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CRC - Q4 2015 California Resources Corp Earnings Call

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PRESENTATION

Operator

Good afternoon, and welcome to the California Resources fourth-quarter earnings conference call.

(Operator Instructions)

Please also note that today's event is being recorded. At this time, I'd like to turn the conference call over to Mr. Scott Espenshade. Sir, please go ahead.

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

Thank you. I'm Scott Espenshade, Vice President of Investor Relations. Welcome to California Resources Corporation's fourth quarter 2015 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; and also several members of CRC's executive team.

I would 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 our fourth-quarter results and year-end information, including reserves information. Also, information reconciling non-GAAP financial measures discussed to their most directly comparable GAAP financial measures is available in the Investor Relations portion of our website, and in our earnings release.

As a reminder, 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 in the Company's 10-K, which is being filed today. We would ask that you review it, 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 lease 30 days following the call. We have allotted ample time for Q&A at the end of the 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 Stevens - *California Resources Corporation - President & CEO*

Thank you, Scott, and thank you everyone for attending CRC's year-end 2015 earnings call. We marked our one-year anniversary as a stand-alone comedy in December. Our first year was marked by one of the most severe and persistent commodity down-turns our industry has experienced in decades. Even during this challenging period, we did not waver from our vision of providing a Californian with a long-term ample, affordable, and reliable energy exclusively from California Resources.

We demonstrated this vision in 2015 through our commitment to save and responsible operations, our service as community partners, and our focus on long-term shareholder value. Our employees have been a remarkable asset, and in a period of great, their strengths were put to the test. I'm extremely proud of the way our team's responded to this challenging and volatile environment. Our young and evolving culture is already displaying the entrepreneurial spirit we envisioned, and we are seeing the growth of a collaborative motivated team dedicated to the Company's success.

During 2015 we met with many investors and analysts for the purpose of educating the market about CRC, our quality asset base, experienced Management team, and our plans to navigate a turbulent external environment. Throughout the year we continue to emphasize our financial tenet of living within cash flow, our operational objectives of protecting our base, and enhancing margin, and of course de-leveraging the balance sheet. Let's address each of these principal objectives.

In the face of a continued deterioration of crude prices throughout the year, we adhered to our top financial tenant of living within cash flow. We generated operating cash flow of over $400 million in 2015. We also reduced our capital investment plan from over $2.1 billion in 2014 to approximately $400 million in 2015, which excluding residual fourth quarter 2014 capital, allowed us to be free cash flow positive for the year.

We protected our base by relying on our value-creation index, or VCI metric, to allocate capital. We invested primarily in crude oil projects, specifically steam floods and water floods, in addition to work-overs, all of which are among our highest return and most impactful projects. The efficiency of these investments allowed us to increase our crude reduction by 5%, and overall production by 1%, while keeping our capital investment below our original plan.

Through our capital program and better-than expected well performance, we replaced 140% of our production, excluding the effect of price adjustments. This resulted in an organic F&D cost of $4.88 per BOE in 2015. We believe this outcome is a testament to the unique value that can be derived from our resilient asset base here in California.

I have said since our launch that we have a robust, long-lived asset-base that will be competitive in a lower-for-longer price environment, and will differentiate us from any of our peers. Our asset base is characterized by a low decline rate and the flexibility of multiple reservoir-driven mechanisms. We demonstrated the effects of this in 2015, with our deliberate focus on water floods and steam floods, combined with our limited capital investment. We are more than able to offset base decline and increase oil production meaningfully.

I should also reinforce that we also benefit from owning 60% of our resources in fee, though have little need to drill to keep leases. Unlike many of our peers, our resource ownership rate allows us to have relatively high degree of control over the pace of development, with a net revenue of 88% on our share. With the goal of protecting our margins, we have had to make hard decisions about cutting costs and aligning the Company's size and structure with market condition.

In spite of the challenges times, our employees shown remarkable dedication, and have continued to embrace our vision and values to make this a Company we are all proud of. At the time of our spin-off we had about 2,000 employees. We took actions to reduce our voice to under 1,500 employees, reflecting a 25% reduction. We are achieving our work force reduction primarily through a combination of attrition, a voluntary retirement program, and layoffs. We also have reduced our contractor count by 90%.

It is important note that we undertook these actions with an eye towards minimizing any effect on our production outlook. These actions will reduce our production costs and G&A going forward, and enhance our margins.

The Management team and our Directors have also taken a 10% reduction in salary and fees, consistent with our commitment to reducing cost and living within our cash flow. Our teams have also been hard at work increasing our oval efficiency and reducing cost. As a result of their efforts, we achieved a 13% reduction in our cash costs, excluding interest on a BOE basis. We believe that our full year 2016 cash costs including interest will be approximately $30 per barrel.

Achieving these objectives is important in helping us protect our balance sheet and facilitate our de-leveraging effort. Let's first discuss the components of our outstanding debt. Our high leverage was of course borne out of the $6-billion dividend payment to our former parent (no audio -- technical difficulties) our negative working capital at the time.

