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FACSIMILE 206-654-4039

February 13, 2004

Ms. Carole J. Washburn
Washington Utilities and
Transportation Commission
1300 S. Evergreen Park Drive SW
Olympia, WA 98504-7250

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STATE OF WASH.
UTIL. AND TRANSP.
COMMISSION

Dear Ms. Washburn:

Cascade Natural Gas Corporation encloses for filing an original and nineteen copies of a petition for an Accounting Order authorizing establishment of a Regulatory Asset/Regulatory Liability associated with FAS 133/138 Mark-to-Market Valuations.

Cascade respectfully requests consideration of its application at the March 24, 2004 Open Meeting. Should you have any questions regarding this filing, please contact either Jon Stoltz at (206) 381-6823 or myself at (206) 381-6824.

Sincerely,

Katherine J. Barnard
Director-Regulatory Affairs

Enclosures

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**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION
COMMISSION**

STATE OF WASH.
UTIL. AND TRANSP.
COMMISSION

In the Matter of the Petition of)	DOCKET NO. UG-_____
)	
CASCADE NATURAL GAS)	PETITION OF
CORPORATION,)	
)	CASCADE NATURAL GAS
for an accounting order authorizing)	CORPORATION
establishment of a Regulatory)	
Asset/Regulatory Liability associated with)	
FAS 133/138 Mark-to-Market Valuations.)	

Petition is hereby made to the Washington Utilities and Transportation Commission for an Accounting Order as herein described. In support of this petition, Applicant states as follows:

I.

The name of the Applicant is Cascade Natural Gas Corporation (Cascade or Company) a Washington Corporation, whose business address is 222 Fairview Avenue North, Seattle, Washington 98109

The Applicant is a public utility engaged in the distribution of natural gas in Washington and Oregon. Applicant is subject to the jurisdiction of the Washington Utilities and Transportation Commission (WUTC)

II.

STATEMENT OF PURPOSE:

On January 28, 2004, Cascade Natural Gas Corporation's Board of Directors authorized a derivatives policy which will allow the corporation to use financial derivatives to hedge natural gas costs for core customers. Statement of Financial Accounting Standards (FAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities", subsequently amended by FAS Nos. 138 and 149 (collectively referred to as FAS 133 in this Petition) is the standard that prescribes the financial accounting treatment required of companies entering into derivative transactions. FAS 133 provides guidance for Companies to identify contractual arrangements subject to derivative accounting. Included in the scope of derivative accounting are financial derivatives, as well as certain contracts for physical delivery of gas. FAS 133 requires that derivatives must be recognized on the Company's balance sheet at their fair market value, as either assets or liabilities. Changes in the fair market value between accounting periods must be recognized in the Company's earnings. These periodic adjustments are referred to as "mark-to-market adjustments", and they expose Cascade to potentially significant earnings volatility. This earnings volatility is related to timing

differences between when a contract is entered into and when the contract is settled. Without authorization to record a regulatory asset/liability, the Company's net income will be affected on a monthly basis based on changes in the natural gas commodity markets.

REQUESTED TREATMENT:

Applicant requests that it be allowed to establish a regulatory asset or regulatory liability associated with the mark-to market valuation of financial derivatives required by FAS 133.

III.**BACKGROUND**

The FASB issued FAS 133 because the quantity and variety of derivatives has been increasing over time and derivatives are not transparent in the financial statements, in most cases being "off-balance sheet" by definition. FAS133 requires all derivatives and certain embedded derivatives to be reported on the balance sheet at fair value. Changes in the fair market value of derivatives, between accounting periods are to be recognized in the Company's earnings. These periodic adjustments are referred to as "mark-to-market adjustments", and they expose Cascade to potentially significant earnings volatility. This earnings volatility is related to timing differences between when a contract is entered into and when the contract is settled. This earnings volatility is strictly related to timing differences between when a contract is entered into and when the contract is settled. Given the nature of the industry, and the extreme volatility in wholesale natural gas prices, the fixed price components of these contracts can be significantly different from the market prices at any one point in time. Accounting associated with FAS 133 will not be part of the Company's regulated pricing and the Company believes that any entries that are necessary for balance sheet recognition pursuant to FAS 133 should be offset by regulatory assets or liabilities, and not recorded through the Company's statement of income.

It should be emphasized that FAS 133 does not have an impact on cash flows of the Company. For example, if the Company enters into a derivative contract for natural gas in March of 2004 associated with natural gas prices in August 2004, the market price of natural gas for the forward month of August will change over time, depending on market conditions. The contract would have to be measured at the quarter ending March 31, 2004 and June 30, 2004, and the difference between the contract price and the forward market price for gas in August would have to be recognized as a gain or loss for the quarters ending March 31, 2004 and June 30, 2004. When this contract settles and gas is delivered, expense would be recognized for the actual amount of the purchase (contract price) and the net gain/loss recognized on March 31 and June 30 would be reversed. Thus there would be no economic or cash flow change in the transaction. Under the Company's proposal, the net regulatory asset or liability associated with the transaction explained above would be zero.

The Company's proposed accounting treatment will not affect the review and determination of prudence regarding the Company's resource acquisitions. The contracts that are subject to FAS 133 include those that are entered into to meet the Company's load obligations, including retail load in Washington. Those contracts, together with storage, and pipeline capacity resources, form the basis for the Company's weighted average cost of gas (WACOG), which the Commission reviews annually as part of the PGA filing. Under the accounting proposed by the Company in this Application, the ratemaking treatment of contracts will be unaffected, and the contracts will continue to be included as part of the WACOG on a cost basis.

Therefore, it is appropriate for the Commission to order the deferral described herein, as the future non-cash impacts of the accounting convention imposed by FAS 133 will be excluded from its determination of cost of service with respect to the contracts.

The Company proposes the following accounting treatment under FAS 133:

The Company will record the fair value of various resource acquisition contracts according to FAS 133, as assets, in FERC Account 186, Miscellaneous Deferred Debits, or as liabilities in FERC Account 253, Other Deferred Credits. These non-cash accounting entries will be offset by regulatory assets or liabilities using the same accounts. These entries would be made simultaneously and would offset in the Company's income statement. Under the proposed accounting, when the obligations under an affected contract are fulfilled, any gain or loss recognized under the standard would be reversed, and the offsetting regulatory asset or liability would be reversed, resulting in no net gain or loss upon settlement of the contract.

IV.

In summary, Cascade requests the Commission order the following:

- 1) Authorize Cascade Natural Gas Corporation to record a regulatory asset/ regulatory liability to record the mark-to-market valuations associated with financial hedging activities relating to the Core Market Gas Supply portfolio.

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