NEWFOUNDLAND AND LABRADOR
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES
Petroleum Pricing Office

MEDIA RELEASE

Maximum gasoline prices see slight increase through interruption formula

Effective 12:01 a.m., Monday, July 3, 2006, the Public Utilities Board, through its Petroleum Pricing Office, will increase the maximum prices for all types of gasoline by 0.2 cents per litre (cpl) in Newfoundland and Labrador (NL).

This slight increase was initiated because the average of the pricing movement on the commodities exchange last week was sufficient to trigger the Board's interruption formula (see Backgrounder). The criteria were not met for the other fuels regulated by the Board (automotive diesel, furnace/stove oil and residential propane used for home heating purposes), and there will be no changes to their maximum prices.

Pricing instability continued to exist for refined petroleum products on NYMEX (New York Mercantile Exchange) over the past several weeks, which saw not only periods of decreases but frequent upward movements as well. However, regulated maximum fuel prices in this province remained constant up to this time. While there have been areas in NL where gasoline has sold below the maximum price, the public is reminded that this activity is permitted under current legislation. The Board does not intervene in the day-to-day operations of wholesalers, resellers or retailers as long as retail and wholesale prices do not violate the *Petroleum Products Act* and related regulations (i.e. selling fuel at prices above the allowable maximum).

Barring any mitigating circumstances, the current maximum prices for gasoline and the other products will remain in effect until July 15 as the timeframe for use of the interruption formula has expired.

FUNDAMENTALS

Gasoline has been the fuel product of interest for market watchers during the past several weeks as the economic fundamentals of demand/supply have played a major role in the direction of refined fuel prices since the peak driving season got underway.

Concerns have both heightened and eased as speculation continued about whether or not there are sufficient supplies to keep up with the peak demand driving season. This was particularly evident late last week as the United States (U.S.) and Canada entered the long holiday weekend, and there were expectations of a boost in gasoline demand.

The weekly inventory report from the U.S. Energy Information Administration (EIA) this past Wednesday showed gasoline stockpiles had decreased for the first time in nine weeks, and levels remain in the middle of the average range for this time of year. In fact, during the previous week, the report indicated that the average gasoline demand levels for the world's largest consumer of fuel were vigorous and at their highest ever for that same period over previous years. This is despite elevated fuel prices, and led to a rally in prices for all refined fuels.

One major concern for the market has been the potential impact on pricing should there be any fuel supply disruptions. One instance was the recent closure of a key shipping channel in Louisiana because of an oil spill, which resulted in a cutback in output at three significant refineries in the region. Refinery capacity overall has increased, but is still considered tight should demand continue to rise.

Still applying pressure to the markets are geopolitical events, such as conflicts in Iraq, Nigeria and Iran, which have affected the security of fuel supplies and are still playing roles in keeping the commodities markets jittery because these areas are significant sources of crude oil, which is used to make products such as gasoline and distillates (furnace/stove oil and diesel).

BACKGROUNDER

Interruption formula: 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.

HST impact: The rounding effect of the HST (Harmonized Sales Tax) may create a slight variation in the magnitude of price changes in each zone for gasoline and diesel fuels. Please refer to the price tables related to this announcement to determine the maximum price for your area.

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