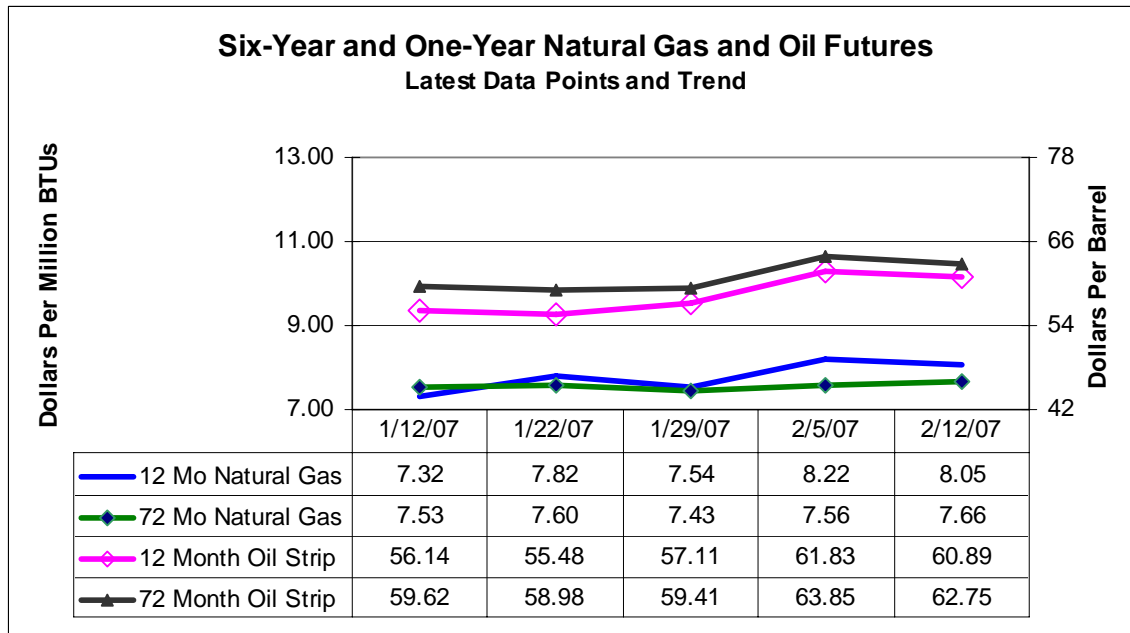


Trend Change or Winter Peak?

