



In the Community to Serve®

8113 W. GRANDRIDGE BLVD., KENNEWICK, WASHINGTON 98336-7166
TELEPHONE 509-734-4500 FACSIMILE 509-737-7166
www.cngc.com

March 31, 2011

Mr. Dave Danner
Secretary & Executive Director
Washington Utilities & Transportation Commission
1300 S. Evergreen Park Drive SW
Olympia, WA 98504-9022

Re: WAC 480-90-257 Annual Financial Reporting

Dear Mr. Danner:

In compliance with WAC 480-90-257, please find enclosed Cascade Natural Gas Corporation's Statement of Operations and Annual Commission Basis Report for the 12-month period ending December 31, 2010.

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 me at (509) 734-4593 or Pamela Archer at (509) 734-4591.

Sincerely,

Katherine J. Barnard
Manager
Regulatory & Gas Supply

We make warm neighbors

CASCADE NATURAL GAS CORPORATION

Adjusted Statement of Operations and Rate of Return

Twelve Months Ended December 31, 2010

State of Washington Operations

**STATEMENT
OF
OPERATIONS**

Cascade Natural Gas Corporation
State of Washington
Statement of Operations and Rate of Return
Month and Twelve Months Ended 12/31/2010

	Month	Twelve Months
OPERATING REVENUES		
Natural Gas Sales	32,536,887	229,605,802
Transportation Revenue	1,531,303	19,084,820
Other Operating Revenue	240,743	1,625,620
	<u>34,308,932</u>	<u>250,316,242</u>
Less: Natural Gas & Production Costs	21,026,931	152,672,552
Revenue Taxes	2,932,032	20,505,039
OPERATING MARGIN	<u>10,349,970</u>	<u>77,138,651</u>
OPERATING EXPENSES		
Distribution	946,947	9,927,583
Customer Accounts	(139,408)	4,092,504
Customer Service & Informational	87,334	829,540
Sales	150	9,378
Administrative & General	2,080,219	19,284,068
Depreciation & Amortization	1,242,501	14,673,678
Property, Payroll & Misc. Taxes	341,015	4,418,364
Federal Income Taxes	(2,493,456)	1,331,358
Total Operating Expenses	<u>2,065,302</u>	<u>54,566,473</u>
NET OPERATING INCOME	<u>8,284,668</u>	<u>22,572,178</u>
RATE BASE	<u>216,544,475</u>	<u>215,288,727</u>
RATE OF RETURN	<u>3.83%</u>	<u>10.48%</u>

SCHEDULE OF RATE BASE

Utility Plant In Service	526,584,168	521,396,429
Accumulated Depreciation	(266,487,919)	(261,926,989)
Net Utility Plant	<u>260,096,249</u>	<u>259,469,439</u>
Other:		
Contributions in Aid of Construction	-	-
Customer Advances for Construction	(4,377,017)	(4,930,504)
Accumulated Deferred Income Taxes	(48,712,061)	(48,712,061)
Deferred Debits	-	-
Subtotal	<u>207,007,170</u>	<u>205,826,874</u>
Working Capital	9,537,305	9,461,853
TOTAL RATE BASE	<u>216,544,475</u>	<u>215,288,727</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.

**RATE
OF
RETURN**

Cascade Natural Gas Corporation
SUMMARY OF OPERATIONS & ADJUSTMENTS
FOR THE 12 MONTH PERIOD ENDED 12/31/10

