

U.S. Oil and Natural Gas Markets: Short-Term and Mid-Term Outlook

State Heating Oil and Propane Program Conference
Pinehurst, North Carolina

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Administrator

Energy Information Administration

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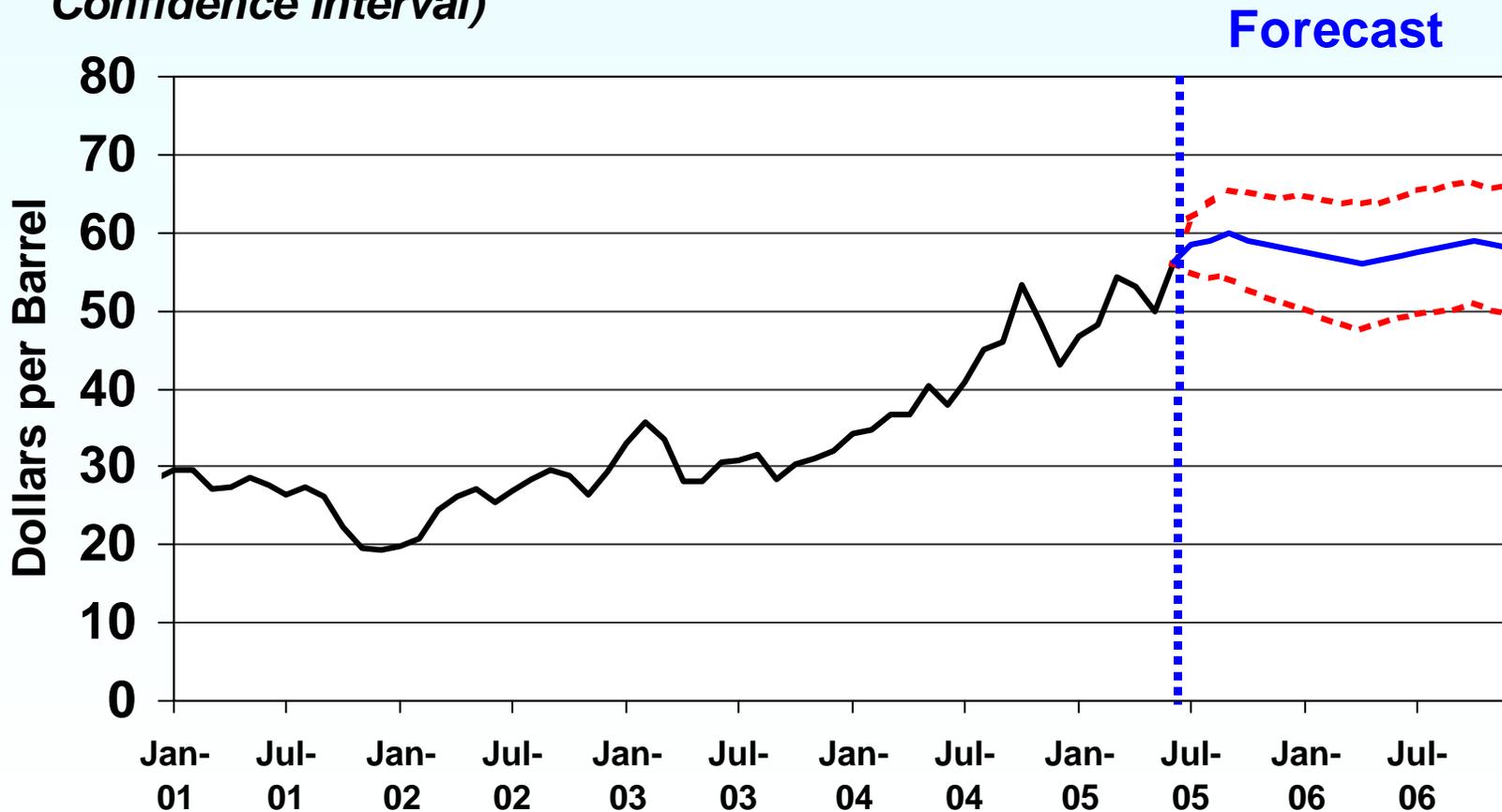


Key findings from EIA's outlooks...

- In the short term, tight markets and political uncertainties keep world oil prices high.
- **For the coming winter, fuel supplies should remain adequate, but prices will be 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.

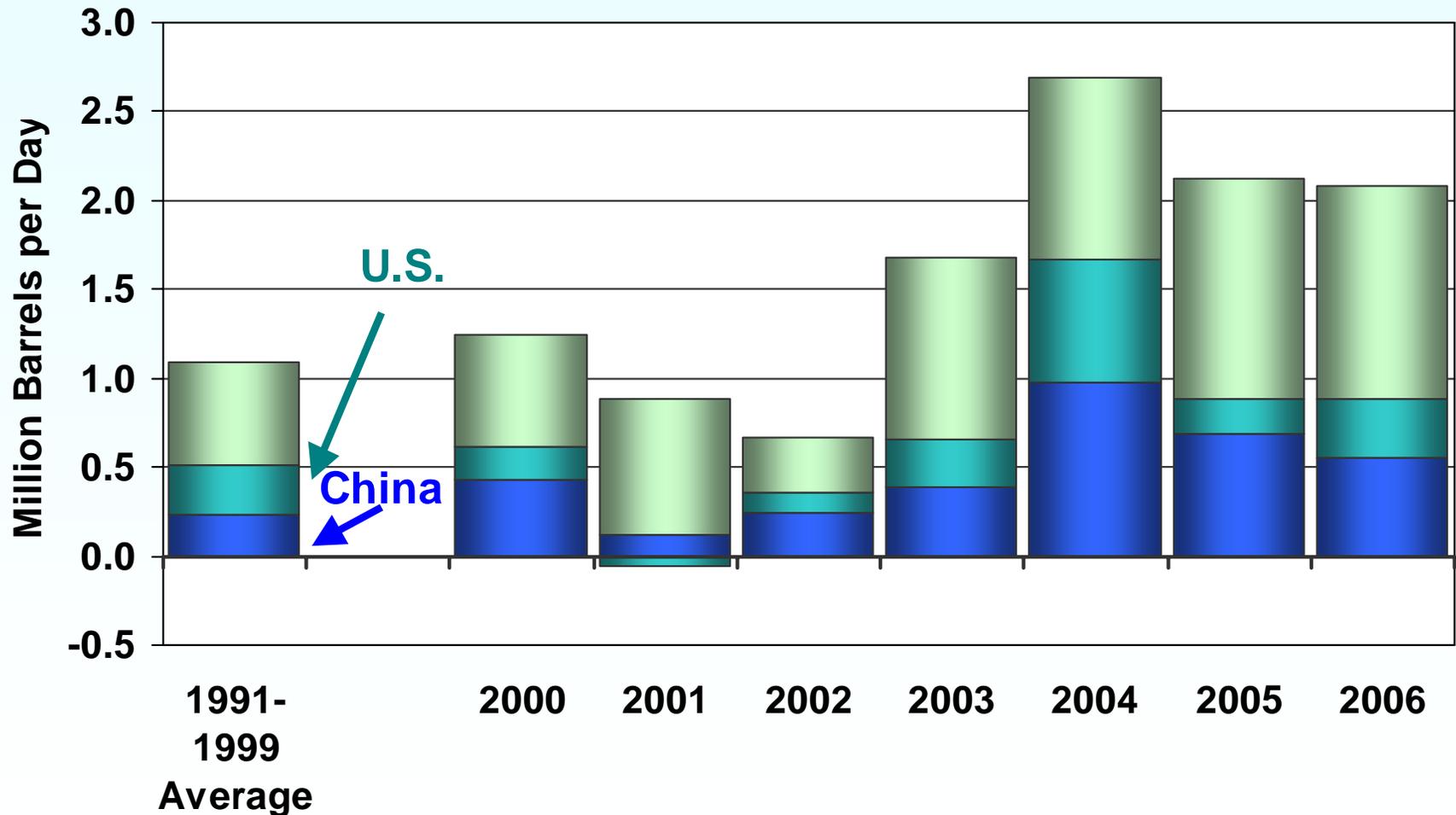
Crude Oil Prices Likely to Remain Above \$55 Through 2006

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



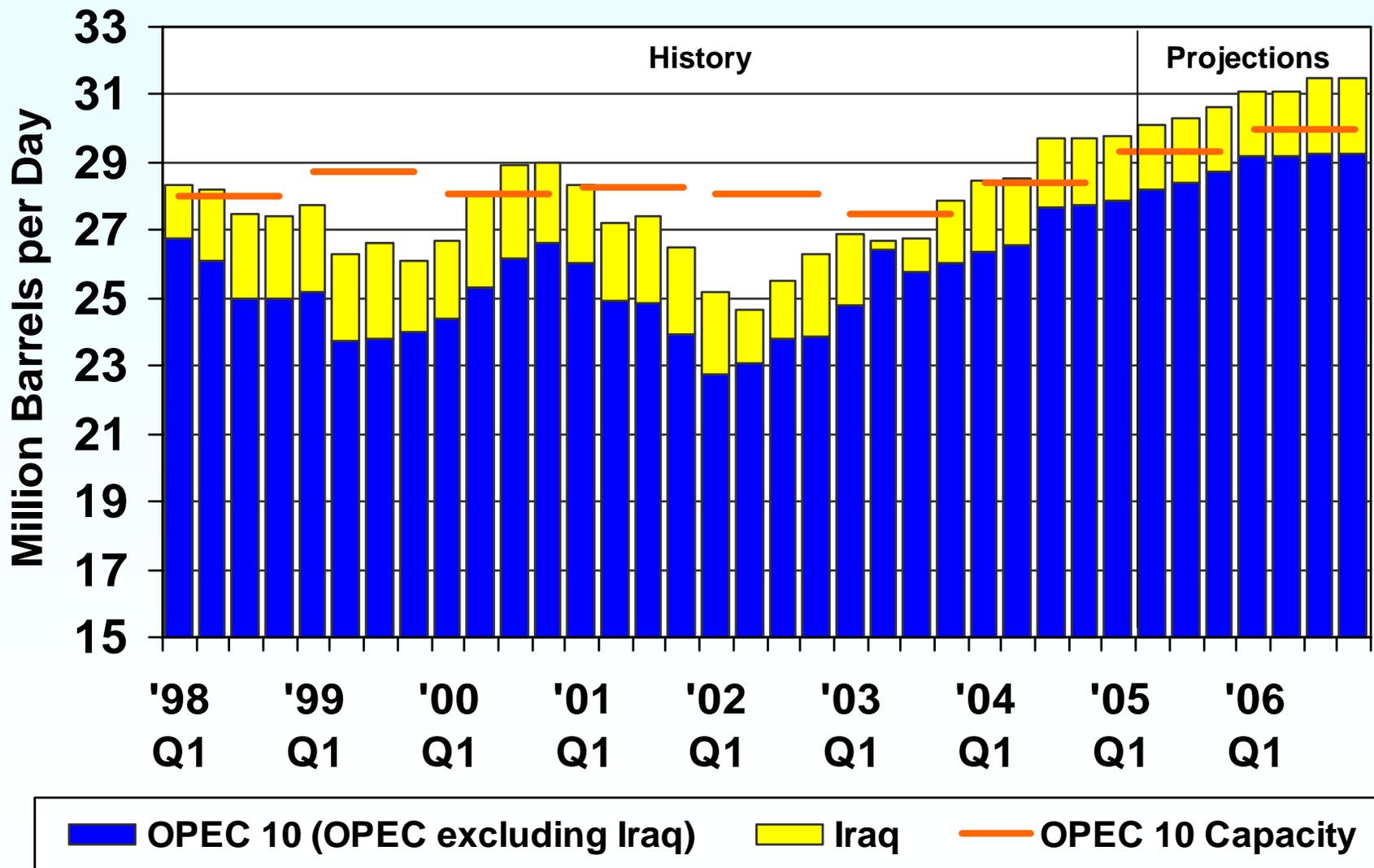
Sources: History: EIA; Projections: Short-Term Energy Outlook, July 2005.

World Oil Demand Growth Continues to Surge, Led by China



Source: EIA Short-Term Energy Outlook, July 2005

Will OPEC Keep Markets Adequately Supplied?

