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CRC - Q1 2017 California Resources Corp Earnings Call

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PRESENTATION

Operator

Good day, and welcome to CRC first quarter earnings conference call. (Operator Instructions) Please note, this event is being recorded.

I would now like to turn the conference over to Mr. Scott Espenshade. Mr. Espenshade, the floor is yours, sir.

Scott A. Espenshade - *California Resources Corporation - VP of IR*

Thank you. I'm Scott Espenshade, Vice President of Investor Relations. Welcome to California Resources Corporation's First Quarter 2017 Conference Call.

Participating on today's call is Todd Stevens, President and Chief Executive Officer of CRC; and Mark Smith, Senior Executive Vice President and Chief Financial Officer; as well as several members of the CRC executive team. I'd like to highlight that we have provided slides in our Investor Relations section on our website, www.crc.com. These slides provide additional insight into our operations and first quarter results and additional information.

Also information reconciling non-GAAP financial measures discussed to their most directly comparable GAAP financial measures is available on the Investor Relations portions of our website and in our earnings release.

Today's conference call contains certain projections and other forward-looking statements within the meaning of the federal securities laws. These statements are subject to risks and uncertainties that may cause actual results to differ from those expressed or implied in these statements. Additional information on factors that could cause results to differ is available on the company's 10-Q, which is being filed later today. We would ask that you review it when available and the cautionary statements in our earnings release. A replay and transcript will be made available on our website following today's call and will be available for at least 30 days following the call.

As a reminder, we have allotted a similar time for earnings Q&A at the end of our prepared remarks and would ask that participants limit their questions to a primary question and a follow-up.

I will now turn the call over to Todd.

Todd A. Stevens - *California Resources Corporation - CEO, President and Director*

Thank you, Scott. And thank you, everyone, for attending CRC's First Quarter 2017 Earnings Call. We are off to strong start in 2017. The oil markets remain volatile in response to geopolitical and macroeconomic factors. However, we continue to leverage our operational flexibility moving to offense for smart, value-driven growth as well as the strength in our balance sheet.

Our first quarter production was at the higher end of our guidance range at 132,000 barrels of oil equivalent per day. We reduced debt by $147 million in the quarter, once again, exhibiting our commitment to deleveraging. Our team continue to execute on matters within our control, bringing cost in or below expectations, while protecting our base and positioning us for growth this year.

We have executed 2 joint venture agreements during the quarter, delivering on our initiative to bring in partners to help accelerate the development of our deep inventory. One was with Benefit Street and the other with Macquarie for a total up to $550 million in capital investments over the 2 years. These significant investments by our joint venture partners validate the value of CRC's extensive portfolio and flexibility through the current price cycle. The capital will be largely deployed over the next 2 to 3 years to incrementally add development activity in 2017 and 2018. Drilling has already begun on both joint ventures.

The most recent joint venture executed with Macquarie calls for up to $300 million of capital investment. Macquarie's initial commitment is $160 million, which we expect to deploy by the end of 2018. This JV also focuses primarily on our actual growth opportunities in the San Joaquin Basin and more specifically on our current front, Mount Poso, Pleito Ranch and Wheeler Ridge fields. In this partnership, Macquarie funds 100% of the drilling cost and initially received a 90% working interest. After Macquarie reaches a threshold return, CRC's working interest increases meaningfully from 10% to 75%. CRC also retains certain rights such as buyout or acceleration provisions to speed the reversion of the interest in the joint venture wells.

In comparison, recall that the first joint venture with Benefit Street involved a net profits interest. Under this structure, BSP also funds 100% of the drilling capital and receives a small portion of cash flows on designated producing properties and additional portion of the cash flow on the wells drilled with the JV capital. This structure provides meaningful production for CRC at all stages of the joint venture, as we participate in more substantial portion of the growth wedge. Following payout, all the interests revert back to CRC. We believe reversion on the JV could occur between 18 months to 4 years depending on performance, commodity prices and project selection.

We're committed to making value-focused decisions, consistent with our disciplined portfolio management. The terms of the agreements are in line with other recent industry joint venture transactions and allow for development at a cost of capital similar to or better than what we could have achieved through other methods. Additionally, because the agreements are focused on certain agreed-upon areas, we retain other properties outside the joint ventures for CRC or additional partnership investments while also maintaining our liquidity.

