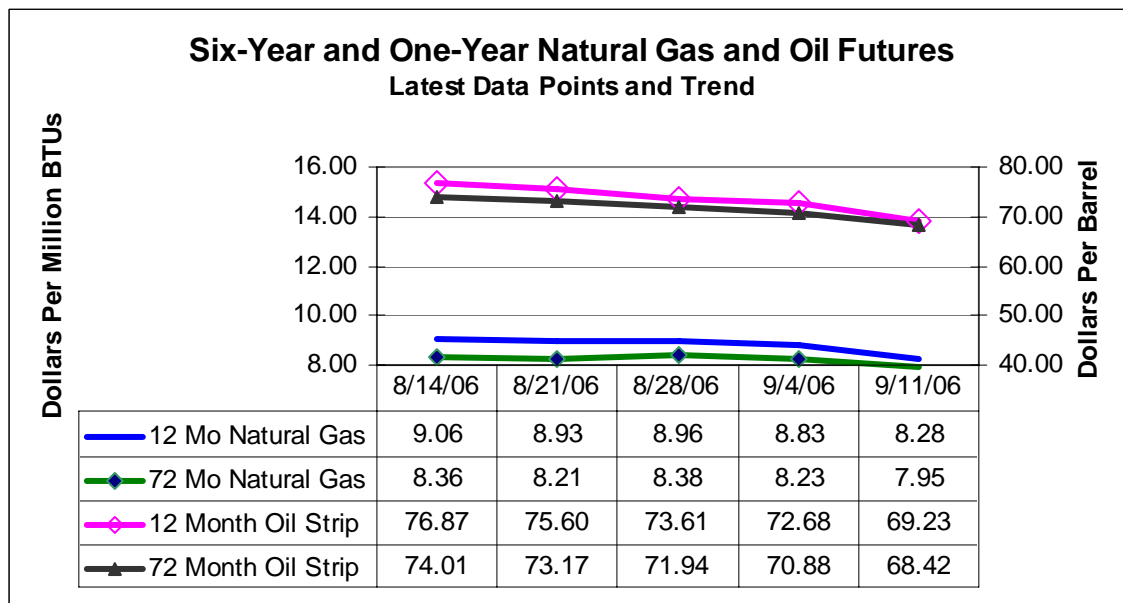


A Dip to Buy

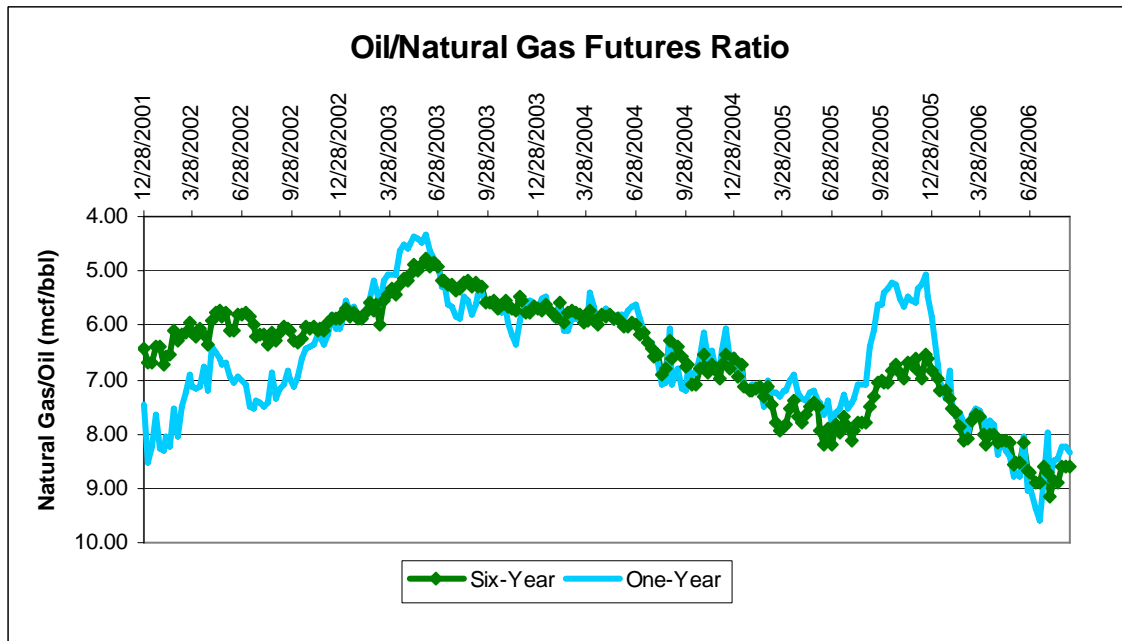
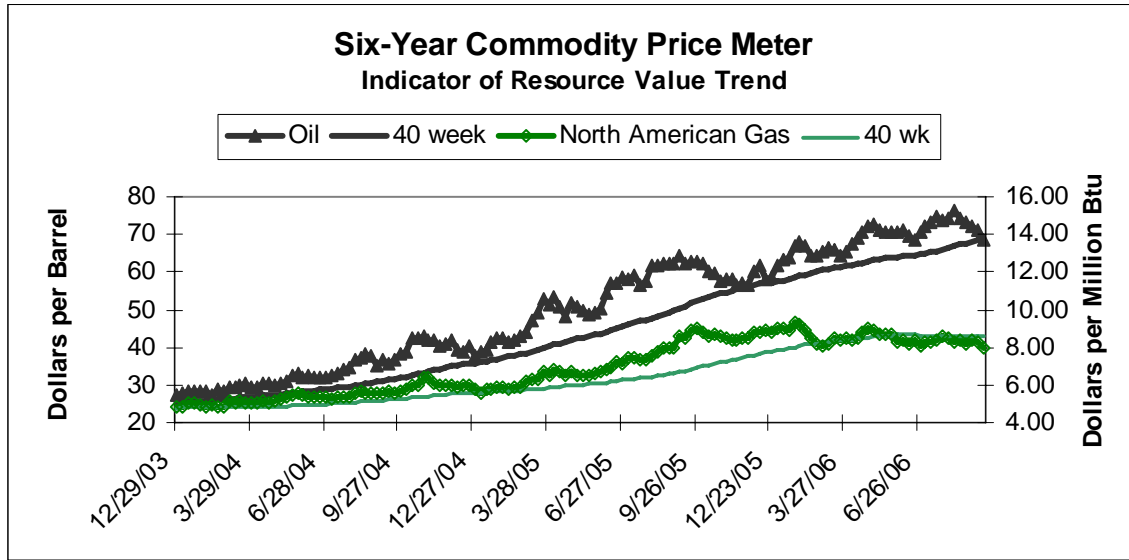
Summary and Recommendation

Characterizing near-term opportunity, crude oil for delivery over the next six years is on the 40-week moving average, neither advancing nor reversing its long uptrend by that definition. Natural gas may not have positive price momentum, but it has value at near the lowest ratio to crude oil in the '00s decade. About a third of buy recommendations have positive stock price momentum including **Chevron (CVX)**, the largest lease holder in the Gulf of Mexico deep water Lower Tertiary trend highlighted by the first test of flowing oil announced last week. The other two thirds of buy recommendations have strong value appeal including rapidly growing oil sands producer, **Encana (ECA)**, and the refiner with the most uncommitted capacity to take that oil, **Marathon (MRO)**. No joint venture announcement hinted by the two companies has materialized. Conditions seem ripe for a takeover deal, potentially involving a third party, to resolve an apparent impasse. The illustrative McDep Energy Portfolio has unlevered weightings of double in CVX, full in ECA and half in MRO.

