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PRESENTATION

Operator

Good morning, and welcome to the Occidental's First Quarter 2020 Earnings Conference Call. (Operator Instructions) Please note, this event is being recorded.

I would now like to turn the conference over to Jeff Alvarez, Vice President of Investor Relations. Please go ahead.

Jeff Alvarez ***Occidental Petroleum Corporation - VP of IR***

Thank you, Brandon. Good morning, everyone, and thank you for participating in Occidental Petroleum's First Quarter 2020 Conference Call. On the call with us today are Vicki Hollub, President and Chief Executive Officer; and Rob Peterson, Senior Vice President and Chief Financial Officer.

This morning, we will refer to slides available on the Investors section of our website. The presentation includes a cautionary statement on Slide 2 regarding forward-looking statements that will be made on the call this morning.

I'll now turn the call over to Vicki. Vicki, please go ahead.

Vicki A. Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

Thank you, Jeff, and good morning, everyone.

In the short period since our last earnings call, the actions taken by Saudi Arabia and Russia, as well as the worldwide spread of COVID-19, have pushed oil prices to the lowest level in recent memory and created significant uncertainty with the macro environment. As Oxy adapts to this challenging and evolving market, our thoughts remain, first and foremost, with those who've been impacted by COVID-19, and we hope that this tragic situation passes quickly and that you and your families will be safe through this crisis. We are taking extra precautions to preserve the safety and health of our employees and contractors with minimal disruption to our operations.

And before I go any further, I want to express my appreciation to all of the Oxy employees for your focused performance and delivered results despite the stress of the past couple of months. I'll also thank you in advance for the success I know you will achieve as we realign our goals to maximize value through this recovery period.

Since mid-March, we have taken a series of decisive financial and operational actions so that Oxy has the resiliency to weather this difficult period. In addition to reducing our capital budget by more than half, we expect to deliver an additional $1.2 billion of overhead and operating expense reductions in 2020. All of our long-term differentiators remain intact and we are well situated for success when market conditions improve. We have the best people in place to leverage our superior assets, and we will continue to deliver outstanding operational results, including our ability to safely and quickly reduce activity in this low price environment while preserving the integrity of our valuable assets.

Before I highlight our first quarter results and our efforts to achieve cash flow neutrality in 2020, I would like to welcome Rob Peterson to the earnings call. Rob was named to the position of Senior Vice President and Chief Financial Officer. Before becoming CFO, Rob served as Senior Vice President of Permian EOR. Since joining Oxy in 1996, Rob has held key leadership positions, including serving as the President of OxyChem. In a few minutes, Rob will cover our financial results, revised guidance and debt management options.

Now moving to Slide 4. To survive in this environment, we must continuously deliver best-in-class operational results and be a low-cost operator. In the first quarter, our core business did just that, delivering industry-leading results with lower capital spending and faster time-to-market.

Our Midland Basin team set a Permian Basin record by drilling over 7,300 feet in one day, and they did it twice in the quarter. Our Texas Delaware team drilled a 10,000-foot horizontal well in the Silvertip area in 15 days, over four days faster than our previous record. In the DJ Basin, we drilled a 10,000-foot horizontal well in under four days and reached our lowest average cost per foot for all drilling during the quarter. We also set a new record for both major frac providers in the Permian with 18 stages fracked in one day. These accomplishments completed by different teams demonstrate consistently high performance across all of our businesses.

Our Midstream business continued to provide flow assurance to deliver our products to market, a differentiator that has become more valuable in the second quarter as the industry faces storage restrictions around the globe. While we are shutting in barrels that had become uneconomic at extremely low price realizations, which Rob will touch on in a few minutes, our Midstream business provides us with optionality in routing barrels to obtain more favorable realizations.

Turning to divestitures. We did not disclose any additional material transactions in the first quarter as travel restrictions and the falling commodity prices have severely disrupted the market for asset sales. While we remain committed to closing divestitures over time, we will not sacrifice value to close transactions quickly. Given the market condition, we are no longer confident in raising sufficient funds from just divestitures to address all of our near-term debt maturities but have numerous options available, which Rob will highlight.

Since acquiring Anadarko, we've been working towards the sale of our Africa assets and previously closed on the sale of Mozambique and South Africa. Over the past few months, Oxy has had several meetings with our partners in Algeria to discuss areas for mutual collaboration. And in April, we decided to continue operating in the country. The Algeria assets have high potential and generate free cash flow at low commodity prices. At the current Brent strip, we expect to generate $100 million of annual free cash flow from Algeria while investing $30 million of capital in 2020. We continue to discuss the sale of our Ghana asset but recognize that this transaction is at increased risk given the current environment.

Now moving to Slide 5 and Slide 6. We are taking aggressive action to protect our long-term financial stability and the integrity of our assets. We are lowering cost and moderating activity to achieve cash flow neutrality while maximizing liquidity. Within four days of OPEC's failed Vienna meeting, we moved quickly to reduce cash outflows by reducing our SG&A and operating costs beyond our original synergy targets, and we cut our full year 2020 capital budget. Our operating teams immediately launched initiatives to capture an additional $1.2 billion in SG&A and operating cost reductions. This will get us to a $2.3 billion reduction from pro forma 2018, which is more than double our original synergy targets. This has lowered our quarterly overhead consisting of SG&A, other operating expenses and exploration overhead to approximately $400 million on a run rate basis and will reduce our operating expenses to $6.25 per BOE in the second quarter. Our capital reductions will result in a full year budget of $2.4 billion to $2.6 billion.

To achieve these cost savings, we have modified our operating processes, replaced a significant number of contractors with employees and reduced executive and employee compensation. We are leveraging existing inventory to reduce orders for new and replacement equipment, and we're further consolidating vendors and we're utilizing creative solutions such as reverse auctions to source commodities and services.

