

## Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

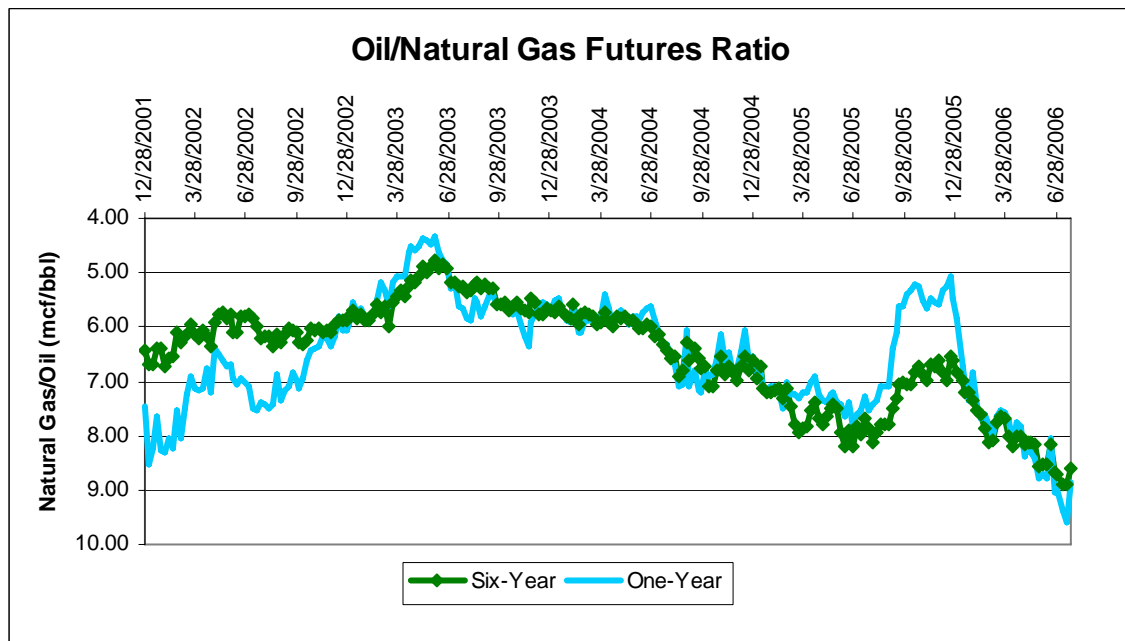
July 25, 2006

# Natural Gas Rebalance

## Summary and Recommendation

Mindful of the old saw, “Buy Natural Gas in the Summertime”, we encourage investors to rebalance portfolios to about 42% natural gas for the oil and gas portion. We think a natural gas weighting under 30% compared to oil at 70% is too low. A stronger than normal weighting might be 50%. The 42% weighting is consistent with Portfolio Composite of Buy Recommendations, a regular table in Meter Reader. Global consumption last year was about 39% natural gas and 61% oil. Global reserves are about 47% natural gas and 53% oil according to BP’s compilation.