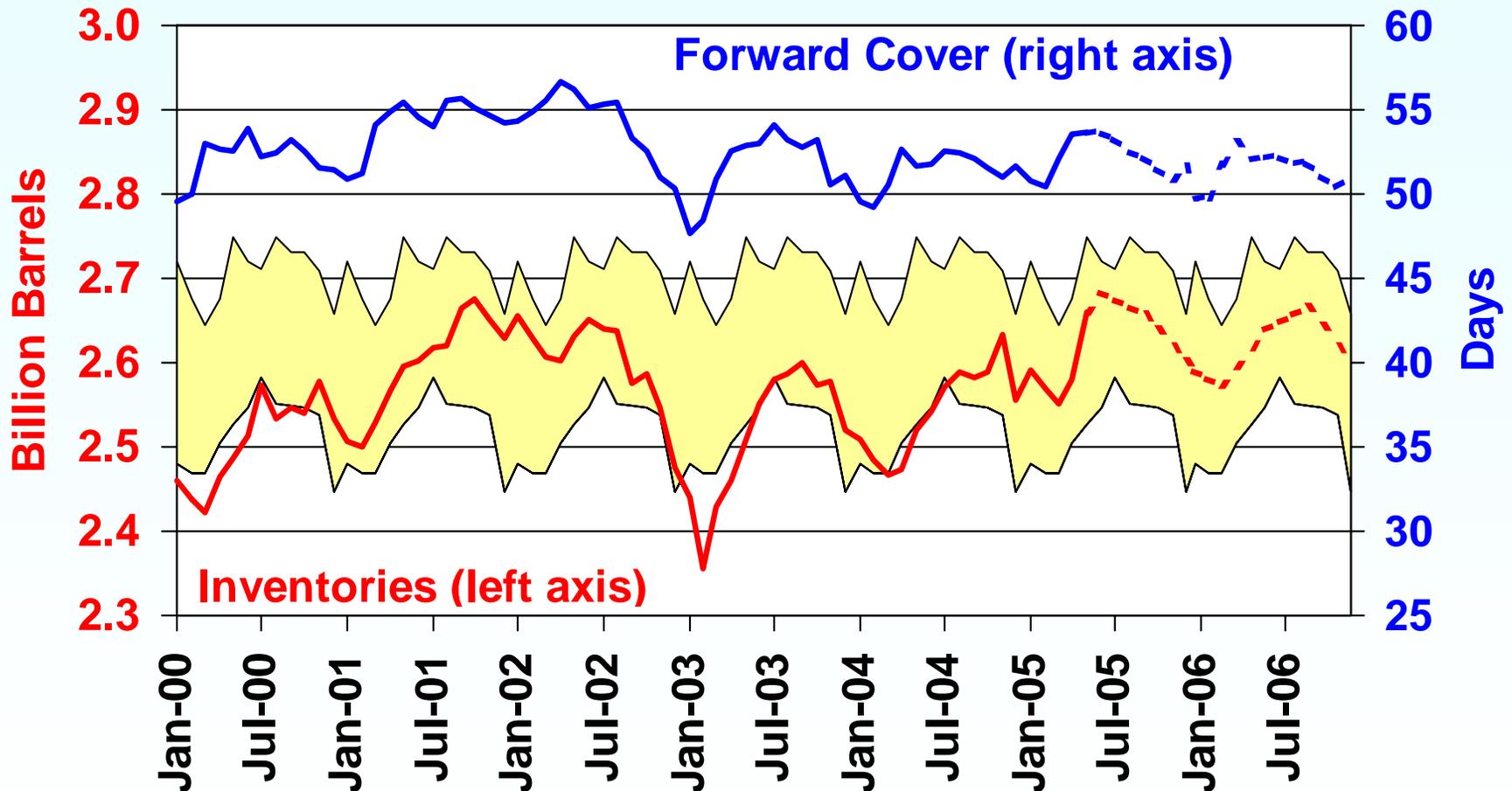


Sources: History: EIA; Projections: Short-Term Energy Outlook, July 2005.



OECD Inventories in Normal Range, But Forward Cover Low

OECD Commercial Petroleum Inventories

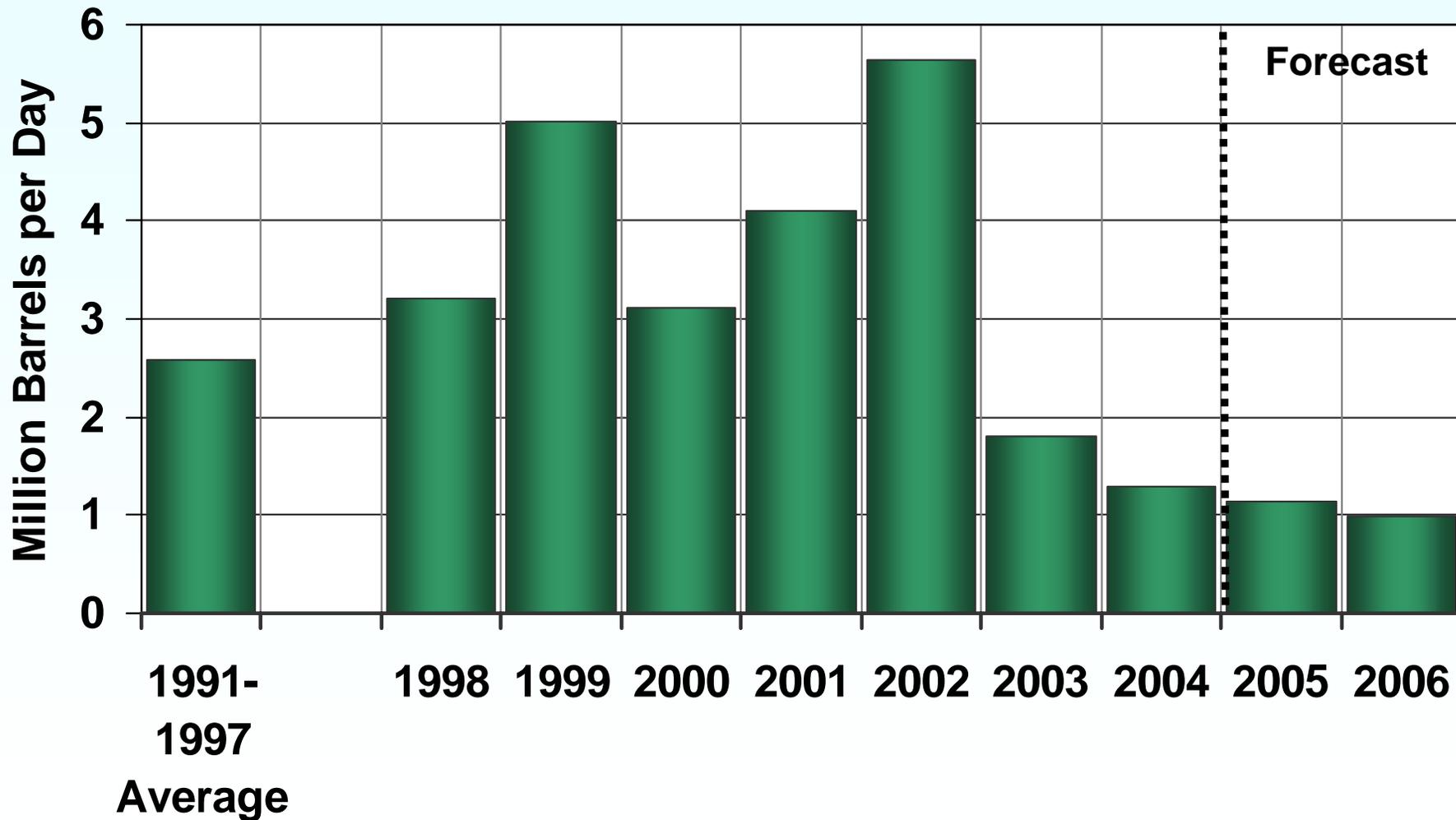


NOTE: Colored Band is Normal Stock Range (5 Year Average +/- 1 standard deviation).

Source: Energy Information Administration



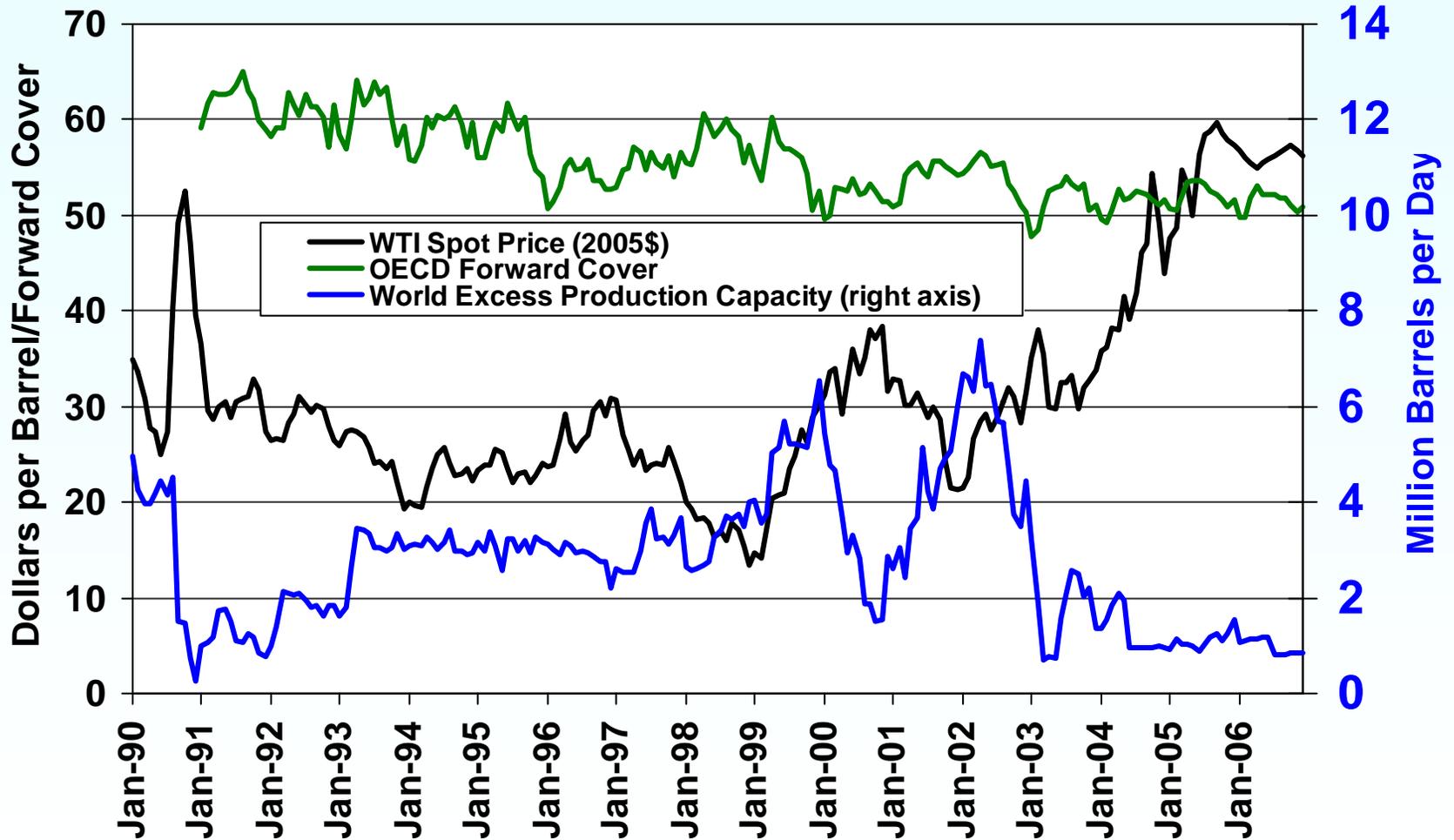
World Oil Spare Production Capacity Continues to Decline



Source: History: EIA; Projections: Short-Term Energy Outlook, July 2005.

