U.S. Energy Information Administration
Independent Statistics and Analysis

Financial News for Major Energy Companies, First Quarter 2002

Twenty-two major energy companies[1] reported overall net income (excluding unusual items) of $4.4 billion on revenues of $126 billion during the first quarter of 2002 (Q102), a 68-percent decline relative to the first quarter of 2001 (Q101) (Table 1). The majors' foreign upstream oil and natural gas production operations made the largest contribution to overall net income in Q102 at $2.9 billion (Table 1), with domestic upstream oil and natural gas production operations second at $1.7 billion, and worldwide downstream natural gas (i.e., those natural gas operations that occur between the wellhead and the consumer) and power operations third at $1.6 billion.

Energy Price News

Oil and natural gas prices much lower than a year earlier. The average natural gas wellhead price dropped 63 percent in Q102 from Q101 (Table 2). Natural gas prices have been lower than a year earlier for four consecutive quarters, reflecting a substantial increase in natural gas inventories due to the unusually mild weather (U.S. heating degree days were 11 percent fewer than a year earlier). Natural gas in storage (*Monthly Energy Review* (*MER*), Table 4.5) at the end of Q102 was more than double the historically low level at the end of Q101, and consumption declined 5 percent. The number of days' worth of consumption available in storage at the end of Q102 was 120 percent greater than at the end of Q101, rising from 9 days to 21 days according to the *MER* (evaluating the ending storage level of each quarter in terms of the average daily consumption rate for that same quarter).

The world oil price (as represented by the U.S. refiner average acquisition cost of imported crude oil) declined by less than the price of natural gas, falling 22 percent, from $24.12 per barrel in Q101 to $18.83 per barrel in Q102 (Table 2). Downward pressure was exerted on crude oil prices as the worldwide demand for crude oil fell slightly, production decreased, and stock levels increased. Relative to their year-earlier levels, oil prices have now declined six consecutive quarters.

Worldwide Petroleum News

Earnings from worldwide oil and natural gas production operations fall nearly eighty percent due to lower prices. The overall results for both domestic and foreign oil and natural gas liquids (collectively known as "liquids") and natural gas exploration, development, and production (i.e., upstream petroleum) during Q102 were much lower (78 percent and 25 percent, respectively) than a year earlier (Table 1). Nine of the 10 companies reporting domestic oil and natural gas earnings reported lower net income relative to Q101, with Williams Companies the exception (Note 1) Liquids production rose slightly (Table 1), chiefly due to acquisitions (i.e., Amerada Hess' acquisition of Triton Energy, Devon Energy's acquisition of Mitchell Energy, Dominion Resources' acquisition of Louis Dreyfus, Kerr McGee's acquisition of HS Resources, and Williams' acquisition of Barrett Resources). Excluding these five companies from the calculation

Table 1. Corporate Revenue and Net Income[a], Net Income by Lines of Business and Functional Petroleum Segments, and Operating Information for Major Energy Companies

	Q101	Q102	Percent Change
Financial Information			
Corporate	(millions of dollars)		
Revenue (22)[b]	182,866	125,777	-31.2
Net Income (22) [c]	13,750	4,444	-67.7
Worldwide Lines of Business Net Income			
Petroleum (24)	18,633	5,773	-69.0
Oil and Natural Gas Production (19)[d]	15,639	6,019	-61.5
Refining/Marketing (14)[d]	3,020	-224	-107.4
Downstream Natural Gas and Power (8)	1,901	1,613	-15.1
Chemicals (9)	36	112	211.1
Other Businesses (6)	56	80	42.9
Domestic Net Income by Function			
Oil and Natural Gas Production (10)	7,834	1,717	-78.1
Refining/Marketing (14)	2,110	-289	-113.7
Foreign Net Income by Function			
Oil and Natural Gas Production (7)	3,891	2,912	-25.2
Refining/Marketing (4)	910	65	-92.9
Operating Information			
Liquids[e] Production	(thousand barrels per day)		
Domestic (17)	3,912	4,021	2.8
Foreign (17)	7,696	7,873	2.3
Natural Gas Production	(million cubic feet per day)		
Domestic (17)	22,257	21,448	-3.6
Foreign (17)	30,152	32,113	6.5
Refinery Throughput	(thousand barrels per day)		
Domestic (13)	9,103	11,152	22.5
Foreign (5)	5,606	5,511	-1.7

[a] Net income excludes unusual items. Because consolidated net income includes corporate nontraceables and eliminations, it is not equal to the sum of the lines of business net income.

