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U. S. Energy Industry Financial Developments 1993 Third Quarter

December 1993

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U.S. Energy Industry Financial Developments, 1993 Third 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 Third 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.

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Executive Summary

Based on information provided in 1993 third quarter financial disclosures, the average net income for 112 petroleum companies--including 18 majors--rose 13 percent between the third quarter of 1992 and the third quarter of 1993. The gain in overall petroleum income was derived from increases in refined product consumption and margins, which improved the profitability of downstream petroleum (refining, marketing and transport) operations. A 17-percent decline in crude oil prices led to reduced income for upstream (oil and gas exploration, development and production) operations. A 16-percent rise in natural gas wellhead prices only partially offset the negative effects of low crude oil prices. Electric utilities also reported improved financial results for the third quarter of 1993 as hotter summer temperatures relative to the year-earlier quarter helped boost air conditioning demand and overall electricity usage.

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

- **Refined Product Demand and Margins Lift Downstream Earnings.** Petroleum product consumption rose 2 percent between the third quarter of 1992 and the third quarter of 1993. Although petroleum product prices declined in the most recent reporting period, they did not decline as much as crude oil input prices. As a consequence, refined product margins widened, leading to a substantially improved U.S. downstream financial performance. Income from the majors' domestic downstream operations more than doubled, while the independent producers reported a tripling of income. For their overseas refining/marketing operations, the majors reported a 66-percent rise in earnings. In Asia, refined product margins were substantially higher than in the year-earlier period while in Europe the improvement in margins was slight relative to a weak third quarter of 1992.

- **Lower Crude Oil Prices Reduce Upstream Earnings.** Crude oil prices fell 17 percent between the third quarter of 1992 and the third quarter of 1993 leading to a substantial reduction in income for the major petroleum companies' upstream operations. Income from the majors' domestic oil and gas production operations fell 35 percent between the third quarter of 1992 and the third quarter of 1993. Over the same period, the majors' foreign upstream income declined 27 percent. Independent oil and gas producers reported income of $34 million versus $98 million for the third quarter of 1992, again due to lower crude oil prices.

- **Drilling Income Rises with Increased North American Exploratory Activity.** Sharply higher natural gas prices spurred North American drilling activity during the third quarter of 1993. Thus, despite the sizable decline in crude oil prices, U.S. oil and gas drilling activity improved. In contrast, drilling activity outside of North America was lower with the exception of the Middle East. Due to the stepped-up pace of North American drilling activity, oil field companies reported income gains of 62 percent in relation to the third quarter of 1992.

1. Financial and Energy Overview

An increased level of economic activity helped lift the demand for most major fossil fuels between the third quarter of 1992 (Q392) and the third quarter of 1993 (Q393). Economic activity in the United States, as measured by Gross Domestic Product (GDP), was 2.8-percent higher in Q393 than in Q392 (Figure 1). Petroleum product demand, natural gas demand, coal, and electricity consumption were all up over the previous year's third quarter, and had a positive impact on energy companies' Q393 financial performance.

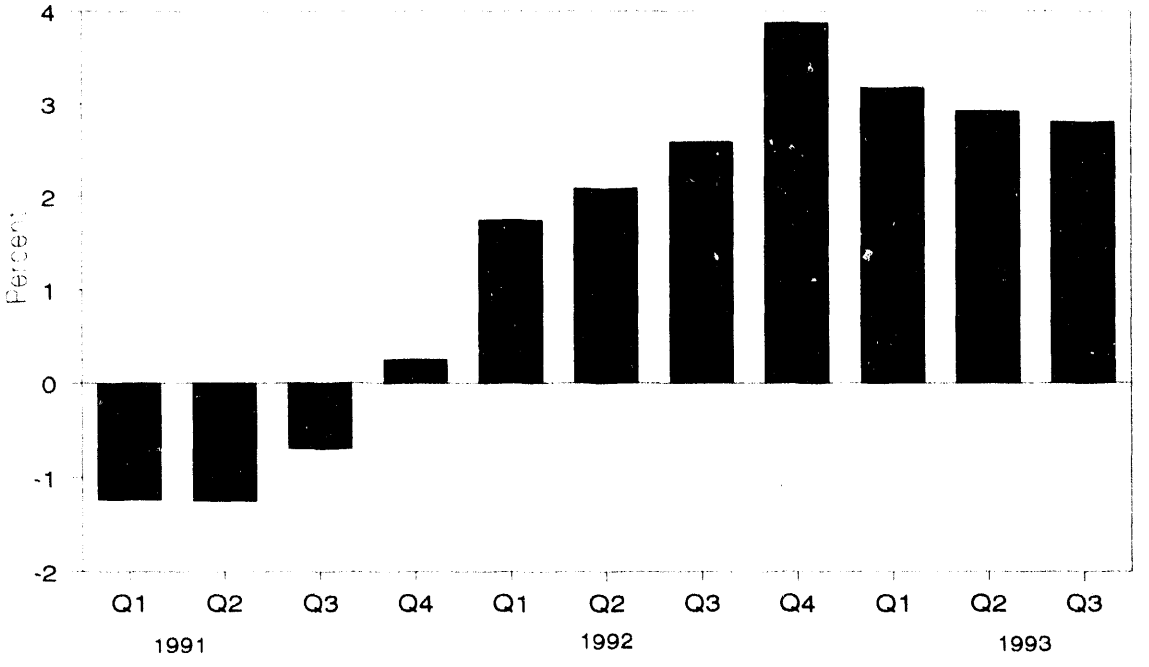
In Q393, the energy industry companies included in this report realized a 12-percent return on equity. Profit performance for nonenergy companies was a much higher 15-percent (Figure 2). These companies were also positively affected by the expanding U.S. economy. The nonenergy industry experienced a 56-percent increase in income between Q392 and Q393 (Table 1). Strong auto sales enabled Detroit's Big Three auto makers to report positive income of $773 million versus the $1.1 billion loss reported for Q392. IBM's financial performance also contributed to Q393's improved nonenergy income performance, as IBM saw its losses narrow from $2.8 billion for Q392 to $48 million during Q393.

