

China Natural Gas Price Breakthrough

Summary and Recommendation

China, the world's largest coal burning polluter, apparently overcame its resistance to pay market price for clean fuel by signing long-term contracts for Australian natural gas, a move that has positive implications for nearly all the world's natural gas producers. Coincident with the Asia-Pacific Economic Cooperation (APEC) leaders meeting in Sydney hosted by Australian Prime Minister John Howard and attended by Chinese President Hu Jintao, China agreed to buy Australian liquefied natural gas (LNG) in two multi-year contracts. The parent of buy-recommended

PetroChina (PTR)

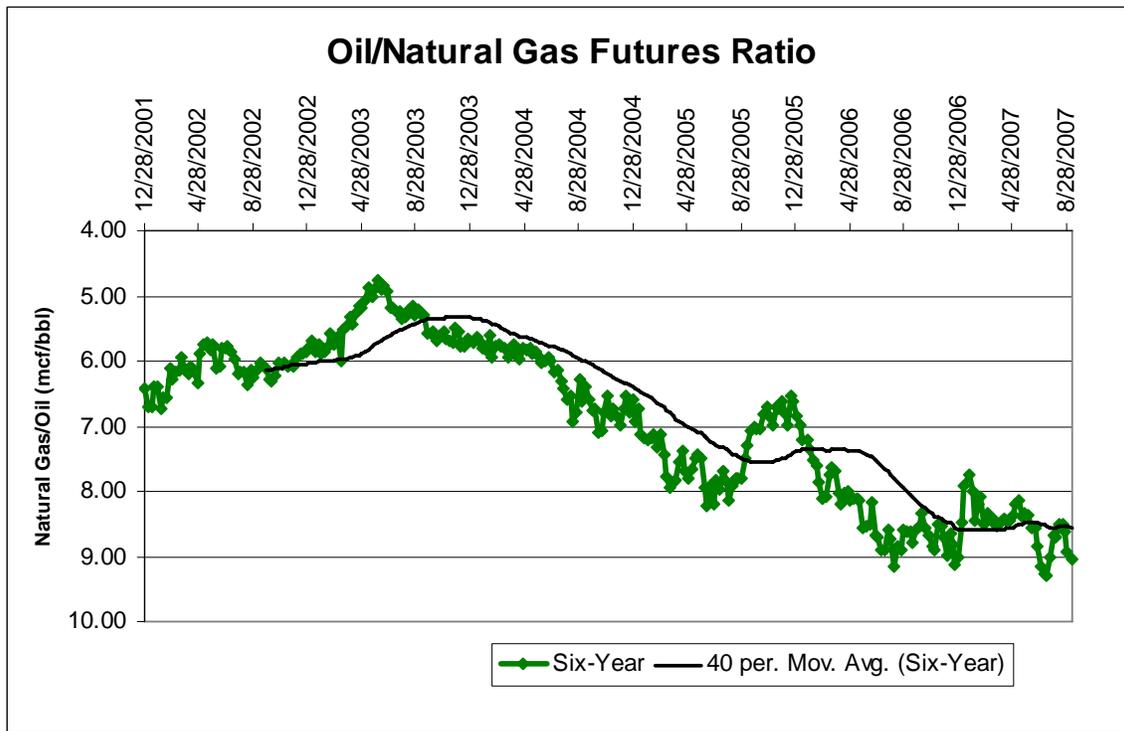
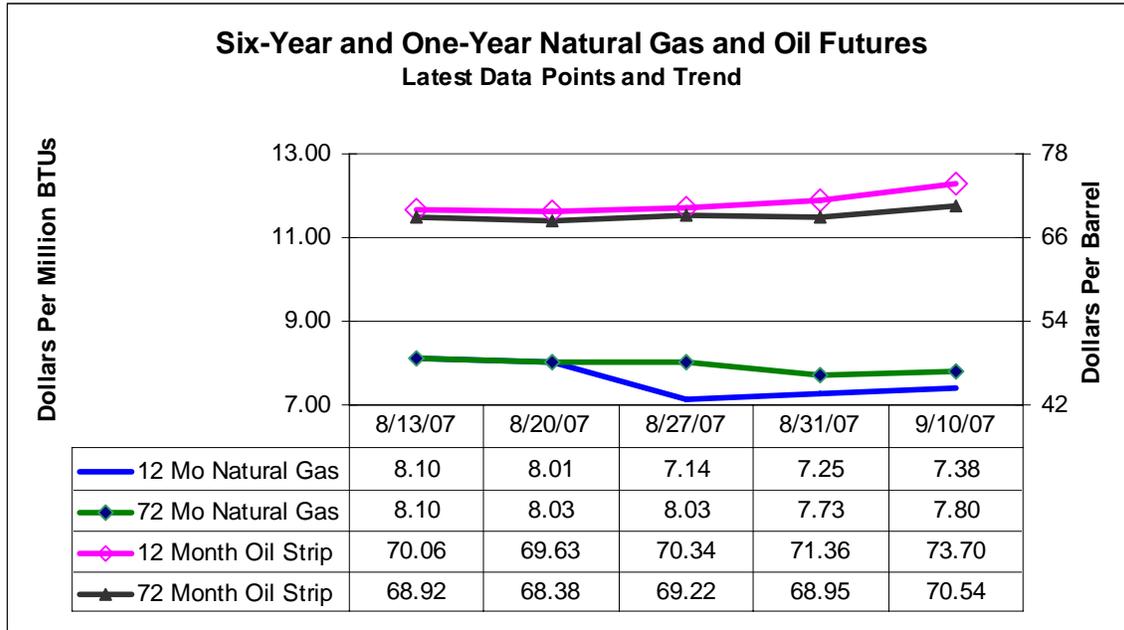
would buy 3 million metric tons a year of LNG beginning around 2013 from Woodside Petroleum, 34% owned by buy-recommended **Royal Dutch Shell (RDS)** and another 1 million tons a year from RDS. Eighty million tons of LNG delivered in twenty years would have a sales value of about \$32 billion at today's global benchmark of \$8 a million btus and more at likely future prices. The market implications are wide-reaching as in the words of Deputy Chief Executive Officer Alexander Medvedev of buy-recommended **Gazprom (OGZPY)**, quoted on Bloomberg from Australia, "Demand [for natural gas] in China in the long term is so huge...."

