

Meter Reader

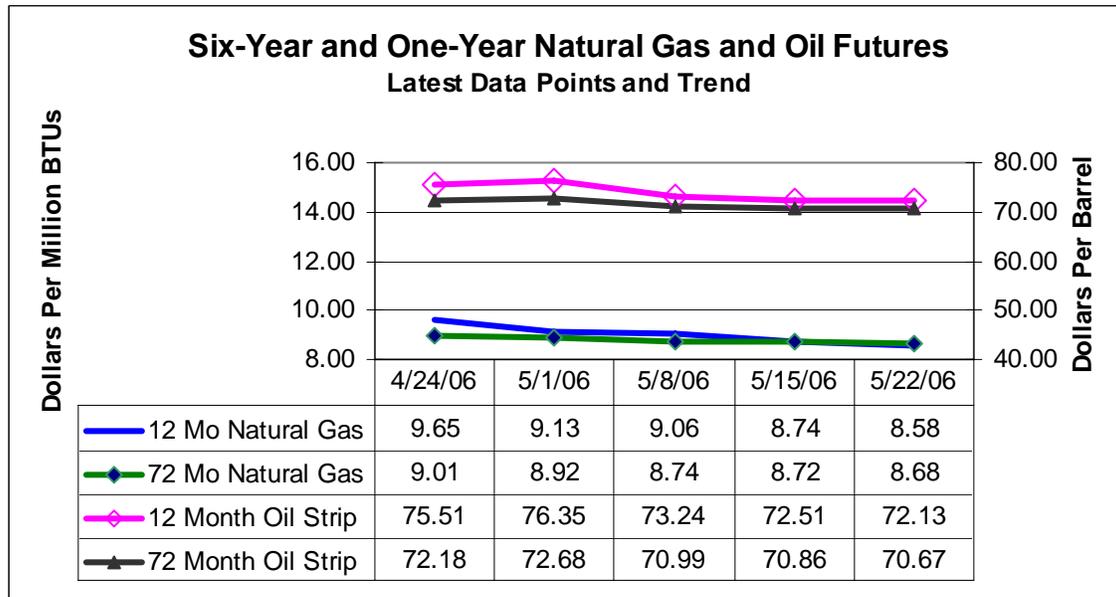
A Weekly Analysis of Energy Stocks Using the McDep Ratio

May 23, 2006

Caracas USA

Summary and Recommendation

Political risk for oil and gas producers may be increasing in the U.S. and the U.K. and may be decreasing in Canada, Russia and China. Congress apparently has voted to renege on the maximum oil royalties required by the U.S. government on production from the deep Gulf of Mexico. Hugo Chavez reneged on maximum oil royalties required by the Venezuelan government on production from oil sands. Political risk is always with us as is stock market risk. Oil and gas stocks of companies from Canada, Russia and China that had been the best gainers for awhile have been among the greatest decliners this month. Amidst the short-term carnage there are positive signs. Buy-recommended **Gazprom (OGZYPF)** has declined the classic one-third from its high and also is in moving average buying range defined as stock price less than the 60-day average and more than the 200-day average. More important its McDep Ratio is again among the lowest. Commodity price continues in a rising trend with oil above and natural gas on the 40-week average for six-year futures. One-year refining crack (margin) is above \$10 a barrel presumed in our present value estimates.

