

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

September 20, 2005

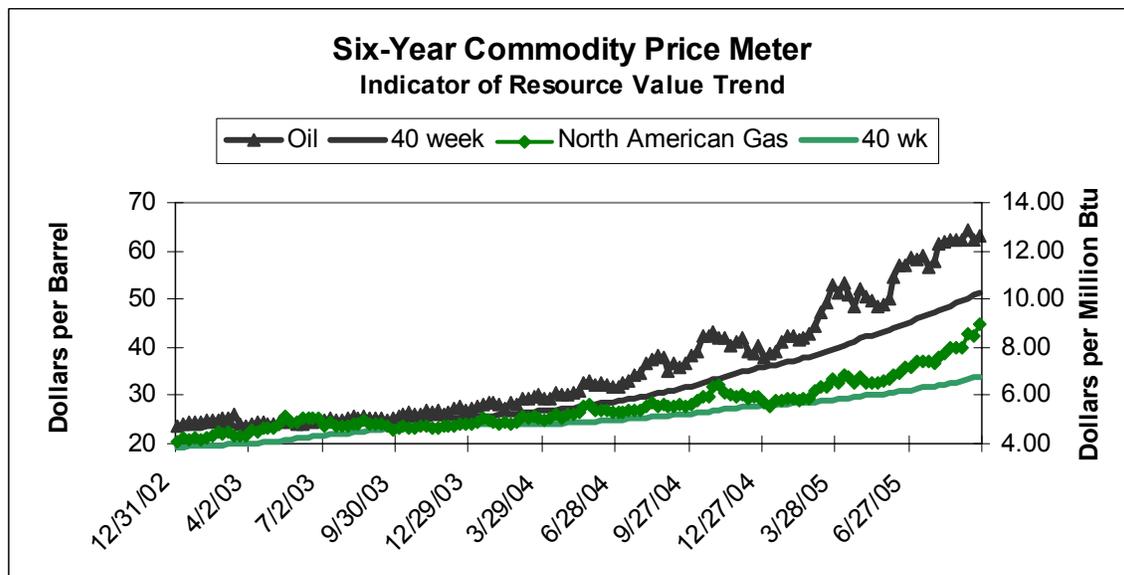
Startling Gains for Natural Gas

Summary and Recommendation

Six-year oil is \$67, natural gas is \$9 and the one-year crack is \$15. Stocks are at a median McDep Ratio of 0.89. A McDep Ratio of 1.0 presumes six-year oil of \$50, natural gas of \$10 and one-year crack of \$10. A 12% increase in one-year natural gas price in a week sparks startling changes in estimates for stocks concentrated on North American production including **San Juan Basin Royalty Trust (SJT)**, **Encana (ECA)**, **XTO Energy (XTO)**, **Cimarex (XEC)** and **Burlington Resources (BR)**. It looks like buy recommendations can appreciate further though it is sure to be up and down in the weeks ahead. Shorter term, Hurricane Rita appears to be roiling markets as she moves toward the Gulf of Mexico. Longer term, the growing preference for cleaner energy favors oil over coal, natural gas over oil and widening refining margin. Energy and economic growth correlate positively.

Natural Gas Catching Up

The steady crude oil price trend continues while a lagging natural gas price trend has accelerated toward economic equivalence with crude oil. That is true longer-term and especially shorter-term (see charts Six-Year Commodity Price Meter and One-Year Commodity Price Meter).

