



The Round-Up: May 31st 2007

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Tags: [climate change](#), [derivatives](#), [efficiency](#), [energy security](#), [geothermal](#), [Ing](#), [mackenzie valley pipeline](#), [oil sands](#), [water](#), [wind](#) [[list all tags](#)]

[Major Loss Of Gas Reserves Seen If ExxonMobil Scraps Pipeline](#)

ExxonMobil's possible move to scrap natural gas pipelines in Alaska and Canada could amount to the equivalent of losing all the country's production in the Gulf of Mexico, an energy analyst said Thursday.

"It's the biggest energy story of the year," said Andrew Weissman of FTI Consulting.

Although natural gas and gasoline prices fell on Thursday following a rise in supply, Weissman said the market has yet to weigh the implications of ExxonMobil's (XOM) decision to possibly back away from building the Mackenzie Valley pipeline in Canada.

ExxonMobil Chairman and CEO Rex Tillerson told reporters after the company's annual meeting Wednesday that the \$16.2 billion price tag for the delayed Mackenzie Valley pipeline is too expensive without more government subsidies.

"We are now in a situation where it's not economic at current costs," Tillerson said in an article published by The Globe and Mail. "It may just be that the project is going to have to wait for a different cost environment."

[Mackenzie Valley pipeline project not dead: Imperial](#)

A spokesman for Imperial Oil says work on the proposed Mackenzie Valley gas pipeline is ongoing, despite comments Wednesday from Exxon Mobil CEO Rex Tillerson suggesting the project will be shelved.

Speaking at the company's annual general meeting in Dallas on Wednesday, Tillerson said it may shelve the long-delayed pipeline project if the Canadian government does not foot part of the bill.

[Canada lacks integrated energy policy](#)

Ottawa needs to come up with an integrated energy and environmental policy, one that addresses Canada's twin roles as a major producer as well as a massive consumer of energy at a time when the world is moving toward cutting emissions, says a report from

the Conference Board of Canada.

"We believe it is time to update Canada's markets-based and reactive energy vision to make it broader and more forward-looking," the board said in a report titled Canada's Energy Future. "With a growing focus on the environmental footprint and emissions resulting from energy production and consumption, Canada's vision ought to reflect current and environmental pressures."

[No easy answers for looming power crisis](#)

When ConocoPhillips invited representatives from the National Renewable Energy Laboratory and Environment Colorado to discuss energy, they didn't expect much unanimous agreement.

But they found common ground on one point: Heading off a deepening energy crisis and reversing global warming will require conservation and a broad mix of energy sources including fossil fuels, plant-based fuels nuclear power and renewable sources.

Many of the 300-plus residents at a May 23 forum in Lakewood agreed as well. However, some scoffed at specific proposals such as developing Canadian oil sands and Colorado shale oil reserves, as suggested by Merl Lindstrom, ConocoPhillips' general manager of research and development.

[North America cooperates on efficiency](#)

A North American efficiency agreement will focus on reducing consumption in the United States, Mexico and Canada, the U.S. Department of Energy said.

Efficiency is one of the simplest and cheapest ways to reduce energy use and, in turn, reduce greenhouse gas emissions as prices continue to rise and concern over climate change grows.

The North American Energy Work Group was formed in 2001; it was followed by the North American Energy Security Initiative in 2006. Discussions of the NAEWG cooperative plan are expected to pick up in June, Energy Department officials said.

"This will make life easier for manufacturers of appliances, lighting products and electrical equipment," an Energy Department official said.

The program will focus on expanding the U.S. Energy Star program, sharing vehicle fuel-economy and other transportation-efficiency technologies among the three countries and integrating all three energy systems to increase savings, new technology and trade.

There's also an agreement on the private-sector side. The North American Competitiveness Council holds energy efficiency and sustainable energy technologies as some of its top concerns.

Aside from efficiency, the NAEWG will look at biofuels, hydrogen, clean coal and carbon capture and storage.

[Partnership courts Gazprom for Quebec LNG plant](#)

Rabaska LNG is in negotiations to buy gas from Gazprom's Baltic liquefied natural gas plant in a deal that could see Gazprom taking an ownership stake in Rabaska's proposed \$840-million LNG project, to be built across the St. Lawrence River from Quebec City.