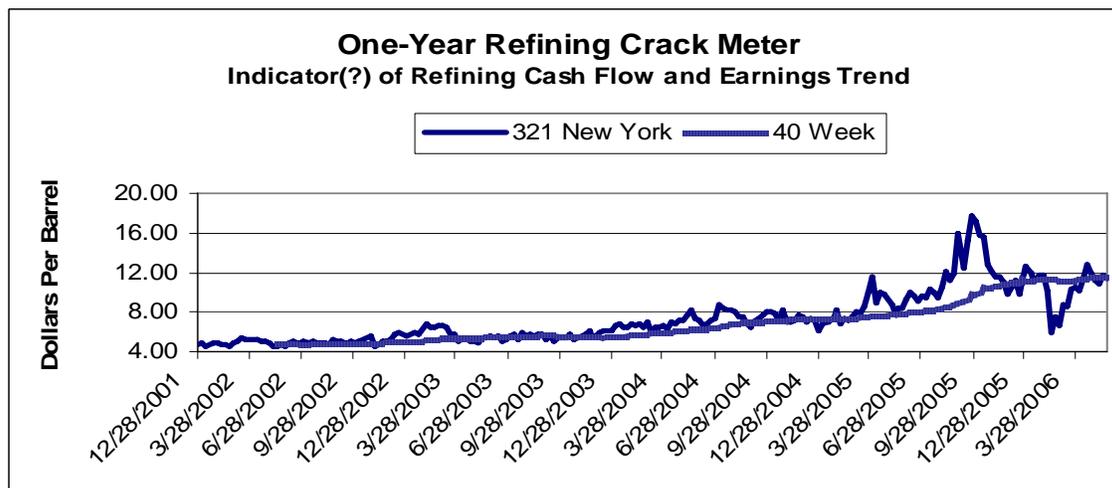
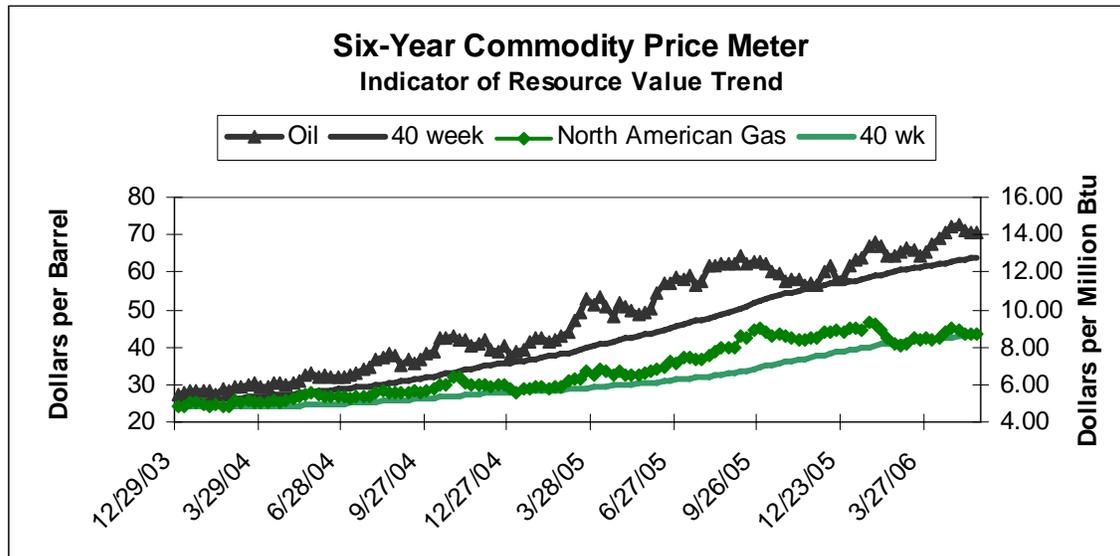


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The Global Economy Functions Imperfectly

The political rationale that causes leaders to do the wrong thing economically recurs all too often. The royalty deed is not yet done in Washington, nor does it appear that the mega cap companies have left Venezuela yet. The New York Times which glorified Fidel Castro in the beginning as we recall (no disrespect intended) points out that Mr. Chavez is offending his friends as well as his enemies. Earlier the U.K. proposed a tax increase on North Sea natural gas amid shortages of the clean fuel in that country. China has low prices for oil products and natural gas that overstimulate demand. Russia may have put Yukos out of business, but it cleaned up Gazprom and aligned the interests of Russia and international investors in that stock. The Canadian federal government has yet to bring final clarity to non-Canadian ownership restrictions on trusts.

