



## FINANCIAL NEWS FOR INDEPENDENT ENERGY COMPANIES

### Second 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. This analysis does not include any effects of the recent hurricanes since these events took place after the second quarter of 2005. Earnings for the 50 independent energy companies included in this report grew 139 percent in the second quarter of 2005 (Q205) over earnings in the second quarter of 2004 (Q204) (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 more than one-ninth, relative to the prices of a year ago. The U.S. refiner average acquisition cost of imported crude oil increased 35 percent relative to a year ago, from \$33.97 per barrel in Q204 to \$45.94 per barrel in Q205 (Table 2). According to the [Energy Information Administration's](#) September *Short-Term Energy Outlook* one of the major factors contributing to increased oil prices is the continued and forecast growth in world oil demand, low worldwide spare production capacity, and geopolitical risks that have increased the level of uncertainty of world oil markets. Higher U.S. crude oil stocks (Figure 1), which increased 10 percent relative to Q204, have provided scant relief. This was the twelfth 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 12 percent between Q204 and Q205, from \$5.56 per thousand cubic feet to \$6.20 per thousand cubic feet (Table 2). According to recent STEOs, higher natural gas prices are due to high world oil prices, 4-percent growth in the U.S. economy, the anticipation of reduced hydroelectric generation in the Pacific Northwest, and declining domestic production. A 2-percent decline in demand, a 21-percent increase in the opening level of working gas in storage in Q205 relative to Q204, and a 3-percent increase in net imports of natural gas put some downward pressure on domestic natural gas prices, but not enough to offset the other factors cited above.

### Company Earnings

- **Increases in natural gas and especially crude oil prices boost independent producers' earnings.** Net income of the independent oil and gas producers included in this report rose 74 percent between Q204 and Q205, from \$484 million to \$844 million, as revenues rose 38 percent (Table 1). Independent oil and gas producer earnings were boosted by a 35-percent increase in the price of crude oil and a 12-percent increase in the price of natural gas over year-ago prices (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 jumped 205 percent, from \$690 million in Q204 to \$2.1 billion in Q205, as revenues rose 23 percent (Table 1). U.S. oil field company earnings were strengthened by an increase in the worldwide rig count of 13 percent from 2,203 in Q204 to 2,493 in Q205, 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 Q205 from Q204.

The rig count growth rate over the year-ago quarter for the United States of 15 percent slightly exceeded the worldwide growth rate of 13 percent (Figure 2). Decomposing the total U.S. rig count into its natural gas and oil components shows that this overall growth was driven by growth in the natural gas rig count: the oil rig count held steady, while the natural gas rig count grew 17 percent over the year-ago quarter. The natural gas rig count has now increased for ten 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 15 percent in the United States from Q204 to Q205, 20 percent in Canada, and 9 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 \$145 million in Q204 to \$206 million in Q205 (Table 1). Driving this earnings growth was an increase in average refining margins of 17 percent from Q204 to Q205 (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 \$14.66 more than offset the \$11.97 increase in the price of crude oil.

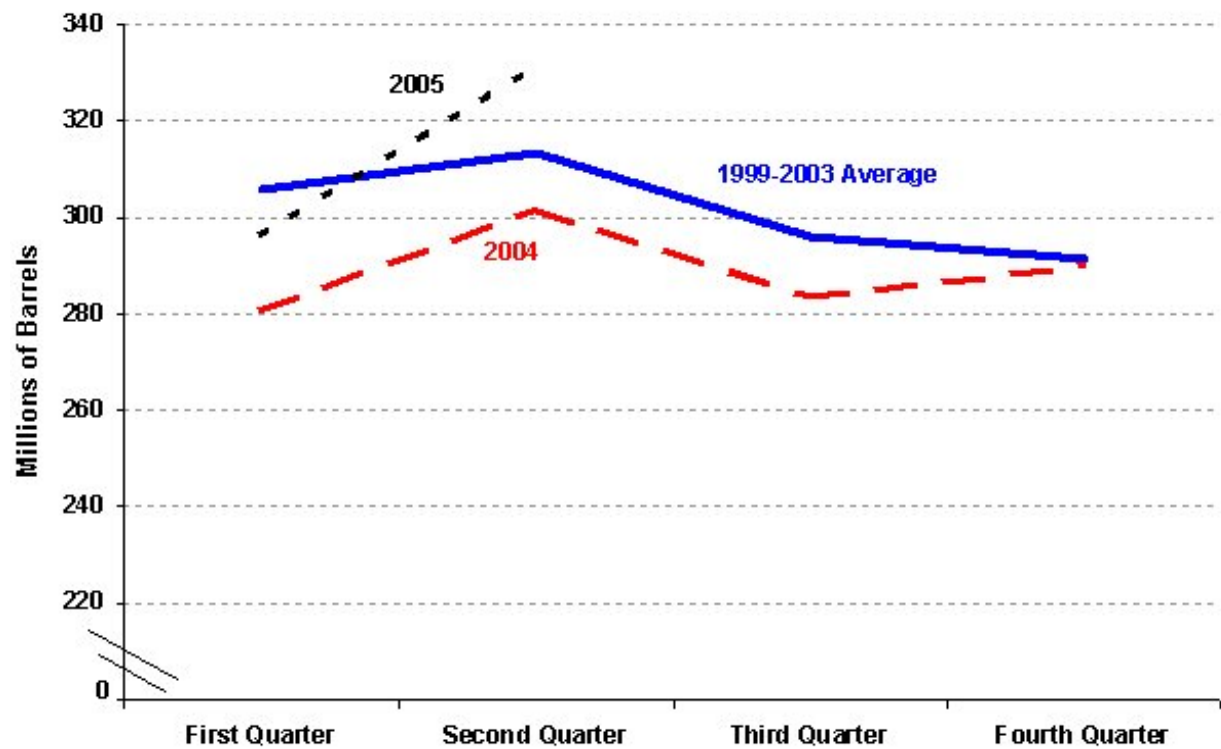
**Table 1. Revenue and Net Income Summaries for Independent Energy Companies**  
(Millions of Dollars)