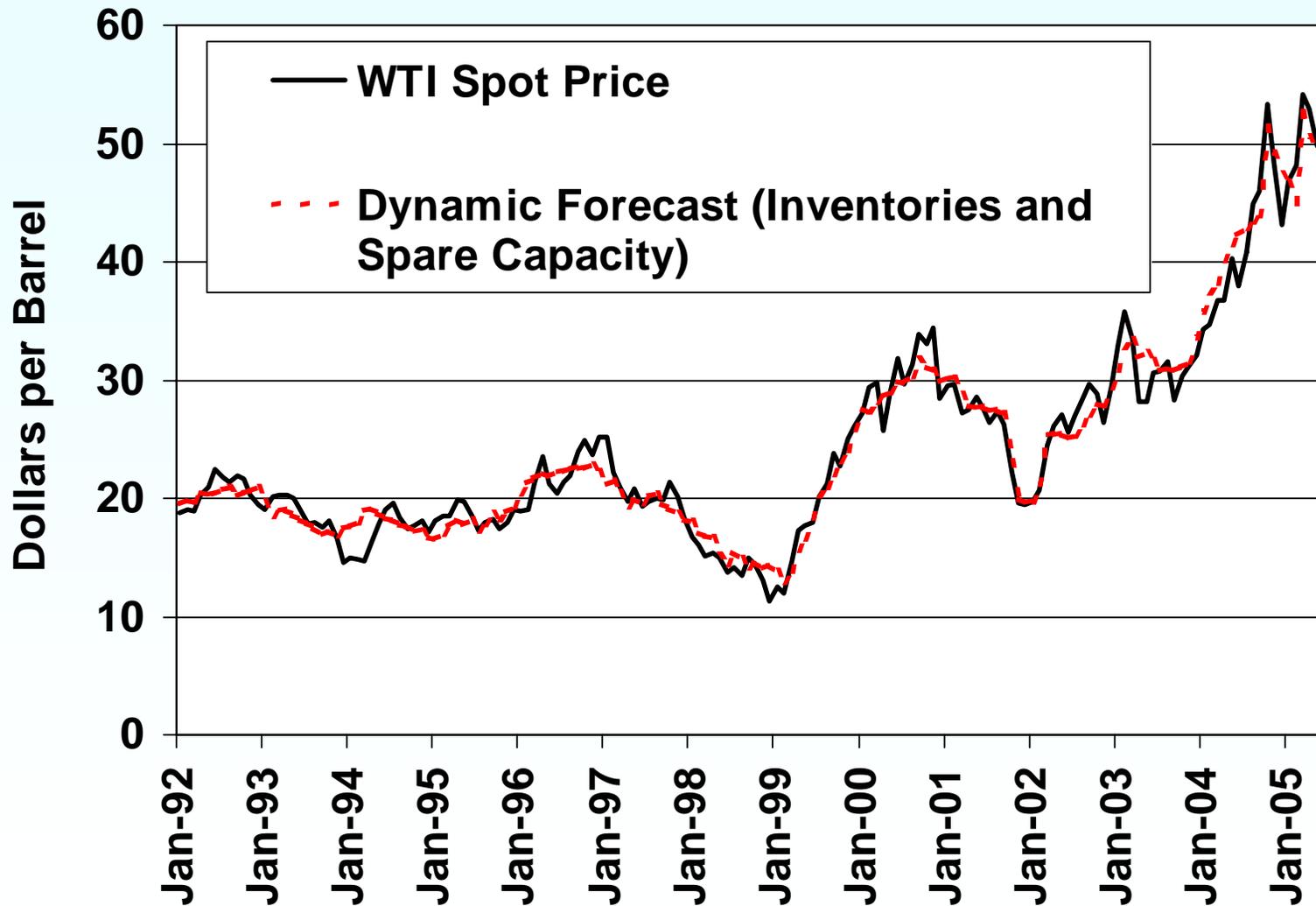


Lack of Excess Capacity and Low Forward Cover Thrust Prices Upward



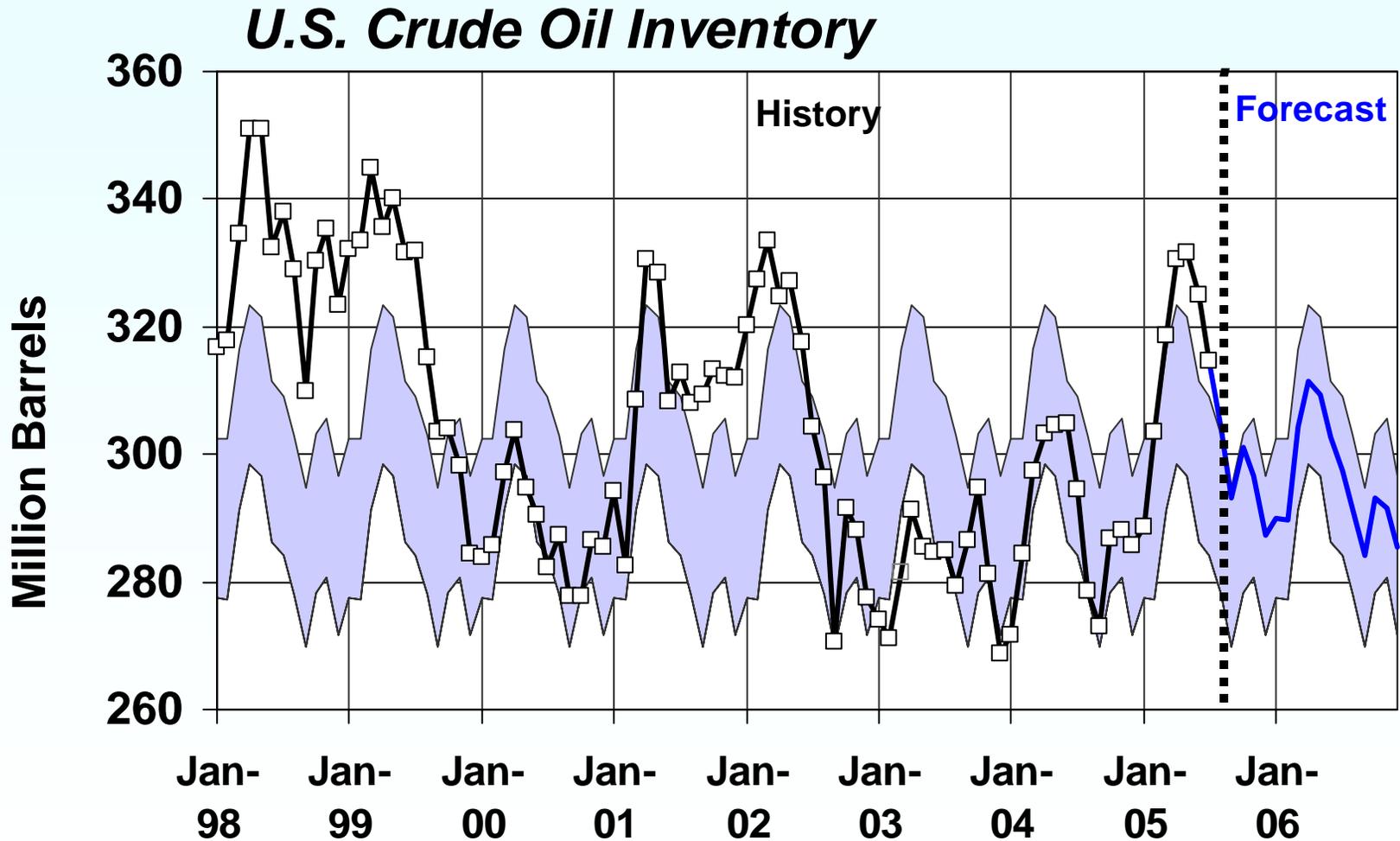
Sources: WTI: Reuters; OECD Forward Cover: International Energy Agency; World Excess Production Capacity: U.S. Energy Information Administration estimates.

OECD Inventories and Spare Production Capacity Have Explained Most of Recent Price Variation



Source: Reuters spot prices, EIA modeling.

U.S. Crude Inventories Projected to Remain in Normal Range



NOTE: Colored band is the normal inventory range.

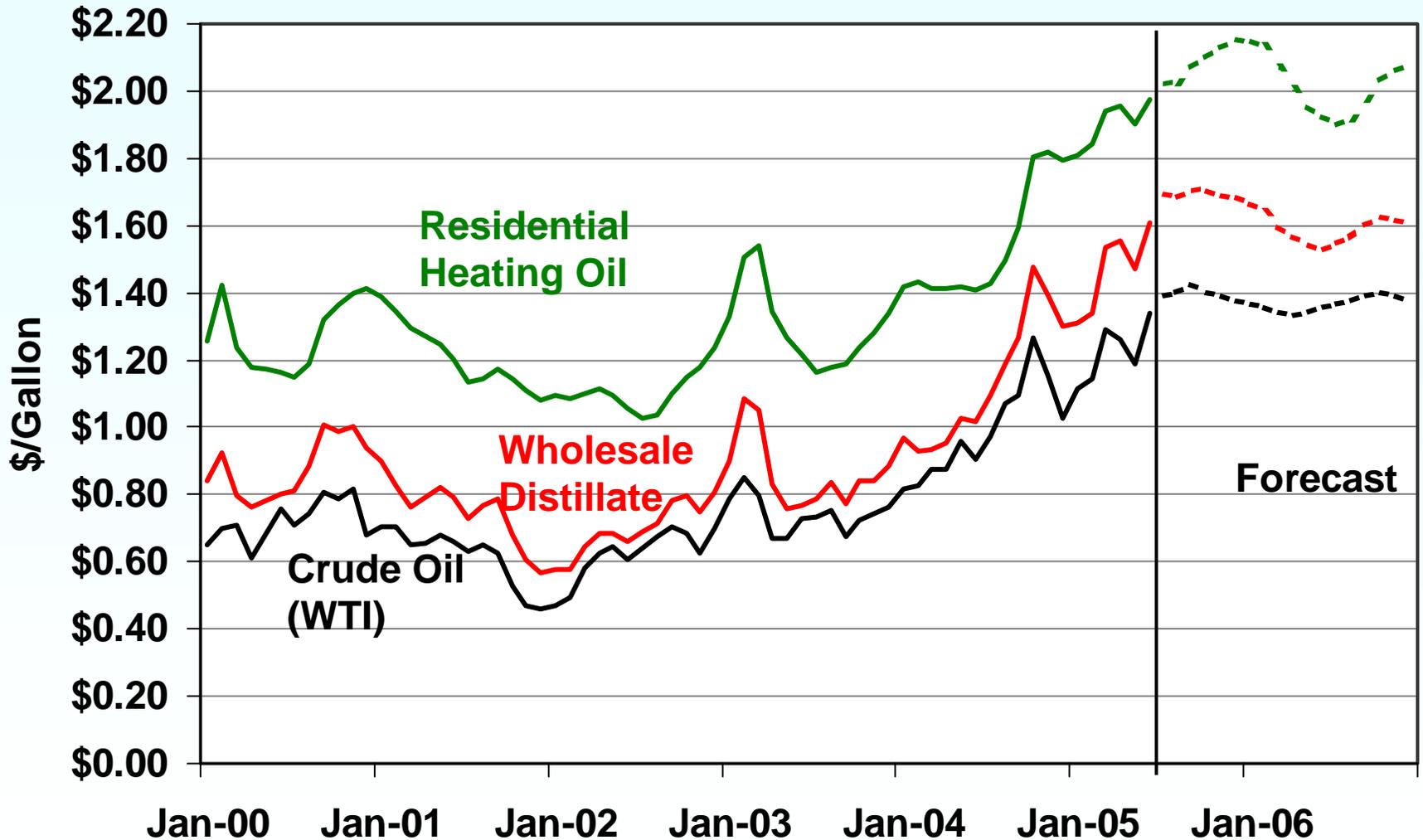
Sources: EIA, Short-Term Energy Outlook, July 2005

Crude Oil Outlook Conclusions

- **U.S. and global oil demand continues to grow, led by China and the U.S.**
- **Higher OPEC and non-OPEC production is expected in 2005**
- **OECD inventories should remain in normal range this year and next, but forward cover in declining as demand grows**
- **WTI prices expected to stay strong due to fundamentals and limited spare capacity**



Winter Crude Oil and Distillate Price Outlook

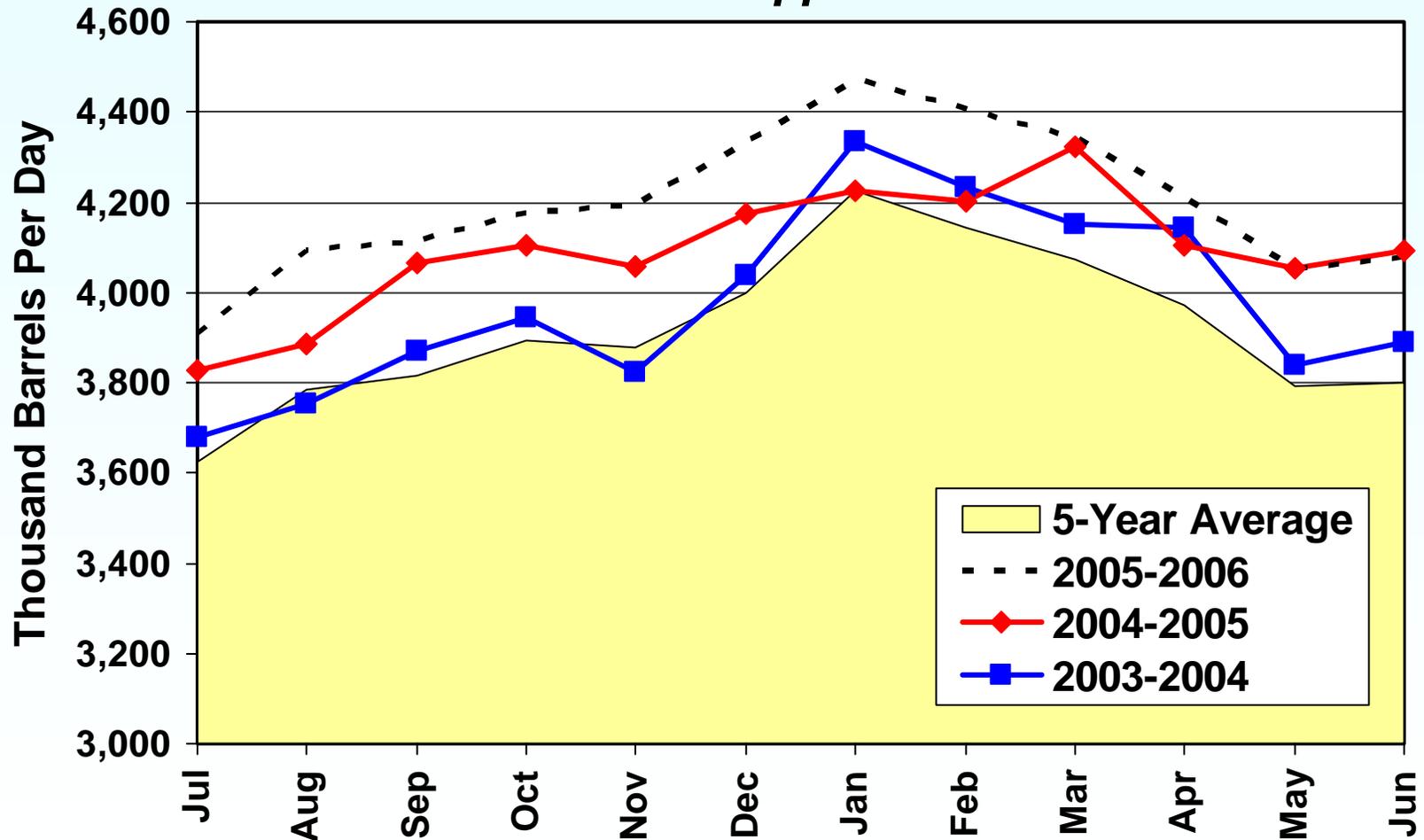


Sources: History: EIA; Projections: Short-Term Energy Outlook, July 2005.



