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OXY.N - Q2 2024 Occidental Petroleum Corp Earnings Call

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**OVERVIEW:**

Company Summary

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**Vicki Hollub** *Occidental Petroleum Corp - President and Chief Executive Officer*

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

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

**Kenneth Dillon** *Occidental Petroleum Corp - Senior Vice President and President, International Oil and Gas Operations*

## CONFERENCE CALL PARTICIPANTS

**Neil Mehta** *Goldman Sachs & Company, Inc. - Analyst*

**Betty Jiang** *Barclays - Analyst*

**Paul Cheng** *Scotiabank GBM - Analyst*

**John Abbott** *Wolfe Research - Analyst*

**John Royall** *J.P. Morgan Securities LLC - Analyst*

**Roger Read** *Wells Fargo Securities, LLC - Analyst*

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**David Deckelbaum** *TD Cowen - Analyst*

## PRESENTATION

**Operator**

Good afternoon, and welcome to Occidental's second-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.

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

Thank you, Drew. Good afternoon, everyone, and thank you for participating in Occidental's second-quarter 2024 earnings conference call.

On the call with us today are Vicki Hollub, President and Chief Executive Officer; Sunil Matthew, 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 will now turn the call over to Vicki.

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**Vicki Hollub** - *Occidental Petroleum Corp - President and Chief Executive Officer*

Thank you, Jordan, and good afternoon, everyone.

I'll begin today by highlighting another quarter of exceptional execution across our business segments. Our teams delivered strong operational performance during the second quarter. Our technical and operational excellence, paired with a high-quality asset portfolio continued to deliver value across our businesses.

Last week, we further strengthened our portfolio through the addition of CrownRock's assets in the Midland Basin. We were also pleased to announce that our strategic divestiture program is progressing, and we have clear line-of-sight to meeting the debt reduction targets we set out when we announced the deal last December.

This afternoon, I'll cover our second-quarter results and operational performance as well as our CrownRock integration plans. Sunil will then review our financial results and guidance, including an increase in full-year guidance for our Midstream earnings.

In the second quarter, we delivered Oxy's highest quarterly production in four years for both total company and U.S. Onshore. This exceeds the midpoint of total company production guidance generating $1.3 billion in free cash flow before working capital. This was driven by exceptional execution across our business segments with notably strong Permian new well performance and higher production uptime along with outperformance in the Gulf of Mexico.

We're exceeding our production expectations for onshore new wells across all our basins and are continuing to achieve operational efficiencies as we execute our capital program. This year to date, we've seen approximately 10% improvement in our unconventional well costs compared to the first half of last year, putting us ahead of our planned well cost savings. These savings have been achieved through lower non-productive time, increased frac utilization, operational efficiency gains and facilities optimization as part of our focused program to lower well cost, decrease time-to-market and increase free cash flow. We anticipate further acceleration in time-to-market in the second half of the year. Importantly, we continue to deliver industry-leading performance in secondary bench development, supporting long-term economics and inventory replenishment. The momentum we are generating on development costs across many facets should translate to capital efficiency improvements as we look toward the end of the year and into 2025.

In addition to improved capital efficiency and continued well performance leadership, our teams have driven down lease operating expenses across our domestic assets to enhance our cash margins. In the second quarter, our per BOE lease operating expenses decreased over $0.60 a barrel, a 6% improvement relative to the average of the prior three quarters. We have several more optimization initiatives planned for the second half of the year, which should give us a favorable outlook toward year-end. For example, in our Permian EOR business, we are finding ways to utilize $CO_2$ more efficiently in our reservoirs. We're also optimizing our artificial lift, which has led to reduced failure rates and associated downhole maintenance costs. In the Delaware Basin, we've decreased water disposal costs by doubling the volume of water recycled relative to the first half of last year. Water stewardship remains a key priority in our operations, and I'm pleased to highlight a recent milestone in which we recycled a cumulative 50 million barrels in our Midland South Curtis Ranch treatment facility. In addition, we have now recycled over 150 million barrels in our New Mexico operations since 2019. Overall, we have built solid Oil & Gas segment momentum as we move into the second half of 2024. This gives us confidence to maintain our full year production guidance, excluding CrownRock, for our total company and Permian assets despite the expected divestiture of 15,000 BOE per day in the fourth quarter.

Our Midstream business significantly outperformed in the second quarter with an adjusted pretax income more than $180 million higher than the guidance midpoint. Our domestic gas marketing teams followed up on the success of their first quarter by utilizing their extensive market intelligence and transportation capability to benefit from regional pricing dislocations. Furthermore, as healthy storage levels and stable Permian output continued from earlier in the year, the second quarter presented abnormally high planned and unplanned maintenance on takeaway pipelines. Our teams capitalized on this opportunity, highlighting the value the diversity of our asset base provides. As we look ahead to the second half of the year, we anticipate fewer opportunities for optimization after the Matterhorn pipeline is placed in service, which is expected in the coming months. However, our teams will be prepared to act if additional bottlenecks arise.

