



The Round-Up: March 15th 2007

Posted by [Stoneleigh](#) on March 15, 2007 - 1:28pm in [The Oil Drum: Canada](#)

Topic: [Site news](#)

Tags: [depression](#), [drilling](#), [housing market](#), [hydro power](#), [mackenzie valley pipeline](#), [natural gas](#), [subprime mortgages](#), [tilma](#), [wind power](#) [[list all tags](#)]

[Arctic Gas projects put on ice](#)

New cost estimates that pushed up the price of the Mackenzie gas pipeline to \$16.2-billion make Canada's Arctic natural gas among the most expensive on the continent, top explorers in the area said yesterday.

Executives at Devon Canada Corp. and Apache Canada Ltd. said they're putting exploration plans on ice until the project becomes a reality.

"When I see the welders show up and start welding pipe, that's when exploration will ramp up again," said Chris Seasons, president of Devon Canada, a subsidiary of Oklahoma City-based Devon Energy Corp., which spent more than \$300-million looking for natural gas in the North this decade. "Certainly the delay to 2014, assuming the project goes ahead, is not helpful, and while we haven't seen any tolls on the mainline, just looking at the costs, it's going to make it amongst the most expensive gas in North America," he said.

[Mackenzie threatened, analysts say](#)

"I don't think it's dead, but this certainly isn't a good signal," said Brendan Bell, Northwest Territories Minister of Industry, Tourism and Investment. "We weren't surprised that the project was significantly more expensive, but I will certainly admit that I am surprised by the magnitude of the cost increases."

However, analysts said the new cost increase likely torpedoes the project and it's unlikely to get the fiscal help needed to save it.

"You're dealing with labour issues, global demand for steel that's skyrocketed and so prices have, too," said Chris Theal, analyst at Tristone Capital Inc. "Those are the conditions they'll have to operate in now. You need big subsidies from an infrastructure standpoint, favourable accounting and maybe even tax relief to bring it over the goal line."

[Other pipeline agendas in play?](#)

Imperial Oil Ltd.'s new \$16.2-billion cost estimate for the Mackenzie Gas Project is so shockingly high it may indeed show Canada's oil-and-gas sector is teetering on a cliff.

But more likely, there are other agendas at play here that suggest the estimate is way over the top. Here are three possibilities:

- Imperial and its partners -- parent Exxon Mobil Corp., Conoco Phillips, Shell Canada Ltd. and the Aboriginal Pipeline Group -- are inflating costs in anticipation of tough negotiations on fiscal terms with the federal government.
- This project is dead. The partners are simply going through the motions while they secure regulatory permits from the National Energy Board, expected by early next year, just so they have something to show for the \$600- million they have spent so far. Then they're off to better things.
- The Mackenzie Gas Project will be combined in some way with the proposed competing Alaska pipeline, whose cost, if what is going on with the Canadian pipeline is an indication, is now reaching the US\$40-billion to US\$50-billion range.

[Talisman Energy: Significant Gas Find in North BC Foothills](#)

Talisman Energy has drilled a successful natural gas well in the foothills area of northeastern British Columbia with Husky Oil Operations Limited (50%). The Talisman Husky Federal d-28-H/94-B-7 well tested at restricted rates of 21 to 25 mmcf/d (gross raw gas) with a flowing wellhead pressure of 2,300 psi. The well is expected to commence production by November 2007.

"This is an exciting result in a new area," said Dr. Jim Buckee, President and Chief Executive Officer. "Using our extensive thrust and fold belt exploration experience, we have opened up a new high potential area north of Monkman and we are well positioned from a land perspective."

[Early spring brings halt to drilling season](#)

Warmer weather in Western Canada means the winter thaw of ice and snow — or “break-up season,” as it's known in the industry — has started early this year, effectively making the winter drilling season two to three weeks shorter than normal. That will compound the seasonal affective disorder felt by drilling firms, whose operations have already been severely curbed by warmer weather that has reduced North American gas demand, and consequently commodity prices.

