



HORNSBY & COMPANY, INC.

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Energy Risk
Management Services

HIGHLY CONFIDENTIAL

February 26, 2009

WEEKLY STORAGE REVIEW

The DOE released the latest weekly natural gas working storage data, reporting a 101 bcf decline from the previous week, which had no revisions. Working storage totaled 1,895 bcf as of Friday, February 20. The details are provided below:

Region	Current Week Stocks (bcf)	Prior Week Stocks (bcf)	Net Change (bcf)	Year Ago Stocks (bcf)
East	876	947	-71	881
West	296	312	-16	201
Producing	723	737	-14	581
Total Lower 48	1,895	1,996	-101	1,662

The latest storage data was a bit less constructive than the market was anticipating, but as we issue this report the NYMEX natural contracts are holding on to modest gains, influenced by surging crude oil prices. Embracing the latest numbers into the context of our Base Case natural gas balances, it would imply that our end-February target may end up somewhat on the low side, but at this point we see no reason to revise our expectations for the end of the first quarter. We believe that end-March working storage will total almost 1.6 tcf, which would imply an “overage” compared to last year of some 345 bcf, compared to the current surplus of 233 bcf. As we move through the second quarter our balances suggest that storage will finally begin to peak, and by the third quarter the surplus will begin to fall.

Thus, as discussed in our recent monthly report, through a combination later in the year of stabilizing manufacturing output and lower domestic production, the gas balance should begin its inevitable “self correction”. As such, as recently discussed we are willing to suggest that NYMEX natural at \$4.00 per mmBtu or so represents good value for the remainder of 2009. If our oil price outlook and natural gas balances are anywhere close to the mark, we believe that the prompt NYMEX natural contract can temporarily recover to \$7.00 per mmBtu or so in September.

William H. Brown, III

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