

# Natural Gas Royalty Trusts

A Weekly Analysis

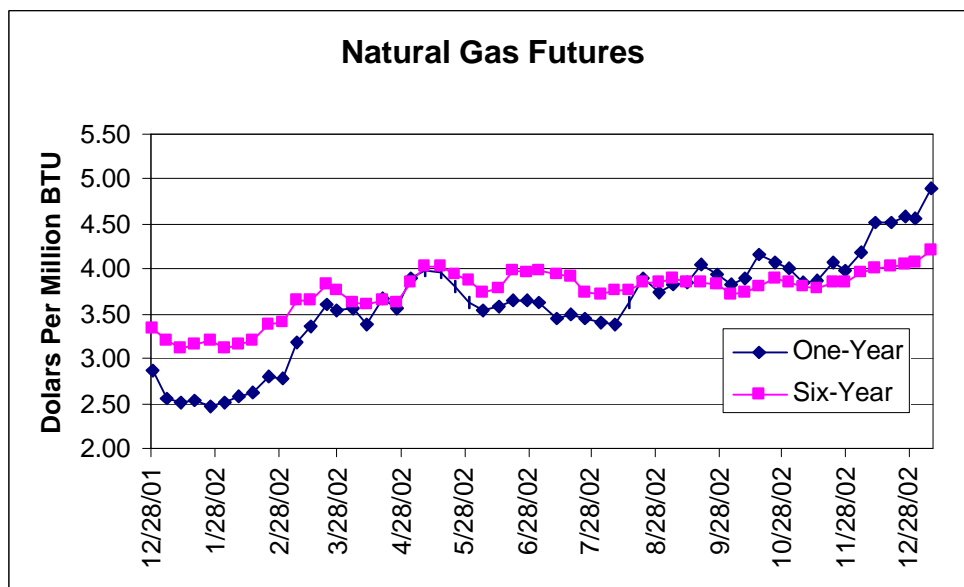
January 9, 2003

## Stock Market Interpretation of Commodity Futures

### Summary and Recommendation

We plot a new interpretation of volatile natural gas and oil prices set by commodity traders that takes a stock market point of view (see charts). The momentum is favorable for commodity value in recommended **San Juan Basin Royalty Trust (SJT)** as well as **Cross Timbers Royalty Trust (CRT)**, **Hugoton Royalty Trust (HGT)** and other recommended producers (see Tables MEII-1 and MEII-2). With a year of history in computing six-year futures we present the results in a form that reminds of us of stock price charts with a moving average. Separately for natural gas and for light crude oil our charts show one-year futures essentially as the more volatile shorter period moving average and six-year futures as the steadier longer period moving average. Traditionally, futures traders would characterize the pattern as backwardation, implying that the actual price is going to decline. In our new stock price analogy we might characterize the pattern as positive momentum for longer-term commodity price. That is, one-year futures above six-year futures implies a rising trend for six-year futures. A rising trend for six-year futures, in turn, implies a rising trend for stock price of commodity producers.

Kurt H. Wulff, CFA

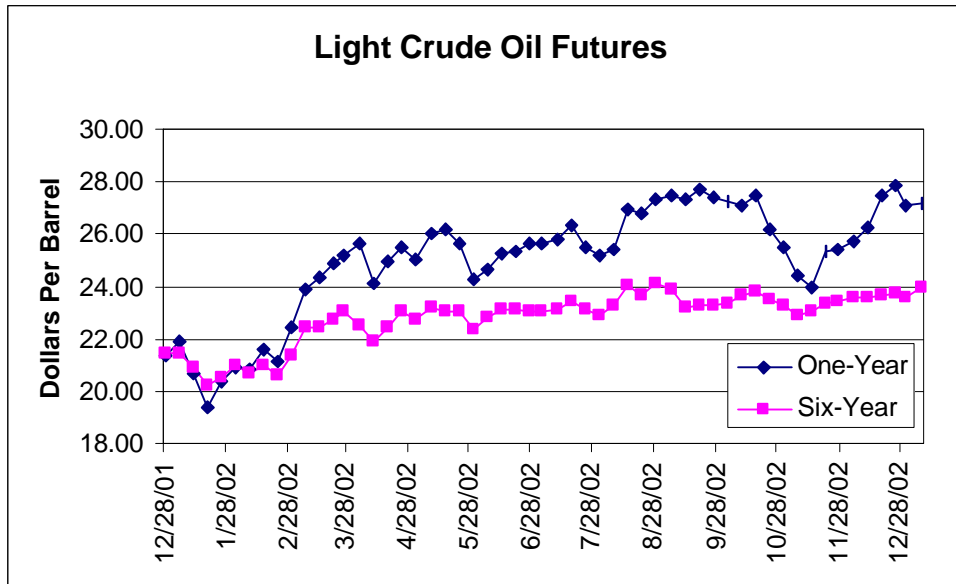


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## Natural Gas and Oil Futures