Kurt H. Wulff, CFA

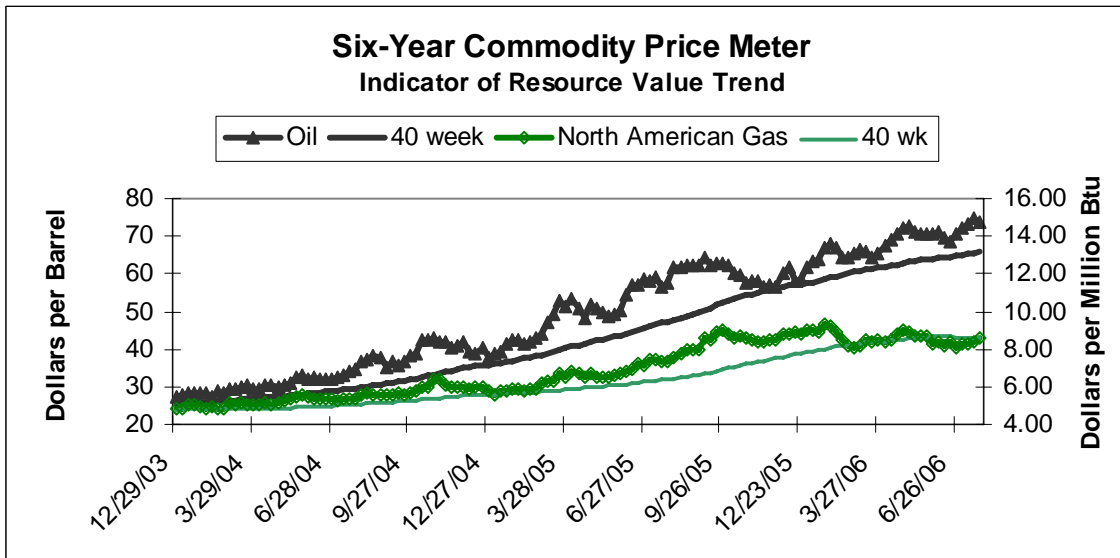
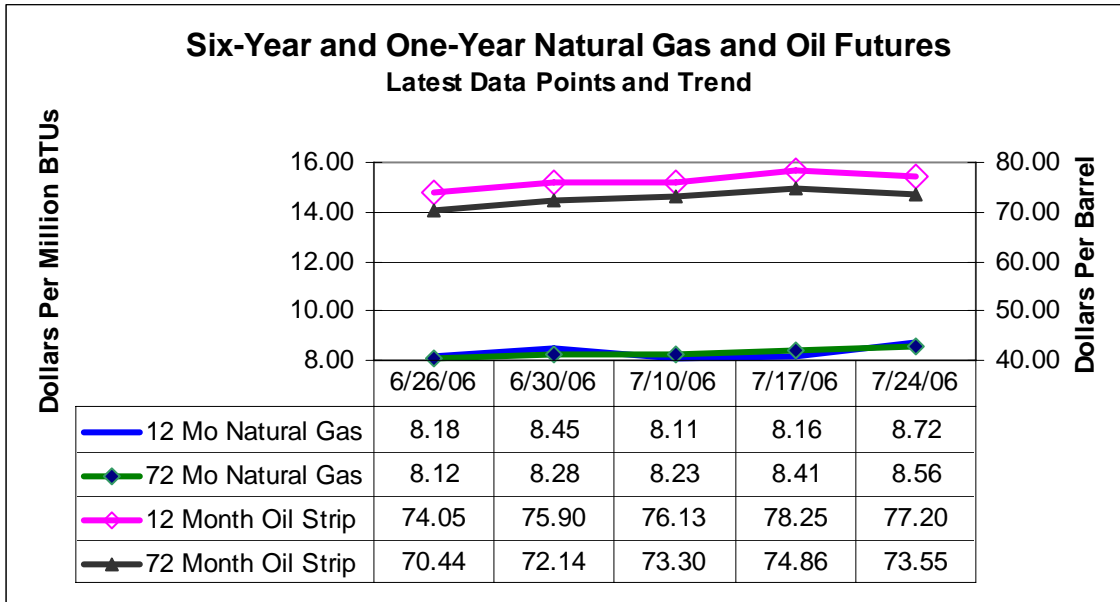


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#### Oil and Gas Producers Rank by McDep Ratio: Market Cap and Debt to Present Value

