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CO_2

Tim Bradley

President CO_2 Group

CO_2 Business – View from the top

Overview

- We operate and own significant interests in oil fields with over 5 Billion barrels remaining in place
- We operate the premier CO_2 Source and Transportation assets in the industry

Opportunities

- We have the capability and resources to develop and produce up to 300 million barrels based on existing technologies.
  - SACROC ~8-10% of 1.9 Billion barrels target oil in place
  - Yates ~ 2+% of 5.0 Billion barrels target oil in place
- Continued increase in 3rd CO_2 party demand

Challenges

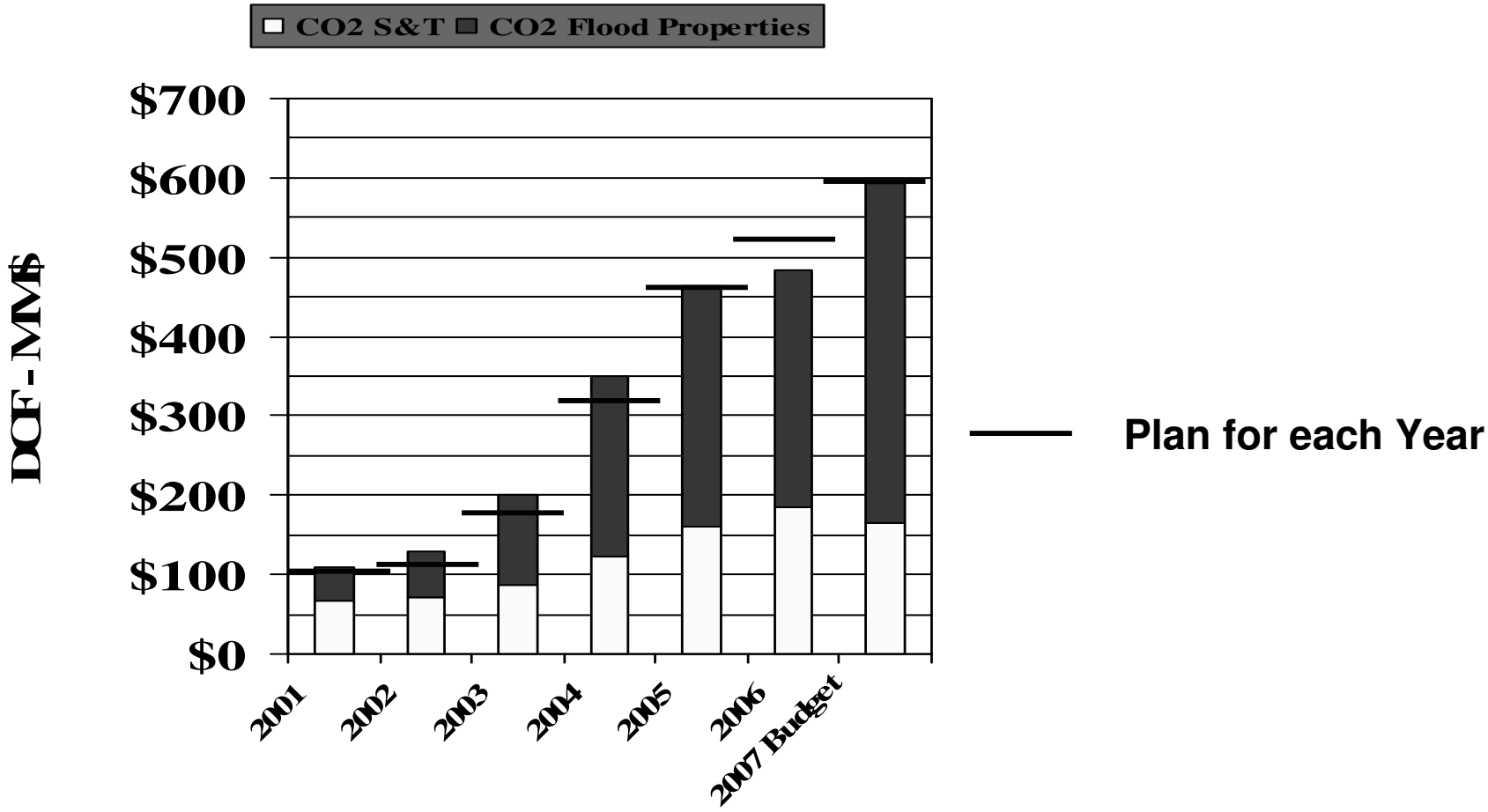
- Continue development projects at SACROC to facilitate oil production and cash flow growth
- Work with Yates field co-owners to fully exploit its potential
- Pursue new CO_2 acquisition opportunities and EOR customers in existing and new markets

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Distributable Cash Track Record

CO_2 Sales and Transportation - steady historical growth

CO_2 Flood Development Opportunities - growing faster



Note: CO_2 Sales and Transportation includes YOGS, CO_2 Sales profit on own use has not been eliminated.

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2006 Performance Recap

Overall, disappointing results

CO_2 Source and Transportation — Outperformed

- **$184 MM vs $160 MM**

Yates — Outperformed

- **$134 MM vs $117 MM**
- **26,076 B/d vs 24,496 B/d**

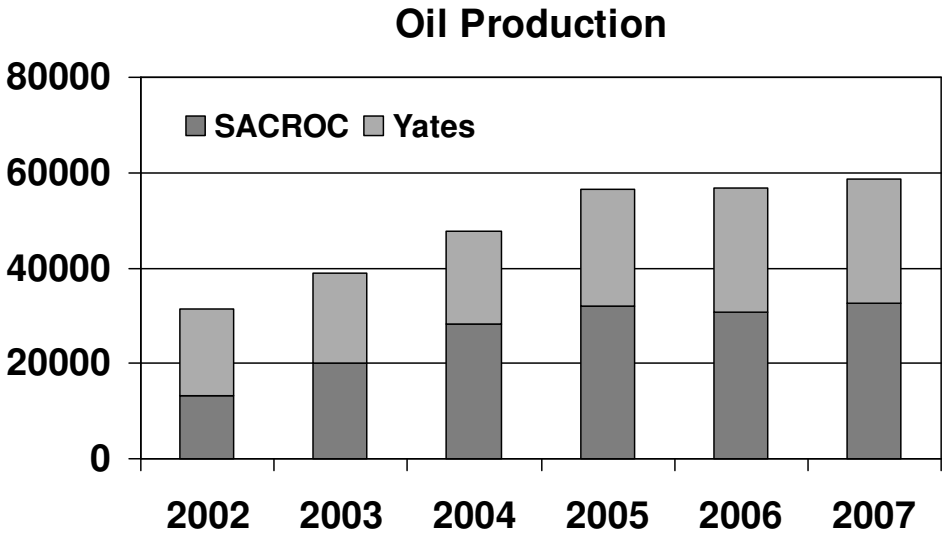
SACROC* — Underperformed

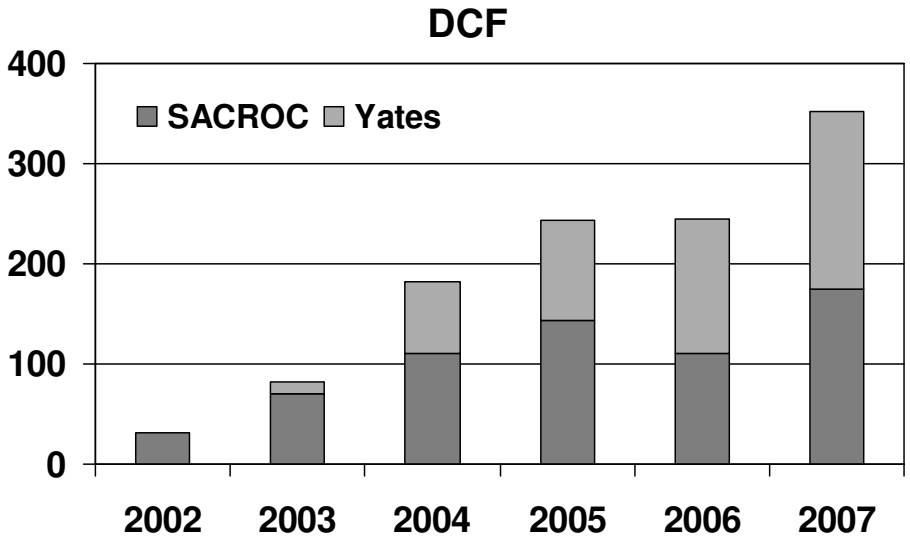
- **$167 MM vs $260 MM**
- **30,795 B/d vs 34,706 B/d**
- **Future growth in cash flow even with flat production**

Note: *Including SACROC Services and remaining oil and gas assets

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SACROC and Yates Oil Production DCF





Historical Summary

Acquisitions:

SACROC	June 2000
MKM	January 2001
Yates	November 2003

Significant Development Events

SACROC:

CLPL	April 2002
CL V, BE, CR I, II	April 2002-Present

Yates:

Horizontal Drilling	2002 – Present
CO_2 Injection	March 2004

2007 Production

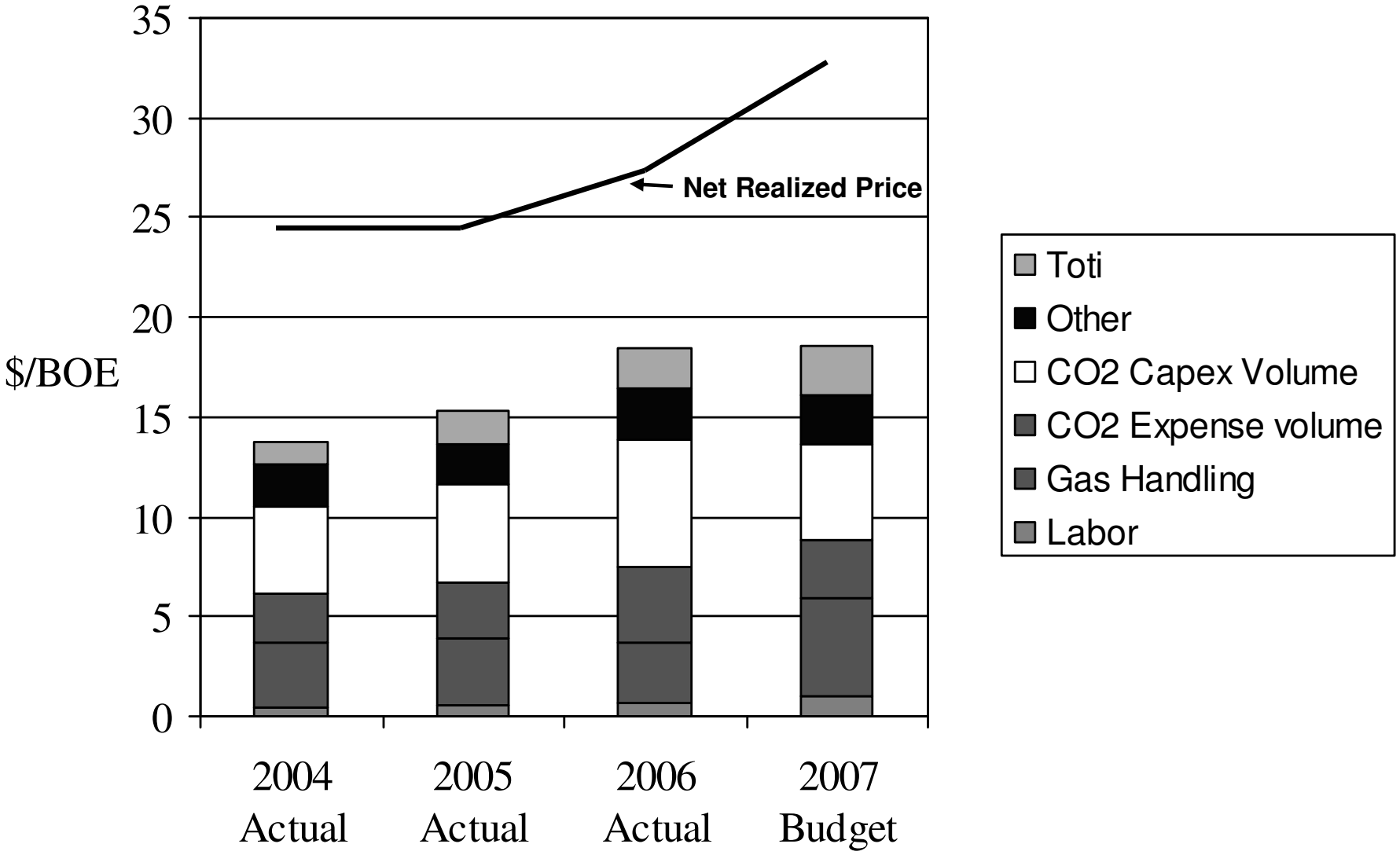
SACROC	32,508 B/d
Yates	26,200 B/d

2007 DCF

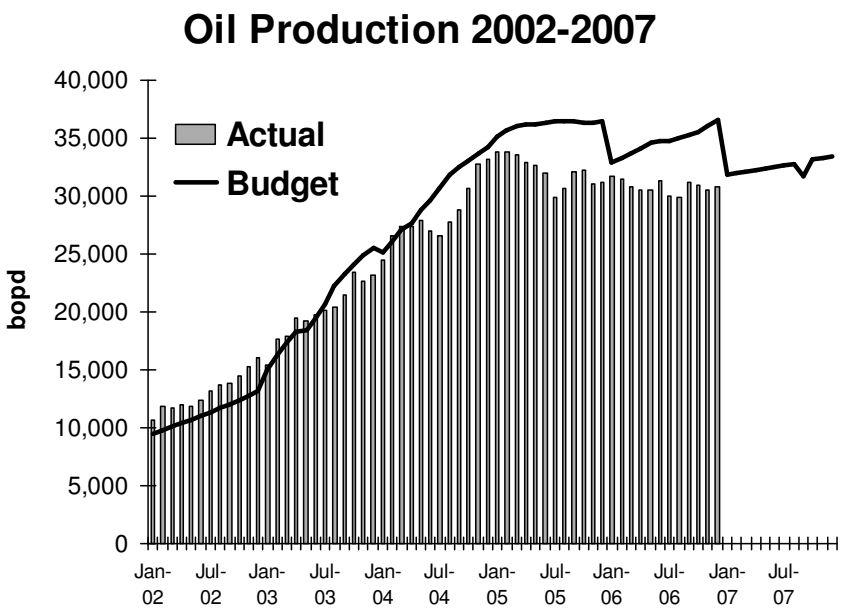
SACROC	$175 MM
Yates	$177 MM

Note: Yates DCF does not include contribution from MKM

SACROC Margins Net of Hedging Practices



SACROC Production Deterioration



2006 – Recap

Challenge 1: Deteriorating Sweep Efficiency

Dramatic decline at Bullseye
Poor conformance, high GOR, inefficient injection
Possible effects of prior CO2 injection

Challenge 2: Increasing well failure rates

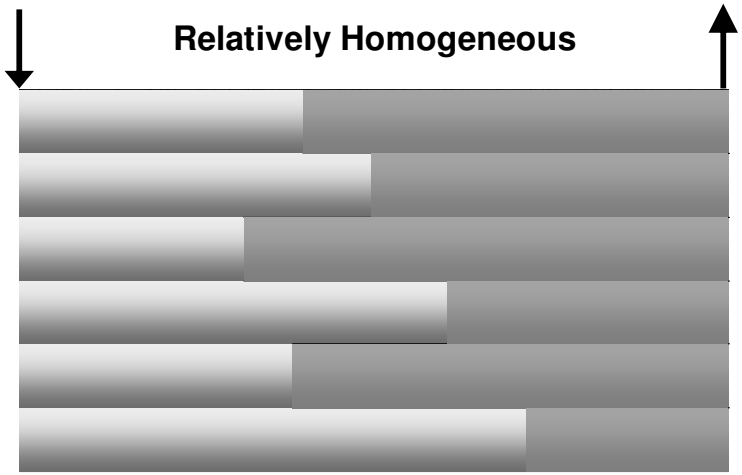
Submersible pump failure rates doubled
Field power distribution system
Changing well flowstreams

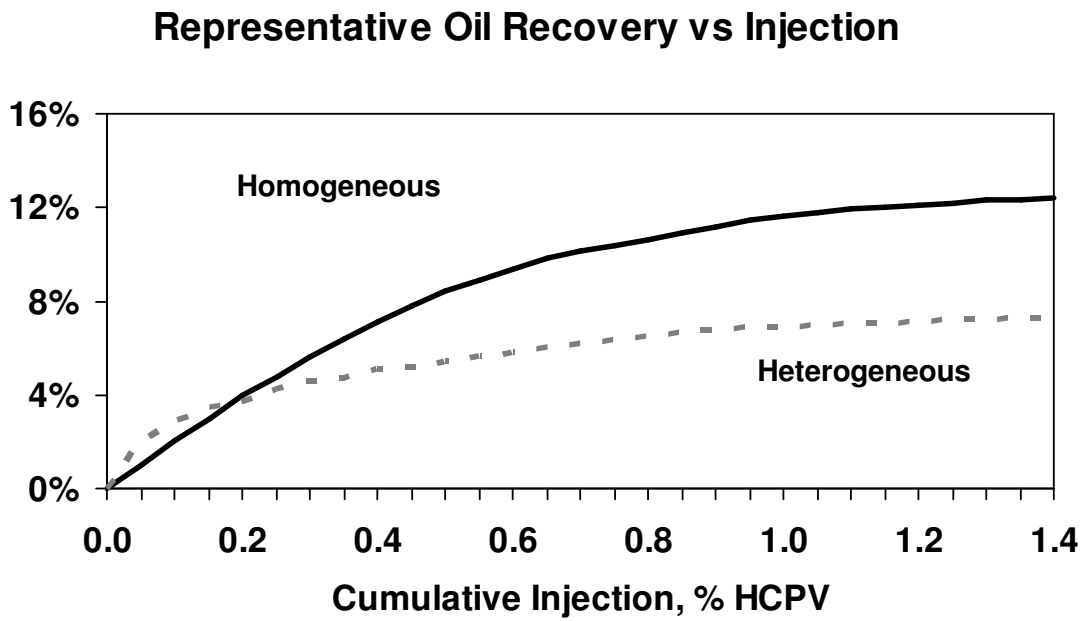
Result: Oil production stalled until injection efficiency and well failure rates improve.

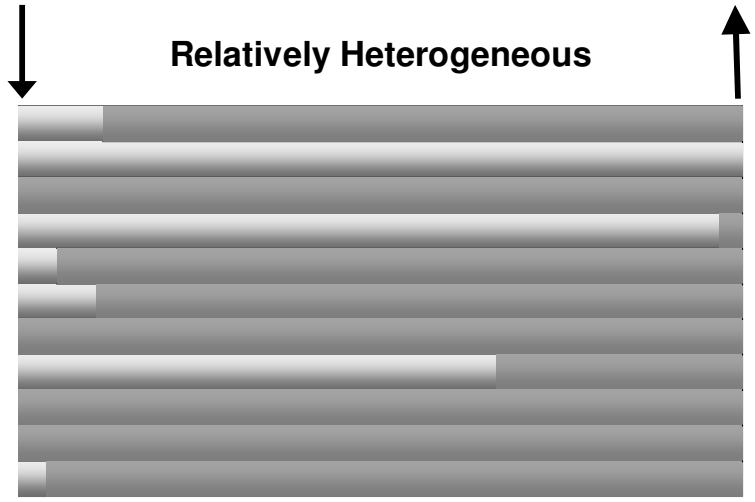
Initiated Polymer treatments on injectors
Detailed Geological Model reevaluation underway
Upgraded field power distribution system
Well failure mechanisms under study

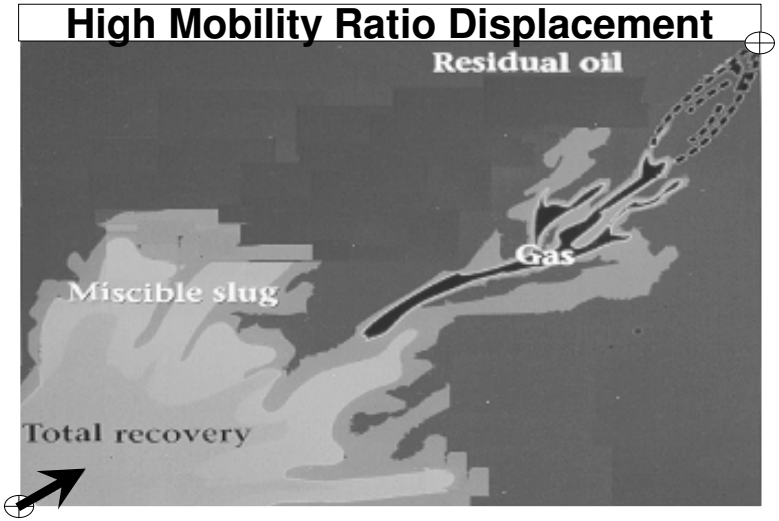
Oil Recovery Efficiency

Effects of Heterogeneity and Injecting High Mobility Fluids

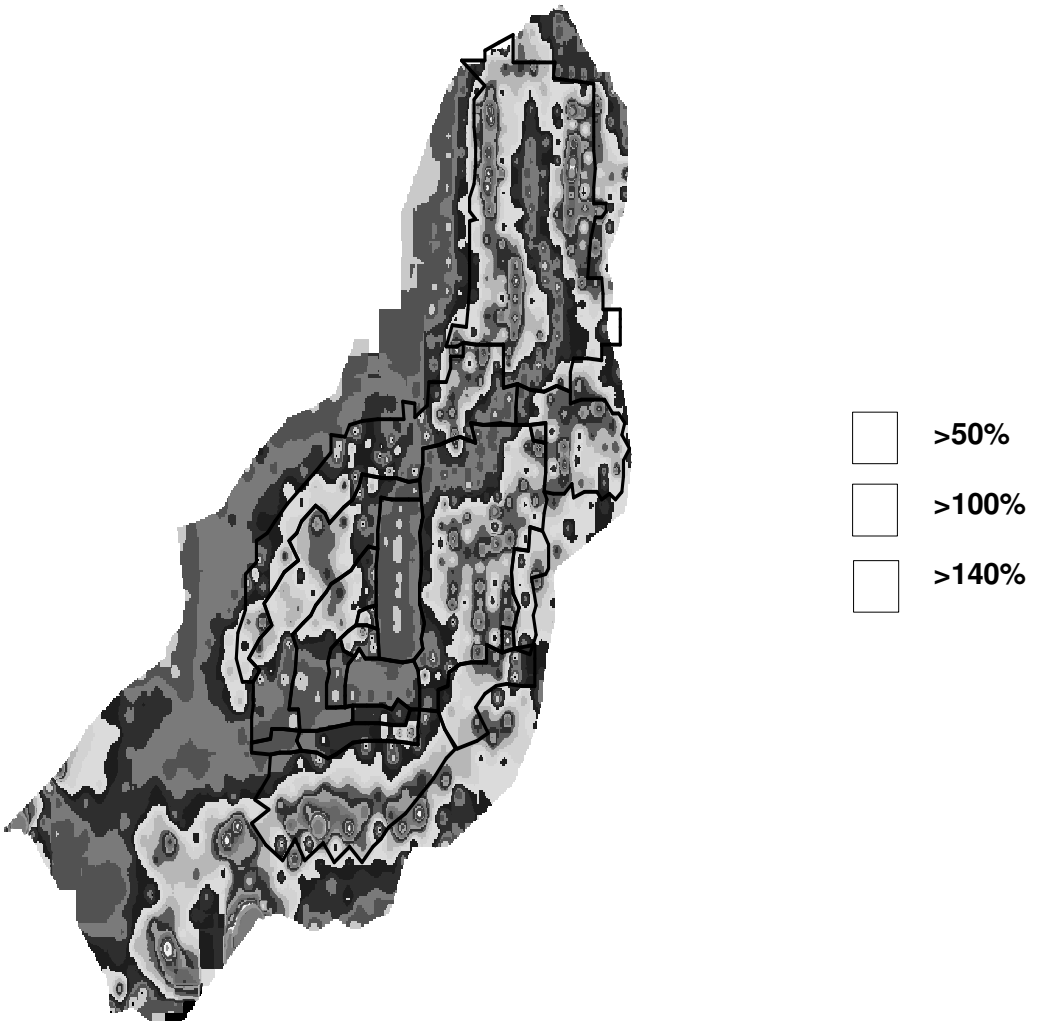








SACROC Waterflood Recovery Efficiency



Clear Visualization of Centerline Waterflood

Significant movement of oil indicating good reservoir continuity

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SACROC Tertiary Oil Recovery Efficiency

Low Recovery in Bullseye Project



Pattern Tertiary Recovery

>15%	>6%
>12%	>3%
> 9%	<3%

Possible Causes:

Poor Areal Sweep Efficiency

- Discontinuous Zones
- Small Pattern Size
- Exceed Rock Parting Pressure

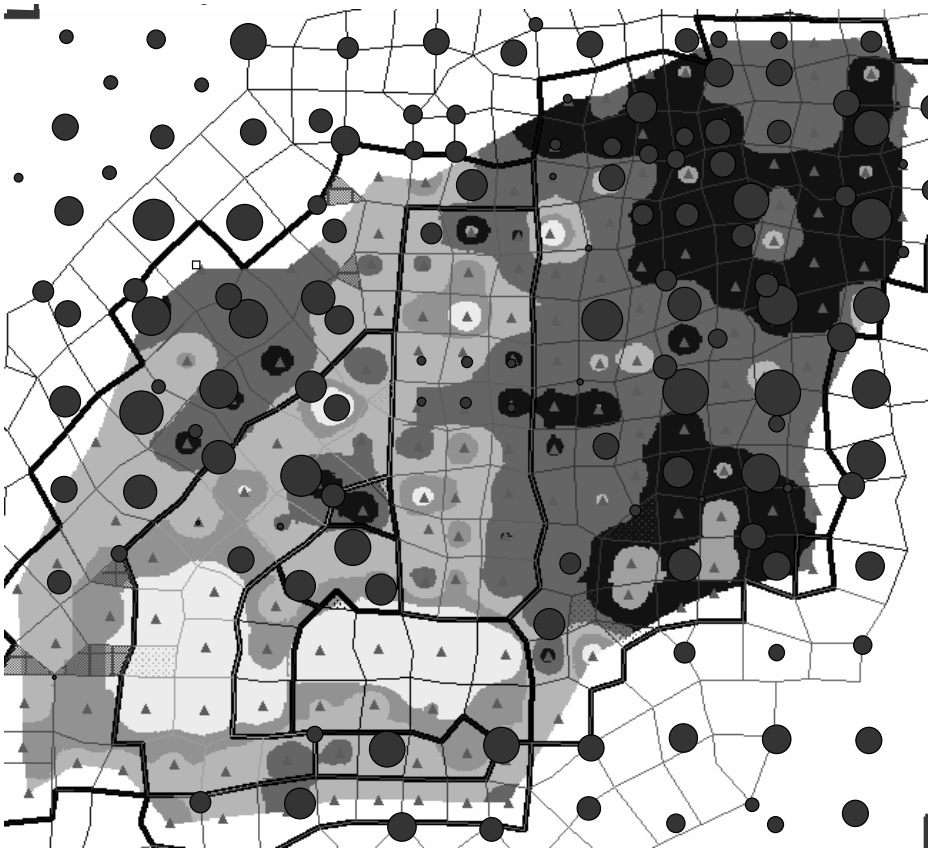
Poor Vertical Sweep Efficiency

- High Permeability Streak
- Erosion of Middle Canyon Zone
- Wellbore Operating Procedures

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SACROC Tertiary Oil Recovery Efficiency

Possible Effects of Prior CO2 Injection



Pattern Tertiary Recovery

>15%	>6%
>12%	>3%
> 9%	<3%

Prior Operator CO2 Injection may have more effect than observed in analysis of well performance.

- Small volume, dilute, and immiscible over nearly 30 years
-

Notwithstanding poor injection practices, prior CO2 injection could result in:

- Oil Composition changes – reduced NGLs, miscibility

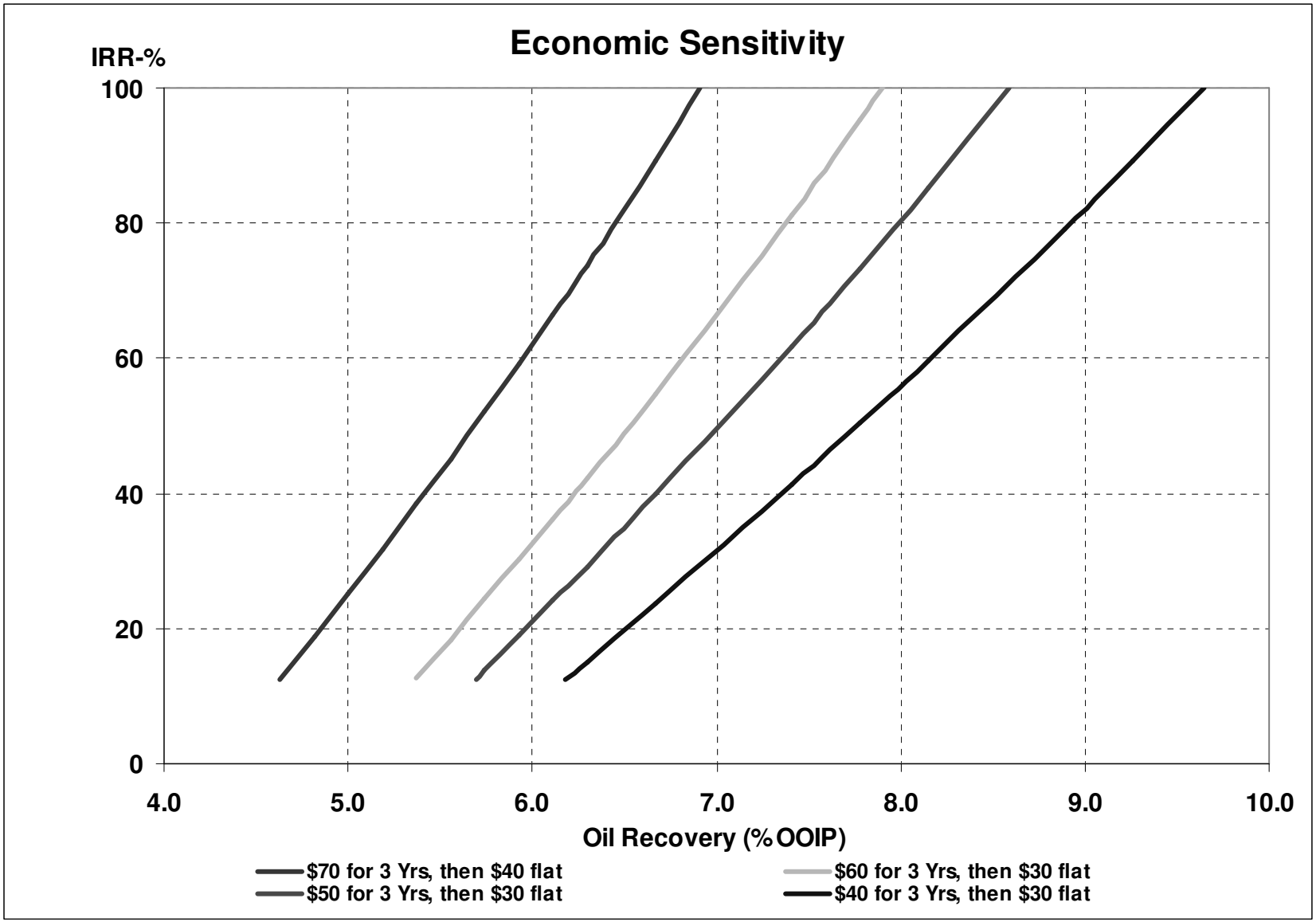
- CO2 saturation in higher perm zones – early Breakthrough

- Production history analysis indicates 0-4% recovery may have been achieved

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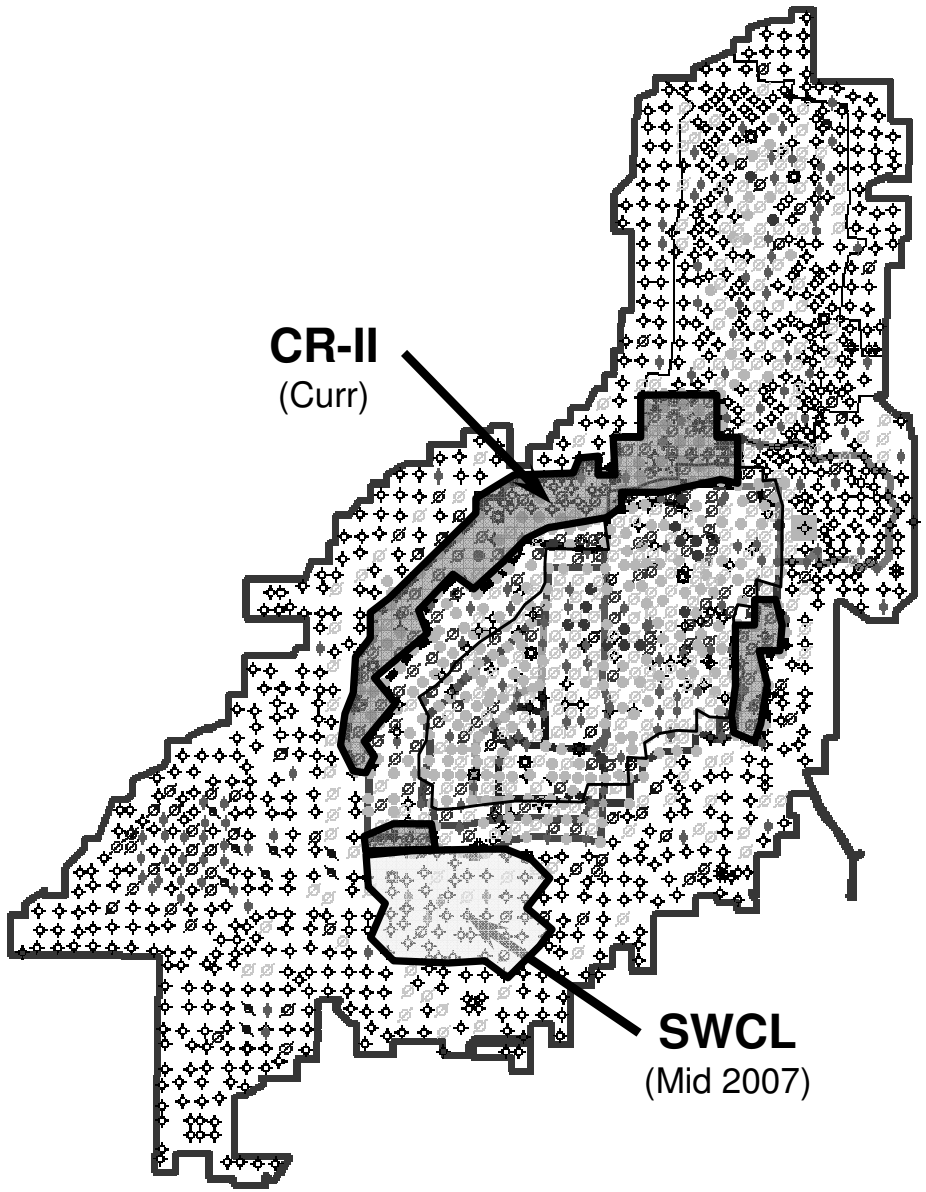
Southwest Center Line Expansion Economics

Projects are still profitable at lower recoveries



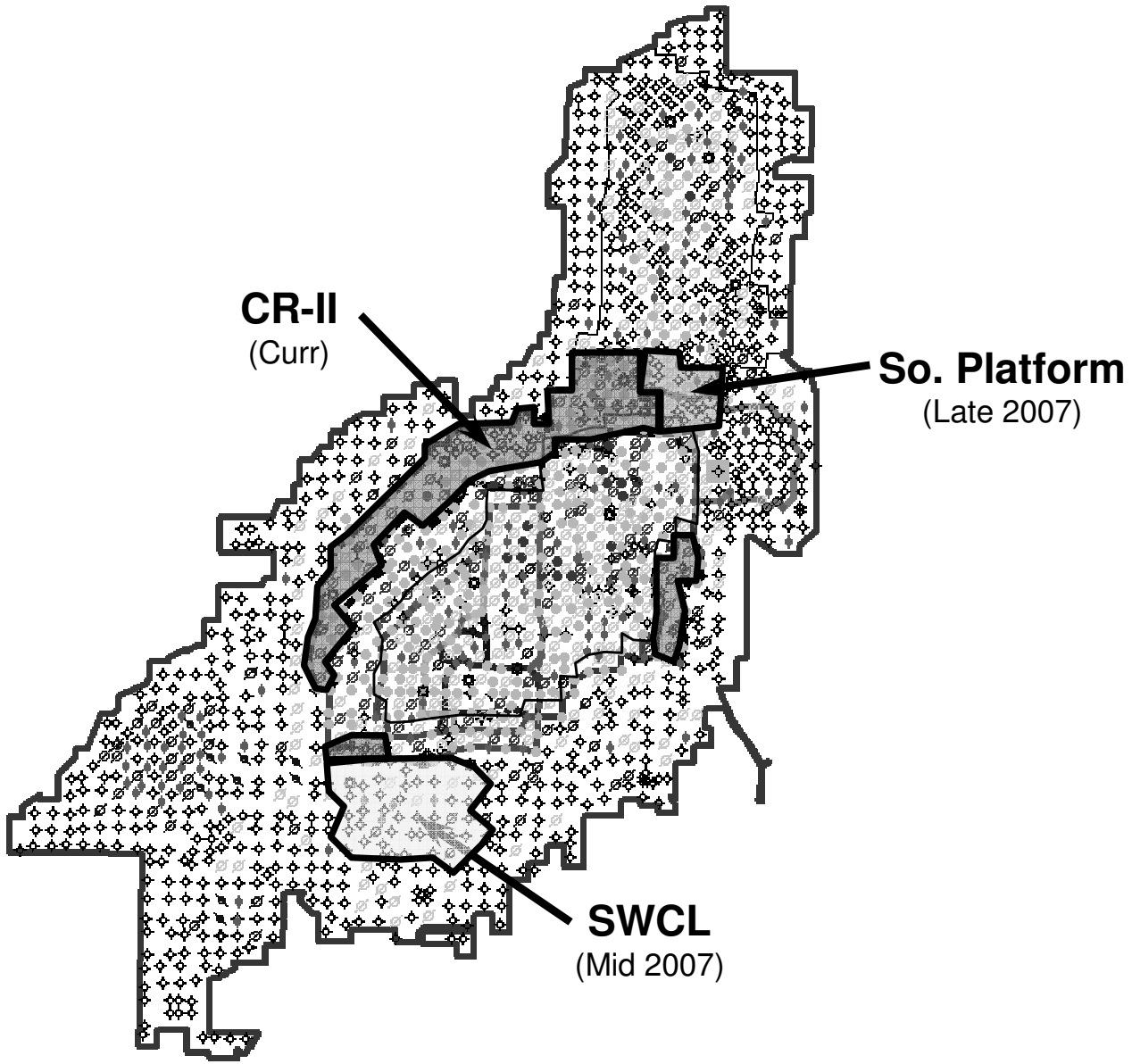
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SACROC Development Plan

