

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

March 21, 2006

Oil Factor II

Summary and Recommendation

Following his well-timed 2004 book, The Oil Factor, with a new title, author Stephen Leeb advocates a model investment portfolio 50% in energy and precious metals, 30% in stocks and 20% in zero coupon bonds. At some point the 50% inflation hedge component and the 20% deflation hedge component would reverse weightings though the author no longer emphasizes the innovative oil price criteria introduced in the previous book for when to make that switch. Ominously titling his latest work, The Coming Economic Collapse, Mr. Leeb with his doctorate in psychology hopes that if our leaders recognize the seriousness of the energy situation, a collapse of civilization can be avoided. Aimed at a wide investment audience, the readable account may overstate to make a point. Our buy recommendations, **BP plc (BP)**, **Chevron (CVX)**, **ExxonMobil (XOM)**, **Royal Dutch Shell (RDS)**, **Devon Energy (DVN)**, **Petro-Canada (PCZ)**, **Suncor (SU)**, **Encana (ECA)** and **Canadian Oil Sands Trust (COSWF)** are among the stocks the author expects to contribute to investor wealth.

The \$200 Oil Case

First printed in February 2006, exactly two years after the The Oil Factor (see *Meter Reader*, March 30, 2004), the sequel ups the ante from \$100 a barrel to \$200 a barrel. The precedent is the increase in the price of Saudi Arabian Light crude oil from \$1.35 a barrel in 1970 to \$35 a barrel in 1982. If that 26-fold gain were to be applied to a temporary low point of \$10 a barrel in 1998, the price would be \$260 in 2010. From that illustration the author draws the suggestion that \$200 plus may lie ahead.

When we say that oil price went up ten times in the 1970s we have in mind the U.S. crude oil price of about \$3 going to more than \$30. We would then apply that to the trend of the 1990s of \$20 and can thus illustrate \$200 also. Trying to present a more likely case than an overstated case we say our vision is \$150 in 2010. Mr. Leeb's price and our vision are in dollars of the day, rather than in inflation-adjusted dollars. While we hope the dollar keeps its value, we cannot be sure of it.

Like Mr. Simmons, the author of Twilight in the Desert (see *U.S. Natural Gas Royalty Trusts*, June 10, 2005), Mr. Leeb justifies a consciously alarmist stance as necessary to counter complacency. The author is concerned about the myopia, short-sightedness, of those who look for oil price to decline to the lower levels of the past. Teaching us a new word, he is also concerned about the *hyperopia*, far-sightedness, of those worried about environmental consequences, such as, global warming. If the energy situation doesn't get enough attention soon, as he sees it, there won't be much civilization left to worry about long-term environmental damage.