Distillate Winter Demand Expected to Continue to Grow

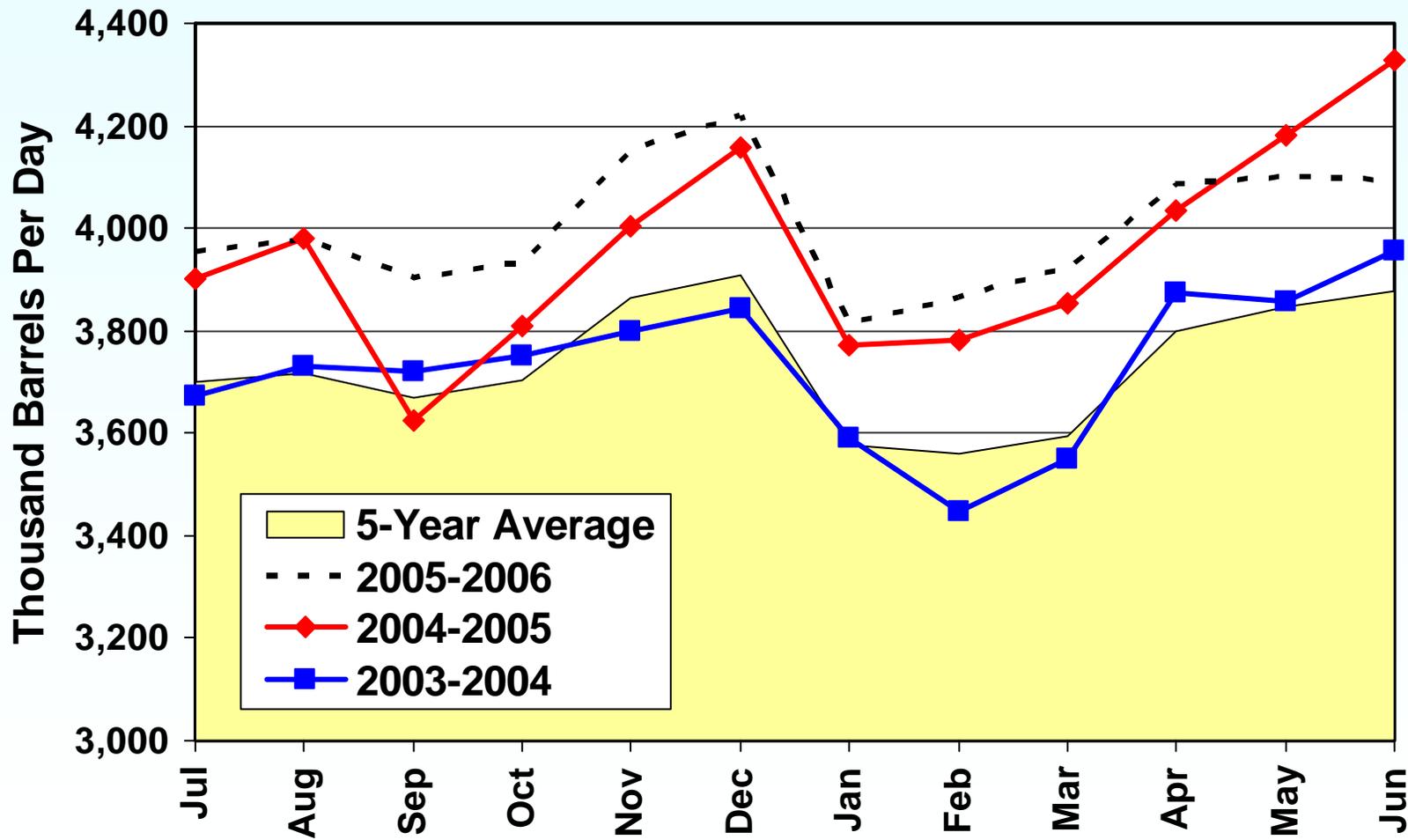
U.S. Distillate Product Supplied



Sources: History: EIA; Projections: Short-Term Energy Outlook, July 2005.

Distillate Production Higher Leading Up to Peak Demand Season

U.S. Distillate Production

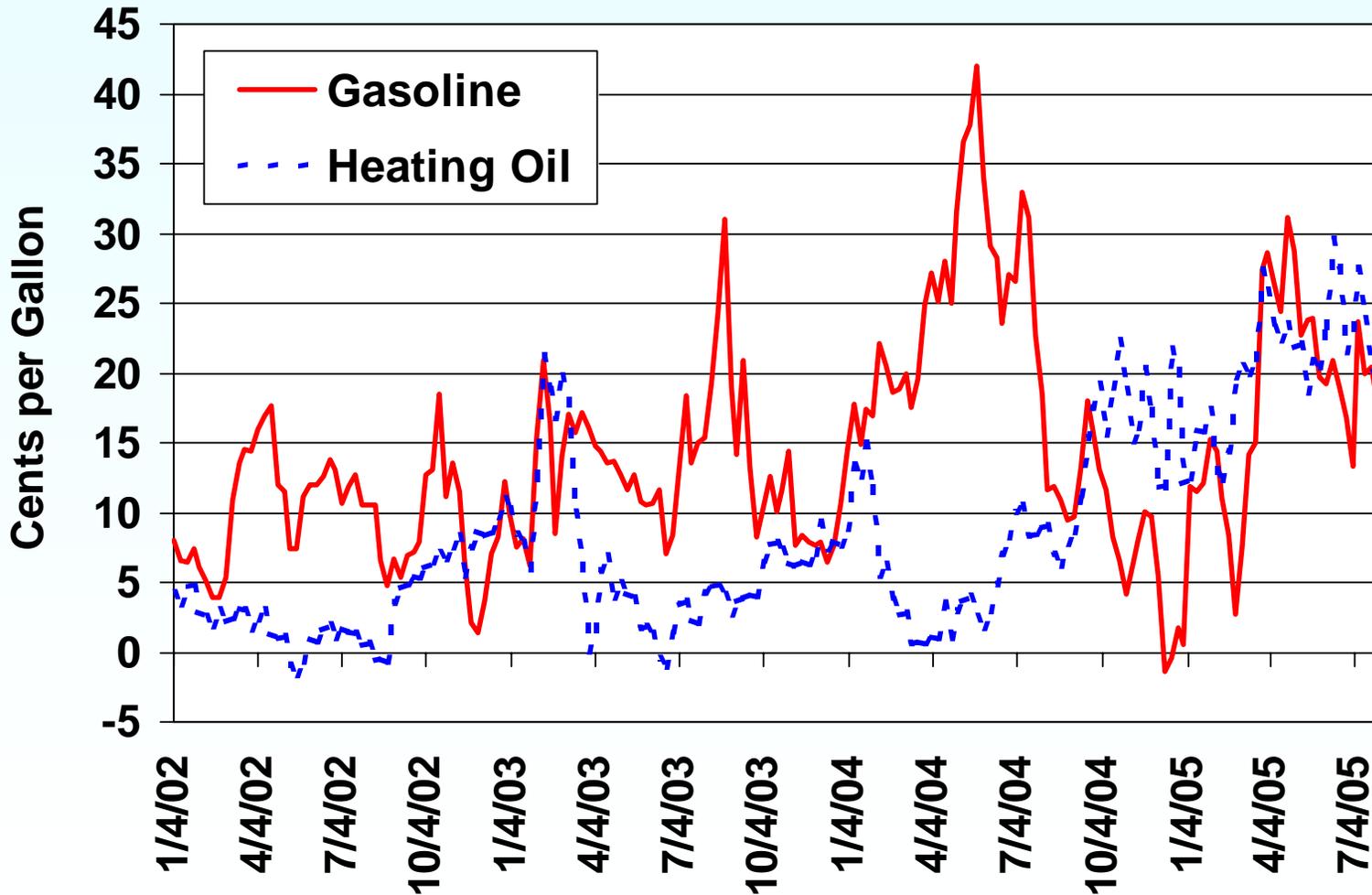


Sources: History: EIA; Projections: Short-Term Energy Outlook, July 2005.



Strong Crack Spreads Encourage High Refinery Production

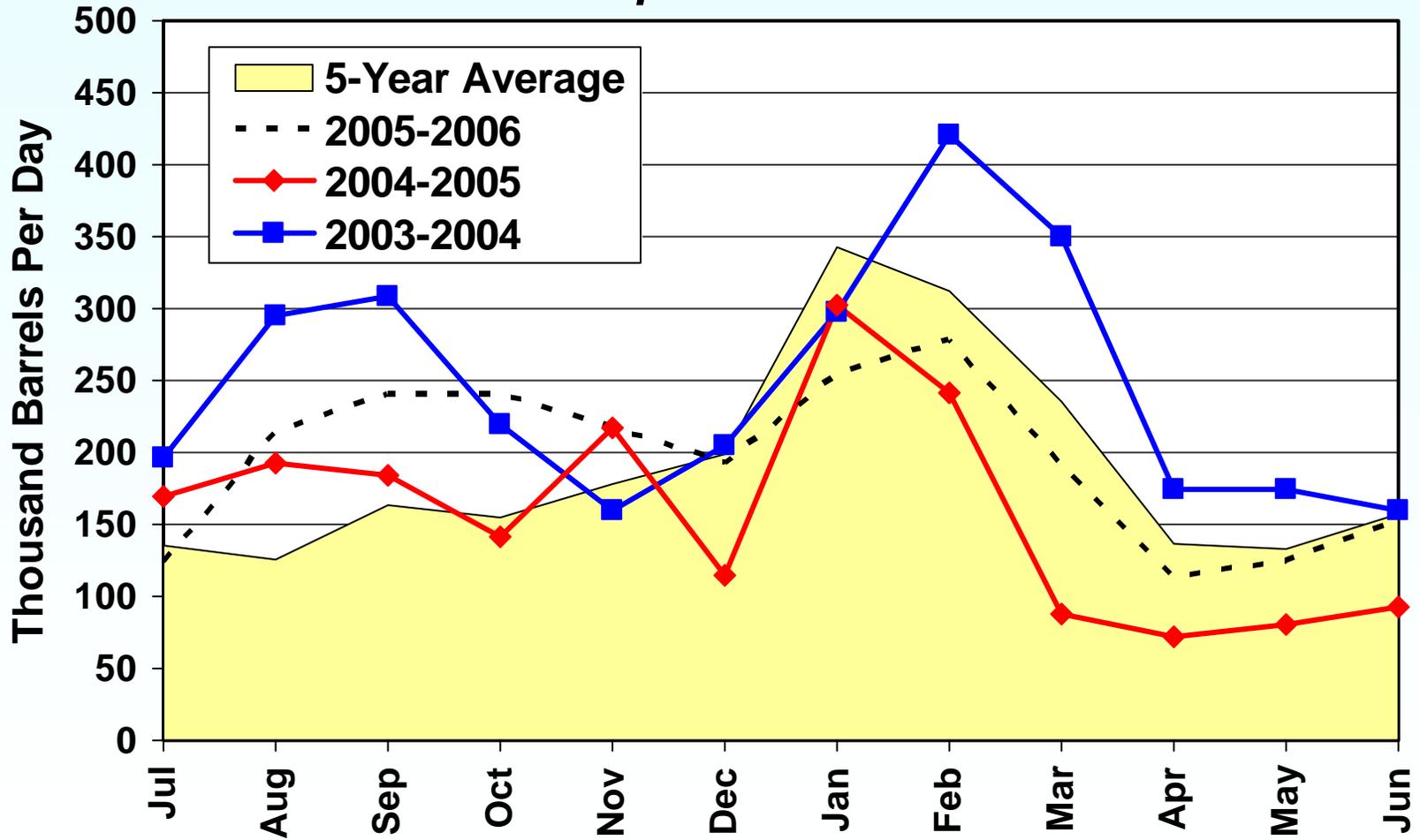
Gulf Coast Products vs. WTI Crude Oil



Source: EIA calculations from Reuters spot prices.

Distillate Net Imports May Be Constrained This Winter

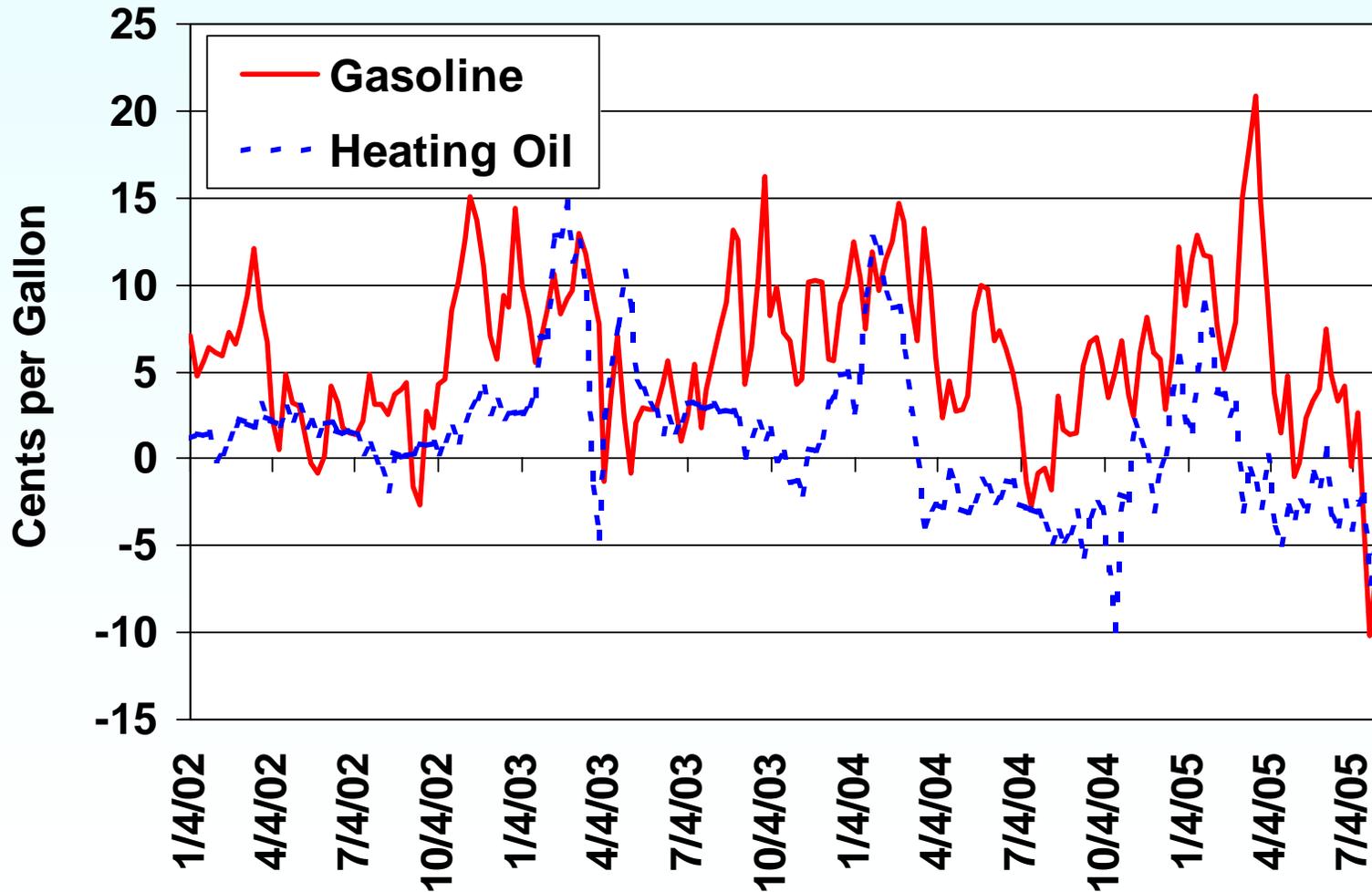
U.S. Distillate Net Imports



Sources: History: EIA; Projections: Short-Term Energy Outlook, July 2005.

