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Q3 2020 Occidental Petroleum Corp Earnings Call

EVENT DATE/TIME: NOVEMBER 10, 2020 / 4:00PM GMT

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PRESENTATION

Operator

Good morning, and welcome to the Occidental Third Quarter 2020 Earnings Conference Call. (Operator Instructions) Please note, this event is being recorded. I would now like to turn the conference over to Neil Backhouse, Director of Investor Relations. Please go ahead.

Neil Backhouse

Thank you, Grant. Good morning, everyone, and thank you for participating in Occidental's Third Quarter 2020 Conference Call. On the call with us today are Vicki Hollub, President and Chief Executive Officer; Rob Peterson, Senior Vice President and Chief Financial Officer; and Ken Dillon, President, International Oil and Gas Operations. 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, Neil, and good morning, everyone. Our accomplishments in the third quarter, including our continued operational excellence, progress in executing divestitures, and successful extension of our debt maturities, have notably improved our financial position and provided us with the running room necessary to strengthen our balance sheet.

The cost reduction measures we implemented earlier this year, combined with the early completion of our overhead and OpEx synergies, continue to bear fruit, as evidenced by the almost $1.4 billion of free cash flow generated in the third quarter. The synergies and savings we previously detailed are now embedded in our ongoing operations, and we expect to continue benefiting from our enhanced cost structure going forward. We are equipped to quickly adapt to any future potential commodity price dips while being positioned to leverage the benefits of future uplifts.

This morning, I'll provide updates on our divestiture progress as well as our plans for increased activity as we lay the groundwork to stabilize our production. Rob will cover our financial results and current guidance and the runway we have created for deleveraging.

Our third quarter free cash flow generation was driven by the strong performance of our businesses and diligent attention to margin preservation, continuing to reflect our focus on operational excellence. Our oil and gas operating cost of $6.04 per BOE and domestic operating cost of $5.38 per BOE demonstrate the lasting impact of our cost reduction measures as our domestic operating cost were significantly below our original expectations for this year.

All our businesses delivered strong operational performance in the third quarter. We exceeded our production guidance with lower-than-expected operating and capital costs for the quarter. Production from continuing operations of 1.24 million BOE per day exceeded the midpoint of guidance by 12,000 BOE per day despite an unusual number of named storms resulting in higher-than-expected production downtime in the Gulf of Mexico. Excluding the incremental impact from the storms, we would have achieved the high end of our production guidance.

Our operational outperformance was primarily driven by strong well performance and continued improvements in operability in Permian Resources. While we ran a lower-than-normal development activity set in the third quarter, our teams have continued to advance their understanding of the subsurface and are constantly applying newly acquired knowledge to improve our well and completion designs.

In the Texas Delaware, our team broke another Oxy record by bringing our company's best Permian well online in the Silvertip area, which is a former Anadarko acreage. This is just one of the latest examples of how we are leveraging the combined strengths of our assets and abilities to better position ourselves for success as macro conditions improve.

In a moment, I'll touch on our plans to ramp up activity but want to take this opportunity to reiterate that we will retain a high degree of flexibility with our capital plans, allowing us to adapt to a changing macro environment. This flexibility, combined with our best-in-class operational results and leadership as a low-cost operator, will continue to be a competitive advantage.

With the closing of the mineral and surface acreage in Wyoming, Colorado, and Utah and reaching an agreement to sell our onshore assets in Colombia, we are on track to exceed the $2-plus billion target that we set for 2020. We have now closed or announced almost $8 billion of asset divestitures, net of taxes, since the close of the Anadarko acquisition.

At the time of the acquisition, we established a $10 billion to $15 billion asset divestiture target to be completed within 12 to 24 months after close of the acquisition. 15 months later, we are closing in on the lower end of our original target, despite 2020 possibly being the worst market for asset divestitures in the history of our industry.

We are targeting an additional $2 billion to $3 billion of asset sales to be announced in 2020 or in the first half of 2021. With the completion of these additional divestitures, we will have met our divestiture target in less than 24 months from acquisition close.

As we've said before, we will balance divestiture timing with value realization and will not sacrifice value to close transactions quickly. While we continuously review our portfolio to ensure we have the optimal mix of attributes, including free cash flow generation and capital efficiency and low decline, meeting our original divestiture target of at least $10 billion will mark the completion of asset sales on a large scale. The proceeds from our expected asset sales will continue to be applied towards debt reduction. These additional asset divestitures will be impactful in reducing debt and strengthening our balance sheet. We do recognize we must go further in reducing debt. Once our large-scale divestiture program is complete, debt reduction will be primarily driven by the utilization of free cash flow to meet debt maturities.

