

Natural Gas Year-In-Review 2007

This report provides an overview of the natural gas industry and markets in 2007 with special focus on the first complete set of supply and disposition data for 2007 from the Energy Information Administration (EIA). All data for 2007 should be considered preliminary, and unless otherwise noted, data are derived from weekly and monthly EIA products. In certain cases data for all 12 months of 2007 are not yet available, so analysis is based on cumulative totals as indicated in the text. Final data for 2007 will be released in the *Natural Gas Annual 2007*, which is scheduled to be released in December 2008. Questions or comments should be directed to Lejla Alic at Lejla.Alic@eia.doe.gov or (202) 586-0858

Natural gas markets exhibited lesser price movement in 2007 than was the case in recent years. The more limited variability in prices reflects the absence of unsettling events like those in recent years that caused supply disruptions and high prices, such as the hurricanes in 2005 and the ensuing recovery period in 2006. Growth in domestic natural gas production, record high liquefied natural gas (LNG) imports, and storage volumes that exceeded the 5-year (2002-2006) average throughout the year brought reduced price volatility to the natural gas market in 2007 (Table 1).¹ In fact, volatility as measured by relative price fluctuations decreased to its lowest level since 2002. On a simple dollar basis, the price differences between the yearly minimum and maximum during 2007 was \$3.81 per million British thermal units (MMBtu), or \$3.92 per thousand cubic feet (Mcf), significantly lower than those observed in 2005 and 2006.

Table 1. Price Volatility Declined Despite the Higher Henry Hub Spot Price

Year	Henry Hub Spot Price (dollars per million Btu)	Annual Volatility (percent)	Price Range
2002	3.36	56.7	3.33
2003	5.47	118.9	14.86
2004	5.89	79.1	3.79
2005	8.69	67.3	9.87
2006	6.73	82.1	6.25
2007	6.97	61.6	3.81

Note: The *Price Range* refers to the difference between the minimum and maximum prices in each year.

Source: Energy Information Administration, Office of Oil and Gas, derived from daily price data provided by Intelligence Press, *NGI's Daily Gas Price Index*.

The favorable supply picture led to decreases in all end-use natural gas prices, with the exception of the electric power sector. The return of relative market stability also was apparent in the increased consumption of natural gas during the year, as lack of major supply disruptions and

lower prices led to higher total consumption for the first time in 3 years.

The average annual Henry Hub spot price at \$6.97 per MMBtu (\$7.18 per Mcf) was 3.5 percent higher in 2007 than the 2006 average price of \$6.73 per MMBtu (\$6.93 per Mcf). However, the annual average wellhead price of \$6.39 per Mcf was slightly below the \$6.40 per Mcf in 2006. Monthly wellhead prices ranged between \$5.61 and \$6.98 per Mcf, remaining consistently higher than the previous year's low price of \$5.09 per Mcf in October 2006. Most end-use sectors experienced significant price decreases for the first time since 2002. In 2007, the residential natural gas price was 5.4 percent lower than the 2006 price of \$13.75 per Mcf, but remained above the 2005 average price of \$12.70 per Mcf. The commercial and industrial sectors experienced price decreases of 5.7 and 3.3 percent, respectively, while the electric power sector recorded a 2.6-percent price increase.

Total Consumption Increased for The First Time Since 2004

Total U.S. natural gas consumption increased by 6.2 percent in 2007 to 23.0 trillion cubic feet (Tcf) compared with 21.7 Tcf in 2006. Significant increases occurred in all end-use sectors except the industrial sector, where consumption increased by a modest 2.1 percent. The residential sector consumed 8.2 percent more natural gas in 2007 than in 2006, while the electric power and commercial consumed 9.9 and 6.1 percent, respectively, more than in 2006.

