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OXY - Q1 2011 Occidental Petroleum Corp Earnings Conference Call

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Joe Stewart

KeyBanc Capital Markets - Analyst

PRESENTATION

Operator

Good morning. My name is Crissy and I will be your conference operator today. At this time, I would like to welcome everyone to the Occidental Petroleum 2011 first-quarter earnings release conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. (Operator Instructions). Thank you.

Mr. Stavros, you may begin your conference.

Chris Stavros - *Occidental Petroleum Corporation - VP Investor Relations*

Thanks, Crissy. Good morning, everyone, and welcome to Occidental Petroleum's first-quarter 2011 earnings conference call. Joining us on the call this morning from Los Angeles are Dr. Ray Irani, OXY's Chairman and Chief Executive Officer; Steve Chazen, our President and Chief Operating Officer; Bill Albrecht, President of OXY's US Oil and Gas Operations; and Sandy Lowe, President of our International Oil and Gas business.

Our first-quarter earnings press release, investor relations, supplemental schedules, and conference call presentation slides can be downloaded off of our website at www.oxy.com.

I will now turn the call over to Steve Chazen, who will review the first quarter financial and operating results. Steve?



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Steve Chazen - Occidental Petroleum Corporation - President and COO

Thank you, Chris. I hope you can hear me better than I can hear you. Thank you, Chris. Core income was \$1.6 billion or \$1.96 per diluted share in the first quarter of this year, compared to \$1.1 billion or \$1.35 per diluted share in the first quarter of last year. Non-core items amounted to a net after-tax charge of \$44 million. Non-core items included pretax gains of \$225 million from the sale of the Argentine operations and a \$22 million gain from the sale of our interest in the Colombia pipeline.

Non-core pretax charges included \$163 million related to the early redemption of \$1.4 billion face value of debt, \$35 million write-off of the entire accumulated cost of exploration properties in Libya, and nonrecurring out of period charges for state and foreign taxes, \$62 million.

This resulted in net income of \$1.5 billion or \$1.90 per diluted share in the first quarter of 2011, compared to \$1.1 billion or \$1.31 per diluted share in the first quarter of last year.

We reorganized our Permian operation in two business units this quarter. One unit will hold the CO2 flood assets and the other will operate the conventional production. In connection with these, we have moved the production from Southwest Texas, which was previously part of the Mid-Continent and other, into the Permian. The Mid-Continent and other includes production from the recently acquired South Texas and North Dakota properties.

Natural gas liquids account for about 10% of our oil and gas volumes and sell at a discount to crude oil. Starting this quarter, we are reporting NGL and crude oil production and sales separately as opposed to the previously disclosed combined liquids volumes. Please see the Investor Relations Supplemental Schedules for the 2010 quarterly realized prices and production and sales volumes reflecting these changes.

Here is the segment breakdown for the first quarter. Oil and gas segment and core earnings for the first quarter of 2011 were \$2.5 billion compared to \$1.9 billion for the first quarter of 2010. Realized prices increased 24% for crude oil in 2011 and 11% for NGL prices on a year-over-year basis. But domestic natural gas prices declined 25% from the first quarter of last year.

Sales volumes for the first quarter of 2011 were 728,000 BOE a day, 6% increase compared to 685,000 BOE a day for the first quarter of 2010.

The production guidance we gave you in last quarter's conference call of 740,000 to 750,000 BOE a day was at an \$85 average price assumption. The actual first-quarter oil price reduced our production volumes by about 10,000 BOE per day including 1000 BOE a day at THUMS and Long Beach in California.

As we previously disclosed, our Iraq production was lower by about 9000 BOE a day due to less than planned spending levels as we are on the startup phases of operations. Inclement weather, mainly in Texas, caused an additional reduction of about 7000 BOE a day.

These reductions were offset by less than expected production loss from the Elk Hills maintenance shutdown at operational enhancements providing higher than expected production in Colombia, Yemen, and Qatar, as well as the new assets resulting in production of 730,000 a day. Please see the production and sales volume reconciliation schedules in the Investor Relations Supplemental Schedules.

First quarter production of 730,000 BOE a day was higher than the fourth quarter of 2010 production of 714,000 BOE a day. First-quarter volumes compared to the prior fourth quarter included 25,000 barrels a day from the new domestic acquisitions in South Texas and North Dakota.



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Sales volume, 728,000 a day, which is higher than our initial guidance of 725,000 a day differ from production volumes due to the timings of liftings principally caused by Iraq where liftings are expected later half of 2011.

First quarter 2011 realized prices improved for all our products over the fourth quarter of 2010. Worldwide crude oil realized price was \$92.14 a barrel, an increase of 15%; worldwide NGLs were \$52.64 a barrel, improvement of 7%; and domestic natural gas prices were \$4.21 per Mcf, an increase of 2%.

Oil and gas production costs were \$11.30 a barrel for the first quarter of 2011 compared to last year's 12-month costs of \$10.19 a barrel. The increase reflects increased workovers and maintenance activity and higher costs for energy.

Taxes other than on income, which are directly related to product prices were \$2.25 a barrel for the first quarter of 2011 compared to \$1.83 for all of last year.

Total exploration expense was \$84 million in the quarter. This amount included the Libya write off of \$35 million which is included in non-core items discussed earlier.

Chemical segment earnings for the first quarter of 2011 were \$219 million, which were greater than our earlier guidance. These results are among the best ever reported for the Chemical segment's first quarter of operations, which is historically a weak quarter due to seasonal factors. First quarter operations were positively affected by strong export demand and improved supply-demand balances across most products resulting in higher margins including higher demand for calcium chloride resulting in severe winter storms in the Northeast and Midwest sections of the United States.

Midstream segment earnings in the first quarter of 2010 were \$114 million compared with \$202 million for the fourth quarter of 2010 and \$94 million in the first quarter of 2010. The decrease from the fourth quarter earnings were mainly due to low marketing and trading income.

The worldwide effective tax rate on core income was 40% for the first quarter of 2011, which was in line with our guidance.

Capital spending for the first quarter of this year was \$1.3 billion, about 88% was in oil and gas, 10% midstream, and the remainder in chemicals. We are currently operating 16 rigs in the Permian and 24 rigs in California, compared to five and 11 rigs respectively in the first quarter of last year.

Cash flow from operations in the first three months 2011 was \$2.2 billion, which includes a build in our accounts receivable of about \$1 billion for the fourth quarter. In addition, we received \$2.7 billion in proceeds from the sale of assets and used \$1.3 billion from the Company's cash flow to fund capital expenditures and \$3 billion on acquisitions. We used \$310 million to pay dividends and \$1.5 billion to retire debt. We borrowed a \$1 billion at the end of the quarter for short-term needs, which have now been repaid.

These and other net cash flows reduced our \$2.6 billion cash balance at the end of last year by a \$500 million to \$2.1 billion. Free cash flow from continuing operations after capital spending and dividends that before acquisition and debt activities was about \$500 million.

Acquisitions -- our acquisition expenditure in the first quarter was \$3 billion. These acquisitions included the previously announced South Texas purchase and properties in California and the Permian. Excluding the South Texas purchase, these properties did not materially impact the first quarter volumes.

During the second quarter, we will make a payment of about \$500 million in connection with the signing of the Shah Field Development Project. This amount represents development costs incurred by the project prior to the effective date for our participation. Future development costs will be reflected in the capital expenditure.



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The weighted-average basic shares outstanding for the first three months of 2011 were 812.6 million and the weighted average diluted shares outstanding were 813.4 million.

Our debt to cap ratio declined to 12% compared to 14% at the end of last year. Our remaining outstanding debt has an average interest rate of 3.7%.

As we look forward to the current quarter, first quarter average oil prices of about \$95, expect the second quarter oil and gas production volumes to be as follows. Domestic volumes are expected to increase to at least 425,000 BOE a day compared with the first quarter daily production of 404,000 a day. Latin America is expected to be comparable to quarter one volumes.

In the Middle East region, where an overwhelming majority of the value using either the SED standardized measure or income comes from Qatar, including Dolphin and Oman, where the operations are running smoothly.

With regard to second quarter production in the Middle East region, we expect no production for Libya. Production levels in Iraq are not easily predictable due to volatile spending levels at this early stage of that project. This is caused by the nature of the contract, which allows at anywhere near current oil prices immediate recovery of expenditures through cost recovery barrels. As a result, the level of development spending in any given period has an immediate impact on volumes for that period.

Yemen, almost all of our production comes from concessions operated by others. In addition, the Masila Field contract which produces net to us about 11,000 barrels of oil a day is approaching expiration at the end of 2011. The capital spending is being phased out. These factors make forecasting the production volumes from this area to be very difficult.

For the remainder of the Middle East, we expect production to be comparable to first quarter volumes.

