

## 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 23<sup>rd</sup> price change will include the average of all market information from November 12<sup>th</sup> to Tuesday, November 21<sup>st</sup>. Then on a go-forward basis, data for the next scheduled price change on December 7<sup>th</sup> will include information from Wednesday, November 22<sup>nd</sup> to Tuesday, December 5<sup>th</sup>, 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  $\pm 4.0$  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  $\pm 5.0$  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.