Financial News for Independent Energy Companies

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. Earnings for the 50 independent energy companies included in this report grew 91 percent in the third quarter of 2004 (Q304) over earnings in the third quarter of 2003 (Q303) (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 the gross refining margin all increased (Table 2).

Energy Price News

- **Oil prices increased by two-fifths as natural gas prices increased by one-ninth, relative to prices of a year ago.** The world oil price (represented by the U.S. refiner average acquisition cost of imported crude oil) increased 41 percent relative to a year ago, going from $27.37 per barrel in Q303 to $38.64 per barrel in Q304 (Table 2). Several factors contributed to increased oil prices including a series of hurricanes, especially Hurricane Ivan near the end of the quarter, the U.S. economy's 4-percent growth, slightly lower stock levels in the countries of the Organization for Economic Cooperation and Development relative to a year earlier, and a 4-percent increase in world oil demand. . The effects of these factors were somewhat offset by a 5-percent increase in world supply and slightly higher U.S. stocks (Figure 1), which increased by 1 percent relative to Q303. This was the ninth 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 11 percent between Q303 and Q304 (Table 2). Hurricane activity, particularly Hurricane Ivan, also led to natural gas production losses in the Gulf of Mexico and strongly elevated U.S. natural gas prices at the end of the quarter according to the Energy Information Administration’s November *Short-Term Energy Outlook (STEO)*. Undercutting higher natural gas prices was a 1-percent decrease in U.S. demand and a similar reduction in total U.S. supply for Q304 relative to Q303, according to the December *STEO*. The growth in natural gas prices was also diminished by increased U.S. natural gas working storage over the quarter ahead of the winter heating season, although slightly less (by 1 percent) than a year earlier.

Company Earnings

- **Crude oil and natural gas price increases boost independent producers' earnings.** Net income of the independent oil and gas producers included in this report rose 8 percent between Q303 and Q304, from $491 million in Q303 to $531 million in Q304, as revenues rose 38 percent, from $2.1 billion to $2.9 billion (Table 1). Independent oil and gas producer earnings were boosted by a 41-percent increase in the price of crude oil and an 11-percent increase in the price of natural gas over year-ago prices (Table 2). Hurricanes in the Gulf of Mexico late in the quarter reduced production of oil and natural gas and raised the price of natural gas.

- **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 241 percent, from $314 million in Q303 to $1.1 billion in Q304, as revenues rose 13 percent, from $14.4 billion to $16.2 billion (Table 1). U.S. oil field company earnings were strengthened by an increase in the worldwide rig count of 7 percent from 2,253 in Q303 to 2,401 in Q304, 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. Hurricanes in the Gulf of Mexico reduced earnings for some companies.

  The rig count growth rate for the United States was higher at 13 percent, rising from 1,088 in Q303 to 1,229 in Q304 (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 10 percent and the natural gas rig count growing 14 percent. The natural gas rig count has now increased for seven consecutive quarters relative to its year-earlier level. Breaking down overall (oil plus natural gas) rig counts on a regional basis shows that while total rig counts grew 7 percent worldwide and 13 percent in the United States from Q303 to Q304, the rig count declined 15 percent in Canada.

- **Refiner earnings up sharply with higher margins.** Earnings of the independent refiners included in this report increased 52 percent from $171 million in Q303 to $260 million in Q304 (Table 1). Three of the five independent refiners included in this report had earnings increases over the year-ago quarter due to the increase in average refining margins of 14 percent over the period (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 $12.96 more than offset the $11.27 increase in the price of crude oil.

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

	Q303	Q304	Percent Change	Year to Date 2003	Year to Date 2004	Percent Change
Revenue						
Oil and Gas Producers (20) [a]	2,097	2,888	37.7	6,384	8,107	27.0
Oil Field Companies (25)	14,373	16,214	12.8	40,113	48,002	19.7
Refiners (5)	4,790	6,453	34.7	13,206	17,313	31.1
Total Revenue (50)	21,260	25,554	20.2	59,703	73,422	23.0
Net Income						
Oil and Gas Producers (20)	491	531	8.3	1,249	1,457	16.6
Oil Field Companies (25)	314	1,073	241.2	1,279	2,215	73.2
Refiners (5)	171	260	52.2	230	557	142.8
Total Net Income (50)	976	1,864	91.0	2,758	4,229	53.4

