

Sophistication Gap

Summary and Recommendation

The wide valuation disparity between our sell recommendations and our buy recommendations might be attributed in part to a “sophistication gap”, a term we learn from reading the book, *Infectious Greed*, by Frank Partnoy, a former derivatives trader. The implication for our sell-recommended energy partnerships is that sophisticated promoters represent the stocks as reliable income generators while downplaying complicated high compensation deals and hidden leverage that may ultimately cause the investments to blow up. Nor do we disparage income investors as unsophisticated. Gullible examples abound among professional financial managers at well-known companies, government entities and investment organizations. In Partnoy’s sophistication gap, trusting buyers unwittingly pay much too much for products with hidden disadvantages only the promoters understand. Unlevered cash flow multiples on our sell recommendations are almost three times those for buy recommendations.

The Law of One Price

As the author puts it, the Law of One Price declares that similar assets should have a similar price. Our corollary would be that all McDep Ratios should be 1.00. Stated another way, the valuation differences between buy recommendations and sell recommendations should narrow.

How similar is price? The median McDep Ratio is a high 1.75 for sell recommendations compared to 0.86 for buys. Might the McDep Ratio be biased? Investors can judge for themselves by comparing unlevered cash flow multiples. The median multiple of Enterprise Value to cash flow, EV/Ebitda, is 15.8 years for sells compared to 5.4 years for buys. A narrower 2:1 gap in McDep Ratios compared to 3:1 on cash flow multiples implies that we give the sells some benefit of the doubt.

How similar are assets? There are many examples we could raise to help make the point of similarity. How much difference is there between a pipeline that transports Canadian oil to U.S. markets and a production facility that produces that oil from oil sands? Why should sell-recommended **Enbridge Energy Partners (EEP, EEQ)**, a pipeline, have a mid-teens unlevered cash flow multiple when buy-recommended **Canadian Oil Sands Trust (COS_u.TO)**, a producer, has a mid single digit multiple?

Next we recap several scenarios that could trigger a tightening of the sophistication gap. There are more risks than we cite.

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Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

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Securities and Exchange Commission Action Could Make a Difference

An SEC investigation of accounting at sell-recommended **Kinder Morgan Energy Partners (KMP, KMR)** is underway. The effort may involve a minor adjustment to capitalized goodwill as management suggests or it might be the beginning of a broader probe. Heretofore the SEC has been an enabler of partnership promoters. We were dismayed earlier to see the SEC give partnerships a free ride in avoiding the implementation of the reform measures enacted in the Sarbanes Oxley legislation.

We believe the SEC should require partnerships to write down the value of limited partnership equity interests by the percentage of cash flow taken by the general partner. That implies billion dollar restatements of earnings. We further believe the SEC should require disclosure that would fully expose the debt pyramids where general partners and limited partnerships include cash from lower levels of the pyramid while hiding the debt of those lower levels. Substantive action would help collapse the sophistication gap.

Debt Raters Promote Pyramids

Partnoy heaps scorn on the “oligopoly” of debt rating agencies that are paid by the companies whose debt they rate. The author points out that the raters have a financial interest in promoting a proliferation of entities to hide debt because they get paid another fee for each new entity they rate. We have also noted the historical irony of the agencies facilitating the very abuse their creation seven decades ago was supposed to prevent. We believe the rating agencies should rate the partnerships and their sponsors as single entities and not allow the creation of the false illusion that each new block in the pyramid is insulated from what happens to the rest of the pyramid. Substantive action would help collapse the sophistication gap.

Financial Accounting Standards Board Should Act on Partnerships

At a conference on restoring trust in business we heard a member of the FASB talk about the board’s new independence and determination to do the right thing. The reference was to the expensing of options, an issue on which the board buckled to Congressional pressure in the past. We believe the partnership issue is important enough to be deliberated by the arbiters of accounting. Substantive action would help collapse the sophistication gap.

New Tax Law May Encourage Competition

Ironically, partnership promoters were among the early responders to the newly lowered dividend tax. Sell-recommended **Kinder Morgan, Inc. (KMI)**, the taxable general partner, doubled its dividend from a low level. That is almost laughably imprudent and flaunts the company’s exploitation of securities regulations. Highly leveraged companies

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should be paying down debt rather than increasing dividend payments. Moreover the company could not carry its debt were it not for lax regulation by the SEC and conflicted permissiveness by the debt raters.

