

Energy Situation Analysis Report

Last Updated: October 31, 2002

Next Update: November 5, 2002

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Latest Oil Market Developments

The West Texas Intermediate (WTI) front month (December) crude oil futures price on the New York Mercantile Exchange (NYMEX) rose 41 cents per barrel to \$27.22 per barrel on Thursday (10/31/02). Reports of higher crude stocks and increased OPEC quota leakage were balanced by concerns over gasoline, heating oil stocks, and cold weather. [more...](#)

Latest U.S. Weekly EIA Petroleum Information

The U.S. average retail price for regular gasoline fell over the last week, decreasing by 1.4 cents per gallon as of October 28 to end at 144.4 cents per gallon. This price is still 20.9 cents per gallon higher than last year. Retail diesel fuel prices fell last week after ten weeks of rising prices, decreasing by 1.3 cents per gallon to a national average of 145.6 cents per gallon as of October 28. [more...](#)

World Oil Market Highlights

According to fourth quarter 2002 estimates, the world (excluding Iraq) holds about 5 million barrels per day of excess oil production capacity that could be brought online, almost all of which lies in OPEC countries. [more...](#)

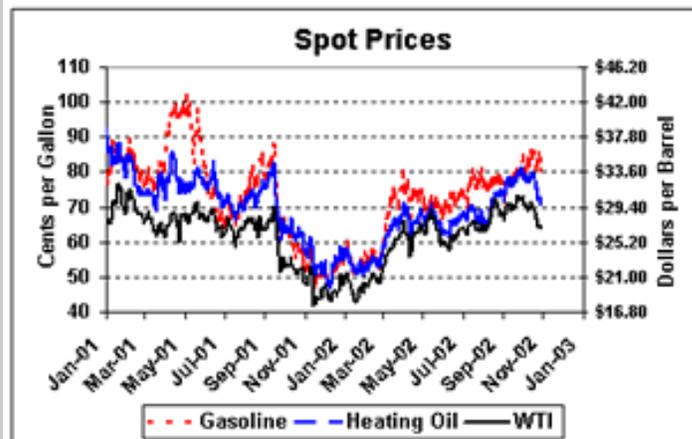
Latest U.S. Weekly Natural Gas Information

Natural gas spot prices continued to move up, with gains of up to a quarter on Tuesday (October 29) and up to 20 cents per MMBtu on Wednesday, as already cold temperatures in many high-gas-consuming areas continued to fall over the past two days, further strengthening demand for space heating. On the futures market, the contract for November delivery expired on Tuesday, October 29 with a final settlement price of \$4.126 per MMBtu, recording a net gain of \$0.085 since beginning as the near-month contract on September 27. [more...](#)

Energy Prices*

Petroleum Futures	10/30/02	10/29/02	Change
WTI (\$/Bbl)	26.81	26.86	-0.05
Gasoline (c/gallon)	82.83	82.27	+0.56
Heating Oil (c/gallon)	72.77	71.55	+1.22
Natural Gas (\$/MMBtu)			
Henry Hub	4.33	4.19	+0.14
California	4.25	4.14	+0.11
New York City	5.16	4.95	+0.21
Electricity (\$/Megawatthour)			
COB	45.50	41.75	+3.75
PJM West	44.20	41.75	+2.45
NEPOOL	50.75	49.50	+1.25
Average	45.90	44.05	+1.85

[*Definitions](#)



Source: Closing quote as reported by Reuters News Service

Latest U.S. Coal Information

Coal prices are mixed and lacking any clear direction as new buying activity remains tepid. Compared to peak prices in summer 2001, Central and Northern Appalachian coal prices are down by about \$18.50 and \$11.50 per short ton, respectively. Compared to the previous floor in the summer of 2000, prior to the 2001 escalation, the latest indexed spot prices of \$29.25 per short ton for Central Appalachian and \$27.75 per short ton for Northern Appalachian coal are higher by 31% and 30% respectively. [more...](#)

Latest U.S. Electricity Information

Spot electricity prices across the country increased as the cooler weather kept demand high. In the Midwest, prices at Cinergy increased 88 percent from \$20.69 per megawatthour on October 22 to \$38.94 per megawatthour on October 30. Over the past seven days, the average price at all trading centers ranged between \$37.67 and \$45.90 per megawatthour. [more...](#)

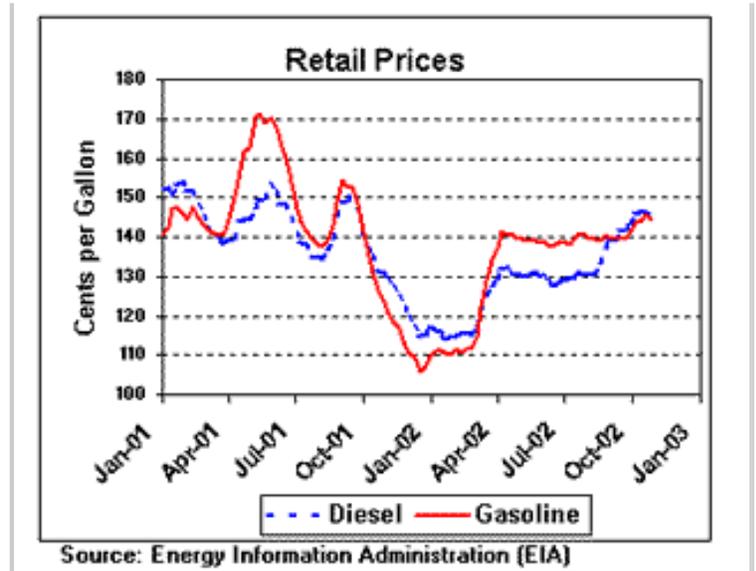
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Contact:

Lowell Feld

lowell.feld@eia.doe.gov

Phone: Lowell Feld: (202) 586-9502

Fax: (202) 586-9753

URL: <http://www.eia.doe.gov/emeu/security/esar/archive/esararchive.html>

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Latest Oil Market Developments

(updated October 31, 2002)

The West Texas Intermediate (WTI) front month (December) crude oil futures price on the New York Mercantile Exchange (NYMEX) rose 41 cents per barrel to \$27.22 per barrel on Thursday (10/31/02). Reports of higher crude stocks and increased OPEC quota leakage were balanced by concerns over gasoline, heating oil stocks, and cold weather. NYMEX crude oil futures ended higher Thursday as expiring November gasoline futures rose sharply on short-covering amid signs of a squeeze caused by a perceived shortage of gasoline at New York Harbor. Overall, crude oil prices are down \$3.61 per barrel from the near-term high closing price reached on October 1. This drop in crude oil prices has been attributed to growing supplies from OPEC and to an easing of traders' concerns over the imminence of an attack on Iraq as discussions continue at the United Nations. This has contributed to a reduction in the so-called "war premium."

Crude oil futures were up slightly on Thursday as short-covering helped build on the gains following news of a Venezuelan refinery outage and EIA data showing that distillate stocks, including heating oil, fell 1.8 million barrels in the week ended October 25. U.S. inventories of crude oil, gasoline, and distillate fuel all remain near or below the lower limit of the normal range for this time of year.

Topics affecting **world oil markets** include:

- France and the United States remain divided on a key point of contention at the U.N. Security Council negotiations over an Iraq resolution. There is no agreement as yet on how to decide if Iraq has failed to cooperate with new UN weapons inspections.
- OPEC officials said on Wednesday that they were satisfied with current oil market conditions. "Supply of oil is fine, stocks are fine... market fundamentals are fine and provisions for winter season have been made and everything is working as normal. The only thing we can't predict are the consequences of war" OPEC Secretary-General Alvaro Silva said, adding that current quota-cheating by OPEC members did not upset this view. Saudi Oil Minister Ali al-Naimi concurred, saying that "the current price levels are okay because they are within the OPEC band."
- Venezuela's President Hugo Chavez warned opposition foes on Wednesday that he would retaliate if they attempted to disrupt his government with strikes and protests. "If these minority sectors ... try to sabotage Venezuela's progress, to sabotage the economy, to upset the peace ...the government will not hesitate to take the measures it needs to take."
- Venezuela's state oil firm Petroleos de Venezuela (PdVsa) said that its 335,000 barrel per day Curacao Isla Refinery shut down six primary distillation units after a boiler failure on Wednesday morning. "We expect they will be back up in 4 to 5 days. In the meantime, we will be supplying

our customers from storage. There will be no interruption of loadings," PdVsa said.

