

Energy Situation Analysis Report

Last Updated: August 13, 2002

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Latest Oil Market Developments

West Texas Intermediate (WTI) September crude oil futures on the New York Mercantile Exchange (NYMEX) rose \$1.00 per barrel yesterday (08/12/02) to settle at \$27.86 per barrel after several bullish news items relating to Iraq. Brent crude oil futures also rose sharply, up 70 cents per barrel to \$26.04 per barrel in London. Oil prices were flat today in New York and London, with NYMEX September WTI settling up 4 cents per barrel to \$27.90 per barrel. [more...](#)

Latest U.S. Weekly EIA Petroleum Information

With crude oil imports declining in the last two weeks, U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) fell by 2.1 million barrels, and are now 5.5 million barrels lower than a year ago. U.S. commercial crude oil inventories are now at 307.2 million barrels, the lowest level since the week ending October 19, 2001. The U.S. average retail price for regular gasoline fell 0.2 cent per gallon last week, ending at 139.3 cents per gallon as of August 12. This price is 0.1 cent per gallon higher than last year, marking the fourth week in a row this summer that 2002 prices were higher than 2001 prices. [more...](#)

World Oil Market Highlights

According to third quarter 2002 estimates, the world holds about 5.6 million barrels per day of excess oil production capacity that could be brought online within 30 days, over 90% of which lies in OPEC countries. This figure does not include Iraqi spare capacity. [more...](#)

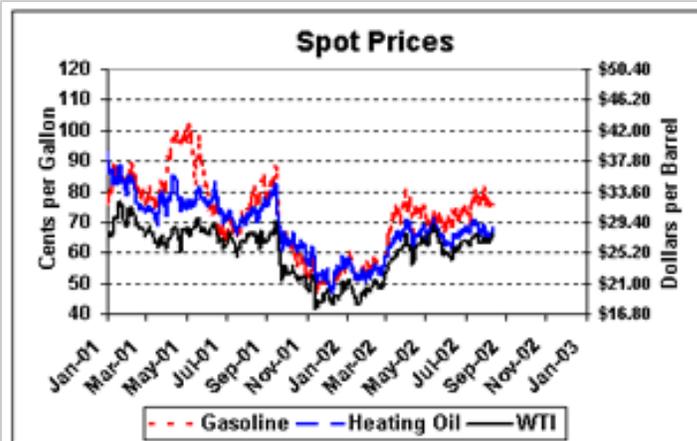
Latest U.S. Weekly Natural Gas Information

Natural gas spot market prices moved up yesterday (8/12/02) as hot humid weather returned to most parts of the country. Prices increased between 7 and 17 cents per

Energy Prices*

Petroleum Futures	8/12/02	8/09/02	Change
WTI (\$/Bbl)	27.86	26.86	+1.00
Gasoline (c/gallon)	77.75	75.50	+2.25
Heating Oil (c/gallon)	69.46	67.18	+2.28
Natural Gas (\$/MMBtu)			
Henry Hub	2.91	2.83	+0.08
California	2.70	2.54	+0.16
New York City	4.10	3.41	+0.69
Electricity (\$/Megawatthour)			
COB	25.94	25.61	+0.33
PJM West	68.65	55.34	+13.31
NEPOOL	75.63	65.00	+10.63
Average	47.01	41.44	+5.57

[*Definitions](#)



Source: Closing quote as reported by Reuters News Service

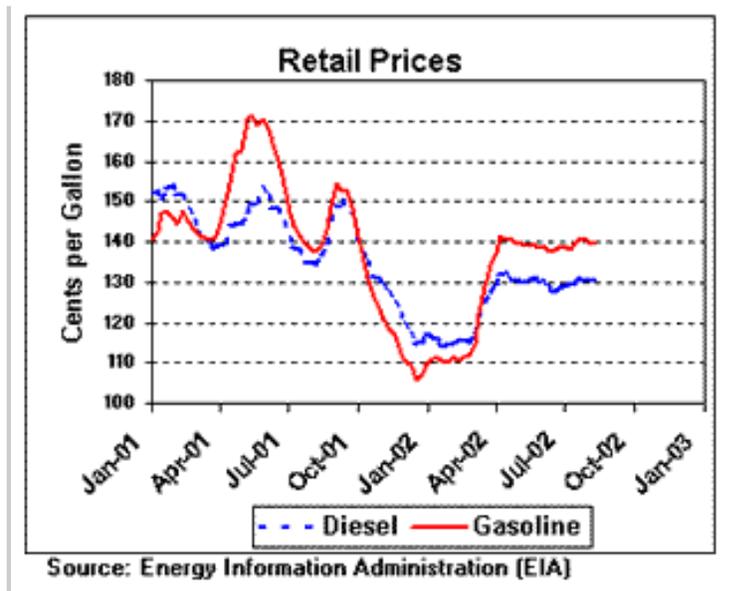
MMBtu at a majority of market locations as weather forecasters are calling for the above normal temperatures to prevail for much of this week. Sharper increases were reported at Northeast citygate sites with New York experiencing an increase of almost \$0.70 per MMBtu as their price for Monday (8/12/02) averaged \$4.10 per MMBtu. [more...](#)

Latest U.S. Coal Information

The spot coal prices tracked by EIA have been mostly firm or rising since the week ending June 22. Central Appalachian coal prices have risen markedly, Powder River Basin prices have trended upward, and Northern Appalachian and Illinois Basin prices have held firm. Compared to peak prices in summer 2001, Central and Northern Appalachian coal prices are down by about \$17.00 and \$9.00 per short ton, respectively. [more...](#)

Latest U.S. Electricity Information

Wholesale electricity spot prices have been increasing over the past several days at the major western U.S. trading centers due to a decrease in hydrogeneration in the northwest and generally warmer weather. Prices at the Mid-Columbia trading zone have increased 49% from a low of \$14.09 per megawatthour on August 8 to \$21.02 per megawatthour on August 12. [more...](#)



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Latest Oil Market Developments

(updated August 13, 2002)

West Texas Intermediate (WTI) September crude oil futures on the New York Mercantile Exchange (NYMEX) rose \$1.00 per barrel yesterday (08/12/02) to settle at \$27.86 per barrel after several bullish news items relating to Iraq. Brent crude oil futures also rose sharply, up 70 cents per barrel to \$26.04 per barrel in London. There were reports by shipping brokers yesterday that the U.S. Navy was seeking to charter a large ship to carry military helicopters and ammunition from the United States to two ports in the Red Sea in preparation for a military build-up in the Middle East. After yesterday's market close, however, a U.S. Navy spokesperson stated that "The U.S. Navy and the Military Sealift Command have no such request to charter a civilian vessel at this time." Today though, a U.S. Navy spokesperson contradicted yesterday's statement and acknowledged that the U.S. military is trying to charter a commercial ship to carry military hardware to the Red Sea. Oil prices were flat today in New York and London, with NYMEX September WTI settling up 4 cents per barrel to \$27.90 per barrel.

