

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

DOCKET UF \_\_\_\_

IN THE MATTER OF THE APPLICATION OF  
CASCADE NATURAL GAS CORPORATION FOR AN  
ORDER AUTHORIZING THE ISSUANCE OF  
COMMON EQUITY, PREFERRED EQUITY, AND  
DEBT SECURITIES

APPLICATION

---

Application is hereby made to the Public Utility Commission of Oregon ("Commission") for an Order authorizing Cascade Natural Gas Corporation ("the Company" or "Applicant") to register with the Securities & Exchange Commission ("SEC") up to \$40,000,000 of Medium Term Notes, pursuant to provisions of O.R.S. 757.400 et. seq. The following general information and specific exhibits are submitted in support thereof, as required by the Rules and Regulations of the Public Utility Commission of the State of Oregon.

1. In accordance with ORS 757.410(1), ORS 757.415(1), and Rule 860-27-030 of the Rules and Regulations of the Commission, Applicant respectfully submits the following:

a) Name of Applicant

Cascade Natural Gas Corporation  
222 Fairview Avenue North  
Seattle, Washington 98109

b) State and Date of Incorporation

Incorporated January 2, 1953, under the laws of the State of Washington; qualified to do business in the State of Oregon.

c) Name and Address of Person Authorized to Receive Notices and Communications

Matthew D. McArthur  
Treasurer  
222 Fairview Avenue North  
Seattle, Washington 98109  
(206) 381-6777

d) Names, Titles and Addresses of Applicant's Principal Officers

David W. Stevens	President and Chief Executive Officer	222 Fairview Ave. North Seattle, WA 98109
James E. Haug	Chief Accounting Officer	222 Fairview Ave. North Seattle, WA 98109
Jon T. Stoltz	Senior Vice President Regulatory & Gas Supply	222 Fairview Ave. North Seattle, WA 98109
Larry C. Rosok	Vice President Human Resources Corporate Secretary	222 Fairview Ave. North Seattle, WA 98109

Michael J. Gardner Vice President of Operations 222 Fairview Ave. North  
Seattle, WA 98109

Julie A. Marshall Vice President of Customer Service 222 Fairview Ave. North  
Seattle, WA 98109

e) Description of Business and Territory Served

Applicant's business is the distribution of natural gas, which it sells to residential, commercial and industrial customers in the States of Washington and Oregon. The population of communities served by Applicant totals approximately 1,080,000. At the end of September 2006, Applicant held the franchises necessary for the distribution of natural gas in all of the communities it serves in Washington and Oregon.

f) Statement of Capital Stock as of September 30, 2006:

	Par Value	Authorized Shares	Shares Issued and Outstanding	Stated Value
Common Stock	\$1.00	15,000,000	11,505,996	None
Preferred Stock	\$1.00	1,000,000	0	None

Reference is directed to the Restated Articles of Incorporation included herewith as Exhibit A, for the terms of senior preferred stock. None of the above securities is held as re-acquired securities, pledged by Applicant, held by affiliated interests or held in sinking or other funds.

g) Statement of Long-Term Indebtedness September 30, 2006:

Description	Due Date	Authorized and Outstanding
8.06% Medium-Term Notes	September 4, 2012	\$14,000,000
8.10% Medium-Term Notes	October 8, 2012	\$5,000,000
8.11% Medium-Term Notes	October 8, 2012	\$3,000,000
7.95% Medium-Term Notes	February 4, 2013	\$4,000,000
8.01% Medium-Term Notes	February 12, 2013	\$10,000,000
7.95% Medium-Term Notes	February 25, 2013	\$10,000,000
7.48% Medium-Term Notes	September 2027	\$20,000,000
7.09% Medium-Term Notes	March 17, 2029	\$15,000,000
7.50% Unsecured Notes	November 15, 2031	\$39,793,000
5.25% Unsecured Notes	February 1, 2035	\$29,292,000

None of the above securities is held as re-acquired securities, pledged by Applicant, held by affiliated interests or held in sinking or other funds.

h) Description of the Securities Proposed to be Issued

Applicant proposes to issue and sell not more than \$40,000,000 Unsecured Notes obligating Applicant to pay interest on a periodic basis based on a fixed coupon rate established as part of the note obligation with principal payable at some future date. The notes may be issued as public offerings or on a private placement basis and will have 15-30 year maturity. The face amount will likely be \$1,000 but could vary depending on the method of sale. Applicant is attempting to issue these notes in the month of January, February, or March 2007 to benefit from the current low rates. Applicant's outstanding notes are currently rated: "Baa1" by Moody's and "BBB+" by Standard & Poor's.

