

CASCADE NATURAL GAS CORP
Form 10-Q
August 13, 2002

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 2002**

Commission file number: 1-7196

CASCADE NATURAL GAS CORPORATION

(Exact name of Registrant as specified in its charter)

Washington
(State or other jurisdiction of
incorporation or organization)

91-0599090
(I.R.S. Employer
Identification No.)

222 Fairview Avenue North, Seattle, WA

(Address of principal executive offices)

(Registrant's telephone number including area code)

98109

(Zip code)

(206) 624-3900

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

| Title | Outstanding |
|---------------------------------------|--------------------------------|
| Common Stock, Par Value \$1 per Share | 11,045,095 as of July 31, 2002 |

CASCADE NATURAL GAS CORPORATION

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PART I. Financial Information**Item 1. Financial Statements**

CASCADE NATURAL GAS CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(unaudited)

| | THREE MONTHS ENDED | | NINE MONTHS ENDED | |
|-------------------------------|-----------------------------------|---------------------|--------------------------|---------------------|
| | Jun 30, 2002 | Jun 30, 2001 | Jun 30, 2002 | Jun 30, 2001 |
| | (thousands except per share data) | | | |
| Operating revenues | \$ 56,815 | \$ 64,085 | \$ 281,938 | \$ 293,778 |
| Less: Gas purchases | 38,509 | 38,657 | 186,792 | 193,673 |
| Revenue taxes | 4,053 | 4,303 | 18,794 | 18,565 |
| Operating margin | 14,253 | 21,125 | 76,352 | 81,540 |
| Cost of operations: | | | | |
| Operating expenses | 9,854 | 10,529 | 30,815 | 29,067 |
| Depreciation and amortization | 3,746 | 3,456 | 11,144 | 10,282 |

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| | THREE MONTHS ENDED | | NINE MONTHS ENDED | |
|--|--------------------|---------|-------------------|---------|
| | | | | |
| Property and payroll taxes | 1,290 | 1,259 | 4,123 | 3,741 |
| | 14,890 | 15,244 | 46,082 | 43,090 |
| Income (loss) from operations | (637) | 5,881 | 30,270 | 38,450 |
| Less interest and other deductions net | 3,224 | 2,643 | 9,372 | 7,841 |
| Income (loss) before income taxes | (3,861) | 3,238 | 20,898 | 30,609 |
| Income taxes | (1,409) | 1,182 | 7,628 | 11,172 |
| Net Income (loss) | (2,452) | 2,056 | 13,270 | 19,437 |
| Weighted average common shares outstanding | 11,045 | 11,045 | 11,045 | 11,045 |
| Net earnings (loss) per common share, | | | | |
| Basic | \$ (0.22) | \$ 0.19 | \$ 1.20 | \$ 1.76 |
| Diluted | \$ (0.22) | \$ 0.19 | \$ 1.20 | \$ 1.75 |
| Cash dividends per share | \$ 0.24 | \$ 0.24 | \$ 0.72 | \$ 0.72 |

The accompanying notes are an integral part of these financial statements

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CASCADE NATURAL GAS CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS
(Dollars in Thousands)

| | Jun 30, 2002 | Sep 30, 2001 |
|---|--------------|--------------|
| | (Unaudited) | |
| ASSETS | | |
| Utility Plant, net of accumulated depreciation of \$212,708 and \$201,530 | \$ 290,871 | \$ 286,701 |
| Construction work in progress | 6,056 | 7,485 |
| | 296,927 | 294,186 |
| Other Assets: | | |
| Investments in non-utility property | 202 | 202 |
| Notes receivable, less current maturities | 256 | 311 |
| | 458 | 513 |

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| | Jun 30, 2002 | Sep 30, 2001 |
|---|-------------------|-------------------|
| Current Assets: | | |
| Cash and cash equivalents | 16,989 | 422 |
| Accounts receivable and current maturities of notes receivable, less allowance of \$934 and \$1,421 for doubtful accounts | 17,462 | 18,865 |
| Materials, supplies and inventories | 9,754 | 8,870 |
| Prepaid expenses and other assets | 3,799 | 3,783 |
| Deferred income taxes | 612 | 559 |
| | <u>48,616</u> | <u>32,499</u> |
| Deferred Charges | | |
| Gas cost changes | 13,665 | 28,861 |
| Other | 8,845 | 8,194 |
| | <u>22,510</u> | <u>37,055</u> |
| | <u>\$ 368,511</u> | <u>\$ 364,253</u> |

