Monthly Report – June 1, 2011

(This report shall serve as a combined monthly and 6/5/11 Weekly Report)

Dear Client,

As usual, this monthly letter will step back, take a "big picture" look, and discuss where the natural gas futures market is, what the primary factors are that affect it, and where we think it is going from here. We will also share recommendations as to hedging and long term buying or selling opportunities.

CURRENT SITUATION

In our last monthly report dated May 1st, we noted that March-June pre-summer seasonal movement continued to play out very close to expectations with only very minor, weather related variances so far. Essentially, we had a good first leg up of 75-cents to $4.48 on March 28th, a period of mushiness that created a pullback down to $3.99 on Monday April 11th, and then another leg up that had correctly exceeded the $4.40's and was correctly entering the lower portion of our pre-summer $4.70-$5.30 target range. We reiterated our thoughts that the growing storage deficit was serving as primary support for the pre-summer rally, and that with the deficit expected to top out shortly, we favored May, and perhaps even early May, as being more likely than June for the high water mark of our rally. Essentially, we looked for the growing deficit to be more supportive than a June heat wave this year. We

anticipated that the current up leg could progress somewhat closer to $5.00 before running out of steam.

As May turned out, while the up leg in the rally correctly achieved a $4.729 new high water mark on May 2nd within both our timing and price target ranges, the leg ran out of steam a little sooner than we thought it would and, thus, didn't get much closer to the $5.00 midpoint of our range. Much of the month was spent in another pullback that has held the crucial $4.00-$4.10 support range that we deemed important to preserve an attempt at another up leg in the pre-summer rally. Then with a very strong heat wave developing for early June, the market has correctly mounted another up leg that came within 3-cents of the May 2nd high water mark by the end of the month (See: "Seasonal Cycles" section for more detail).

On a continuation basis, the prompt month natural gas futures contract opened the calendar month of May at $4.685 and rose to the high of the month of $4.729 on May 2nd. It then fell to its lowest point on May 20th at $4.077 before rebounding to close the month strong at $4.666. In summary, our anticipated March-June pre-summer seasonal rally has, in fact, occurred, and in doing so, the market correctly rallied off the March 4th winter seasonal low of $3.731 and, so far, has reached into both our $4.70-$5.30 target range and timing range with a high water mark of $4.729 from May 2nd.

Factors Affecting the Market

Factor Summary

Supportive	Neutral	Negative
Weather	Cash	Storage
International Crises*	Oil*	Supply/Demand Balance
Seasonal Cycles		
Technical Considerations		

* Currently having little or no effect

In this report, we will take a monthly look at the primary factors that we see affecting the natural gas futures market. These factors are underground storage, the supply/demand balance, cash, weather, crude oil, international crises, seasonal cycles (technical), and other technical considerations. The first six of these items are "fundamental" in nature. NRGExpert and SMC employs a proven market approach that utilizes both "fundamental" and "technical" considerations. While we believe that the market has a strong tendency to follow a seasonal pattern through the year, we remain convinced that fundamentals initiate significant trends and determine the magnitude, timing, and duration. Basically, we try to identify where we are within normal seasonal cycles, keep an eye on other technical factors for short-term input, and place a strong emphasis on fundamental factors, experience, and history. This approach is backed with an extended and profitable track record in natural gas futures that began in 1991. Our

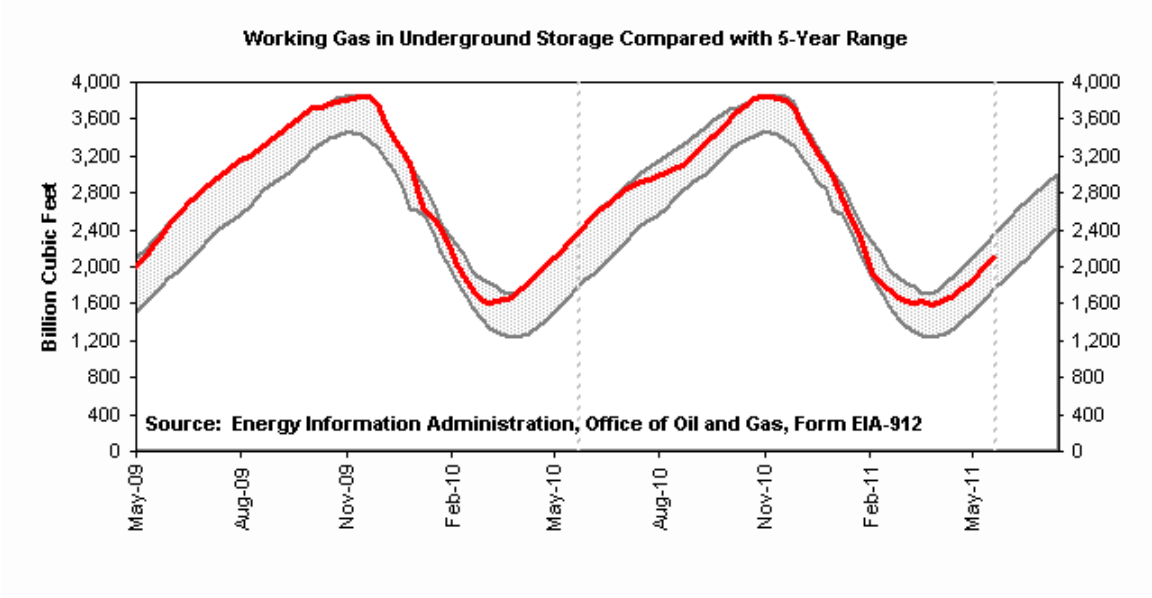
goal is to offer carefully considered conclusions and recommendations that will allow clients to make the best hedging decisions possible.

Underground Storage

Underground storage is one of the most important fundamental factors affecting natural gas futures during the course of the year. It essentially has an underlying effect that creates high degrees of anxiety or comfort in the market if it begins to trend very far from normal. November 1st is a key date in the storage cycle as it marks the end of the 7-month injection season and the beginning of the winter withdrawal season. With storage levels rising over the past few years, we now consider a full storage level of 3,550-3600 Bcf's on November 1st as normal or average. During the rest of the year, we generally evaluate its effect based on how the level compares with the previous year and with historical averages. With natural gas being utilized more and more for electricity generation and the need for higher storage levels to create comfort among market participants, we have begun to consider even an outlook for average levels as being supportive.

