Keyera 2019 Investor Day
Wednesday, Dec 11, 2019
Session 2
Duration: 87 minutes

[00:00:03.000] - Steven Kroeker
Welcome back from the break. I am a little nervous I always get nervous after a break. I'm not sure who's gonna leave and have an extended break when the finance guy comes up. But I'm glad you guys all stuck around. I think I only counted one person who is heading off, so appreciate that very much.

[00:00:21.750]
I hope you believe as I do that my colleagues did a very good job this morning so far presenting some of the business strategies, the ESG views, the need for our commodities within the world and the global landscape, and it's a testament to the type of work there. My name is Steven Kroeker. I'm the Chief Financial Officer I've been here over 13 years. The last half has been in the Chief Financial Officer role. The first half of my career here was on the corporate development side and I had come from investment banking before that and when I first made the jump over to the corporate world again to Keyera I had received quite a few comments and e-mails from different people that I knew who were familiar with the Keyera management team and they expressed a lot of good congratulations about moving to that team.

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It's a very credible team and I can honestly say over the last 13 years I have seen the humility within that team. I've seen just the depth and practical nature of the team and just solid management of the company and I appreciate being at Keyera. And I look forward to walking through the next few slides where we're gonna talk about some financial perspectives. We've heard a lot of good things on the business strategies within the various business units those business strategies are underpinned by a solid financial philosophy and so we're gonna walk through some financial priorities.

[00:01:53.370]
My goal is that you will not be surprised at all by our financial priorities and that you have grown accustomed to seeing them in the past and going forward. What I do want to do though is spend the first few minutes, the first few slides, and talk about the positive momentum the positive delivery of shareholder value that we have received as a result of following those financial priorities. And so we're going to go over a couple of slides very briefly that David went over and again the reason I bring this slide up is just I think it's worthwhile just to pause and remember that over 16 years this kind of result, these kind of results have been generated for a lot of people even that far left column, that is the DCF per share you would normally see for a lot of peers. And yet from our point of view we've been able to do that for from a dividend perspective for over 16 years.

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If you move to the next slide. David briefly talked about this one. And again it's important to recognize that even during the last few years of more challenging times even during us adding new capital to historical capital in the denominator of calculating return on capital we have achieved nearly 15% return on capital in terms of invested capital and on the right hand side, important to note that all the capital for Wapiti Phase 1 is in the denominator and yet Wapiti is still in a build out phase in terms of the numerator the

EBITDA and the realized margin it's generating and so again we're very happy with that, with that performance so far.

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Now we did look over some DCF and dividend graphs earlier but they were back to IPO and a lot of times and sometimes people ask us what have you done for us recently. And so what we did here is we chopped off the first 10 years of the of the performance and say let's pick a year that occurred prior to the downturn in the commodity cycle. So in the second half of 2014 when the commodity cycle started to come about and you can see it's been a very strong 9 % compound annual growth rate in distributable cash flow per share on the right hand side the last 12 months to September 30th that is a little bit lower because there are higher cash taxes in the last 12 months due to the timing of our capital. Our capital didn't come into play by the end of 2018. And so therefore we didn't have those same type of shields going into 19. For a data point for reference, you know that in Q3 conference call we announced that our forecast for cash taxes in 2020 is nil. If that same nil had been in effect for this past year that distributable cash flow per share would be more like $3.35, in that range.

[00:04:36.170]
Similarly on dividends a very strong track record on dividend so even though it's been in the challenging industry conditions still a 9% compound annual growth rate in dividends. Now I just want to talk to the next few slides just basically on our financial priorities and you know we boiled it down to a very small group of them continued disciplined capital allocation and preserve our financial flexibility and out of those is our third one which is to grow the dividend steadily and so we're going to spend some time now on continued disciplined capital allocation.

[00:05:12.930]
Dean will come up a little bit later and talk about some other criteria that we use to look at things. But in essence when we look at these items here, strategic fit and complimentary diversification is one item in particular that we look at and you can see that with the build of Norlite pipeline in terms of extending our condensate system the Alberta EnviroFuels acquisition which extended our butane value chain, our Simonette acquisition. Those types of projects. Our building out of the Wapiti system in northwest Alberta. Again another key driver to grow the business. Also complimentary diversification is also a key aspect. And when we look at that something like the Baseline Tank Terminal would be a key item there the Wildhorse terminal in the US where we're leveraging our expertise in Canada and bringing it down to the US as well.

[00:06:02.080]
And other criteria we want to look at is the increased cash flow per share and to use as a marker for that to help people look at that and measure us and hold us accountable to that. We came out in the spring and said that our capital program, what we expect to generate a return on capital of 10-15% on that annually. And again we reiterated that when the KAPS announcement came out a little bit later in the spring. We said for that project as well in 2024 that we would have a 10-15% return on capital is what we

expect in that respect. We'll continue to look at the other key factors internal rate of return cash, flow per share accretion but we thought this was a good target to be able to communicate publicly with people.

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Now again there's usually a very clean line between increasing cash flow per share and to share price growth. What sometimes gets lost sometimes is just the risk that people attach to a cash flow stream and that's why we have the third item on the page which is enhance the quality of the cash flow.

[00:07:03.160]
And from that point of view a target that we want to use is that on a corporate basis we want over 75% of our realized margin to be coming from fee for service. So how are we doing on some of these items and we'll talk about the bottom one in particular since we've talked about the second one already.

[00:07:20.870]
Two components to this test. What is the absolute size of realized margin from the fee for service business and how has that been growing. And you can see in 2014 we had $408 million of fee for service realized margin and in the last 12 months $657 million. That is over a 60% increase in absolute fee for service realized margin and that's over a 10% compound annual growth rate. But the question is are you still making progress on getting over 75 % of your corporate contribution.

[00:07:51.890]
Here on this slide we tried to look back at the year ends of each year and give you a sense of what that contribution has been. And if you look at the far right hand side we are currently at 64% of the contribution coming from fee for service for the last 12 months. Now that being said as you heard from Jamie we've had a very strong year in terms of the butane to iso octane value chain and in our other products within marketing. If we were actually using a midpoint of our base guidance for marketing then we would be at 76%.

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That fee for service goal that being greater than 75% is also supported by our capital program. We have a $2.9 billion capital program underway. As you've heard previously and by far the vast majority of that is fee for service and again we'll continue to underpin the objective, even with strong marketing years of continuing to move towards that 75% or greater contribution from the fee for service business.

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Moving to the second priority, preserving our financial flexibility. We boiled it down to basically these two bullets. Maintain our BBB credit rating that allows us access to different sources of capital and financing. And secondly we haven't done this before but we decided to come out and describe a long term dividend payout ratio of 50-70% and we think those two things will lead to a continued focus on preserving our financial flexibility. In terms of maintaining the BBB we look at it in sort of a multi factor kind of approach. In reality our rating agencies and some of them are in the room today some representatives. It's a various

factors are considered and not just pure balance sheet when looking at a credit rating and so we tried to summarize it here in terms of three or four key bullets. And my colleagues have done an excellent job already talking about competitive positioning within each of our business units. They're all essential services. And so how are we positioned for each of those.

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The quality of the cash flows you heard from Brian in particular about just the strength of the oil sands side we're going to talk about that a little bit more and on the G&P side whenever we employ new capital we go and get underpinnings for that. And so in the G&P world it tends to be long term contracts that are fee for service based. Its longer term, what we call midstream relationships, and that's based on fee for service a meaningful portion of take or pay. And then on top of that we try and wrap an area dedication all the way around that so that whatever is produced in that area by that counterparty that is coming to us and that helps protect the franchise even further. On the liquid side it generally tends to be more long term contracts with a very high take or pay on that side.

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And scaling diversification. You know we're quite happy that the progress we have made in terms of enhancing the liquidity and size of the company. We don't want to be big just for the sake of being big. But it does come with more opportunities. It comes with diversification. It comes with the ability to have a lower risk profile overall by being a little bit larger. And so we do continue to look at scale and diversification as again my colleagues have described. And then appropriate capital structure. So we'll look at that on the next slide here.

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Historically we've always shown a leverage ratio in our financial statements to make it easy for people. The important thing to realize and we talked about this in the Q3 conference call is that that's a senior debt ratio. But now that we have issued hybrid securities back in June the subordinated debt it is important to realize that from a management point of view internally. From stakeholders, from investors, from rating agencies that we should be incorporating a subordinated debt perspective as well.

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So what we tried to do here is just give you a very simple formula. No surprise it's senior debt plus 50% of the subordinated debt because that's the debt treatment we get from the rating agencies and divide that by last 12 months EBITDA. And that's two and a half times on that methodology. So it's a very simple marker. Obviously the rating agencies and perhaps different investors use different adjustments to get to different kinds of ratios. We think our target range of two and a half to three times equates to what those other stakeholders would use for they may have a higher type of multiples but by time you do all their adjustments we think that two and a half to three times is an appropriate target range that is consistent with our past which has served us well and consistent with our various people who look at Keyera.

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We're also focused on counterparty quality and again if you look on the left hand side on a corporate basis and look at our revenue year-to-date you'll see that almost 80% comes from investment grade parties, split rated parties or else they're secured counter parties. And on the right hand side you can see the bulk of that comes from the liquids infrastructure side. Not a surprise given the massive scale of the oil sands players but as well on the marketing side we generally work with very large parties on the marketing side in terms of the revenues there.

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On the gathering and processing side there is less investment grade but we do employ letters of credit. We do employ netting agreements. A lot of times as Jamie described we will go by the NGL mix from producers and then quite often we try and put a netting agreement in place and so any fees they owe us we get the net off what we owe them for their NGLs and that's what helps facilitate that. The Gathering & Processing business is also spread over about 150 counter parties in that business segment.

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We want to continue a conservative payout ratio and again you can see historically if you go back to 2013 that that's been a very good range for us to work with and we're confident that if we move forward and look at our views ahead that 50-70% is a good range to hold us accountable to continue to preserve financial flexibility and to continue to look at dividend growth as well as we go forward. Just for reference the last 12 months 61% was our payout ratio over the last 12 months.

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So those two financial priorities, continued capital discipline allocation, preserving our financial flexibility. Those two priorities have enabled us to invest meaningful capital. This is just a quick summary slide of our current capital program again $2.9 billion, 1.5 has been spent already. Another 1.4 to go. And that basically implies $400 to $500 million of capital in 2021 with some minor amounts in 2022. And again that's been made possible.

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And as David mentioned earlier we made a commitment and given an expectation that we do not believe we need to raise any more discrete common equity besides the DRIP to fund that program.

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The question is what is it on a go forward basis are there any thoughts and kind of data points we can provide you there and so we did decide to go ahead to take a crack at giving you a sense under a couple of different scenarios of what could that potential annual funding capability be under a couple of different scenarios. And so just as an overall context here this slide is based on marketing being at base marketing levels So $180-$220 million and what we do to keep it really simple no discrete common equity issues anywhere.

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And on the left hand side there is no DRIP program. And on the right hand side it's with the DRIP program. And again we tried to take some conservative assumptions we tried to be conservative basically and try to give you some reassuring views as to what that capital looks like and we think we can do $500 to $600 million annually after 2021 in terms of potentially being available to spend on capital. If you turn on the DRIP and get the extra little bit of leverage that comes with that then $800 to $900 million.

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What I would emphasize that these are data points these are scenarios. A host of things can affect what kind of size you can do. It can depend on how the base business is doing in terms of more capacity more spare capacity being used and in terms of return of the markets. It can be marketing being at excess levels like we are currently. There are different factors but we thought it was helpful to try and provide some perspective on just the strengths within Keyera's base and a lot of that strength is coming from that capital program that's underway. At $2.9 billion, even at the low end of the 10-15% range, it's almost $300 million of extra realized margin coming into the business.

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So in summary our financial priorities again not a big surprise to people but continued disciplined capital allocation. And we've talked about some of the markers we want to look at there and then preserving our financial flexibility.

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And again we tried to highlight some of the ones there on the screen and together those two things will lead, we believe, to continued growth steady growth in the dividend. And so I will leave that now and I'm going to turn over to Dean who is going to come up to talk about future opportunities.

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And I'm going to make sure I do my part and exit this way.

[00:17:43.700] - Dean Setoguchi
I'm going to demonstrate that we're not all superstitious so I can stand on this side of the stage as well. First of all I hope everyone likes the KAPS caps by the way and they're in the Keyera colours which have been adopted from GULF.

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They also happen to be the same colours as my favorite hockey team. So I had to throw that in there.

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I'm very excited to talk about the bright future that we see in front of us and that's above and beyond the projects and the opportunities and the initiatives that we have currently underway that will deliver a lot of visible growth well into the future. But I want to make it clear that we will not pursue any opportunities without them being fully aligned with the financial parameters and discipline that Steven just talked about.

To be a little bit repetitive. We provide essential services from production to end markets. Our goal is to capture as much value in this equation as possible.

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When we do that we have more flexibility to competitively attract more volumes into our system which enhances our overall profitability. As you've heard today, we have a lot of growth opportunities within our base business and our gas gathering and processing segment in our northern area. We have our Montney/Duvernay build out. And when those facilities are online we'll wrap up the volumes over time. It will also help us access more liquids which support the downstream part of our NGL business. In our south capture area, we have our optimization program. And again that's all designed to enhance our overall competitiveness by reducing your cost profile but also increasing our utilization.

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So our per unit cost will be more competitive. We can track more volumes in our system and again increase the profitability for Keyera. When we look at liquids infrastructure we have two significant businesses in this segment. One is our fractionation storage and terminaling business. The other is our oil sands services. And the oil sands services are really anchored by our Diluent handling capabilities and also our condensate storage as well. Both of these businesses are highly profitable businesses with significant barriers to entry. We see a lot of growth from these two businesses for many years to come. On top of that,

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Brian talked about our KAPS pipeline. And to me this is a transformational project for our company. It's going to connect our upstream gas gathering processing assets with our downstream NGL business and make that whole system more competitive. It will enable us to access more liquids for the downstream part of our NGL business.

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Where we see significant opportunity going forward is to access high value markets and that might be accessing them or upgrading them into high value markets. Why do we say that? It's because we have world class reserves in Western Canada. What we lack is enough market and so we can be part of that solution.

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So our goal is to access the highest value market for every product in our system. And I'm going to talk about each one of them. So let's start with ethane. Ethane is oversupplied in our basin. And today a lot of it is left in the natural gas stream so it's sold as natural gas and it's either consumed as natural gas or it gets exported into the US. We have a couple of petrochemical companies in the province that use ethane as a feedstock and we do supply ethane feedstock to them. Our goal is to secure more long term contracts to supply that ethane feedstock.

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And whether it's for the existing facilities or new ones that could be built in the future. You've probably heard that the Alberta government wants to diversify Alberta's economy and part of that is they're looking to provide more incentives to attract and enhance petrochemical development. If this occurs again we're a natural supplier of that feedstock. If we're able to secure more long term contracts. It will help economically support enhanced ethane extraction and that could happen in both parts of our GDP portfolios either in the north or the south where we would take a deeper cut of NGLs which would include ethane.