In general, world oil markets are being driven by several factors. On the "bullish" side (i.e., tending to drive prices higher) are: tensions in the Middle East; speculation over the possibility of U.S. military action against Iraq; and relatively low OPEC quotas. On the "bearish" side (i.e., tending to push prices down) are: OPEC overproduction and calls by individual OPEC members for increased quotas at the group's next meeting in September; an increasingly pessimistic view of the U.S. economy by many analysts; and signs that world oil demand in 2002 will be significantly less than had previously been forecast.

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

- Also yesterday, Iraqi Information Minister Mohammed Saeed al-Sahaf told an Arab satellite television station that "Work under the framework of the United Nations regarding...resolution 687, i.e. what is called prohibited weapons in Iraq, had been concluded." Though some interpreted this as a refusal of any return of U.N. weapons inspectors to Iraq, later in the day Iraqi Foreign Minister Naji Sabri said, (in response to a question as to whether Iraq would permit U.N. weapons inspectors to return to Iraq to renew their inspections) "We are preparing a reply to his excellency the U.N. Secretary-General," and refused to elaborate further.
- Last week, Iraq's U.N.-monitored crude oil exports dropped to 628,000 barrels per day, nearly half their year-to-date average of 1.2 million barrels per day. Many analysts predict that this month's U.N.-monitored Iraqi crude oil exports will average 750,000 barrels per day.
- New Colombian President Alvaro Uribe declared a "state of commotion," (a type of emergency declaration) yesterday. This comes less than a week after mortar attacks on Bogota attributed to

FARC rebels killed 19 Colombians during President Uribe's inauguration. Despite the conflict in the country, Colombia's state oil company, Ecopetrol, announced yesterday that Colombia's crude oil production had risen in June to 567,411 barrels per day, up from 562,696 barrels per day produced in the same month last year.

- As of August 13, 2002, the U.S. Strategic Petroleum Reserve (SPR) contained 578.4 million barrels of oil. The SPR has a maximum drawdown capability of 4.3 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. The SPR drawdown rate declines to 3.1 million barrels per day from days 91-120, to 2.1 million barrels per day for days 121-150, and to 1.2 million barrels per day for days 151-180.

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Latest U.S. Weekly EIA Petroleum Information

(updated August 8, 2002, except where noted)

Refinery Inputs and Production

U.S. crude oil refinery inputs averaged 15.3 million barrels per day during the week ending August 2, a drop of more than 300,000 barrels per day from the previous week. Decreases were seen in all regions except for a very slight increase in PADD IV (Rocky Mountains). Over the last four weeks, crude oil inputs have averaged 15.4 million barrels per day, which is almost 100,000 barrels per day more than was averaged last year at this time. Despite the large drop in crude oil refinery inputs last week, motor gasoline refinery production increased to the highest level since the week ending June 29, 2001.

Petroleum Imports

U.S. crude oil imports decreased last week for the second week in a row, averaging about 8.7 million barrels per day. During the most recent four weeks, crude oil imports have averaged nearly 9.1 million barrels per day, or about 500,000 barrels per day less than during the same four-week period last year. Crude oil imports last week into PADD V (West Coast) were down sharply from the previous week (when they averaged the third highest amount ever). Even with refinery production of motor gasoline exceeding 8.7 million barrels per day, total motor gasoline imports (including both finished gasoline and gasoline blending components) continue to pour into the country, averaging nearly 1.0 million barrels per day last week.

Petroleum Inventories

With crude oil imports declining in the last two weeks, U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) fell by 2.1 million barrels, and are now 5.5 million barrels lower than a year ago. U.S. commercial crude oil inventories are now at 307.2 million barrels, the lowest level since the week ending October 19, 2001. Motor gasoline inventories increased last week by 0.9 million barrels due to high refinery production and import levels. Distillate fuel inventories rose by 0.7 million barrels, with a seasonal 1.8 million barrel build in high-sulfur distillate fuel more than making up for a draw in low-sulfur distillate fuel inventories. Total commercial petroleum inventories are now 1.4 million barrels above year-ago levels.

Petroleum Demand

Total product supplied over the last four-week period averaged over 19.7 million barrels per day or about 0.9% less than the very high level last year, slightly reversing positive year-over-year growth in May and June. Motor gasoline demand, however, has averaged 1.0% above last year's level over the last four weeks, while distillate fuel demand has averaged 2.2% below last year's level. Jet fuel demand over the last four weeks is 7.4% below year-ago levels.

Spot Prices (updated August 13, 2002)

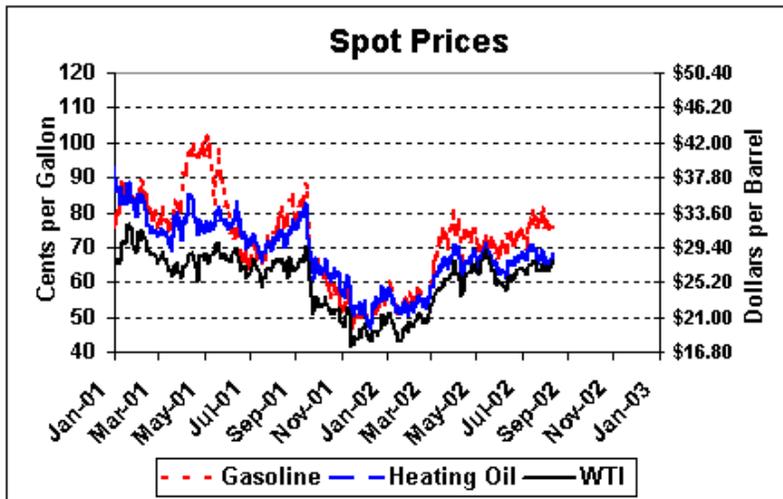
The average world crude oil price on August 9, 2002 was \$24.29 per barrel, down \$0.22 from the previous week and \$0.36 less than last year. WTI was \$26.88 per barrel on August 9, 2002, \$0.05 greater than last week and \$0.75 lower than last year. The spot price for conventional gasoline in the New York Harbor was 75.67 cents per gallon, down 2.62 cents from last week and 0.52 cent lower than a year ago. The spot price for low sulfur diesel fuel in the New York Harbor was 67.33 cents per gallon, 0.63 cent below last week and 6.73 cents less than last year.