- As of October 31, 2002, the [U.S. Strategic Petroleum Reserve \(SPR\)](#) contained 588.9 million barrels of oil. The SPR has a maximum drawdown capability of 4.3 million bbl/d 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 3.2 million bbl/d from days 91-120, to 2.2 million bbl/d for days 121-150, and to 1.3 million bbl/d for days 151-180.

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Contact:

Lowell Feld

lowell.feld@eia.doe.gov

Phone: Lowell Feld: (202) 586-9502

Fax: (202) 586-9753

URL: <http://www.eia.doe.gov/emeu/security/esar/latem.html>

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Latest U.S. Weekly EIA Petroleum Information

(updated October 31, 2002)

Petroleum Inventories

U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) rose by 0.9 million barrels last week, the third consecutive weekly increase. However, nationally, they remain about 25 million barrels below the level last year at this time. In PADD II (Midwest), crude oil inventories remained below 55 million barrels once again, a level close to the lowest level seen since at least late 1989. Distillate fuel inventories fell by 1.8 million barrels, with a small increase in low-sulfur distillate fuel (diesel fuel) more than offset by a decline in high-sulfur distillate fuel (heating oil). Distillate fuel inventories are now below the lower limit of the normal range for this time of year. Motor gasoline inventories dropped by 1.1 million barrels, and are just above the lower limit of the normal range for this time of year.

U.S. inventories of propane continued their recent slide with a weekly stock draw measuring nearly 1.4 million barrels, and ended the week of October 25, 2002 at an estimated 66.5 million barrels. Since October 1, 2002, U.S. inventories of propane have fallen by 4.7 million barrels. Unseasonable cold weather is partly due to the sharp slide in inventories as propane marketers begin to move supplies closer to the areas of final consumption. Although U.S. inventories are falling faster than would typically be expected at this time of year, inventories continue to track within the middle of the average range. Regional stock draws were evenly distributed between the Midwest and Gulf Coast regions last week with similar declines of roughly 0.6 million barrels, while East Coast inventories posted a more modest 0.1 million barrel draw during this same period. Comparisons with respect to average ranges show East Coast and Gulf Coast inventories near the upper limit of the range while inventories in the Midwest continue to track at the lower limit of the average range for this period.

Petroleum Imports

U.S. crude oil imports last week averaged 9.0 million barrels per day, down nearly 1.0 million barrels per day from the very high level seen in the previous week. Even including one week in which they were reduced due to Hurricane Lili, crude oil imports have averaged 9.2 million barrels per day over the last four weeks, or nearly 100,000 barrels per day less than averaged during the same four-week period last year. Total motor gasoline imports (including both finished gasoline and gasoline blending components) averaged 800,000 barrels per day last week, while distillate fuel imports remained relatively high, averaging over 300,000 barrels per day.

Monthly data on the sources of U.S. crude oil imports in August 2002 was released recently and it shows that four countries imported more than 1.4 million barrels per day of crude oil to the United States that month. The top sources of U.S. oil imports in August 2002 were Canada (1.537 million barrels per day), Venezuela (1.514 million barrels per day), Mexico (1.475 million barrels per day), and Saudi Arabia (1.411 million barrels per day). Rounding out the top ten sources, in order, were Nigeria (0.792 million barrels per day), United Kingdom (0.480 million barrels per day), Norway (0.402 million barrels per day), Iraq (0.246 million barrels per day), Colombia (0.217 million barrels per day), and Angola (0.211 million barrels per day). Of the 9.545 million barrels per day of crude oil imported into the United States during the month of August 2002, the top four countries accounted for 62% of these imports, while the top ten sources accounted for nearly 87% of all U.S. crude oil imports. Iraqi crude oil imports were the 2nd lowest amount since May 1998 (June 2002 was the only recent month in which Iraq imported less), while Russian crude oil imports averaged 0.100 million barrels per day, ranking 14th for the month, but the 2nd largest amount since June 1994 (only exceeded by the amount imported in May 2002).

Refinery Inputs and Production

U.S. crude oil refinery inputs averaged 14.7 million barrels per day during the week ending October 25, an increase of nearly 500,000 barrels per day from the previous week. Crude oil refinery inputs in PADD III (Gulf Coast) increased by 300,000 barrels per day, while in PADD II they increased by nearly 200,000 barrels per day. As a result of the increase in crude oil refinery inputs, refinery production for motor gasoline, distillate fuel, and jet fuel increased substantially last week.

Petroleum Demand

Total product supplied over the last four-week period averaged 19.4 million barrels per day, or about 1.6 percent less than the level last year. Over the last four weeks, motor gasoline demand is up 3.2 percent, kerosene-jet fuel demand is up 1.7 percent. Distillate fuel demand is down 1.4 percent compared to the same four-week period last year, even with last week's demand averaging 4.1 million barrels per day.

Spot Prices (last updated October 31, 2002)

The average world crude oil price on October 25, 2002 was \$25.82 per barrel, down \$0.99 from the previous week but \$6.58 per barrel more than last year. WTI was \$27.09 per barrel on October 25, 2002, \$2.47 per barrel lower than last week and \$5.02 up from last year. The spot price for conventional gasoline in the New York Harbor was 85.45 cents per gallon, down 0.45 cent per gallon from last week and 28.15 cents higher than a year ago. The spot price for No. 2 heating oil in the New York Harbor was 72.05 cents per gallon, 7.85 cents per gallon lower than last week and 9.90 cents per gallon more than last year.

Retail Gasoline and Diesel Fuel Prices Fall Back Last Week (last updated October 31, 2002)

The U.S. average retail price for regular gasoline fell over the last week, decreasing by 1.4 cents per gallon as of October 28 to end at 144.4 cents per gallon. This price is still 20.9 cents per gallon higher than last year. This price decrease comes after four weeks of increasing prices during a season of normally decreasing gasoline prices.

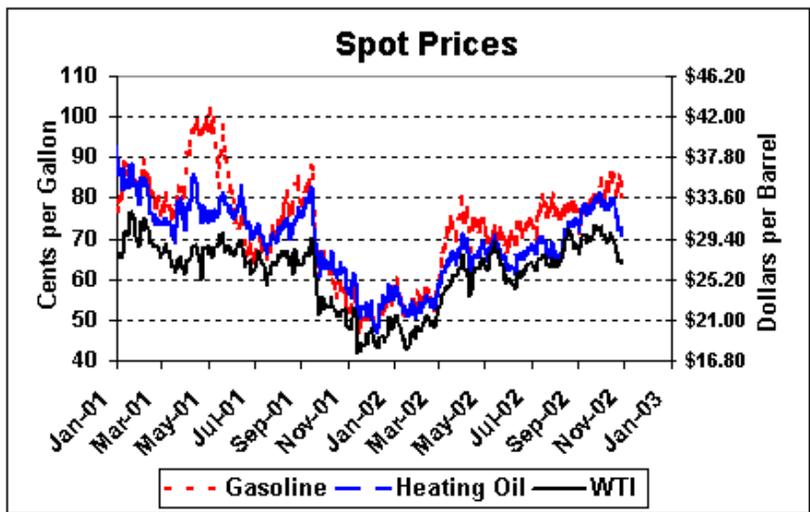
Retail diesel fuel prices fell last week after ten weeks of rising prices, decreasing by 1.3 cents per gallon to a national average of 145.6 cents per gallon as of October 28. With U.S. distillate fuel inventories below the lower end of the normal range, it is unlikely that prices will soften significantly as the season unfolds. Retail diesel prices were down throughout the country, with the largest price decrease occurring on the Gulf Coast, which saw the price fall by 2.2 cents per gallon to end at 141.7 cents per gallon. There was a price increase seen in New England, where prices gained 0.8 cent to end at 149.6 cents per gallon.

