

MEDIA RELEASE

Interruption formula applied to maximum distillate fuel prices

Effective 12:01 a.m., Tuesday, June 21, the Public Utilities Board's Petroleum Pricing Office (PPO) will increase the maximum allowable prices of distillate fuels – furnace/stove oil by 5.19 cents per litre (cpl) and diesel by 5.9/6.0 cpl (depending on the HST rounding effect for a particular pricing zone).

With recent market activity for refined products, the criteria for the PPO interruption formula (which have been in place since implemented by the former Petroleum Products Pricing Commission [PPPC] in March 2003) have definitively been met for these products. The criteria were not realized for gasoline or residential propane used for home heating purposes at the point when the affected products were, and there will be no changes in prices for these products at this time.

David Toms, PPO director (acting), said these increases are resulting from ongoing heightened market activity for refined fuels that continues into the current pricing period. He explained that the petroleum commodities markets are behaving in a bullish manner for a variety of reasons that discount the existing market data when it comes to timing and current inventory levels. Nonetheless, NYMEX (New York Mercantile Exchange) prices for refined petroleum products in recent months include a significant premium based on fears there will be insufficient products to meet demands later in the year.

Mr. Toms noted: "A recent U.S. energy report showed that distillate inventories had increased, and is above last year's levels. As well, U.S. crude inventory available to industry is at a very high level, as are the U.S. Strategic Petroleum Reserves (SPR) established to offset emergency disruptions. This really should help ease concerns when it comes to today's prices, but there are many other factors at play here that seem to be driving the market to high levels despite healthy inventories of both finished products and crude oil available as input to make the products. There is a strong possibility that this behaviour may carry over into future months, but that remains to be seen."

BACKGROUND

Market Update

Volatile pricing behaviour has been created by the perceived ineffectiveness of an increase in output quotas from OPEC (the Organization of Petroleum Exporting Countries) at its June 15 meeting in an attempt to lower fuel prices. The organization is already producing this amount, which is near its limit, and this is the fifth time it has increased quotas in a year. Both OPEC and the International Energy Agency (IEA) have raised their estimates for oil demand later in the year, which means additional strain on the market if not enough is produced to meet the projection.

Also creating concern is the fact many U.S. refineries are already producing at near-maximum levels in an effort to make gasoline to cover current escalating demand and

rebuild heating oil supplies to meet future demand. This leaves little room to compensate for any potential disruption to production.

Another significant component that is increasing distillate fuel prices is the elevated global demand for diesel (a member of this fuel group) which in turn, creates upward pressure on related products, such as furnace and stove oil.

PPO Policy

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 diesel and furnace oil, as well as other products regulated by the PPO for recent pricing periods up to June 17, 2005:

