

Meter Reader

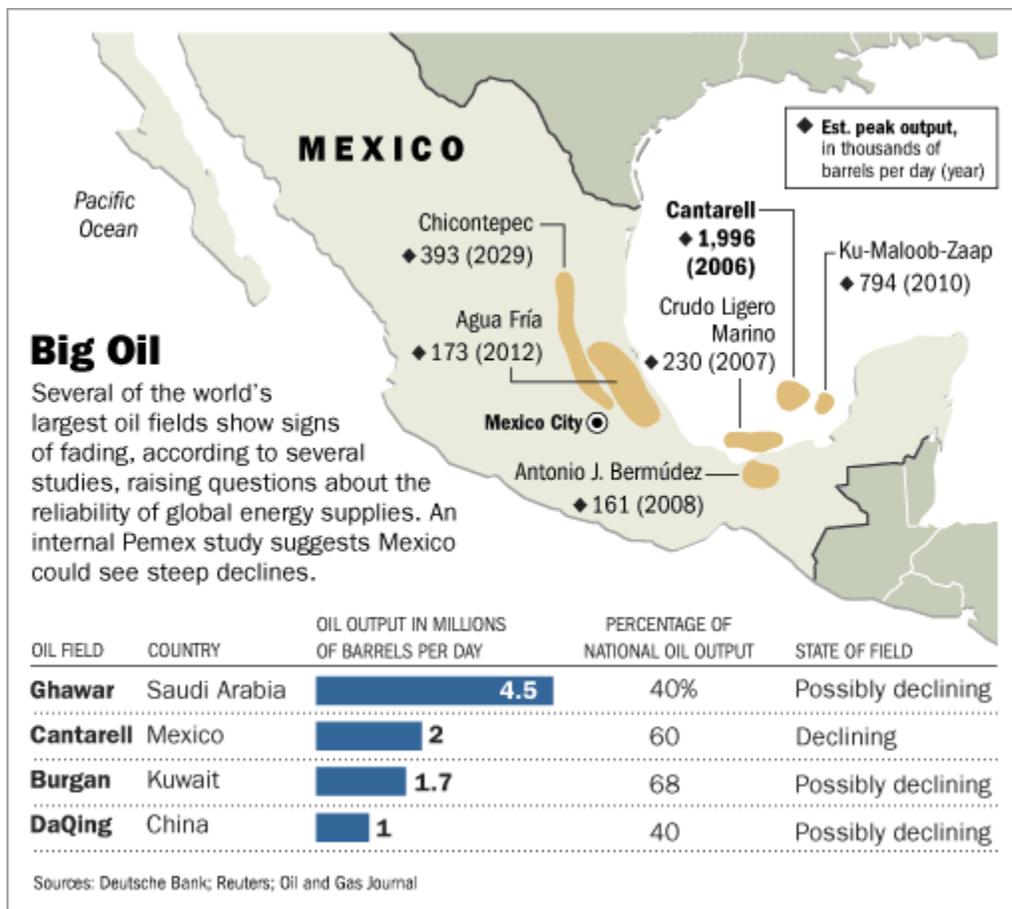
A Weekly Analysis of Energy Stocks Using the McDep Ratio

February 15, 2006

Crude Awakening

Summary and Recommendation

Declining production from Mexico's largest oil field, Cantarell, fortifies concerns about future oil supply. A timely discussion in the *Wall Street Journal* on February 9 cites Mexican government estimates that annual production would decline from 2.0 million barrels daily in 2005 to between 1.4 and 0.7 mbd in 2008. As Cantarell goes, so goes Mexican oil as the field accounts for 60% of the country's output (see graphic). The U.S. imports more oil from Mexico than from Saudi Arabia. Buy-recommended producers concentrated on oil with McDep Ratios in parenthesis include **Suncor Energy** (SU- 0.96), **Occidental Petroleum** (OXY- 0.76), **Encore Acquisition** (EAC – 0.71) and **Canadian Oil Sands Trust** (COSWF – 0.91). Three of four commodity price indicators have positive momentum. A fifth, less reliable indicator, refining crack, the margin between the price of crude oil and the price of products, deteriorated sharply in the past week.



