



HORNSBY & COMPANY, INC.

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Energy Risk Management Services

HIGHLY CONFIDENTIAL

May 14, 2009

WEEKLY STORAGE REVIEW

The DOE released the latest weekly natural gas working storage data, reporting a 95 bcf increase from the previous week, which had no revisions. Working storage totaled 2,013 bcf as of Friday, May 8. The details are provided below:

Region	Current Week Stocks (bcf)	Prior Week Stocks (bcf)	Net Change (bcf)	Year Ago Stocks (bcf)
East	827	768	59	735
West	332	319	13	208
Producing	854	831	23	572
Total Lower 48	2,013	1,918	95	1,516

A less than constructive build in working storage last week is combining with negative economic news and declining crude oil prices to induce natural to retrace from its recent highs. Weaker than expected April retail sales reported yesterday and a disappointing jobs report this morning are suggesting, as we have previously, that the U.S. economy may be embarking on a “re-weakening”. Sentiment in the crude oil pit and to a lesser extent the natural gas market had been improving under the expectation that the economy would recover somewhat sooner than consensus expectations at the beginning of the year. While this may yet occur and remains part of our Base Case, at the present time it will be hard to fight the tide.

Embracing the latest data into the context of our natural gas balances, once again at this point we see little reason to revise our outlook. Last week’s storage “overage” versus the same point in 2008 totaled 497 bcf. We have been suggesting that the “overage” has not yet reached its peak, which we expect to be in excess of 500 bcf, some time later this month and into June. We still believe, however, that in the second half of the year, declining domestic production will combine with stabilizing demand and begin eroding the surplus versus 2008 which, by year end, we expect to fall to around 185 bcf.

William H. Brown, III

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