1 of 1

U.S. Energy Industry Financial Developments 1993 Second Quarter

September 1993

Energy Information Administration
Office of Energy Markets and End Use
U.S. Department of Energy
Washington, DC 20585

This report was prepared by the Energy Information Administration, the independent statistical and analytical agency within the Department of Energy. The information contained herein should not be construed as advocating or reflecting any policy position of the Department of Energy or any other organization.

MASTER

DISTRIBUTION OF THIS DOCUMENT IS UNLIMITED

grr

Contacts

U.S. Energy Industry Financial Developments, 1993 Second Quarter provides information on the financial performance of energy companies during the most recent reporting period. The data are taken from public sources such as the *Wall Street Journal*, Energy Information Administration publications, corporate press releases, and other public sources. *U.S. Energy Industry Financial Developments, 1993 Second Quarter* was prepared under the direction of W. Calvin Kilgore, Director of the Office of Energy Markets and End Use of the Energy Information Administration. General questions concerning the content of this report may be referred to Arthur T. Andersen, Director of the Energy Markets and Contingency Information Division, (202) 586-1441, and Mary E. Northup, Chief of the Financial Analysis Branch, (202) 586-1445. For specific technical information concerning this report, contact Kevin Lillis, (202) 586-1395.

Contents

Executive Summary	v
1. Financial and Energy Overview	1
2. Fossil Fuel Industries	5
Oil and Gas Production Operations	5
Refining/Marketing Operations	7
Oil Field Companies	10
Coal Producers	10
4. Rate-Regulated Energy Industries	11
Natural Gas	11
Electric Utilities	11
Appendix A	13
Appendix B	15

Tables

1. Revenue and Income Summaries	2
2. Preliminary Energy Statistics	3
3. Income and Expenditures for Major Petroleum Companies	6
4. U.S. Electric Utility Revenue and Income by Region	12

Figures

1. Year-over-Year Percent Change in Gross Domestic Product by Quarters, 1991-1993	4
2. Quarterly Return on Equity for Energy and Nonenergy Companies, 1982-1993	4
3. Gross U.S. Refining Margin by Quarter, 1982-1993	8
4. Return on Oil and Gas Production Investment for 23 Major Energy Companies, 1982-1992	9
5. U.S. Rotary Rigs in Operation by Month, 1991-1993	10

Executive Summary

Based on information provided in 1993 second quarter financial disclosures, net income for 114 petroleum companies--including 19 majors--rose 33 percent between the second quarter of 1992 and the second quarter of 1993. Both upstream (oil and gas exploration, development and production) operations and downstream (petroleum refining, marketing, and transport) contributed to the improved financial performance of petroleum companies' consolidated operations. Rate-regulated industries also showed positive income growth between the second quarter of 1992 and the second quarter of 1993 due to higher natural gas prices and increased electricity consumption.

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

- **Higher U.S. Natural Gas Prices Boost Upstream Earnings.** As a result of a 36-percent increase in U.S. natural gas wellhead prices, income from the majors' domestic oil and gas production operations rose 57 percent. The upstream operations of the majors also benefited from lower operating costs in the second quarter of 1993 as a consequence of recent industry-wide restructurings. Higher natural gas prices also lifted the earnings of the independent oil and gas producers from a negative \$11 million in the second quarter of 1992 to a positive \$53 million in the second quarter of 1993. Crude oil prices, in contrast, fell 4 percent between the second quarter of 1992 and the second quarter of 1993, and acted as a restraint on overall upstream earnings growth.
- **Refined Product Demand and Margins Lift Refining/Marketing Income.** Petroleum product consumption rose 2 percent between the second quarter of 1992 and the second quarter of 1993. Petroleum product prices increased slightly, resulting in higher refined product margins relative to the second quarter of 1992. Income for the domestic refining/marketing operations of major U.S. petroleum companies rose 54 percent between the second quarter of 1992 and the second quarter of 1993, while income for the independent refiners more than doubled. In their foreign downstream operations, the majors reported income more than twice that of 1992's second quarter. This improved overseas downstream financial performance was largely concentrated in Asia and Latin America. Weak European economies continued to depress European product demand.
- **Drilling Income Rises with Increased Gas Exploratory Activity.** Sharply higher natural gas prices spurred North American drilling activity during the second quarter of 1993. In contrast, drilling activity outside of North America was on balance lower with the exception of the Middle East. With stepped-up North American drilling activity, oil field companies reported income gains of 23 percent in relation to the second quarter of 1992.
- **Higher Natural Gas Prices and Electricity Consumption Raise Rate-Regulated Energy Income.** The oil and gas production operations of natural gas transmission companies reported a large increase in income due to higher wellhead natural gas prices. Electric utilities benefited from a 3.7-percent rise in electricity consumption and from lower coal prices. Together, rate-regulated energy companies reported a 12-percent rise in income between the second quarter of 1992 and the second quarter of 1993.