The relatively poorer profit performance of energy companies stems primarily from falling crude oil prices. Oil prices during Q393 reached their lowest levels since the second quarter of 1990. While petroleum product demand in the Americas and in most of Asia was robust during Q393, a reduced level of economic activity in many industrialized nations continued to depress demand for petroleum. World oil supplies remain in surplus primarily because of rising Organization of Petroleum Exporting Countries (OPEC) and United Kingdom production.[1]

In contrast to crude oil, U.S. natural gas operations contributed positively to the financial performance of petroleum companies in Q393. The improvement was due to an increase in natural gas wellhead prices. The wellhead price of natural gas averaged $2.13 per thousand cubic feet during Q393, a 16-percent increase over the year-ago level (Table 2). Partly due to an increase in demand from electric utilities, natural gas consumption grew 3 percent between Q392 and Q393. 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. Improved domestic natural gas prices were insufficient to offset the adverse profit effects of lower crude oil prices.

[1]Energy Information Administration, *International Petroleum Statistics Report, November 1993*, DOE/EIA-0502(93/11)(Washington DC, November 1993), Table 1.1.

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$, November 18, 1993.

Table 1. Revenue and Income Summaries
(Million Dollars)

Energy Industries[a]	Third Quarter 1993	Year-to-Date 1993	Percent Change From Third Quarter 1992	Percent Change From Year-to-Date 1992
Fossil Fuel Industries				
Revenue				
Major Petroleum Companies (18)	105,711	318,362	-7.6	-2.4
Independent Oil and Gas Producers (56)	2,490	7,452	1.6	8.0
Independent Refiners (9)	7,000	19,531	1.7	4.7
Oil Field Companies (29)	4,622	13,662	7.3	6.1
Petroleum Subtotal (112)	119,824	359,006	-6.4	-1.5
Independent Coal Producers (2)	971	2,760	4.9	6.6
Fossil Fuel Subtotal (114)	120,795	361,766	-6.3	-1.5
Income				
Major Petroleum Companies	4,026	12,413	9.8	29.4
Independent Oil and Gas Producers	34	362	-64.8	61.8
Independent Refiners	141	306	215.1	130.1
Oil Field Companies	319	693	62.0	30.5
Petroleum Subtotal	4,521	13,773	12.8	31.4
Independent Coal Producers	23	45	-2.9	1.9
Fossil Fuel Subtotal	4,544	13,819	12.7	31.3
Rate-Regulated Energy Industries				
Revenue				
Natural Gas Transmission (18)	6,790	22,424	15.4	18.8
Natural Gas Distribution (24)	2,638	11,776	7.5	10.9
Electric Utilities (76)	43,692	117,504	8.9	6.5
Rate-Regulated Subtotal (118)	53,120	151,704	9.6	8.5
Income				
Natural Gas Transmission	135	1,071	-15.1	55.5
Natural Gas Distribution	-79	645	NM	40.1
Electric Utilities	5,897	12,933	8.3	9.9
Rate-Regulated Subtotal	5,954	14,649	8.0	13.4
Total Energy Industry Revenue (232)	173,915	513,470	-2.0	1.3
Total Energy Industry Net Income	10,498	28,468	10.0	21.4
Nonenergy Industrial Companies' Net Income (270)	16,411	NA	55.9	NA

[a]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.

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, October and November, 1993. The nonenergy industrials are based on data presented in *The Wall Street Journal*, November 1, 1993, p. A6. *The Wall Street Journal* group is adjusted to exclude energy and financial companies.

