

Energy Situation Analysis Report

Last Updated: December 30, 2002

Next Update: January 7, 2003

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Latest Oil Market Developments

Prior to today's trading, West Texas Intermediate (WTI) front month (February) crude oil futures prices on the New York Mercantile Exchange (NYMEX) had risen to their highest levels in more than two years as a strike that crippled petroleum exports from [Venezuela](#) entered its fifth week with no sign of resolution. WTI prices settled at \$32.72 per barrel on Friday, December 27, up around \$6 per barrel since early December. However, WTI was down sharply (\$1.35 per barrel) in today's trading following early morning gains, as OPEC reportedly indicated its intention to make up supply losses from Venezuela. [more...](#)

Latest U.S. Weekly EIA Petroleum Information

The U.S. average retail price for regular gasoline rose for the second week in a row last week, increasing by 3.8 cents per gallon as of December 23 to end at 140.1 cents per gallon. This price is 32.9 cents per gallon higher than last year. Prices throughout most of the country were up, with the largest increase occurring in the Midwest, where prices rose 7.0 cents to end at 139.2 cents per gallon. Heating oil prices are 21.4 cents per gallon higher than last year at this time. [more...](#)

World Oil Market Highlights

According to fourth quarter 2002 estimates, the world (excluding Iraq) holds as much as 4.8 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...](#)

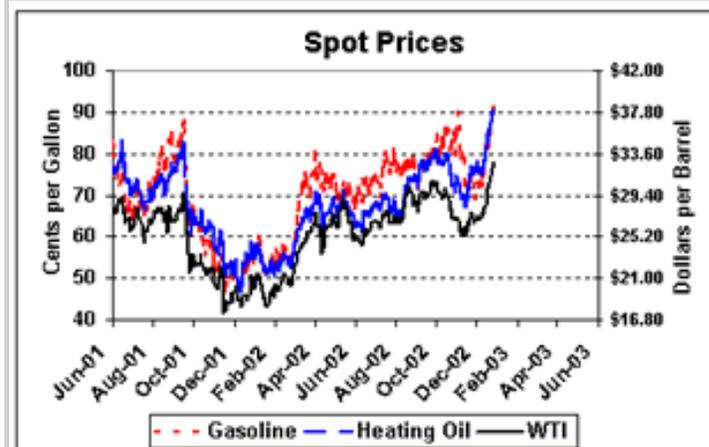
Latest U.S. Weekly Natural Gas Information

Natural gas spot prices fell from 10 to 40 cents per MMBtu at all market locations last week. In addition to the effect of the typical slackening of demand associated

Energy Prices*

Petroleum Futures			
(near month)	12/27/02	12/26/02	Change
WTI (\$/Bbl)	32.72	32.49	+0.23
Gasoline (c/gallon)	93.25	92.97	+0.28
Heating Oil (c/gallon)	90.79	90.91	-0.12
Natural Gas (\$/MMBtu)			
Henry Hub	4.78	5.00	-0.22
California	4.58	4.86	-0.28
New York City	5.39	6.01	-0.62
Electricity (\$/Megawatthour)			
COB	44.75	36.00	+8.75
PJM West	37.06	30.16	+6.90
NEPOOL	52.25	51.52	+0.73
Average	43.23	40.81	+2.42

[*Definitions](#)



with holiday and weekend periods, prices were further depressed by warming temperatures toward the end of the week, particularly in the Mid-Atlantic and parts of the Northeast and Midwest regions. In trading on Friday, December 27, the average spot price at the Henry Hub had declined 27 cents from the previous Friday, to \$4.78 per MMBtu. [more...](#)

Latest U.S. Coal Information

It appears that spot coal prices will close out the year mixed—some up, some down, and some remaining flat—but overall, with no clear direction. Of the average spot prices indexed by EIA, the Central Appalachian coal price inched up and the Illinois Basin price remained unchanged but low, whereas the Northern Appalachian and Powder River Basin prices declined and the Uinta Basin price plunged by more than a dollar per short ton (a 6% drop from the week earlier). Compared to peak prices in summer 2001, Central and Northern Appalachian coal prices are about \$17.50 and \$13.00 lower per short ton, respectively, or 37% and 33% lower. [more...](#)

Latest U.S. Electricity Information

With some exceptions, many trading centers experienced a drop in spot electricity prices over the Christmas holiday in anticipation of reduced demand. After Christmas, prices returned to a more normal level. In California for example, prices at the California Oregon Border (COB) plummeted to \$36.00 per megawatthour on December 26, but jumped to \$44.75 per megawatthour the next day. [more...](#)

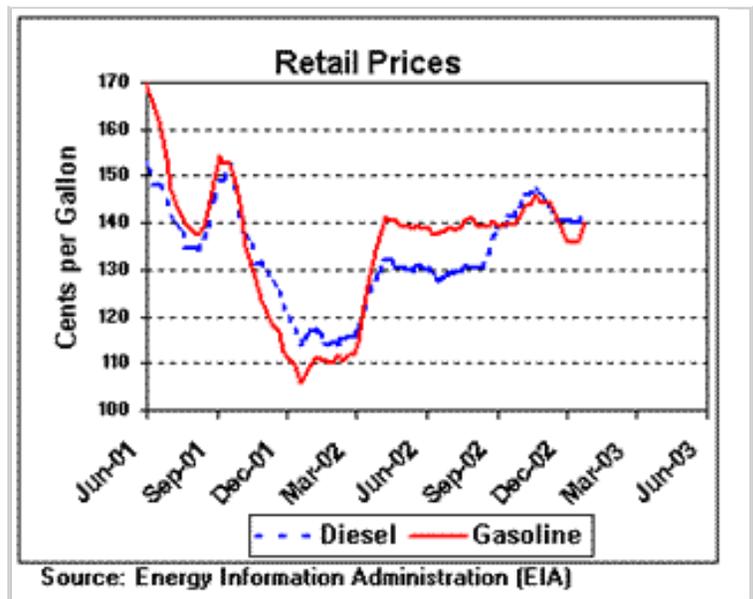
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Special Topic -- Basic Facts on Venezuela

(updated December 17, 2002)

Venezuela, OPEC's only member located in the Western Hemisphere, produced about 2.9 million barrels per day of oil (total liquids) on average during the first nine months of 2002, representing almost 4% of total world oil production. By November, Venezuelan crude oil production was an estimated 400,000 barrels per day above its quota level of 2.5 million barrels per day.

Venezuela has also been one of the 5 largest oil exporters in the world, with net exports averaging 2.4 million barrels per day through the first 3 quarters of 2002. Venezuela's has ranked consistently as the last several years as one of the four top sources of U.S. oil imports (along with Canada, Mexico, and Saudi Arabia). Venezuelan exports to the U.S. peaked in 1997 at about 1.8 million barrels per day. In 1997, Venezuelan imports accounted for over 17% of total U.S. imports, compared to 12% during the first nine months of 2002.