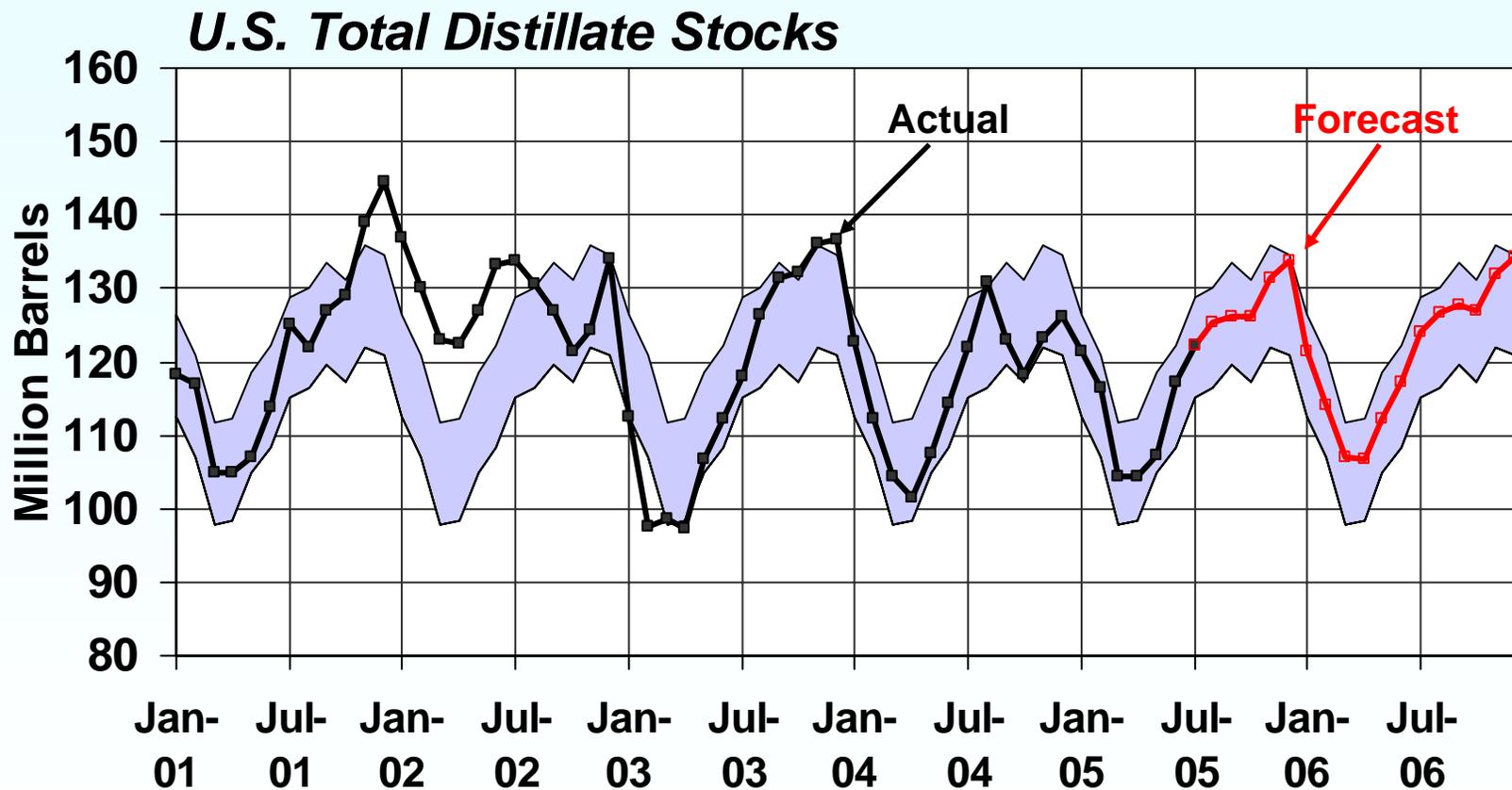
Trans-Atlantic Arbitrage Not Presently Favoring Imports

New York Harbor vs. Rotterdam



Source: EIA calculations from Reuters spot prices.

Distillate Stocks Expected to be in Normal Range This Winter



NOTE: Colored Band is Normal Stock Range

Sources: History: EIA; Projections: Short-Term Energy Outlook, July 2005.



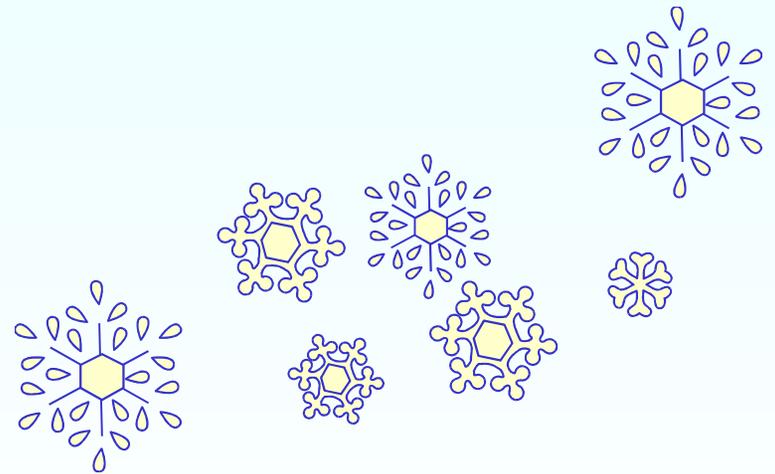
Consumer Prices and Expenditures – Heating Oil (Northeast)

	2002- 2003	2003- 2004	2004- 2005	2005-2006
	Actual	Actual	Actual	Forecast (est.)
Consumption (gals.)	743	700	697	698
Average Price	\$1.34	\$1.37	\$1.84	\$2.13
Expenditures	\$993	\$959	\$1,280	\$1,486

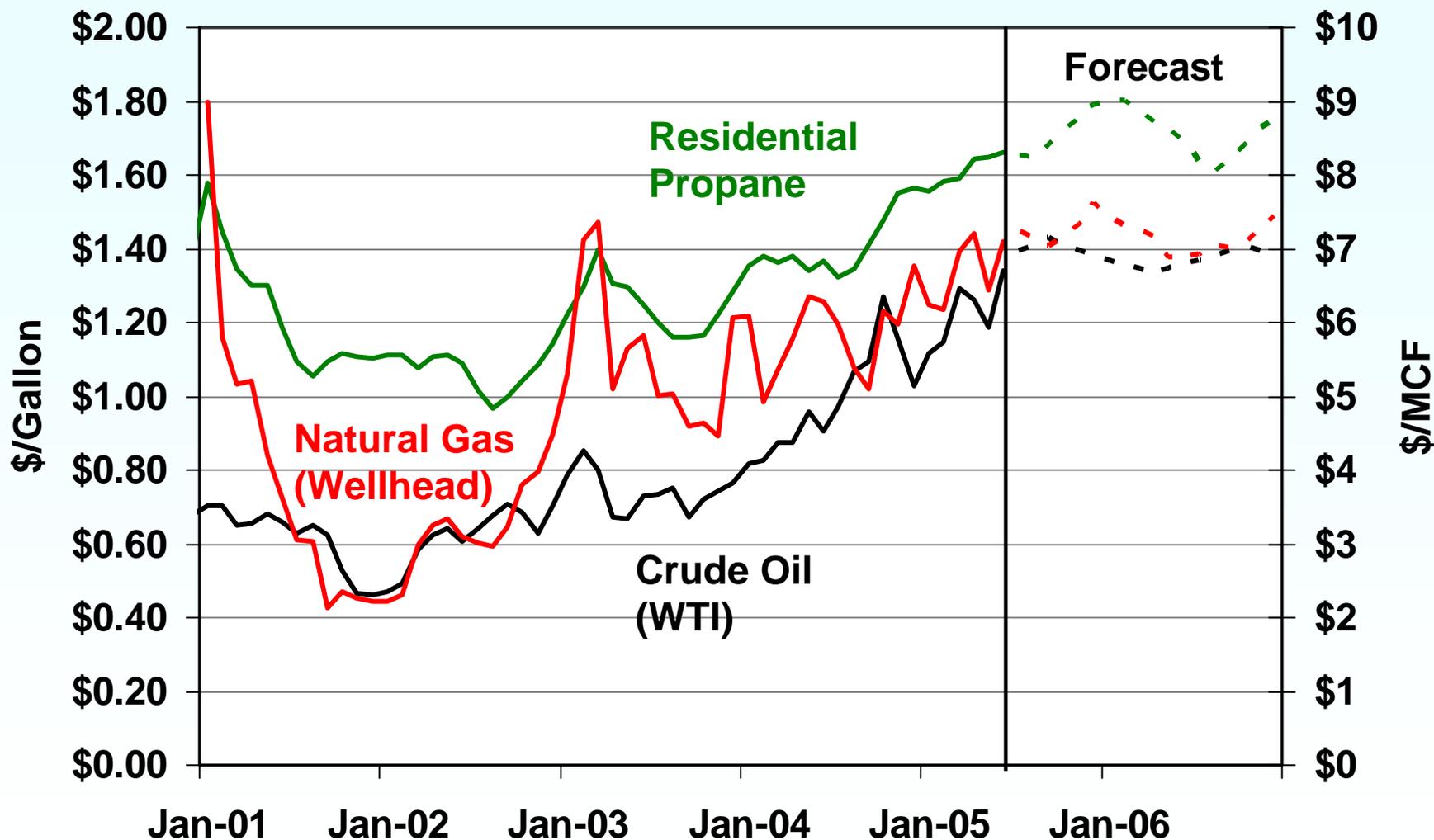
Sources: History: EIA; Projections: Short-Term Energy Outlook, July 2005.

Heating Oil Outlook Conclusion

- Distillate stocks are likely to be about average going into the winter
- Prices are likely to average nearly 30 cents higher than last winter, given current crude oil price forecast
- Residential consumers' fuel requirements should be about the same as last winter, if weather is normal
- Despite similar volumes, higher prices will boost expenditures significantly from last year



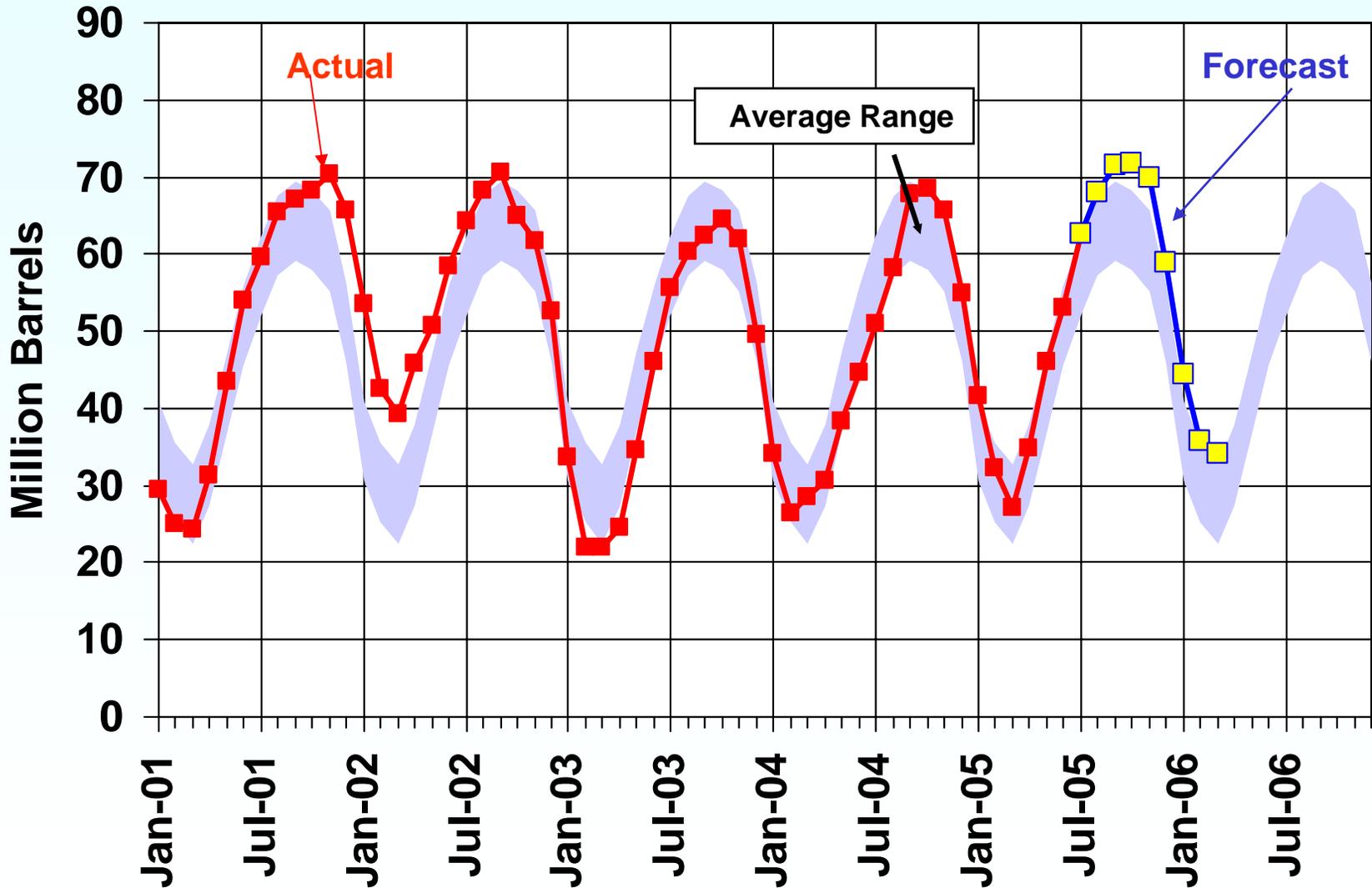
Crude Oil, Natural Gas, and Propane Price Outlook



Sources: History: EIA; Projections: Short-Term Energy Outlook, July 2005.