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We would move that ethane mix through one of our NGL gathering systems be it Keylink or KAPS. We could switch both of them to a ethane plus stream and that would lead to more opportunities to create more de-ethanization capacity, fractionation capacity and also storage to supply that feedstock to Petchems. So again that's part of our overall goal is to is to secure more long term contracts in this area.

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Propane is another product that is in oversupply in Alberta. Most of it gets exported out of the province. We have three facilities that have truck and rail capabilities export capabilities, and that's up at Fort Saskatchewan, Edmonton and also at Rimbey. All three are pipeline connected and we can also access both rail lines CN and CP. So we have a tremendous amount of flexibility within these three assets.

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Today we use our truck racks to serve local markets and most of that is for industrial use. We use our rail racks to export propane right across North America and to the highest value markets. So sometimes that product goes out to the east in gold mid-continent to a Conway market. We ship product down to our Hull Terminal down in Texas which where we access Mont Belvieu pricing at times when at the Mexican border we can deliver product there when they pay the most money for it and we can also export to the west coast. So again a tremendous amount of flexibility. Our goal overall is to have the assets in place where we have the flexibility to access the highest value markets as they continue to evolve in the future.

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So one of those markets that we see that will continue to grow in the future is the market for solvent and propane is used as a solvent in SAGD operations. And the reason why it's valuable is that it helps to mobilize the bitumen subsurface. It reduces steam oil ratios which improves economics but also reduces the carbon intensity of the projects and also reduces the amount of water consumption as well. So because of that we see the demand for solvent growing over time and as that demand grows we'll look for more efficient solutions to deliver that product to site and that includes pipelines.

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On top of that we're seeing petrochemical development and again PDH facilities that require propane as a feedstock. The first will be in service or is expected to be in service in 2022.

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[00:25:15.610]
We're going to be pipeline connecting to that facility. So again we can deliver propane as a feedstock to them and then when we look longer term we see a lot of demand in the world for propane to be in Asia. And we have a structural advantage off the west coast of Canada and that's because of the shorter shipping distances. So we can make a round trip by ship in about twenty five days less time than the US Gulf Coast. The other factor in our favor is that we don't have to contend with the Panama Canal.

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And you know that area is seeing increased congestion with the amount of ships that are flowing through it. And again it poses an additional risk for the buyers of propane. So again another advantage that we have off the west coast of Canada. So overall as I mentioned our goal is to have the flexibility within our assets to access the highest value markets. We see West Coast exports as being one that we have to continue to evaluate and that could be we lock it up that opportunity up with contracts contractually or we may also participate in a west coast terminal as well.

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So that's what we're evaluating and looking at for propane.

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We had a lot of butane in our system as well and a lot of that is because of our Alberta EnviroFuels facility which produces iso octane. We use butane as a feedstock and our AEF facility consumes more butane than any other facility in Edmonton. We also deliver butane for the blending markets in Edmonton. And some of that is to the refiners in the area but we're also as I mentioned looking at west coast off take opportunities and the potential to export butane off the West Coast because we have such a great profitable franchise with our AEF facility we're looking at opportunities to expand it to have capacity to make more iso octane. And when you look at the future of fuels and Jamie talked about this it's going to a higher octane spec and that's because the car manufacturers auto manufacturers are making engines that are higher compression and they require a higher octane count.

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And that's to meet fuel efficiency improvements. These gasoline specs we're already seeing in places like Europe. On top of that, there's been more regulations that have been added. And if you look at the Tier 3 standards in the US, those have been put in place to reduce the amount of sulfur in the gasoline and they come into full effect in in January of 2020. On top of that there's penalties for aromatics. So products like benzene that have health risks. Again they're trying to eliminate that from the gas pool. On top of that, there's RVP restrictions and that's to limit the amount of vapors that emit up into the into the atmosphere.

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So when you look at products like ethanol that have a bio component to it and they're very economic. They're high in octane but they're also high in RVP so they're not the total solution going forward. So

when you add up all those factors together we see a bright future and a lot of demand for iso-octane. So we are looking at expansion opportunities. Having said that, we would have to incur a significant financial investment for the expansion opportunities that we're looking at. So we need to make sure that we have the right contractual backing to move forward with that initiative.

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The other thing I'd like to mention is that we have a tremendous competitive advantage at this site relative to anyone else who wants to build a facility like this one. We have a lot of infrastructure in place that supports an expansion already on top of that. We also have all the pipelines and the rail capacity to export it. We have the expertise onsite. There's about twenty seven people that turned on the lights about 28 years ago. So the expertise is on site to run it very reliably and also we have the knowledge of the downstream marketing business, the markets for gasoline and the markets for octane as well.

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So with all this again we'll continue to evaluate this opportunity and and we'll move it forward.

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Condensate is the most valuable commodity that we handle in our system. And again that's what's driving a lot of the production growth in the Montney. And we have the hub for condensate which is used for Diluent in the oil sands. We have the most connectivity to receive condensate into our system and deliver it to the oil sands.

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As you heard from Brian, all the major oil sands players have contracts on our system and that's where they want to receive their product. Most of you might know this already but the fuel condensate that's getting produced out of the Montney is heavier in density and that heavier density condensate is not ideal for bitumen blending and it's because the higher the density the more you need to blend and flow through a pipeline. So when you're in a pipeline constrained environment like we are today. That's not very helpful. So what's happening now is that there's been significant investment made in the field to upgrade that field condensate barrel to meet pipeline specifications.

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Our goal is to find a solution where we would relax a spec in our KAPS pipeline where this heavy condensate barrel would be able to flow right into the line. Right into Fort Saskatchewan and we would process that heavy condensate barrel there. Once we process it we would create a very light condensate barrel. And again that's ideal for oil sands Diluent blending. In addition to that we would also create other high value byproducts through that process. So this would satisfy the needs for oil sands customers and also our Montney natural gas and condensate producers as well.

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Crude oil: we have an above ground tank storage facility called BTT our Baseline Tank Terminal and it has 4.8 million barrels of capacity. We have the ability to expand this facility by 1.8 million barrels. The great thing about this site is that we already have a lot of the infrastructure to support that expansion and that includes the manifolds the pipelines the pipe rack. We have a bridge over a highway in Edmonton again to bring our pipes over top of that. That highway, it's called Baseline Road. We have our office there and also the personnel onsite to run that facility.

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So again the expansion would be very economic. What's important to know about tank storage is that you can build it anywhere what makes it valuable is the connectivity and we have unparalleled connectivity at this site so when we see the expansion, the TransMountain expansion finally built we certainly believe with it there'll be more demand for aboveground tanks storage. And again we have the site to build the next expansion. I should also mention that Pembina is going to be our partner on the site and we will work closely with Pembina we're very aligned to maximize the profitability of this business.

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So in terms of our overall investment considerations we're very dedicated to grow steady shareholder value over the long term. What that means is that we're looking for opportunities that are complementary to our business and our expertise. Ones that will serve as platforms for future growth well into the future. They have to have the contractual backing that will deliver and be consistent with the financial parameters that Steven laid out earlier and they have to meet our return criteria to meet our minimum thresholds. And ideally that means that we have a fee for service component that gets us into our return on capital hurdles that you see here but also have marketing opportunities where we can generate industry leading rates return on our opportunities.

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They have to be accretive to our cash flow which also drives our dividend growth in the future. And it's a track record that we're very proud of. And we also have to preserve our financial flexibility. So what that means is that our opportunities have to be aligned with our financial capabilities.

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So with that I'm very pleased to again outline some of the opportunities that we see ahead of us on behalf our team we're very committed to deliver shareholder value.

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And with that I'll turn it over to our CEO David Smith.

[00:35:09.840] - David Smith
Thank you Dean and I want to say thank you to all of my colleagues who have been up here presenting today. The work that they put into being able to put all this information together for you is really quite incredible. So thanks.

