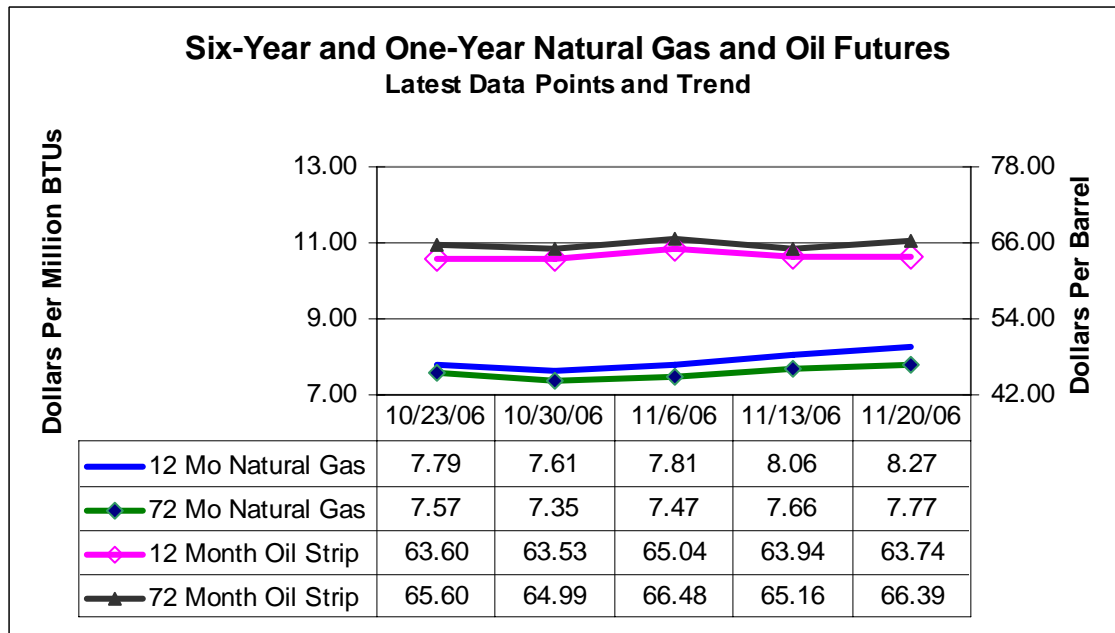


## Natural Gas Warming Investors

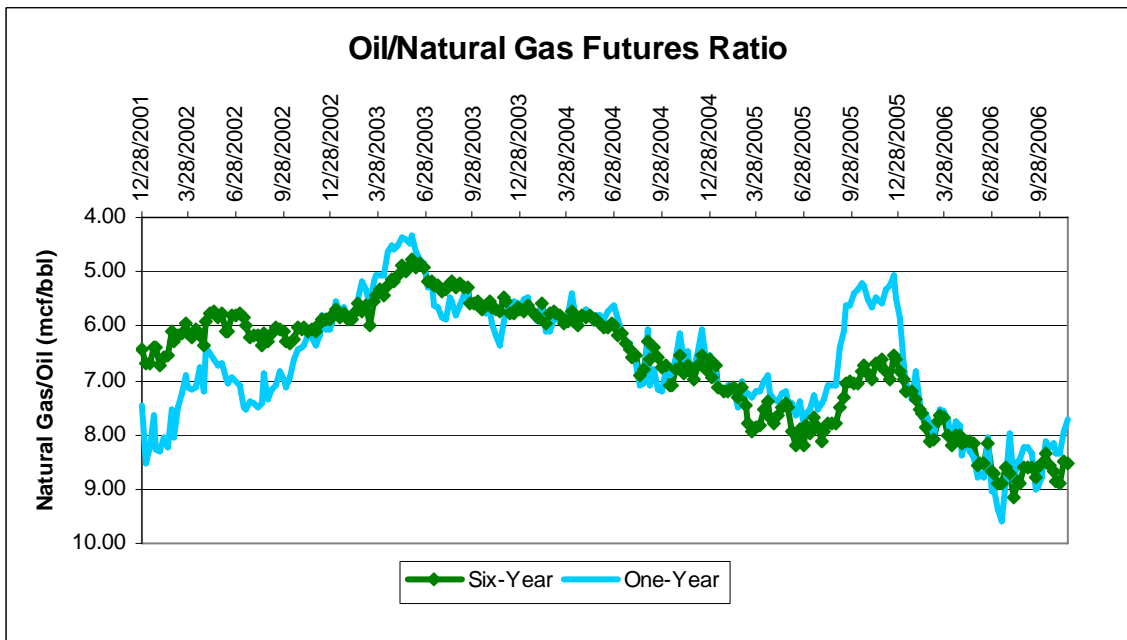
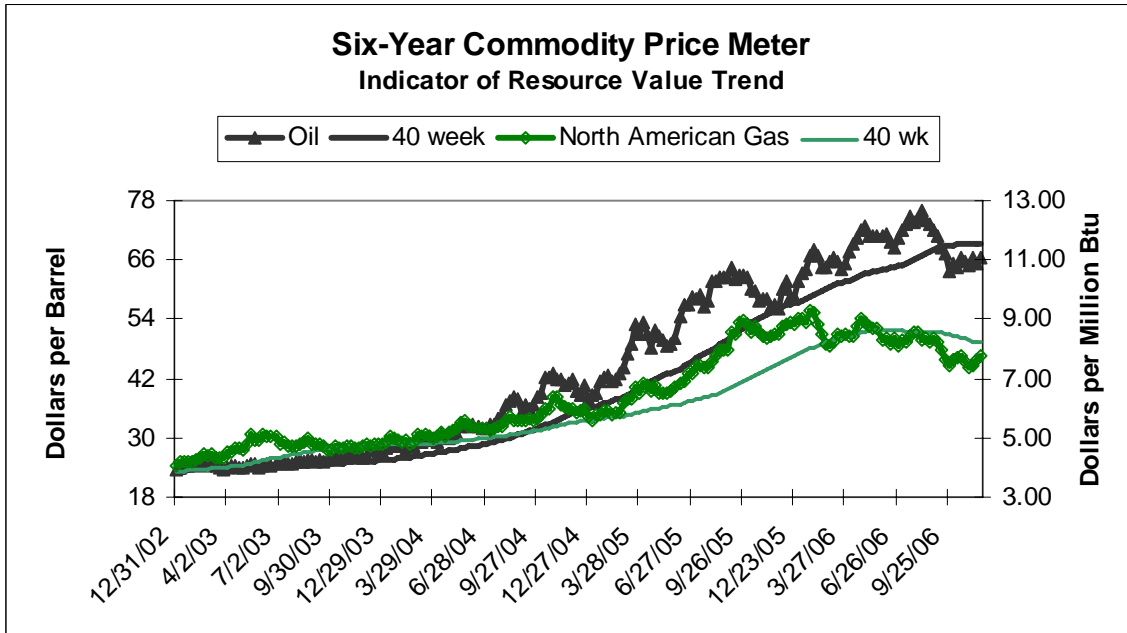
### Summary and Recommendation

Each of six buy-recommendations that contribute a combined 28% natural gas weight to the illustrative McDep energy portfolio have or are nearing positive stock price momentum as measured by the current price above the 200-day average. In descending order of market cap, the six are **Gazprom (OGZPY)**, **Encana (ECA)**, **Devon Energy (DVN)**, **XTO Energy (XTO)**, **EOG Resources (EOG)** and **San Juan Basin Royalty Trust (SJT)** (see table Portfolio Composite for weights and Rank by McDep Ratio for market cap). Six-year natural gas futures remain below the 40-week average (see chart Six-Year Commodity Price Meter), but the near month contract trades above the 200-day average for the first time in eleven months. Moreover, natural gas futures are narrowing the steep discount to oil futures that bottomed in mid 2006 (see chart Futures Ratio). Stock price advances appear to be running counter to fears surrounding an inventory “surplus” of perhaps a mere 1% of annual demand and speculative forecasts of warm winter weather. At the same time, long-term supply projects that might moderate price, like Arctic pipelines whether in Canada, Alaska or Russia, seem perpetually postponed while expected costs multiply

