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OXY.N - Q1 2024 Occidental Petroleum Corp Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good afternoon and welcome to Occidental's First Quarter 2024 Earnings Conference Call. (Operator Instructions) Please note this event is being recorded. I would now like to turn the conference over to Jordan Tanner, Vice President of Investor Relations. Please go ahead.

Jordan Tanner - *Occidental Petroleum Corporation - Vice President, Investor Relations*

Thank you, Drew. Good afternoon, everyone and thank you for participating in Occidental's First Quarter 2024 Earnings Conference Call. On the call with us today are Vicki Hollub, President and Chief Executive Officer; Sunil Mathew, Senior Vice President and Chief Financial Officer; Richard Jackson, President Operations, U.S. Onshore Resources and Carbon Management, and Ken Dillon, Senior Vice President and President, International Oil and Gas Operations.

This afternoon, 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 afternoon. We'll also reference a few non-GAAP financial measures today. Reconciliations to the nearest corresponding GAAP measure can be found in the schedules to our earnings release and on our website.

I'll now turn the call over to Vicki.

Vicki A. Hollub - *Occidental Petroleum Corporation - President and Chief Executive Officer*

Thank you, Jordan and good afternoon, everyone. I'm pleased to report on a strong start to 2024, driven by our persistent focus on operational execution. As we will detail in today's call, our Oil & Gas business delivered robust production results essentially offsetting an extended third-party outage, while our Midstream and OxyChem businesses outperformed our first quarter guidance.

Today, I'll start by discussing our first quarter performance, including highlighting our Delaware appraisal success and its contribution to Permian's development runway. Then I'll discuss what's on the horizon for Oxy and how these initiatives are expected to generate significant value for our shareholders.

Operational excellence is fundamental to everything we do at Oxy and our capabilities were evident during the first quarter as our teams generated over $2.4 billion in operating cash flow before working capital. Though the third-party outage in the Eastern Gulf of Mexico made it a challenging start to the year, our teams delivered excellent performance in all areas of our portfolio. We concluded the first quarter by approximating the midpoint of our production guidance and we restarted production from our Gulf of Mexico platforms affected by the outage in mid-April.

Taking a closer look at our production results, the first quarter benefited from strong new well performance in the Permian Basin and the Rockies, overcoming the impact of winter weather early in the year. In the Permian, we exceeded the midpoint of our production guidance due in part to better-than-expected secondary bench performance in the Delaware Basin. Our Delaware teams are achieving impressive performance results by applying the same proprietary subsurface workflows that have generated remarkable success in our primary benches and applying that to secondary benches.

Through utilization of fit-for-purpose well design and reservoir characterization expertise, performance in our secondary benches is nearly matching Oxy's record-setting 2023 program average. Not only that, first year cumulative production from Oxy's 2023 secondary wells exceeds the Delaware industry average for all horizontal wells for the same period by more than 30%.

We are driving financial returns for our shareholders by improving our ability to high-grade our near-term inventory and by extending our runway of Tier 1 locations. Meanwhile, use of our existing infrastructure yields meaningful capital efficiencies. We expect these efficiency benefits to become more impactful as secondary benches become a more substantial part of our development program.

Our Rockies assets outperformed the high-end of our first quarter production guidance, partly driven by strong new well performance in the DJ Basin, better production uptime, higher-than-expected outside operating volumes. And then internationally, we achieved record gross daily production in Oman North, driven by new well performance and production uptime.

Our teams continue to improve capital efficiency through a combination of innovative well design, exceptional execution, proactive supply chain, and management practices. In the DJ and Powder River Basins, our teams optimized casing and cementing plans, completion stage design, and proppant utilization. These fit-for-purpose well design enhancements resulted in tangible first quarter well cost reductions of between $700,000 and $1 million per well compared to the first half of last year.

We're also starting to see cost reduction progress in the Delaware Basin. Our continuous drive for improvement not only leads to innovations that increased operational efficiencies but in many instances, we're also able to reduce emissions and advanced progress toward our Net Zero goals. I'm proud of our teams' involvement in another oil and gas industry first - the deployment of a fully electric well service rig. Oxy and Axis Energy Services deployed the first of its kind rig into our Permian Basin operations. Expanding electrification is integral to Oxy's strategy because it increases operational efficiency, generates cost-savings, improves safety, and helps reduce our emissions.

Our Midstream business significantly outperformed at the high end of our guidance for the first quarter. Outperformance was partly driven by gas marketing optimization across our portfolio where our teams captured value in regional pricing disparities. Warmer-than-expected weather, combined with various third-party midstream infrastructure maintenance resulted in disjointed prices in some regions. Midstream's first quarter performance demonstrates how our teams realized value from these pricing abnormalities by leveraging Oxy's rich market intelligence along with our product storage and transportation portfolio.

