St. Lawrence Gas Company, Inc.

Financial Statements

December 31, 2016 and 2015

St. Lawrence Gas Company, Inc.
Index
December 31, 2016 and 2015

Independent Auditor's Report

To Board of Directors and Stockholder of St. Lawrence Gas Company, Inc.:

We have audited the accompanying financial statements of St. Lawrence Gas Company, Inc., which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of income and comprehensive income, of stockholder's equity and of cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting practices prescribed or permitted by the State of New York Public Service Commission, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of St. Lawrence Gas Company, Inc. at December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting practices prescribed or permitted by the State of New York Public Service Commission described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. As described in Note 1 to the financial statements, the financial statements are prepared by St. Lawrence Gas Company, Inc. in conformity with the accounting practices prescribed or permitted by the State of New York Public Service Commission, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the New York State Public Service Commission. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

May 12, 2017

PricewaterhouseCoopers LLP, 101 Seaport Blvd, Boston, MA 02210
T: (617) 530-5000, F: (617) 530-5001 www.pwc.com/us

St. Lawrence Gas Company, Inc.
Balance Sheets
December 31, 2016 and 2015

(in thousands)

	2016	2015
Assets		
Property, plant and equipment, at original cost		
Utility	$ 99,880	$ 97,705
Construction in progress	741	1,372
	100,621	99,077
Less: Accumulated depreciation	27,723	26,837
Total property, plant and equipment, net	72,898	72,240
Current assets		
Cash	26	114
Note receivable from subsidiaries	1,532	1,532
Accounts receivable, net of allowance for uncollectible accounts of $125 and $225 at December 31, 2016 and 2015, respectively	6,556	6,124
Gas stored underground	1,472	2,455
Other current assets	743	1,655
Amounts due from customers	-	534
Fair Value Swap	115	-
Regulatory assets (Note 2)	2,775	2,378
Total current assets	13,219	14,792
Other noncurrent assets		
Investment in subsidiaries	3,604	3,253
Materials and supplies	668	878
Regulatory assets (Note 2)	8,659	7,398
Total other noncurrent assets	12,931	11,529
Total assets	$ 99,048	$ 98,561

The accompanying notes are an integral part of these financial statements.

St. Lawrence Gas Company, Inc.
Balance Sheets
December 31, 2016 and 2015

(in thousands)

	2016	2015
Capitalization and Liabilities		
Capitalization		
Common stock, $10.00 par value per share; authorized 500,000 shares; issued and outstanding 435,000 shares	$ 4,350	$ 4,350
Accumulated other comprehensive loss associated with equity investment	(126)	(105)
Paid in capital	13,000	13,000
Retained earnings	18,444	17,088
	35,668	34,333
Long-term debt	7,000	5,600
Total capitalization	42,668	39,933
Current Liabilities		
Cash overdraft	138	386
Notes payable	4,422	2,802
Notes payable - Enbridge (U.S.) Inc.	25,000	29,000
Accounts payable	3,004	2,453
Amounts due to customers	1,902	2,575
Customer deposits	406	414
Accrued liabilities	1,172	741
Accrued taxes other than income taxes	267	193
Regulatory liabilities (Note 2)	1,252	123
Fair value of swap	-	125
Total current liabilities	37,563	38,812
Other Non-current Liabilities		
Pension and post employment benefits	5,673	5,671
Deferred income taxes	5,271	5,105
Total other noncurrent liabilities	10,944	10,776
Non-current Deferred Credits and Regulatory Liabilities		
Other deferred credits	356	353
Regulatory liabilities (Note 2)	7,517	8,687
Total noncurrent deferred credits and regulatory liabilities	7,873	9,040
Total capitalization and liabilities	$ 99,048	$ 98,561

The accompanying notes are an integral part of these financial statements.

St. Lawrence Gas Company, Inc.
Statements of Income and Other Comprehensive Income
December 31, 2016 and 2015

(in thousands)

	2016	2015
Operating revenue		
Sales	$ 30,250	$ 34,981
Transportation	8,907	8,605
Total operating revenue	39,157	43,586
Operating expenses and taxes		
Natural gas purchased	24,586	29,175
Operations and maintenance	8,524	9,337
Depreciation	1,938	1,561
Taxes other than income taxes	2,180	2,312
Total operating expenses	37,228	42,385
Operating income	1,929	1,201
Interest expense (net)	666	213
Income before income taxes and equity in earnings of subsidiaries	1,263	988
Income taxes	279	426
Net Income before equity in earnings of subsidiaries	984	562
Equity in earnings of subsidiaries	372	374
Net income	1,356	936
Other comprehensive income, net of tax		
Other comprehensive (loss) income of equity method subsidiary	(21)	101
Comprehensive income	$ 1,335	$ 1,037

The accompanying notes are an integral part of these financial statements.

St. Lawrence Gas Company, Inc.
Statements of Changes in Stockholder's Equity
December 31, 2016 and 2015

(in thousands)

	Common Stock	Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balances at December 31, 2014	$ 4,350	$ 13,000	$ 16,152	$ (206)	$ 33,296
Net income			936		936
Other comprehensive loss of equity method subsidiary net of $69 in taxes				101	101
Balances at December 31, 2015	4,350	13,000	17,088	(105)	34,333
Net income			1,356		1,356
Other comprehensive loss of equity method subsidiary net of $82 in taxes				(21)	(21)
Balances at December 31, 2016	$ 4,350	$ 13,000	$ 18,444	$ (126)	$ 35,668

The accompanying notes are an integral part of these financial statements.