Another early company to announce a higher dividend was a movie house chain controlled by the chairman of Qwest Communications. That is the same person who profited handsomely at shareholder's expense selling stock while the telecom company apparently engaged in fraudulent transactions. That person also, incidentally, promotes a "high greed" energy partnership.

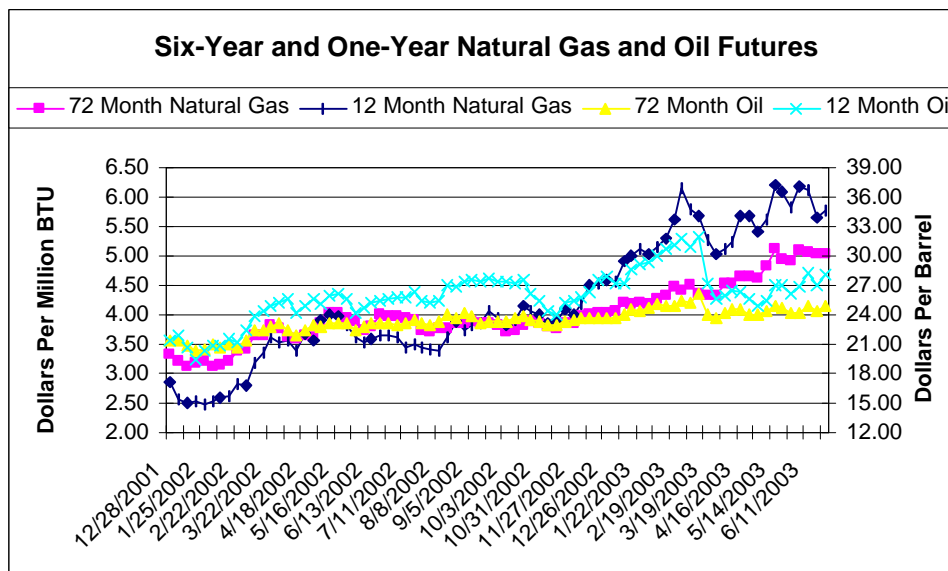
More importantly strong energy companies now have more reason to distribute higher income. For the sake of illustration, we suggest that **ExxonMobil (XOM)** could double its dividend over night. When faced with that alternative, fewer investors would be interested in complicated partnerships at high risk of steep principal loss when the low risk, largest energy stock pays a comparable yield.

Increased dividend paying potential is higher among buy-recommended stocks that distribute a median of just 17% of equity cash flow. Sell-recommended stocks already distribute a median 160% of equity cash flow, more than can be prudently justified.

Heed the Warning Signs

Partnoy's book may appear depressing, as he seems to paint a picture of too many of our leading citizens corrupted by ill-gotten gains. We take the book as a useful alert for tricks to watch for. We are partly sympathetic when the author pins some of the blame in failed transactions and in failed companies on investors who ignore warning signs.

Kurt H. Wulff, CFA



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Table 1-1
Energy Producers
Rank by McDep Ratio: Market Cap and Debt to Present Value