1. Financial and Energy Overview

All segments of the U.S. petroleum industry registered increases in net income in the second quarter of 1993 (Q293) compared with the second quarter of 1992 (Q292). Over this period, net income of 114 petroleum companies increased 33 percent, to \$4.7 billion (Table 1). Improved earnings were largely the result of higher domestic natural gas prices, strong petroleum product demand, and past efforts to reduce operating expenses. The rate-regulated portion of the U.S. energy industry realized positive income growth as a result of higher natural gas prices and increased electricity demand. Net income of the rate-regulated energy companies rose 12 percent between Q292 and Q293. Overall, the net income of 252 U.S. energy companies was 23 percent higher in Q293.

In the United States, rising natural gas prices were a notable energy market development during Q293. The wellhead price of natural gas averaged \$2.14 per thousand cubic feet during Q293, a 36-percent increase over the year-ago level (Table 2). Natural gas prices started to move upwards during the second quarter of 1992, after several years in which the natural gas market was characterized by excess deliverability and depressed prices.

In contrast, the U.S. refiner acquisition cost of imported crude oil averaged \$17.92 per barrel during Q293, 4 percent lower than during Q292 (Table 2). Oil prices are determined in a global environment. During Q293, while buoyant Far East economies and moderate economic growth in the Americas served to boost petroleum demand, continued European economic recession acted as a moderating force on energy markets. Overall, world oil production showed a slight decline from Q292.¹ The fall in global oil production, however, obscures what has in recent years been a tenuous balance between world oil supply and demand. Since the beginning of the decade, several major sources of crude oil have disappeared or have decreased significantly. With the embargo of Iraqi crude oil exports remaining in effect since August of 1990, a once major exporter of crude oil now produces solely for domestic consumption. Just prior to the embargo, Iraq contributed 3.4 million barrels a day to world crude oil production.² Recent declines in oil production in the former Soviet Union were also severe. Between Q292 and Q293 alone, crude oil production in the former Soviet Union plummeted by over 1 million barrels per day.³ Over the same period, the decline in U.S. production accelerated. U.S. production in Q293 averaged 360 thousand barrels per day less than in Q292 (Table 2), the sharpest decline in domestic production since the second quarter of 1990.⁴ Declines in crude oil supply might have resulted in sharply higher crude oil prices had it not been for the ability of other producers to fully offset the production declines of Iraq, Russia, and the United States. Saudi Arabia's crude oil production, which averaged 5.3 million barrels per day before the Kuwait invasion in August of 1990, averaged over 8 million barrels per day during Q293.⁵ Further, between Q292 and Q293, the fall in Russian domestic consumption of crude oil actually exceeded the decline in Russian production, adding roughly an additional 200 thousand barrels per day to the export market.⁶ Meanwhile, Kuwaiti production has climbed to over 1.6 million barrels a day during Q293.⁷

¹Energy Information Administration, *International Petroleum Statistics Report, August 1993*, DOI/EIA-0520(93/08)(Washington, DC, August 1993), p. 3.

²Energy Information Administration, *Monthly Energy Review, January 1991*, DOI/EIA-0035(91/01)(Washington, DC, January 1991), p. 110.

³Energy Information Administration, *International Petroleum Statistics Report, August 1993*, DOI/EIA-0520(93/08)(Washington, DC, August 1993), p. 3.

⁴Energy Information Administration, *U.S. Energy Industry Financial Developments*, DOI/EIA-0543 (Washington, DC) various issues from 1990-1993.

⁵Energy Information Administration, *International Petroleum Statistics Report, August 1993*, DOI/EIA-0520(93/08)(Washington, DC, August 1993), p. 3, and, Energy Information Administration, *Monthly Energy Review, January 1991*, DOI/EIA-0035(91/01)(Washington, DC, January 1991), p. 110.

⁶Plunkon Energy Report, July 1993, pp. 24-25.

⁷Energy Information Administration, *International Petroleum Statistics Report, August 1993*, DOI/EIA-0520(93/08)(Washington, DC, August 1993), p. 3.