Our Permian Resources team delivered another record-setting quarter. As I mentioned, our Texas Delaware team broke an Oxy Permian record in the third quarter by bringing a Silvertip well on -- hitting peak 24-hour rate of over 9,000 BOE per day. In New Mexico, our team set a new completion pumping time record of over 20 hours per day for a 3-well pad, while our Midland Basin team set a new Permian-wide record by drilling over 7,500 feet in a single day. The wells in the Silvertip section, where the record well was completed, were brought online with an average total well cost that achieved our synergy target for Texas Delaware well cost reductions. These savings were achieved despite the wells being drilled before our full cost reductions were implemented. We expect to continue lowering costs based on our current drilling performance and future savings on hookups. Our other business units are also lowering D&C costs through design optimization, efficiency improvements, and collaboration with our vendors.

Operational excellence means more than just consistently delivering strong well results. Safely delivering superior well results, along with consistently improving operability while driving down operating costs, are the bedrock of our operating philosophy and are what we define as operational excellence. Our operating philosophy is instilled in our teams: continuously striving for improvement. This is evidenced by the impressive progress our DJ Basin team has made in reducing downtime by 78% from the third quarter of 2019 to the third quarter of 2020 and our Midland Basin team's commitment to continuously lower operating costs, which are now below $5 per BOE.

After a modest resumption of activity in the third quarter, we plan to increase activity more meaningfully in the fourth quarter and add two rigs in each of the Texas Delaware, New Mexico, and DJ basins. We restarted activity with our JV partner, Ecopetrol, in the Midland Basin by running two rigs in the third quarter. And in Gulf of Mexico, we returned a drillship to work in early October.

The return to a more normalized activity set will be achieved within our full year 2020 capital budget of $2.4 billion to $2.6 billion. Although we drastically reduced activity earlier this year, our proven development expertise remains intact. As we increase activity, we will maximize operating efficiencies to sustain production and maintain our industry-leading capital intensity.

I'll now hand the call over to Rob, who will walk you through our financial results and current guidance and runway to deleveraging.

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

Thanks, Vicki. Turning to Slide 8. In the third quarter, we announced an adjusted loss of $0.84 and a reported loss of $4.07 per diluted share. The difference between our adjusted and reported results is primarily due to $3.1 billion of after-tax losses accounting for the fair value decline in the unit price of WES compared to the book value and related to the carrying value of assets divested during the quarter. As mentioned on the last earnings call, our charges related to acquisition are now de minimis, and the third quarter cash payment of approximately $115 million is expected to be the last sizable acquisition-related payment.

Our operational excellence, repositioned cost structure, and capital discipline enabled us to generate $1.4 billion of free cash flow before working capital and exit September with $1.9 billion of unrestricted cash on the balance sheet. This represents our highest level of free cash flow in a quarter since 2011 and reflects Oxy's cash-generating potential even in a lower commodity price environment.

Our overhead costs remained low and were approximately $400 million in the quarter. We continue to demonstrate our commitment to capital discipline, spending less than $250 million of CapEx in the third quarter, more than 35% below our guidance. As we return to more normalized development activity set, we do not expect capital levels to remain at this level going forward and are pleased with how dynamic and flexible we can be with our capital spending.

Our enhanced liquidity position, ability to generate cash, and success in leveling our debt maturity profile have resulted in our improved financial position. As a result, our debt maturity profile had been de-risked to the point that we made a decision to pay the preferred dividend in cash on October 15. Our Board of Directors will continue to review the preferred dividend payment method on a quarterly basis.

As we continue to manage and review our liquidity and debt maturity profile, we view the non-cash payment options to preferred dividend as a lever we have the option of pulling, but only if necessary on a temporary basis. We want our shareholders to know that our preferred position is to pay preferred dividend in cash when possible to preserve the value of our shareholders' holdings.

To further de-risking our cash flow profile, we implemented a natural gas hedging program for 2021. Using a costless collar with the floor of $2.50, we hedged 530 million cubic feet per day, representing almost 40% of our domestic gas production. We continue to approach hedging on an opportunistic basis and may consider additional oil and gas hedges for future years.

In setting our production guidance for the fourth quarter, we have excluded approximately 33,000 BOEs per day associated with Colombia and will report the assets as a continuing operation until the transaction closes, which we expect later this quarter.

We expect fourth quarter production will be sequentially lower than the third quarter due to the combination of scheduled maintenance, additional weather impacts in the Gulf of Mexico, as well as declining wedge and base production across many of our assets, although the decline across our asset base has begun to level off.

As we restore development activity, at a minimum, we intend to stabilize our 2021 average production at 2020 fourth quarter levels. This will require an increasing capital spending in the fourth quarter as we add rigs and frac crews across our highest return assets. Our current production base case assumption is that we will sustain 2021 production at our fourth quarter level of capital spending of approximately $2.9 billion, and we continue to evaluate our option considering the recent commodity price volatility.

We expect our overhead and operating costs will remain low in the fourth quarter. Domestic operating costs will marginally increase in support of our continued return to normal operating conditions. Our full year 2020 domestic operating costs are still expected to be more than 20% lower than our original 2020 guidance on a BOE basis.

The process we began in July to smooth out our debt maturity profile provides us with the running room necessary to maximize value from our divestiture program at a pace that reflects current market conditions. To date, we have extended $5 billion maturities due in 2021 to 2023 by 5 to 10 years.

