

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

March 11, 2002

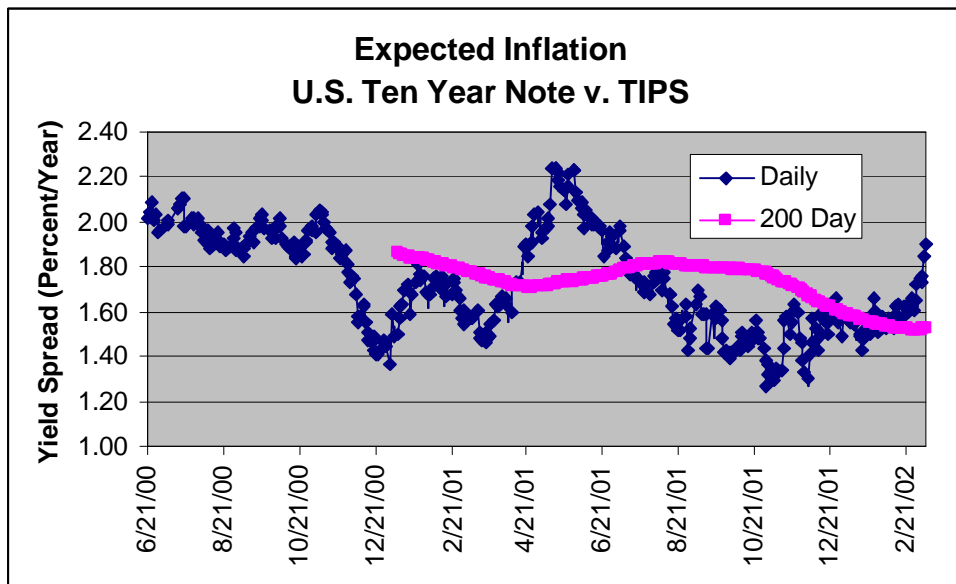
Fundamental Price Breakout

Summary and Recommendation

Daily quotes for inflation, crude oil, natural gas and refining margin have broken out above the 200 day moving average. Thus the price charts imply that the timing is favorable to invest more aggressively in energy. We are confident in the prospects for recommended Large Caps **Encana Corporation (PCX/AOG)**, **Burlington Resources (BR)**, **Marathon Oil Corporation (MRO)** and **Exelon Corporation (EXC)**; Mid Cap **PetroChina (PTR)**; Small Caps **CNOOC Limited (CEO)** and **Forest Oil (FST)**; as well as Micro Caps **Purcell Energy (PEL.TO)** and **Energy Partners Limited (EPL)**. A separate weekly analysis, *Natural Gas Royalty Trusts*, makes a case that despite recent gains, stock price for recommended **San Juan Basin Royalty Trust (SJT)** is still lagging industry improvement. We strongly recommend that investors sell **Kinder Morgan (KMI, KMP, KMR)** and **El Paso Energy Partners (EPN)**, the entities that extract the highest fees and offer the least value. We further recommend that investors boycott the forthcoming underwriting of new securities of **Dynegy Energy Partners** and **Williams Energy Partners** until the issuers agree to repeal the exploding general partner tax. For perspective on sell and buy 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).

Fundamental Price Charts Encourage Stock Buys

Expected inflation has been above its two hundred day moving average consistently for almost a month and last week the average turned up as well (see Chart).



