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Energy Information Administration

# Financial News for Independent Energy Companies, Third Quarter 2007

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## Overview

| Third Quarter 2007 Key Findings | |
|---|---|
| **Net Income** | $6.1 billion |
| **Revenues** | $40.4 billion |
| **Highlights** | Higher net income relative to third quarter of 2006 for oil field service companies, lower net income for producers a and refiners |
| | Higher oil prices, lower margins, stable rig count |

Earnings for the 43 independent energy companies included in this report grew 10 percent in the third quarter of 2007 (Q307) over earnings in the third quarter of 2006 (Q306) (Table 1). This was driven by the performance of oil field service companies. In contrast, oil and natural gas producers and refiner/marketers had declines in earnings over the year-ago quarter.

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

| Companies | Q306 | Q307 | Percent Change | 2006 | 2007 | Percent Change |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| Oil and Gas Producers (16)[a] | 2,957 | 3,434 | 16.1 | 8,632 | 9,676 | 12.1 |
| Oil Field Companies (23) | 23,594 | 27,825 | 17.9 | 65,602 | 79,904 | 21.8 |
| Refiners (4) | 7,497 | 9,153 | 22.1 | 19,512 | 23,638 | 21.1 |
| **Total Revenue (43)** | 34,048 | 40,412 | 18.7 | 93,746 | 113,218 | 20.8 |
| **Net Income** | | | | | | |
| Oil and Gas Producers (16) | 914 | 597 | -34.6 | 1,940 | 1,488 | -23.3 |
| Oil Field Companies (23) | 4,236 | 5,204 | 22.9 | 12,327 | 15,599 | 26.5 |
| Refiners (4) | 418 | 315 | -24.6 | 781 | 1,237 | 58.4 |
| **Total Income (43)** | 5,567 | 6,117 | 9.9 | 15,048.0 | 18,324.0 | 21.8 |

[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 for Q307 increased 12 percent relative to a year earlier while the price of natural gas decreased almost 1 percent.** The U.S. refiner average acquisition cost of imported crude oil increased from $63.78 per barrel in Q306 to $71.18 per barrel in Q307 (**Table 2**). (See the **current** and

**recent** issues of the *Short-Term Energy Outlook* for explanation of these price changes and those discussed below.) This increase follows two consecutive quarters of decreases relative to the year-earlier quarter, which followed eighteen consecutive quarters in which crude oil prices increased relative to their year-earlier levels.

The average U.S. natural gas wellhead price decreased from $5.96 per thousand cubic feet (mcf) in Q306 to $5.91 per mcf in Q307 (**Table 2**). This decline follows last quarter's increase relative to a year earlier, which followed four consecutive quarters in which domestic natural gas prices fell relative to the year-earlier quarter.

The gross refining margin (the per-barrel composite wholesale product price less the composite refiner acquisition cost of crude oil) was 35 percent lower in Q307 than in Q306 (**Table 2**). A negligible decline in the petroleum product average price (from $85.37 per barrel to $85.19 per barrel) was overshadowed by a $7.40 per barrel increase in the price of crude oil resulting in a substantially lower margin.

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

| | Q306 | Q307 | Percent Change |
|---|---|---|---|
| **U.S. Energy Prices**[a] | | | |
| Refiner Acquisition Cost of Imported Crude Oil ($/barrel) | 63.78 | 71.18 | 11.6 |
| Natural Gas Wellhead Price ($/thousand cubic feet) | 5.96 | 5.91 | -0.8 |
| **U.S. Gross Refining Margin ($/barrel)**[b] | 21.59 | 14.01 | -35.1 |

[a] Energy Information Administration, Short-Term Energy Outlook, (Washington, DC, November 6, 2007), Table 2.
[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.

## Independent Energy Company Earnings

**Independent producers' earnings dropped.** Net income of the independent oil and gas producers included in this report declined 35 percent between Q306 and Q307, while revenues increased 16 percent (Table 1). Despite the upward push of the 12-percent increase in oil prices (**Table 2**), profits declined due to a variety of other factors, such as decreases in commodity derivative income, foreign currency losses, and increased operating expenses.

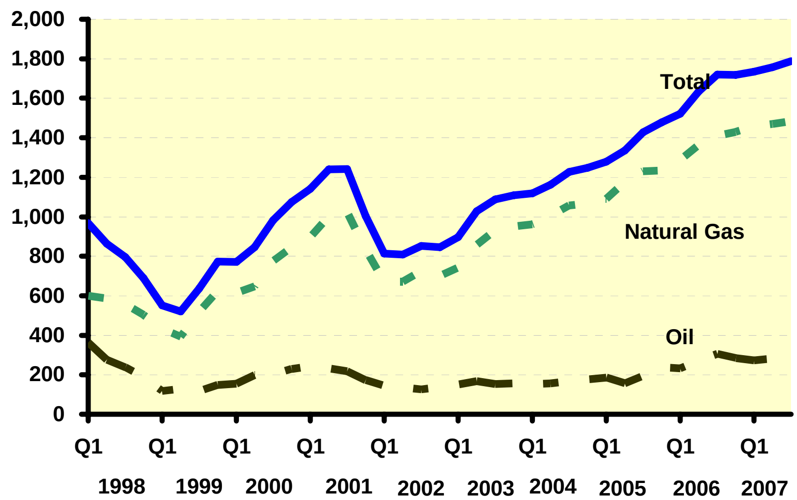
**Oil field companies' revenue and earnings increased.** Net income of U.S. oil field companies included in this report increased 23 percent, as revenues rose 18 percent (see Table 1). U.S. oil field company earnings were strengthened by an increase in the U.S. rig count of 4 percent from 1,719 in Q306 to 1,788 in Q307, 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. The Petrodata Day Rate Indices for rig rentals reflects that, as rates in Q307 were substantially higher than in Q306.

Breaking down the overall (oil plus natural gas) U.S. rig count into its components, the natural gas rig count grew 5 percent while the oil rig count decreased 3 percent over the period (see Figure 1). This was the nineteenth consecutive quarter in which the natural gas rig count has increased relative to its year-earlier level.

The worldwide rig count increased negligibly over the year-ago quarter. While overall rig counts grew 4 percent in the United States from Q306 to Q307, they dropped 30 percent in Canada and grew 8 percent in the rest of the world.

**Refiner earnings dropped on higher margins.** Earnings of the independent refiners included in this report decreased 25 percent, from $418 million in Q306 to $315 million in Q307 (see Table 1). This was due to a decrease in refining margins of 35 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.)

**Figure 1: U.S. Quarterly Rig Counts: Oil, Gas & Total, 1998-2007**




## About this Report

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.

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