

California Resources Corporation

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Unidentified Participant: We'd like to get started with our first presentation today. It's a pleasure to welcome for the first time to our energy conference, California Resources. With us from the Company today to do the presentation is Todd Stevens, California's -- CRC's President and CEO, and I'll turn it over to Todd.

Todd Stevens: Thanks, Jeff. Pleasure to be here today and talk about our Company, California Resources Corporation. New company, first time at Barclays. Glad to be here.

Get through the legalese, and talk a little bit about CRC and California. I know a lot of you, when you think of California, don't necessarily think of the oil and gas industry. But some of the largest field discovered in North America, some of the big elephants are in California.

And believe it or not, Kern County in California that's at the heart of the oil and gas industry of California, is still the number one oil and gas producing county in the lower 48 contiguous United States. I know some of you might find that hard to believe, but it's a burgeoning oil and gas industry up and down the state. As you can see from the map on the right, multiple basins, multiple different drive mechanisms. You probably heard me, but if you heard me talk before, it's a lot like the Permian Basin with a lot of stacked pay, but you bring tectonics into play, and it changes the dynamic entirely when you think about what the subsurface might look like.

When you think about CRC, we're in this world-class resource base. Year-end reserves around 768 million barrels equivalent last year. We have a capital structure. And for those of you who are familiar with the Company know that that's the real issue. We were laden with a debt of \$100 oil, and then spun off from our former parent, Occidental. And we're blessed with a great asset base of both upstream and midstream assets. So we're working to ultimately deleverage ourselves and get ourselves and our balance sheet more squared away.

Fortunately for us, our asset base is very low decline. Natural declines are between 10% and 15%, depending on down time overall. And we're also have a high level of operational control; effectively operate all of our assets. And you'll see, as we talk today, we're very capital-efficient. So we're poised to really do well, whether it be in this environment or a higher oil price environment. And you'll see also that we're able to shift our capital program very rapidly between different basins in California, depending on

product prices and even power prices, in some cases.

Quick geographic overview of the Company. Just gives you an idea on a basin basis, you saw the basins on the map before. Upper right-hand quarter, you'll see the San Joaquin basin in the San Joaquin Valley, effectively, is the dominant producing area. This is where most of the large multibillion barrel fields are. And you can see the LA Basin, Ventura Basin, and the Sacramento Basin are four major producing basins. There are some other smaller micro basins in California.

The one thing I'll point out on this page, 2.4 net million acres, mineral acres in the state. Some of that's held fee simple. 60% of that is in fee and minerals overall. We have multiple drive mechanisms. This is why I think it differentiates us from a lot of different companies who might be independents like ourselves, is we're not relying on one single drive mechanism. We have primary production, a significant amount of primary production -- steam floods, water floods, and unconventional opportunities, and not just shale unconventional opportunity. We'll talk more about that later.

The bottom right-hand corner gives you a breakdown of what the production's been for the first half of the year. And you can see it's very similar to the breakdown on drilling locations and reserves.

This just gives you an idea of what's happened over the last few quarters with production, and the breakdown really between oil and natural gas and liquids. But I think what you'll see is we have an interesting portfolio and an interesting mix where we could actually allocate capital more efficiently now that we're separate from Occidental and have separate priorities from Occidental. And we really felt this on our VCI metric, which is the DPI metric going forward. And we have a lot of conventional assets that have long lives with very low declines. And we'll talk more about that in a second.

And this year in particular, we spent most of our capital on steam floods and water floods investment, which have single-digit type declines for really oil growth, oil -- keeping oil flat for the foreseeable future, and really not focusing on gas-focused investments.

You'll see California really, we talk about it, it's a little bit of the land that time forgot. And simply that's the nature of ownership in California -- and I'll hit on that a little bit later -- and why technology hasn't really been brought to bear in a lot of these basins in California historically.

This just gives you -- we directly plagiarized this from another analyst report -- but it gives you an indication of why we have such a great asset base, and why we have such low decline, and why we're poised to weather the trough here of commodity prices. You can see, this is a report done from using drilling info about decline rates. And we have best in class, whether it be a one-year or a three-year type decline rate going forward.