The speed and magnitude of our reaction demonstrates our recognition that the oversupply of crude must be addressed by all of us. Within a few weeks, we dropped down to two domestic rigs and had substantially reduced activity in Oman and Colombia. We are also currently minimizing well interventions by taking a disciplined approach to downhole maintenance that preserves the long-term integrity of our assets and reservoirs. Despite these changes, our operability remains high, which we believe positions us strongly compared to other operators. As this downturn will inevitably stress oil producers, an operator's base management proficiency will become increasingly important. Oxy is well positioned with a large asset base, and we have the reservoir management expertise established in our conventional EOR operations to recover more barrels from existing reservoirs without the need to build a growth wedge. Many of the same teams that established our capital intensity leadership and have innovatively applied our advanced subsurface modeling to the shale reservoirs are now applying their knowledge and skills to base management across our portfolio.

To preserve liquidity, one of the most difficult decisions the Board made was to announce its intention to reduce our common stock dividend. Those who know Oxy understand that this was not a decision that we took lightly but one that we had to take to protect long-term value. We also paid the April 15 preferred stock dividend and common stock to boost our liquidity position, which is an option our Board may consider each quarter. Going forward, our focus will remain on strengthening our balance sheet.

I will now hand the call over to Rob, who will walk you through our financial results, revised guidance and debt management options.

Robert L. Peterson ***Occidental Petroleum Corporation - Senior VP & CFO***

Thanks, Vicki.

Turning to Slide 8. We are approaching the remainder of 2020 with a cautious outlook and have withdrawn our full year guidance and cash flow sensitivities. To prepare for a prolonged low price environment, we are taking decisive action to reduce cash costs. The progress our teams have made in reducing activity in collaboration with our partners and service providers while minimizing adverse impact has been remarkable. As Vicki mentioned, we have fully captured $1.1 billion of overhead and operating expense synergies and are repositioning our 2020 cost base with an additional $1.2 billion of overhead and operating expense reductions that we expect to be fully realized this year. We have also further reduced our full year capital budget to a range of $2.4 billion to $2.6 billion, which will lower our second quarter capital spending to approximately $500 million.

Looking towards our 2021 and 2022 debt maturities, we are taking significant steps to preserve liquidity, including the Board's announced intent to reduce our common stock dividend and the payment of the preferred dividend in common shares in lieu of cash in the second quarter. We are intent on raising as much cash as possible from divestitures and expect to raise over $2 billion in the near-term. It may take us longer to close divestitures in excess of this near-term estimate as we are not prepared to sacrifice value in today's challenging environment conditions.

As we pursue divestitures across our portfolio, we are also actively reviewing and evaluating our capital structure and options available to manage our near-term debt maturities. In this context, we continue to review our debt management options which could include the utilization of free cash flow, continued asset divestitures, utilization of liability management solutions, such as debt exchanges and extension of maturities, the refinancing of debt and accessing capital markets. Additionally, we are monitoring the 2036 Zero coupon notes as they could be put to us in whole or in part this October based on where the security is currently trading. We may be required to retire up to $992 million of debt depending on the number of Zero coupon holders that choose to exercise their redemption option.

At April 30, we had $6 billion of liquidity, including cash of approximately $1 billion and our unutilized $5 billion credit facility. To date, we have provided financial assurance through a combination of cash, surety bonds and letters of credit made available to us on a bilateral basis and have not issued any letters of credit under our credit facility.

Moving to Slide 9. Turning to our financial results. The first quarter of 2020 is the first quarter since the acquisition closed that we reported Oxy's financial results without consolidating WES. In the first quarter, we announced an adjusted loss of $0.52 per diluted share and a reported loss of $2.49 per diluted share. The difference between adjusted and reported results is mainly due to $1.8 billion of charges, including the impairment of goodwill related to WES and other oil and gas properties and $148 million of costs related to the acquisition, partially offset by a net positive mark-to-market gain on crude oil hedges.

Through the first quarter, we have expensed approximately $1.8 billion in acquisition-related costs and anticipate expensing an additional $150 million in integration costs this year. In the first quarter, we had cash outlays of approximately $800 million related to these expenses, bringing the total, including the amount paid in 2019, to $1.7 billion. For the remainder of 2020, we expect to have acquisition-related cash costs of approximately $250 million.

Moving to Slide 10. We have provided guidance for the second quarter of 2020 and expect to return to providing full year guidance and cash flow sensitivities once basin differentials and market conditions stabilize. The production ranges we have provided for the second quarter are wider than the previous quarters as we are accounting for the uncertainty of potential shut-ins beyond our forecast.

In the second quarter, we are forecasting shut-ins averaging 45,000 BOE per day, of which approximately 2/3 is voluntary due to individual well economics, with the remaining 1/3 due to OPEC+ restrictions. We expect shut-ins to peak in June around 75,000 BOE per day. Our guidance does not account for potential involuntary shut-ins related to flow constraints. All oil and gas guidance now includes Algeria as a continuing operation.

I will now turn the call back over to Vicki.

Vicki A. Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

Despite our activity reduction, all of our long term core differentiators remain intact. Our leadership as a low-cost operator, track record of operational excellence and a portfolio of world-class assets are competitive advantages that better position us for success when market conditions improve. These attributes, combined with our differentiated low carbon strategy, are expected to drive our success and sustainability into the future.

We're now open for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Paul Cheng with Scotiabank.

