

# Energy Situation Analysis Report

**Last Updated: August 29, 2002**

**Next Update: September 3, 2002**

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## Latest Oil Market Developments

West Texas Intermediate (WTI) October crude oil futures on the New York Mercantile Exchange (NYMEX) fell by \$0.49 per barrel yesterday (8/28/02), settling at \$28.34 per barrel. Conflicting signals from OPEC failed to lift the market from a slightly bearish mood from the prospect of a possible OPEC output hike at the cartel's September meeting... [more...](#)

## Latest U.S. Weekly EIA Petroleum Information

After declining for four consecutive weeks, the U.S. average retail price for regular gasoline increased last week, gaining 1.1 cents per gallon, to end at 140.3 cents per gallon as of August 26. This price is 8.5 cents per gallon lower than last year, marking the second week in a row that 2002 prices were lower than 2001 prices. [more...](#)

## World Oil Market Highlights

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

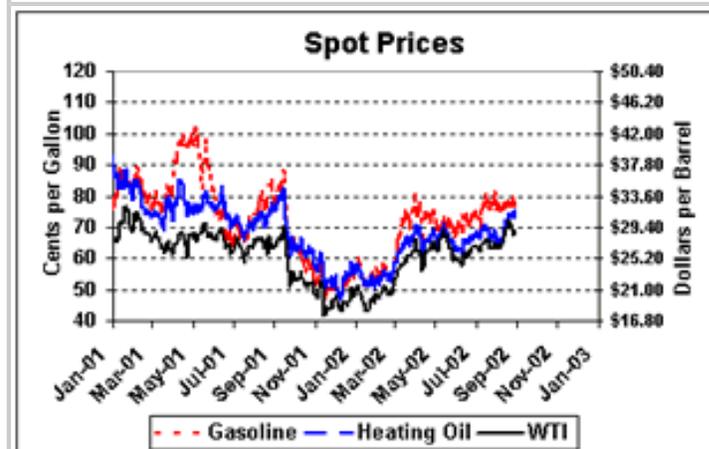
## Latest U.S. Weekly Natural Gas Information

Since Monday, August 26, sharply dropping futures prices and easing of weather-driven swing demand took their toll on spot prices. Price decreases of less than a dime at most market locations on Tuesday, August 27, accelerated to the 12-22 cent per MMBtu range on Wednesday, August 28. Downward price pressure in the Midcontinent and the Northeast came primarily from moderating temperatures, while pipeline maintenance work in the Rockies cut back transportation capability out of the region, causing a back-up of gas at many locations and accompanying price drops. [more...](#)

## Energy Prices\*

Petroleum Futures	8/28/02	8/27/02	Change
<b>WTI (\$/Bbl)</b>	<b>28.34</b>	<b>28.83</b>	<b>-0.49</b>
<b>Gasoline (c/gallon)</b>	<b>80.18</b>	<b>81.80</b>	<b>-1.62</b>
<b>Heating Oil (c/gallon)</b>	<b>74.45</b>	<b>75.01</b>	<b>-0.56</b>
<b>Natural Gas (\$/MMBtu)</b>			
<b>Henry Hub</b>	<b>3.33</b>	<b>3.48</b>	<b>-0.15</b>
<b>California</b>	<b>3.05</b>	<b>3.11</b>	<b>-0.06</b>
<b>New York City</b>	<b>3.49</b>	<b>3.67</b>	<b>-0.18</b>
<b>Electricity (\$/Megawatthour)</b>			
<b>COB</b>	<b>24.90</b>	<b>25.50</b>	<b>-0.60</b>
<b>PJM West</b>	<b>29.37</b>	<b>30.65</b>	<b>-1.28</b>
<b>NEPOOL</b>	<b>40.19</b>	<b>41.19</b>	<b>-1.00</b>
<b>Average</b>	<b>32.51</b>	<b>33.25</b>	<b>-0.74</b>

[\\*Definitions](#)



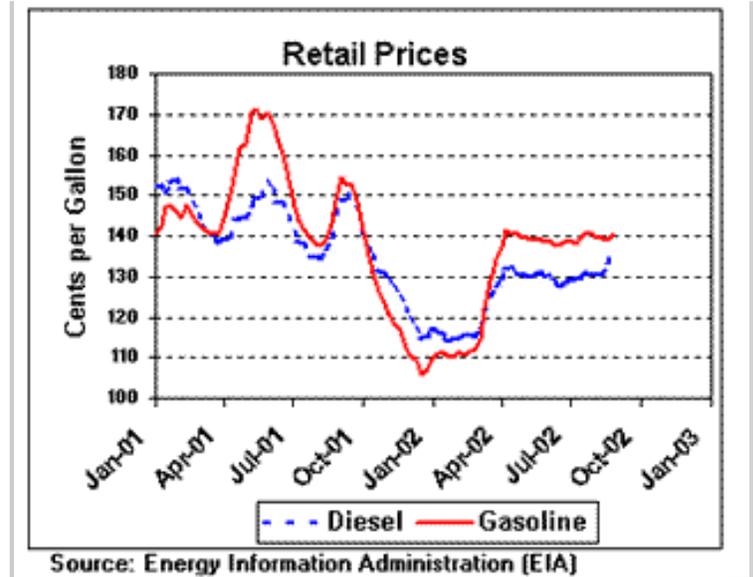
Source: Closing quote as reported by Reuters News Service

