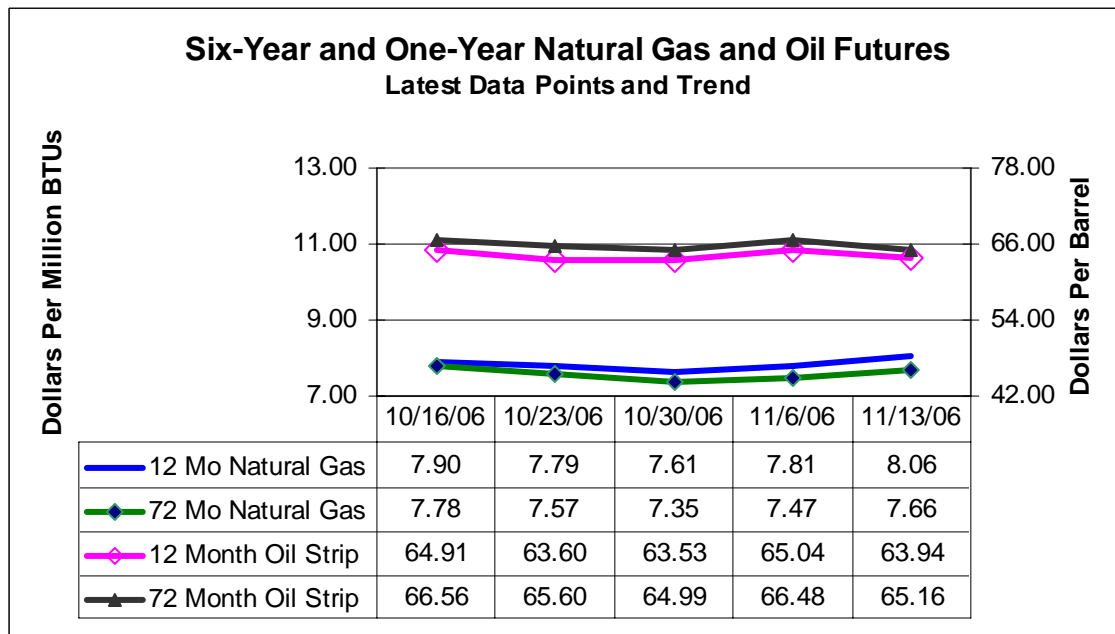


## Downstream Cash

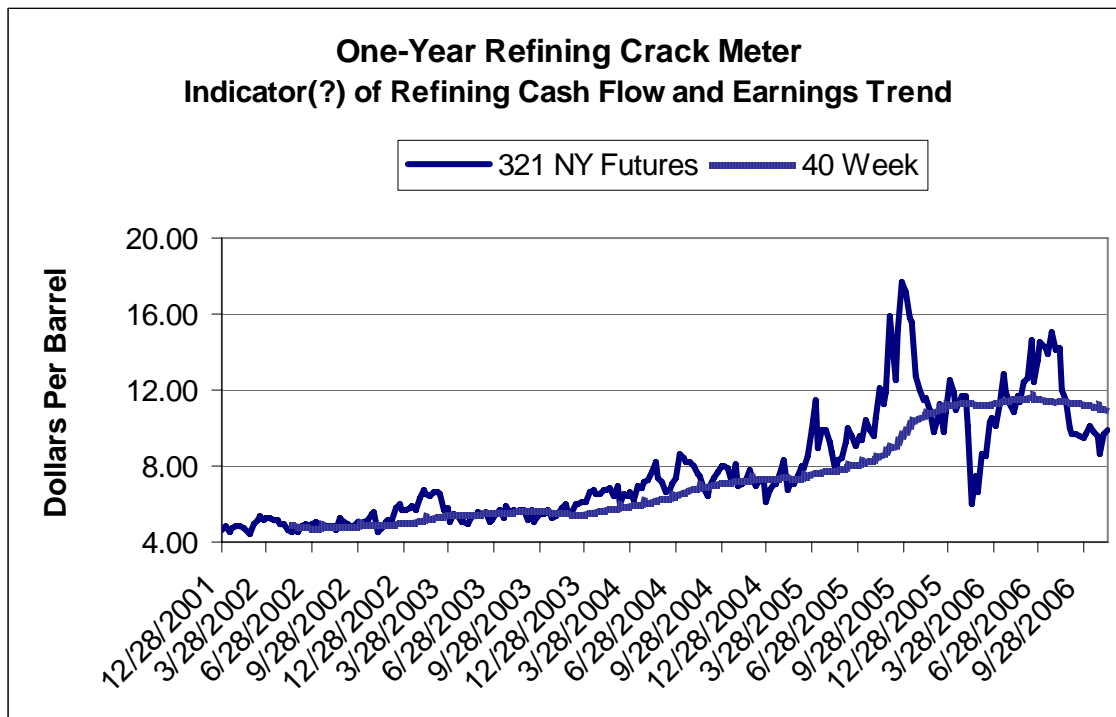