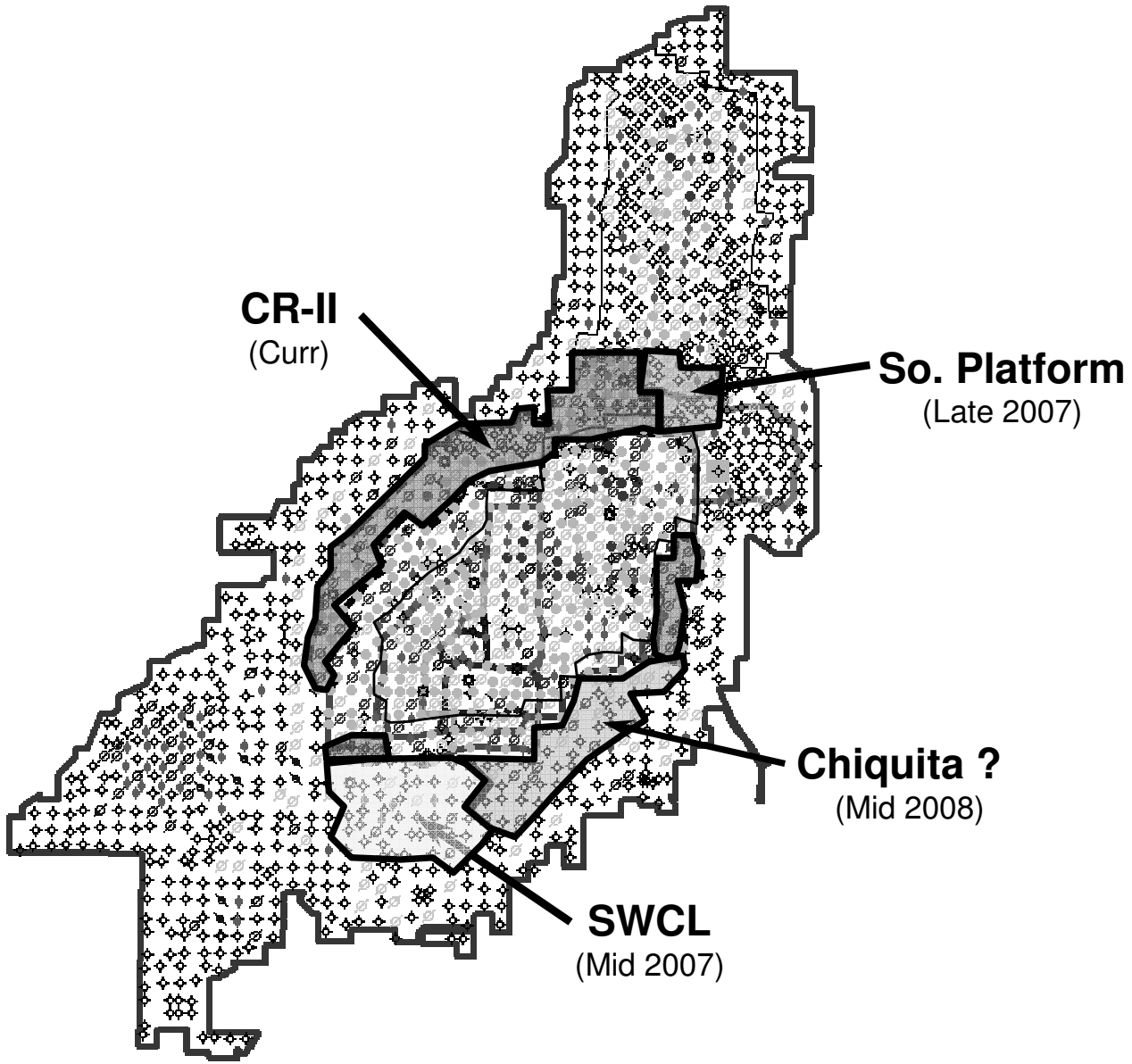


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SACROC Development Plan

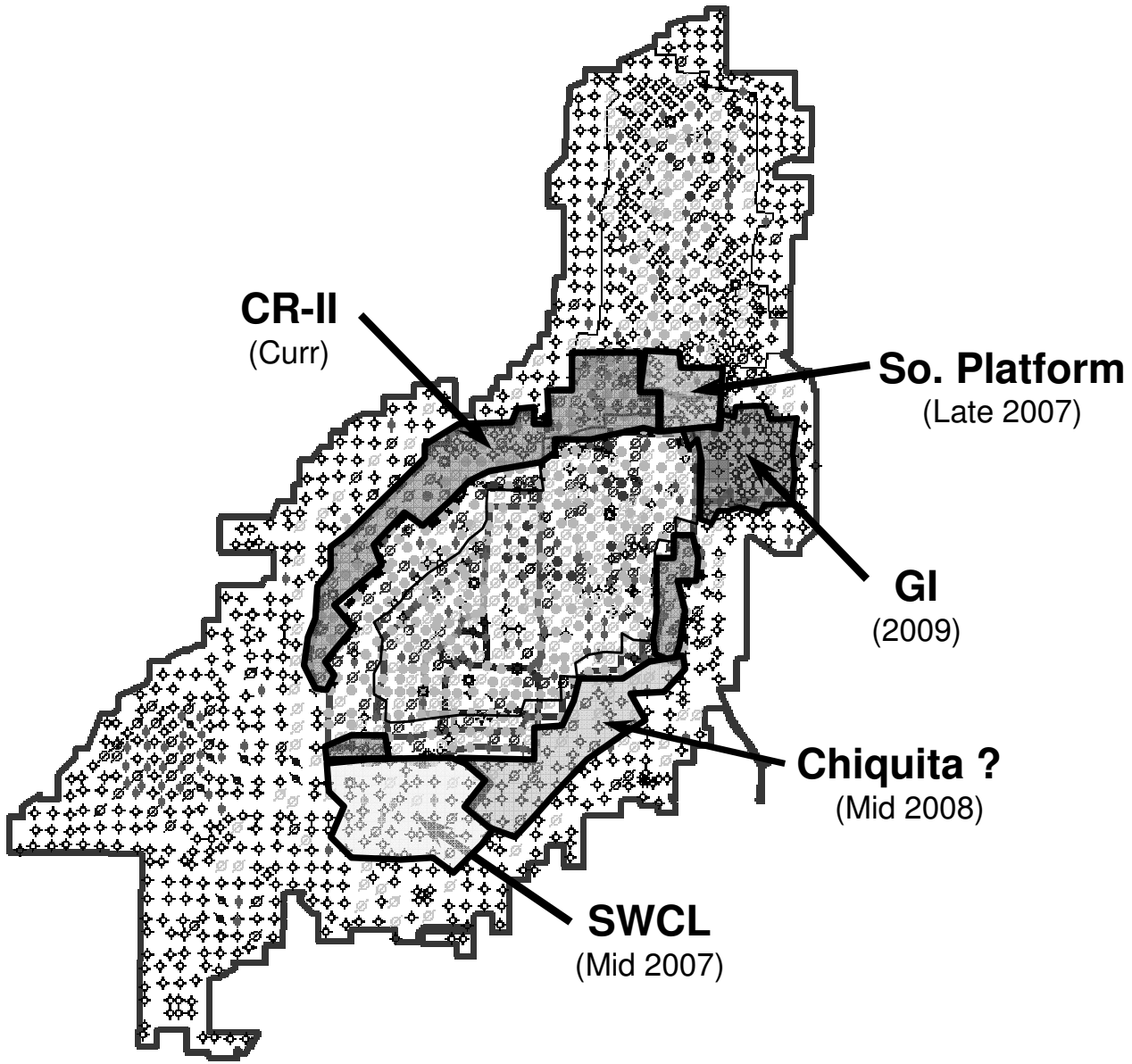


SACROC Development Plan

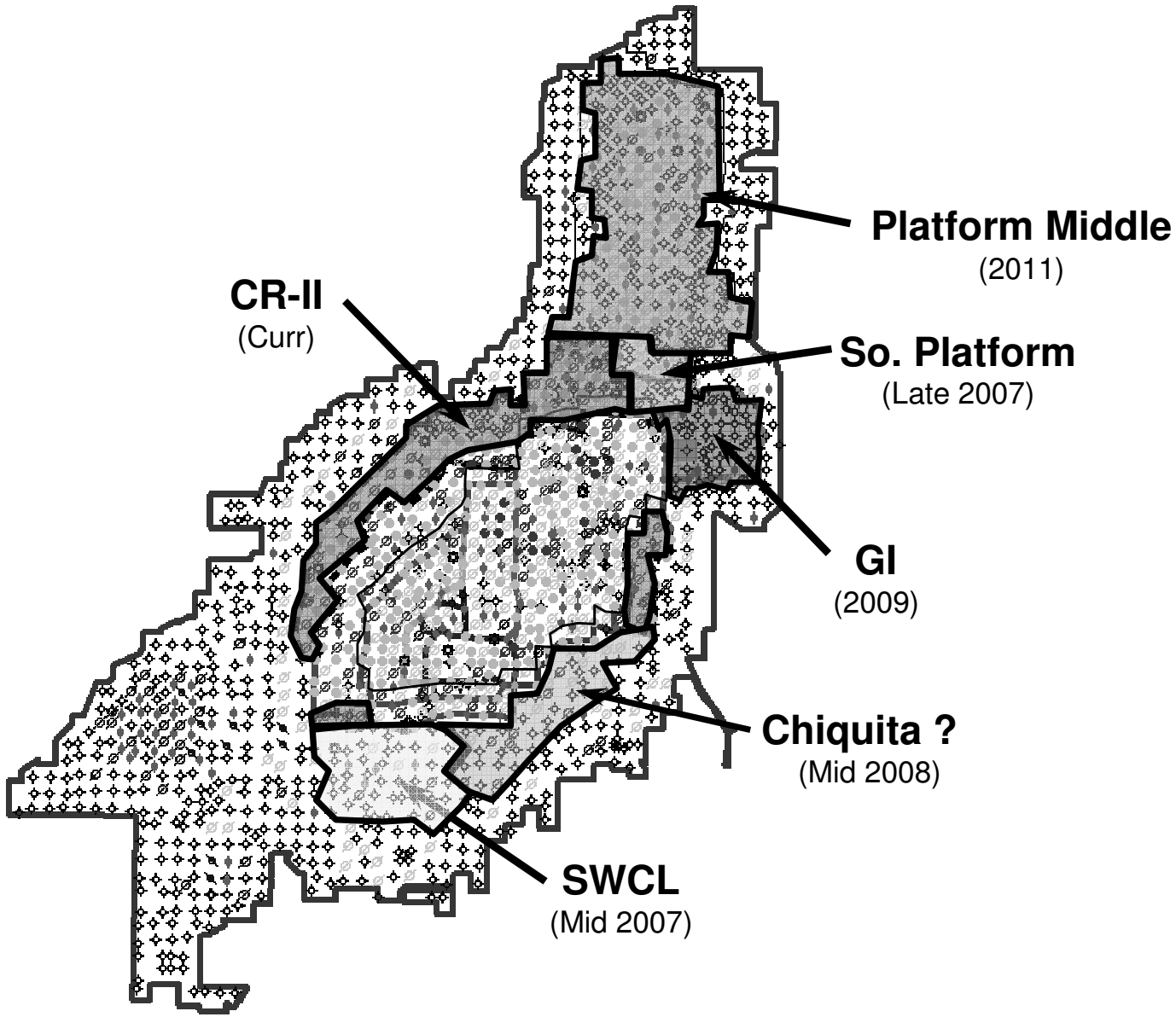


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SACROC Development Plan

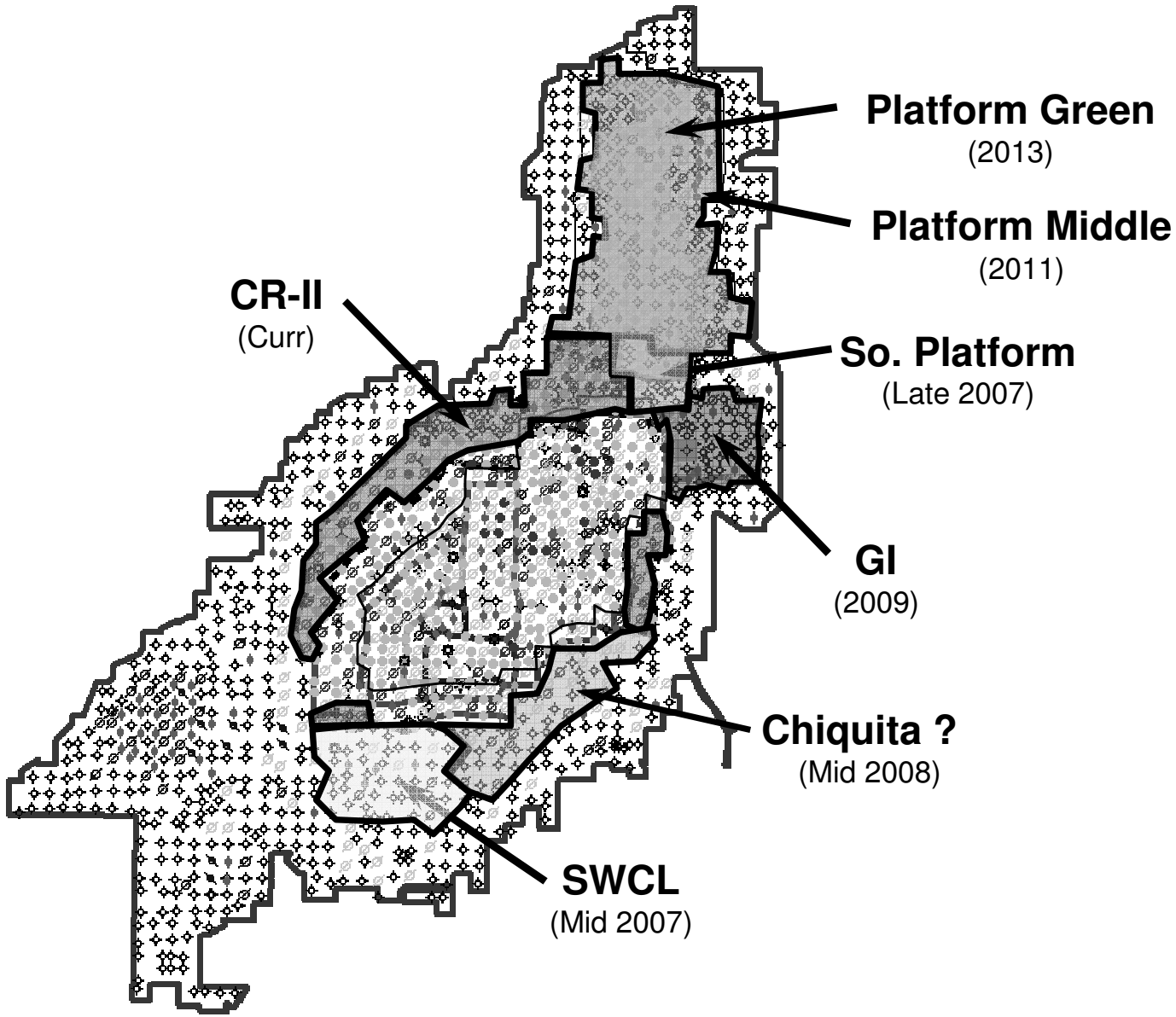


