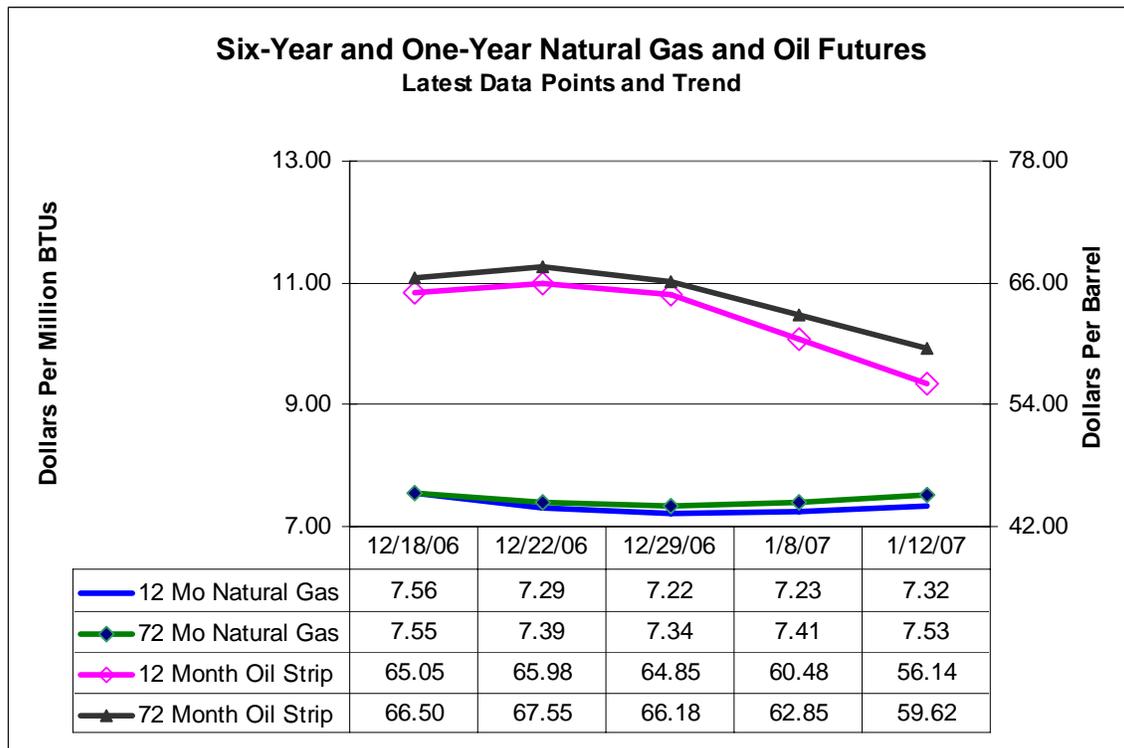


Minimal Spare Oil Capacity

Summary and Recommendation

The lack of spare oil producing capacity supports the long-term oil price of \$60 a barrel we use in estimating present value of resources owned by natural gas and oil producers. Low McDep Ratio, buy-recommended stocks include **Royal Dutch Shell (RDS)**, **Petro-Canada (PCZ)**, **Suncor (SU)**, **Occidental Petroleum (OXY)** and **Encore Acquisition (EAC)**. The U.S. Energy Information Administration forecasts that a million barrels a day (mmbd) of spare global oil capacity will open up in 2007. A similar forecast a year ago was not met. Competent analysts don't have the capability to anticipate confidently such a small difference between large numbers considering that global oil demand was about 85 mmbd for 2006 and demand for all fuels was about 220 mmbd. The amount of capacity idled recently by warm weather could be reversed as quickly as it appeared. At the same time, ominous signs of a new naval and military buildup in the Persian Gulf may be putting that region's more than 20 mmbd of capacity at higher risk. Separately, we add recently recommended **Hugoton Royalty Trust (HGT)** to the illustrative McDep energy portfolio at a half unlevered weight (see table, Portfolio Composite of Buy Recommendations).

