

## Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

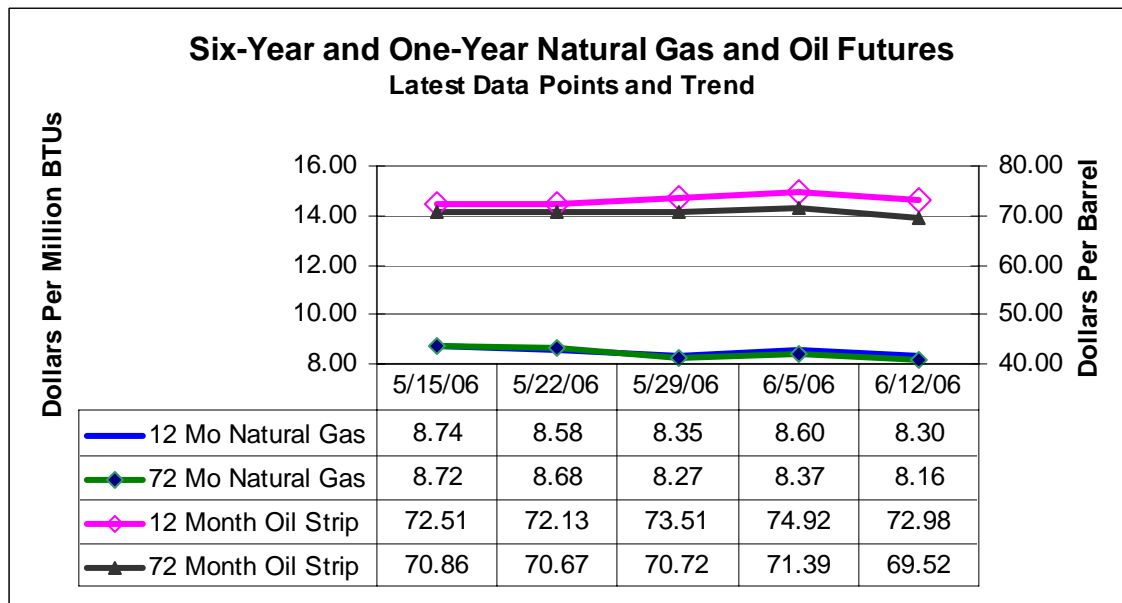
June 13, 2006

# Stock Market Risk

### Summary and Recommendation

Six-year oil futures are off 4% from the high; six-year natural gas futures, 12% and the median stock in our coverage, 19%. As a result, it appears that short-term trends in the global financial markets are influencing stock price more than energy fundamentals. We respect the presidential or four-year stock market cycle that suggests the weakest markets are in the second year of the presidential term. We also keep in mind the seasonal cycle that suggests the best timing for new commitments is more likely in the summer and fall rather than in the winter and spring. To take advantage of continually shifting stock prices, investors might apply the contrarian technique of adding to the stocks that have come down the most and have among the lowest McDep Ratios such as buy-recommended **Encore Acquisition (EAC)**, **Devon Energy (DVN)** and **Gazprom (OGZPY)**. Specific risks whether it be small cap, natural gas commodity price or emerging market, may be contained by limiting exposure to our suggested weightings (see table Portfolio Composite of Buy Recommendations).

Kurt H. Wulff, CFA



Historical independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at [www.mcdep.com](http://www.mcdep.com). Analyses are prepared from sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Mr. Wulff is not paid by covered companies. Neither he nor his spouse trade a subject stock within a week before or after a change in rating.