Table 1. Revenue and Income Summaries
(Million Dollars)

Energy Industries*	Second Quarter 1993	Year-to- Date 1993	Percent Change From	
			Second Quarter 1992	Year-to- Date 1992
Fossil Fuel Industries				
Revenue				
Major Petroleum Companies (19)	109,790	215,036	-0.4	-0.2
Independent Oil and Gas Producers (49)	2,051	4,091	4.7	7.8
Independent Refiners (10)	7,231	13,633	6.7	8.0
Oil Field Companies (36)	5,570	10,880	8.2	5.0
Petroleum Subtotal (114)	124,643	243,642	0.4	0.6
Independent Coal Producers (4)	1,019	2,227	-5.1	8.1
Fossil Fuel Subtotal (118)	125,662	245,869	0.4	0.7
Income				
Major Petroleum Companies	4,221	6,308	30.1	3.9
Independent Oil and Gas Producers	53	119	NM	NM
Independent Refiners	148	199	111.8	58.7
Oil Field Companies	250	459	23.1	32.0
Petroleum Subtotal	4,672	7,084	33.2	8.4
Independent Coal Producers	7	24	-67.1	-38.0
Fossil Fuel Subtotal	4,679	7,107	32.6	8.1
Rate-Regulated Energy Industries				
Revenue				
Natural Gas Transmission (21)	7,397	16,753	22.9	20.7
Natural Gas Distribution (28)	3,119	8,990	10.9	13.0
Electric Utilities (85)	40,170	83,467	4.5	5.2
Rate-Regulated Subtotal (134)	50,685	109,210	7.2	8.0
Income				
Natural Gas Transmission	356	1,157	659.5	89.7
Natural Gas Distribution	41	754	10.4	33.1
Electric Utilities	3,519	7,936	3.3	7.8
Rate-Regulated Subtotal	3,915	9,846	12.2	15.3
Total Energy Industry Revenue (252)	176,347	355,079	2.2	2.8
Total Energy Industry Net Income	8,594	16,953	22.5	12.2
Nonenergy Industrial Companies' Net Income (278)	19,908	NA	42.8	NA

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

NM=Not meaningful. Independent oil and gas producers reported a loss of \$11 million for Q292 and a loss of \$8 million for the first six months of 1992.

NA=Not available.

Notes: The income data presented here have been adjusted to exclude the effects of unusual items. Totals may not equal sum of components due to independent rounding.

Sources: Compiled from companies' quarterly reports to stockholders and "Earnings Digest," *The Wall Street Journal*, various issues, July and August, 1993. The nonenergy industrials are based on data presented in *The Wall Street Journal*, August 2, 1993. *The Wall Street Journal* group is adjusted to exclude energy and financial companies.

The financial performance of petroleum companies during Q293 benefited from growth in U.S. refined product demand. Growth in U.S. economic activity, which expanded by 2.9 percent between Q292 and Q293 (Figure 1), contributed to the growth in refined product demand. The relative buoyancy displayed by refined product prices in the face of a 4-percent decline in crude oil prices between Q292 and Q293 was traceable to the increase in petroleum product demand.

Nonenergy industrial companies posted a steeper, 43-percent gain in net income between Q292 and Q293 (Table 1). Higher income helped boost the nonenergy industries' return on investment to 17.1 percent, the highest level since the first quarter of 1989 (Figure 2). Energy companies, though posting a 23-percent gain in net income in Q293, registered a lower 9.6 percent return on equity. Companies producing consumer cyclical goods--and in

particular the major U.S. automobile manufacturers--were largely responsible for the improved financial performance of U.S. industry. Many companies attributed their higher earnings to higher sales, cost cutting and lower financing costs.⁸ Q293 marked the fifth consecutive quarter in which nonenergy industry posted strong increases in net income,⁹ a sharp contrast to 1991, when each quarter brought further announcements of reduced earnings.

