

Meter Reader

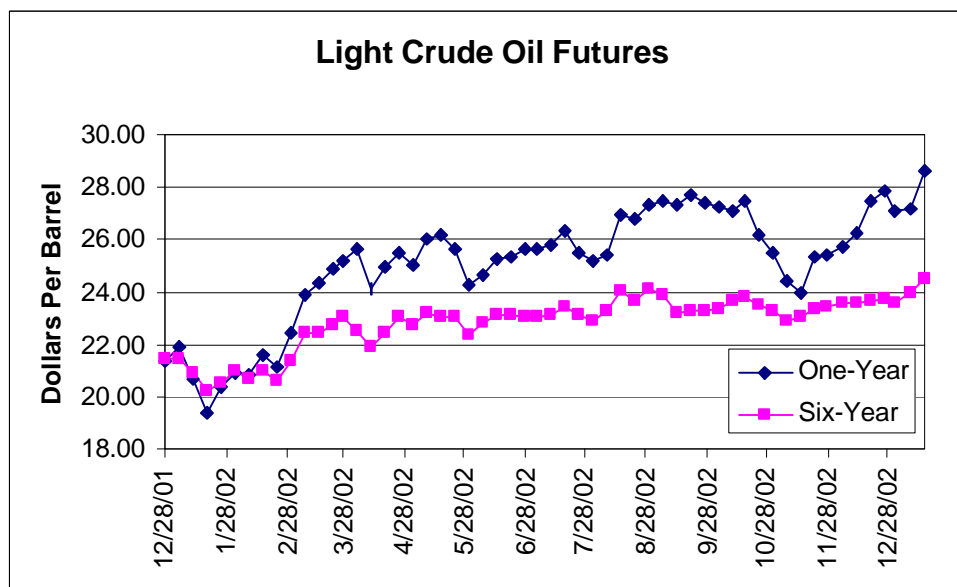
A Weekly Analysis of Energy Stocks Using the McDep Ratio

January 16, 2003

Rising Oil Price and Inflation Expectations

Summary and Recommendation

One-year and six-year oil futures had a good week setting new highs piercing the \$28 and \$24 level respectively (see Chart). Representing broader trends, inflation expectations measured as the spread between the U.S. Ten-Year Note and the Ten-Year Inflation Protected Security (TIPS) have moved up to 1.8% per year in 2003 after hovering near 1.6% in late 2002 (see Chart). Our energy recommendations offer some of the best inflation protection we know of besides TIPS. Recommended **San Juan Basin Royalty Trust (SJT)** and **Canadian Oil Sands Trust (COS_u.TO)** offer the most efficient and direct resource representation. Independent producers including **Burlington Resources (BR)** and **Encana (ECA)** offer the next most direct participation in energy resources likely to keep their real value as the dollar declines in value. Less direct participants like **Marathon Oil (MRO)** and **ConocoPhillips (COP)** are also likely to be rewarding to investors looking for inflation protection. High Greed Partnerships offer terrible inflation protection as nearly all of any inflationary adjustment is likely to be usurped by the general partner in sell recommended **Kinder Morgan (KMI, KMP, KMR)**, **El Paso Energy Partners (EPN)** and **Enbridge Energy (EEP, EEQ)**. Finally, we are dismayed to reduce our present value in another fine old company, **Duke Energy (DUK)**. We highlight current sell and buy recommendations in our ranking of 85 stocks by McDep Ratio and unlevered cash flow multiple (see Tables L-1, L-2, M-1, M-2, S-1, S-2).

