

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

February 25, 2002

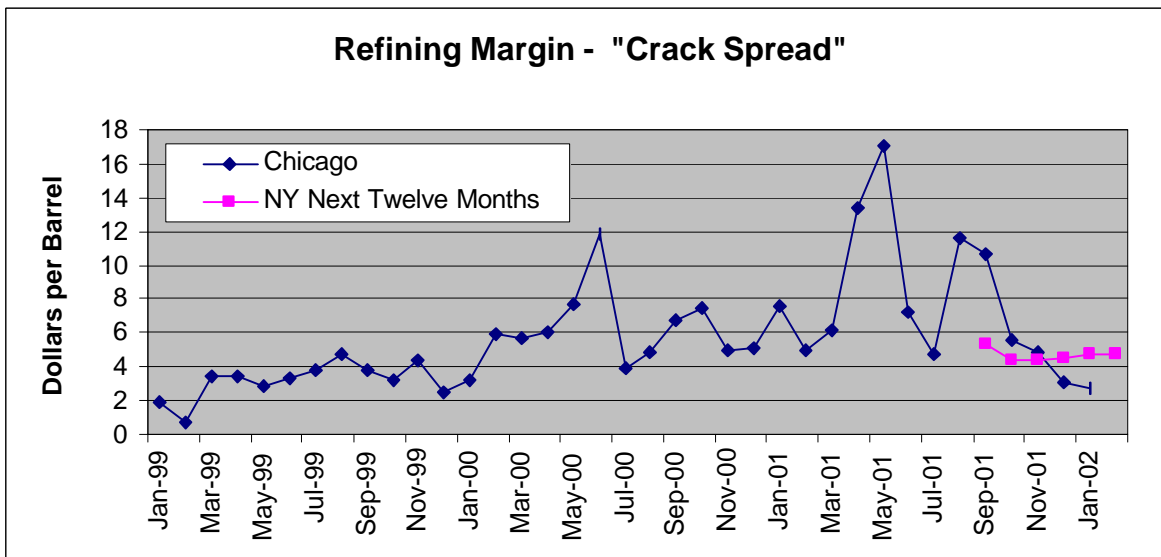
Ready for Iraq?

Summary and Recommendation

Strong Buy **Marathon Oil Corporation (MRO)** has oil production, natural gas production and oil refining outside the Middle East just as do other recommended stocks. The increasing likelihood of military action to remove the leader of Iraq may make those businesses more valuable, as would economic growth apart from any war action. While warm winter weather has depressed current refining margins, the advent of the summer gasoline season almost always boosts margins, at least seasonally (see Chart). At the same time, natural gas commodity prices may be staging a stealth recovery hinted in price charts. Finally in the wake of large energy and telecom bankruptcies we note two press items that add new fuel to our Strong Sell recommendation of **Kinder Morgan (KMI, KMP, KMR)**. For perspective on ideas for energy representation in a diversified portfolio see our valuation ranking of 71 stocks (Tables L-1, L-2, M-1, M-2, S-1 and S-2).

Iraq, Growth or Seasonality May Widen Refining Margins

One of the dominant refiner/marketers in the Midwest, Marathon's profit rises and falls in part with the Chicago Crack Spread. Our source is MRO for the industry numbers for the difference between the cost of three barrels of crude oil to make two barrels of gasoline and one barrel of heating oil (3-2-1).



Expectations for the next twelve months calculated from New York Mercantile Exchange futures have been stable for the past five months at a level higher than the current

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Chicago crack spread. That is part of the reason to be interested now in a stock like MRO that has about a third of its value in refining/marketing.

With refining margins below normal, this may also be a good time to attack Iraq as there is some cushion in the system. Yet anything can happen that might widen margins. A little bit of widening makes a big difference to refiners before consumers see much impact.

