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U.S. Energy Industry Financial Developments 1993 First Quarter

June 1993

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Executive Summary

Net income for 259 energy companies--including 20 major U.S. petroleum companies--rose 38 percent between the first quarter of 1992 and the first quarter of 1993. An increased level of economic activity, along with colder weather, helped lift the demand for natural gas, crude oil, coal, and electricity. The sharp rise in the domestic price of natural gas at the wellhead relative to the year-ago quarter was the most significant development in U.S. energy during the first quarter. As a consequence of higher natural gas prices, the upstream segment of the petroleum industry reported large gains in income, while downstream income rose due to higher refined product demand. Increased economic activity and higher weather-related natural gas demand also led to improvements in income for the rate-regulated energy segment. However, declining domestic oil production continued to restrain upstream petroleum industry earnings growth, despite a moderate rise in crude oil prices.

The following points highlight first-quarter energy industry financial developments:

- **Upstream Earnings Rise.** Domestic wellhead natural gas prices were 31 percent higher during the first quarter of 1993 compared with the year-ago quarter. As a result, income from the majors' domestic oil and gas production operations, as well as income for independent oil and gas producers, doubled. As a consequence of recent industry-wide restructurings, U.S. upstream petroleum operations also benefited from lower operating costs in the first quarter of 1993. The foreign upstream operations of the majors reported income growth of 5 percent, mostly due to a stronger dollar and reduced operating expenses.
- **West Coast Boosts Refining/Marketing Income.** A sharp improvement in retail gasoline margins, particularly on the West Coast, boosted income for the majors' domestic downstream operations by 131 percent. The independent refiners were also aided by strong retail gasoline. The independent refiners reported a six-fold increase in income. Overseas, the majors experienced positive gains in earnings from refining/marketing operations in the relatively buoyant Asian economies, which more than offset income declines from downstream operations in Europe, which is currently in economic recession. The majors' overseas refining/marketing income rose 13 percent.
- **Drilling Activity and Income Up.** Sharply higher domestic natural gas prices helped spur U.S. natural gas drilling activity during the first quarter, particularly in the Gulf of Mexico. However, the search for crude oil continued to slacken during the first quarter, both at home and abroad. The only foreign region to see an increase in oil and gas drilling activity between the first quarter of 1992 and the first quarter of 1993 was the Mideast. As a result of the pickup in U.S. drilling activity, drilling companies reported a 29-percent increase in earnings.
- **Economy and "Normal" Winter Weather Help Rate-Regulated Utilities' Earnings.** The first quarter of 1993 turned out to be considerably colder than the year-ago quarter, and the coldest first quarter since 1988. As a result, natural gas distribution companies and natural gas transmission companies reported sizable gains in earnings. Electric utilities also reported an improvement in earnings for the quarter due to the stepped-up pace of economic activity from the year-earlier period.

1. Financial and Energy Overview

For the 259 energy companies included in this report, net income in the first quarter of 1993 (Q193) totaled \$11.0 billion (Table 1), 38-percent higher than in the first quarter of 1992 (Q192). The combination of colder winter temperatures and a higher level of economic activity boosted the demand for natural gas, refined petroleum products, electricity, and coal during Q193 (Table 2). Between Q192 and Q193, U.S. Gross Domestic Product expanded 2.6 percent, while the number of heating degree days grew 8 percent, as Q193 saw the first normal winter since 1988. U.S. energy companies posted a 12.6-percent return on equity during Q193, the highest rate of return these companies have realized in at least a decade (Figure 1).

During Q193, higher natural gas prices were most responsible for the improved financial performance of the U.S. upstream petroleum industry. Natural gas prices during October of 1992 climbed to their highest level since 1985 and have hovered around \$2.00 per thousand cubic feet well into the second quarter of 1993. As recently as February of 1992, natural gas prices averaged \$1.37 thousand cubic feet, their lowest level since 1980.

In addition, U.S. petroleum companies appear to have made substantial reductions in operating costs. Although operating cost data are generally not released in quarterly financial statements, all but one of the majors announced in their first quarter press releases that previous reductions in operating expenses were an important contributor to income growth during the first quarter. Further, it appears that such cost-cutting activities will continue. For the majors reporting quarterly capital expenditures, the first quarter saw a sharp drop in all areas of petroleum exploration and production capital spending, as well as a sharp decline in downstream capital investments.