January 8, 2003

	2004	2005	2006	2007	2008	2009	Six Year
Natural Gas (\$/mmbtu)							
Year ending January	4.90	4.39	4.01	3.92	3.99	4.04	4.21
Light Sweet Crude Oil (\$/bbl)							
Year ending January	27.21	23.83	23.38	23.24	23.09	22.99	23.96
Natural Gas/Oil (6:1 = 1.0)							
Year ending January	1.08	1.10	1.03	1.01	1.04	1.05	1.05

Source: Nymex, FutureSource, wsj.com, McDep Associates

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**Table MEII-1**  
**McDep Energy Income Ideas**  
**Dividends, Debt and McDep Ratio**

Symbol/ Rating	Price (\$/sh) 8-Jan 2003	Shares (mm)	Market Cap (\$mm)	Div or Distrib. NTM (%)	Debt/ Present Value	McDep Ratio		
<b>High Greed Partnerships</b>								
El Paso Energy Partners	EPN	S	30.00	57.0	1,710	9.0	0.64	2.56
Kinder Morgan Energy Partners, L.P.	KMP	S	35.47	135	4,800	6.9	0.47	1.81
Kinder Morgan Management, LLC	KMR	S	32.04	39.5	1,270	7.6	0.47	1.68
Enbridge Energy Partners, L.P.	EEP	S	42.67	35.0	1,490	8.4	0.64	1.68
Plains All Amer. Pipeline	PAA		24.86	50.0	1,240	8.6	0.49	1.58
Enbridge Energy Management, L.L.C	EEQ	S	37.50	9.0	340	9.6	0.64	1.56
Northern Border Partners	NBP		37.76	44.0	1,660	8.5	0.62	1.32
TEPPCO Partners, L.P.	TPP		28.81	50.0	1,440	8.3	0.56	1.27
Penn Virginia Res. Part, L.P.	PVR		22.03	15.3	340	9.1	-	1.22
AmeriGas Partners, L.P.	APU		23.79	49.4	1,180	9.2	0.51	1.15
Alliance Res. Part, L.P.	ARLP		24.16	15.9	380	8.3	0.45	1.11
<i>Total or Median</i>					15,900	8.5	0.51	1.56
<b>U.S. Master Limiter Partnerships</b>								
Enterprise Products Part (16%)	EPD		18.24	29	520	7.6	0.63	1.63
Dorchester Hugoton, Ltd.	DHULZ		14.95	10.7	161	10.3	(0.17)	1.34
<b>Canadian Royalty Trusts</b>								
Provident Energy Trust	PVX		7.00	63.5	450	20.5	0.24	1.31
Enerplus Resources Fund	ERF		17.95	75.0	1,350	13.0	0.16	1.00
Pengrowth Energy Trust	PGH		9.15	110.0	1,010	16.5	0.19	0.97
Canadian Oil Sands Trust (US\$)	COS_u.TO	B	23.94	57.3	1,370	5.4	0.13	0.65
<i>Total or Median</i>					4,200	14.8	0.17	0.98
<b>U.S. Natural Gas Royalty Trusts</b>								
Cross Timbers Royalty Trust	CRT		20.51	6.0	123	10.6	-	0.98
San Juan Basin Royalty Trust	SJT	B	13.66	46.6	640	12.4	-	0.79
Hugoton RoyaltyTrust (46%)	HGT		12.71	18.4	230	12.1	-	0.76
<i>Total or Median</i>					990	12.1	-	0.79
<b>Additional McDep Recommendations</b>								
Royal Dutch/Shell	RD	B	44.60	3,481	155,200	3.8	0.15	0.78
ChevronTexaco Corporation	CVX	B	67.95	1,062	72,200	4.1	0.17	0.73
PetroChina Company Ltd (10%)	PTR	B	19.84	176	3,500	6.4	0.17	0.72
Marathon Oil Corporation	MRO	B	21.15	310	6,600	4.3	0.37	0.70
<i>Total or Median</i>					238,000	4.2	0.17	0.72

