U.S. Oil Markets: Short and Mid Term

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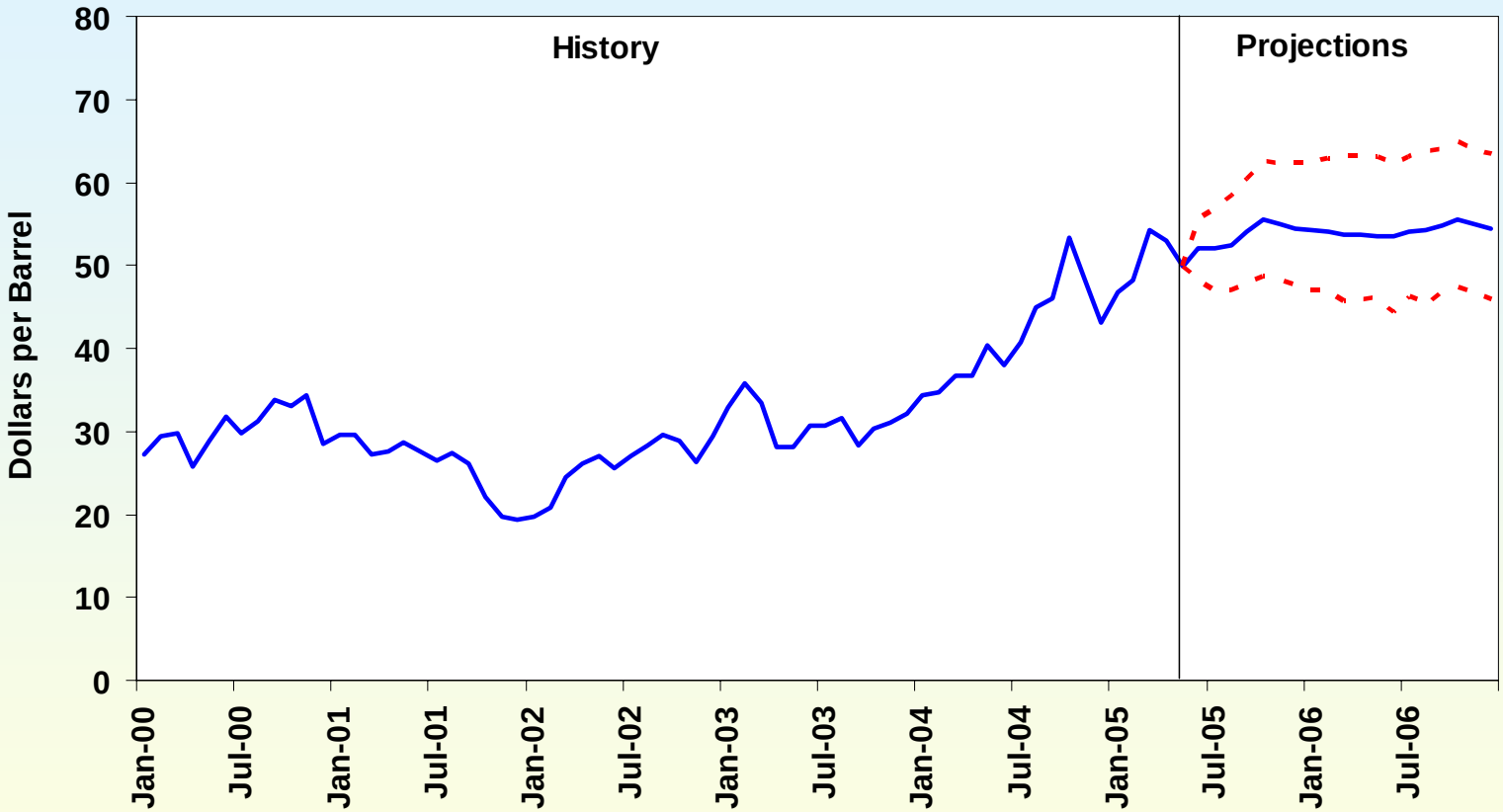
Key findings from EIA's outlooks…

- In the short-term, tight markets and political uncertainties keep world oil prices high.
- Through 2025, oil remains the dominant source of U.S. energy use with about 40 percent of total energy demand.
- Transportation will account for much of the growth in oil use.
- After an increase during the next several years, U.S. oil production will resume its decline.
- The United States will rely on net imports for 68 percent of its oil demand in 2025.

