

MEDIA RELEASE

Maximum fuel prices released Dec. 15

Effective 12:01 a.m. Thursday, Dec. 15, 2005, the Public Utilities Board, through its Petroleum Pricing Office, will set the maximum prices of regulated fuels in Newfoundland and Labrador (NL), except in areas where a price freeze is in place.

At this time, maximum gasoline prices will decrease by 1.0 cent per litre (cpl). In the distillate fuel category: there will be no change to maximum automotive diesel prices, while No. 2 blend furnace oil prices will decrease by 0.14 cpl and stove oil will rise by 0.41 cpl. Residential propane used for home heating purposes will decrease in price by 2.2 cpl.

Since the last regular market adjustment on November 15, refined fuel prices on NYMEX (New York Mercantile Exchange) continued to experience volatility. Because regulated maximum prices in this province are based on the average of these commodity prices, the fuel market in NL throughout this period demonstrated relative stability compared to other jurisdictions. Indeed, this past month marked the first time since mid-August that the Board has not used its interruption formula to adjust gasoline prices.

In addition, commodity pricing for home heating oil has also been volatile with fluctuations focused on consumption and weather patterns in major markets. Prices for distillate products, which include diesel and furnace/stove oil, have experienced an overall price decrease in NL over the past month, which is encouraging for this time of year. Prices going into the colder months of winter remain uncertain and will depend on the sustainability of heating oil inventories given weather conditions and market demands, particularly along North America's northeastern seaboard.

MARKET ACTIVITY

The Board lowered NL distillate fuel prices (specifically No. 2 blend furnace oil, automotive diesel and stove oil) near the middle of this pricing period (see releases under www.pub.nl.ca) because of significant market-pricing declines; however, the situation eventually changed as an upswing occurred during the latter part of the period.

The main reason for this boost in pricing was attributed to the onset of colder weather, which also triggered an increase in demand for heating fuels. Consequently, the average of market data to the last time maximum regulated prices were established in NL for these refined products resulted in minimal movement.

Maximum gasoline prices in this province have remained stable since Nov. 15, with several areas even seeing gasoline selling at prices lower than the maximum set by the Board (an activity that is permitted under legislation).

There were declines in market prices for gasoline at the beginning of the pricing period because of ongoing expectations of inventory growth and decreased demand. However, this behaviour did not last, as market prices surged on several occasions over the past 30-day period. Many market watchers state that the fall in gasoline prices from recent record highs have rekindled demand for this fuel, and while inventories have grown, they are in the lower end of the average range for this time of year.

As for residential propane, inventories at the outset of the pricing period were reported to be in a relatively healthy position because warmer-than-usual weather eased demand for this heating fuel. Market prices have recently rebounded as cold weather moved into the regions where consumption for these products is traditionally high; however, the overall average pricing movement has resulted in a decrease at this time.

Other factors that have placed pressure on the commodities market are:

- Saudi Arabia: the world's biggest oil exporter has been battling potential terrorist activity, which targeted westerners living in the kingdom to undermine the ruling family and threatened oil supplies;
- Demand: projections that expected demand will be significantly above normal has created underlying concerns about future inventory levels; and,
- Hurricane recovery: besides the weather, a growing U.S. economy is also seen as a mitigating factor in boosting demand and fuel consumption. The world's largest fuel consumer has continually bounced back from the hurricane-ravaged times that depressed many aspects of the economy.

BACKGROUND

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 NYMEX must exceed an average of ± 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 ± 5.0 cpl change over five days.