

**BEFORE THE WASHINGTON STATE  
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of	)	DOCKET NO. UG-040253
	)	
CASCADE NATURAL GAS	)	ORDER NO. 01
CORPORATION,	)	
	)	
Petitioner,	)	
	)	
For An Accounting Order	)	
Authorizing Establishment of a	)	
Regulatory Asset/Regulatory	)	
Liability associated with FAS 133/138	)	ORDER APPROVING
Mark-to-Market Valuations	)	ACCOUNTING PETITION
.....	)	

**BACKGROUND**

1 On February 17, 2004, Cascade Natural Gas Corporation, (Cascade or Company) filed a petition seeking for an Accounting Order under WAC 480-09-420(7) seeking authorization to establish a regulatory asset/regulatory liability associated with FAS 133/138 Mark-to-Market valuations.

2 On January 28, 2004, Cascade’s Board of Directors authorized a derivatives policy which will allow the corporation to use financial derivatives to hedge natural gas costs for core customers. Statement of Financial Accounting Standards (FAS) No. 133, “Accounting for Derivative Instruments and Hedging Activities”, subsequently amended by FAS Nos. 138 and 149 (collectively referred to as FAS 133/138) is the standard that prescribes the financial accounting treatment required of companies entering into derivative transactions. FAS 133/138 requires that derivatives must be recognized on the Company’s balance sheet at fair market value, as either an asset or liability. Changes in fair market value between accounting periods must be recognized in the Company’s financial earnings. These periodic adjustments are referred to as “mark-to-market adjustments”, and they expose Cascade to potentially

significant earnings volatility. This earnings volatility is related to timing differences between when a contract is entered into and when the contract is settled. Without the authorization to record an offsetting or contra regulatory asset/regulatory liability, the Company's net income will be affected on a monthly basis based on changes in the natural gas commodity markets. The impacts of FAS 133/138 do not affect the Company's cash flow or accounting for rate making purposes, only monthly financial statement earnings until such time the derivative instruments mature or are settled.

- 3 The Company will record the fair market value of various resource acquisition contracts according to FAS 133/138. These non-cash accounting entries will be offset by contra entries to regulatory asset account 186, Miscellaneous Deferred Debits or regulatory liability account 253, Other Deferred Credits. These entries would be made simultaneously and would offset each other in the Company's financial statements.

### FINDINGS AND CONCLUSIONS

- 4 (1) The Washington Utilities and Transportation Commission is an agency of the State of Washington vested by statute with the authority to regulate rates, rules, regulations, practices, accounts, securities, and transfers of public service companies, including natural gas companies. *RCW 80.01.040; Chapter 80.04 RCW and Chapter 80.28 RCW.*
- 5 (2) Cascade is a natural gas company and is a public service company subject to the jurisdiction of the Commission.
- 6 (3) WAC 480-09-420(7), allows companies to file a petition including that for which Cascade seeks approval.

- 7 (4) Staff has reviewed the petition in Docket UG-040253 including related workpapers. Staff believes the proposed accounting petition requested by Cascade is reasonable and should be approved.
- 8 (5) This matter was brought before the Commission at its regularly scheduled meeting on March 24, 2004.
- 9 (6) After examination of the petition filed in Docket UG-040253 by Cascade on February 17, 2004, and giving due consideration to all relevant matters and for good cause shown, the Commission finds that the Petition filed should be approved.

### ORDER

#### THE COMMISSION ORDERS:

- 10 (1) Cascade Natural Gas Corporation's request to create a regulatory asset and regulatory liability in accounts 186, Miscellaneous Deferred Debits, and 253, Other Deferred Credits, to offset the assets or liabilities required by FAS 133/138 related to certain derivatives and hedging activities is approved.
- 11 (2) This Order shall in no way affect the authority of this Commission over rates, services, accounts, evaluations, estimates, or determination of costs on any matters whatsoever that may come before it, nor shall anything herein be construed as an acquiescence in any estimate or determination of costs claimed or asserted.
- 12 (3) The Commission retains jurisdiction over the subject matter and Cascade Natural Gas Corporation to effectuate the provisions of this Order.

The Commissioners, having determined this Order to be consistent with the public interest, directed the Secretary to enter this Order.

DATED at Olympia, Washington, and effective this 24th day of March, 2004.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

CAROLE J. WASHBURN, Secretary