

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

November 19, 2001

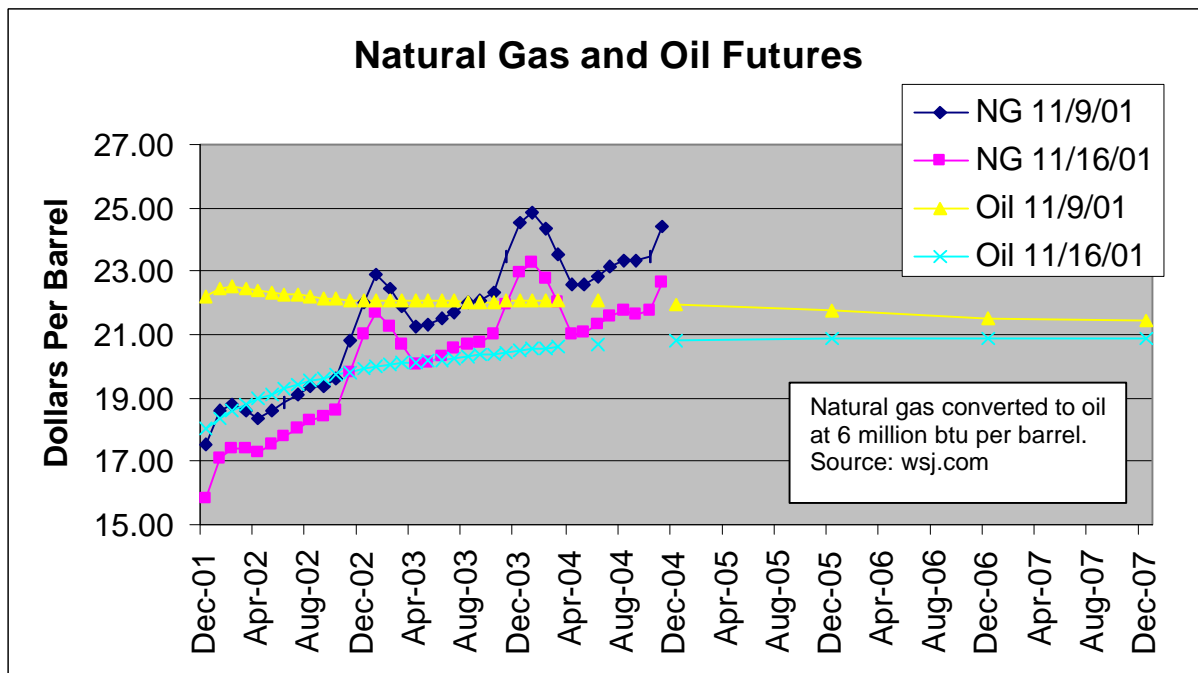
Upward Slope

Summary and Recommendation

The drop in near term oil quotes gives the oil price futures curve a definitive upward slope that promises improving returns ahead for energy investors. At the same time a premium for natural gas versus oil beginning a year from now makes prospects for the clean fuel look more favorable than in past cycles. Thus, the quiet winter ahead may be a time for investors to position their energy exposure to benefit from the new cycle. As we build a product line of recommendations we have two Strong Buys - **Burlington Resources (BR)** and **Marathon Oil (MRO)**. In addition we have nine Buy recommendations and one Sell spanning Large Caps, Mid Caps, Small Caps and Micro Caps. Meanwhile we regret that our projections of volume for recommended **Energy Partners (EPL)** fell short of actual results in its first four quarters of operation as a public company. For perspective on new ideas and old, our valuation ranking includes 63 energy stocks (see Table L-1, L-2, S-1 and S-2).

Both Oil and Natural Gas Futures Price Curves Slope Upward

While the December 2001 quote for Light Sweet Crude Oil dropped almost \$5 a barrel last week, the December 2007 quote dropped only about a dollar (see Chart). Natural gas quotes, dropping less, strengthened their premium relationship beginning next year.



