



*In the Community to Serve®*

8113 W. GRANDRIDGE BLVD., KENNEWICK, WASHINGTON 99336-7166  
TELEPHONE 509-734-4500 FACSIMILE 509-737-7166  
www.cngc.com

April 30, 2012

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, 2011.

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.

Sincerely,

Michael Parvinen  
Manager, Regulatory Affairs

*We make warm neighbors*

**CASCADE NATURAL GAS CORPORATION**

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

**Twelve Months Ended December 31, 2011**

**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 12/31/2011**

	Month	Twelve Months
<b>OPERATING REVENUES</b>		
Natural Gas Sales	31,219,835	222,117,782
Transportation Revenue	1,723,396	18,562,071
Other Operating Revenue	106,193	1,312,733
	<u>33,049,423</u>	<u>241,992,586</u>
Less: Natural Gas & Production Costs	19,444,352	139,752,848
Revenue Taxes	2,716,074	20,579,920
<b>OPERATING MARGIN</b>	<u>10,888,997</u>	<u>81,659,818</u>
<b>OPERATING EXPENSES</b>		
Production	6,966	69,399
Distribution	1,442,525	12,009,713
Customer Accounts	391,531	3,966,307
Customer Service & Informational	68,106	854,394
Sales	200	12,842
Administrative & General	1,452,837	16,382,743
Depreciation & Amortization	1,261,543	15,195,225
Property, Payroll & Misc. Taxes	320,635	3,915,906
Federal Income Taxes	1,538,630	6,158,243
Total Operating Expenses	<u>6,482,974</u>	<u>58,564,771</u>
<b>NET OPERATING INCOME</b>	<u>4,406,023</u>	<u>23,095,047</u>
<b>RATE BASE</b>	<u>211,885,642</u>	<u>211,534,109</u>
<b>RATE OF RETURN</b>	2.08%	10.92%

**SCHEDULE OF RATE BASE**

Utility Plant In Service	542,722,582	535,942,197
Accumulated Depreciation	(280,021,202)	(274,095,551)
<b>Net Utility Plant</b>	<u>262,701,380</u>	<u>261,846,646</u>
<b>Other:</b>		
Contributions in Aid of Construction	-	-
Customer Advances for Construction	(4,825,057)	(4,404,395)
Accumulated Deferred Income Taxes	(55,401,026)	(55,401,026)
Deferred Debits	-	-
Subtotal	<u>202,475,297</u>	<u>202,041,225</u>
Working Capital	9,410,345	9,492,884
<b>TOTAL RATE BASE</b>	<u>211,885,642</u>	<u>211,534,109</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 12/31/11**

