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OXY - Q1 2016 Occidental Petroleum Corp Earnings Call

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PRESENTATION

Operator

Good morning and welcome to the Occidental Petroleum Corporation first-quarter 2016 earnings conference call. (Operator Instructions). Please note this event is being recorded. I would now like to turn the conference over to Chris Degner. Please go ahead.

Chris Degner - *Occidental Petroleum Corporation - Senior Director, IR*

Thank you, Emily. Good morning, everyone, and thank you for participating in Occidental Petroleum's first-quarter 2016 conference call. On the call with us today are Vicki Hollub, President and Chief Executive Officer; Jody Elliott, President of Oxy Domestic Oil & Gas; Sandy Lowe, President of Oxy International Oil & Gas; Chris Stavros, Chief Financial Officer; Rob Peterson, President of OxyChem. In just a moment I will turn the call over to Vicki Hollub.

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 materially from those expressed or implied in these statements.

Additional information on factors that could cause results to differ is available on the Company's most recent Form 10-K. Our first-quarter 2016 earnings press release, the Investor Relations supplemental schedules, our non-GAAP to GAAP reconciliations and the conference call presentation slides can be downloaded off of our website at www.oxy.com. I'll now turn the call over to Vicki Hollub. Vicki, please go ahead.

Vicki Hollub - *Occidental Petroleum Corporation - President & CEO*

Thank you, Chris. Good morning, everyone. This quarter was another extremely difficult one for the industry, but we stayed focused on our game plan, addressing the things that are within our sphere of influence so that we not only survive through this time but thrive. We will do this through full cycle cost leadership, optimal capital allocation and maintaining our balance sheet.

Superior access to and lower cost of capital positions us to invest in opportunities that will grow our business organically or through acquisitions. We believe the world will continue to need oil and, when markets demand production growth, it will first look to the Permian and we will be ready.

First and foremost, we are focused on operational excellence to drive full cycle cost lower for all of our businesses. This requires subsurface and surface execution excellence.

In the first quarter we demonstrated good operational performance. We grew Permian resources' production by 30,000 BOE per day or 31% year over year. We performed above our expectations on ULs brought online, particularly in New Mexico, and we delivered better base production.

Permian production outperformance allowed us to exceed total production expectations for the quarter despite lower than planned production from Al Hosn. Al Hosn was shut down for a successful warranty turnaround, but the shutdown was longer than expected. It is now back on production at full capacity.

We also reduced our overall cash operating cost by 23% and achieved SG&A savings of 14% versus the first quarter of last year.

To further improve our overall well performance we are focusing a portion of our workforce on initiatives that will have a step change impact on cost in the future, such as artificial lift design improvements, multi-bench development, increased integration of new 3-D seismic surveys and the application of data analytics into our reservoir characterization.

To incentivize our management and employees we developed a target metric called total spend per barrel, which is our cash operating, capital and SG&A cost divided by our total production. Our target for 2016 is almost 30% lower than 2015's actual total spend. This is an aggressive target, especially in view of the fact that we reduced total spend per barrel from over $60 to $40 in 2015.

Our 2016 capital program is $3 billion, a 50% reduction from 2015. We are on track to achieve this with first-quarter capital spend of $687 million. Our capital is focused in our core areas.

Taking advantage of reduced cost of labor and materials in this environment, we shifted more capital to Permian EOR to modify and expand existing facilities, increasing our capacity to handle and inject greater quantities of CO2. This will enable us to implement additional CO2 projects and further grow oil production. These projects will have a longer duration with typical production response time of one to two years. By then we expect prices to be higher than they are today.

We are also targeting lower cost projects including residual oil zone CO2 floods where development costs are between $3 and $7 per BOE. In Permian resources are development activities are in the Midland and Delaware basins and areas where we have existing infrastructure, allowing us to achieve higher returns.

We are maintaining minimal activity levels sufficient to continue to improve execution efficiencies and well production performance. This allows us to retain our inventory of shorter cycle unconventional wells for development during an improved environment.

In the Chemicals business the Ingleside cracker remains on budget and on time for startup in the first quarter of 2017. Our balance sheet remains strong on an absolute basis and relative to our peers. In the first quarter we closed on $285 million of asset sales in the Piceance basin, the Dallas tower and a small specialty chemical operation. We received $550 million of proceeds from our settlement with Ecuador.

In April we issued $2.75 billion of bonds that will be used to retire and call about $2 billion of debt maturing in 2016 and 2017. We ended the first quarter with $3.2 billion which is ample cash and liquidity to fund our capital program and dividends.

With a strong start in the first quarter we have raised our production guidance on our core assets to a range of 585,000 to 600,000 BOE per day. Overall domestic production is anticipated to decline slightly through the year primarily due to the declining natural gas and NGL volumes caused by the curtailment of drilling activity in our gas assets in 2014. We expect a modest increase in production from Permian resources versus last year and Permian EOR production will remain flat.

In our capital programs we expect slightly higher spending in the second and third quarters due to the timing of major projects in our Chemicals and Midstream segments. As I mentioned earlier, our full-year production will not exceed -- our program, our capital program will not exceed $3 billion. This plan should approximate our expected cash from operations at current commodity prices.

In summary, I would like to thank our employees for their commitment to excellence in both safety and operations during these challenging times. They're continuing to find ways to add value through increased sales and cost reductions across all segments of our Company.

While the macro environment remains challenging for the industry, we believe our continued focus on returns, improved cost structure and a strong balance sheet provide us with the opportunity to emerge from the current cycle as a stronger Company relative to our peers.

