# California Resources Corporation

## Fourth Quarter Earnings Conference Call

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**CORPORATE PARTICIPANTS**

**Mac McFarland** - *President, Chief Executive Officer*

**Francisco Leon** - *Executive Vice President and Chief Financial Officer*

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

**Chris Gould** - *Executive Vice President and Chief Sustainability Officer*

**Michael Preston** - *Executive Vice President, Chief Administrative Officer and General Counsel*

## PRESENTATION

**Operator**
Good day and welcome to the California Resources Corporation Fourth Quarter Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the "*" key followed by "0." After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press "*" then "1" on your touchtone phone, to withdraw your question, please press "*" then "2." 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**
Thanks. Welcome to California Resources Corporation's Fourth Quarter 2021 conference call. Participating on today's call is Mac McFarland, President and Chief Executive Officer, and Francisco Leon, Executive Vice President and Chief Financial Officer, as well as several members of the CRC Executive Team.

I'd like to highlight that we have provided slides on our Investor Relations section of our website, www.crc.com. These slides provide additional information into our operations and fourth quarter results. And we have also provided information reconciling non-GAAP financial measures discussed to the most directly comparable GAAP financial measures on our website as well as in our earnings release.

Today's conference call contains certain projections and other forward-looking statements. And these statements are subject to risks and uncertainties and may cause actual results to differ.

Additional information on factors that could cause our results to differ are available in the company's 10-Q and 10-K. A replay will be made available for 30 days following the call on our website. As a reminder, we have allotted additional time for question and answer at the end of our prepared remarks. We ask that participants limit their questions to a primary and one follow-up. With that, I will now turn the call over to Mac.

**Mac McFarland**
Great. Thank you, Joanna. 2021 was a year in which we repositioned CRC for the future. We continued to deliver safe, reliable production and advanced our Carbon Management business for the zero-carbon fuel of the future.

In our core oil and gas operations, we demonstrated the strength of our strategy on CRC's streamlined business model by generating $466 million in free cash flow in 2021, the highest level of free cash flow since the inception of CRC. We did that by providing low-carbon intensity and low-decline production of 100,000 barrels of oil equivalent per day, while maintaining our strong environmental and safety record.

We also rationalized our portfolio through the previously announced acquisition of the working interest in mirror and the sale of our Ventura assets, demonstrating active portfolio management as a key element of our business strategy, which we continued in February by also divesting our non-core, non-operated interest in the Lost Hills assets.

We exited the year with approximately 95,000 BOE per day of production, which reflects our 2021 portfolio activity, and we expect just under a 2,000 BOE per day impact from the Lost Hills divestiture in 2021, which has been included in our 2022 production guidance. Furthermore, we expect to exit 2022 basically flat on oil production and Francisco will provide additional details and elaborate on this further, but you can also see this on page 25 of the accompanying presentation.

Active portfolio management allows us to focus on CRC's fully operated fields with lower carbon intensity and future CCS optionality. On the carbon management business side, we were very active in 2021, and will continue to advance our strategy in 2022. We are expanding our new business by progressing CTV deal structures, and project milestones, exploring future financing options, and moving forward with our discussions with numerous potential partners, stakeholders, and technology providers.

We are advancing CTV emitter discussions for the first one million tons per annum for Carbon TerraVault 1, and we plan to provide additional details on these discussions later this year. While prospects and details continue to be discussed, the recurring theme in our discussions is the significant interest in the commercial scale solution of carbon sequestration.

Further, we are preparing additional permit applications to meet our targeted injection of five million tons per annum in 2027. CRC is targeting filing new EPA Class VI permits for incremental CTV storage projects for a total of 200 million metric tons or more by the end of this year. That is inclusive of the applications we have already filed for CTV I.

By filing these applications, it puts us on the path to receive permits by the end of 2025, and that allows us to stay on track for our goal of five million tons of injection by 2027. Over the past few months, we have received fairly comprehensive comments from the EPA on the permits for A1/A2, and 26R, the combination of which is known as CTV I. The dialogue has been, and continues to be, constructive with the EPA in support of our previously outlined timing expectations.

