

**HIGHLY CONFIDENTIAL**

January 29, 2009

WEEKLY STORAGE REVIEW

The DOE released the latest weekly natural gas working storage data, reporting a 186 bcf decline from the previous week, which had no revisions. Working storage totaled 2,374 bcf as of Friday, January 23. The details are provided below:

Region	Current Week Stocks (bcf)	Prior Week Stocks (bcf)	Net Change (bcf)	Year Ago Stocks (bcf)
East	1,212	1,343	-131	1,298
West	354	361	-7	296
Producing	808	856	-48	745
Total Lower 48	2,374	2,560	-186	2,340

The latest working storage draw came in somewhat above market expectations, and as we issue this note the NYMEX has been able to mount a modest, positive response despite weaker crude oil prices and overall economic and financial malaise. Embracing the latest data in the context of our Base case natural gas balances, it would appear the odds may favor end-January storage coming in close to our expectations, i.e. slightly below 2.2 tcf. At this point, therefore, we see little need to revise our outlook which suggests that end-first quarter working storage will come in at around 1.5-1.6 tcf. Current levels of storage lie 34 bcf above the prior year, and thus we anticipate this “overage” will increase progressively over the next couple months. Thereafter, however, we believe the year-over-year comparisons will begin to stabilize as gains in domestic production moderate, imports remain roughly flat, and later in the year manufacturing output begins to recover.

With regard to price, as we have discussed in our Morning Notes we are in the process of finalizing our Base Case WTI outlook for 2009, which will have no small bearing on our gas price outlook. Our previous Base Case prompt NYMEX/Henry Hub average of \$6.35 per mmBtu for this year appears quite robust, and because, as also discussed, we do not believe that the February NYMEX crude oil average will deviate materially from January before staging a recovery, by definition we will be revising down a bit our gas price estimates for the first quarter of the year. Once again we would strongly emphasize the natural gas market’s ability to self correct, however, and combining both our

gas balances with our crude oil outlook implies we are unlikely to revise our forecast higher levels of NYMEX/Henry Hub natural gas prices in the second half of the year.

W.H. Brown, III

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