

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

November 2, 2004

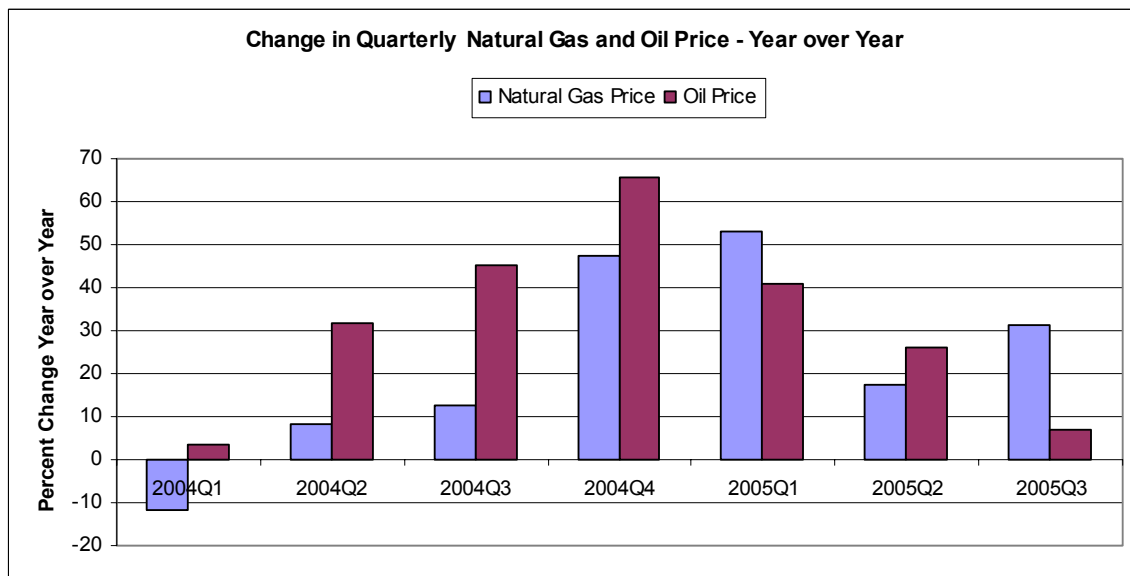
Bold Moves

Summary and Recommendation

Amid the good news of commodity price impacting third quarter results are some bold changes for at least four recommended and buy-rated stocks, **Royal Dutch Petroleum (RD)**, **Shell Transport (SC)**, **Encana (ECA)** and **XTO Energy (XTO)**. RD/SC decided to end a 100-year dual structure in favor of a single stock that should improve the prospects for making money. ECA has sold its successful North Sea oil operation in order to pursue North American natural gas more completely. XTO reaps the benefit of breakthrough acquisitions that are proving to be well-timed. We'll discuss the bold moves further in single stock analyses. Meanwhile we present some of the commodity price and valuation backdrop to support our confidence in oil and gas investments for the next several years.

One-Year Futures for Next Twelve Months Cash Flow

Price affects profits for all producers and is the common variable that changes most from quarter to quarter (see chart Change in Quarterly Natural Gas and Oil Price). Historical prices are the average of daily spot prices while forward prices are from futures trading on the New York Mercantile Exchange. Larger gains appear to be ahead. Though the gains fall off later, the futures market has been adjusting upward.



