

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

October 4, 2005

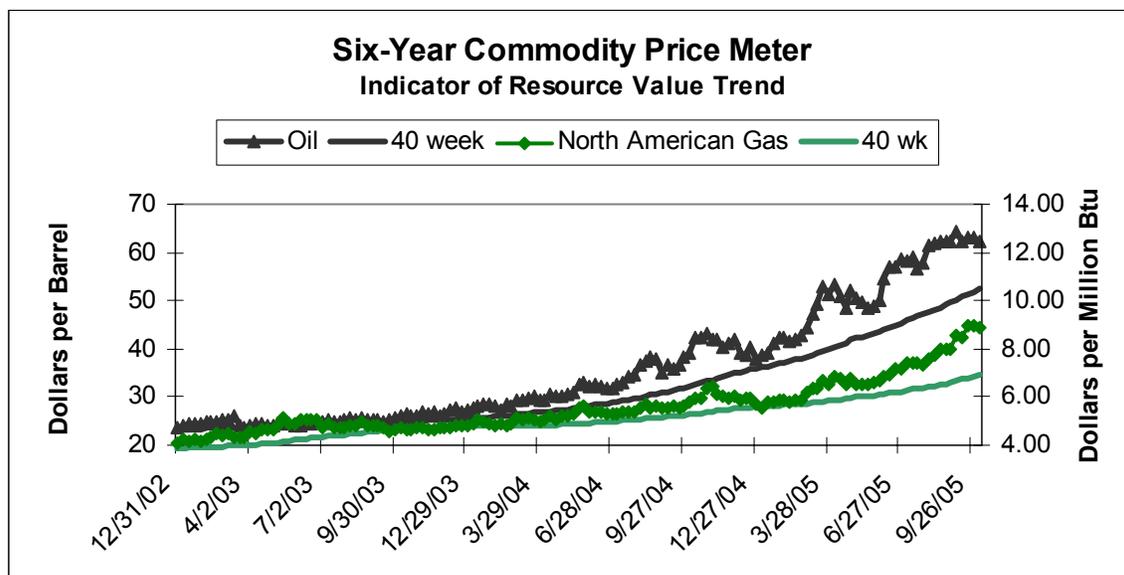
Accentuate the Positive

Summary and Recommendation

Higher oil and gas prices reflect strong global growth, stimulate new investment in supply and point to profits for investors in buy-recommended stocks. Mega cap stocks seem to have barely responded to the positive trends in crude oil, natural gas and oil refining. Producer/refiners are demonstrating the rewards of international diversification with Russia attracting the most attention lately. Large cap independent producers are starting to shine in stock price as oil and gas have in commodity price. Small cap producers offer extra appreciation for investors interested in limited capitalization. Income stocks offer rising cash distributions with bonus appreciation. While accentuating the positive, eliminate the negative by selling the stocks that hide debt and overstate earnings by our analysis.

Oil Steady, Natural Gas Catching Up

Natural gas price in dollars a million btu has only partly caught up with crude oil price in dollars a barrel. Until a month ago, a disparity had been widening from two years ago when six-year natural gas was priced at six-year oil divided by 5 (see charts Six-Year Commodity Price Meter and One-Year Commodity Price Meter). Those who argue that natural gas is expensive make comparisons with dirty fuels such as heavy fuel oil and coal. Accentuating the positive we would rather encourage more long term supply of cleaner fuel. To be comparable to natural gas, oil needs to be refined further -- think higher refining profits. Coal needs to be gasified to be acceptable -- think General Electric, the world's second largest company, seeking leadership in applying needed technology.