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) 20-Nov 2006	Shares (mm)	Market Cap (US\$m)	Net Present Value (US\$/sh)	Debt/ Present Value	McDep Ratio
<b>Mega Cap</b>								
Exxon Mobil Corporation	XOM	B	72.43	5,922	429,000	78.00	0.04	0.93
Total S.A.	TOT	B	69.99	2,302	161,000	80.00	0.13	0.89
BP plc	BP	B	66.23	3,303	219,000	80.00	0.16	0.86
Royal Dutch Shell plc	RDS-A	B	69.46	3,200	222,000	84.00	0.13	0.85
Gazprom (50%)	OGZPY	B	43.00	2,847	122,400	56.00	0.05	0.78
Chevron Corporation	CVX	B	69.24	2,206	153,000	92.00	0.10	0.78
ConocoPhillips	COP	B	62.82	1,676	105,000	100.00	0.21	0.71
<i>Total or Median</i>					<i>1,411,000</i>		<i>0.13</i>	<i>0.85</i>
<b>Producer/Refiners - Large Cap</b>								
Kinder Morgan, Inc.	KMI	S2	104.77	135	14,140	33.00	0.75	1.54
Imperial Oil Limited (30%)	IMO	H	36.18	292	10,570	37.00	0.07	0.98
Petro-Canada	PCZ	B	44.43	506	22,480	49.00	0.18	0.92
Marathon Oil Corporation	MRO	B	89.08	359	31,980	110.00	0.12	0.83
PetroChina Company Ltd (10%)	PTR	B	114.82	179	20,550	140.00	0.04	0.83
Suncor Energy	SU	B	75.43	461	34,780	95.00	0.06	0.81
Norsk Hydro ASA	NHY	B	23.66	1,236	29,240	31.00	0.14	0.80
Lukoil Oil Company	LUKOY	B	85.15	830	71,000	110.00	0.02	0.78
<i>Total or Median</i>					<i>235,000</i>		<i>0.10</i>	<i>0.83</i>
<b>Independent Natural Gas and Oil - Large Cap</b>								
XTO Energy Inc.	XTO	B	46.61	371	17,290	52.00	0.18	0.91
CNOOC Limited (34%)	CEO	B	85.14	140	11,900	98.00	-	0.87
Encana Corporation	ECA	B	50.24	824	41,400	65.00	0.12	0.80
Anadarko Petroleum Corp.	APC	B	46.42	463	21,500	75.00	0.42	0.78
EOG Resources	EOG	B	68.22	246	16,800	92.00	0.04	0.75
Occidental Petroleum Corp.	OXY	B	47.14	860	40,500	69.00	0.09	0.71
Devon Energy Corporation	DVN	B	69.30	447	31,000	115.00	0.13	0.66
<i>Total or Median</i>					<i>180,000</i>		<i>0.12</i>	<i>0.78</i>
<b>Independent Natural Gas and Oil - Small Cap</b>								
Energy Partners Ltd.	EPL	B	24.01	41	970	31.00	0.25	0.83
Berry Petroleum Company	BRY	B	30.86	45	1,380	44.00	0.22	0.77
Encore Acquisition Company	EAC	B	25.53	54	1,370	54.00	0.19	0.57
Cimarex Energy Company	XEC	B	35.22	84	2,970	68.00	0.08	0.56
<i>Total or Median</i>					<i>6,700</i>		<i>0.20</i>	<i>0.67</i>
<b>Income</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S3	47.16	168	7,910	15.00	0.54	1.99
Kinder Morgan Management, LLC	KMR	S3	44.16	61	2,680	15.00	0.54	1.90
San Juan Basin Royalty Trust	SJT	B	37.99	47	1,770	40.00	-	0.95
Enerplus Resources Fund	ERF		42.40	123	5,220	47.00	0.11	0.91