Numerous petroleum companies cited the sluggish state of European economic activity as a drain on overseas refining/marketing income in Q193. Partly as a result of slow European economic growth, U.S. exports of petroleum products fell 8 percent between Q192 and Q193, while coal exports declined 9 percent (Table 2). During the fourth quarter of 1992 (the most recent period for which data are available), the German economy (measured by GDP) contracted by 3.3 percent at an annualized rate, the French economy declined 2.0 percent, and the Italian economy, 2.3 percent. Britain was the only European major industrial economy to show positive growth over this period, albeit an anemic 0.4 percent.

In Q193, nonenergy companies also achieved substantial gains in income.¹ Q193 marked the fifth consecutive quarter in which nonenergy U.S. industry has shown year-over-year gains in quarterly income. Prior to the first quarter of 1992, nonenergy industry experienced 10 consecutive declines in quarterly income. Nonenergy companies realized a 15.6-percent return on equity during Q193, which was their highest rate of return since the second quarter of 1990 (Figure 1). During Q193, the strongest earnings improvements were reported by consumer cyclical companies, with automobile manufacturers leading the way. Due to increased auto sales, the big three American automobile manufacturers reported positive income of \$1.6 billion for Q193, versus a \$174-million loss reported for Q192. As with recent previous quarters, many nonenergy companies reported that their improved earnings performance was also due to reductions in operating expenses and lower finance charges stemming from restructurings.

¹The financial performance of nonenergy industrial companies for Q193 are based on data presented in the *Wall Street Journal*, May 3, 1993. The category "nonenergy industrial companies" excludes energy, financial, and service companies.

Table 1. Revenue and Income Summaries
(Million Dollars and Percent Change)

Energy Industries ^a	First Quarter 1993	First Quarter 1992	Percent Change
Fossil Fuel Industries			
Revenue			
Major Petroleum Companies (20)	120,847	119,992	0.7
Independent Oil and Gas Producers (38)	2,142	1,909	12.2
Independent Refiners (11)	8,603	7,923	8.6
Oil Field Companies (38)	5,519	5,323	3.7
Petroleum Subtotal (107)	137,111	135,147	1.5
Independent Coal Producers (3)	1,014	920	10.2
Fossil Fuel Subtotal (110)	138,125	136,067	1.5
Income			
Major Petroleum Companies	4,458	2,501	78.3
Independent Oil and Gas Producers	157	78	99.6
Independent Refiners	96	14	572.9
Oil Field Companies	188	146	28.8
Petroleum Subtotal	4,899	2,740	78.8
Independent Coal Producers	10	16	-38.1
Fossil Fuel Subtotal	4,909	2,755	78.2
Rate-Regulated Energy Industries			
Revenue			
Natural Gas Transmission (22)	10,582	8,887	19.1
Natural Gas Distribution (36)	7,369	6,431	14.5
Electric Utilities (91)	45,056	42,310	6.5
Rate-Regulated Subtotal (149)	63,006	57,627	9.3
Income			
Natural Gas Transmission	870	635	36.9
Natural Gas Distribution	732	627	16.8
Electric Utilities	4,514	3,977	13.5
Rate-Regulated Subtotal	6,115	5,239	16.7
Total Energy Industry Revenue (259)	201,131	193,694	3.8
Total Energy Industry Net Income	11,024	7,995	37.8
Nonenergy Industrial Companies' Net Income (265)	18,706	13,836	35.2

^aThe number of companies is reported in parenthesis. The petroleum companies are listed in Appendix B. Percent change was calculated from unrounded data.

NA=Not available.

Note: The income data presented here have been adjusted to exclude the effects of unusual items.

Sources: Compiled from companies' quarterly reports to stockholders and "Earnings Digest," *The Wall Street Journal*, various issues, April and May, 1993. The nonenergy industrials are estimated based on data presented in *The Wall Street Journal*, May 3, 1993. The *Wall Street Journal* group is adjusted to exclude energy and financial companies.

