

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

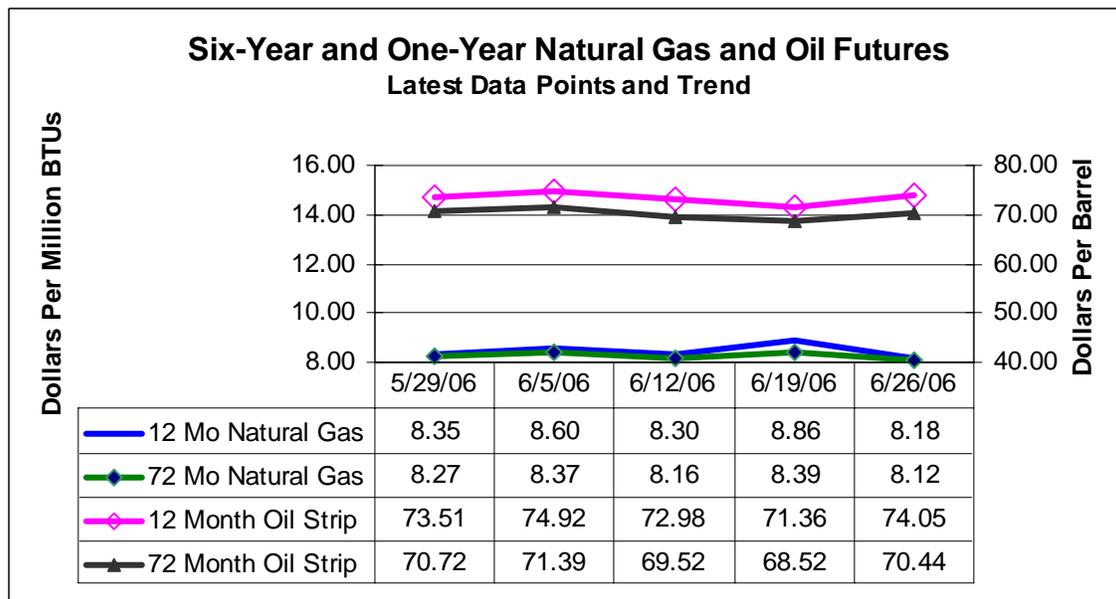
June 27, 2006

Deal Delirium

Summary and Recommendation

In the wake of last week's deals where agreements were announced by **Anadarko (APC)** to acquire Kerr-McGee (KMG) and Western Gas Resources (WRG) and by **Energy Partners (EPL)** to acquire Stone Energy (SGY) we continue our buy ratings on both stocks. As a result of steep increases in debt, the illustrative Equity Weight in the McDep Portfolio Composite of Buy Recommendations (see table) declines to 1.3% from 5.4% for APC and to 0.7% from 1.2% for EPL. The equity weight decline for Anadarko further reflects a McDep Ratio that has gone up enough to rank the stock in the middle of peers rather than near the lowest. The deals are good for the industry as they reflect confidence in the outlook.