Paul Cheng ***Scotiabank Global Banking and Markets, Research Division - Research Analyst***

Vicki, I know maybe it's too premature and then you guys are just focusing on putting out the fire. But with COVID-19, if we're looking at some point that it will pass on post COVID-19, how this event have changed your operating and financial parameter on a going-forward basis?

Vicki A. Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

I'm sorry. What was the last part of your question, Paul?

Paul Cheng ***Scotiabank Global Banking and Markets, Research Division - Research Analyst***

That in the post COVID-19, if we're looking at over the longer haul, that how that may have changed your financial and operating parameter? Like before that, I think, after the merger, you have been talking about potentially a 5% long-term growth rate that you guys may be targeting and that maybe a debt-to-EBITDA ratio in the 1.5x. With the event that we just passed through or went through, how that may have changed on those parameters?

Vicki A. Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

So certainly, for us, what the COVID-19 situation crisis has done for us is it's caused a bit of a near-term focus for us to do differently than what we had set out. As you know and as you mentioned, we had a 5% growth plan going forward. But what our near-term priority is, is to protect our cash flow, so preserve cash and generate then growth in our cash. But the way we'll do it, we have plans for the near term. We have plans for cash flow neutrality, breakeven and eventually a low-growth plan. But for the next few months and into maybe the end of this year and through the recovery, our focus is going to be on base production management.

So we have not abandoned our long-term future growth plans. But for now, what we're going to do is keep the capital as we've just said for 2020 and focus on mitigating our base decline. As you know, as we've often said, our base decline right now is about 25%. So our near-term focus will be on optimizing the performance of our existing wells and existing reservoirs to ensure that we're getting all we can out of those and focusing on for incremental barrels that help to mitigate the decline. We'll focus on developing behind pay pipe in the existing reservoirs. So there's going to be a lot more focus on our base production in our current assets rather than drilling new growth wedges in this near-term.

So we're really excited about the fact that with this vast base of assets that we have, everywhere we are, we have stacked pay. So that stacked pay enables us to, in the wells where we don't see opportunities to optimize existing production, to develop other intervals and bring those intervals on at much lower cost than it would cost to drill and develop new wells. So the near-term focus is just that, is to mitigate our base production decline, that's optimizing performance from existing wells and using that infrastructure to help to lower our cost on a per unit basis. Doing that probably through the rest of this year and into the recovery, depending on how long that lasts will be our focus. Ultimately, I'm sorry, go ahead, Paul.

Paul Cheng ***Scotiabank Global Banking and Markets, Research Division - Research Analyst***

Vicki, I'm sorry. I fully understand near-term what you're trying to do. But I'm trying to understand that on the longer-term basis, has the event changed the way how you look at the business model and have you changed what is the criteria or parameter that you're going to use? Are you going to use it at a lower growth rate going forward from the 5% and that even a more stringent target for the debt-to-EBITDA or that a lower leverage ratio or that you think you're still business as usual? I think that is really is more of my question.

Vicki A. Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

Yes. Our highest priority will be to lower the debt. So rather than generate or have a growth target, our target is more to take free cash flow to lower debt. And we'll structure our capital programs around ensuring that we can do that. We believe that with the assets that we have, we can get to a scenario where our sustainability price is such that we can generate free cash flow in a lower price environment. That free cash flow would then be used to lower debt. So debt will be the highest priority in the near-term. And when I say near-term, I'm talking over the next couple of years.

Operator

Our next question comes from Pavel Molchanov with Raymond James.

Muhammed Kassim Ghulam ***Raymond James & Associates, Inc., Research Division - Senior Research Associate***

This is Muhammed on behalf of Pavel. So can you guys provide an update about the status of discussions with the State of Wyoming regarding the sale of surface acreage there?

Vicki A. Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

Yes. We are running a process to sell the land grant. And that process, we kicked off this year, early this year. We've just completed Round one of the bidding process for the land grant. And we were pleased that we had 13 bidders for the land grant. So now we'll take that to Round two of the bid process. And that's really about all I can disclose about that, but we're excited about what we've seen thus far. We would expect to be able to close on that asset in probably late Q3 or early Q4.

Muhammed Kassim Ghulam ***Raymond James & Associates, Inc., Research Division - Senior Research Associate***

Okay. Understood. And so you guys have talked in the past about some of your carbon capture projects or investments in carbon capture technologies. Given that the 2020 budget has been cut so much, can you guys talk about how carbon capture fits into that program? Are any of the projects being postponed?

Vicki A. Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

The way we're structuring our development of the carbon capture was such that we were not going to have to put out a lot of Oxy capital because what Oxy is providing to potential partners in our Low Carbon Ventures projects going forward is the opportunity for others to come in and be a part of it. We bring the reservoirs for the CO_2 sequestration. We bring the land to build the facilities. And we bring the expertise to take the CO2 from those facilities and sequester in our reservoirs. So what we bring to the table is our experience in our existing assets. What others could, as partners to us, bring to the table are the funds that will help us build those facilities.

Robert L. Peterson ***Occidental Petroleum Corporation - Senior VP & CFO***

I'd like to add to that and also say that in the pursuit of the cash generation, lower cost basis, that this not only drives the cash flow neutrality, but there's also the opportunity to reduce our overall cost through it. So it's still very much part of our portfolio or our cornerstone to future development.

Vicki A. Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

Yes. And the way we do that is that for our CO2 enhanced oil recovery operations, the two largest costs in that operation, in fact, 40% of the cost is associated with the cost of CO2 and the cost of the electricity that's required to inject that CO2. We're addressing both of those. This Low Carbon Ventures is, it's a lot more about sequestration. It's just sequestration. It's also about lowering our cost so that we can make our current CO2 business better, as Rob was saying. But by making it better and less expensive, we can also expand that out into our shale play. So that gives us the option to grow that a lot more and over the expanse of all the shale play, not only in the Permian, but then taking that once we have that model built and working and applying it in Wyoming and Colorado as well.