[b] The number of companies is reported in parentheses. Percent changes are calculated from unrounded data.

[c] The number of companies reporting net income from petroleum operations is greater than the number reporting corporate revenue and corporate net income because the U.S. operations of BP and Royal Dutch/Shell are included in the results of the U.S. lines of business, but not in the foreign or corporate results because the companies are foreign

[d] The companies having worldwide oil and natural gas production or refining/marketing operations includes both companies reporting domestic and foreign operations separately and those that merely report oil and natural gas operations or refining/marketing operations with no separation of domestic and foreign results. Thus, the number of companies with worldwide oil and natural gas production operations is greater than the sum of the companies reporting domestic results and those reporting foreign results. So, too, for refining/marketing operations.

[e] The term "liquids" refers to crude oil and natural gas liquids.

Sources: Company press releases and financial disclosures.

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

	Q101	Q102	Percent Change
U.S. Energy Prices[a]			
Refiner Acquisition Cost of Imported Crude Oil ($/barrel)	24.12	18.83	-21.9
Natural Gas Wellhead ($/thousand cubic feet)	6.37	2.34	-63.3
U.S. Gross Refining Margin[b] ($/barrel)	11.75	6.45	-45.1

[a]Energy Information Administration, *Short Term Energy Outlook* , (Washington, DC, May 8, 2002 and December 6, 2001), 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.

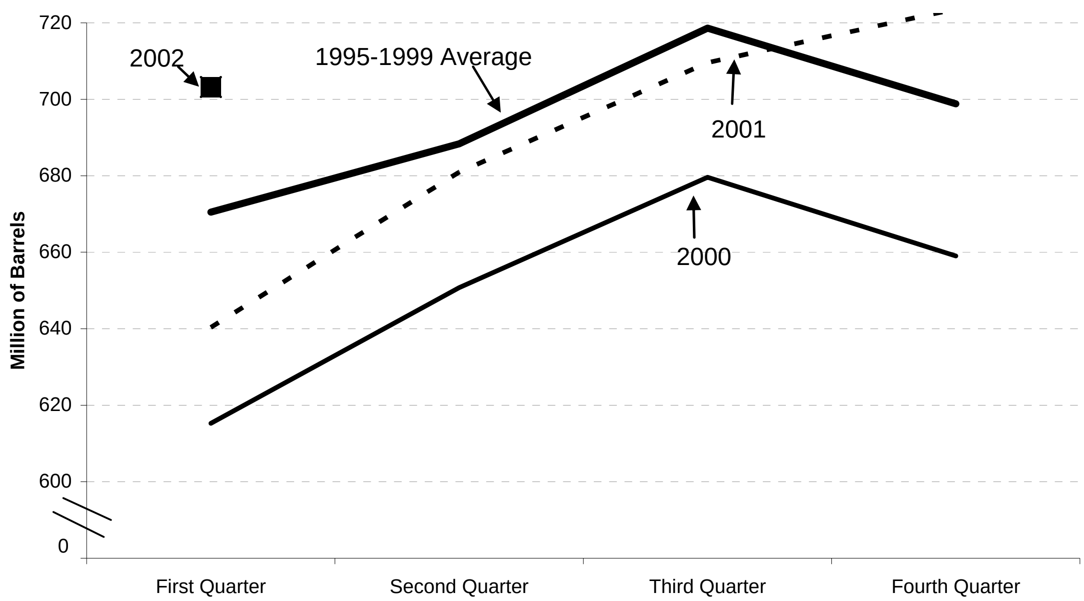
Note: All tables are in pdf format, if you lack Adobe Acrobat Reader and are unable to read pdf format files, please follow the Adobe link at the bottom of this table to download the free software.
Note: The U.S. Gross Refining Margin is the difference between the composite wholesale product price and the composite refiner acquisition cost of crude oil.

results in a 7-percent decline as only BP Amoco plc among the remaining companies reported higher domestic natural gas production, in part due to "... new start-ups ... in Alaska ... .". Company press releases indicate that the decline in natural gas production was due to reduced development drilling, natural field declines, implied inability to sustain the production level of a year ago (in response to the historically high natural gas prices of a year ago), and asset sales.

