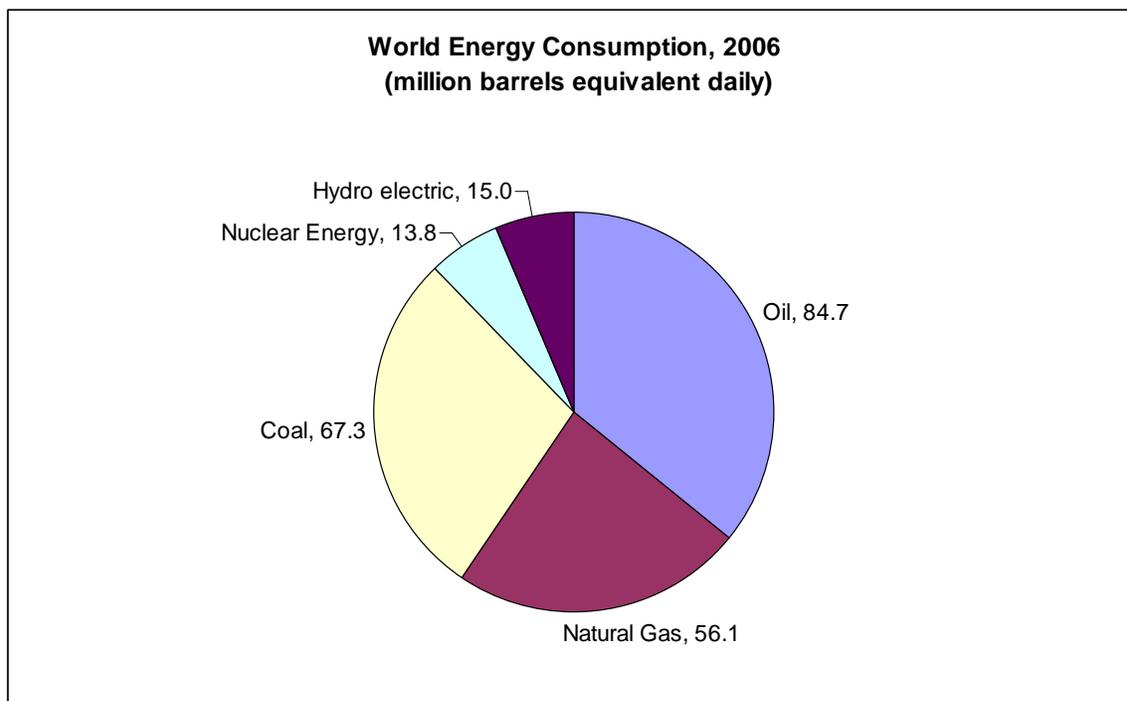


## Optimum Price for Natural Gas

### Summary and Recommendation

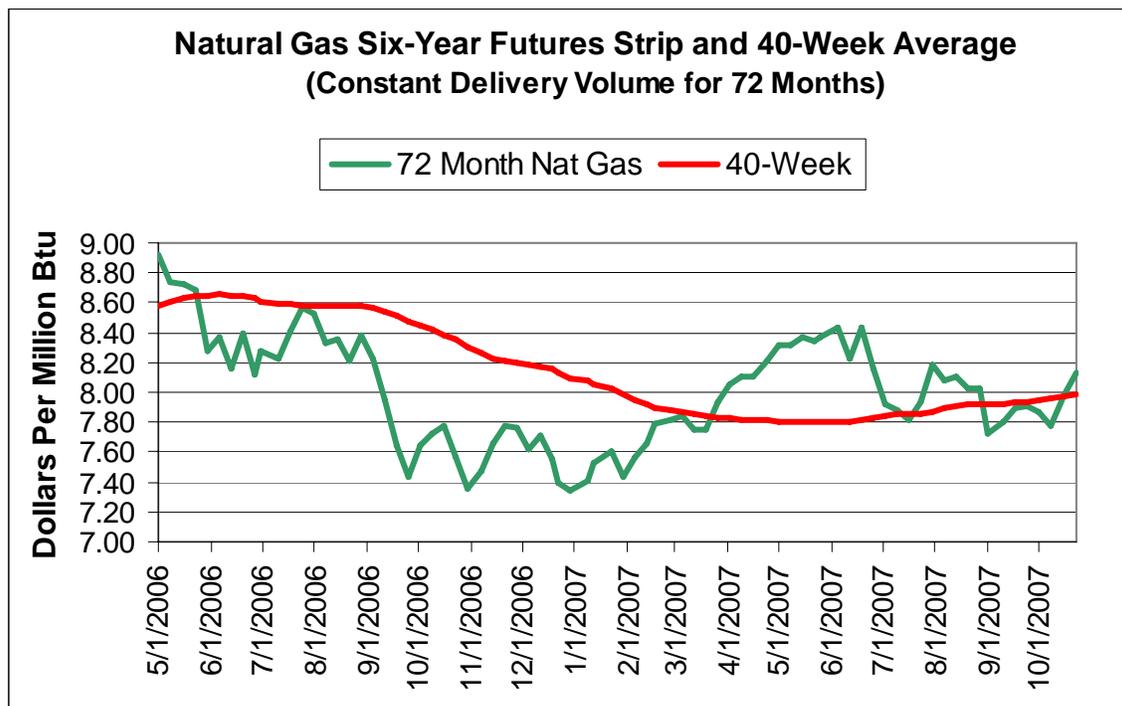
A tightening supply of oil and increasing restrictions on coal burning may drive natural gas price to its refined oil product equivalent which is about oil price divided by five, or twice the current price of the cleaner fuel. Natural gas is the only readily available large scale acceptable substitute for the two highest volume fuels (see chart, World Energy Consumption, 2006). Places where natural gas can displace enough oil to avoid a shortage of the liquid fuel may include power generation in Japan, residential and commercial heating in New England, as well as transportation fuel for busses and trucks, for example. The practical degree to which natural gas should replace coal, we think, is up to the point where natural gas price reaches the refined oil equivalent. Beyond that point, the cost of further environmental restriction may be too high. Below that point our environmental restrictions are too lax. The normal lag time between decisions and results may cause the natural gas price reaction to be delayed and then exaggerated. Nonetheless a new price uptrend may have started as the six-year price of natural gas trades above its 40- week average again after hesitating for a few months (see chart Natural Gas Six-Year Futures Strip). We continue to have patience regarding our natural gas buy-recommendations **Hugoton Royalty Trust (HGT)** and **San Juan Basin Royalty Trust (SJT)**. **Mesa Royalty Trust (MTR)** got surprisingly good news as an expected deduction for a legal settlement will not be made and a previous deduction will be reversed and paid to unitholders.