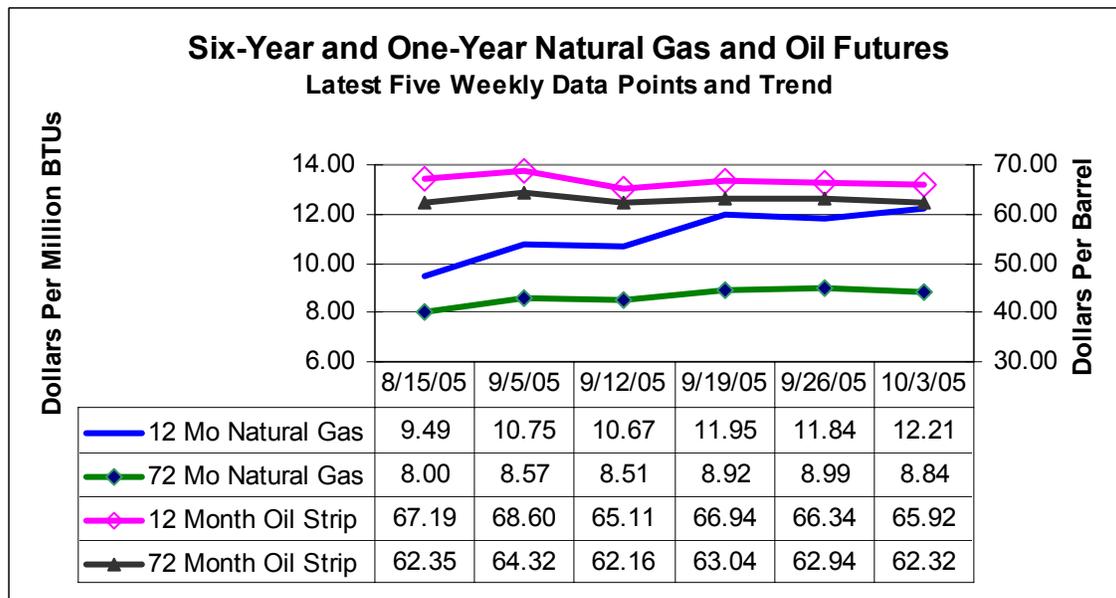
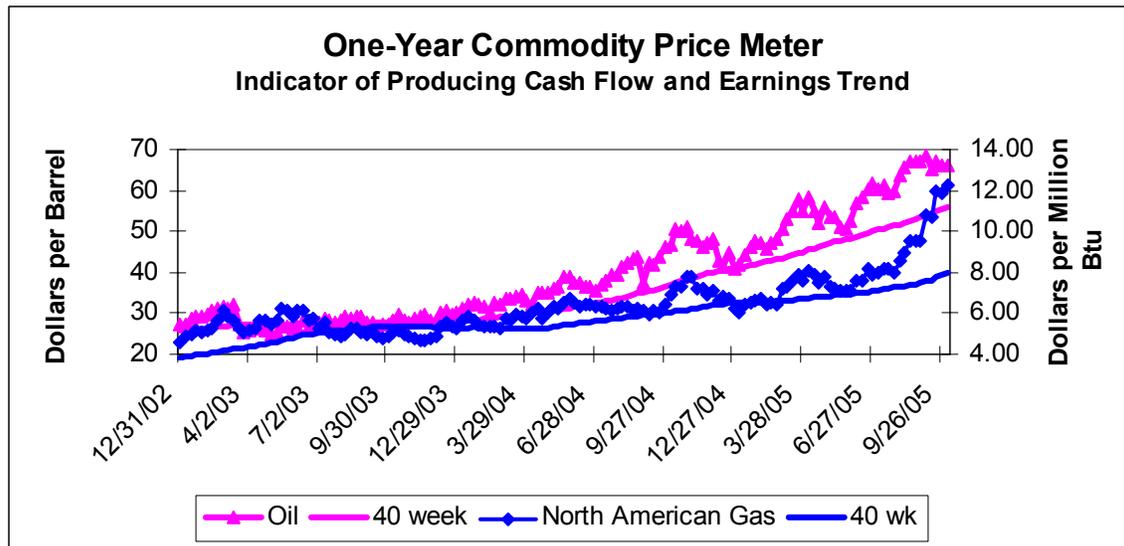


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Refining Crack Holds Strongly