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) 12-Jan 2007	Shares (mm)	Market Cap (US\$m)	Net Present Value (US\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap								
Exxon Mobil Corporation	XOM	B	72.66	5,922	430,000	78.00	0.04	0.93
Total S.A.	TOT	B	67.90	2,302	156,000	80.00	0.14	0.87
BP plc	BP	B	64.64	3,303	214,000	80.00	0.16	0.84
Royal Dutch Shell plc	RDS-A	B	67.81	3,200	217,000	84.00	0.13	0.83
Chevron Corporation	CVX	B	70.35	2,206	155,000	92.00	0.10	0.79
Gazprom (50%)	OGZPY	B	43.20	2,850	123,100	56.00	0.06	0.79
ConocoPhillips	COP	B	63.83	1,676	107,000	100.00	0.21	0.71
<i>Total or Median</i>					<i>1,402,000</i>		<i>0.13</i>	<i>0.83</i>
Producer/Refiners - Large Cap								
Kinder Morgan, Inc.	KMI	S2	105.97	135	14,310	33.00	0.75	1.55
Norsk Hydro ASA	NHY	B	28.77	1,236	35,560	31.00	0.15	0.94
PetroChina Company Ltd (10%)	PTR	B	127.40	179	22,800	140.00	0.04	0.91
Imperial Oil Limited (30%)	IMO	H	32.88	292	9,610	37.00	0.07	0.90
Marathon Oil Corporation	MRO	B	86.77	359	31,150	110.00	0.12	0.82
Petro-Canada	PCZ	B	37.23	506	18,840	49.00	0.17	0.80
Suncor Energy	SU	B	73.12	461	33,720	95.00	0.06	0.78
Lukoil Oil Company	LUKOY	B	79.90	835	67,000	110.00	0.02	0.73
<i>Total or Median</i>					<i>233,000</i>		<i>0.10</i>	<i>0.86</i>
Independent Natural Gas and Oil - Large Cap								
CNOOC Limited (34%)	CEO	B	87.24	140	12,200	98.00	-	0.89
XTO Energy Inc.	XTO	B	45.38	371	16,840	60.00	0.14	0.79
Encana Corporation	ECA	B	46.15	824	38,000	65.00	0.12	0.75
Anadarko Petroleum Corp.	APC	B	41.83	463	19,400	75.00	0.42	0.74
EOG Resources	EOG	B	62.28	246	15,300	92.00	0.04	0.69
Occidental Petroleum Corp.	OXY	B	44.40	860	38,200	69.00	0.09	0.67
Devon Energy Corporation	DVN	B	65.63	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	21.69	41	880	31.00	0.25	0.77
Berry Petroleum Company	BRY	B	28.78	45	1,290	44.00	0.22	0.73
Cimarex Energy Company	XEC	B	35.76	84	3,010	68.00	0.08	0.56
Encore Acquisition Company	EAC	B	22.90	54	1,230	54.00	0.19	0.53
<i>Total or Median</i>					<i>6,400</i>		<i>0.20</i>	<i>0.65</i>
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	48.30	168	8,100	15.00	0.54	2.02
Kinder Morgan Management, LLC	KMR	S3	47.18	61	2,860	15.00	0.54	1.99
Enerplus Resources Fund	ERF		41.07	123	5,060	47.00	0.11	0.89
Pengrowth Energy Trust	PGH		16.92	241	4,080	20.00	0.26	0.89
Penn West Energy Trust	PWE	B	28.96	239	6,920	39.00	0.13	0.77
San Juan Basin Royalty Trust	SJT	B	30.99	47	1,440	40.00	-	0.77