Operator

Our next question comes from Douglas Leggate with Bank of America.

Douglas George Blyth Leggate ***BofA Merrill Lynch, Research Division - MD and Head of US Oil and Gas Equity Research***

And Rob, welcome to a bit of a baptism of fire, I guess. I wonder if I could start, Rob, with you, your slides on the options for debt. And I was just wondering if you could walk us through how realistic these options are. What discussions have you had with banks on potentially exchanging refinancing? Is a convert a possibility? And if you could clarify why it looks like you burned over $1 billion of cash in April? And I've got a follow-up, please.

Robert L. Peterson ***Occidental Petroleum Corporation - Senior VP & CFO***

Okay, Doug. Let me hit the second question first. The primary reason of the cash was the payment of the dividend in April. So that was the predominant use of cash in the month of April. Normally, obviously, we don't provide an April cash on hand during the earnings call, but we thought it was important to put the most current information out in front.

With regards to discussions we specifically had externally, I won't comment on those. But we do believe we have adequate liquidity for the near future based on the cash flow from operations, the known asset divestitures and the cash savings with the associated operational expense reductions that we've talked about already today. We're also well hedged for the balance of 2020, and we've taken that in combination with the steps to reduce our cash flow neutrality, which is going to help conserve the cash in a low price environment. We continue to look across the portfolio but recognize we may not be able to satisfy all those 2021 and '22 debt maturities without a significant market recovery. But we do believe that at our disposal, certainly beyond what we currently have in place is, we do have the free cash flow, the asset divestiture proceeds, exchanging the debt and extending maturities and then refinancing in the capital markets. So I think we're taking those actions. I do think those are all opportunities for us to address those near-term maturities that are in front of us.

Douglas George Blyth Leggate ***BofA Merrill Lynch, Research Division - MD and Head of US Oil and Gas Equity Research***

So to be clear, you think refinancing, the markets are open to you?

Robert L. Peterson ***Occidental Petroleum Corporation - Senior VP & CFO***

Absolutely.

Douglas George Blyth Leggate ***BofA Merrill Lynch, Research Division - MD and Head of US Oil and Gas Equity Research***

Okay. My follow-up is on the underlying decline. Vicki, this one's probably for you. You talked about 25%. I assume that's unmitigated on the base business. But can you walk us through what that looks like as an exit rate, including what assumptions you have for asset sales? And obviously at the back of my mind is Ghana now that Algeria isn't going forward. So what does that exit rate look like? And if you could, what do you think the sustaining capital for that exit rate is if there's such a number going into 2021? I'll leave it there.

Vicki A. Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

Well, we've said our base decline is 25%. And the reason I'm hesitant to give you a number for what it's going to look like in Q4 is because of what we're doing now to refocus our teams. As I said in my script, we're going to take these incredibly talented people who have done a great job growing Permian Resources and we're going to supplement them into our base production management teams. And that's not to say we don't have also great people operating our base production management. It's just that when you're in a high-growth mode, sometimes some of the base management doesn't get done as diligently as it should and can in an environment like this.

So we don't expect that our decline will stay at 25%. What we expect is that we're going to have teams that find ways to mitigate that decline by, again, by optimizing production from existing wells by virtue of changing artificial lift types, by reducing back pressure on the wells and/or by doing cleanups, just doing acid treatments on perforations and things like that. So there's optimization opportunities with the existing wells that are producing today. The other thing that's there is, we've always had this inventory of zones above and below the existing producing intervals in our wells that have capability to produce. It's just that those were not going to get us to the higher growth rates that we were executing over the last few years. They're perfectly suited for mitigating a base decline but not for an intense growth program. So we expect that those will help to mitigate the decline, that 25%. So it's hard to tell you right now what a Q4 exit rate would be. We haven't put together all of our plans. The teams are working them. But I am very confident that from Q3 to Q3, we're not going to have a 25% decline. We're going to have something much less than that.

Jeff Alvarez ***Occidental Petroleum Corporation - VP of IR***

Doug, and this is Jeff. I'll hit on your sustaining capital. And like Vicki said, I think the important thing to remember, and you've covered us for a long time, if you go back before the unconventional boom when we really brought all that great inventory forward, we were a base management company. You look at our EOR business and what we were doing in Oman and Colombia and Qatar, that is what we did. So a lot of the parts of our business have been -- continue to stay focused on that. Now we'll bring that to the rest of the business even to a higher degree, and we have a whole new data set to do that. But on sustaining CapEx, I think what Vicki said, it's worth pointing out why we don't give a specific number. So let's talk about what we have disclosed.

Previously we said, in 2021 at our previous plan, our sustaining capital would be $3.9 billion at $40 WTI. And remember, that was growing into 2021. So let's now talk about the building blocks and how we're doing against those. Vicki talked about the decline rate. We've mentioned that. It's going to continue to get better. The other thing that helps that decline rate is we're not bringing on a bunch of unconventional barrels, high decline barrels this year. So you'd expect that to be better than what we said before. Starting production level, it was going to be higher than what we previously or what we think now just because we're not growing into 2021 like we previously thought. So that also gets factored in. Capital intensity, as we've shown, best-in-class capital intensity on our growth areas, and we continue to get better. So when you look at the barrels we can add for every dollar spent, not only is it best-in-class, it also continues to get better. So again, a helper on what the sustaining capital will be.