This paragraph takes a historical look back on the **last 1½ years of storage activity**. With a cool summer of 2009, storage injections for 2009 had gone very well and we ended the 2009 storage injection season with a new, all-time record high November 1st total of 3,788 Bcf's. This total was a substantial 300 Bcf's more than the previous November 1st record high and essentially was very close to the 3,889-4,313 Bcf range that was then being identified by the EIA as being the peak physical capacity. With the 2009-2010 winter starting off mild, it began to look as if the market would have to deal with the very bearish prospects of an extremely high end-of-winter storage level. However, the weather pattern locked into a cold arctic flow from early December 2009 to mid January 2010 and then again from early February through early March, and the resulting cold winter created a 488 Bcf bullish year-on-year shift in storage and burned off the entire 472 Bcf year-on-year storage overhang that existed on December 4th. Thus, we eventually ended the 2009-2010 winter on March 31st with storage very similar to the previous year at 1,669 Bcf's. This was still very comfortable as this final number was only 5 Bcf's below the previous year and only 27 Bcf's below the 1,696 Bcf record high from 2006. While the very mild weather in April 2010 allowed storage to increase to as much as 101 Bcf's above year ago levels, we then locked into one of the hottest summers on record that easily burned off the 101 Bcf surplus and converted this April surplus into a 218 Bcf year-on-year deficit by last September 3rd. This constituted a 318 bullish shift in storage and served to keep summer pricing supported somewhat above last year as we had anticipated. Then, with the expected looser supply/demand balance that emerged in the September-October shoulder months, the storage comparison reversed course again and the 218 Bcf deficit was converted into a 37 Bcf surplus as of October 29th and a new all-time November 1st record high of 3,821 Bcf's. However, a relatively cold November and a very cold December-mid February period similar to the previous 2009-2010 winter caused storage to slip back into as much as a 141 Bcf year-on-year deficit as of February 11th. After a warm late February allowed this to flip into a modest 32 Bcf year-on-year surplus as of March 4th, a cold late March and cooler April then flipped this again into a notable year-

on-year deficit situation of 249 Bcf's as of May 6th. Since then, the year-on-year deficit has been reduced slightly to 237 Bcf's as of May 27th. Looking ahead to forecasts for a milder summer than last year, the consensus industry outlook is for the year-on-year deficit to be eliminated by the end of the summer and for November 1st storage to be close to last year's record high. **Summarizing the past year and a half**, the natural gas market has been faced with a historically loose supply/demand balance, but the cold winter of 2009-2010, the very hot summer of 2010, and now another very cold winter (and early spring) of 2010-2011 have repeatedly served to forestall an unwieldy and very bearish storage glut.



As to **current EIA storage statistics**, working gas in storage now stands at a total of 2,107 Bcf's as of 5/27/11. Since our last monthly report, we lost 22 Bcf's on year ago levels. We attribute the change to a cooler early May compared to last year and perhaps to a little tightening in the supply/demand balance (that was occurring) then compared to last year. As such, over the past month our **year-on-year storage situation** deteriorated somewhat more from a deficit of 215 Bcf's to a deficit of 237 Bcf's. Also, primarily because of the weather, we saw some deterioration in other comparisons we watch. Thus, the **5-year average comparison** deteriorated from an 11 Bcf deficit to a 42 Bcf deficit. The comparison to the **upper boundary of the 5-year range** deteriorated from 215 Bcf's below the upper boundary to 237 Bcf's below the upper boundary. **Putting the current situation in a historical perspective, we are now 237 Bcf's below the highest level achieved for this date in the last 5 years (2010) and 42 Bcf's below the 5-year average**. The chart above was obtained with permission from the EIA and provides a very good illustration of this situation. The gray band is the 5-year range and the red line is current storage.

We would note that last year (2010) now represents the upper boundary of the 5-year range, and thus, the year-on-year comparison and the comparison to the upper boundary of the 5-year range will be the same until mid June when last year's storage injections began to be significantly affected by above

normal summer heat.

As we have been discussing, we had expected the cool late March/April spring weather to prevent the current line on our chart from quickly rising all the way back to the upper boundary as it did last year. Essentially, our expectations came to pass with the current line recovering rapidly through mid March before falling back to average and then beginning a relatively parallel track to the upper boundary.

Looking ahead, our outlook remains the same. Basically, the current line on the above chart should largely track parallel to the upper boundary until around mid June when the gap should start narrowing slightly. If the summer supply/demand balance can be about as loose as last year's, as we have anticipated, we look to see the year-on-year deficit eliminated by late summer and for the current line to be on course to close the gap with the upper boundary by late October. Essentially, this mid June-August summer period is currently forecast to be milder and thus more favorable for injections than last summer.

These longstanding thoughts of ours received some support 4-weeks ago from the EIA. In their Short Term Energy Outlook ("STEO") issued 5/10/11, they also cited milder year-on-year summer weather outlooks, and along with their 2011 projections on production and consumption, they projected that this year's November 1st storage level would slightly exceed last year's record high level of 3,821 Bcf's. Basically, their thoughts are the same as ours have been. Additionally, Thomson Reuters released a poll of storage analysts on the same subject 3-weeks ago and the consensus was that this year's November 1st level would fall just slightly short of last year's record. Thus, it appears that our thoughts on the November 1st storage level are the general expectation in the industry. *With expectations about storage being similar throughout the industry, the market should be sensitive to weather forecasts this summer*.

The year-on-year storage deficit topped out in the week ending 5/6/11 at 249Bcf's and as we expected, has begun a gradual decline. We are changing our short-term thoughts somewhat to reflect the early June heat wave. Essentially, we were assuming that June would feature temperatures somewhat milder than last year's, but it now appears that June will be as warm, if not a little warmer, than what we experienced last year. Thus, electricity demand will be higher than we were anticipating and thus, we will probably not see the gradual improvement in the year-on-year storage deficit that we were anticipating through mid June. Basically, it looks like the deficit will remain between 225 Bcf's and 249 Bcf's for several more weeks. We still anticipate a significant drop in the storage deficit over the remainder of the summer and anticipate the greatest declines in the year-on-year storage deficit will occur during the 7/16/11-8/20/11 timeframe when last year's severe heat caused storage injections to fall to 27-51 Bcf's per week.

With storage still reasonably comfortable by historical standards and with the storage deficit expected to eventually decline, we continue to consider storage as having a **negative** effect on natural gas futures. As indicated above, we are also basing our negative view of storage on the long-term fundamental

outlook that includes a loose summer supply/demand balance similar to last year's and weather forecasts for a milder summer than last year. Basically, there appears to be a good chance that storage will be back to around last year's levels by late summer and on course to challenge the November 1st record high that was set last year.

Supply/Demand Balance

The supply/demand balance is an important factor impacting the natural gas futures market. It is most easily detected in the weekly EIA storage reports, using a comparison of current storage activity to previous time periods with similar weather conditions. A looser balance indicates a more plentiful supply in relation to demand and provides greater ease in building or preserving storage. Any unexpected loosening or tightening in the balance can have a dramatic effect on the futures pricing.

We continue to subscribe to what we refer to as the weather sensitivity theory. According to the theory, with a gradual reduction in gas demand in the industrial and manufacturing sectors, the North American natural gas market has become more weather sensitive than ever before with commercial and residential heating and cooling requirements becoming more significant on the demand side. The theory goes that over time this gradually leads to a tighter supply/demand balance during cold and extreme heat and a looser balance during mild, shoulder month weather. Thus, as we have been seeing in the past couple of years, the balance can appear uncomfortably tight at times during high weather related usage and surprisingly loose during low demand shoulder months.