U.S. Propane Stocks



Source: Energy Information Administration, July 2005

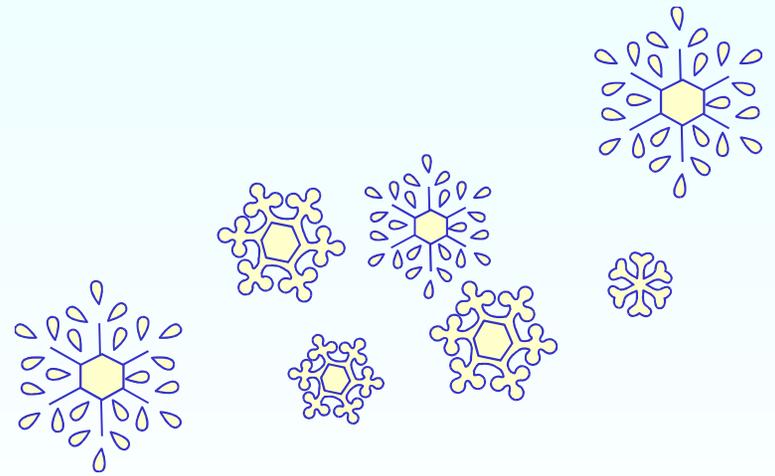
Consumer Prices and Expenditures – Propane (Midwest)

	2002- 2003	2003- 2004	2004- 2005	2005- 2006
	Actual	Actual	Actual	Forecast (est.)
Consumption (gals.)	940	883	873	912
Average Price	\$1.20	\$1.30	\$1.55	\$1.78
Expenditures	\$1,124	\$1,148	\$1,358	\$1,620

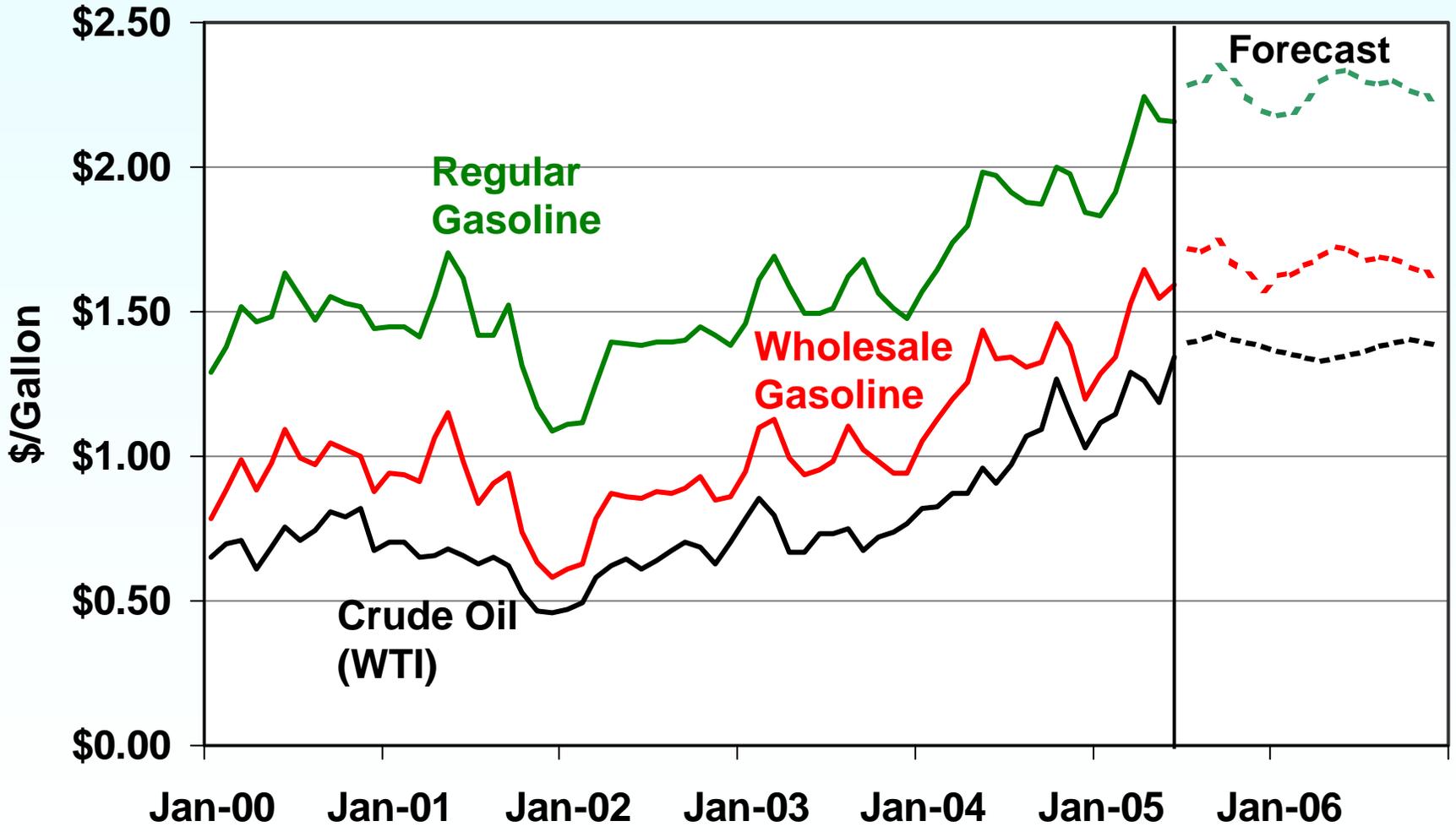
Sources: History: EIA; Projections: Short-Term Energy Outlook, July 2005.

Propane Outlook Conclusion

- U.S. inventories likely to remain at or above the top of the historic average range
- Propane prices are expected to be about 20 cents/gallon higher this winter than last
- Residential customers' fuel requirements should be somewhat higher than last winter, if weather is normal
- Higher prices and volumes are likely to mean significantly higher consumer expenditures compared to last year



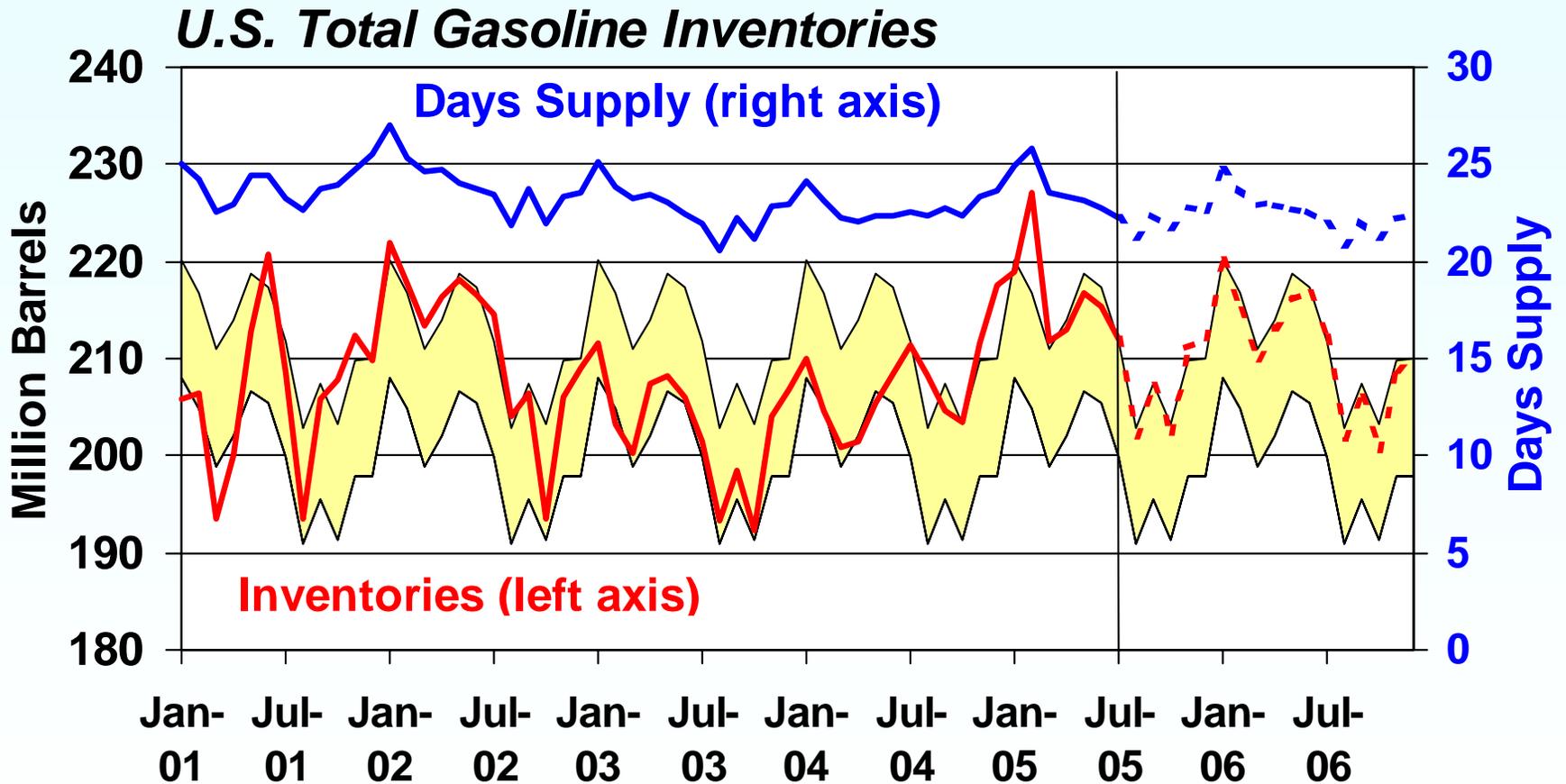
Crude Oil and Gasoline Price Outlook



Sources: History: EIA; Projections: Short-Term Energy Outlook, July 2005.



U.S. Gasoline Inventories Are High, But Demand Growth Puts Forward Cover Relatively Lower



NOTE: Colored Band is Normal Stock Range

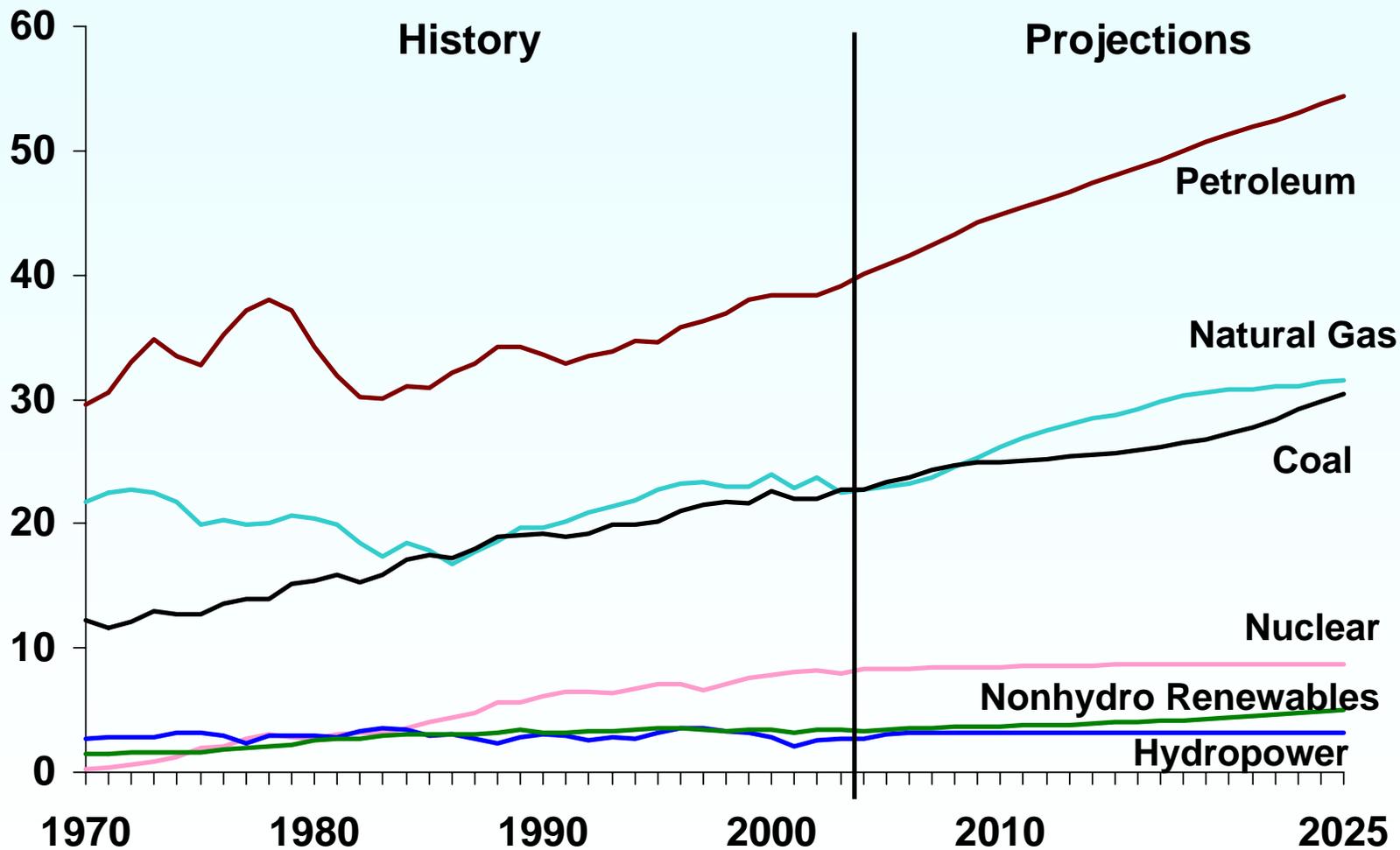
Source: EIA, Short Term Energy Outlook, July 2005.