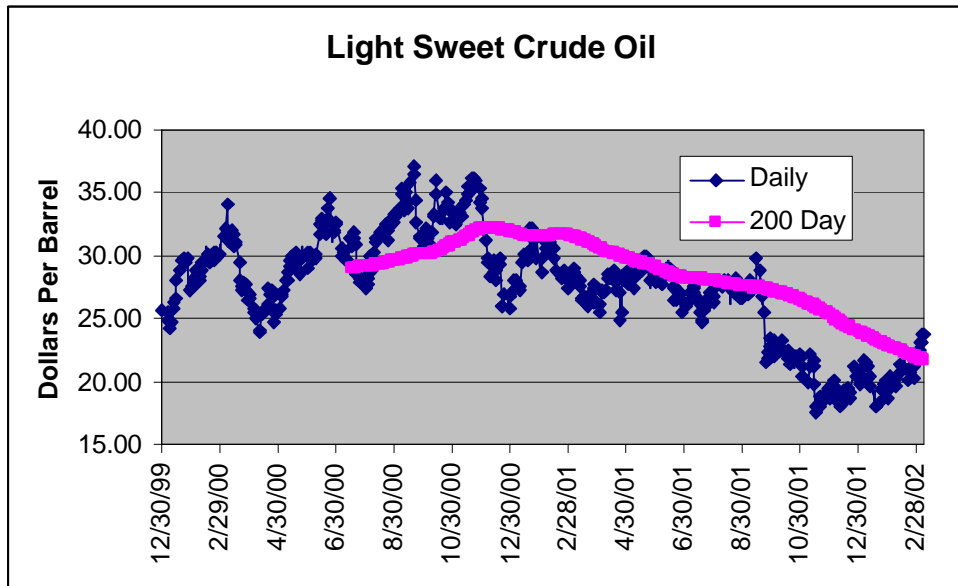
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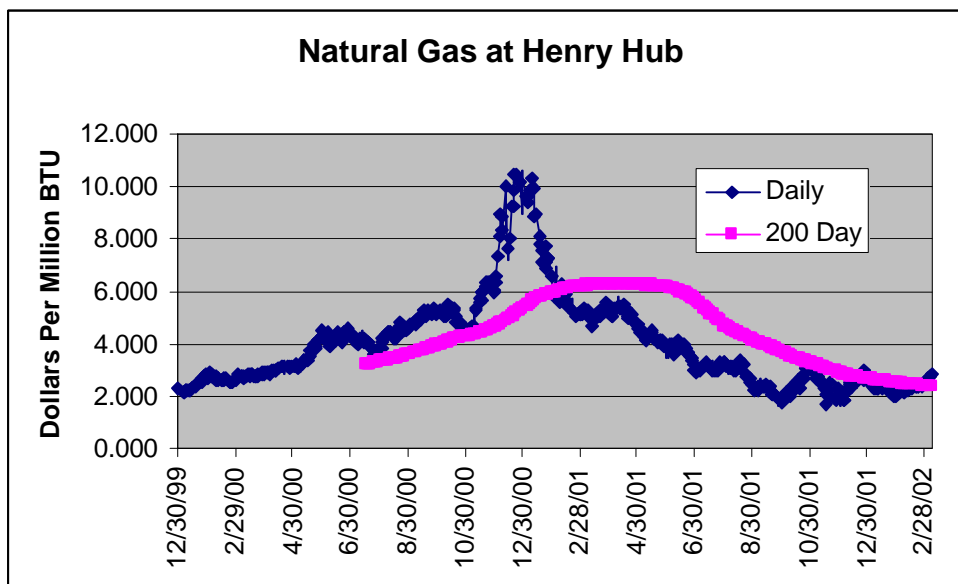
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Oil pierced the 200-day average on March 1, but the 200-day average is not yet rising (see Chart).



Natural gas pierced its 200-day average on February 26 (see Chart). The 200-day trend has flattened and could turn up momentarily. Earlier we had suggested that the daily price might pierce the 200-day average in May. The sooner happening partly reflects a better definition of the averaging period from working days to calendar days. The fact that such a technicality might affect the picture reminds us of the subjective nature of price judgments.



