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Energy Information Administration

Financial News for Independent Energy Companies, Third 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 42 independent energy companies included in this report grew 70 percent in the third quarter of 2006 (Q306) over earnings in the third quarter of 2005 (Q305) (see Table 1). Both independent oil and natural gas producers and oil field service companies posted significant increases in earnings over the year-ago quarter, while refiner/marketers had modest growth in earnings. Year-to-date growth for both revenue and earnings mirrored the growth in third quarter totals, for all three types of independent energy companies.

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

Companies	Q305	Q306	Percent Change	2005	2006	Percent Change
Revenue						
Oil and Gas Producers (13)[a]	2,446	2,912	19.1	6,530	8,851	35.6
Oil Field Companies (24)	18,246	24,974	36.9	51,494	69,479	34.9
Refiners (5)	7,484	9,085	21.4	17,251	22,686	31.5
Total Revenue (42)	28,176	36,971	31.2	75,275	101,016	34.2
Net Income						
Oil and Gas Producers (13)	447	932	108.6	1,281	2,283	78.1
Oil Field Companies (24)	2,371	4,152	75.1	6,052	10,924	80.5
Refiners (5)	522	576	10.4	641	852	32.9
Total Income (42)	3,340	5,660	69.5	7,974	14,058	76.3

[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.

Energy Price News

The crude oil price of Q306 increased by more than one-tenth relative to the prices of a year ago while the price of natural gas fell more than one-fourth. The U.S. refiner average acquisition cost of imported crude oil increased 12 percent relative to a year ago, from $56.69 per barrel in Q305 to $63.68 per barrel in Q306 (Table 2). (See the current and recent issues of the *Short-Term Energy Outlook* for explanation of these price changes.) This was the seventeenth consecutive quarter in which crude oil prices increased relative to their year-earlier levels, after six consecutive quarters of falling or unchanged crude oil prices (relative to a year earlier).

The average U.S. natural gas wellhead price fell 26 percent between Q305 and Q306 from $7.89 per thousand cubic feet to $5.82 (Table 2). (See the current and recent issues of the *Short-Term Energy Outlook* for explanation of these price changes.) This price decline ended a streak of nine consecutive quarters in which natural gas prices increased or were unchanged relative to their year-earlier levels.

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

	Q305	Q306	Percent Change
U.S. Energy Prices[a]			
Refiner Acquisition Cost of Imported Crude Oil ($/barrel)	56.69	63.68	12.3
Natural Gas Wellhead ($/thousand cubic feet)	7.89	5.82	-26.2
U.S. Gross Refining Margin[b]	21.30	24.78	16.3

[a]Energy Information Administration, *Short-Term Energy Outlook* , (Washington, DC, November 7, 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.

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Independent Energy Company Earnings

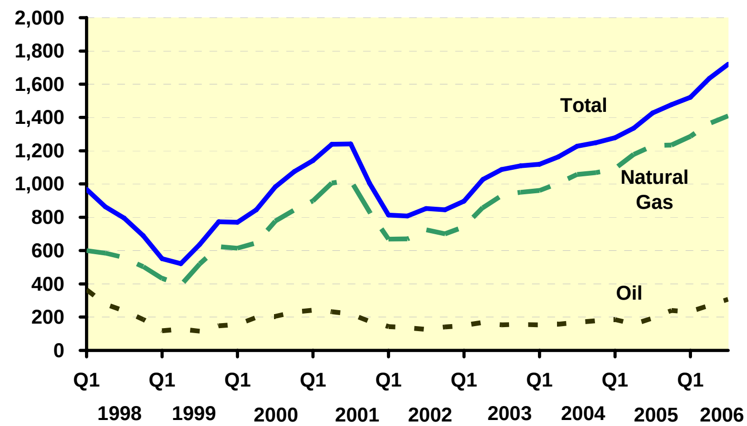
Independent producers' earnings grew substantially. Net income of the independent oil and gas producers included in this report rose 109 percent between Q305 and Q306, as revenues rose 19 percent (see Table 1). Independent oil and gas producer earnings were boosted by a 12-percent increase in the price of crude oil over year-ago prices, though natural gas prices declined (see Table 2).

Oil field companies' revenue and earnings increased with higher drilling rig counts and day rates. Net income of U.S. oil field companies included in this report jumped 75 percent, as revenues rose 37 percent (see Table 1). U.S. oil field company earnings were strengthened by an increase in the worldwide rig count of 11 percent from 2,836 in Q305 to 3,154 in Q306, 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 Q306 from Q305.

U.S. rig count growth rate over the year-ago quarter of 20 percent exceeded the 11 percent worldwide growth rate. Decomposing the total U.S. rig count into its components, the natural gas rig count grew 15 percent while the oil rig count grew 58 percent over the period (see Figure 1). The natural gas rig count has now increased for fifteen 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 20 percent in the United States from Q305 to Q306, they declined 1 percent in Canada and grew a modest 3 percent in the rest of the world.

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



Refiner earnings increased modestly on higher margins. Earnings of the independent refiners included in this report increased 10 percent, from $522 million in Q305 to $576 million in Q306 (see Table 1). This was due to an increase in refining margins of 16 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.)