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OXY.N - Q2 2026 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 second quarter 2026 earnings conference call. (Operator Instructions) Please note, this event is being recorded. I would now like to turn the conference over to Babatunde Cole, Vice President of Investor Relations. Please go ahead.

Babatunde Cole - *Occidental Petroleum Corp - Vice President, Investor Relations*

All right. Thank you, Gary, and good afternoon, everyone, and thank you for participating in Occidental's second quarter 2026 earnings conference call. On the call with us today are Richard Jackson, President and Chief Executive Officer; Sunil Mathew, Senior Vice President and Chief Financial Officer; 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 this 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 Richard.

Richard Jackson - *Occidental Petroleum Corp - President and Chief Executive Officer*

Okay. Thank you, Babatunde, and thank you all for joining us today. Last quarter, as I started into my new role, I shared our focus looking forward was on execution and delivery from our advantaged resource position. The last few months have been productive, and we continue to deliver strong 2026 results. We were also able to advance our plans for sustainable cash flow growth, and I look forward to sharing updates on both with you today.

To start, I want to frame simply how we think about our approach to value. For us, creating value is measured by our ability to increase both the return on and the return of capital through the cycle. To ensure we are centered on fundamentals to deliver this value, we are focused on four priorities: executing from a strong balance sheet, organically improving our resources, continuing to drive cost efficiencies and generating differentiated cash flow. This year, we are making strong progress on each. We have already reduced our principal debt to $11.8 billion.

Our accelerated debt reduction lowers our go-forward annualized interest by approximately $630 million compared to 2025 interest payments. This structural savings helped enable an additional 8% increase to the quarterly dividend this year as approved by our Board and announced yesterday. We also remain on track with our 2026 cost savings targets, while operational efficiencies delivered another production beat in the second quarter.

Taken together, we expect to deliver more than the targeted $1.2 billion of free cash flow improvement for this year before the impact of higher oil prices. Looking ahead, we see a clear pathway to add over $4 billion of annual sustainable cash flow by 2030. This represents an approximate 95% annualized growth compared to 2025. Importantly, this increase is driven by durable improvements across the business, including lower-cost, lower sustaining capital and a stronger balance sheet. Additionally, we can deliver this cash flow without increasing production and can expect approximately 85% to be achieved at even much lower prices.

While production growth is not required, our quality resources and execution efficiency provide opportunities for measured growth that could further improve cash flow. Our ability to deliver on this plan is grounded in organic development. We believe our advantaged resources, advanced resource recovery capability and a value-based development approach are three areas that provide a differentiated capability to achieve our value plans.

Today, our resources totaled 16.5 billion BOE and are well understood and balanced, providing more than a 30-year low-cost development runway across conventional and unconventional assets. Approximately 88% of our resources are domestic and are complemented by a select set of international assets with strong partnerships, resilient free cash flow and future upside opportunities.

Advanced recovery is another area that plays a central role in our plans. Over the last few years, Oxy has continued to build a differentiated capability to improve resource recovery and unlock more value from the subsurface with demonstrated results. Today, we're applying those capabilities across conventional and unconventional assets to support additional low-cost resource recovery and lower future decline rates.

In our plans, we are advancing opportunities across unconventional, enhanced oil recovery, and Gulf of America waterflood developments and in exploration opportunities where our advanced recovery capabilities can add value. As important as our approach to development, we have continued to refine our integrated value-based approach that combines subsurface characterization, technology, infrastructure and operational considerations into long-term field development plans.

By combining these important elements, we're able to optimize designs and sequencings to improve recovery and full-cycle returns. Our approach is unique by basin, asset area and often individual well, which has led to our top-tier capital efficiency in our US unconventional developments. And we see similar improvements with this approach across all of our operations.

Additionally, we seek to integrate advancing technologies and partnerships around our key areas of CO2, power, water and AI to further improve our results. Together, these advantages position us well to deliver our $4 billion in incremental sustainable cash flow by 2030. As we look to the future, we believe these will further differentiate our ability to drive value.

Now to go further into the specifics of our sustainable cash flow growth. We note four areas of improvement with several milestones to mark our progress. First, we will continue to improve capital efficiency and reduce costs across the business. Over the last several years, our teams have consistently reduced costs to deliver more than $2 billion in savings since 2023. We are on track for this year's targets and expect to further extend our savings by 2030.

We have clear initiatives underway with new milestones, including U.S. Onshore new well cost reductions, lower domestic LOE and transportation costs and improving workforce efficiency through simplification and technology deployment.

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Second, we expect lower sustaining capital by $900 million through continued improvements in capital efficiency and from a lower total Oxy base decline. This base decline improvement is driven by our advanced recovery projects, which are expected to support a decline rate reduction from approximately 25% to 20% by 2030.

Third, we will continue to see the benefit from corporate savings as we further strengthen the balance sheet. Continued debt reduction is expected to lower principal debt to a $10 billion milestone and reduce annual interest expense by roughly $740 million compared to last year. Additional savings from the redemption of our preferred equity also contribute to our corporate savings milestone.

