

# **Keyera Corp. (KEYUF) Q1 2024 Earnings Call Transcript**

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**Body**

Keyera Corp. (KEYUF)

Q1 2024 Earnings Conference Call

May 14, 2024 10:00 AM ET

Company Participants

Calvin Locke - Manager-Investor Relations

Dean Setoguchi - President & CEO

Eileen Marikar - SVP & CFO

Jamie Urquhart - SVP & Chief Commercial Officer

Jarrod Beztilny - SVP, Operations & Engineering

Conference Call Participants

Jessica Hoyle - Scotiabank

Robert Kwan - RBC Capital Markets

Robert Catellier - CIBC World Markets

Ben Pham - BMO Nesbitt Burns Inc.

Cole Pereira - Stifel FirstEnergy

Linda Ezergailis - TD Securities

Presentation

Operator

Good morning. My name is Sylvie, and I will be your conference operator today. At this time, I would like to welcome everyone to Keyera's 2024 First Quarter Conference Call. [Operator Instructions] Thank you.

And I would like to turn the call over to Calvin Locke, Manager of Investor Relations. You may begin.

Calvin Locke

Thank you, and good morning. Joining me today will be Dean Setoguchi, President and CEO; Eileen Marikar, Senior Vice President and CFO; Jamie Urquhart, Senior Vice President and Chief Commercial Officer; and Jarrod Beztilny, Senior Vice President Operations and Engineering. We will begin with some prepared remarks from Dean and Eileen, after which we will open the call to questions.

I would like to remind listeners that some of the comments and answers that we will give you today relate to future events. These forward-looking statements are given as of today's date and reflect events or outcomes that management currently expects. In addition, we will refer to some non-GAAP financial measures. For additional information on non-GAAP measures and forward-looking statements, please refer to Keyera's public filings available on SEDAR and on our website.

With that, I'll turn the call over to Dean.

Dean Setoguchi

Thanks, Calvin, and good morning, everyone. We carried the positive momentum from last year to 2024, leveraging the strategic advantages of our integrated value chain to drive solid performance across all three business segments. We continue to see the growth and high-quality fee for service cash flows and remain on track to reach the upper end of our 6% to 7% EBITDA growth target out to 2025.

Our Liquids Infrastructure segment delivered a 5th consecutive quarterly record for realized margin, reaching $137 million. Driving this performance was the continued ramp up of long-term contracted volumes on KAPS, and growing demand for our fractionation, storage and condensate businesses.

Our Gathering and Processing segment delivered second highest quarter ever with $104 million in realized margin. This includes the first full quarter of contributions from the Pipestone gas plant expansion. This segment has undergone a significant transformation. In 2017, over 70% of our G&P realized margin came from our South Region gas plant.

Today, more than 70% comes from our three North Region gas plants. Over this time period, our G&P realized margin has grown by more than 40%. Producer economics in the north are driven by higher condensate [ph] content, making them less sensitive to natural gas pricing. Our north region also has longer contract durations, with strong counterparties and the high degree of take or pay. The growth we're delivering in our fee-for-service business segments is driving high-quality cash flows, which supports sustainable dividend growth.

Our Marketing segment continues to perform well generating $114 million in realized margin in the quarter. On a full year basis, we now expect marketing to deliver between $430 million and $470 million of realized margin. This includes the impact of a 6-week outage at AEF which is now complete. This significant increase is mostly due to the expected strength of our Iso-Octane business.

Our Marketing segment continues to provide Keyera with a distinct competitive advantage. Strong cash flows from this segment have enabled us to consistently deliver above average after tax corporate returns. These cash flows are then reinvested into long life infrastructure projects, in turn driving growth and high-quality fee-for-service cash flows.

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We expect to generate significant free cash flow in 2024 as we continue to benefit from investments made in prior years. Our capital allocation priorities have not changed. I remain grounded in a long history of disciplined financial management. Our balance sheet is strong, allowing us to further create value through increasing returns to shareholders and investing in capital efficient growth opportunities. These opportunities will leverage and enhance our existing core asset position in Western Canada. They include a Frac II debottleneck, a new factory expansion, and a KAPS Zone for expansion. To move ahead, these projects will need to generate a strong return supported by long-term contracts.

I'll now turn it over to Eileen, to provide an overview of our financial performance for the quarter and touch on a revised guidance for 2024.

