



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

7/24/2007

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

RECEIVED
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REC'D
OFFICE OF THE ATTORNEY GENERAL
COMMUNICATIONS SECTION

Dear Ms. Washburn:

**Subject: Docket UG-920781 (WNG)
Docket UE-911476 (PSP&L)
Environmental Report for the quarter ending June 30, 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 6/30/07 \$769,040

B. Thea Foss Waterway

On February 9th, 2007 the Commencement Bay Natural Resource Trustees delivered the NRD Settlement Proposal Report to the PRPs with a deadline to receive a settlement offer from the PRPs set at February 29th, 2008. Recently the Trustees have withdrawn their NRD settlement proposal report due to data and calculation errors. A new demand is expected to be received in September. The Trustees deadline for receiving a settlement offer from the PRPs will be revised to reflect the 9 month delay caused by the Trustees revision to their demand. PSE is working with the other PRPs to develop an approach for allocation for responsibility.

The OMMP sampling work was completed in May and preliminary laboratory data is being validated.

Remediation cost incurred as of 6/30/07 \$3,114,945

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 6/30/07 \$1,311,194

D. Chehalis, Washington

Work continues on development a remedial plan to address the discovery of elevated concentrations of contamination onsite. The remedial investigation/feasibility study (RI/FS) is in progress.

Remediation cost incurred as of 6/30/07 \$2,501,173

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 a small quantity of tar from an additional location in the northeastern area of Gas Work Park in May. The City is currently developing plans to conduct an investigation in late summer of tar occurrence in adjacent uplands. The City shut down the groundwater remediation system in late December.

Remediation cost incurred as of 6/30/07 \$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, PSE and the City of Seattle executed on March 18, 2005. PSE submitted a Draft RI/FS report for the Eastern Study Area offshore of Gas Works Park to WDOE on March 31, 2006 and has responded to comments received from WDOE and other trustees. In collaboration with the City of Seattle, PSE has expanded the area of coverage to address the bank area of Gas Works Park so that adjacent uplands source areas are mitigated by the time the sediment remedy is implemented. PSE will conduct a limited field investigation along the eastern shoreline of the park to identify any potential upland sources of tar that could impact sediments. This investigation is tentatively planned for late summer in association with the City's investigation of the adjacent uplands area. Due to these additional field activities, submittal of the revised RI/FS report has likely been delayed to the first quarter of 2008. The City of Seattle is conducting an RI/FS in the adjacent Western Study Area and submitted their draft RI/FS report to WDOE in May.

Remediation cost incurred as of 6/30/07 \$6,836,448

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 6/30/07 \$37,292,942

I. Swarr Station

Lead- and petroleum-contaminated soil was removed from the site in 2003. However, arsenic-contaminated groundwater remains beneath the site. Recent studies indicate that the source of the arsenic appears to be located in the vicinity of vaporizer and glycol pumping equipment. This area is difficult to access due to the presence of the equipment. Data is being evaluated to determine whether the arsenic plume requires active remediation or if it can be managed by the ongoing groundwater monitoring activities.

Remediation cost incurred as of 6/30/07 \$195,500

J. Bay Station

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. Initial subsurface sampling has detected the presence of contamination that appears to be associated with the former MGP. A subsurface investigation work plan will be prepared and implemented in the upcoming months. Based on the results of the initial subsurface sampling performed, PSE is adjusting its cost estimate and believes that a potential range of costs more accurately reflects the potential range of risks faced by PSE at this site.

Remediation cost incurred as of 6/30/07

\$24,390

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

Groundwater monitoring is in progress to evaluate the effectiveness of the remedial action previously reported. Preliminary data for the first monitoring event has been received but not yet evaluated.

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 has implemented a second phase of work to address contaminated soil that was beneath and adjacent to the generating station. The generating station was temporarily relocated and all contaminated soil was removed and sent offsite for disposal. Final plans for site restoration (earthwork and revegetation) are currently being developed for agency approval. Site restoration and generating station construction activities will be completed concurrently this summer, extending into early fall.