Finally, we will see a reduction in Low Carbon Ventures capital spending. With STRATOS moving from development to operations, approximately $400 million of LCV capital will fully roll off beginning next year. At STRATOS, we're making good progress on the nontechnology-related repair and commissioning of Trains 3 and 4. Based on our current outlook, we expect full plant commissioning to begin around the end of the year as we transition to operations in 2027.

Altogether, our team has done an outstanding job building our sustainable cash flow improvement plan. They have taken a bottoms-up approach, identifying and now executing many detailed projects and initiatives to drive our organic improvement. We see this as a new baseline with opportunities to add and accelerate value as we go beyond our milestones.

Additionally, continued portfolio optimization, measured and efficiency-led growth and stronger oil and gas prices can all further increase our cash flow beyond the baseline that we are sharing today. In addition to our significant cash flow inflection, we know it's important to execute from clear and disciplined allocation priorities.

We recognize market and operational conditions will continue to evolve and believe these priorities with the right considerations enable us to improve value through cycles. We begin with a clear set of foundational priorities that are designed to support a stronger business and return of capital capability. Beyond that, we have subsequent opportunities to further add value.

These include debt reduction, the redemption of our preferred equity, opportunistic share repurchases and disciplined investment and opportunities that can improve sustainable cash flow and returns. As we consider future reinvestment for growth, we appreciate we have a deep inventory of advantaged, well-understood resources for low-cost development.

However, when we invest for growth, we want to be thoughtful. Simply put, it must be measured, efficiency-led and clearly value additive. There are multiple considerations to help guide our decisions to deliver and improve our baseline plans. Ultimately, our plans are set to build a fundamentally stronger business where we can sustain production at lower oil prices with a sustainable and growing dividend. At higher prices, we have opportunities to add further value, both for the business and our shareholders.

I'll now turn briefly to second quarter highlights. Our teams have delivered another strong quarter operationally and financially. Production exceeded the high end of guidance, reflecting strong operational performance across our assets. In Midstream and Marketing, adjusted pretax income exceeded the segment's previous record performance. We also generated approximately $3 billion of free cash flow during the quarter, our highest level since the third quarter of 2022.

Across the business, execution remains strong to deliver in 2026 and to progress our new plans. Through a relentless focus on efficiency, we're continuing to outperform. The consistency of these results continue to reflect the quality of our team and the strength of our assets.

I'll now turn the call over to Sunil to discuss the financials.

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

Thank you, Richard. In the second quarter, we generated adjusted earnings of $2.40 per diluted share and reported earnings of $2.75 per diluted share. The difference was largely driven by mark-to-market gains in marketing and crude hedges along with a dilution gain in equity investment income. Strong operational execution and cost discipline, combined with higher commodity prices resulted in approximately $3 billion of free cash flow before working capital. This is our highest quarterly free cash flow since the third quarter of 2022, which included OxyChem.

We ended the quarter with approximately $4.2 billion of unrestricted cash, giving us additional flexibility as we continue to advance our cash flow priorities. As Richard discussed, Oxy continued its track record of strong operational performance. Total production for the quarter averaged 1.43 million BOE per day, exceeding the midpoint of guidance by 23,000 BOE per day. Domestic outperformance was driven by strong base and new well performance in the Permian and higher uptime in the Gulf of America, which more than offset lower international volumes due to Middle East disruptions.

We also continue to execute on our cost efficiency targets. Domestic lease operating expense was $7.80 per BOE, a 6% improvement versus guidance, supported by higher production across our domestic assets and maintenance schedule optimization in the Gulf of America. Midstream and Marketing outperformed in the quarter, setting a new quarterly record with adjusted earnings of approximately $960 million, which was more than double the midpoint of guidance.

This was driven by gas marketing optimization, stronger crude marketing margins due to timing of cargo sales and fluctuations in commodity prices and higher sulfur prices at Al Hosn, partially offset by lower sulfur sales. These results demonstrate the value of our midstream portfolio and capabilities, particularly in periods of price volatility.

Next, let's turn to the balance sheet. We have continued to make significant progress on deleveraging. Since our last call, we reduced principal debt by $1.5 billion to $11.8 billion, the lowest level since the second quarter of 2019. This brings our go-forward annual interest run rate to approximately $760 million, which is approximately $630 million lower than our interest payment in 2025. Net principal debt is now $7.6 billion, reflecting the $4.2 billion of cash we have built.

This progress highlights the strength and durability of our free cash flow and our continued commitment to disciplined capital allocation. Near-term debt maturities remain low with only $414 million due through the end of 2029. This provides meaningful support through periods of market volatility and gives us flexibility as we continue to strengthen the balance sheet and prepare for the preferred redemption in 2029.

Our continued progress on deleveraging and structural cost improvements has strengthened the balance sheet and improved financial flexibility, supporting the Board's approval to raise the quarterly dividend by 8% to $0.28 per share. As previously shared, our immediate cash flow priority remains to reduce principal debt to $10 billion.

