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January 31, 2007

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STATE OF WASH.
UTIL. AND TRANSP.
COMMISSION

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, 2006.

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, 2006

	Month	Twelve Months
OPERATING REVENUES		
Natural Gas Sales	15,997,522	343,314,615
Transportation Revenue	1,708,354	18,209,881
Other Operating Revenue	225,643	1,642,936
	<u>17,931,519</u>	<u>363,167,432</u>
Less: Natural Gas & Production Costs	12,158,459	262,187,632
Revenue Taxes	1,155,280	27,138,712
OPERATING MARGIN	<u>4,617,780</u>	<u>73,841,088</u>
OPERATING EXPENSES		
Distribution	869,158	7,970,234
Customer Accounts	527,547	4,740,701
Customer Service & Informational	1,634	45,462
Sales	13,187	39,307
Administrative & General	939,518	19,509,890
Depreciation & Amortization	1,184,557	14,052,894
Property, Payroll & Misc. Taxes	416,583	4,123,626
Federal Income Taxes	833,181	5,497,284
Total Operating Expenses	<u>4,785,365</u>	<u>55,979,398</u>
NET OPERATING INCOME	<u>(167,585)</u>	<u>17,861,690</u>
RATE BASE	<u>239,399,791</u>	<u>241,484,592</u>
RATE OF RETURN	<u>-0.07%</u>	<u>7.40%</u>

SCHEDULE OF RATE BASE

Utility Plant In Service	481,225,644	477,055,397
Accumulated Depreciation	<u>(216,424,707)</u>	<u>(210,717,542)</u>
Net Utility Plant	264,800,937	266,337,855
Other:		
Contributions in Aid of Construction		
Customer Advances for Construction	(4,009,864)	(3,672,939)
Accumulated Deferred Income Taxes	(39,130,871)	(39,130,871)
Deferred Debits		-
Subtotal	<u>221,660,202</u>	<u>223,534,045</u>
Working Capital	17,739,589	17,950,547
TOTAL RATE BASE	<u>239,399,791</u>	<u>241,484,592</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.

CASCADE NATURAL GAS CORPORATION

Adjusted Statement of Operations and Rate of Return

Twelve Months Ended September 30, 2006

State of Washington Operations

**RATE
OF
RETURN**

Cascade Natural Gas Corporation
SUMMARY OF OPERATIONS & ADJUSTMENTS
FOR THE 12 MONTH PERIOD ENDED 9/30/06

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)	Commission Basis Restated Total (g)
	Operating Revenue						
1	Natural Gas Sales	\$ 343,314,615	\$ (364,065)	\$ 0	\$ 0	\$ 0	\$ 342,950,550
2	Gas Transportation Revenue	18,209,881		0	0	0	18,209,881
3	Other Operating Revenue	1,642,936		0	0	0	1,642,936
4	Subtotal	\$ 363,167,432	\$ (364,065)	\$ 0	\$ 0	\$ 0	\$ 362,803,367
5	LESS: Nat. Gas/Production Costs	262,187,632	(290,663)				261,896,969
6	Revenue Taxes	27,138,712					27,138,712
7	Operating Margin	\$ 73,841,088	\$ (73,401)	\$ 0	\$ 0	\$ 0	\$ 73,767,687
	Operating Expenses						
8	Distribution	7,970,234	0	0	0	0	7,970,234
9	Customer Accounts	4,740,701	(342)	0	0	0	4,740,359
10	Customer Service & Information	45,462	0	0	0	0	45,462
11	Sales	39,307	0	0	4,860	(14,849)	29,318
12	Administrative & General	19,509,890	0	134,749	0	0	19,644,639
13	Depreciation & Amortization	14,052,894	0	0	0	0	14,052,894
14	Prop./Payroll/Misc. Taxes	4,123,626	(15,444)	10,308	0	0	4,118,490
15	Federal Income Taxes	5,497,284	(20,165)	(50,770)	(1,701)	5,197	5,429,845
16	Total Operating Expenses	\$ 55,979,398	\$ (35,951)	\$ 94,287	\$ 3,159	\$ (9,652)	\$ 56,031,241
17	Net Operating Income	\$ 17,861,690	\$ (37,450)	\$ (94,287)	\$ (3,159)	\$ 9,652	\$ 17,736,446
	Rate Base						
	Plant In Service	\$ 477,055,397	\$				\$ 477,055,397
	Accumulated Depreciation	(210,717,542)					(210,717,542)
	Contributions In Aid	0					0
	Cust. Adv. For Constr.	(3,672,939)					(3,672,939)
	Accum. Deferred Income Taxes	(39,130,871)					(39,130,871)
	Deferred Debits						0
	Working Capital Allowance	17,950,547					17,950,547
	Total	\$ 241,484,592	\$ 0	\$ 0	\$ 0	\$ 0	\$ 241,484,592
	Rate Of Return	7.40%					7.34%

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 9/30/06
State of Washington**

