# Financial News for Independent Energy Companies

High earnings growth by independent oil and natural gas producers pulled up average earnings for the 44 independent energy companies included in this report by 68 percent between the first quarter of 2002 (Q102) and the first quarter of 2003 (Q103) (Table 1). An improved market in refining (Table 2) led to a dramatic improvement in the earnings performance for the 4 independent refiners included in this report. Net income of independent oil and gas producers (20 companies included) also jumped sharply due to higher crude oil and natural gas prices, while independent oil field service companies (21 companies) sustained a modest decline in earnings of 16 percent.

## Energy Price News

- **Oil and natural gas prices each increase.** The world oil price (as represented by the U.S. refiner average acquisition cost of imported crude oil) increased 62 percent relative to a year ago, going from $19.33 per barrel in Q102 to $31.22 per barrel in Q103 (Table 2). As indicated in the latest *Short-Term Energy Outlook* (*STEO*) of the Energy Information Administration, upward pressure was exerted on crude oil prices by a 2-percent expansion in the U.S. economy, which contributed to the 2-percent increase in world petroleum demand. Market conditions in the United States (a 4-percent increase in petroleum demand, versus a 1-percent increase in petroleum supply, and a 17-percent decline in crude oil stocks relative to a year ago (Figure 1)) added to the upward pressure on crude oil prices. This was the third consecutive quarter in which crude oil prices increased relative to their year-earlier levels, after eight consecutive quarters of falling or unchanged crude oil prices.

The average U.S. natural gas wellhead price more than doubled (increasing by 137 percent) between Q102 and Q103 (Table 2). The Q103 quarter was the third consecutive quarter that natural gas prices have increased relative to a year earlier following six consecutive quarters of year-over-year falling prices. As indicated in the latest *STEO*, there was a 4-percent increase in natural gas demand (in part due to a 6-percent increase in gas-weighted heating degree days), and a sharp reduction in working natural gas in storage (18 percent lower at the beginning of the quarter and 54 percent lower at the end of the quarter relative to Q102), contributing to higher natural gas prices.

## Company Earnings

- **Refining margins increase.** 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 64 percent was sufficiently high to offset the effects of the 62-percent increase in the price of crude oil. (The average refining margin is the difference between the composite wholesale product price and the composite refiner acquisition cost of crude oil.) This 56-percent increase in refining margins in Q103 compared to Q102 (Table 2) underlay the ninefold increase in earnings from $4 million in Q102 to $33 million in Q103. The substantial increase in overall company earnings was due to factors such as an increase in margins (refining and retailing) and refinery runs (in part due to Giant's acquisition of BP's Yorktown refinery since the end of Q102).

- **Independent producers' earnings increase with natural gas and crude oil prices.** Net income of independent oil and gas producers included in this report rebounded from a loss of $10 million in Q102 to income of $449 million in Q103 (Table 1) due to the large increases in natural gas and crude oil prices noted above.

- **Oil field companies' net income declines despite higher drilling rig counts.** Revenues of U.S. oil field companies increased 5 percent, between Q102 and Q103 (Table 1), in part reflecting an increase in the worldwide rig count of 11 percent from 1,933 in Q102 to 2,139 in Q103, according to Baker Hughes data. However, oil field company earnings dropped 16 percent, to $491 million, over the same period, as costs outpaced revenue growth. While there was a recovery in North American activity levels overall, there were reports of reduced levels of activity in Venezuela and Nigeria, and for some companies in the Gulf of Mexico.

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

(Millions of Dollars)

| | Q102 | Q103 | Percent Change |
|---|---|---|---|
| **Revenue** | | | |
| Oil and Gas Producers (20)[a] | 1,307 | 2,421 | 85.3 |
| Oil Field Companies (21) | 12,456 | 13,086 | 5.1 |
| Refiners (4) | 1,366 | 2,344 | 71.5 |
| **Total Revenue (44)** | 15,129 | 17,851 | 18.0 |
| **Net Income** | | | |
| Oil and Gas Producers (20) | -10 | 449 | N.M. |
| Oil Field Companies (21) | 587 | 491 | -16.4 |
| Refiners (4) | 4 | 33 | 8073.3 |
| **Total Net Income (44)** | 581 | 973 | 67.5 |

[a]The number of companies reporting revenue and net income is in parentheses. Murphy Oil is reported as both an oil and gas producer and a refiner because it is vertically integrated and has both operations. Consequently, the total number of companies is only 44 and not 45.

