

# *Natural Gas Royalty Trusts*

*A Weekly Analysis*

February 13, 2003

## **Large Holder in SJT**

### **Summary and Recommendation**

As natural gas fundamentals continue to be favorable, dropping real yields in the bond market also help boost present value of natural gas royalty trusts including buy recommended **San Juan Basin Royalty Trust (SJT)**. Nor do sales by a large owner concern us unduly. In the past there have been advantages to remaining unitholders of having a few owners of the trust with many units. Separately, recent disclosures of development spending plans for SJT in 2003 seem in line with the expectations we quantify weekly. Finally, NGRT has the usual tables of six-year and one-year futures prices, energy income stock valuations and quantitative detail on SJT for its own sake and as a model for natural gas.

### **Concentrated Ownership Can Be Beneficial**

A single investor owns as much as a quarter of SJT as disclosed in SEC filings. The investment manager is a former colleague of ours from two decades ago who was also responsible for building a large position in SJT when advising a different investor. As we understand it, the manager and the large holder see zero-debt SJT and other royalty trusts as long-term energy investments that can be enhanced with some leverage at the investor level. The holder seems to trade around a core position, peeling back at higher prices and adding at lower prices. The holder's trades seem to be designed to have minimal impact on unit price. After all, the holder still has most of his position.

The obvious disadvantage of a large shareholder is if he wants to sell in a short period of time, he can drive down the price of the stock. We believe the trust is strong enough to ride out almost any temporary adversity. If, for example, the large owner wanted to sell overnight, we believe the block could be placed among one or many investors with minimal long-term negative impact for the rest of the owners if they can afford some patience.

We have two examples of advantages to having a large holder(s). First, last year when we questioned whether a large institution with its potential conflicts would be the best successor trustee, the large holder backed our nomination of an alternative. When the outgoing trustee saw that several important owners backed our nomination, it carried our nomination as the only nomination on the proxy statement it mailed to unit holders.

Second, about a decade ago, we worked with a few owners, our clients at the time, who held a majority of units and were concerned that the operator of the trust's properties was

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not honoring the operating agreement. Upon the urging of the large owners, the trustee vigorously pursued legal action that successfully protected the interests of the trust.

