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CRC - California Resources Corp at Barclays CEO Energy-Power Conference

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PRESENTATION

Oswald Cheung - *Barclays Capital - Analyst*

I'd like to get started with our next presentation. It's my pleasure to welcome California Resources Corporation to our conference. With us from the Company is Todd Stevens, the Company's President and CEO. And with that, I'll turn it over to Todd.

Todd Stevens - *California Resources Corporation - President & CEO*

Thanks, Oswald. Going to spend a little bit of time today -- appreciate being back at Barclays, and I'll be spending your time learning about California Resources Corporation.

Get through the legal stuff. Spend a little background, and talk about California, just from a hydrocarbon province. I think it's one of the most misunderstood and underappreciated hydrocarbon provinces in North America. Again, a lot to do with, there aren't a ton of comparable companies. So, the assets are very tightly held by only a few companies. But it's also a major hydrocarbon province, particularly around the San Joaquin Basin.

You can look at this map here on the left and see the four major hydrocarbon-producing basins in the state. The San Joaquin is prolific for us and has about 60% of all of our production and assets. Sacramento Basin in the north is really a gas province. L.A. Basin is primarily dominated by our Wilmington fields, but we have some other assets there. And the Ventura Basin is actually where the oil and gas business in California started, and the predecessor to Chevron there in Pico Canyon, number 4, in the very eastern Ventura Basin.

The one thing that I'll impress on you about our Company is, we're just not a bunch of leases in some hydrocarbon basins somewhere in North America. We're actually a real business. We have mineral fee; surface fee; we have all kinds of facilities, including power plants, processing plants, pipelines; and we have every type of drive mechanism you might think of, or you can go see in the world, or every type of reservoir you might see in the world.

And that's really because, as I like to say, California is the Permian Basin with tectonics. It has an enormous amount of stacked pay -- enormous amount of potential. But it's been changed over time, and you have all these different basins, because of tectonics naturally fracturing and moving around the rocks over millions of years.

The one thing I will point out here is, as you'll -- you can look in the appendix, we have increased our hedging position down in the bottom. And you'll see that going into fourth quarter of this year and next year. And this is something we do very carefully and thoughtfully, as we look to hedge up to 50% of our production going forward. So, again, hedging is something that's of value -- that is, time and volatility. So, we've been very thoughtful in the bottom of this trough, as we were spun off into a difficult environment.

We continue to live by our premise, which we did since the outset, of living within cash flow. So, you'll hear us talk about that today -- something that's important to us. I think it's a viable business model, long before everyone told me to outspend cash flow and chase everything. But this is something that we're excited about. But what you'll see is, as we go through this presentation, is we have a great set of assets and a great hydrocarbon province, and a great -- the right employees and management team to execute.

And our real issue -- and we've been addressing it head-on -- is our balance sheet that we were given at the spinoff. As you know, we were spun off the Monday after the Thanksgiving when OPEC decided on that Friday not to have any action. So, that was in 2014. Something that is forefront for us to take advantage of, and we'll talk a little bit about that too, here today.

Again, just underscoring our asset base, we're not a one-trick pony. We have every type of drive mechanism, from dry gas, to heavy oil, to conventional production. Most of the assets you see at CRC are really assets you might find in a supermajor. And you can see the breakdown by basin, when it talks about production and cash flow, and ultimately reserves.

But really, it's very predictable. We're very long-lived, very low maintenance CapEx, if you want to think about it that way. Our capital intensity's fairly low. And that has a lot to do with the stacked pay nature and the up and down the wellbore, as you look at all these different assets.

What have we done during 2016? Obviously, coming into the year, the market from a commodity price standpoint was in freefall. We focused on some basic premises. We protected our base. There is a song out there by Meghan Trainor. But it really was -- it is about the base. If you can focus on the base and keep the base intact and not let it decline, it can create so much value for you as a Company. We defended our margins. We do things like hedging. We do things to increase revenues. And we cut costs.

Because, again, going back to Phil's presentation before me, it is about -- your margin is about cash flow. It isn't necessarily about how low your OpEx is -- that it's a function of what you can generate from a cash flow perspective.

