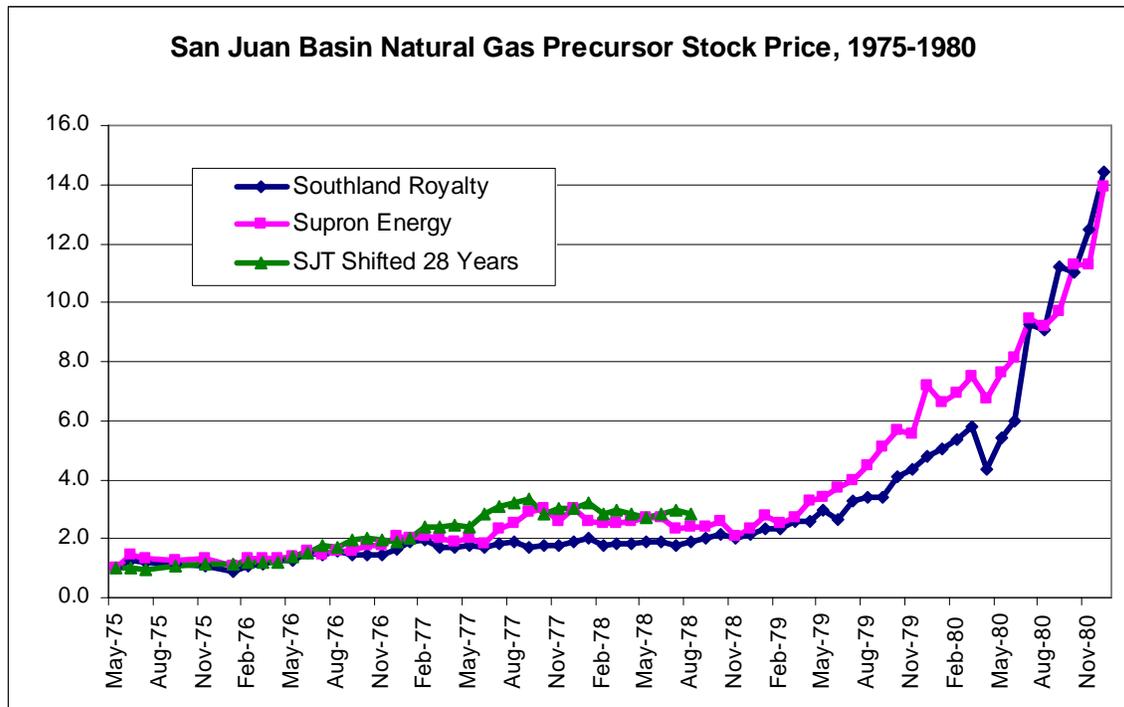


## A 1978 Pause

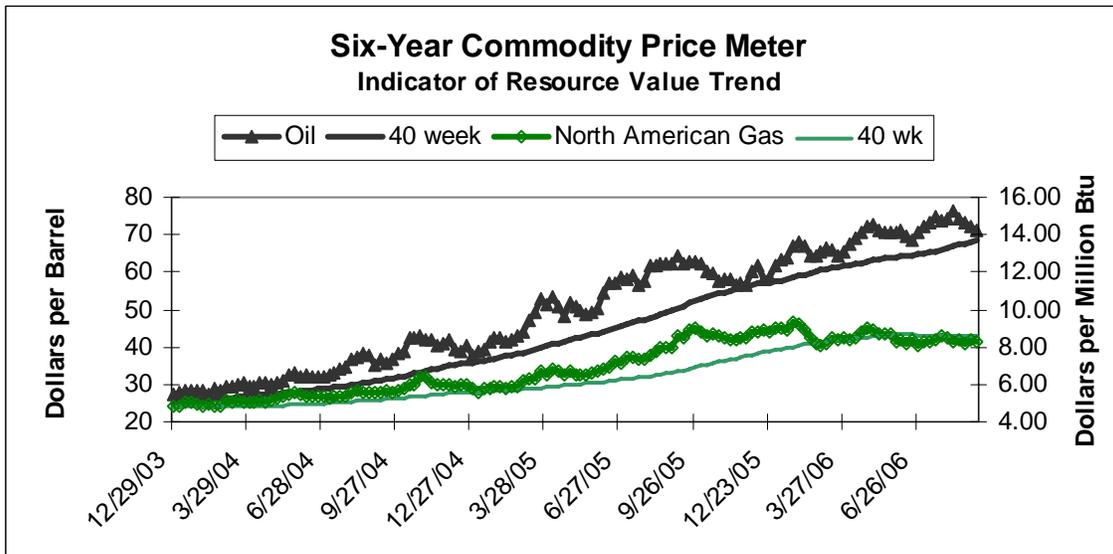
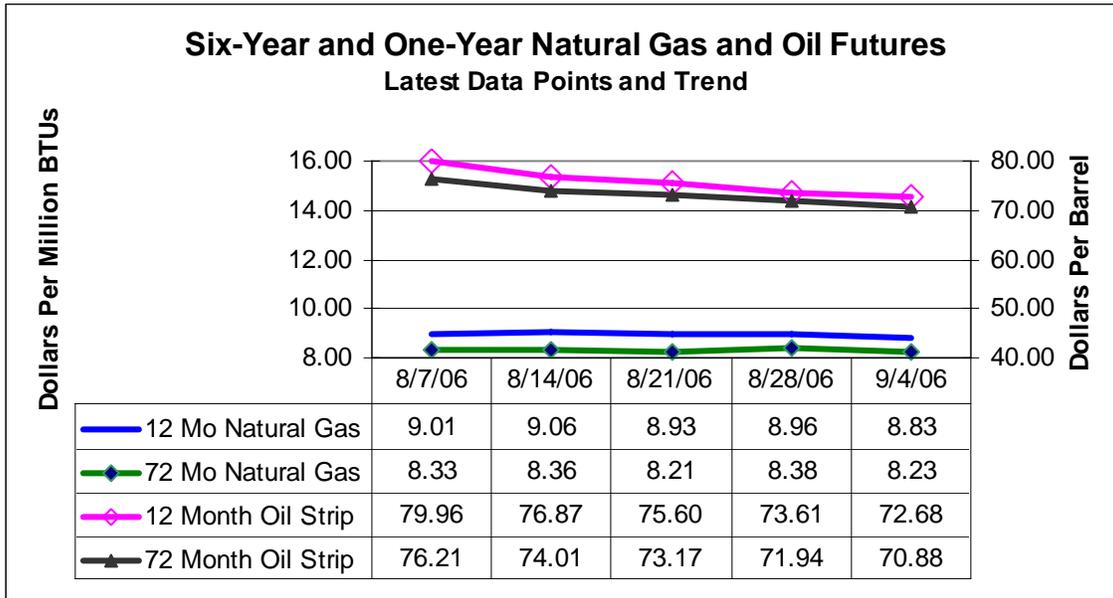
### Summary and Recommendation

Natural gas stocks have paused in the past year as was the case in 1978 in the midst of a multi-year advance (see chart). It seems unlikely that the four-fold further gain in 1979-1980 would be repeated in 2007-2008, but it is more plausible for 2007-2010. Twenty-eight years ago, it was also the middle of the U.S. president's term when confidence in our leadership is typically low. Then as now, Iran was a disturbing influence. Then we were most concerned about U.S. government controls on oil and gas prices and end use. Now we have the sense that price and profit limits in Russia and China and excise taxes in Europe all point to future investment opportunity as government interference in market mechanisms has only a temporarily slowing influence on profits. Meanwhile oil has outperformed natural gas in the past year staying above the 40-week average. The lowest McDep Ratio stocks among individual buy recommendations by concentration are **Encore Acquisition (EAC)** in oil, **Cimarex (XEC)** in North American natural gas and **Gazprom (OGZPY)** in Rest of World natural gas.

