

MEDIA RELEASE

Significant decreases for gasoline, heating fuels

Effective 12:01 a.m. Tuesday, Feb. 21, 2006, the Public Utilities Board, through its Petroleum Pricing Office, will lower the maximum prices of gasoline and home heating fuels in Newfoundland and Labrador (NL), except in areas where prices are currently frozen.

Maximum gasoline prices will be lowered by 7.1/7.2 cents per litre (cpl) – depending on the HST rounding effect for a pricing zone, while No. 2 blend furnace oil will drop by 3.92 cpl. Maximum stove oil prices will decrease by 4.02 cpl. The interruption formula criteria were not met for automotive diesel or residential propane used for home heating purposes, and there will be no change to their maximum prices at this time.

This reduction in maximum gasoline prices comes on the heels of a 1.6/1.7 cpl decrease made last Wednesday during the Board's mid-monthly pricing adjustment, and brings prices in line with recent changes that have occurred in other markets. A major upswing in refined product prices on NYMEX (New York Mercantile Exchange) Thursday and Friday of last week demonstrates the continuing volatility of the marketplace. This unpredictable market behaviour points to the importance of price stability as one of the key advantages in a regulated environment where consumer prices are not chasing each and every fluctuation in the market, either up or down.

The regulatory model used in NL means regulated prices do not increase as quickly as those in other comparable markets when fuel prices rise, but equally, regulated prices are slower to adjust when market prices begin to decline. Regulation, therefore, contributes to greater price stability and provides a marketplace where price variances, above or below those in similar markets, offset each other over time. Depending on whether prices are fluctuating upward or downward, however, either industry or consumer expectations rise respectively whenever there is a widening gap between provincial regulated prices and market prices elsewhere. When these situations occur, the Board monitors prices daily to ensure that all stakeholders are treated fairly by the regulatory process. Should circumstances warrant, the Board is prepared to exercise its regulatory authority in order to address any exceptional imbalances in the provincial marketplace.

WHAT'S MOVING THE MARKET?

The downward trend during the latter part of the previous pricing period remained at levels that were sufficient for the interruption formula to be used for gasoline and home heating fuels just five days into the current pricing session.

Helping to lower refined fuel prices on NYMEX was positive news from the U.S. Energy Information Administration (EIA) that gasoline and distillate (furnace/stove oil and diesel) supplies were well above the average range for this time of year, and were believed sufficient to meet current demand levels.

Ongoing milder-than-normal weather also contributed to a decreased demand for heating fuels, and assisted in boosting inventory levels even at this time of year when they are traditionally being drawn down.

As well, both the International Energy Agency (IEA) and OPEC (Organization for Petroleum Exporting Countries) have lowered their demand growth forecasts for the coming year. This point, however, has market analysts eyeing OPEC because of concern that this could prompt the cartel to lower output levels at its March 8 meeting, and subsequently led to a rise in market fuel prices late last week.

While these factors enabled less pressure on market prices for a brief period, other geopolitical events have prevented apprehension from entirely disappearing from the commodities exchange:

- ◆ Nigeria once again has caused concern for fuel traders, as military unrest in the oil rich Niger delta could create future fuel supply disruptions for Africa's largest producer. This area is touted by many as producing some of the world's highest quality crude oil – a low-sulphur (sweet) oil that is easier to process into valuable fuel products, such as gasoline and diesel.

- ◆ Iran's intentions for nuclear enrichment: Russia has offered to enrich uranium for Iran. If an agreement is reached this could avoid referral to the United Nations Security Council and possible economic sanctions. However, the threat to available global crude oil and fuel supplies continue to exist as long as tensions over this matter remain.

BACKGROUND

Regulated fuel prices are adjusted on the 15th of each month using the average daily prices for most 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, figures are derived from pricing activity at the Sarnia rack, and the interruption formula criteria for this fuel differ from the other regulated petroleum products. Bloomberg's *Oil Buyer's Guide* weekly figures must exceed a ± 5.0 cpl change from the previously established base price under regulation.