



Puget Sound Energy, Inc.
P.O. Box 97034
Bellevue, WA 98009-9734

April 13, 2007

Ms. Carole J. Washburn, Executive Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive SW
Olympia, W A 98504

**Re: Puget Sound Energy, Inc.'s Petition for Accounting Order
(Electric Environmental Remediation Program)**

Dear Ms. Washburn:

Enclosed are an original and twelve copies of the Petition of Puget Sound Energy, Inc. for an Accounting Order regarding the treatment of costs incurred by the Company under its electric environmental remediation program in response to federal and state laws regarding hazardous wastes.

This petition is being submitted via the Washington Utilities and Transportation Commission's Records Center Web Portal electronic-filing system and by overnight mail

If you have any questions regarding this filing, please contact me at (425) 456-2797.

Very truly yours,

Karl R. Karzmar
Director, Regulatory Relations

Enclosures

cc: Bob Cedarbaum
Simon ffitich

BEFORE THE WASHINGTON UTILITIES & TRANSPORTATION COMMISSION

Petition of

PUGET SOUND ENERGY, INC.

For an order Regarding the Accounting
Treatment for Costs of its Electric
Environmental Remediation Program

Docket No. UE-07 _____

PETITION

In accordance with WAC 480-07-370(1)(b). Puget Sound Energy, Inc. (“PSE” or “the Company”) respectfully petitions the Washington Utilities & Transportation Commission (the “Commission”) for an order regarding the treatment of costs incurred by the Company under its electric environmental remediation program in response to federal and state laws regarding hazardous wastes. Specifically, the Company requests that the Commission issue an order which:

authorizes the Company to defer the costs incurred in connection with the recently added components, “Lower Baker Power Plant Site,” “Electron Flume Site,” “Crystal Mountain Diesel Spill Site,” “Puyallup Service Center Site” and “Floyd Equipment Company Site.” Detailed descriptions of the sites are included as Exhibit A to this petition. Costs so deferred, net of third party recoveries, would be recovered in rates consistent with the Commission’s Order in Docket No. UE-911476, issued on April 1, 1992 and the Merger Order in Docket No UE-960195.

The order requested in this Petition is necessary to insulate the Company’s customers from fluctuations in rates due to the variability of environmental remediation costs and recoveries from insurance or third parties. In addition, the requested accounting order would allow the Company to avoid the negative financial impact that would otherwise be required in accounting for these costs under current financial reporting requirements.

In support of this Petition, the Company states as follows:

INTRODUCTION AND BASIS FOR REQUESTING ORDER

1. The Company is engaged in the business of furnishing electric and gas service within the State of Washington as a public service company, and is subject to the regulatory authority of the Commission as to its rates, service, facilities and practices. Its full name and mailing address for purposes of this proceeding are:

Karl R. Karzmar, Director – Regulatory Relations
Puget Sound Energy, Inc.
P.O. Box 97034
Bellevue, Washington 98009-9734

2. Statutes and rules that may be at issue in this Petition include RCW 80.01.040 and WAC 480-07-370(1)(b)

3. The Company has underway an electric environmental remediation program in response to federal and state laws regarding hazardous wastes.

4. Per Commission Order No. UE-911476, issued April 1, 1992, the Company was authorized to defer certain costs associated with its electric environmental remediation program. The order identified the particular components of its electric environmental remediation program to which the requested accounting treatment would apply as: (a) the three sites for which the Company had identified as a potentially responsible party (“PRP”) under CERCLA, (b) its Electron site, and (c) its underground storage tank programs. The order authorized deferral accounting treatment and stated that this treatment was considered to be appropriate in light of the variability and unpredictability of environmental expenditure and recoveries of insurance or third party offsetting proceeds. The variable and unpredictable nature of environmental expenditures has not changed and is not expected to change in the future.

REQUESTED ORDER

5. By this Petition, the Company requests that the Commission, with respect to costs incurred in connection with its electric environmental remediation program, approve the accounting treatment of deferring costs incurred related to its recently added components, "Lower Baker Power Plant Site," "Electron Flume Site," "Crystal Mountain Site," "Puyallup Service Center Site" and "Floyd Equipment Company Site." Costs so deferred, net of third party recoveries, would be recovered in rates to be established in future rate proceedings consistent with the Commission's Order in Docket No. UE-911476, issued on April 1, 1992 and the Merger Order in Docket No UE-960195.