Line No.	Description (a)	Statement of Operations Per Books (b)	Weather Normalization Adjustment (c)	Restated Wages And Related Costs (d)	Advertising Adjustment (e)	UG-061721 Rate Credit Adjustment (f)	Removal of Retiree Medical Credits (g)	Removal of Relocation Expenses (h)	Deferred Tax Expenses (k)	Commission Basis Restated Total (k)
1	Operating Revenue									
2	Natural Gas Sales	\$ 229,605,802	\$ 7,704,457	\$ 0	\$ 0	\$ 672,000	\$ 0	0	0	\$ 237,982,259
3	Gas Transportation Revenue	19,084,820	0	0	0	0	0	0	0	19,084,820
4	Other Operating Revenue	1,625,620	0	0	0	0	0	0	0	1,625,620
5	Subtotal	\$ 250,316,242	\$ 7,704,457	\$ 0	\$ 0	\$ 672,000	\$ 0	0	0	\$ 258,692,709
6	LESS: Nat. Gas/Production Costs	152,672,552	5,667,125							158,339,675
7	Revenue Taxes	20,505,039								
8	Operating Margin	\$ 77,138,651	\$ 2,037,334	\$ 0	\$ 0	\$ 672,000	\$ 0	0	0	\$ 79,847,985
9	Operating Expenses									
10	Distribution	9,927,583	0	0	0	0	0	0	0	9,927,583
11	Customer Accounts	4,092,504	7,242	0	0	652	0	0	0	4,100,378
12	Customer Service & Information	829,540	0	0	0	0	0	0	0	829,540
13	Sales	9,378	0	0	(9,378)	0	0	0	0	0
14	Administrative & General	19,284,068	0	496,835	0	0	1,438,969	(855,267)	0	20,364,626
15	Depreciation & Amortization	14,673,678	0	0	0	0	0	0	0	14,673,678
16	Prop./Payroll/Misc. Taxes	4,418,364	336,823	2,827	0	0	0	0	0	4,748,014
17	Federal Income Taxes	1,331,358	613,177	(179,886)	3,376	241,693	(518,029)	307,896	3,908,829	5,708,414
18	Total Operating Expenses	\$ 54,566,473	\$ 947,242	\$ 319,797	\$ (6,002)	\$ 242,324	\$ 920,940	\$ (547,371)	\$ 3,908,829	\$ 60,352,233
19	Net Operating Income	\$ 22,572,178	\$ 1,090,092	\$ (319,797)	\$ 6,002	\$ 429,676	\$ (920,940)	\$ 547,371	\$ (3,908,829)	\$ 19,495,753
20	Rate Base									
21	Plant In Service	\$ 521,396,429	\$							\$ 521,396,429
22	Accumulated Depreciation	(261,926,989)								(261,926,989)
23	Contributions In Aid	0								0
24	Cust. Adv. For Constr.	(4,930,504)								(4,930,504)
25	Accum. Deferred Income Taxes	(48,712,061)								(48,712,061)
26	Deferred Debits	0								0
27	Working Capital Allowance	9,461,853								9,461,853
28	Total	\$ 215,288,727	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 215,288,727
29	Rate Of Return	10.48%								9.06%

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

Months Ended 12/31/2010

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		4,937,242	
2	Revenue at Restating Rate	\$ 0.95969		\$ 4,738,222
<u>Commercial</u>				
	Rate Schedule No. 504			
3	Therm Adjustment		3,198,615	
4	Revenue at Restating Rate	\$ 0.92735		\$ 2,966,236
5	Totals		<u>8,135,857</u>	<u>\$ 7,704,457</u>
<u>Gas Cost</u>				
6	Change in Gas Cost - Residential (WACOG x Adjustment)	\$ 0.69721	4,937,242	\$ 3,442,294
7	Change in Gas Cost - Commercial (WACOG x Adjustment)	\$ 0.69556	3,198,615	\$ 2,224,829
8	Totals		<u>8,135,857</u>	<u>\$ 5,667,123</u>

ADJUSTMENTS

Accounting Adjustments
Twelve Months Ended 12/31/10

The following accounting adjustments are necessary to restate recorded utility operating results for the 12 months ended December 31, 2010.

