ENERGY SITUATION ANALYSIS REPORT

May 24, 2002

next scheduled update: May 28, 2002
Note: updates will be twice per week beginning on May 28

Energy Information Administration
US Department of Energy
Washington, DC 20585
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Petroleum *Natural Gas* *Coal* *Electricity*

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Latest Energy Market Developments

(updated May 24, 2002)

NYMEX futures prices for July delivery of West Texas Intermediate (WTI) crude oil fell modestly on Friday, May 24, closing down 27 cents per barrel at $25.88 per barrel in an abbreviated trading session ahead of the Memorial Day weekend. In general, though, fundamental market strength, owing in large part to OPEC production cuts during 2001 and early 2002 (plus continued concerns over the political situation in the Middle East), continues to support oil prices, as it has for several months now.

Other topics affecting **world oil markets** include:

- Iraq resubmitted its proposed prices for May crude oil on Thursday, May 23, after objections by members of the United Nations Sanctions Committee to their earlier price proposal. Another hold reportedly has been introduced Friday, May 24, on the new proposal.
- Early indications suggest that Syria will reach its highest oil export level ever in May 2002, suggesting that illegal Iraqi oil exports through Syria increased during Iraq's 30-day suspension of oil-for-food exports in April and May.
- Non-OPEC producers Russia, Norway, and Mexico, which coordinated reduced oil production policies with OPEC beginning in January 2002, are mixed in their commitments to extend their reductions into the third quarter. Mexico is expected to continue to support OPEC. Norway sees no reason to extend its cuts beyond the second quarter, but is determined to meet its output target for the second quarter, even if it requires some fields to shut down temporarily. Russia, whose fulfillment of its reductions has remained questionable, does not plan to extend cuts. On May 23, for instance, Russia's Finance Minister Alexei Kudrin stated that Russia would not curb its oil exports in the future as long as oil prices stayed above $20 per barrel.

Other recent developments in **U.S. energy markets** include:

- As of May 24, the U.S. Strategic Petroleum Reserve (SPR) contained 569.4 million barrels of oil. The SPR has a maximum drawdown capability of 4.18 million barrels per day for 90 days, with oil beginning to arrive in the marketplace 15 days after a presidential decision to initiate a drawdown.
- Both the decrease in U.S. crude oil inventories during the week ending May 10 and the increase last week reflected shifts in West Coast supply patterns that are largely irrelevant to West Texas Intermediate crude oil price pressures. More important is the continuing decline in Midwest crude oil inventories, which remain at very low levels for this time of year.
- As the Memorial Day weekend kicks off the traditional peak summer driving season, U.S. gasoline prices are about 17% below year-ago levels. Gasoline demand is expected to be strong this summer as the economy recovers and as Americans have been flying less (and driving more) since 9/11.
- Natural gas spot prices were flat to slightly lower during trading at most market locations on Thursday, May 23. With little weather-related demand throughout the country and EIA's estimate for net change in storage inventories generally within the expectations of the market, the average spot price at the Henry Hub was unchanged from the previous day at $3.38 per MMBtu.
- U.S. coal prices in recent months have either fallen or held relatively steady. Year-to-date, western U.S. coal production is 1.5% below the levels of a year ago, whereas eastern U.S. coal production is estimated to be 9.8% below last year's level.
- Western U.S. wholesale electricity prices have decreased significantly over the past seven days (excluding weekend transactions) as increased stream flows from rainfall and snowmelt raised hydro generation output in the region. In contrast to the downward trend in Western region prices, prices in the Northeast region have been mixed over the past seven days, with a few local weather-related fluctuations.

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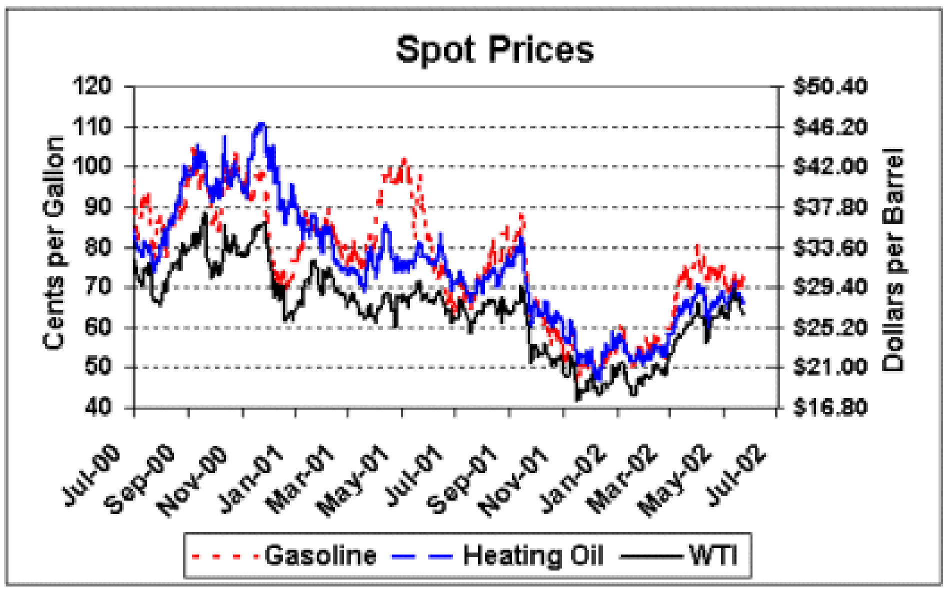
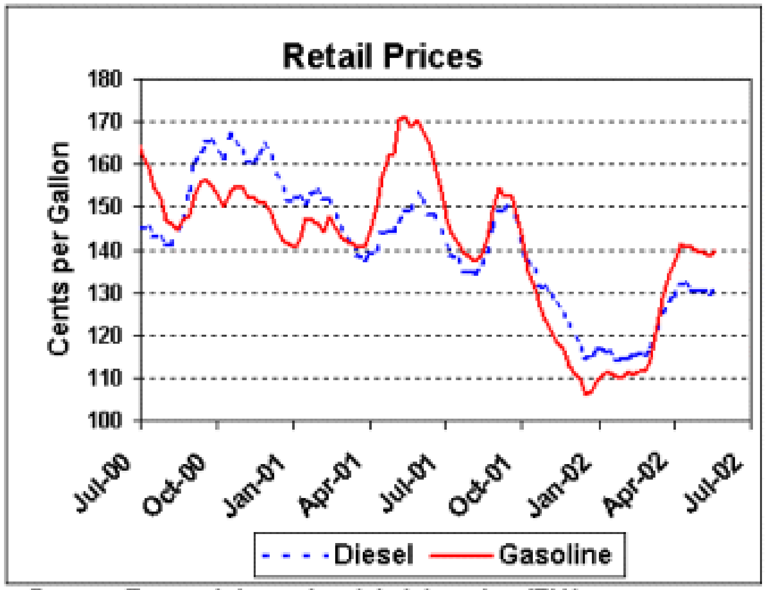
U.S. Petroleum Prices

