

**Talk to
National Association of Energy Service
Companies Conference
Thursday, May 19, 2005**

**Will Oil and Gas Continue to Meet
Price and Reliability Expectations
Or
What Would You Have To Believe For
Oil & Gas Prices To Drop Back their
Historical Bands?**

Disclaimer

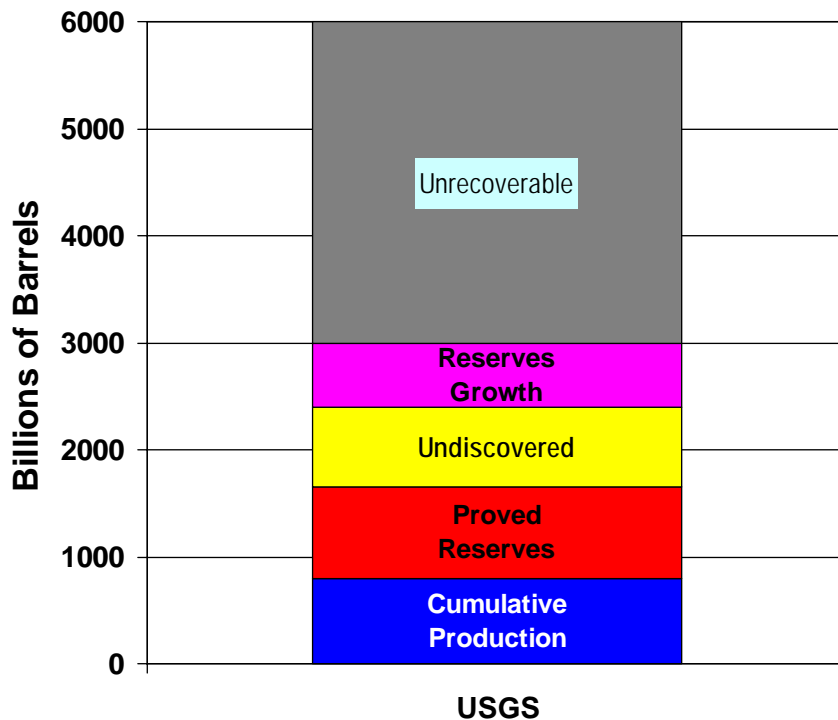
- This presentation uses public domain information from the EIA and others – that anyone can easily access – to examine oil and gas supply and demand going forward to see what it would take to return to historic oil and gas price bands.
- The statements in this presentation are based on third party expectations, estimates, and projections and are subject to risks, uncertainties and other factors which are difficult to predict.
- These forward-looking statements are not Chevron Corporation's and should not be attributed to Chevron Corporation. They are meant to be thought-provoking.

This Discussion is Critical Today

- Clearly, the oil and gas industry is facing extraordinary uncertainties
- Industry is experiencing the convergence of geological difficulty with geopolitical instability
- While political turmoil and social unrest are unlikely to permanently affect long term supplies, the psychological effect of those factors can clearly disrupt things

