The Oil Drum: Canada
DISCUSSIONS ABOUT ENERGY AND OUR FUTURE

The Round-Up: December 22nd 2006

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Canada's cutting-edge energy model

> A province known for lobster, potatoes, and low-key vacations, PEI may seem an unlikely venue for an energy revolution. It's a tiny place, an island the size of Delaware, with fewer people than Arlington, Va., or Eugene, Ore.
>
> But PEI's small size is exactly what makes it appealing for the emerging renewable-energy industry to conduct pilot projects, says Mr. Ballem. "If you're developing a new technology, we're able to provide something nobody else can: a self-contained province where, with two days notice, I can get you a meeting with the premier or the head of the university," he says. "We're small enough to be affordable and big enough to be commercial."
>
> Energy policy analyst Scott Sklar of the Stella Group in Washington agrees. "Clean energy industries are expanding at about 30 percent a year, and they're looking for places to put down investments.... In PEI, they've got an excellent renewable resource base, a small population, and a great willingness to move boldly. There's no doubt that that all plays in their favor."
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> The electricity-generating potential of the island's greatest energy resource - the wind - was recognized decades ago, and in 1980 Canada built its national wind test center on the island's northwestern tip. When the provincial government adopted its renewable energy strategy in 2004, expanding wind power was the first priority.
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> Two years later, three new wind farms are nearing completion - two built by a private firm, the other by the public utility, PEI Energy Corp. When completed in the coming months, wind will provide 15 percent of PEI's electricity, reducing the province's carbon dioxide emissions by 90,000 tons each year. The island's overall wind potential is about five times that, according to the government.
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> The government is working on a range of incentives for a range of potential wind farm owners including guaranteed purchase prices for excess electricity fed back to the electricity grid by small farms owned by cooperatives, farmers, and small businessmen.

Natural resources minister backs reactor to power oil sands extraction

> Nuclear power in the oil patch is just a matter of time, according to Canada's Natural Resources Minister Gary Lunn.

> Speaking to Sun Media from Victoria yesterday, Lunn said he's very keen to see a new partnership between Crown corporation Atomic Energy of Canada Ltd. and a private Alberta company to build a Candu reactor to power oil sands extraction.
>
> "It's not a question of if, it's a question of when in my mind," said Lunn. "I think nuclear can play a very significant role in the oil sands. I'm very, very keen."

Canada Sets Biofuel Targets, Helps Farmers Invest

> Canada set targets for inclusion of biofuels in the country's fuel mix Wednesday and offered farmers some help to invest in new plants.
>
> Government ministers, however, said bigger tax incentives for the fledgling industry would have to wait.
> The minority Conservative government wants to regulate that 5 percent of gasoline sold in the country by 2010 contain biofuels such as ethanol made from corn or wheat, and that 2 percent of diesel sold by 2012 be biodiesel.

Leave politics out of it

> Ambrose announced in Saskatoon Wednesday that federal plans to mandate minimum content of ethanol and biodiesel are dependent upon the opposition parties supporting the minority government's controversial Clean Air Act.
>
> That's very unlikely since the Clean Air Act -- dubbed "the dirty air act" by critics -- has been trashed by the Liberals, NDP and Bloc Quebecois who say it won't pass Parliament without a wholesale rewrite. They say the act abandons the stringent greenhouse gas targets set by the Kyoto Accord in favour of an ineffective, long-term approach.

Environment top priority, PM says

> Former prime minister Brian Mulroney said earlier this month that a sound environmental policy will be a key to winning the middle class vote in the next election. Mulroney told CBC "it would be politically regrettable" if the Conservatives ceded control of the issue to the Liberals.
>
> Harper did not deny rumours of a cabinet shuffle involving Environment Minister Rona Ambrose as part of an effort to relaunch the Conservatives' climate change plan.
>
> The plan has been widely ridiculed for failing to set any firm greenhouse-gas reduction targets until the year 2050.

Mackenzie may not be 'worth the grief'

> At some point the mix of soaring costs, eroding economics and unresolved Aboriginal issues will make it not "worth the grief " to build the Mackenzie Valley Project, says the head of Trans Canada Corp., a partner in the giant pipeline project.
>
> Hal Kvisle, Trans Canada president and chief executive, said in an interview yesterday

construction costs for the 1,200-kilometre link between Arctic producers and Alberta, once pegged at $7.5-billion, have soared at a similar rate to escalations generally experienced by oilsands developers during the past three years.

Costs at some oilsands companies have climbed 100% during that period, and while Mr. Kvisle did not give a hard number for the Mackenzie Project and said the lead partner, Imperial Oil Ltd., is working toward doing so, his broader point was clear: With diminishing economics already factoring heavily, additional hurdles such as a slow-moving regulatory processes and new issues emerging with Aboriginals could wind up torpedoing the project.

[TransCanada pays US$3.4B for ANR Pipeline, ANR Storage, Great Lakes stake]

TransCanada Corp. (TRP.TO) is boosting its natural gas pipeline and storage operations by acquiring ANR Pipeline Co., ANR Storage Co. and an additional 3.55 per cent stake in Great Lakes Gas Transmission Ltd. for a total US$3.4 billion.