After we achieved the $10 billion principal debt milestone, our focus will be to further reduce net debt. We will balance additional principal debt reduction with building cash ahead of the preferred equity redemption in August 2029, taking into account the macro environment. Share repurchase actions will remain opportunistic and any continuous share buyback program will be a lower priority until the redemption of the preferred. Any increase in reinvestment would be measured and efficiency-led, supported by clear macro conditions. Richard spoke earlier about the work underway to improve cash flow and the sustainability of that progress. By 2030, we expect to deliver $4 billion of annual sustainable cash flow improvement relative to 2025. In Oil & Gas, this will be driven primarily by cost efficiencies and reduced sustaining capital resulting from a lower decline rate.

The oil and gas efficiencies targeted beyond 2026 largely reflect our ongoing expansion of cost savings initiatives. The remaining cash flow improvement will come from Midstream savings, a reduction in LCV capital and corporate cost savings.

These are largely structural improvements across the business that should expand margins, strengthen resilience and further differentiate Oxy's ability to generate durable leading cash flow over time. Importantly, approximately 85% of the improvements are expected to be delivered even at lower prices, reflecting the durability of the underlying operational improvements rather than reliance on higher oil prices.

Turning to guidance. We expect the second half of the year to reflect continued operational momentum. For the third quarter, we expect production to range between 1.4 million and 1.44 million BOE per day, supported by the strength of our U.S. Onshore program and continued execution across the portfolio. In the Permian, production is expected to increase adjusted for a non-recurring second quarter production uplift, supported by higher activity and resilient base performance. In the Rockies, third quarter volumes are expected to decline as a result of activity timing. And in the Gulf of America, a planned shift in maintenance timing, along with the weather contingency is expected to impact third quarter production. Internationally, we anticipate normalized volumes while recognizing the situation in the Middle East is fluid.

For the full year, we are raising total company production guidance. A stronger outlook for new well and base performance across our domestic assets is expected to offset marginally lower international volumes. For domestic lease operating expense, we expect third quarter cost to be $8.75 per BOE, reflecting the planned shift in maintenance activity and weather contingency in the Gulf of America. For the full year, we are maintaining domestic lease operating expense guidance of $8.10 per BOE with efficiency gains and disciplined cost management, helping to offset increasing CO_2 cost pressure related to higher oil prices. In Midstream and Marketing, we expect third quarter income to decline as the Waha to Gulf Coast natural gas spread narrows. While the narrowing spread reduces Midstream income, the impact is expected to be largely offset by stronger upstream gas realizations.

Given the segment's strong year-to-date performance, we have increased full year guidance by $300 million. We remain well positioned to capture commercial opportunities as market conditions develop. On capital, the program remains aligned with our full year plan with weighting towards the first half of the year. We are maintaining our full year capital guidance range of $5.5 billion to $5.9 billion.

Looking to 2027, as we mentioned in the previous calls, our starting point for capital spending is expected to be $5.9 billion. That level includes mid-cycle projects that help reduce base decline and sustaining capital over time. At that level of investment, you can assume relatively flat production in line with 2026.

In summary, we believe Oxy remains extremely well positioned to deliver durable value and through-the-cycle returns. In a highly dynamic macro environment, our outlook is supported by a stronger balance sheet, a more efficient cost structure and a portfolio that gives us flexibility across price environments.

Our U.S. Onshore assets provide short-cycle optionality, while our lower-decline mid-cycle investments in the rest of our portfolio support cash flow durability over time. We will continue to allocate capital with discipline, prioritize debt reduction and preserve the ability to return additional capital as we make progress on our cash flow priorities.

I will now turn the call back over to Richard.

Richard Jackson - *Occidental Petroleum Corp - President and Chief Executive Officer*

Thank you, Sunil. Before we open it up for questions, I'd like to thank our employees around the world for their dedication and their commitment to excellence. Special thanks to our Middle East teams and our partners for their resilience and teamwork as we continue to support each other across the region. The work we're doing across the business is making Oxy stronger. The benefits of a stronger balance sheet, improving cost efficiency and lowering sustaining capital continue to build a significant value inflection ahead of us.

I'm encouraged by the progress we've made and believe our best results lie ahead as we execute our plans. With that, let's open it up for questions. And as a reminder, we have Ken and Babatunde here with us today for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Nitin Kumar, Mizuho.

Nitin Kumar - *Mizuho Securities USA LLC - Analyst*

Hi, good afternoon, Richard and Sunil, and thanks for taking my question. Certainly, a big day for Oxy with this cash flow improvement plan. I want to focus on slide 6 and two aspects. First, could you talk through the ratability and progression of the cash flow inflection? Some of the initiatives that you mentioned are already in flight. So just wondering how we should think about how quickly you could get to the end goal. And then the second piece was just you briefly mentioned the oil and gas efficiencies, but if you could maybe unpack that a little bit more.

Richard Jackson - *Occidental Petroleum Corp - President and Chief Executive Officer*

Yeah, I appreciate the question. I'm going to start to just frame a little bit and then Sunil is prepared to go into some of the details and timing as I know that's important. I think I just wanted to say in the top, this -- the way we're looking at it, the sustainable cash flow, we think it's important. It really drives the fundamentals of the business.

