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March 6, 2008

WEEKLY STORAGE REVIEW

The DOE released the latest weekly natural gas working storage data, reporting a 135 bcf decline from the previous week, which had no revisions. Working storage totaled 1,484 bcf as of Friday, February 29. The details are provided below:

Region	Current Week Stocks (bcf)	Prior Week Stocks (bcf)	Net Change (bcf)	Year Ago Stocks (bcf)
East	760	852	-92	837
West	189	196	-7	229
Producing	535	571	-36	587
Total Lower 48	1,484	1,619	-135	1,653

Last week's storage draw yet once again was consistent with both gas home-furnace weighted heating degree days and our own assessment of underlying manufacturing growth which, as previously discussed, appears quite weak based on our model of diesel demand that adjusts for both weather and exports. We are in the process of updating our natural gas balances with the latest data from the DOE toward the publication of our regular monthly report, which should be in your hands by Monday. Our end-February working storage target of about 1.4 tcf consistent with our end-March Base Case target of a bit over 1.0 tcf ended up somewhat on the low side. Therefore, and in accordance with our assessment of the current state of manufacturing activity, we expect to reduce our forecast net storage draw for 2008. There will also be a modest price impact on the demand side of the balances, now that natural gas prices have decided they will not be left behind indefinitely with WTI over $100.00 per barrel.

Our pricing model which sets out a one-quarter-out target will be "recalibrated" to June in our next report. However, plugging in current crude oil prices as well as end-February storage levels yields a March target of about $10.45 per mmBtu, so if crude stays where it is for a while, natural still may have some steam left, particularly considering the substantial net short position still held by active CFTC-reporting funds. Our forecast prompt NYMEX/Henry Hub average for 2008 has been $7.95 per mmBtu. A lower forecast net working storage draw in isolation implies a lower 2008 average, but higher oil prices would more than offset this fundamental impact. We will reserve final judgment on any revision to our monthly report.

W.H. Brown, III

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