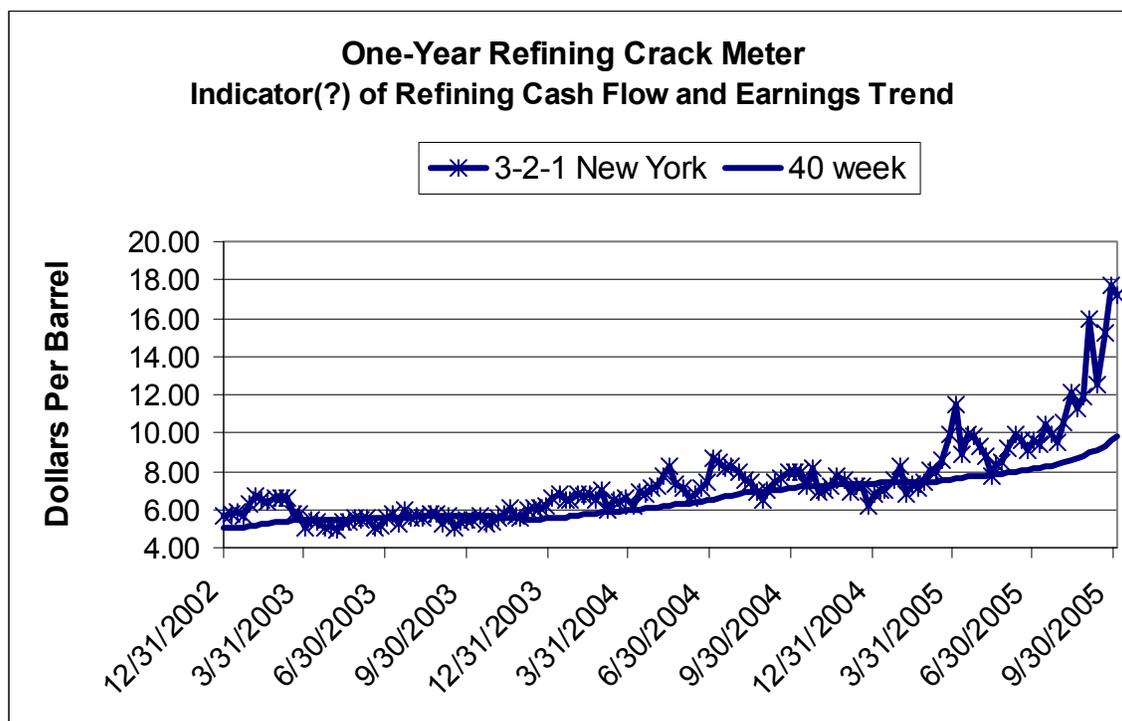
When integrated company stocks lagged producer stocks 28 years ago, the outlook for refining was not great. That has changed and the stocks of producers who are also in refining offer enhanced appreciation potential. The trend in the crack spread, a measure of refining cash flow, continues the definitive move above the 40-week average initiated earlier in 2005 (see chart One-Year Refining Crack Meter).

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Buy Natural Gas, Oil and Refining in the Stock Market

Current stock prices for natural gas and oil producers approximate a median McDep Ratio of 0.88 (see table [Rank by McDep Ratio](#)). A McDep Ratio of 1.0 presumes a 7% per year real return on constant real prices for oil of \$50 a barrel, natural gas of \$10 a million btu and refining crack of \$10 a barrel.

Stocks are ranked in descending order of McDep Ratio to suggest “buy low and sell high”. We recommend representation in each of the five groups from Mega Cap to Income with emphasis on low McDep Ratio stocks.

Next Twelve Months Cash Flow, Ebitda, changes weekly with futures prices for natural gas and oil (see table [Rank by EV/Ebitda](#)). We regularly check the correlation of present value with cash flow multiple by business and expected life of production.

Stocks of companies headquartered in other countries diversify political risk (see table [Home Country and Business Segments](#)). The Russian stocks offer more potential gain in resource value.

Finally, we recommend balance among business segments. Investors should be sure to be represented in the stocks of companies with strong natural gas concentration. Nor should that be at the expense of reasonable downstream exposure in other stocks.

Timely analyses are available on all recommended stocks (see table [Index of Recent Research](#)).

Kurt H. Wulff, CFA

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

	Symbol/ Rating		Price (\$/sh) 3-Oct 2005	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap								
BP plc	BP	B	70.60	3,545	250,000	82.00	0.10	0.88
Total S.A.	TOT	B	134.39	1,182	159,000	160.00	0.12	0.86
Exxon Mobil Corporation	XOM	B	62.49	6,370	398,000	74.00	0.04	0.85
Royal Dutch Shell plc	RDS-A	B	65.58	3,372	221,000	84.00	0.09	0.80
Chevron Corporation	CVX	B	64.45	2,256	145,000	90.00	0.12	0.75
<i>Total or Median</i>					1,173,000		0.10	0.85
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	95.53	123	11,760	20.00	0.76	1.92
Imperial Oil Limited (30%)	IMO	B	115.50	104	11,960	84.00	0.09	1.34
Marathon Oil Corporation	MRO	B	69.21	367	25,400	65.00	0.27	1.05
Petro-Canada	PCZ	B	43.03	526	22,630	42.00	0.19	1.02
Lukoil Oil Company	LUKOY	B	60.25	830	50,000	65.00	0.03	0.93
Suncor Energy	SU	B	59.85	461	27,600	68.00	0.10	0.89
Norsk Hydro ASA	NHY	B	110.59	251	27,760	130.00	0.12	0.87
Gazprom (50%)	OGZPF	B	66.10	1,022	67,500	90.00	0.03	0.74
ConocoPhillips	COP	B	68.96	1,419	97,900	100.00	0.15	0.74
PetroChina Company Ltd (10%)	PTR	B	83.70	176	14,710	120.00	0.01	0.70
<i>Total or Median</i>					357,000		0.11	0.91
Independent Natural Gas and Oil - Large Cap and Mid Cap								
Encana Corporation	ECA	B	59.64	892	53,200	51.00	0.16	1.14
XTO Energy Inc.	XTO	B	46.15	367	16,940	48.00	0.17	0.97
Burlington Resources	BR	B	82.75	385	31,900	86.00	0.09	0.97
CNOOC Limited (29%)	CEO	B	71.41	119	8,520	84.00	0.01	0.85
Devon Energy Corporation	DVN	B	69.15	471	32,600	86.00	0.15	0.83
Occidental Petroleum Corp.	OXY	B	85.40	406	34,700	120.00	0.11	0.74
Anadarko Petroleum Corp.	APC	B	96.04	238	22,900	140.00	0.11	0.72
<i>Total or Median</i>					558,000		0.11	0.88
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	67.80	23	1,530	65.00	0.10	1.04
Energy Partners Ltd.	EPL	B	31.28	41	1,270	38.00	0.17	0.85
Encore Acquisition Company	EAC	B	38.75	49	1,920	50.00	0.17	0.82
Cimarex Energy Company	XEC	B	45.93	85	3,900	64.00	0.12	0.75
<i>Total or Median</i>					8,600		0.15	0.84
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	52.90	157	8,310	15.00	0.55	2.13
Kinder Morgan Management, LLC	KMR	S3	49.95	56	2,780	15.00	0.55	2.04
Pengrowth Energy Trust	PGH		25.49	157	3,990	20.00	0.17	1.23
San Juan Basin Royalty Trust	SJT		48.59	47	2,260	40.00	-	1.21
Enerplus Resources Fund	ERF		48.05	105	5,040	42.00	0.13	1.12
Penn West Energy Trust	PWTFF	B	31.25	174	5,430	28.00	0.16	1.10
Canadian Oil Sands Trust (USS)	COSWF	B	114.73	93	10,660	136.00	0.12	0.86
<i>Total or Median</i>					38,500		0.16	1.21