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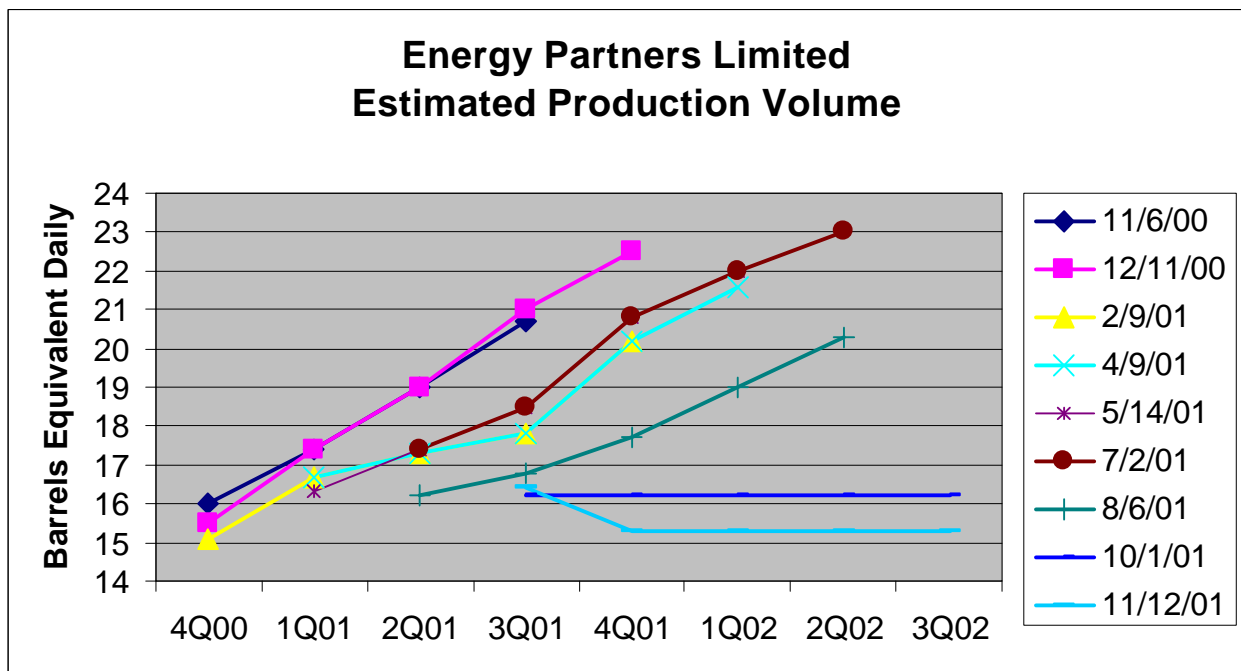
McDep Ratios, Present Value and Cash Flow Updated

Not only was last week momentous in oil, it was also a big week for price changes in bonds. Higher interest rates imply lower present value for a dollar received from oil production in the future. Outside of power companies and oil service companies all of our cash flow projections have been updated for latest market conditions. Present value of cash flow for three natural gas royalty trusts dropped a median 9% for the week (see Meter Reader Tables, a separate publication). Companies concentrated on oil production and having moderate leverage might have lost 15% of value. Our calculations are most thorough for the royalty trusts and for our recommended stocks.

What Went Right at Energy Partners?

More likely investors are asking the inverse of the question in our subtitle as the stock of the micro cap company has come under quite a bit of selling pressure. Coming public a year ago, Energy Partners Limited now trades at less than half the stock price of its initial offering. Although the stock appreciated 28% while our Strong Buy was in place from April 27 through June 29, it has declined sharply as we continue to carry a Buy rating on it.

Our projections of natural gas and oil volume that the company would achieve this year were too optimistic. For example, soon after the IPO our volume projection for the third quarter of 2001 just ended was about 21 thousand barrels equivalent daily (mbd) (see Chart). Actual volume was closer to 15 mbd. Instead of advancing sharply, volume has stayed basically flat.



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Here is what has gone right. The company has low leverage with a debt to present value ratio of only 0.17. That leaves EPL in a good position to do a deal when the market is depressed rather than having used up debt capacity when the market was overheated. Half of the company's current value, the East Bay field, was acquired on a timely basis in the previous downturn.

