

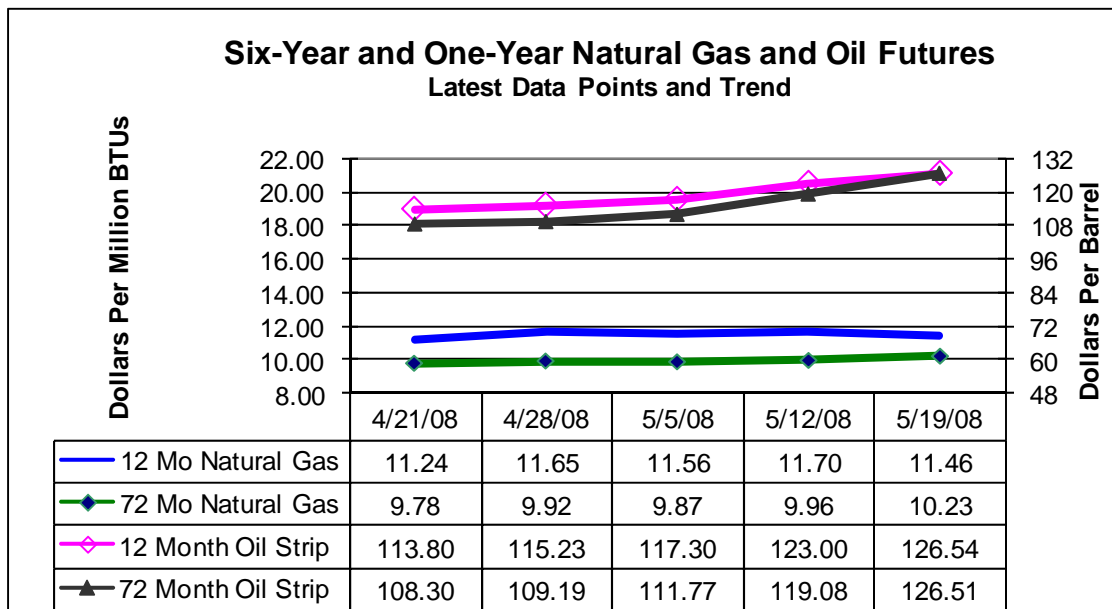


## Scenario 1978-1980-1982

### Summary and Recommendation

Buy recommendations of oil and gas producers like **Occidental Petroleum (OXY)** may have more potential for gain in the rest of 2008, but buy recommendations of producer/refiners like **ConocoPhillips (COP)** may have more potential to keep gains by the end of 2010. Looking back 28 years to a time when Phil Dodge and I collaborated on the coverage of oil and gas stocks at Donaldson, Lufkin and Jenrette, the hottest stars were oil and gas producers without accompanying oil refining and marketing operations. The median of 25 of those stocks increased in price to 3.8 times from the end of 1978 to the end of 1980 and held to 1.8 times at the end of 1982 (see table Oil and Gas Stock Prices). The median of 19 Producer/Refiner stocks increased to 2.3 times from the end of 1978 to the end of 1980 and held to 1.4 times at the end of 1982. In today's coverage, the median of 16 producers increased in stock price to 1.8 times the end of 2006 while the median of 13 producer/refiners has reached 1.3. Offsetting factors that make the outlook better for 2010 than it proved to be for 1982 include a stronger outlook for global growth, lower interest rates and a more realistic acceptance of the limits of energy supply. Meanwhile the oil price trend is spreading more to future years as the quote for delivery over six years matches the quote for one-year (see chart Six-Year and One-Year Natural Gas and Oil Futures).

