

## 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 122 percent in the fourth quarter of 2004 (Q404) over earnings in the fourth quarter of 2003 (Q403) (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). All three groups also showed growth in their yearly total earnings, as net income grew 74 percent for the 50 companies from 2003 to 2004.

### Energy Price News

- The crude oil price increased by almost one-half while the domestic natural gas price increased by more than one-fourth, relative to the price of a year ago. The U.S. refiner average acquisition cost of imported crude oil increased 44 percent relative to a year ago, from \$27.81 per barrel in Q403 to \$39.96 per barrel in Q404 (Table 2). Several factors contributed to increased oil prices, including the lingering effects of Hurricane Ivan, the U.S. economy's 4-percent growth, and a 3-percent increase in world oil demand relative to a year earlier according to the Energy Information Administration's March *Short-Term Energy Outlook*. The effects of these factors were somewhat offset by a 3-percent increase in world crude oil supply, slightly higher stock levels in the countries of the Organization for Economic Cooperation and Development relative to Q403, and higher U.S. stocks (Figure 1), which increased 3 percent relative to Q403. This was the tenth 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 price of crude oil was 30 percent higher during 2004 than during 2003 as the effects of 4-percent economic growth and a 4-percent increase in world demand were somewhat offset by a 4-percent increase in world supply.

The average U.S. natural gas wellhead price increased 28 percent between Q403 and Q404, from \$4.62 per thousand cubic feet to \$5.92 per thousand cubic feet (Table 2). A 2-percent increase in U.S. demand for natural gas, a 4-percent decline in domestic production (largely due to aftereffects of Hurricane Ivan, which reduced natural gas production in the Gulf of Mexico), and an overall 3-percent decline in domestic natural gas supply all put upward pressure on domestic natural gas prices. Undercutting higher natural gas prices were both a higher opening level of working gas in storage (Figure 2), which was 8 percent higher in Q404 than in Q403, and a 20-percent increase in net imports of natural gas. The average domestic natural gas price in 2004 was 10 percent higher than in 2003, as new domestic supply declined 2 percent, total domestic supply decreased 1 percent, and domestic demand increased 1 percent.

## Company Earnings

- **Large increases in crude oil and natural gas prices boost independent producers' earnings.** Net income of the independent oil and gas producers included in this report rose 174 percent between Q403 and Q404, from \$220 million in Q403 to \$604 million in Q404, as revenues rose 53 percent, from \$2.1 billion to \$3.2 billion (Table 1). Independent oil and gas producer earnings were boosted by a 44-percent increase in the price of crude oil and a 28-percent increase in the price of natural gas over year-ago prices (Table 2). All but one of the twenty producers included in this report had higher earnings over the year-ago quarter. Yearly total earnings showed a similar pattern, growing 48 percent from \$1.4 billion in 2003 to \$2.1 billion in 2004.
- **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 93 percent, from \$640 million in Q403 to \$1.2 billion in Q404, as revenues rose 14 percent, from \$15.5 billion to \$17.6 billion (Table 1). U.S. oil field company earnings were strengthened by an increase in the worldwide rig count of 10 percent from 2,308 in Q403 to 2,531 in Q404, 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. Yearly total earnings also showed healthy growth, increasing 83 percent from \$1.9 billion in 2003 to \$3.6 billion in 2004.

The rig count growth rate for the United States was slightly higher at 13 percent, rising from 1,109 in Q403 to 1,249 in Q404 (Figure 3). 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 14 percent and the natural gas rig count growing 12 percent. The natural gas rig count has now increased for eight consecutive quarters relative to its year-earlier level. For the year as a whole, the average natural gas rig count grew 18 percent from 872 in 2003 to 1,025 in 2004, while the oil rig count grew 5 percent from 157 in 2003 to 165 in 2004.

Breaking down overall (oil plus natural gas) rig counts on a regional basis shows that rig counts grew 13 percent in the United States from Q403 to Q404, 3 percent in Canada, and 9 percent in the rest of the world. Yearly total rig counts grew 15 percent in the United States from 2003 to 2004, declined 1 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 333 percent from \$31 million in Q403 to \$132 million in Q404 (Table 1). Refiners' increased costs of acquiring crude oil was outweighed by even greater increases in the prices of the refined products those companies sell. This resulted in an increase in average refining margins of 48 percent from Q403 to Q404 (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.) Yearly total earnings also showed strong growth, increasing from \$300 million in 2003 to \$708 million in 2004.
-

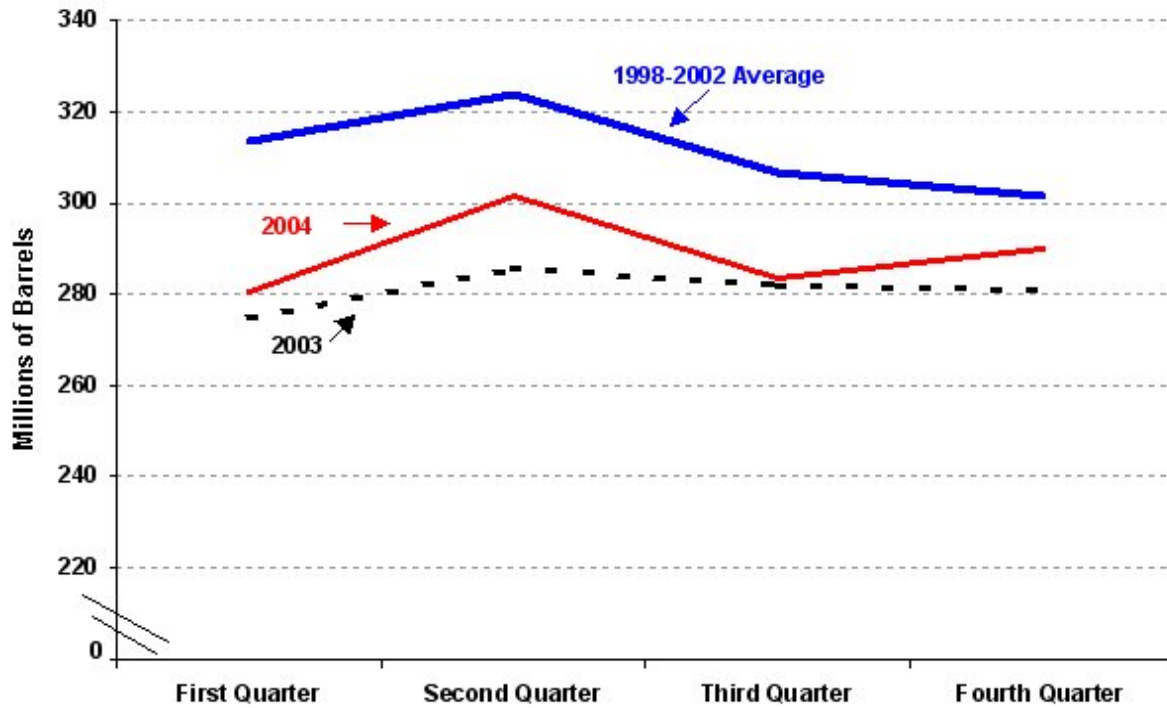
**Table 1. Revenue and Net Income Summaries for Independent Energy Companies**  
(Millions of Dollars)

	Q403	Q404	Percent Change	2003	2004	Percent Change
<b>Revenue</b>						
Oil and Gas Producers (20) <sup>a</sup>	2,083	3,178	52.6	8,306	11,056	33.1
Oil Field Companies (25)	15,466	17,573	13.6	54,430	65,161	19.7
Refiners (5)	4,491	6,396	42.4	17,662	23,697	34.2
<b>Total Revenue (50)</b>	<b>22,040</b>	<b>27,147</b>	<b>23.2</b>	<b>80,397</b>	<b>99,914</b>	<b>24.3</b>
<b>Net Income</b>						
Oil and Gas Producers (20)	220	604	174.2	1,396	2,063	47.8
Oil Field Companies (25)	640	1,238	93.3	1,946	3,567	83.3
Refiners (5)	31	132	332.7	300	708	135.7
<b>Total Net Income (50)</b>	<b>891</b>	<b>1,975</b>	<b>121.5</b>	<b>3,642</b>	<b>6,337</b>	<b>74.0</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**

	Q403	Q404	Percent Change	2003	2004	Percent Change
<b>U.S. Energy Prices<sup>a</sup></b>						
Refiner Acquisition Cost of Imported Crude Oil (\$/barrel)	27.81	39.96	43.7	27.74	36.01	29.8
Natural Gas Wellhead (\$/thousand cubic feet)	4.62	5.92	28.1	4.98	5.49	10.2
<b>U.S. Gross Refining Margin<sup>b</sup> (\$/barrel)</b>	<b>9.32</b>	<b>13.79</b>	<b>47.9</b>	<b>10.70</b>	<b>13.82</b>	<b>29.1</b>
<sup>a</sup> Energy Information Administration, <i>Short-Term Energy Outlook</i> , (Washington, DC, December 8, 2004 and March 8, 2005), Tables 4 and A4.						
<sup>b</sup> 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.						