Table 2. Preliminary Energy Statistics

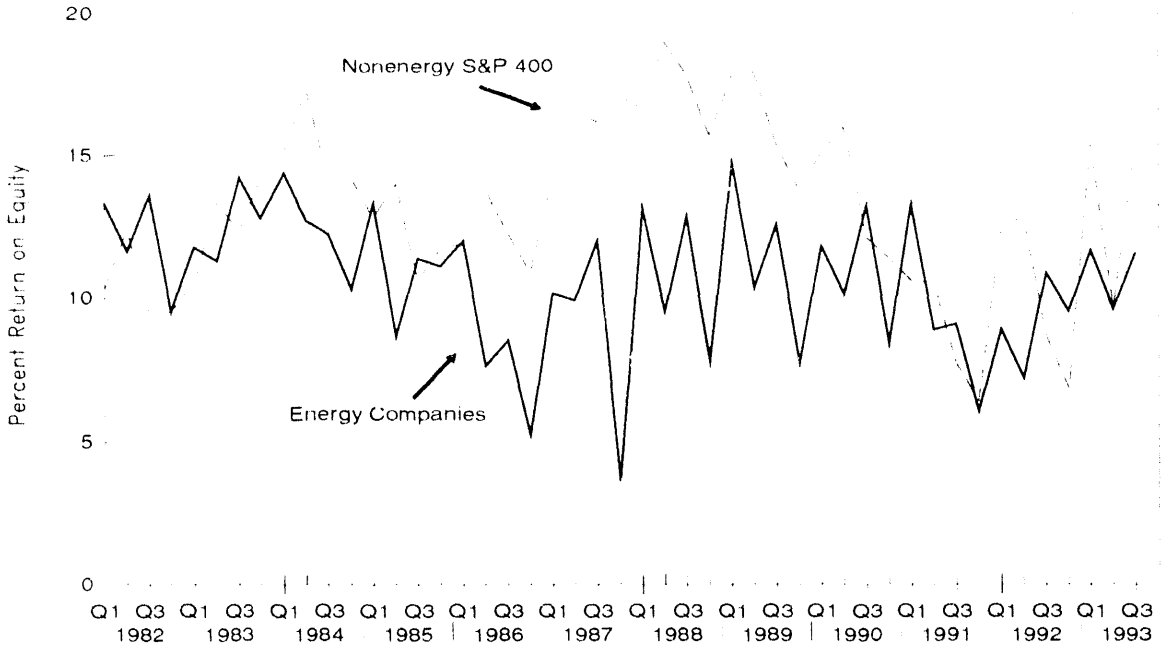
Supply and Prices[a]	Third Quarter 1993	Year-to-Date 1993	Percent Change From Third Quarter 1992	Percent Change From Year-to-Date 1992
Energy Quantities				
Crude Oil Production (million b/d)	6.7	6.8	-4.6	-5.0
Net Crude Oil Imports (million b/d)[b]	6.9	6.6	7.8	10.9
Crude Oil Inputs to Refineries (million b/d)	14.1	13.6	2.7	1.7
Refined Product Supplied (million b/d)	17.3	17.1	1.8	0.7
Product Exports (million b/d)	1.0	0.9	29.9	12.0
Product Imports (million b/d)	1.8	1.8	1.7	-1.3
Net Product Imports (million b/d)	0.8	0.8	-19.2	-13.1
Natural Gas Consumption (trillion cubic feet)	4.0	14.7	2.6	1.9
Natural Gas Production (trillion cubic feet)	4.4	13.6	1.6	3.1
Net Imports (trillion cubic feet)	0.5	1.5	8.7	9.4
Coal Consumption (million short tons)	241	686	1.3	2.7
Coal Production (million short tons)	236	713	-5.3	-4.6
Total Electricity Sales (billion Kwh)	782	2,156	5.0	3.7
Energy Prices				
Refiner Acquisition Cost of Imported Crude Oil (dollars per barrel)	16.10	17.03	-17.1	-5.8
Gasoline, Retail (dollars per gallon)	1.17	1.18	-4.9	-0.3
No. 2 Heating Oil, Retail (dollars per gallon)	0.88	0.91	-2.2	-0.7
Electricity, Residential (cents per Kwh)	8.80	8.37	2.3	1.6
Natural Gas, Residential (dollars per thousand cf)	7.57	6.57	4.6	5.0
Natural Gas, Wellhead (dollars per thousand cf)	2.13	2.09	15.8	28.2
Coal, Electric Utility (dollars per million Btu)	1.40	1.39	0.0	-1.7

[a]Data for the most recent period are preliminary estimates. Percent change calculated from data presented in the cited source.

[b]Includes imports for the Strategic Petroleum Reserve.

Source: Energy Information Administration, *Short-Term Energy Outlook, Quarterly Projections*, Fourth Quarter 1993, DOE/EIA-0202(93/4Q)(Washington, DC, November 1993).