Retail Gasoline and Diesel Fuel Prices (updated August 13, 2002)

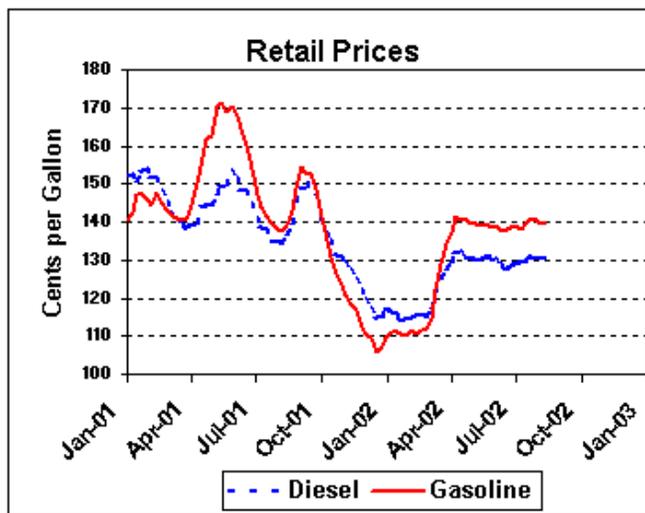
The U.S. average retail price for regular gasoline fell 0.2 cent per gallon last week, ending at 139.3 cents per gallon as of August 12. This price is 0.1 cent per gallon higher than last year, marking the fourth week in a row this summer that 2002 prices were higher than 2001 prices. Prices were down throughout the country, except for the Midwest, which saw an increase of 0.1 cent to end at 137.0 cents per gallon. The largest price decrease occurred on the Gulf Coast, where prices fell 0.8 cent to end at 130.4 cents per gallon. Gasoline prices have been moving upwards in the past few weeks, and while there is still potential for some pressure on prices ahead of Labor Day, any significant movement would likely prove to be very brief, barring major regional infrastructure difficulties. Retail diesel fuel prices decreased by 0.1 cent per gallon to a national average of 130.3 cents per gallon as of August 12.

U.S. Petroleum Prices

(updated August 13, 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		Gasoline		Heating Oil		Kerojet	Propane		EIA Weekly Retail	
	Spot	Futures	Spot	Futures	Spot	Futures	Spot	Spot	US Average		
	Cushing		NYH		NYH		NYH	Mt. Belvieu	Conway	Gasoline	Diesel
	\$/bbl	\$/bbl	cents per gallon		cents per gallon		c/gal	cents per gallon		cents per gallon	
6/25/2002	\$26.06	\$26.32	72.13	77.32	65.68	65.89	69.28	38.25	36.13		
6/26/2002	\$26.67	\$26.76	73.57	78.51	66.33	66.63	70.82	38.00	35.50		
6/27/2002	\$26.77	\$26.86	74.04	79.37	67.00	67.29	70.38	37.88	35.63		
6/28/2002	\$26.79	\$26.86	73.82	79.38	67.50	67.96	70.88	37.63	35.50		
7/1/2002	\$26.79	\$26.81	74.82	79.19	67.60	68.02	70.93	37.38	35.76	139.2	128.9
7/2/2002	\$26.83	\$26.77	74.07	78.98	67.98	68.71	71.28	37.13	35.75		
7/3/2002	\$26.82	\$26.80	73.63	78.60	68.38	68.77	71.82	37.01	35.19		
7/4/2002	NA	NA	NA	NA	NA	NA	NA	NA	NA		
7/5/2002	NA	NA	NA	NA	NA	NA	NA	NA	NA		
7/8/2002	\$26.14	\$26.07	69.60	76.14	66.15	66.80	69.65	36.19	34.38	138.2	129.4
7/9/2002	\$26.16	\$26.09	71.63	76.96	66.40	67.05	69.50	36.25	34.44		
7/10/2002	\$26.73	\$26.77	74.30	78.99	67.70	68.67	70.70	36.94	34.88		
7/11/2002	\$27.01	\$26.83	75.53	79.83	68.90	69.01	71.85	36.50	34.63		
7/12/2002	\$27.48	\$27.48	78.20	82.44	69.72	70.54	72.92	37.19	35.07		
7/15/2002	\$27.23	\$27.07	76.68	80.85	69.20	69.55	72.25	37.07	34.88	139.4	130.0
7/16/2002	\$27.68	\$27.75	79.95	84.53	69.99	71.09	73.04	37.19	34.88		
7/17/2002	\$27.88	\$27.88	80.43	84.84	70.08	70.98	73.13	36.75	34.88		
7/18/2002	\$27.50	\$27.57	78.25	83.35	69.43	70.18	72.81	37.44	34.88		
7/19/2002	\$27.83	\$27.83	78.85	83.86	69.45	70.14	73.10	37.13	35.25		
7/22/2002	\$26.61	\$26.60	76.13	81.14	66.60	67.11	70.38	37.13	35.13	141.0	131.1
7/23/2002	\$26.61	\$26.31	75.38	79.52	65.40	65.85	69.18	37.07	35.13		
7/24/2002	\$26.78	\$26.87	77.48	82.33	67.15	67.60	71.20	37.38	35.00		
7/25/2002	\$26.67	\$26.77	77.15	82.24	66.55	67.41	71.40	37.38	35.00		
7/26/2002	\$26.55	\$26.54	77.34	82.21	66.13	66.75	70.88	37.44	35.57		
7/29/2002	\$26.54	\$26.55	78.66	83.16	66.30	66.60	71.40	37.57	36.07	140.7	130.3
7/30/2002	\$27.43	\$27.36	81.13	85.61	68.75	68.87	73.90	37.57	36.07		
7/31/2002	\$27.02	\$27.02	78.47	83.03	67.04	67.64	72.30	38.63	38.00		
8/1/2002	\$26.51	\$26.47	75.67	76.22	65.70	67.20	70.50	38.94	38.82		
8/2/2002	\$26.87	\$26.84	77.50	77.48	66.10	67.66	70.90	38.32	38.07		
8/5/2002	\$26.55	\$26.58	76.30	76.82	64.40	66.64	69.65	38.29	37.94	139.5	130.4
8/6/2002	\$27.18	\$27.17	76.65	77.47	65.70	67.78	70.95	38.63	38.07		
8/7/2002	\$26.58	\$26.50	75.00	75.46	65.00	66.61	70.45	38.50	38.25		
8/8/2002	\$26.67	\$26.67	74.95	75.54	65.83	67.24	71.38	38.75	39.19		
8/9/2002	\$26.87	\$26.86	75.43	75.50	65.43	67.18	71.18	39.19	39.19		
8/12/2002	\$27.84	\$27.86	76.28	77.75	67.75	69.46	73.32	40.25	40.19	139.3	130.3

