



Puget Sound Energy, Inc.
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STATE OF WASH.
UTIL. AND TRANSP.
COMMISSION

March 19, 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 December 31, 2006**

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 costs incurred as of 12/31/06 \$769,040

B. Thea Foss Waterway

As required by the Operations, Maintenance and Monitoring Plan (OMMP), monitoring was completed in May 2006. This monitoring, including bioassay analyses, confirmed that recontamination above sediment quality objectives (SQOs) has occurred near the head of the waterway from stormwater discharges from a system operated by the City of Tacoma. Data is being reviewed by the City of Tacoma, the Utilities (PSE and PacifiCorp), EPA and WDOE to determine the next steps. The next round of monitoring is scheduled for May 2007.

Remediation costs incurred as of 12/31/06 \$3,082,811

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 costs incurred as of 12/31/06 \$1,308,871

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 costs incurred as of 12/31/06 \$2,496,996

E. Gas Works Park

Ongoing activities include the operation and monitoring of the groundwater remediation system and maintenance of the soil cap. All these activities are the responsibility of the City of Seattle, pursuant to an agreement with PSE. The western shoreline investigation conducted by the City this past fall did not detect any additional upland contamination migrating to Lake Union sediments. The City is planning to remove tar deposits recently discovered along the eastern shoreline area in January 2007.

Remediation costs incurred as of 12/31/06 \$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.

Remediation costs incurred as of 12/31/06 \$59,043.75

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. Comments were received from WDOE and other trustees and a revised RI/FS report will be submitted in early 2007. The City is conducting an RI/FS in the adjacent Western Study Area and is working with PSE to assess sources of recontamination as required by the AO.

Remediation costs incurred as of 12/31/06 \$6,138,927

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. In August of 2006, the detention basins were repaired and sealed as part of general maintenance.

Remediation costs incurred as of 12/31/06 \$37,213,837

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 costs incurred as of 12/31/06 \$177,657

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.

Remediation costs incurred as of 12/31/06 \$8,463

K. Olympia (Columbia Street) (New Site)

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 monitoring will be required to demonstrate that the cleanup was successful.

White River Powerhouse

Soil containing elevated concentrations of metals and petroleum was removed from the majority of the site, although some contaminated soil remains beneath the Carpenter Shop. Permits have been obtained and PSE will demolish the Carpenter Shop and remove the remaining contaminated soil in late 2006 or early 2007.

C. 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's predecessor and Seattle City Light and burned onsite as a process fuel. PSE is continuing to investigate the merit of this claim, but currently denies any responsibility or liability for contamination discovered at this site and all investigation undertaken so far corroborates this position.

D. Crystal Mountain Generator Station (New Site)

PSE responded to a diesel spill at the Crystal Mountain Generation Station on November 3, 2006. Emergency response activities occurred under the direction of a Unified Command comprised of state and federal agencies and PSE representatives. Emergency response actions included the recovery of diesel from surface drainage features and shallow soil excavations, removal of readily accessible petroleum-contaminated soil and installation of a product (diesel) interceptor trench near Silver Creek. Upon completion of these activities, Unified Command was disbanded. This milestone marked the transition toward longer term site characterization and remedial activities that will be completed under the direction of WDOE.

PSE is developing plans for a second phase of work to address contaminated soil in the immediate vicinity of the generation station. The scope and schedule of this work will depend, in large part, on the demands of regulatory agencies and the U.S. Forest Service.

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

Remediation costs incurred as of 12/31/06

\$6,255,666

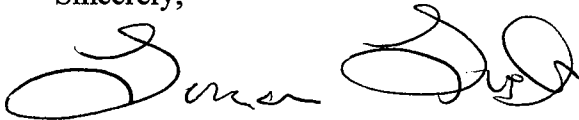
E. Underground Storage Tanks Status

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.

Sincerely,

A handwritten signature in black ink, appearing to read "Lorna Luebbe". The signature is fluid and cursive, with a large initial "L" and a distinct "Luebbe" ending.

