



UG-080759-SI

222 FAIRVIEW AVENUE N., SEATTLE, WASHINGTON 98109-5312 206-624-3900  
FACSIMILE 206-654-4039

April 30, 2008

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

RECEIVED  
REGULATORY MANAGEMENT  
2008 APR 30 PM 12:43  
OFFICE OF THE CLERK  
OF THE WASHINGTON  
UTILITY AND TRANSPORTATION  
COMMISSION

Re: WAC 480-90-257 Annual Financial Reporting

Dear Ms. Washburn:

In compliance with WAC 480-90-257, please find enclosed Cascade Natural Gas Corporation's Statement of Operations and Rate of Return for the 12-month period ending December 31, 2007.

The attached summary sheets and supporting workpapers detail the procedures used to develop reporting adjustments consistent with WAC "Commission Basis" requirements.

If there are any questions regarding this filing please contact Paul Schmidt at (206) 381-6825.

Sincerely,

A handwritten signature in cursive script that reads "K. Barnard".

Katherine J. Barnard  
Sr. Director,  
Gas Supply & Regulatory Affairs

attachments

*We make warm neighbors*

www.cngc.com

**STATEMENT**

**OF**

**OPERATIONS**

Cascade Natural Gas Corporation  
State of Washington  
Statement of Operations and Rate of Return  
Month and Twelve Months Ended December 31, 2007

	Month	Twelve Months
<b>OPERATING REVENUES</b>		
Natural Gas Sales	38,538,503	324,074,862
Transportation Revenue	1,414,400	16,082,686
Other Operating Revenue	197,387	1,920,411
	<u>40,150,290</u>	<u>342,077,959</u>
Less: Natural Gas & Production Costs	26,357,492	235,382,051
Revenue Taxes	3,178,724	26,880,038
<b>OPERATING MARGIN</b>	<u>10,614,074</u>	<u>79,815,870</u>
<b>OPERATING EXPENSES</b>		
Distribution	873,609	8,691,636
Customer Accounts	370,957	5,557,886
Customer Service & Informational	72,988	814,643
Sales	1,226	15,368
Administrative & General	1,546,291	18,092,707
Depreciation & Amortization	1,196,580	14,409,516
Property, Payroll & Misc. Taxes	339,327	4,264,988
Federal Income Taxes	2,013,697	6,882,741
Total Operating Expenses	<u>6,414,675</u>	<u>58,729,485</u>
<b>NET OPERATING INCOME</b>	<u>4,199,399</u>	<u>21,086,385</u>
<b>RATE BASE</b>	<u>227,888,242</u>	<u>227,899,896</u>
<b>RATE OF RETURN</b>	<u>1.84%</u>	<u>9.25%</u>

**SCHEDULE OF RATE BASE**

Utility Plant In Service	495,105,856	488,968,881
Accumulated Depreciation	<u>(233,147,742)</u>	<u>(226,875,853)</u>
Net Utility Plant	261,958,114	262,093,028
Other:		
Contributions in Aid of Construction		
Customer Advances for Construction	(3,599,479)	(3,750,068)
Accumulated Deferred Income Taxes	(40,572,509)	(40,572,509)
Deferred Debits		-
Subtotal	<u>217,786,126</u>	<u>217,770,451</u>
Working Capital	10,102,116	10,129,445
<b>TOTAL RATE BASE</b>	<u>227,888,242</u>	<u>227,899,896</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

## QUARTERLY STATISTICAL INFORMATION

### THERM SALES

	Monthly			12 Months Ending		
	2007	2007	2007	2007	2007	2007
	Oct	Nov	Dec	Oct	Nov	Dec
Residential	8,506,217	15,701,089	18,215,897	114,030,479	115,300,904	114,128,970
Commercial	6,370,377	11,053,304	13,189,311	89,233,893	90,627,829	89,707,678
Industrial Firm	1,185,007	1,233,383	1,468,434	11,926,227	11,968,260	12,044,632
Core Interruptible	359,071	399,052	465,849	3,944,277	3,918,253	3,921,827
Noncore	56,422,063	46,841,932	47,438,910	516,705,949	516,065,605	517,832,744
<b>TOTAL WASHINGTON</b>	<b>72,842,735</b>	<b>75,228,760</b>	<b>80,778,401</b>	<b>735,840,825</b>	<b>737,880,851</b>	<b>737,635,851</b>