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CASCADE NATURAL GAS CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS (continued)
(Dollars in Thousands)

| | Jun 30, 2002 | Sep 30, 2001 |
|---|----------------|----------------|
| | (Unaudited) | |
| COMMON SHAREHOLDERS' EQUITY, PREFERRED STOCKS AND LIABILITIES | | |
| Common Shareholders' Equity: | | |
| Common stock, par value \$1 per share, authorized 15,000,000 shares, issued and outstanding 11,045,095 shares | \$ 11,045 | \$ 11,045 |
| Additional paid-in capital | 97,380 | 97,380 |
| Accumulated other comprehensive income (loss) | (4,161) | (4,161) |
| Retained earnings | 22,686 | 17,369 |
| | <u>126,950</u> | <u>121,633</u> |
| Long-term Debt | <u>164,970</u> | <u>125,000</u> |
| Current Liabilities: | | |
| Notes payable and commercial paper | | 40,000 |
| Accounts payable | 12,586 | 13,466 |
| Property, payroll and excise taxes | 5,094 | 4,921 |
| Dividends and interest payable | 5,490 | 7,539 |
| Other current liabilities | 9,750 | 6,426 |

| | Jun 30, 2002 | Sep 30, 2001 |
|-------------------------------|--------------|--------------|
| | 32,920 | 72,352 |
| Deferred Credits and Other | 43,671 | 45,268 |
| Commitments and Contingencies | | |
| | \$ 368,511 | \$ 364,253 |

The accompanying notes are an integral part of these financial statements

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CASCADE NATURAL GAS CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

| | NINE MONTHS ENDED | |
|---|------------------------|--------------|
| | Jun 30, 2002 | Jun 30, 2001 |
| | (dollars in thousands) | |
| Operating Activities | | |
| Net income | \$ 13,270 | \$ 19,437 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 11,144 | 10,282 |
| Deferrals of gas cost changes | 7,832 | (41,360) |
| Amortization of gas cost changes | 7,365 | (2,781) |
| Other deferrals and amortizations | (1,638) | 2,536 |
| Deferred income taxes and tax credits net | 931 | 534 |
| Change in current assets and liabilities | 1,070 | (9,520) |
| Net cash provided (used) by operating activities | 39,974 | (20,872) |
| Investing Activities | | |
| Capital expenditures | (14,353) | (16,528) |
| Customer contributions in aid of construction | 134 | 1,899 |
| Other | 55 | 69 |
| Net cash used by investing activities | (14,164) | (14,560) |
| Financing Activities | | |
| Redemption of preferred stock | | (62) |

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| | Quarter Ended June 30 | | Nine Months Ended June 30 | |
|-----------------------------------|-----------------------|---------|---------------------------|---------|
| | | | | |
| Diluted earnings (loss) per share | \$ (0.22) | \$ 0.19 | \$ 1.20 | \$ 1.75 |

Commitments and Contingencies

Gas Service Contracts. During the quarter ended December 31, 2001, the Company terminated its gas supply contracts with Enron based on Enron's insolvency and other reasons, including concerns about its ability to perform. These contracts supplied part of the natural gas portfolio used to serve certain non-core customers. The supply has been replaced with contracts with other suppliers. Enron Canada Corp., a Canadian entity, is disputing Cascade's right to terminate one of the Enron gas supply contracts. On February 6, 2002, Enron Canada sent a letter to the Company claiming that the Company owes it a termination payment in the amount of \$3.7 million. Management believes the termination was fully justified and intends to contest any payment. However, the circumstances surrounding the termination are complex, and the ultimate result is uncertain. Based on management's analysis of the latest information, the Company recorded a fiscal third-quarter charge to earnings in the amount of \$2.8 million with respect to Enron Canada's claim.

Other than the above mentioned contracts to replace supplies that had been available under the Enron contracts, the Company has not entered into any new long-term supply commitments during fiscal 2002.

Environmental Matters. There are two claims against the Company for as yet unknown costs for clean up of alleged environmental contamination related to manufactured gas plant sites that were previously operated by companies, which were subsequently merged into Cascade.

The first claim was received in 1995, and relates to a site in Oregon. An investigation has shown that contamination does exist, but there is currently not enough information available to estimate the potential liability associated with this claim. It is expected that other parties will participate in the clean up costs. Through the end of the quarter ended June 30, 2002, the amounts spent, primarily on investigation and containment, have been immaterial.

