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Financial News for Independent Energy Companies

First Quarter 2005

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 50 independent energy companies included in this report grew 176 percent in the first quarter of 2005 (Q105) over earnings in the first quarter of 2004 (Q104) (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 crude oil prices, natural gas prices, and gross refining margins all increased (Table 2).

Energy Price News

- **The crude oil price increased by more than one-third while the domestic natural gas price increased by less than one-tenth, relative to the prices of a year ago.** The U.S. refiner average acquisition cost of imported crude oil increased 34 percent relative to a year ago, from $31.12 per barrel in Q104 to $41.66 per barrel in Q105 (Table 2). Several factors contributed to increased oil prices including the lingering effects from Hurricane Ivan, the U.S. economy's 4-percent growth, and a 3-percent increase in world oil demand relative to a year earlier according to the Energy Information Administration's May *Short-Term Energy Outlook*. The effects of these factors were somewhat offset by a 2-percent increase in world crude oil supply and a 4-percent increase in the stock levels in the countries of the OECD relative to Q104, and higher U.S. stocks (Figure 1), which increased 6 percent relative to Q104. This was the eleventh 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 increased 9 percent between Q104 and Q105, from $5.22 per thousand cubic feet to $5.70 per thousand cubic feet (Table 2). A 3-percent decline in U.S. demand for natural gas was offset by a 2-percent decline in domestic production (largely due to lingering effects from Hurricane Ivan, which caused natural gas production losses in the Gulf of Mexico), but only an overall 1-percent decline in domestic natural gas supply, putting scant upward pressure on domestic natural gas prices. Undercutting higher natural gas prices were a higher opening level of working gas in storage, which was 5 percent higher in Q105 than in Q104, and an 8-percent increase in net imports of natural gas.

Company Earnings

- **Large increases in crude oil and natural gas prices boost independent producers' earnings.** Net income of the independent oil and gas producers included in this report rose 37 percent between Q104 and Q105, from $489 million to $669 million, as revenues rose 29 percent (Table 1). Independent oil and gas producer earnings were boosted by a 34-percent increase in the price of crude oil and a 9-percent increase in the price of natural gas over year-ago prices (Table 2). All but three of the twenty producers included in this report had higher earnings over the year-ago quarter.

- **Oil field companies' revenue and earnings increase with higher drilling rig counts.** Net income of U.S. oil field companies included in this report jumped 299 percent, from $471 million in Q104 to $1.9 billion in Q105, as revenues rose 12 percent (Table 1). U.S. oil field company earnings were strengthened by an increase in the worldwide rig count of 14 percent from 2,444 in Q104 to 2,775 in Q105, 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 ODS-Petrodata Day Rate Indices were sharply higher in Q105 from Q104.

The rig count growth rate over the year-ago quarter for the United States matched the worldwide growth rate of 14 percent. (Figure 2). Decomposing the total U.S. rig count into its natural gas and oil components shows that both types of rigs contributed to the growth, with the oil rig count growing 21 percent and the natural gas rig count growing 14 percent. The natural gas rig count has now increased for nine consecutive quarters relative to its year-earlier level.

Breaking down overall (oil plus natural gas) rig counts on a regional basis shows that rig counts grew 14 percent in the United States from Q104 to Q105, 17 percent in Canada, and 14 percent in the rest of the world.

- **Refiner earnings up sharply with higher margins.** Earnings of the independent refiners included in this report increased from -$8 million in Q104 to $85 million in Q105 (Table 1). Driving this earnings growth was an increase in average refining margins of 13 percent from Q104 to Q105 (Table 2). (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 $12.10 more than offset the $10.55 increase in the price of crude oil.

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

	Q104	Q105	Percent Change
Revenue			
Oil and Gas Producers (20)[a]	2,535	3,274	29.2
Oil Field Companies (25)	16,488	18,432	11.8
Refiners (5)	4,714	6,158	30.6
Total Revenue (50)	23,737	27,864	17.4
Net Income			
Oil and Gas Producers (20)	489	669	36.8
Oil Field Companies (25)	471	1,876	298.7
Refiners (5)	-8	85	NM
Total Net Income (50)	952	2,630	176.3

[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. NM = not meaningful.

Sources: Compiled from companies' quarterly reports to stockholders.

