

## Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

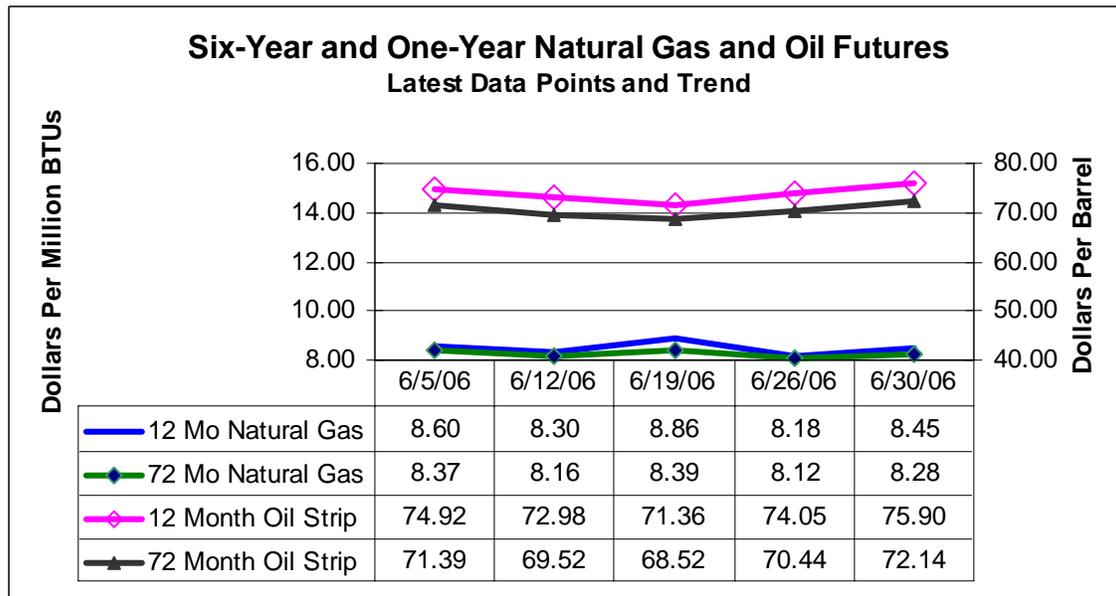
July 3, 2006

# The Cleanest, Most Economic Alternative Fuel

### Summary and Recommendation

What fuel cleaner than gasoline, much cleaner than diesel and infinitely cleaner than coal is priced at only 4/7 of oil? Ethanol, no. Biodiesel, no. Natural gas, yes! The price for delivery over the next six years looks like a bargain. In our weekly chart, six-year natural gas is hugging the \$8 a million btu/\$40 a barrel line (see chart below). Natural gas producer stocks are priced less than a McDep Ratio of 1.0 that reflects a long-term price of \$10 a mmbtu/\$50 a barrel. For only a portion of all the government subsidies pouring into any alternate fuel scheme with a political constituency, we could use natural gas more widely. Thus, if alternate fuels popularly emphasized are truly going to be economic, we are likely to find that natural gas is more valuable than today's commodity prices or stock prices indicate. Our buy recommendations are 42% natural gas weighted with the largest portfolio contributions from **Gazprom (OGZPY)**, 8.7%; **San Juan Basin Royalty Trust (SJT)**, 5.8%; **EOG Resources (EOG)**, 4.5%; **Devon Energy (DVN)**, 3.5%; **XTO Energy (XTO)**, 2.4% and **Encana (ECA)**, 2.3% (see table Portfolio Composite of Buy Recommendations).

