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FACSIMILE 206-654-4039

January 31, 2006

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

RECEIVED
RECORDS MANAGEMENT
06 FEB - 1 AM 8:04
STATE OF WASH.
UTIL. AND TRANSP.
COMMISSION

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, 2005.

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
Sr. Director, Regulatory Affairs

attachments

STATEMENT
OF
OPERATIONS

Cascade Natural Gas Corporation
State of Washington
Statement of Operations and Rate of Return
Month and Twelve Months Ended September 30, 2005

	Month	Twelve Months
OPERATING REVENUES		
Natural Gas Sales	12,887,144	232,428,111
Transportation Revenue	1,512,056	18,411,461
Other Operating Revenue	127,372	889,298
	<u>14,526,572</u>	<u>251,728,870</u>
Less: Natural Gas & Production Costs	9,235,017	163,837,631
Revenue Taxes	978,166	19,349,779
OPERATING MARGIN	<u>4,313,389</u>	<u>68,541,460</u>
OPERATING EXPENSES		
Distribution	731,605	7,682,852
Customer Accounts	263,098	4,158,014
Customer Service & Informational	16,729	344,136
Sales	54,186	625,296
Administrative & General	2,081,502	18,556,164
Depreciation & Amortization	1,156,405	13,632,109
Property, Payroll & Misc. Taxes	389,611	4,487,773
Federal Income Taxes	(519,005)	3,293,908
Total Operating Expenses	<u>4,174,131</u>	<u>52,780,252</u>
NET OPERATING INCOME	<u>139,258</u>	<u>15,761,208</u>
RATE BASE	<u>231,698,921</u>	<u>226,223,242</u>
RATE OF RETURN	<u>0.06%</u>	<u>6.97%</u>

SCHEDULE OF RATE BASE

Utility Plant In Service	472,079,549	462,674,857
Accumulated Depreciation	(204,457,702)	(199,419,250)
Net Utility Plant	<u>267,621,847</u>	<u>263,255,607</u>
Other:		
Contributions in Aid of Construction		
Customer Advances for Construction	(3,387,735)	(4,356,248)
Accumulated Deferred Income Taxes	(37,692,299)	(37,692,299)
Deferred Debits		-
Subtotal	<u>226,541,814</u>	<u>221,207,060</u>
Working Capital	5,157,108	5,016,182
TOTAL RATE BASE	<u>231,698,921</u>	<u>226,223,242</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.

CASCADE NATURAL GAS CORPORATION

Adjusted Statement of Operations and Rate of Return

Twelve Months Ended September 30, 2005

State of Washington Operations

RATE
OF
RETURN

Cascade Natural Gas Corporation
SUMMARY OF OPERATIONS & ADJUSTMENTS
FOR THE 12 MONTH PERIOD ENDED 9/30/05

Line No.	Description (a)	Statement of Operations Per Books (b)	Weather Normalization Adjustment (c)	Restated Wages And Related Costs (d)	Consumer Rep Wages Adjustment (e)	Advertising Adjustment (f)	Removal of Severance Pkgs & Transition Costs (g)	Shelton/Yakima Franchise Fee Adjustment (h)	Commission Basis Restated Total (i)
	Operating Revenue								
1	Natural Gas Sales	\$ 232,428,111	\$ 2,394,785	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 234,822,896
2	Gas Transportation Revenue	18,411,461		0	0	0	0	0	18,411,461
3	Other Operating Revenue	889,298		0	0	0	0	0	889,298
4	Subtotal	\$ 251,728,870	\$ 2,394,785	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 254,123,655
5	LESS: Nat. Gas/Production Costs	163,837,631	1,951,056						165,788,687
6	Revenue Taxes	19,349,779							19,349,779
7	Operating Margin	\$ 68,541,460	\$ 443,729	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 68,985,189
	Operating Expenses								
8	Distribution	7,682,852	0	0	0	0	0	0	7,682,852
9	Customer Accounts	4,158,014	2,251	0	0	0	0	0	4,160,265
10	Customer Service & Information	344,136	0	0	0	0	0	0	344,136
11	Sales	625,296	0	0	(123,315)	(60,270)	0	0	441,711
12	Administrative & General	18,556,164	0	501,433	0	0	(2,356,267)	0	16,701,330
13	Depreciation & Amortization	13,632,109	0	0	0	0	0	0	13,632,109
14	Prop./Payroll/Misc. Taxes	4,487,773	101,587	15,601	0	0	0	(426,458)	4,604,961
15	Federal Income Taxes	3,293,908	118,962	(180,962)	43,160	21,095	824,693	149,260	4,120,856
16	Total Operating Expenses	\$ 52,780,252	\$ 222,800	\$ 336,072	\$ (80,155)	\$ (39,176)	\$ (1,531,573)	\$ (277,198)	\$ 51,688,220
17	Net Operating Income	\$ 15,761,208	\$ 220,929	\$ (336,072)	\$ 80,155	\$ 39,176	\$ 1,531,573	\$ 277,198	\$ 17,296,969
	Rate Base								
	Plant In Service	\$ 462,674,857	\$						\$ 462,674,857
	Accumulated Depreciation	(199,419,250)							(199,419,250)
	Contributions In Aid	0							0
	Cust. Adv. For Constr.	(4,356,248)							(4,356,248)
	Accum. Deferred Income Taxes	(37,692,299)							(37,692,299)
	Deferred Debits								0
	Working Capital Allowance	5,016,182							5,016,182
	Total	\$ 226,223,242	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 226,223,242
	Rate Of Return								7.65%
		6.97%							

