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St. Lawrence Gas Company, Inc.
Financial Statements
December 31, 2012 and 2011

St. Lawrence Gas Company, Inc.

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December 31, 2012 and 2011

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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, 2012 and December 31, 2011, 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. This includes 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 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. 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, 2012 and December 31, 2011, 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, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States.

Emphasis of Matter

As discussed in Note 1 to the financial statements, these financial statements were prepared 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.

PricewaterhouseCoopers LLP

April 30, 2013

St. Lawrence Gas Company, Inc.
Balance Sheets
December 31, 2012 and 2011

(in thousands of dollars)

	2012	2011
Assets		
Property, plant and equipment, at original cost		
Utility	\$ 50,717	\$ 48,779
Construction in progress	14,572	6,373
	<u>65,289</u>	<u>55,152</u>
Less: Accumulated depreciation	(23,046)	(22,474)
Total property, plant and equipment, net	<u>42,243</u>	<u>32,678</u>
Current assets		
Cash	201	180
Note receivable from subsidiaries	1,962	1,962
Accounts receivable, net of allowance for uncollectible accounts of \$250,000 and \$275,000 at December 31, 2012 and 2011, respectively	4,274	3,934
Gas stored underground	1,989	3,199
Prepaid expenses	565	569
Deferred income taxes	1,084	1,122
Amounts due from customers	-	114
Regulatory assets	4,409	3,710
Total current assets	<u>14,484</u>	<u>14,790</u>
Other noncurrent assets		
Investment in subsidiaries	2,233	2,023
Materials and supplies	354	272
Regulatory assets	8,202	6,020
Total other noncurrent assets	<u>10,789</u>	<u>8,315</u>
Total assets	<u>\$ 67,516</u>	<u>\$ 55,783</u>

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

St. Lawrence Gas Company, Inc.
Balance Sheets
December 31, 2012 and 2011

(in thousands of dollars)

	2012	2011
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	(159)	(155)
Retained earnings	12,985	11,732
	<u>17,176</u>	<u>15,927</u>
Long-term debt	7,000	7,000
Total capitalization	<u>24,176</u>	<u>22,927</u>
Current liabilities		
Cash overdraft	-	81
Notes payable	2,995	2,983
Notes payable - Enbridge (U.S.) Inc.	13,000	8,000
Accounts payable	4,889	3,139
Amounts due to customers	2,753	2,189
Customer deposits	347	388
Accrued liabilities	1,416	1,261
Accrued taxes other than income taxes	279	194
Regulatory liabilities	27	31
Fair value of swap	21	500
Total current liabilities	<u>25,727</u>	<u>18,766</u>
Other non-current liabilities		
Pension and post employment benefits	8,701	6,175
Deferred income taxes	3,687	3,742
Total other noncurrent liabilities	<u>12,388</u>	<u>9,917</u>
Non-current deferred credits and regulatory liabilities		
Other deferred credits	406	368
Regulatory liabilities	4,819	3,805
Total noncurrent deferred credits and regulatory liabilities	<u>5,225</u>	<u>4,173</u>
Total capitalization and liabilities	<u>\$ 67,516</u>	<u>\$ 55,783</u>

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

St. Lawrence Gas Company, Inc.
Statements of Income
December 31, 2012 and 2011

(in thousands of dollars)

	2012	2011
Operating revenue		
Sales	\$ 34,642	\$ 33,084
Transportation	8,958	6,931
Total operating revenue	<u>43,600</u>	<u>40,015</u>
Operating expenses and taxes		
Natural gas purchased	29,437	25,893
Operations and maintenance	8,864	8,231
Depreciation	1,106	1,093
Taxes other than income taxes	2,278	2,215
Total operating expenses	<u>41,685</u>	<u>37,432</u>
Operating income	1,915	2,583
Interest expense (net)	369	352
Income before income taxes and equity in earnings of subsidiaries	<u>1,546</u>	<u>2,231</u>
Income taxes	577	886
Net Income before equity in earnings of subsidiaries	<u>969</u>	<u>1,345</u>
Equity in earnings of subsidiaries (net of income taxes)	284	244
Net income	<u>\$ 1,253</u>	<u>\$ 1,589</u>