Kurt H. Wulff, CFA



Source: *BP Statistical Review of World Energy indexed to oil at 84.7 from U.S. Energy Information Administration.*

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**Natural Gas and Oil Income Stocks - Rank by McDep Ratio**

	Symbol/ Rating	Price (\$/sh) 18-Oct 2007	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
<b>U.S. Royalty Trusts</b>							
Sabine Royalty Trust	SBR	47.00	14.6	690	45.00	-	1.04
Permian Basin RT	PBT	15.74	46.6	730	16.50	-	0.95
San Juan Basin Royalty Trust	SJT	B 36.92	46.6	1,720	40.00	-	0.92
Mesa RoyaltyTrust	MTR	64.32	1.9	120	70.00	-	0.92
Cross Timbers Royalty Trust	CRT	39.99	6.0	240	46.00	-	0.87
Hugoton RoyaltyTrust	HGT	B 25.05	40.0	1,000	34.00	-	0.74
<i>Total or Median</i>				4,500			0.92
<b>Canadian Income Trusts (US\$)</b>							
Pengrowth Energy Trust	PGH	18.80	246.0	4,620	17.00	0.29	1.07
Canadian Oil Sands Trust	COSWF	B 36.55	479.0	17,510	39.00	0.08	0.94
Penn West Energy Trust	PWE	B 32.33	241.5	7,810	36.00	0.21	0.92
Enerplus Resources Fund	ERF	46.70	128.0	5,980	52.00	0.13	0.91
<i>Total or Median</i>				35,900		0.17	0.93
<b>U.S. Master Limited Partnerships (MLPs)</b>							
Kinder Morgan Energy Partners, L.P.	KMP	S 51.83	178.3	9,240	17.00	0.54	1.94
Encore Energy Partners, L.P. (39%)	ENP	20.50	9.0	190	18.00	0.14	1.12
Linn Energy, LLC	LINE	29.47	114.0	3,360	25.00	0.31	1.12
Dorchester Minerals, L.P.	DMLP	22.09	28.2	620	27.00	-	0.82
<i>Total or Median</i>				13,400		0.23	1.12

B = Buy, S = Sell

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

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## Natural Gas and Oil Income Stocks - Rank by EV/Ebitda

