

## **Greenspan on Oil**

### **Summary and Recommendation**

Chairman Greenspan worries about “the longer-term uncertainties that in recent years have been boosting prices in distant futures markets for oil.” He contrasts the situation today, where distant futures have risen along with spot price, to the situation in 1990-2000 when distant futures were stable despite volatility in spot price. Believing that stocks relate to oil price that is lower than we expect to be the case long term, we recommend current purchase of large cap independent producers **Encana (ECA)**, **Burlington Resources (BR)**, **Anadarko (APC)** and **Devon Energy (DVN)** among other buy recommendations.

### **“Oil” Speech on October 15, 2004**

In a speech reprinted on the Federal Reserve website, the former director of Mobil Oil, now part of **ExxonMobil (XOM)**, mostly succeeds in making sense of the current turmoil in oil markets. The Chairman of the Federal Reserve, appropriately, we believe, points to distant futures as an indicator of market expectations of long-term oil price.

“Between 1990 and 2000, although spot crude oil prices ranged between \$11 and \$40 per barrel for WTI crude, distant futures exhibited little variation around \$20 per barrel..... Such long-term price tranquility has faded dramatically over the past four years. Prices for delivery in 2010 of light, low-sulphur crude rose to more than \$35 per barrel when spot prices touched near \$49 per barrel in late August.”

While the chairman calls attention to the futures price at a specific time, we average the futures prices for the next 72 months, interpolating where necessary. Current quotes appear to follow a well-defined trend (see charts [Six-Year and One-Year Natural Gas and Oil Futures](#) and [Six-Year Commodity Price Meter](#)).

Like Mr. Greenspan, we do not know where the markets are headed. We can see that momentum, as defined by current quote above the 40-week average, remains positive. Also if one takes the 1970s as a frame of reference, as we do, price looks higher. If one takes the 1980s or 1990s as a frame of reference, price may look lower. For recommendations and valuation measures, see tables [Rank by McDep Ratio](#) and [Rank by EV/Ebitda](#). For recent single-stock research, see [Index of Stock Ideas](#) .

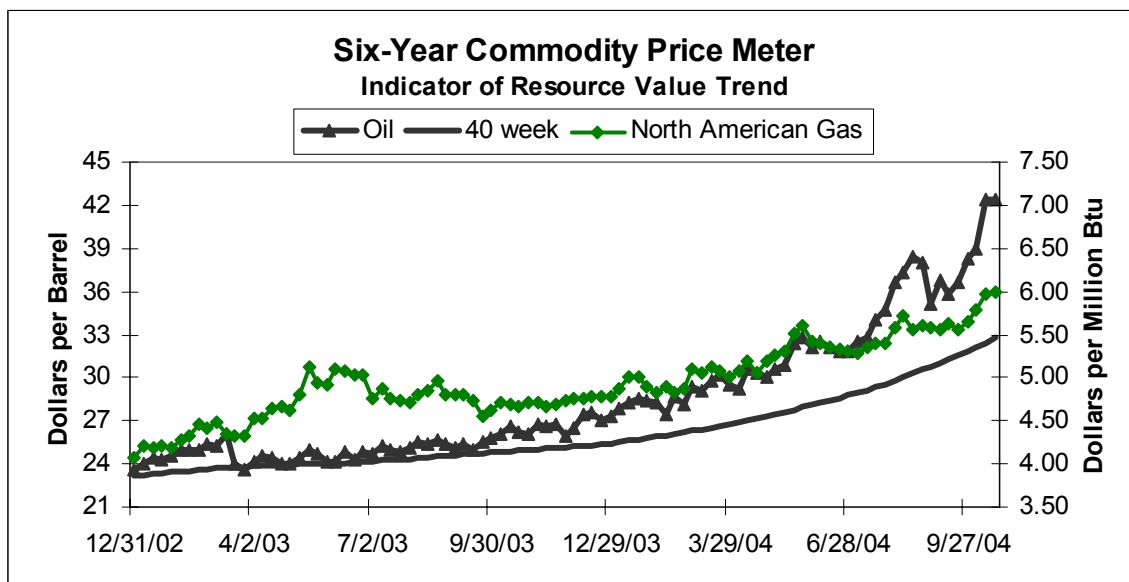
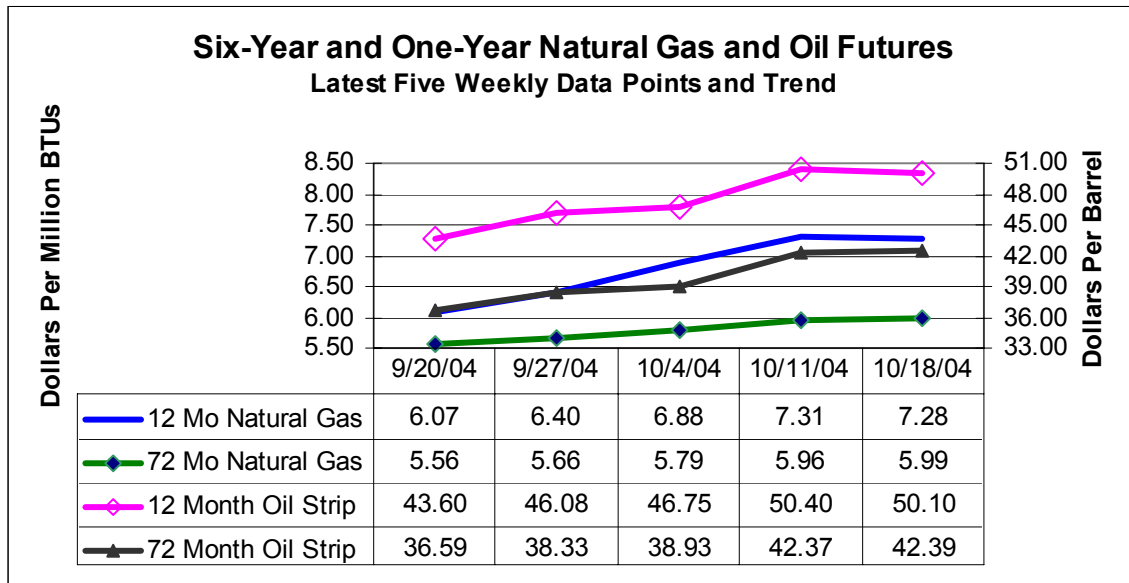
Kurt H. Wulff, CFA

