

# Energy Situation Analysis Report

**Last Updated: November 19, 2002**

**Next Update: November 21, 2002**

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## Latest Oil Market Developments

West Texas Intermediate (WTI) front month (December) crude oil futures on the New York Mercantile Exchange (NYMEX) rose \$1.20 per barrel to settle at \$26.71 per barrel on Monday, November 18, in response to renewed supply concerns related to the possibility of military action against Iraq and OPEC statements indicating that members were taking action to increase compliance with the cartel's production quotas. [more...](#)

## Latest U.S. Weekly EIA Petroleum Information

The U.S. average retail price for regular gasoline fell last week for the second week in a row, decreasing by 3.0 cents per gallon as of November 18 to end at 140.9 cents per gallon. This price is 24.2 cents per gallon higher than last year. Retail diesel fuel prices fell last week for the fourth week in a row, decreasing by 2.2 cents per gallon to a national average of 140.5 cents per gallon as of November 18. Distillate fuel inventories are expected to drop below the normal range this winter and remain low through 2003. [more...](#)

## World Oil Market Highlights

According to fourth quarter 2002 estimates, the world (excluding Iraq) holds as high as 4.9 million barrels per day of excess oil production capacity that could be brought online. Nearly all of this "excess capacity" lies in OPEC member countries. [more...](#)

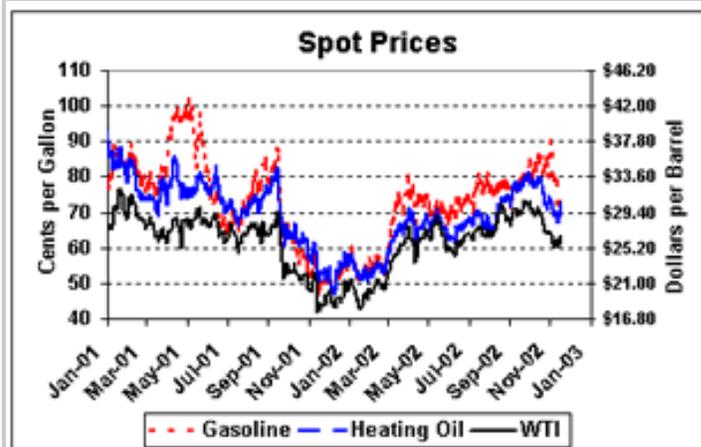
## Latest U.S. Weekly Natural Gas Information

Natural gas spot prices have increased between 20 and 49 cents per MMBtu at most market locations since Wednesday, November 13. Price gains since last Wednesday were driven principally by spikes ranging between 19 and 38 cents per MMBtu on Monday, November 18, due to cooler than expected temperatures

## Energy Prices\*

Petroleum Futures	11/18/02	11/15/02	Change
<b>WTI (\$/Bbl)</b>	<b>26.71</b>	<b>25.51</b>	<b>+1.20</b>
<b>Gasoline (c/gallon)</b>	<b>71.94</b>	<b>69.73</b>	<b>+2.21</b>
<b>Heating Oil (c/gallon)</b>	<b>72.28</b>	<b>68.85</b>	<b>+3.43</b>
Natural Gas (\$/MMBtu)			
<b>Henry Hub</b>	<b>4.18</b>	<b>3.91</b>	<b>+0.27</b>
<b>California</b>	<b>3.87</b>	<b>3.63</b>	<b>+0.24</b>
<b>New York City</b>	<b>4.60</b>	<b>4.30</b>	<b>+0.30</b>
Electricity (\$/Megawatthour)			
<b>COB</b>	<b>35.25</b>	<b>34.32</b>	<b>+0.93</b>
<b>PJM West</b>	<b>35.77</b>	<b>36.56</b>	<b>-0.79</b>
<b>NEPOOL</b>	<b>48.00</b>	<b>48.50</b>	<b>-0.50</b>
<b>Average</b>	<b>37.92</b>	<b>37.47</b>	<b>+0.45</b>

[\\*Definitions](#)



Source: Closing quote as reported by Reuters News Service

and a 6 to 10 day weather forecast by the National Weather Service calling for continued cold temperatures in the Northeast and Mid-Atlantic states through next week. [more...](#)

### Latest U.S. Coal Information

Spot coal prices are in an extended slump. Average Appalachian spot prices declined further in the week ended November 15. Illinois Basin prices also have edged lower. Powder River Basin and Uinta Basin coal prices remain stable. Compared to peak prices in summer 2001, Central and Northern Appalachian coal prices are now about 43% and 32% lower, respectively. [more...](#)

### Latest U.S. Electricity Information

Higher natural gas prices coupled with colder weather contributed to an increase in electricity prices in the Western region over the past few trading days. Northeastern prices also have increased over the past few days as cooler weather moved into the region. In New York City, prices increased \$5.15 per megawatt-hour between November 14 and 18. In the Midwest, electricity prices continued to increase until November 18, when more moderate temperatures lowered customer demand. [more...](#)

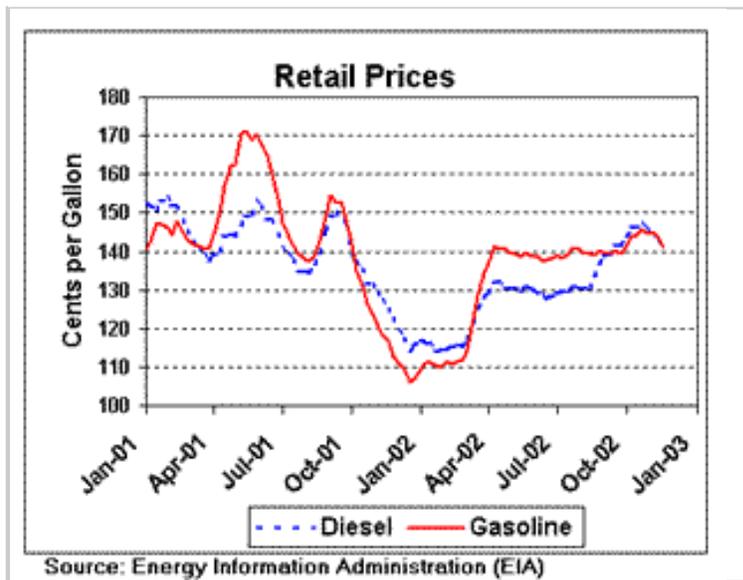
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## Latest Oil Market Developments

(updated November 19, 2002)

West Texas Intermediate (WTI) front month (December) crude oil futures on the New York Mercantile Exchange (NYMEX) rose \$1.20 per barrel to settle at \$26.71 per barrel on Monday, November 18, in response to renewed supply concerns related to the possibility of military action against Iraq and OPEC statements indicating that members were taking action to increase compliance with the cartel's production quotas. The return of United Nations weapons inspectors to Iraq on Monday, as well as incidents of Iraqi anti-aircraft fire on U.S. aircraft patrolling the "no fly zones" in Iraq, appeared to have re-focused the market on the Iraq issue. OPEC Secretary General Rilwanu Lukman said Monday that OPEC members were concerned about the recent decline in compliance with OPEC quotas, and were trying to restrain output. Press reports Tuesday indicated that Saudi Arabia had notified some customers of cutbacks in crude oil supplies for December. Crude oil prices on the NYMEX fell back by 29 cents on Tuesday, November 19, to close at \$26.42.