	Symbol/ Rating	Price (\$/sh) 25-Jun 2003	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap							
Exxon Mobil Corporation	XOM	36.66	6,714	246,000	35.00	0.09	1.04
Total S.A.	TOT	77.95	1,292	100,700	85.00	0.17	0.93
Royal Dutch/Shell	RD B	47.56	3,473	165,000	55.00	0.18	0.89
BP plc	BP	42.82	3,721	159,000	50.00	0.15	0.88
ChevronTexaco Corporation	CVX B	73.40	1,064	78,100	95.00	0.20	0.82
<i>Total or Median</i>				<i>749,000</i>		<i>0.17</i>	<i>0.89</i>
Producer/Refiners - Large Cap and Mid Cap							
Murphy Oil Corporation	MUR	52.31	93	4,840	41.00	0.24	1.21
Petro-Canada	PCZ	40.50	264	10,670	38.00	0.21	1.05
Imperial Oil Limited (30%)	IMO	34.56	113	3,920	36.00	0.12	0.97
PetroChina Company Ltd (10%)	PTR B	29.65	176	5,210	33.00	0.16	0.91
Suncor Energy	SU	18.97	448	8,500	22.00	0.23	0.89
ENI S.p.A.	E	78.35	750	58,800	90.00	0.14	0.89
OAo Lukoil	LUKOY	77.00	206	16,000	90.00	0.12	0.87
Valero Energy Corporation	VLO	37.01	114	4,220	50.00	0.50	0.87
Norsk Hydro ASA (49%)	NHY	48.46	126	6,130	60.00	0.28	0.86
ConocoPhillips	COP B	54.28	682	37,000	70.00	0.38	0.86
Marathon Oil Corporation	MRO B	26.18	310	8,120	40.00	0.31	0.76
Petroleo Brasileiro S. A.	PBR N	19.35	1,096	21,200	30.00	0.25	0.73
<i>Total or Median</i>				<i>180,000</i>		<i>0.23</i>	<i>0.87</i>
Independent Natural Gas and Oil							
Pogo Producing Company	PPP	43.30	65	2,790	38.00	0.22	1.11
Encana Corporation	ECA B	38.88	470	18,300	40.00	0.21	0.98
Occidental Petroleum Corp.	OXY	33.63	383	12,900	35.00	0.38	0.98
Apache Corporation	APA	65.94	159	10,500	70.00	0.20	0.95
Burlington Resources	BR B	55.00	202	11,100	60.00	0.27	0.94
Devon Energy	DVN	54.40	163	8,900	65.00	0.42	0.91
XTO Energy Inc.	XTO B	20.85	185	3,860	24.00	0.24	0.90
Pioneer Natural Resources Company	PXD	26.53	119	3,160	35.00	0.33	0.84
Anadarko Petroleum Corp.	APC B	45.46	258	11,700	60.00	0.30	0.83
Unocal Corporation	UCL	29.47	255	7,500	40.00	0.35	0.83
CNOOC Limited (19%)	CEO B	29.00	78	2,260	35.00	-	0.83
Canadian Natural Resources Limited	CNQ	40.32	139	5,600	55.00	0.29	0.81
<i>Total or Median</i>				<i>99,000</i>		<i>0.28</i>	<i>0.90</i>
Service							
Baker Hughes Inc.	BHI	34.10	339	11,600	25.00	0.09	1.34
Schlumberger Ltd.	SLB	48.15	581	28,000	44.00	0.22	1.07
Halliburton Company	HAL	23.44	434	10,200	22.00	0.25	1.05

Buy/Sell rating after symbol: B - Buy, N - Neutral, S - Sell

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

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June 26, 2003

Table 1-2
Energy Producers
Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	Symbol/ Rating	Price (\$/sh) 25-Jun 2003	EV/ Sales NTM	EV/ Ebitda NTM	P/E NTM	Dividend or Distribution NTM (%)	PV/ Ebitda NTM
Mega Cap							
Exxon Mobil Corporation	XOM	36.66	1.1	9.4	20	2.7	9.0
Total S.A.	TOT	77.95	1.1	7.9	16	4.5	8.5
BP plc	BP	42.82	0.8	7.3	17	3.5	8.3
Royal Dutch/Shell	RD B	47.56	1.0	7.1	16	4.3	8.0
ChevronTexaco Corporation	CVX B	73.40	0.9	6.6	13	3.8	8.1
	<i>Median</i>		<i>1.0</i>	<i>7.3</i>	<i>16</i>	<i>3.8</i>	<i>8.3</i>
Producer/Refiners - Large Cap and Mid Cap							
ConocoPhillips	COP B	54.28	0.6	7.2	13	2.9	8.3
Murphy Oil Corporation	MUR	52.31	1.3	7.1	19	1.5	5.9
Imperial Oil Limited (30%)	IMO	34.56	1.1	7.1	13	1.6	7.3
Suncor Energy	SU	18.97	2.9	6.9	13	0.6	7.8
Marathon Oil Corporation	MRO B	26.18	0.4	4.8	11	3.5	6.3
Valero Energy Corporation	VLO	37.01	0.3	4.8	5	1.1	5.5
Petro-Canada	PCZ	40.50	1.5	4.5	9	0.7	4.3
ENI S.p.A.	E	78.35	1.7	4.3	10	5.5	4.9
Norsk Hydro ASA (49%)	NHY	48.46	0.8	4.3	11	3.1	5.0
OAo Lukoil	LUKOY	77.00	1.1	3.9	7	2.5	4.5
Petroleo Brasileiro S. A.	PBR N	19.35	1.3	3.6	5	4.4	4.9
PetroChina Company Ltd (10%)	PTR B	29.65	1.9	3.4	6	4.9	3.8
	<i>Median</i>		<i>1.2</i>	<i>4.7</i>	<i>10</i>	<i>2.7</i>	<i>5.2</i>
Independent Natural Gas and Oil							
XTO Energy Inc.	XTO B	20.85	5.3	7.8	16	0.2	8.7
Pioneer Natural Resources Company	PXD	26.53	5.0	6.8	20	-	8.2
Occidental Petroleum Corp.	OXY	33.63	2.5	6.6	11	3.1	6.8
Apache Corporation	APA	65.94	4.2	5.8	12	0.6	6.1
Pogo Producing Company	PPP	43.30	3.6	5.6	15	0.3	5.0
Burlington Resources	BR B	55.00	3.9	5.5	11	1.0	5.8
CNOOC Limited (19%)	CEO B	29.00	3.7	5.4	13	3.6	6.6
Anadarko Petroleum Corp.	APC B	45.46	3.9	5.4	9	0.9	6.5
Unocal Corporation	UCL	29.47	2.0	5.1	13	2.7	6.2
Encana Corporation	ECA B	38.88	2.1	4.4	10	0.7	4.5
Devon Energy	DVN	54.40	3.0	4.4	7	-	4.9
Canadian Natural Resources Limited	CNQ	40.32	2.2	3.5	7	1.0	4.3
	<i>Median</i>		<i>3.6</i>	<i>5.5</i>	<i>12</i>	<i>0.8</i>	<i>6.1</i>
Service							
Baker Hughes Inc.	BHI	34.10	2.4	14.4	41	1.3	10.8
Schlumberger Ltd.	SLB	48.15	2.6	9.6	35	1.6	8.9
Halliburton Company	HAL	23.44	1.1	9.5	21	2.1	9.0

