



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

7/29/2008

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 June 30, 2008**

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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 6/30/08 \$ 769,040

B. Thea Foss Waterway

On November 16th, 2007 the Commencement Bay Natural Resource Trustees delivered the revised NRD Settlement Proposal Report to the PRPs with an increased focus on PAH's . The new deadline to receive a settlement offer from the PRPs set at the end of August 2008. PSE continues to participate as part of the steering committee that was formed to represent the greater PRP group tasked to coordinate with the Trustees on the identification and development of a project or projects that will satisfy the NRD demand. The Steering committee is developing an approach for allocation of responsibility amongst the PRPs.

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 WDOE, 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.

In May 2008 the fourth year of post-remediation sediment monitoring was completed. It's anticipated that the results will be similar to previous years that indicate stormwater discharges have recontaminated the surface of the utilities containment cap. In response to this issue, PSE and other stakeholders have contested the issuance of a new NPDES permit for the municipal

stormwater discharges. The trial has recently been completed and a ruling is expected in August of 08.

Remediation cost incurred as of 6/30/08 \$ 3,466,853

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 6/30/08 \$ 1,318,006

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 6/30/08 \$ 2,540,081

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. The City and PSE completed investigations in the northeastern area of Gas Works Park in 2007. PSE conducted the investigation to support the sediment RI/FS. The results of these investigations were submitted to WDOE in spring. Upland bank remedial actions will be included in the RI/FSs for Lake Union sediment.

Remediation cost incurred as of 6/30/08 \$ 2,577,686

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. As part of PSE's continuous improvement effort, it has further reviewed costs incurred on this project and modified this document to reflect this effort.

Remediation cost incurred as of 6/30/08 \$ 0

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. PSE recently completed an investigation of potential upland sources of tar that could impact sediments. Due to the additional field activities and continued collaboration with the City, submittal of the revised RI/FS report that takes into account comments recently received has likely been delayed to early 2009.

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 2007. Other Potentially Responsible Parties and stakeholders submitted comments on the City's draft RI/FS.

WDOE is planning an investigation and interim action at the adjacent Northlake Shipyard that may include portions of the Western Study Area

Remediation cost incurred as of 6/30/08 \$ 7,815,086

H. Tacoma Tar Pits

PSE met with EPA in May to discuss EPA's request for PSE to perform a groundwater optimization model. PSE is proceeding with this effort. PSE continues to operate and monitor the groundwater pump and treat system. Maintenance of site facilities and monitoring of ground water quality continues.

Remediation cost incurred as of 6/30/08 \$ 37,448,476

I. Swarr Station

Lead- and petroleum-contaminated soil was removed from the site in 2003. However, arsenic-contaminated groundwater remains beneath the site. 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 and evaluate data to determine whether the arsenic plume requires active remediation or if it can continue to be managed by the ongoing groundwater monitoring activities.

Remediation cost incurred as of 6/30/08 \$ 228,330

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 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 has submitted the Sampling and Analysis Plan to the current owners for comment. PSE has also entered into the WDOE Voluntary Cleanup Program.

Remediation cost incurred as of 6/30/08

\$ 122,972

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 (Hortonsphere) 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. In response to the owner's request, PSE has proposed to conduct an investigation of environmental contamination at the property and is currently developing a sampling and analysis plan for site investigation.

Remediation cost incurred as of 6/30/08

\$ 75

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 gate station. As part of a joint construction project, PSE investigated the potential presence of mercury on the PSE gate station property and found limited mercury contamination to be present within the area of a planned facility upgrade project. All known contaminated soil has since been removed from the site in conjunction with the facility upgrade activities and a summary cleanup action report has been submitted to WDOE. Additional limited work is scheduled in 2008 in coordination with construction activities.