If you think about the levers we have, you increase cash from operations, driving the cost efficiency, the productivity of what we do and then really then the focus on the sustaining capital, both from a new well cost and then as we're highlighting and believe not only our assets, but our capabilities drive those advanced recovery. That really delivers the available cash to then couple with good cash flow priorities to drive value.

So -- but as we think about it going forward, we feel like this is a durable framework that we continue. Hopefully, we're being clear in terms of the cash flow priorities. But as Sunil said, it really is focused for through-the-cycle. This capability really drives sustainable production, dividend -- which we were able to make this increase this quarter. And at higher prices, it's being thoughtful about where we allocate the cash.

Maybe the last point I'll say before we get to the timing is just we recognize too, a bit of this is free cash flow focused. We are able to make these incremental mid-cycle, low-decline investments, but this preference towards allocating cash to net debt was an important thing to get out. And so again, driven by structural improvements, driven by things like oil and gas efficiencies and the teams are really lined up to get behind it and drive these results. But turn it over to timing for Sunil.

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

Thanks, Richard. Hi, Nitin. So in terms of timing, as Richard said, we are currently on track to achieve the greater than $1.2 billion of cash flow improvement in 2026 relative to 2025, which we had outlined earlier this year. Now looking at 2027 sustainable cash flow improvement relative to 2026, a couple of items to highlight. One is on the midstream side, there is the roll-off of STRATOS capital. That's around $200 million.

And then on the corporate side, it's mostly around interest expense savings. So once we get our principal debt down to $10 billion, our go-forward interest rate is approximately around $650 million. And so from an interest savings point of view relative to 2025, that's around $740 million, of which we expect to recognize around $400 million in 2026 and the remaining $340 million in 2027.

So that is purely a function of timing as to when we do the debt repayments. But the other thing I want to also mention is we have assumed $10 billion principal debt is just a milestone. And that's what we've assumed in terms of the expected interest savings for this cash flow improvement. But we are likely to lean towards more principal debt reduction if the macro is supportive to reduce that net debt.

And then talking about Oil & Gas, like Richard said, it's largely a continuation of our operating efficiencies we have seen in 2026, both on the CapEx and OpEx side. The teams are still working through the 2027 plan and incorporating some of the expected benefits. So I cannot give a specific number at this point. But considering the roll-off of LCV capital, the expected interest savings once we get our principal debt down to $10 billion and some of the expected oil and gas savings, you can think it's going to be around $700 million to $800 million in 2027 relative to 2026. So between '26, and '27, it's going to be around $2 billion, which is approximately or close to 50% of the $4 billion savings. And as you think beyond 2027, there is $700 million of the preferred redemption in August 2029, and that leaves around $1.3 billion, which we expect to achieve between '28, and '29.

Nitin Kumar - *Mizuho Securities USA LLC - Analyst*

Great. So it sounds like it's a pretty ratable program, perhaps a little bit front-end loaded if you take out the preferred redemption. As my follow-up, I like the term efficiency-led growth that you and Richard mentioned. Could you help us unpack that a little bit? The macro environment is obviously very supportive right now. And with this improved cash flow, you have a better ability to lean into growth. How are you thinking about growth right now for '27, and maybe longer-term?

Richard Jackson - *Occidental Petroleum Corp - President and Chief Executive Officer*

Yeah. No, I appreciate that follow-up. Again, a bit biased to free cash flow in the near-term just to achieve -- feel like that allocation gives us the most direct path to value. But efficiency-led growth means a few things. I mean, one, we continue to drive efficiency this year in terms of outperforming. We were in the US, our production has fully offset the disruptions of our production in the Middle East. And so we want to continue to challenge our teams to do that. And then we wanted to list considerations on that Slide 6, too. Just think through a few things. I mean, clearly, returns, you got to start there if you think about reinvestment. But things like cost efficiency, we want to continue to see the cost efficiency that we've seen and that we're now outlooking.

And so we'll be thoughtful that any additional activity changes, whether that's growth or not, is maintaining that capital efficiency. The free cash flow timing is important, especially in the near-term. So as we think about constructing the short-cycle and mid-cycle projects, we want to see those work together. Decline rate is important. And so again, the timing of the cash flow also comes with the decline rate. And so balancing that so that we're hitting that milestone is important.

We continue to advance technology, things like our Unconventional EOR. So you want to time those sort of investments to fit that. And then just macro, looking obviously, got a lot of volatility at the moment and making sure, especially as we're making more mid-cycle type investments, we want to be very thoughtful that we have a firm understanding of what those scenarios look like. So all of those mean something. We've also run internal scenarios and maybe Sunil can provide a little color there.

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

Yeah, as Richard mentioned in his prepared remarks, this was a true bottoms-up submission in terms of our long-term plan. And we looked at multiple scenarios. What we've outlined today is sort of a sustaining CapEx scenario, which is without any production growth. But we also looked at a moderate growth scenario where looking at a production CAGR of around 2%.