In addition to the continued construction of natural-gas-fired power plants in 2007, which totaled 10,988 megawatts of net peak capacity, other factors behind the increase in natural gas use in the electric power sector included the increase in natural gas use at dual-fired power plants. According to Bentek Energy LLC, fuel switching by dual-fired plants increased by an average of 31 percent in 2007, adding 0.5 billion cubic feet (Bcf) per day of incremental consumption. Overall, Bentek estimated that natural-gas-fired power plants (including dual-fired plants) consumed 13 percent more natural gas in 2007, which

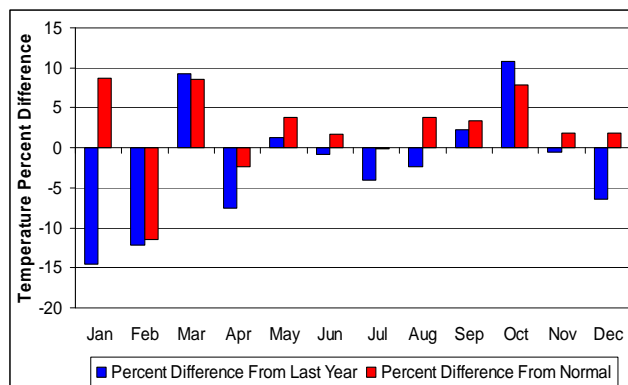
¹ Volatility refers to the degree of daily price variation and it is defined as the standard deviation of daily relative changes in price. For more information, see *An Analysis of Price Volatility in Natural Gas Markets* at http://www.eia.doe.gov/pub/oil_gas/natural_gas/feature_articles/2007/ngprivolatility/ngprivolatility.pdf.

amounted to an incremental 2.1 Bcf per day for the year.² The 0.5-Bcf increase in fuel use at dual-fired plants made up nearly 25 percent of the overall annual consumption increase.³

Residential Sector Consumption Experiences Highest Year-On-Year Increase of the Four Major Consuming Sectors

Residential natural gas consumption rose significantly in 2007, reaching 4.7 Tcf, and increasing for the first time since 2003. Lower prices and weather that was colder than previous year boosted residential natural gas demand. Consumption in the first 2 months of the year was significantly higher than in the prior year, reflecting the impact of the cold weather. In particular, consumption increased by 12.5 percent and 28.2 percent in January and February, respectively, over the prior 2006 levels. Based on the National Oceanic and Atmospheric Administration (NOAA) heating degree-day (HDD) data, January 2007 temperatures in the Lower 48 States were 24.6 percent colder than during January 2006, despite being 8.6 percent warmer than normal (Figure 1). February 2007 temperatures, however, were colder than normal and the prior year's level. Overall, in the first quarter of the year, temperatures were about 2.5 percent warmer than in the previous year, while consumption increased 10.8 percent. November and December of 2007 recorded temperatures that were about 13 percent warmer than the corresponding period in 2006, still resulting in 7.8 percent increase in year-over-year residential consumption.

Figure 1. Warmer-than-Normal Temperatures Prevailed for Much of 2007



Source: Temperature data derived by the Energy Information Administration, Office of Oil and Gas, based on data from the National Oceanic and Atmospheric Administration, National Weather Service. Heating-degree and cooling-degree day data are available at http://ftp.cpc.ncep.noaa.gov/hddocs/products/analysis_monitoring/edus/deg_ree_days/archives/.

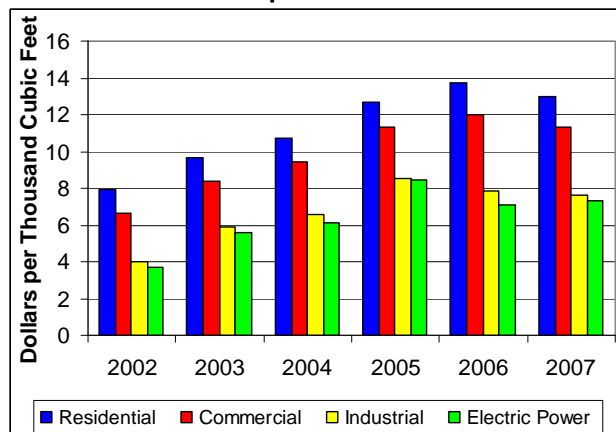
² The actual amount of fuel switching by electric power generators likely would have been larger. Some fuel switching also can occur by altering operating levels of single-fired generators to shift consumption between fuels.

³ In *High Crude/Gas Ratio, Fuel Switching 'Harbinger of Things to Come'* Natural Gas Intelligence (January 10, 2008), p. 4.

