July 4, 2005

John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West
Suite 1900, Box 55
Toronto, Ontario
M5H 3S8

Re: Request for Comments
Proposed Multilateral Instrument 52-111
Reporting on Internal Control over Financial Reporting

Mr. Stevenson,

I am writing on behalf of Keyera Facilities Income Fund, in my capacity as Senior Vice President and Chief Financial Officer, in response to the request for comments on the proposed Multilateral Instrument 52-111, the proposed rule regarding reporting on internal control over financial reporting. Keyera Facilities Income Fund is a TSX-listed issuer with a current market capitalization of approximately $1 billion.

In recent weeks, I participated in the Policy Forums in Calgary on May 19, 2005 and in Toronto on May 26, 2005, both dealing with Multilateral Instrument 52-111. I also attended the annual conference of Financial Executives International at Whistler, B.C., on June 2 and 3, 2005, at which the proposed rule was a topic for discussion on several occasions.

Keyera supports all of the steps taken to date to improve investor confidence, including the rules established under National Instruments 52-108 and 58-101 and Multilateral Instruments 52-109 and 52-110. In our opinion, these steps have already resulted in significant progress in the quality of financial reporting and in the attention given to good corporate governance practices. Although significant costs have been incurred by issuers in complying with these requirements, the resulting improvement in investor confidence has, in our opinion, been more than sufficient to justify the costs.

We are quite concerned, however, that many of the requirements of Multilateral Instrument 52-111 will add significant incremental costs without any material incremental benefit. Most issuers, including Keyera, are taking a serious, extensive and thorough approach to management's documentation and evaluation of internal controls, to meet the requirements of Multilateral Instrument 52-109. We are concerned that the requirement for a separate review and report by external auditors, as stipulated by

Multilateral Instrument 52-111, essentially represents an unnecessary duplication of the effort and cost involved in the internal review. To meet regulators' expectations and to mitigate potential liability, external auditors will inevitably find it necessary to plow the same ground, at a substantial additional cost.

In the commentary that I have heard, most investors are unconvinced that the external auditor's report would provide any degree of incremental comfort. In fact, some investors have expressed concern that the additional requirements of Multilateral Instrument 52-111 will further dilute management's focus and distract management's attention from the challenges of running the business.

For these reasons, we submit that the additional requirements of Multilateral Instrument 52-111 are unnecessary.

However, in the event it is decided to adopt Multilateral Instrument 52-111, we submit the following specific concerns:

1. Consistent with recent feedback from the U.S. experience, we strongly agree with the view that external auditors should be encouraged to take a risk-based approach to their review of an issuer's internal controls. Auditors should be encouraged to take an approach that integrates their review of internal controls with their audit of the issuer's financial statements, since the focus of the internal controls assessment should be on the reliability of those financial statements. This integration will lead to an assessment of risk and materiality that is consistent and appropriate in the particular circumstances.

As I stated above, we are concerned that the current context encourages external auditors to follow a thorough, detailed, exhaustive and overly risk-averse approach that will contribute to excessive costs. In part, this low-level examination is dictated by the definitions of the critical terms "significant deficiency" and "material weakness". In part, it is driven by the auditors' desire to anticipate regulators' expectations and mitigate potential liability in the event of a restatement, fraud or other mishap. The provisions of Companion Policy 52-111CP will only accentuate this bias for a detailed, risk-averse approach. The complete context of incentives, sanctions, definitions and standards should be re-examined to ensure that the external auditor's review of an issuer's internal controls is based on an appropriate assessment of risk, focused on the important control areas, and carried out in a manner that is cost-effective and beneficial.

This concern is particularly acute in the case of smaller issuers. While we support, in principle, the objective that investors be able to rely on a consistent set of requirements for all issuers on the TSX, it is important that smaller issuers not be overwhelmed with additional costs and efforts that are proportionately much larger and more disruptive.

2. We expect that the specific provisions of section 2.6 of Companion Policy 52-111CP, dealing with "underlying entities", will be unworkable in the resource sector. Many of our business activities, and those of our customers and partners, are conducted through joint ventures and other similar risk diversification arrangements. Most of these arrangements do not permit the participants to implement the requirements of section 2.6. In our experience, the internal control risks are generally low, due to the diversification of such arrangements, the lack of incentive for participants to override controls, and the fact that most third-party joint venture operators are public companies subject to the same or similar regulatory requirements. If the joint venture is material to the issuer, then the internal controls will be appropriately addressed if management and auditors take a risk-based approach to their review of internal controls. We submit that the requirements of section 2.6 are particularly onerous and unnecessary, and should be eliminated.

We are pleased to be able to submit these comments for your consideration, and we hope they are helpful. If you wish to discuss further, please don't hesitate to contact me at (403) 205-7604.

Sincerely,

David G. Smith
Senior Vice President & Chief Financial Officer