Note:

This report does not include all ratemaking adjustments that would be included in the context of a general rate case

WEATHER

ANALYSIS

**Cascade Natural Gas Corporation
Weather Normalization Adjustment
For Twelve Months Ended 9/30/05
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		1,054,517	
2	Revenue at Restating Rate	\$ 1.14280		\$ 1,205,102
<u>Commercial</u>				
	Rate Schedule No. 504			
3	Therm Adjustment		1,069,383	
4	Revenue at Restating Rate	\$ 1.11249		\$ 1,189,683
5	Totals		<u>2,123,900</u>	<u>\$ 2,394,785</u>
<u>Gas Cost</u>				
6	Change in Gas Cost - Residential (WACOG x Adjustment)	\$ 0.91942	1,054,517	\$ 969,544
7	Change in Gas Cost - Commercial (WACOG x Adjustment)	\$ 0.91783	<u>1,069,383</u>	<u>\$ 981,512</u>
8	Totals		<u>2,123,900</u>	<u>\$ 1,951,056</u>

**ACCOUNTING
ADJUSTMENTS**

Accounting Adjustments
Twelve Months Ended 9/30/05

The following accounting adjustments are necessary to restate recorded utility operating results for the 12 months ended September 30, 2005.

1. **Restated Wages and Related Costs Adjustment** - Increases Administrative & General Expense by \$501,443 and Payroll related taxes by \$15,601. Test period operating expenses are adjusted to reflect the effects of general wage increase for salaried employees on December 1, 2004 and the April 1, 2005 increase for hourly employees as if they had been in effect for the entire test period. Additionally, the adjustment includes the adjustment necessary to reflect the change in the CEO and CFO salaries due to the changes in the executive management team.
2. **Consumer Representative Wages** – Reduce Sales Expense by \$123,315 to adjust for consumer representatives' incentive compensation.
3. **Advertising Adjustment** – Reduce Sales Expense by \$60,270 to account for below-the-line advertising.
4. **Removal of Severance packages and Executive Transition Costs** – Reduce Administrative & General Expense by \$2,356,267 to remove the one time expense associated with severance packages paid to employees due to the reduction in workforce relating to the implementation of 1) the Bellingham Call Center, 2) the Executive Transition, 3) the Elimination of the COO position, and 4) the September '05 reorganization.

Cascade Natural Gas Corporation
RESTATEMENT OF PAYROLL & RELATED COSTS
 State of Washington

Line No.	Description (a)	Amount (b)	
1	Wage & Salary Increases	\$ 501,433	
2	Social Security & Medicare Taxes	\$ 15,601	
3	Total		\$ 517,034

Cascade Natural Gas Corporation
PROMOTIONAL ADVERTISING EXPENSE ADJUSTMENT
 State of Washington

Line No.	Description	FY 2005	Amount
	(a)	(b)	(c)
	Promotional Advertising Twelve Months Ending 09/30/05 Removal	\$ 60,270	\$ (60,270)
	Consumer Representative Incentive Pay Twelve Months Ending 09/30/05 Removal	\$ 123,315	\$ (123,315)
	Total		<u>\$ (183,585)</u>

