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Energy Finance

Financial News for Independent Energy Companies

Earnings for the 51 independent energy companies included in this report grew 11 percent in the first quarter of 2004 (Q104) over earnings in the first quarter of 2003 (Q103) (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 increased income over the year-ago quarter, as both crude oil prices and the gross refining margin increased 3 percent (Table 2).

Energy Price News

- **A small increase in oil prices is accompanied by a larger decrease in natural gas prices, relative to prices of a year ago.** The world oil price (i.e., U.S. refiner average acquisition cost of imported crude oil) increased 3 percent relative to a year ago, going from $30.58 per barrel in Q103 to $31.44 per barrel in Q104 (Table 2). As indicated in the May *Short-Term Energy Outlook* (*STEO*) of the Energy Information Administration, upward pressure was exerted on crude oil prices by the U.S. economy's 5-percent growth, low stock levels in the countries of the Organization for Economic Cooperation and Development (including the U.S., Figure 1), and a 1-percent increase in world demand. The effects of these factors were somewhat offset by a 5-percent increase in world supply. This was the seventh 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).

Meanwhile, the average U.S. natural gas wellhead price decreased 6 percent between Q103 and Q104 (Table 2), as the opening U.S. natural gas working storage level in Q104 was higher than in Q103 (Figure 2), rising 8 percent. Further, new U.S. natural gas supply was essentially unchanged while U.S. demand fell almost 2 percent according to the May *STEO*. This marked the first quarter that natural gas prices decreased relative to a year earlier, following five consecutive quarters of rising prices (relative to a year earlier).

Company Earnings

- **Independent producers' earnings boosted by crude oil price increases.** Net income of the independent oil and gas producers included in this report rose 12 percent between Q103 and Q104 and revenues rose 17 percent (Table 1), boosted by a 3 percent increase in the price of crude oil (Table 2).

- **Oil field companies' revenue and earnings increase with higher drilling rig counts.** Net income of U.S. oil field companies included in this report increased 6 percent, from $593 million in Q103 to $629 million in Q104 (Table 1), as the worldwide rig count grew 14 percent from 2,139 in Q103 to 2,444 in Q104, 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 U.S. rig count grew at an even higher rate of 24 percent, rising from 901 in Q103 to 1,119 in Q104 (Figure 3). Decomposing the total U.S. rig count into its natural gas and oil components shows that virtually all of that growth has been due to increases in the number of natural gas rigs, growing 29 percent from 743 in Q103 to 961 in Q104. The oil rig count increased 2 percent over the same period. This marks the fifth consecutive quarter in which rig counts for both fuels have increased relative to their year-earlier levels.

Breaking down overall (oil plus natural gas) rig counts on a regional basis shows that total rig counts grew worldwide from Q103 to Q104, but was strongest in the United States at 24 percent. Overall rig count growth over the period for both Canada and the world outside North America was 7 percent.

Refiner earnings up with higher margins. Earnings were flat to up slightly from Q103 to Q104 for four of the five independent refiners included in this report, though improved circumstances peculiar to one company boosted earnings for the group of independent refiners as a whole by 47 percent, from $69 million in Q103 to $102 million in Q104 (Table 1). Modest growth in refining margins of 3 percent over that period (Table 2) supported this trend. (The average refining margin is the difference between the composite wholesale refined petroleum product price and the composite refiner acquisition cost of crude oil.) Refining margins increased because the increase in refined product prices (calculated from Table 2 by adding the price of crude oil and the gross refining margin) of $1.16 more than offset the $0.86 increase in the price of crude oil.

Table 1. Revenue and Net Income Summaries for Independent Energy Companies

(Millions of Dollars)

	Q103	Q104	Percent Change
Revenue			
Oil and Gas Producers (20)[a]	2,365	2,769	17.1
Oil Field Companies (26)	13,481	17,251	28.0
Refiners (5)	4,237	5,029	18.7
Total Revenue (51)	20,082	25,049	24.7
Net Income			
Oil and Gas Producers (20)	452	508	12.4
Oil Field Companies (26)	593	629	6.0
Refiners (5)	69	102	47.1
Total Net Income (51)	1,114	1,239	11.2

