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CO_2

Tim Bradley

President CO_2 Group

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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 party CO_2 demand
- Growing emphasis on Carbon Capture

Goals

- Continue development projects at SACROC (improve recoveries), Yates (secondary horizons).
- Complete Eastern Shelf EOR project evaluations, propose development projects
- Pursue new CO_2 acquisition opportunities and EOR customers in existing and new markets

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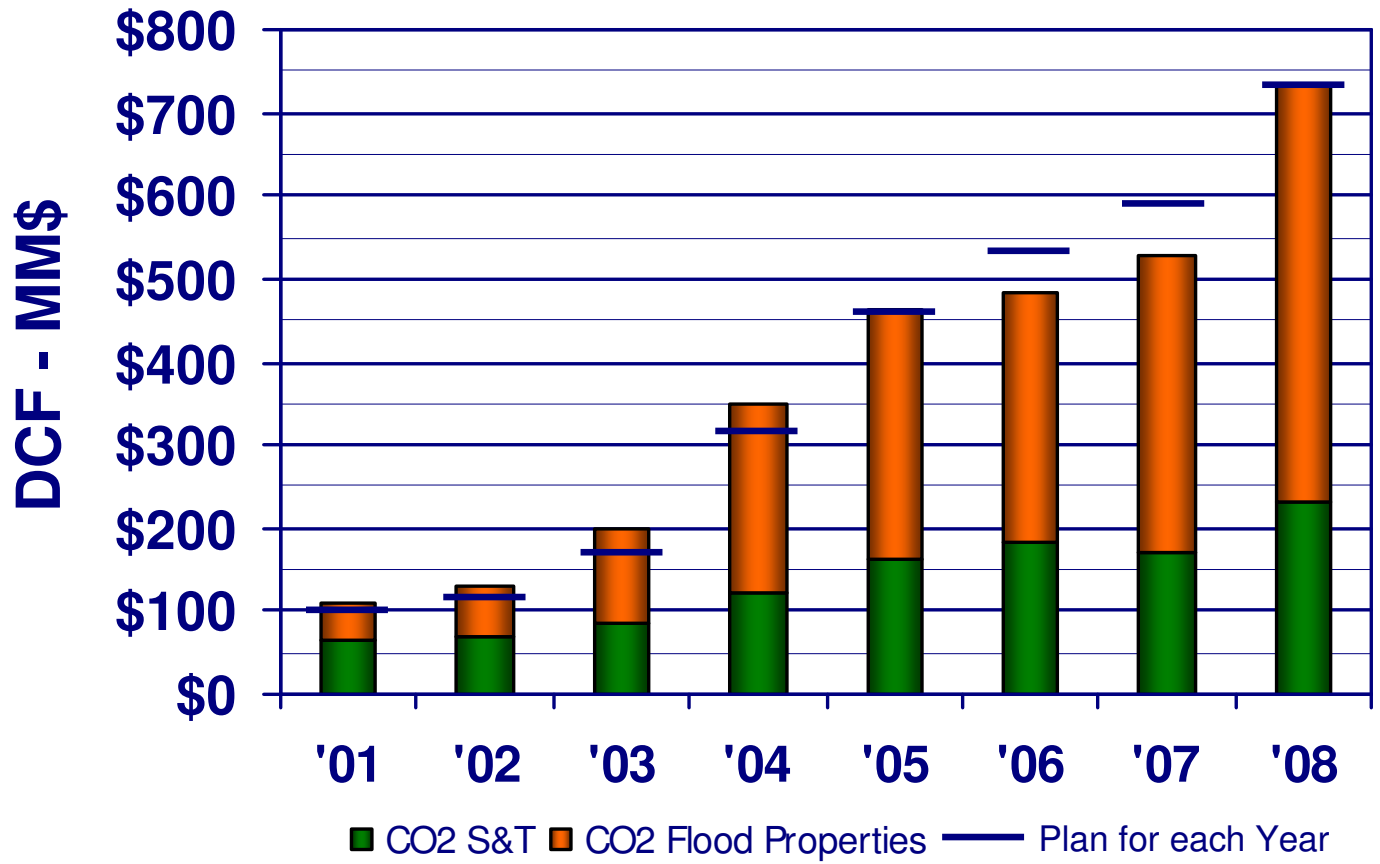
Distributable Cash Track Record

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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2007 Performance Recap

Overall, disappointing results

CO_2 Source and Transportation — Outperformed

- $172 MM vs $164 MM

Yates — Outperformed

- $195 MM vs $177 MM
- 27,004 B/d vs 26,200 B/d

SACROC* — Underperformed

- $162 MM vs $252 MM
- 27,604 B/d vs 32,513 B/d
- Future growth in cash flow even with flat production

Note: Distributable Cash Flow
*Including SACROC Services and remaining oil and gas assets

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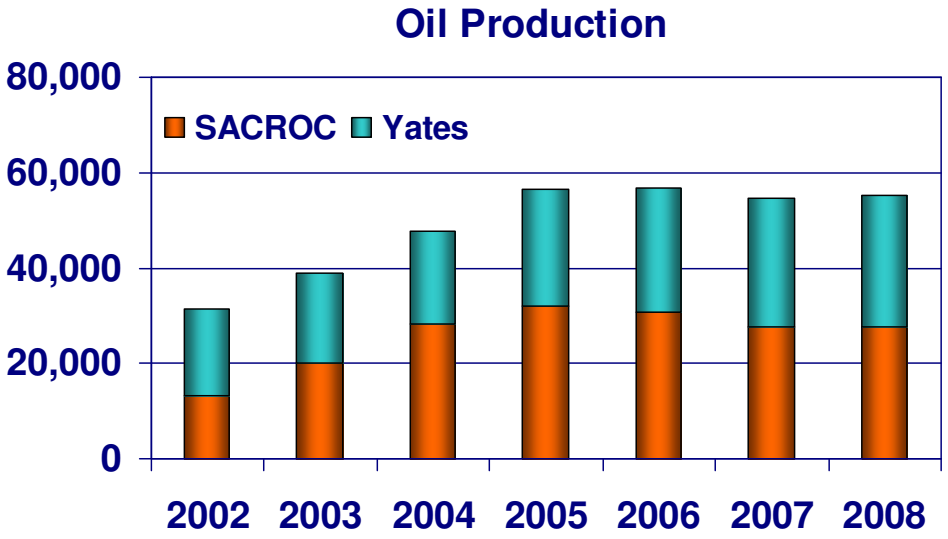
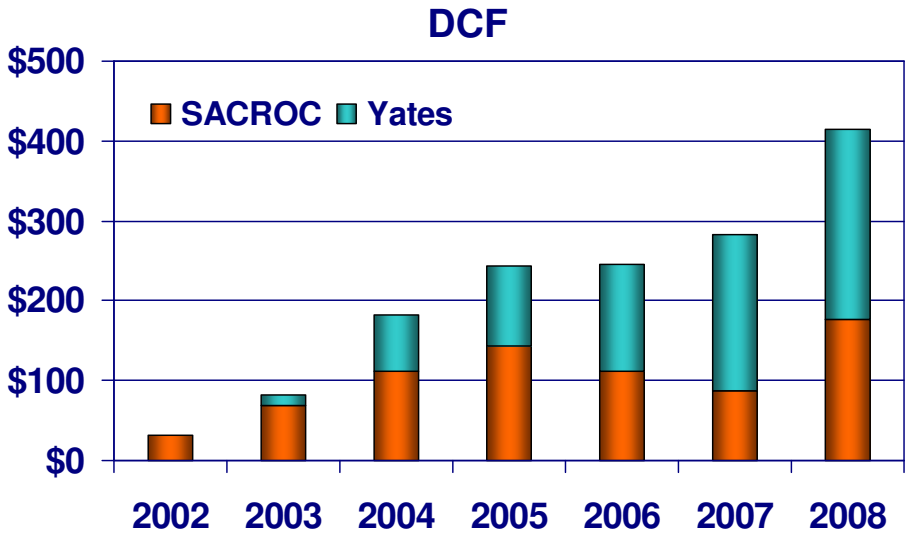
SACROC and Yates Oil Production DCF





Historical Summary

Acquisitions:

SACROC	June 2000
MKM	January 2001
Yates	November 2003

Significant Development Events

SACROC:

CLPL	April 2002
CL V, BE, CR, SWCL	April 2002-Present

Yates:

Horizontal Drilling	2002 – Present
CO_2 Injection	March 2004

2008 Production

SACROC	27,670 B/d
Yates	27,500 B/d

2008 DCF

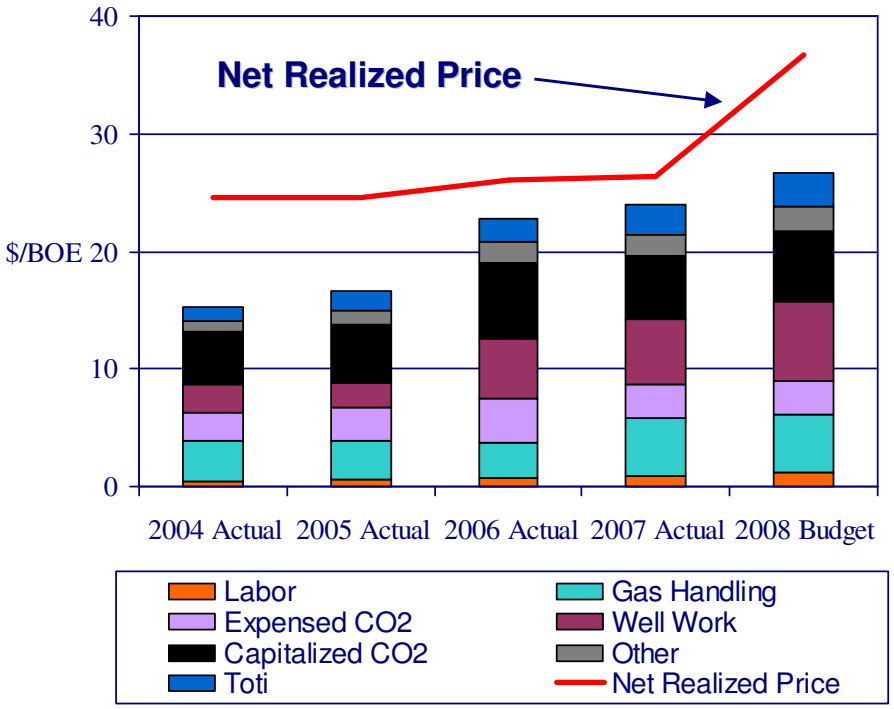
SACROC Unit	$176 MM
Yates	$238 MM

Note: Yates DCF does not include contribution from MKM

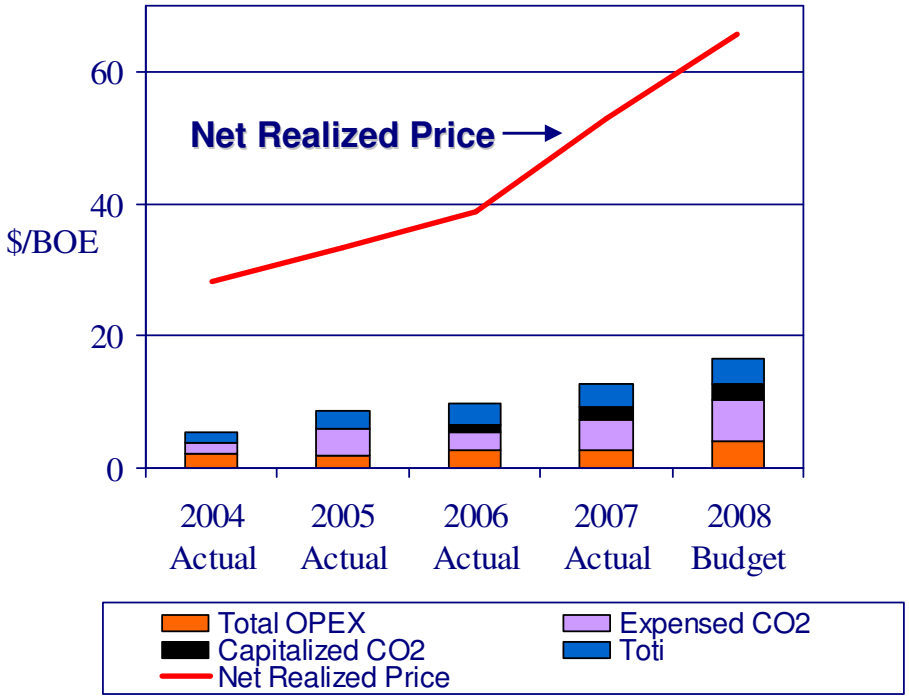
Oil and Gas Margins Improving

Net of Hedged Prices

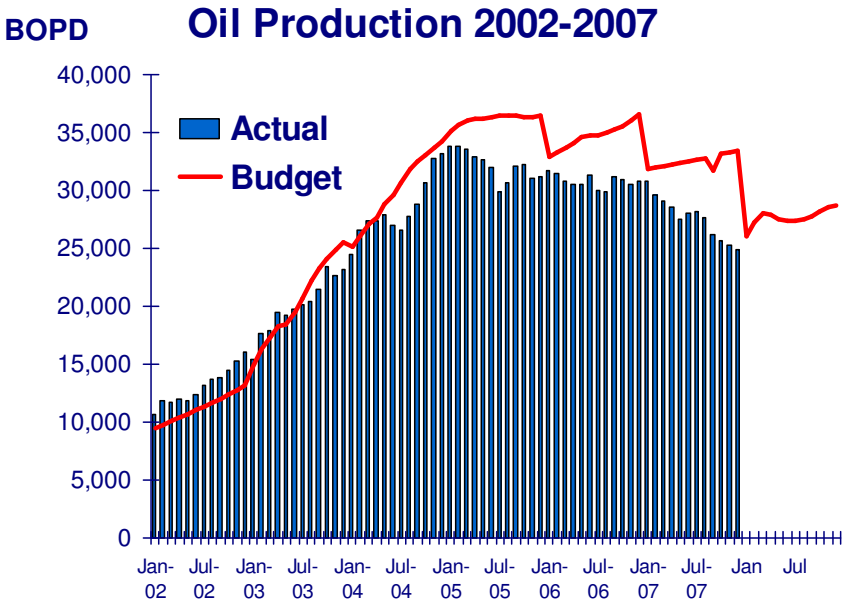
Sacroc Cost Structure

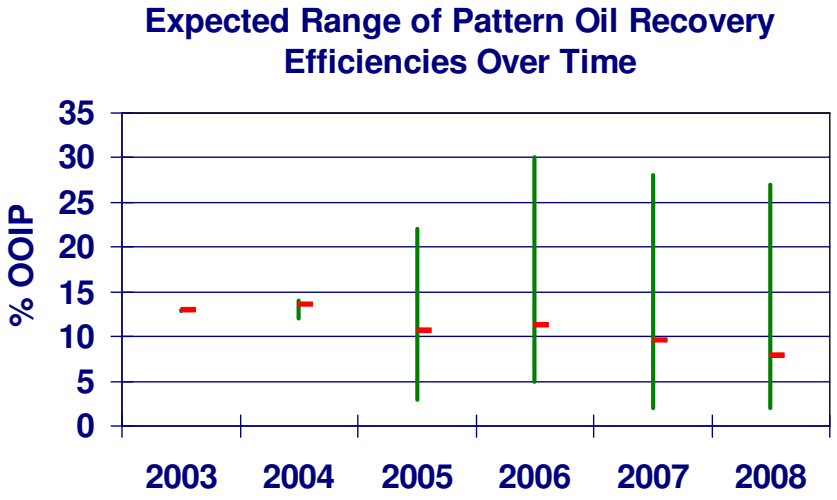


Yates Cost Structure



SACROC Production Deterioration





2007 – Recap

Challenge 1: Reservoir responding differently

Lower recoveries in post Center-Line Projects
Lower injectivity growth than previously observed
Development pace slowed

Challenge 2: Submersible pump failures

Failure rates improved, but not as fast as planned

Result: Oil production rates declined

Initiated polymer and stimulation treatments on injectors
Alternative development strategies being evaluated
Restored development pace in 4th Qtr
Well failure mechanisms under study, changed pump vendor

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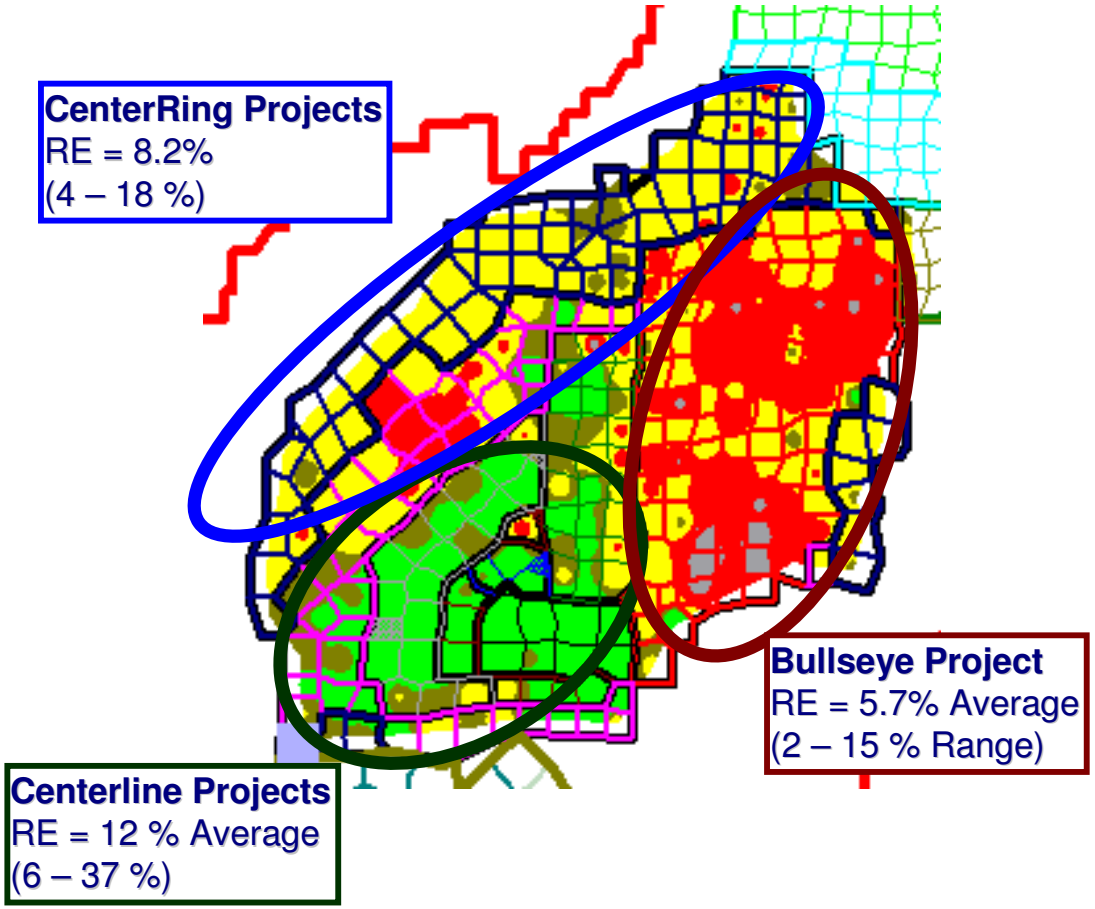
SACROC Tertiary Oil Recovery Efficiency

Evolution of Expectations and Responses over Time



- Expansion expectation from Bullseye thru CR2 was based on the Centerline Projects 2000-2003
- We used a single pattern simulation to verify this at the start of Bullseye
- Economic drivers and early success encouraged keeping pace of development high
- Half way through CR2 implementation the Bullseye project faltered
- Lower recovery has been demonstrated in all projects after Centerline

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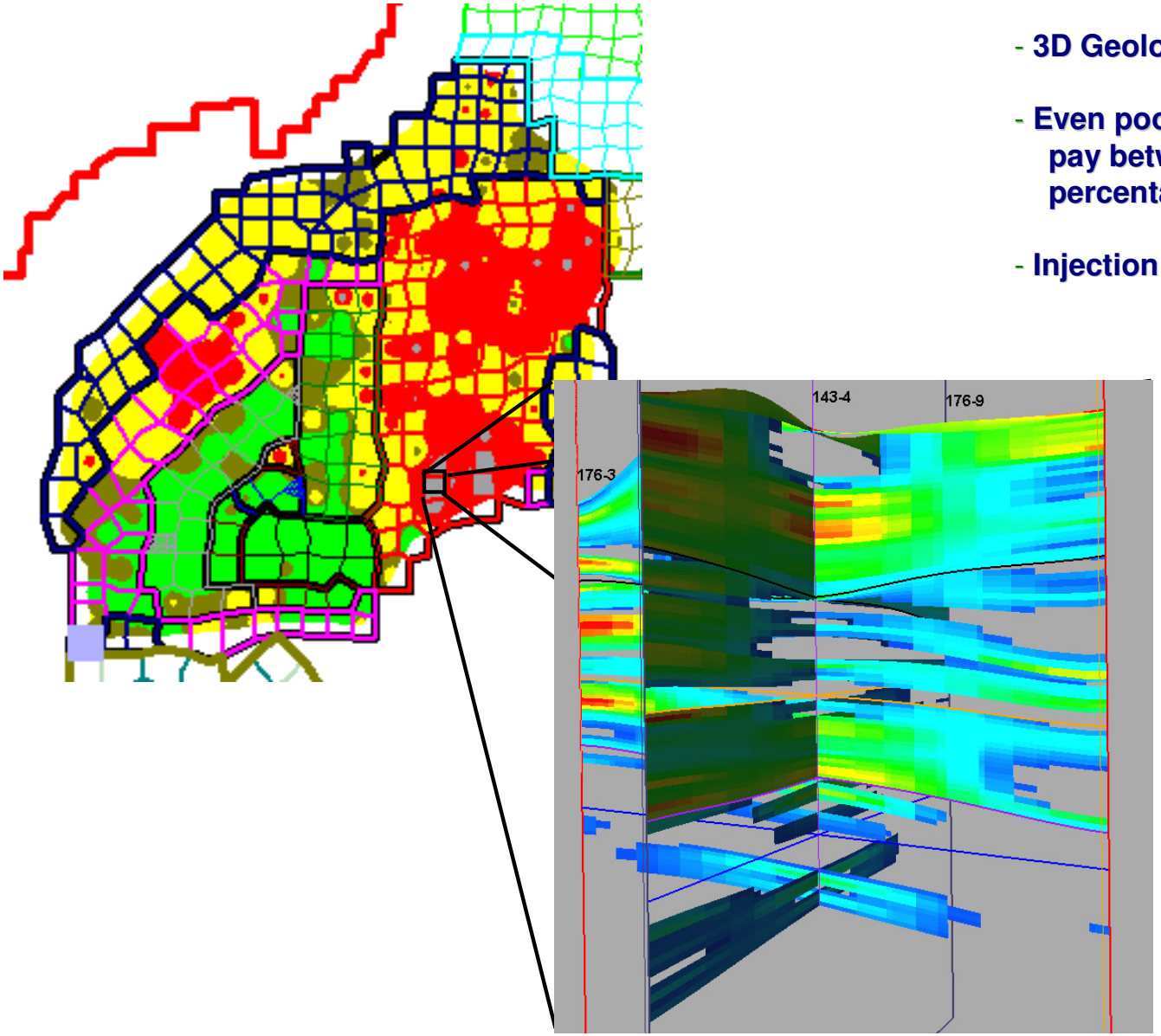
SACROC Conformance Improvement Effort