Looking back over multiple quarters, our marketing teams have frequently demonstrated the ability to outperform, with our transportation optimization capabilities playing a major role. Over the longer term, we anticipate similar marketing opportunities, but we generally exclude those opportunities from our guidance because of the difficulty in predicting events occurrence. Not only does our Midstream business provide us with flow assurance for our marketed products, it also offers great diversification during periods of commodity price volatility as we saw in early 2024.

Along with being one of the top performers for the products it manufactures, OxyChem is a consistent cash flow diversifier within our business, due in part to its renowned focus on operational efficiency. During the first quarter, OxyChem benefited from improved demand from our marketed products, including PVC and vinyl chloride as well as lower ethylene cost. This performance demonstrates how our diversified asset portfolio is well positioned to deliver financial results for our shareholders throughout the commodity cycle.

In prior calls, we have reiterated our drive to increase value for our investors on an absolute and per share basis through cash flow and earnings growth. Today, I'd like to provide an update on the specific projects that we mentioned in our last quarterly call. Some aspects of the OxyChem plant enhancement projects are complete but there is more to be done, including the Battleground project where the team held a groundbreaking ceremony on April 4, to kick off the site work. Employees, contractors, community partners, city leaders, and elected officials attended in support of the project. The completion of the OxyChem projects and reductions in crude oil and transportation rates from the Permian to the Gulf Coast are expected to deliver incremental cash flow of approximately $725 million per year.

In our Midstream business, we expect that our ownership stake in Western Midstream or WES, will also enhance our financial results. In February, WES announced an increase of over 50% to their distribution. Based on the current distribution, we anticipate that WES will contribute over $240 million of additional cash flow per year to Oxy. Additionally, we intend to increase free cash flow by repaying debt as it matures. Repayment of existing debt maturities through 2026 will result in approximately $180 million of annualized incremental cash flow from interest savings that can then be applied to further strengthen our balance sheet.

Overall, we expect more than $1 billion of cash flow improvements that are independent of commodity cycles. That figure does not include our Oil & Gas business, which is also poised for continued financial success. As most of you know, at the end of last year, we entered into an agreement to strategically enhance our Midland Basin portfolio with the acquisition of CrownRock. The free cash flow accretion and portfolio high-grading to be enabled by the CrownRock acquisition are expected to provide the potential for equity appreciation and acceleration of our shareholder return priorities.

In our Low Carbon Ventures businesses, we expect to generate cash flow detached from oil and gas price volatility and further strengthen Oxy's cash flow resiliency. Construction of our first direct air capture plant, STRATOS, is advancing on schedule, and during the first quarter, we were pleased to announce a multitude of carbon dioxide removal credit agreements with customers across a variety of sectors. Throughout Oxy's portfolio, we are focused on expanding resilient cash flow and enhancing shareholder value for decades to come.

I will now hand the call over to Sunil, who will cover our financial results and guidance.

Sunil Mathew - *Occidental Petroleum Corporation - Senior Vice President and Chief Financial Officer*

Thank you, Vicki. In the first quarter of 2024, we generated an adjusted profit of $0.63 per diluted share and a reported profit of $0.75 per diluted share. The difference between adjusted and reported profit was primarily driven by our litigation settlement gain related to the Andes arbitration and gains on sales included in equity income, partially offset by derivative losses.

We exited the first quarter with nearly $1.3 billion of unrestricted cash. We had a negative working capital change, which is typical for the first quarter and is largely due to semiannual interest payments on our debt, annual property tax payments, and payments under our compensation plans. During the first quarter, we delivered over $700 million of free cash flow before working capital despite third-party outage impacts to portions of our oily, high-margin production in the Gulf of Mexico. First quarter free cash flow was underpinned by outperformance in our onshore domestic portfolio and our Midstream and OxyChem segments.

Looking ahead to the second quarter, total company production is expected to increase to a range of 1.23 million to 1.27 million BOE per day compared to the first quarter annual low of 1.17 million BOE per day. The midpoint of second quarter production guidance will be the highest quarterly production in over three years. The production increase is mainly due to U.S. onshore activity levels, the completion of annual planned maintenance at Dolphin, and the return of production in mid-April from the Gulf of Mexico outage. Our second quarter Gulf of Mexico production guidance includes third-party outage impacts in April as well as planned maintenance in the Central Gulf of Mexico.

Though we revised full year Gulf of Mexico production guidance down, as a result of the extended outage, it is fully offset by outperformance in the Rockies and we are maintaining our total company production guidance for the year. The modified production mix is expected to impact annual total company oil cut.

