



HORNSBY & COMPANY, INC.

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Energy Risk
Management Services

HIGHLY CONFIDENTIAL

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WEEKLY STORAGE REVIEW

The DOE released the latest weekly natural gas working storage data, reporting a 94 bcf decline from the previous week, which had no revisions. Working storage totaled 2,736 bcf as of Friday, January 9. The details are provided below:

Region	Current Week Stocks (bcf)	Prior Week Stocks (bcf)	Net Change (bcf)	Year Ago Stocks (bcf)
East	1,468	1,540	-72	1,490
West	369	388	-19	358
Producing	899	902	-3	860
Total Lower 48	2,736	2,830	-94	2,708

The market did not particularly care for the magnitude of the latest weekly storage draw, and prompt NYMEX natural continues its decline below \$5.00, exacerbated by the fall in oil prices. The numbers imply that manufacturing activity remains quite weak with little respite in sight. Taking the data into the context of our Base Case natural gas balances, they would imply a ratable decline in working storage for each seven day period remaining in January averaging some 106 bcf to reach our end-month working storage target of about 2.4 tcf. Thus, there is a chance, depending upon weather, that our end-January target may end up a bit on the low side. Looking to the end of the first quarter, however, at this point we see little reason to revise our end-March storage target of a bit in excess of 1.6 tcf, once again implying a storage “overage” versus the prior year of about 395 bcf. This compares to the current year-over-year “overage” of only 28 bcf.

We are in the process of updating our natural gas balances toward the publication of our regular monthly report which we expect to have in your hands next Tuesday before we leave for a few days of vacation. Although we will probably not revise our natural gas balance to any great degree, our price outlook for 2009 was premised on crude oil price stability at around current levels followed by a progressive seasonal recovery through the first half of the year. We will be assessing our price outlook within the context of not only our crude oil price forecast in absolute terms, but what should also be a

reasonable differential between WTI and natural gas. We would hazard to guess that when all is said and done we will revise our natural gas price outlook down, but not materially.

William H. Brown, III

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