

**CENTRA GAS MANITOBA, INC.
ANNUAL REPORT ON
FIXED RATE PRIMARY GAS SERVICE
AS OF MARCH 31, 2011**

In July 2008, Centra Gas Manitoba, Inc. (“Centra”) applied to the Manitoba Public Utilities Board for approval to offer Primary Gas contracts at a fixed price and fixed term for Manitoba natural gas customers. The objectives of the Fixed Rate Primary Gas Service (“FRPGS”) were to respond to customer demand for more choices in the pricing of their Primary Gas service and to enhance the competitive marketplace for the benefit of all small volume customers.

The purpose of this report is to summarize the program results for Centra’s FRPGS for the fiscal year ended, March 31, 2011 (FY 2011).

Summary of Product Offerings (FY 2011)

The following table compares the fixed rate products offered during each of the four enrolment periods in FY 2011 with the corresponding Quarterly Primary Gas Rate in effect during the enrolment period. The differential between the Quarterly Primary Gas Rate and the FRPGS rates offered is also shown in the table. The enrolment periods were from August 13 to September 10, 2010 for November 1, 2010 flow, November 8 to 24, 2010 for February 1, 2011 flow, December 6, 2010 to January 7, 2011 for March 1, 2011 flow, and February 8 to March 10, 2011 for May 1, 2011 flow.

Product	Rates (\$/m ³) in Effect During Enrollment Period for Each Flow Date							
	Nov 1, 2010 Flow Date	Rate Diff.	Feb 1, 2011 Flow Date	Rate Diff.	Mar 1, 2011 Flow Date	Rate Diff.	May 1, 2011 Flow Date	Rate Diff.
Quarterly Rate	\$0.1810	---	\$0.1600	---	\$0.1600	---	\$0.1687	---
1-Year Fixed	\$0.1939	7%	\$0.1808	13%	\$0.1905	19%	\$0.1913	13%
3-Year Fixed	\$0.2148	19%	\$0.1988	24%	\$0.2060	29%	\$0.2019	20%
5-Year Fixed	\$0.2262	25%	\$0.2111	32%	\$0.2202	38%	\$0.2108	25%

Rates for Centra’s FRPGS products have varied from \$0.1808 to \$0.1939 for 1-Year products, \$0.1988 to \$0.2148 for 3-Year products and \$0.2108 to \$0.2262 for 5-Year products. All FRPGS products offered during the 2010/11 Fiscal Year have had a higher rate than Centra’s Quarterly Primary Gas Rate, with rate differentials ranging from a low of 7% to a high of 38%. By contrast, FRPGS products offered during the 2009/10 Fiscal Year had rate differentials ranging from a low of -5% to a high of 34%.

Summary of Product Subscriptions (FY 2011)

The following table presents the forecast volumes hedged for each of Centra's four FRPGS offerings in FY 2011, along with the actual percentage of volumes subscribed.

Volumes - Forecast & Actual Subscription

Product	Nov 1, 2010		Feb 1, 2011		Mar 1, 2011		May 1, 2011	
	Quantity Hedged (GJ)	% Subscribed	Quantity Hedged (GJ)	% Subscribed	Quantity Hedged (GJ)	% Subscribed	Quantity Hedged (GJ)	% Subscribed
1-Year Fixed	3,770	107.9%	3,080	79.6%	1,670	62.0%	1,640	34.2%
3-Year Fixed	10,230	103.7%	125,380	83.7%	43,110	160.7%	64,620	114.2%
5-Year Fixed	54,640	103.9%	81,020	84.2%	80,040	17.7%	13,100	61.6%
Total	68,640	103.4%	209,480	83.8%	124,820	67.7%	82,436	103.9%

The following table presents the forecast number of customers for each of Centra's four FRPGS offerings in Fiscal 2010/11, along with the actual number of contracted customers participating in the offerings.

Number of Customers - Forecast & Actual Subscription

Product	Nov 1, 2010		Feb 1, 2011		Mar 1, 2011		May 1, 2011	
	Forecast	Contracted	Forecast	Contracted	Forecast	Contracted	Forecast	Contracted
1-Year Fixed	22	12	17	22	17	30	22	9
3-Year Fixed	38	35	51	37	17	22	53	26
5-Year Fixed	52	19	64	18	50	26	21	27
Total	112	66	132	77	84	78	96	59

Customer attrition was forecasted to be 11.9% overall for the 2010/11 program year; however, actual attrition for the FRPGS in 2010/11 was less at 5%.