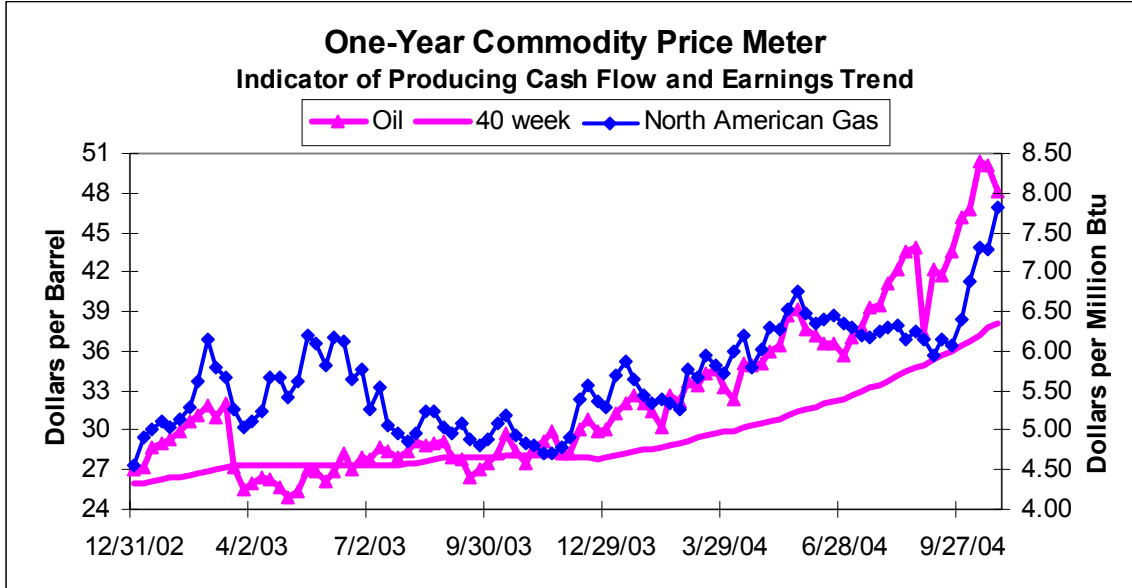
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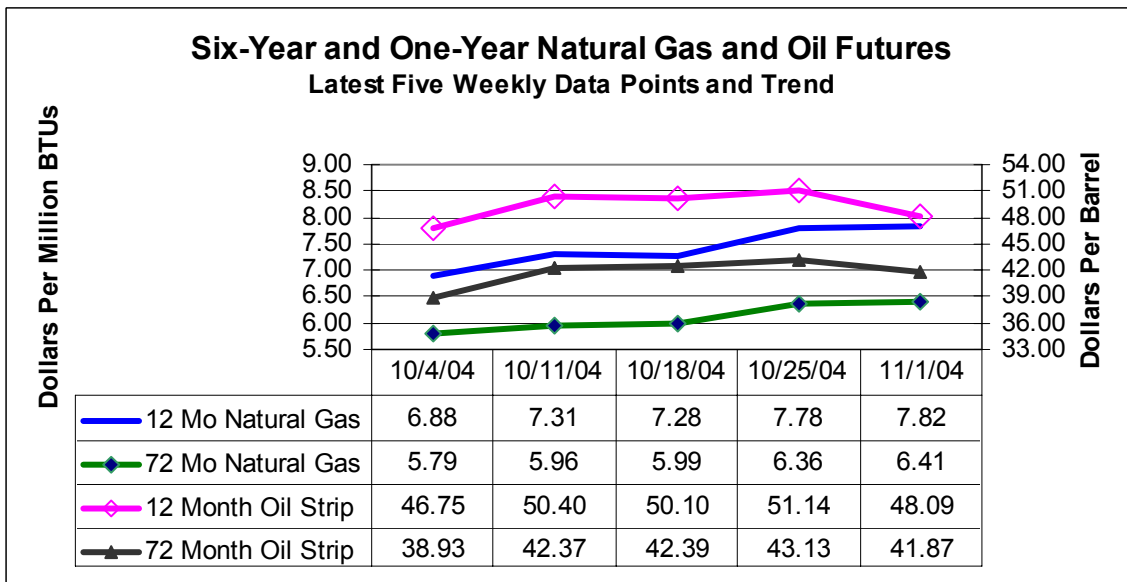
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Because futures prices change continuously, the trend may be more important than the possible quarterly pattern. To monitor that trend we combine the quarters and track futures for the Next Twelve Months (see chart One-Year Commodity Price Meter).



Prices have pulled back on the eve of the U.S. Presidential Election (see chart Six-Year and One-Year Natural Gas and Oil Futures).



