



HORNSBY & COMPANY, INC.

www.hornsbysco.com

Energy Risk
Management Services

HIGHLY CONFIDENTIAL

June 4, 2009

WEEKLY STORAGE REVIEW

The DOE released the latest weekly natural gas working storage data, reporting a 124 bcf increase from the previous week, which had no revisions. Working storage totaled 2,337 bcf as of Friday, May 29. The details are provided below:

Region	Current Week Stocks (bcf)	Prior Week Stocks (bcf)	Net Change (bcf)	Year Ago Stocks (bcf)
East	1,024	953	71	896
West	379	360	19	249
Producing	934	900	34	646
Total Lower 48	2,337	2,213	124	1,791

The most recent storage build was higher than consensus expectations, and as we issue this note the NYMEX is giving the stats a thumbs down, with the decline thus far moderated by the rise in crude oil prices. The numbers confirm our thoughts of this morning, i.e. that the economy may be experiencing a “stretched u” type of profile, with little or no sign that manufacturing activity is on the verge of a sustainable recovery. In comparison to our Base Case estimate for end-May working storage, it would appear our balance was close to the mark. Adding two days of implied ratable build to the numbers to get an end-May estimate, it would suggest end-month working storage of 2,372 bcf, compared to our Base Case of 2,373 bcf (honest!), closer than government work requires.

Last week’s storage “overage” versus last year came in at 546 bcf, so from here it is “put up or shut up” in terms of our view that the next few weeks will witness the peak in “overage” for the year, with a slow but progressive improvement in year-over-year storage comparisons, such that year-end storage stands only some 185 bcf above end 2008. This also suggests that since gas prices are responding more to economic reality than crude oil at the present time, it may also be a slow but progressive path to the significantly higher gas prices that we expect as move through the second half of the third quarter.

William H. Brown, III

Information contained herein is believed to be reliable but its accuracy cannot be guaranteed. Past performance is not indicative of future results and the risk of loss is substantial in futures trading. Hornsby & Company, Inc. and W.H. Brown may, from time to time, have positions in the futures market relative to these recommendations.