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CORPORATE PARTICIPANTS

Mark Chyc-Cies *Veresen - IR*

Don Althoff *Veresen - President and CEO*

Theresa Jang *Veresen - SVP of Finance and CFO*

Darren Marine *Veresen - Senior VP of Business Joint Ventures*

Dave Fitzpatrick *Veresen - EVP*

CONFERENCE CALL PARTICIPANTS

David Noseworthy *Macquarie Research Equities - Analyst*

Rob Hope *Scotiabank - Analyst*

David Galison *Canaccord Genuity - Analyst*

Rob Catellier *CIBC World Markets - Analyst*

Robert Kwan *RBC Capital Markets - Analyst*

George Wang *Citigroup - Analyst*

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Veresen fourth-quarter and full-year 2016 conference call. Please be advised that this call is being recorded.

I would like to turn the call over to Mark Chyc-Cies, Director of Corporate Planning and Investor Relations. Please go ahead.

Mark Chyc-Cies - *Veresen - IR*

Good morning, and thank you for joining us on this conference call discussing our fourth-quarter and full-year 2016 operational and financial results. On this call this morning, joining us from off-site are, Don Althoff, President & Chief Executive Officer; Theresa Jang, Senior Vice President, Finance & Chief Financial Officer. With me here in Calgary are, Darren Marine, Senior Vice President, Business Joint Ventures; and Dave Fitzgerald, President & Chief Executive Officer, Veresen Midstream.

On this call, we will provide a discussion referencing a webcast presentation, which is also available on our website at vereseninc.com, before moving on to Q&A. Some comments made on the call today and certain statements contained in the presentation are forward-looking in nature. Forward-looking information is subject to risk and uncertainty, and consequently, actual results may differ materially from what is indicated.

We caution all participants not to place undue reliance on this forward-looking information. Also, certain financial information may not be standard measures under US GAAP and may not be comparable to similar measures presented by other entities. These are considered to be important measures used by the investment community and should be used to supplement other performance measures prepared within accordance with GAAP in the US.

For further information on non-GAAP measures, please refer to our most recent MD&A and financial report. Now, I would like to turn the call over to Don.

Don Althoff - *Veresen - President and CEO*

Thanks, Mark. And good morning, everyone. Thank you for joining us on the call today.

I am very pleased to say that 2016 was a strong year for us, both operationally and from a financial perspective. Entering the year, I know the markets were uncertain about what to expect from Alliance, given the implementation of a new service model and a new toll structure. With the great results Alliance delivered throughout the year and strong fundamental outlook for the pipe, I think the market has largely come to appreciate why it's a valuable asset for Veresen.

What may not be fully appreciated are the efficiencies Alliance owners have been able to drive. On the cost side, we reduced G&A and other expenses by nearly 20% on a year-over-year basis. On the operating side, Alliance delivered industry-leading reliability and availability, which is highly valued by shippers, especially when there are disruptions or outages on other egress options.

The performance of Alliance was a big part of our ability to deliver distributable cash that was 14% higher than our original guidance mid-point of CAD1.01 per share. This lowered our payout ratio in 2016 to approximately 87%. Importantly, our dividend in 2016 was fully covered by our take-or-pay businesses.

As a whole, our Business is in very good shape, and we expect the stable, consistent results we saw in 2016 to continue to underpin our dividend. While we delivered strong results from the Business, we also made significant progress on advancing our long-term growth strategy. Over the last year, we announced the sanction of CAD1.1 billion in capital projects net to Veresen and Veresen Midstream.

Today, our inventory of projects sanctioned and under construction within Veresen sits at CAD1.5 billion, which relative to our market cap, remains best in class. With the strength that we saw in our underlying business, we were also able to divest our power business to fully fund our growth and turn off the drip in order to ensure top-line growth is realized on a per-share basis. With the divestiture of proceeds exceeding our funding requirements for the current suite of capital projects, we are able to further decrease leverage and increase our financial flexibility to fund future opportunities as they arise.

In all, we think that selling the power assets at 13 times, and investing the proceeds in our core natural gas and natural gas liquids infrastructure business, at 8 times to 10 times or lower, is strong recycle of capital. And while 2016 was a break-out year for Veresen, I expect the momentum to continue. Near the end of 2017 we will place 600 million cubic feet a day of processing capacity into service, when we commission the Sunrise and Tower plants. In the middle of 2018, we will bring this number up to 1 billion cubic feet a day, when Saturn Phase II is operational.

At that point, we will have the capability of processing 1.5 billion cubic feet a day, which is about a quarter of the total gas production from the Montney, or approximately 10% for the total Canadian gas volumes. We remain confident that these new plants will reach full capacity. Some of the volumes that will come into our plants are already on stream and being processed by a third-party facility.

Once our plants are ready, these volumes will shift over. We are also confident that CRP's drilling plans, that are required to fill the plants, are moving ahead. While we have the opportunity to review CRP's development plans, public data also shows that the pace of drilling is going to pick up, with over 70 wells licensed in Q4 on land that will provide gas to our plants.