Lorna Luebbe
Director – Environmental Services

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

PUGET SOUND ENERGY UST REMEDIAL COST ESTIMATES (Page 1 of 2)
(updated Dec. 2006)

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
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
Green Mtn. Micro Wave Bremerton, WA	One UST	None	0

Notes shown on Page 2 of 2

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 1999. 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) **\$87,000**
 B. Remediation Only (No Monitoring) **\$350,000**
 A. & B. Ground Water Monitoring Followed by Remediation **\$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
DECEMBER 31, 2006

SAP ORDER	SAP ACCOUNT	SITE DESCRIPTION	Quarterly Account Roll-Forward			Actual Costs Through 12/31/2006	Future Cost Estimates	Total Cost Estimates	Insurance Recoveries Through 12/31/2006	Accrued Liabilities for Future Cost Estimates 12/31/2006	Accum Amort/ Expense Through 12/31/2006	12/31/2006 Remediation Site Balance (I) = (F)+(G)+(H)+(I)
			9/30/2006 Account Balance (a)	Quarterly Activity (b)	Account Balance 12/31/2006 (c) = (a) + (b)							
18230009	18232251	Env Rem - Buckley-White River Phase II (Future Cost Est) Buckley Phase II - Burn Pile & Wood Debris Env Rem Cost	1,242,526.51 257,473.49	(320,040.27) 320,040.27	922,486.24 577,513.76	577,513.76	922,486.24	577,513.76	0.00	0.00	0.00	922,486.24 577,513.76
		SUBTOTAL BUCKLEY HEADWORKS SITE	1,500,000.00	0.00	1,500,000.00	577,513.76	922,486.24	1,500,000.00	0.00	0.00	0.00	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
	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				52,471.63
	18233091	Tenino Service Center - UG Tank - Env Rem Cost	22,528.37		22,528.37	22,528.37	22,528.37					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
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)	(129,471.05)		(129,471.05)
22840041	22840041	Bremerton UST Def Site	(2,648.55)		(2,648.55)	47,351.45	2,648.55	50,000.00	(50,000.00) (A)	(2,648.55)		(2,648.55)
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)	(453,028.42)	(118,000.00) (B)	(453,028.42)
	22840131	Crystal Mountain Expensed Site		(4,000,000.00)	(4,000,000.00)	6,255,666.49 (D)	4,000,000.00	10,255,666.49 (D)		(4,000,000.00)	(10,255,666.49)	(4,000,000.00)
	22841001	Accu Misc Oper Prov- Unallo Def Elec Env Rema Recoveries	(889,261.31)	(2,976.16) (C)	(892,261.31)				(892,261.31)			(892,261.31)
		Totals	182,367.51	(4,002,976.16)	(3,820,608.65)	6,995,361.28	5,585,105.89	12,580,467.17	(1,442,261.31)	(4,585,148.02)	(10,373,666.49)	(3,820,608.65)

- (A) Represents allocated proceeds from the insurance recoveries.
(B) Additional \$18,000 was expensed to Puyallup Garage Site in order 93500404.
(C) Amount represents the following balances:
(2,000,34) - Receipt from KVMELM 10/06
(930,14) - Receipt from KVMELM 11/06
(2,166,76) - Receipt from Bermuda Fire & Marine Insurance Co. 12/06
2,121.08 - Journal entry to clear balance in a/c 186000102 to a/c 22841001
(D) Crystal Mountain is being expensed in order 55450078, 55450079 and 55450080. Insurance Receivable is being credited out of order 55450079.

PUGET SOUND ENERGY, INC.
 DEFERRED ENVIRONMENTAL COST SUMMARY GAS
 December 31, 2006

September 1998 - forward SAP ORDER SAP ACCOUNT	Site Description	Account Balance 9/30/2006	Activity	Account Balance 12/31/2006	Env Services Project Cost Estimates 12/31/2006	Remaining 18608022 18236022 22840002	Amortization Through 12/31/2006 Dr. 40700002	Balance 12/31/2006 Closing
1861102	MERCER STREET Remediation costs	66,942.15	-	66,942.15		(66,942.15)		66,942.15
1861202	QUELLENDALL TERMINALS Remediation costs	-	656.34	59,043.75	1,000,000.00	1,000,000.00		-
18609302	Legal Costs SUBTOTAL	58,387.41	656.34	59,043.75	1,000,000.00	1,000,000.00		59,043.75
1861402	LAKE UNION Remediation costs	5,845,940.86	292,986.44	6,138,927.30	25,000,000.00	18,861,072.70		6,138,927.30
18614202	Legal Costs SUBTOTAL	98,347.26	11,499.23	109,846.49	25,000,000.00	18,861,072.70		109,846.49
18600082		5,944,288.12	304,485.67	6,248,773.79				6,248,773.79
18603202	BAY STATION Remediation costs	-	8,462.61	8,462.61	25,000.00	16,537.39		8,462.61
18614402	OLYMPIA - COLUMBIA ST. Remediation costs	-	-	-	15,000.00	15,000.00		-
18608022	Estimated Future Costs	29,988,664.26	(481,818.85)	29,506,744.71				29,506,744.71 (a)
18608062	Insurance and Third Party Inception-to-Date Recoveries	(66,060,679.74)	(3,248.69)	(66,066,528.43)				(66,066,528.43)
	TOTAL - FORMER MANUFACTURED GAS SITES	\$ 34,272,558.08	\$ 27,842.08	\$ 34,300,400.12	\$ 48,340,000.00	\$ 20,506,744.71 (a)	\$ -	\$ 34,300,400.12
18230210	GAS UNDERGROUND STORAGE TANKS AND OTHER SITES NORTH OPERATING BASE SWARR STATION	Beg Bal Total Costs 168,125.11	Curr Cost Activity 9,531.75	Total Costs 177,656.86	Estimated Costs 50,000.00	Remaining Est 50,000.00	Accrn Depr -	Ending Acct Bal 177,656.86
18230212	ESTIMATED FUTURE INSURANCE RECOVERIES	131,814.89	-	131,814.89	250,000.00	122,343.14	-	122,343.14
18236022	TOTAL - GAS UNDERGROUND STORAGE TANKS	300,000.00	9,531.75	309,531.75	300,000.00	122,343.14	-	300,000.00
18236032	TOTAL - GAS STORAGE TANKS AND MANUFACTURED GAS SITES	34,572,558.08	37,374.81	34,609,931.87	48,340,000.00	20,629,087.85 (b)	\$ -	34,600,400.12

