



Puget Sound Energy, Inc.  
6905 South 228th Street  
Kent, WA 98032

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STATE OF WASH.  
UTIL. AND TRANSP.  
COMMISSION

4/20/2007

Ms. Carole Washburn  
Washington Utilities & Transportation Commission  
PO Box 47250  
Olympia, WA 98504

Dear Ms. Washburn:

**Subject: Docket UG-920781 (WNG)  
Docket UE-911476 (PSP&L)  
Environmental Report for the quarter ending March 31st, 2007**

**FORMER WNG SITES**

**A. Tacoma Gas Company Site (Upland Source Control)**

PSE continues to work with Washington Department of Ecology (WDOE). The specific project area was agreed to with WDOE and work continues on developing the remedial investigation/feasibility study (RI/FS) documents for addressing portions of the site under the I-705 overpass.

Remediation cost incurred as of 3/31/07 \$769,040

**B. Thea Foss Waterway**

On February 9<sup>th</sup>, 2007 the Commencement Bay Natural Resource Trustees delivered the NRD Settlement Proposal Report to the PRPs. The deadline set by the Trustees for receiving a settlement offer from the PRPs is February 29<sup>th</sup>, 2008.

PSE is working with the other PRPs to develop an approach for allocation for responsibility. The next round of monitoring required by the Operations, Maintenance and Monitoring plan (OMMP) is scheduled for May 2007.

Remediation cost incurred as of 3/31/07 \$3,090,671

**C. Everett, Washington**

The remedy implemented was a containment wall with groundwater monitoring at both ends. PSE continues regular monitoring of the results of the remediation already performed.

Remediation cost incurred as of 3/31/07

\$1,310,313

#### **D. Chehalis, Washington**

Work continues on development a remedial plan to address the discovery of elevated concentrations of contamination onsite. Completion of the remedial investigation/feasibility study (RI/FS) is planned for 2007.

Remediation cost incurred as of 3/31/07

\$2,498,707

#### **E. Gas Works Park**

Ongoing activities include groundwater monitoring and maintenance of the soil cap. All these activities are the responsibility of the City of Seattle, pursuant to an agreement with PSE. The City removed tar from two locations along the eastern shoreline of Gas Work Park in January and subsequently placed gravel in the southeastern shoreline area to mitigate potential exposure. The City temporarily shut down the groundwater remediation system in late December and is discussing options on whether to seek WDOE approval for permanent system shut down.

Remediation cost incurred as of 3/31/07

\$2,574,680

#### **F. Quendall Terminals**

EPA listed Quendall Terminals as an NPL (i.e., Superfund) Site on April 19, 2006. PSE continues to deny liability because WNG only sold tar to this facility and did not transport or dispose of a waste. Nevertheless, to quantify the potential downside risk, PSE has historically referenced the \$1,000,000 demand tendered by the City of Renton several years ago (the City pursued a development opportunity and contacted PSE, alleging some potential liability exposure at the site). However, recent discussions with the EPA project manager indicate that EPA is ready to issue an Administrative Order of Consent to two Potential Responsible Parties. Given these current plans by EPA and the lack of formal communications between PSE and EPA, PSE has adjusted its downside risk element to reflect future costs and we believe that a potential range of costs more accurately reflects the potential range of risks faced by PSE at this site.

#### **G. Lake Union Sediments**

PSE is conducting a remedial investigation/feasibility study (RI/FS) under the Agreed Order (AO) between WDOE and PSE and the City of Seattle executed on March 18, 2005. In accordance with the AO, PSE submitted a Draft RI/FS report for the Eastern Study Area offshore of Gas Works Park to WDOE on March 31, 2006. PSE has responded to comments received from WDOE and other trustees and, in collaboration with the City of Seattle, is in the

process of expanding the area of coverage to address the bank area of Gas Works Park. The revised RI/FS report will be submitted in 2007.

The City of Seattle is conducting an RI/FS in the adjacent Western Study Area and is scheduled to submit their draft RI/FS to WDOE in September. PSE and the City completed an evaluation of sources of recontamination as required by the AO; comments from WDOE on this Joint Source Control Evaluation are pending.

