



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 a 93 bcf increase from the previous week, which had no revisions. Working storage totaled 1,529 bcf as of Friday, May 9. The details are provided below:

| Region | Current Week Stocks (bcf) | Prior Week Stocks (bcf) | Net Change (bcf) | Year Ago Stocks (bcf) |
|----------------|--|--|---------------------------------|--------------------------------------|
| East | 743 | 690 | 53 | 821 |
| West | 210 | 197 | 13 | 284 |
| Producing | 576 | 549 | 27 | 711 |
| Total Lower 48 | 1,529 | 1,436 | 93 | 1,815 |

The latest weekly storage build came in on the bearish side of expectations, and despite crude oil's rise in response to a weaker dollar versus the euro, natural is giving a thumb's down to the data as we issue this note. The larger build came despite the ongoing impact from the reductions in supply from Independence Hub, whose recovery had been delayed. The numbers would imply continued strong gains in domestic dry gas production overall, in addition to the implication that manufacturing growth has weakened from earlier in the year. Embracing the latest data into the context of our Base Case natural gas balances, last week's position would imply a ratable build of some 75-80 bcf for each seven-day period left in the month to reach our end-May storage target of around 1.77 tcf. We may therefore end up somewhat on the low side depending upon the timing of the recovery from Independence Hub.

With regard to price, the July contract trading at around \$11.60 per mmBtu remains above our calendar June target of \$10.85 per mmBtu. However, although it may be premature and as we have always said the graveyard is full of those who would dare call market tops and bottoms, thus far the prompt crude oil contract has been encountering fairly hefty resistance at close to \$127.00 per barrel. If the longs start becoming impatient, we would not be surprised to see some liquidation of length that would weaken gas prices somewhat in sympathy back toward our June natural gas price target.

William H. Brown, III

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