“It's bad news on top of an already gloomy situation for drillers,” said Stephen Calderwood, a Calgary-based oil and gas analyst with consultancy Raymond James. “This slows down all activity. Companies that were hoping to squeeze in more drilling before the spring are being cut off.”

While the big thaw, usually expected toward the end of March, doesn't completely prevent firms from drilling, it does create huge amounts of mud that prevents them from moving large equipment, such as drilling rigs, on rugged and remote roads in Western Canada's relatively inaccessible natural gas basins. Local municipalities in southeastern Alberta, such as the town of Oyen, have already issued ordinances

prohibiting the transport of heavy machinery in an attempt to keep roads clear, essentially meaning that gas rigs in the region can't be sent to drill new wells.

[Canadian tundra is rapidly disappearing](#)

Canadian scientists say much of their nation's northern tundra is rapidly disappearing, being replaced by trees and shrubs, forcing wildlife from the region.

A University of Alberta study shows the climate shift is occurring at a rate much faster than scientists had predicted, adding to a growing body of evidence concerning effects of global climate change....

...."The conventional thinking on tree line dynamics has been that advances are very slow," said Ryan Danby, of the university's department of biological sciences. "But what our data indicate is that there was an upslope surge of trees in response to warmer temperatures. It's like it waited until conditions were just right and then it decided to get up and run, not just walk."

[Carbon wars may pit province against province](#)

A get-tough strategy to combat global warming could produce multibillion-dollar transfers from coal-fired provinces like Alberta and Saskatchewan to provinces like Quebec and Manitoba that rely on hydroelectric power, says a new study from CIBC World Markets Inc.

Jeffrey Rubin, chief economist with CIBC World Markets, said he expects Canada will have to adopt an effective emissions credit market that includes strict limits on carbon dioxide emissions and large fines for companies that exceed those limits.

[Coal faces bleak future in global warming fight: MIT study](#)

The coal industry faces a bleak future unless ways are developed on a commercial scale to capture and store carbon dioxide in the campaign against global warming, according to a study released Wednesday.

The report by the Massachusetts Institute of Technology says coal, which accounts for half of U.S. electricity production, will remain the fuel of choice to produce electricity in the United States because it is relatively cheap and abundant.

But if carbon limits are imposed to address climate change, that could change unless the government and industry develop a program to capture and store the tens of millions of tons of carbon dioxide that now spew from coal-burning smokestacks into the atmosphere.

[Alta environment minister admits carbon capture pipeline could cost up to \\$5B](#)

The cost of going underground with greenhouse gases in Alberta may end up going through the roof.

A proposed provincial plan to pump and store industrial carbon dioxide waste underground using a pipeline network could cost as much as \$5 billion, Environment Minister Rob Renner suggested Wednesday. "The number of \$1.5 billion has been floated," Renner said. "I suspect that the number - all costs included - will be significantly higher than that.

"I've seen estimates as high as \$5 billion by the time it has taken into account the cost to industry to implement the (carbon) capture facilities."

[Federal funds to benefit B.C. 'hydrogen highway'](#)

Prime Minister Stephen Harper announced on Tuesday the injection of \$199.3 million into environmental projects in British Columbia, including a so-called "hydrogen highway," a network of recharging stations for fuel cell-powered vehicles.

[Harper pushes technology in climate fight](#)

Prime Minister Stephen Harper again rejected short-term cuts in Canada's greenhouse gas emissions on Tuesday, as he announced more federal funding for environmental technology.

Harper said the Conservative government expects to release its plan to address climate change within a month, but indicated it had no interest in pursuing Britain's lead in legislating binding limits on greenhouse gas emissions.

Harper, who has long said Canada cannot meet the emissions targets it agreed to under the Kyoto protocol, said the government was committed to promoting technological solutions to deal with climate change in the long term....

...On Tuesday, Harper pledged C\$199 million for projects on the Pacific Coast, including the proposed "hydrogen highway" to promote the use of fuel cell cars during the 2010 Olympics in Vancouver.

[PM voices support for coal-fired energy](#)

Prime Minister Jan Peter Balkenende supports the construction of coal-fired power plants if the greenhouse gas CO₂ released is stored in underground former gas fields.