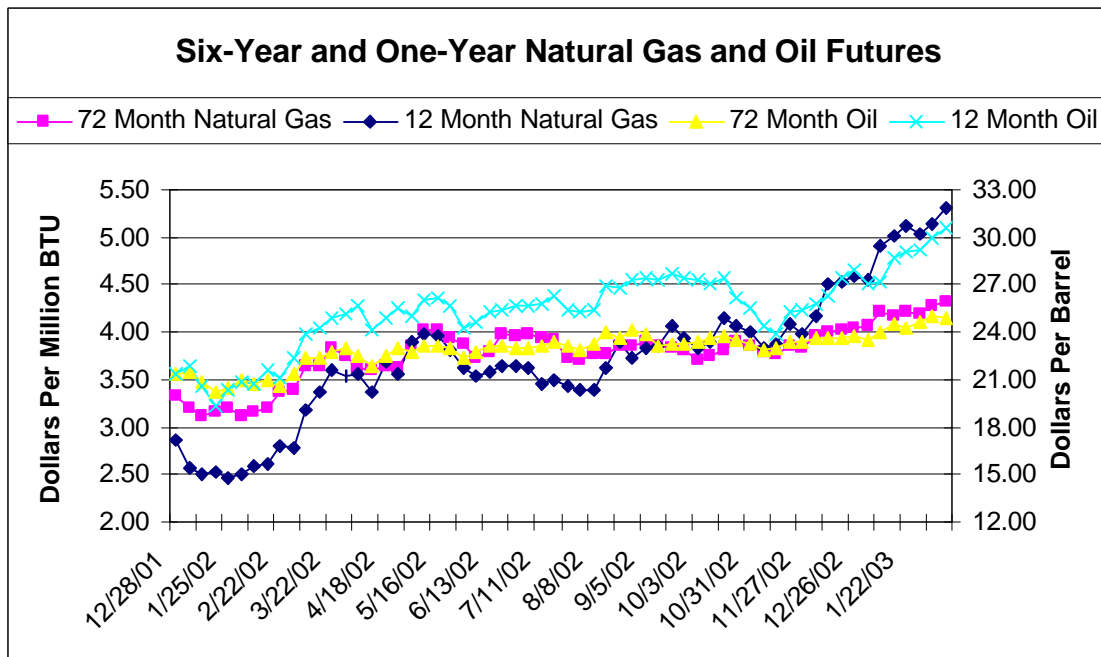
Kurt H. Wulff, CFA

## Natural Gas and Oil Futures

February 12, 2003

	2004	2005	2006	2007	2008	2009	Six Year
Natural Gas (\$/mmbtu)							
Year ending February	5.30	4.51	4.11	3.93	4.02	4.03	4.32
Light Sweet Crude Oil (\$/bbl)							
Year ending February	30.62	25.02	23.70	23.50	23.35	23.27	24.91
Natural Gas/Oil (6:1 = 1.0)							
Year ending February	1.04	1.08	1.04	1.00	1.03	1.04	1.04

Source: Nymex, FutureSource, wsj.com, McDep Associates



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**Table MEII-1**  
**McDep Energy Income Ideas**  
**Dividends, Debt and McDep Ratio**

	<i>Symbol/ Rating</i>		<i>Price (\$/sh) 12-Feb 2003</i>	<i>Shares (mm)</i>	<i>Market Cap (\$mm)</i>	<i>Div or Distrib. NTM (%)</i>	<i>Debt/ Present Value</i>	<i>McDep Ratio</i>
<b>High Greed Partnerships</b>								
El Paso Energy Partners	EPN	S	29.15	57.0	1,660	9.3	0.64	2.50
Kinder Morgan Energy Partners, L.P.	KMP	S	34.55	141	4,880	7.2	0.47	1.77
Enbridge Energy Partners, L.P.	EEP	S	44.95	35.0	1,570	8.0	0.64	1.73
Kinder Morgan Management, LLC	KMR	S	30.56	39.5	1,210	8.2	0.47	1.62
Plains All Amer. Pipeline	PAA		24.84	50.0	1,240	8.7	0.49	1.58
Enbridge Energy Management, L.L.C	EEQ	S	39.23	9.0	350	9.2	0.64	1.59
Northern Border Partners	NBP		37.56	44.0	1,650	8.5	0.62	1.31
TEPPCO Partners, L.P.	TPP		29.73	50.0	1,490	8.1	0.56	1.30
Penn Virginia Res. Part, L.P.	PVR		23.25	15.3	360	8.6	-	1.29
AmeriGas Partners, L.P.	APU		24.15	49.4	1,190	9.1	0.51	1.15
Alliance Res. Part, L.P.	ARLP		22.81	15.9	360	8.8	0.45	1.08
<i>Total or Median</i>					<i>16,000</i>	<i>8.6</i>	<i>0.51</i>	<i>1.58</i>
<b>U.S. Master Limiter Partnerships</b>								
Enterprise Products Part (16%)	EPD		18.98	29	540	7.3	0.63	1.67
Dorchester Minerals, L.P.	DMLP		13.75	27.0	371	11.4	-	1.18
<b>Canadian Royalty Trusts</b>								
Provident Energy Trust	PVX		7.40	63.5	470	19.4	0.24	1.37
Enerplus Resources Fund	ERF		18.32	75.0	1,370	12.8	0.16	1.01
Pengrowth Energy Trust	PGH		9.78	110.0	1,080	15.5	0.19	1.02
Canadian Oil Sands Trust (US\$)	COS_u.TO	B	22.43	57.3	1,290	5.7	0.13	0.62
<i>Total or Median</i>					<i>4,200</i>	<i>14.1</i>	<i>0.17</i>	<i>1.02</i>
<b>U.S. Natural Gas Royalty Trusts</b>								
Cross Timbers Royalty Trust	CRT		19.72	6.0	118	12.5	-	0.89
San Juan Basin Royalty Trust	SJT	B	14.12	46.6	660	14.0	-	0.78
Hugoton RoyaltyTrust (46%)	HGT		13.86	18.4	260	13.0	-	0.79
<i>Total or Median</i>					<i>1,040</i>	<i>13.0</i>	<i>-</i>	<i>0.79</i>
<b>Additional McDep Recommendations</b>								
PetroChina Company Ltd (10%)	PTR	B	21.33	176	3,800	6.0	0.17	0.76
Royal Dutch/Shell	RD	B	38.58	3,481	134,300	4.4	0.15	0.70
Marathon Oil Corporation	MRO	B	21.69	310	6,700	4.2	0.37	0.71
ChevronTexaco Corporation	CVX	B	63.08	1,062	67,000	4.4	0.17	0.69
<i>Total or Median</i>					<i>212,000</i>	<i>4.4</i>	<i>0.17</i>	<i>0.70</i>