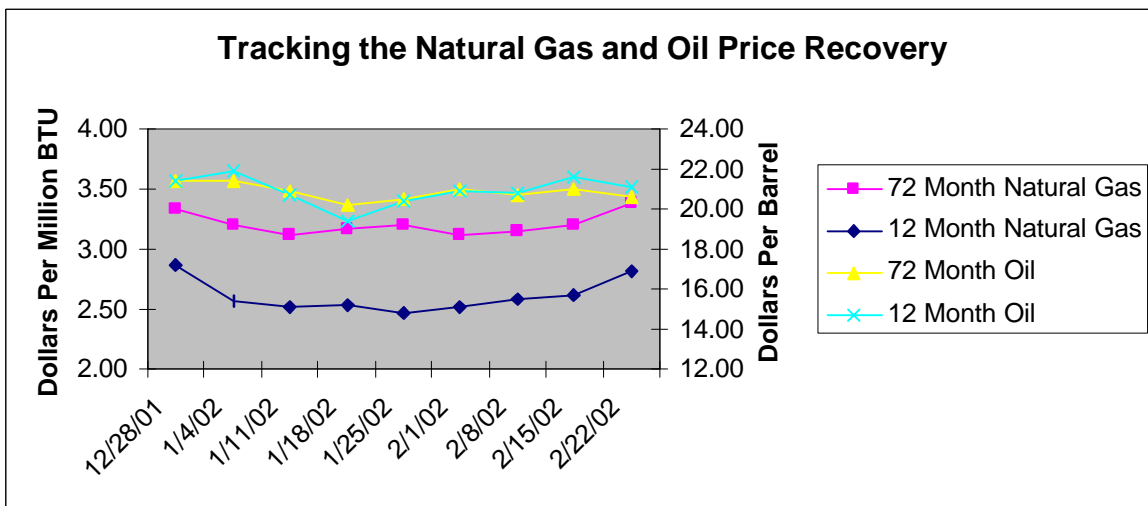
The base case for the refining business is helped by the consolidation trend that puts capacity into stronger hands. For example, inventory correction may be occurring more rapidly than in the past according to Bill Greehey, Chairman of Valero energy.

Similarly, increasingly strict environmental rules should be helping refiners more rather than penalizing them as in the past. Those who make the case for a stiff gasoline tax to encourage conservation indirectly make the case that consumers could support much higher refining margins. We don't see high taxes on energy coming soon because the regional political issues are too strong to solve easily.

Finally each of the past two summers has been good for Marathon. Consumers continue to drive more even though they may be flying less.

Is Natural Gas Doing a Stealth Recovery?

Natural gas futures had a good week with the six-year price rising 6% to \$3.38 from \$3.20 (see Chart). Six-year oil price dipped 2% to \$20.63 from \$20.98.