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[00:35:21.120]
Thanks to the team.

[00:35:28.780]
So there you have it. We are delivering positive energy. We are focused on operational excellence. Successful project execution, disciplined capital allocation, providing unparalleled customer service, enhancing profitability, maintaining a strong balance sheet, effective risk management, improving the environment and steadily growing our dividend. We are in it for the long term. We have created significant competitive advantages and barriers to entry. As you've heard today we have a great team. In my opinion we have the best team in the industry. We care we care about the business. We care about our customers, our communities, our shareholders, our other stakeholders and we care about our planet and we care about each other.

[00:36:14.160]
I'm proud of our team and I'm proud of our track record and I'm proud of the contribution that we're making to the Canadian economy and to the health of our planet. I'm excited about the opportunities that we have ahead that you've heard about.

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I hope you are as energized about Keyera's future as we are and we invite you to join us in our journey to deliver positive energy.

[00:36:37.090]
At Keyera we are connecting energy for life and we are never done. Thank you for listening and I think at this point I'm going to invite my colleagues up here to entertain your questions.

[00:37:00.690] – Lavonne Zdunich
So at this point at this point we will just take a few minutes to get everyone organized up on the stage for the question and answer session. For those of you joining here today you can either raise your hand and we'll bring you a mic to ask your question. You can also submit a question via text and the phone number the number to do that is on the back of your name tag. And if you're joining us on the webcast you can submit a question via there as well.

[00:38:17.890]
It looks like we have our first question. Go ahead Rob.

[00:38:32.260] - Rob Catellier
Hey. Hi. First of all Rob Catellier CIBC.

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First of all thank you for the presentation this morning was very good use of time. I want to go back to what you opened with this morning David. In detailing the strategy of some these investments in the US and then really focusing still on Canada. It occurs to me you may have considered the the merits of basin diversification as you made that strategic choice. I understand the logic of leveraging the assets you have because that's a competitive advantage but can you explain walk through your views of the benefits of basin diversification and how that fits into your your view going forward.

[00:39:16.740] - David Smith
Thank you for that question Rob. I think in any industry there is always a balance to be found between diversifying away from your core strengths and capitalizing on the competitive advantages that you have. In the businesses that you know well. For us we've looked at many opportunities in the US over the years and we think that there's capabilities that we could bring to those opportunities. The challenge is that it's a very competitive environment for us to buy our way into some of the stronger resource plays like the Marcellus or the Bakken or the Permian, you're going up head to head against some very well-established capable competitors. So our choice has been to focus a little bit more on the niche opportunities that we see extending the liquids value chain as you heard Jamie talk about and I think that that's likely going to continue to be our approach. Not a major investment but more of an incremental approach to it.

[00:40:16.560]
Having said that we still see as I think we tried to explain this morning we still see lots of opportunity in Western Canada. We do believe that we've turned the corner in terms of the extended downturn that we've had for a variety of reasons and we have some tremendous competitive advantages in Western Canada in the capabilities and assets that we've developed. And so we think it just makes sense for our shareholders to continue to capitalize on that.

[00:40:46.790] - Rob Catellier
Okay. Just a second question for Dean here on, I notice the change in tone towards propane exports. There's been a number of sort of Alberta based or Western Canadian demand. Projects out there to the ages to export facilities. You haven't yet participated but it seems like you do have an appetite for that. So can you walk us through the process why you haven't participated yet and what's changed if anything to increase your appetite for those types of investments.

[00:41:17.470] - Dean Setoguchi
Thanks Rob. You know as I mentioned before is that our goal is to have maximum flexibility to access the propane markets going forward as they continue to evolve. And so we are building connectivity to make sure that we can hit all those high value markets. We certainly see the, structurally, the demand for propane increasing in Asia over time. So again we believe that having access to a west coast terminal is advantageous to our overall infrastructure. The question is whether we just want to access it contractually or whether it's better off to own it.

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[00:41:53.950]
And these are things that we're currently evaluating.

[00:42:03.800] - Andrew Kuske
Andrew Kuske, Credit Suisse. There's some talk about expanding AEF but maybe more direct and it wasn't really directly addressed in the presentation but talked around just about increased fractionation capacity at the Fort. What can you do in your existing footprint to really double up the facility and then with the lands that you acquired. Not that long ago. Where would you think about additional frac capacity because it ties into so many things that you do?

[00:42:28.180] – David Smith
And you want talk about that.

[00:42:29.730] - Brian Martin
Sure. So I think what I would have referred to is fractionation in storage is a key part to our business and we feel like we're we're good at it. So I think when we look out at opportunities and with KAPS now there will be a need for incremental fractionation capacity and our options are really to expand at KFS. We have room to probably add another sixty five thousand barrels a day of fractionation capacity there. But certainly at that land that I noted in that 1 slide there where we showed 1,290 acres we have land to develop with a whole lot more than that.

[00:43:09.480]
And so it's really going to be developed over time and we'll be doing it within the criteria that Steven and Dean had laid out. And we'll look at the opportunities to do that. It'll be driven by that by the customers wanting that service. But I think certainly KAPS is probably going to be a bit of a driver for that as we look forward. One of the things we have as well for flexibility in managing that because of course we have to manage the capital and the spend within all of our other opportunities, is we have a lot of short term contracts at our fractionation, so we'll be able to kind of feather any capital around fractionation over time here to make sure it fits within the criteria.

[00:43:48.570] – Dean Setoguchi
Andrew.

[00:43:49.300] - Dean Setoguchi
Maybe just to add on to Brian's response is that as we look at west coast opportunities again ownership or contractual we'll also look at field frac opportunities.

[00:44:01.050]
Because over the long term if that propane barrel is destined for the west coast it's more efficient to put it on a railcar and send it straight west versus bringing into Fort Saskatchewan and back. The good thing is

with our KAPS pipeline it's really the best backup solution where if you don't get continuous rail service you can put that propane in the line and take it to Fort Saskatchewan and put in our storage.

[00:44:25.200] - Andrew Kuske
And then maybe just to follow up. As you've mentioned partnerships you've got a number of partnerships in the space and someone mentioned North River earlier on the Brookfield affiliate. And I think field frac and just what's happening in Northeast B.C. you see opportunities to be part of frac hub there. And partner up with Brookfield as just one example.

[00:44:47.380] - Dean Setoguchi
Yeah. I'd say overall we are a good partner. We like opportunities where we bring something and we add value to an opportunity and someone else does as well. So together we can create something more valuable. And not to get too far off track, but if you look at Kinder Morgan I mean we've done three deals with them. We did our first deal at Alberta Crude Terminal. We built Baseline Terminal which is a very valuable facility worth much more than what we invested into it. And now we just announced a deal down at Galena Park and that's all based on us having a strong relationship with that partner.

[00:45:24.750]
But we have that in a number of different situations so you know what I can say is that we continue to look for more opportunities to partner where again we can partner with someone and add incremental value. And we do recognize that there are liquids in the B.C. side of the border and we will look for opportunities to try to capture some of that business.

[00:45:45.910] - Brian Martin
Yeah. If I could just add a bit too. I think that the comment I made on North River was is really working with them around unlocking the value of Northeast B.C. reserves and we see tremendous potential in B.C. and you talk about the Montney being how prolific it is and it actually gets thicker into B.C. And so it's tremendous and North River has a presence there with the acquisition of some of the assets they made from Enbridge and we just see again that some of our companies working together can provide a better solution for the customers and then each of us individually so it's something we're working collaboratively with them right now.

[00:46:28.790] - Matt Taylor
Matt Taylor here from TPH. So Dean you had mentioned that Galena Park investment can provide more detail on that perhaps some Capex return assumptions and then even more broadly if you see some more opportunities down there what what would those entail?