Topics affecting **world oil markets** include:

- According to press reports citing sources in Iraq's oil industry, Iraq intends to continue its exports under the United Nations "Oil-for-Food" program without interruption. The United Nations Security Council is expected to renew the arrangement for another six-month period this week, ahead of the November 25 expiration of the current phase of the program.
- A tanker carrying fuel oil, the Bahamian-flagged Prestige, split into two sections off the coast of Spain and Portugal on Monday. The aft section sank, and some of the cargo has leaked, creating a large oil slick.
- Demonstrations by opponents of President Hugo Chavez have continued over the last two days in the Venezuelan capital, Caracas. Officials of the state-owned oil company, Petroleos de Venezuela (PdVSA), have reassured customers that they do not expect any disruption of operations. Unions representing PdVSA employees, however, have indicated that they may back calls for a nationwide strike to push opposition demands for early elections.
- As of November 19, 2002, the [U.S. Strategic Petroleum Reserve \(SPR\)](#) contained 592.6 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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## Latest U.S. Weekly EIA Petroleum Information

(last complete update - November 14, 2002)

### Petroleum Inventories

U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) fell by 6.9 million barrels last week, partially reversing increases during the previous four weeks. Nationally, they remain about 29 million barrels below the level last year at this time. In PADD II (Midwest), crude oil inventories rose slightly to 56.3 million barrels, the highest level since September 6, but still near historic lows seen in recent weeks. Distillate fuel inventories fell by 0.5 million barrels, with an increase in low-sulfur distillate fuel (diesel fuel) more than offset by a decline in high-sulfur distillate fuel (heating oil). Distillate fuel inventories remain below the lower limit of the normal range for this time of year. Motor gasoline inventories rose by 1.9 million barrels, and are close to the lower limit of the normal range for this time of year.

Blustery weather in the upper Midwest region contributed to U.S. inventories of propane plummeting by nearly 2.7 million barrels last week. Although inventories ended the week of November 8, 2002 at an estimated 62.0 million barrels, the level continued to cling near the upper limits of the average range for this time of year. As expected, the Midwest stock draw was exceptionally large at 1.6 million barrels, leaving inventories in the region near the bottom of the average range. But East Coast and Gulf Coast inventories were less affected by weather last week with stock draws measuring 0.4 million barrels and 0.6 million barrels, respectively. Inventories in the East Coast and Gulf Coast regions remain at or above the upper limits of their respective average ranges for this time of year.

### Petroleum Imports

U.S. crude oil imports averaged 9.2 million barrels per day, up almost 100,000 barrels per day from the previous week. Crude oil imports have averaged 9.3 million barrels per day over the last four weeks, or about 100,000 barrels per day more than averaged during the same four-week period last year. Total motor gasoline imports (including both finished gasoline and gasoline blending components) averaged 900,000 thousand barrels per day last week, continuing the trend of high levels of motor gasoline imports this year. Distillate fuel imports remained relatively high, averaging over 300,000 barrels per day for the fourth straight week.

Preliminary monthly data on the sources of U.S. crude oil imports in September 2002 were released recently and they show that four countries each exported more than 1.3 million barrels per day of crude oil to the United States that month. The top sources of U.S. oil imports in September 2002 were Saudi Arabia (1.512 million barrels per day), Canada (1.502 million barrels per day), Mexico (1.322 million barrels per day), and Venezuela (1.302 million barrels per day). Rounding out the top ten sources, in order, were Nigeria (0.489 million barrels per day), Angola (0.329 million barrels per day), Norway (0.294 million barrels per day), Kuwait (0.286 million barrels per day), United Kingdom (0.278 million barrels per day), and Colombia (0.263 million barrels per day). Of the 8.796 million barrels per day of crude oil imported into the United States during the month of September 2002, the top four countries accounted for 64% of these imports, while the top ten sources accounted for nearly 86% of all U.S. crude oil imports. Iraqi crude oil imports, which averaged just 0.148 million barrels per day (ranking 12th amongst crude oil import sources) were the lowest monthly average since May 1998, while Russian crude oil imports averaged 0.104 million barrels per day, ranking 13th 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 14.9 million barrels per day during the week ending November 1, an increase of more than 100,000 barrels per day from the previous week, and the highest level since the week ending September 27. Increased crude oil refinery inputs in PADD I (East Coast) and PADD V (West Coast) were partially offset by declines in the other regions. Despite the increase in crude oil refinery inputs, production of motor gasoline and distillate fuel dropped slightly, while jet fuel production increased moderately last week.

### Petroleum Demand

Total product supplied over the last four-week period averaged 19.5 million barrels per day, or about 1.0% less than the level last year. Over the last four weeks, motor gasoline demand is up 3.2%, kerosene-jet fuel demand is up 2.2%, and distillate fuel demand is up 0.4% compared to the same four-week period last year. Excluding other oils demand, which is calculated and not surveyed, petroleum demand is up 1.6% over the last four weeks compared to the same period last year.

### Spot Prices (updated November 19, 2002)

The average world crude oil price on November 15, 2002 was \$22.10 per barrel, down \$1.33 per barrel from the previous week but \$4.75 per barrel more than last year. The spot price for conventional gasoline in the New York Harbor was 72.10 cents per gallon, down 7.35 cents per gallon from last week but 24.05 cents higher than a year ago. The spot price for No. 2 heating oil in the New York Harbor was 68.80 cents per gallon, 0.28 cent per gallon lower than last week but 17.70 cents per gallon more than last year.

### Retail Gasoline and Diesel Fuel Prices Fall Back Last Week (updated November 19, 2002)

The U.S. average retail price for regular gasoline fell last week for the second week in a row, decreasing by 3.0 cents per gallon as of November 18 to end

at 140.9 cents per gallon. This price is 24.2 cents per gallon higher than last year.