With our footprint in place, we continue to secure third-party volumes -- we plan to secure third-party volumes by the end of the year. Our economics on third-party contracts will be below our current investment multiples, as we will leverage existing infrastructure sanctioned by CRP, as well as our own proprietary capacity. One of the key advantages of our agreement with CRP is that we are able to install our own incremental capacity at reduced costs by piggybacking on projects sanctioned by CRP.

This significant opportunity that we see over the next several years at Veresen Midstream is the potential to sanction additional capital to support development by CRP, Encana, and third parties. For producers in the area to realize their growth targets over the next few years, there is a requirement for significant investment in additional pipelines, liquid handling, and gas processing.

For Veresen Midstream, we think this translates into the sanction of an average of CAD200 million to CAD400 million a year in new projects. And over several years, it could mean around CAD1 billion or more of additional investment.

In terms of funding that investment, the significant cash flows that will be generated from Veresen Midstream's three new gas plants will effectively self-fund the equity requirements for these future projects. The incremental proceeds from the power sale also provides dry powder, if we realize significant opportunities in the near term. We also expect to drive more value from Alliance, including the potential for additional cost savings.

On the recontracting front, we have begun proactive discussions with shippers to extend contracts. We are in the early stages, but successful extension of terms is something we would want before looking at optimizing the capital structure, or considered broaching conversations for potential long-haul capacity expansions. When we look at these opportunities, we don't want to increase the risk profile, nor do we want to overcapitalize the assets and drive down the return on capital.

Looking out further into the future, we continue to believe that Jordan Cove is a great long-term option. Following the disappointment of the FERC denial in December, we have begun working with FERC and the buyers as part of our reevaluation of the project. Having visited Washington twice in the last few weeks, and through our discussions with FERC, we feel that the attitude on Capitol Hill towards projects of this nature has shifted.

Jordan Cove is good for American jobs, it supports American exports, and it helps trade in balances with foreign buyers. These are considered to be top priorities for the current administration. So, we've begun the process of refiling for our FERC application. We were granted pre-filing status in early February, meaning we will be able to formally submit our application to FERC in the second half of the year.

One of the challenges we faced in our prior submission was the lack of commercial control over the Pacific Connector to enter into contracts we needed to demonstrate the economic need prior to the initial March 11 FERC decision. We now have full commercial control over both the terminal and the pipeline. In all, we believe Jordan Cove is in a position to receive a FERC permit within a reasonable time frame that will not impede the project.

That said, the focus in 2017 will continue to be on securing additional off-take agreements. These agreements further strengthen our submission to FERC. But more importantly, we will not build the project without effectively selling out the plan.

Since the denial, we have had some very encouraging conversations with our buyers. With the $30 million the Board has approved, we expect the Team will advance the agreements with existing buyers and additional off takers. I can assure you that the Board and Management carefully considered the Jordan Cove project before ultimately making our decision to continue.

We have seen a marked improvement in both the commercial and the regulatory environment surrounding this project. At the same time, we need the buyers to step up for us to continue to advance the projects. As I have said in the past, this is not something we will chase over the cliff, but this is a long-term option for Veresen.

In summary, 2016 was a very good year for us, yet we still have a lot of opportunity ahead. We are off to a running start in 2017, and our focus will be to keep the momentum going.

That means maintaining the strong and stable performance from the Business, delivering our existing growth projects on time and on budget, and continuing to execute on our growth strategy by sourcing incremental projects. I'll now turn the call over to Theresa to discuss our results in more detail.

Theresa Jang - *Veresen - SVP of Finance and CFO*

Thanks, Don. Overall, we delivered solid financial results for 2016. On an adjusted net income basis, we were in line with 2015.

Adjusted net income from the pipeline segment was CAD55 million higher than last year, predominantly as a result of Alliance's strong performance. Reduced firm revenues resulting from lower tolls under the new service model were more than offset by seasonal and IT revenues, materially reduced operating costs and a reduced depreciation rate. The increased adjusted earnings from the pipeline segment were largely offset by higher corporate costs, reflecting a CAD39 million increase in project development spending, and a CAD14 million increase in G&A, mainly due to the mark-to-market revaluation of our long-term incentive plan.

Distributable cash was CAD356 million or CAD1.15 per share, which was a notable increase from CAD310 million or CAD1.06 per share in 2015. The two primary drivers were the outputs of cash taxes in 2016, and the increased distributions from Alliance. The modest reduction in Alliance's of EBITDA was more than offset by the scheduled decrease in debt amortization and further augmented by Alliance's ability to release cash previously held in trust.

The increase in corporate costs was a result of higher G&A expense, again driven by the mark-to-market revaluation of our long-term incentive plan. Adjusted net income in the fourth quarter was CAD13 million, and it was slightly higher than the fourth quarter of 2015. As we saw with our full-year results, adjusted earnings for the quarter, relative to the final quarter of 2015, reflect a stronger contribution from Alliance, partially offset by higher corporate costs.