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) 26-Jun 2006	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap								
BP plc	BP	B	67.47	3,420	231,000	80.00	0.15	0.87
Total S.A.	TOT	B	62.46	2,336	146,000	80.00	0.13	0.81
Royal Dutch Shell plc	RDS-A	B	63.80	3,268	209,000	84.00	0.10	0.78
Exxon Mobil Corporation	XOM	B	58.82	6,126	360,000	78.00	0.04	0.76
ConocoPhillips	COP	B	62.10	1,693	105,000	96.00	0.22	0.72
Chevron Corporation	CVX	B	59.68	2,224	133,000	88.00	0.11	0.71
Gazprom (50%)	OGZPY	B	38.40	2,833	108,800	56.00	0.02	0.69
<i>Total or Median</i>					<i>1,293,000</i>		<i>0.11</i>	<i>0.76</i>
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	99.35	135	13,410	33.00	0.75	1.50
Petro-Canada	PCZ	B	44.75	520	23,270	49.00	0.17	0.93
Imperial Oil Limited (30%)	IMO	B	33.62	299	10,060	37.00	0.08	0.92
Marathon Oil Corporation	MRO	B	76.88	367	28,210	86.00	0.18	0.91
Norsk Hydro ASA	NHY	B	26.34	1,251	32,940	31.00	0.14	0.87
Suncor Energy	SU	B	75.41	461	34,770	95.00	0.07	0.81
PetroChina Company Ltd (10%)	PTR	B	100.72	178	17,910	140.00	0.05	0.73
Lukoil Oil Company	LUKOY	B	70.50	830	59,000	110.00	0.02	0.65
<i>Total or Median</i>					<i>220,000</i>		<i>0.11</i>	<i>0.89</i>
Independent Natural Gas and Oil - Large Cap and Mid Cap								
Encana Corporation	ECA	B	50.50	865	43,700	55.00	0.13	0.93
XTO Energy Inc.	XTO	B	41.75	370	15,450	52.00	0.15	0.83
CNOOC Limited (29%)	CEO	B	75.08	119	8,950	98.00	-	0.77
Anadarko Petroleum Corp.	APC	B	43.62	464	20,200	77.00	0.46	0.77
Occidental Petroleum Corp.	OXY	B	100.00	431	43,100	138.00	0.11	0.75
EOG Resources	EOG	B	65.60	246	16,100	92.00	0.03	0.72
Devon Energy Corporation	DVN	B	56.57	449	25,400	102.00	0.11	0.61
<i>Total or Median</i>					<i>173,000</i>		<i>0.11</i>	<i>0.77</i>
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	30.93	45	1,390	39.00	0.17	0.83
Energy Partners Ltd.	EPL	B	19.49	75	1,460	31.00	0.44	0.79
Cimarex Energy Company	XEC	B	39.52	85	3,360	68.00	0.08	0.62
Encore Acquisition Company	EAC	B	24.77	54	1,330	54.00	0.18	0.56
<i>Total or Median</i>					<i>7,500</i>		<i>0.18</i>	<i>0.70</i>
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	46.20	166	7,670	15.00	0.56	1.92
Kinder Morgan Management, LLC	KMR	S3	43.08	58	2,500	15.00	0.56	1.83
Pengrowth Energy Trust	PGH		23.83	161	3,840	20.00	0.15	1.16
Enerplus Resources Fund	ERF		53.02	123	6,530	47.00	0.11	1.12
Penn West Energy Trust (US\$)	PWE	B	37.70	244	9,190	39.00	0.12	0.97
San Juan Basin Royalty Trust	SJT	B	38.15	47	1,780	40.00	-	0.95
Canadian Oil Sands Trust (US\$)	COSWF	B	29.36	464	13,620	35.00	0.10	0.85
<i>Total or Median</i>					<i>45,100</i>		<i>0.12</i>	<i>1.12</i>

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

Present Value = Shares times Net Present Value divided by (1-Debt/Present Value).