The interest rate on the notes will be determined at the time they are issued. The proposed maximum spread over applicable treasury rates for various maturities is listed in Table 1 below. The notes may include a provision that allows them to be redeemed prior to maturity at specified prices.

TABLE 1

<u>Maturity</u>	<u>Currently 30-Year at 4.70% Maximum Spread Over Benchmark Treasury</u>	<u>Worst Case In Potential Major Market Move Maximum Spread Over Benchmark Treasury</u>
9 month - 2 years	+60 basis points	+85 basis points
2 years - 3 years	+65 basis points	+95 basis points
3 years - 4 years	+70 basis points	+105 basis points
4 years - 6 years	+80 basis points	+120 basis points
6 years - 9 years	+95 basis points	+140 basis points
9 years - 10 years	+110 basis points	+160 basis points
10 years - 11 years	+115 basis points	+165 basis points
11 years - 15 years	+120 basis points	+170 basis points
15 years - 20 years	+125 basis points	+175 basis points
20 years - 30 years	+135 basis points	+185 basis points

i) Description of the Proposed Transaction

A. Description of the proposed method of issuing and selling the securities

The notes will be issued with the assistance of an international investment banking firm or a major bank as underwriter. The investment banking firms that will assist the Company in issuing these notes will likely be one of the following: A.G. Edwards, Edward Jones, or JP Morgan. The notes may be issued as public offerings or on a private placement basis. The notes will be sold at one time and will likely be sold in one to three days.

B. Whether securities are to be issued pro-rata, etc.

Securities will be issued based on competitive markets by professional firms accustomed to dealing in securities registered with the SEC.

C. Statement showing why it is in Applicant's interest to issue proposed securities and why the proposed method of sale was adopted

The Company has \$39,793,000 in notes that became callable in November 2006. The Company would like to refinance those notes to benefit from the current lower interest rates.

D. The Company has not requested an exemption from the competitive bidding requirements of any Federal or other state regulatory body.

j) Name and Address of any person receiving any fee for services rendered in connection with the negotiations and consummation of the sale of securities

Securities issued will be regulated by laws of the SEC and issued through underwriters that will be investment banks or national banking institutions. Fees on institutional debt securities such as Medium Term Notes ("MTNs") will be 1% or less. Although the fees are normally higher for debt securities sold to individuals (retail), the all-in cost, based on cash flows, will be the same or lower than the all-in cost of securities sold to institutions. The Company is also considering insuring the notes. There would be a fee to insure the notes, but the fees would be offset by a lower coupon rate. The Company will not insure the notes unless the all-in cost is lower.

k) A statement showing both in total amount and per unit the price to the public, underwriting commissions and net proceeds

The notes will be issued at 100%. Underwriting commissions will be based on Table 2 or, if different, will result in an all-in cost that is more attractive to the Company. Please note that Table 2 does not reflect insurance fees. The Company will insure the notes only if it produces an all-in cost that is more attractive.

TABLE 2

Item	Debt	
	Amount	Per \$1,000
1. Face value or principal amount	\$40,000,000	\$1,000.00
2. Plus premium or less discount		
3. Gross proceeds	\$40,000,000	\$1,000.00
4. Underwriters' spread or commission (1.00%)	400,000	
5. Printing and engraving expenses	15,000	
6. Trustee's charges	15,000	
7. Fees and expenses of independent public Accountants	20,000	
8. Legal fees	60,000	
9. Rating agency fees	50,000	
10. Miscellaneous expenses	60,000	
11. Total deductions	\$620,000	15.50
12. Estimated net amount to be realized	\$39,380,000	\$984.50

l) Purpose for which the Securities are to be issued

(C) The Company has \$39,793,000 in notes that became callable in November 2006. The Company would like to refinance those notes to benefit from the current lower interest rates.

m) Statement whether or not any application or registration statement is required to be filed with any other regulatory body

A registration statement was filed in 2001 with the SEC and a notification with the Washington Utilities and Transportation Commission will be filed. The unsecured debt securities will be issued under an existing Indenture of the Applicant.

n) Facts relied upon by Applicant to show that the issue

A) is for some lawful object within the corporate purposes of the Applicant

Applicant is a corporation authorized to do business within the State of Oregon. Applicant's Restated By-Laws give it the legal power to issue promissory notes.

B) is compatible with the public interest

Applicant is a public utility with a duty to provide natural gas service wherever economically feasible. The proceeds of this financing will provide capital that allows the Company to provide that service.

C) is necessary or appropriate for or consistent with the proper performance by the Applicant of service as a public utility

Securities issued will provide necessary funds to refinance the existing \$39,793,000 in callable debt.