Aux Sable did start to see stronger frac margins towards the end of the year, which is a positive indicator of the overall health of the NGL market. That said, the higher frac margins did not translate into meaningful earnings for Aux Sable in Q4, due to the agreement with BP that allowed BP to recover the losses it realized in the first part of the year.

Fourth-quarter adjusted net income was lower than third quarter of this year, as a result of a number of factors. The main driver was the impact of Alliance's planned shutdown in October, undertaken to enable highway construction near Regina, Saskatchewan. While Alliance has compensated for the foregone revenue and costs incurred as a result of the planned shutdown, Alliance (inaudible) volumes, both before and after the shutdown, as producers ramps down then ramp up their production.

As well, Alliance's planned outage provided the opportunity for both Alliance and Aux Sable to perform major maintenance work. Consequently, both businesses incurred higher system maintenance costs in the fourth quarter.

Another factor driving the reduction in adjusted net income from Q3 to Q4 was the impact of our reclassifying our power earnings to discontinued operations in the fourth quarter. The earnings from that business segment are no longer included in adjusted net income. Further, G&A increased slightly from Q3 to Q4.

Distributable cash was also lower in the fourth quarter than in the third quarter of 2016, and the fourth quarter of 2015. Relative to the fourth quarter of last year, Aux Sable's EBITDA was higher this year, but distributable cash was CAD7 million lower, as a result of higher maintenance capital, as previously discussed. Corporate costs were higher in the fourth quarter of this year, due to the impact of the mark-to-market revaluation of our long-term incentive plan, and higher interest costs.

Distributable cash also benefited from the absence of cash income taxes. Relative to the third quarter, distributable cash from Alliance was lower, partly due to a CAD4 million decrease in the release of cash previously held in trust, but the larger driver was the impact of the planned shutdown, as previously discussed. The fourth-quarter mark-to-market of our long-term incentive plans and higher interest costs also contributed to the reductions in Q3.

Let me just touch on a couple of items that had an impact on our net income, as determined under US GAAP, which are not reflected in our distributable cash or our adjusted net income numbers. In the fourth quarter, we recorded a $37 million non-cash charge at Aux Sable, related to capital costs incurred several years ago to improve ethane extraction and to manage heat content. Development of that project had been placed on hold, and with the prolonged weak pricing environment for ethane, the project has been permanently suspended.

We also recognized CAD103 million non-cash reduction on our investments in Ruby. Although we recorded this accounting charge, our preferred distribution remains secure, and continues to hold significant long-term value. The first tranche of Ruby's contracts extend until mid-2021, and we expect that the $250 million note maturing at the end of the first quarter of 2017 will be replaced with new debt.

One of the other highlights of 2016 was our investment of CAD671 million into growth projects on a proportionate consolidation basis, which is the highest level of capital investment in the Company's history. At the end of 2016, total debt was CAD3.8 billion. However, pro forma, the CAD1.8 billion in proceeds from the power disposals, total debt would have been approximately CAD2.6 billion.

Trailing 12-month EBITDA, pro forma the power sale reduction of CAD92 million would have been CAD577 million, implying a debt to EBITDA of 4.6 times. This is important to remember, that at the end of 2016, we had over CAD800 million or approximately 1.4 times pro forma EBITDA of work-in-progress capital. We expect that once we have all of our currently sanctioned projects online, we will be able to achieve our leverage target of 4 times to 4.5 times EBITDA.

Turning to 2017, Alliance continues to focus on offering high rates of availability when other systems out of Western Canada are experiencing service disruptions due to maintenance-run planned outages. Alliance has successfully sold season firm strips for 2017, which will push its 2017 distributable cash into the upper half of our guidance range for that business. Frac margins have continued to strengthen in the first part of the year.

It is possible for us to (inaudible) distributable cash around, or potentially above, the high end of the current guidance range we have provided for that business. That said, I would caution that frac spreads are highly volatile, and pricing in the first quarter can be somewhat seasonal. If we do realize additional distributable cash in Aux Sable, it will be used to reduce our debt and provide future funding flexibility, given that our dividend remains underpinned by take-or-pay or fixed-structure contracts.

So, while we have had a strong start to the year, we remain comfortable with the range of guidance we published in early December. With that, I'll turn it back to Mark.

Mark Chyc-Cies - *Veresen - IR*

Thanks, Theresa. This concludes Management's formal remarks. I will now turn the call back over to the operator, and we'll take any questions we have at this time.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Our first question comes from the line of David Noseworthy from Macquarie. Your line is open. David, if your phone is on mute, please unmute it.

David Noseworthy - *Macquarie Research Equities - Analyst*

Perhaps I could just start off on Alliance, with regards to the cost savings that you realized in 2016, and I realize they are quite substantial, going forward, what sort of savings are you expecting [to commence] into 2017?

