

California Resources Corporation

First Quarter 2025 Earnings

May 7, 2025, at 1:00 PM Eastern

CORPORATE PARTICIPANTS

Joanna Park – *Vice President, Investor Relations and Treasurer*

Francisco Leon – *President and Chief Executive Officer*

Clio Crespy – *Executive Vice President and Chief Financial Officer*

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PRESENTATION

Operator

Good day, and welcome to the California Resources Corporation First Quarter 2025 Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing star then zero on your telephone keypad. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one on your telephone keypad. To withdraw your question, please press star then two. Please note, this event is being recorded.

I would now like to turn the conference over to Joanna Park, Vice President of Investor Relations and Treasurer. Please go ahead.

Joanna Park

Good morning, and welcome to California Resources Corporation's First Quarter 2025 Conference Call. Following our prepared remarks, members of our leadership team will be available for questions. By now, I hope you have had a chance to review our earnings release and supplemental slides. We have also provided information reconciling non-GAAP financial measures to comparable GAAP financial measures on our website and in our earnings release.

Today, we will be making some forward-looking statements based on our current expectations. Actual results may differ due to factors described in our earnings release and in our periodic SEC filings. As a reminder, please limit your questions today to one primary and one follow-up, as this allows us to get more of your questions today.

And now I will turn the call over to Francisco.

Francisco Leon

Good morning, everyone. Thanks for joining our call and for your interest in our company. CRC is executing very well. We delivered a solid quarter and are reaffirming our full year 2025 outlook. Our business strategy is designed to mitigate commodity price volatility and generate cash flow to execute our operations, maintain a strong balance sheet, and sustainably return cash to shareholders.

Before Clio covers our first quarter financial and operating highlights, let me open with some thoughts on how CRC is positioned to withstand the uncertainty in today's macroeconomic environment. First, the strategic steps we have taken to strengthen our business were timely. We have achieved critical scale. The Aera merger made us bigger and better, proving that assets are better in our hands. This combination provided new opportunities to streamline our business and achieve meaningful cost savings that strengthen our returns today and well into the future. We have now realized more than 70% of our total \$235 million in announced annual synergies and expect to achieve the full target in early 2026.

Second, our cash flow is underpinned by a strong hedge portfolio and diversified revenue stream. For the remainder of the year, we have approximately 70% of our oil production and 70% of our natural gas consumption hedged at attractive levels relative to the current strip. In addition, our power and natural gas marketing strategy are delivering meaningful margins, further underscoring the strength of our business. This integrated strategy provides strong visibility into near-term cash generation, supports debt service and shareholder returns and allows us to generate free cash flow at Brent prices down to approximately \$34 per barrel.

Third, we have high-quality conventional assets. They have low decline rates, high net revenue interest and high ultimate recovery rates. With modest development cost, we can manage our production largely through capital-efficient workovers and sidetracks. Low capital intensity provides an advantage over

peers. We're also able to control the pace of activity due to our high ownership interest where we own both surface and mineral rights.

We have a solid inventory of development projects, and recent improvements in the state's oil and gas regulatory environment provide confidence that we will continue to build our permit inventory through several avenues later this year. We are returns focused and allocate capital to our highest return projects while effectively managing production and investing in our growth opportunities.

Lastly, the strength of our business allows us to sustainably return meaningful cash to our shareholders. In the first quarter, we returned a record \$258 million to stakeholders through dividends, share buybacks and debt redemption. We continue to show that CRC is a different kind of energy company.

I'll turn it over to Clio to summarize our first quarter results and some of the drivers behind our strong outlook.

Clio Crespy

Thank you, Francisco. Good morning, everyone, and thank you for joining us. This quarter, our results exceeded the Street's expectations. We delivered flat net production quarter-over-quarter at 141,000 BOE per day and realized prices that were 98% of Brent. Adjusted EBITDAX was \$328 million, net cash flow before changes in working capital was \$252 million and free cash flow totaled \$131 million, all of which came in above consensus. This performance was primarily driven by our continued cost discipline. In Q1, our combined operating and G&A costs were \$388 million, approximately 5% better than what we had guided.

Looking ahead, we expect to reduce our operating costs in the first half of 2025 by nearly 10% compared to the second half of 2024. We remain focused on delivering value to shareholders. This quarter, we repurchased a record \$100 million in shares, nearly double our historical average, and paid \$35 million in dividends. Altogether, that's \$135 million returned, or about 103% of our Q1 free cash flow.

With a strong start to the year and despite nearly a 16% decline in oil prices, we are reaffirming our full year adjusted EBITDAX guidance of \$1.1 billion to \$1.2 billion, driven mostly by our low-decline assets, focus on cost reduction and hedge book. We continue to target average annual production of 136,000 BOE per day with D&C capital investment between \$165 million and \$180 million.

