

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

May 28, 2001

California Frustration

Summary and Recommendation

The more that California politicians and academicians insist on price controls, the higher energy prices will average and the longer they will stay high. We see electric power leading the value upgrading followed by natural gas, oil refining and crude oil. Our four recommended stocks offer diversified appreciation potential on a risk adjusted basis at least as good as any four other energy stocks we know. Buy-recommended **American Electric Power** uniquely combines dominant size and low cost in electric generation, transmission and trading. Buy-recommended **Burlington Resources** has the most gas reserves of any independent producer and the stock has lagged drastically. Strong Buy **Marathon Oil** has a valuable refining and producing position and will soon separate completely from its stifling association with U.S. Steel. Strong Buy **Energy Partners Ltd.** is developing new oil and gas production in some of the largest domestic oil fields.

A Virtual Flood of California Whine

Normally a well-respected person, Senator Diane Feinstein, along with many California leaders, wants the Federal Energy Regulatory Commission (FERC) to control the price of electricity in the wholesale market. Telling the rest of us, "FERC You!" California has decades-long history of using, often successfully, the Federal regulators to compel producers to sell energy to California at prices below the market. Federal price controls on energy in the past caused high inflation and slowed economic growth. Energy shortages exacerbated by price controls were associated with a stock market for non-energy stocks that went nowhere for 17 years - 1966 to 1982. Municipal bonds plunged as interest rates soared. Pessimism was rampant and false accusations flowed like California Whine today.

The dean of the business school at University of California at Berkeley, Laura D'Andrea Tyson, adds to the surplus of California Whine in a Business Week piece. Ms. Tyson says profits are too high for energy producers. She gives scant reference to consumer price controls that cause wasteful use of a precious energy resource. She darkly hints that it is "Texans" that are behind higher electricity prices. Texas is the leading energy producing state. Naturally some large energy companies will be headquartered there, but not all are. There is no mention of high profits to technology stock promoters. She didn't say it was those Californians who fleeced investors in technology.

Where is the sense of personal responsibility among California leaders? Why do certain prominent persons in the richest state attempt to invoke Federal authority for selfish gain?

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 research by Kurt Wulff is accessible at <http://www.mcdep.com>. Owning shares in about 16 energy stocks, neither Mr. Wulff nor his spouse act contrary to a buy or sell rating. Mr. Wulff is not paid by covered companies.

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

May 28, 2001

Recall that when James Clark, Larry Ellison and Scott McNealy thought a Seattle company was becoming too successful they promoted a Federal antitrust suit. Clark and Ellison's idea of competition apparently is who can build the biggest yacht as we read in a best selling book.

California Whine of the Week

Our worst Forty Niner Whiner is the chief law enforcement officer of the state. He makes the outrageous statement that he would like to see **Enron** Chairman, Ken Lay, in jail. Fascist is not too strong a word to describe such an attitude. And the statement was made in advance of Memorial Day weekend. What country does this police person think he lives in?

The Attorney General got his target right. Mr. Lay is the leading businessperson foreseeing and encouraging deregulation of natural gas and electricity. The AG got the implication wrong. Ken Lay's work redounds to the great benefit of consumers and our economy.

More likely the perpetrators of the "crime" include the AG. The crime is price controls, which steal from the free market and from economic health. The "criminals" further steal from the capital markets by letting the state's largest utility go bankrupt for no good reason. Apparently believing one good crime deserves another; the "criminals" want to compound their transgression by stealing from the federal treasury with tax subsidies for the bonds they want to float to sustain price controls.

Boycott California Whine!

Who Would Lend Money to Those Guys?

In the next few days when President Bush visits California for the first time this year it will be interesting to see how he is received. Will the President give in and support price controls? Will the leaders of our richest state continue to poke a stick in the eye of investors?

Apparently the state intends to float history's largest municipal bond issue in the midst of summer and predicted blackouts. Today the state is a deadbeat. Its citizens have not yet paid the bills for the electricity that has been squandered because of faulty consumer price signals. Who would lend money to a deadbeat?

Investors also have a long memory that the richest state's richest county reneged on its debts by declaring bankruptcy when greedy interest rate speculation went awry in 1994. The county's defense was that it was the fault of those "New York" brokers. "They made me do it", we heard. Is there a pattern here?

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 research by Kurt Wulff is accessible at <http://www.mcdep.com>. Owning shares in about 16 energy stocks, neither Mr. Wulff nor his spouse act contrary to a buy or sell rating. Mr. Wulff is not paid by covered companies.

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

May 28, 2001

Nor is there a credible program to repay the current debt. True the regulators have approved a price increase in retail electricity belatedly. It appears inadequate and makes matters worse with a patchwork of bureaucratic regulations. Apparently many retail consumers will pay higher prices only on incremental demand. Those who were profligate in past consumption are rewarded with a high base of low price electricity while those who conserved in the past are conversely penalized. As is typical when price controls create a problem, advocates of central planning establish new rules to compound the inequities.