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

	Symbol/ Rating		Price (\$/sh) 12-Jun 2006	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
<b>Mega Cap</b>								
BP plc	BP	B	66.47	3,420	227,000	80.00	0.15	0.86
Total S.A.	TOT	B	60.06	2,336	140,000	80.00	0.13	0.78
Royal Dutch Shell plc	RDS-A	B	62.49	3,268	204,000	84.00	0.10	0.77
Exxon Mobil Corporation	XOM	B	58.24	6,126	357,000	78.00	0.04	0.76
ConocoPhillips	COP	B	59.63	1,693	101,000	96.00	0.22	0.70
Chevron Corporation	CVX	B	57.59	2,224	128,000	88.00	0.11	0.69
Gazprom (50%)	OGZPY	B	36.75	2,833	104,100	56.00	0.02	0.66
<i>Total or Median</i>					<i>1,261,000</i>		<i>0.11</i>	<i>0.76</i>
<b>Producer/Refiners - Large Cap and Mid Cap</b>								
Kinder Morgan, Inc.	KMI	S2	99.51	135	13,430	33.00	0.75	1.50
Imperial Oil Limited (30%)	IMO	B	34.38	299	10,290	37.00	0.08	0.94
Petro-Canada	PCZ	B	42.73	520	22,220	49.00	0.18	0.89
Marathon Oil Corporation	MRO	B	72.28	367	26,530	86.00	0.18	0.87
Norsk Hydro ASA	NHY	B	24.25	1,251	30,320	31.00	0.14	0.81
Suncor Energy	SU	B	72.66	461	33,500	95.00	0.07	0.78
PetroChina Company Ltd (10%)	PTR	B	95.04	178	16,900	140.00	0.05	0.69
Lukoil Oil Company	LUKOY	B	65.90	830	55,000	110.00	0.02	0.61
<i>Total or Median</i>					<i>208,000</i>		<i>0.11</i>	<i>0.84</i>
<b>Independent Natural Gas and Oil - Large Cap and Mid Cap</b>								
Encana Corporation	ECA	B	46.50	865	40,200	55.00	0.13	0.87
XTO Energy Inc.	XTO	B	37.91	370	14,030	52.00	0.16	0.77
Occidental Petroleum Corp.	OXY	B	96.26	431	41,500	138.00	0.11	0.73
CNOOC Limited (29%)	CEO	B	69.01	119	8,230	98.00	-	0.70
EOG Resources	EOG	B	57.54	246	14,200	92.00	0.03	0.64
Anadarko Petroleum Corp.	APC	B	46.78	464	21,700	86.00	0.10	0.59
Devon Energy Corporation	DVN	B	51.90	449	23,300	102.00	0.11	0.56
<i>Total or Median</i>					<i>163,000</i>		<i>0.11</i>	<i>0.70</i>
<b>Independent Natural Gas and Oil - Small Cap</b>								
Berry Petroleum Company	BRY	B	28.93	45	1,300	39.00	0.17	0.78
Energy Partners Ltd.	EPL	B	18.99	40	770	32.00	0.19	0.67
Cimarex Energy Company	XEC	B	37.50	85	3,190	68.00	0.08	0.59
Encore Acquisition Company	EAC	B	23.47	54	1,260	54.00	0.25	0.57
<i>Total or Median</i>					<i>6,500</i>		<i>0.18</i>	<i>0.63</i>
<b>Income</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S3	44.88	166	7,460	15.00	0.56	1.89
Kinder Morgan Management, LLC	KMR	S3	42.45	58	2,460	15.00	0.56	1.81
Pengrowth Energy Trust	PGH		22.68	161	3,650	20.00	0.15	1.11
Enerplus Resources Fund	ERF		52.50	123	6,460	47.00	0.11	1.10
Penn West Energy Trust (US\$)	PWTFF	B	37.85	244	9,220	39.00	0.12	0.97
San Juan Basin Royalty Trust	SJT	B	34.70	47	1,620	40.00	-	0.87
Canadian Oil Sands Trust (US\$)	COSWF	B	28.23	464	13,100	35.00	0.10	0.83
<i>Total or Median</i>					<i>44,000</i>		<i>0.12</i>	<i>1.10</i>

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

Present Value = Shares times Net Present Value divided by (1-Debt/Present Value).