Most End-Use Prices Decreased in 2007

Natural gas end-use prices declined in 2007 for the residential, commercial, and industrial sectors. The residential price was \$13.01 per Mcf in 2007 compared with \$13.75 per Mcf in 2006, decreasing 5.4 percent. A somewhat larger decrease was recorded in the commercial sector, where prices declined by 5.7 percent, while the industrial sector price declined at a comparatively modest 3.3 percent (Figure 2). Abundant domestic and imported natural gas supplies were sufficient to lead to lower prices despite increased consumption in the end-use sectors.⁴

Figure 2. Annual Prices Were Lower in All Sectors in 2007 Except for Electric Power



Source: **2002-2006:** Energy Information Administration, *Natural Gas Annual 2006* (November 2007, Washington, DC), Table 1. **2007:** EIA, *Natural Gas Monthly February 2008* (February 2008, Washington, DC), Table 3.

In the electric power sector, natural gas prices increased by 2.6 percent in 2007. The higher price is attributable to the higher demand that resulted both from warmer-than-normal weather, particularly during the months of August through October, and fuel switching from crude oil to natural gas for dual-fired electric power generators.

Increased Onshore Production Offset Weaker Offshore Production

Marketed natural gas production in 2007 was 2.9 percent higher than in 2006, reaching 20.0 Tcf. The increase over the previous year's production level was mainly driven by an increase in onshore production, as gains in the Barnett Shale and Rocky Mountain region offset the decrease in the Federal Gulf of Mexico production during the year. The decrease in the Federal Gulf of Mexico production continued the 6-year declining trend, which totaled 2.8 Tcf in 2007, decreasing 4.5 percent from the 2006 production level. Additionally, production in a few major producing

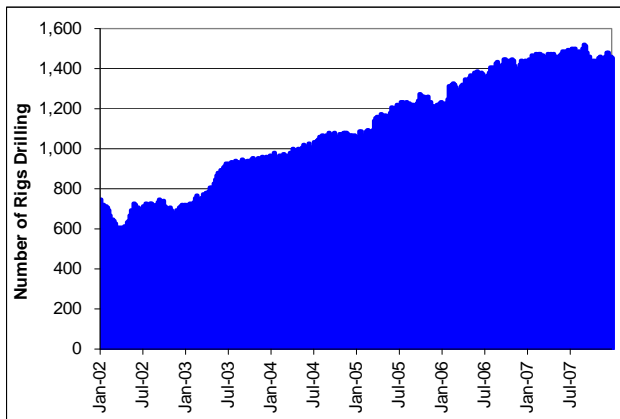
⁴ The cost structure for natural gas delivered to residential customers, and some commercial customers, also may contribute to lower prices in these sectors. As delivered volumes increase, the average fixed costs included in the delivered price will be lower than otherwise. The cost analysis needed to verify this influence in the 2007 prices, however, is beyond the scope of the present analysis.

States, such as New Mexico and Louisiana also declined. However, these decreases were eclipsed by gains elsewhere, such as Texas, which recorded a 10.5-percent increase over the 2006 production and Oklahoma, where production rose 6.8 percent in 2007.

A Slowdown in Growth of Rigs Drilling For Natural Gas Did Not Slow Production

Onshore production of natural gas in the United States reached 17.2 Tcf in 2007, increasing 4.3 percent over the previous year. The increase in onshore production occurred as the number of rigs drilling natural gas prospects peaked and then leveled off after a slight decline, ending an upward trend that began in mid-2002 (Figure 3). The leveling-off occurred largely in the last quarter of the year, when weekly rig counts were below levels observed in the summer and at times below those of the same time the previous year.

Figure 3. Increase in Weekly Gas Rig Counts Slowed in 2007



Source: Baker Hughes, Incorporated, available at http://www.bakerhughes.com/investor/rig/rig_na.htm.

According to Baker Hughes, Incorporated, the weekly average number of rigs drilling for natural gas was 1,466 in 2007, which was about 94 rigs more on average per week than in 2006. Rigs drilling set a new weekly record in 2007, reaching 1,523 natural gas rigs for the week ended August 31. Meanwhile, the number of rigs drilling for natural gas offshore decreased. In 2007 rigs drilling offshore as a share of total natural gas rigs drilled consistently remained below 5 percent, reaching as low as 2.9 percent, or 42 rigs, of the total of 1442 natural gas rigs for the week ended October 12, 2007.

