

## Al Gore's Movie

### Summary and Recommendation

Former Vice President Al Gore's case for reducing carbon dioxide emissions to slow global warming makes hydrogen-rich natural gas and oil appear more valuable as substitutes for carbon-rich coal. The movie [An Inconvenient Truth](#) and its update on digital disk stress the fearful consequences of rising global temperature and point to carbon dioxide emissions as the primary cause. We note that substituting natural gas for coal would reduce carbon emissions by a half from the largest fossil fuel source (see [Meter Reader](#), *Alternative Energy*, February 21, 2006). A move in that direction would soon drive the price of natural gas to perhaps \$30 a million btu, the equivalent of partially refined product from crude oil priced at \$150 a barrel, our vision for 2010. That price might also be enough to encourage long-term investment to gasify coal to remove all the pollutants and to capture the carbon dioxide. Thus, investors in natural gas and oil income stocks can enjoy cash distributions and be encouraged that oil and gas are part of the solution to our environmental challenges.

### Distributions Looking Up for Natural Gas Producers

Since the monthly index price for October was set early that month there has been reason to expect low distributions to be declared in December for some income stocks like buy-recommended **San Juan Basin Royalty Trust (SJT)**. Now we think investors should look to February for a higher distribution reflecting a likely index price for December in the San Juan Basin to be set at more than twice the low \$3.43 a million btu for October.

### Canadian Oil Sands Trust Increases Ownership in Syncrude

Buy-recommended **Canadian Oil Sands Trust (COSWF)** agrees to acquire Talisman Energy (TLM)'s 1.25% interest in the world's largest oil sands mining and upgrading facility at a price of about US\$420 million (C\$475 million), half in stock and half in cash. At the current enterprise value for COSWF, a 1.25% interest in Syncrude is worth about US\$480 million. As a result, the deal appears to add value on a market basis of US\$60 million or about US\$0.13 a unit. Effective as of December 1, the deal increases COSWF's total interest in Syncrude to 36.74%.

For comparable clean energy benefit, oil sands mining and upgrading is better than coal and not as good as conventional oil production in potential environmental cost. Syncrude mitigates the negative effect by producing high quality synthetic crude that requires less refining. The recent 40% expansion includes equipment to trap sulfur dioxide emissions and convert the offending substance to fertilizer. While carbon dioxide is released to the atmosphere today, there is a prospective market tomorrow for captured carbon dioxide to be used in enhanced recovery in conventional oil fields.

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### Natural Gas and Oil Royalty Trusts Rank by McDep Ratio: Market Cap and Debt to Present Value

	Symbol/ Rating	Price (\$/sh) 30-Nov 2006	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio	
<b>U.S. Royalty Trusts</b>								
Sabine Royalty Trust	SBR	54.74	14.6	800	45.00	-	1.22	
Cross Timbers Royalty Trust	CRT	53.75	6.0	320	46.00	-	1.17	
Permian Basin RT	PBT	16.56	46.6	770	16.50	-	1.00	
San Juan Basin Royalty Trust	SJT	B	38.86	46.6	1,810	40.00	-	0.97
Dorchester Minerals, L.P.	DMLP	24.83	28.2	700	27.00	-	0.92	
Hugoton RoyaltyTrust	HGT	27.89	40.0	1,120	34.00	-	0.82	
Mesa RoyaltyTrust	MTR	50.79	1.9	100	70.00	-	0.73	
<i>Total or Median</i>				5,600			0.97	
<b>Canadian Income Trusts (US\$)</b>								
Enerplus Resources Fund	ERF	46.13	123.1	5,680	47.00	0.11	0.98	
Pengrowth Energy Trust	PGH	17.04	220.2	3,750	20.00	0.22	0.88	
Penn West Energy Trust	PWE	B	32.00	239.0	7,650	39.00	0.13	0.84
Canadian Oil Sands Trust	COSWF	B	26.32	468.1	12,320	35.00	0.08	0.77
<i>Total or Median</i>				29,400		0.12	0.86	

B = Buy

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

### Natural Gas and Oil Royalty Trusts Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	Symbol/ Rating	Price (\$/sh) 30-Nov 2006	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)	
<b>U.S. Royalty Trusts</b>								
Cross Timbers Royalty Trust	CRT	53.75		11.7	13.7	13.9	7.2	
Sabine Royalty Trust	SBR	54.74		11.1	13.5	13.5	7.4	
Permian Basin RT	PBT	16.56		9.9	10.0	11.1	9.0	
Dorchester Minerals, L.P.	DMLP	24.83		10.5	9.7	14.5	9.6	
San Juan Basin Royalty Trust	SJT	B	38.86	9.7	9.4	11.3	8.9	
Mesa RoyaltyTrust	MTR	50.79		10.9	8.0	9.6	10.4	
Hugoton RoyaltyTrust	HGT	27.89		9.0	7.4	10.9	9.2	
<i>Median</i>				10.5	9.7	11.3	9.0	
<b>Canadian Income Trusts (US\$)</b>								
Canadian Oil Sands Trust	COSWF	B	26.32	23.2	11.7	9.0	11.7	7.0
Enerplus Resources Fund	ERF	46.13	9.5	6.8	6.7	13.3	9.6	
Penn West Energy Trust	PWE	B	32.00	8.1	7.9	6.7	11.0	11.3
Pengrowth Energy Trust	PGH	17.04	7.6	6.9	6.1	8.0	15.5	
<i>Median</i>				8.8	7.4	6.7	11.3	10.5

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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**Natural Gas and Oil Royalty Trusts  
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)</i>	<i>NTM Distribution (\$/un)</i>	<i>Dist. Yield (%)</i>
<b>U.S. Royalty Trusts</b>								
	CRT	81	71	0.98	0.98	23	3.86	7.2
	SBR	100	58	1.00	1.00	59	4.04	7.4
	SJT	-	98	0.83	0.83	161	3.45	8.9
	PBT	29	37	0.90	0.90	70	1.50	9.0
	HGT	-	91	0.68	0.68	103	2.57	9.2
	DMLP	56	76	0.93	0.93	68	2.39	9.6
	MTR	-	77	0.83	0.83	10	5.30	10.4
	<i>Total or Median</i>		76	0.90	0.90	500		9.0
<b>Canadian Income Trusts (US\$)</b>								
	COSWF	-	(9)	0.57	0.62	868	1.85	7.0
	ERF	-	46	0.57	0.65	548	4.45	9.6
	PWE	-	41	0.63	0.73	861	3.60	11.3
	PGH	-	43	0.71	0.91	583	2.65	15.5
	<i>Total or Median</i>		42	0.60	0.69	2,900		10.5
	KMP			0.75	1.70			7.2

NTM = Next Twelve Months Ended December 31, 2007

Ebitda = Earnings before interest, tax, depreciation and amortization

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