



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



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## MEDIA RELEASE

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### NEW FEDERAL REGULATIONS FOR DIESEL IN EFFECT

### **Maximum gasoline prices lowered Sept. 1, 2006**

Effective 12:01 a.m. Friday, September 1, 2006, the Public Utilities Board, through its Petroleum Pricing Office, will lower the maximum price of all types of gasoline by 3.9/4.0 cents per litre (cpl) throughout Newfoundland and Labrador (NL) – depending on the HST rounding effect.

This decrease is reflective of an overall decline on NYMEX (New York Mercantile Exchange) for gasoline that has continued since maximum gasoline prices decreased 9.6/9.7 cpl on Aug. 19.

The market data used for this price change has been mixed, with both downward and upward pressures occurring at various points throughout the five-day period contributing to this interruption. The downturn on the market, particularly at the beginning and end of the period, resulted from an easing in concern over future fuel availability, improved inventories, and a lowering of forecasts for global fuel demand. Conversely, there were days in this session when commodity pricing increased due to tropical storm activity near the Gulf of Mexico. Also affecting commodity prices were reduced output from Alaska's Prudhoe Bay, as well as fears about possible fuel-supply disruptions in other major oil-producing regions, including the Middle East.

The average of the pricing activity stemming from these offsetting influences, however, has resulted in a reduction in the maximum regulated price of gasoline overall. Nonetheless, the market continues to demonstrate considerable volatility and the Board will monitor these fluctuations with a view to setting prices which will balance the needs of all stakeholders.

### **ULTRA LOW SULPHUR DIESEL**

The Board will increase the total allowable mark-up<sup>1</sup> for automotive diesel by 0.6/0.7 cpl (depending on the HST rounding impact), except in Labrador pricing zones, in order to reflect the

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<sup>1</sup> The **total allowed mark-up** is the amount set by the Board in cents per litre (cpl) which is added to the benchmark price of a product to establish the retail base price for that product in the base zone. This amount is meant to cover all costs in getting the product from its source to the end consumer such as administrative and transportation costs, plus provide a reasonable allowance for return on investment to participants in the supply chain. While the benchmark and base prices change monthly, the total allowed mark-up would only change if the Board initiated a change or approved a change on application by a retailer or wholesaler.

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federal government's required use of ultra low sulphur diesel (ULSD) in the retail market, and the additional costs associated with this product.

Changes to federal guidelines regarding the sulphur content of diesel fuel for use in on-road vehicles, off-road engines, vessel and locomotive engines came into effect January 1, 2006. These regulations set new lower sulphur limits (see Backgrounder) for diesel fuels produced, imported and sold in Canada, and outlined the timeframe for these new higher specifications.

The first stage of the mandated switchover for on-road diesel fuels began June 1, 2006 for refiners/importers, and becomes effective Sept. 1, 2006 at the retail level (the lag was to allow for stored product to flow through the fuel network). Northern supply areas, including the entirety of Labrador, were granted an extension to the implementation of the new diesel product, and the new guidelines at the retail level will not become effective until Sept. 1, 2007. Off-road as well as rail and marine diesel fuels have later effective dates for switchover extending into 2007 and beyond.

In keeping with these mandated federal standards, the Board has approached the provincial government to amend the regulations under the *Petroleum Products Act* to include the Platts New York Cargo price for ULSD as the benchmark for setting the regulated maximums for diesel. In the interim, this increase to the total allowed mark-up will immediately address cost recovery issues related to ULSD, a higher-quality product, as a result of these requirements.

#### **BACKGROUNDER**

***New diesel fuel specifications:*** The federal regulations specify that all diesel fuel produced, imported and sold in Canada will see the sulphur content in on-road vehicle diesel fuel drop from 500 mg/kg to 15 mg/kg. Effective Sept. 1, 2006, sulphur limits must be 22 mg/kg at the retail level and after Oct. 15, 2006, limits must be reduced to 15 mg/kg. An amendment to the provincial regulations related to the *Petroleum Products Act* will include the use of Platts New York Cargo ULSD as the benchmark for the island portion of the province.

***Labrador:*** Diesel fuel prices in Labrador will continue to be based on the previous benchmark (Platts New York Cargo Low Sulphur No. 2) until the new regulations become effective in the northern supply areas Sept. 1, 2007. According to Natural Resources Canada, the delay in implementation for these regions comes about because of the difficulty in supplying these areas, especially in winter. Fuel shipments to these areas take place between mid-May to September. Refuelling facilities in these areas are generally slow in the turnover of their diesel fuel stock, and consequently, it was determined that a later implementation date for the sulphur content limits was necessary.

Further information related to ULSD regulations can be found by visiting the following website: [http://www.ec.gc.ca/ceparegistry/documents/regulations/qa\\_guid/questions.cfm](http://www.ec.gc.ca/ceparegistry/documents/regulations/qa_guid/questions.cfm), with an amendment at: <http://canadagazette.gc.ca/partII/2006/20060712/html/sor163-e.html>.

***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.

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