

**HIGHLY CONFIDENTIAL**

July 31, 2008

WEEKLY STORAGE REVIEW

The DOE released the latest weekly natural gas working storage data, reporting a 65 bcf increase from the previous week, which had no revisions. Working storage totaled 2,461 bcf as of Friday, July 25. The details are provided below:

Region	Current Week Stocks (bcf)	Prior Week Stocks (bcf)	Net Change (bcf)	Year Ago Stocks (bcf)
East	1,363	1,308	55	1,495
West	346	336	10	400
Producing	752	752	0	923
Total Lower 48	2,461	2,396	65	2,818

Despite the decline in crude oil prices as we issue this report, NYMEX natural is attempting to stabilize and recover modestly in response to the weekly build which came in on the constructive side of consensus expectations. Incorporating the latest data into our Base Case natural gas balances, the numbers are consistent with our more constructive natural gas outlook for the remainder of the third quarter. We have been targeting end-July storage at around 2.53 tcf, and it would not appear we need to make any material revision at this point. However, we are in the process of updating our gas balances toward publishing our regular monthly report, which we will likely send out once next Thursday's data are in hand. At it stands now, however, we retain our view that end-October working storage will come in at around 3.1 tcf, which appears to remain below consensus expectations.

With regard to price, our September target (basis October NYMEX) still lies more than \$1.00 per mmBtu above the current market. However, if our balances are eventually viewed as reasonable and are embraced by the consensus, natural should appreciate relative to crude oil and in absolute terms over time. Our next monthly report will incorporate our first official look at 2009. At this point we are considering a 2009 prompt NYMEX/Henry Hub average of about \$8.75 per mmBtu, consistent with our \$90.00 per barrel forecast average for WTI.

W.H. Brown, III

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