

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

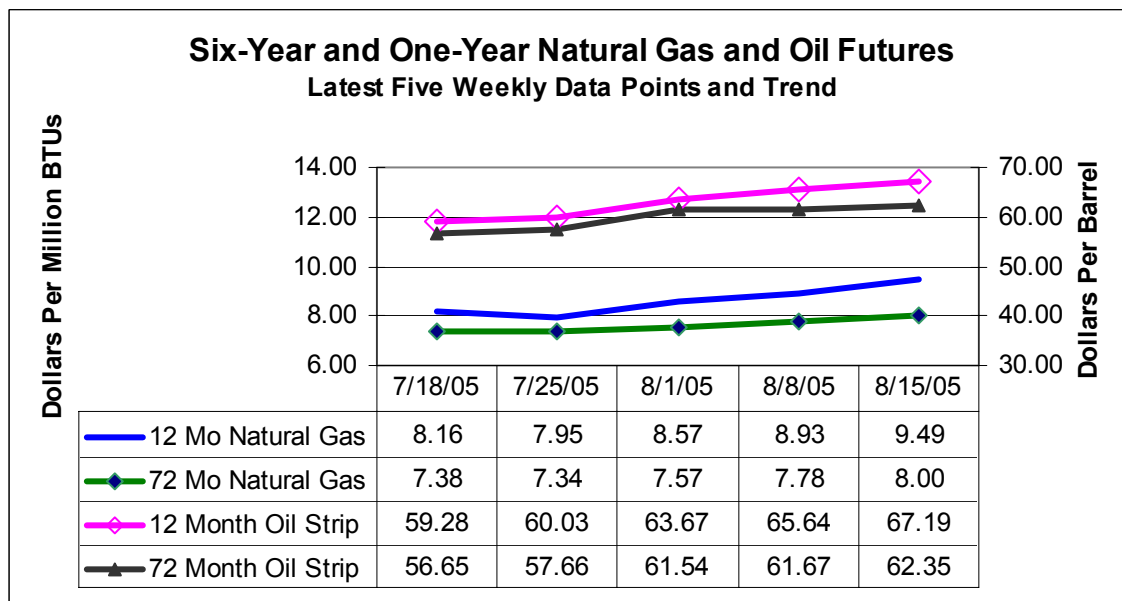
August 16, 2005

Energy Policy Act of 2005

Summary and Recommendation

The indirect message of the energy legislation signed by the President on August 8 is that conventional natural gas and oil are underpriced for their clean energy potential. If conservation measures have to be mandated, for example, the message is that the price of energy is too low. If gasified coal has to be subsidized, for example, the message is that long-term futures prices for clean energy are not high enough. Meanwhile one-year and six-year average futures prices for natural gas and oil continue their march to new heights. McDep Ratios generally below 1.0 place market cap and debt below resource value at a constant real oil price of \$50 a barrel. Constructing an energy portfolio from our buy recommendations we suggest favoring lower McDep Ratios for new commitments and spreading choices among five groups. Skew representation to natural gas and include non-U.S. domicile.

On vacation August 23 and August 30, Meter Reader should be back on September 6.