[00:46:43.700] – Bradley Lock
Yeah sure. So yeah thanks for the question.

[00:46:46.820]

Capital wise it will be less than $50 million US. We would expect. On the range that we share in 10 to 15 % rate of return on capital. It will be on the high end of that range. The assets that we're going to get access to is a connection into a pipeline that's sourced out of Mont Belvieu from a butane storage perspective so we're going to be pulling volumes out of Mount Belvieu through pipe interconnected into Galena Park. Connected to a 30,000 barrel sphere that will then be connected into over 25 tanks on site.

[00:47:31.400]
Six channel crossing pipelines because our partner is Kinder and they have a terminal across the channel called Pasadena, collectively going to park in Pasadena, is the largest gasoline hub in North America. So the on demand nature of it is just to be able to obviously get the maximum butane content into the gasoline. It's a service that customers at Galena Park and Pasadena have been asking for from that owner and we're extremely excited about the opportunity to partner with Kinder in this in this project.

[00:48:13.960] - Matt Taylor
Thanks. Thanks for that. And then just a second if I may a diluent recovery unit has now been announced. Can you just two part question. Can you announce what your thoughts are. Can you talk about what your thoughts there would be on Diluent demand in the basin and what that would be for impact to potential cap service. And then kind of a follow on to that would you guys be interested in doing something like that given your rail connectivity and obviously your well positions with KFS?

[00:48:44.770] – David Smith
I'll let Brian Martin talk about the DRU.

[00:48:48.710] - Brian Martin
So the Diluent recover unit you're talking about that was announced was the one that Hardisty with Gibson I assume and so we believe that that's a good solid investment for Gibson. So we applaud them for that I think it's good for the industry as well. And I think the reason Hardisty is probably the right place for that from my perspective a bit is that it's there's all sorts of different crude slates that they can draw from over time it's not just one source of crude. So again we feel like it's a good investment that crude has historically and is today moving in downstream pipelines.

[00:49:29.960]
So that now is no longer moving in pipelines because it's been going through the Diluent recovery and onto rail. We think that it'll be easily displaced with other crude barrels from the oil sands and so from a impact on Keyera perspective it could be a net gain. Actually in terms of that Diluent that's recovered down in Hardisty will very likely find its way back up Southern Lights and into our system or up to the oil sands as well as it will now allow for incremental volumes to actually leave the province on pipe.

[00:50:03.770]
So I think it's a win for Gibsons, win for the industry and probably win for us. With respect to whether we would look at a Diluent recovery unit we look at lots of things and again it has to fit the criteria of the

opportunities and we haven't. Kind of made one of those work yet but we'll be keen to continue to look at a lot of things.

[00:50:27.300] – Lavonne Zdunich
We'll take Ben's question.

[00:50:31.210] - Ben Pham
Ben Pham BMO Capital Markets. This question is made for Dean. I mean think about projects in development whether it's AEF expansion new fracs. Could you quantify the total investment opportunity for us?

[00:50:47.370] - Dean Setoguchi
That's significant. What I want to make clear though Ben is that the current projects that we have sanctioned, including KAPS. Those will be completed by 2022. So the projects and opportunities that I just talked about in the last section of the presentation. The material amounts of spend would occur in 2022 and beyond. So we're looking at sort of a five year window beyond that, so they fit nicely in terms of where our capital commitments are. Where we'll have free cash flow. As I said we will not pursue anything that is beyond our financial capabilities.

[00:51:28.680]
And again where necessary we'll bring in partners. So you know what our net exposure will be to that capital. It's something I guess we don't know today but it's significant. The opportunities that you just saw require significant capital. The great thing is I believe we have more opportunities and we have cash which is maybe not a bad thing to. Not a bad position to be in.

[00:51:55.260] - Audience
Excuse me. ESG. Just curious. Not sure if you know but where do you stand relative to peers and you spent the last two years on. Disclosures and is there anything just where you stand as anything where there is some easy pickings where you can really move up the score and the metrics.

[00:52:13.670] – David Smith
You Nancy do you want to respond to kind of where we stand in terms of some of the ratings that are out there for ESG.

[00:52:20.120] - Nancy Brennan
Sure. So I think you well appreciate that sort of the criteria and the agencies are multiple and various and use different criteria and also the different peers report very differently so I don't know that it's necessarily an apples to apples comparison in all cases. What I will say is that we have done that analysis and that we do rate consistent or favorably to our peers by our own analysis. In respect of the various agencies I would say we rate generally consistent with our peers and in some cases we've been rated as an outperform. Sustainalytics and ISS in particular that we've received outperform ratings.

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[00:53:01.320]
And I think we'll all continue to get greater transparency into that as we get more consistency on the methodology about how everyone is reporting and the different agencies that we're reporting to. But we have reported to pretty much all the major agencies, in part for that purpose which is to get a bit better of a sense of how we're performing relative to our peers. But in respect of any low hanging fruit I don't think that we have identified anything that's of significant concern to us that we need to imminently address.

[00:53:32.190]
If that answers your question.

[00:53:33.630] - Audience
That's great thank you.

[00:53:35.180] – Lavonne Zdunich
I think if you pass ahead Linda has a question.

[00:53:38.570] – Linda Ezergailis
Sure. I'm just a follow on the bucket and scale of growth opportunities. Is it reasonable to assume that if you're able to invest at your 10 to 15 % return expectations your free cash flow that the cadence of growth continues apace with your historical growth rate or or do you see it tilting differently over time.

[00:54:02.140] – David Smith
That's a difficult question to answer Linda because it depends very much on the nature of the capital investments. A big part of the capital program that we have underway now has a little bit of a longer lead time associated with it in terms you know to get to the 10 to 15 % return expectations that we have. And so that that will ultimately determine when you start to see those that cash flow growth that will in turn generate more cash flow for reinvestment. It's a bit difficult to do to make a general statement about that. Steven you have a comment.

[00:54:37.360] - Steven Kroeker
I would agree with that.

[00:54:38.890] - Linda Ezergailis
And just as a follow on from a macro industry perspective there's the potential for change beyond DRU in the condensate industry. You know there's been some speculation that over time one or both of the condensate import lines into Western Canada could reverse over time. How are you thinking about those possibilities and how does that influence how you navigate your opportunity sent within condensate make it resilient in all possible future scenarios?

[00:55:06.190] – David Smith

I'll turn that one over to maybe Dean or Brian.

[00:55:09.900] - Brian Martin
Sure. So. Good good question. What I'd say is we certainly acknowledge and know that condensate is the biggest cost for oil sands producers. So I think we're aware of that and we actually work with the oil sands producers and we'd rather be working with them to solve some of those those issues and be in front of it as opposed to just sitting back and then having impacts on that. So we are engaged with them talking about those opportunities. With respect to the pipelines I think what's important to consider is is that there is a structural demand for condensate in Diluent in the province right now and it's big.

[00:55:52.810]
And so for the oil sands producers to lose sight or to lose use of an important line like Southern Lights is probably what you're alluding to and then where is that condensate going to come from I think has to be answered and solved. Again those producers who spent billions of dollars on their operations and so could it come from the field supplies and come from the Montney and Duverney and certainly that's been growing in terms of that supply but it has to grow more significantly before you can even I think that you can take Southern Lights or something like that out of service.

[00:56:27.760]
If it were to be taken and I can't comment on that yet Enbridge is in a better position to comment on that than us but if it were then I think we almost have a bit of a natural hedge in that be very good for KAPS business then likely bringing condensate in from the province because again that condensate has got to come from somewhere. And also our rail infrastructure then so bringing in imports of condensate into ADT or south Cheecham terminal would probably be very bullish for that business as well. So.