(updated May 24, 2002)



Source: Closing quote as reported by Reuters News Service



Source: Energy Information Administration (EIA)

Crude Oil and Oil Products Price Table

Date	WTI Crude Oil Spot Cushing $/bbl	WTI Crude Oil Futures $/bbl	Gasoline Spot NYH cents per gallon	Gasoline Futures cents per gallon	Heating Oil Spot NYH cents per gallon	Heating Oil Futures cents per gallon	Kerojet Spot NYH c/gal	Propane Spot Mt. Belvieu cents per gallon	Propane Spot Conway cents per gallon	EIA Weekly Retail US Average Gasoline cents per gallon	EIA Weekly Retail US Average Diesel cents per gallon
4/5/2002	$26.21	$26.21	73.70	81.70	68.15	68.22	70.05	43.00	42.19		
4/8/2002	$26.16	$26.54	77.57	84.19	69.57	69.30	71.20	43.82	42.94	141.3	132.3
4/9/2002	$25.45	$25.82	75.13	83.39	66.80	67.80	68.50	41.19	40.13		
4/10/2002	$26.15	$26.13	76.00	83.44	67.35	67.84	68.98	41.00	40.13		
4/11/2002	$24.93	$24.99	72.53	78.87	64.73	64.71	66.50	39.00	37.69		
4/12/2002	$23.51	$23.47	66.48	72.96	60.03	60.05	61.93	38.07	36.63		
4/15/2002	$24.53	$24.57	73.00	78.63	63.07	63.34	65.09	39.50	38.00	140.4	132.0
4/16/2002	$24.92	$24.75	74.73	79.29	64.23	63.78	66.25	39.50	38.00		
4/17/2002	$25.94	$25.94	74.70	80.77	65.10	65.40	67.25	40.25	38.75		
4/18/2002	$25.86	$26.18	74.57	81.13	65.30	65.58	67.25	41.13	39.13		
4/19/2002	$26.43	$26.38	73.95	80.40	65.65	65.91	67.75	40.38	37.88		
4/22/2002	$26.28	$26.27	72.82	79.02	65.55	65.81	67.65	41.00	38.50	140.4	130.4
4/23/2002	$26.28	$26.62	74.11	80.16	66.40	66.53	69.07	41.69	39.32		
4/24/2002	$26.28	$26.38	71.89	78.76	66.10	66.12	68.28	41.13	39.19		
4/25/2002	$26.36	$26.73	72.50	79.37	66.70	67.20	69.10	41.50	39.69		
4/26/2002	$27.12	$27.11	74.00	81.39	67.60	67.90	70.00	40.69	39.25		
4/29/2002	$27.45	$27.57	74.95	83.36	68.95	69.20	71.20	41.57	39.25	139.3	130.2
4/30/2002	$27.32	$27.29	74.93	82.30	68.65	68.90	70.90	42.00	39.88		
5/1/2002	$26.58	$26.75	72.75	80.48	67.33	67.42	69.65	41.63	39.51		
5/2/2002	$26.31	$26.24	71.73	78.49	66.38	66.07	68.48	41.09	38.50		
5/3/2002	$26.75	$26.62	70.78	78.77	66.40	66.53	68.28	41.07	38.63		
5/6/2002	$26.11	$26.12	69.07	77.45	64.40	64.98	66.00	40.75	38.13	139.5	130.5
5/7/2002	$26.79	$26.63	68.94	78.28	65.80	65.86	67.75	41.00	38.63		
5/8/2002	$27.76	$27.85	68.78	78.77	66.80	67.40	68.85	42.50	40.38		
5/9/2002	$27.78	$27.68	68.79	77.46	67.35	67.79	69.38	41.38	39.25		
5/10/2002	$27.92	$27.99	70.33	79.05	68.25	68.92	70.13	41.38	39.25		
5/13/2002	$28.62	$28.38	72.03	79.73	69.25	69.45	71.38	41.26	39.07	138.8	129.9
5/14/2002	$29.17	$29.36	72.93	82.63	70.90	71.68	73.00	42.75	39.69		
5/15/2002	$28.17	$28.15	69.49	78.82	67.67	67.79	69.77	41.82	37.88		
5/16/2002	$28.00	$27.95	70.38	79.53	68.12	68.16	70.22	41.13	39.00		
5/17/2002	$28.19	$28.18	71.35	80.38	68.40	68.60	70.60	41.13	39.00		
5/20/2002	$28.24	$28.33	71.25	80.64	68.20	68.99	70.40	41.50	38.63	139.7	130.9
5/21/2002	$27.35	$27.33	69.90	78.44	66.35	66.77	69.10	40.82	37.76		
5/22/2002	$27.01	$26.37	72.70	79.68	66.80	66.95	69.80	40.44	37.07		
5/23/2002	$26.60	$26.15	71.38	78.83	65.90	66.50	69.30	40.57	36.57		

Source: Spot and futures closing quotes as reported by Reuters News Service, retail prices reported by EIA

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Latest U.S. Weekly EIA Petroleum Information

(updated May 22, 2002)

Foregone Conclusion

Only a few weeks remain before the June 26 policy-setting meeting of OPEC oil ministers, where they will decide whether to raise or leave flat crude oil output levels through the end of the third quarter 2002. So far the cartel has indicated that it will maintain crude oil production quotas at current levels, which were cut to 21.7 million barrels per day in January. While western nations view this decision as likely to squeeze future crude oil supplies, OPEC producers have an entirely different perspective. The International Energy Agency (IEA) recently issued a statement predicting that oil supplies could tighten significantly in the next six months and inventories could plunge to dangerously low levels if the OPEC cartel maintained its supply curbs. Conversely, some OPEC members view world oil markets as essentially balanced, with global and U.S. inventories at comfortable levels, thereby suggesting no increase in output is necessary at this time. Some OPEC members argue that the recent run-up in crude oil prices is not the result of reduced supplies but rather rising Middle East tensions from the Israeli-Palestinian conflict that some observers say may include a “war premium” on top of already high prices. Presumably, much of the difference in viewpoint stems from differing points of focus. OPEC tends to focus on current conditions, while the IEA and others focus on the declining trend already evident and set to deepen over the second half of the year, if demand grows as expected. While less noted, both camps expect world markets to tighten in the third quarter of 2002. The real difference may lie in the pace of expected demand growth and thereby, the rate at which current perceived inventory surpluses may be worked off.