Table 2. Preliminary Energy Statistics

Supply and Prices ^a	Second Quarter 1993	Year-to- Date 1993	Percent Change From	
			Second Quarter 1992	Year-to- Date 1992
Energy Quantities				
Crude Oil Production (million b/d)	6.8	6.9	-5.1	-5.2
Net Imports (million b/d) ^b	6.6	6.4	8.4	11.5
Crude Oil Inputs to Refineries (million b/d)	13.7	13.4	0.3	0.9
Refined Product Supplied (million b/d)	17.1	17.2	1.8	1.7
Product Exports (million b/d)	0.9	0.8	1.2	-6.9
Product Imports (million b/d)	2.2	2.0	20.2	10.6
Net Product Imports (million b/d)	1.3	1.2	35.3	26.5
Natural Gas Consumption (trillion cubic feet)	4.1	10.6	-7.5	-0.5
Natural Gas Production (trillion cubic feet)	4.5	9.1	4.2	3.9
Net Imports (trillion cubic feet)	0.5	1.1	2.6	7.1
Coal Consumption (million short tons)	212	442	0.9	2.6
Coal Production (million short tons)	240	482	-1.4	-3.5
Total Electricity Sales (billion Kwh)	676	1,381	3.7	3.5
Energy Prices				
Refiner Acquisition Cost of Imported Crude Oil (dollars per barrel)	17.92	17.62	-4.0	1.2
Gasoline, Retail (dollars per gallon)	1.20	1.19	0.8	2.6
No. 2 Heating Oil, Retail (dollars per gallon)	0.92	0.94	0.0	0.5
Electricity, Residential (cents per Kwh)	8.30	8.05	0.0	0.0
Natural Gas, Residential (dollars per thousand cf)	6.34	6.02	6.0	4.4
Natural Gas, Wellhead (dollars per thousand cf)	2.14	2.05	36.3	33.6
Coal, Electric Utility (dollars per million Btu)	1.41	1.40	-1.4	-1.8

^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.

Sources: Energy Information Administration, *Short-Term Energy Outlook, Quarterly Projections*, Third Quarter 1993, DOE/EIA-0202(93/3Q)(Washington, DC, August 1993); and Energy Information Administration, *Natural Gas Monthly*, August 1993, DOE/EIA-0130(93/08)(Washington, DC, August 1993), pp. 33 and 35.

⁸*The Wall Street Journal*, February 16, 1993, pp. A5-A8.

⁹Energy Information Administration, *U.S. Energy Industry Financial Developments*, DOE/EIA-0543 (Washington, DC) various issues from 1992-1993.

Figure 1. Year-over-Year Percent Change in Gross Domestic Product by Quarters, 1991-1993

Source: DRI/McGraw-Hill, *U.S. Central Data Base*, Data Item GDP87\$, September 1, 1993.

Figure 2. Quarterly Return on Equity for Energy and Nonenergy Companies, 1982-1993

Notes: Data for the second quarter of 1993 were estimated. The return on equity is calculated on an annualized basis. Totals may not equal sum of components due to independent rounding.

Source: Companies' reports to stockholders; "Earnings Digest," *The Wall Street Journal* (various issues, July and August, 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), August 24, 1993.

2. Fossil Fuel Industries

Oil and Gas Production Operations

Largely due to the 36-percent rise in natural gas prices (Table 2), income for the major petroleum companies' U.S. oil and gas production segment rose 57 percent between Q292 and Q293 (Table 3), despite a 4-percent decline in crude oil prices and fall in crude oil production. A number of the majors reported that their improved U.S. upstream performance also resulted from cost-cutting.¹⁰ In the absence of higher natural gas prices abroad, the majors realized only a 2-percent increase in foreign oil and gas production income.

The independent oil and gas producers also showed improved financial performance during Q293, largely as a result of the pickup in natural gas prices. In comparison with the major petroleum companies, independents tend to be more reliant upon natural gas as a source of revenue. The independent producers, who reported losses of \$11 million for Q292, reported positive income of \$53 million for Q293 (Table 4).

Over the past year, the natural gas market has experienced a remarkable turnaround. In contrast, throughout the latter part of the 1980's and into early 1992, natural gas prices dropped sharply. This price decline was largely due to excess gas supply availability. A variety of factors were responsible for the excess availability: a series of upward U.S. natural gas reserve revisions; gains made in achieving greater exploration and production cost efficiencies; the introduction of tax credits designed to encourage unconventional gas drilling; regulatory reform, which induced increased competition amongst all segments of the natural gas industry; and growing Canadian natural gas imports. At the same time, the price of natural gas was restrained by depressed prices for natural gas substitutes, such as oil, a series of mild winters, and the most recent recession.¹¹

A number of factors were also responsible for the recent rise in natural gas prices. For instance, growth in natural gas demand is currently expected to outstrip growth in overall energy demand well into the future. The favorable treatment of natural gas in the Energy Policy Act of 1992 has contributed to these expectations. The Energy Policy Act encourages the use of gas as a transportation fuel and favors the development of non-utility power generators, many of which are expected to burn natural gas.¹² Regulatory developments have also been favorable to natural gas. Natural gas transmission companies are currently implementing strategies to comply with the Federal Energy Regulatory Commission's (FERC) Order 636, which is designed to encourage greater efficiency in the production, transportation, and consumption of natural gas. The Energy Information Administration (EIA) has forecasted natural gas consumption to grow 3.1 percent in 1993 and 3.6 percent in 1994.¹³ However, EIA expects that part of the increase in U.S. natural gas consumption will be met by increased Canadian imports. EIA has forecasted net imports of natural gas from Canada in the years 1993 and 1994 to increase 14 and 12 percent, respectively.¹⁴