Remediation cost incurred as of 6/30/08

\$ 44,057

M. North Tacoma Gate Station (New Site)

Prior to construction activities planned by PSE at this site, an investigation was performed to characterize soils in the excavation area. Analytical results indicated that mercury was present in concentrations above MTCA cleanup levels requiring a remediation to be performed. PSE is proceeding with this remediation

Remediation cost incurred as of 6/30/08 \$ 84,986

N. North Seattle Gate Station (New Site)

Prior to construction activities planned by PSE at this site, an investigation was performed to characterize soils in the excavation area. Analytical results indicated that mercury was present in concentrations above MTCA cleanup levels requiring a remediation to be performed. PSE is proceeding with this remediation

Remediation cost incurred as of 6/30/08 \$ 18,544

O. Covington Gate Station (New Site)

Prior to construction activities planned by PSE at this site, an investigation was performed to characterize soils in the excavation area. Analytical results indicated that mercury was present in concentrations above MTCA cleanup levels requiring a remediation to be performed. PSE is proceeding with this remediation

Remediation cost incurred as of 6/30/08 \$ 11,797

FORMER PUGET POWER SITES

A. 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, and to date, no evidence linking PSE to the site has been discovered. During the past year, litigation at the site involving other parties has been ongoing.

Remediation cost incurred as of 6/30/08 \$ 56,800

B. Crystal Mountain Generator Station

PSE submitted an Emergency Response and Site Rehabilitation Summary Report to WDOE and the U.S. Forest Service in June 2008. Technical information regarding cleanup activities was also provided to the insurer (Aegis). Ongoing activities consist of continued operation of

the groundwater treatment system and routine monitoring of the treatment system, groundwater conditions and vegetation planted during site rehabilitation. 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 is being prepared for submittal to WDOE. PSE has settled civil penalty claims of the United States, and expects to complete settlements with WDOE and natural resource trustees in the summer or fall of 2008.

Remediation cost incurred as of 6/30/08 \$ 14,482,322

C. Factoria Service Center

Two unregistered underground storage tanks (USTs) were discovered at the site during activities related to installation of a natural gas fueling system. One of the two USTs, an approximately 500-gallon diesel tank, had leaked and impacted soil. Remedial excavation was completed in October 2007 to remove the contaminated soil. A monitoring well was installed to determine if groundwater has been impacted. A final report summarizing the remedial activities has been submitted to WDOE. Remaining work will include closing the monitoring well after WDOE has reviewed the final report and removed the site from WDOE Contaminated Sites List.

Remediation cost incurred as of 6/30/08 \$ 98,274

D. Bellingham (Boulevard Park) (New Site)

In the early 1900's, PSE's predecessors owned and operated an MGP on Bellingham Bay. PSE sold the property to Cascade Natural Gas which dismantled the MGP and later sold it to the City of Bellingham who developed the site as Boulevard Park. PSE was notified by the City of Bellingham of potential liability for contamination at the site. PSE has met with Cascade Natural Gas and the City of Bellingham to discuss future investigation to assess potential contamination at the site. Other than some limited site characterization data obtained by EPA during in 1991, no chemical data on the nature and extent of contamination at the site exists at this time.

E. White River Cleanup Project

Groundwater and restored vegetation are being monitored to demonstrate that the cleanup and site rehabilitation activities were successful.

Remediation cost incurred as of 6/30/08 \$ 651,357

F. Lower Baker Powerhouse (New Site)

In 1965 a landslide destroyed PSE's Lower Baker power house facility. It's believed that a number of oil containing devices may still be buried beneath the slide. A petroleum-like sheen was recently discovered in water discharging from metal pipe related to the former Lower Baker facility that remains in place draining ground water from the former location. PSE has evaluated the sheen and installed a water treatment system to eliminate the sheen in the interim while it further evaluates options to permanently address this concern.

G. Snoqualmie Power Plant (New Site)

PSE is developing construction plans to upgrade electrical generation facilities associated with both power plants located at the Snoqualmie Generation facility. These construction activities will involve the excavation of a significant quantity of soil and rock. In preparation to this activity PSE performed a site characterization to assist in identifying if any hazardous substances are present in the area where soil is expected to be excavated.