The unexpected increase in crude oil inventories last week appears to have fed support to market bears. It should be noted, however, that both the decrease in crude oil inventories during the week ending May 10 and the increase last week reflected shifts in West Coast supply patterns that are largely irrelevant to West Texas Intermediate crude oil price pressures. More notable is the continuing decline in PADD II (Midwest) crude oil inventories, which remain at very low levels for this time of year. Moreover, since crude oil inventories in general normally build during the spring, even the roughly flat pattern of the last several weeks supports higher prices and the notion of tightening fundamentals. One factor that could weaken this pattern would be lower refinery inputs than currently expected. Of course, this would cause product stocks to fall in order to supply expected increases in demand, particularly for motor gasoline.

Crude Oil Inventories Post Unexpected Increase

As noted, U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) posted an unexpected 4.6 million barrel build last week as refiners apparently began to pare inputs into refineries in an attempt to reduce the overhang in product inventories. While inputs into refineries declined by 0.3 million barrels per day last week, crude oil imports increased by 0.4 million barrels per day during this same period, in part because of an increase in imports from Iraq. This calls into question whether Iraq’s 30-day cut-off last month has had an effect on reducing imports yet. Despite the increase last week, crude oil inventories remain 5 million barrels below year-ago levels, and are still generally expected to remain flat over the next several weeks, spurred in part by the effects of the production cuts made by OPEC earlier this year.

Product Inventories Mixed

While inventory gains were reported for distillate and jet fuel last week, motor gasoline inventories reported a modest decline despite record imports during this same period. But more importantly, petroleum product inventories continued to show gasoline and distillate stocks exceeding year-ago levels, with distillate showing the largest year-over-year increase of nearly 17%, followed by gasoline inventories with a 4.5% gain. Inventories of jet fuel continued to track slightly below last year’s level by 1%. Recent gains in product inventories occurred during a period of increasing crude oil prices but with softening product prices. Consequently, this situation contributed to severely eroding refining margins over the period. But in a move to help rein in high product inventories and reduce operating costs, several independent refiners announced last week that they would reduce the level of crude oil they process over the next several months. And, if joined by other refiners, which is expected, a concerted effort to work off excess product inventories would probably occur, possibly relieving some of the pressure on future crude oil inventories.

Crude Oil Inventories Revised Up for March

Based on EIA's weekly survey, U.S. commercial crude oil inventories at the end of March were estimated at 325.1 million barrels. However, the monthly survey data put U.S. commercial crude oil inventories at the end of March at 331.4 million barrels, or 6.4 million barrels above the estimate from the weekly survey. Does this mean that in fact our current estimate for the week ending May 17 is really 6.4 million barrels higher, or 326.8 million barrels rather than the 320.4 million barrels reported? No, it doesn't. When the latest monthly data are available, EIA "benchmarks" to that data, essentially adjusting the weekly data to account for any differences from the monthly. Therefore, the weekly estimate of 320.4 million barrels is indeed our best estimate based on the data reported on our weekly survey. Over the last 27 months (January 2000 through March 2002) in which we have monthly data, there have been 13 upward revisions and 14 downward revisions to crude oil inventories. The largest amount crude oil inventories have been revised up during this period is 9.0 million barrels, while the largest downward revision has been 9.1 million barrels. Thus, a 6.4 million barrel revision is not too unusual.

Retail Gasoline Prices Edge Upwards, Powered by a Midwest Increase

The retail gasoline market saw a small gain last week, with the national average retail price for regular motor gasoline ending up 0.9 cent on May 20 to end at 139.7 cents per gallon. This price is 29.0 cents per gallon lower than last year. Prices have remained relatively flat over the past six weeks, with small up and down changes. Prices were mostly down throughout the country on May 20, with the increase in the U.S. price stemming from a large increase in the Midwest price. The Midwest retail price for regular motor gasoline increased by 3.9 cents per gallon from the previous week, ending at 140.5 cents per gallon. Prices have remained stable over the last several weeks, with very few changes in the spot market indicating that retail gasoline prices may have reached a new equilibrium for the very near-term. However, prices at the pump may rise if gasoline demand increases around Memorial Day. Retail diesel fuel prices increased by 1.0 cent per gallon to a national average of 130.9 cents per gallon as of May 20 after falling the previous week.

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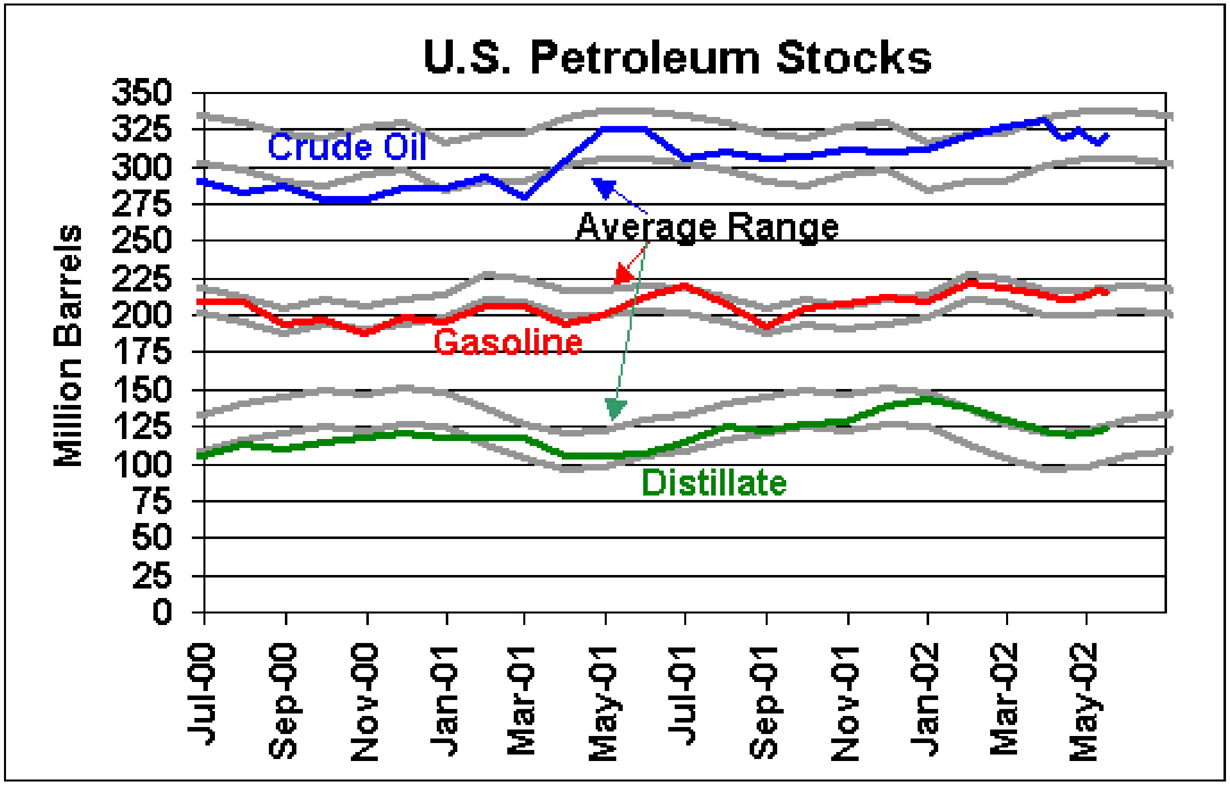
U.S. Petroleum Supply (updated May 22, 2002)