In addition to the EPA process, the local land-use permit and environmental analysis for CTV I are advancing under Kern county's leadership, and we would expect to see them completed next year. We look forward to working with both agencies while advancing our Carbon Management business.

In 2021, as you'll see on the company slides, we're deploying approximately $85 million in our Carbon Management business across capital, OPEX, and G&A. This allows us to advance pending permits, do early-stage development and file the new applications for that first 200 million metric tons, unlock the next several hundred millions of tons of pore space after this initial 200 million metric tons and deploy initial capital for CTV I.

We believe this investment is consistent with our previously disclosed economic type curve and will develop projects with significant returns. These dollars represent a tangible investment in our low-carbon strategy and a real commitment to supporting California’s zero-carbon future.

With decades of data and operating experience, we believe CRC is well-positioned to provide commercial and scalable carbon management solutions. Coupling this with California's Net Zero Ambitions, we seriously can make a significant impact not only from an environmental perspective, but also by creating enduring value for our shareholders.

Lastly, we plan to maintain our solid financial foundation and free cash flow generation. Looking into 2022 and after adjusting for our divestitures, our core E&P business is expected to generate nearly $400 million in free cash flow before our carbon management investments, highlighting the strength of our assets and the efforts of our employees. By our current forecast with liquidity of over $670 million and a leverage multiple of less than half a turn net debt to EBITDA, CRC has a strong financial foundation that provides further support for our future goals, aspirations, and our strategic initiatives.

As a result of our robust financial position, we are expanding our shareholder return strategy. We're doing this by maintaining our current fixed dividend strategy, which currently yields approximately 1.7% and by raising the share repurchase program from $250 million to $350 million and we are extending the program through the end of 2022. This increase in dollars represents a 40% increase to the overall program.

As always, none of this is possible without the contributions of our CRC employees. I'd like to thank the team for all your efforts. Delivering these impressive results in 2021 during a transformative year, as well as dealing with COVID-19 was truly remarkable. We appreciate all of those joining on the call today and thank you for your ongoing interest in CRC. And with that, I'll turn the call over to Francisco. Francisco?

**Francisco Leon**
Thanks Mac, and good afternoon everyone and thank you for joining us on this call. During this year of transformation, the company achieved all of our key strategic objectives. In 2021, CRC produced 100,000 net barrels of oil equivalent per day, and 60,000 net barrels of oil per day. By pursuing our inventory of high return, quick payback maintenance projects in addition to select horizontal opportunities, CRC held oil production relatively flat throughout 2021 after adjusting for acquisitions and divestitures and PSC effects.

The uniqueness of California 's market dynamics continues to showcase the demand for our low carbon intensity product. CRC's commodity realizations remain strong across all our streams, and we expect 2022 realizations to range within historical norms.

As laid out in our hedging slides and in conjunction with an increasing 2021 commodity price environment, we experienced a $319 million cash loss on commodity derivative contracts. As a reminder, the majority of these losses are from legacy hedges that were put on as a requirement of the 2020 RBL.

Turning to the cost side of the business and on slide 11, I am particularly proud of the efforts of our operations team. Our 2021 operating costs, excluding PSC effects, declined modestly by $0.14 per BOE compared to the 2019 cost when we were operating on the pre-COVID conditions in a relatively similar commodity environment. These results are more remarkable when considering energy prices increased nearly 40% from the comparative 2019 period.

As a reminder, although higher natural gas prices increase our energy costs, CRC benefits from higher natural gas prices as we are net long natural gas. Our 2021 G&A costs declined year-over-year, primarily due to our ongoing cost-saving efforts, and previously announced workforce reductions.

In 2021, we invested $194 million in capital. This level of investment largely maintained production throughout the year due to our backlog of OPEX maintenance opportunities and our drilling program, which yielded estimated wellhead IRRs of over 100%. These results contributed to CRC's 2021 EBITDAX of $860 million and record free cash flow of $466 million.