Finally, I'd like to take a moment to recognize Steve Chazen. While he is not here today, I know he will eventually listen to this call. On behalf of investors, the Board of Directors and employees I would like to thank Steve for his leadership and outstanding service to Occidental over his 22-year career. He shaped our Company into what it is today and we are grateful to him for that.

I will now to the call to Chris Stavros for a review of our financial results and detailed guidance.

Chris Stavros - *Occidental Petroleum Corporation - SVP & CFO*

Thanks, Vicki, and good morning, everyone. As Vicki noted, despite the severe weakness in product prices during the quarter, our business benefited from higher-than-expected production volumes from our ongoing domestic operations, lower cash operating costs and improved capital efficiency. These factors helped support our operating cash flow during the quarter. This in combination with a strong balance sheet and ample liquidity has allowed us to weather the continued weak product price environment.

Our core financial results for the first quarter of 2016 were a loss of $426 million or $0.56 per diluted share, a decrease from both the year ago quarter and also the fourth quarter of 2015. The decline in both sequential and year-over-year core results were attributable to much weaker commodity prices which more than offset the benefit from lower costs.

Reported results for GAAP purposes during the first quarter of 2016 was income of $78 million or $0.10 per diluted share compared to a loss of $218 million or $0.28 per diluted share in the prior year period. Reported results included gains on asset sales of $87 million after-tax and $438 million after-tax as a result of proceeds received from the settlement with Ecuador partially offset by several noncash charges.

Oil and Gas core after-tax results for the first quarter 2016 were a loss of $388 million, a sequential decline of about $200 million mainly due to lower commodity prices partially offset by improved cash operating costs. Our first-quarter 2016 worldwide realized oil price of $29.42 per barrel fell by nearly $10 a barrel or nearly 25% compared to prices during last year's fourth quarter.

Total Company Oil and Gas production volumes from our ongoing operations averaged 590,000 BOE per day in the first quarter of 2016, 59,000 BOE per day higher than the prior year period although down 7,000 BOE per day on a sequential quarterly basis. This was well above the higher end range of 570,000 to 585,000 BOE per day for full-year 2016 production guidance that we provided earlier this year.

Total domestic production volumes climbed 3% sequentially at 307,000 BOE per day during the first quarter. Our domestic oil production was 197,000 barrels per day, up 7,000 barrels per day from last year's fourth quarter and 17,000 barrels per day higher from the same period a year ago.

Production in our Permian resources business grew to 128,000 BOE per day during the first quarter of 2016 compared to 118,000 BOE a day during the fourth quarter, far exceeding our earlier guidance of 121,000 BOE per day for the period. Permian resources volumes grew by more than 30% compared to the year ago period.

International production from ongoing operations was 283,000 BOE per day during the first quarter 2016, down 16,000 BOE per day compared to the fourth quarter of last year, primarily due to the scheduled first-quarter warranty shut down at the Al Hosn gas plant.

Total production from our ongoing operations excludes volumes of 67,000 BOE per day from assets we have either divested or exited or are in the process of exiting. Domestically this includes our Williston operations, which we sold in November 2015, and our Piceance operations which were sold in March of 2016. Tables showing volumes both on a reported basis and also from pro forma ongoing operations are included in the schedules along with our press release.

Domestic Oil and Gas cash operating costs from ongoing operations declined to $11.86 per BOE in the first quarter compared to $12.28 per BOE during the fourth quarter of 2015 and 13% below full-year 2015 costs of $13.58 per BOE. The reduction in cost is mainly a result of improved efficiency around our surface operations and maintenance.

Overall Oil and Gas DD&A for the first quarter of 2016 was $15.61 per BOE compared to $15.81 per BOE during 2015. Taxes, other than on income, which are directly related to product prices, were $1.15 per BOE for the first quarter compared to $1.32 per BOE during 2015. First-quarter exploration expense was $9 million.

Chemical's first-quarter 2016 pretax core earnings were $126 million compared with earnings of $116 million during last year's fourth quarter and $139 million in the year ago period. The sequential improvement in earnings reflected higher sales volumes across most product lines compared with lower natural gas costs partly offset by weaker PVC, VCM and caustic soda pricing.

Weakness was also seen in the calcium chloride business as a result of the unseasonably warm winter evidenced in keep markets combined with the industry slowdown in fracking activity. Chemicals also closed on the sales of its corporate headquarters building in Dallas and a small specialty chemical operation which together resulted in pretax gains of roughly $90 million and those are excluded from our core chemical earnings.

Midstream pretax core results were a loss of $95 million for the first quarter of 2016 compared to a loss of $45 million in the fourth quarter of last year and a loss of $5 million in the prior year first quarter. The sequential decline was mainly attributable to lower Midstream income from Al Hosn due to the warranty shutdown in the quarter and planned maintenance at the Dolphin project which led to lower foreign pipeline income.

Looking at our cash flows for the first quarter, we began the year with $4.4 billion of cash on hand. During the first quarter we generated $825 million of cash flow from continuing operations before working capital and other changes. Net working capital changes consumed $320 million of cash during the period.

The use was related to the reduction in capital spending associated with deceleration of drilling activity, cyclical payments of property taxes and employee severance-related costs and payment of liabilities accrued at year end related to the exit or exiting from some international operations.

Capital expenditures for the first quarter were $685 million, a 41% decline from the $1.2 billion spent in the fourth quarter of 2015. While our first-quarter capital was lower than expected, this was due to a deferral of some outlays in Midstream and Chemicals into the second and third quarters.

Our 2016 total Company capital program remains on track to be between $2.8 billion to $3 billion, and ending the year at a rate similar to the first quarter as committed project capital winds down.