Looking back **historically on the past 3 years**, we saw the supply/demand balance loosen in July 2008 to the degree we originally expected. After July 2008, the balance then correctly stayed materially loose for about a year. We had anticipated some tightening in July 2009 compared to the previous year and this certainly occurred. The tightness that started in July 2009 generally continued up through February 2010 with the balance showing some very material tightness during the coldest winter weather. While government figures indicated that the balance would stay at least somewhat tighter than the previous year through the spring of 2010, we saw some unexpected loosening in the balance during March that shifted the supply/demand balance back to looking very similar to the previous year's loose situation as we moved from winter into the spring and summer months. Year-on-year comparisons became inconclusive for about 8-weeks during late July-early September of 2010 due to extreme heat conditions, and we simply continued to consider the balance about the same as last year's into early September. We finally had some comparable weather weeks in September and saw the supply/demand balance correctly emerge from the summer heat with a significantly looser shoulder month balance than last year. While we had expected a degree of shoulder month loosening to occur, it was even more significant than we expected. We then saw the balance tighten to about the same degree as the previous year during the severe 2010-2011 winter cold. More recently, as anticipated with early

springtime weather, we saw the supply/demand significantly loosen again like it did last year. *We did have some tightness return during a 4-week period during April and early May during the higher than usual nuclear spring maintenance, but the last 3-weeks of EIA storage reports indicate it may again be loosening back to last year's level within our expectations.*

As mentioned above, we are seeing some evidence that our **supply/demand balance is loosening again** as nuclear maintenance season winds down. Essentially EIA data for the week ended 5/13/11 had the balance close to last year's level, the week ending 5/20/11 had it looking looser than last year, and the most recent report has it looking somewhat tighter than last year. Because we rarely make a conclusion on just 1 week's report, and instead look for a trend over several reports, we are simply concluding that the balance has or is moving back into the vicinity of where it was last year. The nuclear maintenance should be largely completed by the week ending June 3rd or June 10th and allow for a clearer picture of how the early summer balance is really evolving.

Recent private and public weather forecasts continue to indicate a milder summer than last year and thus a more favorable environment for summertime storage injections than last year (**NWS forecast**[1] updated 5/19/11). *It is this related possibility that a similar supply/demand balance this summer and an average or below average summer weather regime will allow storage to be as or more comfortable on November 1st than last fall that is keeping futures pricing restrained*. Any change in these fundamentals that disrupt this scenario would create a sharp upward adjustment in futures pricing.

After dropping rather quickly below the 900 level 14-weeks ago, the count of rigs drilling for natural gas had generally leveled off to vacillate in the 870-890 range. It now appears that the lower end of the range has dropped somewhat lower to perhaps the 866 area. Essentially, the count dropped from 890 to 866 in mid May and has since rebounded by 21 rigs over the past 2-weeks back to a count of 887 (the latest data was an increase of 6 rigs to 887). Thus, there still appears to be a vacillating movement, but it just looks as if the lower end of the range has shifted slightly lower. **Looking back**, the number of domestic drilling rigs searching for natural gas was at the 1,600 level in 2008 and then dropped dramatically to as low as 665 in July 2009. The count then rose by almost 50% (327 rigs) to 992 rigs in early August 2010. Even though the count has now dropped back by over a 100 rigs since early August 2010, the overall increase in drilling activity that has occurred since July of 2009 should continue to prevent any significant tightness in the supply/demand balance in the coming months and serve to **prevent large** upward price adjustments. The information in the latest EIA STEO report continues to support this conclusion.

With the last 3 weeks of EIA storage reports indicating a return of the looseness in the balance and thus providing some confirmation of our thoughts that the tightness seen in April and early May would be temporary, we will view the supply/demand balance as having a **negative** effect on natural gas futures.

[1] **http://www.cpc.ncep.noaa.gov/products/predictions//multi_season/13_seasonal_outlooks/color/c**

We will be watching this closely, though, as any indication that the balance will be tighter will serve to increase the magnitude of our pre-summer seasonal rally.

Cash Prices

Cash pricing can have a supportive or negative effect on natural gas futures depending on how it performs in various situations. Because the delivery point of the NYMEX futures contract is the Henry Hub in Louisiana, we pay closest attention to the cash pricing activity that occurs there. Essentially, there is an underlying market tendency to bring Henry Hub cash and futures into a reasonable convergence.

Our thoughts on Henry Hub cash pricing are the same. Essentially, Henry Hub cash continues to follow prompt month futures very closely on a daily basis. It continues to appear that there is plenty of demand for available supply.

We will keep a relatively close eye on cash pricing as we get into the warmer weather of early summer as there is always some chance that some noticeable weakness will appear. But in the meantime, cash weakness is certainly not the scenario. **With the year-on-year storage deficit still over 200 Bcf's and a current heat wave causing above normal electricity demand, we don't look for any weakness in June**.

As such, we will continue to consider cash as having a neutral effect on the natural gas futures market.

Weather

As mentioned each month, we look at the natural gas futures market in the context of a 12-month cycle that runs from November 1st to October 31st, and we view winter weather as the most significant factor affecting prices during this cycle. Basically, we tend to start each heating season on November 1st with a full underground storage level. The extent of the winter cold then affects the storage level over the next 5 months and sets the stage for a particular pricing scenario for the remainder of the 12-month cycle. Essentially, in a cold winter like 2002-2003, storage can be significantly depleted and not only will prices be high in the winter but they will generally stay high in the summer, also, in order to attract enough gas to refill storage. In mild winters like 2001-2002 and 2005-2006, storage will stay relatively preserved and this will usually lead to a deep seasonal pricing low in mid winter and then low prices again late in the summer.

We look at weather as a wild card and expect pricing to become extremely sensitive to temperature forecasts during November, December, and January. Pricing becomes weather sensitive again in the summer with the possibility for mid summer heat and hurricanes.

Taking a historical **look back over the past 2-years**, we have seen weather have a significant effect on

storage and the natural gas futures market. The summer of 2009 was relatively cool and wet and allowed storage builds to remain relatively high despite a tighter supply/demand balance. This bearish environment caused futures to fall to as low as $2.409 in early September 2009 and led to a record high storage level on November 1, 2009. A warm November actually allowed an even more comfortable year-on-year storage surplus of 470 Bcf's to accumulate as of December 1st 2009. Things then shifted the other way as the December-February heart of the 2009-2010 winter was very cold and created a bullish shift in storage from the extremely bearish situation in early December to a supportive situation at the end of February. Essentially, the 470 Bcf year-on-year surplus that existed on December 1st was turned into a 71 Bcf deficit by the end of February. This prevented a significant collapse in futures pricing in late December and mid winter and actually allowed prompt month futures pricing to go as high as $6.108 on January 7th. Then a mild early spring of 2010 (March and April) helped to get the 2010 injection season off to a good start by eliminating the 71 year-on-year deficit that existed at the end of February and turned it into a 101 Bcf surplus as of April 23rd. However, a very hot June-August then eliminated our April surplus and flipped it back into a 218 Bcf deficit as of September 3rd. This precluded a repeat of the previous summer's September low of $2.409. As such, the 2010 June-September summer season's low was a much higher $3.61. Then a looser shoulder month supply/demand balance than expected and a mild October allowed for a dramatic shift back into a small storage surplus of 37 Bcf's by 10/29/10 and a new all-time record high November 1st storage level. We then saw weather forecasters thrown for a loop this just completed 2010-2011 winter with a very persistently cold temperatures and a cold early spring that slipped us back into a material 249 Bcf year-on-year storage deficit again as of 5/6/11. Now with cold weather no longer a factor, this deficit has been reduced slightly to 237 Bcf's by 5/27/11. In summary, **the bullish weather of the winter of 2009-2010, the summer of 2010, and now the winter and early spring of 2010-2011 has staved off serious storage surpluses and prevented significantly lower pricing in the past 17 months.**

As mentioned above, early spring weather has been cooler than the very warm weather from last year and this created a 249 Bcf year-on-year storage deficit just as we entered the prime storage injection months of May and June. This relatively significant deficit prevented the same degree of mushiness in futures pricing experienced in the spring of 2010 and provided a much earlier upward breach of the $4.40 level this year. Thus as we've seen this spring, even year-to-year differences in April weather can have a noticeable effect on futures movement.

