

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

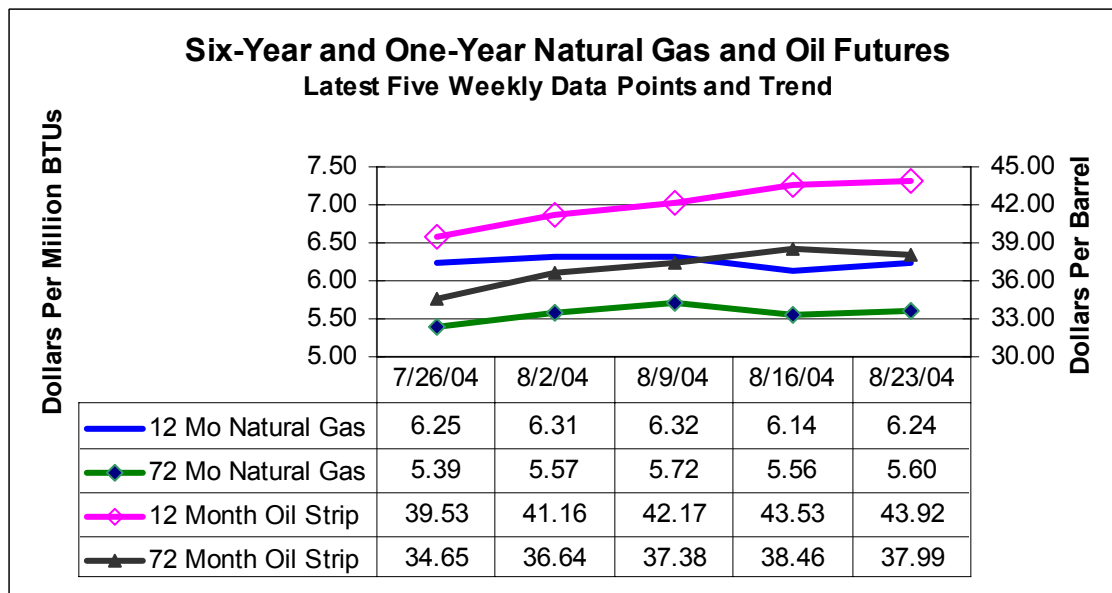
August 24, 2004

Concentrate on Rated Stocks

Summary and Recommendation

Meter Reader coverage concentrates on 31 stocks with Buy/Hold/Sell ratings while discontinuing the weekly calculation of McDep Ratio for an additional 33 stocks, at least for now. The change parallels a requirement for analyses of stocks selected by Independent Consultants to be made available to the investor clients of Investment Banks that are parties to the Global Research Settlement. Lesser known stocks not in demand for independent coverage (a possible contrary indicator) include our Buy recommendations, **Lukoil (LUKOY)**, **Berry Petroleum (BRY)**, **Canadian Oil Sands Trust (COSWF)** and Hold recommendation **San Juan Basin Royalty Trust (SJT)**. Along with updating the commodity meters and describing new valuation meters we discuss fine points of the outlook for Canadian Oil Sands Trust.