St. Lawrence Gas Company, Inc.
Statements of Cash Flow
December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Net income	$ 1,356	$ 936
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	2,149	1,771
Deferred income taxes	166	1,175
Provision for bad debts	(100)	-
Equity in earnings of subsidiaries	(351)	(475)
Changes in assets and liabilities		
Accounts receivable	(332)	868
Gas stored underground	983	1,442
Prepaid expenses	912	593
Amounts due to (from) customers	(139)	(709)
Customer deposits	(8)	(14)
Accounts payable	(129)	(4,502)
Accrued liabilities	172	(4,441)
Accrued taxes other than income taxes	74	14
Regulatory assets, liabilities, deferred debits and other deferred credit	(396)	6,620
Pension contribution	(800)	(800)
OPEB contribution	(500)	(1,000)
Net cash provided by operating activities	3,057	1,478
Cash flows from investing activities		
Acquisition of property, plant and equipment	(4,172)	(4,270)
Contribution in Aid of Construction Received	2,042	769
Proceeds from disposal of property, plant, and equipment	3	19
Acquisition of materials and supplies	210	(491)
Contributions from subsidiaries	-	300
Net cash used in investing activities	(1,917)	(3,673)
Cash flows from financing activities		
Cash Overdraft	(248)	217
Net borrowings (repayments) on notes payable	3,020	(1,978)
Net borrowings (repayments) on grid note - Enbridge (U.S.)	(4,000)	4,000
Net cash provided by financing activities	(1,228)	2,239
Net (decrease)/increase in cash	(88)	44
Cash		
Beginning of year	114	70
End of year	$ 26	$ 114
Supplementary disclosures of cash flow information		
Cash paid (received) during the year for		
Interest	$ 542	$ 250
Income taxes, net of refunds	(723)	(1,120)
Non-cash items		
Purchases of fixed assets not settled	$ 680	$ 315

The accompanying notes are an integral part of these financial statements.

1. Nature of Business and Summary of Significant Accounting Policies

St. Lawrence Gas Company, Inc., dba Enbridge St. Lawrence Gas or St. Lawrence Gas (the "Company") is a regulated public utility in the business of selling and transporting natural gas to its customers in Northern New York State. The Company is a wholly owned subsidiary of Enbridge Gas Distribution, Inc. (the "Parent"), Canada's largest natural gas distribution company. In addition, the Company's wholly-owned subsidiary, St. Lawrence Gas Co., Service & Merchandising Corp, dba Enbridge Services, an unregulated business, primarily engages in the rental of gas appliances. The Company's wholly owned subsidiary, S.L.G. Communications Corp., an unregulated business, provides communication services to the utility.

Basis of Accounting
The Company prepares the financial statements in accordance with accounting practices prescribed or permitted by the Public Service Commission of the State of New York (PSC) which has jurisdiction over and sets rates for New York State gas distribution companies. The statutory accounting principles prescribed by the PSC differ from the accounting principles generally accepted in the United States ("GAAP"). Differences in accounting arise in these regulated operations from those otherwise expected in nonregulated businesses. These differences occur when the regulatory agencies exercise their statutory authority and render specific accounting and other ratemaking decisions. The most significant differences in the Company's financial statements are the following:

- Unbilled revenues are not recognized
- Regulatory assets and regulatory liabilities relating to income taxes are not recognized
- The presentation and accounting for investments in subsidiaries using the equity method of accounting.

Principles of Presentation
The financial statements of St. Lawrence Gas Company, Inc., presents the financial position and results of operations of its two wholly owned, and unregulated, subsidiaries, St. Lawrence Gas Co. Service & Merchandising Corp., and S.L.G. Communications Corp. using the equity method of accounting as prescribed by the Uniform System of Accounts described above.

Reclassification
Due to the adoption of the authoritative guidance regarding the presentation of deferred income taxes, certain prior year amounts have been reclassified to conform with current year presentation. The Company reclassified Deferred Income Taxes of $586 thousand previously shown as current assets in the Company's 2015 Financial Statements to Deferred income taxes shown as Other non-current liabilities on the Balance Sheets at December 31, 2016.

Use of Estimates
The preparation of financial statements in conformity with statutory accounting principles 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company's most significant estimates include, but are not limited to:

- Regulatory assets and liabilities;
- Allowance for bad debts;
- Injury and damages reserve;
- Pension and postretirement benefits; and
- Fair value of derivative instruments.

Risk and Uncertainties
The Company is subject to numerous enacted and pending federal and state governmental legislative and regulatory programs and proposals, many of which have or may have important effects on the operations of the Company in the areas of gas supply, safety, licensing, siting and operating of existing and future energy facilities, ratemaking, customers' billing and termination of service and the extent to which the Company and other utilities will be permitted to continue in the business of selling natural gas to customers, rather than simply transporting such natural gas. The number and scope of such programs and proposals at any given time varies and, accordingly, an assessment of their impact on the Company's financial statements is not presently determinable.

The Company is subject to a number of federal and state laws and regulations, some with retroactive effect, relating to the environment, toxic substances, production, release or storage of hazardous waste and substances, protection of employees and the public and the provision of appropriate information. The nature of the operations, facilities and properties of the Company is such that there is a continuing interface with the requirements of such laws and regulations. Environmental laws and regulations can subject a party to civil and criminal penalties and fines, damages and liabilities, in some cases of a multiple nature, and can also impose responsibility for remedial programs of great cost. The power of government agencies to impose fines and penalties and to require costly compliance programs has increased in recent years.

Management is unaware of any environmental matters that would result in a material impact to the Company's consolidated financial statements.

New Authoritative Accounting and Financial Reporting Guidance
In November 2015, the FASB issued authoritative guidance simplifying the presentation of deferred income taxes. The authoritative guidance requires entities with a classified balance sheet to present all deferred tax assets and liabilities as noncurrent. The Company adopted this guidance at December 31, 2016 on a retrospective basis.

Cash and Cash Equivalents
The Company considers all investments, purchased with a remaining maturity of three months or less, to be cash equivalents.

Property, Plant and Equipment
Utility plant is stated at the historical cost of construction. These costs include contractor charges, payroll, fringe benefits, materials and supplies and transportation costs. The Company charges normal repairs to maintenance expense. The cost of assets sold or retired are removed from the plant accounts at the time of sale or disposal and any resulting gain or loss is reflected in the accumulated depreciation account. The Company recorded gains of $2,900 and $18,600 in 2016 and 2015, respectively, from the sale of utility property.

The Company provides for depreciation using a straight-line method based on estimated economic lives of its assets. The depreciation rates used, expressed as an annual weighted average percentage of depreciable property, averaged 2.34% and 2.50% in 2016 and 2015 respectively. At the time utility properties are retired, the original cost plus costs of removal less salvage are charged to accumulated depreciation. Vehicle and equipment used on repairs and maintenance jobs resulted in depreciation expense of $150,000 in 2016 and $154,000 in 2015 being charged to operations and maintenance expense. Depreciation on vehicles and equipment used for capital work orders are capitalized to construction work in progress and amounted to $61,000 in 2016 and $56,000 in 2015. Total depreciation expense was $2,149,000 and $1,771,000 for the years ended December 31, 2016 and 2015, respectively.