The second claim was received in 1997, and relates to a site in Washington. An investigation has determined there is evidence of contamination at the site, but there is also evidence of an oil line crossing the property, operated by an unrelated party, which may have also contributed to the contamination. There is currently not

enough information available to estimate the potential liability associated with this claim. The party who originally made this claim has not been actively pursuing it.

Management intends to pursue reimbursement from its insurance carriers, and recovery from its customers through increased rates, for any remediation costs for which the Company is determined to be liable. There is precedent for such recovery through increased rates, as both the Washington Utilities and Transportation Commission (WUTC) and Oregon Public Utility Commission (OPUC) have previously allowed regulated utilities to increase customer rates to recover similar costs. No claims now pending, in the opinion of management, are expected to have a material effect on the Company's financial position, results of operations, or liquidity.

Litigation. Various lawsuits, claims, and contingent liabilities may arise from time to time from the conduct of the Company's business. In 1998, the Company was served with a lawsuit by six plaintiffs, claiming unspecified damages for personal injuries in connection with carbon monoxide exposure. The plaintiffs were residents of a house served by the Company at the time of the incident. The Company denied any responsibility for these injuries. In November 2001, the parties agreed to a settlement calling for payments totaling \$250,000 to the plaintiffs. During the second quarter of fiscal 2002, this settlement was approved by the courts, and payments were made to the plaintiffs, settling the lawsuit in full. No other claims now pending, in the opinion of management, are expected to have a material effect on the Company's financial position, results of operations, or liquidity.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is management's assessment of the Company's financial condition and a discussion of the principal factors that affected consolidated results of operations and cash flows for the three and nine month periods ended June 30, 2002 and 2001.

CRITICAL ACCOUNTING POLICIES

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). In following GAAP, management exercises judgment in selection and application of accounting principles. Management considers Critical Accounting Policies to be those where different assumptions regarding application could result in material differences in financial statements.

Regulatory Accounting

The Company's accounting policies and practices are generally the same as used by unregulated companies for financial reporting under GAAP. However, Statement of Financial Accounting Standards (FAS) No. 71, "Accounting for the Effects of Certain Types of Regulation", require regulated companies to apply special accounting treatment to reflect the financial impact of regulation. For example, in establishing the rates to be charged to the Company's retail customers, the WUTC and the OPUC may not allow the Company to charge its customers for recovery of certain expenses in the same period they are incurred. Instead, rates are established in the future to recover costs that were incurred in a prior period. In this situation, FAS No. 71 requires the Company to defer these costs and include them as regulatory assets on the balance sheet. In the subsequent period when these costs are recovered from customers, the Company then amortizes these costs as expense in the income statement, in an amount equivalent to the amounts recovered. Similarly, certain revenue items, or cost reductions may be deferred as regulatory liabilities, which are later amortized to the income statement as customer rates are reduced.

In order to apply the provisions of FAS No. 71, the following conditions must apply:

An independent regulator approves the company's customer rates..

The rates are designed to recover the company's costs of providing the regulated services or products.

There is sufficient demand for the regulated service to reasonably assure that rates can be set at a level to recover the costs.

The Company periodically assesses whether conditions merit the continued applicability of FAS No. 71. In the event the Company should determine in the future that all or a portion of its regulatory assets and liabilities no longer meet the above criteria, it would be required to write off the related balances of its regulatory assets and liabilities, and reflect the write off in its income statement. At June 30, 2002 there were \$17.1 million of regulatory assets and \$5.3 million of regulatory liabilities.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The Company has used estimates in measuring certain deferred charges and deferred credits related to items subject to approval of the WUTC and the OPUC. Estimates are also used in the development of discount rates and trend rates related to the measurement of retirement benefit obligations and accrual amounts, allowances for doubtful accounts, estimates of unbilled revenue, and in the determination of depreciable lives of utility plant. On an ongoing basis, management evaluates the estimates used, based on historical experience, current conditions and on various other assumptions believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

RESULTS OF OPERATIONS

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The quarter ended June 30, 2002 resulted in a net loss of \$2,452,000, or \$0.22 per share (basic and diluted), compared to net income of \$2,056,000 or \$0.19 per share, for the third quarter last year. For the nine months ended June 30, 2002, net income was \$13,270,000 million, or \$1.20 per share, basic and diluted, compared to \$19,437,000, or \$1.76 per share, for the nine months ended June 30, 2001. Affecting year-to-year comparisons by \$0.30 per share were \$0.14 per share of earnings from unusual off-system sales of interstate pipeline capacity in the third quarter last year, and in the current third quarter a charge of \$0.16 per share related to the cancellation of a gas supply contract.

