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

MEDIA RELEASE

New maximums set for regulated fuel prices

Effective 12:01 a.m. Tuesday, Aug. 15, 2006, the Public Utilities Board, through its Petroleum Pricing Office, will make the mid-monthly adjustments to the maximum prices for all fuels it regulates throughout Newfoundland and Labrador (NL).

Normally the mid-month price adjustments for petroleum fuels result from changes based on the impact of global events on the pricing movements on the NYMEX (the New York Mercantile Exchange) commodity market. The conflict in the Middle East, the partial closure of the pipeline serving the largest oil field in the U.S. at Prudhoe Bay in Alaska and the renewed tension surrounding terrorism all continue to feed uncertainty in world commodity markets and the price of refined fuels remains relatively high.

In addition to these global market fluctuations, this mid-month price adjustment also incorporates changes highlighted by the Board in its announcement of August 11, 2006 concerning adjustments to the cost inputs used to calculate maximum prices. These cost inputs, which have in most cases remained unchanged for several years, reflect the Board's implementation of a study into the province's supply network and the impacts on prices relating to storage and distribution costs associated with supplying each petroleum product throughout the 14 provincial pricing zones. These price adjustments are intended to protect the local fuel supply networks and recognize the increased costs of delivering these products to consumers throughout a wide range of unique and diverse geographic circumstances and business conditions which exist. Without these pricing adjustments, smaller enterprises, filling important voids in rural markets, may not be viable in the long term. Complete information related to this announcement can be found on the Board's website: www.pub.nl.ca.

As a result of the integration of these figures, changes to maximum prices for regulated fuels will include[+]:

1. For all types of gasoline, adjustments to the base zone, Zone 1 (Avalon), will be a decrease of 0.2 cpl, while prices throughout the remainder of the Province's zones will range from a decrease of 2.8 cpl in Zone 7a (Ramea) to an increase of 5.9 cpl in Zone 7b (Grey River / François / Grand Bruit / La Poile);
2. Automotive diesel will increase by 1.7 cpl in the base zone, Zone 1 (Avalon), while the rest of the Province will see adjustments ranging from a decrease of 0.9 cpl in Zone 7a (Ramea) to an increase of 7.5 cpl for Zone 3c (Change Islands);

3. Furnace/stove oil will increase by 1.77 cpl in the base zone, Zone 1ANE (Avalon Peninsula Northeast), while in other zones:
    a. *Furnace oil:* increases will range from 1.07 cpl in Zone 1a (Bell Island) to 10.07 cpl in Zone 4a (Gaultois / McCallum / Rencontre East - *via drum* delivery); and,
    b. *Stove oil:* increases will range from 0.47 cpl in Zone 12 (Central Labrador) to 9.17 cpl in Zone 11a (Coastal Labrador South: Tanker Supplied) and Zone 14 (Coastal Labrador North) for stove oil; and,
4. Residential propane used for home heating purposes will increase by 1.9 cpl in the base zone, Zone 2 (Burin Peninsula / Bonavista Peninsula); while other areas will also see upward movements ranging from 1.9 cpl in Zones 1 (Avalon Peninsula), 1a (Bell Island), and 5 (Springdale – Green Bay / Triton / Baie Verte Peninsula) to 3.6 cpl in Zone 9 (Northern Peninsula to Englee and St. Anthony).

[+] *The maximum prices for each product in each pricing zone are shown in the attached pricing tables.*

In performing its regulatory role, the Board must strive to balance the needs of all stakeholders in the Province. Consequently, fuel-price regulation must not only ensure that maximum fuel prices represent a fair and reasonable price for consumers, but also allow for a just and equitable return to the supplying companies enabling a secure and continuous supply of product to all regions of the Province.

MARKET TURBULENCE

The commodities market has experienced a tremendous amount of volatility throughout this pricing period, as terrorism plots, geopolitical conflicts and infrastructure problems created mixed reaction from one issue to the next.

Among the many events affecting refined fuel prices on NYMEX (the New York Mercantile Exchange) were:

▪ *Terrorist plot:* A foiled terrorism plot involving possible plans to blow up airliners flying between Britain and the U.S. created uncertainty in the fuel market for several days last week. At first, commodity prices declined dramatically as it was believed the incident would significantly reduce air travel, much like the events of Sept. 11, 2001. However, this downward thrust was short-lived and price rebounded, as concerns eased and it was determined that this event would likely not deter air travel.

▪ *Prudhoe Bay*: This Alaska oil field is the largest in the U.S., and problems with corrosion in a pipeline has led to its partial closure to carry out repairs, which are expected to take several months. This has resulted in concerns about available supplies being able to meet future seasonal demands, given that nearly 400,000 barrels of crude oil per day have been removed from the market. This news has also led to a lowering of estimates of future supplies by market advisors, such as the International Energy Agency.

▪ *Israel-Hezbollah conflict***:** The ongoing battle between these two groups continued to play a role in market tensions. While these two regions are not major oil producers, it is feared the conflict may expand to surrounding countries that are. A U.N. resolution that proposed to end the hostilities was agreed to by both sides this past Monday.

▪ *Demand/supply*: The most recent inventory report from the U.S. Energy Information Administration (EIA) showed that all fuel products, except propane, experienced decreases in supply. Gasoline and propane inventories are in the middle of the average range, while distillates (furnace/stove oil and automotive diesel) are above the average range for this time of year.

Refining capacity is also lower than usual, which has been attributed to problems still existing from hurricane damage last fall and maintenance. Demand is still at a higher level than that for this time last year.

▪ *Changes to fuel specifications*: U.S. refineries also have to meet the changes to gasoline specifications, where MTBE (*methyl tertiary butyl ether*) is being replaced with ethanol, and also move toward producing an ultra low-sulphur diesel for highway use. Refiners are expecting challenges associated with the transportation and storage of these new products.

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.

Protecting the local supply network: Since fuel-price regulation was implemented in 2001, there have been few changes to maximum fuel prices outside of pricing movements on NYMEX (New York Mercantile Exchange) resulting from global market conditions. These changes were reflected in either regular mid-monthly price adjustments or through the application of the Board's interruption formula when interim price changes were warranted.

In order to maintain the integrity of the Province's fuel supply network, it became necessary to review the costs related to the storage and distribution of fuel as it moved from one place to another, whether it be to a storage facility, retail outlet or to someone's home. There are many unique geographic features and ways of doing business that affect the supply of petroleum products throughout the Province. Consequently, prices must reflect the handling of these products, which sometimes involve ferry service and drum delivery to remote communities. The "*Storage and Distribution Costs for Petroleum Products throughout Newfoundland and* Labrador" (the "S&D Study") recommendations address the overall provincial costs of storage and distribution as well as transportation within each zone. They also ensure that regulated maximum prices recover such costs to provide a secure and continuous fuel-supply network so that petroleum products are available for consumers in all regions of the Province.

It is the Board's view that if these changes were not made many smaller operations in the Province, which are filling market voids left by larger enterprises, will likely not be viable over the long term. This situation would ultimately hurt the end-user, the consumer, in that fuel supplies may not be readily accessible or supplied in certain locations over time.

-30-

Media contact: Michelle Hicks, Communications. Tel: 1-866-489-8800 or (709) 489-8837.