(Thousand Barrels per Day)	Four Weeks Ending		vs. Year Ago	
	5/17/2002	5/17/2001	Diff.	% Diff.
Refinery Activity				
Crude Oil Input	15,321	15,668	-347	-2.2%
Operable Capacity	16,800	16,641	159	1.0%
Operable Capacity Utilization (%)	91.9%	95.7%	-3.8%	
Production				
Motor Gasoline	8,585	8,562	23	0.3%
Jet Fuel	1,496	1,589	-93	-5.8%
Distillate Fuel Oil	3,725	3,654	71	1.9%
Imports				
Crude Oil (incl. SPR)	9,109	9,726	-617	-6.3%
Motor Gasoline	960	778	182	23.4%
Jet Fuel	102	169	-67	-39.6%
Distillate Fuel Oil	229	318	-89	-28.0%
Total	11,690	12,272	-582	-4.7%
Exports				
Crude Oil	32	56	-24	-43.3%
Products	933	987	-54	-5.4%
Total	965	1,044	-79	-7.5%
Products Supplied				
Motor Gasoline	8,740	8,644	96	1.1%
Jet Fuel	1,538	1,697	-159	-9.4%
Distillate Fuel Oil	3,647	3,763	-116	-3.1%
Total	19,488	19,534	-46	-0.2%

			vs. Year Ago	
Stocks (Million Barrels)	5/17/2002	5/17/2001	Diff.	% Diff.
Crude Oil (excl. SPR)	320.4	325.5	-5.1	-1.6%
Motor Gasoline	216.1	206.7	9.4	4.5%
Jet Fuel	40.9	41.5	-0.6	-1.4%
Distillate Fuel Oil	123.9	106.3	17.6	16.6%
Total (excl. SPR)	1,015.4	992.6	22.8	2.3%



Source: Energy Information Administration, Weekly Petroleum Status Report, Petroleum Supply Monthly.

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World Oil Market Highlights

(updated May 7, 2002)

According to second quarter 2002 estimates, the world holds about 6.8 million barrels per day of excess oil production capacity, over 90% of which lies in OPEC countries. This figure does not include Iraqi spare capacity.

Major Sources of U.S. Petroleum Imports, 2001* (all volumes in million barrels per day)			
	Total Oil Imports	**Crude Oil Imports**	**Petroleum Product Imports**
Canada	1.79	1.32	0.47

Saudi Arabia	1.66	1.61	0.05
Venezuela	1.54	1.28	0.26
Mexico	1.42	1.38	0.04
Nigeria	0.86	0.81	0.04
Iraq	0.78	0.78	0.00
Norway	0.33	0.27	0.06
Angola	0.32	0.31	0.07
United Kingdom	0.31	0.23	0.08
Total Imports	11.62	9.15	2.47

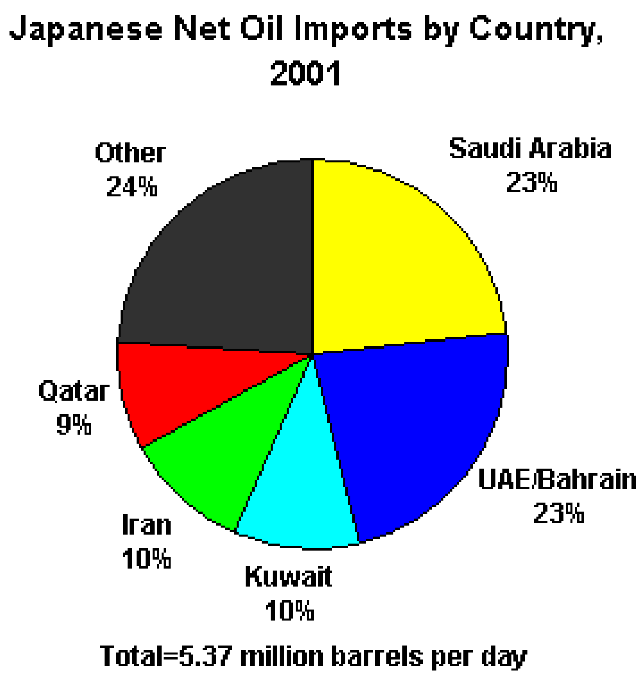
** Table includes all countries from which the U.S. imported more than 300,000 barrels per day in 2001.*

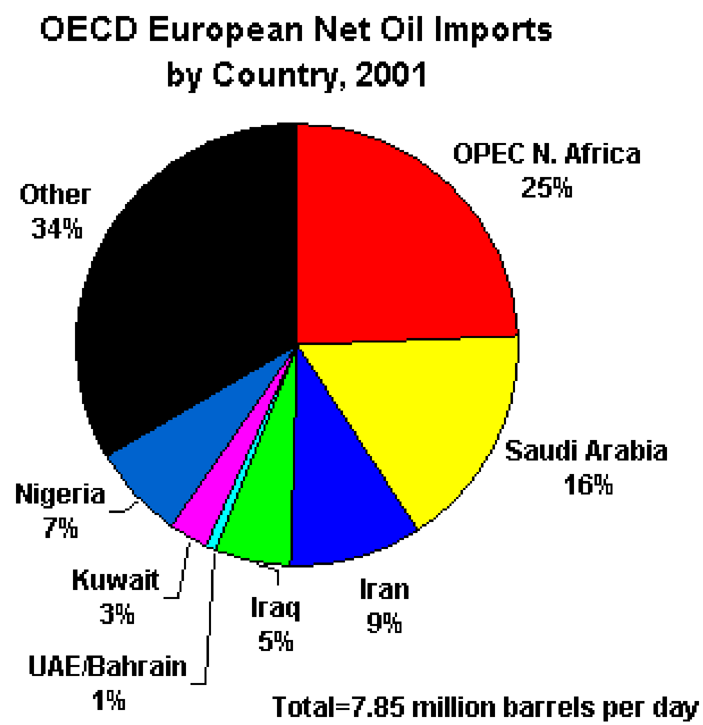
Top World Oil Net Exporters, 2001*		
	Country	**Net Exports (million barrels per day)**
1)	Saudi Arabia	7.38
2)	Russia	4.76
3)	Norway	3.22
4)	Iran	2.74
5)	Venezuela	2.60
6)	United Arab Emirates	2.09
7)	Nigeria	2.00
8)	Iraq	2.00
9)	Kuwait	1.80
10)	Mexico	1.65
11)	Libya	1.24
12)	Algeria	1.24

**Table includes all countries with net exports exceeding 1 million barrels per day in 2001.*

During 2001, about 48% of U.S. crude oil imports came from the Western Hemisphere (19% from South America, 15% from Mexico, 14% from Canada), while 30% came from the Persian Gulf region (18% from Saudi Arabia, 9% from Iraq, 3% from Kuwait).