And what we saw was with the balanced investment between short-cycle and mid-cycle investments, our free cash flow improvement is actually better than what we have outlined today by the time we got to 2030. So like Richard said, this is our baseline plan, and we're looking at options as to how we can accelerate and improve on our baseline plan.

Operator

Doug Leggate, Wolfe Research.

Douglas Leggate - *Wolfe Research LLC - Equity Analyst*

Good morning, guys. Richard, you and Sunil have worked together for a very, very long time. It's really fascinating to see what you've come up with as a leadership team here. And I've got two specific questions, if I may.

The first one is Sunil made a very clear statement, I think, that buybacks will take a secondary place to the preferred redemption. The implication then is that your net debt will continue to drop, you'll have to build cash to redeem the pref. Is that the right interpretation of that comment is my first question.

And then my second question, if I may, is a big part of your free cash flow inflection aside from the pref. is the decline in sustaining capital. I just wonder if you could walk through some of the moving parts. I'm thinking, obviously, you've got steam flood, you've got the EOR, but you've also got the CO2 huff and puff in the unconventional. Just walk us through how you get that sustaining capital down as low as you're planning.

Richard Jackson - *Occidental Petroleum Corp - President and Chief Executive Officer*

Great. I'm going to start briefly because I think we may share this answer. And yes, it is good to work with Sunil for a long time. But certainly, from a cash flow priority, I think you're seeing it right, preferences is net debt. Again, I feel like at this time, that allocation provides the clearest path to increase value.

We're excited about the sustainable cash flow. We think it's a tremendous inflection in terms of value for Oxy, but we want to be smart in terms of how we progress that. Decline rate is a part of it, and we are -- as we've restored balance sheet, been able to make some of these incremental investments in the projects you're describing. But let me talk -- flip it to Sunil, and then we'll combine on some of these projects that are making that up.

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

Hi, Doug, let me just get into a bit more detail in terms of how we are thinking about cash flow priorities. So, as we said, one of our foundational cash flow priorities is to have a sustainable and growing dividend. So it starts with having a strong balance sheet. Our principal debt is currently at around $11.8 billion, which is the lowest we've had since second quarter of 2019, and we are well on track to achieve the $10 billion principal debt milestone.

In terms of leverage metrics, last year, our debt-to-EBITDA based on the actual price of $65 WTI was around 1.9x. And once we get our principal debt down to $10 billion, our debt-to-EBITDA normalized for $65 WTI is almost going to be half of that. So then the question is what next? And like I mentioned in my prepared remarks, once we get to the $10 billion principal debt, our focus is to further reduce net debt. We will balance the additional principal debt reduction and building cash based on the macro and the timing related to the preferred redemption in August 2029.

But like I mentioned earlier, we are likely to lean towards more principal debt reduction if the macro is supportive. But considering the current volatility in oil prices, we do not want to give a new milestone at this point. And share repurchases will be opportunistic, like you said, and you highlighted, any large continuous share repurchase program will be lower priority until the redemption of the preferred in August 29.

So in terms of dividend, we announced an 8% dividend increase this quarter, and we will be measured in terms of how we think about dividend growth, ensuring that we can support it through the cycle through a combination of strong balance sheet and increasing sustainable cash flow.

So the progress on both of these will determine how we think about dividend growth. And accordingly, we will recommend to our Board. So this I think, hopefully, this will provide more color and clarity around how we think about cash flow priorities.

Richard Jackson - *Occidental Petroleum Corp - President and Chief Executive Officer*

Yes. Maybe real quick, Ken and I can just a couple of notes on the decline rate. You want to start, Ken?

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

Yes, afternoon, Doug. As you know, Oxy is an industry leader in water flooding. We injected water prior to CO2 in all the large Permian EOR fields, also internationally with great success right through to today in Oman, where we use it to reduce declines from 19% to around 7% once complete, extending field lives. Typically, water flooding can add more than 15% oil in place in fields that you already operate with very low F&D.

We're now applying these technologies to GOA. Horn Mountain waterflood remains on track for injection in the second half of next year '28. The Marlin King water dump flood was completed in the last quarter and is already on stream. We would expect a response in Q1 next year. And longer-term, we completed our CO2 EOR pilot in Oman, and that's been successful.

Richard Jackson - *Occidental Petroleum Corp - President and Chief Executive Officer*

Yes, so the only thing I would add is I think in total, the waterfloods in Gulf of America, obviously, progress in our EOR projects, certainly in the Permian, but even globally, will contribute. The other thing I'd just quickly say, base performance. I think we've continued to beat on base performance, uptime records. So that's been a big piece of it.

Then the last thing, and this was really an acceleration, but it's a great project we're looking forward to sharing more with. On the Central Basin Platform and our EOR assets, we've been able to deploy some workover rigs to do sidetracks in some of our tighter conventional rock using all the things that we've learned through unconventional being able to do some fracs there, we're seeing great results.

