

## Financial News for Independent Energy Companies, Third Quarter 2008

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### Overview

Third Quarter 2008 Key Findings	
<b>Net Income</b>	\$7.0 billion
<b>Revenues</b>	\$46.4 billion
<b>Highlights</b>	<p>Independent energy companies reported a 33-percent increase in net income relative to the third quarter of 2007, with large earnings increases for producers and oil field service companies.</p> <p>Higher earnings for producers and oil field service companies were driven by higher oil and natural gas prices and increased rig activity, while refiners' earnings increased slightly on higher margins.</p>

Earnings for the 37 independent energy companies included in this report grew 33 percent in the third quarter of 2008 (Q308) over earnings in the third quarter of 2007 (Q307) (Table 1). This was driven by the performance of the producers and the oil field service companies; refiner/marketer earnings were nearly unchanged from the year-ago quarter. Oil field company third quarter earnings have increased each year for at least the last six years, with the average for the 2006-2008 period over six times higher than the average for 2002-2004.

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

Companies	Q307	Q308	Percent Change	2007	2008	Percent Change
<b>Revenue</b>						
Oil and Gas Producers (14) <sup>a</sup>	2,957	4,164	40.8	8,307	12,155	46.3
Oil Field Companies (19)	22,876	28,134	23.0	65,806	79,077	20.2
Refiners (4)	9,153	14,126	54.3	23,638	38,820	64.2
<b>Total Revenue (37)</b>	<b>34,986</b>	<b>46,424</b>	<b>32.7</b>	<b>97,752</b>	<b>130,052</b>	<b>33.0</b>
<b>Net Income</b>						
Oil and Gas Producers (14)	631	1,843	192.0	1,608	3,101	92.8
Oil Field Companies (19)	4,301	4,834	12.4	12,212	13,946	14.2
Refiners (4)	315	317	0.7	1,237	498	-59.8
<b>Total Income (37)</b>	<b>5,247</b>	<b>6,994</b>	<b>33.3</b>	<b>15,057</b>	<b>17,545</b>	<b>16.5</b>

<sup>a</sup>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.

The imported average crude oil price for Q308 increased \$43.20 per barrel (61 percent) relative to a year earlier ([Table 2](#)). (See the [current](#) and [recent](#) issues of the Short-Term Energy Outlook for an explanation of these price changes and those discussed below.) This is the twenty-third time in the past twenty-five quarters (i.e., six and one-quarter 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 \$5.90 per thousand cubic feet (mcf) in Q307 to \$8.80 per mcf in Q308, an increase of 49 percent ([Table 2](#)). Natural gas prices have generally fluctuated over the past two years, increasing six times relative to the year-earlier quarter and decreasing four times since the first quarter of 2006.

The gross refining margin (the per-barrel composite wholesale product price less the composite refiner acquisition cost of crude oil) was 11 percent higher in Q308 than in Q307 ([Table 2](#)). The \$45.22 per-barrel increase in the average price for petroleum products exceeded the \$43.20 per-barrel increase in the price of crude oil and resulted in a slightly larger margin.

	Q307	Q308	Percent Change
<b>U.S. Energy Prices<sup>a</sup></b>			
Imported Average Crude Oil Price (\$/barrel)	70.38	113.58	61.4
Natural Gas Wellhead Price (\$/thousand cubic feet)	5.90	8.80	49.2
<b>U.S. Gross Refining Margin (\$/barrel)<sup>b</sup></b>			
	18.49	20.51	10.9

<sup>a</sup> Energy Information Administration, *Short-Term Energy Outlook*, (November 12, 2008), Table 2.  
<sup>b</sup> 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 192 percent from Q307 to Q308 due to higher oil and natural gas prices.** Net income of the independent oil and gas producers included in this report increased 192 percent between Q307 and Q308, while revenues increased 41 percent ([Table 1](#)). The 61-percent jump in oil prices, combined with the 49-percent rise in natural gas prices ([Table 2](#)), led to the sharp increase in profits.

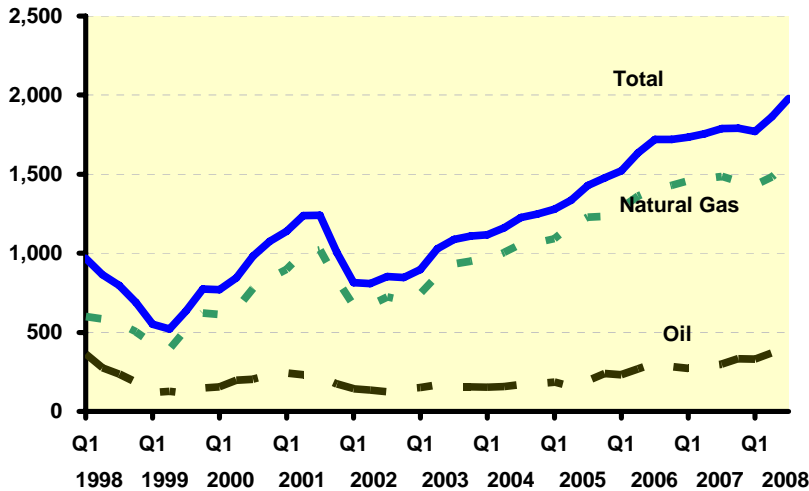
**Oil field companies' earnings increased 12 percent from Q307 to Q308 due to higher rig counts.** Net income of U.S. oil field companies included in this report increased 12 percent, as revenues rose 23 percent ([Table 1](#)). U.S. oil field company earnings were strengthened by an increase in the U.S. rig count of 11 percent from 1,788 in Q307 to 1,978 in Q308, 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.

Breaking down the overall (oil plus natural gas) U.S. rig count into its components, the oil rig count grew 33 percent while the natural gas rig count grew 6 percent over the period (see [Figure 1](#)).

Worldwide rig count growth matched the U.S. pace with an increase of 11 percent from Q307 to Q308. Overall rig counts grew 24 percent in Canada and 7 percent in the rest of the world over the year-ago quarter.

**Refiner earnings increased 1 percent from Q307 to Q308 on higher margins.** Earnings of the independent refiners included in this report increased 1 percent, from \$315 million in Q307 to \$317 million in Q208 (see [Table 1](#)), as refining margins increased 11 percent over the year-ago quarter (see [Table 2](#)). (The gross refining margin is the difference between the composite wholesale refined petroleum product price and the composite refiner acquisition cost of crude oil.) Refiners' third quarter earnings have steadily increased from at least 2003 through 2008 with the exception of 2007.

Figure 1: U.S. Quarterly Rig Counts: Oil, Gas & Total, 1998-2008




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### 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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