We had a strong start to 2024 in our chemicals business and anticipate modest price improvements during the second quarter, combined with higher volumes as we exit the usual period of seasonal subdued demand. Though lower gas prices are unfavorable elsewhere in our portfolio, OxyChem benefits from reduced energy costs and our Midstream teams are well positioned to capitalize on the gas marketing opportunities that Vicki highlighted. Solid outperformance has enabled us to raise Midstream's full-year guidance range by $110 million.

Oxy's first quarter performance demonstrates the benefits of our differentiated portfolio. Our diversified assets and distinguished operational capabilities offer our shareholders cash flow resiliency throughout the commodity cycle. In terms of capital spending, our first quarter results were in alignment with the 2024 business plan and the capital program that is weighted towards the first half of the year.

On the last earnings call, we stated that approximately 40% of Rockies capital for the year is associated with drilled and uncompleted wells, or DUCs, carried in from 2023. We intend to continue completing these wells and reduce DUC inventory through the first half of the year. Similarly, Permian capital is weighted towards the first half of the year due to working interest variability and the desire to high-grade rigs and increase utilization rates into the second half of the year. This U.S. onshore capital profile, combined with Battleground project ramp-up, is expected to result in second quarter being the highest quarterly capital for the year.

I would like to close today by touching on the CrownRock acquisition. Our teams are working constructively with the FTC and we anticipate that the transaction will close in the third quarter of this year. As a reminder, Oxy will benefit from CrownRock's activity between the transaction's January 1, 2024, effective date and close, subject to customary purchase price adjustments.

Concurrent with the CrownRock acquisition, we announced a $4.5 billion to $6 billion divestiture program to be completed within 18 months of the transactions close. The high-quality assets within our portfolio have garnered much interest and our teams have commenced the early stages of the divestiture process. Sales proceeds will be applied to deleveraging until we reduce our principal debt to $15 billion or below.

The near-term cash flow enhancements that Vicki highlighted are expected to deliver significant free cash flow growth per diluted share for our common shareholders and to enable us to accelerate the achievement of our debt target. After our debt target is met, we intend to resume our share repurchase program and provide even greater value per common share. As we have discussed on today's call, we are well positioned to build on a strong first quarter of 2024 and deliver a differentiated long-term value proposition to our shareholders.

I will now turn the call back over to Vicki.

Vicki A. Hollub - *Occidental Petroleum Corporation - President and Chief Executive Officer*

Thank you, Sunil. Before we move to Q&A, I want to tell you about a milestone our team celebrated last quarter. Oxy began trading on the New York Stock Exchange on March 3, 1964. On that day, our operations consisted of 252 oil and gas wells in 6 states. Today, we're an international energy, chemicals, and carbon management company with the best portfolio in our history. But I believe that Oxy's employees are a true differentiator. Their expertise and drive to outperform continue to stretch the limits of what is achievable in our industry. Our employees are hard at work executing our strategy through superior operations and best-in-class assets. Their efforts result in long-term shareholder value, and I look forward to showcasing more of their achievements on future calls.

With that, we'll now open the call for questions.

And as a reminder, as Jordan mentioned, Richard Jackson and Ken Dillon are with us today for the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Roger Read with Wells Fargo.

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

Yes. Thank you and good afternoon. I'd like to -- if we could maybe just dig in a little bit more on the Permian outlook here, probably including the Rockies, maybe let's just call it the Lower 48. If we look at the CapEx and then we look at the forecast for the full year, I'm just a little curious why you didn't get a little more optimistic about total volumes? And I recognize that within the year-over-year changes, we're looking at a little more EOR, maybe a little less shale wells. And I was wondering if that's part of the difference we're seeing or maybe why we don't see production raised as well?

Vicki A. Hollub - *Occidental Petroleum Corporation - President and Chief Executive Officer*

Richard?

Richard A. Jackson - *Occidental Petroleum Corporation - President Operations, U.S. Onshore Resources and Carbon Management*

Yes. Thanks, Roger. Appreciate the question. I mean clearly, very pleased with our first quarter results coming out of the -- both the Rockies and the Permian. Both had a beat on the quarter, with Permian looking good on several fronts. I'll focus there first. I guess, a couple of things just to kind of anchor the year on. As we think about going from first quarter to the second quarter, which Sunil mentioned, quite a big step up in terms of production but even looking at first half versus second half in the Permian, the implied increase is about 18,000 barrels a day first half to second half and we're doing that while reducing rigs 4 -- in the Permian.

So we're getting more with less in terms of how we think about activity. Some of that plays through on the capital, as you mentioned, as we're a bit front-load heavy, both on rigs but also facilities as we're front-loading the facilities in the first half of the year to take on that production increase starting next quarter.

