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CORPORATE PARTICIPANTS

Marshall D. Smith *California Resources Corporation - Senior EVP & CFO*
Scott A. Espenshade *California Resources Corporation - SVP of IR*
Todd A. Stevens *California Resources Corporation - President, CEO & Director*

CONFERENCE CALL PARTICIPANTS

Brian Arthur Singer *Goldman Sachs Group Inc., Research Division - MD & Senior Equity Research Analyst*
Gregg William Brody *BofA Merrill Lynch, Research Division - MD*
Jacob Alexander Gomolinski-Ekel *Morgan Stanley, Research Division - Analyst*
Jason Andrew Wangler *Imperial Capital, LLC, Research Division - MD & Senior Research Analyst*
John Powell Herrlin *Societe Generale Cross Asset Research - Head of Oil & Gas Equity Research and Equity Analyst*
Kaleinoheaokealaula Scott Akamine *BofA Merrill Lynch, Research Division - Research Analyst*
Pavel S. Molchanov *Raymond James & Associates, Inc., Research Division - Energy Analyst*
Sean M. Sneeden *Guggenheim Securities, LLC, Research Division - MD & Trading Desk Credit Strategist*

PRESENTATION

Operator

Good day, and welcome to the California Resources Corporation Second Quarter 2018 Earnings Conference Call. (Operator Instructions) Please note this event is being recorded.

I would now like to turn the conference call over to Mr. Scott Espenshade, Senior Vice President, Investor Relations. Mr. Espenshade, the floor is yours, sir.

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

Thank you. I'm Scott Espenshade, Senior Vice President, Investor Relations. Welcome to California Resources Corporation's Second Quarter 2018 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 of our website, www.crc.com. These slides provide additional insights into our operations and second quarter results plus additional information.

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

Today's conference call contains certain projections and other forward-looking statements within the meaning of 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 in the company's 10-Q, which is being filed later today. We'd ask you to review when available and the cautionary statement 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.

Please note, CRC will also be hosting an Analyst Day on October 3 in New York City for institutional investors and sell-side analysts. We believe this will be a great opportunity to get an update on our operations and run through our strategic plans in detail. As a reminder, we've allotted a similar time for earnings Q&A at the end of our prepared remarks and would ask the participations to limit their questions to a primary and a follow-up.

I'll now turn the call over to Todd.

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

Thank you, Scott, and thank you to everyone for attending today's earnings call. During the second quarter 2018, CRC delivered solid value for our shareholders. We continue to strengthen our balance sheet and demonstrate a strong operational execution.

We've increased capital investment to build momentum in 2018 and lean into 2019. Our strategic approach is to drive long-term, value-oriented growth with operations purposely aligned to deliver strong cash margins. Our focused execution and strengthening financial position underpin our strategy, and we have clear runway to deliver enhanced shareholder value.

Over the past several months, we've had the opportunity to discuss our business with many new investors. The feedback we've received is that the scope of CRC's assets is unmatched among our peers in North America and our California operating expertise is unrivaled. We lead the way with 3P reserves of more than 1.64 billion barrels (inaudible) across 2.3 million net acres with rich, stacked reservoirs. So we're simply not limited to shallow steamfloods like most California players. Rather the breadth of our portfolio allows for exceptional flexibility and optionality to produce from recovery mechanisms all across the value chain from primary and waterflood to steamflood and shale.

We also have the optionality to capture high premiums based on Brent pricing. Simply put, we're a conventional company, characterized by significant upside through unconventional and exploration opportunities and differentiated by our integrated infrastructure. We've management and operational teams, who have been pressure-tested and successfully navigated through the commodity cycle. Now our assets have generated significant cash flow, particularly is our hedges we put in place in 2016, but price ceilings roll off at the end of this year.

We look to drive value-oriented production growth from our robust, low-decline asset base to extend the life of our fields and to sustain our momentum around high VCI projects. Additionally, we expect our focus on improved operating efficiencies and cost savings to deliver enhanced returns as CRC continues to deliver double-digit EBITDAX compound annual growth rate over the coming years. We intend to accomplish all of this while continuing to bring down our absolute level of debt, which has been a top priority since the spin.

Of course, CRC's strength is our resilient business model, in which our high degree of operational control allows us to invest capital flexibly across diverse assets in a disciplined manner. It's with this mindset that we've prudently increased our capital program to reflect the current mid-cycle pricing environment. We're taking a very measured approach, increasing our capital investment by $100 million to an annualized range of between $650 million to $700 million for 2018. This includes capital commitments from our JV partners of approximately $100 million or more.

Our increased capital program for the year is supported by higher realized cash flows due to our strong operational performance, increased oil and NGL prices in addition to expanded cost synergies and enhanced revenue generation from the consolidation of Elk Hills.

We're keenly monitoring crude oil fundamentals and commodity markets and will flex our capital plans accordingly to enhance our value-oriented production growth and cash flow performance.

As we continue to maximize the optionality and value of our portfolio, we expect that our demonstrability to live within cash flow over the long term remain a key competitive differentiator for CRC.

We're managing our strong slate of project inventories to drive value-oriented production growth with cash flow supplemented by JV capital, which serves to further enhance our operational flexibility. BSP committed a third tranche of $50 million in the second quarter of 2018, increasing their total commitment to $115 million.

To date, aggregate JV capital deployed or committed is now approximately $300 million. This includes MIRA's first tranche commitment, of which $86 million has been deployed. To underscore our operational flexibility, we believe we have -- currently have the human capital and project inventories invest up to $1.5 billion annually. Our robust inventory is depicted on Slide 5.

The consolidation of interest at Elk Hills is proving to be a significant catalyst for driving the next stage of growth at our flagship asset. As a reminder, the Elk Hills Field is one of the largest fields in the United States. Original oil in place estimates are approximately 11 billion barrels of oil equivalent. And it has a surface area of larger than Washington, D.C. or approximately the size of 610 Loop in Houston. With the acquisition of 100% of the working interest, 100% of the minerals and 100% of the surplus, we're now fully able to optimize this 47,000 acre of legacy field.