Summary and Recommendation

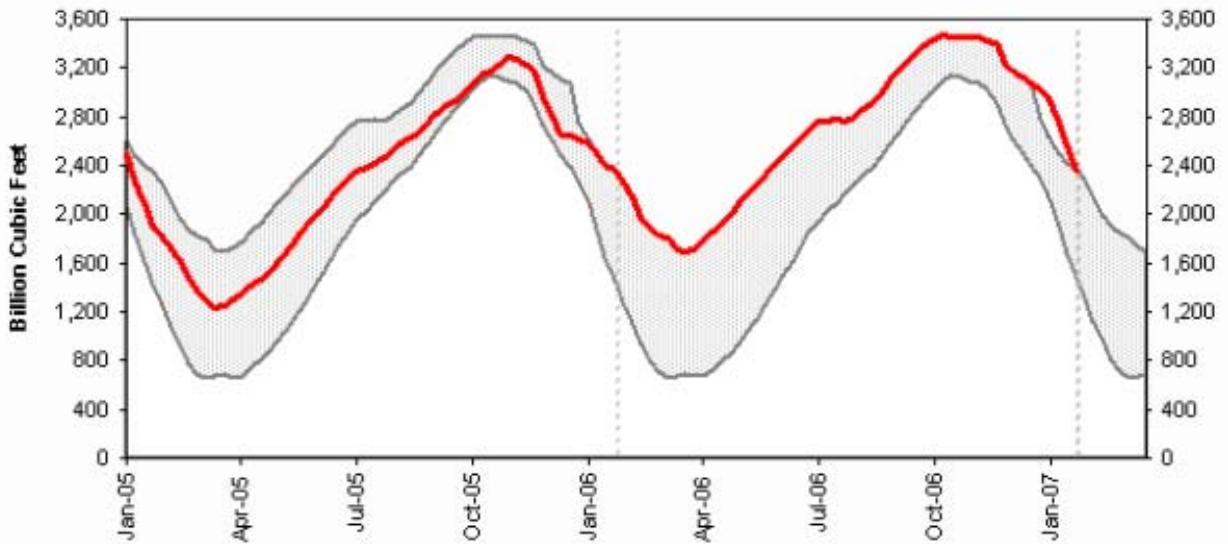
From a price point of view, natural gas is acting well in 2007. The bad news of warm weather in January did not drive price down and the good news of cold weather in February may be setting the stage for price to move up. Near-record heating demand this month promises further sharp inventory reductions bringing gas in storage well within the five-year range (see chart, Working Gas). The long-term price for delivery over the next six years is within 4% of exceeding the 40-week average (see chart Natural Gas Six-Year Futures). Once price crosses the 40-week average, trends may persist as they did in an upward direction from 2003 to early 2006 and in a downward direction for the rest of 2006. An improving picture for the commodity is also an improving picture for stocks concentrated on natural gas including large cap producer buy recommendations with a double weight in the McDep Energy Portfolio, **Devon Energy (DVN)**, **Encana (ECA)** and **EOG Resources (EOG)** (see table Portfolio Composite). Also, concentrated 54% on natural gas by value, buy-recommended **Energy Partners (EPL)** gained 9% in stock price on the week as investors await results from the company’s strategic alternatives process. As for the mystery raised by the title, we think trend change is the more likely outcome.