And so that's been good kind of low-cost adds for production this year. But what that also does is derisk quite a few opportunities on the Central Basin Platform. And you can think about it similar to kind of Midland Basin shallow wells or more conventional Midland Basin at similar cost.

So we're excited about that opportunity, but those come at a lower decline rate too, especially when we put CO2 to it where we can increase the recovery and lower the decline. So just wanted to get that in there as well.

Operator

Neil Mehta, Goldman Sachs.

Neil Mehta - *Goldman Sachs Group Inc - Analyst*

Thanks so much, guys. Really great disclosure, Richard and Sunil. First question is just on sustainable cost savings beyond reduction in interest expenses. Can you talk about how you're going to approach taking cost out of the business in a way that is sustainable.

Richard Jackson - *Occidental Petroleum Corp - President and Chief Executive Officer*

Yes, I appreciate that. I mean that is a really important aspect of what we're trying to do here. The teams, like I said, we'd like to highlight the track record, but more to go. And so as Sunil said, some things continue from this year to next. Our drilling efficiency continues to get better. We're almost 50% better in terms of well delivery per rig. I think we showed some rig reductions in the Permian as a reflection of that efficiency. Simulfrac continues to expand. I think we've increased the outlook on that.

So some of these things are what we've been talking about. I'd say the upside, so this is one we could go further at -- Ken and I and some on our team are really working to take a global perspective in terms of cost and efficiency. We do a great job across our assets, but we feel like there are some areas that we can continue to scale, work together.

And so while we highlight the U.S. well cost and even the domestic LOE, we think there's opportunity beyond that. So I'm really excited about that to get back to working with the teams on that sort of thing. The other thing, just lastly, we want to be intentional with our work choice: milestone. This is the baseline. The teams are obviously working hard to deliver more. And so while this is a start, we're going to be working all options to accelerate value.

I think Sunil had one to add.

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

Yeah, just want to -- Richard mentioned about the efficiency and we have seen so far in '26. So a data point around that -- based on the efficiencies we have seen so far in Permian, the plan is to drop three rigs in Q4. And but we're actually expecting to have 15 more wells online in Permian. And from a production point of view, once we adjust for the transaction we did in Permian EOR, the full year guidance is actually 7,000 more than the original guidance that we had given in the fourth quarter call. So it again comes back to doing more with less. So this is just another indication of the continued and the relentless focus on operating efficiency.

Neil Mehta - *Goldman Sachs Group Inc - Analyst*

And then the follow-up is just on LCV and how does it fit in the multi-year plan? Obviously, STRATOS has been a little choppy in the start-up. But as you think of -- and the market conditions are changing, but it's very interesting technology. So just how does it fit into the go-forward strategy?

Richard Jackson - *Occidental Petroleum Corp - President and Chief Executive Officer*

Yeah, CCUS, I'm going to broaden it a little bit just to kind of talk through carbon capture technologies still add value as we look forward or can add value. We've made significant progress for us within LCV advancing several of these technologies, including DAC. The core purpose was focused on CO2, power and emissions. And those are really how you add value to our core business.

We're seeing emerging opportunities in that today in the Permian. As you think about power generation, data center build-out, one outcome is the ability to capture CO2 off of those facilities. And so we're excited and have positioned ourselves, I think, to do that. And so CO2 and power are 30% of the operating cost of an EOR barrel. And so when we look forward, and we're excited about the economics and from a corporate perspective, what things like lower decline do for us, but we do want to address that supply and the cost and carbon capture can play a role.

But where we stand today, we felt like we're at meaningful milestone. DACs coming online as we look forward, the other projects and technologies that we've been working with are at similar milestones. And so we're really at a point where partners in the market need to help pull us forward. And that's been our plan. And so the teams are very focused to make that happen.

But with success as development goes forward, we really will be focused on bringing in partners to help us move that forward. So I appreciate the question. Team is working hard on DAC. I know we'll have more updates as we go but appreciate the opportunity to address that.

Operator

Betty Jiang, Barclays.

Betty Jiang - *Barclays Services Corp - Analyst*

Hello. Good afternoon. I want to ask about CapEx again. When I look at the sustaining CapEx that's going from $5.4 billion to $4.5 billion, it seems clear based on your comments so far that it will be a pretty gradual step down over the next few years. And then if I compare that $4.5 billion at the endpoint from like the $5.9 billion that you're saying for next year, that's at the top, that's a big range. on how much CapEx can come down.

So my question is, what's the quantum of growth capital that you're willing to spend above and beyond the sustaining capital, assuming a mid-cycle price environment, maybe just how you're pacing this investment in both short-cycle and longer-cycle projects.

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

Hi, Betty, so let's talk about the 2027 CapEx. Like I mentioned, our starting point is $5.9 billion. And the way we define sustaining capital, it excludes multiyear projects, exploration and the growth projects. So for next year, if you back out exploration, we back out the waterflood project in Gulf of America, we're going to see the peak spending related to the Horn Mountain project next year. And also in terms of EOR spending in Permian and some additional spending in international, you're looking at a sustaining capital of around $5 billion to $5.1 billion next year.