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) 1-Sep 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	68.10	6,030	411,000	78.00	0.04	0.88
BP plc	BP	B	68.00	3,362	229,000	80.00	0.15	0.87
Total S.A.	TOT	B	67.85	2,323	158,000	80.00	0.13	0.87
Royal Dutch Shell plc	RDS-A	B	69.20	3,242	224,000	84.00	0.10	0.84
Gazprom (50%)	OGZPY	B	46.25	2,845	131,600	56.00	0.06	0.84
Chevron Corporation	CVX	B	64.83	2,206	143,000	88.00	0.10	0.76
ConocoPhillips	COP	B	64.24	1,678	108,000	100.00	0.22	0.72
<i>Total or Median</i>					<i>1,405,000</i>		<i>0.10</i>	<i>0.84</i>
<b>Producer/Refiners - Large Cap and Mid Cap</b>								
Kinder Morgan, Inc.	KMI	S2	104.40	135	14,090	33.00	0.75	1.54
Imperial Oil Limited (30%)	IMO	B	38.09	295	11,240	37.00	0.07	1.03
Petro-Canada	PCZ	B	43.60	512	22,320	49.00	0.18	0.91
Marathon Oil Corporation	MRO	B	84.77	367	31,110	98.00	0.15	0.89
Norsk Hydro ASA	NHY	B	26.59	1,247	33,160	31.00	0.14	0.88
Suncor Energy	SU	B	78.35	461	36,130	95.00	0.07	0.84
PetroChina Company Ltd (10%)	PTR	B	111.83	179	20,020	140.00	0.04	0.81
Lukoil Oil Company	LUKOY	B	84.50	830	70,000	110.00	0.01	0.77
<i>Total or Median</i>					<i>238,000</i>		<i>0.11</i>	<i>0.88</i>
<b>Independent Natural Gas and Oil - Large Cap and Mid Cap</b>								
XTO Energy Inc.	XTO	B	46.23	369	17,060	52.00	0.18	0.91
Encana Corporation	ECA	B	53.33	845	45,100	60.00	0.13	0.90
CNOOC Limited (29%)	CEO	B	87.62	119	10,450	98.00	-	0.89
Anadarko Petroleum Corp.	APC	B	47.52	463	22,000	77.00	0.46	0.79
Occidental Petroleum Corp.	OXY	B	51.48	868	44,700	69.00	0.08	0.77
EOG Resources	EOG	B	65.94	246	16,200	92.00	0.07	0.74
Devon Energy Corporation	DVN	B	64.15	446	28,600	102.00	0.15	0.68
<i>Total or Median</i>					<i>184,000</i>		<i>0.13</i>	<i>0.79</i>
<b>Independent Natural Gas and Oil - Small Cap</b>								
Energy Partners Ltd.	EPL	B	25.01	75	1,880	31.00	0.44	0.89
Berry Petroleum Company	BRY	B	31.89	45	1,430	39.00	0.17	0.85
Cimarex Energy Company	XEC	B	38.78	85	3,300	68.00	0.09	0.61
Encore Acquisition Company	EAC	B	27.65	54	1,480	54.00	0.19	0.60
<i>Total or Median</i>					<i>8,100</i>		<i>0.18</i>	<i>0.73</i>
<b>Income</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S3	44.77	165	7,380	15.00	0.56	1.88
Kinder Morgan Management, LLC	KMR	S3	42.26	60	2,510	15.00	0.56	1.80
Enerplus Resources Fund	ERF		58.19	123	7,160	47.00	0.10	1.21
Pengrowth Energy Trust	PGH		23.07	161	3,710	20.00	0.15	1.13
Penn West Energy Trust	PWE	B	41.46	259	10,720	39.00	0.12	1.05