	Symbol/ Rating		Price (\$/sh) 24-Jul 2006	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
<b>Mega Cap</b>								
BP plc	BP	B	69.74	3,420	239,000	80.00	0.15	0.89
Exxon Mobil Corporation	XOM	B	65.36	6,126	400,000	78.00	0.04	0.84
Total S.A.	TOT	B	64.80	2,336	151,000	80.00	0.13	0.83
Royal Dutch Shell plc	RDS-A	B	67.95	3,268	222,000	84.00	0.10	0.83
Chevron Corporation	CVX	B	66.27	2,224	147,000	88.00	0.10	0.78
ConocoPhillips	COP	B	65.78	1,693	111,000	96.00	0.22	0.75
Gazprom (50%)	OGZPY	B	41.00	2,845	116,600	56.00	0.06	0.75
<i>Total or Median</i>					<i>1,387,000</i>		<i>0.10</i>	<i>0.83</i>
<b>Producer/Refiners - Large Cap and Mid Cap</b>								
Kinder Morgan, Inc.	KMI	S2	100.65	135	13,590	33.00	0.75	1.51
Marathon Oil Corporation	MRO	B	87.78	367	32,220	86.00	0.18	1.02
Imperial Oil Limited (30%)	IMO	B	36.00	299	10,770	37.00	0.08	0.98
Petro-Canada	PCZ	B	44.63	520	23,210	49.00	0.17	0.93
Norsk Hydro ASA	NHY	B	26.65	1,251	33,330	31.00	0.14	0.88
Suncor Energy	SU	B	80.76	461	37,240	95.00	0.07	0.86
PetroChina Company Ltd (10%)	PTR	B	112.58	178	20,020	140.00	0.05	0.81
Lukoil Oil Company	LUKOY	B	85.35	830	71,000	110.00	0.01	0.78
<i>Total or Median</i>					<i>241,000</i>		<i>0.11</i>	<i>0.90</i>
<b>Independent Natural Gas and Oil - Large Cap and Mid Cap</b>								
Encana Corporation	ECA	B	48.73	865	42,200	55.00	0.13	0.90
CNOOC Limited (29%)	CEO	B	84.35	119	10,060	98.00	-	0.86
XTO Energy Inc.	XTO	B	42.42	370	15,700	52.00	0.15	0.84
Occidental Petroleum Corp.	OXY	B	103.34	431	44,600	138.00	0.11	0.78
Anadarko Petroleum Corp.	APC	B	42.66	464	19,800	77.00	0.46	0.76
EOG Resources	EOG	B	67.37	246	16,600	92.00	0.03	0.74
Devon Energy Corporation	DVN	B	59.84	449	26,900	102.00	0.11	0.63
<i>Total or Median</i>					<i>176,000</i>		<i>0.11</i>	<i>0.78</i>
<b>Independent Natural Gas and Oil - Small Cap</b>								
Berry Petroleum Company	BRY	B	31.01	45	1,400	39.00	0.17	0.83
Energy Partners Ltd.	EPL	B	16.99	75	1,270	31.00	0.44	0.75
Cimarex Energy Company	XEC	B	39.82	85	3,380	68.00	0.08	0.62
Encore Acquisition Company	EAC	B	27.61	54	1,490	54.00	0.18	0.60
<i>Total or Median</i>					<i>7,500</i>		<i>0.18</i>	<i>0.68</i>
<b>Income</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S3	45.77	165	7,540	15.00	0.56	1.91
Kinder Morgan Management, LLC	KMR	S3	42.81	60	2,550	15.00	0.56	1.82
Enerplus Resources Fund	ERF		54.88	123	6,760	47.00	0.10	1.15
Pengrowth Energy Trust	PGH		22.25	161	3,580	20.00	0.15	1.10
Penn West Energy Trust (US\$)	PWE	B	37.63	244	9,180	39.00	0.12	0.97
San Juan Basin Royalty Trust	SJT	B	38.60	47	1,800	40.00	-	0.97