Table 2. Preliminary Energy Statistics

Quantities and Prices ^a	First Quarter 1993	First Quarter 1992	Percent Change
Energy Quantities			
Crude Oil Production (million b/d)	7.0	7.4	-4.8
Net Imports (million b/d) ^b	6.1	5.3	13.9
Crude Oil Inputs to Refineries (million b/d)	12.9	12.8	0.7
Refined Product Supplied (million b/d)	17.3	16.9	2.3
Product Exports (million b/d)	0.8	0.9	-7.9
Product Imports (million b/d)	2.2	1.7	26.7
Net Product Imports (million b/d)	1.4	0.8	63.9
Natural Gas Consumption (trillion cubic feet)	6.6	6.2	5.5
Natural Gas Production (trillion cubic feet)	4.8	4.5	6.3
Net Imports (trillion cubic feet)	0.5	0.5	4.3
Coal Consumption (million short tons)	227	220	3.0
Coal Production (million short tons)	254	257	-1.1
Coal Exports (million short tons)	23	25	-8.5
Total Electricity Sales (billion Kwh)	704	683	3.2
Energy Prices			
Refiner Acquisition Cost of Imported Crude Oil (dollars per barrel)	17.27	16.16	6.9
Gasoline, Retail (dollars per gallon)	1.17	1.12	4.5
Electricity, Residential (cents per Kwh)	8.0 ^c	7.8	2.6
Natural Gas, Residential (dollars per thousand cf)	5.72	5.52	3.6
Natural Gas, Wellhead (dollars per thousand cf)	2.02	1.54	31.1
Coal, Electric Utility (dollars per million Btu)	1.42	1.42	0.0
No. 2 Heating Oil, Retail (dollars per gallon)	0.94	0.94	0.0

^aData for the most recent period are preliminary estimates. Percent change calculated from data presented in the cited source.

^bIncludes imports for the Strategic Petroleum Reserve.

b/d=barrels per day.

Kwh=Kilowatt-hour.

cf=cubic feet.

Source: Energy Information Administration, *Short-Term Energy Outlook, Quarterly Projections*, Second Quarter 1993, DOE/EIA-0202(93/2Q) (Washington, DC, May 1993).

Figure 1. Quarterly Return on Equity for Energy and Nonenergy Companies, 1982-1993

Note: Data for the first quarter of 1993 were estimated. The return on equity is calculated on an annualized basis.

Sources: Companies' reports to stockholders; "Earnings Digest," *The Wall Street Journal* (various issues, April and May, 1993); and Standard and Poor's Compustat Services, Inc., *Compustat II*, Quarterly Data Item 8 (Income before Extraordinary Items) and Data Item 60 (Stockholders' Equity), May 20, 1993.

2. Fossil Fuel Industries

Oil and Gas Production Operations

Largely due to the 31-percent rise in wellhead natural gas prices (Table 2), U.S. major oil and gas producers reported that income from their domestic oil and gas production operations more than doubled between Q192 and Q193 (Table 3). Lower operating costs also contributed to the earnings gain. Crude oil operations added little to the improvement in upstream earnings during Q193. Domestic oil production declined 5 percent between Q192 and Q193, while crude oil prices were up 7 percent (Table 2).

Cooler temperatures which prevailed during Q193 were partly responsible for the 6-percent increase in gas consumption as well as the higher wellhead price of natural gas (Table 2). However, other developments of longer-term significance may also account for some of the recent improvement in natural gas wellhead prices. These include: recent increases in gas-fired electricity generating capacity; continued growth of gas-burning non-utility power producers; the favorable treatment of natural gas in the Energy Policy Act of 1992; and the 1992 issuance of the omnibus FERC Order 636, which is designed to encourage greater efficiencies in the production, transportation, and consumption of natural gas.

The Energy Information Administration has forecasted natural gas consumption to grow 3.4 percent in 1993, to its highest level since 1979.² That gas prices have remained firm well into the second quarter of 1993, during temperate spring weather, suggests the emergence of a different gas market than the one which for years was characterized as being driven by "excess supply."

The large jump in natural gas prices had a similarly positive impact upon the financial performance of the U.S. independent oil and gas producers. These companies also reported a doubling of income between Q192 and Q193 (Table 1). Like the majors, a number of independents attributed part of their improved financial performance to a reduction in payroll and other operating costs.

²Energy Information Administration, *Short-Term Energy Outlook, Quarterly Projections*, Second Quarter 1993, DOE/EIA-0202(93/2Q) (Washington, DC, May 1993), p. 21.