Pengrowth Energy Trust	PGH		17.34	220	3,820	20.00	0.22	0.90
Penn West Energy Trust	PWE	B	29.73	239	7,110	39.00	0.13	0.79
Canadian Oil Sands Trust	COSWF	B	24.97	468	11,680	35.00	0.08	0.74
<i>Total or Median</i>					<i>40,200</i>		<i>0.13</i>	<i>0.91</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) 20-Nov 2006	Adjustd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
<b>Mega Cap</b>								
Gazprom (50%)	OGZPY	B	43.00	24.0	9.0	7.0	11	0.5
Exxon Mobil Corporation	XOM	B	72.43	11.4	6.6	6.2	11	1.8
Total S.A.	TOT	B	69.99	9.7	6.8	6.1	11	2.9
BP plc	BP	B	66.23	9.5	6.6	5.6	9	3.6
Royal Dutch Shell plc	RDS-A	B	69.46	7.4	5.8	4.9	9	3.7
Chevron Corporation	CVX	B	69.24	10.9	6.3	4.9	9	3.0
ConocoPhillips	COP	B	62.82	11.0	6.7	4.7	8	2.3
		<i>Median</i>		10.9	6.6	5.6	9	2.9
<b>Producer/Refiners - Large Cap</b>								
Kinder Morgan, Inc.	KMI	S2	104.77		8.8	13.6	22	3.3
Suncor Energy	SU	B	75.43	20.8	12.0	9.6	18	0.4
Imperial Oil Limited (30%)	IMO	H	36.18	10.4	8.0	7.8	13	0.8
Petro-Canada	PCZ	B	44.43	7.2	7.3	6.7	13	0.8
Lukoil Oil Company	LUKOY	B	85.15	18.7	7.7	6.0	10	1.4
PetroChina Company Ltd (10%)	PTR	B	114.82	15.1	6.4	5.3	10	4.2
Marathon Oil Corporation	MRO	B	89.08	8.6	5.9	5.0	9	1.5
Norsk Hydro ASA	NHY	B	23.66	8.2	5.3	4.2	9	2.9
		<i>Median</i>		10.4	7.5	6.3	12	1.5
<b>Independent Natural Gas and Oil - Large Cap</b>								
XTO Energy Inc.	XTO	B	46.61	11.3	7.8	7.1	11	0.4
EOG Resources	EOG	B	68.22	9.3	8.4	6.3	16	0.4
Anadarko Petroleum Corp.	APC	B	46.42	11.5	7.9	6.2	9	1.6
Encana Corporation	ECA	B	50.24	8.7	7.5	6.0	12	0.8
CNOOC Limited (34%)	CEO	B	85.14	10.6	6.5	5.6	10	3.3
Occidental Petroleum Corp.	OXY	B	47.14	11.0	7.5	5.3	10	-
Devon Energy Corporation	DVN	B	69.30	8.2	7.1	4.7	9	0.6
		<i>Median</i>		10.6	7.5	6.0	10	0.6
<b>Independent Natural Gas and Oil - Small Cap</b>								
Berry Petroleum Company	BRY	B	30.86	10.1	8.6	6.6	11	1.0
Encore Acquisition Company	EAC	B	25.53	15.5	9.6	5.5	15	-
Energy Partners Ltd.	EPL	B	24.01	5.0	5.1	4.2	-	-
Cimarex Energy Company	XEC	B	35.22	7.8	6.8	3.8	10	0.5
		<i>Median</i>		9.0	7.7	4.8	11	0.2
<b>Income</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S3	47.16		7.8	15.5	32	6.9
Kinder Morgan Management, LLC	KMR	S3	44.16		7.8	14.8	30	7.3
San Juan Basin Royalty Trust	SJT	B	37.99	9.3	11.1	10.6	13	7.7
Canadian Oil Sands Trust	COSWF	B	24.97	24.4	13.0	9.6	13	7.4
Enerplus Resources Fund	ERF		42.40	9.5	7.6	7.0	16	10.5
Pengrowth Energy Trust	PGH		17.34	7.6	7.6	6.8	9	15.3
Penn West Energy Trust	PWE	B	29.73	8.2	8.4	6.7	12	12.1
		<i>Median</i>		9.3	7.8	9.6	13	7.7

