<u>**MEDIA RELEASE**</u>

All regulated fuel prices see declines effective May 15

Effective 12:01 a.m., May 15, 2005, there will be a reduction in the maximum prices of all fuels regulated by the Public Utilities Board's Petroleum Pricing Office (PPO) in Newfoundland and Labrador, except in regions currently under a price freeze.

The PPO will lower maximum gasoline prices by 1.1 cents per litre (cpl); diesel by 1.0 or 1.1 cpl (depending on the rounding-off effect for a particular pricing zone); stove oil by 2.45 cpl; and, residential propane used for home heating purposes by 2.0 cpl.

In accordance with policy established in March 2003, the additional cost of blending jet fuel with No. 2 furnace oil (see Backgrounder), which has been in effect since Nov. 15, 2004, will be removed at this time. This results in an overall decrease in the price of furnace oil by 3.54 cpl.

David Toms, PPO director (acting), said the NYMEX (New York Mercantile Exchange) commodities market has seen several pricing peaks and valleys outside of the PPO benchmark during the past 30-day period, yet regulated prices in this province have remained stable since April 15. During this period, these market fluctuations have resulted in general price instability, both up and down, in unregulated markets across the country where frequent price changes have been experienced.

Mr. Toms also noted that, according to an independent weekly national survey (www.mjervin.com), the ex-tax prices of gasoline in this province for the past several weeks have been on par or, at times, lower than in many other parts of the country. As well, ex-tax furnace oil prices have remained consistently lower than in other Atlantic Canadian markets.

Contrary to public perception, the *Petroleum Products Act* (and regulations) was not designed and implemented to enforce lower fuel prices. Instead, it was to ensure accountable and objective price-setting mechanisms at maximum levels. Over the last pricing period, fuel prices in some areas of the province were below the allowable maximum. Under legislation, retailers and wholesalers may sell below, but not above, maximum allowable prices set by the Board.

"The commodities market has experienced frequent price fluctuations, and has recently behaved outside of the fundamentals of supply and demand," said Mr. Toms. "Crude oil and gasoline inventories are currently in a very healthy position ahead of the peak driving season. Ordinarily, this should indicate lower market prices. Yet an aggressive mentality among commodity traders kept these prices from lowering significantly for any sustained amount of time. The market will eventually correct itself to reflect prices in line with supply and demand levels."

SYNOPSIS

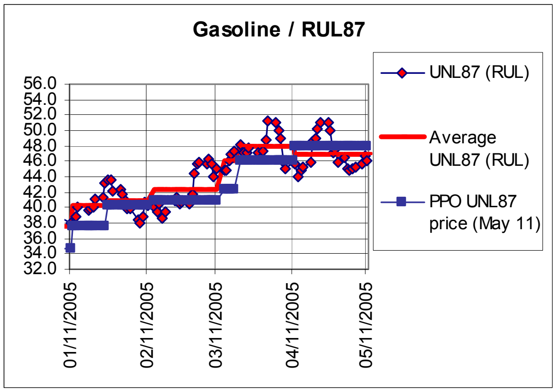
Since the PPO's last regularly scheduled adjustment April 15, market-pricing behaviour has been mixed, with refined fuel prices frequently moving from one extreme to the other. Among the factors influencing prices were:

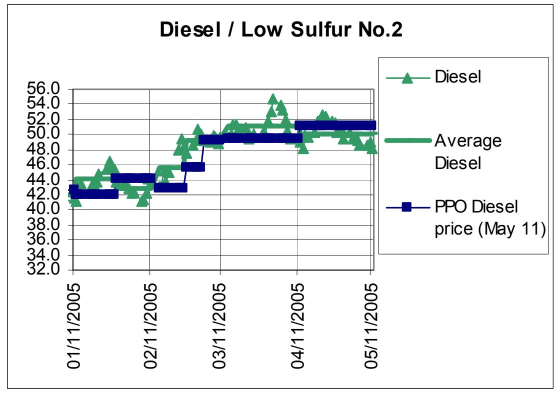
- inventory reports from the U.S. Energy Information Administration (EIA) have shown oil and gasoline supplies are currently healthy in advance of the peak driving season, which allay fears of being able to meet short-term demand;
- meanwhile, underlying fears remain that production will not keep pace with demand in the long term, despite reports of elevated inventory levels;
- the Paris-based International Energy Agency (IEA) cut its 2005 forecast for Chinese demand growth (the second biggest consumer after the U.S.), though added that rising global inventories were insufficient to compensate for the lack of spare production capacity;
- tight refining capacity: some refineries have shut for routine maintenance or various production glitches, while many other refineries have yet to complete their so-called turnarounds in order to maximize gasoline production;
- some analysts believe the situation is so intense that it would only take one major disruption in production or supply availability to send the market into a frenzy;
- worries that continued high fuel prices will dent world economic growth by fueling inflation and prompting high interest rates;
- OPEC (Organization of Petroleum Exporting Countries) has increased its oil production output, though many members believe the market is well supplied, in an attempt to lower prices and ease concerns that there may not be sufficient oil to manufacture refined products; and,
- warmer temperatures have led to a decrease in demand for home heating fuels, though distillate (furnace/stove oil and diesel) inventories are still in the lower end of the average range. Propane supplies have been growing and milder temperatures have also curbed demand for this fuel by-product.

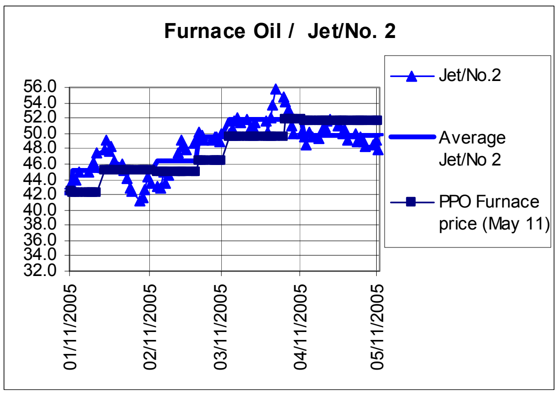
BACKGROUNDER

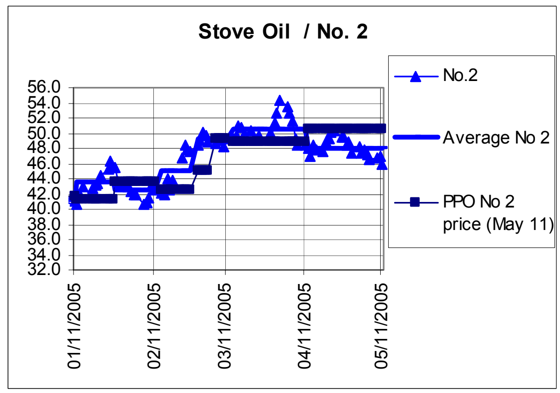
During the winter months, a jet fuel is blended with No. 2 furnace oil to decrease its viscosity under colder temperatures. As a result, PPO furnace oil prices reflect this additional cost, and are set based on a 75:25 jet/No. 2 ratio. In line with standing PPO policy, established in March 2003, the blend was implemented during the Nov. 15 round of pricing, and has been removed during the May 15 adjustment.

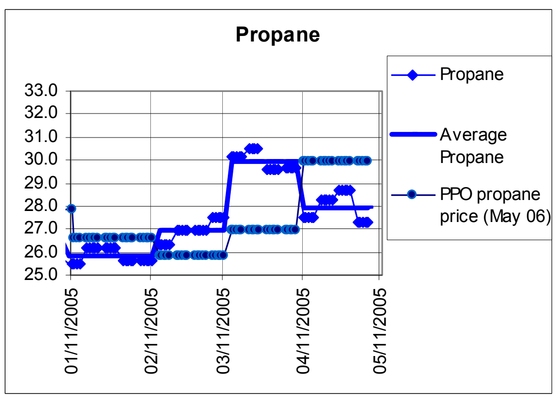
PPO benchmarks are based on the average price of refined products. Illustrated in the following graphs are the market-price performances of the five products regulated by the PPO, for recent regularly scheduled pricing periods up to May 11, 2005:











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