CENTRA GAS MANITOBA, INC.
ANNUAL REPORT ON
FIXED RATE PRIMARY GAS SERVICE
AS OF MARCH 31, 2012

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 objective of the Fixed Rate Primary Gas Service (FRPGS) was to respond to customer demand for more choices in the pricing of their Primary Gas service, allowing customers to find the product that best meets their specific individual needs.

The purpose of this report is to summarize the program results for Centra's FRPGS for the fiscal year ended, March 31, 2012.

Background

Since inception of the program in 2008, Centra utilized financial derivatives to manage market price risk for its FRPGS products. On August 9, 2011, Centra sought price quotations on financial derivatives for 3 and 5 year offerings for a gas flow date of November 1, 2011. However, only one financial counterparty was willing to participate. Centra's derivatives policy requires that a minimum of three price quotations be obtained and therefore Centra did not place these derivatives.

Centra subsequently notified the PUB and sought approval to apply a proxy Primary Gas commodity price by taking the volume weighted strip prices at AECO (based on a designated market close date), then adding the average dealer premium experienced for the nine previous FRPGS offering to that date. Centra's request was approved by the PUB and the revised methodology was used to set prices for the second and third enrolment periods of FY 2012.

Summary of Product Offerings (FY 2012)

The following table compares the fixed rate products offered during each of the three enrolment periods in FY 2012 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 May 16 – June 9, 2011 for August 1, 2011 flow, August 25 – September 13, 2011 for November 1, 2011 flow and February 8 – March 13, 2012 for May 1, 2012 flow.

Product	**Rates ($/m^3) in Effect During Enrollment Period by Flow Date**					
	Aug. 1, 2011	Rate Differential	Nov. 1, 2011	Rate Differential	May 1, 2012	Rate Differential
Quarterly Rate	**$0.1548**	**---**	**$0.1468**	**---**	**$0.1105**	**---**
1-Year Fixed	*n/a*	*n/a*	*n/a*	*n/a*	$0.1500	36%
3-Year Fixed	$0.1975	28%	$0.1960	34%	$0.1661	50%
5-Year Fixed	$0.2095	35%	$0.2067	41%	*n/a*	*n/a*

All FRPGS products offered during FY 2012 have had a higher rate than Centra's quarterly rate, with rate differentials ranging from 28% to 50%. By contrast, FRPGS products offered during FY 2011 had rate differentials ranging from a low of 7% to a high of 38% and in FY 2010 rate differentials ranged from a low of -5% to a high of 34%.

A 1-year term was not offered during the May/June and August/September enrolment periods because pricing indications were showing a high price premium above Manitoba Hydro's quarterly rate. Past experience has demonstrated that interest in the 1-year product is low when there is a high price premium over the current quarterly rate. As such, Centra did not proceed with offering the 1-year product during those enrolment periods. For the February/March enrolment period, a 1-year product was offered in order to meet any potential customer demand for the 1-year term even though the price premium over the quarterly rate was significant. The 5-year term was not offered because Centra's rate would have been substantially higher than rates offered by competitors and would not be to the benefit of natural gas consumers.

Summary of Product Subscriptions (FY 2012)

The following table presents the forecast volumes hedged for Centra's FRPGS offerings in FY 2012, along with the actual volumes subscribed. Hedging was only used during the first enrolment period therefore volumes hedged are not reported for the Nov. 1, 2011 and May 1, 2012 flow dates.

Volumes - Forecast & Actual Subscription

Product	Aug. 1, 2011		Nov. 1, 2011		May 1, 2012	
	Quantity Hedged (GJ)	Volumes Subscribed (GJ)	Quantity Hedged (GJ)	Volumes Subscribed (GJ)	Quantity Hedged (GJ)	Volumes Subscribed (GJ)
1-Year Fixed	n/a	n/a	n/a	n/a	n/a	**3,013**
3-Year Fixed	**24,400**	**3,486**	n/a	**6,008**	n/a	**101,096**
5-Year Fixed	**8,690**	**5,337**	n/a	**17,946**	n/a	n/a
Total	**33,090**	**8,823**	n/a	**23,954**	n/a	**104,109**

The following table presents the forecast number of customers for Centra's FRPGS offerings in FY 2012, along with the actual number of contracted customers participating in the offerings. Hedging was only used during the first enrolment period therefore forecasted customers are not reported for the Nov. 1, 2011 and May 1, 2012 flow dates.

