MEDIA RELEASE

Board releases Oct. 15 regulated fuel prices

Effective 12:01 a.m. Saturday, Oct. 15, 2005, the Public Utilities Board, through its Petroleum Pricing Office (PPO), will make its regularly scheduled pricing adjustment for regulated fuels, except gasoline, in Newfoundland and Labrador (NL).

Following the early decrease of 11.6 cents per litre (cpl) in maximum gasoline prices announced on Thursday, Oct. 13, the Board will now decrease the maximum price of automotive diesel by 3.9 cpl. The maximum price for furnace/stove oil prices will see an increase of 1.16 cpl, while residential propane used for home heating purposes will rise by 1.5 cpl.

Prices for refined fuels on NYMEX (New York Mercantile Exchange) have continued to go through an extreme bout of volatility, and it is only within the past week that significant decreases were reflected in the market, particularly for gasoline where demand and consumption weakened. This price reduction was passed along to consumers in this province in advance of the mid-month adjustment, an action that is comparable to times when increases have been made to address the needs of industry. However, the remaining fuel products regulated by the Board have not demonstrated the same volatility as gasoline.

More recently, the market has gradually been shifting its focus from gasoline to distillate fuels, which include diesel and furnace/stove oil, as the northern hemisphere moves into the home heating season. Uncertainty remains about whether there will be sufficient supply of these products to meet the expected increase in demand during the winter period, particularly as refinery capacity in the U.S. continues to remain tight in the wake of damage caused by recent hurricanes.

While it is hoped that a more stable market environment will soon prevail, the Board will continue to apply the principles of regulation and adjust fuel prices in this province, as determined by market-pricing behaviour, to serve the best interests of all stakeholders.

BACKGROUNDER

Among the many factors affecting market prices for refined fuels since each were last adjusted are:

- *Home heat:* Inventories for distillate fuels have reportedly decreased this past week, though the overall picture shows stockpiles to be in the lower half of the average range. Upward pricing pressure has resulted from concerns in the market that increased demand in the winter months will deplete available inventories.
- *Diesel:* Inventories for this low-sulphur fuel are below the normal range following recent disruptions to production. The U.S. government recently waived environmental criteria for refineries to ensure fuel was available to the market following the recent hurricanes. However, regulated prices for diesel are showing an average decrease at this

time as refiners are beginning to produce low-sulphur fuels again and increasing supply to the market.

- *Demand:* Ongoing high prices for fuel and the seasonal change have impacted and reduced gasoline demand/consumption; however, the market has started concentrating more on the home heating season as the northern hemisphere's winter approaches. Short-term forecasts for global fuel demand have also been cut as a side-effect of recent high prices.
- *Supply:* Recent market-pricing declines for refined fuels have been assisted by an increase in fuel imports to offset production losses experienced in the U.S., the world's largest energy consumer. As well, the U.S. government had expressed a readiness to use emergency crude oil and fuel reserves in the U.S. northeast to compensate for reduced gasoline and home heating fuel supplies.
- *Tight refinery capacity:* a number of U.S. refineries that were damaged or shut as a result of recent hurricanes in the Gulf of Mexico, a major source of oil and fuel production, are still closed. This accounts for approximately 70 per cent of capacity in that region or 14 per cent of the total U.S. refining capacity, and has limited fuel production and available supplies to the market. Overall production is reportedly at its lowest in nearly two decades.
- *International Energy Agency (IEA):* The market reacted to statements made by the IEA (a Paris-based advisor to 26 industrialized nations) that refineries must operate at full capacity in order to avoid shortfalls later this year, and global demand may rebound next year.
- *Iran:* According to *Bloomberg* News, the second-largest producer in OPEC (Organization of Petroleum Exporting Countries) shut two oilfields in the Persian Gulf because of difficulties selling its heavy oil to the market. Not all refineries have the capacity to process this type of crude into lighter fuels, such as gasoline.

ADJUSTING PRICES

Regulated fuel prices are adjusted on the 15th of each month using the average daily prices for finished petroleum products as listed on NYMEX (New York Mercantile Exchange). In the event of volatile behaviour between normal price adjustments, the interruption formula is used by the Board based on specific criteria to make upward or downward interim price changes as warranted in the marketplace.

For the interruption formula to be used on gasoline, diesel or furnace/stove oil, price fluctuations on the New York Mercantile Exchange (NYMEX) must exceed an average of ± 3.5 cpl over a five-day period. Adjustments are then made where price increases or decreases are warranted. In the case of residential propane, Bloomberg's *Oil Buyer's Guide* weekly figures must exceed a ± 5.0 cpl change over five days.

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