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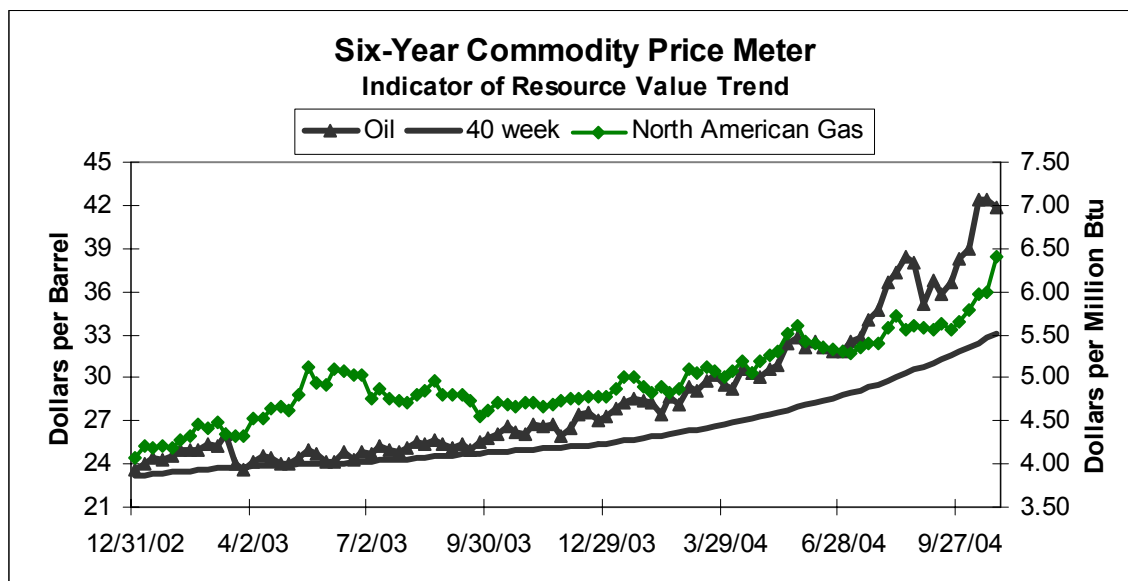
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Strategic Storage May Not Provide Much Price Relief

From time to time it has been suggested that a different President might attempt to use strategic storage to lower oil price. President Clinton did just that, but the effect was only temporary and price is much higher today. Moreover, some volumes of strategic storage have already been released to cover shortfalls as a result of Hurricane Ivan. Again if a different President discusses or takes possible actions, prices could be affected temporarily. Yet the supply/demand situation is quite different today from four years ago. There is a strong probability that releasing strategic storage for price reasons could backfire. If the political move did not work strongly, it might worsen confidence in a more stable oil price.

Six-Year Futures for Multiple Years Cash Flow

The One-Year trend has been so strong that some softening is helpful to reduce any disruptive economic impact. In contrast we think the Six-Year trend has further to go as price does the job to encourage efficient and cleaner energy use and new supply of clean fuel (see chart Six-Year Commodity Price Meter).



Relative Outlook for Natural Gas Favors Encana, XTO and Others

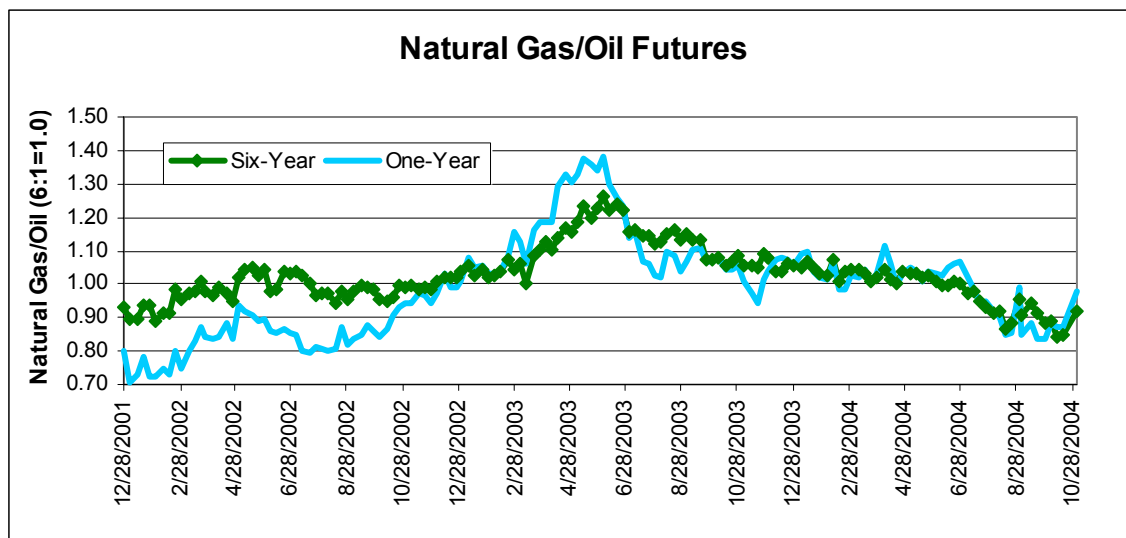
Oil has been stronger than natural gas since the winter of early 2003 (see chart Natural Gas/Oil Futures). We think that the 1.2 premium ratio that natural gas reached in the Spring of 2003 is an indicator of where the cleaner fuel is headed in the future from 0.9 now.