Eileen Marikar

Thanks, Dean. Adjusted EBITDA for the quarter was $314 million, compared to $292 million for the same period last year. This results includes another record contribution from our liquids infrastructure segment, and continued strong performance from our gathering and processing and marketing segments. Distributable cash flow was $205 million or $0.90 per share, compared to $227 million, or $0.99 per share for the same period in 2023.

Net earnings were $71 million compared to $138 million for the same period last year. The decrease was due to an unrealized noncash loss on risk management contracts, higher financing costs and depreciation expense. Keyera continues to maintain a strong financial position exiting the quarter with net debt to adjusted EBITDA at 2.2x, below our targeted range of 2.5x to 3x. This positions us well to sell fund organic growth opportunities that will further strengthen our business and continue to drive shareholder value.

Moving on to our guidance for 2024. As Dean mentioned, we now expect our Marketing segment to contribute between $430 million and $470 million of realized margin in 2024. This is up from our previous base annual guidance of $310 million to $350 million. This increase reflects the continued strength of our iso-octane business.

Due to the increase in expected marketing contributions, cash taxes are now expected to range between $85 million and $95 million. This is up from $45 million to $55 million previously. Growth capital for 2024 remains unchanged at $80 million to $100 million. A reminder, that this includes $20 million to $40 million of capital that is contingent on sanctioning of KAPS Zone 4 and advancing opportunities at KFS. Maintenance capital remains unchanged at $90 million to $110 million.

I'll now turn it back to Dean.

Dean Setoguchi

Thanks, Eileen. The long-term outlook for volume growth in the basin remain strong. This growth will be supported by key developments, including TMX expansion, LNG Canada, a growing petrochemical industry, and increasing NGL exports. With strategically placed assets, Keyera remains well-positioned to help enable this growth.

On behalf of Keyera's Board of Directors and management team, I want to thank our employees, customers, shareholders, indigenous rights holders and other stakeholders for the continued support.

With that, I'll turn it back to the operator for Q&A.

Question-and-Answer Session

Operator

[Operator Instructions] Your first question will be from Robert Hope at Scotiabank. Please go ahead.

Jessica Hoyle

Good morning. Thanks very much. This is Jess Hoyle on behalf of Rob Hope. So thanks for taking my question. To start just conceptually, how do you think about what to do with outperformance on marketing cash flows? Can they be attributed to share buybacks? Or are you thinking about it in terms of pre-funding some future unsecured growth?

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Dean Setoguchi

Good morning and your voice sounds much better than Rob's. I was kidding. Listen, that's a great question. And what we've always said is that our marketing performance and margins that we generate there is a competitive strength of our company. And really it's like a free equity offering. So we have this excess cash flow that we are able to reinvest other back in our business to create more value, more efficient service for our customers. But also a long-term cash flow stream that's usually backed by take or pays and fee-for-service cash flows, which helps drive future dividend growth. But we also have the option to buy back shares if we so -- choose to do so. So having that optionality with strong marketing margins is a great advantage for us. Eileen or Jamie, do you want to add?

Jamie Urquhart

No, other than -- I think we're well aware -- we can add shareholder value by reinvesting in the business and through buybacks. They do remain an option as Dean mentioned and we certainly understand the compelling value proposition. They can be activated very easily at any time and at this point, as Dean mentioned, we believe we have opportunities that can deliver even better value for shareholders.

Jessica Hoyle

Great. Thanks for that. And then just looking at some of your future growth opportunities, can you get an update in terms of where you stand on, let's say, Zone 4, or Frac expansion in terms of contracting discussions and timing, things like that?

Dean Setoguchi

Yes, well -- listen, that's also a great question. And I'll turn that over to Jamie in just a minute. But what I'd say is that we see tremendous growth in our base and [indiscernible] to the end of the decade, I think it's tremendously exciting that, again, TMX is in service. And also we'll see [indiscernible] and LNG Canada come in service in the next 12 months or so. So, that's going to unlock a lot of growth in the basin. And with that growth, we have a lot of critical base and infrastructure that helps to enable the growth. So that creates a lot of opportunities for us in terms of investment opportunities, and I'd say that KAPS Zone 4 and Frac expansions are part of those opportunities. So, let's turn over to Jamie and add to that as well.

