

# Short-Term Energy Outlook – February 2005

February 8th, 2005 Release (*Next Update: March 8th, 2005*)

Errata (posted February 9, 2005)

## Winter Fuels Update (Figure 1)

Despite some cold weather during the second half of January, expected average consumer prices for heating fuels this heating season are little changed since the January *Outlook*, leaving projections for household heating fuel expenditures about the same as previously reported. Heating oil expenditures by typical Northeastern households are expected to average 32 percent above last winter's levels, with residential fuel oil prices averaging \$1.82 per gallon for the October-to-March period. Expenditures for propane-heated households are expected to increase about 20 percent this winter. Expected increases in expenditures for natural gas-heated households remain at 10 percent.

## Crude Oil and Petroleum Products (Figures 2 to 8)

The projected average West Texas Intermediate (WTI) crude oil price for the first quarter of 2005 is about \$46.70 per barrel, approximately \$11 per barrel higher than in the first quarter of 2004 and \$3 per barrel above the first quarter projection in the previous *Outlook*. EIA projects that WTI prices are likely to remain in the low- to mid-\$40's per barrel range throughout 2005-2006. However, oil prices are likely to be sensitive to any incremental supply tightness that appears during periods of peak demand worldwide. Imbalances (real or perceived) in light product markets could cause light crude oil prices (such as WTI) to increase above the mid-\$40's, as occurred in the fall of 2004.

At their January 30 meeting, the Organization of Petroleum Exporting Countries (OPEC) decided to maintain its agreed-upon production levels through the first quarter of 2005. However, high levels of OPEC production in recent months have contributed to inventory builds in the Organization for Economic Cooperation and Development (OECD) countries. U.S. oil inventories and inventories in the other industrialized countries, which had been relatively low during early 2004 compared to historical standards, rose above the middle of the observed 5-year historical range. Given this stock build, OPEC said it would reconsider market conditions and production levels when it meets again on March 16. Non-OPEC supply growth is expected to average 1.2 million barrels per day over 2005-2006.

World petroleum demand growth is likely to be the key factor for oil markets in 2005. World petroleum demand growth for the 2004-2006 period is projected to average about 2.4 percent per year (approximately 2 million barrels per day), a level that exceeds expected growth in non-OPEC supply and global refinery capacity. Although this is strong growth, it is down from the 3.4 percent demand growth (2.6 million barrels per day each year) in 2004. Lower global oil demand growth is attributed to several factors, including the impact of high world oil prices and slower projected Chinese oil demand growth.

U.S. petroleum demand in 2004 averaged an estimated 20.5 million barrels per day, up 2.4 percent from the previous year and the largest percentage increase in 5 years. Although all the major categories contributed to that increase, distillate demand grew the fastest, at 3.6 percent, buoyed by substantial increases in industrial activity and heating-oil deliveries, while motor gasoline demand increased by 1.4 percent. For the 2004-2006 period, total petroleum demand is projected to increase by an average 1.7 percent per year. Growth in both highway travel and motor gasoline demand is projected to average 2 percent per year during the same period. Moderation in industrial output growth and lack of growth in heating oil deliveries, however, are expected to slow average distillate growth to about 1.6 percent per year between 2004 and 2006.

On February 7, 2005, the U.S. monthly average pump price for regular gasoline was \$1.91 per gallon, down slightly from the previous week but up about 13 cents per gallon from one month ago. Recently, gasoline prices have been rising in response to late fall and early winter rising crude oil prices, high rates of refinery utilization, and some decline in surplus gasoline inventories in recent weeks. Despite relatively high absolute levels for gasoline inventories, days cover (beginning inventories divided by demand per day) for gasoline has generally been declining (on a year-over-year basis) for over 2 years, suggesting a general environment of increasing short-term tightness for gasoline markets. Days cover was down about 5 percent from year-ago levels in the fourth quarter of 2004 and by about 3 percent in January 2005. Pump prices for regular gasoline are expected to average about \$1.98 per gallon during the first half of 2005, up 20 cents from the first half of 2004. Continued growth in gasoline demand in the U.S., both seasonally and year-over-year, is expected to increase average monthly prices to over \$2.00 per gallon by spring.

### Natural Gas (Figures 9 to 10)

The average Henry Hub natural gas spot price was \$6.78 per thousand cubic feet (mcf) in December and \$6.32 per mcf in January. The unusually mild winter weather in the Northeast this past December reduced heating demand, which, in turn, lowered spot prices for natural gas in January. Working gas in storage is estimated to have totaled 2,021 billion cubic feet at the end of January, which is 15 percent higher than one year ago and 17 percent higher than the 5-year average. With the heating season now about two-thirds over and with ample storage, natural gas prices are likely to ease over the next several months. Still, with crude oil prices expected to remain over \$40 per barrel through 2006, and with a relatively tight natural gas supply/demand situation over the same period, Henry Hub prices are expected to average roughly \$5.45-\$5.75 per thousand cubic feet annually for the 2005 to 2006 period.