We have also resumed our deleveraging efforts, starting with the exchange of a percentage of our WES LP units in return for the retirement of a $260 million note. In early October, we called the August 21 floating rate note and repaid more than $1 billion from the term loan.

In summary, including the term loan repayment, we have moved out $5.2 billion of 2021 maturities, $721 million of 2022 maturities, and $52 million of 2023 maturities. This leaves us with $1.1 billion remaining 2021 maturities, of which only $350 million will remain non-callable by early next year as we allocate proceeds from asset sales to retiring debt. Accounting for debt repayments subsequent to September 30, our debt balance is approximately $1.3 billion lower than it was at the end of the third quarter, and we still expect to receive the proceeds from Colombia transaction during the fourth quarter.

Our liquidity position remains robust, and our financial position profile continues to improve. We recently entered into a new receivable securitization facility that will provide us with approximately $375 million of additional liquidity. Our $5 billion credit facility remains undrawn with no letters of credit outstanding, and we had approximately $1.9 billion unrestricted cash available on September 30.

I am confident we have taken the steps to succeed in this current environment. And I expect our differentiators, combined with our low-carbon strategy, will drive success and sustainability long into of the future.

I will now turn the call back over to Vicki.

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

While much has changed during this pandemic for our company and our industry, the quality of our asset base and the skills of our teams will support our success as we move into 2021 and beyond. We'll continue to apply and build our knowledge and continuously improve our track record of operational excellence.

While our development activity has slowed down in recent months, our teams have worked diligently to further advance our development technologies and technical operations to ensure we emerge from this challenge stronger than before. We still have work to do, but the foundation has been laid for us to further improve our balance sheet as we exploit our portfolio of world-class assets. The innovation and ingenuity of our workforce, combined with our differentiated low-carbon strategy, will drive our success and sustainability long into the future.

Before we turn to the Q&A section of our call, I'd like to announce that we have set a target to reach net-zero emissions associated with our operations before 2040 and an ambition to achieve net-zero emissions associated with the use of our products by 2050. Through the work of -- Oxy Low Carbon Ventures, we expect our leadership in developing innovative technologies and services for carbon capture and sequestration will also help others achieve their net-zero goals, extending our impact well beyond our own emissions footprint. More detailed information will be available on our climate report, which we intend to release by the end of the month.

I'll now open the call for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will come from Devin McDermott with Morgan Stanley.

Devin J. McDermott ***Morgan Stanley, Research Division - VP, Commodity Strategist for Power Markets & Equity Analyst of Power and Utilities Research Team***

So the first one I wanted to ask is on some of the near-term strength -- or strength in the quarter, I should say, in your U.S. onshore production, particularly in Permian Resources. And you called out some of the increased uptime within the portfolio is one of the drivers there. I know that's an opportunity that you all talked about really since the closing of the Anadarko transaction. And I guess the question is, can you talk about where you are more specifically in terms of uptime across the U.S. onshore portfolio? What the difference is between legacy Oxy versus legacy Anadarko? And then how we should think about the size of the opportunity here for further improvement in your base production from improved uptime?

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

Okay. Our -- on our onshore operations, part of the opportunity for us to further increase our uptime was associated with some of the WES infrastructure, where we have done some things to improve working with the WES organization. We've done some things to improve the operability, one of which was to just start working the electrical system so that when storms do occur as they occur frequently in the Permian Basin and in particular that the electrical infrastructure was such that we could easily identify issues as they occur and address them and ultimately start to isolate them so that we could, number one, lower the number of wells that -- and volume of production that's impacted in any given issue or scenario and then to also try to ensure that besides isolation of issues that we could get to the wells and get them up sooner. So that's been one thing. It's just working the facilities to have more reliability around the infrastructure.

And secondly, it's the operability in terms of making sure that our prioritization and reaction to wells down and facilities down was optimized and that we were focusing on the things that really matter the most. And the third thing was ensuring that when we're out getting the wells on, that we're doing it in the most efficient way possible.

So I think that onshore, we made significant progress, and we called out the DJ Basin, where they've made tremendous progress. And progress has also been made in the legacy Anadarko areas within the Permian, too. The -- on the Oxy side, we didn't have a high downtime. It was -- so the downtime that we've worked has been mostly associated with legacy Anadarko, and the teams have done a great job to address it.

I don't know that we have a lot more upside, but every time I say that, I get kind of fooled on that. Our team responds. But I think the uptime in the areas that we focused on has increased significantly, and the remaining is in those areas where we've had to do some more work that's just we're scheduling out over time to ensure that we can get the hardening, like for the electrical system done and done in the right way. So there will be a little bit more, but I think we've probably seen the bulk of that.