Remediation cost incurred as of 3/31/07 \$6,303,152

#### **H. Tacoma Tar Pits**

PSE continues to operate and monitor the pump and treat system. Maintenance of site facilities (e.g., mowing of covered stabilized waste pile) and monitoring of ground water quality continues.

Remediation cost incurred as of 3/31/07 \$37,266,497

#### **I. Swarr Station**

Lead- and petroleum-contaminated soil was removed from the site in 2003. However, arsenic-contaminated groundwater remains beneath the site. A recent study explored shallow soil for the source of the arsenic contamination, but did not identify elevated concentrations of arsenic. Additional explorations will be completed to search for an arsenic source. If an arsenic source is identified additional remediation will likely occur.

Remediation cost incurred as of 3/31/07 \$181,272

#### **J. Bay Station (New Site)**

In the early 1900's, PSE's predecessors owned and operated an MGP in Seattle along the waterfront now known as Elliot Ave. PSE was recently contacted by the current property owners regarding possible contamination in the subsurface at this location. PSE is currently in discussion with the property owner's agents. A subsurface investigation work plan has been prepared and will be implemented in the upcoming months.

Remediation cost incurred as of 3/31/07 \$17,256

#### **K. Olympia (Columbia Street)**

From 1908 to approximately 1924 an MGP was located on Columbia Street in Olympia. Our records show that this MGP was operated by another company unrelated to PSE. From approximately 1927 until the 1950s PSE predecessors operated a gas holder (Hortonshpere) on this site for the storage and distribution of methane to its customers. PSE recently received a letter from a firm representing the current owners stating that contamination found in soil and

groundwater was attributable to PSE's predecessors' ownership and operations on this site. PSE is currently investigating the merits of this claim.

## **FORMER PUGET POWER SITES**

### **A. Puyallup Garage**

PSE expects to perform remediation at this site in the future, but is presently monitoring the property only. Contaminated soil remains beneath the former garage building.

### **B. White River Cleanup Projects**

#### *Buckley Headworks Site*

This work involves three other areas of contamination noted during our initial remediation work. Treated wood debris and soil have been removed from this area and restoration activities are complete. Groundwater and restored vegetation are being monitored to demonstrate that the cleanup and site rehabilitation activities were successful.

#### *White River Powerhouse*

Contaminated soil remaining beneath the Carpenter Shop was removed during this quarter. This action concluded the planned remedial activities, except for groundwater monitoring, which will be required for at least one year.

### **C. Terminal 117 - Duwamish Waterway**

On December 21, 2005, PSE received a demand letter regarding the Malarkey Asphalt plant at Terminal 117 on the Duwamish waterway. Used transformer oil, containing PCBs, was burned by the operators as a boiler fuel. PSE has denied involvement at the site. During the past year, PSE has participated in depositions and undertook some limited discovery related to the site.

### **D. Crystal Mountain Generator Station**

PSE is continuing to develop plans for a second phase of work to address contaminated soil that remains beneath and adjacent to the generating station. Work is scheduled to begin in April for the temporary relocation of the generating station, followed by soil excavation in May, and site rehabilitation and reinstallation of the station during the summer of 2007.

PSE will continue to operate the interceptor trench and treatment system to capture free product and treat contaminated groundwater.

Remediation cost incurred as of 3/31/07

\$10,483,936

#### **E. Underground Storage Tanks Status**

Please see the attached spreadsheet. This provides a summary of our ongoing efforts associated with the investigation, remediation, and/or removal of underground storage tanks (UST).

This list represents current major sites PSE is investigating, monitoring, or remediating.

Separately, PSE is in settlement discussions with Lloyds of London concerning potential future claims against historic Lloyds' insurance policies purchased by Puget Power prior to the merger with WNG. These discussions are ongoing and expected to continue into 2007.

I would like to also mention that Lorna Luebbe has assumed the position of Director, Environmental Services for Puget Sound Energy.

