal species other than livestock without Grantee's prior written approval in accordance with Section 7, as required.

8. Vegetation. Except for Required Actions provided in Section 7, there shall be no removal, cutting or destruction on the Property of native vegetation except (a) in an emergency and/or for purposes of disease or insect control or (b) to prevent property damage, personal injury, or flooding or (c) as permitted in Exhibit G, Section E and Section K, or (d) with Grantee's prior written approval in accordance with Section 7, as required.

9. Roads and Trails. Except for Required Actions provided in Section 7 or as required to implement a Required Action, or in the case of an emergency or other occurrence affecting the safety of persons and/or property, there shall be no construction of any new roads or trails on the Property; provided, however, the construction of new roads and trails (or the relocation of existing road and trails) on the Property to protect, preserve or enhance the Beneficial Public Values shall be permitted with Grantee's prior written approval in accordance with Section 7, as required. As used herein, the term "construction" shall not include the creation of roads or trails through repeated use, although such activities shall be governed by this Easement.

10. Commercial Uses. There shall be no office, industrial, or other commercial use on the Property that is likely to significantly impair Beneficial Public Values. Notwithstanding the foregoing, the following shall not be Prohibited Uses:

(a) Required Actions provided in Section 7;

(b) Uses permitted by Third Party Use Agreements; and

(c) Office, industrial, or other commercial uses within the Hydro Operating Zone which Grantor has determined relate to Grantor’s exercise of the Hydro Reserved Rights.

11. Alteration of Land or Excavation. Except for Required Actions provided in Section 7 or as otherwise explicitly permitted by the terms of this Easement, there shall be no filling, excavating, grading, draining or dredging outside of the Hydro Operating Zone, nor any change in the general topography of the Property; provided, however, such activities shall be permitted outside of the Hydro Operating Zone in the course of prudent and customary land management activities and/or to protect, preserve, or enhance the Beneficial Public Values.

12. Billboards. Except for Required Actions provided in Section 7 or permitted uses under Exhibit G or Grantee's signs permitted under Section 5.3, there shall be no placement of billboards or advertising facilities. The use of Grantor's logo and/or trade style on a sign will not in and of itself constitute a billboard or advertising facility under this provision.

EXHIBIT G

PERMITTED USES

The following are PERMITTED USES:

A. The PG&E Reserved Rights.

B. The Express Third Party Uses.

C. The uses and activities expressly permitted under Exhibit F.

D. Except as otherwise limited by this Easement, the right to sell, encumber, or otherwise transfer the Property, portions thereof, or interests therein, to anyone Grantor chooses.

E. The right to trim and cut down and clear away any and all trees, brush and vegetation (a) which constitute a hazard to persons or property, and/or (b) for purposes of fire management, disease or insect control or otherwise as necessary or appropriate for prudent land management, and/or (c) for other vegetation management operations, including but not limited to fuel reduction projects, thinning of tree stands and meadow restoration projects. The foregoing may include pesticide use to control vegetation (brush, grass, weeds, etc.) and/or insects.

F. Consistent with Section 9.2, the right to install, maintain, repair, replace and maintain gates and fences.

G. The right to perform all activities required to comply with any and all Applicable Laws.

H. The right to maintain, repair, restore, replace and reconstruct all structures and improvements now or hereafter located on the Property, provided any replacement structures or improvements shall be located in substantially the same location and within the same footprint as the structure or improvement being replaced, and shall be substantially the same height as the structure or improvement being replaced.

I. The right to install minor, temporary structures necessary or appropriate in connection with the performance of prudent and customary land management activities, Hydro Project Activities, or the protection, preservation, or enhancement of the Beneficial Public Values.

J. The right to construct, reconstruct, replace, remove, maintain and use the types of facilities and improvements described in paragraph (7) of Exhibit H that are unrelated to Hydro Project Activities and do not constitute a Required Action provided that such facilities shall be subject to Grantee's approval in the manner provided for Discretionary Actions.

K. In accordance with Applicable Laws, the right to control or eliminate noxious weeds and non-native plant species on the Property, and the right to control animals that (a) pose or threaten to pose a hazard to persons or property, including Hydroelectric Facilities and Associated Water Delivery Facilities, or (b) adversely impact or threaten to adversely impact (i) one or more of the Beneficial Public Values, (ii) Grantor's Hydro Reserved Rights or Hydro Project Activities, (iii) the Hydroelectric Facilities and Associated Water Delivery Facilities, or (iv) an Express Third Party Use.

L. The right to erect reasonably sized signs (illuminated and non-illuminated) to support and manage safety and permitted uses of the Property, including signs regarding authorized and unauthorized entry and uses or other appropriate markers in prominent locations on the Property, such as boundary fences, trails, and access roads.