We originally financed these items with a public debt of $5 billion, a $1-billion term loan, and approximately $400 million borrowed under our revolver. In the fourth quarter of 2015 we concluded an opportunistic bond exchange offer, which allowed existing bond holders to exchange their unsecured bonds for secured second-lien bond at a lower principal amount and modestly higher interest rate.

We exchanged $2.8 billion of our old notes, or $2.25 billion of the new note, reducing our outstanding principal by $563 million. Since year end, we further decreased our outstanding debt, bringing our debt balance below $6.1 billion, from a high of $6.7 billion, which incorporated the full effects of the spin. We are proud of the progress we have made in this difficult environment, and continue to look for opportunities to meaningfully de-lever our balance sheet.

Our diverse asset base, including our extensive infrastructure, continues to attract interest from potential investors. While the recent further deterioration in commodity prices has made potential transactions more difficult, we continue to pursue de-leveraging opportunities that we believe will maximize long-term value to our shareholders.

Let me now provide an update on our credit facility. As many of you are aware, a ratings downgrade late last year required us to provide security to our bank group, and to determine credit availability using a borrowing base. In light of the deteriorating commodity environment, we saw the potential for tightness in our covenants during 2016.

As a result, we've proactively engaged our banks regarding an amendment to the facility. The amendment was executed last week. The revised agreement sets our borrowing base at $2.3 billion, including a $1.3-billion revolving facility. We currently have approximately $600 million drawn on our revolver, with availability under the revolver subject to compliance with the amended financial covenant.

Based on our current capital program and at current price levels, we believe that we will have sufficient liquidity for all 2016. Mark will provide additional details in his discussion.

While we maintain a 1.3% VCI investment threshold, we have a large inventory that meets a VCI of 1.0, which approximates a 10% rate of return, even at today's prices. Our technical teams are consistently focused on enhancing value by improving the economics of our inventory, and identifying new opportunities through life of field plans using detailed geologic studies, as well as application of more effective and efficient drilling and completion techniques.

A great example of this work happened in a small field in the Ventura Basin with no drilling since the 1980s. Based on their detailed analysis, our technical team increased the drilling opportunities in 3P resources in the field by more than five-fold.

Similar to this experience, we expect many projects that do not currently meet our investment hurdle will do so by the time of their expected development. In addition, during the year our teams increased our gross identified locations by more than 10% to 23,450. As crude oil prices rise on a sustained basis, we will begin to ramp up our activity; but without getting in front of our cash flow.

Our top financial tenet remains to live within cash flow. Reflecting this guiding principle at the end of the year, we laid down the two drilling rigs operating in the San Joaquin Basin, and idled our remaining rig in the Los Angeles Basin.

In 2016 we plan to invest approximately $50 of capital, primarily for the mechanical integrity of our systems and infrastructure, and to maintain safe, long-lived operations. At this level of capital investment, we would expect to experience our natural base production decline in 2016. In the current environment, we will be directing our human capital to protect our base and margins, and to continue to build inventory.

Our average 2015 base production decline was in the middle of our stated base range of 10% to 15% as result of record up-time achieved by our operating teams. In the past we have seen this rate approach 15% based on historical down-time rates.

We continue to work to maintain our base production and minimize down time, primarily through work-overs and well maintenance, which add some of the most valuable barrels to our production. Over the long term, we also strive to moderate our average decline rate through more efficient capital allocation, using real grids, life-of-field planning, and execution, as well as through surveillance and preventative maintenance.

In the near term, due to our limited capital, we have increased our investment hurdle for these activities, which is expected to push our average decline rate towards the higher end of our historical range in 2016. We believe our assets' low inherent decline rates will moderate even further over time, reflecting our continued emphasis on secondary and tertiary recovery projects, such as at our Elk Hills field.

On the hedging front, we layered in costless collars with 2016 put against longer-dated calls in 2017 and 2018. As a result we have hedged about 30% of our estimated 2016 crude oil production, and just over $50 per barrel Brent on average. With these hedges in place, we believe that we will be able to remain compliant with our revised credit agreement covenant, at an average annualized Brent index price of around $28 per barrel.

Our fourth-quarter production was once again at the high end of our guidance range, highlighting the strength of our assets. We continue to be pleased with the results of our overall production -- in particular, the manner in which our oil production has held up with much lower levels of capital and drilling.

Our portfolio delivers low risk, low-capital intensity, oil-directed development opportunity. We will continue to increase our inventory in conventional development projects that are expected be repeatable with low technical risk, and a higher commodity price environment.

We have over 130 fields with multiple pay zones, which gives us a sizable multi-year development inventory. We are currently deferring many of our projects until prices rise and provide additional cash flow, reflecting our commitment to live within our means and focus on value. I will now turn the call over to Mark to discuss the details of our fourth-quarter and total-year results.

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

Thanks, Todd. Before I start with our fourth-quarter and year-end results, let me address CRC's credit facility amendment. As Todd noted, we had a triggering event under our credit agreement last September that moved us from and unsecured facility to a traditional reserve base credit facility.