Jamie Urquhart

Yes. So from a Zone 4 perspective, just remind everybody the BC Montney is home to a large scale world class resource that has decades of run room, in that resource. So, the conversations that we're having all along the KAPS fairway, but also [indiscernible] and ultimately into the sea, where we'd be looking for a North rivers project to ultimately, potentially deliver some volumes into KAPS. Those conversations are gaining momentum, and we're extremely optimistic with respect to our ability to be able to get sufficient volumes to sanction that project sometime in 2024.

Now, having said that, and we'll always reinforce this is that we have to have sufficient backstopping from our customers in order to proceed with those projects. It's not a philosophy of ours to build it, and they will come. So, once again, very constructive, meaningful conversations happening along Zone 4 and into northeast BC.

From a Frac perspective, I would characteristic is, extremely constructive conversations. I think everybody is aware that Frac capacity is very tight right now. And as we've mentioned, in the past, we've got a couple of ways to be able to enable growth in our Keyera Fort Saskatchewan facility. So the first being the debottleneck of Frac II. This allows us to leverage our existing equipment in a very capital efficient way. So, as we're positioning ourselves, for that project, we look probably to be able to order long lead items towards the back end of this year with a target in service date of 2026 for that project.

Then on Frac III, this would be a new build on our existing KFS lands, we're advancing feed, as we previously communicated, and given recent discussions with customers, we are gaining more and more confidence that we'll be moving ahead with that project as well. So it's important that it's not an either or, if we have the right level of support, we'll be proceeding with both those projects. But to reinforce, we need the appropriate customer underpinning in order to do so.

Jessica Hoyle

Thanks very much.

Operator

Thank you. Next question will be from Robert Kwan at RBC. Please go ahead.

Robert Kwan

Great. Good morning. If I can just start with your approach to new investments just off the back of some of those comments on specific projects. So you talked about long-term contracts, you talked about wanting strong returns, and I think on prior calls, you said you want to be at the upper end, or even above the high-end of that 10% to 15% pre-tax range. So if you can just confirm that, but also just how are you thinking about managing the capital cost side? Because that's obviously the other component of returns? How do you manage that going forward? What would you do differently than what you did on KAPS?

Dean Setoguchi

Well, good morning, Robert and lots of good questions there. First of all, with our integrated system now, with KAPS, we see opportunities to invest in growth projects all across our value chain. And again that's to accommodate a lot of growth that we see happening in the basin, supported by sort of the global macro views, but also with discussions with the customer. So I think it's exciting times for our company as we look forward.

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And so, any new infrastructure projects, we want to make sure that we have sufficient backing from a contractual perspective to support a strong return. And on a standalone basis, we do view that as the higher end of that 10% to 15% return on capital range. And knowing that we're going to have an opportunity to bundle our services together to generate a much higher return at an enterprise level. So that's the value of our integrated platform. It's providing a very efficient value added service to our customers. And at the same time, when we create more value doing providing those services, it creates value for our shareholders as well.

In terms of managing the capital cost side of it, certainly contractually we're -- we always like to try to build in provisions to try to mitigate our exposure on that front. But that will depend on the type of asset and what we're looking at. But I know that Jarrod and his group, they're also doing a lot of work and making sure that we have a high-level of confidence in anything that we go to execute.

And with that, let me just turn over to Jarrod to add to that comment.

Jarrod Beztilny

Yes, I think what I would add, I mean, KAPS in particular was a great learning experience for us. And when we think about capital management, it's that whole lifecycle of a project from development, through execution and all the way to commissioning and startup and it's really regardless of the project. It's about identification and characterization of risk, and really doing the appropriate work at the front end to understand what those risks are, and be able to mitigate that throughout that execution cycle.

Robert Kwan

Okay, great. Thanks for that. If I can also just ask some of the upside, you've focused a little bit of the earlier comments on gas and gas liquids, but just with Trans Mountain expansion coming and your condensate system and an expectation that volumes are going to grow to the end of the decade to fill all of the pipes. What's the latent capacity in your existing system? And then are there any bottlenecks where you would foresee needing to allocate capital as oil production grows?

Dean Setoguchi

Yes, sure. I will turn that over to Jamie in just a minute. But Robert, we're extremely excited about both export pipelines to the West Coast. And obviously, TMX is a big part of that. And we have a lot of services that we provide to the oil sands and we do have really the market hub for Diluent [ph] and Edmonton with our pipeline system and all the receipt points to receive condensate and also deliver to the oil sands. We have a working interest in the [indiscernible] pipeline, which has more capacity that we can continue to work with Enbridge to fill that. We have storage services that we provide on a long-term basis and that's been a great business. We have 50% ownership in the baseline tank terminal. So that is very well connected to all the tankage and the connections that go into TMX.