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



Notes: Data for the third 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.

Sources: 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), November 18, 1993.

2. Fossil Fuel Industries

Overall earnings for companies involved in fossil fuel production and processing rose 13 percent between Q392 and Q393. However, there were wide variations in profit performance on a functional basis; upstream profitability deteriorated while product processing profitability improved sharply.

Oil and Gas Production Operations

Largely due to the 17-percent decline in crude oil prices (Table 2), income for the major petroleum companies' U.S. oil and gas production segment fell 35 percent between Q392 and Q393 (Table 3). Profits of independent oil and gas producers fell by 65 percent (Table 1). Lower domestic crude oil production also depressed earnings during Q393. Overall U.S. crude oil production fell by 5 percent between Q392 and Q393. For the first 9 months of 1993, U.S. crude oil production reached its lowest level since 1958.[2] A 16-percent rise in natural gas prices, along with a 3-percent increase in natural gas consumption partly offset the negative effects that both falling crude oil prices and lower crude oil production had on upstream financial performance during Q393. In addition, a number of the majors reported that cost-cutting efforts had a positive impact on upstream earnings during the third quarter. Although rising production abroad helped offset the adverse effects of lower crude oil prices, the majors reported a 27-percent decline in foreign oil and gas production income.

Refining/Marketing Operations

Overall, U.S. petroleum product demand was up 2 percent from Q392 (Table 2). In Q393, refined product demand reached its highest third-quarter level since 1979.[3] Improved refined product demand and higher product margins (Figure 3) led to an increase in refining/marketing earnings for the majors and for independent refiners. Between Q392 and Q393, the majors' U.S. refining/marketing earnings more than doubled (Table 3). Total U.S. refinery capacity utilization was also up over the period, averaging 94 percent during Q393 versus 91 percent during Q392.[4] Part of the increase in capacity utilization was due to a reduction in operable capacity but part was also due to higher levels of throughput. In their Q393 press releases, a number of the majors stated that earlier efforts to contain downstream operating costs were also contributing factors to the Q393 gain in downstream earnings.

[2]Energy Information Administration, *Monthly Energy Review, November 1993*, DOE/EIA-0035(93/11)(Washington DC, November 1993), Table 3.2a; and *Annual Energy Review 1992*, DOE/EIA-0384(92)(Washington, DC, June 1993), Table 5.1.

[3]Energy Information Administration, *Monthly Energy Review, November 1993*, DOE/EIA-0035(93/11)(Washington DC, November 1993), Table 3.1a; *Monthly Energy Review, January 1991*, DOE/EIA-0035(91/01)(Washington DC, January 1991), Table 3.1a; and, *Historical Monthly Energy Review, 1973-1988*, DOE/EIA-0035(73-88)(Washington DC, September 1991), Table 3.1a.

[4]Energy Information Administration, *Weekly Petroleum Status Report*, DOE/EIA-0208(93-46)(Washington DC, November 12, 1993), Table 2.

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

Category[a]	Third Quarter 1993	Year-to-Date 1993	Percent Change From Third Quarter 1992	Percent Change From Year-to-Date 1992
Line-of-Business Income				
Petroleum (17)	4,382	13,254	5.7	28.3
Chemicals (12)	626	1,835	-5.8	-13.4
Coal (3)	53	182	-14.3	6.1
Other Businesses (12)	246	1,138	-17.5	-9.3
Petroleum Income by Geographic Sector				
Domestic (10)	2,006	5,820	3.6	38.1
Foreign (10)	1,745	5,624	-0.9	12.9
Domestic Income by Function				
Oil and Gas Production (10)	933	3,660	-34.6	23.4
Refining/Marketing (13)	1,342	2,789	131.2	96.4
Foreign Income by Function				
Oil and Gas Production (10)	921	3,466	-27.2	-5.6
Refining/Marketing (6)	824	2,158	66.4	64.7
Capital and Exploratory Expenditures				
Domestic Oil and Gas Production (7)	1,217	3,196	23.7	3.5
Foreign Oil and Gas Production (8)	2,261	6,489	-4.7	-5.8
Refining/Marketing (10)	1,826	5,043	-9.5	-11.2
Other Functions (11)	1,232	3,742	-3.8	-5.1
Unallocated (6)	341	979	-24.8	-54.1
Total Capital and Exploratory Expenditures (11)	6,876	19,449	-3.3	-10.5

[a]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 Q393 press releases.