Buy Recommendations with Natural Gas

			<i>Natural Gas</i>		
			<i>Present Value</i>		<i>McDep</i>
			<i>(US\$mm)</i>	<i>(%)</i>	<i>Ratio</i>
Gazprom	OGZPY	290,000	77	0.69	
Exxon Mobil Corporation	XOM	113,000	21	0.93	
Total S.A.	TOT	65,000	28	0.87	
BP plc	BP	59,000	18	0.82	
ConocoPhillips	COP	52,000	23	0.78	
Royal Dutch Shell plc	RDS-A	52,000	16	0.87	
Statoil ASA	STO	46,000	36	0.89	
Encana Corporation	ECA	45,000	67	0.85	
Devon Energy Corporation	DVN	38,000	56	0.66	
Anadarko Petroleum Corp.	APC	30,000	56	0.79	
Chevron Corporation	CVX	27,000	11	0.84	
XTO Energy Inc.	XTO	26,000	80	0.84	
EOG Resources	EOG	22,000	82	0.71	
PetroChina Company Ltd	PTR	21,000	7	0.87	
Occidental Petroleum Corp.	OXY	9,700	14	0.78	
Petro-Canada	PCZ	5,300	14	0.83	
Cimarex Energy Company	XEC	4,800	68	0.53	
CNOOC Limited	CEO	3,900	8	1.15	
Penn West Energy Trust	PWE	3,400	31	0.84	
Imperial Oil Limited	IMO	3,000	7	1.05	
San Juan Basin Royalty Trust	SJT	1,860	100	0.81	
Suncor Energy	SU	1,700	3	0.87	
Energy Partners Ltd.	EPL	950	50	0.56	
Encore Acquisition Company	EAC	750	17	0.68	
Berry Petroleum Company	BRY	700	27	0.83	