And we've deleveraged the balance sheet to bring more flexibility to the Company. And [then] we'll talk about today, we're preparing for a change in the cycle. We don't think we're going to go back to $30 oil. We think we've stabilized here in the $40s for the time being until inventory works itself out. And as we work and we hopefully get into -- an environment that might have a 5 in front of it would be nice; but we feel like in this environment where we are today, we can step up our activity set and feel more comfortable doing so.

And as you see, as a Company, going back to our spinoff, this gives you a little bit of highlights, and it talks about -- the red numbers really talk about what we've done proactively in hedging, cutting the budget. The green numbers there are bank amendments. And deleveraging transactions are in blue. But what we've done has really not been reactive. Everything we do as a Company has been very proactive, and trying to deal with our environment we are in.

And we're fortunate, we have a high level of operating control. Effectively, we control and operate almost all of our assets. We can pull the different levers to adapt to the product and price environment, whether it be the product price environment in February or the product price environment today. And we're blessed with that kind of asset base and the kind of employees that we have to do so.

And we've done this, all the while, working with our banks and working with our lender group to do the right things that are going to benefit our shareholders long-term.

We've focused on this and hit on it earlier, but it's something you -- can't be understated. Again, a lot of this, you're going to see inside a supermajor. It's something that has a very low decline rate. A lot of you are conditioned to shale models that have 30%-plus decline rates. These have natural -- much lower natural decline rates, and much less capital intensity. And we have this portfolio.

And again, why did we do a spinoff and get spun off into a separate, publicly-traded Company? To focus on the assets, and bring the assets and the type of focus to bear that was needed to actually enhance and bring the value out of these assets.

As you can see, what's happened -- we actually grew the production initially with the modest amount of capital, and we continue to maintain the production in a very low decline rate of 10% to 15%, with modest capital going forward this year. We announced around $50 million. Again, $19 million of that was power plant turnaround, for going into the year.

This is something I wanted to share with you, because this was shared with our bank lenders mid-year, and it really was slides that we talked about and said, we've really got to share this with our equity investors. So, if you're a debt investor, you're -- this'll make more sense to you, because this is -- was prepared for the banks. But mid-year, we -- the banks wanted to blow down our reserves, as they were looking to work with us going forward.

And you can really see, when you have a low-decline, low-capital-intensity business, value is preserved. And you can see why we take our time to try to make the best decisions available for the Company to delever and the Company going forward in allocating capital. And you can see, as you look forward, again, you do have the price appreciation, and you also have the steadiness of the PV-10, but really a blow-down of proved reserves.

This is something I think is -- again, I talked about California being underappreciated. I think we're pretty underappreciated. And this is -- this gives you an indication of this.

And let me build it up for you a little bit. And this is just the NAV value of the Company. The land and infrastructure at the bottom -- when we're getting ready to bring the midstream and power plant assets into the borrowing base, we had insurance companies look at replacement value of these assets. So, that came in. We've taken 50% of that -- put it in there. We've put in surface value at what we think is below market value. And again, our fee acreage value.

And you can build up real quick and see, even with our debt at par value, which it's not trading at, we have excess value as of the strip price as of 8/23, which is modestly higher than today. I would -- at this point in time, it would still be higher than this.

The one thing I will focus on this here going forward -- so, if you said, oh, yes, well, talk to me about the capital that it takes to get -- to execute on this. So, if you consider the whole program here, it's an F&D depending on where you are across this spectrum and the different product price environments of around $10 to $12, going forward, all-environment.

So, you can see, really, again, CRC is highly underappreciated, and I really feel it's -- goes back to our balance sheet. But really, what I really want to talk about today is, start thinking about the future. I think as a Company, as a management team, and as our employees, we've demonstrated that we can execute in the trough of a cycle, throughout the bottom of the cycle, and do what we say we're going to do, and live within cash flow.

But what we'd really like to talk about is growth. What happens in a different product price environment, going forward? On the top case here, you'll talk about -- this is a $65 Brent. And we think, basically, by focusing on a few different things, including Elk Hills' analogs, which I'll talk a little bit about later, which is Kettleman North Dome -- and you've heard me talk about this at our very first analyst meeting; adjacent fields to Elk Hills, which we own a bunch of them; and our heavy oil assets at Kern Front and Lost Hills, and some other places -- we really feel like we can grow crude production high single digits, at $65 Brent.

So, at $60 Brent, we're probably middle single digits, or a little bit lower than that. So, we were looking forward to improving the strip pricing going forward, and we will manage our business within cash flow.