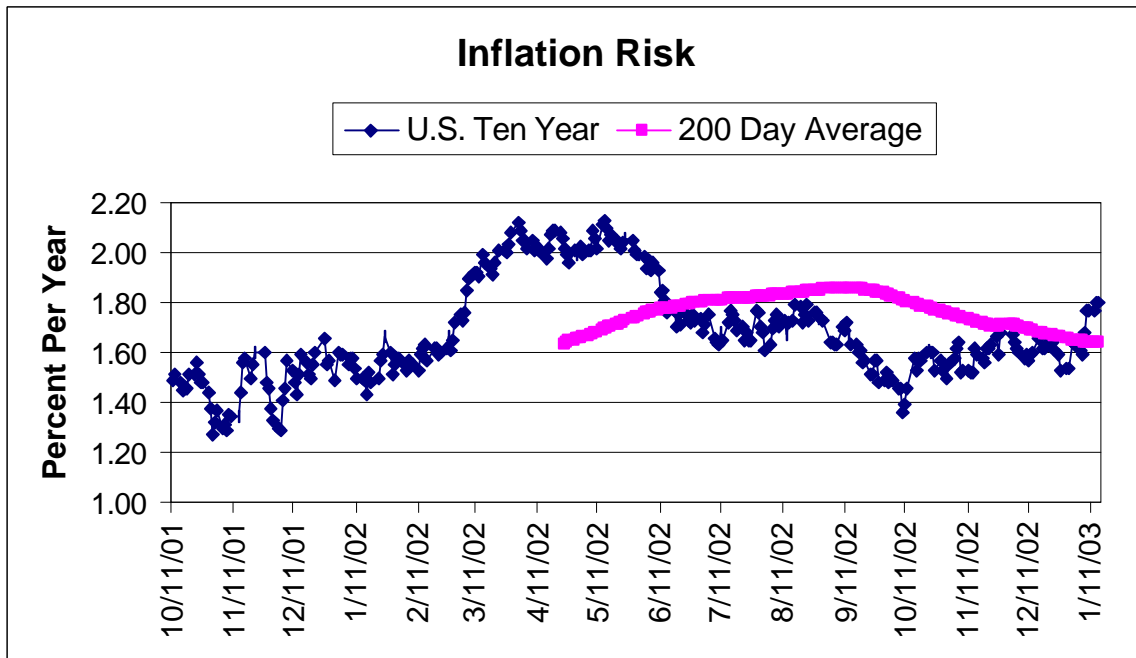


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Oil and Inflation

The charts above tell a message. One-year oil futures continue above six-year futures pointing the direction for the long term.

The move above the 200-day average seems decisive for inflation expectations. We believe the inflation risk is high enough that a prudent investor must be protected against the potential loss of currency value.

Proposed Tax Changes a Potential Negative for High Greed Partnerships

We think there would be a strong negative indirect impact of President Bush's tax proposals on those partnerships that already appear to be overvalued. The partnerships have complicated tax return consequences that investors would find to be an increasingly unnecessary disadvantage.

Further, ownership of the same partnership assets is often fragmented into two or more separate public entities. Consolidating those entities because some distinctions would no longer be necessary might be expensive to investors.

Also the partnerships rely on acquisitions to pay their distributions. There would likely be more competition among buyers if any corporation could be a buyer of income properties and make distributions without a double tax.

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We have also likened high greed general partnership compensation to a tax. Investors thinking they are avoiding double taxation pay the extra tax to the general partner instead. It is even more onerous than the corporate tax because the general partner assesses a higher marginal rate, 50%, that not only applies to income, but also to any principal distributed. Why would rational investors continue to pay a general partner tax on distributions if the double tax is eliminated on normal corporate dividends?

Reduce Present Value Estimate for Duke Energy

When an industry is in temporary decline, ratios of debt that look high, but acceptable, often become unacceptable. That has now happened with Duke Energy. Last week our estimate of present value was \$30.40 a share and the ratio of debt was 0.48, just under our maximum acceptable of 0.50. Now our estimate of present value is \$15 a share and the ratio of debt becomes an unacceptable 0.73. Some of the revision is triggered by management's disclosure of lower expectations for future earnings that we translate to lower cash flow. Most of the change reflects our belated recognition of the increase in debt that seems related to the acquisition of a Canadian utility earlier. Unfortunately there appears to be no commensurate increase in cash flow.