Our broad portfolio allows us to execute in any environment, and the external capital further enhances our optionality. For instance, in a scenario of flat prices, the JVs underpin our capital program to invest in our nearly $750 million barrels of oil equivalent of actionable resource base, which has full cost breakevens of $35 per barrel of oil equivalent or below. This would preserve CRC's cash flow, while maintaining reasonable levels of capital activities. In an increasing price environment, these JVs enhance and accelerate our shift to offense from defense, further augmenting cash flow growth. This provides us with the optionality to delever faster and by either reinvesting cash flows back into the business or opportunistically reducing absolute debt levels.

In total, these joint ventures increase our flexibility to deploy capital, derisk our portfolio, add reserves and ramp production into 2018 and beyond. In conjunction with our evergreen life-of-field process, which continues to renew inventory, we believe the joint ventures serve as a strategic force multiplier to expedite organic deleveraging. They're just the latest in our history of proactive strategy decisions focused on maximizing the value of our large resource base.

I want to underscore that we have positive momentum, and we will continue to build on it. We have the capacity to possibly increase our drilling activity, consistent with our disciplined portfolio management and our dedication to growth within cash flow. We estimate that CRC can deploy approximately $1.5 billion of investment annually at midcycle pricing, which could be funded through a combination of our own operating cash flow as well as our selective external capital supplied by joint venture partners.

Turning towards our operations in the first quarter. Our team did an excellent job. Even with the drought-ending rainfall in all of our producing basins, despite the challenges presented by the heavy storms, our team acted skillfully and safely to quickly shift the activity sequence and ensure we did not experience any major downtime. Our strong operations team apply sophisticated portfolio management process to prioritize and pursue our highest-value drilling and workover locations. We challenge our team to find more efficient ways to operate and drive cost out of our business, and they have delivered.

For example, at out Mount Poso waterflood, we drilled several shallow, short-reach horizontal wells that have delivered 30-day IPs that are 20% better than our expectations. The well costs are coming in 12% better than our expectations, and these wells are delivering higher returns with VCIs of 2.5. So far this year through diligent planning and execution, CRC's team has also executed a program which has delivered nearly 25% better production at 18% lower cost versus our expectations.

We discussed at our Analyst Day how capital workovers provide some of our highest VCI metrics. We performed 103 capital workovers in the first quarter that we believe have a VCI of greater than 5.5. We invested $50 million during the first quarter, and with the addition of the joint venture agreement expect to increase the capital deployed in 2017 above our initial plan. Including external JV capital, we currently expect to nearly double the drilling activity in the second quarter and invest between $400 and $425 million in total capital for the year.

The investments from our joint venture partners provide CRC with flexibility to reduce our capital investment in a lower commodity price environment or accommodate opportunistic incremental deleveraging while still ramping up overall activity. We are adding 2 drilling rigs in the second quarter to accelerate production. This will bring our drilling rig count to 6, with 1 focused on steamfloods, 2 on one shallow shales, 2 on waterflood and 1 on conventional reservoirs. Five of these rigs will be focused on the San Joaquin basin, and 1 rig will continue to operate in the Los Angeles Basin dedicated to waterflood to execute our original internally funded capital program as well as the additional opportunities due to the JV investments.

We expect our current capital program to stabilize our oil production decline by roughly midyear, with growth occurring in the second half. Given the timing of the deployment of joint venture capital, we expect average production uplift from JVs to be modest for 2017, mainly enhancing our exit rate. We see more tangible production growth in 2018.

Assuming current market conditions and our stated base decline rate, we estimate every $100 million of JV capital could ultimately result in approximately 3,500 to 4,000 barrels of oil equivalent per day of peak gross production. For the remainder of 2017, we will continue to execute our development program, which has been supplemented by our JV partners; opportunistically strengthen our balance sheet and remain prepared to respond quickly to macroeconomic changes. As we ramp activity, we are determined to deliver a thoughtful growth safely, while controlling cost.

I will now turn the call over to Mark to discuss the details of our first quarter results.

Marshall D. Smith - *California Resources Corporation - CFO and Senior EVP*

Thanks, Todd. The first quarter of 2017 was a solid start to the year. We continued to do what we said we're going to do: create value by developing our inventory within cash flow, strategically allocating capital to reduce our debt, protecting and derisking our asset base who are positioned for high-return growth and using the flexibility afforded by our business model to tap the strength of the entire organization and improve margins.

Proving the resilience of our asset base, our production volumes came in at the higher end of our guidance, and our base production continues to be consistent with or better than our anticipated yearly decline rate. We manage our costs at or below our guidance ranges.

Living within cash flow isn't simply aspirational for us, it's how we operate. In the first quarter, CRC generated free cash flow after working capital of $100 million, and we also reduced our debt by $147 million. This is a notable accomplishment. While others routinely outspend cash flows, we strengthen our balance sheet nearly every quarter since mid-2015. Our 2017 capital program significantly enhanced over the last year is well underway, and we expect to continue seeing the effects on our production as a result.

