U.S. Energy Information Administration
Independent Statistics and Analysis

Financial News for Major Energy Companies, Third Quarter 2002

Twenty-one major energy companies[1] reported overall net income (excluding unusual items) of $4.0 billion on revenues of $139 billion during the third quarter of 2002 (Q302). The level of net income for Q302 was 54 percent lower than in the third quarter of 2001 (Q301) (Table 1). The overall decline in net income was due primarily to reduced refined petroleum product prices coupled with an increase in crude oil prices.

Almost all petroleum lines of business registered declines in net income between Q301 and Q302 (foreign oil and natural gas production was the only exception) while chemicals showed an increase. (Note: corporate net income and the total net income of the lines of business differ because (1) some items in corporate net income are nontraceable, such as interest expense, and are not allocated to lines of business and (2) the number of companies reporting line-of-business net income varies.) The majors' domestic upstream oil and natural gas production operations made the largest contribution to overall net income in Q302 at $3.1 billion (Table 1), with foreign upstream oil and natural gas production operations second at $2.9 billion, and worldwide chemical operations third at $0.6 billion.

Energy Price News

Oil prices increase while natural gas prices fall relative to a year ago. The world oil price (as represented by the U.S. refiner average acquisition cost of imported crude oil) increased 12 percent relative to a year ago, going from $23.04 per barrel in Q301 to $25.89 per barrel in Q302 (Table 2). Upward pressure was exerted on crude oil prices by a 3-percent expansion in the U.S. economy, which itself contributed to the slight (about 1 percent) increase in world petroleum demand. Concurrently, world petroleum supply fell slightly more (more than 1 percent), also exerting upward pressure on world oil prices. Market conditions in the United States (less than a 1-percent increase in petroleum demand and a 3-percent decline in petroleum stocks (Figure 1)) added to the upward pressure on crude oil. This is the first quarter in which crude oil prices increased relative to their year-earlier levels, after eight-consecutive quarters of falling or unchanged crude oil prices.

The average natural gas wellhead price dropped 6 percent in Q302 from Q301 (Table 2). Natural gas prices have been lower than a year earlier for six consecutive quarters. Working natural gas in storage (*Short-Term Energy Outlook* (*STEO*), Table 8) at the beginning of Q302 was 23 percent larger than the level at the beginning of Q301, but was only 4 percent larger by the end of the quarter relative to a year earlier. In part, the decline in the natural gas working storage was due to a 5-percent increase in U.S. natural gas demand as warmer weather than a year earlier (i.e., 13 percent more cooling degree days) stimulated more natural gas-fired power generation (chiefly by nonutility generators) than in Q301.

Table 1. Corporate Revenue and Net Income[a], Net Income by Lines of Business and Functional Petroleum Segments, and Operating Information for Major Energy Companies

	Q301	Q302	Percent Change	Year to Date 2001	Year to Date 2002	Percent Change
Financial Information						
Corporate	(millions of dollars)			(millions of dollars)		
Revenue (21)[b]	185,031	138,886	-24.9	440,883	396,897	-10.0
Net Income (21) [c]	8,565	3,952	-53.9	33,812	12,407	-63.3
Worldwide Lines of Business Net Income						
Petroleum (23)	11,398	7,761	-31.9	46,730	21,278	-54.5
Oil and Natural Gas Production (18)[d]	7,671	7,468	-2.6	33,558	20,702	-38.3
Refining/Marketing (13)[d]	3,727	292	-92.2	13,075	932	-92.9
Downstream Natural Gas and Power (8)	1,803	484	-73.2	5,151	2,542	-50.7
Chemicals (9)	136	588	332.3	239	573	139.6
Other Businesses (4)	140	135	-4.1	164	124	-24.3
Domestic Net Income by Function						
Oil and Natural Gas Production (8)	3,401	3,149	-7.4	15,921	7,940	-50.1
Refining/Marketing (13)	2,961	199	-93.3	10,453	641	-93.9
Foreign Net Income by Function						
Oil and Natural Gas Production (5)	2,533	2,858	12.8	6,895	5,501	-20.2
Refining/Marketing (3)	799	154	-80.7	2,277	457	-79.9
Operating Information						
Oil Production	(thousand barrels			(thousand barrels per		
Domestic (16)	3,934	3,865	-1.8	3,962	4,009	1.2
Foreign (14)	4,559	4,638	1.7	4,370	4,727	8.2
Natural Gas Production	(million cubic feet			(million cubic feet per		
Domestic (18)	22,901	22,089	-3.5	23,611	22,950	-2.8
Foreign (15)	13,353	15,542	16.4	14,407	16,664	15.7
Refinery Throughput	(thousand barrels			(thousand barrels per		
Domestic (13)	10,831	11,981	10.6	11,716	11,831	1.0
Foreign (4)	5,506	5,489	-0.3	5,498	5,430	-1.2

[a] Net income excludes unusual items. Because consolidated net income includes corporate nontraceables and eliminations, it is not equal to the sum of the lines of business net income.