Table 3. Income and Expenditures for Major Petroleum Companies
(Million Dollars and Percent Change)

Category ^a	First Quarter 1993	First Quarter 1992	Percent Change
Line-of-Business Income			
Petroleum (16)	4,143	2,783	48.9
Chemicals (13)	670	700	-4.4
Coal (3)	63	52	22.2
Other Businesses (12)	486	515	-5.6
Petroleum Income by Geographic Sector			
Domestic (11)	1,644	751	92.9
Foreign (10)	1,966	1,835	7.1
Domestic Income by Function			
Oil and Gas Production (10)	1,254	551	127.6
Refining/Marketing (14)	468	203	130.5
Foreign Income by Function			
Oil and Gas Production (10)	1,398	1,331	5.0
Refining/Marketing (6)	567	504	12.5
Capital and Exploratory Expenditures			
Domestic Oil and Gas Production (6)	848	1,070	-20.7
Foreign Oil and Gas Production (6)	1,750	2,122	-17.5
Refining/Marketing (8)	1,277	1,576	-19.0
Other Functions (8)	956	1,062	-10.0
Unallocated (4)	356	347	2.6
Total Capital and Exploratory Expenditures (10)	5,187	6,177	-16.0

^aThe number of companies is reported in parenthesis. Percent change was calculated from unrounded data.

Note: The income data presented here have been adjusted to exclude the effects of unusual items.

Sources: Compiled from companies' quarterly reports to stockholders.

Refining/Marketing Operations

In recent quarters the improved pace of economic activity has led to growth in petroleum product demand and petroleum product margins (Figure 3). This improvement continued through the first quarter. Although Q193's annualized rate of GDP growth, at 0.9 percent, was substantially less than the 4.8-percent growth rate realized during the fourth quarter of 1992, U.S. economic activity during the first quarter was 2.6 percent higher than in Q192 (Figure 2). Over the same period, refined product demand grew 2.3 percent (Table 2) and refinery capacity utilization rose from 84 percent to 87 percent.³

Between Q192 and Q193, income from the majors' domestic refining/marketing earnings rose 131 percent (Table 3). Q193's domestic refining/marketing earnings improvement was, however, concentrated at the gasoline marketing end, and largely at service stations located on the West Coast.⁴ In their U.S. downstream operations, many of the majors also reported higher income as a result of lower operating costs. Overseas, during Q193, the

³Energy Information Administration, *Weekly Petroleum Status Report*, DOE/EIA-0208(93-20), Washington, DC, May 14, 1993), Table 2.

⁴ARCO NEWS, April 26, 1993, p. 3; Chevron Corporation News, April 27, 1993, p. 2; News from Texaco, April 22, 1993, p. 2; and, Unocal News Release, April 26, 1993, p. 1.

majors continued to see improvements in earnings from Far East and Latin American operations. However, weak economic growth continued to depress downstream earnings in Europe. Although the margin earned on refined product sales increased in Singapore between Q192 and Q193, it declined in Europe.⁵ Still, on balance, income generated by the majors' foreign refining/marketing operations was 13 percent higher in Q193 than in Q192.

Independent refiner/marketers reported mixed financial results despite registering a six-fold increase in income between Q192 and Q193 (Table 1). In large part, Q193's improvement in income stemmed from higher earnings from non-refining operations.⁶ While some independents reported lower refining margins and reduced product sales, others reported improvements in both. It appears that, as with the major petroleum companies' downstream operations, those independents with a strong West Coast presence and substantial retail gasoline marketing operations tended to outperform those independents concentrated in refining operations alone and located east of the Rockies.

Chemicals

After petroleum operations, chemical operations are the largest source of income for the major petroleum companies. Income from the majors' chemical operations fell 4 percent between Q192 and Q193 (Table 3). The majors cited overcapacity, low product prices, and weak European economic growth for their poorer earnings performance. However, the overall U.S. chemical industry presented a more positive picture of financial results in Q193. For example, among the nonenergy chemical producers, companies specializing in commodity chemicals reported positive income of \$530 million for Q193 versus a \$6.8-billion loss for Q192.⁷ In contrast, specialty chemical companies reported positive income of \$314 million, which was more than double their Q192 income.⁸ Among the 13 majors disclosing financial results for chemical operations in Q193, nine reported a decline in income from these operations, while four reported an improvement. Higher natural gas prices may have been detrimental to chemical company earnings, as natural gas is an important feedstock in chemical operations.

⁵*Petroleum Intelligence Monthly*, February 4, 1993, p. 8; March 4, 1993, p. 8; and April 8, 1993, p. 8.

⁶Ashland, for instance, reported a reduction in consolidated losses for Q193, versus Q192, due to improvements in income from non-refining operations. In contrast, Ashland's refining operations reported larger losses in Q193 than in Q192, after adjusting for special items. Ashland, was in Q193 the largest independent refining company, as measured in gross revenues. Source: *News from Ashland*, April 23, 1993.

