

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

May 31, 2005

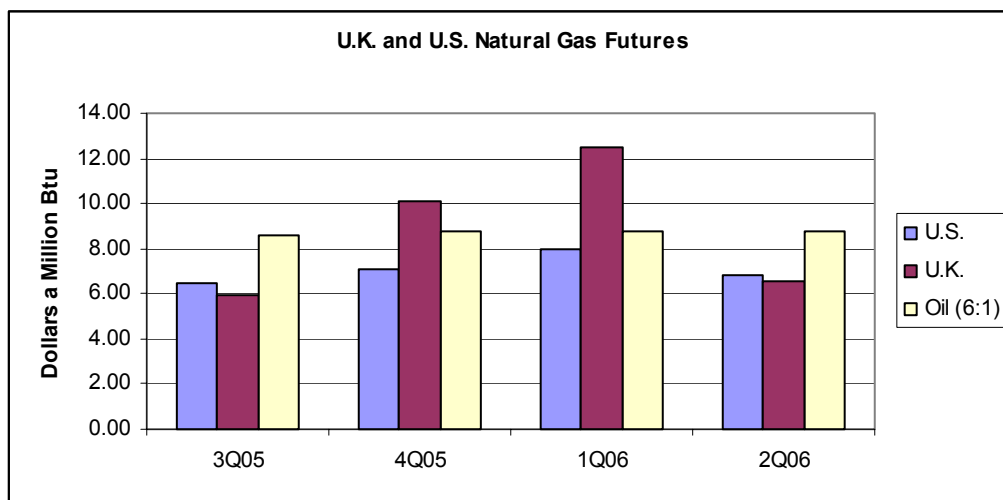
Europe Bids Natural Gas Higher

Summary and Recommendation

Rising futures prices for natural gas in Europe dramatize unrecognized value in the natural gas resources of buy-recommended **Encana (ECA)**, **XTO Energy (XTO)**, **Cimarex (XEC)** and hold-recommended **San Juan Basin Royalty Trust (SJT)** among North American natural gas producers. Buy-recommended **Norsk Hydro (NHY)** is most concentrated directly on European natural gas among stocks in our coverage. Futures prices at the U.K. National Balancing Point are setting new records exceeding \$12 a million btu for first quarter 2006, 58% more than for the U.S. We believe that level would be more realistic for the U.S. as well, and we note that Atlantic gas markets are newly linked through liquefied natural gas trading.

Europe May Appreciate Clean Value

Futures prices for natural gas in Europe have reached some \$12.50 a million btu (mmbtu) for the first quarter of 2006 (see chart U.K. and U.S. Natural Gas Futures). The level is 42% above oil converted at 6:1 and 58% above U.S. natural gas.



While we may not understand all the dynamic forces, we believe that an increasing premium for natural gas relative to oil is warranted. The discount of U.S. natural gas price relative to crude oil price seems likely to reverse. Prices could change quickly with a hot summer or a cold winter.