Approval of Accounting Treatment

6. The Company proposes to defer the costs associated with its electric environmental remediation program with respect to these sites, the vast majority of which, were incurred in the later part of 2006. Costs so deferred, net of third party recoveries, would be recovered in rates to be established in future rate proceedings consistent with the Commission's Order in Docket No. UE-911476 and the Merger Order in Docket No UE-960195.

7. The Company proposes that all electric environmental remediation costs deferred pursuant to the requested accounting order would be subject to the following conditions:

- (a) Any deferred costs existing at the time of the Company's general rate proceedings would be subject to review and net deferred costs shown to be imprudent or inappropriate will be subject to disallowance for rate recovery purposes. Net deferred costs as detailed in (d) below are the total project expenditures less any recoveries from third parties and or insurance proceeds;
- (b) Any allowed net deferred costs will be amortized over a five-year period commencing on the date that all costs net of recoveries become known, consistent with the Merger Order in Docket No. UE-960195;

- (c) Any deferred costs will be included in the calculation of working capital in future rate proceedings;
- (d) Costs eligible for such deferred accounting treatment would include only those amounts paid to outside vendors or contractors (i.e., investigation and feasibility studies, sampling, evaluation, monitoring, materials, remediation and removal) and would not include internal employee expenses and legal costs;
- (e) Costs that are deferred will be reduced by any insurance proceeds or payments from other responsible third parties received by the Company in respect of such costs;
- (f) The Company will normalize the tax benefits associated with these costs; and
- (g) The Company will submit quarterly reports detailing the status of the various remediation projects and the level of costs being incurred.

WHEREFORE, the Company respectfully requests that the Commission enter an order in the form attached as Exhibit B (1) approving the Company's accounting treatment for costs incurred in connection with its recently added components of its electric environmental remediation program prior to the date of and after such order, and (2) authorizes the Company to defer the costs incurred in connection with the electric environmental remediation program described in this Petition

DATED: April 13, 2007

PUGET SOUND ENERGY, INC.

By 

Karl R. Karzmar
Director, Regulatory Relations

STATE OF WASHINGTON)
)ss.
COUNTY OF KING)

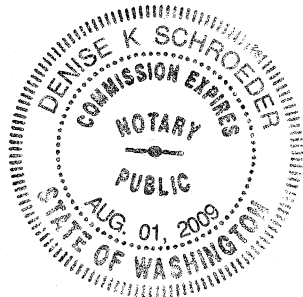
KARL R. KARZMAR, being first duly sworn, on oath deposes and says:

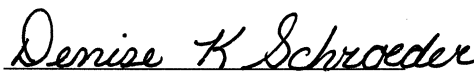
That he is Director, Regulatory Relations of Puget Sound Energy, Inc., that he has read the foregoing Petition for an Order Regarding the Accounting Treatment for Costs of its Electric Environmental Remediation Program, that he knows the contents thereof, and that he believes the same to be true and the best of his knowledge and belief.


KARL R. KARZMAR

State of Washington
County of King

SUBSCRIBED AND SWORN to before me this 13th day of April, 2007.




Notary Public in and for the State of
Washington, residing at Smogualmie
My appointment expires 8-1-2009

**PUGET SOUND ENERGY
ELECTRIC ENVIRONMENTAL REMEDIATION PROGRAM
RECENTLY ADDED COMPONENTS**

Lower Baker Power Plant Site

Representatives of the Federal Energy Regulatory Commission (FERC) observed a petroleum-like sheen associated with water discharging from a 24-inch-corrugated metal pipe (CMP) at the Lower Baker facility in May 2006. PSE evaluated the sheen and obtained the following information:

- Approximately two thirds of PSE's power house facility was destroyed by a landslide in 1965. Two oil-containing turbines, an electrical exciter and three oil tanks are believed to be buried beneath the landslide (soil) at the location of the former power house. One of the oil tanks was reportedly empty, but the other two likely contained petroleum product.
- A concrete wall was installed immediately north of the present-day power house after the 1965 landslide to help stabilize the toe of the slope. A 24-inch-corrugated metal pipe (CMP) was installed during the construction activities to remove groundwater that might accumulate behind the wall, thereby enhancing slope stability. Water from the CMP discharges directly to Baker River.
- In May of 2006 during an inspection by FERC inspectors, sheen was seen on the surface of the river originating from the CMP discharge.
- PSE responded to FERC's report of the sheen by installing a temporary system to reduce the risk of sheen associated with the CMP discharge entering the river.
- PSE obtained samples of water discharging from the CMP six times from May through October 2006. Chemical analyses indicated that the sheen was caused by the presence of mineral oil. Polychlorinated biphenyls (PCBs) have not been detected in the samples analyzed.
- PSE is currently installing a permanent treatment system that will remove the mineral oil-related sheen from the CMP discharge. The permanent system is estimated to be installed in November 2006.
- Water sampling will be continued to monitor compliance with the Clean Water Act.
- In 2006 the Washington State Department of Ecology listed this site for Soil, Groundwater and Surface water contamination.