Don Althoff - *Veresen - President and CEO*

Well, we're going to continue to look at -- sorry. We are going to look at ways that we can leverage the owners support and functions to continue to drive down savings. I think it's a work in progress, and I don't want to really put out targets into the market on it.

But I just think there is more opportunity. It's the first year in operation, and we are really learning a lot and getting better at it. So, I think it's probably around the functional support.

David Noseworthy - *Macquarie Research Equities - Analyst*

Okay. Fair enough.

And then staying on Alliance, is the expectation, with respect to recontracting, is that producers will extend their contracts maturely prior to expiry on the existing contracts? Or is this just those shippers that have signed one to three-year contracts that are now looking at what kind of (inaudible) going forward?

Don Althoff - *Veresen - President and CEO*

I am going to ask Darren to jump in on that one. Darren.

Darren Marine - *Veresen - Senior VP of Business Joint Ventures*

Thanks, Don. Yes. David, there has been a significant amount of very positive dialogue with the shippers on the recontracting to date.

And so, we'll focus for sure on the producers that have, the shippers that have contracts that come up for the three-year term. So, they'll have to give notice in late October of 2017 for November 2018 volumes, so we're going to focus on those guys first.

We have had a little bit of a mixed bag, in terms of some producers are very adamant and looking for even a little bit of an early indication that they would extend past a few years in tenor, and some that as much as another four or five years. I think it just depends on the producer and the situation. All signs are very positive with respect to renewal or recontracting.

David Noseworthy - *Macquarie Research Equities - Analyst*

So, I guess we will have a better idea come late October 2017 as to how that's shaping up?

Darren Marine - *Veresen - Senior VP of Business Joint Ventures*

Yes. Yes. (Inaudible), we're going to have a much better idea, certainly for the three-year shippers that are coming off, what their indications will be, and probably for a good number of others, as well.

David Noseworthy - *Macquarie Research Equities - Analyst*

In deciding to pursue Jordan Cove, is the strategy to continue to develop through the FID to maximize the value to Veresen, or are you going to look to defray some of those development costs by selling at equity insurances before FID?

Don Althoff - *Veresen - President and CEO*

I think that we are going to look at what's best for the shareholder. We will think through the ability to de-risk the project. The key elements of de-risking would be buyers, number one.

But I think that the option of bringing in somebody early, I think is, you know, is probably more attractive today than it has been in the past. So, we will look at the potential of bringing somebody in early, prior to FID, I think as a de-risking component.

But the way I think about it, David, is at the end of the day, it's a development project, and our goal is to de-risk it and create value for our shareholders. Those two pieces we will be making some tradeoffs around.

David Noseworthy - *Macquarie Research Equities - Analyst*

Thank you very much.

Operator

Our next question comes from the line of Rob Hope from Scotiabank. Your line is open.

Rob Hope - *Scotiabank - Analyst*

Good morning. Just want to keep on the Alliance theme. I hoping you could walk us through the expansion opportunities, the size and scope of potential capital requirements of, I would imagine, some upstream [de-bottlenecking], and then maybe longer term some compression upgrades?

Don Althoff - *Veresen - President and CEO*

Well, let me start and then I'll have Darren add a little bit of color to it. You know, I think the way that we're looking at it is, one, is we would be looking for producers to underpin the contracts. So, we want take-or-pays if we're going to invest our capital in it.

And I think when we look at the market, there is a priority. The priority is, let's extend the existing contracts, then let's look at some, I'm going to call, lower cost de-bottlenecking type options, and then let's look at some expansion opportunities for the long haul. That is how we're thinking about it, Rob.

Darren spoke a little bit about the recontracting effort, and that looks like it is going to go very well. We will learn a lot about it.

But I think our early focus is on some de-bottlenecking projects that help in our gather system. So, Darren, any additional color you'd add?

Darren Marine - *Veresen - Senior VP of Business Joint Ventures*

Yes. Thanks, Don. Rob, we've looked and continue to look at whole host and range of opportunities, but as Don mentioned, we're more focused on some of these smaller de-bottlenecking and the gathering system type opportunities, so, it's difficult with any certainty, as we're in the very early stages with a couple of opportunities to give hard guidance around volumes.

But probably in the ballpark of CAD50 million to CAD100 million in [mcf] a day kind of volumes, not huge volumes. But there is also some other interesting bigger opportunities that are possibly in the mix, and there is lots of moving pieces.

As Don mentioned, we're certainly going to be looking very hard to have the appropriate take-or-pay return in risk underpinning any expansion. Our first priority, of course, is getting the existing agreements recontracted for a comfortable tenor, going forward.

Rob Hope - *Scotiabank - Analyst*

All right. That's helpful.

Maybe just one follow-up regarding your comments on overcapitalization and the appropriate capital structure at Alliance. With a debt to EBITDA around 2.4 times, how do you think of the amortization of that debt, and where do you think this pipeline should -- what capital structure should this pipeline have?