Deepwater Prospects Played a Bigger Role in the Gulf of Mexico Production

In July 2007, the Independence Hub production platform came online, operating at the greatest water depth in the world with the world's largest production capacity. The facility, which is primarily owned by Enterprise Products Partners, LP, is designed to produce 1 Bcf per day of natural gas at a water depth of 8,000 feet. According to

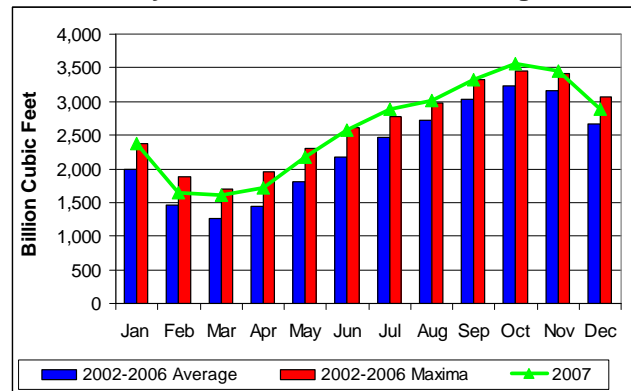
Bentek Energy, LLC, by the end of December, Independence Hub was producing 900 million cubic feet per day, with the expectation that the platform would reach peak production capacity in early 2008.

The Independence Hub underscores the importance of deepwater prospects in the domestic natural gas production, as a record number of drilling rigs operated in the Gulf of Mexico's deep water in 2007, despite the decline in overall offshore drilling. According to the Minerals Management Service, more than half of the active natural gas leases in the Gulf of Mexico are in water depths greater than 1,000 feet.⁵ In 2006, the latest year for which data are available, 40 percent of the natural gas produced in the Gulf of Mexico region originated from deepwater leases. Furthermore, 12 new deepwater discoveries were announced the same year by oil and natural gas operators, with the deepest located in 7,600 feet of water.

Working Gas in Storage Remained Above the Previous 5-Year Average Throughout 2007

Despite the higher consumption of natural gas, particularly during the heating season months, natural gas storage inventories were relatively high throughout 2007. At the beginning of 2007, natural gas inventories were 3,070 Bcf, the highest level since 1982 when inventories started the year at 3,071 Bcf. Working gas in storage continued to exceed the 5-year average inventories throughout the year, at times exceeding the previous 5-year (2002-2006) maxima (Figure 4). High storage inventories at the onset of 2007 allowed for the above-average stocks during the year.

Figure 4. Gas Storage Volumes in 2007 Consistently Exceeded the 5-Year Average Level



Sources: Energy Information Administration, Office of Oil and Gas. Average and Maxima: derived from *Natural Gas Monthly*, Table 9 (various issues, Washington, DC). **2007:** *Natural Gas Monthly*, Table 9 (February 2007, Washington, DC).

⁵ Minerals Management Service, *Deepwater Gulf of Mexico 2007: Interim Report of 2006 Highlights*, New Orleans, August 2007.

Slightly Higher-Than-Average Withdrawals Had Virtually No Effect on Natural Gas Stocks

Despite above-average withdrawals and lower-than-average injections during the year, natural gas stocks remained well above the previous 5-year average. Natural gas injections into storage during the refill season (April-October) amounted to 1,964 Bcf in 2007, which was 1 percent below the 5-year average injections of 1,982 Bcf. The warmer-than-normal weather that prevailed in each of the heating season months of the year, with the exception of February, generally limited the need for significant storage withdrawals in those months. However, the net withdrawals during the year exceeded the 5-year average withdrawals by about 11 percent, totaling 2,155 Bcf. Furthermore, the higher temperatures during the summer months, particularly during August, increased the demand for natural gas for electric power generation, which competed for the natural gas supplies for injection into storage. Still, working gas in storage at the end of August exceeded the 3,000-Bcf mark, the first time that working gas stocks reached this level so early in the year. The 2007-2008 heating season began with 3,567 Bcf of working gas in storage, which was the record high level for end-of-October stocks.

Increase in Pipeline and LNG Receipts Contributed to Record-High Net Imports

In 2007, net natural gas imports to the United States reached a record high of 3,729 Bcf, an increase of about 267 Bcf, or 7.7 percent, over the previous year. Increases in both pipeline imports from Canada and LNG imports from overseas contributed to the increase. The volume of natural gas imports in 2007 continued to equal about 16 percent of U.S. natural gas consumption, a ratio that has remained relatively stable during the past 9 years.