Statements of Comprehensive Income
December 31, 2012 and 2011

(in thousands of dollars)

	2012	2011
Net income	\$ 1,253	\$ 1,589
Other Comprehensive Income, net of tax		
Other Comprehensive Loss of Equity Method Subsidiary	(73)	(49)
Derivative valuation adjustment, net of taxes	69	68
Comprehensive Income	<u>\$ 1,249</u>	<u>\$ 1,608</u>

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, 2012 and 2011

(in thousands of dollars)

	Comprehensive Income (loss)	Common Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balances at December 31, 2010					
Net income	\$ 1,589	\$ 4,350	\$ 10,143	\$ (174)	\$ 14,319
Dividends payable	-	-	1,589	-	1,589
Other Comprehensive Loss of Equity Method Subsidiary net of \$32 in taxes	-	-	-	-	-
Derivative valuation adjustment, net of \$45 in taxes	(49)	-	-	(49)	(49)
Comprehensive income	68	-	-	68	68
Balances at December 31, 2011	<u>\$ 1,608</u>				
Net income	1,253	4,350	11,732	(155)	15,927
Other Comprehensive Loss of Equity Method Subsidiary net of \$48 in taxes	(73)	-	1,253	-	1,253
Derivative valuation adjustment, net of \$45 in taxes	-	-	-	(73)	(73)
Comprehensive income	69	-	-	69	69
Balances at December 31, 2012	<u>\$ 1,249</u>	<u>\$ 4,350</u>	<u>\$ 12,985</u>	<u>\$ (159)</u>	<u>\$ 17,176</u>

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

St. Lawrence Gas Company, Inc.
Statements of Cash Flow
December 31, 2012 and 2011

(in thousands of dollars)

	2012	2011
Cash flows from operating activities		
Net income	\$ 1,253	\$ 1,589
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	1,271	1,206
Deferred income taxes	(17)	85
Provision for bad debts	(25)	(100)
Equity in earnings of subsidiaries	(211)	(245)
Changes in assets and liabilities		
Cash overdraft	(81)	(48)
Accounts receivable	(314)	891
Gas stored underground	1,210	(1,169)
Prepaid expenses	4	1,160
Amounts due to (from) customers	678	893
Customer deposits	(41)	(37)
Accounts payable	(296)	459
Accrued liabilities	2,198	469
Accrued taxes other than income taxes	85	69
Regulatory assets, liabilities, deferred debits and other deferred credits, net	(414)	785
Pension contribution	(482)	(502)
OPEB contribution	(937)	(2,417)
Net cash provided by operating activities	<u>3,881</u>	<u>3,088</u>
Cash flows from investing activities		
Acquisition of property, plant and equipment	(10,836)	(6,530)
Contribution Received	2,000	-
Proceeds from disposal of property, plant, and equipment	46	25
Acquisition of materials and supplies	(82)	(82)
Contributions to subsidiaries	-	(100)
Net cash used in investing activities	<u>(8,872)</u>	<u>(6,687)</u>
Issuance of long term debt	-	-
Net borrowings (repayments) on notes payable	12	1,693
Net borrowings (repayments) on grid note - Enbridge (U.S.)	<u>5,000</u>	<u>2,000</u>
Net cash provided by financing activities	<u>5,012</u>	<u>3,693</u>
Net increase/(decrease) in cash	21	94
Cash at beginning of year	180	86
Cash at end of year	<u>\$ 201</u>	<u>\$ 180</u>
Supplementary disclosures of cash flow information:		
Cash paid (received) during the year for:		
Interest	\$ 303	\$ 209
Income taxes, net of refunds	\$ 1,297	\$ (632)
Non-cash items		
Purchases of fixed assets not settled	\$ 2,046	\$ 29

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

St. Lawrence Gas Company, Inc.
Notes to Financial Statements
December 31, 2012 and 2011

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
- Uncertain tax positions are not recognized pursuant to Accounting Standards Codification ("ASC") 740 "Income Taxes".