Devin J. McDermott ***Morgan Stanley, Research Division - VP, Commodity Strategist for Power Markets & Equity Analyst of Power and Utilities Research Team***

Got it. Great. That makes sense. And my second question is on the low carbon strategy and really building on some of your closing remarks, Vicki. Oxy has been a leader on this front within the U.S. industry, I think, for a while now. And it's good to see that even through this downturn, you've been able to advance some of the low carbon goals. And in the slide deck, you have some additional detail on the direct air capture plant that you're planning in the Permian Basin. And I was wondering if you could talk in a little bit more detail about the return profile for these types of investments, given you're able to offset some of the CO_2 that you need within your enhanced oil recovery business, there's cost savings there, the amount of capital spend and then I guess, importantly as well, the scalability of this over time that you see within your business.

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

Thanks for the question, Devin. As you mentioned, we have been a leader in this. We're very committed to this and excited about it because this, for us, is a win, win, win. This not only helps us to help the world by reducing CO_2 out of the atmosphere, it will help our shareholders too by lowering our cost of enhanced oil recovery in the Permian and in other places as we advance this out. And thirdly, this helps others because we're going to be able to expand beyond our own operations to give opportunities to those industries that can't otherwise lower their carbon footprint, they can partner with us to do it.

So what we've done is we formed a subsidiary called 1PointFive, and 1PointFive is a partnership and company formed between Oxy Low Carbon Ventures and Rusheen Capital. And we formed that to ensure that we have the best possible way to deploy large-scale direct air capture using carbon engineering technology but to do it in a way that provided others the opportunity to invest and minimizes the actual dollars that we spend because of what we've invested thus far. And what we bring to the table for this kind of project is the pore space. We bring the pore space that's going to be required for the ultimate sequestration of the CO2, and we bring the infrastructure. Nobody has an infrastructure the size of the infrastructure that we have in the Permian. So it's extensive, and it's going to be key to helping us develop this and to do it at a cost that delivers returns for Oxy, Rusheen, and the other investors who want to come in and be a part of this. So we're very, very excited about it.

I'll point out that we're beginning this in the Permian, where we'll build the largest direct air capture facility that's currently anywhere in the world. But our use of this, we expect to go beyond the Permian. We expect to go from the Permian, the Powder River, DJ and ultimately internationally. So it's something that is going to become a, we believe, a significant business for Oxy over the next few years. And in 10 to 15 years, we expect that the cash flow and earnings from a business of this type could be similar or more than what we get from the chemicals business.

This is something that the world needs without us pushing it. And without others doing this. There's no way that the world could achieve a cap on global warming of 1.5 or 2 degrees. So it's something that has to happen, needs to happen. But unless you can make it a business, unless you can make it profitable, it's likely not to happen. So our teams have been very strategic with this and innovative in the way they've approached it. And certainly, the passage of 45Q was a big step for us to be able to make this happen in a way that will enable us to, over time, improve the technology, lower the cost and operating efficiency so that this becomes ultimately profitable without tax incentives, and so just like solar and wind has done in the past.

So we are excited about it and expect it to take off. And so for us, the 2021 investment in terms of capital from Oxy would be minimal.

Operator

Our next question comes from Jeanine Wai with Barclays.

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

This is Jeanine Wai. My first question is for Rob on working capital, and my second question is on the Permian. So Rob, on the working capital front, we noticed that there is a meaningful draw of about $829 million during the quarter. Can you walk us through some of the moving pieces of that? And how you see the working capital trending in 4Q?

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

Sure, Jeanine. Thanks for the question. There's really 3 big pieces that drove the significant working capital draw in the quarter. Number one is a combination of cash interest payments. The majority of our cash interest payments come due in the first and the third quarters. So that was a big piece of it. Another piece was acquisition-related payments that were processed and then finally was just the timing of international crude sales in our marketing business.

So as we move forward, we do expect the marketing to improve as we reduce inventories towards the end of the year. Certainly there'd be a lower amount of the cash interest payments associated in the fourth quarter, and we won't have the associated acquisition-related payments that drove a big piece that will happen in Q3. Directionally, we would expect a significant change in direction on working capital in Q4.

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

Okay. Great. That's very helpful. My follow-up or my second question on the Permian. In the prepared remarks, you mentioned retaining flexibility to respond to the macro environment, and you're getting a nice head start on activity in the Permian and the DJ heading into year-end. So can you just comment on how you see the production trajectory throughout 2021? Given the time lag, I guess, between complete drilling and completions and getting things online, could the Permian flatten out in Q1 and then return to growth as early as Q2?

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

It's really hard to tell at this point because our teams are continuing to improve deliverability from the wells. So a lot of it will depend on when we can actually get the wells on. We've got some frac crews already working with us now. So -- and we were setting records actually. So I'd say currently, it's going better than expected, but whether we'll be flat or up in Q1, I think, is a little too early for us to tell right now as we resume higher activity levels.

Operator

Our next question will come from Paul Cheng with Scotiabank.

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

Vicki, just curious that you're talking about sustaining CapEx, $2.9 billion, and actual CapEx is going to be different based on the market conditions. Can you frame it for us that, say, if the oil prices is at a much higher level, what is the maximum ceiling of CapEx is going to look like and that, I guess, the minimum that if the oil price is really bad? And whether that the oil price is the only -- or that the strip price is the only factor that you look at or there are other fact that you're going to take that into consideration?