Throughout the year, CRC demonstrated our commitment to shareholder returns and financial strength by buying back approximately $150 million of CRC shares, or approximately 4.1 million shares, through our share repurchase program and initiating a quarterly dividend in the fourth quarter returning approximately 35% of 2021 free cash flow to shareholders.

Our strong financial foundation was further enhanced as we built our cash balance to $305 million at year-end up from $28 million of cash at the end of 2020 and reduced our net leverage ratio to less than half a turn by year-end. The value of our oil-weighted proven reserves is evident by our PV-10 of $6.2 billion at the 2021 SEC price deck, which expands to close to $8 billion at $80 Brent, which is more than double our current enterprise value.

The significant cash flow-generation capability of our declining and low capital-intensive assets allows us to continue to self-fund our low carbon E&P business, continue to deploy additional shareholder returns and fund our carbon management activities. In our view, CRC represents a unique investment that is rare in the energy sector. As we step into 2022, CRC divested our non-operated Lost Hills field, which in 2021 produced approximately 1,900 net barrels of oil per day for proceeds of $55 million.

The Lost Hills field had one of the highest cost structures in our portfolio, and its carbon intensity was approximately 21% higher than our portfolio's average. As a part of this transaction, CRC retained the right to pursue capture, transport, and storage of 100% of the CO2 produced from the Lost Hills steam generators.

This transaction closed on February 1st, 2022, and complements our low carbon intensity ambitions, reduces our cost structure, and brings forward value that, in our perspective, can be further deployed towards future carbon management goals. In addition to this transaction, we were able to further bolster our liquidity by adding $60 million to our commitments on the revolving credit facility which now has commitments of $552 million, up from $492 million.

Moving to our 2022 operational outlook on slide 18, we expect to maintain our oil production from 2021 December exit to 2022 December exit despite previously discussed portfolio transactions and the potential adverse impacts of PSCs at higher oil prices.

As a rule of thumb, for every $10 increase in Brent prices, there is an approximately 1,000 barrel of oil per day reduction to our net oil production as a result of our PSCs. The opposite also applies. With every $10 decrease in Brent, we gain approximately 1,000 barrels of oil per day in net oil production. This is why our guidance slide shows lower production with higher financial metrics. We've provided additional details on the PSC effects in the supplemental materials of our earnings presentation.

Our operations team is expected to further reduce our controllable non-energy costs by an additional 5% as it builds upon our successful horizontal drilling program. Our current 2022 plan has four drilling rigs in operations throughout the year.

As you are all aware, CRC benefits not only from low decline, low capital-intensive production, but also from a large integrated infrastructure across California. It helps us reduce our costs, optimize production, and provide supplemental revenue streams that further increase our earnings capability.

In the first quarter of 2022, we're undergoing a required 10-year maintenance turnaround at CRC's cryogenic gas plant, or CGP1. The plant processes NGLs and natural gas from the Elk Hills and the surrounding fields and we expect it will return to full pre-turnaround production levels by the second quarter of 2022. The plant's downtime is expected to have an approximate 6,000 BOE per day impact on our first quarter, and an approximate 2,000 BOE per day impact on our full-year production. While this maintenance period was expected to start during the summer of 2022, we decided to pull forward the timing of this turnaround to benefit from lower procurement cost and better expected NGL yields in the summer of 2022.

Our 2022 guidance is consistent with our capital allocation strategy, which prioritizes the financial, operational, and future growth goals of CRC. First, we expect to continue our strong operational and production performance. Based on our current guidance at $82.50 per barrel Brent, CRC's 2022 average net oil production is expected to be above 58,000 barrels of oil per day. Second, our $300 million to $335 million E&P capital program includes drilling and completion and workover capital of approximately $250 million to keep our oil production flat from December exit to December exit, with the remaining capital covering our CGP1 turnaround, other mechanical integrity, and field upgrade projects.

After these investments, we expect to deliver, at the midpoint of our guide, close to $400 million in free cash flow in an $82 Brent price environment. This is before approximately $85 million is deployed into our carbon management business and would allow for roughly $250 million of potential shareholder returns, further underscoring the strength of our business.

