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April 30, 2013

Mr. Steven V. King
Acting Executive Director and Secretary
Washington Utilities & Transportation Commission
P.O. Box 47250
Olympia, WA 98504-7250

Re: WAC 480-90-257 Annual Financial Reporting

Dear Mr. King:

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, 2012.

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,

A handwritten signature in blue ink, appearing to read "Michael Parvinen", with a long horizontal flourish extending to the right.

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, 2012

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 12/31/2012

	Month	Twelve Months
OPERATING REVENUES		
Natural Gas Sales	25,790,364	188,696,496
Transportation Revenue	1,623,641	18,904,098
Other Operating Revenue	109,257	1,255,873
	<u>27,523,262</u>	<u>208,856,467</u>
Less: Natural Gas & Production Costs	15,273,067	111,734,873
Revenue Taxes	2,122,274	17,318,441
OPERATING MARGIN	<u>10,127,921</u>	<u>79,803,153</u>
OPERATING EXPENSES		
Production	14,830	163,321
Distribution	1,465,710	14,708,819
Customer Accounts	283,401	5,853,930
Customer Service & Informational	91,838	905,640
Sales	28	7,719
Administrative & General	792,182	14,476,965
Depreciation & Amortization	1,288,396	15,031,819
Property, Payroll & Misc. Taxes	366,142	4,803,550
Federal Income Taxes	949,358	4,977,487
Total Operating Expenses	<u>5,251,885</u>	<u>60,929,251</u>
NET OPERATING INCOME	<u>4,876,036</u>	<u>18,873,902</u>
RATE BASE	<u>222,780,743</u>	<u>212,989,489</u>
RATE OF RETURN	<u>2.19%</u>	<u>8.86%</u>

SCHEDULE OF RATE BASE

Utility Plant In Service	570,173,315	555,256,327
Accumulated Depreciation	(293,066,913)	(287,310,887)
Net Utility Plant	<u>277,106,402</u>	<u>267,945,440</u>
Other:		
Contributions in Aid of Construction	-	-
Customer Advances for Construction	(3,665,181)	(3,979,672)
Accumulated Deferred Income Taxes	(60,533,008)	(60,533,008)
Deferred Debits	-	-
Subtotal	<u>212,908,214</u>	<u>203,432,760</u>
Working Capital	<u>9,872,530</u>	<u>9,556,729</u>
TOTAL RATE BASE	<u>222,780,743</u>	<u>212,989,489</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 12/31/12

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 (k)
1	Operating Revenue	\$ 188,696,496	\$ 592,724	\$ 0	\$ 0	\$ 672,000	\$ 0	\$ 189,961,220
2	Natural Gas Sales	18,904,098		0	0	0	0	18,904,098
3	Gas Transportation Revenue	1,255,873		0	0	0	0	1,255,873
4	Other Operating Revenue	208,856,467	\$ 592,724	\$ 0	\$ 0	\$ 672,000	\$ 0	210,121,191
5	Subtotal	111,734,873	418,893					112,153,766
6	LESS: Nat. Gas/Production Costs	17,318,441						17,318,441
7	Revenue Taxes	79,803,153	\$ 173,831	\$ 0	\$ 0	\$ 672,000	\$ 0	\$ 80,648,984
8	Operating Margin							
9	Operating Expenses	163,321						163,321
10	Production	14,708,819	0	0	0	0	0	14,708,819
11	Distribution	5,853,930	557	0	0	632	0	5,855,119
12	Customer Accounts	905,640	0	0	0	0	0	905,640
13	Customer Service & Information	7,719	0	0	(7,719)	0	0	0
14	Sales	14,476,965	0	56,355	0	0	(259,250)	14,274,070
15	Administrative & General	15,031,819	0	0	0	0	0	15,031,819
16	Depreciation & Amortization	4,803,550	25,143	4,649	0	0	0	4,833,343
17	Prop./Payroll/Misc. Taxes	4,977,487	53,327	(21,961)	2,779	241,693	93,330	5,346,654
18	Federal Income Taxes	60,929,251	79,027	39,043	(4,940)	242,324	(165,920)	61,118,785
19	Total Operating Expenses	18,873,902	94,804	(39,043)	4,940	429,676	165,920	19,530,199
20	Net Operating Income	\$ 555,256,327	\$	\$	\$	\$	\$	\$ 555,256,327
21	Rate Base	(287,310,887)						(287,310,887)
22	Plant In Service	0						0
23	Accumulated Depreciation	(3,979,672)						(3,979,672)
24	Contributions In Aid	(60,533,008)						(60,533,008)
25	Cust. Adv. For Constr.	0						0
26	Accum. Deferred Income Taxes	0						0
27	Deferred Debits	9,556,729						9,556,729
28	Working Capital Allowance	212,989,489	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	212,989,489
29	Total	8.86%						9.17%