The good news is things are performing well. And so when you look at the year and you think about the trajectory we're going on with things that are meaningful to our business, we highlight the new well production, not only the primary zones, which we've highlighted over the last couple of years but now, especially this quarter, we really wanted to highlight the success of the secondary benches that play a meaningful role in our portfolio for the year.

The other thing that we don't talk enough about is base decline. And so, if you look at our Permian resources this year, we're improving. Our base declined from last year about 4% to 5%. That's around 15,000 barrels a day. And so that's really come through not only better wells but a lot better operations. Our uptime is improving 1% to 2% in places like the Delaware. And so, I think, as we thought about full year guidance, we certainly appreciated the results in the first quarter, but we wanted to see how this plays out over this steep production increase over the next couple of quarters, but look forward to updating our milestones and progress through that.

The last thing I would just say is, behind that, as you think about capital, we are seeing capital efficiency. So we highlighted some of the well cost improvements, both in the Rockies and the Permian. I'm very pleased with our team's progress there. That's being done through strong approaches with our service companies but also through well design changes, which we noted. And so as we put that together, we look at this total year production versus capital, our capital intensity this year has improved over last year, which is the goal. So what we're spending, dollars, millions of dollars per production added -- has improved year-on-year and we'll stay focused on that. So look forward to more updates as we go through this year to kind of help put that piece together for our total year outlook.

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

Okay, appreciate that. I guess the other question I had just -- you talked about it on the intro there, Vicki but the performance of the Midstream. How much of that is something that we ought to think about as we're going to go forward over the next 1.5 years, 2 years? We'll have another period where we're probably constrained on being able to move oil and gas out of the basin just maybe a way to think about other opportunities coming forward for you all to capture a little bit better?

Vicki A. Hollub - *Occidental Petroleum Corporation - President and Chief Executive Officer*

Well, for us, it's not really -- we don't have an issue moving oil or gas out of the Permian Basin. And in fact, some of the things, the positive impacts for our Midstream performance are due to the fact that, from a gas perspective, we have capacity elsewhere so that we can move molecules around too and trade molecules. And we have ways to get gas to California and to other markets. So from a gas marketing perspective, we're in really good shape and take away capacity in good shape there.

Oil, we're also in good shape. We have overcapacity now to get barrels out of the Permian. So when we talk about fluctuations in the Midstream business with respect to crude marketing, normally that -- some of that's associated with picking up the third-party barrels that are associated with the capacity that we need to fill with incremental barrels above and beyond our current production. So that's the volatility mostly in the Midstream business, that, along with the gas marketing, does cause volatility.

But normally, that volatility is to the upside for us because of the fact that, as I just mentioned, we have the capability to move things around and to take advantage of situations that -- where others are disadvantaged. So, while with Waha and the situation that it's in now, our upstream realizations are lower, but our Midstream business is able to capture opportunity to offset that.

Operator

The next question comes from Paul Cheng with Scotiabank.

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

Vicki, or maybe, this is for Rich, in Delaware you were talking about the secondary benches - I think there's the Bone Spring. Is it -- why spread to for your entire operation or specifically in certain counties? Is there any kind of characteristic that you can see in terms of the pattern that will lead to these really strong performing wells from those benches for that -- those area? So, we're trying to understand that, I mean how important it is to your overall operation or your overall inventory level?

And secondly, that your DJ has been performing really well, has been, I think, beating your own guidance for a number of quarters actually, I mean, at least for, say, seven or eight quarters already. So from that standpoint, is your current estimate maybe a little bit conservative that for the remaining of the year in the DJ? And also that, I mean, what are the primary reasons for the outperformance there?

Richard A. Jackson - *Occidental Petroleum Corporation - President Operations, U.S. Onshore Resources and Carbon Management*

Yes. Thanks, Paul. I'll start in the Permian and get to the Rockies. I think what -- the way we describe sort of our approach to primary benches and then it's turned into our secondary benches is really unique by area. And so we spend a lot of time and we've talked about it in the past, really focused on the subsurface aspects, both from a geologic perspective and then as you think about it over time, from a reservoir perspective. And so, I think as we've continued to delineate and be more broad in terms of the zones that we put together in areas, we focus on how do we put these wells in space together in the subsurface to optimize that recovery.

And, of course, your stimulation design and these other factors play an important role. So, I don't think it's unique by area. I think it's the same approach that we've delivered in terms of the Midland Basin with the success we've had in the Barnett, what we're doing in the Delaware Basin, whether it's upper Bone Springs or deeper Wolfcamp, and I think, as we think about the Rockies - the same sort of approach there. In terms of the Rockies, they've had great performance over the last really year plus. And a lot of that started with the subsurface approach where we really spent time thinking about how do we approach lateral length spacing, stimulation intensity, and I think a lot of the early gains we were seeing there. I think what we're seeing today is a lot more operational. We talk about how do we draw these wells down. So early time flow back and then longer-term. And what we're seeing is really improvements in both.