	AVERAGE CUSTOMERS		
	2007	2007	2007
	Oct	Nov	Dec
Residential	160,637	162,283	163,708
Commercial	22,898	23,057	23,257
Industrial Firm	385	384	384
Core Interruptible	16	17	17
Noncore	172	171	170
<b>TOTAL WASHINGTON</b>	<b>184,108</b>	<b>185,912</b>	<b>187,536</b>

**CASCADE NATURAL GAS CORPORATION**

**Adjusted Statement of Operations and Rate of Return**

**Twelve Months Ended December 31, 2007**

**State of Washington Operations**

**RATE**  
**OF**  
**RETURN**

**Cascade Natural Gas Corporation**  
**SUMMARY OF OPERATIONS & ADJUSTMENTS**  
**FOR THE 12 MONTH PERIOD ENDED 12/31/07**

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 MDU Merger Transaction Costs (g)	Removal of Executive Transition (h)	Removal of Gas Management Margin (i)	Commission Basis Restated Total (j)
	<b>Operating Revenue</b>									
1	Natural Gas Sales	\$ 324,074,862	\$ (2,534,450)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 321,540,412
2	Gas Transportation Revenue	16,082,686		0	0	0	0	0	0	16,082,686
3	Other Operating Revenue	1,920,411		0	0	0	0	0	0	1,920,411
4	Subtotal	\$ 342,077,959	\$ (2,534,450)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 339,543,509
5	LESS: Nat. Gas/Production Costs	235,382,051	(1,986,746)							233,395,305
6	Revenue Taxes	26,880,038								26,880,038
7	Operating Margin	\$ 79,815,870	\$ (547,704)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ (377,611)	\$ 78,890,555
	<b>Operating Expenses</b>									
8	Distribution	8,691,636	0	0	0	0	0	0	0	8,691,636
9	Customer Accounts	5,557,886	(2,382)	0	0	0	0	0	0	5,555,503
10	Customer Service & Information	814,643	0	0	0	0	0	0	0	814,643
11	Sales	15,368	0	0	(25)	(14,173)	0	0	0	1,170
12	Administrative & General	18,092,707	0	281,217	0	0	(1,288,216)	(716,791)	0	16,368,917
13	Depreciation & Amortization	14,409,516	0	0	0	0	0	0	0	14,409,516
14	Prop./Payroll/Misc. Taxes	4,264,988	(107,511)	21,513	0	0	0	0	0	4,178,990
15	Federal Income Taxes	6,882,741	(153,234)	(105,956)	9	4,961	450,876	250,877	(132,164)	7,198,110
16	Total Operating Expenses	\$ 58,729,484	\$ (263,127)	\$ 196,775	\$ (16)	\$ (9,213)	\$ (837,341)	\$ (465,914)	\$ (132,164)	\$ 57,218,484
17	Net Operating Income	\$ 21,086,386	\$ (284,577)	\$ (196,775)	\$ 16	\$ 9,213	\$ 837,341	\$ 465,914	\$ (245,447)	\$ 21,672,071
	<b>Rate Base</b>									
18	Plant In Service	\$ 488,968,881	\$							\$ 488,968,881
19	Accumulated Depreciation	(226,875,853)								(226,875,853)
20	Contributions In Aid	0								0
21	Cust. Adv. For Constr.	(3,750,068)								(3,750,068)
22	Accum. Deferred Income Taxes	(40,572,509)								(40,572,509)
23	Deferred Debits									0
24	Working Capital Allowance	10,129,445								10,129,445
25	Total	\$ 227,899,896	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 227,899,896
26	<b>Rate Of Return</b>									9.51%

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 12/31/07  
State of Washington**

<u>Line No.</u>	<u>Description</u>		<u>Therms</u>	<u>Revenues</u>
<b><u>Residential</u></b>				
1	Rate Schedule No. 503 Therm Adjustment		(1,517,690)	
2	Revenue at Restating Rate	\$ 1.18190		\$ (1,793,758)
<b><u>Commercial</u></b>				
3	Rate Schedule No. 504 Therm Adjustment		(644,293)	
4	Revenue at Restating Rate	\$ 1.14962		\$ (740,692)
5	Totals		<u>(2,161,983)</u>	<u>\$ (2,534,450)</u>
<b><u>Gas Cost</u></b>				
6	Change in Gas Cost - Residential (WACOG x Adjustment)	\$ 0.91942	(1,517,690)	\$ (1,395,395)
7	Change in Gas Cost - Commercial (WACOG x Adjustment)	\$ 0.91783	(644,293)	\$ (591,351)
8	Totals		<u>(2,161,983)</u>	<u>\$ (1,986,746)</u>

**ACCOUNTING  
ADJUSTMENTS**

Accounting Adjustments  
Twelve Months Ended 12/31/07

The following accounting adjustments are necessary to restate recorded utility operating results for the 12 months ended December 31, 2007.

