

**HIGHLY CONFIDENTIAL**

July 17, 2008

WEEKLY STORAGE REVIEW

The DOE released the latest weekly natural gas working storage data, reporting a 104 bcf increase from the previous week, which had no revisions. Working storage totaled 2,312 bcf as of Friday, July 11. The details are provided below:

Region	Current Week Stocks (bcf)	Prior Week Stocks (bcf)	Net Change (bcf)	Year Ago Stocks (bcf)
East	1,245	1,177	68	1,382
West	325	314	11	390
Producing	742	717	25	901
Total Lower 48	2,312	2,208	104	2,673

Last week's storage build was bearish relative to market expectations, and the NYMEX is giving the data a "thumb's down" as we issue this report. Incorporating the latest numbers into the context of our Base Case natural gas balances, they would imply that our end-July storage target of some 2.53+ tcf may end up on the low side, but perhaps not materially so. At this point, therefore, we see little need to revise our end-October working storage target of around 3.1 tcf, which apparently remains on the constructive side relative to consensus expectations.

With regard to price, our model is retaining a September (basis October NYMEX) price target for prompt NYMEX/Henry Hub of \$11.30 per mmBtu, and as we issue this note our target has been reached. We have assumed under our constructive gas balance that even forecasting as we do that WTI weakens toward \$110.00 per barrel by the end of September, natural will retain value relative to crude oil. We fully concede, however, that until the market embraces our Base Case natural gas balances, there may be short-term downside risk to gas prices below our current target.

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.