⁷*The Wall Street Journal*, May 3, 1993, p. B5. It should be noted that Q192's losses were inflated by the adoption of new accounting principles.

⁸*The Wall Street Journal*, May 3, 1993, p. B5.

Figure 2. Year-over-Year Percent Change in Real Gross Domestic Product by Quarter, 1991-1993

Source: DRI/McGraw-Hill, *U.S. Central Data Base*, Data Item GDP87\$, May 10, 1993.

Coal Producers

In recent years, low levels of profitability have driven a number of major petroleum companies out of the coal mining business. During Q193, only three majors reported income separately for their coal segments.⁹ For these three, coal income was 22 percent higher in Q193 (Table 3). By contrast, independent U.S. coal producers reported a 38-percent decline in income during Q193 (Table 1). Although the demand for coal from electricity generation rose 3 percent between Q192 and Q193,¹⁰ the independent coal companies were hurt by falling production, reduced coal exports, and flat coal prices (Table 2).

⁹As recently as the fourth quarter of 1991, seven majors separately reported income for coal operations.

¹⁰Energy Information Administration, *Short-Term Energy Outlook, Quarterly Projections*, 1993 Second Quarter, DOE/EIA-0202(93/2Q) (Washington, DC, May 1992), p. 39.

Figure 3. Gross U.S. Refining Margin, 1982-1993

Note: Data for Q193 were estimated. The gross refining margin is the difference between the composite wholesale product price and the composite refiner acquisition cost of crude oil.

Source: Energy Information Administration, *Petroleum Marketing Monthly*, May 1993, DOE/EIA-0380(93/05) (Washington, DC, May 1993), Tables 1, 4, and 5.

Oil Field Companies

Net income for oil field companies was 29 percent higher in Q193 compared with Q192 (Table 1). A number of companies attributed their improved financial performance to higher U.S. natural gas prices, which have recently invigorated a depressed U.S. drilling industry. As recently as June of 1992, U.S. drilling activity, as measured by the number of rotary rigs in operation, fell to its lowest level on record. Between Q192 and Q193, the U.S. rig count rose by 4 percent.¹¹ Most of the increase in domestic drilling activity was due to an intensified search for natural gas, rather than oil (Figure 4), with the Gulf of Mexico currently being an area of increased exploratory activity. From September 1992, through the end of the year, the monthly average of rotary rigs in operation searching for natural gas exceeded the number of rigs searching for oil. Overseas, the only region to show an improvement in drilling activity during the first quarter was the Mideast.¹²

Figure 4. Rotary Rigs in Operation, 1992-1993

Sources: *Oil and Gas Journal*, February 15, 1993, p. 95; March 15, 1993, p. 79; and April 19, 1993, p. 74.

¹¹Energy Information Administration, *Monthly Energy Review*, February 1993, DOE/EIA-0035(93/03) (Washington, DC, February 1993), Table 5.1.

¹²*Oil and Gas Journal*, November 16, 1992, p. 75; December 21, 1992, p. 115; and, January 18, 1993, p. 75.

3. Petroleum Industry Capital Developments

*The EIA report, **Performance Profiles of Major Energy Producers**, for the 1992 reporting year, will present detailed analyses of important developments in U.S. oil and gas exploration and development (E&D), both in the United States and abroad. However, a recent report by Salomon Brothers, which presents the results of their survey of 260 oil and gas companies, provides a preliminary estimate of 1992 E&D expenditures and plans for 1993.*

Petroleum companies continued their decade-long retreat from U.S. oil and natural gas E&D in 1992. This trend was particularly evident for major U.S. petroleum companies, whose expenditures on domestic oil and natural gas E&D fell an estimated 17 percent (Figure 5). Independent U.S. oil and natural gas producers also reduced their E&D spending in 1992, although by only an estimated 5 percent. The decline in U.S. E&D spending represents a continuation of more than 10 years of retrenchment in the domestic oil and natural gas production industry. By 1992, total U.S. petroleum industry E&D expenditures had fallen to \$18.7 billion, compared to \$54.6 billion in 1981. Meanwhile, employment in all segments of the U.S. oil and natural gas extraction industry, at 355,000 workers in 1992, was only half the level of 10 years ago.¹³

The decline in U.S. E&D spending during the 1980's coincided with a shift by major U.S. petroleum companies from domestic to foreign oil and gas prospects. The advantage of foreign E&D investment can, in part, be explained by the fact that foreign oilfields generally are larger, with lower production costs, than those in the United States. Further, since the oil price crash in 1986, many countries have implemented more favorable tax regimes aimed at attracting E&D activity by foreign energy companies. These advantages have translated into higher returns on foreign upstream investments relative to domestic upstream investments (Figure 7).

