

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

March 7, 2006

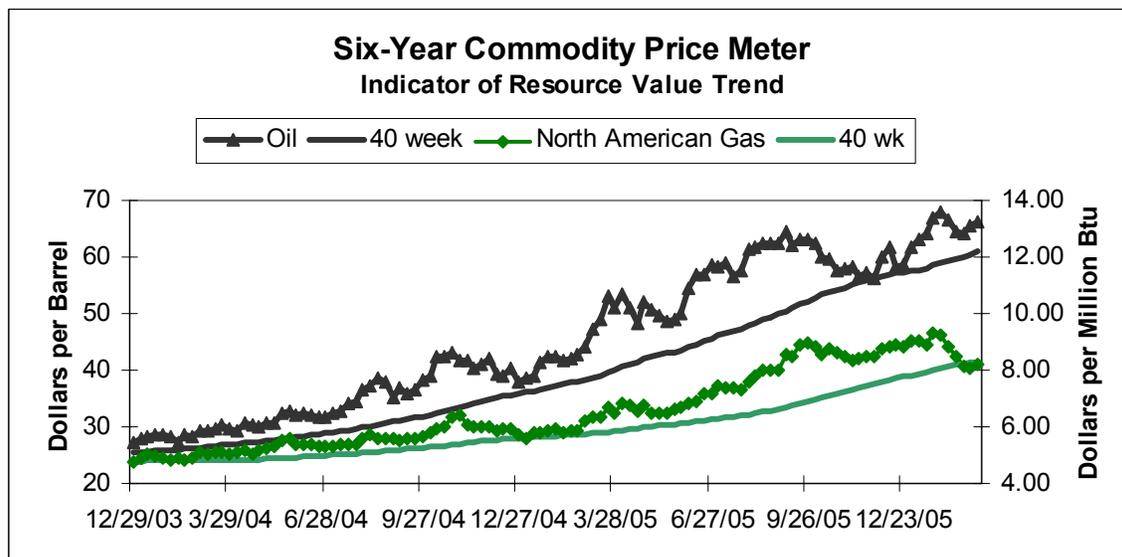
Inventory Myopia

Summary and Recommendation

The march upward of longer-term oil futures lends confidence to investors while declines in near-month natural gas price and refined product margins diminish immediate expectations. The march upward of longer-term natural gas futures has stalled as the upward pull of oil price is offset by the downward pull of “high” inventory levels of natural gas. The warm weather that reduced demand for natural gas also reduced demand for heating oil thereby contributing to lower refining profit. Yet the price of natural gas for next winter is above \$10 a million btu compared to the price for next month below \$7. An inventory surplus of about 1% of annual demand seems unlikely to have a lasting impact. Meanwhile we see higher multiples of enterprise value to cash flow justified by the latest reserve disclosures for the U.S. mega caps. Buy-recommendations continue for **ExxonMobil (XOM)**, **Chevron (CVX)**, and **ConocoPhillips (COP)**.

Futures Favor Oil

Buy-recommended stocks are priced at a median McDep Ratio of 0.82, or an unlevered 0.82 times present value that presumes \$50 oil. As a rough approximation we might say that stocks are priced for \$41 oil (0.82 times 50). Of course, no one can be that precise since there are so many variables to consider. Nonetheless, it seems quite clear that stocks are cheap compared to the futures price for oil for delivery over the next six years at \$66 a barrel.



The futures market does not think as highly of natural gas as we believe is justified. During the past several years six-year and one-year natural gas has traded between about oil divided by 5 and oil divided by 8. Natural gas and refined oil deliver the same heating value when the natural gas price is the oil price divided by 5. We believe that 5 is the long-term norm. Yet six-year natural gas 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. 1