Sincerely,



John Rork  
Manager – Environmental Services

cc: Jim Eldredge  
Mike Main  
Karl Karzmar  
Bert Valdman  
Chuck Gordon  
David Brenner  
Mike Stranik  
Jennifer O'Connor  
Natalie Hayashi  
Jan Ripplinger  
Lorna Luebbe  
Steve Secrist



**PUGET SOUND ENERGY, INC.**  
**DEFERRED ENVIRONMENTAL COST SUMMARY GAS**  
**March 31, 2007**

September 1998 - forward SAP ORDER SAP ACCOUNT	Site Description	12/31/2006		3/31/2007		Env Services Project Cost Estimates 3/31/2007	Remaining 18608022 18236022 22840002	Amortization Through 3/31/2007 Dr. 40700002	Balance 3/31/2007 Closing
		Account Balance	Activity	Account Balance	Activity				
18611102	MERCER STREET Remediation costs	66,942.15	-	66,942.15	-	-	(66,942.15)	-	66,942.15
18612102	QUENDALL TERMINALS Remediation costs	59,043.75	-	59,043.75	-	1,000,000.00	1,000,000.00	-	59,043.75
18609302	Legal Costs SUBTOTAL	59,043.75	-	59,043.75	-	1,000,000.00	1,000,000.00	-	59,043.75
18614102	LAKE UNION Remediation costs	6,138,927.30	164,225.31	6,303,152.61	128,028.88	25,000,000.00	18,696,847.39	-	6,303,152.61
18614202	Legal Costs SUBTOTAL	109,846.49	18,182.39	128,028.88	182,407.70	25,000,000.00	18,696,847.39	-	128,028.88
18609532	BAY STATION Remediation costs	8,462.61	8,793.58	17,256.19	-	25,000.00	7,743.81	-	17,256.19
18614402	OLYMPIA - COLUMBIA ST. Remediation costs	-	-	-	-	15,000.00	15,000.00	-	-
18608022	Estimated Future Costs	29,506,744.71	(236,693.45)	29,270,051.26	-	-	-	-	29,270,051.26 (a)
18608062	Insurance and Third Party Inception-to-Date Recoveries	(66,066,528.43)	-	(66,066,528.43)	-	-	-	-	(66,066,528.43)
	<b>TOTAL - FORMER MANUFACTURED GAS SITES</b>	<b>\$ 34,300,200.12</b>	<b>\$ 56,266.67</b>	<b>\$ 34,356,666.79</b>	<b>\$ 48,340,000.00</b>	<b>\$ 29,270,051.26</b>	<b>(a) \$ 29,389,778.50</b>	<b>(b) \$ -</b>	<b>\$ 34,356,666.79</b>
<b>ENVIRONMENTAL STORAGE TANKS AND OTHER SITES</b>									
18230210	NORTH OPERATING BASE SWARR STATION	177,656.86	3,615.90	181,272.76	-	50,000.00	50,000.00	-	181,272.76
18230212	ESTIMATED FUTURE COSTS	122,343.14	-	122,343.14	-	250,000.00	118,727.24	-	118,727.24
18236022	ESTIMATED FUTURE INSURANCE RECOVERIES	300,000.00	3,615.90	303,615.90	-	300,000.00	118,727.24	-	300,000.00
18236032	TOTAL - GAS UNDERGROUND STORAGE TANKS	<b>\$ 34,500,000.00</b>	<b>\$ 59,882.57</b>	<b>\$ 34,559,882.57</b>	<b>\$ 48,340,000.00</b>	<b>\$ 29,389,778.50</b>	<b>(b) \$ -</b>	<b>\$ -</b>	<b>\$ 34,559,882.57</b>

(a) Represents balance in Account 18608022 after quarterly true-up  
(b) Represents balance in Account 22840002 after quarterly true-up  
(c) Represents the low end of the probable future cost estimate range