New environmental regulations became operative during Q393. The Clean Air Act Amendments of 1990 required that as of October 1, 1993, refiners produce diesel fuel, for highway use, with a maximum sulfur content of 0.05 percent by weight. Prior to this requirement, diesel fuel sulfur levels averaged 0.30 by weight. Further, California imposed the additional requirement that diesel sold there would have a reduced aromatic content. Although it appears that in most areas of the country refiners met the new low-sulfur diesel fuel requirements without any major disruptions, meeting the California market's more stringent diesel requirements proved more difficult and costly. For instance, in California, supply imbalances arose in October which pushed diesel prices to over 40 cents per gallon above their September levels.[5] Due to their inability to meet the October 1, 1993 deadline, 3 California refiners were granted variances from compliance. These variances, however, result in financial penalties which may have a negative impact on future quarterly earnings for the affected refiners. Furthermore, in 1992, Unocal announced that it would no longer market diesel fuel in the

[5]*Oil Market Listener*, October 22, 1993, p. 1.

California market. Unocal stated that its departure from the California diesel market would save the company $100 million in capital outlays.[6] During Q393, U.S. refineries had the additional responsibility of gearing-up to meet the second oxygenated gasoline season, another requirement resulting from the Clean Air Act Amendments of 1990.

In aggregate, it appears that the new refined product standards had little adverse impact on Q393 earnings. Statements concerning refining operations made by some refiners in their third-quarter earnings report suggest that overall refining margins on the West Coast were strong during Q393. Ultramar, for instance, reported that its Wilmington, California refinery experienced margins of $7.69 per barrel in Q393 versus $5.07 per barrel for Q392.[7]

Income from the majors' overseas refining/marketing operations rose 66 percent between Q392 and Q393. Chevron, Exxon, Mobil, and Texaco account for 92 percent of all of the U.S. majors' overseas downstream sales.[8] 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 depressed; as a consequence, the majors continue to report weak results from their European refining/marketing operations. Refining margins in the Far East showed a sharp increase over their Q392 levels, while refined product margins in Europe showed a slight gain over their relatively low Q392 levels.[9]

Chemical Operations

After petroleum operations, chemical operations are the largest source of income for the major petroleum companies. Income for the majors' chemical operations fell 6 percent between Q392 and Q393 (Table 3). Many of the majors attributed this deteriorating performance to weak worldwide demand, lower margins, and overcapacity. The chemical segment of major petroleum companies has reported a decline in income during 15 out of the last 19 quarterly reporting periods.[10] Persistently weak chemical earnings may be causing some petroleum companies to reevaluate the viability of their chemical operations, as many petroleum companies have recently done with their coal mining operations. During Q393, Texaco agreed to sell its worldwide chemical business for $1.05 billion,[11] while DuPont said it would lay off 4,500 workers and take a charge of $374 million against earnings.[12] The sale is expected to take place on January 1, 1994. Nonpetroleum chemical companies have also experienced a prolonged slump in earnings. This slump continued into Q393 as nonpetroleum chemical manufacturers reported a 12-percent decline in income between Q392 and Q393, with both specialty and commodity chemical manufacturers showing a deterioration in their financial performance.[13] Recently, two nonpetroleum companies, The American Cyanamid Company and Eastman Kodak, also announced cutbacks of their chemical operations.[14]

[6]*The Wall Street Journal*, June 2, 1992, p. A9.

[7]Ultramar Corporation, *News Release*, October 19, 1993, p.1.

[8]Energy Information Administration, Form EIA-28, 1991.

[9]*Petroleum Market Intelligence*, various issues, 1992-1993.

[10]Energy Information Administration, *U.S. Energy Industry Financial Developments*, DOE/EIA-0543 (Washington DC), various issues.

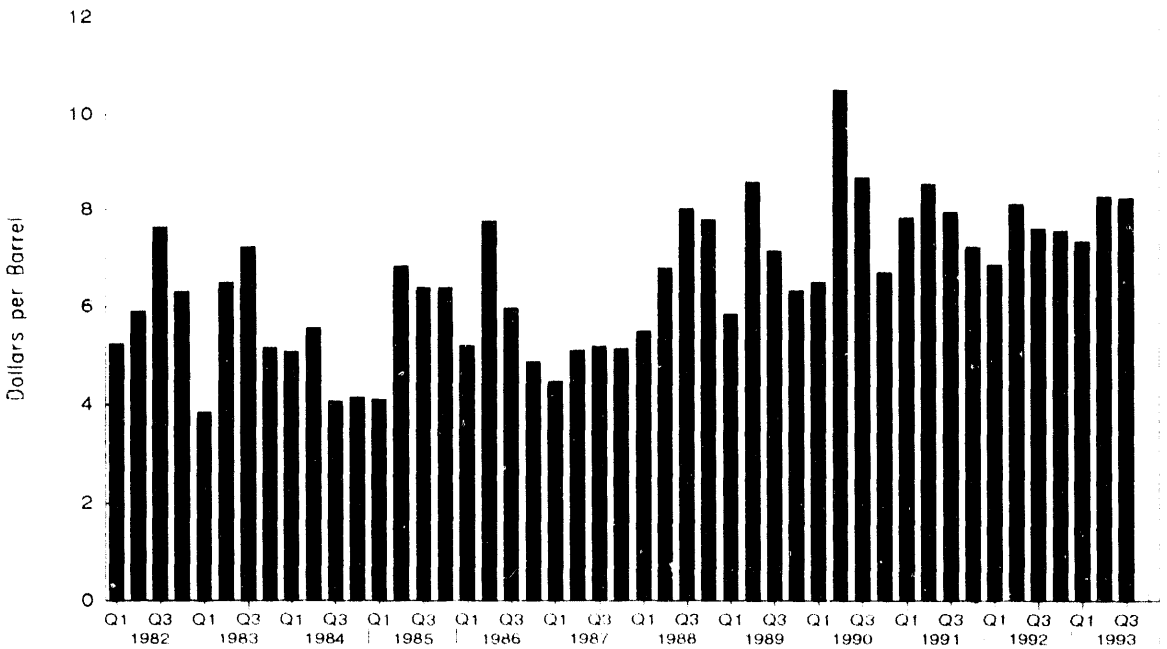
[11]Texaco *News Release*, October 20, 1993, p. 1.

