



PUGET
SOUND
ENERGY

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WASHINGTON
UTILITY AND TRANSPORTATION
COMMISSION

August 9, 2006

Ms. Carole Washburn, Secretary
Washington Utilities & Transportation Commission
P.O. Box 47250
Olympia, WA 98504

Dear Ms. Washburn:

**Subject: Docket UG-920781 (WNG)
Docket UE-911476 (PSP&L)
Environmental Report for the quarter ending June 30, 2006**

FORMER WNG SITES

A. Tacoma Gas Company Site (Upland Source Control)

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

Remediation costs incurred as of 6/30/06 \$769,040

B. Thea Foss Waterway

Monitoring of the utilities' completed remedy began in April 2004, as required by the EPA. Year 2 sediment sampling was completed in May 2006. Preliminary results indicate "top down" recontamination of the Utilities cap is occurring from stormwater sources. Bioassay testing (that supersede the chemical results) is being completed to confirm the level of the Sediment Quality Objectives (SQOs) exceedances.

Remediation costs incurred as of 6/30/06 \$2,989,209

C. Everett, Washington

PSE continues regular monitoring of the results of the remediation already performed. The remedy chosen for this site was a containment wall with monitoring wells at both ends. The change in the estimate of costs reflects uncertainty associated with potential impacts to off-site property and sediments.

Remediation costs incurred as of 6/30/06 \$1,258,648

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D. Chehalis, Washington - Gas Site

Work has continued on developing a remedial plan resulting from the discovery of elevated concentrations of contamination onsite. Completion of the remedial investigation/feasibility study (RI/FS) is planned for 2006. The cost estimate has been updated in recognition of off-site impacts and to reflect estimated costs to implement the remedy for the site.

Remediation costs incurred as of 6/30/06 \$2,487,629

E. Gas Works Park

The only ongoing activities are the monitoring of the groundwater remediation system and maintenance of the soil cap. All these activities are the responsibility of the City of Seattle.

Remediation costs incurred as of 6/30/06 \$2,574,095

F. 5th and Jackson

Union Station Associates and PSE settled the pending litigation in December 2002. Completed (no further updates will be provided unless there is a re-opener or other unexpected development)

G. Quendall Terminals

There has been virtually no communication with PSE regarding this site for a few years. EPA has taken over the site lead (from Ecology) and in late 2005 proposed adding the site to the National Priorities List (NPL). EPA listed Quendall Terminals as an NPL (i.e., Superfund) Site on April 19, 2006. PSE continues to monitor activities and deny liability. However, given the current estimate of costs, allegations by other parties, and our ongoing investigation, it remains difficult to estimate project costs. Historically, we have simply referenced the \$1,000,000 demand tendered by the City of Renton. However, we believe that a potential range of costs more accurately reflects the range of risks faced by PSE at this site.

H. Lake Union

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. Comments have been received from WDOE and a revised RI/FS report will be submitted this summer. The City is conducting and RI/FS in the adjacent Western Study Area. WDOE has approved a site-wide cleanup level and boundary for Gas Works Sediment Area (inclusive of both Eastern and Western study areas).

Remediation costs incurred as of 6/30/06 \$5,671,402

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I. Tacoma Tar Pits

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

Remediation costs incurred as of 6/30/06

\$37,098,260

J. Swarr Station (New)

Lead- and petroleum-contaminated soil was removed from the site in 2003. Arsenic-contaminated groundwater remains beneath the site and is the subject of ongoing characterization activities. Groundwater quality is being monitored and soil will be sampled to evaluate potential sources of the arsenic. Remediation will likely occur if the source of the arsenic contamination is identified.

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. 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).

C. White River Cleanup Projects

1. Buckley Headworks Site

Phase 1

Remediation of the first area of investigation was completed in 2002 in accordance with MTCA and WDOE has provided a No Further Action Letter. This phase of the project is completed and PSE continues to perform groundwater monitoring.

Completed (no further updates will be provided unless there is a re-opener or other unexpected development)

Phase 2

Permits were obtained and cleanup began at three other areas of contamination noted during our initial (Phase 1) remediation work. The Phase 2 cleanup action involves the removal of treated wood debris and soil. Groundwater monitoring will be required after the cleanup is completed.