We have had problems accepting Duke's role as a high greed general partner in **TEPPCO Partners (TPP)**. Yet, that did not seem to be big enough in the context of the size of Duke to condemn the whole company. We were willing to accept that Duke was a fine old company with a relatively high credit rating and a quality reputation.

Instead it now looks like management did one deal too many with the Canadian acquisition on top of all the energy trading expansion and the pipeline acquisitions. We are reminded that Union Pacific Resources did an ill-timed acquisition a few years ago of a Canadian company, Norcen Energy. UPR stock collapsed from the debt load and **Anadarko Petroleum (APC)** acquired the fine old company for a song.

Too bad so much value was destroyed for the shareholders of Union Pacific Resources and now Duke Energy. Another fine old company falls. Maybe the high greed partnership role was a clue after all.

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) 15-Jan 2003	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap							
Exxon Mobil Corporation	XOM	34.93	6,787	237,000	37.00	0.09	0.95
TotalFinaElf S.A.	TOT	69.43	1,336	92,700	90.00	0.15	0.81
BP plc	BP	39.13	3,735	146,000	52.00	0.14	0.79
Royal Dutch/Shell	RD B	44.20	3,481	154,000	60.00	0.15	0.78
ChevronTexaco Corporation	CVX B	68.15	1,062	72,400	101.00	0.17	0.73
	<i>Total or Median</i>			702,000		0.15	0.79
Energy Infrastructure							
Southern Company	SO	29.10	701	20,400	23.90	0.47	1.12
Duke Energy Corporation	DUK	18.06	822	14,800	15.00	0.73	1.05
American Electric Power Co. Inc.	AEP N	27.30	326	8,900	27.40	0.74	1.00
Enel S.p.a. (32%)	EN	28.90	388	11,200	32.70	0.39	0.93
Exelon Corporation	EXC N	54.89	323	17,700	70.80	0.45	0.88
Dominion Resources	D	55.69	269	15,000	76.20	0.45	0.85
El Paso Corporation	EP N	9.72	590	5,700	20.00	0.66	0.82
	<i>Total or Median</i>			73,000		0.56	0.90
Natural Gas and Oil							
Occidental Petroleum Corp.	OXY	28.60	380	10,900	35.00	0.36	0.88
ENI S.p.A.	E	77.25	776	59,900	90.00	0.17	0.88
OAo Lukoil	LUKOY	60.60	299	18,100	70.00	0.08	0.88
Encana Corporation	ECA B	30.24	470	14,200	38.00	0.26	0.85
Devon Energy	DVN	46.45	158	7,300	65.00	0.42	0.83
Unocal Corporation	UCL	29.28	245	7,200	40.00	0.37	0.83
Anadarko Petroleum Corp.	APC	46.49	258	12,000	60.00	0.25	0.83
Burlington Resources	BR B	42.58	202	8,600	60.00	0.27	0.79
ConocoPhillips	COP B	47.72	680	32,500	75.00	0.36	0.77
Marathon Oil Corporation	MRO B	21.71	310	6,700	40.00	0.37	0.71
Petroleo Brasileiro S. A.	PBR N	17.43	1,086	18,900	30.00	0.27	0.69
	<i>Total or Median</i>			185,000		0.27	0.83
Service							
Baker Hughes Inc.	BHI	30.14	339	10,200	25.00	0.09	1.19
Schlumberger Ltd.	SLB	41.30	581	24,000	44.00	0.22	0.95
Halliburton Company	HAL	18.99	434	8,200	22.00	0.25	0.89

Buy/Sell rating after symbol: B - Buy, N - Neutral, S - 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.