Bullseye Project Still Has Hope



- 3D Geologic Model has Progressed
- Even poorest recovery areas have 88% connected pay between wells but injection in only a small percentage
- Injection Diversion Projects in Late 2006 and 2007

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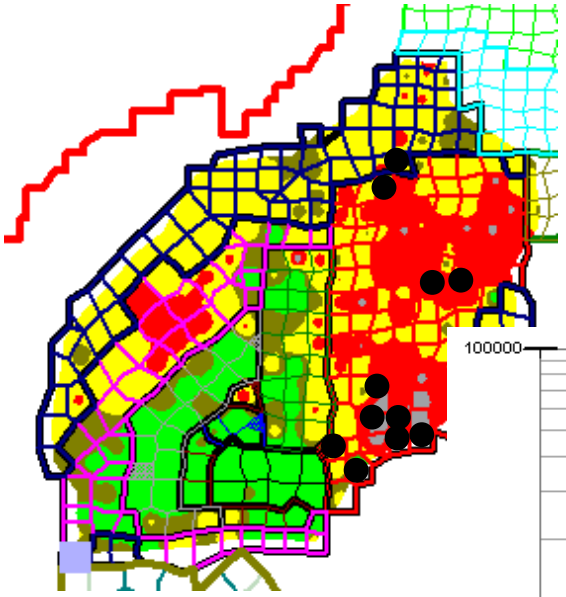
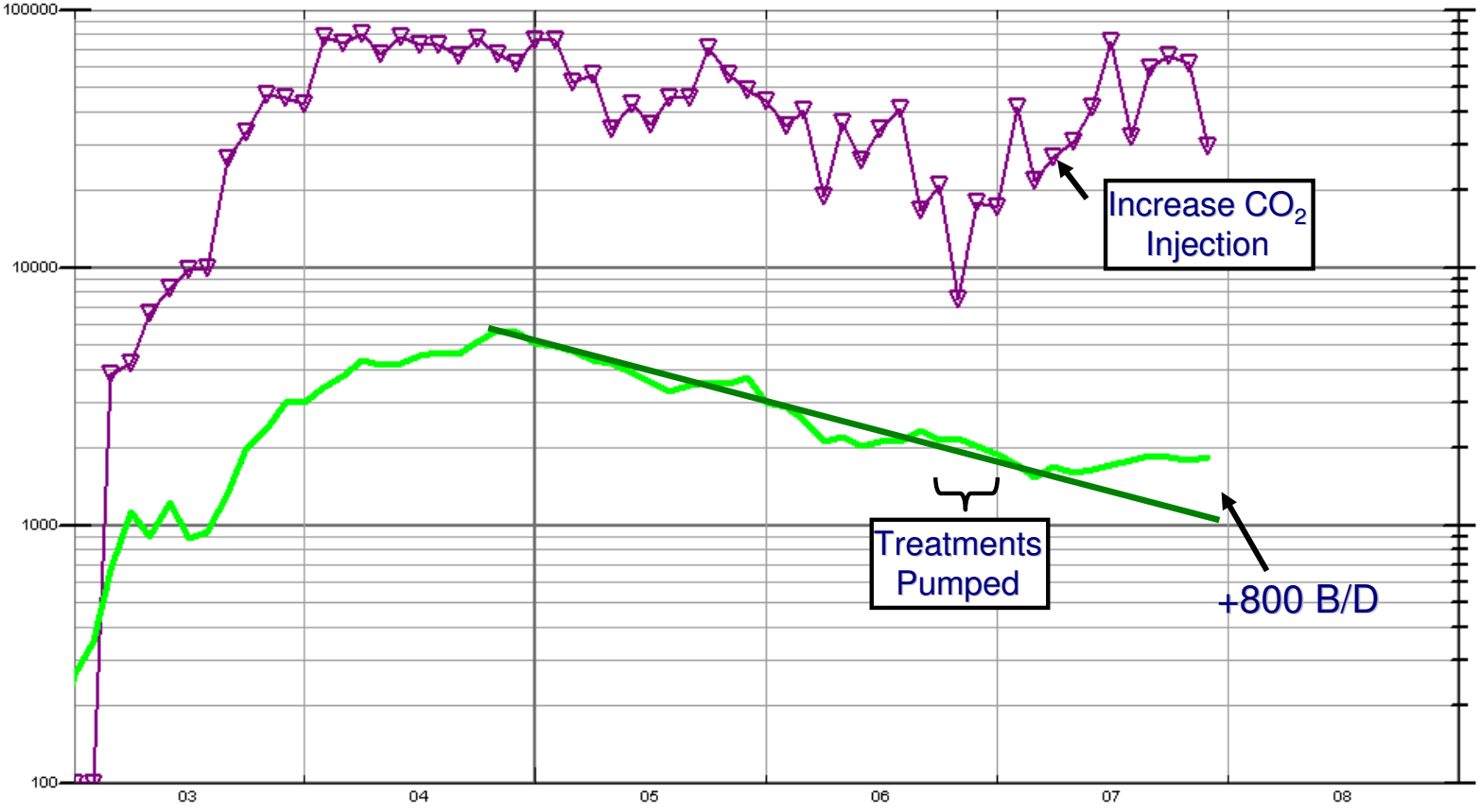
Conformance Improvement Efforts:

Bullseye: 12 Polymer Patterns (Fall 2006 Treatments) Combined Well Production



12 Wells Treated with Polycrystal Polymer – late 2006
- Profiles Changed in majority of wells, CO_2 Injection resumed in 2007
- Results look promising

Additional 8 Well Polymer Gel Program underway in So. Bullseye
- Too early to evaluate



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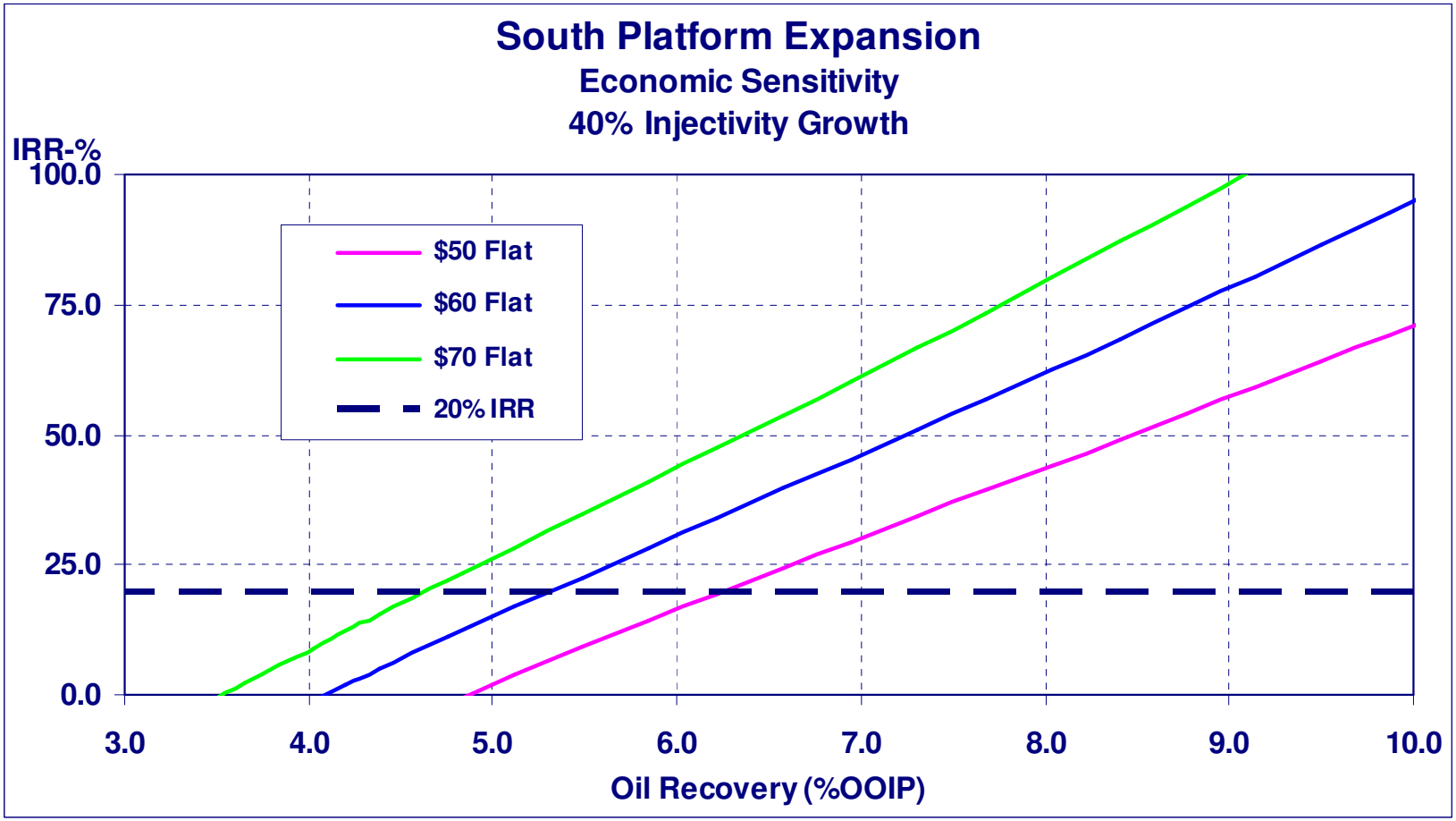
New Project Economics – South Platform

New Projects remain economic at lower recoveries and lower oil prices



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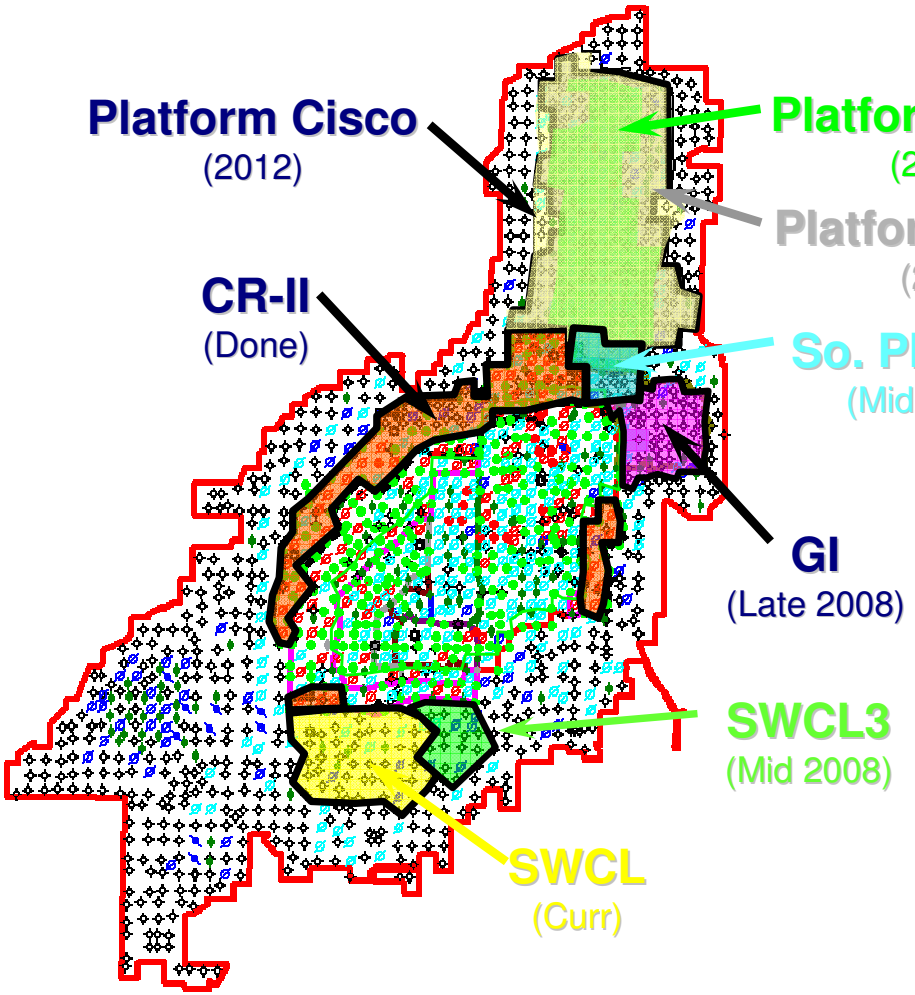
SACROC Development Plan



Expected Range of Recoveries

SWCL	7.7%
So. Platform	7.7%
Other Developments	6.0 to 9.5%
	7.4% avg.