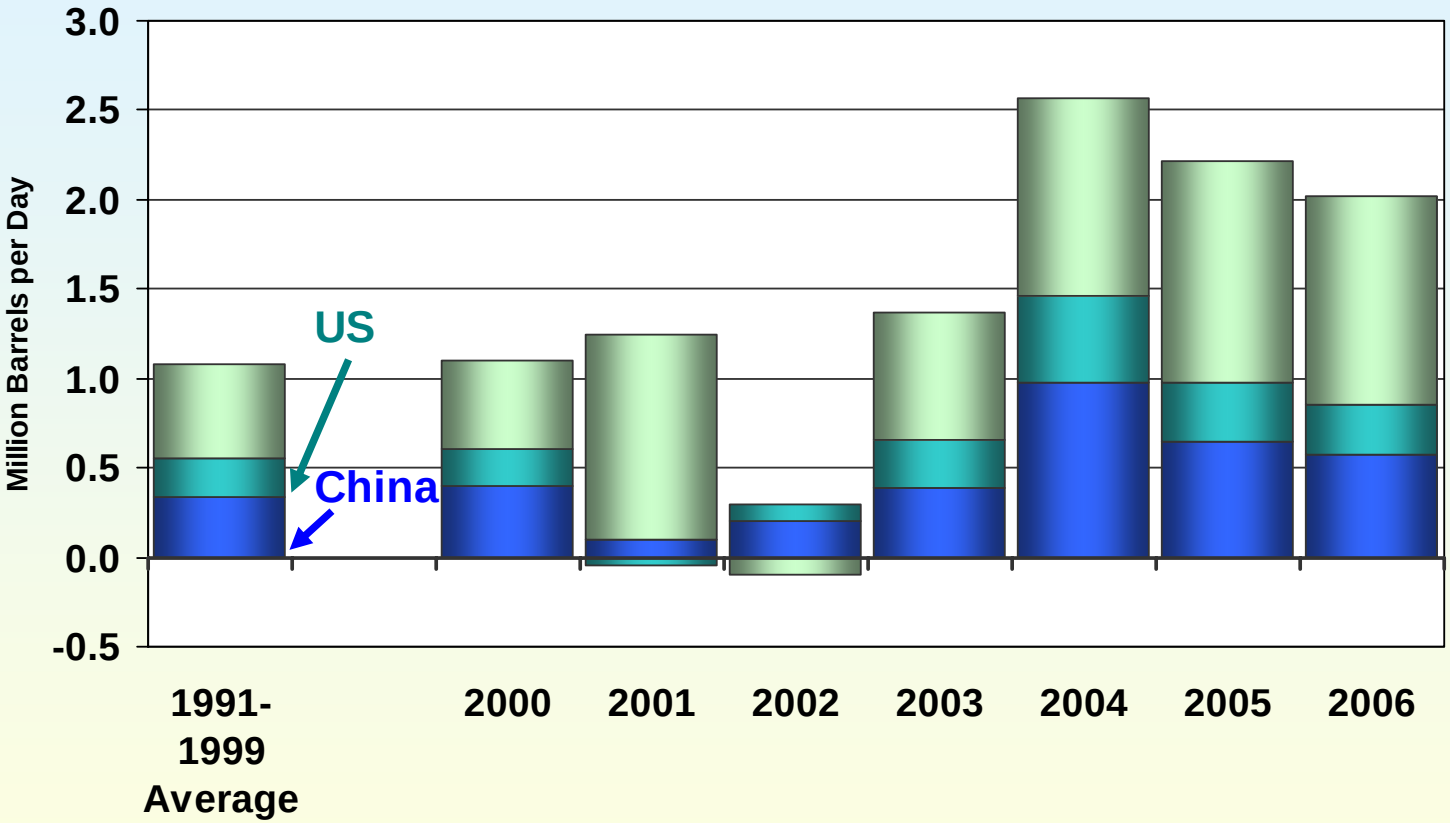
West Texas Intermediate Crude Oil Price (Base Case and 95% Confidence Interval)



**The confidence intervals show +/- 2 standard errors based on the properties of the model. The ranges do not include the effects of major supply disruptions.*

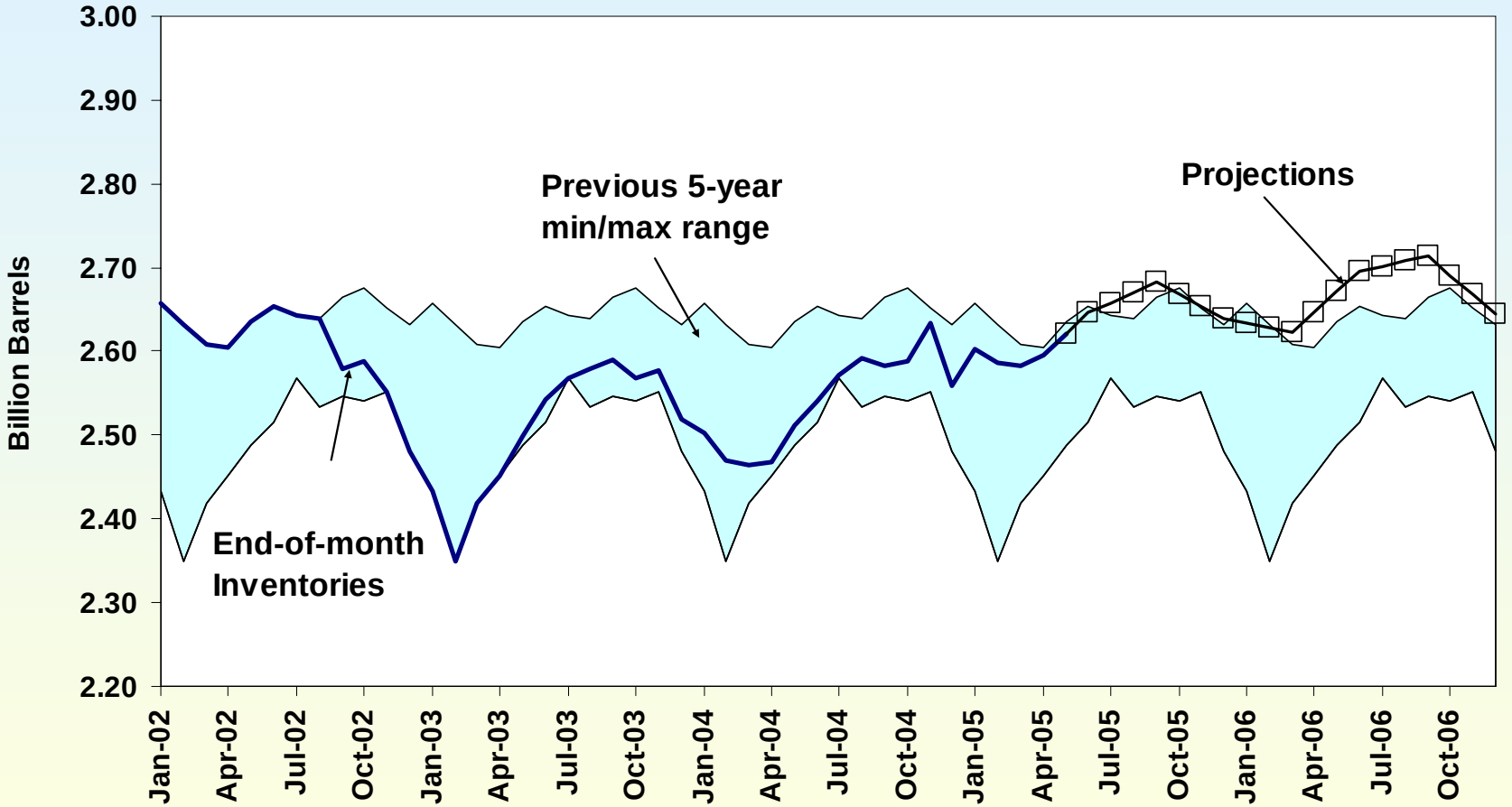
Crude oil prices likely to remain above $50 through 2006.

World Oil Demand Growth



World oil demand growth, led by China, is surging at very high rates.