Cascade Natural Gas Corporation
**REMOVAL OF SEVERANCE &
EXECUTIVE TRANSITION RELATED EXPENSES**
State of Washington

Line No.	Description	Total	Allocation Formula *	Washington	Adjustment
	(a)	(b)	(c)	(d)	(e)
1	Call Center Severance & Relocation Severance & Moving Expenses	\$ 338,697	77.06%	261,000	(261,000)
2	Payroll Taxes	\$ 13,537	77.06%	10,432	(10,432)
	Executive Transition Costs				
3	Severance/Consulting/Relocation Costs	\$ 1,213,029	77.06%	934,760	(934,760)
4	Payroll Taxes	\$ 17,479	77.06%	13,469	(13,469)
	Elimination of COO Position				
5	Severance & Outplacement Svcs	223,720	77.06%	172,399	(172,399)
6	Payroll Taxes	3,244	77.06%	2,500	(2,500)
	September Reorganization				
7	Salaries & Outplacement Svcs	926,940	77.06%	926,940	(926,940)
8	Payroll Taxes	45,117	77.06%	34,767	(34,767)
9	Total Adjustment				<u>\$ (2,356,267)</u>

(*) Three Factor Formula

**SUPPORTING
WORKPAPERS**

Cascade Natural Gas Corporation
RESTATEMENT OF PAYROLL & RELATED COSTS
 State of Washington

Line No.	Description (a)	Amount (b)	
1	Wage & Salary Increases	\$ 501,433	
2	Social Security & Medicare Taxes	\$ 15,601	
3	Total		\$ 517,034

Wage Adjustment for CEO & CFO
 FY 2005

	Date of Executive Employment Change	Annual FY05 Base Salaries of New Executives	Removal of Retired Executives Salaries Paid in FY05	FY05 Executive Salary Adjustment	Payroll Tax @ 1.45%	Total
CEO	April 1, 2005	418,000	(81,125)	336,875	4,885	341,759
CFO	June 27, 2005	244,800	(110,166)	134,634	1,952	136,586
		<u>662,800</u>	<u>(191,291)</u>	<u>471,509</u>	<u>6,837</u>	<u>478,345</u>
				Washington Allocation Factor	77.06%	77.06%
				Washington Allocation	<u>363,345</u>	<u>5,268</u>
						<u>368,613</u>

1.45% for Medicare Tax

No Social Security Impact as both over 90,000 FICA limit for 2005

Cascade Natural Gas Corporation
Washington Wage Adjustment
Adjustment to Restate FY 2005

	Gross Salaries/Wages	Capitalized Salaries/Wages	Net Salaries/Wages	% Salary/Wage Increase	Salary/Wage Adjustment Before Taxes	Social Security Tax @ 6.2%	Medicare Tax @ 1.45%	Total Taxes	Adjustment to Restate FY05 Salaries/Wages
FY05 WA Salaried									
Officers	\$ 180,980	\$ (2,496)	\$ 178,484						
WA 3-Factor Allocation Ratio	77.06%	77.06%	77.06%						
Officer salaries allocated to WA	139,463	(1,923)	137,540	2.71%	\$ 3,727	\$ -	\$ 54	\$ 54	\$ 3,781
WA Non-officers per attached	1,708,123	(213,129)	1,494,994	2.71%	40,514	2,512	587	3,099	43,613
Total WA salaries (see attached)	1,847,586	(215,052)	1,632,534	2.71%	44,241	2,512	641	3,153	47,394
FY05 WA Hourly	\$ 4,208,898	\$ (1,080,681)	\$ 3,128,217	3.00%	\$ 93,847	\$ 5,819	\$ 1,361	\$ 7,180	\$ 101,027
Adjustment to Restate FY05 Wages for Annual Increase					<u>\$ 138,088</u>			<u>\$ 10,333</u>	<u>\$ 148,421</u>

Cascade Natural Gas Corporation
PROMOTIONAL ADVERTISING EXPENSE ADJUSTMENT
 State of Washington

