

1 **Q. Is there a relationship between the level/amount of the low sulphur fuel**
2 **oil premium and the price of oil generally (for example, when the price**
3 **of oil is high, does the premium generally widen or lessen?)**

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6 **A.** The chart below compares an index of the price for West Texas Intermediate
7 (WTI) crude oil against an index of the dollar premium for low sulphur fuel oil
8 of 1% fuel over 2% fuel for the period January 1995 to December 2005.
9 The data indicate that while there is a positive relationship between the price
10 levels of crude oil in the market and the low sulphur premium levels, low
11 sulphur fuel oil and its premiums are subjected directly to a wider array of
12 factors in end-use product markets that can reinforce or counteract trends in
13 the price of crude oil. The additional factors impacting upon low sulphur
14 premiums could be refinery yields, interfuel substitution with natural gas,
15 cooling or heating degree-days etc. In statistical terms, the correlation
16 coefficient between the trend of crude oil prices and the trend of low sulphur
17 premiums is 0.66 where a value of 0 indicates no correlation in the data sets
18 and a value of 1 indicates perfect correlation.