Our banks continue to express their confidence in how we strengthened our balance sheet. We recently completed our spring borrowing base redetermination, with our bank group reaffirming our $2.3 billion borrowing base. We're pleased with the strong relationship we have with our bank group and appreciate their support. We feel our recent joint ventures will continue to do derisk our asset base and ultimately serve to further strengthen the bank's collateral as we execute on those programs and prove up reserves.

Even though the near-term commodity price outlook remains choppy, we've adequate support for our 2017 capital program, especially when our joint ventures and our hedging program are taken into account. Our diverse asset base and shallow decline rates continue to deliver value. Production for the first quarter of 2017 was 132,000 barrels of oil equivalent per day, which represents just a 2% sequential quarterly decline. On a year-over-year basis, quarterly oil equivalent production declined only 9% percent, excluding the PSC effects of our Long Beach properties. We believe our decline rates are among the lowest of our peers and can't be matched by shale plays elsewhere.

When we look our production performance, we continue to see our asset base performing well. This performance validates the resiliency and underlying shallow decline of our asset base, even after our aggressive pull back of capital for most of 2016. We restarted our capital investment program in the fourth quarter of 2016 and further increased activity during the first quarter. Including third-party capital, we plan to invest between $400 and $425 million in 2017. We expect our low decline rates to continue next quarter, with production growth occurring in the second half of the year. First quarter 2017 oil production of 86,000 barrels per day was 1% lower than the prior quarter's production and 10% lower on a year-over-year basis, excluding the PSC effects.

NGL production in the first quarter of 2017 was a 1,000 barrels a day higher sequentially and in line with prior year quarterly production levels. First quarter 2017 natural gas production of $181 million cubic feet per day was approximately 7% lower than the prior quarter as well as on a year-over-year basis.

Our realized prices improved year-over-year, largely as the result of the Brent price improvement of over $19 per barrel. In addition, as Brent prices rise, CRC realizations as a percentage of Brent typically increase. Other factors for increased realizations were marketing contract improvements driven by the decreases in California supply and increasing demand for local pipeline and truck crude supply. As a result, our average realized prices were considerably higher in the first quarter of 2017 compared with the first quarter of 2016. The Brent index was 56% higher, and our realizations relative to Brent improved 6% to 92% for the first quarter. Both of these factors pushed our realized oil price per barrel, excluding settled hedges for the quarter, to $50.40 per barrel for a 68% increase over the prior-year period. Settled hedges slightly reduced the quarter's realized price by $0.16 per barrel compared to $6.31 per barrel hedges added in the first quarter of 2016.

Our realized NGL price increased meaningfully from a year ago, registering 109% increase and adding $25 million in revenues due to strength in propane and natural gasoline pricing. Compared to fourth quarter of 2016, realized NGL prices increased 18%, mainly due to seasonal impacts of higher overall demand. Realized natural gas prices in the first quarter of 2017 were $2.90 per Mcf compared with $2.5 in the first quarter of 2016 and $2.79 in the fourth quarter of 2016. Lower U.S. production, strong U.S. industrial demand, higher U.S. exports and continued limited storage due to third-party disruptions supported increased prices during the quarter.

Production cost for the first quarter of 2017 were below our guidance range, registering $211 million and $17.70 on a unit basis. This represents a 3% decrease on an absolute-dollar basis and a 1% increase on a per-unit basis for the fourth quarter of 2016. We expected this modest per unit increase in cost are the result of lower production levels and expect this trend to continue through the summer months. Increased production costs are also a result of higher natural gas prices and our increased downhole maintenance and workover activity. Recall, higher gas prices increase the cost of steam injection or steamfloods as well as our cost of power. However, on an overall basis, our higher natural gas prices are a net positive for us due to higher revenue from our natural gas sales.

Though general and administrative expenses as well as adjusted G&A came in at the lower end of our expectations. Exploration expenses were $6 million compared to $5 million in the prior year period and $10 million for the fourth quarter of 2016. Taxes other than on income, which largely consist of property taxes, were $33 million for the first quarter, down from $39 million in the year-ago period. The decrease was expected due to lower property tax values from the recent commodity price downturn.

DD&A expense for the first quarter was $140 million, generally in line with both the previous quarter and the same year-ago period. Interest expense for the first quarter of 2017 of $84 million was $10 million higher than the first quarter of 2016 due to higher blended interest rates more than offsetting the lower debt balances from the liability management activities that we executed in 2016. This expense was in line with the fourth quarter of 2016. As a reminder, our second lien coupon payment occurs in the second quarter and will lead to a draw on working capital during the next period.