Operating Margin

Residential and Commercial Margin. Operating margins derived from sales to residential and commercial customers were as set forth in the following table:

| | Third Quarter of Fiscal | | | Year to Date June 30 | | |
|---|-------------------------|----------|----------------|------------------------|-----------|----------------|
| | 2002 | 2001 | Percent Change | 2002 | 2001 | Percent Change |
| | (dollars in thousands) | | | (dollars in thousands) | | |
| Degree Days | 840 | 936 | -10.3% | 5,229 | 5,589 | -6.4% |
| Average Number of Customers | | | | | | |
| Residential | 170,289 | 163,886 | 3.9% | 169,681 | 163,818 | 3.6% |
| Commercial | 28,328 | 27,863 | 1.7% | 28,286 | 27,884 | 1.4% |
| Average Therm Usage per Customer | | | | | | |
| Residential | 114 | 123 | -7.3% | 702 | 719 | -2.4% |
| Commercial | 608 | 642 | -5.3% | 3,381 | 3,617 | -6.5% |
| Operating Margin | | | | | | |
| Residential | \$ 6,256 | \$ 6,651 | -5.9% | \$ 33,751 | \$ 34,070 | -0.9% |
| Commercial | 3,668 | 3,928 | -6.6% | 19,235 | 20,870 | -7.8% |

Residential and commercial operating margins were lower in the quarterly comparison by \$655,000. Mild temperatures contributed to lower per-customer consumption during the quarter, reducing margins by \$1 million. Partially offsetting the decline in consumption was a \$344,000 margin increase from the addition of 6,868 customers. For the nine-month period, residential and commercial operating margins were lower by \$1.9 million due to decreased per-customer consumption largely affected by 6% warmer winter weather, as well as conservation efforts that followed last year's western energy crisis, and the national recession.

Contract Termination Charge. During the quarter ended December 31, 2001, the Company terminated all of its gas supply contracts with Enron based on Enron's insolvency and other reasons, including concerns about its ability to perform. These contracts supplied part of the natural gas portfolio used to serve certain non-core customers. The supply has been replaced with contracts with other suppliers. Enron Canada Corp., a Canadian entity, is disputing Cascade's right to terminate one of the Enron gas supply contracts. On February 6, 2002, Enron Canada sent a letter to the Company claiming that the Company owes it a termination payment in the amount of \$3.7 million. Management believes the termination was fully justified and intends to contest any payment. However, the circumstances surrounding the termination are complex, and the ultimate result is uncertain. Based on management's analysis of the latest information, the Company recorded a fiscal third-quarter charge to earnings in the amount of \$2.8 million with respect to Enron Canada's claim. The effect of this charge to gas costs was a \$0.16 increase in the loss reported for the quarter and nine months ended June 30, 2002.

Industrial and Other Margin. Excluding the contract termination charge discussed above, operating margins from industrial customers were lower by \$895,000 for the quarter and higher by \$930,000 year-to-date. Operating margins from industrial customers other than electric generators increased \$192,000 for the quarter and \$2.1 million year-to-date. The strong improvement in the first part of the fiscal year by this group largely reflected recovery from depressed consumption levels following the West Coast energy crisis during the 2000-2001 winter season. Also adding to margins were gas management and other services, which posted improvements of \$4,000 for the quarter and \$1.6 million year-to-date. Included in this category were agency fees on gas supplies purchased to serve certain customers who are committed to purchase these supplies for their gas needs. During the third quarter, the normal seasonality of many of these customers and the lingering effects of the slow economy resulted in reduced gas consumption.

More than offsetting the gains from other industrial deliveries and services was a reduction in operating margins from electric generation customers, which were down \$1.1 million compared to last year's third quarter, and \$1.2 million year-to-date. Demand for gas-fired electric

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generation in the Pacific Northwest decreased through the third quarter until it was almost non-existent in the month of June. Mild weather and the continuing effects of the economic recession played a part, but the largest influence on the market was an abundance of hydropower in the region. Above normal precipitation (contrasted with drought conditions a year ago) and a strong, prolonged run-off from spring snowmelt has left reservoirs behind major generating dams filled to capacity. Consequently, there is an unusual oversupply of hydropower for the near term.

