



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

10/11/2007

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 Sept. 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 9/30/07 \$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 Recently the Trustees have withdrawn their NRD settlement proposal report due to data and calculation errors.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 now expected to be received in the 1st quarter of 2008. The Trustees deadline for receiving a settlement offer from the PRPs will be revised to reflect the delay caused by the Trustees revision to their demand. PSE continues to work with the other PRPs to develop an approach for allocation of responsibility.

The OMMP sampling work was completed in May (3rd Year sampling) and a final report was published in August 2007. Evaluation of the OMMP data continue to indicate the remedy is functioning as intended and the cause of recontamination are stormwater discharges to the head of the waterway.

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Due to the recontamination of the sediments by stormwater discharges and the costs associated with the investigation & monitoring, PSE believes an increase to the estimate more accurately reflects the potential risk faced by PSE at this site.

Remediation cost incurred as of 9/30/07 \$3,243,004

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 9/30/07 \$1,313,044

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 9/30/07 \$2,505,730

E. Gas Works Park

Ongoing activities include groundwater monitoring and maintenance of the soil cap. The groundwater remediation system remains shutdown. All these activities are the responsibility of the City of Seattle, pursuant to an agreement with PSE. In response to the discovery of several tar occurrences in the uplands, the City conducted a soil gas survey and soil sampling in the northeastern area of Gas Works Park in September. The results of this investigation will be used to plan future maintenance activities and evaluate uplands tar migration to Lake Union sediments.

Remediation cost incurred as of 9/30/07 \$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.

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 conducted a limited field investigation along the eastern shoreline of the park in September. The results of this investigation will be combined with the City's investigation of the adjacent uplands area to identify any potential upland sources of tar that could impact sediments. 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. PSE and the City notified two other Potentially Responsible Parties of their potential liabilities for the Western Study Area.

Recently, the City and PSE began settlement discussions to explore the possibility of resolving the remediation cost allocation between the parties.

Remediation cost incurred as of 9/30/07 \$7,077,235

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 9/30/07 \$37,327,695

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 the 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 9/30/07 \$210,698

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. PSE has agreed to conduct a subsurface investigation and is preparing a work plan that will be 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 9/30/07

\$57,933

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.

L. South Seattle Gate Station (New Site)

PSE was notified by Williams Pipeline that they were remediating soil contaminated by mercury on their property adjacent to the PSE's gate station. As part of a construction project, PSE investigated the potential presence of mercury on its site and found limited mercury contamination to be present within the area of a planned facility upgrade project. Contaminated soil was removed during the facility upgrade project and a summary cleanup action report is now being prepared.

Remediation cost incurred as of 9/30/07

\$21,933

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

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

All known contaminated soil has been removed from the site and restoration activities (earthwork and revegetation) are in progress. PSE requested and received agency approval to reduce several monitoring tasks based on improving site conditions. A reduced monitoring and maintenance schedule will also be requested for the groundwater treatment system after some system modifications are made.

EPA has released PSE from the emergency administrative order and future environmental actions will be conducted under MTCA with Ecology involvement.

Separately, EPA sent PSE a formal Request for Information related to this site pursuant to Section 308 of the Clean Water Act, dated August 30, 2007.

Remediation cost incurred as of 9/30/07

\$12,976,832

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. A Settlement Agreement was negotiated between Floyd Equipment and PSE during the September, 2007.

G. Bremerton Service Center (New Activity)

All known contaminated soil was removed from the site in conjunction with a substation expansion project. Some inaccessible contaminated soil remains beneath an adjacent alley. A remedial action report has been submitted to Ecology. No further environmental actions are planned for the site at this time.

Remediation cost incurred as of 9/30/07

\$260,000

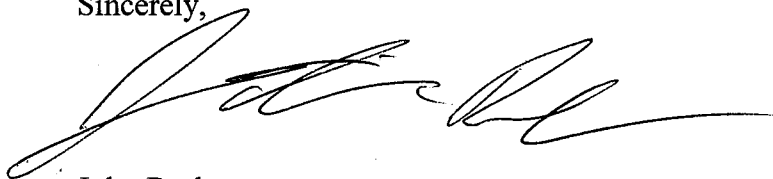
H. Underground Storage Tanks Status

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 has executed a term sheet with Lloyds during the 3rd Quarter of 2007 that settles PSE's known and future electric environmental issues. The parties are now working on a draft settlement agreement.

