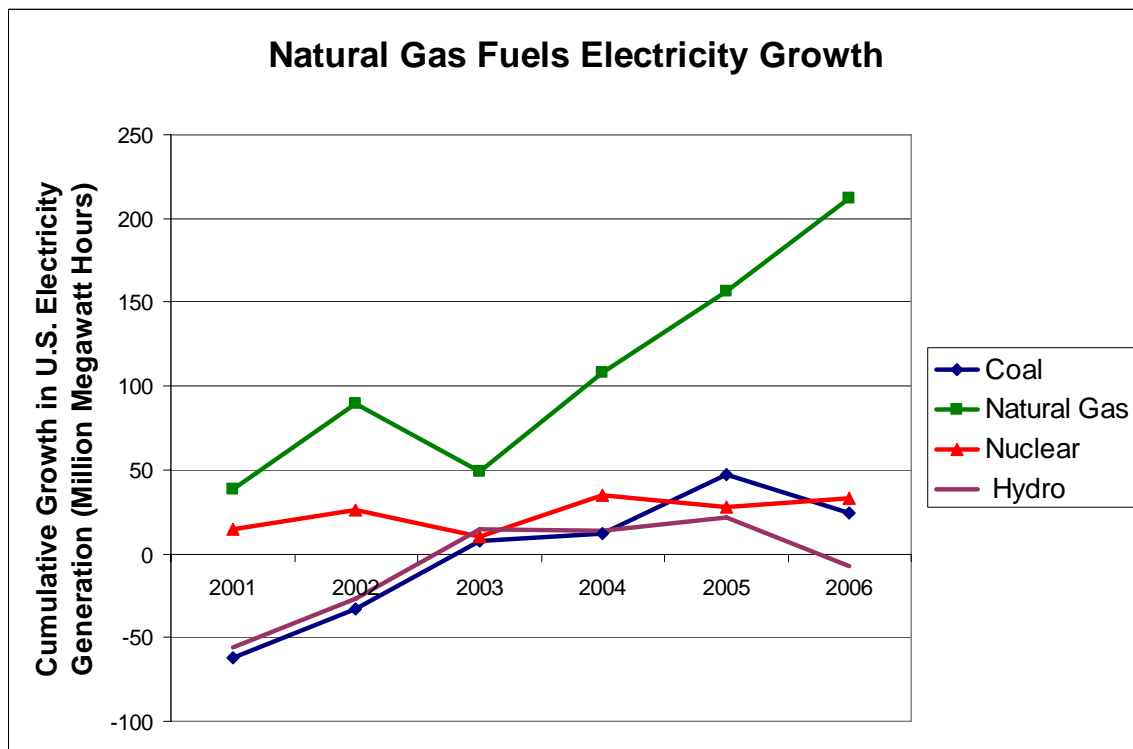


## Natural Gas Fuels Electricity Growth

### Summary and Recommendation

Electricity generation trends point to higher natural gas price than that reflected in stock prices for natural gas producers including income buy recommendations **Hugoton Royalty Trust (HGT)** and **San Juan Basin Royalty Trust (SJT)**, we believe. Natural gas has fueled 81% of growth in U.S. electricity generation from 2000 to 2006. The trend seems likely to continue and, in our opinion, should be accelerated. Coal fueled 49% of electricity generated in 2006, down from 52% in 2000 according to the *U.S. Energy Information Administration*. During the same time natural gas increased its share to 20% from 16%. Few new coal plants are being built, those proposed are being cancelled and non-compliant plants are being shut down. With natural gas selling at half price relative to oil, there is room for natural gas price improvement. While we are waiting, the median of seven natural gas income stocks in our coverage would pay distributions of 8.8% in the year ahead by our projections.

Kurt H. Wulff, CFA



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

	Symbol/ Rating	Price (\$/sh) 15-Nov 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	47.97	14.6	700	45.00	-	1.07	
Mesa RoyaltyTrust	MTR	69.93	1.9	130	70.00	-	1.00	
Permian Basin RT	PBT	14.96	46.6	700	16.50	-	0.91	
Cross Timbers Royalty Trust	CRT	40.50	6.0	240	46.00	-	0.88	
San Juan Basin Royalty Trust	SJT	B	34.50	46.6	1,610	40.00	-	0.86
Hugoton RoyaltyTrust	HGT	B	23.85	40.0	950	34.00	-	0.70
<i>Total or Median</i>				4,300			0.89	
<b>Canadian Income Trusts (US\$)</b>								
Pengrowth Energy Trust	PGH	17.96	247.0	4,440	17.00	0.30	1.04	
Canadian Oil Sands Trust	COSWF	B	34.62	479.0	16,580	39.00	0.07	0.90
Penn West Energy Trust	PWE	B	27.81	242.6	6,750	34.00	0.23	0.86
Enerplus Resources Fund	ERF	41.58	129.4	5,380	52.00	0.14	0.83	
<i>Total or Median</i>				33,200		0.18	0.88	
<b>U.S. Master Limited Partnerships (MLPs)</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S	50.51	178.3	9,010	17.00	0.54	1.91
Encore Energy Partners, L.P. (39%)	ENP	20.28	9.0	180	18.00	0.16	1.10	
Linn Energy, LLC	LINE	25.82	114.0	2,940	25.00	0.32	1.02	
Dorchester Minerals, L.P.	DMLP	20.66	28.2	580	27.00	-	0.76	
<i>Total or Median</i>				12,700		0.24	1.06	

