

## **MEDIA RELEASE**

### **Maximum regulated fuel prices: heating fuels, gasoline to increase**

Effective 12:01 a.m. Wednesday, March 15, 2006, the Public Utilities Board, through its Petroleum Pricing Office, will establish new maximum regulated fuel prices in Newfoundland and Labrador (NL), except in regions where prices are currently frozen.

Automotive fuels will see increases to their maximum prices: all types of gasoline by 3.8 cents per litre (cpl) and diesel by 1.7 cpl. In the home heating fuel category the maximum prices for No. 2 blend furnace oil will rise by 1.82 cpl and stove oil by 1.15 cpl, while residential propane will decrease by 2.4 cpl.

These price increases continue to reflect the persistent volatility for refined fuel products on NYMEX (the New York Mercantile Exchange). In Newfoundland and Labrador, this volatility has seen prices for gasoline and distillate fuels, particularly furnace and stove oil, decline substantially on February 21 only to partly rebound on March 6 (each time applying the Board's interruption formula), and now return to levels experienced during the last scheduled price adjustment in mid-February. Prices for diesel fuel, also a member of the distillate group of fuels, and residential propane have remained stable throughout this past month.

Contradictory forces at work in the global marketplace continue to foster broad-based instability and uncertainty in both Canadian and U.S. markets. For example, a recent decision by OPEC (Organization of Petroleum Exporting Countries) not to cut production quotas did not generate the positive pricing results that many had expected. Clearly, other negative events dominated the commodities exchange and superseded some of the more positive influences affecting the future supply and demand for refined fuels. These market forces are outlined in greater detail below.

While pricing in the NL regulated market does not fluctuate to the same degree as other markets, the Board is obliged to reflect the realities of the global marketplace to ensure an adequate supply of all refined fuel products throughout this province at fair and reasonable prices. This will remain the number one priority of the Board throughout these recurring periods of market volatility, widespread price fluctuations and consumer uncertainty.

### **FORCES AT WORK**

Many of the same pressures that led to the early change in maximum gasoline and home heating prices on March 6 remained for the duration of this pricing period.

Leading up to March 10, the cut-off date for this mid-monthly adjustment, the prices of petroleum products responded quickly to news that Iran (the world's fourth largest

producer of crude oil) would not defer plans for nuclear enrichment and likely left itself exposed to economic sanctions by the United Nations' Security Council. As well, extreme civil and militant violence in Nigeria threatened to expand the already disrupted market from this major oil-producing nation.

Gasoline inventories in the U.S. (the world's largest consumer of fuel) continued to be above the average range, but the weekly data report from the EIA (Energy Information Administration) showed a decrease in stockpiles last week likely as a result of increasing demand. Refiners have started to shift their focus from home heating fuel production to gasoline, and many have closed to carry out scheduled maintenance as well as make the necessary changes in order to produce a reformulated gasoline. There have been underlying concerns in the market about being able to meet the upcoming deadlines for environmental compliance in the U.S. regarding the removal of the gasoline additive MTBE (*methyl tertiary-butyl ether*) and the switch to ethanol. Storage and distribution of this fuel product during the transition have also been identified as potential supply problems in relation to the anticipated increased demand during the peak driving season.

Distillate fuels, which include diesel and furnace/stove oil, also had inventory levels above the average range, but stockpiles again showed a decrease. The heating season is nearly over as far as many refiners are concerned - though meteorologically it may be far from finished along North America's northeast coast - and production has started to decline. The pricing levels of these fuels in the coming months depend not only on market fundamentals, but also on global economic and geopolitical conditions.

U.S. supplies of propane declined, though it was less than expected. This was mainly attributed to the above-average temperatures in regions where propane consumption is traditionally higher, and any increased demand was met by existing supplies.

### **BACKGROUND**

Regulated fuel prices are adjusted on the 15<sup>th</sup> 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  $\pm 3.5$  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, 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  $\pm 5.0$  cpl change from the previously established base price under regulation.