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

The Company has reclassified \$149,000 from retained earnings to accumulated other comprehensive loss for the years ended December 31, 2011 and December 31, 2010.

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;

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- 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.

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 \$46,000 and \$25,000 in 2012 and 2011, 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 2.8% in 2012 and 2.8% in 2011. 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 \$124,000 in 2012 and \$113,000 in 2011 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 \$41,000 in 2012 and \$30,000 in 2011. Total depreciation expense was \$1,271,000 and \$1,236,000 for the years ended December 31, 2012 and 2011, respectively.

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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.

There was \$13,900,000 and \$5,904,000 of fixed assets included in Construction Work in Progress on the balance sheet December 31, 2012 and 2011 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

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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 2009 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 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 performed an evaluation of subsequent events through April 30, 2013, the date on which the financial statements were available to be issued and noted no other items requiring disclosure.

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.

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The construction associated with the expansion began in August 2012. The high pressure line, distribution to the anchor customers, and distribution mains and services within several villages and towns will be completed by December 2013. Total capital cost over five years, including the distribution systems, is estimated to be \$41 million, with expenditures to date of approximately \$14 million. The expansion area includes a potential 4,400 new customers for St. Lawrence Gas.

November 26, 2008 Rate Case

The Company filed a rate case on November 26, 2008 which was approved by the PSC on December 18, 2009 for a term of three years commencing January 1, 2010.

The approved rate of return was 6.75% on a 50% equity ratio and the allowed return on equity is 10.50%. If the Company achieves a return on equity above 11.0%, the earnings above 11.0% will be shared 50%/50% between the Company and ratepayers. The calculation of earnings will be cumulative for the three years and any excess earnings at the end of the three years will be deferred for future disposition to be determined by the Commission. The Company did not have an excess earnings deferral at the end of the three year period ending December 31, 2012.

Revenues were approved to increase by \$1,374,000 or 3.39% on January 1, 2010, \$785,000 or 1.90% on January 1, 2011, and \$213,000 or 0.51% on January 1, 2012. The rate increase is recoverable through residential and commercial revenue increases of \$1,829,000 and \$543,000, respectively, over the three years. There was no industrial firm rate increase. The average residential heating customer's bill was to increase by 4.6%, 3.1% and 1.6% in 2010, 2011 and 2012, respectively.

A Low-Income Program has been initiated whereby qualifying residential customers will receive a \$5 reduction in the monthly customer charge. Cost differences between the actual Low-Income Program revenue and allowed revenue will be deferred for future disposition. In addition, customers in the Low-Income Program will receive a waiver of 50% of service reconnection fees.

A Revenue Decoupling Mechanism for residential revenue will reconcile actual residential delivery service revenue to allowed delivery service revenues and will effectively adjust residential revenue for weather and customer usage.

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

The sharing threshold relating to the interruptible revenue sharing mechanism was increased from \$1,186,000 to \$1,800,000, after which earnings or losses on the first \$100,000 will be shared 15%/85% between the Company and ratepayers and the balance is surcharged or refunded to SC-1 and SC-2 customers.

On December 1, 2006, the Company filed a petition with the PSC to request the deferral of incremental increases in uncollectible accounts, regulatory costs, property taxes and the carrying cost of gas in storage in the aggregate amount of \$750,000. The PSC approved this request in April 2007 and the Company deferred this amount, with interest, as of December 31, 2009. Amortization of this deferral began January 1, 2010. The balances are shown as Deferrals – 2006 of nil in 2012 and \$300,000 in 2011 in the Regulatory assets table below.

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

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the deferred balance in July 1998. At December 31, 2012 and 2011, the remaining net cost of plant not recovered from the cogeneration project is \$2.8 million and \$2.9 million, respectively, and is being recovered through depreciation charges in the PSC approved rates.

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 2012 and 2011, was credited to depreciation expense in the statements of income. 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 2012 and 2011.

The Company was allowed to defer and recover \$704,000 of extraordinary costs incurred in 2005. At December 31, 2012 and 2011, the amounts not yet recovered were \$46,000 and \$57,000 respectively, and are shown as Deferrals – 2005 in the Regulatory Assets table below.