All 7 of the companies reporting earnings from foreign upstream petroleum operations reported a decline in earnings despite increased overseas oil and natural gas production during Q102 relative to Q101. The increased production (Table 1) was substantially due to a small group of companies (Conoco plus the five indicated in the above paragraph) that made significant acquisitions between Q101 and Q102. Excluding these six companies, the remaining 11 companies reported a net increase of 1 percent in liquids production and slightly less than 5 percent in natural gas production.

Product prices decline faster than crude oil prices, resulting in losses from worldwide downstream petroleum operations. U.S. refining margins (the per-barrel composite wholesale product price less the composite refiner acquisition cost of crude oil) decreased 45 percent. The price of crude oil fell more than $5 per barrel between Q101 and Q102, but wholesale refined product prices fell even faster, lowering the industry-wide refining margin by more than $5 per barrel. The industry-wide decrease in the refining margin was somewhat offset by a 27-percent increase in domestic refinery throughput by U.S. majors reporting domestic refinery throughput (Table 1), relative to Q101. However, such efforts by the U.S. majors were insufficient to prevent a 114-percent reduction in earnings (and a loss of $289 million) from domestic refining/marketing operations, relative to Q101 (Table 1). The results of the included companies were consistent, half of them reported losses and 12 of the 14 reported lower earnings than a year ago. Higher earnings were reported by Valero (whose acquisition of Ultramar Diamond Shamrock closed December 31, 2001) and Williams Companies (improved marketing operations). Reduced profits from this line of business were partially due to unusually high stock levels for petroleum products relative to recent history (Figure 1). Reasons included in company press releases were lower refining and marketing margins and reduced product sales.

Figure 1. Quarterly U.S. Petroleum Product Stocks, 1995-2002



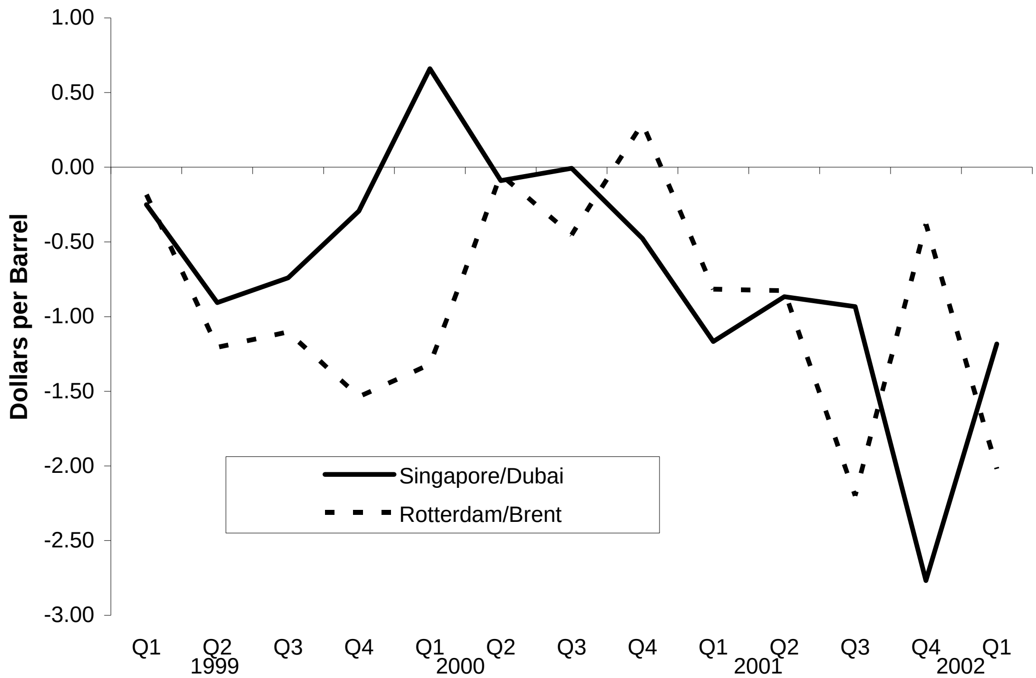
Source: Energy Information Administration, *Petroleum Supply Monthly* , DOE/EIA-0109 (Washington, DC), Table 51.

First-quarter earnings from foreign refining/marketing operations declined by 93 percent relative to Q101 (Table 1), with all four companies reporting foreign refining/marketing results registering a decline but only Exxon Mobil registering a loss. The lower earnings were partially due to lower industry refining margins, which were 2 cents per barrel lower in the Asia/Pacific region and $1.20 per barrel lower in Europe compared to a year earlier (Figure 2). Most of the companies made similar comments to those of ExxonMobil, which indicated that its refining margins in Asia/Pacific remained low while European margins declined sharply. Slightly lower refinery throughput (Table 1) magnified the effect of lower refining.

