Financial News for Independent Energy Companies - Third 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 45 independent energy companies included in this report grew 106 percent in the third quarter of 2005 (Q305) over earnings in the third quarter of 2004 (Q304) (see 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 (see Table 2).

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

Companies	Q304	Q305	Percent Change	Year to Date 2004	Year to Date 2005	Percent Change
Revenue						
Oil and Gas Producers (20)[a]	2,720	3,800	39.7	7,677	10,450	36.1
Oil Field Companies (21)	15,699	19,731	25.7	46,509	55,753	19.9
Refiners (4)	3,950	6,011	52.2	10,507	14,892	41.7
Total Revenue (45)	22,369	29,541	32.1	64,693	81,095	25.4
Net Income						
Oil and Gas Producers (20)	441	630	42.8	1,396	1,734	24.2
Oil Field Companies (21)	1,154	2,533	119.4	2,262	6,537	189.0
Refiners (4)	60	250	315.8	213	509	138.4
Total Revenue (45)	1,656	3,412	106.1	3,872	8,780	126.8

[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

	Q304	Q305	Percent Change
U.S. Energy Prices[a]			
Refiner Acquisition Cost of Imported Crude Oil ($/barrel)	38.64	56.69	46.7
Natural Gas Wellhead ($/thousand cubic feet)	5.28	7.90	49.6
U.S. Gross Refining Margin[b]	13.46	21.30	58.3

[a]Energy Information Administration, *Short-Term Energy Outlook* , (Washington, DC, December 6, 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 acquistion cost of crude oil.

Only three companies listed in this report, all producers, reported negative earnings. These losses were due to declines in the market value of their derivative holdings (financial contracts tied to the prices of natural gas or crude oil) and production declines due to hurricanes Katrina and Rita.

Energy Price News

Crude oil and natural gas prices both increased by almost one-half relative to the prices of a year ago. The U.S. refiner average acquisition cost of imported crude oil increased 47 percent relative to a year ago, from $38.64 per barrel in Q304 to $56.69 per barrel in Q305 (see Table 2). According to the recent issues of the Energy Information Administration's *Short-Term Energy Outlook* (STEO), reduced Gulf of Mexico production due to Hurricanes Katrina and Rita added to the effects of worldwide factors that had already elevated the price of crude oil (i.e., 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 in Q305, which were 11-percent higher than a year earlier and 7-percent higher than the Q3 average level over the 1999 through 2003 period, have provided scant relief. This was the thirteenth 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 50 percent between Q304 and Q305, from $5.28 per thousand cubic feet to $7.90 per thousand cubic feet (see 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 (in addition to lost production due to Hurricanes Katrina and Rita). A 2-percent increase in demand and a 10-percent decline in net imports of natural gas (chiefly due to liquefied natural gas) put additional upward pressure on domestic natural gas prices overshadowing a 9-percent increase in the opening level of working gas in storage in Q305 relative to Q304.

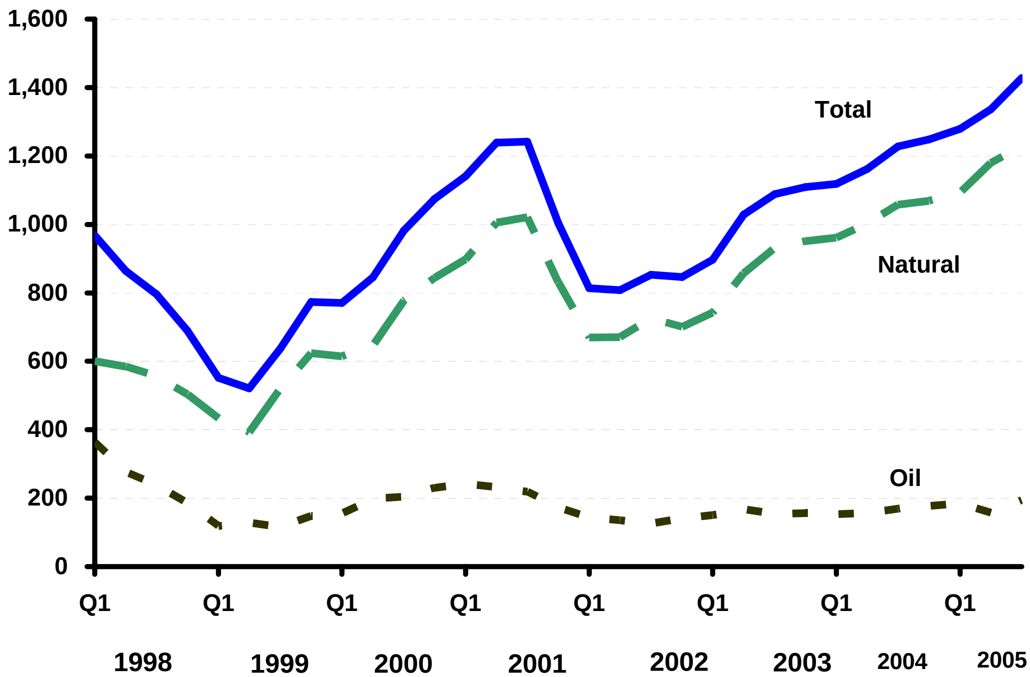
Company Earnings

Increases in both natural gas and crude oil prices boost independent producers' earnings.
Net income of the independent oil and gas producers included in this report rose 43 percent between Q304 and Q305, from $441 million to $630 million, as revenues rose 40 percent (see Table 1). Independent oil and gas producer earnings were boosted by a 47-percent increase in the price of crude oil and a 50-percent increase in the price of natural gas over year-ago prices (see 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 119 percent, from $1.2 billion in Q304 to $2.5 billion in Q305, as revenues rose 26 percent (see Table 1). U.S. oil field company earnings were strengthened by an increase in the worldwide rig count of 18 percent from 2,401 in Q304 to 2,836 in Q305, 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 Q305 from Q304.

The rig count growth rate over the year-ago quarter for the United States of 16 percent was just short of the worldwide growth rate of 18 percent (see Figure 1). Decomposing the total U.S. rig count into its natural gas and oil components shows that this overall growth was evenly distributed between natural gas (16 percent growth) and oil (15 percent growth). The natural gas rig count has now increased for eleven consecutive quarters relative to its year-earlier level.

Figure 1: U.S. Quarterly Rig Counts: Oil, Gas, Total, 1998-2005



Source: http://www.bakerhughes.com/investor/rig/index.htm

Breaking down overall (oil plus natural gas) rig counts on a regional basis shows that rig counts grew 16 percent in the United States from Q304 to Q305, jumped 53 percent in Canada, and grew 8 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 $60 million in Q304 to $250 million in Q305 (see Table 1). Driving this earnings growth was an increase in average refining margins of 58 percent from Q304 to Q305 (see 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 $25.89 more than offset the $18.05 increase in the price of crude oil.

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