As of December 31, 2012 and 2011 the regulatory assets, regulatory liabilities and other deferred credits consist of the following:

<i>(in thousands of dollars)</i>		2012	2011
Other regulated assets and deferred debits:			
Deferred Pension/OPEB Costs	¹	\$ 6,752	\$ 3,975
Gas Adjustment Clause	²	4,251	3,944
Gas Supply Hedge	³	21	385
Legal and consulting fees - rate cases	⁴	29	85
Deferrals - 2005	⁵	46	57
Deferrals - 2006	⁶	-	300
Distribution Rate Adjustment	⁷	19	-
Revenue Decoupling Mechanism	⁸	594	287
Temporary State Assessment	⁹	899	697
		<u>\$ 12,611</u>	<u>\$ 9,730</u>
Deferred regulatory liabilities:			
Deferred Pension/OPEB Costs	¹	\$ 1,791	\$ 1,160
Tax Reform Act of 1986	¹⁰	74	101
Excess Accumulated Depreciation	¹¹	1,794	1,794
System Benefits Charge	¹²	391	287
Property Tax True-up	¹³	338	187
Low Income True-up	¹⁴	31	20
Interest Rate True-up	¹⁵	427	283
Other		-	4
		<u>\$ 4,846</u>	<u>\$ 3,836</u>

¹ Deferred Pension/Other Post Employment Benefits (OPEB) costs per Case 08-G-1392 effective January 1, 2010.

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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

⁴ Legal and consulting fees – rate cases: Per Case 08-G-1392, amortized from January 1, 2010 – December 31, 2012. Included in rate base. Legal and consulting fees – rate cases: Preliminary analysis and depreciation study for the next rate case.

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

⁶ Deferrals – 2006: Per Case 08-G-1392, amortized from January 1, 2010 – December 31, 2012. Included in rate base.

⁷ Distribution Rate Adjustment: 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 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.

⁸ 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 revenues. It also allows the Company to refund or surcharge the revenue effects related to weather. The revenue per customer method is used. Reconciliation is done on a calendar year basis. Interest is charged on the closed cycle balance. The balance is surcharged or refunded April – March.

⁹ 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 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.

¹⁰ Tax Reform Act of 1986: By Commission order dated September 16, 1991, the Company was directed to preserve the accumulated tax savings of the reduced Federal tax rate from 46% to 34%. In Case 95-G-0816 the Company was authorized to amortize the balance, with interest, over 20 years. The balance will be fully amortized in September 2015.

¹¹ Excess Accumulated Depreciation: net of amounts expended.

¹² 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. Annual reconciliations are performed on a calendar year basis and any over or under collection is included in the following year's rate. In effect October 1, 2008 to December 31, 2011. A new program will run 2012-2014.

¹³ Property Tax True-up: Effective January 1, 2010 – December 31, 2012 in Case 08-G-1392. 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.

¹⁴ Low-Income Rate True-up: Effective January 1, 2010-December 31, 2012 in Case 08-G-1392. The difference between the actual program costs and \$132,000 allowed in rates to be deferred for future disposition.

¹⁵ Interest Rate True-up: Effective January 1, 2010-December 31, 2012 in Case 08-G-1392. The actual variable rate long and short-term debt costs are to be true-up to the amount allowed in rates. The difference is to be deferred for future disposition. The Company will not be permitted to recover true-up interest rate costs in excess of 6.6%.

(in thousands of dollars)

Other Deferred Credits

		2012	2011
Administrative Overheads	⁷	\$ 117	\$ 145
Injuries and Damages Reserve	²	125	123
Workers' Compensation Reserve	³	82	35
Dental Reserve	⁴	10	15
Building Maintenance Reserve	⁵	72	50
		<u>\$ 406</u>	<u>\$ 368</u>