And what does this translate to? This really translates to a capital-efficient portfolio. We've talked about this year, we spent \$440 million, and we've actually had oil production grow for the year. The BOEs have been modest, decline to flat so far. And next year, we feel like we could actually, if we just talk about 2016, probably around \$500 million could keep us flat on a BOE -- I'm sorry, on an oil production basis.

But if you thought longer term, years out, how long can we keep this going? \$600 million \$700 million we think. If we had a protracted, lower for longer environment, we could keep our oil production flat to up with about \$600 million to \$700 million going

forward. And this gives you an idea, just if you look at it based of Wood Mackenzie-type curves in different basins in the US.

This chart here is indicative, it's a dynamic kind of living, breathing chart, because inventory's always replenished each year. And I'll hit on this, in particular Wilmington showing how bigger fields get better over time. But this is indicated to show you how different product prices, different drive mechanisms, how much inventory exists that's engineered, ready to go, with a VCI greater than 1.3.

So, what you would expect, if you looked at this a year from now, is the chart would probably look very similar, if not even better, as you allocate capital more efficiently using our VCI metric as we get used to it as a corporation, and also as we more efficiently allocate our human capital going forward.

We've been also focusing on, and we talk about it internally. I'm a military person. I talk about fighting, defending our margins, and that's something we focus on. And it's not just differentials; it's cost. So you'll see we've done an outstanding job, and our personnel have done an outstanding job and our employees, on bringing cost down in this environment going forward. And you can see we've had outstanding run with this.

I'll point to this on energy on here. Natural gas is really the energy component. And that's used in our steam floods to create the steam that ultimately helps produce some of the heavy oil. But also it's a major component that we use for producing electricity. And electricity costs are a big cost, particularly in our Wilmington Field where we have a lot of ESPs.

This just gives you some quick snapshot of our capital program this year. Really what I want to focus you on here is we've said, before it was fashionable to say, well, we're going to live within our means, and we continue to do so. And we will continue to do so in the future, whether product prices are \$40 Brent or \$80 Brent. I think it's prudent business policy to do so.

But the one thing I'd like to focus on upper right-hand corner is the workovers. I think this gets lost by folks who are really focusing on one producing zone or one basin. But in California, because of our stacked pay, those workovers, that \$50 million spent on workovers, some of the highest VCI projects, highest value-add projects you'll see in the environment that you might have. And it's something that I think gets lost when you look at these type of opportunities is how much opportunity is up and down the well bore outside of the current producing zone that you have? This just gives you an idea, generally, of what we've done so far this year. And we are on track this year to be 440. I know earlier, in second quarter we underspent a little bit. That was simply a timing issue.

The elephant in the room, really, are deleveraging and looking at our balance sheet. Again, we hit that upfront talking about the amount of debt we were blessed with to be spun off from Occidental. But we're looking at anything and everything at the bottom line. And we're blessed, like I said, with great assets. Both midstream, power plants, pipelines, you name it, and upstream assets. And so we're continuing to look at numerous opportunities to achieve some deleveraging and work ourselves by the end of 2016. Approximately we want to get around \$1.5 billion, \$1.6 billion to take this issue and kick the can down further in the cycle.

This is our capital structure, talking a little bit about that, upper right-hand corner. We have \$5 billion in bonds. First maturity is not until the end of 2019. We have a term

loan. First amortization of that doesn't occur until the end of the first quarter 2016. And then we have our capital credit facility that's approximately \$500 million drawn currently, and that's part of the term loan. They're all part of the same credit facility.

We were spun off from our former parent. And we didn't have any hedges. We put them in place. It's not a policy of Occidental to hedge. But we've been trying to hedge from the bottom of the cycle here opportunistically. You've seen us do this, and this is the ones that are currently in place. There's some odd numbers in here, and in some cases, it happens to be what we could execute, even though the screen said it was this. In some cases, you can't quite execute as much as you would like to do.

I think going forward, if we got to a normalized commodity price environment, with the balance sheet we have, we need to hedge, and we would put in place hedges 12 to 18 months out, probably for at least 50% of our production ultimately.