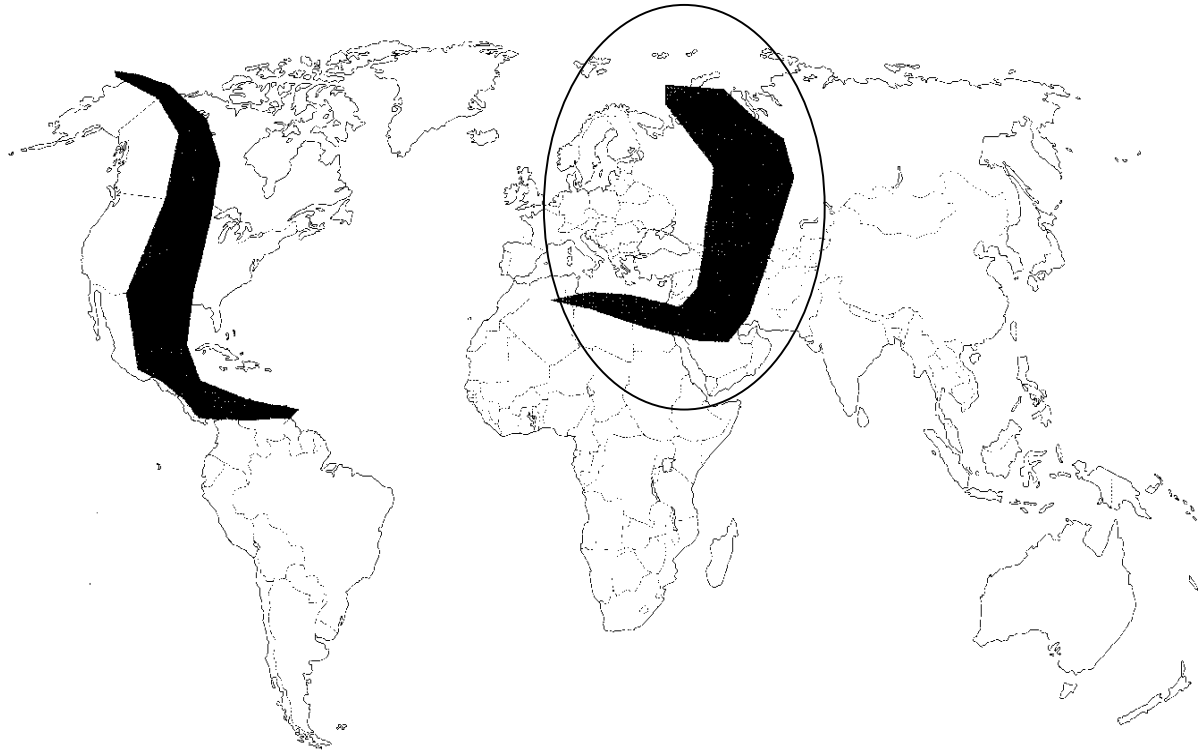
The Conventional Oil Resource

**Disposition of a 6000 Billion Barrel
Worldwide Original Conventional
Oil-in-Place Resource Base**



- With 3000 Billion Barrels or so of Conventional Oil Resource to recover, and at least 2000 Billion Barrels remaining to be produced (Proved Reserves + Undiscovered + Reserves Growth), it isn't obvious that we need to worry about the day when production peaks.

