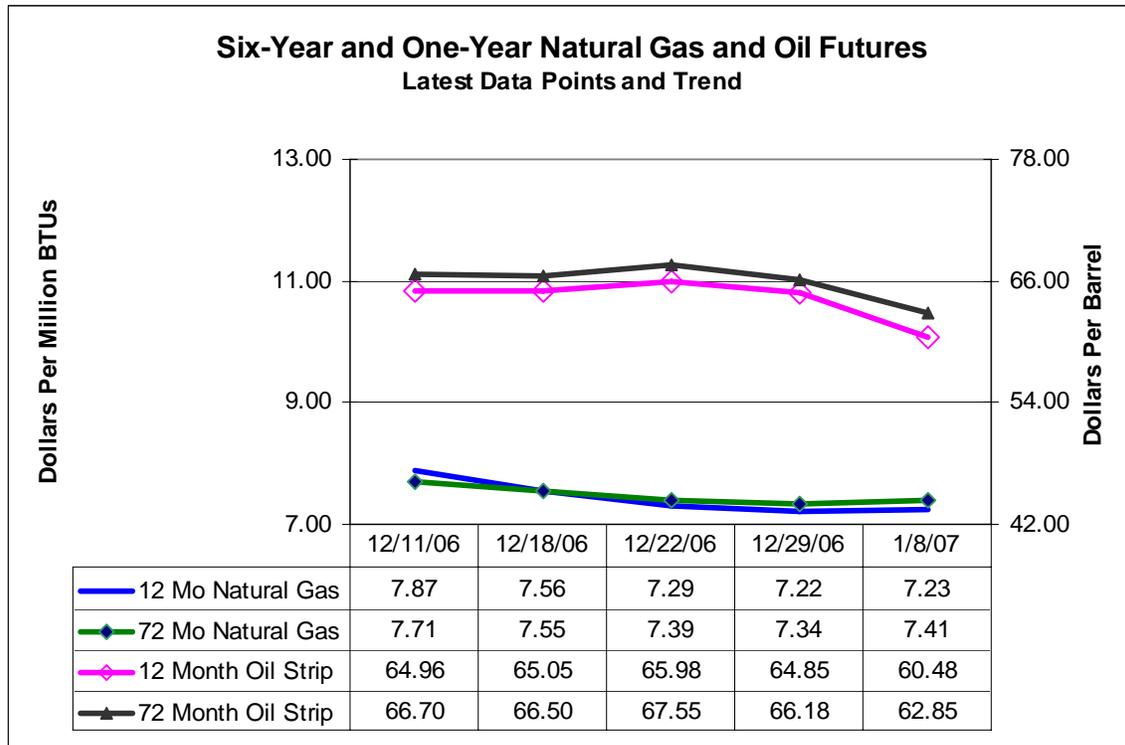


Oil Price above \$60

Summary and Recommendation

Since six-year oil price broke below its 40-week average last September, buy-recommended stocks **Chevron (CVX)** and **ConocoPhillips (COP)**, both with integrated downstream operations, have maintained positive momentum with stock price above the 200-day average. Independent producers with stock price below the 200-day average are out of favor with investors. Nonetheless buy recommendations among those stocks have sound appreciation potential because their stock prices reflect long-term oil price typically \$45 a barrel or less as we see it. We like the value in buy-recommended **Anadarko (APC)** and would manage the extra financial leverage by adjusting the size of equity commitment to match a full unlevered portfolio weighting. Meanwhile, the price of oil for delivery over the next six years at \$63 a barrel is a better indicator of long-term value than the widely quoted near month price that closed as low as \$55.59 on Thursday, January 4. Six-year natural gas closed higher on the week, showing little weakness on bad weather news, probably because the natural gas price is equivalent (6:1) to a low \$44 a barrel.