Kurt H. Wulff, CFA

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Oil and Gas Producers - Rank by McDep Ratio

	Symbol/ Rating		Price (US\$/sh) 10-Sep 2007	Shares (mm)	Market Cap (US\$mm)	Net Present Value (US\$/sh)	Debt/ Present Value	McDep Ratio
Mega Cap								
Exxon Mobil Corporation	XOM	B	84.86	5,620	477,000	92.00	0.05	0.93
Total S.A.	TOT	B	75.77	2,278	173,000	89.00	0.13	0.87
Royal Dutch Shell plc	RDS-A	B	79.89	3,152	252,000	94.00	0.10	0.87
Chevron Corporation	CVX	B	87.05	2,206	192,000	105.00	0.08	0.84
BP plc	BP	B	68.34	3,198	219,000	87.00	0.16	0.82
ConocoPhillips	COP	B	82.19	1,658	136,000	112.00	0.19	0.78
Gazprom (50%)	OGZPY	B	41.55	2,855	118,600	62.00	0.07	0.69
<i>Total or Median</i>					<i>1,568,000</i>		<i>0.10</i>	<i>0.84</i>
Producer/Refiners - Large Cap								
Imperial Oil Limited (30%)	IMO	B	44.12	282	12,440	42.00	0.07	1.05
Norsk Hydro ASA (post Oct 1)	NHY	H	12.07	1,241	14,980	13.00	0.11	0.94
Statoil ASA (29%)	STO	B	30.43	928	28,240	35.00	0.14	0.89
Marathon Oil Corporation	MRO	H	53.21	722	38,420	62.00	0.18	0.88
Suncor Energy	SU	B	90.42	472	42,680	105.00	0.08	0.87
PetroChina Company Ltd (10%)	PTR	B	143.01	178	25,440	166.00	0.06	0.87
Petro-Canada	PCZ	B	51.96	498	25,880	65.00	0.15	0.83
Lukoil Oil Company	LUKOY	B	75.20	831	62,000	121.00	0.02	0.63
<i>Total or Median</i>					<i>250,000</i>		<i>0.10</i>	<i>0.88</i>
Independent Natural Gas and Oil - Large Cap								
CNOOC Limited (34%)	CEO	B	123.89	149	18,490	108.00	-	1.15
Encana Corporation	ECA	B	59.23	765	45,300	72.00	0.18	0.85
XTO Energy Inc.	XTO	B	57.13	390	22,280	70.00	0.15	0.84
Canadian Natural Resources	CNQ		68.80	539	37,100	87.00	0.21	0.84
Anadarko Petroleum Corp.	APC	B	49.85	467	23,300	74.00	0.35	0.79
Occidental Petroleum Corp.	OXY	B	58.68	842	49,400	77.00	0.07	0.78
EOG Resources	EOG	B	70.32	247	17,400	102.00	0.05	0.71
Devon Energy Corporation	DVN	B	77.38	450	34,800	129.00	0.14	0.66
<i>Total or Median</i>					<i>248,000</i>		<i>0.15</i>	<i>0.81</i>
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	34.02	45	1,530	44.00	0.23	0.83
Encore Acquisition Company	EAC	B	28.60	54	1,540	54.00	0.32	0.68
Energy Partners Ltd.	EPL	B	13.99	35	480	38.00	0.31	0.56
Cimarex Energy Company	XEC	B	36.86	85	3,130	76.00	0.09	0.53
<i>Total or Median</i>					<i>6,700</i>		<i>0.27</i>	<i>0.62</i>
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S	50.13	179	8,960	17.00	0.53	1.92
Kinder Morgan Management, LLC	KMR	S	47.60	62	2,940	17.00	0.53	1.85
Pengrowth Energy Trust	PGH		16.83	246	4,140	17.00	0.26	0.99
Enerplus Resources Fund	ERF		42.99	128	5,500	52.00	0.12	0.85
Penn West Energy Trust	PWE	B	28.70	242	6,930	36.00	0.19	0.84
San Juan Basin Royalty Trust	SJT	B	32.50	47	1,510	40.00	-	0.81
Canadian Oil Sands Trust	COSWF	B	30.78	479	14,750	39.00	0.07	0.80
Hugoton Royalty Trust	HGT	B	23.19	40	930	34.00	-	0.68
<i>Total or Median</i>					<i>45,700</i>		<i>0.16</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