Debt = Present Value times Debt/Present Value

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) 12-Jun 2006	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
<b>Mega Cap</b>								
Gazprom (50%)	OGZPY	B	36.75	20.0	9.2	6.1	10	0.6
BP plc	BP	B	66.47	9.3	6.3	5.4	9	3.4
Exxon Mobil Corporation	XOM	B	58.24	11.4	6.3	4.8	8	2.2
Total S.A.	TOT	B	60.06	9.4	5.9	4.6	8	3.4
Royal Dutch Shell plc	RDS-A	B	62.49	7.3	5.4	4.2	7	4.0
ConocoPhillips	COP	B	59.63	12.1	5.8	4.1	6	2.4
Chevron Corporation	CVX	B	57.59	11.0	5.4	3.8	6	3.6
		<i>Median</i>		<i>11.0</i>	<i>5.9</i>	<i>4.6</i>	<i>8</i>	<i>3.4</i>
<b>Producer/Refiners - Large Cap and Mid Cap</b>								
Kinder Morgan, Inc.	KMI	S2	99.51		8.6	12.9	20	3.5
Imperial Oil Limited (30%)	IMO	B	34.38	9.4	8.0	7.4	13	2.5
Suncor Energy	SU	B	72.66	18.2	8.6	6.7	12	0.3
Petro-Canada	PCZ	B	42.73	6.9	5.8	5.2	9	0.9
PetroChina Company Ltd (10%)	PTR	B	95.04	14.8	6.3	4.4	8	4.4
Norsk Hydro ASA	NHY	B	24.25	7.8	5.3	4.3	10	2.9
Marathon Oil Corporation	MRO	B	72.28	8.3	4.6	4.0	7	1.8
Lukoil Oil Company	LUKOY	B	65.90	19.0	5.9	3.6	6	1.9
		<i>Median</i>		<i>9.4</i>	<i>6.1</i>	<i>4.8</i>	<i>10</i>	<i>2.2</i>
<b>Independent Natural Gas and Oil - Large Cap and Mid Cap</b>								
XTO Energy Inc.	XTO	B	37.91	12.1	7.6	5.9	10	0.5
Encana Corporation	ECA	B	46.50	8.6	6.2	5.4	12	0.9
EOG Resources	EOG	B	57.54	9.6	6.9	4.4	10	0.4
Occidental Petroleum Corp.	OXY	B	96.26	10.4	6.0	4.4	7	1.5
Anadarko Petroleum Corp.	APC	B	46.78	12.4	7.1	4.2	7	1.5
Devon Energy Corporation	DVN	B	51.90	8.6	6.3	3.6	6	0.9
CNOOC Limited (29%)	CEO	B	69.01	10.0	4.6	3.2	6	3.7
		<i>Median</i>		<i>10.0</i>	<i>6.3</i>	<i>4.4</i>	<i>7</i>	<i>0.9</i>
<b>Independent Natural Gas and Oil - Small Cap</b>								
Berry Petroleum Company	BRY	B	28.93	10.5	6.9	5.4	17	1.1
Encore Acquisition Company	EAC	B	23.47	14.4	8.4	4.8	9	-
Cimarex Energy Company	XEC	B	37.50	7.2	5.9	3.5	8	0.4
Energy Partners Ltd.	EPL	B	18.99	5.0	4.1	2.7	12	-
		<i>Median</i>		<i>8.9</i>	<i>6.4</i>	<i>4.2</i>	<i>10</i>	<i>0.2</i>
<b>Income</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S3	44.88		8.3	15.6	27	7.2
Kinder Morgan Management, LLC	KMR	S3	42.45		8.3	15.0	25	7.6
San Juan Basin Royalty Trust	SJT	B	34.70	13.6	11.1	9.6	11	9.1
Canadian Oil Sands Trust (US\$)	COSWF	B	28.23	25.1	11.3	9.3	12	6.8
Enerplus Resources Fund	ERF		52.50	9.4	7.3	8.1	16	8.7
Pengrowth Energy Trust	PGH		22.68	7.5	6.8	7.6	13	12.0
Penn West Energy Trust (US\$)	PWTFF	B	37.85	7.9	7.0	6.8	9	9.8
		<i>Median</i>		<i>9.4</i>	<i>8.3</i>	<i>9.3</i>	<i>13</i>	<i>8.7</i>

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 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