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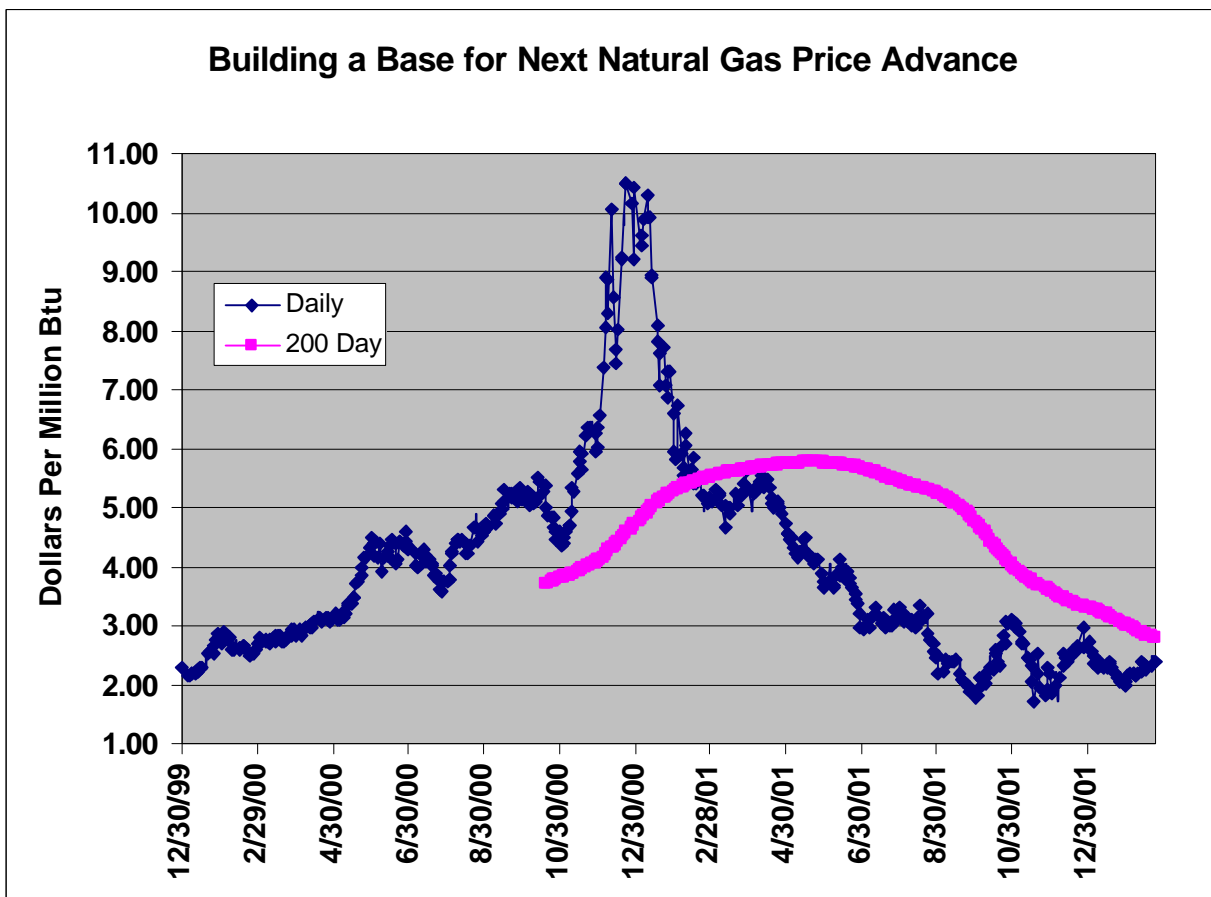
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On another chart, the current daily price of \$2.40 is approaching the 200-day average of \$2.80. The 200-day average has been steadily declining. It would equal the daily price by mid-May if the daily price were to remain constant. Any time before then that the daily price advanced enough to pierce the 200-day average could mark the confirmation of a new uptrend and a buy point for investors who pay attention to the momentum of trends.

Finally, tying back to the Iraq theme, it would not take much war news to send the daily price crashing through the 200-day average. Tying in with our emphasis on MRO, about one third of the value in our Strong Buy recommendation is related to natural gas.



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Kinder Implicated in Conflict of Interest by Former Enron Unit Chief

The *New York Times* reports on February 20 that when he was president of Enron, Rich Kinder pressured the former President of Enron Global Power to favor Enron over the public shareholders that owned 48% of Enron Global Power. The Times source was the power executive. The dispute concerned the price at which Enron would transfer assets to its partly owned affiliate.

The implications are very serious, as the conflicts have become magnified since the reported incident, both at Enron and at Kinder Morgan. Mr. Kinder owns about 21% of Kinder Morgan, Inc. (KMI), the general partner of Kinder Morgan Energy Partners (KMP).

Like Enron was, KMI is a highly leveraged company. Like Enron did, KMI has transferred assets to a partnership whose debt does not show on KMI's balance sheet. Like Enron, the transfer is made between affiliated parties at a price arrived at among themselves. Like Enron, KMI uses techniques to value the partnership at an artificially high level.

Kinder learned more from his experience at Enron. There is no "gatekeeper", to use the *New York Times* terminology, at KMP as there was at Enron Global Power. In fact there are no officers of KMP. The officers of KMI make all the decisions for KMP.

Finally, in the form of the general partner take, KMI also keeps a translucent half interest in the assets transferred to KMP. The full NY Times article is on www.mcdep.com.

Scrutiny of Energy Partnerships Long Overdue According to *Platt's Oilgram*

" One benefit from the Enron collapse may be some long-overdue scrutiny for a seductive form of financial engineering captivating the energy industry lately: the Master Limited Partnership (MLP). Pressured by ratings agencies to raise cash and cut debt, just about every energy infrastructure company is rushing to push assets into these tax-advantaged ownership structures."

Senior Writer Jim Norman of the McGraw-Hill publication quotes Kurt Wulff in his expose' published under the date of February 25, 2002. The whole column is on www.mcdep.com.

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

	Symbol/ Rating		Price (\$/sh) 22-Feb 2002	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap								
Exxon Mobil Corporation	XOM		40.72	6,924	282,000	36.00	0.09	1.12
BP plc	BP		48.39	3,738	181,000	47.00	0.16	1.03
Royal Dutch/Shell	RD	3	50.95	3,520	179,000	55.00	0.04	0.93
TotalFinaElf S.A.	TOT		71.86	1,382	99,000	80.00	0.15	0.91
ChevronTexaco Corporation	CVX		83.70	1,062	88,900	110.00	0.14	0.79
		<i>Total or Median</i>			830,000		0.14	0.93
Energy Infrastructure								
American Electric Power Co. Inc.	AEP	3	41.94	322	13,500	42.10	0.64	1.00
Duke Energy Corporation	DUK		33.80	781	26,400	36.30	0.44	0.96
Southern Company	SO		25.13	683	17,200	27.40	0.42	0.95
El Paso Corporation	EPG		38.59	532	20,500	44.80	0.49	0.93
Williams Companies	WMB		16.30	521	8,500	22.70	0.58	0.88
Dominion Resources	D		58.88	247	14,500	79.40	0.45	0.86
Exelon Corporation	EXC	2	49.45	323	16,000	84.00	0.40	0.76
		<i>Total or Median</i>			103,000		0.44	0.90
Natural Gas and Oil								
ENI S.p.A.	E		68.06	789	53,700	71.40	0.19	0.96
Occidental Petroleum Corp.	OXY		25.93	372	9,700	28.50	0.50	0.96
Unocal Corporation	UCL		35.53	257	9,100	38.90	0.35	0.94
Anadarko Petroleum Corp.	APC		50.61	266	13,500	56.00	0.26	0.93
Devon Energy	DVN		42.40	165	7,000	54.60	0.48	0.88
ConocoPhillips	P		58.06	680	39,500	71.20	0.34	0.88
Encana Corporation	PCX	2	28.28	490	13,900	35.00	0.19	0.85
Burlington Resources	BR	1	37.05	201	7,400	48.00	0.33	0.84
OAo Lukoil	LUKOY		52.00	299	15,600	69.10	0.09	0.77
Marathon Oil Corporation	MRO	1	27.76	310	8,600	42.00	0.27	0.75
		<i>Total or Median</i>			124,000		0.33	0.88
Service								
Baker Hughes Inc.	BHI		35.15	338	11,900	24.50	0.13	1.38
Schlumberger Ltd.	SLB		57.35	581	33,300	44.00	0.12	1.27
Halliburton Company	HAL		16.49	429	7,100	24.90	0.12	0.70

Buy/Sell rating after symbol: 1-Strong Buy, 2-Buy, 3-Neutral, 4-Sell, 5-Strong Sell

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

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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) 22-Feb 2002</i>	<i>EV/ Sales NTM</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	40.72	1.5	12.4	28	2.3	11.1
BP plc	BP	48.39	1.3	11.1	20	2.7	10.8
Royal Dutch/Shell	RD	3	50.95	1.1	10.2	26	10.9
TotalFinaElf S.A.	TOT		71.86	1.3	10.0	21	10.9
ChevronTexaco Corporation	CVX		83.70	1.2	8.7	20	11.0
	<i>Median</i>			<i>1.3</i>	<i>10.2</i>	<i>21</i>	<i>10.9</i>
Energy Infrastructure							
American Electric Power Co. Inc.	AEP	3	41.94	0.7	10.0	15	10.0
Williams Companies	WMB		16.30	2.1	8.8	11	10.0
Duke Energy Corporation	DUK		33.80	0.8	8.7	12	9.0
Southern Company	SO		25.13	2.8	8.6	15	9.0
El Paso Corporation	EPG		38.59	0.8	8.4	12	9.0
Dominion Resources	D		58.88	3.4	7.7	13	9.0
Exelon Corporation	EXC	2	49.45	2.2	6.8	10	9.0
	<i>Median</i>			<i>2.1</i>	<i>8.6</i>	<i>12</i>	<i>9.0</i>
Natural Gas and Oil							
Occidental Petroleum Corp.	OXY		25.93	1.5	9.6	23	10.0
Anadarko Petroleum Corp.	APC		50.61	3.3	9.5	27	10.2
Burlington Resources	BR	1	37.05	5.3	9.3		11.0
Unocal Corporation	UCL		17.11	2.7	8.0	65	8.5
ENI S.p.A.	E		68.06	1.7	7.7	18	8.0
ConocoPhillips	P		58.06	0.8	7.5	20	8.5
Encana Corporation	PCX	2	28.28	1.8	7.3	22	8.6
Devon Energy	DVN		42.40	3.4	6.2	20	7.0
Marathon Oil Corporation	MRO	1	27.76	0.4	4.9	10	6.5
AOO Lukoil	LUKOY		52.00	1.4	4.6	10	6.0
	<i>Median</i>			<i>1.7</i>	<i>7.6</i>	<i>20</i>	<i>8.5</i>
Service							
Baker Hughes Inc.	BHI		35.15	2.2	11.0	25	9.0
Schlumberger Ltd.	SLB		57.35	2.9	10.1	28	9.0
Halliburton Company	HAL		16.49	0.6	5.6	12	9.0