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) 3-Jul 2006	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
<b>Mega Cap</b>								
BP plc	BP	B	70.36	3,420	241,000	80.00	0.15	0.90
Total S.A.	TOT	B	66.26	2,336	155,000	80.00	0.13	0.85
Royal Dutch Shell plc	RDS-A	B	67.88	3,268	222,000	84.00	0.10	0.83
Exxon Mobil Corporation	XOM	B	62.15	6,126	381,000	78.00	0.04	0.81
Gazprom (50%)	OGZPY	B	42.75	2,833	121,100	56.00	0.02	0.77
ConocoPhillips	COP	B	66.82	1,693	113,000	96.00	0.22	0.76
Chevron Corporation	CVX	B	62.75	2,224	140,000	88.00	0.11	0.74
<i>Total or Median</i>					<i>1,373,000</i>		<i>0.11</i>	<i>0.81</i>
<b>Producer/Refiners - Large Cap and Mid Cap</b>								
Kinder Morgan, Inc.	KMI	S2	99.99	135	13,500	33.00	0.75	1.50
Imperial Oil Limited (30%)	IMO	B	36.68	299	10,970	37.00	0.08	0.99
Petro-Canada	PCZ	B	48.24	520	25,080	49.00	0.18	0.99
Marathon Oil Corporation	MRO	B	83.27	367	30,560	86.00	0.18	0.97
Norsk Hydro ASA	NHY	B	27.71	1,251	34,650	31.00	0.14	0.91
Suncor Energy	SU	B	83.36	461	38,440	95.00	0.07	0.89
PetroChina Company Ltd (10%)	PTR	B	110.15	178	19,580	140.00	0.05	0.80
Lukoil Oil Company	LUKOY	B	84.00	830	70,000	110.00	0.01	0.77
<i>Total or Median</i>					<i>243,000</i>		<i>0.11</i>	<i>0.94</i>
<b>Independent Natural Gas and Oil - Large Cap and Mid Cap</b>								
Encana Corporation	ECA	B	53.60	865	46,400	55.00	0.13	0.98
XTO Energy Inc.	XTO	B	44.51	370	16,470	52.00	0.15	0.88
CNOOC Limited (29%)	CEO	B	81.65	119	9,740	98.00	-	0.83
Anadarko Petroleum Corp.	APC	B	48.75	464	22,600	77.00	0.46	0.80
Occidental Petroleum Corp.	OXY	B	104.59	431	45,100	138.00	0.11	0.78
EOG Resources	EOG	B	70.89	246	17,400	92.00	0.03	0.78
Devon Energy Corporation	DVN	B	61.00	449	27,400	102.00	0.11	0.64
<i>Total or Median</i>					<i>185,000</i>		<i>0.11</i>	<i>0.80</i>
<b>Independent Natural Gas and Oil - Small Cap</b>								
Berry Petroleum Company	BRY	B	34.11	45	1,530	39.00	0.17	0.89
Energy Partners Ltd.	EPL	B	18.80	75	1,410	31.00	0.44	0.78
Cimarex Energy Company	XEC	B	42.52	85	3,610	68.00	0.08	0.66
Encore Acquisition Company	EAC	B	27.05	54	1,460	54.00	0.18	0.59
<i>Total or Median</i>					<i>8,000</i>		<i>0.18</i>	<i>0.72</i>
<b>Income</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S3	46.21	166	7,680	15.00	0.56	1.93
Kinder Morgan Management, LLC	KMR	S3	43.22	58	2,510	15.00	0.56	1.84
Enerplus Resources Fund	ERF		56.47	123	6,950	47.00	0.11	1.18
Pengrowth Energy Trust	PGH		24.07	161	3,880	20.00	0.15	1.17
Penn West Energy Trust (US\$)	PWE	B	41.09	244	10,020	39.00	0.12	1.05
San Juan Basin Royalty Trust	SJT	B	38.66	47	1,800	40.00	-	0.97
Canadian Oil Sands Trust (US\$)	COSWF	B	32.40	464	15,040	35.00	0.10	0.93