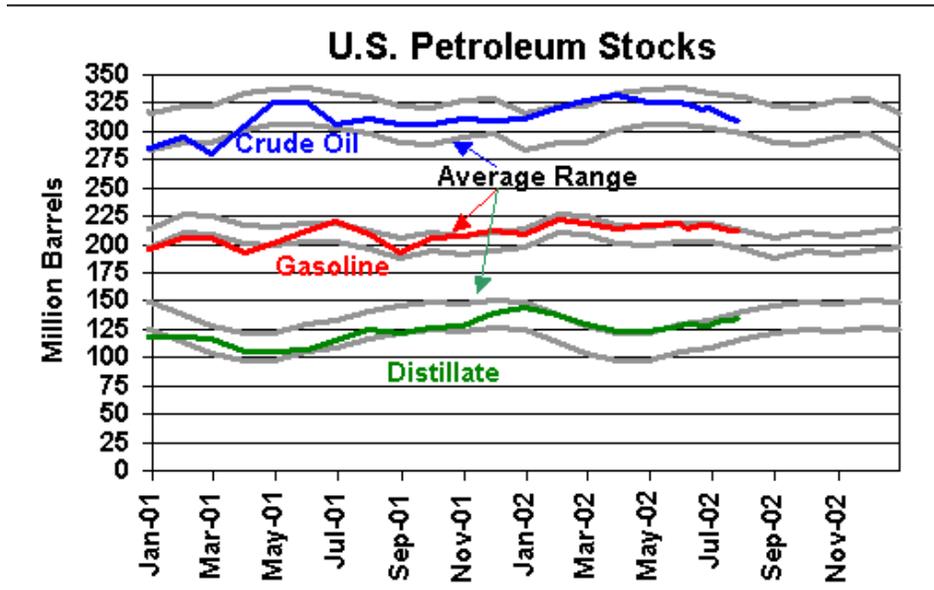
Source: Spot and futures closing quotes as reported by Reuters News Service, retail prices reported by EIA

U.S. Petroleum Supply

	(Thousand Barrels per Day)	Four Weeks Ending		vs. Year Ago	
		7/26/2002	7/26/2001	Diff.	% Diff.
Refinery Activity					
Crude Oil Input		15,511	15,399	112	0.7%
Operable Capacity		16,800	16,658	142	0.9%
Operable Capacity Utilization (%)		93.4%	94.1%	-0.7%	
Production					
Motor Gasoline		8,560	8,498	62	0.7%
Jet Fuel		1,556	1,633	-77	-4.7%
Distillate Fuel Oil		3,646	3,823	-177	-4.6%
Imports					
Crude Oil (incl. SPR)		8,994	9,504	-510	-5.4%
Motor Gasoline		808	711	97	13.6%
Jet Fuel		80	132	-52	-39.6%
Distillate Fuel Oil		214	219	-5	-2.3%
Total		11,032	11,757	-725	-6.2%
Exports					
Crude Oil		30	11	19	162.5%
Products		953	878	75	8.6%
Total		983	889	94	10.5%
Products Supplied					
Motor Gasoline		9,035	8,987	48	0.5%
Jet Fuel		1,635	1,765	-130	-7.4%
Distillate Fuel Oil		3,486	3,579	-93	-2.6%
Total		19,533	19,881	-348	-1.8%

vs. Year Ago

	13,333	13,001	340	-1.0%
	vs. Year Ago			
Stocks (Million Barrels)	7/26/2002	7/26/2001	Diff.	% Diff.
Crude Oil (excl. SPR)	309.3	312.0	-2.7	-0.9%
Motor Gasoline	211.6	210.9	0.7	0.3%
Jet Fuel	39.4	42.4	-3.0	-7.1%
Distillate Fuel Oil	134.4	123.0	11.4	9.3%
Total (excl. SPR)	1,028.9	1,023.7	5.2	0.5%



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

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World Oil Market Highlights

(updated August 13, 2002)

According to third quarter 2002 estimates, the world holds about 5.6 million barrels per day of excess oil production capacity that could be brought online within 30 days, 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	1.83	1.36	0.47
Saudi Arabia	1.66	1.61	0.05
Venezuela	1.55	1.29	0.26
Mexico	1.44	1.39	0.05
Nigeria	0.89	0.84	0.04
Iraq	0.80	0.80	0.00
Norway	0.34	0.28	0.06
Angola	0.33	0.32	0.01
United Kingdom	0.32	0.24	0.08
Total Imports	11.87	9.33	2.54

* 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

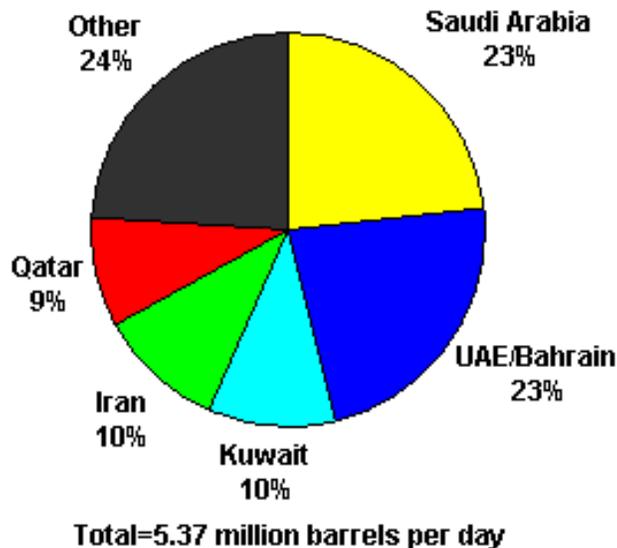
8)	Iraq	2.00
9)	Kuwait	1.80
10)	Mexico	1.65
11)	Libya	1.24
12)	Algeria	1.24

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

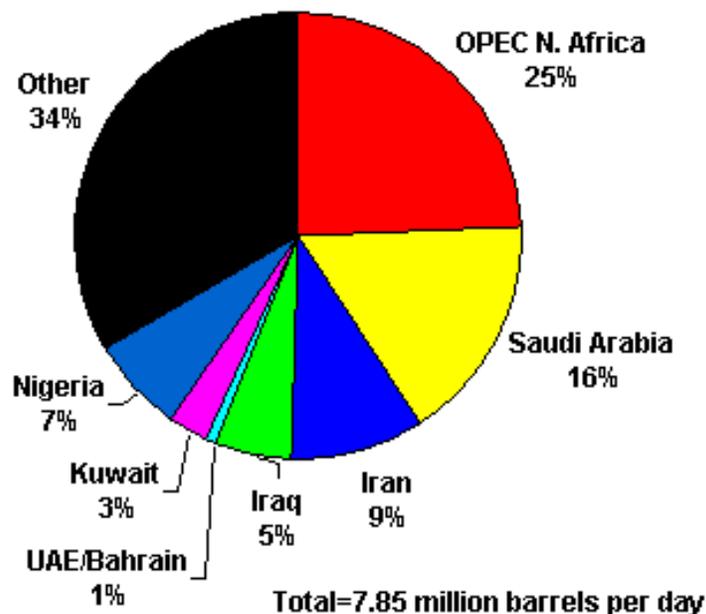
During 2001, about 48% of U.S. crude oil imports came from the Western Hemisphere (19% from South America, 15% from Mexico, 14% from Canada), while 30% came from the Persian Gulf region (18% from Saudi Arabia, 9% from Iraq, 3% from Kuwait).