And really like to talk a little bit more about our asset base, because I think it's underappreciated by a lot of folks who --. And it's simply driven by the fact that there aren't a lot of comparables and comps in California. There's not a lot of producers. You look at the producers here, there's CRC, Chevron, Aera Energy, which is a joint venture between Shell and Exxon. You take those three producers, that's 76% of the production in the state of California, and that's about 95% of the ownership of prospective minerals in the state.

So then if you threw in the former Plains, now Freeport, and LINN, that's 85% of the production in the state. You won't find anywhere else in North America that's this concentrated when you think about the sheer number of operators. There's only 300 and change operators in the entire state of California, and that's a lot of mom and pops, when you talk about it.

But really, this goes back into the history of California. The super majors have controlled the state historically forever. And maybe discovered these multibillion barrel fields on surface geologies, oil seats, easy things to do in the early 1900s or late 1800s. And as this progressed, they drilled it up.

Then in the early 1960s, you had the advent of steam flood technology, and they started thinking, wow, we can get 60%, 70%, maybe 80% recovery from these fields, and really started focusing on steam floods. Then in the 1970s, a lot of the super majors started going overseas and chasing PSC contracts in foreign locations. And really, if you thought about it from a creaming (ph) curve standpoint, exploration actually really stopped in the 1970s in California. So, that's why you see a lot of giant fields and not a lot of smaller fields.

And even though we have over 130 fields, a lot of these have been producing for 100 years. But a lot of modern technologies never brought to bear, because when the super majors left, whether it be they abandoned fields for surface value, or they just didn't want to operate these fields anymore, the next producers, the mom and pops and some of the smaller producers, didn't invest in technology. They were just glad they bought something from a super major because they felt like they could operate it cheaper and make more money from it.

And so this is subpart of our strategy at Occidental. We started amalgamating all of those properties in California. We just felt like it was really underappreciated, underexplored, underexploited. And we started bringing modern technology to bear, shooting 3D

seismic and re-characterizing all of the reservoirs and understanding the geology of California, which is very difficult. It's, again, very much a stacked pay stratigraphic play, but it has tectonics. So really, until you shoot 3D, it's hard to understand the subsurface.

And you can see what's happening with the top three producers. We've been growing -- Chevron and Aera, they have their different portfolio priorities. They invest heavily in steam floods because the economics are so strong. But they really don't have a lot of the other things that we have because they really focus on only a few fields, primarily their big, giant multibillion barrel fields.

This is just a breakdown of our assets, if you think about it from the standpoint of the geographic basin, so the four major basins. Again, the San Joaquin basin dominates. But I will show you on the second line, and get an idea of percent approved reserves that are liquids, meaning oil and NGLs.

And you can see on the far right, Sacramento Basin, that's something I think people don't appreciate about us. The Sacramento Basin, I won't talk much about it except that it's an enormous natural gas resource that gives us huge optionality and leverage to natural gas, depending on the product price. We can maintain that with workovers. And just like this -- it's very much a stacked pay concept in the oil zones in the San Joaquin Basin, and the Sacramento Basin has a lot of opportunity going forward.

This is really the macro story of California. Enormous oil in place. 40 billion barrels. Currently about 22% recovery. We're trying to process these fields. And again, you have so many fields that are still on primary, and you're trying to take them to secondary and tertiary type recovery. And it's something that, as we think about it, you can dream whatever you want about what recovery factors might ultimately be, but they all change over time.

And this is really how you process that. You look at it, we have around 94 fields that are currently on primary. I know that's hard to believe. This is natural reservoir energy, gravity drainage type stuff. You don't see that a lot anymore. Some of those are gas fields, but most of them are oil fields. 17 water floods, 13 steam floods, and the rest of the fields aren't listed are unconventional, either shale or I'll say tight sands type opportunities. But you think about it, when you have a traditional field, primary's going to produce 15%, 20%. Water floods typically in California are going to double that. And steam floods, world-class steam floods are going to get an excess of 70% recovery from the oil in place.