2. White River Powerhouse (New Site)

PSE conducted cleanup activities during this reporting period in response to discoveries made during due diligence efforts. Soil containing elevated concentrations of metals and petroleum has been

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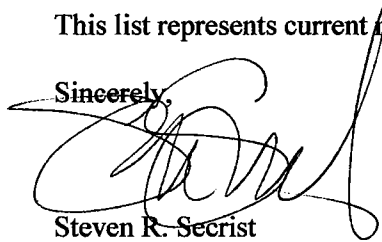
removed from the site, although some contaminated soil remains beneath the Carpenter Shop. The Carpenter Shop will be demolished and remaining contamination removed as soon as the necessary permits are received.

D. Terminal 117 - Duwamish Waterway

On December 21, 2005 PSE received a demand letter requesting that PSE, as a potentially responsible party to a site adjacent to the Duwamish Waterway, consider participating in an early mediation regarding which parties should pay for the cost of cleaning up the site. The site is currently owned by the Port of Seattle and is known as Terminal 117. An asphalt plant operated on the site from 1940 to 1993. PCB contamination is present in soil at the site. The letter contends that, before 1978, used transformer oil, possibly containing PCBs, was obtained from PSE and Seattle City Light and burned onsite as a process fuel. PSE is continuing to investigate the merit of this claim.

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

Sincerely,



Steven R. Secrist

Director – Environmental Services

cc: Jim Eldredge
Mike Main
Karl Karzmar
Bert Valdman
Chuck Gordon
David Brenner
Mike Stranik
Jennifer O'Connor
Jan Ripplinger

PUGET SOUND ENERGY UST REMEDIAL COST ESTIMATES (Page 1 of 2)
(updated 6/30/06)

PSE Facility/Location		Proposed Remedial Action	Estimated Cost of Proposed Remedial Action (\$)
Baker River Lower Concrete, WA	2,500 gal. Gas and Diesel USTs	None	0
Baker River Upper Concrete, WA	1,000 gal. Gas and Diesel USTs	None	0
Bellingham Service Center Bellingham, WA	10,000 gal. Gas and Diesel USTs	None	0
Electron Forebay Orting, WA	550 gal. Gas and Diesel USTs	None	0
Electron Power House Orting, WA	Two USTs and contaminated soil were successfully removed in 2005. Ground water assessment completed Q1 and Q2 2006 (Samples ND). No Further Action.	None	0
Factoria Service Center Bellevue, WA	10,000 gal. Gas and Diesel USTs	None	0
Kittitas Service Center Thorp, WA	5,000 gal. Gas and Diesel USTs	None	0
Olympia Service Center (Fuel Island) Olympia, WA	10,000 gal. Gas & Diesel USTs Gas spill Nov. '99	A. Natural Attenuation and GW Monitoring (Existing Wells) B. Soil excavation when Fuel Island is removed	A. 15,000 B. 50,000
Olympia Service Center (Post-EPRI Diesel Remediation) Olympia, WA	Diesel UST removed. Contaminated soil and ground water remains after EPRI air sparging program.	A. Natural Attenuation and GW Monitoring (Existing Wells) B. Soil excavation when building(s) is removed	A. 5,000 B. 100,000
Poulsbo Service Center Poulsbo, WA	6,000 gal. Gas & Diesel USTs	A. Natural Attenuation B. Soil excavation when building is removed.	A. 0 B. 10,000
Port Townsend Service Center Port Townsend, WA	6,000 gal. Gas & Diesel USTs	None	0
Skagit Service Center Burlington, WA	12,000 gal. Gas & Diesel USTs	None	0
Crystal Mtn. Gen. Greenwood, WA	Three USTs	None	0
Green Mtn. Micro Wave Bremerton, WA	One UST	None	0

PUGET SOUND ENERGY UST REMEDIAL COST ESTIMATES (Page 2 of 2)