If you wanted to dream big, look at the bottom, the bullish case pricing at this point in time, which assumes $80 Brent. We obviously expand that portfolio effect and invest our capital across the business. Remember, our basic premise is living within cash flow and investing in projects that have a BCI above 1.3. It's really a focus on value for the enterprise.

But again, the elephant in the room -- coming back to what I just talked about -- debt -- the debt we were given at the outset, over the spinoff. One thing you can look at here, and it gives you an idea, but we're -- ultimately, as you've heard many times from Mark and myself is, we're trying to get down to less than 3 times debt to EBITDA ultimately.

We understand that it's not going to happen -- there's not one silver bullet that's going to get us there. But we're going to really focus on it and fill that whole magazine full of bullets, and get us there ultimately. And we've been taking a good chunk out to date. But really, how have we done that? I mean, we've talked about the business we have, and all the assets we have. And we've looked at every alternative available.

And what we've really done is focus on the best available alternative at the time. Late 2015, that was potentially some asset sales. But remember, any time you talk about selling some of our assets, you're trading balance sheet leverage for income statement leverage, and you have to do something that makes accretive value for your shareholders.

So, from our standpoint -- my standpoint -- we've taken down debt, $1.45 billion; and $100 million of that from operating cash flow. And many other steps -- as you know, most recently, our debt purchases that we did with the new money raise. But one thing you focus on is the incremental cost -- the $36 million for -- we took down debt $1.45 billion.

So, if in -- earlier in the year, I'd sold assets, let's say, for 10 times, I'd taken away $145 million of EBITDA, and that would be gone to me, and I would have taken it down $1.45 billion. So, I would argue to you, we've taken the best available alternatives, and we still have all those other alternatives available to us to create value for our shareholders. All those assets and all those alternatives are still there, and we continue to monitor this [daily] to do what's in the -- on long-term, our best interest for our shareholders.

Again, we -- our basic tenet -- live within our cash flow; do not spend out -- outspend our cash flow. If I had my way, earlier in the year we would have probably bought in more debt, but Mark was screaming at me, liquidity, all the time. So, it was a push-pull tension at that point in time. But this just gives you an idea. We have runway through the first quarter of 2018.

We have an outstanding relationship. We're working with our banks. They appreciate our asset base. They've gotten into the details. They've gone out and visited them, and they realize they are low-capital-intensity; they are prolific hydrocarbon provinces. And they've been working with us all along.

So, when you think about, oh, there's these things that go on, well, the hedging we do -- the banks have not asked us to hedge. That was self-imposed. Our $50 million capital program this year -- self-imposed. The $200 million next year -- that's self-imposed. The banks will work with us. If the environment's correct, the product price environment and our production is there, they're going to work with us to do the things we need to do as a Company to create value for our shareholders.

This gives you an idea about what we talk about when we say protect the base; focus; defend our margins. This -- well surveillance, and why you do a spinoff. Focus, focus, focus. You come in here and you say, look at this chart on downtime. Since the spin, we've come down 35% on downtime, with less capital and production declining in that environment, and we continue to focus on that. Again, you focus on what matters -- what creates real value for the corporation.

And as you can see, the workover rigs weren't always there. You know, early in 2016, when the price environment was going into freefall and it didn't appear there was a bottom, we pulled back on everything. The workover rigs you see that were active, were things where they had almost immediate payback or they were regulatorily required.

So, from our standpoint, you can't underestimate -- and again, most of these type of opportunities are seen in supermajors, that you have that workover activity and a focus on the base, really creates real value for you as a shareholder. And it is non-capital-intensive, but it helps you mitigate your decline; it helps you focus on the base and get real value for you without drilling new wells. And we haven't drilled any new wells -- so, just recently, we reactivated two rigs. As you can see at the bottom right-hand part of the graph, one's down in Wilmington and one's up in the San Joaquin Basin.

Part of defending margins -- again, you have to bring down your costs. Even since 2015 -- you can go back to 2014 and extrapolate whatever you want, but you can see we've brought down costs. Some of that in the first quarter, arguably, was slamming on the brakes. And that's why we've provided a little uptick here in the third quarter, on operating cost basis, in addition to our energy costs that fluctuate summer to winter.

But this is something that goes to show you, we will manage the business to the environment. We will do what we say we're going to do. And our operating teams have been exceptional.