California, it's not just culturally an island, it's an island from a marketing standpoint. This gives you an idea of what price realizations are. And I'll say that because it's really because 63% of the oil is imported into the state. About 10% comes from Alaska ANS. 53% from foreign sources. So really, when you think about it, you're competing against a marginal waterborne barrel. That's why we get Brent pricing in California. But it's a very closed system because it's not tied into the pipelines elsewhere. People have talked about rail there a lot. I think if you talk to the people in the know, it takes \$12 to \$15 to rail crude to California. So I think that that's, right now, it's very minimal, if it's coming at all.

But what happens is typically you see us get a discount off of Brent price -- clearly off of Brent. But because you have this closed system, discreet events really affect things. So when the Torrance refinery went down, you get hit on your differentials. But it was a terrible environmental disaster with the Plains pipeline, but that benefitted us from a

differential. When the port strike happens, when they can't outflow tankers, that benefits us. So there's -- every little thing that works in the system moves differentials around because you're in a closed system.

It's even tighter in natural gas. Natural gas, 90% of the natural gas in the state is imported. Typically you're getting NYMEX plus a transportation premium. So we had one of the most mild winters on record in California, and storage is effectively full. So we got disjointed and actually getting a discount to NYMEX now, and not even reflecting the transportation premium that's out there at this point in time. NGLs have come down like NGL pricing has in the US. Most NGLs in California are actually sold into the Mexican market at this point in time.

Let's talk about our flagship asset briefly, Elk Hills. So I was here five years ago, six years ago. It's probably two thirds of CRC's production in California. And now this 37% of the production. This is a giant field; almost 8 billion barrels of oil in place. Already produced 1.6 billion barrels. But it's been produced on primary. Occidental, we purchased this from the government in the late 1990s. We drilled it up on primary. And now we're shifting to secondary and tertiary recovery.

Just giving you an idea. We have an AFP pilot and a CO2 pilot. We've experimented with steam floods, water floods, you name it. The great thing about Elk Hills is it has 75 different type curves, and all that different type of producing opportunity up and down the well bore. We're very excited about the future here. And you'll see, what's happened over time is as we drilled it up on primary, we had a higher decline rate in the overall -- the Company decline rate was higher, in the 20s. Now it's flattening out over approximately 15%. And ultimately you hope, as you shift to more secondary and tertiary recovery, that you'll have a better, flatter, or even incline at that point in time.

The one thing I will point about Elk Hills, enormous amount of infrastructure that's at Elk Hills, that runs Elk Hills, and also a lot of adjacent fields as we tie them in. And a state of the art gas processing plant. Effectively a fairly new power plant, and a lot of gathering, processing, transportation lines. So it's exciting. We have other midstream assets elsewhere, but this is really the hub of infrastructure in our operations in California.

And this is something that's exciting about Elk Hills, because as you prosecute and go through the plan, you can see we have all these different recovery mechanisms, and we are flattening the decline as we start shifting to secondary recovery. But really, by going through in each one of our zones, prosecuting and working through the lipa (ph) field plans, we've been able to effectively work through Elk Hills, the reservoir itself, all the different reservoirs.

The one thing I will say this year, this is the first year on record that Elk Hills has not had a drilling rig. So we think we finally understand. Everyone has postulated what the base decline might be at Elk Hills. And I think we feel like at this point in time, it's probably right around 15%, because we haven't had a drilling rig since Thanksgiving of last year at this point in time. And they do an outstanding job of maintaining the base production out there.

And I think this is, in spades, what's happening throughout the Company. And this is indicative, too, what's happening around the Company when you look at things. Again, things at Elk Hills over time, water-oil ratio is going up. The number of wells are going up. And you can see, when you have actually effective management, you manage the

field, you bring cost down on a pro-well basis and a pro-BOE basis.

And I think that's the key is you don't sit still, and it's not stagnant what happens out in the environment. And this is indicative of what happens at every one of our 137 fields in California, is you're managing the business for margin, ultimately. And we're investing our capital on a VCI basis. And we're also investing our human capital and associating that with the reservoirs we're interested in going forward.

And if we talk about our other flagship asset, the Wilmington Field, one of the largest fields that were discovered in North America, this is actually in the Long Beach harbor. For those of you who have been down to Los Angeles or Long Beach know, THUMS Islands. This was discovered in the late 30s. It's been producing ever since. It's a very mature water flood. Over 95% water cut. I think it's about 97% now. But it's got decades of running room.