1. **Restated Wages and Related Costs Adjustment** - Increases Administrative & General Expense by \$4966,855 and Payroll related taxes by \$2,827. Test period operating expenses are adjusted to reflect the effect of the general wage increase for hourly employees on April 1, 2010 as if they had been in effect for the entire test period. The general wage increase for salaried employee's wages occurred on January 1, 2010 so no adjustment was necessary. Additionally, the operating expenses were adjusted to reflect the capitalized wages that went towards the CIS project during CY10.
2. **Advertising Adjustment** – Reduce Sales Expense by \$9,378 to account for below-the-line advertising.
3. **UG-061721 Rate Credit Adjustment** – Increase operating revenues by \$672,000 to adjust for the \$672,000 annual rate credits that are being provided to Cascade customers as part of merger commitment #11 in docket UG-061721.
4. **Removal of Retiree Medical Credits** – Increase Administrative & General Expense by \$1,438,969 to adjust for the retiree medical credits that were received during CY10.
5. **Removal of Relocation Expenses** – Decreased Administrative and General expense by \$855,267 to remove costs associated with the relocation of the Company's headquarters from Seattle to Kennewick .
6. **Deferred Tax Expense Adjustment**- Increases Deferred Income tax Expense by \$3,908,829 to remove impacts associated with the one-time entry that corrects prior period deferred income taxes on regulated utility property basis differences under flow through method of accounting.

Cascade Natural Gas Corporation			
RESTATEMENT OF PAYROLL & RELATED COSTS			
State of Washington			
Line No.	Description	CY 2010	Amount
	(a)	(b)	(c)
1	Wage & Salary Increases	\$ 36,953	
2	Social Security & Medicare Taxes	\$ 2,827	
3	Total Wage Adjustment		\$ 39,780
4	Capitalized Wage Adjustment - CC&B	\$ 459,902	
5	Total Restatement of Payroll & Related Costs		\$ 499,682

Cascade Natural Gas
 2010 Rate of Return Report
 Adjustment Details

Cascade Natural Gas Corporation PROMOTIONAL ADVERTISING EXPENSE ADJUSTMENT State of Washington				
Line No.	Description		CY 2010	Amount
	(a)		(b)	(c)
	Promotional Advertising (WA Only)			
1	Twelve Months Ending 12/31/10		\$ 9,378	
2	Removal			<u>\$ (9,378)</u>

Cascade Natural Gas Corporation UG-061721 Rate Credit Restatement of Revenues State of Washington				
Line No.	Description		CY 2010	Amount
	(a)		(b)	(c)
	UG-061721 Rate Credit Amortization			
1	Twelve Months Ending 12/31/10		\$ (672,000)	
2	Revenue Adjustment			\$ 672,000

Cascade Natural Gas Corporation REMOVAL OF RETIREE MEDICAL CREDITS State of Washington				
Line No.	Description		CY 2010	Amount
	(a)		(b)	(c)
	Retiree Medical Credits			
1	Twelve Months Ending 12/31/10		\$ (1,438,969)	
2	Removal			\$ 1,438,969

Cascade Natural Gas Corporation				
REMOVAL OF GO RELOCATION EXPENSES				
State of Washington				
Line No.	Description		CY 2010	Amount
	(a)		(b)	(c)
	Washington GO Relocation Expenses			
1	Twelve Months Ending 12/31/10		\$ 855,267	
2	Removal			\$ (855,267)

Cascade Natural Gas Corporation				
FEDERAL DEFERRED TAX EXPENSE				
State of Washington				
Line No.	Description		CY 2010	Amount
	(a)		(b)	(c)
	Federal Tax Expense			
1	Federal Deferred Tax Expense		\$ 5,187,563	
2	Washington 3-Factor		0.7535	
2	Total Adjustment			\$ 3,908,829

Cascade Natural Gas
2010 Rate of Return Report
Adjustment Details

Cascade Natural Gas Corporation UG-061721 A&G EXPENSE ADJUSTMENT State of Washington		
Line No.	Description	CY 10 Amount
	(a)	(b)
1	2006 A&G Benchmark (per UG-061721)	\$ 21,642,845
2	CPI Increase (2006 to 2010)	8.17%
3	2010 A&G Benchmark	\$ 23,411,065
4	Cascade Actual CY10 A&G Expense	\$ 22,255,118
5	Commission Basis Adjustments	\$ 1,080,558
6	Cascade Adjusted CY10 A&G Expense	\$ 23,335,676
7	Below Threshold (Yes/No)	Yes
8	A&G Adjustment (if line 7 is Yes then no adjustment)	\$ -