Now what's going to work against that is obviously, as Rob said, spending $350 million a quarter in the last couple of quarters, that sustaining capital that we put out before was kind of on an ongoing basis to where you spent something similar the year before and you had an activity set. So when you start back up from the level we're at, we do expect to have some start-up capital, let's call it that. It's things like just when I spend $1 today, I don't get production for a couple of months from that. That will impact that period when you look at that first year of sustaining capital, the learning curve impacts, which always happen when you start back up on programs. But the great thing about that, if you look at the records Vicki talked about in the Midland Basin, that's an area we shut down and restarted. And within a few months, we're setting records from an execution standpoint across the business because they took learnings from other parts of the business and were able to immediately apply them. So while we do expect in that first year you would see some of that start-up capital come through in that sustaining capital number, we don't think it will be huge, and then we'll quickly work through that. So again, as you think about that sustaining capital, you can take all those components in place and look at how the business is changing and what you would expect it to be, but we do continue to be able to believe we can drive that down.

Vicki A. Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

I'll just use one more example. Back in 2000 when Steve Chazen bought the Permian Basin Altura, the criticism of that was that he was buying harvest mode assets. And I can tell you, in Denver City now, all these years later, these decades later, we're still adding reserves to the Denver unit, still finding ways to increase the reserves and the production there. That is our niche. And we do it well. And we just got to refocus on it.

Operator

Our next question comes from Brian Singer with Goldman Sachs.

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

I wanted to first start with just a couple of clarification questions on a couple of points that you made. First, I think you said, Vicki, in your comments that you expect $2 billion of divestitures coming in the near-term. Can you clarify whether that includes versus excludes Ghana and includes versus excludes the land grant? And then also, I think it was also mentioned that accessing capital markets was a possible solution on the financial side. Can you talk to whether that is or whether there is a consideration of equity common equity issuance?

Vicki A. Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

So I'll talk about the divestiture. The $2 billion does not include Ghana. That's all I can say specifically on that. Rob?

Robert L. Peterson ***Occidental Petroleum Corporation - Senior VP & CFO***

Yes. With regards to the issuance of common stock, it's not something that we're considering right now in light of the price of the stock.

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

Great. And then my follow-up is more of a bigger picture. You have a slide on the change in corporate governance on the back of today's presentation. And given some of the recent changes, both in the Board, parts of management, the dividend, can you broadly discuss in the conversations you've had with the Board any shifts in focus or priorities generally or specifically relating to the urgency and levels of delevering, M&A and the breadth versus concentration of assets within the company?

Vicki A. Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

Well, I'll say one thing that from a personal perspective, I'm incredibly excited that Steve Chazen came back on to the Board and as Chairman of the Board because specifically we did need help with dealing with the debt situation in this environment. And so from my perspective, what I see with the Board now is his ability to help lead us through what's a very, very challenging environment for every company in the world, but especially for us since we had these maturities coming up. I think the other experience that was brought on to the Board in Nick Graziano and Andrew Langham is also an ability and experience with debt exchanges and also with dealing with the debt situation. The experiences of those three that we just brought on is going to help us through this environment and already helping us and creating value for us. So I think that we've strengthened our Board in the way that we definitely needed to do in this environment.

Operator

Our next question comes from Ryan Todd with Simmons.

Ryan M. Todd ***Simmons & Company International, Research Division - MD, Head of Exploration & Production Research and Senior Research Analyst***

Great. Maybe a couple of questions on the -- a question first, I guess, on the CapEx and OpEx cuts going forward, pretty impressive cost reductions in the near-term, in particular, the additional $600 million on the OpEx side. Can you talk about how you view the sustainability of those cuts going forward, I guess, both on the CapEx and the operational side? Are those the kind of things that necessarily ramp back up as you start ramping back up activity levels or how much of those do you think you can kind of structurally capture?

Vicki A. Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

I think that certainly the full $600 million incremental in the OpEx is that full $600 million is not sustainable because one of the things that we did just to get us through this quarter because we expected Q2 to be the worst quarter, while some people are encouraged by prices where they are, we still have a concern about storage. So we expect the end of May, 1st of June to be particularly challenging for us. So we wanted to make it through Q2 at the lowest possible cost structure. So the $600 million in OpEx, probably about 60% to 65% of that is sustainable. The part that's not is where we're going to need to bring back some of our well-service rigs because currently we're in a mode where since we need to reduce production anyway to help with the oversupply issue, as some of our wells fail right now, we're not putting those wells back online. So as we get beyond this difficult period over the next month or 1.5 months and start into the recovery, that's when we'll start bringing some well-service rigs back at the point where we feel like it's necessary to start and we have the cash to be able to do that. So that will increase our cost a little bit, but we drop those rigs significantly. There are some other minor things that we would do differently, but I believe that our teams may find as we're doing this other opportunities to offset some of the cost and the activity that we'll need to start back.

Robert L. Peterson ***Occidental Petroleum Corporation - Senior VP & CFO***

And I'll just add to that, I mean, building on Vicki's point that. One of the unintended benefits of the slowdown is it allowed us to really step back and take a very deep look at the way we do things and how we pursue the business and give us time to really impart this passion for cost reduction, margin generation and make that equal our passion for the growth we've had in the past so that we can really internalize into our culture that this is the way we do business and hold on to that as things turn the other direction eventually on the recovery. One of the challenges if it's such a short shock to the system, it's really difficult to move the culture of the business. But the things that we've done and the inspiration within our people to really get passionate about cost reductions and margin generation, to hold on to that moving forward will pay dividends for the company.

Vicki A. Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

I think the quality -- I'm sorry, just to finish that. I think it speaks to the quality of our employee base that they are motivated, that they found these things so quickly and that they're excited about the challenge that we have and ready to address it and achieve it. And your next question is?

