

**HIGHLY CONFIDENTIAL**

July 30, 2009

WEEKLY STORAGE REVIEW

The DOE released the latest weekly natural gas working storage data, reporting a 71 bcf increase from the previous week, which had no revisions. Working storage totaled 3,023 bcf as of Friday, July 24. The details are provided below:

Region	Current Week Stocks (bcf)	Prior Week Stocks (bcf)	Net Change (bcf)	Year Ago Stocks (bcf)
East	1,523	1,467	56	1,355
West	441	442	-1	345
Producing	1,059	1,043	16	752
Total Lower 48	3,023	2,952	71	2,452

Last week's working storage level came in some 571 bcf above the comparable point in 2008. Thus, the year-over-year "overage" has stabilized relative to the previous week. At this point we do not believe we are witnessing a trend reversal, i.e. that the comparisons with last year will become more onerous once again, unless our economic assumptions are off the mark and the U.S. economy is slipping even deeper into recession. Relative to our Base Case, the latest storage build is consistent, since we have been targeting end-July working storage at 3.1 tcf. As we issue this note the neopress is making an issue of the fact that working storage has topped 3.0 tcf at the earliest point in the year ever. However, it did not take much in terms of simple arithmetic to expect such a milestone at the rate we have been proceeding.

In terms of price, however, the market is taking the data in stride, choosing instead to register modest gains thus far this morning, no doubt in sympathy with recovering crude oil prices and somewhat greater optimism with regard to the fate of the U.S. economy, right or wrong. In terms of our balance, we see no reason to modify our outlook at this time. The consensus appears to be looking for working storage to peak out at some 3.8 tcf prior to the onset of winter. However, as a result of more moderate production and import trends in combination with a stabilization and subsequent improvement in manufacturing activity before year end, our balances would imply end-October

working storage standing closer to 3.6 tcf. If reasonable, it would imply a year-over-year working storage “overage” at that time of “only” some 240-250 bcf.

W.H. Brown, III

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