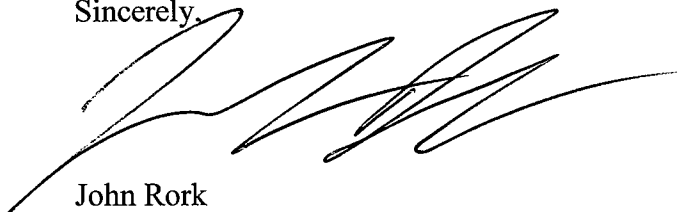
Subsurface explorations in the Power Plant area were performed. The results have identified that soil and ground water at a portion of the Power Plant I site contain hazardous materials exceeding state cleanup levels. A plan to remediate this area is being developed with work scheduled for the spring and summer of 2009.

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.

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
Della Cheung
Lorna Luebbe
Steve Secrist

PUGET SOUND ENERGY, INC.
DEFERRED ENVIRONMENTAL COST SUMMARY GAS
June 30, 2008

September 1998 - forward
 SAP ORDER SAP ACCOUNT Site Description 3/31/2008 Account Balance Activity 6/30/2008 Account Balance Env Services Project Cost Estimates 6/30/2008 Cost Estimates Remaining

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	4,500,000.00	3,181,993.65
18601102	18608112	Remediation Costs through June 1999	34,826,945.69	-	34,826,945.69	2,750,000.00	128,470.25
18601102	18608112	Remediation Costs post-June 1999	2,587,387.22	34,142.53	2,621,529.75	2,750,000.00	128,470.25
	18608152	Internal Costs pre-1997	209,796.52	-	209,796.52	2,750,000.00	128,470.25
		SUBTOTAL Tacoma Tide Flats	46,976,066.01	34,142.53	47,010,208.54		

EVERETT

18602102	18608212	Remediation Costs	1,316,728.00	1,278.35	1,318,006.35	4,500,000.00	3,181,993.65
18602203	18608242	Legal Costs	8,717.50	-	8,717.50	4,500,000.00	3,181,993.65
		SUBTOTAL Everett	1,325,445.50	1,278.35	1,326,723.85		

CHEHALIS

18603102	18608312	Remediation Costs	2,523,802.33	16,278.86	2,540,081.19	4,250,000.00	1,709,918.81
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GAS WORKS - SEATTLE

18604203	18608442	Legal Costs	856,121.11	-	856,121.11	4,000,000.00	1,422,313.07
18604102	18608412	Remediation Costs	2,577,686.93	-	2,577,686.93	4,000,000.00	1,422,313.07
	18608452	Internal Costs - pre-1997	366.95	-	366.95	4,000,000.00	1,422,313.07
		SUBTOTAL Gas Works - Seattle	3,434,174.99	-	3,434,174.99		

WSDOT FEDERAL/STATE

18605203	18608542	Legal costs	379,591.40	-	379,591.40	-	-
18605102	18608512	Remediation Costs	-	-	-	-	-
		SUB TOTAL	379,591.40	-	379,591.40		

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	1,100,000.00	330,959.67
		SUBTOTAL	784,928.53	-	784,928.53		

WSDOT THEA FOSS

18607102	18608712	Remediation costs	3,414,988.24	51,864.71	3,466,852.95	10,000,000.00	6,533,147.05
18607203	18608742	Legal costs	3,552,692.44	267,007.26	3,819,699.70	10,000,000.00	6,533,147.05
		SUBTOTAL	6,967,680.68	318,871.97	7,286,552.65		

TULALIP

18608102	18608812	Remediation costs	995.00	-	995.00	-	-
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OMNIBUS INSURANCE LITIGATION (9 MFG. GAS SITES)