Kurt H. Wulff, CFA



# Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio  
May 20, 2008



## Oil and Gas Stock Prices, 1978-1982

(Not adjusted for dividends)

	12/29/1978	12/31/1980	12/31/1982
<u>Producer/Refiners</u>			
Shell	1.00	3.61	2.31
Union	1.00	3.17	1.90
Amerada Hess	1.00	3.17	1.84
Union Pacific	1.00	3.07	1.81
Standard of Ohio	1.00	3.42	1.71
Pennzoil	1.00	2.44	1.71
Atlantic Richfield	1.00	2.24	1.48
Sun	1.00	2.35	1.48
Mobil	1.00	2.34	1.45
Standard of Indiana	1.00	2.82	1.41
Standard of California	1.00	2.14	1.37
Gulf	1.00	1.86	1.30
Texaco	1.00	1.98	1.29
Getty	1.00	2.42	1.26
Exxon	1.00	1.60	1.20
Royal Dutch	1.00	1.65	1.17
Tenneco	1.00	1.73	1.07
British Petroleum	1.00	2.19	1.05
Phillips	1.00	1.84	1.03
Median of 19		2.3	1.4

### Producers

Texas Oil & Gas	1.00	5.48	5.15
Oxoco	1.00	8.06	4.27
Mitchell Energy	1.00	8.77	3.42
May	1.00	10.38	2.70
Sabine	1.00	4.16	2.54
Texas International	1.00	5.59	2.29
Superior	1.00	3.01	2.20
Southland Royalty	1.00	5.02	2.16
Seneca	1.00	10.89	2.07
Mesa	1.00	5.16	1.96
Freeport-McMoRan	1.00	4.32	1.90
Helmerich & Payne	1.00	4.76	1.81
Noble Affiliates	1.00	3.40	1.80
General American	1.00	1.95	1.72
Woods	1.00	2.52	1.64
Adobe	1.00	4.18	1.59
Natomas	1.00	3.55	1.56
Apache	1.00	3.45	1.52
Occidental	1.00	2.19	1.25
Hamilton Bros	1.00	3.81	1.22
Williams	1.00	3.14	1.13
Inexco	1.00	3.79	1.10
Louisiana Land	1.00	2.38	1.00
Damson	1.00	2.83	0.85
American Quasar	1.00	3.63	0.69
Median of 25		3.8	1.8

Source: *DLJ Oil and Gas Valuation*

Takeovers during the periods not included.

## Oil and Gas Stock Prices, 2006-2008

(Not adjusted for dividends)

	12/29/2006	5/19/2008
<u>Producer/Refiners</u>		
SU	1.00	1.75
IMO	1.00	1.59
PCZ	1.00	1.43
CVX	1.00	1.39
OGZPY.PK	1.00	1.35
COP	1.00	1.29
LUKOY.PK	1.00	1.27
TOT	1.00	1.25
XOM	1.00	1.23
RDS-A	1.00	1.20
MRO	1.00	1.16
BP	1.00	1.11
PTR	1.00	1.05
Median of 13		1.3

### Producers

EAC	1.00	2.39
EOG	1.00	2.24
ECA	1.00	2.07
CEO	1.00	2.07
OXY	1.00	1.95
XEC	1.00	1.95
COSWF	1.00	1.87
DVN	1.00	1.82
APC	1.00	1.78
BRY	1.00	1.78
XTO	1.00	1.44
SJT	1.00	1.28
PGH	1.00	1.21
ERF	1.00	1.11
PWE	1.00	1.11
EPL	1.00	0.79
Median of 16		1.8