Finally, I am very excited about CRC's current position and the strength of our forward outlook, as evidenced by our share repurchase program increase and the deployment of capital towards our Carbon Management business. We are forecasting significant and sustainable free cash flow which could translate into additional shareholder returns and further growth optionality with our Carbon Management business. Please note that we have provided detailed analysis of our quarterly and annual financial and operational results and our 2022 guidance in the attachments to our earnings release. Thanks, and I will now turn the call back over to Mac for closing remarks.

**Mac McFarland**
Yes. Thank you, Francisco, and a lot in there on the production and getting to the overall net numbers, but we'll get into that in the Q&A. Look, CRC has a uniquely positioned asset base that allows us to provide the needed energy today and meet the goals of tomorrow with Net Zero fuel for the future. We remain committed to our cash flow priorities of, one, building upon our carbon management, and two, shareholder returns. As an investment, we believe CRC represents a large low-decline production base with significant inventory for stable cash flows coupled with a unique energy transition opportunity and solid financial footing. Thank you for your interest in CRC and thank you for joining us on today's call. We'll now open the line for questions and I'll turn it back to the operator.

## QUESTION AND ANSWER

**Operator**
We will now begin the question-and-answer session. To ask a question, you may press "*" then "1" on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press "*" then "2." At this time, we will pause momentarily to assemble our roster.

The first question will be from Scott Hanold of RBC Capital Markets.

**Scott Hanold**
Yes, hi. Good afternoon. I guess, good morning to you all out there.

**Mac McFarland**
Hey Scott.

**Scott Hanold**
I feel like I'm going to be somewhat repetitive to the last quarter in terms of my questioning, but as I step back and look over the last 8, 9 to 12 months as you guys have transformed the strategy and goals of CRC, I think this Carbon Management Business certainly was met with a lot of excitement from investors in the fall of last year, in particular. It feels like now it's moving to a bit of impatience, right? And I think everybody wants answers sooner than later and I guess, you know, the first question I think is that there is a desire to get some more clarity, you know, what is the status of those that want to participate in Carbon TerraVault? And I know you guys remain committed to getting a million tons by the end of this year, but if you could provide us a little bit more detail on a couple of things. One is, do you feel the inbound interest is, you know, do they feel motivated like they need to do something? And what are the types of questions you find that you need to answer from them?

**Mac McFarland**
Yes Scott. Thanks for the question. So, let me take the first stab at that and then we'll see where it goes. I think that what I would say is that these projects, as we have shown, as we did back in our Carbon Strategy Day, take significant time. I think we showed the development timeframe as being years and the capital being deployed over years. As we've said in the past, we are working on advancing what we see as and still believe is the longest lead time item, which is securing and permitting pore space. And so we are building up that pore space across that time frame by which we get the permits. Eventually, we will cross to where the critical path is, signing up the emitter or the source of CO2 for the storage. We're not there yet, as we've always said, it's through the end of 2022 and that's why we remain committed to doing so.

I think the biggest question is that these deals have not been done. There has not been, you know, there are some recent announcements this morning, but there hasn't been a significant amount of deals done, and so, there is a lot of, I'll call it price discovery, contracting discovery, things that need to work themselves out by which we are working with our counter parties to put in place, you know, executable contracts that we could then underwrite a project to. And in doing that, it's requiring first of a kind activities, whether it be deciding take-or-pay on contracts, deciding minimum volumes, minimum takes.

There's a lot to this that has never been done and so as you work your way through that, that also has an impact on financials, terms and conditions that, you know, their impact on financials. So, we are working with our counterparties through that. And at the same time, I think they're working through price discovery. And I think people remain motivated to do it and over time are going to become even more motivated to do it because California, as you know, as many of our investors know, and the reason why we think we have a substantial place with a Carbon Management Business is, California as a state, is leading the nation in the energy transition. And by doing some of the regulatory things such as LCFS, it is compelling people to look at these opportunities. Let me stop there and see if Chris Gould, Chief Sustainability Officer, has anything to add to that.