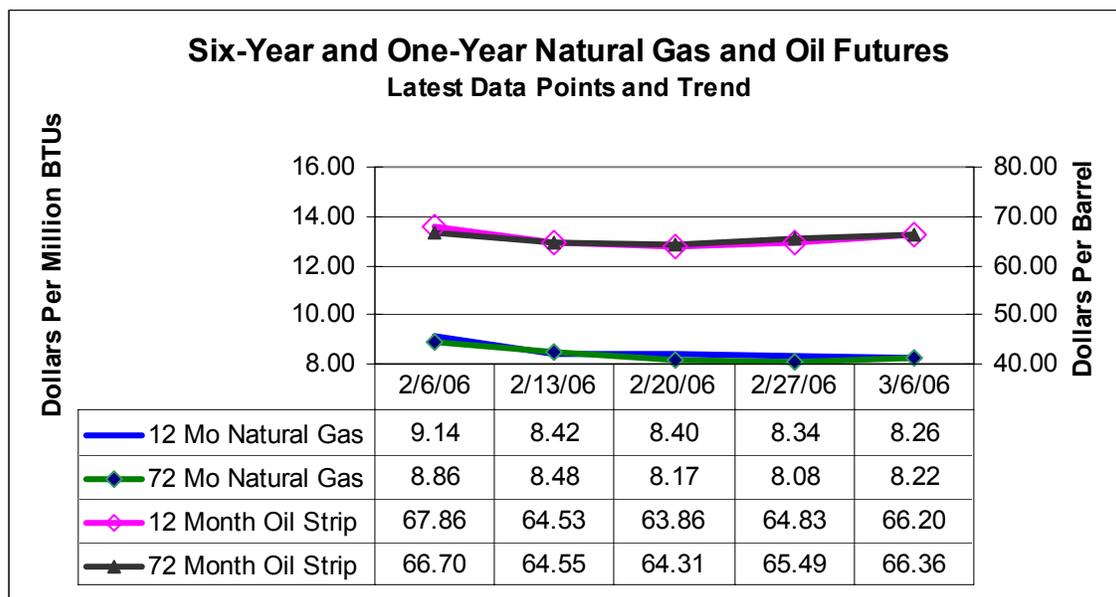
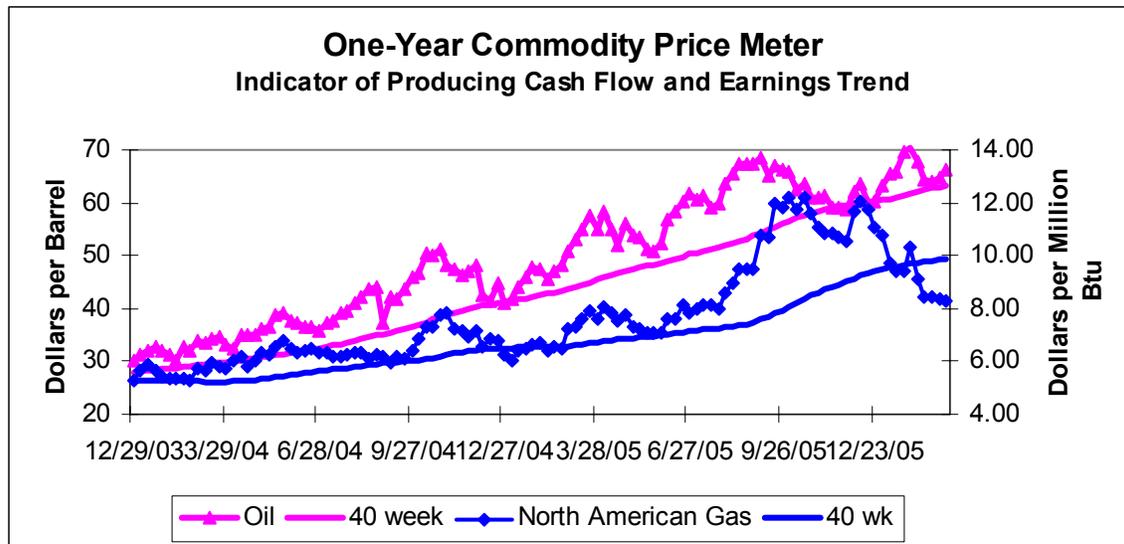
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gas is priced currently at oil divided by 8, the low end of the range. The current situation appears to offer temporary relief for consumers while an adjustment to higher long term price is underway.

One-year natural gas futures traded at oil price divided by 5 as recently as mid-December. Then the warm weather of January pushed the one-year price back to the six-year level and then pulled the six-year level down to oil price divided by 8. The timing of a return to more normal natural gas price relative to oil is as predictable as the weather.