¹⁰Amoco Corporation, *Press Release*, July 22, 1993, p. 2; Chevron Corporation, *News*, July 26, 1993, p. 2; Ken McGee Corporation, *News Release*, July 26, 1993, p. 2; Murphy Oil Corporation, *News Release*, July 27, 1993, p. 1; Mobil, *News Release for the Financial Community*, July 23, 1993, p. 1; Phillips Petroleum Company, *News Release*, July 26, 1993, p. 1; Shell Oil Company, *News Release*, July 30, 1993, p. 2; and Unocal Corporation, *News Release*, July 26, 1993, p. 1.

¹¹Energy Information Administration, *Natural Gas 1992 Issues and Trends*, DOE/EIA-0560(92)(Washington, DC, March 1993), p. 33.

¹²Energy Information Administration, *Natural Gas 1992 Issues and Trends*, DOE/EIA-0560(92)(Washington, DC, March 1993), p. 26.

¹³Energy Information Administration, *Short Term Energy Outlook Quarterly Projections*, Third Quarter 1993, DOE/EIA-0202(93/3Q)(Washington, DC, August 1993), p. 3.

¹⁴Energy Information Administration, *Short Term Energy Outlook Quarterly Projections*, Third Quarter 1993, DOE/EIA-0202(93/3Q)(Washington, DC, August 1993), p. 4.

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

Category*	Second Quarter 1993	Year-to- Date 1993	Percent Change From	
			Second Quarter 1992	Year-to- Date 1992
Line-of-Business Income				
Petroleum (17)	4,535	8,781	41.4	45.3
Chemicals (13)	625	1,295	-19.5	-12.2
Coal (3)	66	129	13.3	17.5
Other Businesses (12)	377	862	17.0	-8.0
Petroleum Income by Geographic Sector				
Domestic (11)	2,237	3,790	49.8	68.9
Foreign (10)	1,791	3,795	34.0	17.6
Domestic Income by Function				
Oil and Gas Production (10)	1,539	2,617	57.3	71.1
Refining/Marketing (14)	899	1,450	54.3	85.0
Foreign Income by Function				
Oil and Gas Production (10)	1,025	2,449	-0.1	1.7
Refining/Marketing (6)	767	1,346	146.8	64.6
Capital and Exploratory Expenditures				
Domestic Oil and Gas Production (6)	1,101	2,069	10.3	-5.8
Foreign Oil and Gas Production (7)	2,284	4,040	-2.2	-9.6
Refining/Marketing (9)	1,805	3,161	-10.9	-13.3
Other Functions (9)	1,302	2,317	0.8	-6.4
Unallocated (6)	651	1,097	11.4	-0.3
Total Capital and Exploratory Expenditures (10)	7,144	12,564	-1.3	-8.7

*The number of companies is reported in parenthesis. Percent change was calculated from unrounded data.

Notes: The income data presented here have been adjusted to exclude the effects of unusual items. Totals may not equal sum of components due to independent rounding.

Sources: Compiled from companies' quarterly reports to stockholders. Segmental income and capital expenditure data are presented for those companies who reported these items separately in their Q293 press releases. The number of companies is reported in parentheses.

Refining/Marketing Operations

Increased refined product demand, led to higher refining/marketing earnings for the majors. Overall, U.S. petroleum product demand was up 2 percent from Q292 (Table 2). Between Q292 and Q293, the majors' U.S. refining/marketing earnings rose 54 percent (Table 3). In U.S. downstream operations, the majors benefited from improved margins (Figure 3), as crude oil prices declined 4 percent from Q292, while refined product prices either rose or held steady. Refinery capacity utilization was also up over the period, averaging 92 percent during Q293 versus 89 percent during Q292.¹⁵ In their Q293 press releases, a number of the majors stated that earlier efforts to contain downstream operating costs were contributing factors to the Q293 gain in downstream earnings. The improvement in refining margins, sales, and earnings growth was not uniform. Eight of the thirteen majors reporting income for U.S. refining/marketing operations reported higher earnings in Q293 than in Q292, while the remaining five majors reported declines.

Independent refiners also benefited from the increase in refined product demand. In total, the income of 10 refiners more than doubled between Q292 and Q293 (Table 1). However, part of the higher earnings stemmed from Tosco's acquisition of Exxon's Bayway, New Jersey refinery, which Tosco has been operating since May, 1993.¹⁶ Nevertheless, even excluding Tosco, the net income of the other refiners rose 15 percent.

