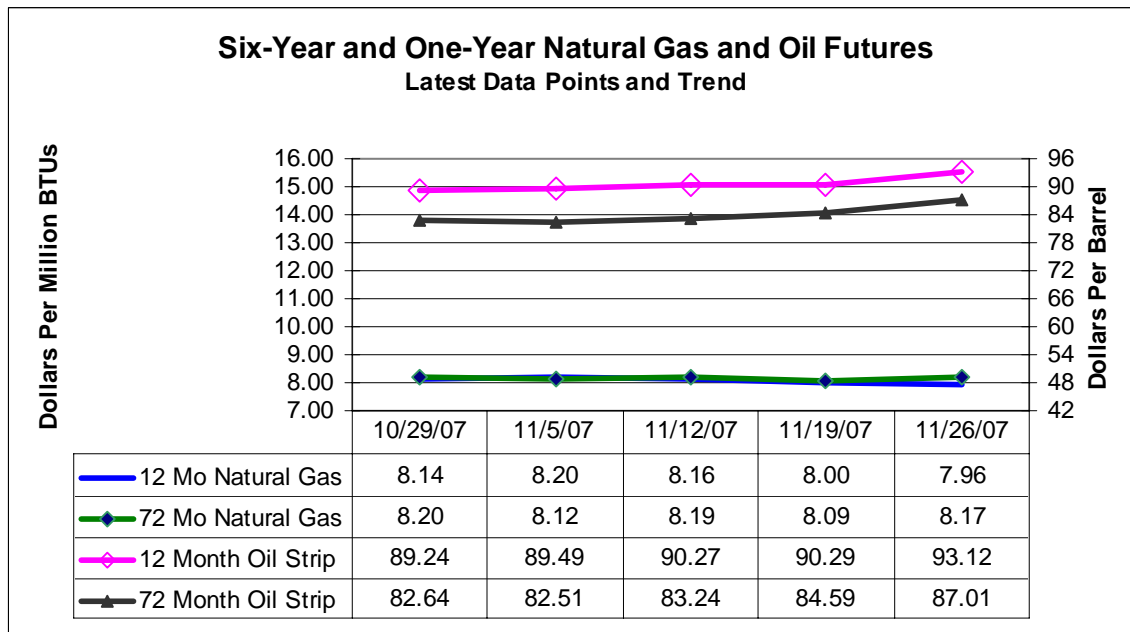


## Avarice in Alaska

### Summary and Recommendation

A newly enacted increase in the Alaska Petroleum Tax to a punitive 50% from 22.5% drives up long-term commodity price for oil and natural gas while it vindicates the stock repurchase strategies of buy-recommended **ConocoPhillips (COP)**, **ExxonMobil (XOM)** and **BP plc (BP)**. Because the price of oil is up and the producers are diversified beyond Alaska there is little impact on our currently estimated Net Present Value (NPV). The returns now being generated from past investments in Alaska are best distributed to investors rather than being reinvested under the changed terms of the fiscal regime voted by the Alaska legislature on November 16. The implications of higher price, induced by lower supply outlook, extend to natural gas as the long-delayed Arctic pipeline will likely be postponed for another generation, if not forever. Though the tax action may trim the upside for 17% of NPV for COP concentrated on Alaska, it boosts the commodity price potential for Canada and Lower 48 State natural gas, 14% of NPV, and other oil and gas production, 45% of NPV. Confident also in the prospects for XOM, we restore that stock to a full rather than half position in the illustrative McDep Energy Portfolio (see table, page 4, [Portfolio Composite](#)).