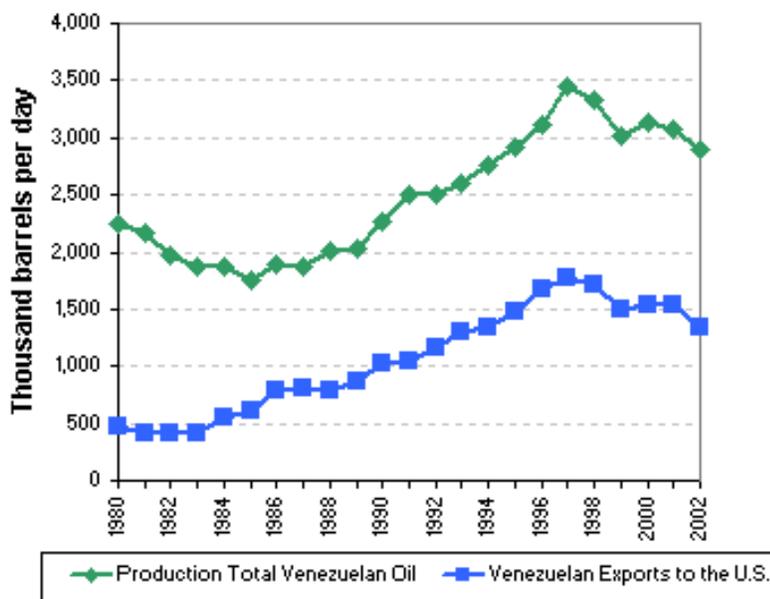
During the first nine months of 2002, oil from Venezuela supplied approximately 14% of U.S. net oil imports and ranked as the fourth largest source of U.S. oil imports (behind Canada, Saudi Arabia, and Mexico). The United States imported 1.5 million barrels per day of oil from Venezuela during this period. In addition to oil imported directly from Venezuela, the United States also imports oil products (i.e., motor gasoline, heating oil) refined in the Caribbean. The United States imports around 300,000 barrels per day of refined products from the Caribbean, of which roughly 200,000 barrels per day is refined from Venezuelan crude oil. Including this (see table), Venezuela supplies about 15% of U.S. net oil imports, about 15% of net gasoline imports, about 66% of net distillate imports, and about 276% of residual net fuel imports (total net residual fuel imports are small due to relatively high export volumes resulting in a large percentage).

Much of Venezuela's exports to the United States are destined for refineries operated by Citgo, a subsidiary of PdVSA, the Venezuelan national oil company. Over two-thirds of Venezuelan oil exports to the United States arrive at U.S. Gulf Coast facilities.

The U.S. East Coast region (Petroleum Administration for Defense District I, or PADD I) imported 238,000 barrels per day of oil from Venezuela. This represented approximately 8.5% of total PADD I net oil imports over that period. During the same nine months, U.S. PADD III (the Gulf Coast region) imported 1.1 million barrels per day of oil from Venezuela, making up approximately 19% of total PADD III net oil imports.

The U.S. Gulf Coast is particularly reliant on Venezuelan crude oil. During the first nine months of 2002, crude oil imports from Venezuela accounted for 21% of the Gulf Coast region's total crude oil imports. This compares to only 7% dependence

Venezuelan Oil Production and Exports, 1980-2002*



*Production and export data for 2002 are through September 2002. Production data includes both crude oil and other liquids. Export data include both crude oil and refined products.

on Venezuelan crude oil for the East Coast region. The reason for this difference is mainly that the Gulf Coast is a major crude oil refining center, while the East Coast is more of a consuming region.

For refined products, the East Coast receives 57% of its asphalt and road oil, 21% of its jet fuel, and 15% of its distillate imports from Venezuela. Apart from crude oil, the Gulf Coast relies on Venezuelan imports most heavily for naphtha and petrochemical feedstock (17%), unfinished oils (12%), and gasoline blending components (8%).

**Total U.S. Dependency on Venezuelan Crude Oil	2001			2002 (Jan-Sep)		
	Imports	% of Net Imports	% of Product Supplied	Imports	% of Net Imports	% of Product Supplied
Crude Oil *	1291	13.9%	8.5%	1201	13.4%	8.0%
Gasoline (incl. Blending components)	139	22.8%	1.6%	105	15.2%	1.2%
Distillate Fuel	100	44.5%	2.6%	72	66.2%	1.9%
Residual Fuel	80	76.9%	9.8%	43	275.6%	6.8%
Other Products	<u>158</u>			<u>167</u>		
Total Oil	1768	16.2%	9.0%	1588	15.4%	8.1%
* Crude oil product supplied is defined as crude oil refinery inputs.						
** Calculated using 100% of Venezuela imports, 50% of Virgin Island imports and 100% of Netherlands Antilles imports based on estimates on the share of Venezuelan crude oil used in these countries.						

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Latest Oil Market Developments

(updated December 30, 2002)

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According to Venezuela's state oil company, PdVSA, oil exports rose last week to around 520,000 barrels per day. If true (and dissident PdVSA officials dispute the claim, pegging Venezuelan crude oil production at only 200,000 barrels per day), this would represent a doubling from the previous week, but still far below the November export level of 2.7 million barrels per day. Meanwhile, Lyondell-Citgo Refining said this past Friday that it would cut output at its 270,000-barrel-per-day refinery in Pasadena, Texas by an additional 70,000 barrels per day, on top of a previous 60,000-barrel-per-day cut, due to a lack of crude oil from Venezuela. PdVSA's 940,000-barrel-per-day Amuay-Cardon plant, has been virtually stopped by the strike, while the PdVSA-owned Isla Refinery in Curacao reportedly shut down this past Friday. Over this past weekend, Venezuela received an emergency shipment of gasoline (reportedly 525,000 barrels) from Brazil as domestic product supplies run out.

In addition to Venezuela, oil prices have been pushed higher in recent weeks by continued fears that a war with Iraq could affect Middle Eastern oil supplies as well. Last week, Defense Department officials were quoted as saying that Secretary of Defense Donald Rumsfeld had signed deployment orders for two aircraft carrier groups and two amphibious assault groups to head to the Persian Gulf region. Oil markets fear that if a war with Iraq were to occur while the stoppage in Venezuelan oil exports continued, this could push the world's spare oil output capacity (around 4.2-4.7 million barrels per day, not including Iraq or Venezuela) to its limit. Around 85% of the world's spare oil production capacity lies in the Persian Gulf region, particularly Saudi Arabia (2-2.5 million barrels per day), the UAE (around 600,000 barrels per day), Kuwait (460,000 barrels per day), and Iran (350,000 barrels per day). Outside of the Persian Gulf, the largest source of excess production capacity lies in Nigeria (300,000 barrels per day) and Algeria (167,000 barrels per day).

Other issues related to **world oil markets** include:

- A senior OPEC delegate was quoted Monday by *Reuters* as saying that OPEC was set to increase

production by mid-January in order to compensate for lost Venezuelan oil supplies and to keep prices within the the OPEC \$22-\$28 per barrel target range. The delegate was quoted as indicating "a clear commitment that the [price band] mechanism will be implemented immediately."

- Kuwait's Oil Minister, Ahmed Fahd al-Ahmed al-Sabah, said Sunday that OPEC would meet "if the price [of oil] stays high." Previously, Saudi Arabian Oil Minister Ali Naimi had stated that OPEC's price band mechanism could be implemented if need be ("We have said many times that we are very careful about preventing shortages, very careful about stabilizing the market and we're dedicated to a fair price"). Obaid bin Saif Al-Nasseri, oil minister of the United Arab Emirates, also has stated that OPEC might consider activating its price band mechanism after holding discussions.
- The general strike in Venezuela, which began on December 2, entered its 28nd day today (12/30/02). Venezuelan President Chavez said Sunday that he had "no plans to back down." Increasingly, oil industry analysts are raising concerns that the prolonged strike in Venezuela could result in lasting damage to the country's oil infrastructure. According to a *J.P. Morgan* report, "[the] longer the Venezuelan disruption continues, the longer it will take to restore operations, and the more likely it is that capacity will have been permanently impaired." In particular, some analysts believe that it could take months to build up sufficient wellhead pressure to get Venezuela's heavy oil output (which makes up more than half of the country's total production) flowing again. This would imply that Venezuelan oil output would not return to pre-strike levels for months to come, even if the strike ends soon.
- On the other hand, Venezuela's Oil Minister, Rafael Ramirez, said today that his country's oil output should return to normal by the end of January. Ramirez stated that "By next week, production should stand at 1.2 million barrels per day and I think we can reestablish all operations within a month."
- Secretary of State Colin Powell stated on Sunday that "if the coalition of forces goes into [Iraqi] oil fields, we would want to protect those fields and make sure they are used to benefit the people of Iraq." Meanwhile, Kuwait's Oil Minister, Ahmad Fahad al-Sabah, said that in the event of any war with Iraq, "I can guarantee that [oil] production will continue, exports will continue."
- As of December 24, 2002, the [U.S. Strategic Petroleum Reserve \(SPR\)](#) contained 598.8 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 December 30, 2002)

Petroleum Inventories

U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) rose by 0.7 million barrels last week, but are 24.7 million barrels below the level last year at this time. A decline of 3.0 million barrels in PADD III (Gulf Coast) was more than offset by a similar-sized increase in PADD V (West Coast) and a 1.0-million-barrel increase in PADD 2 (Midwest). Distillate fuel inventories increased by 0.2 million barrels, with an increase in low-sulfur distillate fuel (diesel fuel) largely offset by a decline in high-sulfur distillate fuel (heating oil). However, distillate fuel inventories remain below the lower limit of the normal range for this time of year. Meanwhile, motor gasoline inventories rose by 2.3 million barrels, and are 5.4 million barrels lower than a year ago.