Kurt H. Wulff, CFA

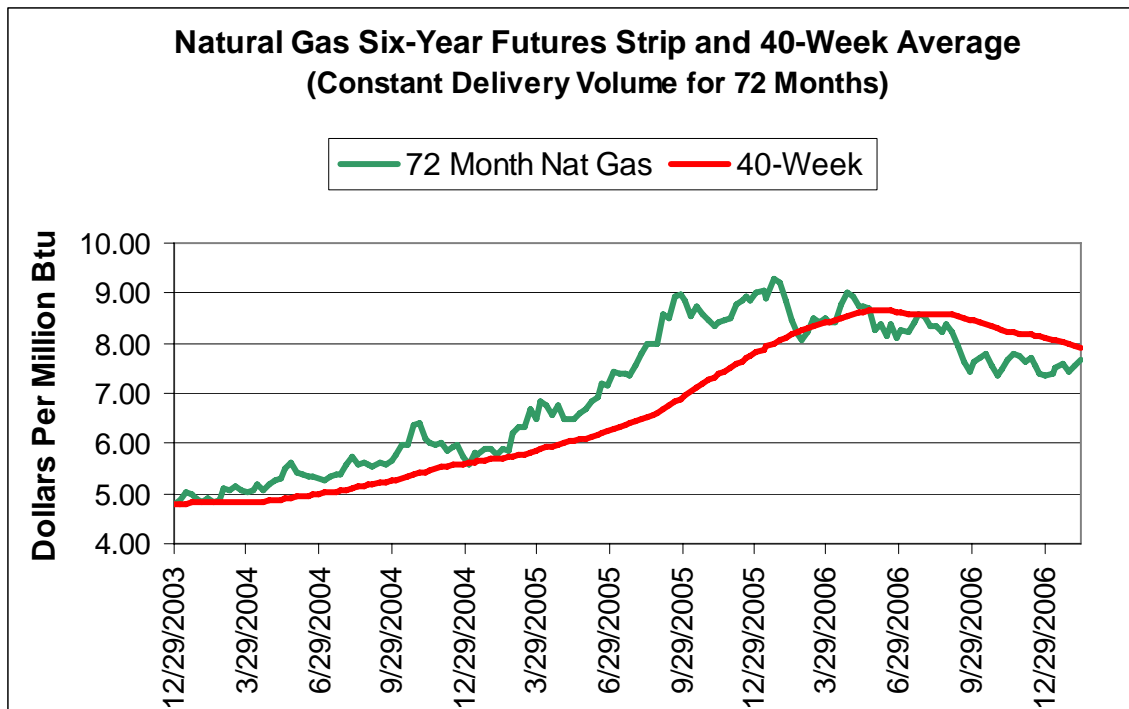


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Working Gas in Underground Storage Compared with 5-Year Range



Source: <http://tonto.eia.doe.gov/oog/info/ngs/ngs.html>



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Oil and Gas Producers
Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol/</i>	<i>Rating</i>	<i>Price</i> <i>(US\$/sh)</i>	<i>Shares</i>	<i>Market</i>	<i>Net</i>	<i>Debt/</i>	<i>McDep</i>
			<i>12-Feb</i>	<i>(mm)</i>	<i>Cap</i>	<i>Present</i>	<i>Present</i>	<i>Ratio</i>
			<i>2007</i>		<i>(US\$m)</i>	<i>Value</i>	<i>Value</i>	
Mega Cap								
Exxon Mobil Corporation	XOM	B	74.60	5,816	434,000	82.40	0.04	0.91
Total S.A.	TOT	B	67.50	2,302	155,000	80.00	0.14	0.87
Royal Dutch Shell plc	RDS-A	B	66.30	3,171	210,000	84.00	0.14	0.82
BP plc	BP	B	62.18	3,268	203,000	80.00	0.17	0.82
Chevron Corporation	CVX	B	72.32	2,206	160,000	92.00	0.09	0.81
Gazprom (50%)	OGZPY	B	41.00	2,850	116,900	56.00	0.06	0.75
ConocoPhillips	COP	B	66.03	1,672	110,000	100.00	0.20	0.73
	<i>Total or Median</i>				<i>1,389,000</i>		<i>0.14</i>	<i>0.82</i>
Producer/Refiners - Large Cap								
Kinder Morgan, Inc.	KMI	S	106.03	133	14,130	33.00	0.76	1.53
Norsk Hydro ASA	NHY	B	31.67	1,236	39,140	31.00	0.15	1.02
Imperial Oil Limited (30%)	IMO	H	35.30	289	10,200	37.00	0.07	0.96
PetroChina Company Ltd (10%)	PTR	B	122.37	179	21,900	140.00	0.04	0.88
Marathon Oil Corporation	MRO	B	90.02	352	31,690	110.00	0.12	0.84
Petro-Canada	PCZ	B	39.17	498	19,510	49.00	0.19	0.84
Suncor Energy	SU	B	71.84	461	33,130	95.00	0.07	0.77