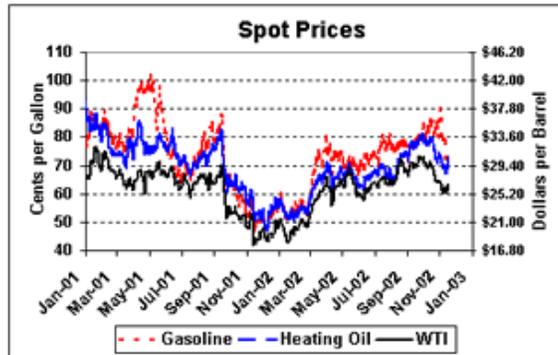
Retail diesel fuel prices fell last week for the fourth week in a row, decreasing by 2.2 cents per gallon to a national average of 140.5 cents per gallon as of November 18. Distillate fuel inventories are expected to drop below the normal range this winter and remain low through 2003, so it is unlikely that prices will decrease significantly in the coming months. Retail diesel prices were down throughout the country, with the largest price decrease occurring in the Rocky Mountain region, which saw the price fall by 3.5 cents per gallon to end at 146.1 cents per gallon.

**Residential Retail Heating Oil Prices Fall**

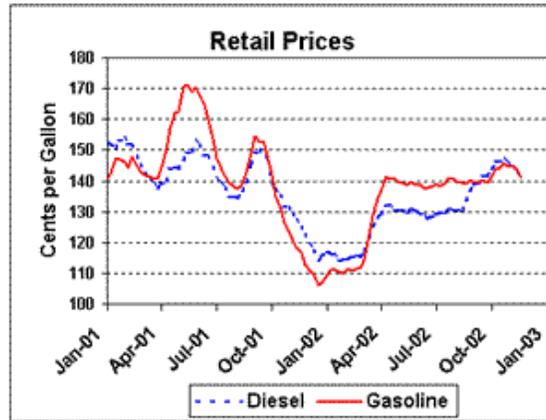
Residential heating oil prices marked their first decline since the start of the heating season. The average price for the period ending November 11, 2002 was 127.2 cents per gallon, down 0.5 cent per gallon. Residential propane prices on the other hand continued to move upward by 0.7 cent per gallon from 115.1 to 115.8 cents per gallon. Heating oil prices are 6.1 cents per gallon higher than last year at this time while residential propane prices are 2.0 cents higher than one year ago. Wholesale heating oil prices decreased 5.0 cents per gallon, to 77.4 cents per gallon. Wholesale propane prices also decreased from 55.2 to 53.7 cents a gallon, down 1.5 cent per gallon.

**U.S. Petroleum Prices**

(updated November 19, 2002)



Source: Closing quote as reported by Reuters News Service



Source: Energy Information Administration (EIA)

**Crude Oil and Oil Products Price Table**

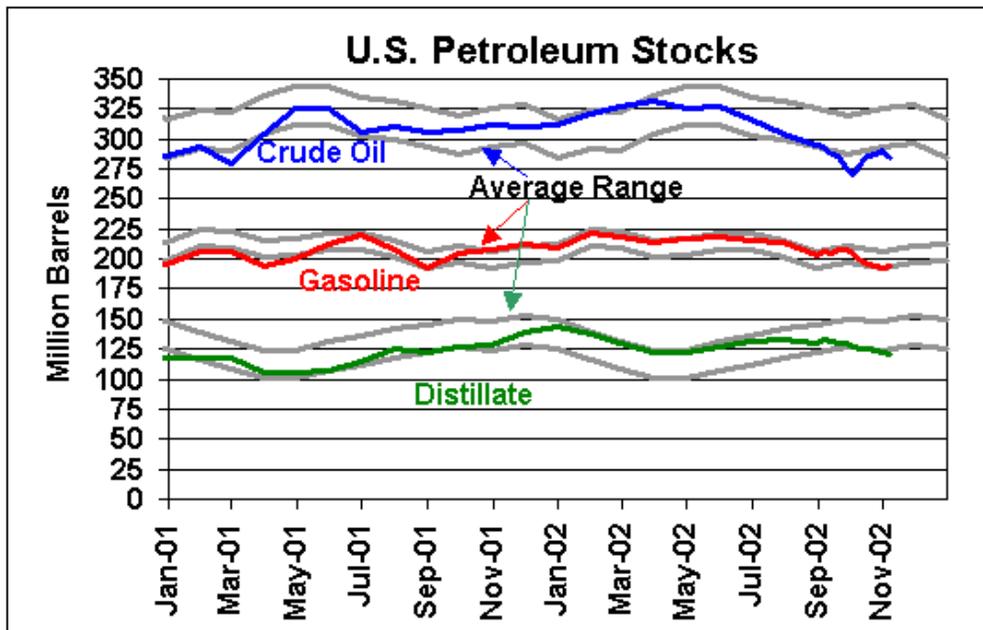
Date	WTI Crude Oil		Gasoline		Heating Oil		Kerojet	Propane		EIA Weekly Retail	
	Spot	Futures	Spot	Futures	Spot	Futures	Spot	Spot	US Average		
	Cushing		NYH		NYH		NYH	MT. Behmieu	Conway	Gasoline	Diesel
	\$/bbl	\$/bbl	cents per gallon		cents per gallon		c/gal	cents per gallon		cents per gallon	
10/1/2002	\$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		
10/31/2002	\$27.18	\$27.22	79.65	86.35	74.50	74.38	77.85	48.25	48.69		
11/1/2002	\$27.04	\$27.13	85.25	76.45	73.90	74.16	76.60	48.38	49.63		
11/4/2002	\$26.89	\$26.95	89.93	77.43	73.08	73.33	75.53	47.88	49.07	144.8	144.2
11/5/2002	\$26.06	\$26.14	86.50	74.07	71.41	71.80	74.33	47.25	48.50		
11/6/2002	\$25.72	\$25.77	80.60	71.78	70.72	70.79	73.50	46.57	47.75		
11/7/2002	\$25.36	\$25.38	78.85	70.14	69.80	69.62	72.35	46.50	47.63		
11/8/2002	\$25.83	\$25.78	79.45	71.28	69.08	68.88	71.03	46.32	47.00		
11/11/2002	\$26.02	\$25.94	79.25	71.04	69.00	68.85	70.90	46.69	46.94	143.9	142.7
11/12/2002	\$26.19	\$25.90	78.20	69.84	69.75	69.01	71.73	46.57	46.82		
11/13/2002	\$25.28	\$25.19	72.00	68.54	67.30	67.25	69.55	45.75	46.00		
11/14/2002	\$25.40	\$25.29	72.23	69.76	67.90	67.69	70.15	45.25	45.57		
11/15/2002	\$25.50	\$25.51	72.10	69.73	68.80	68.85	70.90	46.38	45.82		
11/18/2002	\$26.71	\$26.71	74.20	71.94	72.30	72.28	74.68	47.25	47.75	140.9	140.5

