



HORNSBY & COMPANY, INC.

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Energy Risk
Management Services

HIGHLY CONFIDENTIAL

March 5, 2009

WEEKLY STORAGE REVIEW

The DOE released the latest weekly natural gas working storage data, reporting a 102 bcf decline from the previous week, which had no revisions. Working storage totaled 1,793 bcf as of Friday, February 27. The details are provided below:

Region	Current Week Stocks (bcf)	Prior Week Stocks (bcf)	Net Change (bcf)	Year Ago Stocks (bcf)
East	793	876	-83	786
West	292	296	-4	191
Producing	708	723	-15	545
Total Lower 48	1,793	1,895	-102	1,523

One again the latest storage draw was somewhat less constructive than the market was anticipating, and as we issue this report the NYMEX natural contracts are weakening in response, also impacted by declining crude oil and equity markets. February's end-month storage level ended up about 60 bcf above our Base Case. However, at this point we are still not inclined to revise our target end-first quarter storage level, which we peg at roughly 1.6 tcf. At that point we expect the year-over-year storage "overage" to total about 345 bcf, compared to last week's surplus of 270 bcf. Thus, while we expect the storage comparisons compared to last year to become more onerous over the short term, in the second half of the year, as discussed in our monthly gas reports, we are looking for the balance to improve.

With regard to price, thus far it would appear the market is satisfied with bottoming out at around \$4.00 per mmBtu on a settlement basis, as we anticipated. We have assumed the market has already discounted more onerous year-over-year storage comparisons yet to come, but obviously if our storage outlook through March is close to the mark, our assumption will be tested, along with our view that March WTI will average above the average of February.

William H. Brown, III

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