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Energy Information Administration

Financial News for Independent Energy Companies, Second 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 44 independent energy companies included in this report grew 79 percent in the second quarter of 2006 (Q206) over earnings in the second quarter of 2005 (Q205) (see Table 1). All three types of energy companies included in this report, independent oil and natural gas producers, oil field service companies, and refiner/marketers, had substantial increases in earnings over the year-ago quarter. That is because crude oil prices and refining margins increased substantially, though natural gas prices held steady (see Table 2). Year-to-date growth for both revenue and earnings mirrored the growth in second quarter totals, for all three types of independent energy companies.

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

Companies	Q205	Q206	Percent Change	2005	2006	Percent Change
Revenue						
Oil and Gas Producers (17)[a]	2,012	2,768	37.6	3,904	5,261	34.8
Oil Field Companies (23)	17,317	23,327	34.7	33,137	44,568	34.5
Refiners (4)	4,829	6,842	41.7	8,811	11,985	36.0
Total Revenue (44)	24,157	32,936	36.3	45,852	61,814	34.8
Net Income						
Oil and Gas Producers (17)	422	810	91.9	724	1,340	85.0
Oil Field Companies (23)	2,048	3,718	81.6	3,708	6,855	84.9
Refiners (4)	206	272	32.0	259	327	26.4
Total Income (44)	2,677	4,801	79.4	4,691	8,523	81.7

[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

	Q205	Q206	Percent Change
U.S. Energy Prices[a]			
Refiner Acquisition Cost of Imported Crude Oil ($/barrel)	45.91	63.19	37.6
Natural Gas Wellhead ($/thousand cubic feet)	6.20	6.20	0.0
U.S. Gross Refining Margin[b]	17.78	24.66	38.7

[a]Energy Information Administration, *Short-Term Energy Outlook* , (Washington, DC, August 8, 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 acquistion cost of crude oil.

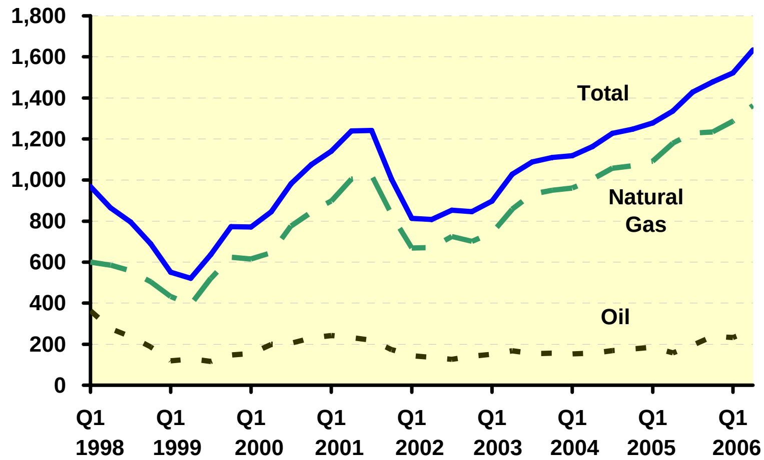
Increase in crude oil prices boost independent producers' earnings. Net income of the independent oil and gas producers included in this report rose 92 percent between Q205 and Q206, as revenues rose 38 percent (see Table 1). Independent oil and gas producer earnings were boosted by a 38-percent increase in the price of crude oil 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 82 percent, as revenues rose 35 percent (see Table 1). U.S. oil field company earnings were strengthened by an increase in the worldwide rig count of 13 percent from 2,493 in Q205 to 2,827 in Q206, 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 Petrodata Day Rate Indices were sharply higher in Q206 from Q205.

U.S. rig count growth rate over the year-ago quarter of 22 percent exceeded the 13 percent worldwide growth rate. Decomposing the total U.S. rig count into its components, the natural gas rig count grew 16 percent while the oil rig count grew 72 percent over the period (see Figure 1). The natural gas rig count has now increased for fourteen 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 jumped 22 percent in the United States from Q205 to Q206, they grew 17 percent in Canada and were flat in the rest of the world.

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



Refiner earnings rise on higher margins. Earnings of the independent refiners included in this report increased 32 percent, from $206 million in Q205 to $272 million in Q206 (see Table 1). This was due to an increase in refining margins of 39 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.)