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

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## U.S. Petroleum Supply

(Thousand Barrels per Day)	Four Weeks Ending		vs. Year Ago	
	11/8/2002	11/8/2001	Diff.	% Diff.
<b>Refinery Activity</b>				
Crude Oil Input	14,675	15,002	-327	-2.2%
Operable Capacity	16,800	16,511	290	1.8%
Operable Capacity Utilization (%)	88.4%	92.1%	-3.7%	
<b>Production</b>				
Motor Gasoline	8,409	8,426	-17	-0.2%
Jet Fuel	1,518	1,443	75	5.2%
Distillate Fuel Oil	3,528	3,839	-311	-8.1%
<b>Imports</b>				
Crude Oil (incl. SPR)	9,321	9,238	83	0.9%
Motor Gasoline	843	708	136	19.2%
Jet Fuel	170	73	97	132.1%
Distillate Fuel Oil	346	251	95	38.0%
<b>Total</b>	<b>11,664</b>	<b>11,441</b>	<b>223</b>	<b>1.9%</b>
<b>Exports</b>				
Crude Oil	15	11	5	42.9%
Products	948	939	9	1.0%
<b>Total</b>	<b>963</b>	<b>950</b>	<b>14</b>	<b>1.4%</b>
<b>Products Supplied</b>				
Motor Gasoline	8,940	8,661	279	3.2%
Jet Fuel	1,571	1,538	33	2.1%
Distillate Fuel Oil	3,869	3,853	16	0.4%
<b>Total</b>	<b>19,511</b>	<b>19,717</b>	<b>-206</b>	<b>-1.0%</b>
<b>Stocks (Million Barrels)</b>				
	<b>11/8/2002</b>	<b>11/8/2001</b>	<b>Diff.</b>	<b>% Diff.</b>
Crude Oil (excl. SPR)	283.6	313.0	-29.4	-9.4%
Motor Gasoline	194.0	208.8	-14.8	-7.1%
Jet Fuel	42.3	40.3	2.0	5.0%
Distillate Fuel Oil	121.4	131.3	-9.9	-7.5%
<b>Total (excl. SPR)</b>	<b>978.4</b>	<b>1,033.8</b>	<b>-55.4</b>	<b>-5.4%</b>



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

File last modified: November 19, 2002

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## World Oil Market Highlights

(updated November 12, 2002)

According to fourth quarter 2002 estimates, the world (excluding Iraq) holds as much as 4.9 million barrels per day of excess oil production capacity that could be brought online. Nearly all of this "excess capacity" is located in OPEC member countries.

OPEC Crude Oil Production <sup>1</sup> (Thousand barrels per day)					
	3Q 2002 Production	4Q 2002 Production	1/01/02 Quota <sup>2</sup>	2002 Production Capacity <sup>3</sup>	4Q Surplus Capacity <sup>3</sup>
Algeria	876	900	693	1,100	200
Indonesia	1,112	1,100	1,125	1,200	100
Iran	3,402	3,500	3,186	3,850	350
Kuwait <sup>4</sup>	1,923	1,950	1,741	2,400	450
Libya	1,333	1,340	1,162	1,400	60
Nigeria	1,949	2,000	1,787	2,300	300
Qatar	650	670	562	850	180
Saudi Arabia <sup>4</sup>	7,743	7,933	7,053	10,000-10,500 <sup>5</sup>	2,067-2,567 <sup>5</sup>
UAE <sup>6</sup>	1,987	2,000	1,894	2,600	600
Venezuela <sup>7</sup>	2,733	2,900	2,497	2,950	50
<b>OPEC 10 Crude Oil Total</b>	<b>23,707</b>	<b>24,293</b>	<b>21,700</b>	<b>28,650-29,150<sup>5</sup></b>	<b>4,357-4,857<sup>5</sup></b>
Iraq <sup>8</sup>	1,719	2,232	N/A	2,900	668

<b>OPEC Crude Oil Total</b>	<b>25,426</b>	<b>26,524</b>	N/A	<b>31,550-32,050<sup>5</sup></b>	<b>5,026-5,526<sup>5</sup></b>
Other Liquids <sup>9</sup>	2,761	2,761	N/A		
<b>Total OPEC Production</b>	<b>28,187</b>	<b>29,285</b>	N/A		

NA: Not Applicable

<sup>1</sup>Crude oil does not include lease condensate or natural gas liquids.

<sup>2</sup>Quotas are based on crude oil production only.

<sup>3</sup>Maximum 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.

<sup>4</sup>Kuwaiti 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.

<sup>5</sup> Saudi 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.

<sup>6</sup>The 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.

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

<sup>8</sup>Iraqi 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.

<sup>9</sup>Other 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)

	<b>Total Oil Imports</b>	<b>Crude Oil Imports</b>	<b>Petroleum Product Imports</b>
<b>Canada</b>	1.89	1.39	0.50
<b>Saudi Arabia</b>	1.51	1.48	0.03
<b>Mexico</b>	1.50	1.46	0.04
<b>Venezuela</b>	1.39	1.19	0.20
<b>Nigeria</b>	0.60	0.57	0.03
<b>Iraq</b>	0.52	0.52	0.00
<b>United Kingdom</b>	0.46	0.39	0.07
<b>Norway</b>	0.41	0.36	0.05
<b>Angola</b>	0.32	0.31	0.01
<b>Algeria</b>	0.28	0.03	0.25

<b>Total Imports</b>	11.30	9.01	2.29
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*\* Table includes all countries from which the U.S. imported more than 300,000 barrels per day in Jan.-August 2002.*

<b>Top World Oil Net Exporters, Jan.-Aug. 2002*</b>		
	<b>Country</b>	<b>Net Exports (million barrels per day)</b>
1)	Saudi Arabia	6.10
2)	Russia	4.67
3)	Norway	2.81
4)	Iran	2.35
5)	Venezuela	2.20
6)	Nigeria	1.84
7)	United Arab Emirates	1.72
8)	Iraq	1.45
9)	Kuwait	1.45
10)	Mexico	1.21
11)	Libya	1.12
12)	Algeria	1.04

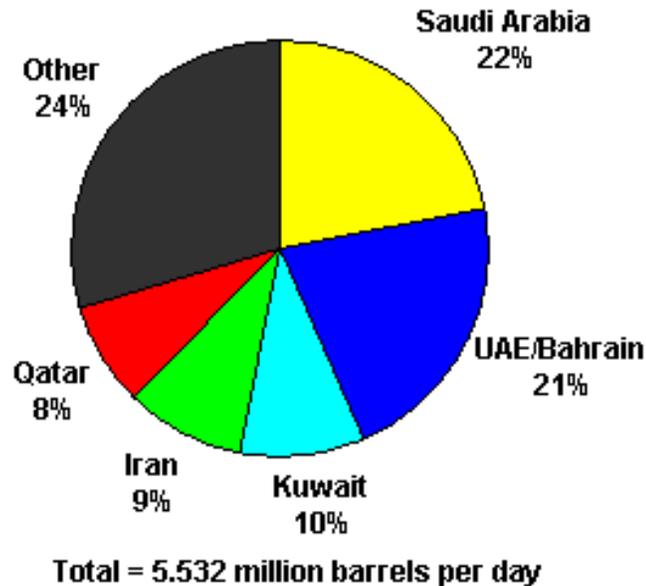
*\*Table includes all countries with net exports exceeding 1 million barrels per day in Jan.-Aug 2002.*

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 does the United States. 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.