Looking now at our low-carbon businesses, we're excited by the advancements we are making. As construction of STRATOS, our first direct air capture facility, moves forward, our Low Carbon Ventures team continues to demonstrate that demand for carbon dioxide removal credits is growing. In July, we announced an agreement with Microsoft for the sale of 500,000 metric tons of CDR credits over six years from STRATOS. The agreement is the largest single purchase of direct air capture CDR credits to date and highlight the increasing recognition of Carbon Engineering's technology as a solution to help organizations achieve their net-zero goals.

I would now like to talk about how pleased we are to integrate CrownRock into the greater Oxy portfolio. We closed the acquisition on August 1, and we continue to be impressed with CrownRock's efficient operations and employee talent. As we have discussed previously, this acquisition complements and enhances our premier Permian portfolio with the addition of high-margin production and low breakeven undeveloped inventory. We're excited about the subsurface and geologic potential of these assets and our technical teams are eager to apply their subsurface expertise and workflows to generate maximum value.

We're also looking forward to leveraging our newfound scale in the Midland Basin. Over the years, we've seen how scale has driven significant technical advancements and operational efficiencies in our other basins. We are confident that as we integrate our Midland Basin assets, we'll unlock meaningful efficiencies through infrastructure sharing, resource utilization and by bringing together best practices from each of our organizations.

Our combined teams have made great strides in the past several days getting to know each other and integrating CrownRock into Oxy's organization. On our next call, we're looking forward to telling you more about our post-CrownRock enhanced portfolio and how the integration is advancing. One of the many benefits of this acquisition was the opportunity to high-grade Oxy's existing portfolio of assets.

In December, we laid out plans for our $4.5 billion to $6 billion divestiture program to be completed within 18 months of the acquisition's close. Given the inventory depth of our onshore portfolio, we welcome the opportunity to monetize some of these assets at an attractive price. And as we announced last week, the divestiture program is progressing well.

Since the start of the year, we have closed or announced approximately $1 billion of Permian Basin divestitures. The proceeds from these sales will go directly towards debt reduction. This progress on divestitures, coupled with a robust organic cash flow underpinned by our steady focus on operational excellence has positioned us well to reduce our debt in the near-term. Sunil will address this in more detail, but we're excited that we're on track to retire approximately $3 billion of debt during the third quarter, which speaks to both the quality of our assets and our future cash flow potential.

Now, I'll hand the call over to Sunil to provide more details about our second-quarter financial results, our guidance, and progress on strategic financial action.

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

Thank you, Vicki. We are excited with the recent progress we have made in executing the portfolio high-grading plan we outlined in December.

Oxy has realized an immediate announcement of our U.S. Onshore portfolio with low breakeven inventory and expansion of free cash flow generation potential upon the closing of CrownRock last week. The opportunity to build scale in the Midland Basin made this transaction a strategic fit for Oxy and the newly acquired assets will immediately compete for capital.

In late July, we issued $5 billion of senior unsecured notes. We used the net proceeds of the offering and term loans to fund the cash consideration of the CrownRock acquisition. Overall, we were highly pleased with the investor demand for the bond offering. We placed notes maturing in five tranches at 3, 5, long 7, 10, and 30 years at a weighted average coupon rate of less than 5.5%, creating a manageable debt maturity profile given our deleveraging plans.

Our efforts to strengthen our balance sheet remain a top priority, and we are achieving early success in debt reduction. In July, we retired $400 million of debt at maturity and our strong organic free cash flow is enabling further deleveraging progress in the coming weeks. By the end of

August, between additional Oxy maturities and the early redemption of CrownRock's notes, we will have prepaid an additional $1.9 billion of debt, bringing the total to $2.3 billion.

Add to this the proceeds from the Barilla Draw divestiture, and we expect to have repaid over $3 billion in debt by the end of the third quarter, which is almost 70% of our near-term reduction commitment of $4.5 billion. We will continue to prudently advance deleveraging via free cash flow and proceeds from our divestiture program.

We were pleased last week to announce the agreement to sell certain Delaware Basin assets for approximately $818 million. The core of this divestiture centers around approximately 27,500 net acres in the Barilla Draw field of the Texas Delaware Basin. While these assets have been core to Oxy's southern Delaware position for over a decade, the remaining inventory is longer-dated in our current development plans. We anticipate closing the sale late in the third quarter and estimate a 15,000 BOE per day reduction in fourth-quarter Permian production.

Separate from this transaction, we also announced additional completed dispositions from earlier in the year, involving several smaller undeveloped acreage positions throughout the Permian, for approximately $152 million in total. This brings total year-to-date closed or announced divestments to $970 million. Consistent with our cash flow priorities, all net proceeds from these sales will be allocated to debt reduction.

We are satisfied with the progress of our divestiture program and the trajectory of debt reduction plans. We are ahead of schedule on our near-term debt reduction commitments, and we will continue to focus on strengthening our balance sheet through a combination of divestitures and excess cash flow until we reach our principal debt target of $15 billion or less. In the second quarter, we generated both an adjusted and reported profit of $1.03 per diluted share and exited the second quarter with $1.8 billion of unrestricted cash.