D) will not impair Applicant's ability to perform service

Capital raised from securities issued will strengthen Applicant and its ability to perform service over the long term.

E) is reasonably necessary or appropriate for such purposes

The Company has \$39,793,000 in long-term notes with an interest rate of 7.5% that became callable in November 2006. The Company would like to refinance those notes to benefit from the current lower interest rates on the debt market, allowing the Company to reduce interest payments.

F) Not applicable.

o) Statement of all rights to be a corporation, franchises, permits, etc., included as assets of the Applicant

None included as assets.

2. Exhibits

The following exhibits are made a part of this application:

<b>Exhibit</b>	<b>Description</b>	<b>Reference</b>
Exhibit A	Articles of Incorporation	On file
Exhibit B	Bylaws, as amended	On file
Exhibit C	Board of Directors Resolution	Will submit at a later date
Exhibit D	Indentures, security, etc.	Not applicable
Exhibit E	Balance Sheets	Attached
Exhibit F	Statement of Contingent Liabilities	Attached
Exhibit G	Income Statement	Attached
Exhibit H	Analysis of Surplus	Attached
Exhibit I	Sale, Lease, Purchase Contracts	Not applicable
Exhibit J	Proposed Journal Entry	Attached
Exhibit K	Supporting Schedules of Benefits	Not applicable

WHEREFORE, Applicant respectfully requests that the Commission enter an appropriate Order authorizing issuance of the securities as herein set forth.

CASCADE NATURAL GAS CORPORATION

\_\_\_\_\_  
Treasurer

**STATE OF WASHINGTON**

**COUNTY OF KING**

Matthew D. McArthur, being first duly sworn, deposes and says that he is Treasurer of Cascade Natural Gas Corporation, the Applicant in the foregoing Application; that he has read said Application, including all exhibits thereto, knows the contents thereof and the same are true to the best of his knowledge and belief.

**SUBSCRIBED AND SWORN** to before me this 4th day of January 2007.

\_\_\_\_\_  
Notary Public in and for the State of  
Washington, residing

**EXHIBIT "A"**

Articles of Incorporation on file.

**EXHIBIT "A"**

**EXHIBIT "B"**

By-laws on file.

**EXHIBIT "B"**

**EXHIBIT "C"**

Will submit as a late exhibit

**EXHIBIT "C"**

**EXHIBIT "D"**

Agreement for issuance of long-term debt will be submitted as a late exhibit.

**EXHIBIT "D"**

**EXHIBIT "E"**  
**CASCADE NATURAL GAS CORPORATION**

Balance Sheet  
At September 30, 2006

	Sept-06	Adjustments	Pro Forma
<b>ASSETS</b>			
Utility Plant in Service	\$ 614,183,662		\$ 614,183,662
Less Accumulated Depreciation	(273,138,129)		(273,138,129)
	341,045,533		341,045,533
Construction Work in Progress	380,211		380,211
	341,425,744		341,425,744
<b>Other Assets:</b>			
Investments in non-utility property	202,030		202,030
Notes receivable, less current maturities	487,726		487,726
	689,756		689,756
<b>Current Assets:</b>			
Cash and cash equivalents	8,592,754	(413,000)	8,179,754
Trade Accounts Receivable	22,791,341		22,791,341
Allowance for Doubtful Accounts	(2,142,784)		(2,142,784)
Other Receivables	2,147,177		2,147,177
Inventory - Gas Storage	12,909,157		12,909,157
Inventory - Materials & Supplies	4,585,959		4,585,959
Derivative Instrument Asset-Energy			
Commodity Current	4,134,866		4,134,866
Prepaid expenses and other assets	4,670,961		4,670,961
Deferred Income Taxes	1,779,517		1,779,517
Regulatory Assets-Current	26,504,128		26,504,128
	85,973,076	(413,000)	85,560,076
<b>Deferred Charges:</b>			
Deferred Gas Cost Charges	-		-
Derivative Instrument Asset-Energy			
Commodity Non-Current	3,269,508		3,269,508
Other Deferred Charges	7,086,644	620,000	7,706,644
Regulatory Assets-Non Current	18,260,988		18,260,988
	28,617,140	620,000	29,237,140
<b>TOTAL</b>	\$ 456,705,716	207,000	\$ 456,912,716