Retail Heating Fuels Prices Show Slight Upward Movement

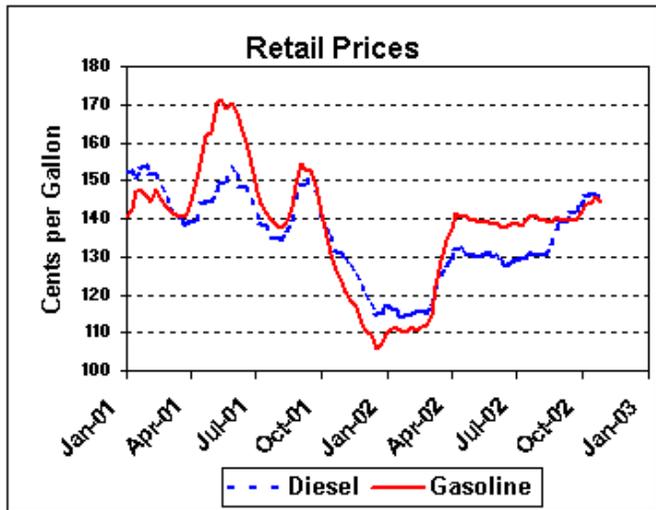
Residential heating oil and propane prices showed slight increases for the period ending October 28, 2002. The average residential heating oil price was at 127.3 cents per gallon, up 0.2 cent per gallon, while the average residential propane price increased 0.7 cent per gallon from 113.5 to 114.2 cents per gallon. Heating oil prices are 4.6 cents per gallon higher than last year at this time while residential propane prices are 0.5 cent per gallon higher than one year ago. Wholesale heating oil prices decreased 5.1 cents per gallon, to 82.0 cents per gallon. Wholesale propane prices rose slightly from 54.0 to 54.4 cents a gallon, up 0.4 cent per gallon.

U.S. Petroleum Prices

(updated October 31, 2002)



Source: Closing quote as reported by Reuters News Service



Source: Energy Information Administration (EIA)

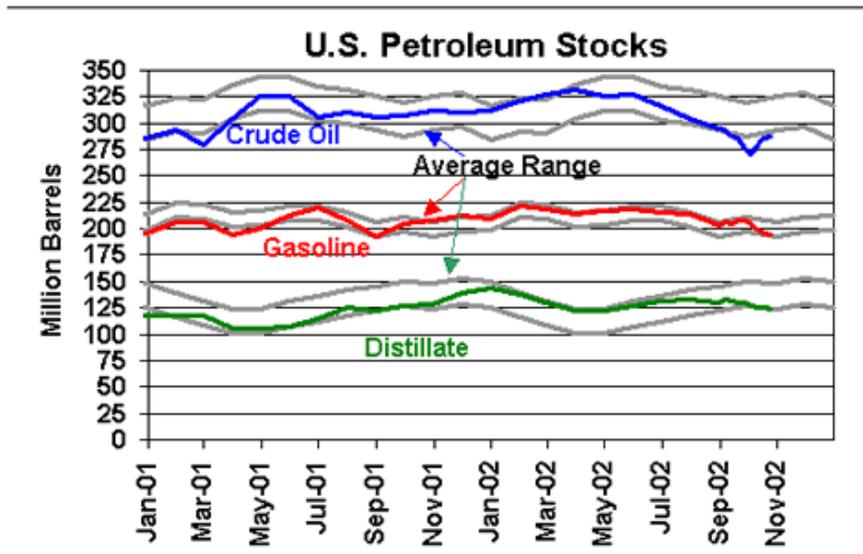
Crude Oil and Oil Products Price Table

Date	WTI Crude Oil		Gasoline		Heating Oil		Kerojet	Propane		EIA Weekly Retail	
	Spot	Futures	Spot	Futures	Spot	Futures	Spot	Spot	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	
9/12/2002	\$28.95	\$28.85	75.55	78.54	75.75	76.58	80.10	46.88	45.25		
9/13/2002	\$29.83	\$29.81	77.75	80.56	77.75	78.67	82.10	47.38	45.94		
9/16/2002	\$29.14	\$29.67	77.30	79.36	76.20	78.37	80.80	47.44	45.63	140.1	141.4
9/17/2002	\$29.08	\$29.08	77.50	77.63	76.85	77.23	81.53	46.50	45.00		
9/18/2002	\$29.57	\$29.48	79.10	79.82	77.90	78.91	82.83	47.57	46.44		
9/19/2002	\$29.49	\$29.50	79.30	80.08	77.85	78.81	82.63	47.57	46.32		
9/20/2002	\$29.65	\$29.61	79.78	81.41	77.45	78.70	82.00	47.88	47.25		
9/23/2002	\$30.85	\$30.71	79.95	84.27	79.00	80.57	83.05	48.75	47.75	139.5	141.7
9/24/2002	\$30.79	\$30.77	80.85	82.92	79.40	80.70	83.53	48.63	47.75		
9/25/2002	\$30.69	\$30.64	80.63	81.69	79.70	80.63	83.68	47.51	46.69		
9/26/2002	\$30.31	\$30.41	78.80	80.81	79.20	80.40	83.10	47.50	46.75		
9/27/2002	\$30.53	\$30.54	80.05	81.43	79.20	80.38	83.20	47.82	46.88		
9/30/2002	\$30.59	\$30.45	79.73	81.35	79.18	80.18	83.06	48.13	47.00	141.3	143.8
10/1/2002	\$30.71	\$30.83	83.03	82.71	81.05	82.04	85.43	48.75	47.75		
10/2/2002	\$30.59	\$30.49	84.53	82.50	80.20	81.35	86.83	48.25	47.44		
10/3/2002	\$29.73	\$29.76	80.25	80.25	77.72	79.43	83.10	47.50	46.25		
10/4/2002	\$29.65	\$29.62	80.10	79.72	79.20	79.19	83.18	47.57	46.00		
10/7/2002	\$29.65	\$29.64	80.80	80.47	78.08	79.16	82.78	47.57	46.25	143.9	146.0
10/8/2002	\$29.56	\$29.48	83.78	82.35	77.55	79.05	83.30	47.26	45.88		
10/9/2002	\$29.31	\$29.35	82.20	82.04	77.71	79.42	83.51	47.32	46.25		
10/10/2002	\$28.96	\$28.97	81.50	80.46	77.10	78.30	83.10	46.69	45.50		
10/11/2002	\$29.36	\$29.37	82.80	82.01	77.88	78.97	83.40	47.25	47.07		
10/14/2002	\$30.06	\$30.03	85.90	84.96	79.85	80.89	85.40	48.25	47.32	144.0	146.1
10/15/2002	\$29.73	\$29.72	84.47	83.99	78.80	79.98	84.35	47.94	46.88		
10/16/2002	\$29.28	\$29.47	84.65	83.93	78.79	79.96	83.64	48.25	47.00		
10/17/2002	\$29.61	\$29.62	85.75	83.98	79.85	80.77	84.05	48.63	47.00		
10/18/2002	\$29.56	\$29.60	85.90	85.17	79.90	80.35	83.25	48.82	47.50		
10/21/2002	\$28.31	\$28.37	80.54	81.03	75.66	76.29	79.49	47.68	46.75	145.8	146.9
10/22/2002	\$27.93	\$27.92	80.93	79.85	75.36	75.78	79.06	47.50	46.63		
10/23/2002	\$28.19	\$28.18	81.40	81.40	75.03	75.67	79.40	48.25	47.69		
10/24/2002	\$27.87	\$28.20	82.23	84.17	74.73	75.97	79.10	48.50	48.32		
10/25/2002	\$27.09	\$27.05	85.45	86.09	72.05	72.76	76.28	47.88	47.94		
10/28/2002	\$27.25	\$27.29	83.60	85.30	71.95	73.08	76.10	47.75	48.00	144.4	145.6
10/29/2002	\$26.81	\$26.86	80.05	82.27	70.55	71.55	74.90	47.75	48.00		
10/30/2002	\$26.85	\$26.81	80.80	82.83	72.55	72.77	76.05	47.88	47.94		