So there's a lot of services that we provide the oil sands that we think are going to benefit from more growth in oil, largely from the oil sands. But also keep in mind that, that growth in oil sands bitumen production is going to drive more condensate demand, which also supports our G&P [ph] business and all the developments that we see along the fairway where we have three gas plants in our northern G&P system. So they're all linked together. And we think that's going to be a huge tailwind for our business going forward. But, Jamie, anything else you want to?

Jamie Urquhart

Yes, I guess the only thing I'd add, Dean, and it's a great question, Robert, is that as Dean alluded to, is that we -- our current state system has all the major supply and demand pipelines flowing into and out of it. And it's a very dynamic system. So depending on where that supply is coming from, and where that demand is being pulled off of our system, what will be really imperative to deciding if we do need to debottleneck our system. Now, having said that, we've done a ton of work where we don't envision that there's going to be significant capital required to manage the growth that's been publicly stated most recently around growth within the oil sands and ultimately the condensate demand that goes along with it.

Robert Kwan

Is there any way to quantify to say for every incremental 100,000 barrels a day of oil sands production, what that might mean to you in terms of millions of dollars of margin?

Dean Setoguchi

Yes, I think that would be tough for us to quantify, I guess at this point.

Robert Kwan

Okay. Thank you very much.

Dean Setoguchi

[Indiscernible] tailwind for us. Yes, thank you.

Robert Kwan

Okay. Thanks.

Operator

Thank you. Next question will be from Robert Catellier at CIBC. Please go ahead.

Robert Catellier

Okay, good morning. Thanks for the updates. I'm just wondering with the two frac units KFS fully utilized. What's the biggest factor for a frac expansion? What are the biggest push backs from the customers in reaching those contracts need before FID?

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Dean Setoguchi

Hey, good morning, Rob. And yes, good question. The fracs, I mean, as Jamie said, frac capacity in Alberta and especially in the hub and Fort Saskatchewan its super, super tight right now. And again, when you just look at the volume outlook of growth in our basin, there's just going to be more demand for all the liquids that get extracted from the natural gas that's going to be produced. So, producers are seeing that this is a bottleneck. And so this is why we're having meaningful discussions in terms of contracting up for more capacity to help back the investments in the debottleneck and also in the frac III that Jamie talked about. But, Jamie, anything else you want to add?

Jamie Urquhart

Yes, I would just add, Rob, that it's not pushback from our customers. It's really around mostly just marrying timing, right. Like, I mean, the acquisition that we did from planes for the 21% that we did back in late '22, was really instrumental to be enable to really offer our customers some frac capacity in the near-term that then bridge them to a longer term deal. But also as we think about people's growth in the basin, how do we marry the timing that they're going to need that frac capacity with when we're going to be able to provide that. But it's really not pushback with respect to a need for the service. It's just really marrying the timing.

Dean Setoguchi

Yes. Maybe just adding one more thing, Rob is the great thing too with KAPS is that we're bundling a lot of our services together. So it's not just frac that we're talking to our customers about, it's KAPS in a lot of cases. It's also the G&P marketing services as well. So, again, it's a great opportunity for us as we see the basin growth.

Robert Catellier

Okay, that's helpful. You had some very robust marketing guidance this morning. And the MD&A mentions are more stringent fuel standards, supporting demand. Is that new from last year that the fuel stringency standards?

Dean Setoguchi

Yes, you know what, the one great thing about us is that we have a really great product with our iso-octane. But, Jamie, let's turn over to you to answer that.

Jamie Urquhart

Yes, Robert, this has been sort of evolving over time. And we're starting to see more and more states down the U.S sort of evolve, and ultimately adopt these type of standards. So, what I can share is that every year, our market share in these, what we call advantage markets continues to grow. And it's because people are introduced to our product. And as Dean says, once you get introduced to our product, we've never not had a return or repeat customer.

Dean Setoguchi

We only joke around say we should deliver one rail car of it to every refineries action taken by rail, and there'll be a return customer for life because the product is that good.

Robert Catellier

Okay. Maybe a couple of quick ones for Eileen. What do you think the best option is for your significant free cash flow generation right now, given the strong balance sheet, relative lack of near-term maturities, but also potentially some growth projects ahead of you?