Source: *Meter Reader*

## Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

May 20, 2008



Oil and Gas Producers - Rank by McDep Ratio								
			Price			Net		
			(US\$/sh)		Market	Present	Debt/	
	Symbol/		19-May	Shares	Cap	Value	Present	McDep
	Rating		2008	(mm)	(US\$m)	(US\$/sh)	Value	Ratio
<b>Mega Cap</b>								
Petrobras	PBR		72.19	4,387	316,700	75.00	0.10	0.97
Exxon Mobil Corporation	XOM	B	94.36	5,362	506,000	118.00	0.05	0.81
Chevron Corporation	CVX	B	102.23	2,206	226,000	135.00	0.08	0.78
BP plc	BP	B	74.81	3,146	235,000	104.00	0.16	0.76
Total S.A.	TOT	B	89.68	2,254	202,000	125.00	0.10	0.74
Royal Dutch Shell plc	RDS-A	B	84.76	3,106	263,000	120.00	0.10	0.74
Gazprom (50%)	OGZPY	B	62.50	2,940	183,800	88.00	0.09	0.74
ConocoPhillips	COP	B	92.70	1,582	147,000	150.00	0.16	0.68
<i>Total or Median</i>					2,080,000		0.10	0.75
<b>Producer/Refiners - Large Cap</b>								
Suncor Energy	SU	B	138.42	473	65,470	150.00	0.08	0.93
Imperial Oil Limited (30%)	IMO	B	58.42	272	15,880	65.00	0.05	0.90
StatoilHydro ASA (29%)	STO	B	41.92	927	38,870	52.00	0.12	0.83
Marathon Oil Corporation	MRO	H	53.44	717	38,320	75.00	0.18	0.77
Lukoil Oil Company	LUKOY	B	112.50	828	93,000	150.00	0.02	0.75
Petro-Canada	PCZ	B	58.84	488	28,710	90.00	0.10	0.69
PetroChina Company Ltd (14%)	PTR	B	147.91	256	37,890	220.00	0.04	0.69
<i>Total or Median</i>					318,000		0.08	0.77
<b>Independent Natural Gas and Oil - Large Cap</b>								
CNOOC Limited (34%)	CEO	H	195.56	152	29,780	180.00	-	1.09
EOG Resources	EOG	B	139.72	250	34,900	140.00	0.05	1.00
Encana Corporation	ECA	B	95.06	753	71,600	100.00	0.18	0.96
Canadian Natural Resources	CNQ	B	104.49	540	56,400	124.00	0.17	0.87
Anadarko Petroleum Corp.	APC	B	77.54	470	36,400	100.00	0.27	0.83
Occidental Petroleum Corp.	OXY	B	95.46	828	79,000	120.00	0.05	0.81
XTO Energy Inc.	XTO	B	67.88	504	34,210	88.00	0.15	0.80
Chesapeake Energy Corporation	CHK		58.92	476	28,050	80.00	0.25	0.80
Devon Energy Corporation	DVN	B	122.05	449	54,800	170.00	0.10	0.75
<i>Total or Median</i>					425,000		0.15	0.83
<b>Independent Natural Gas and Oil - Small Cap</b>								
Birchcliff Energy Ltd. (US\$)	BIR.TO		12.93	112	1,450	14.00	0.09	0.93
Berry Petroleum Company	BRY	B	55.12	45	2,500	65.00	0.20	0.88
Encore Acquisition Company	EAC	B	58.55	54	3,160	75.00	0.25	0.84
Cimarex Energy Company	XEC	B	71.06	85	6,050	100.00	0.07	0.73
Energy Partners Ltd.	EPL		15.51	32	490	30.00	0.39	0.70
<i>Total or Median</i>					13,700		0.20	0.84
<b>Income</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S	60.22	188	11,340	17.00	0.57	2.10
Kinder Morgan Management, LLC	KMR	S	56.44	65	3,670	17.00	0.57	2.00
Canadian Oil Sands Trust	COSWF	B	52.43	479	25,110	57.00	0.04	0.92
Pengrowth Energy Trust	PGH		20.84	247	5,150	24.00	0.25	0.90
San Juan Basin Royalty Trust	SJT	B	42.18	47	1,970	48.00	-	0.88
Penn West Energy Trust	PWE	B	33.83	364	12,320	45.00	0.24	0.81
Enerplus Resources Fund	ERF		48.59	153	7,430	63.00	0.15	0.80
Hugoton Royalty Trust	HGT	B	32.74	40	1,310	42.00	-	0.78
<i>Total or Median</i>					68,300		0.19	0.89
B = Buy, S = Sell, 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								

## Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

May 20, 2008



Oil and Gas Producers - Rank by EV/Ebitda								
			Price	Adjustd				Divd or
			(US\$/sh)	Resrvs/	PV/	EV/		Distrib
	Symbol/		19-May	Prod	Ebitda	Ebitda	P/E	NTM
	Rating		2008	NTM	NTM	NTM	NTM	(%)
<b>Mega Cap</b>								
Gazprom (50%)	OGZPY	B	62.50	24.6	12.0	8.9	14	0.7
Petrobras	PBR		72.19	9.5	8.7	8.4	14	1.2
Exxon Mobil Corporation	XOM	B	94.36	12.2	6.7	5.4	9	1.7
Total S.A.	TOT	B	89.68	9.0	6.4	4.8	8	3.6
BP plc	BP	B	74.81	9.9	6.3	4.8	7	4.3
Chevron Corporation	CVX	B	102.23	9.4	6.1	4.8	8	2.5
Royal Dutch Shell plc	RDS-A	B	84.76	7.5	5.7	4.2	7	3.8
ConocoPhillips	COP	B	92.70	10.7	6.1	4.1	6	2.0
	<i>Median</i>			9.7	6.3	4.8	8	2.3
<b>Producer/Refiners - Large Cap</b>								
Suncor Energy	SU	B	138.42	22.2	8.6	8.0	13	0.3
Imperial Oil Limited (30%)	IMO	B	58.42	13.9	8.6	7.8	13	0.6
StatoilHydro ASA (29%)	STO	B	41.92	7.7	6.1	5.1	10	4.0
PetroChina Company Ltd (14%)	PTR	B	147.91	14.4	6.7	4.6	9	3.5
Lukoil Oil Company	LUKOY	B	112.50	18.7	6.1	4.6	7	1.4
Marathon Oil Corporation	MRO	H	53.44	8.3	5.8	4.4	8	1.8
Petro-Canada	PCZ	B	58.84	6.5	4.8	3.3	6	0.9
	<i>Median</i>			13.9	6.1	4.6	9	1.4
<b>Independent Natural Gas and Oil - Large Cap</b>								
EOG Resources	EOG	B	139.72	10.0	6.8	6.8	14	0.3
Canadian Natural Resources	CNQ	B	104.49	8.7	7.7	6.7	14	0.4
CNOOC Limited (34%)	CEO	H	195.56	9.2	6.0	6.5	11	2.0
XTO Energy Inc.	XTO	B	67.88	12.2	7.8	6.3	14	0.7
Chesapeake Energy Corporation	CHK		58.92	11.0	7.7	6.2	11	0.5
Encana Corporation	ECA	B	95.06	8.7	6.4	6.1	12	1.7
Occidental Petroleum Corp.	OXY	B	95.46	11.6	6.6	5.3	10	1.3
Devon Energy Corporation	DVN	B	122.05	9.4	6.8	5.1	9	0.5
Anadarko Petroleum Corp.	APC	B	77.54	9.5	6.0	5.0	10	0.9
	<i>Median</i>			9.5	6.8	6.2	11	0.7
<b>Independent Natural Gas and Oil - Small Cap</b>								
Birchcliff Energy Ltd. (US\$)	BIR.TO		12.93	7.0	10.2	9.5	51	-
Berry Petroleum Company	BRY	B	55.12	10.3	6.7	5.9	10	0.5
Encore Acquisition Company	EAC	B	58.55	13.9	6.9	5.8	10	-
Cimarex Energy Company	XEC	B	71.06	7.5	5.3	3.9	8	0.2
Energy Partners Ltd.	EPL		15.51	7.4	4.3	3.0	-	-
	<i>Median</i>			7.5	6.7	5.8	10	-
<b>Income</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S	60.22		7.4	15.5	23	6.1
Kinder Morgan Management, LLC	KMR	S	56.44		7.4	14.8	22	6.5
Canadian Oil Sands Trust	COSWF	B	52.43	23.2	9.4	8.7	10	7.7
San Juan Basin Royalty Trust	SJT	B	42.18	10.7	9.8	8.6	10	9.6
Hugoton Royalty Trust	HGT	B	32.74	13.1	8.9	6.9	10	10.4
Pengrowth Energy Trust	PGH		20.84	8.9	6.1	5.5	800	13.1
Enerplus Resources Fund	ERF		48.59	9.6	6.4	5.2	9	10.5
Penn West Energy Trust	PWE	B	33.83	7.3	5.7	4.7	12	12.2
	<i>Median</i>			10.2	7.4	7.8	11	10.0
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 31, 2009; P/E = Stock Price to								
Earnings; PV = Present Value of oil and gas and other businesses								

## Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

May 20, 2008



McDep Energy Portfolio										
Composite of Buy Recommendations										
						North	Rest			
		Price	Portfolio Weight		Non-	Amer.	of World			
		(US\$/sh)	Equity	EV	U.S.	Natural	Natural	Oil	Down-	
	Symbol	19-May	(%)	(%)	HQ	Gas	Gas	Prod'n	stream	McDep
		2008			(%)	(%)	(%)	(%)	(%)	Ratio
<b>Mega Cap</b>										
Exxon Mobil Corporation	XOM	94.36	3.5	3.2		0.2	0.5	1.8	0.6	0.81
Chevron Corporation	CVX	102.23	3.3	3.2		0.2	0.2	2.3	0.5	0.78
BP plc	BP	74.81	2.9	3.2	3.2	0.3	0.3	2.2	0.4	0.76
Total S.A.	TOT	89.68	3.2	3.2	3.2		0.5	2.2	0.5	0.74
Royal Dutch Shell plc	RDS-A	84.76	3.2	3.2	3.2	0.1	0.5	1.7	0.8	0.74
Gazprom	OGZPY	62.50	9.7	9.6	9.6		7.6	2.0		0.74
ConocoPhillips	COP	92.70	5.6	6.4		0.9	0.5	3.8	1.2	0.68
<i>Total or Median</i>				31	32					0.74
<b>Producer/Refiners - Large Cap</b>										
Suncor Energy	SU	138.42	1.3	1.3	1.3	0.0		1.2	0.1	0.93
Imperial Oil Limited	IMO	58.42	1.4	1.3	1.3	0.1		1.0	0.2	0.90
StatoilHydro ASA	STO	41.92	1.6	1.6	1.6		0.5	1.1	-	0.83
Lukoil Oil Company	LUKOY	112.50	7.2	6.4	6.4			4.9	1.5	0.75
Petro-Canada	PCZ	58.84	1.2	1.3	1.3	0.1	0.0	0.9	0.2	0.69
PetroChina Company Ltd (14	PTR	147.91	1.7	1.6	1.6	-	0.1	1.3	0.2	0.69
<i>Total or Median</i>				14	13					0.79
<b>Independent Natural Gas and Oil - Large Cap</b>										
EOG Resources	EOG	139.72	5.2	4.8		3.4	0.3	1.2		1.00
Encana Corporation	ECA	95.06	3.6	3.8	3.8	2.8		0.8	0.2	0.96
Canadian Natural Resources	CNQ	104.49	1.5	1.6	1.6	0.4		1.2		0.87
Anadarko Petroleum Corp.	APC	77.54	3.7	4.8		2.5		2.1	0.1	0.83
Occidental Petroleum Corp.	OXY	95.46	3.5	3.2		0.4	0.0	2.6	0.2	0.81
XTO Energy Inc.	XTO	67.88	4.5	4.8		3.6		1.2		0.80
Devon Energy Corporation	DVN	122.05	6.3	6.4		3.4		3.0		0.75
<i>Total or Median</i>				28	29					0.83
<b>Independent Natural Gas and Oil - Small Cap</b>										
Berry Petroleum Company	BRY	55.12	1.4	1.6		0.4		1.2		0.88
Encore Acquisition Company	EAC	58.55	2.6	3.2		0.5		2.7		0.84
Cimarex Energy Company	XEC	71.06	3.3	3.2		2.0		1.2		0.73
<i>Total or Median</i>				7	8					0.84
<b>Income</b>										
Canadian Oil Sands Trust	COSWF	52.43	5.6	5.1	5.1	(0.5)		5.6		0.92
San Juan Basin Royalty Trust	SJT	42.18	7.3	6.4		6.4				0.88
Penn West Energy Trust	PWE	33.83	2.1	2.6	2.6	0.6		2.0		0.81
Hugoton Royalty Trust	HGT	32.74	3.7	3.2		3.2				0.78
<i>Total or Median</i>				19	17					0.85
<b>Portfolio Composite</b>										
			100	100	46	31	11	51	7	0.80
Canada					17					
Russia					16					
Europe					11					
China					2					
Note: Percentages in the Portfolio Weight - EV column correspond to unlevered positions ranging from triple at 9.6% to four-tenths at 1.3%.										