WORK PAPERS

Cascade Natural Gas Corporation
Washington Wage Adjustment
Adjustment to Restate CY 2010

	Gross Salaries/Wages	% Salary/Wage Increase	Salary/Wage Adjustment Before Taxes	Social Security Tax @ 6.2%	Medicare Tax @ 1.45%	Total Taxes	Adjustment to Restate CY10 Salaries/Wages
January	\$ 488,872						
February	489,481						
March	499,769						
CY10 WA Hourly	<u>\$ 1,478,122</u>	2.50%	\$ 36,953	\$ 2,291	\$ 536	\$ 2,827	\$ 39,780
CC&B Work Order 161295						\$	609,902
CC&B Work Order 173060						\$	453
Sub-Total Capitalized						\$	610,354
WA 3-Factor						\$	0,7535
Total Capitalized						\$	459,902
Adjustment to Restate CY10 Wages for Annual Increase	<u>\$ 36,953</u>					\$ 2,827	\$ 499,682

Note: Salaried increase effective 1/1/10
 Hourly increase effective 4/1/10

**Cascade Natural Gas Corp
Removal of Relocation Expenses
CY 2010**

Moving Allowance	\$ 995,958.93
Moving Expense	\$ 139,099.50
	<u>\$ 1,135,058.43</u>
Washington 3-Factor	0.7535
Washington Relocation Expenses	\$ 855,266.53

Retiree Medical Credits Workpaper

Retiree Medical Credits as per Mercer Actuarial Report
Washington 3-Factor
Washington Allocation

\$ (1,909,714)
0.7535
\$ (1,438,969)

Cascade Natural Gas
UG-061721 A&G Benchmark Development
CPI Increase % Calculation

Consumer Price Index - All Urban Consumers

Series Id: CUUR0000SA0
Not Seasonally Adjusted
Area: U.S. city average
Item: All items
Base Period: 1982-84=100

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual	HALF1	HALF2
###	168.80	169.80	171.20	171.30	171.50	172.40	172.80	172.80	173.70	174.00	174.10	174.00	172.20	170.80	173.60
###	175.10	175.80	176.20	176.90	177.70	178.00	177.50	177.50	178.30	177.70	177.40	176.70	177.10	176.60	177.50
###	177.10	177.80	178.80	179.80	179.80	179.90	180.10	180.70	181.00	181.30	181.30	180.90	179.90	178.90	180.90
###	181.70	183.10	184.20	183.80	183.50	183.70	183.90	184.60	185.20	185.00	184.50	184.30	184.00	183.30	184.60
###	185.20	186.20	187.40	188.00	189.10	189.70	189.40	189.50	189.90	190.90	191.00	190.30	188.90	187.60	190.20
###	190.70	191.80	193.30	194.60	194.40	194.50	195.40	196.40	198.80	199.20	197.60	196.80	195.30	193.20	197.40
###	198.30	198.70	199.80	201.50	202.50	202.90	203.50	203.90	202.90	201.80	201.50	201.80	201.60	200.60	202.60
###	202.42	203.50	205.35	206.69	207.95	208.35	208.30	207.92	208.49	208.94	210.18	210.04	207.34	205.71	208.98
###	211.08	211.69	213.53	214.82	216.63	218.82	219.96	219.09	218.78	216.57	212.43	210.23	215.30	214.43	216.18
###	211.14	212.19	212.71	213.24	213.86	215.69	215.35	215.83	215.97	216.18	216.33	215.95	214.54	213.14	215.94
###	216.69	216.74	217.63	218.01	218.18	217.97	218.01	218.31	218.44	218.71	218.80	219.18	218.06	217.50	218.60

CY06 Average 201.59
CY07 Average 207.34
CY08 Average 215.30
CY09 Average 214.54
CY10 Average 218.06

CPI % Increase (2005 to 2010) 8.17%

Cascade Natural Gas
UG-061721 A&G Benchmark Development
CY 2010 Actual Washington Expenses