Management has also limited risk in its spending program. The guideline is to spend only cash flow and save debt for deals. Yet that sensible rule is contributing to lower volume in the current quarter. EPL has already spent most of its budget for the year while lower commodity prices are resulting in a lower current rate of cash flow generation. With little new drilling taking place now there is little new production expected in the next few months to offset natural decline of existing production.

Within the spending program, management limits uncertain exploration to about 10%. The other 90% is spent on more certain development. That rule too makes sense, but there is a subtle point that creates another short-term problem for the stock. More than half of the exploration went to a single well that was unsuccessful. The well happened to be on the largest prospect that we highlighted as having a chance to expand greatly the company's reserves.

In the future management is more likely to seek more partners to share exploration risk. The dry hole was in the Bay Marchand area where EPL has an 80% interest. Had the well been successful, 80% would have looked good. Since the well was unsuccessful, 50% would have looked more prudent.

Having been too optimistic we are going to be more cautious. We are now looking for a volume decline in the current quarter and a flat trend thereafter. Considering that the company is reinvesting all of its cash flow, there are good chances that the volume trend can show some upward movement next year. We keep our Buy rating intact and will be patient about expecting gratification.

Kurt H. Wulff, CFA

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Table L-1
Mega Cap and Large Cap Energy Companies
Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 16-Nov 2001</i>	<i>Shares (mm)</i>	<i>Market Cap (\$mm)</i>	<i>Net Present Value (\$/sh)</i>	<i>Debt/ Present Value</i>	<i>McDep Ratio</i>	
Mega Cap								
Exxon Mobil Corporation	XOM	37.54	6,963	261,000	33.10	0.05	1.13	
ChevronTexaco Corporation	CVX	83.45	1,063	88,700	78.00	0.20	1.06	
Royal Dutch/Shell	RD	3	48.94	3,544	173,000	48.70	0.06	1.01
TotalFinaElf S.A.	TOT	63.54	1,406	89,000	63.60	0.18	1.00	
BP plc	BP	43.90	3,744	164,000	44.10	0.17	1.00	
	<i>Total or Median</i>			<i>776,000</i>		<i>0.17</i>	<i>1.01</i>	
Power								
Dynegy Inc.	DYN	42.47	338	14,300	20.30	0.58	1.46	
Calpine Corporation	CPN	4	26.44	377	10,000	14.90	0.62	1.30
Mirant Corporation	MIR	27.25	353	9,600	18.60	0.65	1.16	
AES Corporation	AES	16.95	543	9,200	8.80	0.83	1.16	
El Paso Corporation	EPG	48.29	532	25,700	44.80	0.49	1.04	
Duke Energy Corporation	DUK	37.20	773	28,800	35.80	0.43	1.02	
Enron Corp.	ENE	9.00	913	8,200	9.50	0.77	0.99	
American Electric Power Co. Inc.	AEP	2	43.00	322	13,900	45.50	0.61	0.98
Williams Companies	WMB	28.55	515	14,700	32.30	0.47	0.94	
Southern Company	SO	23.60	683	16,100	27.40	0.42	0.92	
Dominion Resources	D	59.87	247	14,800	79.40	0.45	0.86	
Exelon Corporation	EXC	2	42.85	323	13,900	78.60	0.42	0.74
	<i>Total or Median</i>			<i>155,000</i>		<i>0.48</i>	<i>0.98</i>	
Natural Gas and Oil								
Occidental Petroleum Corp.	OXY	24.00	372	8,900	28.50	0.50	0.92	
Phillips Petroleum Company	P	51.82	383	19,800	61.30	0.34	0.90	
Unocal Corporation	UCL	31.52	257	8,100	38.90	0.35	0.88	
ENI S.p.A.	E	58.28	789	46,000	71.40	0.19	0.85	
Anadarko Petroleum Corp.	APC	51.65	250	12,900	64.10	0.24	0.85	
Devon Energy (incl MND,AXN)	DVN	33.60	165	5,500	54.60	0.48	0.80	
Conoco Inc.	COC	24.30	636	15,500	37.10	0.35	0.78	
Burlington Resources (incl HTR)	BR	1	33.78	205	6,900	53.00	0.30	0.74
Marathon Oil Corporation	MRO	1	26.10	310	8,100	42.00	0.27	0.72
OAOLukoil	LUKOY	43.45	299	13,000	69.10	0.09	0.66	
	<i>Total or Median</i>			<i>136,000</i>		<i>0.30</i>	<i>0.80</i>	
Service								
Baker Hughes Inc.	BHI	31.40	338	10,600	24.50	0.13	1.24	
Schlumberger Ltd.	SLB	45.10	581	26,200	44.00	0.12	1.02	
Halliburton Company	HAL	20.26	430	8,700	27.20	0.13	0.78	