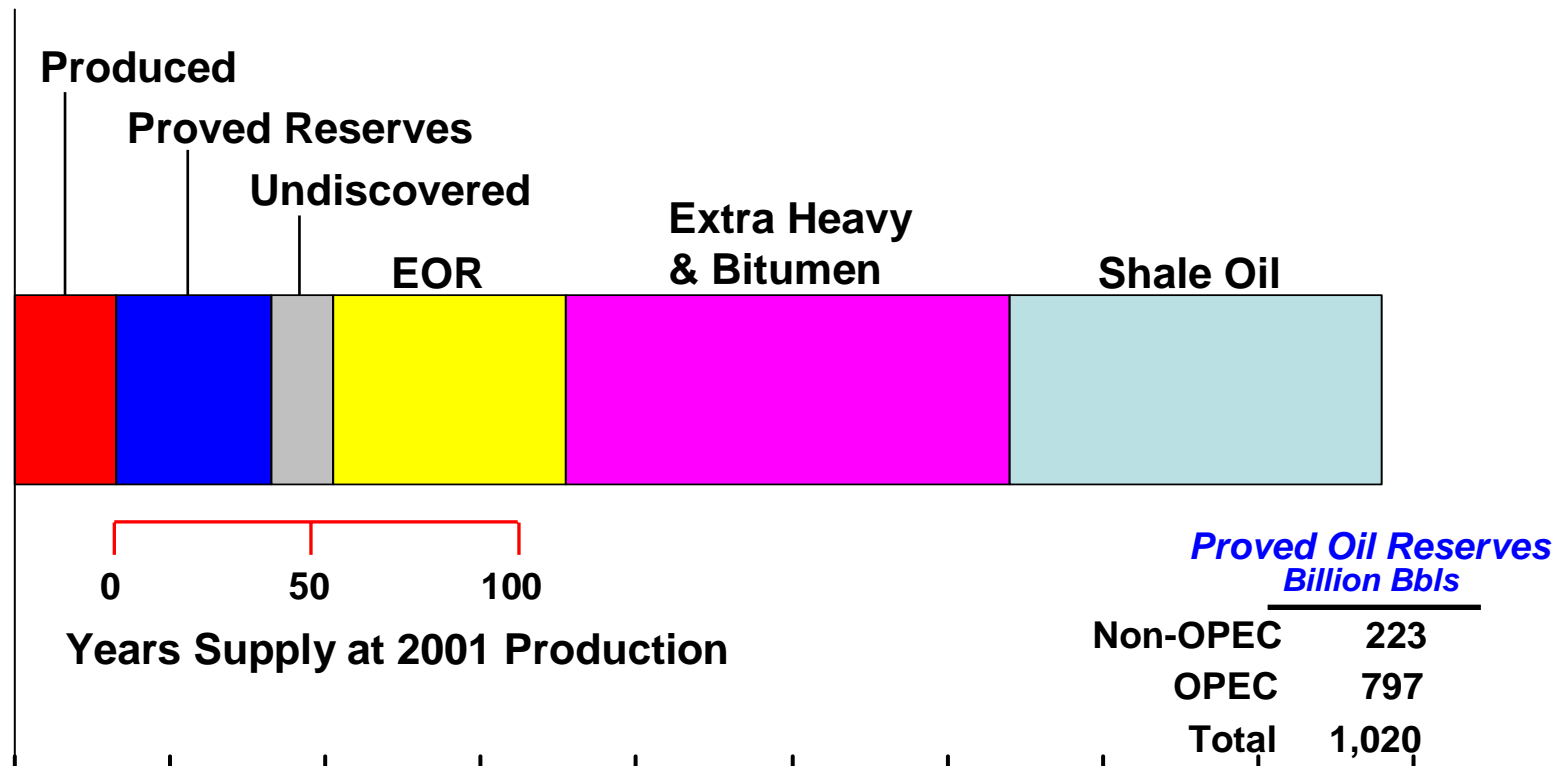
“Game-changing” Conventional Oil Discoveries Aren’t Likely to Come from Outside the “Ellipse of Plenty” or North+Central America



More than 80 percent of world’s oil is in these two belts

Source: Bundesanstalt für Geowissenschaften und Rohstoffe (BGR) [German Federal Institute for Geosciences and Natural Resources]