[12]*The New York Times*, September 16, 1993, p. D1.

[13]*The Wall Street Journal*, November 1, 1993, p. A 6. Note: DuPont has been removed from the *Wall Street Journal's* tally of commodity chemical company earnings, as DuPont is also a petroleum company.

[14]*The New York Times*, September 16, 1993, p. D1.

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



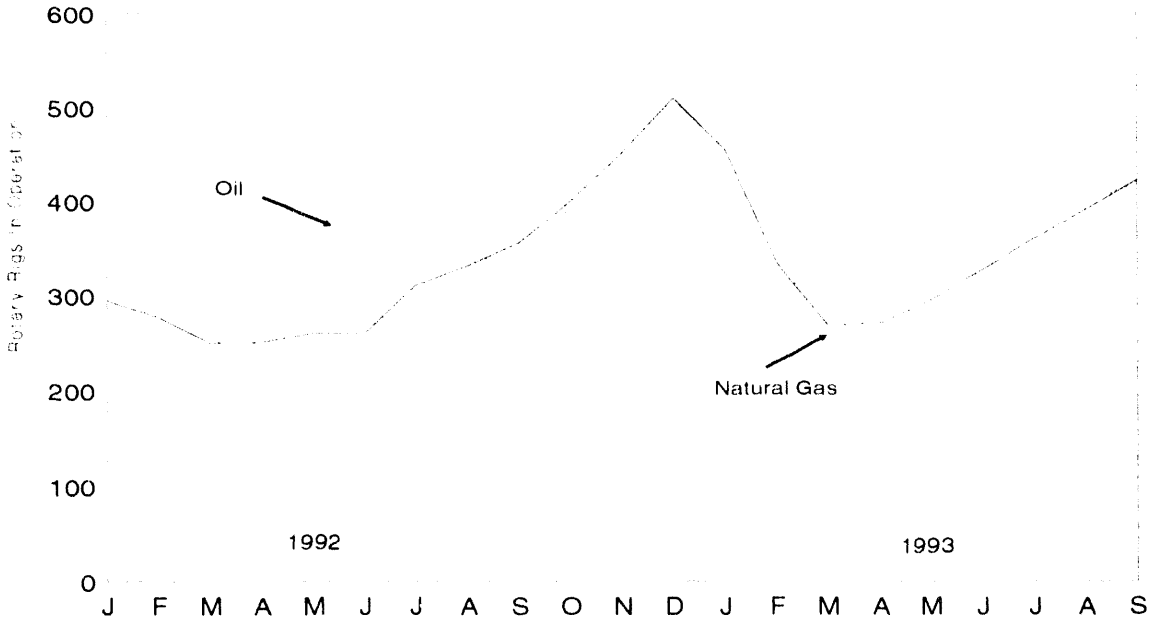
Note: Data for Q393 were estimated. The gross refining margin is the difference between the composite wholesale product price and the composite refiner acquisition cost of crude oil.

Source: Energy Information Administration, *Petroleum Marketing Monthly, November 1993*, DOE/EIA-0380(93/11) (Washington, DC, November 1993), Tables 1, 4, and 5.

Exploration and Development Activity

Despite the sharp drop in the majors' domestic upstream earnings, their U.S. oil and gas exploratory and development expenditures rose during both the second and the third quarters of 1993 (Table 3). Spending increased 24 percent between Q392 and Q393 for those majors reporting U.S. upstream capital expenditures separately. Part of the rise in U.S. upstream capital spending is traceable to higher domestic natural gas wellhead prices, and is evident in recent increases in the natural gas rig count (Figure 4). However, even the crude oil rig count has risen every month since February of 1993.

