

**HIGHLY CONFIDENTIAL**

August 14, 2008

WEEKLY STORAGE REVIEW

The DOE released the latest weekly natural gas working storage data, reporting a 50 bcf increase from the previous week, which had no revisions. Working storage totaled 2,567 bcf as of Friday, August 8. The details are provided below:

| Region | Current Week Stocks (bcf) | Prior Week Stocks (bcf) | Net Change (bcf) | Year Ago Stocks (bcf) |
|----------------|--|--|---------------------------------|--------------------------------------|
| East | 1,473 | 1,418 | 55 | 1,565 |
| West | 358 | 354 | 4 | 410 |
| Producing | 736 | 745 | -9 | 923 |
| Total Lower 48 | 2,567 | 2,517 | 50 | 2,897 |

Incorporating the latest storage data into our Base Case natural gas balances, we see no need to revise our long-standing, relatively constructive outlook for the remainder of 2008. The latest numbers imply a storage “underage” relative to last year of 330 bcf despite robust domestic production. We have suggested in our recent monthly report that the gains in domestic output have been partially offset by lower LNG imports and higher exports to Mexico. At the end of August, we believe storage will lie below last year by about 300 bcf. Once again, our “outlier” outlook targets end-October working storage at some 3.1 tcf.

Thus far, however, the market is not “buying it”, with the September contract struggling to remain above \$8.00 per mmBtu, trading at an inordinately depressed ratio to WTI. Our model has targeted September (basis October NYMEX) natural at around \$9.15 per mmBtu, and since we are retaining our Base Case balances we feel likewise compelled to retain our near-term price target. For 2009, we continue to look for a prompt NYMEX/Henry Hub average of \$8.50 per mmBtu.

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