[b] The number of companies is reported in parentheses. Percent changes are calculated from unrounded data.

[c] The number of companies reporting net income from petroleum operations is greater than the number reporting corporate revenue and corporate net income because the U.S. operations of BP and Royal Dutch/Shell are included in the results of the U.S. lines of business, but not in the foreign or corporate results because the companies are foreign based.

[d] The companies having worldwide oil and natural gas production or refining/marketing operations includes both companies reporting domestic and foreign operations separately and those that merely report oil and natural gas operations or refining/marketing operations with no separation of domestic and foreign results. Thus, the number of companies with worldwide oil and natural gas production operations is greater than the sum of the companies reporting domestic results and those reporting foreign results. So, too, for refining/marketing operations.

Sources: Company press releases and financial disclosures.

Table 2. U.S. Energy Prices and the U.S. Gross Refining Margin

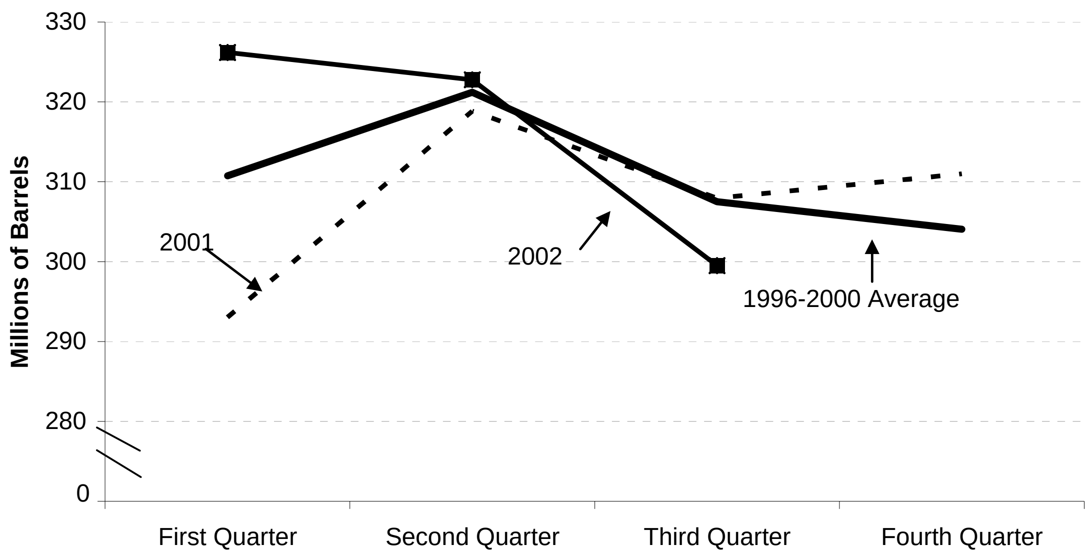
	Q301	Q302	Percent Change
U.S. Energy Prices[a]			
Refiner Acquisition Cost of Imported Crude Oil ($/barrel)	23.04	25.89	12.4
Natural Gas Wellhead ($/thousand cubic feet)	3.06	2.88	-5.9
U.S. Gross Refining Margin[b] ($/barrel)	10.94	8.02	-26.7

[a]Energy Information Administration, *Short Term Energy Outlook* (STEO), (Washington, DC, December 9, 2002), Table 4

[b]Compiled from data in Energy Information Administration, *Petroleum Marketing Monthly,* DOE/EIA-380 (Washington, DC), Table 1, Table 4 and Table 5; and Energy Information Administration, *Monthly Energy Review* , DOE/EIA-0035, (Washington, DC) Table 3.2b.

Note: All tables are in pdf format, if you lack Adobe Acrobat Reader and are unable to read pdf format files, please follow the Adobe link at the bottom of this table to download the free software.
Note: The U.S. Gross Refining Margin is the difference between the composite wholesale product price and the composite refiner acquisition cost of crude oil.

Figure 1. Quarterly U.S. Petroleum Crude Oil Stocks, 1995-2002



Source: Energy Information Administration, *Petroleum Supply Monthly* , DOE/EIA-0109 (Washington, DC), Table 51.