However, the trend towards foreign E&D appears to have slowed in 1992. Although the majors' foreign expenditures still exceeded their domestic E&D spending, 1992 marked the first year since the oil price crash of 1986 that the major petroleum companies reduced their overall overseas E&D expenditures (Figure 6). Behind this reversal was an erosion in recent years in the relative profitability advantage of foreign versus U.S. oil and natural gas E&D (Figure 7).

Besides the narrowed difference between returns earned on foreign and domestic upstream investments (Figure 7), the renewed interest in U.S. E&D spending can be traced to the long-awaited improvement in domestic natural gas prices (Figure 8). In 1992, natural gas prices increased 13 percent from their 1991 level, while crude oil prices declined slightly. In February of 1992, natural gas prices fell to their second lowest monthly average since January 1980. However, prices soon rebounded, and by October 1992 they reached their highest monthly average since 1985. Subsequently, gas prices have remained high--above \$2 per thousand cubic feet. The increase in natural gas prices has benefited independents in particular, who rely to a larger extent than the majors on natural gas production as a source of revenues. The increasing importance of natural gas as an investment target is evident in the U.S. rotary rig count numbers for recent years. During the early part of the decade, only around half as many rotary rigs operating in the United States were directed towards natural gas as compared to oil. By the latter part of the 1980's and into the early 1990's, however, the number of rigs searching for natural gas had reached near parity with the number of oil rigs in operation.

According to the Salomon Brothers' survey, the more recent trend towards reduced spending on overseas E&D activities is expected to continue in 1993.¹⁴ At the same time, major U.S. petroleum companies' domestic E&D expenditures are expected to remain unchanged from 1992 levels, while independent oil and natural gas producers' domestic E&D expenditures are expected to increase by 12 percent.

A number of the major petroleum companies have included in their financial releases their first quarter capital expenditures. For these majors, the first quarter results indicate the following: Q193 marked the fifth

¹³DRI/McGraw-Hill, *U.S. Central Data Bank*, Data Item E13NS, May 25, 1993.

¹⁴Salomon Brothers, *Survey and Analysis of 1993 Worldwide Oil and Gas Exploration and Production Expenditures*, January 4, 1993.

consecutive quarter in which the major petroleum companies have reported year-over-year quarterly reductions in their overall capital and exploratory expenditures. Prior to Q193, these declines were largely concentrated in domestic oil and gas production expenditures. However, for Q193, all categories of capital expenditures for major petroleum companies showed substantial declines. Domestic capital spending by the majors on upstream activities fell 21 percent between Q192 and Q193. While the Salomon Brothers' survey estimated that petroleum company spending on foreign E&D would decline just slightly, the exploration and production budget of the majors' overseas operations fell 18 percent during the first quarter. This is the first time the majors have reduced their foreign quarterly E&D budgets since at least 1988. Downstream activity also showed a sizable contraction in the first quarter. Between Q192 and Q193, the majors' worldwide refining/marketing capital budget fell 19 percent.

Figure 5. U.S. Exploration and Development Expenditures, 1981-1993

E=Estimate.

P=Projection.

Source: 1982-1991 data, Energy Information Administration, *Performance Profiles of Major Energy Producers 1991*, DOE/EIA-0206(91) (Washington, DC, December 1992). 1992 and 1993 data were derived from information in Salomon Brothers, *Survey and Analysis of 1993 Worldwide Oil and Gas Exploration and Production Expenditures*.

Figure 6. Exploration and Development Expenditures for 23 Major Energy Companies, 1981-1993

E=Estimate.

P=Projection.

Source: 1982-1991 data, Energy Information Administration, *Performance Profiles of Major Energy Producers 1991*, DOE/EIA-0206(91) (Washington, DC, December 1992). 1992 and 1993 data were derived from information in Salomon Brothers, *Survey and Analysis of 1993 Worldwide Oil and Gas Exploration and Production Expenditures*.