[00:57:00.780] – David Smith
I would I would add to that that you know we've heard lots of speculation about Southern Lights reversal. You know when we talk to Enbridge they emphasize that their customers will ultimately determine what they do with that and their customers are the oil sands producers who are the consumers of condensate. And as Brian mentioned they want diversity of supply for that condensate. So I personally think that. It's not something that's anywhere close to imminent. Having said that we've designed our system for condensate handling with as much flexibility and diversity in it that we can provide services to our customers regardless of where those barrels are coming from.

[00:57:42.970] – Dean Setoguchi
And also add that again the Oil sands producers want that light barrel which they get that from the US Gulf Coast. The second thing is to Dave's point is that I don't think they ever want to be caught short condensate in the market because if that happens it's going to trade at a huge premium which adds to their overall costs. So I think those are the two things that they probably consider.

[00:58:06.540] – Lavonne Zdunich

Go ahead Rob.

[00:58:07.300] - Rob Hope
All right Rob Hope Scotiabank. Hoping you can add a little bit of colour on the 2020 financing plan. So you have the DRIP on right now but 2020 looks to be another good marketing year and you're getting a normalizing of Capex into 2021. So how are you looking at the DRIP through 2020?

[00:58:24.790] – David Smith
Steve.

[00:58:25.400] - Steven Kroeker
Yeah. From our perspective we right now are continuing to envision that being on during 2020. Every spring we have a chance to look at what our marketing results will be for the upcoming year in terms of a contract in nature or at least a preliminary look at that. But again as I mentioned before we have $1.4 million dollars of capital still to be spent. And right now we think it's prudent to continue to keep that on. What I can assure you is that we continually look at the DRIP and the merits of keeping it on or off.

[00:58:59.320]
And and again as we go through 2020 as we go through 2021, as we go through the marketing year for that you're to we will continue to look at the merits of that but one of our chief priorities is to preserve our financial flexibility.

[00:59:13.220] - Audience
All right. And then you know part of that is predicated on the $180 to $220 million a base guidance for marketing. You know I understand that butane will move around and that's why you're using the kind of the NGL year to give your guidance. But what about octane? You know how much volatility have you seen there over the last 12 months. And it seems that it's structurally stepping up. And so just wanna get a sense of what variables are included in this one?

[00:59:36.490] – Steven Kroeker
Maybe I'll talk the first part on the with the base marking range and maybe Jamie can talk a little bit about the perceived volatility on iso-octane. We tried to give some guidance back in the spring on just some anchor points around that base guidance. So we used a marker of $55-$65 US WTI as a sense of what kind of context we also refer to more butane costs more in line with 2018 in terms of more normalized percentage of WTI and then just sort of industry norms for RBOB premium over WTI.

[01:00:14.260]
So you know 2018 was sort of a standard year which we thought represented some, you know, some good basis for a multiple year view as to when you say base. When we say base what does that mean in my mind that implies sort of a multiple year kind of thing you can rely on. What I would reiterate though is

that because it's our marketing business and it's over four or five different products and there are variables within each of those products. There are multiple ways to get to that $180 to $220 million base.

[01:00:43.720]
And as you saw earlier in Jamie's presentation about some of the things we're working on you know in Galena Park and some additional aspects of Wildhorse that just continues to give strength to that underlying base of $180 to $220 million.

[01:00:59.680] - Unknown
So you are going to speak.

[01:01:00.710] - Jamie Urquhart
I just, I would agree that you know iso octane has shown some volatility from our perspective on the good side in 2019 and I think there are some strong fundamentals as we discussed earlier around why that is. And we've certainly seen an opportunity to sell product to customers that historically we haven't sold that product to and they've been very happy with the performance of that product. So, you know, the other thing though I think on this is the nature of gasoline pricing and RBOB as well and how that ties into distillates because we're seeing a bunch of refineries now change their process to serve more of a marine new marine spec that's coming out at IMO 2020 there's a lot of dynamics going on in North America right now with respect to the gasoline complex and then ultimately the octanes on side of it which are all in my mind tailwinds towards you know. Having a very positive view with respect to the value of iso-octane coming out of AEF.

[01:02:11.330] – Tyler Rearson
It's Tyler Rearson from Peters. Just question on KAPS. When would the I guess the question is more just on the timing to upsize that project when would that decision have to be made to take it all the way to move ethane plus.

[01:02:26.440] – David Smith
Dean. Or Bryan do you want to Deal with that?

[01:02:29.110] – Brian Martin
So the alternatives for ethane plus what we hear from our customers again I emphasize that we try to listen to our customer and when we listen to the petchem operators and that are existing or wanting to do business in Alberta what they need is certainty that we can provide a C2 plus service and then certainty as well of what the content of ethane would be in the stream and so as we have those discussions with the producers the options are it could be it could be batching one of the existing two KAPS pipelines.

[01:03:05.550]
It could be just shifting from a C3 plus to a C2 plus. And then handling the whole co-mingled stream or it could be adding a third line. Quite frankly to KAPS. And so we will be we will be looking at that over the

next little while and seeing how that unfolds. But again. We have to be able to provide certainty of C2 plus and have certainty of what the ethane content is in that stream.

[01:03:31.860] – Dean Setoguchi
So we'll have to finalize the scope relatively soon that pipe will be spec'd for C2 plus service. So we can flip it if we want to. And the question of whether we upsize or not again we'll have to make that call fairly soon if we want to have another larger diameter line in the future we might have to put another one into the ditch and that'll be a great expansion opportunity.

[01:03:53.850] – Tyler Rearson
Maybe just the second part to that question just on one of the maps you showed KAPS extending to the Pipestone plant I think somewhere else you talked about going to the Alberta over to B.C. border. What is the ultimate plan for KAPS to to extend further right into Northeast B.C..?

[01:04:10.700] – David Smith
Brian?

[01:04:11.200] - Brian Martin
Yeah. So the first days that we kind of sanction on it is from Fort Saskatchewan to Pipestone. Ultimately again we see a lot of liquids coming from B.C.. And we would like to extend our reach into B.C. and that's part of the collaborative effort that we're working with North River on to have KAPS would be likely extended out to the border around Gordondale that general vicinity and then the North River could gather liquids and deliver into KAPS at Gordondale. Part of the reasoning for that is just looking at the regulatory environment and trying to keep it as an Alberta regulated pipeline at this point.

[01:04:52.740] – Lavonne Zdunich
Go ahead.

[01:04:54.320] – Pat Kenney
I think everyone should have to wear their cap while...

[01:05:02.470] - Unknown
So David now that you've called the bottom for Canadian energy, are you also calling the bottom for your South region G&P contributions or do you see a little bit more downside risk as you execute on some of these optimizations maybe you can just you know walk us through some of the consolidation plans which plants might be accepting more volumes? Rimbey? Brazeau?

[01:05:26.320] - David Smith
Well I mean let me first say that we're not at this point ready to talk any further specifics being mentioned that we have suspended operations at Gilby. And the volume from Gilby most of the volumes from Gilby are now moving through Rimbey and that's actually worked out well for us and for our customers. The

advantage we have in the network as Dean alluded to earlier is the network that we have. We have the ability to accommodate volumes without having to spend a lot of capital and increase the utilization of the facilities as we rationalize and optimize. But we owe it to our employees and to our customers to communicate our specific plans to them first. So as we make these decisions that's what we'll do and then we'll be in a position to talk about it more specifically.

[01:06:17.260]
In terms of calling the bottom Pat, I mean as Dean mentioned earlier the geology in this area is still very robust. It is liquids-rich gas. It's not as liquids rich as what you see in the Montney up around Grande Prairie. It's not as rich in condensate but it's nevertheless the economics are still are still healthy at a reasonable natural gas price.