As Vicki highlighted earlier, we generated over $1.3 billion of free cash flow before working capital, driven by sustained success across our diversified business segments. More specifically, the second quarter was marked by strong production performance in the Permian and Gulf of Mexico, driving high oil volumes. In the Midstream segment, substantial value capture was realized, particularly in gas marketing as evident through the greater than $180 million adjusted pretax income outperformance when compared to the midpoint of guidance.

We are delighted with how operational excellence drove financial results in the second quarter and continue to benefit from a complementary asset base that positions us for success through a wide range of pricing environments. Our second-quarter capital was largely in line with the first quarter, consistent with our business plan of a front-half heavy year in domestic oil and gas activity. We reported a negative working capital change in the second quarter, primarily due to higher oil volumes and increased barrel shipments on the water at quarter end. Rockies-related property tax payments, which are based on a two-year revenue lag and incorporates a period of higher oil and natural gas prices from 2022, also played a contributing factor.

Now, looking ahead to the second half of 2024, we have provided pro forma guidance based upon the following assumptions. We included CrownRock in our guidance beginning August 1, and we excluded from guidance the 15,000 BOE per day of 4Q production associated with the Permian divestment as we expect the transaction to close late in the third quarter. Even after adjusting for this disposition, Oxy's total and Permian full-year production, excluding CrownRock, is expected to remain flat due to higher Permian outlook. Including CrownRock, the midpoint of our total company production and guidance has increased from 1.25 million to approximately 1.32 million BOE per day.

Building on the operational momentum generated in the first and second quarters, we anticipate an improving production trajectory in the back half of the year in all our domestic assets. This includes the Gulf of Mexico even after incorporating some downtime for potential disruptive tropical weather in our guidance. Excluding CrownRock, the midpoint of our 3Q production guidance would represent a new record for the highest quarterly production in over four years.

In the appendix, we have summarized some of the key full-year guidance changes associated with consolidating CrownRock into our portfolio. Aside from the production benefits, we anticipate a notable improvement in domestic operating costs from adding these high-margin barrels. Excluding CrownRock, we are also pleased with Oxy's improvement and favorable trajectory of operating costs and capital efficiency across our U.S. onshore assets, as highlighted by Vicki earlier.

OxyChem's 2024 business is performing well. with results largely in line with the plan we laid out at the start of the year. However, challenging economic conditions in China, combined with the continued deferral of interest rate reductions have dampened OxyChem's trajectory for the year. As a result, we are revising OxyChem's full-year guidance down to a range of $1 billion to $1.1 billion.

We continue to anticipate that 2024 will be another strong year for OxyChem by historical standards. With Midstream and Marketing's strong second quarter, we have raised full-year guidance by $220 million. We anticipate a more muted third quarter as additional Permian gas takeaway capacity is expected to come online, reducing gas marketing optimization opportunities.

We continued to execute our 2024 capital program as scheduled. While the legacy Oxy capital will decrease in the second half as a result of tapered domestic activity, maintaining CrownRock's five-rig program will reshape the investment profile as we increase the full-year total company net capital range to $6.8 billion to $7 billion.

In closing, I want to discuss how Oxy is delivering on the financial milestones we laid out in December. A sustainable and growing dividend is the foundation of our shareholder return priorities. Earlier this year, we followed through on a commitment we made when we announced the CrownRock acquisition and raised our quarterly common dividend by over 22%. The free cash flow accretion that we anticipate from CrownRock along with the expected improvements from our non-oil and gas segments of our portfolio provided us with the confidence to raise the dividend.

Maintaining our investment-grade credit rating is a key priority. In recent weeks, we received ratings affirmations from all three rating agencies, including our investment-grade credit ratings from Moody's and Fitch. We are focused on our deleveraging strategy, and we remain on track to return at least $4.5 billion of debt well before next August.

We are off to a promising start with our divestiture program. We will continue to evaluate our high-quality asset portfolio for divestment opportunities and will apply those proceeds to further debt reduction, thereby strengthening our balance sheet. Oxy is methodically delivering on these key financial commitments. The strategic and financial actions we have taken over recent quarters are converging to benefit our portfolio, increase cash flow generation capability, and ultimately accelerate shareholder value.

I will now turn the call back over to Vicki.

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**Vicki Hollub** - *Occidental Petroleum Corp - President and Chief Executive Officer*

Thank you, Sunil.

Before we move on to the Q&A, I would like to close by focusing on a few of Oxy's differentiated value catalysts. Our subsurface expertise, technical excellence, and operational strength allow us to continuously achieve basin-leading well performance while simultaneously driving efficiency and savings. The addition of CrownRock further enhances what I believe is Oxy's strongest portfolio in our century-long history, and it kicks off another phase of Oxy's cash flow growth with future upside through improved resource recovery and lower cost opportunities. I can't wait to see the value that the newly combined teams deliver, given the quality and depth of development opportunities coming with this new asset.

Beyond oil and gas, we expect our OxyChem and Midstream businesses to continue to provide material cash flow durability in the years ahead. And finally, LCV continues to develop practical decarbonization solutions that are solidifying our leadership in this important emerging market. These businesses together position Oxy's common shareholders to benefit financially for decades to come.