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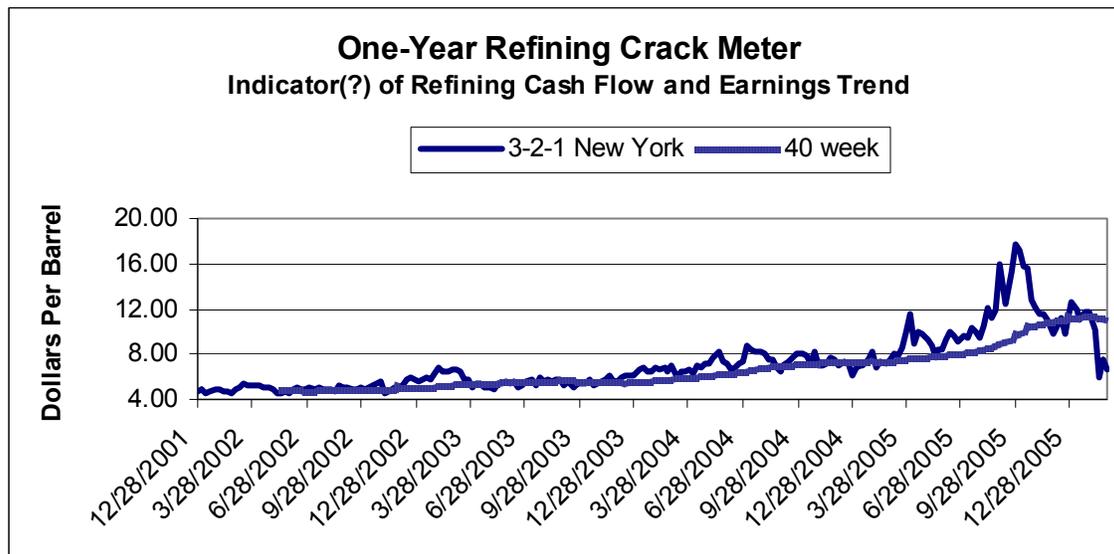
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Futures Confused on Refining

Futures investors have even more difficulty anticipating refining margin, or crack, the difference between the prices of heating oil and gasoline compared to crude oil. There are no publicly quoted six-year futures for refining crack and the one-year data is sketchy. For a brief period at the end of each month trading in crude oil for the next month closes while trading in heating oil and gasoline remains open. Moreover, gasoline is not always publicly quoted for the eleventh or twelfth month. Further, the crack widely quoted applies primarily to simpler refineries that run light, sweet crude while most refining investment is geared to the more intensive processing of heavy, sour crude.

In the absence of an obvious commodity market quote, we rely on our judgment as to the outlook for refining and downstream operations. The main consideration is that the trend to cleaner fuel that favors natural gas also favors more intensive refining. Not only must refined products be cleaner, they must also be derived increasingly from heavy oil. The world capacity to produce light oil apparently peaked in 2004 when Saudi Arabia reached its limits of light oil producing capacity.



U.S. Mega Caps Report Long Reserve Life

Latest disclosures support low McDep Ratios for U.S. mega caps. Adjusted reserve life increases to near 12 years for XOM and COP and remains near 10 for CVX. The CVX life may yet increase as we have not resolved all the details. CVX meets with analysts today.

U.S. Securities and Exchange Commission 10-K annual reports just released are the prime source for detailed information on proven reserves for most companies. As soon as we see the data, we run it through our models to see what happens to our calculation of adjusted reserve life. The longer the life the higher our estimated present value or the market's assessment of enterprise value can be as a multiple of next twelve months cash flow.

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With more details to be covered in separate company analyses we highlight some of the breakdown for the three companies. Our regular distinction between North America and Rest of World reflects the different pricing conditions in the two geographic areas. In the U.S and Canada natural gas is priced primarily on a monthly index basis that is almost completely short-term market sensitive. In the rest of the world natural gas is priced primarily on indices that respond more slowly to changing market conditions. The rest of the world is currently lagging the U.S. and Canada despite recent short term declines in North America. The catch up is underway helped recently by contrasting cold weather. Oil is priced similarly around the world. We take account of differences in taxation by normalizing cash flow.