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 (US\$/sh) 11-Sep 2006	Shares (mm)	Market Cap (US\$mm)	Net Present Value (US\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap								
BP plc	BP	B	64.89	3,362	218,000	80.00	0.16	0.84
Exxon Mobil Corporation	XOM	B	64.94	6,030	392,000	78.00	0.04	0.84
Total S.A.	TOT	B	63.25	2,323	147,000	80.00	0.13	0.82
Royal Dutch Shell plc	RDS-A	B	65.62	3,242	213,000	84.00	0.10	0.80
Gazprom (50%)	OGZPY	B	42.50	2,845	120,900	56.00	0.06	0.77
Chevron Corporation	CVX	B	62.00	2,206	137,000	88.00	0.10	0.73
ConocoPhillips	COP	B	58.80	1,678	99,000	100.00	0.21	0.67
<i>Total or Median</i>					<i>1,327,000</i>		<i>0.10</i>	<i>0.80</i>
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	104.15	135	14,060	33.00	0.75	1.53
Imperial Oil Limited (30%)	IMO	B	33.82	295	9,980	37.00	0.08	0.92
Petro-Canada	PCZ	B	39.18	512	20,060	49.00	0.18	0.84
Marathon Oil Corporation	MRO	B	74.88	367	27,480	98.00	0.14	0.80
Norsk Hydro ASA	NHY	B	23.54	1,247	29,350	31.00	0.14	0.79
PetroChina Company Ltd (10%)	PTR	B	104.60	179	18,720	140.00	0.04	0.76
Suncor Energy	SU	B	67.80	461	31,260	95.00	0.06	0.73
Lukoil Oil Company	LUKOY	B	78.40	830	65,000	110.00	0.01	0.72
<i>Total or Median</i>					<i>216,000</i>		<i>0.11</i>	<i>0.79</i>
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B	40.86	369	15,080	52.00	0.18	0.82
Encana Corporation	ECA	B	47.67	845	40,300	60.00	0.13	0.82
CNOOC Limited (29%)	CEO	B	79.56	119	9,490	98.00	-	0.81
Anadarko Petroleum Corp.	APC	B	44.56	463	20,600	77.00	0.46	0.77
Occidental Petroleum Corp.	OXY	B	45.87	868	39,800	69.00	0.08	0.69
EOG Resources	EOG	B	59.77	246	14,700	92.00	0.07	0.68
Devon Energy Corporation	DVN	B	65.81	446	29,400	115.00	0.13	0.63
<i>Total or Median</i>					<i>169,000</i>		<i>0.13</i>	<i>0.77</i>
Independent Natural Gas and Oil - Small Cap								
Energy Partners Ltd.	EPL	B	24.75	75	1,860	31.00	0.44	0.89
Berry Petroleum Company	BRY	B	27.48	45	1,230	39.00	0.19	0.76
Cimarex Energy Company	XEC	B	35.83	85	3,050	68.00	0.09	0.57
Encore Acquisition Company	EAC	B	24.45	54	1,310	54.00	0.19	0.55
<i>Total or Median</i>					<i>7,500</i>		<i>0.19</i>	<i>0.66</i>
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	43.54	165	7,180	15.00	0.56	1.84
Kinder Morgan Management, LLC	KMR	S3	41.53	60	2,470	15.00	0.56	1.78
Enerplus Resources Fund	ERF		50.61	123	6,230	47.00	0.11	1.07
Pengrowth Energy Trust	PGH		21.00	161	3,390	20.00	0.17	1.04
Penn West Energy Trust	PWE	B	36.70	246	9,030	39.00	0.13	0.95
San Juan Basin Royalty Trust	SJT	B	34.34	47	1,600	40.00	-	0.86
Canadian Oil Sands Trust	COSWF	B	28.04	466	13,070	35.00	0.09	0.82
<i>Total or Median</i>					<i>43,000</i>		<i>0.13</i>	<i>1.04</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 (US\$/sh) 11-Sep 2006	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
Mega Cap								
Gazprom (50%)	OGZPY	B	42.50	20.0	9.1	7.0	12	0.5
BP plc	BP	B	64.89	9.3	6.8	5.7	9	3.6
Exxon Mobil Corporation	XOM	B	64.94	11.4	6.5	5.4	10	2.0
Total S.A.	TOT	B	63.25	9.8	6.4	5.3	9	3.3
Royal Dutch Shell plc	RDS-A	B	65.62	7.4	5.7	4.5	8	3.9
Chevron Corporation	CVX	B	62.00	10.9	5.9	4.3	8	3.4
ConocoPhillips	COP	B	58.80	10.9	5.6	3.8	6	2.4
	<i>Median</i>			10.9	6.4	5.3	9	3.3
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	104.15		8.8	13.4	22	3.4
Suncor Energy	SU	B	67.80	18.8	9.8	7.2	13	0.3
Imperial Oil Limited (30%)	IMO	B	33.82	9.6	7.4	6.8	11	0.8
Petro-Canada	PCZ	B	39.18	6.8	6.6	5.5	10	0.9
Lukoil Oil Company	LUKOY	B	78.40	18.9	7.0	5.0	8	1.6
PetroChina Company Ltd (10%)	PTR	B	104.60	14.7	6.2	4.7	9	4.6
Norsk Hydro ASA	NHY	B	23.54	7.9	5.6	4.4	9	2.9
Marathon Oil Corporation	MRO	B	74.88	8.6	4.7	3.7	6	1.8
	<i>Median</i>			9.6	6.8	5.3	9	1.7
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B	40.86	11.6	7.8	6.5	12	0.5
EOG Resources	EOG	B	59.77	9.7	8.4	5.7	12	0.4
Anadarko Petroleum Corp.	APC	B	44.56	11.2	7.4	5.7	8	1.6
Encana Corporation	ECA	B	47.67	8.7	6.4	5.3	11	0.8
Occidental Petroleum Corp.	OXY	B	45.87	10.6	6.9	4.8	9	1.9
Devon Energy Corporation	DVN	B	65.81	8.7	7.1	4.5	8	0.7
CNOOC Limited (29%)	CEO	B	79.56	10.6	5.2	4.2	7	3.6
	<i>Median</i>			10.6	7.1	5.3	9	0.8
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	27.48	9.9	6.9	5.2	13	1.1
Energy Partners Ltd.	EPL	B	24.75	6.2	5.1	4.6	28	-
Encore Acquisition Company	EAC	B	24.45	14.9	7.7	4.3	9	-
Cimarex Energy Company	XEC	B	35.83	7.8	6.5	3.7	8	0.4
	<i>Median</i>			8.9	6.7	4.4	11	0.2
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	43.54		7.9	14.5	23	7.4
Kinder Morgan Management, LLC	KMR	S3	41.53		7.9	14.1	22	7.8
Canadian Oil Sands Trust	COSWF	B	28.04	24.4	11.5	9.4	12	6.7
San Juan Basin Royalty Trust	SJT	B	34.34	13.8	10.9	9.4	11	9.3
Enerplus Resources Fund	ERF		50.61	9.4	7.1	7.6	15	8.9
Penn West Energy Trust	PWE	B	36.70	8.0	7.6	7.2	11	9.9
Pengrowth Energy Trust	PGH		21.00	7.9	6.5	6.7	10	12.7
	<i>Median</i>			9.4	7.9	9.4	12	8.9