SACROC Development Plan

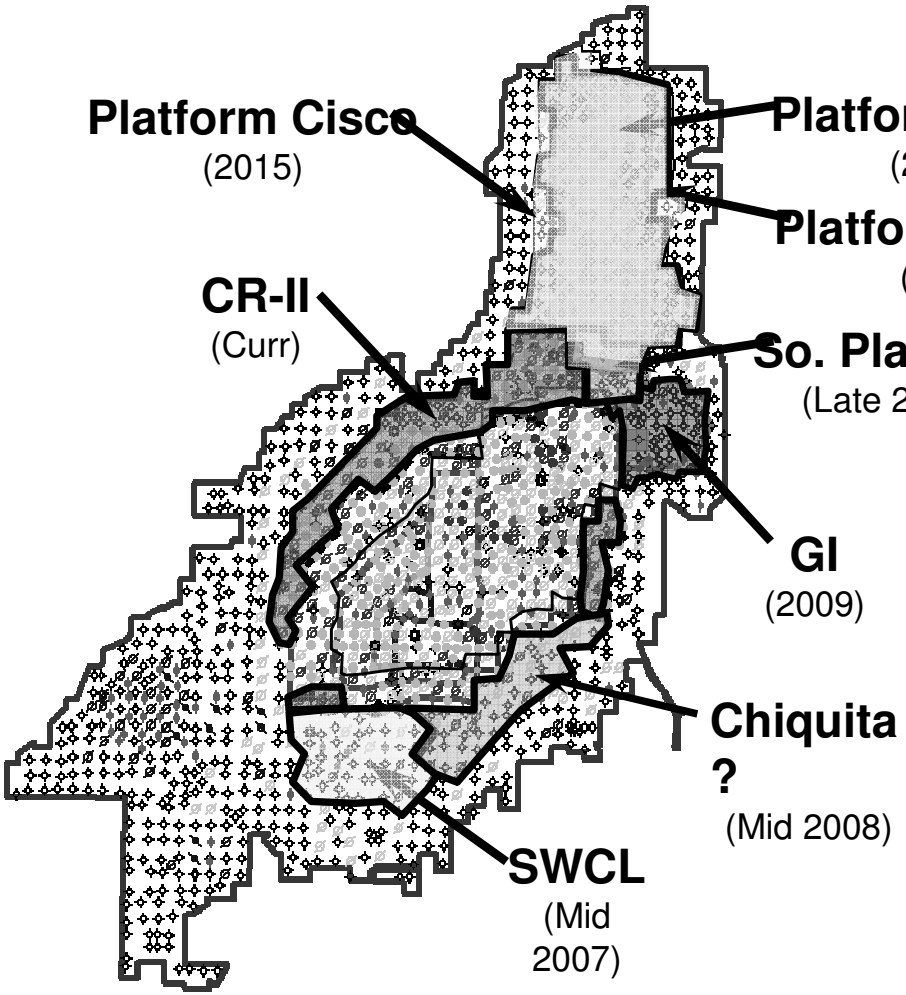


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SACROC Development Plan



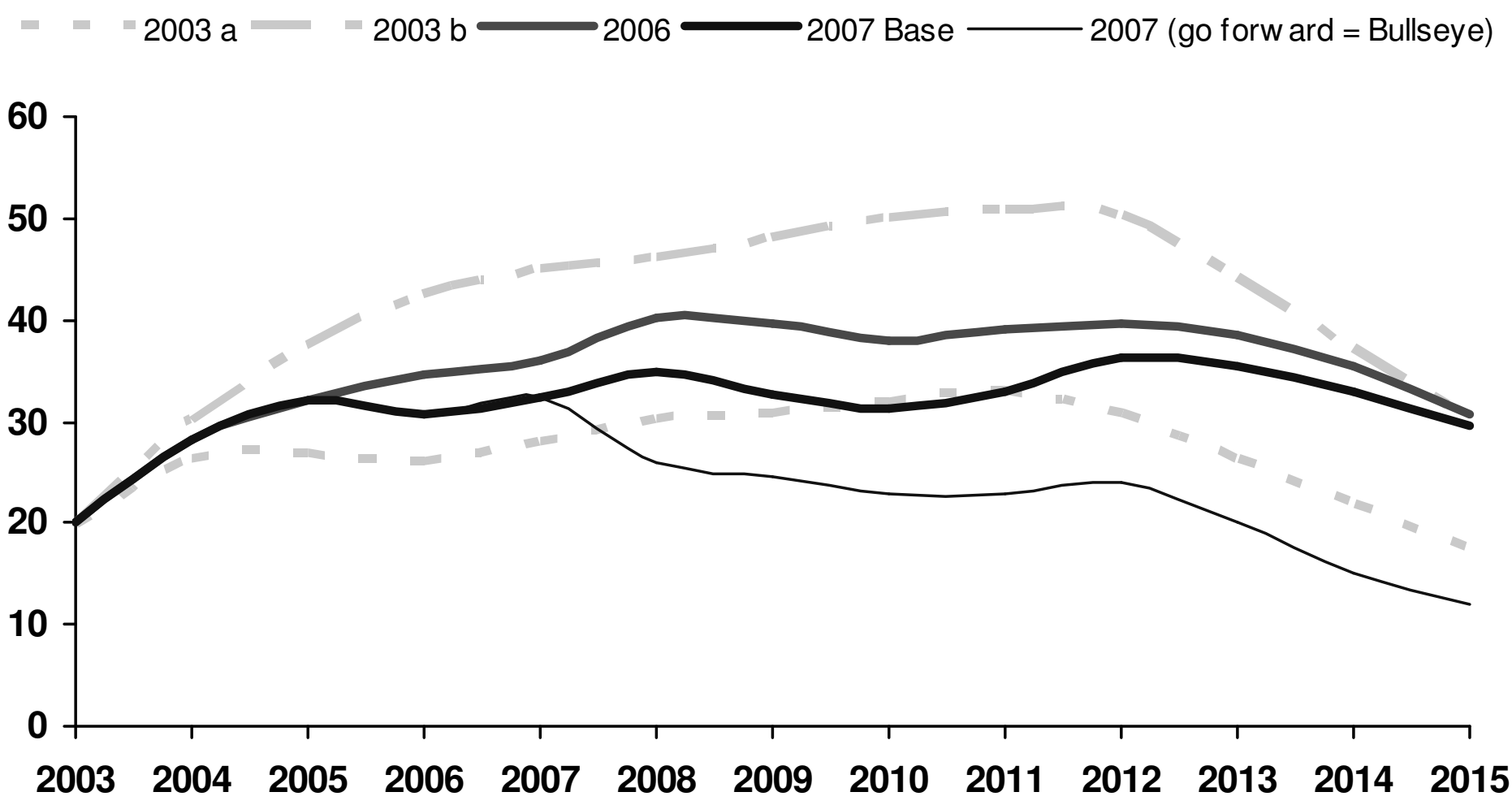
SACROC Development Plan



Expected Range of Recoveries

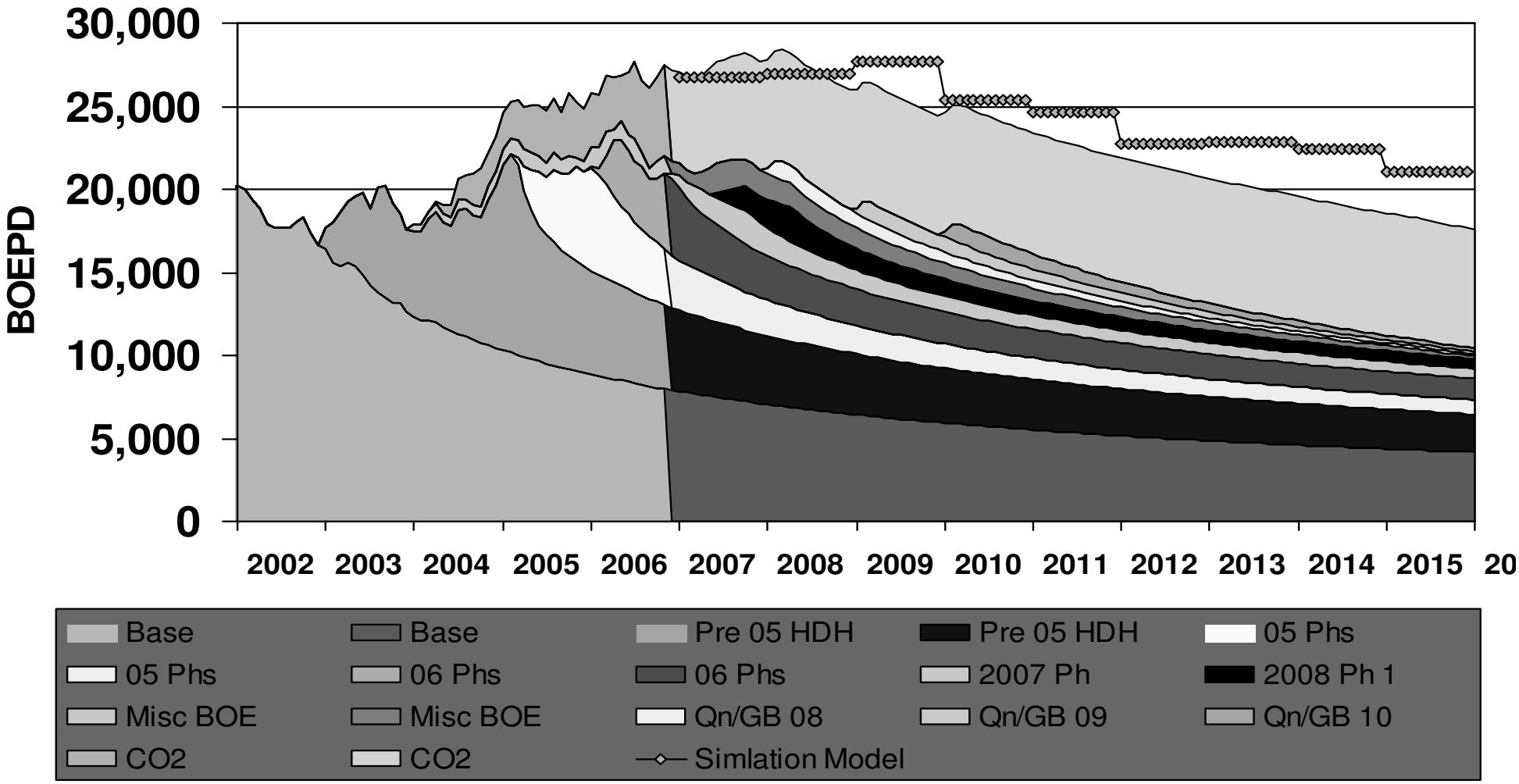
SWCL	**7.7%**
Other Developments	**6.0 to 9.5%**