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2004; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

June 26, 2003

Table 2-1
Energy Pipeline and Power Companies
Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 25-Jun 2003</i>	<i>Shares (mm)</i>	<i>Market Cap (\$mm)</i>	<i>Net Present Value (\$/sh)</i>	<i>Debt/ Present Value</i>	<i>McDep Ratio</i>
Large Cap Power							
Duke Energy Corporation	DUK	20.13	832	16,800	16.00	0.69	1.08
Southern Company	SO	30.99	696	21,600	28.00	0.43	1.06
Exelon Corporation	EXC N	59.50	325	19,300	65.00	0.51	0.96
American Electric Power Co. Inc.	AEP N	29.83	348	10,400	35.00	0.60	0.94
Enel S.p.a. (32%)	EN	32.00	388	12,400	37.00	0.40	0.92
Dominion Resources	D	64.05	294	18,800	76.00	0.44	0.91
Mid Cap Pipeline and Power							
Kinder Morgan Energy Partners, L.P.	KMP S	39.50	135	5,350	14.00	0.48	1.95
Kinder Morgan Management, LLC	KMR S	37.35	46	1,720	14.00	0.48	1.87
Kinder Morgan, Inc.	KMI S	54.97	123	6,760	14.00	0.80	1.58
Williams Companies	WMB	7.80	518	4,040	1.00	0.97	1.21
Constellation Energy Group	CEG	34.11	164	5,590	25.00	0.61	1.14
Calpine Corporation	CPN N	6.40	381	2,440	1.00	0.98	1.13
AES Corporation	AES	6.60	558	3,680	1.00	0.98	1.11
Dynegy Inc.	DYN	4.18	418	1,750	1.00	0.97	1.10
Mirant Corporation	MIR	2.43	402	980	1.00	0.96	1.05
CMS Energy Corporation	CMS	7.85	139	1,090	5.00	0.93	1.04
Sempra Energy	SRE	28.73	206	5,920	30.00	0.59	0.98
El Paso Corporation	EP N	7.91	589	4,700	10.00	0.79	0.96
Small Cap Pipeline							
Enterprise Products Part (16%)	EPD	22.50	29	640	6.70	0.63	1.86
Plains All Amer. Pipeline	PAA	30.82	50	1,540	11.60	0.49	1.84
Enbridge Energy Partners, L.P.	EEP S	46.90	35	1,640	14.90	0.64	1.78
Enbridge Energy Management, L.L.C.	EEQ S	44.67	35	1,560	14.90	0.64	1.72
Gulfterra Energy Partners	GTM S	37.25	55	2,050	15.70	0.56	1.60
TEPPCO Partners, L.P.	TPP	35.83	50	1,790	17.70	0.56	1.45
Northern Border Partners	NBP	41.26	44	1,820	20.40	0.62	1.39
Williams Energy Partners	WEG	46.46	28	1,290	29.00	0.38	1.38
AmeriGas Partners, L.P.	APU	26.08	49	1,290	18.30	0.51	1.21
Western Gas Resources	WGR	39.00	34	1,310	37.60	0.29	1.02
Coal							
Penn Virginia Res. Part, L.P.	PVR	28.24	15	430	18.00	-	1.56
Consol Energy Inc.	CNX	21.90	79	1,730	5.00	0.88	1.40
Peabody Energy	BTU	33.37	55	1,840	18.00	0.75	1.21
Alliance Res. Part, L.P.	ARLP	27.32	16	430	20.00	0.45	1.19
Arch Coal	ACI	22.59	48	1,070	18.00	0.61	1.10
Massey Energy	MEE	13.45	75	1,010	18.00	0.37	0.84
<i>Total or Median</i>				<i>6,500</i>	<i>0.53</i>	<i>1.20</i>	