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

Remediation cost incurred as of 6/30/07

\$11,984,383

E. Floyd Equipment Company (New Site)

On May 16, 2006, Floyd Equipment Company, Inc. notified PSE of its alleged liability for costs incurred in connection with investigation and remediation activities at Floyd's property in Fife, Washington, the former site of a portion of the Puget Sound Electric Railway. PSE and Floyd are engaged in negotiations to resolve the matter.

F. Bremerton Service Center (New Activity)

The former Bremerton Service Center site was remediated in 1999 with some contamination remaining beneath buildings deemed critical to PSE operations. Recent construction enabled PSE to demolish two structures and remove contamination previously inaccessible.

G. 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.

Sincerely,

A handwritten signature in black ink, appearing to read 'John Rork', with a long horizontal line extending to the right.

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
June 30, 2007

September 1998 - forward SAP ORDER		SAP ACCOUNT		Site Description	3/31/2007 Account Balance	Activity	6/30/2007 Account Balance	Env Services Project Cost Estimates 6/30/2007	Cost Estimates Remaining 18608022 18236022 22840002	Amortization Through 6/30/2007 Dr. 40700002	Balance 6/30/2007 Closing
FORMER MANUFACTURED GAS SITES:											
TACOMA TIDE FLATS (TACOMA TAR PITS, THCSS, RIVER ST.)											
18601203	18608142	Legal Costs	9,351,936.58				9,351,936.58				9,351,936.58
18601102	18608112	Remediation Costs through June 1999	34,826,945.69				34,826,945.69				34,826,945.69
18601102	18608112	Remediation Costs post-June 1999	2,439,551.77	26,445.79		2,465,997.56	2,465,997.56				2,465,997.56
	18608152	Internal Costs pre-1997	209,796.52			209,796.52					209,796.52
		SUBTOTAL Tacoma Tide Flats	46,828,230.56	26,445.79		46,854,676.35	2,750,000.00		284,002.44		46,854,676.35
EVERETT											
18602102	18608212	Remediation Costs	1,310,313.37	880.50		1,311,193.87	4,500,000.00		3,188,806.13		1,311,193.87
18602203	18608242	Legal Costs	8,717.50			8,717.50					8,717.50
		SUBTOTAL Everett	1,319,030.87	880.50		1,319,911.37	4,500,000.00		3,188,806.13		1,319,911.37
CHEHALIS											
18603102	18608312	Remediation Costs	2,498,707.07	2,466.12		2,501,173.19	4,250,000.00		1,748,826.81		2,501,173.19
GAS WORKS - SEATTLE											
18604203	18608442	Legal Costs	856,121.11			856,121.11	3,200,000.00		625,686.46		856,121.11
18604102	18608412	Remediation Costs	2,574,313.54			2,574,313.54	3,200,000.00		625,686.46		2,574,313.54
	18608452	Internal Costs - pre-1997	366.95			366.95					366.95
		SUBTOTAL Gas Works - Seattle	3,430,801.60			3,430,801.60	3,200,000.00		625,686.46		3,430,801.60
WSDOT FEDERAL/STATE											
18605203	18608542	Legal costs	379,591.40			379,591.40					379,591.40
18605102	18608512	Remediation Costs	379,591.40			379,591.40					379,591.40
		SUB TOTAL	759,182.80			759,182.80					759,182.80
WSDOT UPLAND (Aka 22nd & A Street, Tacoma Gas Company Site)											
18606102	18608612	Remediation costs	769,040.33			769,040.33	1,100,000.00		330,959.67		769,040.33
18606203	18608642	Legal Costs	15,888.20			15,888.20					15,888.20
		SUBTOTAL	784,928.53			784,928.53	1,100,000.00		330,959.67		784,928.53
WSDOT THEA/FOSS											
18607102	18608712	Remediation costs	3,090,671.71	24,273.30		3,114,945.01	6,500,000.00		3,385,054.99		3,114,945.01
18607203	18608742	Legal costs	3,174,621.07	80,172.68		3,254,793.75					3,254,793.75
		SUBTOTAL	6,265,292.78	104,445.98		6,369,738.76	6,500,000.00		3,385,054.99		6,369,738.76
TULALUP											
18608102	18608812	Remediation costs	995.00			995.00					995.00
OMNIBUS INSURANCE LITIGATION (9 MFG. GAS SITES)											
18609202	1860942	Legal costs	3,071,142.57	934.30		3,072,076.87					3,072,076.87