In an interview yesterday, Rabaska chief executive officer Glenn Kelly said his company is on a short list of prospective buyers that would enter long-term contracts to take liquefied natural gas from Gazprom's planned Baltic facility, near St. Petersburg.

"We are in serious discussions with a number of potential gas suppliers, including Gazprom, for LNG supply," Mr. Kelly said.

"Gazprom has confirmed to us that we are on a very, very short list of terminals where they would like to send their LNG."

Rabaska is a partnership of Montreal's Gaz Métro LP, Alberta-based Enbridge Inc. and the French energy company Gaz de France. It is one of dozens of energy companies that are planning to build LNG terminals around North America to offset expected declines in conventional natural gas production in both the United States and Canada. But there are more buyers of liquefied natural gas in the world than there are sellers, and the analysts have raised doubts about the viability of many of the projects, based on lack of assured gas supply.

[Selling Canada by the cubic foot](#)

But why does an energy superpower need to import Russian gas?

Under NAFTA's "proportional sharing" clause, Canada is obliged to sell the U.S. a fixed quota of its energy assets, over 60 per cent, even if Canada runs out of oil and gas and we're freezing in the dark. Mexico didn't accept this clause, but Canada sold itself outright. While "energy security" is a huge issue south of the border, Canada, which once had a law stipulating the country keep 25 years of supply for itself, today has completely relinquished control of its energy security.

[Avoid using taxpayer dollars for Alberta CO\(2\) pipeline; project currently uneconomic and not needed](#)

Building a backbone pipeline to carry carbon dioxide (CO(2)) from the Fort McMurray region to central Alberta for use in enhanced oil recovery currently doesn't make economic sense and public funds should not be used on the project, according to a new report from The Fraser Institute, an independent research organization with offices across Canada.

[Enbridge pipeline costs swell](#)

Amid rising cost estimates, Enbridge Inc. (TSX: ENB) has applied for National Energy Board approval of the Canadian section of its biggest-ever project, the Alberta Clipper

pipeline to carry Alberta oilsands crude oil to Wisconsin.

Enbridge said Thursday the 1,607-kilometre line now is expected to cost \$2 billion for the Canadian section and \$1 billion (U.S.) for the American section.

In late January, when Enbridge announced it had sufficient industry support to proceed with the project, it said the Canadian segment would cost \$1.5 billion (Canadian) and the American segment \$800 million (U.S.).

[The peak oil crisis: Preparing for depletion](#)

Unaffordable gasoline will affect each of us differently depending on how dependent we are on our automobile and what our alternatives are. In the U.S. we have something on the order of 210 million cars and light trucks in service and, even if the resources are available to replace a fleet of this size, it will be many decades before they can be replaced with vehicles that use little or no gasoline. Worldwide, the situation is even worse.

It probably won't be too long before we figure out whatever supplies of motor fuel are available will be better spent on growing and distributing food and maintaining vital-to-civilization systems such as water, sewers, electricity, and communications rather than being burned in private cars. For the immediate future though, unaffordable gasoline will be coped with through a combination of increased public transit and a lot more ride sharing.

[Alberta finance minister feeling nervous about energy royalty review](#)

With many Albertans feeling left in the dust by the current energy boom, Finance Minister Lyle Oberg says he's nervous about an ongoing review of billions of dollars in annual resource royalties.

Oberg concedes it's the kind of issue a government can get beaten over the head with, especially if voters don't have confidence in the way the review is handled.

[Cheaper form of ethanol on the way](#)

Ethanol could become a more practical fuel for Americans who would like to slow the pace of global warming and their dependence on foreign oil, if one Michigan State University professor's predictions about ethanol production are accurate.

MSU professor Bruce Dale says the cost of so-called cellulosic ethanol -- a form of ethanol produced from nonfood plant materials -- could be cut in half, to about \$1.30 per gallon by 2012, and fall below \$1 per gallon by 2020. Dale said it costs about \$2.20 per gallon to produce gasoline at current oil prices.

[Hot granite and steam could clean up oil sands](#)

The first commercial geothermal facility in the Alberta oil sands could be pulling heat out of the ground and displacing the use of natural gas as early as 2012, according to the head of an oil-company consortium established to investigate the emission-free energy source.

Peter MacConnachie, manager of environmental strategy at Calgary-based Suncor Energy Inc., said a pilot project could be up and running within three years, though he admits the schedule is optimistic.