18609202	18608942	Legal costs	3,088,701.68	4,442.84	3,088,144.52	-	-
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MERCER STREET

18611102	18609212	Remediation costs	66,942.15	-	66,942.15	-	-
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PUGET SOUND ENERGY, INC.
DEFERRED ENVIRONMENTAL COST SUMMARY GAS
June 30, 2008

September 1998 - forward		Site Description		3/31/2008		6/30/2008		Env Services	
SAP ORDER	SAP ACCOUNT	Account Balance	Activity	Account Balance	Cost Estimates	6/30/2008	Remaining	Project	Remaining
QUENDALL TERMINALS									
18612102	18609512	Remediation costs	-	-	1,000,000.00	1,000,000.00		18608022	1,000,000.00
18609302	18609522	Legal Costs	59,043.75	-	59,043.75	1,000,000.00		18236022	1,000,000.00
		SUBTOTAL	59,043.75	-	59,043.75	1,000,000.00			22840002
LAKE UNION									
18614102	18609312	Remediation costs	7,484,786.91	330,298.98	7,815,085.89	35,000,000.00			27,184,914.11
18614202	18600082	Legal Costs	404,209.40	70,721.84	474,931.24				
		SUBTOTAL	7,888,996.31	401,020.82	8,290,017.13	35,000,000.00			27,184,914.11
BAY STATION									
18603202	18609532	Remediation costs	116,416.19	6,555.95	122,972.14	250,000.00			127,027.86
OLYMPIA - COLUMBIA ST.									
18614402	18609542	Remediation costs	74.86	-	74.86	15,000.00			14,925.14
		Estimated Future Costs	29,507,146.84	12,126,522.77	41,633,669.61				
		Insurance and Third Party Inception-to-Date Recoveries	(67,211,610.67)		(67,211,610.67)				
		TOTAL - FORMER MANUFACTURED GAS SITES	\$ 35,903,395.55	\$ 12,909,114.09	\$ 48,812,509.64	\$ 62,865,000.00	\$ 41,633,669.61		\$ 21,228,830.39
GAS UNDERGROUND STORAGE TANKS AND OTHER SITES									
18230210	18237122	SOUTH SEATTLE GATE STATION	44,057.16	-	44,057.16	75,000.00			30,942.84
18230212	18236912	NORTH OPERATING BASE	-	-	-	50,000.00			50,000.00
		SWARR STATION	221,829.02	6,500.50	228,329.52	275,000.00			46,670.48
		NORTH TACOMA GATE STATION	-	84,986.38	84,986.38	150,000.00			65,013.62
		NORTH SEATTLE GATE STATION	-	18,544.38	18,544.38	100,000.00			81,455.62
		COVINGTON GATE STATION	-	11,797.50	11,797.50	150,000.00			138,202.50
		ESTIMATED FUTURE COSTS	134,113.82	278,171.24	412,285.06				412,285.06
18236032		ESTIMATED FUTURE INSURANCE RECOVERIES				800,000.00			412,285.06
		TOTAL - GAS UNDERGROUND STORAGE TANKS	\$ 400,000.00	\$ 400,000.00	\$ 800,000.00	\$ 800,000.00	\$ 412,285.06		\$ 412,285.06
		TOTAL - GAS STORAGE TANKS AND MANUFACTURED GAS SITES	\$ 36,303,395.55	\$ 13,309,114.09	\$ 49,612,509.64	\$ 63,665,000.00	\$ 42,045,954.67		\$ 21,228,830.39

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
(d) Represents balance in Account 18236032 after quarterly true-up