Line No.	Description	FY 2005	Amount
	(a)	(b)	(e)
	Promotional Advertising Twelve Months Ending 09/30/05 Removal	\$ 60,270	\$ (60,270)
	Consumer Representative Incentive Pay Twelve Months Ending 09/30/05 Removal	\$ 123,315	\$ (123,315)
	Total		<u>\$ (183,585)</u>

State	FERC	Expense	Amount of transaction	District Location Code
Oregon Direct	9120	601090	56,285.00	CNGC
Washington Direct	9120	601090	123,315.00	CNGC
WA Consumer Reps Commissions			123,315.00	

General Office	9130	620010	11,217.00	D001 CNGC
General Office	9130	621010	7,307.00	D001 CNGC
General Office	9130	621030	1,887.80	D001 CNGC
General Office	9130	621040	2,100.00	D001 CNGC
General Office	9130	652020	25,750.57	D001 CNGC
Total General Office			48,262.37	

Oregon Direct	9130	621010	2,151.00	CNGC
Oregon Direct	9130	621020	501.00	CNGC
Oregon Direct	9130	621025	2,991.00	CNGC
Oregon Direct	9130	621027	1,376.45	CNGC
Oregon Direct	9130	621040	112.45	D056 CNGC
Total Oregon Direct			7,131.90	

Washington Direct	9130	621010	2,792.12	CNGC
Washington Direct	9130	621020	9,082.74	CNGC
Washington Direct	9130	621025	8,148.31	CNGC
Washington Direct	9130	621027	1,955.00	CNGC
Washington Direct	9130	621030	343.71	D029 CNGC
Washington Direct	9130	621035	745.00	D008 CNGC
Washington Direct	9130	653020	12.49	D009 CNGC
Total Wash Direct			23,079.37	

Washington 9130:

GO Exp. @.7706%	37,191.00
Washington Direct	23,079.37
Total WA 9130	\$ 60,270.37

Cascade Natural Gas Corporation
**REMOVAL OF SEVERANCE &
EXECUTIVE TRANSITION RELATED EXPENSES**
State of Washington

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9	Total Adjustment				<u>\$ (2,356,267)</u>

(*) Three Factor Formula

Call Center One-time Only Expenses Incurred in FY04/FY05

Severance & Moving Expenses	FY04	FY05	WA %
CSR Severance & Movinf Expenses	55,147.00	313,118.16	0.7706 241288.85
Moving Expenses - CC Manager		25,579.00	0.7706 19711.18 261000.03
Payroll Taxes - CC Manager Moving Expenses		13,537.00	0.7706 10431.61
Total One Time Only Expenses	55,147.00	352,234.16	271431.64

Cascade Natural Gas Corp
 Executive Transition Adjustment
 Supporting Workpaper

Location	FERC	Amount of transaction	% WA	WA Assignment
D001	9200	717,509.71	77.06%	552912.98
D001	9210	223,439.97	77.06%	172182.84
D001	9230	237,304.38	77.06%	182866.76
D001	9250	45.78	77.06%	35.28
D001	9260	9,467.18	77.06%	7295.41
D001	4081	17,479.16	77.06%	13469.44
D001	9302	25,261.69	77.06%	19466.66
		\$ 1,230,507.87		948229.37

	Removal	-948229.37
G & A Accol G&A		934,759.93
Misc. Other Taxes		13,469.44
		948,229.37

COO Severance Transition Expenses

Exempt/ Non- Exempt	Position Title	Work Location	Total Severance = Columns A+B+C+D	Severance paid through payroll (A+B+C)
E	CHIEF OPERATING OFFICER	Operations	223,721	194,670
Grand Total			223,721	194,670
			193,670	0
			1,000	29,051
			223,721	194,670

Location	FERC	Expense Element	Account Period (YYPP)	Amount of transaction	% WA	WA Assignment
D001	9200	601110	512	(24,701.00)	0.7706	(19,035)
D001	9200	601110	512	(109,229.00)	0.7706	(84,172)
D001	9200	601110	512	<u>1,060,870.00</u>	0.7706	817,506
		Severance		926,940.00		
D001	9200	605010	512	(2,491.32)	0.7706	(1,920)
D001	9200	605010	512	(1,583.82)	0.7706	(1,220)
D001	4081	605010	512	<u>49,192.29</u>	0.7706	37,908
		PR Taxes		45,117.15		
		Total		<u>972,057.15</u>		

***** This does not include COO (severance booked in July 05)