Total sales volumes are expected to be 725,000 BOE a day, which should not include any volumes from Iraq or Libya.

A \$5 increase in WTI would reduce our production sharing contract daily volumes by about 3500 barrels a day. We are increasing our total capital spending program to \$6.8 billion with about \$500 million of the increase related to the Shah Field development program subject to -- subsequent to the effective date of our participation. And the remainder principally in California spending attributable to additional permits being obtained.

At current market prices, \$1 per barrel change in prices impacts quarterly earnings before income taxes by about \$34 million. First-quarter WTI oil price was \$94.10 per barrel. A \$1 per barrel change in WTI prices affects NGL quarterly earnings before income taxes by about \$4 million. A swing of \$0.50 per million BTUs in domestic gas prices has a \$34 million impact on quarterly earnings before income taxes. The current NYMEX gas price is around \$4.25 an Mcf.

Additionally, we expect exploration expense to be about \$85 million for seismic and drilling for our exploration program. The Chemical segment earnings are expected to be comparable to the first quarter. We expect continuation of the first quarter trends with sufficient gains from strong exports and seasonal demand improvement to offset the reduced contribution from the calcium chloride business. We expect our worldwide tax rate in the second quarter to be about 39%.

In California, we are continuing the program I discussed in last quarter's conference call, which is progressing with satisfactory results. Permitting, especially exploration permits, are still an issue, but we recently obtained some permits that make us optimistic about increasing our second-half capital spending plan.

Governor Brown has been working to speed up the permitting process. We expect that his effort will be successful, which should enable us to increase our activity and add more jobs to the state.

In the first quarter, we drilled and completed 26 shale wells outside of the Elk Hills Field. Copies of the press release and the Investor Relations Supplement are available on our website or through the EDGAR system.



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We are now ready to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) David Heikkinen, Tudor Pickering Holt.

David Heikkinen - Tudor Pickering Holt - Analyst

Good morning, Steve. Just first wanted to talk about your Permian operations. With the division of CO2 flood assets and conventional production, can you give us what the current production is for each of those assets?

Steve Chazen - Occidental Petroleum Corporation - President and COO

You're actually breaking up, so we couldn't actually hear the question.

David Heikkinen - Tudor Pickering Holt - Analyst

I'm sorry. Is that better?

Steve Chazen - Occidental Petroleum Corporation - President and COO

Not a lot better.

David Heikkinen - Tudor Pickering Holt - Analyst

Okay, I will speak really loud. So Permian operations --

Steve Chazen - Occidental Petroleum Corporation - President and COO

Loud and slow.

David Heikkinen - Tudor Pickering Holt - Analyst

The CO2 flood assets and the conventional production, can you give us production amounts per each asset team?

Steve Chazen - Occidental Petroleum Corporation - President and COO

Bill I think can rough it out. We are not going to report that separately because it's a little confusing, but we can give you an idea for it.

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Bill Albrecht - Occidental Petroleum Corporation - President, Oxy Oil & Gas, US

David, it's about -- on the CO2 side it's about 140,000 or so BOE per day. And on the primary development side, it's around 60,000 to 65,000 a day.

David Heikkinen - Tudor Pickering Holt - Analyst

Okay. And then on Shah gas, the \$500 million payment prior to participation, how was that communicated? Or was that expected because we didn't have that in our expectations.

Steve Chazen - Occidental Petroleum Corporation - President and COO

The first \$500 million was related to basically historical costs. They've been working on it for three years. Sandy?

Sandy Lowe - Occidental Petroleum Corporation - President, Oxy Oil & Gas, International Production

Yes.

Steve Chazen - Occidental Petroleum Corporation - President and COO

They've been working on it for three years. That's the historical cost. We treat it as effectively a bonus payment, but it's really related to the cost. Some of it is actually accrued. The remaining \$500 million is our estimate of what the capital will be for the remainder of the year.

David Heikkinen - Tudor Pickering Holt - Analyst

Okay, as you think about the total cost of the project now, do you have any update as far as what that will be?

Steve Chazen - Occidental Petroleum Corporation - President and COO

Sandy?

Sandy Lowe - Occidental Petroleum Corporation - President, Oxy Oil & Gas, International Production

\$10 million is still a good number. We are currently reviewing all of the engineering procurement contracts with the Shah team and 10 or 10.2 looks good to me right now.

Steve Chazen - Occidental Petroleum Corporation - President and COO

And we own 40% of the industry, mind you. So including the [sunk], because the sunk is in the \$10 million, too, so we are talking about a \$4 billion net to us, \$500 million we essentially already paid. We expect that \$500 million will be either paid or accrued this year, another \$500 million.