San Juan Basin Royalty Trust	SJT	B	37.82	47	1,760	40.00	-	0.94
Canadian Oil Sands Trust	COSWF	B	31.20	466	14,530	35.00	0.10	0.90
<i>Total or Median</i>					<i>47,800</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) 1-Sep 2006	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
<b>Mega Cap</b>								
Gazprom (50%)	OGZPY	B	46.25	20.0	9.0	7.5	13	0.5
BP plc	BP	B	68.00	9.3	6.3	5.5	9	3.5
Exxon Mobil Corporation	XOM	B	68.10	11.4	6.3	5.5	10	1.9
Total S.A.	TOT	B	67.85	9.8	5.8	5.1	8	3.0
Royal Dutch Shell plc	RDS-A	B	69.20	7.4	5.4	4.5	8	3.7
Chevron Corporation	CVX	B	64.83	10.9	5.7	4.4	8	3.2
ConocoPhillips	COP	B	64.24	11.0	5.3	3.8	6	2.2
	<i>Median</i>			10.9	5.8	5.1	8	3.0
<b>Producer/Refiners - Large Cap and Mid Cap</b>								
Kinder Morgan, Inc.	KMI	S2	104.40		8.8	13.5	22	3.4
Suncor Energy	SU	B	78.35	18.8	8.8	7.4	13	0.3
Imperial Oil Limited (30%)	IMO	B	38.09	9.8	6.9	7.0	12	0.7
Petro-Canada	PCZ	B	43.60	6.9	6.3	5.7	10	0.8
Lukoil Oil Company	LUKOY	B	84.50	18.9	6.4	4.9	8	1.5
PetroChina Company Ltd (10%)	PTR	B	111.83	14.7	6.0	4.8	9	4.3
Norsk Hydro ASA	NHY	B	26.59	7.8	5.3	4.7	9	2.6
Marathon Oil Corporation	MRO	B	84.77	8.6	5.1	4.5	7	1.6
	<i>Median</i>			9.8	6.3	5.3	10	1.5
<b>Independent Natural Gas and Oil - Large Cap and Mid Cap</b>								
XTO Energy Inc.	XTO	B	46.23	11.6	7.2	6.5	11	0.4
EOG Resources	EOG	B	65.94	9.7	7.7	5.7	12	0.4
Encana Corporation	ECA	B	53.33	8.7	6.1	5.5	12	0.8
Anadarko Petroleum Corp.	APC	B	47.52	11.2	6.7	5.4	7	1.5
Occidental Petroleum Corp.	OXY	B	51.48	10.6	6.6	5.1	6	1.7
CNOOC Limited (29%)	CEO	B	87.62	10.7	4.7	4.2	7	3.2
Devon Energy Corporation	DVN	B	64.15	8.7	6.0	4.1	7	0.7
	<i>Median</i>			10.6	6.6	5.4	7	0.8
<b>Independent Natural Gas and Oil - Small Cap</b>								
Berry Petroleum Company	BRY	B	31.89	9.9	6.1	5.2	14	1.0
Encore Acquisition Company	EAC	B	27.65	14.9	7.1	4.3	9	-
Energy Partners Ltd.	EPL	B	25.01	6.2	4.7	4.2	16	-
Cimarex Energy Company	XEC	B	38.78	7.8	6.0	3.7	8	0.4
	<i>Median</i>			8.9	6.1	4.2	11	0.2
<b>Income</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S3	44.77		7.9	14.8	24	7.2
Kinder Morgan Management, LLC	KMR	S3	42.26		7.9	14.2	23	7.7
San Juan Basin Royalty Trust	SJT	B	37.82	13.7	11.2	10.6	12	8.4
Canadian Oil Sands Trust	COSWF	B	31.20	26.5	11.6	10.5	13	6.0
Enerplus Resources Fund	ERF		58.19	9.4	7.1	8.6	16	7.7
Penn West Energy Trust	PWE	B	41.46	8.0	7.4	7.8	12	8.7
Pengrowth Energy Trust	PGH		23.07	7.5	6.5	7.3	12	11.5
	<i>Median</i>			9.4	7.9	10.5	13	7.7

