MEDIA RELEASE

Interruption formula used to adjust gasoline, home heating prices downward

The Board of Commissioners of Public Utilities Petroleum Pricing Office (PPO) will use its interruption formula to make downward adjustments to the maximum prices of gasoline and home heating fuel (furnace/stove oil).

Record-high prices on the New York Mercantile Exchange (NYMEX) for crude oil and its refined products have dominated the market over the past few months (with U.S. crude spending nearly a month above $50, peaking at $55.67 during the latter part of October).

Geopolitical factors in major oil-exporting countries, such as Nigeria, Norway, Russia and Iraq, along with the expected demand versus available supply issues, have been cited as reasons for the ongoing dramatic hikes in prices.

However, the markets shifted significantly over the past week, where several events placed downward pressures on fuel prices. These declines were sufficient to trigger the PPO’s interruption formula for gasoline and home heating fuel.

Effective 12:01 a.m., Saturday, Nov. 6, 2004, the maximum price for all types of gasoline will decrease by 1.0 or 1.1 cents per litre (cpl) – depending on the HST rounding-off effect for a particular pricing zone. Home heating fuel will be lowered 1.36 cpl.

The criteria for interruption were not met for other products regulated by the PPO, and no adjustments will be made at this time.

David Toms, PPO director (acting), noted that the trend of rising prices on the world market so far this year has created an environment where the interruption formula was used all but once (June 22 on gasoline) to increase prices. But a sharp decrease in recent days justifies a pricing intervention in the Newfoundland and Labrador market that will decrease the costs of the specified fuels.

“As always, the interruption formula is in place to ensure fairness to all stakeholders by objectively allowing adjustments to prices in increasing or decreasing markets,” said Mr. Toms. “The Board will lower fuel prices when the market figures reflect the need to do so, just as we have with all adjustments we’ve made in the past.

“We do not speculate where the markets are headed, as daily events are having an impact on oil and refined products prices, but Newfoundland and Labrador will continue to see pricing that will not only reinforce fairness for the consumer, but will also continue to maintain a sustainable market for fuel suppliers.”

REASONS FOR THE DECLINE

The recent decline in NYMEX fuel prices can be attributed to several events, with the U.S. presidential election and the ease in concern over supply issues moving to the forefront.

At the centre of attention was the U.S. Strategic Petroleum Reserve (SPR), and how the country's stockpile would be handled if one presidential candidate were elected over the other.

This news, along with reports of higher-than-expected supplies of crude oil in the U.S., created nearly a 10 per cent drop in oil prices during the past week. This had a direct impact on the market prices of the refined products regulated by the PPO.

As well, the U.S. Energy Information Administration (EIA) reported oil inventories have increased, though they are slightly below last year's levels. Distillate stocks have fallen, but there hasn't yet been any major draws on existing home heat supplies as the cold weather remains at bay.

In the case of gasoline, stocks have increased in recent weeks and are currently in the upper half of their typical range, which in turn creates a comfort zone for any demands on this fuel.

Fuel supply concerns were also abated when the oil workers' strike in Norway, which significantly reduced that country's output, ended after government intervention.

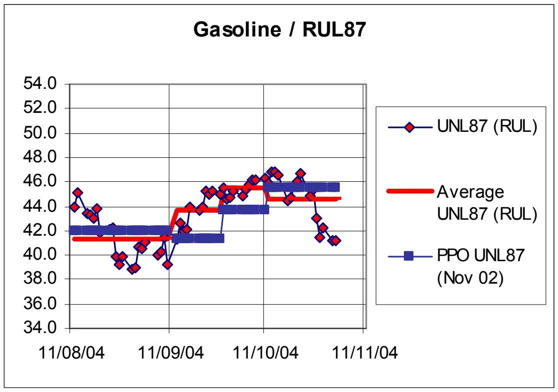
Another factor supporting lower fuel prices was information that demand growth for oil was slowing because of sluggish economic activity in the U.S. and Europe, which could result in lower fuel consumption.

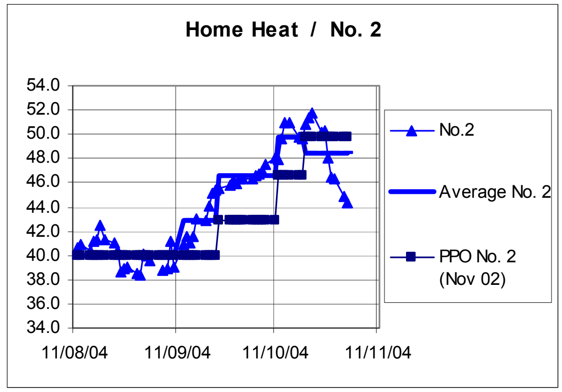
BACKGROUNDER

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 graphs is market-price performance of gasoline and home heating fuel over recent regularly scheduled periods up to Nov. 2, 2004:





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