

**HIGHLY CONFIDENTIAL**

August 28, 2008

**WEEKLY STORAGE REVIEW**

The DOE released the latest weekly natural gas working storage data, reporting a 102 bcf increase from the previous week, which had no revisions. Working storage totaled 2,757 bcf as of Friday, August 22. 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	1,609	1,540	69	1,644
West	371	363	8	410
Producing	777	752	25	903
Total Lower 48	2,757	2,655	102	2,957

As we issue this report the NYMEX natural complex is largely preoccupied with the prospects of Gustav, whatever they may hold in store as the storm makes its way across the Caribbean. Looking at the latest storage data, however, the build was above consensus expectations, in part influenced by a lack of any heat waves in the context of robust domestic production and anemic manufacturing activity. Taking the latest numbers into the context of our Base Case natural gas balances, however, our more constructive outlook for the pre-winter storage position still lies within the realm of possibility, even without any potential material or prolonged disruption in Gulf of Mexico production due to Gustav or any other tropical storm or hurricane that may yet develop.

With regard to price, our September (basis October NYMEX) target of \$9.15 per mmBtu has been approached to within \$.34 per mmBtu today before subsequently falling back, but obviously the recent gains have been the result of discounting Gustav's potential effect. Nonetheless, we still believe that from a fundamental basis natural can appreciate relative to crude oil if our forecast balances are even remotely close to the mark, given the negative sentiment that has pervaded the gas market when adjusted for hurricane hype. For next year, we retain our forecast prompt NYMEX/Henry Hub average of \$8.50 per mmBtu.

## W.H. Brown, III

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.