A surprise **June heat wave** remains intact as Friday's 6-10 and 8-14 day temperature forecasts are still bullish with above and much above normal temperatures still looking to be the scenario for at least the next 2 weeks. Such above normal temperatures this time of year have the ability to create some early summer cooling demand but it is certainly not as significant as it is when the same forecasts appear in July or August. Basically, this time of year such forecasts may translate into somewhat smaller storage injections in the 70-85 Bcf's range as opposed to the 90's or 100's. Later in the summer, such forecasts might translate into much smaller injections in the 20-40 Bcf's range as opposed to the 60's or 70's. Thus, the main effect here in June is that these above normal temperatures will prevent the year-on-

year storage deficit from being whittled down for a while.

The most recent **long-term seasonal forecasts** from both the National Weather Service and our private weather forecaster still indicate a summer temperature outlook that is normal or perhaps even a little cooler than normal for the eastern US. While the National Weather Service forecast hasn't been updated since May 19th, *we've seen 2 private forecasters stick with the cooler outlook this last week*. Thus at this point, we still see forecasts as indicating that there will be less electrical demand during the mid June-August timeframe than last year and thus a good opportunity for the year-on-year storage deficit to be eliminated by very late summer.

Also, as we've mentioned, the National Weather Service makes **projections through the winter**, and for the last couple of months, it has indicated a generally above normal temperature regime for December-April next winter. However, the forecasts that came out on May 19th (see **http://www.cpc.ncep.noaa.gov/products/predictions//multi_season/13_seasonal_outlooks/color/churchill.php**) *have changed somewhat as they have shifted closer toward a more normal looking winter with a tendency for only late winter to be milder than normal*. The maps they show are done in 3-month increments, so it is somewhat difficult to determine at what point in the January-March timeframe that they think the above normal tendency might set in. In any event, though, the shift in the winter outlook is certainly notable and we think this will prevent winter month futures contracts from losing significant ground when experiencing declines in front month pricing during our upcoming June-September summer season.

Our favorite private forecaster commented on the **upcoming hurricane season** a couple of weeks ago and said that he is in agreement with others that the upcoming season should again feature above normal activity. He mentioned a significant difference from last year in that the Atlantic Ocean surface temperatures are cooler than last year, and thus, storms should form further west than last year and thus *have a better chance of making landfall in the US*. This is a notable difference, and thus, we may see late summer/early fall pricing affected to some additional degree this year. Again, we need to note that the potential affect from hurricanes has faded significantly over the past few years with the share of US supply from the Gulf of Mexico decreasing from around 23% in 2001 to about 8% now. Thus, the price impact from a major hurricane moving through the Gulf production area is likely to be much less than it was from something like Hurricane Katrina that occurred in 2005.

As discussed in the 1st paragraph above, with Friday's 6-10 and 8-14 day forecasts showing some bullish above and much above temperatures in the eastern half of the US, we will consider weather as having a supportive effect on natural gas futures.

Crude Oil

As discussed in monthly reports, oil and its products can have an effect on the general price level of natural gas because of the perceived ability to displace natural gas in certain competitive situations. There is also some need for natural gas to stay comparatively close to oil pricing in order to attract continued drilling investments. As a result, the rally that occurred from late 2003 through early July of 2008 in oil helped to create a gradual rise in natural gas also. The day-to-day influence of oil is generally greatest during the spring (April-June) when weather and other natural gas fundamentals are most likely to be uneventful. In the summer, fall, and winter, we largely look for both oil and gas futures to have daily and weekly movements that are more reflective of each commodity's specific situation. However, as we've emphasized for the last 18 months, natural gas futures have not been affected much, if at all, by oil, even during the April-June timeframes when it is most likely to do so. Essentially, there has been a notable lack of correlation between oil and natural gas pricing since December 2008.

To repeat our **7½-year historical perspective**, up until July of 2008, we had been viewing oil futures in the context of a 5-year rally that began about September of 2003. In our opinion, the latter phases of the rally were created by a building global economic bubble and much Wall Street hype about the declining cushion in worldwide oil supply. In January 2007, oil embarked on a sharp, upward phase of this rally with a 17-month upswing that accelerated dramatically toward the end. In the spring of 2008, we considered the accelerated phase to be unsustainable and anticipated a collapse of some degree. The anticipated collapse occurred in July 2008. Basically, oil was unable to break through the important $150 area in mid July 2008 and staged a historic collapse from the $147.27 high water mark. The collapse played out with 6 straight months of downward progress that culminated in a low point of $32.40 on December 19, 2008. The magnitude of the decline was exacerbated by the financial and economic crisis that emerged fully in October of 2008. We have since seen a material 27-month recovery with oil futures making it back to as high as $114.83 on Monday May 2nd. The last 9 months leading up to May were beginning to resemble the upward blow-off phase seen in 2007-2008. This was

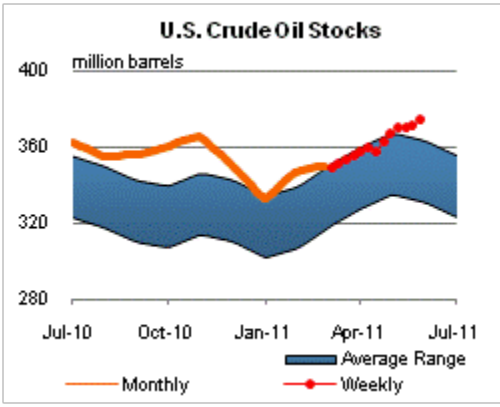
being driven by signs of a domestic economic improvement, upheaval in North African and Middle Eastern oil producing nations, and renewed hype from Wall Street. However, our just completed month of May featured a pullback inspired by a month's worth of relatively poor domestic economic news. (see chart above).

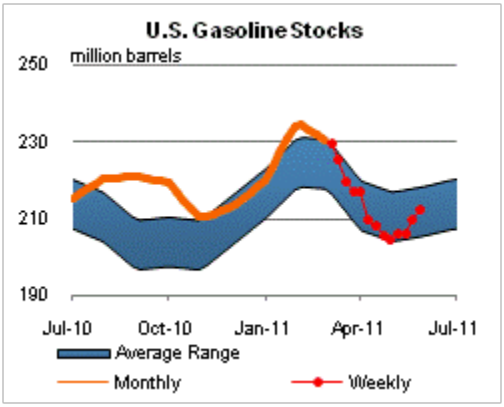
This paragraph repeats our **thoughts for 2011 oil movement** that we discussed in our 1/1/11 monthly report. As such, we again looked for the economic climate and other international crises to have a more overriding effect on oil movement than seasonality. However, we did look for the rallies and declines that occur in 2011 to look more like the normal seasonal pattern. We suspected that the global economy would continue to be fragile but also remain relatively stable compared to the previous 2 years. Thus, we looked for the current rally in oil to continue and perhaps achieve the $115-$120 range that represented our high end possibility for 2010. We looked for the high of the year to occur between late spring and midsummer and, as discussed above, think that Wall Street entities will have much to do with hyping it higher along the way. We expect this price rise to be noticeably felt domestically and for accompanying negative economic signals to emerge that will help keep oil in check at that level and perhaps even bring about a modest pullback in the 2nd half of 2011.