We received $285 million from the sale of non-core assets in the Piceance basin, the sale of some chemical assets as I noted earlier. We also collected $550 million from our settlement with Ecuador during the first quarter and expect to receive payment of more than $300 million in the coming months. These proceeds have been classified as discontinued operations in the cash flow statement.

During the quarter we retired $700 million of debt which matured in February and paid $575 million in dividends. We ended the first quarter with a cash balance of $3.2 billion.

On April 4 of this year we completed a $2.75 billion three tranche senior notes offering with attractive coupon rates of 2.6%, 3.4% and 4.4% on 6-year, 10-year and 30-year notes respectively. Primary use of the proceeds will go towards refinancing of $750 million of notes that mature on June of this year.

And we have also exercised our early redemption option to call $1.25 billion of notes that were scheduled to mature in February of 2017. After this redemption Oxy's total outstanding debt will be approximately $8.3 billion, essentially the same as at the end of 2015.

Importantly, this transaction extended the life of our debt maturities by five years with our next maturity not scheduled until February 2018. Moody's currently rates Oxy at A3 stable and S&P rates us at straight A stable.

Turning to guidance, as Vicki highlighted, we are raising our full-year 2016 production guidance from a range of 2% to 4% previously to 4% to 6%, essentially a 2% increase, or within a new range of 585,000 to 600,000 BOE per day for the full year.

The increase will be accomplished without any change to our original capital program as primarily a result of better-than-expected production in our domestic operations. Specifically results in the Permian resources continue to outperform our expectations due to improved well productivity and better management around our base volumes.

Turning to guidance for the second quarter, we expect our total Oil and Gas production pro forma for ongoing operations to increase sequentially to a range of 600,000 to 610,000 BOE per day as Al Hosn and Dolphin ramp back up from the first-quarter scheduled turnarounds and as gas production from Oman's Block 62 continues to rise towards full production levels.

Domestically we expect production to be flattish with first-quarter levels or about 307,000 BOE per day. Second-quarter should also see production in Permian resources similar to the first quarter despite the slowdown in activity. We expect production in Permian resources to decline modestly during the second half of 2016.

Variability around the outcome will be a function of well performance, capturing further efficiency gains and our ability to continue to manage base production. Permian EOR volumes should remain relatively steady at about 145,000 per day while also providing stable cash flow.

Our DD&A expense for Oil and Gas is still expected to be approximately $15 per BOE during 2016. And depreciation of the Oil and Gas segment is expected to exceed this year's capital investment by more than $1 billion. The combined depreciation for the Chemical and Midstream segments should be approximately $670 million for the year.

Exploration expense is estimated to be about $25 million pretax for the second quarter. Price changes at current global prices affect our annual operating cash flow by about $100 million for every dollar per barrel change in WTI. A swing of $0.50 per million BTUs in domestic natural gas prices affects annual operating cash flow by about $50 million.

Our midstream operations has exposure to two separate and different lines of businesses. The results of our Oil and Gas, Marketing and gas processing businesses are inherently volatile and sensitive to changes in commodity prices and price differentials. Conversely our pipeline and transportation operations and partial ownership interest of the Plains All American GP provide a stream of more stable and predictable income and cash flow.

With regard to our marketing business, we have supply commitments and takeaway capacity to handle our Permian and equity production volumes in addition to third-party volumes. The downturn in oil prices has slowed production growth in the Permian creating a situation of overbuilt infrastructure were takeaway capacity exceeds production.

Price differentials between the Permian and Gulf Coast have shrunk to levels that do not fully cover our cost of transportation. A gradual improvement in oil prices should incentivize production growth in the Permian basin and we expect price differentials to widen as production fills some of the excess takeaway capacity over time.

Our domestic gas processing business supports domestic upstream production. Margins in this business have suffered as NGL prices have dropped significantly. The recent quarterly losses incurred in the Midstream business are a direct result of these factors.

In Chemical's we anticipate pretax earnings of about $100 million for the second quarter. The expected sequential decline in income is due to planned maintenance outages at several of our chlorovinyl plants during the quarter. While price support for chlorovinyls has been lackluster so far this year, the combination of both scheduled and unscheduled industry outages are expected to tighten market conditions for both vinyls and caustic soda into the second half of this year.

The worldwide effective tax rate on our core income was 29% for the first quarter of 2016. Using current strip prices for Oil and Gas we expect 2016 domestic tax rate to be about 36% and our international tax rate to be about 76%.

Turning to our overall costs, total spend per barrel, as Vicki mentioned, was added as a new internal performance metric last year because of Oxy's increased focus on operational efficiency, especially in consideration of the sharp decline in commodity prices. This metric is defined as the total cost per BOE of production and includes capital spending, cash operating costs and G&A costs.

A portion of senior management's incentive compensation is directly aligned with this performance metric as it focuses our efforts on efficiency, financial returns and free cash flow generation. This efficiency metric is designed to help manage the reduction in overall spending while rewarding production growth.

During 2015 we were successful in reducing our total spend per BOE by more than 30% compared to the prior year to approximately $40 per BOE. A reduction in our total spend per BOE of similar proportion is also targeted for 2016.

I will now turn the call over to Jody Elliott who will discuss activity around our Permian operations.

Jody Elliott - *Occidental Petroleum Corporation - President, Oxy Domestic Oil & Gas*

Thank you, Chris, and good morning, everyone. Today I will review the highlights of our Permian resources and Permian EOR results in the first quarter, provide guidance on our program for the remainder of the year.

As Vicki highlighted previously with regard to capital priorities, due to the current oil price environment our focus has been to prudently allocate capital to our Permian basin businesses. With this in mind, our Permian resources operation is being managed to maximize the value of our workforce and enhance operational capabilities, invest in areas with existing infrastructure and gather critical appraisal information to drive better well productivity.