Buy/Sell rating after symbol: B - Buy, N - Neutral, S - Sell

NTM = Next Twelve Months Ended December 31, 2003

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

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**Table MEII-2**  
**McDep Energy Income Ideas**  
**Distribution Validity, Fees and Cash flow Multiples**

			<i>Price</i>	<i>Dist/</i>	<i>Mgt</i>	<i>Fin</i>	<i>EV/</i>	<i>PV/</i>
<i>Symbol/</i>			<i>(\$/sh)</i>	<i>Equity</i>	<i>Fee</i>	<i>Fee</i>	<i>Ebitda</i>	<i>Ebitda</i>
<i>Rating</i>			<i>12-Feb</i>	<i>Ebitda</i>	<i>(%)</i>	<i>(%)</i>	<i>NTM</i>	<i>NTM</i>
			<i>2003</i>					
<b>High Greed Partnerships</b>								
El Paso Energy Partners	EPN	S	29.15	4.3	71	6	22.5	9.0
Kinder Morgan Energy Partners, L.P.	KMP	S	34.55	1.5	46	6	15.4	8.7
Enbridge Energy Partners, L.P.	EEP	S	44.95	2.2	21	6	15.6	9.0
Kinder Morgan Management, LLC	KMR	S	30.56	1.5	46	6	14.1	8.7
Plains All Amer. Pipeline	PAA		24.84	1.7	9	6	14.2	9.0
Enbridge Energy Management, L.L.C	EEQ	S	39.23	2.2	21	6	14.3	9.0
Northern Border Partners	NBP		37.56	1.4	8	6	11.8	9.0
TEPPCO Partners, L.P.	TPP		29.73	1.2	25	6	11.7	9.0
Penn Virginia Res. Part, L.P.	PVR		23.25	1.0	2	8	11.1	8.6
AmeriGas Partners, L.P.	APU		24.15	1.1	1	6	10.4	9.0
Alliance Res. Part, L.P.	ARLP		22.81	0.7	2	8	7.5	7.0
		<i>Median</i>					<i>14.1</i>	<i>9.0</i>
<b>U.S. Master Limiter Partnerships</b>								
Enterprise Products Part (16%)	EPD		18.98	1.8	10	6	15.0	9.0
Dorchester Minerals, L.P.	DMLP		13.75	0.9	3		7.9	6.6
<b>Canadian Royalty Trusts</b>								
Canadian Oil Sands Trust (US\$)	COS_u.TO	B	22.43	0.4			7.0	11.2
Enerplus Resources Fund	ERF		18.32	0.8	10	6	6.6	6.5
Provident Energy Trust	PVX		7.40	1.3	20	8	6.1	4.5
Pengrowth Energy Trust	PGH		9.78	0.9	9	6	6.0	5.9
		<i>Median</i>					<i>6.4</i>	<i>6.2</i>
<b>U.S. Natural Gas Royalty Trusts</b>								
Cross Timbers Royalty Trust	CRT		19.72	0.9			7.5	8.4
Hugoton RoyaltyTrust (46%)	HGT		13.86	0.8			5.9	7.5
San Juan Basin Royalty Trust	SJT	B	14.12	0.8			5.6	7.2
<b>Additional McDep Recommendations</b>								
Royal Dutch/Shell	RD	B	38.58	0.2			6.0	8.6
ChevronTexaco Corporation	CVX	B	63.08	0.2			5.7	8.2
Marathon Oil Corporation	MRO	B	21.69	0.1			4.4	6.2
PetroChina Company Ltd (10%)	PTR	B	21.33	0.2			3.9	5.1
		<i>Median</i>					<i>5.0</i>	<i>7.2</i>

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**Table SJT-1**  
**San Juan Basin Royalty Trust**  
**Present Value**