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.

Japanese Net Oil Imports by Country, 2001



OECD European Net Oil Imports by Country, 2001



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Definitions

Petroleum

WTI – West Texas Intermediate (for the purposes of this table, prices provided are near month futures price) Cushing OK.

Bbl – Barrel (42 gallons).

C's – cents.

Natural Gas

Henry Hub – A pipeline hub on the Louisiana Gulf coast. It is the delivery point for the natural gas futures contract on the New York Mercantile Exchange (NYMEX).

Electricity

COB – average price of electricity traded at the California-Oregon and Nevada-Oregon border.

Palo Verde - average price of electricity traded at Palo Verde and West Wing Arizona.

Average - average price of electricity traded at all locations.

Latest U.S. Weekly Natural Gas Information

(updated August 13, 2002)

[Industry/Market Developments](#)

Natural gas consumption in manufacturing grew by over 8% between 1994-98. According to the EIA report [Energy Use in Manufacturing: 1994 to 1998](#), released August 1, 2002, natural gas use increased by 8.4% compared with total fuel consumption growth of 7%. The two main uses of natural gas by manufacturers are boiler fuel and process heating, which accounted for 89% of their gas consumption in 1998, up from 86% in 1994. The increase in total manufacturing energy use was driven primarily by growth in the consumption of natural gas and electricity, with the latter increasing by 14.4%. During this period, U.S. manufacturers used less petroleum and coal in manufacturing processes. This expansion of gas use occurred although natural gas prices to manufacturing consumers increased by more than 6% during the period, rising to an annual average of \$2.82 per Mcf in 1998 compared with \$2.65 per Mcf in 1994, while the cost of other major fossil fuels (petroleum products and coal) declined between 5% and 21%. The cost of electricity also moved down, declining by 4%.

[Natural Gas Storage](#)

Working gas in storage was 2,567 Bcf for the week ended Friday, August 2, 2002, according to the EIA Weekly Natural Gas Storage Report. This is 15% above the 5-year average for the report week, and almost 12% above the level last year for the same week. The implied net change was 33 Bcf, which is roughly 39% below the 5-year average weekly change of 54 Bcf for the report week.

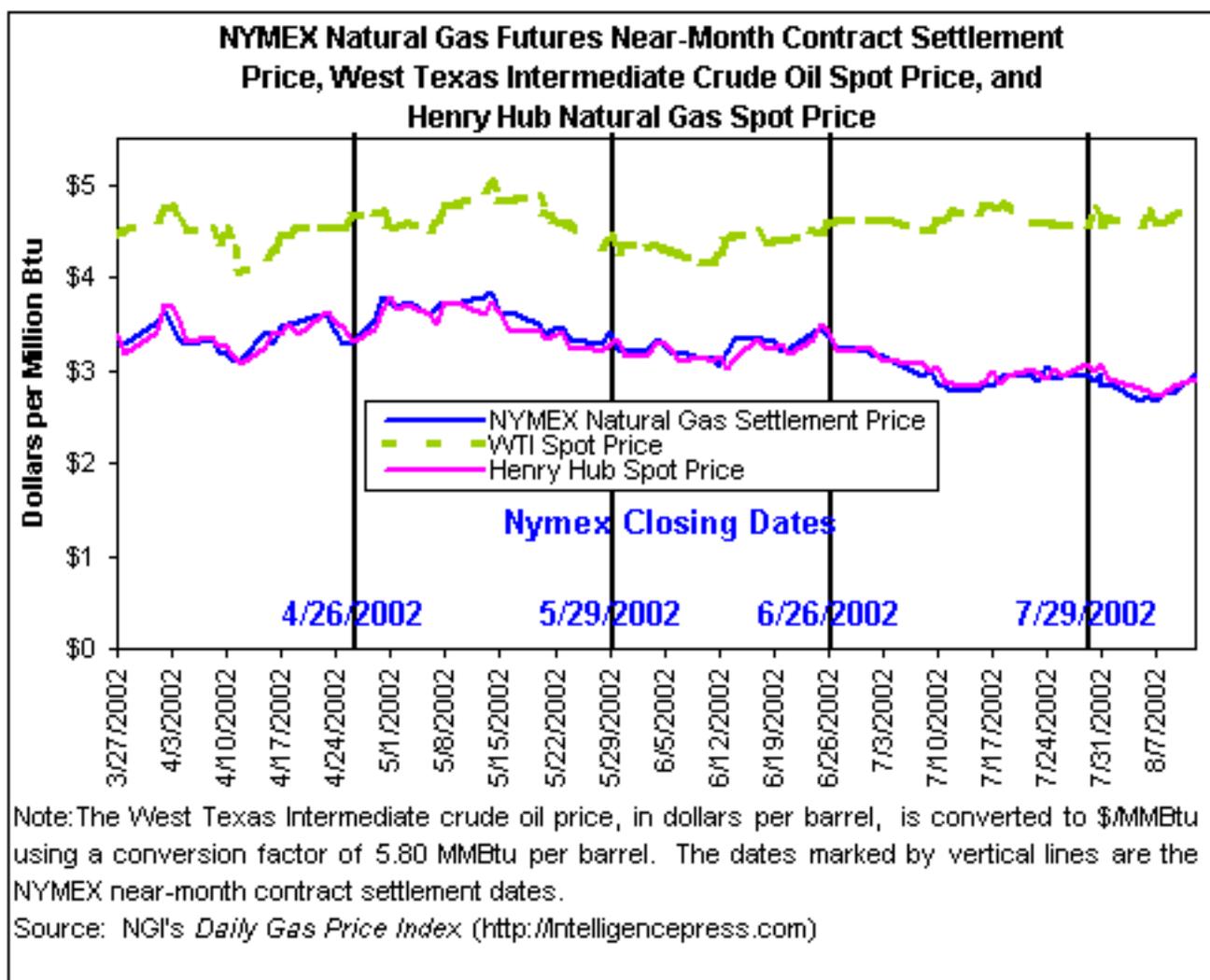
All Volumes in Bcf	Current Stocks 8/2/2002	Estimated Prior 5-year (1997-2001) Average	Percent Difference from 5-Year Average	Implied Net Change from Last Week	One- Week Prior Stocks 7/26/2002
East Region	1,414	1,309	8.0%	33	1,381
West Region	360	300	20.0%	8	352
Producing Region	793	622	27.5%	-8	801
Total Lower 48	2,567	2,231	15.1%	33	2,534

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

Prices:

Spot market prices moved up yesterday (8/12/02) as hot humid weather returned to most parts of the country. Prices increased between 7 and 17 cents per MMBtu at a majority of market locations and weather forecasters are calling for the above normal temperatures to prevail for much of this week. Sharper increases were reported at Northeast citygate sites with New York experiencing an increase of almost \$0.70 per MMBtu as the price for Monday (8/12/02) averaged \$4.10 per MMBtu. Prices elsewhere also were on the upswing, but to a lesser degree. California prices, as measured by the composite price, ended yesterday at \$2.70 per MMBtu-16 cents higher than on Friday (8/09/02).

