

## **MEDIA RELEASE**

### **No. 2 blend furnace oil prices decrease**

Effective 12:01 a.m. Friday, Dec. 2, the Public Utilities Board, through its Petroleum Pricing Office, will decrease the maximum price of No. 2 blend furnace oil by 3.16 cents per litre (cpl), except in areas where a price freeze is in effect.

The interruption formula criteria were not met for other fuels regulated by the Board (including all types of gasoline, stove oil, automotive diesel, and residential propane used for home heating purposes), and there will be no changes to their maximum prices at this time.

As the northern hemisphere moves into the winter months, fuel traders on NYMEX (New York Mercantile Exchange) have been closely monitoring the impact on pricing of refined fuel inventory data, refinery production capacity, as well as weather and consumption patterns.

Contrary to its usual pricing behaviour, jet fuel has recently been trading lower than furnace oil on the commodities exchange. Consequently, because the No. 2 blend of heating fuel in this province is comprised of 75 per cent jet fuel, this has expedited the lowering of the price for the blended product.

Also affecting home heating fuel prices was a decrease in demand that was mainly attributed to the milder-than-usual weather along the northeastern seaboard in North America, where nearly 80 per cent of U.S. heating fuels are consumed.

Market data has shown that distillate supplies (furnace/stove oil and diesel) have remained in the lower end of the average range. However, according to the U.S. government's Energy Information Administration's (EIA) recent weekly report, there was a larger-than-expected climb in this fuel group's inventory levels, as reduced consumption patterns have allowed stockpiles to replenish. As well, refineries damaged by recent major hurricanes in the Gulf of Mexico continued to gradually recover, and while refining capacity remains tight, fuel production has increased overall.

Organizations, such as OPEC (Organization of Petroleum Exporting Countries) and IEA (International Energy Agency), have lowered their global demand forecasts as a result of recent market activity, and this resulted in a further downward pressure on prices.

### **BACKGROUNDER**

**Jet blend:** Maximum prices for furnace oil (also known as No. 2) as of Nov. 15 have reflected the seasonal incorporation of what is known as the jet blend. This practice involves mixing 75 per cent jet fuel with 25 per cent furnace oil to improve this fuel's

performance in colder climates over winter. Maximum regulated prices for the blend accommodates the costs associated with this practice, and has been used in NL for the past two heating seasons.

***Interruption formula:*** Regulated fuel prices are adjusted on the 15<sup>th</sup> 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 NYMEX must exceed an average of  $\pm 3.5$  cpl over a five market business-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  $\pm 5.0$  cpl change over five days.

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