I couldn't be more proud of the team and the ideas coming from our field operators. The team is outpacing our near-term integration targets, implementing approximately $15 million in annualized synergies in just 4 short months by streamlining operations and consolidating infrastructure. With additional cost-saving opportunities identified, we're confident Elk Hills can exceed our target of $20 million in annualized synergies over 18 months.

Consolidation efforts are also leading to new ideas from field operation on how to reconfigure the production infrastructure in and around the Elk Hills Field, as we rapidly combine various equity zones. As we continue to eliminate inefficiencies, integrate facilities and redeploy the equipment, Elk Hills will showcase how we leverage our scale of operations in California to enable low-cost production from adjacent fields. We're very excited about the future of Elk Hills and plan to share more details on our progress at our Investor Day in October.

Now I'd like to cover highlights of our second quarter 2018 performance, starting with production. Production for the quarter was 134,000 BOE per day, which was above the midpoint of guidance. Our base production performed better than expected, supported by active surveillance and maintenance, particularly in our thermal operations as well as in Ventura. The consolidation of Elk Hills was another boost for production in addition to increased activity within our key fields.

At our Wilmington waterflood in the Los Angeles Basin, we achieved exemplary well performance in the second quarter, with a single well delivering a 30-day IP of 525 barrels a day. This is more than 3x higher than the program average, reflecting a VCI exceeding 7 at $65 Brent. This demonstrates that our technical team can still find bypass pay to deliver significant value in mature fields. We believe more of these opportunities are available.

We have also had success at the Buena Vista Nose discovery, which is being further delineated, with 2 wells coming in at 500 barrels of oil per day. Additionally, in Ventura, we maintained flat base production with low-cost, high-margin workover rigs rather than a drilling rig.

Our active exploration program, primarily funded through smaller exploration joint ventures, continues to deliver industry-leading success. Over the last 12 months, we have evaluated multiple conventional exploration prospects with a modest CRC net investment of approximately $15 million. The new resources discovered through the successful drilling program have a net P50 NPV of $85 million to us, assuming current prices. This equates to almost $2 per share of value and has the potential to increase further with an additional appraisal.

We're really proud of this outstanding result, as it confirms the quality of our high-graded portfolio. We also have a deep inventory of analog prospects and continue to engage with third parties to discuss additional exploration joint ventures.

With our current capital plan aligned to mid-cycle pricing, we expect production growth in the second half of 2018 to be driven from the strong performance of our drilling inventory with more meaningful growth in 2019. Specifically, in the third quarter, in that current pricing, we anticipate production to range between 134,000 to 138,000 BOE per day.

Our Brent price realizations remain stronger in the second quarter of 2018, coming in at 98% before hedges and 86% after the effects of hedges. Since our spin, CRC's portfolio has averaged approximately 93% of Brent. This makes our oil one of the more valuable barrels produced by an independent E&P in the United States, garnering some of the highest premiums and further supporting our improving margin profile.

California's complex refineries that were built for ANS and California grade crude. With no oil pipelines into California and economy, which was recently elevated as the fifth largest in the world, we believe the favorable quality of CRC's production will be highly sought after to optimize the state's refinery yields. Given these market dynamics, we expect strong utilizations to continue into 2019.

Our assets are generating significant cash flow. Our core adjusted EBITDAX was $337 million for the second quarter of 2018, which demonstrates our strong cash generation ability. You may recall that we initiated hedges in 2016 that provided downside protection for our cash flow, and that during that period cash crunch, we paid for those hedges by selling 2017 and 2018 calls. At this time -- at that time, this helped us protect our balance sheet and preserve cash during a low point of the commodity cycle. However, now we're in mid-cycle pricing, our strategy has shifted. We're building our 2019 hedge position to protect our downside risk without significantly limiting our upside.

We're laser-focused on realizing value, and we are positioning and mobilizing our team to bring this value forward. During the quarter, we continue to see real benefits from our internal restructuring designed to align our organization in a way that maximizes the value of our assets from a cash margin and VCI perspective, while ensuring that our teams are working collaboratively, safely and creatively to achieve operational goals.

As a part of the process, we empowered our line supervisors with greater authority along with increased accountability. Our team has stepped up to the plate in a big way with increased collaboration and an entrepreneurial approach that truly embraces the forward-leaning one CRC mindset. This has translated to tangible operating improvements and cost savings that will expand our margins well into the future. Throughout this process, we remain vigilant on safety. It's our top priority to see that our team returns home each day in the same condition they arrived to work.

As you can tell, since the spin and through the downturn, CRC has effectively managed our business and strengthened our financial position. Accordingly, we believe that our valuation should more reasonably reflect our net asset value. With the current strip, we have continued to address our balance sheet through operational execution and growing EBITDAX, with our focus on achieving near investment-grade status over time. Although our credit agreements currently limit our ability to repurchase our bonds, we will continue to be opportunistic and chip away at our debt and move toward a streamlined balance sheet.

Our longer-term objective is to return to the traditional structure of a secured revolving credit facility with our banks in combination with several tranches of unsecured notes. We feel that we're on a path to make that happen, and the market is beginning to recognize this. Increasing financial flexibility we see on the horizon reflects the strength of our production profile, portfolio and the strong trajectory of our margin expansion efforts as we continue to execute on significant growth opportunities ahead of us.

For more on strengthening our balance sheet as well as details on our second quarter 2018 performance, I'd like to now turn the call over to Mark.

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

Thanks, Todd. We continue to make strides in both the operational front as well as the financial front of the business. We're executing our plan and strengthening our balance sheet in a thoughtful, deliberate and strategic fashion.

