

Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

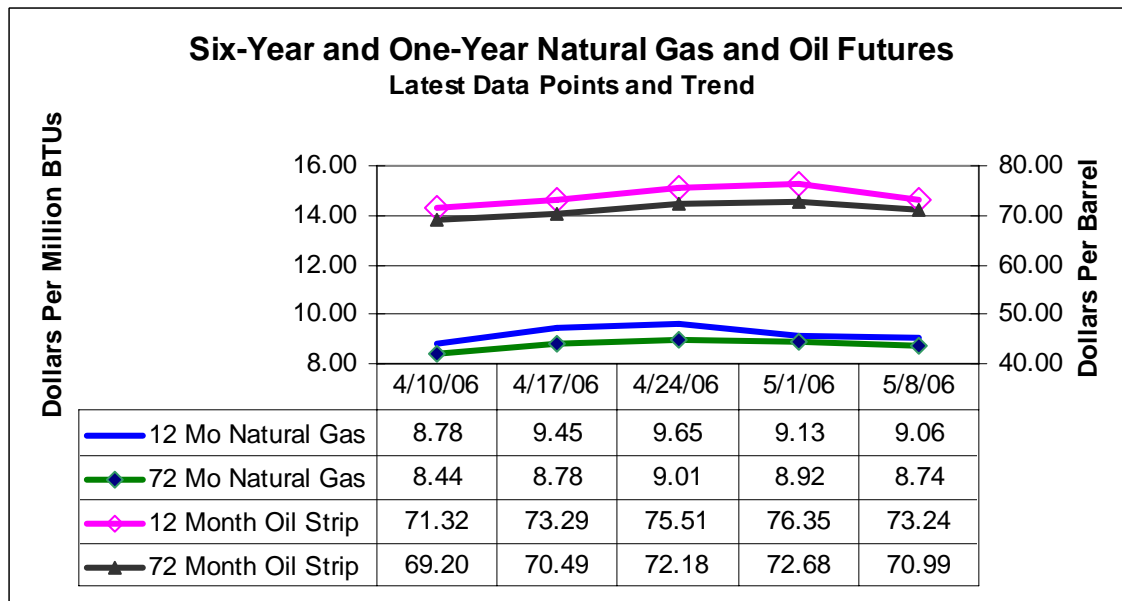
May 9, 2006

Oil Price Divided by Five

Summary and Recommendation

In a few weeks natural gas price may lift off toward oil price divided by five from the floor of oil price divided by eight. The rocket flight occurred last year from July to December. We believe that the trend is toward five because that is where refined oil for heating and power generation is competitive. At lower relative price, natural gas is displacing unrefined oil for industrial and utility uses and its clean burning advantages are being wasted economically. Logically, producers might conserve the precious resource when the price is low, but that may leave oil companies open to possible political charges of price manipulation. Investors can take advantage of the anomaly by rebalancing toward natural gas ideas. Buy-recommended stocks with natural gas exposure that are double or triple weighted in our illustrated portfolio composite are **Gazprom (OGZPY)**, **Anadarko (APC)**, **Devon Energy (DVN)**, and **San Juan Basin Royalty Trust (SJT)**. Opportunistic income investors might choose **Hugoton Royalty Trust (HGT)** while its stock price appears to be discounted for a more than doubling of publicly traded shares currently underway.