Lukoil Oil Company	LUKOY	B	79.10	835	66,000	110.00	0.02	0.72
	<i>Total or Median</i>				<i>236,000</i>		<i>0.10</i>	<i>0.86</i>
Independent Natural Gas and Oil - Large Cap								
XTO Energy Inc.	XTO	B	50.05	371	18,570	60.00	0.14	0.86
CNOOC Limited (34%)	CEO	B	82.36	140	11,520	98.00	-	0.84
Encana Corporation	ECA	B	47.79	824	39,400	65.00	0.12	0.77
Anadarko Petroleum Corp.	APC	B	41.05	464	19,000	75.00	0.44	0.75
EOG Resources	EOG	B	65.04	247	16,000	92.00	0.05	0.72
Occidental Petroleum Corp.	OXY	B	45.99	853	39,200	69.00	0.09	0.70
Devon Energy Corporation	DVN	B	66.81	448	29,900	115.00	0.14	0.64
	<i>Total or Median</i>				<i>174,000</i>		<i>0.12</i>	<i>0.75</i>
Independent Natural Gas and Oil - Small Cap								
Energy Partners Ltd.	EPL	B	23.11	41	940	31.00	0.25	0.81
Berry Petroleum Company	BRY	B	30.26	45	1,350	44.00	0.22	0.75
Cimarex Energy Company	XEC	B	36.93	84	3,110	68.00	0.08	0.58
Encore Acquisition Company	EAC	B	25.73	54	1,380	54.00	0.19	0.58
	<i>Total or Median</i>				<i>6,800</i>		<i>0.21</i>	<i>0.67</i>
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S	51.01	171	8,700	15.00	0.54	2.11
Kinder Morgan Management, LLC	KMR	S	49.92	62	3,080	15.00	0.54	2.08
Enerplus Resources Fund	ERF		42.96	123	5,290	47.00	0.11	0.92
Pengrowth Energy Trust	PGH		16.70	241	4,020	20.00	0.26	0.88
San Juan Basin Royalty Trust	SJT	B	32.23	47	1,500	40.00	-	0.80
Penn West Energy Trust	PWE	B	29.79	239	7,120	39.00	0.13	0.79
Hugoton Royalty Trust	HGT	B	24.44	40	980	34.00	-	0.72
Canadian Oil Sands Trust	COSWF	B	23.35	479	11,180	35.00	0.08	0.69
	<i>Total or Median</i>				<i>41,900</i>		<i>0.12</i>	<i>0.84</i>