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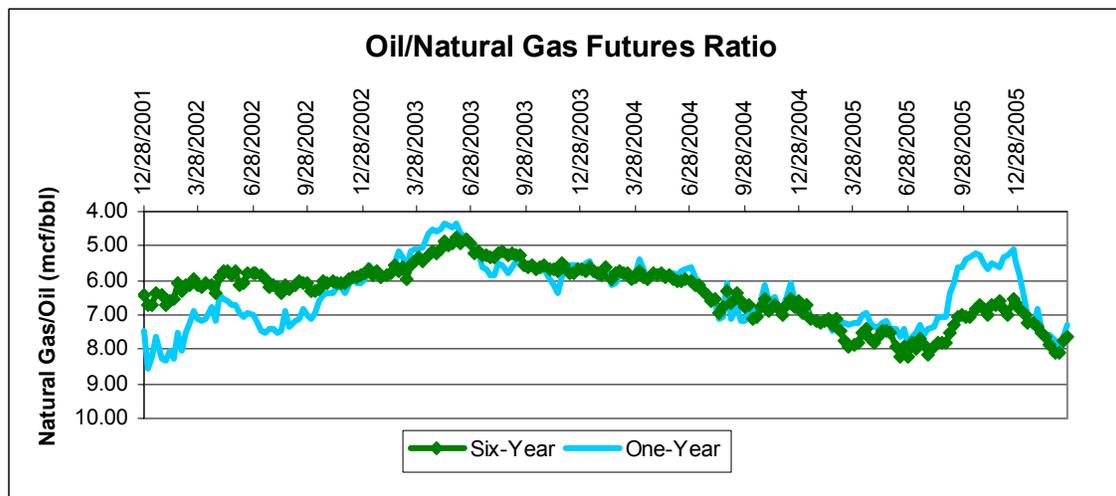
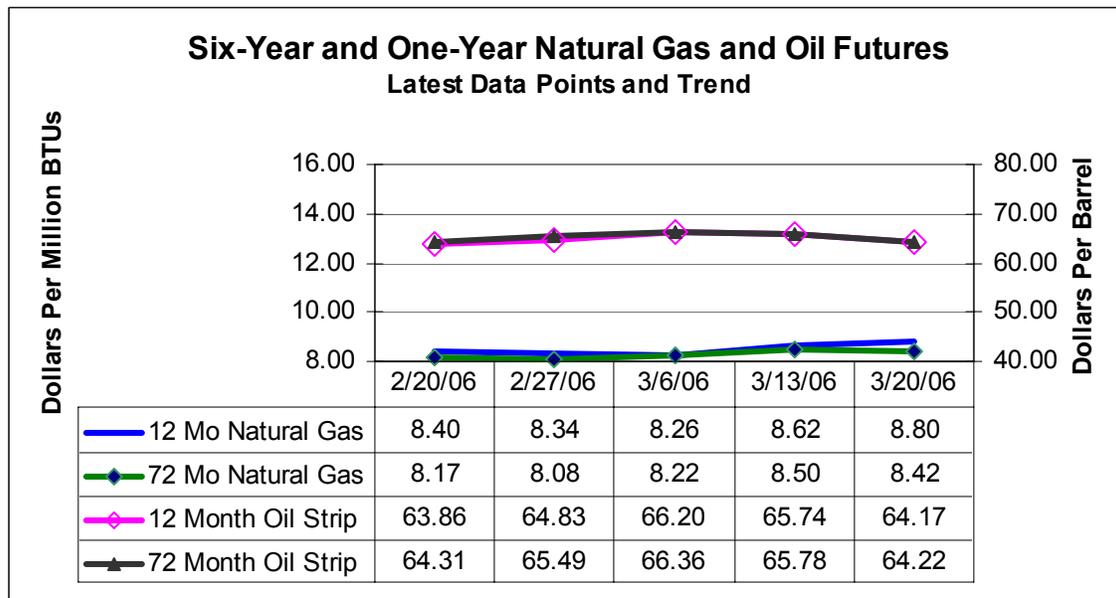
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Whistling in the Wind

The leading alternatives to limited oil supply are wind and liquefied natural gas (LNG) as Mr. Leeb writes. Oil sands and nuclear are highlighted while coal gasification is minimized. There is no mention we recall of the drawbacks that make us less enthusiastic about wind. The unprotected blades of windmills apparently kill too many birds, the wind does not blow all the time and it takes much land area for a small amount of power. We like gasification more than wind as a large scale future alternative. Meanwhile our buy recommendations are well represented in the more advanced sources of new supply -- LNG and oil sands.

