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Financial News for Independent Energy Companies, First Quarter 2006

Overview

The "Financial News for Independent Energy Companies" is issued several weeks after the close of each quarter to report recent trends in the financial performance of independent energy companies, which are typically smaller than the majors and do not have integrated production/refining operations.

The information is compiled from companies' quarterly reports and press releases. Earnings for the 48 independent energy companies included in this report grew 81 percent in the first quarter of 2006 (Q106) over earnings in the first quarter of 2005 (Q105) (see Table 1). Of the three types of energy companies included in this report, both independent oil and natural gas producers and oil field service companies had substantial increases in earnings over the year-ago quarter, as crude oil prices and natural gas prices increased substantially (see Table 2). The third group, refiner/marketers, had a modest increase commensurate with the modest increase in refining margins.

Table 1. Revenue and Net Income Summaries for Independent Energy Companies
(Million Dollars)

Companies	Q105	Q106	Percent Change
Revenue			
Oil and Gas Producers (19)[a]	2,479	3,354	35.3
Oil Field Companies (25)	17,552	23,447	33.6
Refiners (4)	3,982	5,144	29.2
Total Revenue (48)	24,013	31,944	33.0
Net Income			
Oil and Gas Producers (19)	449	700	55.7
Oil Field Companies (25)	1,843	3,485	89.0
Refiners (4)	53	55	4.0
Total Income (48)	2,345	4,239	80.7

[a]The number of companies reporting revenue and net income is in parentheses.

Notes: The net income data have been adjusted to exclude the effects of unusual items such as accounting changes. Percentages are calculated from unrounded data

Sources: Compiled from companies' quarterly reports to stockholders.

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

	Q105	Q106	Percent Change
U.S. Energy Prices			
Refiner Acquisition Cost of Imported Crude Oil ($/barrel)	41.06	54.45	32.6
Natural Gas Wellhead Price ($/thousand cubic feet)	5.70	7.49	31.4
U.S. Gross Refining Margin ($/barrel)	14.20	14.34	1.0

[a] Energy Information Administration, Short-Term Energy Outlook, (Washington, DC, May 9, 2006), 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: The U.S. Gross Refining Margin is the difference between the composite wholesale product price and the composite refiner acquisition cost of crude oil.

Increases in both natural gas and crude oil prices boost independent producers' earnings. Net income of the independent oil and gas producers included in this report rose 56 percent between Q105 and Q106, as revenues rose 35 percent (see Table 1). Independent oil and gas producer earnings were boosted by a 33-percent increase in the price of crude oil and a 31-percent increase in the price of natural gas over year-ago prices (see Table 2).

Oil field companies' revenue and earnings increase with higher drilling rig counts and day rates. Net income of U.S. oil field companies included in this report jumped 89 percent, as revenues rose 34 percent (see Table 1). U.S. oil field company earnings were strengthened by an increase in the worldwide rig count of 15 percent from 2,676 in Q105 to 3,080 in Q106, according to Baker Hughes data. Higher rig counts and the resulting higher demand for rig services directly increased the demand for the equipment and services supplied by oil field companies. This increase in demand raised day rates on equipment and margins on overall operations, thereby increasing companies' profits. The ODS-Petrodata Day Rate Indices were sharply higher in Q106 from Q105.

The U.S. rig count growth rate over the year-ago quarter of 19 percent exceeded the 15 percent worldwide growth rate (see Figure 1). Decomposing the total U.S. rig count into its components, the natural gas rig count grew 18 percent while the oil rig count grew 26 percent over the period. The natural gas rig count has now increased for thirteen consecutive quarters relative to its year-earlier level.

Breaking down overall (oil plus natural gas) rig counts on a regional basis shows that while rig counts grew 19 percent in the United States from Q105 to Q106, they jumped 28 percent in Canada and grew 2 percent in the rest of the world.

Refiner earnings rise on slightly higher margins. Earnings of the independent refiners included in this report increased 4 percent, from $53 million in Q105 to $55 million in Q106 (see Table 1). In part this is because refining margins were up 1 percent over the year-ago quarter (see Table 2). (The gross refining margin is the difference between the composite wholesale refined petroleum product price and the composite refiner acquisition cost of crude oil.) Holding earnings growth down, however, were reduced refinery output due to the lingering effects of Hurricane Katrina, and a fire at one of the companies' refineries.

Figure 1. U.S. Quarterly Rig Counts: Oil, Gas & Total, 1998-2006