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	
	10/25/2002	10/25/2001	Diff.	% Diff.
Refinery Activity				
Crude Oil Input	13,999	15,003	-1,004	-6.7%
Operable Capacity	16,800	16,510	290	1.8%
Operable Capacity Utilization (%)	84.4%	92.0%	-7.6%	
Production				
Motor Gasoline	8,207	8,437	-230	-2.7%
Jet Fuel	1,433	1,453	-20	-1.3%
Distillate Fuel Oil	3,389	3,772	-383	-10.1%
Imports				
Crude Oil (incl. SPR)	9,175	9,229	-54	-0.6%
Motor Gasoline	739	724	15	2.1%
Jet Fuel	176	78	98	126.5%
Distillate Fuel Oil	328	262	66	25.1%
Total	11,384	11,442	-58	-0.5%
Exports				
Crude Oil	25	11	14	136.5%
Products	928	918	10	1.1%
Total	953	929	24	2.6%
Products Supplied				
Motor Gasoline	8,915	8,641	274	3.2%
Jet Fuel	1,588	1,564	24	1.5%
Distillate Fuel Oil	3,796	3,850	-54	-1.4%
Total	19,387	19,709	-322	-1.6%
vs. Year Ago				
Stocks (Million Barrels)	10/25/2002	10/25/2001	Diff.	% Diff.
Crude Oil (excl. SPR)	287.1	312.3	-25.2	-8.1%
Motor Gasoline	194.3	207.3	-13.0	-6.3%
Jet Fuel	40.4	40.9	-0.5	-1.2%
Distillate Fuel Oil	123.8	128.5	-4.7	-3.7%
Total (excl. SPR)	978.9	1,032.3	-53.4	-5.2%



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

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Contact:

Doug MacIntyre

douglas.macintyre@eia.doe.gov

Phone: Doug MacIntyre : (202) 586-1831

Fax: (202) 586-9753

URL: <http://www.eia.doe.gov/emeu/security/esar/latpet.html>

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World Oil Market Highlights

(updated October 22, 2002)

According to fourth quarter 2002 estimates, the world (excluding Iraq) holds around 5 million barrels per day of excess oil production capacity that could be brought online, almost all of which lies in OPEC countries.

OPEC Crude Oil Production ¹ (Thousand barrels per day)					
	3Q 2002 Production	4Q 2002 Production	1/01/02 Quota ²	2002 Production Capacity ³	4Q Surplus Capacity ³
Algeria	903	950	693	1,100	150
Indonesia	1,110	1,095	1,125	1,200	105
Iran	3,390	3,390	3,186	3,850	460
Kuwait ⁴	1,926	1,960	1,741	2,400	440
Libya	1,330	1,330	1,162	1,400	70
Nigeria	1,933	2,033	1,787	2,300	267
Qatar	640	640	562	850	170
Saudi Arabia ⁴	7,749	7,800	7,053	10,000-10,500	2,200-2,700
UAE ⁶	1,980	1,980	1,894	2,600	620
Venezuela ⁷	2,746	2,800	2,497	2,900	100
OPEC 10 Crude Oil Total	23,708	23,978	21,700	28,600-29,100⁵	4,622-5,122⁵
Iraq ⁸	1,742	1,765	N/A	3,050	1,285

OPEC Crude Oil Total	25,450	25,743	N/A	31,650-32,150⁵	5,907-6,407⁵
Other Liquids ⁹	2,751	2,751	N/A		
Total OPEC Production	28,201	28,495	N/A		

NA: Not Applicable

¹Crude oil does not include lease condensate or natural gas liquids.

²Quotas are based on crude oil production only.

³Maximum sustainable production capacity, defined as the maximum amount of production that: 1) could be brought online within a period of 30 days; and 2) sustained for at least 90 days.

⁴Kuwaiti and Saudi Arabian figures each include half of the production from the Neutral Zone between the two countries. Saudi Arabian production also includes oil produced from its offshore Abu Safa field on behalf of Bahrain.

⁵Saudi Arabia is the only country with the capability to further increase its capacity significantly within 90 days. Saudi Arabia can increase its sustainable production capacity to 10 million barrels per day within 30 days and to 10.5 million barrels per day within 90 days. As a result, the estimates for Saudi Arabia are as shown as a range, with the lower figure using the 30 days' definition and the upper end reflecting Saudi Arabia's 90 days' capability. OPEC's surplus capacity estimates are also shown as a range for this reason.

⁶The UAE is a federation of seven emirates. The quota applies only to the emirate of Abu Dhabi, which controls the vast majority of the UAE's economic and resource wealth.

⁷Venezuelan capacity and production numbers exclude extra heavy crude oil used to produce Orimulsion.

⁸Iraqi oil exports are approved by the United Nations under the oil-for-food program for Iraq established by Security Council Resolution 986 (April 1995) and subsequent resolutions. As a result, Iraqi production and exports have not been a part of any recent OPEC agreements. Resolution 986 limited the sale of Iraqi crude oil over six-month periods to specified dollar amounts. However, the Security Council voted to remove any limits on the amount of oil Iraq could export in December 1999.

⁹Other liquids include lease condensate, natural gas liquids, and other liquids including volume gains from refinery processing.

Major Sources of U.S. Petroleum Imports, Jan.-August 2002*

(all volumes in million barrels per day)

	Total Oil Imports	Crude Oil Imports	Petroleum Product Imports
Canada	1.89	1.39	0.50
Saudi Arabia	1.51	1.48	0.03
Mexico	1.50	1.46	0.04
Venezuela	1.39	1.19	0.20
Nigeria	0.60	0.57	0.03
Iraq	0.52	0.52	0.00
United Kingdom	0.46	0.39	0.07
Norway	0.41	0.36	0.05
Angola	0.32	0.31	0.01

Algeria	0.28	0.03	0.25
Total Imports	11.30	9.01	2.29

* Table includes all countries from which the U.S. imported more than 300,000 barrels per day in Jan.-August 2002.

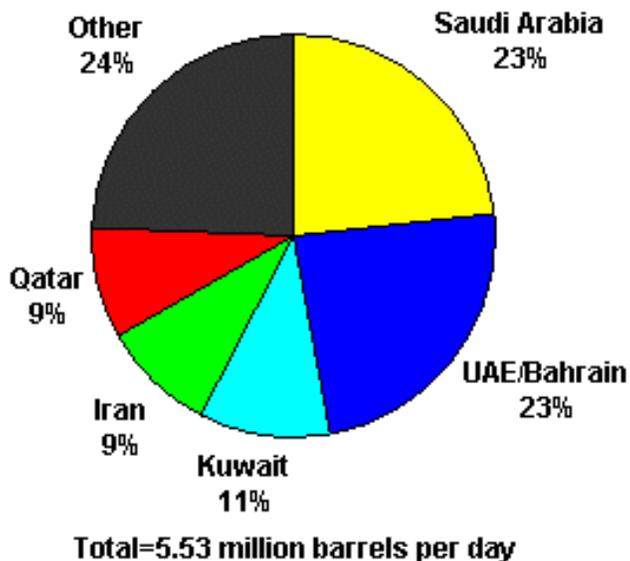
Top World Oil Net Exporters, Jan.-May 2002*		
	Country	Net Exports (million barrels per day)
1)	Saudi Arabia	6.64
2)	Russia	4.81
3)	Norway	3.18
4)	Iran	2.43
5)	Venezuela	2.34
6)	United Arab Emirates	1.92
7)	Nigeria	1.86
8)	Iraq	1.65
9)	Kuwait	1.60
10)	Mexico	1.67
11)	Algeria	1.21
12)	Libya	1.17

*Table includes all countries with net exports exceeding 1 million barrels per day in Jan.-May 2002.