Natural Gas Climbing Back



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) 20-Mar 2006	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap								
BP plc	BP	B	68.75	3,465	238,000	77.00	0.15	0.91
Exxon Mobil Corporation	XOM	B	60.66	6,211	377,000	74.00	0.04	0.83
Total S.A.	TOT	B	128.47	1,173	151,000	160.00	0.12	0.83
Royal Dutch Shell plc	RDS-A	B	61.28	3,293	202,000	80.00	0.11	0.79
ConocoPhillips	COP	B	60.29	1,693	102,000	95.00	0.22	0.72
Chevron Corporation	CVX	B	56.75	2,236	127,000	85.00	0.11	0.70
<i>Total or Median</i>					<i>1,197,000</i>		<i>0.12</i>	<i>0.81</i>
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	92.09	139	12,840	33.00	0.74	1.47
Imperial Oil Limited (30%)	IMO	B	101.33	101	10,210	90.00	0.09	1.11
Petro-Canada	PCZ	B	45.38	523	23,730	42.00	0.19	1.07
Marathon Oil Corporation	MRO	B	74.72	367	27,450	75.00	0.20	1.00
Norsk Hydro ASA	NHY	B	126.03	251	31,570	130.00	0.16	0.97
Suncor Energy	SU	B	72.08	461	33,240	75.00	0.10	0.96
PetroChina Company Ltd (10%)	PTR	B	97.85	178	17,400	120.00	0.05	0.83
Lukoil Oil Company	LUKOY	B	79.60	830	66,000	100.00	0.01	0.80
Gazprom (50%)	OGZPF	B	89.70	1,133	101,600	140.00	0.02	0.65
<i>Total or Median</i>					<i>324,000</i>		<i>0.10</i>	<i>0.97</i>
Independent Natural Gas and Oil - Large Cap and Mid Cap								
CNOOC Limited (29%)	CEO	B	79.84	119	9,520	84.00	0.00	0.95
Encana Corporation	ECA	B	45.85	873	40,000	51.00	0.18	0.92
XTO Energy Inc.	XTO	B	41.54	372	15,450	52.00	0.16	0.83
Occidental Petroleum Corp.	OXY	B	92.42	432	39,900	120.00	0.12	0.80
Burlington Resources	BR	B	89.67	378	33,900	115.00	-	0.78
Devon Energy Corporation	DVN	B	58.90	451	26,600	94.00	0.12	0.67
Anadarko Petroleum Corp.	APC	B	97.19	234	22,700	160.00	0.10	0.65
<i>Total or Median</i>					<i>188,000</i>		<i>0.12</i>	<i>0.80</i>
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	67.49	23	1,520	65.00	0.11	1.04
Energy Partners Ltd.	EPL	B	21.96	41	900	32.00	0.20	0.75
Encore Acquisition Company	EAC	B	30.57	50	1,520	50.00	0.24	0.71
Cimarex Energy Company	XEC	B	40.33	85	3,430	64.00	0.08	0.66
<i>Total or Median</i>					<i>7,400</i>		<i>0.15</i>	<i>0.73</i>
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	47.10	165	7,760	15.00	0.55	1.97
Kinder Morgan Management, LLC	KMR	S3	43.32	58	2,490	15.00	0.55	1.86
Pengrowth Energy Trust	PGH		22.94	160	3,670	18.00	0.16	1.23
Enerplus Resources Fund	ERF		49.35	114	5,640	42.00	0.14	1.15
Penn West Energy Trust	PWTFF	B	36.46	165	6,020	33.00	0.12	1.09
Canadian Oil Sands Trust (US\$)	COSWF	B	141.85	93	13,250	136.00	0.11	1.04
San Juan Basin Royalty Trust	SJT	B	39.12	47	1,820	40.00	-	0.98
<i>Total or Median</i>					<i>40,700</i>		<i>0.14</i>	<i>1.15</i>

B = Buy, S2 = Short half unlevered position, S3 = Short quarter unlevered position, H = Hold