In Permian EOR we proportionally increased the capital allocated to this long-lived business to expand CO2 injection capacity and facilities and to bring forward the resource potential. We continue to invest heavily in the application of geoscience and data analytics into our development strategy to ensure we are competitively positioned to take advantage of a sustained improvement in commodity prices.

Turning to Permian Resources, in the first quarter we achieved record daily production of 128,000 BOE per day, a 31% increase versus the prior year. Oil production increased to 84,000 barrels per day, an 11% increase from the previous quarter and a 35% increase from a year ago.

Additionally, we have leveraged and extended our industry leading practices from our EOR business to drive improvements in base management in order to minimize decline.

Our Delaware basin well performance continues to be strong. We placed 15 horizontal wells on production in the Wolfcamp A benches in the first quarter. We continue to increase well productivity by increasing contact with a reservoir near the wellbore utilizing higher cluster density, higher proppant loads and drilling longer laterals.

For example, the [Vanguard 3 No. 15H], achieved a peak rate of 2,099 BOE per day and a 30-day rate of 1,308 BOE per day. The H.B. Morrison B 13H with a 10,000 foot lateral achieved a peak rate of 2,335 BOE per day and a 30-day rate of 1,781 BOE per day. Our successful efforts of applying geologic and reservoir parameters into our completed design continues to drive breakthroughs in while productivity and will reduce the economic hurdle point of our inventory.

In the Delaware basin our Wolfcamp A 4,500 foot well cost decreased by about 18% from the 2015 cost of $7.7 million to a current cost of $6.3 million. We reduced our drilling time by six days from the 2015 average of 25 days to 19 days measured by rig release to rig release. We expect the cost and productivity improvements in drilling, completions and facilities to continue as we progress our program.

In New Mexico we are delivering play leading wells by applying our understanding of geologic and reservoir parameters into our completion design. We are enthusiastic about superior reservoir quality and multi-bench potential in this play.

During the first quarter we place six horizontal wells on production in the second Bone Spring in New Mexico. One of our best while results to date, the second Bone Spring Cedar Canyon 23 Federal 5H, produced a peak rate of 2,820 BOE per day and a 30-day rate of 1,879 BOE per day at an 82% oil cut.

We increased proppant from 1,000 to 1,500 pounds per foot and trialed two wells with 2,000 pounds per foot. This has resulted in greater contact with a reservoir closer to the wellbore as compared to the prior completion design.

As a result of these advancements in our completion design the last four Cedar Canyon wells put on production have achieved 90-day cumulative production totals, approximately double the prior results. We will continue to leverage our Geo driven analytics to identify advancements in completion design and we will test more aggressive cluster spacing, more clusters per stage and slick water fluid systems in the second half of 2016.

Drilling and completion costs continue to improve in New Mexico as well, reducing cost per lateral foot by over 20% resulting in a current completed well cost, including hook up, of $5.9 million. We expect continued improvement in efficiency gains and have targeted well costs of $5.5 million for a 4,500 foot second Bone Spring well in the second half of 2016.

In the East Midland basin we brought the Shields 3105 1WA well online in the first quarter at a peak rate of 1,606 BOE per day and a 30-day rate of 1,395 BOE per day. We also brought online the Polo 1605A at a peak rate of 1,265 BOE per day and a 30-day rate of 1018 BOE per day. Both wells are producing with high oil cuts.

In the Midland basin we made similar improvements in well cost and drilling days and drilling the Wolfcamp A formation. We reduced the cost of these 7,500 foot horizontal wells by 14% from the 2015 cost of $7.1 million to a current cost of $6.1 million. We reduced our drilling days as measured by rig release to rig release by 16% from 19 days in 2015 to 16 days in the first quarter.

In Permian Resources we are continuing to lower field operating expenses through optimized water handling, lower workover expenses and better downhole performance. Since the first quarter of 2015 we have reduced or operating cost per barrel by 33% and continue to work additional cost reduction and efficiency improvements.

We will maintain flexibility to ramp up our rig activity in the fourth quarter of 2016 and full-year 2017 should prices exhibit fundamental stability above the current strip prices.

In Permian EOR we continue to lower our drilling cost and manage the operations to run our gas processing facilities at full capacity. With resilient base production and low capital requirements Permian EOR continues to generate free cash flow at low product prices. Drilling costs are running 25% below our benchmark target. We have lowered our cash operating expenses by 21% driven mainly by lower downhole maintenance and injectant costs.

Phase 1 of CO_2 injection at [South Hobbs] continues to perform well. Additionally the initial implementation of the residual oil zone, or ROZ projects, are underway at South Hobbs and West Seminole. The ROZ development is a vertical expansion of the CO_2 flooded interval.

This activity is economic in a low price environment because we typically utilize workover rigs to drill the extra depth into the CO_2 floodable sections of the reservoir. The residual oil zone underlies most of our major EOR properties and can be developed between $3 and $7 a barrel.

In summary, we are focusing our resources to achieve four core goals: accelerate geoscience characterization and modeling programs to enhance recovery, productivity and field economic returns; minimize base decline and set up major growth programs in both resources and EOR businesses; focus on game changing technologies and applications; and accelerate continued improvements in both execution and cost.

We expect to run between four to five rigs in our Permian business over the remainder of the year. If we do see evidence of sustained price recovery with improved fundamentals we could gradually add rigs at a modest base to ensure our gains and efficiencies are preserved.

Our technical staff and engineers will focus on long-term projects, enhance base production and prepare full field development plans to ramp up activity when oil prices recover. We are taking appropriate steps to preserve the efficiency gains achieved and are well positioned for growth as prices recover. Thank you. And I will now hand it back to Chris Degner.