Volume Decline (%/yr):	11	Price Escalation Post 2008 (%/yr):	2.7
Volume Enhancement (%/yr):	10	Discount rate (%/yr):	5.9
Capex/Cash Flow (%):	25	U.S. TIPS Inflation (%/yr):	1.9
Variable Cost (%):	12	U.S. 10 Year Yield (%/yr):	3.9
PV/Volume (\$/mcf):	1.49	PV/EBITDA 2003:	7.3

Year	Basic (bcf)	Enhanced (bcf)	Total (bcf)	Price (\$/mcf)	Revenue (\$mm)	Fixed Cost (\$mm)	Var Cost (\$mm)	Cap Ex (\$mm)	Distribution (\$/unit)	Disc Factor	Present Value (\$/unit)	
Total 2003 through 2032; years ending on 12/31												
	318	243	561	4.05	2275	388	273	212	1402	30.09	0.60 <b>18.00</b>	
2003	34.9	0.0	34.9	4.09	142.8	10.8	17.1	23.0	91.9	1.97	0.97	1.92
2004	31.2	3.5	34.7	4.04	140.1	13.0	16.8	27.6	82.7	1.78	0.92	1.63
2005	27.9	6.6	34.5	3.62	124.8	13.0	15.0	24.2	72.6	1.56	0.87	1.35
2006	25.0	9.3	34.3	3.38	115.9	13.0	13.9	22.3	66.8	1.43	0.82	1.17
2007	22.3	11.8	34.1	3.38	115.1	13.0	13.8	22.1	66.2	1.42	0.77	1.10
2008	20.0	14.0	33.9	3.42	116.1	13.0	13.9	22.3	66.8	1.43	0.73	1.05
2009	17.8	15.9	33.7	3.52	118.5	13.0	14.2	22.8	68.5	1.47	0.69	1.01
2010	15.9	17.6	33.5	3.61	121.0	13.0	14.5	23.4	70.1	1.50	0.65	0.98
2011	14.3	19.0	33.3	3.71	123.5	13.0	14.8	23.9	71.8	1.54	0.61	0.95
2012	12.7	17.0	29.8	3.81	113.4	13.0	13.6		86.8	1.86	0.58	1.08
2013	11.4	15.2	26.6	3.91	104.2	13.0	12.5		78.7	1.69	0.55	0.92
2014	10.2	13.6	23.8	4.02	95.7	13.0	11.5		71.2	1.53	0.52	0.79
2015	9.1	12.2	21.3	4.13	87.9	13.0	10.5		64.3	1.38	0.49	0.67
2016	8.1	10.9	19.0	4.24	80.7	13.0	9.7		58.0	1.24	0.46	0.57
2017	7.3	9.7	17.0	4.36	74.1	13.0	8.9		52.2	1.12	0.43	0.49
2018	6.5	8.7	15.2	4.48	68.0	13.0	8.2		46.9	1.01	0.41	0.41
2019	5.8	7.8	13.6	4.60	62.5	13.0	7.5		42.0	0.90	0.39	0.35
2020	5.2	6.9	12.1	4.72	57.4	13.0	6.9		37.5	0.80	0.37	0.29
2021	4.6	6.2	10.9	4.85	52.7	13.0	6.3		33.4	0.72	0.35	0.25
2022	4.2	5.6	9.7	4.98	48.4	13.0	5.8		29.6	0.63	0.33	0.21
2023	3.7	5.0	8.7	5.12	44.4	13.0	5.3		26.1	0.56	0.31	0.17
2024	3.3	4.4	7.8	5.26	40.8	13.0	4.9		22.9	0.49	0.29	0.14
2025	3.0	4.0	6.9	5.40	37.5	13.0	4.5		20.0	0.43	0.27	0.12
2026	2.7	3.5	6.2	5.55	34.4	13.0	4.1		17.3	0.37	0.26	0.10
2027	2.4	3.2	5.5	5.70	31.6	13.0	3.8		14.8	0.32	0.24	0.08
2028	2.1	2.8	5.0	5.86	29.0	13.0	3.5		12.5	0.27	0.23	0.06
2029	1.9	2.5	4.4	6.01	26.6	13.0	3.2		10.4	0.22	0.22	0.05
2030	1.7	2.3	4.0	6.18	24.5	13.0	2.9		8.5	0.18	0.21	0.04
2031	1.5	2.0	3.5	6.35	22.5	13.0	2.7		6.8	0.15	0.19	0.03
2032	1.4	1.8	3.2	6.52	20.6	13.0	2.5		5.2	0.11	0.18	0.02