Now I want to take a moment to talk about our financial resilience and highlight three core strengths. First, balance sheet strength. We have a strong financial foundation. Our leverage is below 1x. We have more than \$1 billion in liquidity and nearly \$200 million in available cash. Earlier this year, we redeemed \$123 million of our outstanding 2026 notes at par, and we expect to address the remainder later this year. This balance sheet strength gives us the flexibility to reduce debt, return capital and invest in disciplined opportunities. We also have access to third-party capital from Brookfield to support the growth of our carbon management business.

Second, our cost reduction progress. As Francisco mentioned, we realized \$173 million in annual run rate Aera-related synergies based on our Q1 results. We expect those to be sustainable and enhance our future margins.

Third, executing on our strategy. Our integrated approach is gaining traction. We're capturing value through resource adequacy payments for standby power capacity, natural gas marketing, commodity derivatives and emerging opportunities in carbon management. We're executing on our broader vision. Our gas to power and carbon capture strategies are not only actionable, but they're also scalable and position us to deliver long-term value while reducing risk.

We are pleased with how we started 2025 and confident in our ability to execute for the rest of the year. We're executing today and building for tomorrow. Thank you. Back to you, Francisco.

Francisco Leon

Thank you, Clio. Before we move to Q&A, let me quickly summarize today's call and offer a few things to watch for as the year unfolds. Through our carbon management business, we continue to build scale and expect new vaults and projects to be announced later this year. Industrial partners are turning to us for solutions to energy challenges and desire for clean, reliable power.

We have a leading CO2 storage reservoir business in various stages of permitting with multiple CCS projects under consideration. We're also excited to launch California's first CCS project at the Elk Hills cryogenic gas plant with construction breaking ground in the second quarter and with first injection expected later this year.

In our power business, we're pursuing multiple new opportunities with AI data center companies and other large offtakers interested in our available power capacity. Our firm supply of gas, speed to market, access to land, proximity to CCS and scalable infrastructure are key attributes in our portfolio. The proximity of our assets to large industrial centers in the world's four largest economy creates multiple advantages as we progress these discussions. Stay tuned for more later this year.

CRC is executing, and we sit in an advantaged position. With a strong balance sheet, quality assets, a low and declining cost structure and well-priced hedges, our margins are well insulated from near- and medium-term reductions in commodity prices. We certainly recognize the challenges presented in today's markets, but CRC has a plan.

In closing, let me reiterate my opening comment. CRC is well-positioned. Our durable assets and integrated business strategy are yielding strong results today.

Operator, we're now ready for questions.

QUESTIONS AND ANSWERS

Operator

We will now begin the question and answer session. To ask a question, you may press star then one on your telephone keypad. If you're using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press star then two. Please limit your questions to one primary and one follow up. At this time, we will pause momentarily to assemble our roster.

The first question comes from Scott Hanold with RBC Capital Markets. Please go ahead.

Scott Hanold

Thanks. A nice quarter. I was wondering if you all could walk through how you're able to achieve the similar EBITDA using a much lower Brent assumption. I mean, obviously, you pointed to some things like lower costs being one thing. But are there things incrementally happening from the prior outlook that has been a tailwind? And can you give us some specifics on what really is driving some of those OpEx costs down?

Francisco Leon

Hey Scott, thanks for the question. Yes, definitely, we're seeing a lot of tailwinds related to our synergy targets. What we like to talk about is how the story is good, but the execution is better. The team has just

been outperforming every expectation in terms of getting the Aera assets integrated into CRC. So, think about it as three stages. The first stage was around refinancing and the people aspect of a merger. The second one was around leaning in on our supply chain advantage and renegotiating good contracts to have a long-term runway.

What we're doing right now is we're consolidating infrastructure. And that's where we're seeing tailwinds. We're moving cost savings earlier. And that in combination with our very strong hedge book is what positions the company to be able to not only reaffirm guidance, but continue to invest in this business. So excited with the progress and the results from the merger and we expect to continue getting every dollar from our target in the synergy bucket.

Operator

The next question comes from Josh Silverstein with UBS.

Josh Silverstein

I had a question on the breakeven that you guys were highlighting. Obviously, they're very low. And Francisco, you just mentioned the hedge book. Can you give us a sense as to what it may look like on an unhedged basis? Is it closer to those other kind of workover and sidetrack costs that you guys were alluding to earlier in that slide as well?