Financial Results

Program Operating Expense

Operating expenses for the FRPGS were forecasted to be \$271,000 for FY 2011. This budgeted amount represented the forecast of the program administration and marketing costs required to deliver FRPGS products to the market.

Actual operating expenses for 2010/11 were \$219,000 or \$52,000 lower than forecast, primarily due to lower labour hours and related overheads. Actual external costs related to advertising and promotion were slightly higher than forecast (\$9,000).

It is noted that the actual operating expenses for the FRPGS program in FY 2011 were \$135,000 lower than the actual operating expenses incurred in the previous fiscal year (\$219,000 in FY 2011 versus \$354,000 in FY 2010).

Results reported in 000's	2010/11		2009/10
	Budget	Actual	Actual
Labour			
Marketing	\$ 69	\$ 42	\$ 65
Gas Supply	\$ 30	\$ 51	\$ 47
Business Communications	\$ 3	\$ 2	\$ 14
Load Forecast	\$ 12	\$ 12	\$ 18
Call Centre	\$ 26	\$ 4	\$ 4
Billing	\$ 9	\$ 1	\$ 5
Accounting	\$ 7	\$ 3	\$ 7
Regulatory Services	\$ 7	\$ 17	\$ 6
Legal	\$ 8	\$ 1	\$ 1
Other	\$ -	\$ -	\$ -
Overhead	\$ 45	\$ 22	\$ 43
Marketing			
Advertising	\$ 50	\$ 64	\$ 144
General Material Purchase	\$ 1	\$ -	\$ -
Promotional Items	\$ 4	\$ -	\$ -
Total Costs	\$ 271	\$ 219	\$ 354

Program Financial Results (FY 2011)

FISCAL MARCH 31, 2011 FINANCIAL RESULTS FOR FIXED RATE PRIMARY GAS PROGRAM OFFERINGS

Results reported in 000's

	1 Year	3 Year	5 Year	Fiscal Mar 31/2011	Fiscal Mar 31/2010
Primary Gas Revenue	\$258	\$185	\$174	\$617	\$388
Less: Primary Cost of Gas Sold					
Cost of Gas ¹	(\$146)	(\$111)	(\$96)	(\$353)	(\$263)
Hedge Cost for Delivered Gas ²	(\$93)	(\$53)	(\$61)	(\$207)	(\$65)
Total Cost of Gas Sold	<u>(\$239)</u>	<u>(\$163)</u>	<u>(\$157)</u>	<u>(\$560)</u>	<u>(\$328)</u>
Gross Margin	<u>\$19</u>	<u>\$22</u>	<u>\$17</u>	<u>\$57</u>	<u>\$60</u>
Under/Over Subscribed Hedge Impacts ³	(\$84)	(\$43)	(\$111)	(\$238)	(\$76)
Program Operating Expense				(\$219)	(\$354)
Net Program Income (loss)				<u>(\$400)</u>	<u>(\$370)</u>
Other Costs					
Amortization of Start Up Costs ⁴				(\$100)	(\$100)
Mark to Market of Unsettled Hedges ⁵				\$52	(\$451)
Net Income Statement impact				<u>(\$448)</u>	<u>(\$921)</u>

Notes and explanations:

1. The cost of gas for the actual period is derived by applying the Fixed Rate Primary Gas Service contract volumes to the actual average unit cost of physical Primary Gas supplied to the load.

2. The hedge cost for delivered gas is the difference between the locked in cost of gas for each offering and the AECO monthly firm market index price for each period, multiplied by the contract volumes consumed by customers. It also includes hedge impacts on over/under consumed volumes.

3. Under/Over subscribed hedge impacts are the amounts either paid to or received from counterparties associated with excess hedge instruments due to under-subscription of offerings, as well as unhedged market price exposure impacts on over-subscribed primary gas volumes that have been subscribed but not hedged.

4. The amortization of start up costs represents 1 year of amortization of the deferred costs related to the introduction of the FRPGS program. These costs are amortized over a 5-year period with the annual amortization being recorded against the FRPGS offerings made in each year.