Figure 7. Return on Oil and Gas Production for 23 Major Energy Companies, 1981-1992

E=Estimate

Source: 1981-1991 data, Energy Information Administration, *Performance Profiles of Major Energy Producers 1991*, DOE/EIA-0206(91) (Washington, DC, December 1992). 1992 data were estimated from information obtained in company quarterly earnings press releases for Q492.

Figure 8. U.S. Natural Gas and Oil Wellhead Prices, 1981-1992

Source: Energy Information Administration, *Monthly Energy Review*, April 1993, DOE/EIA-0035(93/04) (Washington, DC, April 1993).

4. Rate-Regulated Energy Industries

Natural Gas

The demand for natural gas is strongly weather-related and both natural gas transmission companies and natural gas distribution companies generate most of their revenue during the cooler months of the first and fourth quarters. During Q193, due to much cooler temperatures than those prevailing during Q192, the financial performance of natural gas transmission companies improved sharply. Q193 had 8 percent more heating degree days than did Q192. Natural gas transmission companies' income rose by 37 percent between Q192 and Q193, on a 19-percent rise in revenue (Table 1). Further, the improvement in income was widespread. Of the 22 transmission companies included in this report, only one reported reduced income.

The largest consumers of natural gas in the U.S. are households. Due to higher heating demand, residential natural gas consumption rose 5 percent between Q192 and Q193. Commercial and industrial consumption were also higher, both up 4 percent from Q192. A number of the larger natural gas transmission companies own oil and gas production operations. In addition to the increase in natural gas demand, these companies benefited still further by the 31-percent rise in domestic natural gas wellhead prices.

Natural gas distribution companies also reported higher income due to the weather-related increase in U.S. natural gas consumption. These companies realized a 17-percent gain in income on revenue growth of 15 percent (Table 1). Of the 36 natural gas distribution companies included in this report, 32 reported higher income in Q193.

Electric Utilities

Electricity consumption rose 3.2 percent between Q192 and Q193, helping to improve the financial performance of electric utilities. All forms of electricity consumption--residential, commercial, and industrial--experienced similar increases in demand. Electric utilities reported income growth of 14 percent on revenues, which were 6 percent higher than in Q192 (Table 4). Cooler temperatures during Q193, were also partly responsible for the increase in residential electricity consumption. As mentioned earlier, overall the number of heating degree days were 8 percent higher in Q193 than in Q192, with every region of the country showing an increase. However, the New England states showed the smallest gain in the number of heating degree days in Q193 and the smallest increase in electricity demand. The small increase in electricity demand may also account for New England being the only region in which utilities showed an overall decline in net income between Q192 and Q193.

Table 4. U.S. Electric Utility Revenue and Income by Region
(Million Dollars)

Region ^a	First Quarter 1993	First Quarter 1992	Percent Change
Revenue			
New England (10)	2,733	2,514	8.7
Mid-Atlantic (15)	10,342	9,928	4.2
South Atlantic (10)	6,322	5,921	6.8
E. North Central (17)	8,647	8,295	4.2
E. South Central (3)	2,233	2,159	3.4
W. North Central (13)	2,570	2,170	18.5
W. South Central (9)	4,074	3,730	9.2
Mountain (7)	1,716	1,527	12.4
Pacific (7)	6,418	6,066	5.8
Total (91)	45,056	42,310	6.5
Income			
New England	215	231	-6.6
Mid-Atlantic	1,208	1,035	16.7
South Atlantic	667	551	21.1
E. North Central	824	766	7.6
E. South Central	223	222	0.0
W. North Central	259	185	39.9
W. South Central	280	212	32.0
Mountain	135	94	43.1
Pacific	703	681	3.2
Total	4,514	3,977	13.5

^aThe number of companies is reported in parenthesis. Percent change was calculated from unrounded data.

Note: The income data presented here have been adjusted to exclude the effects of unusual items.

Sources: Compiled from companies' quarterly reports to stockholders and "Earnings Digest," *The Wall Street Journal*, various issues, April, and May, 1993.

Appendix

A. Methodology

This report traces key financial trends in the U.S. energy industry for the first quarter of 1993. Financial data for companies are included in two broad groups--fossil fuel production and rate-regulated utilities. All financial data are taken from public sources such as *The Wall Street Journal*, corporate reports, and energy trade publications. Each company is assigned to a particular functional activity based on segment revenue. Companies in each industry grouping include only the publicly traded companies whose financial data were available at the time of publication. These industry groupings represent a major share of industry activity. Since several major petroleum companies disclose their income by lines of business and geographic area, these data are also presented in this report. Although the disaggregated income concept varies by company and is not strictly comparable to corporate income, relative movements in income by lines of business and geographic area are summarized as useful indicators of short-term changes in the underlying profitability of these operations.