**Chris Gould**
Yes. Thanks Mac. I think you covered it, and I would just add in terms of the motivation aspect to that. As Mac said, California has a net zero goal. The segments that are covered under that are part of the 40% reduction by 2030. So there certainly is a motivation by those sorts of emission sources. And I will remind everybody that the total emissions of 425 million tons in California, EFI, Stanford and the like have estimated that approximately 60 million of that is addressable for CCS, and our 20 million tons per annum is roughly one-third of that addressable market. So, from my perspective, that's a great indication of a large-scale pipeline that is meaningful in the context of the demand in California.

**Scott Hanold**
Okay. Just to clarify one thing, do you find it's more of a push or pull in terms of these discussions with the emitters? Do you need to sort of convince them of why they need to do this or are they very clear on the issues there in what they need to do?

**Mac McFarland**
Yes. Scott. What I would say is that I think everybody is aware of the need. Some people view it as a carrot because they can find an incremental cash flow stream via the carbon regulations and the credits that are given. Other people see the impending, I will call it stick if you will, which is going to look like the cost of doing business just like you have, as I'm sure you're aware Scott, which the CCAT, the greenhouse gas allowances have gone up 50% in price. It went from $20 a ton to basically $30 a ton and that makes it more of a stick. I think you'll see these regulations looking more like a cost of doing business and a penalty that people will have to remove. So, I think people, whether they come from it, that they need to remove this cost of doing business or they see it as a new revenue stream, they're very engaged on the need. It's all about getting to an agreement on Terms and Conditions in the price discovery. And Scott, I will tell you, I'm fairly short on patience myself, and I understand the impatience associated with this, but these are long-lived projects, it will take time, but we're doing the steps necessary, which is the very first thing which is get the tanks in place and have them permitted, so you have some place to put the carbon.

**Scott Hanold**
Got it. Okay. Now that makes sense, and then is my second question, on the dollars, you are spending $30 million, $40 million you're just spending on capital on CCS projects or I guess the carbon management projects. What is that going to accomplish, the $30, $40 million of CapEx, what is that going to do?

**Mac McFarland**
Yes. Again, you know, Carbon TerraVault I is a depleted oil and gas field, and so we're going in and doing the plugging and abandonment of wells in advance and trying to get the site completely ready so that there's nothing there that needs to be done in the future, other than the injection wells and the piping, if you will, midstream.

**Scott Hanold**
Understood. Thank you.

**Operator**
The next question will be from Doug Leggate of Bank of America.

**Mac McFarland**
Good afternoon, Doug.

**Operator**
Doug, your line is open if you wish to ask a question. Perhaps your line is muted. We will move on then to the next question from Leo Mariani of KeyBanc. Doug you can always re-queue when you're ready.

**Leo Mariani**
Just wanted to ask a question on the oil guidance here in 2022. Just want to make sure I understood this. You talked about exit 2021 oil being the same as exit 2022. That's pretty clear, but I guess what I'm asking is, are you factoring in the 1,900 barrels a day of divestiture which is occurring in 2022? So, are we seeing a situation where exit 2022 is 1,900 barrels a day lower than exit 2021 or is it flat so you actually have 1,900 barrels a day of growth in 2022?

**Mac McFarland**
Yeah. Leo, Francisco covers a lot of this in detail, but let me point you to page 25 in the presentation that accompanies our earnings release. And I'll let Francisco walk you through. This chart, I think, will answer that question for you.

**Francisco Leon**
Yes Leo, so yes, the answer is flat entry to exit taking into account the Lost Hills divestiture. So, we offset the barrels that we divested with the drilling wedge that we're going to bring forward with the four drilling rigs.

**Leo Mariani**
Okay. That's helpful. And can you all just talk to the current kind of regulatory environment, and permitting environment in California around the oil wells that you're drilling here in 2022? Can you maybe talk to kind of how much inventory you have on the permiting side, is there a year or two of backlog? Is it only a handful of months? What can you kind of tell us around that?