5. The mark to market cost of unsettled hedges for fiscal March 31, 2011 are the amounts expensed in fiscal 2011 relative to unrealized FRPGS hedges. During the future periods, these hedges will settle and net realized gains or losses will be recorded at that time.

Observations (FY 2011):

While the FRPGS program experienced a loss of \$448,000 for FY 2011, this represents an improvement in financial results compared to the previous year (a loss of \$921,000 in FY 2010). It is also noted that:

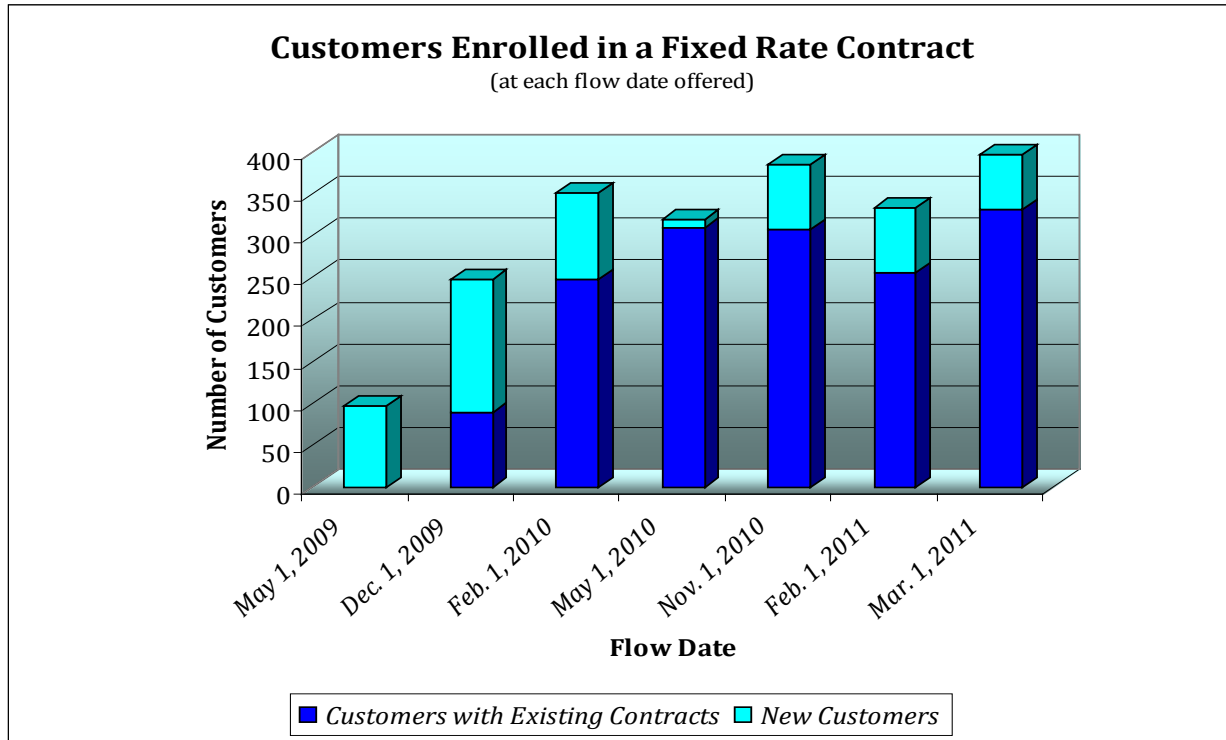
1. Of the \$448,000 loss, \$238,000 or 53% relates to the mark-to-market position of over/under subscribed hedges as at March 31, 2011;
2. Actual program operating expenses were \$52,000 lower than forecast (\$219,000 actual versus \$271,000 forecast);
3. Of the \$219,000 in program operating expenses, only \$64,000 was incremental, which related to advertising and promotional expenses.
4. Actual program operating expenses of \$219,000 were significantly lower than the actual operating expenses incurred in the previous fiscal year (\$354,000 in FY 2010), and
5. The loss incurred in 2010/11 was primarily attributable to lower customer subscriptions than forecast, along with a continued reduction in the market price of natural gas.

Only 31 (20%) of the 151 customers that have had 1-year FRPGS contracts come to an end, have chosen to sign another FRPGS contract.