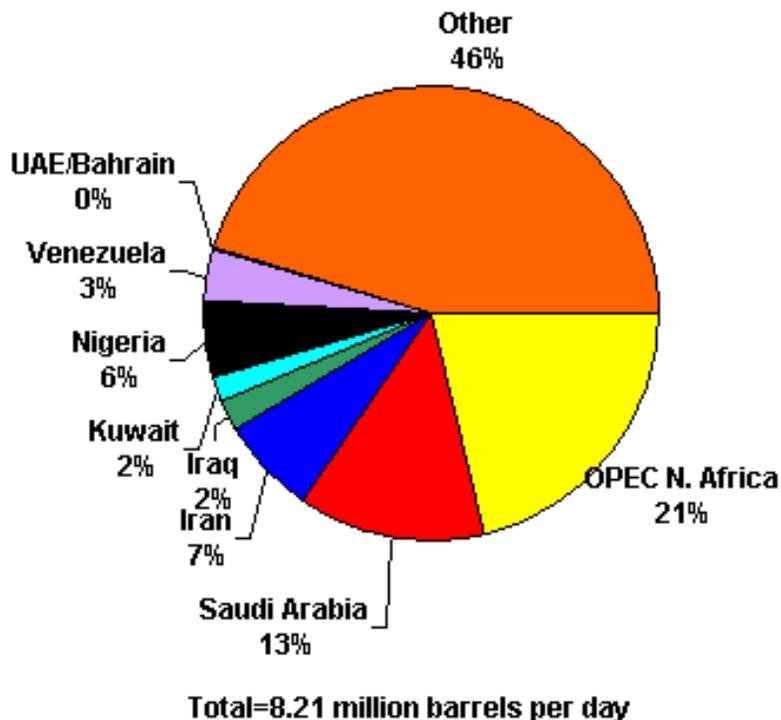
During the first five months of 2002, about half of U.S. crude oil imports came from the Western Hemisphere (17% from South America, 16% from Mexico, 15% from Canada, 2% from the Caribbean), while 27% came from the Persian Gulf region (17% from Saudi Arabia, 8% from Iraq, 2% from Kuwait).

In general, OECD Europe depends far more heavily on the Persian Gulf and North Africa for oil imports than the United States. During the first quarter of 2002, about 25% of OECD Europe's net oil imports came from the Persian Gulf (mainly Saudi Arabia, Iran, Iraq, and Kuwait), around 28% 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, 1Q 2002



OECD European Net Oil Imports by Country, 1Q 2002



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Contact:

Lowell Feld

lowell.feld@eia.doe.gov

Phone: Lowell Feld: (202) 586-9502

Fax: (202) 586-9753

URL: <http://www.eia.doe.gov/emeu/security/esar/esar.html>

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Latest U.S. Weekly Natural Gas Information

(updated October 31, 2002)

[Industry/Market Developments](#)

The Federal Energy Regulatory Commission (FERC) Presents Assessment of the Midwestern Energy Infrastructure: FERC's Office of Market Oversight & Investigations presented its assessment of the Midwestern energy infrastructure on Wednesday, October 30. In the report titled, *Midwestern Energy Infrastructure Assessment*, FERC staff found that adequate pipeline and storage capacity exists to meet market needs in the 15-state Midwestern region, which encompasses the West and East North Central U.S. Census regions, and Oklahoma, Kentucky, and West Virginia. Of the 5.8 Tcf of natural gas consumed in the region during 2000, 2.8 Tcf was produced indigenously, 1.3 Tcf was imported from Canada, and the remainder was shipped principally from states in the Southeast and West. According to FERC staff, total pipeline capacity in the region is roughly 33.8 Bcf per day. Since 2001, five major projects have been certificated, adding 1,914 MMcf per day. One of these projects, Trailblazer, is already in operation, while the others are in various stages of construction. Another three major projects, adding 940 MMcf per day of projected capacity, are pending before the Commission. In addition, six major projects are "on the horizon," which could add up to 5,609 MMcf per day of transportation capacity and 480 MMcf per day of storage deliverability. These additions in pipeline capacity should help meet the increasing demand from the electric generating sector, which is the fastest growing sector in the region. Gas-fired electric generation capacity accounts for 45,000 megawatts (MW) or nearly 18 percent of the electric generation in the region. Another 39,240 MW of new gas-fired generation capacity is planned through the year 2004, nearly 91 percent of new capacity additions for the period.

[Storage](#)

Working gas storage levels reached 3,172 Bcf for the week ended Friday, October 25, according to EIA's *Weekly Natural Gas Storage Report*. Current inventories exceed the 5-year (1997-2001) average by 6.3 percent, down over a percentage point at the national level from last week. Implied net injections for the report week were 11 Bcf, which is nearly 73 percent lower than the 5-year average and about 66 percent less than last year's injection for this week. Early near-winter conditions boosted heating demand, likely contributing to lower-than-average net injections.

All Volumes in Bcf	Current Stocks 10/25/2002	Estimated Prior 5-Year (1997-2001) Average	Percent Difference from 5 Year Average	Implied Net Change from Last Week	One-Week Prior Stocks 10/18/2002
East Region	1,867	1,829	2.1%	8	1,859
West Region	416	360	15.6%	1	415
Producing Region	889	793	12.1%	2	887
Total Lower 48	3,172	2,983	6.3%	11	3,161

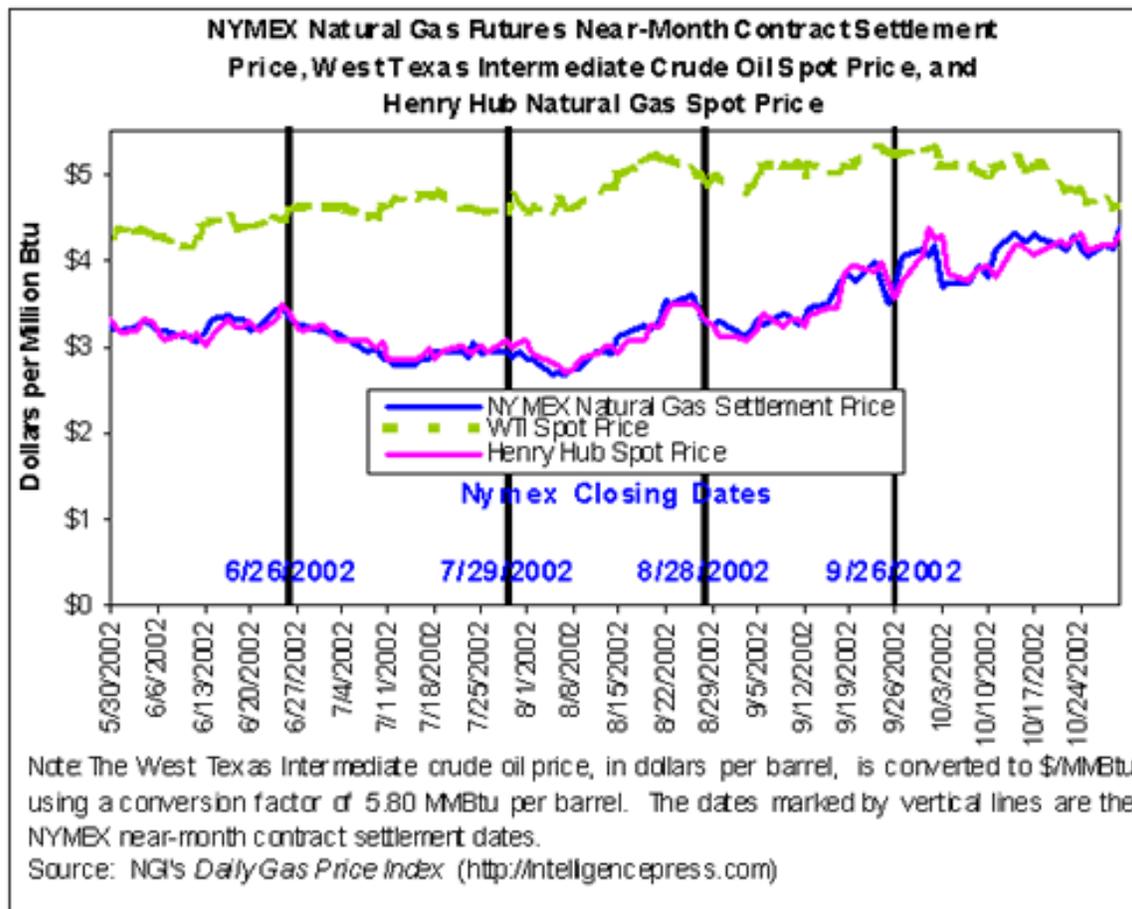
Source: Energy Information Administration: Form EIA-912, "Weekly Underground Natural Gas Storage Report," and the Historical Weekly Storage Estimates Database. Column and/or row sums may not equal totals due to independent rounding.

