



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



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## MEDIA RELEASE

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### **Downturn in markets leads to decline for all maximum fuel prices**

Effective 12:01 a.m. Friday, Sept. 15, 2006, the Public Utilities Board, through its Petroleum Pricing Office, will lower the maximum prices for all the fuels it regulates in Newfoundland and Labrador (NL) as per its scheduled mid-monthly adjustment.

The breakdown of the decreases for each fuel product is as follows: all types of gasoline by 5.9/6.0 cents per litre (cpl) – depending on the HST rounding impact for each pricing zone; ultra-low sulphur diesel (ULSD) in Newfoundland by 7.4 cpl; low sulphur diesel (LS No.2) in Labrador by 7.7/7.8 cpl; No. 2 furnace fuel/stove oil by 4.33 cpl; and, residential propane used for home heating purposes by 1.7 cpl.

Over the past several weeks, refined fuel products on the commodities exchange (NYMEX – New York Mercantile Exchange) have seen significant downward movement in pricing as there was positive reaction to news of increasing inventories for all products and a slowing global economy that is believed to have resulted from sustained high fuel prices.

This adjustment represents the third substantive reduction in a row for gasoline prices in NL with decreases of 9.6/9.7 cpl on August 19 and 3.9/4.0 cpl on Sept. 1. While price adjustments do not occur with the same frequency as the recently established regulatory regimes in Nova Scotia and New Brunswick, price changes in this province reflect a greater measure of stability whether market conditions are impacting prices upwards or downwards. While understandably consumers are anxious to see prices reduced more quickly when commodity markets are in a decline as they are now, it must be remembered that price increases would also occur with greater frequency in a rising marketplace as well. Using such methodology, consumers could expect earlier price adjustments for both decreases and increases depending on market conditions. In the end, the pricing mechanism in NL maintains a fair balance whether commodity markets are going up or down, and in so doing, ensures a consistent and relevant regulatory framework for all stakeholders.

In addition, the Board sets only maximum prices for refined fuels in this province, and wholesalers and retailers can sell below these maximums at any time. These industry-driven reductions below established maximums have occurred in several areas in recent times, and the Board encourages an expansion of these competitive forces in the provincial marketplace.

The Board will continue to monitor the rapidly changing global market conditions and will adjust prices within its established practices in the interests of both consumers and industry.

### **WHAT'S MOVING THE MARKET?**

There have been many influences on the NYMEX (New York Mercantile Exchange) during this pricing period that led to this overall lowering of regulated fuel prices in NL. One of the main factors has been the healthy showing of inventories, particularly for gasoline and distillates (furnace/stove oil and automotive diesel). Products have remained above the average range for this time of year, as the peak demand driving season subsided after the Labour Day weekend, and refiners have shifted their focus to home heating fuel production in advance of the expected increase in demand for the home heating season.

Global demand estimates for fuel continued to be lowered, as many analysts believe high fuel prices are primarily responsible for slowing economies and lower-than-expected growth. OPEC (the Organization of Petroleum Exporting Countries) met earlier this week and decide it would maintain its output levels, which are near record levels, while member nation Saudi Arabia has announced plans to invest \$70 billion in its oil and gas infrastructure over the next five years.

Geopolitical events have also played a role in the decline of commodity pricing. Fears have eased that Iran will reduce oil exports stemming from its ongoing disagreement with the United Nations and Western leaders over its nuclear enrichment program. Iran has indicated a willingness to suspend the program, with strict conditions, during upcoming negotiations. As well, violence in the other areas of the Middle East is not of the same enormity as other times in the past, which also lowered concerns regarding future fuel supply availability and potential disruptions. While output from Nigeria, Africa's largest producer, has been significantly cut because of ongoing civil and militant unrest, officials have stated this may recover in the near future.

The weather has also been a contributing factor to the lowering of prices for refined products, as no hurricanes have hit the Gulf of Mexico, which is a significant source of oil production and infrastructure.

### **BACKGROUNDER**

***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 automotive fuels. Please refer to the price tables related to this announcement to determine the maximum price for your area.

***Fuel-price regulation:*** Maximum 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), 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.

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