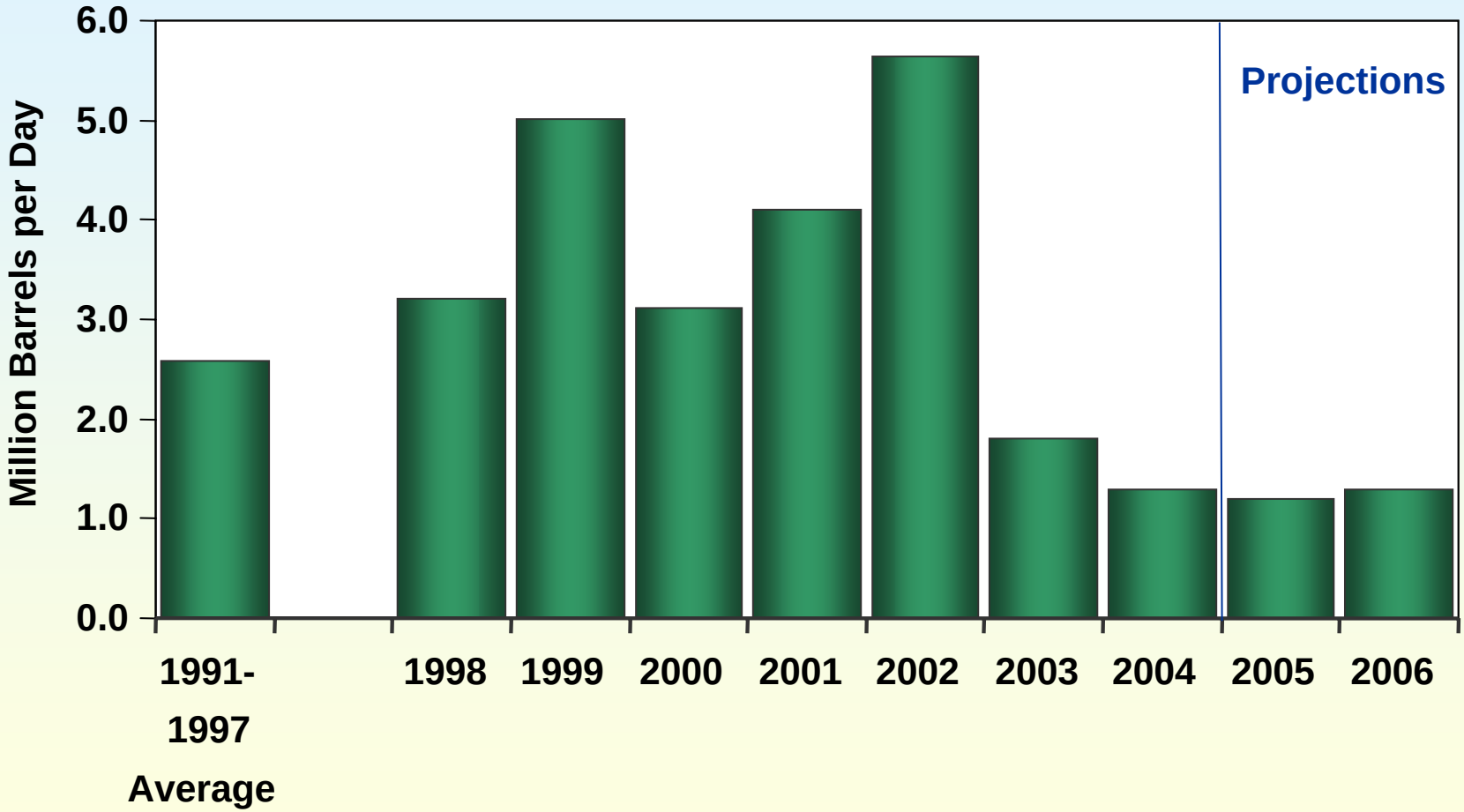
OECD Commercial Oil Stocks



*Organization for Economic Cooperation and Development

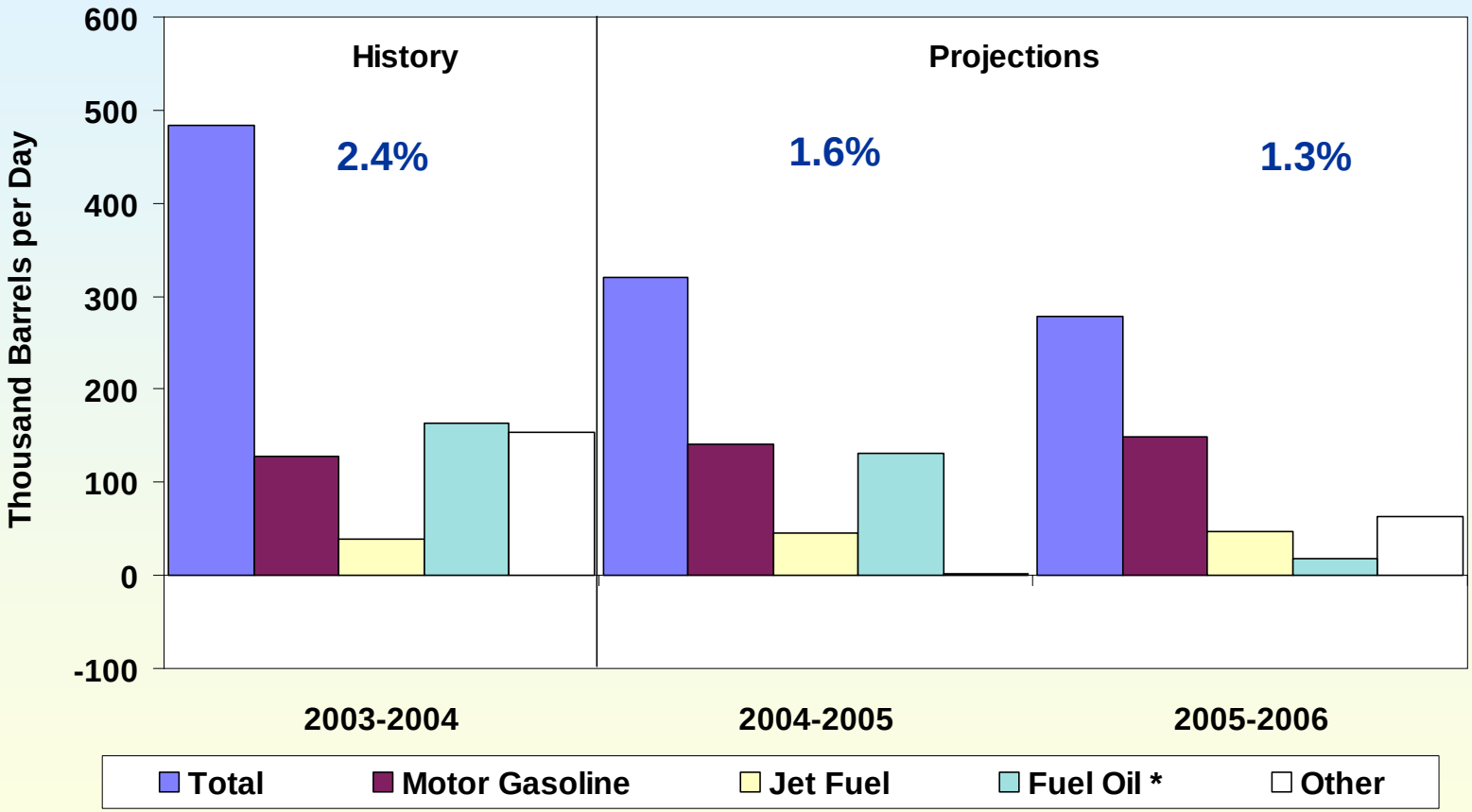
OECD oil stocks recover; remain tight in terms of days cover.

