

MEDIA RELEASE

Monday, May 15, 2006

Most regulated fuels see reductions to maximum prices

Effective 12:01 a.m. Monday, May 15, 2006, the Public Utilities Board, through its Petroleum Pricing Office, will lower the maximum prices for most of the regulated fuels in Newfoundland and Labrador (NL), except in regions under a price freeze, as per its scheduled mid-monthly adjustment.

The fuels that will see reductions include: all types of gasoline by 4.1 cents per litre (cpl); automotive diesel by 1.9 cpl; furnace fuel by 4.50 cpl and stove oil by 1.89 cpl. The only fuel to increase is residential propane used for home heating purposes, with a movement of 1.9 cpl.

In keeping with existing policy, the Board will remove the jet blend calculation (see backgrounder) for No. 2 blend furnace oil, which has been in place since Nov. 15, 2005. As a result, the additional cost associated with the practice of blending jet fuel with furnace oil is being eliminated and resulted in a significant decrease at this time.

The commodities market has made the seasonal shift from distillate fuels (furnace/stove oil and diesel) to gasoline production. Recent positive news regarding increases in inventory levels in the United States (U.S.) for all refined fuel products has assisted in the overall lowering of prices. Despite this positive news, prices experienced a late-week rally due to gasoline consumption in the U.S. (the world's largest user of fuel) hitting its highest peak this year. This is a reminder to consumers that the market remains far from stable as North America heads into its peak demand period around the summer driving season. The New York Mercantile Exchange (NYMEX) continues to experience volatility in pricing for refined fuel products and crude oil prices are still hovering around \$70 US/bbl.

While the direction of future market fuel prices remains open to speculation, the Board will continue to monitor the commodities market on a daily basis to ensure provincial prices reflect the realities of the global marketplace to provide a continuing supply of fuel to the province.

DRIVING FORCES

Gasoline inventories have been an ongoing concern for the commodities market. Supplies have increased over the past two weeks, putting levels in the lower end of the average range. However, demand is also expected to increase during the coming months as vacationers hit the roadways, and many analysts believe this could squeeze existing stockpiles in the short term, especially if refinery production remains tight.

Refinery output has increased in an effort to rebuild gasoline stockpiles, but have not reached levels that could provide additional comfort to the market. Outages at two major refineries in the U.S. caused anxiety among fuel traders because the possibility of any long-term disruptions may deplete existing inventories for distillates and gasoline.

Distillate inventories increased for the first time in several weeks, and are reported to be in the top of the average range for this time of year. Demand for diesel, a member of this group, remains strong, while furnace/stove oil use has eased with improved weather along North America's northeast coast, where nearly 80 per cent of these fuels are consumed. Also in line with the pricing activity of home heating fuels, propane inventories have increased as demand for this product has abated.

Events in major oil-producing and exporting countries have persisted to negatively affect fuel markets. Nigeria still posed risks as militants threatened state governors and infrastructure in the oil-rich Niger Delta, while several oil workers were kidnapped and a U.S. oil executive was killed there. This added to ongoing concerns over the recent large cut to oil production. As well, the possibility that a standoff over Iran's nuclear enrichment program will lead to economic sanctions for the world's fourth largest crude oil producer remains a driving factor on the fuel market.

BACKGROUND

Jet blend: The maximum prices for furnace oil (No. 2) saw the seasonal incorporation of what is known as the jet blend as of Nov. 15. This practice has been ongoing in NL for the past two heating seasons to accommodate the costs associated with mixing 75 per cent jet fuel with 25 per cent furnace oil to improve this fuel's performance in colder climates over winter.

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