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 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	Price (US\$/sh)	Portfolio Weight		Non- U.S. Home (%)	North Amer. Natural Gas (%)	Rest of World Natural Gas (%)	Oil Prod'n (%)	Down- stream (%)	McDep Ratio	
		11-Sep 2006	Equity (%)							EV (%)
Mega Cap										
BP plc	BP	64.89	2.8	2.9	2.9	0.2	0.3	1.4	1.0	0.84
Exxon Mobil Corporation	XOM	64.94	3.3	2.9		0.2	0.7	1.1	0.9	0.84
Total S.A.	TOT	63.25	2.9	2.9	2.9		0.9	1.2	0.8	0.82
Royal Dutch Shell plc	RDS-A	65.62	3.0	2.9	2.9	0.1	0.5	1.1	1.1	0.80
Gazprom	OGZPY	42.50	9.5	8.7	8.7		8.7			0.77
Chevron Corporation	CVX	62.00	5.9	5.8		0.4	0.6	3.3	1.6	0.73
ConocoPhillips	COP	58.80	4.7	5.8		0.9	0.5	2.9	1.5	0.67
Producer/Refiners - Large Cap and Mid Cap										
Imperial Oil Limited	IMO	33.82	1.6	1.4	1.4	0.1		1.0	0.3	0.92
Petro-Canada	PCZ	39.18	1.3	1.4	1.4	0.2	0.0	1.0	0.2	0.84
Marathon Oil Corporation	MRO	74.88	1.4	1.4		0.2	0.1	0.5	0.6	0.80
Norsk Hydro ASA	NHY	23.54	1.4	1.4	1.4		0.4	0.5	0.5	0.79
PetroChina Company Ltd.	PTR	104.60	3.2	2.9	2.9		0.2	2.4	0.2	0.76
Suncor Energy	SU	67.80	1.6	1.4	1.4	0.0		1.3	0.1	0.73
Lukoil Oil Company	LUKOY	78.40	6.7	5.8	5.8			4.3	1.5	0.72
Independent Natural Gas and Oil - Large Cap and Mid Cap										
XTO Energy Inc.	XTO	40.86	2.7	2.9		2.2		0.7		0.82
Encana Corporation	ECA	47.67	2.9	2.9	2.9	2.2		0.7		0.82
CNOOC Limited	CEO	79.56	3.4	2.9	2.9		0.3	2.6		0.81
Anadarko Petroleum Corp.	APC	44.56	1.4	2.9		1.7		1.2		0.77
Occidental Petroleum Corp	OXY	45.87	3.0	2.9		0.4	0.0	2.2	0.3	0.69
EOG Resources	EOG	59.77	6.1	5.8		4.5	0.4	0.9		0.68
Devon Energy Corporatio	DVN	65.81	5.4	5.8		3.2		2.6		0.63
Independent Natural Gas and Oil - Small Cap										
Energy Partners Ltd.	EPL	24.75	0.9	1.4		0.8		0.6		0.89
Berry Petroleum Company	BRY	27.48	1.3	1.4		0.2		1.2		0.76
Cimarex Energy Company	XEC	35.83	2.9	2.9		2.0		0.9		0.57
Encore Acquisition Compa	EAC	24.45	2.3	2.9		0.7		2.2		0.55
Income										
Penn West Energy Trust	PWE	36.70	5.9	5.8	5.8	1.7		4.1		0.95
San Juan Basin Royalty Tr	SJT	34.34	6.8	5.8		5.8				0.86
Canadian Oil Sands Trust	COSWF	28.04	6.1	5.8	5.8			5.8		0.82
Portfolio Composite			100	100	49	28	14	48	11	0.75