The Company periodically assesses the recoverability of long-lived assets based on its current and future undiscounted cash flows. In addition, the Company's policy for the recognition and measurement of any impairment of long-lived assets has been to assess the current and anticipated future cash flows associated with the impaired asset. Impairment occurs when the cash flows do not exceed the carrying amount of the asset. The amount of the impairment loss is the difference between the carrying amount and its estimated fair value. At December 31, 2016 the Company did not have any assets that were impaired under this standard.

There was $28,000 and $1,816,000 of fixed assets included in Construction Work in Progress on the balance sheet at December 31, 2016 and 2015 related to the expansion of the Company's service territory into Franklin County.

Materials and Supplies
Materials and supplies, which primarily consist of spare parts used in capital construction (e.g. pipe, fittings), are stated at the lower of average cost or market.

Gas Stored Underground
Gas stored underground is stated at average cost, at an amount not to exceed the Company's expected selling price of the inventory.

Revenue and Natural Gas Purchases
The Company records revenues from residential and commercial customers based on meters read or estimated on a cycle basis throughout each month, while certain large industrial and commercial customers' meters are read at the end of each month. To the extent estimated meter readings differ from actual, this difference is reflected in subsequent month revenues when a meter reading is obtained. The Company does not accrue revenue for gas delivered but not yet billed, as the PSC requires that such accounting must be adopted during a rate proceeding, which the Company has not done. The Company's tariff contains mechanisms that provide for the recovery of the cost of gas applicable to all customers. Under these mechanisms, the Company periodically adjusts its rates to reflect increases and decreases in the cost of gas. Annually, the Company reconciles the

difference between the total gas costs collected from customers and the cost of gas. To the extent that estimated billing of gas costs differ from actual, receivables (regulatory assets) or payables (regulatory liabilities) to customers can accumulate on the balance sheet. The Company then either recovers it from, or refunds it to, customers over the following twelve-month period.

Enbridge Services engages primarily in the leasing of natural gas fueled appliances, such as water heaters, furnaces and HVAC units, to residential and commercial customers. Enbridge Services accounts for these leases as operating leases and recognizes rental revenue when billed monthly. Enbridge Services recovers its up-front cost of installation in the customer's monthly lease payment over the life of the lease and accordingly capitalizes this cost into rental property. The rental property is depreciated over the historical average useful life of the property, or 15.87 years.

Receivables

Trade accounts receivable are originally recorded at the invoice amount and incur a late payment fee for past due accounts. The allowance for doubtful accounts is management's best estimate of the amount of probable credit losses on accounts receivable. Management reviews the allowance for doubtful accounts periodically and past due balances are reviewed individually for collectability. Account balances are charged off against the allowance twelve months after a final bill is rendered.

Income Taxes

The Company follows the asset and liability approach to account for income taxes. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax benefits or consequences of operating loss carry forwards and temporary differences between the carrying amounts and the tax basis of assets and liabilities at tax rates expected to be in effect when such amounts are realized or settled. All years subsequent to and including 2013 for U.S. Federal and New York State remain open to examination by the taxing authorities.

Derivatives

Authoritative guidance for derivative instruments and hedging activities requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. Accounting for gains or losses resulting from the changes in the values of the derivatives will be dependent on the use of the derivative and whether it qualifies for hedge accounting.

Fair Value Measurements

Financial instruments have been accounted for in accordance with authoritative guidance issued by Financial Accounting Standards Board (FASB) which requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value.

Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entity's own assumptions about how market participants would value an asset or liability based on the best information available. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The hierarchy is broken down into three general levels: Level 1 is based upon quoted prices in active markets that the Company has the ability to access for identical assets and liabilities. Market price data is generally obtained from exchange or dealer markets; Level 2 is based on quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers and brokers; Level 3 is based on valuation techniques that use significant inputs that are unobservable as they trade infrequently or not at all. All of the Company's derivative instruments and plan assets have been determined to be Level 2.

Accounting for regulation

The Company is subject to regulation by the PSC, which has jurisdiction with respect to rates, service, accounting procedures, acquisitions and other matters. Therefore, the Company applies Accounting Standards Codification ("ASC") 980 "Regulated Operations" ("FASB ASC 980"). FASB ASC 980 requires cost-based, rate-regulated enterprises, such as the Company, to reflect the impact of regulatory decisions in their financial statements as regulatory assets and regulatory liabilities as appropriate.

Subsequent Events

The Company has evaluated subsequent events through the date its financial statements were available to be issued, May 12, 2017.

2. Regulatory Matters and Other Deferred Credits

Franklin County Expansion

On April 5, 2012, the Company submitted a revised Section 68 filing to the New York State Public Service Commission in Case 10-G-0295 requesting approval of the Company's model to fund its planned service territory expansion. An amended order in that case was issued July 13, 2012.

The construction associated with the expansion began in August 2012. As of December 2015, all 48 miles of transmission pipe had been energized. The drastic drop in fuel oil and propane prices in 2015 has negatively impacted customer growth and has delayed customer additions in the expansion area. As of December 2016 there are a total of 553 services installed in the expansion area of which 4487 are active. Total capital expenditure through 2016 was approximately $52 million. The total capital investment is estimated to be $70.0 million through 2019.

June 29, 2015 Rate Case

The Company filed a rate case on June 29, 2015 which was approved by the PSC on July 15, 2016 for a term of three years commencing June 1, 2016 through May 31, 2019.

The approved rate of return was 5.48% on a 48% equity ratio and the allowed return on equity is 9.00%. If the Company achieves a return on equity above 9.50%, the earnings above 9.5% and up to 10.0% will be shared 50%/50% between the Company and ratepayers. If the Company achieves a return on equity above 10.0% and up to 10.5% it will be shared 80%/20%; if the earnings are above 10.5% it will be shared 90%/10%. The calculation of earnings will be on an annual basis for each rate year beginning June 1, 2016.Any excess earnings that are owed to customers for each rate year will be placed in a deferred credit account for future disposition to be determined by the Commission.

Amortizations of Deferrals

A net balance of $2,493,000 is owed to customers resulting from over-collection on a number of amortizations. This amount will be refunded over the three years of the rate plan with a portion available in the two years following the plan.

Safety and Reliability Surcharge (SRS) Mechanism
The Company will be allowed to recover $1,073,000 of Operation and Maintenance expenses for in-line inspections costs over a five-year period at $214,600 per year.

2012 In-line Inspection Deferral
The Company will be allowed to recover 80% of a deferral petition of $216,400 filed with the Commission in 2012. The $173,100 approved amount will be amortized and recovered from customers over the term of the three-year rate plan.