In general, OECD Europe depends far more heavily on the Persian Gulf and North Africa for oil imports than the United States. During 2001, about 35% of OECD Europe's net oil imports came from the Persian Gulf (mainly Saudi Arabia, Iran, Iraq, and Kuwait), around one-third from Africa (mainly Libya, Algeria, and Nigeria), and much of the remainder from Russia. Japan receives over three-quarters of its oil supplies from the Persian Gulf (mainly the UAE, Saudi Arabia, Kuwait, Iran, and Qatar) with the remainder coming from Indonesia, China, and other sources.





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Latest U.S. Weekly Natural Gas Information

(updated May 24, 2002)

Industry/Market Developments

Merchants' Exchange Launches Energy Futures Trading: The Chicago-based Merchants' Exchange launched its new on-line cash-settled energy futures exchange on Friday, May 24, with trading in Henry Hub natural gas futures and West Texas Intermediate (WTI) crude oil futures commencing for the first time at 10:00 am. The specifications of the Henry Hub natural gas futures contract are similar to those of the natural gas contract that is traded on the New

York Mercantile Exchange (NYMEX). Trading will be conducted in each month within the next 36 months following the current calendar month, and the exchange's board of managers will set trading hours. The contract will be traded in lots of 10,000 MMBtu with no limits set on daily prices. The exchange is subject to oversight by the Commodity Futures Trading Commission (CFTC). CFTC also approved four other futures contracts for the Merchants' Exchange that will likely begin trading in the near future; these include Brent crude, New York Harbor unleaded gasoline, New York Harbor heating oil, and European gas oil.

Natural Gas Rig Counts: The number of rigs exploring for natural gas increased by 27 to 696 for the week ended Friday, May 17, according to Baker-Hughes Incorporated. Natural gas rigs are nearly 30 percent below last year at this time when they numbered 992. However, since the week ended April 5, 2002, when natural gas rigs numbered 591, the number of rigs has increased for six straight weeks, climbing almost 3 percent per week on average. The rig count now is almost 18 percent above the level recorded on April 5 and is at its highest level since early February 2002. According to the EIA Short-Term Energy Outlook (released May 6), aggregate lease revenues from domestic oil and gas production are expected to move up this year and settle at about $300 million per month in 2003, which would be an increase of approximately 50 percent over the rates seen at the end of 2001. Inasmuch as these revenues are a strong determinant of industry cash flow, which in turn is a powerful driver of drilling activity levels, an upward trend in gas drilling levels is anticipated for this year and into 2003.

Storage

Net injections into storage were 68 Bcf during the week ended May 17, according to EIA's *Weekly Natural Gas Storage Report* , bringing total inventories to 1,725 Bcf. This marks the third consecutive week that total net injections have been less than the prior 5-year (1997-2001) average of stock change for the week. (See the *Historical Weekly Storage Estimates* database.) The total of 68 Bcf is about 11% below the 5-year average of 77 Bcf. Although the surplus of stocks with respect to the 5-year average has decreased, inventories remain over 300 Bcf greater than the 5-year average.

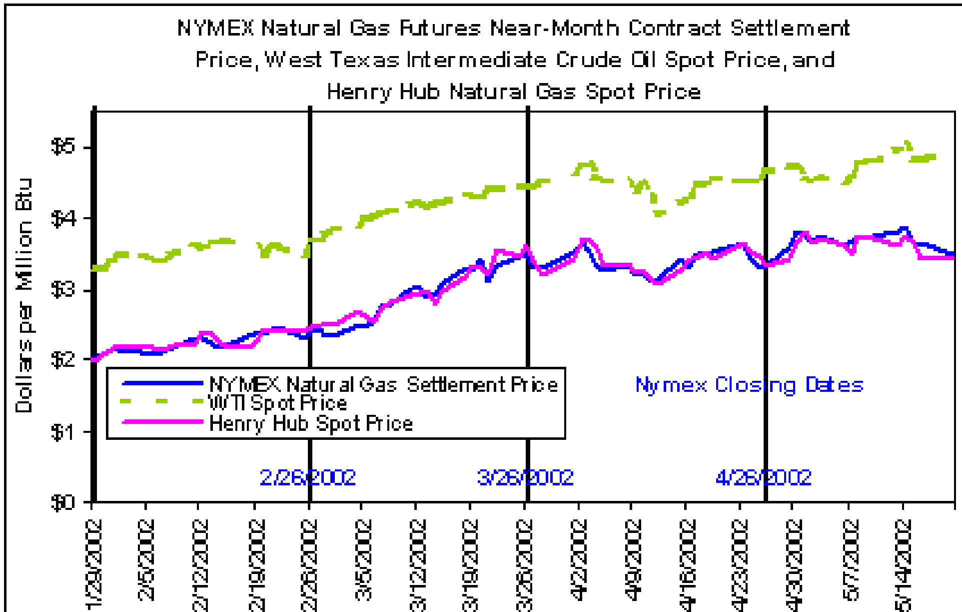
All Volumes in Bcf	Current Stocks (Fri,5/17)	Estimated Prior 5-Year (1997-2001) Average	Percent Difference from 5 Year Average	Net Change from Last Week	One-Week Prior Stocks (Fri, 5/10)
East Region	813	737	10.4%	34	779
West Region	259	205	26.5%	6	253
Producing Region	653	462	41.3%	28	625
Total Lower 48	1,725	1,404	22.9%	68	1,657

Source: Energy Information Administration: Form EIA-912, "Weekly Underground Natural Gas Storage Report," and the Historical Weekly Storage Estimates Database.

Prices

Natural gas spot prices were flat to slightly lower during trading at most market locations on Thursday, May 23. With little weather-related demand throughout the country and EIA's estimate for net change in storage inventories generally within the expectations of the market, the average spot price at the Henry Hub was unchanged from the previous day at $3.38 per MMBtu. Prices at the New York citygate eased 2 cents to $3.73 per MMBtu, while Chicago prices increased a penny from the previous session for an average of $3.43 per MMBtu. Prices in the West showed more weakness, particularly in Northern California. PG&E's projection that linepack on its system would likely exceed its maximum target level during the weekend prompted an 18-cent per MMBtu drop in the citygate price to $2.68 per MMBtu. The California composite average price fell $0.12 per MMBtu to an average of $2.79 per MMBtu.