B = Buy, S = Sell, 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-Feb 2007	Adjustd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
Mega Cap								
Gazprom (50%)	OGZPY	B	41.00	24.0	8.9	6.6	10	0.2
Exxon Mobil Corporation	XOM	B	74.60	11.5	6.8	6.2	11	1.7
BP plc	BP	B	62.18	9.8	7.4	6.0	10	3.8
Total S.A.	TOT	B	67.50	9.7	6.9	6.0	11	3.1
Chevron Corporation	CVX	B	72.32	10.9	6.5	5.2	10	2.9
Royal Dutch Shell plc	RDS-A	B	66.30	7.4	5.8	4.7	9	4.3
ConocoPhillips	COP	B	66.03	10.9	6.3	4.6	7	2.5
	<i>Median</i>			10.9	6.8	6.0	10	2.9
Producer/Refiners - Large Cap								
Kinder Morgan, Inc.	KMI	S	106.03		8.9	13.6	21	3.3
Suncor Energy	SU	B	71.84	18.3	13.4	10.4	19	0.4
Imperial Oil Limited (30%)	IMO	H	35.30	11.5	9.5	9.1	16	0.8
PetroChina Company Ltd (10%)	PTR	B	122.37	15.2	6.6	5.8	12	4.0
Lukoil Oil Company	LUKOY	B	79.10	18.1	7.5	5.4	9	1.6
Norsk Hydro ASA	NHY	B	31.67	8.1	5.2	5.3	12	2.2
Marathon Oil Corporation	MRO	B	90.02	8.3	6.2	5.2	9	1.5
Petro-Canada	PCZ	B	39.17	6.5	6.0	5.0	9	1.1
	<i>Median</i>			11.5	7.1	5.6	12	1.5
Independent Natural Gas and Oil - Large Cap								
XTO Energy Inc.	XTO	B	50.05	12.5	8.1	6.9	11	0.7
Anadarko Petroleum Corp.	APC	B	41.05	10.3	8.6	6.4	10	1.8
Encana Corporation	ECA	B	47.79	8.7	7.6	5.8	12	0.8
EOG Resources	EOG	B	65.04	9.7	8.0	5.8	15	0.6
CNOOC Limited (34%)	CEO	B	82.36	10.6	6.7	5.7	11	3.4
Occidental Petroleum Corp.	OXY	B	45.99	11.9	8.0	5.6	12	1.9
Devon Energy Corporation	DVN	B	66.81	9.1	7.9	5.1	10	0.7
	<i>Median</i>			10.3	8.0	5.8	11	0.8
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	30.26	10.1	8.9	6.7	11	1.0
Encore Acquisition Company	EAC	B	25.73	15.5	10.2	5.9	17	-
Energy Partners Ltd.	EPL	B	23.11	5.0	5.1	4.1	-	-
Cimarex Energy Company	XEC	B	36.93	7.8	7.0	4.1	11	0.4
	<i>Median</i>			9.0	8.0	5.0	11	0.2
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S	51.01		7.7	16.3	37	6.5
Kinder Morgan Management, LLC	KMR	S	49.92		7.7	16.0	37	6.7
Canadian Oil Sands Trust	COSWF	B	23.35	23.3	14.4	10.0	15	6.6
San Juan Basin Royalty Trust	SJT	B	32.23	11.5	11.4	9.2	12	8.2
Hugoton Royalty Trust	HGT	B	24.44	13.7	11.0	7.9	13	7.8
Enerplus Resources Fund	ERF		42.96	9.5	8.2	7.6	18	10.0
Penn West Energy Trust	PWE	B	29.79	8.1	9.0	7.2	13	11.7
Pengrowth Energy Trust	PGH		16.70	7.1	7.3	6.4	11	15.3
	<i>Median</i>			10.5	8.6	8.5	14	8.0