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

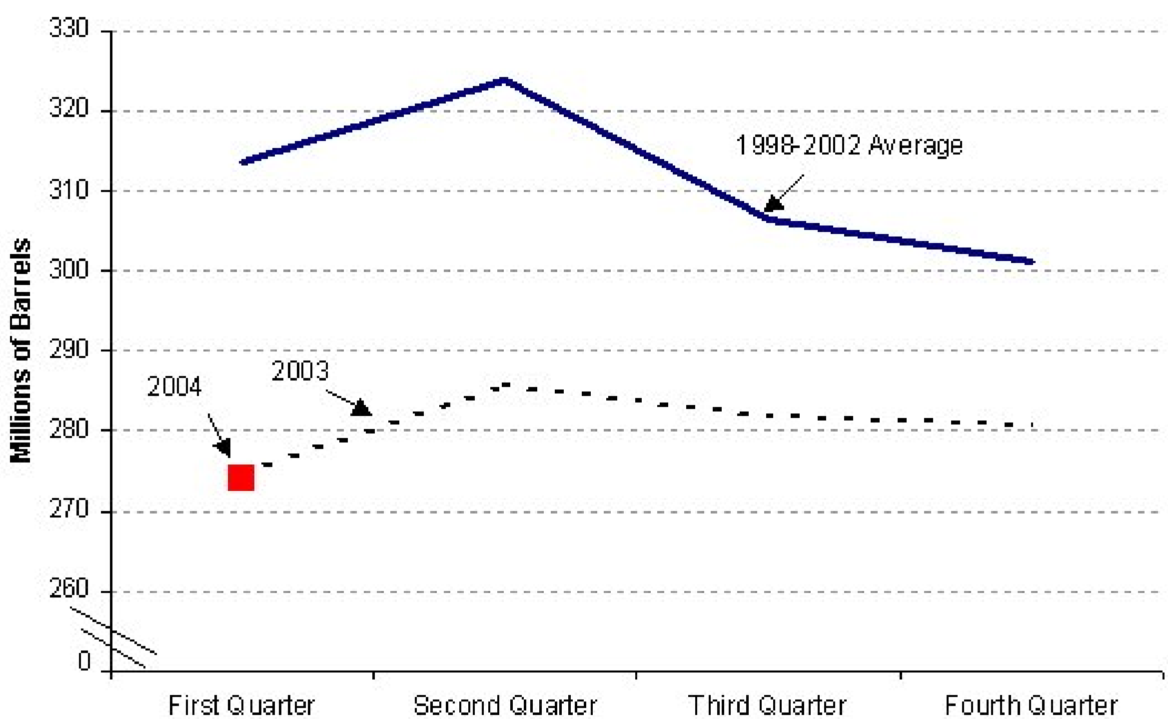
Notes: The net income data presented here have been adjusted to exclude the effects of unusual items. Percentages are calculated from unrounded data.

Sources: Compiled from companies' quarterly reports to stockholders.

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

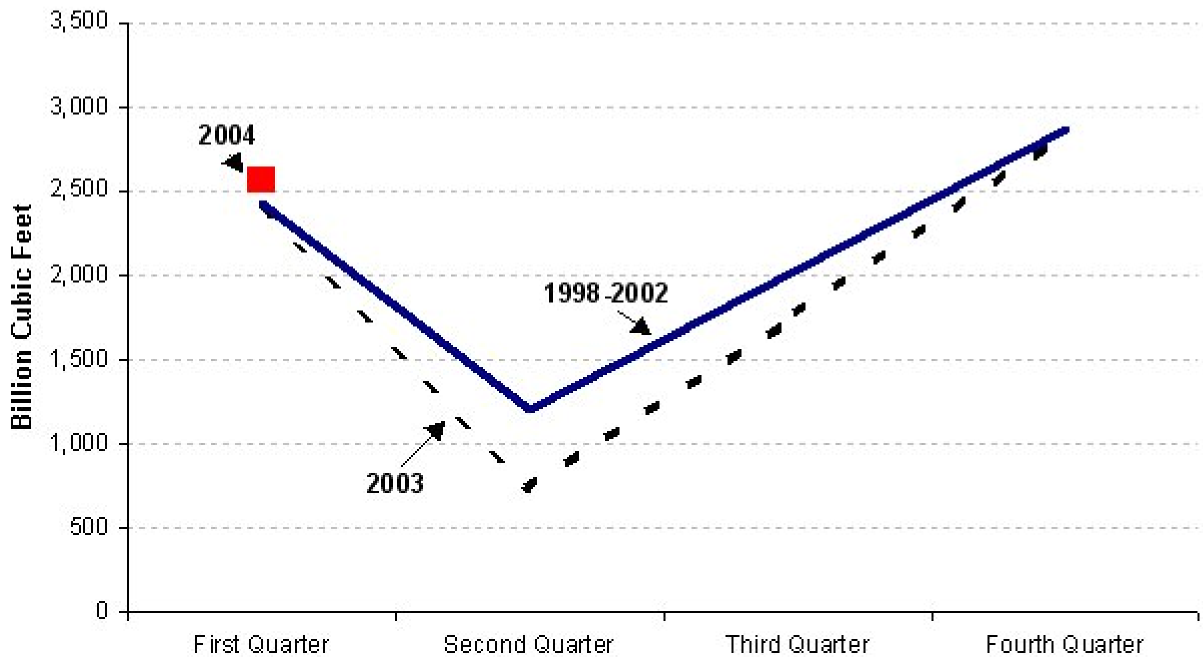
	Q103	Q104	Percent Change
U.S. Energy Prices[a]			
Refiner Acquisition Cost of Imported Crude Oil ($/barrel)	30.58	31.44	2.8
Natural Gas Wellhead ($/thousand cubic feet)	5.54	5.22	-5.8
U.S. Gross Refining Margin[b] ($/barrel)	10.70	11.00	2.7
[a]Energy Information Administration, *Short-Term Energy Outlook*, (Washington, DC, May 11, 2004), 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.			