The prime minister said this last week after the EU climate summit in Brussels. Balkenende says that the first trial with such a power station will most likely take place in the northern part of the country.

The underground storage of CO₂ is seen as an important technology in the struggle against global warming. The UN's climate organisation IPCC says that it should be possible to put 20 to 45 percent of all the CO₂ released worldwide in underground

storage by 2050. This development could offer many opportunities for the Netherlands because of its abundance of empty natural gas reserves.

[Scientist says sea level rise could accelerate](#)

"All indications are that it's going to get faster," said Eric Lindstrom, head of oceanography at the National Aeronautics and Space Administration (NASA), told Reuters on the sidelines of a global oceans conference in Hobart.

Rapid advances in science in the past five years on polar ice-sheet dynamics had yet to filter through into scientific models, Lindstrom said.

He also pointed to huge splits in Antarctic ice shelves in 2002, then seen as once-in-100-year events that created icebergs bigger than some small countries.

The mega icebergs were first thought not to affect global sea levels because the ice broke off from shelves already floating on the surface of the ocean.

But the disintegration of ice shelves that had blocked the flow of ice from the Antarctic continent could allow sudden flows by glaciers into the ocean, raising sea-levels.

[Increased Atmospheric Carbon Dioxide Stimulates Soils To Release, Not Store, CO2](#)

The scientists said this response suggests a limited capacity of Earth's ecosystems to stabilize atmospheric CO₂ and slow global warming. These findings add a new perspective and a measure of caution suggesting that elevated CO₂, by altering microbial communities, may turn a potential carbon sink into a carbon source.

Previous studies have shown that plants will respond to higher CO₂ by increasing growth and taking up much of the excess carbon. This has led some to speculate that plants may be able to mitigate increases in atmospheric CO₂ and that soils, which represent the largest and most stable terrestrial carbon pool, also may serve as a sink for excess carbon.

During the course of their study, Smithsonian scientists saw a consistent loss in soil carbon under high CO₂ conditions. The CO₂ loss from soils offset about 52 percent of the additional carbon that had accumulated in the plants above ground and in the roots.

"We were surprised to find that these soils were losing soil carbon despite the fact that there was more plant growth," said Patrick Megonigal, a microbial ecologist at SERC and one of the study's authors. "We thought that higher plant growth at elevated CO₂ would either add more carbon to soils, or at least leave it the same. We now need to consider a third possibility--the carbon already in soils will end up back in the atmosphere as a greenhouse gas."

[Warming Report to Warn of Coming Drought](#)

The harmful effects of global warming on daily life are already showing up, and within a

couple of decades hundreds of millions of people won't have enough water, top scientists will say next month at a meeting in Belgium.

At the same time, tens of millions of others will be flooded out of their homes each year as the Earth reels from rising temperatures and sea levels, according to portions of a draft of an international scientific report obtained by The Associated Press.

[Tories kill Environment Canada climate-change group](#)

The Canadian Press has obtained a memo sent to Environment Canada officials this month announcing a new organizational structure for the department - and that structure no longer includes the Climate Change Policy Directorate.

The directorate consisted of a handful of experts responsible for co-ordinating climate-change efforts among various departments, implementing new policy, and analyzing its potential impact.

A government spokesman says the number of officials working on climate policy will not decrease and cast the change as a simple structural move aimed at greater efficiency.

But a pair of Environment Canada bureaucrats say the now-defunct directorate was the only group in the department specifically tasked with developing new policy.

And they say its not even clear who works on climate change anymore.

[PEI sells wind-power bonds](#)

Prince Edward Island's government has raised \$5-million for a wind-power project at the eastern tip of the province by issuing a novel series of "energy savings bonds" to the public.

The bonds, which pay a healthy 5-per-cent annual interest rate, have been a hot seller since they were first issued late last year to help pay the costs of the 10-turbine Eastern Kings wind farm, a government project that began pumping power into the provincial grid in January.