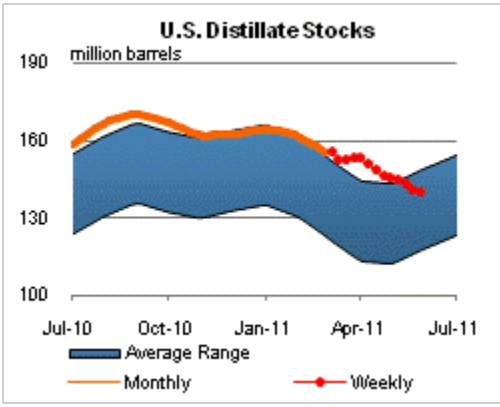
We would again note that the **2011 movement in oil futures has been very close to our January 1st expectations thus far**. These expectations were that oil would perhaps achieve the $115-$120 range between late spring and midsummer and that the price rise would create negative economic signals that would serve to keep oil in check at that level and perhaps even bring about a modest pullback in the 2nd half of 2011. At this point, the gasoline led springtime rally has come within 17-cents of our target range and is currently engaged in a material pullback from there. As such, NYMEX Crude futures closed May $11.28 cents lower than the previous month at $102.70. At this point, we are still not convinced one way or the other yet as to whether the $114.83 from May 2nd will stand as the final high water mark of 2011.

As to inventories in the past month, we saw **seasonal improvements in domestic crude oil and gasoline** but saw the **seasonal decline in distillates continue well beyond its normal timeframe**. As such, in the past month, crude oil rose by 10.7 million barrels and is at 373.8 million barrels. Gasoline inventory rose by 6.8 million barrels and distillates fell by 6.4 million barrels. Charts from the EIA that illustrate the historical perspective on this activity are shown below. We would note that a decline phase in oil is usually already in effect by now, and as such, the increases in inventory of the last 3-weeks have served to increase the surplus over the average range noticeably in the chart below. The sharp seasonal decline in gasoline inventory ended on time, and the last few weeks of data show are showing stronger

increases than normal. This is allowing gasoline inventory to recovery materially from the low side of the average range. Distillate inventory declines are definitely continuing beyond the normal seasonal timeframe, and as we anticipated, distillate inventory is dropping further down into the average range.







As to the **latest EIA product demand statistics**, as it has for the last 18 months, gasoline continues to hover back and forth close to the previous year's demand level. After dropping back to as much as 2.4% below last year's level in the past month, it is improving somewhat again as the 4-week average gasoline demand improved in the past month from 1.6% **below** to 0.5% **below** last year at this time. Distillate demand has deteriorated rapidly in the past month from 7.3% **above** last year to 5.0% **below** last year at this time.

We continue to consider oil futures as being in a 9-month up trend. However, the material pullback movement of the past 5-weeks cannot be ignored. As such, we will continue to view oil as having a **neutral** effect on natural gas as we move into a new month. Again, as we've emphasized for the last 18 months, natural gas futures have not been affected much, if at all, by oil, even during the April-June timeframes when it is most likely to do so. Essentially, there has been a notable lack of correlation between oil and natural gas pricing since December 2008.

International Crises

As mentioned monthly, this factor affects oil primarily and therefore can have an indirect effect on natural gas. Primary items involved in this factor include international terrorism and instability associated with Iraq, Iran, and the rest of the Middle East, uncertainty over Russian oil production, increasing oil usage in developing countries, and periodic unrest in countries like Nigeria and Venezuela. We are most apt to point to a situation if it is capable of attracting on-going media attention and can be used by various industry players to hype the energy markets in one direction or another.

We currently have 2 situations that we view as international crises. They are the **global financial and economic situation**, and the **revolutionary conflicts in North Africa and the Middle East**. With little new in the way of significant news coming out of Libya, we noted 4 weeks ago that the global financial situation has reemerged as the primary focus.

Essentially, financially there has been some increasing concern about the ability of the domestic and global economic recoveries to continue, and over the past month, there has been a string of domestic economic indicators suggesting that the US economy is not recovering in the more vigorous manner that it normally does after a recession. Such information is conducive to the downside in oil and we think it is appropriate that the blow-off appearance of oil has been interrupted and that oil has been in a month long pullback.

Overall, we will continue to consider our factor of International Crises as having a supportive effect, but we may very well change this if the global and domestic financial pictures continue to deteriorate. Essentially, the economic information is showing signs of offsetting the supportiveness caused by the situations in North Africa and the Middle East. As mentioned for the past year, while it has had a significant effect on oil, we don't view this factor as currently having much, if any, influence on natural gas futures.

Seasonal Cycles

As we mention in every monthly report, this factor is one that we classify as a "technical" factor and one that we have put increasing reliance on over the years. It is technical in that it tends to exert influence over the market almost regardless of what fundamental factors are showing. While seasonal cycles have been known to vary significantly under some circumstances, we have found the natural gas futures market to have a strong seasonal or historical tendency to put in a pre-winter seasonal high in the October-December timeframe, a pre-summer seasonal high in the May-June timeframe, a winter seasonal low in January-March, and a summer seasonal low in June-September. Seasonal highs generally come as a climax during periods of anxiety and uncertainty about how the supply system will respond to significant weather related demand, and seasonal lows generally come at the end of periods of comfort once effects of fundamentals are known. Thus, seasonal highs generally build as we move toward the winter heating season and as we move toward the summer cooling and storage injection season. Once we move into those respective seasons, the market usually gains a degree of comfort as to how the

system is performing at the price levels and begins an appropriate descent toward a seasonal low. Theoretically, an industrial user should use a layered approach to try to purchase long-term gas or futures at seasonal lows and producers should try to sell at highs. We believe such a strategy should give those entities the best chance of locking in reasonable pricing and of beating actual market prices in the months hedged.

As discussed above, the overriding concept in our price movement methodology involves the seasonal pricing tendencies in the natural gas futures market. Our approach is to utilize history, fundamentals, and past experience, to formulate expectations about price movement for a new seasonal cycle. We then watch for changes in fundamental factors that could potentially lead to seasonal price movement outside expectations. We have been around for all the seasonal cycles since inception of the natural gas futures contract, and the significant seasonal deviations that we have seen over the years have been caused almost entirely by extreme situations in fundamentals or in unusual combinations thereof. Thus, when we analyze fundamentals, we are not only trying to get an idea as to how each fundamental might affect price and timing within a seasonal period, but we are also looking for trends in fundamentals or combinations that will cause seasonal highs and lows to occur outside of normal timeframes. The fundamental of weather is the hardest fundamental to tie down and, as such, we refer to it as a wildcard.