[Prices:](#)

Spot prices continued to move up, with gains of up to a quarter on Tuesday (October 29) and up to 20 cents per MMBtu

on Wednesday, as already cold temperatures in many high-gas-consuming areas continued to fall over the past two days, further strengthening demand for space heating. At the Henry Hub, the average spot price increased by a cumulative 16 cents per MMBtu since Monday (October 28), reaching \$4.33 per MMBtu in yesterday's (October 30) trading. The largest increases tended to be for Northeast locations, where prices rose from 23 to 42 cents per MMBtu over the past two days. The Transco Zone 6 price for New York delivery rose 15 cents on Tuesday and another 21 cents to reach \$5.16 per MMBtu yesterday-the first over-\$5 price at this location since last May. In the Rockies, a string of 8 straight days of steadily rising prices came to an end yesterday, as prices at most locations lost 10 to 20 cents per MMBtu. Nonetheless, prices in the region remained at their highest levels since last May as well.

On the futures market, the contract for November delivery expired on Tuesday, October 29 with a final settlement price of \$4.126 per MMBtu, recording a net gain of \$0.085 since beginning as the near-month contract on September 27. In trading yesterday, the new near-month contract, for December delivery, began with a gain of just under 13 cents, to settle at \$4.389 per MMBtu.



<i>Trade Date (All prices in \$ per MMBtu)</i>	California Composite Average Price*	Henry Hub	New York City	Chicago	NYMEX futures contract-November delivery	NYMEX futures contract-December delivery	NYMEX futures contract-January delivery
10/3/2002	3.40	4.26	4.97	3.97	3.724	3.959	4.076
10/4/2002	3.07	3.85	4.16	3.68	3.739	3.969	4.086
10/7/2002	3.33	3.77	4.12	3.75	3.740	3.990	4.115
10/8/2002	3.46	3.86	4.21	3.87	3.862	4.120	4.243
10/9/2002	3.48	3.91	4.24	3.94	3.918	4.158	4.265
10/10/2002	3.43	3.94	4.24	3.94	3.828	4.055	4.153
10/11/2002	3.23	3.79	4.05	3.81	4.146	4.336	4.396
10/14/2002	3.82	4.19	4.45	4.23	4.303	4.471	4.521
10/15/2002	3.87	4.20	4.53	4.25	4.247	4.440	4.505
10/16/2002	3.66	4.10	4.39	4.18	4.227	4.422	4.492
10/17/2002	3.68	4.09	4.39	4.19	4.299	4.507	4.572
10/18/2002	3.72	4.11	4.41	4.25	4.239	4.462	4.542
10/21/2002	3.93	4.23	4.59	4.33	4.157	4.378	4.460
10/22/2002	4.00	4.20	4.69	4.34	4.110	4.315	4.403
10/23/2002	4.04	4.24	4.81	4.38	4.260	4.440	4.510
10/24/2002	4.14	4.31	4.85	4.46	4.133	4.300	4.385
10/25/2002	3.97	4.11	4.57	4.26	4.028	4.188	4.278
10/28/2002	4.06	4.17	4.80	4.34	4.176	4.329	4.409
10/29/2002	4.14	4.19	4.95	4.39	4.126	4.261	4.346
10/30/2002	4.25	4.33	5.16	4.48	Expired	4.389	4.457

* Average of NGL's reported average prices for: Malin, PG&E citygate, and Southern California Border Average.

Source: NGL's Daily Gas Price Index (<http://intelligencepress.com>)

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Contact:

Jim Thompson

james.thompson@eia.doe.gov

Phone: Jim Thompson : (202) 586-6201

Fax: (202) 586-4420

URL: <http://www.eia.doe.gov/emeu/security/esar/latng.html>

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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.

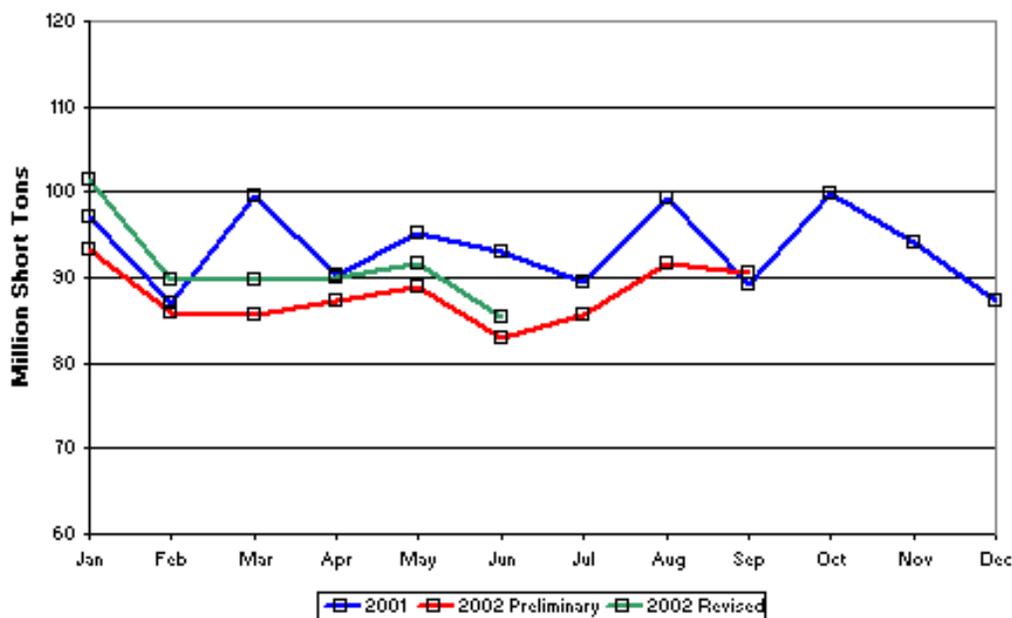
Latest U.S. Coal Information

(updated October 29, 2002)

Coal Production

For the week ended October 19, railcar loadings of coal were 0.7% lower while national coal production was 0.1% above year-ago levels. Year-to-date, estimated western U.S. coal production is 0.5% below the levels of a year ago, whereas eastern U.S. coal production is estimated to be 5.7% below last year's level. The revised production for the first 9 months of 2002 is 845.6 million short tons (mst), 2.9% lower than the 840.0 mst in the first 9 months of 2001. The revised estimate incorporates Mine Safety and Health Administration coal production survey data for the second quarter 2002.