1. **Restated Wages and Related Costs Adjustment** - Increases Administrative & General Expense by \$281,217 and Payroll related taxes by \$21,513. Test period operating expenses are adjusted to reflect the effects of general wage increase for salaried employees on December 1, 2007 and the April 1, 2007 increase for hourly employees as if they had been in effect for the entire test period.
2. **Consumer Representative Wages** – Decrease Sales Expense by \$25 to adjust for consumer representatives' incentive compensation.
3. **Advertising Adjustment** – Reduce Sales Expense by \$14,173 to account for below-the-line advertising.
4. **MDU Merger Transaction Costs** - Reduce Administrative & General Expense by \$1,288,216 to adjust for transaction costs due to the merger with MDU Resources.
5. **Executive Transition Costs** – Reduce Administrative & General Expense by \$505,970 to remove the one time expense due to the severance package paid to the Company's CEO with the MDU merger.
6. **Gas Management Margins Adjustment** – Reduce Operating Margin by \$377,611 to adjust for Cascade's withdrawing from this line of business by October 2008. This amount represents the net margin after 50% sharing with Washington customers.
7. **UG-061721 A&G Expense Adjustment** – Adjust Administrative & General Expense by \$0 to reflect that Cascade's commission basis adjusted actual A&G expenses are below the benchmark as set forth in docket UG-061721.

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

Line No.	Description ( a )	Amount ( b )	
1	Wage & Salary Increases	\$ 281,217	
2	Social Security & Medicare Taxes	\$ 21,513	
3	Total		\$ 302,730

Cascade Natural Gas Corporation  
**PROMOTIONAL ADVERTISING EXPENSE ADJUSTMENT**  
 State of Washington

Line No.	Description	CY 2007	Amount
	(a)	(b)	(c)
	<b>Promotional Advertising</b>		
1	Twelve Months Ending 12/31/07	\$ 14,173	
2	Removal		\$ (14,173)
	<b>Consumer Representative Incentive Pay</b>		
3	Twelve Months Ending 12/31/07	\$ 25	
4	Removal		\$ (25)
5	<b>Total</b>		<b>\$ (14,198)</b>

Cascade Natural Gas Corporation  
**REMOVAL OF MDU MERGER TRANSACTION COSTS**  
 State of Washington

Line No.	Description	CY 2007	Amount
	(a)	(b)	(c)
	<b>Merger Transaction Expense</b>		
1	Twelve Months Ending 12/31/07	\$ 1,288,216	
2	Removal		\$ (1,288,216)

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

Line No.	Description	Total	Allocation Formula *	Washington	Adjustment
	(a)	(b)	(c)	(d)	(e)
	Executive Transition Costs				
1	Severance	\$ 655,200	76.12%	498,738	(498,738)
2	Non-compete	\$ 273,000	76.12%	207,808	(207,808)
3	Payroll Taxes @ 1.45%	\$ 13,459	76.12%	10,245	(10,245)
4	Total Adjustment				<u>\$ (716,791)</u>

(\*) Three Factor Formula

Cascade Natural Gas Corporation  
**REMOVAL OF GAS MANAGEMENT MARGINS**  
 State of Washington

Line No.	Description	CY 2007	Amount
	(a)	(b)	(c)
	<b>Gas Management Margins</b>		
1	Twelve Months Ending 12/31/07	\$ 377,611	
2	Removal		\$ (377,611)



Cascade Natural Gas Corporation  
**UG-061721 A&G EXPENSE ADJUSTMENT**  
 State of Washington

Line No.	Description (a)	CY 07 Amount (b)
1	2006 A&G Benchmark (per UG-061721)	\$ 21,642,845
2	CPI Increase	2.85%
3	2007 A&G Benchmark	\$ 22,259,666
4	Cascade Actual A&G Expense	\$ 21,744,862
5	Commission Basis Adjustments	\$ (1,529,550)
6	Cascade Adjusted A&G Expense	\$ 20,215,312
7	Below Threshold (Yes/No)	Yes
8	A&G Adjustment (if line 7 is Yes then no adjustment)	\$ -