



HORNSBY & COMPANY, INC.

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Energy Risk
Management Services

HIGHLY CONFIDENTIAL

June 19, 2008

WEEKLY STORAGE REVIEW

The DOE released the latest weekly natural gas working storage data, reporting a 57 bcf increase from the previous week, which had no revisions. Working storage totaled 1,943 bcf as of Friday, June 13. The details are provided below:

Region	Current Week Stocks (bcf)	Prior Week Stocks (bcf)	Net Change (bcf)	Year Ago Stocks (bcf)
East	997	959	38	1,140
West	279	267	12	351
Producing	667	660	7	827
Total Lower 48	1,943	1,886	57	2,319

The latest data once again were on the constructive side of market expectations, but as we issue this report the NYMEX is retracing modestly, influenced by declining crude prices in response to the announcement that China will increase domestic gasoline and diesel prices well in advance of consensus expectations. Embracing the latest stats into the context of our Base Case natural gas balances, it would suggest that our already constructive outlook for working storage may end up on the high side. The current storage “deficit” to last year totals 376 bcf, compared to our end-second quarter target deficit of some 395 bcf. At this point, however, we will reserve any revisions for the year as a whole, anticipating an end-October working storage level of a bit under 3.1 tcf, well short of an all-time record.

With regard to price, it appears we are seeing some influence from transport dislocations in the Midwest, leading to some incremental consumption of natural gas. Our assumed weakening in the second half of the year is premised on no material or prolonged disruption from prospective hurricane activity. More importantly, however, our outlook assumes a moderation in crude oil prices from current levels. When we publish our World Petroleum Perspectives later today, it will reveal we have modestly revised up our third quarter WTI average to about \$110.00 per barrel. Plugging this value into our quarterly gas pricing model and retaining our current gas balances would now imply a September (basis October NYMEX) target of about \$11.10 per mmBtu, compared to our previous target of \$10.75 per mmBtu.

William H. Brown, III

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