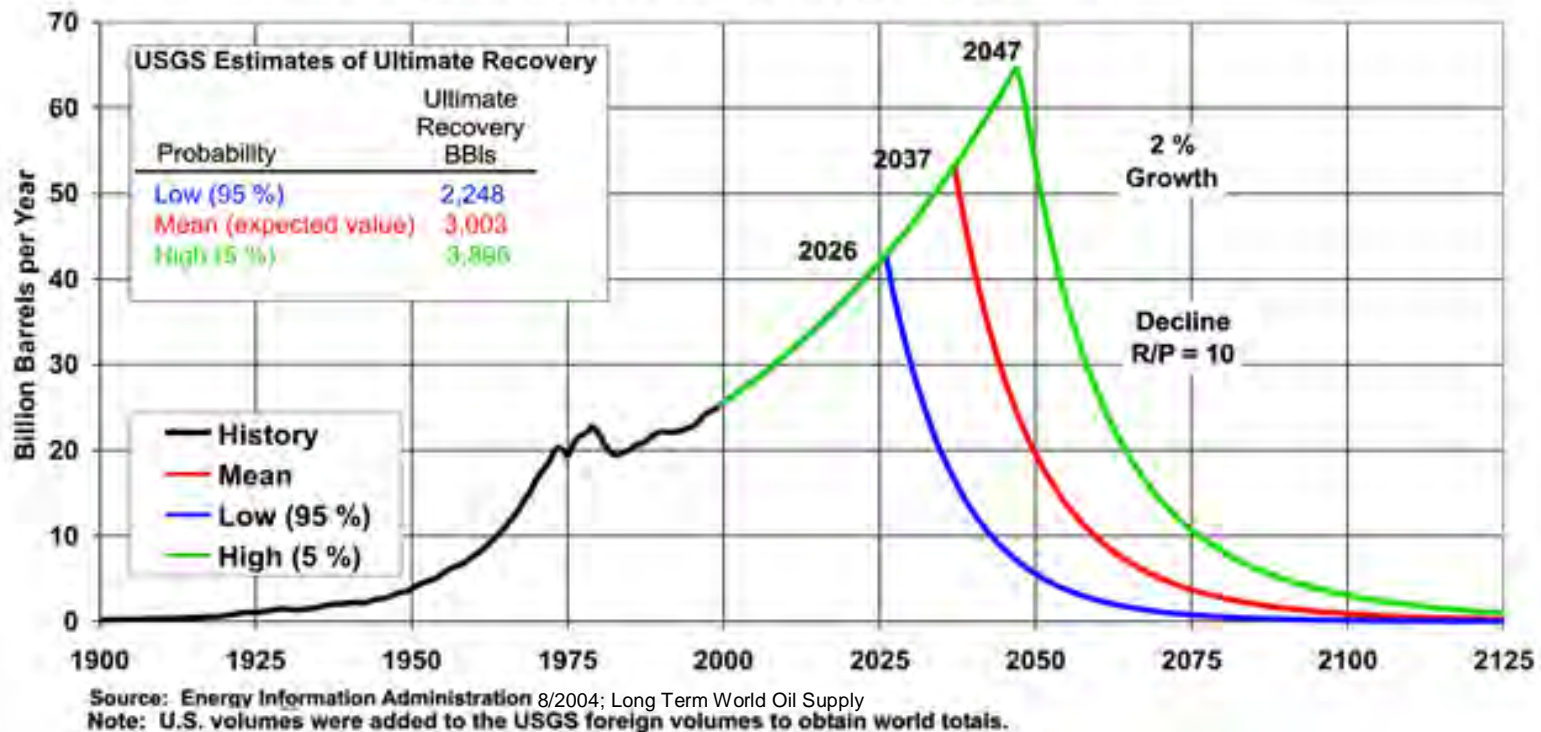
World Oil Resource Base



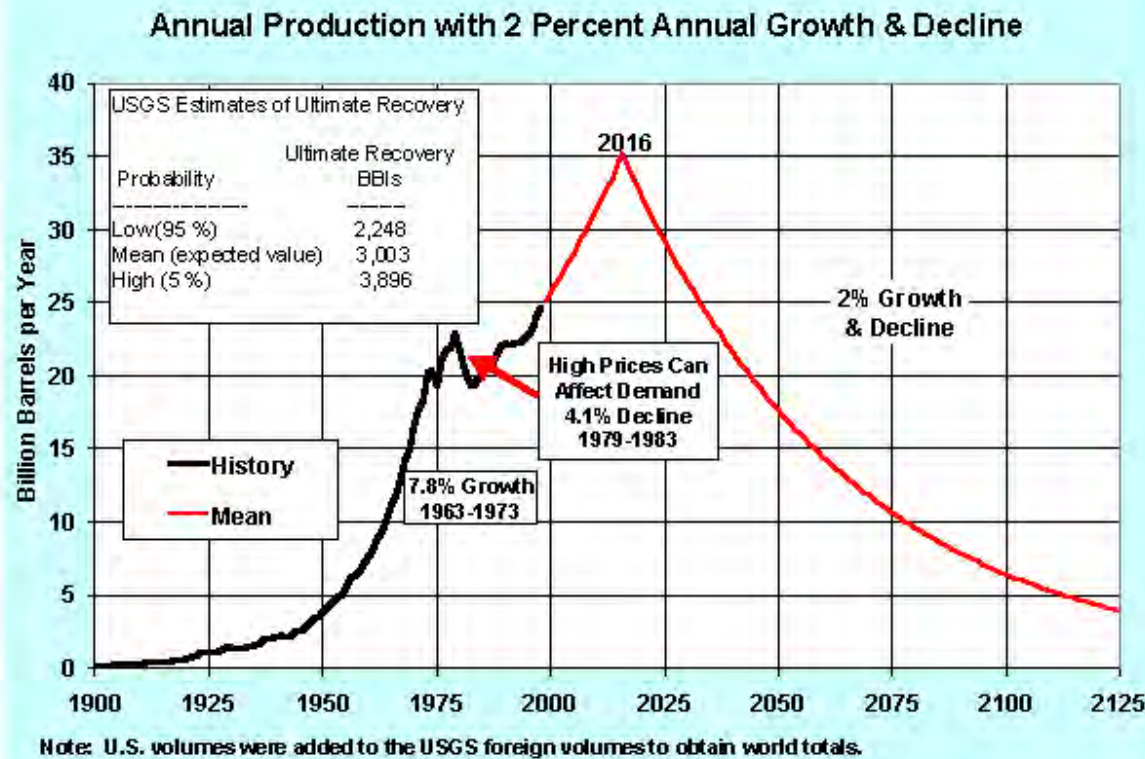
Trillion Barrels Recoverable

EIA: World Conventional Oil Production Peaks in 2037 – assumes the world has transformed its transportation needs so it can live with a rapid decline

Figure 2. Annual Production Scenarios with 2 Percent Growth Rates and Different Resource Levels (Decline R/P=10)



Alternative EIA Scenario: Peak World Conventional Oil Production in 2016 : Allows Gradual Decline for 100 Years