### Latest U.S. Coal Information

For the week ending August 23, the week-to-week coal prices tracked by EIA were virtually unchanged. Average Central Appalachian coal prices were down an estimated 25 cents, Uinta Basin prices rose an estimated 25 cents, and the rest did not move. Compared to the previous floor in the summer of 2000, prior to the 2001 escalation, the latest indexed spot prices of \$30.25 per short ton for Central Appalachian and \$28.00 per short ton for Northern Appalachian coal are higher by 36% and 31% respectively. [more...](#)

### Latest U.S. Electricity Information

Due to cooler temperatures and a decrease in the weekend demand, wholesale electricity spot prices fell across the Western United States. Electricity prices in the Mid-continent region have been steady over the past several trading days. Prices in the Northeast have decreased over the past few days as the region experienced cooler weather. Over the past seven days, the average price at all trading centers has ranged between \$35.66 and \$32.51 per megawatthour. [more...](#)



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## Latest Oil Market Developments

(updated September 3, 2002)

Oil prices fell sharply in London and New York today (9/3/02) following a meeting between Iraq's Deputy Prime Minister Tariq Aziz and U.N. Secretary General Kofi Annan. After the meeting, Aziz publicly offered to "cooperate with the United Nations" (see below). In additional bearish news for oil prices, a *Reuters* survey showed OPEC quota compliance at its worst levels since 1998 (see below). The Aziz statement and *Reuters* survey helped push West Texas Intermediate (WTI) October crude oil futures on the New York Mercantile Exchange (NYMEX) down \$1.19 per barrel today, while Brent near-month futures closed about \$1 per barrel lower. Prior to the Labor Day weekend, NYMEX near-month futures prices had risen by \$0.06 per barrel Friday (8/30/02), settling at \$28.98 per barrel.

Conflicting signals from OPEC ahead of the cartel's September 19 meeting in Osaka, Japan are causing some confusion, with several countries calling for no hike in OPEC output quotas and others, particularly Saudi Arabia, appearing to be more open to an increase (see below). In general, oil prices have been driven higher since the spring by several factors, including: 1) significant cuts in OPEC production quotas during 2001, including an OPEC agreement with non-OPEC at the end of the year (note: increased OPEC "overproduction" above quota levels has mitigated this increasingly in recent months); 2) tensions in the Middle East, particularly speculation over the possibility of U.S. military action against Iraq; and 3) a steep slide in US crude oil inventories, with EIA data for the week ending August 9 showing US crude stocks (excluding the Strategic Petroleum Reserve) have fallen by 28 million barrels since the end of March.

Topics affecting **world oil markets** include:

- Following a meeting with UN Secretary General Kofi Annan, Iraqi Deputy Prime Minister Tariq Aziz today stated that Iraq was "ready to cooperate with the United Nations" on weapons inspections and other issues.
- A survey by *Reuters* estimated that OPEC oil production was 10%, or 2.15 million barrels per day, above quota levels. According to *Reuters*, this marks the worst OPEC compliance with quotas since 1998. The biggest overproducers in the survey were Saudi Arabia (650,000 barrels per day above quota) and Venezuela (360,000 barrels per day above quota), followed by Iran and Algeria.
- Several OPEC countries have stated positions regarding possible changes to OPEC oil production quotas leading up to the OPEC meeting on September 19 in Osaka, Japan. Kuwait's Oil Ministry said today (9/3/02) that it was "against the raising of the OPEC output unless the price exceeds the \$22-\$28 a barrel" OPEC basket price band. Indonesia's Energy Minister said today that

Indonesia's policy was "how to see the crude oil prices...increase." Venezuela's President, Hugo Chavez, stated Saturday (8/30/02) that "I prefer...that OPEC and Venezuela are not going to increase" production, while Venezuelan Oil Minister Rafael Ramirez said that oil prices have a "war premium" of "around 4 dollars" already built in. OPEC President Rilwanu Lukman said Sunday (9/1/02) that the main danger was of "putting too much oil into the markets," not too little, although he also said that current oil prices are "above the comfort zone."

- Saudi Oil Minister Ali Naimi was noncommittal about OPEC quotas, stating that "talk at the time being about what decisions OPEC will take at its upcoming meeting is premature," and that also that "talk of a specific position for the kingdom is untrue."
- The oil minister of Norway -- a major non-OPEC oil exporter -- said yesterday (9/2/02) that oil fundamentals called for an increase in OPEC production. Another major non-OPEC oil exporter, Russia, reported that its oil exports were 3.26 million barrels per day on August, about flat compared to July, while oil production increased to 7.76 million barrels per day -- up from 7.65 million barrels per day in July. Russian oil export facilities (ports and pipelines) appear to be near full capacity, possibly limiting potential near-term increases in Russian oil exports.
- As of September 3, 2002, the US Strategic Petroleum Reserve (SPR) contained 580.6 million barrels of oil. The SPR has a maximum drawdown capability of 4.3 million barrels per day for 90 days, with oil beginning to arrive in the marketplace 15 days after a presidential decision to initiate a drawdown. The SPR drawdown rate declines to 3.1 million barrels per day from days 91-120, to 2.1 million barrels per day for days 121-150, and to 1.2 million barrels per day for days 151-180. The White House has indicated (8/19/02) that it has no plans to tap the SPR, but has warned of possible "risks ahead in the [oil] markets."

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