Number of Customers - Forecast & Actual Subscription

Product	Aug. 1, 2011		Nov. 1, 2011		May 1, 2012	
	Forecast	Contracted	Forecast	Contracted	Forecast	Contracted
1-Year Fixed	**0**	*n/a*	*n/a*	*n/a*	*n/a*	**12**
3-Year Fixed	**28**	**12**	*n/a*	**20**	*n/a*	**19**
5-Year Fixed	**26**	**17**	*n/a*	**18**	*n/a*	*n/a*
Total	**54**	**29**	*n/a*	**38**	*n/a*	**31**

Customer attrition was forecasted to be 10.4% overall for the 2011/12 program year; however, actual attrition for the FRPGS in 2011/12 was less at 6.8%.

Financial Results

Program Operating Expense

Operating expenses for the FRPGS were forecasted to be $166,000 for FY 2012. 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 FY 2012 were $109,000 or $57,000 lower than forecast, primarily due to lower labour hours and related overhead as well as reduced advertising costs.

The following table provides a summary of program operating expenses.

Program Operating Costs

	FY 2011/12		FY 2010/11	FY 2009/10
Results reported in 000's	**Budget**	**Actual**	**Actual**	**Actual**
Labour				
Marketing	$66	$37	$42	$65
Gas Supply	$29	$17	$51	$47
Business Communications	$0	$0.5	$2	$14
Load Forecast	$0	$0.5	$12	$18
Call Centre	$0	$2	$4	$4
Billing	$0	$0	$1	$5
Accounting	$0	$0.5	$3	$7
Rate Department	$0	$6	$17	$6
Legal	$0	$0.5	$1	$1
Other	$0	$0	$0	$0
Overhead	$16	$11	$22	$43
Marketing				
Advertising	$50	$28	$64	$144
Materials & Administration	$1	$1	$0	$0
Promotional Items	$4	$0	$0	$0
Other				
Computer Software	$0	$5	$0	$0
Total Costs	**$166**	**$109**	**$219**	**$354**

It is noted that operating expenses for the FRPGS have declined significantly since the first year of the program in FY 2010 ($354 in FY 2010, $219 in FY 2011 and $109 in FY 2012). This is primarily attributed to increased efficiencies in administration of the program (reduced labour costs).

Financial Results by Product Offering (FY 2012)

FISCAL MARCH 31, 2012 FINANCIAL RESULTS FOR FIXED RATE PRIMARY GAS PROGRAM OFFERINGS
Results reported in 000's

	1 Year	3 Year	5 Year	Fiscal Mar 31/2012	Fiscal Mar 31/2011
Primary Gas Revenue	$20	$552	$297	**$870**	**$617**
Less: Primary Cost of Gas Sold					
Cost of Gas [1]	($13)	($287)	($142)	**($442)**	**($353)**
Hedge Cost for Delivered Gas [2]	($3)	($179)	($106)	**($288)**	**($207)**
Total Cost of Gas Sold	($16)	($466)	($248)	**($730)**	**($560)**
Gross Margin	**$4**	**$86**	**$49**	**$140**	**$57**
Under/Over Subscribed Hedge Impacts [3]	($3)	($44)	($155)	**($202)**	**($238)**
Program Operating Expense				**($109)**	**($219)**
Net Program Income (loss)				**($171)**	**($400)**
Other Costs					
Amortization of Start Up Costs [4]				**($100)**	**($100)**
Mark to Market of Unsettled Hedges [5]				**($420)**	**$52**
Net Income Statement impact				**($691)**	**($448)**

Notes and explanations:

1. The actual cost of gas for the 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, 2012 are the amounts expensed in fiscal 2012 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 2012):

The Fixed Rate Primary Gas Service experienced a loss of $691,000 for FY 2012. It should be noted that:

1. Of the $691,000 loss, $202,000 relates to the mark-to-market position of over/under subscribed hedges and an additional $420,000 relates to the mark-to-market position of unsettled hedges as at March 31, 2012. These losses amount to 90% of the total program loss for FY 2012.
2. Program operating expenses were $57,000 lower than forecast ($109,000 actual versus $166,000 forecast).
3. Actual program operating expenses of $109,000 were significantly lower than the actual operating expenses incurred in previous fiscal years ($219,000 in FY 2011 and $354,000 in FY 2010).
4. The loss incurred in FY 2012 was primarily attributable to lower customer subscriptions than forecast, along with a continued reduction in the market price of natural gas.