Worldwide Petroleum News

- **Earnings from worldwide oil and natural gas production operations fall 3 percent as lower domestic earnings more than offset higher foreign earnings.** Overall earnings for domestic oil and natural gas exploration, development, and production operations (i.e., domestic upstream operations) were 7 percent lower in Q302 than in

Q301 (Table 1). Domestic upstream earnings fell relative to a year ago as lower crude oil production by the U.S. majors reporting crude oil production (Table 1) more than offset higher crude oil prices (Table 2). Further, both domestic natural gas prices and production levels fell in Q302 relative to Q301. BP and ExxonMobil accounted for almost all of the decline in earnings for this line of business, as natural gas production of both companies and ExxonMobil's crude oil and natural gas liquids production all fell relative to Q301. Little explanation for the lower production levels was provided in company press releases beyond operational problems that arose from tropical storms in the Gulf of Mexico. Only three of the eight companies reporting separate net income for domestic upstream operations reported higher earnings in Q302 relative to Q301, citing higher oil prices received and higher production levels in their earnings press releases. (Note 1)

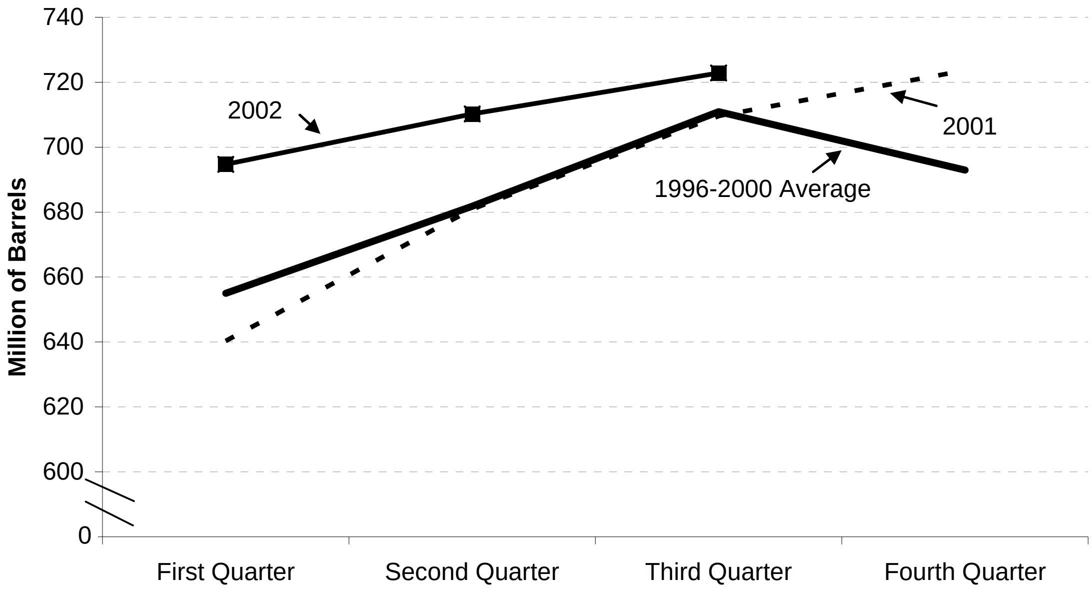
Net income from foreign upstream operations increased 13 percent relative to Q301, as 3 of the 5 companies that reported separate net income from foreign upstream operations reported an increase. Increased overseas oil and natural gas production during Q302 relative to Q301 (Table 1) coupled with higher crude oil prices (Table 2) resulted in higher earnings. The increased crude oil and natural gas liquids production was chiefly due to acquisitions that occurred during or since Q301 (see Mergers and Alliances, chiefly those by Amerada Hess, Devon Energy, Dominion Resources, and Kerr-McGee). Excluding these companies results in essentially unchanged foreign crude oil and natural gas production in Q302 relative to Q301. However, excluding these companies still results in an 11-percent increase in foreign natural gas production in Q302 compared to a year earlier (Table 1). Production increases (e.g., Anadarko and EOG Resources), new production from already owned properties (ChevronTexaco), and additional producing properties (Burlington) were all cited as reasons for the production increases relative to a year ago by many of the remaining companies.

Worldwide downstream petroleum operations squeezed by higher crude oil prices and flat product prices, lowering net income by 92 percent. Both U.S. and foreign downstream petroleum operations of the U.S. majors recorded lower net income in Q302 than in Q301. The story reported in company press releases was much the same for U.S. operations as it was for foreign operations -- lower margins.