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) 8-Jan 2007	Shares (mm)	Market Cap (US\$mm)	Net Present Value (US\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap								
Exxon Mobil Corporation	XOM	B	72.65	5,922	430,000	78.00	0.04	0.93
Total S.A.	TOT	B	68.78	2,302	158,000	80.00	0.14	0.88
BP plc	BP	B	64.29	3,303	212,000	80.00	0.16	0.83
Royal Dutch Shell plc	RDS-A	B	66.80	3,200	214,000	84.00	0.13	0.82
Gazprom (50%)	OGZPY	B	45.30	2,850	129,100	56.00	0.06	0.82
Chevron Corporation	CVX	B	71.45	2,206	158,000	92.00	0.10	0.80
ConocoPhillips	COP	B	68.30	1,676	115,000	100.00	0.21	0.75
<i>Total or Median</i>					<i>1,416,000</i>		<i>0.13</i>	<i>0.82</i>
Producer/Refiners - Large Cap								
Kinder Morgan, Inc.	KMI	S2	105.85	135	14,290	33.00	0.75	1.54
Norsk Hydro ASA	NHY	B	28.82	1,236	35,620	31.00	0.15	0.94
Imperial Oil Limited (30%)	IMO	H	34.60	292	10,110	37.00	0.07	0.94
PetroChina Company Ltd (10%)	PTR	B	131.15	179	23,480	140.00	0.04	0.94
Petro-Canada	PCZ	B	38.31	506	19,380	49.00	0.17	0.82
Marathon Oil Corporation	MRO	B	86.74	359	31,140	110.00	0.12	0.81
Suncor Energy	SU	B	73.05	461	33,680	95.00	0.06	0.78
Lukoil Oil Company	LUKOY	B	82.40	830	68,000	110.00	0.02	0.75
<i>Total or Median</i>					<i>236,000</i>		<i>0.10</i>	<i>0.88</i>
Independent Natural Gas and Oil - Large Cap								
CNOOC Limited (34%)	CEO	B	88.47	140	12,370	98.00	-	0.90
XTO Energy Inc.	XTO	B	45.85	371	17,010	60.00	0.14	0.80
Anadarko Petroleum Corp.	APC	B	41.35	463	19,100	75.00	0.42	0.74
Encana Corporation	ECA	B	45.41	824	37,400	65.00	0.12	0.74
EOG Resources	EOG	B	62.25	246	15,300	92.00	0.04	0.69
Occidental Petroleum Corp.	OXY	B	45.33	860	39,000	69.00	0.09	0.69
Devon Energy Corporation	DVN	B	65.62	447	29,300	115.00	0.13	0.63
<i>Total or Median</i>					<i>169,000</i>		<i>0.12</i>	<i>0.74</i>
Independent Natural Gas and Oil - Small Cap								
Energy Partners Ltd.	EPL	B	23.39	41	950	31.00	0.25	0.82
Berry Petroleum Company	BRY	B	28.61	45	1,280	44.00	0.22	0.73
Cimarex Energy Company	XEC	B	36.55	84	3,080	68.00	0.08	0.58
Encore Acquisition Company	EAC	B	22.81	54	1,230	54.00	0.19	0.53
<i>Total or Median</i>					<i>6,500</i>		<i>0.20</i>	<i>0.65</i>
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	47.85	168	8,030	15.00	0.54	2.01
Kinder Morgan Management, LLC	KMR	S3	45.11	61	2,730	15.00	0.54	1.92
Enerplus Resources Fund	ERF		40.67	123	5,010	47.00	0.11	0.88
Pengrowth Energy Trust	PGH		16.38	241	3,950	20.00	0.26	0.87
Penn West Energy Trust	PWE	B	28.58	239	6,830	39.00	0.13	0.77
San Juan Basin Royalty Trust	SJT	B	30.40	47	1,420	40.00	-	0.76
Canadian Oil Sands Trust	COSWF	B	24.34	479	11,660	35.00	0.09	0.72
<i>Total or Median</i>					<i>39,600</i>		<i>0.13</i>	<i>0.87</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) 8-Jan 2007	Adjustd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)	
Mega Cap									
Gazprom (50%)	OGZPY	B	45.30	24.0	8.8	7.2	11	0.2	
Exxon Mobil Corporation	XOM	B	72.65	11.4	6.7	6.2	11	1.8	
Total S.A.	TOT	B	68.78	9.7	6.9	6.1	11	3.1	
BP plc	BP	B	64.29	9.5	6.7	5.6	9	3.7	
ConocoPhillips	COP	B	68.30	11.0	6.7	5.0	9	2.1	
Chevron Corporation	CVX	B	71.45	10.9	6.2	5.0	9	2.9	
Royal Dutch Shell plc	RDS-A	B	66.80	7.4	5.9	4.8	9	3.9	
	<i>Median</i>				10.9	6.7	5.6	9	2.9
Producer/Refiners - Large Cap									
Kinder Morgan, Inc.	KMI	S2	105.85		8.8	13.6	22	3.3	
Suncor Energy	SU	B	73.05	20.8	12.6	9.8	18	0.4	
Imperial Oil Limited (30%)	IMO	H	34.60	10.3	8.4	7.9	13	0.8	
Petro-Canada	PCZ	B	38.31	7.2	7.5	6.1	11	1.2	
PetroChina Company Ltd (10%)	PTR	B	131.15	15.1	6.5	6.1	12	3.7	
Lukoil Oil Company	LUKOY	B	82.40	18.7	8.0	6.1	10	1.5	
Marathon Oil Corporation	MRO	B	86.74	8.6	6.2	5.1	9	1.5	
Norsk Hydro ASA	NHY	B	28.82	8.1	5.2	4.9	11	2.4	
	<i>Median</i>				10.3	7.8	6.1	12	1.5
Independent Natural Gas and Oil - Large Cap									
XTO Energy Inc.	XTO	B	45.85	11.3	8.6	6.9	11	0.8	
EOG Resources	EOG	B	62.25	9.3	9.1	6.3	17	0.4	
Anadarko Petroleum Corp.	APC	B	41.35	11.5	8.4	6.2	9	1.7	
CNOOC Limited (34%)	CEO	B	88.47	10.6	6.7	6.1	11	3.2	
Encana Corporation	ECA	B	45.41	8.7	8.1	5.9	12	0.9	
Occidental Petroleum Corp.	OXY	B	45.33	11.0	7.4	5.1	10	1.9	
Devon Energy Corporation	DVN	B	65.62	8.2	7.6	4.8	10	0.7	
	<i>Median</i>				10.6	8.1	6.1	11	0.9
Independent Natural Gas and Oil - Small Cap									
Berry Petroleum Company	BRY	B	28.61	10.1	9.0	6.5	11	1.1	
Encore Acquisition Company	EAC	B	22.81	15.5	10.4	5.5	15	-	
Energy Partners Ltd.	EPL	B	23.39	5.0	5.5	4.5		-	
Cimarex Energy Company	XEC	B	36.55	7.8	7.5	4.3	12	0.4	
	<i>Median</i>				9.0	8.3	5.0	12	0.2
Income									
Kinder Morgan Energy Partners, L.P.	KMP	S3	47.85		7.8	15.6	33	6.8	
Kinder Morgan Management, LLC	KMR	S3	45.11		7.8	15.0	31	7.2	
Canadian Oil Sands Trust	COSWF	B	24.34	23.0	14.4	10.4	15	7.4	
San Juan Basin Royalty Trust	SJT	B	30.40	9.3	11.5	8.8	11	9.2	
Enerplus Resources Fund	ERF		40.67	9.5	8.5	7.5	18	10.6	
Penn West Energy Trust	PWE	B	28.58	8.1	9.3	7.2	14	12.2	
Pengrowth Energy Trust	PGH		16.38	7.1	7.6	6.6	12	15.7	
	<i>Median</i>				9.3	8.5	8.8	15	9.2