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Table SJT-2  
San Juan Basin Royalty Trust  
Distributable Income

	Q1	Q2	Q3	Q4E	Year	Q1E	Q2E	Q3E	Q4E	Next Twelve Months
	3/31/02	6/30/02	9/30/02	12/31/02	2002E	3/31/03	6/30/03	9/30/03	12/31/03	12/31/03
<b>Highlights</b>										
Revenue (\$mm) (75%)	19.2	18.6	20.7	20.4	78.9	30.7	39.7	36.7	35.8	142.8
Cash flow (\$mm) (75%)	14.1	14.1	16.0	15.5	59.7	24.6	32.9	30.2	29.3	116.9
Per unit	0.30	0.30	0.34	0.33	1.28	0.53	0.71	0.65	0.63	2.51
Tax credit (\$mm)	0.5	1.4	1.9	1.9	5.6					
Per unit	0.01	0.03	0.04	0.04	0.12					
Distributable Income (\$mm)	3.5	9.0	12.2	11.6	36.3	19.5	25.8	23.6	22.9	91.9
Per unit	0.08	0.19	0.26	0.25	0.78	0.42	0.55	0.51	0.49	1.97
<b>Units</b> (millions)	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6	46.6
<b>Volume</b>										
Natural gas (mmbtu)	12.5	12.0	11.6	12.4	48.5	12.3	11.9	12.3	12.3	49.0
Heat Content(btu/cf)	1,092	1,077	970	1,064	1,050	1,064	1,064	1,064	1,064	1,064
Natural gas (bcf)	11.5	11.1	12.0	11.6	46.2	11.6	11.2	11.6	11.6	46.1
Natural Gas (mmcf)	124.7	125.1	130.4	126.2	126.6	126.2	126.2	126.2	126.2	126.2
Days	92	89	92	92	365	92	89	92	92	365
Oil (mb)	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1
Oil (mbd)	0.3	0.3	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2
Total gas & oil (bcf)	11.6	11.3	12.1	11.7	46.8	11.7	11.4	11.7	11.7	46.6
<b>Price</b>										
Natural gas (\$/mmbtu) (Henry Hub lagged two months)										
Henry Hub (\$/mmbtu)	2.34	2.92	3.23	3.59	3.02	4.73	5.83	5.23	5.09	5.22
Differential (%)	14	31	28	40	30	31	25	25	25	26
Total	2.01	2.02	2.33	2.16	2.13	3.27	4.38	3.92	3.82	3.84
Natural gas (\$/mcf)	2.20	2.18	2.26	2.30	2.24	3.47	4.65	4.17	4.06	4.08
Oil (\$/bbl) (WTI Cushing lagged two months)										
WTI Cushing	19.56	23.80	26.49	28.96	24.70	29.55	35.15	32.25	29.58	31.63
SJT	15.78	19.14	21.95	24.00	20.10	24.48	29.12	26.72	24.51	26.18
Total gas & oil (\$/mcf)	2.20	2.19	2.28	2.32	2.25	3.48	4.66	4.17	4.06	4.09
<b>Revenue</b> (\$mm)										
Natural Gas	25.2	24.2	27.1	26.7	103.3	40.3	52.3	48.4	47.1	188.1
Oil	0.4	0.5	0.5	0.5	1.9	0.5	0.6	0.6	0.5	2.3
Total	25.6	24.8	27.6	27.2	105.2	40.9	52.9	49.0	47.7	190.4
<b>Cost</b> (\$mm)										
Severance tax	2.6	2.4	2.3	3.1	10.5	4.1	5.1	4.7	4.6	18.5
Operating	4.1	3.7	4.0	3.4	15.2	4.0	3.9	4.1	4.1	16.1
Total	6.7	6.0	6.3	6.5	25.6	8.1	9.0	8.8	8.6	34.6
<b>Cash flow</b> (\$mm)										
Development	11.3	3.4	2.1	4.7	21.5	6.1	8.8	8.0	7.8	30.7
<b>Net proceeds</b> (\$mm)	7.5	15.4	19.2	16.1	58.2	26.7	35.1	32.2	31.2	125.2
<b>Royalty income</b> (\$mm)										
Royalty/Net proceeds	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%
Administration	0.4	0.5	0.6	0.5	2.0	0.5	0.5	0.5	0.5	2.0
One-time	1.7	2.0	1.6		5.3					-
<b>Distributable income</b> (\$mm)	3.5	9.0	12.2	11.6	36.3	19.5	25.8	23.6	22.9	91.9
<i>Modeling ratios</i>										
Severance tax/revenue	10.2%	9.5%	8.5%	11.5%	9.9%	10.1%	9.6%	9.6%	9.6%	9.7%
Operating cost (\$/mcf)	0.36	0.32	0.33	0.29	0.32	0.34	0.35	0.35	0.35	0.35
Development/Cash flow	60%	18%	10%	22%	27%	19%	20%	20%	20%	20%