Income from the majors' overseas refining/marketing operations more than doubled between Q292 and Q293. Chevron, Exxon, Mobil, and Texaco account for 92 percent of all of the U.S. majors' overseas downstream sales.¹⁷ These companies reported uniformly improved financial results from their downstream operations in the Far East and in Latin America, where most nations are experiencing moderate to robust economic growth. In contrast, most European economies remain mired in recession and, as a consequence, the majors continue to report depressed results from their European refining/marketing operations.

Improved results in both upstream and downstream petroleum operations were largely responsible for a 30-percent increase in the majors' net income between Q292 and Q293 (Table 1). After petroleum operations, chemical operations are the largest source of income for the major petroleum companies. Income for the majors' chemical operations fell 20 percent between Q292 and Q293 (Table 3). Many of the majors attributed the deteriorating performances of their chemical operations to weak worldwide demand, lower margins, and overcapacity.

¹⁵Energy Information Administration, *Weekly Petroleum Status Report*, DOE/EIA 0208(93-34)(Washington DC, August 20, 1993), p. 4.

¹⁶Tosco, *News*, August 3, 1993, p. 3.

¹⁷Energy Information Administration, Form EIA-28.

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

Note: Data for Q293 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*, September 1993, DOE/EIA-0380(93/09) (Washington, DC, September 1993), Tables 1, 4, and 5.

Despite the improvement in the majors' petroleum earnings, both upstream and downstream operations were targets of reduced investment in the first half of 1993. Since the oil price collapse in 1986, the majors reduced their investments in U.S. oil and gas production operations, but increased their asset commitments to foreign upstream operations.¹⁸ However, during the first half of 1993, foreign expenditures fell more steeply than U.S. expenditures (Table 3). Moreover, for the second quarter alone, U.S. expenditures were up 10 percent from last year's second quarter. If an increased focus on U.S. upstream investments is emerging, it may be the result of the narrowing profitability of U.S. versus foreign oil and gas production investments. Although foreign oil and gas production operations provided the majors with a higher rate of return in 1992 than on U.S. upstream investment, the relative profitability of these two segments has been converging in recent years (Figure 4). Higher natural gas prices led to increases in domestic exploratory and development activity, as evidenced by recent increases in the natural gas rig count (Figure 5). During the latter half of 1992, the natural gas rig count actually exceeded the oil rig count. However, the increased emphasis on finding natural gas at the time was driven largely by the impending suspension of a natural gas-related tax credit. Even with the current recovery of drilling activity, the natural gas rig count during the first 6 months of 1993 remained below that of the comparable 1991 period.

¹⁸Energy Information Administration, *Performance Profiles of Major Energy Producers 1991*, DOE/EIA-0206(91)(Washington, DC, December 1992), p. 26.

Figure 4. Return on Oil and Gas Production Investment for 23 Major Energy Companies, 1982-1992

P=Preliminary.

Source: 1982-1991 data, Energy Information Administration, *Performance Profiles of Major Energy Producers 1991*, DOE/EIA-0206(91) (Washington, DC, December 1992). Source for 1992 data was Energy Information Administration, Form EIA-28. The 23 petroleum companies included in *Performance Profiles of Major Energy Producers* is a slightly larger group of majors than the 19 majors for which Q293 data was available during the preparation of this report. The return on investment is the ratio of net income to additions to net investment in place.

Figure 5. U.S. Rotary Rigs in Operation by Month, 1991-1993

Source: Hughes Christensen, *Rotary Rigs Running--by State*.

Oil Field Companies

Net income for oil field companies was 23 percent higher during Q293 than in Q292 (Table 1). The improved financial performance of the oil field companies was largely due to greater exploratory and development activity in North America. The number of rotary rigs in operation in search of natural gas in the United States increased 16 percent between Q292 and Q293 (Figure 4). Over the same period, the U.S. crude oil rig count fell 7 percent. In Canada, the rig count more than doubled,¹⁹ again as a consequence of higher natural gas prices.²⁰ With the exception of the Mideast, drilling activity in most regions outside of North America, was off from the year-ago period.