B = Buy, S = Sell

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

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

	Symbol/ Rating	Price (\$/sh) 15-Nov 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	34.50	10.3	12.9	11.2	13.6	7.3
Cross Timbers Royalty Trust	CRT	40.50	13.9	12.0	10.6	11.2	8.9	
Sabine Royalty Trust	SBR	47.97	9.2	9.6	10.2	10.2	9.8	
Mesa RoyaltyTrust	MTR	69.93	21.1	10.1	10.1	11.6	8.6	
Hugoton RoyaltyTrust	HGT	B	23.85	13.8	11.2	7.9	11.5	8.7
Permian Basin RT	PBT	14.96	8.2	8.3	7.5	8.4	11.9	
<i>Median</i>				12.1	10.7	10.1	11.4	8.8
<b>Canadian Income Trusts (US\$)</b>								
Canadian Oil Sands Trust	COSWF	B	34.62	21.7	8.2	7.4	8.6	9.2
Pengrowth Energy Trust	PGH	17.96	7.4	6.6	6.9	19.8	15.5	
Enerplus Resources Fund	ERF	41.58	9.7	8.1	6.7	12.0	12.8	
Penn West Energy Trust	PWE	B	27.81	7.8	6.4	5.5	9.8	15.5
<i>Median</i>				8.7	7.3	6.8	10.9	14.2
<b>U.S. Master Limited Partnerships (MLPs)</b>								
Kinder Morgan Energy Partners, L.P.	KMP	S	50.51	7.6	7.9	15.0	31.6	7.0
Linn Energy, LLC	LINE	25.82	20.8	13.1	13.4	40.6	8.8	
Dorchester Minerals, L.P.	DMLP	20.66	9.2	11.6	8.9	13.3	11.3	
Encore Energy Partners, L.P.	ENP	20.28	12.2	7.3	8.0	44.0	6.9	
<i>Median</i>				10.7	9.7	11.1	36.1	7.9

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

	<i>Symbol</i>	<i>Revenue Royalty (%)</i>	<i>Natural Gas/ Ebitda (%)</i>	<i>Dist/ Ebitda</i>	<i>Dist/ Equity Ebitda</i>	<i>NTM Distribution (\$mm) (\$/un)</i>		<i>Dist. Yield (%)</i>	
<b>U.S. Royalty Trusts</b>									
	San Juan Basin Royalty Trust	SJT	-	98	0.82	0.82	118	2.53	7.3
	Mesa RoyaltyTrust	MTR	-	65	0.88	0.88	11	6.04	8.6
	Hugoton RoyaltyTrust	HGT	-	87	0.69	0.69	83	2.07	8.7
	Cross Timbers Royalty Trust	CRT	84	67	0.94	0.94	22	3.61	8.9
	Sabine Royalty Trust	SBR	100	51	1.00	1.00	69	4.71	9.8
	Permian Basin RT	PBT	35	34	0.89	0.89	83	1.78	11.9
	<i>Total or Median</i>			66	0.88	0.88	400		8.8
<b>Canadian Income Trusts (US\$)</b>									
	Canadian Oil Sands Trust	COSWF	-	(6)	0.62	0.67	1,521	3.18	9.2
	Enerplus Resources Fund	ERF	-	37	0.71	0.83	690	5.33	12.8
	Penn West Energy Trust	PWE	-	29	0.63	0.82	1,048	4.32	15.5
	Pengrowth Energy Trust	PGH	-	35	0.76	1.09	689	2.79	15.5
	<i>Total or Median</i>			32	0.67	0.82	3,900		14.2
<b>U.S. Master Limited Partnerships (MLPs)</b>									
	Encore Energy Partners, L.P.	ENP		15	0.48	0.57	13	1.40	6.9
	Kinder Morgan Energy Partners, L.P.	KMP		-	0.75	1.64	628	3.52	7.0
	Linn Energy, LLC	LINE		65	0.82	1.20	260	2.28	8.8
	Dorchester Minerals, L.P.	DMLP	64	68	1.00	1.00	66	2.33	11.3
	<i>Total or Median</i>			40	0.78	1.10	1,000		7.9

NTM = Next Twelve Months Ended September 30, 2008

Ebitda = Earnings before interest, tax, depreciation and amortization

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