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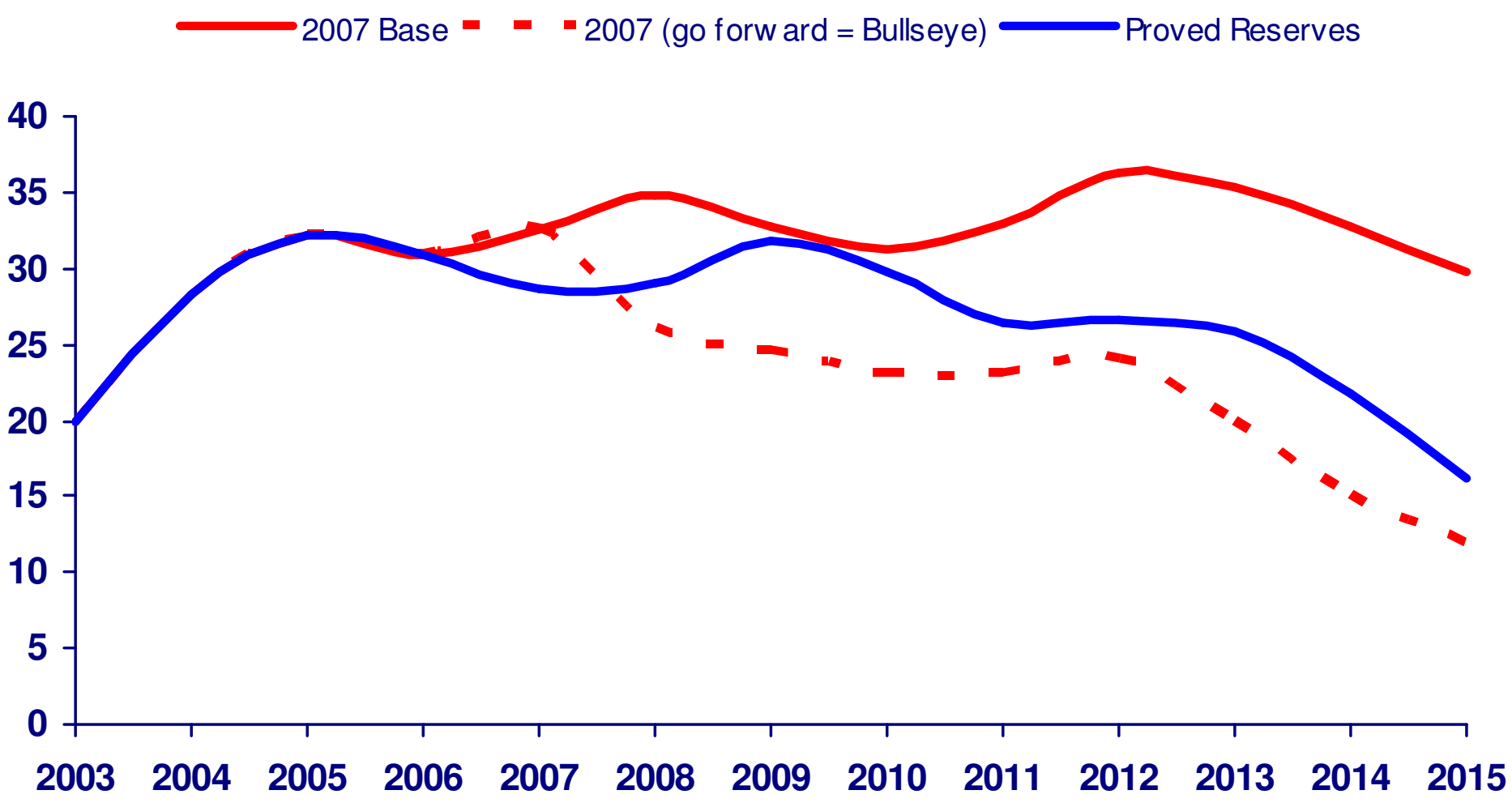
SACROC Oil Production Historical Forecasts



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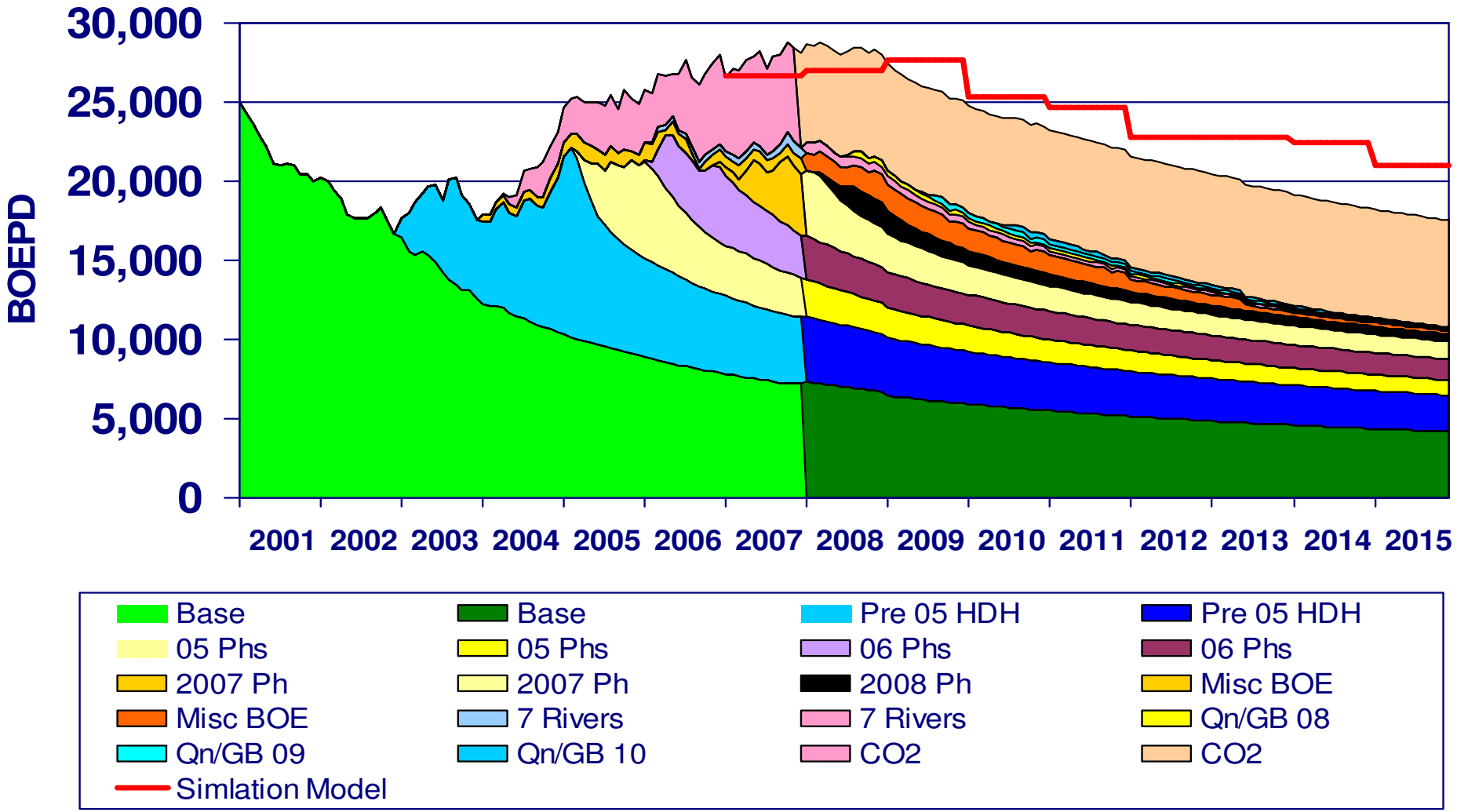
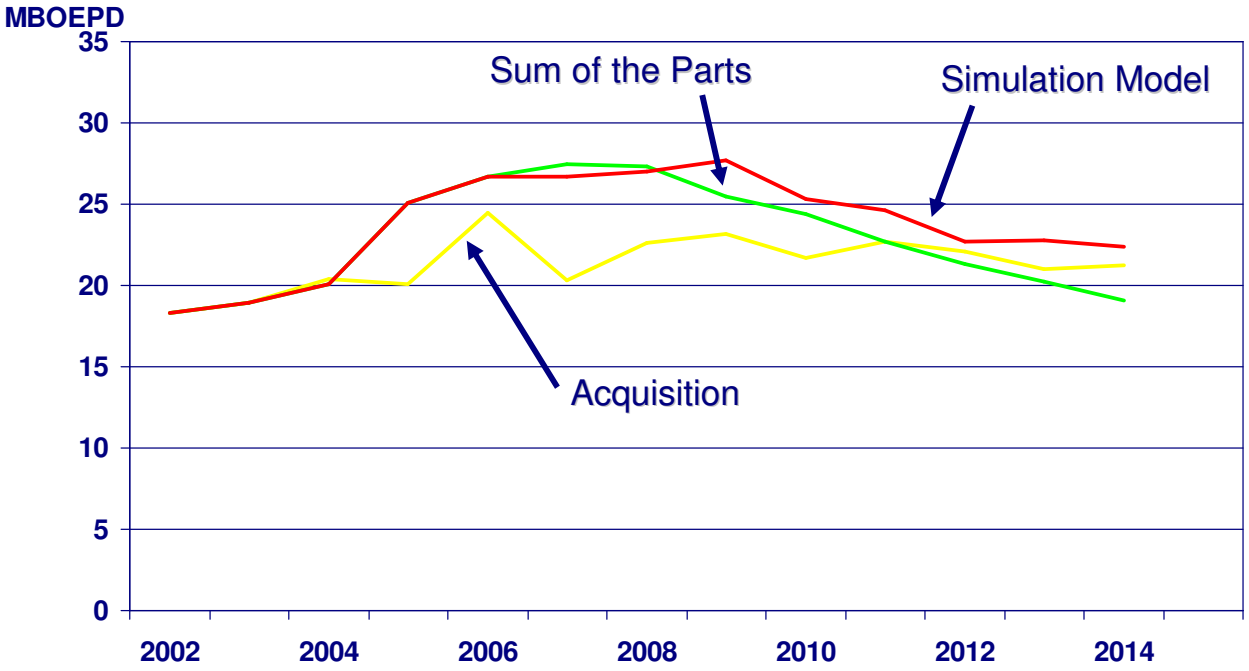
Yates Production Forecast by Program