David Heikkinen - Tudor Pickering Holt - Analyst

Okay, that was it.

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Operator

Paul Sankey, Deutsche Bank.

Paul Sankey - Deutsche Bank - Analyst

Steve, hi. Can we just dig around in California a little bit more and try and work out really by the three elements that you've got going on there, how the satisfactory progress is going and where it will go from here? Can you talk more about Kern County going forward, about other California if you like?

And then I notice you've said that you've got 26 shale wells drilled and completed. Can you talk about the production from those? Thanks.

Steve Chazen - Occidental Petroleum Corporation - President and COO

Thank you. The exploration program is slightly stalled from the permitting process. We hope that the back half of the year we can catch up. That's the pure exploration. I think we are doing very well on the shale exploration development and that's actually progressing well and the wells are -- we basically have caught up to where we needed to -- where we thought we would be and we are continuing to progress. We are getting a little better results from the completions than we were historically because we probably figured out how to do it better.

The Kern County discovery, basically I don't think it will change much until we move -- until we start drilling more of the deeper wells, which won't happen until we get closer to having a new gas plant.

Paul Sankey - Deutsche Bank - Analyst

And what's the latest on that?

Steve Chazen - Occidental Petroleum Corporation - President and COO

So fundamentally we are shifting to an oilier, more predictable outcome for this year.

Paul Sankey - Deutsche Bank - Analyst

Yes, just working backwards the gas plant is back up from the turnaround of gas and we then get a wait see to develop the second one, which I guess is still -- (multiple speakers)

Steve Chazen - Occidental Petroleum Corporation - President and COO

That's right, it's back up but it's not exactly brand new.

Paul Sankey - Deutsche Bank - Analyst

Right, and the next one?



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Steve Chazen - Occidental Petroleum Corporation - President and COO

I think is about in the first quarter of next year.

Paul Sankey - Deutsche Bank - Analyst

Can you put some volumes around the shale exploration and development in terms of any sort of additional data you can give us on what you are finding?

Steve Chazen - Occidental Petroleum Corporation - President and COO

I would really like to wait another quarter, if I could. Because, you know, I've got some primarily results now, but having been burned on this in last quarter -- last year, I'd just as soon be cautious about I got some good results currently. But we will see if they continue for the next few months.

But it has been -- it has really picked up nicely and I think that our completion techniques have improved, so I think we are doing better, but I would like to put off a more detailed discussion for another quarter if I could. But there's nothing in here that's negative. If anything, it slightly positive.

Paul Sankey - Deutsche Bank - Analyst

Okay, great. I'll take that. Thanks, Steve.

Operator

John Herrlin, Societe Generale.

John Herrlin - Societe Generale - Analyst

Yes, hi. Some quick ones, Steve. With Yemen, would you opt to try to renew that PSC?

Steve Chazen - Occidental Petroleum Corporation - President and COO

I'm sorry, I -- you want to know?

John Herrlin - Societe Generale - Analyst

With Yemen, would you --?

Steve Chazen - Occidental Petroleum Corporation - President and COO

(multiple speakers) Yes, we'd like to, but it is hard to exactly find somebody to negotiate with right now.

John Herrlin - Societe Generale - Analyst

True, true. That's fair. I was just curious whether you wanted to stay there. That's all.



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Steve Chazen - Occidental Petroleum Corporation - President and COO

No, it's a very profitable small operation and really has created very little problems for us over the years, but right now you actually need a government on the other side to be signing. So I think once the thing stabilizes, we will be trying to do that.

John Herrlin - Societe Generale - Analyst

Okay, that's fine. With the Permian, there has been a big ramp up in activity. Given the price realizations, would you try to accelerate there at all or you just keep to your normal program?

Steve Chazen - Occidental Petroleum Corporation - President and COO

No, I think we have accelerated it materially already. You can see the rig count change from a year ago.

John Herrlin - Societe Generale - Analyst

No, I meant beyond now, beyond what you have reported.

Steve Chazen - Occidental Petroleum Corporation - President and COO

No, I think we are continuing to accelerate it. I think that you will see certainly by the end of this year another -- by the end of the year, you were seeing a much higher rig count in the Permian for us.

John Herrlin - Societe Generale - Analyst

Okay, great. You didn't mention anything about the Bakken. You bought yourself a little exposure there. Any news for you there?