At the NYMEX, the contract for September delivery settled yesterday (8/12/02) at \$2.965, a gain of over 20 cents for the day, and its steepest 1-day climb since becoming the prompt contract on August 29th.



<i>Trade Date (All prices in \$ per MMBtu)</i>	California Composite Average Price*	Henry Hub	New York City	Chicago	NYMEX futures contract-September delivery	NYMEX futures contract-October delivery
7/16/2002	2.69	2.89	3.59	2.88	2.892	2.930
7/17/2002	2.76	2.98	3.86	2.97	2.862	2.901
7/18/2002	2.71	2.86	3.26	2.80	2.950	2.985
7/19/2002	2.74	2.95	3.26	2.88	2.944	2.982
7/22/2002	2.86	3.01	3.68	2.97	2.965	3.010
7/23/2002	2.75	2.96	3.27	2.91	2.895	2.937
7/24/2002	2.70	2.91	3.26	2.86	3.040	3.075
7/25/2002	2.83	3.03	3.44	3.04	2.888	2.933
7/26/2002	2.77	2.94	3.42	2.87	2.891	2.933
7/29/2002	2.86	3.06	4.71	3.00	2.905	2.930
7/30/2002	2.69	2.98	5.85	2.91	2.891	2.916
7/31/2002	2.68	3.04	7.07	3.00	2.954	2.971
8/1/2002	2.74	3.07	5.97	3.04	2.842	2.874
8/2/2002	2.53	2.91	3.69	2.85	2.858	2.885
8/5/2002	2.57	2.81	3.25	2.76	2.678	2.720
8/6/2002	2.54	2.79	3.18	2.73	2.716	2.755
8/7/2002	2.48	2.73	3.04	2.65	2.660	2.704
8/8/2002	2.46	2.75	2.99	2.66	2.745	2.784
8/9/2002	2.54	2.83	3.41	2.73	2.761	2.804
8/12/2002	2.70	2.91	4.10	2.82	2.965	3.001

* 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 August 8, 2002, except where noted)

Coal Production

For the week ending July 27, rail car loadings of coal were 1.7% higher while national [coal production](#) was 3.5% lower, compared to year-ago levels. Year-to-date, western U.S. coal production is 2.0% below the levels of a year ago, whereas eastern U.S. coal production is estimated to be 6.7% below last year's level. The estimated production for the first seven months of 2002 was 620.1 million short tons (mst), 3.9% lower than the 651.3 mst in the first seven months of 2001.

Lower production at this time results from large coal stockpiles at mines and at consuming facilities due to slowed economic activity and an extended spring period of low seasonal demand at many electric power plants. EIA estimates that coal stockpiled in the electric power sector at the end of March was 35.1% higher than in March 2001. In the first and second quarters of 2002, coal production exceeded coal use and consequently stockpiles built up much above planned levels. Cumulative weekly coal production volumes are down more (in absolute terms) than are cumulative rail car loadings. This reflects a rundown occurring now in producer and distributor stockpiles. The stock rundown (and its dampening impact on production) will continue until coal stockpiles attain normal levels.

It appears that there was about a 30 million ton overage in the supply chain following the first quarter of 2002, so it may take several months of curtailed production to reduce the excess producer and distributor stocks. With warmer-than-normal temperatures in most of the country during the past month or more, some coal industry investors are optimistic that higher burn rates may reduce coal stockpiles to normal levels by September, according to analyst Bradley Keoun at Bloomberg.net.