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) 3-Oct 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	62.49	11.5	6.7	5.7	10	1.9
BP plc	BP	B	70.60	9.4	6.2	5.4	9	3.0
Total S.A.	TOT	B	134.39	9.2	6.0	5.1	9	2.4
Royal Dutch Shell plc	RDS-A	B	65.58	7.2	5.4	4.4	8	3.3
Chevron Corporation	CVX	B	64.45	9.3	5.7	4.3	7	2.8
	<i>Median</i>			9.3	6.0	5.1	9	2.8
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	95.53		8.1	15.6	23	3.1
Gazprom (50%)	OGZPF	B	66.10	22.0	12.9	9.6	19	0.5
Imperial Oil Limited (30%)	IMO	B	115.50	10.5	5.9	7.9	13	0.7
Suncor Energy	SU	B	59.85	18.1	8.6	7.7	16	0.3
Petro-Canada	PCZ	B	43.03	5.9	4.7	4.8	8	1.6
Marathon Oil Corporation	MRO	B	69.21	7.1	4.4	4.6	7	1.6
Norsk Hydro ASA	NHY	B	110.59	8.2	5.3	4.6	10	2.7
Lukoil Oil Company	LUKOY	B	60.25	19.8	4.4	4.1	7	1.6
ConocoPhillips	COP	B	68.96	11.2	5.6	4.1	6	1.8
PetroChina Company Ltd (10%)	PTR	B	83.70	13.9	5.8	4.0	8	4.5
	<i>Median</i>			11.2	5.7	4.7	9	1.6
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B	46.15	11.3	5.4	5.3	9	0.4
Encana Corporation	ECA	B	59.64	7.1	4.1	4.7	8	1.0
Burlington Resources	BR	B	82.75	9.9	4.6	4.4	9	0.5
CNOOC Limited (29%)	CEO	B	71.41	9.4	5.0	4.3	7	3.2
Occidental Petroleum Corp.	OXY	B	85.40	11.3	5.6	4.2	7	1.5
Anadarko Petroleum Corp.	APC	B	96.04	12.5	5.5	4.0	7	0.7
Devon Energy Corporation	DVN	B	69.15	7.3	3.8	3.2	6	0.4
	<i>Median</i>			10.6	5.2	4.3	8	0.9
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	67.80	11.0	5.1	5.3	14	0.9
Encore Acquisition Company	EAC	B	38.75	14.7	6.3	5.1	11	-
Cimarex Energy Company	XEC	B	45.93	7.5	3.8	2.9	6	-
Energy Partners Ltd.	EPL	B	31.28	5.1	3.0	2.6	6	-
	<i>Median</i>			9.2	4.5	4.0	9	-
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	52.90		8.2	17.6	29	5.9
Kinder Morgan Management, LLC	KMR	S3	49.95		8.2	16.8	27	6.2
San Juan Basin Royalty Trust	SJT		48.59	12.0	7.7	9.3	10	10.0
Canadian Oil Sands Trust (US\$)	COSWF	B	114.73	20.0	9.9	8.6	9	1.5
Pengrowth Energy Trust	PGH		25.49	7.6	5.0	6.2	8	9.3
Enerplus Resources Fund	ERF		48.05	9.8	5.1	5.7	8	7.6
Penn West Energy Trust	PWTFF	B	31.25	8.0	4.0	4.4	6	8.6
	<i>Median</i>			9.8	7.7	8.6	9	7.6

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

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Oil and Gas Producers Home Country and Business Segments

	Symbol/ Rating		Non- U.S. Domicile	North Amer. Natural Gas (%)	Rest of World Natural Gas (%)	Oil Prod'n (%)	Down- stream (%)	Total Present Value (US\$mm)
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	215,000
			<i>Total or Median</i>	9	19	39	34	1,574,000
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	55,700
Norsk Hydro ASA	NHY	B	Norway	-	27	38	35	37,100
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	27,300
			<i>Median</i>	9	7	58	30	790,000
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	-	21,300
			<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	-	14,400
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	-	30,900

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Index of Recent Research

Stock Ideas

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
4-Oct	BR	Burlington Resources, Inc.	Natural Gas Beneficiary
27-Sep	ECA	EnCana Corporation	Canada's Largest Company
26-Sep	LUKOY	Lukoil Oil Company	Adapting to New Russia
22-Sep	MRO	Marathon Oil Corporation	Hurricane Watch
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	* PWTFF	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	* 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
5-May	* BRY	Berry Petroleum Company	Oil in the Kitty Litter

Meter Reader - A Weekly Analysis

4-Oct		Accentuate the Positive
27-Sep	*	You Ain't Seen Nothin Yet
20-Sep	*	Startling Gains for Natural Gas
13-Sep	*	Big Bucks for Big Oil
6-Sep	*	Refining and Natural Gas Event

* Archived on www.mcdep.com

Also see

Natural Gas and Oil Royalty Trusts - A Weekly Analysis, and Single-Trust Analyses

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