Buy/Sell rating after symbol: B - Buy, N - Neutral, S - Sell

NTM = Next Twelve Months Ended December 31, 2003

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses

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**Table MEII-2**  
**McDep Energy Income Ideas**  
**Distribution Validity, Fees and Cash flow Multiples**

			<i>Price</i>	<i>Dist/</i>	<i>Mgt</i>	<i>Fin</i>	<i>EV/</i>	<i>PV/</i>
	<i>Symbol/</i>		<i>(\$/sh)</i>	<i>Equity</i>	<i>Fee</i>	<i>Fee</i>	<i>Ebitda</i>	<i>Ebitda</i>
	<i>Rating</i>		<i>8-Jan</i>	<i>Ebitda</i>	<i>(%)</i>	<i>(%)</i>	<i>NTM</i>	<i>NTM</i>
			<i>2003</i>					
<b>High Greed Partnerships</b>								
El Paso Energy Partners	EPN	S	30.00	4.3	71	6	23.0	9.0
Kinder Morgan Energy Partners, L.P.	KMP	S	35.47	1.5	44	6	15.2	8.4
Enbridge Energy Partners, L.P.	EEP	S	42.67	2.2	21	6	15.1	9.0
Plains All Amer. Pipeline	PAA		24.86	1.7	9	6	14.2	9.0
Kinder Morgan Management, LLC	KMR	S	32.04	1.5	44	6	14.2	8.4
Enbridge Energy Management, L.L.C	EEQ	S	37.50	2.2	21	6	14.0	9.0
Northern Border Partners	NBP		37.76	1.4	8	6	11.9	9.0
TEPPCO Partners, L.P.	TPP		28.81	1.2	25	6	11.5	9.0
Penn Virginia Res. Part, L.P.	PVR		22.03	1.0	2	8	10.5	8.6
AmeriGas Partners, L.P.	APU		23.79	1.1	1	6	10.3	9.0
Alliance Res. Part, L.P.	ARLP		24.16	0.7	2	8	7.8	7.0
	<i>Median</i>						14.0	9.0
<b>U.S. Master Limiter Partnerships</b>								
Enterprise Products Part (16%)	EPD		18.24	1.8	10	6	14.6	9.0
Dorchester Hugoton, Ltd.	DHULZ		14.95	0.8	3		8.6	6.4
<b>Canadian Royalty Trusts</b>								
Canadian Oil Sands Trust (US\$)	COS_u.TO	B	23.94	0.4			7.3	11.2
Enerplus Resources Fund	ERF		17.95	0.8	10	6	6.5	6.5
Provident Energy Trust	PVX		7.00	1.3	20	8	5.8	4.5
Pengrowth Energy Trust	PGH		9.15	0.9	9	6	5.7	5.9
	<i>Median</i>						6.2	6.2
<b>U.S. Natural Gas Royalty Trusts</b>								
Cross Timbers Royalty Trust	CRT		20.51	0.9			8.8	9.0
San Juan Basin Royalty Trust	SJT	B	13.66	0.8			6.0	7.6
Hugoton RoyaltyTrust (46%)	HGT		12.71	0.7			5.9	7.9
<b>Additional McDep Recommendations</b>								
Royal Dutch/Shell	RD	B	44.60	0.2			6.7	8.6
ChevronTexaco Corporation	CVX	B	67.95	0.2			6.0	8.2
Marathon Oil Corporation	MRO	B	21.15	0.2			4.6	6.6
PetroChina Company Ltd (10%)	PTR	B	19.84	0.2			3.6	5.1
	<i>Median</i>						5.3	7.4

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**Table SJT-1**  
**San Juan Basin Royalty Trust**  
**Present Value**

Volume Decline (%/yr):	10	Price Escalation Post 2008 (%/yr):	2.4
Volume Enhancement (%/yr):	10	Discount rate (%/yr):	6.0
Capex/Cash Flow (%):	25	U.S. TIPS Inflation (%/yr):	1.6
Variable Cost (%):	12	U.S. 10 Year Yield (%/yr):	4.0
PV/Volume (\$/mcf):	1.43	PV/EBITDA 2003:	7.7