The U.S. gross refining margin (the per-barrel composite wholesale product price less the composite refiner acquisition cost of crude oil) in Q302 was 27 percent lower than in Q301 (Table 2). Higher levels of refined product stocks in Q302 than in Q301 (Figure 2) put downward pressure on product prices, which fell slightly from a year earlier. Thus, lower product prices coupled with higher crude oil prices reduced industry-wide refining margins, which fell $2.92 per barrel between Q301 and Q302. An 11-percent increase in domestic refinery throughput relative to Q301 by U.S. majors reporting domestic refinery throughput (Table 1) was insufficient to offset the effects of lower refining margins and net income fell 93 percent relative to Q301 (Table 1). All 13 refiners reported lower earnings than a year ago and 3 reported losses. According to company press releases, lower margins (refining and marketing) and a reduction in the difference between sweet and sour crude oil prices were the primary reasons for reduced profits from this line of business.

Third-quarter earnings from foreign downstream operations fell 81 percent relative to Q301 (Table 1) as the company-level and industry-wide stories diverged. All three of

Figure 2. Quarterly U.S. Petroleum Product Stocks, 1995-2002



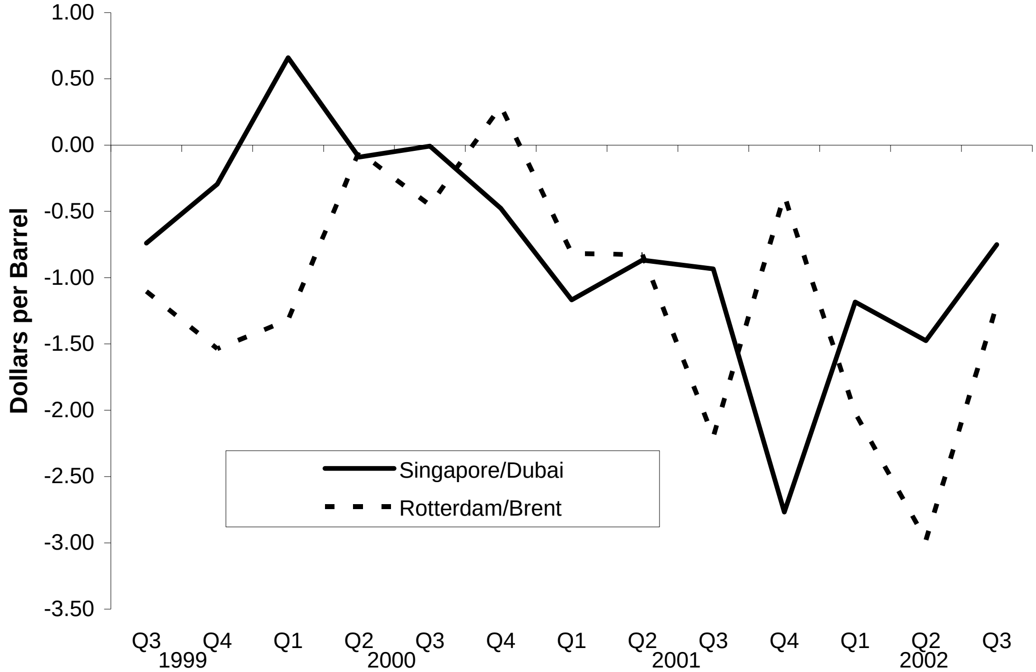
Source: Energy Information Administration, *Petroleum Supply Monthly* , DOE/EIA-0109 (Washington, DC), Table 51.

the remaining companies (diminished by one with the consummation of the merger of Conoco and Phillips) that reported separate foreign refining/marketing results reported lower net income, but none reported a loss. Industry-wide refining margins were higher in Q302 than in Q301 (Figure 3), increasing by 18 cents per barrel in the Asia/Pacific region and by 99 cents per barrel in Europe compared to a year earlier. In contrast, the companies reported lower refining margins in Europe and continued low margins in Asia/Pacific relative to a year earlier, which was magnified slightly by a less-than-1-percent reduction in refinery throughput (Table 1), as reasons for lower earnings than a year ago.