Net Imports from Canada Increased, While Net Exports to Mexico Exhibited a Significant Decline

Gross imports of natural gas from Canada in 2007 increased by 170 Bcf, or 4.7 percent, over 2006. This increase in gross U.S. imports from Canada was offset partially by an additional 124 Bcf exported from the United States to Canada during the year, yielding a total of 3,295 Bcf in net U.S. imports from Canada, or about 1.4 percent more than in 2006. Canada continued to be the source country for the largest volume of natural gas imports to the United States by far, accounting for 83 percent of gross imports to the United States. Nonetheless, producers active in the Western Canada Sedimentary Basin (WCSB), from which roughly 97 percent of Canadian production flows, have been experiencing difficulty in maintaining natural gas output in an economic environment of rising production costs and declining well

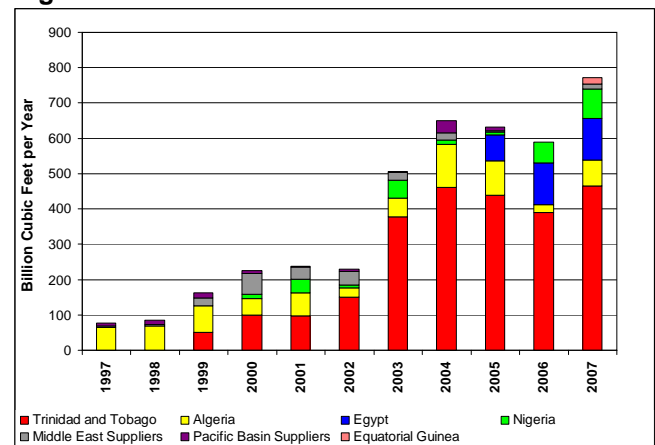
productivity. This has led to limited production growth in the WCSB in recent years. Even as Canada has been experiencing these supply strains, Canada's domestic natural gas demand for oil sands operations in Alberta and for natural-gas-fired power generation in Ontario is increasing, also making less natural gas available for export.

U.S. exports to Mexico decreased to 288 Bcf, which was a decline of 10.4 percent from 2006.⁶ The decline in U.S. exports followed notable production gains by state-controlled Petroleos Mexicanos (Pemex) in recent years, as well as the first full year of operations at the Altimira LNG terminal on the coast of the Gulf of Mexico. This LNG terminal received approximately 110 Bcf during the year. In each of the past 3 years, U.S. export volumes were considerably lower than the historical high of 397 Bcf reached in 2004.

LNG Imports Reversed Declines of Previous 2 Years

LNG imports reached a record high at the equivalent of 771 Bcf of natural gas in gaseous form, which was 32.1 percent higher than the previous year and 18.2 percent more than the record high of 652 Bcf in 2004. LNG imports have substantially increased since early this decade (including more than doubling between 2002 and 2003), but progress has been uneven from year to year. Notably, the record volume in 2007 followed 2 consecutive years of declining LNG imports in 2005 and 2006 (Figure 5).

Figure 5. U.S. Receipts of LNG Reached Record High Volumes



Source: Department of Energy, Office of Fossil Energy.

LNG imports during the year came from six source countries, compared with just four in 2006. Deliveries from Trinidad and Tobago, which is the leading exporter of LNG to the United States, totaled 451 Bcf, about 61 Bcf

⁶ This discussion of international trade does not address U.S. imports of natural gas from Mexico, for which data for 2007 were not available. Imports from Mexico are normally less than 5 Bcf per month.

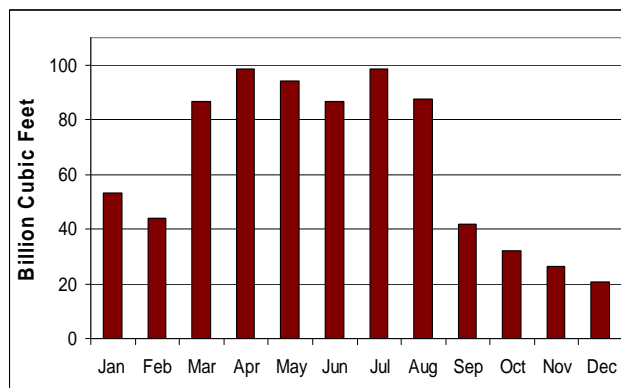
more than in the previous year. U.S. LNG import volumes increased as Trinidad and Tobago exports reached a record-high level with a recent expansion of liquefaction capacity in the country. The Atlantic LNG facility, located in Port Fortin, Trinidad and Tobago, expanded its liquefaction capacity in 2005 to 15 million tons per year (720 Bcf).⁷ The liquefaction facility, which began shipments in May 1999 to the Distrigas LNG facility in Everett, Massachusetts, now has four operational trains, the newest of which is the largest in the world with the capacity to liquefy 5.2 million tons per year (240 Bcf).