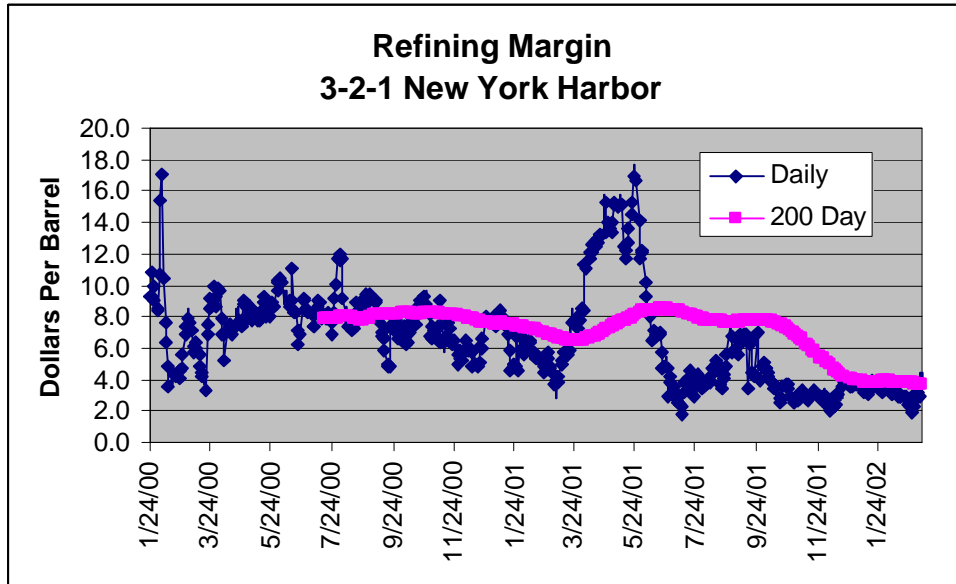
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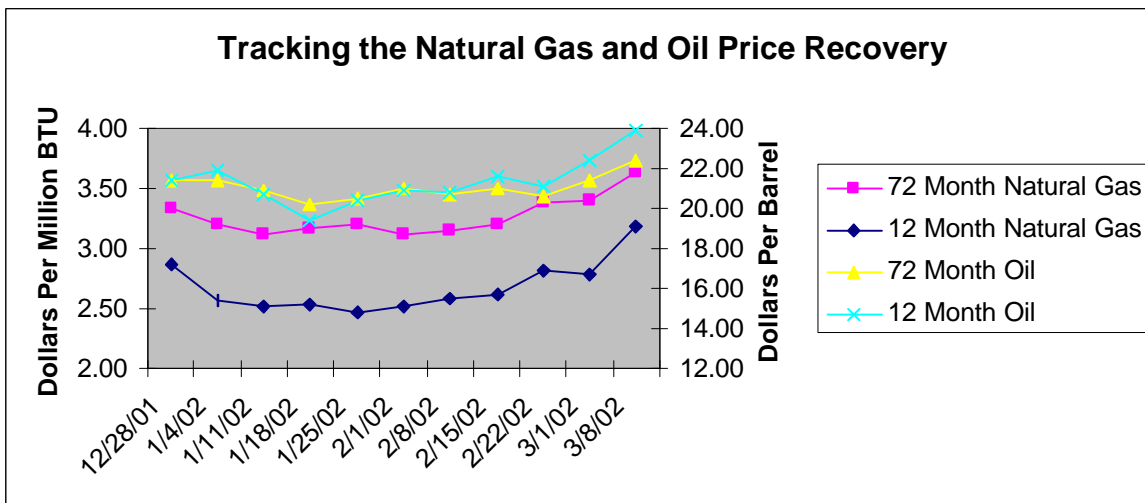
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There is good news for refiners also. The refining margin on New York Harbor gasoline and fuel oil has pierced the 200-day average (see Chart). Though it is hard to detect visually, the 200-day average has also turned up. The spring months in advance of the summer gasoline season have often been good for refining stocks like recommended MRO.



Six-Year and One-Year Futures Advance Accelerates

Six-year oil price bubbled 5% to \$22.43 from \$21.39. The six-year natural gas price hissed 6% to \$3.64 from \$3.40 in the past week (see Chart).



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Repeal the Partnership Tax!

Investors hear me out

The General Partners have levied a burdensome tax on the population in the form of an incentive compensation increase

This could happen to you

Well, let me tell you the story of a man named Charlie on that tragic and fateful day

He put a share in his pocket

Kissed his wife and family and set out to ride on the MTA

When he got to the Scollay Square station the conductor said

One more nickel for the GP!

And Charlie couldn't get off of that train

Well did he ever return?

No, he never returned

And his fate is still unlearned

Poor old Charlie

He may ride forever 'neath the streets of Boston

He's the man who never returned.

Source: The Kingston Trio, with modification

Just as energy trends look more positive, Wall Street is preparing to market new issues of energy infrastructure partnerships. Overleveraged parent companies including Kinder Morgan (KMI), El Paso (EP), Williams (WMB) and Dynegy (DYN) each have transferred or acquired pipeline properties for limited partnerships in anticipation of selling new units.

We see many problems. First, the sellers are in financial distress. Belatedly recognizing that unregulated businesses require more equity capital than regulated business, the credit rating agencies are downgrading companies with too much debt. Considering those circumstances, one would expect a steep discount for buyers who can afford to be choosy. Instead, McDep Ratios for two of the partnerships, KMP and EPN, are among the highest of any energy stocks we cover.

Second, the supply is large. Considering how many new units are contemplated, perhaps there should be a volume discount as well. Existing units, particularly those highest on the Greed Gauge, may decline in price in anticipation of the new supply.