Kurt H. Wulff, CFA



Source: New York Mercantile Exchange, McDep

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**Oil and Gas Producers - Rank by McDep Ratio**

	Symbol/ Rating		Price (US\$/sh) 26-Nov 2007	Shares (mm)	Market Cap (US\$m)	Net Present Value (US\$/sh)	Debt/ Present Value	McDep Ratio
<b>Mega Cap</b>								
BP plc	BP	B	70.50	3,177	224,000	75.00	0.18	0.95
Exxon Mobil Corporation	XOM	B	85.68	5,536	474,000	92.00	0.05	0.93
Total S.A.	TOT	B	79.93	2,273	182,000	89.00	0.14	0.91
Petrobras	PBR		94.50	2,200	207,900	105.00	0.10	0.91
Royal Dutch Shell plc	RDS-A	B	80.52	3,143	253,000	94.00	0.11	0.87
Gazprom (50%)	OGZPY	B	51.50	2,990	154,000	62.00	0.07	0.84
Chevron Corporation	CVX	B	83.79	2,206	185,000	105.00	0.09	0.82
ConocoPhillips	COP	B	76.70	1,644	126,000	112.00	0.19	0.75
<i>Total or Median</i>					1,806,000		0.11	0.89
<b>Producer/Refiners - Large Cap</b>								
Imperial Oil Limited (30%)	IMO	B	51.84	278	14,430	42.00	0.08	1.22
PetroChina Company Ltd (10%)	PTR	H	186.08	178	33,100	166.00	0.06	1.11
Norsk Hydro ASA	NHY	H	13.32	1,223	16,290	13.00	0.04	1.02
Suncor Energy	SU	B	100.30	472	47,340	105.00	0.09	0.96
StatoilHydro ASA (29%)	STO	B	32.10	928	29,790	35.00	0.14	0.93
Marathon Oil Corporation	MRO	H	53.79	719	38,680	62.00	0.20	0.89
Petro-Canada	PCZ	B	51.12	493	25,200	65.00	0.16	0.82
Lukoil Oil Company	LUKOY	B	87.80	832	73,000	121.00	0.03	0.73
<i>Total or Median</i>					278,000		0.09	0.94
<b>Independent Natural Gas and Oil - Large Cap</b>								
CNOOC Limited (34%)	CEO	H	170.85	149	25,500	108.00	-	1.58
Encana Corporation	ECA	B	67.48	756	51,000	72.00	0.19	0.95
Occidental Petroleum Corp.	OXY	B	69.27	837	58,000	77.00	0.06	0.91
Canadian Natural Resources	CNQ		71.76	539	38,700	87.00	0.22	0.86
XTO Energy Inc.	XTO	B	62.43	391	24,410	75.00	0.18	0.86
Anadarko Petroleum Corp.	APC	B	56.16	468	26,300	74.00	0.33	0.84
EOG Resources	EOG	B	82.90	247	20,500	102.00	0.06	0.82
Devon Energy Corporation	DVN	B	84.00	450	37,800	129.00	0.15	0.70
<i>Total or Median</i>					282,000		0.16	0.86
<b>Independent Natural Gas and Oil - Small Cap</b>								
Berry Petroleum Company	BRY	B	40.93	45	1,840	44.00	0.23	0.95
Encore Acquisition Company	EAC	B	32.99	54	1,790	54.00	0.31	0.73
Energy Partners Ltd.	EPL	B	12.79	32	410	38.00	0.34	0.56
Cimarex Energy Company	XEC	B	38.49	84	3,230	76.00	0.09	0.55
<i>Total or Median</i>					7,300		0.27	0.65
<b>Income</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S	49.29	179	8,840	17.00	0.54	1.87
Kinder Morgan Management, LLC	KMR	S	48.21	63	3,040	17.00	0.54	1.85
Pengrowth Energy Trust	PGH		18.40	247	4,540	17.00	0.27	1.06
Canadian Oil Sands Trust	COSWF	B	35.18	479	16,850	39.00	0.07	0.91
Penn West Energy Trust	PWE	B	27.68	243	6,720	34.00	0.22	0.86
San Juan Basin Royalty Trust	SJT	B	33.96	47	1,580	40.00	-	0.85
Enerplus Resources Fund	ERF		40.20	129	5,200	52.00	0.14	0.80
Hugoton Royalty Trust	HGT	B	23.45	40	940	34.00	-	0.69
<i>Total or Median</i>					47,700		0.18	0.88

