

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

MEDIA RELEASE

Board to implement new pricing schedule
Maximum fuel prices see minimal movement

Effective 12:01 a.m. Wednesday, November 15, 2006 the Public Utilities Board, through its Petroleum Pricing Office, will establish new maximum fuel prices for Newfoundland and Labrador (NL), with several additional initiatives being undertaken at this time.

The breakdown of pricing movement for all regulated fuels is as follows:

- all types of gasoline will increase by 0.2/0.3 cents per litre (cpl) – depending on the rounding impact of the HST in a particular pricing zone;
- ultra low sulphur diesel in Newfoundland will increase by 1.6/1.7 cpl, while low sulphur diesel in Labrador will increase by 1.2/1.3 cpl;
- furnace oil will see the seasonal implementation of the jet blend at this time, which means the maximum price for this fuel will increase by 3.45 cpl, while stove oil will rise by 1.07 cpl; and,
- there will be no change in the maximum price of residential propane used for home heating purposes.

The Board will also initiate its annual fuel-price freeze in several Labrador zones, including: Zone 11 (Labrador South – Lodge Bay / Cartwright), Zone 11a (Coastal Labrador South – Tanker Supplied), Zone 11b (Coastal Labrador South – Drum Delivery) and Zone 14 (Coastal Labrador North).

Additional information related to the jet blend, market conditions and the Labrador price freeze can be viewed in the Backgrounder section of this media release.

PETROLEUM PRICING REVIEW

As part of its ongoing review of petroleum pricing regulation in the Province, the Board will be introducing a series of changes to its pricing methodology to ensure a more timely, responsive and predictable regulatory environment. These changes include:

- Beginning on Thursday, November 23, 2006, the Board will schedule its setting of maximum prices for petroleum products every two weeks instead of the current mid-month adjustment.

- The Board’s existing Interruption Formula (IF), which is used to adjust for market volatility between scheduled pricing adjustments, will be maintained but the criteria and timing have changed.
- Every Thursday following a scheduled adjustment, consumers will experience either no change in price or a change triggered by the criteria being met for the IF.
- The notification period advising of price changes to all wholesalers, resellers and retailers in the Province (approximately 625 in total) will be reduced to one day from the current three days.

A detailed overview of the changes can be viewed in the attached document entitled: “*An Overview of the New Regulatory Pricing Model*” or via the Board’s website: www.pub.nl.ca.

The methodology for setting maximum petroleum prices in Newfoundland and Labrador has not changed since the inception of fuel price regulation in 2001. Commodity markets, especially over the past year, have displayed increased and persistent volatility which has caused difficulties for suppliers of petroleum products, frustrations for consumers, and challenges for the Board. These changes will result in a more predictable, transparent and streamlined price setting process that is fair to both consumers and industry stakeholders. More frequent scheduled adjustments with a shorter notice period will result in maximum prices that are better aligned with the pricing movements on international markets and will reduce the number of required interruptions between scheduled price changes. The timing of scheduled and any interim price adjustments is known and the notification process is more timely and efficient. These changes follow the completion of extensive research by the Board and consideration of written and verbal feedback from stakeholders.

In addition to this pricing methodology assessment, other completed components of the ongoing operational review being conducted by the Board include: (1) the consolidation of the administrative and financial operations of the former Petroleum Products Pricing Commission (PPPC) with those of the Board resulting in substantial cost savings; and (2) the implementation of recommendations arising from a study into storage, distribution and transportation costs for petroleum products in each of the Province’s 14 pricing zones in order to ensure a secure and continuous fuel supply network to consumers in all regions of Newfoundland and Labrador. More information on these components of the operational review can be viewed on the Board’s website: www.pub.nl.ca.

BACKGROUNDER

Jet blend: The maximum price for furnace oil (No. 2) as of November 15 will see the seasonal incorporation of what is known as the jet blend. This practice has been ongoing in Newfoundland and Labrador for the past several heating seasons to accommodate the costs associated with mixing 75 per cent jet fuel with 25 per cent furnace oil to improve this fuel’s performance in colder climates over winter.

Labrador price freeze: Policy on this matter has previously been developed in consultation with stakeholders from these regions, and is largely based on the difficulties encountered in supplying fuels to Labrador given the winter freeze-up which affects the shipping season, as well as problems of road access during the winter months.

The price freeze will continue until deliveries to the region resume in the spring of the year; however, in the case of Zone 11 (Labrador South – Lodge Bay / Cartwright), where road access may be available prior to the beginning of the shipping season, the Board will consult with local stakeholders to determine the appropriate end date for the price freeze, as it has in the past.

