

MEDIA RELEASE

Maximum automotive diesel prices drop

Effective 12:01 a.m. Saturday, Dec. 3, 2005, the Public Utilities Board, through its Petroleum Pricing Office, will lower the maximum price for automotive diesel by 3.8 cents per litre (cpl) in Newfoundland and Labrador (NL), except in areas where a price freeze is in effect.

The interruption formula criteria were not met for all types of gasoline, stove oil, or residential propane used for home heating purposes, and their maximum prices will not be adjusted at this time.

Automotive diesel, like furnace and stove oil, is a member of the distillate category of fuels, with similar factors affecting each when it comes to their market-pricing movement. Currently, this is the time of year the market becomes focused on the supply availability and demand for distillates, as well as any conditions that could impact these levels. Reducing maximum diesel prices in NL at this time falls in line with the recent declines that led the Board to use its interruption formula Friday to lower the maximum prices of No. blend furnace oil by 3.16 cpl.

Overall, regulated fuel prices in NL have remained relatively stable since Nov. 15, as circumstances in the international commodities market appear to be returning to a more normal condition following the severe volatility of the past few months. Caution remains, however, that this situation may change if future events disrupt the apparent balance existing between supply and demand in the marketplace.

Among the many factors that contributed to lowering the market prices for diesel during this period were:

- ongoing increased imports for diesel fuel, as well as the shift of refinery production from gasoline to distillates has improved the outlook for diesel;
- reports of improved inventories for transportation fuels have led market traders/investors to believe that the expected winter demand may be met based on current inventories and expected production levels;
- diesel fuel demand often increases as the cold weather sets in, but mild weather along North America's northeastern seaboard has shown distillate fuel consumption to be lower than expected for this time of year;
- recent data from the U.S. Energy Information Administration (EIA) showed larger-than-expected gains in supplies, as reduced consumption patterns have helped inventory levels rebuild; and,
- while refining capacity remains tight, more refineries damaged by recent major hurricanes in the Gulf of Mexico (a significant source of refinery production) have resumed operation and overall production levels have increased for all fuels, including diesel.

BACKGROUNDER

Interruption formula: Regulated fuel prices are adjusted on the 15th of each month using the average daily prices for 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, Bloomberg's *Oil Buyer's Guide* weekly figures must exceed a ± 5.0 cpl change over five days.

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