Egypt, which started exporting LNG in 2005, shipped 114 Bcf to the United States in 2007, which was down slightly (5 Bcf) from the previous year. Nigeria was the source country for the third largest volume of U.S. LNG imports. U.S. imports from Nigeria increased from 57 Bcf in 2006 to 95 Bcf in 2007, because of increased capacity at the country's liquefaction facility on Bonny Island. Algerian LNG production also increased in 2007 in comparison with 2006, leading to U.S. imports quadrupling in volume to 74 Bcf. Qatar and Equatorial Guinea, a new LNG exporting country in 2007, were the source countries for, respectively, 15 and 18 Bcf of LNG.

Five LNG import terminals operated in the continental United States during the year. Southern Union Company's Trunkline LNG terminal in Lake Charles, Louisiana, received the largest volume of any U.S. terminal with receipts totaling 252 Bcf. The facility owned by Suez Energy North America, Inc., in Everett, Massachusetts, received the second biggest volume at 184 Bcf. El Paso Corporation's Southern LNG facility on Elba Island, Georgia, received 170 Bcf in 2007, while Dominion's Cove Point LNG facility on the Chesapeake Bay in Maryland, received 148 Bcf. Excelerate Energy's Gulf Gateway port offshore Gulf of Mexico received 17 Bcf.

The Everett facility received shipments at a relatively constant rate during the year. However, the other four facilities received LNG shipments that varied in size throughout the year, with peaks for the year occurring during June through August. The pattern of U.S. LNG imports reflected the pattern of global demand during the year. A mid-year increase in deliveries occurred at a time of relatively low demand for LNG in other parts of the world. As demand outside the United States increased during the fall and into the winter, LNG imports declined significantly as available global supplies were bid away by other countries. In fact, the lowest monthly LNG import volume of the year occurred in December, when the United States received 21 Bcf. This was equivalent to 21 percent of the peak month deliveries of 99 Bcf that occurred in April (Figure 6).

Figure 6. The Bulk of LNG Imports Reached the United States During the Spring and Summer Months

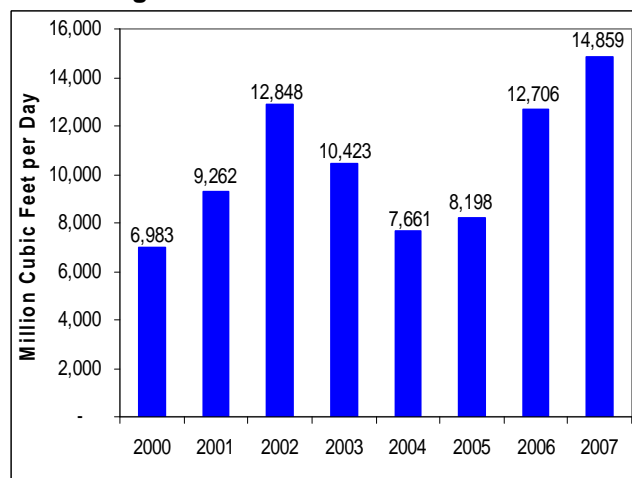


Source: Department of Energy, Office of Fossil Energy.

Addition of New Pipeline Capacity Was Spurred by the Development Of New Production Areas

In 2007, at least 50 natural gas pipeline projects were completed in the Lower 48 States, 4 more than were completed in 2006. These projects added close to 1,674 miles of pipeline and more than 14.9 Bcf per day of new capacity to the national natural gas pipeline grid, continuing the expansion cycle that started in 2005 (Figure 7). The cost of this 2007 expansion activity was approximately \$4.2 billion, compared with \$2.3 billion expended in 2006 on 46 projects that added 1,600 miles of new pipeline and 12.7 Bcf per day of new capacity to the grid.