In this paragraph, we will review the **seasonal activity of the past year** and how our expectations compared to actual movement. In the 2010 April-June pre-summer seasonal cycle, we looked for a price recovery into a May-June peaking period. With similar bearish situations in storage and the supply/demand balance as the previous year, we generally looked for natural gas futures to only have a lackluster pre-summer rally like the year before. We looked for some consolidation through April that would hold the $3.81 level and then an approximate $1.40 rally that would likely peak early in the May-June peaking period. As it turned out, the market correctly held the $3.81 and consolidated during all of April before correctly rallying. The concerted upside was a little slower to occur than we had anticipated, and while our peak came about 2-weeks beyond our original thoughts, it occurred exactly at our target at $5.196 on June 16th. We then entered the June-September summer seasonal cycle in which we looked for a 1st significant low in early July that would hold the $4.00 level, a midsummer rally back above $5.00, and then a deeper 2nd significant low in late September that had a good chance of breaking below $3.81. As it turned out, we correctly saw a decline into a 1st significant low in early July into our target range at $4.288 and then a midsummer rally that peaked a little early on August 2nd at $5.007. The market then correctly declined into a 2nd significant low that correctly broke below $3.81 to a prompt month low point of $3.61 on August 27th. While the market was not quite able to extend the 3.61 low point in late September, industrial clients actually saw the best long-term hedging opportunities of the June-September summer season on September 30th. This was consistent with our original expectations. More recently, we completed the October-December pre-winter seasonal cycle in

which we looked for pricing to hold above the $3.61 summer low point while very bearish situations in storage and the supply/demand balance would allow only for a couple of very lackluster rallies. We expected the 1st significant rally high to occur in late October/early November and the 2nd significant high to occur in early December. We anticipated a good pullback in mid November and very possibly a deep significant low in late December if November and December were not very cold. As it turned out, futures initially deviated from our expectations by initially falling materially below the $3.61 summer low point on some bearish shifts in fundamentals. However after that, movement generally played out as anticipated and within the anticipated timing parameters. While we correctly received a relatively decent pullback in late December to $3.951, November and December weather was very cold and prevented a more significant low from developing. Most recently, we completed the January-March winter seasonal cycle in which we looked for a low of some degree in January, a midwinter rally, and then another significant low in late February which we anticipated would be the deeper of the two. We targeted the mid $3's for the late February winter seasonal low. While a cold January largely kept January pricing elevated until very late January, we eventually saw pricing correctly decline to $4.252 in late January, a midwinter bounce back to as high as $4.496 in early February, and then a good decline to our winter seasonal low point of $3.731 on March 4th. Basically, the timing and magnitude of movement playing out very close to expectations, and the bottoming action also occurred with the "soft landing" we looked for by correctly extending from mid February through mid March.

The **original expectations laid out for this current March-June pre-summer seasonal cycle** are again repeated as follows. We have been anticipating an upward pre-summer seasonal market rally off the $3.731 (March 4th) final winter seasonal low point that would peak in the May-June timeframe in the upper $4's or low $5's ($4.70-$5.30). Because of similar fundamentals of the 2 previous years, we looked for similar mushy movement in the rally with the more material upside progress not getting underway until late April or May. We tweaked these original expectations slightly in our 3/27/11 report to account for a cooler spring and a growing year-on-year storage deficit, and as such, we concluded that the mushiness wouldn't be as significant and therefore expected early phase pullbacks to hold above the $4.00-$4.10 area (instead of the $3.80's-$3.90's) and that we would likely see the $4.40 level exceeded early in the late April-May timeframe. *Overall, though, our thoughts continued to be that the pre-summer move would be similar to last year in magnitude and eventually top out in the upper $4's or low $5's in the May-June timeframe.*

Six weeks ago in our 4/24/11 report, we zeroed in on the timing of the anticipated peak of our pre-summer seasonal rally. Last year, the peak occurred in mid June at a time when it was becoming apparent that some unusual late spring heat was going to continue and likely be the trend for the summer. *This year, we didn't expect the bullish weather help in June and therefore favored May, and perhaps even early May, as being more likely for this final pre-summer high*. Essentially, this year we are focusing primarily on the year-on-year storage deficit and we expect this deficit to get as high as it will go in early May and then level off before actually beginning to fall back in early June. With forecasters expecting a milder summer this year, we were inclined to look for the market to advance when the

storage deficit approached or was at its highest level in early May and then be vulnerable for a decline as the deficit shows signs of falling back. This is not to say that the market won't try to rebound materially on the first good warm spell in June, but we just think the odds favor May as having more seasonal anxiety supporting the market than June.

As we have been discussing, our above mentioned **expectations for this March-June pre-summer seasonal period have predominately been on target**. Basically, our anticipated pre-summer seasonal rally did, in fact, occur, and in doing so, the market correctly rallied off the March 4th winter seasonal low of $3.731 and has reached into both our $4.70-$5.30 target range and our timing range with a high water mark of $4.729 from May 2nd. *Both the mushiness that we looked for and the comparatively early move upward above $4.40 and into the lower portion of our upper $4's-low $5's target range have played out generally as anticipated.*

Since the $4.729 high water mark of May 2nd, we have been considering the large subsequent pullback that occurred and whether the market had suffered too much damage to extend the pre-summer rally further. Regardless of the damage, though, we looked for at least a decent recovery attempt. As it has turned out, weather forecasters have been surprised by a strong heat wave, and thus, we have received much more supportive help from the first warm spell in June than we thought we would. As a result, not only have we received a respectable recovery attempt, but the market has been able to pop to a new high water mark of $4.859 on June 2nd. Basically, this warm spell is turning out to be more of a multi-week heat wave and is probably going to prevent much, if any, improvement in the year-on-year storage deficit through the first 2-3 weeks of June. As such, there is proving to be more seasonal anxiety supporting the market here in early June than there was back in very early May when the previous $4.729 high water mark was set, and we think it is certainly reasonable that we've reached a new pre-summer high water mark. In any event, the market is still within our general May-June timeframe for a peak and is approaching the midpoint of our $4.70-$5.30 price target range.

As covered last week, we usually see a good **upward market move on the first heat wave of the summer**. In years where storage is relatively low and the supply/demand balance is tight, a rally on the first heat wave will often carry all the way to the end of June. On the other hand, in years where storage is comfortable and the balance is loose, the rally will more likely fall apart with either a shift in forecasts or when participants receive an EIA storage report indicating that the heat had little material effect on storage injections. With this year's fundamentals in the latter category, we are inclined to think that this current heat wave is providing the best and perhaps a relatively brief opportunity for the market to achieve a new pre-summer high water mark. *As such, the longer this heat wave can remain intact, the better the rally momentum can stay in place and the further our pre-summer rally can extend further into our $4.70-$5.30 target range.*

Looking ahead, we thought we would put forth some preliminary thoughts about the upcoming June-September summer season in which we expect to see futures market movement featuring an overall

