

Board of Commissioners of Public Utilities

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MEDIA RELEASE

Changes in fuel-price regulation to reflect updated storage and distribution costs

The Board of Commissioners of Public Utilities (the "Board") has completed another component of its ongoing review into the regulation of petroleum products pricing in Newfoundland and Labrador (NL).

This segment of the review will result in changes to the cost inputs used to set maximum regulated prices of petroleum products, and will be incorporated with the scheduled mid-month price adjustment for both automotive and home heating fuels on August 15, 2006.

These changes are based on a study completed by an independent consultant entitled: "*A Study of Storage and Distribution Costs for Petroleum Products throughout Newfoundland and Labrador*" (the "S&D Study"). The report identifies the multitude of supply networks operating in the 14 separate pricing zones in the Province for each petroleum product regulated by the Board, and considers the related storage and distribution costs associated with supplying these petroleum products to consumers in each zone.

As a result of these changes maximum regulated prices in most zones will either increase or decrease to reflect the updated costs identified in the S&D Study, and will be applied to the regular pricing data to be implemented on August 15, 2006. Some adjustments in zone boundary designations will also be made to better reflect how supply and distribution networks operate in these areas.

The following adjustments to the pricing models for automotive and heating fuels will be implemented as of August 15, 2006:

- The total allowed mark-up for gasoline in the Avalon Peninsula base zone will be increased by 0.08 cents per litre (cpl) to 13.58 cpl to account for increased transportation costs related to diesel fuel within this zone. This increase is, therefore, also applicable to the other zones. With taxes this will result in an increase in the maximum price for gasoline of 0.1 cpl in all zones.
 - The existing zone differentials for automotive fuels (gasoline and diesel) will be adjusted, which will result in changes to maximum automotive fuel prices ranging from a decrease of 2.5 cpl in Zone 7a (Ramea) to an increase of 6.2 cpl for Zone 7b (Grey River/François/Grand Bruit/La Poile).
 - The existing zone differentials for furnace and stove oil will also change, with adjustments ranging from a decrease of 1.3 cpl in Zone 12 (Central Labrador) to an increase of 8.3 cpl for drum delivery in Zone 4a (Gaultois/McCallum/Rencontre East).
 - Adjustments to zone differentials for residential propane used for home heating will be made in some zones, ranging from no change in certain areas to increases of 0.2 cpl in Zone 4 (Connaigre Peninsula) and 1.7 cpl in Zone 9 (Northern Peninsula to Englee and St. Anthony).
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The attached tables: (i) *Impact of Updates to S&D Costs on Maximum Prices for Automotive Fuels*; (ii) *Impact of Updates to S&D Costs on Maximum Prices for Distillate Home Heating Fuels*; and (iii) *Impact of Updates to S&D Costs on Maximum Prices for Propane Used for Home Heating Purposes* show the resulting changes to the maximum regulated prices for each product in every zone. A Backgrounder and a summary of zone designation changes, as well as revised zone descriptions and updated zone maps for all products are included with this release. Also incorporated in the release are a series of Q & As relating to the implementation of the Storage and Distribution Study.

PROTECTING LOCAL SUPPLY NETWORK

Since fuel-price regulation was implemented in 2001, there have been few changes to maximum fuel prices outside of pricing movements on NYMEX (New York Mercantile Exchange) resulting from global market conditions. These changes were reflected in either regular mid-monthly price adjustments or through the application of the Board's interruption formula when interim price changes were warranted (See Backgrounder).

In order to maintain the integrity of the Province's fuel supply network, it became necessary to review the costs related to the storage and distribution of fuel as it moved from one place to another, whether it be to a storage facility, retail outlet or to someone's home. There are many unique geographic features and ways of doing business that affect the supply of petroleum products throughout the Province. Consequently, prices must reflect the handling of these products, which sometimes involve ferry service and drum delivery to remote communities. The S&D Study's recommendations address the overall provincial costs of storage and distribution as well as transportation within each zone. They also ensure that regulated maximum prices recover such costs to provide a secure and continuous fuel-supply network so that petroleum products are available for consumers in all regions of the Province.

It is the Board's view that if these changes were not made many smaller operations in the Province, which are filling market voids left by larger enterprises, will likely not be viable over the long term. This situation would ultimately hurt the end-user, the consumer, in that fuel supplies may not be readily accessible or supplied in certain locations over time.

ONGOING REVIEW

The implementation of these changes relating to automotive and heating fuels is part of the second phase of the Board's ongoing review of petroleum products regulation in the Province. The first phase involved a review of the administrative and financial practices of the former Petroleum Products Pricing Commission (PPPC) intended to eliminate duplication and effect efficiencies in the integration with the Board of the Petroleum Pricing Office itself.

This second phase includes a review of the operational aspects of the pricing methodology used to set maximum prices for petroleum products in the Province. In addition to the S&D Study recommendations that are now being implemented, the second phase also incorporates consideration of a number of other issues concerning the pricing adjustment methodology and processes employed by the Board and regulatory reporting requirements. The Board will conclude discussions with stakeholders and finalize implementation of the remainder of the review in the early fall.

To learn more about the S&D Study, as well as to view other supporting documentation, such as this announcement and the Board's ongoing review of petroleum products regulation, visit: www.pub.nl.ca.

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