



**ELECTRIC PRELIMINARY STATEMENT PART S
HAZARDOUS SUBSTANCE MECHANISM**

Sheet 1

S. HAZARDOUS SUBSTANCE MECHANISM (HSM)

- 1. **PURPOSE:** The Hazardous Substance Mechanism (HSM) provides a uniform methodology for allocating costs and related recoveries associated with covered hazardous substance-related activities, including hazardous substance clean-up and litigation, and related insurance recoveries, as set forth in Decision 94-05-020. The HSM includes a balancing account, the Hazardous Substance Cost Recovery Account (HSCRA), and an interest-bearing tracking account, the Other Hazardous Substance Tracking Account (OHSTA). Costs recorded in the HSM shall include generation-related costs pursuant to Assembly Bill X1 6, which prohibits a facility for the generation of electricity owned by a public utility from being disposed of prior to January 1, 2006.

Terms and definitions relating to hazardous substance-related activities are found in Decision 94-05-020, Appendix A.

- 2. **APPLICABILITY:** The HSCRA applies to all covered costs and recoveries associated with manufactured gas plant sites, presently-identified federal superfund sites, and other identified sites included in Decision 94-05-020, Appendix A. The OHSTA is an interest-bearing tracking account for costs and recoveries for sites not included within one of the three defined categories set forth in Decision 94-05-020, Appendix A.

- 3. **REVISION DATE:** Disposition of the balances in this account shall be determined through the advice letter process.

The California Public Utilities Commission (CPUC) will not conduct a reasonableness review of costs under the HSM except, at its discretion, of costs recorded in the OHSTA.

- 4. **HSM RATES:** The HSM currently does not have a rate component.

- 5. **REPORTING REQUIREMENTS:** On or before August 2, 1994, PG&E will file an initial report with the Energy Division (ED), describing previously recorded hazardous substance costs transferred to the HSCRA. (Requirements for this initial report are found in Decision 94-05-020, Appendix A, p. 14.) (T)

Commencing March 1, 1995, PG&E will file an annual report with the ED to reflect the costs and recoveries recorded by PG&E in the HSM for the 12-month period ending December 31 of the previous year, except for the first year report, which will cover the period from June 3, 1994, through December 31, 1994. The Annual Report will be served on all parties to Application No. (A) 91-04-044. (T)

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S. I HAZARDOUS SUBSTANCE MECHANISM (HSM)

REPORTING REQUIREMENTS: (Cont'd.)

The Annual Report shall include the following:

- a. The name and location of each site for which costs were incurred or a recovery obtained.
- b. The amount of covered hazardous substance clean-up costs incurred for each site.
- c. The amount of internal PG&E costs included with the hazardous substance clean-up costs.
- d. The total third-party and insurance litigation costs incurred for all sites.
- e. The amount of covered third-party and insurance recoveries obtained for all sites.
- f. A description of the costs in sufficient detail to allow a determination of whether costs have been properly accounted for by PG&E, and whether reported internal PG&E costs are already being recovered through rates.

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- 6. COST ALLOCATION: PG&E shall allocate all costs and related recoveries 70 percent to the Gas Department and 30 percent to the Electric Department, with the exception of hazardous substance insurance litigation costs recovered through PG&E's 1993 General Rate Case base revenues.

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Advice 1735-E-A
Decision 97-08-056 97-12-131

Issued by
Robert S. Kenney
Vice President, Regulatory Affairs

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**ELECTRIC PRELIMINARY STATEMENT PART S
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Sheet 3

S. HAZARDOUS SUBSTANCE MECHANISM (HSM) (Cont'd.)

- 7. ACCOUNTING PROCEDURE: The Hazardous Substance Cost Recovery Account (HSCRA) records expenditures and recoveries associated with the HSM in accordance with D.94-05-020.

The HSCRA consists of five subaccounts:

a. Hazardous Substance Clean-up Cost Account (HSCCA)

This account records the ratepayers' share of covered hazardous substance costs. Entries shall be made into the HSCCA at the end of each month as follows:

- 1) A debit entry equal to 90 percent of covered hazardous substance costs.
- 2) A credit entry equal to 90 percent of hazardous substance costs recovered from third parties.
- 3) A credit entry equal to 100 percent of hazardous substance insurance litigation costs recovered through PG&E's 1993 General Rate Case base revenues, excluding the allowance for Revenue Fees and Uncollectible (RF&U) accounts expense, for the period from June 3, 1994, through December 31, 1995. (T)
- 4) A credit entry equal to the lesser of 10 percent of the remaining insurance recoveries, net of contingency fees paid to outside attorneys to obtain recoveries, if any, not applied to entries 7.c.2 and 7.d.2 below, or 11.111 percent of the entry in 7.b.3 below.
- 5) A credit entry for 60 percent of each debit entry under HSIRA Sections 7.e.3 through 7.e.7 for the ratepayers' portion of insurance recoveries under the HSIRA.
- 6) A debit or credit entry, as appropriate, equal to interest on the average balance in the account at the beginning of the month and the balance after the monthly entries, at a rate equal to one-twelfth the interest rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release, G.13, or its successor.
- 7) A credit entry to transfer the balance to another regulatory account as appropriate for rate recovery, upon approval by the CPUC.