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) 22-May 2006	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap								
BP plc	BP	B	70.19	3,420	240,000	77.00	0.16	0.93
Total S.A.	TOT	B	130.40	1,168	152,000	160.00	0.13	0.84
Royal Dutch Shell plc	RDS-A	B	65.11	3,268	213,000	80.00	0.10	0.83
Exxon Mobil Corporation	XOM	B	60.78	6,126	372,000	74.00	0.04	0.83
ConocoPhillips	COP	B	62.57	1,693	106,000	95.00	0.22	0.73
Chevron Corporation	CVX	B	58.22	2,224	130,000	85.00	0.11	0.72
Gazprom (50%)	OGZPY	B	36.75	2,833	104,100	56.00	0.02	0.66
<i>Total or Median</i>					<i>1,317,000</i>		<i>0.11</i>	<i>0.83</i>
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	83.61	135	11,290	33.00	0.75	1.38
Imperial Oil Limited (30%)	IMO	B	100.08	100	9,980	90.00	0.09	1.10
Suncor Energy	SU	B	75.78	461	34,940	75.00	0.09	1.01
Petro-Canada	PCZ	B	42.00	520	21,840	42.00	0.20	1.00
Norsk Hydro ASA	NHY	B	128.17	250	32,060	130.00	0.16	0.99
Marathon Oil Corporation	MRO	B	72.43	367	26,610	75.00	0.20	0.97
PetroChina Company Ltd (10%)	PTR	B	104.40	178	18,560	120.00	0.05	0.88
Lukoil Oil Company	LUKOY	B	71.30	830	59,000	110.00	0.01	0.65
<i>Total or Median</i>					<i>214,000</i>		<i>0.13</i>	<i>0.99</i>
Independent Natural Gas and Oil - Large Cap and Mid Cap								
Encana Corporation	ECA	B	46.50	865	40,200	51.00	0.14	0.92
CNOOC Limited (29%)	CEO	B	73.90	119	8,810	84.00	-	0.88
Occidental Petroleum Corp.	OXY	B	93.11	431	40,100	120.00	0.12	0.80
XTO Energy Inc.	XTO	B	39.25	370	14,520	52.00	0.16	0.79
EOG Resources	EOG	B	62.89	246	15,500	90.00	0.04	0.71
Anadarko Petroleum Corp.	APC	B	98.70	232	22,900	160.00	0.11	0.66
Devon Energy Corporation	DVN	B	57.34	449	25,700	94.00	0.12	0.66
<i>Total or Median</i>					<i>168,000</i>		<i>0.12</i>	<i>0.79</i>
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	59.86	23	1,350	65.00	0.20	0.94
Energy Partners Ltd.	EPL	B	22.58	40	910	29.00	0.21	0.82
Encore Acquisition Company	EAC	B	25.83	54	1,390	45.00	0.28	0.69
Cimarex Energy Company	XEC	B	39.52	85	3,360	64.00	0.09	0.65
<i>Total or Median</i>					<i>7,000</i>		<i>0.20</i>	<i>0.76</i>
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	44.26	165	7,320	15.00	0.56	1.87
Kinder Morgan Management, LLC	KMR	S3	40.75	58	2,360	15.00	0.56	1.76
Pengrowth Energy Trust	PGH		22.66	161	3,650	18.00	0.16	1.22
Enerplus Resources Fund	ERF		48.52	123	5,970	42.00	0.12	1.14
Penn West Energy Trust (US\$)	PWTFF	B	36.17	230	8,330	33.00	0.15	1.08
Canadian Oil Sands Trust (US\$)	COSWF	B	28.53	464	13,230	27.20	0.12	1.04
San Juan Basin Royalty Trust	SJT	B	34.94	47	1,630	40.00	-	0.87
<i>Total or Median</i>					<i>42,500</i>		<i>0.15</i>	<i>1.14</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) 22-May 2006	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
Mega Cap							
Gazprom (50%)	OGZPY B	36.75	20.0	9.5	6.3	10	0.5
BP plc	BP B	70.19	9.3	6.4	5.9	10	3.2
Exxon Mobil Corporation	XOM B	60.78	11.4	6.3	5.2	9	2.1
Total S.A.	TOT B	130.40	9.4	6.0	5.1	9	3.2
Royal Dutch Shell plc	RDS-A B	65.11	7.4	5.4	4.5	8	3.9
ConocoPhillips	COP B	62.57	12.1	5.8	4.2	6	2.3
Chevron Corporation	CVX B	58.22	11.0	5.6	4.0	7	3.6
	<i>Median</i>		<i>11.0</i>	<i>6.0</i>	<i>5.1</i>	<i>9</i>	<i>3.2</i>
Producer/Refiners - Large Cap and Mid Cap							
Kinder Morgan, Inc.	KMI S2	83.61		8.6	11.9	14	4.2
Suncor Energy	SU B	75.78	18.5	7.8	7.9	15	0.3
Imperial Oil Limited (30%)	IMO B	100.08	9.2	7.0	7.8	13	0.9
Petro-Canada	PCZ B	42.00	6.9	5.4	5.4	10	0.9
PetroChina Company Ltd (10%)	PTR B	104.40	11.6	6.0	5.3	10	4.0
Marathon Oil Corporation	MRO B	72.43	8.3	4.6	4.5	7	1.8
Norsk Hydro ASA	NHY B	128.17	7.8	4.4	4.3	10	2.8
Lukoil Oil Company	LUKOY B	71.30	20.2	6.5	4.2	6	1.7
	<i>Median</i>		<i>9.2</i>	<i>6.2</i>	<i>5.3</i>	<i>10</i>	<i>1.8</i>
Independent Natural Gas and Oil - Large Cap and Mid Cap							
XTO Energy Inc.	XTO B	39.25	12.1	7.9	6.3	11	0.5
Encana Corporation	ECA B	46.50	8.6	6.1	5.7	13	0.9
EOG Resources	EOG B	62.89	9.6	6.9	4.9	11	0.4
Anadarko Petroleum Corp.	APC B	98.70	12.6	7.2	4.7	9	0.7
Occidental Petroleum Corp.	OXY B	93.11	10.4	5.9	4.7	8	1.5
Devon Energy Corporation	DVN B	57.34	8.7	6.3	4.2	8	0.8
CNOOC Limited (29%)	CEO B	73.90	10.0	4.4	3.9	7	3.5
	<i>Median</i>		<i>10.0</i>	<i>6.3</i>	<i>4.7</i>	<i>9</i>	<i>0.8</i>
Independent Natural Gas and Oil - Small Cap							
Berry Petroleum Company	BRY B	59.86	10.5	6.6	6.1	18	1.0
Encore Acquisition Company	EAC B	25.83	14.4	8.2	5.7	12	-
Cimarex Energy Company	XEC B	39.52	7.2	5.9	3.8	9	0.4
Energy Partners Ltd.	EPL B	22.58	5.0	4.0	3.3	17	-
	<i>Median</i>		<i>8.9</i>	<i>6.2</i>	<i>4.8</i>	<i>14</i>	<i>0.2</i>
Income							
Kinder Morgan Energy Partners, L.P.	KMP S3	44.26		8.3	15.4	26	7.3
Kinder Morgan Management, LLC	KMR S3	40.75		8.3	14.6	24	8.0
Canadian Oil Sands Trust (US\$)	COSWF B	28.53	20.0	10.8	11.3	16	5.6
San Juan Basin Royalty Trust	SJT B	34.94	13.6	11.6	10.1	12	8.4
Pengrowth Energy Trust	PGH	22.66	7.5	6.8	8.2	15	11.8
Enerplus Resources Fund	ERF	48.52	9.3	7.0	8.0	16	9.3
Penn West Energy Trust (US\$)	PWTFF B	36.17	7.9	6.3	6.9	10	10.1
	<i>Median</i>		<i>9.3</i>	<i>8.3</i>	<i>10.1</i>	<i>16</i>	<i>8.4</i>