[01:06:40.890]
And reasonable liquids prices. One of the challenges in that area is a lot of the producers have been living within cash flow and their cash flows really haven't been sufficient to do much drilling. But we see that you know as things evolve we see that changing and we still think it's the right place to be long term. Dean I don't if you want to add to that thought.

[01:07:04.130] – Pat Kenney
And then speaking of balancing out bottoms. So Jamie maybe you can comment on what caused the recent rally in the butane market. And also maybe just a little bit more colour on how you see butane pricing shaping up in 2020.

[01:07:17.360] - Jamie Urquhart
Yeah for sure and I'll have to be very careful here.

[01:07:20.830]
Because we're contracting now while certainly with respect to the most recent rally on butane I think it's a function of a couple of things. One that we you know we have some players in the market that were frankly net short for our purchasing net requirements and that was throughout the contract year which, just amongst us, who had us scratching our heads 'cause how much lower can it go than when it was this spring. But there are some very meaningful players that did not purchase all their requirements and also butane is a very seasonal product.

[01:08:00.190]
So you would traditionally see that the winter time having prices rally you've seen recently the spot price come off. As well you know probably about 10 % off in WTI. And we expect that you know as we contract into 2020 we're going to have to look at it from a from an annual view. And so and I think I need to stop talking right there.

[01:08:29.690] – Dean Setoguchi

I would say though if you look back at last year Pat I mean we had an unprecedented situation with butane where. You know we had. Both refiners are down for extended period of times for their maintenance outages and usually that doesn't happen the same year. We had an outage at our AEF facility as well. And so what happened was that a lot of the butane supply went into storage and then. Basically, all the butane storage in the province were full. And so that's what really cratered the butane prices last year coming into 2020. Into this year, you know, we've consumed a lot more of it in the province but a lot of it's been exported off the west coast and we're exporting it through our Hull facility in the US as well to clear it out of this market.

[01:09:13.930]
And now we're more of a balanced stage of where inventory levels are. And obviously all the facilities are up and running so that's all positive in terms of those balances. We're still oversupplied butane in our province. So that means that it likely has to trade at a discount to the major markets like like Belvieu because it's got to pay for that transportation price to clear. So you know when you add all that together you know we're going to have stronger prices and what we saw in 2020 or 2018 going to 2020.

[01:09:46.030]
But there's still trades likely at a discount to the major indices.

[01:09:50.560] – Jaime Urquhart
Yeah I think just to supplement that is just that we're oversupplied in Western Canada and we're also significantly oversupplied in North America. So when when we saw the opportunity back in well when a lot of people saw the opportunity to export barrels down into the Gulf Coast and you know the price was much stronger then than it is now. And so if we look at it from a holistic perspective you know we fully don't expect that butane in the short term is going to be back to a level that we would have seen a couple of years ago but to Dean's point certainly there's no expectations that we would see a similar phenomena as we saw this past year as well. So.

[01:10:39.880] – Lavonne Zdunich
...

[01:10:40.060] – Pat Kenney
Just real quick Steven. The $500 to $600 million of self-funded Capex going forward. Would you have a target DCF per share, growth range off of that. And also if you were to flex that up instead of using the DRIP. Could you just potentially tap into the hybrid market?

[01:11:02.540] - Steven Kroeker
No, as you can appreciate we've had lots of internal discussions as to what to share at the at Investor Day. And at the end the day we're not prepared to do that. We we want to rely on our track record you know even during the last five or six years the tough times still delivering 9% CAGR on cash flow per

share and 9 % on dividends. We thought we'd let the track record stand for itself. So it's a fair question. I did bring my notepad so I can't remember your second question.

[01:11:30.860] - Unknown
Hybrids.

[01:11:31.570] - Steven Kroeker
Hybrids Yeah. No there's as we went out on the market back in June and even back then we said there was $300 or $400 million of capacity left in that hybrid preferred share basket.

[01:11:45.700]
That we could still tap into. And and that kind of projection that we showed on that slide did incorporate a steady use of hybrids as equity increased over time. Again the context of that slide, the second last slide in that finance section was the the overall goal to still have a reasonable leverage ratio through time as to what we were sort of looking at as we sort of geared towards what kind of ranges could be out there. Again I would say you know pretty conservative assumptions on timing of growth projects and how long it takes to bring a project on. As well as investment multiples we just wanted to make sure that we had a pretty confident range we could put out there. To look at the funding ability.

[01:12:31.720] – Lavonne Zdunich
We’ll let Ian ask a question then I'll go to Robert.

[01:12:34.460] – Ian Gillies
Ian Gillies First Energy. Just curious with respect to the gas processing optimization would that carry relatively similar paybacks of 10 to 15 % return on capital to other parts of your business. Or should we be thinking about that differently as you perhaps put that capital to work to go about that.

[01:12:52.640] – Dean Setoguchi
That we'd certainly expect the returns to be fairly robust.

[01:12:56.740]
And again the costs that we incur the redundant constantly incur with having so many facilities that are not very well utilized or half utilized that cost is significant. So you know as David mentioned most of our facilities are pipeline interconnected. So the amount of capital that we need to invest, to capture that cost optimization isn't significant. So we believe the return on those initiatives would be very strong.

[01:13:28.950] – Ian Gillies
That's helpful. And with respect to a potential expansion I know it's early days but is it twinning? Or is it something large or is it something smaller are you able to provide any additional details there?

[01:13:41.950] - Unknown

No we have a team working at it and we've looked at a lot of different alternatives so we haven't landed on one definitive one to say that would be optimum. But I do want to make sure it's clear though that we need to have the right contractual backing for us to move forward on a project like that.

[01:13:58.720] – Ian Gillies
And if I could just maybe ask one quick follow up to that point. Does that mean you'd be giving up the upside on the marketing by going through that contract going through that sort of contracting style?

[01:14:10.350] - Unknown
Yeah potentially on an expansion. I mean that's not to say that we wouldn't leave some marketing exposure on the existing capacity that we have today. But again we're trying to manage the financial parameters that Steven has laid out for us and make sure that we achieve that result going forward. So again part of that's a contractual structure.

[01:14:30.600] – Jamie Urquhart
Yeah I think I'd add too just that you know. We understand the markets very well. So wouldn't want people to go away thinking that the fee-for-service would be the only value that Keyera would be able to garner if we were to pursue an expansion at AEF.

[01:14:48.850] – Steven Kroeker
At the end of the day what you trading off is the multiple that someone's attaching to an iso octane today value chain versus the multiple that the market puts on on a solid fee for service with solid counterparty on the other side. And that's the tradeoff that we would have to continue to evaluate and it's just one aspect of the whole overall evaluation.

[01:15:14.830] - Robert
First starting on the gathering and processing side of your business. You talked about it being a high degree of competition with others and you'd selectively approach new growth. So we think about the types of things you've done in the past you've been more recently building a long term contracted facilities but going further back you'd been a consolidator of pet. plants here or there. What should we be expecting from you kind of with more selective growth profile?

[01:15:44.440] – David Smith
Well I'll maybe take a shot at that first and invite Dean to share his thoughts Robert. I think Dean's comment about the competitiveness is relative to our liquids infrastructure. Keyera still has some very strong competitive advantages in gathering and processing. It's just that the nature of the environment that we're in, If you're talking about a relatively simple sweet gas plant the barriers to entry aren't what they are in the liquids side of our business. And so we see producers still building their own facilities particularly in areas where the gas is sweet and doesn't have the complexities.

[01:16:26.230]

That's why we chose specifically to focus on the area of the Montney around Grande Prairie where the where the gas has significant amount of H2S as well as water and condensate. So the complexities associated with building the infrastructure to handle gas like that are considerable and the footprint that we've created means that we do have competitive advantages relative to other alternatives in the area. I think, you know, we've had a concerted effort to invest capital in that area to create that footprint.