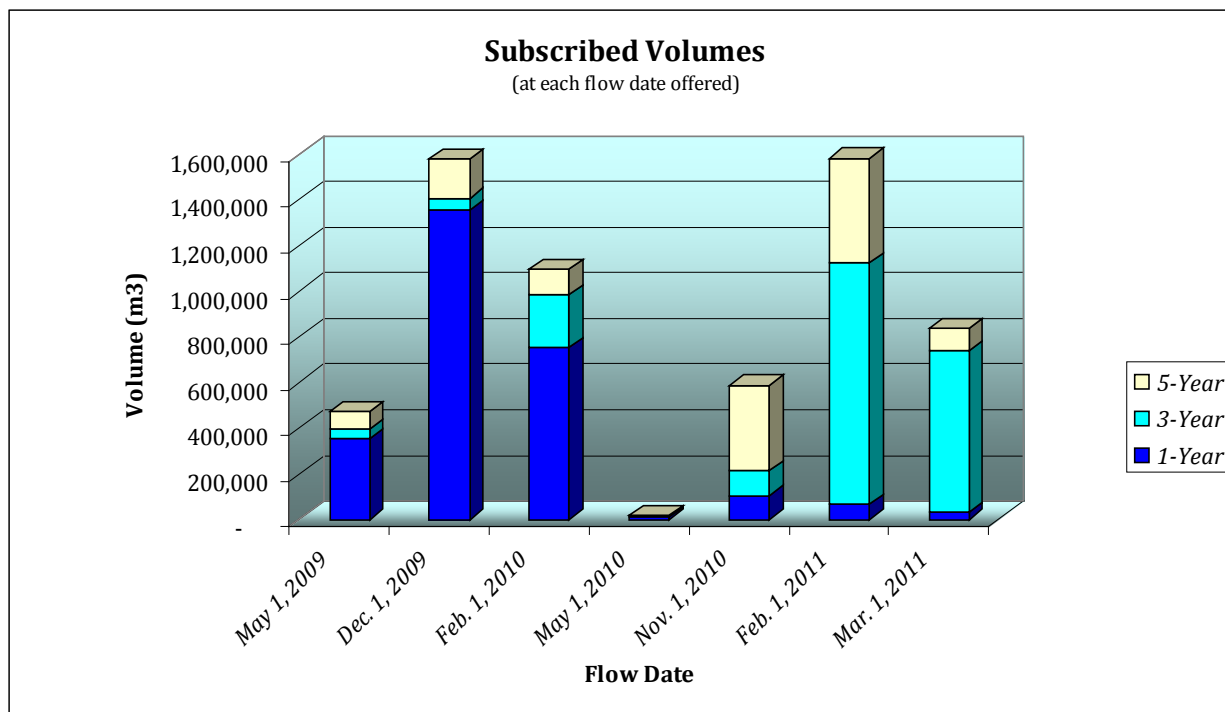
An average of three customers during each enrolment period cancelled their contract within the ten day cooling off period.

Program Results Since Inception

The following charts show the number of customers enrolled and the amount of volume subscribed in FRPGS offerings since its inception.



Customers Enrolled in FRPGS Contracts			
Flow Date	New Customers	Customers with Existing Contracts	Total # of Customers
May 1, 2009	97	0	97
Dec 1, 2009	159	88	247
Feb 1, 2010	105	247	352
May 1, 2010	10	310	320
Nov 1, 2010	78	307	385
Feb 1, 2011	66	267	333
Mar 1, 2011	62	335	397



Observations (since Inception):

The experience with offering fixed rate products indicates that consumer interest tends to be consistent with the findings of the market research undertaken in 2007:

- Without consideration of other factors, a significant number of customers preferred their rate for natural gas to be fixed for longer periods of time (e.g. 3 to 5 years);
- Although a significant number of customers preferred to have their natural gas rate fixed for a long period of time, a significant portion of customers were not willing to pay a premium for this option; and
- Of those customers willing to pay a premium for having their rates for natural gas fixed for a long period of time, the number of customers willing to pay the premium decreased as the premium increased. Very low interest was indicated when the premium is greater than 20-30%.

Low participation is likely also influenced by the recent declining and stabilizing natural gas prices.