



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 80 bcf increase from the previous week, which had no revisions. Working storage totaled 1,886 bcf as of Friday, June 6. The details are provided below:

Region	Current Week Stocks (bcf)	Prior Week Stocks (bcf)	Net Change (bcf)	Year Ago Stocks (bcf)
East	959	905	54	1,080
West	267	251	16	339
Producing	660	650	10	810
Total Lower 48	1,886	1,806	80	2,229

The latest data were on the constructive side of consensus expectations, and as we issue this report the NYMEX is responding accordingly, rising in the face of declining oil prices. Taking the latest numbers into the context of our Base Case natural gas balances, they would imply a ratable 85-90 bcf build for each seven-day period left in the month to reach our end-second quarter working storage target of slightly under 2.2 tcf. If reasonable, it would imply a storage deficit to end-June 2007 of around 390 bcf, compared to the current deficit of 343 bcf. Despite continued robust domestic production and what we estimate to be anemic manufacturing output, lower LNG imports suggest that our outlook may be reasonable. No doubt helping last week's data, however, were hotter temperatures, and NOAA reports that on a population-weighted basis cooling degree days were 42.1% higher than normal, although obviously at this time of year the modest number of cooling degree days distorts any percentage deviation from normal. Thus, we would hazard to guess that if our end-second quarter working storage target is off the mark, volumes will end up somewhat higher and not lower.

With regard to price, our September (basis October NYMEX) target of \$10.75 per mmBtu, compared to the current market for October of some \$13.00 per mmBtu, is retained at the present time, although once again it assumes no material impact on production from any upcoming hurricane activity. In addition, it assumes only \$105.00 per barrel WTI in September. From current perspectives this obviously seems too conservative, and perhaps it is. However, as previously discussed we believe the Federal Reserve is now more concerned about energy price inflation than ever before, and we believe the Fed's attempts to talk the dollar up is aimed toward cooling off oil prices. In addition, we

believe that by September the consensus will be more concerned about global oil demand “destruction” than currently is the case.

William H. Brown, III

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