Buy/Sell rating after symbol: 1 - Strong Buy, 2 - Buy, 4 - Sell

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Table L-2
Mega Cap and Large Cap Energy Companies
Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 16-Nov 2001</i>	<i>EV/ Sales 2001E</i>	<i>EV/ Ebitda NTM</i>	<i>P/E NTM</i>	<i>Dividend or Distribution NTM (%)</i>	<i>PV/ Ebitda NTM</i>
Mega Cap							
Exxon Mobil Corporation	XOM	37.54	1.3	12.4	31	2.5	11.0
ChevronTexaco Corporation	CVX	83.45	1.1	11.6	38	3.1	11.0
Royal Dutch/Shell	RD	3	48.94	1.1	11.1	29	11.0
TotalFinaElf S.A.	TOT	63.54	1.3	11.0	29	2.9	11.0
BP plc	BP	43.90	1.1	10.9	33	3.0	11.0
	<i>Median</i>		<i>1.1</i>	<i>11.1</i>	<i>31</i>	<i>2.9</i>	<i>11.0</i>
Power							
Dynegy Inc.	DYN	42.47	0.7	13.1	20	0.7	9.0
Calpine Corporation	CPN	4	26.44	2.5	11.7	-	9.0
Mirant Corporation	MIR	27.25	0.6	10.5	13	-	9.0
AES Corporation	AES	16.95	3.6	10.4	13	-	9.0
El Paso Corporation	EPG	48.29	0.9	9.4	15	1.8	9.0
Duke Energy Corporation	DUK	37.20	0.8	9.2	14	3.0	9.0
Enron Corp.	ENE	9.00	0.2	8.9	5	5.6	9.0
American Electric Power Co. Inc.	AEP	2	43.00	0.6	8.8	12	5.6
Williams Companies	WMB	28.55	2.6	8.4	12	2.8	9.0
Southern Company	SO	23.60	2.7	8.3	14	5.7	9.0
Dominion Resources	D	59.87	3.4	7.8	14	4.3	9.0
Exelon Corporation	EXC	2	42.85	2.1	6.6	10	3.9
	<i>Median</i>		<i>1.5</i>	<i>9.1</i>	<i>13</i>	<i>2.9</i>	<i>9.0</i>
Natural Gas and Oil							
Occidental Petroleum Corp.	OXY	24.00	1.5	9.2	21	4.2	10.0
Phillips Petroleum Company	P	51.82	0.7	8.5	23	2.8	9.5
Anadarko Petroleum Corp.	APC	51.65	2.8	8.1	24	0.6	9.5
Unocal Corporation	UCL	17.11	2.5	7.4	58	2.5	8.5
Burlington Resources (incl HTR)	BR	1	33.78	4.4	7.1	68	1.6
ENI S.p.A.	E	58.28	1.5	6.8	15	3.1	8.0
Conoco Inc.	COC	24.30	0.8	5.8	14	3.1	7.5
Devon Energy (incl MND,AXN)	DVN	33.60	3.0	5.6	16	0.6	7.0
Marathon Oil Corporation	MRO	1	26.10	0.4	4.7	10	3.5
OAOLukoil	LUKOY	43.45	1.2	4.0	9	2.5	6.0
	<i>Median</i>		<i>1.5</i>	<i>6.9</i>	<i>18</i>	<i>2.7</i>	<i>8.3</i>
Service							
Baker Hughes Inc.	BHI	31.40	2.0	9.9	22	1.5	9.0
Schlumberger Ltd.	SLB	45.10	2.4	8.2	22	1.7	9.0
Halliburton Company	HAL	20.26	0.8	6.2	14	2.5	9.0

