MEDIA RELEASE

Increase in maximum prices for furnace/stove oil

Effective 12:01 a.m. Tuesday, August 8, 2006, the Public Utilities Board, through its Petroleum Pricing Office, will increase the maximum price for furnace/stove oil by 2.15 cents per litre (cpl) throughout Newfoundland and Labrador (NL).

The criteria for the Board's interruption formula were not met for other regulated fuels, including all types of gasoline, automotive diesel, and residential propane used for home heating purposes, and there will be no changes to their maximum prices at this time.

NYMEX (the New York Mercantile Exchange) continues to post strong increases for most refined petroleum products. Market pressures contributing to an increase in the maximum price of gasoline in late July are now affecting furnace/stove oil. International events, particularly in the Mid-East, and concerns over potential hurricanes in the Gulf of Mexico are exerting considerable influence over global petroleum prices. In addition, the recent shutdown of a pipeline in Alaska that serves the biggest oilfield in the U.S. has yet to take hold and be reflected in the global market.

This marks the last time the Board will apply its normal interruption formula criteria before the next scheduled pricing adjustment Aug. 15. The Board remains committed to ensuring a security of supply throughout the province, while establishing maximum prices that are reflective of global market conditions despite the ongoing instability and volatility.

MARKET CONCERNS

Tropical Storm Chris, the third named weather system of this hurricane season, became of significant concern to market watchers late last week when it was projected to gain strength and had been tracking towards the Gulf of Mexico. A significant amount of oil infrastructure representing a large portion of total U.S. oil production was potentially endangered by this storm. Also, much of this infrastructure is still recovering from the damage caused by Hurricanes Katrina and Rita last year, and any severe system could mean significant setbacks for this process. The memories of the severe problems caused by these storms last year have the market closely watching any named weather system this season.

Also creating market pressure is news that the UN Security Council passed a resolution last week calling on Iran to cease uranium enrichment by Aug. 31 or face the strong possibility of sanctions.

Iranian President Ahmadinejad has stated that Iran will not give into pressure from the UN, and that it has “a right” to peaceful nuclear research. The fact that UN sanctions, once considered a remote possibility, are becoming more likely by the day has put the international markets on edge, as Iran is OPEC’s second largest producer of crude oil.

Also in the Middle East, the tensions created by the deepening Israeli-Hezbollah conflict in southern Lebanon, while itself disrupting very little of the global supply infrastructure, has heightened anxiety in the already troubled region. While early last week a ceasefire seemed possible by week’s end, the conflict instead intensified with renewed vigour on both sides, adding to concerns already expressed by market watchers.

Ongoing rebel attacks and production problems in Nigeria have decreased that country’s output by 625,000 barrels a day. This is of particular importance as the majority of Nigerian crude is of the light sweet variety, which is highly sought after by most refiners.

The most recent incident to create concerns on the market, though its immediate impact is not being reflected in today’s price change, is the shutting of Alaska’s Prudhoe Bay field, where nearly 10 per cent of the U.S. oil is produced. This closure is a result of pipeline corrosion and it is yet unknown as to how long it will take to make the necessary repairs; however, analysts expect this will in all likelihood impact the fuel market.

BACKGROUNDER

Fuel-price regulation: Maximum 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), plus the appropriate conversions using the daily noon-day exchange rate, wholesale and retail margins, as well as taxation, when applicable. 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.

Interruption formula: 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.

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