

CASCADE NATURAL GAS CORP
Form 11-K
June 28, 2007

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11-K

**ANNUAL REPORT PURSUANT TO SECTION 15 (d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2006

Commission File Number 1-7196

CASCADE NATURAL GAS CORPORATION EMPLOYEE RETIREMENT SAVINGS PLAN AND TRUST

(Full Title of the Plan)

222 Fairview Avenue North, Seattle, WA 98109

(Address of the Plan)

CASCADE NATURAL GAS CORPORATION

222 Fairview Avenue North, Seattle, WA 98109

(Name and Address of the Issuer of Securities Under the Plan)

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustee (or other persons who administer the employee benefit plan) has duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

**CASCADE NATURAL GAS CORPORATION
EMPLOYEE RETIREMENT SAVINGS
PLAN AND TRUST**

DATE: June 28, 2007

/s/ Larry C. Rosok

Larry C. Rosok, Vice President
Human Resources and Corporate Secretary

Cascade Natural Gas Corporation Employee Retirement Savings Plan and Trust

Financial Statements as of and for the Years Ended December 31, 2006 and 2005, Supplemental Schedules as of and for the Year Ended December 31, 2006, and Report of Independent Registered Public Accounting Firm

CASCADE NATURAL GAS CORPORATION

EMPLOYEE RETIREMENT SAVINGS PLAN AND TRUST

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NOTE:

All other schedules required by Section 2520.103-10 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 have been omitted because they are not applicable.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Pension Committee of

Cascade Natural Gas Corporation

Employee Retirement Savings Plan and Trust

Seattle, WA

We have audited the accompanying statements of net assets available for benefits of Cascade Natural Gas Corporation Employee Retirement Savings Plan and Trust (the Plan) as of December 31, 2006 and 2005, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2006 and 2005, and the changes in net assets available for benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These schedules are the responsibility of the Plan's management. Such schedules have been subjected to the auditing procedures applied in our audit of the basic 2006 financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

Seattle, WA
June 25, 2007

CASCADE NATURAL GAS CORPORATION

EMPLOYEE RETIREMENT SAVINGS PLAN AND TRUST

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

AS OF DECEMBER 31, 2006 AND 2005

| | 2006 | 2005 |
|--|----------------------|----------------------|
| ASSETS: | | |
| Investments at fair value: | | |
| Mutual funds participant directed | \$ 29,909,465 | \$ 24,911,677 |
| Cascade Natural Gas Corporation common stock | 7,595,744 | 5,911,637 |
| Cash reserve account | 24,376 | 6,720 |
| | 37,529,585 | 30,830,034 |
| Receivables: | | |
| Participant contributions | 27,821 | 29,366 |
| Employer contributions | 14,225 | 14,336 |
| NET ASSETS AVAILABLE FOR BENEFITS | \$ 37,571,631 | \$ 30,873,736 |

See notes to financial statements.

CASCADE NATURAL GAS CORPORATION

EMPLOYEE RETIREMENT SAVINGS PLAN AND TRUST

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

| | 2006 | 2005 |
|---|---------------|---------------|
| ADDITIONS: | | |
| Contributions: | | |
| Participant | \$ 1,747,011 | \$ 1,803,525 |
| Employer | 1,727,413 | 1,579,882 |
| Investment income | 1,610,975 | 1,142,255 |
| Net appreciation in fair value of investments | 4,221,622 | 225,615 |
| | 9,307,021 | 4,751,277 |
| DEDUCTIONS Benefit distributions | 2,609,126 | 4,801,198 |
| INCREASE (DECREASE) IN NET ASSETS | 6,697,895 | (49,921) |
| NET ASSETS AVAILABLE FOR BENEFITS: | | |
| Beginning of year | 30,873,736 | 30,923,657 |
| End of year | \$ 37,571,631 | \$ 30,873,736 |

See notes to financial statements.

CASCADE NATURAL GAS CORPORATION

EMPLOYEE RETIREMENT SAVINGS PLAN AND TRUST

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

1. DESCRIPTION OF THE PLAN

The following description of the Cascade Natural Gas Corporation Employee Retirement Savings Plan and Trust (the *Plan*) is provided for general information purposes only. Participants should refer to the Plan document for more complete information.