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

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**Oil and Gas Producers - Rank by EV/Ebitda**

	Symbol/ Rating		Price (US\$/sh) 26-Nov 2007	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	51.50	24.6	9.5	8.0	12	0.8	
Petrobras	PBR		94.50	9.8	8.3	7.6	14	1.8	
BP plc	BP	B	70.50	10.0	6.2	5.9	10	3.7	
Exxon Mobil Corporation	XOM	B	85.68	12.1	6.2	5.8	10	1.6	
Total S.A.	TOT	B	79.93	9.6	5.9	5.4	9	3.4	
Royal Dutch Shell plc	RDS-A	B	80.52	8.1	5.4	4.7	8	3.6	
Chevron Corporation	CVX	B	83.79	10.2	5.8	4.7	8	2.8	
ConocoPhillips	COP	B	76.70	10.7	6.0	4.5	7	2.1	
	<i>Median</i>				10.1	6.1	5.6	9	2.5
<b>Producer/Refiners - Large Cap</b>									
Suncor Energy	SU	B	100.30	26.6	9.4	9.0	16	0.4	
Imperial Oil Limited (30%)	IMO	B	51.84	13.6	6.6	8.0	13	0.7	
PetroChina Company Ltd (10%)	PTR	H	186.08	15.0	6.5	7.2	14	2.6	
Norsk Hydro ASA	NHY	H	13.32	-	6.5	6.6	11	1.4	
StatoilHydro ASA (29%)	STO	B	32.10	7.7	5.4	5.0	10	5.2	
Marathon Oil Corporation	MRO	H	53.79	8.7	5.6	5.0	8	1.8	
Lukoil Oil Company	LUKOY	B	87.80	17.8	6.3	4.7	8	1.8	
Petro-Canada	PCZ	B	51.12	6.4	5.0	4.1	8	1.1	
	<i>Median</i>				11.1	6.4	5.8	11	1.6
<b>Independent Natural Gas and Oil - Large Cap</b>									
CNOOC Limited (34%)	CEO	H	170.85	10.6	5.4	8.5	15	2.0	
XTO Energy Inc.	XTO	B	62.43	11.1	8.3	7.1	14	0.8	
Canadian Natural Resources	CNQ		71.76	8.2	7.8	6.7	13	0.5	
Encana Corporation	ECA	B	67.48	8.9	6.9	6.5	12	1.2	
EOG Resources	EOG	B	82.90	9.0	7.2	6.0	14	0.4	
Anadarko Petroleum Corp.	APC	B	56.16	11.4	6.8	5.7	13	1.3	
Occidental Petroleum Corp.	OXY	B	69.27	11.7	6.0	5.5	11	1.4	
Devon Energy Corporation	DVN	B	84.00	8.9	7.1	5.0	10	0.7	
	<i>Median</i>				9.8	7.0	6.2	13	1.0
<b>Independent Natural Gas and Oil - Small Cap</b>									
Berry Petroleum Company	BRY	B	40.93	9.9	6.6	6.2	11	0.7	
Encore Acquisition Company	EAC	B	32.99	14.5	6.9	5.1	12	-	
Cimarex Energy Company	XEC	B	38.49	7.9	6.3	3.4	8	0.4	
Energy Partners Ltd.	EPL	B	12.79	6.0	5.4	3.0		-	
	<i>Median</i>				8.9	6.4	4.3	11	0.2
<b>Income</b>									
Kinder Morgan Energy Partners, L.P.	KMP	S	49.29		7.9	14.8	31	7.1	
Kinder Morgan Management, LLC	KMR	S	48.21		7.9	14.6	30	7.3	
San Juan Basin Royalty Trust	SJT	B	33.96	10.2	12.0	10.2	12	8.0	
Hugoton Royalty Trust	HGT	B	23.45	13.8	10.7	7.4	10	9.7	
Canadian Oil Sands Trust	COSWF	B	35.18	20.9	7.9	7.1	8	10.0	
Pengrowth Energy Trust	PGH		18.40	7.4	6.3	6.7	20	15.2	
Enerplus Resources Fund	ERF		40.20	9.7	7.9	6.4	11	12.9	
Penn West Energy Trust	PWE	B	27.68	7.8	6.5	5.5	10	15.2	
	<i>Median</i>				9.9	7.9	7.3	12	9.8