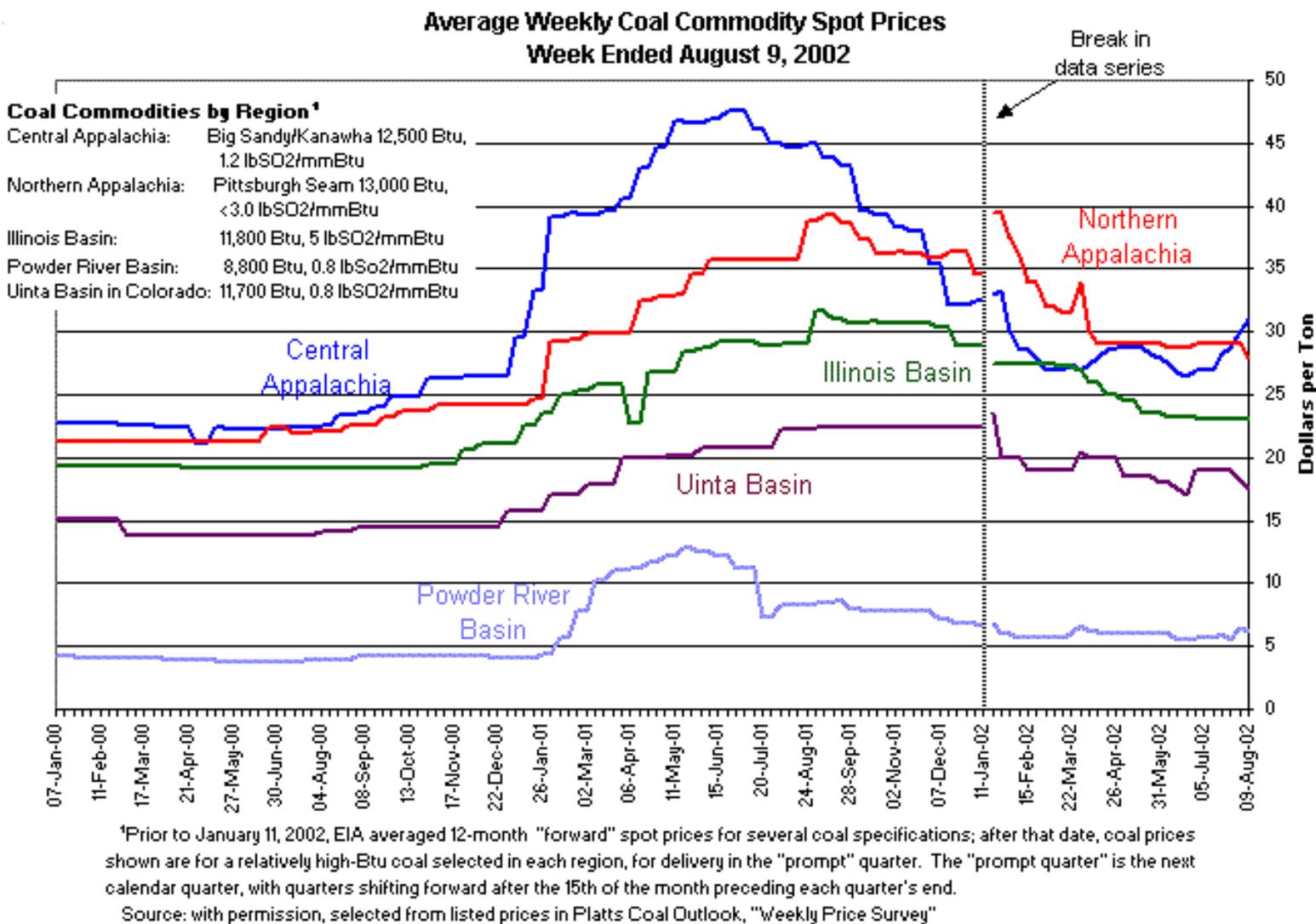
Coal Prices *(updated August 6, 2002)*

After firming up between March and July, the spot coal prices tracked by EIA (graph below) have become mixed in the recent past: Central Appalachian coal prices have risen markedly, Powder River Basin prices have trended upward, and Illinois Basin prices have held firm. Northern Appalachian and Uinta Basin prices had been relatively firm also, before declining again. The confused coal prices mirror the differing opinions as to whether prices will continue to decline, and reflect hesitancy among coal buyers. Following a long period of slowly downward price trends, coal suppliers were "cautiously optimistic" that prices were on the rise according to Platts' Coal Outlook (August 5), as hot weather began to eat into the high coal stockpiles at many electric power generators. Relatively few buyers are in the market, though, as most electric power generators have enough coal on hand for anticipated remaining summer consumption and some expect to have larger than average stockpiles even at the end of a hot summer because of lower electricity demand during 2002. Buyers know that large coal suppliers accumulated unsold inventories during the first 3 to 5 months of 2002 and idled numerous mines in order to preclude a glut of coal in the market and a free fall in prices. Suppliers know that coal buyers also have large inventories to burn off. The result is a waiting game, as each tries to time their purchases and monitor coal burns and producer capacity to best advantage.

Compared to peak prices in summer 2001, Central and Northern Appalachian coal prices are down by about \$17.00

and \$9.00 per short ton, respectively. Compared to prices in the summer of 2000, prior to the 2001 escalation, the latest indexed spot prices of \$31.00 per short ton for Central Appalachian and \$28.00 per short ton for Northern Appalachian coal are higher by 39% and 31% respectively. Other prices are also running higher than the summer 2000 baseline: by 27% for the Uinta Basin, 20% for the Illinois Basin, and 67% for the Powder River Basin. Significantly, the average spot price tracked for Central Appalachian coal (see graph) rose above that of Northern Appalachian Pittsburgh seam coal for the first time since November 2001.

NOTE: The date labels on the graph below have been changed. This change does not affect the price data or the relative positions on the weekly time scale (x-axis). The dates on the graph are now keyed (properly) to Friday of the week for which the average prices are plotted. Previously the dates on the graph reported the publication date of the source report.



Over-the-counter (OTC) trading volumes on the [NYMEX](#) were low throughout the month of July. During the past 2 weeks, near-month volumes have shown signs of resumption as trading reached moderate levels--60 transactions settled both on July 26 and July 31--at prices above \$29.00. These prices come after 5 months of slow but steady increases and they represent the first prices above \$29.00 since November 2001. Also contributing to the expectation of higher coal prices, NYMEX prices are now above \$30.00 for all 2003 delivery dates.

Midwest Surface Mining

Recently an article in Energy Argus Coal Daily (July 31) noted that EIA expects a shift toward proportionately more underground coal mining in the Midwest over the coming 10 years. This will result in higher mining costs and likely higher prices, according to a "market source." Much hinges on whether the markets are there for the higher sulfur Midwestern coal. EIA adjusted the coal tonnages to account for known accessibility restrictions and anticipated recovery rates. In Illinois, for example, this yielded an estimated 10.1 billion short tons (bst) of surface-minable recoverable reserves remaining in Illinois, along with 28.1 bst of underground-minable reserves. The 10.1 bst would equate to about 2,650 years' surface-mine production based on calendar year 2000 production of 3.8 mst. (Note that 2000 production was historically low, the lowest since 1902.) The 28.1 bst equates to nearly 950 years of reserves, based on year-2000 underground production of 29.6 mst.

In the Illinois study, accessibility criteria were updated, based on new mapping and on recent mining company experience. For example, buffers of no-mining were expanded around towns in counties with no recent coal mining because traditional agricultural communities were found to impose greater restrictions on mining and blasting in proximity to developed areas than do communities in established mining areas. More detailed mapping and data processing also made it possible to factor out fault zones, rock intrusions, and other geologic features that restrict mining or recovery rates. On the other hand, former restrictions on mining in proximity to oil wells were largely reduced or removed to reflect changes in mining practice in recent years. A previous assumption that surface mining would be prohibited under prime farm lands was revised because these soils have successfully been removed, stockpiled, and adequately reclaimed recently on mined lands. More conservative minability criteria were also applied for the estimated recoverable reserves for underground mining, to exclude coal less than 42 inches thick. While 28"-42" resources are included in the Demonstrated Reserve Base (DRB) and are technically minable, they were not considered economically minable commercially in the foreseeable future and were held back from recoverable reserve estimates.

Similar results were found in a smaller study in Indiana. Regardless of minable reserves, the biggest impediment to Midwestern coal mining is low prices, depressed due to the high sulfur content of nearly all its coal, at a time when regulations require capture of excess sulfur emissions or purchase of compensating emission allowances.

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Latest U.S. Electricity Information

(updated August 13, 2002)

Selected Wholesale Electricity Prices: Wholesale electricity spot prices have been increasing over the past several days at the major western U.S. trading centers due to a decrease in hydrogeneration in the northwest and generally warmer weather. Prices at the Mid-Columbia trading zone have increased 49% from a low of \$14.09 per megawatthour on August 8 to \$21.02 per megawatthour on August 12. According to the Bloomberg Power Lines Report, the Bonneville Power Administration, which makes its surplus hydroelectric supply available to the wholesale market, lowered its peak offering from 800 megawatts to 600 megawatts. At the Four Corners trading center in the desert southwest, prices have increased 30% from \$28.92 per megawatthour on August 8 to \$37.66 per megawatthour on August 12.

Recent prices in the Mid-continent region have increased as warmer weather has returned and the demand for electricity has increased. Prices at the Cinergy hub increased 68% to \$35.92 per megawatthour from last week's low of \$21.33 on August 7.

