



## The Round-Up: December 4th 2006

Posted by [Stoneleigh](#) on December 4, 2006 - 11:21am in [The Oil Drum: Canada](#)

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### [Risk of recession in '07 rises as interest yield curve dips](#)

"Amid the recent rallies in equity and bond markets, the yield curve's inversion has received scant media attention," New York-based DBRS analysts David Roberts and Tobias Moerschen commented.

"Most observers seem to have moved on, as the potentially worrying yield curve signal seems at odds with the ongoing economic expansion."

However, the DBRS study warns that the yield curve is a forward-looking indicator, pointing a year or so into the future.

"Moreover, the persistence of the U.S. yield curve's inversion strengthens its predictive power."

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### [Little Big Bubbles](#)

What do you need to do to get that kind of work? Well, it helps to be good with complicated math. Then, you can join other hedge fund managers who trade derivative contracts that the clients cannot understand, such as the recently launched CPDO, the Constant Proportion Debt Obligation. According to Grant's Interest Rate Observer, the CPDO may be an innovation, but it is hardly a new idea. It is remarkably similar to the CPPI, or Constant Proportion Portfolio Insurance, which made its debut 20 years earlier.

The CPDO is meant to protect investors against the risk of investment-grade credit defaults. CPPI was meant to protect investors from a stock market crash, using a complex formula that clients also couldn't quite understand. Then in 1987, only about a year after the CPPI was introduced, the stock market crashed and investors finally figured out how they worked. Sifting through the debris, analysts determined that CPPI had not protected investors; instead its fancy programmed trading features actually magnified the losses.

We don't know how the CPDO will hold up under pressure, but we can barely wait to find out. Whenever the higher math and the greater greed come together, there are bound to be thrills.

Kesteven added that it's "too early to tell" if Canadian oil and gas production would drop as a result of the income trust situation, saying that operations would likely continue as normal in the short term. However, if there is a large consolidation of trust assets, marginal fields would be more liable for shutdown, likely resulting in a decline in output, he said.

### [Oil industry expects to coast through '07](#)

After tripling spending in the past 10 years, the oil and gas industry is predicting it will coast through 2007 still running near its record pace.

"Foot off the accelerator is what we expect over the next year," said Greg Stringham, vice-president of the Canadian Association of Petroleum Producers.

"It's not a foot on the brake," Stringham added in an interview today after CAPP released an annual survey of reserves and production.

### [Steady Eddie made slow climb to lead Alberta Tories](#)

"I think there is an appetite for competence. I think there is an appetite for a kind of managerialism - what to do with these enormous surpluses, where Alberta is going with its economic and social future."

Stelmach wants Alberta to strengthen economic ties with British Columbia and the Northwest Territories, and move past the reliance on oil and gas as the province's economic engine.

He says the surprise revenues from \$70-a-barrel oil must be pushed into new ideas such as commercialization of energy technology. He also wants to expand colleges, deliver aid to farmers while the bio-industry is established, pursue a policy of no government interference in the oilsands development, and establish a registry for lobbyists.

### [Biodiesel fuels family's success](#)

The Reynolds family might have rued the day they bumped into a Manitoba farm realtor in a Welsh pub and got sold on the dream of owning farmland here.

The family of ship engine builders from Wales moved to Manitoba, tried farming for two years and realized they couldn't do it. "We had the impression we could live off a section of land (640 acres)," said patriarch Brian Reynolds. They found that was nowhere near enough.

So they returned to what they knew best, building diesel engines. Except they built diesel electric generators for remote sites in Manitoba's north, oil refineries and Hutterite colonies, operating from their farm near Rapid City, north of Brandon. "We turned our sheds into machine shops," Reynolds said.

Now they've expanded into the hot new alternative-fuel market, and are poised to become the leading maker of portable biodiesel fuel processing systems in North

America. If their business plan goes according to Hoyle, the family could build 30 biofuel processing systems next year.

### [Assessment for Lower Churchill lauded as major step; experts more cautious](#)

The multibillion-dollar Lower Churchill hydroelectric project will undergo an environmental assessment, a move Premier Danny Williams hailed Friday as significant progress toward developing one of North America's most promising sources of new energy.

But industry experts warned against seeing too much into the regulatory process, saying it's a small step on the road to sending electricity into power-hungry markets such as Ontario.

### [Lower Churchill River Hydroelectricity Development](#)

Another tailwind blowing in favour of the Lower Churchill development has been the increasing interest of the federal government in the power file, and notably, in assisting the development of an east-west power grid. In the past, the federal government has elected to stay on the sidelines with respect to electricity infrastructure development, owing in part to the fact that electricity falls under provincial jurisdiction. However, armed with a strong fiscal position, the rising concerns about power supplies in the country's two largest provinces, and the need to meet Canada's commitments under the Kyoto Accord, the federal government appears to be changing its tune. The April 2005 federal Kyoto plan announced some \$10 billion for environmental measures by 2012, a portion of which will be eligible for investments in "clean" electricity.