On the NYMEX, the settlement price of the near-month (June delivery) futures contract drifted lower by $0.021 per MMBtu from the previous trading session to close at $3.438 per MMBtu. The near-month contract continues to trade at a premium of about a nickel per MMBtu to current spot prices. The futures contract for July delivery settled at $3.521 per MMBtu, down $0.016 per MMBtu for the day. The July contract now trades at a premium of a little more than 13 cents per MMBtu to spot prices.



Note: The West Texas Intermediate crude oil price, in dollars per barrel, is converted to $/MMBtu using a conversion factor of 5.80 MMBtu per barrel. The dates marked by vertical lines are the NYMEX near-month contract settlement dates.
Source: NGI'S *Daily Gas Price Index* (http://intelligencepress.com)

All prices in $ per MMBtu	California Composite Average Price*	Henry Hub	New York City	Chicago	NYMEX futures contract-June delivery	NYMEX futures contract-July delivery
4/26/2002	2.70	3.32	3.66	3.33	3.372	3.407
4/29/2002	3.14	3.44	3.79	3.48	3.561	3.589
4/30/2002	3.27	3.65	3.95	3.67	3.795	3.823
5/1/2002	3.32	3.79	4.06	3.81	3.735	3.767
5/2/2002	3.15	3.65	3.91	3.66	3.684	3.721
5/3/2002	2.91	3.71	3.92	3.69	3.745	3.787
5/6/2002	3.23	3.61	3.81	3.58	3.595	3.639
5/7/2002	3.16	3.49	3.74	3.49	3.673	3.719
5/8/2002	3.30	3.74	4.01	3.74	3.746	3.794
5/9/2002	3.39	3.72	4.05	3.74	3.719	3.768
5/10/2002	3.16	3.71	4.00	3.73	3.749	3.800
5/13/2002	3.25	3.61	3.91	3.64	3.783	3.831
5/14/2002	3.37	3.75	4.06	3.79	3.855	3.912
5/15/2002	3.21	3.62	3.92	3.63	3.598	3.681
5/16/2002	3.00	3.44	3.73	3.49	3.609	3.689
5/17/2002	2.88	3.42	3.76	3.50	3.490	3.570
5/20/2002	3.07	3.44	3.80	3.53	3.395	3.473
5/21/2002	2.93	3.33	3.69	3.39	3.395	3.473
5/22/2002	2.91	3.38	3.75	3.42	3.459	3.537
5/23/2002	2.79	3.38	3.73	3.43	3.438	3.521

* Average of *NGI*'s reported average prices for: Malin, PG&E citygate, and Southern California Border Average.
Source: NGI's Daily Gas Price Index (http://intelligencepress.com)

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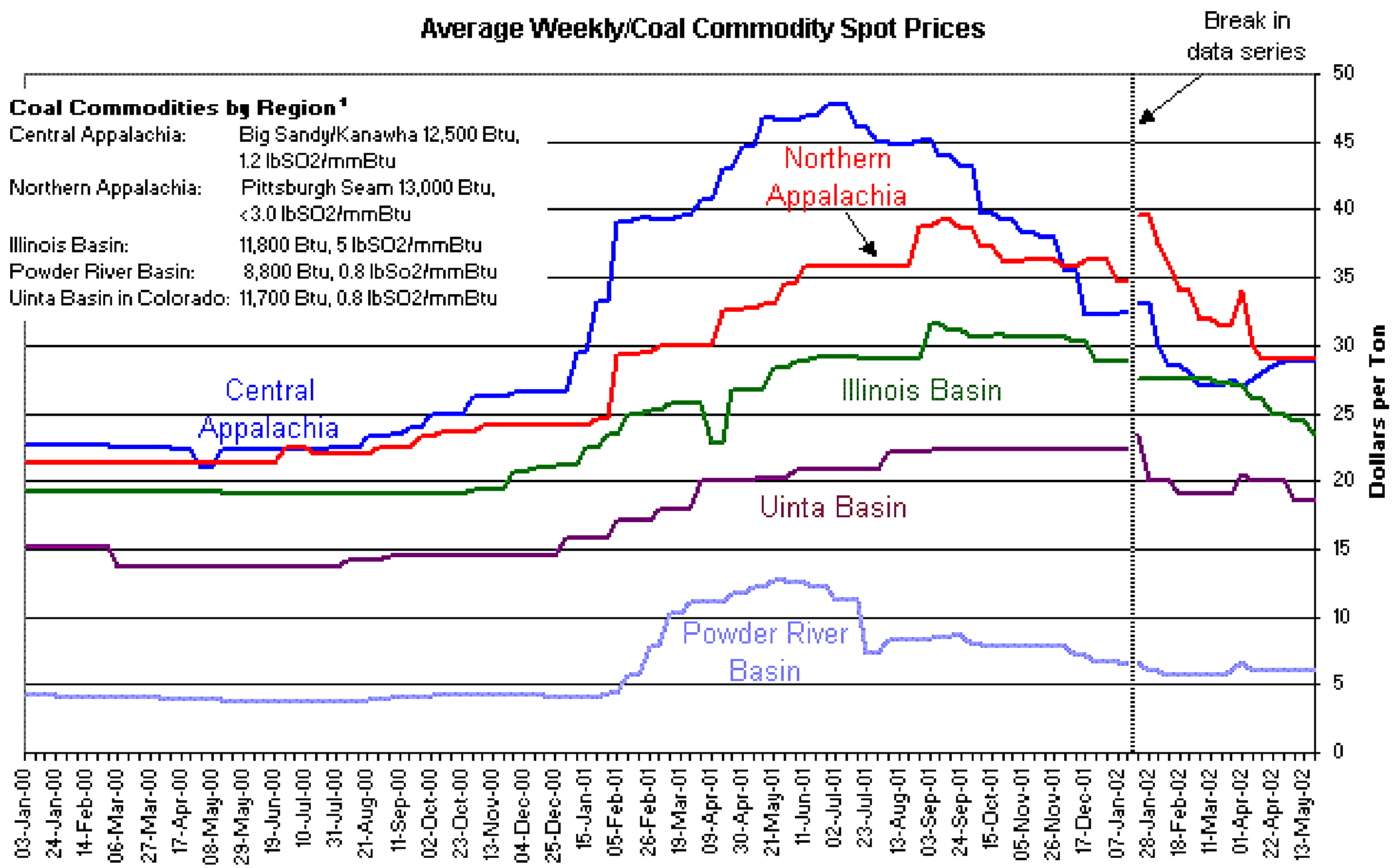
Latest U.S. Coal Information

(updated May 23, 2002)

Coal Production
For the week ending May 18, rail car loadings of coal and national coal production have fallen by 4.8% and 5.5%, respectively, compared to their levels a year ago. Year-to-date, western U.S. coal production is 1.5% below the levels of a year ago, whereas eastern U.S. coal production is estimated to be 9.8% below last year's level. The estimated production for the first four months of 2002 was 356.2 million short tons (mst). Lower production at this time correlates with higher-than-usual coal stockpiles at consuming facilities and with a long spring period of low seasonal demand at electric power plants, as well as slowed economic activity.