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¹ Administrative Overhead – Cogen contracts: Overheads were charged to capital cost of constructing facilities to three cogen 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 HSBC Bank USA, the Company maintains a \$5,000,000 unsecured line of credit which was available through December 31, 2012. 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 0.55%, or at the lender's internally developed rate plus 0.55%. The rate on outstanding advances was 0.72% and 0.70% at December 31, 2012 and 2011, respectively. Outstanding balances under the line of credit at December 31, 2012 and 2011 were \$2,995,000 and \$2,983,000, 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, 2012 and 2011, \$13,000,000 and \$8,000,000 remained outstanding on the note, respectively. The interest rate on the note payable is the average interest rate on short-term debt charged by HSBC Bank USA (the Bank) under the Credit Facility between the Company and the Bank for the month (approximated 0.71% and 0.70% at December 31, 2012 and 2011, respectively). Interest expense incurred under this note payable with Enbridge (U.S.) Inc. was \$61,000 in 2012 and \$38,000 in 2011.

4. Long-term Debt

The Company has a revolving credit agreement with HSBC Bank USA that provides for borrowings up to \$7,000,000 through December 13 of each year until such time as the bank provides notice of non-extension. Such notice of non-extension must be given between June 15 and September 15 of each calendar year. If notice of non-extension is given by the bank, the revolving portion of the credit agreement will expire 24 months subsequent to the next following anniversary of the effective date. Once the revolving portion of the agreement expires the Company shall repay amounts then outstanding under the revolving credit agreement in 20 equal quarterly installments commencing the first quarter after expiration. Interest rates on borrowed funds, as elected by the Company, are at the lender's prime rate, LIBOR plus 0.50%, or the lender's internally developed rate plus 0.50%. The rates on outstanding advances as of December 31, 2012 were 0.71% on \$2,500,000 and 0.86% on \$4,500,000 and in 2011 were 0.79% on \$2,500,000 and 0.87% on \$4,500,000.

Borrowings under the revolving credit agreement are conditional upon compliance with certain covenants, including maintaining a ratio of debt to net worth no more than 150%. At December 31, 2012 the Company was in compliance with this covenant.

Long-term debt consists of the following at December 31, 2012 and 2011:

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(in thousands of dollars)

	2012	2011
Revolving credit agreement	\$ 7,000	\$ 7,000

A notice of non-extension was given by the bank on September 6, 2012. Maturities of long-term debt at December 31, 2012 are as follows:

(in thousands of dollars)

2013	\$ -
2014	-
2015	1,400
2016	1,400
2017	1,400
Thereafter	2,800
	<u>\$ 7,000</u>

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.

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The changes in benefit obligations, plan assets and plan funded status for these pension and post retirement plans as of December 31, 2012 and 2011, respectively, are summarized as follows:

(in thousands of dollars)

	Pension Benefits		Other Retirement Benefits	
	2012	2011	2012	2011
Change in Benefit Obligation				
Benefit obligation at January 1	\$ (10,179)	\$ (8,257)	\$ (7,159)	\$ (6,605)
Service cost	(381)	(300)	(191)	(202)
Interest cost	(395)	(437)	(335)	(358)
Retiree drug subsidy receipts	-	-	(18)	(20)
Actuarial loss	(2,633)	(1,655)	(978)	(162)
Benefits paid to participants	607	470	204	188
Benefit obligation at December 31	<u>\$ (12,981)</u>	<u>\$ (10,179)</u>	<u>\$ (8,477)</u>	<u>\$ (7,159)</u>
Change in Plan Assets				
Fair value of				
plan assets at January 1	\$ 5,332	\$ 5,058	\$ 5,831	\$ 3,602
Actual return on plan assets	240	241	728	(20)
Retiree drug subsidy receipts	-	-	18	20
Employer contributions	482	503	937	2,417
Benefits paid to participants	(607)	(470)	(204)	(188)
Fair value of plan assets				
at December 31	<u>5,447</u>	<u>5,332</u>	<u>7,310</u>	<u>5,831</u>
Unfunded status	<u>\$ (7,534)</u>	<u>\$ (4,847)</u>	<u>\$ (1,167)</u>	<u>\$ (1,328)</u>
Accrued benefit cost	\$ (2,512)	\$ (2,036)	\$ (494)	\$ (1,143)
Unrecognized net				
actuarial loss	(5,022)	(2,811)	(1,128)	(737)
Unrecognized prior service cost	-	-	455	552
Unfunded status	<u>\$ (7,534)</u>	<u>\$ (4,847)</u>	<u>\$ (1,167)</u>	<u>\$ (1,328)</u>