	Q204	Q205	Percent Change	Year to Date 2004	Year to Date 2005	Percent Change
<b>Revenue</b>						
Oil and Gas Producers (20) <sup>a</sup>	2,409	3,323	37.9	4,731	6,332	33.9
Oil Field Companies (26)	15,885	19,526	22.9	31,812	37,374	17.5
Refiners (4)	3,695	4,872	31.9	6,557	8,881	35.5
<b>Total Revenue (50)</b>	<b>21,989</b>	<b>27,721</b>	<b>26.1</b>	<b>43,099</b>	<b>52,587</b>	<b>22.0</b>
<b>Net Income</b>						
Oil and Gas Producers (20)	484	844	74.2	928	1,390	49.6
Oil Field Companies (26)	690	2,106	205.1	1,423	4,272	200.3
Refiners (4)	145	206	42.1	153	258	68.2
<b>Total Net Income (50)</b>	<b>1,320</b>	<b>3,156</b>	<b>139.1</b>	<b>2,504</b>	<b>5,920</b>	<b>136.4</b>
<sup>a</sup> The number of companies reporting revenue and net income is in parentheses.						
<b>Notes:</b> The net income data have been adjusted to exclude the effects of unusual items such as accounting changes. Percentages are calculated from unrounded data.						
<b>Sources:</b> Compiled from companies' quarterly reports to stockholders.						

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

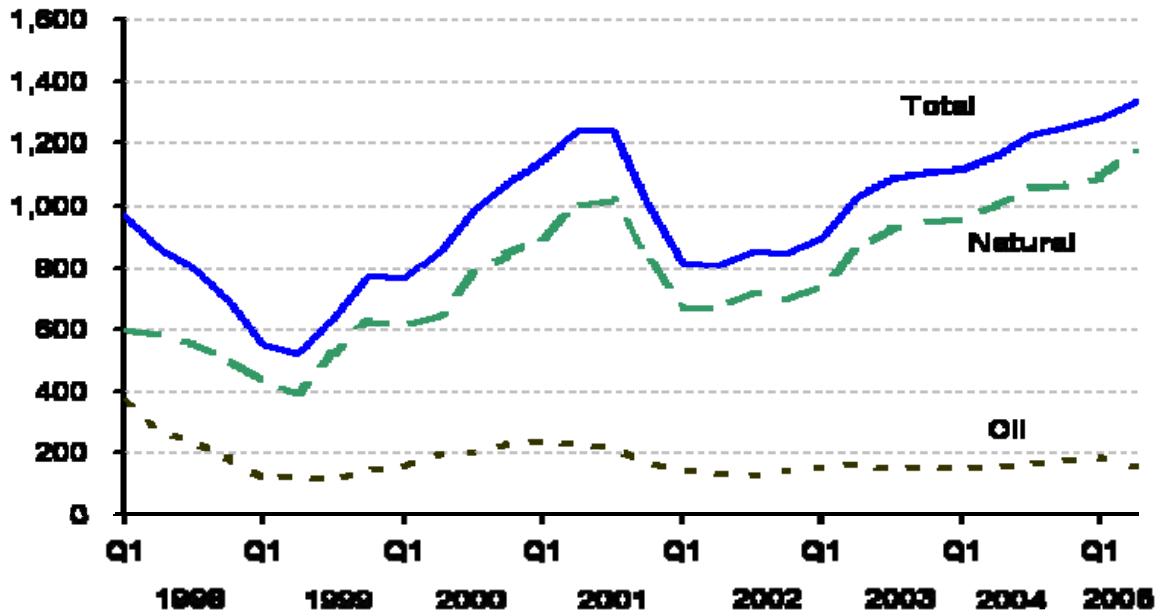
	Q204	Q205	Percent Change
<b>U.S. Energy Prices<sup>a</sup></b>			
Refiner Acquisition Cost of Imported Crude Oil (\$/barrel)	33.97	45.94	35.2
Natural Gas Wellhead (\$/thousand cubic feet)	5.56	6.20	11.5
<b>U.S. Gross Refining Margin<sup>b</sup> (\$/barrel)</b>	<b>16.21</b>	<b>18.90</b>	<b>16.6</b>
<sup>a</sup> Energy Information Administration, <i>Short-Term Energy Outlook</i> , (Washington, DC, September 7, 2005), Table 4.			
<sup>b</sup> Compiled from data in Energy Information Administration, <a href="#">Petroleum Marketing Monthly</a> , DOE/EIA-380 (Washington, DC), Table 1, Table 4 and Table 5; and Energy Information Administration, <a href="#">Monthly Energy Review</a> , DOE/EIA-0035, (Washington, DC) Table 3.2b.			
<b>Note:</b> 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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