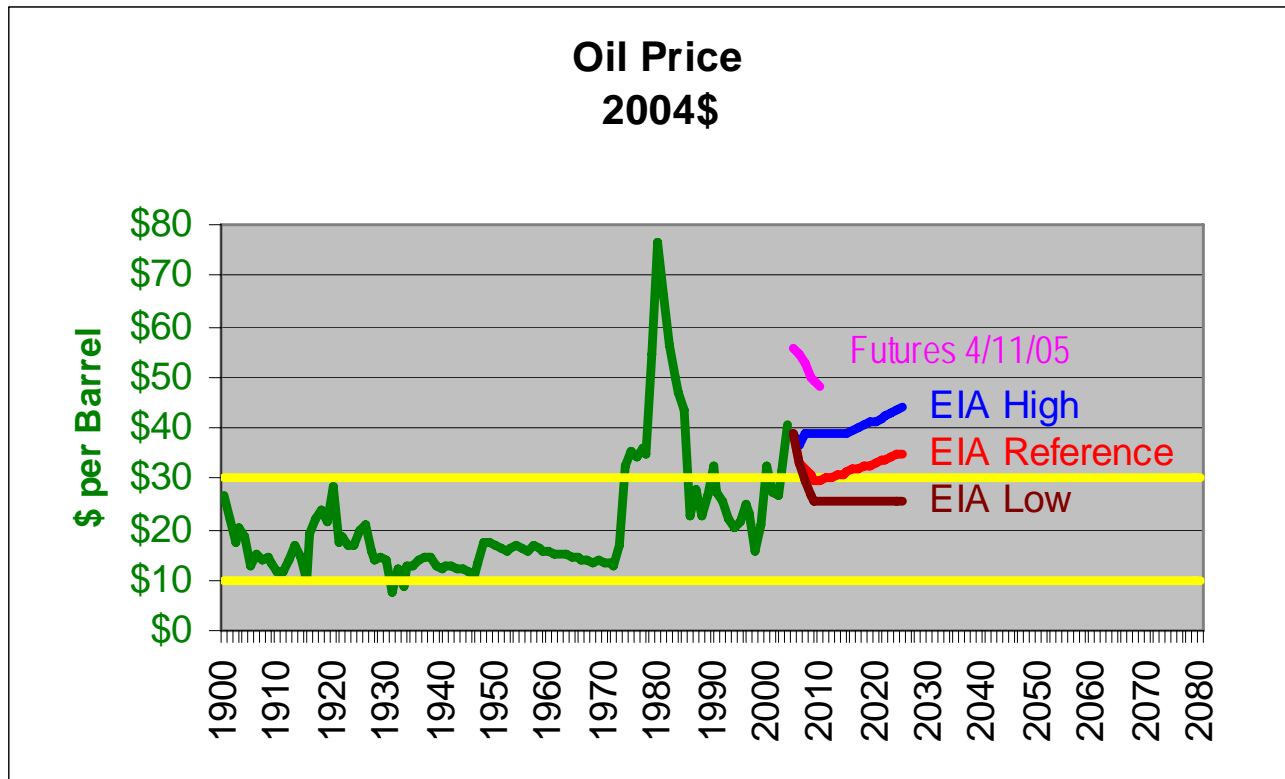


“Muddle Through” cases – where Conventional Oil production peaks between now and the middle of the next decade - allows for a much more gradual transition from conventional oil to the next sources of energy.

It also may be better “public policy” for the World in that it leaves some oil for our grandchildren.

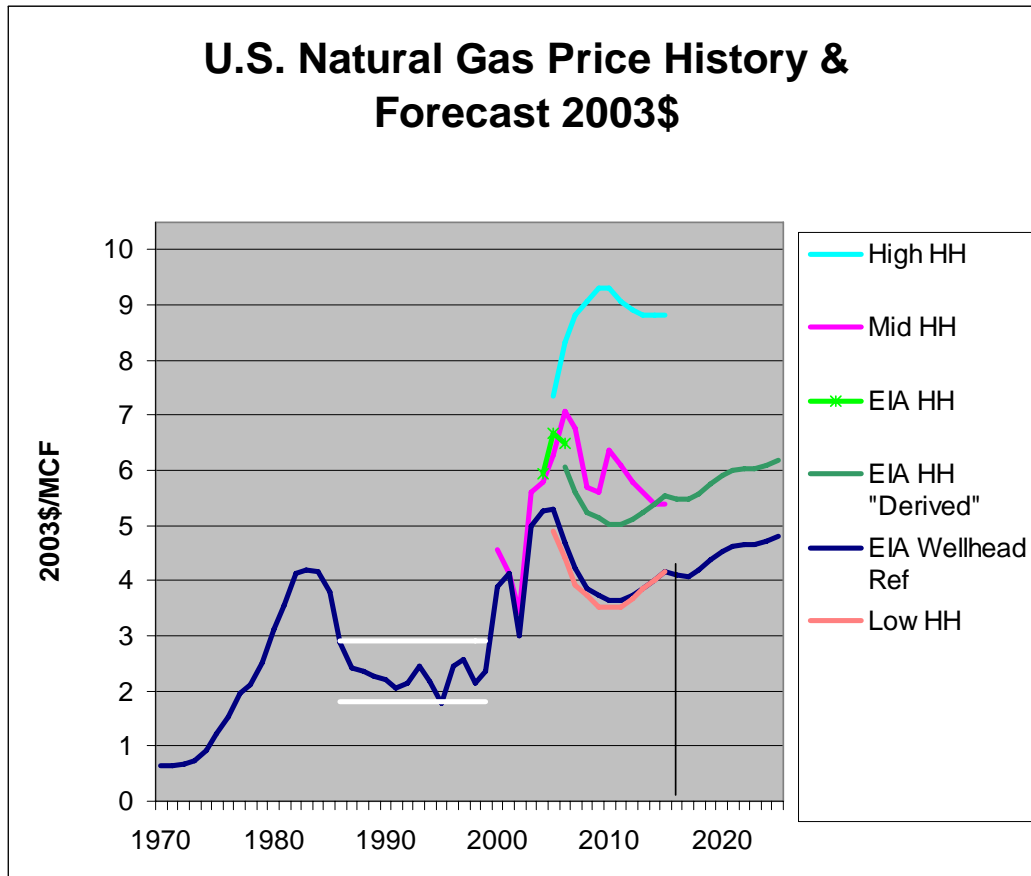
But, it is likely to take higher oil prices, and perhaps government programs restricting oil use, to cap demand any time soon.

