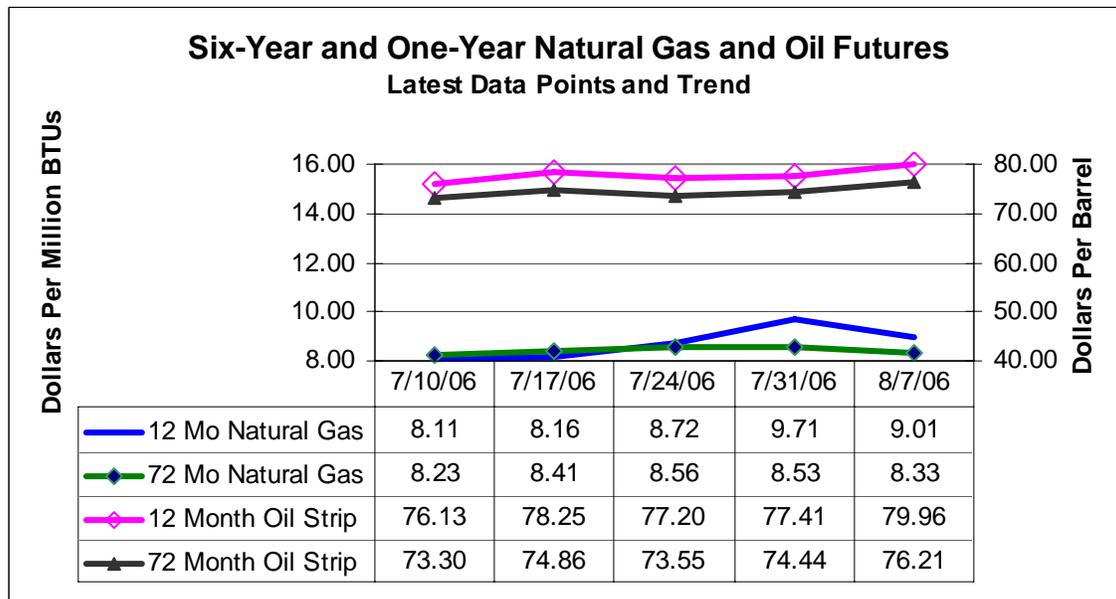


Tough Business

Summary and Recommendation

The unprecedented shutdown of the Prudhoe Bay oil field because of corroded pipe is the latest sign of strain in global light oil supply operating with minimal spare capacity for the past two years while demand climbs with global economic growth. Three buy-recommended companies that are the main producers in the field, **BP plc (BP)**, **ConcocoPhillips COP** and **ExxonMobil (XOM)** are financially strong and operationally competent. Any value impact of short term loss of cash flow may be offset by rising long-term value as both six-year and one-year oil march to new weekly highs. Instead, we worry about sell-recommended **Kinder Morgan (KMI, KMP, KMR)**, a financially weak company with a checkered record for pipeline safety in Arizona and California because of corroded pipe. Distorted compensation for general partner KMI creates misplaced incentives, in our opinion, to skimp on maintenance at limited partnership KMP.