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

	Pension Benefits		Other Retirement Benefits	
	2012	2011	2012	2011
Discount rate	3.20%	4.00%	4.75%	5.50%
Expected return on plan assets	4.65%	5.50%	6.00%	6.00%
Rate of compensation increase	4.00%	4.00%	N/A	N/A

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

	Pension Benefits		Other Retirement Benefits	
	2012	2011	2012	2011
Discount rate	3.20%	4.00%	4.00%	4.75%
Expected return on plan assets	4.65%	5.50%	N/A	N/A
Rate of compensation increase	4.00%	4.00%	N/A	N/A

(in thousands of dollars)

	Pension		Other Retirement Benefits	
	2012	2011	2012	2011
Accumulated benefit obligation ("ABO")	\$ (9,469)	\$ (7,292)	\$ (8,477)	\$ (7,159)
Fair value of plan assets	5,447	5,332	7,310	5,831
Excess ABO over fair value of plan assets	<u>\$ (4,022)</u>	<u>\$ (1,960)</u>	<u>\$ (1,167)</u>	<u>\$ (1,328)</u>

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

(in thousands of dollars)

	Pension Benefits		Other Retirement Benefits	
	2012	2011	2012	2011
Service cost	\$ 381	\$ 300	\$ 191	\$ 202
Interest cost	395	437	335	358
Expected return on plan assets	(249)	(290)	(355)	(283)
Amortization of prior service cost	-	-	(97)	(97)
Amortization of losses	431	282	214	239
Net benefit cost	<u>\$ 958</u>	<u>\$ 729</u>	<u>\$ 288</u>	<u>\$ 419</u>

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

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(in thousands of dollars)

Fiscal year	Pension Benefits	Other Retirement Benefits
2013	\$ 185	\$ 224
2014	411	249
2015	792	265
2016	622	278
2017	147	296
Thereafter	5,958	1,925

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)

Voluntary Employee Benefit Account	Plan Assets	
	2012	2011
Dreyfus Cash Management Fund (1)	\$ 637	\$ 308
ISHARES S&P National Municipal (2)	2,598	2,300
BGI ACWI US Superfund B (2)	2,068	1,512
BGI Equity Index Fund B (2)	2,007	1,711
	<u>\$ 7,310</u>	<u>\$ 5,831</u>

St. Lawrence Gas Employee Pension Plan	Plan Assets	
	2012	2011
Massachusetts Mutual General Investment Acct. (2)	<u>\$ 5,447</u>	<u>\$ 5,332</u>

(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.

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

(in thousands of dollars)

Fiscal year	Other Retirement Benefits
2013	\$ 21
2014	22
2015	24
2016	26
2017	28
Thereafter	167

Expected employer contributions to the pension net of employee contribution are approximately \$360,000 for fiscal year 2013. Expected employer contributions to the post retirement plan, net of Medicare subsidy receipts, are approximately \$1,203,000 for fiscal year 2013.

For measurement purposes, a 7.55% and 7.78% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2013 and 2012, respectively. The rate was assumed to decrease gradually to 4.5% in year 2027 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 40% in Municipal Bonds. These accounts diversify their holdings among the following type of investments:

	Pension	OPEB
Short-term investments and cash	2.0%	8.7%
Equity mutual funds	1.0%	55.7%
Bonds and private placements	58.0%	35.6%
Mortgage and policy loans	23.0%	0.0%
Other	16.0%	0.0%

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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, 2012 and the aggregate of the service and interest cost components of the net periodic postretirement benefit cost as follows:

<i>(in thousands of dollars)</i>	1% Trend Decrease	1% Trend Increase
APBO (at December 31, 2012)	\$ (1,335)	\$ 1,706
Service cost + Interest cost	(87)	112

The balance of the Company's pension costs deferred for future recovery totaled \$1,319,000 and \$1,121,000 at December 31, 2012 and 2011, respectively. In the Company's most recent rate case the PSC has allowed recovery of \$502,000 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, 2012 and 2011 were \$199,000 and \$61,000, respectively.