Year	Basic (bcf)	Volume Enhanced (bcf)	Total (bcf)	Price (\$/mcf)	Revenue (\$mm)	Fixed Cost (\$mm)	Var Cost (\$mm)	Cap Ex (\$mm)	Distribution (\$mm)	(\$/unit)	Tax Credit (\$/unit)	Disc Factor	Present Value (\$/unit)
Total 2003 through 2032; years ending on 12/31													
	318	244	562	3.94	2215	388	266	208	1354	29.05	0.00	0.59	17.20
2003	34.5	0.0	34.5	3.76	129.9	10.7	15.6	24.5	79.2	1.70	0.00	0.97	1.65
2004	30.9	3.5	34.4	3.85	132.1	13.0	15.9	25.8	77.5	1.66		0.92	1.52
2005	27.7	6.5	34.2	3.48	119.0	13.0	14.3	22.9	68.8	1.48		0.86	1.28
2006	24.8	9.3	34.0	3.33	113.3	13.0	13.6	21.7	65.0	1.40		0.82	1.14
2007	22.2	11.7	33.9	3.38	114.5	13.0	13.7	21.9	65.8	1.41		0.77	1.09
2008	19.9	13.9	33.7	3.42	115.5	13.0	13.9	22.2	66.5	1.43		0.73	1.04
2009	17.8	15.8	33.6	3.50	117.7	13.0	14.1	22.6	67.9	1.46		0.68	1.00
2010	15.9	17.5	33.4	3.59	120.0	13.0	14.4	23.1	69.4	1.49		0.65	0.96
2011	14.3	19.0	33.3	3.67	122.3	13.0	14.7	23.7	71.0	1.52		0.61	0.93
2012	12.8	17.0	29.8	3.76	112.1	13.0	13.5		85.7	1.84		0.57	1.06
2013	11.4	15.2	26.7	3.85	102.8	13.0	12.3		77.5	1.66		0.54	0.90
2014	10.2	13.7	23.9	3.94	94.3	13.0	11.3		70.0	1.50		0.51	0.77
2015	9.2	12.2	21.4	4.04	86.4	13.0	10.4		63.1	1.35		0.48	0.65
2016	8.2	11.0	19.2	4.13	79.3	13.0	9.5		56.7	1.22		0.46	0.55
2017	7.4	9.8	17.2	4.23	72.7	13.0	8.7		50.9	1.09		0.43	0.47
2018	6.6	8.8	15.4	4.33	66.6	13.0	8.0		45.6	0.98		0.41	0.40
2019	5.9	7.9	13.8	4.44	61.1	13.0	7.3		40.8	0.87		0.38	0.33
2020	5.3	7.0	12.3	4.54	56.0	13.0	6.7		36.3	0.78		0.36	0.28
2021	4.7	6.3	11.0	4.65	51.4	13.0	6.2		32.2	0.69		0.34	0.24
2022	4.2	5.6	9.9	4.76	47.1	13.0	5.7		28.4	0.61		0.32	0.20
2023	3.8	5.1	8.9	4.88	43.2	13.0	5.2		25.0	0.54		0.30	0.16
2024	3.4	4.5	7.9	4.99	39.6	13.0	4.8		21.8	0.47		0.29	0.13
2025	3.0	4.1	7.1	5.11	36.3	13.0	4.4		18.9	0.41		0.27	0.11
2026	2.7	3.6	6.4	5.24	33.3	13.0	4.0		16.3	0.35		0.25	0.09
2027	2.4	3.3	5.7	5.36	30.5	13.0	3.7		13.9	0.30		0.24	0.07
2028	2.2	2.9	5.1	5.49	28.0	13.0	3.4		11.6	0.25		0.23	0.06
2029	2.0	2.6	4.6	5.62	25.7	13.0	3.1		9.6	0.21		0.21	0.04
2030	1.8	2.3	4.1	5.75	23.5	13.0	2.8		7.7	0.17		0.20	0.03
2031	1.6	2.1	3.7	5.89	21.6	13.0	2.6		6.0	0.13		0.19	0.02
2032	1.4	1.9	3.3	6.03	19.8	13.0	2.4		4.4	0.09		0.18	0.02

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**Table SJT-2**  
**San Juan Basin Royalty Trust**  
**Distributable Income**