Kurt H. Wulff, CFA

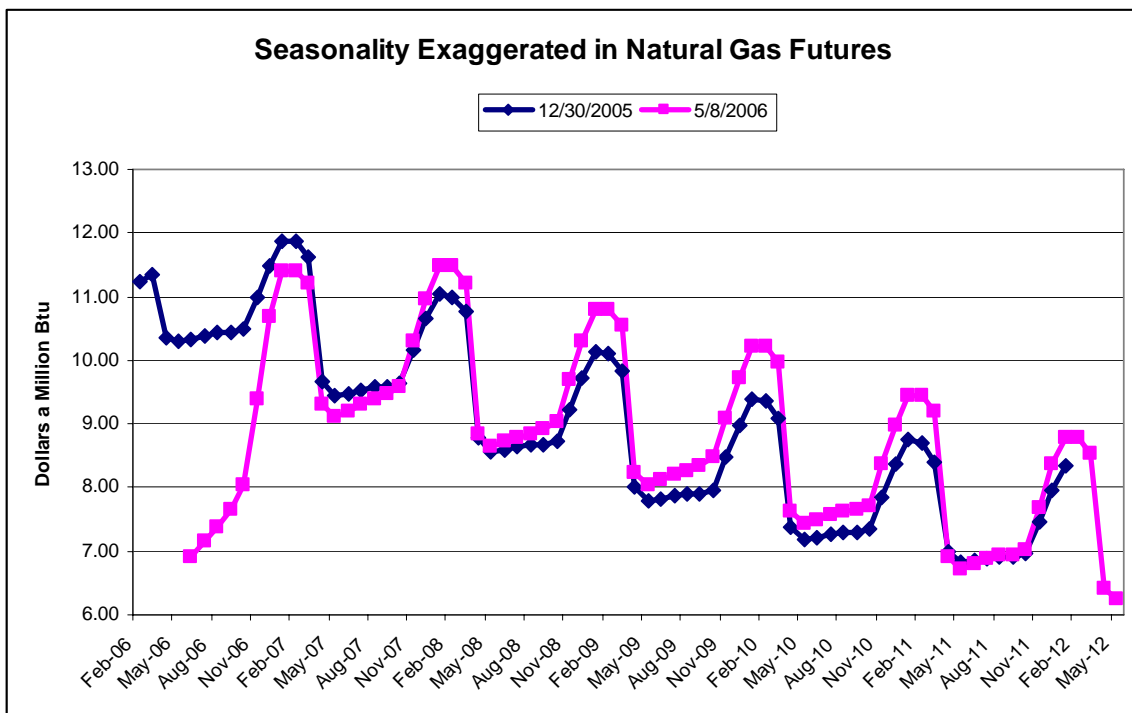
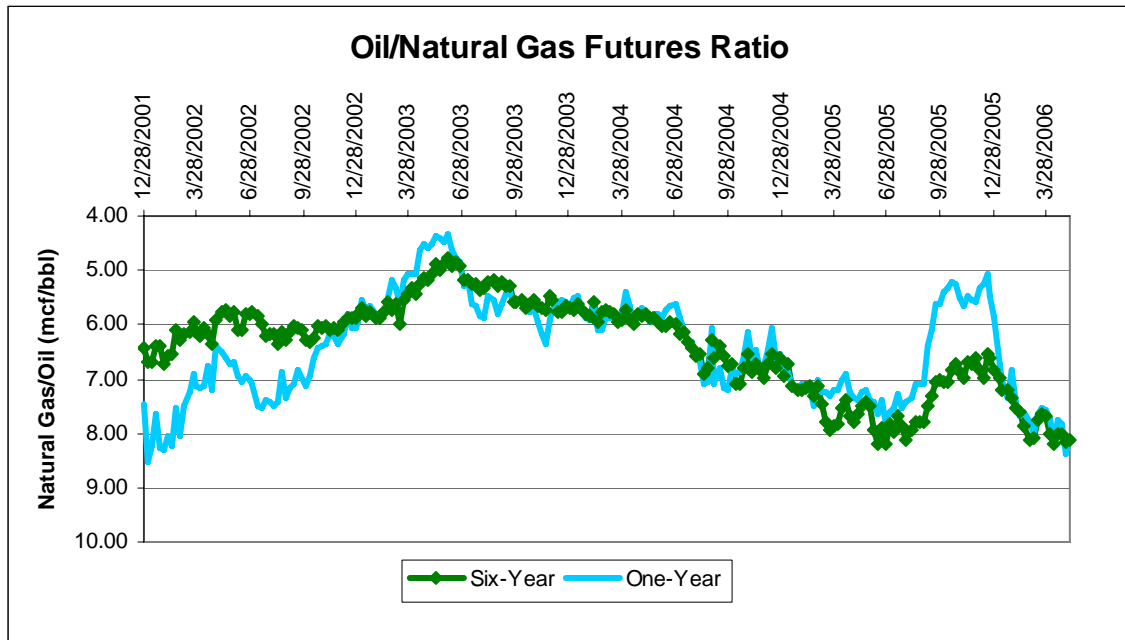


