

PRELIMINARY STATEMENT
PART IX
HAZARDOUS SUBSTANCE MECHANISM

Sheet 1

A. GENERAL

1. The Hazardous Substance Mechanism (HSM), approved by Decision No. 94-05-020, provides a uniform methodology for allocating costs and related recoveries associated with covered hazardous substance-related activities. These activities include costs associated with hazardous substance cleanup and litigation, and related insurance recoveries as set forth in D.94-05-020. The Hazardous Substance Cost Recovery Account (HSCRA) as set forth in Part V of the Preliminary Statement, is a balancing account which will record the expenditures and recoveries associated with the HSM. The Other Hazardous Substance Tracking Account (OHSTA) as set forth in Part VII of the Preliminary Statement, is an interest-bearing tracking account which will record other hazardous substance costs not currently included within the HSM.
2. Definitions of terms used in this Preliminary Statement may be found in Appendix A of D.94-05-020.

B. TREATMENT OF COVERED/NONCOVERED HAZARDOUS SUBSTANCE ACTIVITIES

1. The HSM applies to all hazardous substance-related costs as set forth in D. 94-05-020. This includes costs and recoveries associated with manufactured gas plant sites, presently identified federal Superfund Sites, and other sites that SoCalGas has identified and included in Appendix A of D.94-05-020.
2. Hazardous substance costs not covered as specified in B.1. by the HSM may be recovered through the Utility's General Rate Case (GRC), by application, or by any other procedure approved by the Commission. In lieu of the above, the Utility may instead request the inclusion of such costs in the HSM by filing an advice letter requesting inclusion of the site costs in the new mechanism. Also, up to \$50,000 may be recorded per hazardous site to the account prior to such advice letter filing. The advice letter shall list the name of the site, the location of the site, the source, nature, and approximate date of the contamination, Utility operations (historical and current) at the site, if any, and environmental agency actions and oversight regarding the site, if any. The advice letter shall be treated as a compliance filing under General Order 96-B, and will be processed by the Energy Division within 30 days after the filing, if unopposed. If the filing is opposed, the Energy Division will either prepare a Resolution, or require the Utility to file an application seeking inclusion of the specified Other Hazardous Substance costs in the HSM.
3. Under the HSM there is no Commission reasonableness review of any associated HSM expense.

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(TO BE INSERTED BY UTILITY)
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ISSUED BY
Lee Schavrien
Senior Vice President

(TO BE INSERTED BY CAL. PUC)
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Sheet 2

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C. RECOVERY OF HAZARDOUS SUBSTANCE CLEANUP COSTS

1. Pursuant to D.94-05-020, effective June 3, 1994, the Utility shall be allowed to recover in rates 90% of previously recorded HSM costs that were transferred to the HSM as well as costs covered under the new mechanism
2. The Utility shall be allowed to recover in rates 70% of covered insurance litigation costs.
3. The Utility shall be allowed to retain 10% of covered third party recoveries.
4. Until the Utility ratepayers have been fully reimbursed for the total covered insurance litigation costs that they have paid to date, including interest, ratepayers shall receive 70% of any insurance recovery, net of contingency fees, received by the Utility, and the Utility shareholders shall retain the remaining 30% of the covered insurance recovery.
5. Ratepayers shall receive 10%, and the Utility shareholders the remaining 90% of any remaining portion of a covered insurance recovery until the Utility shareholders have been fully reimbursed for the total covered hazardous substance costs paid to date, including interest.
6. The Utility shall hold any remaining portion of a covered insurance recovery in the HSCRA for 60 months from the month in which the covered insurance recovery was received by the Utility. During the 60 months the funds shall be applied, in the order and according to the ratios set forth above, to any additional covered insurance litigation costs and covered hazardous substance costs incurred
7. If any portion of a covered insurance recovery remains at the end of the 60 month period described above, the remaining recovery will be eligible for distribution to ratepayers and the Utility shareholders during the five years which follow the 60 month period described above. The remaining recovery shall be distributed 60% to ratepayers and 40% to the Utility and its shareholders according to the following formula - - 1/5 of the remaining recovery shall be distributed at the end of year one; 1/4 at the end of year two; 1/3 at the end of year three; 1/2 at the end of year four; and the remainder of the recovery at the end of year five.

D. REPORTING REQUIREMENTS

1. Within sixty days of June 3, 1994, the Utility will file a report with the CACD relating to the Previously Recorded Hazardous Substance Costs that it has transferred to the HSCRA .

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(TO BE INSERTED BY UTILITY)
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ISSUED BY
Nancy I. Day
Vice President

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Sheet 3

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D. REPORTING REQUIREMENTS (Continued)

2. Requirements for this initial report are found on page 14 of Appendix A of D.94-05-020.
3. Each September 1 thereafter, the Utility shall file a report with the CACD relating to the costs and recoveries that have been recorded in the HSCRA account during the previous recording period covering July 1 through June 30 except for the first year report which will cover June 3, 1994 through June 30, 1995.
4. The Annual Report shall include the following:
 - a. The name and location of each site for which costs were incurred.
 - b. The amount of covered hazardous substance cleanup costs incurred for each site.
 - c. The amount of internal Utility costs included for each site.
 - d. The total covered third party and insurance litigation costs incurred for all sites.
 - e. The amount of covered third party and insurance recoveries obtained for all sites
5. The Annual Report shall be served to all parties in A. 91-04-044.

(TO BE INSERTED BY UTILITY)

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ISSUED BY
Nancy I. Day
Vice President

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