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 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) 8-Jan 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 (%)							
Mega Cap										
Exxon Mobil Corporation	XOM	72.65	3.2	2.9		0.2	0.5	1.3	0.9	0.93
Total S.A.	TOT	68.78	2.8	2.9	2.9		0.9	1.2	0.8	0.88
BP plc	BP	64.29	1.4	1.4	1.4	0.1	0.2	0.7	0.4	0.83
Royal Dutch Shell plc	RDS-A	66.80	2.8	2.9	2.9	0.1	0.5	1.1	1.1	0.82
Gazprom	OGZPY	45.30	9.3	8.6	8.6		6.8	1.8		0.82
Chevron Corporation	CVX	71.45	5.9	5.7		0.4	0.4	3.4	1.5	0.80
ConocoPhillips	COP	68.30	4.8	5.7		0.9	0.4	3.0	1.3	0.75
Producer/Refiners - Large Cap										
Norsk Hydro ASA	NHY	28.82	2.8	2.9	2.9		0.7	1.1	1.0	0.94
PetroChina Company Ltd.	PTR	131.15	3.2	2.9	2.9		0.2	2.4	0.2	0.94
Petro-Canada	PCZ	38.31	1.3	1.4	1.4	0.2	0.0	0.9	0.2	0.82
Marathon Oil Corporation	MRO	86.74	1.4	1.4		0.1	0.1	0.6	0.6	0.81
Suncor Energy	SU	73.05	1.6	1.4	1.4	0.1		1.3	0.1	0.78
Lukoil Oil Company	LUKOY	82.40	6.5	5.7	5.7			4.3	1.4	0.75
Independent Natural Gas and Oil - Large Cap										
CNOOC Limited	CEO	88.47	3.3	2.9	2.9		0.3	2.6		0.90
XTO Energy Inc.	XTO	45.85	2.8	2.9		2.0		0.8		0.80
Anadarko Petroleum Corp.	APC	41.35	1.5	2.9		1.6		1.2	0.1	0.74
Encana Corporation	ECA	45.41	5.6	5.7	5.7	4.1		1.2	0.4	0.74
EOG Resources	EOG	62.25	6.3	5.7		4.4	0.4	1.0		0.69
Occidental Petroleum Corp	OXY	45.33	2.9	2.9		0.4	0.0	2.1	0.3	0.69
Devon Energy Corporatior	DVN	65.62	5.3	5.7		3.1		2.6		0.63
Independent Natural Gas and Oil - Small Cap										
Energy Partners Ltd.	EPL	23.39	1.2	1.4		0.8		0.7		0.82
Berry Petroleum Company	BRY	28.61	1.2	1.4		0.2		1.2		0.73
Cimarex Energy Company	XEC	36.55	2.9	2.9		2.0		0.9		0.58
Encore Acquisition Compæ	EAC	22.81	2.2	2.9		0.7		2.1		0.53
Income										
Penn West Energy Trust	PWE	28.58	5.6	5.7	5.7	1.8		4.0		0.77
San Juan Basin Royalty Tr	SJT	30.40	6.7	5.7		5.7				0.76
Canadian Oil Sands Trust	COSWF	24.34	5.9	5.7	5.7			5.7		0.72
Portfolio Composite			100	100	50	29	12	49	11	0.75