Financial Results by Fiscal Year

FINANCIAL RESULTS FOR FIXED RATE PRIMARY GAS PROGRAM OFFERINGS FROM INCEPTION TO MARCH 31, 2012

Results reported in 000's

	Fiscal Mar 31/2009	Fiscal Mar 31/2010	Fiscal Mar 31/2011	Fiscal Mar 31/2012	Total Results
Primary Gas Revenue	$0	$388	$617	$870	$1,875
Less: Primary Cost of Gas Sold					
Cost of Gas [1]	$0	($263)	($353)	($442)	($1,058)
Hedge Cost for Delivered Gas [2]	$0	($65)	($207)	($288)	($560)
Total Cost of Gas Sold		($328)	($560)	($730)	($1,618)
Gross Margin		$60	$57	$140	$257
Unsubscribed Hedge Impacts [3]	$0	($76)	($238)	($202)	($516)
Program Operating Expense	($66)	($354)	($219)	($109)	($748)
Net Program Income (loss)	($66)	($370)	($400)	($171)	($1,007)
Other Costs					
Amortization of Start Up Costs [4]	$0	($100)	($100)	($100)	($300)
Mark to Market of Unsettled Hedges [5]	($77)	($451)	$52	($420)	($897)
Net Income Statement Impact	($143)	($921)	($448)	($691)	($2,204)

Notes and explanations:

1. The actual cost of gas for the 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.

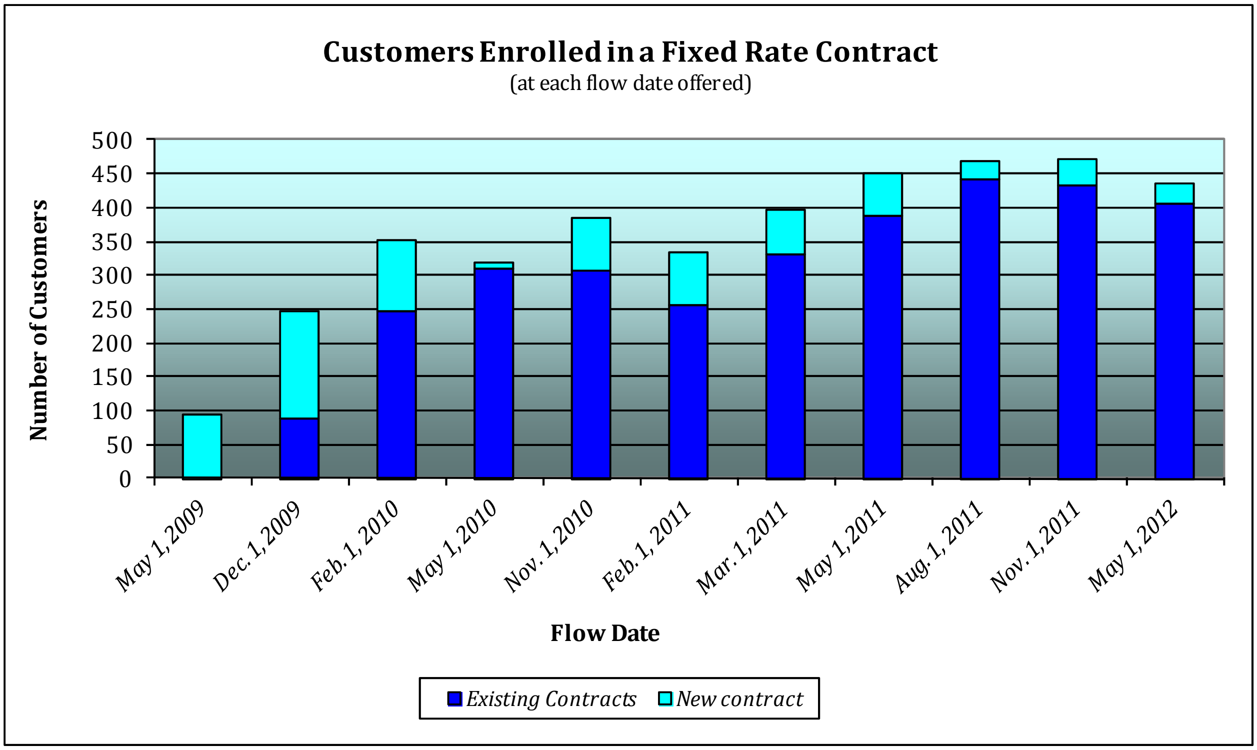
3. Under/Over subscribed hedge impacts are the amounts either paid to or received from counterparties associated with excess hedge instruments due to under-subscription of offerings, as well as unhedged market price exposure impacts on over-subscribed primary gas volumes that have been subscribed but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