PSE Facility/Location	Site Status	Proposed Remedial Action	Estimated Cost of Proposed Remedial Action (\$)
Rattlesnake Mtn. Micro Wave Issaquah, WA	One UST	None	0
Bremerton Service Center Bremerton, WA	Three USTs and majority of contaminated soil removed in 1999. Contaminated soil remains at property boundary and beneath building	A. Well abandonment B. Soil excavation when building(s) is removed	A. 2,000 B. 50,000
Whidbey Service Center Oak Harbor, WA	USTs and majority of contaminated soil removed in 1999. Small volume of contaminated soil remains beneath building	A. VCP Program and GW Monitoring (New Wells) B. Soil excavation when building(s) is removed	A. 30,000 B. 15,000
Tenino Service Center Tenino, WA	USTs and majority of contaminated soil removed in 1991. Small volume of contaminated soil remains beneath building	A. Natural Attenuation and GW Monitoring (Existing Wells) B. Soil excavation when building(s) is removed	A. 15,000 B. 75,000
North Operating Base Seattle, WA	USTs removed in 1989. Diesel-contaminated soil remains beneath fuel island.	A. Site Characterization and GW Monitoring (New Wells) B. Soil excavation when fuel island is removed	A. 20,000 B. 50,000

Cost Estimate Totals:

- A. Ground Water Monitoring, Site Characterization, Natural Attenuation Only (No Remediation)
- B. Remediation Only (No Monitoring)
- A. & B. Ground Water Monitoring Followed by Remediation

\$87,000
\$350,000
\$437,000

Notes

- ¹ Unless noted, remedial costs do not include demolition of facilities and buildings to access contaminated soil.
- ² Ground water monitoring estimate assumes three years of monitoring/sampling.
- ³ All estimated costs should be considered conceptual. They are not based on a detailed scope of service or design.

PUGET SOUND ENERGY, INC.
DEFERRED ENVIRONMENTAL COST SUMMARY ELECTRIC
JUNE 30, 2006

September 2000 - forward SAP ORDER	SAP ACCOUNT	SITE DESCRIPTION	Quarterly Account Roll-Forward		6/30/2006 SAP Account Balance	Actual Costs Through 6/30/2006	Future Cost Estimates	Total Cost Estimates	Insurance Recoveries Through 6/30/2006	Accrued Liabilities for Future Cost Estimates 6/30/2006	Accum Amort/ Expense Through 6/30/2006	6/30/2006 Remediation Site Balance
			3/31/2006 Account Balance	Quarterly Activity								
			(a)	(b)	(e) = (a) + (b)	(d)	(e)	(f) = (d) + (e)	(g)	(h)	(i)	(j) = (f)+(g)-(h)-(i)
18230009	18232221 18232251	Env Rem - Buckley-White River Phase II (Future Cost Est) Buckley Phase II - Burn Pile & Wood Debris Env Rem Cost	1,298,902.16 201,097.84	(15,657.22) 15,657.22	1,283,244.94 216,755.06	216,755.06 216,755.06	1,283,244.94	1,283,244.94 216,755.06		0.00	0.00	1,283,244.94 216,755.06
		SUBTOTAL BUCKLEY HEADWORKS SITE	1,500,000.00	0.00	1,500,000.00	216,755.06	1,283,244.94	1,500,000.00				1,500,000.00
18230021	18232271	Env Rem - Duwamish River Site (former Georgetown)	56,800.68		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				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				15,000.00
18230041	18230321 18233091	Env Rem - UG Tank - Tenino (Future Cost Est.) Tenino Service Center - UG Tank - Env Rem Cost	52,471.63 22,528.37		52,471.63 22,528.37	22,528.37	52,471.63	52,471.63 22,528.37				52,471.63 22,528.37
		SUBTOTAL TENINO SERVICE CENTER	75,000.00	0.00	75,000.00	22,528.37	52,471.63	75,000.00	0.00	0.00	0.00	75,000.00
	18230331	Env Rem - UG Tank - White River (Future Cost Est.)	275,000.00	(275,000.00)	0.00		0.00	-				0.00
	22840031	Olympia UST Def Site	(129,471.05)		(129,471.05)	20,528.95	129,471.05	150,000.00	(150,000.00)	(129,471.05)		(129,471.05)
	22840041	Bremerton UST Def Site	(2,648.55)		(2,648.55)	47,351.45	2,648.55	50,000.00	(50,000.00)	(2,648.55)		(2,648.55)
	22840081	Puyallup Garage expensed Site	(337,416.92)	(115,611.50)	(453,028.42)	14,971.58	453,028.42	468,000.00	(350,000.00)	(453,028.42)	(118,000.00)	(453,028.42)
	22841001	Accu Misc Oper Prov- Unalco Def Elec Env Rema Recovers	(779,468.30)	(109,816.85)	(889,285.15)			-	(889,285.15)			(889,285.15)
		Totals	682,795.86	(500,428.35)	182,367.51	378,936.09	1,945,864.59	2,324,800.68	(1,439,285.15)	(585,148.02)	(118,000.00)	182,367.51