Low Income Program
The Low-Income Program which was initiated in the company's previous case will continue. The program provides qualifying residential customers a $5 reduction in the monthly customer charge. In addition, included with the 2015 rate case, those customers who are eligible to receive Home Energy Assistance Program (HEAP) benefits will receive an additional $5 per month reduction to the customer charge on their bill. It is estimated the cost of the program will increase from $132,000 to $283,900 when compared to the Company's previous case. Cost differences between the actual Low-Income Program revenue and allowed revenue continue to be deferred for future disposition. In addition, customers in the Low-Income Program will continue to receive a waiver of 50% of service reconnection fees.

Revenue Decoupling Mechanism (RDM)
The Revenue Decoupling Mechanism for residential revenue continues in the 2015 rate case. In addition, the RDM will be allowed for commercial customers as well. The RDM will now reconcile both the actual residential and commercial delivery service revenue to allowed delivery service revenues which effectively adjusts the revenue for weather and customer usage for those service clarifications.

Depreciation Expense
As a result of a depreciation study that was submitted as part of the rate proceedings, new rates were implemented on a majority of the capital asset classifications.

True-ups for interest rates, capital expenditures and property taxes continue with this case.

The sharing threshold relating to the interruptible revenue sharing mechanism was increased from $1,800,000 to $2,436,000, after which earnings or losses on the first $100,000 will be shared 15%/85% between the Company and ratepayers, respectively, and the balance is surcharged or refunded to SC-1 and SC-2 customers.

Other Regulatory Matters
In June 1998, Niagara Mohawk Power Corporation, purchaser of electrical output from four cogeneration plants, located within the Company's service territory, reached agreement with each of these projects to end its obligation to purchase their power production. The Company received $7.3 million in settlement proceeds from one cogeneration project to extinguish its obligations to the Company. The Company recorded the proceeds as deferred revenue and started amortizing the deferred balance in July 1998. At December 31, 2016 and 2015, the remaining net cost of plant not recovered from the cogeneration project is $2.4 million and $2.5 million, respectively, and is being recovered through depreciation charges in the PSC approved rates. Based on 2016 the depreciable basis and current depreciation rates, the plant will be fully depreciated in 29 years.

2005 Rate Case

The Company filed an updated depreciation study with this rate case. From this study, it was determined that the Company has an excess of $3,600,000 in depreciation reserve. Of this amount, $1,800,000 of the regulatory liability is classified as accumulated depreciation and is to be amortized over ten years. The amortization of the excess depreciation reserve, which approximated $180,000 in each of 2016 and 2015, was credited to depreciation expense in the statements of income. As of the end of December 2016, the initial $1,800,000 of excess depreciation was fully amortized. The remaining $1,800,000 is to be preserved until after the next depreciation study is performed. Until such time, it can be used for one-time, nonrecurring expenses such as an Area Revitalization Program and the Three Nations Bridge Crossing. Amounts expended under the Area Revitalization Program amounted to nil in 2016 and 2015.

The Company was allowed to defer and recover $704,000 of extraordinary costs incurred in 2005. At December 31, 2016 and 2015, the amounts not yet recovered were $3,000 and $11,000 respectively, and are shown as Deferrals – 2005 in the Regulatory Assets table below.

As of December 31, 2016 and 2015, the regulatory assets, regulatory liabilities and other deferred credits consist of the following:

(in thousands of dollars)		2016	2015
Other regulated assets and deferred debits			
Deferred Pension/OPEB Costs	1	$ 6,605	$ 6,940
Gas Adjustment Clause	2	3,854	1,906
Gas Supply Hedge	3	-	125
Legal and consulting fees - rate case	4	373	348
Deferrals - 2005	5	3	11
Revenue Decoupling Mechanism	7	280	-
MFC and DRA	6	-	14
Finance Case	15	21	12
Temporary State Assessment	8	298	420
		$ 11,434	$ 9,776
Deferred regulatory liabilities			
Deferred Pension/OPEB Costs	1	$ 3,857	$ 3,887
Excess Accumulated Depreciation	9	1,793	1,794
System Benefits Charge	10	518	583
Property Tax True-up	11	403	408
Low Income True-up	12	126	81
Interest Rate True-up	13	731	873
System Reliability Surcharge	16	43	-
Revenue - Deferrals - 2006	14	1,098	1,101
Revenue - Deferrals - 2015	17	62	-
Gas Supply Hedge	3	115	-
DRA	6	23	83
		$ 8,769	$ 8,810

1 Deferred Pension/Other Post-Employment Benefits (OPEB) costs per Case 08-G-1392 effective January 1, 2010 and extended per Case 15-G-0382, effective July 15, 2016 retroactive to June 1, 2016.

2 Gas Adjustment Clause and unrecovered gas costs. Open period September 1 – August 31. Closed period surcharged/refunded January – December of the following year. Carrying costs accrue on closed cycles.

3 Gas Supply Hedge: Gains or losses recoverable from ratepayers through the Gas Adjustment Clause in the following year.

4 Legal and consulting fees – rate cases: Per Case 15-G-0382, includes legal and consulting fees to be amortized for a three-year period effective July 15, 2016 retroactive to June 1, 2016.

5 Deferrals – 2005: Per Case 05-G-1635, amortized from December 1, 2006 – December 31, 2016. Included in rate base.

6 MFC and DRA: Per Case 08-G-1392, removes from base revenue requirement gas procurement, salaries, gas control, return on storage costs, and uncollectible costs associated with gas commodity costs related to sales and transportation service. Any over or under collection is reconciled on a calendar year basis and surcharged or refunded in the following calendar year. Interest is charged on the closed cycle balance.

7 Revenue Decoupling Mechanism: Per Case 08-G-1392, applies to residential sales and transportation customers and reconciles actual delivery service revenues to allowed delivery service revenue. Per Case 15-G-0382, applies to commercials sales and transportation customers as well. It includes revenue effects related to weather. The revenue per customer method is used. Reconciliation will be done on a rate year basis, June 1 – May 31 with a stub period adjustment. Interest is charged on the closed cycle balance. The balance is surcharged or refunded April – March.

8 Temporary State Assessment: Section 18-a of New York State's Public Service Law provides for assessing the total costs of the Public Service Department and Commission from regulated utilities. In 2009 an amendment required that Department of Public Service also collect a Temporary State Assessment effective April 1, 2009 to March 31, 2014 (later extended to 2017) for the support of the State's General Fund. It imposed a two percent charge on gross annual intrastate operating revenues including estimated energy supply Company revenues, minus the amount of the utility's General Assessment. The collection period runs July 1 – June 30. The amount collected is reconciled annually and any over or under collection is surcharged or refunded over a twelve-month period beginning the following July 1, along with the current year's rate. Interest and uncollectible expense are charged on the closed cycle balance.