Eileen Marikar

Thanks, Robert. Yes, excellent question. We are certainly in a great position when it comes to the balance sheet, enviable position, I'd say. So certainly no need to allocate cash on the debt side. Dividend growth, that's another thing that's obviously very important to us. We're proud of that long history. And we want to ensure that we grow sustainably and so that's always tied in underpinned by at the growth in our fee-for-service cash flow. And as I said earlier, it's really been adding shareholder value either through growth and/or through buybacks. I think, as I said, earlier, buybacks are an option. They can be easily activated when we feel that it's appropriate. It's just that right now, we see some really strong opportunities that can deliver even better shareholder value.

Robert Catellier

Okay. And then that last one for me, understanding that the increase in the marketing guidance attract some fair amount of cash taxes. Do you see any -- I won't call them easy, but any near-term opportunities to improve the conversion of EBITDA to FFO?

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Eileen Marikar

Yes. On the tax side, I mean, last year we brought on KAPS and we acquired the additional working interest in [indiscernible] that added significant tax bills, right. We delivered record earnings last year and we are set to deliver another strong marketing year this year. So we have significantly accelerated the use of tax pool. So I think this is a good problem to have or it's we're making a lot of money. It's just important to think managing taxes go-forward, it's just another reason why reinvesting in the business in strategic high return project is important.

Robert Catellier

Right. Okay. Thank you.

Operator

Thank you. Next question will be from Ben Pham at BMO. Please go ahead.

Ben Pham

Hi, good morning. Thanks for the update. Maybe on your marketing guidance you've a 2024 numbers own. And I guess if you -- just for the audit, it's a high $400 million business this year. Can you talk about then I'm just looking at some of your reading your assumptions, again for your base marketing guidance. And it looks like some of those trends, they're in your base yet you're benefiting modestly from that. Can you talk a lot of scenario next year, not specifically guidance. So what outcomes are factors that actually get marketing down to that low $300 million range?

Dean Setoguchi

Good morning, Ben. Thanks for your question. Yes, I -- maybe I will just turn that over to Jamie and he can speak more to our marketing business.

Jamie Urquhart

Yes, Ben. So I think if I understand your question properly, is what outcomes -- negative outcomes could have us be down to our base long-term guidance and just a reminder of what assumptions are driven around that base long-term guidance. And that's obviously having our facilities run at or near capacity, being able to source butane at/or around historic averages, and some assumptions around WTI, in particular. So, those are things that obviously -- if commodity prices change materially that that's obviously going to have an impact on our business. Now remind you that we hedge, we have a very disciplined hedge program within our organization. And when we did see the significant commodity price shocks back during COVID, we still have very, very strong results. And so, I just think as we look at our base guidance, it's something that we put out based on a very high-level of confidence that we're going to meet long-term. In the next while, certainly we've got a lot of positive things that are developing in our business. But beyond that, I think that's about as much color as I can provide.

Dean Setoguchi

Yes, Ben, maybe I just add two points to reinforce. One is, the outlook for iso-octane business remains very strong and closer to all the points that Jamie spoke to earlier. It's a very high quality product, and the three main qualities of it that make it valuable, it's high octane, 100 octane, as low sulfur as low [indiscernible]. A lot of the competing products for iso-octane may have one or two of those qualities, but not all three of them. That's what creates a lot of demand for what we have. So the outlook for that remain strong. I'd say, second of all, is that our marketing business is really a logistics business. And because of all the connect -- connections and connectivity that we have are logistics expertise and our marketing expertise. We're able to connect products to the highest value markets and make a margin doing that. So the more barrel as our system grows, and the more barrels that we touch, it helps us enable that strong marketing result as well.

Ben Pham

Yes, thanks for that. And maybe just to continue on a little bit and unpack some of the base guidance you have. Yes, butane costs to long-term average, but it looks like you've -- you only slightly benefiting from that this year from disclosures. And then WTI at $65 to $75. WTI is a little bit above that. So is it [indiscernible] I guess I'm trying to get, I mean, as there must be really something else that's really driving there's such a huge uplift in marketing. Is it the premiums, in iso-octane that is different from the base? Is it condensate, propane exports? I mean, it's just such a premium difference in the base.