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 ELECTRIC
SEPTEMBER 30, 2007

September 2000 - Forward SAP ORDER SAP ACCOUNT		Quarterly Account Roll-Forward				
SAP ORDER	SAP ACCOUNT	SITE DESCRIPTION	6/30/2007	Quarterly Activity	9/30/2007	Actual Costs Through 9/30/2007
			(a)	(b)	(c) = (a) + (b)	(d)
18230009	18232221	Env Rem - Buckley-White River Phase II (Future Cost Est)	902,318.99	(25,265.39)	877,053.60	622,946.40
	18232251	Buckley Phase II - Burn Pile & Wood Debris Env Rem Cost	597,691.01	25,265.39	622,956.40	622,946.40
		Subtotal Buckley Headworks Site	1,500,000.00	0.00	1,500,000.00	622,946.40
18230021	18232271	Env Rem - Duwamish River Site (former Georgetown)	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	
	18230311	Env Rem - UG Tank - Whidbey Is. (Future Cost Est.)	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
	18233091	Tenino Service Center - UG Tank - Env Rem Cost	22,528.37		22,528.37	22,528.37
		Subtotal Tenino Service Center	75,000.00	0.00	75,000.00	22,528.37
18230051	18233121	Env Rem - UG Tank - Bremerton (Future Cost Est.)	96,870.19	3,929.09	100,799.28	159,200.72
	18233101	Env Rem - Bremerton UST Def Site	28,129.81	131,070.91	159,200.72	159,200.72
		Subtotal Bremerton UST Def Site	125,000.00	135,000.00	260,000.00	159,200.72
		Total Deferred Environmental Costs	1,781,800.68	135,000.00	1,916,800.68	881,476.17
22840031	22840031	Olympia UST Def Site	(129,471.05)		(129,471.05)	20,528.95
22840081	22840081	Puyallup Garage Expensed Site	(453,028.42)		(453,028.42)	14,971.58
	22840131	Crystal Mountain Expensed Site	(3,015,617.11)	992,449.91	(2,023,167.20)	12,976,892.80 (C)
	22841001	Accu Misc Oper Prov-- Unallo Def Elec Env Rem Recoveries	(987,982.53)	708.96 (B)	(987,273.57)	
		Totals	(2,704,298.43)	1,128,158.87	(1,576,139.56)	13,873,809.50

(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 55450079, 55450079 and 55450080. Insurance Receivable is being credited out of order 55450079 to account 14300211.

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

September 1998 - forward		Site Description		6/30/2007	Activity	9/30/2007	Env Services	Cost Estimates	
SAP ORDER	SAP ACCOUNT			Account Balance		Account Balance	Project	Remaining	
							Cost Estimates	Cost Estimates	
							9/30/2007	9/30/2007	
							(c)	22840002	
FORMER MANUFACTURED GAS SITES:									
TACOMA TIDE FLATS (TACOMA TAR PITS, THOGS RIVER ST.)									
18601203	18608142	Legal Costs		9,351,996.58	-	9,351,996.58			
18601102	18608112	Remediation Costs through June 1999		34,826,945.69		34,826,945.69			
18601102	18608112	Remediation Costs post-June 1999		2,465,997.56	34,751.92	2,500,749.48	2,750,000.00	249,250.52	
	18608152	Internal Costs pre-1997		209,796.52		209,796.52			
		SUBTOTAL Tacoma Tide Flats		46,854,676.35	34,751.92	46,889,428.27	2,750,000.00	249,250.52	
EVERETT									
18602102	18608212	Remediation Costs		1,311,193.87	1,849.75	1,313,043.62	4,500,000.00	3,186,956.38	
18602203	18608242	Legal Costs		8,717.50		8,717.50			
		SUBTOTAL Everett		1,319,911.37	1,849.75	1,321,761.12	4,500,000.00	3,186,956.38	
CHEHALIS									
18603102	18608312	Remediation Costs		2,501,173.19	4,566.57	2,505,739.76	4,250,000.00	1,744,270.24	
GAS WORKS - SEATTLE									
18604203	18608442	Legal Costs		856,121.11		856,121.11			
18604102	18608412	Remediation Costs		2,574,313.54		2,574,313.54	3,200,000.00	625,686.46	
	18608452	Internal Costs - pre-1997		366,95		366,95			
		SUBTOTAL Gas Works - Seattle		3,430,801.60		3,430,801.60	3,200,000.00	625,686.46	
WSDOT FEDERAL/STATE									
18605203	18608542	Legal costs		379,591.40		379,591.40			
18605102	18608512	Remediation Costs		379,591.40		379,591.40			
		SUB TOTAL		-		-			
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	
18606203	18608642	Legal Costs		15,888.20		15,888.20			
		SUBTOTAL		784,928.53		784,928.53	1,100,000.00	330,959.67	
WSDOT THEA FOSS									
18607102	18608712	Remediation costs		3,114,945.01	128,059.36	3,243,004.37	7,500,000.00	4,256,995.63	
18607203	18608742	Legal costs		3,254,793.75	14,902.01	3,269,695.76			
		SUBTOTAL		6,369,738.76	142,961.37	6,512,700.13	7,500,000.00	4,256,995.63	
TULALP									
18608102	18608812	Remediation costs		995.00		995.00			
OMNIBUS INSURANCE LITIGATION (9 MFG. GAS SITES)									
18609202	18609942	Legal costs		3,072,076.87	9,116.86	3,081,193.73			