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Third, the accounting is inadequate. The dilution caused by general partner compensation is only partly disclosed in issuer financial statements and is further disguised in Wall Street research.

Fourth, general partner compensation is too high to be sustained in a competitive environment, in our opinion. Marketed as tax preferred investments, the partnerships are subject to general partner tax more onerous than the government tax foregone. We recommend that investors be vocal in encouraging the sellers of partnership units to repeal the general partner tax.

Dynegy and Williams Partnerships Registered on Greed Gauge

An exploding general partner tax is the most negative feature of most energy partnerships marketed today. A small increase in distribution to unitholders triggers a tax with an incremental rate of 50% applied on income and return of capital. The Greed Gauge reading is the ratio of current distribution to the trigger point for the 50% incremental tax rate (see Chart). The Dynegy and Williams partnerships have been included though we do not yet have McDep Ratios on them.

Part of the illusion of the partnerships is that the general partner calls the tax an "incentive". Some of the unfairness of that incentive is that when Kinder Morgan or El Paso, for example, sell new units as they intend to do, the new buyers are saddled with steep "incentive" payments before any increase in the distribution.

Another rationalization by the general partners is that "everybody does it". In truth, the exploding tax is still in the latent phase in most partnerships. None, to our knowledge, have actually collected on it to the extent of those highest on the Greed Gauge.

We muse whether more competition might not develop among partnerships to give investors a better deal. One Machiavellian idea is that Duke Energy, having a stronger capital structure, repeals the general partner tax on TEPPCO. That may weaken competitors by making it more difficult for them to take advantage of investors by selling new partnership units with the exploding tax. More capital might flow to Duke which then might buy assets cheap from its competitors and gain a long-term advantage.

Kurt H. Wulff, CFA

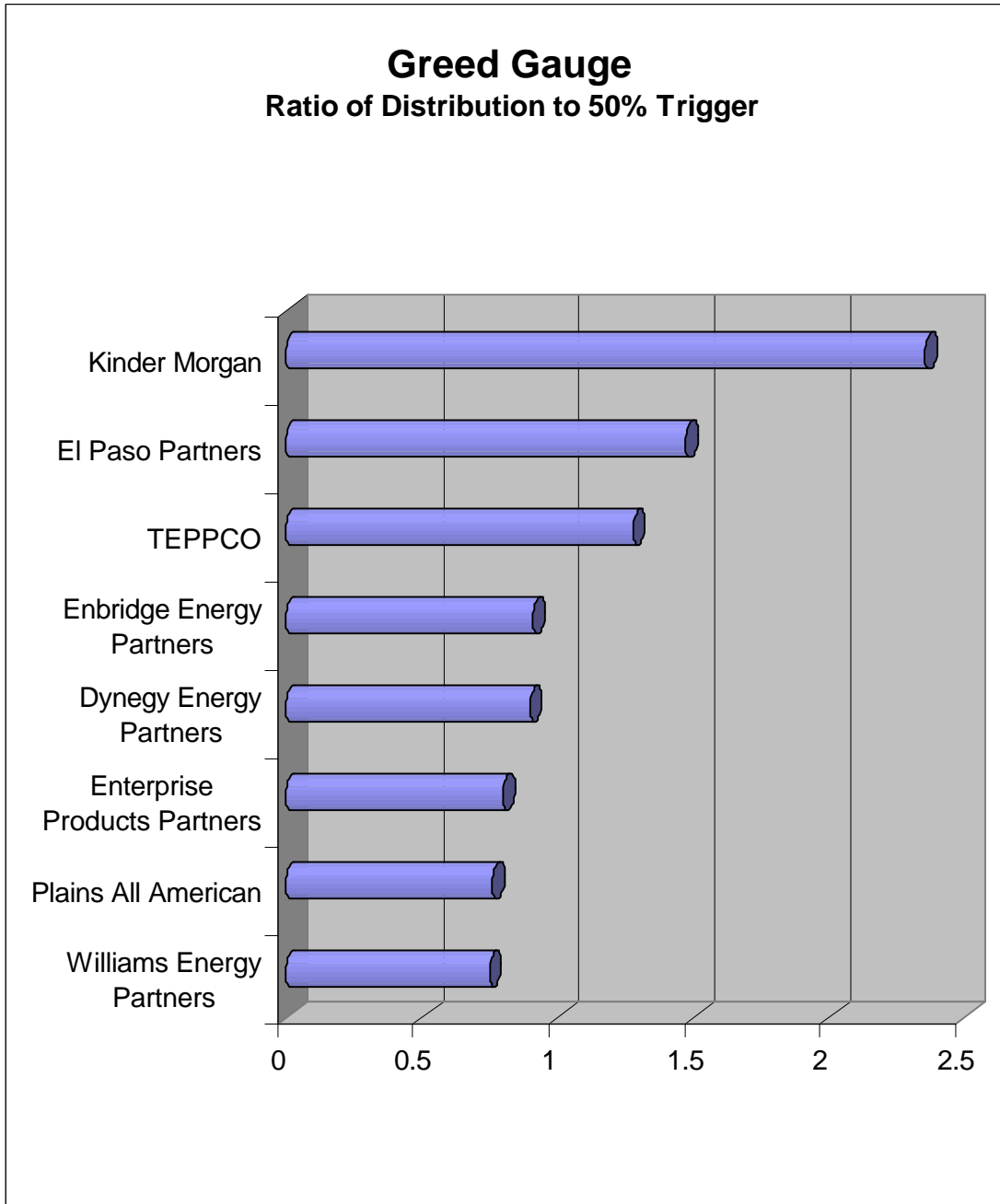
Source: Prices from the business press, company information from company disclosures.