Francisco Leon

Hey Josh. Yes. Let me spend a couple of minutes talking through how we got here. We have been four years working to position the company to be able to manage the ups and downs in the cycle. Volatility is a given, commodity prices in a commodity industry. So, we have to be able to build a resilient business and deliver sustainable capital return to shareholders.

So, when we look at our future, it's really underpinned by the quality of the assets. So, we have very low decline, predictable assets. But the steps that we've taken are steps that we take to get ready for situations with increased volatility like we have right now. So, we've done M&A with Aera. We put the hedges in place. We maintain an absolute pristine balance sheet, and we're taking a proactive view on cutting cost.

The result of that is, as you pointed out, our corporate breakeven is around \$34 Brent or about \$30 per WTI. So that's how we run the business. And we took all these actions to get ready for this moment. So, when we look at the go-forward basis, that's what you should expect. It's not a reactive nature or getting caught by surprise by any macro. It's about being ready so we can deliver that certainty to the investors so we can continue to return cash to shareholders predictably.

Josh Silverstein

Got it. And then a follow-up question for me. I think I asked this a couple of quarters ago. But we've seen another refinery shutdown in California. Is there a growing concern about who you guys are able to sell to or the Brent premium that you guys receive? Thanks.

Francisco Leon

Yes. So, no concern on the refinery shutdowns. We're able to place our crude with the existing refineries. And as a reminder, what we have is the refineries here were built for California crude. It's the right Nelson Complexity. Our production has low sulfur. So, the answer to why do we have really high realizations on par with Brent is because of that preferential market to our crude.

California is in a tough spot. We're the fourth largest economy in the world, a big consumer of gasoline, I think we're second to Texas, we're the largest consumer of jet fuels in the U.S., and the state is in a

difficult situation with reduced refining capacity. But when we talk to the government, when we talk to refineries, there are solutions, there are ways to improve cost structures, and that is to produce more locally. So, I think the message has been received and we're seeing progress across all fronts. The refining situation could be improved, but we're going to help solve that by producing more of our barrels. That is really what the refineries need.

Operator

And we have Scott Hanold from RBC Capital Markets.

Scott Hanold

For my follow-up from my earlier start, Francisco, I was wondering if you could give us a sense of what you're seeing and hearing on the political landscape, both in California and Washington. I know you stay pretty active and close to that. And what kind of progress is occurring on things like CO₂ pipeline regulation, carbon tax credits, oil and gas permitting specifically in the state, what kind of progress are you seeing at this point? And is it encouraging? Are you seeing some movement by some of the politicians to be more open to, I guess, oil companies in the state?

Francisco Leon

Yes, Scott. I really appreciate that question. Definitely, we're seeing, it's very encouraging how this is playing out. We're really trying to solve for two things. One is to cut emissions, which aligns very well with California's objectives, but also California has a natural advantage by having some of the best oil and gas reserves, remaining reserves in the U.S., so we can achieve both cutting emissions and improving affordability of energy and also deliver to energy security.

So, as we talk through messaging in Sacramento and Washington, D.C., we feel there's a lot of alignment and our projects are really the bridge between the two ideologies. There is a win-win, and part of it is what we're delivering. We do see progress on CO₂ pipelines, you mentioned, we do see progress on cap-and-trade. We see progress on oil and gas permitting. I would say across the board we're seeing indications of much more constructive engagement, tangible progress to be able to put capital to work, whether it's in the new energy space or in the legacy industry. We have, I would say, a very positive outlook in terms of engagement on both Sacramento and Washington, D.C.

Operator

The next question comes from Kalei Akamine with Bank of America. Please go ahead.

Kalei Akamine

For my first question, I'm looking at Slide #16 here, which covers Huntington Beach. It looks like you've got visibility on the necessary permit for land use at the city level. Wondering if that opens up an opportunity to start marketing the real estate to potential buyers. And if you could give us an update on the [remediation] timeline, that will be great.

Francisco Leon

Yes, Kalei, absolutely. As you mentioned, we submitted the proposal with the city of Huntington Beach. We're going through community reviews. But to be very clear in terms of marketing, the asset is for sale. We would sell it for the right price right now. There's nothing holding us back, other than making sure we get the best value. And we think we get the best value by abandoning the field, which we control our own pace, but it's really to get the land re-entitled for the best and optimal use, which, for this property, we've done a lot of work on preliminary development and it's going to be a mixed-use community that has 800 homes, 350-plus hotel rooms. So, it's going to be a very nice development. California, and L.A. in particular needs a lot of housing, so this will be a great project. And so, we're launching those plans. We have had a continuous rig abandonment program since 2023. So, we're making progress on that front.

And really, it's about when can we get the right value to monetize in some form the property. So that's underway.