So in the early time performance, it's really having the facilities and the emissions handling to do that, not only at a correct rate but to handle the emissions. And then long term, we've talked about the base recovery with things like our plunger lift assist, kind of AI. And so these types of things are really what delivered the overperformance. I wish I could say it was conservative. I just think they've improved so much.

When you're improving better than 20% year-on-year, that's sometimes tough to outlook. But I think they've gotten more mature in terms of some of these advancements over the last year and I think we've done a lot better job sort of narrowing the uncertainty of those outlooks. But all the teams are still on the hook to outperform this year. We're optimistic, like I answered earlier, in terms of what we're doing in the Permian as well. So I appreciate the question and hopefully, that helps.

Operator

The next question comes from Neil Mehta with Goldman Sachs.

Neil Singhvi Mehta - *Goldman Sachs Group, Inc., Research Division - VP and Integrated Oil & Refining Analyst*

My first question is just around noncore asset sales, recognizing we still have some time before the deal closes. But, I would imagine you continue to have conversations around the divestments. And so, just curious what your perspective is on the market right now and your confidence in the achievability of up to the $6 billion of non-core asset sales that many have anchored to?

Vicki A. Hollub - *Occidental Petroleum Corporation - President and Chief Executive Officer*

Yes. It's -- there's a lot of incoming interest. Once we announced that we were going to divest between $4.5 billion and $6 billion, Sunil started getting a lot of phone calls and letters. And so the interest is there and it's very high interest. And what we're hoping and expecting is that, that high level of interest translates into appropriate levels of offers for the things that we might consider selling. But it all comes down to valuation and that's going to make the difference for us because we do have options and as you know, lots of acreage. So we're going to make the best value decision that we can. But we don't see that there would be any impediments barring something that we haven't foreseen that would cause us to have issues with our divestitures.

Neil Singhvi Mehta - *Goldman Sachs Group, Inc., Research Division - VP and Integrated Oil & Refining Analyst*

And the follow-up is just your perspective on -- sorry, please Sunil.

Vicki A. Hollub - *Occidental Petroleum Corporation - President and Chief Executive Officer*

Yes. What we were going to do is just for those that haven't heard, Sunil is going to go through the kind of what we think about with respect to divestitures, just to give those who might be listening get an idea of what we're looking at.

Sunil Mathew - *Occidental Petroleum Corporation - Senior Vice President and Chief Financial Officer*

Yes. So as we have said previously, we are evaluating our portfolio, the high-graded portfolio and identifying what are the assets that do not fit in our development plan -- in our near-term development plan but that could be attractive to other companies. So what is the strategic fit of that asset in this high-graded portfolio? And like Vicki mentioned, what is the value that we can get? And can we potentially accelerate the value by monetizing this asset? So, like Vicki said, we're getting a lot of inbounds even before the announcement and a lot more after the announcement, but this is the criteria that we're using to evaluate, is this an asset that we want to potentially monetize?

And going back to your question about $4.5 billion to $6 billion, yes, we are fully committed to achieving the target within 18 months of closing. And between the proceeds from asset sales and organic cash flow, we want to get to the $15 billion of principal debt that we have outlined.

Neil Singhvi Mehta - *Goldman Sachs Group, Inc., Research Division - VP and Integrated Oil & Refining Analyst*

That's great perspective. And then the follow-up is just on Battleground. I'd just love your perspective on both the chlorine and caustic soda markets. And how do you think about the outlook there? And once the expansion comes online, do you think that changes the supply-demand dynamics for any of these products?

Vicki A. Hollub - *Occidental Petroleum Corporation - President and Chief Executive Officer*

Just to go back and look at what OxyChem has been able to do in the last few years. When we think about pricing of PVC and caustic soda this year, we've just come out of an incredible super cycle where, in 2022, we achieved our highest annual earnings ever, our second best earnings in 2021, and our third best in 2023. Now that we're into 2024, prices don't seem to be quite at the bottom. And as we were going through the first quarter, we started to see some strengthening and -- of caustic soda and PVC a little bit. But the reality is that inflation in the United States, along with very weak demand out of China because they're basically overbuilt right now in both commercial and residential housing and buildings, so we don't see China demand getting better anytime soon. But we do believe that beyond this year, getting past our inflationary environment that once there's some certainty around some reduction in inflation.

We think the housing market is already primed for growth again. And so if we could get to an inflation level that is conducive for that, we'll certainly see -- start seeing recovery in prices here in the United States. The international market, and we do export, so the international market impacts us. And so we'll continue to see some pricing challenges in that market. But ultimately, getting beyond this year and the next 18 months, I do believe that driven by India and other places that we'll see growth in demand again and that we'll start seeing prices going back up. So we're feeling like we're probably at a bottom right now.