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**Table SJT-3**  
**San Juan Basin Royalty Trust**  
**Monthly Declarations**

	Oct-02	Nov-02	Dec-02	Jan-03	Feb-03	Mar-03	Apr-03
<b>Distribution (\$/unit)</b>							
Declared	0.12	0.04	0.09	0.10			
Projected					0.14	0.17	0.15
<b>Volume</b>							
Natural gas (mmbtu)	4.49	3.77	4.08	4.07	4.14	4.14	3.74
Heat Content(btu/cf)	1,084	1,064	1,043	1,092	1,050	1,050	1,050
Natural gas (bcf)	4.15	3.55	3.91	3.73	3.94	3.94	3.56
Natural Gas (mmcf)	134	118	126	124	127	127	127
Days	31	30	31	30	31	31	28
<b>Price</b>							
Natural gas industry quotes lagged two months (\$/mmbtu)							
Henry Hub Daily/Futures	3.09	3.55	4.12	4.03	4.76	5.41	6.16
San Juan Monthly Index	2.50	2.42	2.52	3.25	3.45	4.14	3.27
SJT/Henry Hub	0.74	0.55	0.54	0.71	0.67	0.69	0.59
SJT/San Juan Index	0.91	0.81	0.89	0.88	0.93	0.90	1.10
SJT (\$/mmbtu)	2.28	1.95	2.24	2.85	3.20	3.74	3.61
SJT (\$/mcf)	2.47	2.07	2.33	3.12	3.36	3.92	3.79
<b>Revenue (\$mm)</b>							
Natural Gas	10.2	7.3	9.1	11.6	13.2	15.5	13.5
Other	(0.1)	(0.0)	0.0	0.1	(0.1)	(0.1)	(0.1)
<b>Cost (\$mm)</b>							
Severance tax	0.9	0.7	1.5	1.2	1.3	1.6	1.4
Operating	1.1	1.8	0.5	1.5	1.3	1.3	1.3
Total	2.0	2.5	2.0	2.7	2.6	2.8	2.6
<b>Cash flow (\$mm)</b>	8.2	4.8	7.1	9.0	10.5	12.5	10.8
Development	1.0	2.1	1.6	2.7	1.7	1.7	1.7
<b>Net proceeds (\$mm)</b>	7.2	2.7	5.5	6.3	8.9	10.9	9.1
<b>Royalty income (\$mm)</b>	5.4	2.0	4.2	4.7	6.7	8.1	6.8
Royalty/Net proceeds	75%	75%	75%	75%	75%	75%	75%
One time							
<b>Distributable income (\$mm)</b>	5.4	2.0	4.2	4.7	6.7	8.1	6.8
<b>Units (millions)</b>	46.6	46.6	46.6	46.6	46.6	46.6	46.6
<b>Distribution (\$/unit)</b>	0.12	0.04	0.09	0.10	0.14	0.17	0.15
<i>Latest Twelve Month Average</i>							
Heat Content(btu/cf)	1,057	1,054	1,050	1,050			
Natural Gas (mmcf)	125	125	127	127			
SJT/Henry Hub	0.74	0.71	0.72	0.70			
SJT/San Juan Index	0.87	0.86	0.88	0.89			
Other revenue	(0.0)	(0.0)	(0.2)	(0.1)			
Operating	1.3	1.3	1.3	1.3			
Development	2.2	2.0	1.8	1.7			
Severance tax/revenue	9.7%	9.6%	10.1%	10.1%			

Analyses are prepared from original sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at [www.mcdep.com](http://www.mcdep.com). Mr. Wulff is not paid by covered companies. He and his spouse do not sell short nor act contrary to a buy or sell rating except for tax loss purposes. 7