If you look at kind of the local media, there's a lot of press and coverage on this asset. We expect it to be roughly about a 3-year timeline to get all the approvals, and you have to go through CEQA, environmental impact reviews. I'm not sure yet if that can be fast tracked, but we're doing our part to get this asset ready to go and try to bring some incremental value for shareholders.

Kalei Akamine

This is not my second question, but just a really quick follow-up on this. Can you share any color on how many interested bidders there are?

Francisco Leon

So, your 1b question, Kalei. Okay. We don't have a formal bidding process. We just have announced to interested developers to come talk to us. And these are big projects. If you recall, we sold a small property next to Huntington Beach for about \$10 million an acre. So, these are big dollars. It takes a developer with a great vision for the future. We see interest rates coming down, that helps the project development. So rather than talking about a universe of bidders, think about this as a very unique property that has a lot of interest, and we're marching forward to try to get the best value for it.

Kale Akamine

Got it. This is my follow-up question. I want to ask on the Elk Hills PPA. The way that we understand it is that the PPA could create demand for clean energy that you could supply from Elk Hills with carbon capture. Carbon capture is a more expensive project than the cryo that you're breaking ground on this quarter. So, wondering if you could offer any latest thoughts on funding.

Francisco Leon

Yes. The way to think about CalCapture, we see the final investment decision very much connected to a PPA. So, you have the clean energy incentives. We have 45Q. We have LCFS. We have avoidance of carbon tax in California. So those are part of the revenue stack that we have. But at the end of the day, we're trying to unlock a completely new business model, which is baseload 24/7 natural gas-fired with carbon capture. And that's the mission to be able to find the right partner, the right PPA for that.

So, we're advancing on all fronts. CalCapture is the one doing a lot of the engineering, try to optimize on cost. But we're also looking at the funding behind it, and that comes with a view of, okay, is this power plant going to be a merchant power plant? Which it is today. Is it going to participate in the resource adequacy? Which also it is today. Or are we selling that power to a third-party? And that third party has the values, the clean baseload electrons? So, we're getting a lot of inbounds, a lot of interest on the power. And the hyperscalers are coming back to the table. We're also seeing other offtakers coming back to the picture.

Maybe I'll turn it to Clio. So, Clio joined, as everybody knows, at the beginning of the year. And in her prior job, she was kind of looking at the other side of PPAs working with technology companies. So maybe she wants to offer a few remarks.

Clio Crespy

Thanks, Francisco. And hi, Kalei. As Francisco mentioned, prior to joining CRC I was working on a number of things, but one that was keeping me very busy was brokering and structuring deals between the data center developers, so that's your hyperscalers, that your co-locators, and power asset owners. And that's where really I recognized the significant potential of CRC's power business and how that fit a clear market need and fit that very well.

So, one of the most exciting opportunities I saw was related to the Elk Hills power plant and what is the behind-the-meter partnership model and opportunity that we have been progressing. Now I've got a more in-depth view of our operations, of our assets and the market, and so I'm even more confident in the strength of our value proposition to data centers and to large offtakers. Our offering really is not only differentiated, but it's resonating strongly in ongoing discussions, and those are advancing constructively.

Francisco Leon

So just to kind of close out the question. Getting the right long-term partner, we won a 10-year-plus PPA with the right partner that not only recognizes how valuable this opportunity is. The hyperscalers want speed to market. We can deliver that. We have capacity today. We have land. So, we want the right PPA structure in the right way. But we also are looking to solve for the northern CTV reservoirs, where we see a lot of demand, potential natural gas power generation. Big emitters need a solution. And if we can unlock this at Elk Hills, it should ultimately also scale to our northern reservoirs and create a further business opportunity there.

So, a lot of things to solve for, but we are making progress. We're getting the land ready. We're getting our permits in good shape so that when we finalize the details of a contract with a third-party, it will be something that really can unlock value for us.

Operator

The next question comes from David Deckelbaum with TD Cowen. Please go ahead.

David Deckelbaum

Hi Francisco, Clio, everyone thanks for taking my questions today. I was just curious, just going back to the synergies. You've effectively almost achieved your '25 target. And I want to say that you all had left, call it, around \$60 million of additional synergies in '26 as perhaps upside. Is there any reason why that should remain in '26 versus being pulled forward? Or is it the timing of certain projects that you're looking at? Or it seems like since you're already ahead of the game here, we might be able to see some of those elements perhaps showing up a bit earlier.

Francisco Leon

Yes, I love the question. It really speaks to our team's ability really to deliver the targets ahead of schedule, and we keep doing that. So, there's an element of that, that as we lay out the incremental targets and the synergies, the team has been able to identify a number of great projects. And those have been activated, they've been already put in place. And now it's when you realize them is when it counts.

