



Puget Sound Energy, Inc.
P.O. Box 90868
Bellevue, WA 98009-0868

1/24/2008

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 Dec 31, 2007**

RECEIVED
REGULATORY MANAGEMENT
2008 FEB - 1 AM 9:00
STATE OF WASH.
UTIL. AND TRANSP.
COMMISSION

Certain of the sites listed below have been completed, are at a point where there is only monitoring remaining, or there is no further information that warrants an update at this time. As such, we are dropping these sites from the quarterly Environmental Report. Should there be new substantive developments at any of these sites in the future, we will advise you and add them back to the report.

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 12/31/07 \$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 Recently the Trustees have withdrawn their NRD settlement proposal report due to data and calculation errors.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.

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.

PSE and Pacificorp have initiated a lawsuit against WSDOT to recover damages for the State's actions that we allege contributed to contamination in the Waterway. This comes after years of working with WSDOT and WDOE to address the situation. Unfortunately, neither EPA nor PSE and Pacificorp were successful in encouraging WSDOT to pay for their actions that resulted in releases to the Thea Foss, making this lawsuit necessary.

Remediation cost incurred as of 12/31/07 \$3,438,783

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 12/31/07 \$1,316,728

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 12/31/07 \$2,522,042

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. PSE conducted an investigation along the eastern shoreline at this time to identify upland sources to Lake Union sediments. The results of this investigation will be used to plan future maintenance activities and evaluate uplands tar migration to Lake Union sediments. Preliminary results of this investigation were presented to WDOE and a complete report is expected to be completed in the spring of 2008.

Remediation cost incurred as of 12/31/07 \$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.

Remediation cost incurred as of 12/31/07

\$59,044

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 agreed to include the bank area of Gas Works Park in the sediments RI/FS 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 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. Other Potentially Responsible Parties are working with WDOE on determining their potential liabilities for the Western Study Area. WDOE is anticipating conducting and investigation at the adjacent Northlake Shipyard in the spring of 2008. The investigation and interim action by include portions of the Western Study Area.

Remediation cost incurred as of 12/31/07

\$7,291,239

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 12/31/07

\$37,371,901

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. PSE is continuing to collect data and evaluate 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 12/31/07 \$216,524

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.

Remediation cost incurred as of 12/31/07 \$111,677

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. In late 2006, PSE 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.

L. South Seattle Gate Station

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 has been submitted to WDOE. Additional limited work might be necessary in 2008 as part of the construction support.

Remediation cost incurred as of 12/31/07 \$44,057

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. No environmental actions are planned for the site at this time. Therefore, this site will be removed from the quarterly update. If conditions change at the site in the future, updates will be provided through future versions of this report.

B. White River Cleanup Projects

Buckley Headworks Site

Groundwater and restored vegetation are being monitored to demonstrate that the cleanup and site rehabilitation activities were successful. No environmental actions are planned for the site at this time. Therefore, this site will be removed from the quarterly update. If conditions change at the site in the future, updates will be provided through future versions of this report.

White River Powerhouse

Groundwater monitoring is in progress to evaluate the effectiveness of the remedial action previously reported. Other than monitoring, no environmental actions are planned for the site at this time. Therefore, this site will be removed from the quarterly update. If conditions change at the site in the future, updates will be provided through future versions of this report.

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 these areas have been restored (backfilled and revegetated) according to agency-approved plans. Ongoing activities consist of continued operation of the groundwater treatment system and site monitoring. The agencies approved PSE's request to sample the treatment system to a reduced (monthly) basis. Groundwater is being monitored on a quarterly basis. Newly planted vegetation will be monitored beginning next spring.

Future planned actions will include removing the groundwater treatment system when it is no longer needed. At that time, it will be necessary to restore (backfill and revegetate) this portion of the site in accordance with the existing rehabilitation plan.

A summary report describing spill response and remedial activities will be prepared for submittal to WDOE.

EPA has released PSE from the emergency administrative order and future environmental actions will be conducted under MTCA with Ecology involvement. Ecology has named PSE as a Potentially Liable Party for the site under MTCA.

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. PSE responded to the request on October 1, 2007 and has subsequently provided additional information in response to the supplemental requests of the agency

Remediation cost incurred as of 12/31/07

\$14,025,734

E. Floyd Equipment Company

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. This will be the last update for this site unless new developments occur.