Operator

The next question comes from John Royall with JPMorgan.

John Macalister Royall - *JPMorgan Chase & Co, Research Division - Analyst*

So just thinking about the $400 million from midstream contract roll-offs. How much of the better terms baked into those numbers are you modeling that's locked in today versus what you're just kind of expecting? And to the extent (inaudible), what's your level of confidence in terms of going the other way as we get closer to the roll-offs?

Vicki A. Hollub - *Occidental Petroleum Corporation - President and Chief Executive Officer*

I'm sorry, could you repeat that question a little bit. We had some disturbance.

Operator

Mr. Royall, could you pick up, if you're on a speaker phone, pick up the handset by any chance?

John Macalister Royall - *JPMorgan Chase & Co, Research Division - Analyst*

Is this better? Can you hear me now?

Operator

I think that is better. Go ahead Sir, please repeat your question.

John Macalister Royall - *JPMorgan Chase & Co, Research Division - Analyst*

Okay, apologies for that, Vicki. So just thinking about the $400 million from midstream contract roll-offs. How much of the better terms baked into those numbers if locked in today versus kind of what you're expecting? And what's your level of confidence that, to the extent if not locked in, that it might not go the other way before you have to renegotiate?

Vicki A. Hollub - *Occidental Petroleum Corporation - President and Chief Executive Officer*

I have high confidence that we'll achieve the $400 million and some of that we're already seeing today. And I do believe that we wouldn't, trust me, we wouldn't say it if we weren't pretty confident that we'll get it.

Sunil Mathew - *Occidental Petroleum Corporation - Senior Vice President and Chief Financial Officer*

And John, it's this confidence that actually helped us increase our cash flow -- incremental cash flow from $350 million to $400 million.

Vicki A. Hollub - *Occidental Petroleum Corporation - President and Chief Executive Officer*

Yes.

John Macalister Royall - *JPMorgan Chase & Co, Research Division - Analyst*

Fair enough. And then apologies if I missed anything on this but I was hoping you could get into the 2Q OpEx guide a little bit, which is somewhat flattish with 1Q despite higher production with the GoM back up. So it looks like a numerator issue and not a denominator issue. Just maybe any color there on the OpEx guide.

Vicki A. Hollub - *Occidental Petroleum Corporation - President and Chief Executive Officer*

I think the OpEx guide was driven mostly by the impact of the Gulf of Mexico production and the production coming back on. It's -- I don't see any differential there. Do you?

Sunil Mathew - *Occidental Petroleum Corporation - Senior Vice President and Chief Financial Officer*

No, I think that's right. That's -- yes, we're seeing improvement with Gulf of Mexico production coming back. But again, like I mentioned in my prepared remarks, the second quarter does include some impact from the pipeline outage and we also have a planned shutdown in Central Gulf of Mexico. So by the time you get to the third and fourth quarter, you should see an improvement in the operating cost.

Jordan Tanner - *Occidental Petroleum Corporation - Vice President, Investor Relations*

Yes, John, just to add to that trajectory. Q1 actuals were at $10.31 for U.S. LOE and we're outlooking $10.10 in the second quarter.

Operator

The next question comes from Neal Dingmann with Truist.

Neal David Dingmann - *Truist Securities, Inc., Research Division - MD*

I think my question is on the -- your Permian D&C plans, particularly around Slide 24. I like what you're showing there. You all suggest, I guess, running about 21 rigs this year on average. This is kind of something you talked about after running -- I think it shows what -- is it 24 in the first quarter? And I'm just wondering trying to get a sense of the cadence, would it just be a sort of typical ramp down. And I'm also wondering if your operational efficiencies continue to be as good as they've been, would you let some rigs go and continue kind of with that production plan? Or would you maybe just ultimately end up producing more?

Richard A. Jackson - *Occidental Petroleum Corporation - President Operations, U.S. Onshore Resources and Carbon Management*

Yes. Perfect. Yes, I appreciate the question. Like I mentioned earlier, the plan is to ramp down just sequentially kind of as we go into the second half of the year. And really, that's been the plan since we poured it and came out. So, we are seeing good operational efficiencies. I'd say time-to-market really in every area is slightly improved. So we'll consider that as we go into the year to just kind of understand how that may accelerate any capital and how we want to respond to that.

I would say one thing that has played out well, we noted these cost improvements, and a couple of things to note. Beyond just operational efficiencies, we are seeing some good outcomes as we work with our service providers like frac. And so we've been able to, kind of as we relook and hit that more levelized wise, let's say, balance in activity in the second half of the year, our utilization is going up about 10% on our frac core. So that's more pumping hours per year and that's both good for us but also good for our frac providers in terms of how they manage their business.