	Symbol/ Rating	Price (\$/sh) 15-Jan 2003	EV/ Sales NTM	EV/ Ebitda NTM	P/E NTM	Dividend or Distribution NTM (%)	PV/ Ebitda NTM	
Mega Cap								
Exxon Mobil Corporation	XOM	34.93	1.2	8.4	17	2.6	8.9	
TotalFinaElf S.A.	TOT	69.43	1.1	7.1	13	3.7	8.8	
BP plc	BP	39.13	0.9	6.8	14	3.7	8.6	
Royal Dutch/Shell	RD	B	44.20	1.0	6.6	14	3.8	8.6
ChevronTexaco Corporation	CVX	B	68.15	0.9	6.0	13	4.1	8.2
	<i>Median</i>		<i>1.0</i>	<i>6.8</i>	<i>14</i>	<i>3.7</i>	<i>8.6</i>	
Energy Infrastructure								
Duke Energy Corporation	DUK		18.06	2.5	10.1	12	6.1	9.6
Southern Company	SO		29.10	3.5	10.0	17	4.6	9.0
American Electric Power Co. Inc.	AEP	N	27.30	0.6	9.0	9	8.8	9.0
Enel S.p.a. (32%)	EN		28.90	2.3	8.4	35	5.6	9.0
Exelon Corporation	EXC	N	54.89	2.4	7.9	12	3.2	9.0
Dominion Resources	D		55.69	3.2	7.7	11	4.6	9.0
El Paso Corporation	EP	N	9.72	2.3	6.3	5	9.0	7.7
	<i>Median</i>		<i>2.4</i>	<i>8.4</i>	<i>12</i>	<i>5.6</i>	<i>9.0</i>	
Natural Gas and Oil								
ConocoPhillips	COP	B	47.72	0.7	6.6	12	3.4	8.6
ENI S.p.A.	E		77.25	1.6	5.9	12	4.8	6.7
Encana Corporation	ECA	B	30.24	2.5	5.7	12	0.8	6.7
Burlington Resources	BR	B	42.58	3.9	5.6	13	1.3	7.1
Anadarko Petroleum Corp.	APC		46.49	3.8	5.5	11	0.9	6.7
Unocal Corporation	UCL		29.28	2.3	5.1	11	2.7	6.1
Occidental Petroleum Corp.	OXY		28.60	2.3	4.9	7	3.6	5.5
Devon Energy	DVN		46.45	2.9	4.8	8	0.4	5.8
Marathon Oil Corporation	MRO	B	21.71	0.4	4.7	8	4.2	6.6
OAo Lukoil	LUKOY		60.60	1.6	3.6	7	1.8	4.1
Petroleo Brasileiro S. A.	PBR	N	17.43	1.4	3.4	4	7.8	4.9
	<i>Median</i>		<i>2.3</i>	<i>5.1</i>	<i>11</i>	<i>2.7</i>	<i>6.6</i>	
Service								
Baker Hughes Inc.	BHI		30.14	2.1	12.8	36	1.5	10.8
Schlumberger Ltd.	SLB		41.30	2.3	8.5	30	1.8	8.9
Halliburton Company	HAL		18.99	1.0	8.1	17	2.6	9.0

