

MEDIA RELEASE

Market-price increases lead to rise in maximum regulated fuel prices

Effective 12:01 a.m. Saturday, April 15, 2006, the Public Utilities Board, through its Petroleum Pricing Office, will make its scheduled mid-monthly adjustment to the maximum prices of regulated fuels in Newfoundland and Labrador (NL), except in areas currently under a price freeze.

As a result of heightened and sustained market pricing for refined fuels on NYMEX (the New York Mercantile Exchange) throughout this period, all maximum regulated fuel prices in NL will see increases at this time. Adjustments include: all types of gasoline by 5.2 cents per litre (cpl); automotive diesel by 4.6 cpl; No. 2 blend furnace oil by 2.52 cpl; stove oil by 2.71; and, residential propane used for home heating purposes by 1.4 cpl.

Global political tensions, most notably in Iran, as well as the increasing demand for fuel in relation to available supplies, have meant that refined petroleum products, such as automotive and heating fuels, have faced significant upward pressures, with current prices well above last year's levels.

Individual consumers and many aspects of the economy are being impacted in some form or another by these escalating global commodity prices. These high costs for fuel are not only evident in Canada, but are widespread throughout North America, including the U.S. Unfortunately, many analysts are concerned about the ability of future gasoline inventories to meet summer demand and some analysts are projecting that prices will keep trading upward.

Despite current market volatility, the Board will continue to monitor and assess daily data to ensure that local prices are in line with the global marketplace and enable a secure supply of fuel products to all areas of our province.

FORCES AT WORK

Since maximum prices for each regulated fuel were last set in NL, the commodities exchange has seen little relief. Many of the factors affecting refined fuel prices today have been ongoing for some time; however, the longer they remain unresolved, the more anxiety they seem to impose on fuel prices.

The market prices of gasoline and home heating fuel products are affected by seasonal shifts. At this time of year, refineries generally prepare for the upcoming peak driving season, and shift production from the winter's heating fuels to gasoline.

Distillate inventories, which include diesel and furnace/stove oil, have declined in recent weeks, though they remain above the average range for this time of year. Demand is expected to recede as temperatures rise; however, market prices continued to climb

because of many other forces at play. Propane inventories have lowered to the middle of the average range, and demand has curbed with the onset of warmer temperatures.

Listed are several of the events that have contributed to pricing sensitivity for refined fuels traded on NYMEX:

► **Iran:** Threats to fuel supplies from this country, the world's fourth largest producer of crude oil, prevailed as Western leaders continued opposition to Iran's atomic plans. The situation was further agitated when Iran's president announced Tuesday it had enriched uranium. There were also reports of a possible U.S. military response should diplomatic attempts to resolve this highly charged political matter fail.

► **Refineries:** Not only are U.S. refineries trying to deal with scheduled closures for routine maintenance, but unplanned outages are also causing problems and further limiting refining capacity. They are also facing increased costs associated with new fuel specifications required to produce a reformulated gasoline and low-sulphur diesel.

► **Demand:** Strong economic growth in the U.S. and China has factored greatly in overall increased global demand for fuel and rallied concerns about refiners' ability to keep up with these levels.

► **Gasoline:** Inventories have declined during the past several weeks, due in part to persistent demand, but this fuel's pricing activity has been influenced by additional costs and supply pressures related to the soon-to-be required removal of MTBE (*methyl tertiary-butyl ether*) as a gasoline additive in the U.S. and the addition of ethanol. Increased demand for ethanol has translated into higher prices for this corn-based product.

► **OPEC:** The 11-member cartel has stated its commitment to investing billions to expand its production capacity up to the year 2010, and while the group is uncertain about the future demand/supply for fuel, it doesn't plan to cut production.

► **Nigeria:** The fuel markets have reacted to the ongoing reduction of crude oil production in the Niger Delta that resulted from recent civil and militant unrest and attacks to facilities – this is believed to be significant for the upcoming U.S. driving season, as oil from this region is gasoline rich.

► **Iraq:** Exports from this major source of crude oil haven't been able to fully recover to levels prior to the U.S.-led invasion in March 2003.