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 2002; P/E = Stock Price to

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Rank by McDep Ratio: Market Cap and Debt to Present Value

	Symbol/ Rating	Price (\$/sh) 16-Nov 2001	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Power							
Consol Energy Inc.	CNX	22.95	79	1,800	35.90	0.51	0.82
CMS Energy Corporation	CMS	22.57	128	2,900	48.30	0.62	0.80
Sempra Energy	SRE	23.29	203	4,700	41.70	0.50	0.78
Constellation Energy Group	CEG	25.05	152	3,800	56.50	0.35	0.64
<i>Total or Median</i>				13,200		0.51	0.79
Natural Gas and Oil							
Ocean Energy, Inc.	OEI	17.15	178	3,100	16.80	0.34	1.01
Imperial Oil Limited (30%)	IMO	25.78	119	3,100	25.50	0.12	1.01
Murphy Oil Corporation	MUR	71.90	46	3,300	80.60	0.19	0.91
PanCanadian Energy	PCX	24.70	262	6,470	31.10	0.14	0.82
Norsk Hydro ASA (49%)	NHY	38.24	127	4,900	50.50	0.19	0.80
Valero Energy Corp.(with UDS)	VLO	37.56	110	4,200	61.40	0.46	0.79
PetroChina Company Ltd (10%)	PTR	16.80	176	3,000	24.20	0.18	0.75
Petro-Canada	PCZ	22.79	267	6,100	33.50	0.08	0.71
<i>Total or Median</i>				34,200		0.18	0.81
Small Cap							
Quicksilver Resources Inc.	KWK	15.15	19.3	290	8.60	0.64	1.27
Spinnaker Exploration Company	SKE	40.08	28.3	1,140	40.40	-	0.99
Encore Acquisition Corp. (25%)	EAC	13.15	7.5	99	13.90	0.25	0.96
XTO Energy Inc.	XTO	16.33	124.0	2,030	17.70	0.29	0.95
Penn Virginia Corporation	PVA	33.00	9.0	300	35.10	0.10	0.95
Magnum Hunter Resources, Inc.	MHR	9.70	36.8	360	11.00	0.35	0.93
Southwestern Energy Company	SWN	12.29	25.6	320	15.30	0.47	0.90
Swift Energy Company	SFY	20.25	24.8	500	24.10	0.30	0.89
Stone Energy Company	SGY	35.98	26.4	950	43.10	0.11	0.85
Newfield Exploration Company	NFX	29.84	49.3	1,470	38.30	0.21	0.83
Forest Oil Corporation	FST	25.00	48.5	1,210	35.40	0.29	0.79
CNOOC Limited (19%)	CEO	17.76	78	1,390	29.00	-	0.61
<i>Total or Median</i>				9,770		0.25	0.90
Trusts and Partnerships							
Penn Virginia Res. Part, L.P.(48%)	PVR	22.93	7.5	170	14.30	-	1.36
TEPPCO Partners, L.P.	TPP	33.97	39	1,310	21.20	0.62	1.22
Dorchester Hugoton, Ltd.	DHULZ	12.00	10.7	129	11.10	-	1.08
Cross Timbers Royalty Trust	CRT	15.55	6.0	93	18.00	-	0.86
Hugoton RoyaltyTrust	HGT	10.85	40.0	430	14.30	-	0.76
San Juan Basin Royalty Trust	SJT	10.21	46.6	480	14.90	-	0.69
<i>Total or Median</i>				2,610		-	0.97
Micro Cap							
Abraxas Petroleum Corporation	ABP	1.30	23.6	31	0.50	0.97	1.06
Energy Partners Ltd.(30%)	EPL	6.45	8.1	52	9.50	0.17	0.73
Purcell Energy, Ltd. (US\$)	PEL.TO	1.93	27.4	53	3.10	0.10	0.66