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Index of Recent Research**Stock Ideas**

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
7-Sep	EPL	Energy Partners, Ltd.	Woodside Offers \$23 a Share
6-Sep	DVN	Devon Energy Corporation	Raise NPV to \$115 a Share
29-Aug	CEO	CNOOC Ltd	Volume Growth and Commodity Price
23-Aug	PTR	PetroChina Company Limited	Profits despite Government Limits
15-Aug	PWTF	Penn West Energy Trust	Marketable High Current Income
10-Aug	BRY	Berry Petroleum	Oil Rich
10-Aug	EPL	Energy Partners, Ltd.	Gulf of Mexico and Natural Gas
7-Aug	* OXY	Occidental Petroleum Corporation	Positive Profit and Volume Trends
4-Aug	* IMO	Imperial Oil Limited	Oil Sands <i>in situ</i> and Mineable
4-Aug	* EAC	Encore Acquisition Company	Abundant Appreciation Potential
4-Aug	* SU	Suncor Energy Inc.	Trading Oil Sands Leadership
4-Aug	* TOT	Total S.A.	Positioned to Profit
3-Aug	* XEC	Cimarex Energy Company	Volume Slippage
3-Aug	* DVN	Devon Energy Corporation	Best Value Large Cap Producer
2-Aug	* MRO	Marathon Oil Corporation	Raise NPV to \$98 a Share
2-Aug	* EOG	EOG Resources Inc.	Add Natural Gas to Your Portfolio
28-Jul	* CVX	Chevron Corporation	Lagging a Little Lately
28-Jul	* APC	Anadarko Petroleum Corporation	Favorable Volume Trend
28-Jul	* XOM	Exxon Mobil Corporation	Volume and Cash Advancing
28-Jul	* PCZ	Petro-Canada	Temporary Difficulties
28-Jul	* RDSA	Royal Dutch Shell plc	Share Buyback Enhances Return
26-Jul	* COP	ConocoPhillips	Raise NPV to \$100 a Share
26-Jul	* BP	BP p.l.c.	Cash Flow per Barrel Lags
26-Jul	* COSWF	Canadian Oil Sands Trust	0.7% Opportunity Loss
26-Jul	* XTO	XTO Energy Inc.	Growth Standout
25-Jul	* ECA	EnCana Corporation	Raise NPV to \$60 a Share
25-Jul	* NHY	Norsk Hydro ASA	Commodity Price Beneficiary
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
23-Jun	* SJT	San Juan Basin Royalty Trust	Irrefutable Logic

Meter Reader - A Weekly Analysis

12-Sep		A Dip to Buy
5-Sep	*	A 1978 Pause
15-Aug	*	Unchanged Thesis
8-Aug	*	Tough Business

Natural Gas and Oil Royalty Trusts - A Weekly Analysis

8-Sep		HGT Boosts Reinvestment
18-Aug	*	Widely-Held PBT
11-Aug	*	Oily Gassy
4-Aug	*	The Developed Advantage

Industry Ideas

27-Jun	*	Presentation Slides	Oil and Gas Investment to 2010
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* Archived on www.mcdep.com

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