World Oil Spare Production Capacity



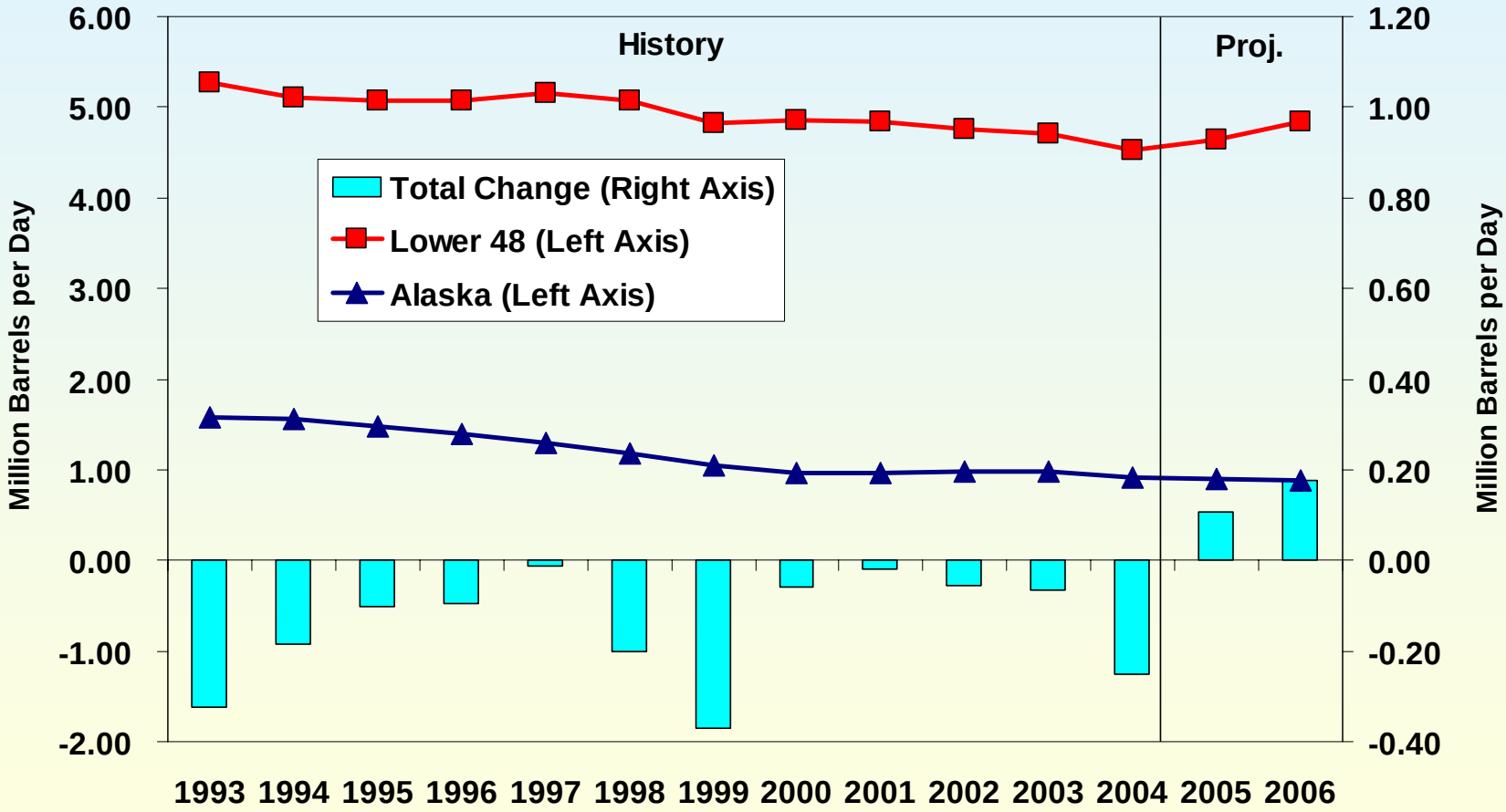
Spare capacity hit its lowest level in 30 years in 2004 and will remain low.