Buy/Sell rating after symbol: 1 - Strong Buy, 2 - Buy, 3 - Neutral

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses

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Power								
Consol Energy Inc.	CNX	22.95	2.0	7.4	8	4.9	9.0	
CMS Energy Corporation	CMS	22.57	0.8	7.2	8	6.5	9.0	
Sempra Energy	SRE	23.29	1.1	7.0	9	4.3	9.0	
Constellation Energy Group	CEG	25.05	1.7	5.8	8	1.9	9.0	
	<i>Median</i>		<i>1.4</i>	<i>7.1</i>	<i>8</i>	<i>4.6</i>	<i>9.0</i>	
Natural Gas and Oil								
Imperial Oil Limited (30%)	IMO	25.78	1.0	10.1	27	2.1	10.0	
Murphy Oil Corporation	MUR	71.90	0.8	7.3	36	2.1	8.0	
Ocean Energy, Inc.	OEI	17.15	4.2	7.1	30	0.9	7.0	
PanCanadian Energy	PCX	2	24.70	1.1	5.8	11	1.0	7.0
Valero Energy Corp.(with UDS)	VLO	37.56	0.3	5.5	6	1.1	7.0	
Petro-Canada	PCZ	22.79	1.3	4.9	11	1.1	7.0	
Norsk Hydro ASA (49%)	NHY	38.24	0.8	4.8	16	2.7	6.0	
PetroChina Company Ltd (10%)	PTR	2	16.80	1.6	3.7	10	10.9	5.0
	<i>Median</i>		<i>1.1</i>	<i>5.7</i>	<i>14</i>	<i>1.6</i>	<i>7.0</i>	
Small Cap								
Quicksilver Resources Inc.	KWK	15.15	5.4	14.0		-	11.0	
Encore Acquisition Corp. (25%)	EAC	13.15	5.0	9.6	43	-	10.0	
XTO Energy Inc.	XTO	16.33	5.6	8.5	24	0.2	9.0	
Swift Energy Company	SFY	20.25	5.5	8.0	34	-	9.0	
Spinnaker Exploration Company	SKE	40.08	6.8	7.9	33	-	8.0	
Penn Virginia Corporation	PVA	33.00	4.2	7.6	29	2.7	8.0	
Magnum Hunter Resources, Inc.	MHR	9.70	4.1	6.9		-	7.5	
Forest Oil Corporation	FST	2	25.00	2.7	6.3	151	-	8.0
Southwestern Energy Company	SWN	12.29	2.8	6.3	20	-	7.0	
Stone Energy Company	SGY	35.98	3.8	5.1	24	-	6.0	
CNOOC Limited (19%)	CEO	17.76	3.6	4.9	11	1.4	8.0	
Newfield Exploration Company	NFX	29.84	3.3	4.1	13	-	5.0	
	<i>Median</i>		<i>4.1</i>	<i>6.9</i>	<i>26</i>	<i>-</i>	<i>8.0</i>	
Trusts and Partnerships								
Penn Virginia Res. Part, L.P.(48%)	PVR	22.93	10.2	13.6	16	8.7	10.0	
TEPPCO Partners, L.P.	TPP	33.97	0.7	12.2	16	6.8	10.0	
Dorchester Hugoton, Ltd.	DHULZ	12.00	7.7	11.6	15	24.6	10.7	
Cross Timbers Royalty Trust	CRT	15.55	6.1	10.7	12	8.6	12.5	
Hugoton RoyaltyTrust	HGT	10.85	5.4	8.6	13	7.8	11.3	
San Juan Basin Royalty Trust	SJT	2	10.21	6.1	8.0	11	8.7	11.7
	<i>Median</i>		<i>6.1</i>	<i>11.2</i>	<i>14</i>	<i>8.7</i>	<i>11.0</i>	
Micro Cap								
Abraxas Petroleum Corporation	ABP	1.30	6.3	11.7		-	11.0	
Energy Partners Ltd.(30%)	EPL	2	6.45	2.3	5.5	-	7.5	
Purcell Energy, Ltd. (US\$)	PEL.TO	2	1.93	2.9	4.0	10	6.0	

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 2002; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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