U.S. inventories of propane dropped solidly last week, reflecting colder weather that blanketed many regions of the nation. The 2.4-million-barrel stock draw pushed U.S. inventories down to an estimated 52.9 million barrels as of the week ending December 20, 2002, a level that remains within the average range for this period. Nearly all regions saw declines last week, led by a 1.7-million-barrel drop in the Gulf Coast region.

Petroleum Imports

U.S. crude oil imports (including imports going into the Strategic Petroleum Reserve) averaged 9.1 million barrels per day, down nearly 300,000 barrels per day from the previous week. Crude oil imports have averaged 9.5 million barrels per day over the last four weeks, or about 500,000 barrels per day more than averaged during the same four-week period last year. Although weekly crude oil import data are very preliminary and thus not published, it appears that the strikes in Venezuela have reduced crude oil imports from that country significantly, only partially offset by increased imports from elsewhere. Meanwhile, total motor gasoline imports (including both finished gasoline and gasoline blending components) averaged over 1 million barrels per day last week, for the first time since the week ending November 1. Distillate fuel imports averaged about 400,000 barrels per day last week, down more than 200,000 barrels per day from the week before.

Refinery Inputs and Production

U.S. crude oil refinery inputs averaged 14.6 million barrels per day during the week ending December 20, a decrease of 200,000 barrels per day from the previous week. The decline occurred largely in PADD III (Gulf Coast), with smaller, offsetting changes in the other regions. Despite the drop in inputs, refinery output for motor gasoline and jet fuel rose, while distillate fuel production was lower than in the previous week.

Petroleum Demand

Total product supplied over the last four-week period averaged nearly 20.1 million barrels per day, or about 5.0 percent more than the same period last year. Over the last four weeks, motor gasoline demand is up 2.3 percent, kerosene-jet fuel demand is up 14.8 percent, and distillate fuel demand is up 11.4 percent compared to the same four-week period last year.

Spot Prices (updated December 31, 2002)

The average world crude oil price on December 27, 2002 was \$28.95 per barrel, up \$1.69 per barrel from the previous week and \$10.26 per barrel more than last year. The spot price for conventional gasoline in the New York Harbor was 90.78 cents per gallon on Friday, December 27, up 6.23 cents per gallon from last week and 35.25 cents per gallon higher than a year ago. The spot price for No. 2 heating oil in the New York Harbor was 90.18 cents per gallon, 4.53 cents per gallon higher than last week and 34.13 cents per gallon more than last year.

Retail Gasoline and Diesel Fuel Prices (updated December 31, 2002)

The U.S. average retail price for regular gasoline rose for the third week in a row last week, increasing by 4.0 cents per gallon as of December 30 to end at 144.1 cents per gallon. This price is 34.5 cents per gallon higher than last year. Prices throughout the country were up, with the largest increase occurring in the Midwest, where prices rose 5.8 cents to end at 145.0 cents per gallon.

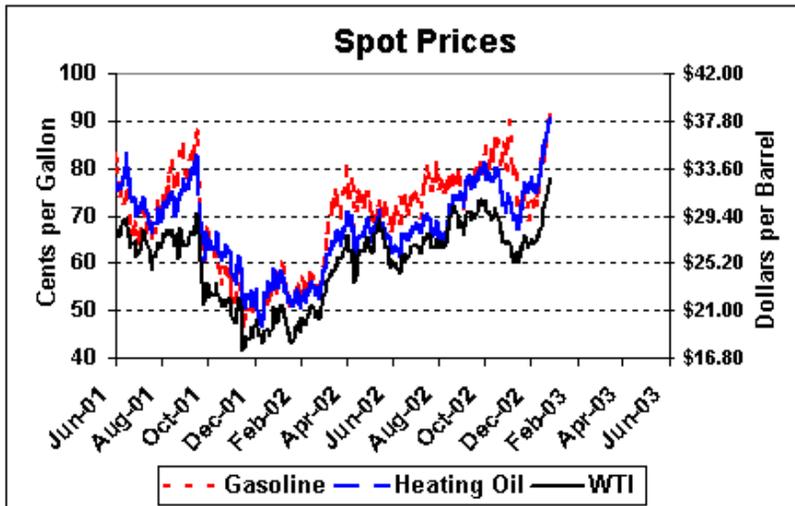
Retail diesel fuel prices increased last week, rising to a national average of 149.1 cents per gallon as of December 30. Diesel fuel prices are not expected to soften significantly during the coming months, as distillate fuel inventories have dropped below the normal range this winter and are expected to remain low into the beginning of 2003. Retail diesel prices were up throughout the country, with the largest price increase occurring on the East Coast, where prices rose by 5.8 cents per gallon to end at 150.6 cents per gallon.

Residential Heating Fuel Prices

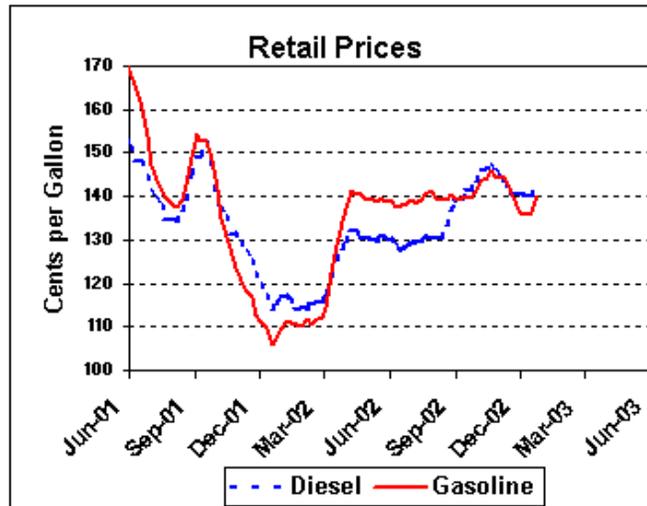
Residential heating fuel prices increased for the period ending December 23, 2002. The average residential heating oil price was 136.3 cents per gallon, up 4.0 cent from the previous week. Residential propane prices also continued to move upward by 2.4 cent from 120.8 to 123.2 cents per gallon. Heating oil prices are 21.4 cents per gallon higher than last year at this time while residential propane prices are 11.5 cent higher than one year ago. Wholesale heating oil prices increased 5.3 cents this week, to 89.8 cents per gallon, while wholesale propane prices increased from 59.4 to 61.1 cents a gallon, up 1.7 cent per gallon.