Three EIA Oil Price Forecasts and Current* Futures Prices



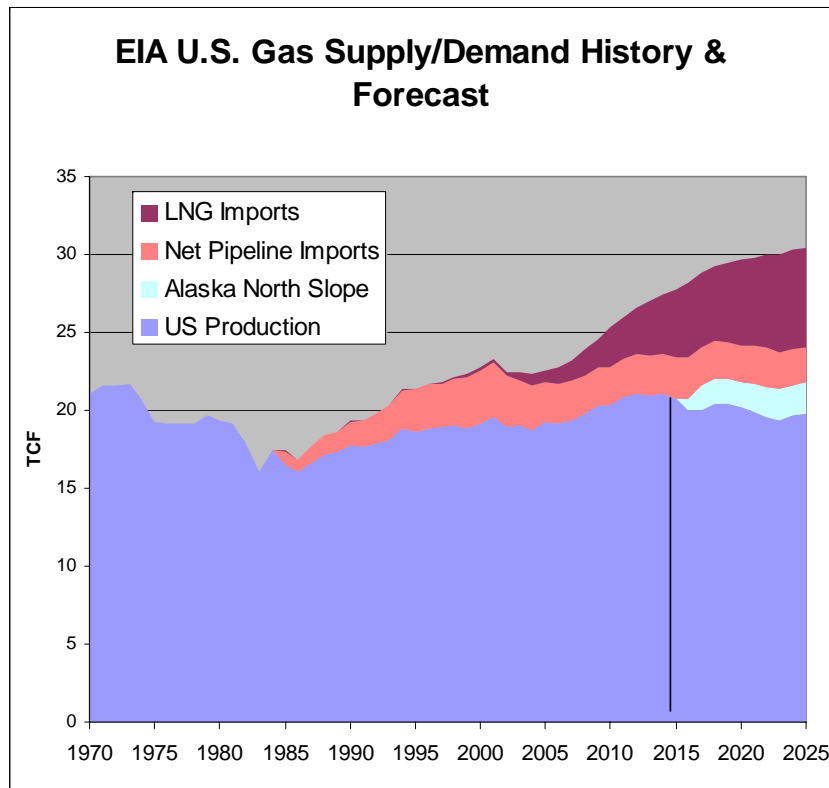
* April 11, 2005

U.S. Gas Price



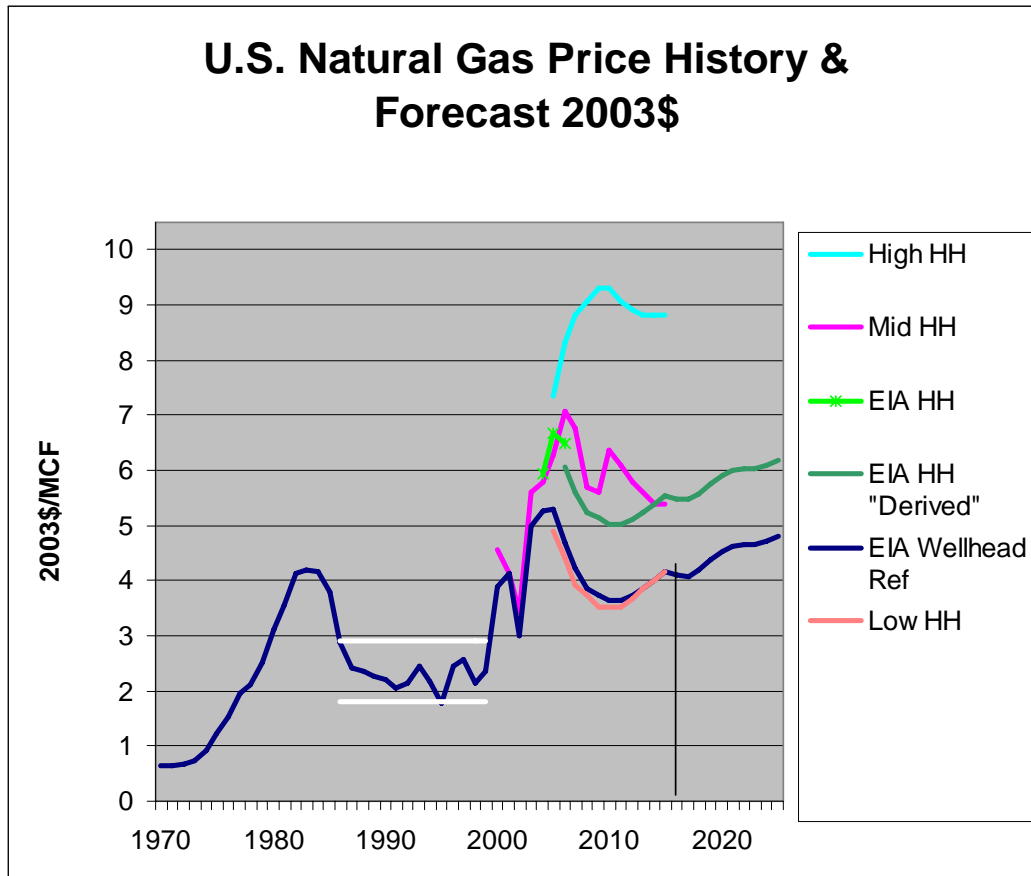
- Despite a bullish domestic gas production forecast, the EIA and other forecasters are still expecting gas prices to remain above \$5/mmbtu through 2025.
- At some point, enough LNG regasification terminals will be built in North America and enough LNG will be available in the world that LNG imports to North America will take over as the price setting mechanism for U.S. gas.