[Study shows hundreds of dead birds, bats at wind turbines](#)

While generating megawatts of electricity, windmills on the Tug Hill Plateau in northern New York are also killing hundreds of bats and birds, according to a recent study.

The consultants' report for PPM Energy and Horizon Energy identified 123 birds, mostly night migrants, and 326 bats found dead over the course of five months last year beneath 50 wind turbines on the plateau between Lake Ontario and the western Adirondacks.

[Helicopter Ben's Co-Pilot](#)

I remember laughing when Ben said he would "drop dollars from helicopters" to stave off any deflationary threat. I remember thinking that unless he finds some big fools to take more debt than they should, he can't do that. I am no longer laughing.

What Ben really meant was that he would "drop debt from helicopters." He wouldn't give people "free money," he would give them "free debt." That is also how the federal reserve system works. People today do not distinguish between debt and money. Nevertheless, it is much different spending "savings" than spending the proceeds of cheap debt. They look and feel very much the same until the day when the debt becomes due. Then the difference between the two becomes obvious, very quickly. Some borrowers are seeing this difference now.

[I Knew It Was Bad, But...](#)

He explained that due to the many layers of today's complicated credit products, the assumptions used to dictate the pricing and outcome of CDO are extremely subjective. The process is so subjective in fact that in order to make the market work an impartial pricing mechanism must exist that the entire market relies upon. Enter the credit agencies. They use their models, which are not sensitive to current or expected economic activity, but are based almost entirely on past and current default rates and cash flow to price the risk. This of course raises two issues.

First, it is questionable whether "recent" experienced losses over the last few years really represent the worst of the credit market (conservative). But even more importantly, it raises a huge conflict of interest: the credit agency's customers are the very issuers of the tranches they rate. The credit agencies, therefore, need to compete

for business based at least in part on the ratings they are willing to give these tranches. As a result, they will only downgrade when forced to by experienced losses; not rising default rates, not a worsening economy, but only actual, experienced losses. Even more disturbing, they will be most reluctant to downgrade the riskiest tranches (the equity tranches) since those continue to be owned by the issuers even after the deal is sold.

So even though the mortgage market has deteriorated substantially, mark-to-market losses by those holding the CDO paper have generally not been realized simply because the rating agencies have not changed their ratings for all the above reasons. Accounting rules only require holders of the paper to mark prices according to the accepted model, not actual prices.

[Derivatives, Derivatives, Derivatives - everything is fine until...](#)

The global derivatives market grew at the fastest pace in at least nine years during 2006 as the amount of contracts based on bonds more than doubled to \$29 trillion, the Bank for International Settlements said today.

Derivatives covering bonds and loans rose by \$15 trillion last year, the Basel, Switzerland-based bank said on its Web site. The total amount of over-the-counter contracts whose value is derived from price changes of bonds, currencies, commodities and stocks, or events like interest rates or the weather rose 39.5 percent to \$415 trillion, the biggest jump since the BIS began compiling the data...

[Project Turquoise is Goldman's scheme to put markets in the dark](#)

Project Turquoise, the share trading system backed by a group of the world's largest investment banks, will allow transactions both on-exchange as well as in "dark liquidity" pools, where firms offer to buy and sell large blocks of shares away from public sight.

Speaking at an Exchange Forum conference in London, Phillip Hylander, co-head of European equities at Goldman Sachs, set out for the first time the broad outlines of the business model that has promised to bring more competition to European share trading.

"Turquoise is to be a hybrid that will incorporate a public order book and a non-public order book," Mr Hylander told the conference. "Turquoise will be an aggregator of 'dark pools.'"

[The Bank of Canada Sounds Hawkish Again!](#)

The Bank of Canada (BOC) issued a very hawkish statement yesterday that really lit a fire under the already strong loonie (CAD). The BOC really surprised me, in that they hadn't been very hawkish, leaving rates unchanged for almost a year now. I think that weak kneed stance is going to get them in deep water with regards to fighting inflation. With the economy's above-trend growth rate suggesting the economy was operating in a deeper state of excess demand producing the risk of upward pressure on inflation. It makes sense to come clean now.

Canada's core inflation rate rose to 2.5% in April, and while likely to edge down a bit in May, will remain above the Bank's 2% target in 2007. Therefore I now expect the BOC to begin to raise rates again this year, maybe even as soon as next month. I expect rates to rise 75 BPS this year. So... That's 25 BPS in three meetings till the end of the year... And if that doesn't do the trick, papa's going to buy you a bigger inflation stick!