Canadian Oil Sands Trust (US\$)	COSWF	B	28.88	464	13,400	35.00	0.09	0.84
<i>Total or Median</i>					<i>44,800</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) 24-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	41.00	20.0	9.0	6.7	12	0.5
BP plc	BP	B	69.74	9.3	6.1	5.5	9	3.2
Exxon Mobil Corporation	XOM	B	65.36	11.4	6.2	5.2	9	2.0
Total S.A.	TOT	B	64.80	9.4	5.7	4.8	8	3.2
Royal Dutch Shell plc	RDS-A	B	67.95	7.3	5.3	4.4	8	3.7
ConocoPhillips	COP	B	65.78	12.1	5.6	4.2	6	2.2
Chevron Corporation	CVX	B	66.27	11.0	5.2	4.1	7	3.1
		<i>Median</i>		<i>11.0</i>	<i>5.7</i>	<i>4.8</i>	<i>8</i>	<i>3.1</i>
<b>Producer/Refiners - Large Cap and Mid Cap</b>								
Kinder Morgan, Inc.	KMI	S2	100.65		8.8	13.2	21	3.5
Imperial Oil Limited (30%)	IMO	B	36.00	9.4	7.5	7.3	12	2.3
Suncor Energy	SU	B	80.76	18.2	8.0	6.9	12	0.3
Petro-Canada	PCZ	B	44.63	6.9	5.5	5.1	9	0.8
PetroChina Company Ltd (10%)	PTR	B	112.58	14.8	6.1	4.9	9	3.8
Lukoil Oil Company	LUKOY	B	85.35	18.9	6.3	4.9	8	1.4
Marathon Oil Corporation	MRO	B	87.78	8.3	4.6	4.6	8	1.5
Norsk Hydro ASA	NHY	B	26.65	7.8	5.3	4.6	10	2.6
		<i>Median</i>		<i>9.4</i>	<i>6.2</i>	<i>5.0</i>	<i>10</i>	<i>1.9</i>
<b>Independent Natural Gas and Oil - Large Cap and Mid Cap</b>								
XTO Energy Inc.	XTO	B	42.42	12.1	7.3	6.2	11	0.5
Encana Corporation	ECA	B	48.73	8.6	6.0	5.4	12	0.8
Anadarko Petroleum Corp.	APC	B	42.66	11.2	6.8	5.2	6	1.7
EOG Resources	EOG	B	67.37	9.6	6.7	5.0	11	0.4
Occidental Petroleum Corp.	OXY	B	103.34	10.4	5.7	4.5	7	1.7
Devon Energy Corporation	DVN	B	59.84	8.6	6.1	3.9	7	0.8
CNOOC Limited (29%)	CEO	B	84.35	10.0	4.3	3.7	6	3.0
		<i>Median</i>		<i>10.0</i>	<i>6.1</i>	<i>5.0</i>	<i>7</i>	<i>0.8</i>
<b>Independent Natural Gas and Oil - Small Cap</b>								
Berry Petroleum Company	BRY	B	31.01	10.5	6.5	5.4	17	1.0
Encore Acquisition Company	EAC	B	27.61	14.4	7.3	4.4	9	-
Energy Partners Ltd.	EPL	B	16.99	6.2	4.9	3.6	13	-
Cimarex Energy Company	XEC	B	39.82	7.2	5.7	3.5	8	0.4
		<i>Median</i>		<i>8.9</i>	<i>6.1</i>	<i>4.0</i>	<i>11</i>	<i>0.2</i>
<b>Income</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S3	45.77		7.9	15.0	25	7.1
Kinder Morgan Management, LLC	KMR	S3	42.81		7.9	14.4	23	7.6
San Juan Basin Royalty Trust	SJT	B	38.60	13.8	11.7	11.3	13	7.9
Canadian Oil Sands Trust (US\$)	COSWF	B	28.88	25.1	10.4	8.8	11	6.4
Enerplus Resources Fund	ERF		54.88	9.4	6.9	8.0	15	8.0
Pengrowth Energy Trust	PGH		22.25	7.5	6.3	6.9	11	11.8
Penn West Energy Trust (US\$)	PWE	B	37.63	7.9	6.9	6.7	9	9.5
		<i>Median</i>		<i>9.4</i>	<i>7.9</i>	<i>8.8</i>	<i>13</i>	<i>7.9</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