General The Plan was established on January 1, 1991, and is a qualified defined contribution plan. All employees of Cascade Natural Gas Corporation and subsidiaries (the *Company* or *Plan Sponsor*) are eligible to participate in the Plan after completion of one year of employment in which the employee rendered no less than 1,000 hours of qualified service and was at least 21 years of age. The Plan is administered by the Pension Committee appointed by the *Company's* Board of Directors. Diversified Investment Advisors, Inc. (*Diversified*) serves as trustee of the Plan. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Contributions Under the provisions of the Plan, participants may contribute up to the maximum annual amounts allowable by the Internal Revenue Service (IRS). For eligible operations bargaining unit employees, the *Company's* matching contribution equals 75% of the employee's contribution, up to a maximum of 6% of eligible compensation. Of the total amount matched, one-third is matched in the form of Cascade Natural Gas Corporation stock through December 31, 2006. The remaining two-thirds is invested in any of the fund options at the direction of the participant. As of January 1, 2007, eligible operations bargaining unit employees hired on or before December 31, 2006, total matching contributions will be 25% of the employee's contribution, up to a maximum of 6% of eligible compensation. For eligible operations bargaining unit employees hired after December 31, 2006, total matching contributions will be 50% of the employee's contribution, up to a maximum of 6% of eligible compensation beginning on January 1, 2007, plus a 4% nonelective contribution will be implemented. For eligible nonbargained employees and bargained customer service representative employees, a 4% of eligible compensation, nonelective *Company* contribution began on October 1, 2003; a transition contribution of 1% to 4% based on age and service commenced on October 1, 2003, which will terminate on September 30, 2008; a profit-sharing component based on fiscal year *Company* profits was added to the Plan on October 1, 2003; and the match was reduced from 75% to 50% of eligible contributions, up to 6% of eligible pay, with no *Company* stock match, effective July 1, 2003. Commencing July 1, 2006, the match for eligible nonbargained employees and bargained customer service representative employees increased from 50% to 75% of eligible contributions, up to 6% of eligible pay. As the Cascade Natural Gas stock fund includes both participant-directed and nonparticipant-directed contributions, and the amounts are not separable, the disclosures in Note 6 include the entire balance of that fund.

Participant Accounts Each participant's account is credited with the participant's contribution and allocations of (a) the *Company's* contribution and (b) Plan earnings and charged with an allocation of administrative expenses. Allocations are based on participant earnings or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's account. Participants' voluntary contributions and employer matching contributions are 100% vested at all times.

Loans The Plan does not allow participants to make loans from their contributions, unless they are qualifying hardship withdrawals.

Investment Funds A participant may direct the investment of his or her account balance and contributions to any one or more of the available investment funds, as well as Company stock, except for the nonparticipant-directed portion of the Company match for the hourly union employees, which is directly invested in Company stock.

Benefit Distributions On termination of service due to death, disability, or retirement, a participant will receive a lump-sum amount equal to the value of the participant's account. Participants who terminate employment prior to reaching age 70-1/2 may defer receipt of the distribution until age 70-1/2 if the account balance has ever exceeded \$5,000. Mandatory distributions greater than \$1,000 will be rolled into an individual retirement plan designated by the Plan administrator, if the participant fails to provide an election for those funds. Account balances under \$1,000 will be distributed as soon as practicable after employment terminates. To the extent any account under the Plan is invested in Company stock, it will be distributed in whole shares of such stock and cash for fractional shares. To the extent any account under the Plan is invested in mutual funds, it will be distributed to the participant or surviving spouse in cash or rolled in-kind if so requested to another plan; distribution of such accounts to other death beneficiaries shall be in cash only. Participants' voluntary contributions may be withdrawn earlier, subject to certain hardship withdrawal provisions of the Plan.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of net assets available for benefits and changes therein. Actual results could differ from those estimates.

Investment Valuation and Income Recognition The Plan's investments are recorded at quoted market prices. Purchases and sales of securities are recorded on a trade-date basis. Dividends and interest income from investments are recorded as earned on an accrual basis and allocated to participants based upon participants' proportionate investment in each fund. The Plan presents in the statements of changes in net assets available for benefits the net appreciation (depreciation) in the fair value of its investments, which consists of the realized gains or losses and the unrealized appreciation or depreciation of those investments, from the beginning of the Plan year or the date of purchase, whichever is later.