Chris Degner - *Occidental Petroleum Corporation - Senior Director, IR*

Thank you, Jody. And Emily, we would now like to open up the call for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Evan Calio, Morgan Stanley.

Evan Calio - *Morgan Stanley - Analyst*

Congratulations, Vicki, on officially assuming the CEO role.

Vicki Hollub - *Occidental Petroleum Corporation - President & CEO*

Thank you.

Evan Calio - *Morgan Stanley - Analyst*

To start, Vicki, as new CEO, any general strategic thoughts on how you see Oxy's portfolio changing over time or through an ultimate up cycle? I know the portfolio was in the middle of a restructuring when the commodity market began falling apart. And should we expect that strategy research and recovery or what are your thoughts there?

Vicki Hollub - *Occidental Petroleum Corporation - President & CEO*

Well, we have almost done all that we wanted to do with our portfolio optimization. The main thing that we wanted to do was to exit those areas that were not core for us, where we didn't really have a competitive advantage and therefore we are going to have a really hard time truly adding value at the rate and the delivery that Permian Resources and Permian EOR can give us.

So, the remaining area that we are now that is non-core that we will be continuing to reduce our exposure to will be in Bahrain, Libya where we have stopped all investment there. So now we are down to the core areas of Abu Dhabi, Oman and Qatar in the Middle East, Colombia in South America, the Permian in the US along with South Texas.

So we view the Permian, Colombia and the three areas in the Middle East to still have opportunities for us to continue to grow. And we are going to try to restrict our activities to just those areas because the one thing that we think will make us better where we can continue to get better is to focus. And again, to focus in areas where we have a competitive advantage. And we believe that we do in all those areas.

So our growth opportunities in the future will be focused on just those areas. With a priority being given to the Permian basin because of our size, our exposure there we feel like that is where we get the most value for the dollars that we invest. So we would prioritize the Permian as a growth strategy.

Evan Calio - *Morgan Stanley - Analyst*

Great, that makes sense. I know the Permian delivered strong results in the quarter. I know on the last call you mentioned the Permian Resources, 20% future growth. And maybe if you can elaborate that, given the performance and your opening comments on where you would add capital and where that mix and where that rig count can optimally go in an up cycle.

I used the four rigs here which is under your 24 at peak and you even had ambitions to go higher at that point. So any -- just any thoughts on how that mix changes and your ultimate rig redeployment strategy?

Vicki Hollub - *Occidental Petroleum Corporation - President & CEO*

Yes, I will talk first about the 20% that I mentioned. Really the 20% that I had mentioned in terms of what we expect ultimately our resources business unit to contribute to total production -- that comment was driven by the fact that we were really excited about our EOR business and the fact that our teams over the past year and a half have been working on ways to expand our capacity there so that we could actually accelerate some of our development.

We have about 1.4 billion barrels of oil equivalent remaining reserves and potential in EOR and we want to -- at our current pace of development that would take about 22 years. So we really wanted to accelerate that. But when we looked at cases where we would need to build a new massive mega-plant to do that, it really didn't add the value that met our hurdles.

So what our teams have done now is they have actually found ways to expand our existing infrastructure for much lower cost. So we are really excited about being able to, over the next three to five years, start to accelerate EOR. And the good thing about that is our EOR business has just a 4% decline.

So we think that combining it with the continued growth from our resources should get us to a point where we can manage the overall base decline of the Company to a point where we can better weather these down cycles that are always going to occur at points through the -- as we go forward.

So right now we -- what we would do in the short-term though, as we are waiting for our facilities expansion in EOR, is any improvements in oil prices to the level that is sufficient to enable us to be able to ramp up, that activity would go first to (Permian) Resources.

So for example, this year we have about $500 million committed capital that will come off next year. And so, we expect next year that we would shift that $500 million, most of that, to Permian Resources to continue the growth that we had started there.

In terms of rigs, it is hard to estimate what our rig count would be because our teams are continuing to improve their efficiencies to -- they are continuing to reduce the days required to drill per well. So we would look at it more from a targeted production standpoint. And then Jody and his team would have to figure out what number of rigs that would require.

And based on the productivity of the wells and improved efficiencies, I think they -- they want to go through another couple of quarters to get an idea of how much better that is getting before they put any estimates together. But we are really encouraged by what we are seeing.

Evan Calio - *Morgan Stanley - Analyst*

Great, I appreciate it, thank you.

Operator

Doug Leggate, Bank of America.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Thanks, and I am assuming Steve is listening in somewhere, so we wish him well, and, Vicki, congratulations.

Vicki Hollub - *Occidental Petroleum Corporation - President & CEO*

Thank you.

Doug Leggate - *BofA Merrill Lynch - Analyst*

I have a follow-up actually to Evan's question on CO2. And it goes back to an announcement at the beginning of the year that you had been awarded the Pinon field in the West Texas over thrust from SandRidge and all the facilities went along with that. I seem to recall that then essentially gives you a CO2 source. And I am wondering how that fits into the CO2 strategy as it relates to potentially additional capacity. I wonder if you could speak to that first and then I have a follow-up.

Vicki Hollub - *Occidental Petroleum Corporation - President & CEO*

Yes, as you said, we just got that. We haven't had it very long, but our teams are already starting to work there and to see potential there. When SandRidge was developing it they were developing it more for the hydrocarbons. Our teams are looking at it more from a standpoint of looking for CO2.