b. Hazardous Substance Clean-up Cost Shareholder Account (HSCCSA)

This account records the shareholders' share of covered hazardous substance costs. Entries shall be made into the HSCCSA at the end of each month as follows:

- 1) A debit entry equal to 10 percent of covered hazardous substance costs.
- 2) A credit entry equal to 10 percent of hazardous substance costs recovered from third parties.
- 3) A credit entry equal to the lesser of 90 percent of the remaining insurance recoveries, net of contingency fees paid to outside attorneys to obtain recoveries, if any, not applied to entries 7.c.2 and 7.d.2 below, or the balance in this account.

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S. HAZARDOUS SUBSTANCE MECHANISM (HSM) (Cont'd.)

7. ACCOUNTING PROCEDURE: (Cont'd.)

b. Hazardous Substance Clean-up Cost Shareholder Account (HSCCSA) (Cont'd.)

- 4) A credit entry for 40 percent of each debit entry under HSIRA Sections 7.e.3 through 7.e.7 for the shareholders' portion of insurance recoveries under the HSIRA.
- 5) A debit or credit entry, as appropriate, equal to interest on the average balance in this account at the beginning of the month and the balance after the monthly entries, at a rate equal to one-twelfth the interest rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release, G.13, or its successor.

Shareholders are at risk for any balance remaining in this account following final disposition of all covered hazardous substance and insurance litigation costs and related recoveries.

c. Hazardous Substance Clean-up Cost Insurance Account (HSCCIA)

This account records the ratepayers' share of covered insurance litigation costs. Entries shall be made into the HSCCIA at the end of each month as follows:

- 1) A debit entry equal to 70 percent of covered insurance litigation costs.
- 2) A credit entry equal to the lesser of 70 percent of insurance recoveries net of contingency fees paid to outside attorneys to obtain recoveries, if any, or the balance in this account. This account cannot have a credit balance.
- 3) A debit or credit entry, as appropriate, equal to interest on the average balance in this account at the beginning of the month and the balance after the monthly entries, at a rate equal to one-twelfth the interest rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release, G.13, or its successor.
- 4) A credit entry to transfer the balance to another regulatory account as appropriate for rate recovery, upon approval by the CPUC. (T)
(T)

d. Hazardous Substance Clean-up Cost Shareholder Insurance Account (HSCCSIA)

This account records the shareholders' share of covered insurance litigation costs. Entries shall be made into the HSCCSIA at the end of each month as follows:

- 1) A debit entry equal to 30 percent of covered insurance litigation costs.
- 2) A credit entry equal to the lesser of 30 percent of insurance recoveries net of contingency fees paid to outside attorneys to obtain recoveries, if any, or the balance in this account. This account cannot have a credit balance.
- 3) A debit or credit entry, as appropriate, equal to interest on the average balance in this account at the beginning of the month and the balance after the monthly entries, at a rate equal to one-twelfth the interest rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release, G.13, or its successor.

Shareholders are at risk for any balance remaining in this account upon final disposition of all insurance litigation costs and related recoveries.

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S. HAZARDOUS SUBSTANCE MECHANISM (HSM) (Cont'd.)

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7. ACCOUNTING PROCEDURE: (Cont'd.)

e. Hazardous Substance Insurance Recovery Account (HSIRA)

Covered insurance recoveries will be tracked by the year received. Any insurance recovery amounts remaining after allocation to subaccounts a through d, above, will be held in this interest-bearing account for 60 months from the end of the year in which the recovery was received. Entries to the HSIRA are as follows:

- 1) A credit entry equal to insurance recoveries net of contingency fees, if any. Each insurance recovery will be recorded separately and distributed against covered hazardous substance and insurance litigation costs on a first-in, first-out basis.
- 2) A debit entry equal to the sum of insurance recoveries allocated to entries 7.a.4, 7.b.3, 7.c.2, and 7.d.2.
- 3) A debit entry to the HSIRA 72 months from the end of the year in which the specific insurance recovery was received for one-fifth, or 20 percent, of the balance for that specific insurance recovery in this account. The entry is only recorded if the recovery has not been fully allocated to offset covered hazardous substance and insurance litigation costs.*
- 4) A debit entry to the HSIRA 84 months from the end of the year in which the specific insurance recovery was received for one-fourth, or 25 percent, of the balance for that specific insurance recovery in this account. The entry is only recorded if the recovery has not been fully allocated to offset covered hazardous substance and insurance litigation costs.*
- 5) A debit entry to the HSIRA 96 months from the end of the year in which the specific insurance recovery was received for one-third, or 33.333 percent, of the balance for that specific insurance recovery in this account. The entry is only recorded if the recovery has not been fully allocated to offset covered hazardous substance and insurance litigation costs.*
- 6) A debit entry to the HSIRA 108 months from the end of the year in which the specific insurance recovery was received for one-half, or 50 percent, of the balance for that specific insurance recovery in this account. The entry is only recorded if the recovery has not been fully allocated to offset covered hazardous substance and insurance litigation costs.*
- 7) A debit entry to the HSIRA 120 months from the end of the year in which the specific insurance recovery was received for any remaining portion of the specific insurance recovery in this account. The entry is only recorded if the recovery has not been fully allocated to offset covered hazardous substance and insurance litigation costs.*
- 8) A debit or credit entry, as appropriate, to this account equal to interest on the average balance in this account at the beginning of the month and the balance after the monthly entries, at a rate equal to one-twelfth the interest rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release, G.13, or its successor.

* A corresponding credit entry will be made to the HSCCA for 60 percent of each debit entry under Section 7.e.3 through 7.e.7. above for the ratepayers' portion of the insurance recovery, and a credit entry will be made to the HSCCSA for 40 percent of each debit entry under Section 7.e.3 through 7.e.7 for the shareholders' portion of the insurance recovery.

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**ELECTRIC PRELIMINARY STATEMENT PART S
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S. HAZARDOUS SUBSTANCE MECHANISM (HSM) (Cont'd.)

8. OTHER HAZARDOUS SUBSTANCE TRACKING ACCOUNT (OHSTA)

The OHSTA is an interest-bearing tracking account which, at PG&E's option, tracks hazardous substance clean-up, third-party litigation, and insurance litigation costs (collectively, "other hazardous substance costs") relating to sites not included within one of the three defined categories as set forth in D.94-05-020, Appendix A.

For Manufactured Gas Plant sites not listed in D.92-05-020, Appendix A, an information notice stating the location of the site and which governmental agency, if any, is overseeing the clean-up, must be sent to the CPUC and all parties to A.91-04-044 within 15 days of incurring expenses of \$50,000 or more for a specific site.

PG&E may, at its option, file an advice letter requesting inclusion of other hazardous substance sites in the HSCRA. Up to \$50,000 may be recorded in the OHSTA for each hazardous substance site prior to advice filing. At such time as the advice letter for inclusion of a specific site is filed, the \$50,000 cap shall be removed.

The advice letter shall include: (a) the name of the site, (b) location of the site, (c) the source, nature, and approximate date of the contamination, (d) PG&E's operations (historical and current) at the site, if any, and (e) environmental agency actions and oversight, if any, regarding the site. In addition, D. 96-07-016 requires utilities to demonstrate that: 1) clean-up costs for which recovery is being sought are not being recovered through base rates or through any other recovery procedure, and 2) all of the costs for which recovery is being sought are hazardous waste clean-up costs (including insurance costs) found appropriate for recovery in the Hazardous Substance Cleanup Cost Recovery Collaborative Report.

The advice letter shall be treated as a compliance filing under General Order 96-A and will be processed by the ED within 40 days after the filing, if unopposed. If the filing is protested, the ED will either prepare a resolution, or require PG&E to file an application seeking inclusion of the specified other hazardous substance costs in the HSCRA.

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Or, PG&E may seek full recovery of other hazardous substance costs through the general rate case, by application, or by any other procedure approved by the CPUC.

The following entries will be recorded to the OHSTA at the end of each month:

- a. A debit entry equal to costs incurred associated with other hazardous substance sites. The costs for each site, including interest, will be recorded separately.
- b. A credit entry equal to specific other hazardous substance costs transferred to the HSCRA upon CPUC approval of an advice letter for such costs.
- c. A credit entry equal to the amount approved by the CPUC for recovery from ratepayers when PG&E elects to seek full recovery through a process other than the HSCRA.
- d. A debit or credit entry, as appropriate, equal to interest on the average of the account balance in each account at the beginning of the month and the balance after the monthly entries, at a rate equal to one-twelfth the interest rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release, G.13, or its successor.