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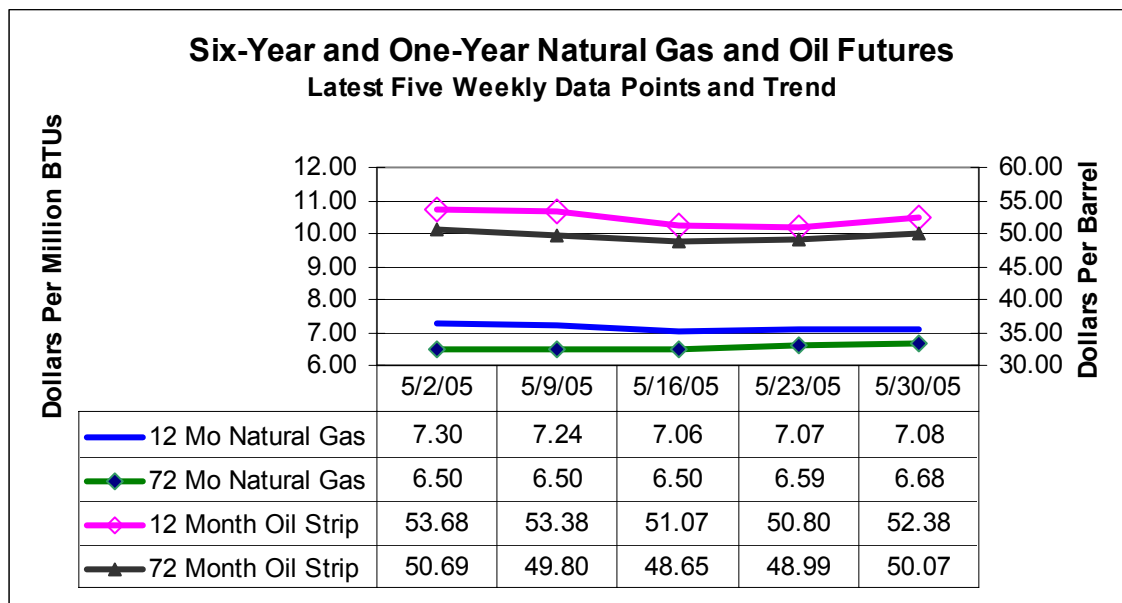
U.S. natural gas price should also be higher from an environmental point of view. Europe offers interesting insight into the economic effects. Some of the strength in European natural gas may be related to nascent trading in carbon permits where the price has more than doubled in the past three months to 20 euros a metric ton of carbon dioxide as reported on Bloomberg. At that price the cost of burning coal has gone up at least \$1.30 a mmbtu in natural gas terms.

Officially, the U.S. does not recognize carbon dioxide as a problem that requires the limitations Europeans are beginning to attempt. We do recognize dangers in sulfur dioxide, mercury and other contaminants. Yet we allow old coal plants to continue high levels of polluting when we could be using more natural gas to displace coal.

Nineteenth Century Coal Economy

Natural gas quotes continue to lag oil (see chart Latest Five Weekly Data Points and Trend). The scales of the chart match oil price to natural gas price at the 5:1 ratio we expect for the next decade. Oil price in the top two lines is separated by a chasm from natural gas in the bottom two lines.

Environmental regulations are too lax if natural gas price is not as high as its cleaner heating value justifies. Shut down old coal plants that are polluting with little limitation. It is time to leave the 19th Century coal economy and join the 21st Century natural gas economy.



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) 27-May 2005	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap								
BP plc	BP	B	61.38	3,574	219,000	64.00	0.13	0.96
Shell Transport and Trading Co. plc	SC	B	53.49	1,587	85,000	56.00	0.14	0.96
Exxon Mobil Corporation	XOM	B	56.80	6,421	365,000	60.00	0.06	0.95
Royal Dutch Petroleum	RD	B	59.82	2,018	121,000	66.00	0.14	0.92
Total S.A.	TOT	B	113.28	1,192	135,000	126.00	0.15	0.91
Chevron Corporation	CVX	B	54.58	2,311	126,000	70.00	0.13	0.81
<i>Total or Median</i>					1,051,000		0.13	0.93
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	77.71	125	9,710	20.00	0.74	1.76
Marathon Oil Corporation	MRO	B	48.90	349	17,050	42.00	0.30	1.11
Imperial Oil Limited (30%)	IMO	B	71.64	105	7,510	64.00	0.10	1.11
Petro-Canada	PCZ	B	56.82	263	14,970	70.00	0.19	0.85
ConocoPhillips	COP	B	107.55	710	76,400	140.00	0.21	0.82
Norsk Hydro ASA	NHY	B	83.27	251	20,890	110.00	0.13	0.79
Suncor Energy	SU	B	39.06	461	18,010	54.00	0.10	0.75
PetroChina Company Ltd (10%)	PTR	B	64.11	176	11,270	94.00	0.05	0.70
Lukoil Oil Company	LUKOY	B	34.75	834	29,000	52.00	0.03	0.68
<i>Total or Median</i>					205,000		0.13	0.82
Independent Natural Gas and Oil - Large Cap and Mid Cap								
Encana Corporation	ECA	B	35.43	909	32,200	38.50	0.19	0.94
Unocal Corporation	UCL	B	57.56	273	15,700	65.00	0.19	0.91
XTO Energy Inc.	XTO	B	30.94	366	11,330	36.00	0.19	0.89
Occidental Petroleum Corp.	OXY	B	73.52	406	29,900	87.00	0.14	0.87
CNOOC Limited (19%)	CEO	B	54.29	78	4,240	67.00	-	0.81
Burlington Resources	BR	B	51.43	389	20,000	67.00	0.12	0.79
Devon Energy Corporation	DVN	B	46.55	496	23,100	63.00	0.16	0.78
Anadarko Petroleum Corp.	APC	B	76.09	239	18,200	113.00	0.14	0.72
<i>Total or Median</i>					155,000		0.15	0.84
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	45.83	22	1,030	50.00	0.12	0.93
Energy Partners Ltd.	EPL	B	22.86	39	900	30.00	0.20	0.81
Cimarex Energy Company	XEC	B	37.90	81	3,070	50.00	0.17	0.80
Encore Acquisition Company	EAC	B	37.52	33	1,220	57.00	0.19	0.72
<i>Total or Median</i>					6,200		0.18	0.80
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	47.91	150	7,190	15.00	0.52	2.06
Kinder Morgan Management, LLC	KMR	S3	44.68	56	2,520	15.00	0.52	1.96
Pengrowth Energy Trust	PGH		20.60	153	3,150	16.00	0.19	1.23
San Juan Basin Royalty Trust	SJT		36.29	47	1,690	32.00	-	1.13
Enerplus Resources Fund	ERF		35.61	105	3,730	32.00	0.16	1.09
Canadian Oil Sands Trust (US\$)	COSWF	B	65.25	93	6,040	94.00	0.16	0.74
<i>Total or Median</i>					24,300		0.17	1.18