So what we are doing is we are continuing to invest in mid-cycle projects that is going to help with our base decline and ultimately reduce our sustaining capital. So as you take it forward to 2030, this is what is going to help us to get to that $4.5 billion. It's a combination of lower decline that helps reduce our sustaining capital. And then we are also expecting more in terms of well cost efficiency improvement. We have said we are targeting 12% by 2030. This year alone, we are at 7%. So it's a combination of these two that's going to get us to the $4.5 billion of sustaining capital in 2030.

Richard Jackson - *Occidental Petroleum Corp - President and Chief Executive Officer*

Yeah, And maybe the only thing to add, I mean, like Sunil said, we've looked at even outlook with that sort of reinvestment. Our free cash at the end with reinvestment exceeds the $4 billion that we're talking about from a sustainable cash flow. So while we think it's important to think about it in the sustainable cash flow lens, the free cash flow outlook needs to improve over time to support that.

Betty Jiang - *Barclays Services Corp - Analyst*

Got it. No, that's helpful. My follow-up is on operations on the Rockies asset. It's always one that's a bit difficult to project and a lot of moving pieces. This year, you're investing more in the PRB, which is oilier and I think the program might envision more PRB investment going forward as well. Can you just talk through sort of cadence for the Rockies and just how you think about Rockies contributing within this longer-term framework?

Babatunde Cole - *Occidental Petroleum Corp - Vice President, Investor Relations*

Hi, Betty, it's Babatunde. Great question on the Powder River. So I think the Powder in general is becoming a lot more important to our U.S. oil growth story, right? So what we're seeing is a result of just not just strong asset quality, but also quality execution improvements by our teams.

So the benefits we're seeing are stronger well performance, continued development of our oily basin position in the basin, but also the same operational efficiencies that Sunil mentioned, we're achieving across these assets also. So just a couple of things to point out on the Powder River Basin.

From a well productivity standpoint, we're about 41% above the industry average using a six-month oil productivity basis. Well cost is down about 10% this year. We're expecting to be down about 10% this year. So it is benefiting from the same improvements we're seeing across all our other basins. So I think from a cadence standpoint, what you're seeing is the DJ Basin activity moderate a little bit and activity shifting into the Powder River.

So from a margin standpoint, we're getting oilier, and we're replacing that with some higher-margin production. So we'll disclose more as we move through our cash flow improvement plan, but this is one of the examples of the higher-margin additions that we plan to make as we move through the cash flow framework.

Operator

Arun Jayaram, JPMorgan.

Arun Jayaram - *JPMorgan Chase & Co - Analyst*

Apologies there. Sorry about that. Richard, I was wondering if you could comment on the application of these advanced recovery techniques in unconventional reservoirs. How -- maybe describe how Oxy is applying it to shale, what you're seeing from a resource recovery standpoint? And how is this helping to mitigate your decline rate?

Richard Jackson - *Occidental Petroleum Corp - President and Chief Executive Officer*

Yeah, I appreciate that question. We obviously have a long history with CO2 EOR and conventional reservoirs. And we've had these pilots now ongoing in the Permian, both Midland and Delaware Basin, for 10 years. And while different, the results have been similar.

We've seen consistent more than 45% uplift in terms of EUR. So if you're thinking about 10% average recovery in an unconventional well, now you're talking getting up to 15%. We think ultimately, as we continue to cycle CO2, that can get up to 20%. And so we're doing a lot of things. The industry, I think we're all working on different technologies to help support increased EOR.

We're seeing strong results in surfactants and other things. I would say two things that maybe make us a little bit different. One, we're very customized in the way we approach this. So all these techniques are a bit different by basin. Two, we are thinking EOR. So even in surfactant, things like surfactant and CO2 can work together to further improve the results. And so for us, this is a growing story. I think the Central Basin Platform horizontals that are tight conventional are an early opportunity to think about how do these reservoirs perform.

But then as we go into the end of this decade and certainly into next, we've got these commercial projects. We've got three that are underway. They'll come online later '28, '29. We'll start to see those benefits in the decline rate. And then at our option, we're able to then continue to develop those into the next decade.

So I appreciate that question. I think that really does differentiate our position, differentiates our focus. And again, we talk about things we do all over the world, but that's a really meaningful one as we think about the next decade.

Arun Jayaram - *JPMorgan Chase & Co - Analyst*

Great. My follow-up is maybe for Sunil. Sunil, can you talk about some of the puts and takes around the Midstream and Marketing expectations for second half? Obviously, that's been a key driver of upside on a year-to-date basis. But how do you see that evolving? And perhaps you can give your views on sulfur pricing in Al Hosn, the gas optimization with Waha now getting a little bit better and just thoughts on crude marketing.

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

Hi, Arun, so if you look at our -- what we've assumed for our third quarter guidance, the biggest change, as you've mentioned, is on the gas marketing side. We have seen a significant narrowing of the spread between Waha and Gulf Coast with additional Permian takeaway capacity now coming online. But like I mentioned in my prepared remarks, we expect the impact of the narrower spread on the midstream income to be largely offset by upstream with the domestic income with the Permian gas price realization improvement.