But I want to bring you back to the San Joaquin Basin. It is one of the most prolific basins in North America. You have some of the largest fields ever discovered in North America in the San Joaquin Basin. And our anchor property, our flagship property, Elk Hills, is there. And that's a little under 40% of our total production, and an awful lot of our facilities and our hub and spoke of our infrastructure, is in that area.

And so, you can see where Elk Hills is on the map. You can also see some of our other major fields on the map that we'll talk about in a second. But the thing I want to point out here is, how much pay there is, and how much oil in place is in the San Joaquin Basin. 25 billion barrels just in our fields, that we have an interest in; not simply other fields. Enormous sedimentary section, over 25,000 feet down to basement.

Oil and gas was first discovered here in the late 1800s. A lot of you have heard about the different gushers that have occurred and flowed for a year, creating lakes of oil in the late 1800s, early 1900s. But this is a very prolific hydrocarbon province. The green is oilfields predominantly, red is gas fields, and the yellow is our acreage. As you can see, we're throughout the basin. In most cases, over two-thirds of our acreage is held in fee -- mineral fee, and sometimes surface fee also.

One time I want to talk about focusing, and really talk about the great job done by our operating folks, is Elk Hills. Again, it's indicative of what we've done across the Company, but as around 40% of our assets and our production, it's something we need to focus on. So, throughout 2015 and 2016, it's got no developmental capital at Elk Hills. It's had about an 8% annual decline. And you can see the development capital that's occurred there. And so, it's had about an 8% decline.

So, let's think about that. It's declining production. So, let's look at it in a little more detail on the operating costs side. Because this is something I think people misunderstand, not only about CRC but California in general. You manage the business. It's -- there's not a whole bunch of fixed costs that you're going to go out of business. That's why you have employees; that's why you have people. They actually manage the business for you.

So, during this time period, Elk Hills water-oil ratio's gone up. OpEx per well has gone down. Production during this time has declined. And field level OpEx per BOE has come down also. So, I think you see why this is such an outstanding opportunity here in California. Because this translates to other fields too, not just Elk Hills, which, granted, is one of, you know, a billion-barrel-plus field, and former Naval Petroleum Reserve.

Elk Hills Adjacent, which used to be the petroleum reserve right next-door, is the Buena Vista Field, which we acquired, and production was about 25% of the 10,000 a day it is producing now. We've had no rigs working in Buena Vista since 2014.

What we really needed to do here was bring modern tools and the experience we had at Elk Hills, to Buena Vista. We brought in 3D seismic. We brought in -- I know a lot of other parts and provinces in the country, 3D seismic has already been shot numerous times, and in some cases 4D. But in California it's not as much used, and in this case it was some that was important to us, and to start working on how we would run this field. And it's early-stage waterflood, but I really would like to point you to the bottom right-hand corner.

As you can see, what we've done with operating costs over time at Elk Hills -- even since the spinoff, we've brought down costs another 42%. And this is something that's important, because we continue to do things here, and we've actually had an expiration discovery in late 2012 that had wells that IP'd over 500 barrels a day, and some of these are ready for development in our program, hopefully as early as next year.

This is what we talk about when, earlier, we talked about allocating capital going forward and next year, as an Elk Hills-adjacent field. And again, we have many adjacent fields around Elk Hills.

But that brings you to all the fields. We have 137-plus fields. We operate most of them. And I want to talk about three of them. And these are ones we've talked about.

Paloma, we've never really talked about before. Anyone who's interested, it's just in a farming field near I-5 and Old River Road near Bakersfield. The Paloma field was something that most people have given up a long time ago, and we've done some work and realized the oil in places is actually double what we thought it was great, and what most people thought it was. And we have some great analog field performance, and a few wells have been drilled. This is something that has an excellent opportunity, and one of those things that's going to jump to the forefront here shortly.

You've heard me talk about Pleito before. Pleito -- the bottom left-hand graph is the production. This has been something in the very southern San Joaquin Basin, where the rocks really sit on end, difficult to even image on 2D seismic, let alone 3D seismic. And you had to go in and do some really good well work and understand the geology; even go looking at surface outcrops. And we've gone in there.

And as you can see, what we've done with the production. It's been an outstanding win for us, and we continue to expand that field vertically and aerially at this point in time. But again, it's not been as competitive in this price environment, simply because we don't -- we're living within cash flow at this point in time.