Prices at each of the three trading centers in the Northeast have gone up substantially over the past several days as warmer weather has moved into the region spurring an increase in the demand for electricity. The largest percentage increase occurred at the PJM hub, where prices increased 149% from \$27.44 per megawatthour on August 7 to \$68.65 per megawatthour on August 12. Similarly, prices in New England jumped 128% from \$33.20 per megawatthour on August 7 to \$75.63 per megawatthour on August 12. Prices at the New York Zone J, New York City went up 91% from \$55.50 on August 8 to \$106.00 per megawatthour on August 12.

Over the past seven weekdays, the average price at all trading centers has ranged between \$29.05 per megawatthour and \$48.24 per megawatthour.

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

Trading Centers	Date							Price Range		
	8/2/02	8/5/02	8/6/02	8/7/02	8/8/02	8/9/02	8/12/02	Max	Min	Average
COB	21.38	18.25	20.00	20.40	23.16	25.61	25.94	25.94	18.25	22.11
Palo Verde	34.07	30.18	28.19	28.97	28.21	35.59	37.23	37.23	28.19	31.78
Mid-Columbia	16.86	15.54	16.16	16.37	14.09	17.21	21.02	21.02	14.09	16.75
Mead/Marketplace	36.31	34.21	32.56	32.08	30.58	40.19	40.75	40.75	30.58	35.24
4 Corners	35.59	32.00	29.73	29.55	28.92	36.45	37.66	37.66	28.92	32.84
NP 15	27.69	26.75	25.53	25.06	25.53	30.78	33.36	33.36	25.06	27.81
SP 15	32.39	30.40	29.23	29.33	27.21	33.87	34.92	34.92	27.21	31.05
PJM West	85.81	38.46	29.89	27.44	27.54	55.34	68.65	85.81	27.44	47.59
NEPOOL	71.75	47.00	38.31	33.20	35.40	65.00	75.63	75.63	33.20	52.33
New York Zone J	115.00	65.00	64.25	61.88	55.50	84.50	106.00	115.00	55.50	78.88
Cinergy	53.80	30.93	25.74	21.33	23.44	31.30	35.92	53.80	21.33	31.78
Average Price	48.24	33.52	30.87	29.60	29.05	41.44	47.01	48.24	29.05	37.10

Sources: COB, Palo Verde, Mid-Columbia, Mead/Market Place, Four Corners, NP-15, SP-15, PJM-West, NEPOOL, New York Zone J, and Cinergy trading centers. Used with permission from Bloomberg L.P. (www.bloomberg.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.

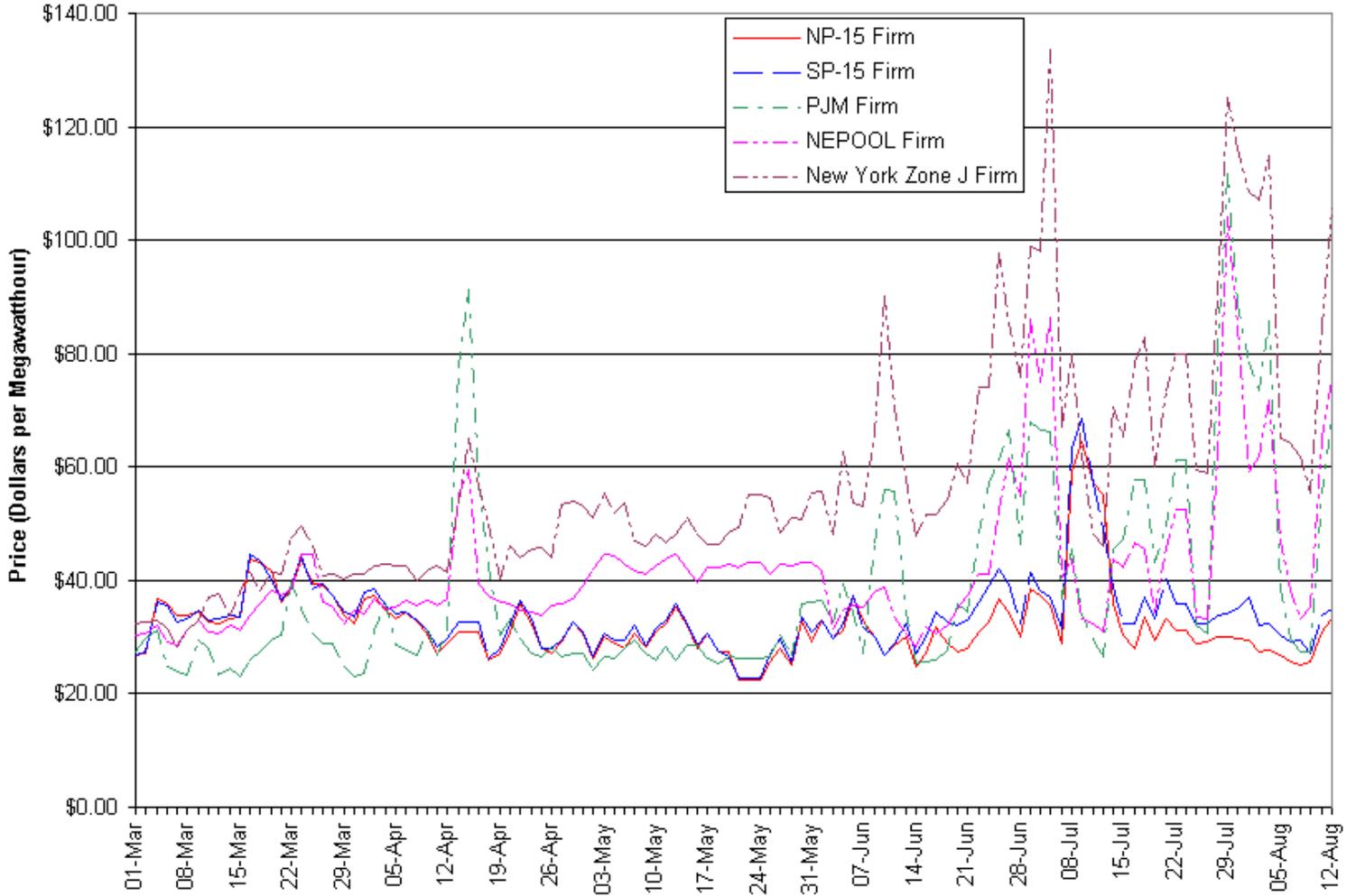
Mead/Market Place: Average price of electricity traded at Mead Market Place, McCullough and Eldorado.

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.

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.
NEPOOL Average price of electricity traded at Nepool.
New York Zone J: Average price of electricity traded at the New York Zone J - New York City.
Cinergy: Average price of electricity traded into the Cinergy control area.

Average Wholesale Electricity Prices in the U.S.



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