		<i>Portfolio Equity Weight (%)</i>	<i>Parts of EV</i>	<i>Non- U.S. Home (%)</i>	<i>North Amer. Natural Gas (%)</i>	<i>Rest of World Natural Gas (%)</i>	<i>Oil Prod'n (%)</i>	<i>Down- stream (%)</i>	<i>McDep Ratio</i>
	<i>Symbol</i>								
<b>Mega Cap</b>									
BP plc	BP	2.7	1.0	2.8	0.2	0.3	1.4	0.9	0.86
Total S.A.	TOT	2.7	1.0	2.8		0.8	1.2	0.9	0.78
Royal Dutch Shell plc	RDS-A	2.8	1.0	2.8	0.1	0.5	1.1	1.1	0.77
Exxon Mobil Corporation	XOM	3.1	1.0		0.2	0.6	1.2	0.8	0.76
ConocoPhillips	COP	4.5	2.0		0.9	0.5	2.7	1.5	0.70
Chevron Corporation	CVX	5.5	2.0		0.4	0.5	3.3	1.5	0.69
Gazprom	OGZPY	9.4	3.0	8.5		8.5			0.66
<b>Producer/Refiners - Large Cap and Mid Cap</b>									
Imperial Oil Limited	IMO	1.5	0.5	1.4	0.1		1.0	0.3	0.94
Petro-Canada	PCZ	1.3	0.5	1.4	0.3	0.0	0.9	0.2	0.89
Marathon Oil Corporation	MRO	1.3	0.5		0.2	0.1	0.5	0.6	0.87
Norsk Hydro ASA	NHY	1.3	0.5	1.4		0.4	0.5	0.5	0.81
Suncor Energy	SU	1.5	0.5	1.4	0.0		1.3	0.1	0.78
PetroChina Company Ltd.	PTR	3.0	1.0	2.8		0.2	2.4	0.2	0.69
Lukoil Oil Company	LUKOY	6.3	2.0	5.6			4.2	1.4	0.61
<b>Independent Natural Gas and Oil - Large Cap and Mid Cap</b>									
Encana Corporation	ECA	2.8	1.0	2.8	2.3		0.6		0.87
XTO Energy Inc.	XTO	2.6	1.0		2.3		0.5		0.77
Occidental Petroleum Corp.	OXY	2.8	1.0		0.4	0.0	2.1	0.3	0.73
CNOOC Limited	CEO	3.3	1.0	2.8		0.3	2.5		0.70
EOG Resources	EOG	6.2	2.0		4.4	0.4	0.8		0.64
Anadarko Petroleum Corp.	APC	5.4	2.0		3.2		2.5		0.59
Devon Energy Corporation	DVN	5.2	2.0		3.4		2.2		0.56
<b>Independent Natural Gas and Oil - Small Cap</b>									
Berry Petroleum Company	BRY	1.3	0.5		0.2		1.2		0.78
Energy Partners Ltd.	EPL	1.2	0.5		0.7		0.7		0.67
Cimarex Energy Company	XEC	2.8	1.0		1.9		0.9		0.59
Encore Acquisition Company	EAC	1.8	1.0		0.7		2.2		0.57
<b>Income</b>									
Penn West Energy Trust (US\$)	PWTFF	5.7	2.0	5.6	1.7		3.9		0.97
San Juan Basin Royalty Trust	SJT	6.5	2.0		5.6				0.87
Canadian Oil Sands Trust (US\$)	COSWF	5.7	2.0	5.6			5.6		0.83
<b>Portfolio Composite</b>		<b>100</b>	<b>35.5</b>	<b>48</b>	<b>29</b>	<b>13</b>	<b>47</b>	<b>10</b>	<b>0.71</b>

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### Index of Recent Research

#### Stock Ideas

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
30-May	KMx	Kinder Morgan	Buyout Bailout
29-May	COSWF	Canadian Oil Sands Trust	Minimal Startup Delay Assessed
26-May	EPL	Energy Partners, Ltd.	Offers to Buy Stone Energy
24-May	LUKOY	Lukoil Oil Company	Oil for Russia, Natural Gas for Export
19-May	COSWF	Canadian Oil Sands Trust	Expansion Startup Caution
18-May	OGZPF	Gazprom	Shtokman Delayed
16-May	OXY	Occidental Petroleum Corporation	Ecuador Expropriates
10-May	PWTFE	Penn West Energy Trust	Sleeping Seal
10-May	EPL	Energy Partners, Ltd.	Back on Track
10-May	* BRY	Berry Petroleum	Debt for the Future
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	* 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
21-Mar	* PTR	PetroChina Company Limited	Growing Pains
20-Mar	* SJT	San Juan Basin Royalty Trust	Upgrade to Buy

#### Meter Reader - A Weekly Analysis

13-Jun		Stock Market Risk
6-Jun	*	Raise Long-Term Oil Price to \$60 a Barrel
30-May	*	Downstream Design
23-May	*	Caracas USA

#### Natural Gas and Oil Royalty Trusts - A Weekly Analysis

9-Jun		9% Annual Distributions
2-Jun	*	Raise Long-Term Oil Price to \$60 a Barrel
26-May	*	Roll Forward
19-May	*	Buy Low

#### Industry Ideas

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