

**HIGHLY CONFIDENTIAL**

January 10, 2008

WEEKLY STORAGE REVIEW

The DOE released the latest weekly natural gas working storage data, reporting a 171 bcf decline from the previous week, which had no revisions. Working storage totaled 2,750 bcf as of Friday, January 4. The details are provided below:

Region	Current Week Stocks (bcf)	Prior Week Stocks (bcf)	Net Change (bcf)	Year Ago Stocks (bcf)
East	1,511	1,604	-93	1,716
West	375	395	-20	382
Producing	864	922	-58	934
Total Lower 48	2,750	2,921	-171	3,032

The latest working storage draw reflects two factors, in our view. The first is that according to NOAA, on home gas-furnace weighted basis the week ending January 5 was 1.4% colder than normal, and a full 49.0% colder than last year at this time. In addition, however, the magnitude of the draw relative to temperatures would appear to confirm our previous thoughts that consumer natural gas hookups would rise this winter at the expense of heating oil in select regions. A better handle will be had when the DOE issues final demand data for December and we can quantify consumption per heating degree day.

We are in the process of updating our natural gas balances, incorporating the latest storage data, toward publishing our regular monthly report which we hope to have in your hands by tomorrow at the latest. At this point, we have not made any material revision to our gas balances, and the latest storage data would not compel us to revise our end-March working storage target of some 1.4 tcf, although we concede that if revisions are ultimately made to our balances, assuming normal first quarter weather the odds would suggest a somewhat lower end-March storage position and not higher.

This would tend to improve the odds even more that our March (basis April NYMEX) target of \$7.55 per mmBtu remains reasonable, even if crude oil prices decline significantly from current levels. Although our research has indicated that due to a smaller percentage of open interest active CFTC reporting funds do not have the same short-term price influence as they do in crude oil, given the

record to near record net short positions that have been established, if our balances are reasonable short covering should provide price support relative to crude oil.

W.H. Brown, III

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