Jeff Alvarez ***Occidental Petroleum Corporation - VP of IR***

Ryan, can I add one thing? Because I think it's a pretty remarkable thing with what Rob and Vicki said. If you look at our SG&A, where we'll be on overhead, we'll be at a level lower than we were as Oxy stand-alone in 2018. So the costs that have been driven out of the business by the teams is remarkable and we basically doubled the size of the company and we're back to the same overhead before we did that.

Ryan M. Todd ***Simmons & Company International, Research Division - MD, Head of Exploration & Production Research and Senior Research Analyst***

That's impressive. I appreciate all the clarity there. Maybe a follow-up on the Permian. I mean, it gets lost in everything else that's going on right now, but well performance year-to-date in the Permian is again showing pretty significant year-on-year improvement. Maybe any comments on talks about the drivers of this? Is this high-grading from lower activity levels or is that something that's more sustainable as activity eventually re-ramps in the basin?

Jeff Alvarez ***Occidental Petroleum Corporation - VP of IR***

Yes, definitely sustainable. It's basically a continuation of everything we are doing and applying those things on the new assets and combining the learnings from both. So taking some of the learnings from the legacy Anadarko acreage and applying that in New Mexico on things like regional sand or landing points and development philosophy on the APC acreage. I mean, we showed you that Silvertip slide. You can see the level of improvements that are being made. I mean, that's probably the most disappointing thing for me in the whole thing that's going on is all of that momentum that the teams have built up and those improvements that we expect to be sustainable are now going to kind of be put on the back burner, but we strongly believe we'll get it back quickly.

The other thing I'll point out on the slide you're looking at, Ryan, is that now includes wells on the former APC acreage that has the new design that we've talked about, that Atlas design. Those are in there. And they're driving that performance improvement as well.

Robert L. Peterson ***Occidental Petroleum Corporation - Senior VP & CFO***

Again, I'll just build on that, too. One of the investment thesis still remained. And if anything, coming out of this because we have such a vast portfolio, we can high-grade even further than we would have been able to as stand-alone Oxy. Our ability to come out with lower cost, lower capital intensity wells and choosing those is much greater than would have been without the original Oxy assets.

Vicki A. Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

And I can't let this conversation end without also adding the DJ Basin. The performance there has that team, that drilling team has been incredible. So we have to give a shout-out to them. They continue to improve their performance.

Operator

Our next question comes from Paul Sankey with Mizuho.

Paul Benedict Sankey ***Mizuho Securities USA LLC, Research Division - MD of Americas Research***

In trying to forecast your volumes, can you give us a bit more detail on the base decline rates and talk about the various regions and the various mitigations so that we can try and get towards a number that is obviously less, as you imply, than the 25% decline, but exactly where we should come out on that? My question essentially is, can you talk through the decline rates from the various components of your portfolio and how you're going to mitigate them?

Vicki A. Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

Well, I think that it's important to note what Jeff has said earlier, is that when you -- as you know, the highest decline for the shale play is right in the first year, first 1.5 years, two years. So as we're slowing down, the decline of our shale production is going to start to mitigate itself just by virtue of the fact that we won't be drilling as many new wells, in fact, very few new wells. So that decline is going to be less than it traditionally is.

The EOR business, we've said in the past, is normally a 4% to 5% decline, and that's when we're fully using our CO_2. We have shut some of our CO_2 wells in. So that decline now could be actually a little bit mitigated, but it's going to be versus a slightly lower volume, not a lot of production to shut in there.

So the Middle East, the conventional reservoirs are lower decline. But overall, it's hard to go through and look at each of those as we're modifying what we do everywhere. So it's really hard to give you a number that you could then roll up into a single number. Just know that we're working on the decline everywhere. The shale decline will be less. EOR will be less with the production that's on. So lower than that, 5%, probably down to 4% with what's producing today.

Robert L. Peterson ***Occidental Petroleum Corporation - Senior VP & CFO***

And I guess the other piece of that, too, is that unlike typical or historical quarters when we've been executing a development growth plan. We're building a significant backlog of existing wells that won't need to be redrilled or anything to bring that production back online. It's really the activity set that Vicki mentioned around downhole maintenance, et cetera, that will bring barrels back online in a way different than we've seen in prior year quarters, which is really difficult to measure in light of not knowing where prices or the recovery trajectory right now.

Paul Benedict Sankey ***Mizuho Securities USA LLC, Research Division - MD of Americas Research***

And then the second and final, this was an awkward quarter to calculate the cash flows because of the mix of oil price. Can you talk about what sort of cash flows we can expect from you at the current price environment? And let's say, for example, the sensitivity, if we believe the strip, which is currently about $25 a barrel for next year -- actually, excuse me, $32 a barrel is the April next year strip. Could you give us a sense for how much cash flow would be generated in those two environments, current and future?

Vicki A. Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

Paul, I can tell you, this is not going to help you at all. I was trying to think of a way to help you with your model here, but pretty much where we -- once we get past Q2, we'll be able to balance our cash inflows with our outflows. So we'll be neutral in Q3 and Q4, but I don't think we've given you our price assumptions either. So I'm not sure that helps you at all. But the sensitivities, I would say that as our production declines a bit, the sensitivities have gone down a bit. They're not at the $1 change in oil prices equal to 250. So they're not quite there yet. They've declined a little bit. Again, what that ends up, that sensitivity ends up being depends on how much we can mitigate the decline as we go.

Operator

Our next question comes from Jeffrey Campbell with Tuohy Brothers Investment Research.

Jeffrey Leon Campbell ***Tuohy Brothers Investment Research, Inc. - Senior Analyst of Exploration & Production and Oil Services***

We've kind of beat on the debt drum quite a bit, so I thought I'd ask a couple of different questions. One is looking forward, is Oxy continuing to test technical solutions to reduce headcount and improve performance? And to give an example of what I'm thinking about, automated directional drilling seems to be gaining some increasing traction.