And for Rob, along that line, your capital accrue is over $700 million in this year, the use of cash. How that is going to trend in the fourth quarter and more importantly, in 2021? In other words, the net investment, is that going to be much lower than what is your capital budget?

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

Yes. Paul, with respect to your question on the capital, we would view $2.9 billion, our sustaining capital, to be a maximum capital for 2021 even if prices are higher than we expect. And we take more into account than just strip oil prices. We look at what's driving the oil prices and what is the sustainability. For example, there's while some may have thought a quarter or so ago that prices by the -- by this time would be higher than -- much higher than $40, I heard people talking about that, we never believe that because we were looking very closely at the fundamentals and what's happening around the world with inventories and demand and things like that. So we're very cautious about just basing our program on strip prices and/or what some might say they believe about near-term prices.

So we'll go into 2021 conservatively. We'll recommend to the Board a capital that would allow us to balance cash flows coming in. And so if that ends up resulting in a scenario where we can recommend sustaining capital to the Board, we'll do that. If not, if we're going to be in a scenario where we need to be lower than that, then that's something that we'll discuss with the Board. But certainly, you can view the $2.9 billion as a cap. And our flexibility that we were talking about was to flex down, if necessary, just as we did in 2020. And you saw the magnitude of flexing -- of how we can flex down, and it's always easier to decrease activity than to do a last-minute increase in activity.

And one of the things that's important to us is to allow the teams to ramp up activity in a safe, efficient way. And doing it in a planned way, as we have been, gives our teams the chance to be successful as they have been. They've brought rigs on and achieve the same efficiencies that we had when we ramped down. And it's a credit to them and the way they plan and the way they work and the way they try to ensure that as they're bringing activity back up, if they, first and foremost, do it safely; and secondly, don't lose efficiency in the process. And that's almost unheard of in our industry, to have a major shutdown and then to start bringing rigs back online and having this kind of efficiency that we're seeing from our teams now. So we're really, really happy with that. But the reality is that we'll spend within our $2.4 billion to $2.6 billion budget this year with an increased activity, and then we'll see if we can reach the cap of $2.9 billion in 2021.

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

Vicki, can I just follow-up on that? Some of your competitors that because of the natural gas outlook have decided to shift the CapEx more to the gas well from the oil. Is that something that you will consider? Or that you think that it's still Permian is your best asset?

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

Oh, Permian is still our best asset and our other oil assets around the world. We don't have any intention at this point to do any gas investment -- pure gas investment in the U.S. And our gas assets that we very much value, Al Hosn and Dolphin in the Middle East are important to us. But we wouldn't do -- there's nothing new investments that we need to make in those at this point. So certainly, our investment dollars will go to oil.

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

And Paul, just to close out on your capital accrual question. Your intuition, I think, in your question is spot on as -- and so you can actually see in the capital accrual in the third quarter, which is slightly positive. As activity levels pick up, the capital accrual will reverse itself from what it did when we sharply reduced activity coming out of the first quarter. So your intuition is correct on that.

Operator

Our next question will come from Doug Leggate with Bank of America.

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

I guess, Vicki, as a follow-up to Paul's question, so there's a lot of feedback or questions coming in about the fact that your capital is $600 million at midpoint in Q4, and you're still obviously facing a very significant year-over-year decline. And my guess is it's a momentum issue, it's a timing issue of when that capital is big spent. But can you just give the market some confidence that the $2.9 billion is viable for your level of production? Because it does leave you with the most capital-efficient portfolio in the industry by some margin. I just want to get some understanding as to how you -- what your confidence level is in that.

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

We have high confidence that we'll achieve that because we're looking at the efficiencies that our teams are achieving on the capital efficiency side and also the well deliverability. So at this point, we do have high confidence that we'll meet our sustaining production with the $2.9 billion.

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

So just for clarification, you've got some downtime from the Gulf of Mexico in Q4. So what is the sustaining oil number that goes along with that?

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

So the production volume that we average for Q4 is going to be the number that we try to sustain into 2021. We've taken into account the downtime for maintenance.

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

Right. So what is that number?

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

So are we guiding to that number?

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

No.

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

No.

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

Okay. It's worth a try. Last one for me then. What is the sustaining capital breakeven oil price? It used to be $40 with a $2.8 billion, $2.9 billion dividend. When you net all the synergies and so on together, what do you think your breakeven oil price is today in sustaining capital? And I'll leave it there.

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

Well, today, we're well below $40 in our sustaining -- or in our breakeven capital, but it's well below $40. When you talk about breakeven capital, if you're looking at it on a quarterly basis, the well below $40 is because of our current level of CapEx, which is below sustaining. So going into 2021, we would expect to be in the high 30s in terms of breakeven price before the payment of the preferred.

Operator

Our next question will come from...