PUGET SOUND ENERGY, INC.
DEFERRED ENVIRONMENTAL COST SUMMARY GAS
June 30, 2007

September 1998 - Forward SAP ORDER	SAP ACCOUNT	Site Description	3/31/2007 Account Balance	Activity	6/30/2007 Account Balance	Env Services Project Cost Estimates 6/30/2007	Remaining 18608022 18236022 22840002	Amortization Through 6/30/2007 Dr. 40700002	Balance 6/30/2007 Closing
18611102	18609212	MERCER STREET Remediation costs	66,942.15	-	66,942.15		(66,942.15)		66,942.15
18612102	18609512	QUENDALL TERMINALS Remediation costs	59,043.75	-	59,043.75	1,000,000.00	1,000,000.00		59,043.75
18609302	18609522	Legal Costs	59,043.75	-	59,043.75	1,000,000.00	1,000,000.00		59,043.75
		SUBTOTAL							
18614102	18609312	LAKE UNION Remediation costs	6,303,152.61	533,295.46	6,836,448.07	25,000,000.00	18,163,551.93		6,836,448.07
18614202	18600082	Legal Costs	128,028.88	54,402.58	182,431.46				182,431.46
		SUBTOTAL	6,431,181.49	587,698.04	7,018,879.53	25,000,000.00	18,163,551.93		7,018,879.53
18603202	18609532	BAY STATION Remediation costs	17,256.19	7,133.75	24,389.94	250,000.00	225,610.06		24,389.94
18614402	18609542	OLYMPIA - COLUMBIA ST. Remediation costs		74.86	74.86	15,000.00	14,925.14		74.86
	18608022	Estimated Future Costs	29,270,051.26	(369,569.78)	28,900,481.48				\$ 28,900,481.48 (a)
	18608062	Insurance and Third Party Inception-to-Date Recoveries	(66,065,528.43)	(300,000.00)	(66,365,528.43)				(66,365,528.43)
		TOTAL - FORMER MANUFACTURED GAS SITES	\$ 34,356,666.79	\$ 60,509.56	\$ 34,417,176.35	\$ 48,585,000.00	\$ 28,900,481.48 (a)	\$ -	\$ 34,417,176.35
18230210	18237122	GAS UNDERGROUND STORAGE TANKS AND OTHER SITES SOUTH SEATTLE GATE STATION		10,355.25	10,355.25	50,000.00	50,000.00		10,355.25
18230210	18236912	NORTH OPERATING BASE		-	-	54,300.04	54,300.04		195,489.96
18230212	18237112	SWARR STATION	181,272.76	14,227.20	195,499.96	250,000.00	104,500.04		195,489.96
	18236022	ESTIMATED FUTURE COSTS	118,727.24	(14,227.20)	104,500.04				104,500.04
	18236032	ESTIMATED FUTURE INSURANCE RECOVERIES							
		TOTAL - GAS UNDERGROUND STORAGE TANKS	\$ 300,000.00	\$ 10,355.25	\$ 310,355.25	\$ 300,000.00	\$ 104,500.04	\$ -	\$ 310,355.25
		TOTAL - GAS STORAGE TANKS AND MANUFACTURED GAS SITES	\$ 34,656,666.79	\$ 70,864.81	\$ 34,727,531.60	\$ 48,885,000.00	\$ 29,004,981.52 (b)	\$ -	\$ 34,727,531.60

