



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



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## MEDIA RELEASE

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### **Maximum automotive diesel prices set for increase amid volatile market**

Effective 12:01 a.m. Saturday, July 22, 2006, the Public Utilities Board, through its Petroleum Pricing Office, will increase the maximum price of automotive diesel by 4.0/4.1 cents per litre (cpl) throughout Newfoundland and Labrador (NL) – depending on the HST rounding effect.

The criteria for the Board's interruption formula (see Backgrounder) were not met for other regulated fuels, including all types of gasoline, 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 seen some dramatic upswings during the past week for most refined products. The market pressures that affected gasoline last week during its mid-monthly adjustment, which saw the Board increase its maximum price by 5.1 cpl, have made their way into diesel prices.

Diesel, along with furnace/stove oil, is a member of the distillate group of fuels, and although distillate inventories are in a relatively healthy position for this time of year, their prices are being affected by global concerns, particularly the situation in the Middle East. Although the Board does not use the market price of crude oil to establish maximum regulated fuel prices in NL, its price does play a significant role in the end cost of refined products, such as diesel. Crude oil prices recently hit all-time highs, moving closer to \$80 US per barrel, and resulted in a significant impact on commodity pricing.

#### **CONFLICTS**

Demand for diesel, like that for gasoline, has remained strong despite continuing high prices, but geopolitical pressures from the Middle East and Nigeria have overshadowed the traditional factors affecting fuel prices.

The raging conflict between Israel and the Hezbollah raised concerns that the dispute would spread to surrounding countries, such as Iran, that are major oil-producing regions. Though the commodity prices eased slightly on the hopes of diplomacy and reports that the market is well-supplied, prices remained sensitive to any news coming from this hotspot that could affect global supplies.

Another area of concern has been Nigeria, another major oil producer and exporter, which saw further attacks on its oil infrastructure and limiting output from this region.

As well, fears that the after-effects of the tsunami that hit Indonesia's Java Island could affect fuel prices if production facilities there were damaged further demonstrating the sensitivity of the markets at this time.

#### **BACKGROUND**

***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.

***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  $\pm 3.5$  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  $\pm 5.0$  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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