We will now open the call for questions. As Jordan mentioned, Richard Jackson and Ken Dillon are on the call with us today for the Q&A session.

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Neil Mehta, Goldman Sachs.

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**Neil Mehta** - *Goldman Sachs & Company, Inc. - Analyst*

Good morning, Vicki and team, and good progress here on deleveraging. That's kind of where I want to start. I recognize the Barilla Draw announcement here a couple of days ago. What's the asset sale market look like? And can you talk about the opportunity set to continue to make progress on monetization?

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**Vicki Hollub** - *Occidental Petroleum Corp - President and Chief Executive Officer*

As you know, we have a deep inventory of assets, and our portfolio is very, very strong. And I certainly appreciate your interest in the details, but we feel like talking in detail about what the assets would be would compromise our ability to maximize the value of those divestitures. We've said previously that we get a lot of incoming offers, but it's clear that some think that this is a fire sale, and it is not. This acquisition has actually enabled us to improve our inventory quality and scale, which provides us now the opportunity to bring forward value. And that's what we did with this CrownRock acquisition.

It's not that the assets that we just sold or, as Sunil said, a part of our core for 10 years. It's that we knew that we needed to bring forward the value to our shareholders. And we did it in a way that makes our inventory stronger, so it was the best possible way to do it.

But in terms of talking about the other assets, I can just assure you that we have high confidence that we're going to be able to achieve our debt reduction targets. And as you saw, and as you mentioned, definitely we're off to a good start, and we're excited about where we're headed with this and think that, certainly, the $15 billion that we are targeting to achieve is doable by the end of 2026 or first of 2027, as we've previously said.

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**Neil Mehta** - *Goldman Sachs & Company, Inc. - Analyst*

Thanks, Vicki. And then just to follow up on the CrownRock acquisition, just building off slide 27, just your early thoughts, recognizing you're going to give us more next quarter on potential synergies and thoughts about the production profile. I know you had talked about this being a 170,000 barrel a day asset and the guide is a little softer than that, but recognize that it's not a full year, and you haven't done your hands full on these assets. So just your perspective on the production profile and the synergies associated with that.

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**Vicki Hollub** - *Occidental Petroleum Corp - President and Chief Executive Officer*

Now bearing in mind that with the SEC rules and regs, our teams have had the opportunity to get together and to talk, but not to dive into the details or their plans. And so, we've had now just a week for the team to start looking at what the situation is now with CrownRock. And we're, again, incredibly excited about the assets. But I think Richard's team, you have found some additional details that have differentiated what we were expecting versus what happened over the past couple of quarters.

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

Yeah, that's great. Thanks, Vicki. And I'll try to answer this question in a couple of pieces. I'll start with sort of where we're at today. And like Vicki said, I guess, the first thing to say just very excited to work with our new team and was able to spend some time after close in the last week with them and everything that we thought they would be, they are and very excited about really the opportunity. So, the first part, I'll kind of address where we are, and then I'll go ahead and speak to some of the synergies and how we're thinking about that generally. And then as I think we said in our prepared remarks, we'll have more updates, I think, as we go into the end of the year. So, where we start again, this plan started with the rules that CrownRock really had a 2024 plan that they constructed. We didn't have a lot of insight to that. So, we spent time kind of understanding where we are and lots of positives. The upsides that we saw, not only in a one-year program, but longer-term, still see, but as we think about that 170 in our latest guidance, and we're able to talk to the team, a couple of things.

One, like us had some downtime due to some weather events early in the year and just some other operational downtime that was a part of that. I'd call it more singular events than ongoing. And then the majority is really well mix. I think due to their development plans and trying to optimize returns beyond just this year that they really focused on some shallower zones that were a bit tighter spaced and even a little less horizontal length. And so, there are different reasons they constructed the program today versus what we had originally had in our plan. So, we're in the process of deconstructing that. But again, we see that same upside as we roll this forward. I would say it was more delayed in terms of getting to the 170 as we anticipated, it certainly hasn't gone away. A couple of good things to note. I'd say well cost, and again, this applied to Oxy as well, but encouraged by where not only their costs are today, but what they see is improvement opportunities. And so, we'll be diving into that. And then looking at some of the opportunities going forward, I think, remain from a well performance perspective. I think the ability now to compare notes on things like well spacing and even the sequencing of how we develop these stack pay, we see opportunity. And so that will be a big part of what we're working through for the rest of this year and next year. And then just scale and efficiency. So we can quickly see opportunities as we think about a rig and frac core utilization and really that rolls into time-to-market improvements. And so, as you are able to drive utilization of those resources up, we still see time-to-market. And then as Vicki mentioned, really the water management. We've been very proud of our water sort of management capabilities. But when we combine with a very strong position and frankly, more scale with what the CrownRock team has put together, I think that's going to deliver cost synergies as well as operational synergies.

So to sum it all up, again, excited to be with the team. Same opportunity, same upside and just we're rolling it forward from where we start today, and we're looking forward to providing more details as we go into the end of the year.

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**Operator**

Betty Jiang, Barclays.