U.S. Petroleum Prices

(updated December 30, 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	
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
11/19/2002	\$26.41	\$26.42	71.75	70.16	71.90	72.17	74.38	47.25	48.25		
11/20/2002	\$27.00	\$26.98	72.85	71.29	74.80	74.51	76.93	47.82	48.94		
11/21/2002	\$27.07	\$26.35	73.13	72.42	74.80	74.93	76.18	48.25	49.51		
11/22/2002	\$27.73	\$26.76	74.70	74.87	76.80	76.64	78.18	48.25	49.32		
11/25/2002	\$27.01	\$26.11	71.70	71.55	74.85	75.04	76.10	47.75	48.25	138.0	140.5
11/26/2002	\$26.60	\$26.40	72.60	72.53	76.08	75.75	76.33	47.88	48.38		
11/27/2002	\$26.87	\$26.89	69.18	73.43	75.48	75.71	75.98	48.26	48.75		
11/28/2002	NA	NA	NA	NA	NA	NA	NA	NA	NA		
11/29/2002	NA	NA	NA	NA	NA	NA	NA	NA	NA		
12/2/2002	\$27.27	\$27.24	72.77	74.39	77.80	77.39	78.20	48.57	49.19	136.4	140.7
12/3/2002	\$27.34	\$27.30	72.95	75.32	76.78	77.50	77.28	49.38	49.69		
12/4/2002	\$26.80	\$26.71	71.63	72.93	75.05	74.54	75.23	48.88	49.38		
12/5/2002	\$27.27	\$27.29	73.35	75.27	75.70	75.62	76.03	49.38	49.57		
12/6/2002	\$27.03	\$26.93	72.15	74.03	74.83	74.73	75.15	49.32	49.44		
12/9/2002	\$27.29	\$27.20	74.23	76.21	75.60	75.82	75.98	49.38	49.32	136.0	140.5
12/10/2002	\$27.73	\$27.74	76.25	78.87	76.35	77.19	76.70	49.38	49.32		
12/11/2002	\$27.49	\$27.40	74.83	77.39	76.45	76.87	77.20	49.94	50.38		
12/12/2002	\$28.20	\$28.01	77.72	80.71	78.50	79.25	78.93	51.69	51.88		
12/13/2002	\$28.39	\$28.44	80.88	83.95	80.85	81.56	81.23	52.13	53.13		
12/16/2002	\$30.15	\$30.10	84.56	87.85	84.58	85.64	85.05	54.00	54.19	136.3	140.1
12/17/2002	\$30.04	\$30.10	81.30	85.39	83.00	83.95	83.50	53.69	53.50		
12/18/2002	\$30.41	\$30.44	83.10	87.54	84.60	85.53	85.25	53.88	53.88		
12/19/2002	\$30.57	\$30.56	84.15	87.81	85.65	86.06	85.55	53.88	54.25		
12/20/2002	\$30.57	\$30.30	84.55	87.92	85.65	85.95	87.23	54.19	53.94		
12/23/2002	\$32.09	\$31.75	89.04	91.86	89.20	89.62	91.58	54.82	54.32	140.1	144.0
12/24/2002	\$32.13	\$31.97	89.85	92.77	89.65	90.49	91.83	54.82	54.32		
12/25/2002	NA	NA	NA	NA	NA	NA	NA	NA	NA		
12/26/2002	\$32.61	\$32.49	90.95	92.97	90.25	90.91	92.13	56.25	54.88		
12/27/2002	\$32.68	\$32.72	90.78	93.25	90.18	90.79	93.58	55.88	54.44		

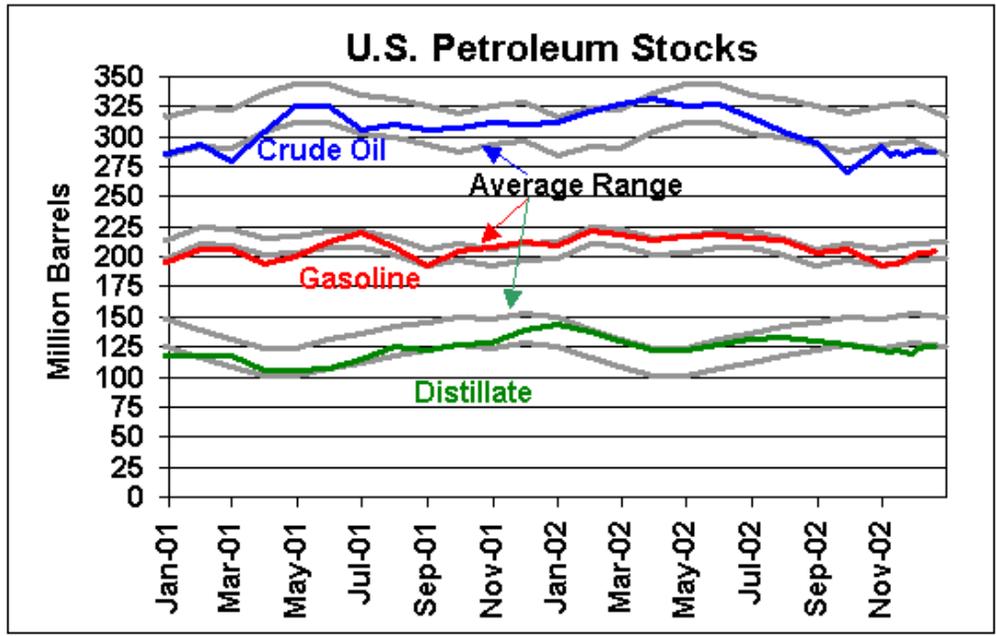
Source: Spot and futures closing quotes as reported by Reuters News Service, retail prices reported by EIA

U.S. Petroleum Supply

	(Thousand Barrels per Day)		Four Weeks Ending		vs. Year Ago	
			12/20/2002	12/20/2001	Diff.	% Diff.
Refinery Activity						
Crude Oil Input			15,015	14,789	226	1.5%
Operable Capacity			16,800	16,512	288	1.7%
Operable Capacity Utilization (%)			90.2%	90.8%	-0.6%	
Production						
Motor Gasoline			8,720	8,322	398	4.8%
Jet Fuel			1,574	1,481	93	6.2%
Distillate Fuel Oil			3,933	3,816	117	3.1%
Imports						
Crude Oil (incl. SPR)			9,486	8,994	492	5.5%
Motor Gasoline			857	736	121	16.5%
Jet Fuel			146	97	49	50.2%
Distillate Fuel Oil			461	242	219	90.5%
Total			11,960	11,198	762	6.8%
Exports						
Crude Oil			10	11	-1	-9.4%
Products			1,000	1,050	-50	-4.8%
Total			1,010	1,061	-51	-4.8%
Products Supplied						
Motor Gasoline			8,898	8,615	283	3.3%
Jet Fuel			1,712	1,485	227	15.3%
Distillate Fuel Oil			4,065	3,650	415	11.4%
Total			20,088	19,129	959	5.0%

vs. Year Ago

Stocks (Million Barrels)			vs. Year Ago	
	12/20/2002	12/20/2001	Diff.	% Diff.
Crude Oil (excl. SPR)	287.4	312.1	-24.7	-7.9%
Motor Gasoline	205.4	210.8	-5.4	-2.6%
Jet Fuel	40.7	41.3	-0.6	-1.5%
Distillate Fuel Oil	124.9	142.4	-17.5	-12.3%
Total (excl. SPR)	970.9	1,037.8	-66.9	-6.4%



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

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World Oil Market Highlights

(updated December 12, 2002)

According to fourth quarter 2002 estimates, the world (excluding Iraq) holds as much as 4.8 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 ¹ (Thousand barrels per day)					
	4Q 2002 Production	1Q 2003 Production	1/01/02 Quota ²	2002 Production Capacity ³	4Q Surplus Capacity ³
Algeria	933	950	693	1,100	167
Indonesia	1,100	1,090	1,125	1,200	100
Iran	3,500	3,500	3,186	3,850	350
Kuwait ⁴	1,940	1,940	1,741	2,400	460
Libya	1,350	1,340	1,162	1,400	50
Nigeria	2,004	2,000	1,787	2,300	296
Qatar	690	690	562	850	160
Saudi Arabia ⁴	8,000	7,834	7,053	10,000-10,500 ⁵	2,000-2,500 ⁵
UAE ⁶	2,007	2,010	1,894	2,600	593
Venezuela ⁷	2,905	2,905	2,497	3,000	95
OPEC 10 Crude Oil Total	24,429	24,259	21,700	28,700-29,200⁵	4,271-4,771⁵
Iraq ⁸	2,364	2,400	N/A	2,900	536
OPEC Crude Oil Total	26,793	26,659	N/A	31,600-32,100⁵	4,807-5,307⁵
Other Liquids ⁹	2,761	2,761	N/A		
Total OPEC Production	29,554	29,420	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.