Worldwide Downstream Natural Gas and Power

Mild weather reduces net income from downstream natural gas and power (Note 2). The majors reported a 15-percent decrease in net income from worldwide downstream natural gas and power operations (Table 1) in Q102. Weather during Q102 was noticeably warmer than a year earlier (11 percent fewer heating degree days), lowering residential and commercial demand for electricity by 3 percent according to the *Short-Term Energy Outlook*. Electricity demand by industrial users was 6 percent lower despite a slight increase in GDP relative to Q101, resulting in an overall 4-percent decline in domestic electricity demand. In addition to warmer weather, other reasons reported in company press releases for lower earnings relative to a year ago were lower natural gas liquids (NGL) prices and gas trading losses.

Figure 2. Quarterly Foreign Refining Margins, 1999 - 2002



Source: Energy Intelligence Group, *Oil Market Intelligence* (January 2000 and 2001, June 1999 and 2000, and April 2002), p. 12

Chemical Operations and Other Businesses

Profits from majors' chemical operations exceed profits from other businesses, but both increase. The majors reported a 208-percent increase in net income from chemical operations, reaching $112 million (Table 1). Six of the nine companies reported smaller losses or greater profits than a year ago, with only Kerr-McGee reporting both lower earnings and a loss for Q102. Mixed changes in product prices, higher sales volumes, and improved margins due to lower natural gas prices boosted earnings.

The majors' net income from other businesses in Q102 increased from $43 million in Q101 to $80 million in Q102 (Table 1) as ExxonMobil dominated the other five companies, all of which reported lower earnings or losses. ExxonMobil's higher earnings were gained through coal, minerals, and power operations, but no further explanation was provided.

[1]Historically the companies included in the *Financial News for Major Energy Companies* (the *News for Majors*) have been vertically-integrated oil and natural gas companies with both oil and natural gas exploration, development, and production operations (i.e., upstream petroleum) and petroleum refining and motor gasoline marketing (i.e., downstream petroleum). However, as the energy industry has changed, this selection criteria led to differences between the set of companies included in the *News for Majors* and those included in the Financial Reporting System

(FRS) of the Energy Information Administration (EIA) (i.e., those respondents to Form EIA-28 (Financial Reporting System)). Because FRS respondents are considered U.S. major energy companies by EIA, it became necessary to recast the set of companies included in the *News for Majors* so that they would be identical to the FRS respondents (lessening the appearance that EIA had more than one definition for U.S. major). Consequently, just as the FRS respondents now include vertically-integrated oil and natural gas companies (e.g., Amerada Hess), oil and natural gas producers (e.g., Devon Energy), petroleum refiners (e.g., Premcor), petroleum refiners and motor gasoline marketers (e.g., Tesoro), and energy companies (e.g., El Paso), so, too, does the *News for Majors*.

The twenty-two companies included are Anadarko Petroleum, Apache Corporation, BP (only U.S. operations included), Burlington Resources, ChevronTexaco, Conoco Inc., Devon Energy, Dominion Resources, El Paso Energy, EOG Resources, Exxon Mobil Corporation, Kerr McGee Corporation, Lyondell Chemical Company, Marathon Oil, Occidental Petroleum, Phillips Petroleum, Premcor Inc., Royal Dutch/Shell (only U.S. operations included), Sunoco Inc., Tesoro Petroleum, Unocal Corporation, Valero Energy Corporation, and Williams Companies.

Note 1. Nine of the 10 companies that reported net income from domestic oil and natural gas production also reported domestic oil and natural gas production volumes as did 8 other companies that did not report net income attributable to those activities.

Note 2. The addition over the last several months by the reporting companies of lines of business that fit a category here termed "worldwide downstream gas and power" indicates both that the downstream natural gas and power generation operations of the traditional U.S. major energy producers are growing in importance. The activities that fall within the category "worldwide downstream gas and power" include gathering, field processing, transportation, marketing of both natural gas liquids and dry natural gas, electricity generation, transmission, and distribution.

File last modified: May 24, 2002

Contact:

Neal Davis
neal.davis@eia.doe.gov
Fax: (202) 586-9753

URL: http://www.eia.doe.gov/emeu/perfpro/news_m/q102.pdf