U.S. Petroleum Products Demand Growth (Change from Year Ago)



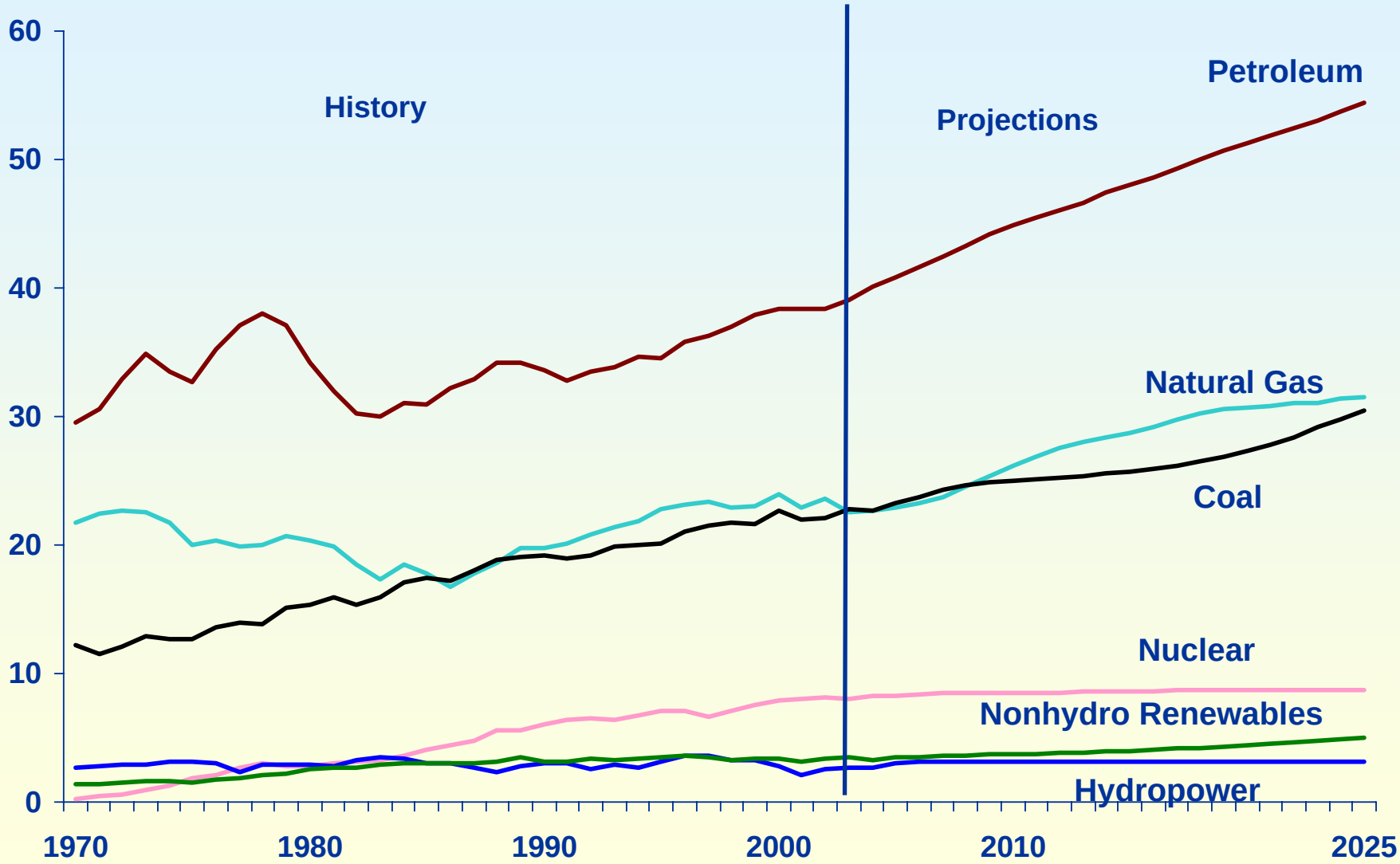
U.S. oil demand growth is likely to slow.

U.S. Crude Oil Production

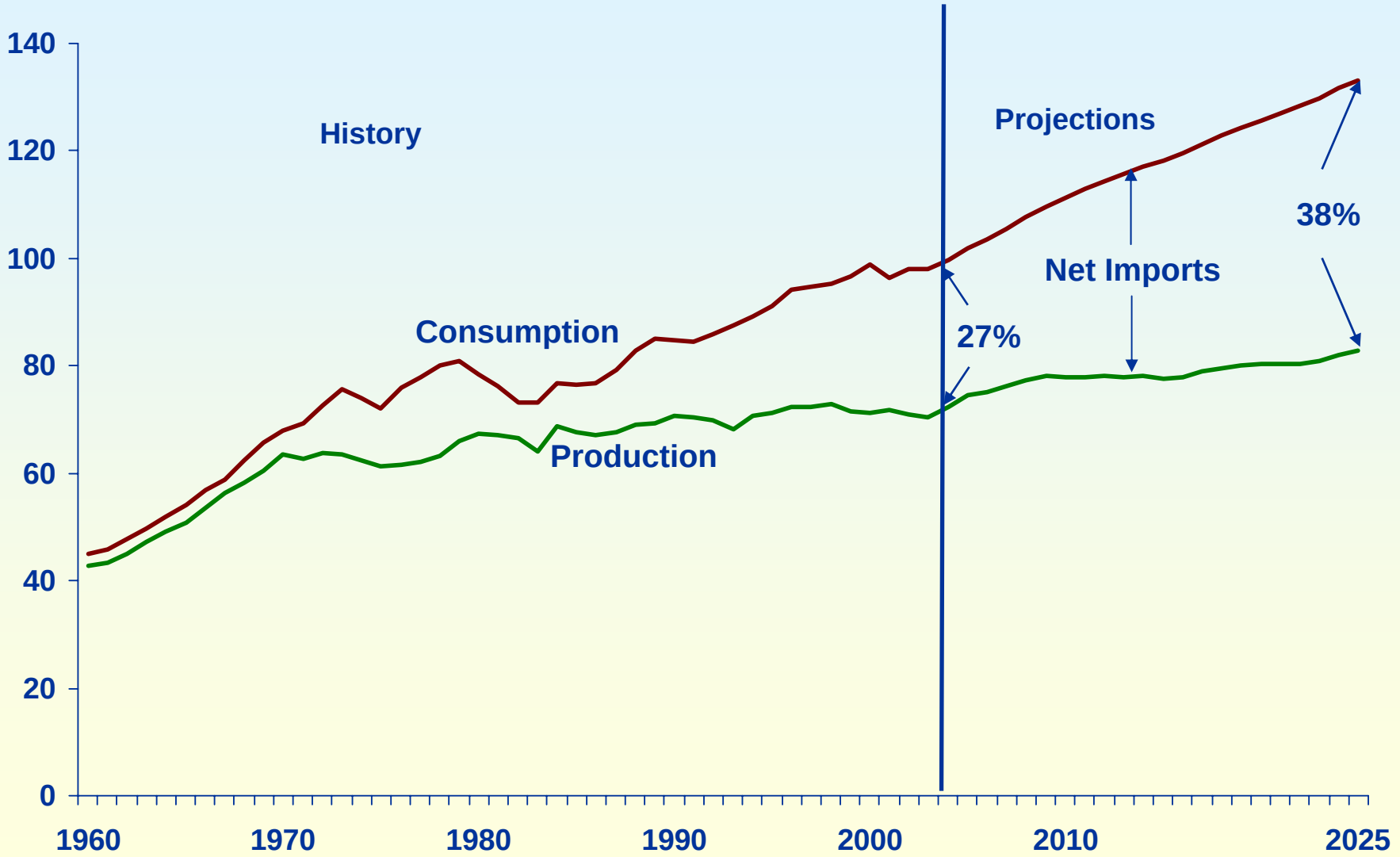


U.S. oil production is likely to increase in 2005 and 2006.