Yes, don't be surprised to see rates continue to go higher in 2008! This is all good for the loonie. And with it trading now around 0.9340... It's already in uncharted waters. So, there's obviously no problem with it going further in those uncharted waters!

So... The Belle of the Ball in 2006, before the BOC decided that they had raised rates high enough (and I said at that time they were making a mistake) is back in the saddle again.

[An ATM That's Out of Money](#)

For years, as the bull market in housing gathered steam, people used their homes as glorified ATMs, pulling out money for all sorts of reasons. The trend helped support continued economic growth and recovery from the 2001 recession.

But now people are reining in their spending, raising concern that their collective decisions could nudge a sluggish U.S. economy into recession.

Already, a small slowdown in the growth of consumer spending and a big plunge in home construction helped cool U.S. economic growth to a weak 1.3 percent annual rate in the first three months of this year. The nation's retail sales fell in April, and many retailers are reporting disappointing sales so far this month.

[Canada can do more to go green: Schwarzenegger](#)

"Canada feels and California feels, that we can do much more and that we have to be very aggressive about it," Schwarzenegger said on Thursday.

"The way that we can do more is through working together. The more partnerships that we form, the better it is," Schwarzenegger said.

Schwarzenegger said the exchange of research and technology, which he deemed "the saviour of everything," was the main focus behind his three-day trade mission to Canada.

[Dwindling of Rare Metals Imperils Innovation](#)

The world may soon find itself running out of rare metals used to form key components in high-tech devices from cell phones to semiconductors to solar panels, according to a report in New Scientist magazine.

In the respected British publication's audit of "Earth's natural wealth," David Cohen writes that reserves of elements from platinum (used not only in every pollution-

reducing automobile catalytic converter in use today but also in fuel cells) to indium (used in flat-screen TVs and computer monitors) and tantalum (used in mobile phones) are "being used up at an alarming rate." These metals are chemical elements -- no synthetic replacement can be developed.

[The Perils of Pushing Atomic Energy as the Climate Change Panacea](#)

Is nuclear power on the verge of a renaissance? Its supporters argue that atomic energy is the only way to satisfy humanity's hunger for more energy without aggravating the effects of global warming. Critics, however, regard the nuclear hype as over-simplistic optimism fueled by an industry in distress.

[Tropical storms 'distribute ocean's heat'](#)

Driven by mighty circular winds, cyclones in the western Atlantic, western Pacific and Indian Ocean have long been known to whip up the sea and leave its local surface areas cooler than before.

In a paper appearing overnight in Nature, the weekly British science journal, Matthew Huber and Ryan Sriver of Purdue University in Indiana make the first stab at calculating how and where this displaced heat, driven from the surface by the cyclone, ends up.

[Models underestimate global warming impacts](#)

It used to be that climate scientists worried about how to make the public care about changes that might not happen for a century. Today they have a bigger problem: some of the changes aren't waiting around that long.

Following the latest projections by the UN's Intergovernmental Panel on Climate Change (IPCC), new research shows that models in the report underestimate some changes that are already under way. Sea ice is melting and sea level is rising faster than models had predicted, and one brake on warming, the uptake of CO₂ by oceans, appears not to be working as well as scientists had thought.

[Fossil fuel damage will last thousands of years](#)

Burning all known reserves of fossil fuels, from Alberta's tar sands to China's vast stores of coal, would have much graver long-term consequences than previously thought, according to climate scientists who have peered far into the future.

"Not only are we going to mess up our kids' and grandkids' lives, we are going to be interfering with the way the planet works for thousands of years," says climate scientist Alvaro Montenegro, noting that much of the carbon emissions would persist in the atmosphere more than 5,000 years and drive up global temperatures for millennia.

[Report shows challenge of food production](#)

If the urban centres are swelling, if insatiable demand continues to turn farmland into subdivisions and industrial parks and if global warming is threatening a worldwide food shortage, what does that mean?

"Convert horse pastures and golf courses to food production," said Richmond City Councillor Harold Steves recently, not quite tongue in cheek. "We've lost too much farmland. We're projecting a 30 per cent population growth by 2025."