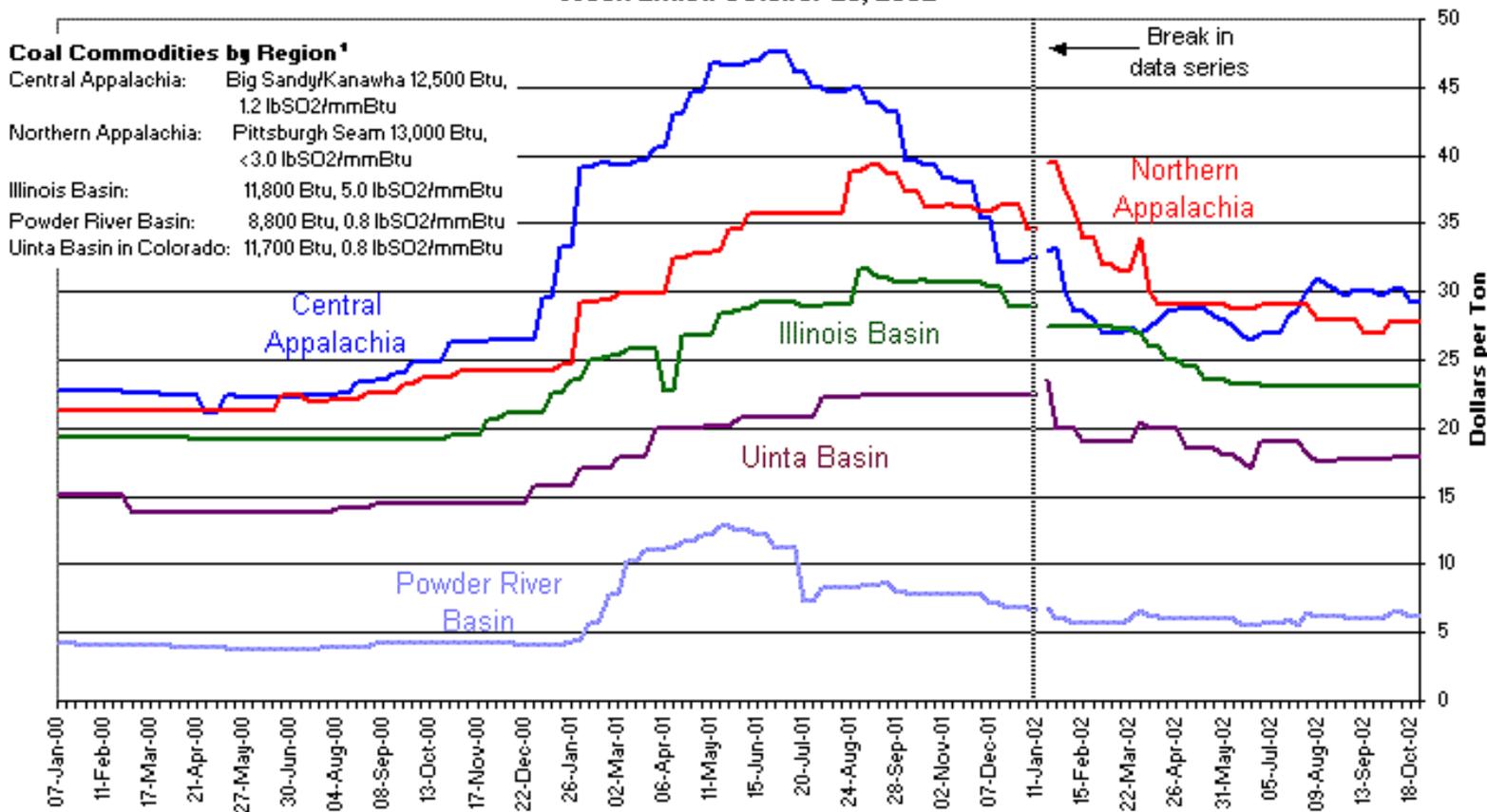
U.S. Monthly Coal Production



Coal Prices

The average spot coal prices tracked by EIA, after strengthening slightly for the week ended October 4, have stalled at or around those levels (graph below). Coal prices are mixed and lacking any clear direction as new buying activity remains tepid. Compared to peak prices in summer 2001, Central and Northern Appalachian coal prices are down by about \$18.50 and \$11.50 per short ton, respectively. Compared to the previous floor in the summer of 2000, prior to the 2001 escalation, the latest indexed spot prices of \$29.25 per short ton for Central Appalachian and \$27.75 per short ton for Northern Appalachian coal are higher by 31% and 30% respectively. Other prices are also running higher than the summer 2000 base: by 30% for the Uinta Basin, 20% for the Illinois Basin, and 67% for the Powder River Basin.

Average Weekly Coal Commodity Spot Prices Week Ended October 25, 2002



¹Prior to January 11, 2002, EIA averaged 12-month "forward" spot prices for several coal specifications; after that date, coal prices shown are for a relatively high-Btu coal selected in each region, for delivery in the "prompt" quarter. The "prompt quarter" is the next calendar quarter, with quarters shifting forward after the 15th of the month preceding each quarter's end.
Source: with permission, selected from listed prices in Platts Coal Outlook, "Weekly Price Survey"

Over-the-counter (OTC) trading volumes on the [NYMEX](#) throughout the months of September and October have been the lowest since the market initiated trade in coal July 2001. The past week saw a small surge in activity—41 trades for the week, all on October 23. The settled price for near-month deliveries rose from \$27.40 to \$28.25, prices for Central Appalachian coal that major producers consider untenable. Market observers termed the transactions last week as "distress sales," not indicative of any change in direction.

Market Trends

At the American Coal Council's 20th annual Coal Market Strategies Conference last week, coal market analysts emphasized the continuing impact of a host of negative factors on coal markets. It was generally agreed that the above normal coal stockpiles at power plants and a number of economically negative issues will keep coal prices and purchases low for the rest of 2002, even if the weather becomes colder than normal. Among the problems depressing the coal industry are some stubborn broader problems such as: the overall economy, failure or bankruptcies among last year's ebullient independent power producers (IPPs) and online energy traders, and post-Enron credit problems for energy producers and for new or innovative coal-based generation.

In addition, the rush by IPPs to build new natural gas-fired units has resulted in a glut of shelved gas-fired generating equipment available at bargain prices. This will make new coal-fired plants—normally larger, more capital-intensive, and requiring more lead time than gas-fired plants to permit and build—less attractive for the next year or more and even harder to finance. Meanwhile, in the wings, preliminary estimates of probable costs of mercury abatement

regulations being considered by the Environmental Protection Agency, are projected to be high for coal. Since final standards have not been promulgated, estimates are speculative, but could add \$2.6 million per year on the low end to \$10.6 million per year on the high end to annualized costs for a 250 megawatt coal-fired power plant. Because of the nature of the mercury and other minerals typically associated with western coal deposits, the higher costs are expected for plants burning western subbituminous coals (presentation by Michael Durham, ADA Environmental Solutions, October 16).

Peabody Energy COO Richard Whiting commented that his company has moved away from the philosophy of producing as much coal as possible at all times to tailoring production to meet demand. That is, they will be return-on-investment-driven rather than cash-flow driven. In the past few years companies like Peabody and Consol used IPOs to get the money needed to pay-down debt, so now they are more focused on profitability. Mr. Whiting also commented that productivity gains will inevitably flatten out. He said that Peabody continues to push mining equipment vendors for better technology, but he is concerned about the lack of capital investment in the industry and the low rates of return.

John Dean of JD Consulting displayed a graph showing productivity at Powder River Basin (PRB) high Btu mines (8800 Btu/lb) peaking in 1998 and declining since. This would reverse the trend, as PRB productivity had been increasing for many years. A representative of Arch coal was pessimistic about the productivity outlook in both the East and West. Key factors are higher stripping ratios in the PRB as mines progress, thinner seams in the East, tighter environmental restrictions in the East, and the introduction of inexperienced new miners in the PRB. The one area he was optimistic about was northern Appalachia, where he believes there is significant opportunity to increase output at the longwall mines by upgrading the conveyor systems that move coal out of the mines.