⁵ 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.

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.-September 2002*			
(all volumes in million barrels per day)			
	Total Oil Imports	Crude Oil Imports	Petroleum Product Imports
Canada	1.89	1.40	0.49
Saudi Arabia	1.51	1.48	0.03
Mexico	1.50	1.45	0.05
Venezuela	1.40	1.20	0.20
Nigeria	0.59	0.56	0.03
Iraq	0.48	0.48	0.00
United Kingdom	0.45	0.38	0.07
Norway	0.40	0.35	0.05
Angola	0.33	0.32	0.01
Total Imports	11.27	8.99	2.28

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

Top World Oil Net Exporters, Jan.-Sep. 2002*		
	Country	Net Exports (million barrels per day)
1)	Saudi Arabia	6.80
2)	Russia	4.98
3)	Norway	3.11
4)	Iran	2.45

5)	Venezuela	2.40
6)	United Arab Emirates	1.93
7)	Nigeria	1.85
8)	Mexico	1.65
9)	Kuwait	1.62
10)	Iraq	1.46
11)	Algeria	1.23
12)	Libya	1.19

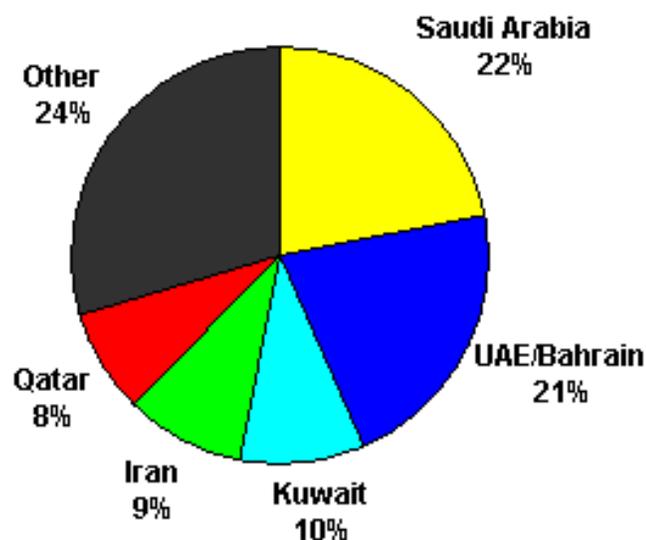
**Table includes all countries with net exports exceeding 1 million barrels per day in Jan.-Sep. 2002.*

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



Total = 5.532 million barrels per day

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Definitions

Petroleum

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

Bbl – Barrel (42 gallons).

C's – cents.

Natural Gas

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

Electricity

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

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

Average - average price of electricity traded at all locations.

Latest U.S. Weekly Natural Gas Information

(updated December 30, 2002)

[Industry/Market Developments](#)

Pipeline Safety Standards Strengthened Under New Law: On Tuesday, December 17, President Bush signed into law the "Pipeline Safety Improvement Act of 2002," which toughens inspection and other safety standards and enacts additional related provisions for interstate natural gas and hazardous liquids pipelines. One part of the legislation involves more stringent pipeline inspection requirements, notably the requirement that pipelines with the highest risk factors must be inspected within 5 years of the law's enactment. This is estimated to affect at least one-half of existing natural gas pipelines. Remaining pipelines must be inspected within the next 5 years. All pipelines must then be re-inspected at least every 7 years. Other key measures of the new law include increased penalties for pipeline operators who violate regulations, "whistle-blower" protection for employees who report hazardous situations to outside authorities, and expanded involvement of States in pipeline oversight.

[Storage](#)

Working gas in storage was 2,540 Bcf for the week ended Friday, December 20, 2002, according to the EIA *Weekly Natural Gas Storage Report*. This is nearly 5% below the 5-year average for the report week, but well within the 5-year historical range. The implied net withdrawal of 95 Bcf is nearly 20% below the 5-year average for the week.

All Volumes in Bcf	Current Stocks 12/20/2002	Estimated Prior 5-Year (1997-2001) Average	Percent Difference from 5 Year Average	Implied Net Change from Last Week	One-Week Prior Stocks 12/13/2002
East Region	1,468	1,623	-9.9%	-69	1,537
West Region	379	325	17.3%	-9	388
Producing Region	693	716	-3.2%	-17	710
Total Lower 48	2,540	2,665	-4.8%	-95	2,635

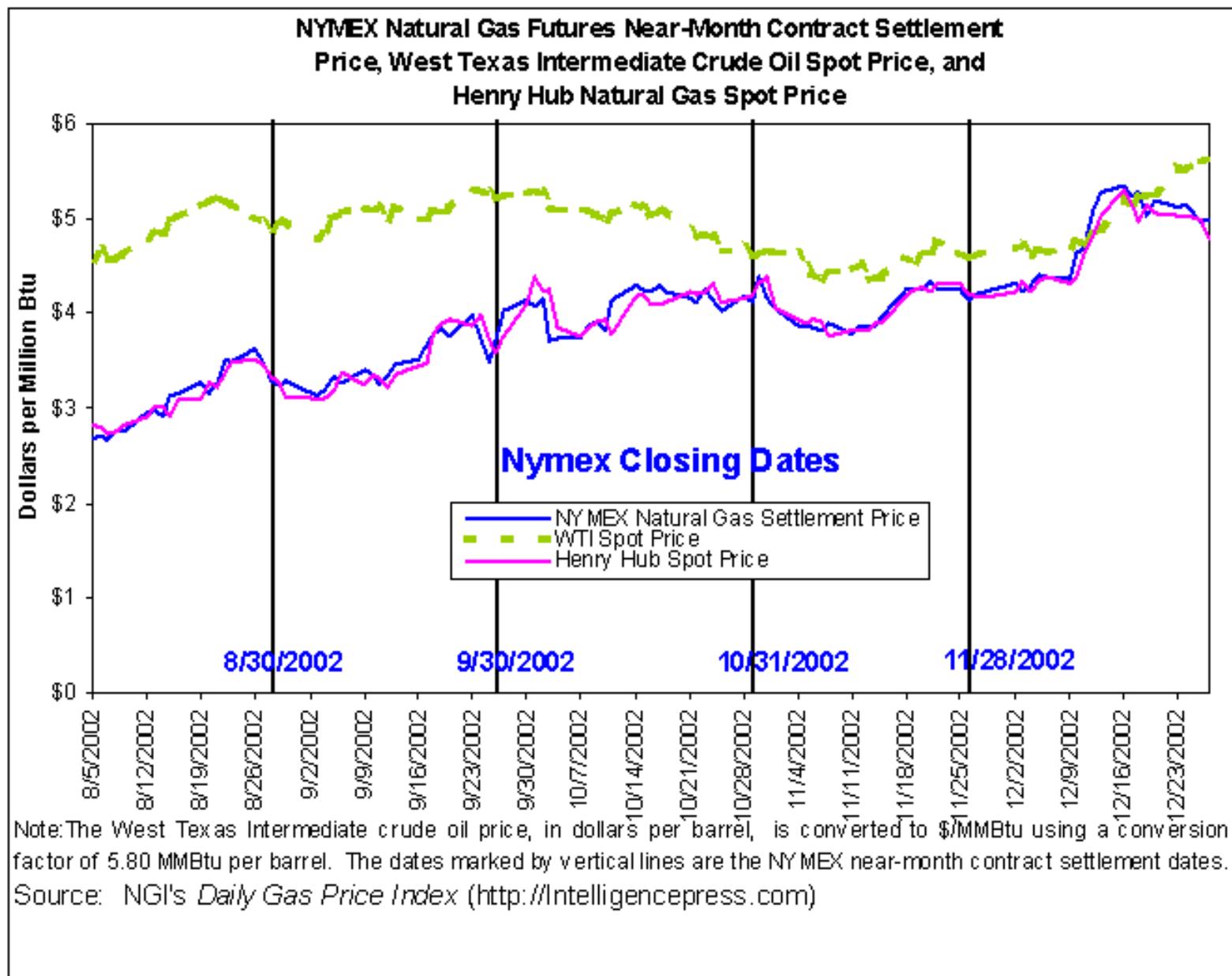
Source: Energy Information Administration: Form EIA-912, "Weekly Underground Natural Gas Storage Report," and the Historical Weekly Storage Estimates Database. Column and/or row sums may not equal totals due to independent rounding.