<u>Line No.</u>	<u>Description</u>		<u>Therms</u>	<u>Revenues</u>
<u>Residential</u>				
1	Rate Schedule No. 503 Therm Adjustment		(370,172)	
2	Revenue at Restating Rate	\$ 1.14600		\$ (424,217)
<u>Commercial</u>				
3	Rate Schedule No. 504 Therm Adjustment		54,128	
4	Revenue at Restating Rate	\$ 1.11130		\$ 60,152
5	Totals		<u>(316,044)</u>	<u>\$ (364,065)</u>
<u>Gas Cost</u>				
6	Change in Gas Cost - Residential (WACOG x Adjustment)	\$ 0.91942	(370,172)	\$ (340,343)
7	Change in Gas Cost - Commercial (WACOG x Adjustment)	\$ 0.91783	54,128	\$ 49,680
8	Totals		<u>(316,044)</u>	<u>\$ (290,663)</u>

**ACCOUNTING
ADJUSTMENTS**

Accounting Adjustments
Twelve Months Ended 9/30/06

The following accounting adjustments are necessary to restate recorded utility operating results for the 12 months ended September 30, 2006.

1. **Restated Wages and Related Costs Adjustment** - Increases Administrative & General Expense by \$134,749 and Payroll related taxes by \$10,308. Test period operating expenses are adjusted to reflect the effects of general wage increase for salaried employees on December 1, 2005 and the April 1, 2006 increase for hourly employees as if they had been in effect for the entire test period.
2. **Consumer Representative Wages** – Increase Sales Expense by \$4,860 to adjust for consumer representatives' incentive compensation.
3. **Advertising Adjustment** – Reduce Sales Expense by \$14,849 to account for below-the-line advertising.

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

Line No.	Description (a)	Amount (b)	
1	Wage & Salary Increases	\$ 134,749	
2	Social Security & Medicare Taxes	\$ 10,308	
3	Total		\$ 145,057

Cascade Natural Gas Corporation
PROMOTIONAL ADVERTISING EXPENSE ADJUSTMENT
 State of Washington

Line No.	Description	FY 2006	Amount
	(a)	(b)	(c)
	Promotional Advertising Twelve Months Ending 09/30/06 Removal	\$ 14,849	\$ (14,849)
	Consumer Representative Incentive Pay Twelve Months Ending 09/30/06 Removal	\$ (4,860)	\$ 4,860
	Total		<u>\$ (9,989)</u>

SUPPORTING
WORKPAPERS

Cascade Natural Gas Corporation
Washington Wage Adjustment
Adjustment to Restate FY 2006

	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
FY06 WA Salaried									
General salaries	\$ 1,667,978	\$ (131,466)	\$ 1,536,512						
WA 3-Factor Allocation Ratio	76.56%	76.56%	76.56%						
General salaries allocated to WA	1,277,004	(100,650)	1,176,353	4.00%	\$ 47,054	\$ 2,917	\$ 682	\$ 3,599	\$ 50,653
WA Direct salaries	323,926	(100,088)	223,838	4.00%	8,954	555	130	685	9,639
Total WA salaries	1,600,930	(200,738)	1,400,191	4.00%	56,008	3,472	812	4,284	60,292
FY06 WA Hourly	\$ 3,964,056	\$ (814,411)	\$ 3,149,645	2.50%	\$ 78,741	\$ 4,882	\$ 1,142	\$ 6,024	\$ 84,765

**Adjustment to Restate
FY06 Wages for
Annual Increase**

\$ 134,749
\$ 10,308
\$ 145,057

<u>State</u>	<u>FERC</u>	<u>Expense</u>	<u>Amount of transaction</u>	<u>Loc</u>	<u>District Code</u>	<u>District Name</u>
Oregon Direct	9120	601090	(4,225.00)		CNGC	CNGC ELLIPSE PRODUCTION
Washington Direct	9120	601090	(4,860.00)		CNGC	CNGC ELLIPSE PRODUCTION
WA Consumer Reps Commissions			(4,860.00)			
General Office	9130	615020	3,163.19	D001	CNGC	CNGC ELLIPSE PRODUCTION
General Office	9130	619035	570.00	D001	CNGC	CNGC ELLIPSE PRODUCTION
General Office	9130	621010	1,889.07	D001	CNGC	CNGC ELLIPSE PRODUCTION
General Office	9130	621030	985.29	D001	CNGC	CNGC ELLIPSE PRODUCTION
General Office	9130	621040	609.50	D001	CNGC	CNGC ELLIPSE PRODUCTION
General Office	9130	652020	8,418.16	D001	CNGC	CNGC ELLIPSE PRODUCTION
Total General Office			<u>15,635.21</u>			
Oregon Direct	9130	621010	1,595.00		CNGC	CNGC ELLIPSE PRODUCTION
Oregon Direct	9130	621035	100.00	D050	CNGC	CNGC ELLIPSE PRODUCTION
Total Oregon Direct			<u>1,695.00</u>			
Washington Direct	9130	621010	1,155.80		CNGC	CNGC ELLIPSE PRODUCTION
Washington Direct	9130	621035	1,590.00		CNGC	CNGC ELLIPSE PRODUCTION
Washington Direct	9130	653030	132.81	D011	CNGC	CNGC ELLIPSE PRODUCTION
Total Washington Direct			<u>2,878.61</u>			
Washington 9130:						
GO Exp. @ .7656			11,970.32			
Washington Direct			<u>2,878.61</u>			
Total WA 9130			<u>\$ 14,848.93</u>			