Vicki A. Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

Yes. We're going to push the envelope on everything now, and that's part of the reason we've been able to reduce our SG&A significantly as our teams are leveraging technology and automation as much as we can. We probably have one of the most automated areas in our Permian EOR business.

With respect to the drilling, yes, we're pushing the envelope there, too, because you've seen the improvements in how we're drilling our wells. So as much automation as we can install, we are. And part of that automation has gotten us beyond where in the drilling area where we need the typical tool pusher on the drilling rig or the driller to manage the process, we actually build models by which the computer can basically do the drilling of the well. But it takes an engineer to help to build those models. But once they're automated, then it's a process of just then tweaking to get better. That's on the drilling side.

On the field operations side, our CO2 operations are very highly automated. We can actually manage those from a central control room. So we're managing that. As we've improved and started to better rely on our artificial intelligence with respect to well productivity and those sorts of things and what wells should be doing versus what they are, that's part of what I was talking about when I said we're modifying our production processes. We'll depend more on letting those tools help us manage which wells really need any kind of physical or visual on-site versus being able to completely manage from a control room. So there's a lot of automation that we've installed that's going to help us move toward a lower, much lower SG&A environment.

Robert L. Peterson ***Occidental Petroleum Corporation - Senior VP & CFO***

Yes. And the thing I'll add on that too is also, we're doing a vast look at our portfolio, too. When you have a portfolio as large as Oxy's, you can't apply the same sort of techniques and approaches to every bit of the portfolio. And so this is allowing us time and again to reprioritize and bucket our portfolio in areas where, in some cases, we may be very quick to bring a well back to production or in other cases, we may leave wells down for an extended period of time or not use the same type of approach to actually how we're going to maintain the well or how we're going to automate the well. And this sort of not a one-size-fits-all approach is also bringing a lot of savings. And not only that, but also the number of people required to continue to operate the fields we operate in.

Jeffrey Leon Campbell ***Tuohy Brothers Investment Research, Inc. - Senior Analyst of Exploration & Production and Oil Services***

I appreciate the detailed color. And just to quickly get back to something that you mentioned in the prepared remarks regarding Algeria. I just want to make sure I understand this. Is it your intention to operate there now until price recovery or have you decided that it is a core asset going forward, notwithstanding receiving an offer to buy that can't be refused?

Vicki A. Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

It's a core asset going forward. And if we got an incoming offer for Algeria that was something that we couldn't refuse, we would certainly need to coordinate that with Sonatrach and with the Ministry of Oil because we do have partners. And that's the way it is working internationally. Sometimes the decisions need to be coordinated and we need to be committed there. We're committed to be there and to do our best to increase value and enhance the operations, and we believe we have the opportunity to do that. It's a great asset. It's one of the best assets that's in that region. So we're excited about it, and we're going to stay. Again, if someone came in and made an offer that we couldn't refuse, I'm sure the ministry would be interested in that as well.

Operator

Our next question comes from Leo Mariani with KeyBanc.

Leo Paul Mariani ***KeyBanc Capital Markets Inc., Research Division - Analyst***

Just wanted to ask a couple of housekeeping items on some of the guidance here into the second quarter. You guys talked about 45,000 BOE per day of shut-ins. I was hoping to get a little bit more detail around kind of what regions that's kind of split up to. And also on your Midstream guidance, I think you guys are saying negative $310 million and minus $350 million, I guess, pretax income. Significant change versus first quarter. I was just hoping you could kind of elaborate on some of the reasons and the big change on the Midstream.

Jeff Alvarez ***Occidental Petroleum Corporation - VP of IR***

Leo, this is Jeff. I'll start with those and then Vicki and Rob can jump in. So as you mentioned, for second quarter, we're estimating 45,000 barrels of shut-in production. 1/3 of that, as Rob said, is OPEC+ related. So you can realistically assume that's from Oman and Algeria. The remainder is domestic and that's economically driven. And the best way to think about that, half of that, the domestic part is from the Permian, which is the EOR and Resources. And then the other half is in the Rockies. And just to give you a little color, so that 45,000 barrels, about 3% production compared to our guide. The number of wells we're shutting in is about 9% of our well count with that. So as you would expect, you've got a proportionate -- a lot more wells being shut in because you're on the low end of that economic curve, and you do production being shut in. That first 1% of production we shut in is about 5% of our wells. So that just gives you some perspective and color. And when people talk about shutting in wells, they use all kinds of descriptors, whether they're temporarily abandoned with a bridge plug or just turning off the artificial lift or things like that. And we're definitely doing this in a way that ensures we protect the reservoir and the well integrity and also that we can start back up at the lowest possible cost.

So your question about Midstream, we can go through this offline in a lot more detail because, as you know, that business has a lot of moving pieces. But the primary difference in the Q2 earnings estimate versus what we saw in Q1 is almost entirely timing-driven. We recognized a large mark-to-market gain related to our hedge position. And as prices fell at the end of Q1, that impacts Q2. So in Q2, the same low prices are impacting the revenue we'll realize on our physical barrels when they're delivered. We can talk through that more offline, but that's the primary driver of that change.

Leo Paul Mariani ***KeyBanc Capital Markets Inc., Research Division - Analyst***

Okay. No, that's helpful for sure. And I guess just second question here in terms of philosophy. I was just trying to make sure I'm sort of reading it correctly in terms of what Oxy's plan is for the next couple of years. It sounded to me as though, just given the pending '21 and '22 maturities, that the company is going to continue to focus on just mitigating declines until there is much better line of sight for taking care of a lot of those maturities or for actually taking care of them with refis or exchanges or whatever. Just wanted to make sure I'm sort of understanding that correctly, if that's the message you guys are trying to deliver today.