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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) 8-Mar 2002	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap								
Exxon Mobil Corporation	XOM		42.91	6,924	297,000	36.00	0.09	1.17
BP plc	BP		51.18	3,738	191,000	47.00	0.16	1.07
Royal Dutch/Shell	RD	3	53.66	3,520	189,000	55.00	0.04	0.98
TotalFinaElf S.A.	TOT		75.12	1,382	104,000	80.00	0.15	0.95
ChevronTexaco Corporation	CVX		87.65	1,062	93,100	110.00	0.14	0.82
		<i>Total or Median</i>			<i>874,000</i>		<i>0.14</i>	<i>0.98</i>
Energy Infrastructure								
American Electric Power Co. Inc.	AEP	3	45.39	322	14,600	42.10	0.64	1.03
Williams Companies	WMB		22.83	521	11,900	22.70	0.58	1.00
Duke Energy Corporation	DUK		36.14	781	28,200	36.30	0.44	1.00
El Paso Corporation	EPG		44.33	532	23,600	44.80	0.49	0.99
Southern Company	SO		26.04	683	17,800	27.40	0.42	0.97
Dominion Resources	D		62.20	247	15,400	79.40	0.45	0.88
Exelon Corporation	EXC	2	52.00	323	16,800	84.00	0.40	0.77
		<i>Total or Median</i>			<i>114,000</i>		<i>0.44</i>	<i>0.98</i>
Natural Gas and Oil								
Occidental Petroleum Corp.	OXY		27.99	372	10,400	28.50	0.50	0.99
Anadarko Petroleum Corp.	APC		55.32	266	14,700	56.00	0.26	0.99
ENI S.p.A.	E		70.46	789	55,600	71.40	0.19	0.99
Unocal Corporation	UCL		37.45	257	9,600	38.90	0.35	0.97
Devon Energy	DVN		46.00	165	7,600	54.60	0.48	0.92
ConocoPhillips	P		60.56	680	41,200	71.20	0.34	0.90
Burlington Resources	BR	1	40.27	201	8,100	48.00	0.33	0.89
Encana Corporation	PCX	2	29.39	490	14,400	35.00	0.19	0.87
OAo Lukoil	LUKOY		53.50	299	16,000	69.10	0.09	0.79
Marathon Oil Corporation	MRO	1	28.20	310	8,700	42.00	0.27	0.76
		<i>Total or Median</i>			<i>176,000</i>		<i>0.27</i>	<i>0.90</i>
Service								
Baker Hughes Inc.	BHI		37.66	338	12,700	24.50	0.13	1.46
Schlumberger Ltd.	SLB		58.14	581	33,800	44.00	0.12	1.28
Halliburton Company	HAL		17.25	429	7,400	24.90	0.12	0.73