*Having provided this information, it is important to stress that oil is a "fungible" (interchangeable, traded on a world market) commodity, that a disruption of oil flows anywhere will affect the price of oil everywhere, and that the specific suppliers of oil to a particular country or region are not of enormous significance, at least from an economic point of view.*

## Japanese Gross Oil Imports by Country, 1H 2002



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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.



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## Latest U.S. Weekly Natural Gas Information

(updated November 19, 2002)

### [Industry/Market Developments](#)

EIA Announces Policy for Revisions to Weekly Natural Gas Storage Report: Following a review of comments received, the Energy Information Administration on November 12, 2002, issued a [Federal Register notice](#) that establishes a policy for revisions to weekly estimates of working gas volumes held in underground storage facilities at the national and regional levels disseminated in EIA's Weekly Natural Gas Storage Report (WNGSR). Under this policy, revisions shall be disseminated in the WNGSR according to the established schedule and shall occur when the effect of reported changes is at least 7 billion cubic feet (Bcf) at either a regional or national level. Revisions shall not be disseminated outside the established schedule. EIA is deferring temporarily further updates in estimation parameters, and is exploring ways to minimize revisions, including analysis of the sensitivity of the estimates to parameter changes. EIA will continue with the current estimation parameters and will report revisions as a result of respondent changes only, until further change is announced in the Weekly Natural Gas Storage Report.

### [Storage](#)

Working gas in storage was 3,097 Bcf, or 2.4% above the 5-year average for the week ending November 8, according to EIA's Weekly Natural Gas Storage Report. During the first full week of the unofficial heating season, the implied net withdrawal was 48 Bcf. The decline in inventories, the second net withdrawal this season, compares with a 5-year average net injection of 19 Bcf for this week and an injection of 35 Bcf last year.

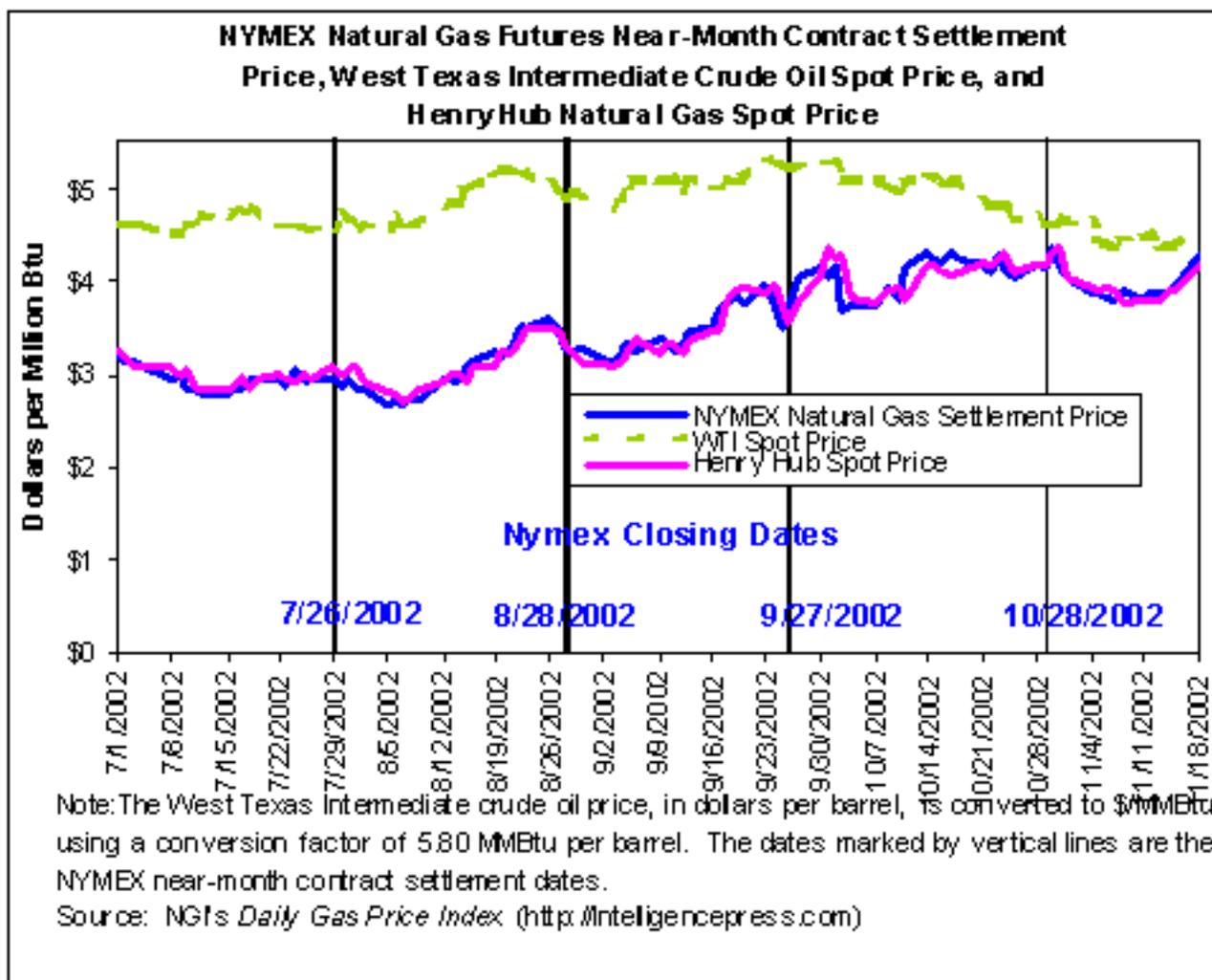
All Volumes in Bcf	Current Stocks 11/8/2002	Estimated Prior 5-year (1997-2001) Average	Percent Difference from 5-Year Average	Implied Net Change from Last Week	One- Week Prior Stocks 11/1/2002
East Region	1,835	1,849	-0.8%	-19	1,854
West Region	410	366	12.0%	-1	411
Producing Region	852	810	5.2%	-28	880
<b>Total Lower 48</b>	<b>3,097</b>	<b>3,024</b>	<b>2.4%</b>	<b>-48</b>	<b>3,145</b>

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

## Prices:

Spot prices have increased between 20 and 49 cents per MMBtu at most market locations since Wednesday, November 13. Price gains since last Wednesday were driven principally by spikes ranging between 19 and 38 cents per MMBtu on Monday, November 18, due to cooler than expected temperatures and a 6 to 10 day weather forecast by the National Weather Service calling for continued cold temperatures in the Northeast and Mid-Atlantic states through next week.