In response to continued economic growth, natural gas demand is projected to increase by 3.0 percent in 2005. Domestic natural gas production in 2005 is projected to increase by 1.6 percent from 2004 levels, partly due to high gas-directed drilling rates and partly due to continued recovery in the Gulf of Mexico from the effects of Hurricane Ivan. Steady increases in liquefied natural gas imports, restrained export growth, and carryover from the robust storage levels noted above are expected to contribute to moderate improvement in the supply picture in 2005.

### Electricity and Coal Outlook (Figures 11 to 13)

Electricity demand is expected to increase by 3.4 percent in 2005 and by an additional 2.1 percent in 2006, following estimated growth of 1.5 percent in 2004. Coal demand in the electric power sector is expected to increase 3.8 percent in 2005 and another 2.6 percent increase in 2006. Power sector demand for coal continues to increase as oil and gas prices remain high. U.S. coal production is expected to grow by 3.3 percent in 2005 and by an additional 2.3 percent in 2006. Hydroelectric power availability, which fell somewhat in 2004, is expected to rebound in 2005 by as much as 10 percent nationally, provided normal precipitation patterns prevail.

**Table HL1. U.S. Energy Supply and Demand: Base Case**  
(Energy Information Administration\Short-Term Energy Outlook -- February 2005)

	Year				Annual Percentage Change		
	2003	2004	2005	2006	2003-2004	2004-2005	2005-2006
<b>Real Gross Domestic Product (GDP)</b> (billion chained 2000 dollars)	10381	10843	11228	11581	4.4	3.6	3.1
Imported Crude Oil Price <sup>a</sup> (nominal dollars per barrel)	27.74	36.12	39.13	37.19	30.2	8.3	-5.0
Petroleum Supply (million barrels per day)	5.68	5.43	5.62	5.89	-4.4	3.6	4.8
Crude Oil Production <sup>b</sup>	5.68	5.43	5.62	5.89	-4.4	3.6	4.8

Total Petroleum Net Imports( million barrels per day) (including SPR)	<b>11.24</b>	<i>11.84</i>	<i>11.94</i>	<i>11.98</i>	<i>5.4</i>	<i>0.8</i>
<b>Energy Demand</b>						
World Petroleum (million barrels per day)	<b>79.8</b>	<i>82.5</i>	<i>84.5</i>	<i>86.5</i>	<i>3.4</i>	<i>2.4</i>
Petroleum (million barrels per day)	<b>20.03</b>	<i>20.51</i>	<i>20.83</i>	<i>21.22</i>	<i>2.4</i>	<i>1.6</i>
Natural Gas (trillion cubic feet)	<b>22.36</b>	<i>22.20</i>	<i>22.86</i>	<i>23.46</i>	<i>-0.7</i>	<i>3.0</i>
Coal <sup>c</sup> (million short tons)	<b>1095</b>	<i>1102</i>	<i>1143</i>	<i>1170</i>	<i>0.6</i>	<i>3.7</i>
Electricity (billion kilowatthours)						
Retail Sales <sup>d</sup>	<b>3488</b>	<i>3544</i>	<i>3664</i>	<i>3743</i>	<i>1.6</i>	<i>3.4</i>
Other Use/Sales <sup>e</sup>	<b>179</b>	<i>177</i>	<i>185</i>	<i>188</i>	<i>-1.0</i>	<i>4.4</i>
Total	<b>3667</b>	<i>3721</i>	<i>3848</i>	<i>3930</i>	<i>1.5</i>	<i>3.4</i>
Total Energy Demand <sup>f</sup> (quadrillion Btu)	<b>98.2</b>	<i>99.1</i>	<i>101.8</i>	<i>103.9</i>	<i>1.0</i>	<i>2.6</i>
Total Energy Demand per Dollar of GDP (thousand Btu per 2000 Dollar)	<b>9.46</b>	<i>9.14</i>	<i>9.06</i>	<i>8.97</i>	<i>-3.3</i>	<i>-0.9</i>
Renewable Energy as Percent of Total <sup>g</sup>	<b>6.4%</b>	<i>6.5%</i>	<i>6.6%</i>	<i>6.6%</i>		

<sup>a</sup>Refers to the refiner acquisition cost (RAC) of imported crude oil.

<sup>b</sup>Includes lease condensate.

<sup>c</sup>Total Demand includes estimated Independent Power Producer (IPP) coal consumption.