The major pipeline firm said Friday its new purchase will include $457 million of assumed debt.

"With the acquisition of ANR, TransCanada's wholly owned natural gas pipeline network will extend more than 59,000 kilometres and offer our customers unparalleled connections from traditional and emerging supply basins to growing North American markets," TransCanada chief executive Hal Kvisle said in a release.

"By acquiring more than 230 billion cubic feet of natural gas storage capacity, TransCanada will have interests in approximately 360 billion cubic feet of storage capacity, making it one of North America's largest gas storage operators."

[Energy trusts take fresh swing at Ottawa]

Canada's energy trust executives, their backs against the wall, are warning that 10 per cent of the country's oil and gas production could be at risk if Ottawa follows through on its controversial promise to put the brakes on the sector.

That caveat was part of a broader lobbying offensive mounted Wednesday by the Coalition of Canadian Energy Trusts, which is making a last-gasp effort to persuade the federal government to spare it from plans to tax trusts by 2011.

That group, comprising more than 40 income funds, sought to dispel widespread fears that income trusts deprive Ottawa of tax dollars, and argued that they generate 30 per cent of all federal taxes paid by oil and gas concerns - even though they only account for 16 per cent of industry revenues.

[Dion to campaign like it's 1993]

Although Mr. Dion's pledge to model his campaign on Mr. Chrétien's winning 1993 bid might seem out of place now, both strategies poke at a perceived weak point of a Conservative government while shoring up Liberal weaknesses.

In 1993, the Tories were blamed for unemployment and the Liberals sought to burnish

> their own weak reputation on the economy. Now, Mr. Dion promises to take on global warming and environmental issues, but wants to allay concerns that his agenda will require economic sacrifices.

ENE Releases Climate Change Roadmap
for New England and Eastern Canada

> The Roadmap's 10 Priority Climate Solutions are broken down into three main categories: energy, transportation and storing carbon. If fully implemented, ENE estimates these 10 priorities would reduce greenhouse gas pollutants from power plants, industrial sources, cars and trucks and by storing carbon in the region's forests and suitable geologic formations, totaling at least 35-40 million metric tons by 2020, putting the region on the road to the reduction targets set forth by the Conference of New England Governors and Eastern Canadian Premiers.

North West takes first step in upgrader

> Upgrader plants live on a price differential or gap between refinery-ready light oil and bitumen. The raw initial oilsands product is penalized with discounts for heavy weight, tarry texture and impurities led by sulphur that add to refiners costs of making fuels and lubricants.
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> Quality discounts are deepened by periodic gluts of bitumen, chiefly from in-situ or underground extraction sites south of mining and processing megaprojects clustered on the shallowest oilsands deposits north of Fort McMurray.

Shell gets go-ahead on oil sands expansion

> $12.8-billion oil sands expansion in northeastern Alberta was approved yesterday, but the panel that reviewed the project said governments don't have "sustainable long-term solutions" to properly manage the region's rapid growth.
>
> The decision suggested future projects will face more difficult hurdles for approval as environmental and community challenges mount in and around Fort McMurray, 435 kilometres northeast of Edmonton, where about $100-billion of work is predicted over the next decade.

Raised in the oil sands, Mel Knight takes the helm

> Mel Knight, Alberta's new Energy Minister, is a friend of the industry, having spent most of his working life in the oil and natural gas business, first as a teenage roughneck on the drilling rigs and later running several service firms. Appointed to cabinet last week by the province's new Premier, Ed Stelmach, Mr. Knight arrives at a historic juncture in Alberta's energy history.

Canada ranks No. 1 for economic strength

> Canada's economy had a banner year in 2006, and outpaced the performance of all the other G7 countries, according to an annual index compiled by BMO Nesbitt Burns Inc.

> Canada's Economic Performance Indicator is also at one of the highest levels since the early 1960s -- only the high-tech boom years of 1999 and 2000 were better -- said deputy chief economist Doug Porter, who crunched the numbers for the investment dealer.

Economists slash growth forecasts as October GDP disappoints

> Canadian economic growth was weak for the second straight month, pushing the Canadian dollar down and prompting economists to slash their growth forecasts for what looks to be a disappointing fourth quarter.
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> The report today from Statistics Canada showed that GDP in October stagnated. That follows a decline of 0.4% in September, making this the first time since 2003 the economy has failed to grow for two straight months.
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> "Canadian GDP looks as flat as a pancake, and that description isnt just apt for Octobers zero growth, but for the absence of any meaningful expansion since May," wrote CIBC World Markets economist senior economist Avery Shenfeld.
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> The weakness in October was spread across several sectors, including manufacturing, wholesale trade and retail sales. Statistics Canada also said retail sales fell 0.7%, a larger decline than expected. The Canadian dollar dropped more than half a cent on the news.
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> In October, the Bank of Canada was projecting a 2.8% annual growth rate in the fourth quarter. That now looks impossible, economists said. Forecasts now call for fourth-quarter economic growth to slow to between 1% and 2%.
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> Growth in the third quarter was a lower-than-expected 1.7%.