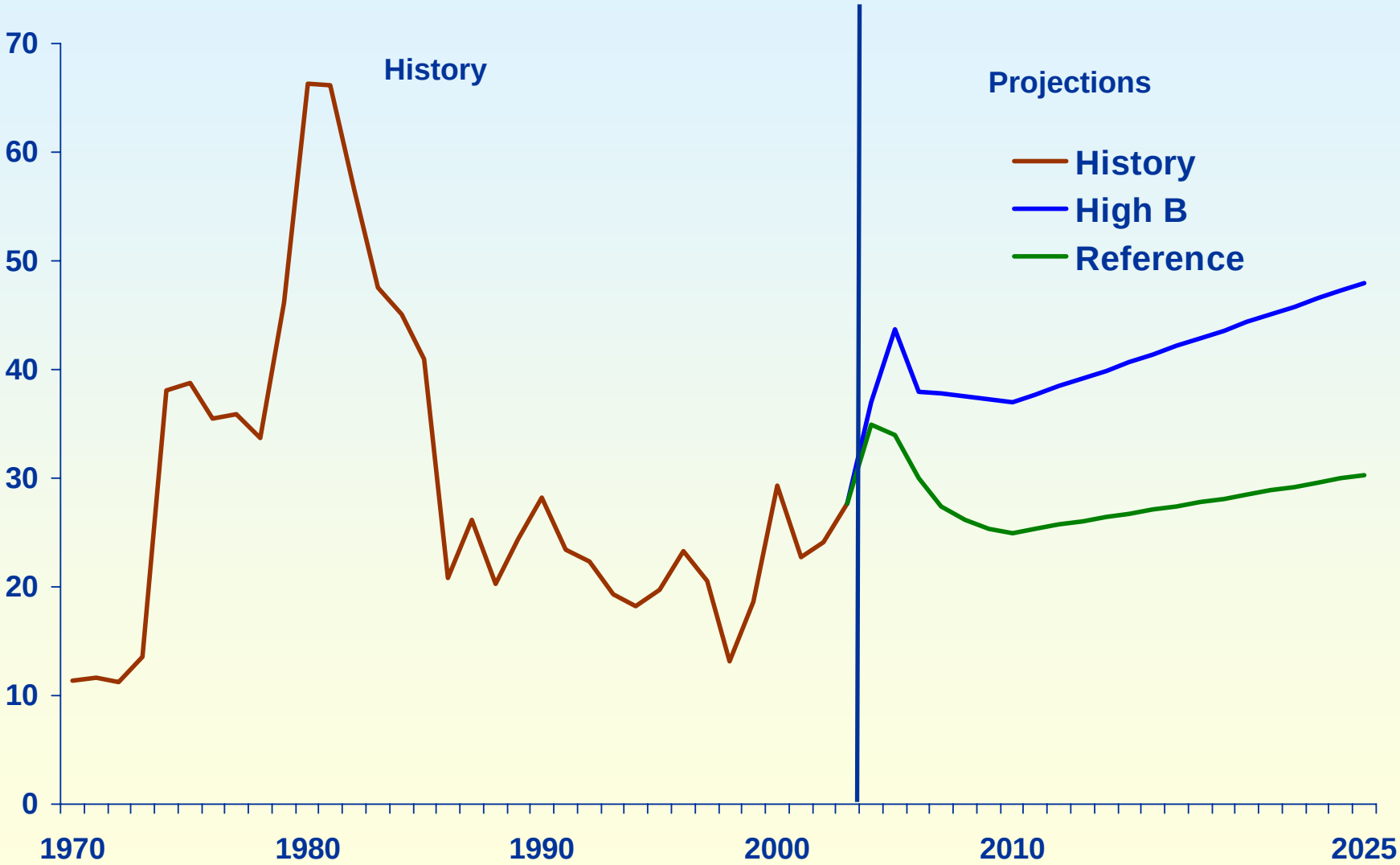
U.S. Energy Consumption by Fuel, 1970-2025 (quadrillion Btu)