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**

		<i>Price</i> <i>(US\$/sh)</i>	<i>Portfolio Weight</i> <i>Equity</i>	<i>EV</i> <i>(%)</i>	<i>Non- U.S. HQ</i> <i>(%)</i>	<i>North Amer. Natural Gas</i> <i>(%)</i>	<i>Rest of World Natural Gas</i> <i>(%)</i>	<i>Oil Prod'n</i> <i>(%)</i>	<i>Down- stream</i> <i>(%)</i>	<i>McDep Ratio</i>
<i>Symbol</i>	<i>2007</i>	<i>(%)</i>	<i>(%)</i>	<i>(%)</i>	<i>(%)</i>	<i>(%)</i>	<i>(%)</i>	<i>(%)</i>	<i>(%)</i>	<i>(%)</i>
Mega Cap										
Exxon Mobil Corporation	XOM	74.60	3.2	2.9		0.2	0.5	1.3	0.9	0.91
Total S.A.	TOT	67.50	2.8	2.9	2.9		0.9	1.2	0.8	0.87
Royal Dutch Shell plc	RDS-A	66.30	2.8	2.9	2.9	0.1	0.5	1.1	1.1	0.82
BP plc	BP	62.18	1.3	1.4	1.4	0.1	0.2	0.7	0.4	0.82
Chevron Corporation	CVX	72.32	5.9	5.7		0.4	0.4	3.4	1.5	0.81
Gazprom	OGZPY	41.00	9.2	8.6	8.6		6.8	1.8		0.75
ConocoPhillips	COP	66.03	4.8	5.7		1.0	0.4	2.9	1.4	0.73
Producer/Refiners - Large Cap										
Norsk Hydro ASA	NHY	31.67	2.8	2.9	2.9		0.7	1.1	1.0	1.02
PetroChina Company Ltd.	PTR	122.37	3.2	2.9	2.9		0.2	2.4	0.2	0.88
Marathon Oil Corporation	MRO	90.02	1.4	1.4		0.1	0.1	0.5	0.6	0.84
Petro-Canada	PCZ	39.17	1.3	1.4	1.4	0.2	0.0	0.9	0.2	0.84
Suncor Energy	SU	71.84	1.5	1.4	1.4	0.1		1.3	0.1	0.77
Lukoil Oil Company	LUKOY	79.10	6.5	5.7	5.7			4.3	1.4	0.72
Independent Natural Gas and Oil - Large Cap										
XTO Energy Inc.	XTO	50.05	2.8	2.9		2.0		0.8		0.86
CNOOC Limited	CEO	82.36	3.3	2.9	2.9		0.3	2.6		0.84
Encana Corporation	ECA	47.79	5.6	5.7	5.7	4.1		1.2	0.4	0.77
Anadarko Petroleum Corp.	APC	41.05	1.4	2.9		1.5		1.3	0.1	0.75
EOG Resources	EOG	65.04	6.2	5.7		4.3	0.4	1.0		0.72
Occidental Petroleum Corp	OXY	45.99	2.9	2.9		0.4	0.0	2.1	0.3	0.70
Devon Energy Corporation	DVN	66.81	5.2	5.7		3.2		2.6		0.64
Independent Natural Gas and Oil - Small Cap										
Energy Partners Ltd.	EPL	23.11	1.2	1.4		0.8		0.7		0.81
Berry Petroleum Company	BRY	30.26	1.2	1.4		0.2		1.2		0.75
Cimarex Energy Company	XEC	36.93	2.9	2.9		2.0		0.9		0.58
Encore Acquisition Compæ	EAC	25.73	2.2	2.9		0.7		2.1		0.58
Income										
San Juan Basin Royalty Tr	SJT	32.23	6.7	5.7		5.7				0.80
Penn West Energy Trust	PWE	29.79	4.2	4.3	4.3	1.3		3.0		0.79
Hugoton Royalty Trust	HGT	24.44	1.7	1.4		1.4				0.72
Canadian Oil Sands Trust	COSWF	23.35	5.9	5.7	5.7			5.7		0.69
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>
7-Feb	DVN	Devon Energy Corporation	Current Favorite Large Cap Independent
7-Feb	APC	Anadarko Petroleum Corporation	Avarice in Algiers
6-Feb	BP	BP p.l.c.	Difficult Execution
5-Feb	CVX	Chevron Corporation	Momentum despite Chavez
2-Feb	MRO	Marathon Oil Corporation	Emphasis on Refining
2-Feb	IMO	Imperial Oil Limited	Near Present Value
1-Feb	EOG	EOG Resources Inc.	Reserves Up Ten Percent in 2006
1-Feb	XOM	Exxon Mobil Corporation	Raise Present Value to a Half Trillion Dollars
1-Feb	RDSA	Royal Dutch Shell plc	Reserves and Earnings Ahead
30-Jan	COSWF	Canadian Oil Sands Trust	Record Quarterly Volume
26-Jan	SU	Suncor Energy Inc.	Next Milestone 2008
26-Jan	OXY	Occidental Petroleum Corporation	Stock Cheaper than Oil
26-Jan	PCZ	Petro-Canada	Volume Growth around the Corner
24-Jan	COP	ConocoPhillips	Buying Itself
18-Jan	* KMx	Kinder Morgan	Good Bye KMI
18-Jan	* EAC	Encore Acquisition Company	Creating MLP for Income Investors
16-Jan	* PTR	PetroChina Company Limited	Fourth Largest Oil and Gas Company
16-Jan	* BP	BP p.l.c.	New Leader Designated
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 Holideals!
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	* BRV	Berry Petroleum	Election Winner
9-Nov	* TOT	Total S.A.	Steady High Return
7-Nov	* XEC	Cimarex Energy Company	Steady Operations
7-Nov	* EPL	Energy Partners, Ltd.	Buyers Looking
6-Nov	* BRV	Berry Petroleum	Raise NPV to \$44 a Share on Election Eve

Meter Reader - A Weekly Analysis

13-Feb		Trend Change or Winter Peak?
6-Feb	*	Organization of Natural Gas Exporting Countries
30-Jan	*	Cantarell over the Cliff
23-Jan	*	Clues from Price Patterns

Natural Gas and Oil Royalty Trusts - A Weekly Analysis

9-Feb		Future Energy Income Stocks
2-Feb		Adios El Nino
26-Jan	*	Shell Canada Bid Raised
19-Jan	*	Cap and Trade

* Archived on www.mcdep.com

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