Passion Stirred by California Implies a Strong Energy Investment Environment

We ask ourselves what is the investment significance of our unavoidably, strong negative reaction to what we perceive to be happening in the Golden State? We certainly do not want to offend our friends in California. We started our career in San Francisco with Chevron. We were married in Sausalito. Courses at the business school now headed by Dean Tyson influenced the direction of our lives.

The investment significance must be that the energy situation in California will have lasting implications that affect not only energy, but also all investments. The cynicism and disillusionment it arouses makes us question whether much of the economic progress made in recent years was real and will be lasting. Even the current emphasis on the lack of credibility of Wall Street analysts fits with our experience after the previous long boom that ended. We got our job on Wall Street thirty years ago in part as a reaction to the failed recommendations at that time. We had energy industry experience, but no Wall Street experience. The analysts with the lowest credibility now are in the technology field, which in turn is centered in California.

Bottom line: the economics and politics of the 1970s are being repeated in California today. Accordingly the outlook for energy is bright despite the inevitable ups and downs. The outlook for California, if its leaders do not act with more responsibility and fairness, is gloomy.

Kurt H. Wulff, CFA

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

May 28, 2001

Rank by McDep Ratio	Symbol/ Rating	Price (\$/sh)		Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio	
		25-May 2001	Shares (mm)					
Mega Cap								
	Exxon Mobil Corporation	XOM	88.10	3,520	310,000	72.10	0.16	1.19
	BP PLC	BP	53.47	3,720	199,000	48.90	0.17	1.08
	TOTAL Fina Elf S.A.	TOT	74.04	1,400	104,000	72.00	0.16	1.02
	Royal Dutch/Shell	RD	60.77	3,580	218,000	60.80	0.09	1.00
	<i>Total or Median</i>				831,000		0.16	1.05
Large Cap Natural Gas and Oil								
	Chevron (incl. Texaco)	CHV	94.18	1,060	99,800	103.40	0.15	0.92
	Burlington Resources, Inc	BR 2	47.88	215	10,300	56.30	0.19	0.88
	Anadarko Petroleum Corp.	APC	62.20	249	15,500	90.90	0.17	0.74
	Phillips (incl. Tosco)	P	64.99	379	24,600	102.10	0.27	0.73
	ENI S.p.A.	E	64.50	800	51,600	91.90	0.10	0.73
	Conoco Inc.	COC.B	31.40	623	19,600	48.00	0.21	0.73
	<i>Total or Median</i>				221,000		0.18	0.74
Large Cap Power								
	Enron Corp.	ENE	53.00	795	42,100	14.50	0.70	1.79
	Mirant Corporation	MIR	40.95	353	14,500	9.70	0.78	1.72
	Calpine Corporation	CPN	49.00	313	15,300	21.80	0.47	1.66
	Williams Companies	WMB	41.30	485	20,000	16.60	0.69	1.45
	Duke Energy Corporation	DUK	44.67	752	33,600	20.90	0.62	1.43
	El Paso Corporation	EPG	61.70	521	32,100	40.00	0.50	1.27
	American Electric Power Co. Inc.	AEP 2	50.41	324	16,300	25.90	0.73	1.25
	Southern Company	SO	22.91	683	15,600	16.90	0.54	1.16
	<i>Total or Median</i>				190,000		0.66	1.44
Mid Cap								
	Barrett Resources Corporation	BRR	72.17	34	2,500	53.80	0.21	1.27
	PanCanadian Pete Ltd. (15%)	PCP.TO	46.25	38	1,800	49.10	0.07	0.95
	Occidental Petroleum	OXY	29.55	370	10,900	35.60	0.46	0.91
	PetroChina Company Ltd (10%)	PTR	23.01	176	4,100	28.40	0.24	0.86
	Unocal Corporation	UCL	38.16	256	9,800	51.90	0.27	0.81
	Valero Energy Corp.	VLO	47.66	64	3,100	65.00	0.25	0.80
	USX-Marathon Group	MRO 1	32.37	360	11,700	47.00	0.30	0.78
	Petro-Canada	PCZ	27.58	272	7,500	38.70	0.08	0.74
	Devon Energy Corporation	DVN	58.71	135	7,900	89.70	0.15	0.71
	Norsk Hydro ASA	NHY	42.17	262	11,100	65.90	0.15	0.69
	<i>Total or Median</i>				66,100		0.22	0.80
Small Cap								
	Cross Timbers Royalty Tr*	CRT	22.31	6.0	134	18.00	-	1.24
	Dorchester Hugoton, Ltd.*	DHULZ	14.05	10.7	151	13.00	-	1.08
	Encore Acquisition Corporation	EAC	17.00	30.0	510	16.70	0.12	1.02
	San Juan Basin Royalty Tr*	SJT	17.08	46.6	800	17.10	-	1.00
	Hugoton RoyaltyTrust*	HGT	16.63	40.0	670	17.90	-	0.93
	Energy Partners Ltd.*	EPL 1	10.99	27.0	300	18.10	0.04	0.62
	<i>Total or Median</i>				2,570		-	1.01

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

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

* For small cap stocks marked with asterisk, estimated present value recalculated weekly.