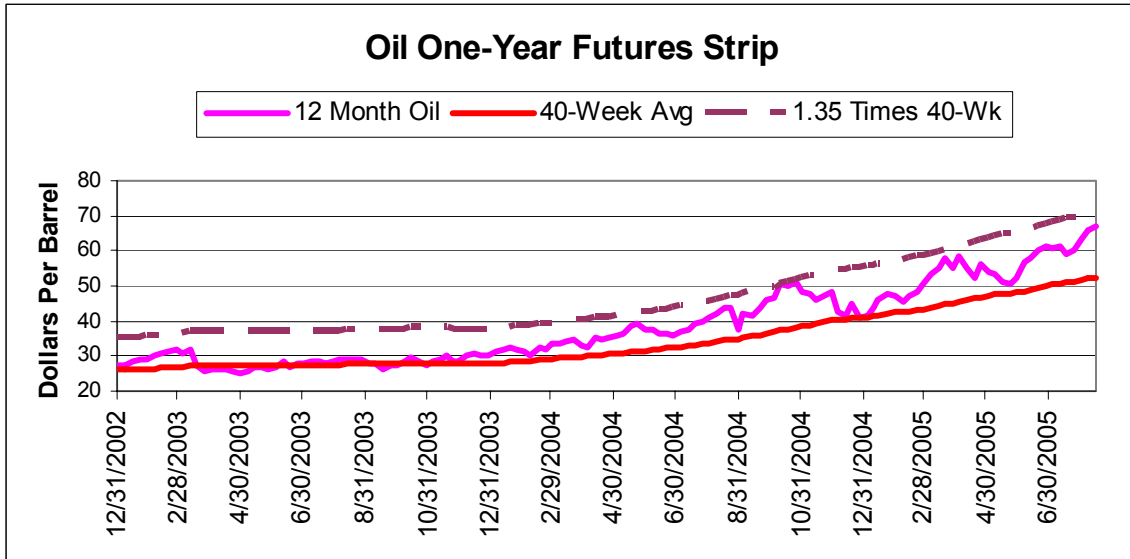
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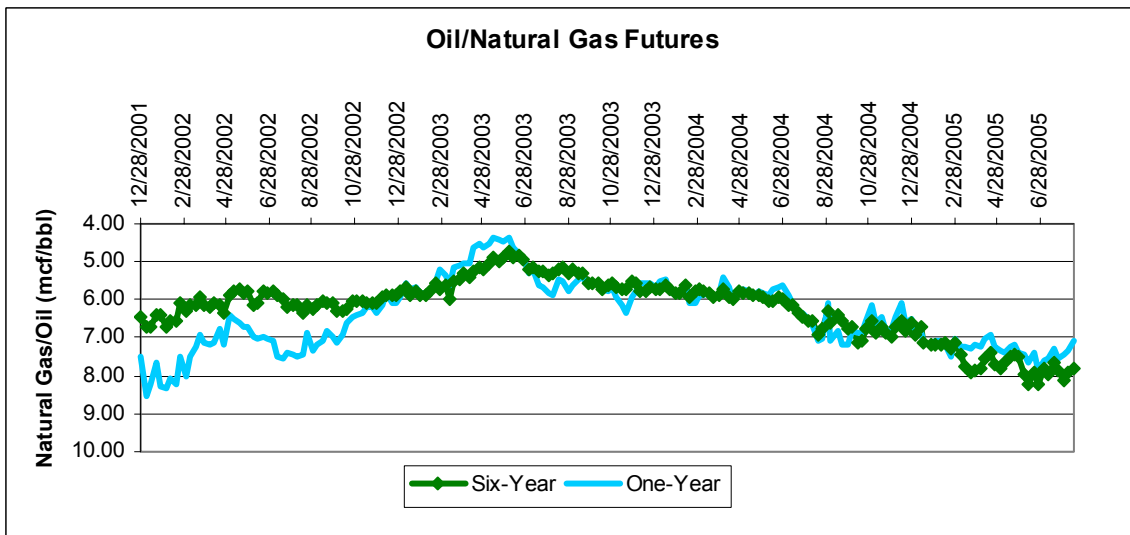
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The chart of Oil One-Year Futures Strip tells us we may be approaching a short-term rest if price were to remain in the channel between the 40-Week Average at \$52 and 1.35 times the 40-Week Average at \$71. Though hot summer weather may be peaking, hurricanes may yet be active and the winter lies ahead. The long-cycle commodity price move appears to have more upside.



The chart of Oil/Natural Gas Futures tells us that a cold winter such as we experienced in early 2003 could take natural gas price up 60%, to 5:1 from 8:1 compared to oil. Normal market conditions should take natural gas price to 5:1 for the next several years and higher ultimately.