Figure 7. Natural Gas Pipeline Additions Reached Record-High Levels



Source: Energy Information Administration, GasTran Natural Gas Transportation Information System, Natural Gas Pipeline Projects Database.

⁷ Conversion from tons to cubic feet is based on the assumption that 1 million tons of LNG approximately equals 48 billion cubic feet of gaseous natural gas.

Thirty-six of the 50 projects completed in 2007 involved expansion of the interstate natural gas pipeline network, while the remainder improved capacity and transportation service on intrastate natural gas pipelines or new large-scale header (gathering lateral) systems designed to transport new natural gas production from expanding natural gas fields. In fact, out of the 14 non-interstate natural gas pipeline projects completed during the year, about one-half involved adding new transportation capacity from developing production areas or constructing new intrastate pipeline sections to interconnect new production with the interstate pipeline network. Such projects were common in the expanding natural gas production areas of the western sections of Wyoming and Colorado and in the Barnett shale formation of northeast Texas.

The largest natural pipeline project completed in 2007, the 1.2-Bcf per day, 172-mile Centerpoint Energy Company's Perryville expansion project, was constructed principally to link the expanding natural gas production flowing on Texas intrastate pipeline systems to the interstate system of natural gas pipelines found in northern Louisiana. The second-largest pipeline project completed is the Tenneco Deepwater Link Project at 1 Bcf per day, which connects the Independence Trail deepwater offshore gathering system and the Tennessee Gas Pipeline. In the Rocky Mountain area of western Colorado, the 0.75 Bcf per day Rockies Express West (Enterga) was completed in 2007. This is the third largest natural gas pipeline project in 2007 and the first stage of the planned continental Rockies Express Pipeline system, which will eventually transport Wyoming/Colorado natural gas to the northeastern United States markets. The second stage of the Rockies Express system, from eastern Colorado to eastern Missouri, will be placed in full service in mid-2008 (portions located in Colorado and Kansas were placed in service in early 2008).

Natural gas pipeline construction activity in 2007 also included the installation of the first pipeline since 1972 designed to transport LNG from an import facility, the Excelerate Energy LLC's Northeast Gateway LNG terminal, located 10 miles offshore from Gloucester, Massachusetts, which is about 50 miles northeast of the existing Everett LNG terminal located onshore. During the year, a segment of the North Baja Pipeline system was modified to allow for future LNG-sourced natural gas from import facilities located on the northwest coast of Baja California to be delivered to customers located in the United States. Previously, the pipeline segment could transport natural gas only from the United States to Mexico.

Continued Strength in the Financial Markets Supported Stability

The New York Mercantile Exchange (NYMEX) is the world's largest commodity futures exchange. Founded in 1882, the NYMEX daily handles billions of dollars worth of energy futures, metals, and other commodities that are traded on the floor as well as on the various electronic trading systems. Traditionally, the NYMEX has used an open outcry auction mechanism.⁸ With the rise of electronic trading systems on various exchanges, NYMEX also established an electronic trading platform to supplement their traditional trading floor operations that took place between 9 a.m. and 2:30 p.m. Eastern Time.

The exchange opened the NYMEX ACCESS system in June 1993, shortly after the founding of the Chicago Mercantile Exchange (CME) Globex system, in order to allow market participants to trade beyond the floor trading hours. In April 2006 NYMEX announced a 10-year agreement with the Chicago Mercantile Exchange (CME), moving several NYMEX energy contracts, including the natural gas futures contracts to Globex, the CME's electronic trading platform. NYMEX launched its physically settled futures contracts for trading on CME Globex during regular open-outcry trading hours on September 5, 2006. This followed its initial offering of financially settled, standard-sized and NYMEX miNY energy futures contracts for trading on CME Globex on June 12, 2006.⁹ Last year marked the first full year that the NYMEX natural gas futures contracts traded on the Globex.