Symbol	Portfolio Weight		Non- U.S. Home (%)	North Amer. Natural Gas (%)	Rest of World Natural Gas (%)	Oil Prod'n (%)	Down- stream (%)	McDep Ratio	
	Equity (%)	EV (%)							
<b>Mega Cap</b>									
BP plc	BP	2.8	2.9	2.9	0.2	0.3	1.4	0.9	0.89
Exxon Mobil Corporation	XOM	3.2	2.9		0.2	0.6	1.2	0.8	0.84
Total S.A.	TOT	2.9	2.9	2.9		0.8	1.2	0.9	0.83
Royal Dutch Shell plc	RDS-A	3.0	2.9	2.9	0.1	0.5	1.1	1.1	0.83
Chevron Corporation	CVX	5.9	5.8		0.4	0.6	3.3	1.5	0.78
ConocoPhillips	COP	4.8	5.8		0.9	0.6	2.7	1.6	0.75
Gazprom	OGZPY	9.3	8.7	8.7		8.7			0.75
<b>Producer/Refiners - Large Cap and Mid Cap</b>									
Marathon Oil Corporation	MRO	1.4	1.4		0.2	0.1	0.5	0.6	1.02
Imperial Oil Limited	IMO	1.6	1.4	1.4	0.1		1.0	0.3	0.98
Petro-Canada	PCZ	1.4	1.4	1.4	0.3	0.1	0.9	0.2	0.93
Norsk Hydro ASA	NHY	1.4	1.4	1.4		0.4	0.5	0.5	0.88
Suncor Energy	SU	1.5	1.4	1.4	0.0		1.3	0.1	0.86
PetroChina Company Ltd.	PTR	3.2	2.9	2.9		0.2	2.4	0.2	0.81
Lukoil Oil Company	LUKOY	6.6	5.8	5.8			4.3	1.5	0.78
<b>Independent Natural Gas and Oil - Large Cap and Mid Cap</b>									
Encana Corporation	ECA	2.9	2.9	2.9	2.3		0.6		0.90
CNOOC Limited	CEO	3.4	2.9	2.9		0.3	2.6		0.86
XTO Energy Inc.	XTO	2.8	2.9		2.3		0.6		0.84
Occidental Petroleum Corp.	OXY	2.9	2.9		0.4	0.0	2.2	0.3	0.78
Anadarko Petroleum Corp.	APC	1.3	2.9		1.7		1.2		0.76
EOG Resources	EOG	6.4	5.8		4.5	0.4	0.8		0.74
Devon Energy Corporation	DVN	5.5	5.8		3.5		2.3		0.63
<b>Independent Natural Gas and Oil - Small Cap</b>									
Berry Petroleum Company	BRY	1.3	1.4		0.2		1.2		0.83
Energy Partners Ltd.	EPL	0.7	1.4		0.3		1.2		0.75
Cimarex Energy Company	XEC	2.9	2.9		2.0		0.9		0.62
Encore Acquisition Company	EAC	2.3	2.9		0.7		2.2		0.60
<b>Income</b>									
Penn West Energy Trust (US\$)	PWE	5.9	5.8	5.8	1.8		4.0		0.97
San Juan Basin Royalty Trust	SJT	6.7	5.8		5.8				0.97
Canadian Oil Sands Trust (US\$)	COSWF	6.0	5.8	5.8			5.8		0.84
<b>Portfolio Composite</b>		<b>100</b>	<b>100</b>	<b>49</b>	<b>28</b>	<b>14</b>	<b>48</b>	<b>11</b>	<b>0.79</b>

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#### Index of Recent Research

##### Stock Ideas

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
20-Jul	KMx	Kinder Morgan	Focus Sharpens on Limited Partners
10-Jul	OGZPY	Gazprom	Number One in Global Energy
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
29-May	* COSWF	Canadian Oil Sands Trust	Minimal Startup Delay Assessed
26-May	* EPL	Energy Partners, Ltd.	Offers to Buy Stone Energy
16-May	* OXY	Occidental Petroleum Corporation	Ecuador Expropriates
10-May	* PWTFF	Penn West Energy Trust	Sleeping Seal
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

25-Jul		Natural Gas Rebalance
18-Jul	*	Mideast Hostilities
11-Jul	*	St. Petersburg Summit
3-Jul	*	The Cleanest, Most Economic Alternative Fuel

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

21-Jul		Inflation Protected Securities
14-Jul	*	Deluded in Dallas
7-Jul	*	Rising Replacement Cost
30-Jun	*	1970s Perspective in a Nutshell

##### Industry Ideas

27-Jun	*	Presentation Slides	Oil and Gas Investment to 2010
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