More than \$1-million worth of the provincial-guaranteed bonds were sold in the first month; sales are now at the \$5-million mark. The bond issue has been capped at \$20-million. Only islanders can buy the five-year bonds, which are sold through credit unions or at the provincial treasury. Each can buy up to \$10,000 of bonds in a calendar year.

The idea behind the bonds was to "make this wind development one that islanders really own," said Jamie Ballem, PEI's Minister of Environment, Energy and Forestry. While other wind projects have been developed by private investors from outside the province, "we wanted this one to be ours," he said.

[Community Supported Energy Offers a Third Way](#)

Community Supported Wind could fill a huge gap in the present wind power sector. And

this approach is not limited to wind power, but can be applied to virtually any type of local renewable energy project such as solar thermal or photovoltaic panels, biogas digesters, a variety of biofuels production facilities, geothermal or geoelectric projects, and small-scale hydro.

When applied to a wide variety of renewable energy technologies, this strategy is sometimes known as Community Supported Energy (CSE). CSE projects are somewhat similar to Community Supported Agriculture (CSA). The main difference, however, is that instead of investing in potatoes, carrots, or cucumbers, with CSE, local residents invest in energy projects that provide greater energy security and a wide variety of other benefits.

[Charest's plan? Putting faith in hydro's power](#)

That's far easier said than done. Demand for hydroelectricity from Ontario and the northeastern United States is on the rise. But Quebec can only boost its exports significantly through increased production, and a reduction in provincial consumption. That means higher domestic prices.

Cheap electricity is almost as close to Quebecers' hearts as sugar pie, and so raising the price of electricity is a tricky political issue.

But faced with a fading manufacturing sector, dwindling forestry exports, weak productivity, a low level of private sector investment in machinery and equipment, rising debt and an aging population, Prof. Marceau, for one, sees no other way out. "Increasing our electricity exports: That's the only solution I can see."

[Trade Debate Libs Don't Want](#)

The Trade, Investment and Labour Mobility Agreement (TILMA) between Alberta and B.C. comes into effect on April 1. The agreement is supposed to integrate the two economies and make it easier for businesses and workers to operate in both jurisdictions.

The deal, however, has some critics, many of whom argue that TILMA has been closed to scrutiny and was signed with virtually no public input. On Monday, the NDP's intergovernmental affairs critic tabled a motion asking the House to open TILMA for full debate before it comes into force.

"This is an agreement with potentially far-reaching consequences," Michael Sather said. "Our concern...and the reason we are opposed to the deal, is that it allows corporate interests wide-ranging powers, to the considerable detriment of the interests of the public of this province."

Sather also questioned the deal's purported benefits, pointing to a 1998 UBC study that says inter-provincial trade barriers are already low. Sather also said claims by the Conference Board of Canada that TILMA could create 78,000 jobs and add \$4.8 billion to B.C.'s GDP are not backed by solid evidence.

[U.S. mortgage crisis: Could threaten wider financial sector, report says](#)

The crisis in the U.S. subprime-mortgage sector is worse than thought and is threatening to spread to the wider financial-services sector, a report warned yesterday. The news sent North American markets into a tailspin.

Subprime borrowers fell behind on their mortgages at the highest rate in four years in the fourth quarter and foreclosures on all types of home loans rose to a record high, the Mortgage Bankers Association said.

Widespread defaults in the US\$6-trillion mortgage-backed securities market could push the U.S. economy into recession, said economist Gary Shilling.

"The worst is really yet to come," said Mr. Shilling, president of A. Gary Shilling & Co. Inc., a New Jersey-based economic- forecasting company. "To keep the game going last year, lenders simply lowered their credit standards. As a result, you've had a tremendous number of these mortgages that have gone bad."

[Top investor sees U.S. property crash](#)

"Real estate prices will go down 40-50 percent in bubble areas. There will be massive defaults. This time it'll be worse because we haven't had this kind of speculative buying in U.S. history," Rogers said.

"When markets turn from bubble to reality, a lot of people get burned."

The fund manager, who co-founded the Quantum Fund with billionaire investor George Soros in the 1970s and has focused on commodities since 1998, said the crisis would spread to emerging markets which he said now faced a prolonged bear run.

