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A few short days and Christmas will be upon us. It has been an interesting year in the markets and global community. We have seen markets rebound some 25 to 30 % this past year. However as always the oil and gas companies continue to struggle at the hands of the investor's perception. Energy remains a contentious issue in the world. Commodity prices have remained high during this past year and oil companies have announced record profits. Unfortunately these come at a time when consumer prices are rising beyond levels of consumer comfort. This would include utility prices – electricity and natural gas – as well as gas prices at the pump and a whole bevy of consumables which petroleum products are used to make.

Energy carries a double-edged sword. On one hand it benefits producing provinces such as Alberta, BC, Saskatchewan, Newfoundland, and other up and coming Provinces. However they play havoc on countries' economics through inflationary pressures on the costs of goods and services. In addition there appears to be a natural distrust of energy – something akin to a drug addicts' reliance on their drug of need. Governments fight internally over the proper methodology for handling energy – deregulation has enjoyed some success in oil and gas markets but the electricity experiments remain a failure. It is difficult to support the great need for transmission infrastructure when one side of the supply and demand model is regulated. This past fall saw a widespread electricity blackout in Eastern North America. This heightened the awareness of both Government and the public on its reliance on energy. The failure will no doubt come down to a complex witches' brew of computer technologies, aging infrastructures and lack-lustre modeling of fail-safe procedures (the old \$2 fuse).

Is it going away anytime soon? It would seem highly unlikely. The demand continues to grow in North America. It seems unlikely we will build any more dams in this country – the concerns of the environmentalists and their creation of media frenzy is a difficult obstacle to overcome. In addition pressures such as the “Kyoto enigma” will continue to act as a contradictory element against lower consumer prices. Kyoto will likely never be ratified as the Russians have a complex political system, which usually has great mistrust for the rest of the world. In addition we have recently seen the richest man in Russia, Mikhail Khodorkovsky, thrown in jail with the state seizing control of a large stake in his oil company, Yukos. Perhaps this is the beginning of Russia ensuring control over its own resources. It would seem unlikely then they would enter into a worldwide pact, which may limit their industrial expansion over the next decade.

The electricity markets also continue in some sort of out of control chaotic spin. Arguably there has been no successful model of how a deregulated market should work. On the eve of the Ontario experiment Ernie Eves, the Ontario Premier at the time, quickly reversed government direction and returned consumer pricing to some shades of a decade

ago. Does the public win? – Not likely as someone still must pay for the public utilities' losses. The short-term savings on the home utility bill is eclipsed down the road in greater income taxes. At the end of the day there is only one person paying for everything – he/she is the taxpayer.

Even the Alberta experiment with electricity and home natural gas sales remains struggling with failure. After October 1, 2003 EPCOR will no longer offer competitive contracts to residential, farm and small commercial natural gas and electricity customers. The competition the Alberta government had hoped for never materialized in the consumer market. So from the aspect of the one of the largest suppliers in the Province, why bother with the risk? The fluctuating price as provided to consumers provides stability in profit for the utility. Selling contracts likely equates to someone winning and someone losing depending on what the market does. Why would Mr. And Mrs. Consumer sign a 5-year contract for natural gas at around \$7.00 / gigajoule when the Alberta government is prepared to rebate anything over \$5.50 / GJ?

The experiment no doubt stems from the mortgage market. There is always a desire by many to obtain stability in pricing. The difference however lies in the fact the money market is one of complete fluidity and mimics a perfect competitive model – money may come from anywhere to meet long term contract interest rates. The energy market does not have this fluidity. At the very least all of North America would have to buy into a singular supply and demand model. In addition this would require complete support of infrastructure – pipelines and transmission lines – lines which would have the ability to move product immediately to where it is needed – back, forth, sideways, etc. Finally it would have to be a strong enough and successful enough model to reject public pressure on the political hierarchy. It all seems something like looking for clarity in a snowstorm.

Recently in *The Economist*, “The Stone Age did not end for lack of stone, and the Oil Age will end long before the world runs out of oil.” This intriguing prediction is often heard in energy circles these days. If greens were the only people to be expressing such thoughts, the notion might be dismissed as Utopian. However, the quotation is from Sheikh Zaki Yamani, a Saudi Arabian who served as his country's oil minister three decades ago.

We have a long way to go. The energy supplied by fossil fuels has catapulted mankind through the Industrial age and into the Oil Age. The human achievements in the past two hundred years has shown exponential growth in our knowledge base, our standard of living, our industrial base and even our leisure time. But it comes at a great price – it has structurally stratified the social order in the world – we in the West do not understand the mentality of those we call terrorists. We feel we should have our cake and eat it too. The world continues to evolve in a complex manner. We can only hope we have the leaders to take us through these years. On this point I will leave you for this year.

A Merry Christmas and Happy Holidays to all the Readers of *The Recorder*. I am pleased to announce the CAGC will be embarking upon a small quarterly magazine named “*The Source*” in January 2004. Look for it along with your January *Recorder*.

May you find success in your world in the coming year.

From The Thursday Files:

*History will be kind to me for I intend to write it.*

*- Sir Winston Churchill*