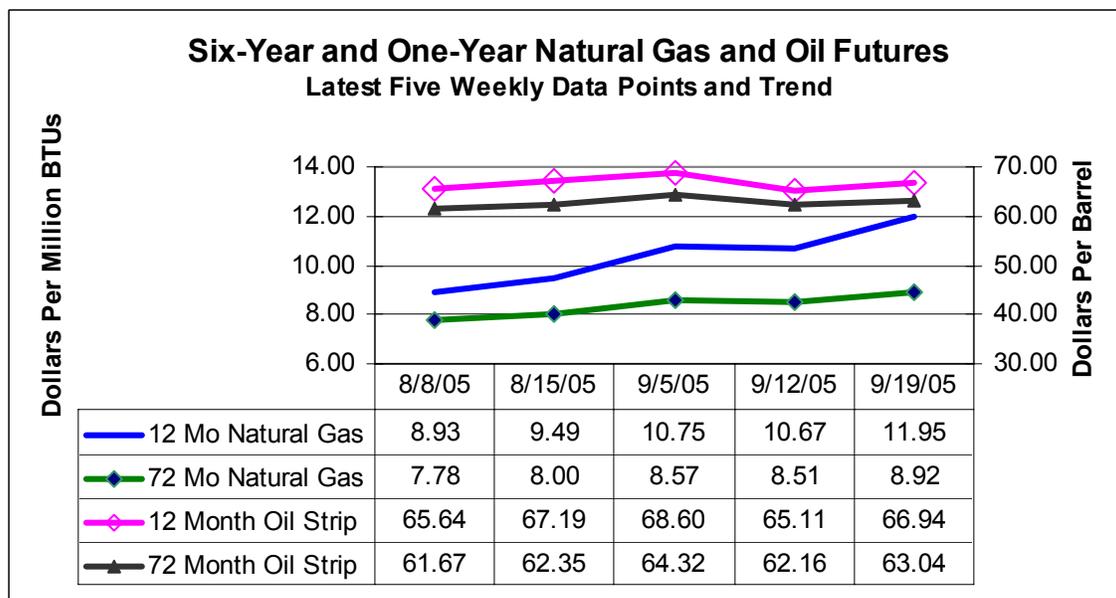
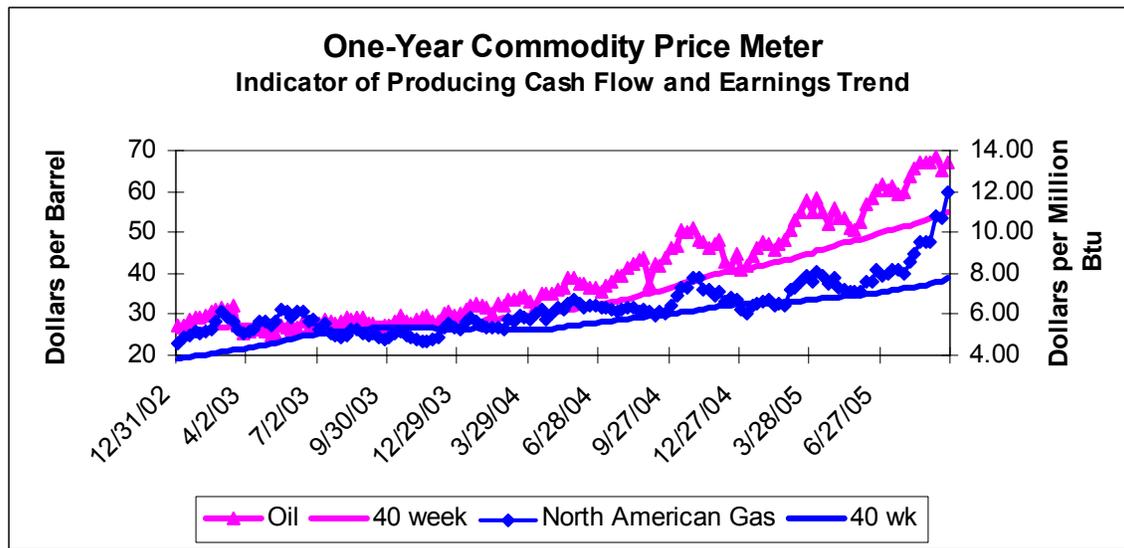


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Refining Crack Holds Strongly

