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Energy Information Administration

Financial News for Independent Energy Companies, 4th 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 35 independent energy companies included in this report grew 29 percent in the fourth quarter of 2006 (Q406) over earnings in the fourth quarter of 2005 (Q405) (see Table 1). This was driven by the performance of oil field service companies; in contrast, both oil and natural gas producers and refiner/marketers had declines in earnings over the year-ago quarter. Over the full year, all three groups of independent energy companies posted earnings increases in 2006 compared to 2005.

Energy Price News

The crude oil price for Q406 increased by almost three percent relative to a year earlier and the price of natural gas fell more than two-fifths. The U.S. refiner average acquisition cost of imported crude oil increased from $52.01 per barrel in Q405 to $53.39 per barrel in Q406 (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 was the eighteenth 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).

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

Companies	Q405	Q406	Percent Change	2005	2006	Percent Change
Revenue						
Oil and Gas Producers (10)[a]	1,595	1,562	-2.1	5,176	6,405	23.7
Oil Field Companies (20)	18,776	23,786	26.7	66,124	86,924	31.5
Refiners (5)	6,527	6,968	6.8	23,785	29,654	24.7
Total Revenue (35)	26,987	32,315	20.1	95,085	122,983	29.3
Net Income						
Oil and Gas Producers (10)	405	156	-61.5	1,318	1,577	19.6
Oil Field Companies (20)	2,806	4,093	45.9	8,171	14,137	73.0
Refiners (5)	230	182	-20.9	873	1,039	18.9
Total Income (35)	3,441	4,430	28.8	10,363	16,752	61.7

[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

	Q405	Q406	Percent Change	Q405	Q406	Percent Change
U.S. Energy Prices[a]						
Refiner Acquisition Cost of Imported Crude Oil ($/barrel)	52.01	53.39	2.6	48.96	59.02	20.5
Natural Gas Wellhead ($/thousand cubic feet)	10.17	6.03	-40.7	7.45	6.41	13.9
U.S. Gross Refining Margin[b]	19.54	15.28	-21.8	18.32	19.30	5.30

[a]Energy Information Administration, *Short-Term Energy Outlook* , (December 12, 2006 and March 6, 2007), 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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The average U.S. natural gas wellhead price decreased 41 percent between Q405 and Q406, falling from $10.17 per thousand cubic feet to $6.03 (Table 2). This is the second consecutive quarter in which domestic natural gas prices fell relative to the year-earlier quarter and comes on the heels of a streak of nine consecutive quarters in which natural gas prices increased or were unchanged relative to their year-earlier levels.

The crude oil price over all of 2006 was 21-percent higher than for 2005, increasing from $48.96 per barrel to $59.02. Alternatively, 2006's average price of natural gas was 14 percent lower than the average for 2005, falling from $7.45 per thousand cubic feet to $6.41 (Table 2).

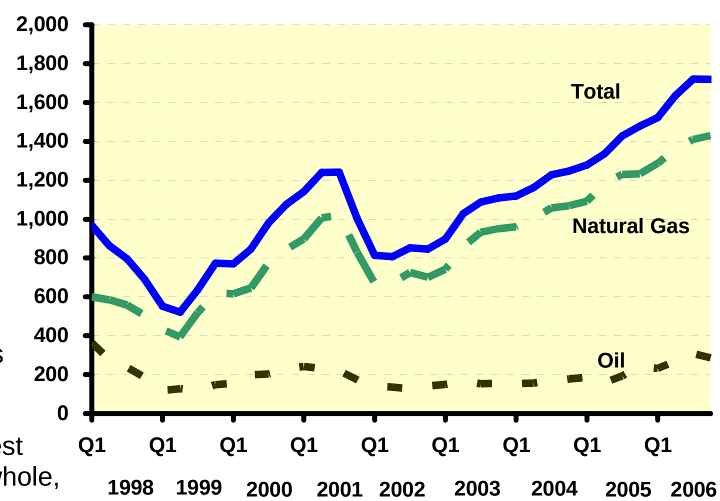
Independent Energy Company Earnings

Independent producers' earnings drop sharply. Net income of the independent oil and gas producers included in this report declined 62 percent between Q405 and Q406, with revenues declining 2 percent (see Table 1). This earnings drop was caused by a 41-percent decrease in the price of natural gas over year-ago prices (see Table 2). The 3-percent increase in crude oil prices was too small to offset the effects of the steep drop in natural gas prices. Over the full year, revenues increased 24 percent and earnings increased 20 percent compared to 2005.

Oil field companies' revenue and earnings increased with higher drilling rig counts. Net income of U.S. oil field companies included in this report jumped 46 percent, as revenues rose 27 percent (see Table 1). U.S. oil field company earnings were strengthened by an increase in the worldwide rig count of 4 percent from 2,979 in Q405 to 3,111 in Q406, 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 averaged slightly higher in Q406 compared to Q405, but for 2006 as a whole, rates were substantially higher than in 2005. Results for the full year reflect that, as 2006 revenues increased 32 percent and earnings increased 73 percent compared to 2005.

The U.S. rig count growth rate of 16 percent over the year-ago quarter exceeded the 4 percent worldwide growth rate. Decomposing the total U.S. rig count into its components, the natural gas rig count grew 16 percent and the oil rig count grew 19 percent over the period (see Figure 1). This was the sixteenth consecutive quarter in which the natural gas rig count has increased relative to its year-earlier level. For the year as a whole, the average natural gas rig count grew 16 percent from 1,186 in 2005 to 1,372 in 2006, while the average oil rig count jumped 41 percent from 194 in 2005 to 274 in 2006.

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



Breaking down overall (oil plus natural gas) rig counts on a regional basis shows that while rig counts grew 16 percent in the United States from Q405 to Q406, they dropped 23 percent in Canada and grew a modest 2 percent in the rest of the world. For the year as a whole, average rig counts grew 19 percent in the United States from 2005 to 2006, compared to 3 percent in Canada and 2 percent in the rest of the world.

Refiner earnings increased modestly on higher margins. Earnings of the independent refiners included in this report dropped 21 percent, from $230 million in Q405 to $182 million in Q406 (see Table 1). This was due to a decline in refining margins of 22 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.) Over the full year, revenues increased 25 percent and earnings increased 19 percent compared to 2005, as refining margins for 2006 averaged 5.3 percent higher than 2005.