U.S. Gas Supply / Demand



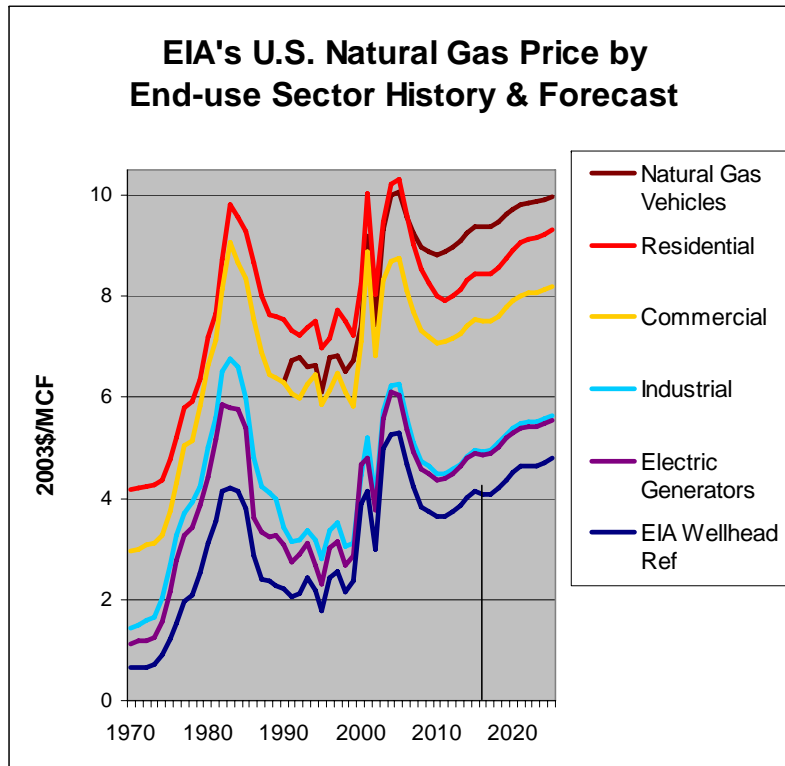
- The EIA expects U.S. natural gas production from relatively abundant unconventional sources (tight sands, shale, and coalbed methane) to increase enough – due to technological improvements and high prices – to offset declines from existing production through 2015.
 - After that, Alaska North Slope gas will arrive to keep domestic supply rising.
- Others are not so sanguine, and expect declines from existing fields to drop domestic supply by ~15% by 2015, with LNG picking up the slack.

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U.S. Gas Prices for End-Users



- The EIA expects prices for residential, commercial, and industrial users to maintain their historic relationship to the wellhead price for gas.

The End