Economic growth lags forecasts

> Canada's economy continues to sit in the doldrums, several reports showed Thursday.
>
> The country's economic growth was flat in October as both the goods-producing sector and the service sector stood still, Statistics Canada said.
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> The weaker-than-expected result comes after a 0.4-per-cent contraction in September and show losses in manufacturing, wholesale trade and retail trade.
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> The data, combined with a softer-than-expected retail sales report today, shows the economy is struggling amid weakening U.S. demand and strong Canadian dollar, economists said.

Canada In For A Bumpy Ride In '07

> Meanwhile, the chamber warned the slowdown in the United States weighs heavily on the outlook for the Canadian economy. And there's a risk the U.S. slowdown, and in turn Canada's, could be deeper than expected. Goods exports to the United States have hit a near two year low and the trade surplus with the United States a three-year low, the chamber noted.

> "With demand in the U.S. expected to remain subdued into the first half of 2007, the Canadian trade sector is not likely to rebound soon," it said, warning the export oriented manufacturing sector, already struggling with a strong dollar, competition from low-cost offshore producers and high energy costs, will bear the brunt of the U.S. slowdown. "However, as the U.S. economy rebounds in the second half of 2007, so will growth in Canada," it said.

National Bank, Canadian Chamber predict slower economic growth next year

> An American slowdown already in progress "will spread in 2007 as American households become more focused on savings in the wake of the real estate sector's nosedive," National Bank said.
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> "Although its fundamentals are among the most solid of all G7 nations, Canada will not be protected from the headwinds blowing south of the border in 2007, with a relatively modest 2.2 per cent growth in GDP predicted."

Railroad boom hits environmental, 'not in my backyard' snags

> Burgeoning business is pushing railroads into the middle of sticky environmental disputes. On one side are environmental groups, ranchers, and landowners concerned about potential chemical spills and air pollution. On the other side are rail companies stretched to the limit - barely able to provide communities with goods. Their strategy - with national implications for reducing oil usage - is to carry more of the containers now moved by long haul truckers. But, to do this they need to build more rail yards in places such as Picacho.
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> Urban areas are also becoming wary about freight traffic moving through their communities. Nine major US cities are considering legislation that would require railroads to reroute hazardous chemicals - a move that would probably require building more trackage in suburban and rural areas. Last week, both the US Department of Transportation and the Department of Homeland Security introduced legislation regarding shipping hazardous materials. And rail security experts anticipate that the Democratic-led Congress will look more closely at the issue.
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> With large open spaces in shorter supply and business booming, railroads are locked into disputes over land use - even in what used to be the wide-open West.
>
> The strategy of rail companies - with implications for reducing oil usage - is to carry more of the containers moved by long haul truckers. But, to do this they need to build more rail yards.

Stocks - Coach Class of Capitalism

> In the past few years the financial markets have reshaped themselves in the most extraordinary ways, and put an even finer point than usual on the class distinctions inside them. The upper class is now serviced by a vast and growing industry, loosely called Private Equity.
>
> The job of the private-equity investor is -- again, speaking loosely -- to exploit the idiocy of the ordinary investor, and the corporate executives and mutual-fund managers

> who purport to serve him. Private Equity Intelligence says this year private-equity firms have raised $300 billion, up from $283 billion for all of last year -- which is up from an ignorable $10 billion or so 10 years ago.
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> Even those gargantuan numbers fail to do justice to this peculiar financial event. Private equity is not served up without piles of debt -- the typical debt-to-equity ratio of a company after it has been bought by a private-equity firm is 2- to-1 --and so the actual purchasing power in the hands of private equity fund managers is something like three times as much as they have in their bank accounts. It's as if a giant and especially successful new stock market has been created alongside the old one. But to invest in this new market you must already be rich, and well-connected....
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> ....In effect, the smartest, best-connected money has separated itself from the rest of the stock market, and has gone into the business of trading against that market. It seeks to buy from the stock market cheap, and sell to the stock market dear, and if you need evidence that this is possible you need only look to the returns on private equity, which have been running three times the returns of the public stock market.
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> With the shrewdest and most sophisticated investors armed with essentially unlimited capital, any company that is available to the public is almost by definition an inferior asset, i.e., an asset that the private-equity people have no interest in. We may not have arrived at the point where the publicly traded shares in a company are a sure sign that those shares are a poor investment. But that's the obvious, ultimate destination.

The United States is Insolvent

> Despite improvement in both the fiscal year 2006 reported net operating cost and the cash-based budget deficit, the U.S. governments total reported liabilities, net social insurance commitments, and other fiscal exposures continue to grow and now total approximately $50 trillion, representing approximately four times the Nations total output (GDP) in fiscal year 2006, up from about $20 trillion, or two times GDP in fiscal year 2000.
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> As this long-term fiscal imbalance continues to grow, the retirement of the baby boom generation is closer to becoming a reality with the first wave of boomers eligible for early retirement under Social Security in 2008.
>
> Given these and other factors, it seems clear that the nations current fiscal path is unsustainable and that tough choices by the President and the Congress are necessary in order to address the nations large and growing long-term fiscal imbalance.

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