PUGGET SOUND ENERGY, INC.
 DEFERRED ENVIRONMENTAL COST SUMMARY GAS
 September 30, 2007

September 1998 - forward		SAP ACCOUNT		Site Description	6/30/2007	Activity	9/30/2007	Env Services	Remaining	Am
SAP ORDER					Account Balance		Account Balance	Project	18608022	1
								Cost Estimates	18236022	9
								9/30/2007	22840002	Dr.
18611102		18609212	MERCER STREET	Remediation costs	66,942.15	-	66,942.15		(66,942.15)	
18612102		18609512	QUENDALL TERMINALS	Remediation costs	-	-	-	1,000,000.00	1,000,000.00	
18609302		18609522	Legal Costs		59,043.75	-	59,043.75		1,000,000.00	
			SUBTOTAL		59,043.75	-	59,043.75		1,000,000.00	
18614102		18609312	LAKE UNION	Remediation costs	6,336,448.07	240,787.03	7,077,235.10		25,000,000.00	17,922,764.90
18614202		18600082	Legal Costs		182,431.46	44,394.49	226,765.95		25,000,000.00	17,922,764.90
			SUBTOTAL		7,018,879.53	285,121.52	7,304,001.05		25,000,000.00	17,922,764.90
18603202		18609532	BAY STATION	Remediation costs	24,389.94	33,542.90	57,932.84		250,000.00	192,067.16
18614402		18609542	OLYMPIA - COLUMBIA ST.	Remediation costs	74.86	-	74.86		15,000.00	14,925.14
		18608022	Estimated Future Costs		28,900,481.48	(56,452.47)	29,745,933.95			
		18608062	Insurance and Third Party Inception-to-Date Recoveries		(66,366,528.43)	(945,077.48)	(67,211,605.91)			
			TOTAL - FORMER MANUFACTURED GAS SITES		\$ 34,417,176.35	\$ 223,275.88	\$ 34,640,452.23		\$ 49,565,000.00	\$ 29,456,933.99 (a)
GAS UNDERGROUND STORAGE TANKS AND OTHER SITES										
					Req'd Bal	Total Costs	Estm'd Costs	Remaining		
18230210		18237122	SOUTH SEATTLE GATE STATION		10,355.25	11,577.75	21,933.00	25,000.00	3,067.00	
18230210		18236912	NORTH OPERATING BASE		-	-	50,000.00	50,000.00	50,000.00	
18230212		18237112	SMARR STATION		195,499.96	15,198.45	210,698.41	250,000.00	39,301.59	
		18236022	ESTIMATED FUTURE COSTS		104,300.04	(12,117.45)	92,366.59		92,366.59	
		18236032	ESTIMATED FUTURE INSURANCE RECOVERIES		310,355.25	14,644.75	325,000.00	325,000.00	325,000.00	
			TOTAL - GAS UNDERGROUND STORAGE TANKS		\$ 310,355.25	\$ 14,644.75	\$ 325,000.00		\$ 325,000.00	
			TOTAL - GAS STORAGE TANKS AND MANUFACTURED GAS SITES		\$ 34,727,531.60	\$ 237,920.63	\$ 34,965,452.23		\$ 49,880,000.00	\$ 29,553,933.99 (b)

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