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 12/31/2012
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		198,571	
2	Revenue at Restating Rate	\$ 0.84307		\$ 167,409
<u>Commercial</u>				
	Rate Schedule No. 504			
3	Therm Adjustment		525,086	
4	Revenue at Restating Rate	\$ 0.80999		\$ 425,315
5	Totals		<u>723,657</u>	<u>\$ 592,724</u>
<u>Gas Cost</u>				
6	Change in Gas Cost - Residential (WACOG x Adjustment)	\$ 0.58059	198,571	\$ 115,288
7	Change in Gas Cost - Commercial (WACOG x Adjustment)	\$ 0.57820	<u>525,086</u>	<u>\$ 303,605</u>
8	Totals		<u>723,657</u>	<u>\$ 418,893</u>

ADJUSTMENTS

Accounting Adjustments
Twelve Months Ended 12/31/12

The following accounting adjustments are necessary to restate recorded utility operating results for the 12 months ended December 31, 2012.

1. **Restated Wages and Related Costs Adjustment** - Increases Administrative & General Expense by \$56,355 and Payroll Related Taxes by \$4,649. Test period operating expenses are adjusted to reflect the effect of the general wage increase for hourly employees on April 1, 2012 as if they had been in effect for the entire test period. The general wage increase for salaried employees' wages occurred on January 1, 2012 so no adjustment was necessary.
2. **Advertising Adjustment** – Reduce Sales Expense by \$7,719 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** – Decrease Administrative & General Expense by \$259,250 to adjust for the retiree medical credits that were received during CY12.

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

Line No.	Description (a)	CY 2012 (b)	Amount (c)
1	Wage & Salary Increases	\$ 56,355	
2	Social Security & Medicare Taxes	\$ 4,649	
3	Total Wage Adjustment		\$ 61,004
4	Total Restatement of Payroll & Related Costs		\$ 61,004

Cascade Natural Gas Corporation
PROMOTIONAL ADVERTISING EXPENSE ADJUSTMENT
 State of Washington

Line No.	Description	CY 2012	Amount
	(a)	(b)	(c)
	Promotional Advertising (WA Only)		
1	Twelve Months Ending 12/31/12	\$ 7,719	
2	Removal		<u>\$ (7,719)</u>

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

Line No.	Description	CY 2012	Amount
(a)	(b)	(c)	
	UG-061721 Rate Credit Amortization		
1	Twelve Months Ending 12/31/12	\$ (672,000)	
2	Revenue Adjustment		\$ 672,000

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

Line No.	Description	CY 2012	Amount
	(a)	(b)	(c)
	Retiree Medical Credits		
1	Twelve Months Ending 12/31/12	\$ 259,250	
2	Removal		\$ (259,250)

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

Line No.	Description	CY 12 Amount
	(a)	(b)
1	2006 A&G Benchmark (per UG-061721)	\$ 21,642,845
2	CPI Increase (2006 to 2012)	13.89%
3	2012 A&G Benchmark	\$ 24,649,036
4	Cascade Actual CY12 A&G Expense	\$ 18,631,301
5	Commission Basis Adjustments	\$ (202,895)
6	Cascade Adjusted CY12 A&G Expense	\$ 18,428,406
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 2012**

	Gross Salaries/Wages	% Salary/Wage Increase	Salary/Wage Adjustment Before Taxes	Social Security Tax @ 7.65%	Medicare Tax @ 0.6%	Total Taxes	Adjustment to Restate CY12 Salaries/Wages
January	\$ 643,997						
February	601,667						
March	<u>632,845</u>						
CY12 WA Hourly	\$ 1,878,509	3.00%	\$ 56,355	\$ 4,311	\$ 338	\$ 4,649	\$ 61,004
WA 3-Factor							0.7547
Total Capitalized							\$ 46,040
Adjustment to Restate CY12 Wages for Annual Increase			<u>\$ 56,355</u>			<u>\$ 4,649</u>	<u>\$ 46,040</u>

Note: Salaried increase effective 1/1/12
Hourly increase effective 4/1/12

Retiree Medical Credits Workpaper

Retire Medical Credits as per Mercer Actuarial Report	\$	343,514
Washington 3-Factor		<u>0.7547</u>
Washington Allocation	\$	259,250