U.S. Mega Cap Energy Companies Production and Reserves, 2005

	2005 Production (bcf or mmb)	12/31/2005 Proven Reserves Developed (bcf or mmb)	Undeveloped (bcf or mmb)	Weighted (bcf or mmb)	Weighted Life Index (years)	2006E Present Value/ Ebitda
North American Natural Gas						
ExxonMobil	1,140	12,026	3,507	13,780	12.1	10.0
Chevron	604	4,022	406	4,225	7.0	5.9
ConocoPhillips	1,388	13,908	2,462	15,139	10.9	8.0
Rest of World Natural Gas						
ExxonMobil	1,679	31,652	19,722	41,513	24.7	10.4
Chevron	949	11,466	7,540	15,236	16.1	7.6
ConocoPhillips	662	7,187	3,878	9,126	13.8	8.2
Oil (mmb)						
ExxonMobil	782	6,541	3,950	8,516	10.9	4.8
Chevron	609	5,601	2,399	6,801	11.2	5.1
ConocoPhillips	508	4,846	1,799	5,746	11.3	5.2
Oil (bcf equivalent)						
ExxonMobil	4,692	39,246	23,700	51,096		
Chevron	3,654	33,606	14,394	40,803		
ConocoPhillips	3,048	29,076	10,794	34,473		
Total (bcf equivalent)						
ExxonMobil	7,511	82,924	46,929	106,389	14.2	
Chevron	5,207	49,094	22,340	60,264	11.6	
ConocoPhillips	5,098	50,171	17,134	58,738	11.5	

In North American natural gas, XOM and COP have Alaskan gas, while CVX does not. Yet that resource will be most valuable only after the long-discussed pipeline is built. COP includes **Burlington Resources (BR)** in anticipation of the closing of the deal at the end of the month.

In Rest of World, XOM added large quantities last year apparently associated with expanding liquefied natural gas in Qatar. The tiny sheikdom protected by the entire regional U.S. military command based there has the most natural gas reserves of any country in the world after Russia and Iran.

Each of the three companies has diversified oil production that accounts for the largest single source of value. It is valued similarly in each case.