Figure 4. U.S. Rotary Rigs in Operation by Month, 1992-1993



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

Oil Field Companies

Net income for oil field companies was 62 percent higher during Q393 than during Q392 (Table 1). The improved financial performance of oil field companies was largely due to the stepped-up pace of exploratory and development activity in North America. As natural gas prices started to rebound during late 1992, U.S. exploratory activity for natural gas began its turnaround. In 1992, natural gas exploration activity was also spurred on by the impending expiration of tax credits for certain types of natural gas exploratory activity. Subsequently, natural gas rig activity fell sharply before trending upwards again in March of 1993. Between March and September of 1993, the number of rotary rigs in operation in search of natural gas in the United States increased 34 percent (Figure 4). In Canada, an increasingly important supplier of natural gas to the United States, rig counts have doubled between Q392 and Q393,[15] with most of the gains coming from efforts to develop Canadian natural gas reserves. Elsewhere, with the exception of the Mideast where recent government actions have opened up new investment opportunities for foreign companies, drilling activity in most regions outside of North America has declined from the year-ago period.

Coal Producers

U.S. coal production fell 5 percent between Q392 and Q393, largely due to the United Mine Workers of America strike against the Bituminous Coal Operators Association (Table 2). Coal consumption was up a slight 1-percent between Q392 and Q393, while coal prices were unchanged. The current strike began on May 10, 1993, and was settled on November 23, 1993. The two independent coal producers included in this report, realized a 3-percent decline in income (Table 1). For the three majors that reported segmental income for their coal

[15]*Oil and Gas Journal*, August 16, 1993, p. 93; September 20, 1993, p. 116; October 18, 1993, p. 108.

operations during Q393, earnings fell 14 percent (Table 3), largely due to operating problems at ARCO's Australian coal operations, and low prices for ARCO's Australian coal.[16]

[16]ARCO, *News*, October 25, 1993, p. 3.

3. Rate-Regulated Energy Industries

Natural Gas

Higher natural gas consumption and prices led to a 15-percent increase in revenue for natural gas transmission companies and an 8-percent increase in revenue for natural gas distribution companies (Table 1). However, income for natural gas transmission companies was lower than during Q392, while distribution companies experienced a slight reduction in losses. For the relatively mild climate of the second and third-quarter periods, weak residential and commercial demand frequently results in transmission and distribution companies reporting low earnings or losses, as was the case during Q393.

Electric Utilities

Electric utilities reported an 8-percent increase in income between Q392 and Q393, on a 9-percent increase in revenue (Table 4). Electricity consumption rose 5 percent between Q392 and Q393, mostly due to higher residential demand. Although Q393 was slightly cooler than average, it was significantly warmer than Q392. As a result, there were 24 percent more cooling degree days during Q393 than during Q393. Flat coal prices, also helped the financial performance of electric utilities during Q393, as coal is used in 54 percent of U.S. electricity generation.

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

Region[a]	Third Quarter 1993	Year-to-Date 1993	Percent Change From Third Quarter 1992	Percent Change From Year-to-Date 1992
Revenue				
New England (10)	2,668	7,799	10.4	8.8
Mid-Atlantic (10)	6,586	18,628	6.0	3.1
South Atlantic (9)	7,832	19,915	11.1	9.1
E. North Central (14)	6,799	19,095	10.8	6.1
E. South Central (3)	3,018	7,574	9.8	5.4
W. North Central (11)	2,511	7,151	11.2	11.7
W. South Central (7)	5,746	13,761	16.4	11.1
Mountain (5)	1,242	3,806	5.3	8.0
Pacific (7)	7,291	19,774	1.3	2.4
Total (76)	43,692	117,504	8.9	6.5
Income				
New England	214	519	-3.6	-13.9
Mid-Atlantic	940	2,112	17.6	14.0
South Atlantic	1,264	2,525	16.8	20.7
E. North Central	791	1,965	8.6	8.3
E. South Central	502	1,010	10.0	7.9
W. North Central	386	859	9.4	19.4
W. South Central	912	1,566	3.9	19.9
Mountain	125	333	11.7	13.7
Pacific	763	2,044	-6.3	-5.1
Total	5,897	12,933	8.3	9.9

[a]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 and "Earnings Digest," *The Wall Street Journal*, various issues, October and November, 1993.