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Last year at the end of May, *Meter Reader* shifted from the standard industry practice of converting natural gas to its oil equivalent by dividing crude oil price by six to a new standard of five (see *Meter Reader*, [Clean Air Tradeoff Indicator](#), May 24, 2005 and *Meter Reader*, [Europe Bids Natural Gas Higher](#), May 31, 2005 archived on www.mcdep.com).

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Oil and Gas Producers Rank by McDep Ratio: Market Cap and Debt to Present Value

	Symbol/ Rating		Price (\$/sh) 8-May 2006	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap								
BP plc	BP	B	75.62	3,420	259,000	77.00	0.16	0.98
Gazprom (50%)	OGZPY	B	53.00	2,833	150,100	56.00	0.02	0.95
Total S.A.	TOT	B	142.88	1,168	167,000	160.00	0.13	0.91
Royal Dutch Shell plc	RDS-A	B	69.15	3,268	226,000	80.00	0.10	0.88
Exxon Mobil Corporation	XOM	B	63.71	6,126	390,000	74.00	0.04	0.87
ConocoPhillips	COP	B	66.97	1,693	113,000	95.00	0.22	0.77
Chevron Corporation	CVX	B	62.01	2,224	138,000	85.00	0.11	0.76
<i>Total or Median</i>					<i>1,443,000</i>		<i>0.11</i>	<i>0.88</i>
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	88.25	135	11,910	33.00	0.75	1.41
Norsk Hydro ASA	NHY	B	154.70	250	38,690	130.00	0.16	1.16
Imperial Oil Limited (30%)	IMO	B	104.10	100	10,380	90.00	0.09	1.14
Suncor Energy	SU	B	85.90	461	39,610	75.00	0.09	1.13
Petro-Canada	PCZ	B	47.19	520	24,540	42.00	0.20	1.10
Marathon Oil Corporation	MRO	B	80.82	367	29,690	75.00	0.20	1.06
PetroChina Company Ltd (10%)	PTR	B	122.75	178	21,820	120.00	0.05	1.02
Lukoil Oil Company	LUKOY	B	93.90	830	78,000	110.00	0.01	0.85
<i>Total or Median</i>					<i>255,000</i>		<i>0.13</i>	<i>1.12</i>
Independent Natural Gas and Oil - Large Cap and Mid Cap								
Encana Corporation	ECA	B	51.81	865	44,800	51.00	0.14	1.01
CNOOC Limited (29%)	CEO	B	84.20	119	10,040	84.00	-	1.00
Occidental Petroleum Corp.	OXY	B	103.71	431	44,700	120.00	0.12	0.88
XTO Energy Inc.	XTO	B	43.11	370	15,950	52.00	0.16	0.86
EOG Resources	EOG	B	74.55	246	18,300	90.00	0.04	0.83
Devon Energy Corporation	DVN	B	62.92	449	28,300	94.00	0.12	0.71
Anadarko Petroleum Corp.	APC	B	105.85	232	24,600	160.00	0.11	0.70
<i>Total or Median</i>					<i>187,000</i>		<i>0.12</i>	<i>0.86</i>
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	73.72	23	1,660	65.00	0.11	1.12
Energy Partners Ltd.	EPL	B	27.26	41	1,110	29.00	0.21	0.95
Encore Acquisition Company	EAC	B	30.42	54	1,640	45.00	0.28	0.77
Cimarex Energy Company	XEC	B	44.10	85	3,750	64.00	0.09	0.72
<i>Total or Median</i>					<i>8,200</i>		<i>0.16</i>	<i>0.86</i>
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	46.40	165	7,670	15.00	0.56	1.93
Kinder Morgan Management, LLC	KMR	S3	43.03	58	2,500	15.00	0.56	1.83
Pengrowth Energy Trust	PGH		24.45	161	3,940	18.00	0.17	1.30
Enerplus Resources Fund	ERF		53.90	114	6,150	42.00	0.15	1.24
Penn West Energy Trust (US\$)	PWTFF	B	39.91	230	9,160	33.00	0.15	1.18
Canadian Oil Sands Trust (US\$)	COSWF	B	31.37	464	14,550	27.20	0.12	1.13
San Juan Basin Royalty Trust	SJT	B	39.31	47	1,830	40.00	-	0.98
<i>Total or Median</i>					<i>45,800</i>		<i>0.15</i>	<i>1.24</i>