I'm pleased to announce that we recently amended our credit facility with 100% approval from our 20-member bank group, and established a borrowing base of $2.3 billion. The commitment under the revolving facility was adjusted to $1.6 billion. We've maintained de-leveraging capabilities, and received relief on our financial covenant. We believe the amendment gives us sufficient liquidity at current prices to execute our capital program, while remaining covenant compliant throughout 2016 at current pricing.

As Todd noted, we purposely limited our capital investment to $50 million for the year, with flexibility to adjust according to our expected cash flow within the parameters of our bank covenants. We believe the banks have recognized the discipline and prudence that we've displayed, and appreciate their continued support. We've listed the key highlights of the amendment in today's slides, with details provided in our 10-K.

Living within our means is one of our key goals. We accomplished this in 2015 by posting positive free cash flow for the year, excluding the approximately $200-million effect that carried over from the 2014 capital program.

In the fourth quarter of 2015, crude prices continued to deteriorate to a realized average of approximately $39 per barrel, compared to an average of over $68 per barrel during the prior-year quarter. We also saw NGO and gas prices follow a similar downward slide. We responded to the continued lower price environment by focusing on the items within our control -- reducing cost, working to increase our hedge activity, and driving overall efficiencies throughout the organization.

Our efforts have borne fruit. We've reduced our cash cost throughout the year, as Todd outlined. We increased our annual production despite the significant drop in capital investment. We believe we've demonstrated the quality and flexibility of our asset base.

In the fourth quarter, the CRC team continued to reduce production costs. Oil production was essentially flat with the third quarter of 2015. Further, we completed a debt exchange that reduced our total outstanding debt by $563 million.

In 2015, all of our major costs -- production, adjusted G&A, exploration, and taxes other than on income, were lower on a sequential and a full-year basis. The one exception was higher interest expenses, which resulted from our higher post-spin debt balance. We're pleased with our overall cost containment efforts, and expect to make further strides in 2016.

Todd summarized our recent work force reductions, and we continue to focus on other measures as we move through the year. We believe our total average cash costs including interest will be approximately $30 per barrel is 2016.

Production costs registered $221 million, $15.51 per BOE for the fourth quarter of 2015, and $951 million, or $16.30 per BOE for the full year of 2015. This represents a 7% unit cost reduction from the fourth quarter of 2014, and an 11% unit cost reduction from the full year of 2014.

Our operations teams delivered reductions from all cost categories -- well servicing, service operations, down-hole maintenance, as well as field personnel costs. We also benefited from lower natural gas prices in our steam flood operations. On a sequential quarter comparison, fourth quarter 2015 production costs were $25 million or 8% lower on a BOE basis.

Adjusted G&A expense in the fourth quarter of 2015 was $69 million, and amounted to $287 million for the full year. This compared to $84 million in the fourth quarter of 2014, and $302 million for all of 2014. The 2015 adjusted G&A excludes $67 million of third-quarter severance cost associated with work force reductions. After our recently completed employee actions in 2016, we believe our G&A run rate will be around $200 million for the year, which is expected to be roughly $4 per BOE.

Exploration expenses were sharply lower in the fourth quarter and for all of 2015. While we have numerous potential plays in our portfolio, given our focus of remaining free cash flow positive, we significantly curtailed exploration activity in 2015. Fourth-quarter exploration expenses were $7 million, versus $68 million in the comparable 2014 period. Total year expenses were $36 million in 2015, versus $139 million in 2014, representing a reduction of nearly 75% year over year.

Property taxes were $26 million for the fourth quarter, and $137 million for the full year. These costs make up the majority of our taxes other than on income. With the decline in commodity prices, these costs are $16 million lower than the prior-year quarter, and $25 million lower than the prior full year. We would expect to see similar year-over-year reductions in 2016.

Interest expense registered $82 million in the fourth quarter of 2015. Total-year interest expense was $326 million. This compares to $72 million for all of 2014, which included less than one full quarter of interest expense.

In 2015 we reduced our capital program by 81%, and focused on investments on oil projects resulting in crude oil production increasing 5% for the year. Total-year 2015 crude oil production averaged 104,000 barrels per day, compared to 99,000 barrels per day for 2014.

In the fourth quarter of 2015, we again delivered production at the higher end of our guidance. Fourth-quarter crude oil production averaged 102,000 barrels a day. This is 1,000 barrels per day, or 1% lower sequentially, and $3,000 barrels per day or 3% lower than the fourth quarter of 2014. We believe our production results are a testament to CRC's resilient asset base, and how well our operations teams have performed.

As we previously highlighted, with the current environment favoring an oil focus, our fourth-quarter natural gas production decreased 14 million cubic feet a day, or approximately 6% sequentially to 212 million cubic feet per day. Full-year 2015 production of 229 million cubic feet a day was 7% lower than 2014 production levels. Fourth-quarter NGL production of 18,000 barrels per day was flat with the sequential quarter, and essentially flat with the fourth quarter of 2014.

Demonstrating our asset strength given our limited investment for the year, our total 2015 production was 160,000 barrels of oil equivalent a day, compared with 159,000 for 2014, an increase of 1% year over year.

We're all aware of the story that played out in the energy commodity markets in 2015. Responding to this environment, we departed from the strategy of CRC's former parent, and strategically and opportunistic layered in hedges throughout the year to limit the effect of falling prices. Our fourth-quarter and full-year 2015 average realizes oil prices were $45.88 and $49.19 per barrel, respectively, including the effects of realized hedges. These prices represent a 33% decline from the prior-year quarter, and a 47% decline on a full-year basis.

Our hedge program contributed $6.47 per barrel, or $61 million, during the fourth quarter, and $2.04 per barrel, or $78 million, to the full-year realized price. Natural gas prices averaged $2.28 per Mcf without hedges, and $2.44 per Mcf with hedges during the fourth quarter, compared to $4 per Mcf in the prior-year period. Total-year 2015 prices averaged $2.66 per Mcf, with hedges contributing $0.05. This compares to $4.39 per Mcf or 2014. Our realized natural gas prices reflected the decline of 39% on both a quarterly and annual basis.

NGL price realizations for the fourth quarter of 2015 were $19.56 per barrel, slightly higher than the sequential quarter, due to expected seasonal factors, but were 43% lower than the prior-year quarter. Total-year prices followed a similar pattern, with a full-year 2015 realized price of $19.62, versus the 2014 price of $47.84, representing a 59% decline.

With the pressure of lower commodity prices, particularly for crude oil and higher interest expense, largely offset by our cost-reduction efforts and hedging program, we reported an adjusted net loss of $77 million, or $0.20 per diluted share for the fourth quarter of 2015. This compares to an adjusted net loss of $7 million, or $0.02 per diluted share in the fourth quarter of 2014. On a total-year basis, we recorded an adjusted net loss of $311 million, or $0.81 per diluted share for the full year of 2015, which compares to adjusted net income of $650 million, or $1.67 per diluted share for the full year of 2014.

Consistent with our accounting policies, as a result of the significant decline in the forward curve in the fourth quarter of 2015, we recorded a non-cash property impairment charge of $2.9 billion after tax. This non-cash impairment was related to properties across most of our assets. We believe that a substantial portion of these assets will become economic as prices recover, and we would expect to develop them over time.

As a result of the impairment and the other charges, we reported a net loss of $3.3 billion, or $8.54 per diluted share for the fourth quarter, and a net loss of $3.6 billion, or $9.27 per diluted share for the full year. This compares with a net loss of $2.1 billion, or $5.47 per diluted share for the fourth order of 2014, and a net loss of $1.4 billion, or $3.75 per diluted share, for full-year 2014.

Fourth quarter 2015 adjusted EBITDAX was $226 million, compared to $454 million in the prior-year quarter. Total year 2015 adjusted EBITDAX was $906 million, compared to $2.5 billion in 2014.

De-leveraging remains the Company's primary focus. To that end, in the fourth quarter CRC completed an opportunistic bond exchange that reduced our outstanding debt by $563 million. We've made significant progress over the past year, as we reduced overall debt by nearly $650 million from its high point earlier in 2015 through various actions.

As Todd noted, 2015 was CRC's first full year as an independent Company, and we faced challenging market conditions. Everyone at CRC pulled together admirably to deliver solid performance across our operations, implement cost reductions, and even deliver production increases. We believe we met our goals for items under our control, and to position our Company for the future in the face of the worst commodity down-turn in 30 years.

Please note that we've provided key first-quarter 2016 guidance information in the attachments to our earnings release. I want to point out that our first-quarter 2016 production will be reduced by about 2,000 barrels of oil equivalent per day as a result of the major scheduled turnaround we're performing at our Elk Hills power plant. Our 2016 capital is also front-loaded in the first quarter because of this turnaround.

Our capital program run rate will drop the rest of the year (no audio - technical error) previously. I'll be happy to take any questions you may have on that information and other aspects of our results during the Q&A portion of the call. I'll now turn it back over to Todd.

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

Thank you, Mark. In 2015, our organization executed successfully on the objectives that were within our control. Our corporate culture is built on an entrepreneurial spirit. Our teams have continued to drive efficiencies throughout our operations, reducing costs in a manner that has sustained our high standards for safety and environment protection, as well as our production.

We believe our recently executed credit amendment provides the flexibility we need to navigate throughout the year. California still has a chronic energy deficit, and imports over 60% of its oil. We believe local demand plus the new possibility of crude oil expert provides a unique opportunity for CRC as a California producer. As a result of our cost reductions and efficiency improvements, we believe that CRC is positioned to weather this down-turn, and pursue the opportunities that our asset base provides when commodity prices rise.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Doug Leggate, Bank of America/Merrill Lynch.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Thank you, and good afternoon, everybody. Todd, I think the obvious question is -- or maybe Mark, whichever one of you guys wants to take it -- is the progress and commitment to have over $1 billion of asset sales done by the end of 2016. Obviously the absence of any firm plans remains a bit of an overhang. Can you share with us any update that you can at this point, in terms of where you stand in negotiations, particularly on the non-E&P assets. I've got a follow-up, please.

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

Yes, Doug, this is Todd. We actually have fairly advanced discussions with a few different parties along those lines, particularly on the non-E&P asset. This is something that's been -- clearly ongoing for a while. The marketing conditions as they deteriorated late in the year in December and particularly in January didn't help on that front, and provides a lot of uncertainty in a lot of people's minds. But we continue to have fairly advanced discussions, and we feel pretty good about where we sit, and about our overall plan to get something executed by year end.

Doug Leggate - *BofA Merrill Lynch - Analyst*

By year end, or would you expect -- would we expect to see something before then in terms of ratable through the year, or are you pushing toward that year-end target?

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

We have the year-end target, but I would say if you want to be opportunistic and optimistic at the same time, there's an opportunity to get it done sooner rather than later. But you don't want to count your chickens before they hatch here. I think we have a pretty good discussions going with the numerous parties on parallel plats, and we feel pretty good about where we're heading. We just want to make sure that we do what's best in the long-term interest of the shareholders, not do anything rash.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Thanks, Todd. My follow-up, if I may, is really I guess is for Mark. First of all, I think it probably goes for all of us to recognize you guys have done a pretty amazing job managing the business given the circumstances, but Mark, you've got incredible discounts on your senior debt currently. You have got an available revolver. I'm just curious as to how you think about how you might take advantage of that, in the event that you get line of sight on asset sales in terms of how you prioritize the use of cash. Would you see buying in your debt as opportunistic again as we go forward? I will leave it there. Thanks.

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

Doug, during this period of time we strongly believe that liquidity imprudence is key, and we've worked to demonstrate that throughout this cycle. When you tear apart the bank amendment -- and I'd point you to slides 14 in the slide deck we have on the website.

When you look at that, you see that we've worked diligently and have the support of our banks with respect to several different approaches to de-leveraging, whether that has to do with the sale of assets or monetizations, as you just asked Todd about, or whether that uses other forms of debt to help us de-lever. We've worked to maintain significant flexibility, and using both the left-hand and the right-hand side of the balance sheet -s something we're really focused on as we go through the year.

Doug Leggate - *BofA Merrill Lynch - Analyst*

All right, I'll leave you there. Thank you.

Operator

Welles Fitzpatrick, Johnson Rice.

Welles Fitzpatrick - *Johnson Rice & Company - Analyst*

Hi, good afternoon. On the corporate decline rate, the 10% to 15% that you all talked about today, have talked about in the past, can you give a little color as to if that's going to be pretty evenly spread over the three commodities? Are you expecting oil to hold up a little bit better like we saw in the back half of this year?

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

If you think about it and if you look at the different commodities, clearly oil is going to be a little bit lower as you do that blend. You can see obviously gas will probably be a little bit higher. In NGLs, it's going to be, with the power plant being down and some of those issues with the permeate not being able to be burned at the power plant from Elk Hills, so you're going to have some production impact on that side.

I think overall you've just got to think about the grander scheme of terms on a BOE basis. If you just look at the PDPs and assume no down time, you're going to have around a 10% rate of decline rate. If you assume historical down time prior to this year, you're going to have about a 15% decline rate.

Welles Fitzpatrick - *Johnson Rice & Company - Analyst*

Okay, that's perfect. Then from a modeling perspective, is it relatively fair to straight-line that? I think that would turn out to be 25% to 30% 4Q over 4Q?

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

No, I think that's a little too high. I think you could arguably straight-line it. We're going to have a little bit higher production loss with Elk Hills power plant being down just for maintenance. But other than that, I think you could pretty much decline that out on a 10% to 15%, like we said -- more towards the higher end of the range for the year.

Welles Fitzpatrick - *Johnson Rice & Company - Analyst*

Okay, that's perfect. Thanks so much.

Operator

Paul Sankey, Wolfe Research.

Paul Sankey - *Wolfe Research - Analyst*

Hi, guys. You made a statement that you saw sufficient liquidity for all of 2016. Is that assuming the asset sales, or ex-asset sales? Thanks.

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

That assumes no asset sales, no monetization. As we talked about in a second ago, as long as Brent averages $28 or above for the year, we feel like we have the hedges and the operational flexibility in place to meet our covenants for the year.

Paul Sankey - *Wolfe Research - Analyst*

Got it. What at that point -- I guess 2017 would become a problem then, obviously, I guess?

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

It depends, we get to the end of the year, what the curve looks like at that point in time.

Paul Sankey - *Wolfe Research - Analyst*

But at these levels, I guess it's sufficient for you to say we can see through the end of this year. I won't bother pressing on -- obviously if prices are abysmal in 2017 it's going to be a problem, but let's work towards the end of 2016. What you're saying is that at that very low price, the $28, which obviously allows for the hedging you've got but without asset sales, you've got sufficient liquidity to make it?

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

Correct.

Paul Sankey - *Wolfe Research - Analyst*

Great, thanks a lot.

Operator

Noel Parks, Ladenburg Thalmann.

Noel Parks - *Ladenburg Thalmann - Analyst*

Good afternoon.

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

Hi, Noel.

Noel Parks - *Ladenburg Thalmann - Analyst*

Just a couple things. You're talking about working on your down-time rate. Is there a particular region of the operation where keeping on top of the down-time has the best bang for the buck, as opposed to just allowing things to go off line and just saving the capital?

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

Really for us we're monitoring it on a well-by-well basis at this point in time. But if you just think about a contrary set of assets, Elk Hills, our flagship asset, is around 40% of our production. There's a slide in there on our decline rates and what we've done with Elk Hills. I can't tell -- it's Slide 9, so you could take a look at that. That's obviously something you could focus on.

The way we're looking at it is well by well, so assume a well goes down, we're going to evaluate that well (no audio -- technical difficulties) if it's going to return from a payout perspective in a very short period of time. Otherwise we're going to leave it down and get back to it later, which if you think about it and assume product prices at some time will recover, we'll have a lot of easy work-overs to do at that point in time to get production back on line.

Noel Parks - *Ladenburg Thalmann - Analyst*

Great. I just couldn't quite put my hands on it, but I believe you have a small amount of non-operated or smaller interest properties in the Company. I was wondering as far as partners go and their participation in -- whether it's maintenance CapEx or any other activities -- anything important to know about that for the year?

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

We basically operate every property except one. That property, we have a very good working relationship with that operator. We have pretty good operating control.

Noel Parks - *Ladenburg Thalmann - Analyst*

That one property, is it is not getting any significant CapEx for the year?

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

No, it's not at this point in time.

Noel Parks - *Ladenburg Thalmann - Analyst*

Great.

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

Noel, if I understand your question right, we're really going to can we get drug along by our -- on an non-op basis, can we get drug along by our partners -- is that where you're going?

Noel Parks - *Ladenburg Thalmann - Analyst*

Sure, or the reverse. Yes, anything that you would --

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

I think it's important to note that our portfolio is different from most of our peers out there. The amount of lands that we hold in fee, the fact that we operate, as we've got this one partner that defers to us, as Todd says. We don't have to be worried about being drug along; nor do we have to be worried about being drilled out of our acreage position, like a lot of our peers. I think that's an important point to recognize about our portfolio.

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

This is less than 1% of that production.

Noel Parks - *Ladenburg Thalmann - Analyst*

Okay, great. Thanks a lot. Thanks for the review.

Operator

John Herrlin, Societe Generale.

John Herrlin - *Societe Generale - Analyst*

Yes, thanks. Year over year your PUDs got hit worse than the PDP -- not a surprise, really. Was it mainly five-year roll on price?

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

It was mostly just price. You can see how if you take price out of it, we actually increased reserves rather substantially for the year.

John Herrlin - *Societe Generale - Analyst*

Okay, that's fine, Todd. Are you planning going to the pink sheets, or will you do a reverse split?

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

We're going to put a reverse split in the proxy, which will be sent out to shareholders. We view it as both a way to keep us on that New York Exchange, and also it will be a cost-reducing measure, since they charge you per share outstanding.

John Herrlin - *Societe Generale - Analyst*

Right. Given where prices are now, we should have -- because of your contract in the LA Basin -- continue to up-lift them sequentially? I think you were up versus third quarter. That should stay through the year?

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

Yes, I think that's correct. I think for the year, there's a little bit over 4,000 barrels per day, I think, from the production up-lift in the PSC in the Wilmington Field.

John Herrlin - *Societe Generale - Analyst*

Great. Thanks, Todd.

Operator

Pavel Molchanov, Raymond James.

Pavel Molchanov - *Raymond James - Analyst*

Hi, guys. Thanks for taking the question. The banks are limiting you to $100 million of CapEx, which is obviously low in itself; but you've decided to haircut it by another $50 million. What was the decision process for going well below that bank-imposed cap?

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

Pavel, really it was self-imposed. When you think about it, given the price environment right now, it was -- no one's saying accelerate production into this price curve. From our perspective, the best strategy for the Company and to preserve long-term value for our shareholders was to go into a hunker down mode, and just spend the basic money we need to for maintenance and safety and health environmental. That was something that was self-imposed on ourselves, and the banks gave us a little extra running room if prices up-ticked, or we felt like it was something that was sustainable later in the year.

Pavel Molchanov - *Raymond James - Analyst*

Okay. I don't know if you've disclosed this in the past, but have you shut in any fields or parts of fields based on cash costs running above revenue for that particular asset?

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

No, we haven't. What will happen is at this point in time, if a particular well goes down and it's not economic with the current strip to bring it back, we won't bring that well back. But we are not shutting in any current production at any of our fields.

Pavel Molchanov - *Raymond James - Analyst*

Okay, appreciate it

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

Thanks.

Operator

James Spicer, Wells Fargo.

James Spicer - *Wells Fargo Securities - Analyst*

Yes. Hi, everybody. Can you walk us through the revolver balance a little bit here? You were at $481 million at the end of the third quarter and ended the year at $739 million, with only $78 million to CapEx. I'm wondering what the incremental borrowing was? Then you're down at $600 million now, so just wondering what drove that? Also, if you can comment on where you think you're going to be at the end of the year?

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

I think the one thing that's in there, and you'll see it in the K, is we had a modest acquisition, which was something we are very pleased with. It's directly adjacent to some of our major producing fields. (no audio - technical difficulty) efficiencies with our existing operations that we will be able to achieve in the near term. That was the major chunk right there, if you want to think of it that way. Everything else was really just good old-fashioned bringing it down through operationals and cutting cost out of the system.

James Spicer - *Wells Fargo Securities - Analyst*

You've commented about living within cash flow. Does that mean that we should expect the revolver balance to remain at about the same levels at the end of the year?

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

You have timing issues with cash flows, whether that be tax payments and the like. As of right now, we should be modestly positive cash flow for the year, if you look at the current strip that's out there right now, maybe even a little bit better than that. It's something that we're clearly trying to live within our cash flow. Obviously we have some hedges, too, but that's part of managing the business.

James Spicer - *Wells Fargo Securities - Analyst*

Okay, thank you.

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

James, this is Mark. Just to add a little bit to what Todd was saying, you've got some working capital effects that come into play there. You have some cash tax payments that came due at the end of the year. While we're working to stay generally within cash flow, you've got these working capital fluctuations like that, that will play out through the year.

James Spicer - *Wells Fargo Securities - Analyst*

Okay, I appreciate it. If I could, just one follow-up. On the revolver amendment, obviously it contemplates a whole variety of debt-reduction transactions. Just wondering to what extent your debt-reduction efforts are focused on asset sales versus what sorts of options are available to you, and what you could pursue outside of actually getting asset sales done?

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

This is Todd. I'll quickly jump in, and then I'll let Mark walk you through how it works if we were to do something. There's nothing that's off the table. From our perspective looking, we're looking at the right-hand a left-hand side of the balance sheet.

Given where our public debt's trading, there's some opportunities to de-lever there. There's opportunity to de-lever using assets that aren't in our E&P assets at this point in time We're trying to be creative. Like I said, nothing's off the table, and ultimately do what's in the best interest of our shareholders. I'll let Mark walk you through a hypothetical, so you can see how the baskets might work.

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

James, I just want to take you back to a point that Todd made earlier. It's really -- to one of Pavel's questions -- I think it's really important to recognize that as these discussions with the banks progressed, the banks will ask one for one's forecast and estimates for the year, and then they'll build things around it.

What you see here in this amendment is driven by our expectations. It's not -- our actions are not driven by the bank's expectations here. That's what I want to make clear. The banks recognize that the steps that we've taken as we went through 2015 and early 2016, they're supportive, but they want to make sure that they continue to have clear line of sight with respect to their collateral package, and what happens if some of their collateral is sold or monetized.

With that in mind, you see what's referred to as de-leveraging basket A and de-leveraging basket B. That takes into account use of debt. Then you see asset sales and monetizations that can -- the way to break that out is one, borrowing base properties; and two, non-borrowing base properties. A little more flexibility on non-borrowing base properties. You can see there that uses of proceeds can be used to -- up to 40% of proceeds can be used to re-purchase notes at certain discounts in the market place.

With respect to the various debt baskets, what's referred to as de-leveraging basket A is basically a junior debt basket. We can incur $1 billion of junior liens, and use 40% of those proceeds to repurchase debt in the market place at certain discounts.

What differentiates de-leveraging basket B is essentially -- it's smaller in size, but it's essentially a first-lien debt basket. It can be secured by -- solely by -- non-borrowing base properties on a first-lien basis. 100% of those proceeds can be used to repurchase debt at the market, at those types of discount. Lots of flexibility, and we think it gives us the ability to approach a number of transactions that we are currently contemplating.

But the thing I want to underscore is that the banks have been supportive with the actions that we took. Were we to find a transaction or to advance a transaction that's slightly outside of what's currently contemplated under this amendment, we feel confident with our ability to go back to the banks, have a good reasoned discussion, and move forward on that basis.

James Spicer - *Wells Fargo Securities - Analyst*

Great. I appreciate the clarification. Thank you.

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

You bet.

Operator

Sean Sneeden, Oppenheimer.

Sean Sneeden - *Oppenheimer & Company - Analyst*

Hi, thank you for fitting me in. Mark, can you talk a little bit how you're thinking about the spring re-determination? Do you feel relatively comparable at the current strip that you should stay more or less flat with what the recent amendment put you at?

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

Let me -- it's a good question, let me try to frame it for you. We're just a few weeks away from the time when that starts. I want to share with you a couple things -- level set it.

We began sharing information with the banks back late December, early January, at some of the low points in commodity prices that we've seen this year. Since then it's strengthened. The borrowing base is a 2/3 approval by the banks. Each bank, while it's recommended by the bank agent, each bank uses their own borrowing base calculations, and comments and votes on what's recommended by the agent. It's difficult to anticipate fully what numbers are used.

What we found going through the process is a number of the banks have used a forward curve. We've seen the forward curve strengthen -- or some derivative thereof. We've seen the forward curve strengthen since we began the process with the banks. We would hope that at this level, and with a relatively narrow time frame that we've had between the borrowing base re-determination, that we would not expect to see much variation based on what we know today, going into the May re-determination. Does that help?

Sean Sneeden - *Oppenheimer & Company - Analyst*

That's helpful. From the reserve side of things, would you expect there to be any significant differences between what you share with them now for this amendment, and what you'll share with them in the spring?

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

We didn't quite have year-end numbers. The springing lien took effect and put us in a position where we had to share reserve information with the banks before full-year information was done. But we -- [Leiter Scott] was well advanced in there work, we were well advanced in ours for the year end. We didn't see a tremendous amount of variance between what we had provided the banks with that borrowing base re-determination in the amendment, versus where we came out at year end.

To your point, I wouldn't expect the reserve picture to move much from what we gave the banks for this amendment, versus the May borrowing base re-determination. What I will say will differ is the fact that we have an opportunity to have a much more fulsome technical review with the banks going into May, which we didn't have in this amendment.

I think what we'll see is although we had strong support exhibited from the broad bank group, I think what we'll see is a deeper technical understanding of the group once we have a chance to share our full year in numbers, and go through a couple-day technical review session with them. I think we all feel good about the May borrowing base determination.

Sean Sneeden - *Oppenheimer & Company - Analyst*

Okay, that's helpful. One follow-up on the amendment -- a two-part clarification. The junior liens basket, the $1-billion basket, is that specifically for second lien, or could you potentially do a 1.5-lien concept there?

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

It's not -- let me just answer that question. It only defines it in terms of junior debt, so it's broad.

Sean Sneeden - *Oppenheimer & Company - Analyst*

Okay, fair enough. Lastly, are there any restrictions on your ability to use free cash flow, to the extent that you produce any free cash flow from operations, to repurchase debt under that amendment?

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

Under the amendment, we're precluded from repurchasing any debt, other than that specifically allowed underneath the amendment.

Sean Sneeden - *Oppenheimer & Company - Analyst*

Okay. That's helpful, thank you.

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

I would point out though, that to the extent that we demonstrate financial performance consistent with that contemplated under the second amendment, this amendment will fall away.

Sean Sneeden - *Oppenheimer & Company - Analyst*

Got it. That's helpful.

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

Okay.

Operator

Steven Karpel, Credit Suisse.

Steven Karpel - *Credit Suisse - Analyst*

Good evening.

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

Hi, there.

Steven Karpel - *Credit Suisse - Analyst*

Mark, I know you've been all over this, but I wanted to understand what you contemplated with these deals, is this non-borrowing base asset? Are you contemplating other non-borrowing base assets? Maybe can you give us maybe the balance-sheet number, or how you think about what portion of your asset base -- maybe it's on a balance sheet -- like I said, a balance-sheet accounting basis -- is considered non-borrowing base per this new credit agreement?

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

I think it's pretty easy to break it out for you. We initially contemplated, and we've talked from the outset about the mid-stream assets we have being comprised largely of the Elk Hills power plant and mid-stream infrastructure, whether that's oil sales lines, gathering lines, et cetera. Those are the two broad categories of assets that we have that have been contemplated for monetization from the outset with the banks. Those are broadly what we consider when we say non-borrowing base asset.

Steven Karpel - *Credit Suisse - Analyst*

I guess what I was really -- I was trying to go a roundabout way to get a number. What is the book value of those assets today?

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

I think the book value is around $3 billion -- sorry, it's about $300 million.

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

I think what's important is not to focus on the book value of the assets. It goes back to what we've talked about all along with respect to these kinds of transactions being more focused on -- because these assets are integral to the workings of our operations broadly, I think we think it's more appropriate to think about these transactions as some sort of a -- almost a tolling type arrangement, where there's some sort of a fee associated with the usage. That creates a broad opportunity to create value, outside of whatever the replacement value or book value of the assets may be.

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

Steven, that was just -- that $300 million's our power plant, and the market value clearly much higher than that. You can look, and there's been some comparable transactions the last six months.

Steven Karpel - *Credit Suisse - Analyst*

Maybe simplistically, there's a lot of assets to be sold, with proceeds that you can decide what you want to do with them effectively. I know there's limitations under the credit agreement, but --

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

Yes, subject to the credit agreement, you've got it right.

Steven Karpel - *Credit Suisse - Analyst*

Then for the reserves -- and I know this was talked about with the PUDs, how much do you think of the cost savings are reflected in your reserves, be it SEC versus what you think the reality is? Use it -- like for like in terms of price text, do you think the PV10 is reflective of your current costs?

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

I think of the snapshot at year end they are; but we continue to drive them out of the system, reflecting our activity not only on the G&A side, but also in the field. That's really the indication was year-end 2015 costs, not what we see 2016 being as we continue to work it in this environment.

Steven Karpel - *Credit Suisse - Analyst*

Thank you.

Operator

Ladies and gentlemen, we have reached the end of today's question-and-answer session. I'd like to turn the conference call back over to Mr. Stevens for any closing remarks.

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

Thank you, everyone. Thanks for being on the call. Please follow up with us here in Los Angeles -- in particular, Scott, Joanna, myself or Mark. We'll gladly try to answer your questions or any follow-up. Thank you.

Operator

Ladies and gentlemen, that does conclude today's conference call. We do thank you for attending. You may now disconnect your telephone lines.