[Is America Headed for a Depression?](#)

Traders are nervous, with the upshot being a swing to cash and gold. Why gold? Under the circumstances that exist today in the financial marketplace, any rise in interest rates will certainly pass the tipping point to where millions of Americans will be forced from their homes and put out on the street...

...Yes, I believe there will be a U.S. economic recession, but the elements are now in place for the first time in 80 years for America to sink into a depression. Should a depression unfold, there will be big name financial houses that will fail. Accordingly, the owners and managers of wealth ought to be researching today how to protect themselves beyond FDIC-insured accounts. I shall write a lot about this in the next month.

[Subprime shakeout could hurt CDOs](#)

After a mortgage is sold, it's usually packaged up with other home loans into a

mortgage-backed security, or MBS.

But who buys the riskier parts of these derivatives -- the bits backed by subprime mortgages offered to poorer borrowers with lower credit scores? The answer may be collateralized debt obligations, or CDOs.

These complex structures, which are similar to a mutual fund that buys bonds, helped fuel the U.S. mortgage boom in recent years by purchasing some of the riskier parts of MBS that other investors didn't want.

They could now do the reverse, according to a recent study by Joseph Mason, an associate finance professor at Drexel University's business school, and Joshua Rosner, a managing director at research firm Graham Fisher & Co.

By exiting in search of more attractive assets, CDOs could limit the supply of money to the mortgage market, making home loans more expensive and reducing the availability of subprime loans, Mason said in an interview this week.

"We started out a few months ago trying to find out who is investing in the riskiest portions of these MBSs," Mason said. "We found the answer to the big question: the CDO sector."

"CDOs are providing the primary liquidity at this level, but they're hot money that will jump in and out of sectors," he added.

[The next wave of the housing bust](#)

Unfortunately, the housing market plunge has turned many of these flippers into unintentional landlords. They can't sell, and they can't afford to pay mortgages, insurance, and taxes while their houses sit there empty, either. So they're trying to rent their properties to staunch the cash flow bleeding.

In other words, while the construction of traditional apartment complexes may have lagged during the boom, plenty of town homes, condos, and single-family homes were churned out along the way. The result: Hundreds of thousands of those units are now sitting empty!

The U.S. Census Bureau says 2.7% of the country's homes were vacant in the fourth quarter of 2006, the highest percentage in U.S. history!

All those excess, empty homes have created a gigantic glut of shadow supply in the rental market. And that's causing apartment fundamentals to deteriorate.

[Deloitte: Housing Slump Could Topple Consumer Spending](#)

Continuing weakness in the U.S. housing market could start to draw back consumer spending, warned a new report from Deloitte Research. A leading index of consumer spending tracked by the company fell this month, a move that Deloitte analysts said could signal potential problems ahead for the economy.

"With initial unemployment claims up in recent weeks, the labor market is showing

some early signs of weakening, which could put pressure on consumer spending," says Carl Steidtmann, chief economist with Deloitte Services LP's Deloitte Research and author of the monthly index.

The index, comprising four components — tax burden, initial unemployment claims, real wages and real home prices — fell to 3.28 percent from an upwardly revised gain of 3.84 percent a month ago.

[U.K. Subprime Mortgage Lenders Unshaken by U.S. Woes](#)

Merrill Lynch & Co., Lehman Brothers Holdings Inc. and Kensington Group Plc led a doubling in sales of bonds backed by U.K. subprime mortgages as investors pour money into the market, unshaken by the U.S. slump.

Lenders in Britain increased sales of the securities to \$5.6 billion so far this year, a 156 percent jump from the same period a year ago, according to HSBC Holdings Plc. London-based Kensington Group yesterday sold 800 million pounds (\$1.5 billion) of mortgage-backed bonds, cutting interest on the debt after investors ordered more of the bonds than it offered, said Barclays Capital.

"The market is in solid shape," said Miray Muminoglu, a syndicate banker at Barclays Capital in London, which arranged Kensington's sale with ABN Amro Bank NV and Morgan Stanley. "There's no fear of contagion from the U.S. and further proof that the U.K. is a different market."

