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Years **50** of making warm neighbors

February 1, 2005

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REGULATORY DIVISION
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Ms. Carole Washburn, Secretary
Washington Utilities
& Transportation Commission
1300 S. Evergreen Park Drive SW
Olympia, WA 98504-9022

Re: WAC 480-90-208 Annual Financial Reporting

Dear Ms. Washburn:

In compliance with WAC 480-90-208, please find enclosed Cascade Natural Gas Corporation's Statement of Operations and Rate of Return for the 12-month period ending September 30, 2004.

The attached summary sheets and supporting workpapers detail the procedures used to develop reporting adjustments consistent with WAC "Commission Basis" requirements. Adjustments include such items as weather normalization, restated wages and related costs, consumer representative wages, and advertising adjustments.

If there are any questions regarding this filing please contact me directly.

Sincerely,

Katherine J. Barnard
Director, Regulatory Affairs

attachments

We make warm neighbors

CASCADE NATURAL GAS CORPORATION

Adjusted Statement of Operations and Rate of Return

Twelve Months Ended September 30, 2004

State of Washington Operations

RATE
OF
RETURN

**STATEMENT
OF
OPERATIONS**

Cascade Natural Gas Corporation
State of Washington
Statement of Operations and Rate of Return
Month and Twelve Months Ended September 30, 2004

	Month	Twelve Months
OPERATING REVENUES		
Natural Gas Sales	11,165,403	234,083,730
Transportation Revenue	1,396,403	16,909,911
Other Operating Revenue	104,453	819,668
	<u>12,666,259</u>	<u>251,813,309</u>
Less: Natural Gas & Production Costs	7,511,111	161,378,880
Revenue Taxes	846,035	19,373,727
OPERATING MARGIN	<u>4,309,113</u>	<u>71,060,702</u>
OPERATING EXPENSES		
Distribution	753,728	7,457,669
Customer Accounts	324,758	4,489,957
Customer Service & Informational	43,640	536,124
Sales	98,849	751,642
Administrative & General	1,256,093	15,921,863
Depreciation & Amortization	1,261,761	12,923,770
Property, Payroll & Misc. Taxes	355,168	4,411,200
Federal Income Taxes	(52,301)	5,394,120
Total Operating Expenses	<u>4,041,696</u>	<u>51,886,346</u>
NET OPERATING INCOME	<u>267,417</u>	<u>19,174,357</u>
RATE BASE	<u>221,529,205</u>	<u>210,840,204</u>
RATE OF RETURN	<u>0.12%</u>	<u>9.09%</u>

SCHEDULE OF RATE BASE

Utility Plant In Service	449,680,610	433,921,449
Accumulated Depreciation	(192,859,808)	(187,304,310)
Net Utility Plant	<u>256,820,802</u>	<u>246,617,139</u>
Other:		
Contributions in Aid of Construction	-	
Customer Advances for Construction	(4,796,321)	(5,118,609)
Accumulated Deferred Income Taxes	(35,622,517)	(35,622,517)
Deferred Debits	-	-
Subtotal	<u>216,401,964</u>	<u>205,876,013</u>
Working Capital	<u>5,127,241</u>	<u>4,964,191</u>
TOTAL RATE BASE	<u>221,529,205</u>	<u>210,840,204</u>

All rate base items except accumulated deferred income taxes represent monthly average and average of monthly average balances. Accumulated deferred income taxes represent the end-of-period balance.

This report is derived directly from the amounts recorded on the books of the Corporation for the period covered, as adjusted for the depreciation adjustment prescribed in WUTC Order No. 991923. It reflects no ratemaking or other normalized adjustments.