Dean Setoguchi

Yes, I mean, you're absolutely right. The octane premiums are very strong. So that's not something that is published, like [indiscernible] and not tradable. So it's more negotiated. But if you go to the gas pumps, and you see the difference between 89 to a 91 octane spec, you can just look at the how much extra you have to pay for each point of octane, which is pretty high right now. So that's a good indicator of where our premiums are and they are very high. Certainly at the top end of what we've seen over the last 5 to 7 years. So that's been a big boost. But again, as the volumes in the basin grows, we're a supply base basin, and those barrels have to clear somewhere. So because of our system and our logistics capabilities, we're able to capitalize on that service of finding markets for those NGLs. So that's also been a big driver as well.

Ben Pham

Okay, got it. And maybe can you update us on your hydrogen opportunity with the federal government recently confirming commitment, or strategy there and support. Maybe talk about progress as of late how do you plan to fund maybe potentially larger project? And do you think it's going to be more of a demand driven market or more of an export market?

Dean Setoguchi

Well, we see a pretty big opportunity for the potential for [indiscernible] is ammonia. And there are several industrial players in the industrial heartland that are sort of advancing some projects. I would say that still relatively early days on that, but there seems to be demand in Asia, especially in Japan because they do want to lower their emissions footprint with some of their coal production. So some of the things that we're looking at is a rail -- a unit train rail terminal, and we're working on that with CN Rail. We do have a very large tract of undeveloped land 1,300 acres of land that's industrial zoned, and very, very well connected from a pipeline perspective, very close to a tie in to do carbon sequestration. So a carbon delivery line. So we're trying to work with industrial players in the area plus also work with potential companies to develop on our own lens opportunities, like ammonia or other products. But I'd still say it's still very early stages, and a lot of it is going to be driven by government policy.

Ben Pham

Okay, got it. Thank you.

Dean Setoguchi

Thank you.

Operator

Next question will be from Cole Pereira at Stifel. Please go ahead.

Cole Pereira

Hi. Good morning, all. As we think about the 2024 CapEx plan, you gave some good color on cap -- capital priorities. Realize some of your growth CapEx is contingent on FID in these projects. But could that get flexed higher depending on when? And if you fit those projects? Or is it pretty locked in for this year, regardless of timing?

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Dean Setoguchi

Yes, Eileen, do you want to speak to that?

Eileen Marikar

Yes, I would say that, assuming we can get those other projects that we talked about Zone 4, our Frac II debottleneck, et cetera, that is built into that 80 million to 100 million, and I feel pretty good that it wouldn't go higher than that for 2024.

Dean Setoguchi

While the capital associated with those projects would be in future years, like 2025 and 2026. So, if we continue to advance that's already factored into the numbers is [indiscernible].

Cole Pereira

Okay, great. That's good color. Thanks. And then thinking about some of the volume headwinds in the south region, should we essentially just think about those recovering in line with natural gas prices?

Dean Setoguchi

Yes, that's a very good point. And I think people sometimes get fixated too much on the spot price of natural gas at this second. When you look at the broader fundamentals, and what's happening with [indiscernible] coming in service, more intra-Alberta demand, call the gas switching and more capacity into the U.S. We think that this is a temporary situation. The demand for LNG continues to grow globally. So we certainly believe once we get past the next couple of quarters that we're going to see better days for natural gas, but maybe just specifically on what we see an activity, I can turn that over to Jim.

Jamie Urquhart

Yes, so Cole, it's a great question and good observation is that, we have seen some shut ins in the south, in particular, Dean's identified, the North is driven around condensate. And so we've seen nothing, but growth and people putting money into the drill bit. But there's some really exciting stuff going on in our South assets as well. And I'm sure everybody's seen a couple of recent announcements, which are very exciting around the Duvernay in the south, behind our Rimbey gas plant. And just -- it's maybe not as -- from a granularity perspective, but those Duvernay plays are very high in ethane and natural gas liquids.

And to remind everybody, our Rimbey gas plant has a de-ethanizer and a pipeline connection to [indiscernible] and we have a deep cut at that facility. So as we see the evolution of that play, we look at Rimbey and it's just naturally suited to be the landing spot for that, the associated gas with that play. But that play is driven off of liquids. It's a light oil or heavy condensate play, that similarly to the North will be driven off of WTI pricing. And we look to as we're talking to those producers, we'll be looking to put some term, and some take or pay provisions on those contracts, obviously. As we look at Rimbey being and the frac at Rimbey being really a high -- highly demand driven sort of offering.