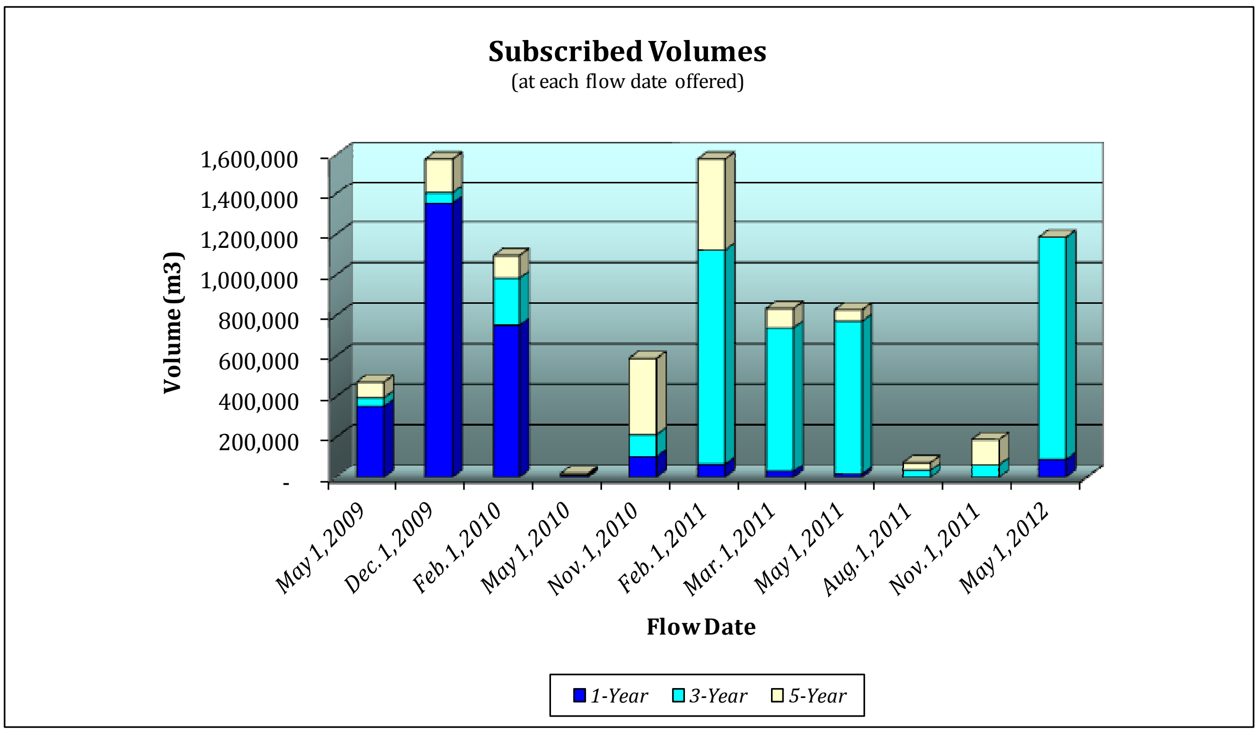
4. The amortization of start up costs represents 1 year of amortization of the deferred costs related to the introduction of the FRPGS program. These costs are amortized over a 5-year period with the annual amortization being recorded against the FRPGS offerings made in each year.

5. The mark to market cost of unsettled hedges for fiscal March 31, 2012 are the amounts expensed in fiscal 2012 relative to FRPGS hedges. During the future periods, these hedges will settle and the mark to market cost will be reversed.

Program Results to Date

The following charts show the number of customers enrolled and subscribed volumes in FRPGS to date.





Manitoba Hydro’s experience with offering fixed rate products indicates that consumer interest tends to be consistent with market research undertaken. The natural gas customer research conducted in 2007 indicated the following results:

- Without consideration of other factors, a significant number of customer’s 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;
- 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 with very low interest when the premium is greater than 20-30%.

Low participation is likely also influenced by the recent decline of natural gas prices.