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

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) 27-May 2005	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
Mega Cap								
Exxon Mobil Corporation	XOM	B	56.80	11.2	6.7	6.3	11	1.9
BP plc	BP	B	61.38	9.4	5.8	5.6	10	3.3
Total S.A.	TOT	B	113.28	9.0	5.7	5.2	9	3.0
Shell Transport and Trading Co. plc	SC	B	53.49	7.3	5.2	5.0	10	3.7
Royal Dutch Petroleum	RD	B	59.82	7.3	5.2	4.8	9	3.9
Chevron Corporation	CVX	B	54.58	9.6	5.7	4.6	8	3.3
		<i>Median</i>		9.2	5.7	5.1	9	3.3
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	77.71		7.5	13.1	17	3.6
Imperial Oil Limited (30%)	IMO	B	71.64	9.9	7.3	8.1	15	1.0
Suncor Energy	SU	B	39.06	20.1	10.0	7.5	16	0.5
Marathon Oil Corporation	MRO	B	48.90	7.5	4.5	5.0	9	2.3
Petro-Canada	PCZ	B	56.82	5.4	5.4	4.6	9	0.8
ConocoPhillips	COP	B	107.55	11.6	5.6	4.6	7	2.3
Norsk Hydro ASA	NHY	B	83.27	8.2	5.3	4.2	9	3.8
PetroChina Company Ltd (10%)	PTR	B	64.11	13.5	5.9	4.1	8	5.0
Lukoil Oil Company	LUKOY	B	34.75	20.0	4.9	3.3	6	2.9
		<i>Median</i>		10.7	5.6	4.6	9	2.3
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B	30.94	11.8	7.1	6.3	12	0.6
Encana Corporation	ECA	B	35.43	7.2	5.7	5.3	12	1.7
Occidental Petroleum Corp.	OXY	B	73.52	11.6	5.8	5.0	9	1.7
Burlington Resources	BR	B	51.43	9.9	6.0	4.8	11	0.7
Anadarko Petroleum Corp.	APC	B	76.09	12.3	6.6	4.8	9	0.9
Unocal Corporation	UCL	B	57.56	8.5	5.0	4.5	9	1.4
Devon Energy Corporation	DVN	B	46.55	7.8	5.3	4.1	9	0.6
CNOOC Limited (19%)	CEO	B	54.29	8.7	4.6	3.7	7	3.8
		<i>Median</i>		9.3	5.8	4.8	9	1.2
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	45.83	11.2	6.1	5.7	14	1.0
Encore Acquisition Company	EAC	B	37.52	15.4	7.5	5.4	13	-
Cimarex Energy Company	XEC	B	37.90	7.5	5.1	4.1	10	-
Energy Partners Ltd.	EPL	B	22.86	4.8	3.6	2.9	8	-
		<i>Median</i>		9.4	5.6	4.7	11	-
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	47.91		7.6	15.6	20	6.1
Kinder Morgan Management, LLC	KMR	S3	44.68		7.6	14.8	19	6.5
San Juan Basin Royalty Trust	SJT		36.29	12.1	9.2	10.5	12	8.6
Pengrowth Energy Trust	PGH		20.60	7.4	6.1	7.5	13	10.7
Enerplus Resources Fund	ERF		35.61	9.4	6.2	6.8	13	9.4
Canadian Oil Sands Trust (US\$)	COSWF	B	65.25	20.0	8.5	6.3	7	2.4
		<i>Median</i>		10.8	7.6	9.0	13	7.6