And then around Strachan we're seeing a lot of development in the deep basin as well. And those plays are very high liquids rich as well and remind you that we have a deep gut at the Strachan gas plant as well. So I look at the cells having a very meaningful role to play in NGL growth within our organization, and ultimately the connectivity that we have up to either the Rimbey frac, which is a 20,000 barrel day frac, which is fall, or then seen some gas getting -- or NGLS getting ultimately forced up through our Rimbey pipeline and up to KFS.

Dean Setoguchi

And maybe just add to the Jamie's comments, at Rimbey, in particular, we have a lot of unutilized capacity. So that's a 400 million a day facility, Turbo expander facility. And right now, it's only running at about half the capacity. So we think this is a tremendous opportunity for us.

Cole Pereira

Okay, perfect. That's great color. Thanks. I'll turn it back.

Dean Setoguchi

Thank you.

Operator

[Operator Instructions] Next is Linda Ezergailis at TD Cowen. Please go ahead.

Linda Ezergailis

Thank you. Recognizing that cash tax planning is complicated at the best of times, I'm wondering if you could help us understand kind of the rate at which you might be able to draw down your 3.3 billion of tax pools, and also how potentially additional acquisitions might contribute to bolstering your cash tax outlook.

Dean Setoguchi

Yes. Great question, Linda. And I'll turn that over to Eileen in just a minute. But as she said earlier, I mean, this is a product of having very strong results. When we generate a lot of money, fortunately we have to pay more taxes over time. But I do want to just say maybe a comment on M&A is that, we do see that there is potential opportunities out there, but we'll be very disciplined and it'll be driven by it's got to be on strategy. It has to be within our financial framework in terms of managing our balance sheet. And it's got to be value created to our shareholders. So they know you know this already, but we'd never do anything just for taxes, but that could be an added benefit. I guess we're able to find something that fits within that criteria. But Eileen, I turn it over to you.

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Eileen Marikar

Sure. Excellent question, Linda. I wish there were a magic bullet for the taxes. But as Dean said, whenever -- we do have pools, but it depends on the type of pool. So things like pipelines, they have much lower CCA deduction rates, especially like a condensate pipeline. Things like G&P facilities, or frac, those have very, very good tax tools, they're more at the 25% rate. So those are the types of things that can certainly help to manage the taxes going forward. And to Dean's point, I just want to reiterate, again, whatever we do project or acquisition needs to be strategic, and then fit within our financial framework.

Linda Ezergailis

Okay. Maybe -- thank you. Maybe this is a follow-up question for Dean. Now that you own significant strategic pipe KAPS, can you comment on your interest in further integrating value chain by potentially looking at buying pipes in the future optimistically, whether it be an interest in trans mountain or something else, and also kind of what might prompt consideration of significant, another Greenfield build of whatever product type?

Dean Setoguchi

Thanks for the questions, Linda. What I think that, first of all, what our goal is, is we want to provide the best value added service for our customer. So, when we see opportunities, we're always trying to make our system better, so we can offer that -- the most competitive service and that's going to create opportunities now that we have integrated systems. So I can see us potentially building more gas plants in the future, and could be Greenfield, or could be expansions of our existing sites that we have. Certainly, in the frac and the frac side of it, or more -- when we add more storage, we'll have to likely build that. I'm not sure that there'd be a lot of opportunities to buy anything there. But -- so that'll be more of a brownfield type expansion.

We also like trying to expand our system on the downstream side to access end markets. So if there is a requirement to maybe build a pipeline to the oil sands for solvent or things like that, we would be certainly interest in it. Big projects like a TMX, I mean, that doesn't really have a lot of synergies with our existing business. So that wouldn't have a lot of appeal to us. So to sum it all up, it has to be really on strategy, it has to really make our system better. And our ability to have a better value proposition for our customers. And so, we're not specifically targeting pipes, but certainly there could be some opportunities where some pipes would make some sense with our system.

Linda Ezergailis

Thank you.

Dean Setoguchi

Thank you.

Operator

Thank you. And at this time, we have no other questions registered. Please proceed.

Calvin Locke

Thank you all once again, for joining us today. Please feel free to reach out to our Investor Relations team with any additional questions. Thank you.

Operator

Thank you, sir. Ladies and gentlemen, this does indeed conclude your conference call for today. Once again, thank you for attending, and at this time, we do ask that you please disconnect your lines.

**Load-Date:** May 14, 2024

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