An effort is made to assure that period-to-period comparisons reflect actual operating results rather than unusual items. Unusual items are composed of gains and losses recognized in a company's income statement which are of a non-recurring nature and generally unrelated to current operations. These items include litigation settlements, gains and losses from large divestitures of assets, provisions for the cost of restructuring, and provisions of reserves for future liabilities. Thus, the corporate income measure shown in this report is net income from continuing operations, adjusted to eliminate the effects of unusual items.

The 20 major petroleum companies reported total unusual items that, on balance, raised net income by \$79 million in the first quarter of 1993 compared with unusual items that decreased net income by \$9.8 billion in the first quarter of 1992. Including the effect of unusual items, the major petroleum companies' net income was \$4.5 billion in the first quarter of 1993 compared with negative \$7.3 billion in the first quarter of 1992. After adjusting for the effects of unusual items, the major petroleum companies' net income registered a 78-percent increase between the first quarter of 1992 and the first quarter of 1993.

The reporting of quarterly financial data is based on financial standards for interim reporting. According to the Financial Accounting Standards Board:¹⁵

Each interim period shall be viewed primarily as an integral part of an annual period. The results for each interim period shall be based on the accounting principles and practices used by an enterprise in preparation of its latest annual financial statements unless a change in an accounting practice or policy has been adopted in the current year. However, certain accounting principles and practices followed for annual reporting purposes may require modification at interim reporting dates so that the reported results for the interim period may better relate to the results for the annual period.

As an example of such modification, quarterly reports incorporate a company's estimate of its tax expense. In addition, if a company expects to replace its inventory drawdowns by the end of its fiscal year, recognition of inventory gains or losses can be deferred until the preparation of the annual financial statement. Also, unlike annual financial statements, quarterly financial reports are not audited and certified by an outside public accounting firm. However, quarterly financial reports must be prepared in accordance with generally accepted accounting principles and are subject to review by the Securities and Exchange Commission.

¹⁵Financial Accounting Standards Board, *Accounting Standards*, Current Text (Stamford, CT, 1990).

B. Petroleum Companies Included in Table 2

Major Petroleum Companies	Independent Oil and Gas Producers	Independent Refiners
Amerada Hess Corp	American Exploration Co	Ashland Oil Inc
Amoco Co	Anadarko Petroleum	Crown Central Petroleum Corp
Atlantic Richfield Co	Apache Petroleum	Citgo Petroleum Corp
BP America	Barnwell Industries	Diamond Shamrock Inc
Chevron Corp	Berry Petroleum Co Calif	Mapco Inc
Coastal Corp	Brock Exploration Corp	Quaker State Petroleum
E.I. du Pont Nemours & Co	Burlington Resources Inc	Tesoro Petroleum Corp
Exxon Corp	Cabot Oil and Gas Corp	Tosco Corp
Fina Inc	Coda Energy Inc	Total Petroleum North America Ltd
Kerr-McGee Corp	Columbus Energy Corp	Ultramar Corp
Mobil Corp	Crystal Oil Co	Witco Corp
Murphy Oil Corp	Dekalb Energy Co	
Occidental Petroleum Corp	Devon Energy Corp	
Pennzoil Co	Enex Resources Corp	
Phillips Petroleum Co	Equity Oil Co	
Shell Oil Co	Forest Oil Corp	
Sun Co Inc	Global Natural Resources Inc	
Texaco Inc	Hadson Corp	
Unocal Corp	Howell Corp	
USX Corp	Lomak Petroleum Inc	
	Louisiana Land & Exploration Co	
	Maxus Energy Corp	
	McFarland Energy Inc	
	Midland Resources Inc Texas	
	Noble Affiliates Inc	
	Nuevo Energy Co	
	Oryx Energy Co	
	Petroleum Development Corp	
	Plains Petroleum Co	
	Plains Resources Inc	
	Pogo Producing Co	
	Questa Oil & Gas Co	
	Santa Fe Energy Resources Inc	
	Snyder Oil Corp	
	Swift Energy Co	
	Triton Energy Corp	
	Union Texas Petroleum Holdings Inc	
	Unit Corp	

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