Commodity Price Trends Continue Positive



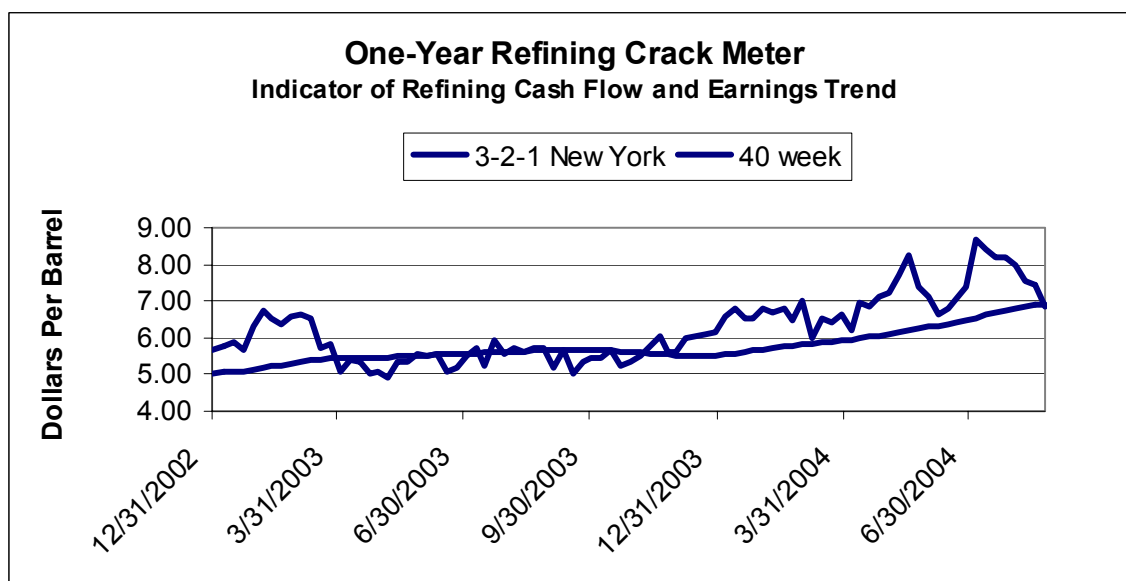
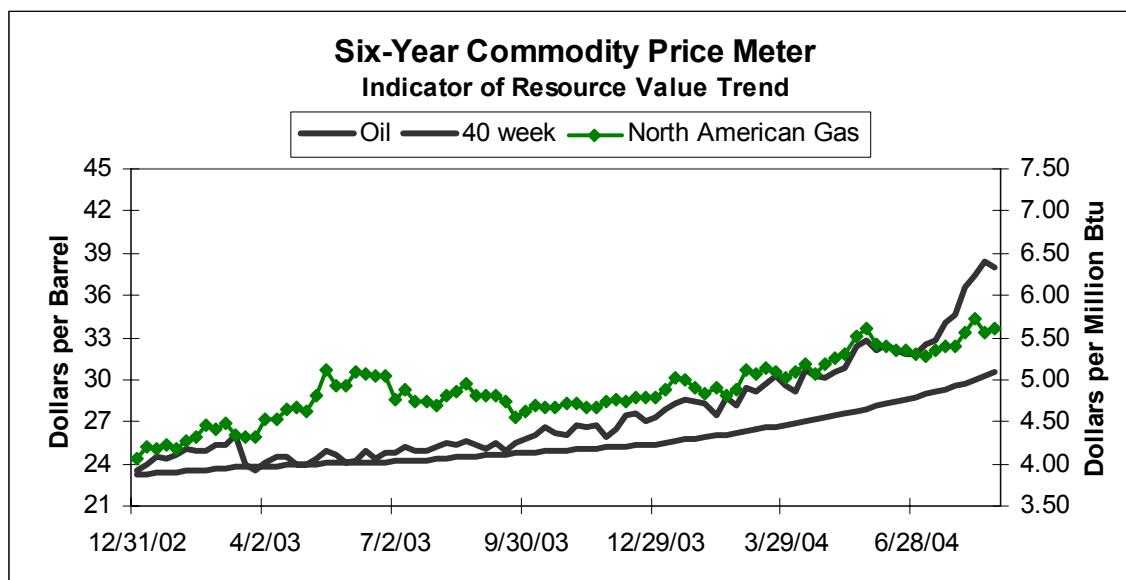
The six-year oil strip remains above its 40-week average (see chart [Six-Year Commodity Price Meter](#)). A wide gap between natural gas and oil may be starting to close. The one-year refining crack strip, a volatile and imperfect measure, has touched its 40-week average (see chart [One-Year Refining Crack Meter](#)).

Historical independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at www.mcdep.com. Analyses are prepared from sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Mr. Wulff is not paid by covered companies. Neither he nor his spouse trade a subject stock within a week before or after a change in rating.

