

Financial News for Independent Energy Companies

Oil and natural gas producers led the way in earnings growth for the 67 independent energy companies included in this report, as earnings for independents as a whole grew 134 percent in the third quarter of 2003 (Q303) over earnings in the third quarter of 2002 (Q302) (Table 1). All three groups -- independent oil and natural gas producers, oil field service companies, and refiner/marketers -- had increased income over the year-ago quarter. This broad growth in profits was due to improvements in all three major financial variables driving the performance of these companies: a sharp increase in the price of natural gas of 65 percent, a modest increase in the price of crude oil of 6 percent, and a substantial increase in refinery margins of 47 percent (Table 2).

Energy Price News

● A small increase in oil prices is accompanied by a much larger increase in natural gas prices, relative to prices of a year ago. The world oil price (as represented by the U.S. refiner average acquisition cost of imported crude oil) increased, but only 6 percent relative to a year ago, going from \$25.91 per barrel in Q302 to \$27.37 per barrel in Q303 (Table 2). As indicated in the latest *Short-Term Energy Outlook (STEO)* of the Energy Information Administration, slight upward pressure was exerted on crude oil prices by a 3-percent expansion in the U.S. economy. This was the fifth 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).

In contrast, the average U.S. natural gas wellhead price increased 65 percent between Q302 and Q303 (Table 2), as according to the most recent *STEO* the opening U.S. natural gas working storage level in Q303 was 23 percent lower than in Q302. This marked the fourth consecutive quarter that natural gas prices have increased relative to a year earlier, following five consecutive quarters of falling prices (relative to a year earlier).

Company Earnings

● **Independent producers' earnings boosted by natural gas and crude price increases.** Net income of the independent oil and gas producers included in this report jumped 438 percent between Q302 and Q303 (Table 1) due to increases in the prices of both natural gas (65 percent) and crude oil (6 percent) (Table 2). While the modest increase in crude oil prices helped, independent producers particularly credited the sharp natural gas price increases for boosting their profits. All but three of the twenty-seven producers included in this review reported improvements in income.

● **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 103 percent between Q302 and Q303 (Table 1), as the worldwide rig count grew about 24 percent from 1,821 in Q302

to 2,253 in Q303, 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, particularly in Canada, thereby increasing companies' profits.

The U.S. rig count kept pace with growth of almost 28 percent, rising from 853 in Q302 to 1,088 in Q303 (Figure 1). Decomposing the total U.S. rig count increase into its natural gas and oil components shows that the growth has been healthy for both rig types, with the edge to rigs producing natural gas, which experienced sharper price increases. The natural gas rig count increased 29 percent from Q302 to Q303, while the oil rig count increased 22 percent over the same period; further, rig counts for both fuels have grown in all of the first three quarters of 2003 compared to the year-ago quarter.

Breaking down overall (oil plus natural gas) rig counts on a regional basis shows that total rig counts grew worldwide, but growth was healthier in North America than in the rest of the world. The Canadian rig count increased 53 percent from 250 in Q302 to 383 in Q303, while the rig count outside North America increased 9 percent, from 718 to 782 over that period.

🟡 **Refiner earnings boosted by higher margins.** The 47-percent increase in refining margins in Q303 compared to Q302 (Table 2) swelled independent refiner earnings by 123 percent, from \$64 million in Q302 to \$143 million in Q303. (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 15 percent more than offset the 6-percent increase in the price of crude oil.

Partly offsetting improved margins, however, were higher costs of refining due to sharply higher natural gas prices. (Natural gas is a significant component of refining costs). Nevertheless, all four independent refineries included in this report experienced improved earnings.