Canadian Oil Sands Trust	COSWF	B	24.06	479	11,530	35.00	0.09	0.72
Hugoton Royalty Trust	HGT	B	23.81	40	950	34.00	-	0.70
<i>Total or Median</i>					<i>40,900</i>		<i>0.12</i>	<i>0.83</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) 12-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	43.20	24.0	8.8	6.9	11	0.2
Exxon Mobil Corporation	XOM	B	72.66	11.4	6.8	6.3	11	1.8
Total S.A.	TOT	B	67.90	9.7	7.0	6.1	11	3.1
BP plc	BP	B	64.64	9.5	6.9	5.8	9	3.6
Royal Dutch Shell plc	RDS-A	B	67.81	7.4	6.0	5.0	9	3.9
Chevron Corporation	CVX	B	70.35	10.9	6.2	4.9	9	3.0
ConocoPhillips	COP	B	63.83	11.0	6.8	4.9	9	2.3
	<i>Median</i>			10.9	6.8	5.8	9	3.0
Producer/Refiners - Large Cap								
Kinder Morgan, Inc.	KMI	S2	105.97		8.8	13.6	22	3.3
Suncor Energy	SU	B	73.12	20.8	13.1	10.3	19	0.4
Imperial Oil Limited (30%)	IMO	H	32.88	10.3	8.6	7.7	13	0.8
Petro-Canada	PCZ	B	37.23	7.2	7.7	6.1	12	1.2
PetroChina Company Ltd (10%)	PTR	B	127.40	15.1	6.6	6.0	12	3.9
Lukoil Oil Company	LUKOY	B	79.90	18.1	7.8	5.7	10	1.6
Marathon Oil Corporation	MRO	B	86.77	8.6	6.3	5.1	9	1.5
Norsk Hydro ASA	NHY	B	28.77	8.1	5.2	4.9	11	2.5
	<i>Median</i>			10.3	7.7	6.1	12	1.5
Independent Natural Gas and Oil - Large Cap								
XTO Energy Inc.	XTO	B	45.38	11.3	8.7	6.9	10	0.8
Anadarko Petroleum Corp.	APC	B	41.83	11.5	8.6	6.4	10	1.7
EOG Resources	EOG	B	62.28	9.3	9.2	6.3	17	0.4
CNOOC Limited (34%)	CEO	B	87.24	10.6	6.9	6.1	11	3.2
Encana Corporation	ECA	B	46.15	8.7	8.1	6.1	12	0.9
Occidental Petroleum Corp.	OXY	B	44.40	11.0	7.4	5.0	9	2.0
Devon Energy Corporation	DVN	B	65.63	8.2	7.8	4.9	10	0.7
	<i>Median</i>			10.6	8.1	6.1	10	0.9
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	28.78	10.1	9.2	6.8	12	1.1
Encore Acquisition Company	EAC	B	22.90	15.5	10.8	5.8	17	-
Energy Partners Ltd.	EPL	B	21.69	5.0	5.6	4.4	-	-
Cimarex Energy Company	XEC	B	35.76	7.8	7.7	4.3	12	0.4
	<i>Median</i>			9.0	8.5	5.1	12	0.2
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	48.30		7.8	15.7	33	6.7
Kinder Morgan Management, LLC	KMR	S3	47.18		7.8	15.5	32	6.9
Canadian Oil Sands Trust	COSWF	B	24.06	23.0	15.3	10.9	16	7.4
San Juan Basin Royalty Trust	SJT	B	30.99	9.3	11.5	8.9	11	9.0
Hugoton Royalty Trust	HGT	B	23.81	13.7	11.8	8.2	14	7.1
Enerplus Resources Fund	ERF		41.07	9.5	8.8	7.8	20	10.4
Penn West Energy Trust	PWE	B	28.96	8.1	9.7	7.5	15	12.0
Pengrowth Energy Trust	PGH		16.92	7.1	7.8	6.9	13	15.1
	<i>Median</i>			9.4	9.2	8.6	16	8.2