**Mac McFarland**
So Leo, the permitting place that we're at, well let me talk about our drilling program, the wedge that Francisco just covered on page 25. We feel very comfortable. We have a flexible plan that allows us to implement that four-rig program in multiple fashions depending upon permits. The reason why I say that is, obviously, there is the Kern County EIR that is tied up in litigation and permits in that particular area, if they're not already in hand, are not necessarily being issued right now. So when we look at that, we've built that into our overall development plan and think that we can accommodate it in one of two fashions, moving rigs around, things of that nature. But it's not going to impact us here. We believe that that lawsuit will hopefully clear itself out this year and we'll return to normal activity in Kern County. Mike Preston, our General Counsel, is on, anything Mike, you want to add about the suit?

**Michael Preston**
I think I would just say that we have permits in hand, whether or not things are delayed as a result of the suit through year-end. We have more permits than we have wells that we're planning to drill this year. So, as you already indicated, we have flexibility depending on whether that EIR lawsuit is kind of resolved in the near-term versus the long-term. And we've had constructive dialog with the regulators on a process forward around the issues that are raised in that suit.

**Leo Mariani**
Okay.

**Mac McFarland**
Leo, I would just say it as simply as this, we are confident that based off of the permits in hand and our drilling program that we can deliver our wedge.

**Leo Mariani**
Okay. Now, that's really helpful. And I guess is the State itself, on the CalGEM side, actually issuing much in the way of permits right now? Or is there maybe a little kind of gridlock on their side these days?

**Michael Preston**
Mac, I will go ahead.

**Mac McFarland**
Yes. Sorry.

**Michael Preston**
We're getting permits outside of Kern County. There are permit issues for other types of production methods that don't impact us, as you may know, around well stimulation, around high-pressure cyclic steaming. So, there are permit issues that are impacting others in the industry that don't really have an impact on us. We feel like we have a constructive dialog with them. This Kern County litigation has slowed the process, but we think that we'll get to the other side of that. In the meantime, the regulator has been working with us to try and un-stick that.

**Leo Mariani**
Okay. Thanks guys.

**Mac McFarland**
Thanks Leo.

**Operator**
And the next question is from Doug Leggate with Bank of America. Please go ahead.

**Doug Leggate**
Good morning, guys. I'm so sorry. I had you on speaker phone, and when you called my name, I hit the wrong button and hung up on you. So, I am so sorry. Just full disclosure, that's what happened.

**Mac McFarland**
No worries, Doug.

**Doug Leggate**
I got a couple of questions. So, Mac, I know we've touched on this before, but just in light of Leo's questions around permitting. I'm just curious, are you wedded to pursuing the carbon sequestration permits separate and in isolation from any EUR permits? And if so, then is there any movement there on the side of the regulator or the state? Because obviously, the economics would be kind of triple-charged in that event.

**Mac McFarland**
Yes, I'm not sure I understood the wed part. Are we wed to not doing it or wed to doing it? What I would say is that we are focused right now on permitting for carbon sequestration, or storage. The use of carbon for oil recovery, I tend to think of that as carbon storage plus oil recovery, if you will. And I think that it has a future, I think where California is right now, because the enhanced oil recovery message of CO2 flood has not been done in recent past or even the not so recent past. It is something that will come on the heels of the permanent storage solutions or just storage solutions. So, I wouldn't say we are wed to it or not wed to it. I would say that we continue to advance our CalCapture project, which as you know, was based on the premise of capturing the carbon and using it for CO2 flood recovery in the Stevens formations that are at Elk Hills. So, we are continuing to look at it and believe that when you really get down to the science of it, you are storing carbon by doing that. And in fact, when you do use CO2 flood, if you're grabbing CO2 off of an industrial source, you are creating basically zero or negative CI crude or have the potential to. So, I think it is something that is going to have to be advanced in the future. But right now we're doing it in sequence, which is getting the storage done, continuing to evaluate CalCapture. And then we'll have an eye towards that in the future.

**Doug Leggate**
Thanks. I don't want to labor the point, but I guess one of the things we think is missing from the market's understanding of your story is that at some point that theoretically puts you back on a modest growth path presumably. Do you think that's fair? I know it's several years away, but do you think that's a fair way of thinking about the successful conclusion of the permitting?