At the NYMEX, the price of the futures contract for December delivery at the Henry Hub has climbed close to 39 cents per MMBtu since Wednesday, November 13, to settle at \$4.263 per MMBtu yesterday (November 18). Likewise, prices of the futures contracts for delivery during the heating season months all gained between 33 and 38 cents per MMBtu since Monday.



<i>Trade Date (All prices in \$ per MMBtu)</i>	<b>California Composite</b>				<b>NYMEX futures contract-December delivery</b>	<b>NYMEX futures contract-January delivery</b>
	<b>Average Price*</b>	<b>Henry Hub</b>	<b>New York City</b>	<b>Chicago</b>		
10/22/2002	4.00	4.20	4.69	4.34	4.315	4.403
10/23/2002	4.04	4.24	4.81	4.38	4.440	4.510
10/24/2002	4.14	4.31	4.85	4.46	4.300	4.385
10/25/2002	3.97	4.11	4.57	4.26	4.188	4.278
10/28/2002	4.06	4.17	4.80	4.34	4.329	4.409
10/29/2002	4.14	4.19	4.95	4.39	4.261	4.346
10/30/2002	4.25	4.33	5.16	4.48	4.389	4.457
10/31/2002	4.33	4.38	4.98	4.41	4.156	4.256
11/1/2002	4.07	4.06	4.52	4.08	4.060	4.165
11/4/2002	3.93	3.94	4.34	3.91	3.863	3.983
11/5/2002	3.88	3.90	4.42	3.92	3.883	3.993
11/6/2002	3.89	3.93	4.44	3.92	3.854	3.971
11/7/2002	3.89	3.91	4.28	3.85	3.831	3.971
11/8/2002	3.70	3.77	4.03	3.72	3.903	4.032
11/11/2002	3.75	3.83	4.14	3.83	3.778	3.910
11/12/2002	3.72	3.83	4.20	3.85	3.872	3.991
11/13/2002	3.70	3.83	4.21	3.86	3.877	3.982
11/14/2002	3.74	3.90	4.25	3.96	3.869	3.984
11/15/2002	3.63	3.91	4.30	3.92	3.981	4.093
11/18/2002	3.87	4.18	4.60	4.20	4.263	4.356

\* 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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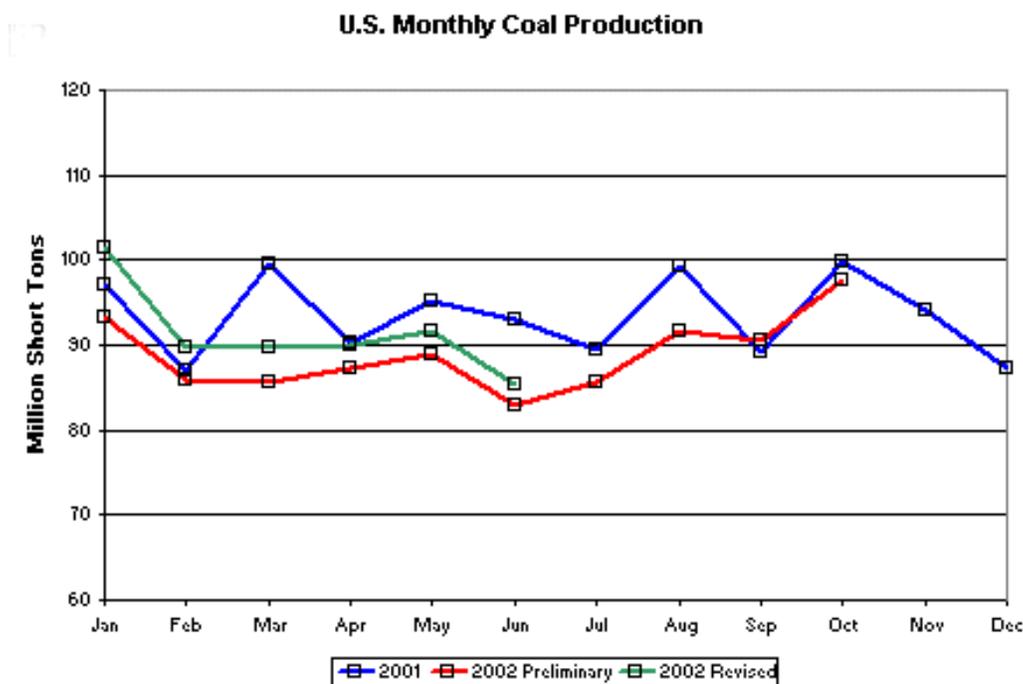
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## Latest U.S. Coal Information

(updated November 19, 2002)