But I'll turn it to Omar to give a perspective on the second part of the question, which is, there is a timing component and there's some really interesting projects we're working on that are going to be ready later in the year and really in full force by the beginning of next year. So, Omar, do you want to share some of that, please?

Omar Hayat

Thanks, Francisco and hi, David. Yes, if you look at the rest of 2025, David, and how we are thinking about synergies, we are really focused on delivering operational efficiencies tied to infrastructure consolidation. So, we have excess capacity in our major fields around gas processing, produced fluid treatment and, in some cases, power. And what we are working on is bringing production from our various fields in the basin to these central facilities to fill in the excess capacity. And it does two things for us. It eliminates the need to maintain and operate multiple facilities once you consolidate them, and it also helps us monetize our produced oil, gas and natural gas liquids.

And I'll give you a couple of more concrete examples around the second point. So, we acquired Ventura

Avenue field as part of the Aera acquisition, a field that had associated gas, but doesn't have the facilities to fractionate natural gas liquids from that gas. So, we were actually paying a third party to take that production off our hand. What we are doing now is we are bringing that natural gas liquid production to Elk Hills, where we have capacity in our cryogenic gas plant and monetizing that production stream.

Similarly, Belridge, which is a major field we acquired as part of the Aera acquisition, also has associated gas but do not have gas processing, and we have excess capacity in our cryogenic gas plant. So, we are working on a project to connect that gas to CGP, the cryogenic gas plant, drop liquids and monetize the revenue around that. So, some of these projects on that time scale need some initial capital investment, and we are progressing them forward. They will all be completed by the end of third quarter or end of '25, but some of the revenue stream we'll see in first quarter '26 and onwards. So hopefully, that was helpful.

Francisco Leon

So, we're making the investment now. We see the benefit of incremental NGLs in 2026. And so, we're going to count the synergies when they come in '26.

David Deckelbaum

I appreciate the color, Omar and Francisco. And maybe just as a follow-up, I'll stay in the weeds here for a little bit. When you look at the first quarter, obviously, hit your numbers and beat CapEx significantly. It was maybe \$10 million of savings relative to your initial plan or guide. You reiterated full year. So, I'm curious if you see that as an element of just mix of activity that was just a coincident with the first quarter? Or if there's elements in your capital program that you're also ahead on this year?

Francisco Leon

It is a mix. And we see there's efficiencies in the numbers, but we also planned the year where we expected a light capital first quarter, increase in the second quarter. And then we're also increasing potentially the activity as the second half of the year comes in with a second rig. So, there will be a ramp-up in activity that ultimately leads to a higher D&C capital as the year progresses. But we are seeing efficiencies and savings through the supply chain discussions around capital as well. So, it's a little bit of a mix, but the story as a whole is very good.

Operator

The next question comes from Nate Pendleton with Texas Capital. Please go ahead.

Nate Pendleton

Congrats on another strong quarter. Taking a step back and looking at the value you can add with Aera and the ability to decarbonize production streams, can you talk about your willingness to pursue bolt-ons in California should assets become available in this market?

Francisco Leon

Yes, Nate. Thanks for the question. We're very focused on executing our business right now. As you saw, I think it was really important for us to get the transformational deal completed with Aera. As you can see by a lot of our messaging, the key is to have the infrastructure in place, the consolidation to be able to really extract value from any acquisitions. Acquisitions are an important part of our strategy going forward. We do feel that assets in California are going to be better in our hands from every standpoint.

So, in terms of bolt-ons, when we see something that really makes sense and can be accretive and, I would say, significantly accretive to cash flow per share, this is something that we would consider. But we have a strong inventory. We have a lot of uses for capital in our portfolio. So, it's a really high bar to think about bolt-ons, but it is part of the strategy as we finalize and think about all the achievements we've done with Aera and then what do we do next.

Nate Pendleton

Got it. And then I wanted to shift over to the CCS space. Understanding that your business is primarily focused downstream of the capture for third-party volumes, can you provide any update on recent carbon capture technology advancements and how maybe that's impacting discussions with emitters for CO₂ offtake?

Francisco Leon

Yes, Nate. The approach we've taken from day one is to be agnostic on technologies, understanding there's a lot of capital and a lot of progress being made. But where others focus their time and effort in developing that technology, our advantage comes from our landownership, our mineral ownership. It's really the pore space is where we see the value in California CCS. So that's where we put our efforts forward.