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)	Commission Basis Restated Total (h)
	<b>Operating Revenue</b>							
1	Natural Gas Sales	\$ 222,117,782	\$ (5,868,326)	\$ 0	\$ 0	\$ 672,000	\$ 0	\$ 216,921,456
2	Gas Transportation Revenue	18,562,071	0	0	0	0	0	18,562,071
3	Other Operating Revenue	1,312,733	0	0	0	0	0	1,312,733
4	Subtotal	\$ 241,992,586	\$ (5,868,326)	\$ 0	\$ 0	\$ 672,000	\$ 0	\$ 236,796,260
5	LESS: Nat. Gas/Production Costs	139,752,848	(4,184,256)					
6	Revenue Taxes	20,579,920						
7	Operating Margin	\$ 81,659,818	\$ (1,684,090)	\$ 0	\$ 0	\$ 672,000	\$ 0	\$ 80,647,728
	<b>Operating Expenses</b>							
8	Production	69,399	0	0	0	0	0	12,009,715
9	Distribution	12,009,713	(5,516)	0	0	632	0	3,961,422
10	Customer Accounts	3,966,307	0	0	0	0	0	854,394
11	Customer Service & Information	\$54,394	0	0	(12,842)	0	0	0
12	Sales	12,842	0	0	0	0	0	0
13	Administrative & General	16,382,743	0	49,352	0	0	1,082,012	17,514,107
14	Depreciation & Amortization	15,195,225	0	0	0	0	0	15,195,225
15	Prop./Payroll/Misc. Taxes	3,915,906	(248,934)	3,776	0	0	0	3,670,748
16	Federal Income Taxes	6,158,243	(514,670)	(19,126)	4,623	241,693	(389,524)	5,481,238
17	Total Operating Expenses	\$ 58,564,771	\$ (789,121)	\$ 34,002	\$ (8,219)	\$ 242,324	\$ 692,488	\$ 58,686,847
18	Net Operating Income	\$ 23,095,047	\$ (914,969)	\$ (34,002)	\$ 8,219	\$ 429,676	\$ (692,488)	\$ 21,960,881
	<b>Rate Base</b>							
18	Plant In Service	\$ 535,942,197	\$ 0	0	0	0	0	\$ 535,942,197
19	Accumulated Depreciation	(274,095,551)	0	0	0	0	0	(274,095,551)
20	Contributions In Aid	0	0	0	0	0	0	0
21	Cust. Adv. For Constr.	(4,404,395)	0	0	0	0	0	(4,404,395)
22	Accum. Deferred Income Taxes	(55,401,026)	0	0	0	0	0	(55,401,026)
23	Deferred Debits	0	0	0	0	0	0	0
24	Working Capital Allowance	9,492,884	0	0	0	0	0	9,492,884
25	Total	\$ 211,534,109	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 211,534,109
26	Rate Of Return	10.92%						10.38%

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 12/31/2011**  
**State of Washington**

<u>Line No.</u>	<u>Description</u>		<u>Therms</u>	<u>Revenues</u>
<b><u>Residential</u></b>				
	Rate Schedule No. 503			
1	Therm Adjustment		(4,296,637)	
2	Revenue at Restating Rate	\$ 0.88800		\$ (3,815,413)
<b><u>Commercial</u></b>				
	Rate Schedule No. 504			
3	Therm Adjustment		(2,400,057)	
4	Revenue at Restating Rate	\$ 0.85536		\$ (2,052,913)
5	Totals		<u>(6,696,694)</u>	<u>\$ (5,868,326)</u>
<b><u>Gas Cost</u></b>				
6	Change in Gas Cost - Residential (WACOG x Adjustment)	\$ 0.62552	(4,296,637)	\$ (2,687,632)
7	Change in Gas Cost - Commercial (WACOG x Adjustment)	\$ 0.62357	(2,400,057)	\$ (1,496,604)
8	Totals		<u>(6,696,694)</u>	<u>\$ (4,184,236)</u>



# **ADJUSTMENTS**

Accounting Adjustments  
Twelve Months Ended 12/31/11

The following accounting adjustments are necessary to restate recorded utility operating results for the 12 months ended December 31, 2011.

1. **Restated Wages and Related Costs Adjustment** - Increases Administrative & General Expense by \$49,352 and Payroll Related Taxes by \$3,776. Test period operating expenses are adjusted to reflect the effect of the general wage increase for hourly employees on April 1, 2011 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, 2011 so no adjustment was necessary. Additionally, the operating expenses were adjusted to reflect the capitalized wages that went towards the CIS project during CY11.
2. **Advertising Adjustment** – Reduce Sales Expense by \$12,842 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 \$1,082,012 to adjust for the retiree medical credits that were received during CY11.