WEATHER
ANALYSIS

**Cascade Natural Gas Corporation
Weather Normalization Adjustment
For Twelve Months Ended 9/30/04
State of Washington**

<u>Line No.</u>	<u>Description</u>		<u>Therms</u>	<u>Revenues</u>
<u>Residential</u>				
	Rate Schedule No. 503			
1	Therm Adjustment		732,161	
2	Revenue at Restating Rate	\$ 0.85341		\$ 624,833
<u>Commercial</u>				
	Rate Schedule No. 504			
3	Therm Adjustment		523,253	
4	Revenue at Restating Rate	\$ 0.82263		\$ 430,444
5	Totals		<u>1,255,414</u>	<u>\$ 1,055,277</u>
<u>Gas Cost</u>				
6	Change in Gas Cost - Residential (WACOG x Adjustment)	\$ 0.62645	732,161	\$ 458,663
7	Change in Gas Cost - Commercial (WACOG x Adjustment)	\$ 0.62496	523,253	\$ 327,012
8	Totals		<u>1,255,414</u>	<u>\$ 785,675</u>

WUTC Methodology			
Month	R/S 503 Weather Adj Therms	R/S 504 Weather Adj Therms	Total Adj Therms
Oct-03	1,479,803	1,068,015	2,547,818
Nov-03	(1,656,223)	(1,146,785)	(2,803,008)
Dec-03	223,558	1,155,284	1,378,841
Jan-04	(1,124,236)	(2,850,779)	(3,975,015)
Feb-04	1,393,565	1,076,104	2,469,669
Mar-04	2,617,882	1,814,980	4,432,863
Apr-04	2,182,210	1,529,230	3,711,440
May-04	628,812	317,280	946,092
Jun-04	(376,857)	(260,961)	(637,819)
Jul-04	149,877	10,140	160,017
Aug-04	109,480	345,454	454,934
Sep-04	(476,831)	(428,923)	(905,755)
Total	5,151,040	2,629,038	7,780,078

7,780,078

Cascade "Backcast" Methodology			
Month	R/S 503 Weather Adj Therms	R/S 504 Weather Adj Therms	Total Adj Therms
Oct-03	1,164,411	763,899	1,928,311
Nov-03	(2,468,773)	(1,284,750)	(3,753,523)
Dec-03	719,065	437,753	1,156,818
Jan-04	(1,284,267)	(805,047)	(2,089,315)
Feb-04	162,213	112,581	274,794
Mar-04	1,192,467	778,609	1,971,076
Apr-04	824,443	477,187	1,301,630
May-04	92,571	35,706	128,276
Jun-04	146,810	40,141	186,951
Jul-04	268,012	(4,507)	263,505
Aug-04	247,896	113,015	360,911
Sep-04	(332,685)	(141,334)	(474,019)
Total	732,161	523,253	1,255,414

732,161 523,253 1,255,414

Weather Adjust. Therms per Regression Analysis			
Month	R/S 503 Weather Adj Therms	R/S 504 Weather Adj Therms	Total Adj Therms
Oct-03	1,164,411	763,899	1,928,311
Nov-03	(2,468,773)	(1,284,750)	(3,753,523)
Dec-03	719,065	437,753	1,156,818
Jan-04	(1,284,267)	(805,047)	(2,089,315)
Feb-04	162,213	112,581	274,794
Mar-04	1,192,467	778,609	1,971,076
Apr-04	824,443	477,187	1,301,630
May-04	92,571	35,706	128,276
Jun-04	146,810	40,141	186,951
Jul-04	268,012	(4,507)	263,505
Aug-04	247,896	113,015	360,911
Sep-04	(332,685)	(141,334)	(474,019)
Total	732,161	523,253	1,255,414

1,255,414

CALCULATION OF WEATHER RESTATEMENT RATES

Source: Revenue per Bill Freq 12 month report

Test Period Information: 10/01/03 through 09/30/04

	Customers	Therms	Restated Revenues
R/S 503	1,694,690	99,203,379	\$ 91,440,144
R/S 504	257,313	73,990,114	\$ 62,667,685

Fixed Charges to Remove:

	Customers	CSC	Revenues
R/S 503	1,694,690	\$ 4.00	\$ 6,778,760
R/S 504	257,313	\$ 7.00	\$ 1,801,191

Restated Per-Therm Rates:

	Adjusted Revenues	Therms	Restating Rate
R/S 503	\$ 84,661,384	99,203,379	\$ 0.85341
R/S 504	\$ 60,866,494	73,990,114	\$ 0.82263