(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 GAS
 December 31, 2006

September 1998 - Forward SAP ORDER SAP ACCOUNT		9/30/2006 Account Balance	Activity	12/31/2006 Account Balance	Env Services Project Cost Estimates 12/31/2006	Remediation Cost Estimates Remaining 18608022 18238022 22840002	Amortization Through 12/31/2006 Dr. 40700002	12/31/2006 Balance Closing
FORMER MANUFACTURED GAS SITES:								
TACOMA TIDE FLATS (TACOMA TARB PITS, THOS. RIVER STREET)								
18601203	18603142	9,351,936.58	-	9,351,936.58				9,351,936.58
18601102	18603112	34,826,945.69	-	34,826,945.69				34,826,945.69
18601102	18603112	2,323,232.64	63,659.09	2,386,891.73	2,750,000.00	363,108.27		2,386,891.73
		209,796.52	-	209,796.52				209,796.52
		46,775,570.52	63,659.09	46,775,570.52	2,750,000.00	363,108.27		46,775,570.52
EVERETT								
18602102	18603212	1,296,086.49	12,784.08	1,308,870.57	4,500,000.00	3,191,129.43		1,308,870.57
18602203	18603242	8,717.50	-	8,717.50				8,717.50
		1,304,803.99	12,784.08	1,317,588.07	4,500,000.00	3,191,129.43		1,317,588.07
CHEHALIS								
18603102	18603312	2,496,996.21	445.00	2,496,996.21	4,250,000.00	1,753,003.79		2,496,996.21
GASWORKS - SEATTLE								
18604203	18603442	856,121.11	-	856,121.11	3,200,000.00	625,686.46		856,121.11
18604102	18603412	2,573,728.64	585.00	2,574,313.64				2,574,313.64
		366.95	-	366.95				366.95
		3,430,216.60	585.00	3,430,801.60	3,200,000.00	625,686.46		3,430,801.60
WSDOT FEDERAL/STATE								
18605203	18603542	379,591.40	-	379,591.40	-	-		379,591.40
18605102	18603512	-	-	-	-	-		-
		379,591.40	-	379,591.40	-	-		379,591.40
WSDOT UPLAND/LAKE 22nd & A Street, Tacoma Gas Company Site)								
18606102	18603612	769,040.33	-	769,040.33	1,100,000.00	330,969.67		769,040.33
18606203	18603642	15,888.20	-	15,888.20				15,888.20
		784,928.53	-	784,928.53	1,100,000.00	330,969.67		784,928.53
WSDOT THEA FOSS								
18607102	18603712	3,083,714.27	49,096.58	3,082,810.85	6,500,000.00	3,417,189.15		3,082,810.85
18607203	18603742	3,065,933.28	70,078.23	3,136,011.51	-			3,136,011.51
		6,099,647.55	119,174.81	6,218,822.36	6,500,000.00	3,417,189.15		6,218,822.36
TULALIP								
18608102	18603812	995.00	-	995.00				995.00
OMNIBUS INSURANCE LITIGATION (9 MFG. GAS SITES)								
18609202	18603942	3,086,310.15	5,367.70	3,071,667.85				3,071,667.85