And just a data point on that, with the larger Waha to Gulf Coast spread in Q2, our upstream domestic realized gas price in Q2 was around $2.50 worse than the first quarter. I mean, I think in the second quarter, our realized gas price was negative $1.50. So it was almost a $2.50 swing compared to the first quarter. And what we see is with the spread normalizing, we should see the domestic upstream realized gas price also to normalize.

And then with respect to Al Hosn and sulfur, what we have assumed is we have definitely seen the spot prices move higher in the third quarter, but sulfur from the Middle East is largely exported and the region actually supplies almost half of the global seaborne exports. So considering the situation, the current situation in the Middle East, we see a significant volatility with respect to freight costs, and that could potentially impact our third quarter realization and also some potential delay or disruption to our sales. So we have incorporated some of these factors into the third quarter guidance.

And what I would say is with respect to the second half compared to what we thought where we would be when we provided the guidance in the last quarter, that the spread has actually become even more narrower because there's almost three Bcf of capacity that has already come online and potentially another two Bcf coming online by the end of the fourth quarter.

So with the capacity utilization coming in below 100%, even if there were some planned outages, we're not going to see the same kind of dislocation that we have seen in the last couple of quarters. You could see it for a short period, but we don't believe it's going to sustain for a long time.

Operator

Sam Margolin, Wells Fargo.

Sam Margolin - *Wells Fargo Securities LLC - Analyst*

Hi, thanks for taking the question. Yeah. Maybe just a follow-up on midstream because even though your gas position is kind of spread dependent in that business, obviously, you're very well positioned just given the upside potential that, that segment has in any given quarter, right? You're strategically very well positioned. So do you think there's an opportunity to maybe rebase that business in any way, just given what's going on with in-basin gas demand? In the Permian, what we're hearing about local sinks and just by virtue of the fact of where your assets are located, they seem to be in a good place.

Richard Jackson - *Occidental Petroleum Corp - President and Chief Executive Officer*

Yeah, I think a couple of points. I agree. I think we've been well positioned in our midstream investments that we've had over time and then even these contracts have played out well for us. I think the main purpose for midstream for us is to ensure delivery of our product.

We've had some upside where we can market beyond our equity. But I think we'll continue to look at the landscape you described, participate, but the real purpose is to really deliver the value, and I think we'll stay centered on that, especially within our kind of capital allocation priorities.

Sam Margolin - *Wells Fargo Securities LLC - Analyst*

Understood. Okay. And then maybe sticking with the Permian. The year started with a pretty significant change in your development model in the asset. But I'm looking at slide 27, you've maintained all of your leadership in terms of well performance and productivity. Can you just talk a little bit about how you've managed to kind of make this change and focus on different zones while still sort of sustaining all those productivity goals that you had in the past?

Richard Jackson - *Occidental Petroleum Corp - President and Chief Executive Officer*

Yeah, No, I appreciate that. The well productivity is core to what we do. You can talk about advanced recovery, it starts with unconventional wells continuing to perform. We have a great set of primary benches that play out for a long time.

And so the focus of doing that continues. Our well performance has continued to be steady even improve. We look at it both against ourselves and against our peers, and I think we do well in every basin that we operate.

We do try to derisk secondary benches as we proceed in our development. And so -- and that's back to the second point I mentioned today around development efficiency, being able to refill that midstream infrastructure, being able to take advantage of development areas, that's the most capital-efficient way to approach development. And so we point to a lot of capital intensity number. So if you think about decline rate, now you've got to replace barrels, what is the cost. And so we look at how many millions of dollars per thousands of BOE that you've got to do to replace that.

And for us, in the U.S. Onshore, it's been less than 20 for quite a few years, which is we look at it as the right measure to think about how to do that efficiently. So Babatunde may have a couple of other kind of highlights on some of the recent developments.

Babatunde Cole - *Occidental Petroleum Corp - Vice President, Investor Relations*

Yeah, definitely. Yeah. Thanks, Sam. Yeah. No, we're seeing strong repeatable well performance across multiple areas. And really, that's what gives us confidence to expand to where we are today. So I guess a couple of supporting proof points. When you look at the Delaware specifically, our secondary bench development, we're about 40% higher than the industry average 2024 to 2026.

So a lot of that is due to just the work the teams are doing on the subsurface, how do we identify these high-quality targets, how do we frac it, similar on the six-month oil stat we're about 21% higher than the industry benchmark. So we've increased our secondary bench development activity in the Delaware from about less than 10 to mid-40s so far. And it just really gives us confidence. It's a part of our long-term growth framework and this cash flow framework, and we've been able to derisk that inventory and provide that growing confidence in the performance go forward.

Operator

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

Richard Jackson - *Occidental Petroleum Corp - President and Chief Executive Officer*

Yeah. Just thank you all for your questions today. I really appreciate the opportunity to walk through this new disclosure with you. We're very excited about the delivery opportunity. We look forward to sharing more with you as we progress. And thank you and have a great day.

Operator

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