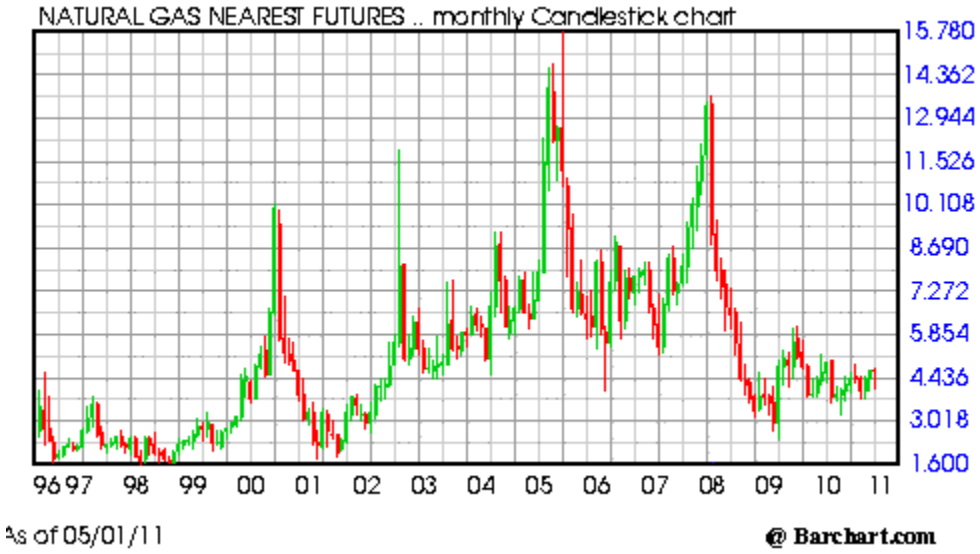
decline. Much about these thoughts are dependent on forecasts of average or below average July-September summer heat being relatively accurate. Our thoughts are that we will eventually see less inspiring temperature forecasts here in June and that the current pre-summer rally will peak and reverse into a general decline. We don't anticipate a sharp decline initially as market participants will want to see early July forecasts first and it is certainly possible that any signs of early July warmth will trigger one last attempt at the upside. We should see some material downward progress take place in very late June or early July and would expect a significant low in July followed by a midsummer rally and then another significant low in August or September. If current summer temperature forecasts are accurate and storage injections proceed as anticipated, we would anticipate our 1st significant low to occur perhaps in the upper $3's and the 2nd significant low to reach somewhat lower and occur perhaps in the mid $3's. Much will depend on how long a midsummer heat wave might last and more importantly on whether we have many hurricane interruptions in the Gulf of Mexico this year. Essentially, another quiet year in the Gulf would help facilitate a good final dip in futures pricing in late September.

With natural gas futures in the March-June pre-summer seasonal high cycle, we will consider seasonal forces as exerting a supportive influence on natural gas futures.

Technical Considerations

The most recent mark on the monthly continuation chart (see page 1) shows another decent sized range of about 65-cents and forms a bullish looking hammer mark with an open near the high and a close just 2-cents from the open. Such a mark indicates a good chance of at least some additional upside in the month to come. In context with the past few months, the mark is not quite as bullish looking as the mark essentially retraces the upward movement of the previous month. Such a mark is not surprising considering the close proximity to previous significant highs from last January and last June. The mark could be deemed as either indicating good hesitation about more upside or as cocking before an upward breakout and some sharp upward progress beyond those 2 previous highs.

We have included a weekly continuation chart (above) that provides a more detailed look at what has transpired over the past few weeks. The chart shows the 6-weeks of downward winter seasonal movement that occurred from late January through early March to $3.731 on March 4th and then the 13-week rally phase that has occurred since. With the new high water mark last week, we are counting a well defined 5-wave move since the March 4th low. As can be noted, our current pre-summer rally is still about 33-cents from achieving last year's pre-summer high of $5.196. The latest weekly mark from last week has a close just slightly above the midpoint and, thus, indicates some notable hesitation about additional upside. **We would also note that the relatively stable pricing of the past year and a half has resulted in well defined seasonal movement with the market clearly rising in pre-winter and pre-summer periods and clearly declining in winter and summer seasonal periods**.



We have again elected to include the **condensed monthly continuation chart** (see chart above) as we have done for the past 29 monthly reports as we think it is very useful in putting the natural gas futures movement in a long-term perspective. We have continued to compare the 4 occasions when natural gas has spiked to, or above, the $10 mark and how the market behaved after the spikes. We have pointed out that the first 3 declines were followed by a period of choppiness and at least **one good pullback** toward the low point. As such, we have not necessarily been looking for a sustained multi month recovery yet, after our most recent unwinding process, as history argues for a relatively long period of choppy consolidation. The market activity of the past 21-months is consistent with the choppiness that we have anticipated and keeps the overall movement relatively similar to what we saw after the spike that peaked in December 2005. In this regard, we have been watching the past 17-months of activity in the context of a "good pullback", referred to in the 3rd preceding sentence, and thus, **we think we are getting very close to the end of our consolidation as we think we have either completed this "good pullback" at last October's $3.212 or are in the process of bouncing before trying to stretch a little lower**. While the "pullback" could conceivably have reached its low point last October's, we are still considering the long-term weather forecasts, storage, and supply/demand balance outlooks, and we see the possibility that a milder summer this year and perhaps a milder winter could keep pricing repressed a while longer and allow at least one more chance to extend the "good pullback" over the coming months. We will stay attuned to the supply/demand balance, storage, and other fundamentals over the next few months as any decisive, bullish longer-term shift in these fundamentals would likely create the anxiety necessary for another sustained rally toward $10.

While not overly convincing, both monthly and weekly charts still look bullish. As such, we will consider technical considerations as **supportive**.

CONCLUSIONS

(All but the last paragraph comes from the "Seasonal Cycles" section.)

Our original expectations for this current March-June pre-summer seasonal cycle are repeated in paragraphs 2 and 3 of the "Seasonal Forces" section.

As we have been discussing, our above mentioned **expectations for this March-June pre-summer seasonal period have predominately been on target**. Basically, our anticipated pre-summer seasonal rally did, in fact, occur, and in doing so, the market correctly rallied off the March 4th winter seasonal low of $3.731 and has reached into both our $4.70-$5.30 target range and our timing range with a high water mark of $4.729 from May 2nd. *Both the mushiness that we looked for and the comparatively early move upward above $4.40 and into the lower portion of our upper $4's-low $5's target range have played out generally as anticipated.*

Since the **$4.729 high water mark of May 2nd**, we have been considering the large subsequent pullback

that occurred and whether the market had suffered too much damage to extend the pre-summer rally further. Regardless of the damage, though, we looked for at least a decent recovery attempt. As it has turned out, weather forecasters have been surprised by a strong heat wave, and thus, we have received much more supportive help from the first warm spell in June than we thought we would. As a result, not only have we received a respectable recovery attempt, but the market has been able to pop to a new high water mark of $4.859 on June 2nd. Basically, this warm spell is turning out to be more of a multi-week heat wave and is probably going to prevent much, if any, improvement in the year-on-year storage deficit through the first 2-3 weeks of June. As such, there is proving to be more seasonal anxiety supporting the market here in early June than there was back in very early May when the previous $4.729 high water mark was set, and we think it is certainly reasonable that we've reached a new pre-summer high water mark. In any event, the market is still within our general May-June timeframe for a peak and is approaching the midpoint of our $4.70-$5.30 price target range.