<sup>d</sup>Total of retail electricity sales by electric utilities and power marketers. Utility sales for historical periods are reported in Energy Information Administration (EIA) *Electric Power Monthly* and *Electric Power Annual*. Power marketers' sales for historical periods are reported in EIA's *Electric Sales and Revenue*, Appendix C. Data for 2003 are estimates.

<sup>e</sup>Defined as the sum of facility use of onsite net electricity generation plus direct sales of power by industrial- or commercial-sector generators to third parties, reported annually in Table 7.5 of the *Monthly Energy Review (MER)*. Data for 2004 are estimates.

<sup>f</sup>The conversion from physical units to Btu is calculated by using a subset of conversion factors used in the calculations performed for gross energy consumption in EIA's *MER*. Consequently, the historical data may not precisely match those published in the *MER* or the *Annual Energy Review (AER)*.

<sup>g</sup>Renewable energy includes minor components of non-marketed renewable energy, which is renewable energy that is neither bought nor sold, either directly or indirectly, as inputs to marketed energy. EIA does not estimate or project total consumption of non-marketed renewable energy.

SPR: Strategic Petroleum Reserve.

Notes: Minor discrepancies with other published EIA historical data are due to independent rounding. Historical data are printed in bold; estimates and forecasts are in italics. The forecasts were generated by simulation of the Short-Term Integrated Forecasting System.

Sources: Historical data: Latest data available from Bureau of Economic Analysis and Energy Information Administration; latest data available from EIA databases supporting the following reports: *Petroleum Supply Monthly*, DOE/EIA-0109; *Petroleum Supply Annual*, DOE/EIA-0340/2; *Natural Gas Monthly*, DOE/EIA-0130; *Electric Power Monthly*, DOE/EIA-0226; and *Quarterly Coal Report*, DOE/EIA-0121; *International Petroleum Monthly* DOE/EIA-0520; *Weekly Petroleum Status Report*, DOE/EIA-0208. Macroeconomic projections are based on Global Insight Model of the US Economy, January 2005.

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## CEO says El Paso has made 'headway' ... from page 1

"Our investors have been mildly encouraged, but not overwhelmed," Foshee said in an informal meeting with reporters in Houston last week. "We had a lot to prove to our shareholders and to the marketplace in 2004 and we've made a great deal of headway. We're not close to declaring victory, but we did get a lot accomplished."

Foshee was named president and CEO in September 2003 at a critical time for El Paso. The company was caught up in the meltdown of the merchant trading sector and saw its once-envied stock price plummet from nearly \$80/share in January 2001 to around \$3/share in 2003. Its stock has been trading recently at \$11 to \$12/share.

That June, the company's board of directors survived a bruising proxy fight launched by dissident shareholders Selim Zilkha and former Coastal Corp. Chairman Oscar Wyatt. Then, in the month before he came on board, El Paso reported a \$1.2 billion loss for the second quarter—about 25 times greater than its year-earlier loss of \$45 million (*GD* 8/14/03).

But 2004 "was a watershed year for El Paso," Foshee asserted. "We were in the aftermath of a proxy fight with a new CEO and basically a completely new management team, a significantly changed board of directors and a lot of questions, especially in early 2004, about survivability."

Foshee said he has spent most of his 17 months on the job crafting "a long-range plan, which we put out at year's end." That strategy includes reducing El Paso's debt to \$15 billion, achieving earnings/share in the range of 75 cents to \$1.10, and creating free cash flow of \$200 million to \$400 million by 2006.

The company did accomplish one of its main goals for 2004: cutting its net debt to between \$17 billion and \$18 billion from a peak of \$25 billion. "We ended the year at almost exactly \$17 billion, and that was with a lot of people's hard work and significant execution on asset sales," Foshee said. "We