Cost of Operations

Cost of operations for the quarter ended June 30, 2002, which consists of operating expenses, depreciation and amortization, and property and payroll taxes, decreased \$354,000 or 2% from the quarter ended June 30, 2001, and increased \$3 million or 7% year-to-date.

Operating Expenses, which are primarily labor and benefits expenses, decreased \$675,000, or 6%, for the quarter, and increased \$1.7 million, or 6% year-to-date. The favorable comparison for the quarter is largely the result of a \$700,000 charge in the third quarter of fiscal 2001 for performance based incentive compensation. There is no corresponding cost recorded in 2002.

For the quarter, several expense categories decreased, however employee benefits expenses increased \$370,000, primarily related to higher medical costs and retirement plan accruals. The increase in retirement plan expense is largely attributable to fiscal 2001 declines in the value of plan assets. Under the provisions of Statement of Financial Accounting Standards (FAS) No. 87 and FAS No. 106, the effect of such declines is generally amortized over future periods. Bad debts expense increased \$240,000 related to the higher number and amount of past due accounts. Factors influencing bad debts expense were customers' ability to pay due to their higher natural gas rates, and unfavorable economic conditions.

On a year-to-date basis, benefits cost increased \$1.7 million due to the same factors described above for the quarter. The year-to-date labor comparison is affected by market-rate wage and salary adjustments made in January of fiscal 2001. Also included is a \$250,000 charge for the settlement of the lawsuit referred to in the footnotes to the June 30, 2002 financial statements, in the paragraph entitled "Litigation".

Depreciation and Amortization increased \$290,000, or 8%, for the quarter ended June 30, 2002 compared to the same period a year earlier, and \$862,000, or 8% year-to-date, as a result of increases in depreciable assets.

Property and Payroll Taxes increased \$31,000, or 2%, for the second quarter, and \$382,000, or 10% year-to-date, compared to fiscal 2001 periods. The increases are primarily related to increased wage and salary costs, and the higher payroll taxes generally attributable to the first and second calendar quarters of each year.

Interest and Other Deductions Net

Interest and other deductions net, for the quarter was \$3.2 million, a \$581,000 (22%) increase from the June 2001 quarter. For the nine months ended June 30, interest and other deductions net was \$9.4 million, a \$1.5 million (19%) increase over last year. Most of the increase for both periods is related to interest on \$40 million of 7.5% 30-year notes issued in November 2001 compared to interest rates on short-term debt which averaged 5.01% in fiscal 2001.

LIQUIDITY AND CAPITAL RESOURCES

The seasonal nature of the Company's business creates short-term cash requirements to finance customer accounts receivable and construction expenditures. To provide working capital for these requirements, the Company has a \$50 million bank revolving credit commitment. This agreement has an annual 0.16% commitment fee, and a term that expires in 2004. The Company also has a \$10 million uncommitted bank credit line. As of June 30, 2002, there was no outstanding debt under these credit lines.

To provide longer-term financing, the Company in 2001 filed an omnibus registration statement under the Securities Act of 1933 providing the ability to issue up to \$150 million of new debt and equity securities. On November 26, 2001, the Company issued \$40 million of 7.5% 30-year debt under the omnibus registration statement, leaving \$110 million available under that registration statement for future financing. The proceeds of the \$40 million offering were used to pay down outstanding short-term debt.

Because of the availability of short-term credit and the ability to issue long-term debt and additional equity, management believes it has adequate financial flexibility to meet its anticipated cash needs.

Operating Activities

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Net cash provided by operating activities for the nine months ended June 30, 2002 was \$40 million. This compares to a use of \$20.8 million for the comparable period a year earlier, representing a cash flow difference of \$60.8 million. The improvement is primarily attributable to changes in customer rates and in prices paid for gas purchases. In fiscal 2001, operating cash flow was negatively affected by a nearly \$39 million under-recovery of gas costs during the first two quarters. Effective November 1, 2001, the WUTC approved new rates for Washington customers. The new rates reflect a surcharge to recover over a three-year period the gas cost increases incurred and deferred during fiscal 2001. This arrangement is expected to add cash flow of approximately \$10 million per year for the three years, as well as stabilize rates for customers for that period. Additionally, most of the supply requirements for core customers are secured by fixed price contracts with suppliers for the period October 2001 through September 2004. Rates designed to recover these fixed supply costs as well as the above-mentioned surcharge to recover prior under-recoveries have been approved by both the WUTC and the OPUC. As a result, management does not expect gas cost changes to result in abnormalities in operating cash flows through 2004.