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# Meter Reader

*A Weekly Analysis of Energy Stocks Using the McDep Ratio*

October 19, 2004



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#### Rated Oil and Gas Producers Rank by McDep Ratio: Market Cap and Debt to Present Value

	Symbol/ Rating		Price (\$/sh) 18-Oct 2004	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
<b>Mega Cap</b>								
Exxon Mobil Corporation	XOM	B3	48.77	6,547	319,000	43.00	0.08	1.12
BP plc	BP	B3	58.54	3,651	214,000	60.00	0.13	0.98
Total S.A.	TOT	B3	103.11	1,237	127,600	113.00	0.16	0.93
Shell Transport and Trading Co. plc	SC	B3	45.49	1,587	72,000	51.20	0.17	0.91
Royal Dutch Petroleum	RD	B1	52.60	2,031	107,000	60.00	0.17	0.90
ChevronTexaco Corporation	CVX	B1	52.91	2,130	112,700	62.50	0.14	0.87
					<i>Total or Median</i>		<i>0.15</i>	<i>0.92</i>
<b>Producer/Refiners - Large Cap and Mid Cap</b>								
Kinder Morgan, Inc.	KMI	S2	64.04	125	8,010	20.00	0.73	1.59
Imperial Oil Limited (30%)	IMO	B3	54.51	108	5,870	52.00	0.11	1.04
Marathon Oil Corporation	MRO	B3	39.76	346	13,760	41.00	0.30	0.98
Suncor Energy	SU	B3	33.25	460	15,300	38.00	0.13	0.89
Norsk Hydro ASA	NHY	B1	72.95	254	18,540	90.00	0.17	0.84
ConocoPhillips	COP	B1	82.12	699	57,400	110.00	0.25	0.81
Petro-Canada	PCZ	B3	52.46	266	13,960	68.00	0.15	0.80
PetroChina Company Ltd (10%)	PTR	B2	52.75	176	9,270	82.00	0.06	0.66
Lukoil Oil Company	LUKOY	B2	127.00	209	26,000	208.00	0.05	0.63
					<i>Total or Median</i>		<i>0.15</i>	<i>0.84</i>
<b>Independent Natural Gas and Oil - Large Cap and Mid Cap</b>								
CNOOC Limited (19%)	CEO	B2	52.77	78	4,120	59.00	-	0.89
XTO Energy Inc.	XTO	B1	31.49	276	8,700	38.00	0.21	0.86
Unocal Corporation	UCL	B3	40.97	278	11,400	54.00	0.25	0.82
Encana Corporation	ECA	B1	46.80	471	22,000	63.00	0.25	0.81
Occidental Petroleum Corp.	OXY	B3	55.91	399	22,300	75.00	0.18	0.79
Anadarko Petroleum Corp.	APC	B1	67.56	254	17,200	94.00	0.21	0.78
Burlington Resources	BR	B1	40.35	397	16,000	58.00	0.14	0.74
Devon Energy Corporation	DVN	B3	72.11	249	18,000	110.00	0.24	0.74
					<i>Total or Median</i>		<i>0.21</i>	<i>0.80</i>
<b>Independent Natural Gas and Oil - Small Cap</b>								
Cimarex Energy Company	XEC	B2	34.30	43	1,460	38.00	0.00	0.90
Berry Petroleum Company	BRY	B2	37.35	22	840	43.00	0.06	0.88
Energy Partners Ltd.	EPL	B3	16.96	38	650	22.00	0.14	0.80
Encore Acquisition Company	EAC	B2	32.94	33	1,070	47.00	0.20	0.76
					<i>Total or Median</i>		<i>0.10</i>	<i>0.84</i>
<b>Income</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S3	45.12	145	6,540	15.00	0.49	2.02
Kinder Morgan Management, LLC	KMR	S3	40.15	54	2,170	15.00	0.49	1.85
San Juan Basin Royalty Trust	SJT	H	30.21	47	1,410	27.00	-	1.12
Canadian Oil Sands Trust (US\$)	COSWF	B1	46.94	93	4,380	72.00	0.17	0.71
					<i>Total or Median</i>		<i>0.33</i>	<i>1.48</i>