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) 7-Aug 2006	Shares (mm)	Market Cap (US\$mm)	Net Present Value (US\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap								
BP plc	BP	B	70.45	3,362	237,000	80.00	0.15	0.90
Exxon Mobil Corporation	XOM	B	69.23	6,030	418,000	78.00	0.04	0.89
Royal Dutch Shell plc	RDS-A	B	71.13	3,242	231,000	84.00	0.10	0.86
Total S.A.	TOT	B	66.86	2,323	155,000	80.00	0.13	0.86
Gazprom (50%)	OGZPY	B	44.30	2,845	126,000	56.00	0.06	0.80
Chevron Corporation	CVX	B	66.83	2,206	147,000	88.00	0.10	0.78
ConocoPhillips	COP	B	67.61	1,678	113,000	100.00	0.22	0.75
<i>Total or Median</i>					<i>1,427,000</i>		<i>0.10</i>	<i>0.86</i>
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	100.97	135	13,630	33.00	0.75	1.51
Imperial Oil Limited (30%)	IMO	B	38.28	295	11,300	37.00	0.08	1.03
Petro-Canada	PCZ	B	45.54	512	23,320	49.00	0.18	0.94
Norsk Hydro ASA	NHY	B	28.85	1,247	35,980	31.00	0.15	0.94
Marathon Oil Corporation	MRO	B	88.75	367	32,570	98.00	0.15	0.92
Suncor Energy	SU	B	84.70	461	39,060	95.00	0.07	0.90
Lukoil Oil Company	LUKOY	B	90.70	830	75,000	110.00	0.01	0.83
PetroChina Company Ltd (10%)	PTR	B	112.83	178	20,060	140.00	0.05	0.82
<i>Total or Median</i>					<i>251,000</i>		<i>0.11</i>	<i>0.93</i>
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B	47.35	369	17,470	52.00	0.18	0.93
Encana Corporation	ECA	B	54.35	845	45,900	60.00	0.13	0.92
CNOOC Limited (29%)	CEO	B	86.18	119	10,280	98.00	-	0.88
Occidental Petroleum Corp.	OXY	B	107.29	433	46,500	138.00	0.08	0.80
Anadarko Petroleum Corp.	APC	B	46.78	463	21,700	77.00	0.46	0.79
EOG Resources	EOG	B	69.90	246	17,200	92.00	0.07	0.78
Devon Energy Corporation	DVN	B	64.15	446	28,600	102.00	0.15	0.68
<i>Total or Median</i>					<i>188,000</i>		<i>0.13</i>	<i>0.80</i>
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	34.63	45	1,560	39.00	0.17	0.91
Energy Partners Ltd.	EPL	B	18.16	75	1,360	31.00	0.44	0.77
Encore Acquisition Company	EAC	B	29.30	54	1,570	54.00	0.19	0.63
Cimarex Energy Company	XEC	B	39.86	85	3,390	68.00	0.09	0.62
<i>Total or Median</i>					<i>7,900</i>		<i>0.18</i>	<i>0.70</i>
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	46.07	165	7,590	15.00	0.56	1.92
Kinder Morgan Management, LLC	KMR	S3	43.17	60	2,570	15.00	0.56	1.83
Enerplus Resources Fund	ERF		59.21	123	7,290	47.00	0.10	1.23
Pengrowth Energy Trust	PGH		23.04	161	3,710	20.00	0.15	1.13
Penn West Energy Trust	PWE	B	41.63	244	10,150	39.00	0.12	1.06
San Juan Basin Royalty Trust	SJT	B	39.76	47	1,850	40.00	-	0.99
Canadian Oil Sands Trust	COSWF	B	33.63	466	15,670	35.00	0.10	0.96
<i>Total or Median</i>					<i>48,800</i>		<i>0.12</i>	<i>1.13</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) 7-Aug 2006	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
Mega Cap								
Gazprom (50%)	OGZPY	B	44.30	20.0	9.0	7.2	13	0.5
BP plc	BP	B	70.45	9.3	6.2	5.6	9	3.3
Exxon Mobil Corporation	XOM	B	69.23	11.4	6.2	5.5	10	1.8
Total S.A.	TOT	B	66.86	9.8	5.8	4.9	8	3.1
Royal Dutch Shell plc	RDS-A	B	71.13	7.4	5.3	4.6	8	3.6
Chevron Corporation	CVX	B	66.83	10.9	5.7	4.4	8	3.1
ConocoPhillips	COP	B	67.61	11.0	5.2	3.9	6	2.1
	<i>Median</i>			10.9	5.8	4.9	8	3.1
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	100.97		8.8	13.2	21	3.5
Suncor Energy	SU	B	84.70	18.8	8.6	7.8	13	0.3
Imperial Oil Limited (30%)	IMO	B	38.28	9.8	6.7	6.9	12	0.7
Petro-Canada	PCZ	B	45.54	6.9	6.1	5.8	10	0.8
Lukoil Oil Company	LUKOY	B	90.70	18.9	6.3	5.2	8	1.4
PetroChina Company Ltd (10%)	PTR	B	112.83	14.8	6.0	4.9	9	3.8
Norsk Hydro ASA	NHY	B	28.85	7.8	5.2	4.9	10	2.5
Marathon Oil Corporation	MRO	B	88.75	8.6	5.1	4.7	8	1.5
	<i>Median</i>			9.8	6.2	5.5	10	1.4
Independent Natural Gas and Oil - Large Cap and Mid Cap								
XTO Energy Inc.	XTO	B	47.35	11.6	7.0	6.5	11	0.4
EOG Resources	EOG	B	69.90	9.7	7.6	5.9	12	0.3
Encana Corporation	ECA	B	54.35	8.7	5.9	5.4	11	0.7
Anadarko Petroleum Corp.	APC	B	46.78	11.2	6.5	5.2	6	1.5
Occidental Petroleum Corp.	OXY	B	107.29	10.6	6.1	4.9	9	1.6
Devon Energy Corporation	DVN	B	64.15	8.7	5.9	4.0	7	0.7
CNOOC Limited (29%)	CEO	B	86.18	10.0	4.3	3.8	6	3.0
	<i>Median</i>			10.0	6.1	5.2	9	0.7
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	34.63	10.5	6.4	5.8	19	0.9
Encore Acquisition Company	EAC	B	29.30	14.9	6.9	4.3	9	-
Cimarex Energy Company	XEC	B	39.86	7.8	5.8	3.6	8	0.4
Energy Partners Ltd.	EPL	B	18.16	6.2	4.6	3.6	11	-
	<i>Median</i>			9.2	6.1	4.0	10	0.2
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	46.07		7.9	15.1	25	7.0
Kinder Morgan Management, LLC	KMR	S3	43.17		7.9	14.4	23	7.5
San Juan Basin Royalty Trust	SJT	B	39.76	13.7	11.1	11.0	12	8.1
Canadian Oil Sands Trust	COSWF	B	33.63	26.5	10.8	10.4	13	5.5
Enerplus Resources Fund	ERF		59.21	9.4	6.7	8.3	15	7.6
Penn West Energy Trust	PWE	B	41.63	7.9	6.6	7.0	9	8.7
Pengrowth Energy Trust	PGH		23.04	7.5	6.1	6.9	11	11.6
	<i>Median</i>			9.4	7.9	10.4	13	7.6

