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January saw seismic crew counts harken back to the boom years of 2008-2009. I suspect it was a bit of a perfect storm. Mild weather into mid-January was followed by a 30 degree drop within a 24 hour period. Some areas had allowed for early front work to be completed quickly and efficiently while other areas that required frozen ground were only finally frozen enough to allow equipment in by late January. Typically the numbers rise again in February however that seems hard to believe. One would assume companies are operating at nearly maximum numbers and with challenges of human resources. It would seem unlikely any more crews would be ramped up in the short working period left in Quarter 1.

Premier Alison recently announced by Twitter that her government would release its 2012-13 budget on February 9, as a pre-election budget. It would appear the 2011-12 budget forecasted a $3.4 billion deficit. That deficit number lowered itself with stronger revenues in areas such as land sales but by late 2011 going into 2012 had returned to the range somewhere north of $3 billion as a deficit. Alberta uses its Sustainability Fund to offset deficits. By the end of 2013-14, the Sustainability Fund will have been drawn down to $1.7 billion from $16.8 billion at the start of 2009-10. The value of Alberta's Heritage Fund (separate from the Sustainability Fund) is expected to remain stable between $14 and $15 billion over the fiscal plan.

Alberta politicians return to work Tuesday, February 5 but the opposition Wildrose party says it will be Thursday's 2012-13 budget that will lay out battleground for the upcoming election. "This is going to be a session about who is really best able to manage the books," said Wildrose leader Danielle Smith in an interview. The level of spending is already at record levels. The government is on track to spend $39.9 billion in the current fiscal year with a deficit of $3.1 billion. Forty-billion-dollars in spending is within sight, said Smith

I thought this was an interesting light to discuss the Natural Gas Market going forward. Certainly one of Alberta's challenges has been the low natural gas commodity price further exacerbated by the 2007 Royalty Review that drove exploration out of the province just prior to the 2008 global financial crisis. Production fell off as wells matured and ran their course with no backfill occurring. In and around the 2009-10 fiscal year Oil Sands revenue and natural gas revenue were about equal. This was due largely to the drop of natural royalty's by approximately one-third from 6 billion in 2008-09 to under 2 billion in 2009-10. Natural gas revenues continue to drop – albeit at a slower rate. Our saving grace for the time being is that oil sands royalty revenues continue to raise however it is not enough yet to cover our fiscal deficit as we approach spending of $40 billion per year as a Province.

Peter Tertzakian writes in his mid-January blog in the Calgary herald titled *Natural gas producers face sobering reality of budget cuts:* "Challenging" is far too polite a euphemism to describe the plight of North American natural gas producers. Their situation has now gone into the "red-zone" and can be gingerly described as "existential." Gas traders transacting at the US benchmark Henry Hub saw action below $2.70/Mcf last week, prices not seen since the doldrums of 2009. Canadian prices are equally threatening, now below $2.60/Mcf. Yet more than ever, if this industry is going to remain viable, the present circumstances argue that gas prices must strengthen to between $5.00 and $6.00 in both markets.

On January 27 PSAC lowered its drilling forecast by 11 % citing weak natural gas prices, warm weather, the European debt crisis and labour shortages. AECO spot prices were hovering around C2.40 per mcf and Henry Hub wasn't much better. Gary Leach, executive director of SEPAC commented further in the Daily Oil Bulletin article on PSAC lowering the 2012 Drilling forecast, "The latest forecasts for natural gas prices make it clear that no relief can be expected over the next year."

The USA election is shaping up to be an interesting battle. The Republicans continue to hammer away at each other in their Primary's to see who will be the Republican candidate for the Presidency. Mitt Romney continues to lead and looks to be more of a centrist candidate than his main opponent Newt Gingrich. This position makes him a more dangerous opponent for Obama than Newt might be. Recently the jobs data in the USA has been improving and even a ray of economic sunshine may go a long way to helping Obama by the November election date.

Recently Obama pitched a plan to boost US use of natural gas and open more land to drilling aimed at bolstering confidence in his economic stewardship in an election year. He has proposed tax incentives for natural gas trucks to bolster demand for the fuel indicating domestic natural gas consumption would benefit drillers and could support more American jobs. This remains uncertain given partisan politics and concerns from the right on having governments pick winners and losers in the energy sector.

An important piece in the natural gas market for Canada is likely to be the Pacific Trail Pipeline (PTP) and the Kitimat LNG facility proposed by Apache, EOG, and Encana which would open up the Asian markets for our natural gas. In both oil and natural gas we face challenges being largely landlocked to the North American continent and subjected to both the economic downturns of the USA and also to their political follies.

Our world is a complex place with a number of factors tying together to effect something else. That's what keeps it interesting.

From the Thursday Files

His mouth works faster than his brain - he says things he hasn't thought of yet.
- Weird Wards' Blackboard