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

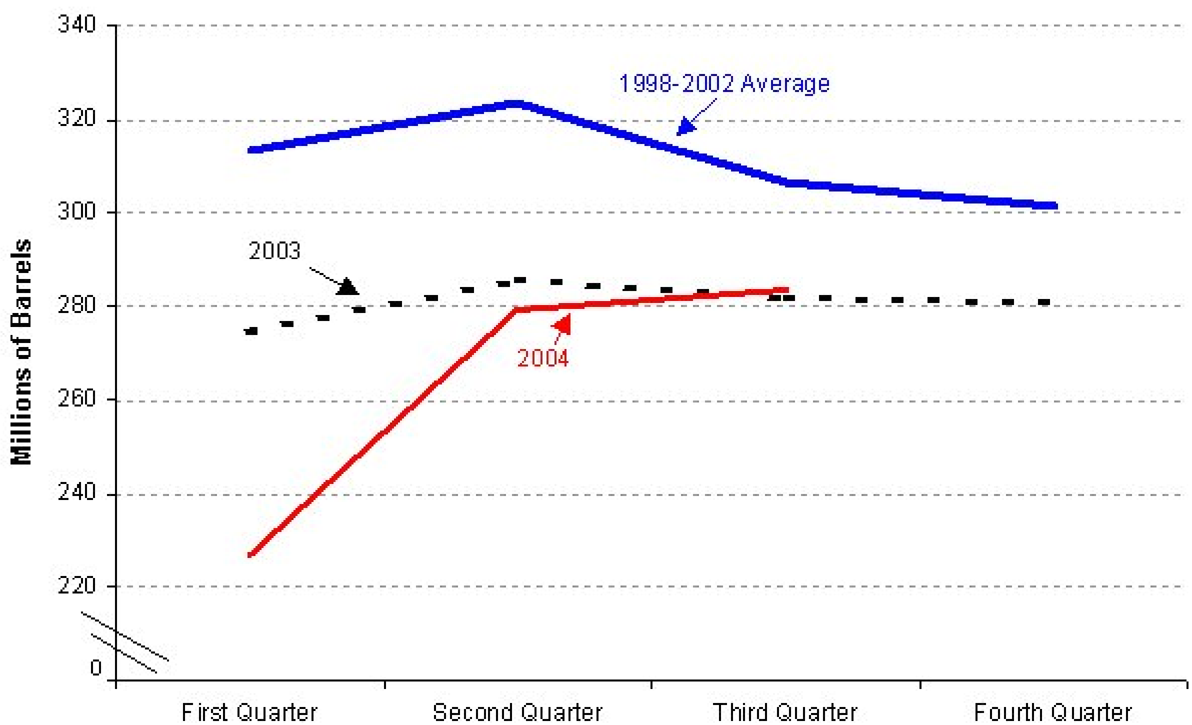
Notes: The net income data have been adjusted to exclude the effects of unusual items such as accounting changes. Percentages are calculated from unrounded data.

Sources: Compiled from companies' quarterly reports to stockholders.

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

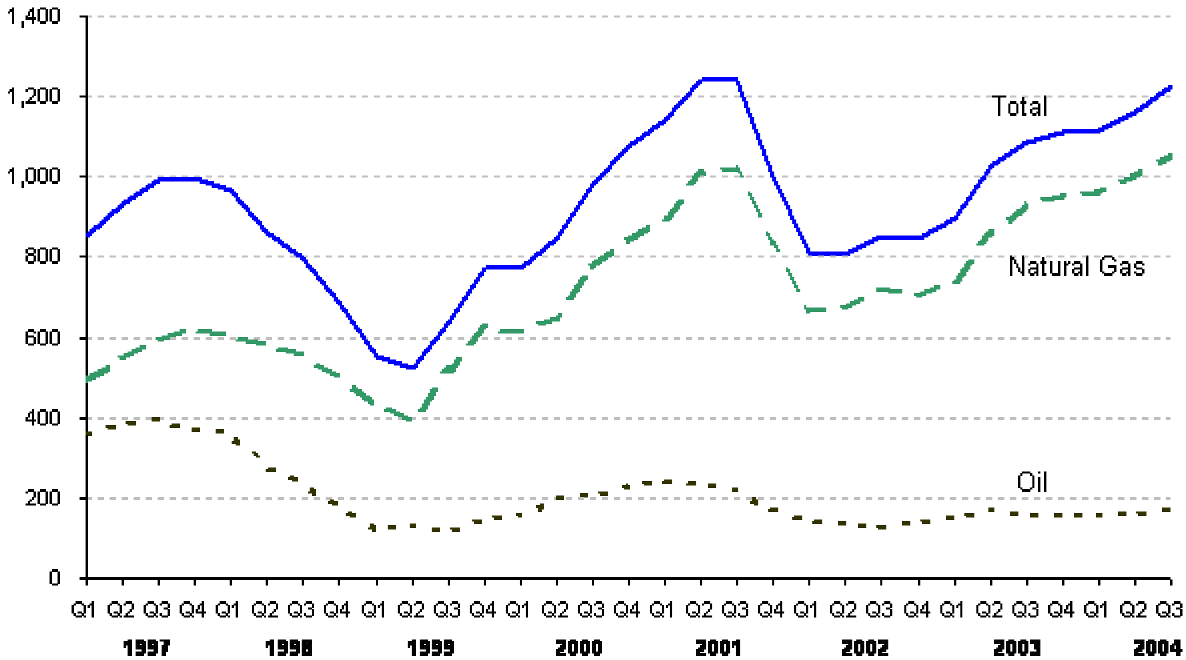
	Q303	Q304	Percent Change
U.S. Energy Prices[a]			
Refiner Acquisition Cost of Imported Crude Oil ($/barrel)	27.37	38.64	41.2
Natural Gas Wellhead ($/thousand cubic feet)	4.74	5.28	11.4
U.S. Gross Refining Margin[b] ($/barrel)	11.77	13.46	14.4
[a]Energy Information Administration, *Short-Term Energy Outlook*, (Washington, DC, December 8, 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: All tables are in pdf format; if you lack Adobe Acrobat Reader and are unable to read pdf-format files, please follow the Adobe link at the bottom of this table to download the free software.			
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, 1998-2002, 2003, and 2004



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

Figure 2: U.S. Quarterly Rig Counts: Oil, Gas & Total, 1997-2004



Source: Baker Hughes

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