This is a unique arrangement. It's a production sharing agreement with the City of Long Beach in the State of California. And it's what you might see more in a foreign country. But it's very favorable and encourages investment. But what it does is it has a dampening effect both up and down. So even in this product price environment with the high water cuts and higher operating costs of the very mature water flood, it enables you still to keep investing in this environment going forward. And it helps us with our relationship in California, working with the City of Long Beach and the State of California.

But really, what I hinted at earlier when I talked about inventory, this is the case in spades in California. Big fields, great oil fields, particularly ones with stacked pay get bigger over time. This is just, again, this is a very mature field. And we continue to every year replace inventory.

And to give you an idea of the PSC effects in here is a total of 3 million barrels, so that's immaterial when you think about it. But in 2011, we had around 712 locations, and now we have almost 1,000 locations at year end, 2014. But this is what happens in every field, whether it be human-related investment or financial-related investment of capital. Activity by that begets opportunities for the Company, whether you're studying it as the 3D or studying old well logs, this is what happens, and this is what happens in California in spades.

A lot of people like to think about it, maybe it's old and tired, but in reality, it's up and coming. And it's exciting because a lot of people, especially some of our senior PhDs, technical folks, make it akin in their mind to the Permian Basin in the 1970s. They're very excited about the opportunity set.

And this is, because steam floods are so important to what we do, this is what's happened at Kern Front since 2008. And to actually 2000 on the chart on the right. But just to give you an idea, since 2008, we spent a little over \$500 million, and we've added reserves at under \$10 a barrel F&D.

But again, it goes back about margin. So, steam flood's a little higher operating cost, but a lower F&D cost. So it's, again, it goes back to you were focusing on margin and cash flow. You're not focusing on just one metric. You're driving down the things that matter to create value for your shareholders, ultimately.

And we have a lot of remaining hub locations. Just give you an analog here. Kern River next door, which is a Chevron huge steam flood, is the analog field, and it's currently at

twice the recovery of Kern Front. So we have a lot of running room left to go at this point in time.

When you look at our operations, this is some of our operations in more sensitive environments. Up at upper left-hand corner is actually one of the THUMS Islands. That's Island Grissom. That gives you an idea. These were created in 1965. We just celebrated our 50th anniversary in the City of Long Beach. They're four manmade islands that literally right there in the harbor. And this is how you directionally drill the Wilmington field that underlies the harbor there.

Bottom left-hand corner, bottom right-hand corner, both part of the Huntington Beach field. This gives you an idea, on the bottom left-hand corner, our strip on the Huntington Beach. Actually the pier, if you've been to Huntington Beach, is this way, and it have close proximity to houses. But we actually own the surface there, too. There's 90 acres on the beach. One day it will be worth a lot of money. But the only offshore platform we have is platform Emmy. It's approximately a mile offshore Huntington Beach. And that helps us reach the parts of the Huntington Beach Field that are unreachable from a directional drilling onshore.

But the one thing I'll say here is working in California in the oil and gas industry is different than working anywhere else. And you have to be very sensitive and very respectful of the communities you live and work in, and cognizant of the environment you work in. And it's something we take very seriously. Number one issue in California is the drought. There's not a day that doesn't go by there's not a news story about the drought, whether it be on the media or in the newspapers.

So, we've taken that very seriously over the years. We recycle over 80% of the water we use. We're actually a net water producer. In 2014, we provided about 2 billion gallons of water to agriculture in the San Joaquin Valley. We actually ramped up a project last week in the San Joaquin from the same area where we think over the next period of years, we'll ramp that water up to triple this amount ultimately. This is something we're very excited about, being part of the solution and helping out farmers, which were really hard hit in the San Joaquin Valley, which is a bread basket of North America. A lot of stuff's growing there, in addition to the cotton, which is one of the main things.

But I would say that we've done an outstanding job working in these type of environments. Because this is not typical oil field environment. If you go to Bakersfield, you'll think you might be in West Texas, except that there's mountain, because it looks very similar and it feels very much the same. But the oil and gas industry is up and down California, whether you be in Long Beach, Ventura, Sacramento, or the Bakersfield/Kern County area, which is the hub of the industry.