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

August 24, 2004



McDep Ratios Flash Opportunity

Thirty-one stocks offer many choices. We suggest that a promising energy portfolio could be constructed with nine full positions (B1) and six half positions (B2) (see table [Rank by McDep Ratio: Market Cap and Debt to Present Value](#)). In full position equivalents that would imply two parts Mega Cap, three parts Producer/Refiners, four and a half parts Large Independent, one and a half parts Small Independent and one part Income. Because we measure potential on an unlevered basis with the McDep Ratio, we would determine the size of positions on an unlevered basis also. That means owning

Historical independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at www.mcdep.com. Analyses are prepared from sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Mr. Wulff is not paid by covered companies. Neither he nor his spouse trade a subject stock within a week before or after a change in rating.

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

August 24, 2004

more of a low-debt stock to fill a position and less of a high-debt stock. Alternate buys (B3) could be substituted particularly where the McDep Ratio is especially competitive.

Our most heavily weighted group, Large Independents, has near the lowest median McDep Ratio less than 0.75. Consider that 1.0 corresponds to a constant real oil price of \$30 to \$35 a barrel. Investors who believe that long-term oil price is now likely to be \$30, or better, rather than \$25 or lower, should find values of recommended stocks attractive.

Investors also want to see commonly used valuation measures that depend less on our interpretation. We modify our further presentation by replacing the Price to Sales ratios (EV/Sales) that are less useful for resource stocks with our modified reserve life index (Adjstd Resrvs/Prod) (see table Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.). How long production will last may be the most important determinant of our assessed unlevered cash flow multiple (PV/Ebitda) and of the market unlevered cash flow multiple (EV/Ebitda).

A completely new presentation lists other elements that determine the valuation equation (see table Rank by Present Value Percent of Wellhead Price). An old rule of thumb holds that present value is a third of price. There is some validity to such a simplification, but also wide variations. Present value is our estimate that investors might test. Price is that from the futures market for the next twelve months modified for the location and quality of each company's mix of production.

Single stock analyses regularly test and retest the appropriateness of our estimates and the market's assessment. Buy recommendations dominate now because of our positive industry outlook. Investors who don't necessarily agree might still act on an inconsistency between the stock market and the futures market.

Canadian Oil Sands Trust Feedback and Refinement

Question on limited liability: A money manager asks, "I read that Alberta did away with individual shareholder liability for Oil Trusts, but only for liability subsequent to 7/1/04. Correct? If so, Seems a little odd to me. Your thoughts? Also, did I read correctly that Ontario has voided all liability without a date? What governs here - the province of incorporation?"

Answer: The Trust's Second Quarter Report 2004 states that the newly enacted limitation of unit holder liability applies to events that occur on or after July 1, 2004. My thoughts are that the risks of liability for events prior to July 1, 2004 are not material, but I do not yet know why the date was chosen. The trust points out that its indenture provides protection as described in the Second Quarter Report. Further, as we understand the diagram of the trust's structure on its website, ownership of the operating assets is held in corporate entities that limit liability that can be passed to the trust.

Historical independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at www.mcdep.com. Analyses are prepared from sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Mr. Wulff is not paid by covered companies. Neither he nor his spouse trade a subject stock within a week before or after a change in rating.

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

August 24, 2004

Legislation remains under consideration in Ontario with eventual approval expected. Meanwhile Canadian Oil Sands Trust is registered in Alberta.

Future Debt Reduction: Debt reduction is always an alternative use of funds in addition to distributions to unitholders. We understand that the trust is unlikely to prepay its longer term debt issues unless interest rate changes make that attractive. Depending on cash flow generation during the next nine months of continuing capital expenditures, the trust may have short term debt outstanding that management may wish to pay down. Investors should keep potential debt repayment in mind when considering the trust's distribution paying capability.

Product Price Premium/Discount: The trust's Second Quarter Report discusses current realizations on Syncrude Sweet Blend at a C\$0.89 a barrel discount to the Light, Sweet Oil traded on the commodity exchange. Our model showed a premium. In part that reflects our display of the trust's price before the deduction of transportation and marketing fees.

It is reasonable to expect that Syncrude Sweet Premium that will be produced after the expansion will indeed command a premium price. We did not include that additional premium in our recent sensitivity calculations for distribution potential in 2007 (see *Stock Idea, Canadian Oil Sands Trust*, July 29, 2004).