### Coal Production (Updated November 14, 2002)

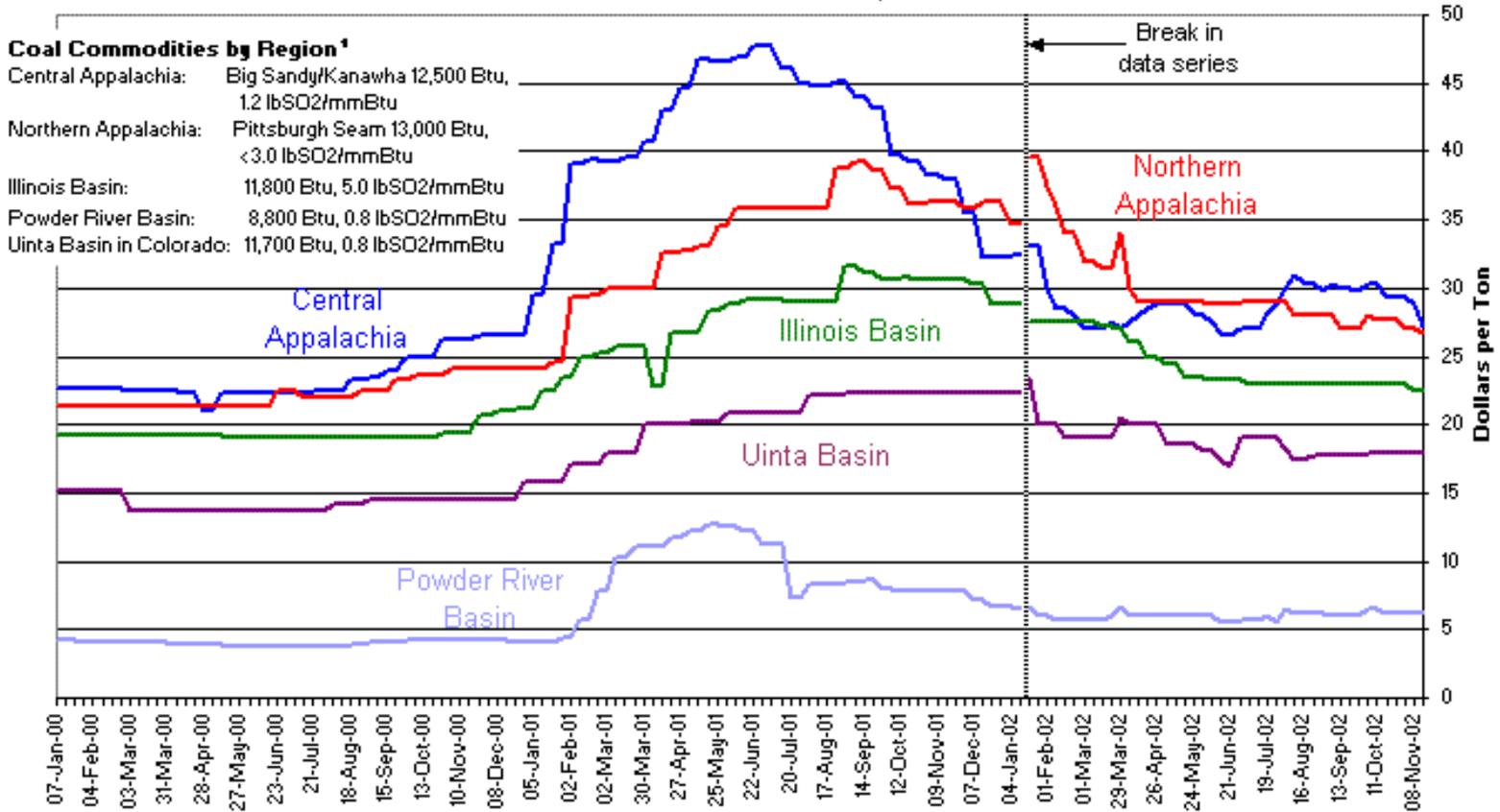
For the week ended November 2, railcar loadings of coal were 7.5% lower while national coal production was 4.5% lower than year-ago levels. Year-to-date, estimated western U.S. coal production is 0.5% below the levels of a year ago, whereas eastern U.S. coal production is estimated to be 5.9% below last year's level. The estimated production for the first 10 months of 2002 is 914.5 million short tons (mmst), 2.7% lower than the 939.9 mmst in the first 10 months of 2001. The estimate incorporates Mine Safety and Health Administration coal production survey data through the second quarter 2002.



### Coal Prices

Spot coal prices are in an extended slump. Average Appalachian spot prices declined further in the week ended November 15. Illinois Basin prices also edged lower (graph below). Powder River Basin and Uinta Basin coal prices remain stable. Compared to peak prices in summer 2001, Central and Northern Appalachian coal prices are now about \$20.00 and \$13.00 lower per short ton, respectively, or 43% and 32% lower. The largest change in percentage is for the Powder River Basin coal, now selling at half of the late Spring 2001 peak (down by \$6.50 per ton, or 51%). Compared to the previous floor low price floor in the summer of 2000, the latest EIA-indexed spot prices of \$27.25 per short ton for Central Appalachian and \$26.65 per short ton for Northern Appalachian coal are higher by only 22% and 25% respectively. Other prices also remain higher than the summer 2000 base: by 30% for the Uinta Basin, 18% for the Illinois Basin, and 67% for the Powder River Basin.

### Average Weekly Coal Commodity Spot Prices Week Ended November 15, 2002



<sup>1</sup>Prior 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 were the lowest since trade was initiated in coal in July 2001. November trading thus far is continuing the trend. The settled prices for near-month deliveries remain around \$28 per ton, prices for Central Appalachian coal that major producers have declared untenable. NYMEX prices for early 2003 are below \$29, with offers rising to \$30 starting in October 2003. Prevailing tepid trade volumes, however, render OTC and NYMEX prices only barely relevant.

#### Market Trends

At the American Coal Council's 20th annual Coal Market Strategies Conference in October, 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 economic concerns will keep coal prices and purchases low for the rest of 2002, even if the weather becomes colder than normal. Meanwhile, according to comments on third quarter performance by Peabody CEO, Irl Engelhardt, many customers are bringing stockpiles down to levels lower than historical norms. Arch Energy president and CEO, Steven Leer, voiced similar observations, noting that Arch estimates that utility stocks are already in line with the same point in 1999, 2000, and 2001. "It is possible . . . that power producers are planning to operate with stockpiles at levels lower than the historical range," he said. If so, "the long run impact is likely to be a positive one for coal producers, as the market moves toward better overall supply-demand balance" (Coal Transportation Report, November 4).

Meanwhile, among the problems currently depressing the coal industry are broad problems such as: the overall economy;

failure or bankruptcies among last year's ebullient independent power producers (IPPs) and online energy traders; low electricity prices and post-Enron credit problems for electric power producers; relatively low gas prices; operational expediencies of combined-cycle natural gas generators, which sometimes keep them online even when coal-fired dispatch would be cheaper; and reluctance of investors to finance new or innovative coal-based generation, with longer lead-times, greater capital requirements, and uncertainties over eventual environmental compliance costs.

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. 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).

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 have taken heavy losses recently due to bankruptcy announcements and credit downgrades. 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. Coal producers continue to keep some capacity offline to stabilize prices, while 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 are similarly affected but not reflected because they are longer-term projects.

### **Coal Producer Issues**

Peabody Energy COO Richard Whiting commented at the Coal Market Strategies Conference 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 raise money needed to pay down debt; now they are more focused on profitability. Mr. Whiting also commented that productivity gains will inevitably flatten out. Peabody continues to push mining equipment vendors for better technology, but he is concerned about a lack of capital investment in the industry and about 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. An Arch coal speaker 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.

### **Coal Import Prospects**

During the 1980s and 1990s, the U.S. coal industry was often its own worst enemy. Hundreds of large and intermediate

coal producers kept much more capacity operational than justified by demand. Hundreds more small producers were on the sidelines ready to fulfill spot and short-term contracts at marginal profits. As a result, coal buyers could shop around and generally find a lower price from a cash-strapped coal producer. Over time, this situation helped extend years of declining real-dollar coal prices. Now, according to a new trade report, Energy Publishing's "Coal Americas," another source of downward pressure on coal prices is in place. It may not be obvious from available 2002 coal import statistics, but foreign coal producers are looking to the United States to expand their markets significantly (Coal Americas, October 21).

Coal Americas' message makes sense. The same major factor EIA believes led to several years of declines in U.S. exports - low international coal prices - has not gone unnoticed by U.S. coal buyers. As fewer, larger leaders in the U.S. industry try to impose market discipline by taking less profitable units off line during the current period of low demand, offshore producers are now vying for a share of the expected market comeback. In 2001, the United States imported nearly 20 mmst of coal, largely from South America - a 58% jump from the 12.5 mmst a year earlier. Imports for January through June 2002 are 7.9 mmst and are on track to reach about 16 mmst, which would still represent growth over the 3-year period.

