

**HIGHLY CONFIDENTIAL**

July 3, 2008

**WEEKLY STORAGE REVIEW**

The DOE released the latest weekly natural gas working storage data, reporting an 85 bcf increase from the previous week, which had no revisions. Working storage totaled 2,118 bcf as of Friday, June 27. The details are provided below:

<b>Region</b>	<b>Current Week Stocks (bcf)</b>	<b>Prior Week Stocks (bcf)</b>	<b>Net Change (bcf)</b>	<b>Year Ago Stocks (bcf)</b>
East	1,116	1,059	57	1,263
West	299	289	10	373
Producing	703	685	18	863
Total Lower 48	2,118	2,033	85	2,499

The latest storage data came in on the constructive side of consensus expectations, and as we issue this note the NYMEX is responding accordingly. In last week's report we suggested that our already relatively constructive target for the end of the second quarter may end up a bit on the high side, and so it will by perhaps 20 bcf or so, assuming a ratable build for the last three days of the month. We are in the process of updating our balances toward issuing our regular monthly report early next week. At this point, we see little reason to materially revise our outlook for the remainder of the year. Our numbers would imply a pre-winter working storage level of about 3.1 tcf, well short of the end-October 2007 level of 3.567 tcf.

With regard to price, high crude oil prices suggest our September (basis October NYMEX) target may end up on the conservative side, barring a significant decline in oil prices. This may yet occur if global demand continues to weaken. However, there appears little on the policy front that would lead to such a scenario unless, as we have previously suggested, President Bush decides to auction significant volumes of sweet crude from the SPR. As we have also indicated, however, this does appear to be in the cards at the present time. In addition, as long as the Iran/Israel scenario hangs over the market, crude oil may remain well supported.

For the sake of sensitivity, however, we ran our third quarter pricing model incorporating our Base Case balances and assuming a plausible range for WTI. Under a \$150.00 per barrel scenario, our September natural target would be \$14.75 per mmBtu. Under \$100.00 per barrel crude oil, prompt NYMEX natural would have a fair value of about \$10.25 per mmBtu.

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