Theresa Jang - *Veresen - SVP of Finance and CFO*

Well, I think, Rob, we certainly feel good about Alliance continuing to delever at the rate that it is today, and it's really central to the flexibilities that we want to have as we go into recontracting. And as things start to firm up on that front, it will give us an opportunity to address on a longer-term basis how we see the overall capital structure for that pipe. It's a little early right now, but we like what we're seeing, and we think it does for us some opportunity.

Rob Hope - *Scotiabank - Analyst*

Thank you.

Operator

Thank you. Our next question comes from the line of David Galison from Canaccord Genuity. Your line is open.

David Galison - *Canaccord Genuity - Analyst*

Good morning, everyone.

Theresa Jang - *Veresen - SVP of Finance and CFO*

Good morning.

David Galison - *Canaccord Genuity - Analyst*

Just on Veresen Midstream, with the potential capital spend over the next several years that you indicated, I'm just wondering how we should think about the types of assets. I know you had mentioned that the mix of pipe, of liquids handling and gas processing. Is there a certain weighting to each one, is it going to be more one or the other, or how are you thinking about that?

Don Althoff - *Veresen - President and CEO*

Well, I think, Dave's closest to it. I will let Dave Fitzpatrick jump in on that.

Dave Fitzpatrick - *Veresen - EVP*

Thanks. I am not prepared to give an actual split on those metrics at this time. Suffice it to say, driven by the economic strength of the Montney, particularly in this area, back in 2015 we added approximately CAD100 million. 2016, last year, CAD195 million.

And as you read our most recent release to Veresen Midstream, an incremental CAD95 million so far this year in 2017. All three numbers above and beyond, of course, the three gas plants that are under construction, and about eight months away from generating EBITDA. So, the best indicator of the future is probably that trend of increasing capital with bolt-on projects to service the infrastructure we have in that area.

And number two, I'll just add real quickly, I think those -- the concept of these bolt-ons, in fact, also meshes with public guidance issued by a number of the producers in our area. So, we feel quite comfortable with them.

David Galison - *Canaccord Genuity - Analyst*

And then what -- I guess can you give a little bit of color on what you think might need to happen for these projects to be sanctioned? At least the closer ones than the ones that are further out?

Dave Fitzpatrick - *Veresen - EVP*

Sanctioned? In a word, the public guidance, both from the number of the producers that work in this area would be the best barometer of what would be required. To be more factual about it, it truly is driven by the increased liquids-rich nature, NGL condensate particularly, liquids-rich nature of the Montney in this area.

David Galison - *Canaccord Genuity - Analyst*

Okay. And then just switching to Jordan Cove. With your resubmission, just wondering if there is anything within that submission that maybe some of the analysis is a bit dated that you may have a concern that would need to be updated, and could have an impact either additional cost or delays within the approval process?

Don Althoff - *Veresen - President and CEO*

No. I think what we've worked on pretty hard in 2016 was really understanding the design and how to optimize the design. One of the things you had noticed in the news release, and it's clearly designed and engineered in the submissions that we'll turn in to the FERC, is we did get rid of the power plant.

We were able to go direct drives and improve the efficiency and shrink the footprint. That will all be viewed as very positive by FERC, because they worry about your footprints, and they worry about your emissions, and those both actually went down.

So, it drove the cost of the plant down, but it also lowered the environmental footprint. So, I think we've -- we believe that we understand the permitting process well. We have had discussions at very senior levels with FERC and understand what's going to be required to get our certificate.

We are still sitting with a clean [FEIS]. So, no, we haven't seen anything in the design, and we are very far advanced on the engineering and design of the plant, and we have shared that with FERC, and everything seems to be on good footing, which is one of the reasons that we have decided to move forward. We have in a lot of detail reviewed with FERC what we plan to bring forward, and we are getting good support.

David Galison - *Canaccord Genuity - Analyst*

Okay. Thank you very much.

Operator

Thank you. And our next question comes from the line of Robert Catellier from CIBC World Markets. Your line is open.

Rob Catellier - *CIBC World Markets - Analyst*

It's Rob Catellier from CIBC. I just wanted to discuss the [line flow] a bit further, in terms of your strategy and timing of recontracting.

In particular, can you discuss your appetite for interruptible service in light of Alliance's success with that service, as well as that of other Canadian pipelines? And weigh that against the benefits of extending and the weighted average contract life you'd like to have.

Don Althoff - *Veresen - President and CEO*

Well, I'll talk a little bit, I guess, more strategically, Rob, and then let Darren jump into it. I think what -- the way we think about it is, extending the existing contract length for firm volume on the pipe is number-one priority, and Darren talked about it a bit, and we are seeing a great appetite for it. That does two things.

That lowers the risk profile on the pipe, because it extends the contract. It gives us the ability to look at the capital structure and make some prudent adjustments there, if appropriate.

So, that's the way that we look at it, and I think we're in the early days. So, it's hard to give you a good concrete number on what we think we are going to be able to do from extended.