And so those types of things are delivering these savings, which we think will pace well even with some acceleration in our operational efficiencies. So, as the cadence goes this year, we're heavy on D&C to start the year and facilities as well, like I mentioned. And really in that back half of the year, you'll see that capital drop, and you'll see the production increase. And so looking forward to that. And then that should set us up at a much more level-loaded and optimized pace going into 2025. And so obviously, we'll have options depending on where Vicki wants to take us with our capital program but that's sort of the thinking going into this year and into next.

Neal David Dingmann - *Truist Securities, Inc., Research Division - MD*

That's what I was looking for, Richard. And then Richard, quick follow-up on the Permian for my second. How do you view the typical these days, you're doing great on both but your typical Delaware versus Midland well economics? Why I ask is, just looking at the curves you all show on Slides 25 and 29, which is again, I think you're towards the top. I think you're showing around 450,000 BOE in the Del after a year versus around 250,000 BOE in the Midland, which again, knowing that they're cheaper wells, just wondering maybe in broad strokes, how you think about the difference in the economics?

Richard A. Jackson - *Occidental Petroleum Corporation - President Operations, U.S. Onshore Resources and Carbon Management*

Yes. I mean, you're saying it right. I mean, I think -- and it's the same way we think about these primary and secondary benches, even in the Delaware, the cost matters. And it's not only the drilling and completion costs, you can look at a little bit shallower, a little bit different drilling in the Midland Basin leading to lower drilling and completion costs. Same for the secondary benches in the Delaware to get a little shallower into the Bone Springs, they're cheaper. And so it's certainly, you see it play through on the D&C. But the way the team's put together their development areas, they think about the impacts on facility costs. So one of the examples, I know we had reviewed here recently, we had some shallower Bone Spring wells that came on, I think, about 3 years after we drilled the Wolfcamp wells. And the returns for those secondary wells, even with lower production, was about double the primary. And that was because we were able to reutilize these production facilities.

And so that timing of how you put that production together can make a tremendous impact on the improvement of the economics. And so as you think about it in basins, we do the same thing. The advantages of being more balanced in the Midland Basin allows us to optimize all these facility costs, maintenance costs, all these things to make sure we're getting the most production per dollar spent, not just capital but even OpEx. So, appreciate the question and that's absolutely how we look at balancing the capital, looking for that full cycle return forward.

Operator

The next question comes from Scott Gruber with Citigroup.

Scott Andrew Gruber - *Citigroup Inc., Research Division - Director, Head of Americas Energy Sector & Senior Analyst*

Staying on the topic of the Permian. Can you provide some color on what's included in the Permian unconventional inventory count when it comes to the secondary benches in the Bone Springs? And why does your success potentially push the inventory count higher?

Richard A. Jackson - *Occidental Petroleum Corporation - President Operations, U.S. Onshore Resources and Carbon Management*

Yes. I'll just, maybe give you some perspective on how we're thinking about our inventory in general in terms of how that's going and I can address some of the Bone Spring. So the last couple of years, we've been able to more than replace the wells drilled with improvements in inventory, which come in two buckets. One is appraisal activity, which I'll give you a little color on in terms of Bone Spring to your question, but also production improvement and cost reduction. So both of those things, not only add inventory but they move it, we call it to the left, that gets us to less than $60, less than $50, and then ultimately what we're going for less than $40 breakeven inventory.

And so as we think about, this year in the unconventional, we had a target of around adding 450 wells in the unconventional less than $50 breakeven. A bulk of that will come from -- we highlighted, one of the highlights we had was this third Bone Spring target that we had on the slide highlighting the 4 wells with greater than [780 MBO] (corrected by company after the call). Those will add the bulk of our improvement this year in terms of that promotion of inventory. And so when I look at, even in the first quarter, just to give you some color, so we're aiming for this 450, in the first quarter we had 90 adds less than $50 breakeven. That came, about half of that, from the Bone Spring wells that I mentioned, but we're also getting things out of New Mexico and some of the shallower Bone Spring there.

And so it's not only what we're drilling today, which is going up in terms of secondary benches as a percentage of our total drilled wells in the year but it's really adding that low-cost inventory in the future. And so a lot of times, we'll get the so what of this inventory and that's really it. It's being able to extend this low-cost capital intensity as we prosecute our plan over the next few years.

Scott Andrew Gruber - *Citigroup Inc., Research Division - Director, Head of Americas Energy Sector & Senior Analyst*

Got it. And then how do you think about potentially codeveloping some of the Bone Springs, along with the core Wolfcamp? Or you're mainly looking at coming back and hitting those zones, leveraging the installed infrastructure as you mentioned?