**Notes**: The net income data presented here have been adjusted to exclude the effects of unusual items. Percentages are calculated from unrounded data. N.M. = not meaningful.

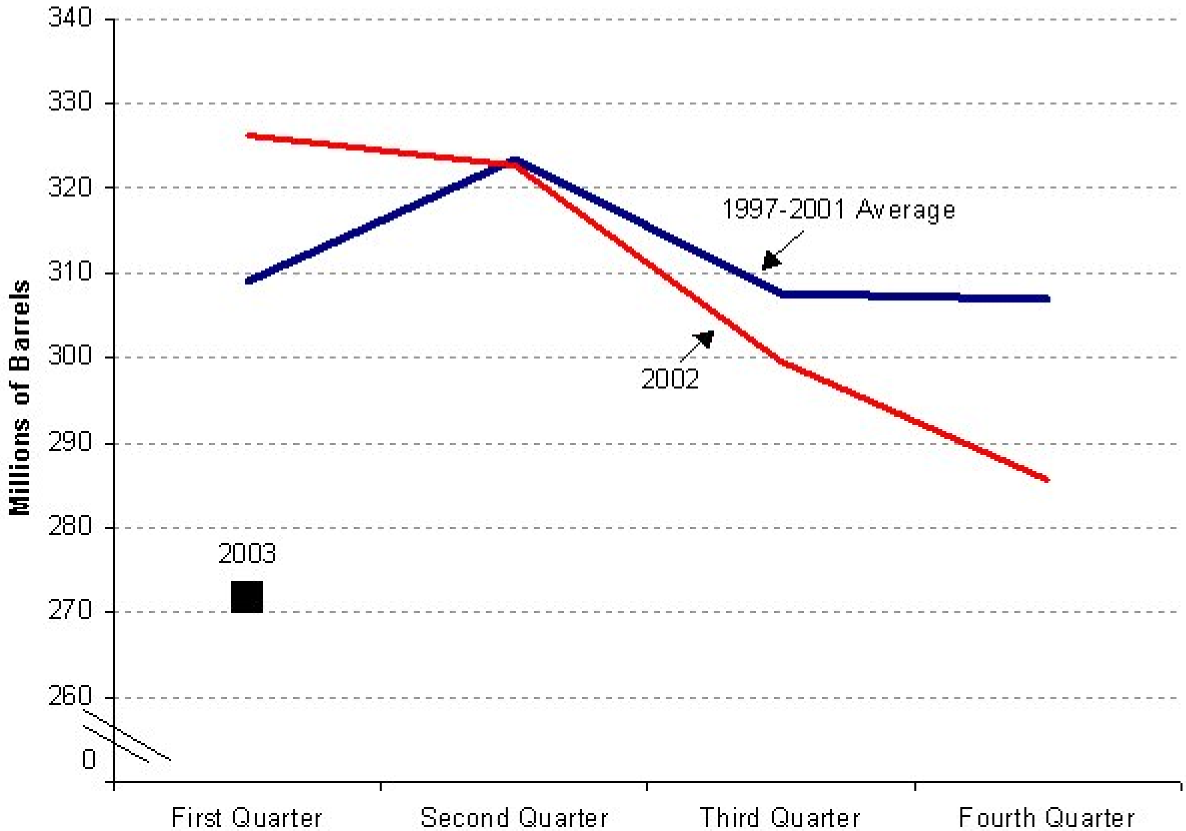
**Sources**: Compiled from companies' quarterly reports to stockholders.

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

| | Q102 | Q103 | Percent Change |
|---|---|---|---|
| **U.S. Energy Prices[a]** | | | |
| Refiner Acquisition Cost of Imported Crude Oil ($/barrel) | 19.33 | 31.22 | 61.5 |
| Natural Gas Wellhead ($/thousand cubic feet) | 2.34 | 5.54 | 136.8 |
| **U.S. Gross Refining Margin**[b] ($/barrel) | 6.85 | 10.68 | 55.9 |

| |
|---|
| [a]Energy Information Administration, *Short Term Energy Outlook* (STEO), (Washington, DC, May 8, 2003), 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 acquisition cost of crude oil. |

## Figure 1. Quarterly U.S. Crude Oil Stocks, 1997-2001, 2002, and 2003




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

File last modified: June 4, 2003 (updated gross refining margin)

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URL: http://www.eia.doe.gov/emeu/perfpro/news_i/q103.pdf