As Darren had mentioned earlier, we are seeing some producers who are worried about egress out of the basin, and are willing to sign up for some pretty long extensions. And so, that will need to play itself out and we'll look at it.

I think high level from the IT, we just strategically, we set the volume on the pipe at a rate that we know that we can deliver day in and day out, and we sign up firm volume for that, and the rest then is we try to optimize through an IT basis. I think we have come up with some good and strong commercial elements around seasonal firm to actually monetize it and get more value for it.

So, I think we like our structure and the way that we've set up the amount of firm volume on the pipe and IT and seasonal firm, but we do continue to optimize it over time. Darren, anything you would add to that?

Darren Marine - *Veresen - Senior VP of Business Joint Ventures*

Yes, Don. Thanks. Rob, when we look at the very difficult egress situation in Western Canada, producers, first and foremost, want to make sure that they have a good solid, and, let's say, reliable way out of town, and so, Alliance does that for them, not only for natural gas, but also for natural gas liquids.

I think it's a little bit of a trade-off it you think about, yes, there is some IT revenues today, but giving producers certainty out of the basin, and giving Veresen and the owners of Alliance pipeline certainty on firm fee revenue going forward for a prolonged period of time, I think that would take the latter. I think it helps the market and helps stabilize our earnings.

Rob Catellier - *CIBC World Markets - Analyst*

Okay. That all makes sense. Of course, there is the little bit of tension between wanting [share price] to take term and price and everything else, but in broad terms, what length of terms do you really think you need in order to go through a meaningful expansion?

I'm not talking about the sort of 15 to 100 gathering system expansion, but actually on the main line itself. What kind of term is needed to underpin that type of expansion and keep it a competitive tool?

Don Althoff - *Veresen - President and CEO*

I think there is really two components to it. I think we've shared with the market that when Alliance was built, it was built with the ability to put in more compression, which could lend itself to a reasonably low cost long-haul expansion on the pipe. And that might be able to allow us to have tenor that's shorter than putting, like twinning the pipe, or twinning components of the pipe.

But I suspect that we're going to be needing five to ten years on compression to take the risk out of it, and to finance it in a way that isn't dilutive back to the returns that we're getting on the pipe. I think we are going to be looking for relatively long commitments from producers to do that.

Rob Catellier - *CIBC World Markets - Analyst*

Okay. I got just one more question. It may be a little bit academic here, but I'm curious as to the circumstances surrounding the write-down on Ruby.

First of all, given its convertible preferred interest, and second, the change in FX rates. So, maybe you can address the discount rate and the volume outlook that went into the write-down?

Theresa Jang - *Veresen - SVP of Finance and CFO*

Sure, Rob. So, I guess the first, I'll tackle the easy part first, and that is that FX really doesn't come in to the way we were required to do this calculation. We do it in the source currency and then translate it into whatever it turns out to be in Canadian dollars.

So, that's really not a factor. We will not disclose the pieces underlying our assumptions for the calculation. I'd say that the impairment charge really doesn't reflect our view of Ruby's recontracting prospects in 2021.

It doesn't reflect our confidence in the security of our preferred distributions. So, this is something that we have to do for accounting purposes, estimate Ruby's fair value, and we have to do that from the perspective of the current market fundamentals, which are not as strong as they were when we purchased the pipe.

That's really sort of the underlying reasons for the outcome we have. The accounting approach is pretty deterministic and that's what we arrived at.

In spite of taking this charge, we are optimistic, we remain optimistic about Ruby's prospects when the contracts come up for renewal in four and a half years. Until then, we feel really good about the strength of their firm contracts, the strength of their investment-grade counterparties, which is more than sufficient to cover our preferred distributions.

Rob Catellier - *CIBC World Markets - Analyst*

So then, Theresa, really what's happened here, you're using a basically a common equity approach of (inaudible) preferred, a convertible preferred interest, and that's just the way the accounting rules are? Is that what is happening here?

Theresa Jang - *Veresen - SVP of Finance and CFO*

Yes. As a reformed accountant, I hate to say it's the accounting rules that drives you to an answer that may or may not in the long run kind of when we look back on this make sense, but it is an application of the rules, and it's a conservative approach that you are required to take.

Rob Catellier - *CIBC World Markets - Analyst*

Okay. Thank you.

Operator

Thank you. And our next question comes from the line of Robert Kwan from RBC Capital Markets. Your line is open.

Robert Kwan - *RBC Capital Markets - Analyst*

Good morning. Since we just finished on Ruby, I guess I'll start there. If I can just ask about the impairment charge.

I am not an accountant, as you know, so, correct me if I am wrong. Under US GAAP, isn't an impairment charge an undiscounted [cash flows in impairment] is actually pretty difficult?

Theresa Jang - *Veresen - SVP of Finance and CFO*

No. The accounting rules are specific to whatever it is that you're calculating the impairment on. So, what you just described applies to actual PP&E.