<i>Total or Median</i>					<i>47,900</i>		<i>0.12</i>	<i>1.17</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) 3-Jul 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	42.75	20.0	9.2	7.1	13	0.5
BP plc	BP B	70.36	9.3	6.2	5.5	9	3.2
Exxon Mobil Corporation	XOM B	62.15	11.4	6.3	5.0	9	2.1
Total S.A.	TOT B	66.26	9.4	5.8	4.9	8	3.1
Royal Dutch Shell plc	RDS-A B	67.88	7.3	5.4	4.4	8	3.8
ConocoPhillips	COP B	66.82	12.1	5.7	4.3	7	2.2
Chevron Corporation	CVX B	62.75	11.0	5.3	4.0	7	3.3
	<i>Median</i>		<i>11.0</i>	<i>5.8</i>	<i>4.9</i>	<i>8</i>	<i>3.1</i>
<b>Producer/Refiners - Large Cap and Mid Cap</b>							
Kinder Morgan, Inc.	KMI S2	99.99		8.6	13.0	20	3.5
Imperial Oil Limited (30%)	IMO B	36.68	9.4	7.7	7.7	13	2.4
Suncor Energy	SU B	83.36	18.2	8.2	7.3	13	0.3
Petro-Canada	PCZ B	48.24	6.9	5.6	5.6	10	0.7
Lukoil Oil Company	LUKOY B	84.00	18.9	6.4	4.9	8	1.5
PetroChina Company Ltd (10%)	PTR B	110.15	14.8	6.1	4.9	9	3.8
Norsk Hydro ASA	NHY B	27.71	7.8	5.3	4.8	11	2.5
Marathon Oil Corporation	MRO B	83.27	8.3	4.6	4.5	7	1.6
	<i>Median</i>		<i>9.4</i>	<i>6.3</i>	<i>5.2</i>	<i>11</i>	<i>2.0</i>
<b>Independent Natural Gas and Oil - Large Cap and Mid Cap</b>							
XTO Energy Inc.	XTO B	44.51	12.1	7.5	6.6	12	0.4
Encana Corporation	ECA B	53.60	8.6	6.2	6.1	14	0.7
Anadarko Petroleum Corp.	APC B	48.75	11.2	7.0	5.6	8	1.5
EOG Resources	EOG B	70.89	9.6	6.8	5.3	12	0.3
Occidental Petroleum Corp.	OXY B	104.59	10.4	5.8	4.6	8	1.4
Devon Energy Corporation	DVN B	61.00	8.6	6.3	4.0	7	0.7
CNOOC Limited (29%)	CEO B	81.65	10.0	4.4	3.7	6	3.2
	<i>Median</i>		<i>10.0</i>	<i>6.3</i>	<i>5.3</i>	<i>8</i>	<i>0.7</i>
<b>Independent Natural Gas and Oil - Small Cap</b>							
Berry Petroleum Company	BRY B	34.11	10.5	6.6	5.9	19	0.9
Encore Acquisition Company	EAC B	27.05	14.4	7.5	4.4	9	-
Energy Partners Ltd.	EPL B	18.80	6.2	5.0	3.9	17	-
Cimarex Energy Company	XEC B	42.52	7.2	5.9	3.9	9	0.4
	<i>Median</i>		<i>8.9</i>	<i>6.3</i>	<i>4.2</i>	<i>13</i>	<i>0.2</i>
<b>Income</b>							
Kinder Morgan Energy Partners, L.P.	KMP S3	46.21		8.3	15.9	28	7.0
Kinder Morgan Management, LLC	KMR S3	43.22		8.3	15.2	26	7.5
San Juan Basin Royalty Trust	SJT B	38.66	13.7	11.9	11.5	13	7.5
Canadian Oil Sands Trust (US\$)	COSWF B	32.40	25.1	10.7	10.0	13	5.8
Enerplus Resources Fund	ERF	56.47	9.4	7.1	8.4	16	8.0
Pengrowth Energy Trust	PGH	24.07	7.5	6.5	7.7	13	11.2
Penn West Energy Trust (US\$)	PWE B	41.09	7.9	6.9	7.2	10	8.9
	<i>Median</i>		<i>9.4</i>	<i>8.3</i>	<i>10.0</i>	<i>13</i>	<i>7.5</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>	<i>(%)</i>		<i>(%)</i>	<i>(%)</i>	<i>(%)</i>	<i>(%)</i>	<i>(%)</i>	
<b>Mega Cap</b>									
BP plc	BP	2.8	1.0	2.9	0.2	0.3	1.4	0.9	0.90
Total S.A.	TOT	2.8	1.0	2.9		0.8	1.2	0.9	0.85