And as I finish up here, I would really like to leave you with the fact that you won't see a world-class set of resources like this, really in any independents. Very few. You'll see them at super majors. Typically the kind of assets we have are buried in super majors. And these are the things that have high level of operating control, high level of opportunity set up and down the strat column.

And what I'll really say here is we are committed to living with our cash flows, no matter what the product price is. And if you think about it from the standpoint of whether you're a lower for longer person, or do you think product prices are higher around the corner, I don't think there's a better value proposition, or anyone has better operating leverage to oil prices than CRC. Thank you very much, and take any questions you might have.

Unidentified Participant: Thanks, Todd. We have time for a question in the room.

Unidentified Participant: A quick question, I wanted more substantive. On page 19, you show that your realizations in the first half were below that of West Texas when they normally, in 2011 and 2012, were well above. Why is that?

Todd Stevens: It was really had to do with a few of discreet refinery events. You had the refinery strike at the Tesoro refineries in Northern California, and you had --

Unidentified Participant: But the second half you'll get higher realization?

Todd Stevens: Yeah, we've been seeing right now that we're getting back to more normal realizations. And the Torrance refinery is actually been applied to come back online. They're meeting with AQMD in the next few weeks. And we think it'll actually normalize it completely once that's happening.

Unidentified Participant: And excluding asset sales, what price of oil do you need before you can start to pay down debt?

Todd Stevens: For this year, actually, if you take out the working capital effects, because when we were spun off, we actually had our working capital stripped away. So if you set up from an operating standpoint this year, that we were free cash flow positive the whole year during this year. That's how we manage the business. So we have free cash flow pretty much in any oil price. We have that flexibility advantage of the business. Yes, Sir.

Unidentified Participant: So just, if you could try to handicap kind of what the environmentalist political side looks like as you try to ramp up production because [ad buy is net short]. And just what kind of headwinds that you might face as you have a strong working relationship with some of the local governments in the area.

Todd Stevens: I think that the state has a rep, and deservedly so. They have a lot of activists, and it's a forefront of some of these things. Probably Colorado is the other are from an oil and gas industry that's very active. This is something where you have to stay engaged. And I think as an industry overall, we've been too reactive. And now we're being much more proactive and engaging, whether it be with regulators, local officials, in dispelling myths about our industry. I think people don't appreciate what we do and what we don't do. And we don't challenge what's said out there in the marketplace about our industry and the falsehoods.

And I think in California, we go back to appealing to what we do. We have -- we provide a valuable resource. It's already imported into the state. And to quote Governor Brown, who a lot of people think is very environmentalist. And he is. And he views himself as an environmentalist because he says, look, I want to produce oil in the state because I control how it's produced in an environmentally friendly fashion, from his standpoint. Otherwise I have to import it from somewhere where I don't know how it's been produced. And it's not going to change overnight in the state on how the consumption of oil and gas products in the state, natural gas in particular.

So I think that that's really, when you step back and you get away from the, I'll say the radical folks who are -- want to send us back to the Stone Age, and they're sitting in San Francisco drinking white wine and eating brie cheese, but they don't live in the real world. The working Americans, who appreciate energy security and reliable energy, they

are actually interested in their energy prices not going up, and being able to feed their families and pay their electrical bill. So I think you appeal to those folks. And I think there's a lot more moderate folks like that in California than there are the ones that get the headline news, who know how to be in the traditional and social media nowadays. Yes, Sir.

Unidentified Participant: Are you looking to add additional offshore production following your West Montalvo acquisition?

Todd Stevens: We purchased the West Montalvo property right before the spinoff. And that's a, basically a property that produces from onshore drilling, and it drills a little bit directionally offshore and also onshore. I would say that we're happy where we're at, but we're always interested in value propositions. So from our standpoint, it would have to make sense, and compete for capital for our investment dollars going forward.

And if you think about where the offshore production is, there's only a few places in California. And I think -- I don't think there's anything that looks attractive at this point, or that's for sale, frankly.

Unidentified Participant: I'd like to thank Todd. The breakout session for CRC will be in the Liberty 3 room.