- (A) Represents allocated proceeds from the insurance recoveries.
- (B) Additional \$118,000 was expensed to Puyallup Garage Site in order 93500404.
- (C) Includes payment of \$101,355.80 refund of excess funding into a trust established by PSE to pay for the remediation of the South Harness superfund site.
- (D) This liability is associated with the former White River generating facility and is for the remediation of contaminated soil at the facility. This liability is a cost associated with obtaining salvage or selling the water rights of the White River asset, as provided by the Wa state commission staff. The amount of the future liability has been recalculated as \$200k and reclassified from an Environmental liability to a Miscellaneous liability.

**PUGET SOUND ENERGY, INC.
DEFERRED ENVIRONMENTAL COST SUMMARY GAS
June 30, 2006**

September 1998 - forward SAP ORDER SAP ACCOUNT		Site Description	3/31/2006 Account Balance	Activity	6/30/2006 Account Balance	Env Services Project Cost Estimates 6/30/2006	Remediation Cost Estimates Remaining 18608022 18236022 22840002	Amortization Through 6/30/2006 Dr: 40700002	Balance 6/30/2006 Closing
FORMER MANUFACTURED GAS SITES:									
TACOMA TIDE FLATS (TACOMA TAR PITS, THOSS, RIVER STREET)									
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	2,231,142.42	40,171.77	2,271,314.19	2,450,000.00	178,685.81		2,271,314.19
	18608152	Internal Costs pre-1997	209,796.52	-	209,796.52				209,796.52
		SUBTOTAL Tacoma Tide Flats	46,619,821.21	40,171.77	46,659,992.98	2,450,000.00	178,685.81		46,659,992.98
EVERETT									
18602102	18608212	Remediation Costs	1,250,158.07	8,490.00	1,258,648.07	4,500,000.00	3,241,351.93		1,258,648.07
18602203	18608242	Legal Costs	8,717.50	-	8,717.50				8,717.50
		SUBTOTAL Everett	1,258,875.57	8,490.00	1,267,365.57	4,500,000.00	3,241,351.93		1,267,365.57
CHEHALIS									
18603102	18608312	Remediation Costs	2,485,777.99	1,851.00	2,487,628.99	4,250,000.00	1,762,371.01		2,487,628.99
GAS WORKS - SEATTLE									
18604203	18608442	Legal Costs	856,121.11	-	856,121.11	3,200,000.00	626,271.46		856,121.11
18604102	18608412	Remediation Costs	2,573,728.54	-	2,573,728.54	366.95			2,573,728.54
	18608452	Internal Costs - pre-1997	366.95	-	366.95				366.95
		SUBTOTAL Gas Works - Seattle	3,430,216.60	-	3,430,216.60	3,200,000.00	626,271.46		3,430,216.60
WASDOT FEDERAL/STATE									
18605203	18608542	Legal costs	379,591.40	-	379,591.40	-	-		379,591.40
18605102	18608512	Remediation Costs	-	-	379,591.40	-	-		-
		SUBTOTAL	379,591.40	-	379,591.40	-	-		379,591.40
WASDOT UPLAND (aka 22nd & A Street, Tacoma Gas Company Site)									
18606102	18608612	Remediation costs	767,120.33	1,920.00	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	783,008.53	1,920.00	784,928.53	1,100,000.00	330,959.67		784,928.53
WASDOT THEAFOSS									
18607102	18608712	Remediation costs	2,964,489.72	24,709.31	2,989,209.03	6,500,000.00	3,510,790.97		2,989,209.03
18607203	18608742	Legal costs	2,972,426.98	52,371.51	3,024,798.49	-			3,024,798.49
		SUBTOTAL	5,936,926.70	77,080.82	6,014,007.52	6,500,000.00	3,510,790.97		6,014,007.52
TULLALP									
18608102	18608812	Remediation costs	995.00	-	995.00				995.00
OMNIBUS INSURANCE LITIGATION (9 MFG. GAS SITES)									
18609202	18608942	Legal costs	3,041,086.20	4,388.89	3,045,485.09				3,045,485.09