We continue to opportunistically high grade our acreage and divest in additional non-core properties, realizing $32 million in cash and a gain of $21 million. For the first quarter, we reported net income of $53 million or a $1.22 per diluted share and adjusted net loss of $43 million or $1.02 per diluted share. The adjusted net loss excluded a $21 million gain on asset sales, $75 million of noncash hedge gains, a $4 million gain on purchase of our notes and $4 million of other charges. Adjusted EBITDAX for the first quarter of 2017 was $200 million compared with $124 million for the first quarter of 2016 and $168 million for the fourth quarter of 2016. The increase was largely driven by higher commodity prices and improving price differentials, partially offset by lower production and higher production cost. I'd like to point out that we had our highest adjusted EBITDAX margin in 5 quarters.

Operating cash flow for the first quarter of 2017 was $133 million, and we generated $100 million of free cash flow after working capital. We utilized our free cash flow and proceeds from the noncore asset sales to reduce absolute debt levels through debt repurchases, term loan amortizations and revolver balance reductions. Our total debt balance now stands at $5.1 billion, down 25% from nearly $6.8 billion at mid-2015. Note that due to the timing of property tax and interest payments, we expect a short-term increase in working capital and subsequent revolver borrowings next quarter.

In addition to incremental debt reduction in the quarter, this cash flow also supported our capital program. Of the $50 million capital invested, $20 million was focused on drilling activities, $14 million was directed to facilities and $14 million to capital workover activity. We averaged 3 drilling rigs, of which 2 we're focused on the San Joaquin Basin and 1 in the Los Angeles Basin. We remain pleased with the ramp up in activity and the recent well results. As we continue to increase capital throughout the year, it's also important to note that we don't have the same high completion costs as our peers due to the quality of our resources.

Our history of proactive strategic decision making led us to a solid quarter and positions us well going forward. CRC benefits from an industry-leading decline rate from a world-class asset base. We have an extensive workover program and strong uptime performance. As we ramp our drilling activity, we don't expect the service cost inflation that troubles other regions to be a dominant factor for us. Our flexible business model has allowed us to adjust for activity and live within cash flow, and we're poised for growth.

Given we're long on inventory, our joint venture partnerships will help both accelerate cash flow as well as derisk our inventory. Please note that we have provided detailed analysis of our adjusted items as well as key second quarter 2017 guidance information in the attachments to our earnings release. I'll be happy to take any questions you may on that information and on other aspects of our results during the Q&A portion of our call.

I'll now turn it back over to Todd.

Todd A. Stevens - *California Resources Corporation - CEO, President and Director*

Thank you, Mark. In the first quarter 2017, our organization has been reenergized by our step up in activity and our new JV partner's recognition of the depth of our portfolio. This increased activity and supplemental capital enable us to accelerate the development of our vast resource base and grow production and cash flow, while also preserving our flexibility and protecting our downside. CRC has great team members and great assets. Applying the powerful combination of our operating cash flow and the external JV capital to our deep inventory of projects will drive value creation for our partners and shareholders as we supply Californians with the ample, affordable and reliable energy they need.

This concludes our prepared remarks, and we now welcome your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question we have will come from Paul Sankey of Wolfe Research.

Paul Benedict Sankey - *Wolfe Research, LLC - MD and Senior Oil and Gas Analyst*

Looking forward to seeing you, by the way, in New York and Boston shortly. Guys, just a bit more on the JVs. I've picked up sort of bits and pieces from both sides. I just wanted to understand, are they both similarly structured? You mentioned -- well, one of the things I've read is that spending in the JV is at the discretion of the joint venture partner. So I was wondering if that was a co-decision or -- how would do you decide to spend, for example, obviously, in a much lower oil price environment?

Todd A. Stevens - *California Resources Corporation - CEO, President and Director*

So Paul, they are joint decisions. The decisions on the BSP joint venture, as we've outlined before, are in each $50 million tranche. So we've worked a lot through the initial tranche. We are actually actively meeting with them to discuss the second tranche. So -- and I think that'll be approved in the next few weeks. And again, this is joint approval. And on the Macquarie transaction, obviously, a little different, a more traditional joint venture. That one has already approval for $160 million, and we work together as partners going forward. But they are actively involved in what we are doing and understand our inventory and understand also that our inventory has quite a bit of upside still even in the current product environment or even lower from here.

