



The Round-Up: November 30th 2006

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[Canadian Energy's "Exit Stage Right" Plan](#)

As early as 1984, Canadian companies began merging into much larger trusts, taking advantage of trust-friendly Canadian regulations.

In a Canadian Energy Trust, operating companies are acquired by the trust, usually through equity offerings, using third-party debt and funds in exchange for grants of royalties, debt and shares. The operating company's cash flow from sales (from oil, natural gas, etc.) is transferred to the Trust as distributable cash flow.

This means that the majority of the revenue is able to be paid out as monthly dividends to the Trust's shareholders.

But there's a catch there, if you look hard enough.

The characteristics of the companies these trusts acquire are pretty interesting. Due to the need to provide their investors with a constant cash flow, Canadian Energy Trusts purchase only assets that are mature, low-exploration-risk properties and toll-based energy infrastructure with predictable operational profiles and minimal or at least low capital expenditures.

This assures the trust of a higher drilling success rate than is typical of exploration and production companies.

So companies find themselves in a predicament.

They can either continue to actively spend their incoming money on exploring for new oil or organize into these Canadian Energy Trusts, thereby giving their shareholders bigger dividends.

In light of the argument by some that there is no easy and cheap oil left to find, it's interesting to note that many of these companies have chosen the latter option.

Perhaps they know something about the reality of Peak Oil that we don't.

[Punctuated Bubblebrium](#)

But while people tend to associate punctuated equilibrium with the idea of rapid or

accelerated change, that isn't the most interesting thing the theory has to say. The deeper assertions of P.E. are more far-reaching and profound. Here are three examples.

One: The status quo is far stronger than we think. The idea that things are always improving, that the forces of change never rest, is simply not true.

Two: Evolution does not occur in uniform fashion, and change tends not to apply to the species as a whole. Instead, change occurs in small pockets at the periphery. (At "the edge of the network," as Andy Kessler might say.)

Three: Over time, those small pockets of change at the periphery create critical advantages...and eventually, the advantaged periphery invades the stagnant center. Thus, in a very real sense, the status quo does not actually evolve. It goes extinct! As the edge of the network expands, a new center is created...crowding out the previous one.

The reality of punctuated equilibrium thus bears greater resemblance to market forces than we realize. We can see that the status quo tends not to change...just as large, lumbering companies are loath to change. We see that real evolution happens in small, out-of-the-way places...the two guys in a garage, hanging out at the edge of the network. And we see that the old centers tend to be crowded out...just look at the moribund newspaper industry, fighting Google on the one hand and Craigslist on the other.

As a mental model, punctuated equilibrium dovetails exquisitely with Joseph Schumpeter's ideas on "creative destruction" and Clayton Christensen's ideas regarding the "innovator's dilemma."

But lest we forget, the title of this talk is "punctuated BUBBLEilibrium."

So why the bubble twist?

Because, far from being something that can be managed or stamped out, the existence of bubbles may well be intrinsic to man's evolution as a species. Overenthusiasm and crisis management are simply the mechanisms by which we learn.

[Ottawa open to China in small doses](#)

Natural Resources Minister Gary Lunn had a clear message for his hosts during a recent trip to Beijing -- Chinese investment in Canadian energy and natural resource sectors is welcome, but as minority interests in Canadian-controlled joint ventures.

[Think tank says Alberta should reap more oil royalties](#)

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....

...Taylor said oilsands companies are taking advantage of measures allowing them to write off startup costs and avoid income taxes on projects that aren't yet generating profits.

[LNG NIMBYism](#)

Some forecasters believe that New England won't have enough natural gas to meet demand by 2010 - unless changes are made to increase supply. But people don't want liquefied natural gas facilities to be located anywhere near their homes.

[More than 30,000 in the dark after latest B.C. storm](#)

Some of those who have been without power since Sunday have been told it could be Saturday before they get power again.

[Energy Use Can Be Cut by Efficiency, Survey Says](#)

The growth rate of worldwide energy consumption could be cut by more than half over the next 15 years through more aggressive energy-efficiency efforts by households and industry, according to a study by the McKinsey Global Institute, which is scheduled to be released today.

[Wind power projects left up in the air](#)

Two of Ontario's largest wind-power projects are in limbo, raising questions about the government's ambition to have renewable energy play a key role in meeting the province's electricity needs.

Enbridge Inc.'s plans to erect 110 giant wind turbines on the shore of Lake Huron have been blocked by a group of local residents. Critics say that without this 189-megawatt project, which is now headed for a hearing before the Ontario Municipal Board, the government will have difficulty meeting its goal of having new renewable energy sources supply 5 per cent of the province's electricity next year.

The government has also told companies looking to erect wind turbines in the province's lakes to put their plans on hold until it studies the potential environmental impact of such projects. Trillium Power Energy Corp. was planning to build a 710-megawatt wind farm in Lake Ontario, the largest in Canada.

[Dawning of the age of Frankenfuels](#)

This is where it gets interesting. Until now, the main factor explaining the lack of popularity of GM crops in Europe has been consumer resistance to genetically modified food. But as Biopact points out, the implications of the ruling open a market for genetically modified energy crops, such as canola oil seeds, which can be used as feedstock for biodiesel.

[Results of the Housing Decline](#)

The crash of the housing industry is only now getting started, as it will spread virally to all of the boats it floated during the rising tide. Housing has touched every single segment of our economy, and it will darken all of those segments as the industry

collapses to the worst levels we've seen since the Depression. The NAR and other groups producing numbers have been great cheerleaders, but when you're pumping out misleading numbers, I don't care how beautiful or loud the cheerleaders are, the situation is a no-win Catch-22 for the homebuilders no matter how one looks at it.

[Scientist predicts Britain will triumph over global warming](#)

The British Isles, small and surrounded by water, will remain cool enough to sustain a modern, technologically advanced nation, despite being 8C (14F) hotter on average. The British Isles may be a very desirable bit of real estate because we are surrounded by the sea, he said. The summer of 2003 will be typical of conditions by 2100.

Displaced millions will settle in Britain and Ireland and will have to be accommodated in skyscrapers that will make cities resemble the Hong Kong of today which by 2100 will be uninhabitable, he said.



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