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) 20-Nov 2006	Portfolio Weight		Non- U.S. HQ (%)	North Amer. Natural Gas (%)	Rest of World Natural Gas (%)	Oil Prod'n (%)	Down- stream (%)	McDep Ratio	
		Equity (%)	EV (%)							
<b>Mega Cap</b>										
Exxon Mobil Corporation	XOM	72.43	3.2	2.9		0.2	0.5	1.3	0.9	0.93
Total S.A.	TOT	69.99	2.8	2.9	2.9		0.9	1.2	0.8	0.89
BP plc	BP	66.23	1.4	1.4	1.4	0.1	0.2	0.7	0.4	0.86
Royal Dutch Shell plc	RDS-A	69.46	2.8	2.9	2.9	0.1	0.5	1.1	1.1	0.85
Gazprom	OGZPY	43.00	9.4	8.6	8.6		8.6	1.1		0.78
Chevron Corporation	CVX	69.24	5.8	5.7		0.4	0.4	3.4	1.5	0.78
ConocoPhillips	COP	62.82	4.7	5.7		0.9	0.4	3.0	1.3	0.71
<b>Producer/Refiners - Large Cap</b>										
Petro-Canada	PCZ	44.43	1.3	1.4	1.4	0.2	0.0	0.9	0.2	0.92
Marathon Oil Corporation	MRO	89.08	1.4	1.4		0.1	0.1	0.6	0.6	0.83
PetroChina Company Ltd.	PTR	114.82	3.2	2.9	2.9		0.2	2.4	0.2	0.83
Suncor Energy	SU	75.43	1.5	1.4	1.4	0.1		1.3	0.1	0.81
Norsk Hydro ASA	NHY	23.66	2.7	2.9	2.9		0.7	1.1	1.1	0.80
Lukoil Oil Company	LUKOY	85.15	6.5	5.7	5.7			4.3	1.4	0.78
<b>Independent Natural Gas and Oil - Large Cap</b>										
XTO Energy Inc.	XTO	46.61	2.7	2.9		2.2		0.7		0.91
CNOOC Limited	CEO	85.14	3.3	2.9	2.9		0.3	2.6		0.87
Encana Corporation	ECA	50.24	5.6	5.7	5.7	4.1		1.2	0.4	0.80
Anadarko Petroleum Corp.	APC	46.42	1.5	2.9		1.6		1.2		0.78
EOG Resources	EOG	68.22	6.3	5.7		4.4	0.4	1.0		0.75
Occidental Petroleum Corp	OXY	47.14	2.9	2.9		0.4	0.0	2.1	0.3	0.71
Devon Energy Corporation	DVN	69.30	5.3	5.7		3.1		2.6		0.66
<b>Independent Natural Gas and Oil - Small Cap</b>										
Energy Partners Ltd.	EPL	24.01	1.2	1.4		0.8		0.7		0.83
Berry Petroleum Company	BRY	30.86	1.2	1.4		0.2		1.2		0.77
Encore Acquisition Comp	EAC	25.53	2.2	2.9		0.7		2.1		0.57
Cimarex Energy Company	XEC	35.22	2.8	2.9		2.0		0.9		0.56
<b>Income</b>										
San Juan Basin Royalty Tr	SJT	37.99	6.7	5.7		5.7				0.95
Penn West Energy Trust	PWE	29.73	5.6	5.7	5.7	1.8		4.0		0.79
Canadian Oil Sands Trust	COSWF	24.97	5.9	5.7	5.7			5.7		0.74
<b>Portfolio Composite</b>			<b>100</b>	<b>100</b>	<b>50</b>	<b>29</b>	<b>13</b>	<b>48</b>	<b>10</b>	<b>0.77</b>