**PUGET SOUND ENERGY, INC.**  
**DEFERRED ENVIRONMENTAL COST SUMMARY ELECTRIC**  
**MARCH 31, 2007**

SAP ORDER	SAP ACCOUNT	SITE DESCRIPTION	Quarterly Account Roll-Forward									
			12/31/2006	Quarterly Activity	3/31/2007	Actual Costs Through	Future Cost Estimates	Total Cost Estimates	Insurance Recoveries Through	Accrued Liabilities for Future Cost Estimates	Accum Amort Expense Through	3/31/2007
Account Balance	(a)	(b)	(c) = (a) + (b)	(d)	(e)	(f) = (d) + (e)	(g)	(h)	(i)	(j) = (f)-(g)+(h)+(i)		
18230009	18232251	Env Rem - Buckley-White River Phase II (Future Cost Est)	922,486.24	(13,602.55)	908,883.69	591,116.31	908,883.69	908,883.69	0.00	0.00	908,883.69	
		Buckley Phase II - Burn Pile & Wood Debris Env Rem Cost	577,513.76	13,602.55	591,116.31	591,116.31	591,116.31			591,116.31		
		<b>SUBTOTAL BUCKLEY HEADWORKS SITE</b>	<b>1,500,000.00</b>	<b>0.00</b>	<b>1,500,000.00</b>	<b>591,116.31</b>	<b>908,883.69</b>	<b>1,500,000.00</b>	<b>0.00</b>	<b>0.00</b>	<b>1,500,000.00</b>	
18230021	18232271	Env Rem - Duwamish River Site (former Georgetown)	56,800.68		56,800.68	56,800.68	56,800.68			56,800.68		
18230061	18230061	Env Rem - UG Tank - Poulsbo Service Center (Future Cost Est)	10,000.00		10,000.00	10,000.00	10,000.00			10,000.00		
18230311	18230311	Env Rem - UG Tank - Whidbey Is. (Future Cost Est.)	15,000.00		15,000.00	15,000.00	15,000.00			15,000.00		
18230321	18230321	Env Rem - UG Tank - Tenino (Future Cost Est.)	52,471.63		52,471.63	22,528.37	52,471.63			52,471.63		
18230391	18230391	Tanino Service Center - UG Tank - Env Rem Cost	22,528.37		22,528.37	22,528.37	22,528.37			22,528.37		
		<b>SUBTOTAL TENINO SERVICE CENTER</b>	<b>75,000.00</b>	<b>0.00</b>	<b>75,000.00</b>	<b>22,528.37</b>	<b>52,471.63</b>	<b>75,000.00</b>	<b>0.00</b>	<b>0.00</b>	<b>75,000.00</b>	
18230051	1823101	Env Rem - Bremerton UST Def Site	0.00	811.77 (E)	811.77					811.77		
22840041	22840041	Bremerton UST Def Site	(2,648.55)	2,648.55	0.00 (E)	50,000.00	50,000.00			50,000.00		
22840042	22840042	Olympia UST Def Site	(129,471.05)		(129,471.05)	20,528.95	129,471.05			(150,000.00) (A)		
22840031	22840031	Puyallup Garage Expensed Site	(453,028.42)		(453,028.42)	14,971.58	453,028.42			(350,000.00) (A)		
22840081	22840131	Crystal Mountain Expensed Site	(4,000,000.00)		(4,516,064.00)	10,483,936.00 (D)	4,516,064.00			(12,628,460.00) (D)		
22841001	22841001	Accu Misc Oper Pow-- Unallo Def Elec Env Reme Recoveries	(892,261.31)	2,806.01 (C)	(889,455.30)					(889,455.30)		
		<b>Totals</b>	<b>(3,820,608.65)</b>	<b>(509,797.67)</b>	<b>(4,330,406.32)</b>	<b>11,239,881.89</b>	<b>6,084,918.79</b>	<b>17,324,800.68</b>	<b>(14,067,915.30)</b>	<b>(5,097,751.70)</b>	<b>(2,489,540.00)</b>	<b>(4,330,406.32)</b>

- (A) Represents allocated proceeds from the insurance recoveries.
- (B) Additional \$118,000 was expensed to Puyallup Garage Site in order 93500404.
- (C) To clear residual amount in order 186000102 - NW Transformer Pole Site Cost.
- (D) Crystal Mountain is being expensed in order 55450078, 55450079 and 55450080. Insurance Receivable is being credited out of order 55450079 to account 14300211.
- (E) Reclass the debit balance from liability account #22840041 to asset account #1823101.