Steve Chazen - Occidental Petroleum Corporation - President and COO

We've sort of -- we have just taken over -- it's doing what it was supposed to do, but it's still pretty small at this point. Once it becomes more sizable, we'll talk more about it. But it's doing what it is supposed to do. But we really just took over. There's nothing really here that's either surprising, good or bad.

John Herrlin - Societe Generale - Analyst

Okay, that's fine. Last one for me --

Steve Chazen - Occidental Petroleum Corporation - President and COO

We were surprised to find out it was cold there, I guess. That was a surprise.

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John Herrlin - Societe Generale - Analyst

It's very cold there in the winter time, yes indeed. How about on the M&A front? Are you seeing ridiculous prices on packages or are there big gaps now between buyers and sellers in terms of what you are seeing?

Steve Chazen - Occidental Petroleum Corporation - President and COO

We had obviously a big first quarter in M&A, which you can see in the numbers. The pipeline now is pretty thin and there's a lot of expensive looking stuff floating around especially in the shale plays. So I am guessing right now that the rest of the year will be pretty -- or the next couple of quarters for sure will be pretty inactive for us except for some small deals maybe.

John Herrlin - Societe Generale - Analyst

Great, thanks very much.

Operator

Doug Leggate, Bank of America.

Doug Leggate - BofA Merrill Lynch - Analyst

Thanks. Good morning, Steve. Good morning, everybody. I'm going to try a couple, please if I may. Obviously the discussions your peers have had with the Governor in California, can you give some indication as to what commitments you may have given in terms of your activity levels? Obviously it seems to be a highly politicized situation over there right now.

What is really behind my questions is that when we look at the (inaudible) conservation data, Steve, it's looking like you've gotten a load of permits issued in March like of the order of more than 90. I just want to get a feel as to are we really starting to see a ramp up there and what commitment have you made to basically raise your own activity levels obviously in the unconventional?

Steve Chazen - Occidental Petroleum Corporation - President and COO

The Governor is focused on jobs in California and so we have indicated that job creation increases as the permits come, which is fairly obvious. Not something that's hard to figure. The permits that you are looking at there, a lot of those are development permits, which are sort of normal course of business things which we counted on. We did get some for an extension, not exploration but extension of a discovery and some permits to drill there, which I think will be good.

So we are encouraged, but we really have a long way to go. We still have a nine-month backlog roughly. So the boost there, a lot of that was the normal development stuff within the field, which is not as contentious. And so I would like to wait another quarter before we say that the tide has really turned.

Doug Leggate - BofA Merrill Lynch - Analyst

Just a quick follow-up on that. The run rate up until March was about 10 or 12 it looked like, maybe 10 to 15 if we're lucky. And you did say in the last call you had about 107 permits to drill in the shales this year. Can you just say, one, was that run rate about right? So is this step up correct? And second, is the 107 still a good number or is that moving higher?



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Steve Chazen - Occidental Petroleum Corporation - President and COO

I think it's likely to move higher as the back half of the year comes. We've indicated we're going to put more money in, so I think we will probably be higher at the back -- I'm hoping it will be higher at the back half of the year. There's some other issues floating around here that are sort of technical issues, but I think the big jump up in the early part of the year was drilling within fields and then there's some on this extension, which was very positive because we focused with the Governor and others on this extension, this field extension, which is very important to us.

Doug Leggate - BofA Merrill Lynch - Analyst

Great. My only follow-up, Steve, is can you talk a little bit about the Lost Hills acquisition? It looks like a steam flood, but my understanding is there is also historical well data that suggests there's some deep similarities to -- with the discovery you had in Southern Kern County. So if you could elaborate on that, I will leave it there, thank you.

Steve Chazen - Occidental Petroleum Corporation - President and COO

Yes, you know, it's a very small amount, relatively small amount of production. We have sort of a special situation. We have -- we own the minerals under a slug of it. So we could get significantly better economics at almost any price level than somebody else might.

So -- and there's obviously some other opportunities there. But right now I don't think it will add a lot until -- for several years, so it will be a slow build up and I think it will do fine. Obviously we've got a lot of -- we are by far the largest gas producer in the state and some cheap gas to turn into oil strikes me as an okay trade right now, although we are not bearish on gas over a multiyear period.

Doug Leggate - BofA Merrill Lynch - Analyst

So Nation's Petroleum, we're talking 35,000 barrels a day within four or five years, is that the right number?