Volume Levels and Timing

While we stated that some of the benefits of volume expansion may be reflected in the remainder of this year, we used management's volume projection. The expansion of mining capacity is complete while the upgrader (refinery) is subject to previous limits. We had in mind that there might be some indirect benefits of a higher grade of oil sand from the new mine, more inventory of bitumen ready for upgrading or simply improved operating practices. It will be good news if management can beat its projections. We shall be alert to good news, but will not count on it. Shortfalls are possible, too.

We also stated that new capacity should be fully operational at 350,000 barrels daily in mid 2006. We project that level for the twelve months ended June 30, 2007. Management is not promising full capacity operation continuously immediately just as current daily capacity has not yet been achieved on average for a full year. We hope to be positively surprised as we track the monthly disclosures.

Case for Investment: Our calculations leave a wide range for uncertainty when they suggest that it just takes US\$30 oil to justify a US\$62 stock price. Current six-year futures are about US\$38 and the current stock price is about \$US 38.

Kurt H. Wulff, CFA

Historical independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at www.mcdep.com. Analyses are prepared from sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Mr. Wulff is not paid by covered companies. Neither he nor his spouse trade a subject stock within a week before or after a change in rating.

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

August 24, 2004

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

	Symbol/ Rating		Price (\$/sh) 23-Aug 2004	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap								
Exxon Mobil Corporation	XOM	B3	44.99	6,547	295,000	43.00	0.08	1.04
BP plc	BP	B3	52.80	3,651	193,000	60.00	0.13	0.90
Shell Transport and Trading Co. plc	SC	B3	43.71	1,587	69,000	51.20	0.17	0.88
Total S.A.	TOT	B3	95.58	1,237	118,300	113.00	0.16	0.87
Royal Dutch Petroleum	RD	B1	50.24	2,031	102,000	60.00	0.17	0.87
ChevronTexaco Corporation	CVX	B1	93.12	1,065	99,200	125.00	0.14	0.78
<i>Total or Median</i>					877,000		0.15	0.87
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	59.64	125	7,460	20.00	0.73	1.53
Imperial Oil Limited (30%)	IMO	B3	46.75	108	5,030	52.00	0.10	0.91
Marathon Oil Corporation	MRO	B3	33.98	346	11,760	41.00	0.30	0.88
Norsk Hydro ASA	NHY	B1	64.90	256	16,580	90.00	0.16	0.77
Suncor Energy	SU	B3	27.62	460	12,710	38.00	0.13	0.76
ConocoPhillips	COP	B1	73.48	687	50,500	110.00	0.27	0.76
Petro-Canada	PCZ	B3	45.90	266	12,220	68.00	0.14	0.72
PetroChina Company Ltd (10%)	PTR	B2	48.25	176	8,480	88.00	0.07	0.58
Lukoil Oil Company	LUKOY	B2	110.50	210	23,000	208.00	0.05	0.55
<i>Total or Median</i>					148,000		0.14	0.76
Independent Natural Gas and Oil - Large Cap and Mid Cap								
CNOOC Limited (19%)	CEO	B2	46.51	78	3,640	55.00	-	0.85
XTO Energy Inc.	XTO	B1	26.77	271	7,250	38.00	0.21	0.77
Unocal Corporation	UCL	B3	36.65	278	10,200	54.00	0.25	0.76
Encana Corporation	ECA	B1	40.79	471	19,200	63.00	0.25	0.74
Occidental Petroleum Corp.	OXY	B3	49.95	399	19,900	75.00	0.19	0.73
Anadarko Petroleum Corp.	APC	B1	56.94	254	14,500	94.00	0.21	0.69
Devon Energy Corporation	DVN	B3	65.25	249	16,200	110.00	0.24	0.69
Burlington Resources	BR	B1	35.75	397	14,200	58.00	0.14	0.67
<i>Total or Median</i>					105,000		0.21	0.73
Independent Natural Gas and Oil - Small Cap								
Cimarex Energy Company	XEC	B2	29.78	43	1,270	38.00	0.00	0.78
Energy Partners Ltd.	EPL	B3	15.35	38	590	22.00	0.14	0.74
Berry Petroleum Company	BRY	B2	29.38	22	660	43.00	0.06	0.70
Encore Acquisition Company	EAC	B2	27.17	31	830	47.00	0.18	0.65
<i>Total or Median</i>					3,400		0.10	0.72
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	42.95	145	6,230	15.00	0.49	1.95
Kinder Morgan Management, LLC	KMR	S3	37.26	52	1,960	15.00	0.49	1.76
San Juan Basin Royalty Trust	SJT	H	27.71	47	1,290	22.00	-	1.26
Canadian Oil Sands Trust (US\$)	COSWF	B1	38.13	92	3,510	62.00	0.19	0.69
<i>Total or Median</i>					13,000		0.34	1.51