EXHIBIT _H_

Hydro Reserved Rights

Grantor's reserved rights on the Property include the following, which are expressly excluded from the transfer and conveyance of the easement granted in this Easement and reserved to Grantor:

Subject to the provisions of Section 7, the right to conduct Hydro Project Activities on the Property, including construction, operation, repair, alteration, maintenance, removal, replacement and expansion of existing and future Hydroelectric Facilities and Associated Water Delivery Facilities, including project replacements and improvements required for existing and future water delivery and other requirements for power generation, transmission, distribution, and storage, for nonconsumptive and consumptive water, and for communications in connection with the foregoing and for compliance with any future FERC License, FERC License renewal or other regulatory requirements. In furtherance of and without in any way limiting the generality of the foregoing, the following rights are expressly reserved:

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

(2) The right to use, maintain, establish, construct, alter, expand and improve water sources, courses, and bodies within the Property, and to take, divert, store, convey and appropriate water; and

(3) The right to increase or otherwise modify water diversion, storage and transmission capacities of Hydroelectric Facilities and Associated Water Delivery Facilities; and

(4) The right to exercise: all riparian water rights inherent in and part and parcel of the Property; all appropriative surface water rights (including, but not limited to, any appropriative surface water rights having a point of diversion, place of storage, or place of use on the Property); all prescriptive surface water rights; and all other right, title and interest of any nature whatsoever in and to the surface waters which are now or hereafter located or flowing on, under or abutting the Property; and

(5) The right to decommission all or any portion of existing and future Hydroelectric Facilities and Water Delivery Facilities in accordance with the

applicable license issued by the FERC, or as otherwise allowed by Applicable Law; and

(6) The right to enlarge, improve, reconstruct, relocate and replace said Grantor's existing facilities and additional facilities with any other number, size, or type of transformers, poles, towers, or structures, or underground wires, cables, pipelines and conduits, or other devices and equipment either in the original location or at any location or locations within the Property; and

(7) The right to construct, operate, use, repair, alter, maintain, remove, replace and expand Grantor's existing and future facilities for transformation, transmission and distribution of electric energy and for communication purposes and also the rights to reconstruct, replace, remove, maintain and use the same as Grantor shall at any time and from time to time deem necessary in Grantor's sole discretion exercised in good faith, together with the rights to excavate for, construct, install, repair, reconstruct, replace, remove, maintain and use, at any time and from time to time, additional facilities for the transformation, transmission and distribution of electric energy and for communication purposes, consisting of such devices and equipment with suitable concrete pads and adequate protection therefore necessary for transforming electric energy, one or more lines of underground wires and cables (enclosed at Grantor's option within conduits), and one or more lines of towers, poles and/or other structures, wires and cables, including both underground and overhead ground wires, and all necessary and proper foundations, footings, cross arms and other appliances and fixtures for use in connection with said towers, poles and/or other structures, wires and cables.

EXHIBIT I

Hydro Operating Zone

[pdf to be provided]

EXHIBIT J

GRANTEE INSURANCE REQUIREMENTS

Grantee shall procure, carry and maintain the following insurance coverage:

A. Workers' Compensation and Employers' Liability

1. Workers' Compensation insurance or self-insurance indicating compliance with any applicable labor codes, acts, laws or statutes, state or federal.

2. Employers' Liability insurance shall not be less than One Hundred Thousand Dollars ($100,000) for injury or death each accident.

B. Commercial General Liability

1. Coverage shall be at least as broad as the Insurance Services Office (ISO) Commercial General Liability Coverage "occurrence" form, with no coverage deletions.

2. The limit shall not be less than One Million Dollars ($1,000,000) each occurrence/ Two Million Dollars ($2,000,000) aggregate for bodily injury, property damage and personal injury.

3. Coverage shall: a) By "Additional Insured" endorsement add as insureds Grantor, its directors, officers, agents and employees with respect to liability arising out of work performed by or for Grantee; b) Be endorsed to specify that Grantee's insurance is primary.

C. Business Auto

1. Coverage shall be at least as broad as the Insurance Services Office (ISO) Business Auto Coverage form covering Automobile Liability, code 1 "any auto."

2. The limit shall not be less than One Million Dollars ($1,000,000) each accident for bodily injury and property damage.

D. Additional Insurance Provisions

1. Upon change in carrier or coverage, or otherwise upon Grantor's request, Grantee shall furnish Grantor with certificates of insurance and endorsements of all required insurance for Grantee.

2. The documentation shall state that coverage shall not be canceled except after thirty (30) days prior written notice has been given to Grantor.

3. The documentation must be signed by a person authorized by that insurer to bind coverage on its behalf and shall be submitted to:

   _____
   _____
   _____

   Attn: _____

   A copy of all such insurance documents shall be sent to Grantor's Land Agent as specified under Notices in the body of this Easement.

4. Upon request, not to exceed once annually, Grantee shall furnish Grantor complete copies of policies.

5. Upon request, not to exceed once annually, Grantee shall furnish Grantor the same evidence of insurance for Grantee's agents or contractors as Grantor requires of Grantee.

(End of Attachment)