[Prices:](#)

Natural gas spot prices fell from 10 to 40 cents per MMBtu at all market locations last week. In addition to the effect of the typical slackening of demand associated with holiday and weekend periods, prices were further depressed by warming temperatures toward the end of the week, particularly in the Mid-Atlantic and parts of the Northeast and Midwest regions. In trading on Friday, December 27, the average spot price at the Henry Hub had declined 27 cents from the previous Friday, to \$4.78 per MMBtu. While the average New York citygate spot price increased 31 cents on Monday (December 23) to \$6.00 per MMBtu, this sizeable increase was more than offset by a drop of 62 cents per MMBtu in Friday's (December 27) trading, leaving the price at an average of \$5.39 per MMBtu to end the week. Prices in the Rocky Mountains region fell the least, averaging a drop of a dime for the week to an average of \$3.47 per

MMBtu as of Friday, December 27.

Futures prices for delivery in the remaining heating season months fell substantially on Thursday (December 26). The price of the near-month contract (for January 2003 delivery) fell \$0.184 per MMBtu to settle at \$4.962-its first sub-\$5 settlement in 2 weeks. The expiring January contract recovered slightly on its last trading day on Friday (December 27), gaining nearly 3 cents to close out trading at \$4.988 per MMBtu, \$0.788 per MMBtu higher than when it became the near-month contract on November 27. The contracts for February and March delivery fell over 18 cents and nearly 11 cents per MMBtu for the week (Friday to Friday), ending the week at \$5.022 and 4.892 per MMBtu, respectively. Conversely, futures prices for contracts for delivery in out months through the end of the next heating season (March 2004) increased from about 7 to nearly 16 cents per MMBtu for the week.



<i>Trade Date (All prices in \$ per MMBtu)</i>	California Composite Average Price*				NYMEX futures contract-January delivery	NYMEX futures contract-February delivery
	Henry Hub	New York City	Chicago			
11/27/2002	4.00	4.19	4.95	4.09	4.200	4.145
12/2/2002	4.01	4.23	6.14	4.17	4.320	4.259
12/3/2002	4.09	4.35	6.34	4.28	4.226	4.175
12/4/2002	4.01	4.23	5.91	4.20	4.298	4.243
12/5/2002	4.09	4.35	6.16	4.31	4.406	4.359
12/6/2002	4.09	4.39	5.92	4.30	4.383	4.351
12/9/2002	4.09	4.32	5.49	4.19	4.359	4.332
12/10/2002	4.13	4.39	5.23	4.26	4.636	4.594
12/11/2002	4.33	4.64	5.39	4.43	4.709	4.675
12/12/2002	4.40	4.82	5.43	4.59	5.089	5.020
12/13/2002	4.52	5.04	5.63	4.75	5.284	5.235
12/16/2002	4.83	5.31	6.46	5.03	5.341	5.297
12/17/2002	4.70	5.14	6.12	4.79	5.240	5.179
12/18/2002	4.61	4.98	5.56	4.72	5.278	5.249
12/19/2002	4.80	5.14	5.63	4.97	5.047	5.073
12/20/2002	4.80	5.05	5.69	4.96	5.183	5.203
12/23/2002	4.85	5.03	6.00	4.96	5.116	5.176
12/24/2002	4.85	5.03	6.00	4.96	5.146	5.209
12/26/2002	4.86	5.00	6.01	4.89	4.962	4.990
12/27/2002	4.58	4.78	5.39	4.71	4.988	5.022

* 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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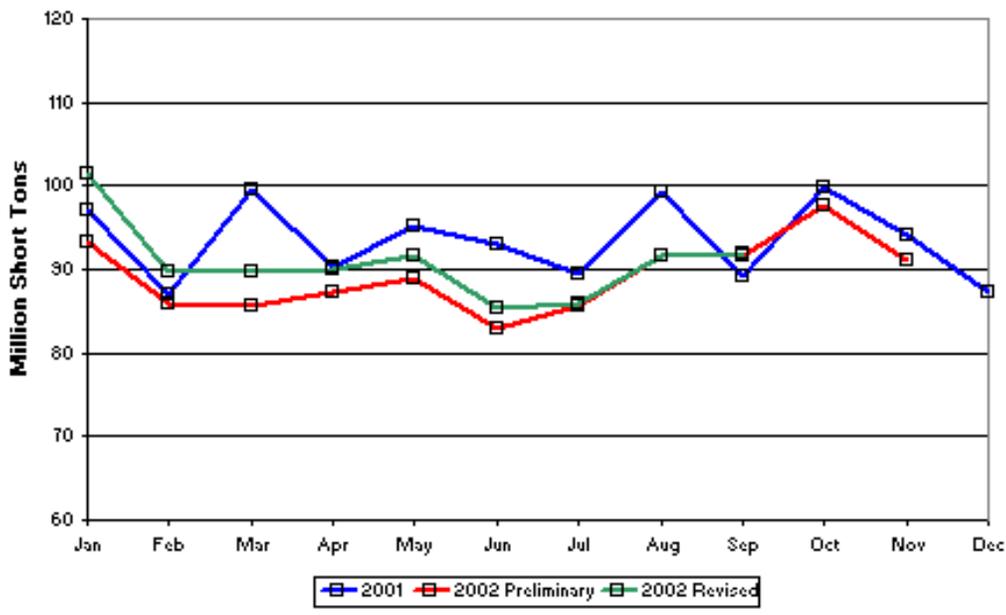
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Latest U.S. Coal Information

Coal Production (Updated December 30, 2002)

For the week ended December 21, coal-related statistics were nearly the same as in the same week in 2001. Railcar loadings of coal were 3.2% lower than year-ago levels while estimated national coal production was 0.1% higher. Year-to-date, estimated western U.S. coal production is 0.5% above the levels of a year ago; eastern U.S. coal production is estimated now to be 6.0% below last year's level. The estimated production for the first 11 months of 2002 is 1,005.9 million short tons (mmst), 2.7% lower than the 1,034.0 mmst in the first 11 months of 2001. This estimate incorporates coal production survey data of the Mine Safety and Health Administration through the third quarter 2002.