Gasoline Outlook Conclusion

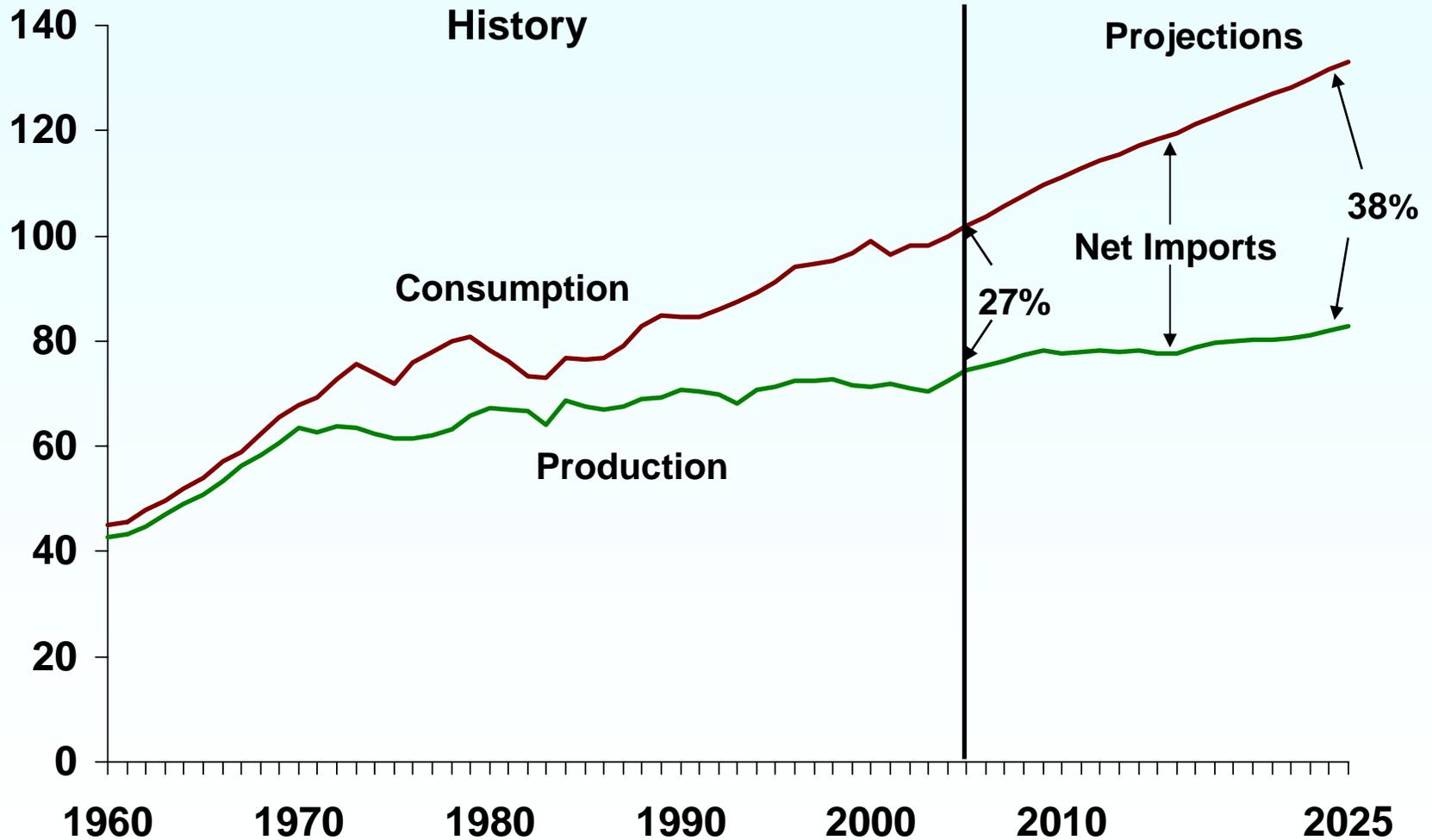
- U.S. inventories are likely to remain high in the historic average range, but with less forward cover
- Gasoline prices should remain relatively stable through the winter, but high by historical standards
- Crude oil prices will likely be the key



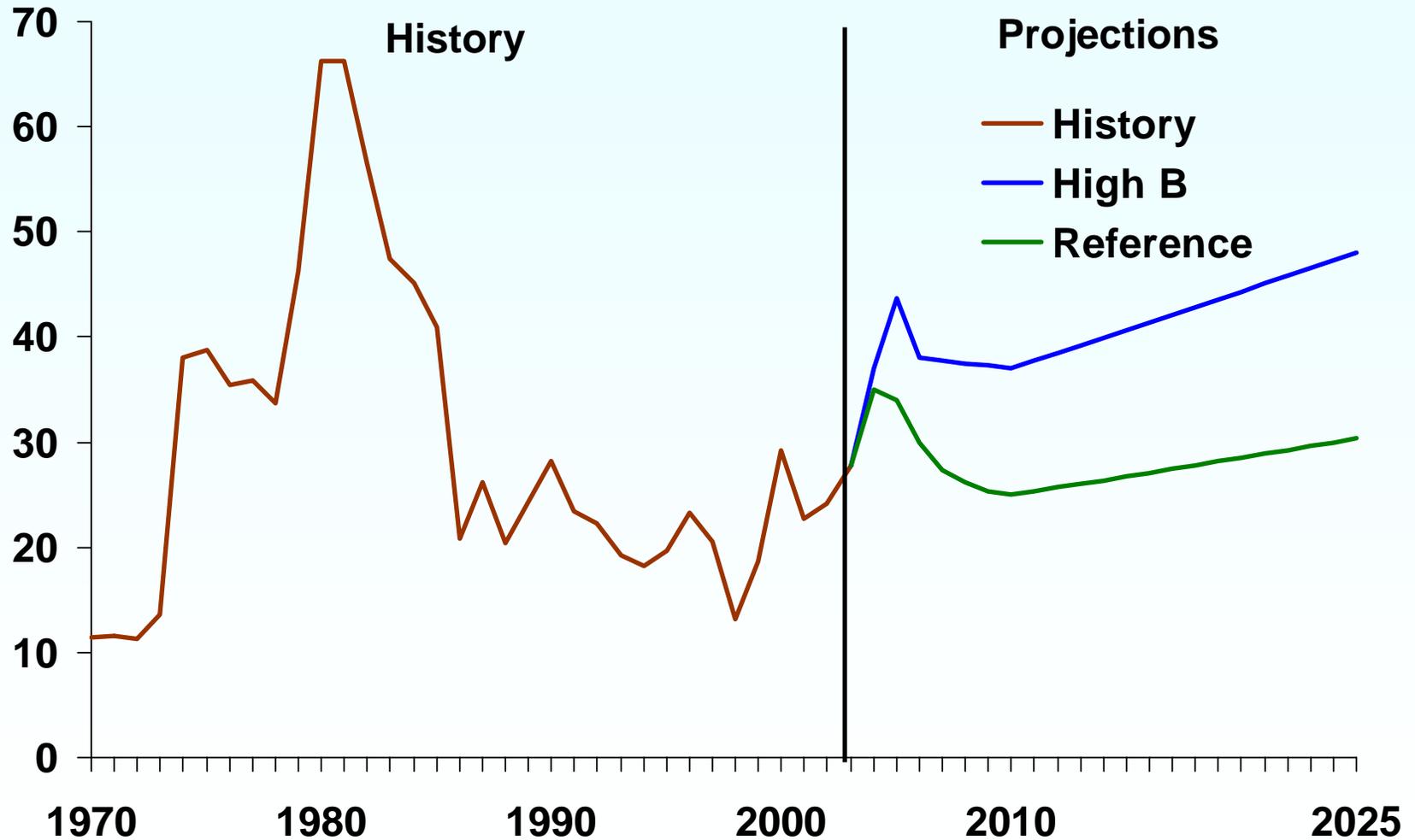
U.S. Energy Consumption by Fuel, 1970-2025 (quadrillion Btu)



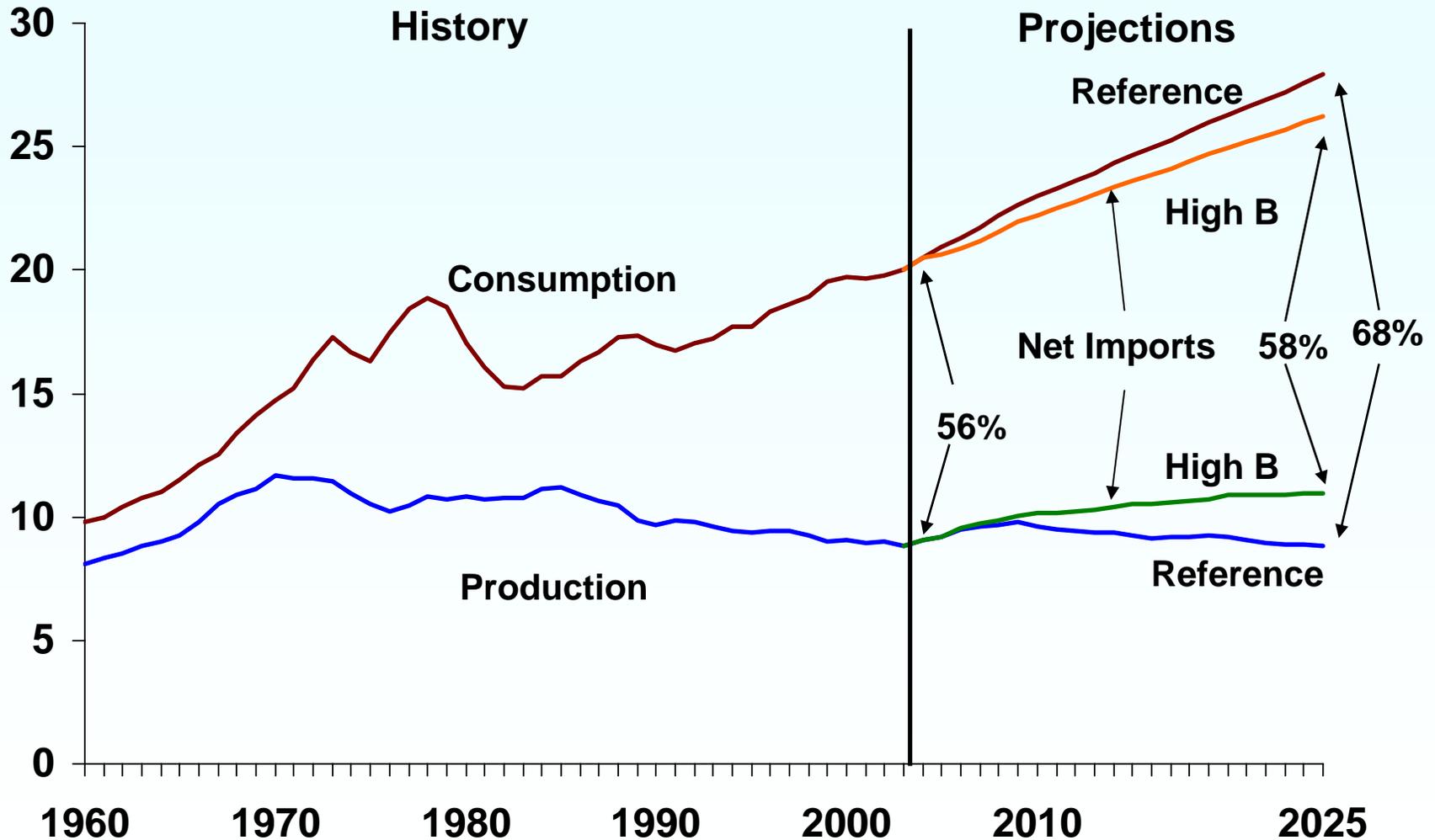
U.S. Energy Production, Consumption, and Net Imports, 1960-2025 (quadrillion Btu)



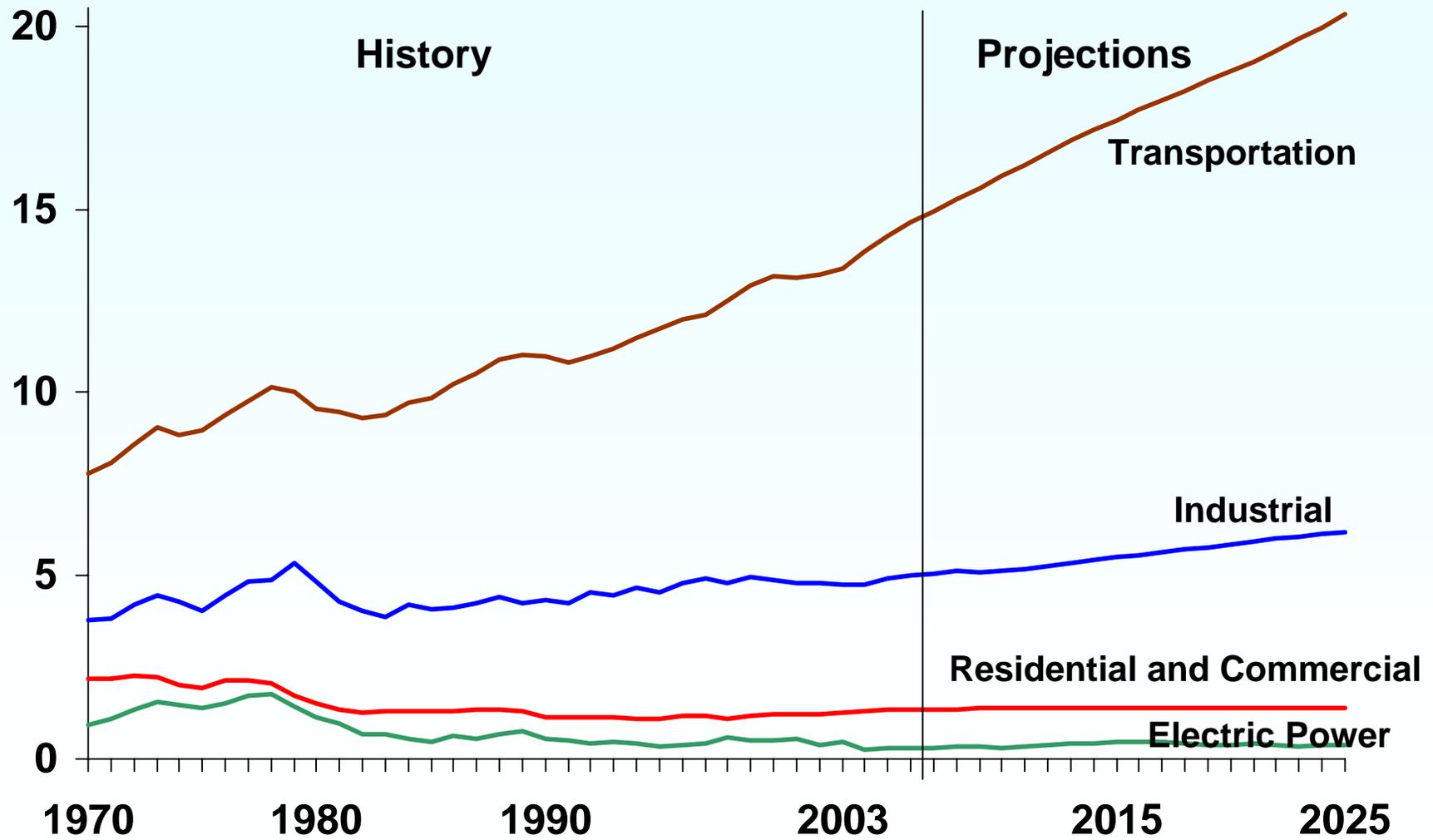
World Oil Price, 1970-2025 (2003 dollars per barrel)