	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Next</i>
	<i>3/31/02</i>	<i>6/30/02</i>	<i>9/30/02</i>	<i>12/31/02</i>	<i>2002E</i>	<i>3/31/03</i>	<i>6/30/03</i>	<i>9/30/03</i>	<i>12/31/03</i>	<i>Twelve</i>
										<i>Months</i>
										<i>12/31/03</i>
<b>Highlights</b>										
Revenue (\$mm) (75%)	19.2	18.6	20.7	20.4	78.9	29.6	34.0	33.2	33.0	129.9
Cash flow (\$mm) (75%)	14.1	14.1	16.0	15.5	59.7	23.8	27.9	27.0	26.8	105.5
Per unit	0.30	0.30	0.34	0.33	1.28	0.51	0.60	0.58	0.58	2.26
Tax credit (\$mm)	0.5	1.4	1.9	1.9	5.6					
Per unit	0.01	0.03	0.04	0.04	0.12					
Distributable Income (\$mm)	3.5	9.0	12.2	11.6	36.3	19.4	20.4	19.8	19.6	79.2
Per unit	0.08	0.19	0.26	0.25	0.78	0.42	0.44	0.42	0.42	1.70
Units (millions)	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6
<b>Volume</b>										
Natural gas (mmbtu)	12.5	12.0	11.6	12.4	48.5	12.2	11.8	12.2	12.2	48.4
Heat Content(btu/cf)	1,092	1,077	970	1,064	1,050	1,064	1,064	1,064	1,064	1,064
Natural gas (bcf)	11.5	11.1	12.0	11.6	46.2	11.5	11.1	11.5	11.5	45.5
Natural Gas (mmcf)	124.7	125.1	130.4	126.2	126.6	124.6	124.6	124.6	124.6	124.6
Days	92	89	92	92	365	92	89	92	92	365
Oil (mb)	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1
Oil (mbd)	0.3	0.3	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2
Total gas & oil (bcf)	11.6	11.3	12.1	11.7	46.8	11.6	11.2	11.6	11.6	46.0
<b>Price</b>										
Natural gas (\$/mmbtu) (Henry Hub lagged two months)										
Henry Hub (\$/mmbtu)	2.34	2.92	3.23	3.59	3.02	4.56	5.07	4.79	4.76	4.79
Differential (%)	14	31	28	40	30	30	25	25	25	26
Total	2.01	2.02	2.33	2.16	2.13	3.19	3.80	3.59	3.57	3.54
Natural gas (\$/mcf)	2.20	2.18	2.26	2.30	2.24	3.40	4.04	3.82	3.80	3.76
Oil (\$/bbl) (WTI Cushing lagged two months)										
WTI Cushing	19.56	23.80	26.49	28.96	24.70	28.98	29.97	27.78	26.05	28.19
SJT	15.78	19.14	21.95	24.00	20.10	24.01	24.83	23.01	21.58	23.35
Total gas & oil (\$/mcf)	2.20	2.19	2.28	2.32	2.25	3.40	4.05	3.82	3.79	3.76
<b>Revenue (\$mm)</b>										
Natural Gas	25.2	24.2	27.1	26.7	103.3	38.9	44.8	43.8	43.5	171.1
Oil	0.4	0.5	0.5	0.5	1.9	0.5	0.5	0.5	0.5	2.1
Total	25.6	24.8	27.6	27.2	105.2	39.5	45.4	44.3	44.0	173.2
<b>Cost (\$mm)</b>										
Severance tax	2.6	2.4	2.3	3.1	10.5	3.9	4.4	4.3	4.2	16.8
Operating	4.1	3.7	4.0	3.4	15.2	3.8	3.9	4.0	4.0	15.7
Total	6.7	6.0	6.3	6.5	25.6	7.7	8.2	8.3	8.2	32.5
<b>Cash flow (\$mm)</b>										
Development	11.3	3.4	2.1	4.7	21.5	5.4	9.3	9.0	8.9	32.6
<b>Net proceeds (\$mm)</b>										
Royalty/Net proceeds	7.5	15.4	19.2	16.1	58.2	26.4	27.9	27.0	26.8	108.1
<b>Royalty income (\$mm)</b>										
Royalty/Net proceeds	5.6	11.5	14.4	12.1	43.6	19.8	20.9	20.3	20.1	81.1
Administration	0.4	0.5	0.6	0.5	2.0	0.4	0.5	0.5	0.5	1.9
One-time	1.7	2.0	1.6		5.3					-
<b>Distributable income (\$mm)</b>										
	3.5	9.0	12.2	11.6	36.3	19.4	20.4	19.8	19.6	79.2
<i>Modeling ratios</i>										
Severance tax/revenue	10.2%	9.5%	8.5%	11.5%	9.9%	10.0%	9.6%	9.6%	9.6%	9.7%
Operating cost (\$/mcf)	0.36	0.32	0.33	0.29	0.32	0.33	0.35	0.35	0.35	0.34

