



NEWFOUNDLAND AND LABRADOR
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES
Petroleum Pricing Office



MEDIA RELEASE

Maximum gasoline prices increase on global supply fears

Effective 12:01 a.m. Monday, July 31, 2006, the Public Utilities Board, through its Petroleum Pricing Office, will increase the maximum price for all types of gasoline by 3.2/3.3 cents per litre (cpl) throughout Newfoundland and Labrador (NL) – depending on the HST rounding effect.

This pricing adjustment for gasoline is a result of the criteria being met for the Board's interruption formula (see Backgrounder). The criteria for the interruption formula were not met for other regulated fuels, including automotive diesel, furnace/stove oil, and residential propane used for home heating purposes, and there will be no changes to their maximum prices at this time

NYMEX (the New York Mercantile Exchange) pricing has posted several dramatic increases during the past several days for most refined products, with the largest swings being seen in the price of gasoline. Falling gasoline supplies during the peak summer demand season in North America, coupled with the instability generated by the Israeli-Hezbollah conflict in southern Lebanon have been the primary, though not the only, factors driving prices recently.

Despite the pressures on the markets caused by these dramatic international events the Board will continue to apply its established principles and practices to ensure that prices in NL accurately reflect the global marketplace to ensure security of supply and, to the extent possible, protect all stakeholders from the violent gyrations of the international marketplace.

SUPPLY CONCERNS

The U.S. Energy Information Administration's (EIA) weekly inventory report showed gasoline supplies fell by 3.2 million barrels last week. This was the largest decrease in the past three months, and comes as we are nearing the peak of the North American summer demand. Gasoline inventories are now only slightly above their levels for this time last year.

The tensions created by the deepening Israeli-Hezbollah conflict in southern Lebanon, while itself disrupting very little of the global supply infrastructure, has heightened tensions in the entire region. Many security experts are concerned that this conflict could spill over into neighbouring nations, or disrupt key shipping routes in the area, which could lead to major supply disruptions.

Ongoing rebel attacks and production problems in Nigeria have decreased that country's output by 625,000 barrels a day. This is of particular importance as the majority of Nigerian crude is of the light sweet variety, which is highly sought after by most refiners, and is ideal for making gasoline.

In addition to the problems caused by Iran's financial and military backing of Hezbollah and the potential which this has to spread the above mentioned conflict, Iran's nuclear ambitions remain a grave concern. Iran continues to remain defiant in the face of pressure from western nations to give up its nuclear weapons program. The possibility that the UN or the west may impose sanctions continues to worry the markets.

BACKGROUNDER

Fuel-price regulation: Maximum 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), plus the appropriate conversions using the daily noon-day exchange rate, wholesale and retail margins, as well as taxation, when applicable. 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.

Interruption formula: 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.

HST impact: The rounding effect of the HST (Harmonized Sales Tax) may create a slight variation in the magnitude of price changes in each zone for gasoline and diesel fuels. Please refer to the price tables related to this announcement to determine the maximum price for your area.

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