Steve Chazen - Occidental Petroleum Corporation - President and COO

I think that is -- I think what you picked up was -- I don't know what they call it -- the advertising numbers rather than -- I think that was the bait sort of numbers. I think the real numbers are more modest than that.

Doug Leggate - BofA Merrill Lynch - Analyst

Got it. Thanks a lot.

Operator

(Operator Instructions) Faisal Khan, Citi.

Faisal Khan - Citigroup - Analyst

Thank you, good morning. You guys -- it looked like you guys reported a full quarter of production in Libya and I guess what I'm trying to understand is what was the contribution to segment earnings from Libya in the quarter, just so I can understand how --

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Steve Chazen - Occidental Petroleum Corporation - President and COO

Almost nothing. It has a very small contribution and I don't have the number in front of me. But in the -- it was sales remember not -- so we actually reported what we actually listed. We didn't report any. So in the Q, I think we will report the earnings rate of Libya, but it might be \$0.01 in the earnings.

Faisal Khan - Citigroup - Analyst

Okay, understood. And if I'm looking at the Permian Basin view, and of course you guys control a lot of the pipeline systems in and around that area, how are you using your logistics assets to move some of that crude to market? Are you seeing any sort of significant discounts to that crude? Are you able to get higher realizations because of the assets you own?

Steve Chazen - Occidental Petroleum Corporation - President and COO

I think the answer is yes. We are doing I think better than the average there. We are not interested in solving the whole industry's problem with Cushing. We are just interested in solving ours, so I think we are doing better. You can see -- our realizations companywide are very good and likely to improve into the second quarter.

Faisal Khan - Citigroup - Analyst

Is there a way to quantify the kind of uplift that you guys got in the quarter from your domestic oil price realizations from owning those assets?

Steve Chazen - Occidental Petroleum Corporation - President and COO

Not really, because they pass it back to the -- they don't keep it in the midstream. They pass it back to the oil companies so we can pay royalties on it. So pretty hard to come up with a number. Generally speaking, our basic marketing business does about -- putting aside the current situation -- does about \$1.50 a barrel better than a small producer would. It's clearly a lot wider than that now.

Faisal Khan - Citigroup - Analyst

Okay, great. Thank you for the time.

Operator

Joe Stewart, KeyBanc Capital Markets.

Joe Stewart - KeyBanc Capital Markets - Analyst

Good morning and thank you for taking my questions. First, Steve, in response to an earlier question, you said that you guys are just kind of climbing up the learning curve on the completions in the California shale wells. Could you please comment, are you using more acid jobs now or are you moving towards hydraulic fracs?

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Steve Chazen - Occidental Petroleum Corporation - President and COO

Why don't you have Bill answer that?

Bill Albrecht - Occidental Petroleum Corporation - President, Oxy Oil & Gas, US

Yes, Joe, it's mainly an acid jobs driven and we are just simply treating these wells at larger intervals with more acid.

Joe Stewart - KeyBanc Capital Markets - Analyst

Okay, and what are the average lateral links running on your horizontal wells?

Steve Chazen - Occidental Petroleum Corporation - President and COO

California has hardly any horizontal wells.

Bill Albrecht - Occidental Petroleum Corporation - President, Oxy Oil & Gas, US

There are very few in the shales, if that's what you're referring to, Joe.

Joe Stewart - KeyBanc Capital Markets - Analyst

Yes, yes, in the shales.

Steve Chazen - Occidental Petroleum Corporation - President and COO

Basically we drill vertical wells.

Joe Stewart - KeyBanc Capital Markets - Analyst

Okay, okay, got it. And then second question for you, Steve, thinking about NGLs, last week Dow announced that long-term contract for ethane supply. What do you think the potential is there globally for similar contracts for you guys?

Steve Chazen - Occidental Petroleum Corporation - President and COO

We are looking at the oversupply -- the future oversupply NGLs and we are trying to figure out how our chemical business can reap some of the benefits from that. So we will probably have some kind of announcement here in the next quarter about how we are going to deal with it.

Joe Stewart - KeyBanc Capital Markets - Analyst

Okay, great. Thank you, gentlemen.

Operator

Paul Sankey, Deutsche Bank.

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Paul Sankey - Deutsche Bank - Analyst

Steve, it's me again. Just going back to the -- I guess there's two approaches here on California, bottom up or top down. I think on the top-down basis, you have made a couple of statements about where volumes are expected to go. Firstly, I believe you have said that California will be bigger than the Permian for the full year of 2012 and I think in the past -- I haven't seen it recently in a presentation -- you've talked about the (multiple speakers)

Steve Chazen - Occidental Petroleum Corporation - President and COO

2012, 2013 I think is probably -- was probably a better -- I think I said in the next couple years, so I think that would take me to the 2012, 2013 area.