	Symbol/ Rating		Price (US\$/sh) 10-Sep 2007	Adjustd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
Mega Cap								
Gazprom (50%)	OGZPY	B	41.55	24.6	9.4	6.5	10	1.0
Exxon Mobil Corporation	XOM	B	84.86	11.7	6.7	6.2	11	1.6
BP plc	BP	B	68.34	9.6	7.0	5.8	9	3.8
Total S.A.	TOT	B	75.77	9.7	6.5	5.7	10	3.6
Chevron Corporation	CVX	B	87.05	10.1	6.2	5.2	9	2.7
ConocoPhillips	COP	B	82.19	10.3	6.5	5.1	8	2.0
Royal Dutch Shell plc	RDS-A	B	79.89	8.1	5.7	5.0	9	3.6
	<i>Median</i>			10.1	6.5	5.7	9	2.7
Producer/Refiners - Large Cap								
Suncor Energy	SU	B	90.42	23.8	10.6	9.3	17	0.4
Imperial Oil Limited (30%)	IMO	B	44.12	13.2	7.9	8.2	14	0.8
PetroChina Company Ltd (10%)	PTR	B	143.01	15.0	7.6	6.6	13	3.3
Norsk Hydro ASA (post Oct 1)	NHY	H	12.07	-	6.6	6.2	10	1.4
Statoil ASA (29%)	STO	B	30.43	7.7	6.1	5.4	12	5.1
Marathon Oil Corporation	MRO	H	53.21	8.6	5.5	4.9	8	1.8
Lukoil Oil Company	LUKOY	B	75.20	17.8	7.7	4.8	8	2.0
Petro-Canada	PCZ	B	51.96	6.5	5.8	4.8	10	0.9
	<i>Median</i>			10.9	7.1	5.8	11	1.6
Independent Natural Gas and Oil - Large Cap								
CNOOC Limited (34%)	CEO	B	123.89	10.7	6.8	7.8	15	2.8
Canadian Natural Resources	CNQ		68.80	8.1	9.1	7.6	16	0.5
XTO Energy Inc.	XTO	B	57.13	11.3	8.6	7.3	13	0.8
Encana Corporation	ECA	B	59.23	9.2	7.7	6.6	12	1.4
Anadarko Petroleum Corp.	APC	B	49.85	11.2	8.4	6.6	13	1.4
EOG Resources	EOG	B	70.32	9.3	8.7	6.1	16	0.5
Devon Energy Corporation	DVN	B	77.38	9.0	8.5	5.6	11	0.7
Occidental Petroleum Corp.	OXY	B	58.68	11.5	7.1	5.5	11	1.7
	<i>Median</i>			10.0	8.4	6.6	13	1.1
Independent Natural Gas and Oil - Small Cap								
Berry Petroleum Company	BRY	B	34.02	10.2	8.9	7.3	15	0.9
Encore Acquisition Company	EAC	B	28.60	15.5	9.0	6.1	16	-
Cimarex Energy Company	XEC	B	36.86	8.0	7.5	4.0	10	0.4
Energy Partners Ltd.	EPL	B	13.99	5.9	6.4	3.6	-	-
	<i>Median</i>			9.1	8.2	5.1	15	0.2
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S	50.13		8.0	15.4	35	6.8
Kinder Morgan Management, LLC	KMR	S	47.60		8.0	14.8	33	7.1
San Juan Basin Royalty Trust	SJT	B	32.50	10.0	13.9	11.3	14	7.1
Hugoton Royalty Trust	HGT	B	23.19	14.1	12.9	8.8	13	7.8
Canadian Oil Sands Trust	COSWF	B	30.78	20.9	10.5	8.5	10	9.9
Pengrowth Energy Trust	PGH		16.83	7.1	8.1	8.0	55	16.9
Enerplus Resources Fund	ERF		42.99	9.4	9.3	7.9	17	11.1
Penn West Energy Trust	PWE	B	28.70	7.7	8.1	6.8	14	13.5
	<i>Median</i>			9.7	8.7	8.6	15	8.9