## Meter Reader

A Weekly Analysis of Energy Stocks Using the McDep Ratio

May 20, 2008



### Index of Recent Research

#### Stock Ideas

<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
13-May	PWE	Penn West Energy Trust	Raise Net Present Value to \$45 a Share
13-May	STO	StatoilHydro ASA	Raise Net Present Value to \$52 a Share
13-May	ECA	EnCana Corporation	Splits Natural Gas and Oil Sands (Meter Reader)
9-May	CNQ	Canadian Natural Resources	Raise Net Present Value to \$124 a Share
7-May	DVN	Devon Energy Corporation	Resources Three Times Reserves
7-May	TOT	Total S.A.	Euro Oil Leader
6-May	XEC	Cimarex Energy Company	Raise Net Present Value to \$85 a Share
6-May	APC	Anadarko Petroleum Corporation	Positives Outweigh Negatives
2-May	CVX	Chevron Corporation	Refining Penalty
2-May	EOG	EOG Resources Inc.	Stock Outperforms
1-May	IMO	Imperial Oil Limited	ExxonMobil's Undeveloped Opportunities
1-May	MRO	Marathon Oil Corporation	Hangover from Last Year's Refining Boom
1-May	XOM	Exxon Mobil Corporation	World's Safest Investment
29-Apr	BP	BP p.l.c.	Getting Back on Track
29-Apr	BRY	Berry Petroleum	Earnings Fit with Oil Price
29-Apr	PCZ	Petro-Canada	Low McDep Ratio
29-Apr	RDSA	Royal Dutch Shell plc	Non U.S. Energy MegaCap
28-Apr	COSWF	Canadian Oil Sands Trust	Ten-Bagger Distribution
28-Apr	PTR	PetroChina Company Limited	Winter Sacrifice
28-Apr	CEO	CNOOC Ltd	Raise Net Present Value to \$140 a Share
25-Apr	SJT	San Juan Basin Royalty Trust	Better News Ahead (Income Weekly)
24-Apr	COP	ConocoPhillips	Timely Investment Choice
24-Apr	OXY	Occidental Petroleum Corporation	Raise Net Present Value to \$100 a Share
24-Apr	SU	Suncor Energy	Booming Oil
23-Apr	XTO	XTO Energy Inc.	Positioned for Natural Gas Gain
22-Apr	ECA	EnCana Corporation	Largest North American Natural Gas Producer
18-Apr	* HGT	Hugoton Royalty Trust	Simpson Sustainability (Income Weekly)
16-Apr	* KMP	Kinder Morgan	Mounting Oil Losses
10-Apr	* LUKOY	Lukoil Oil Company	Strong Cash, Possibly Lower Tax
24-Mar	* PBR	Petrobras	Oil Growth at a Reasonable Price
18-Feb	* OGZPY	Gazprom	60-Day Bargain, 200-Day Momentum

