

MEDIA RELEASE

Gasoline, diesel prices decrease

Board implements changes to home heating fuel base prices

Effective 12:01 a.m. Tuesday, Nov. 15, 2005, the Public Utilities Board, through its Petroleum Pricing Office (PPO), will adjust the maximum allowed prices of regulated fuel products in Newfoundland and Labrador (NL).

While the regulated maximum prices for all grades of gasoline and automotive diesel will proceed as usual using market data from the New York Mercantile Exchange (NYMEX), there are some additional adjustments that will affect the prices of furnace/stove oil and residential propane used for home heating purposes. The pricing adjustments are as follows:

- The maximum prices of automotive fuels will decrease: all grades of gasoline will experience a drop of 1.3 cents per litre (cpl), while diesel prices will be reduced by 2.7 or 2.8 cpl – depending on the HST rounding effect.
- The maximum prices for the furnace oil (also known as No. 2) blend will rise overall by 1.21 cpl, while stove oil will increase by 0.03 cpl. These price adjustments incorporate an increase of 1.6 cpl to the 2001 base price to allow for rising operating costs associated with the delivery of home heating fuels since that time. This increase also provides for the addition of a 75 per cent jet fuel blend to furnace oil to improve its performance in colder climates over the winter months.
- The maximum price of residential propane used for home heating purposes will increase by 4.0 cpl, which includes an adjustment of 3.7 cpl in the 2001 base price for this fuel similar to that allowed for furnace/stove oil.
- As of Nov. 15, the Board will implement its scheduled annual fuel-price freeze for Zones 10a (Mary's Harbour to Cartwright – road access), 11 (Coastal Labrador South) and 14 (Coastal Labrador North).

Further background for the base price adjustments for home heating fuels is outlined below, along with information on the jet blend, market conditions and the Labrador price freeze.

BACKGROUND

Base price for home heating fuels: The Board approved the increases to base prices of furnace and stove oil and residential propane primarily because of the demonstrated significant increase in the cost of operating tank wagons for home heat fuel deliveries in the province over the past four years. These base price changes are intended to alleviate the impact of increased operating costs for insurance, licensing, employee-related costs, and the high cost of fuel to operate these vehicles.

Unlike gasoline, which saw an increase of 1.5 cpl to its base price in March 2003 following an internal review by the former Petroleum Products Pricing Commission, there have been no changes in the base prices for home heating fuels since fuel price regulation began in 2001. As part of the Board's ongoing regulatory review, the Board requested specific information and supporting documentation from home heat retailers in NL (see the Board's website www.pub.nl.ca). Based on a detailed review of the information provided, the Board has determined that these adjustments are warranted at this time.

Jet blend: In addition to the changes in the base price for home heating fuels, maximum prices for furnace oil (No. 2) as of Nov. 15 will also see the seasonal incorporation of what is known as the jet blend.

This practice has been ongoing in NL for the past two heating seasons to accommodate the costs associated with mixing 75 per cent jet fuel with 25 per cent furnace oil to improve this fuel's performance in colder climates over winter.

Overall market conditions: The petroleum commodities market has continued its general downward trend since regulated prices were last adjusted. According to market data from the U.S. Energy Information Administration (EIA), gasoline inventories have been on the rise and are now in the upper end of the average range. Demand and consumption for this fuel have also reportedly decreased in the face of recent ongoing high prices, and an increasing movement toward conservation.

On the other hand, distillate supplies, which include diesel and furnace/stove oil, have declined and are in the lower end of the average range. These products remain a concern for fuel traders, though NYMEX prices overall continued to recede from recent record highs. This occurred mainly because of the warmer-than-usual temperatures along the northeastern seaboard of North America, where 80 per cent of these fuels are consumed, which has placed current demand at below-normal levels.

Also helping to ease market concern for all refined fuel products during this pricing period were the reduced forecasts for demand in the coming months. The International Energy Agency (IEA), a Paris-based consultant to industrialized nations, has again lowered its expectations for global demand growth and consumption. Production at several refineries and platforms that were damaged or shut because of recent major hurricanes in the Gulf of Mexico have rebounded significantly in the last week, helping to rebuild fuel supplies and improving refinery capacity levels, though many facilities remain closed and aren't expected back to full operation until late 2006.

Labrador price freeze: Policy on this matter has previously been developed in consultation with stakeholders from these regions, and is largely based on the difficulties encountered in supplying fuels to Labrador given the winter freeze-up which affects the shipping season, as well as problems of road access during the winter months.

The price freeze will continue until deliveries to the region resume in the spring of the year; however, in the case of Zone 10a, where road access may be available prior to the beginning of the shipping season, the Board will consult with local stakeholders to determine the appropriate end date for the price freeze, as it has in the past.

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