9 Excess Accumulated Depreciation: net of amounts expended.

10 Systems Benefits Charge: Per Commission Orders in Cases 07-M-0548 and 08-G-1021. Effective October 1, 2008 for residential customers and October 1, 2010 for small commercial customers. Revenues collected through a surcharge are used to fund an energy efficiency program. In effect October 1, 2008 to December 31, 2011. A second program runs from 2012-2015. Accumulated unspent System Benefit Charge will be refunded to customers June 1, 2016 – May 31, 2019 per Case 15-G-0382.

11 Property Tax True-up: Effective January 1, 2010 – December 31, 2012 (or until changed by order of the Public Service Commission) in Case 08-G-1392 and effective June 1, 2016 – May 31, 2019 (or until changed by order of the Public Service Commission) in Case 15-G-0382. The difference between actual property tax expense and the amount allowed in rates is deferred in a separate account for future disposition, 90% ratepayers/10% shareholder. The shareholder portion is excluded from the earnings sharing mechanism.

12 Low-Income Rate True-up: Effective January 1, 2010 until changed by order of the Public Service Commission) in Case 08-G-1392. Effective June 1, 2016, with Case 15-G-0382, the difference between the actual program costs and $284,000 allowed in rates to be deferred for future disposition.

13 Interest Rate True-up: Effective January 1, 2010 or until changed by order of the Public Service Commission) in Case 08-G-1392. The actual variable rate long and short-term debt costs are to be trued up to the amount allowed in rates and are being amortized over a three-year period effective July 15, 2016 retroactive to June 1, 2016. Case 15-G-0382, the Company is allowed to defer actual variable short term debt over or under 1.473% for each rate year beginning July 1, 2016 retroactive to June 1, 2016. The over and or under accruals would accumulate for future disposition to be determined by the Commission.

14 Revenue – Deferrals – 2006: As of December 31, 2012, the 2006 deferrals were fully amortized. The Company began deferring the revenue still being collected and created deferred liability accounts. As per Rate Case 15-G-0382, effective July 15, 2016 retroactive to June 1, 2016, the Company started to refund the deferrals to rate payers over a three-year period.

15 Finance Case: Finance Case 13-G-0299 allows the Company to defer expenses related to its financing of debt. Those expenses will be amortized over the period of time consistent with the term of the issuance.

16 System Reliability Surcharge: Case 15-G-0382, the Company is allowed to recover $1,073,000 of Operations and Maintenance expense related to in-line inspections of portions off the Company's pipeline. The recovery is for a five-year period, effective July 15, 2016 retroactive to June 1, 2016 at $214,600 per year.

17 Revenue – Deferrals – 2015: Case 15-G-0382, The Commission allowed unused deferral credit balances (Surcredits), to extend two years beyond the three-year term of the rate case to avoid significant bill impacts if the Company does not file for new rates.

(in thousands of dollars)		**2016**	**2015**
Other Deferred Credits			
Administrative Overheads	1	$ 39	$ 56
Injuries and Damages Reserve	2	125	125
Workers' Compensation Reserve	3	100	100
Dental Reserve	4	30	29
Building Maintenance Reserve	5	62	43
		$ 356	$ 353

1 Administrative Overhead – Cogen contracts: Overheads were charged to capital cost of constructing facilities to three cogeneration customers. The offsetting credit was placed in this account. Per order dated September 29, 1995 in Case 94-G-0686, the administrative overhead credits are to be amortized over the remaining life of each contract.

2 Injuries and Damages Reserve: Provides a reserve for the $250,000 deductible on Commercial General Liability insurance coverage.

3 Workers' Compensation Reserve: Provides a reserve for $100,000 deductible on Workers' Compensation insurance coverage.

4 Dental Reserve: The Company is self-insured for Dental Insurance.

5 Building Maintenance Reserve: To provide a reserve for building maintenance and improvements for expenses greater than $500 that are incurred no more than every three years, or on a case-by-case basis.

3. Notes Payable

Through Key Bank National Association, the Company entered into a loan agreement effective June 23, 2016. The agreement provides the Company a $6,000,000 line of credit through June 23, 2019. This agreement replaced an agreement the Company had with HSBC Bank USA. Advances under the line are payable on demand with interest, as elected by the Company, at the lender's prime rate, London Interbank Offered Rate (LIBOR) plus 01.10% (rounded to the next whole multiple of 1/16th if such rate is not a multiple). The rate on outstanding advance was 01.7875% at December 31, 2016. The rate, on the comparable agreement with HSBC, was .92% at December 31, 2016. Outstanding balances under the lines of credit at December 31, 2016 and 2015 were $4,422,000 and $2,802,000, respectively.

Enbridge (U.S.) Inc., an affiliate of the Company, provides working capital in return for a short-term note payable. As at December 31, 2016 and 2015, $25,000,000 and $29,000,000 remained outstanding on the note, respectively. The interest rate on the note payable is the average interest rate on short-term debt charged by Key Bank and HSBC Bank USA under the Credit Facility between the Company and the respective banks for the month (approximated 01.65% and 0.80% at December 31, 2016 and 2015, respectively). Interest expense incurred under this note payable with Enbridge (U.S.) Inc. was $327,000 in 2016 and $176,000 in 2015.

4. Long-term Debt

The Company entered into a long term loan agreement with Key Bank National Association effective March 4th, 2016. The maturity date of the agreement is July 3, 2019. The loan agreement replaces the revolving credit agreement the Company had with HSBC Bank USA. The interest rate over the term of the agreement is fixed at 2.98%. As of December 31, 2016, the outstanding balance was $7,000,000 at 2.98%. The rates on the former loan agreement with HSBC Bank as of December 31, 2015 were 0.92% on $ $2,000,000 and 1.11% on $3,600,000.

Borrowings under the long term debt agreement are conditional upon compliance with certain covenants, including maintaining a Fixed Charge Coverage Ratio of not less 1.00:1 and a Total Senior Debt Funded Debt/Tangible Net Worth Ratio equal to or less than 55% measured on a quarterly basis. At December 31, 2016 the Company was in compliance with both covenants.