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) 15-Aug 2005	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap								
BP plc	BP	B	69.92	3,545	248,000	82.00	0.10	0.87
Total S.A.	TOT	B	131.20	1,182	155,000	160.00	0.12	0.84
Exxon Mobil Corporation	XOM	B	60.42	6,370	385,000	74.00	0.04	0.82
Royal Dutch Shell plc	RDS-A	B	66.81	3,372	225,000	84.00	0.11	0.82
Chevron Corporation	CVX	B	62.13	2,086	130,000	90.00	0.08	0.71
<i>Total or Median</i>					<i>1,143,000</i>		<i>0.10</i>	<i>0.82</i>
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	94.18	123	11,590	20.00	0.76	1.90
Imperial Oil Limited (30%)	IMO	B	94.22	104	9,760	84.00	0.09	1.11
Marathon Oil Corporation	MRO	B	62.27	367	22,850	65.00	0.27	0.97
Petro-Canada	PCZ	B	78.42	263	20,620	84.00	0.18	0.95
Suncor Energy	SU	B	56.96	461	26,260	68.00	0.10	0.85
Norsk Hydro ASA	NHY	B	101.97	251	25,600	130.00	0.13	0.81
PetroChina Company Ltd (10%)	PTR	B	91.50	176	16,090	120.00	0.04	0.77
ConocoPhillips	COP	B	65.84	1,419	93,400	100.00	0.15	0.71
Lukoil Oil Company	LUKOY	B	42.95	830	36,000	65.00	0.02	0.67
<i>Total or Median</i>					<i>262,000</i>		<i>0.13</i>	<i>0.85</i>
Independent Natural Gas and Oil - Large Cap and Mid Cap								
CNOOC Limited (29%)	CEO	B	76.58	119	9,130	84.00	0.01	0.91
Encana Corporation	ECA	B	44.40	892	39,600	51.00	0.16	0.89
XTO Energy Inc.	XTO	B	37.08	370	13,710	48.00	0.17	0.81
Burlington Resources	BR	B	66.91	385	25,800	86.00	0.09	0.80
Devon Energy Corporation	DVN	B	58.80	471	27,700	86.00	0.15	0.73
Occidental Petroleum Corp.	OXY	B	82.57	406	33,500	120.00	0.11	0.72
Anadarko Petroleum Corp.	APC	B	89.40	238	21,300	140.00	0.11	0.68
<i>Total or Median</i>					<i>433,000</i>		<i>0.12</i>	<i>0.81</i>
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	60.95	22	1,370	65.00	0.10	0.94
Energy Partners Ltd.	EPL	B	25.59	41	1,040	38.00	0.17	0.73
Encore Acquisition Company	EAC	B	31.99	49	1,580	50.00	0.17	0.70
Cimarex Energy Company	XEC	B	41.67	85	3,540	64.00	0.12	0.69
<i>Total or Median</i>					<i>7,500</i>		<i>0.14</i>	<i>0.72</i>
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	51.06	156	7,970	15.00	0.55	2.07
Kinder Morgan Management, LLC	KMR	S3	47.39	56	2,630	15.00	0.55	1.96
San Juan Basin Royalty Trust	SJT		48.65	47	2,270	40.00	-	1.22
Pengrowth Energy Trust	PGH		23.90	153	3,660	20.00	0.16	1.16
Penn West Energy Trust	PWTFF	B	27.99	171	4,800	28.00	0.15	1.00
Enerplus Resources Fund	ERF		40.27	105	4,220	42.00	0.13	0.96
Canadian Oil Sands Trust (US\$)	COSWF	B	92.59	93	8,570	136.00	0.12	0.72
<i>Total or Median</i>					<i>34,100</i>		<i>0.15</i>	<i>1.16</i>

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) 15-Aug 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	60.42	11.5	6.9	5.7	10	1.9
Total S.A.	TOT	B	131.20	9.2	6.3	5.3	9	2.5
BP plc	BP	B	69.92	9.4	5.8	5.0	8	3.1
Royal Dutch Shell plc	RDS-A	B	66.81	7.2	5.3	4.3	8	3.4
Chevron Corporation	CVX	B	62.13	9.6	5.8	4.1	7	2.9
	<i>Median</i>			9.4	5.8	5.0	8	2.9
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	94.18		8.2	15.5	22	3.2
Suncor Energy	SU	B	56.96	20.7	9.8	8.4	18	0.3
Imperial Oil Limited (30%)	IMO	B	94.22	10.5	6.4	7.1	12	0.8
PetroChina Company Ltd (10%)	PTR	B	91.50	13.7	6.7	5.2	10	3.5
Petro-Canada	PCZ	B	78.42	7.2	5.1	4.8	8	0.8
Marathon Oil Corporation	MRO	B	62.27	7.1	4.6	4.5	6	1.8
ConocoPhillips	COP	B	65.84	11.2	5.8	4.1	6	1.9
Norsk Hydro ASA	NHY	B	101.97	8.2	4.8	3.9	8	3.1
Lukoil Oil Company	LUKOY	B	42.95	19.8	5.0	3.3	6	2.3
	<i>Median</i>			10.9	5.8	4.8	8	1.9
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B	37.08	11.5	6.6	5.3	10	0.5
Encana Corporation	ECA	B	44.40	7.2	5.8	5.2	10	1.4
CNOOC Limited (29%)	CEO	B	76.58	9.6	5.4	4.9	9	2.7
Burlington Resources	BR	B	66.91	9.9	6.0	4.8	10	0.6
Anadarko Petroleum Corp.	APC	B	89.40	12.5	6.4	4.4	8	0.8
Occidental Petroleum Corp.	OXY	B	82.57	11.3	5.8	4.2	7	1.5
Devon Energy Corporation	DVN	B	58.80	7.3	4.4	3.2	6	0.5
	<i>Median</i>			10.4	5.8	4.8	9	1.1
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	60.95	11.2	5.3	5.0	13	0.8
Encore Acquisition Company	EAC	B	31.99	14.7	7.0	4.9	11	-
Cimarex Energy Company	XEC	B	41.67	7.5	4.9	3.4	8	-
Energy Partners Ltd.	EPL	B	25.59	4.8	3.4	2.5	6	-
	<i>Median</i>			9.4	5.1	4.2	9	-
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	51.06		8.2	17.1	28	6.1
Kinder Morgan Management, LLC	KMR	S3	47.39		8.2	16.2	26	6.6
San Juan Basin Royalty Trust	SJT		48.65	12.0	9.1	11.1	12	8.3
Canadian Oil Sands Trust (US\$)	COSWF	B	92.59	20.0	9.9	7.1	8	1.8
Pengrowth Energy Trust	PGH		23.90	7.4	5.3	6.2	9	9.5
Enerplus Resources Fund	ERF		40.27	9.4	5.9	5.6	8	8.6
Penn West Energy Trust	PWTFF	B	27.99	8.0	4.9	4.9	8	9.2
	<i>Median</i>			9.4	8.2	7.1	9	8.3

