

MEDIA RELEASE

Maximum gasoline, diesel prices increase after escalating markets

Effective 12:01 a.m. Sunday, April 23, 2006, the Public Utilities Board, through its Petroleum Pricing Office, will increase the maximum prices of automotive fuels in Newfoundland and Labrador (NL), except in areas currently under a price freeze.

All types of gasoline will increase by 6.1 cents per litre (cpl), while automotive diesel will rise by 4.7 cpl. The maximum prices of other fuels regulated by the Board will not be adjusted either upward or downward unless it is supported by market data.

Despite rapid fluctuations in most markets over the past week, this marks the first adjustment for gasoline and diesel in Newfoundland and Labrador since maximum regulated fuels prices were set April 15. While it was hoped that markets would afford a longer period of fuel-price stability, consumers in the province have not been able to escape the effects of record crude oil prices and its impact on the commodities markets for refined fuels.

The price of crude oil is not used by the Board to calculate regulated fuel prices in NL; however, its behaviour on NYMEX (the New York Mercantile Exchange) has played a significant role in the trading prices of refined fuels, such as gasoline and diesel. During the past week, record prices were set for crude oil as the psychological barrier of \$70 US per barrel was crossed. This upward movement has, in turn, spilled over into refined fuel prices and resulted in dramatic spikes overall.

This latest market rally was primarily spurred by heightened global tensions stemming from geopolitical events in major oil-producing nations, specifically Iran and Nigeria, as well as negative news contained in the weekly inventory report from the U.S. Energy Information Administration (EIA).

The volatility of the market is being driven by numerous factors outside the normal supply/demand issues. With North America's peak driving summer season approaching, the future pricing structure for gasoline remains unsettled. The Board will continue to monitor the commodities market on a daily basis to ensure provincial prices reflect the realities of the global marketplace to provide a continuing supply of fuel in the province.

INFLUENTIAL FACTORS

As long as there is opposition between Western leaders and Iran for this country's nuclear enrichment program, there continues to be an overwhelming fear that future fuel supplies will be cut or disrupted from this significant crude oil producer. As well, the oil-rich Niger Delta has had difficulty returning to previous production levels because of the aftermath in recent civil and militant conflicts.

Accompanying these circumstances has been the continual decline in stockpiles. Not only have gasoline inventories deteriorated from abundant levels to that which is in the lower end of the average range, but distillate fuels, a group which includes diesel as well as furnace/stove oil, have also shown consistent decreases.

The after-effects of Hurricanes Katrina and Rita are said to remain an underlying concern for U.S. refiners, even nearly a year later. Aside from increased demand for fuel, refinery production has not been at the optimal levels needed to alleviate concerns about fuel-supply availability in upcoming peak driving season, especially when U.S. environmental regulations require the use of a newly reformulated gasoline and low-sulphur diesel this summer, which could pose supply, distribution and storage problems during the transition period.

BACKGROUNDER

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.

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