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 Portfolio Composite of Buy Recommendations

	Portfolio Equity Weight	Parts of EV	Non- U.S. Home (%)	North Amer. Natural Gas (%)	Rest of World Natural Gas (%)	Oil Prod'n (%)	Down- stream (%)	McDep Ratio	
Symbol	(%)		(%)	(%)	(%)	(%)	(%)		
Mega Cap									
BP plc	BP	2.7	1.0	2.8	0.2	0.3	1.3	1.0	0.93
Total S.A.	TOT	2.7	1.0	2.8		0.8	1.1	1.0	0.84
Royal Dutch Shell plc	RDS-A	2.8	1.0	2.8	0.1	0.6	0.9	1.3	0.83
Exxon Mobil Corporation	XOM	3.1	1.0		0.2	0.8	0.9	0.9	0.83
ConocoPhillips	COP	4.5	2.0		0.9	0.5	2.6	1.5	0.73
Chevron Corporation	CVX	5.5	2.0		0.4	0.6	3.3	1.5	0.72
Gazprom	OGZPY	9.4	3.0	8.5		8.5			0.66
Producer/Refiners - Large Cap and Mid Cap									
Imperial Oil Limited	IMO	1.5	0.5	1.4	0.1		0.9	0.3	1.10
Suncor Energy	SU	1.5	0.5	1.4	0.1		1.3	0.1	1.01
Petro-Canada	PCZ	1.3	0.5	1.4	0.3	0.1	0.8	0.3	1.00
Norsk Hydro ASA	NHY	1.3	0.5	1.4		0.4	0.5	0.5	0.99
Marathon Oil Corporation	MRO	1.3	0.5		0.2	0.1	0.5	0.6	0.97
PetroChina Company Ltd.	PTR	3.0	1.0	2.8		0.3	2.3	0.3	0.88
Lukoil Oil Company	LUKOY	6.4	2.0	5.6			4.4	1.3	0.65
Independent Natural Gas and Oil - Large Cap and Mid Cap									
Encana Corporation	ECA	2.7	1.0	2.8	2.4		0.4		0.92
CNOOC Limited	CEO	3.2	1.0	2.8		0.4	2.5		0.88
Occidental Petroleum Corp.	OXY	2.7	1.0		0.4	0.0	2.1	0.3	0.80
XTO Energy Inc.	XTO	2.6	1.0		2.3		0.5		0.79
EOG Resources	EOG	6.1	2.0		4.5	0.4	0.7		0.71
Anadarko Petroleum Corp.	APC	5.4	2.0		3.4		2.2		0.66
Devon Energy Corporation	DVN	5.3	2.0		3.6		2.0		0.66
Independent Natural Gas and Oil - Small Cap									
Berry Petroleum Company	BRY	1.3	0.5		0.2		1.2		0.94
Energy Partners Ltd.	EPL	1.2	0.5		0.8		0.6		0.82
Encore Acquisition Company	EAC	1.9	1.0		0.8		2.1		0.69
Cimarex Energy Company	XEC	2.8	1.0		2.0		0.8		0.65
Income									
Penn West Energy Trust (US\$)	PWTFF	5.6	2.0	5.6	2.1		3.5		1.08
Canadian Oil Sands Trust (US\$)	COSWF	5.7	2.0	5.6			5.6		1.04
San Juan Basin Royalty Trust	SJT	6.5	2.0		5.6				0.87
Portfolio Composite		100	35.5	48	31	14	45	11	0.79