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

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) 8-May 2006	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
Mega Cap							
Gazprom (50%)	OGZPY B	53.00	20.0	9.5	9.0	15	0.3
BP plc	BP B	75.62	9.3	6.0	5.9	10	3.0
Exxon Mobil Corporation	XOM B	63.71	11.4	6.0	5.2	9	2.0
Total S.A.	TOT B	142.88	9.4	5.7	5.2	9	2.9
Royal Dutch Shell plc	RDS-A B	69.15	7.4	5.2	4.5	8	3.7
ConocoPhillips	COP B	66.97	12.1	5.4	4.1	6	2.2
Chevron Corporation	CVX B	62.01	11.0	5.3	4.0	7	3.4
	<i>Median</i>		<i>11.0</i>	<i>5.7</i>	<i>5.2</i>	<i>9</i>	<i>2.9</i>
Producer/Refiners - Large Cap and Mid Cap							
Kinder Morgan, Inc.	KMI S2	88.25		8.6	12.2	15	4.0
Suncor Energy	SU B	85.90	18.5	7.3	8.3	15	0.3
Imperial Oil Limited (30%)	IMO B	104.10	9.2	6.5	7.4	13	0.8
PetroChina Company Ltd (10%)	PTR B	122.75	11.6	5.7	5.8	11	3.4
Petro-Canada	PCZ B	47.19	6.9	5.0	5.5	10	0.8
Norsk Hydro ASA	NHY B	154.70	7.8	4.3	5.0	11	2.3
Lukoil Oil Company	LUKOY B	93.90	20.2	5.8	4.9	7	1.3
Marathon Oil Corporation	MRO B	80.82	8.3	4.4	4.7	8	1.6
	<i>Median</i>		<i>9.2</i>	<i>5.7</i>	<i>5.7</i>	<i>11</i>	<i>1.5</i>
Independent Natural Gas and Oil - Large Cap and Mid Cap							
XTO Energy Inc.	XTO B	43.11	12.1	7.2	6.2	11	0.5
Encana Corporation	ECA B	51.81	8.6	5.7	5.8	13	0.8
EOG Resources	EOG B	74.55	9.6	6.6	5.5	12	0.3
Occidental Petroleum Corp.	OXY B	103.71	10.4	5.4	4.7	8	1.4
Anadarko Petroleum Corp.	APC B	105.85	12.6	6.6	4.6	8	0.7
Devon Energy Corporation	DVN B	62.92	8.7	5.8	4.1	8	0.7
CNOOC Limited (29%)	CEO B	84.20	10.0	3.9	3.9	7	3.1
	<i>Median</i>		<i>10.0</i>	<i>5.8</i>	<i>4.7</i>	<i>8</i>	<i>0.7</i>
Independent Natural Gas and Oil - Small Cap							
Encore Acquisition Company	EAC B	30.42	14.4	7.4	5.7	11	-
Berry Petroleum Company	BRY B	73.72	10.6	5.0	5.6	16	0.8
Energy Partners Ltd.	EPL B	27.26	5.7	4.1	3.9	24	-
Cimarex Energy Company	XEC B	44.10	7.2	5.3	3.8	8	0.4
	<i>Median</i>		<i>8.9</i>	<i>5.2</i>	<i>4.7</i>	<i>14</i>	<i>0.2</i>
Income							
Kinder Morgan Energy Partners, L.P.	KMP S3	46.40		8.3	15.9	27	7.0
Kinder Morgan Management, LLC	KMR S3	43.03		8.3	15.1	25	7.5
Canadian Oil Sands Trust (US\$)	COSWF B	31.37	20.0	9.5	10.8	14	5.2
San Juan Basin Royalty Trust	SJT B	39.31	13.5	10.9	10.7	12	8.1
Pengrowth Energy Trust	PGH	24.45	7.5	6.0	7.8	13	11.1
Enerplus Resources Fund	ERF	53.90	9.4	5.8	7.1	13	8.5
Penn West Energy Trust (US\$)	PWTFF B	39.91	7.9	5.7	6.7	9	9.2
	<i>Median</i>		<i>9.4</i>	<i>8.3</i>	<i>10.7</i>	<i>13</i>	<i>8.1</i>