As covered last week, we usually see **a good upward market move on the first heat wave of the summer**. In years where storage is relatively low and the supply/demand balance is tight, a rally on the first heat wave will often carry all the way to the end of June. On the other hand, in years where storage is comfortable and the balance is loose, the rally will more likely fall apart with either a shift in forecasts or when participants receive an EIA storage report indicating that the heat had little material effect on storage injections. With this year's fundamentals in the latter category, we are inclined to think that this current heat wave is providing the best and perhaps a relatively brief opportunity for the market to achieve a new pre-summer high water mark. *As such, the longer this heat wave can remain intact, the better the rally momentum can stay in place and the further our pre-summer rally can extend further into our $4.70-$5.30 target range.*

Looking ahead, we thought we would put forth some preliminary thoughts about the upcoming **June-September summer season** in which we expect to see futures market movement featuring an overall decline. Much about these thoughts are dependent on forecasts of average or below average July-September summer heat being relatively accurate. Our thoughts are that we will eventually see less inspiring temperature forecasts here in June and that the current pre-summer rally will peak and reverse into a general decline. We don't anticipate a sharp decline initially as market participants will want to see early July forecasts first and it is certainly possible that any signs of early July warmth will trigger one last attempt at the upside. We should see some material downward progress take place in late June or early July and would expect a significant low in July followed by a midsummer rally and then another significant low in August or September. If current summer temperature forecasts are accurate and storage injections proceed as anticipated, we would anticipate our 1st significant low to occur perhaps in the upper $3's and the 2nd significant low to reach somewhat lower and occur perhaps in the mid $3's. Much will depend on how long a midsummer heat wave might last and more importantly on whether we have many hurricane interruptions in the Gulf of Mexico this year. Essentially, another quiet

year in the Gulf would help facilitate a good final dip in futures pricing in late September.

As to **the coming week**, we think that 6-10 and 8-14 day temperature forecasts will be very important as to whether our latest leg up of our pre-summer rally can continue to progress higher beyond Thursday's high water mark of $4.859. Continued forecasts of above normal heat in the eastern US should have the market making some further headway toward $5.00, whereas a materially bearish shift in forecasts could have futures giving up recent ground rather quickly. Again, we will be watching the Thursday EIA report closely over the next couple of weeks to see that our summer supply/demand balance is indeed loosening back up close to last year's. As to all factors affecting natural gas futures, please see summary box on page 2.

RECOMMENDATIONS

Industrials

(Our comments are very similar to last week's) Consistent with our thoughts of the past 5-6 weeks, the market is beyond the price range and timing that we deemed appropriate for long-term industrial hedging activity. It continues to appear that our winter seasonal thoughts were on target in projecting that the best industrial hedging opportunities would occur during a "soft landing" associated with a winter seasonal low in the mid February-mid March timeframe and that the market would then move up toward an anticipated pre-summer seasonal high in the May-June timeframe. The high water mark of this year's anticipated pre-summer rally was extended to $4.859 on June 2nd. The seasonal tendency is for futures to stay relatively well supported during the May-June period and we rarely see the market experience significant downside movement until late June or July. Thus, the market holding the $4.20 area on a weekly closing basis in mid May and then moving back to the upside in the past week is consistent with these normal pre-summer tendencies. *The current price level in the $4.70's is deemed too high for either long or short-term industrial hedging. We continue to view the late June-September summer seasonal period as the time for the next good hedging opportunity for industrials (see the 2nd to last paragraph in "Conclusions" section for our preliminary summer thoughts).* Assuming that our assumptions about the summertime supply/demand balance and summer weather are correct and allow for the year-on-year storage deficit to be made up by late summer, there appears to be the potential for late summer futures pricing to be at least as favorable for hedging as the last June-September summer timeframe in which pricing went as low as $3.61. We'd suggest that clients refer to the "Storage", "Supply/Demand Balance", "Weather", and "Conclusions" sections for additional thoughts on coming price movement. For your reference, last year's monthly futures contracts expired at the following levels: July 2010 $4.717, August 2010 $4.774, September 2010 $3.651, October 2010 $3.837, November 2010 $3.292, December 2010 $4.267, January 2011 $4.216, February 2011 $4.316, March 2011 $3.793, April 2011 $4.24, May 2011 $4.377, June 2011 $4.326. We generally advocate that industrials attempt to accomplish long-term hedging at seasonal or significant lows during the winter and summer seasonal cycles. As usual, we encourage a layered approach to hedging and much of the

decision to hedge, or otherwise lock in prices, depends on the industrial's individual hedging situation, the extent of hedging already in place, and the goals of the industrial's hedging program.

Producers

As to producer hedging activity, we had targeted $4.70-$5.30 for our pre-summer seasonal high and urged producers to begin implementing layered hedging activity as we were initially entering the lower levels of this range on May 2nd. While pricing did afford producers some time in the very low $4.70's it only stayed there for a couple of days before a sharp pullback ensued to the $4.077-$4.339 range. As such, we have been assuming that producer clients accomplished only some portion of their hedging activity budgeted for the pre-summer seasonal period. We have **not** encouraged producers to hedge at the much lower levels as seasonal tendencies do not favor more than a pullback this time of year, and thus, we continued to think producers should have some opportunity to get additional hedging done **better** than the $4.077-$4.339 range. It appears our thoughts have been on target as the past couple of weeks featured an upside breakout above $4.339 that has now gone as high as $4.859 last Thursday. In last week's report, we noted that the recovery had achieved the low $4.50's, and not being highly confident that our new leg up would be able to set a new high water mark above $4.729, we encouraged producer clients to resume layered hedging in the low $4.50's and try to get an appropriately significant amount of hedging completed in the week ahead. This turned out to be reasonable advice as the market opened in the $4.50's and managed to achieve a new high water mark of $4.859 by Thursday, thus providing producers with a week long period of good hedging opportunity. *We continue to think the magnitude of the current upward move will be strongly influenced by the weather outlook, and thus, we recommend keeping a close eye on forecasts. The longer the heat can stay in the 6-10 and 8-14 day outlooks, the longer and higher our move can go. For producers who would like to shoot to wrap up remaining hedging activity at something higher than $4.859, we would suggest putting in a protective sell around $4.50 or so in case temperature forecasts fall apart before the market can get there. While there is always a chance for another weather related recovery later in June on forecasts for early July, we think good hedging opportunities for producers are going to remain relatively fleeting this year and would encourage producers to take decisive action when decent opportunities (such as those last week and early May) arise.* After the current May-June pre-summer peaking period, we currently point to the October-December pre-winter seasonal period as being the next reasonable, long-term hedging opportunity for producers. We will probably see a mid summer rally, but currently don't expect it to be as good as the upcoming pre-winter period or especially the current pre-summer period. We'd suggest that clients refer to the "Storage", "Supply/Demand Balance", "Weather", and "Conclusions" sections for additional thoughts on coming price movement. For your reference, last year's monthly futures contracts expired at the following levels: July 2010 $4.717, August 2010 $4.774, September 2010 $3.651, October 2010 $3.837, November 2010 $3.292, December 2010 $4.267, January 2011 $4.216, February 2011 $4.316, March 2011 $3.793, April 2011 $4.24, May 2011 $4.377, June 2011 $4.326. Normally, we advocate that producers attempt to accomplish long-term hedging at seasonal or significant highs during the pre-winter cycle and the pre-summer cycles. As usual, we encourage a

layered approach to hedging and much of the decision to hedge depends on the producer's individual situation, the extent of hedging already in place, and the goals of the producer's hedging program.

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