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

			Price (\$/sh)	Shares	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
	Symbol/ Rating		15-Jan 2003	(mm)				
Energy Infrastructure								
Kinder Morgan Energy Partners, L.P.	KMP	S	35.45	135	4,800	14.00	0.47	1.80
Kinder Morgan Management, LLC	KMR	S	32.10	40	1,300	14.00	0.47	1.68
Kinder Morgan, Inc.	KMI	S	43.10	123	5,300	8.10	0.87	1.54
Constellation Energy Group	CEG		27.60	164	4,500	20.00	0.69	1.12
Calpine Corporation	CPN	N	4.10	375	1,500	1.00	0.97	1.09
Dynegy Inc.	DYN		2.43	418	1,000	1.00	0.94	1.08
Williams Companies	WMB		3.48	521	1,800	1.00	0.97	1.07
AES Corporation	AES		3.88	543	2,100	1.00	0.98	1.07
CMS Energy Corporation	CMS		9.98	137	1,400	8.70	0.90	1.01
Sempra Energy	SRE		24.61	207	5,100	24.30	0.64	1.01
Valero Energy Corporation	VLO		38.06	115	4,400	40.00	0.60	0.98
Mirant Corporation	MIR		2.15	413	900	4.00	0.86	0.93
<i>Total or Median</i>					<i>34,100</i>		<i>0.87</i>	<i>1.08</i>
Natural Gas and Oil								
Petro-Canada	PCZ		31.32	262	8,200	31.00	0.11	1.01
Murphy Oil Corporation	MUR		41.03	92	3,800	41.00	0.24	1.00
Ocean Energy, Inc.	OEI		19.10	178	3,400	20.00	0.30	0.97
Suncor Energy	SU		16.23	454	7,400	17.00	0.25	0.97
XTO Energy Inc.	XTO	B	24.29	125	3,000	26.00	0.25	0.95
Imperial Oil Limited (30%)	IMO		28.66	114	3,300	33.00	0.13	0.89
Norsk Hydro ASA (49%)	NHY		43.72	126	5,500	54.00	0.18	0.84
CNOOC Limited (19%)	CEO	B	26.93	78	2,100	33.00	-	0.82
PetroChina Company Ltd (10%)	PTR	B	20.55	176	3,600	30.00	0.17	0.74
<i>Total or Median</i>					<i>40,300</i>		<i>0.18</i>	<i>0.95</i>
Coal Producers (Small Cap)								
Consol Energy Inc.	CNX		16.39	79	1,300	5.00	0.88	1.27
Penn Virginia Res. Part, L.P.	PVR		22.50	15	300	18.00	-	1.23
Peabody Energy	BTU		27.73	55	1,500	18.00	0.75	1.14
Alliance Res. Part, L.P.	ARLP		24.55	16	400	20.00	0.45	1.12
Arch Coal	ACI		20.42	48	1,000	18.00	0.61	1.05
Fording Inc (US\$)	FDG		21.90	52	1,100	23.00	0.04	0.96
Massey Energy	MEE		9.25	75	700	18.00	0.37	0.69
					<i>6,300</i>		<i>0.45</i>	<i>1.12</i>

Buy/Sell rating after symbol: B - Buy, N - Neutral, S - 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		15-Jan 2003	NTM	NTM	NTM	NTM (%)	NTM
Energy Infrastructure								
	KMP	S	35.45	3.4	15.2	18	6.9	8.4
	KMR	S	32.10	3.1	14.2	16	7.6	8.4
	KMI	S	43.10	3.7	13.6	16	0.5	8.8
	CPN	N	4.10	1.9	11.1			10.2
	CEG		27.60	2.9	10.2	11	3.5	9.2
	DYN		2.43	0.2	9.8		-	9.0
	WMB		3.48	1.9	9.6		-	9.0
	AES		3.88	2.8	9.6			9.0
	CMS		9.98	1.3	9.1	6	7.2	9.0
	SRE		24.61	2.6	9.0	9	4.1	9.0
	MIR		2.15	0.4	8.4	1	-	9.0
	VLO		38.06	0.4	7.7	10	1.1	7.8
	<i>Median</i>			2.2	9.7	10	2.3	9.0
Natural Gas and Oil								
	SU		16.23	3.5	10.5	23	1.3	10.8
	OEI		19.10	4.5	7.6	33	0.8	7.8
	PCZ		31.32	1.9	7.4	19	0.8	7.4
	IMO		28.66	1.1	7.2	14	1.9	8.1
	MUR		41.03	1.1	6.7	19	1.9	6.7
	XTO	B	24.29	4.1	5.6	10	0.2	5.8
	CEO	B	26.93	3.6	4.7	9	2.3	5.7
	NHY		43.72	0.8	4.0	12	2.4	4.8
	PTR	B	20.55	1.6	3.7	7	6.2	5.1
	<i>Median</i>			1.9	6.7	14	1.9	6.7
Coal Producers (Small Cap)								
	CNX		16.39	2.0	12.3	37	3.4	9.7
	PVR		22.50	8.2	10.6	12	8.9	8.6
	BTU		27.73	1.6	10.2	23	1.4	9.0
	ACI		20.42	1.6	9.5	115	1.1	9.0
	FDG		21.90	2.0	8.6	20	1.8	9.0
	ARLP		24.55	1.2	7.9	21	8.1	7.0
	MEE		9.25	1.1	6.2	231	1.7	8.9
				1.6	9.5	23	1.8	9.0