Buy/Sell rating after symbol: B - Buy, N - Neutral, S - Sell

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

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June 26, 2003

Table 2-2
Energy Pipeline and Power Companies
Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	Symbol/ Rating	Price (\$/sh) 25-Jun 2003	EV/ Sales NTM	EV/ Ebitda NTM	P/E NTM	Dividend or Distribution NTM (%)	PV/ Ebitda NTM
Large Cap Power							
Duke Energy Corporation	DUK	20.13	2.4	9.8	14	5.5	9.0
Southern Company	SO	30.99	3.4	9.7	17	4.4	9.1
Exelon Corporation	EXC N	59.50	2.6	8.6	12	3.1	9.0
Dominion Resources	D	64.05	3.5	8.2	13	4.0	9.0
Enel S.p.a. (32%)	EN	32.00	2.2	8.2	25	4.3	8.9
American Electric Power Co. Inc.	AEP N	29.83	0.8	8.0	11	4.7	8.5
Mid Cap Pipeline and Power							
Kinder Morgan Energy Partners, L.P.	KMP S	39.50	2.5	17.1	20	6.5	8.8
Kinder Morgan Management, LLC	KMR S	37.35	2.4	16.4	19	6.9	8.8
Calpine Corporation	CPN N	6.40	2.4	13.7	8	-	12.2
Kinder Morgan, Inc.	KMI S	54.97	2.6	12.4	17	1.1	7.9
Dynegy Inc.	DYN	4.18	3.0	12.4	34	-	11.3
AES Corporation	AES	6.60	3.7	11.2	19	-	10.1
Williams Companies	WMB	7.80	3.6	10.1		0.5	8.3
Mirant Corporation	MIR	2.43	1.2	9.4	4	-	8.9
Constellation Energy Group	CEG	34.11	2.6	9.2	16	3.0	8.1
CMS Energy Corporation	CMS	7.85	1.1	9.1	10	-	8.7
Sempra Energy	SRE	28.73	2.2	8.6	11	3.5	8.7
El Paso Corporation	EP N	7.91	2.4	6.7	5	2.0	6.9
	<i>Median</i>		<i>2.4</i>	<i>10.1</i>	<i>13</i>	<i>0.5</i>	<i>8.7</i>
Small Cap Pipeline							
Enterprise Products Part (16%)	EPD	22.50	1.8	16.7		1.0	9.0
Plains All Amer. Pipeline	PAA	30.82	0.2	16.6	25	7.0	9.0
Enbridge Energy Partners, L.P.	EEP S	46.90	2.1	16.0	35	7.7	9.0
Enbridge Energy Management, L.L.C	EEQ S	44.67	2.0	15.5	33	8.1	9.0
Gulfterra Energy Partners	GTM S	37.25	5.3	14.4	23	7.2	9.0
TEPPCO Partners, L.P.	TPP	35.83	1.1	13.0	19	6.7	9.0
Northern Border Partners	NBP	41.26	7.1	12.5	15	7.8	9.0
Williams Energy Partners	WEG	46.46	4.3	11.7	14	6.5	8.5
AmeriGas Partners, L.P.	APU	26.08	1.7	10.9	25	8.4	9.0
Western Gas Resources	WGR	39.00	0.7	7.6	17	-	7.4
	<i>Median</i>		<i>1.9</i>	<i>13.7</i>	<i>23</i>	<i>7.1</i>	<i>9.0</i>
Coal							
Consol Energy Inc.	CNX	21.90	2.2	13.6	50	2.6	9.7
Penn Virginia Res. Part, L.P.	PVR	28.24	10.3	13.4	15	7.1	8.6
Peabody Energy	BTU	33.37	1.7	10.9	28	1.2	9.0
Arch Coal	ACI	22.59	1.6	9.9		1.0	9.0
Alliance Res. Part, L.P.	ARLP	27.32	1.3	8.3	23	7.3	7.0
Massey Energy	MEE	13.45	1.3	7.5		1.2	8.9
	<i>Median</i>		<i>1.7</i>	<i>10.4</i>	<i>25</i>	<i>1.9</i>	<i>8.9</i>