So they are seeing some opportunities for us to increase our delivery through The Century Plant for CO2, so that is going to help us going forward. Now that for us is not something that we absolutely have to have to begin our acceleration. But it does help and it could help to lower our cost. So that will play a part in our strategy.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Perhaps a related question, Vicki. You continue to show this lovely bubble map with all your CO2 competitors. And of course there has been a lot of chatter about whether M&A could be a factor there. So any additional thoughts you could give us on how the acquisition opportunities look in that part of the business? And I do have one final one if I may, please.

Vicki Hollub - *Occidental Petroleum Corporation - President & CEO*

Okay. We -- as I said, Permian will be our highest priority in terms of looking for growth potential and for acquisitions of assets. As other companies are still in the process of streamlining their portfolios, we are hoping that there will be properties that come available, assets that they may decide that are no longer core to them.

We are staying abreast of that and we are actually -- we are proactively talking to other companies, some not on the list that you see on the slide. Some are companies that may have just water flood opportunities that we can expand into for future CO2 development. But we are certainly interested in both EOR assets as well as resources. But the problem with the resources assets currently is that the prices are still very high for those.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Okay, thank you. And my final one, if I may, I think this is might be for Chris. A couple quarters ago you gave us a slide showing the cash burn in the non-core assets, the stuff that basically you are trying to exit. I think it was about $100 oil. I wonder if you could share us what that cash burn associated with those was in the first quarter? And I will leave it there. Thanks.

Chris Stavros - *Occidental Petroleum Corporation - SVP & CFO*

It really wasn't much, Doug, because to some extent we -- or to a large extent we really exited most of those areas. So, the cash burn that we had seen was really for the most part over with. And through the fourth quarter there may have been a little bit in the way of working capital. If you want to call it sort of $100 million more or less as we continue to look at exiting some areas internationally.

But by and large it is largely through. I'd point out too that the only thing left really in terms of the difference between what we have defined as sort of core, non-core or core and not the ongoing operations at this point is really the Bahrain assets or operation, so that is really it. So I think we're most of the way through.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Chris, does that explain the DD&A drop on the Middle East as well?

Chris Stavros - *Occidental Petroleum Corporation - SVP & CFO*

Well, that is part of it and also the uplift or continued ramp at Al Hosn.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Got it. Thanks, everybody.

Operator

Phil Gresh, JPMorgan.

Phil Gresh - *JPMorgan - Analyst*

First question is just on Permian Resources and just the overall volume outlook for the year. If I look at what you achieved in 1Q on the core piece and then your guidance for 2Q, that is running -- at the midpoint you are running about 597, so it is already towards the upper end of the full-year outlook.

So just wondering maybe what moving pieces we should think about in the back half. And I guess in particular Permian Resources, how you might think about at the current prices what the exit rate would be there in the fourth quarter?

Vicki Hollub - *Occidental Petroleum Corporation - President & CEO*

Again getting back to what I said earlier, we are seeing better productivity from our wells and we are particularly excited about the New Mexico Wells. So, we are really reluctant at this point to give a forecast. And Jody and his team would like to have at least one more quarter to see how that development will progress to determine not only what we expect Q3 and Q4 to look like, but also whether or not he might add another rig. Jody you might have some more comments on that?

Jody Elliott - *Occidental Petroleum Corporation - President, Oxy Domestic Oil & Gas*

Yes, Vicki, I think the other thing that we want to see is the effect of our base management programs. We are having some really good success there with pump maintenance, with surveillance activities, re-completions and that is providing some uplift as well. So we want to see all those play out before kind of committing to the back half.

Phil Gresh - *JPMorgan - Analyst*

Yes, sure, okay. And then I guess there was a comment in the slides about the development and resources focusing on deals with existing infrastructure. So I was just curious, is there a point which you think you might need to add some chunky infrastructure spend in (Permian) Resources that could come up against a constraint?

Jody Elliott - *Occidental Petroleum Corporation - President, Oxy Domestic Oil & Gas*

You know at this point we have got a pretty good inventory in those areas with the infrastructure that meet a pretty low-price hurdle. So, we will have some infrastructure but not the really big stuff in the near-term.

Phil Gresh - *JPMorgan - Analyst*

Okay. My last question is just on Midstream. Obviously you highlighted the multiple elements of what has been hampering that business in the past few quarters. I guess if you look out in a more normalized world, I know I asked this of Steve a couple of quarters ago, but what do you think, Vicki, is the kind of true earnings power of this business in terms of this higher level or maybe the subcomponents, any color you can provide?

Vicki Hollub - *Occidental Petroleum Corporation - President & CEO*

I think in a normal world, and that would be one where we would expect to see production increasing in the Permian and NGL and gas prices recovering to some degree, we would expect to see in the neighborhood of $100 million to $200 million income at least from the Midstream business.

Phil Gresh - *JPMorgan - Analyst*

Okay, thanks.

Operator

Ed Westlake, Credit Suisse.

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Ed Westlake - *Credit Suisse - Analyst*

I wanted to come back to the Bone Springs, I mean obviously you have a big acreage position there, so the improvement there obviously has a big impact on your resource base. So maybe just a bit of additional color around whether this is a particular geological sweet spot or whether you think the results you have seen extend across a large portion of your acreage?

Jody Elliott - *Occidental Petroleum Corporation - President, Oxy Domestic Oil & Gas*

Yes, thanks, Ed. I think we see this extending across a good portion of that acreage. It is not just in the Cedar Canyon area that we've showed some highlights on. We are really encouraged with New Mexico.

Ed Westlake - *Credit Suisse - Analyst*

And in terms of stack pay potential outside the Bone Springs?

Jody Elliott - *Occidental Petroleum Corporation - President, Oxy Domestic Oil & Gas*

Multiple benches. And again, that is going to be a function of where you are. Some benches are better in some geographic areas, but at least two and in some cases upwards of four.