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**Betty Jiang** - *Barclays - Analyst*

Hi. Good afternoon. Maybe I want to switch gear a bit. I want to ask about the STRATOS project. Really, congratulations on signing the agreement with Microsoft this quarter. And I wanted to get an update on where that project is today, the start-up timing on that and any goal on what percentage of the carbon credits that you want to sell ahead of time? And yeah, maybe start from there.

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

Great. No, thanks for the question. We're excited certainly with the STRATOS project and the progress, and I'll flip it to Ken after a few remarks, kind of give you more detail on that. I'd say generally, continue to see great progress in the business. Obviously, the sales with Microsoft not only be the largest CDR kind of block sale to date, but really, that counterparty meant a lot to us.

We know they're very diligent in the way they think about what the product of a CDR can mean to the business and it's just great constructive dialogue that ultimately rolls into the future market and what that product can deliver. So beyond just the monetary aspect of that very pleased with that outcome.

I'd say the other thing I'd like to highlight, and I think again, as we roll into STRATOS next year and then think about the future, continue to see great progress out of our Carbon Engineering R&D team. And so as we think about the core elements of that process, being able to process air, capture $CO_2$ in our liquid sorbent, and then how do you efficiently release that and either sequester or use it.

We're seeing some very innovative things that we can see direct line-of-sight to cost down, which is ultimately what we're trying to do as we get into the development. And so, those are sort of the catalysts we're paying closely to, intentionally.

I would say, to your point, we'll continue to monitor CDR sales. We remain very optimistic on the outlook of that market. We hadn't set any specific parameters in terms of what that target is going forward, but it will be a major component of our FID criteria for DAC 2 for certain. And so, I think as we get closer to that, over the next period of time here that we'll be able to give more disclosure of how we think about that from a commercial project to FID.

So maybe with that, I'll turn it over to Ken.

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**Kenneth Dillon** - *Occidental Petroleum Corp - Senior Vice President and President, International Oil and Gas Operations*

Good afternoon, Betty. Overall, we remain on track for start of next summer. We currently have around 1,200 people at site, which is our peak, will start rolling off soon. We've been able to staff all trades as necessary, and Worley continues to do an excellent job. The efficiency of each of the trades is at or above where we expected them to be.

We're now moving away from bulk fill, by that, I mean putting in the large piping, cable, et cetera, into completing the systems one by one. So, we're at that stage now, so that we can commission in the right sequence. We get power live this month, which then means we can start getting the control room up and running and testing all of the instrumentation throughout the plan. So, we're going really well at the moment.

Also, as Richard highlighted, learning constantly during construction and also from the CEIC. We are seeing really great potential for performance improvements and cost-down improvements, and we're looking at how to incorporate these learnings as quickly as possible. Companies like Technip Energies are also focused on how to achieve cost down for their equipment, and that's driven from the top of the company.

So we're getting great support from our visionary vendors who have bought into long-term DAC future. So, I hope that answers your question.

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**Betty Jiang** - *Barclays - Analyst*

Yes, it does. Thank you very much for that color. Maybe shifting back to upstream, a follow-up on the Rockies. Just after several quarters of very strong performance, do you think that the third-quarter guidance is also, again, seeing sequential growth, but as activity is expected to slow down in the second half, would love to get some color on how you think about the production activity trajectory going forward.

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

Yeah. No, I appreciate that question. The Rockies has been a significant part of our outperformance really over the last couple of years. So, a couple of things going on there. I think, continue to do well in the DJ and the Powder River Basin. So, as we highlighted, I think, in the slide, each of those are seeing sequential well performance improvement even in the DJ, where we've been more mature in terms of operation. And so very, very pleased with that.

From an activity standpoint, we really have done work in the early part of this year in the Powder River Basin, where again, the well performance has been very good, not only against the industry, which we note, but also against our internal expectations. And so what we're planning to do there is will be lower activity in the second half of the year while we pause and really rework our development plans.

And so similar to what we kind of laid out generally in our highlights slide, we're really looking at how do you take primary and secondary benches with the Turner and Nio and even the Mowry and think about that longer term as we build out our infrastructure. And so, what we're expecting is to be in position at the end of this year to be able to put together a development plan and then have that compete with capital as we go into 2025. So, I think, again, just very pleased with that, but I would call it steady activity in the DJ with a couple of rigs and then really putting a competitive case forward for Powder River Basin in 2025.

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**Operator**

Paul Cheng, Scotiabank.

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**Paul Cheng** - *Scotiabank GBM - Analyst*

Thank you. Good morning. I think the first one is maybe for Sunil. I think you guys have said you have discussed with Ecopetrol for them to purchase 30% on divided interest in the CrownRock and then that fell apart. So, from that standpoint, what is the sticky point on that? And perhaps more importantly, the reason why you purchased CrownRock must be you think that it is better or at least better than the average of your portfolio. So why that will be one of the first asset that you're trying to sell down. So, trying to get some understanding of the logic behind when you're initially talking to Ecopetrol for the deal?

Second question is that I know it is a little bit early for 2025 for CapEx and production. But can you give us some idea that maybe the moving part plus and minuses for next year on both the CapEx and the production number?