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Index of Recent Research

Stock Ideas

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
19-May	COSWF	Canadian Oil Sands Trust	Expansion Startup Caution
18-May	OGZPF	Gazprom	Shtokman Delayed
16-May	OXY	Occidental Petroleum Corporation	Ecuador Expropriates
10-May	PWTF	Penn West Energy Trust	Sleeping Seal
10-May	EPL	Energy Partners, Ltd.	Back on Track
10-May	BRY	Berry Petroleum	Debt for the Future
8-May	XEC	Cimarex Energy Company	Seasonality Exaggerated
8-May	EOG	EOG Resources Inc.	Seasonality Exaggerated
5-May	SU	Suncor Energy Inc.	Retaking the Oil Sands Lead
5-May	RDSA	Royal Dutch Shell plc	Tighter Markets and Cost Pressures
5-May	TOT	Total S.A.	Spinoff and Split Ahead
3-May	EAC	Encore Acquisition Company	Lower NPV to \$45 a Share
3-May	DVN	Devon Energy Corporation	Barnett Bargain
3-May	IMO	Imperial Oil Limited	Oil Sands and Arctic Natural Gas
1-May	CVX	Chevron Corporation	India Opportunity, Venezuela Risk
28-Apr	APC	Anadarko Petroleum Corporation	Large Cap Resource Target
28-Apr	* MRO	Marathon Oil Corporation	Oil Sands Link
28-Apr	* XOM	Exxon Mobil Corporation	Low Risk, High Return
28-Apr	* NHY	Norsk Hydro ASA	Earnings Blowout
27-Apr	* COP	ConocoPhillips	Strong Cash Flow and Value
27-Apr	* ECA	EnCana Corporation	Natural Gas at Present Value
26-Apr	* PCZ	Petro-Canada	Understated Oil Sands
26-Apr	* BP	BP p.l.c.	Understated Russian Resource
26-Apr	* CEO	CNOOC Ltd	Burst of Cash Flow
21-Apr	* XTO	XTO Energy Inc.	Distributing Royalty Trust Units
20-Apr	* KMX	Kinder Morgan	False Debt Promotion Unmasked
17-Apr	* LUKOY	Lukoil Oil Company	Raise Net Present Value to \$110 a Share
21-Mar	* PTR	PetroChina Company Limited	Growing Pains
20-Mar	* SJT	San Juan Basin Royalty Trust	Upgrade to Buy

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23-May		Caracas USA
16-May	*	Natural Gas for Transportation
9-May	*	Oil Price Divided by Five
2-May	*	Gazprom the Great

Natural Gas and Oil Royalty Trusts - A Weekly Analysis

19-May		Buy Low
12-May	*	Hugoton Handover
5-May	*	Trading Action
28-Apr	*	The XTO Effect

Industry Ideas

15-Feb	*	Presentation Slides	Russian Natural Gas, Canadian Tar Sands
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* Archived on www.mcdep.com

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