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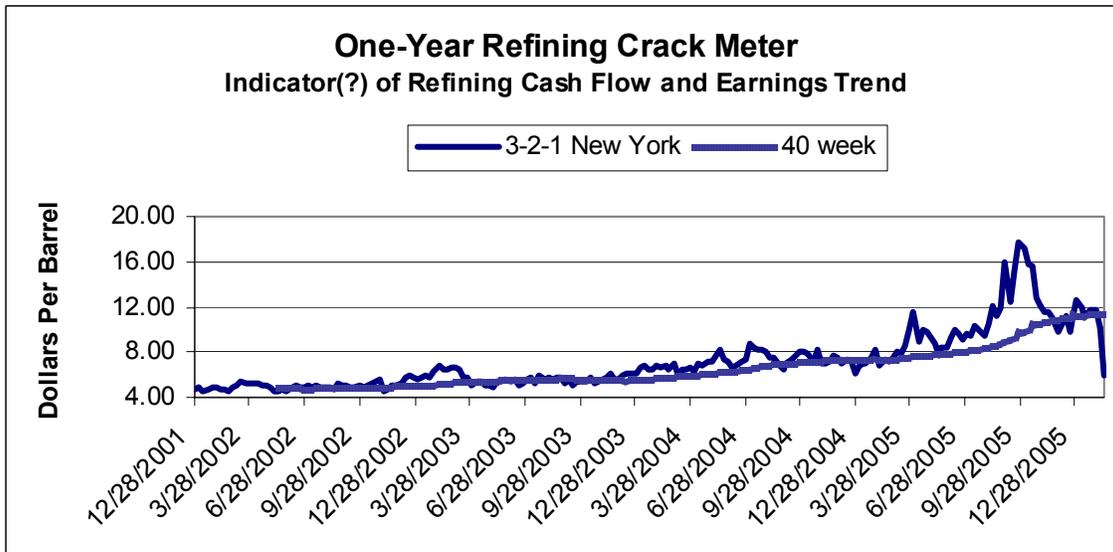
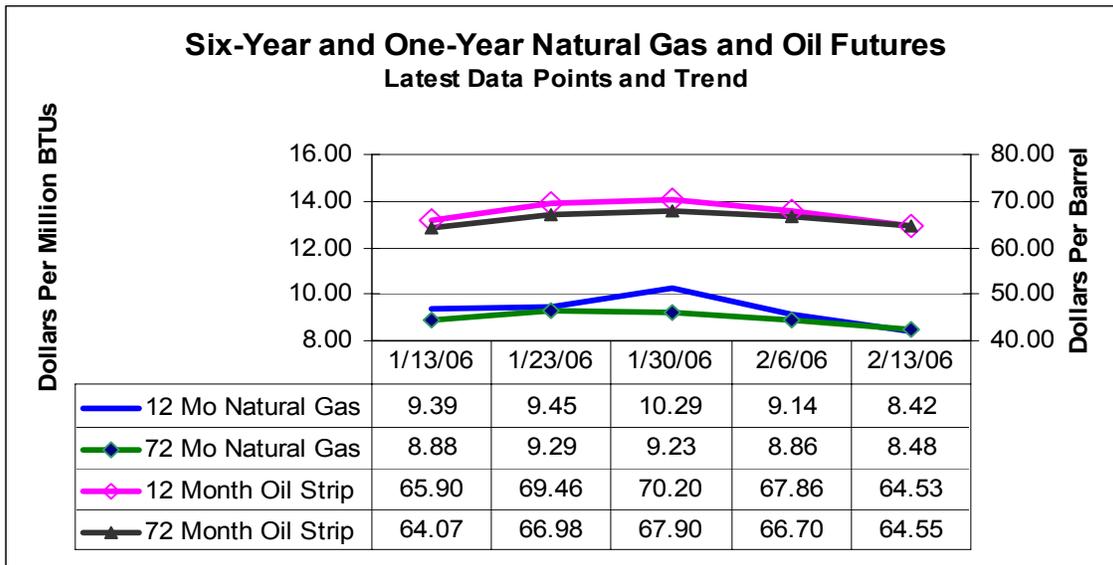
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Commodity Price Momentum and Lack of It

Six-year crude oil and natural gas price trends remain positive with current quotes above the 40-week average. One-year oil is positive while one-year natural gas broke the 40-week average in recent weeks. Latest quotes show remarkable convergence of the six-year and one-year (see chart Six-Year and One-Year Natural Gas and Oil Futures). Refining crack momentum declined to \$6 a barrel since we called it stable last week (see chart One-Year Refining Crack Meter). Though future profits from refining light, sweet oil may be less, the measure says little about profits from refining heavy, sour oil, from marketing or from other non-production businesses.

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) 13-Feb 2006	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap								
BP plc	BP	B	67.30	3,465	233,000	77.00	0.15	0.89
Total S.A.	TOT	B	128.75	1,176	151,000	160.00	0.12	0.83
Exxon Mobil Corporation	XOM	B	59.60	6,211	370,000	74.00	0.04	0.81
Royal Dutch Shell plc	RDS-A	B	62.63	3,293	206,000	80.00	0.11	0.81
ConocoPhillips	COP	B	59.45	1,693	101,000	95.00	0.22	0.71
Chevron Corporation	CVX	B	56.62	2,236	127,000	85.00	0.11	0.70
<i>Total or Median</i>					<i>1,188,000</i>		<i>0.12</i>	<i>0.81</i>
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	90.44	139	12,610	33.00	0.74	1.45
Imperial Oil Limited (30%)	IMO	B	97.68	101	9,850	90.00	0.09	1.08
Petro-Canada	PCZ	B	45.23	523	23,660	42.00	0.19	1.06
Suncor Energy	SU	B	71.37	461	32,910	75.00	0.10	0.96
Marathon Oil Corporation	MRO	B	67.44	368	24,810	75.00	0.25	0.92
Norsk Hydro ASA	NHY	B	112.42	251	28,210	130.00	0.17	0.89
PetroChina Company Ltd (10%)	PTR	B	95.79	176	16,840	120.00	0.01	0.80
Lukoil Oil Company	LUKOY	B	77.90	830	65,000	100.00	0.01	0.78
Gazprom (50%)	OGZPF	B	85.20	1,133	96,500	140.00	0.02	0.62
<i>Total or Median</i>					<i>310,000</i>		<i>0.10</i>	<i>0.92</i>
Independent Natural Gas and Oil - Large Cap and Mid Cap								
CNOOC Limited (29%)	CEO	B	82.64	119	9,860	84.00	0.00	0.98
XTO Energy Inc.	XTO	B	41.40	372	15,400	48.00	0.17	0.89
Encana Corporation	ECA	B	41.76	876	36,600	51.00	0.20	0.85
Burlington Resources	BR	B	87.63	378	33,200	115.00	-	0.76
Occidental Petroleum Corp.	OXY	B	87.51	432	37,800	120.00	0.12	0.76
Devon Energy Corporation	DVN	B	58.00	451	26,200	94.00	0.12	0.66
Anadarko Petroleum Corp.	APC	B	97.06	234	22,700	160.00	0.10	0.65
<i>Total or Median</i>					<i>182,000</i>		<i>0.12</i>	<i>0.76</i>
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	67.30	23	1,510	65.00	0.11	1.03
Encore Acquisition Company	EAC	B	31.50	50	1,560	50.00	0.21	0.71
Energy Partners Ltd.	EPL	B	23.75	41	970	38.00	0.19	0.70
Cimarex Energy Company	XEC	B	40.89	85	3,480	64.00	0.10	0.67
<i>Total or Median</i>					<i>7,500</i>		<i>0.15</i>	<i>0.70</i>
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	47.59	164	7,790	15.00	0.55	1.98
Kinder Morgan Management, LLC	KMR	S3	43.35	58	2,490	15.00	0.55	1.85
Enerplus Resources Fund	ERF		47.82	110	5,260	42.00	0.14	1.12
Pengrowth Energy Trust	PGH		22.50	159	3,580	20.00	0.16	1.11
Penn West Energy Trust	PWTFF	B	34.13	179	6,120	33.00	0.13	1.03
San Juan Basin Royalty Trust	SJT		40.00	47	1,860	40.00	-	1.00
Canadian Oil Sands Trust (US\$)	COSWF	B	122.87	93	11,440	136.00	0.12	0.91
<i>Total or Median</i>					<i>38,500</i>		<i>0.14</i>	<i>1.11</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) 13-Feb 2006	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
Mega Cap								
BP plc	BP	B	67.30	9.6	6.6	5.9	10	3.3
Exxon Mobil Corporation	XOM	B	59.60	11.2	6.4	5.2	9	2.1
Total S.A.	TOT	B	128.75	9.2	6.2	5.1	9	2.8
Royal Dutch Shell plc	RDS-A	B	62.63	7.4	5.7	4.6	8	3.5
ConocoPhillips	COP	B	59.45	10.9	5.8	4.1	6	2.4
Chevron Corporation	CVX	B	56.62	9.7	5.6	4.0	7	3.2
	<i>Median</i>			9.7	6.0	4.8	8	3.0
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	90.44		8.2	11.9	18	3.9
Suncor Energy	SU	B	71.37	17.7	8.1	7.7	15	0.3
Imperial Oil Limited (30%)	IMO	B	97.68	10.7	6.9	7.4	13	0.9
Gazprom (50%)	OGZPF	B	85.20	20.0	10.2	6.3	10	0.5
Petro-Canada	PCZ	B	45.23	6.0	5.6	5.9	11	0.8
Norsk Hydro ASA	NHY	B	112.42	7.9	5.4	4.8	10	2.6
Lukoil Oil Company	LUKOY	B	77.90	19.7	6.0	4.7	7	1.3
Marathon Oil Corporation	MRO	B	67.44	6.5	4.8	4.4	7	2.0
PetroChina Company Ltd (10%)	PTR	B	95.79	11.6	5.3	4.3	8	4.0
	<i>Median</i>			11.1	6.0	5.9	10	1.3
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B	41.40	10.7	7.5	6.6	12	0.5
Encana Corporation	ECA	B	41.76	7.1	6.4	5.5	12	0.7
CNOOC Limited (29%)	CEO	B	82.64	9.2	5.2	5.1	9	2.8
Occidental Petroleum Corp.	OXY	B	87.51	11.3	6.3	4.8	9	1.6
Anadarko Petroleum Corp.	APC	B	97.06	12.7	7.3	4.7	9	0.7
Devon Energy Corporation	DVN	B	58.00	8.6	6.0	3.9	8	0.5
Burlington Resources	BR	B	87.63	-	-	-	-	-
	<i>Median</i>			9.2	6.3	4.8	9	0.7
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	67.30	10.1	5.8	6.0	12	0.9
Encore Acquisition Company	EAC	B	31.50	14.3	7.2	5.1	11	-
Cimarex Energy Company	XEC	B	40.89	7.3	5.8	3.9	9	0.4
Energy Partners Ltd.	EPL	B	23.75	5.7	5.0	3.5	12	-
	<i>Median</i>			8.7	5.8	4.5	11	0.2
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	47.59		7.9	15.7	23	6.7
Kinder Morgan Management, LLC	KMR	S3	43.35		7.9	14.7	21	7.4
Canadian Oil Sands Trust (USS)	COSWF	B	122.87	20.0	11.7	10.7	14	2.8
San Juan Basin Royalty Trust	SJT		40.00	12.2	10.1	10.1	11	8.9
Enerplus Resources Fund	ERF		47.82	8.6	6.1	6.8	11	9.1
Pengrowth Energy Trust	PGH		22.50	7.6	6.1	6.7	10	11.5
Penn West Energy Trust	PWTFF	B	34.13	8.0	6.1	6.3	10	10.3
	<i>Median</i>			8.6	7.9	10.1	11	8.9

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 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 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	20	37	33	481,000
BP plc	BP	B UK	9	12	43	36	315,000
Royal Dutch Shell plc	RDS-A	B UK	3	19	32	46	295,000
Total S.A.	TOT	B France	-	28	37	35	214,000
Chevron Corporation	CVX	B	9	9	51	30	214,000
ConocoPhillips	COP	B	23	7	43	28	207,000
		<i>Total or Median</i>	9	15	40	34	1,726,000
Producer/Refiners - Large Cap and Mid Cap							
Gazprom	OGZPF	B Russia		100			325,000
PetroChina Company Ltd.	PTR	B China	-	9	71	20	213,000
Lukoil Oil Company	LUKOY	B Russia	-	-	75	25	83,600
Norsk Hydro ASA	NHY	B Norway	-	29	38	33	39,200
Suncor Energy	SU	B Canada	4	-	89	7	38,200
Marathon Oil Corporation	MRO	B	13	7	40	41	36,600
Imperial Oil Limited	IMO	B Canada	12	-	64	24	33,300
Petro-Canada	PCZ	B Canada	23	4	53	20	27,100
		<i>Median</i>	4	5	64	24	796,000
Independent Natural Gas and Oil - Large Cap and Mid Cap							
Occidental Petroleum Corp.	OXY	B	14	2	74	11	59,000
Encana Corporation	ECA	B Canada	83	-	17	-	55,600
Devon Energy Corporation	DVN	B	64	-	36	-	48,100
Anadarko Petroleum Corp.	APC	B	60	-	40	-	41,700
CNOOC Limited	CEO	B China	-	12	88	-	34,600
XTO Energy Inc.	XTO	B	82	-	18	-	21,600
Burlington Resources	BR	B					
		<i>Median</i>	62	-	38	-	261,000
Independent Natural Gas and Oil - Small Cap							
Cimarex Energy Company	XEC	B	72	-	28	-	5,980
Encore Acquisition Company	EAC	B	25	-	75	-	3,150
Berry Petroleum Company	BRY	B	15	-	85	-	1,950
Energy Partners Ltd.	EPL	B	54	-	46	-	1,930
		<i>Median</i>	40	-	60	-	13,010
Income							
Canadian Oil Sands Trust (US\$)	COSWF	B Canada	-	-	100	-	14,300
Penn West Energy Trust	PWTFF	B Canada	37	-	63	-	6,800
Enerplus Resources Fund	ERF	Canada	58	-	42	-	5,360
Pengrowth Energy Trust	PGH	Canada	42	-	58	-	3,790
San Juan Basin Royalty Trust	SJT		100	-	-	-	1,860
		<i>Median</i>	42	-	58	-	32,100