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) 6-Mar 2006	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap								
BP plc	BP	B	66.22	3,465	230,000	77.00	0.15	0.88
Exxon Mobil Corporation	XOM	B	59.98	6,211	373,000	74.00	0.04	0.82
Total S.A.	TOT	B	124.50	1,173	146,000	160.00	0.12	0.80
Royal Dutch Shell plc	RDS-A	B	61.10	3,293	201,000	80.00	0.11	0.79
ConocoPhillips	COP	B	60.58	1,693	103,000	95.00	0.22	0.72
Chevron Corporation	CVX	B	55.85	2,236	125,000	85.00	0.11	0.70
<i>Total or Median</i>					<i>1,178,000</i>		<i>0.12</i>	<i>0.80</i>
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	91.21	139	12,710	33.00	0.74	1.46
Petro-Canada	PCZ	B	46.40	523	24,270	42.00	0.19	1.08
Imperial Oil Limited (30%)	IMO	B	96.24	101	9,700	90.00	0.10	1.06
Suncor Energy	SU	B	75.76	461	34,930	75.00	0.10	1.01
Marathon Oil Corporation	MRO	B	69.79	367	25,640	75.00	0.25	0.95
Norsk Hydro ASA	NHY	B	121.00	251	30,310	130.00	0.16	0.94
Lukoil Oil Company	LUKOY	B	81.50	830	68,000	100.00	0.01	0.82
PetroChina Company Ltd (10%)	PTR	B	97.30	176	17,110	120.00	0.01	0.81
Gazprom (50%)	OGZPF	B	91.40	1,133	103,600	140.00	0.02	0.66
<i>Total or Median</i>					<i>326,000</i>		<i>0.10</i>	<i>0.95</i>
Independent Natural Gas and Oil - Large Cap and Mid Cap								
CNOOC Limited (29%)	CEO	B	84.22	119	10,040	84.00	0.00	1.00
Encana Corporation	ECA	B	43.05	873	37,600	51.00	0.18	0.87
XTO Energy Inc.	XTO	B	41.97	372	15,610	52.00	0.16	0.84
Occidental Petroleum Corp.	OXY	B	91.60	432	39,600	120.00	0.12	0.79
Burlington Resources	BR	B	89.88	378	34,000	115.00	-	0.78
Devon Energy Corporation	DVN	B	58.03	451	26,200	94.00	0.12	0.66
Anadarko Petroleum Corp.	APC	B	98.35	234	23,000	160.00	0.10	0.65
<i>Total or Median</i>					<i>186,000</i>		<i>0.12</i>	<i>0.79</i>
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	67.03	23	1,510	65.00	0.11	1.03
Energy Partners Ltd.	EPL	B	22.02	41	900	32.00	0.20	0.75
Encore Acquisition Company	EAC	B	30.53	50	1,520	50.00	0.24	0.71
Cimarex Energy Company	XEC	B	41.50	85	3,530	64.00	0.08	0.68
<i>Total or Median</i>					<i>7,500</i>		<i>0.15</i>	<i>0.73</i>
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	46.52	165	7,660	15.00	0.55	1.95
Kinder Morgan Management, LLC	KMR	S3	42.70	58	2,460	15.00	0.55	1.84
Pengrowth Energy Trust	PGH		22.74	160	3,640	18.00	0.16	1.22
Enerplus Resources Fund	ERF		50.60	114	5,780	42.00	0.15	1.18
Penn West Energy Trust	PWTFF	B	35.91	165	5,930	33.00	0.12	1.08
Canadian Oil Sands Trust (US\$)	COSWF	B	136.14	93	12,710	136.00	0.12	1.00
San Juan Basin Royalty Trust	SJT		39.20	47	1,830	40.00	-	0.98
<i>Total or Median</i>					<i>40,000</i>		<i>0.15</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) 6-Mar 2006	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
Mega Cap								
BP plc	BP	B	66.22	9.6	6.5	5.8	9	3.4
Exxon Mobil Corporation	XOM	B	59.98	11.7	6.3	5.2	9	2.1
Total S.A.	TOT	B	124.50	9.3	6.1	4.9	8	3.1
Royal Dutch Shell plc	RDS-A	B	61.10	7.4	5.5	4.3	8	3.6
ConocoPhillips	COP	B	60.58	12.0	5.9	4.2	6	2.4
Chevron Corporation	CVX	B	55.85	10.0	5.5	3.8	6	3.2
	<i>Median</i>			9.8	6.0	4.6	8	3.2
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	91.21		8.2	11.9	18	3.8
Suncor Energy	SU	B	75.76	17.7	7.8	7.9	16	0.3
Imperial Oil Limited (30%)	IMO	B	96.24	9.3	6.3	6.7	11	0.9
Gazprom (50%)	OGZPF	B	91.40	20.0	9.6	6.4	10	0.5
Petro-Canada	PCZ	B	46.40	6.0	5.4	5.9	11	0.8
Lukoil Oil Company	LUKOY	B	81.50	19.7	5.8	4.7	7	1.2
Marathon Oil Corporation	MRO	B	69.79	7.8	4.7	4.5	7	1.9
Norsk Hydro ASA	NHY	B	121.00	7.8	4.8	4.5	13	2.7
PetroChina Company Ltd (10%)	PTR	B	97.30	11.6	5.3	4.3	8	3.9
	<i>Median</i>			10.4	5.8	5.9	11	1.2
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B	41.97	12.4	8.0	6.7	12	0.5
Encana Corporation	ECA	B	43.05	8.7	6.0	5.2	11	0.7
CNOOC Limited (29%)	CEO	B	84.22	9.0	5.2	5.2	9	2.8
Occidental Petroleum Corp.	OXY	B	91.60	10.2	6.2	4.9	9	1.6
Anadarko Petroleum Corp.	APC	B	98.35	12.7	7.2	4.7	8	0.7
Devon Energy Corporation	DVN	B	58.03	8.6	5.9	3.9	8	0.8
Burlington Resources	BR	B	89.88	-	-	-	-	-
	<i>Median</i>			9.0	6.0	4.9	9	0.7
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	67.03	10.6	5.7	5.9	16	0.9
Encore Acquisition Company	EAC	B	30.53	14.8	8.0	5.6	12	-
Cimarex Energy Company	XEC	B	41.50	7.2	5.5	3.7	8	0.4
Energy Partners Ltd.	EPL	B	22.02	5.2	4.5	3.4	25	-
	<i>Median</i>			8.9	5.6	4.7	14	0.2
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	46.52		7.9	15.5	23	6.9
Kinder Morgan Management, LLC	KMR	S3	42.70		7.9	14.6	21	7.5
San Juan Basin Royalty Trust	SJT		39.20	12.2	11.1	10.9	12	8.2
Canadian Oil Sands Trust (US\$)	COSWF	B	136.14	20.0	9.8	9.9	13	2.6
Enerplus Resources Fund	ERF		50.60	9.4	6.2	7.3	13	8.7
Pengrowth Energy Trust	PGH		22.74	7.2	5.8	7.0	11	11.6
Penn West Energy Trust	PWTFF	B	35.91	7.7	6.4	6.8	10	10.0
	<i>Median</i>			9.4	7.9	9.9	13	8.2