Vicki A. Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

It depends on the price environment, but primarily this year, it will be a decline mitigation. Going into 2021. It depends on how strong the recovery is and what prices we see in 2021. There's the potential that we could add a few more rigs back. But it would still be a scenario where we need to generate some free cash flow as well. So we would balance what were the activity level with achieving some free cash flow generation after capital.

Operator

Our next question comes from Josh Silverstein with Wolfe Research.

Joshua Ian Silverstein ***Wolfe Research, LLC - MD and Senior Analyst of Oil and Gas Exploration & Production***

As part of the debt paydown strategy, and I'm sorry if you touched on this before, but would you consider equity as part of this as well? It looks like at least the base plan right now is to pay the preferred with $200 million in shares each quarter. So why not just do a larger equity deal to help de-risk the balance sheet right now?

Robert L. Peterson ***Occidental Petroleum Corporation - Senior VP & CFO***

No. We did touch on that a little earlier. And the share prices, we don't have an intention on issuing any additional equity to pay down debt.

Joshua Ian Silverstein ***Wolfe Research, LLC - MD and Senior Analyst of Oil and Gas Exploration & Production***

Got it. Okay. Sorry about that. And then you mentioned the $5 billion credit facility that you have available right now. How much of that can you use to pay down debt right now? And then secondly, you had an asset sale target before that was used to pay down debt. You guys now have an absolute debt reduction target of where you wanted to get to?

Robert L. Peterson ***Occidental Petroleum Corporation - Senior VP & CFO***

So we can draw on the credit facility at any point in time. We're not drawing on it because we don't feel like there's any risk of drawing on it at any point in time that we need it. In terms of a debt structure, a total debt number to get to, the goal is ultimately over time to get back to an investment-grade type rating. That's what our current path is.

Operator

Our next question comes from Jeanine Wai with Barclays.

Jeanine Wai ***Barclays Bank PLC, Research Division - Research Analyst***

I just wanted to follow up quickly on Josh's question right now. In terms of debt management and the revolver, right now, I believe it's unsecured, and I don't think there's a trigger on it just because you're going from IG to high-yield status. But do I have that correct? And do you anticipate that sometime down the road that you might need to move to an RBL facility that might have a leverage covenant as opposed to a current debt-to-cap covenant?

Robert L. Peterson ***Occidental Petroleum Corporation - Senior VP & CFO***

Jeanine, you do have that correct on the current RCF facility, and we don't see a need to go an RBL type facility.

Operator

Our next question comes from Richard Tullis with Capital One Securities.

Richard Merlin Tullis ***Capital One Securities, Inc., Research Division - Senior Analyst of Oil & Gas Exploration and Production***

Going back to the Midstream quickly. I know you guided pretax losses the first half of the year, partly driven by the timing issues that Jeff just discussed. What do you see as a more normalized yearly pretax income run rate for that business going forward?

Jeff Alvarez ***Occidental Petroleum Corporation - VP of IR***

Richard, this is Jeff. I'd put that in the category of, we didn't guide full year. So I mean that, there's just so much volatility in all of those markets that we didn't feel comfortable providing guidance beyond the quarter until we see more clarity on how things play out from a recovery differential standpoint and all of that. So we'll defer that. I would tell you, I mean, you understand the building blocks of the business or assets that go into that in the Middle East and Cogen and some of the other things, those are still there and still good assets. So they're there. It's just the volatility around all the other aspects on the marketing side.

Richard Merlin Tullis ***Capital One Securities, Inc., Research Division - Senior Analyst of Oil & Gas Exploration and Production***

Sure. Fair enough. And as a follow-up, if Total does not move forward with the Ghana acquisition, do you see almost immediately putting the asset right back on the marketing sale block or maybe you're doing that now? And then secondly, are there other assets that maybe you weren't looking at divesting at the time of the Anadarko acquisition announcement that maybe you look at now in a better commodity environment just given the difficulties closing the Algeria deal, et cetera?

Vicki A. Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

I would say yes to that. Ghana is an asset that we still consider to be up for sale. Whether Total buys it or not, it would still be up for sale. And there has been some interest in it. So that's something that we would still pursue divesting. I think I said earlier, but let me reiterate that. At the early beginning of the year, when we looked at Algeria and Ghana as divestiture targets, we wanted to have an alternative. And the alternative that we came up with would deliver similar proceeds with a similar reduction in cash flow. So we started marketing in early this year an alternative to the sale of Algeria and Ghana. We started that process. And as we got into the process, all the travel restrictions were applied. And this is one of those things where we need people to come in and we need to do management presentations. We need to dive into details with the technical team that's assessing the value of that asset. So it's one that requires a little more interaction. So we have put that on hold right now as we wait for travel restrictions to be lifted and for the environment to get better.

But we do have other assets to sell. The alternative that I'm talking about is just one. There are other things that we can do with some of the acreage in the Permian and potentially even in the DJ with respect to, even if it's not outright sales, it's JVs where we could generate some cash upfront and then a potential carry. There are lots of other options, but what we don't want to do is do it in this environment. It really depends on when the recovery occurs, how strong it is as to the timing of those. And that's why we're not going to put ourselves in a situation where we get closer to debt maturities and then where we found we can't execute the divestitures before the maturities occur. We've still got asset sales that we can do and we'll do as they make sense to do, but we're going to make sure that we can get maximum value for those.

Operator

In the interest of time, this concludes our question-and-answer session as well as today's conference. Thank you for attending today's presentation. You may now disconnect.