Appendix A

Methodology

This report traces key financial trends in the U.S. energy industry for the third 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. 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.[17]

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 in time for publication. To demonstrate the degree to which these industry groupings represent shares of industry activity, shares for the domestic industry segments were calculated for the companies included in this report against their respective total industry grouping. These shares were:

- for U.S. crude oil production (as a percent of 1992 total U.S. crude production), 9 majors and (based on 1991 data) 56 independents represented about 42 percent and 2 percent, respectively, of industry activity;
- for U.S. natural gas production (as a percent of 1992 total U.S. natural gas production), these same 9 majors and (based on 1991 data) 56 independents represented about 27 percent and 7 percent, respectively, of industry activity;
- for domestic refining (as a percent of 1992 total U.S. refined product throughput), 13 majors and 9 independents represented about 55 percent and 8 percent, respectively, of industry activity;
- for U.S. coal production (as a percent of 1992 total U.S. coal production), 3 majors and 2 independents together represented about 12 percent of domestic industry production;
- for U.S. oil field drilling (as a percent of 1992 total U.S. oil field company revenue, 29 U.S. oil field companies represented about 75 percent of industry activity;
- for U.S. chemical operations (as a percent of 1992 total U.S. chemical industry sales), 12 majors represented about 19 percent of industry activity;
- for U.S. natural gas transmission and distribution (as a percent of 1992 total U.S. natural gas throughput), 42 U.S. companies represented about 71 percent of industry activity;
- for electricity (as a percent of 1992 total revenue for publicly-held U.S. electric companies), 76 U.S. utilities represented about 76 percent of industry revenue.

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

[17]Major petroleum companies are 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 SIC code 12, natural gas transmission companies to code 4922, and natural gas distribution companies to the 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 activity is the greater generator of revenue. Electric utilities correspond to those publicly-held electric utility companies classified under SIC code 4911.

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 18 major petroleum companies reported total unusual items that, on balance, decreased net income by $1.0 billion in the third quarter of 1993 compared with unusual items that decreased net income by $70 million in the third quarter of 1992. Including the effect of unusual items, the major petroleum companies' net income was $3.0 billion in the third quarter of 1993 compared with $3.6 billion in the third quarter of 1992, a decrease of 16 percent. After adjusting for the effects of unusual items, the major petroleum companies' net income registered a 10-percent increase between the third quarter of 1992 and the third quarter of 1993.[18] The reporting of quarterly financial data is based on financial standards for interim reporting, as specified by the Financial Accounting Standards Board:[19]

> 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.

[18]Percent changes were calculated from unrounded data.

[19]Financial Accounting Standards Board, *Accounting Standards*, Current Text (Stamford, CT, 1990).

Appendix B

The 112 Petroleum Companies Included in Table 1

Major Petroleum Companies(18)	Independent Oil and Gas Producers(56)	Independent Refiners(9)	Oil Field Companies(29)
Amerada Hess Corp	Alamco Inc	Ashland Oil	American Oil & Gas Corp
Amoco Corp	Alexander Energy Corp	Crown Central Petroleum	Baroid
Atlantic Richfield Co	American Exploration Co	Diamond Shamrock R&M	Chiles Offshore Corp
Chevron Corp	Anadarko Petroleum Co	Horsham Corp	Dawson Geophysical
Coastal Corp	Apache Corp	Quaker State Petroleum	Dual Drilling Co
E.I. du Pont Nemours	Belden & Blake Energy	Tesoro Petroleum Corp	Energy Service
Exxon Corp	Benton Oil & Gas Co	Tosco Corp	Enterra Corp
Kerr-McGee	Berry Petroleum Co Calif	Total Petroleum	Galveston Houston
Mobil Corp	Burlington Resources	Ultramar Corp	Global Marine
Murphy Corp	Cabot O&G		H&H Oil Tool
Occidental Petroleum	Coda Energy		Halliburton
Pennzoil Co	Coho Energy		Hornbeck Offshore
Phillips Petroleum Co	Columbus Energy		Kaneb Services
Shell Oil Co	Comstock Resources		Newpark Resources
Sun Co	Convest Energy Partners		Noble Drilling
Texaco Inc	Crystal Oil		Parker Drilling
Unocal Corp	Dekalb Energy		Pool Energy Resources
USX Corp	Devon Energy		Pride Petroleum Services
	Enex Resources		Production Operators
	Equity Oil		Reading & Bates
	Exploration Co of St Louis		Red Eagle Resources
	Forest Oil		Rowan Cos
	Fortune Petroleum Corp		RPC
	Global Natural Resources		Schlumberger
	Hadson Energy Resources		Smith International
	Harcor Energy Inc		Sundowner Offshore
	Harken O&G		Tidewater
	Howell Corp		Varco International
	HS Resources		Weatherford International
	Kirby Corp		
	Lomak Petroleum Inc		
	Louisiana Land & Exploration		
	Maxus Energy		
	Mesa Inc		
	Noble Affiliates		
	Nuevo Energy Co		
	Oryx Energy		
	Parker & Parsley Petroleum		
	Partners Oil Co		
	Patrick Petroleum		
	Petroleum Development Corp		
	Plains Petroleum		
	Plains Resources		
	Pogo Producing		
	Presidio Oil		
	Prima Energy		
	Questa Oil & Gas		
	Santa Fe Energy Resources		

	Snyder Oil Corp Stone Energy Corp Swift Energy Tide West Oil Co Union Texas Petroleum Unit Corp Wainoco Oil Wiser Oil		

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