Coal Prices

U.S. coal prices in recent months have either fallen or held relatively steady. Allowing for changes in the price indexes since last summer, Illinois, Uinta, and Powder River Basin coals continue the level-to-slowly-declining price profiles established under the 2001 spot data. Since peaking in summer 2001, Central and Northern Appalachian coal prices have fallen significantly (by about $19.00 and $10.00 per short ton, respectively). The latest indexed spot prices, $28.75 per short ton for Central Appalachian and $29.00 per short ton for Northern Appalachian coal, are respectively 29% and 36% above prices in the summer of 2000, prior to escalation. Those two prices have held steady now for the past 4 weeks and 6 weeks, respectively. Other prices are also running higher than the summer 2000 baseline: by about 35% for the Uinta Basin, 30% for the Illinois Basin, and 60% for the Powder River Basin.



Source: with permission, selected from listed prices in Platts Coal Outlook, "Weekly Price Survey"

[1]Prior to January 14, 2002 EIA averaged 12-month "forward" spot prices for several coal specifications; after that date, the values shown are based on a single specification in each region for delivery by the end of the next quarter.

In the latest week, near-quarter over-the-counter (OTC) coal prices mostly held steady or moved down by small percentages (graphic above). Although NYMEX trade volumes are erratic, trading on Tuesday, May 14, reached a new high as 264 trades were settled. Prices for NYMEX trades for calendar year 2003 rose to $28.95 per short ton, from $28.50 per short ton, and some OTC trades for Appalachian bituminous broke above $29 per short ton for calendar year 2003. On average, however, settled prices since early February 2002 have been relatively level, in the $25 to $28 per short ton range with generally low daily volumes.

Coal Mining Legal Rulings

On May 13, the Federal Government filed to stay a recent court order that it says "casts a tremendous cloud of uncertainty over all future coal mining in Appalachia." The motion by the Department of Justice (DOJ) predicts that effects in the region would include suspension of future coal mining projects, laying off existing workers, and suspending plans for hiring new workers. The ruling ordered the U.S. Army Corps of Engineers to cease issuing permits to fill valleys and bury streambeds adjoining coal mining projects. Chief U.S. District Judge Charles H. Haden II issued the 44-page opinion on May 8, 2002, in Charleston, West Virginia, in a suit filed by Kentuckians for the Commonwealth, Inc., a citizens group, against the Corps' Huntington, West Virginia, District.

The National Mining Association warned that Haden's ruling would threaten more than 15,000 jobs in the region. Although the ruling was prompted by practices largely associated with mountaintop removal coal mining, the DOJ contends that it is broad and, if fully implemented, would stop all new surface coal mining in steep terrain, because some valley filling is necessary even in less expansive operations. The DOJ also contemplates possible impacts on underground mining in steep terrain, which generally requires preparation plants, with waste impoundments in valleys, and may use valley fill for mine roads. Further, the DOJ motion questions whether the ruling might be applied to other mining besides coal. As of May 24, at least 30 permit actions in West Virginia and eastern Kentucky have been reported on hold by the Corps, most of which are for amendments at active operations. On May 20, the Kentucky Coal Association also filed a motion to stay Judge Haden's ruling, and to seek clarification whether coal slurry ponds are in fact covered and as to the geographic area implicated. If the ruling is interpreted broadly, said one Kentucky coal operator, "we are going to be losing a lot of coal."

The disputed practice, known as "valley fill," has been allowed for almost 20 years and mining companies consider it an important component of economical coal recovery at the mammoth mountaintop operations, as well as at many traditional contour surface mines in steep lands. Haden wrote that the Corps' "rule change was designed simply for the benefit of the mining industry and its employees" and that the "practice is illegal because it is contrary to the spirit and the letter of the Clean Water Act." This ruling came as the Government was taking steps to remove regulatory impediments to mountaintop mining and to shift all permitting to individual States. On May 9, the Corps had published a final rule in the Federal Register that would allow mine overburden to be dumped in streams regulated under Section 404 of the Clean Water Act.

In a separate issue mostly affecting Appalachian coal mining, on April 24 the National Mining Association filed a motion to stay a March 28 ruling restricting land subsidence associated with certain underground coal mining. On April 25, Secretary of the Interior and co-defendant Gale Norton filed for a stay of the same decision. The ruling by U.S. District Judge James Robertson of the federal district court in Washington, DC, would restrict underground coal mining that may cause subsidence in national parks and beneath inhabited residences and other protected areas. The court sided with the Citizens Coal Council, an environmental advocacy group, which challenged how the Department of the Interior permits underground coal mining in protected areas--especially "longwall" mining, which often causes ground subsidence. The ruling would negate long-standing permit practices that have regularly been challenged almost since the inception of the Surface Mining Control and Reclamation Act of 1977.

In one respect, any disruptions to coal supplies due to these two rulings are well timed. Currently coal demand is low because coal stockpiles are high at electricity generators. Stockpiles are high owing to the slow rate of recovery of the U.S. economy and the dampening of electricity demand because of extended mild weather. Consequently, coal producers have temporarily shut down unneeded mine capacity and hastened the permanent closure of some marginally competitive mines. In the long term, EIA expects domestic coal supplies to be adequate for projected consumption. Most coal is still sold under multi-year contracts, and average prices for all coal supply contracts, incorporating spot and long-term, are projected to stabilize at well below current spot prices. EIA's projections of average coal prices decline slightly in inflation-adjusted dollars because nominal prices rise more slowly than the rate of inflation between 2000 and 2020.

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Latest U.S. Electricity Information

(updated May 24, 2002)

Selected Wholesale Electricity Prices: Western U.S. wholesale electricity prices have decreased significantly over the past seven days (excluding weekend transactions) as increased stream flows from rainfall and snowmelt raised hydro generation output in the region. Also, lower natural gas prices, brought on by increased supply, have contributed to lower electricity prices in the region. For example, wholesale prices at the COB decreased 47 percent going from $32.50 per megawatthour on May 15 to $17.10 per megawatthour on May 23. Mid-Columbia prices dropped 65 percent from $30.89 on May 15 to $10.82 on May 23.

In contrast to the downward trend in Western region prices, prices in the Northeast region have been mixed over the past seven days. At the New England ISO, high off-peak electricity demand due to overnight temperatures approaching the freezing mark drove prices to a high of $41.77 per megawatthour on May 21. However, New England prices for the other days ranged between $35.00 to 37.00 per megawatthour.

Prices at the New York ISO ranged from a high of $37.09 per megawatthour on May 15 to a low of $32.19 per megawatthour on May 20.