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**Vicki Hollub** - *Occidental Petroleum Corp - President and Chief Executive Officer*

Paul, thank you for the question. I'll take the first question you had. And I can tell you, we absolutely believe that the CrownRock asset as a combined asset is it is one of the best we've seen. Tim Dunn did a great job of putting together the portfolio of assets that CrownRock had, and they did a great job of developing it. And there's a lot of really good possibilities in there for continued expansion.

And as you know, the inventory came in mostly in our Tier 1 inventory. So, the way that worked is that we wanted to buy 100% of CrownRock. And I actually informed Ecopetrol on numerous occasions that our preference was to purchase 100% of CrownRock.

But as a part of the Rodeo JV, we had an agreement with Ecopetrol within that JV agreement that they had the right to purchase 49% of anything that we purchased within a certain area. And vice versa. If they were to purchase something, we would have had the right to buy 49% of what they had purchased within a given area within the Midland Basin. So, we wanted it at all, but they also wanted to be a part of it. They saw the assets. They know they were high-quality assets. They wanted to be a part of it. So, since they are a value partner to us, we've been in partnerships with them for decades, and we have a great relationship with them. So, we negotiated to a 30% working interest that we felt like would be fair and beneficial to both of us. And we worked on that deal from March to just last week, and we thought we were done, but President Petro of Colombia didn't approve of it.

He's made it very clear to the world that he's anti-oil and gas, anti-fracking, and anti-U.S.. And with those three strikes, he pretty much dealt the Ecopetrol out of the deal. And that's all according to news reports. But certainly, we wanted it all, they wanted a part of it. Unfortunately, there are others in the world like Petro and there are some actually, in the United States like Petro, who believe that oil and gas should go away and believe that we shouldn't be an industry anymore. And that renewable energy will be all that's needed to go forward and to help with the climate transition.

But the reality is that, as you know, oil and gas is going to be needed for many decades to come. And so, the other part of what Ecopetrol had some interest in was our strategy. And our strategy in the Midland Basin with respect to CO2 and in enhanced oil recovery, and our strategy is very important to the world and that we're going to be taking CO2 out of the atmosphere and putting it in the assets that we have in the Midland Basin, including CrownRock to get more oil out of the ground. And so they were very excited about that and wanted to be a part of it.

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**Operator**

Doug Leggate, Wolfe Research.

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**John Abbott** - *Wolfe Research - Analyst*

This is John Abbott on for Doug Leggate. Just sticking with Ecopetrol shale joint venture, how much production is associated with that JV. And just out of curiosity, if they did not want to continue in the Midland for some reason, would you be potentially interested in that asset?

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**Vicki Hollub** - *Occidental Petroleum Corp - President and Chief Executive Officer*

So the way that would work is that if we continued on beyond the ending of the potential ending of the JV, the interest would just be divided 49% for Ecopetrol, 51% for Oxy. So a discontinuation of the JV would just result in a couple of scenarios. One being, if we just broke it off, didn't go forward at all with the JV, we would each just have just like a normal operating situation where it's 51% us, 49% them. Did that answer your question?

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**John Abbott** - *Wolfe Research - Analyst*

Yes. I was just sort of curious if you would be interested in that asset and just sort of curious as to how much production may be associated with that joint venture currently.

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**Vicki Hollub** - *Occidental Petroleum Corp - President and Chief Executive Officer*

I believe that's around 40,000 barrels a day.

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

Yes, that's right. Yes, it's around 40,000.

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**John Abbott** - *Wolfe Research - Analyst*

That's very helpful. And then for the second question, very quickly, what was the run rate spending at CrownRock?

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**Vicki Hollub** - *Occidental Petroleum Corp - President and Chief Executive Officer*

Was it 900?

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

Yes. It's been very steady. I mean I think we gave the guidance midpoint around 950, and it's been very steady with their five rigs. So, we looked at that, and I think that's part of their success. They've been able to be very flat, which turns into a great production profile as well. So, you can think about it very steady.

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

Yes, I just wanted to clarify on the Midland production, the 40,000 are net production.

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**Operator**

John Royall, JPMorgan.

**John Royall** - *J.P. Morgan Securities LLC - Analyst*

So my first question is on the asset sale program. To date, you've sold or agreed to sell about $1 billion worth of assets. Is there anything you can offer on the lost cash flow you expect from these assets. We know the production impact from Barilla Draw, but I was just wondering on the cash flow side, if there's anything you can give us there.

**Vicki Hollub** - *Occidental Petroleum Corp - President and Chief Executive Officer*

We can't yet because we really haven't made decisions on what the next set of divestitures would be. We're still under evaluation of that.

**John Royall** - *J.P. Morgan Securities LLC - Analyst*

Okay. Yes, I was just referring to the $1 billion that you've already announced. But okay. So, my follow-up is just on the DAC program. Maybe you can talk about how it's developing kind of looking past STRATOS. Are you in serious or advanced discussions with potential partners and/or licensee's for future DACs? Or do you expect that those discussions would ramp once you have sort of a proof of concept out there with STRATOS being operational? Just trying to understand how you expect the program to evolve post STRATOS?

