



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 105 bcf increase from the previous week, which had no revisions. Working storage totaled 1,806 bcf as of Friday, May 30. The details are provided below:

Region	Current Week Stocks (bcf)	Prior Week Stocks (bcf)	Net Change (bcf)	Year Ago Stocks (bcf)
East	905	845	60	1,017
West	251	234	17	326
Producing	650	622	28	788
Total Lower 48	1,806	1,701	105	2,132

As we have suspected, end-May working storage came in above our long-standing target, but not materially so. The latest build was slightly above consensus expectations, but thus far the NYMEX remains supported by prospects of an early hot spell in key areas where gas is an important electric utility fuel. In addition, traders and funds will not likely wish to aggressively sell natural at this point given the prospects for tropical storm development in the months ahead. Also, we suspect that funds have turned to natural for the time being given the “cooling off” of crude oil prices as weaker oil demand is discounted, thus leading to further short covering by active CFTC-reporting funds. Once again the data would appear to reflect weak manufacturing growth, and we are in the process of updating our natural gas balances toward publishing our regular monthly report, hopefully by tomorrow afternoon. With Independence Hub now recovering, we believe we have already appropriately incorporated the impact in the context of weak manufacturing growth in the second half of the year, and thus still would not expect working storage to reach record levels by the beginning of the 2008-2009 heating season.

In terms of price, our report will “recalibrate” our short-term model to September. Calendar June prices will average above our target, primarily because WTI has not weakened back down toward our outlook for the remainder of the second quarter, although now appears to be moving in that direction. We had previously indicated that if WTI remained at \$125.00 per barrel or above, our model indicated that prompt natural would have a good chance of reaching the \$12.50 per mmBtu range, and so it has. Our consistent Base Case has called for natural to outperform oil going forward, and

obviously has done so to a greater degree than anticipated. Even if prices weaken from here, however, we would still expect natural gas prices to outperform oil.

William H. Brown, III

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