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 2008; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

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Index of Recent Research**Stock Ideas**

<u>Date</u>	<u>Symbol</u>	<u>Stock</u>	<u>Theme</u>
6-Sep	SJT	San Juan Basin Royalty Trust	Mountains and Valleys
5-Sep	COSWF	Canadian Oil Sands Trust	Record 375,000 Barrels Daily for August
29-Aug	CEO	CNOOC Ltd	Making Money Offshore China
23-Aug	PTR	PetroChina Company Limited	Price Controls Ease in 2007 Half
8-Aug	* EPL	Energy Partners, Ltd.	Oversold
3-Aug	* EOG	EOG Resources Inc.	Natural Gas with North Dakota Oil
3-Aug	* PWE	Penn West Energy Trust	High Return from Distributions
3-Aug	* IMO	Imperial Oil Limited	High Return from Stock Repurchase
2-Aug	* TOT	Total S.A.	Constructive Russo-French Interdependence
2-Aug	* BRY	Berry Petroleum	Rocky Mountain Constraints
1-Aug	* XEC	Cimarex Energy Company	Stable Volume
1-Aug	* DVN	Devon Energy Corporation	Volume Advances
1-Aug	* EAC	Encore Acquisition	Nice to be Oily
31-Jul	* MRO	Marathon Oil Corporation	Oil Sands Acquirer
31-Jul	* APC	Anadarko Petroleum Corporation	Transition Maturing
30-Jul	* STO	Statoil ASA	Norwegian Oil and Gas Champion
27-Jul	* CVX	Chevron Corporation	Oil and Downstream Vigor
26-Jul	* SU	Suncor Energy	Oil Sands Growth Stock
26-Jul	* XOM	Exxon Mobil Corporation	Steady Strength
26-Jul	* PCZ	Petro-Canada	Raise NPV to US\$65 a Share
26-Jul	* RDSA	Royal Dutch Shell plc	Downstream Benefit
25-Jul	* ECA	EnCana Corporation	Downstream Blessing
25-Jul	* COP	ConocoPhillips	Downstream Blessing
25-Jul	* BP	BP p.l.c.	Controversy Diminishing
24-Jul	* XTO	XTO Energy Inc.	Volume Growth in Underpriced Natural Gas
24-Jul	* OXY	Occidental Petroleum Corporation	Ready for Peak Oil Test
24-Jul	* NHY	Norsk Hydro ASA	Confidence in Aluminium
23-Jul	* HGT	Hugoton Royalty Trust	Paying Unitholders to Wait
19-Jul	* KMX	Kinder Morgan	Suggestions for New General Partner Owners
29-Jun	* OGZPY	Gazprom	Raise NPV to \$62 a Share
29-Jun	* LUKOY	Lukoil Oil Company	Raise NPV to \$121 a Share

Meter Reader - A Weekly Analysis

11-Sep		China Natural Gas Price Breakthrough
4-Sep		Oil Looking Up
14-Aug	*	Refresh and Reload
7-Aug	*	Buy Something

Natural Gas and Oil Royalty Trusts - A Weekly Analysis

7-Sep		Poised to Win
17-Aug	*	Buy Systematically
10-Aug	*	Real Assets for a Time of Financial Turmoil
6-Aug	*	Seymour Schulich's Book

* Archived on www.mcdep.com

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