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2004; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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Table 3-1
Independent Natural Gas and Oil Producers - Small Cap
Rank by McDep Ratio: Market Cap and Debt to Present Value

	Symbol/ Rating	Price (\$/sh) 25-Jun 2003	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Short Life							
Dorchester Minerals, L.P.	DMLP	18.20	27.0	490	13.00	-	1.40
Spinnaker Exploration Company	SKE	26.00	33.8	880	25.00	-	1.04
Cimarex Energy Company	XEC	24.02	41.0	990	24.00	0.03	1.00
Newfield Exploration Company	NFX	37.94	51.7	1,960	40.00	0.31	0.96
Southwestern Energy Company	SWN	16.12	36.0	580	17.00	0.30	0.96
Energy Partners Ltd.	EPL	11.42	36.8	420	12.00	0.22	0.96
Stone Energy Company	SGY	42.78	26.5	1,130	46.00	0.27	0.95
Denbury Resources Inc.	DNR	13.78	55.0	760	15.00	0.29	0.94
Chesapeake Energy Corporation	CHK	10.63	220	2,340	14.00	0.38	0.85
Wesport Resources Corporation	WRC	22.65	68.0	1,540	30.00	0.29	0.83
Forest Oil Corporation	FST	25.83	48.2	1,250	35.00	0.33	0.82
St. Mary Land and Exploration Company	SM	27.20	29.0	790	35.00	0.11	0.80
The Houston Explorator Company	THX	34.26	31.0	1,060	45.00	0.16	0.80
<i>Total or Median</i>				<i>14,200</i>		<i>0.27</i>	<i>0.95</i>
Long Life							
Ultra Petroleum Corp.	UPL	12.69	78.0	990	7.00	0.15	1.69
Unit Corporation	UNT	20.88	43.6	910	18.00	0.04	1.15
Quicksilver Resources Inc.	KWK	24.89	20.4	510	25.00	0.35	1.00
Penn Virginia Corporation	PVA	43.08	9.0	390	45.00	0.06	0.96
Evergreen Resources, Inc.	EVG	55.59	22.0	1,220	60.00	0.10	0.93
Magnum Hunter Resources, Inc.	MHR	8.22	69.0	570	11.00	0.45	0.86
Encore Acquisition Corp. (40%)	EAC	18.99	11.2	213	24.00	0.18	0.83
Swift Energy Company	SFY	11.00	27.2	300	16.00	0.43	0.82
Vintage Petroleum, Inc.	VPI	11.65	63.0	730	20.00	0.40	0.75
<i>Total or Median</i>				<i>5,800</i>		<i>0.18</i>	<i>0.93</i>
Canadian Royalty Trusts							
Provident Energy Trust	PVX	8.28	63.5	530	6.00	0.24	1.29
Enerplus Resources Fund	ERF	23.62	75.0	1,770	20.00	0.16	1.15
Pengrowth Energy Trust	PGH	13.00	110.0	1,430	11.00	0.18	1.15
Canadian Oil Sands Trust (US\$)	COS_u.TO	26.26	79.5	2,090	45.00	0.17	0.65
<i>Total or Median</i>				<i>5,800</i>		<i>0.18</i>	<i>1.15</i>
Natural Gas Royalty Trusts							
Hugoton Royalty Trust (46%)	HGT	18.53	18.4	340	17.30	-	1.07
Cross Timbers Royalty Trust	CRT	23.60	6.0	142	23.00	-	1.03
San Juan Basin Royalty Trust	SJT	18.45	46.6	860	20.20	-	0.91
Micro Cap							
Abraxas Petroleum Corporation	ABP	1.06	30.0	32	1.00	0.85	1.01
Purcell Energy, Ltd. (US\$)	PEL.TO	1.73	28.2	49	2.80	0.31	0.74

Buy/Sell rating after symbol: B - Buy, N - Neutral, S - Sell

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

Analyses are prepared from original sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at www.mcdep.com. Mr. Wulff is not paid by covered companies. Neither he nor his spouse act contrary to a buy or sell rating.