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Index of Recent Research

Stock Ideas

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
9-Feb	XTO	XTO Energy Inc.	Natural Gas Growth
9-Feb	PTR	PetroChina Company Limited	Commodity Price Catch Up Potential
8-Feb	OXY	Occidental Petroleum Corporation	Longer Life Independent
8-Feb	BP	BP p.l.c.	Temporary Setbacks
7-Feb	APC	Anadarko Petroleum Corporation	Raise NPV to \$160 a Share
6-Feb	TOT	Total S.A.	LNG Leader
6-Feb	EPL	Energy Partners, Ltd.	New Orleans Explorer
6-Feb	SJT	San Juan Basin Royalty Trust	New Operator
3-Feb	XEC	Cimarex Energy Company	Born to Drill
3-Feb	RDSA	Royal Dutch Shell plc	Lower NPV to \$80 a Share
3-Feb	IMO	Imperial Oil Limited	Raise NPV to \$90 a Share
2-Feb	DVN	Devon Energy Corporation	Raise NPV to \$94 a Share
31-Jan	OGZPF	Gazprom	Raise Net Present Value to \$140 a Share
31-Jan	APC	Anadarko Petroleum Corporation	Long Life, Low Stock Price
31-Jan	XOM	Exxon Mobil Corporation	World's Most Profitable Company
30-Jan	CVX	Chevron Corporation	High Earnings, Low Stock Price
30-Jan	EAC	Encore Acquisition Company	Long Life, Low Stock Price
27-Jan	MRO	Marathon Oil Corporation	Raise Net Present Value to \$75 a Share
27-Jan	SU	Suncor Energy Inc.	Raise Net Present Value to \$75 a Share
27-Jan	PCZ	Petro-Canada	Favorable Relative Recognition
27-Jan	* BR	Burlington Resources, Inc.	Riding with ConocoPhillips
26-Jan	* COSWF	Canadian Oil Sands Trust	Volume Affirmed
26-Jan	* COP	ConocoPhillips	High Earnings, Low Stock Price
19-Jan	* ECA	EnCana Corporation	Natural Gas and Oil Sands
19-Jan	* KMx	Kinder Morgan	Fading Returns, Rising Risk
17-Jan	* LUKOY	Lukoil Oil Company	Raise Net Present Value to \$100 a Share
9-Jan	* NHY	Norsk Hydro ASA	Long Life Natural Gas
10-Nov	* PWTF	Penn West Energy Trust	Quality Income Stock
4-Nov	* BRY	Berry Petroleum	Expanding on Multiple Fronts
1-Nov	* CEO	CNOOC Ltd	Low Price for Natural Gas

Meter Reader - A Weekly Analysis

14-Feb		Crude Awakening
7-Feb	*	Refining Crack Stabilizes
31-Jan	*	Quarterly Disclosures Influence Value
24-Jan	*	Long-Term Oil Investment Strategy

Natural Gas and Oil Royalty Trusts - A Weekly Analysis

10-Feb		World Energy Perspective
3-Feb	*	Owner Vigilance Rewarded
27-Jan	*	Raise NPV for Penn West
20-Jan	*	Myth of Management

Industry Ideas

26-Dec	*	Interview by Sandra Ward in Barron's	Bullish and Fully Fueled
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* Archived on www.mcdep.com

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