

Accounting 484: Environmental Accounting

PG&E Project

Part I (25 points)

Starting in 1952, PG&E's Hinkley, CA, plant used Hexavalent Chromium (Chromium VI) as a corrosion inhibitor in the cooling process for natural gas compression. PG&E discharged its chromium VI waste into unlined earthen ponds near the compressor in Hinkley, CA. Ponds were lined in 1972. Contaminated wastewater also was sprayed into the air, which contaminated soil that was free to blow in the wind where it could be inhaled. Based on the facts of the situation, the movie begins when Brockovich, a clerk in a law firm, is looking through real estate files that also contain medical information.

PART I: Below is a list of the facts from the PG&E case. Please research the contingent liability standard (FAS #5) and related interpretation (#14) to determine the appropriate disclosure and reporting (including timing) of this contingency. Write a short essay on your conclusions and recommendations.

- 1965—PG&E records revealed that people at the company were concerned about hexavalent chromium contamination of Hinkley's groundwater.
- 1987—PG&E company officials advised the State of California that levels of hexavalent chromium in the groundwater around Hinkley were in excess of the maximum allowed by law.
- 1993—Lawsuit filed against PG&E, 77 initial plaintiffs. Eventually, 648 plaintiffs joined the suit.
- 1995—PG&E reaches an agreement with plaintiffs to go to binding arbitration for resolution, and that PG&E will pay an aggregate amount of no more than \$400 million as settlement.
- 1996—PG&E settled for \$333 million. The company also was required to clean up the environment and to stop using chromium VI.

Part II (25 points)

PART II: After the class discussion please write an essay reflecting on the inconsistencies of the treatment of environmental costs and liabilities with relevant parts of the conceptual framework of accounting.