Electron Flume Site

Several environmental site assessments and cleanup activities have been completed at the Electron Flume. These assessment and cleanup activities are summarized below.

- From the early 1900s to the early 1980s, the wood beams supporting the flume were treated on-site with the following preservatives:
 - Prior to 1929 – Records do not indicate clearly the preservative methods or materials used.
 - 1929 to 1937 – Creosote reportedly was used to treat the flume supports although this has not been confirmed by site observations or analytical testing.
 - 1937 to 1953 – Wood was treated on-site using arsenic trioxide. Records indicate that bunker oil was used as a carrier for the arsenic trioxide.
 - 1953 to 1982 – Pentachlorophenol (PCP) was used to treat the wood. Diesel was reportedly used as carrier oil for the PCP.
 - 1983 – Treatment equipment was removed from the site.
- Arsenic, PCP, petroleum hydrocarbons and carcinogenic polycyclic aromatic hydrocarbons (cPAHs) were released at the site in the former wood treatment and storage areas. Remedial activities completed from 1991 through 1993 removed contaminated soil from these areas, but contamination remains at concentrations of regulatory significance at some locations.
- The 10.2 mile long flume was constructed and maintained using the chemically-treated wood produced on-site. Wood debris, much of which is treated, is present along most of the flume alignment. The primary chemicals of concern associated with the wood debris are likely arsenic, PCP and cPAHs.
- PSE is currently considering options for managing the treated wood debris adjacent to the flume, and whether additional actions are necessary to address releases in the former wood treatment and storage areas.

Crystal Mountain Diesel Spill Site

On Friday, November 3, 2006, PSE was advised of a diesel spill at its Crystal Mountain Generation Station. Environmental Spill Response crews were mobilized immediately. Efforts were initiated to secure the area, to limit the migration of diesel, and to commence recovery of product. Regulatory agencies were notified and equipment began arriving to mobilize a broader spill response effort. Product inventory resulted in an estimated spill volume of approximately 18,000 gallons. This document provides an overview of Spill Response actions to-date and describes anticipated future remedial actions.

Initial Spill Response work focused on containing and recovering diesel from the ground and the shallow subsurface in and around the generation station. This effort continued twenty-four hours a day, seven days a week using a vacuum truck and sorbents. As this work continued, efforts were undertaken to identify possible subsurface migration pathways for the diesel.

By Sunday, November 5, a fuel seep was identified near Silver Creek, approximately 750 feet north of the original spill site. Through this seep, fuel entered the creek and flowed toward its

confluence with the White River, approximately four miles downstream. The diesel seep was immediately contained and product recovery efforts commenced with sorbents and a vacuum truck. Efforts also were undertaken to test Silver Creek drinking water sources downstream of the spill site, and as a preventative measure, residents were notified of the potential for diesel in their wells but no diesel was ever detected in samples taken from these wells. Extreme weather conditions complicated the spill response efforts. Between November 3 and November 6, nearby Mt. Rainier National Park received more than 18 inches of rainfall. This intense rainstorm resulted in massive flooding throughout the mountainous areas of Washington and northwest Oregon. By the evening of Monday, November 6, floodwaters from the White River closed a portion of Highway 410, preventing the arrival of equipment, personnel or supplies to the spill site. Crews and regulators on site that Monday were stranded until Wednesday, November 8, with only limited food and equipment. Temperatures dropped, and the rain changed to heavy snowfall. By Monday evening, November 13, approximately fifteen inches of snow accumulated on the ground around the generation station. Heavy rainfall resumed in the work area on November 15, melting much of the previous snow accumulation and increasing surface water flows.

Meanwhile, response crews continued their cleanup efforts around the clock while PSE consultants expanded subsurface explorations and site characterization.