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 2008; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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**McDep Energy Portfolio  
Composite of Buy Recommendations**

Symbol	Price (US\$/sh) 26-Nov 2007	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>										
BP plc	BP	70.50	3.1	3.2	3.2	0.3	0.3	2.1	0.6	0.95
Exxon Mobil Corporation	XOM	85.68	3.6	3.2	3.2	0.2	0.4	1.9	0.7	0.93
Total S.A.	TOT	79.93	3.2	3.2	3.2		1.0	1.6	0.6	0.91
Royal Dutch Shell plc	RDS-A	80.52	3.3	3.2	3.2	0.1	0.4	1.6	1.1	0.87
Gazprom	OGZPY	51.50	10.5	9.7	9.7		7.3	2.4		0.84
Chevron Corporation	CVX	83.79	3.4	3.2		0.2	0.2	2.2	0.8	0.82
ConocoPhillips	COP	76.70	5.6	6.5		1.0	0.4	3.5	1.5	0.75
<b>Producer/Refiners - Large Cap</b>										
Imperial Oil Limited	IMO	51.84	1.4	1.3	1.3	0.1		1.0	0.2	1.22
Suncor Energy	SU	100.30	1.4	1.3	1.3	0.0		1.2	0.1	0.96
StatoilHydro ASA	STO	32.10	1.6	1.6	1.6		0.6	1.0	-	0.93
Petro-Canada	PCZ	51.12	1.2	1.3	1.3	0.2	0.0	0.9	0.2	0.82
Lukoil Oil Company	LUKOY	87.80	7.4	6.5	6.5			4.7	1.8	0.73
<b>Independent Natural Gas and Oil - Large Cap</b>										
Encana Corporation	ECA	67.48	3.7	3.9	3.9	2.6		1.0	0.3	0.95
Occidental Petroleum Corp	OXY	69.27	3.6	3.2		0.4	0.0	2.5	0.3	0.91
XTO Energy Inc.	XTO	62.43	4.5	4.9		3.8		1.1		0.86
Anadarko Petroleum Corp	APC	56.16	2.3	3.2		1.9		1.3	0.1	0.84
EOG Resources	EOG	82.90	7.0	6.5		5.1	0.2	1.2		0.82
Devon Energy Corporation	DVN	84.00	6.0	6.5		3.6		2.9		0.70
<b>Independent Natural Gas and Oil - Small Cap</b>										
Berry Petroleum Company	BRY	40.93	1.4	1.6		0.4		1.2		0.95
Encore Acquisition Comp.	EAC	32.99	2.2	3.2		0.7		2.6		0.73
Energy Partners Ltd.	EPL	12.79	0.8	1.6		0.8		0.8		0.56
Cimarex Energy Company	XEC	38.49	3.2	3.2		2.2		1.0		0.55
<b>Income</b>										
Canadian Oil Sands Trust	COSWF	35.18	5.7	5.2	5.2	(0.5)		5.7		0.91
Penn West Energy Trust	PWE	27.68	2.3	2.6	2.6	0.8		1.8		0.86
San Juan Basin Royalty Tr	SJT	33.96	7.6	6.5		6.5				0.85
Hugoton Royalty Trust	HGT	23.45	3.8	3.2		3.2				0.69
<b>Portfolio Composite</b>										
			100	100	43	34	11	47	8	0.81
	Canada				16					
	Russia				16					
	Europe				11					

Note: Percentages in the Portfolio Weight - EV column correspond to unlevered positions ranging from triple at 9.7% to four-tenths at 1.3%.