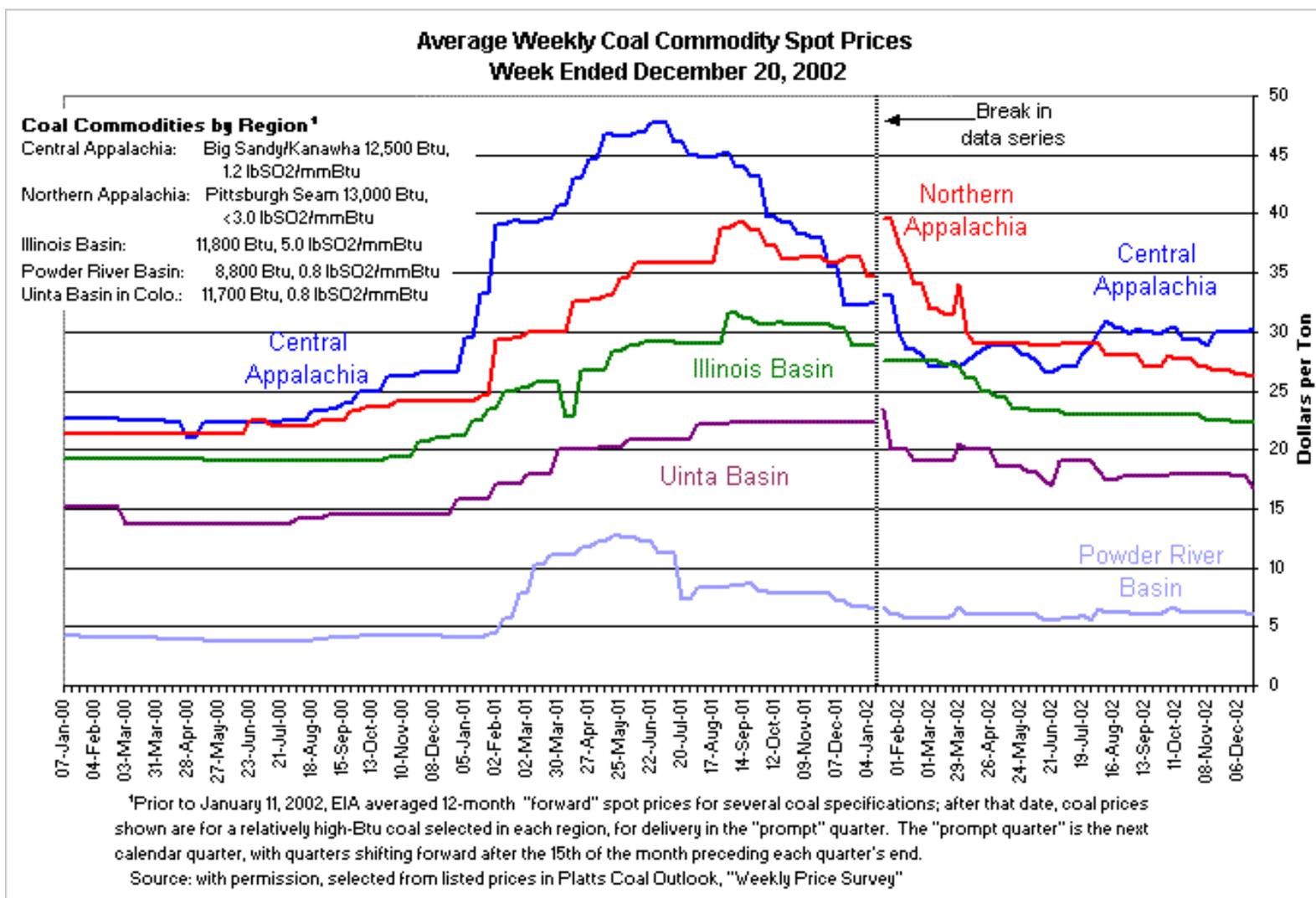
U.S. Monthly Coal Production



Coal Prices (Updated December 30, 2002)

It appears that spot coal prices will close out the year mixed—some up, some down, and some remaining flat—but overall, with no clear direction. The average spot prices indexed by EIA (plotted below) are, again, those for the week ended December 20, as no new data were published for the Christmas holiday week. The Central Appalachian coal price inched up and the Illinois Basin price remained unchanged but low, whereas the Northern Appalachian and Powder River Basin prices declined and the Uinta Basin price plunged by more than a dollar per short ton (a 6% drop from the week earlier). Compared to peak prices in summer 2001, Central and Northern Appalachian coal prices are lower by about \$17.50 and \$13.00 per short ton, respectively, or 37% and 33% lower. The largest difference in percentage is for the Powder River Basin coal prices, about half the late Spring 2001 peak price (down by \$6.65 per short ton, or 52%). Compared to previous price floors, in the summer of 2000, the latest EIA-indexed spot prices of \$30.25 per short ton for Central Appalachian and \$26.20 per short ton for Northern Appalachian coal are higher by 36% and 23% respectively. Other prices also remain higher than the summer 2000 base: by 21% for the Uinta Basin, 16% for the Illinois Basin, and 63% for the Powder River Basin.

The weekly spot price survey done by *Energy Argus Coal Daily*, noted a “holiday lull” had settled over spot markets. “As expected, spot market activity in Central Appalachia and the Powder River Basin was extremely slow. . . resulting in little to no change in prices (*Coal Daily*, December 30, 2002). Like EIA’s spot prices, indicators cited by commercial coal analysts have also been mixed of late. Coal producers were encouraged that, as of December 20, over-the-counter prices for NYMEX look-alike coals (12,500 Btu/lb, 1% sulfur) rose from \$27.25 to \$29.50 per short ton during the month. Coal trade volumes reportedly had picked up also, and those looking for hopeful signals were pleased. The fact that NYMEX prices returned to \$30.00 per short ton for the prompt quarter also gave encouragement to coal sellers, along with completion of 160 trades during the prior 2 weeks (compared with virtually none). At the same time, fuel buyers are not concerned. The anecdotal information is that large coal-consuming power plants just do not need any coal at this point and that some of them have even sold excess inventory to other coal consumers. It would take a long spell of sub-zero temperatures to change their outlooks. There is reportedly evidence “that some utilities are opting to secure low-cost (natural gas) generating capacity as a hedge. . . instead of maintaining higher coal stockpiles” (*Platts Coal Outlook*, pp. 1, 6, 14).



Over-the-counter (OTC) trading volumes on the [NYMEX](#) since September have been the lowest since trade was initiated in coal in July 2001. The settled prices for near-month deliveries reached \$30.00 per short ton as of December 19 and remain there as of December 27, 2002, although no trades were transacted during Christmas week. That price holds for February and March deliveries then rises to \$31.25 per short ton for April through June 2003. Continuing tepid trade volumes, however, render OTC and NYMEX prices only marginally relevant.

Market Trends

Even though trade volumes are low overall, markets for medium- and high-sulfur coals continue to hold their shares during 2002. One reason is the low cost of emission allowances. The bottom-line costs for combustion and emissions using the higher-sulfur products can be less than burning compliance coal. According to Energy Argus' *Coal Daily* (December 9, 2002: p.7), for compliance coal, emitting 1.2 lbs of sulfur dioxide/mmBtu, for a \$28.35 per short ton spot price, 12,500 Btu/lb coal, the cost adjusted for purchased allowances would be \$30.32 per short ton. For the same heating value, a coal emitting 1.5 lbs of sulfur dioxide/mmBtu, spot priced at \$26.50 per short ton, the adjusted cost would be \$28.96 per short ton, while for the analogous coal emitting 2.0 lbs of sulfur dioxide/mmBtu, spot priced at \$24.75 per short ton, the bottom-line cost would be \$28.03 per short ton. Despite the forward-costs savings, not every coal-fired generator is in a position to use this strategy.

According to comments on third quarter performance by Peabody CEO, Irl Engelhardt, many customers were believed to be bringing stockpiles down to levels lower than historical norms. Arch Energy president and CEO, Steven Leer, voiced similar observations. Arch estimated that utility coal stocks were 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, 2002). For much of 2002, however, broad problems have depressed the coal industry: the overall economy; failure or bankruptcies among 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 uncertain eventual environmental compliance costs.

Would-be buyers in the second half of 2002 found major coal producers generally unwilling to commit beyond existing contracts at current prices. With some eastern mines off line, supplies of eastern compliance coal reportedly remained tight and many buyers, either with a stockpile cushion or credit problems, delayed buys. Citing the high capital costs of opening new coal mines, Consol Energy disclosed on September 24, 2002, 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, 2002). Meanwhile, stock market prices for energy trading companies and some utilities took heavy losses due to bankruptcy announcements and credit downgrades. One effect of these trends was a tightening of new capital, credit, and short-term cash for expansions as well as coal purchases and operating expenses. Concurrently, power plant operators delayed some of their fuel purchase due to 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](#). Most of that planned capacity was natural gas-fired. Coal-fired plants are similarly affected but not reflected in 2002 capacity changes because they are longer-term projects.