Long-term debt consists of the following at December 31, 2016 and 2015:

(in thousands of dollars)	2016	2015
Revolving credit agreement	$ 7,000	$ 5,600

Maturities of long-term debt at December 31, 2016 are as follows:

(in thousands of dollars)	
2017	$ -
2018	-
2019	7,000
2020	-
	$ 7,000

5. Pension Plan and Other Postretirement Benefits

The Company has a defined benefit pension plan covering substantially all of its employees. The benefits are based on years of service and the employee's highest average compensation during a specified period. The Company makes annual contributions to the plan equal to amounts determined in accordance with the funding requirements of the Employee Retirement Income Security Act of 1974. Contributions are intended to provide not only for benefits attributed for service to date, but also for those expected to be earned in the future.

The Company also maintains a postretirement benefit plan that provides medical and dental insurance benefits for current and eligible retired employees.

The changes in benefit obligations, plan assets and plan funded status for these pension and post retirement plans as of December 31, 2016 and 2015, respectively, are summarized as follows:

(in thousands of dollars)	**Pension Benefits 2016**	**Pension Benefits 2015**	**Other Retirement Benefits 2016**	**Other Retirement Benefits 2015**
Change in Benefit Obligation				
Benefit obligation at January 1	$ (13,016)	$ (14,662)	$ (10,036)	$ (10,822)
Service cost	(517)	(643)	(321)	(359)
Interest cost	(565)	(585)	(426)	(417)
Retiree drug subsidy receipts	-	-	(13)	(14)
Actuarial gain/(loss)	(638)	1,597	155	1,345
Benefits paid to participants	227	1,277	247	231
Benefit obligation at December 31	$ (14,509)	$ (13,016)	$ (10,394)	$ (10,036)
Change in Plan Assets				
Fair value of plan assets at January 1	$ 5,500	$ 5,717	$ 11,877	$ 10,880
Actual return on plan assets	263	260	518	(2)
Employer contributions	800	800	500	999
Benefits paid to participants	(227)	(1,277)	-	-
Fair value of plan assets at December 31	6,336	5,500	12,895	11,877
Funded/(unfunded) status	$ (8,173)	$ (7,516)	$ 2,501	$ 1,841
Accrued benefit cost	$ (5,324)	$ (4,862)	$ 3,688	$ 3,076
Unrecognized net actuarial gain/(loss)	(2,849)	(2,654)	(1,286)	(1,397)
Unrecognized prior service cost	-	-	99	163
Funded/(unfunded) status	$ (8,173)	$ (7,516)	$ 2,501	$ 1,842

Weighted average assumptions used to determine net periodic pension and postretirement benefit cost at December 31 are as follows:

	Pension Benefits 2016	**Pension Benefits 2015**	**Other Retirement Benefits 2016**	**Other Retirement Benefits 2015**
Discount rate	4.16%	4.38%	4.30%	3.90%
Expected return on plan assets	4.65%	4.65%	6.00%	6.00%
Rate of compensation increase	3.65%	3.65%	N/A	N/A

Weighted average assumptions used to determine year-end benefit obligations at December 31 are as follows:

	Pension Benefits 2016	**Pension Benefits 2015**	**Other Retirement Benefits 2016**	**Other Retirement Benefits 2015**
Discount rate	4.16%	4.38%	4.13%	4.30%
Expected return on plan assets	4.65%	4.65%	N/A	N/A
Rate of compensation increase	3.65%	3.65%	N/A	N/A

(in thousands of dollars)	**Pension**		**Other Retirement Benefits**	
	2016	**2015**	**2016**	**2015**
Accumulated benefit obligation ("ABO")	$ (10,953)	$ (9,698)	$ (10,394)	$ (10,035)
Fair value of plan assets	6,336	5,500	12,895	11,877
Excess ABO over fair value of plan assets	$ (4,617)	$ (4,198)	$ 2,501	$ 1,842

The following table summarizes the components of the net annual benefit costs.

(in thousands of dollars)	**Pension Benefits**		**Other Retirement Benefits**	
	2016	**2015**	**2016**	**2015**
Service cost	$ 517	$ 643	$ 321	$ 359
Interest cost	565	585	426	417
Expected return on plan assets	(272)	(260)	(736)	(683)
Amortization of prior service cost	-	-	(63)	(97)
Amortization of losses	452	613	175	92
Net benefit cost	$ 1,262	$ 1,581	$ 123	$ 88

Projected Benefit Payments for pension and postretirement plans (excluding Medicare subsidy receipts) are as follows:

(in thousands of dollars)	**Pension Benefits**	**Other Retirement Benefits**
Fiscal year		
2017	64	273
2018	68	290
2019	97	328
2020	123	358
2021	149	403
Thereafter	2,307	2,458

The table below represents the fair value measurements for plan assets. These plan assets are all classified as Level 2 according to the fair value hierarchy.

(in thousands of dollars)	Plan Assets 2016	Plan Assets 2015
Voluntary Employee Benefit Account (OPEB)		
Dreyfus Cash Management Fund (1)	$ 27	$ 400
ISHARES S&P National Municipal (2)	5,121	4,688
BGI ACWI US Superfund B (2)	3,870	3,450
BGI Equity Index Fund B (2)	3,982	3,464
	$ 13,000	$ 12,002

	Plan Assets 2016	Plan Assets 2015
St. Lawrence Gas Employee Pension Plan		
Massachusetts Mutual General Investment Acct. (2)	$ 6,346	$ 5,500

(1) Level 1 cash fund

(2) Level 2 funds are reported at net asset value which equals redemption price on that date.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the MMA) was reflected in the Company's accounting results under the assumption that the Company will continue to provide a prescription drug benefit to retirees that is at least actuarially equivalent to Medicare Part D and that the Company will receive the federal subsidy. The Patient Protection and Affordable Care Act signed into law on March 23, 2010, contains a provision which changes the tax treatment related to the Retiree Drug subsidy benefit under the Medicare Prescription Drug, Improvement and Modernization Act (under Medicare Part D). This change reduces the employer's deduction for the costs of health care for retirees by the amount of Retiree Drug Subsidy payments received. As reflected in footnote 2, the related deferred tax asset was eliminated. The elimination did not impact earnings as it was reflected in deferred tax assets and regulatory liabilities.

Estimated gross amount of Medicare subsidy receipts related to other retirement benefits:

(in thousands of dollars)	Other Retirement Benefits
Fiscal year	
2017	$ 21
2018	22
2019	23
2020	24
2021	25
Thereafter	156

Expected employer contributions to the pension net of employee contribution are approximately $800,000 for fiscal year 2017. Expected employer contributions to the post retirement plan, net of Medicare subsidy receipts, are approximately $240,000 for fiscal year 2017.