Debt = Present Value times Debt/Present Value

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) 26-Jun 2006	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
Mega Cap								
Gazprom (50%)	OGZPY	B	38.40	20.0	9.2	6.4	10	0.6
BP plc	BP	B	67.47	9.3	6.3	5.4	9	3.3
Exxon Mobil Corporation	XOM	B	58.82	11.4	6.3	4.8	8	2.2
Total S.A.	TOT	B	62.46	9.4	5.8	4.7	8	3.3
Royal Dutch Shell plc	RDS-A	B	63.80	7.3	5.4	4.2	7	3.9
ConocoPhillips	COP	B	62.10	12.1	5.8	4.2	6	2.3
Chevron Corporation	CVX	B	59.68	11.0	5.4	3.8	6	3.5
		<i>Median</i>		<i>11.0</i>	<i>5.8</i>	<i>4.7</i>	<i>8</i>	<i>3.3</i>
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	99.35		8.6	12.9	20	3.5
Imperial Oil Limited (30%)	IMO	B	33.62	9.4	7.9	7.2	12	2.5
Suncor Energy	SU	B	75.41	18.2	8.4	6.8	12	0.3
Petro-Canada	PCZ	B	44.75	6.9	5.7	5.3	10	0.8
Norsk Hydro ASA	NHY	B	26.34	7.8	5.3	4.6	11	2.7
PetroChina Company Ltd (10%)	PTR	B	100.72	14.8	6.2	4.6	8	4.2
Marathon Oil Corporation	MRO	B	76.88	8.3	4.6	4.2	7	1.7
Lukoil Oil Company	LUKOY	B	70.50	19.0	5.8	3.7	6	1.7
		<i>Median</i>		<i>9.4</i>	<i>6.0</i>	<i>5.0</i>	<i>10</i>	<i>2.1</i>
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B	41.75	12.1	7.6	6.3	11	0.5
Encana Corporation	ECA	B	50.50	8.6	6.3	5.8	13	0.8
Anadarko Petroleum Corp.	APC	B	43.62	11.2	7.2	5.5	7	1.7
EOG Resources	EOG	B	65.60	9.6	6.9	5.0	11	0.4
Occidental Petroleum Corp.	OXY	B	100.00	10.4	6.0	4.5	8	1.4
Devon Energy Corporation	DVN	B	56.57	8.6	6.4	3.9	7	0.8
CNOOC Limited (29%)	CEO	B	75.08	10.0	4.5	3.5	6	3.4
		<i>Median</i>		<i>10.0</i>	<i>6.4</i>	<i>5.0</i>	<i>8</i>	<i>0.8</i>
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	30.93	10.5	6.8	5.6	18	1.0
Encore Acquisition Company	EAC	B	24.77	14.4	7.7	4.3	9	-
Energy Partners Ltd.	EPL	B	19.49	6.2	5.1	4.1	21	-
Cimarex Energy Company	XEC	B	39.52	7.2	6.0	3.7	8	0.4
		<i>Median</i>		<i>8.9</i>	<i>6.4</i>	<i>4.2</i>	<i>13</i>	<i>0.2</i>
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	46.20		8.3	15.9	28	7.0
Kinder Morgan Management, LLC	KMR	S3	43.08		8.3	15.2	26	7.5
San Juan Basin Royalty Trust	SJT	B	38.15	13.7	12.0	11.5	13	7.6
Canadian Oil Sands Trust (US\$)	COSWF	B	29.36	25.1	11.0	9.4	12	6.4
Enerplus Resources Fund	ERF		53.02	9.4	7.3	8.1	15	8.5
Pengrowth Energy Trust	PGH		23.83	7.5	6.7	7.8	13	11.2
Penn West Energy Trust (US\$)	PWE	B	37.70	7.9	7.1	6.9	10	9.6
		<i>Median</i>		<i>9.4</i>	<i>8.3</i>	<i>9.4</i>	<i>13</i>	<i>7.6</i>

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 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