## NYMEX Henry Hub gas futures contract, Feb 8

	Settlement	High	Low	+/-	Volume
Mar 2005	6.164	6.175	6.010	+19.5	27682
Apr 2005	6.221	6.240	6.070	+19.7	17889
May 2005	6.278	6.280	6.120	+19.1	11104
Jun 2005	6.334	6.320	6.185	+18.5	2545
Jul 2005	6.389	6.375	6.260	+17.8	2038
Aug 2005	6.431	6.405	6.295	+17.5	1348
Sep 2005	6.419	6.400	6.290	+17.0	599
Oct 2005	6.441	6.450	6.320	+16.4	1253
Nov 2005	6.766	6.780	6.640	+15.4	405
Dec 2005	7.086	7.090	6.965	+14.4	1061
Jan 2006	7.311	7.320	7.190	+13.9	655
Feb 2006	7.281	7.280	7.170	+13.4	324
Mar 2006	7.081	7.060	6.980	+12.9	247
Apr 2006	6.191	6.170	6.120	+8.9	168
May 2006	6.056	6.000	5.990	+7.9	142
Jun 2006	6.081	6.081	6.081	+7.9	9
Jul 2006	6.106	6.050	6.050	+7.9	0
Aug 2006	6.141	6.100	6.090	+7.9	15
Sep 2006	6.126	6.126	6.126	+7.9	0
Oct 2006	6.141	6.070	6.070	+7.9	50
Nov 2006	6.436	6.375	6.375	+7.9	0
Dec 2006	6.721	6.721	6.721	+7.9	75
Jan 2007	6.946	6.946	6.946	+7.9	2
Feb 2007	6.911	6.911	6.911	+7.4	2
Mar 2007	6.706	6.706	6.706	+6.9	75
Apr 2007	5.826	5.826	5.826	+4.9	75
May 2007	5.681	5.681	5.681	+3.9	0
Jun 2007	5.696	5.696	5.696	+3.9	0
Jul 2007	5.711	5.711	5.711	+3.9	0
Aug 2007	5.726	5.726	5.726	+3.9	0
Sep 2007	5.711	5.711	5.711	+3.9	0
Oct 2007	5.729	5.729	5.729	+3.9	0
Nov 2007	6.029	6.029	6.029	+3.9	0
Dec 2007	6.311	6.311	6.311	+3.9	25
Jan 2008	6.541	6.541	6.541	+3.9	0
Feb 2008	6.521	6.521	6.521	+3.9	0

### Contract data for Monday

Volume of contracts traded: 87,786

Front-months open interest:

Mar. 63,323 ; Apr. 34,115 ; May, 26,924

Total open interest: 396,400

## Editor's Note

With today's issue, Platts is adding a new feature to Gas Daily: daily assessments of forward gas prices at 11 major pricing points in North America. The assessments are for financial basis differentials and are reported, in cents/MMBtu, as a differential to the corresponding NYMEX Henry Hub futures contract—i.e., the closing price for the specified month's futures contract, or the average of months that comprise a seasonal strip. The assessments reflect trading of forward gas basis swaps that are settled against the monthly indexes published by Platts' *Inside FERC's Gas Market Report* or other publications.

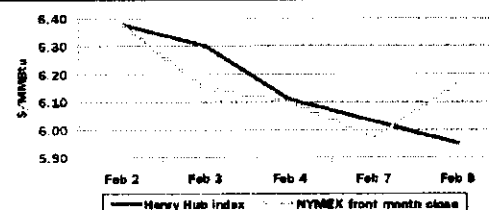
The methodology for Platts' gas forwards can be found at [www.platts.com](http://www.platts.com). Click on the Natural Gas tab, then on Methodology & Specifications. For more information about forwards coverage, contact Mike Wilczek at 202-383-2246 or [mike\\_wilczek@platts.com](mailto:mike_wilczek@platts.com).

For information about historical gas forwards data, contact Platts' Client Services Team at 1-800-PLATTS8, option 1, option 1.

## Daily basis forwards assessments, Feb 8

	Mar 2005	Summer 2005	Winter 2005-06	Summer 2006
Midpoint	Midpoint	Midpoint	Midpoint	Midpoint
Transco zone 6-N.Y.	77.000	55.000	187.500	52.500
Columbia Gas, Appalachia	25.500	26.250	28.000	24.000
Transco, zone 3	5.750	4.125	5.250	3.750
Chicago city-gates	1.625	1.750	4.500	1.750
MichCon city-gate	13.125	14.500	10.250	15.500
Panhandle, Tx.-Okla.	-50.000	-46.500	-51.750	-50.000
Houston Ship Channel	-33.750	-13.750	-33.250	-11.500
Waha	-60.250	-47.750	-59.250	-44.500
Northwest Pipe, Rockies	-72.750	-73.500	-74.250	-71.000
SoCal Gas	-46.250	-33.000	-45.500	-27.500
El Paso, San Juan Basin	-76.000	-70.250	-76.000	-71.000

## Henry Hub/NYMEX spread



## Platts oil prices, Feb 8

	(\$/b)	(\$/MMBtu)
<b>Gulf Coast spot</b>		
1% Resid	30.25 30.75	4.85
3% Resid	25.00 25.50	4.02
<b>Crude spot</b>		
WTI (Mar)	45.34 45.36	7.21
<b>New York spot</b>		
No. 2	52.29 52.37	8.98
0.3% Resid HP	37.25 37.50	5.94
0.3% Resid LP	39.75 40.00	6.34
0.7% Resid	31.00 31.50	4.97
1% Resid HP	29.00 29.50	4.65