Paul Benedict Sankey - *Wolfe Research, LLC - MD and Senior Oil and Gas Analyst*

So I guess from a voting rights point of view, are they both -- are they dissimilar then? And the Macquarie one has more discretion on the part of Macquarie?

Todd A. Stevens - *California Resources Corporation - CEO, President and Director*

No, I think -- to give you an idea, like, BSP, once you commit to the $50 million tranche, we're going to execute on the $50 million tranche, 2 different projects, at our discretion. It's -- that's kind of the linchpin there. On Macquarie, they've committed already to the $160 million, and then the next decision is whether they want to commit to the $140 million.

Paul Benedict Sankey - *Wolfe Research, LLC - MD and Senior Oil and Gas Analyst*

Understood. And what's the potential thought for more of these deals?

Todd A. Stevens - *California Resources Corporation - CEO, President and Director*

We're in active discussions...

Paul Benedict Sankey - *Wolfe Research, LLC - MD and Senior Oil and Gas Analyst*

I saw in your slides that there's sort of a hint that there's more to come, but I just wondered how many, how much more?

Todd A. Stevens - *California Resources Corporation - CEO, President and Director*

Yes, I think the aggregate amount, as we talked about in my comments, about $1.5 billion of capital investment a year. I think that's our target. Can we get one JV partner to help us get there in one fell swoop? Yes. But we're in active discussions on development, all types of risks, and also active in discussions on the exploration front too. We have been executing some smaller transactions that don't meet this kind of threshold level. But we continue to pursue ones that kind of $100 million dollars of activity set.

Paul Benedict Sankey - *Wolfe Research, LLC - MD and Senior Oil and Gas Analyst*

Yes. And finally for me, can we just go back to that $1.5 billion because that was going to kind of my follow-up. Can you just talk more about that? So the $1.5 billion is what exactly?

Marshall D. Smith - *California Resources Corporation - CFO and Senior EVP*

It's really what we feel like at our level of human capital in the organization, if you think about the management's priorities are allocating our financial and our human capital. We feel like we could stretch our teams to invest that much annually. Maybe we have to augment a little bit like contractors, but that's kind of our thinking, so that it's really in our mind. Without adding a ton of employees, we would think that, that would be a stretch limit for us on the capital side of the house.

Paul Benedict Sankey - *Wolfe Research, LLC - MD and Senior Oil and Gas Analyst*

And that, obviously, would be implying a given level of growth?

Marshall D. Smith - *California Resources Corporation - CFO and Senior EVP*

Yes. I mean, at that point in time, clearly, if you get to that kind of capital investment. We already talked about how we'll reach an inflection point in midyear in oil production. So I think that we'll either -- we'll be growing in the back half of the year, and I think there's a little bit of upward bias on the exit rate. We talked about the entry and the exit this year initially being the same in reaching an inflection point midyear. I think at this point in time we think there's an upward bias given the JV capital coming in or the exit rate at the end of the year.

Operator

Next, we have Evan Calio of Morgan Stanley.

Evan Calio - *Morgan Stanley, Research Division - MD*

I think you mentioned that the Macquarie JV reverts in 18 months to 4 years. What's the oil price that bounds that range?

Todd A. Stevens - *California Resources Corporation - CEO, President and Director*

I think what we were trying to give an idea was based on performance, project selection and prices. When we run out all of our different scenarios, if we saw a lot of the things lining up on one end, it could be as -- close as 18 months. And on the back end, if they work against you, it could be as long as 4 years. I think on performance side so far I think we've been well outperforming our -- what we thought. So I think that's underway. Right now, obviously, in the last few days, oil price has gone a little bit the other way. But I don't think all these project because of the long-life nature of shale decline are going to be that hypersensitive to oil prices, especially when performance has been the way it has been so far with our partners.

Evan Calio - *Morgan Stanley, Research Division - MD*

And did you expect to file those JVs with a 10-K or a 10-Q or something?

Todd A. Stevens - *California Resources Corporation - CEO, President and Director*

No, not at this time.

Evan Calio - *Morgan Stanley, Research Division - MD*

Question on the 2017 CapEx. I know you guys lowered your own funded CapEx in the new guidance by $25 million to $50 million. Is that due to a commodity weakness outlook? Or is that just the additional flexibility that the new JV provides you?

Todd A. Stevens - *California Resources Corporation - CEO, President and Director*

It's a little bit of both. I mean, we're trying to manage within our cash flow but also giving us a little bit of flexibility working with our partners in the joint venture capital. And we've also had some significant cost savings on both the capital and the operating costs. So I think if you look at it all across the board, there's a little bit of efficiency and cost saving, a little bit of managing to cash flow and also just trying to optimize and give ourselves some flexibility if some deleveraging opportunities afforded themselves.