Coal Producers

Coal companies reported a mixed financial performance during Q293. The United Mine Workers (UMW) strike against the Bituminous Coal Operating Companies which began on May 10, 1993, had a sizable impact on coal company earnings. Some independent coal operations were targets of the UMW strike during Q293,²¹ which was partly responsible for the 67-percent decline in independent coal company earnings between Q292 and Q293 (Table 1). Partly as a result of the strike, coal production fell 1.4 percent between Q292 and Q293 (Table 2). Coal prices were also lower during Q293, which also served to dampen Q293 coal company earnings. Overall, coal consumption was up slightly between Q292 and Q293. All of the 3 major petroleum companies reporting income for coal operations reported an increase in coal sales between Q292 and Q293, and a 13-percent increase in income (Table 3).²²

¹⁹*Oil and Gas Journal*, May 17, 1993, p. 76; June 21, 1993, p. 100; July 19, 1993, p. 68.

²⁰*Petrol-Canada, Report for the six months ended June 30, 1993*, p. 2.

²¹Ashland Coal Corporation, *News from Ashland Coal, Inc.*, July 21, 1993 p. 2.

²²The 4 independent producers included in this report reported coal sales of 70 million tons in 1992 versus 67 million tons for the 3 major petroleum companies. Sources: Company annual reports.

4. Rate-Regulated Energy Industries

Natural Gas

The demand for natural gas is weather-related and hence very seasonal. As a consequence, during the second and the third quarters of each year, natural gas demand is much weaker than in the fourth and first quarters, which encompass the winter heating season. The demand for natural gas as a residential heating fuel was dampened by milder weather during Q293. Q293 had 8 percent fewer heating-degree days than Q292. However, in Q293, the 36-percent rise in natural gas wellhead prices had a decidedly positive impact on the financial performance of natural gas transmission companies, many of whom are also gas producers. Natural gas transmission companies' consolidated income rose by 304 percent between Q292 and Q293, on revenue growth of 24 percent (Table 1). Natural gas distribution companies also reported an increase in income. Natural gas distribution companies reported a 10-percent gain in income on revenue growth of 11 percent.

Electric Utilities

Net income for electric utility companies rose 3 percent between Q292 and Q293 (Table 4). Electricity demand was 3.7 percent higher during Q293, most of which resulted from higher residential electricity usage. Slightly warmer weather than during the year-ago quarter led to a 14-percent increase in cooling degree days and higher air conditioning usage.²¹ Electric utility companies also benefited from lower coal prices during Q293. Coal, which accounts for 54 percent of net utility generation, cost almost 1.4 percent less in Q293 than in Q292.

²¹Energy Information Administration, *Short-Term Energy Outlook: Quarterly Projections*, 1993 Third Quarter, DOE/EIA-0202(93/3Q)(Washington DC, August 1993), p. 28.

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

Region ^a	Second Quarter 1993	Year-to- Date 1993	Percent Change From	
			Second Quarter	Year-to- Date
			1992	1992
Revenue				
New England (10)	2,403	5,131	10.1	9.2
Mid-Atlantic (15)	8,641	18,983	3.3	3.2
South Atlantic (10)	6,364	12,686	9.1	7.9
E. North Central (15)	6,632	14,059	1.8	2.9
E. South Central (3)	2,408	4,557	3.0	2.6
W. North Central (12)	2,234	4,726	9.3	12.3
W. South Central (7)	4,167	8,015	6.7	7.6
Mountain (6)	1,255	2,827	5.4	9.4
Pacific (7)	6,065	12,483	0.1	3.0
Total (85)	40,170	83,467	4.5	5.2
Income				
New England	90	305	-30.1	-22.8
Mid-Atlantic	673	1,879	4.4	11.9
South Atlantic	666	12,685	30.9	25.8
E. North Central	531	1,266	-0.2	2.6
E. South Central	286	508	10.8	5.8
W. North Central	227	482	18.2	29.1
W. South Central	394	653	-4.9	9.3
Mountain	75	228	7.8	13.1
Pacific	578	1,281	-12.2	-4.4
Total	3,519	7,936	3.3	7.8

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

Notes: The income data presented here have been adjusted to exclude the effects of unusual items. Totals may not equal sum of components due to independent rounding.