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)	Portfolio Weight		Non- U.S. Home (%)	North Amer. Natural Gas (%)	Rest of World Natural Gas (%)	Oil Prod'n (%)	Down- stream (%)	McDep Ratio	
		1-Sep 2006	Equity (%)							EV (%)
<b>Mega Cap</b>										
Exxon Mobil Corporation	XOM	68.10	3.2	2.9		0.2	0.7	1.1	0.9	0.88
BP plc	BP	68.00	2.8	2.9	2.9	0.2	0.3	1.4	1.0	0.87
Total S.A.	TOT	67.85	2.9	2.9	2.9		0.9	1.2	0.8	0.87
Royal Dutch Shell plc	RDS-A	69.20	3.0	2.9	2.9	0.1	0.5	1.1	1.1	0.84
Gazprom	OGZPY	46.25	9.4	8.7	8.7		8.7			0.84
Chevron Corporation	CVX	64.83	5.9	5.8		0.4	0.6	3.3	1.6	0.76
ConocoPhillips	COP	64.24	4.7	5.8		0.9	0.5	2.9	1.5	0.72
<b>Producer/Refiners - Large Cap and Mid Cap</b>										
Imperial Oil Limited	IMO	38.09	1.6	1.4	1.4	0.1		1.0	0.3	1.03
Petro-Canada	PCZ	43.60	1.4	1.4	1.4	0.2	0.0	0.9	0.2	0.91
Marathon Oil Corporation	MRO	84.77	1.4	1.4		0.2	0.1	0.6	0.6	0.89
Norsk Hydro ASA	NHY	26.59	1.4	1.4	1.4		0.4	0.6	0.5	0.88
Suncor Energy	SU	78.35	1.5	1.4	1.4	0.0		1.3	0.1	0.84
PetroChina Company Ltd.	PTR	111.83	3.2	2.9	2.9		0.2	2.4	0.2	0.81
Lukoil Oil Company	LUKOY	84.50	6.7	5.8	5.8			4.3	1.5	0.77
<b>Independent Natural Gas and Oil - Large Cap and Mid Cap</b>										
XTO Energy Inc.	XTO	46.23	2.7	2.9		2.2		0.7		0.91
Encana Corporation	ECA	53.33	2.9	2.9	2.9	2.2		0.7		0.90
CNOOC Limited	CEO	87.62	3.4	2.9	2.9		0.3	2.6		0.89
Anadarko Petroleum Corp.	APC	47.52	1.4	2.9		1.7		1.2		0.79
Occidental Petroleum Corp	OXY	51.48	2.8	2.9		0.6	0.1	1.9	0.4	0.78
EOG Resources	EOG	65.94	6.1	5.8		4.5	0.4	0.9		0.74
Devon Energy Corporatior	DVN	64.15	5.3	5.8		3.4		2.4		0.68
<b>Independent Natural Gas and Oil - Small Cap</b>										
Energy Partners Ltd.	EPL	25.01	0.9	1.4		0.8		0.6		0.89
Berry Petroleum Company	BRY	31.89	1.4	1.4		0.2		1.2		0.85
Cimarex Energy Company	XEC	38.78	2.9	2.9		2.0		0.9		0.61
Encore Acquisition Compa	EAC	27.65	2.3	2.9		0.7		2.2		0.60
<b>Income</b>										
Penn West Energy Trust	PWE	41.46	6.0	5.8	5.8	1.7		4.1		1.05
San Juan Basin Royalty Tr	SJT	37.82	6.8	5.8		5.8				0.94
Canadian Oil Sands Trust	COSWF	31.20	6.1	5.8	5.8			5.8		0.90
<b>Portfolio Composite</b>			<b>100</b>	<b>100</b>	<b>49</b>	<b>28</b>	<b>14</b>	<b>47</b>	<b>11</b>	<b>0.81</b>

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

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
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**

5-Sep		A 1978 Pause
15-Aug	*	Unchanged Thesis
8-Aug	*	Tough Business
1-Aug	*	Oil/Gas Portfolio Composition

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

18-Aug	*	Widely-Held PBT
11-Aug	*	Oily Gassy
4-Aug	*	The Developed Advantage
28-Jul	*	Record Heat

**Industry Ideas**

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