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**Table SJT-3**  
**San Juan Basin Royalty Trust**  
**Monthly Declarations**

	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02	Jan-03	Feb-03	Mar-03
<b>Distribution</b> (\$/unit)								
Declared	0.08	0.10	0.12	0.04	0.09			
Projected						0.11	0.14	0.16
<b>Volume</b>								
Natural gas (mmbtu)	3.77	3.95	4.49	3.77	4.08	3.92	4.05	4.05
Heat Content(btu/cf)	807	1,068	1,084	1,064	1,043	1,050	1,050	1,050
Natural gas (bcf)	4.67	3.70	4.15	3.55	3.91	3.74	3.86	3.86
Natural Gas (mmcf)	156	119	134	118	126	125	125	125
Days	30	31	31	30	31	30	31	31
<b>Price</b>								
Natural gas industry quotes lagged two months (\$/mmbtu)								
Henry Hub Daily/Futures	3.22	2.99	3.09	3.55	4.12	4.03	4.76	4.90
San Juan Monthly Index	2.24	2.62	2.50	2.42	2.52	3.25	3.45	4.14
SJT/Henry Hub	0.75	0.78	0.74	0.55	0.54	0.71	0.68	0.73
SJT/San Juan Index	1.08	0.89	0.91	0.81	0.89	0.89	0.94	0.87
SJT (\$/mmbtu)	2.41	2.32	2.28	1.95	2.24	2.88	3.23	3.59
SJT (\$/mcf)	1.95	2.47	2.47	2.07	2.33	3.02	3.39	3.76
<b>Revenue</b> (\$mm)								
Natural Gas	9.1	9.1	10.2	7.3	9.1	11.3	13.1	14.5
Other	(0.2)	0.0	(0.1)	(0.0)	0.0	0.0	0.0	0.0
<b>Cost</b> (\$mm)								
Severance tax	0.8	0.9	0.9	0.7	1.5	1.1	1.3	1.5
Operating	1.6	1.3	1.1	1.8	0.5	1.3	1.3	1.3
Total	2.4	2.2	2.0	2.5	2.0	2.4	2.6	2.7
<b>Cash flow</b> (\$mm)	6.5	6.9	8.2	4.8	7.1	8.9	10.5	11.8
Development	1.0	0.5	1.0	2.1	1.6	1.8	1.8	1.8
<b>Net proceeds</b> (\$mm)	5.5	6.5	7.2	2.7	5.5	7.1	8.7	10.0
<b>Royalty income</b> (\$mm)	4.1	4.9	5.4	2.0	4.2	5.3	6.5	7.5
Royalty/Net proceeds	75%	75%	75%	75%	75%	75%	75%	75%
One time	0.6							
<b>Distributable income</b> (\$mm)	3.5	4.9	5.4	2.0	4.2	5.3	6.5	7.5
<b>Units</b> (millions)	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6
<b>Distribution</b> (\$/unit)	0.08	0.10	0.12	0.04	0.09	0.11	0.14	0.16
<i>Latest Twelve Month Average</i>								
Heat Content(btu/cf)	1,059	1,059	1,057	1,054	1,050			
Natural Gas (mmcf)	124	123	125	125	127			
SJT/Henry Hub	0.73	0.73	0.74	0.71	0.72			
SJT/San Juan Index	0.87	0.87	0.87	0.86	0.88			
Other revenue	(0.0)	(0.0)	(0.0)	(0.0)	(0.2)			
Operating	1.3	1.3	1.3	1.3	1.3			
Development	2.5	2.4	2.2	2.0	1.8			
Severance tax/revenue	10.0%	9.8%	9.7%	9.6%	10.1%			

Analyses are prepared from original sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at [www.mcdep.com](http://www.mcdep.com). Mr. Wulff is not paid by covered companies. He and his spouse do not sell short nor act contrary to a buy or sell rating except for tax loss purposes. 7