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

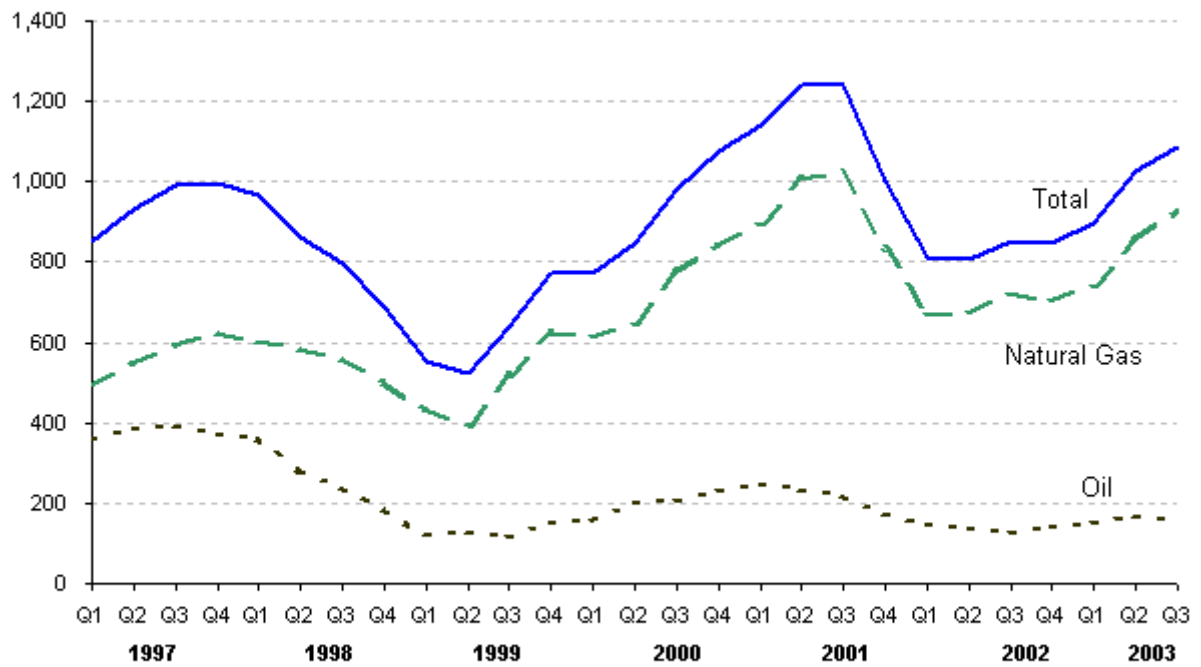
(Millions of Dollars)

	Q302	Q303	Percent Change	Year to Date 2002	Year to Date 2003	Percent Change
Revenue						
Oil and Gas Producers (27) ^a	1,607	2,340	45.6	4,596	7,060	53.6
Oil Field Companies (36)	14,015	16,620	18.6	41,659	46,712	12.1
Refiners (4)	4,004	4,629	15.6	10,666	12,903	21.0
Total Revenue (67)	15,706	19,045	21.3	46,338	53,857	16.2
Net Income						
Oil and Gas Producers (27)	73	391	437.7	229	1,225	435.3
Oil Field Companies (36)	350	712	103.4	1008	1600	58.8
Refiners (4)	64	143	123.1	93	303	226.2
Total Net Income (67)	507	1,187	134.3	1,320	2,909	120.3
^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.						
Sources: Compiled from companies' quarterly reports to stockholders.						

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

	Q302	Q303	Percent Change
U.S. Energy Prices^a			
Refiner Acquisition Cost of Imported Crude Oil (\$/barrel)	25.91	27.37	5.6
Natural Gas Wellhead (\$/thousand cubic feet)	2.88	4.74	64.6
U.S. Gross Refining Margin^b (\$/barrel)	8.01	11.78	47.0
^a Energy Information Administration, <i>Short Term Energy Outlook</i> (STEO), (Washington, DC, December 8, 2003), Table 4.			
^b Compiled from data in Energy Information Administration, <i>Petroleum Marketing Monthly</i> , DOE/EIA-380 (Washington, DC), Table 1, Table 4 and Table 5; and Energy Information Administration, <i>Monthly Energy Review</i> , 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. U.S. Quarterly Rig Counts: Oil, Gas & Total, 1997-2003



Source: Baker Hughes.

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URL: http://www.eia.doe.gov/emeu/perfpro/news_i/q303.pdf