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

I would say -- yes. And before, Brian, could I hold you just a second? The other thing I should have told Doug, I know I'll get a chance to talk to him again on Thursday, is that, that also depends on your assumptions for Midstream and OxyChem, and those are critical to be considered when we're talking about what our breakevens will be. Okay. Brian?

Operator

Our next question will come from Brian Singer with Goldman Sachs.

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

I wanted to further follow-up on the maintenance capital, the $2.9 billion. Is that a maintenance capital solely to keep 2021 production flat at fourth quarter '20 levels? Or do you see that as a sustainable maintenance capital? And do you expect that this will fully replace reserves, i.e., production replacement would be 100%? Or would your reserve life be coming down even as your production stays flat?

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

The sustaining capital, this is a sustaining capital for 2021. We'll have to look at 2022 when we get there. But 2022 will be dependent on the efficiencies that we build in 2021 and the deliverability of the program that we're developing. And so we'll look at that more starting in the midpoint of 2021. So we'll be able to provide you something more on that as we get closer to the 2022 program.

What's happening to us now and what's both exciting but creates a little bit of an uncertainty is the more we learn about the Anadarko assets, the -- for example, the Silvertip area is really delivering incredible results for us. And then the record-setting well there was a record. It broke Oxy's record for the Permian Basin, and so now that is our record. And so as we continue to improve well deliverability, we'll just have to look at what it means for our sustaining capital going forward.

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

Great. And then my follow-up is about a 3-part question with regards to the new carbon ventures. The first is -- and I think you compared in -- earlier in the call the potential contribution to what the petrochemical business is delivering now, and I wondered whether that makes the petrochemical business less strategic or a greater candidate for asset sale.

You mentioned the direct air capture. Is that the main technology that you were looking to deploy? Or are you considering others?

And then what is the extent of further cost reduction, scale, and the timing for when you think that a plant like the one that you're planning here to start investing in 2022 can be returns-enhancing in the absence of government incentives, which makes sense that, that's a key goal?

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

Okay. I'll begin with the comment about OxyChem. No, this would not replace OxyChem. It wouldn't make OxyChem something that we would want to divest because our OxyChem business really is very synergistic with what we're trying to do in Oxy Low Carbon Ventures. And in fact, some of the OxyChem employees are associated with the development of this direct air capture. Because 1 of the 2 things about the direct share capture facility is that: one, it uses a lot of PVC, which OxyChem makes or uses the -- provides the products to make. Second thing is that potassium hydroxide is a chemical that's used in the direct air capture process, and we're the...

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

The largest in the country.

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

The largest in the country.

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

Second largest in the world.

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

Second largest in the world with respect to the potassium hydroxide. So there's a lot of synergies. And we've known this all along, and we want to capitalize on this, we believe there will be even more synergies into the future for OxyChem with us on that. So that's important.

The second question was on -- so there was a second and third question. The third question was with respect to lowering costs even further. The second question was -- oh, the third was the -- is it, are the technologies feasible? How quickly can we get them to the point where they can make money without government subsidies? I'll say that what I'm seeing from the strength of the teams here is we're combining Oxy oil and gas people with OxyChem people to work this facility.

And remember now, Ken is running our major projects team. That team partnered with ADNOC to build the largest ultra-sour gas processing plant in the world in the middle of a desert, where wewere at the peak of construction. We had to build a city to house the 40,000 people that had to be on site to build that plant. We built it to have a capacity of 1 billion -- 1 Bcf a day, and now they've expanded that plan.

We firstly put it on without any glitches whatsoever. And it came on at capacity, no glitches, no safety incidents. And we've now expanded the capacity by 30% with only about a $10 million investment, and that's incredibly impressive. So combined that skill, again, expanding it by 30% an ultra-sour largest gas plant in the world, then combine that expertise with our OxyChem expertise who understand this process very, very well and are experts at it. And so that, along with the innovation of carbon engineering, and while we don't know yet exactly what the first plant will cost, but I guarantee that the first plant will -- from that plant, we will continue to optimize. And I think the curve and the pace of improvement for the direct air capture facility would be faster than what we've seen in solar and wind. I expect that. And Ken, you had something to add?

Kenneth Dillon ***Occidental Petroleum Corporation - Senior VP and President of International Oil & Gas Operations***

Yes. One observation is these are -- the DACs consist of 4 existing technologies bolted together, where we are world leaders in terms of the chemical.

In terms of the scale-up opportunities and the process and densification, we already see massive opportunities in process and densification simply based on the value engineering work the teams have done so far. So we are incredibly optimistic that, not only can we get the process and densification results required, but scale-up opportunities also. And one thing to remember is these can go anywhere, but that's one of the beauties of them.

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

I think that, that portability of the DACs value is that, as you can imagine, the transportation and compression of the CO2 molecule is not inexpensive infrastructure. So now you can move the infrastructure to the reservoir and collect it from the air.

And I think underlying it, why we believe it will be commercially viable long term is because in order to achieve the 1.5-degree goal, it can't simply be done through emission reduction. We firmly believe it has to be done through the capture and sequestration or capturing usage of CO2 to make that goal a reality. And I think what differentiates Oxy's approach to this is we also believe that fossil fuels have a role in the energy portfolio of the world long term. And this is a way to take the carbon footprint of those fossil fuels, keep them part of the portfolio and still generate a low neutral, even negative carbon fossil fuel molecule.