As we've discussed before, our financial focus is to continue to simplify the balance sheet and reduce our fixed charges. We must balance the cost of repurchasing our debt versus the benefits of interest rate savings and balance sheet simplification. Ultimately, we're focused on returning our balance sheet to near investment grade to fully complement our world-class investment-grade asset.

During the second quarter of 2018, we continued to opportunistically delever purchasing $143 million face value of our second lien and unsecured notes for $118 million. This was accomplished due to leveraging baskets that were previously built into our credit agreements and filled during the Ares joint venture transaction-related equity issuance.

We're also shifting our commodity hedging strategy as we continue to thoughtfully manage our positions. Given our leverage to Brent pricing and a healthy commodity price environment, we've worked proactively to lift some of our prior 2018 ceilings and are implementing more floors into our 2019 strategy. This provides protection for us in 2019 while preserving our upside potential.

Similarly, on the interest rate hedging side, we've taken proactive steps to initiate caps through May 2021 on our floating rate debt. This protection notional amount of $1.3 billion from increases in interest rates at 1-month LIBOR exceeds 2.75%.

As Todd noted, we're prudently increasing our capital plan for 2018 using our joint venture investments to augment our capital flexibility. This additional capital will allow us to strategically manage our activity, to de-risk our inventory and to fund targeted expansion.

Additionally, as Todd highlighted, BSP committed to a third tranche of $50 million of capital, of which $18 million was deployed during the second quarter. MIRA also funded $6 million of capital during the second quarter and has invested $86 million since the initiation of the agreement.

In all, we drilled 48 wells during the second quarter with internally funded capital and 35 wells with joint venture capital. Our value-driven capital allocations delivered tangible results to transition our production to a growth profile in the second half of the year. We expect this will be amplified into 2019.

For the second quarter of 2018, we produced an average of 134,000 BOE per day, above the midpoint of our guidance. We've made good progress on reducing well costs, applying improved processes and capital efficiencies that will accelerate value-oriented production into the second half of the year and beyond. While the impact of production-sharing contracts or PSCs affected reported production and unit costs in recent quarters, PSCs had a minimal sequential impact in the second quarter.

We ended the second quarter of 2018 running 10 rigs, including 3 rigs operating in the Los Angeles Basin and 7 rigs in the San Joaquin Basin. In terms of drive mechanisms, we had 2 rigs focused on steamfloods, 4 focused on waterfloods, 3 focused on conventional primary production and 1 rig focused on exploration. Again, this highlights the exceptional diversity of our fields. As we move into the back half of the year, we have the flexibility to lean into 2019.

During the quarter, we continued to benefit from premium Brent-based pricing and favorable realizations, as Todd addressed. Oil differentials were healthy, registering a strong 98% of Brent for hedges and 86% after the effect of hedges, which impacted oil realizations by approximately $9 per barrel.

Slightly lower NGL realizations reflect the seasonality, but remain strong, and they continue to reflect strength in exports, which carried over from last year. Lower natural gas utilizations continue to reflect seasonality trends.

Production costs for the second quarter of 2018 were $231 million or $18.93 per BOE, within our stated guidance range. Absolute production costs were higher year-over-year, largely due to the incremental production for the Elk Hills acquisition, increased CRC stock price, higher activity levels and higher energy costs. This was partially offset by lower well servicing costs and greater uptime for wells and facilities as well as cost savings from the acquisition.

This uptime resulted from the sharp focus and adjustments we made during the downturn. Production costs, excluding PSC effects, would have been $17.41 per BOE. On a sequential basis, excluding higher equity compensation, second quarter unit production costs would have been $18.52 or $0.56 per BOE lower than the first quarter 2018 costs of $19.08.

This sequential unit cost decrease reflected the effect of additional barrels from the Elk Hills transaction, which are produced at a lower unit cost than the company average. The decrease also reflected cost efficiencies resulting from continued review of surface operations and maintenance and strategic equipment planning at Elk Hills.

Looking forward, please note that energy costs are a meaningful portion of our operating expenses and we pay higher rates in the summer months of May through October. These elevated rates will continue to affect us through the third quarter of 2018.

General and administrative costs were $7.38 per BOE, which were higher than expected, primarily due to increased long-term incentive compensation that was granted in phantom shares and cash settled as well as the timing of certain corporate expenses.

The rise in our stock price increased the long-term non-executive component of G&A and operating cash, which is paid over 3 years in cash based on our stock price.

For the second quarter of 2018, we reported a net loss of $82 million attributable to our common stock or $1.70 per diluted share. Adjusting for unusual and infrequent items that are generally excluded from core earnings by investment analysts, such as noncash derivative losses, our net loss would have been $14 million or $0.29 per diluted share.

Our core adjusted EBITDAX, which excludes cash hedge losses and stock-based compensation expense for the second quarter, was $337 million, which provides one with a better sense of CRC's underlying cash generation capability. As reported, adjusted EBITDAX for the second quarter was $245 million, up 52% from the prior year period, reflecting margin expansion from 33% to 38%. This improvement reflected the impact of our consolidated Elk Hills interest as well as the benefit of stronger pricing. This was offset by $68 million of settled hedges as well as approximately $24 million of increased incentive compensation tied to our higher stock price performance.

We reported cash flow from operating activities of $34 million in the second quarter and $234 million for the first 6 months of 2018. Recall that due to the timing of interest and tax payments, which included greenhouse gas and property taxes, we generally experienced larger working capital use in the second and fourth quarters.

CRC's team continues to demonstrate strong execution of our strategy. We expect to deliver enhanced value-driven production growth and margin expansion while continuing to strengthen our financial position. We remain balanced in our approach, responding quickly to opportunities and addressing any challenges proactively as they arise. And as always, we remain focused on delivering value for our shareholders.