Ed Westlake - *Credit Suisse - Analyst*

Okay. And then a different trajectory just on costs. Obviously costs are very low today and that is helping everyone in the industry. As the industry starts to get back to work costs may start to inflate. Any thoughts about trying to lock in some of these sort of lower margins for longer -- sorry, a low-cost structures I should say?

Jody Elliott - *Occidental Petroleum Corporation - President, Oxy Domestic Oil & Gas*

Good question, Ed, trying to predict the time when that supply demand balance occurs is a little bit like trying to predict oil prices. Today there is a pretty good excess of capacity in the market. But having said that, a significant portion of our improvements are due to things like design changes, technology improvements, utilizing some proprietary things such as Oxy drilling dynamics.

We have invented some special stabilizers in drilling, integrated planning, manufacturing mode -- all those things are really driving the big portion of our cost improvements. And those are sustainable. We've maintained our workforce so when we ramp back up we won't have to access high cost consultants to run rigs and run frac cores. And we have recently made an alignment change with our supply chain organization where they have been integrated into operations as part of our integrated planning teams.

And so, the result of that is we have got better alignment of our commercial and our technical strategies to the actual value drivers in each one of those programs. And that lets us drive productivity, utilization, logistics improvements and that takes cost out of the system not only for us but for our suppliers.

And so, in most cases price is important but it is not the needle mover. But we are in conversations with our strategic suppliers to determine ways we can better align our operations, drive out combined system costs and focus on goals where we have got common success. And given our scale in the Permian we are getting pretty considerable interest.

So, we continue to make immediate improvements to cash flow and cost, we are proactively taking actions to mitigate against inflation in a higher WTI environment. At the end of the day we will be ready.

Ed Westlake - *Credit Suisse - Analyst*

And a small one, just on the EORs and the Bone Springs, any updates?

Jody Elliott - *Occidental Petroleum Corporation - President, Oxy Domestic Oil & Gas*

Again, we take a pretty measured approach to updating our EORs in our inventory. We want to see more production, better understand GOR modeling and so with a little bit more time we will update our EORs. But we are really encouraged by the results we are seeing with kind of generation two, generation three not only frac designs but our modeling efforts. We would expect those to help across the board.

Ed Westlake - *Credit Suisse - Analyst*

Thanks.

Operator

Roger Read, Wells Fargo.

Roger Read - *Wells Fargo Securities - Analyst*

Sorry, I did get pulled away briefly, so I apologize if this was asked. But as you think about increasing spending, increasing the rig count, what oil price and what magnitude should we think about in either of those categories?

Vicki Hollub - *Occidental Petroleum Corporation - President & CEO*

What I would say about that is we really don't have a set price at which we would increase. We want to see some sustainable improvement with prices and we want to make sure that the fundamentals support prices.

I know a lot of people are saying that around $50 they would start to ramp up. We have a very deep inventory in both (Permian) Resources and the EOR business that would generate really good returns at $50. We are pretty committed to staying at the $3 billion capital range for this year.

But Jody and his team in the Permian business are looking at opportunities to ramp up in those areas where they have already started development and we are prepared to do it when prices do recover. But we would expect that to be maybe adding a rig toward the end of this year and then ramping up at some point next year again if prices look like they are going to be in a range that is sustainable.

Roger Read - *Wells Fargo Securities - Analyst*

Okay. And kind of following up I think originally on Evan's question about the portfolio -- and again I apologize, I did get pulled away. But you have done the disposition side, a few more things you might do. Acquisition wise you have talked a lot here about opportunities in Southeast New Mexico and all of that. Are there other areas you want to expand your footprint in within the Permian basin?

Vicki Hollub - *Occidental Petroleum Corporation - President & CEO*

Yes, we are looking at all areas within the Permian Basin. For (Permian) Resources we would look in Delaware, Midland Basin, Central Basin platform. We would also look in some of those some areas, particularly Central basin platform and parts of the Midland Basin, for EOR opportunities. So we are definitely looking around the Permian.

Roger Read - *Wells Fargo Securities - Analyst*

And just a final follow-up on that. We've heard obviously prices in the Permian have stayed stronger than most other regions. Any movement -- I mean, does anything look more affordable today or as you think about maybe a more sustained $50 to $60 oil price environment, are there things that look more attractive than maybe they have over the last several quarters?

Vicki Hollub - *Occidental Petroleum Corporation - President & CEO*

Well, we look at the long view of things. So the issue has not been with us in terms of what we would be willing to go out and do from a pricing standpoint because we, especially around EOR assets, those are assets that produce 50, 60, 70 years. So we are taking a long view on looking at acquisition opportunities with both EOR assets and resources.

The issue has been with some of the sellers who believe that -- or seem to believe that prices were going to really spike back up to $80, $90, $100 and it seems now that both the outlook for prices is starting to come closer together between the buyers and the sellers, but not quite on the resources side to where we think it ought to be.

Roger Read - *Wells Fargo Securities - Analyst*

Okay, thanks. I guess we can all dream about $80 to $90 gas -- oil, even if we don't see it (laughter).

Vicki Hollub - *Occidental Petroleum Corporation - President & CEO*

Right.

Roger Read - *Wells Fargo Securities - Analyst*

Thanks.

Operator

Guy Baber, Simmons.

Guy Baber - *Simmons & Company - Analyst*

Vicki, Oxy has not made the headcount reductions that many of your peers have made. Can you talk about that decision and the internal capability that you are maintaining?

And then in your prepared comments you noted that the workforce is focused on initiatives that could have a step function improvement on your performance. Can you just elaborate on those comments, the value you can create and how you retain capability to respond when higher activity levels might be necessary? And does that differentiate Oxy from peers in your mind?