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That view could support Encana's intensified shift towards North American natural gas. The company has been among the most aggressive in developing new supply in Canada and the U.S. Besides taking a large gain on North Sea properties, management would go even further and sell Gulf of Mexico and Ecuador oil properties.

XTO has already enjoyed positive results from a concentrated focus on North American natural gas. Yet management, not resting on its ten-bagger stock performance record, bet more than a billion dollars on breakthrough acquisitions. The timely deals boosted third quarter performance and ought to take fourth quarter results to a higher level.

Nor should we overlook another favorite natural gas investment, **Burlington Resources (BR)**. There was a hint of a possible future value enhancement in a question about royalty trusts on the BR analyst call. Though management was not prepared for the question, there could come a point when distributing some of BR's properties in a natural gas income stock may be advantageous.

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

| | Symbol/ Rating | | Price (\$/sh) 1-Nov 2004 | Shares (mm) | Market Cap (\$mm) | Net Present Value (\$/sh) | Debt/ Present Value | McDep Ratio |
|--|-------------------|----|-----------------------------------|----------------|-------------------------|------------------------------------|---------------------------|----------------|
| Mega Cap | | | | | | | | |
| Exxon Mobil Corporation | XOM | B3 | 48.82 | 6,508 | 318,000 | 50.00 | 0.07 | 0.98 |
| BP plc | BP | B3 | 58.42 | 3,614 | 211,000 | 60.00 | 0.13 | 0.98 |
| Shell Transport and Trading Co. plc | SC | B3 | 47.33 | 1,587 | 75,000 | 51.00 | 0.17 | 0.94 |
| Total S.A. | TOT | B3 | 104.03 | 1,237 | 128,700 | 113.00 | 0.17 | 0.93 |
| Royal Dutch Petroleum | RD | B1 | 53.97 | 2,021 | 109,000 | 60.00 | 0.17 | 0.92 |
| ChevronTexaco Corporation | CVX | B1 | 52.95 | 2,125 | 112,500 | 62.50 | 0.13 | 0.87 |
| | | | | | <i>Total or Median</i> | | | |
| | | | | | 954,000 | | 0.15 | 0.94 |
| Producer/Refiners - Large Cap and Mid Cap | | | | | | | | |
| Kinder Morgan, Inc. | KMI | S2 | 63.96 | 125 | 7,980 | 20.00 | 0.74 | 1.57 |
| Imperial Oil Limited (30%) | IMO | B3 | 57.22 | 107 | 6,110 | 52.00 | 0.11 | 1.09 |