Now as we unlock the permitting pathway, as we bring emitters both within Elk Hills and Belridge and outside, we do have much more of a sense of where the technologies are coming together. We want to see costs come down. We want to see efficiencies being achieved. But I think that's better done with third-party capital. We have our partners that are developing, like Brookfield is developing their own technology. We'll give them a sandbox to come in and compete for the best offering. And we do have the ability to customize the technology solution for the type of source.

And as we get further and further into post-combustion capture, we'll talk about what these technologies can do. In a lot of ways, it's not also a lot of innovation in the space. It's pretty simple amine units. So, it's really about the cost aspect of it and who can deliver a competitive price for capture on a go-forward basis.

Operator

The next question comes from Betty Jiang with Barclays. Please go ahead.

Betty Jiang

Hi team, thank you for taking my question. I want to ask about the base decline and the maintenance capital. What stuck out this quarter is that if I look at your 1Q production versus 3Q last year, your oil volumes is only down 2%. And then over that period, your capital was just around \$200 million. And I know there's timing of the spend, but could we just get an update on where you think maintenance capital is going forward?

And then what I'm really trying to get to is in an unconstrained permitting environment, once you take into account all these cost savings and synergies, how much lower could maintenance CapEx go versus what we thought before?

Francisco Leon

Yes, Betty. Thanks for the question. It really highlights one of the ways that we're different than the rest of the sector. Most companies lead by talking about drilling and type curves and how effective their fracs are. That's not CRC. At CRC, we do a lot of our works with base decline mitigation, surveillance, so that's OpEx dollars. And then we move on to very efficient capital in workovers and sidetracks. So, we're doing all of that in the normal course.

So, then the question comes, okay, with an unconstrained permitting scenario, what would you do? I would say we're not ready to guide into that unconstrained scenario even though we're seeing a lot of optimistic signs on the permits. Part of it is because now that we're bigger and we have all these new assets to work with, the team has continued to deliver, as you pointed out, the oil production, very low decline quarter-over-quarter with very little capital.

So, what that means is that the blocking and tackling of surveillance, workovers and sidetracks is working extremely well. So, to project that into the future, let's look at the inventory that comes in on a well-permitted basis, the well mix, and we'll be able to guide that on a go-forward basis. What we said before is it should take about 6 to 8 rigs to keep production flat. But we need to continue to evaluate it given the performance of the team. I'd like to come back when we're ready once we have the full inventory of permits ready to go for a little bit longer runway where we can start putting more capital to work.

Operator

The next question comes from Leo P. Mariani with Roth. Please go ahead.

Leo Mariani

I wanted to follow up a little bit here on the production. So, looking at the second quarter guidance, it looks like production is going to be down versus 1Q slightly over 4%, using kind of the midpoint of your guidance. Obviously, that decline would be in excess of the annual decline that you guys have kind of spoken about. And clearly, not nearly as good as the performance that you've been achieving the last couple of quarters, which is shallower declines for less capital.

So just wanted to see if there's anything specific about the second quarter or maybe there's some maintenance or shut-ins or whatnot. I did see that in your slides, you talked about 10 million a day of production, which sounds like that's going to be going offline to kind of replace some field use gas. So just any more color on that would be helpful.

Francisco Leon

Yes, I think it's a very important clarification to make. So yes, the production on a BOE basis steps down, but cash flow goes up at lower prices, right? So how do we do that? Well, the reason is, and there's a slide, slide 13, on the deck, it's a new slide that we put to be able to highlight the dynamic that we have in place. Really, the answer to the question, Leo, is it goes to our power plant. So, we have this combined cycle gas power generation that is a very flexible power plant. It has a flexible configuration. So, the way we run it, typically, it's called a 2 by 1. So that means it's two gas turbines for one steam turbine. That's in the normal course where we're sending the full capacity.

In periods during the year, where in California there's a big solar penetration, it displaces a lot of the baseload during parts of the day. So, we have the ability, and that's at our discretion, to bring the plant to a one-by-one mode. So, what that does is, one, which is what you pointed out, it reduces the natural gas production. But the gas is actually still very, very useful. Instead of counting it as production, what we do is then, we historically have been injecting that gas back in the reservoir if it didn't make sense to produce it.

Now we have an alternative, another one of the benefits of the Aera merger, where we can send that gas to Belridge. So, remember, these are fields that are next to each other. And by sending that gas to Belridge, we accomplish two things. One, that gas saves us OpEx, energy cost at Belridge. So, we're buying less gas from third parties at Belridge and instead we're moving our non-spec gas north. And then also by going to a one-by-one configuration, we're able to save OpEx on the plant itself.