[01:17:02.780]
And we're very happy with the contractual arrangements that we have and with the execution that we've seen. I think as we look forward over the next three or four years we're probably going to be investing less there and more on the liquids infrastructure side and that's just a natural result of the fact that that's where we've been focused. So it's it's not as though we're saying that that's not a strategic area for us long term. It's just that in the next few years it's not likely to be where we're going to be investing the bulk of our capital.

[01:17:31.320] - Robert
Is that just based on what you see as the opportunities or is that a concerted decision to allocate capital more towards the liquids infrastructure side of the business?

[01:17:40.690] - Unknown
I would say it's probably both you would probably see more opportunities as we've laid out here on the liquids infrastructure side. And so it's a conscious kind of rebalancing of the capital investment. Based on on what we've been up to in the last three or four years.

[01:17:54.720] - Robert
I just finished the question on the US side of things you talked about kind of building out what you've got on your plate right now and proving in many ways proving the investment thesis just with the Wildhorse timing is it fair to say that it's not likely or you're not targeting any material acquisitions in the US for the next two to three years?

[01:18:17.200] - Unknown
Well I think Jamie mentioned in his remarks that our approach right now is going to be over the course of the next year or two is to see what these assets can do for us and make sure that we can execute and generate the kinds of returns that we expect. And so, never say never but I wouldn't expect that you'd see anything further from us on the US side in the near-term.

[01:18:42.160]
Having said that we're always looking at acquisition opportunities and if they fit the criteria that we've talked about it's certainly something that would be on the table.

[01:18:52.030] - Robert
Thank you.

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[01:18:53.050] – Dean Setoguchi
Robert. I'll just add to that. I see it as sort of a walk before we run strategy really demonstrate success with what we have. We built a very strong team down south and Brad Slesser is standing in the back room and he runs that group. And so you know when I look at that group now it reminds me a lot of Keyera back when it first started in 2008 when we were a lot smaller. And now they're pursuing a lot of small high return projects. And so where we have footprints already they'll just keep on connecting on to that and generate high returns that would be my expectation.

[01:19:28.570]
And over the next couple of years I expect that they're going to deliver very strong results from that business. And then from there we can decide what what we want to do.

[01:19:42.050] – Dean Highmoor
Hi there, it's Dean Highmoor from Mackenzie. Had a question relating to your Southern Gathering and Processing assets what would be the typical like reclamation and abandonment costs for a gas facility?

[01:19:57.640] – David Smith
I think that's a question that we can turn over to Brad Lock, our Chief Operating Officer

[01:20:00.190] - Bradley Lock
Well certainly it varies facility by facility the more complex facility is the longer they've been existence typically the longer the reclamation. The one we're digging into right away is Nevis. So our Nevis facility we shut down here in September of this year and are just starting to put together a reclamation plan. The nice thing about those reclamation plans is they tend to be longer in scale. So Nevis is probably going to be a five year plan of taking it from where it's at today through to its deconstruction and environmental liability and then a monitoring program to follow on to that until we actually get back to a totally reclaimed site. So in any individual year the cost to manage that is not significant but spread over time you can get on to a larger facility to the $30-$40 million dollar range for some of those facilities if you spread it out over a long period of time. I think one of the strategies though as we look through the west central optimization. The gas that's being produced out of that area we still want to continue to funnel into Keyera assets. So while the individual gas plant may not be running a lot of the infrastructure will feed into that facility we'll still continue to run, be it compressor stations be it dehydration be it pipeline connectivity or terminals.

[01:21:20.560]
So consequently as that facility continues to run there's no obligation to immediately reclaim it down to a state of of ultimate reclamation. So that allows us the flexibility to if we don't see a need for that facility in the future. As Dean mentioned, our goal is to try to preserve as much of that capacity as we can if we don't see a need for that then we can slowly chip away at the reclamation at a pace that we see valuable and kind of weave that out over the next five 10, 15, 20 years.

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[01:21:53.500] – David Smith
One one thing I would mention in that context is that the estimated cost associated with the deconstruction and reclamation of every one of our sites is fully provided for in the asset retirement obligation on the balance sheet. So at this point we certainly haven't seen any evidence that we haven't got the appropriate amount already provided for on the balance sheet.

[01:22:17.620] - Audience
Thank you. And then I guess just a question for I guess Brian on the condensate outlook you had a slide that showed the supply and demand for condensate to 2040, I think at 2035. You have the condensate supply starting to roll over. So what were the key factors driving that?

[01:22:36.200] - Brian Martin
Again I think we see growth in the market for sure here over the near term and that's just happens to be some of the third party data that we got. But I think if we get some of the export pipelines that we see the oil sands will grow. The. biggest value with the oil sands is that the reserves are certain. They're long lasting and it's not like you're drilling in the Permian where you're chasing a bunch of declines. The oil sands have a very steady production curve to it.

[01:23:07.340]
And so I think we believe and I think the industry would would believe that if there's export options still oil sands will continue to grow and with that Diluent demands will grow.

[01:23:18.810] - Audience
I totally agree with you on the demand side to say I think the condensate supply that you had in there from the WCSB is starting to decline in 2035. So I'm kind of more interested in that Delta.

[01:23:30.920] – Dean Setoguchi
Well it's a long term view.

[01:23:34.220] – David Smith
It's good when we put those slides together we took third party projections. So you know I think once once you get up to 2035 you know that it is a pretty inexact science in terms of figuring out are we going to see. Continued development of the liquids rich condensate rich gas in those areas of the basin or is that is the development going to go in a different direction. So I think it was it was probably just a typical conservatism when estimating the production outlook.

[01:24:13.660] – Elias Foscolos
Elias Foscolos from Industrial Alliance. Dean you presented opportunities within four hydrocarbon molecules, ethane, propane, butane and condensate (I call that a molecule?). And you ordered them in terms of sort of their complexity. If you had to reorder those slides in terms of financial impact and

likelihood of projects coming online should we think of them a little differently like in reverse order. I thought I would just try to throw that question out.

[01:24:47.380] – Dean Setoguchi
That's a complex question.

[01:24:49.380] – Elias Foscolos
Well I didn't make it easy.

[01:24:52.560] - Dean Setoguchi
I think all the opportunities are significant and all of the opportunities enhance our base business as you can see. I mean. With ethane and propane and butane. As we create more higher demand markets or access higher demand markets for those products. It leads to more extraction opportunities through our entire value chain and fractionation storage and de-ethanization, all those things. So every one of them can be very impactful, you know when we look at condensate yes that's a very valuable commodity and again that heavy density is an issue.

[01:25:30.570]
And so you know we have to marry that with the complexity of the solution and being able to get it contractually underpinned and everything else so every one of them has its own complexities to it. But I think any one of them could be very impactful to our business. And I should say on the condensate solution I mean we're talking a condensate splitter so it's known technology. It's not like we have serial number one on a new technology or some like that. So you know we'll evaluate all these opportunities.

[01:26:00.810] – David Smith
Elias I'll try and answer your question maybe from a slightly different angle. When I look at it from a strategic point of view the areas where we have the strongest competitive advantages would be condensate and butane. And so I think that translates into probably somewhat stronger return expectations from the investments in those value chains. I don't disagree with Dean. I think there's opportunities in every one of those commodities but I think our focus would be on maintaining the lead that we already have with condensate and butane.

[01:26:38.040] – Lavonne Zdunich
I have no further questions online. So I think at this point we will conclude our Investor Day. Thank you to everyone who took the time to join us. And if your schedule allows, please join us for lunch outside in the lobby. And that's a wrap.