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>
15-Aug	XEC	Cimarex Energy Company	\$Billion Cash Flow for Small Cap NG Producer
11-Aug	PWTTF	Penn West Energy Trust	Undiscovered by U.S. Investors
11-Aug	SU	Suncor Energy Inc.	Oil Price and Operating Reliability
11-Aug	KMx	Kinder Morgan	Canada May Block KM-Terasen Deal
8-Aug	TOT	Total S.A.	Oil Sands Oui!
3-Aug	DVN	Devon Energy Corporation	Raise Net Present Value to \$86 a Share
2-Aug		26 Stocks - Single Issue Statistics	Raise Net Present Value to \$xx a Share
28-Jul	EAC	Encore Acquisition Company	HPAI Incline
27-Jul	BP	BP p.l.c.	Steady-State Growth
27-Jul	NHY	Norsk Hydro ASA	Norsk Natural Gas
26-Jul	OXY	Occidental Petroleum Corporation	Back in Libya
22-Jul	COSWF	Canadian Oil Sands Trust	Distribution Capability Blossoming
22-Jul	* IMO	Imperial Oil Limited	Syncrude Boost
22-Jul	* MRO	Marathon Oil Corporation	Raise Net Present Value to \$45 a Share
22-Jul	* PCZ	Petro-Canada	Approaching Par
20-Jul	* XTO	XTO Energy Inc.	Simpson Sense
14-Jul	* RD	Royal Dutch Petroleum	Frontier Challenge
6-Jul	* COSWF	Canadian Oil Sands Trust	Free (Cash Flow) at Last
29-Jun	* LUKOY	Lukoil Oil Company	Profits and Taxes Rising
23-Jun	* CEO	CNOOC, Unocal, Chevron	Bidding Battle
8-Jun	* CEO	CNOOC Ltd	Unocal Bid?
8-Jun	* PTR	PetroChina Company Limited	News Pending
3-Jun	* EPL	Energy Partners, Ltd.	Exploration Exposure
1-Jun	* RD	Royal Dutch Petroleum	Nice Return for Low Risk
1-Jun	* XOM	Exxon Mobil Corporation	Nice Return for Low Risk
31-May	* APC	Anadarko Petroleum Corporation	Clean Fuel Supplier
31-May	* BR	Burlington Resources, Inc.	Clean Fuel Supplier
31-May	* DVN	Devon Energy Corporation	Clean Fuel Supplier
31-May	* ECA	EnCana Corporation	Clean Fuel Supplier
26-May	* CVX	ChevronTexaco Corporation	Reduce Net Present Value to \$70 a Share
26-May	* UCL	Unocal Corporation	Buy Chevron at a Discount
20-May	* COP	ConocoPhillips	Raise Net Present Value to \$140 a Share
5-May	* BRY	Berry Petroleum Company	Oil in the Kitty Litter
28-Apr	* SJT	San Juan Basin Royalty Trust	Ten Bagger

Meter Reader - A Weekly Analysis

16-Aug		Hair-Brained Schemes
9-Aug	*	Comparables
2-Aug	*	Raise Present Value for \$50 Oil
25-Jul	*	Strong Trends
19-Jul	*	An Incentive, Not a Tax

* Archived on www.mcdep.com

Also see

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

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