

MEDIA RELEASE

Increase set for maximum No. 2 blend furnace oil prices

Effective 12:01 a.m. Sunday, April 2, 2006, the Public Utilities Board, through its Petroleum Pricing Office, will increase the maximum price for No. 2 blend furnace oil by 2.76 cents per litre (cpl) in Newfoundland and Labrador (NL), except in regions currently under a price freeze.

The interruption formula criteria (see Backgrounder) were met for this fuel product after a continuation of escalated pricing levels on the New York Mercantile Exchange (NYMEX). At this point, there will be no changes in the maximum prices of other fuels regulated by the Board (all types of gasoline, automotive diesel, stove oil and residential propane used for home heating purposes), either upward or downward, unless warranted and supported by market data.

At the outset of this pricing period, the global marketplace has faced numerous challenges that were reflected in the international trading of refined fuels. Overall, there has been an upward pressure placed on these products and their prices, not only because of expected demand and supply issues, but also as a result of ongoing conflicts in major crude oil-producing nations and related events.

The fuel-pricing network in NL is directly tied to the international markets, and the events that influence their market-pricing performance also affect local prices. Without these links to appropriate access and pricing in global markets, provincial fuel supplies may be threatened. While fuel prices in unregulated jurisdictions have fluctuated considerably due to these recent events (explained in more detail below), prices in NL have remained relatively stable over the period. The public can continue to expect the processes of the Board and its related pricing adjustments to be applied consistently in serving the interests of both consumers and the regulated industry.

WHAT'S GOING ON?

The most recent U.S. Energy Information Administration (EIA) weekly inventory report indicated that distillate fuel supplies, which include furnace/stove oil and diesel, declined for the sixth consecutive week – though they remain above the average range for this time of year.

Many refiners have shifted their focus from distillate fuel production to gasoline in order to prepare for the demand associated with the approaching peak driving season. Therefore, not only is a drawdown of inventory from demand occurring, as many regions along North America's northeastern seaboard still contend with winter-like conditions, but heating oil supply levels were also affected by decreased production as numerous refineries shut for scheduled maintenance and seasonal changeovers.

As previously mentioned, there have been more than supply-demand issues at play when it comes to the factors that impact refined fuel prices. At the forefront were events in crude oil-producing countries and other global circumstances that could potentially lead to disruptions in future available fuel supplies, such as:

- **Iran:** The United Nations Security Council called on Iran, the world's fourth largest crude oil producer, to cease its uranium enrichment activities and co-operate with the International Atomic Energy Agency, the U.N.'s nuclear supervisory body, within the next month ... as Iran continues to resist this pressure, there are fears of economic sanctions against this country and possible retaliatory cuts to fuel supplies;

- **Nigeria:** although the violence against pipelines and export terminals has ebbed in the oil-rich Niger Delta region, the reduction in oil output that resulted from this unrest isn't expected to resume for some time; and,

- **Growing economies:** As the global economy continues to grow, so are the forecasts of fuel consumption, though the levels are not as much as originally predicted.

BACKGROUND

No. 2 blend furnace oil: Maximum prices for furnace oil (No. 2) as of Nov. 15 saw the seasonal incorporation of what is known as the jet blend. This practice has been ongoing in NL for the past two heating seasons to accommodate the costs associated with mixing 75 per cent jet fuel with 25 per cent furnace oil to improve this fuel's performance in colder climates over winter.

Interruption formula: 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). 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, 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.