#### Meter Reader

20-May		Weekly	
13-May		Weekly	Raise Present Value for \$100 Oil
6-May	*	Weekly	Déjà vu 1980
29-Apr	*	Weekly	New High for Global Oil Supply

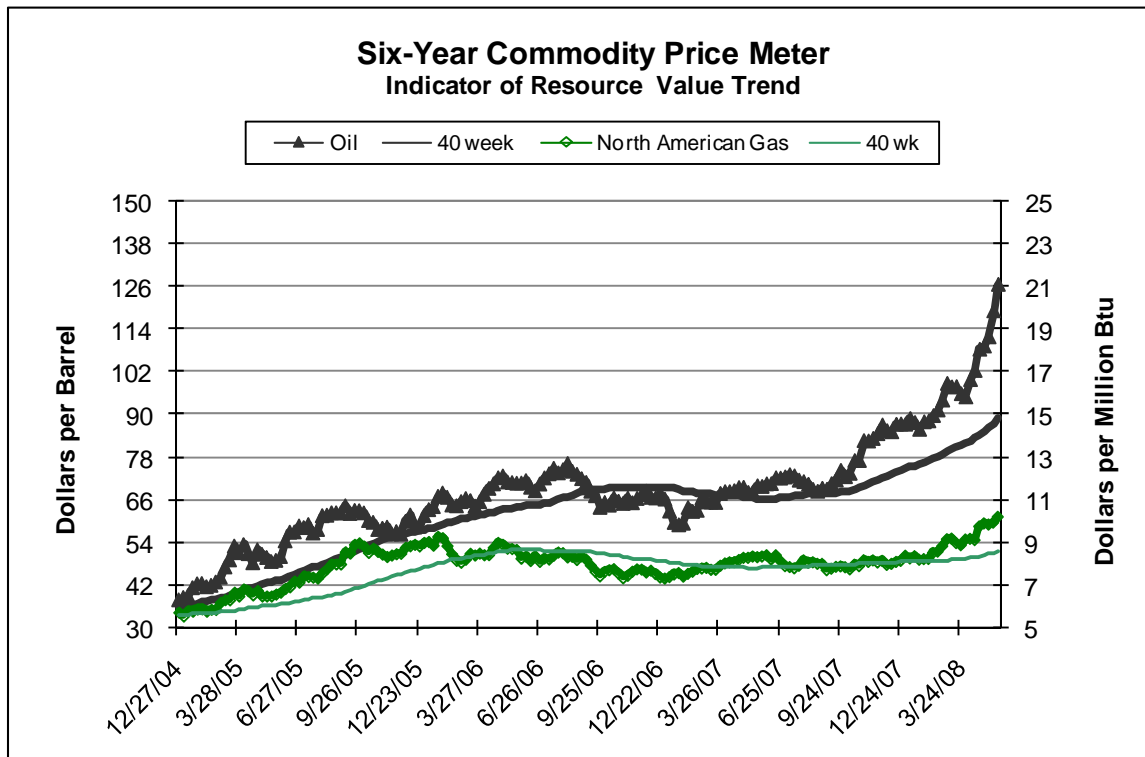
#### Oil and Gas Income Stocks

16-May		Weekly	Volume Decline Modest
9-May		Weekly	Raise Present Value 25%
2-May	*	Weekly	Trust Distributions Rising
25-Apr	*	San Juan Basin Royalty Trust	Better News Ahead

\* Archived on [www.mcdep.com](http://www.mcdep.com)

## Meter Reader

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May 20, 2008



**Disclaimer:** This analysis was prepared by Kurt Wulff, Manager of McDep LLC as of January 1, 2008. Previously Mr. Wulff was doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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**Research Methodology/Ratings Description:** McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the forty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.

Please see disclosures on the final page.