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	HALFI
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
2012	226.665	227.663	229.392	230.085	229.815	229.478	229.104	230.379	231.407	231.317	230.221	229.601	229.594	228.850

CY06 Average 201.59
 CY07 Average 207.34
 CY08 Average 215.30
 CY09 Average 214.54
 CY10 Average 218.06
 CY11 Average 224.94
 CY12 Average 229.59

CPI % Increase (2006 to 2012) 13.89%

Cascade Natural Gas
UG-061721 A&G Benchmark Development
CY 2012 Actual Washington Expenses

	Washington-2011	Washington-2012	\$ Change	% Change
CUSTOMER ACCOUNTS EXPENSES				
901 Supervision	\$ 46,478	\$ 41,583	\$ (4,895)	-10.53%
902 Meter Reading Exp.	\$ 426,648	\$ 480,919	\$ 54,271	12.72%
903 Cust. Records & Collection Exp.	\$ 3,041,178	\$ 3,437,297	\$ 396,119	13.03%
904 Uncollectible Accounts	\$ 432,590	\$ 1,787,104	\$ 1,354,514	313.12%
905 Misc. Exp.	\$ 19,413	\$ 107,027	\$ 87,614	451.31%
TOTAL CUSTOMER ACCOUNTS EXP.	\$ 3,966,307	\$ 5,853,930	\$ 1,887,623	47.59%
CUSTOMER SERVICE AND INFORMATIONAL EXPENSES				
907 Supervision	\$ -	\$ -	\$ -	
908 Cust. Assistance Exp.	\$ 801,530	\$ 825,849	\$ 24,319	3.03%
909 Info. & Instr. Advertising Exp.	\$ 52,604	\$ 79,791	\$ 27,187	51.68%
910 Misc. Cust. Serv. & Info. Exp.	\$ 260	\$ -	\$ (260)	-100.00%
TOTAL CUST. SRVC. & INFO. EXPENSES	\$ 854,394	\$ 905,640	\$ 51,246	6.00%
SALES EXPENSES				
911 Supervision	\$ -	\$ -	\$ -	
912 Demonstrating & Selling	\$ -	\$ -	\$ -	
913 Advertising	\$ 12,842	\$ 7,719	\$ (5,123)	-39.89%
916 Misc. Sales Exp.	\$ -	\$ -	\$ -	
TOTAL SALES EXPENSES	\$ 12,842	\$ 7,719	\$ (5,123)	-39.89%
ADMINISTRATIVE AND GENERAL EXPENSES				
920 Admin. & General Salaries	\$ 4,986,662	\$ 4,787,806	\$ (198,856)	-3.99%
921 Office Supplies & Exp.	\$ 4,375,481	\$ 3,885,605	\$ (489,876)	-11.20%
923 Outside Services Employed	\$ 795,276	\$ 644,199	\$ (151,077)	-19.00%
924 Property Insurance	\$ 63,432	\$ 55,078	\$ (8,354)	-13.17%
925 Injuries & Damages	\$ 663,029	\$ 702,397	\$ 39,368	5.94%
926 Employee Pensions & Benefits	\$ 4,212,780	\$ 3,260,539	\$ (952,241)	-22.60%
928 Regulatory Commission Exp.	\$ -	\$ -	\$ -	
930.1 General Advertising Exp.	\$ 72,543	\$ 51,804	\$ (20,739)	-28.59%
930.2 Misc. General Exp.	\$ 479,811	\$ 482,588	\$ 2,777	0.58%
931 Rents	\$ 1,023,520	\$ 971,840	\$ (51,680)	-5.05%
935 Maintenance of General Plant	\$ 62,934	\$ 21,877	\$ (41,057)	-65.24%
	\$ 16,735,468	\$ 14,863,734	\$ (1,871,734)	-11.18%
922 Capitalized Exp.	\$ (352,727)	\$ (386,769)	\$ (34,042)	9.65%
TOTAL ADMIN & GENERAL EXPENSES	\$ 16,382,741	\$ 14,476,965	\$ (1,905,776)	-11.63%
TOTAL	\$ 21,216,284	\$ 21,244,254	\$ 27,970	0.13%
REMOVE				
904 Uncollectible Accounts	\$ 432,590	\$ 1,787,104	\$ 1,354,514	313.12%
908 Cust. Assistance Exp.	\$ 801,530	\$ 825,849	\$ 24,319	3.03%
TOTAL A&G EXPENSES	\$ 19,982,164	\$ 18,631,301	\$ (1,350,863)	-2.90%