Electronic trading on the Globex for NYMEX futures was quite successful. In October 2006 NYMEX reported that the daily trading on the Globex for natural gas futures reached 54,213. By February 2007, the number had more than doubled to 137,562 natural gas contracts and subsequently increased to a record high of 158,525 on December 14, 2007.¹⁰

The introduction of Globex presented the possibility for significant change in the trading for natural gas futures, raising concerns regarding its effects on trading in the open outcry. An analysis of trading in the open outcry as measured by monthly trading volume and open interest, however, revealed that although successful, Globex did not

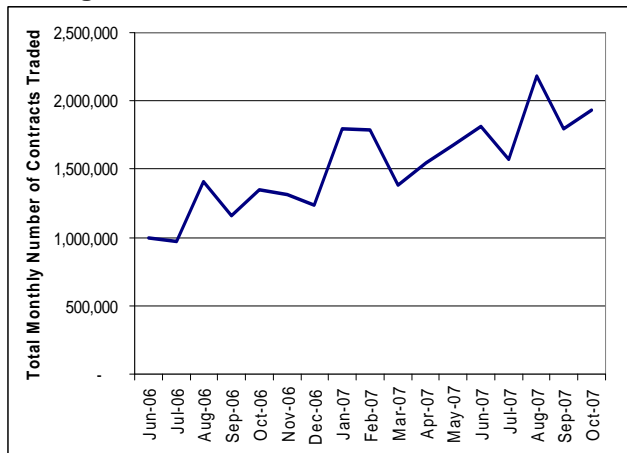
⁸ Open outcry refers to the method of trading commodities, where traders gather at exchanges and use shouting and hand signals to share information about buy and sell orders.

⁹ NYMEX miNY™ natural gas contract's size is 2,500 MMBtu per contract. The contracts are financially settled at the settlement price of their corresponding standard-sized (10,000 MMBtu) contracts.

¹⁰ Chicago Mercantile Exchange/Chicago Board of Trade Company, www.cmegroup.com/mediaroom

replace the open outcry as the trading mode of choice for many.¹¹

Figure 8. Open Outcry Trading Volume Exceeded Previous Year's Levels and Continued to Climb Throughout the Year



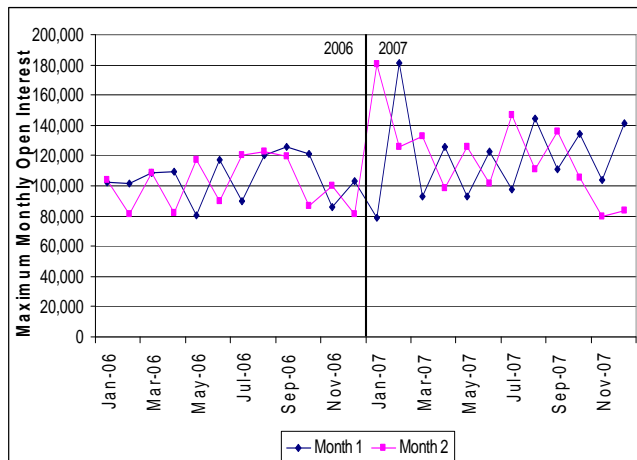
Note: Data are the total monthly number of contracts traded for the near-month and the following month.

Source: Commodity Futures Trading Commission.

Slight declines in volume traded and open interest on the open outcry recorded in the last quarter of 2006 proved to be only temporary. By January 2007, both open interest and trading volumes had recovered and exceeded the previous year's levels. Trading volumes generally exhibited an increasing trend throughout the year, reaching a daily total of 157,101 trades on August 10, 2007, and a monthly total of 2.18 million contracts during August, the record number of contracts traded in a month (Figure 8). Open interest for the near-month contract on the open outcry increased to a record high of 181,350 on January 30, 2007. After declining from the exceptional peaks of January 2007, open interest for the near-month and the following month contracts (months 1 and 2, respectively) on the open outcry remained stable throughout the year, with the exception of a decrease in the 2-month contract in the final months of the year (Figure 9).

Examined on a monthly basis, the open outcry activity did not diminish since the introduction of trading on the Globex, however, the trading pattern within the month may have shifted. Data currently available to EIA did not allow for this analysis.

Figure 9. Open Interest on the Open Outcry Rose Significantly in the First 2 Months of the Year, But Remained Fairly Stable Through the End of 2007



Note: Data are the monthly maxima for the near-month contracts. Only 2 near-month contracts are depicted because of the high degree of trading concentration that generally occurs for the near 2 months contracts.

Source: Commodity Futures Trading Commission.

¹¹ Trading volume is one measure of trading activity. It is a direct observation of the number of contracts that are traded at any given time. Open interest also is considered a good measure of trading activity in the futures market, because one can infer that high open interest reflects a large number of available sellers and buyers and that a transaction can be completed readily without a significant price adjustment.