

MEDIA RELEASE

Petroleum Pricing Office makes early adjustment to furnace oil

Effective 12:01 a.m. Friday, April 8, the Public Utilities Board's Petroleum Pricing Office (PPO) will increase the maximum price of No. 2 blend furnace oil by 2.37 cents per litre (cpl), except in areas where a price freeze is in effect.

This change is the result of escalating prices for this and other refined products on the New York Mercantile Exchange (NYMEX) commodities market. Apart from furnace oil, the criteria for the PPO's interruption formula (see Backgrounder) were not realized for any of the other products regulated in Newfoundland and Labrador. The timeframe for the interruption formula has passed; therefore, no further price changes will occur until the next regularly scheduled adjustment on April 15.

David Toms, PPO director (acting), said the commodities market has shown highly aggressive pricing behaviour for all fuels regulated by the PPO. Though the price of crude oil is not used to establish maximum fuel prices in this province, its market movement plays a significant role in fuel product prices on the commodities exchange. Crude oil reached another record of more than \$58 US this past week, and has remained above \$50 US since Feb. 22.

Among the numerous factors affecting the market has been the concern of insufficient fuel supply availability, despite increasing inventories, to keep up with the projected demand even with OPEC's (Organization of Petroleum Exporting Countries) assurance it would make an additional boost to production quotas if current prices are sustained.

The market also reacted swiftly with a pricing surge following recent statements by Goldman Sachs investors that suggested the global economy may have entered the early stages of a "super spike" period, in which oil prices, as suggested by their analyses, could eventually reach as much as \$105 US. However, not all analysts agree with this position.

As well, refinery production problems have factored into recent high prices. A major refinery in Venezuela (the world's fifth-biggest oil exporter and a top supplier of crude and oil products to the U.S.) was shut down for nearly a week by a power outage March 31. As well, a fatal explosion at a refinery in Texas, the third largest in the U.S., created heightened anxiety on the market about production capacity.

Additionally, the U.S. Energy Information Administration (EIA) report from March 30 showed another decline in distillate supplies, which includes furnace oil, and these levels are already on the lower end of the average range. Therefore, in the long term, concerns remain about future ability to meet consumption demands.

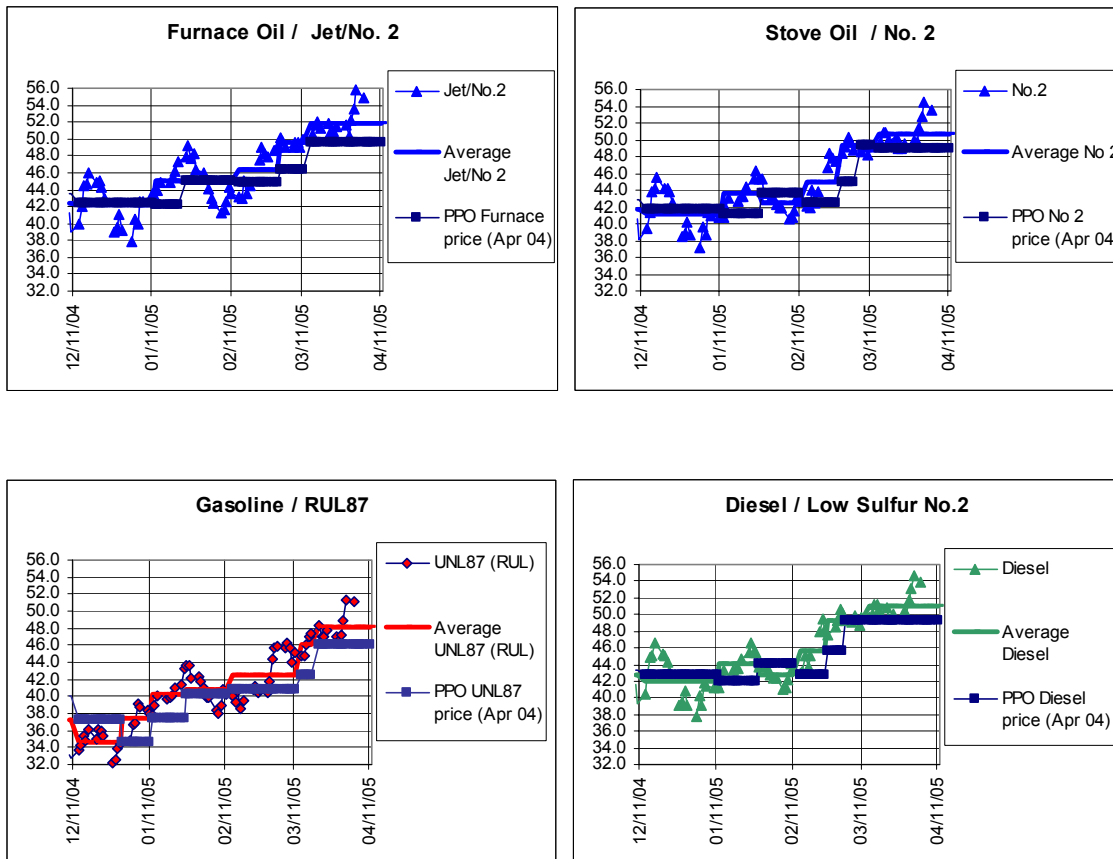
“It isn’t known how long this market-pricing behaviour will continue before prices start to recede, as many factors also exist that fail to explain why prices are so high today,” said Mr. Toms. “Inventories for oil and products, such as gasoline, are currently in a good position versus historic levels, but it’s the ability to meet the future demand that has created anxiety in the market. It’s important to note that the situation can change quickly based on a turnaround in geopolitical events and expectations.”

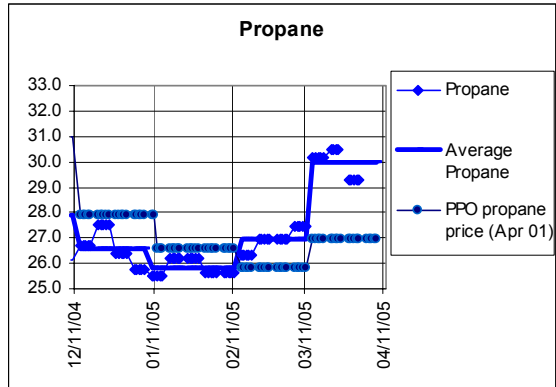
BACKGROUNDER

PPO benchmarks are established based on the average prices of refined products in the period since the last time maximum prices were established. The PPO regularly sets maximum fuel prices on the 15th of each month.

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. The formula is not used for five market days after new prices are set under regulation, or if it interferes with the impending price change made each month.

Illustrated in the following graphs is the market-price performance of furnace oil and other fuels regulated by the PPO for recent pricing periods up to April 4, 2005:





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