Kern Front, one of our flagship steamflood properties -- again, you can see this is a very low base decline, very repeatable. These are the type of things that, in this environment today, will start putting a drilling rig to work. Most people don't understand, but these type of wells here are a few hundred thousand dollars. These aren't millions-of-dollar wells. And these can get drilled and completed in a matter of days. It doesn't take weeks or in the like, going forward.

This is just an example of three fields. Again, we've done this across all of our basins. Ventura Basin is something that's exciting for us. L.A. Basin -- there's not so much opportunity outside the field, simply because of surface development -- what real estate development's done over time.

But we're very, also, excited about the Sacramento Basin. This is something people don't think a lot about, but natural gas in California is fairly important. California has a structural energy deficit. 90% of the natural gas is imported. Two-thirds of the oil is imported, most of it water-borne -- almost all of it water-borne. And 28% of electricity's even imported.

So, it's something that's very important for people to appreciate and understand, when you take Aliso Canyon, the natural gas storage field, what's it going to do long-term to natural gas prices in California? And again, going back to our original Analyst Day, we have so much gas inventory that's contingent on product prices, we could make the Company a majority gas company within 5 years if the macroeconomic environment changed that way. So, it's something that people don't appreciate and understand, really, the gas inventory we sit on.

And it goes back to our inventory in general. So, this is something, going back to the original reason why you do a spinoff -- focus, focus, focus. You could see, just in a year -- this is a living breathing document, but in a year when you have downtime, where you're not actively chasing a drilling rig, look at what's happened at $40 Brent environment. We've doubled our inventory of opportunities. At $50, almost the same.

And this continues daily. We're bringing a different mindset on how we allocate capital, how we implement life-of-field plans, and how we ultimately execute as a Company. And this is something that's been critical for us to be successful, and change the culture from a much bigger Company and being part of a much bigger Company, to being a smaller, more focused, more driven Company, to do so.

I really want to talk about this, because this is something, if you came to the first Analyst Day at the St. Regis down the street -- Kettleman North Dome was something I was very excited about. And it's something that we really believe is the next Elk Hills.

So, when you look at Kettleman North Dome -- you go back to that map of the San Joaquin Valley you saw, it's at the very end of the top left corner. It's something that we feel very bullish about. And it really hasn't had any technology brought to bear. It's 4 billion barrels of oil in place. Almost all the oil to date that's been recovered -- about 900 million barrels -- is all from the Temblor. It has an enormous amount of stacked pay, over 5,000 feet thick, and it's all been produced from this one zone.

So, we really feel that, working together with our partners, we can really execute an outstanding plan here. And we shot the 3D -- this is just -- if we think back to, what did we do when we bought Elk Hills from the government? First thing we did was, we implemented simple cost savings and the like. And we did that at Kettleman North Dome. Increased production from 100 a day to a few hundred a day. And now we've shot the 3D. That's what we did at Elk Hills.

Now, we're interpreting the 3D and looking how we're going to execute the plan going forward. And we really feel like there's an excellent opportunity to substantially grow production at Kettleman North Dome. And this is an area of the San Joaquin Valley that's been very hard-hit by the drought.

So, I -- myself, personally, I'd hoped that with the produced water here, that we can do something to help agriculture in that area, like we've done in other parts of the San Joaquin Valley, where we were a net water producer that provides water to -- produce -- [treated] produced water to agriculture, something going forward.

So, when you think about CRC, again, I started off talking about, it's one of the misunderstood, underestimated places in North America. Again, Kern County, which is the center of the San Joaquin Basin where most of those prolific oil fields are -- in the Lower 48, it's either number one or number two producing oil county in the Lower 48. Most people don't think about that. It's still a prolific hydrocarbon province.

A lot of you -- I see some of you, like Eric, who have actually been on a visit and seen these things in person. You appreciate the size and scale of what our operations entail, and what really goes on in California from an oil and gas perspective. It's not all Hollywood, like people like to anticipate.

So, it is a world-class hydrocarbon province -- five fields that are some of the largest fields ever discovered in North America, we have positions in four of them. It's something where we have a high level of operating control. We can pull the levers to adapt to the environment. We will pull those levers. We've already said we're going to manage within cash flow.