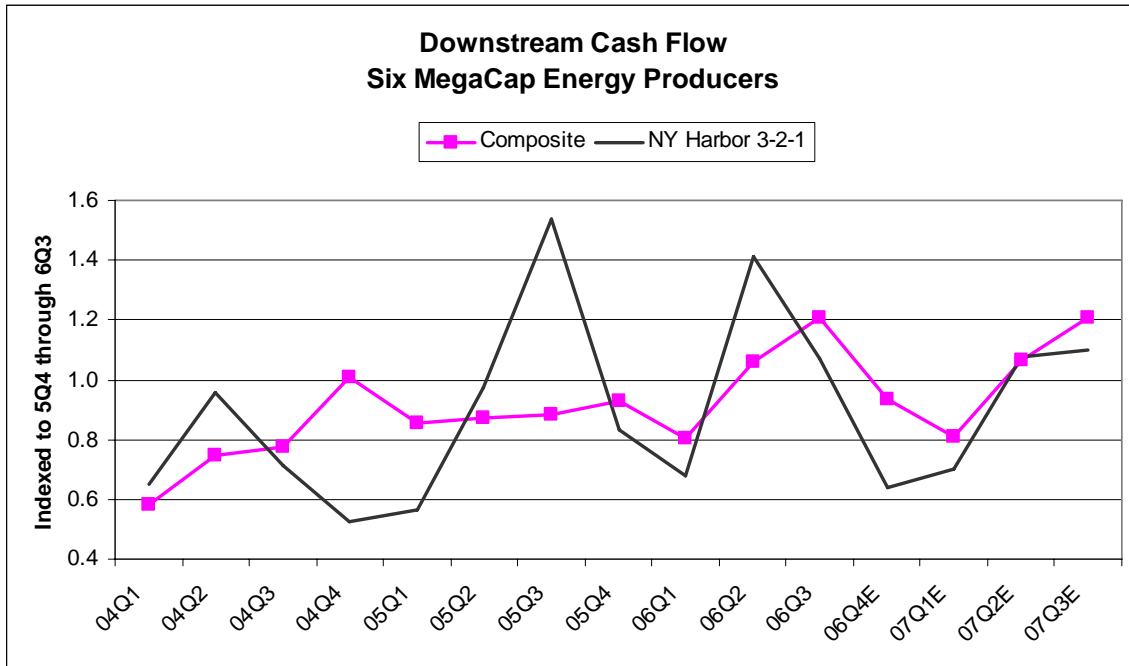
### Summary and Recommendation

