

**HIGHLY CONFIDENTIAL**

February 12, 2009

WEEKLY STORAGE REVIEW

The DOE released the latest weekly natural gas working storage data, reporting a 159 bcf decline from the previous week, which had no revisions. Working storage totaled 2,020 bcf as of Friday, February 6. The details are provided below:

Region	Current Week Stocks (bcf)	Prior Week Stocks (bcf)	Net Change (bcf)	Year Ago Stocks (bcf)
East	972	1,087	-115	1,091
West	327	334	-7	235
Producing	721	758	-37	651
Total Lower 48	2,020	2,179	-159	1,976

The market considered the stats to be on the bearish side of expectations, and has reacted with a predictable “thumbs down”, aided by weaker crude oil and equity markets. Embracing the latest data into the context of our Base Case natural gas balances, our target end-February storage level of less than 1.7 tcf implies a ratable decline of only 100-105 bcf for each seven-day period remaining in the month, so our Base Case still appears reasonable, but if of the mark will likely end up on the high side of reality, depending upon weather for the remainder of the month. In addition, our end-first quarter target of 1.5-1.6 tcf appears to need no revision at the present time. We are impressed with the fact, however, that despite weaker manufacturing activity, the impact of reduced drilling activity and a moderation in production growth and import volumes are all helping to preclude a larger “overage” compared to last year thus far in 2009.

With regard to price, our numbers continue to suggest an improvement over time in the gas balance as we move through the second quarter and into the second half of the year. Our Base Case for WTI still calls for a March average of some \$47.00-\$48.00 per barrel which, when incorporated into our gas pricing model, also suggests a March (basis April NYMEX) target of about \$5.60 per mmBtu, which remains some \$1.00+ per mmBtu above the market at the present time. Over the next week or so we will be updating our gas balances and pricing assumptions toward publication of our regular monthly report.

W.H. Brown, III

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