SACROC Oil Production Historical Forecasts



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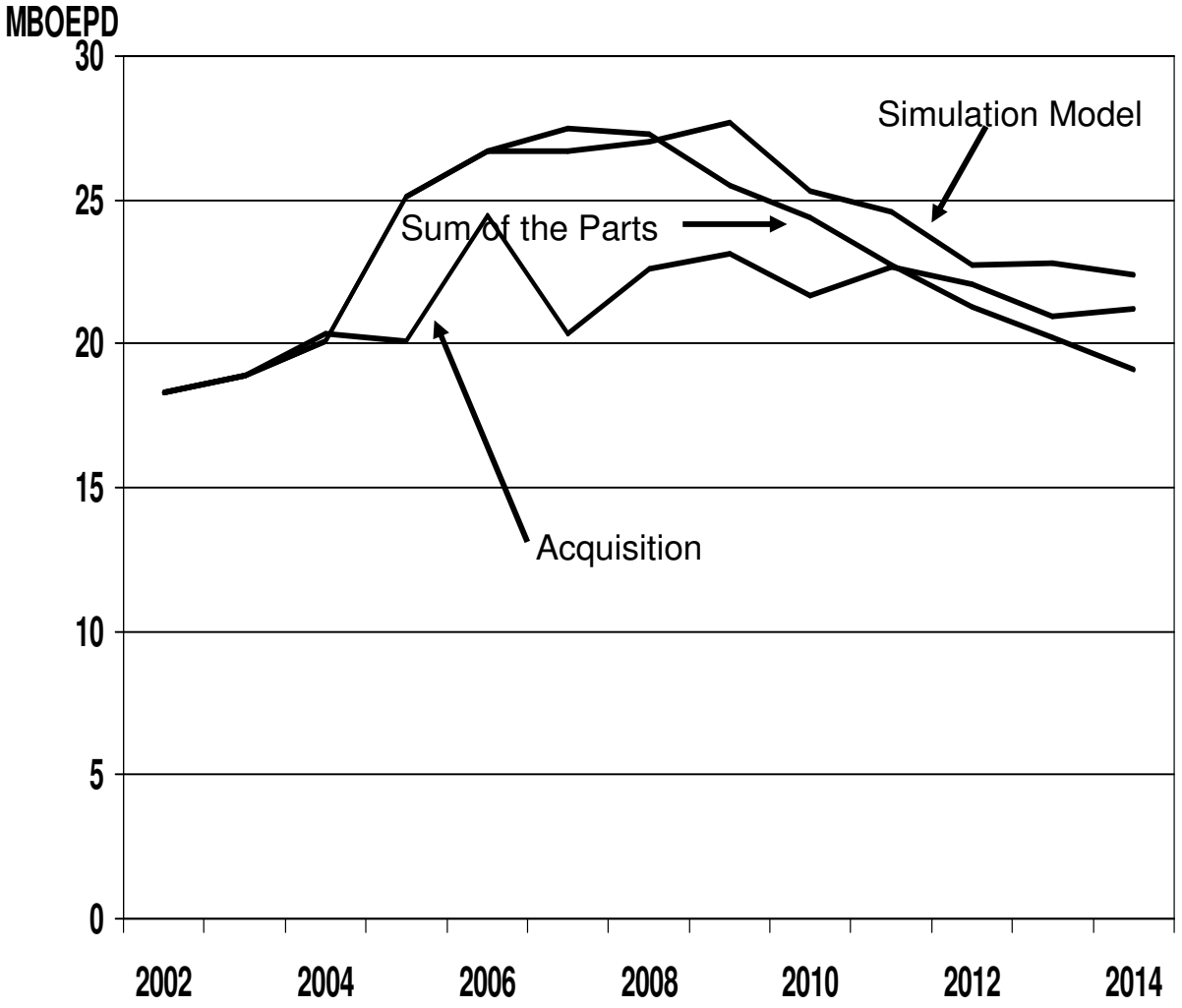
Yates Production Forecast by Program



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Yates Oil Production Forecasts

Production continues to exceed expectations



Response to CO2 injection earlier than prior simulation model suggested

Vertical well production is flattening

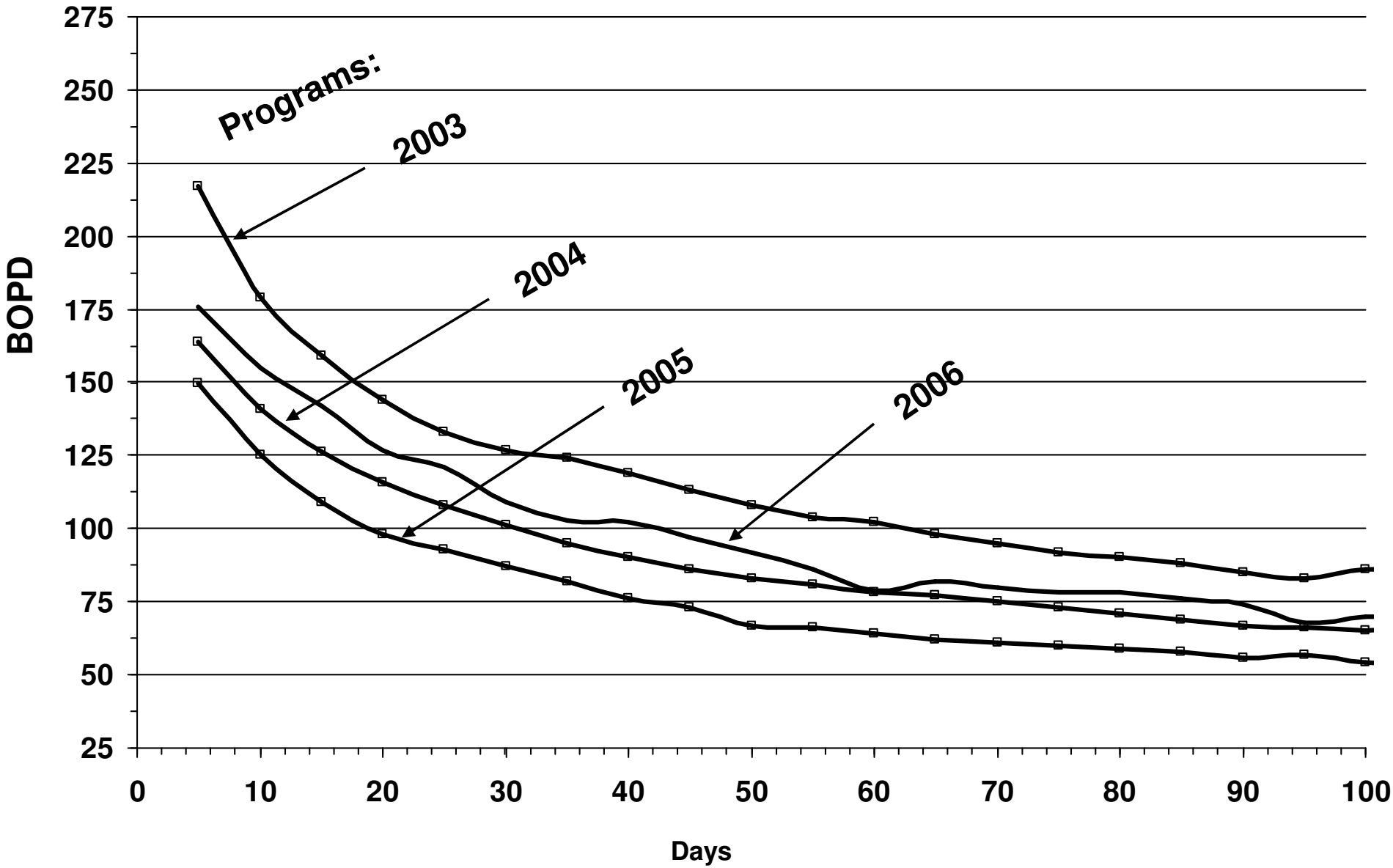
More horizontal drain holes drilled than originally expected

- **Response to CO2 has reversed the deteriorating trend in initial HDH production rate**
- **Good results have increased the number of prospective drill sites**

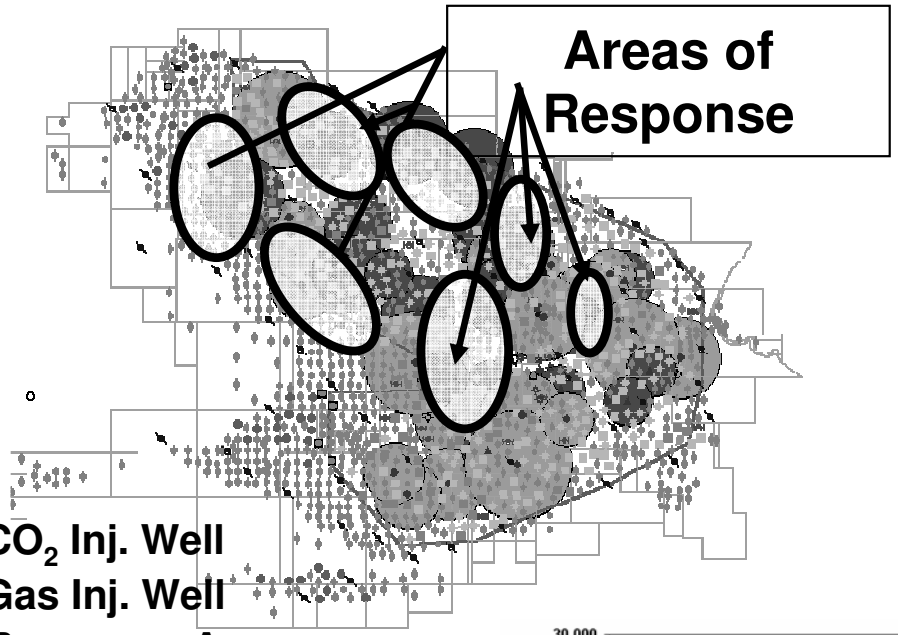
Development of 7 Rivers, shallow zones

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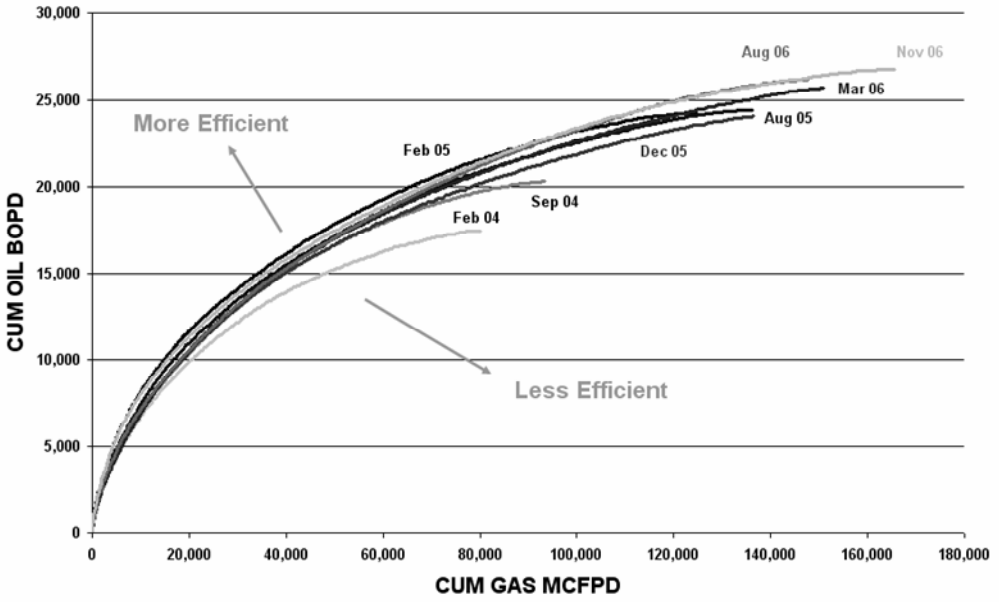
HDH Production Performance by Year