B1 = Buy full unlevered position, B2 = Buy half unlevered position, B3 = Alternative buy

S2 = Short half unlevered position, S3 = Short quarter unlevered position

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses

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#### Rated Oil and Gas Producers

Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	Symbol/ Rating		Price (\$/sh) 18-Oct 2004	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
<b>Mega Cap</b>								
Exxon Mobil Corporation	XOM	B3	48.77	11.1	5.8	6.5	12	2.2
Total S.A.	TOT	B3	103.11	9.1	6.4	5.9	10	2.8
BP plc	BP	B3	58.54	9.7	5.9	5.8	11	2.9
Shell Transport and Trading Co. plc	SC	B3	45.49	8.2	5.1	4.6	8	4.2
Royal Dutch Petroleum	RD	B1	52.60	8.2	5.1	4.5	8	4.2
ChevronTexaco Corporation	CVX	B1	52.91	11.0	5.0	4.3	7	3.0
	<i>Median</i>			9.4	5.4	5.2	9	3.0
<b>Producer/Refiners - Large Cap and Mid Cap</b>								
Kinder Morgan, Inc.	KMI	S2	64.04		8.5	13.5	17	3.5
Suncor Energy	SU	B3	33.25	18.3	6.8	6.0	13	0.6
Imperial Oil Limited (30%)	IMO	B3	54.51	10.9	5.6	5.8	10	1.3
Marathon Oil Corporation	MRO	B3	39.76	7.4	4.9	4.8	8	2.5
ConocoPhillips	COP	B1	82.12	11.2	5.3	4.3	6	2.1
PetroChina Company Ltd (10%)	PTR	B2	52.75	13.5	6.3	4.2	9	4.5
Norsk Hydro ASA	NHY	B1	72.95	9.4	4.9	4.1	9	2.3
Petro-Canada	PCZ	B3	52.46	7.7	4.7	3.8	7	0.9
Lukoil Oil Company	LUKOY	B2	127.00	12.2	4.9	3.1	5	2.6
	<i>Median</i>			11.0	5.3	4.3	9	2.3
<b>Independent Natural Gas and Oil - Large Cap and Mid Cap</b>								
XTO Energy Inc.	XTO	B1	31.49	11.7	5.9	5.1	10	0.1
CNOOC Limited (19%)	CEO	B2	52.77	10.4	5.6	5.0	9	3.4
Anadarko Petroleum Corp.	APC	B1	67.56	11.4	5.4	4.2	7	0.8
Occidental Petroleum Corp.	OXY	B3	55.91	11.1	5.2	4.1	6	2.0
Burlington Resources	BR	B1	40.35	10.2	5.6	4.1	8	0.8
Unocal Corporation	UCL	B3	40.97	9.0	5.0	4.1	7	2.0
Encana Corporation	ECA	B1	46.80	6.7	4.9	4.0	8	0.9
Devon Energy Corporation	DVN	B3	72.11	6.6	4.5	3.3	6	0.6
	<i>Median</i>			10.3	5.3	4.1	8	0.8
<b>Independent Natural Gas and Oil - Small Cap</b>								
Encore Acquisition Company	EAC	B2	32.94	12.0	6.2	4.7	9	-
Berry Petroleum Company	BRY	B2	37.35	12.8	5.0	4.4	9	1.2
Cimarex Energy Company	XEC	B2	34.30	5.2	3.5	3.1	7	-
Energy Partners Ltd.	EPL	B3	16.96	5.0	3.4	2.7	7	-
	<i>Median</i>			8.6	4.2	3.8	8	-
<b>Income</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S3	45.12	12.0	7.9	15.9	22	6.3
Kinder Morgan Management, LLC	KMR	S3	40.15	12.0	7.9	14.5	20	7.1
San Juan Basin Royalty Trust	SJT	H	30.21	12.5	7.9	8.8	10	10.0
Canadian Oil Sands Trust (USS)	COSWF	B1	46.94	20.0	7.9	5.6	6	3.4
	<i>Median</i>			12.2	7.9	11.7	15	6.7