7/09/2008
Michael Ross

PUGET SOUND ENERGY, INC.
DEFERRED ENVIRONMENTAL COST SUMMARY ELECTRIC
JUNE 30, 2008

SAP ORDER	SAP ACCOUNT	SITE DESCRIPTION	3/31/2008	Quarterly	6/30/2008	Actual Costs	Future
			Account Balance	Activity	SAP Account Balance	Through 6/30/2008	Cost Estimates
			(a)	(b)	(c) = (a) + (b)	(d)	(e)
18230009	18232251	Env Rem - Buckley-White River Phase II (Future Cost Est)	856,988.08	(8,344.75)	848,643.33	651,356.67	848,643.33
	18232251	Buckley Phase II - Burn Pile & Wood Debris Env Rem Cost	643,011.92	8,344.75	651,356.67	651,356.67	
		Subtotal Buckley Headworks Site	1,500,000.00	0.00	1,500,000.00	651,356.67	848,643.33
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		10,000.00
	18230311	Env Rem - UG Tank - Whidbey Is. (Future Cost Est.)	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
	18233091	Env Rem - UG Tank - Tenino Service Center	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
18230051	18233121	Env Rem - UG Tank - Bremerton (Future Cost Est.)	0.00		0.00		0.00
	18233101	Env Rem - Bremerton UST Def Site	184,695.74	(184,695.74)	0.00		0.00
		Subtotal Bremerton UST Def Site	184,695.74	(184,695.74)	0.00		0.00
18230061	18233141	Env Rem - UG Tank - Factoria (Future Cost Est.)	55,567.98	(3,842.25)	51,725.73	98,274.27	51,725.73
	18233131	Env Rem - Factoria UST Def Site	94,432.02	3,842.25	98,274.27	98,274.27	
		Subtotal Factoria UST Def Site	150,000.00	0.00	150,000.00	98,274.27	51,725.73
18230070	18233151	Env Rem - Lower Baker Powerhouse (Future Cost Est.)	0.00	1,000,000.00	1,000,000.00	0.00	1,000,000.00
	18233181	Env Rem - Lower Baker Powerhouse	0.00		0.00	0.00	
		Subtotal Lower Baker Powerhouse Def Site	0.00	1,000,000.00	1,000,000.00	0.00	1,000,000.00
18230075	18233161	Env Rem - Snoqualmie Power Plant (Future Cost Est.)	0.00	500,000.00	500,000.00	0.00	500,000.00
	18233191	Env Rem - Snoqualmie Power Plant	0.00		0.00	0.00	
		Subtotal Snoqualmie Power Plant Def Site	0.00	500,000.00	500,000.00	0.00	500,000.00
18230080	18233171	Env Rem - Bellingham Boulevard Park (Future Cost Est.)	0.00	500,000.00	500,000.00	0.00	500,000.00
	18233201	Env Rem - Bellingham Boulevard Park	0.00		0.00	0.00	
		Subtotal Bellingham Boulevard Park Def Site	0.00	500,000.00	500,000.00	0.00	500,000.00
Total Deferred Environmental Costs			1,991,486.42	1,815,304.26	3,806,800.68	828,959.99	2,977,840.69
22840031	22840031	Olympia UST Def Site	(129,471.05)		(129,471.05)	20,528.95	129,471.05
22840081	22840081	Puyallup Garage Expensed Site	(453,028.42)		(453,028.42)	14,971.58	453,028.42
22840131	22840131	Crystal Mountain Expensed Site	(810,523.58)	292,845.99	(517,677.59)	14,482,322.41	517,677.59
22841001	22841001	Accu Misc Oper Prov-- Unallo Def Elec Env Reme Recoveries	(4,900,787.94)	184,695.74	(4,716,092.20)		
Totals			(4,302,314.57)	2,292,845.99	(2,009,468.58)	15,346,782.93	4,078,017.75

(A) Represents allocated proceeds from the insurance recoveries.
(B) Amounts due to close out of PSE deferred asset account 18233101 remediation of former PSP&L Bremerton Service Center site in May 2008.
(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) Establish new liability accounts and deferred orders/accounts for new electric sites - Lower Baker Powerhouse, Snoqualmie Power Plant, and Bellingham Boulevard Park.