Would-be buyers have found coal producers generally unwilling to commit beyond existing contracts at current prices. With some eastern mines still off line, supplies of eastern compliance coal have reportedly been tight and most buyers, with still a stockpile cushion, have delayed buys. Citing the high capital costs of opening new coal mines, Consol Energy disclosed on September 24 that the company does not intend to invest in new mines until contract coal prices in Appalachia go above \$30 per short ton and buyers are willing to commit to contracts longer than 2 or 3 years (Energy Argus Coal Daily, September 26). Meanwhile, stock market prices for energy trading companies and some utilities took heavy losses on October 8 and 9 as investors reacted to a new wave of bankruptcy announcements and credit downgrades. As noted above, one effect of these trends is a tightening of new capital, credit, and short-term cash for expansions as well as coal purchases and operating expenses.

For the time being, coal producers continue to keep some capacity offline to stabilize prices, while coal-consuming power plants plan for continuing slack demand. The outlook for delayed growth in electricity demand is reflected in EIA's figures for electricity generation capacity additions: 37.0 gigawatts delayed past 2002 and 5.5 gigawatts canceled (<http://www.eia.doe.gov/cneaf/electricity/page/capacity/capacity.html>). While most of the planned capacity was natural gas-fired, coal-fired plants do not show up because they are longer-term projects.

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Contact:

Bill Watson and Rich Bonskowski

william.watson@eia.doe.gov

richard.bonskowski@eia.doe.gov

Phone: Bill Watson: 202-287-1971; Rich Bonskowski: 202-287-1725

Fax: 202-287-1934

URL: <http://www.eia.doe.gov/emeu/security/esar/latcl.html>

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Latest U.S. Electricity Information

(updated October 31, 2002)

Selected Wholesale Electricity Prices: Spot electricity prices in the Western United States generally increased over the past four trading days as the cooler weather kept demand high. At Mid-Columbia, a benchmark for the Northwest, prices increased 37 percent from \$31.31 per megawatthour on October 24 to \$42.87 per megawatthour on October 30. At COB, prices increased 33 percent during the same time period. Effective November 1, California's new price mitigation rules will replace the current price cap of \$91.87 per megawatthour.

In the Midwest, unexpected cold temperatures kept demand levels and prices high. As a result, prices at Cinergy increased 88 percent from \$20.69 per megawatthour on October 22 to \$38.94 per megawatthour on October 30.

In the Southeast, electricity prices also increased over the past seven trading days as colder temperatures led to higher demand. Since October 22, prices at SERC have steadily increased reaching a seven-day high of \$37.33 per megawatt hour on Oct 29.

With the advent of cooler weather in the Northeast, both natural gas and spot electricity prices have escalated at most trading centers. At PJM West, prices increased 27 percent from \$34.80 per megawatthour on October 24 to \$44.20 per megawatthour on October 30. At NEPOOL, prices steadily increased over the past four trading days and reached a high of \$50.75 on Oct 30. New York Zone J spot electricity prices were stable, but high relative to the rest of the county, over the past seven trading days. New York City prices ranged between \$59.00 and \$62.25 per megawatt hour.

Over the past seven days, the average price at all trading centers ranged between \$37.67 and \$45.90 per megawatthour.

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

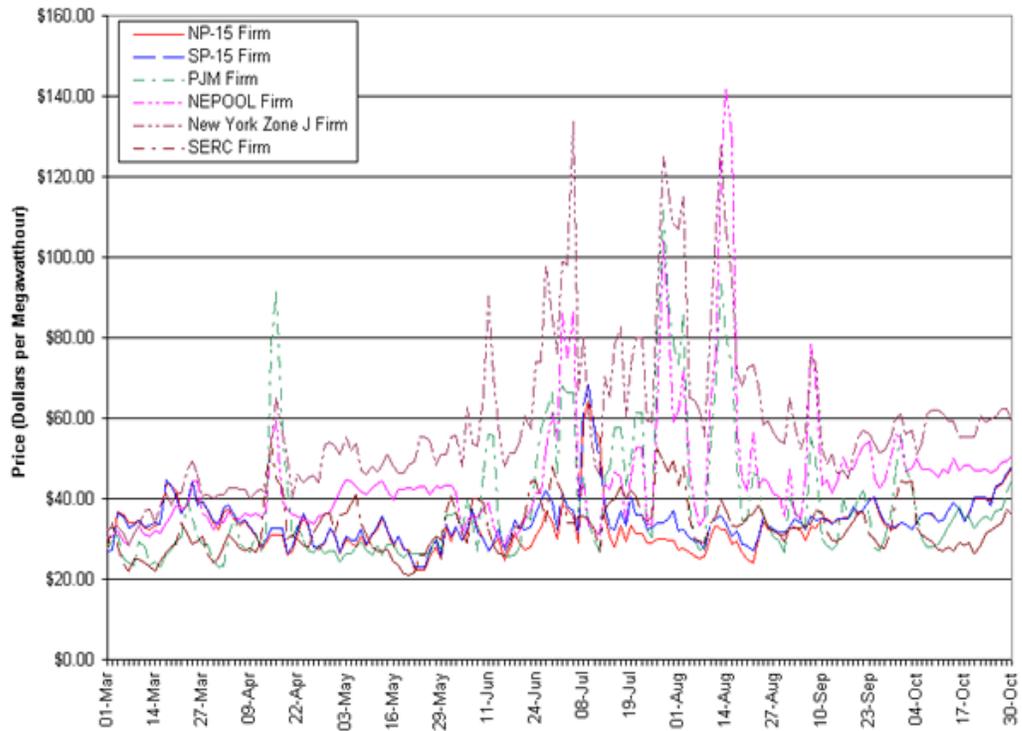
Trading Centers	Date							Price Range		
	10/22/02	10/23/02	10/24/02	10/25/02	10/28/02	10/29/02	10/30/02	Max	Min	Average
COB	37.50	37.50	34.31	37.92	40.13	41.75	45.50	45.50	34.31	39.23
Palo Verde	36.98	36.98	35.69	40.00	39.48	42.20	44.93	44.93	35.69	39.47
Mid-Columbia	34.41	34.41	31.31	33.50	36.53	38.86	42.87	42.87	31.31	35.98
Mead/Marketplace	38.11	38.11	36.67	40.56	42.50	44.00	46.25	46.25	36.67	40.89
4 Corners	37.35	37.35	35.61	39.81	40.57	43.41	46.54	46.54	35.61	40.09
NP 15	40.13	40.13	39.21	42.65	43.71	45.59	47.75	47.75	39.21	42.74
SP 15	40.24	40.24	38.50	42.89	44.09	46.32	48.13	48.13	38.50	42.92
PJM West	34.79	35.56	34.80	37.09	37.29	41.75	44.20	44.20	34.79	37.93
NEPOOL	47.13	47.25	46.25	46.88	49.00	49.50	50.75	50.75	46.25	48.11
New York Zone J	60.75	59.00	59.75	60.50	62.25	62.25	59.00	62.25	59.00	60.50
Cinergy	20.69	26.83	27.83	29.46	30.25	35.63	38.94	38.94	20.69	29.95
SERC	28.28	31.50	32.14	32.92	33.92	37.33	35.91	37.33	28.28	33.14
Average Price	38.03	38.74	37.67	40.35	41.64	44.05	45.90	45.90	37.67	40.91

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

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.

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.
SERC: Average price of electricity traded into the Southeastern Electric Reliability Council.

Average Wholesale Electricity Prices in the U.S.



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Contact:
 William Liggett
william.liggett@eia.doe.gov
 Phone: William Liggett: (202) 287-1727
 Fax: (202) 287-1934

URL: <http://www.eia.doe.gov/emeu/security/esar/latel.html>

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