The Emergency Spill Response effort is now transitioning to an Environmental Remediation phase. Spill response crews continue to monitor the site. However, early response actions have substantially stabilized the site. Recoverable free product is no longer present on the ground surface or in upland surface drainage features. Additionally, recovery trench and groundwater treatment system has been constructed near Silver Creek, reducing the risk of future diesel releases to surface water. Remedial soil excavation is also underway at locations near the spill, west of Crystal Mountain Boulevard.

PSE and its consultants are developing and implementing strategies and plans for the next stages of this project, which will consist of ongoing environmental assessment, remediation and monitoring.

PSE has coordinated closely with applicable agencies and other stakeholders, including EPA, Ecology, USFW, WDFW, PCDPH, the U.S. Forest Service, and the Muckleshoot Indian Tribe, on safety, spill response, authorizations to proceed, remediation efforts, community outreach, and logistics. It is PSE's strong desire to continue these relationships as it moves forward concerning the most appropriate actions to take at the site.

Puyallup Service Center

Several environmental site assessment and cleanup activities have been completed at the Puyallup Service Center site beginning in 1991. These activities are summarized below:

- A subsurface assessment was completed in 1991 to evaluate soil and groundwater conditions in the vicinity of a hydraulic hoist system in a garage. Petroleum-related contamination was identified in soil and groundwater at concentrations greater than applicable cleanup levels. Free-phase (floating) petroleum hydrocarbons also were observed on the groundwater table. A product recovery system was installed at that time. The removal of contaminated soil in the vicinity of the hydraulic hoist system was not considered practical because the garage was actively used.
- Seven underground storage tanks (USTs), related UST systems, two concrete sumps, associated piping and soil contamination were removed from the site in 1998. Further remedial action is not considered to be necessary in the vicinity of the former UST systems.
- Residual petroleum contamination remains in soil beneath the garage at depths of about 11 to 17 feet. This soil is not accessible for removal.
- Groundwater is currently being monitored annually to assess potential impacts from the remaining contaminated soil. Free-phase petroleum hydrocarbons have not been observed during the most recent groundwater monitoring events.

Floyd Equipment Company

This site is located in Fife along the former alignment of the Puget Sound Electric Railway (PSER). PSER was a predecessor of PSE.

Activities for the property are summarized below.

- This property remained the property of PSE until a subsidiary of PSE, Puget Western Inc. sold it to Earl McNally in 1985
- The site has been used for a salvage company known as Floyd Equipment where Mr. McNally is a minority owner from 1985 to present.
- Floyd has been involved in a multi year remediation under the direction of the Washington State Department of Ecology Voluntary Cleanup Program to address multiple contaminants in soil.
- On May 17th, 2006 PSE received a letter from the attorneys representing Floyd indicating that they view a portion of the costs Floyd has experienced during the remediation can be attributed to contamination arising from PSE's ownership and operation of this property.
- Lead, PCBs, petroleum hydrocarbons and polycyclic aromatic hydrocarbons (PAHs) are the principle contaminants of concern.
- PSE is investigating the merit of this claim.

EXHIBIT B

BEFORE THE WASHINGTON UTILITIES & TRANSPORTATION COMMISSION

PETITION OF PUGET SOUND ENERGY, INC.	
For an Order Regarding the Accounting	Docket No. UE-06_____
Treatment for Costs of its Electric	ORDER (PROPOSED)
Environmental Remediation Program	

On April 13, 2007, Puget Sound Energy, Inc. ("PSE" or the "Company") filed a Petition with this Commission under WAC 480-07-370(1)(b) seeking an order regarding the treatment of costs incurred by the Company under its electric environmental remediation program in response to federal and state laws regarding hazardous wastes. In its Petition, the Company requests an order which:

Authorizes the Company to defer the costs incurred in connection with the recently added components, "Lower Baker Power Plant Site," "Electron Flume Site," "Crystal Mountain Diesel Spill Site," "Puyallup Service Center Site" and "Floyd Equipment Company Site." Detailed descriptions of the sites are included as Exhibit A to the petition. Costs so deferred, net of third party recoveries, would be recovered in rates to be established in future rate proceedings consistent with the Commission's Order in Docket No. UE-911476, issued on April 1, 1992 and the Merger Order in Docket No UE-960195.