Yates Oil Production Forecasts

Production continues to exceed expectations



- Response to CO_2 injection earlier than prior simulation model suggested
- Vertical well production is flattening
- More horizontal drain holes drilled than originally expected
  - Response to CO_2 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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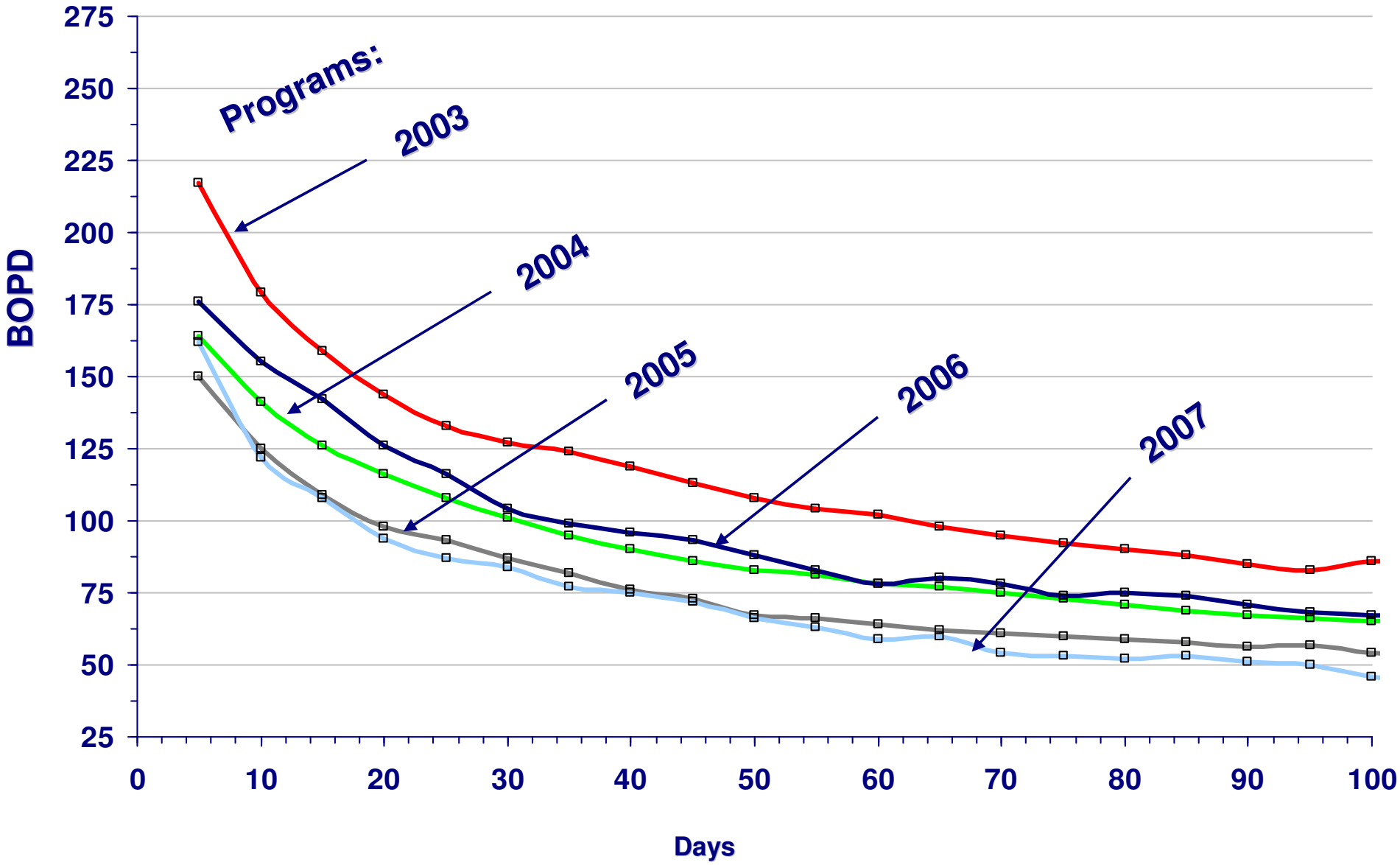
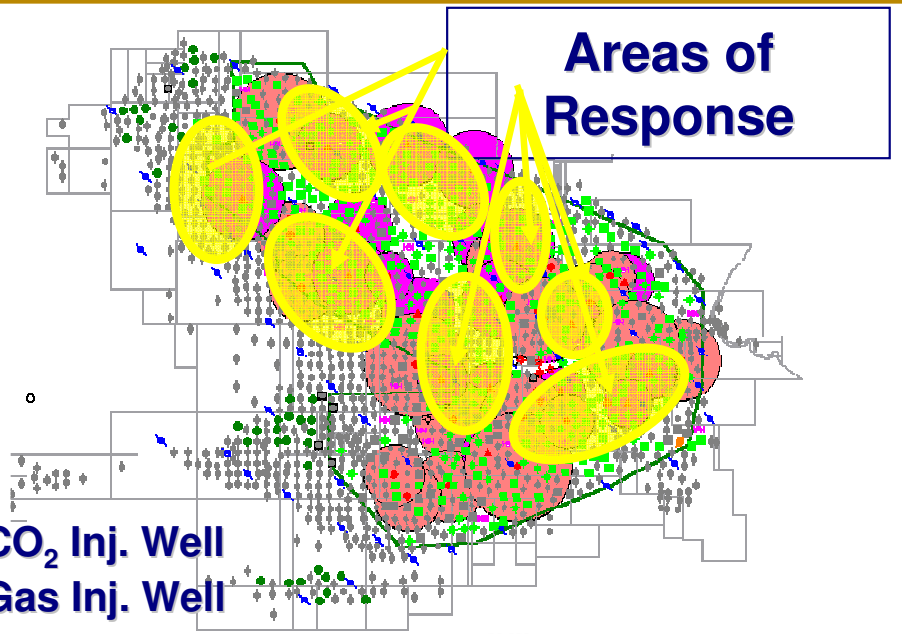
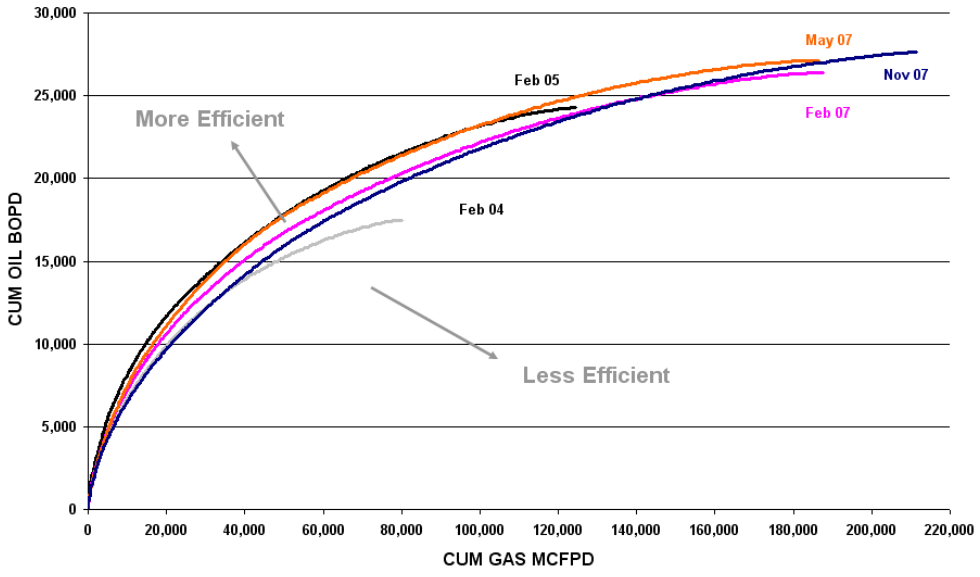
HDH Production Performance by Year



Yates Field – CO_2 Injection Results



- CO_2 Injection started March 2004, CO_2 Injection (N_2 venting) began March 2005
- Responding well count continues to increase; well performance becoming more uniform
- Oil column thickness is stable



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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

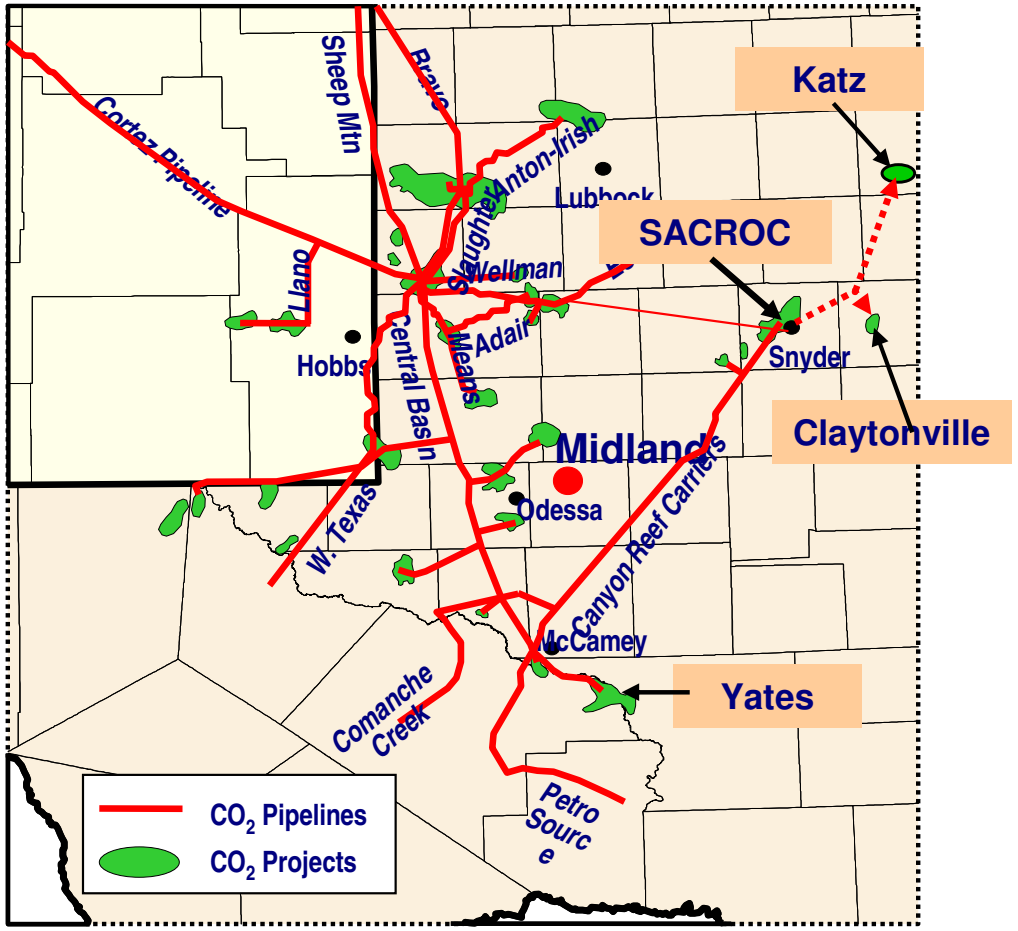
Development Plans:

Waterflood re-activation

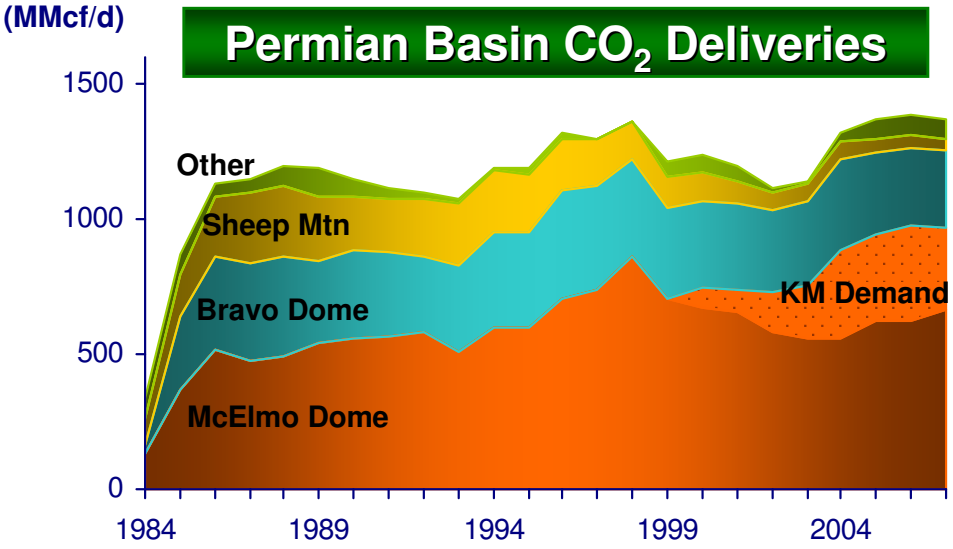
Evaluate seismic data, confirm geologic model