We're driven, going forward, by two basic premises, where we sit today. One, we're going to continue to deleverage the balance sheet and get it to an acceptable level.

And we're going to then start focusing on, the cycle's going to turn -- investing more capital on our value-focused basis going forward. And we think next year we'll definitely be spending more capital. You'll see that we have this stable base with very low production, very low capital intensity, that you won't see unless you get -- delve into the depths of most supermajors, or some of the companies in the Permian Basin, you might argue.

And you have a management team that's very focused on executing this. A lot of us have been around since we acquired all these assets. And if you want to play oil price recovery, you won't find anyone who has better operating leverage to oil price than CRC. And to Brent price, you won't find anyone really in North America, because you have to search the California market where the R-squared is so high. But thanks, and I'll take any questions you might have.

QUESTIONS AND ANSWERS

Oswald Cheung - *Barclays Capital - Analyst*

Yes, no question about it, you have leverage. So -- but how much time do you have?

Todd Stevens - *California Resources Corporation - President & CEO*

I think -- well, we talked about--

Oswald Cheung - *Barclays Capital - Analyst*

(Inaudible) $45 here, or maybe you would go lower. How long can you sustain low prices before you can appreciate and live through this?

Todd Stevens - *California Resources Corporation - President & CEO*

Yes. So, if you think about, let's say, technically, because we're living within covenants, we have to -- first quarter of 2018, we have that timeframe with our banks. But if you took the covenants out of the situation, and I feel like with our relationship with the bank -- we feel like, in a $40-plus price environment, let's say it hovers in the $40s, we can manage this business till our bank renegotiation of our revolver, or our first maturity of our bank notes in 2020.

So, we feel pretty good about the business and how we can manage it. Because if it stays in this environment, we could actually create enough cash flow for -- reinvest a little bit in the business. And with our price environment we're in today, and what we see -- Brent steadying in California from a differential standpoint, we feel pretty good about maybe $100 million, $200 million that you could reinvest in the business. And with all the levers we can pull, we feel good about where we sit at that point.

Oswald Cheung - *Barclays Capital - Analyst*

But, to be clear, you talked about the base. It's all about the base. At $45, you're losing your base.

Todd Stevens - *California Resources Corporation - President & CEO*

Not -- no, I'd say, at $40 or $30 or something, we're losing the base. Because we haven't invested -- this year, we invested $50 million, and $19 million of that was the power plant turnaround. But we've also talked about the back half of the year, we're increasing activity.

So, I don't think you'll see us spending actually $50 million. We'll probably be spending somewhere between $50 million and $100 million in the back half of the year -- once we get through the year. So, at the end of the year, it'll be $50 million, $100 million. Remember, the carryover carries into the -- anything below $125 million that we don't spend, we get to carry over in the $200 million of next year, the way it's written now, with the bank amendments.

Unidentified Audience Member

Can you just sort of talk to, quickly, the options that you guys have to delever, and then incremental first or 1 1/2 lien capacity in the existing docs as they are today?

Todd Stevens - *California Resources Corporation - President & CEO*

So, if you think about -- really, there's three basic ways to do this. One is the capital markets, which we've done a few times now. Then you think about upstream assets, and then midstream assets. So, if you want to say midstream assets, we've retained all of our opportunities there. We still have all those assets. They are pledged at the banks, and really, we could do something with them. But it's really a use of proceeds issue there.

So, that's something that -- we could still pull the trigger on that, whether it be with a part of the power plant, the power plant midstream steam generation; you can go down and talk about the laundry list of the assets there.

But again, we want it to be accretive. I was talking to some folks earlier today. You don't want to trade that balance sheet leverage for income statement leverage if it's not going to be something that's going to be accretive for your shareholders.

And so, the same way with the capital markets. We monitor that, and try to take advantage [if] our debt's still trading. The funny thing to me was, we did the transaction, and all I can attribute it to is August, that nothing sort of happened, either with the debt or equity markets. But the upstream side is the more intriguing side. We haven't pulled across the finish line that large joint venture, but we've done quite a few smaller joint ventures.

And we continue to have quite a bit of interest, both on the exploration -- conventional exploration and unconventional exploration, and then I'll say development joint ventures. We have such a portfolio of assets that meets our 1.3 BCI hurdle, we think we need other people's money to help us accelerate that, with living within cash flow.

