

## **MEDIA RELEASE**

### **Maximum regulated prices set: slight increases slated for most fuels**

Effective 12:01 a.m. Sunday, January 15, 2006, the Public Utilities Board, through its Petroleum Pricing Office, will set the maximum prices for fuels regulated in Newfoundland and Labrador (NL), except in areas under a price freeze.

The maximum price for all types of gasoline will increase by 1.6/1.7 cents per litre (cpl) – depending on the HST rounding effect in a particular pricing zone. All products in the distillate fuel category will also see upward pricing movements: automotive diesel by 1.2 cpl, No. 2 blend furnace oil by 2.43 cpl, and stove oil by 0.80 cpl. Meanwhile, residential propane used for home heating purposes will decrease by 1.1 cpl.

This past month has been an extremely volatile period for the prices of refined fuel products on the commodities exchange (NYMEX – New York Mercantile Exchange), as global events radically pulled prices in both directions; however, maximum regulated fuel price in NL were able to remain relatively stable during this period.

One of the recent factors that elevated and sustained market pricing was the announcement from Iran, the world's fourth largest exporter of crude oil, that it would resume nuclear enrichment. Several Western leaders expressed concerns that this activity could yield enough material for nuclear weapons in future, and discussed the possibility of referring this matter to the United Nations Security Council for potential trade sanctions should Iran not live up to its international commitment. Market reaction was swift because sanctions could potentially lead to disruptions in global fuel supplies.

This pricing movement has resulted in large jumps in fuel prices in other provinces over the past week, yet NL prices have stayed the same up to the 15th. In fact, while the Board sets NL maximum fuel prices independently of what is occurring in other provinces and directly based on New York Harbour figures, it is noteworthy that a recent national market survey this past week showed the maximum price of gasoline in St. John's prior to this scheduled adjustment was in the lower end of prices in Atlantic Canada and below the national average (excluding taxes). In this same survey, furnace oil - even with this latest increase - continued to be among the most competitive prices in Atlantic Canada.

### **OPPOSING FORCES**

The upswing in market fuel prices at the end of the last pricing period flowed into the current session and subsequently led to an increase in maximum regulated gasoline prices Dec. 20, 2005 and in residential propane a week later.

However, these market gains temporarily diminished as a number of events counteracted any increases up to that point, with the main driving factor being the weather. Milder-than-average temperatures in areas where home heating oil use is traditionally higher helped curb consumption and eased demand for this product. As well, the U.S. Energy

Information Administration (EIA) reported unexpected inventory gains during the past two weeks that ebbed fears of potential future shortages during the heating season.

Despite this, the fuel-trading market has also been dealing with opposing forces where forecasts of mild weather and favourable inventory reports collided with other circumstances, primarily geopolitical in nature, to offset what would otherwise be considered positive news for the commodities market to ease refined fuel prices.

Aside from the current tensions arising from Iran's nuclear activity, the beginning of 2006 also saw heightened anxiety among fuel-traders when Russia, the world's second largest exporter of crude oil, cut natural gas exports to the Ukraine because it wouldn't pay the set price. Concerns relating to the impact this would have on available global supplies spilled over into the entire fuel market and drove prices up for all refined products. The matter was later settled, and market prices descended for a short period.

Other factors affecting the market include:

- Gasoline demand: milder-than-average weather is believed to have contributed to an off-peak increase in gasoline consumption as favourable conditions may have led more people to drive to their destinations over the holidays than fly;
- OPEC: the Organization of Petroleum Exporting Countries will meet Jan. 31 to review supply and possibly consider a production cut to what it calls a well-supplied marketplace;
- Growing economies: the global economy continued to do well in spite of current pricing levels for energy, and this growth is expected to push demand and prices even higher;
- Iraqi worries: Refinery problems caused gasoline shortages in Baghdad, as operations halted in a large refining complex because workers at the plant refused to allow products to move in protest over price hikes, along with acts of sabotage; and,
- Nigeria: exports there were temporarily halted following pipeline attacks.

### **BACKGROUND**

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.