Overall market conditions: The commodity markets overall during this pricing session has seen some dramatic upswings and downturns, both of which were short-lived because of the numerous factors at play that served to offset each other.

Among the pressures on the market were:

- OPEC (Organization of Petroleum Exporting Countries) dominated the news in the commodity markets, as the cartel decided to cut production quotas, with talks of possible further cuts to deal with what it terms an oversupply in the global market – the latter of which has been met with skepticism;
- increased violence in Nigeria, where oil infrastructure suffered new bouts of attacks that continued to impair output from this oil-rich region;
- a seasonal change from gasoline production to the manufacture of home heating fuel in advance of the peak demand period;
- weekly inventory reports showed declines in gasoline and distillate (furnace/stove oil and diesel) supplies, though both are above the average range for this time of year;
- demand for gasoline continues to be strong in the U.S., the world's largest consumer, and the demand for heating fuel is expected to increase, though it is dependent on a myriad of factors, one of which is the weather; and,
- refinery capacity is tight as many U.S. operations work through scheduled maintenance programs as well as unplanned challenges, such as a bomb threat at a huge refinery in Indiana.

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OVERVIEW OF THE NEW REGULATORY PRICING MODEL

- Maximum prices for all types of gasoline, automotive diesel, furnace/stove oil and residential propane used for home heating purposes will be set **every second Thursday** beginning November 23, 2006.
- During scheduled adjustments, the **last data point** will include Tuesday of the same week. For example, data for the inaugural November 23rd price change will include the average of all market information from November 12th to Tuesday, November 21st. Then on a go-forward basis, data for the next scheduled price change on December 7th will include information from Wednesday, November 22nd to Tuesday, December 5th, representing a 14-day averaging period.
- Pricing calculations will now reflect the reality of the provincial fuel market in that transactions, purchases and deliveries are conducted on a seven-day basis, as opposed to the previous practice of using data that was based on the Monday to Friday market business week. As a result, the last market price will be in effect until the next market data point is received. For example, if Friday is a holiday, then Thursday's data point will be applied until the next data point is received.
- **Notification** of price changes to all companies, resellers and retailers will happen throughout the day each Wednesday, and public notification will occur after 12:01 a.m. Thursday. The schedule for these announcements is intended to diminish the potential for any stakeholder to experience unfair advantage as a result of dramatic price changes.
- The Board's **interruption formula (IF)** will still be used to deal with extreme periods of market-pricing volatility. Price adjustments resulting from the use of this formula will occur on alternate Thursdays only, using a seven-day average instead of the previous five days.
- **New IF criteria** include:
 - a. For gasoline, diesel or furnace/stove oil, price fluctuations on NYMEX (New York Mercantile Exchange) **must exceed an average of ± 4.0 cents per litre (cpl) over a seven-day period** from the last regulated benchmark price for each fuel.
 - b. The IF criteria for **residential propane will remain unchanged**. Figures are derived from pricing activity at the Sarnia rack that is published in Bloomberg's *Oil Buyer's Guide*. Weekly figures must exceed a ± 5.0 cpl change from the previously established benchmark under regulation. Adjustments are then made where price increases or decreases are warranted.
- **Should the IF not be met** for either of the regulated fuels, then the previously established maximum price shall remain in effect until the next scheduled announcement, with calculations based on a 14-day average. This is provided that no extraordinary circumstances occur in that timeframe to warrant discretionary changes. Notification of a status quo will be sent to all stakeholders as per the above-noted process.
- **Should the IF criteria be met** for either of the regulated fuels, then changes to the maximum prices for these products will be made accordingly only on the Thursday of the interim week. Ultra low sulphur diesel and low sulphur diesel will be treated as separate products, whereas should furnace oil meet the IF criteria, both furnace and stove oil will be adjusted at that time. If the IF is used, then the next scheduled price change will use the average of market data for this product to the time it was previously adjusted. The maximum prices for all other products, if any, that don't meet the IF criteria will remain in effect until the next scheduled announcement, provided that no extraordinary circumstances occur in that timeframe to warrant discretionary changes.
- The Board may also exercise its legislative authority under **Section 14(1) of the *Petroleum Products Regulations*** that permit price changes, where circumstances warrant, at other times throughout a pricing period. This provision is necessary to deal with extreme circumstances where market fuel prices may sustain sudden and substantial increases or decreases, such as that experienced in September/October 2005 as a result of the impact of Hurricanes Katrina and Rita in the Gulf of Mexico – a significant source of oil infrastructure and production.
- **Should a holiday fall on a Wednesday or Thursday** when an adjustment is to occur, the Board may issue a notice for a shift in the effective date of the price change in order to accommodate the ability of stakeholders to observe a more uniform adjustment process.