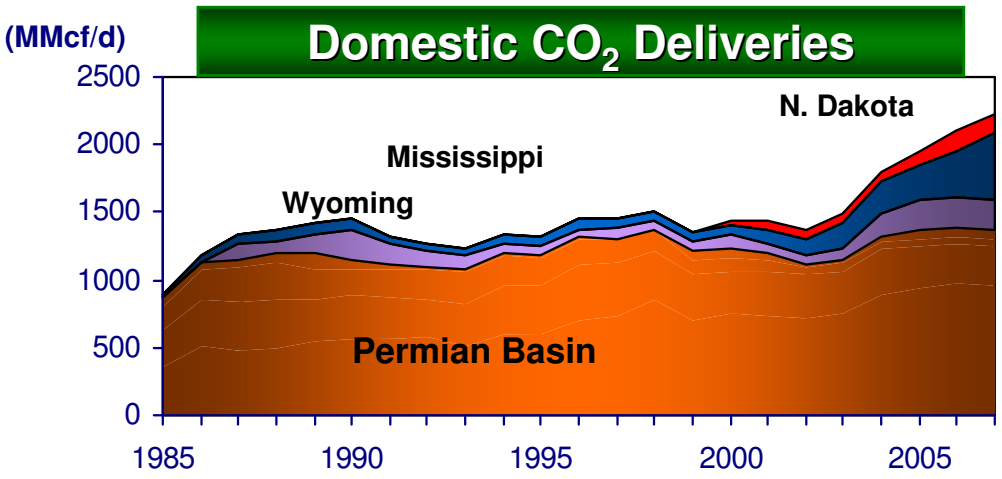
Design CO_2 Flood 2008

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



CO_2 Source and Transportation
Growing Business Opportunities





Permian Basin

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 CO_2 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

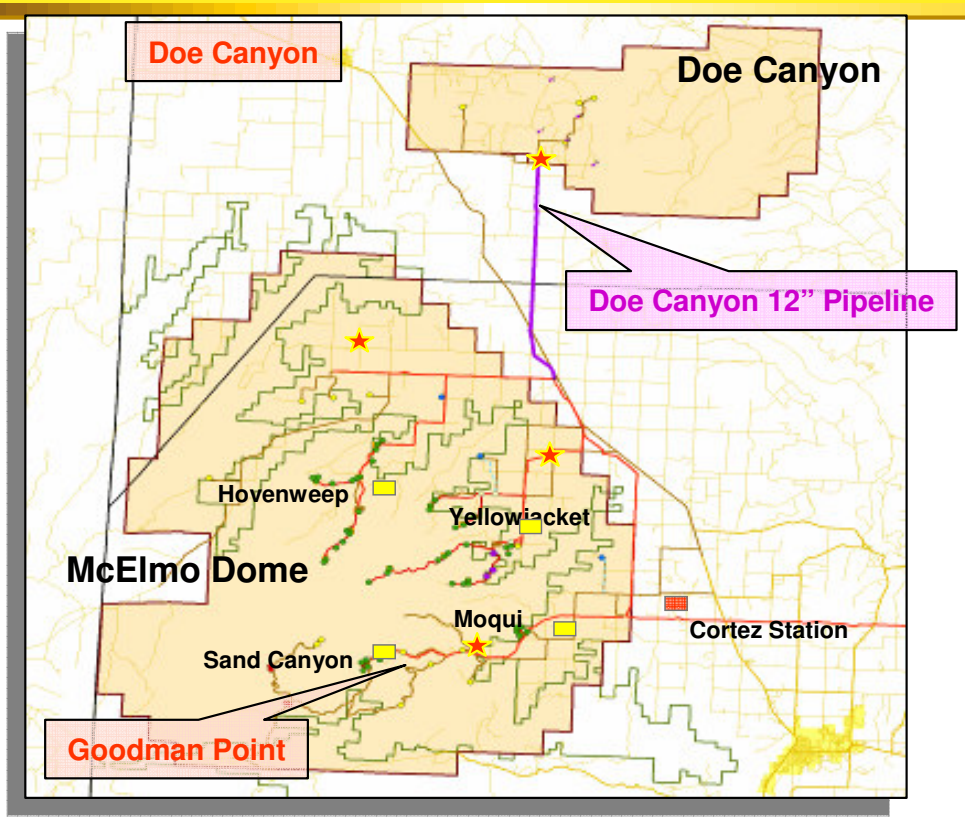
Several regions have potential intersection between supply and demand including:

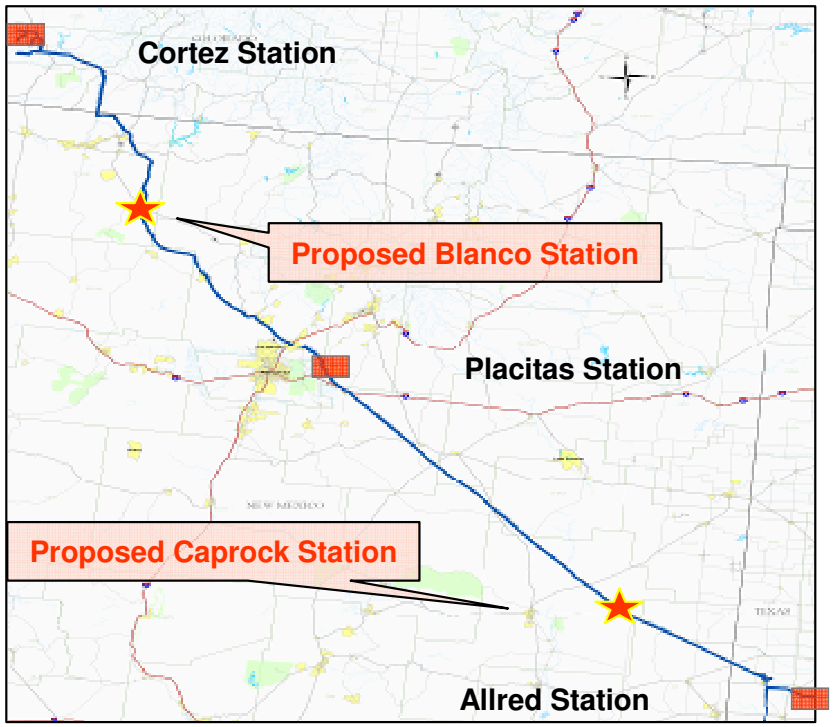
Gulf Coast, California, Mid-continent, Canada

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

Southwest Colorado Expansion

On Schedule for + 300 MMCFD





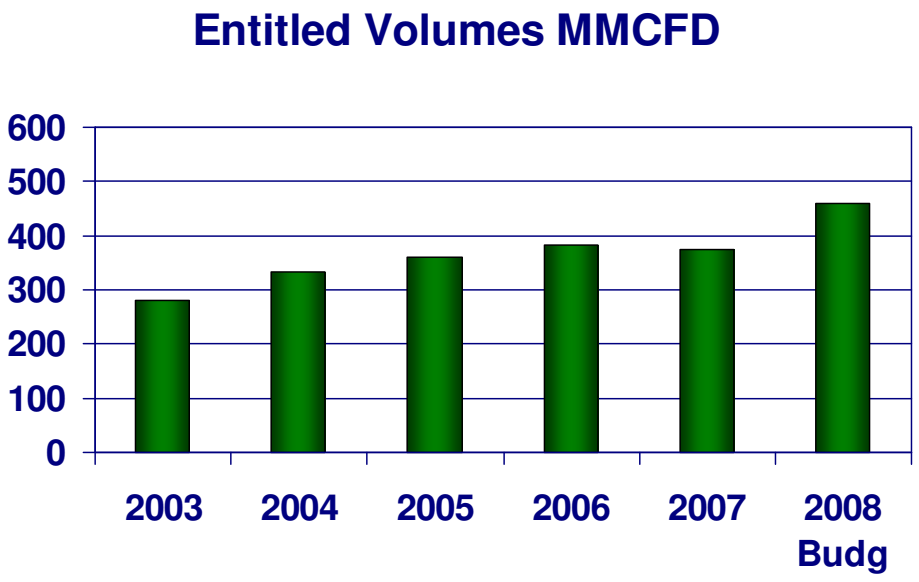
Source Field Expansion

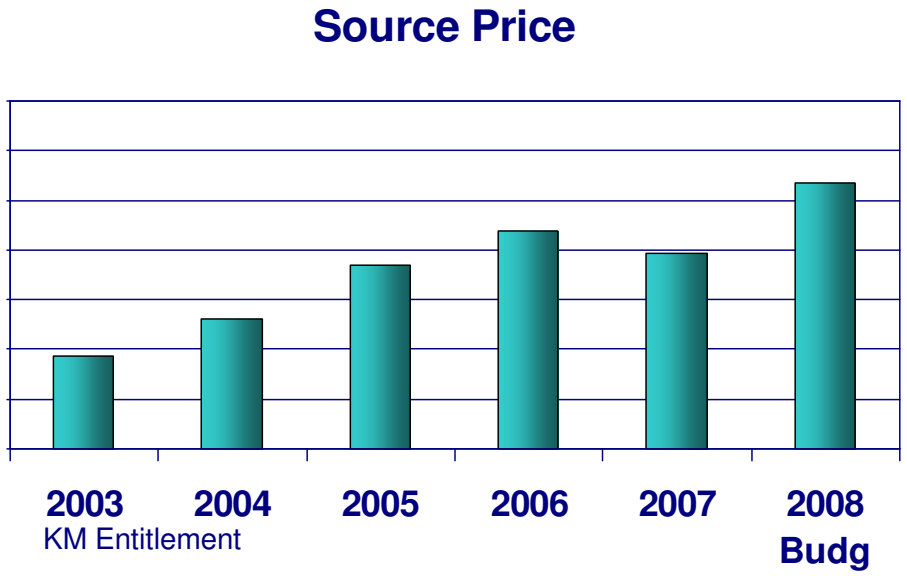
- Doe Canyon 100 MMCF/d
- McElmo Dome 200 MMCF/d
- Increase capacity to 1.45 BCFD

Cortez Pipeline Expansion

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

SW Colorado Delivered Volumes and Values





Significant growth over past 5 years

CAGR:

Volumes + 7.3%
Price + 21%

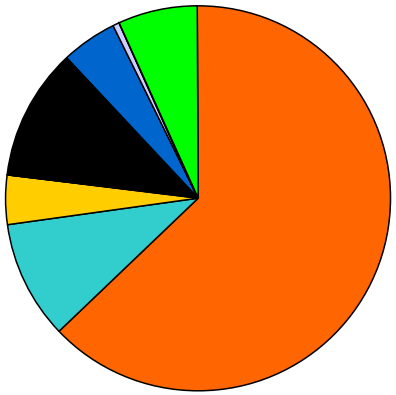
2008 vs 2007

Volumes up 23%
Price up 35%

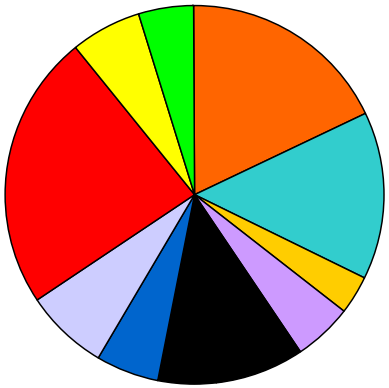
3rd Party Sales Portfolio

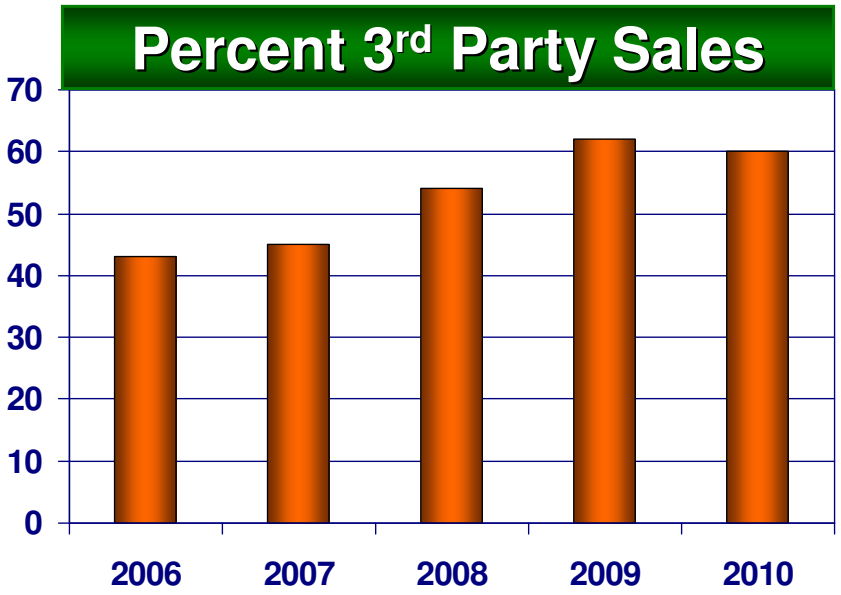
Growth in Sales and Greater Diversity

2006 Actual Deliveries
219 MMCF/D



2008 Budget Deliveries
410 MMCF/D





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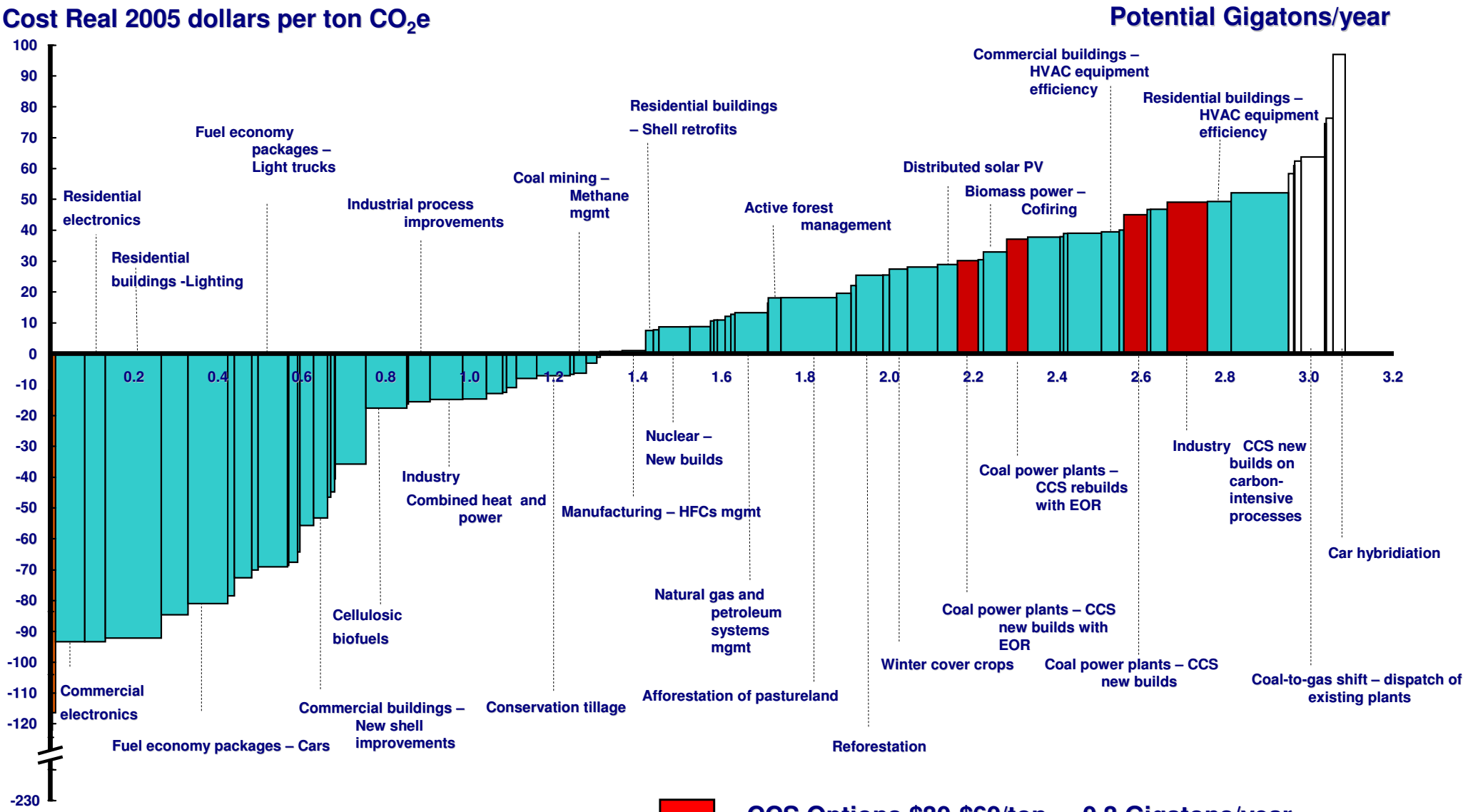
GHG Abatement Opportunities/Costs

CCS costs are on the high end of the range of options



Source: McKinsey Mid-Case

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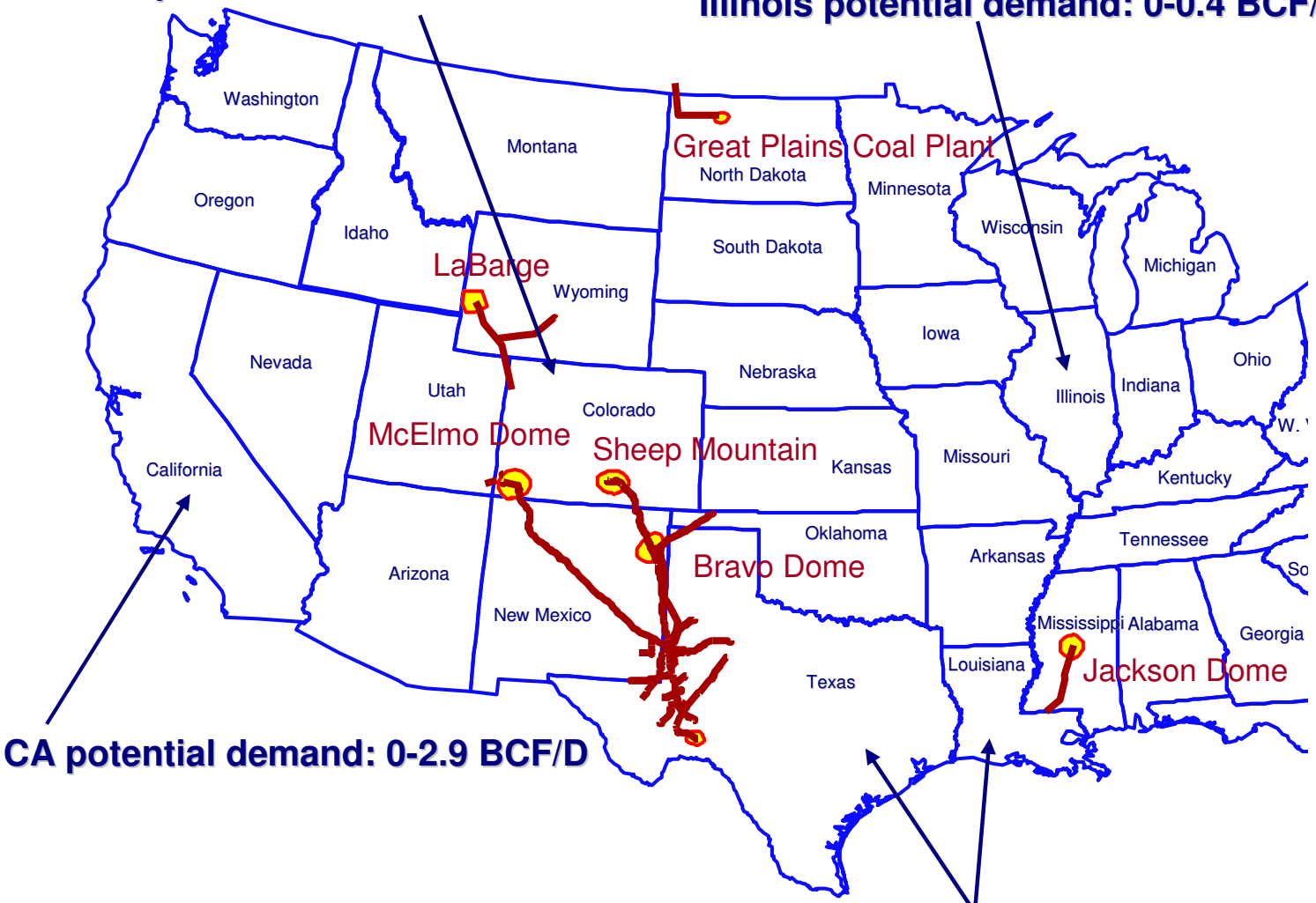
U.S. CO_2 EOR Business

Potential EOR CO_2 Demand: Up to13.5 BCF/D

Rockies potential demand: 0-1.7 BCF/D

Illinois potential demand: 0-0.4 BCF/D



Potential U.S. EOR CO_2 Consumption:

13.5 Bcf/d
or
0.26 GT CO_2/yr
or
4%
of U.S. Emissions

CA potential demand: 0-2.9 BCF/D

TX, LA potential demand: 1.3-8.5 BCF/D

Source: ARI/DOE Feb 2006

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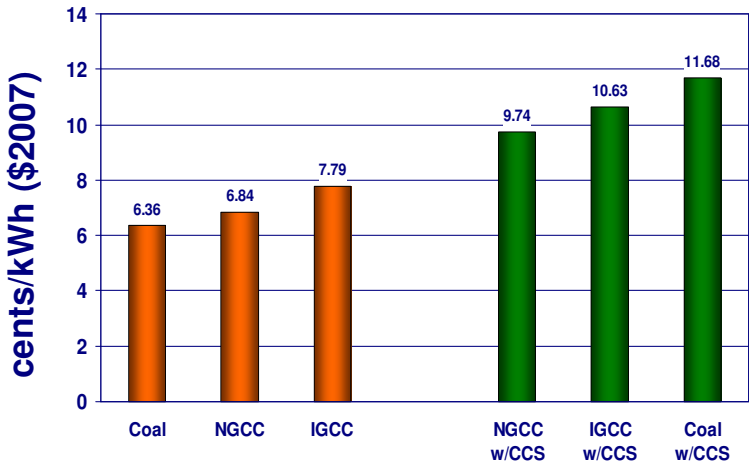
Current Challenges with Carbon Capture and Storage

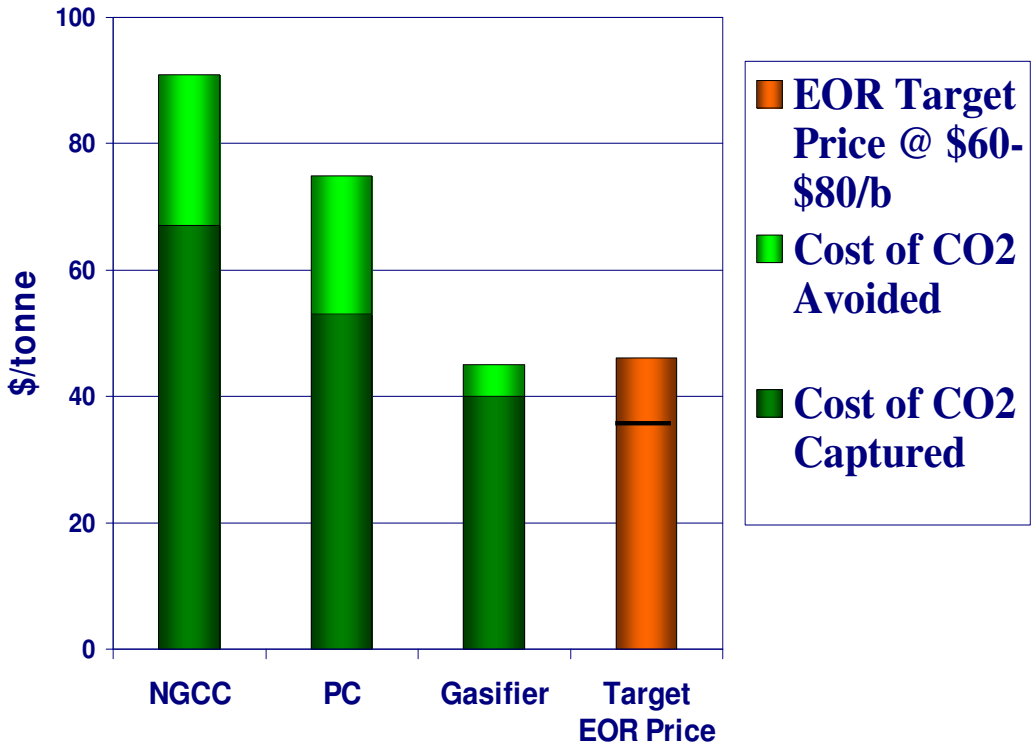
Power Generation Costs



Percent Increase in Electricity with CCS vs lowest cost option



Cost of CO_2 Capture/Avoided and EOR Affordability (a)



Sources: NETL, IPCC, KM

(a) Cost is at plant gate, EOR price is at oil field

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Current Challenges with Carbon Capture and Storage

Who is going to pay, and how?