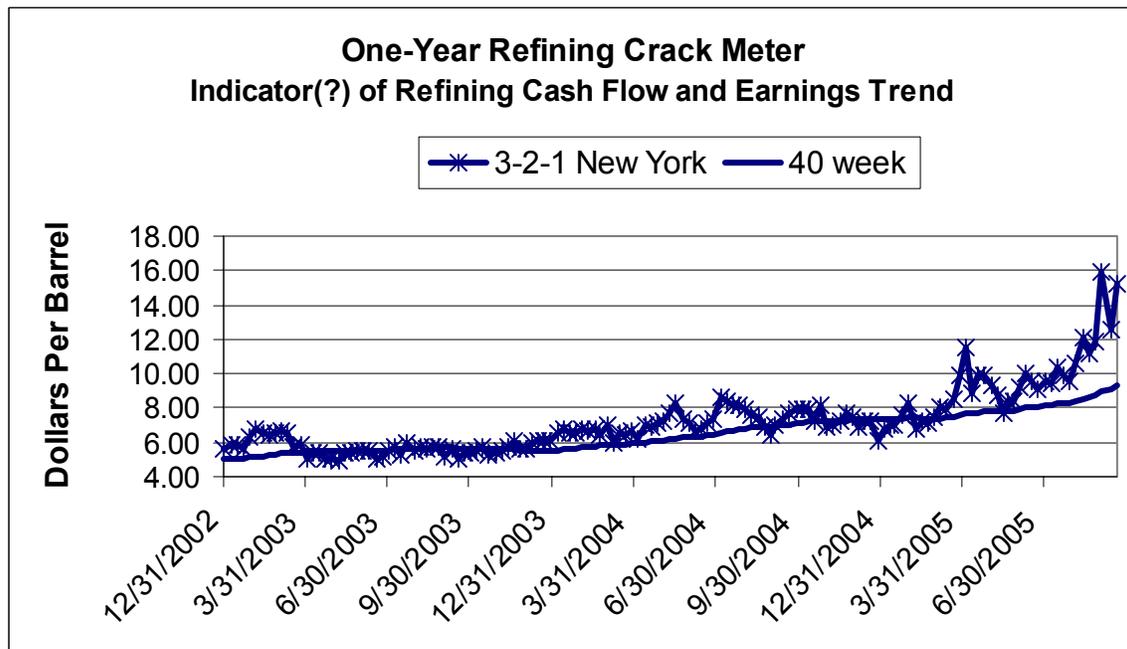
The trend in the crack spread continues the definitive move above the 40-week average initiated earlier in 2005 (see chart One-Year Refining Crack Meter). The popular “3-2-1” crack presumes that three parts of crude oil are transformed into two parts of gasoline and one part of heating oil. The refiner’s margin is the thin difference between the average price for refined products and the price of crude oil. Fifteen dollars a barrel is thirty-six cents a gallon.

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Meter Reader

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September 20, 2005



Balance Functional Representation in Energy Portfolio

After Rank by McDep Ratio and Rank by EV/Ebitda we present Functional and Geographic Mix. We recommend representation in each of the five groups from Mega Cap to Income with emphasis on low McDep Ratio stocks. We would further skew representation to natural gas and non-U.S. domicile.