Figure 1. Quarterly U.S. Crude Oil Stocks, 1998-2002, 2003, and 2004



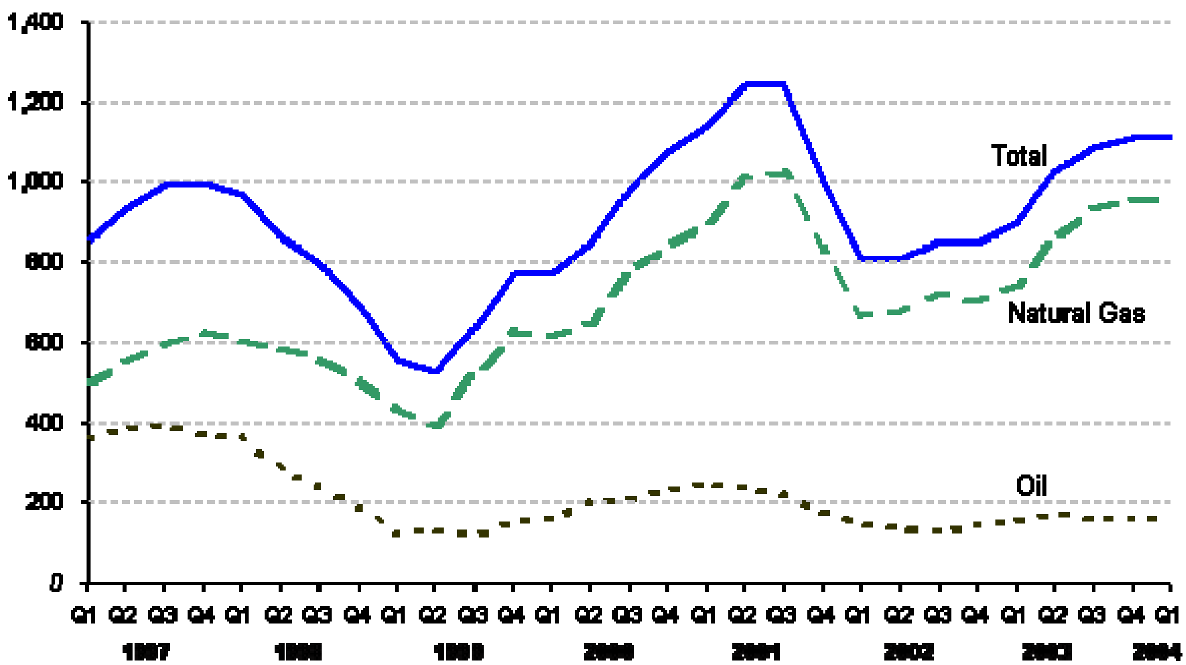
Source: Energy Information Administration, *Petroleum Supply Monthly*, DOE/EIA-0109 (Washington, DC), Table 51.

Figure 2. Quarterly U.S. Opening Level of Working Gas in Storage, 1998-2002, 2003, and 2004



Source: Energy Information Administration (EIA), *Monthly Energy Review*, DOE/EIA-0035 (Washington, DC), Table 4.5; and EIA, *Short-Term Energy Outlook* (Washington, DC, April 8, 2004), Table 8.

Figure 3. U.S. Quarterly Rig Counts: Oil, Gas & Total, 1997-2004



Source: Baker Hughes.

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Contact:

Bob Schmitt
robert.schmitt@eia.doe.gov
Fax: (202) 586-8644

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