The Company's Petition states that the requested relief is necessary to insulate the Company's customers from fluctuations in rates due to the variability of environmental remediation costs and recoveries from insurance or third parties. In addition, the Petition states that the requested

accounting order would allow the Company to avoid the negative financial impact that otherwise would be required in accounting for these costs under current financial reporting requirements.

According to the Petition, the Company currently has underway an environmental remediation program in response to federal and state laws regarding hazardous wastes.

In its Petition, the Company states that per Commission Order No. UE-911476, issued April 1, 1992, that it was authorized deferral accounting treatment associated with particular components of its electric environmental remediation program costs. According to the Company, the order which authorized deferral accounting treatment for such costs stated that this treatment was considered to be appropriate in light of the variability and unpredictability of environmental expenditures. According to the Company, the variable and unpredictable nature of environmental expenditures has not changed and is not expected to change in the future.

In its Petition the Company proposed that the requested order pertaining to such deferred costs incurred pursuant to its environmental remediation program be subject to the following conditions:

- (a) Any deferred costs existing at the time of the Company's general rate proceedings are subject to review and net deferred costs shown to be imprudent or inappropriate will be subject to disallowance for rate recovery purposes. Net deferred costs as detailed in (d) below are the total project expenditures less any recoveries from third parties and or insurance proceeds.
- (b) Allowed net deferred costs will be amortized over a five-year period commencing on the date that all costs net of recoveries become known, consistent with the Merger Order in Docket No. UE-960195;
- (c) Any deferred costs will be included in the calculation of working capital in future rate proceedings.

- (d) Costs eligible for such deferred accounting treatment will include only those amounts paid to outside vendors or contractors (i.e., investigation and feasibility studies, sampling, evaluation, monitoring, materials, remediation and removal) and will not include internal employee expenses and legal costs.
- (e) Costs that are deferred will be reduced by any insurance proceeds or payments from other responsible parties received by the Company in respect of such costs.
- (f) The Company will normalize the tax benefits associated with these costs.
- (g) The Company will submit quarterly reports detailing the status of the various remediation projects and the level of costs being incurred.

FINDINGS AND CONCLUSIONS

THE COMMISSION FINDS:

1. The Washington Utilities and Transportation Commission is an agency of the State of Washington vested by statute with the authority to regulate rates, rules, regulations, practices, accounts, securities and transfers of public service companies, including electric companies. RCW 80.01.040; Chapter 80.04 RCW and Chapter 80.28 RCW.
2. PSE is a public service company furnishing electric and gas service primarily in the Puget Sound region of the State of Washington and is subject to the regulatory authority of the Commission as to its rates, service, facilities and practices.
3. On April 13, 2007, PSE filed with the Commission a Petition for an order regarding the accounting treatment for costs it incurs in connection with its electric environmental remediation program.
WAC 480-07-370, allows companies to file a petition including that for which PSE seeks approval.

4. Staff has reviewed the petition in Docket UE-07_____ and believes the proposed accounting petition requested by PSE, subject to certain conditions described above, is reasonable and should be approved.
5. This matter was brought before the Commission at its regularly scheduled meeting on _____.
6. After examination of the Petition filed in Docket No. UE-07_____ by PSE on April __, 2007, and giving due consideration to all relevant matters and for good cause shown, the Commission finds that the Petition filed, subject to certain conditions described above, should be approved.

ORDER

THE COMMISSION ORDERS:

1. Authorization is hereby given for PSE to:
 - a) Defer the costs incurred in connection with the recently added components, “Lower Baker Power Plant Site,” “Electron Flume Site,” “Crystal Mountain Site,” “Puyallup Service Center Site” and “Floyd Equipment Company Site.”, to the Company’s environmental remediation program, in accordance with the Petition, and
 - b) Recover such costs in future rates as described in this Petition.
 - c) Such deferral of costs incurred pursuant to its electric environmental remediation program shall be subject to the herein-contained conditions proposed by the Company in its Petition.
2. Nothing herein shall be construed to waive or otherwise impair the jurisdiction of the Commission over the rates, services, accounts and practices of Applicant Puget Sound Energy. The Commission, under its general ratemaking authority, will have the ability in

subsequent PSE general rate proceedings to evaluate the reasonableness of the Company's expenditures associated with the electric environmental remediation program.

4. The Commission retains jurisdiction to effectuate the provisions of this Order.

DATED at Olympia, Washington, and effective this ___ day of _____.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

MARK SIDRAN, Chairman

PHILLIP JONES, Commissioner

PATRICK OSHIE, Commissioner