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

Historical independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at www.mcdep.com. Analyses are prepared from sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Mr. Wulff is not paid by covered companies. Neither he nor his spouse trade a subject stock within a week before or after a change in rating.

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

August 24, 2004

Rated Oil and Gas Producers

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

	Symbol/ Rating		Price (\$/sh) 23-Aug 2004	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
Mega Cap								
Exxon Mobil Corporation	XOM	B3	44.99	11.1	6.4	6.6	12	2.4
Total S.A.	TOT	B3	95.58	9.1	6.9	6.0	11	3.0
BP plc	BP	B3	52.80	9.7	6.7	6.0	11	3.2
Shell Transport and Trading Co. plc	SC	B3	43.71	8.2	5.6	4.9	9	4.2
Royal Dutch Petroleum	RD	B1	50.24	8.2	5.6	4.8	9	4.3
ChevronTexaco Corporation	CVX	B1	93.12	10.9	5.6	4.4	7	3.4
	<i>Median</i>			9.4	6.0	5.4	10	3.3
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	59.64		8.0	12.3	15	3.8
Suncor Energy	SU	B3	27.62	18.3	8.5	6.4	15	0.7
Imperial Oil Limited (30%)	IMO	B3	46.75	10.9	6.4	5.8	10	1.4
Marathon Oil Corporation	MRO	B3	33.98	7.3	5.4	4.8	8	2.9
ConocoPhillips	COP	B1	73.48	11.1	5.7	4.3	6	2.3
Norsk Hydro ASA	NHY	B1	64.90	9.4	5.5	4.2	10	2.5
Petro-Canada	PCZ	B3	45.90	7.7	5.4	3.9	7	1.0
PetroChina Company Ltd (10%)	PTR	B2	48.25	13.5	6.4	3.7	7	4.5
Lukoil Oil Company	LUKOY	B2	110.50	20.0	3.9	2.2	3	2.3
	<i>Median</i>			11.0	5.7	4.3	8	2.3
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B1	26.77	11.9	7.4	5.6	11	0.1
CNOOC Limited (19%)	CEO	B2	46.51	10.4	6.3	5.3	10	3.4
Burlington Resources	BR	B1	35.75	10.2	6.7	4.5	9	1.0
Unocal Corporation	UCL	B3	36.65	9.0	5.9	4.5	8	2.2
Occidental Petroleum Corp.	OXY	B3	49.95	11.1	6.1	4.5	7	2.2
Encana Corporation	ECA	B1	40.79	6.7	5.8	4.3	9	1.0
Anadarko Petroleum Corp.	APC	B1	56.94	11.4	6.2	4.3	8	1.0
Devon Energy Corporation	DVN	B3	65.25	6.6	5.3	3.7	7	0.6
	<i>Median</i>			10.3	6.2	4.5	9	1.0
Independent Natural Gas and Oil - Small Cap								
Encore Acquisition Company	EAC	B2	27.17	13.2	6.9	4.5	9	-
Berry Petroleum Company	BRY	B2	29.38	12.8	6.2	4.3	10	1.5
Cimarex Energy Company	XEC	B2	29.78	5.2	4.2	3.3	8	-
Energy Partners Ltd.	EPL	B3	15.35	5.0	4.1	3.1	10	-
	<i>Median</i>			9.0	5.2	3.8	9	-
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	42.95	12.0	8.0	15.7	18	4.8
Kinder Morgan Management, LLC	KMR	S3	37.26	12.0	8.0	14.1	15	5.6
San Juan Basin Royalty Trust	SJT	H	27.71	12.5	7.2	9.1	10	9.7
Canadian Oil Sands Trust (US\$)	COSWF	B1	38.13	20.0	8.1	5.6	7	3.9
	<i>Median</i>			12.2	8.0	11.6	13	5.2