Investing Activities

Cash used by investing activities for the nine months ended June 30, 2002 was \$14.2 million, compared to \$14.6 million for the comparable prior year period. Budgeted capital expenditures for fiscal 2002 are approximately \$22.8 million. This budget includes \$19 million for new customer connections and distribution system replacement and reinforcement.

Financing Activities

Net cash used by financing activities for the nine months ended June 30, 2002 was \$9.2 million, compared to a provision of \$35 million, for the comparable period last year. The principal financing activity during fiscal 2002 to date was the issuance of \$40 million of new 7.5% 30-year notes. The net proceeds of \$38.7 million were used to pay down short-term debt incurred in 2001, in part, due to unrecovered gas costs.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Cascade has evaluated its risk related to financial instruments whose values are subject to market sensitivity. The Company has fixed-rate debt obligations, but does not have derivative financial instruments subject to interest rate risk. Cascade makes interest and principal payments on these obligations in the normal course of its business, and does not plan to redeem these obligations prior to normal maturities, except to the extent required under the terms of the Company's \$40 million note offering in the case of the death of the owner of the note.

The Company's natural gas purchase commodity prices are subject to fluctuations over time resulting from weather, congestion on interstate pipelines, and other unpredictable factors. The Company has fixed-price contracts covering a substantial portion of natural gas supply requirements of its core customers through September 2004. This strategy is followed to assure availability of adequate supplies to meet customer needs and to shield the Company and its core customers from price volatility. There is risk that market prices may fall below the price levels established in the contracts. However the WUTC and the OPUC support the Company's strategy, and have approved rates that reflect the recovery of the contracted prices. Thus the Company believes that regulatory policy, including Purchased Gas Adjustment mechanisms, assure the recovery of prudently incurred wholesale gas cost, and that the Company's commodity price risk is immaterial. Further, the Company does not engage in significant energy trading activities.

FORWARD LOOKING STATEMENTS

Statements contained in this report that are not historical in nature are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are subject to risks and uncertainties that may cause actual future results to differ materially. Such risks and uncertainties with respect to the Company include, among others, its ability to successfully implement internal performance goals, competition from alternative forms of energy, consolidation in the energy industry, the failure or inability of key natural gas suppliers to honor their commitments, the capital-intensive nature of the Company's business, regulatory issues, including the need for adequate and timely rate relief to recover increased capital and operating costs resulting from customer growth and to sustain dividend levels, the weather, increasing competition brought on by deregulation initiatives at the federal and state regulatory levels, the potential loss of large volume industrial customers due to "bypass" or the shift by such customers to special competitive contracts at lower per unit margins, exposure to environmental cleanup requirements, and economic conditions, particularly in the Company's service area.

Item 2. Changes in Securities

Under the terms of its bank credit agreement, the Company is required to maintain a minimum tangible net worth of \$104.6 million as of June 30, 2002. Under this agreement, approximately \$13.7 million was available for payment of dividends at June 30, 2002.

Item 5. Other Information

Ratio of Earnings to Fixed Charges:

| Twelve Months Ended | | | | | |
|---------------------|---------|---------|---------|---------|---------|
| 6/30/02 | 9/30/01 | 9/30/00 | 9/30/99 | 9/30/98 | 9/30/97 |
| 2.35 | 3.39 | 3.12 | 3.00 | 2.42 | 2.68 |

For purposes of this calculation, earnings include income before income taxes, plus fixed charges. Fixed charges include interest expense and the amortization of debt issuance expenses. Refer to Exhibit 12 for the calculation of these ratios, as well as the ratio of earnings to fixed charges including preferred dividends.

Item 6. Exhibits and Reports on Form 8-K

a.

Exhibits:

| No. | Description |
|------|--|
| 12 | Computation of Ratio of Earnings to Fixed Charges |
| 99.1 | Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

b.

Reports on Form 8-K:

The Company filed a Report on Form 8-K, dated June 20, 2002, to report the recording of the \$2.8 million Enron contract termination charge described in Part I of this Form 10-Q. See (i) the Notes to Consolidated Condensed Financial Statements under the caption "Commitments and Contingencies Gas Service Contracts", and (ii) Management's Discussion and Analysis of Financial Condition and Results of Operations under the caption "Results of Operations Contract Termination Charge."

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CASCADE NATURAL GAS CORPORATION

By: /s/ J. D. WESSLING

J. D. Wessling
Sr. Vice President Finance and Chief Financial Officer
(Principal Financial Officer)

Date: August 13, 2002

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SIGNATURE