Kurt H. Wulff, CFA

Meter Reader

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

	Symbol/ Rating		Price (\$/sh) 19-Sep 2005	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap								
BP plc	BP	B	71.65	3,545	254,000	82.00	0.10	0.89
Exxon Mobil Corporation	XOM	B	64.63	6,370	412,000	74.00	0.04	0.88
Total S.A.	TOT	B	135.46	1,182	160,000	160.00	0.12	0.87
Royal Dutch Shell plc	RDS-A	B	66.28	3,372	224,000	84.00	0.09	0.81
Chevron Corporation	CVX	B	64.31	2,256	145,000	90.00	0.12	0.75
<i>Total or Median</i>					<i>1,195,000</i>		<i>0.10</i>	<i>0.87</i>
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	96.50	123	11,880	20.00	0.76	1.93
Imperial Oil Limited (30%)	IMO	B	110.83	104	11,480	84.00	0.09	1.29
Marathon Oil Corporation	MRO	B	69.20	367	25,400	65.00	0.27	1.05
Petro-Canada	PCZ	B	43.47	526	22,870	42.00	0.19	1.03
Suncor Energy	SU	B	61.80	461	28,500	68.00	0.10	0.92
Norsk Hydro ASA	NHY	B	115.24	251	28,930	130.00	0.13	0.90
Lukoil Oil Company	LUKOY	B	52.05	830	43,000	65.00	0.02	0.80
ConocoPhillips	COP	B	70.18	1,419	99,600	100.00	0.15	0.75
PetroChina Company Ltd (10%)	PTR	B	81.30	176	14,290	120.00	0.01	0.68
Gazprom (50%)	OGZPF	B	59.20	1,022	60,500	90.00	0.03	0.67
<i>Total or Median</i>					<i>346,000</i>		<i>0.11</i>	<i>0.91</i>
Independent Natural Gas and Oil - Large Cap and Mid Cap								
Encana Corporation	ECA	B	53.30	892	47,500	51.00	0.16	1.04
Burlington Resources	BR	B	78.26	385	30,100	86.00	0.09	0.92
XTO Energy Inc.	XTO	B	41.72	372	15,530	48.00	0.17	0.89
CNOOC Limited (29%)	CEO	B	71.50	119	8,530	84.00	0.01	0.85
Devon Energy Corporation	DVN	B	65.18	471	30,700	86.00	0.15	0.79
Occidental Petroleum Corp.	OXY	B	88.80	406	36,100	120.00	0.11	0.77
Anadarko Petroleum Corp.	APC	B	97.24	238	23,100	140.00	0.11	0.73
<i>Total or Median</i>					<i>538,000</i>		<i>0.11</i>	<i>0.87</i>
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	65.24	23	1,470	65.00	0.10	1.00
Encore Acquisition Company	EAC	B	37.45	49	1,850	50.00	0.17	0.79
Energy Partners Ltd.	EPL	B	28.01	41	1,140	38.00	0.17	0.78
Cimarex Energy Company	XEC	B	44.45	85	3,780	64.00	0.12	0.73
<i>Total or Median</i>					<i>8,200</i>		<i>0.15</i>	<i>0.79</i>
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	52.62	157	8,260	15.00	0.55	2.12
Kinder Morgan Management, LLC	KMR	S3	49.05	56	2,730	15.00	0.55	2.02
Pengrowth Energy Trust	PGH		24.43	157	3,830	20.00	0.17	1.19
San Juan Basin Royalty Trust	SJT		47.20	47	2,200	40.00	-	1.18
Penn West Energy Trust	PWTFF	B	30.75	174	5,340	28.00	0.16	1.08
Enerplus Resources Fund	ERF		43.93	105	4,610	42.00	0.13	1.04
Canadian Oil Sands Trust (US\$)	COSWF	B	110.22	93	10,240	136.00	0.12	0.83
<i>Total or Median</i>					<i>37,200</i>		<i>0.16</i>	<i>1.18</i>

B = 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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Oil and Gas Producers