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 31, 2003; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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Table M-1
Mid Cap Energy Companies
Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol/ Rating</i>		<i>Price (\$/sh) 22-Feb 2002</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>
Energy Infrastructure								
Kinder Morgan Energy Partners, L.P.	KMP	5	33.43	136	4,600	12.30	0.42	1.99
Kinder Morgan Management, LLC	KMR	5	33.30	30	1,000	12.30	0.42	1.99
Kinder Morgan, Inc.	KMI	5	49.55	120	6,000	16.10	0.77	1.48
Enterprise Products Part.	EPD		49.79	87	4,300	31.70	0.23	1.44
Dynegy Inc.	DYN		24.80	339	8,400	20.60	0.57	1.09
AES Corporation	AES		4.13	543	2,200	8.80	0.83	0.91
Valero Energy Corporation	VLO		43.75	104	4,600	60.00	0.46	0.85
Calpine Corporation	CPN	3	7.11	377	2,700	12.50	0.66	0.85
Consol Energy Inc.	CNX		22.96	79	1,800	35.90	0.51	0.82
CMS Energy Corporation	CMS		22.20	128	2,800	43.80	0.62	0.81
Mirant Corporation	MIR		7.90	353	2,800	18.60	0.65	0.80
Sempra Energy	SRE		23.37	203	4,700	41.70	0.50	0.78
Constellation Energy Group	CEG		28.89	152	4,400	56.50	0.35	0.68
			<i>Total or Median</i>		<i>45,900</i>		<i>0.54</i>	<i>0.88</i>
Natural Gas and Oil								
Murphy Oil Corporation	MUR		82.75	46	3,800	82.00	0.18	1.01
Imperial Oil Limited (30%)	IMO		27.31	119	3,300	30.00	0.11	0.92
Ocean Energy, Inc.	OEI		17.66	178	3,100	20.00	0.30	0.92
Norsk Hydro ASA (49%)	NHY		42.42	127	5,400	54.00	0.18	0.82
PetroChina Company Ltd (10%)	PTR	2	18.40	176	3,200	28.00	0.16	0.71
Petro-Canada	PCZ		22.03	267	5,900	33.00	0.08	0.70
			<i>Total or Median</i>		<i>24,700</i>		<i>0.17</i>	<i>0.87</i>

Buy/Sell rating after symbol: 1 - Strong Buy, 2 - Buy, 3 - Neutral, 5 - Strong Sell

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

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Table M-2
Mid Cap Energy Companies
Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

