



HORNSBY & COMPANY, INC.

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Energy Risk
Management Services

HIGHLY CONFIDENTIAL

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WEEKLY STORAGE REVIEW

The DOE released the latest weekly natural gas working storage data, reporting an 86 bcf increase from the previous week, which had no revisions. Working storage totaled 1,371 bcf as of Friday, April 25. The details are provided below:

Region	Current Week Stocks (bcf)	Prior Week Stocks (bcf)	Net Change (bcf)	Year Ago Stocks (bcf)
East	652	598	54	701
West	188	181	7	260
Producing	531	506	25	665
Total Lower 48	1,371	1,285	86	1,626

The latest storage build came in on the bearish side of consensus expectations, and as we issue this note natural is weakening in response, with the decline compounded by the continued drop in oil prices. It would now appear that our end-April storage target is on the low side, but at this point we will retain our end-second quarter working storage target of about 2.14 tcf. The latest numbers would suggest a relatively weak manufacturing picture, compounded by higher domestic production offsetting fewer LNG imports.

With regard to price, we had recommended that with the prompt NYMEX natural contract hitting our peak of \$11.10-\$11.15 per mmBtu with WTI approaching \$120.00 per barrel, producers should lock in final hedges for 2008. Thus far this position has been reasonable, with declining natural gas prices impacted by lower crude oil prices, impacted in turn by a recovery in the dollar. Our Base Case has suggested a June (basis July NYMEX) target of \$9.50 per mmBtu assuming \$100.00 per barrel WTI. If the current Nigerian oil union strike is resolved and currency traders set sights on a dollar/euro rate of \$1.5200 or so, then our model indicates that all else equal WTI should be trading around \$102.00 per barrel. At this point we will retain our Base Case target under our current fundamental balances. However, if it appears that we will end up too low on end-June storage, then a prompt NYMEX natural target approaching \$9.00 per mmBtu may end up closer to the mark.

William H. Brown, III

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