NOTES:
(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
JUNE 30, 2007

September 2000 - forward SAP ORDER	SAP ACCOUNT	SITE DESCRIPTION	Quarterly Account Roll-Forward			Actual Costs Through 6/30/2007	Future Cost Estimates	Total Cost Estimates	Insurance Recoveries Through 6/30/2007
			3/31/2007 Account Balance	Quarterly Activity	6/30/2007 SAP Account Balance				
			(a)	(b)	(c) = (a) + (b)	(d)	(e)	(f) = (d) + (e)	(g)
18230009	18232251	Env Rem - Buckley-White River Phase II (Future Cost Est) Buckley Phase II - Burn Pile & Wood Debris Env Rem Cost Subtotal Buckley Headworks Site	908,883.69 591,116.31 1,500,000.00	(6,564.70) 6,564.70 0.00	902,318.99 597,681.01 1,500,000.00	597,681.01 597,681.01	902,318.99	902,318.99 597,681.01 1,500,000.00	0.00
18230021	18232271	Env Rem - Duwamish River Site (former Georgetown)	56,800.68		56,800.68	56,800.68		56,800.68	
	18233061	Env Rem - UG Tank - Poulsbo Service Center (Future Cost Est)	10,000.00		10,000.00		10,000.00	10,000.00	
	18230311	Env Rem - UG Tank - Whidbey Is. (Future Cost Est)	15,000.00		15,000.00		15,000.00	15,000.00	
18230041	18230321	Env Rem - UG Tank - Tenino (Future Cost Est)	52,471.63		52,471.63	22,528.37	52,471.63	52,471.63	
	18233091	Tenino Service Center - UG Tank - Env Rem Cost Subtotal Tenino Service Center	22,528.37 75,000.00	0.00	22,528.37 75,000.00	22,528.37 22,528.37	52,471.63	22,528.37 75,000.00	0.00
18230051	18233121	Env Rem - UG Tank - Bremerton (Future Cost Est.)	811.77	96,870.19	96,870.19	28,129.81	96,870.19	96,870.19	
	18233101	Env Rem - Bremerton UST Def Site Subtotal Bremerton UST Def Site	811.77 1,657,612.45	27,318.04 124,188.23	28,129.81 1,781,800.68	28,129.81 705,139.87	96,870.19	28,129.81 1,781,800.68	0.00
		Total Deferred Environmental Costs		124,188.23	1,781,800.68	705,139.87	1,076,660.81	1,781,800.68	0.00
22840031	22840031	Olympia UST Def Site	(129,471.05)		(129,471.05)	20,528.95	129,471.05	150,000.00	(150,000.00) (A)
22840081	22840081	Puyallup Garage Expensed Site	(453,028.42)		(453,028.42)	14,971.58	453,028.42	468,000.00	(350,000.00) (A)
	22840131	Crystal Mountain Expensed Site	(4,516,064.00)	1,500,446.89	(3,015,617.11)	11,984,382.89	3,015,617.11	15,000,000.00	(12,615,227.72) (C)
	22841001	Accu Misc Oper Prov-- Unallo Def Elec Env Reme Recoveries	(889,455.30)	1,472.77	(887,982.53)				(887,982.53)
		Totals	(4,330,406.32)	1,526,107.89	(2,704,298.43)	12,725,023.29	4,674,777.39	17,399,800.68	(14,003,210.25)

- (A) Represents allocated proceeds from the insurance recoveries.
- (B) To clear residual amount in order 186000102 - NW Transformer Pole Site Cost.
- (C) Crystal Mountain is being expensed in order 55450078, 55450079 and 55450080. Insurance Receivable is being credited out of order 55450079 to account 14300211.
- (D) Established a new deferral account for the future Estimated costs for Bremerton Service Center.