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	Price (US\$/sh) 7-Aug 2006	Portfolio Weight		Non- U.S. Home (%)	North Amer. Natural Gas (%)	Rest of World Natural Gas (%)	Oil Prod'n (%)	Down- stream (%)	McDep Ratio	
		Equity (%)	EV (%)							
Mega Cap										
BP plc	BP	70.45	2.8	2.9	2.9	0.2	0.3	1.4	1.0	0.90
Exxon Mobil Corporation	XOM	69.23	3.2	2.9		0.2	0.7	1.1	0.9	0.89
Royal Dutch Shell plc	RDS-A	71.13	3.0	2.9	2.9	0.1	0.5	1.1	1.1	0.86
Total S.A.	TOT	66.86	2.8	2.9	2.9		0.9	1.2	0.8	0.86
Gazprom	OGZPY	44.30	9.4	8.7	8.7			8.7		0.80
Chevron Corporation	CVX	66.83	5.9	5.8		0.4	0.6	3.3	1.6	0.78
ConocoPhillips	COP	67.61	4.8	5.8		0.9	0.5	2.9	1.5	0.75
Producer/Refiners - Large Cap and Mid Cap										
Imperial Oil Limited	IMO	38.28	1.6	1.4	1.4	0.1		1.0	0.3	1.03
Petro-Canada	PCZ	45.54	1.4	1.4	1.4	0.2	0.0	0.9	0.2	0.94
Norsk Hydro ASA	NHY	28.85	1.4	1.4	1.4		0.4	0.6	0.5	0.94
Marathon Oil Corporation	MRO	88.75	1.4	1.4		0.2	0.1	0.6	0.6	0.92
Suncor Energy	SU	84.70	1.6	1.4	1.4	0.0		1.3	0.1	0.90
Lukoil Oil Company	LUKOY	90.70	6.7	5.8	5.8			4.3	1.5	0.83
PetroChina Company Ltd.	PTR	112.83	3.2	2.9	2.9		0.2	2.4	0.2	0.82
Independent Natural Gas and Oil - Large Cap and Mid Cap										
XTO Energy Inc.	XTO	47.35	2.7	2.9		2.2		0.7		0.93
Encana Corporation	ECA	54.35	2.9	2.9	2.9	2.2		0.7		0.92
CNOOC Limited	CEO	86.18	3.4	2.9	2.9		0.3	2.6		0.88
Occidental Petroleum Corp	OXY	107.29	3.0	2.9		0.4	0.0	2.2	0.3	0.80
Anadarko Petroleum Corp.	APC	46.78	1.4	2.9		1.7		1.2		0.79
EOG Resources	EOG	69.90	6.1	5.8		4.5	0.4	0.9		0.78
Devon Energy Corporatio	DVN	64.15	5.3	5.8		3.4		2.4		0.68
Independent Natural Gas and Oil - Small Cap										
Berry Petroleum Company	BRY	34.63	1.4	1.4		0.2		1.2		0.91
Energy Partners Ltd.	EPL	18.16	0.7	1.4		0.8		0.6		0.77
Encore Acquisition Compæ	EAC	29.30	2.4	2.9		0.7		2.2		0.63
Cimarex Energy Company	XEC	39.86	2.9	2.9		2.0		0.9		0.62
Income										
Penn West Energy Trust	PWE	41.63	6.0	5.8	5.8	1.8		4.0		1.06
San Juan Basin Royalty Tr	SJT	39.76	6.7	5.8		5.8				0.99
Canadian Oil Sands Trust	COSWF	33.63	6.1	5.8	5.8			5.8		0.96
Portfolio Composite			100	100	49	28	14	48	11	0.83

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Index of Recent Research**Stock Ideas**

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
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
26-May	* EPL	Energy Partners, Ltd.	Offers to Buy Stone Energy
10-May	* PWTF	Penn West Energy Trust	Sleeping Seal
10-May	* BRY	Berry Petroleum	Debt for the Future
26-Apr	* CEO	CNOOC Ltd	Burst of Cash Flow
21-Mar	* PTR	PetroChina Company Limited	Growing Pains

Meter Reader - A Weekly Analysis

8-Aug		Tough Business
1-Aug	*	Oil/Gas Portfolio Composition
25-Jul	*	Natural Gas Rebalance
18-Jul	*	Mideast Hostilities

Natural Gas and Oil Royalty Trusts - A Weekly Analysis

4-Aug		The Developed Advantage
28-Jul	*	Record Heat
21-Jul	*	Inflation Protected Securities
14-Jul	*	Deluded in Dallas

Industry Ideas

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