Buy-recommended mega cap energy stocks with a median 29% of value in downstream have low McDep Ratios and five of six have positive stock price momentum. After record results for the spring and summer quarters of 2006, downstream cash flow may subside in the fall and winter quarters before mounting another assault at records in the next driving season (see chart, page 2, Downstream Cash Flow). Projections are volatile as illustrated by futures prices for the year ahead (see chart, page 2, Refining Crack Meter). Despite near-term unpredictability the refined products business has attractive prospects in an environment of global growth and rising demand for cleaner energy as we see it. We have double weightings in our illustrative energy portfolio for **ConocoPhillips (COP)** and **Chevron (CVX)** and full weightings for **Royal Dutch Shell (RDS)**, **Total (TOT)** and **ExxonMobil (XOM)** (see table, page 5, Portfolio Composite). We are optimistic that half-weighted **BP (BP)** will soon see its stock price above the 200 day average symbolizing the positive price momentum its five peers now demonstrate.

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) 13-Nov 2006	Shares (mm)	Market Cap (US\$mm)	Net Present Value (US\$/sh)	Debt/ Present Value	McDep Ratio
<b>Mega Cap</b>								
Exxon Mobil Corporation	XOM	B	74.43	5,922	441,000	78.00	0.04	0.96
Total S.A.	TOT	B	71.15	2,302	164,000	80.00	0.13	0.90
BP plc	BP	B	67.21	3,303	222,000	80.00	0.16	0.87
Royal Dutch Shell plc	RDS-A	B	70.88	3,200	227,000	84.00	0.13	0.86
Gazprom (50%)	OGZPY	B	43.80	2,847	124,700	56.00	0.05	0.79
Chevron Corporation	CVX	B	70.35	2,206	155,000	92.00	0.10	0.79
ConocoPhillips	COP	B	63.08	1,676	106,000	100.00	0.21	0.71
<i>Total or Median</i>					<i>1,440,000</i>		<i>0.13</i>	<i>0.86</i>
<b>Producer/Refiners - Large Cap</b>								
Kinder Morgan, Inc.	KMI	S2	105.35	135	14,220	33.00	0.75	1.54
Imperial Oil Limited (30%)	IMO	H	36.70	292	10,720	37.00	0.07	0.99
Petro-Canada	PCZ	B	44.05	506	22,290	49.00	0.18	0.92
Suncor Energy	SU	B	78.57	461	36,230	95.00	0.06	0.84
PetroChina Company Ltd (10%)	PTR	B	116.26	179	20,810	140.00	0.04	0.84
Marathon Oil Corporation	MRO	B	89.38	359	32,090	110.00	0.12	0.84
Norsk Hydro ASA	NHY	B	24.31	1,236	30,050	31.00	0.14	0.81
Lukoil Oil Company	LUKOY	B	85.50	830	71,000	110.00	0.02	0.78
<i>Total or Median</i>					<i>237,000</i>		<i>0.10</i>	<i>0.84</i>
<b>Independent Natural Gas and Oil - Large Cap</b>								
XTO Energy Inc.	XTO	B	45.80	371	16,990	52.00	0.18	0.90
CNOOC Limited (34%)	CEO	B	87.55	140	12,240	98.00	-	0.89
Encana Corporation	ECA	B	49.30	824	40,600	65.00	0.12	0.79
Anadarko Petroleum Corp.	APC	B	46.80	463	21,700	75.00	0.42	0.78
EOG Resources	EOG	B	66.96	246	16,500	92.00	0.04	0.74
Occidental Petroleum Corp.	OXY	B	48.16	860	41,400	69.00	0.09	0.72
Devon Energy Corporation	DVN	B	70.09	447	31,300	115.00	0.13	0.66
<i>Total or Median</i>					<i>181,000</i>		<i>0.12</i>	<i>0.78</i>
<b>Independent Natural Gas and Oil - Small Cap</b>								