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

Line No.	Description	CY 2011	Amount
	(a)	(b)	(c)
1	Wage & Salary Increases	\$ 49,352	
2	Social Security & Medicare Taxes	\$ 3,776	
3	Total Wage Adjustment		\$ 53,128
4	Total Restatement of Payroll & Related Costs		<u>\$ 53,128</u>

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

Line No.	Description	CY 2011	Amount
	(a)	(b)	(c)
	<b>Promotional Advertising (WA Only)</b>		
1	Twelve Months Ending 12/31/11	\$ 12,842	
2	Removal		<u>\$ (12,842)</u>

**Cascade Natural Gas Corporation**  
**UG-061721 Rate Credit Restatement of Revenues**  
**State of Washington**

Line No.	Description	CY 2011	Amount
	(a)	(b)	(c)
	<b>UG-061721 Rate Credit Amortization</b>		
1	Twelve Months Ending 12/31/11	\$ (672,000)	
2	Revenue Adjustment		\$ 672,000

Cascade Natural Gas Corporation  
**REMOVAL OF RETIREE MEDICAL CREDITS**  
 State of Washington

Line No.	Description	CY 2011	Amount
	(a)	(b)	(c)
	<b>Retiree Medical Credits</b>		
1	Twelve Months Ending 12/31/11	\$ (1,082,012)	
2	Removal		\$ 1,082,012

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

Line No.	Description	CY 11 Amount
	(a)	(b)
1	2006 A&G Benchmark (per UG-061721)	\$ 21,642,845
2	CPI Increase (2006 to 2011)	11.58%
3	2011 A&G Benchmark	\$ 24,149,086
4	Cascade Actual CY11 A&G Expense	\$ 19,982,164
5	Commission Basis Adjustments	\$ 1,131,364
6	Cascade Adjusted CY11 A&G Expense	\$ 21,113,528
7	Below Threshold (Yes/No)	Yes
8	A&G Adjustment (if line 7 is Yes then no adjustment)	\$ -

**SUPPORTING  
WORKPAPERS**



**Cascade Natural Gas Corporation  
Washington Wage Adjustment  
Adjustment to Restate CY 2011**

	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 CY11 Salaries/Wages
January	\$ 531,268						
February	555,350						
March	558,444						
<b>CY11 WA Hourly</b>	<b>\$ 1,645,062</b>	<b>3.00%</b>	<b>\$ 49,352</b>	<b>\$ 3,060</b>	<b>\$ 716</b>	<b>\$ 3,776</b>	<b>\$ 53,128</b>
WA 3-Factor							0.7569
Total Capitalized							<b>\$ 40,213</b>
<b>Adjustment to Restate CY11 Wages for Annual Increase</b>			<b>\$ 49,352</b>			<b>\$ 3,776</b>	<b>\$ 40,213</b>

Note: Salaried increase effective 1/1/11  
Hourly increase effective 4/1/11

Retiree Medical Credits Workpaper

Retire Medical Credits as per Mercer Actuarial Report	\$ (1,429,531)
Washington 3-Factor	<u>0.7569</u>
Washington Allocation	\$ (1,082,012)

**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
2000	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
2001	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
2002	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
2003	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
2004	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
2005	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
2006	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
2007	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
2008	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
2009	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
2010	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
2011	220.223	221.309	223.467	224.906	225.964	225.722	225.922	226.545	226.889	226.421	226.23	225.672	224.939	223.598

CY06 Average 201.59  
 CY07 Average 207.34  
 CY08 Average 215.30  
 CY09 Average 214.54  
 CY10 Average 218.06  
 CY11 Average 224.94  
 CPI % Increase (2007 to 2011) 11.58%