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

Yes. Maybe answer that kind of yes to both. I think one thing we've done is with the King Ranch sequestration hub, we continue to develop that. We're pursuing really across all of our sequestration hubs in the Gulf Coast or stratigraphic wells that prove the subsurface storage capability. We're going through permitting for class VI wells. And so, we've really put that sort of front-end work together to be able to accommodate both direct air capture and our point source. And that continues to go well.

King Ranch is really what we've targeted for the next kind of development beyond the Permian. And it really has a lot of scale advantages that we've talked about in the past, both with the subsurface and as we think about it, the balance of plant, you think about key power inputs, emission-free power inputs, water, or other advantages. And so that sort of engineering work we continue to do for South Texas as it relates to the subsurface and DAC.

But yes, to your first part of the question, which is we do think it's really important to see STRATOS as we continue to show this great line-of-sight on cost down, both in STRATOS and the construction and then as it turns into operations next year and also how we think about the Carbon Engineering Innovation Center and the R&D improvements that Ken and I talked about earlier roll in. So, we do feel like from a milestone going into next year, getting this plant online, we're able to incorporate some of these learnings already into that process as we begin ramping up that capacity next year. We think that's a really important thing to factor into that South Texas FID in addition to the continued CDR sales that I mentioned earlier.

And the last thing to say, the exciting part about that King Ranch development, that's really a 30-million-ton per-year hub. And so you get these tremendous economies of scale that we really think add to the R&D improvements in terms of a cost down. And so, that's really how we see that play out if you go back to our early sort of presentations on the development plan into the next decade. That's a big part of that ramp-up. So let me stop there, and hopefully, that answered some of the intent of your question.

**Operator**

Roger Read, Wells Fargo.

**Roger Read** - *Wells Fargo Securities, LLC - Analyst*

Thank you and good afternoon. I guess I'd kind of like to come at the question on the cash returns. Comments were made in the presentation on the catch-up calls yesterday, get the debt paid down and then get back to buying back shares potentially even go after retiring the preferred. And I'm just curious kind of how you're looking at that in terms of what you would want to do once the balance sheet is where you want it? Meaning, do you want to get all the way back to buying back the preferred again? Or does it make sense to be a little more steady with the share repos, raise the dividend and then leave yourself the flexibility for acquisitions.

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**Vicki Hollub** - *Occidental Petroleum Corp - President and Chief Executive Officer*

It really depends on the macro because what we're doing today with this accretive acquisition to me is it actually delivers better value than buying back shares. So that's why we did the deal we did. But share repurchases still is a part of our value proposition and especially given the fact that our share price is so much lower than we believe where it should be. So, as we get through this period and we get our debt down, back down to $15 billion, we will then resume share repurchases.

And then it really depends on the macro at that point. If we are in a scenario where we can buy enough shares back to trigger the $4 per share, then we would start also buying back the preferred. That would be a part of what we do. We can't ever rule out what the situation would be if we were in a prolonged high price environment, because I think that although the Berkshire preferred becomes available to us at a 5% rather than 10% premium starting in 2029. So if we haven't bought it back by then, we would definitely launch a campaign at that point to buy the preferred.

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**Roger Read** - *Wells Fargo Securities, LLC - Analyst*

Yeah, the 10-year kind of change. Okay. And then as an unrelated follow-up, just your guidance on the Midstream business and the gas trading. What is the expectation that you have on Matterhorn in terms of start-up that's built into your expectations? Is that middle of the quarter, end of the quarter? I'm just trying to understand like maybe upside, downside to the guidance.

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**Vicki Hollub** - *Occidental Petroleum Corp - President and Chief Executive Officer*

That would probably happen mid-to-late quarter as the last update that we've had.

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**Operator**

Neal Dingmann, Truist Securities.

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**Neal Dingmann** - *Truist Securities - Analyst*

Hi, good afternoon. Thanks for taking my question. My first question, Vicki, is just on the Gulf of Mexico. Specifically, could you give some color as how active you might be with tiebacks through the remainder of the year? I think you've got a lot of opportunities there and then maybe even I look at all the exploration opportunities. I'm just - given all these opportunities you have, do you anticipate a bit more start-ups there on the exploration side starting next year?

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**Vicki Hollub** - *Occidental Petroleum Corp - President and Chief Executive Officer*

The exploration, it won't be as aggressive as it's been in the past because of the fact that we've launched an evaluation using data analytics and AI. And what we want to do is give our teams the tools that we believe will help even further understand what's happening in the subsurface of the very complex deepwater prospects within the Gulf of Mexico. But the exciting thing is we have numerous other things that we can do in the Gulf of Mexico that Ken can describe.

**Kenneth Dillon** - *Occidental Petroleum Corp - Senior Vice President and President, International Oil and Gas Operations*

Thanks, Vicki. I think overall, the teams are performing really well on all fronts. The base, including primary, exploration and the waterflood designs. On the base, for example, as a result of recent OBN seismic data, we moved further northwest at one of our fields and brought on a 15,000 barrel a day well, which came on in early May. From further analysis of the OBN data that we're seeing more potential in that area than others.