			<i>Price</i> <i>(\$/sh)</i>	<i>EV/</i>	<i>EV/</i>	<i>Dividend or</i>	<i>PV/</i>	
	<i>Symbol/</i>		<i>22-Feb</i>	<i>Sales</i>	<i>Ebitda</i>	<i>Distribution</i>	<i>Ebitda</i>	
	<i>Rating</i>		<i>2002</i>	<i>NTM</i>	<i>NTM</i>	<i>P/E</i>	<i>NTM</i>	
						<i>NTM</i>	<i>(%)</i>	
							<i>NTM</i>	
Energy Infrastructure								
Kinder Morgan Energy Partners, L.P.	KMP	5	33.43	4.7	18.0	23	6.6	9.0
Kinder Morgan Management, LLC	KMR	5	33.30	4.7	17.9	23	6.6	9.0
Kinder Morgan, Inc.	KMI	5	49.55	4.2	13.4	21	0.4	9.0
Enterprise Products Part.	EPD		49.79	1.8	13.0	15	5.0	9.0
Dynegy Inc.	DYN		24.80	0.5	9.8	12	1.2	9.0
AES Corporation	AES		4.13	2.9	8.2	3	-	9.0
Calpine Corporation	CPN	3	7.11	1.6	7.7	4	-	9.0
Consol Energy Inc.	CNX		22.96	2.0	7.4	8	4.9	9.0
CMS Energy Corporation	CMS		22.20	0.8	7.3	11	6.6	9.0
Mirant Corporation	MIR		7.90	0.4	7.2	4	-	9.0
Sempra Energy	SRE		23.37	1.1	7.0	9	4.3	9.0
Constellation Energy Group	CEG		28.89	1.8	6.1	9	1.7	9.0
Valero Energy Corporation	VLO		43.75	0.3	5.8	8	0.9	6.8
	<i>Median</i>			<i>1.8</i>	<i>7.7</i>	<i>9</i>	<i>1.7</i>	<i>9.0</i>
Natural Gas and Oil								
Imperial Oil Limited (30%)	IMO		27.31	1.1	10.2	26	2.0	11.1
Murphy Oil Corporation	MUR		82.75	0.9	8.1	39	1.8	8.0
Ocean Energy, Inc.	OEI		17.66	4.3	7.2	30	0.9	7.8
Norsk Hydro ASA (49%)	NHY		42.42	0.8	5.0	15	2.5	6.0
Petro-Canada	PCZ		22.03	1.2	4.8	11	1.2	6.9
PetroChina Company Ltd (10%)	PTR	2	18.40	1.7	3.8	10	9.9	5.4
	<i>Median</i>			<i>1.2</i>	<i>6.1</i>	<i>21</i>	<i>1.9</i>	<i>7.4</i>

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 31, 2003; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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Energy Infrastructure								
El Paso Energy Partners	EPN	5	35.40	36.0	1,270	7.90	0.50	2.73
Enbridge Energy Partners,	EEP		45.62	31.0	1,410	16.60	0.58	1.73
Plains All Amer. Pipeline	PAA		24.70	38.0	940	14.30	0.47	1.39
Northern Border Partners	NBP		37.09	42.0	1,560	20.30	0.56	1.36
Penn Virginia Res. Part, L.P.(48%)	PVR		22.25	7.7	170	16.50	0.13	1.30
TEPPCO Partners, L.P.	TPP		28.81	39	1,110	15.60	0.69	1.26
AmeriGas Partners, L.P.	APU		19.95	44.0	880	19.50	0.54	1.01
Penn Virginia Corporation	PVA		32.85	9.0	300	35.00	0.10	0.95
<i>Total or Median</i>					7,600		0.52	1.33
Natural Gas and Oil								
Quicksilver Resources Inc.	KWK		19.20	19.3	370	10.00	0.60	1.36
Dorchester Hugoton, Ltd.	DHULZ		13.30	10.7	143	11.30	-	1.18
Spinnaker Exploration Company	SKE		39.33	28.3	1,110	40.00	-	0.98
XTO Energy Inc.	XTO		17.82	124.0	2,210	19.00	0.28	0.96
Newfield Exploration Company	NFX		35.50	49.3	1,750	39.00	0.21	0.93
Southwestern Energy Company	SWN		11.25	25.6	290	15.00	0.47	0.87
Encore Acquisition Corp. (25%)	EAC		13.25	7.5	99	16.00	0.22	0.86
Pogo Producing Company	PPP		25.76	60.5	1,560	32.00	0.29	0.86
Stone Energy Company	SGY		35.14	26.4	930	42.00	0.11	0.85
Magnum Hunter Resources, Inc.	MHR		7.37	36.8	270	11.00	0.35	0.78
Forest Oil Corporation	FST	2	24.86	60.5	1,500	37.00	0.26	0.76
Swift Energy Company	SFY		15.62	24.8	390	25.00	0.29	0.73
CNOOC Limited (19%)	CEO	2	21.50	78	1,680	30.00	-	0.72
<i>Total or Median</i>					12,300		0.26	0.86
Natural Gas Royalty Trusts								
Cross Timbers Royalty Trust	CRT		17.74	6.0	106	18.40	-	0.96
Hugoton RoyaltyTrust	HGT		10.46	40.0	420	14.70	-	0.71
San Juan Basin Royalty Trust	SJT	2	10.25	46.6	480	14.70	-	0.70
Micro Cap								
Abraxas Petroleum Corporation	ABP		1.03	23.6	24	0.50	0.96	1.04
Energy Partners Ltd.(30%)	EPL	2	8.05	8.1	65	10.00	0.34	0.87
Purcell Energy, Ltd. (US\$)	PEL.TO	2	1.89	27.4	52	3.50	0.09	0.58