Worldwide Downstream Natural Gas and Power

Worldwide downstream natural gas and power[2] records a 73-percent decline in earnings. Much of the $1.3-billion decline in the earnings of this line of business (Table 1) was due to companies with significant trading operations (i.e., El Paso and Williams), who are experiencing upheaval in the wake of the bankruptcy of Enron and the general pall that has been cast over energy trading operations in the last several months. But, excluding El Paso and Williams results in a much smaller decline in gas and power net income, 19 percent. Although the demand for domestic electricity and natural gas increased in Q302 relative to Q301, five of the eight companies that reported downstream natural gas and power income reported lower net income than a year ago (with one reporting a loss). The most widely given reason for lower earnings was lower trading earnings. Among those companies reporting higher net income in Q302 than in Q301, reasons given in company press releases include warmer weather (and associated increased electricity sales) and increased margins associated with gas marketing.

Figure 3. Quarterly Foreign Refining Margins, 1999 - 2002



Source: Energy Intelligence Group, *Oil Market Intelligence* (January 2000, 2001, 2002; June 2000, 2001, and 2002; and November 2002), p. 12.

Chemical Operations and Other Businesses

Majors' chemical operations generate four-fold increase in net income as feedstock costs decline. The majors reported a 332-percent increase in net income from chemical operations (Table 1). The results were consistently good, as eight of the nine companies reporting separate net income for chemicals reported higher income (or a smaller loss) than a year ago. BP was the solitary exception, but no explanation was provided in its earnings press release. Reasons for higher earnings reported in company press releases include lower feedstock cost (natural gas tends to be one of the primary feedstocks), higher sales volume, higher margins, higher product prices, and asset acquisitions.

The majors' earnings from assorted other businesses fell 4 percent from Q301 to Q302 (Table 1) as two of the four companies reported lower earnings than a year ago. However, ExxonMobil dominates the results (accounting for 86 percent of the Q301 earnings for this line of business and 90 percent of Q302 earnings), essentially unchanged results for no particular reason despite the sale of its Colombian coal operations during the first quarter of 2002. The other major contributor to this category was Sunoco's coke (coal) operations, which also were essentially unchanged from Q301 as its sales volume increase was offset by lower prices.

[1]Historically the companies included in the *Financial News for Major Energy Companies* (the *News for Majors*) have been vertically-integrated oil and natural gas companies with both oil and natural gas exploration, development, and production operations (i.e., upstream petroleum) and petroleum refining and motor gasoline marketing (i.e., downstream petroleum). However, as the

energy industry has changed, this selection criteria led to differences between the set of companies included in the *News for Majors* and those included in the Financial Reporting System (FRS) of the Energy Information Administration (EIA) (i.e., those respondents to Form EIA-28 (Financial Reporting System)). Because FRS respondents are considered U.S. major energy companies by EIA, it became necessary to recast the set of companies included in the *News for Majors* so that they would be identical to the FRS respondents (lessening the appearance that EIA had more than one definition for U.S. major). Consequently, just as the FRS respondents now include vertically-integrated oil and natural gas companies (e.g., Amerada Hess), oil and natural gas producers (e.g., Devon Energy), petroleum refiners (e.g., Premcor), petroleum refiners and motor gasoline marketers (e.g., Tesoro), and energy companies (e.g., El Paso), so, too, does the *News for Majors*.

The twenty-o companies included are Amerada Hess Corporation, Anadarko Petroleum Corporation, Apache Corporation, BP p.l.c. (only U.S. operations included), Burlington Resources, Inc., ChevronTexaco Corporation, ConocoPhillips Inc., Devon Energy Corporation, Dominion Resources, Inc., El Paso Energy Corporation, EOG Resources, Inc., Exxon Mobil Corporation, Kerr McGee Corporation, Lyondell Chemical Company, Marathon Oil Corporation, Occidental Petroleum Corporation, Premcor Inc., Royal Dutch/Shell Group(only U.S. operations included), Sunoco, Inc., Tesoro Petroleum Corporation, Unocal Corporation, Valero Energy Corporation, and the Williams Companies, Inc..

[2]The addition over the last several months by the reporting companies of lines of business that fit a category here termed "worldwide downstream gas and power" indicates both that the downstream natural gas and power generation operations of the traditional U.S. major energy producers are growing in importance. The activities that fall within the category "worldwide downstream gas and power" include gathering, field processing, transportation, marketing of both natural gas liquids and dry natural gas, electricity generation, transmission, and distribution.

Note 1. All eight of the companies that reported net income from domestic oil and natural gas production also reported domestic oil and natural gas production volumes as did 9 other companies that did not report net income attributable to those activities.

File originally loaded: December 4, 2002.
File last modified: December 10, 2002.

Contact:

Neal Davis
neal.davis@eia. gov
Fax: (202) 586-9753

URL: http://www.eia.doe.gov/emeu/perfpro/news_m/q302.pdf