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

Exactly. And Rob, that's what differentiates us from others because if you look at what the Europeans are doing to lower their carbon intensity, their carbon footprint, they're getting into alternatives into renewables. And so we are doing a contrarian approach in that we believe that in using our core competence of CO2-enhanced oil recovery expertise is the best way to go rather than trying to go learn a new business.

And in fact, to Rob's point about how much this is needed in the world and why it's going to be a huge industry going forward is that right now, in the -- globally, there's only 40 million metric tons of CO2 per year that's sequestered or used. And if you look at what the IEA model says about what's going to be needed, what's going to be needed is anywhere from 5.6 billion metric tons to 10.4 billion metric tons. So that's up to -- that's going to be more than 250x what we're doing today is going to be needed in the future, and so that's going to make this business incredibly important.

The IEA model is not the only one that's calling for this level of carbon capture and sequestration for us to be able to cap global warming at 1.5 to 2 degrees. In fact, I have not seen a model that didn't say that significant carbon capture was going to be required.

The other thing about this carbon capture, too, is that when you look at it, it does the same thing. The equipment does the same thing as trees, but it requires -- it's a much smaller footprint on the planet Earth, much smaller. So while I love trees and we need trees, carbon capture is important. And I think Rob's point is huge in that we can put this anywhere.

And what was kind of holding us up previously is that we -- our first -- when we first started thinking about this 10 years ago, we thought we'd have to put carbon capture facilities on industrial sites. And getting the CO2 that's captured from the industrial site to the Permian was a challenge. And so we were trying to figure out how do we build the pipeline or how do we do that. And we're going to do some of that. Some of that will happen because the industries along the Gulf Coast and other hubs, where there's a lot of CO2 emissions, they need to put either direct air capture there or somewhere or capture on their facilities.

So with respect to what other technologies are we thinking about, we had already signed an agreement with White Energy to do carbon capture on an ethanol plant. So that's one thing that we will be doing to help them.

But if you put direct air capture in the Permian, it's still going to help the emissions in the Gulf Coast because generally, the emissions around the world balance out over time. So as Rob said, we can put it when we're done with the initial installations in the Permian, the DJ and the Powder. We can put it in Oman. We can put it in Abu Dhabi. We can put it in Algeria. So we can do it anywhere we are and/or at partners' facilities.

Neil Backhouse

Yes, Brian, I don't think we caught the last part of your question. I just want to make sure that we address it and the answer there.

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

I don't know that. Can you still hear me?

Neil Backhouse

Yes.

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

Okay. Great. I think you did when you just mentioned that you were considering some other technologies like ethanol or putting CO2 in ethanol. It was whether you were pursuing other opportunities beyond direct air capture.

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

Yes. We obviously have the White Energy project, which is an ethanol capture in Texas, we're doing already that we'll capture from the CO2 emissions from the White Energy's ethanol facilities, and we'll take those into the Permian for use in EOR.

Operator

Our next question will come from Phil Gresh with JPMorgan.

Philip Mulkey Gresh ***JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst***

First question, just, Vicki, you had mentioned not having additional major asset sales beyond the $2 billion to $3 billion that you're talking about looking out to early 2021. I guess we should presume then that something like chemicals probably would be off the table at this point in time. And just more broadly, once you achieve those asset sales and with the cash flow that you expect to generate in the fourth quarter in 2021, where do you think your leverage will be relative to where you want to ultimately get it to?

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

I think that it's going to take more than what we've said with respect to the divestitures that's happening now and next year and more than cash flow from Q4 of 2021 to get us to where we need to be. I do believe prices will be much healthier in 2022, and that's where we'll start to balance our cash flow with respect to using it for -- to meet our maturities and to advance maturity -- pay off early maturities where we can.

We intend to ensure that our focus is on getting our leverage down. And we'll have -- we'll just have to see where prices are at that time, where cash flow is at that time. But it's still well into early 2022, at least, our cash flow priorities will remain the same, where, first, the priority is to maintain our production and our base facilities; second is debt reduction. So debt reduction will be the second priority for a good while now, I think.

Philip Mulkey Gresh ***JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst***

Okay. And then second question, maybe I'll just glue 2 together real quick. One was a clarification on your high-30s WTI breakeven to cover sustaining CapEx. You made a comment about midstream and chemicals. Is it fair to assume that perhaps you're using fourth quarter run rate for both of those businesses as the assumption there?

And then my second actual question would be just your production mix in the quarter, and the Permian or DJ was a bit gassier here, lower oil mix in general. So anything that you could provide there as to the driver of that and how you expect that to play out?

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

I'd expect that the gas oil ratio with the continuing development program would be more stable. This decline, this increase -- the slight increase in gas is partly due to the fact that we weren't adding new production. During this time, our wedge production was so much lower than what it would normally be. So we don't expect that this is going to be an ongoing issue for us.