Coal Producer Issues

Energy Argus' *Coal Daily* (December 9, 2002) reported that some coal producers in the Colorado Plateau broke with suppliers trying to put a floor beneath coal prices. Citing continued lack of demand from Western utilities the report identified RAG Coal in Colorado and Andalex Resources in Utah as the rumored sources of low-priced coal. Energy Argus reported Green River Basin (Colorado) spot coal with 11,100 nominal Btu/lb dropping to \$12.00 per short ton, while the Uinta Basin 11,700 Btu product declined to \$15.00 per short ton. In Utah, the Uinta Basin coal dropped to \$17.00 per short ton. Energy Argus uses a different pricing index for spot coal than does EIA (EIA does not track Green River, lower-Btu coal). EIA's indexed spot Uinta coal in Colorado averaged \$17.80 per short ton for the week ended December 6.

Peabody Energy COO Richard Whiting commented at the American Coal Council's 20th annual Coal Market Strategies

Conference in October 2002, that his company had 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 to pay down debt; now they are more focused on profitability. Mr. Whiting noted that productivity gains will inevitably flatten out. Peabody continues to push mining equipment vendors for better technology, but he was concerned about a lack of capital investment in the industry and about low rates of return. Meanwhile, some eastern coal producers grouched that some of their fellow producers were not being disciplined, and that they continue to produce unwanted coal at a time when the market is virtually nonexistent. The major problem for producers, however, has been too much "coal on the ground," (in consumers' stockpiles). Until cold weather takes hold in the East, with significant consumption of those stocks, buyers simply cannot justify contracting for more coal, even at bargain prices. If consumer stocks were drawn down rapidly, however, producers hoped to get the \$30+ per short ton they have been seeking (*Coal Outlook*, November 18, 2002).

John Dean of JD Consulting displayed a graph at the Conference showing that productivity at Powder River Basin (PRB) high-Btu mines (8800 Btu/lb) peaked in 1998 and has declined since. This would reverse the general 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 said there is significant opportunity to increase output at the longwall mines by upgrading the conveyor systems that move coal out of the mines.

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Latest U.S. Electricity Information

(updated December 30, 2002)

Selected Wholesale Electricity Prices: With some exceptions, many trading centers experienced a drop in spot electricity prices over the Christmas holiday in anticipation of reduced demand. After Christmas, prices returned to a more normal level. In California for example, prices at the California Oregon Border (COB) plummeted to \$36.00 per megawatthour on December 26, but jumped to \$44.75 per megawatthour the next day. Although not as extreme, prices at California's NP-15 and SP-15 dropped during Christmas, but went up again as of December 27. Prices at Mid-Columbia, located in the Northwest, and 4 Corners, located in the Southwest experienced a pattern similar to California prices over the past few days.

In the Midwest, electricity prices have been fairly stable over the holiday period. At the Cinergy Trading Center, prices dropped to \$17.66 per megawatthour on December 23, and have remained at approximately the same level through December 27. Similar to the Midwest, prices in the Southeast have been relatively stable over the holidays. Prices within the SERC trading area dropped to \$26.20 per megawatthour on December 20, and they have remained at approximately the same level through December 27.

In the Northeast, PJM West's prices have fluctuated over the past few trading days. Colder weather pushed prices to \$44.00 per megawatthour on December 20 up from \$36.38 per megawatthour on December 19. By December 26 prices had declined 31%, to \$30.16 per megawatthour, as the holiday curbed customer demand. Prices then jumped to \$37.06 per megawatthour on December 27 as demand increased. New York's prices were stable at \$66 per megawatthour from December 19 to December 27. In New England, prices have remained relatively stable over the holidays, going from \$52.89 per megawatthour on December 23 to \$52.25 per megawatthour on December 27.

Over the past seven days, average prices at all trading centers ranged between \$40.81 and \$45.14 per megawatthour with an overall weekly average of \$42.71 per megawatthour. With demand curtailed over the New Year's holiday, prices should drop temporarily.

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

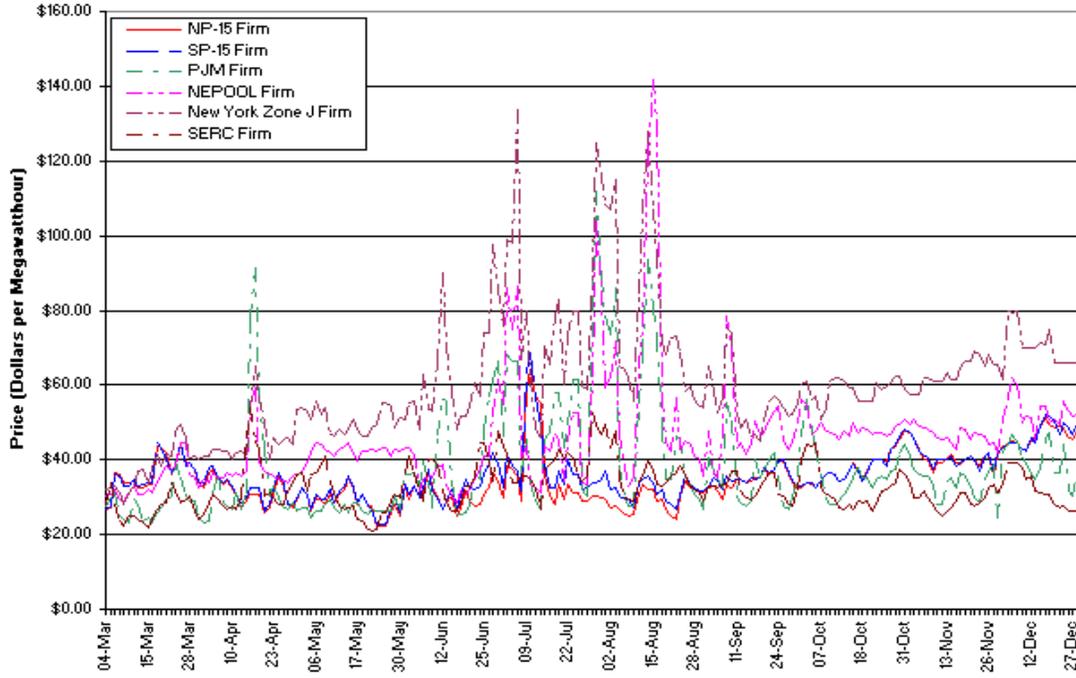
Trading Centers	Date							Price Range		
	12/19/02	12/20/02	12/23/02	12/24/02	12/25/02	12/26/02	12/27/02	Max	Min	Average
	Holiday									
COB	44.17	46.50	42.58	n.a.	n.a.	36.00	44.75	46.50	36.00	42.80
Palo Verde	40.80	45.44	42.92	n.a.	n.a.	41.97	44.25	45.44	40.80	43.08
Mid-Columbia	41.58	44.33	41.18	n.a.	n.a.	40.23	42.15	44.33	40.23	41.89
Mead/Marketplace	43.95	46.28	44.75	n.a.	n.a.	44.38	46.58	46.58	43.95	45.19
4 Corners	42.25	46.00	42.50	n.a.	n.a.	42.17	44.50	46.00	42.17	43.48
NP 15	48.95	48.80	45.69	n.a.	n.a.	45.31	47.87	48.95	45.31	47.32
SP 15	46.93	49.89	48.47	n.a.	n.a.	46.72	49.50	49.89	46.72	48.30
PJM West	36.38	44.00	32.03	n.a.	n.a.	30.16	37.06	44.00	30.16	35.93
NEPOOL	49.50	55.50	52.89	n.a.	n.a.	51.52	52.25	55.50	49.50	52.33
New York Zone J	66.00	66.00	66.00	n.a.	n.a.	66.00	66.00	66.00	66.00	66.00
Cinergy	21.49	21.20	17.66	n.a.	n.a.	18.82	17.61	21.49	17.61	19.36
SERC	27.38	27.68	26.20	n.a.	n.a.	26.49	26.25	27.68	26.20	26.80
Average Price	42.45	45.14	41.91	n.a.	n.a.	40.81	43.23	45.14	40.81	42.71

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.
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.

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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