For measurement purposes, a 6.57% and 6.82% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2016 and 2015, respectively. The rate was assumed to decrease gradually to 4.5% in year 2037 and remain at that level thereafter.

The expected long-term rate of return on the pension plan assets is 4.65%, net of investment expenses. In determining the expected long-term rate of return on these assets, the Company considered the current level of expected returns on risk-free investments (primarily United States government bonds), the historical level of risk premiums associated with other asset classes, and the expectations of future returns on each asset class, based on the views of its advisors. The expected return for each asset class was then weighted based on the pension plan's asset allocation. The Company also considered expectations of value-added by active management, net of investment expenses.

The pension and OPEB plans seek to match the long-term nature of their funding obligations with investment objectives for long-term growth and income. Plan assets are invested in accordance with sound investment practices that emphasize long-term investment fundamentals. The plans recognize that assets are exposed to risk and the market value of assets may vary from year to year. Potential volatility is mitigated through a well-diversified portfolio structure, in accordance with the objective of both asset/liability management and stable long-term investment growth over the long term.

The pension plan assets are invested 100% in a general group annuity investment account and cash with the Plan's Trustee. The OPEB plan assets are primarily allocated 60% in Global Securities and 39% in Municipal Bonds, and less than 1% in cash equivalents. These accounts diversify their holdings among the following type of investments:

	Pension	**OPEB**
Short-term investments and cash	2.0%	0.2%
Equity mutual funds	1.0%	60.4%
Bonds and private placements	53.0%	39.4%
Mortgage and policy loans	23.0%	0.0%
Other	21.0%	0.0%

The effect of changing the assumed health care cost trend rates by one percentage point would change the Accrued Postretirement Benefit Obligation (APBO) at December 31, 2016 and the aggregate of the service and interest cost components of the net periodic postretirement benefit cost as follows:

(in thousands of dollars)	**1% Trend Decrease**	**1% Trend Increase**
APBO (at December 31, 2016)	$ (1,637)	$ 2,123
Service cost plus Interest cost	(136)	185

The balance of the Company's pension costs deferred for future recovery totaled $2,777,000 and $3,226,000 at December 31, 2016 and 2015, respectively. In the Company's most recent rate case, the PSC has allowed recovery of $1,998,000 in pension expenses per year. Differences to this allowable amount are deferred on the balance sheet for future rate cases filed with the PSC and such deferrals for the years ended December 31, 2016 and 2015 were $(449,000) and $1,147,000, respectively.

For the years ended 2016 and 2015, the balance of the Company's postretirement benefit costs deferred for future return to rate payers totaled $3,857,000 and $3,887,000, respectively. In the Company's most recent rate case the PSC has allowed a return to ratepayers of $456,000 in OPEB expenses per year. Differences to this allowable amount are deferred on the balance sheet for future rate cases filed with the PSC and such deferrals were $(30,000) and $762,000 for the years ended December 31, 2016 and 2015, respectively.

The non-utility allocation of FASB ASC 715 at December 31, 2016 and 2015 consists of the component of benefit costs not yet recognized in net periodic benefit cost (after tax) of $126,000 ($208,000 pre-tax) and $105,000 ($174,000 pre-tax), respectively. The amount to be recognized as a component of net periodic benefit cost in 2016 is not expected to be material.

FASB ASC 715 (net of non-utility allocations) related to pensions at December 31, 2016 and 2015 recorded in regulatory assets was $2,696,000 and $2,534,000 respectively. The amount recorded in regulatory assets (liabilities) related to OPEB was $1,132,000 and $1,180,000, respectively.

6. Income Taxes

The components of federal and state income taxes included in the statements of income are as follows:

(in thousands of dollars)	**2016**	**2015**
Utility		
Current	$ 89	$ (694)
Deferred	190	1,120
Total income tax expense	$ 279	$ 426

The Company files a combined tax return with its subsidiaries. The tables below present the reconciliation of combined tax expense calculated at the statutory rate to the income tax provision.

(in thousands of dollars)		
Unregulated		
Current	$ (89)	$ 198
Deferred	284	-
Total income tax expense	$ 474	$ 624

The provision for income taxes for the year ended December 31, 2016 and 2015 differs from the federal statutory rate of 35% due to the following:

(in thousands of dollars)	**2016**	**2015**
Expected tax expense	$ 641	$ 546
Increase (decrease) to expected tax expense due to		
Revaluation of Deferred Taxes	(185)	-
Fixed Asset Deferred Adjustment	(50)	-
State taxes, net of federal benefit and other	68	78
Total income tax expense	$ 474	$ 624

Deferred tax assets (liabilities) at December 31, 2016 and 2015 consisted of the following:

(in thousands of dollars)	**2016**	**2015**
Deferred income tax assets		
Unbilled revenue	$ 285	$ 239
Inventory costs	72	121
Deferred regulatory liability - tax rate changes	-	-
Pension and postretirement benefits	1,634	1,614
Interruptible Incentive Credit	-	244
Fair value of swap liabilities	-	52
Pension costs deferred	1,031	679
VEBA Carryforward	3,544	3,424
Allowance for uncollectible accounts	51	93
Federal net operating loss carryforward	4,936	4,505
Other deferrals	2,070	1,896
Total deferred income tax assets	13,623	12,867
Deferred income tax liabilities		
Property, plant and equipment	(16,857)	(15,860)
Deferrals - 2005	(1)	(5)
State income taxes	(83)	(121)
Other regulatory assets and deferred debits	(1,795)	(1,784)
Other deferrals	(53)	(202)
Interruptible Incentive Credit	(58)	-
Fair value of swap liabilities	(47)	-
Total deferred income tax liabilities	(18,894)	(17,972)
Net deferred income tax liabilities	$ (5,271)	$ (5,105)

Income taxes receivable of $67,000 and $948,000 were included in other current assets at December 31, 2016 and December 31, 2015.

7. Related Party Transactions

As described below, the Company has had significant transactions with related entities.

As part of ongoing operations, the Company utilizes Enbridge Gas Distribution and Enbridge Inc., for various administrative and systems services in the areas of gas supply and control, insurance, financial reporting, risk management, fringe benefits and computer operations. Management fees charged for these services which totaled $944,000 and $1,097,000 in 2016 and 2015, respectively, are included in the caption "Operations and maintenance" in the statements of income. These fees are not necessarily indicative of the costs that would have been incurred by the Company on a standalone basis.