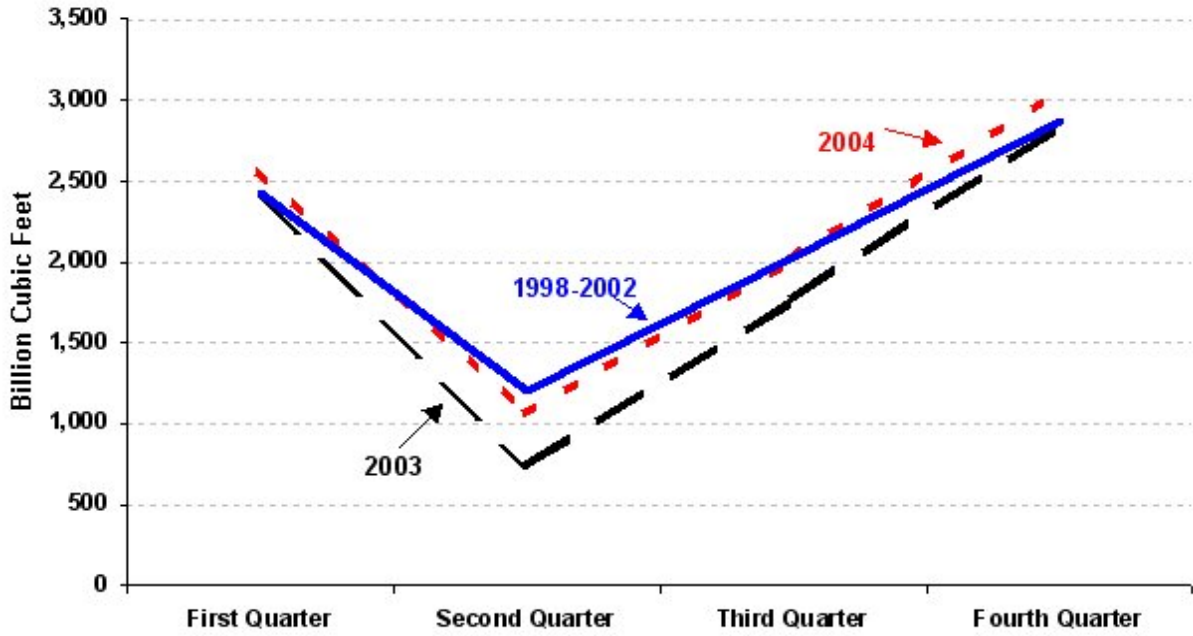
Figure 1. Quarterly Average U.S. Crude Oil Stocks, 1998-2002, 2003, and 2004



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

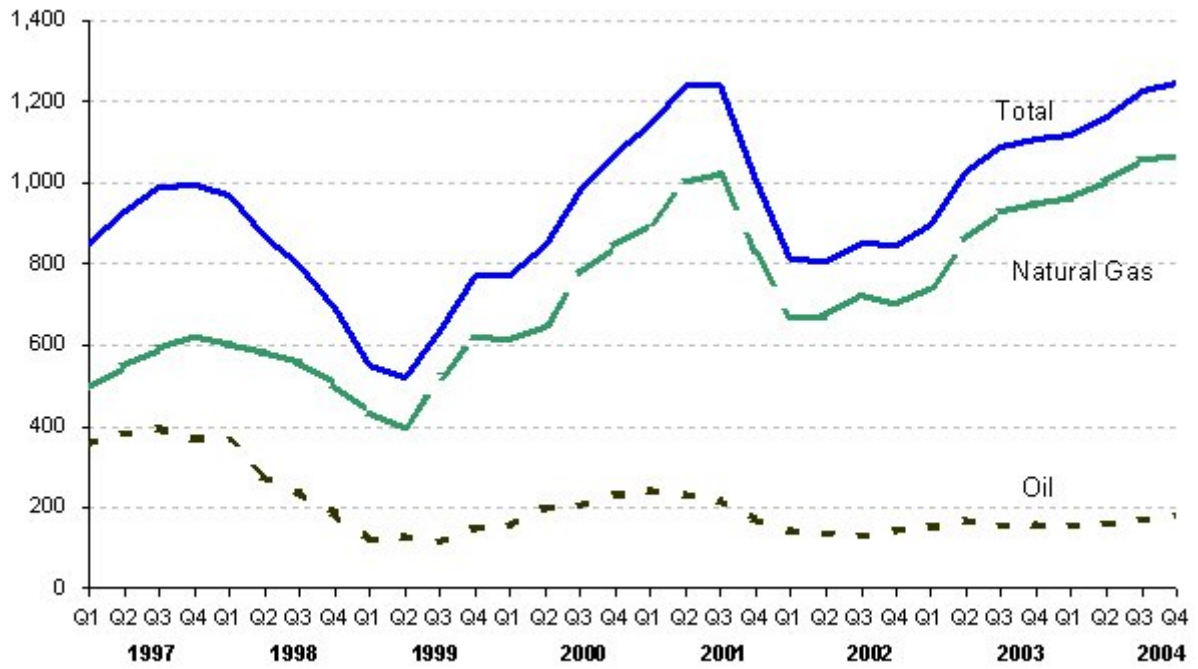
---

**Figure 2. Quarterly Average U.S. Natural Gas Stocks, 1998-2002, 2003, and 2004**



Source: Energy Information Administration (EIA), [Monthly Energy Review](#), DOE/EIA-0035 (Washington, DC), [Table 4.5](#); and EIA, [Short-Term Energy Outlook](#) (Washington, DC, March 8, 2005), [Table 8](#).

**Figure 3. U.S. Quarterly Rig Counts: Oil, Gas & Total, 1997-2004**



Source: Baker Hughes.

File last updated: March 16, 2005.

**Contact:**

**Bob Schmitt**  
[robert.schmitt@eia.doe.gov](mailto:robert.schmitt@eia.doe.gov)  
Fax: (202) 586-9753

URL: [http://www.eia.doe.gov/emeu/perfpro/news\\_i/q404.pdf](http://www.eia.doe.gov/emeu/perfpro/news_i/q404.pdf)