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 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	S	30.75	57.0	1,750	5.60	0.64	2.61
Enbridge Energy Partners, L.P.	EEP	S	42.20	35.0	1,480	14.90	0.64	1.67
Enterprise Products Part (16%)	EPD		18.71	28.5	530	6.70	0.63	1.65
Plains All Amer. Pipeline	PAA		25.09	50.0	1,250	11.60	0.49	1.59
Enbridge Energy Management, L.L.C	EEQ	S	37.30	9.0	340	14.90	0.64	1.56
Northern Border Partners	NBP		37.95	44.0	1,670	20.40	0.62	1.32
TEPPCO Partners, L.P.	TPP		29.68	50.0	1,480	17.70	0.56	1.29
AmeriGas Partners, L.P.	APU		23.97	49.4	1,180	18.30	0.51	1.15
Western Gas Resources	WGR		34.10	33.8	1,150	37.60	0.28	0.93
<i>Total or Median</i>					<i>10,800</i>		<i>0.62</i>	<i>1.56</i>
Natural Gas and Oil								
Provident Energy Trust	PVX		7.27	63.5	460	5.00	0.24	1.35
Dorchester Hugoton, Ltd.	DHULZ		14.56	10.7	156	11.60	(0.17)	1.29
Enerplus Resources Fund	ERF		18.71	75.0	1,400	18.00	0.16	1.03
Pogo Producing Company	PPP		36.50	64.5	2,350	35.00	0.23	1.03
Quicksilver Resources Inc.	KWK		23.05	20.4	470	22.00	0.38	1.03
Pengrowth Energy Trust	PGH		9.62	110.0	1,060	9.50	0.19	1.01
Newfield Exploration Company	NFX		33.89	48.9	1,660	35.00	0.24	0.98
Unit Corporation	UNT		17.14	40.0	690	18.00	0.03	0.95
Encore Acquisition Corp. (25%)	EAC		18.99	7.0	133	21.00	0.20	0.92
Stone Energy Company	SGY		34.72	26.5	920	42.00	0.28	0.88
Southwestern Energy Company	SWN		12.35	26.1	320	17.00	0.46	0.85
Swift Energy Company	SFY		9.16	27.1	250	13.00	0.48	0.85
Penn Virginia Corporation	PVA		35.99	9.0	320	45.00	0.06	0.81
Forest Oil Corporation	FST	N	24.70	48.1	1,190	35.00	0.32	0.80
Spinnaker Exploration Company	SKE		19.44	34.0	660	25.00	-	0.78
Magnum Hunter Resources, Inc.	MHR		5.48	69.0	380	11.00	0.45	0.72
Canadian Oil Sands Trust (US\$)	COS_u.TO	B	23.62	57.3	1,350	40.00	0.13	0.64
<i>Total or Median</i>					<i>13,800</i>		<i>0.23</i>	<i>0.92</i>
Natural Gas Royalty Trusts								
Cross Timbers Royalty Trust	CRT		20.53	6.0	123	20.80	-	0.99
San Juan Basin Royalty Trust	SJT	B	13.69	46.6	640	16.90	-	0.81
Hugoton RoyaltyTrust (46%)	HGT		12.91	18.4	240	16.60	-	0.78
Micro Cap								
Energy Partners Ltd.(30%)	EPL	B	11.27	8.3	93	10.00	0.38	1.08
Abraxas Petroleum Corporation	ABP		0.66	30.0	20	1.00	0.91	0.97
Purcell Energy, Ltd. (US\$)	PEL.TO	N	1.84	26.6	49	2.50	0.29	0.81