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 31, 2007; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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Oil and Gas Producers Portfolio Composite of Buy Recommendations

	Portfolio Equity Weight Symbol	Parts of EV (%)	Non- U.S. Home (%)	North Amer. Natural Gas (%)	Rest of World Natural Gas (%)	Oil Prod'n (%)	Down- stream (%)	McDep Ratio	
Mega Cap									
BP plc	BP	2.7	1.0	2.8	0.2	0.3	1.3	1.0	0.98
Gazprom	OGZPY	9.3	3.0	8.5		8.5			0.95
Total S.A.	TOT	2.7	1.0	2.8		0.8	1.1	1.0	0.91
Royal Dutch Shell plc	RDS-A	2.8	1.0	2.8	0.1	0.6	0.9	1.3	0.88
Exxon Mobil Corporation	XOM	3.0	1.0		0.2	0.8	0.9	0.9	0.87
ConocoPhillips	COP	4.5	2.0		0.9	0.5	2.6	1.5	0.77
Chevron Corporation	CVX	5.4	2.0		0.4	0.6	3.3	1.5	0.76
Producer/Refiners - Large Cap and Mid Cap									
Norsk Hydro ASA	NHY	1.4	0.5	1.4		0.4	0.5	0.5	1.16
Imperial Oil Limited	IMO	1.5	0.5	1.4	0.2		0.9	0.3	1.14
Suncor Energy	SU	1.5	0.5	1.4	0.1		1.3	0.1	1.13
Petro-Canada	PCZ	1.3	0.5	1.4	0.3	0.1	0.8	0.3	1.10
Marathon Oil Corporation	MRO	1.3	0.5		0.2	0.1	0.5	0.6	1.06
PetroChina Company Ltd.	PTR	3.0	1.0	2.8		0.3	2.3	0.3	1.02
Lukoil Oil Company	LUKOY	6.3	2.0	5.6			4.4	1.3	0.85
Independent Natural Gas and Oil - Large Cap and Mid Cap									
Encana Corporation	ECA	2.7	1.0	2.8	2.4		0.4		1.01
CNOOC Limited	CEO	3.2	1.0	2.8		0.4	2.5		1.00
Occidental Petroleum Corp.	OXY	2.7	1.0		0.4	0.0	2.1	0.3	0.88
XTO Energy Inc.	XTO	2.6	1.0		2.3		0.5		0.86
EOG Resources	EOG	6.1	2.0		4.5	0.4	0.7		0.83
Devon Energy Corporation	DVN	5.3	2.0		3.6		2.0		0.71
Anadarko Petroleum Corp.	APC	5.4	2.0		3.4		2.2		0.70
Independent Natural Gas and Oil - Small Cap									
Berry Petroleum Company	BRY	1.4	0.5		0.2		1.2		1.12
Energy Partners Ltd.	EPL	1.2	0.5		0.8		0.6		0.95
Encore Acquisition Company	EAC	2.0	1.0		0.8		2.1		0.77
Cimarex Energy Company	XEC	2.8	1.0		2.0		0.8		0.72
Income									
Penn West Energy Trust (US\$)	PWTFF	5.6	2.0	5.6	2.1		3.5		1.18
Canadian Oil Sands Trust (US\$)	COSWF	5.7	2.0	5.6			5.6		1.13
San Juan Basin Royalty Trust	SJT	6.4	2.0		5.6				0.98
Portfolio Composite		100	35.5	48	31	14	45	11	0.89