Royal Dutch Shell plc	RDS-A	3.0	1.0	2.9	0.1	0.5	1.1	1.1	0.83
Exxon Mobil Corporation	XOM	3.2	1.0		0.2	0.6	1.2	0.8	0.81
Gazprom	OGZPY	9.7	3.0	8.7		8.7			0.77
ConocoPhillips	COP	4.8	2.0		0.9	0.6	2.7	1.6	0.76
Chevron Corporation	CVX	5.7	2.0		0.4	0.6	3.3	1.5	0.74
<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	0.99
Petro-Canada	PCZ	1.4	0.5	1.4	0.3	0.1	0.9	0.2	0.99
Marathon Oil Corporation	MRO	1.4	0.5		0.2	0.1	0.5	0.6	0.97
Norsk Hydro ASA	NHY	1.4	0.5	1.4		0.4	0.6	0.5	0.91
Suncor Energy	SU	1.5	0.5	1.4	0.0		1.3	0.1	0.89
PetroChina Company Ltd.	PTR	3.1	1.0	2.9		0.2	2.4	0.2	0.80
Lukoil Oil Company	LUKOY	6.6	2.0	5.8			4.3	1.5	0.77
<b>Independent Natural Gas and Oil - Large Cap and Mid Cap</b>									
Encana Corporation	ECA	2.9	1.0	2.9	2.3		0.6		0.98
XTO Energy Inc.	XTO	2.8	1.0		2.4		0.5		0.88
CNOOC Limited	CEO	3.3	1.0	2.9		0.3	2.6		0.83
Anadarko Petroleum Corp.	APC	1.4	1.0		1.7		1.2		0.80
Occidental Petroleum Corp.	OXY	2.9	1.0		0.4	0.0	2.2	0.3	0.78
EOG Resources	EOG	6.4	2.0		4.5	0.4	0.8		0.78
Devon Energy Corporation	DVN	5.5	2.0		3.5		2.3		0.64
<b>Independent Natural Gas and Oil - Small Cap</b>									
Berry Petroleum Company	BRY	1.4	0.5		0.2		1.2		0.89
Energy Partners Ltd.	EPL	0.7	0.5		0.3		1.2		0.78
Cimarex Energy Company	XEC	2.9	1.0		2.0		0.9		0.66
Encore Acquisition Company	EAC	2.3	1.0		0.7		2.2		0.59
<b>Income</b>									
Penn West Energy Trust (US\$)	PWE	5.9	2.0	5.8	1.8		4.0		1.05
San Juan Basin Royalty Trust	SJT	6.7	2.0		5.8				0.97
Canadian Oil Sands Trust (US\$)	COSWF	6.0	2.0	5.8			5.8		0.93
<b>Portfolio Composite</b>		<b>100</b>	<b>34.5</b>	<b>49</b>	<b>28</b>	<b>14</b>	<b>48</b>	<b>11</b>	<b>0.81</b>

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### Index of Recent Research

#### Stock Ideas

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
30-Jun	LUKOY	Lukoil Oil Company	Russia Stronger than Ever
26-Jun	APC	Anadarko Petroleum Corporation	Hackett Job
23-Jun	SJT	San Juan Basin Royalty Trust	Irrefutable Logic
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
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	* PWTFF	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	* 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

#### Meter Reader - A Weekly Analysis

3-Jul		The Cleanest, Most Economic Alternative Fuel
27-Jun	*	Deal Delirium
20-Jun	*	Coal, China and Currency
13-Jun	*	Stock Market Risk

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

30-Jun		1970s Perspective in a Nutshell
23-Jun	*	PWE Rings the Bell
16-Jun	*	Panic Perspective
9-Jun	*	9% Annual Distributions

#### Industry Ideas

27-Jun	Presentation Slides	Oil and Gas Investment to 2010
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