For the years ended 2012 and 2011, respectively, the balance of the Company's postretirement benefit costs deferred for future return to rate payers totaled \$1,791,000 and \$1,160,000. In the Company's most recent rate case the PSC has allowed recovery of \$763,000 in OPEB expenses per year. Differences to this allowable amount are appropriately deferred on the balance sheet for future rate cases filed with the PSC and such deferrals were \$630,000 and \$551,000 for the years ended December 31, 2012 and 2011, respectively.

The non-utility allocation of FAS 158 at December 31, 2012 and 2011 consists of the component of benefit costs not yet recognized in net periodic benefit cost (after tax) of \$159,000 (\$263,000 pre-tax) and \$86,000 (\$141,000 pre-tax), respectively. The amount to be recognized as a component of net periodic benefit cost in 2013 is not expected to be material.

FAS 158 (net of non-utility allocations) related to pensions at December 31, 2012 and 2011 recorded in regulatory assets was \$4,779,000 and \$2,675,000 respectively. The amount recorded in regulatory assets/(liabilities) related to OPEB's was \$655,000 and \$180,000 respectively.

St. Lawrence Gas Company, Inc.
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6. Income Taxes

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

<i>(in thousands of dollars)</i>	2012	2011
Utility:		
Current	\$ 656	\$ 850
Deferred	(79)	36
Total income tax expense	<u>\$ 577</u>	<u>\$ 886</u>

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.

Unregulated:		
Current	204	161
Total income tax expense	<u>781</u>	<u>1,047</u>

The provision for income taxes for the year ended December 31, 2012 and 2011 differs from the federal statutory rate of 35% due to the following:

<i>(in thousands of dollars)</i>	2012	2011
Expected tax expense	\$ 712	\$ 922
Increase (decrease) to expected tax expense due to:		
Other changes	(34)	-
State taxes, net of federal benefit and other	103	125
Total income tax expense	<u>\$ 781</u>	<u>\$ 1,047</u>

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Deferred tax assets (liabilities) at December 31, 2012 and 2011 consisted of the following:
(in thousands of dollars)

	2012	2011
Deferred income tax assets:		
Unbilled revenue	\$ 313	\$ 310
Inventory costs	92	163
Deferred regulatory liability - tax rate changes	25	34
Pension and postretirement benefits	2,370	1,413
Interruptible Incentive Credit	466	353
Fair value of swap liabilities	9	208
Pension costs deferred	496	715
Allowance for uncollectible accounts	104	114
Other deferrals	516	449
Total deferred income tax assets	<u>4,391</u>	<u>3,759</u>
Deferred income tax liabilities:		
Property, plant and equipment	(2,943)	(4,313)
Gas cost deferral	(197)	(215)
Deferred rate case costs	-	(23)
Deferrals - 2005	(19)	(24)
Deferrals - 2006	-	(125)
State income taxes	(145)	(126)
Other regulatory assets and deferred debits	(3,391)	(1,348)
Other deferrals	(299)	(205)
Total deferred income tax liabilities	<u>(6,994)</u>	<u>(6,379)</u>
Net deferred income tax liabilities	<u>\$ (2,603)</u>	<u>\$ (2,620)</u>

As of December 31, 2012 and 2011, the Company and its subsidiaries had total income taxes payable of \$188,000 and \$629,000, respectively.

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 \$1,551,000 and \$1,084,000 in 2012 and 2011, 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. As of December 31, 2012 and December 31, 2011 there was \$33,000 and \$ 36,000 respectively, of interest payable on the interest rate hedge. See Note 8.

No dividends were declared or paid in 2012 or 2011.