Yates Field – CO_2 Injection Results



- CO_2 Injection started March 2004
- Incremental CO_2 Injection (N_2 venting) began March 2005
- Responding well count continues to Increase
- Oil production is becoming more efficient with time



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Eastern Shelf: Katz & Claytonville

Katz Field:

Avg WI 86%, NRI 73%

OOIP 156MM

Current Production: 475 boepd

Claytonville:

WI 66%, NRI 55%

OOIP 115MM

Current Production: 260 boepd

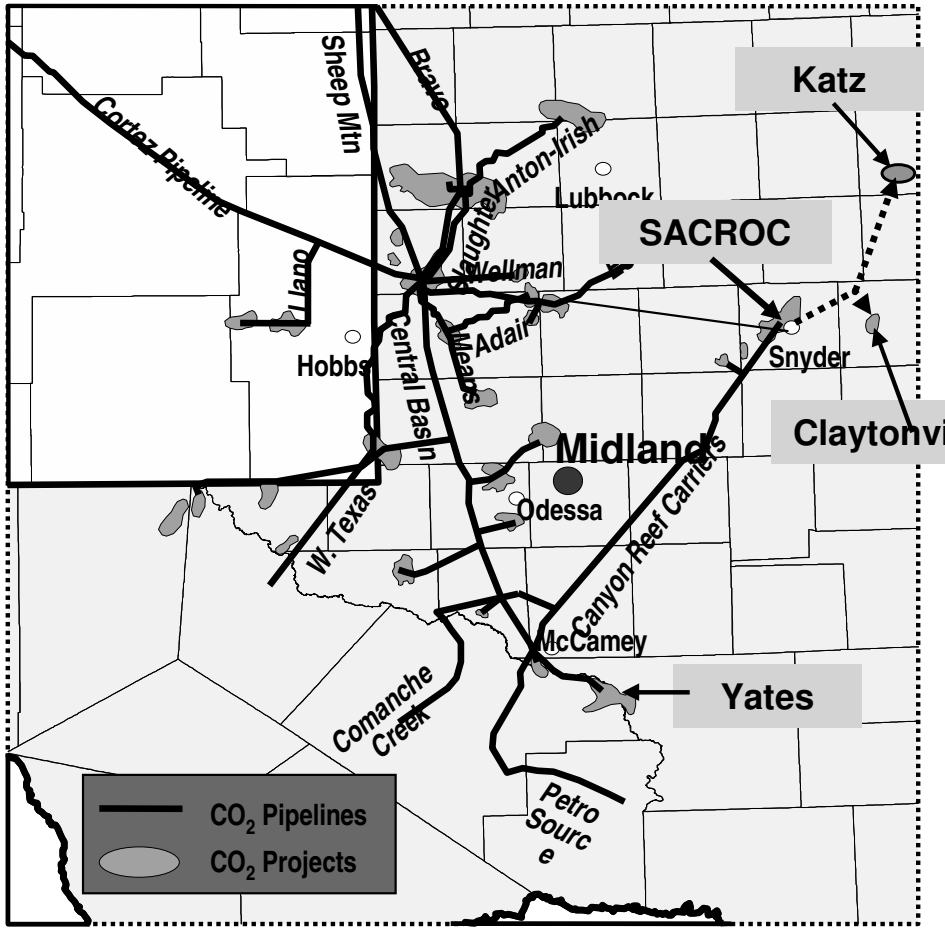
Development Plans:

Waterflood re-activation

Evaluate seismic data, confirm geologic model

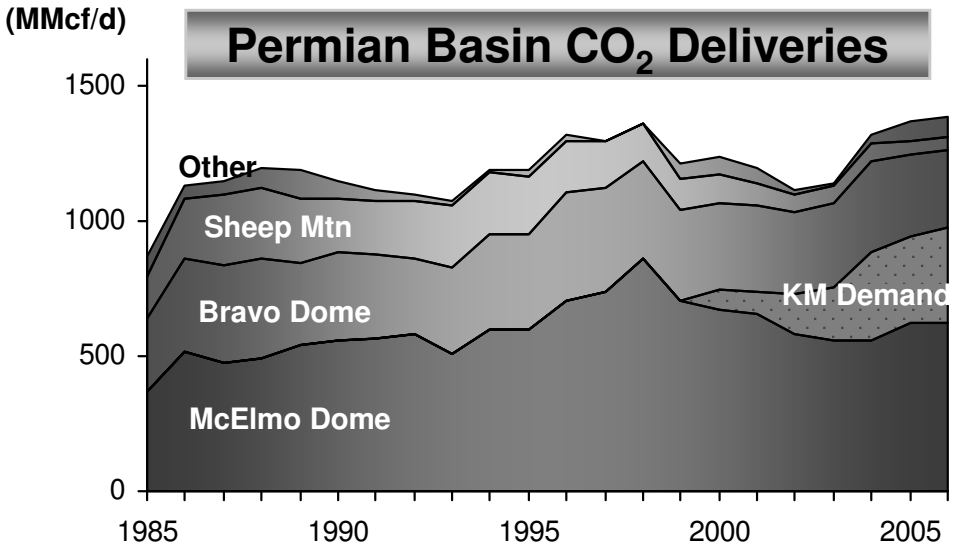
Design CO2 Flood 2008

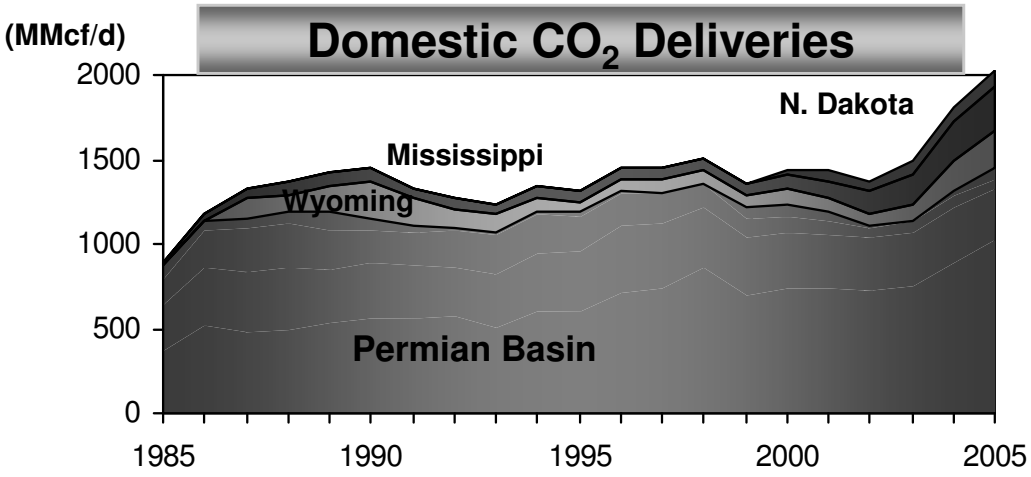
If developed, production could peak @ 8,000 b/d



CO2 Source and Transportation

Growing Business Opportunities





Permian Basin

2006 was record year, supplies pro-rated on occasion

Permian Basin Demand expected to continue to increase given existing project expansions plus known new project demand

Domestic EOR

Industry CO2 EOR activity is increasing

Naturally occurring sources are being expanded to ultimate capacity

Additional supplies exist:

Gasification, Ethylene, Ethylene Oxide, Steam-Methane Reformer, Ammonia & Ethanol facilities

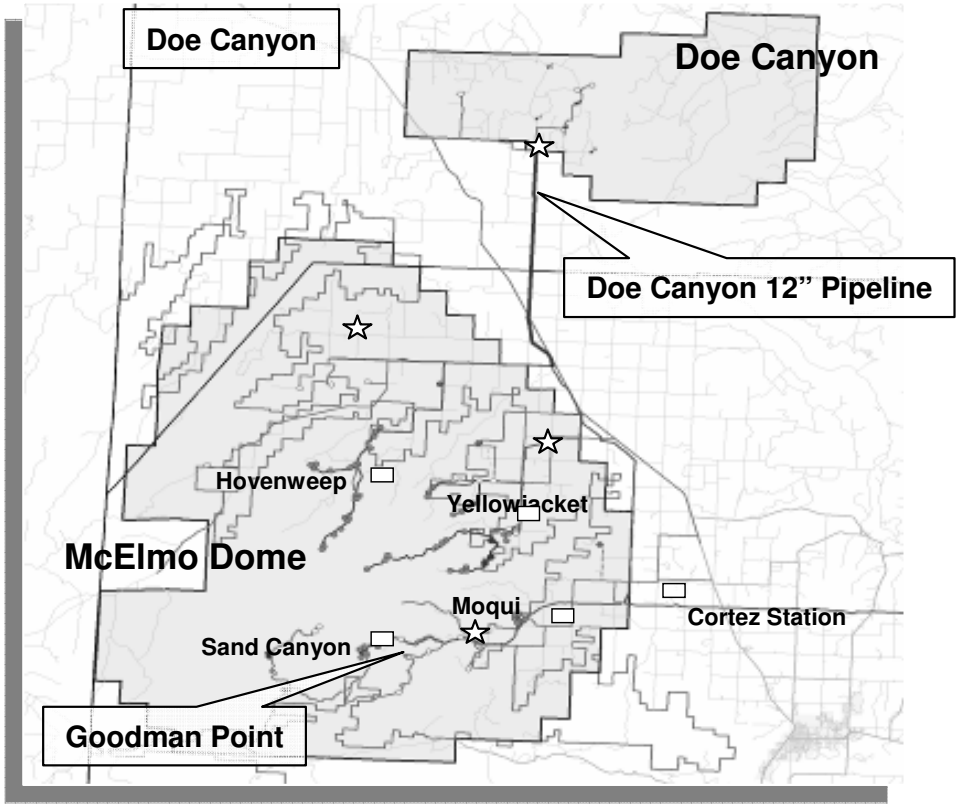
Several regions have potential intersection between supply and demand including:

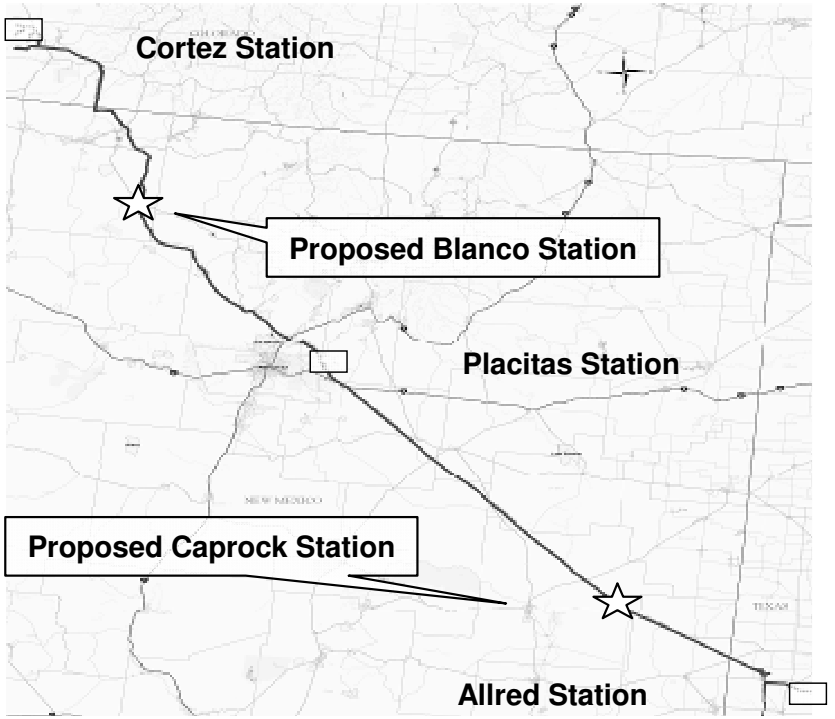
Gulf Coast, California, Mid-continent, Canada

Sources: KM estimates, Oil and Gas Journal, EIA, XOM, Dakota Gasification, DRI

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Southwest Colorado Expansion