Richard A. Jackson - *Occidental Petroleum Corporation - President Operations, U.S. Onshore Resources and Carbon Management*

Yes. I think -- I mean that's a big part of, I'd say the next few years, is really optimizing how we put that together. Obviously, in the Midland, we do a lot more what we call co-development where you're doing these zones at the same time. One of the benefits in the Delaware is being able to sequence them, have a little bit more precision because of the frac barriers. So we don't have to think about more of the cube or co-development opportunities, which gives us a great opportunity to really maximize the savings we get from reusing these facilities, like I described.

So last year, I think we were around 20% secondary benches in the Delaware. This year, we're north of 30%. So you can see that sort of opportunity becoming more prominent in terms of our development plans.

Operator

The next question comes from Nitin Kumar with Mizuho.

Nitin Kumar - *Mizuho Securities USA LLC, Research Division - MD & Senior Energy Equity Research Analyst*

I just want to start on CrownRock quickly. You mentioned that you're still on track to close the deal in the third quarter. When you announced the deal, you had talked about 170,000 BOE per day of production from CrownRock. Just wanted to see if you could revisit that and see how things are trending there as you are getting closer to the close?

Vicki A. Hollub - *Occidental Petroleum Corporation - President and Chief Executive Officer*

We don't really have any update on either the production or any of the other metrics from CrownRock, just what we've provided previously. We'll probably provide -- we'll definitely provide an update when we have our next quarterly meeting. Because by that time, I believe, we will have closed, maybe not but it's going to be certainly sometime in the third quarter.

Nitin Kumar - *Mizuho Securities USA LLC, Research Division - MD & Senior Energy Equity Research Analyst*

Great. I thought I'd take a shot. And just -- there's been some movement in Colorado around SB24, which requires a production fee on producers. Want to see what that would look like for Oxy? You're a big producer in the state and sort of what your thoughts are around that initiative?

Vicki A. Hollub - *Occidental Petroleum Corporation - President and Chief Executive Officer*

Yes. I think that the agreement that was reached in Colorado was a win-win for both the people of Colorado and the investments -- the investors in Colorado. So we feel that paying the fee and along with paying the fee to have taken away some bills and some potential ballot measures that would have severely restricted what the oil and gas industry could do that when you take that together, all together, it provides a scenario for the governor and the government of Colorado to do something positive with the fees that will be collected. So we view this to be not overly burdensome for our operations. We think it's actually going to be a doable scenario for us as we work towards doing some of the other things that will come along with this, which is working more on doing things that impact and help to reduce the impact on the ozone layer, as well as doing some things that will help from an environmental justice standpoint.

So it's a full package deal. It's not just a fee. And putting all that together, it's a good deal.

Operator

The next question comes from David Deckelbaum with TD Cowen.

David Adam Deckelbaum - *TD Cowen, Research Division - MD & Senior Analyst*

I wanted to ask for a little bit more color just on the guide just so I'm clear on how numbers are progressing this year. The impact from the Gulf of Mexico, is that exclusively what's contributing to the 100-basis point reduction in oil cut this year? Are you seeing some contribution from some gassier zones in some other of your core assets or perhaps the impact of the PSC in areas like Algeria?

Vicki A. Hollub - *Occidental Petroleum Corporation - President and Chief Executive Officer*

No, it was almost entirely due to the Gulf of Mexico shutdown. There's really nothing else trending differently that we have in our portfolio.

David Adam Deckelbaum - *TD Cowen, Research Division - MD & Senior Analyst*

Appreciate that. And then maybe just a follow-up on the discussion around deleveraging and noncore asset sales. It sounds like on this call, you might be emphasizing more the cash flow returns that you would be otherwise receiving from some of these assets that maybe the market has flagged as divestiture candidates. Is that the intention here in signaling that you intend to delever more organically and that noncore asset sales either theoretically would be higher in dollar value to reflect that cash flow contribution or might take longer to materialize?

Vicki A. Hollub - *Occidental Petroleum Corporation - President and Chief Executive Officer*

I don't think that's what we intended to say. That was not the message we intended to give. When we talk about the fact that we will evaluate everything from a value perspective, what we want to do is just ensure that we're making the right decisions and divestitures of non-core areas is something that we want to do. And we believe that based on the interest that we're seeing that we should be able to achieve.

Operator

In the interest of time, this concludes our question-and-answer session. I would like to turn the conference back over to Vicki Hollub for any closing remarks.

Vicki A. Hollub - *Occidental Petroleum Corporation - President and Chief Executive Officer*

I'd just like to thank you all for your questions and for joining our call. Have a great rest of your day.

Operator

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