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Purchases of transmission service from Niagara Gas Transmission Limited, an affiliated company, amounted to \$2,100,000 and \$505,000 in 2012 and 2011, 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, 2012 and 2011, the Company paid EES approximately \$83,400 and \$79,700, 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 Company has hedge-designated the interest rate swap with the expectation it will be highly effective in reducing risk from movements in interest rates on its variable rate debt. Ineffectiveness is measured using the long-haul method and was immaterial for the years ended December 31, 2012 and 2011. The interest swap expired on December 31, 2012.

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 are 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, 2012 or December 31, 2011 are required to be measured at fair value.

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(in thousands of dollars)

December 31, 2012

Type	Maturity	Notional Principal or Quantity	Fair Value Receivable/ (Payable) (1)	Realized	Fixed Rate	OCI
	January 4, 2010					
Interest Rate	December 31, 2012	\$ 4,500	\$ -	\$ (126)	3.285%	\$ 69

December 31, 2012

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	Nov 1, 2012 - Mar 31, 2013	1250 GJ/day	\$ 6	\$ 25	\$ 2.85	\$ 6
Natural Gas	Nov 1, 2012 - Mar 31, 2013	1250 GJ/day	(27)	2	\$ 3.15	(27)
			<u>\$ (21)</u>	<u>\$ 27</u>		<u>\$ (21)</u>

(in thousands of dollars)

December 31, 2011

Type	Maturity	Notional Principal or Quantity	Fair Value Receivable/ (Payable) (1)	Realized	Fixed Rate	Gain in OCI
Interest Rate	Jan 4, 2010 - Dec 31, 2012	\$ 4,500	\$ (115)	\$ (134)	3.285%	\$ 68

December 31, 2011

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	Nov 1, 2011 - Mar 31, 2012	1250 GJ/day	\$ (203)	\$ (102)	\$ 4.53	\$ (203)
Natural Gas	Nov 1, 2011 - Mar 31, 2012	1250 GJ/day	(182)	(88)	\$ 4.34	(182)
			<u>\$ (385)</u>	<u>\$ (190)</u>		<u>\$ (385)</u>

** Alberta Split Price - AECO C/N.I.T. (TA) in CAD/GJ

(1) Location of derivative assets/liabilities in the statement of financial position: Fair value of swap liabilities

(2) Location of realized and unrealized gains/(losses) in the income statement: natural gas purchased

(3) Changes in fair value are deferred for the benefit of or recovery from rate payers in accordance with the terms of the 2008 rate order and an order in Case 98-G-1178 issued 12/16/1998.

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, 2012, 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 or corroborated in the market for the entire duration of the derivative.

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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)

	2012	2011
Assets		
Property, Plant and Equipment, net	4,108	3,968
Current assets	535	480
Total Assets	<u>4,643</u>	<u>4,448</u>
Liabilities		
Current liabilities and deferred credits	265	191
Intercompany accounts payable	38	64
Intercompany notes payable	1,962	1,962
Deferred Income Taxes	144	208
Total Liabilities	<u>2,409</u>	<u>2,425</u>
Shareholder's Equity	2,234	2,023
Total Liabilities and Shareholder's Equity	<u>4,643</u>	<u>4,448</u>

Subsidiary Income Statement
(in thousands of dollars)

	2012	2011
Revenue	1,442	1,313
Operating Expenses	898	852
Income before interest and taxes	544	461
Interest expense (net)	56	56
Income Taxes	204	161
Net Income	<u>284</u>	<u>244</u>

10. Commitments and Contingencies

The Company has agreements with four companies providing pipeline capacity to the St. Lawrence Gas system and/or pipeline capacity for storage transportation with terms that extend through 2012. 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, 2012 and 2011 amounted to \$15,521,000 and \$13,392,000, 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.

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The following schedule summarizes purchase commitments under gas supply contracts through December 31, 2015 and thereafter.

<i>(in thousands of dollars)</i>				
<u>Purpose</u>	<u>Total</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Firm Transportation	\$ 10,118	\$ 8,971	\$ 237	\$ 910
Storage Transportation Service	\$ 1,128	1,128	-	-
Commodity	\$ 1,329	1,329	-	-
Storage Capacity	\$ 369	369	-	-
	\$ 12,944	\$ 11,797	\$ 237	\$ 910

At December 31, 2012, 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.