	Symbol/ Rating		Price (\$/sh) 18-Oct 2007	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
<b>U.S. Royalty Trusts</b>								
San Juan Basin Royalty Trust	SJT	B	36.92	10.0	12.9	11.9	14.7	6.8
Sabine Royalty Trust	SBR		47.00	9.6	9.7	10.2	10.2	9.8
Cross Timbers Royalty Trust	CRT		39.99	12.0	11.4	9.9	10.6	9.5
Mesa RoyaltyTrust	MTR		64.32	21.9	10.7	9.8	11.2	8.9
Hugoton RoyaltyTrust	HGT	B	25.05	13.9	11.6	8.6	12.4	8.1
Permian Basin RT	PBT		15.74	8.1	8.5	8.1	10.0	10.0
	<i>Median</i>			<i>11.0</i>	<i>11.1</i>	<i>9.9</i>	<i>10.9</i>	<i>9.2</i>
<b>Canadian Income Trusts (US\$)</b>								
Canadian Oil Sands Trust	COSWF	B	36.55	21.7	9.3	8.8	10.5	8.6
Pengrowth Energy Trust	PGH		18.80	7.1	7.0	7.6	38.3	15.5
Enerplus Resources Fund	ERF		46.70	9.4	8.2	7.5	14.9	11.0
Penn West Energy Trust	PWE	B	32.33	7.7	7.2	6.6	12.9	12.9
	<i>Median</i>			<i>8.5</i>	<i>7.7</i>	<i>7.5</i>	<i>13.9</i>	<i>12.0</i>
<b>U.S. Master Limited Partnerships (MLPs)</b>								
Linn Energy, LLC	LINE		29.47	21.1	13.7	15.3	56.6	7.7
Kinder Morgan Energy Partners, L.P.	KMP	S	51.83	7.6	7.9	15.3	32.4	6.8
Dorchester Minerals, L.P.	DMLP		22.09	9.1	11.6	9.5	14.5	10.5
Encore Energy Partners, L.P.	ENP		20.50	12.7	7.6	8.5	22.6	6.8
	<i>Median</i>			<i>10.9</i>	<i>9.7</i>	<i>12.4</i>	<i>27.5</i>	<i>7.3</i>

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

## Natural Gas and Oil Income Stocks - Rank by NTM Distribution Yield

	Symbol	Revenue Royalty (%)	Natural Gas/ Ebitda (%)	Dist/ Ebitda	Dist/ Equity Ebitda	NTM Distribution (\$mm)	Dist. Yield (\$/un) (%)
<b>U.S. Royalty Trusts</b>							
San Juan Basin Royalty Trust	SJT	-	98	0.81	0.81	117	2.51
Hugoton RoyaltyTrust	HGT	-	87	0.69	0.69	81	2.02
Mesa RoyaltyTrust	MTR	-	68	0.88	0.88	11	5.74
Cross Timbers Royalty Trust	CRT	84	65	0.94	0.94	23	3.78
Sabine Royalty Trust	SBR	100	54	1.00	1.00	67	4.62
Permian Basin RT	PBT	35	34	0.81	0.81	74	1.58
	<i>Total or Median</i>		<i>67</i>	<i>0.84</i>	<i>0.84</i>	<i>400</i>	<i>9.2</i>
<b>Canadian Income Trusts (US\$)</b>							
Canadian Oil Sands Trust	COSWF	-	(7)	0.69	0.75	1,498	3.13
Enerplus Resources Fund	ERF	-	39	0.71	0.81	660	5.16
Penn West Energy Trust	PWE	-	34	0.67	0.84	1,008	4.17
Pengrowth Energy Trust	PGH	-	39	0.86	1.21	717	2.92
	<i>Total or Median</i>		<i>36</i>	<i>0.70</i>	<i>0.83</i>	<i>3,900</i>	<i>12.0</i>
<b>U.S. Master Limited Partnerships (MLPs)</b>							
Kinder Morgan Energy Partners, L.P.	KMP		-	0.75	1.64	628	3.52
Encore Energy Partners, L.P.	ENP		15	0.51	0.59	13	1.40
Linn Energy, LLC	LINE		66	0.86	1.25	260	2.28
Dorchester Minerals, L.P.	DMLP	64	71	1.00	1.00	66	2.33
	<i>Total or Median</i>		<i>40</i>	<i>0.80</i>	<i>1.12</i>	<i>1,000</i>	<i>7.3</i>

NTM = Next Twelve Months Ended September 30, 2008  
Ebitda = Earnings before interest, tax, depreciation and amortization

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