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

	Symbol/ Rating		Price (\$/sh) 19-Sep 2005	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
Mega Cap								
Exxon Mobil Corporation	XOM	B	64.63	11.5	6.7	5.9	10	1.8
BP plc	BP	B	71.65	9.4	6.1	5.4	9	3.0
Total S.A.	TOT	B	135.46	9.2	5.9	5.1	8	2.4
Royal Dutch Shell plc	RDS-A	B	66.28	7.2	5.4	4.4	8	3.4
Chevron Corporation	CVX	B	64.31	9.3	5.7	4.3	7	2.8
		<i>Median</i>		9.3	5.9	5.1	8	2.8
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	96.50		8.1	15.7	23	3.1
Gazprom (50%)	OGZPF	B	59.20	22.0	12.8	8.6	17	0.6
Suncor Energy	SU	B	61.80	18.1	8.5	7.8	16	0.3
Imperial Oil Limited (30%)	IMO	B	110.83	10.5	5.9	7.6	13	0.7
Petro-Canada	PCZ	B	43.47	5.9	4.8	4.9	8	1.6
Norsk Hydro ASA	NHY	B	115.24	8.2	5.3	4.7	10	2.7
ConocoPhillips	COP	B	70.18	11.2	5.6	4.2	6	1.8
Marathon Oil Corporation	MRO	B	69.20	7.1	3.9	4.1	6	1.6
Lukoil Oil Company	LUKOY	B	52.05	19.8	4.9	4.0	7	1.9
PetroChina Company Ltd (10%)	PTR	B	81.30	13.9	5.7	3.9	8	4.6
		<i>Median</i>		11.2	5.6	4.8	9	1.7
Independent Natural Gas and Oil - Large Cap and Mid Cap								
Encana Corporation	ECA	B	53.30	7.2	5.0	5.2	10	1.1
Burlington Resources	BR	B	78.26	9.9	5.3	4.9	10	0.5
XTO Energy Inc.	XTO	B	41.72	11.3	5.2	4.6	8	0.5
Occidental Petroleum Corp.	OXY	B	88.80	11.3	5.6	4.3	7	1.4
CNOOC Limited (29%)	CEO	B	71.50	9.4	4.9	4.2	7	3.2
Anadarko Petroleum Corp.	APC	B	97.24	12.5	5.4	3.9	7	0.7
Devon Energy Corporation	DVN	B	65.18	7.3	3.8	3.0	5	0.5
		<i>Median</i>		10.6	5.3	4.4	7	0.9
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	65.24	11.0	5.1	5.1	13	1.0
Encore Acquisition Company	EAC	B	37.45	14.7	6.3	5.0	11	-
Cimarex Energy Company	XEC	B	44.45	7.5	3.9	2.9	6	-
Energy Partners Ltd.	EPL	B	28.01	5.1	3.1	2.4	5	-
		<i>Median</i>		9.2	4.5	3.9	9	-
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	52.62		8.2	17.5	28	5.9
Kinder Morgan Management, LLC	KMR	S3	49.05		8.2	16.6	27	6.4
San Juan Basin Royalty Trust	SJT		47.20	11.9	7.2	8.5	9	11.1
Canadian Oil Sands Trust (US\$)	COSWF	B	110.22	20.0	9.6	8.0	9	1.5
Pengrowth Energy Trust	PGH		24.43	7.6	5.1	6.0	8	9.7
Enerplus Resources Fund	ERF		43.93	9.8	5.2	5.4	8	8.3
Penn West Energy Trust	PWTFF	B	30.75	8.0	4.1	4.5	6	8.7
		<i>Median</i>		9.8	7.2	8.0	9	8.3

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 2006; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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Oil and Gas Producers Functional and Geographic Mix

	Symbol/ Rating	Non- U.S. Domicile	North Amer. Natural Gas (%)	Rest of World Natural Gas (%)	Oil Prod'n (%)	Down- stream (%)	Total Present Value (US\$m)
Mega Cap							
Exxon Mobil Corporation	XOM	B	10	19	39	33	492,000
BP plc	BP	B UK	10	12	44	34	324,000
Royal Dutch Shell plc	RDS-A	B UK	4	22	29	45	313,000
Chevron Corporation	CVX	B	9	9	54	28	230,000
Total S.A.	TOT	B France	-	27	38	35	216,000
	<i>Total or Median</i>		9	19	39	34	1,575,000
Producer/Refiners - Large Cap and Mid Cap							
PetroChina Company Ltd.	PTR	B China	-	9	71	20	213,000
Gazprom	OGZPF	B Russia		100			190,000
ConocoPhillips	COP	B	13	7	45	35	166,900
Lukoil Oil Company	LUKOY	B Russia	-	-	62	38	54,900
Norsk Hydro ASA	NHY	B Norway	-	27	38	35	37,300
Suncor Energy	SU	B Canada	5	-	89	7	35,000
Marathon Oil Corporation	MRO	B	14	8	33	46	32,900
Imperial Oil Limited	IMO	B Canada	13	-	62	25	31,900
Petro-Canada	PCZ	B Canada	23	4	53	20	27,200
	<i>Median</i>		9	7	58	30	789,000
Independent Natural Gas and Oil - Large Cap and Mid Cap							
Occidental Petroleum Corp.	OXY	B	15	1	73	11	54,900
Encana Corporation	ECA	B Canada	84	-	16	-	54,500
Devon Energy Corporation	DVN	B	62	-	38	-	47,500
Anadarko Petroleum Corp.	APC	B	60	-	40	-	37,500
Burlington Resources	BR	B	69	5	26	-	36,300
CNOOC Limited	CEO	B China	-	12	88	-	34,800
XTO Energy Inc.	XTO	B	82	-	18	-	21,600
	<i>Median</i>		62	-	38	-	287,000
Independent Natural Gas and Oil - Small Cap							
Cimarex Energy Company	XEC	B	70	-	30	-	6,140
Encore Acquisition Company	EAC	B	27	-	73	-	2,990
Berry Petroleum Company	BRY	B	16	-	84	-	1,920
Energy Partners Ltd.	EPL	B	56	-	44	-	1,860
	<i>Median</i>		42	-	58	-	12,910
Income							
Canadian Oil Sands Trust (US\$)	COSWF	B Canada	-	-	100	-	14,300
Penn West Energy Trust	PWTFF	B Canada	43	-	57	-	5,800
Enerplus Resources Fund	ERF	Canada	61	-	39	-	5,080
Pengrowth Energy Trust	PGH	Canada	43	-	57	-	3,730
San Juan Basin Royalty Trust	SJT		100	-	-	-	1,860
	<i>Median</i>		43	-	57	-	30,800