| Marathon Oil Corporation | MRO | B3 | 37.63 | 347 | 13,060 | 41.00 | 0.30 | 0.94 |
| Suncor Energy | SU | B3 | 33.14 | 460 | 15,240 | 38.00 | 0.13 | 0.89 |
| Norsk Hydro ASA | NHY | B1 | 73.66 | 254 | 18,720 | 90.00 | 0.17 | 0.85 |
| Petro-Canada | PCZ | B3 | 53.91 | 266 | 14,350 | 68.00 | 0.15 | 0.82 |
| ConocoPhillips | COP | B1 | 83.96 | 699 | 58,700 | 110.00 | 0.25 | 0.82 |
| PetroChina Company Ltd (10%) | PTR | B2 | 52.22 | 176 | 9,180 | 82.00 | 0.06 | 0.66 |
| Lukoil Oil Company | LUKOY | B2 | 124.25 | 209 | 26,000 | 208.00 | 0.05 | 0.62 |
| | | | | | <i>Total or Median</i> | | | |
| | | | | | 169,000 | | 0.15 | 0.85 |
| Independent Natural Gas and Oil - Large Cap and Mid Cap | | | | | | | | |
| XTO Energy Inc. | XTO | B1 | 33.30 | 266 | 8,850 | 38.00 | 0.19 | 0.90 |
| CNOOC Limited (19%) | CEO | B2 | 51.25 | 78 | 4,000 | 59.00 | - | 0.87 |
| Encana Corporation | ECA | B1 | 49.58 | 472 | 23,400 | 63.00 | 0.25 | 0.84 |
| Unocal Corporation | UCL | B3 | 42.32 | 274 | 11,600 | 54.00 | 0.24 | 0.84 |
| Occidental Petroleum Corp. | OXY | B3 | 55.55 | 399 | 22,200 | 75.00 | 0.18 | 0.79 |
| Anadarko Petroleum Corp. | APC | B1 | 66.92 | 253 | 16,900 | 94.00 | 0.20 | 0.77 |
| Devon Energy Corporation | DVN | B3 | 74.01 | 249 | 18,400 | 110.00 | 0.24 | 0.75 |
| Burlington Resources | BR | B1 | 41.28 | 395 | 16,300 | 58.00 | 0.14 | 0.75 |
| | | | | | <i>Total or Median</i> | | | |
| | | | | | 122,000 | | 0.20 | 0.81 |
| Independent Natural Gas and Oil - Small Cap | | | | | | | | |
| Cimarex Energy Company | XEC | B2 | 35.95 | 43 | 1,540 | 38.00 | 0.00 | 0.95 |
| Berry Petroleum Company | BRY | B2 | 37.83 | 22 | 850 | 43.00 | 0.06 | 0.89 |
| Energy Partners Ltd. | EPL | B3 | 17.50 | 38 | 670 | 22.00 | 0.14 | 0.82 |
| Encore Acquisition Company | EAC | B2 | 31.62 | 33 | 1,040 | 47.00 | 0.20 | 0.74 |
| | | | | | <i>Total or Median</i> | | | |
| | | | | | 4,100 | | 0.10 | 0.86 |
| Income | | | | | | | | |
| Kinder Morgan Energy Partners, L.P. | KMP | S3 | 45.95 | 145 | 6,660 | 15.00 | 0.52 | 1.99 |
| Kinder Morgan Management, LLC | KMR | S3 | 41.05 | 54 | 2,220 | 15.00 | 0.52 | 1.84 |
| San Juan Basin Royalty Trust | SJT | H | 31.39 | 47 | 1,460 | 27.00 | - | 1.16 |
| Canadian Oil Sands Trust (US\$) | COSWF | B1 | 47.82 | 92 | 4,410 | 72.00 | 0.18 | 0.72 |
| | | | | | <i>Total or Median</i> | | | |
| | | | | | 14,800 | | 0.35 | 1.50 |