Management fees and operating expenses charged to the Plan for investments in the mutual funds are deducted from income earned on a daily basis and are not separately reflected. Consequently, management fees and operating expenses are reflected as a reduction of investment return for such investments.

Administrative Expenses Costs of administering the Plan are paid by the Company.

Payment of Benefits Benefits are recorded when paid.

3. FEDERAL INCOME TAXES

The IRS has determined and informed the Company by a letter dated July 7, 2004, that the Plan and related trust are designed in accordance with applicable sections of the Internal Revenue Code (IRC). In this letter, the IRS has confirmed that the Plan has maintained its safe-harbor status. The Plan administrator and the Plan's tax counsel believe that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

4. INVESTMENTS

The Plan's investments that represent 5% or more of the Plan's assets available for benefits as of December 31, 2006 and 2005, are as follows:

| | 2006 | 2005 |
|--|---------------|---------------|
| Cascade Natural Gas Corporation Common Stock | \$ 7,595,744 | \$ 5,911,637 |
| Mutual Funds: | | |
| Diversified Money Market Fund* | 2,518,908 | 2,076,353 |
| Diversified International Equity Fund* | 4,787,250 | 3,710,613 |
| Diversified Value and Income Fund* | 4,607,998 | 3,835,538 |
| Diversified Core Bond Fund* | 2,968,763 | 2,899,975 |
| Transamerica Premium Core Equity Fund | 6,495,706 | 6,348,447 |
| Davis New York Venture Fund A | 2,626,710 | |
| Total | \$ 31,601,079 | \$ 24,782,563 |

* Party-in-interest

During the Plan years ended December 31, 2006 and 2005, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated (depreciated) in value as follows:

| | 2006 | 2005 |
|---|--------------|---------------|
| Investments at fair value as determined by quoted market price: | | |
| Cascade Natural Gas Corporation common stock fund | \$ 1,949,477 | \$ (525,172) |
| Mutual funds | 2,272,145 | 750,787 |
| Total | \$ 4,221,622 | \$ 225,615 |

* Party-in-interest

5. NONPARTICIPANT-DIRECTED INVESTMENTS

Information about the assets and the changes in net assets related to the Cascade Natural Gas stock fund, which includes both participant-directed and nonparticipant-directed contributions, at December 31, 2006 and 2005, is as follows:

| | 2006 | 2005 |
|--|--------------|--------------|
| Assets available for benefits January 1 | \$ 5,911,637 | \$ 7,059,346 |
| Participant contributions | 82,494 | 97,759 |
| Employer contributions | 213,032 | 224,265 |
| Investment income | 287,198 | 300,697 |
| Net appreciation (depreciation) in fair value of investments | 1,949,477 | (525,172) |
| Benefit distributions | (429,851) | (743,716) |
| Transfers | (418,243) | (501,542) |
| Assets available for benefits December 31 | \$ 7,595,744 | \$ 5,911,637 |

6. PARTY-IN-INTEREST TRANSACTIONS

Certain Plan investments are shares of mutual funds managed by Diversified. Diversified is the trustee as defined by the Plan and, therefore, these transactions qualify as party-in-interest transactions. Additionally, as the Plan holds investments in common stock of the Plan Sponsor, these transactions qualify as party-in-interest transactions.

7. NONEXEMPT PARTY-IN-INTEREST TRANSACTION

From July 2001 to current, a reportable nonexempt party-in-interest transaction has existed. Participant contributions in the amount of \$11,069 were withheld from employee wages, but were not remitted to the Plan until March 2006. The Plan will be corrected according to the guiding principles of the Department of Labor's Voluntary Fiduciary Correction Program (DOL's VFCP). Lost earnings in the amount of \$4,500 will be remitted to the Plan.

8. PLAN TERMINATION

The Company reserves the right to discontinue contributions or terminate the Plan at any time. In the event of any total or partial termination or discontinuance, the accounts of all affected participants shall remain fully vested and nonforfeitable. Upon termination of the Plan, the Company may either liquidate the trust or continue it to pay benefits as they mature. If the trust is liquidated, the net assets, after payment of expenses, will be allocated among participants and beneficiaries in proportion to their interests.