Energy Partners Ltd.	EPL	B	24.27	41	990	31.00	0.25	0.84
Berry Petroleum Company	BRY	B	31.17	45	1,390	44.00	0.22	0.77
Encore Acquisition Company	EAC	B	25.58	54	1,380	54.00	0.19	0.57
Cimarex Energy Company	XEC	B	35.76	84	3,010	68.00	0.08	0.56
<i>Total or Median</i>					<i>6,800</i>		<i>0.20</i>	<i>0.67</i>
<b>Income</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S3	45.53	168	7,640	15.00	0.54	1.94
Kinder Morgan Management, LLC	KMR	S3	43.67	61	2,650	15.00	0.54	1.88
San Juan Basin Royalty Trust	SJT	B	38.05	47	1,770	40.00	-	0.95
Enerplus Resources Fund	ERF		40.80	123	5,020	47.00	0.11	0.88
Pengrowth Energy Trust	PGH		15.32	220	3,370	20.00	0.22	0.82
Penn West Energy Trust	PWE	B	29.00	246	7,130	39.00	0.13	0.78
Canadian Oil Sands Trust	COSWF	B	25.05	468	11,720	35.00	0.08	0.74
<i>Total or Median</i>					<i>39,300</i>		<i>0.13</i>	<i>0.88</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) 13-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	43.80	24.0	9.0	7.1	11	0.5	
Exxon Mobil Corporation	XOM	B	74.43	11.4	6.6	6.3	11	1.7	
Total S.A.	TOT	B	71.15	9.7	6.8	6.2	11	2.9	
BP plc	BP	B	67.21	9.5	6.6	5.7	9	3.5	
Royal Dutch Shell plc	RDS-A	B	70.88	7.4	5.8	5.0	9	3.6	
Chevron Corporation	CVX	B	70.35	10.9	6.3	5.0	9	3.0	
ConocoPhillips	COP	B	63.08	11.0	6.7	4.7	8	2.3	
	<i>Median</i>				10.9	6.6	5.7	9	2.9
<b>Producer/Refiners - Large Cap</b>									
Kinder Morgan, Inc.	KMI	S2	105.35		8.8	13.6	22	3.3	
Suncor Energy	SU	B	78.57	20.8	12.0	10.0	18	0.4	
Imperial Oil Limited (30%)	IMO	H	36.70	10.4	8.0	7.9	13	0.8	
Petro-Canada	PCZ	B	44.05	7.2	7.3	6.7	13	0.8	
Lukoil Oil Company	LUKOY	B	85.50	18.7	7.7	6.0	10	1.4	
PetroChina Company Ltd (10%)	PTR	B	116.26	15.1	6.4	5.3	10	4.2	
Marathon Oil Corporation	MRO	B	89.38	8.6	5.9	5.0	9	1.5	
Norsk Hydro ASA	NHY	B	24.31	8.2	5.3	4.3	9	2.8	
	<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	45.80	11.3	7.8	7.0	11	0.4	
EOG Resources	EOG	B	66.96	9.3	8.4	6.2	16	0.4	
Anadarko Petroleum Corp.	APC	B	46.80	11.5	7.9	6.2	9	1.5	
Encana Corporation	ECA	B	49.30	8.7	7.5	5.9	12	0.8	
CNOOC Limited (34%)	CEO	B	87.55	10.6	6.5	5.8	11	3.2	
Occidental Petroleum Corp.	OXY	B	48.16	11.0	7.5	5.4	10	-	
Devon Energy Corporation	DVN	B	70.09	8.2	7.1	4.7	9	0.6	
	<i>Median</i>				10.6	7.5	5.9	11	0.6
<b>Independent Natural Gas and Oil - Small Cap</b>									
Berry Petroleum Company	BRY	B	31.17	10.1	8.6	6.7	11	1.0	
Encore Acquisition Company	EAC	B	25.58	15.5	9.6	5.5	15	-	
Energy Partners Ltd.	EPL	B	24.27	5.0	5.1	4.2	-	-	
Cimarex Energy Company	XEC	B	35.76	7.8	6.8	3.8	10	0.4	
	<i>Median</i>				9.0	7.7	4.9	11	0.2
<b>Income</b>									
Kinder Morgan Energy Partners, L.P.	KMP	S3	45.53		7.8	15.1	31	7.1	
Kinder Morgan Management, LLC	KMR	S3	43.67		7.8	14.7	30	7.4	
San Juan Basin Royalty Trust	SJT	B	38.05	9.3	11.0	10.4	13	7.8	
Canadian Oil Sands Trust	COSWF	B	25.05	24.4	13.0	9.6	13	7.4	
Enerplus Resources Fund	ERF		40.80	9.5	7.6	6.7	15	10.9	
Penn West Energy Trust	PWE	B	29.00	8.0	8.5	6.6	11	12.5	
Pengrowth Energy Trust	PGH		15.32	7.6	7.6	6.2	8	17.3	
	<i>Median</i>				9.3	7.8	9.6	13	7.8

