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Energy Information Administration

Financial News for Independent Energy Companies, Fourth Quarter 2008

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Overview

Fourth Quarter 2008 Key Findings	
Net Income	$4.2 billion
Revenues	$37.5 billion
Highlights	Independent energy companies reported a 23-percent decrease in net income relative to the record high set in the fourth quarter of 2007, driven by large earnings decreases for producers. However, net income was still 9 percent above the 4th quarter average over the last 5 years. Lower earnings for producers resulted from the sharp fall in oil prices.

Earnings for the 31 independent energy companies included in this report fell 23 percent in the fourth quarter of 2008 (Q408) over earnings in the fourth quarter of 2007 (Q407) (Table 1) when they were a record high. This was driven by the performance of the producers, who suffered large earnings decreases due to the sharp fall in oil prices. Oil field service company earnings dropped slightly in Q407 and again in Q408 compared to the year-ago quarter, after reaching a fourth-quarter high in 2006. Refiner/marketer earnings were down sharply from the high reached in Q407, but were still above all previous Q4 earnings since at least 2002.

For 2008 as a whole, producers and oil field companies had earnings increases over 2007, while refiners had decreased earnings.

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

Companies	Q407	Q408	Percent Change	2007	2008	Percent Change
Revenue						
Oil and Gas Producers (10)[a]	2,832	2,347	-17.1	9,920	12,964	30.7
Oil Field Companies (17)	23,287	27,311	17.3	86,976	103,714	19.2
Refiners (4)	10,056	7,838	-22.1	33,694	46,658	38.5
Total Revenue (31)	36,176	37,495	3.6	130,591	163,336	25.1
Net Income						
Oil and Gas Producers (10)	803	-130	-116.2	2,313	2,784	20.4
Oil Field Companies (17)	4,164	4,076	-2.1	16,329	17,680	8.3
Refiners (4)	496	259	-47.9	822	401	-51.2
Total Income (31)	5,463	4,204	-23.0	19,463	20,866	7.2

[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 imported average crude oil price for Q408 dropped almost $30 per barrel (36 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 third time in the past twenty-six quarters (i.e., six and one-half years) that the price of crude oil was lower relative to the year-earlier quarter. (The first and second quarters of 2007 were the only other exceptions since the second quarter of 2002.)

The average U.S. natural gas wellhead price declined from $6.39 per thousand cubic feet (mcf) in Q407 to $6.06 per mcf in Q408, a decrease of 5 percent (Table 2). Natural gas prices have generally fluctuated over the past two years, decreasing five times relative to the year-earlier quarter and increasing six 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 52 percent higher in Q408 than in Q407 (**Table 2**). The average price for petroleum products declined by almost $23 per-barrel, but was exceeded by the almost $30 per-barrel decrease in the price of crude oil and resulted in a much larger margin.

For the entire year of 2008, crude oil and natural gas prices increased relative to 2007 (**Table 2**). Meanwhile, refining margins fell as the increase in average product prices was exceeded by the increase in crude oil prices. The average price for petroleum products increased by more than $23 per-barrel, but the price of crude oil increased by more than $25 per-barrel and resulted in a smaller margin.

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

	Q407	Q408	Percent Change	2007	2008	Percent Change
U.S. Energy Prices[a]						
Imported Average Crude Oil Price ($/barrel)	82.44	52.60	-36.2	67.13	92.57	37.9
Natural Gas Wellhead Price ($/thousand cubic feet)	6.39	6.06	-5.2	6.39	8.08	26.4
U.S. Gross Refining Margin ($/barrel)[b]	13.69	20.83	52.1	19.89	17.78	-10.6

[a] Energy Information Administration, *Short-Term Energy Outlook*, (February 10, 2009), 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 dropped 116 percent from Q407 to Q408 due to the sharp drop in oil prices. The 36 percent drop in oil prices and 5 percent drop in natural gas prices resulted in negative earnings for the producers included in this report (**Table 1**). This does not mean that cash flow was negative, as a significant portion of the losses were from accounting adjustments, called impairments, for the decreased value of reserves from the sharply lower prices. Revenues dropped 17 percent from Q407 to Q408. For 2008 as a whole, income increased 20 percent and revenue increased 31 percent for the producers included in this report.

Oil field companies' earnings decreased 2 percent from Q407 to Q408. Net income of U.S. oil field companies included in this report decreased 2 percent from Q407 to Q408, while revenues rose 17 percent (**Table 1**). Much of the income decrease was because a number of oil field companies also have significant oil and natural gas production segments which sustained reserve impairment losses. For 2008 as a whole, income increased 8 percent and revenue increased 19 percent over 2007.

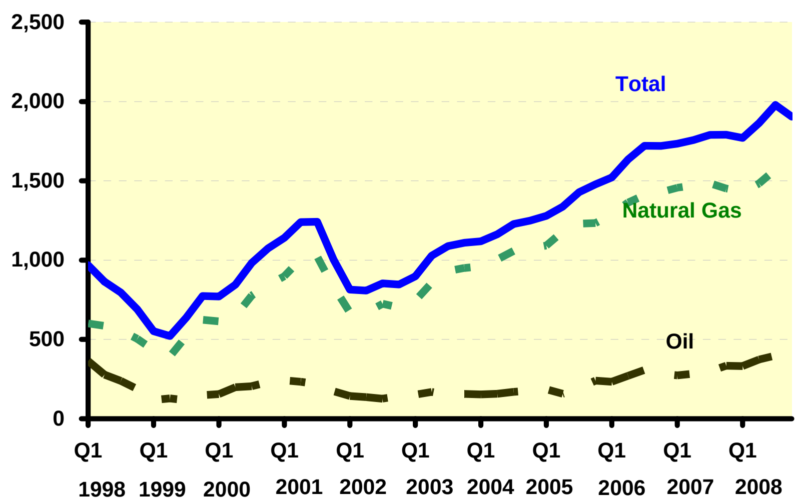
The U.S. rig count increased 6 percent from 1,790 in Q407 to 1,898 in Q408, according to **Baker Hughes** data. Breaking down the overall (oil plus natural gas) U.S. rig count into its components, the oil rig count grew 24 percent from Q407 to Q408 while the natural gas rig count grew 2 percent over the period (see **Figure 1**).

The worldwide rig count grew 7 percent from Q407 to Q408. Overall rig counts grew 14 percent in Canada and 7 percent in the rest of the world over the year-ago quarter.

Inventory valuation losses reduce refiner earnings despite higher margins. Earnings of the independent refiners included in this report dropped 48 percent, from $496 million in Q407 to $259 million in Q408 (see **Table 1**) despite a 52-percent increase in refining margins (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.) Only one of the four refiners included in this report had lower earnings, but that company's earnings drop was large and dominated the overall result. A significant portion of the earnings of that company's earnings drop was due to a loss in value of inventory from lower prices and its use of the First-in First-out accounting method. At least one other refining company included in this report had its earnings increase dampened by inventory valuation loss.

For the year as a whole, refiner income dropped 51 percent from $822 million in 2007 to $401 million in 2008, as refining margins for 2008 dropped 11 percent from 2007. Revenue increased 39 percent from $33.7 billion in 2007 to $46.7 billion in 2008.

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



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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