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2006; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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Index of Recent Research

Stock Ideas

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
26-May	UCL	Unocal Corporation	Buy Chevron at a Discount
26-May	CVX	ChevronTexaco Corporation	Reduce Net Present Value to \$70 a Share
25-May	XEC	Cimarex Energy Company	Natural Gas Growth
23-May	SU	Suncor Energy Inc.	Syncrude Sister
20-May	COP	ConocoPhillips	Raise Net Present Value to \$140 a Share
16-May	EAC	Encore Acquisition Company	Momentum Test
11-May	XTO	XTO Energy Inc.	Raise Net Present Value to \$36 a Share
9-May	TOT	Total S.A.	Raise Net Present Value to \$120 a Share
6-May	IMO	Imperial Oil Limited	Oil Sands Strategy
5-May	* BRY	Berry Petroleum Company	Oil in the Kitty Litter
29-Apr	* MRO	Marathon Oil Corporation	Between China and Canada
28-Apr	* SJT	San Juan Basin Royalty Trust	Ten Bagger
27-Apr	* PCZ	Petro-Canada	Oil Sands Strategy
26-Apr	* COSWF	Canadian Oil Sands Trust	If You Could Own Only One
22-Apr	* OXY	Occidental Petroleum Corporation	Return to Libya
22-Apr	* ECA	EnCana Corporation	Natural Gas Leader
14-Apr	* KMX	Kinder Morgan	Our Contrary View
8-Apr	* NHY	Norsk Hydro ASA	New High for Oil and Aluminum
7-Apr	* LUKOY	Lukoil Oil Company	National Treasure
31-Mar	* BR	Burlington Resources, Inc.	San Juan Basin Value Expanding
29-Mar	* CEO	CNOOC Ltd	Nice Dividend
23-Mar	* CEO	CNOOC Ltd	Volume Gains Expected in 2005
21-Mar	* PTR	PetroChina Company Limited	Nice Dividend
18-Mar	* RD	Royal Dutch Petroleum	Transformation Approaching
18-Mar	* SC	Shell Transport & Trading Company, p.l.c.	Transformation Approaching
17-Mar	* BP	BP p.l.c.	More Cash Flow to Owners
7-Mar	* EPL	Energy Partners, Ltd.	Layer Cake
7-Mar	* DVN	Devon Energy Corporation	Target Diversification
7-Mar	* XOM	Exxon Mobil Corporation	Raise Net Present Value to \$60 a Share
17-Feb	* APC	Anadarko Petroleum Corporation	Raise Net Present Value to \$113 a Share

Meter Reader - A Weekly Analysis

31-May		Europe Bids Natural Gas Higher
24-May	*	Clean Air Tradeoff Indicator
17-May	*	Merger Stocks and Small Cap
10-May	*	Nice Return for Low Risk
3-May	*	In It to Win It

* Archived on www.mcdep.com

Also see

U.S. Natural Gas Royalty Trusts - A Weekly Analysis, and Single-Trust Analyses

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