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Index of Recent Research

Stock Ideas

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
8-May	XEC	Cimarex Energy Company	Seasonality Exaggerated
8-May	EOG	EOG Resources Inc.	Seasonality Exaggerated
5-May	SU	Suncor Energy Inc.	Retaking the Oil Sands Lead
5-May	RDSA	Royal Dutch Shell plc	Tighter Markets and Cost Pressures
5-May	TOT	Total S.A.	Spinoff and Split Ahead
3-May	EAC	Encore Acquisition Company	Lower NPV to \$45 a Share
3-May	DVN	Devon Energy Corporation	Barnett Bargain
3-May	IMO	Imperial Oil Limited	Oil Sands and Arctic Natural Gas
1-May	CVX	Chevron Corporation	India Opportunity, Venezuela Risk
28-Apr	APC	Anadarko Petroleum Corporation	Large Cap Resource Target
28-Apr	MRO	Marathon Oil Corporation	Oil Sands Link
28-Apr	XOM	Exxon Mobil Corporation	Low Risk, High Return
28-Apr	NHY	Norsk Hydro ASA	Earnings Blowout
27-Apr	COP	ConocoPhillips	Strong Cash Flow and Value
27-Apr	ECA	EnCana Corporation	Natural Gas at Present Value
26-Apr	COSWF	Canadian Oil Sands Trust	Distribution Increased 50%
26-Apr	OXY	Occidental Petroleum Corporation	Riding the Oil Trend
26-Apr	PCZ	Petro-Canada	Understated Oil Sands
26-Apr	BP	BP p.l.c.	Understated Russian Resource
26-Apr	CEO	CNOOC Ltd	Burst of Cash Flow
21-Apr	* XTO	XTO Energy Inc.	Distributing Royalty Trust Units
20-Apr	* KMX	Kinder Morgan	False Debt Promotion Unmasked
18-Apr	* OGZPF	Gazprom	Shares Trading Free at Last!
17-Apr	* PWTF	Penn West Energy Trust	To Buy Petrofund
17-Apr	* LUKOY	Lukoil Oil Company	Raise Net Present Value to \$110 a Share
13-Apr	* EPL	Energy Partners, Ltd.	Deep Water Success on First Well
6-Apr	* KMX	Kinder Morgan	Debt Exposé
28-Mar	* EPL	Energy Partners, Ltd.	Denali a Dry Hole
21-Mar	* PTR	PetroChina Company Limited	Growing Pains
20-Mar	* SJT	San Juan Basin Royalty Trust	Upgrade to Buy
23-Feb	* BRY	Berry Petroleum	Growth Record

Meter Reader - A Weekly Analysis

9-May		Oil Price Divided by Five
2-May	*	Gazprom the Great
25-Apr	*	Portfolio Points
18-Apr	*	Calgary Consolidation

Natural Gas and Oil Royalty Trusts - A Weekly Analysis

5-May		Trading Action
28-Apr	*	The XTO Effect
21-Apr	*	New Billion Dollar Float
14-Apr	*	Distribution Pictures

Industry Ideas

15-Feb	*	Presentation Slides	Russian Natural Gas, Canadian Tar Sands
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