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) 20-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	68.75	9.6	6.6	6.0	10	3.3
Exxon Mobil Corporation	XOM	B	60.66	11.7	6.4	5.3	9	2.1
Total S.A.	TOT	B	128.47	9.3	6.2	5.2	9	3.1
Royal Dutch Shell plc	RDS-A	B	61.28	7.3	5.5	4.3	8	3.7
ConocoPhillips	COP	B	60.29	12.1	6.0	4.3	6	2.4
Chevron Corporation	CVX	B	56.75	10.7	5.6	4.0	7	3.2
	<i>Median</i>			10.2	6.1	4.7	8	3.1
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	92.09		8.2	12.0	18	3.8
Suncor Energy	SU	B	72.08	17.7	8.0	7.8	15	0.3
Imperial Oil Limited (30%)	IMO	B	101.33	9.3	6.5	7.3	12	0.8
Gazprom (50%)	OGZPF	B	89.70	20.0	9.6	6.2	10	0.5
Petro-Canada	PCZ	B	45.38	6.0	5.5	5.9	11	0.8
PetroChina Company Ltd (10%)	PTR	B	97.85	11.6	6.1	5.0	9	4.3
Lukoil Oil Company	LUKOY	B	79.60	19.7	6.0	4.8	7	1.3
Marathon Oil Corporation	MRO	B	74.72	7.8	4.8	4.8	8	1.8
Norsk Hydro ASA	NHY	B	126.03	7.8	4.7	4.6	13	2.7
	<i>Median</i>			10.4	6.1	5.9	11	1.3
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B	41.54	12.4	7.9	6.5	12	0.5
Encana Corporation	ECA	B	45.85	8.7	5.9	5.4	11	0.7
Occidental Petroleum Corp.	OXY	B	92.42	10.2	6.3	5.1	9	1.6
CNOOC Limited (29%)	CEO	B	79.84	9.0	5.2	5.0	9	2.9
Anadarko Petroleum Corp.	APC	B	97.19	12.7	7.2	4.6	8	0.7
Devon Energy Corporation	DVN	B	58.90	8.6	5.9	4.0	8	0.8
Burlington Resources	BR	B	89.67	-	-	-	-	-
	<i>Median</i>			9.0	5.9	5.0	9	0.7
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	67.49	10.6	5.9	6.1	16	0.9
Encore Acquisition Company	EAC	B	30.57	14.8	8.1	5.7	13	-
Cimarex Energy Company	XEC	B	40.33	7.2	5.4	3.6	8	0.4
Energy Partners Ltd.	EPL	B	21.96	5.2	4.5	3.4	25	-
	<i>Median</i>			8.9	5.7	4.7	14	0.2
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	47.10		7.9	15.6	23	6.8
Kinder Morgan Management, LLC	KMR	S3	43.32		7.9	14.7	21	7.4
San Juan Basin Royalty Trust	SJT	B	39.12	13.6	11.0	10.8	12	8.2
Canadian Oil Sands Trust (US\$)	COSWF	B	141.85	20.0	10.3	10.6	14	2.4
Enerplus Resources Fund	ERF		49.35	9.4	6.2	7.1	13	8.8
Penn West Energy Trust	PWTFF	B	36.46	7.7	6.5	7.1	11	9.7
Pengrowth Energy Trust	PGH		22.94	7.2	5.8	7.1	11	11.3
	<i>Median</i>			9.4	7.9	10.6	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	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	8	27	35	30	481,000
BP plc	BP	B UK	9	12	43	36	315,000
Royal Dutch Shell plc	RDS-A	B UK	3	20	32	44	295,000
Total S.A.	TOT	B France	-	28	37	35	214,000
Chevron Corporation	CVX	B	6	10	58	26	214,000
ConocoPhillips	COP	B	16	10	47	27	207,000
		<i>Total or Median</i>	7	16	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	81	10	225,000
Lukoil Oil Company	LUKOY	B Russia	-	-	75	25	83,600
Norsk Hydro ASA	NHY	B Norway	-	30	37	34	38,800
Suncor Energy	SU	B Canada	4	-	89	7	38,200
Marathon Oil Corporation	MRO	B	11	11	36	42	34,600
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	6	64	24	806,000
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	-	14,300
Penn West Energy Trust	PWTFF	B Canada	38	-	62	-	6,100
Enerplus Resources Fund	ERF	Canada	55	-	45	-	5,610
Pengrowth Energy Trust	PGH	Canada	46	-	54	-	3,450
San Juan Basin Royalty Trust	SJT	B	100	-	-	-	1,860
		<i>Median</i>	46	-	54	-	31,300

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Index of Recent Research

Stock Ideas

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
20-Mar	SJT	San Juan Basin Royalty Trust	Upgrade to Buy
10-Mar	COP	ConocoPhillips	Longest Life Mega Cap
9-Mar	XOM	Exxon Mobil Corporation	Stronger than the Government
8-Mar	CVX	Chevron Corporation	Momentum Break
28-Feb	PWTF	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
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
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
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

21-Mar		Oil Factor II
14-Mar	*	Record U.K. Natural Gas Price
7-Mar	*	Inventory Myopia
28-Feb	*	McDep Ratio Differentiates in 2005

Natural Gas and Oil Royalty Trusts - A Weekly Analysis

17-Mar		Opportunity Knocked
10-Mar	*	Inventory Investment
3-Mar	*	Canadian Action
24-Feb	*	COS Trust Proposes 5:1 Split
17-Feb	*	Fundamental, Momentum and Contrary

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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