

Financial News for Independent Energy Companies

Earnings for the 46 independent energy companies included in this report grew 283 percent in the fourth quarter of 2003 (Q403) over earnings in the fourth quarter of 2002 (Q402) (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. This broad growth in profits was due to improvements in all three major financial variables driving the performance of these companies: increases in the prices of natural gas (28 percent) and crude oil (9 percent), and an increase in refinery margins (7 percent) (Table 2).

Energy Price News

● **A modest increase in oil prices is accompanied by a larger increase in natural gas prices, 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 9 percent relative to a year ago, from \$25.42 per barrel in Q402 to \$27.80 per barrel in Q403 (Table 2). As indicated in the April *Short-Term Energy Outlook* (STEO) of the Energy Information Administration, U.S. economic growth of more than 4 percent exerted upward pressure on crude oil prices. This was the sixth 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).

Meanwhile, the average U.S. natural gas wellhead price increased 28 percent between Q402 and Q403 (Table 2). According to the April STEO, this was due in part to lower U.S. natural gas inventory levels, which were 7 percent lower at the beginning of Q403 than at the start of Q402. This marked the fifth 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 89 percent between Q402 and Q403 (Table 1) due to increases in the prices of both natural gas (28 percent) and crude oil (9 percent) (Table 2). Several of the independent producing companies restated their reserve levels (as have some of the major producing companies), reducing to a modest extent the level of reported earnings for those particular companies.

● **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 sharply, from \$22 million on Q402 to \$445 million in Q403 (Table 1), as the worldwide rig count grew about 23 percent from 1,883 in Q402 to 2,308 in Q403, 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 U.S. rig count grew at an even higher rate of 31 percent, rising from 847 in Q402 to 1,109 in Q403 (Figure 1). Decomposing the total U.S. rig count into its natural gas and oil components shows that the growth has been healthy for both rig types, particularly for natural gas rigs, as rig count growth roughly tracked the price increases in the respective fuels. The count for natural gas rigs increased 36 percent from Q402 to Q403, compared to the 28-percent increase in the price of natural gas over that period. Meanwhile, the oil rig count increased 11 percent, as oil prices increased 9 percent from Q402 to Q403. Further, rig counts for both fuels have grown in all four 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 44 percent from 283 in Q402 to 408 in Q403, while the rig count outside North America increased 5 percent, from 753 to 791 over that period.

🟡 **Refiner earnings boosted by higher margins.** The 7-percent increase in refining margins in Q403 compared to Q402 (Table 2) helped boost independent refiner earnings by 103 percent, from \$50 million in Q402 to \$102 million in Q403. (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 \$2.94 more than offset the \$2.38 increase in the price of crude oil.

Partly offsetting improved margins, however, were higher costs of refining due to higher natural gas prices. (Natural gas is a component of refining costs).

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

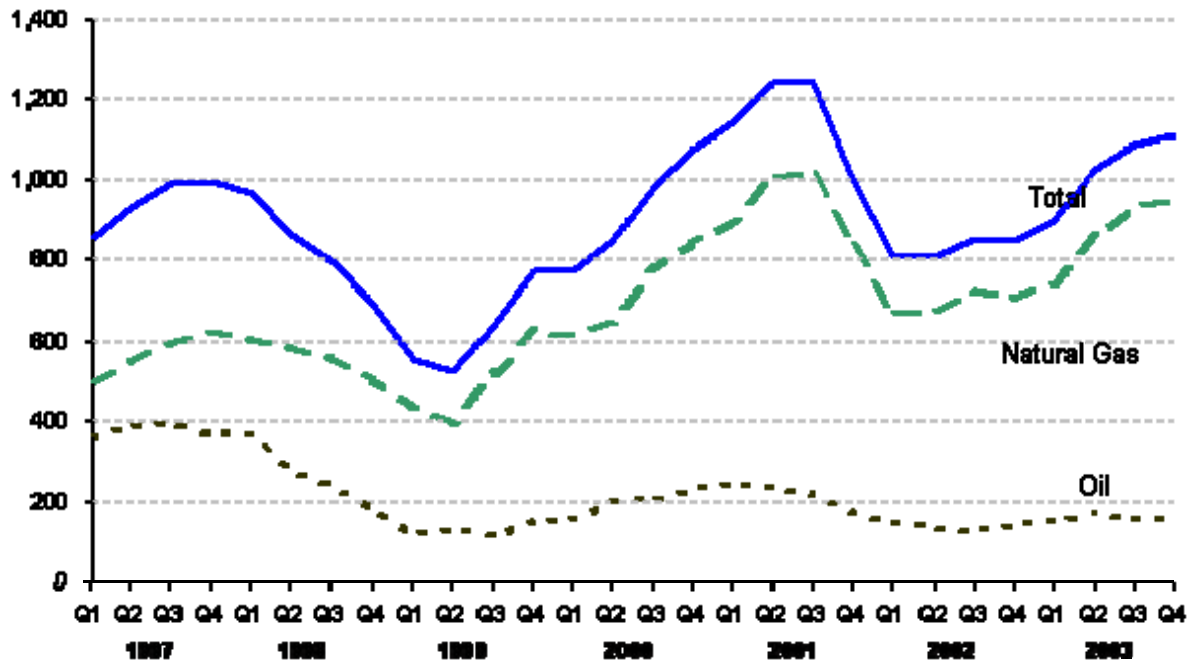
(Millions of Dollars)

	Q402	Q403	Percent Change	Year to Date 2002	Year to Date 2003	Percent Change
Revenue						
Oil and Gas Producers (20) ^a	1,742	2,333	34.0	6,157	9,206	49.5
Oil Field Companies (21)	8,999	12,213	35.7	34,524	41,629	20.6
Refiners (5)	4,137	4,764	15.2	15,606	18,827	20.6
Total Revenue (46)	14,878	19,311	29.8	56,287	69,662	23.8
Net Income						
Oil and Gas Producers (20)	138	261	88.8	325	1,616	397.4
Oil Field Companies (21)	22	445	1,911.3	695	1,476	112.5
Refiners (5)	50	102	102.6	186	500	168.4
Total Net Income (46)	211	808	283.1	1,206	3,591	197.9
^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

	Q402	Q403	Percent Change
U.S. Energy Prices^a			
Refiner Acquisition Cost of Imported Crude Oil (\$/barrel)	25.42	27.80	9.4
Natural Gas Wellhead (\$/thousand cubic feet)	3.60	4.62	28.3
U.S. Gross Refining Margin^b (\$/barrel)	8.75	9.32	6.5
^a Energy Information Administration, <i>Short Term Energy Outlook (STEO)</i> , (Washington, DC, December 8, 2003), Table 4 and <i>STEO</i> , (Washington, DC, April 8, 2004), Table 4. Note: The December <i>STEO</i> is a pdf-format document. 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.			
^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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