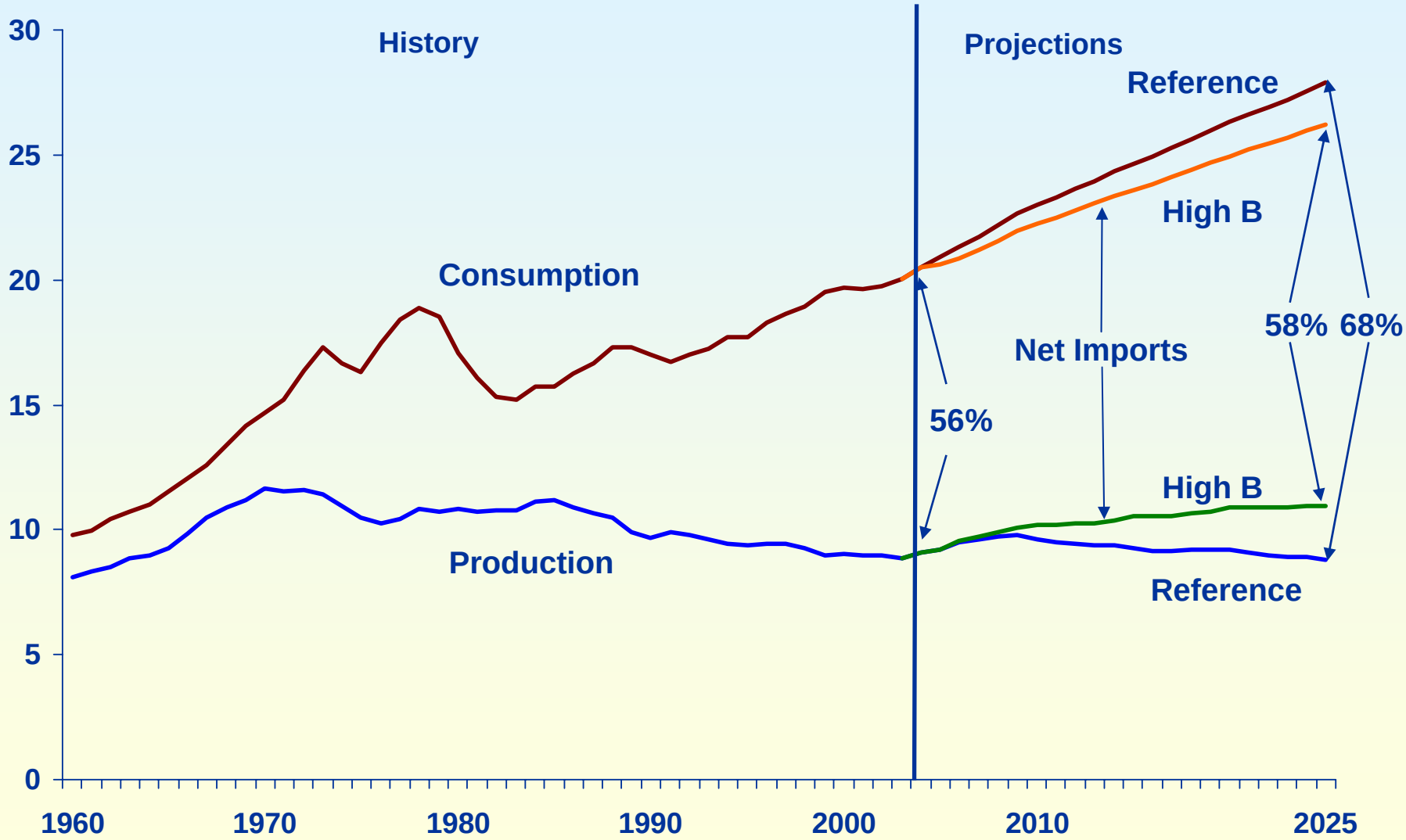
U.S. Energy Production, Consumption, and Net Imports, 1960-2025 (quadrillion Btu)



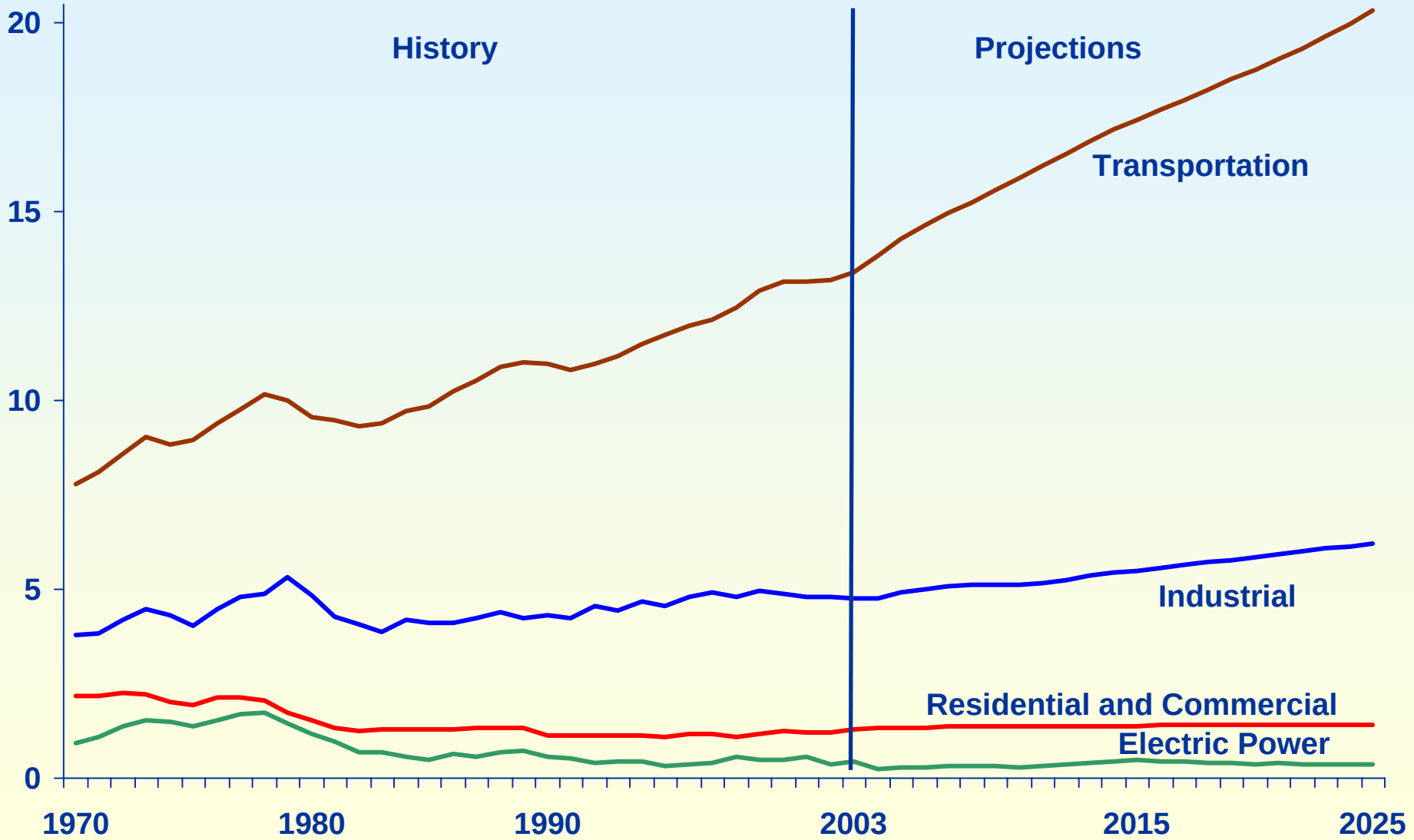
World Oil Price, 1970-2025
(2003 dollars per barrel)