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**Index of Recent Research****Stock Ideas**

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
20-Nov	EPL	Energy Partners, Ltd.	Hostile Bidder Withdraws
14-Nov	PWE	Penn West Energy Trust	Canada's Dastardly Deed
9-Nov	BRY	Berry Petroleum	Election Winner
9-Nov	TOT	Total S.A.	Steady High Return
7-Nov	APC	Anadarko Petroleum Corporation	Hedging and Deleveraging
7-Nov	XEC	Cimarex Energy Company	Steady Operations
7-Nov	EPL	Energy Partners, Ltd.	Buyers Looking
6-Nov	BRY	Berry Petroleum	Raise NPV to \$44 a Share on Election Eve
3-Nov	EOG	EOG Resources Inc.	Stealth Explorer
3-Nov	IMO	Imperial Oil Limited	Hold While Six-Year Oil below 40-Week Average
3-Nov	EAC	Encore Acquisition Company	Brown Bassett Wolfcamp
2-Nov	DVN	Devon Energy Corporation	Deep Gulf Explorer
1-Nov	MRO	Marathon Oil Corporation	Raise NPV to \$110 a Share
31-Oct	CEO	CNOOC Ltd	Future Growth in Natural Gas
30-Oct	CVX	Chevron Corporation	Raise NPV to \$92 a Share
27-Oct	XOM	Exxon Mobil Corporation	Oil Production Per Share Grows
27-Oct	* SU	Suncor Energy Inc.	Next Milestone 2008
27-Oct	* PCZ	Petro-Canada	Volume Growth around the Corner
26-Oct	* RDSA	Royal Dutch Shell plc	New Structure Working
26-Oct	* ECA	EnCana Corporation	Beating Cost Inflation
26-Oct	* COP	ConocoPhillips	Volume Growth Adjusted for Debt and Shares
25-Oct	* COSWF	Canadian Oil Sands Trust	Syncrude at 97% of New Capacity
25-Oct	* XTO	XTO Energy Inc.	CEO May Be Winning Billion Dollar Bet
25-Oct	* BP	BP p.l.c.	Solid Cash Flow
24-Oct	* NHY	Norsk Hydro ASA	Lowest EV/Ebitda
20-Oct	* LUKOY	Lukoil Oil Company	Presents to Investors in New York
19-Oct	* KMx	Kinder Morgan	Dilution Ahead
19-Oct	* OXY	Occidental Petroleum Corporation	Stock Cheaper than Oil
5-Oct	* OGZPY	Gazprom	Russian Natural Gas Price Too Low
15-Sep	* PTR	PetroChina Company Limited	Future Natural Gas and Downstream Profits
15-Sep	* SJT	San Juan Basin Royalty Trust	Sub \$5 Natural Gas and SJT

**Meter Reader - A Weekly Analysis**

14-Nov	*	Downstream Cash
7-Nov	*	Election Day
31-Oct	*	Small Cap Upside
24-Oct	*	Shell Canada at 0.99 McDep Ratio on Buyout Bid

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

17-Nov		Dip/Rebound and New Shale Potential
10-Nov		Commodity Trumps Politics
3-Nov	*	Country Risk
27-Oct	*	Last Chance to Buy Cyclically

**Industry Ideas**

12-Nov	*	Political Action Idea	Email the Canadian Prime Minister
2-Nov	*	Flash	Political Opportunity
1-Nov	*	Flash	Canada Tax Bomb
27-Jun	*	Presentation Slides	Oil and Gas Investment to 2010

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