Vicki Hollub - *Occidental Petroleum Corporation - President & CEO*

I think that what we have done with our staff has definitely differentiated us from our competition. And I think it is a concurring view to how one should manage through a cycle like this. What we have done is we made the commitment to our employees that we were going to keep our staffing level.

We did have a voluntary separation program at the beginning where some of our later career people who had family issues and needs to go and to leave the Company. We allowed some people to leave. But we were selective in terms of trying to make sure that we lost no capability internally.

And so, those people that did leave had in most cases done a great job of training and mentoring people to take their place. So what we have ended up with is a very capable workforce that has the skills and experience necessary in the midcareer or later career experiences. But also some early career people who have done just a phenomenal job of helping us through this down cycle.

Because what we did is, to try to ensure that we were reducing cost, we took some of our early career people, sent them to the field, they replaced contractors in both our production operations, our well servicing and our drilling activities. And so they were replacing contractors who had been doing these jobs for a number of years, had a lot of experience and our early career people went out there, learned it quickly.

And because of the way they view things and their fresh approach to asking questions and looking at things differently, we expected them to go out there mostly to learn. But they actually went out there to learn, they added value, they improved logistics and improved efficiencies.

And not only was it a cost reduction from the elimination of contractors, but it was actually an improvement because they did a fabulous job to improve efficiencies and to think about how to do things differently.

Our field staff, on the other hand, what they did is they got really aggressive and proactive with mentoring these early career people. And so, the combination of both our experienced staff and our earlier career staff working together, they have really added value. And that is part of the reason that our efficiencies are improving, we are seeing these cost reductions in the field, we have to attribute that to both the early career and the mentors out in the field.

In addition to that, what we are doing is we know that to be successful for the long haul with an industry that has changed now, the industry that we are facing today has reservoirs that are tougher to develop, costlier and really a world that's more complex than it used to be.

So what we feel like as we have got to get to the absolute lowest possible cost structure to ensure that we can -- we have sufficient margins in a wider price range than what we have worked in in the past. And so, to do that we feel like you can't do business as usual. You really have to take a different approach to how you are looking at cost structure reductions.

So, we have got teams that are working on things that are further out. Some of which I can't talk about right now, but they are looking at how do we change the cost structure of 2018, 2019? What do we have to do now to do that? And so they are working on the longer view. And these are some of the people that we deployed to these project groups from the drilling and completion operation since we had the major reduction in that activity.

What we found is by giving our staff more time to become more strategic and innovative they are delivering value. So we not only have a commitment from our management to keep our staff, our staff has more than paid for that decision by their delivery and their performance and they are continuing to exceed our expectations.

Every time it seems that we set targets for them they exceed it because they are not -- they recognize that we have made the commitment so they have also made the commitment. And they are just -- they have been phenomenal. And our staff is very, very engaged. And I believe we will come through this cycle with a much more -- a committed, loyal and highly skilled workforce that will be well prepared for any kind of ramp up that we will see over the next couple years.

Guy Baber - *Simmons & Company - Analyst*

That is very helpful, Vicki. And then my follow-up is when we think about growth for Oxy, we obviously typically think about Permian Resources, now EOR over time. But do you have any update to share or any new thoughts around whether you are becoming more optimistic on the potential for growth opportunities around your core Middle East operations? And any update on over what time frame those opportunities might materialize? And I am thinking of potential opportunities in the UAE or elsewhere, for example.

Vicki Hollub - *Occidental Petroleum Corporation - President & CEO*

Yes, I would say while we very much value our operations in Oman and Qatar, we also -- I have been very impressed with the UAE, especially the leadership in Abu Dhabi. They are very progressive and we enjoy doing business there. We have had success with a couple of companies there, Mubadala when we developed the Dolphin project and now ADNOC in the Al Hosn project.

We have seen that our team partners very well with both of those companies and both of those projects were highly successful. I am going to let Sandy talk about a project that we just entered into an agreement a year ago or so to look at some offshore fields there. This is also a project I am really excited about.

And before I hand it to Sandy to talk about that I would say in Oman, Block 62, we have just brought on some gas production there, which also is another growth opportunity for us there. So we still believe there are opportunities to grow in the Middle East. I will hand it over to Sandy.

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

Thank you, Vicki. We have entered into an agreement with ADNOC on the Hail and Ghasha fields. These are fields that have been producing oil for some time and they have had gas discoveries, some going back 40 years.

So, we have worked up an appraisal program for a number of fields and there has been a few additional fields thrown in we call the Dauma fields to determine just what and when we should be developing, make a recommendation to the State, as to how they can both increase their available gas supply, but also further develop some of the hydrocarbons that have not yet been developed other liquids included.

We have just amended that agreement to add a partner, the Austrian State Oil Company who we've partnered with in many places. So there is a pretty robust team working appraisal and engineering development.

One other area of more immediate growth is that we recently -- Vicki went to the region to participate in the inauguration of the Al Hosn facilities. And it appears that we are well along the way to getting an agreement to expand the Al Hosn plant. Engineering is underway and we are having further discussions later this month to determine just on what schedule and how we would do that. So those are good areas of growth, both medium-term and long-term.

Guy Baber - *Simmons & Company - Analyst*

Thanks, Sandy, very helpful.

Operator

This concludes our question-and-answer session today. I would like to turn the conference back over to Chris Degner for any closing remarks.

Chris Degner - *Occidental Petroleum Corporation - Senior Director, IR*

Thank you, Emily. I know everyone has a very busy day with earnings and appreciate you taking the time to join our conference call. Happy Cinco de Mayo.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.