**Mac McFarland**
I think we have a tremendous opportunity. I mean, I think it's no secret that when you go from primary recovery to water flood, which is where we are focused and that's why we have such a low carbon intensity crude production right now across the vast majority of our fields. After water flood, the next form of recovery that is possible is obviously CO2 floods. So, we're thinking about it, but right now we're focused on the storage.

**Doug Leggate**
Okay. Thank you. My last question is really if you can tolerate it is, just a quick one on hedging. I mean, obviously it's kind of a shame where you guys are in 2022, but it seems to me that you're going to have a pretty tremendous inflection if the strip holds into 2023. I'm just wondering if how you're thinking about the hedging strategy beyond what you had to do for your RBL. And I'll leave it there. Thanks.

**Mac McFarland**
So, you're exactly right. We have to do things per the RBL and we have been doing active hedging. So, I know there was some discussion on some of the swaps that were put on out there. But for the most part, what we've been doing to hedge our position is either rolling up the strikes of our puts, so in other words, leaving the upside there, but rolling up the $40 puts to $70 or $75 to protect the downside. Doing that as well as buying incremental puts, leaving, again, the upside. So that's been our hedging philosophy. Some of the swaps that have to be put on are per the RBL because it has to be a combination of both.

**Doug Leggate**
Great stuff. Thanks, fellas, and sorry about the mishap.

**Mac McFarland**
Hey, no problem, Doug. Take care.

**Operator**
The next question is from Eric Seeve of GoldenTree. Please go ahead.

**Eric Seeve**
Hey guys. Thanks for the call. A few questions, first, on the facilities CAPEX, I know that that includes $15 million being spent on CPG1, and it sounds like that's a once in 10 years type project. Is facilities CAPEX $15 million per year higher than normal because of that or are there other things that are also included that are making it higher than it would be in a normal year?

**Mac McFarland**
Hey Eric. No, you're absolutely right. I'm just trying to find the page in the presentation here. It's page 21 that shows that. I'll let Francisco get into the details, but if you remove that, you get to a more typical facility spend. You know we have a lot of surface operations as an integrated, we've got a lot of fuel gathering systems, water management, we've got the power plant, et cetera. This is a one-time, well not one-time, but every 10 years as you described, where we're doing vessel inspections that you have to shut the plant down to do pressure vessel inspections that is required regulatory as well. So Francisco do you want to elaborate on the capital?

**Francisco Leon**
Yes. No, happy to, Eric. So yes, the D&C and workover is $250 million plus or minus. So that's the activity to maintain our oil production. As you pointed out, you have the CGP1 outage which is a one-time, or every ten years or so, type of expenditure. And then once you back that out, you have, what I would say, a fairly normal year from a facility standpoint. So there is still some mechanical integrity work. We do have some one-time items like solar. We have a small solar investment and some corporate items around IT that are one-time, but I would say the CGP1 outage is really the one-time item. What we like though is we're seeing where we’re coming in this year on a lower capital to maintain production, it's $250 million versus what we guided of up to $275 million. But still, $275 million is that number over multiple years that plays out, but this year is going to come in inside of that. And continue to watch the performance of our horizontal drilling. So, ultimately that's the answer, CGP1 is the one thing that's a one-time from our E&P Capital.

**Operator**
This concludes our question-and-answer session. I will now turn the conference back over to Mac McFarland for any closing remarks.

**CONCLUSION**

**Mac McFarland**
Yes, I appreciate everybody being on the call today. We appreciate your interest. We believe CRC is uniquely positioned with low carbon, low decline assets in a growing carbon management business. We believe we have a very strong financial position by which to build upon that allows us to pursue these strategic objectives, as well as to provide strong shareholder returns through our share repurchases and quarterly dividends. With that, thank you for joining today's call, and goodbye.

**Operator**
Thank you. The conference is now concluded. Thank you all for attending today's presentation. You may now disconnect your lines. Have a great day.