Paul Sankey - Deutsche Bank - Analyst

And that would I guess mean 200,000 a day barrels of oil equivalent plus --?

Steve Chazen - Occidental Petroleum Corporation - President and COO

That's right.

Paul Sankey - Deutsche Bank - Analyst

Then in the past you had in your presentation words to the effect of unconventional oil in California would achieve a similar level, i.e., I think it was to be the biggest business unit within I think it was 10 years.

Steve Chazen - Occidental Petroleum Corporation - President and COO

That's right.

Paul Sankey - Deutsche Bank - Analyst

So that would mean unconventional oil in California alone would be more than 200,000?

Steve Chazen - Occidental Petroleum Corporation - President and COO

Yes, our biggest business unit is the Permian, combined Permian. I didn't split it in two so I could make it easier you know.

Paul Sankey - Deutsche Bank - Analyst

Okay, is there any other -- are there any other long-term statements of that kind that you can help us with again just from a top-down point of view for getting our arms around this?

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Steve Chazen - Occidental Petroleum Corporation - President and COO

I think those are pretty conservative statements. I think that they are pretty easy for us to see how we could achieve that if -- we had little bumps in the road, as you are aware. But I think once we get by whatever you want to call it, the issues here in California, I think you'll see a pretty good growth and certainly in the shale production for sure.

So I think that -- because we are focusing on that now because it's fairly predictable. We may not know what two wells will do, but we certainly know what 100 will do. So I think we've got a pretty predictable program for the next year or so that will allow us to build the base and then we can do some more exotic things, if you will.

Paul Sankey - Deutsche Bank - Analyst

Can we back in reasonably to an activity level from your higher CapEx? I mean an increase? How would I do that?

Steve Chazen - Occidental Petroleum Corporation - President and COO

You could figure some amount per well.

Paul Sankey - Deutsche Bank - Analyst

And what would you figure that to be?

Steve Chazen - Occidental Petroleum Corporation - President and COO

About three.

Paul Sankey - Deutsche Bank - Analyst

Yes. Okay, and then just (multiple speakers)

Steve Chazen - Occidental Petroleum Corporation - President and COO

There might be some a little less, sometimes more, but if you just set the average around \$3 million.

Paul Sankey - Deutsche Bank - Analyst

Okay. And --

Steve Chazen - Occidental Petroleum Corporation - President and COO

To drill, complete and hook up, not just drill.

Paul Sankey - Deutsche Bank - Analyst

Okay, then we can move forward on the CapEx number that you've given us for California as to where we are going forward on that?

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Steve Chazen - Occidental Petroleum Corporation - President and COO

I'd like to spend more, you understand. This isn't -- we are not limiting them. This is just an estimate for you so you can see what we think is sort of -- what we think we can do, but we would like to spend more if this moves along faster.

Paul Sankey - Deutsche Bank - Analyst

And how much would each well produce, Steve, approximately?

Steve Chazen - Occidental Petroleum Corporation - President and COO

A reasonable guess and there's some variance around it, but on average around 400 mostly oil.

Paul Sankey - Deutsche Bank - Analyst

Sort of 400 barrels a day, right?

Bill Albrecht - Occidental Petroleum Corporation - President, Oxy Oil & Gas, US

It's about 400 equivalent, Paul.

Steve Chazen - Occidental Petroleum Corporation - President and COO

But heavily skewed to the oil side.

Paul Sankey - Deutsche Bank - Analyst

And then I guess the obvious question to follow that up is what kind of declines?

Steve Chazen - Occidental Petroleum Corporation - President and COO

I think if you're trying to get to the ultimate recovery, I think we are somewhere between 400,000 and 500,000.

Operator

Doug Leggett, Bank of America.

Doug Leggate - BofA Merrill Lynch - Analyst

I figured if everybody is doing follow-ups, I might as well jump in as well.

Steve Chazen - Occidental Petroleum Corporation - President and COO

You're breaking up, so --

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Doug Leggate - *BofA Merrill Lynch - Analyst*

(inaudible)

Steve Chazen - *Occidental Petroleum Corporation - President and COO*

Did he say he answered the question? Is that what he said?