So, what you have is a situation where, yes, optically, you're seeing net production BOEs, which is about 10 million a day of gas go down. But what you're seeing also at the same time is increased cash flows by reducing your cost. And because our view is we're here to maximize value and cash flow and not production, it's a very easy choice to make as we have this kind of redundant system where we can send the gas to the optimal use.

Leo Mariani

Okay. I appreciate that thorough answer. Now just jumping over to kind of oil and gas permitting side. You certainly talked about how things are improving of late. But can you get a little bit more specific in terms of where the EIR in Kern County sort of stands today? My understanding was I think maybe the public comment period is maybe recently kind of wrapped up. And just can you give any kind of color on where we stand and what you think the timeline is for a judge to be taking a harder look at that in the near term?

Francisco Leon

Yes, thanks Leo for the question on permitting. It's really been a tremendous highlight. We're very encouraged by the progress being made on the permitting front. The focus has been on the EIR. But as we talked about before, we have multiple alternatives in motion, which we think all of them will work into the future. So, we're very optimistic, first of all, because we have what we need in terms of sidetracks and workovers. We've reached, what I would say, is a regular way process and have all the permits that we need for 2025. We're building inventory into 2026 for our drilling program.

Specifically, as it relates to the Kern County EIR, litigation process continues, but the county is expected to adopt a revised EIR later in the year to address the deficiencies identified by the court. So, we expect some resolution and progress towards the second half of the year. But at the same time, we're doing what's called a conditional use permit, which is an alternative route with a different agency, where we have about 90% of our proved and developed reserves in four fields, and we're developing a field-specific permitting process around those.

So, I would say, if you look at it as a whole, if you step back from the specifics on EIR and kind of what's out in the public domain, if you step back, we have a very constructive dialogue with multiple agencies. There's a need for more local production. I think there's a much better understanding than in the past that the solution to affordability and cutting emissions is local production, and we want that to be a CRC barrel. So, this year, we decided, even if we get a lot more progress on permits, to continue with a two rig program. But what we're doing is we're really building that inventory of high-quality projects and gaining more and more confidence we'll be ready to go.

Operator

The next question comes from Phillips Johnston with Capital One. Please go ahead.

Phillips Johnston

Just wanted to clarify the wording in the press release regarding the potential PPA. It read that you guys are engaged in discussions with multiple large-scale industrial customers for the PPA. Francisco, it sounds like from your comments on the call here, that doesn't imply that you're no longer negotiating with other types of potential counterparties. Am I hearing that right?

Francisco Leon

Hey, Phillips, thanks for clarifying. So, we're very much focused on data centers as the offtaker for Elk Hills power, the 200 megawatts plus. The implication around incremental industrial players really is more about new inbounds that are also looking for clean baseload power. California is short baseload power, and I think we've seen a lot of examples globally what happens if you have an overdependence on renewables.

So, we have similar dynamics here. And the interest level on what's one of the most efficient plants in the state of California that can be turned into, with carbon capture, into a low carbon to no emission plant is a very interesting proposition that goes beyond data centers. So, the signal is not about a shift. The signal is more about an expansion of interest beyond data centers, but we still are very much engaged with data

centers, both hyperscalers and co-locators.

Phillips Johnston

Okay. That sounds great. Clio, you noted the share buyback was really strong in the first quarter. It was basically 2x the pace as what you bought back in the prior two quarters. Can you maybe talk about what you're thinking about in terms of the pace of buybacks going forward?

Clio Crespy

Hi Phillips, happy to give you a bit more context around our decision around in Q1. And obviously, that's going to give you color effectively on how we prioritize our buybacks and how we consider them versus our other capital opportunities. So, we see great value in our equity, and we're committed to retaining and increasing those shareholder returns. So, we saw a clear value dislocation in our stock in Q1, and we were in a strong position to act decisively.

As a reminder, by the year-end 2024, we had rebuilt a cash balance that was over \$350 million. We had done that in 6 months after the Aera merger close. And we took steps to de-lever in February. So, we redeemed \$123 million of our '26 notes. And that demonstrated our commitment to balance sheet strength and also our disciplined capital management. But with the excess cash, share repurchases were the most compelling use of capital at the time to really drive long-term shareholder value.

And if you put this into perspective, since the Aera merger close in July last year, we've repurchased 20% of the shares issued at the merger close, and we did so at an average discount of about 9% versus issuance price. So, this really further enhances what was already a highly accretive deal, and I'd say it underscores our disciplined value-focused approach to capital allocation.

Now if I look forward, Phillips, to your comment, well, yes, we remain opportunistic in our approach. We'll continue to evaluate our buybacks alongside the other capital priorities, but you can expect us to remain focused on maximizing returns and really delivering value to our shareholders.