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) 1-Nov 2004 | Adjstd Resrvs/ Prod NTM | PV/ Ebitda NTM | EV/ Ebitda NTM | P/E NTM | Divd or Distrib NTM (%) |
|--|-------------------|----|-----------------------------------|----------------------------------|----------------------|----------------------|------------|----------------------------------|
| Mega Cap | | | | | | | | |
| BP plc | BP | B3 | 58.42 | 9.9 | 6.4 | 6.2 | 12 | 2.9 |
| Exxon Mobil Corporation | XOM | B3 | 48.82 | 11.1 | 6.2 | 6.0 | 11 | 2.2 |
| Total S.A. | TOT | B3 | 104.03 | 9.1 | 6.4 | 6.0 | 10 | 2.9 |
| Shell Transport and Trading Co. plc | SC | B3 | 47.33 | 8.0 | 5.1 | 4.8 | 9 | 4.0 |
| Royal Dutch Petroleum | RD | B1 | 53.97 | 8.0 | 5.1 | 4.7 | 8 | 4.2 |
| ChevronTexaco Corporation | CVX | B1 | 52.95 | 11.3 | 5.2 | 4.5 | 7 | 3.0 |
| | <i>Median</i> | | | 9.5 | 5.7 | 5.4 | 10 | 3.0 |
| Producer/Refiners - Large Cap and Mid Cap | | | | | | | | |
| Kinder Morgan, Inc. | KMI | S2 | 63.96 | | 8.3 | 13.0 | 16 | 3.5 |
| Suncor Energy | SU | B3 | 33.14 | 18.4 | 7.0 | 6.2 | 14 | 0.6 |
| Imperial Oil Limited (30%) | IMO | B3 | 57.22 | 11.2 | 5.4 | 5.9 | 10 | 1.3 |
| Marathon Oil Corporation | MRO | B3 | 37.63 | 7.7 | 5.9 | 5.6 | 11 | 2.7 |
| ConocoPhillips | COP | B1 | 83.96 | 11.2 | 5.3 | 4.3 | 6 | 2.0 |
| Norsk Hydro ASA | NHY | B1 | 73.66 | 9.4 | 5.0 | 4.2 | 10 | 2.3 |
| PetroChina Company Ltd (10%) | PTR | B2 | 52.22 | 13.5 | 6.4 | 4.2 | 9 | 4.5 |
| Petro-Canada | PCZ | B3 | 53.91 | 7.7 | 4.7 | 3.9 | 7 | 0.9 |
| Lukoil Oil Company | LUKOY | B2 | 124.25 | 12.2 | 5.0 | 3.1 | 5 | 2.7 |
| | <i>Median</i> | | | 11.2 | 5.4 | 4.3 | 10 | 2.3 |
| Independent Natural Gas and Oil - Large Cap and Mid Cap | | | | | | | | |
| XTO Energy Inc. | XTO | B1 | 33.30 | 11.7 | 5.0 | 4.5 | 8 | 0.1 |
| Occidental Petroleum Corp. | OXY | B3 | 55.55 | 11.2 | 5.5 | 4.3 | 7 | 2.0 |
| CNOOC Limited (19%) | CEO | B2 | 51.25 | 9.6 | 4.9 | 4.3 | 8 | 3.5 |
| Unocal Corporation | UCL | B3 | 42.32 | 8.9 | 4.8 | 4.0 | 8 | 1.9 |
| Anadarko Petroleum Corp. | APC | B1 | 66.92 | 10.9 | 5.2 | 4.0 | 8 | 0.8 |
| Burlington Resources | BR | B1 | 41.28 | 9.9 | 5.1 | 3.8 | 7 | 0.8 |
| Encana Corporation | ECA | B1 | 49.58 | 6.7 | 4.3 | 3.7 | 8 | 0.8 |
| Devon Energy Corporation | DVN | B3 | 74.01 | 6.6 | 4.4 | 3.3 | 6 | 0.5 |
| | <i>Median</i> | | | 9.7 | 5.0 | 4.0 | 8 | 0.8 |
| Independent Natural Gas and Oil - Small Cap | | | | | | | | |
| Encore Acquisition Company | EAC | B2 | 31.62 | 12.0 | 7.4 | 5.5 | 11 | - |
| Berry Petroleum Company | BRY | B2 | 37.83 | 12.5 | 5.2 | 4.6 | 10 | 1.3 |
| Cimarex Energy Company | XEC | B2 | 35.95 | 5.2 | 3.3 | 3.2 | 7 | - |
| Energy Partners Ltd. | EPL | B3 | 17.50 | 5.0 | 3.3 | 2.7 | 7 | - |
| | <i>Median</i> | | | 8.6 | 4.3 | 3.9 | 8 | - |
| Income | | | | | | | | |
| Kinder Morgan Energy Partners, L.P. | KMP | S3 | 45.95 | 12.0 | 7.9 | 15.7 | 21 | 6.4 |
| Kinder Morgan Management, LLC | KMR | S3 | 41.05 | 12.0 | 7.9 | 14.5 | 18 | 7.1 |
| San Juan Basin Royalty Trust | SJT | H | 31.39 | 12.5 | 7.7 | 8.9 | 10 | 9.9 |
| Canadian Oil Sands Trust (US\$) | COSWF | B1 | 47.82 | 20.0 | 9.9 | 7.2 | 9 | 3.4 |
| | <i>Median</i> | | | 12.2 | 7.9 | 11.7 | 14 | 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> |
|-------------|---------------|---|--|
| 26-Oct | KMI | Kinder Morgan Inc. | Fallen Star |
| 26-Oct | KMP | Kinder Morgan Energy Partners, L.P. | Fallen Star |
| 26-Oct | KMR | Kinder Morgan Management, LLC | Fallen Star |
| 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 |

* Archived on www.mcdep.com

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