Chris Stavros - *Occidental Petroleum Corporation - VP Investor Relations*

Doug, could you please repeat your question?

Doug Leggate - *BofA Merrill Lynch - Analyst*

I think you're having some trouble hearing me, Steve. Can you hear me now?

Steve Chazen - *Occidental Petroleum Corporation - President and COO*

Yes, I can hear you now better. It's not perfect.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Sorry, I had a problem with the phone. If everyone else is doing a follow-up, I figured I would as well. I think what we're really all trying to get to, Steve, is real simple. Let me try a couple here and see if we can frame it. Are you still comfortable with your 10 acre spacing? If so, how much of the acreage on your current 12-rig drilling program do you believe that you have derisked out of the 1.6 million acres?

If you could just do the math for us and help us hold our hand a little bit on it, ultimately when you talk about 200,000 barrels a day of unconventional production or -- as being a conservative statements -- what resource are we talking about in the context of supporting that? If you could just try and help us a little bit with ultimately what you see as the (multiple speakers)

Steve Chazen - *Occidental Petroleum Corporation - President and COO*

I'll try to do it without going nuts. The 10-acre spacing I think is fine. It's possible it could be less, but we will say it's 10 -- less meaning a number below 10. I am -- we are pretty comfortable that we got more than 200,000 acres -- that's fairly safe.

Doug Leggate - *BofA Merrill Lynch - Analyst*

So were talking about 20,000 locations?

Steve Chazen - *Occidental Petroleum Corporation - President and COO*

Yes.



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Doug Leggate - *BofA Merrill Lynch - Analyst*

With 0.5 million barrels per location --? Sorry, (multiple speakers)

Steve Chazen - *Occidental Petroleum Corporation - President and COO*

400,000 to 500,000, whatever you want to use. It doesn't --

Doug Leggate - *BofA Merrill Lynch - Analyst*

So what does -- is it only the permits then that's stopping you putting more money to work?

Steve Chazen - *Occidental Petroleum Corporation - President and COO*

Permitting and people. You've got to get the rigs and you don't want to destroy everything, but it's a combination of all of those things. But that is sort of where we are headed over the next few years.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Great, one final follow-up, if I may, completely unrelated. Wolfcamp activity, could you maybe just give us a little bit of color as to what you are doing there in the context of your overall Permian business? I will leave it there, thank you.

Steve Chazen - *Occidental Petroleum Corporation - President and COO*

We are talking about the Berry stuff?

Doug Leggate - *BofA Merrill Lynch - Analyst*

Yes.

Steve Chazen - *Occidental Petroleum Corporation - President and COO*

Everybody's -- it's a different Berry everywhere, so Bill will answer that.

Bill Albrecht - *Occidental Petroleum Corporation - President, Oxy Oil & Gas, US*

Yes, Doug, just to give you a flavor, of the 16 rigs that we have currently running in the Permian, right now six of those are drilling Wolfberry wells, which as you know is that interval between the Spraberry and the Wolfcamp. So we've got nearly 50% of our Permian development program designated to drill Wolfberry wells.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Can you give any kind of characteristics around the wells, Bill?

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Bill Albrecht - Occidental Petroleum Corporation - President, Oxy Oil & Gas, US

Yes, they make good returns. General IPs are somewhere around 150 barrels of oil equivalent per day with ultimate recoveries of 200,000 or so BOE per well.

Doug Leggate - BofA Merrill Lynch - Analyst

Is there multiple horizons that you're targeting in terms of I hear talk of like seven different recompletions in some of these wells. Is that something you are seeing? Again, if you could just elaborate on how you see the potential here, that would be great.

Bill Albrecht - Occidental Petroleum Corporation - President, Oxy Oil & Gas, US

Doug, it's a thick interval, as you know. And so we are doing multistage fracs on these intervals. So frankly we are not leaving a whole lot behind in terms of recompletion potential. We like to open the whole thing up.

Doug Leggate - BofA Merrill Lynch - Analyst

Got it. Terrific, thank you.

Operator

David Heikkinen, Tudor Pickering Holt.

David Heikkinen - Tudor Pickering Holt - Analyst

I think Doug Leggett covered me. Thanks.

Operator

At this time, there are no further questions. I'll turn the call back over for closing remarks.

Chris Stavros - Occidental Petroleum Corporation - VP Investor Relations

Thank you very much for participating in today's call and if you have any other questions, feel free to call us here in New York. Thanks very much.

Operator

Thank you. This does conclude today's conference call. You may now disconnect.

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