Energy Publishing lists 18 coal-fired power plants that currently burn at least some imported coal. Nearly every coastal State is represented from Maine to Texas, as well as the Rockport plant in Indiana. The article identifies 46 additional plants situated well to burn imported coal in the future and claims that "the list of U.S. utilities that are eager to explore the possibility of tapping offshore suppliers is continuously growing." As a prime example, the Southern Company with 35,000 megawatts of coal-fired capacity, has long-term contracts in place with American producer Drummond Coal's Colombian operations and has tested Australian and Polish coal. In addition, "valley fill" rulings by U.S. District Judge Charles Haden last summer, which have placed new mining permits in West Virginia on hold, could affect mines supplying both metallurgical coal and premium steam coal. An ongoing legal dispute over overweight coal haul trucks, also in West Virginia, is another factor whose outcome could raise operating costs and prices for domestic coal.

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## Latest U.S. Electricity Information

(updated November 19, 2002)

**Selected Wholesale Electricity Prices:** Higher natural gas prices coupled with colder weather contributed to an increase in electricity prices in the Western region over the past few trading days. Palo Verde prices increased 16% between November 14 and 18; COB's prices increased almost 10% to \$35.25 per megawatthour during the same time period. On the other hand, prices at the Mid-Columbia trading center, a benchmark price for the U.S. Northwest, were relatively stable, ranging from \$27.44 to \$29.59 per megawatthour.

In the Midwest, electricity prices continued to increase until November 18, when more moderate temperatures lowered customer demand. After reaching a seven-day high of \$30.10 per megawatthour on November 15, prices at the Cinergy Trading Center decreased \$1.52 per megawatthour the following trading day, November 18.

In the Southeast, electricity prices increased over the past six trading days as cooler weather led to increased customer demand. Within SERC, prices increased nearly 20% to \$31.38 per megawatthour on November 18.

Northeastern prices also have increased over the past few days as cooler weather moved into the region. In New York City, prices increased \$5.15 per megawatthour between November 14 and 18. New England's electricity prices followed a similar pattern, increasing \$5.75 per megawatthour on November 15. PJM prices jumped approximately \$4.00 from November 14 to November 15.

Over the past seven days, average prices at all trading centers ranged between \$34.85 and \$37.92 per megawatthour with an overall weekly average of \$36.55 per megawatthour.

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

Trading Centers	Date							Price Range		
	11/8/02	11/11/02	11/12/02	11/13/02	11/14/02	11/15/02	11/18/02	Max	Min	Average
COB	32.50	32.50	34.27	35.61	31.92	34.32	35.25	35.61	31.92	33.77
Palo Verde	34.13	34.13	35.20	34.15	27.64	30.65	32.05	35.20	27.64	32.56
Mid-Columbia	28.56	28.56	30.41	32.06	27.44	29.59	29.43	32.06	27.44	29.44
Mead/Marketplace	36.55	36.55	38.25	38.00	33.17	35.01	35.68	38.25	33.17	36.17
4 Corners	34.81	34.81	36.30	35.39	28.25	31.50	32.19	36.30	28.25	33.32
NP 15	39.38	39.38	40.51	41.47	39.26	38.68	39.94	41.47	38.68	39.80
SP 15	40.27	40.27	39.95	41.22	38.19	39.09	40.25	41.22	38.19	39.89
PJM West	28.01	28.16	34.44	35.39	32.59	36.56	35.77	36.56	28.01	32.99
NEPOOL	45.75	45.25	45.71	44.50	42.75	48.50	48.00	48.50	42.75	45.78
New York Zone J	61.00	61.00	63.38	61.35	61.35	64.50	66.50	66.50	61.00	62.73
Cinergy	18.15	19.50	21.46	24.52	26.66	30.10	28.58	30.10	18.15	24.14
SERC	26.39	24.74	26.11	27.29	29.02	31.10	31.38	31.38	24.74	28.00
<b>Average Price</b>	35.46	35.40	37.17	37.58	34.85	37.47	37.92	37.92	34.85	36.55

**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](http://www.bloomberg.com)).

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

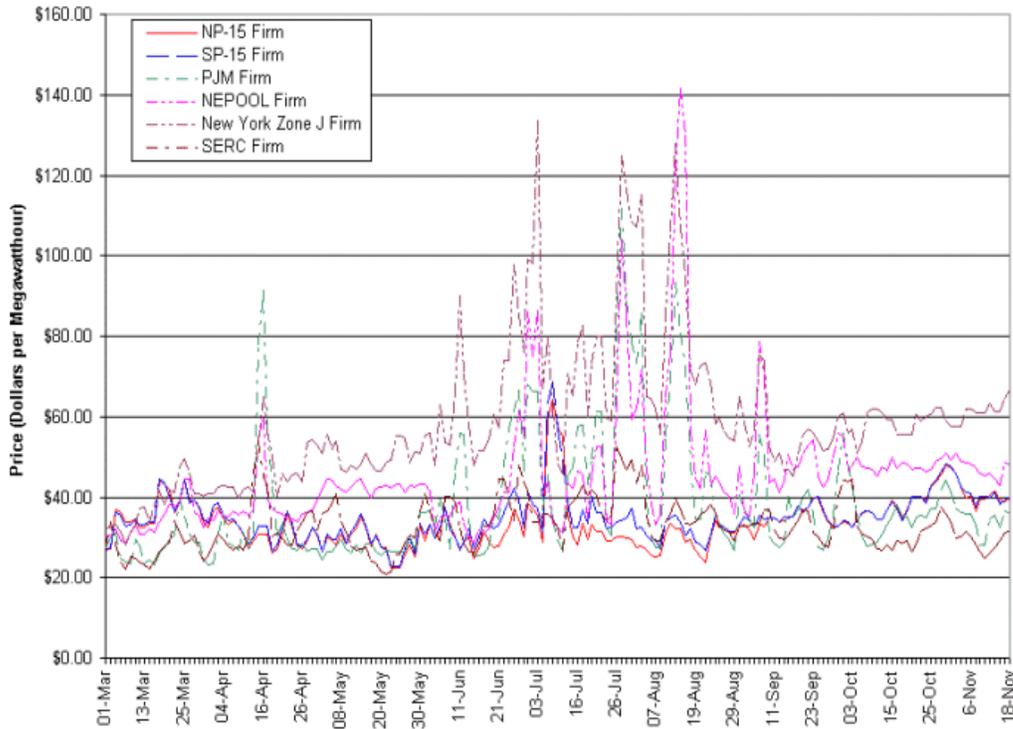
**Cinergy:**

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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