### [Powering the future: the price must be right](#)

As it turns out, sending power south isn't just a simple matter of stringing a few lines and transmitting electricity. Both the infrastructure and the market are extremely complex.

Keir, Hay and others celebrated the launch last Tuesday of the construction of the International Power Line that will carry energy from Point Lepreau to the Maine border. Once that electricity hits northern Maine, it currently has nowhere to go because of three transmission line bottlenecks, which are loaded to capacity. Two jam power from northern Maine to southern Maine and to the rest of New England, while the third lies on the outskirts of Boston.

"It doesn't mean the power is worthless, but it means any incremental injection of power in Maine has much less value and can drive down the cost," said Robert Stoddard.

### [Sizzling Alberta economy clearly in a league of its own](#)

In a recent presentation to a Toronto audience, Richard Corriveau opened with a slide proclaiming "the new Centre of the Universe" -- Alberta.

### [Water woes boiling over](#)

With the Alberta government cutting off new requests for

water from the Bow and Elbow rivers in August, the M.D. of Rocky View has turned to the Red Deer River -- the last major water body in southern Alberta considered healthy enough to handle more withdrawals.

Rocky View's bid to take water from the Red Deer and pipe it to the entertainment complex rising a stone's throw from Calgary has raised the ire of water experts, business leaders and municipal and county politicians in the Red Deer area.

Although the request doesn't amount to a lot of water -- 18,000 cubic metres annually -- the river, they contend, shouldn't be used to grow communities and businesses outside the region, especially as water becomes more scarce in the south.

### [Job numbers underscore Alberta's labour crunch](#)

Some employers have raised wages as much as they can and still remain viable -- although perhaps only barely so.

Bea Twumasi, owner of Calgary's Bea's Braiding and Hair Extensions in the Beltline, said she's reduced her staff to four from seven in recent months, but had to pay more overall, reducing her net profits for the last year to near zero. The labour market, Twumasi said, is the tightest she's seen in more than 32 years in business.

"I wouldn't even think about growing the business right now. I've never seen it like this. Never, ever," said Twumasi.

"You can either keep the business running and not make anything for yourself -- or close down."

### [Close energy ties to U.S. limit action on climate change](#)

Ironically, it is the Harper government's emphasis on Canada-U.S. relations that is at the heart of Canada's failure to meet Kyoto targets. Kyoto or no Kyoto, Canada cannot commit to an effective strategy to address climate change unless our government is willing to substantially change our relationship with the U.S.

Canadian energy is consumed primarily by the U.S. Canada signed away significant control over energy when it agreed to a proportional sharing clause under the North American Free Trade Agreement. Under this clause, Canada cannot cut exports to the U.S. no matter what the state of our energy supplies, unless it cuts the same proportion of supplies to Canadians. As a result, Canada now exports 70 per cent of our oil to the U.S. while importing 60 per cent of what we consume from other countries. We cannot cut back on the production of fossil fuels for the U.S. market.

Now, the Security and Prosperity Partnership threatens to take it to another level. This agreement is the real motivation behind the Conservative government's position on climate change. Their so-called "made in Canada" strategy is made for the U.S. Energy integration is a key element of the deep integration agenda enshrined in the SPP and signed by Canada, the U.S. and Mexico in March 2005.

### [Court upholds corporate rights under NAFTA](#)

At issue are NAFTA rules that allow countless foreign investors to sue the federal government for damages when public policy, law or even the delivery of public services interferes with their present or future profits. Foreign corporations have taken advantage of these rules to challenge environmental laws, water export controls, the delivery of postal services and even the decisions of domestic courts. The threat of foreign investor claims was cited by the Romanow Commission as a serious impediment to government initiatives like the establishment of new social programs, such as the expansion of medicare to cover prescription drugs.

### [Oilsands royalties drop, study says](#)

Despite soaring oil profits, Albertans have seen their share of returns from their own natural resources drop by more than 30 per cent over the past decade, says a report released Wednesday.

The study, produced by the Pembina Institute, concludes the federal government has forfeited up to \$1.65 billion in tax revenues because of measures set up to help struggling oil companies in the 1990s.

### [NDP power couple show off energy-saving home online](#)

"Olivia Chow's Green House Tour," half This Old House, half question period, has been viewed nearly 700 times since being posted to YouTube last Friday.

The Trinity-Spadina MP wanted the clip to promote the NDP's environmental policies, personal responsibility in combatting climate change and energy waste, and the economic advantages of green living - without preaching or showing off.



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