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) 13-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	74.43	3.2	2.9		0.2	0.5	1.3	0.9	0.96
Total S.A.	TOT	71.15	2.8	2.9	2.9		0.9	1.2	0.8	0.90
BP plc	BP	67.21	1.4	1.4	1.4	0.1	0.2	0.7	0.4	0.87
Royal Dutch Shell plc	RDS-A	70.88	2.8	2.9	2.9	0.1	0.5	1.1	1.1	0.86
Gazprom	OGZPY	43.80	9.4	8.6	8.6		8.6	1.1		0.79
Chevron Corporation	CVX	70.35	5.8	5.7		0.4	0.4	3.4	1.5	0.79
ConocoPhillips	COP	63.08	4.7	5.7		0.9	0.4	3.0	1.3	0.71
<b>Producer/Refiners - Large Cap</b>										
Petro-Canada	PCZ	44.05	1.3	1.4	1.4	0.2	0.0	0.9	0.2	0.92
Suncor Energy	SU	78.57	1.5	1.4	1.4	0.1		1.3	0.1	0.84
PetroChina Company Ltd.	PTR	116.26	3.2	2.9	2.9		0.2	2.4	0.2	0.84
Marathon Oil Corporation	MRO	89.38	1.4	1.4		0.1	0.1	0.6	0.6	0.84
Norsk Hydro ASA	NHY	24.31	2.7	2.9	2.9		0.7	1.1	1.1	0.81
Lukoil Oil Company	LUKOY	85.50	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	45.80	2.7	2.9		2.2		0.7		0.90
CNOOC Limited	CEO	87.55	3.3	2.9	2.9		0.3	2.6		0.89
Encana Corporation	ECA	49.30	5.6	5.7	5.7	4.1		1.2	0.4	0.79
Anadarko Petroleum Corp.	APC	46.80	1.5	2.9		1.6		1.2		0.78
EOG Resources	EOG	66.96	6.3	5.7		4.4	0.4	1.0		0.74
Occidental Petroleum Corp	OXY	48.16	2.9	2.9		0.4	0.0	2.1	0.3	0.72
Devon Energy Corporation	DVN	70.09	5.3	5.7		3.1		2.6		0.66
<b>Independent Natural Gas and Oil - Small Cap</b>										
Energy Partners Ltd.	EPL	24.27	1.2	1.4		0.8		0.7		0.84
Berry Petroleum Company	BRY	31.17	1.2	1.4		0.2		1.2		0.77
Encore Acquisition Comp	EAC	25.58	2.2	2.9		0.7		2.1		0.57
Cimarex Energy Company	XEC	35.76	2.8	2.9		2.0		0.9		0.56
<b>Income</b>										
San Juan Basin Royalty Tr	SJT	38.05	6.7	5.7		5.7				0.95
Penn West Energy Trust	PWE	29.00	5.5	5.7	5.7	1.7		4.0		0.78
Canadian Oil Sands Trust	COSWF	25.05	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>0.78</b>

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

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
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
15-Aug	* PWTFF	Penn West Energy Trust	Marketable High Current Income

**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**

10-Nov		Commodity Trumps Politics
3-Nov	*	Country Risk
27-Oct	*	Last Chance to Buy Cyclically
20-Oct	*	Momentum Returning

**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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