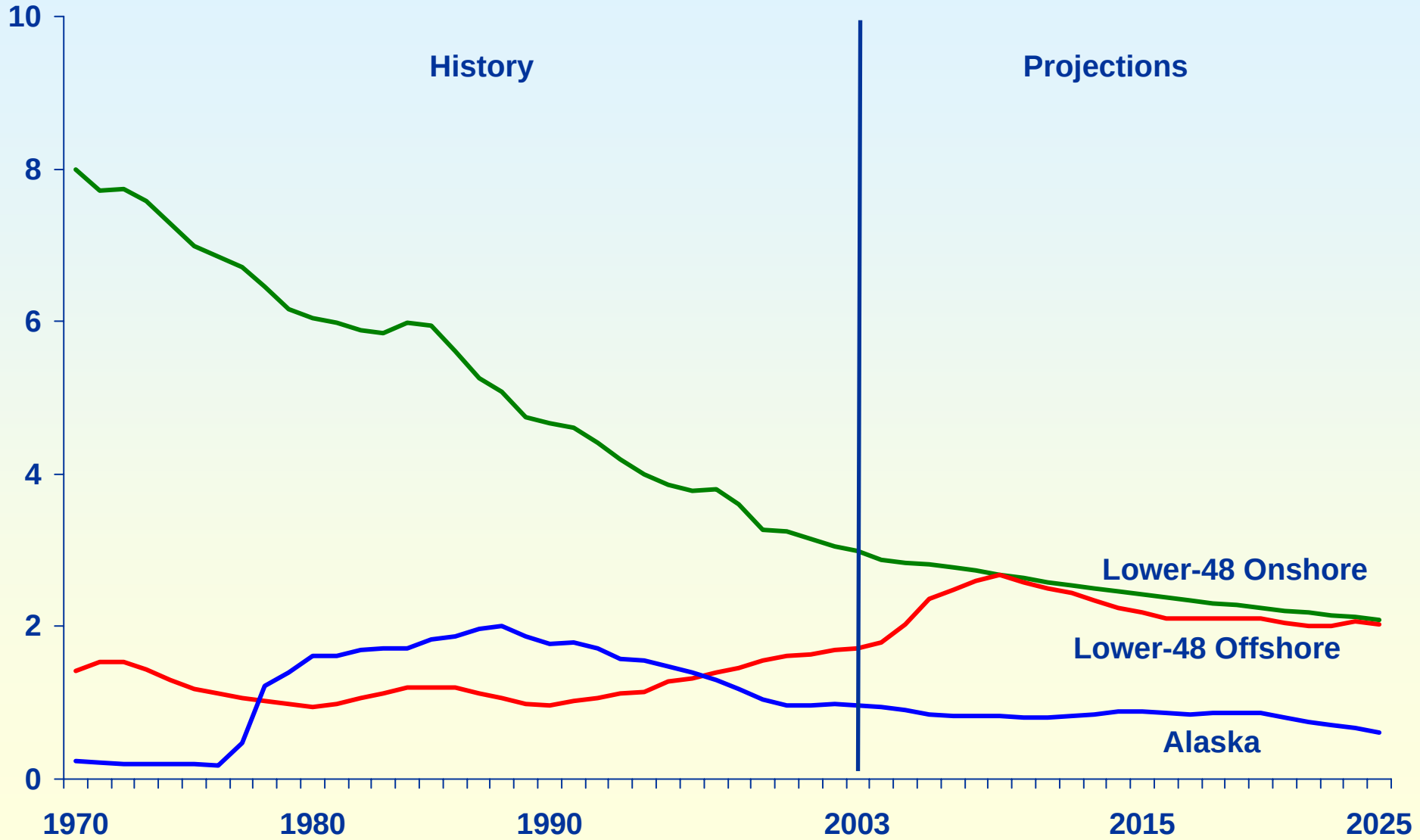
U.S. Petroleum Supply, Consumption, and Net Imports, 1960-2025 (million barrels per day)



U.S. Petroleum Consumption by Sector, 1970-2025 (million barrels per day)



Lower-48 Crude Oil Production by Source, 1970-2025 (million barrels per day)



Energy Policy Act of 2005

Status

- Passed House of Representatives in late April
- Under consideration in the Senate since mid-June

Outlook

- Goals are to complete Senate action in late June, resolve differences in conference in July, and transmit to President Bush in early August
- Conference resolution is likely to be difficult

Energy Policy Act of 2005: Major Tax Incentives

- House of Representatives – focuses on oil and natural gas
  - Reduces investment costs in natural gas infrastructure
  - Promotes exploration, development, and production of oil and natural gas and small refiners through tax incentives
- Senate – focuses on renewable energy and energy efficiency
  - Extends and expands production tax credit for electricity generation from renewable energy
  - Creates tax credits for hybrid, alternative-fuel, and fuel cell vehicles
  - Encourages additional refineries through tax incentives
- Both sets of tax incentives are more expensive than the Administration proposal; the Senate bill is considerably more.

Energy Policy Act of 2005: Other Oil and Natural Gas Provisions

- House of Representatives
  - Increases exploration and development on Federal lands
  - Authorizes oil production in the Arctic National Wildlife Refuge
  - Streamlines approval for reopening refineries or building new ones
  - Bans use of MTBE after 2014 and provides liability protection for its production or sale
- Senate
  - Establishes an assessment of oil and natural gas resources in the Outer Continental Shelf
- Both
  - Establishes renewable fuel standard for ethanol by 2012: 5 billion gallons (House) or 8 billion gallons (Senate)
  - Provides royalty relief for deep and ultra-deep gas wells in the shallow waters of the Gulf of Mexico
  - Streamlines the Federal government role in the approval of LNG terminals
  - Authorizes research for hydrogen fuel cell vehicles

Energy Policy Act of 2005: Climate Change

- Action in the Senate last week:
  - Adopted provision for voluntary emissions reductions through incentives for innovative technology
  - Rejected provision for mandatory reductions of carbon dioxide to 2000 levels by 2010
  - Adopted non-binding provision which:
    - Acknowledges the role of human activity in climate change
    - States that Congress should enact a program of mandatory, market-based limits and incentives on emissions of greenhouse gases