WACOG Calc						
Res	calc gas	Commercial	calc gas			
Therm Adj.	Res	cost adj.	Therm Adj.	comm	cost adj.	
Oct-03	1,164,411	0.61690	718,325	763,899	0.61549	470,172
Nov-03	(2,468,773)	0.62732	(1,548,711)	(1,284,750)	0.62582	(804,022)
Dec-03	719,065	0.62732	451,084	437,753	0.62582	273,955
Jan-04	(1,284,267)	0.62732	(805,647)	(805,047)	0.62582	(503,815)
Feb-04	162,213	0.62732	101,759	112,581	0.62582	70,455
Mar-04	1,192,467	0.62732	748,058	778,609	0.62582	487,269
Apr-04	824,443	0.62732	517,190	477,187	0.62582	298,633
May-04	92,571	0.62732	58,071	35,706	0.62582	22,345
Jun-04	146,810	0.62732	92,097	40,141	0.62582	25,121
Jul-04	268,012	0.62732	168,129	(4,507)	0.62582	(2,821)
Aug-04	247,896	0.62732	155,510	113,015	0.62582	70,727
Sep-04	(332,685)	0.62732	(208,700)	(141,334)	0.62582	(88,449)
Total	732,161	0.62645	447,166	523,253	0.62496	319,571
avg wacog		0.62645				0.62496

**ACCOUNTING
ADJUSTMENTS**

Accounting Adjustments
Twelve Months Ended 9/30/04

The following accounting adjustments are necessary to restate recorded utility operating results for the 12 months ended September 30, 2004.

1. **Restated Wages and Related Costs Adjustment** - Increase Administrative & General Expense by \$197,445. Test period operating expenses are adjusted to reflect the effects of general wage increase for salaried employees on December 1, 2003 and the April 1, 2004 increase for hourly employees as if they had been in effect for the entire test period.
2. **Consumer Representative Wages** – Reduce Sales Expense by \$485,873 to adjust for consumer representatives' compensation.
3. **Advertising Adjustment** – Reduce Sales Expense by \$232,763 to account for below-the-line advertising.
4. **Removal of AMR Severance packages** – Reduce Administrative & General Expense by \$137,764 to remove the one time expense associated with severance packages paid to employees due to the reduction in workforce relating to the implementation of AMR.
5. **Anacortes Franchise Fee Adjustment** – Reduce Misc. Taxes by \$74,493 to account for the expiration of the Franchise tax in July 2004.

Cascade Natural Gas Corporation
RESTATE WAGES AND RELATED COSTS
 State of Washington

Line No.	Description	Amount	Allocation Factor	Amount	Average Increase	Wage Adjustment *
	(a)	(b)	(c)	(d)	(e)	(f)
	Salaried (Oct-Nov)					
	Washington Direct	\$ 1,797,498	Direct	\$ 1,797,498		
	General Office	\$ 1,285,159	77.3%	\$ 993,428		
	Hourly (Oct through Mar)	\$ 4,288,585	Direct	\$ 4,288,585	3.0%	
	Total					\$ 7,079,510
	Salaried Wages					\$ 212,385

Capitalized Payroll	\$	(498,008)	
Net Expense	\$	6,581,502	<u>\$ 197,445</u>

Salaried employee Wage increase effective 12/1/04
 Hourly employee Wage increase effective 4/1/04

*Wage Adjustment Expense with Increase retroactive to 10/1/03

Cascade Natural Gas Corporation
PROMOTIONAL ADVERTISING EXPENSE ADJUSTMENT
 State of Washington

Line No.	Description	FY 2004	Amount
	(a)	(b)	(e)
	Promotional Advertising Twelve Months Ending 09/30/04 Removal	\$ 232,763	\$ (232,763)
	Consumer Representative Incentive Pay Twelve Months Ending 09/30/04 Removal	\$ 485,873	\$ (485,873)
	Total		<u>\$ (718,636)</u>

Cascade Natural Gas Corporation
REMOVAL OF AMR SEVERANCE EXPENSE
 State of Washington

Line No.	Description		FY 2004	Amount
	(a)		(b)	(c)
	Twelve Months Ending 09/30/04		137,764	
	Removal			<u>\$ (137,764)</u>

Cascade Natural Gas Corporation
REMOVAL OF ANACORTES FRANCHISE FEE EXPENSE
 State of Washington

Line No.	Description		FY 2004	Amount
	(a)		(b)	(c)
	Twelve Months Ending 09/30/04		74,493	
	Removal			<u>\$ (74,493)</u>