Operator

The next question comes from Nitin Kumar with Mizuho. Please go ahead.

Nitin Kumar

Hi good afternoon guys and thanks for taking my question. You talked about the cost savings, but the electricity margin guidance for the year increased quite substantially. Just want to dig into that a little bit and see, is that better pricing or lower cost or a combination?

Francisco Leon

So, as I was explaining that how we managed the power plant, the way to think about the margins is where merchant power prices fluctuate, and we're solving for that by going into from a 2 by 1 to a 1 by 1 operation, the resource adequacy, which is what we call in California the capacity program, that is fixed, that's contracted. And so that, as we've been talking about, is \$150 million for 2025.

So, when you see an expansion in the margins, that means that the steps that we also are taking on going to buying 1 by 1 increases that margin, right? So, it's the combination of how we manage the merchant aspect of it plus the incremental value that we're seeing in the contracted aspect of RA.

Operator

The next question comes from Noel Parks with Tuohy Brothers Investment. Please go ahead.

Noel Parks

Just a couple of things. So, you mentioned earlier that we should be able to look for some new programs announced for Carbon TerraVault later this year. I'm just wondering, can you just maybe characterize the agreements or the process to getting there? And if you can just give us an idea of what does the home stretch look like in getting to some of these deals?

Francisco Leon

So yes, right now, the focus for Carbon TerraVault is executing on our first project. We're breaking ground in a few weeks. Really important that we get that first project underway. We're looking to have CO₂ injected by the end of the year, this year, which means first cash flow for CCS in all of California. The team has been also progressing the conversations with the EPA around incremental permits. I think we have six or seven permits that have been in the queue for a couple of years that should be getting very close to final issuance, at least in draft form. So that will increase the pore space that's permitted and really expand the capacity that we have in the state.

What we've seen is, if we get the first-of-a-kind permit in the state as we make progress, more and more interest comes from emitters. So, what I would say is the focus right now is Elk Hills, this first project. But the way this should expand, it will be around a lot of our northern reservoirs close to the Bay Area, where we have a lot of potential customers from existing power sources, from new power sources, in particular. But there's other industrial customers that are going to look for solutions to bring their emissions to some of our fields.

Remember, in California, we have a forcing mechanism beyond the incentives, which is a growing carbon tax. So, from a financial perspective, it makes sense for these companies to be looking to store away that CO₂, and we want to be ready for that market opportunity. So, I would say the announcements or the progress that you'll see on both permits and emitters to start moving. We have had a lot of focus on the Central Valley in California. This should start moving up north. And that's where we're looking to expand and that's where the team is focused next.

Noel Parks

Great. So, is it fair to say that since carbon capture, carbon sequestration is going to be new in the state and is new generally at scale, is it just that there's a little bit of a standoff? On the one hand, there's a recognition of the importance and the benefits and there is interest out there, but there, I guess, isn't enough of a sense of urgency to make customers afraid that they're all going to have to crowd through the door at the same time and so the awareness that the available pore space, the largest finite isn't enough to make people maybe be more aggressive about committing to taking up the capacity you have?

Francisco Leon

Yes. Maybe to reframe the question a little bit. I don't necessarily agree with the view of how you framed the question around any sort of delays. It is a new business. It's a new opportunity. We're making tremendous progress. If you look at the progress that Carbon TerraVault has made compared to others nationally, we're right up there in terms of speed.

Now there's a lot of aspects to cover. And figuratively, we have a big pipeline of emitters. We also are working on physical pipelines, right? That's the part that our focus has been to really unlock. And the scale of the business is, there's never been a need to transport CO₂ in California. So now that there is a need and there's a market need and there's a government ambition, then we need to get those pipelines permitted. That takes time. That takes time here. That takes time basically in any state. But we're seeing a lot of progress. We're actually very optimistic about the momentum on CO₂ pipelines.

We're getting both the Senate, and the Assembly have bills in the California legislature, where they're

proposing the framework by which we're going to be able to use retrofit CO₂ pipelines in the state. So, look for that. That's a big catalyst for the CTV business. We feel the momentum is there, and the moratorium should be lifted later this year. There's a lot of support and a lot of interest both from the market and from regulators to be able to flow CO₂ soon.

So once that unlocks, then the ability to talk about emitters, to be able to talk about the business model is going to start crystallizing a lot more, but we need that physical connectivity that comes with CO₂ pipelines being approved.

CONCLUSION

Operator

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

Francisco Leon

Great. Thank you so much. We're looking forward to seeing you. We're going to do several conferences throughout the summer. But thanks again for listening and have a good day. Thanks.

Operator

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