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

Appendix A

Methodology

This report traces key financial trends in the U.S. energy industry for the second quarter of 1993. Financial data for companies are included in two broad groups--fossil fuel production and rate-regulated electric 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.²⁴

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 19 major petroleum companies reported total unusual items that, on balance, decreased net income by \$163 million in the second quarter of 1993 compared with unusual items that decreased net income by \$831 million in the second quarter of 1992. Including the effect of unusual items, the major petroleum companies' net income was \$4.1 billion in the second quarter of 1993 compared with \$2.4 billion in the second quarter of 1992, an increase of 68 percent.²⁵ After adjusting for the effects of unusual items, the major petroleum companies' net income registered a 30-percent increase between the second quarter of 1992 and the second quarter of 1993. The reporting of quarterly financial data is based on financial standards for interim reporting. According to the Financial Accounting Standards Board:²⁶

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

²⁴Major petroleum companies vertically integrated. The independent oil and gas producers include publicly owned oil and gas production companies not classified as majors. The primary SIC code for the independent oil and gas producers is 1311. Similarly, the independent refiners include those publicly owned downstream petroleum companies not classified as majors. The primary SIC code for the independent refiners is 2911. Oil field companies include those petroleum companies involved in drilling oil and gas wells, providing exploration and oil and gas field services. Oil field companies are generally classified with the SIC codes 1381, 1384, and 1389. Coal companies correspond to the SIC code 12, natural gas transmission companies to the code 4922, and natural gas distribution companies to the code 4924. Companies involved in both the transmission and distribution of natural gas (SIC code 4923) are either classified as transmission companies or distribution companies, depending on which ever activity is the greater generator of revenue. Electric utilities correspond to those publicly held electric utility companies classified with the SIC code 4911.

²⁵Percent change was calculated from unrounded data.

²⁶Financial Accounting Standards Board, *Accounting Standards, Current Text* (Stamford, CT, 1990).

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.

Appendix B

The 114 Petroleum Companies Included in Table 1

Major Petroleum Companies(19)	Independent Oil and Gas Producers(49)	Independent Refiners(10)	Oil Field Companies(36)
Amerada Hess Corp	Alamco Inc	Ashland Oil	American Oil & Gas Corp
Amoco Corp	Alexander Energy Corp	Crown Central Petroleum	Atwood Oceanics Inc
Atlantic Richfield Co	American Exploration Co	Diamond Shamrock R&M	Baker Hughes Inc
Chevron Corp	Anadarko Petroleum Co	Horsham Corp	Baroid Corp
Coastal Corp	Apache Corp	Quaker State Petroleum	BJ Services Co
E.I. du Pont Nemours	Beard Oil Co	Tesoro Petroleum Corp	Cascade Corp
Exxon Corp	Benton Oil & Gas Co	Tosco Corp	Chiles Offshore Corp
Fina Inc	Berry Petroleum Co Calif	Total Petroleum	Cliffs Drilling Co
Kerr-McGee	Cabot Corp	Ultramar Corp	Daniel Industries Inc
Mobil Corp	Coda Energy Inc	Wilco Corp	Dawson Geophysical Co
Murphy Corp	Coho Resources Inc		Energy Services Co Inc
Occidental Petroleum	Columbus Energy Corp		Enterra Corp
Pennzoil Co	Comstock Resources Inc		Galveston Houston Co
Phillips Petroleum Co	Convest Energy Corp		Global Marine Inc
Shell Oil Co	Crystal Oil Co		H & H Oil Tool Co Inc
Sun Co	Dekalb Energy Co		Halliburton Co
Texaco Inc	Devon Energy Corp		Helmreich & Payne Inc
Unocal Corp	Enex Resources Corp		Hornbeck Offshore Services
USX Corp	Equity Oil Co		ICO Inc
	Forest Oil Corp		Newpark Resources Inc
	Global Natural Resources Inc		Nobel Drilling Corp
	Hudson Energy Resources Corp		Parker Drilling Co
	Howell Corp		Pool Energy Services Co
	Key Production Co Inc		Pride Energy Services Inc
	Lomax Petroleum Inc		Production Operators
	Louisiana Land & Exploration Co		Reading & Bates Corp
	Maxus Energy Corp		Red Eagle Resources Corp
	Maynard Oil Co		Rowan Cos Inc
	Mesa Inc		RPC Energy Services Inc
	Noble Affiliates Inc		Schlumberger Ltd
	Nuevo Energy Co		Smith International Inc
	Oryx Energy Co		Sundowner Offshore Services
	Parker & Parsley Petroleum Co		Tidewater Inc
	Patrick Petroleum Co		Varco International Inc
	Plains Petroleum Co		Weatherford International Inc
	Plains Resources Inc		Western Co of North America
	Pogo Producing Co		
	Presidente Oil Co		
	Prima Energy Co		
	Questia Oil & Gas Co		
	Santa Fe Energy Resources Inc		
	Snyder Oil Corp		
	Stone Energy Corp		
	Swift Energy Co		
	Union Texas Petroleum Holdings		
	Unit Corp		
	Wainoco Oil Corp		
	Wilshire Oil Co of Texas		
	Wiser Oil Co		

**DATE
FILMED**

1 / 3 / 94

END