Source Field Expansion

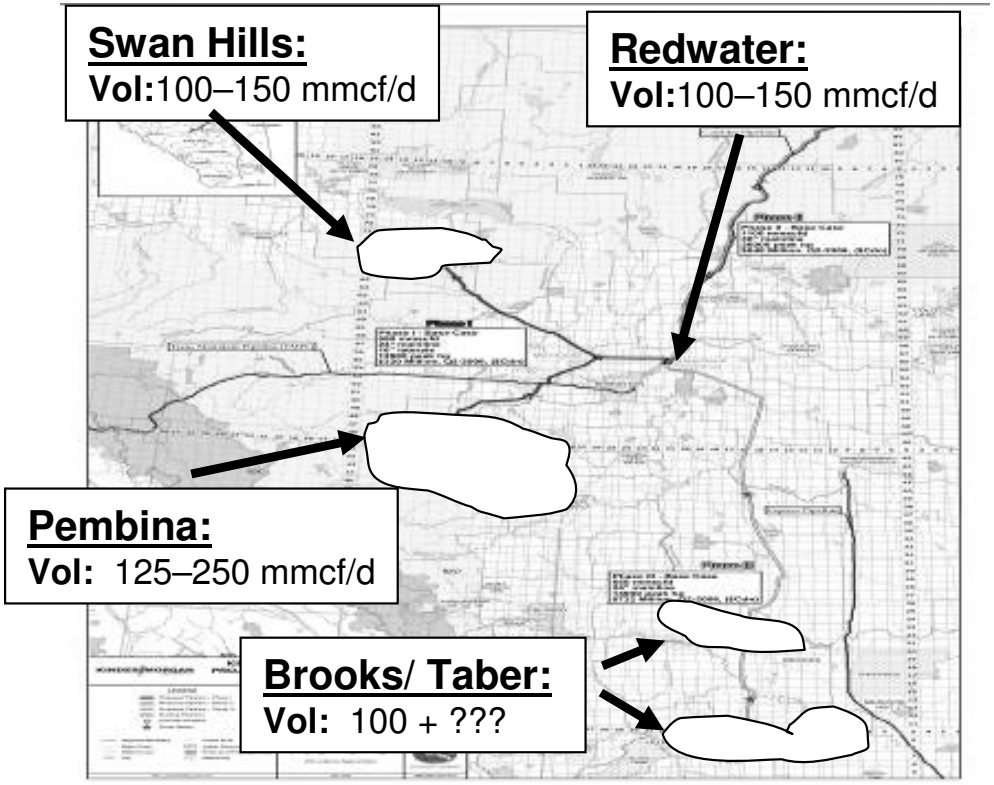
- Doe Canyon 100 MMCF/d
- McElmo Dome 200 MMCF/d
- Increase capacity to 1.45 BCFD

Cortez Pipeline Expansion

- 200 MMCF/d
- Blanco and Caprock Stations
  2 – 4,000 HP Pumps at each
- Increase maximum capacity to 1.35 BCFD

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CO_2 EOR and Sequestration in Alberta



Setting:

Multiphase pipeline development based on sound commercial EOR supply/ demand.

Expansions to accommodate Federal / Provincial policy and GHG Mitigation needs.

Scope:

EOR potential 30-50% of Permian Basin – 500+ MMCF/d

Sequestration could be as much 2-3 times larger

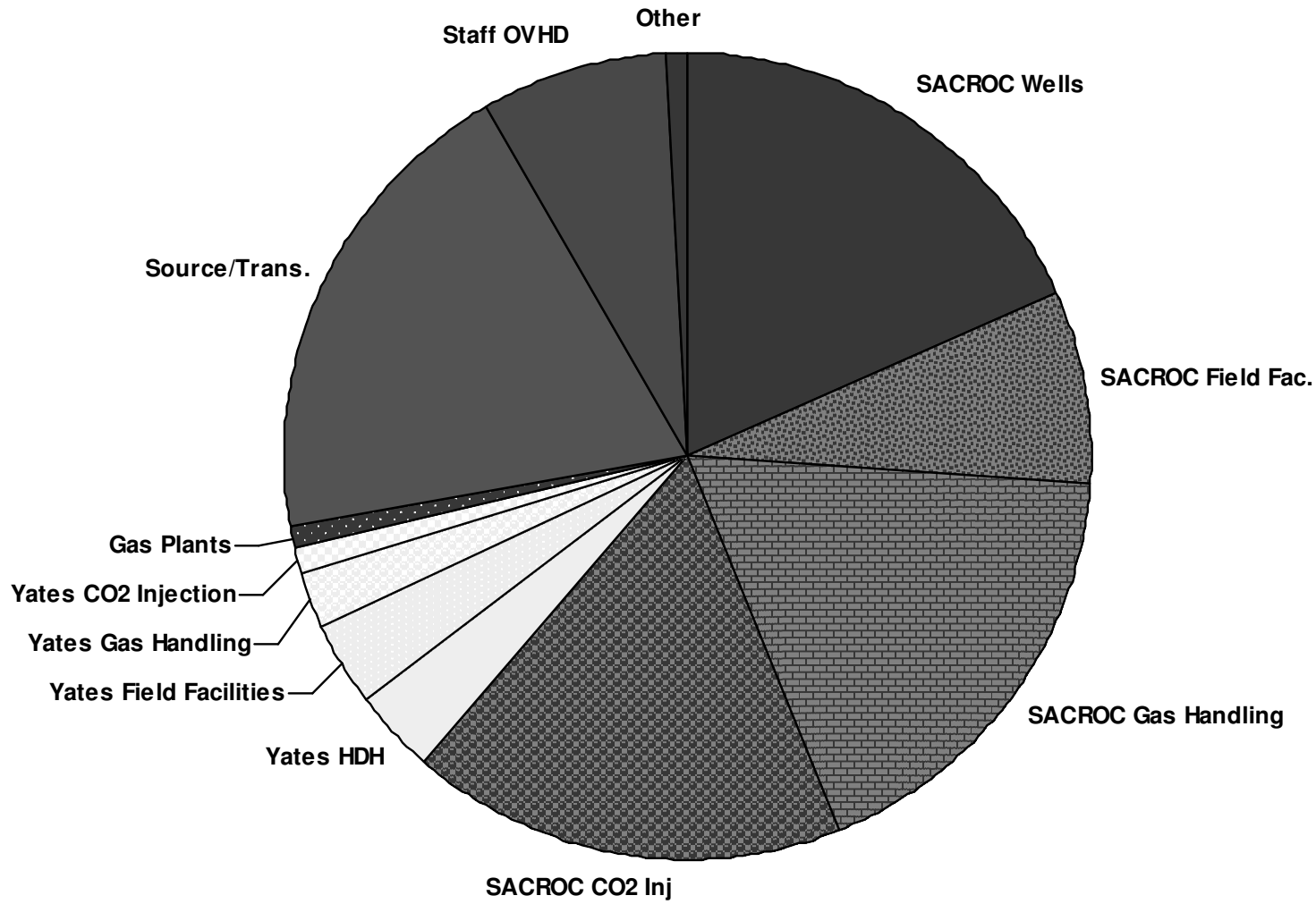
Status:

Firming costs

Working with Suppliers and EOR Customers

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2007 Expansion Capital Budget - $445 Million



Note: 2006 budget was $357 MM, actual was $273 MM

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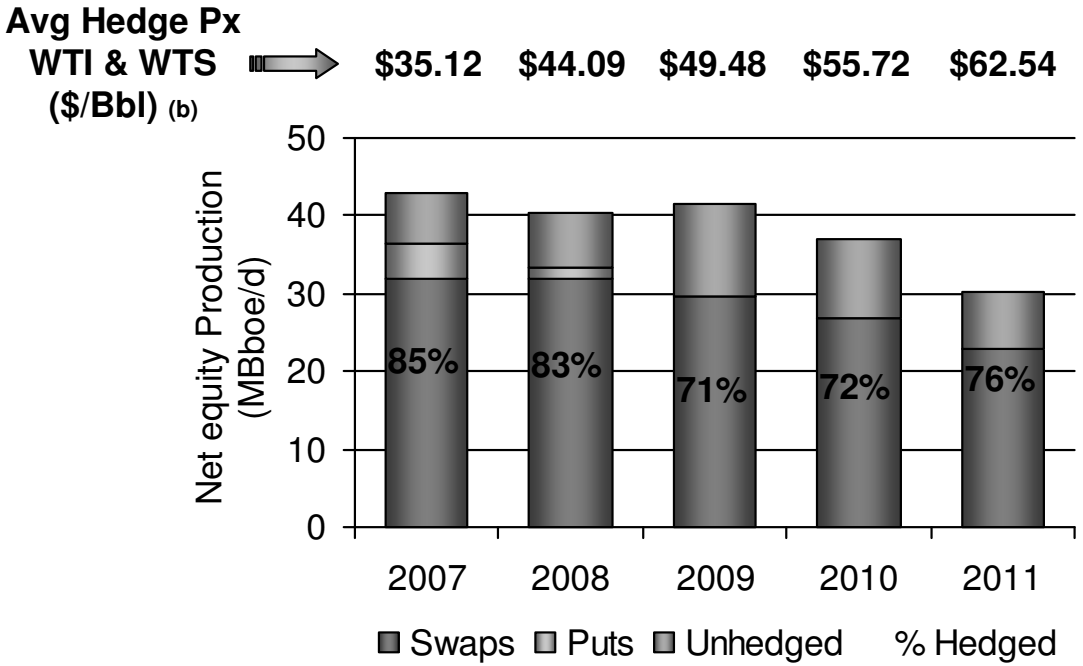
Impact of Oil Price/Volume Variance on 2007 DCF

2007 Budget:	**590 MM$**
+/- 1000 BOPD	
SACROC	**19.4 MM$**
Yates	**9.6 MM$**
+/- 1 $/B WTI	**5.4 MM$**
3rd Party CO2 Deliveries	
+ 50 MMCF/D	**5MM$**

Unhedged WTI price presumed to average $66.29/b, WTI-WTS spread = $5.19

CO_2 Crude Production Hedge Profile

SACROC & Yates Crude Oil Production (a)



(a) 2007 production based on Kinder Morgan budget; 2008-2011 based on Netherland, Sewell reserve report. Includes heavier NGL components (C4+).

(b) Incorporates swaps and puts at strike price net of premium, WTI/WTS spread @ $6-7.00/Bbl.

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KM CO2 Long-term Potential

Development Plans 2007-2015

1. **SACROC Base Case Forecast**

- 165 MMBOE Gross*, 1.5 B$

Gross capital required includes 300 MM$ cap. CO_2

2. **Yates Sum of the Parts Forecast**

- 75 MMBOE Gross*, 308 MM$ Gross Capex

Gross capital required includes 58 MM$ cap. CO_2

3. SWCX

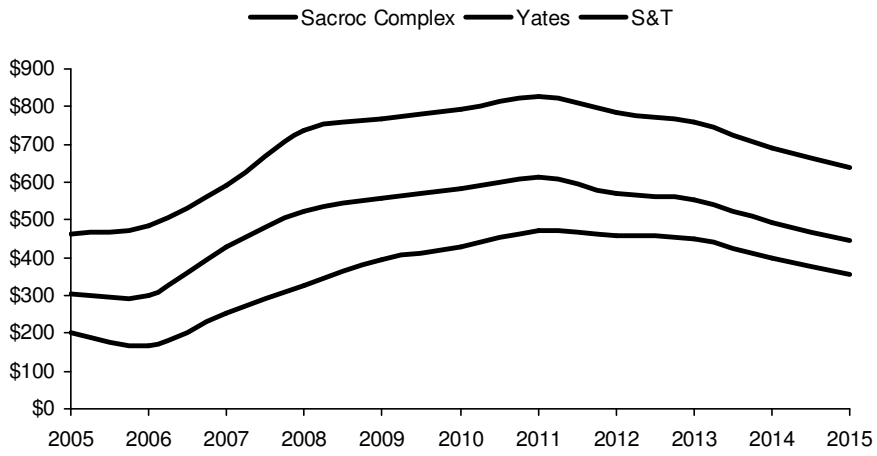
- $202 MM Gross Capex, 1.34 BCF/d capacity

Further work:

SACROC: Reservoir Modeling of Platform, Improve Performance of Bullseye, Field
Test Alternate Development Strategies

Yates: Monitor performance of HDH program;
Enhance gas processing infrastructure

DCF, MM$/Yr



Based on $50/B for unhedged barrels CO2 Profits not eliminated

*** Gross Beq Production Expectations over next 10 years**

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2006 Achievements, 2007 Goals

2006

Missed plan

- CO_2 and Yates Volumes up, SACROC Oil and NGL production lower

Continued aggressive development plans

- S&T Business is growing both domestically and abroad
- SACROC project is large and complex, recovery efficiency and well failures need attention
- Yates – CO_2 injection response and HDH programs performing well
- Eastern Shelf – Acquired Katz field properties

2007

SACROC Development program – improve project performance

Continue HDH Program at Yates, improve compression efficiency

Pursue expansion plans for SW Colorado CO_2 Supply, Exploit Canadian CO_2 supply opportunities

Continue evaluation of Eastern Shelf development opportunities


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