		<i>Portfolio Equity Weight</i>	<i>Parts of EV</i>	<i>Non- U.S. Home</i>	<i>North Amer. Natural Gas</i>	<i>Rest of World Natural Gas</i>	<i>Oil Prod'n</i>	<i>Down- stream</i>	<i>McDep Ratio</i>
	<i>Symbol</i>	<i>(%)</i>		<i>(%)</i>	<i>(%)</i>	<i>(%)</i>	<i>(%)</i>	<i>(%)</i>	
Mega Cap									
BP plc	BP	2.8	1.0	2.9	0.2	0.3	1.4	0.9	0.87
Total S.A.	TOT	2.8	1.0	2.9		0.8	1.2	0.9	0.81
Royal Dutch Shell plc	RDS-A	3.0	1.0	2.9	0.1	0.5	1.1	1.1	0.78
Exxon Mobil Corporation	XOM	3.2	1.0		0.2	0.6	1.2	0.8	0.76
ConocoPhillips	COP	4.7	2.0		0.9	0.6	2.7	1.6	0.72
Chevron Corporation	CVX	5.7	2.0		0.4	0.6	3.3	1.5	0.71
Gazprom	OGZPY	9.8	3.0	8.7		8.7			0.69
Producer/Refiners - Large Cap and Mid Cap									
Petro-Canada	PCZ	1.4	0.5	1.4	0.3	0.1	0.9	0.2	0.93
Imperial Oil Limited	IMO	1.5	0.5	1.4	0.1		1.0	0.3	0.92
Marathon Oil Corporation	MRO	1.4	0.5		0.2	0.1	0.5	0.6	0.91
Norsk Hydro ASA	NHY	1.4	0.5	1.4		0.4	0.6	0.5	0.87
Suncor Energy	SU	1.5	0.5	1.4	0.0		1.3	0.1	0.81
PetroChina Company Ltd.	PTR	3.2	1.0	2.9		0.2	2.4	0.2	0.73
Lukoil Oil Company	LUKOY	6.6	2.0	5.8			4.3	1.5	0.65
Independent Natural Gas and Oil - Large Cap and Mid Cap									
Encana Corporation	ECA	2.9	1.0	2.9	2.3		0.6		0.93
XTO Energy Inc.	XTO	2.8	1.0		2.4		0.5		0.83
CNOOC Limited	CEO	3.4	1.0	2.9		0.3	2.6		0.77
Anadarko Petroleum Corp.	APC	1.3	1.0		1.7		1.2		0.77
Occidental Petroleum Corp.	OXY	2.9	1.0		0.4	0.0	2.2	0.3	0.75
EOG Resources	EOG	6.4	2.0		4.5	0.4	0.8		0.72
Devon Energy Corporation	DVN	5.5	2.0		3.5		2.3		0.61
Independent Natural Gas and Oil - Small Cap									
Berry Petroleum Company	BRY	1.3	0.5		0.2		1.2		0.83
Energy Partners Ltd.	EPL	0.7	0.5		0.3		1.2		0.79
Cimarex Energy Company	XEC	2.9	1.0		2.0		0.9		0.62
Encore Acquisition Company	EAC	2.3	1.0		0.7		2.2		0.56
Income									
Penn West Energy Trust (US\$)	PWE	5.9	2.0	5.8	1.8		4.0		0.97
San Juan Basin Royalty Trust	SJT	6.7	2.0		5.8				0.95
Canadian Oil Sands Trust (US\$)	COSWF	6.0	2.0	5.8			5.8		0.85
Portfolio Composite		100	34.5	49	28	14	48	11	0.76

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Index of Recent Research

Stock Ideas

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
26-Jun	APC	Anadarko Petroleum Corporation	Hackett Job
23-Jun	SJT	San Juan Basin Royalty Trust	Irrefutable Logic
30-May	KMx	Kinder Morgan	Buyout Bailout
29-May	COSWF	Canadian Oil Sands Trust	Minimal Startup Delay Assessed
26-May	EPL	Energy Partners, Ltd.	Offers to Buy Stone Energy
24-May	* LUKOY	Lukoil Oil Company	Oil for Russia, Natural Gas for Export
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	* PWTFF	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	* 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
21-Mar	* PTR	PetroChina Company Limited	Growing Pains

Meter Reader - A Weekly Analysis

27-Jun		Deal Delirium
20-Jun	*	Coal, China and Currency
13-Jun	*	Stock Market Risk
6-Jun	*	Raise Long-Term Oil Price to \$60 a Barrel

Natural Gas and Oil Royalty Trusts - A Weekly Analysis

23-Jun		PWE Rings the Bell
16-Jun	*	Panic Perspective
9-Jun	*	9% Annual Distributions
2-Jun	*	Raise Long-Term Oil Price to \$60 a Barrel

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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