**Cascade Natural Gas  
UG-061721 A&G Benchmark Development  
CY 2011 Actual Washington Expenses**

CUSTOMER ACCOUNTS EXPENSES		Washington-2010	Washington-2011	\$ Change	% Change
901	Supervision	\$ 35,477	\$ 46,478	\$ 11,001	31.01%
902	Meter Reading Exp.	\$ 337,016	\$ 426,648	\$ 89,632	26.60%
903	Cust. Records & Collection Exp.	\$ 2,617,673	\$ 3,041,178	\$ 423,505	16.18%
904	Uncollectible Accounts	\$ 1,160,374	\$ 432,590	\$ (727,784)	-62.72%
905	Misc. Exp.	\$ (58,034)	\$ 19,413	\$ 77,447	-133.45%
<b>TOTAL CUSTOMER ACCOUNTS EXP.</b>		<b>\$ 4,092,506</b>	<b>\$ 3,966,307</b>	<b>\$ (126,199)</b>	<b>-3.08%</b>
<b>CUSTOMER SERVICE AND INFORMATIONAL EXPENSES</b>					
907	Supervision	\$ 2,351	\$ -	\$ (2,351)	-100.00%
908	Cust. Assistance Exp.	\$ 800,004	\$ 801,530	\$ 1,526	0.19%
909	Info. & Instr. Advertising Exp.	\$ 27,068	\$ 52,604	\$ 25,536	94.34%
910	Misc. Cust. Serv. & Info. Exp.	\$ 121	\$ 260	\$ 139	114.88%
<b>TOTAL CUST. SRVC. &amp; INFO. EXPENSES</b>		<b>\$ 829,544</b>	<b>\$ 854,394</b>	<b>\$ 24,850</b>	<b>3.00%</b>
<b>SALES EXPENSES</b>					
911	Supervision	\$ -	\$ -	\$ -	
912	Demonstrating & Selling	\$ -	\$ -	\$ -	
913	Advertising	\$ 9,378	\$ 12,842	\$ 3,464	36.94%
916	Misc. Sales Exp.	\$ -	\$ -	\$ -	
<b>TOTAL SALES EXPENSES</b>		<b>\$ 9,378</b>	<b>\$ 12,842</b>	<b>\$ 3,464</b>	<b>36.94%</b>
<b>ADMINISTRATIVE AND GENERAL EXPENSES</b>					
920	Admin. & General Salaries	\$ 9,771,016	\$ 4,986,662	\$ (4,784,354)	-48.96%
921	Office Supplies & Exp.	\$ 3,998,626	\$ 4,375,481	\$ 376,855	9.42%
923	Outside Services Employed	\$ 1,024,817	\$ 795,276	\$ (229,541)	-22.40%
924	Property Insurance	\$ 75,464	\$ 63,432	\$ (12,032)	-15.94%
925	Injuries & Damages	\$ 920,105	\$ 663,029	\$ (257,076)	-27.94%
926	Employee Pensions & Benefits	\$ 2,236,175	\$ 4,212,780	\$ 1,976,605	88.39%
928	Regulatory Commission Exp.	\$ -	\$ -	\$ -	
930.1	General Advertising Exp.	\$ 28,967	\$ 72,543	\$ 43,576	150.43%
930.2	Misc. General Exp.	\$ 1,490,611	\$ 479,811	\$ (1,010,800)	-67.81%
931	Rents	\$ 29,251	\$ 1,023,520	\$ 994,269	3399.09%
935	Maintenance of General Plant	\$ 110,002	\$ 62,934	\$ (47,068)	-42.79%
		\$ 19,885,034	\$ 16,735,468	\$ (2,949,566)	-14.98%
922	Capitalized Exp.	\$ (400,966)	\$ (352,727)	\$ 48,239	-12.03%
<b>TOTAL ADMIN &amp; GENERAL EXPENSES</b>		<b>\$ 19,284,068</b>	<b>\$ 16,382,741</b>	<b>\$ (2,901,327)</b>	<b>-15.05%</b>
<b>TOTAL</b>		<b>\$ 24,215,496</b>	<b>\$ 21,216,284</b>	<b>\$ (2,999,212)</b>	<b>-12.39%</b>
<b>REMOVE</b>					
904	Uncollectible Accounts	\$ 1,160,374	\$ 432,590	\$ (727,784)	-62.72%
908	Cust. Assistance Exp.	\$ 800,004	\$ 801,530	\$ 1,526	0.19%
<b>TOTAL A&amp;G EXPENSES</b>		<b>\$ 22,255,118</b>	<b>\$ 19,982,164</b>	<b>\$ (2,272,954)</b>	<b>50.14%</b>