G. Bremerton Service Center

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 environmental actions are planned for the site at this time. Therefore, this site will be removed from the quarterly update. If conditions change at the site in the future, updates will be provided through future versions of this report.

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.

PSE has executed a term sheet with Lloyds during the 3rd Quarter of 2007 that settles PSE's electric environmental issues and a final settlement agreement was signed in the 4th quarter of 2007.

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
DECEMBER 31, 2007

September 2000 - forward SAP ORDER SAP ACCOUNT	SITE DESCRIPTION	Quarterly Account Roll-Forward			Actual Costs Through 12/31/2007 (d)	Future Cost Estimates (e)	Total Cost Estimates (f) = (d) + (e)	Insurance Recoveries Through 12/31/2007 (g)
		9/30/2007 Account Balance (a)	Quarterly Activity (b)	12/31/2007 SAP Account Balance (c) = (a) + (b)				
18230009	18232221 18232251	877,063.60 622,946.40 1,500,000.00	(12,331.41) 12,331.41 0.00	864,722.19 635,277.81 1,500,000.00	864,722.19 635,277.81 1,500,000.00	864,722.19 635,277.81 1,500,000.00	0.00	
18230021	18232271	56,800.68		56,800.68		56,800.68		
18233061	18233061	10,000.00		10,000.00	10,000.00	10,000.00		
18230311	18230311	15,000.00		15,000.00	15,000.00	15,000.00		
18230321	18230321	52,471.63		52,471.63	52,471.63	52,471.63		
18233091	18233091	22,528.37 75,000.00		22,528.37 75,000.00	22,528.37 75,000.00	22,528.37 75,000.00	0.00	
18230051	18233121 18233101	100,799.28 159,200.72 260,000.00	(100,799.28) 25,495.02 (75,304.26)	0.00 184,695.74 184,695.74	0.00 184,695.74 184,695.74	0.00 184,695.74 184,695.74	0.00	
18230061	18233131	0.00	39,921.05	39,921.05		39,921.05		
22840031	22840031	1,916,800.68	(35,383.21)	1,881,417.47	942,193.82	1,881,417.47	0.00	
22840081	22840081	(129,471.05)		(129,471.05)	129,471.05	150,000.00	(150,000.00) (A)	
22840131	22840131	(453,028.42)		(453,028.42)	453,028.42	468,000.00	(350,000.00) (A)	
22841001	22841001	(2,023,167.20)	1,048,901.46	(974,265.74)	974,265.74	15,000,000.00	(12,598,917.48) (C)	
		(887,273.57)	(87.67) (B)	(887,361.24)			(887,361.24)	
	Totals	(1,576,139.56)	1,013,430.58	(562,708.98)	2,498,959.03	17,499,417.47	(13,986,278.72)	

(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 orders 55450078 - 80, 54850007 and 59362020. Insurance Receivable is being credited out of order 55450079 to account 14300211.
(D) To clear balance in account 18233121 & 22840041 for the future estimated costs - Bremerton Service Center. No environmental actions are planned for this site at this time, per John Rork, 1/4/2008.
(E) Setup new account for Factoria Remedial Heating Oil Tanks Removal in November 2007.

