

## **MEDIA RELEASE**

### **Maximum price for residential propane drops**

Effective 12:01 a.m. Tuesday, Jan. 24, 2006, the Public Utilities Board, through its Petroleum Pricing Office, will lower the maximum allowable price of residential propane used for home heating purposes in Newfoundland and Labrador (NL) by 5.0 cents per litre (cpl).

The interruption formula criteria were not met for the other fuels regulated by the Board (all types of gasoline, automotive diesel, No. 2 blend furnace oil and stove oil), and there will be no change to their maximum prices at this time.

The commodities market continued its unpredictable pattern during this past week. However, helping to ratchet propane prices back was the recent milder-than-average weather in the U.S. Midwest, a region where consumption patterns greatly affect demand for this fuel product. Demand was reduced during this period and there has been a lower consumption level for propane and natural gas products.

Recent reports from the U.S. Energy Information Administration (EIA) showed decreases in propane inventories; however, stockpiles overall remain above the average range for this time of year because of reduced demand and continuing refinery recovery from the aftermath of devastating hurricanes in the Gulf of Mexico last fall. Analysts anticipate that there is sufficient supply to meet the remaining winter demand, as long as mild temperatures continue, and this has lowered pressure on this fuel's prices.

Another factor that influenced market propane prices was the recent resolution of a dispute between Russia and the Ukraine over natural gas that affected supplies across Europe. Russia had cut supplies to the Ukraine because it refused to pay the set price. Initial market reaction was swift with an upswing in prices for all refined fuels. However, now that the dispute is over, market concerns related to this particular situation and natural gas supplies eased.

### **BACKGROUNDER**

Factors affecting propane prices are primarily related to the pricing behaviour of natural gas. Just as diesel and furnace oil are sister products in the same group of fuels, so too are natural gas and propane. Strong movement in the pricing of one product in either direction can often, though not in step, impact the pricing of the other.

Regulated fuel prices are adjusted on the 15<sup>th</sup> 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  $\pm 3.5$  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  $\pm 5.0$  cpl change from the previously established base price under regulation.

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