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) 8-Mar 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	42.91	1.6	13.0	30	2.1	11.1	
BP plc	BP	51.18	1.3	11.6	22	2.6	10.8	
Royal Dutch/Shell	RD	3	53.66	1.2	10.7	27	10.9	
TotalFinaElf S.A.	TOT		75.12	1.4	10.4	22	10.9	
ChevronTexaco Corporation	CVX		87.65	1.3	9.1	21	11.0	
	<i>Median</i>			<i>1.3</i>	<i>10.7</i>	<i>22</i>	<i>2.6</i>	<i>10.9</i>
Energy Infrastructure								
American Electric Power Co. Inc.	AEP	3	45.39	0.7	10.3	16	10.0	
Williams Companies	WMB		22.83	2.4	10.0	15	10.0	
Duke Energy Corporation	DUK		36.14	0.8	9.0	13	9.0	
El Paso Corporation	EPG		44.33	0.9	9.0	13	9.0	
Southern Company	SO		26.04	2.9	8.7	16	9.0	
Dominion Resources	D		62.20	3.5	7.9	14	9.0	
Exelon Corporation	EXC	2	52.00	2.3	7.0	11	9.0	
	<i>Median</i>			<i>2.3</i>	<i>9.0</i>	<i>14</i>	<i>3.5</i>	<i>9.0</i>
Natural Gas and Oil								
Anadarko Petroleum Corp.	APC		55.32	3.5	10.1	30	10.2	
Occidental Petroleum Corp.	OXY		27.99	1.6	9.9	25	10.0	
Burlington Resources	BR	1	40.27	5.6	9.8		11.0	
Unocal Corporation	UCL		17.11	2.8	8.3	69	8.5	
ENI S.p.A.	E		70.46	1.7	7.9	18	8.0	
ConocoPhillips	P		60.56	0.8	7.7	20	8.5	
Encana Corporation	PCX	2	29.39	1.8	7.5	23	8.6	
Devon Energy	DVN		46.00	3.5	6.4	22	7.0	
Marathon Oil Corporation	MRO	1	28.20	0.4	4.9	10	6.5	
AOO Lukoil	LUKOY		53.50	1.4	4.8	11	6.0	
	<i>Median</i>			<i>1.8</i>	<i>7.8</i>	<i>22</i>	<i>2.1</i>	<i>8.5</i>
Service								
Baker Hughes Inc.	BHI		37.66	2.4	11.7	27	9.0	
Schlumberger Ltd.	SLB		58.14	3.0	10.3	29	9.0	
Halliburton Company	HAL		17.25	0.7	5.8	13	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) 8-Mar 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 Management, LLC	KMR	5	34.49	30	1,000	12.30	0.42	2.04
Kinder Morgan Energy Partners, L.P.	KMP	5	33.30	136	4,500	12.30	0.42	1.99
Enterprise Products Part.	EPD		50.10	87	4,400	31.70	0.23	1.45
Kinder Morgan, Inc.	KMI	5	47.06	120	5,700	16.10	0.77	1.45
Dynegy Inc.	DYN		30.40	339	10,300	20.60	0.57	1.20
Calpine Corporation	CPN	3	13.25	377	5,000	12.50	0.66	1.02
AES Corporation	AES		8.29	543	4,500	8.80	0.83	0.99
Mirant Corporation	MIR		12.50	353	4,400	18.60	0.65	0.88
Valero Energy Corporation	VLO		45.65	104	4,800	60.00	0.46	0.87
Consol Energy Inc.	CNX		25.80	79	2,000	35.90	0.51	0.86
CMS Energy Corporation	CMS		22.98	128	2,900	43.80	0.62	0.82
Sempra Energy	SRE		24.18	203	4,900	41.70	0.50	0.79
Constellation Energy Group	CEG		30.54	152	4,600	56.50	0.35	0.70
			<i>Total or Median</i>		<i>54,400</i>		<i>0.54</i>	<i>1.01</i>
Natural Gas and Oil								
Murphy Oil Corporation	MUR		87.10	46	4,000	82.00	0.18	1.05
Ocean Energy, Inc.	OEI		19.50	178	3,500	20.00	0.30	0.98
Imperial Oil Limited (30%)	IMO		28.65	119	3,400	30.00	0.11	0.96
Norsk Hydro ASA (49%)	NHY		46.23	127	5,900	54.00	0.18	0.88
Petro-Canada	PCZ		25.06	267	6,700	33.00	0.08	0.78
PetroChina Company Ltd (10%)	PTR	2	19.95	176	3,500	28.00	0.16	0.76
			<i>Total or Median</i>		<i>27,000</i>		<i>0.17</i>	<i>0.92</i>