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 2005; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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#### **Index of Stock Ideas Recent Written Analyses**

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
18-Oct	NHY	Norsk Hydro ASA	High Cash Flow
11-Oct	COSWF	Canadian Oil Sands Trust	Raise Present Value to US\$72 a Unit
11-Oct	SJT	San Juan Basin Royalty Trust	Raise Present Value to \$27 a Unit
11-Oct	BR	Burlington Resources, Inc.	Natural Gas Sensitivity
6-Oct	COSWF	Canadian Oil Sands Trust	Ten Percent Holder Surfaces
5-Oct	LUKOY	Lukoil Oil Company	SEC Standard Reduces Reserves
30-Sep	LUKOY	Lukoil Oil Company	ConocoPhillips Partner Confirmed
30-Sep	COP	ConocoPhillips	Lukoil Investment Confirmed
28-Sep	RD	Royal Dutch Petroleum	Low Risk, Attractive Reward
28-Sep	SC	Shell Transport & Trading Company, p.l.c.	Low Risk, Attractive Reward
20-Sep	BP	BP p.l.c.	Betting on Putin
20-Sep	LUKOY	Lukoil Oil Company	ConocoPhillips Partner
8-Sep	* CEO	CNOOC Ltd ADS	Higher Dividend, Higher Present Value
8-Sep	* PTR	PetroChina Company Limited	Dividend Raised, Present Value Trimmed
8-Sep	* XTO	XTO Energy Inc.	High Performance, High Compensation
7-Sep	* APC	Anadarko Petroleum Corporation	Commodity Alternative
7-Sep	* XEC	Cimarex Energy Company	High Present Value per Barrel
3-Sep	* EAC	Encore Acquisition Company	Rising Recovery and Leadership
2-Sep	* ECA	EnCana Corporation	Encomparable
2-Sep	* KMI	Kinder Morgan Inc.	Momentum Challenge
2-Sep	* KMP	Kinder Morgan Energy Partners, L.P.	Momentum Challenge
2-Sep	* KMR	Kinder Morgan Management, LLC	Momentum Challenge
31-Aug	* COP	ConocoPhillips	Lukoil Investor?
27-Aug	* EPL	Energy Partners, Ltd.	Volume Acceleration
27-Aug	* MRO	Marathon Oil Corporation	Tilting to Refining
26-Aug	* BP	BP p.l.c.	Russia Distinction
26-Aug	* TOT	Total S.A.	Shell Acquirer?
23-Aug	* OXY	Occidental Petroleum Corporation	Oil Rich
23-Aug	* UCL	Unocal Corporation	Asian Natural Gas and Oil
16-Aug	* IMO	Imperial Oil Limited	Choice Piece of ExxonMobil
16-Aug	* PCZ	Petro-Canada	Encana Partner
16-Aug	* SU	Suncor Energy Inc.	A Boone and Charlie Favorite
13-Aug	* BRY	Berry Petroleum Company	New Leader, New Prospects
12-Aug	* DVN	Devon Energy Corporation	Capable Leader, Short Reserve Life
6-Aug	* XOM	Exxon Mobil Corporation	Low Risk with Oil Price Upside
4-Aug	* CVX	ChevronTexaco Corporation	Stock Price Lagging Oil Price
2-Aug	* SJT	San Juan Basin Royalty Trust	Change Buy to Hold on Price
29-Jul	* COSWF	Canadian Oil Sands Trust	Great North American Energy Resource

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