Now please note that we've provided detailed analysis of adjusted items and key third quarter 2018 guidance information in the attachments to our earnings release as well as in our supplementary earnings presentation. Additionally, we've provided enhanced disclosure on the impact of equity compensation on G&A expenses and production costs. Our IR team is ready to walk through these details should you have any questions. I'll also be happy to take any questions you may have on that information, on other aspects of our results during the Q&A portion of the call.

Thanks, and I'll now turn the call back over to Todd.

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

Thanks, Mark. We're very excited about the second half of 2018. We laid a strong foundation for our value-oriented production growth, effectively transitioning to a measured mid-cycle investment plan. We're investing to return sustained production growth, bring forward our large inventory to optimize high-value assets. We'll deploy our deep operating experience, expertise to drive synergies, efficiencies and savings with a focus on margin expansion.

As we capture the full potential of our investment-grade assets, we'll steadily move toward a near investment-grade balance sheet. Our strategic approach along with elimination of hedging caps will lead to more meaningful production growth and significantly increased EBITDAX performance into 2019 and serve as a driving force to enhance shareholder value going forward. We now welcome your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will come from Doug Leggate of Bank of America Merrill Lynch.

Kaleinoheaokealaula Scott Akamine ***BofA Merrill Lynch, Research Division - Research Analyst***

This is actually Kalei on for Doug. First off, (inaudible) to you guys, congratulations. It'll be good to see CRC return to growth this quarter. It's definitely been a long road. So looks like the portfolio will have a lot of momentum going into 2019, and I'm just hoping that you can share some early thoughts. So just wonder if you can talk about your spending plans and how they'll evolve for the coming year. And what I'm expecting to see is a bit of a focus on primary opportunities, and therefore, a bigger near-term production response from capital as we think about modeling 2019? And I've got a follow-up, please.

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

Yes, you can look at the kind of the balance of, as Mark outlined, the rigs, where they're going. About -- currently, about half of them are dedicated toward conventional-type projects. And the other half would be the waterflood and steamflood. In the back half of the year, clearly we're going to get some delayed response to the activity set, but it should start to show up here in 4Q and then going into 2019 with more effect. We're excited about the opportunity, but we're going to still be measured, as we have been historically, utilizing our JV capital and our operational control to be flexible and manage our cash flow accordingly. We'll have the hedges, obviously, that we put in place in '16 that were paid for by 2017, 2018 calls roll off. And the one thing I wouldn't forget about, and I tried to highlight in my remarks, is really exploration. We've had a successful program that just started again in June 2017 with our guys doing a great job of putting together the program, a lot with other people's money, but creating a real value. And that's just starting to get kind of a head of steam here. So we're excited about that opportunity going into back half of this year and 2019.

Kaleinoheaokealaula Scott Akamine ***BofA Merrill Lynch, Research Division - Research Analyst***

Got it. And my follow-up, can you just remind us of your organizational capacity to spend capital? I think you talked about $1 billion as being the most efficient level for CRC spending. And you're getting closer to this level, spending about $700 million this year. So as this capacity becomes more scarce, does your appetite for more JV capital change?

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

I think, our real capacity, as I outlined, is probably $1.5 billion. We typically like to flex with contractors as opposed to adding a bunch of employees. But you'll see us, as we get closer, as we move to that $1 billion number, we'll flex accordingly to be successful. We really feel like we could, from a value perspective, use our -- utilize our human capital up to $1.5 billion. And that would include JV capital, because remember, most cases there, almost all cases, we're actually operating and doing that work. So from our perspective, we feel pretty good about where we're at and what we can manage and kind of the inventory and the opportunity set -- because we don't want to cause inflation too by being -- ramping up too fast or drawing too many resources. So I think, for us, we feel it's a measured approach, the balanced approach. It's underpinned by our hedging going into next year in our strategy, the change obviously coming out of the downturn.

Operator

And next we have Jason Wangler of Imperial Capital.

Jason Andrew Wangler ***Imperial Capital, LLC, Research Division - MD & Senior Research Analyst***

Wanted to maybe ask that last question a different way. And you kind of answered some of it, Todd. As you think about getting into the financial position at year-end, which is obviously much stronger in getting that CapEx up to -- approaching $800 million or so, do you see any real need to even look at JVs anymore? Are you really just looking at what you can do on your own and maybe some one-offs? Or maybe how you think about that, because the activity levels obviously get pretty robust now.

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

Yes. So if you think about when we do our life-of-field plans of all of our inventory of our 130-plus fields, you're going to high grade that account. And these are the -- you're going to say, these are the ones that can draw an investment internally or from our current joint ventures. Or you're going to look at it from the standpoint of, you need the joint venture to bring that value forward, because it's too far out in the future from a cash flow perspective, being prudent about managing cash. Or maybe you look to monetize or divest them. If they're too far out, you just don't think you're going to get to them in an appropriate manner. But I think from our perspective, it is a quandary -- a good quandary to have as you generate more and more cash, particularly as our hedges roll off, is how you want to balance out the joint ventures. But I think right now, it gives us maximum flexibility and it provides many things, as you know, helps us de-risk reserves, manages our cash flow, manages our activity set. So it's something -- from our perspective, we think it's very important. So when we talk about huge, large-scale joint ventures like DSP and Macquarie, I think there could be at least one more of those. But I would try to think they're going to be more like our exploration joint ventures, which I think coming into the year, we've had 5 or 6 discrete different ones coming into this year. And we continue to look at more of those. And we've done some small development joint ventures too. So the larger scale ones are more difficult to execute and you need a more sophisticated counterparty. And the smaller ones are usually with a party interested in particular drive mechanism or particular base and a particular field. So I wouldn't rule them out, because they're important part of our business model, given our enormous level of inventory, but more economic with the sustainability of current prices. So -- but it's being more picky from our perspective, but also getting better terms going forward.

Jason Andrew Wangler ***Imperial Capital, LLC, Research Division - MD & Senior Research Analyst***

And then maybe, Mark, for you on the repurchase debt. I assume that came out of the basket that you guys still do have. Could you maybe just update us where you are in terms of being able to repurchase debt under the current agreements?

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

Good question. Those baskets were developed back in the seventh amendment. They were filled as a result of the Ares transaction, both in terms of monetization and on borrowing based assets as well as the equity issuance. There are significant baskets filled. We executed under a portion of that. And then there were both time constraints as well as pricing constraints on those bonds. We ended up lapsing on time before we could fully get those baskets fully utilized.

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

Jason, it's Todd. I was going to say, one of our priorities is to be able to have more flexibility around that going forward. The opportunity set, that trades at a discount, given a stronger enhanced financial position we have, we want to maximize our flexibility to take advantage of those baskets. So you're going to see us try to make some moves to affect that outcome.

Operator

And next we'll have Tarek Hamid of JPMorgan.

Unidentified Analyst

This is actually [John] in for Tarek. So you guys had a really great job realizing synergies on the Elk Hills acquisition this quarter. And I was just wondering what drove that. Could you perhaps provide a little more color surrounding the acquisition, the integration of it and -- I mean, the rapid acceleration versus the 18-month timeline?

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

Yes, I think you've got to understand going into this, this is a fairly complex thing. It was -- it's not a typical field where you think of one discrete producing horizon. Elk Hills has numerous, 5 major discrete producing horizons and may -- all had different equity interest, Chevron versus CRC. So we had to have separate (inaudible) units, separate compressions, separate facilities and account for it that way. And then our partner, Chevron, was auditing us, and then we had to deal with those aspects of it. So when you think about just manpower and how we do that, we really spent some time and effort and got through and realized how we could eliminate duplicative surface equipment, duplicative [lac] units. And the other neat thing was when it was in Elk Hills unit facility last time, we couldn't take it and move it to other fields of ours. We couldn't use the excess inventory, excess pipes elsewhere. Here, when we finish consolidating parts of the field and taking costs out of the system, we can now move that to an adjacent field that we own because of the 100% nature of ownership. And I think -- I could argue that our guys were sandbagging, but I think really they were working that hard and they were really trying to achieve the synergies. I know, Shawn Kerns tells me that we're going to get the Chevron acquisition for free from a cost savings perspective. So I don't know if that will happen, but that's the kind of goals and objectives our guys have in front of them.

Unidentified Analyst

Understood. So just going off of that, you guys think there's any potential to increase the potential synergies from that acquisition?

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

Definitely. I think the $20 million or probably a little low, particularly given the quick $15 million we've gotten within 4 months, I think we'll see that target. I just don't think we're ready to give a real meaningful target to hit yet, because they are working so diligently on this. But clearly, probably by the next call or our Analyst Day, you'll hear a lot more about this.

Unidentified Analyst

Sure. And then just last question. Just how much production do you guys -- or do you think came from the Elk Hills, the newly acquired assets? I know you were previously guiding to around 11,500 barrels a day.

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

I think it was a little bit less than that. And you've got to remember, we closed a little bit into the quarter.

Operator

Next we have Pavel Molchanov of Raymond James.

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

By my count, you guys currently have 2/3 of all the drilling rigs in the State of California, which essentially means that the rest of the producers in the state are investing little to nothing in their assets. In that context, do you anticipate other kind of mature, below-the-radar assets coming up for sale along the lines of what you were able to do with Chevron?

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

I think when you look at Chevron and the Exxon and Shell joint venture and Aera, they are run by a huge enormous worldwide company and they have different priorities of investment criteria. So I can't really speak to what we think will happen there with their assets. The smaller producers, I think if you're owned by private equity sponsor, you would assume at some point they want to get their money out of it. But other than that, I think that there's a lot of activity. But you also got to remember the activity set in California, because of the enormous amount of stack pay, we have 400 discrete reservoirs ourselves. Our workover rig gets you a lot of value as opposed to necessarily needing a drilling rig. But I would expect the activity set to pick up from our competitors here in the state. But I can't really speak to what's going on in their heads and what they're trying to execute on.

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

Okay. Understood. As you're putting more rigs to work in various geographies, kind of going back to the pre-2014 days when permits from the state were hard to come by and caused various delays, could that be an issue increasingly? Or is that off the table, given your current level of activity?

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

I think from our perspective, we see getting permits. We have a good line of sight for almost 90 days of permits of our activity set. We strive to have more than that going into next year. We work for kind of 12 to 18 months of activity going forward, kind of getting ready in the calendar year. It's really something to hear forward. But wherever you sit in the country, there's going to be some kind of challenge getting permits. But I think in California, generally it's more thoughtful and there's more stringent regulations in some case. But it just takes longer. But we know how to work that. We've been here. Our Gantt chart is a little longer, but we plan through that to ensure that we hit all our marks and our timing on our projects. So I'm not concerned with how -- the pace of those -- of that activity. But I think it's -- we've had a good run here. And when I talk to the folks who are engaged in getting permits and the activity set, we feel real good about our investment profile going forward.

Operator

Next we have Brian Singer, Goldman Sachs.

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

Just one question on my end. How do you look at the pluses and minuses as you think about your leverage, focusing on the numerator in the net debt to EBITDA calculation versus the denominator? I.e., it seems to focus here with multiple CapEx increases that lets get production growing again and move that EBITDA and denominator higher. How do you weigh that relative to debt pay down via free cash flow? And how the decision -- how could the decisions you're making now change if oil prices are not sustained at these levels?

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

I think, Brian, from our perspective, obviously, there's some limit paced on us by our bank facility and some things like that. And like I said, we're working to change those. But a balanced approach to value from our perspective is both getting back into growing value through our EBITDAX and through our gross margins on our cash margins, on our barrels and our natural gas molecules and also by paying down debt. Our debt still trades at a discount. So if you can do the balance of bringing down your absolute debt, whether it's paying it down by buying it at a discount or paying down the revolver, it's something that we continue to do, but I think there's going to be some real value, as I hinted at, over time. We came out on the spin with a very simple structure from a capital structure. We had senior unsecured facility that became secured later, and we had a bunch of unsecured notes. I think we'd like to get -- and we've purposely made our balance sheet more complicated during the downturn to create value by debt liability and liability management. And now we're going to have -- we have the opportunity, since we've made it through the worst part of the cycle, to now try to restructure our balance sheet as we get closer to opportunities when you look at the May calls and some of our debt instruments that were issued during the downturn and get back to a simpler balance sheet. Will that happen overnight? Maybe, but you have to just evaluate on a daily basis what the markets will give you, what makes the most sense for our shareholders. So I think for us, it's not just the numerator attack to do to create value, it's really a balanced approach of getting after the numerator and the denominator.

Operator

Next we have John Herrlin of Société Générale.

John Powell Herrlin ***Societe Generale Cross Asset Research - Head of Oil & Gas Equity Research and Equity Analyst***

A couple of quick ones. Looking at sequential production, (inaudible) gas here. So I was wondering if you could explain why and also why you didn't get any sort of NGL uplift with the Elk Hills buy?

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

NGL prices, typically, this time of the year, it's seasonal. They weaken a little bit this time of the year. So you see a little weakening of NGL prices. We had a really good first quarter with NGL prices. We think that, that seasonality will continue into the fall and into the next winter. Natural gas prices were a little bit weaker in the quarter. We've had some incredible volatility in the current quarter. Actually through June, end of June, weather was fairly mild in California. And since July started, we've gotten some real hot spells and the natural -- the gas market has gotten a little bit, I'll say, pricey on a daily basis.

John Powell Herrlin ***Societe Generale Cross Asset Research - Head of Oil & Gas Equity Research and Equity Analyst***

Okay. Well, I was talking about volumes and volumetrically, you had more gas production 2Q?

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

It was -- yes, the volumes in Elk Hills, obviously, we -- the associated gas there is an important part of production. That's really what enhanced the value from that perspective. Sacramento Basin was fairly flat.

John Powell Herrlin ***Societe Generale Cross Asset Research - Head of Oil & Gas Equity Research and Equity Analyst***

Yes. Okay. Next one from me. On a net basis, it looks like your CapEx pump is like 20%. How did you come up with that kind of allocation, just curious? If you had basically $50 million?

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

Yes, when we look at it, it's - you got to think about rig lines in California. So a rig line for a year is going to be sometime -- somewhere between $40 million and $50 million a year depending on the type of rig. So think about it from -- if you're going to add, for the back half of the year, 2 rigs are effectively $40 million, $50 million. That's not including facilities or any other spending, but that just gives you an idea, the thought process behind it and why...

John Powell Herrlin ***Societe Generale Cross Asset Research - Head of Oil & Gas Equity Research and Equity Analyst***

So then what are you splitting between, say, a workover rig versus an actual drilling rig?

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

So as you look at our kind of our...

John Powell Herrlin ***Societe Generale Cross Asset Research - Head of Oil & Gas Equity Research and Equity Analyst***

More workovers.

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

Yes. So if you look at our pie chart of how we invest, I think that pie chart say, fairly consistent, about 15% and 20% goes to workovers, 15% and 20% goes to facility. And just so you know, the facilities investment for this year was really front-loaded. There will be less facilities in the back half of the year. But that gives you a kind of a feel for where it goes and how we look at it. But we look at this, but also understanding that we could flex for cash flow purposes or other purposes with our partners at BHP and Macquarie and some of our smaller partners that we have and then smaller joint ventures. So I think that's one thing we look at to try to manage the cash flow going forward. We feel comfortable going into the end of the year and into 2019 by enabling ourselves to have the flexibility to go up or down as prices move accordingly.

Operator

Next we have Sean Sneeden of Guggenheim.

Sean M. Sneeden ***Guggenheim Securities, LLC, Research Division - MD & Trading Desk Credit Strategist***

Maybe as a quick follow-up to one of the prior questions. Todd, I think you mentioned desire to reduce the absolute level of debt here. Is that just through free cash flow generation? Or how do we think about that? And I think you've mentioned that there are some limitations on paying down debt. Are you just referring to the ability to repurchase at a discount like on some of the junior stuff?

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

Yes, I think the right proper way to think about it was when we were spun off in 2014, we understood our absolute level of debt wasn't acceptable even in that price environment. So we were looking at different ways to bring down the debt level of monetizations and otherwise. And then quickly, we got into a much different price environment and liability management became an opportunity for us to bring down the debt level. Now we've survived the cycle, we've gotten back to a point where we're not going to be conducting fire sales to try to raise proceeds to bring down the absolute debt level. So for us, it's really the same thing on the table. I think it will be all the above approach. We'll grow EBITDAX some through inventory and cash flow and enhancing cash margins. We'll probably have some monetizations. We'll probably do some more joint ventures. I think the thing people think about or a myth every time, one is exploration, and we tried to highlight that a little bit for you and the opportunity set there; and two is the reversions of the joint ventures that will occur. And those occur well in advance of any of our significant debt maturity. So I think people forget to put those in their models and understand that, that's material cash flow to the company and material value to the company. And then for as far as limitation, I'll let Mark give you an idea of what we're talking about, because we do actually have still more of that basket where we can buy in debt, but there are some limitations on it.

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

Yes, Sean, just to add to what Todd was saying. As we went to the downturn, we -- as you know, we've gone through a series of (inaudible) essentially tied up our restricted payment baskets. And so we've got some provisions in there that allow us to build baskets for debt repayment. Those are essentially triggered by monetizations or other limited factors. We work to try to recapture some of those baskets to the extent we can. And as Todd said, as we look at some of these other actions, we've got the ability to build the baskets. And we'll look at executing on those in order to reduce the absolute levels of debt we have outstanding. Does that help?

Sean M. Sneeden ***Guggenheim Securities, LLC, Research Division - MD & Trading Desk Credit Strategist***

Yes, I think that makes sense. Just if I -- a rough ballpark, how should we think about the current basket size?

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

Well, we had -- we built baskets approaching $500 million as a result of the Ares transaction and the monetization of the equity issuance. And you've got a sense for how much we actually utilize. So a significant amount of it expired, and that's one of the things we plan on working on to try to get some restoration of that. And then we've got the ability to the extent that we execute additional monetizations, et cetera. We've got the ability to build those baskets.

Sean M. Sneeden ***Guggenheim Securities, LLC, Research Division - MD & Trading Desk Credit Strategist***

Got you. I think that makes sense. And then just another one on the balance sheet for you, Mark. Is the -- how do you think about the potential push-out of maturities here. You have a couple in 2021, and specifically relatively expensive term loan there. Is that something that's kind of on the table for you guys to think about in terms of interest savings and -- as well as kind of building more runway?

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

Well, I think you've highlighted a good point. Of our capital structure, that is probably the most challenging period if you want to refer to that in terms of -- if you want to refer to it that way in terms of the interest cost. You've seen us act in a very proactive fashion thoughtfully over the long-term perspective. And you've seen us act in ways that work to try to position ourselves and take advantage of market windows as they open up. And so you're right, those are the kinds of things that we're thinking about. We think about the long term, and we're thinking about the steps we need to take. And as you know, we have a very good relationship with our banks, and we work to keep those guys right in the front seat with us. And so we have ongoing dialogue with them in terms of ways in which we can work together to take advantage of modifying our capital structure as opportunities arise to extend our maturities and put in place that perhaps has -- well, reduce our fixed charges, simple. That's a key focus of ours. Todd said in his introduction, we're working proactively to think about ways in which we can simplify the balance sheet and reduce our fixed charges. And then we'll take that, that will give us ability to further ramp up our -- have more capital put back in the ground and further ramp our growth and further delever organically. So that's the way we tend to think about it.

Sean M. Sneeden ***Guggenheim Securities, LLC, Research Division - MD & Trading Desk Credit Strategist***

Okay. That's helpful. And then just one housekeeping question on G&A. I know you had $24 million of cash settlements in there. So is it something we should be anticipating going forward? Or is that just a onetime event?

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

Yes, Sean, that's a mark-to-market. It's below the executive level that the -- we have Phantom stock units for employees that are cash-settled. So there is a mark-to-market every quarter. Stock price appreciates materially, like it did in the quarter. We're going to have that kind of upward movement. Obviously, you can have a mark-to-market downward too, depending on what your stock price does. But that's simply what it is.

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

Yes. And just to underscore Todd's point, those were put in place sometime back when we were at the depths of the...

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

That was in the downturn.

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

Yes, that's the downturn.

Sean M. Sneeden ***Guggenheim Securities, LLC, Research Division - MD & Trading Desk Credit Strategist***

Got it. Are those programs still in place today for new awards? Or is that -- was that -- should we kind of...

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

No. To give you an idea, our comp committee Chairman at the time during the downturn felt like we need to have more cash-settled awards for the employees, because if there was a restructuring that could occur, that, that would have easier preservation by doing the restructuring. So there was a time period. I think it was 2 offerings of employee compensation that was stock-based, but cash-settled. And -- but now we're back to more traditional utilizing stock for compensation.

Operator

Next we have Gregg Brody, Bank of America Merrill Lynch.

Gregg William Brody ***BofA Merrill Lynch, Research Division - MD***

All the debt questions were asked, so I will not ask any. Just on the -- we haven't talked about the midstream JV in a while. I was curious what the type of opportunities you might see to create value there? And then maybe you could remind us maybe just what you think are leading candidates for monetization today that may help you create some room to deleverage further.

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

Yes, Gregg, I think when you look across the board, everything is still there with the exception of the Elk Hills' power plant and the Elk Hills processing plant, which were part of the Ares joint venture. I mean, when -- we do our life-of-field plans and look at our assets, things that might not compete for capital. We made it through the downturn. We don't need to conduct fire sales. There's other infrastructure that could be monetized in different ways. And there's a lot of things in and around Elk Hills we could do potentially inside or outside the Ares joint venture, particularly as you consider the power plant and looking at one of the big long-term projects at Elk Hills, which is a CO2 flood. We're potentially capturing (inaudible) CO2 from the power plant. That's well in excess of 100 million barrels of proved reserves. So I think there's some opportunities like that where we're actively looking at and looking at bringing partner to monetize in different ways. So it really goes back to -- we preserved all of our assets in the downturn to get to here, and now we're looking to do things to make us a better company and create value for our shareholders. We preserved all that value during the depth of the downturn and do silly things. And now we're looking to create the value and capture our net asset value like I outlined in my comments.

Gregg William Brody ***BofA Merrill Lynch, Research Division - MD***

Got it. You guys have been very consistent. I appreciate that. You've been delivering on that. Maybe just -- I don't know if in there, you said outside of the JV. But there is -- is there anything specific that's -- about the JV that's interesting to have a point out or just early days in terms of opportunities?

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

No, the joint venture is around the power plant and the processing plant. And we could tweak things over time. I think Ares, if you talk to them, you'd see they'll be very pleased with how things are going. And we're very pleased, they're a great partner and easy to work with. And that was one of the criteria for us. We want to have folks who are good long-term partners. So yes, I mean, there's other things you could do, because there is a huge amount of infrastructure at CRC, and a fair amount of that is at Elk Hills just like a fair amount of our reserves and production is now at Elk Hills. So -- but we -- there are some things, particularly as we look to consolidate increased synergies with adjacent fields, that you'll see a lot of value creation along the lines of the $15 million we've gotten in 4 months on annualized. I can't promise that kind of continuing factor, but I think there's a lot of opportunities like that, that will add up over time to be significant.

Gregg William Brody ***BofA Merrill Lynch, Research Division - MD***

Got it. And just last question, so you gave 3Q CapEx guidance and full year updated guidance. Is it fair to assume that in fourth quarter, you'll maintain the same pace as 3Q? Or is there a possibility for you to sim that thing down a little bit?

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

We'll manage it going in to anywhere prices are. But you've got to remember, there's a few issues going off from our perspective. One is we go into '19, we're relatively almost unhedged. We do have floors in place. They can preserve our upside. There's a little bit of swaps in the first quarter. But after that, it's really just floors and then preserving our upside. So in 4Q this year, we do have some swaps that you can -- not swaps, but calls we sold to pay for our puts in 2016. So the cash flow change will be very historic from 4Q to 1Q. And managing that cash flow is going to be important for us going into the year, but also managing the momentum and activity set, because whenever you go up and down activity, you've got to manage safety and all the issues that are important for the enterprise and the activity set and preserving those synergies. So you're going to see us try to do our best to manage that, and we'll continue to manage within cash flow. And we'll have that challenge where we can have a huge shift in cash flow from quarter-to-quarter because of the hedging.

Operator

Our final question this afternoon will come from Jacob Gomolinski-Ekel of Morgan Stanley.

Jacob Alexander Gomolinski-Ekel ***Morgan Stanley, Research Division - Analyst***

As you ramp CapEx up by about $100 million and accelerate growth into 2019, can you just help provide some goalpost in terms of what kind of production growth that should translate into for 2019? I mean, it just seems like growth in '19 will be far more -- far substantial to the 1.5% growth implied Q2 to Q3 for this year. So any framing for how we should think about '19 will be great.

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

Yes, I think if you look at how we've invested since the spin, coming into this year was the first time we invested from a standpoint of investing beyond maintenance capital levels to investing for growth. Last year, we had more JV capital, but -- when you look at our -- level of our net investment. I think if you look at our investment decks and we talk about scenario reinvest all of our cash flow into the business and there's no other things that happen, and we give a scenario $55 and $75 Brent, you can see how -- I think you can talk about production growth, but I think the important part is the cash flow growth, which is more than twice that. But you got to remember too, we're -- given what I talked about earlier, about half of the rigs are dedicated towards conventional and half towards waterflood and steamflood. Waterfloods and steamfloods are typically going to have longer response times. So you're going to see us have a back half of the year that will be elevated relative to now and then lean more into 2019 where we'll have much more response as we get into 2019.

Jacob Alexander Gomolinski-Ekel ***Morgan Stanley, Research Division - Analyst***

Got it. So -- I mean, I guess, that's kind of what I meant, was just -- I can see the 1.5% implied growth from Q2 to Q3, and I guess, if we assume something similar to the Q4. But I guess, I'm wondering around '19 as those waterfloods and steamfloods ramp up into next year. I see Slide 9. I mean, I guess, I could use that, eyeball it. But I just don't know if you had any goalposts or how we should be thinking about it.

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

Yes, I think it's Slide 10. But yes, it's -- yes, I think that's the best way to look at it at this point in time and kind of engage yourself where you sit in the Brent price tag, because we have in there between $55 and $75 Brent. And if you have any other questions along those lines, give Joanna or Scott a call.

Jacob Alexander Gomolinski-Ekel ***Morgan Stanley, Research Division - Analyst***

Okay. And then just on the nat gas you mentioned earlier, we've obviously seen some kind of -- some craziness recently in California, particularly Citygate and Kern River. Are you able to capitalize on those gas price spikes in the physical market? Or have all the volumes sort of been dedicated to an offtaker?

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

We can't capitalize on it.

Jacob Alexander Gomolinski-Ekel ***Morgan Stanley, Research Division - Analyst***

Okay, right. So you must be liking that.

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

Yes, when it's hot, it's not necessarily a bad thing.

Jacob Alexander Gomolinski-Ekel ***Morgan Stanley, Research Division - Analyst***

Yes, tells me your ACs are working. I mean -- and then one real quick housekeeping question. Just do you still have that ATM available? And if so, can you help us understand how you're thinking about it in terms of the right time or opportunity to use it?

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

We do have it available. We haven't used it. Again, it's more of -- as we said before, it was a tool and toolbox. We want to preserve and have all of the tools available to us. I don't think the opportunity set to use it is there. I mean, from our perspective, we looked at it from the standpoint to be oversimplistic. It's creating synthetic 3(a)(9)s. As you know, during the downturn, we had some 3(a)(9)s we did that we felt created real value for our shareholders. But if that opportunity presented itself, again, we felt like we could do that from a synthetic basis by utilizing this and not paying the [VIG] on both sides the deal. So I think from our standpoint, that was what we looked at, and it's not the kind of environment where we would love to utilize that at this point in time.

Operator

Well, that will conclude our question-and-answer session. I would now like to turn the conference call back over to Mr. Todd Stevens for any closing remarks. Sir?

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

Thanks, Mike. Thank you, everyone, for joining us on today's call. CRC is focused on value and preserving the most robust operating and capital plans since the time of our spin. We expect our shareholders to benefit from our increasing capital investments with high VCI projects in this mid-cycle commodity environment. We'll leverage our flexible business model and deploy our talent and their deep operating expertise to capture the full potential of our large investment-grade resource base.

This is going to steadily move us towards a near investment-grade balance sheet, as we've outlined, and deliver significant value for our shareholders along the way.

Also, please join us at our Analyst and Investor Day in New York on October 3, where we will further showcase CRC's value creation. We look forward to seeing you in the next quarter, seeing you on the road. Thank you, everyone.

Operator

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