The Company utilizes the expertise at Enbridge Inc. when entering into derivative financial instruments. See Note 8.

No dividends were declared or paid in 2016 or 2015.

Purchases of transmission service from Niagara Gas Transmission Limited, an affiliated company, amounted to $1,452,000 and $1,457,000 in 2016 and 2015, respectively.

In 2004, the Company's highly compensated employees were transferred to a supplemental pension plan sponsored by an affiliate, Enbridge Employee Services, Inc. ("EES"). These employees were no longer eligible for continued participation in the Company's plan. The EES plans cover employees of Enbridge Inc. and its subsidiary companies. EES funds the required contributions for the plan and bills the Company for its share of the amount. For the years ended December 31, 2016 and 2015, the Company paid EES approximately $30,700 and $35,200, respectively, on behalf of its employees.

The Company has a note payable to Enbridge (U.S.) Inc. (see Note 3).

8. Derivative Instruments

The Company enters into certain derivative transactions with its parent, Enbridge Inc., who executes these transactions with third parties on the Company's behalf. The Company utilizes two types of derivative instruments for the purpose of fixing the variable interest rates linked to the Company's debt, and fixing natural gas rates associated with the heating season. The fair value of these derivatives is recorded in the balance sheet as a net liability. There are no contingent collateral requirements that would necessitate additional disclosure.

The natural gas swaps are recorded as a liability in the balance sheet at its fair value with an offsetting regulatory asset reflected in the gas adjustment clause account. These charges will be reflected in future filings with the Public Service Commission of New York State on an annual basis. The purpose of these instruments is to fix a portion of the Company's future gas cost during the heating season, so as to reduce natural gas rate volatility on behalf of its customers. The use of these types of instruments has been approved by the Public Service Commission of New York State. Quantities are denominated in gigajoules ("GJ"). None of the Company's physical gas purchase contracts at December, 31, 2016 or December 31, 2015 are required to be measured at fair value.

(in thousands of dollars)

December 31, 2016 Type	Maturity	Notional Principal or Quantity	Fair Value Receivable/ (Payable) (1)	Realized Gains/ Losses (2)	Fixed Rate CDN$	Fair Value Unrealized gains/Losses Balance Sheet (3)
Natural Gas	November 1, 2016 - March 31, 2017	1300 GJ/day	$ 54	$ 16	$ 2.74	$ 54
Natural Gas	November 1, 2016 - March 31, 2017	1300 GJ/day	61	6	$ 2.67	61
			$ 115	$ 22		$ 115

December 31, 2015 Type	Maturity	Notional Principal or Quantity	Fair Value Receivable/ (Payable) (1)	Realized Gains/ Losses (2)	Fixed Rate CDN$	Fair Value Unrealized gains/Losses Balance Sheet (3)
Natural Gas	November 1, 2015 - March 31, 2016	1250 GJ/day	$ (71)	$ (43)	$ 3.15	$ (71)
Natural Gas	November 1, 2015 - March 31, 2016	1250 GJ/day	(54)	(31)	$ 2.91	(54)
			$ (125)	$ (74)		$ (125)

The Company categorizes its derivative assets and liabilities, measured at fair value, into one of three different levels depending on the observability of the inputs employed in the measurement. Level 1 instruments are valued based on quoted market prices in active markets for identical assets or liabilities, Level 2 instruments are valued based on observable market based inputs or unobservable inputs that are corroborated by market data, and Level 3 instruments are value based on unobservable inputs that are not corroborated by market data.

At December 31, 2016, all of the Company's derivative instruments are classified as Level 2. Derivatives in this category are valued using models or other industry standard valuation techniques, derived from observed inputs or corroborated in the market for the entire duration of the derivative.

9. Investment in Subsidiaries

The financial position and results of operations of the Company's two wholly owned unregulated subsidiaries, St. Lawrence Gas Co. Service & Merchandising Corp., and S.L.G. Communications Corp. are presented using the equity method of accounting as prescribed by the Uniform System of Accounts described in Footnote 1. The combined summarized financial results of these subsidiaries are presented in the schedule below.

Subsidiary Balance Sheet *(in thousands of dollars)*	**2016**	**2015**
Assets		
Property, plant and equipment, net	$ 4,535	$ 4,435
Current assets	1,273	1,006
Total assets	5,808	5,441
Liabilities		
Current liabilites and deferred credits	(215)	67
Intercompany notes payable	1,532	1,532
Deferred income taxes	768	485
Total liabilities	2,085	2,084
Shareholder's Equity	3,723	3,357
Total liabilities and shareholder's equity	$ 5,808	$ 5,441

Subsidiary Income Statement
(in thousands of dollars)

		2016		2015
Revenue	$	1,617	$	1,572
Operating expenses		1,017		972
Income before interest and taxes		600		600
Interest expense (net)		33		28
Income taxes		195		198
Net income	$	372	$	374

10. Commitments and Contingencies

The Company has agreements with five companies providing pipeline capacity to the St. Lawrence Gas system and/or pipeline capacity for storage transportation with terms that extend beyond 2015. These agreements require the payment of a demand charge for contracted capacity at approved rates. Purchased gas costs incurred under these capacity agreements during the years ended December 31, 2016 and 2015 amounted to $14,301,000 and $14,216,000, respectively. The Company also has short-term gas purchase agreements of varying lengths at negotiated prices. The Company does not anticipate that the contractual rights under these agreements will be in excess of normal capacity requirements.

The following schedule summarizes purchase commitments under gas supply contracts through December 31, 2019 and thereafter.

(in thousands of dollars) **Purpose**		**Total**		**2017**		**2018**		**2019 and Thereafter**
Firm Transportation	$	66,755	$	15,728	$	7,698	$	43,329
Storage Transportation Service		9,780		1,834		1,834		6,112
Commodity		-		-		-		-
Storage Capacity		256		128		128		-
	$	76,791	$	17,690	$	9,660	$	49,441

At December 31, 2016, the Company also has insurance policies through Enbridge Inc. for commercial general liability coverage with a deductible of $250,000 and property coverage with a deductible of $1,000,000.

The Company is involved in other legal actions in the ordinary course of business. Although the outcome of any such legal actions cannot be predicted, in the opinion of management, there are no legal proceedings likely to have a material adverse effect on the financial position, results of operations or cash flows of the Company.