So, if we owned the pipeline directly, you'd first take an undiscounted approach. Then if that gets you to a value of less than book value, then you do a DCF. Because we own a preferred interest, you go straight to a DCF calculation, and so the rules apply a little differently.

Robert Kwan - *RBC Capital Markets - Analyst*

Understood. So, I guess if you were -- so if it was a DCF, then would the impairment not then just be a function of, can you actually pay the preferred, or that the discount rate changed? Are there any other major variables there, then?

Theresa Jang - *Veresen - SVP of Finance and CFO*

No, I think those are the -- you know, when you think about can the preferred be paid, it goes to assumptions around volume and pricing.

As I said earlier, it is sort of from where we stand today, and based on what the market looks like at this point as your base starting point. And so, that's really the key factor and that's what's changed.

Robert Kwan - *RBC Capital Markets - Analyst*

Okay. So, it's the cash flow deck supporting the dividend. Not the discount rate changing to the 7% that it was tested at?

Theresa Jang - *Veresen - SVP of Finance and CFO*

Yes. That's right.

Robert Kwan - *RBC Capital Markets - Analyst*

Okay. The other thing just on the preferred investment, the option language, conversion language that's there, what's the language when the initial contracts expire, with respect to recontracting enforced conversion to common equity?

Theresa Jang - *Veresen - SVP of Finance and CFO*

There is no change in the option when the contracts roll off. What would force us to convert from our preferred to a common interest would be if we were able to contract materially more volumes on the pipe at current rates, and so, that's kind of why the contracting is the gateway to that conversation. But that is the only way that we would be forced to convert.

Robert Kwan - *RBC Capital Markets - Analyst*

Okay. And does it have to be a similar level of contracting at similar price, or is there a different provision when the initial contracts expire?

Theresa Jang - *Veresen - SVP of Finance and CFO*

No, it's a pretty material volume, and it has to be at the rate that it's at today.

Robert Kwan - *RBC Capital Markets - Analyst*

Okay.

Theresa Jang - *Veresen - SVP of Finance and CFO*

And for a similar term. So, the bar is pretty high. What we've said before is, if we get there, we want to convert anyways.

Robert Kwan - *RBC Capital Markets - Analyst*

Understood. Just for Aux Sable, if this wasn't Q4, are you able to quantify what the margin base lease revenues earned would have been during the quarter, recognizing that they've been trued up and back to BP, because it was Q4?

Theresa Jang - *Veresen - SVP of Finance and CFO*

No. BP gets pretty sensitive when we sort of delve into the details of the arrangement. I think it's fair to say, given the year, they didn't recover all of their losses, but it has trended in a direction that was more positive, and then we start again in 2017.

Robert Kwan - *RBC Capital Markets - Analyst*

Got it. If I can just finish then with your thoughts on dividend philosophy, as it relates to growing the dividend from current levels.

Directionally, I guess coverage ratios across the space seem to be trending up or payout ratios down, so, if you think about potentially being in that 80%-ish range after you have built out what you have got in front of the Midstream, or 1.25 times cover, the [full] on the skinny side, as well. You have got a positive story around the self-funding model. How do you think about what you want do with the dividend?

Don Althoff - *Veresen - President and CEO*

For me, the first and most fundamental piece is what do we -- is to get a payout ratio that gives us a balance sheet and the financial flexibility to take advantage of growth opportunities as they come down the road. So, we've guided the market to say that we'd like to be in the [80%s], even actually probably the high [70%s], before we start to think about raising the dividend. The second component in there will be if we can use the free cash flow to invest in opportunities that are sub-8 times investment multiples, we will continue to do that.

I think it will be an element of what is the portfolio of projects that we've got going forward. But I think we understand that our shareholders like growth and dividend, and that is our goal, is to, once we get that payout ratio down, we start self-funding the projects.

We do want to look at beginning to raise the dividend prudently. So, when we look at the investment horizon, that's not going to occur in 2017, or really, I don't think 2018, but I think 2019's a time where we can start to really have a serious conversation about that.

Robert Kwan - *RBC Capital Markets - Analyst*

So, if I can recharacterize. First thing, obviously, you'd want your account ratio kind of in that 80%s, probably high 70%s. Second, priority on capital allocation is free cash flow to invest if you are finding the projects in that sub-8 times, and then you start to look at dividend increases?

Don Althoff - *Veresen - President and CEO*

Correct.

Robert Kwan - *RBC Capital Markets - Analyst*

[Probably] conceptually as you are right now?

Don Althoff - *Veresen - President and CEO*

Yes.

Robert Kwan - *RBC Capital Markets - Analyst*

Thank you.

Operator

Thank you. And our next question comes from the line of Sean [Holloway] from (inaudible). Your line is open.

Unidentified Participant - - *Analyst*

Sorry. This is Matt [Barnett] from (inaudible). I noticed recently you were in Washington, and you as part of the business leaders meeting with Donald Trump.

Don Althoff - *Veresen - President and CEO*

Yes.