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

June 26, 2003

Table 3-2
Independent Natural Gas and Oil Producers - Small Cap
Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	<i>Symbol/</i>		<i>Price</i>	<i>EV/</i>	<i>EV/</i>	<i>Dividend or</i>	
	<i>Rating</i>	<i>25-Jun</i>	<i>Sales</i>	<i>Ebitda</i>	<i>P/E</i>	<i>NTM</i>	<i>PV/</i>
		<i>2003</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>(%)</i>	<i>Ebitda</i>
							<i>NTM</i>
Short Life							
Dorchester Minerals, L.P.	DMLP	18.20	8.3	10.3	13	8.8	7.3
Forest Oil Corporation	FST	25.83	3.5	5.5	15	-	6.7
Southwestern Energy Company	SWN	16.12	2.7	5.3	10	-	5.5
Chesapeake Energy Corporation	CHK	10.63	3.5	5.2	11	1.1	6.1
Cimarex Energy Company	XEC	24.02	3.4	4.8	12	-	4.8
Wesport Resources Corporation	WRC	22.65	3.3	4.6	12	-	5.6
Energy Partners Ltd.	EPL	B	11.42	2.8	4.5	-	4.7
Denbury Resources Inc.	DNR	13.78	3.1	4.5	10	-	4.7
St. Mary Land and Exploration Company	SM	27.20	2.8	4.3	11	0.4	5.3
Stone Energy Company	SGY	42.78	3.0	4.0	8	-	4.2
Spinnaker Exploration Company	SKE	26.00	3.1	3.5	11	-	3.4
Newfield Exploration Company	NFX	37.94	2.6	3.3	6	-	3.5
The Houston Exploraton Company	THX	34.26	2.6	3.1	7	-	3.9
	<i>Median</i>		<i>3.1</i>	<i>4.5</i>	<i>11</i>	<i>-</i>	<i>4.8</i>
Long Life							
Ultra Petroleum Corp.	UPL	12.69	10.6	16.9	32	-	10.0
Evergreen Resources, Inc.	EVG	55.59	6.4	9.1	15	-	9.8
Unit Corporation	UNT	20.88	3.6	8.1	19	-	7.0
Quicksilver Resources Inc.	KWK	24.89	4.3	6.2	10	-	6.2
Swift Energy Company	SFY	11.00	3.6	5.5	15	-	6.7
Magnum Hunter Resources, Inc.	MHR	8.22	3.1	5.2	11	-	6.1
Penn Virginia Corporation	PVA	43.08	2.7	5.2	13	2.1	5.4
Encore Acquisition Corp. (40%)	EAC	20.88	3.4	5.0	11	-	6.0
Vintage Petroleum, Inc.	VPI	11.65	2.4	4.4	28	1.4	5.9
	<i>Median</i>		<i>3.6</i>	<i>5.5</i>	<i>15</i>	<i>-</i>	<i>6.2</i>
Canadian Royalty Trusts							
Enerplus Resources Fund	ERF	23.62	4.9	6.4	10	12.8	5.5
Pengrowth Energy Trust	PGH	13.00	4.2	6.3	14	16.6	5.5
Canadian Oil Sands Trust (US\$)	COS_u.TO	B	26.26	3.1	5.3	5	5.5
Provident Energy Trust	PVX	8.28	3.4	4.9	9	19.8	3.8
Natural Gas Royalty Trusts							
Cross Timbers Royalty Trust	CRT	23.60	6.9	9.6	10	10.0	9.3
Hugoton RoyaltyTrust (46%)	HGT	18.53	5.6	7.4	8	12.2	6.9
San Juan Basin Royalty Trust	SJT	B	18.45	6.0	7.3	8	12.2
Micro Cap							
Abraxas Petroleum Corporation	ABP	1.06	6.2	10.7		-	10.6
Purcell Energy, Ltd. (US\$)	PEL.TO	N	1.73	3.4	4.8	10	-

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2004; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

Analyses are prepared from original sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at www.mcdep.com. Mr. Wulff is not paid by covered companies. Neither he nor his spouse act contrary to a buy or sell rating.