PUGET SOUND ENERGY, INC.
DEFERRED ENVIRONMENTAL COST SUMMARY GAS
June 30, 2006

September 1998 - forward SAP ORDER SAP ACCOUNT		Site Description	Account Balance	Activity	Account Balance	Env Services Project Cost Estimates	Remaining	Amortization Through	Balance
			3/31/2006		6/30/2006	6/30/2006	18236022 22840002	Dr: 40700002	6/30/2006 Closing
1861102	18609212	MERCER STREET Remediation costs	66,942.15	-	66,942.15	1,000,000.00	(66,942.15)		66,942.15
18612102	18609512	QUENDALL TERMINALS Remediation costs	-	-	-	1,000,000.00	1,000,000.00		-
18609302	18609522	Legal Costs	39,461.08	10,931.40	50,392.48	1,000,000.00	1,000,000.00		50,392.48
		SUBTOTAL	39,461.08	10,931.40	50,392.48	1,000,000.00	1,000,000.00		50,392.48
18614102	18609312	LAKE UNION Remediation costs	5,368,758.61	302,643.00	5,671,401.61	25,000,000.00	19,328,598.39		5,671,401.61
18614202	18600082	Legal Costs	164,825.28	(73,453.71) (d)	91,371.57	25,000,000.00	19,328,598.39		91,371.57
		SUBTOTAL	5,533,583.89	229,189.29	5,762,773.18	25,000,000.00	19,328,598.39		5,762,773.18
18608022		Estimated Future Costs	27,541,872.17	2,370,214.92	29,912,087.09				29,912,087.09 (a)
18609062		Insurance and Third Party Inception-to-Date Recoveries	(65,710,814.75)	(349,864.99)	(66,060,679.74)				(66,060,679.74)
		TOTAL - FORMER MANUFACTURED GAS SITES	\$ 31,407,343.74	\$ 2,394,383.10	\$ 33,801,726.84	\$ 48,000,000.00	\$ 29,912,087.09		\$ 33,801,726.84
18230210	18236912	GAS UNDERGROUND STORAGE TANKS AND OTHER SITES NORTH OPERATING BASE				50,000.00	50,000.00		158,501.81
18230212	18236022	ESTIMATED FUTURE COSTS	149,807.21	8,694.60	158,501.81	250,000.00	41,498.19		147,003.62
		ESTIMATED FUTURE INSURANCE RECOVERIES							300,000.00
		TOTAL - GAS UNDERGROUND STORAGE TANKS	\$ 149,807.21	\$ 8,694.60	\$ 158,501.81	\$ 300,000.00	\$ 41,498.19		\$ 300,000.00
		TOTAL - GAS STORAGE TANKS AND MANUFACTURED GAS SITES	\$ 31,557,150.95	\$ 2,403,077.70	\$ 33,960,228.65	\$ 48,300,000.00	\$ 30,953,585.28		\$ 34,101,726.84

(a) Represents balance in Account 18609022 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
(d) 2nd Quarter 2006 Lake Union Legal Costs include \$6,861,48 of expenses incurred during 2nd Quarter and \$80,315.19 reimbursements from Seattle Public Utilities