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

Historical independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at www.mcdep.com. Analyses are prepared from sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Mr. Wulff is not paid by covered companies. Neither he nor his spouse trade a subject stock within a week before or after a change in rating.

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

August 24, 2004

Rated Oil and Gas Producers Rank by Present Value Percent of Wellhead Price

	Symbol/ Rating		NG & O Prod/ Ebitda (%)	N. Am. Gas/ Ebitda (%)	Proven Undev. Resrvs (%)	Well- head Price (\$/boe)	Ebitda/ Rev. NTM (%)	Present Value/ Price (%)
Mega Cap								
ChevronTexaco Corporation	CVX	B1	72	9	30	34	62	27
BP plc	BP	B3	73	8	46	33	59	31
Exxon Mobil Corporation	XOM	B3	74	9	38	34	67	31
Royal Dutch Petroleum	RD	B1	68	4	44	33	67	36
Shell Transport and Trading Co. plc	SC	B3	68	4	44	33	67	36
Total S.A.	TOT	B3	76	1	48	28	70	40
	<i>Median</i>		72	6	44	33	67	33
Producer/Refiners - Large Cap and Mid Cap								
Lukoil Oil Company	LUKOY	B2	66	-	47	33	39	5
Norsk Hydro ASA	NHY	B1	61	-	36	36	42	20
Suncor Energy	SU	B3	95	8	1	41	56	26
ConocoPhillips	COP	B1	71	12	33	35	62	26
Kinder Morgan, Inc.	KMI	S2	12	-	50	44	54	28
Imperial Oil Limited (30%)	IMO	B3	73	17	36	34	61	29
PetroChina Company Ltd (10%)	PTR	B2	78	-	18	32	69	30
Marathon Oil Corporation	MRO	B3	73	22	30	30	74	47
Petro-Canada	PCZ	B3	84	17	23	34	74	59
	<i>Median</i>		73	8	33	34	61	28
Independent Natural Gas and Oil - Large Cap and Mid Cap								
Anadarko Petroleum Corp.	APC	B1	100	51	31	35	74	34
CNOOC Limited (19%)	CEO	B2	100	-	51	35	77	34
Occidental Petroleum Corp.	OXY	B3	90	11	21	37	74	37
Unocal Corporation	UCL	B3	100	24	50	30	77	38
Burlington Resources	BR	B1	100	62	26	33	72	41
XTO Energy Inc.	XTO	B1	100	77	22	32	79	43
Encana Corporation	ECA	B1	97	63	39	32	75	51
Devon Energy Corporation	DVN	B3	100	57	25	33	81	57
	<i>Median</i>		100	54	28	33	76	39
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B2	100	-	27	35	63	26
Encore Acquisition Company	EAC	B2	100	20	24	39	74	28
Energy Partners Ltd.	EPL	B3	100	60	31	39	73	52
Cimarex Energy Company	XEC	B2	100	76	1	36	81	65
	<i>Median</i>		100	40	26	37	73	40
Income								
Canadian Oil Sands Trust (US\$)	COSWF	B1	100	(7)	10	44	62	15
Kinder Morgan Energy Partners, L.P.	KMP	S3	22	-	50	44	54	28
Kinder Morgan Management, LLC	KMR	S3	22	-	50	44	54	28
San Juan Basin Royalty Trust	SJT	H	100	99	50	30	82	36
	<i>Median</i>		61	-	50	44	58	28

Historical independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at www.mcdep.com. Analyses are prepared from sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Mr. Wulff is not paid by covered companies. Neither he nor his spouse trade a subject stock within a week before or after a change in rating.