Evan Calio - *Morgan Stanley, Research Division - MD*

Great. Lastly, if I could, I know your LOEs in the quarter were well below your guidance of '17, 74 I think it was. Any color on the drivers there. And do you see those levels sustainable or do you still stand with your guidance or your -- the guidance you gave before?

Todd A. Stevens - *California Resources Corporation - CEO, President and Director*

I think it's just hard work. Our operations teams have done an outstanding job. Our head of operations, Bob Barnes, he gets all fidgety if it goes above 18. So he is going to start beating people's heads if that happens. So we're -- when we get more activity too, clearly that's going to help on a per-BOE basis going forward. And I think gas prices are a little weak too. So...

Operator

The next question we have will come from Welles Fitzpatrick of Johnson Rice.

Welles W. Fitzpatrick - *Johnson Rice & Company, L.L.C., Research Division - Associate Analyst*

On the Benefit Street deal -- actually, on both deals, can you remind us, does each tranche revert individually after payout plus IOR? So presumably that first $50 million for benefit might hit sometime in '18?

Todd A. Stevens - *California Resources Corporation - CEO, President and Director*

Yes, depending on, again, price, performance, all those issues that first $50 million tranche could revert. But in the aggregate, the -- Macquarie will be the first $160 million will have -- is how that one will work.

Welles W. Fitzpatrick - *Johnson Rice & Company, L.L.C., Research Division - Associate Analyst*

Okay, great. And then I just had 1 more. When do you guys think you're going to get the results back from that Sac Basin JV gas test?

Todd A. Stevens - *California Resources Corporation - CEO, President and Director*

We think it's probably a fourth quarter event. I think it spudded some time midyear, September.

Operator

Next we have Doug Leggate, Bank of America Merrill Lynch.

Unidentified Analyst

This is actually Clay on for Doug. Just a couple of questions for me. So number 1, just the CapEx spending for this quarter, looks like it's gotten off to a slow start. Just wondering if you could comment on that, whether you're thinking about some kind of operational hiccup in 1Q that caused you guys to move a little bit slower? Or if you're thinking about spending a little bit less for the year?

Todd A. Stevens - *California Resources Corporation - CEO, President and Director*

Yes, I think for us it really was a function of the wet weather. When you talk about we -- like we said in the commentary about the drought and the rainfall that was happening. But there was a little bit of a factor of efficiencies going on. And so when we had the excessive rain, we took a very -- we were very careful about moving the equipment and tried to make sure we precluded any safety or environmental incidence. But I think we were a little bit slower on the facility spending. We had some significant cost savings. But I -- if you looked at the way we want to invest the capital, we're actually almost caught up to where we wanted to be at this time of the year since the weather has turned and the activity set has turned for us.

Unidentified Analyst

Got you. And just as a follow-up. Is there any kind of rule of thumb that you guys think about in terms of the working -- the workover capital that you spend on the impact on the decline rate? Is there $100 million kind of rule-of-thumb percentage number that you guys think about?

Todd A. Stevens - *California Resources Corporation - CEO, President and Director*

No, I think if you looked at our -- traditionally, you look at our -- the amount of our capital investment when it goes to workover, that's around 15%, 20% depending on the year or -- and our programs from a portfolio standpoint. And remember, activity in [stacked tays] areas usually begets more activity, and that's place is going to have more workovers going forward.

Marshall D. Smith - *California Resources Corporation - CFO and Senior EVP*

And recall that those workovers are the lowest capital intensive, highest value type projects. And so even though they're, as Todd says, they're a small -- smaller portion of our overall capital plan, they tend to be quite impactful.

Operator

Next we have Brian Singer of Goldman Sachs.

Brian Arthur Singer - *Goldman Sachs Group Inc., Research Division - MD and Senior Equity Research Analyst*

You talked earlier about the capacity to increase CapEx. Maybe on the other side, how do you think about the choice between using the opportunity with the JV -- with the JVs to reduce net CRC capital spending versus increase it, depending a little bit more on JV than on the base 100% CRC? And how does the oil price, which has come down maybe temporarily, but how does that influence the willingness to commit capital outside of the JV?

Todd A. Stevens - *California Resources Corporation - CEO, President and Director*

Yes, I think, clearly, we're going to try to manage within cash flow, and it gives us more optionality with the joint ventures. But for us, we're always going to rank everything whether we're reducing debt opportunistically or investing in the business with our VCI metric. So for us, clearly it just gives us more options if we want to dial back our capital spending to within cash flow so that we can rely on our joint venture partners.