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

<u>Date</u>	<u>Symbol</u>	<u>Subject</u>	<u>Theme</u>
11-Nov	PBR	Petrobras	Energy Mega Cap
9-Nov	PWE	Penn West Energy Trust	Light Oil Consolidator
8-Nov	PBR	Petrobras	Bonanza Offshore Brazil
7-Nov	XEC	Cimarex Energy Company	Timely Turn to Oil
7-Nov	DVN	Devon Energy Corporation	Oil Strength, Natural Gas Potential
7-Nov	EPL	Energy Partners, Ltd.	Management Scales Back
7-Nov	TOT	Total S.A.	Global Natural Gas Competitor
6-Nov	APC	Anadarko Petroleum Corporation	Natural Gas Resource Value
2-Nov	CVX	Chevron Corporation	A Bias to be Oilier
1-Nov	MRO	Marathon Oil Corporation	Oil Sands Deal Closed
1-Nov	CNQ	Canadian Natural Resources	Heavy Oil, Natural Gas and Oil Sands
1-Nov	XOM	Exxon Mobil Corporation	Energy Money Fund
31-Oct	COSWF	Canadian Oil Sands Trust	Oil Price Trumps Alberta Tax Hike
31-Oct	EAC	Encore Acquisition	Oil with Income Alternative in Encore Energy Partners
31-Oct	BRY	Berry Petroleum	Plans Master Limited Partnership (MLP)
30-Oct	IMO	Imperial Oil Limited	Oil Price Yes, Alberta Royalties No
30-Oct	NHY	Norsk Hydro ASA	Real Growth in Materials
30-Oct	CEO	CNOOC Ltd	Flourishing China Stock Market
29-Oct	EOG	EOG Resources Inc.	Natural Gas Sleeper
29-Oct	STO	StatoilHydro ASA	Shtokman Partner
26-Oct	* PTR	PetroChina Company Limited	Revise to Hold from Buy on Price
25-Oct	* ECA	EnCana Corporation	Political Cloud over Canada
25-Oct	* SU	Suncor Energy	Political Pall over Canada
25-Oct	* RDSA	Royal Dutch Shell plc	Healthy Business
25-Oct	* PCZ	Petro-Canada	Political Pall over Canada
24-Oct	* OXY	Occidental Petroleum Corporation	Preferred Operator in the Middle East
24-Oct	* COP	ConocoPhillips	Low Stock Price for Strong Cash Flow
23-Oct	* XTO	XTO Energy Inc.	Raise Net Present Value to \$75 A Share
23-Oct	* BP	BP p.l.c.	Lower Net Present Value to \$75 A Share
17-Oct	* KMP	Kinder Morgan	A Little Corruption, American Style
8-Oct	* OGZPY	Gazprom	The Saudi Arabia of Natural Gas
12-Sep	* LUKOY	Lukoil Oil Company	Emerging Oil Blue Chip
6-Sep	* SJT	San Juan Basin Royalty Trust	Mountains and Valleys
23-Jul	* HGT	Hugoton Royalty Trust	Paying Unitholders to Wait

**Meter Reader**

27-Nov		Weekly	Alaska Avarice
20-Nov		Weekly	U.K. Natural Gas Futures Price Triples
13-Nov	*	Weekly	Fuel and Geography
6-Nov	*	Weekly	Desert Deep Throat

**Oil and Gas Income Stocks (previously Natural Gas and Oil Royalty Trusts)**

23-Nov		Weekly	Cross Timbers Royalty Trust
16-Nov		Weekly	Natural Gas Fuels Electricity Growth
9-Nov	*	Weekly	Devon Reconsiders Partnership
2-Nov	*	Weekly	Penn West to Acquire Canetic

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