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 31, 2007; 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	U.S. Domicile		North	Rest	Oil Prod'n (%)	Down- stream (%)	Total Present Value (US\$m)
				Amer. Natural Gas (%)	of World Natural Gas (%)			
Mega Cap								
Exxon Mobil Corporation	XOM	B		9	27	34	30	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		7	10	57	26	214,000
ConocoPhillips	COP	B		16	10	45	29	207,000
	<i>Total or Median</i>			8	15	40	33	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	-	30	37	34	38,700
Suncor Energy	SU	B	Canada	4	-	89	7	38,300
Marathon Oil Corporation	MRO	B		13	7	40	41	36,600
Imperial Oil Limited	IMO	B	Canada	12	-	64	24	33,400
Petro-Canada	PCZ	B	Canada	23	4	53	20	27,200
	<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	81	-	19	-	54,000
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		83	-	17	-	23,000
Burlington Resources	BR	B						
	<i>Median</i>			62	-	38	-	260,000
Independent Natural Gas and Oil - Small Cap								
Cimarex Energy Company	XEC	B		73	-	27	-	5,900
Encore Acquisition Company	EAC	B		24	-	76	-	3,280
Berry Petroleum Company	BRY	B		15	-	85	-	1,940
Energy Partners Ltd.	EPL	B		55	-	45	-	1,630
	<i>Median</i>			40	-	60	-	12,750
Income								
Canadian Oil Sands Trust (US\$)	COSWF	B	Canada	-	-	100	-	14,400
Penn West Energy Trust	PWTFF	B	Canada	37	-	63	-	6,200
Enerplus Resources Fund	ERF		Canada	55	-	45	-	5,630
Pengrowth Energy Trust	PGH		Canada	46	-	54	-	3,460
San Juan Basin Royalty Trust	SJT			100	-	-	-	1,860
	<i>Median</i>			46	-	54	-	31,600

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Index of Recent Research

Stock Ideas

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
28-Feb	PWTFF	Penn West Energy Trust	Drilling and CO2 Upside
27-Feb	XTO	XTO Energy Inc.	Raise NPV to \$52 a Share
24-Feb	EPL	Energy Partners, Ltd.	Lower NPV to \$32 a Share
23-Feb	BRY	Berry Petroleum	Growth Record
21-Feb	EAC	Encore Acquisition Company	Steady Progress
16-Feb	TOT	Total S.A.	Challenges of Growth
16-Feb	ECA	EnCana Corporation	Buying Opportunity
16-Feb	XEC	Cimarex Energy Company	Eyed by Icahn
14-Feb	NHY	Norsk Hydro ASA	Natural Gas Price Advance
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
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	* KMx	Kinder Morgan	Fading Returns, Rising Risk
17-Jan	* LUKOY	Lukoil Oil Company	Raise Net Present Value to \$100 a Share
1-Nov	* CEO	CNOOC Ltd	Low Price for Natural Gas

Meter Reader - A Weekly Analysis

6-Mar		Inventory Myopia
28-Feb	*	McDep Ratio Differentiates in 2005
21-Feb	*	Alternative Energy
14-Feb	*	Crude Awakening
7-Feb	*	Refining Crack Stabilizes

Natural Gas and Oil Royalty Trusts - A Weekly Analysis

3-Mar		Canadian Action
24-Feb	*	COS Trust Proposes 5:1 Split
17-Feb	*	Fundamental, Momentum and Contrary
10-Feb	*	World Energy Perspective

Industry Ideas

15-Feb		Presentation Slides	Russian Natural Gas, Canadian Tar Sands
26-Dec	*	Interview by Sandra Ward in Barron's	Bullish and Fully Fueled

* Archived on www.mcdep.com

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