* * * * *

SUPPLEMENTAL SCHEDULES

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CASCADE NATURAL GAS CORPORATION

EMPLOYEE RETIREMENT SAVINGS PLAN AND TRUST

FORM 5500 SCHEDULE H, PART IV, LINE 4i SCHEDULE OF ASSETS

(HELD AT END OF YEAR)

AS OF DECEMBER 31, 2006

| Issuer | Description | Cost | Current Value |
|----------------------------------|--|--------------|---------------|
| Cascade Natural Gas Corporation* | Common Stock | \$ 6,218,017 | \$ 7,595,744 |
| Diversified* | High Yield Bond Fund | | ** 426,879 |
| Diversified* | Stock Index Fund | | ** 1,198,357 |
| Diversified* | Money Market Fund | | ** 2,518,908 |
| Diversified* | Short Horizon Strategic Allocation Fund | | ** 277,352 |
| Diversified* | International Equity Fund | | ** 4,787,250 |
| Diversified* | Long Horizon Strategic Allocation Fund | | ** 224,141 |
| Diversified* | Value and Income Fund | | ** 4,607,998 |
| Diversified* | Intermediate/Long Horizon Strategic Fund | | ** 237,248 |
| Diversified* | Intermediate/Short Horizon Strategic Fund | | ** 67,204 |
| Diversified* | Core Bond Fund | | ** 2,968,763 |
| Diversified* | Intermediate Horizon Strategic Allocation Fund | | ** 184,884 |
| Diversified* | Small Cap Growth Fund | | ** 177,888 |
| Davis | New York Venture Fund A | | ** 2,626,710 |
| Fidelity | Advanced Mid Cap A Fund | | ** 382,461 |
| Goldman Sachs | Small Cap Value A Fund | | ** 1,832,229 |
| Hotchkis & Wiley | Mid Cap Value Fund A | | ** 895,487 |
| Transamerica | Premium Core Equity Fund | | ** 6,495,706 |
| Diversified* | Cash Reserve Account | | 24,376 |
| | | | \$ 37,529,585 |

* Party-in-interest

** Cost information is not required for participant-directed investments and therefore is not included.

CASCADE NATURAL GAS CORPORATION

EMPLOYEE RETIREMENT SAVINGS PLAN AND TRUST

FORM 5500 SCHEDULE H, PART IV, LINE 4j SCHEDULE OF REPORTABLE TRANSACTIONS

FOR THE YEAR ENDED DECEMBER 31, 2006

| | Number of Transactions | Purchase Price | Selling Price | Cost of Assets | Net Gain |
|--|---------------------------|-------------------|------------------|-------------------|-------------|
| SERIES OF TRANSACTIONS: | | | | | |
| Diversified Investors Money Market Fund * | 150 | \$ 2,565,191 | \$ 2,115,993 | \$ 2,114,947 | \$ 1,046 |
| Diversified Investors International Equity Fund* | 141 | 1,399,778 | 926,859 | 763,287 | 163,572 |
| Diversified Investors Value and Income Fund* | 124 | 976,329 | 747,714 | 661,541 | 86,173 |
| Davis NY Venture Fund A | 107 | 1,379,829 | 515,721 | 456,903 | 58,818 |
| Transamerica Premium Core Equity Fund | 114 | 750,582 | 1,119,796 | 934,176 | 185,620 |
| Cascade Natural Gas Stock* | 107 | 695,098 | 960,439 | 877,206 | 83,233 |

* Party-in-interest

CASCADE NATURAL GAS CORPORATION

EMPLOYEE RETIREMENT SAVINGS PLAN AND TRUST

FORM 5500 SCHEDULE H, PART IV, QUESTION 4a

DELINQUENT PARTICIPANT CONTRIBUTIONS

FOR THE YEAR ENDED DECEMBER 31, 2006

| Party Involved | Relationship to Plan | Description of Transaction | Cost of Asset | Interest Earned |
|----------------------------------|-----------------------------|-----------------------------------|----------------------|------------------------|
| Cascade Natural Gas Corporation* | Plan Sponsor | Delinquent | \$ 11,269 | \$ 4,500 |

* Party-in-interest