

MEDIA RELEASE

Early pricing adjustment warranted for home heating fuel

Prevailing concerns about future distillate supplies, particularly home heating fuel, continue to dominate the world market, and is one of the primary reasons for the recent high fuel price rally.

The Board of Commissioners of Public Utilities Petroleum Pricing Office (PPO) last set maximum prices for all fuels it regulates Oct. 15, but since then New York Mercantile Exchange (NYMEX) prices for home heating fuel increased enough above the regulated benchmark to initiate the office's interruption formula.

Beginning 12:01 a.m. Saturday, Oct. 23, 2004, home heating fuel (furnace and stove oil) will increase by 3.28 cents per litre (cpl).

No other fuels regulated by the PPO have met the interruption formula criteria; therefore, no adjustments are necessary at this time.

The price for crude oil, which reached a NYMEX record of more than \$55 this past Monday, saw some stabilization during a couple of trading days this week. Analysts attributed this to an alleviation of worries about oil flow from key regions, such as Nigeria, Iraq and Russia.

David Toms, PPO director (acting), noted this activity was very short-lived, and didn't detract from the market-related concerns about where home heating inventories and prices are headed over the next few months.

"There is undoubtedly a concern about where prices will go in this province from a consumer point of view," said Mr. Toms. "As a regulated market, we adjust prices based on recent past market activity and not where we expect or predict commodity prices will go.

"Market prices have continued to behave in a manner that has averaged above our regulated benchmark," he added. "In the case of home heating fuel, the increased movement was sufficient to warrant an interruption in the Newfoundland and Labrador fuel market at this time, and ensures the continued availability and flow of fuel to all parts of Newfoundland and Labrador."

SUPPLY AND DEMAND

The problems associated with high oil and home heating fuel prices are not new, though worries about available distillate supplies have heightened as the draw season nears.

One contributing factor is inventory stocks of distillate fuels were not significantly rebuilt during the off-peak demand season, and there are questions about whether or not it's too late for a significant rebuild to occur before the season begins.

Other reasons for the below-average inventory data include the slow recovery from storms in the Gulf of Mexico, which impaired oil production and exports; and reduced oil availability from other regions, such as the Middle East, Russia or Norway (where a strike has cut that country's oil output).

Expanding global economic activity has resulted in a growth in demand for oil to a near all-time high, which is expected to increase again next year. However, concerns have been expressed by market watchers, including U.S. Federal Reserve Chief Alan Greenspan, that persistent high oil prices will hurt world economic growth, and subsequently, prices should eventually have downward pressures.

BACKGROUND

The PPO uses its interruption formula whenever market prices for regulated fuels meet a certain criteria, provided making the early adjustment doesn't interfere with the regular pricing schedule.

For the interruption formula to be used on gasoline and distillate fuels, the PPO requires the average of market prices to be 3.5 cpl greater or less than the current PPO benchmark prices (except propane, which requires +/- 5.0 cpl) over five market business days.

PPO benchmarks are based on the average price of refined products. Illustrated in the following graph is market-price performance of home heating fuel over recent regularly scheduled periods up to Oct. 19, 2004:

