CaliforniaResourcesCorporation

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

Todd Stevens: Thanks, Oswald. Real pleased to be back here at Barclays to kick off the fall season here. Let's talk a little bit about why should you want to own CRC? I assume you're here because you believe oil prices aren't going to go down from here, but if you believe they're going to stay here or even go modestly down, I think there's no better investment for you.

CRC, for starters, we're in California, so it's a little bit of a different oil province. Most people don't think about oil provinces, but I'll talk a little bit of it about why it's just like the Permian, but a little bit different.

But first things and foremost, we get brent pricing and it's because California is an energy island and we'll talk more about that in a second. But the other part is, you've got to remember about four years ago we were spun off with a very tough balance sheet from a very different price environment. We did everything during the downturn to protect and preserve shareholder value and to create value on the margin wherever we could.

And now we're in a position to create value and deliver value for our shareholders. We trade like an optional on crude, I'll show you that later, but we've very disciplined when it comes to utilizing our capital program, which is how we understand how we create value for our shareholders and how we utilize our human capital and distribute that among our assets to make sure we create value for our shareholders.

We're a diversified business, we're the largest oil and gas producer in the State of California. And to give you context, California produces about half of 1% of the crude oil in the entire world. So it's not immaterial. And so we really focus on value and we use our VCI metrics, which we'll talk about in a second, which is a discounted profitability index. But at the end of the day, it's all about we have a business that's very focused on creating value for our shareholders.

What is California in the oil and gas business? Well if you haven't been to Bakersfield, you're missing out. Okay? Because that Bakersfield is the center of the oil and gas business in California. But California really is a depositional environment, very similar to the Permian. So imagine the Permian basin, but you throw on tectonic layering. They end up with a lot of micro basins and there are four major ones in California. Starting at the north you have the Sacramento Basin. Come down to the very prolific San Joaquin Basin. The Ventura Basin where the oil and gas industry started, and then the LA Basin.

What's unique about California from an oil and gas perspective is it has a chronic energy shortage. When I said chronic energy shortage, 72% of the oil last year was imported into the state. And there's no pipeline tie-ins to the state, so occasionally you'll get some rail crude, but not very much. So most of that crude is foreign source crude, again that's why we get brent pricing.

And then 90% of the natural gas is imported either from Canada or the Rocky Mountains. And a third of the electricity is imported. So to give you an idea, this is the fifth largest economy in the world that has a chronic energy shortage. And so when you think about that, you understand the critical need for native energy that also supplies native jobs and the like.

So when you look at California and understand what's going on there, it's a very tight knit group of ownership, but we're the largest producer in the state. We have 2.3 net million acres in the state and currently almost 700 million barrels of proved reserves. And I think our one thing that most people don't understand is we have an enormous inventory of projects. And that's something we've been blessed with from the beginning, but we're committed to living within cash flow. Have been from the start and continue to be today.

To give you an idea, we were free cash flow positive throughout the entire downturn. Again, we did understand that we did have depleting resource space, but managing the debt load we had, we still managed to live within cash flow. We continue to live within cash flow, even as we look to raise a capital investment because of the excellent opportunities in our resource base.

In California, this gives you an idea, it's kind of unique when you look at it considering the Permian Basin and how fractionated the ownership is, California, on this slide here, you'll see the top 5 oil producers in the state. Aear Energy is a joint venture between Shell and Exxon. So those top 5 producers are over 85% of the production in the State of California. So it's very tightly controlled and historically has been.

And on the right, you can kind of get a feel for our mineral acreage in the San Joaquin Basin and also the 3D seismic coverage. And that's a part of the story of California is that for a variety of reasons, primarily because super majors controlled it for so long, there hasn't been the investment in modern technology that has occurred elsewhere because the super majors chose to go elsewhere in the world and really chase shallow heavy oil production that gave you 60%, 70% recovery factors with very shallow declines.

You can kind of see that on the bottom left-hand corner. You get a feel for what people produce in the state and their OpEx. You can see we're one of the few producers that actually has a production that is beyond the shallow heavy oil. Again, a lot of those producers on the right upper left-hand corner are shallow heavy oil producers, but that's a subset of what we do. A small subset of what we do.

But again, going back to the depositional environment and how important it is, this strat column there, the cartoon, to give you an idea, there are 400 different discrete producing horizons in the state. So stacked pay, workovers, those things are very important, just like they are in basins like the Permian Basin in other parts of the United States.

San Joaquin Basin, this is 70% of our production, also home to our flagship Elk Hills field, which is about 45% of our production as a company, is one of the most prolific oil and gas provinces in North America. Some of the largest oil fields. These elephant oil fields have been discovered here, Kern River, Midway, Sunset, Elk Hills and the like are all here.

This is home, again, to our Elk Hills and a few of our steam floods. Gives you an idea about the activity set through the cycle in the bottom left-hand corner when you look at this. And you can kind of see we produce about 100,000 barrels a day equivalent in the San Joaquin Basin over the last quarter.

Talk a little bit about Elk Hills, because you can't talk about CRC without talking about Elk Hills. Gets about 45% of our production. Enormous amount of our infrastructure, processing plants and gas plants, steam floods and cogens and a large power plant.

Enormous oil in place, about 11 billion barrels of oil in place. And again, this is something that during the downturn, it wasn't an academic exercise, we actually understood what the decline curve was at Elk Hills, because it was almost 18 months without a drilling rig at Elk Hills. So this was a lot of what we did during the downturn. And again, our assets, you've got to remember in the state, it's rather unique. We have operating control over almost all 130 plus assets. There's only one we don't operate. So for us to manage within cash flow, to manage our activity, is easier than you think because of that operating control nature of what we do.

And in most cases, when we talked about the 2.3 net million acres, over 60% of that is in fee, mineral fee, so we don't pay royalty. In some cases here, like Elk Hills, ever since our Elk Hills acquisition where we bought out our partner Chevron, we now own Elk Hills fee simple. And the only other field I can really think of in the entire world of this caliber that's held fee simple is Kern River field, which Chevron, when they bought out Texaco, owns in fee simple.

This was earlier in this year from a transactional standpoint I couldn't have envisioned a better deal for CRC, buying out our partner in Chevron. There was a -- it's an interesting mix of how the field was organized. There's numerous discrete producing horizons and they all had slightly different working interest. So when we put it together, we now have been able to realize significant synergies from doing so, because not having them as our partner and not having to have separate gathering systems, separate testing systems, quality control, we were spending almost $1 million a year just on testing different crude qualities and crude specs because of all the different producing horizons. This is then something we're very excited about and we've actually seen a lot of upside from this.

We talked about having synergies of about 5 million, these are annualized, sustained synergies. 5 million within six months and 20 million within 18 months, when in fact we have achieved 15 million within four months. And this is really a tribute to our team and our folks that are working out at Elk Hills and their desire to integrate the assets or either they were sandbagging, one of those two. But I really think it's the desire of them to really do a great job for us and I do think that the 20 million target over the next 18 months, we'll probably push through that and see them do a lot better over time.

This has been something that you'll see in the OpEx, the CapEx and the G&A line, mostly in the OpEx line, but it will also alleviate some CapEx investments that are required and it will take away some G&A over the longer term for us as a company. So we're very excited about this and also excited how we can then further integrate adjacent fields into Elk Hills and achieve those same kind of soft cost synergies because Elk Hills as a standalone field for us, remember 45% of our production approximately, is some of the lowest cost production in our company. This is around $11 a barrel equivalent OpEx.

Walking you through the basins. LA Basin is probably one of the most oil rich basins in the world. In some cases, some fields were literally given up on for surface development over the years. Perfect example, some of these ones you'll see might be producing a few thousand barrels a day and then in the 1980s they decided to pave it over and build surface facilities where there is industrial or otherwise.

Our big assets here are the Wilmington field, one of the largest fields ever discovered in North America. And this is a unique partnership with the State of California and the City of Long Beach and it's a production sharing agreement. Sometimes there's not a little bit of confusion about the production sharing agreement, but effectively we get paid in barrels. And so when you get paid in barrels, when prices go up, your net barrels come down. And prices go down, your net barrels go up.

And it's something that -- but the good news is the cash stays the same irregardless, so really you have to look at the cash and if you want to understand more, please contact us. We'll gladly walk you through the production sharing contract and how it works. But as far as production sharing contracts in the world, how they work, this one works the best. You get 100% cost recovery immediately. You're not amortizing anything. And you have great partners here in the City of Long Beach and the State of California.

Our other big asset here is the Huntington Beach asset. This is an interesting asset because it is right on the beach in Huntington Beach in Surf City. In addition to the operations there, we own 92 acres of surface literally on the beach that one day we'll be able to monetize or we might look to monetize along the way here if we can operate in the field effectively with taking away some of the surface.

These two assets right now have about three rigs working for us. One in Huntington Beach and two in the Wilmington Field. Again, this is mostly water floods for us. Very shallow decline, very long lived assets and pretty much 100% oil cut. Small amount of gas.

Ventura Basin. Ventura Basin is actually where the oil and gas industry in California started. Far eastern edge of the Ventura Basin was the discovery of the New Hall petroleum field in 1876 and that's really what started the oil boom west of the Rocky Mountains. And this area is also one of the areas that the super majors kind of gave up on California prematurely.

We shot a 3D survey less than five years ago in this area. It was the first one of its kind. Again, enormous oils in oil in place and it's something from our perspective we see the oil in place continuing to rise. We have a very successful exploration program in the Oak Ridge trend, the Oak Ridge fault area and this is something going forward we see a lot of opportunity. This is water floods, conventional and again, some exploration opportunities for us going forward.

Sacramento Basin, very northern part of the state. This is a gas basin that has very similar type curves to some of the, well I'll say offshore type opportunities. It has higher declines, higher IPs. But it really hasn't had a lot of deep drilling over the years. There are some small oil plays in the area. There is a lot of active exploration here, not just us. Most of our exploration is being done through joint venture partners, but it's intriguing to me, because the gas market in California is very volatile. You have big swings ever since Aliso Canyon storage went down. You'll see Citygate prices go well below NYMEX and then go up 5 fold of NYMEX, $20, $10 of an M. So again, it swings with the weather.

But this is an intriguing area that hasn't had a lot of deep drilling over the years and it's our largest gas producing area. We control about 85% of the production, about 85% of the acreage in this area. Significant gas optionality for the company and a natural hedge to our steam flood business.

Why did we do the spin-off when you think about it four years ago? I mean it really was to focus, focus, focus on the assets. We're spun-off -- our 3P reserves were around 1.1 billion. Today in a much different price environment, remember that was around $90 plus brent. So today if you thought about it and used about $70 brent, we're well in excess of 1.8 billion of 3P reserves.

And you can see the spin, about 768 proved around this $90 plus brent. We're going to have a significantly larger number, but we won't close on top of that, but you'll see when we talk about it at our analyst day, which is about a month from today, that we're very close to having our same proved reserves that we had at the spin today four years later in a much lower price environment. Again, it was because the attention needed and the focus needed on these assets wasn't being paid in a larger enterprise and that's why you do the spin-off and why we've been able to focus on value, focus on life of field and do the kind of work that was needed to be done to achieve the value that was ultimately foreseen four years ago that now we, after going through the cycle, we're poised to be able to deliver.

And what is it? We talked -- I mentioned this before. Our VCI metric, we call it our value creation index. It's a very simple metric, you can see it on the bottom of this slide. PV10 of pre-tax cash flows dived by PV10 of investments. Something used by Tenaco Oil, for those of you who have been around for a while. But our focus is on value. Starts with value, ends with value. And I think it's important to understand that as we grow into our production -- grow into our reserves from our production, we're going to become oilier over time. Again, enhancing our margins over time.

California is a little different environment even from a service sector perspective. A lot of the iron doesn't necessarily leave the state. Typically we see deep rigs go in and come back from the state, but most other iron stays in the state. We don't have the cost pressures you might be hearing about in other basins in the U.S. We do have cost pressures, but they're not the significant amount that you see elsewhere.

So I think for us, you're going to see a laser focus on value, a laser focus on shareholder value and doing the right thing by our shareholders every time.

And this leads you into this. I mean when we were spun-off four years ago, I wasn't going, boy, I'd really love to do some liability management transactions. We were hoping to invest in the business and -- but along the way, given the cards we were dealt, each time we chose our shareholders every time. And we looked to create value on the margin and preserve and protect value, not take the easy way out.

And you can see this along the way. We've now, as of a few weeks ago, we have eight bank amendments. So the person and people that have had the most unfettered access to our assets have been the banks. And they've given us eight amendments through the downturn.

Again, we had a fairly complex balance sheet now, but we had a simple one at the start and we'll talk about that in a second. But as you can see along the way, we did everything we could to create value and focus on the shareholder value throughout the cycle.

In our peak post-spin debt, when you took into account that we got left with payables and got the receivables that at the last second taken was about $6.7 billion. This gives you an idea of how during the down period and the down part of the cycle we were able to reduce our debt to about $5 billion. We took out $1.7 billion. But this didn't come easily. This was a lot of hard work by a lot of folks on our team.

And really, it gives you an idea too that like I mentioned before, cash and working capital we had positive cash and working capital of $130 million during the cycle. But it really was an effort in many ways and one of them is buying back our bonds at a discount. During the cycle, you can see each part of the year, including this year, we've able to do so. Part of the amendment that we got last week, two weeks ago, it was important to -- and it further enables us to utilize some baskets that at the time expired. And there's some other technical aspects of that amendment also that when we look to refinance things.

So for us, we want to preserve all the tools we can have to bring down our absolute level of debt because we understand job one is investing for value and preserving shareholder value, but we have a backdrop of our absolute amount of leverage needs to come down. And that's something that from our perspective we understand that and we focus on that every day.

And so for us here, this is important, we will continue to do this. This amendment will enable us to go back and utilize these baskets that had time expired that we'd have created. And we'll continue to look at other ways to monetize things and ultimately create value. I mean our Elk Hills acquisition was an important deleveraging tool for us. I think people don't realize that when you think about an acquisition, but it was in many ways because we bought something that was incremental working interest and able to take real cost savings that'll accrete to the shareholders out of it to the tune of well in excess of probably $0.50 a share per year ultimately will come out of that going forward.

Talked about the balance sheet when we were spun-off. Very simple, we had an unsecured revolver and some unsecured bonds. That got complicated, but we knowingly made it complicated to try to create value on the margin for our shareholders. So you can see we have a lot of parts of this that make it fairly complex and not many unsecured bonds anymore. And we have a secured credit facility. But part of the value proposition for us is getting back to a simpler balance sheet.

So we went through the cycle. We've tried to do things to create value, but now another one is re-simplifying the balance sheet. And it really starts now when we start looking at how do we increment into that? Again, that first lien, 2016 term loan, that's LIBOR plus 10-3/8. There's make wholes associated with that, but to give you an idea of the first lien 2017 term loan, again it's a different part of the stack, but that's LIBOR plus 4.75. So there's a real opportunity from a fixed charge standpoint to simplify this again and get back to a better balance sheet for the company, given the investment grade type assets we have.

And so that's something that's an important focus for us on part of the company, particularly our CFO Mark, as we look going into this next year, as we manage the make wholes and monitor the fixed income markets.

Important tool for us I mentioned earlier, we're a long inventory. When you have a lot of inventory that's especially long lived, what's important? Important to try to bring some of that value forward. So for us, joint ventures was something that was critical. Using other peoples' money to help us accelerate that value for. Because what does it do? It not only helps bring value forward and sometimes outside the current present value window, but it also helps you manage your cash flow.

This time last year, a little earlier than this last year, prices dipped for a little bit. We were able to keep our activity constant by utilizing our joint ventures to manage our cash flow and enable us to keep the crews in the field working and not lose some of the synergies we had from that standpoint.

But it also enables us to help de-risk inventory. We can drill a well and the offsets might be 100% CRC. So this is important when you have a lot of inventory to be able to chase this and utilize it and bring the value forward.

The people that when you think about here reversions, from the last dollar invested in our two big partners here are Benefit Street and Macquarie, the reversion is plus or minus on a portfolio basis of about nine months. So if we stopped investing dollars today, these reversions would occur mid plus or minus next year. And again, it's from the last dollar invested. Remember Benefit Street as more of a cash flow driven metric, net profits interest. And Macquarie is a more traditional reversionary type working interest that is occurring here.

And the thing to remember, we have low declining assets, so if you -- say if you were going to invest $100 million and for every $100 million you're getting 3,500 to 4,000 Boe a day, so you can decline that 10% to 12% a few years out and you realize real quick about how much is going to accrete to us as a company. So it's a real powerful tool to help us delever because from a leverage standpoint, we understand there's no one magic silver bullet. There's going to be an increment of growing into a little bit, but there's also looking at all kind of creative ways, whether it be liability management, whether it be joint ventures, whether it be acquisition, whether it be buying debt at discount or just paying down debt. Those things are all on the table for us and they're all things that we look to do.

This is just a real quick tool showing you how we managed capital during the downturn. And when the JV capital came into play and how we, when I talked about the quarter last year, where there was a disconnect in price for a little bit and how we were able to utilize that to manage our cash flow stream. And I think the one thing to notice here that's really important is that until 2017 fourth quarter, we really hadn't invested at even close to our maintenance capital level as a company on a net basis. I think this is important.

We hadn't really started to invest and because we don't have an immediate response, we're not a shale business where you invest in the quarter and you see a response and you get a decline. We usually have a six to nine months of response time. So our investments now are going to show up early next year and likewise. So that's why you see us as we gradually are going into the back half of this year, you'll see more response from our investments earlier this year in early 2019.

And that really brings us to our mindset. I talked about it briefly. In the down market, we really focused -- all three times we're going to focus on VCI value. But really in a down market it's secondarily you're focusing on payback and liquidity and making sure you manage the business for the cycle. Now that we've moved to a mid-cycle market, really getting away from focusing on the secondary measures being liquidity and payback, you're going to focus on things that are going to create the absolute highest value for your shareholders. So you get away from the discussions on what your maintenance capital is, you're going to just talk about what's the maximum value creation opportunity, you might make more mid to longer term investments. We've changed our hedging strategy. We focus more from very short-term swaps and collars and the cheapest way to do things, versus buying puts and preserving the upside. And you see that in the appendix for 2019.

And the other thing that really changed the most for us is going to be the investment in exploration. During the downturn, our investment in exploration was really de minimis and it was really other peoples' money. And we're continuing that process, but just in the last quarter we've drilled the first 100% CRC well on exploration since the spin. And that's something I think people forget as a company is the opportunity set we have on exploration. It's something that's enormous. Enormous value creation opportunity and one of those that you're hitting for home runs at that point in time.

I want to focus, we're pretty far into 2018, but I think the important thing on our capital program on this slide is really look at the percentages. And I think as you look at the pie and you think about next year, the pie obviously -- those will stay kind of similar, plus or minus 5%. The one that'll probably grow is exploration.

And I think the fundamental thing to remember is in the middle you have an awful lot of conventional and people -- that's just not something that, unless you're looking at the bowels of a super major, you're not going to see a lot of conventional production. It's just not normal nowadays in publicly traded independents.

So when our capital program next year, the one thing I will say that I think you'll see, and we'll talk about this more at our analyst day in the next month, is there'll be a focus on excess cash flow and what we're going to do with that excess cash flow. And our philosophy around do we need to grow at some enormous rate? No, we need to grow modestly and utilize our excess cash flow to delever.

And how are we going to delever? It might be through an acquisition, it might be buying in bonds at a discount. It might be buying in debt or accruing cash to do something else along the way here, a refinancing of our first 1.5 lien term loan. So there's a lot of different ways, but I think you'll see we understand and get, exactly how we behaved during the cycle, by the way. We've never plowed 100% back into the business. It's something from our perspective, we want to be thoughtful and do an all of the above approach.

And that's because we have this huge inventory of actionable projects. This is $65 brent. This is fully burdened. These all meet our 1.3 VCI criteria at $65 brent and $3 NYMEX. Again, and this is -- if you look across the chart and just take an average one, you can see the F&D cost is well below $10. And this is kind of an all-in number. We'll update this for our current price environment next month at our analyst day, but you can see the variety of drive mechanisms. Again, California you're going to see every type of drive mechanism you might see in the world. You're not going to just see heavy oil, you're not going to see just water floods, steam floods, dry gas. You have everything that you could potentially go after, including shale.

Shale is something that hasn't necessarily been competitive in our portfolio, but I think it's right for a joint venture probably with some service provider for us going forward because I just don't see it being super competitive with what we're doing today, but enormous upside, so it's not something I think you want to ultimately divest, but I think it's something that you want a joint venture to try and bring that value forward.

We've shown this slide a few times, but what I really wanted to highlight here is that this is one scenario. This is an academic scenario. We've never actually acted like this as a company, where we've -- and this scenario is between $55 and $75 brent pricing. If you plowed all the money in free cash flow we get and reinvest it in the business, you reinvest all this in the business, this is the outcome you get in our portfolio scenario. Again, we have never actually done it this way, but this is meant to show you really the next slide, which is if you did it that way, how could you delever the company by growing into the amount of debt you had as a company? Because you have no debt pay down, you're reinvesting all the cash into the business.

So what we've actually done as a company is something different than this. We've actually been opportunistic along the way, whether it be acquisitions, liability management, buying in debt at a discount. So this is just meant to show you from an academic perspective what we could do with the portfolio on hand.

And again, in the higher price environment, we even -- we escalate costs on this too to give you a feel. But again, we understand debt is an issue. We were spun off with a lot of debt. We knew that from day one that debt was an issue for us. So from our perspective, we have to preserve the value for our shareholders, and now we have an opportunity, after we made it through the cycle, to focus on the debt again. Because that was job one coming out of the spin. If you came to the analyst day on October -- it was on Halloween 2014. I should have thought something would be on Halloween at that point in time. But we understood we needed to delever coming out of the spin.

But better alternatives for our shareholders occurred and that was through liability management transactions and others. Now we have an opportunity to again do the same thing and we preserved all of our asset value, didn't conduct fire sales, didn't take an easy way out. We did the right things for the right reasons and now we're poised to really move forward as a company.

And I talked about being able to be trading like an option. This kind of shows you. This is the net asset value. You can argue maybe using the wrong discount rate or whatever, but you can really see as a company we trade like an option on crude oil. We understand that. We're a highly leveraged play on crude oil. But we also understand the more we deliver, the more we do the right things, the more we grow the business and we continue to increment our way into this. And again, this isn't one silver bullet. The more we create value for our shareholders and de-risk the enterprise from a debt perspective, eventually this has to accrue to us as shareholders. And we're very excited about this and our employees are very excited about this. This just gives you a feel for a $65, $75, and $85 brent.

So I started it off with why should you buy CRC. I think the one thing, brent exposure. We've been pressure tested as a management team. We went through the downturn. You're going to get a disciplined focus on capital allocation. One of the most important things you can do as a management team is focusing on capital allocation that's going to deliver value for your shareholders. And how we execute and deliver upon moving forward with our human capital allocation, the second most important thing a management team can do. We managed it one way during the downturn, we've made some changes and now we manage it during the upturn.

I think as an oil and gas investor, being exposed to the fifth largest economy in the world that has a chronic energy shortage, in the first quarter we got 100% of brent on our portfolio of crude and that includes light, heavy, everything in between. I won't mention if you think about IMO 2020, we have some of the best crude out there in California when you think about how that all works. And you can process that however you think. But I don't think you're going to find a more focused management team on value that's exposed to brent and controls oil and gas province of this magnitude and the infrastructure associated with it, a business in CRC. So I more than welcome your questions and will be glad to talk about them. Thank you.

Oswald Cheung: Yes, I was wondering, you've made great improvement in your balance sheet. You spun out obviously at a very tough time. Ultimately what is your maybe debt target or metrics you look at to know that it's not job one to deleverage the assets?

Todd Stevens: Yes, from our perspective we've said from the -- four years ago we wanted to be about 2.5 to 3 times is our goal long term. Kind of a mid-cycle pricing. And I view mid-cycle from here as lower, about $65. So if you said $65, what's 2.5, 3 times, then you can kind of extrapolate where we would like to get to long term. Less debt is better than more debt, but we also understand that we have the kind of asset based long lived, high margin that we can sustain this and make the right decisions. So that's a little bit long winded.

Peter: You guys have talked about how long your inventory life is. A ton of kind of untapped reserves, which is why you're going to enter into those JVs. Can you help me square that with an interest in doing more exploration going forward. Like don't you have enough?

Todd Stevens: No, I some of the exploration -- right now the more exploration we've been doing is actually with other peoples' money as joint ventures. For us, it's a real value creation opportunity. If you go back in time we've had some very big successes. One of them is our Buena Vista Nose project that we're currently delineating. Could be as large as 100 million barrels. When you think about 100 million barrels of equivalent, that's pretty big. We're delineating it still today. And that was an exploration discovery about five years ago.

So I think it's a real value adder and whether you divest it or whether you JV it, that's why we're here today to get back to a price environment that looks like it makes sense that you can make those decisions in an informed manner as you try to bring the debt level down.

Peter: So if you guys do have successful exploration activity, I mean you can sell that. You can sell those reserves to someone else who's going to spend the money. But it's not something that we get to see the benefit of on the income statement anytime soon, is it?

Todd Stevens: Well actually in Buena Vista Nose you do because it gets tied back into Elk Hills right away. And our infrastructure, kind of our competitive advantage in the San Joaquin Valley, that enables you to see that right away. And where we've had some success in the Southern San Joaquin Valley in exploration, I think you'll see that show up as we look to do offsets here over the next year.

Oswald Cheung: If there aren't any questions, there is a breakout session in Liberty 5 if anyone wants to follow-up. I'd like to thank Todd and CRC for coming to our conference.

Todd Cheung: Thanks, Oswald. Appreciate it.