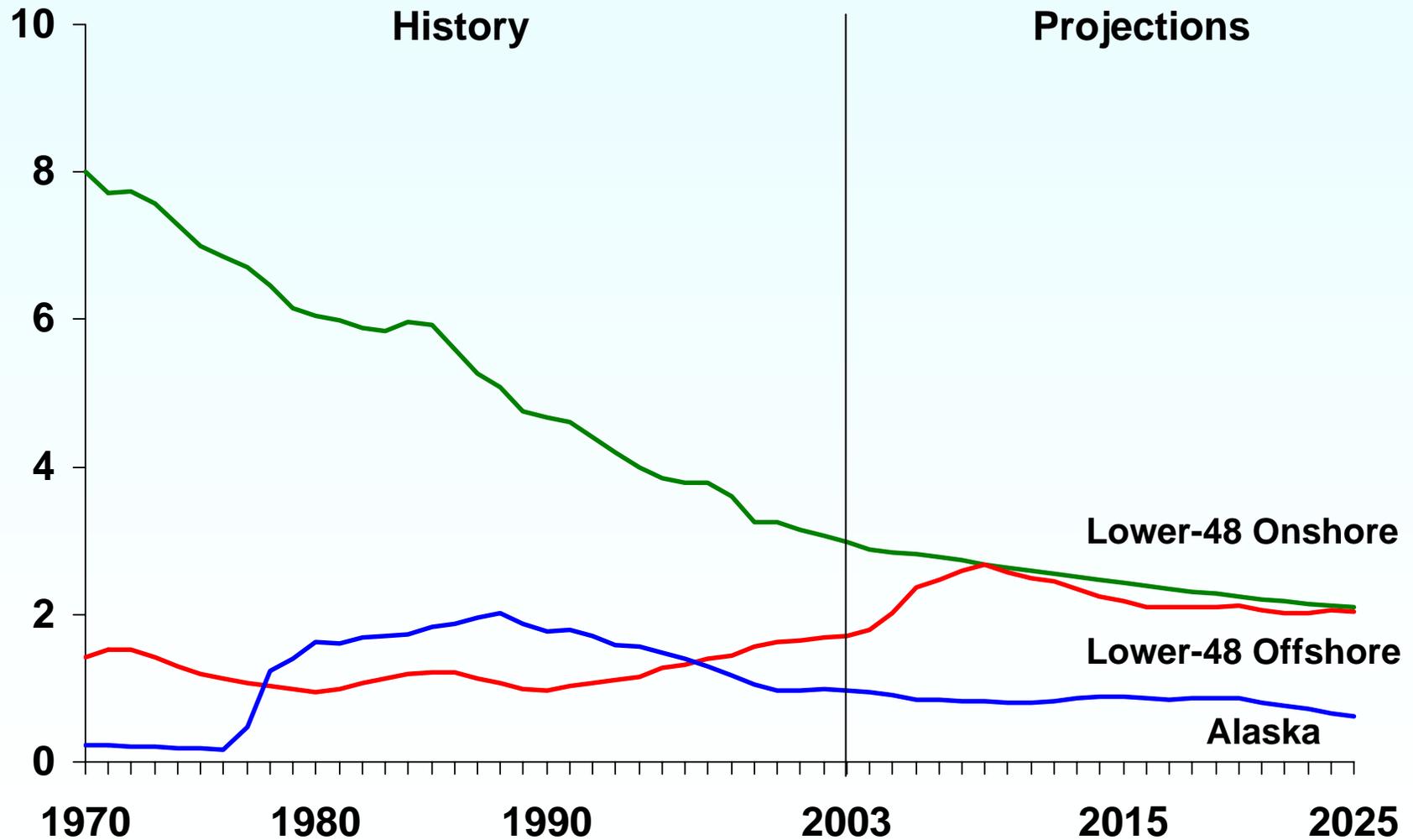
U.S. Petroleum Supply, Consumption, and Net Imports, 1960-2025 (million barrels per day)



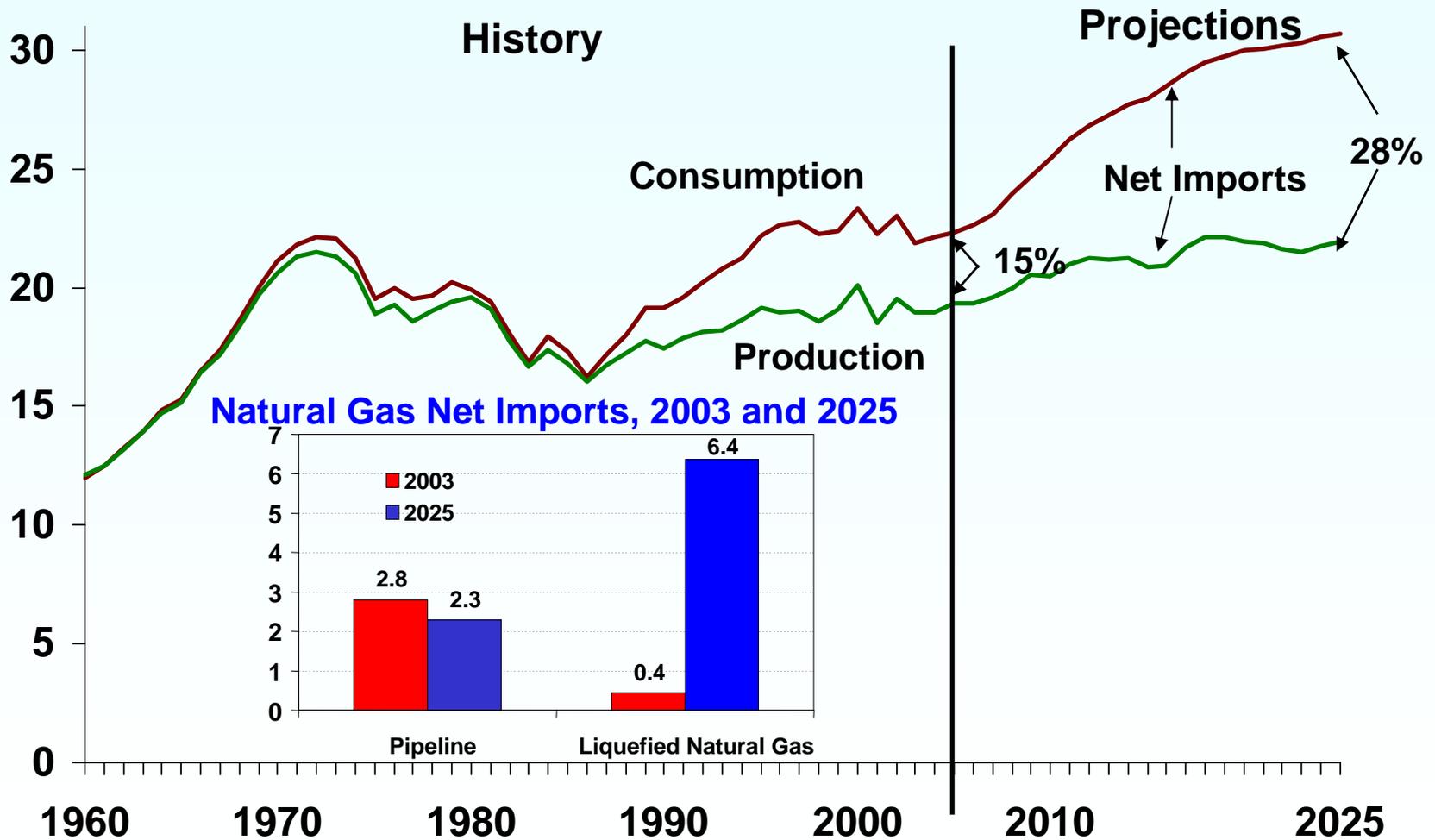
U.S. Petroleum Consumption by Sector, 1970-2025 (million barrels per day)



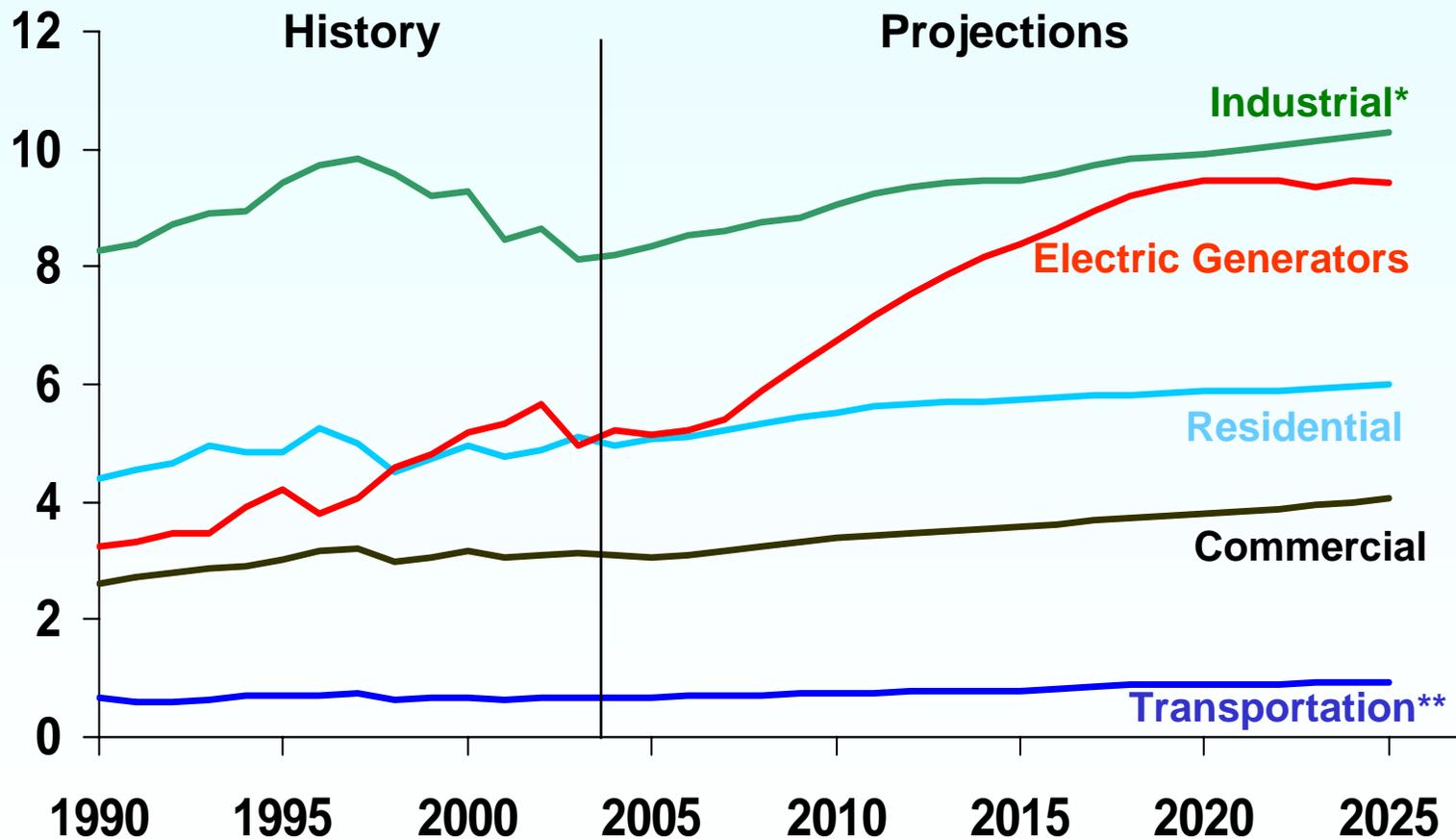
U.S. Crude Oil Production by Source, 1970-2025 (million barrels per day)



U.S. Natural Gas Production, Consumption, and Net Imports, 1960-2025 (trillion cubic feet)



U.S. Natural Gas Consumption by Sector, 1990-2025 (trillion cubic feet)



* Includes lease and plant fuel

** Includes pipeline fuel



U.S. Dry Natural Gas Production, 1990 - 2025 (trillion cubic feet)