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) 12-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	72.66	3.2	2.9		0.2	0.5	1.3	0.9	0.93
Total S.A.	TOT	67.90	2.8	2.9	2.9		0.9	1.2	0.8	0.87
BP plc	BP	64.64	1.4	1.4	1.4	0.1	0.2	0.7	0.4	0.84
Royal Dutch Shell plc	RDS-A	67.81	2.8	2.9	2.9	0.1	0.5	1.1	1.1	0.83
Chevron Corporation	CVX	70.35	5.8	5.7		0.4	0.4	3.4	1.5	0.79
Gazprom	OGZPY	43.20	9.2	8.6	8.6		6.8	1.8		0.79
ConocoPhillips	COP	63.83	4.7	5.7		0.9	0.4	3.0	1.3	0.71
Producer/Refiners - Large Cap										
Norsk Hydro ASA	NHY	28.77	2.8	2.9	2.9		0.7	1.1	1.0	0.94
PetroChina Company Ltd.	PTR	127.40	3.2	2.9	2.9		0.2	2.4	0.2	0.91
Marathon Oil Corporation	MRO	86.77	1.4	1.4		0.1	0.1	0.6	0.6	0.82
Petro-Canada	PCZ	37.23	1.3	1.4	1.4	0.2	0.0	0.9	0.2	0.80
Suncor Energy	SU	73.12	1.5	1.4	1.4	0.1		1.3	0.1	0.78
Lukoil Oil Company	LUKOY	79.90	6.5	5.7	5.7			4.3	1.4	0.73
Independent Natural Gas and Oil - Large Cap										
CNOOC Limited	CEO	87.24	3.3	2.9	2.9		0.3	2.6		0.89
XTO Energy Inc.	XTO	45.38	2.7	2.9		2.0		0.8		0.79
Encana Corporation	ECA	46.15	5.6	5.7	5.7	4.1		1.2	0.4	0.75
Anadarko Petroleum Corp.	APC	41.83	1.5	2.9		1.6		1.2	0.1	0.74
EOG Resources	EOG	62.28	6.3	5.7		4.4	0.4	1.0		0.69
Occidental Petroleum Corp	OXY	44.40	2.9	2.9		0.4	0.0	2.1	0.3	0.67
Devon Energy Corporation	DVN	65.63	5.3	5.7		3.1		2.6		0.63
Independent Natural Gas and Oil - Small Cap										
Energy Partners Ltd.	EPL	21.69	1.1	1.4		0.8		0.7		0.77
Berry Petroleum Company	BRY	28.78	1.2	1.4		0.2		1.2		0.73
Cimarex Energy Company	XEC	35.76	2.8	2.9		2.0		0.9		0.56
Encore Acquisition Compæ	EAC	22.90	2.2	2.9		0.7		2.1		0.53
Income										
Penn West Energy Trust	PWE	28.96	4.2	4.3	4.3	1.3		3.0		0.77
San Juan Basin Royalty Tr	SJT	30.99	6.7	5.7		5.7				0.77
Canadian Oil Sands Trust	COSWF	24.06	5.8	5.7	5.7			5.7		0.72
Hugoton Royalty Trust	HGT	23.81	1.7	1.4		1.4				0.70
Portfolio Composite			100	100	49	30	12	48	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>
16-Jan	COP	ConocoPhillips	Weather Deal
12-Jan	LUKOY	Lukoil Oil Company	Downside Oil Price Protection
10-Jan	ECA	EnCana Corporation	Buy on the News
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 Holidays!
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 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
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
25-Oct	* BP	BP p.l.c.	Solid Cash Flow
19-Oct	* KMX	Kinder Morgan	Dilution Ahead
19-Oct	* OXY	Occidental Petroleum Corporation	Stock Cheaper than Oil

Meter Reader - A Weekly Analysis

16-Jan		Minimal Spare Oil Capacity
9-Jan	*	Oil above \$60
2-Jan	*	Expected Return in 2007
26-Dec	*	Respectable Return in 2006

Natural Gas and Oil Royalty Trusts - A Weekly Analysis

11-Jan		Convergence 2007
5-Jan		The Winter That Wasn't
29-Dec	*	Crazy Trading
22-Dec	*	Canadians Fighting Back

* Archived on www.mcdep.com

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