Buy/Sell rating after symbol: 1 - Strong Buy, 2 - Buy, 3 - Neutral, 4 - Sell, 5 - Strong Sell

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Table S-2
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Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

			Price (\$/sh)	EV/ Sales	EV/ Ebitda	Dividend or Distribution	PV/ Ebitda
Symbol/ Rating		22-Feb 2002	NTM	NTM	P/E NTM	NTM (%)	NTM
Energy Infrastructure							
El Paso Energy Partners	EPN	5	35.40	19.1	24.6	49	9.0
Enbridge Energy Partners,	EEP		45.62	7.0	15.6	88	9.0
Plains All Amer. Pipeline	PAA		24.70	0.2	12.5	16	9.0
Northern Border Partners	NBP		37.09	7.7	12.3	16	9.0
Penn Virginia Res. Part, L.P.(48%)	PVR		22.25	8.6	11.7	13	9.0
TEPPCO Partners, L.P.	TPP		28.81	0.6	11.3	14	9.0
AmeriGas Partners, L.P.	APU		19.95	1.3	9.1	17	9.0
Penn Virginia Corporation	PVA		32.85	3.9	6.8	23	7.2
	<i>Median</i>			<i>5.4</i>	<i>12.0</i>	<i>17</i>	<i>9.0</i>
Natural Gas and Oil							
Quicksilver Resources Inc.	KWK		19.20	6.3	17.3	-	12.7
Dorchester Hugoton, Ltd.	DHULZ		13.30	9.0	13.8	18	11.7
XTO Energy Inc.	XTO		17.82	6.1	9.5	29	9.9
Encore Acquisition Corp. (25%)	EAC		13.25	4.8	8.9	34	10.3
Spinnaker Exploration Company	SKE		39.33	6.9	8.2	38	8.4
Pogo Producing Company	PPP		25.76	4.3	7.5	74	8.7
Forest Oil Corporation	FST	2	24.86	4.2	7.3		9.7
Swift Energy Company	SFY		15.62	4.7	6.9	29	9.4
Southwestern Energy Company	SWN		11.25	2.8	6.3	23	7.3
Magnum Hunter Resources, Inc.	MHR		7.37	3.5	6.1		7.8
CNOOC Limited (19%)	CEO	2	21.50	4.2	5.7	12	7.9
Stone Energy Company	SGY		35.14	3.8	5.1	25	6.0
Newfield Exploration Company	NFX		35.50	3.8	4.8	16	5.2
	<i>Median</i>			<i>4.3</i>	<i>7.3</i>	<i>27</i>	<i>8.7</i>
Natural Gas Royalty Trusts							
Cross Timbers Royalty Trust	CRT		17.74	7.0	12.6	14	13.1
San Juan Basin Royalty Trust	SJT	2	10.25	6.3	8.3	11	11.9
Hugoton RoyaltyTrust	HGT		10.46	5.1	8.1	13	11.4
Micro Cap							
Abraxas Petroleum Corporation	ABP		1.03	6.4	12.2	-	11.8
Energy Partners Ltd.(30%)	EPL	2	8.05	2.8	6.2	-	7.1
Purcell Energy, Ltd. (US\$)	PEL.TO	2	1.89	3.0	4.3	12	7.3

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 31, 2003; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

Analyses are prepared from original sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at www.mcdep.com. Mr. Wulff is not paid by covered companies. Owning shares in energy stocks, neither Mr. Wulff nor his spouse act contrary to a buy or sell rating.