In exploration, we're currently involved in two recent discoveries in GOM, Ocotillo and Tiberius. Ocotillo can tie back to Marlin, Tiberius to Lucius. These are like 3.5-mile to 8-mile tiebacks. Both projects are going through our process to FID at the moment, and we can discuss more after sanction.

We're continuing our waterflood project designs. We'll be capable of commencing execution next year. These have the potential to add substantial low-cost reserves in these projects in our wheelhouse as a company where waterflood is one of our strengths. And operationally, we've safely completed all our major turnarounds for the year. So very positive overall in GoM as we lean into the AI pilots that Vicki highlighted earlier.

**Neal Dingmann** - *Truist Securities - Analyst*

Great update. And then just a second on OFS services. I'm just wondering are you seeing any, given sort of the recent volatility or maybe downturn a little bit downturn in oil, have you seen any recent softness and just wondered how different OFS prices might be trending onshore versus offshore?

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

Let me just start and then Ken can provide some better detail. I just wanted to make mention certainly see an improvement in overall capital efficiency or well cost facilities. And we wanted to highlight that in the slide, mainly because the teams have really been engaged this year, upfront, improving operations, but also engaging with our service contractors to find how do we drive utilization up and how do we create the sustained kind of program. So, we highlighted the 10% year-to-date on well cost, which we think is a tremendous value-add as you roll that into 2025 in addition to the OpEx improvements that Vicki highlighted.

But let me stop there. I just want to say thank you to the teams and turn it over to Ken.

**Kenneth Dillon** - *Occidental Petroleum Corp - Senior Vice President and President, International Oil and Gas Operations*

Yeah. Same as Richard, Onshore U.S., from a supply chain perspective, we see deflation continuing between, say, last summer and the end of this year, we see north of 10% rolling through in our drilling and completion basket. We also see OCTG significantly higher than that in terms of deflation, which also benefits all the other functions. We see continued focus by the contractors to improve efficiency and technologies of e-fleets, auto frac. They're really pushing the technology aspects and they're working with us on utilization.

And it's not only the efficiency that comes with utilization, but because of the planning that Richard's teams are doing, it releases those contractors to use that equipment in the spaces we're not so they can maximize their margins also. Having mass matters. So CrownRock will enable more value in that space in the Midland Basin. So, it's definitely accretive. Hope that answers your question.

**Operator**

David Deckelbaum, TD Cowen.

**David Deckelbaum** - *TD Cowen - Analyst*

Afternoon, Vicky and team. Thanks for taking my questions. I was curious if I could ask a little bit more just on the CrownRock progression into next year. I think you all still are standing by getting towards that 170,000 a day target and then perhaps growing it from there. So when we think about CapEx for next year, given that this was a high-graded transaction, do you see the CrownRock assets sort of feeding some capital from some areas that you were spending money on in '24 as we think about that program? And I guess in part of that, is there some savings on the CapEx side associated with selling Barilla Draw?

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**Vicki Hollub** - *Occidental Petroleum Corp - President and Chief Executive Officer*

I would say that we would keep the same activity level with CrownRock going into next year. They've had this, as Richard said earlier, this same activity level for quite a while, it's worked well for them. And we think with the capability of our teams working together that we'll actually be able to maybe do more with less. And so, we think that's going to be a good news story. So likely no increase in activity in CrownRock.

In the Barilla Draw, part of the reason that we divested in Barilla Draw because we weren't investing capital there because we had development going on in other areas that was taking the capital away from Barilla Draw. And so, our philosophy has always been, if we have an asset that doesn't compete for capital and/or would have competed under different circumstances, but we're not going to get to it for 5 to 10 years. Then that's why we divest of it.

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**David Deckelbaum** - *TD Cowen - Analyst*

I appreciate the color there. And then maybe my second question, just on direct air capture, just following STRATOS. I know there was some enthusiasm, especially last year around ADNOC and their interest in direct air capture. Would you characterize most of your conversations with most parties at this point as sort of being in a wait-and-see mode around STRATOS and how some of these first projects perform?

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**Vicki Hollub** - *Occidental Petroleum Corp - President and Chief Executive Officer*

I would say there's a lot of interest in STRATOS. And it's now, I think about every conference around the world and companies around the world are all talking about STRATOS. In fact, we had a major operator, an international operator come and visit our site because there's a lot of interest in it. But as Richard said, first of all, we want to get it up and running. And because we believe that as we prove it up, as we make it better, that it's going to be much more valuable than what people realize today.

Richard, did you have something to add?

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

No, I just think that's right. I mean I think we continue to talk our ambitious plans. We think that there's a lot of scale in terms of development. You've seen some of our development plans. And so, as we prove it, as we give line-of-sight to cost down, we're very confident that both strategic and capital partners are going to have an investable development that will be able to help us. So that is our strategy, but I mean we're doing a lot of engagement on multiple fronts, both from offtake and future capital partnership. So, I appreciate that question.

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**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.

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**Vicki Hollub** - *Occidental Petroleum Corp - President and Chief Executive Officer*

I'd just like to say thank you all for your questions and have a great rest of your day.

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**Operator**

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

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