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

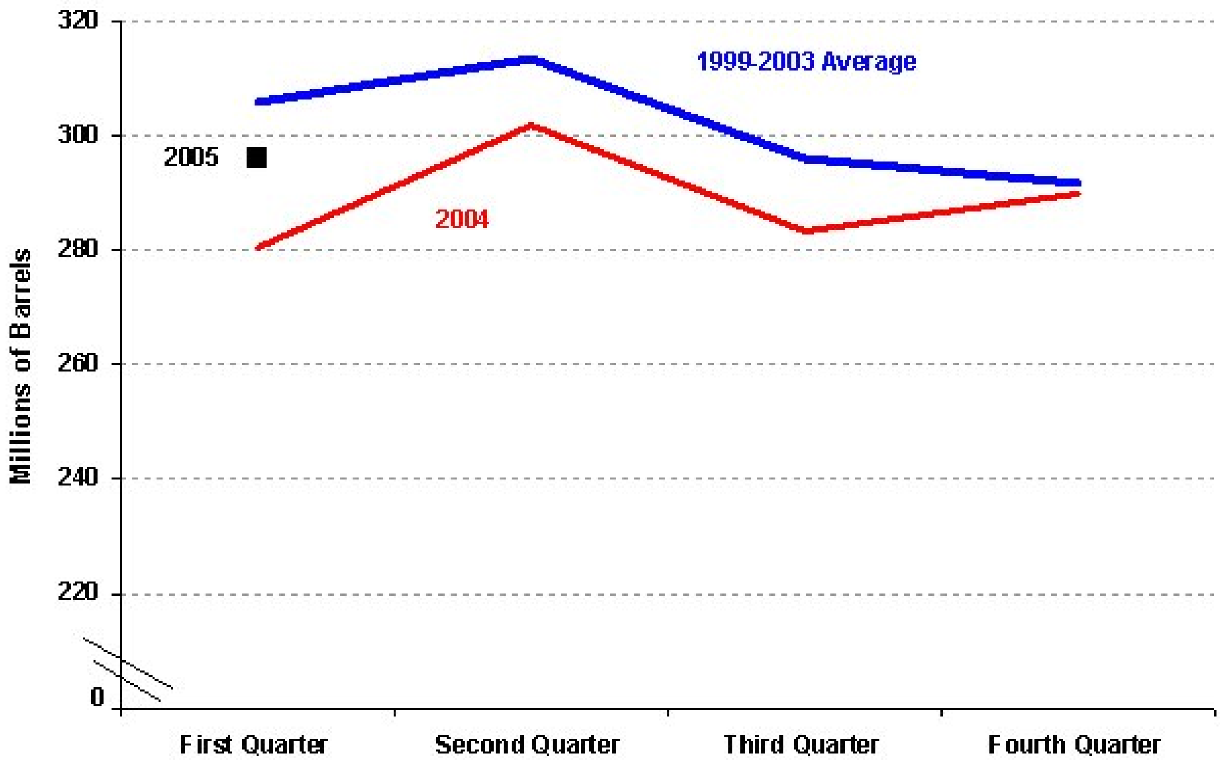
	Q104	Q105	Percent Change
U.S. Energy Prices[a]			
Refiner Acquisition Cost of Imported Crude Oil ($/barrel)	31.12	41.66	33.9
Natural Gas Wellhead ($/thousand cubic feet)	5.22	5.70	9.2
U.S. Gross Refining Margin[b] ($/barrel)	11.59	13.14	13.3

[a] Energy Information Administration, *Short-Term Energy Outlook*, (Washington, DC, May 10, 2005), 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.

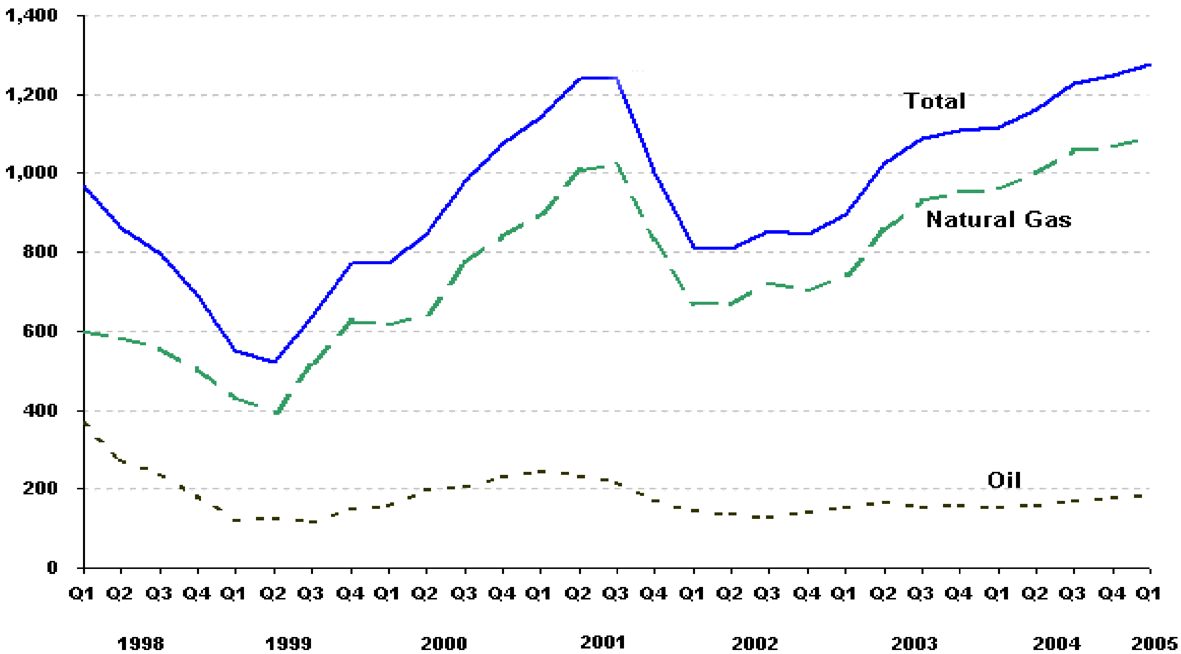
Note: The U.S. Gross Refining Margin is the difference between the composite wholesale product price and the composite refiner acquisition cost of crude oil.

Figure 1. Quarterly Average U.S. Crude Oil Stocks, 1999-2003, 2004, and 2005



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

Figure 2: U.S. Quarterly Rig Counts: Oil, Gas & Total, 1998-2005



Source: Baker Hughes

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