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

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

			Price (\$/sh)	EV/ Sales	EV/ Ebitda	P/E	Dividend or Distribution	PV/ Ebitda
	Symbol/ Rating	8-Mar 2002		NTM	NTM	NTM	NTM (%)	NTM
Energy Infrastructure								
Kinder Morgan Management, LLC	KMR	5	34.49	4.8	18.3	24	6.4	9.0
Kinder Morgan Energy Partners, L.P.	KMP	5	33.30	4.7	17.9	23	6.6	9.0
Enterprise Products Part.	EPD		50.10	1.8	13.0	15	5.0	9.0
Kinder Morgan, Inc.	KMI	5	47.06	4.1	13.0	20	0.4	9.0
Dynegy Inc.	DYN		30.40	0.5	10.8	15	1.0	9.0
Calpine Corporation	CPN	3	13.25	1.9	9.2	8	-	9.0
AES Corporation	AES		8.29	3.1	8.9	6	-	9.0
Mirant Corporation	MIR		12.50	0.5	8.0	6	-	9.0
Consol Energy Inc.	CNX		25.80	2.1	7.8	9	4.3	9.0
CMS Energy Corporation	CMS		22.98	0.8	7.4	11	6.4	9.0
Sempra Energy	SRE		24.18	1.1	7.1	9	4.1	9.0
Constellation Energy Group	CEG		30.54	1.8	6.3	10	1.6	9.0
Valero Energy Corporation	VLO		45.65	0.3	5.9	9	0.9	6.8
	<i>Median</i>			1.8	8.9	10	1.6	9.0
Natural Gas and Oil								
Imperial Oil Limited (30%)	IMO		28.65	1.1	10.6	27	1.9	11.1
Murphy Oil Corporation	MUR		87.10	1.0	8.4	41	1.7	8.0
Ocean Energy, Inc.	OEI		19.50	4.6	7.7	33	0.8	7.8
Petro-Canada	PCZ		25.06	1.4	5.4	12	1.0	6.9
Norsk Hydro ASA (49%)	NHY		46.23	0.9	5.3	17	2.2	6.0
PetroChina Company Ltd (10%)	PTR	2	19.95	1.8	4.1	10	9.2	5.4
	<i>Median</i>			1.3	6.5	22	1.8	7.4

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Small Cap Energy Companies
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Energy Infrastructure								
El Paso Energy Partners	EPN	5	36.78	36.0	1,320	7.90	0.50	2.82
Enbridge Energy Partners,	EEP		43.25	31.0	1,340	16.60	0.58	1.67
Plains All Amer. Pipeline	PAA		25.40	38.0	970	14.30	0.47	1.42
Northern Border Partners	NBP		39.20	42.0	1,650	20.30	0.56	1.41
Penn Virginia Res. Part, L.P.(48%)	PVR		23.96	7.7	180	16.50	0.13	1.39
TEPPCO Partners, L.P.	TPP		30.27	39	1,170	15.60	0.69	1.29
Penn Virginia Corporation	PVA		38.40	9.0	350	35.00	0.10	1.09
AmeriGas Partners, L.P.	APU		21.01	44.0	920	19.50	0.54	1.03
	<i>Total or Median</i>				<i>7,900</i>		<i>0.52</i>	<i>1.40</i>
Natural Gas and Oil								
Quicksilver Resources Inc.	KWK		20.05	19.3	390	10.00	0.60	1.40
Dorchester Hugoton, Ltd.	DHULZ		14.00	10.7	150	11.30	-	1.24
Spinnaker Exploration Company	SKE		40.78	28.3	1,160	40.00	-	1.02
XTO Energy Inc.	XTO		19.45	124.0	2,410	19.00	0.28	1.02
Newfield Exploration Company	NFX		36.22	48.6	1,760	39.00	0.22	0.94
Encore Acquisition Corp. (25%)	EAC		14.10	7.5	106	16.00	0.22	0.91
Stone Energy Company	SGY		35.76	26.4	950	42.00	0.11	0.87
Southwestern Energy Company	SWN		11.14	25.6	290	15.00	0.47	0.86
Pogo Producing Company	PPP		25.76	60.5	1,560	32.00	0.29	0.86
Swift Energy Company	SFY		19.53	24.8	480	25.00	0.29	0.84
Magnum Hunter Resources, Inc.	MHR		7.74	36.8	290	11.00	0.35	0.81
Forest Oil Corporation	FST	2	27.03	46.7	1,260	37.00	0.28	0.81
CNOOC Limited (19%)	CEO	2	22.65	78	1,770	30.00	-	0.76
	<i>Total or Median</i>				<i>12,600</i>		<i>0.28</i>	<i>0.87</i>
Natural Gas Royalty Trusts								
Cross Timbers Royalty Trust	CRT		18.47	6.0	111	19.40	-	0.95
Hugoton RoyaltyTrust	HGT		11.65	40.0	470	15.90	-	0.73
San Juan Basin Royalty Trust	SJT	2	11.02	46.6	510	15.50	-	0.71
Micro Cap								
Abraxas Petroleum Corporation	ABP		1.08	23.6	25	0.50	0.96	1.04
Energy Partners Ltd.(30%)	EPL	2	7.90	8.1	64	10.00	0.34	0.86
Purcell Energy, Ltd. (US\$)	PEL.TO	2	2.13	27.4	58	3.50	0.09	0.64