Deleted: 086

	Sept-06	Adjustments	Pro Forma
<b>Common Shareholders' Equity:</b>			
Common stock, par value \$1 per share	\$ 11,505,996		\$ 11,505,996
Additional paid-in capital	105,702,110		105,702,110
Accumulated other comprehensive income(loss)	(12,453,429)		(12,453,429)
Retained earnings	17,371,301		17,371,301
	<u>122,125,978</u>		<u>122,125,978</u>
<b>Long-term Debt</b>	<u>165,123,000</u>	207,000	<u>165,330,000</u>
<b>Current Liabilities:</b>			
Short-term Debt	-		-
Current Maturities of Long Term Debt	8,000,000		8,000,000
Accounts payable	14,646,609		14,646,609
Property, payroll and excise taxes	5,775,915		5,775,915
Dividends and interest payable	6,939,167		6,939,167
Derivative Instrument Liab.-Energy			
Commodity-Current	29,496,019		29,496,019
Other current liabilities	12,888,118		12,888,118
Regulatory Liabilities-Current	4,132,382		4,132,382
	<u>81,878,210</u>		<u>81,878,210</u>
<b>Deferred Credits and Other:</b>			
Deferred Gas Cost Credit	601,896		601,896
Deferred Income Taxes	38,326,407		38,326,407
Deferred Investment Tax Credits	1,055,143		1,055,143
Derivative Instrument Liab.-Energy			
Commodity-Non Curr	18,939,360		18,939,360
Retirement Plan Liabilities	11,067,106		11,067,106
Customer Advances	4,871,098		4,871,098
Regulatory Liabilities-Non Current	12,035,025		12,035,025
Other Deferred Credits and Noncurrent Liabilities	682,493		682,493
	<u>87,578,528</u>		<u>87,578,528</u>
<b>TOTAL</b>	<u>\$456,705,716</u>	207,000	<u>\$456,912,716</u>

**EXHIBIT "E"**

**EXHIBIT "F"**

Statement of contingent liabilities

None

**EXHIBIT "F"**

**EXHIBIT "G"**  
**CASCADE NATURAL GAS CORPORATION**

Statement of Income  
Year Ended September 30, 2006

	Sept-06	Adjustments	Pro Forma
Operating Revenues			
Gas Sales	\$433,018,886		\$433,018,886
Trans Revenue	20,716,108		20,716,108
Other Operating Income (Loss)	2,229,348		2,229,348
	<u>455,964,343</u>		<u>455,964,343</u>
Less			
Gas purchases	327,570,039		327,570,039
Revenue taxes	30,335,113		30,335,113
Operating Margin	<u>98,059,191</u>		<u>98,059,191</u>
Cost of Operations			
Operating expenses	44,454,147		44,454,147
Depreciation and amort	17,861,330		17,861,330
Property and misc.taxes	3,748,047		3,748,047
	<u>66,063,524</u>		<u>66,063,524</u>
Income/(Loss) from operations	<u>31,995,667</u>		<u>31,995,667</u>
Nonoperating Exp/(Inc)			
Interest Expense	11,950,701		11,950,701
Interest charged to const	(50,318)		(50,318)
	<u>11,900,383</u>		<u>11,900,383</u>
Amort of debt issuance exp	396,137		396,137
Other	(1,544,607)		(1,544,607)
	<u>10,751,913</u>		<u>10,751,913</u>
Income/(Loss) Before Inc Taxes	21,243,754		21,243,754
Income Taxes	<u>8,755,324</u>		<u>8,755,324</u>
Net Income/(Net Loss)	\$12,488,430		\$12,488,430
Other Comprehensive Income (Loss)	65,637		65,637
Income Tax on OCI	31,444		31,444
Comprehensive Income	<u>\$12,522,623</u>		<u>\$12,522,623</u>
Average Shares Outstanding	11,468,387		11,468,387
Basic Earnings per Share	<u><b>\$1.09</b></u>		<u><b>\$1.09</b></u>

**EXHIBIT "H"**  
**CASCADE NATURAL GAS CORPORATION**

Statement of Retained Earnings  
At September 30, 2006

	<b>Sept-06</b>	<b>Adjustments</b>	<b>Pro Forma</b>
Balance - Beginning of Year	\$15,908,469		\$15,908,469
Net Income	\$12,488,430		\$12,488,430
Cash Dividends:	(\$11,025,598)		(\$11,025,598)
Balance Year-To-Date	<u>\$17,371,301</u>		<u>\$17,371,301</u>

**EXHIBIT "H"**

**EXHIBIT "I"**

Not applicable.

**EXHIBIT "I"**

**EXHIBIT "J"**

**Proposed Journal Entries**

Cash	39,380,000
Other Deferred Charges	620,000
Long-Term Debt	40,000,000
Long Term Debt	39,793,000
Cash	39,793,000

**EXHIBIT "J"**

**EXHIBIT “K”**

Not applicable.

**EXHIBIT “K”**