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Index of Recent Research**Stock Ideas**

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
5-Jan	HGT	Hugoton Royalty Trust	New Buy for Natural Gas Income
28-Dec	XTO	XTO Energy Inc.	Raise NPV to \$60 a Share
22-Dec	OGZPY	Gazprom	World's Greatest Energy Company
19-Dec	* NHY	Norsk Hydro ASA	Happy Holidеals!
11-Dec	* COSWF	Canadian Oil Sands Trust	Tax Bomb Opportunity
28-Nov	* PTR	PetroChina Company Limited	U.S./China Dollar Devaluation Accelerates
28-Nov	* CEO	CNOOC Ltd	U.S./China Dollar Devaluation Accelerates
20-Nov	* EPL	Energy Partners, Ltd.	Hostile Bidder Withdraws
17-Nov	* SJT	San Juan Basin Royalty Trust	Dip/Rebound and New Shale Potential
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 Avera
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
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	* BP	BP p.l.c.	Solid Cash Flow
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

Meter Reader - A Weekly Analysis

9-Jan		Oil above \$60
2-Jan	*	Expected Return in 2007
26-Dec	*	Respectable Return in 2006
19-Dec	*	Happy Holidеals!

Natural Gas and Oil Royalty Trusts - A Weekly Analysis

5-Jan		The Winter That Wasn't
29-Dec		Crazy Trading
22-Dec	*	Canadians Fighting Back
15-Dec	*	Distribution Anomalies

* Archived on www.mcdep.com

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