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Index of Recent Research

Stock Ideas

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
19-Sep	NHY	Norsk Hydro ASA	Acquiring U.S. Producer for \$2.45 Billion
16-Sep	XOM	Exxon Mobil Corporation	New Highs Ahead
15-Sep	OGZPF	Gazprom	The Ultimate Natural Gas Stock
9-Sep	APC	Anadarko Petroleum Corporation	Natural Gas Jumps
7-Sep	EPL	Energy Partners, Ltd.	Katrina Survivor
6-Sep	COP	ConocoPhillips	Refining and Natural Gas Event
30-Aug	CEO	CNOOC Ltd	Independent Producer with Income
28-Aug	PTR	PetroChina Company Limited	Income Stock
21-Aug	* PTR	PetroChina Company Limited	Understated Natural Gas Resources
18-Aug	* SJT	San Juan Basin Royalty Trust	Sharp Stock Price Drop
17-Aug	* CVX	Chevron Corporation	Astute Acquisition
16-Aug	* EPL	Energy Partners, Ltd.	Denali 2006
15-Aug	* XEC	Cimarex Energy Company	\$Billion Cash Flow for Small Cap NG Producer
11-Aug	* PWTF	Penn West Energy Trust	Undiscovered by U.S. Investors
11-Aug	* SU	Suncor Energy Inc.	Oil Price and Operating Reliability
11-Aug	* KMx	Kinder Morgan	Canada May Block KM-Terasen Deal
8-Aug	* TOT	Total S.A.	Oil Sands Oui!
3-Aug	* DVN	Devon Energy Corporation	Raise Net Present Value to \$86 a Share
2-Aug	*	26 Stocks - Single Issue Statistics	Raise Net Present Value to \$xx a Share
28-Jul	* EAC	Encore Acquisition Company	HPAI Incline
27-Jul	* BP	BP p.l.c.	Steady-State Growth
26-Jul	* OXY	Occidental Petroleum Corporation	Back in Libya
22-Jul	* PCZ	Petro-Canada	Approaching Par
22-Jul	* MRO	Marathon Oil Corporation	Raise Net Present Value to \$45 a Share
22-Jul	* IMO	Imperial Oil Limited	Syncrude Boost
22-Jul	* COSWF	Canadian Oil Sands Trust	Distribution Capability Blossoming
20-Jul	* XTO	XTO Energy Inc.	Simpson Sense
14-Jul	* RD	Royal Dutch Petroleum	Frontier Challenge
6-Jul	* COSWF	Canadian Oil Sands Trust	Free (Cash Flow) at Last
29-Jun	* LUKOY	Lukoil Oil Company	Profits and Taxes Rising
31-May	* ECA	EnCana Corporation	Clean Fuel Supplier
31-May	* BR	Burlington Resources, Inc.	Clean Fuel Supplier
5-May	* BRY	Berry Petroleum Company	Oil in the Kitty Litter

Meter Reader - A Weekly Analysis

20-Sep		Startling Gains for Natural Gas
13-Sep	*	Big Bucks for Big Oil
6-Sep	*	Refining and Natural Gas Event
16-Aug	*	Energy Policy Act of 2005
9-Aug	*	Comparables
2-Aug	*	Raise Present Value for \$50 Oil

* Archived on www.mcdep.com

Also see

U.S. Natural Gas Royalty Trusts - A Weekly Analysis, and Single-Trust Analyses

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