Unidentified Participant - *- Analyst*

Can you give some feedback on that meeting, and whether you were able to talk about your [inc. co] specifically, or was it more broader than that?

Don Althoff - *Veresen - President and CEO*

Well, I think a number of CEOs were invited to Washington to talk about infrastructure development and growth, and the conversations were about opportunities that where the administration could help out. Where we could give some guidance to the administration on how do we get more things built and more jobs created.

And so, it was a terrific meeting. I was really honored to be invited. And Jordan Cove is an interesting infrastructure project that tends to meet a lot of the administration's objectives.

And so, we did have a chance to share a bit about the project and where it was at. I think that was a positive thing for the project.

Unidentified Participant - *- Analyst*

Great. Thank you.

Operator

Thank you. And our next question comes from the line of George Wang from Citigroup. Your line is open.

George Wang - *Citigroup - Analyst*

Hey, guys. Good morning.

Don Althoff - *Veresen - President and CEO*

Good morning.

George Wang - *Citigroup - Analyst*

Just focus on Jordan Cove project. Just want to get some color on, as you talked to potential off-takers, how is the tone changing based on current demand and supply?

And also what's the timing for additional 25% capacity? Do you think it's going to be the next few months, or give us more color on that?

Don Althoff - *Veresen - President and CEO*

Sure. Well, the tone is getting a lot better. I think the market was viewed to be way oversupplied in 2016.

I think people were pleasantly surprised that all of the production was economically consumed. We did see pretty low prices in the summer, but we actually saw LNG prices in Asia in the CAD9 to CAD10 range this winter. So, I think one of the -- it takes a long time to build these projects, and I think that the market wanted to see some progress on both getting the current capacity consumed and start to get a sense about where the growth is and the timing for when that growth would come back.

So, we're seeing a much stronger demand side conversations and pulls. We are having conversations with a number of producers. These are big projects.

They ultimately sign up for many billion dollar contracts. I don't think it's prudent to guide on when we think we will get the next one signed up. I think it's a lot better today than it was a year ago, and we are in serious conversations, but they are big and complex conversations.

To guide it with too much accuracy is, I don't think is all that helpful for the markets. But tone is a lot better.

George Wang - *Citigroup - Analyst*

Thanks. And also in terms of new sort of technology and design, (inaudible) [the terminal] and the liquefaction, (inaudible) talk about just incremental sort of approach.

I just wonder if you guys are still comfortable with the [Black & Veatch] technology with the liquefaction, or with the new application? You guys are switching to a new technology, such as the [ATCI].

Don Althoff - *Veresen - President and CEO*

So, we have said that we ran a competitive bid last year where we included a couple of technologies. One of them being the PRECO technology from Black & Veatch. We also put some other more mainstream technologies into the competitive bid piece.

And so, I can't speak about which technology we are going to select, because we haven't made the final decision on that yet. But what I will say is that although the PRECO technology isn't mainstream in the last three or four big expansion plans, PRECO technology has been in service for over 35 years. It's actually a simpler technology than the mixed refrigerants.

And I think it also lends itself to trends in the industry, where I think modularization and getting away from one big [thing] actually de-risks the construction of the project. So, I think if Black & Veatch PRECO technology wins, both Veresen and our buyers would be comfortable with it. And I think it has some advantages from a modularization point of view, but we have not made a decision on that yet.

George Wang - *Citigroup - Analyst*

Okay. Thanks a lot.

Operator

Thank you. And I am showing that we have a follow-up question from the line of David Noseworthy from Macquarie. Your line is open.

David Noseworthy - *Macquarie Research Equities - Analyst*

Just one quick question on Ruby. Just with regards to the US $250 million note maturing, is that being fully replaced, and is that going to be replaced with amortizing debt or bullet debt?

Theresa Jang - *Veresen - SVP of Finance and CFO*

David, we are still working on finalizing the details of that refinancing, so I can't share any of the details yet. But I fully anticipate that we won't have a problem replacing it with the new debt when that term loan matures on April 1. Yes, we are still working the details of that.

David Noseworthy - *Macquarie Research Equities - Analyst*

Okay. Fair enough.

Thank you. That's my question.

Theresa Jang - *Veresen - SVP of Finance and CFO*

Okay.

Operator

Thank you.

(Operator Instructions)

I am showing no questions in the queue at this time. I would like to turn the call back over to Mark Chyc-Cies for closing remarks.

Mark Chyc-Cies - *Veresen - IR*

Thank you for joining us for our fourth-quarter and full-year results conference call. If there are any additional questions, please feel free to contact the Investor Relations team at Investor-Relations@VeresenInc.com. Our next call will be in early May, where we will discuss our first-quarter results.

Thanks again for joining us today. Have great day.

Don Althoff - *Veresen - President and CEO*

Thank you.

Theresa Jang - *Veresen - SVP of Finance and CFO*

Thank you.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program, and you may now disconnect. Everyone, have a great day.