Operator

James Spicer of Wells Fargo.

James Anthony Charles Spicer - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Just trying to make sure I understand the new capital guidance. Can you, please, clarify how much of that $400 million to $425 million is being funded internally versus by Macquarie? And then how much from Benefit Street?

Todd A. Stevens - *California Resources Corporation - CEO, President and Director*

Yes, so if you look at it, we reported on a gross basis with our partner's number. But at this point in time, you're thinking about sort of $275 million is our net, plus or minus. So we've actually guided down on our net but guided up on the gross amount of investment for the company.

James Anthony Charles Spicer - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

And then of the remainder, how much is from -- how much are you assuming comes in from each of the joint venture partners?

Todd A. Stevens - *California Resources Corporation - CEO, President and Director*

Well, you can do a little bit of the math there and realize that BSP is in $50 million tranches and $160 is from Macquarie. So you can get a feel for where we're at, at that point in time. So it's $150 million effectively from them, yes.

James Anthony Charles Spicer - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Yes, now I got it. So you're assuming that, that $160 million from Macquarie doesn't all come in this year, is that correct?

Todd A. Stevens - *California Resources Corporation - CEO, President and Director*

No, this year and 2018. We think somewhere plus or minus $60 million will be Macquarie related this year.

James Anthony Charles Spicer - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Okay, great. And then on that note, is there any more detail you can provide on the sort of the drilling plan for the JV wells for the remainder of the year in terms of how many wells per quarter in each JV and the pace of which that capital gets deployed?

Todd A. Stevens - *California Resources Corporation - CEO, President and Director*

I think we feel comfortable with what we put out there about giving you the guidance of where they're going with the different assets. So I don't think we want to guide that specific by quarter with the joint venture partners.

Operator

Next, we have Pavel Molchanov of Raymond James.

Pavel S. Molchanov - *Raymond James & Associates, Inc., Research Division - Energy Analyst*

You commented in your remarks that there is really no near-term concern about service cost inflation in California. As you look broadly beyond your own asset base, right, some of the other operators, particularly the majors in the state, is there any sign that they are accelerating their activity?

Todd A. Stevens - *California Resources Corporation - CEO, President and Director*

From what we can see being an outside third-party, we haven't seen any step up in the activity set by any of the -- our competition in the state at this point in time. And we still see people calling us up from the service provider side wanting to go to work. So I think there is ample supply for our business here in the state.

Pavel S. Molchanov - *Raymond James & Associates, Inc., Research Division - Energy Analyst*

Okay. And based on kind of the current run rate of rigs, how many do you think the industry can accommodate in California before the supply chain begins to get pressured?

Todd A. Stevens - *California Resources Corporation - CEO, President and Director*

Well, you've got to remember, the shallow rigs are really rigs that never really ever leave the state. And some -- most of the medium ones stay here. So it's really the deep rigs that move in and out. But I will guess, you probably could be talking about, I would guess, 30 plus or minus is probably the rigs. As I look at our peak activity set along with our competition there and a much higher oil price environment, and it was north of that, but I don't think that price environment's in anyone's imagination at this point in time. So I think you talk about 30 plus or minus is probably the capacity.

Operator

And next, we have Sean Sneeden of Oppenheimer.

Sean Sneeden

Todd, either for you or Mark. I think you guys have pointed out in your prepared remarks that realizations, especially on NGLs, have been pretty solid within the quarter. As you come to think a little bit longer term, kind of beyond second quarter guidance there, how are you guys thinking about realization and I guess both for oil and for NGL? Should we kind of be thinking about that 50% to 60% of NYMEX or NGLs and kind of rough parity with WTI or kind of a 90% Brent? Is that sort of the [stair] why you guys are modeling things out going forward here?

Todd A. Stevens - *California Resources Corporation - CEO, President and Director*

Yes, I think that's pretty accurate on Brent, and we've actually seen all the fundamentals move to tighten differentials in the state so far, really every macro indicator. Like even if you looked at the EIA reports, a lot of them are coming out of PADD 5, where its the drawdown is tightening here for that differential. On the NGL side, again, it's very much a different universe, and we're getting -- 50 plus or minus is what you've seen, and I think it's going to stay there. You've got to remember most of the market for California NGLs is Mexico, and so it's a little bit different. That's why you see it continually outperform Mont Belvieu.

Sean Sneeden

Right. And remind me, is that the lighter products that you're sending to Mexico?