As one of the founding fathers of British Columbia's Agricultural Land Commission, he is already alarmed at the future consequences of a perfect storm brewing a few decades down the road when a burgeoning population needs to be fed in a world that could be rapidly destabilizing because of climate change.

[World's great apes face disaster, says Leakey](#)

Richard Leakey, former head of the Kenya wildlife service and now chair of Wildlife Direct, said apes across the world faced unprecedented threats from the combined effects of hunting, disease and logging. And he said efforts to tackle global warming through the use of biofuels could cause more damage to ape populations because of pressure to chop down their tropical forest homes.

About 80% of orang-utan habitat in south-east Asia has been destroyed in the past 20 years because of soaring demand for land to produce palm oil for western markets. Experts warn that increased uptake of alternative fuels could mean the disappearance of the remaining 50,000 animals there within a generation.

[A National Water Crisis Is on the Verge of Gushing](#)

Mismanagement and climate change are shrinking clean water supplies worldwide.

The brunt of the problem is borne by the poor on every continent; those who have the resources, like that flashy conspicuous wealth capital in the desert, Las Vegas, grab all the water they can find. In less arid parts of the United States, Americans take tap water for granted, but that's only because of hundreds of thousands of miles of underground pipe laid generations ago, much of it now decaying.

Studies by government, environmentalists, and utilities agree that cities and towns will need to spend \$250 billion to \$500 billion more over the next 20 years to maintain the drinking water and waste-water systems we equate with modern living. The only debate is how to pay for it, in a country accustomed to paying about \$2.50 per 1,000 gallons?the lowest price for tap water in the developed world.

"There's a very widespread perception that water is a free good," says Steve Maxwell, a Boulder, Colo., consultant specializing in water and environmental issues. "It falls out of the sky?why should we pay for it? What's lost is the fact that we have to treat it, move it around, store it, and distribute it to homes in a process that costs a heck of a lot of

money."

[Is the story of massive untapped oil reserves fact or fictions?](#)

The reports of all these surveys, which are part of the Oil Ministrys archives, were discouraging and could not come up with categorical results that the western desert, that is the area falling within the provincial borders of Anbar, holds substantial oil or gas reserves.

That conclusion was substantiated by an article in MEES, the authoritative Middle East Economic Survey, in a report about the results of 2004 surveys by American geological groups which said the areas oil reserves run between half a billion and one billion and a half of proven reserves.

Brushing all these findings aside, the U.S. energy analysts I.H.S., for reasons yet to be uncovered, reveals surprising and shocking figures of estimates totaling 100 billion barrels.

Who are we to believe? Is it logical and sane to doubt the surveys by IPC, the National Oil Company, giant foreign oil firms and recent surveys by U.S. groups and believe the I.H.S.?

I.H.S. report smacks of politicization. It was written and made public with the aim of pacifying the violent and restive province by telling its rebellious population it is better for them to lay down their arms and make use of their oil riches under the new oil law and federal system.

[Where anti-Arab prejudice and oil make the difference](#)

In Darfur the fighting is portrayed as a war between black Africans, rightly or wrongly regarded as the victims, and "Arabs", widely regarded as the perpetrators of the killings. In practice these neat racial categories are highly indistinct, but it is through such a prism that the conflict is generally viewed.

It is not hard to imagine why some in the west have found this perception so alluring, for there are numerous people who want to portray "the Arabs" in these terms. In the United States and elsewhere those who have spearheaded the case for foreign intervention in Darfur are largely the people who regard the Arabs as the root cause of the Israel-Palestine dispute. From this viewpoint, the events in Darfur form just one part of a much wider picture of Arab malice and cruelty.

Nor is it any coincidence that the moral frenzy about intervention in Sudan has coincided with the growing military debacle in Iraq - for as allied casualties in Iraq have mounted, so has indignation about the situation in Darfur. It is always easier for a losing side to demonise an enemy than to blame itself for a glaring military defeat, and the Darfur situation therefore offers some people a certain sense of catharsis.

Humanitarian concern among policymakers in Washington is ultimately self-interested. The United States is willing to impose new sanctions on the Sudan government if the latter refuses to accept a United Nations peacekeeping force, but it is no coincidence that Sudan, unlike Congo, has oil - lots of it - and strong links with China, a country the US

regards as a strategic rival in the struggle for Africa's natural resources; only last week Amnesty International reported that Beijing has illicitly supplied Khartoum with large quantities of arms.



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