	Washington-2009	Washington-2010	\$ Change	% Change
CUSTOMER ACCOUNTS EXPENSES				
901 Supervision	\$ 7,430	\$ 35,477	\$ 28,047	377.45%
902 Meter Reading Exp.	\$ 363,582	\$ 337,016	\$ (26,566)	-7.31%
903 Cust. Records & Collection Exp.	\$ 3,271,174	\$ 2,617,673	\$ (653,501)	-19.98%
904 Uncollectible Accounts	\$ 2,495,166	\$ 1,160,374	\$ (1,334,792)	-53.50%
905 Misc. Exp.	\$ 48,639	\$ (58,034)	\$ (106,673)	-219.32%
TOTAL CUSTOMER ACCOUNTS EXP.	\$ 6,185,991	\$ 4,092,506	\$ (2,093,485)	-33.84%
CUSTOMER SERVICE AND INFORMATIONAL EXPENSES				
907 Supervision	\$ 1,847	\$ 2,351	\$ 504	27.25%
908 Cust. Assistance Exp.	\$ 801,841	\$ 800,004	\$ (1,837)	-0.23%
909 Info. & Instr. Advertising Exp.	\$ 19,988	\$ 27,068	\$ 7,080	35.42%
910 Misc. Cust. Serv. & Info. Exp.	\$ 13,308	\$ 121	\$ (13,187)	-99.09%
TOTAL CUST. SRVC. & INFO. EXPENSES	\$ 836,985	\$ 829,544	\$ (7,441)	-0.89%
SALES EXPENSES				
911 Supervision	\$ -	\$ -	\$ -	-
912 Demonstrating & Selling	\$ -	\$ -	\$ -	-
913 Advertising	\$ 16,441	\$ 9,378	\$ (7,063)	-42.96%
916 Misc. Sales Exp.	\$ -	\$ -	\$ -	-
TOTAL SALES EXPENSES	\$ 16,441	\$ 9,378	\$ (7,063)	-42.96%
ADMINISTRATIVE AND GENERAL EXPENSES				
920 Admin. & General Salaries	\$ 6,609,338	\$ 9,771,016	\$ 3,161,678	47.84%
921 Office Supplies & Exp.	\$ 3,280,043	\$ 3,998,626	\$ 718,583	21.91%
923 Outside Services Employed	\$ 968,277	\$ 1,024,817	\$ 56,540	5.84%
924 Property Insurance	\$ 51,184	\$ 75,464	\$ 24,280	47.44%
925 Injuries & Damages	\$ 1,010,032	\$ 920,105	\$ (89,927)	-8.90%
926 Employee Pensions & Benefits	\$ 2,359,365	\$ 2,236,175	\$ (123,190)	-5.22%
928 Regulatory Commission Exp.	\$ -	\$ -	\$ -	-
930.1 General Advertising Exp.	\$ 13,701	\$ 28,967	\$ 15,266	111.42%
930.2 Misc. General Exp.	\$ 1,630,703	\$ 1,490,611	\$ (140,092)	-8.59%
931 Rents	\$ 24,691	\$ 29,251	\$ 4,560	18.47%
935 Maintenance of General Plant	\$ 268,698	\$ 110,002	\$ (158,696)	-59.06%
922 Capitalized Exp.	\$ 16,216,033	\$ 19,685,034	\$ 3,469,001	21.39%
	\$ (502,716)	\$ (400,966)	\$ 101,750	20.24%
TOTAL ADMIN & GENERAL EXPENSES	\$ 15,713,316	\$ 19,284,058	\$ 3,570,752	22.72%
TOTAL	\$ 22,752,734	\$ 24,215,496	\$ 1,462,762	6.43%
REMOVE				
904 Uncollectible Accounts	\$ 2,495,166	\$ 1,160,374	\$ (1,334,792)	-53.50%
908 Cust. Assistance Exp.	\$ 801,841	\$ 800,004	\$ (1,837)	-0.23%
TOTAL A&G EXPENSES	\$ 19,455,728	\$ 22,255,118	\$ 2,799,390	60.15%