The average price at all trading centers has trended downward from a high of $32.47 on May 15 to a low of $22.62 per megawatthour on May 23.

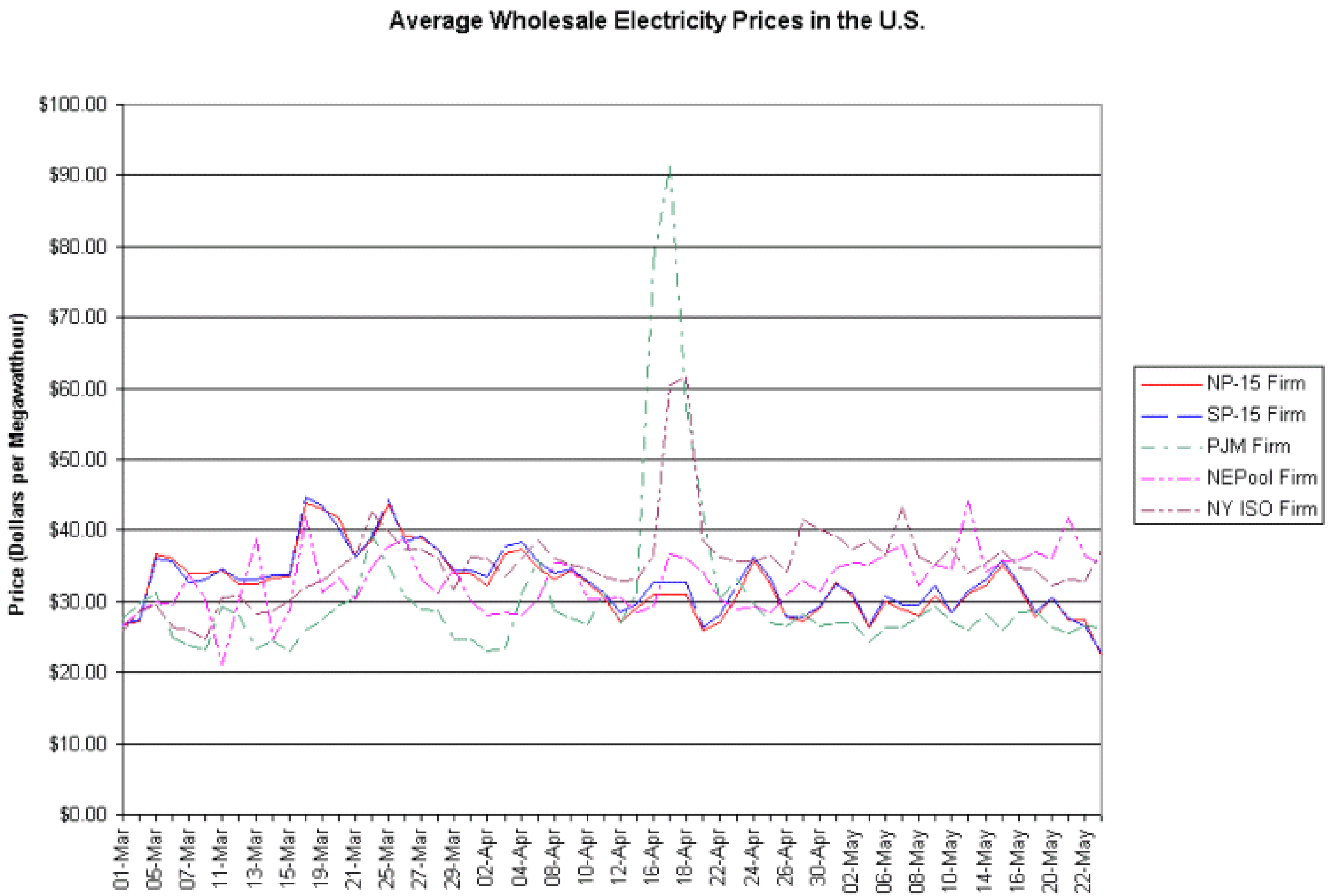
U.S. Regional Electricity Prices at Major Trading Centers (Dollars per megawatthour)

Trading Centers	Date							Price Range		
	5/15/02	5/16/02	5/17/02	5/20/02	5/21/02	5/22/02	5/23/02	Max	Min	Average
COB	32.50	29.96	26.25	28.05	24.25	24.02	17.10	32.50	17.10	26.02
Palo Verde	35.67	30.86	27.40	29.48	25.79	24.34	20.22	35.67	20.22	27.68
Mid-Columbia	30.89	27.92	24.18	24.21	20.89	17.17	10.82	30.89	10.82	22.30
Mead/Marketplace	35.10	31.88	29.25	30.78	26.94	25.29	21.33	35.10	21.33	28.65
4 Corners	34.29	30.58	26.00	29.00	25.95	24.30	19.79	34.29	19.79	27.13
NP 15	35.23	32.06	27.92	30.67	27.41	27.41	22.45	35.23	22.45	29.02
SP 15	35.82	32.41	28.54	30.56	27.55	26.63	22.84	35.82	22.84	29.19
PJM West	26.00	28.51	28.60	26.28	25.43	26.63	26.35	28.60	25.43	26.83
ISO New England	35.65	35.81	36.95	35.97	41.77	36.47	35.23	41.77	35.23	36.83
New York ISO	37.09	34.87	34.41	32.19	33.21	32.86	37.03	37.09	32.19	34.53
Cinergy	18.96	17.78	18.30	18.38	16.15	15.41	15.69	18.96	15.41	17.24
Average Price	32.47	30.24	27.98	28.69	26.85	25.50	22.62	32.47	22.62	27.77

Sources: COB, Palo Verde, Mid-Columbia, Mead/Market Place, Four Corners, NP-15, SP-15, PJM-West, and Cinergy trading centers. Used with permission from Bloomberg L.P. (www.bloomberg.com); ISO New England (http://www.iso-ne.com); and New York ISO (http://www.nyiso.com).

Notes:
n.q. - No quotes available for the day.

COB: Average price of electricity traded at the California-Oregon and Nevada-Oregon Borders.
Palo Verde: Average price of electricity traded at Palo Verde and the West Wing, Arizona.
Mid-Columbia: Average price of electricity traded at Mid-Columbia.
Mead/Market Place: Average price of electricity traded at Mead Market Place, McCullough and Eldorado.
Four Corners: Average price of electricity traded at Four Corners, Shiprock, and San Juan, New Mexico.
NP-15: Average price of electricity traded at NP-15.
SP-15: Average price of electricity traded at SP-15.
PJM-West: Average price of electricity traded at PJM Western hub.
ISO New England: Average price of electricity traded at the New England ISO, formerly Nepool.
New York ISO: Average price of electricity traded at the New York ISO.
Cinergy: Average price of electricity traded into the Cinergy control area.



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