Todd A. Stevens - *California Resources Corporation - CEO, President and Director*

Propane mostly is the -- big supplier in Mexico.

Sean Sneeden

Okay, that's helpful. And maybe just as a -- my second question here is, I know your primary plan as you guys entered the year was really to try to organically grow into the balance sheet that you have in place here today. Just given some of the price action, I think Mark described as choppy, that we've seen over the last couple of days, at what point do you guys start to think about other alternatives to kind of the organic growth side, liability management or other kind of capital market activities? What point does that becomes a little bit more compelling here?

Todd A. Stevens - *California Resources Corporation - CEO, President and Director*

Yes. Sean, like I said a few times publicly, we -- I didn't come into spinoff in 2014 going, "Well, I really hope to do some liability management transactions." So I mean, we're going to be truly opportunistic and take advantage of the external environment that's provided to us. We do still have and preserved all those options for asset monetizations and other opportunities coming out of 2015 and 2016. So we feel good about where we're at, and we'll continue to evaluate all our options to do things to delever. We understand that's the real overhang on our stock, and we continue to focus on that, while operating the business and keeping our eyes on that prize with our huge inventory.

Sean Sneeden

Okay. And so would it be kind of fair to say that your primary plan is still -- of organic growth is still very much kind of intact in that sense and anything else you can do on the periphery is kind of incremental?

Todd A. Stevens - *California Resources Corporation - CEO, President and Director*

Yes, I think we'll continue to execute on our plan, and we're going to be opportunistic along the way and evaluate everything on how it creates value for our shareholders, ultimately, using our VCI. And we'll get there, whether it be organically or organically plus other asset monetizations or other things, I mean, that's -- we will get there. It's just a matter of how we get there. We'll take advantage of what's given to us.

Operator

We have [Jacob Thumalinsky Ekel] of Morgan Stanley.

Unidentified Analyst

It looks like you paid down $78 million of revolver, $41 million of term loan and about $28 million of the 20s. So just if we assume the 20s are brought back around 80, it would imply like $140 million of cash flow used to pay down debt. Can you just confirm the sources for that $140 million or give or take?

Todd A. Stevens - *California Resources Corporation - CEO, President and Director*

Yes, I think it's operating cash flow and a little bit from asset sale that we referred to. I think you got it right on effectively...

Marshall D. Smith - *California Resources Corporation - CFO and Senior EVP*

Yes, the free cash flow or the...yes.

Unidentified Analyst

Got it. And then sort of on the -- for the same question but just a bit of a procedural clarification. On Page 23, the -- for the $609 million of the term loan, which is sort of consistent with the K and the filings. But then the chart has $375 million term loan maturing in '19. So just trying to understand if there's something that's termed out or how to understand that?

Todd A. Stevens - *California Resources Corporation - CEO, President and Director*

That's just a bullet at end for the term loan. It's amortizing, I think, it's $25 million per quarter, and there's a bullet at the end.

Unidentified Analyst

Got it. Got it. Got it. Yes, I figured it. Like you said,. It's probably a stupid question. And then, can you just provide any additional details on that asset sale you mentioned?

Todd A. Stevens - *California Resources Corporation - CEO, President and Director*

Yes, it was a modest asset sale. Again, we just go through and continue our life of field planning process and look at things that might not be able to ever be competitive for capital in our processes. And it was I think -- I can't remember the exact number we reported, but in the plus or minus $30 million. And we've done that a little bit. I think, we probably monetized $75 million to $80 million worth of producing assets along the way here, and we continue to look at things that don't quite fit our portfolio or things that might be better off with other people investing in them.

Unidentified Analyst

Fair enough. And then, I guess, I don't know if you disclose this or not. But for Macquarie JV, do you have -- did you give a sense for the hurdle rate for Macquarie before it reverts back to 75 working interest for you?

Todd A. Stevens - *California Resources Corporation - CEO, President and Director*

No. All of we said is that we think it's as good or better than all the ones you've seen out in the public domain.

Operator

Well, at this time, it appears that we have no further questions. We'll go ahead and conclude today's question-and-answer session. I would now like to turn the conference back over to management for any closing remarks. Gentlemen?

Todd A. Stevens - *California Resources Corporation - CEO, President and Director*

Thank you, everyone, and thanks for taking the time to learn about CRC. Please follow-up with us with any questions. We'd love to see -- look forward to seeing you all soon.

Operator

And we thank you, sir, and the rest of the management team for your time also today. The conference call has now concluded. At this time, you may disconnect your lines. Thank you, take care and have a great day, everyone.