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

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.

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

March 11, 2002

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

			<i>Price</i> (\$/sh)	<i>EV/</i> <i>Sales</i>	<i>EV/</i> <i>Ebitda</i>	<i>Dividend or</i> <i>Distribution</i>	<i>PV/</i> <i>Ebitda</i>	
	<i>Symbol/</i> <i>Rating</i>		<i>8-Mar</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								
El Paso Energy Partners	EPN	5	36.78	19.7	25.4	51	6.8	9.0
Enbridge Energy Partners,	EEP		43.25	6.7	15.1	83	8.1	9.0
Plains All Amer. Pipeline	PAA		25.40	0.2	12.8	17	8.1	9.0
Northern Border Partners	NBP		39.20	8.0	12.7	17	8.2	9.0
Penn Virginia Res. Part, L.P.(48%)	PVR		23.96	9.2	12.5	14	8.3	9.0
TEPPCO Partners, L.P.	TPP		30.27	0.7	11.6	14	7.6	9.0
AmeriGas Partners, L.P.	APU		21.01	1.4	9.3	18	10.5	9.0
Penn Virginia Corporation	PVA		38.40	4.3	7.5	25	2.3	6.9
	<i>Median</i>			<i>5.5</i>	<i>12.6</i>	<i>17</i>	<i>8.1</i>	<i>9.0</i>
Natural Gas and Oil								
Quicksilver Resources Inc.	KWK		20.05	6.5	17.8		-	12.7
Dorchester Hugoton, Ltd.	DHULZ		14.00	9.5	14.5	19	20.6	11.7
XTO Energy Inc.	XTO		19.45	6.5	10.1	31	0.2	9.9
Encore Acquisition Corp. (25%)	EAC		14.10	5.1	9.4	36	-	10.3
Spinnaker Exploration Company	SKE		40.78	7.2	8.5	39	-	8.4
Swift Energy Company	SFY		19.53	5.4	8.0	36	-	9.4
Pogo Producing Company	PPP		25.76	4.3	7.5	74	0.5	8.7
Forest Oil Corporation	FST	2	27.03	4.5	7.2		-	8.9
Newfield Exploration Company	NFX		36.22	4.4	6.4	77	-	6.8
Southwestern Energy Company	SWN		11.14	2.8	6.3	22	-	7.3
Magnum Hunter Resources, Inc.	MHR		7.74	3.6	6.3		-	7.8
CNOOC Limited (19%)	CEO	2	22.65	4.4	6.0	13	1.1	7.9
Stone Energy Company	SGY		35.76	3.9	5.2	26	-	6.0
	<i>Median</i>			<i>4.5</i>	<i>7.5</i>	<i>34</i>	<i>-</i>	<i>8.7</i>
Natural Gas Royalty Trusts								
Cross Timbers Royalty Trust	CRT		18.47	6.6	11.5	12	8.2	12.0
San Juan Basin Royalty Trust	SJT	2	11.02	6.1	7.9	11	9.3	11.1
Hugoton RoyaltyTrust	HGT		11.65	5.1	7.8	11	8.8	10.7
Micro Cap								
Abraxas Petroleum Corporation	ABP		1.08	6.4	12.2		-	11.8
Energy Partners Ltd.(30%)	EPL	2	7.90	2.7	6.1		-	7.1
Purcell Energy, Ltd. (US\$)	PEL.TO	2	2.13	3.3	4.7	14	-	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

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