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Energy Information Administration

Financial News for Independent Energy Companies, Fourth Quarter 2007

Overview

Fourth Quarter 2007 Key Findings	
Net Income	$5.5 billion
Revenues	$39.9 billion
Highlights	higher net income relative to fourth quarter of 2006 for producers and oil field service companies, lower net income for refiners
	much higher oil prices, slightly lower margins, higher rig count

Earnings for the 39 independent energy companies included in this report grew 17 percent in the fourth quarter of 2007 (Q407) over earnings in the fourth quarter of 2006 (Q406) (Table 1). This was driven by the performance of the producers and the oil field service companies; in contrast, refiner/marketers had declines in earnings over the year-ago quarter. Over the full year, all three groups of independent energy companies posted earnings increases in 2007 compared to 2006.

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

Companies	Q406	Q407	Percent Change	2006	2007	Percent Change
Revenue						
Oil and Gas Producers (13)[a]	2,419	3,287	35.9	9,967	11,558	16.0
Oil Field Companies (22)	22,568	26,551	17.7	81,375	98,612	21.2
Refiners (4)	5,968	10,056	68.5	25,480	33,694	32.2
Total Revenue (39)	30,955	39,894	28.9	116,822	143,864	23.1
Net Income						
Oil and Gas Producers (13)	370	667	80.5	1,918	2,264	18.0
Oil Field Companies (22)	4,164	4,814	15.6	14,396	19,297	34.0
Refiners (4)	180	40	-77.6	961	1,278	32.9
Total Income (39)	4,714	5,521	17.1	17,275	22,838	32.2

[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.

Energy Price News

The crude oil price for Q407 increased 54 percent relative to a year earlier while the price of natural gas increased 6 percent. The U.S. refiner average acquisition cost of imported crude oil increased from $53.39 per barrel in Q406 to $82.44 per barrel in Q407 (**Table 2**). (See the **current** and **recent** issues of the Short-Term Energy Outlook for explanation of these price changes and those discussed below.) This is the twentieth time in the past twenty-two quarters (i.e., five and one-half years) that the price of crude oil was higher relative to the year-earlier quarter. (The first and second quarters of 2007 were the only exceptions since the second quarter of 2002.)

The average U.S. natural gas wellhead price increased from $6.02 per thousand cubic feet (mcf) in Q406 to $6.38 per mcf in Q407 (**Table 2**). Natural gas prices have generally declined over the past year and one-half and this is only the second time that they have increased relative to the year-earlier quarter since the second quarter of 2006.

The gross refining margin (the per-barrel composite wholesale product price less the composite refiner acquisition cost of crude oil) was about 1 percent lower in Q407 than in Q406 (**Table 2**). A large increase in the average price for petroleum products (from $68.67 per barrel to $97.50 per barrel) was exceeded by an even larger $29.05 per barrel increase in the price of crude oil resulting in a slightly lower margin.

Comparing 2006 and 2007, the changes in the yearly averages for the prices were far more modest as the crude oil price increased by 23 percent and the natural gas price fell by less than 1 percent. However, the change in the annual average gross refining margin was greater than that of the fourth quarter, increasing by 3 percent.

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

	Q406	Q407	Percent Change	2006	2007	Percent Change
U.S. Energy Prices[a]						
Refiner Acquisition Cost of Imported Crude Oil ($/barrel)	53.39	82.4	54.41	59.02	72.32	22.5
Natural Gas Wellhead Price ($/thousand cubic feet)	6.02	6.4	5.98	6.41	6.39	-0.3
U.S. Gross Refining Margin ($/barrel)[b]	15.28	15.1	-1.45	19.29	19.86	3.0

[a] Energy Information Administration, Short-Term Energy Outlook, (Washington, DC, December 11, 2007 and March 11, 2008), Table 2.
[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 3.2.
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.

Independent Energy Company Earnings

Independent producers' earnings increased. Net income of the independent oil and gas producers included in this report increased 81 percent between Q406 and Q407, while revenues increased 36 percent (Table 1). The 54-percent jump in oil prices, supported by the 6 per-cent rise in natural gas prices (**Table 2**), led to the sharp increase in profits. Over the full year, revenues increased 16 percent and earnings increased 18 percent compared to 2006.

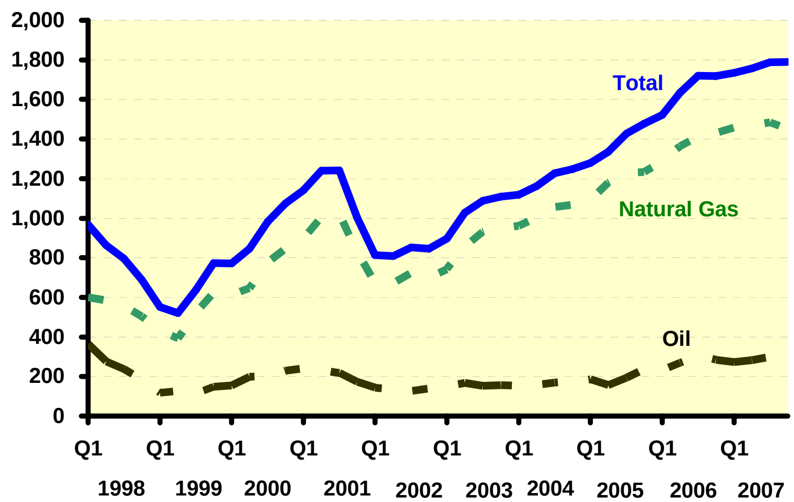
Oil field companies' revenue and earnings increased. Net income of U.S. oil field companies included in this report increased 16 percent, as revenues rose 18 percent (see Table 1). U.S. oil field company earnings were strengthened by an increase in the U.S. rig count of 4 percent from 1,719 in Q406 to 1,790 in Q407, 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. The Petrodata Day Rate Indices for rig rentals reflects that, as rates in Q407 were higher than in Q406. Rates increased even more for the year as a whole, as did company revenues and earnings, with 2007 revenues increasing 21 percent and earnings increasing 34 percent compared to 2006.

Breaking down the overall (oil plus natural gas) U.S. rig count into its components, the oil rig count grew 17 percent while the natural gas rig count grew 2 percent over the period (see Figure 1). This was the twentieth consecutive quarter in which the natural gas rig count has increased relative to its year-earlier level. For the year as a whole, the average natural gas rig count grew 7 percent from 1,372 in 2006 to 1,466 in 2007, while the average oil rig count grew 9 percent from 274 in 2006 to 297 in 2007.

The worldwide rig count increased 2 percent over the year-ago quarter. While overall rig counts grew 4 percent in the United States from Q406 to Q407, they dropped 19 percent in Canada and grew 7 percent in the rest of the world. For the year as a whole, average rig counts grew 7 percent in the United States from 2006 to 2007, dropped 27 percent in Canada and grew 9 percent in the rest of the world.

Refiner earnings dropped on lower margins. After relatively high levels of fourth quarter earnings in both 2005 and 2006, earnings of the independent refiners included in this report dropped 78 percent, from $180 million in Q406 to $40 million in Q407 (see Table 1). This was due to a decrease in refining margins of 1 percent over the year-ago quarter (see Table 2), and some individual company factors. (The gross refining margin is the difference between the composite wholesale refined petroleum product price and the composite refiner acquisition cost of crude oil.) Over the full year, revenues increased 32 percent and earnings increased 33 percent compared to 2006, as refining margins for 2007 averaged 3.1 percent higher than 2006.

Figure 1: U.S. Quarterly Rig Counts: Oil, Gas & Total, 1998-2007



About this Report

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.

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