With respect to the assumption of what OxyChem and Midstream will be, we haven't guided to that, but we're optimistic about how the chemicals business is going to look next year depending on the COVID situation. And so we're not guiding anything right now, but we do believe that there's going to be progress made. We just don't know what the timing will be. And when that happens, we believe the chemicals business is going to snap back pretty well from this.

Operator

Our next question will come from Roger Read with Wells Fargo.

Roger David Read ***Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst***

I guess I kind of wanted to follow-up on Phil's question there on thinking about the deleveraging and specifically the chart on Page 15. And you've done a good job so far of taking the dates out, extending maturities and so forth. And I was just curious, as you look at the '22 debt that's there, should we expect you to start attacking that in '21 in terms of some opportunities to extend the maturities there and not simply face a $4 billion wall of debt on top of some of the smaller maturities left in '21?

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

Yes, Roger, good question. And absolutely, I think we'll continue to take a very thoughtful approach towards the management of debt between timing of divestitures and proceeds from the balance sheet and attacking those. And so it certainly wouldn't be surprising for us to access the market again at some point and start moving those out in a similar way that we did in the third quarter with the $5 billion in raises that we did. We're trying to be very thoughtful about those access to market when it's opportunistic for the company to do so and then also looking at -- continuing -- creating that runway for us so that we can get the best value for our divestitures. And we've done a good job now to make sure that as we approach the divestitures, we're not in a position where we have to do them under a specific time frame. And we'll continue to give the company that leeway and so that we can get the best value for the divestitures as they occur. So absolutely, we'll be not waiting until the last moment to address the '22 maturities.

Roger David Read ***Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst***

Okay. Appreciate that. Follow-up question. Gulf of Mexico, since that's, I think, your largest federal holdings exposure. I know you're not in the exploration mode out there. I don't think hardly anyone is. But I was just curious, as you look at drilling permits in hand, how a potential change in administration, like what's your visibility for drilling wells in '21 and, say, '22 relative to permit availability?

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

So Roger, our belief around what's happening or what will happen with respect to the regulatory environment is, first of all, we don't think that it's going to be the highest priority of the administration as they take over and start executing their plans. I believe that there's going to be other things that are much more urgent for soon-to-be President Biden to take on. So I don't -- we don't expect any near-term impact on either Gulf of Mexico permitting or anything onshore. We believe this gives us time to start working with his staff.

And we've always stayed engaged with the EPA and the BLM, and we have great relationships with them. And so what we want to do is we want to be a part of the solution to what they're going to need to do to meet the needs of their constituency. And that is -- I know they're going to want more regulations. I know they're going to want a deeper focus on permitting and where the permits are, what's happening, what is the safety of what's happening and what's the impact on the environment. And I think this is an opportunity for us to be collaborative like we always are. I think our company has developed this as a core competence that because of some of the areas that we've operated in around the world, if you look back -- I hate to mention country names so I'll avoid it, but we had previously worked in some very, very challenging countries where collaboration, lots of patience, but persistence is really required to help get to the point that's reasonable for both the company and wherever we're operating.

And here, we'll use the same thing. We know that the BLM has a lot of great people, and they've been very helpful as we've gone through our developments, both offshore and onshore U.S. And so we know the competency of the people there, and that part of it won't change. We'll just be aggressive in the way we address it.

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

And I think also on that, too, what I would add is in addition to the relationships that we've built over in the history of working 100 years as a company with the federal -- different administrations is from a pure holding standpoint, we're in very good shape even with a different approach. We're the largest leaseholder in the Gulf of Mexico.

With respect to the onshore, which is since we have 1.6 million acres that are on federal land, half onshore, half in the Gulf. Within the APC Delaware stuff, none of that is on federal lands that we purchased. From the biggest onshore exposures in the Powder River Basin, where we have very little activity. And in the case of New Mexico, we have well over 200 permits already in hand and a couple of hundred permits in the works, and so we have a significant drilling inventory in New Mexico already.

Kenneth Dillon ***Occidental Petroleum Corporation - Senior VP and President of International Oil & Gas Operations***

One thing I'd like to add is operational excellence really helps when you're seeking permits, so you want to have discussions with the government in any country in the world. And this year, our GoM operations teams really carried out exceptional work in the most active storm season on record. We've improved safety results while managing COVID and demanning and remanning the platforms multiple times. And again, like Vicki said earlier, domestically, the process engineers have managed to improve uptime in one installation by 12%, and that should lead to about $40 million worth of cash flow next year, having spent almost nothing to do it. So a really top-class achievement. And the last thing I'd like to mention is the supply chain teams, which have helped to significantly reduce spread rates using alliances, which we think are win-wins for us and the contractors going forward.

Operator

This will conclude our question-and-answer session in the interest of time. I would like to turn the conference back over to Vicki Hollub for any closing remarks.

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

Just want to say thanks to all of you for joining our call today. We appreciate it, and have a great day.

Operator

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