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

September 1998 - forward SAP ORDER	SAP ACCOUNT	Site Description	9/30/2007 Account Balance	Activity	12/31/2007 Account Balance	Env Services Project Cost Estimates 12/31/2007 (c)	Cost Estimates Remaining 18608022 22840002	Amortization Through 12/31/2007 Dr. 48700002	Balance 12/31/2007 Closing
FORMER MANUFACTURED GAS SITES:									
		TACOMA TIDE FLATS (TACOMA TAR PITS, THCGS, 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	2,500,749.48	44,207.10	2,544,956.58	2,750,000.00	205,043.42		2,544,956.58
	18608152	Internal Costs pre-1997	209,796.52	-	209,796.52				209,796.52
		SUBTOTAL Tacoma Tide Flats	46,889,428.27	44,207.10	46,933,635.37	2,750,000.00	205,043.42		46,933,635.37
		EVERETT							
18602102	18608212	Remediation Costs	1,313,043.62	3,684.38	1,316,728.00	4,500,000.00	3,183,272.00		1,316,728.00
18602203	18608242	Legal Costs	8,717.50	-	8,717.50				8,717.50
		SUBTOTAL Everett	1,321,761.12	3,684.38	1,325,445.50	4,500,000.00	3,183,272.00		1,325,445.50
		CHEHALIS							
18603102	18608312	Remediation Costs	2,505,729.76	16,312.25	2,522,042.01	4,250,000.00	1,727,957.99		2,522,042.01
		GAS WORKS - SEATTLE							
18604203	18608442	Legal Costs	856,121.11	-	856,121.11				856,121.11
18604102	18608412	Remediation Costs	2,574,313.54	-	2,574,313.54	4,000,000.00	1,425,686.46		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	4,000,000.00	1,425,686.46		3,430,801.60
		WSDOT FEDERAL/STATE							
18605203	18608542	Legal costs	379,591.40	-	379,591.40				379,591.40
18605102	18608512	Remediation Costs	-	-	-				-
		SUB TOTAL	379,591.40	-	379,591.40	-	-		379,591.40
		WSDOT UPLAND (Alta 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	3,243,004.37	195,778.68	3,438,783.05	7,500,000.00	4,061,216.95		3,438,783.05
18607203	18608742	Legal costs	3,269,695.76	91,442.45	3,361,138.21				3,361,138.21
		SUBTOTAL	6,512,700.13	287,221.13	6,799,921.26	7,500,000.00	4,061,216.95		6,799,921.26
		TULALIP							
18608102	18608812	Remediation costs	995.00	-	995.00				995.00
		OMNIBUS INSURANCE LITIGATION (9 MFG. GAS SITES)							
18609202	18608942	Legal costs	3,081,193.73	913.45	3,082,107.18				3,082,107.18

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

September 1998 - forward SAP ORDER	SAP ACCOUNT	Site Description	9/30/2007 Account Balance	Activity	12/31/2007 Account Balance	Env Services Project Cost Estimates 12/31/2007	Remaining 18608022 18236022 22840002	Amortization Through 12/31/2007 Dr. 40700002	Balance 12/31/2007 Closing
18611402	18609212	MERCER STREET Remediation costs	66,942.15	-	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				59,043.75
		SUBTOTAL	59,043.75	-	59,043.75	1,000,000.00	1,000,000.00		59,043.75
18614102	18609312	LAKE UNION Remediation costs	7,077,235.10	214,003.71	7,291,238.81	25,000,000.00	17,708,761.19		7,291,238.81
18614202	18600082	Legal Costs	226,765.95	71,064.46	297,830.41				297,830.41
		SUBTOTAL	7,304,001.05	285,068.17	7,589,069.22	25,000,000.00	17,708,761.19		7,589,069.22
18603202	18609532	BAY STATION Remediation costs	57,932.84	53,744.12	111,676.96	250,000.00	138,323.04		111,676.96
18614402	18609542	OLYMPIA - COLUMBIA ST. Remediation costs	74.86	-	74.86	15,000.00	14,925.14		74.86
	18608022	Estimated Future Costs	29,456,933.95		29,729,203.71				\$ 29,729,203.71 (a)
	18608062	Insurance and Third Party Inception-to-Date Recoveries	(67,211,605.91)	-	(67,211,605.91)				
		TOTAL - FORMER MANUFACTURED GAS SITES	\$ 34,640,452.23	\$ 963,420.36	\$ 35,603,872.59	\$ 50,365,000.00	\$ 29,729,203.71 (a)	\$ -	\$ 35,603,872.59
		GAS UNDERGROUND STORAGE TANKS AND OTHER SITES							
	18237122	SOUTH SEATTLE GATE STATION	21,933.00	22,124.16	44,057.16	44,057.16	-		44,057.16
18230210	18236912	NORTH OPERATING BASE				50,000.00	50,000.00		-
18230212	18237112	SWARR STATION	210,698.41	5,825.25	216,523.66	250,000.00	33,476.34		216,523.66
	18236022	ESJIMATED FUTURE COSTS	92,368.59		83,476.34				83,476.34
	18236032	ESTIMATED FUTURE INSURANCE RECOVERIES							
		TOTAL - GAS UNDERGROUND STORAGE TANKS	\$ 325,000.00	\$ 19,057.16	\$ 344,057.16	\$ 344,057.16	\$ 83,476.34	\$ -	\$ 344,057.16
		TOTAL - GAS STORAGE TANKS AND MANUFACTURED GAS SITES	\$ 34,965,452.23	\$ 982,477.52	\$ 35,947,929.75	\$ 50,709,057.16	\$ 29,812,680.05 (b)	\$ -	\$ 35,947,929.75

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