And we're continuing to look at that. And we're doing things that ultimately are going to create value; maybe there's not going to be a bunch of money today, but if it brings activity -- it's going to bring activity, it's going to accrete the cash flow over the next few years.

Unidentified Audience Member

And then, first lien capacity (inaudible)?

Todd Stevens - *California Resources Corporation - President & CEO*

First lien capacity -- I think -- for the way the baskets work, I think we were out of that capacity (inaudible). Right, Mark?

Mark Smith - *California Resources Corporation - Senior EVP and CFO*

I think we're generally out (inaudible) baskets. [I think] if you look at it and tear it apart, they have some flexibility left, but it's certainly not easy.

Todd Stevens - *California Resources Corporation - President & CEO*

Well, yes. And our balance sheet is complicated enough now, so I -- we're -- I think Mark and I prefer to have a less complicated balance sheet if we can help it.

Unidentified Audience Member

Just wondering about the operating environment in California. So, in an environment where you want to spend $400 million to $500 million in better days ahead, how difficult is it to get permits, to get the rigs to work? Is there political opposition or lobby groups that may stop you from doing that?

Todd Stevens - *California Resources Corporation - President & CEO*

Yes. I think that's something that's generally misunderstood. I mean, they're very good at utilizing -- the activists there are very good at utilizing social and traditional media outlets to get their message across.

But I think the basic people in Sacramento -- and I'll look at the people who aren't the extremists -- really are interested in good paying jobs, and having their energy produced in the state, that creates good paying job, pays taxes -- and to Governor Brown's credit, he's actually come out and said, I want to produce oil here. Because if I import it from Saudi Arabia, Iraq, Ecuador or somewhere else, the -- I don't control the regulatory environment, how this is there, and I don't have to transport it across the ocean to get here. So, he views it as the most environmentally friendly way to produce oil in an environment where two-thirds of it actually is imported into the state.

We -- there is a lot of [bills] -- there was a lot of noise around the AB32 extension that occurred. That AB32 -- we've been living under that for 10 years. Now it's extended to 2030. I think the general rule of thumb you could think about in California is, if -- it -- things take longer. So, your Gantt chart looks different. And it looks -- it's legal paper instead of letter. But it really -- you plan for that, and you understand how you work in that environment.

I think that's what's most important. I think if you're just doing traditional work in an existing oil field, that you might do anywhere else, there's no real difference there than anywhere else. But if you're trying to step out and go to a new greenfield area, you might have to deal with more permits really around the facilities than you would around drilling an oil well or natural gas well.

So, I think that's the one thing that's really, like I said, misunderstood about California, because it's just -- I think most people just think like this, when they hear that word; but once you delve in the details, you realize the opportunity set's enormous, and it's really -- you can manage it, but it does take more than working in West Texas, arguably.

Unidentified Audience Member

Just a question in terms of your -- sorry, apologies if it's been covered already, but in terms of your CapEx spend for next year, how much can you spend, and what does that mean for production growth going forward?

Todd Stevens - *California Resources Corporation - President & CEO*

Yes. Right now, the way the bank amendment works is, we can spend $200 million plus the unused portion under $125 million from this year. But going back to what I was talking about bank relationships, I feel like, if we wanted to spend more, or if the criteria were there from an investment standpoint, I don't think it'll be an issue to work with the banks to do so. They've very accommodating to us going forward. I think that that's not an issue.

And what will it do to production? I think that, because we have so many levers to pull, if you told me $200 million, I could maybe even grow production next year. But I really think you've got to answer those questions in a longer-term capacity as opposed to one-year impacts, which a lot of people can manipulate. I think that we probably could keep it flat, to a modest growth.

But, going forward, if you want to do over the longer time period, I think if you want to say, I want to keep production flat for 5 years, based on our inventory today, you probably need to spend about $400 million a year. From an oil production standpoint; I'm not talking about gas.

But that's why we -- I think it's misleading to talk about one year over -- versus the other. Because we have done, as you've seen -- one year, we actually grew production with $140 million. So -- but one year is -- we have enough levers where we can do that.

Oswald Cheung - *Barclays Capital - Analyst*

We're out of time here. The Company will be available for additional questions in the breakout session, which is in Liberty Room 5. So, I'd like to thank Todd and CRC for coming to our conference.

Todd Stevens - *California Resources Corporation - President & CEO*

Thank you.