Buy/Sell rating after symbol: B - Buy, N - Neutral, S - Sell

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

	Symbol/ Rating		Price (\$/sh) 15-Jan 2003	EV/ Sales NTM	EV/ Ebitda NTM	P/E NTM	Dividend or Distribution NTM (%)	PV/ Ebitda NTM
Energy Infrastructure								
El Paso Energy Partners	EPN	S	30.75	8.7	23.4	77	8.8	9.0
Enbridge Energy Partners, L.P.	EEP	S	42.20	2.0	15.0	32	8.5	9.0
Enterprise Products Part (16%)	EPD		18.71	1.6	14.8	25	7.4	9.0
Plains All Amer. Pipeline	PAA		25.09	0.2	14.3	20	8.6	9.0
Enbridge Energy Management, L.L.C	EEQ	S	37.30	1.8	14.0	28	9.7	9.0
Northern Border Partners	NBP		37.95	6.8	11.9	14	8.4	9.0
TEPPCO Partners, L.P.	TPP		29.68	1.0	11.7	15	8.1	9.0
AmeriGas Partners, L.P.	APU		23.97	1.6	10.3	23	9.2	9.0
Western Gas Resources	WGR		34.10	0.7	8.4	19	0.6	9.0
	<i>Median</i>			<i>1.6</i>	<i>14.0</i>	<i>23</i>	<i>8.5</i>	<i>9.0</i>
Natural Gas and Oil								
Unit Corporation	UNT		17.14	3.4	9.3	29	-	9.8
Quicksilver Resources Inc.	KWK		23.05	5.3	8.8	22	-	8.6
Dorchester Hugoton, Ltd.	DHULZ		14.56	5.8	8.3	11	10.6	6.4
Canadian Oil Sands Trust (US\$)	COS_u.TO	B	23.62	3.8	7.2	8	5.4	11.2
Enerplus Resources Fund	ERF		18.71	5.0	6.7	12	12.5	6.5
Swift Energy Company	SFY		9.16	3.9	6.3	35	-	7.4
Provident Energy Trust	PVX		7.27	4.1	6.0	15	19.8	4.5
Forest Oil Corporation	FST	N	24.70	3.6	6.0	18	-	7.5
Encore Acquisition Corp. (25%)	EAC		18.99	4.1	6.0	12	-	6.5
Pengrowth Energy Trust	PGH		9.62	3.8	5.9	15	15.7	5.9
Magnum Hunter Resources, Inc.	MHR		5.48	3.2	5.7	22	-	7.9
Pogo Producing Company	PPP		36.50	3.5	5.7	19	0.3	5.5
Southwestern Energy Company	SWN		12.35	2.7	5.4	9	-	6.3
Penn Virginia Corporation	PVA		35.99	2.5	4.8	14	2.5	6.0
Stone Energy Company	SGY		34.72	3.3	4.6	13	-	5.3
Newfield Exploration Company	NFX		33.89	3.0	4.3	14	-	4.4
Spinnaker Exploration Company	SKE		19.44	2.8	3.3	12	-	4.3
	<i>Median</i>			<i>3.6</i>	<i>6.0</i>	<i>14</i>	<i>-</i>	<i>6.4</i>
Natural Gas Royalty Trusts								
Cross Timbers Royalty Trust	CRT		20.53	6.1	8.5	9	11.1	8.6
San Juan Basin Royalty Trust	SJT	B	13.69	4.8	5.9	8	12.7	7.3
Hugoton RoyaltyTrust (46%)	HGT		12.91	4.3	5.9	8	12.3	7.5
Micro Cap								
Abraxas Petroleum Corporation	ABP		0.66	5.6	9.2		-	9.5
Purcell Energy, Ltd. (US\$)	PEL.TO	N	1.84	4.2	6.4	22	-	7.8
Energy Partners Ltd.(30%)	EPL	B	11.27	3.2	6.3		-	5.8

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 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. He and his spouse do not sell short nor act contrary to a buy or sell rating except for tax loss purposes. 9