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 research by Kurt Wulff is accessible at <http://www.mcdep.com>. Owning shares in about 16 energy stocks, neither Mr. Wulff nor his spouse act contrary to a buy or sell rating. Mr. Wulff is not paid by covered companies.

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

May 28, 2001

Rank by EV/Ebitda		Symbol	Price	EV/	EV/	Dividend or		PV/ Ebitda		
			(\$/sh) 25-May 2001	Sales 2001E	Ebitda NTM	P/E NTM	NTM (%)			
Mega Cap										
		Exxon Mobil Corporation	XOM	88.10	1.5	8.3	18	2.0	7.0	
		BP PLC	BP	53.47	1.3	7.5	12	2.6	7.0	
		TOTAL Fina Elf S.A.	TOT	74.04	1.1	7.2	17	1.5	7.0	
		Royal Dutch/Shell	RD	60.77	1.5	7.0	15	2.3	7.0	
		<i>Median</i>			<i>1.4</i>	<i>7.4</i>	<i>16</i>	<i>2.2</i>	<i>7.0</i>	
Large Cap Natural Gas and Oil										
		Burlington Resources, Inc	BR	2	47.88	3.5	6.2	9	1.1	7.0
		Chevron (incl. Texaco)	CHV		94.18	1.1	5.5	11	2.8	6.0
		Anadarko Petroleum Corp.	APC		62.20	2.1	4.4	9	0.3	6.0
		Phillips (incl. Tosco)	P		64.99	0.7	4.4	8	2.1	6.0
		Conoco Inc.	COC.B		31.40	0.7	4.4	9	2.4	6.0
		ENI S.p.A.	E		64.50	1.1	3.7	6	2.5	5.0
		<i>Median</i>				<i>1.1</i>	<i>4.4</i>	<i>9</i>	<i>2.3</i>	<i>6.0</i>
Large Cap Power										
		Enron Corp.	ENE		53.00	0.4	17.9	30	0.9	10.0
		Calpine Corporation	CPN		49.00	4.3	16.6	27	-	10.0
		Mirant Corporation	MIR		40.95	0.8	13.7	22	-	8.0
		Williams Companies	WMB		41.30	3.7	11.6	18	1.5	8.0
		Duke Energy Corporation	DUK		44.67	1.0	11.5	17	2.5	8.0
		El Paso Corporation	EPG		61.70	0.7	10.2	19	1.4	8.0
		American Electric Power Co. Inc.	AEP	2	50.41	0.7	8.8	14	4.8	7.0
		Southern Company	SO		22.91	2.7	8.1	14	5.8	7.0
		<i>Median</i>				<i>0.9</i>	<i>11.6</i>	<i>18</i>	<i>1.4</i>	<i>8.0</i>
Mid Cap										
		Barrett Resources Corporation	BRR		72.17	5.5	7.6	16	-	6.0
		PanCanadian Pete Ltd. (15%)	PCP.TO		46.25	1.9	5.7	13	0.6	6.0
		Occidental Petroleum	OXY		29.55	1.3	5.4	8	3.4	6.0
		PetroChina Company Ltd (10%)	PTR		23.01	2.1	5.1	7	6.2	6.0
		Unocal Corporation	UCL		38.16	1.7	4.8	14	2.1	6.0
		Valero Energy Corp.	VLO		47.66	0.3	4.8	7	0.7	6.0
		USX-Marathon Group	MRO	1	32.37	0.4	4.7	6	2.8	6.0
		Petro-Canada	PCZ		27.58	1.1	4.4	10	1.0	6.0
		Devon Energy Corporation	DVN		58.71	2.9	3.9	8	0.3	5.5
		Norsk Hydro ASA	NHY		42.17	0.8	2.8	7	2.5	4.0
		<i>Median</i>				<i>1.5</i>	<i>4.8</i>	<i>8</i>	<i>1.5</i>	<i>6.0</i>
Small Cap										
		Cross Timbers Royalty Tr*	CRT		22.31	6.5	9.9	10	9.7	8.0
		San Juan Basin Royalty Tr*	SJT		17.08	6.3	7.8	10	9.8	7.8
		Dorchester Hugoton, Ltd.*	DHULZ		14.05	6.0	7.5	8	8.8	7.0
		Hugoton RoyaltyTrust*	HGT		16.63	5.3	7.2	10	10.4	7.8
		Encore Acquisition Corporation	EAC		17.00	4.5	6.1		-	6.0
		Energy Partners Ltd.*	EPL	1	10.99	1.8	2.8	10	-	4.4
		<i>Median</i>				<i>5.6</i>	<i>7.4</i>	<i>10</i>	<i>9.2</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, 2002; 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 research by Kurt Wulff is accessible at <http://www.mcdep.com>. Owning shares in about 16 energy stocks, neither Mr. Wulff nor his spouse act contrary to a buy or sell rating. Mr. Wulff is not paid by covered companies.