Mortgages to the riskiest borrowers in the U.K. have fewer defaults and experience lower losses than in the U.S., Lehman Brothers said in a report published last month. Loans in U.K. subprime mortgage-backed securities lost less than 6 percent in 2005. In some areas of the U.S., losses can be as high as 30 percent, according to Lehman.

[Canada: House prices continue to climb](#)

The average price of a residential home in Canada rocketed to a national record high of \$311,101 in February.

That price tag is a 10-per-cent leap from last February's average price of \$282,744, the Canadian Real Estate Association said in a report released Wednesday. Average prices hit new highs in cities across the country last month - including Calgary, Edmonton, Toronto, Hamilton-Burlington, London & St. Thomas, Ottawa, Quebec City and Saint John.

CREA Chief Economist Gregory Klump said that after remaining mostly flat throughout the 1990s, existing home prices in Canada have been on a tear, surging 61 per cent from \$193,731 in February, 2002.

The massive price gains have undoubtedly priced out some buyers, Mr. Klump said, adding that decreased housing affordability is fuelling sales in multi-unit buildings such as town houses and condominiums.

Despite the higher prices, Canadians continue to snap up existing homes and by all accounts, the spring market is shaping up to be a busy one.

[Fuel Degradation In Storage](#)

The problem begins with today's modern fuels. These so-called "clean" fuels typically deteriorate at much faster rates than fuels made 20 years ago. While all fuels suffer from the problem, most at risk are the EPA mandated reformulated gasolines (RFG) that contain oxygenate additives, derivatives of methyl alcohol and ethyl alcohol. We've seen gasoline have shelf life as little as a month--particularly if it is subjected to heat and moisture.

Diesel fuels fare a little better, but not much. Most all diesel fuel, including the EPA's mandated low sulfur version, has shelf life of from 3-to-6 months. Again, this varies widely. Recently we tracked a diesel fuel produced at a refinery in Texas to its final destination in Florida. When tested at the refinery the same day it was produced, the fuel barely met the specification for stability. After being stored, pumped into a coastal tanker, offloaded at Port Everglades, stored again, delivered to the fuel jobber, and finally to the customer, 23 days had passed. Again the fuel was tested. This "fresh" fuel now tested out of "spec."

In part, this has to do with new processing techniques developed by refiners in recent years. While the new refining methods are more efficient, producing more gasoline per barrel of crude, these fuels are often far less stable than the conventional "straight run" fuels we had before.

To make matters worse, the quality of the crude oil feedstock going into the refinery changes daily with each shipment. Processing equipment must be precisely adjusted to these varying qualities, but it doesn't always happen. This neglect results in poorly processed, less stable fuels. One oil company survey indicates that at least 50 percent of the gasoline sold today is substandard.

[The Man Who Farms Water](#)

Along with everyone else in the area, Phiri was dependent on the rains for water. Storms always brought him outside to observe how water flowed across his land. He noticed that moisture lingered longer in small depressions and in the upslope of rocks and plants than it did in areas where sheet flow went unchecked. He was struck by a realisation: he could mimic and enhance areas of his land where this was occurring.

Thus began Phiri's self-education and work in rainwater harvesting, or 'water farming'. Thirty years later, this humble, hard-working African farmer has managed to create a sustainable system that now provides all the water needs of his land and farm - which has thrived as a result - and his household, from rainfall alone.

[Honey bees in US facing extinction](#)

Albert Einstein once predicted that if bees were to disappear, man would follow only a few years later.

That hypothesis could soon be put to the test, as a mysterious condition that has wiped

half of the honey bee population the United States over the last 35 years appears to be repeating itself in Europe.

Experts are at a loss to explain the fall in honey bee populations in America, with fears of that a new disease, the effects of pollution or the increased use of pesticides could be to blame for "colony collapse disorder". From 1971 to 2006 approximately one half of the US honey bee colonies have vanished.



This work is licensed under a [Creative Commons Attribution-Share Alike 3.0 United States License](http://creativecommons.org/licenses/by-sa/3.0/).