- Electricity Consumers likely
- EOR projects possibly

How will it be regulated?

- Pore space ownership
- Liability
- Jurisdiction – Federal, State

What needs to be done?

- Financial structure/tax incentives for action
- Geologic Descriptions of saline aquifers
- Continue feasibility studies
- Pursue Low hanging fruit
  - -Site new plants in EOR rich areas
  - -Backstop with natural sources

What are we doing?

- Founding members of 3 sequestration partnerships and the NACCSA
- Participating in and contributing to DOE sponsored field tests
- Monitoring developments, poised to move under right conditions

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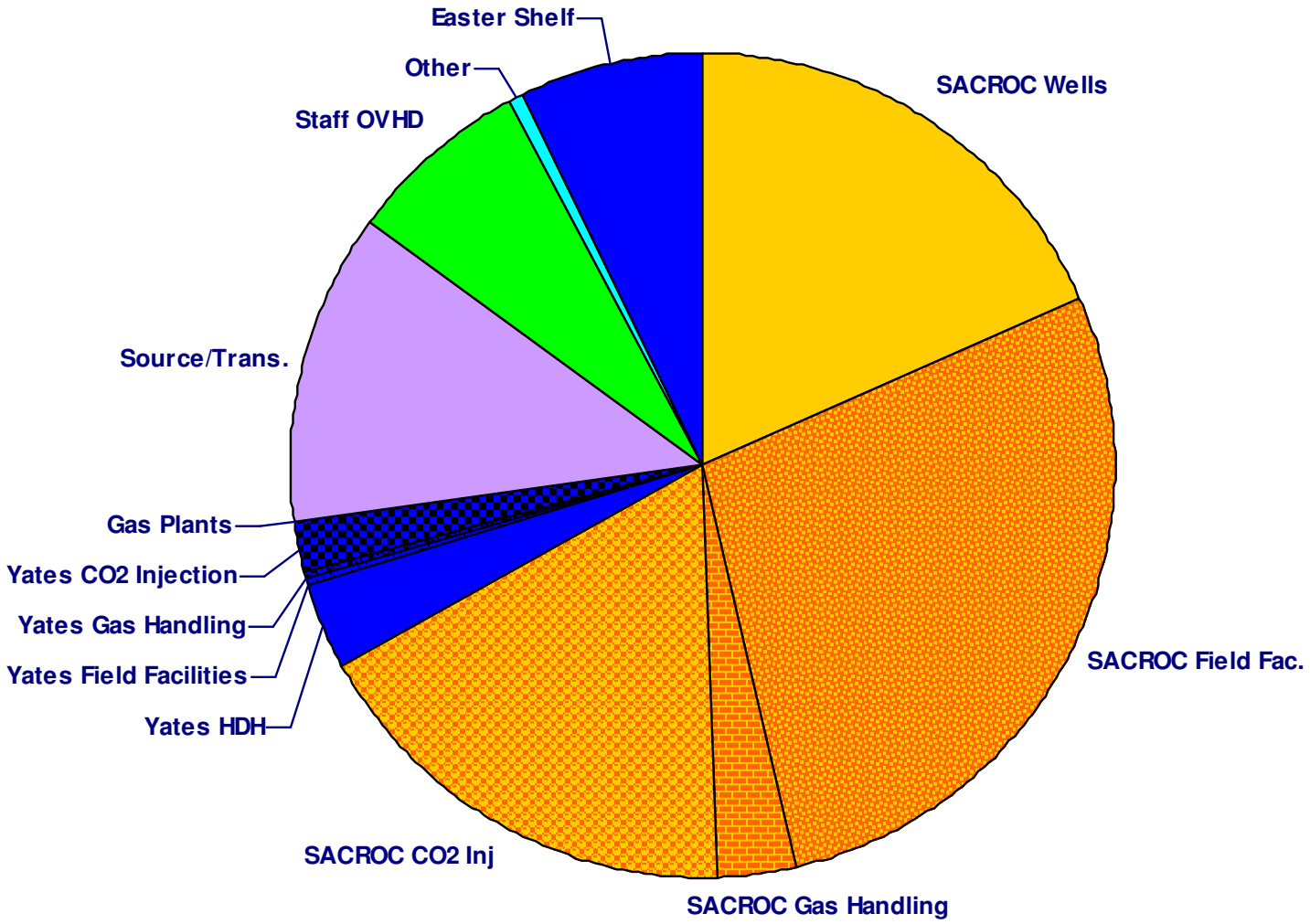
2008 Expansion Capital Budget - $491 Million



Note: 2007 budget was $445 MM, actual was $381 MM

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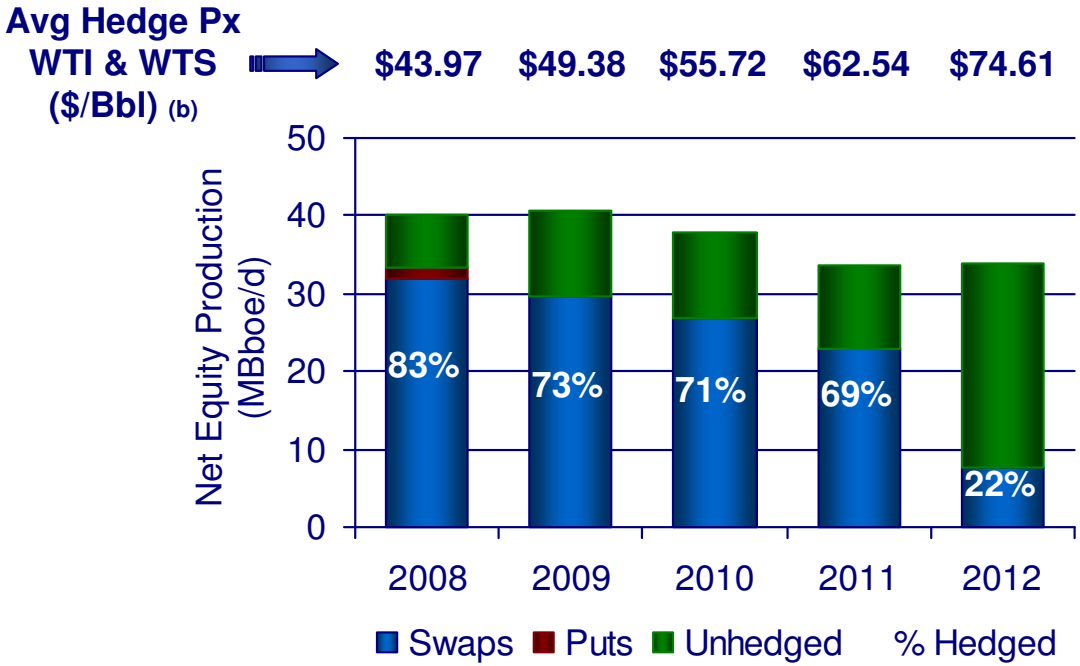
Impact of Oil Price/Volume Variance on 2008 DCF

2008 Budget:	**736 MM$**
+/- 1000 BOPD	
SACROC	**24.4 MM$**
Yates	**12.5 MM$**
+/- 1 $/B WTI	**5.3 MM$**
3rd Party CO_2 Deliveries	
+ 50 MMCF/D	**7MM$**

Note: Unhedged WTI price presumed to average $81.95/b, WTI-WTS spread = $5.17.

CO_2 Crude Production Hedge Profile

SACROC & Yates Crude Oil Production (a)



(a) 2008 production based on Kinder Morgan budget; 2009-2012 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.

KM CO_2 Long-term Potential

Development Plans 2008-2018

1. **SACROC Base Case Forecast – Proved Reserves Case**

- **121 MMBOE Gross, 1.7 B$**

Gross capital required includes 700 MM$ cap. CO_2

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

- 81 MMBOE Gross (a), 270 MM$ Gross Capex

Gross capital required includes 120 MM$ cap. CO_2

3. **SWCX**

- $100 MM Gross Capex, 1.35 BCF/d capacity

Further work:

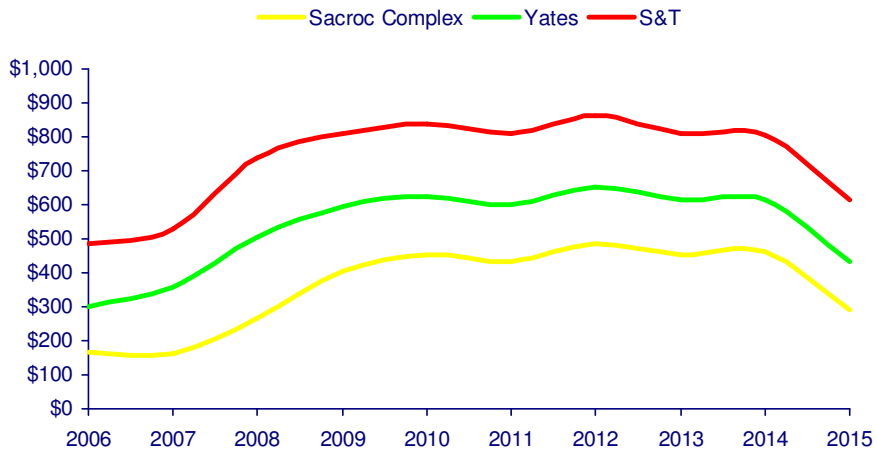
SACROC: Reservoir Modeling of Platform, Improve Conformance in Bullseye/CR areas, Field Test Alternate Development Strategies

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

Eastern Shelf: Complete studies, finalize development plans, start construction

Be poised to prosecute CCS opportunities

DCF, MM$/Yr (b)



Based on $70/B for unhedged barrels
2008 = Budget
CO_2 Profits not eliminated from S&T

(a) Gross Beq Production Expectations
(b) Additive DCF, i.e., yellow line = SACROC-only, green line = SACROC + Yates, red line = SACROC + Yates + S&T.

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2007 Achievements, 2008 Goals

2007

Missed plan

- **CO_2 and Yates Volumes remain strong, SACROC Oil 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 – Framing Development plans**

2008

SACROC Development program – improve project performance

Continue HDH and secondary zone development programs at Yates

Complete expansion plans for SW Colorado CO_2 Supply, Exploit emerging carbon capture opportunities

Continue evaluation of Eastern Shelf development opportunities


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