California Resources Corporation

Third Quarter 2022 Earnings Conference Call

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CORPORATE PARTICIPANTS

Mac McFarland - *President, Chief Executive Officer*

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

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

Shawn Kerns - *Executive Vice President and Chief Operating Officer*

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

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

PRESENTATION

Operator
Good day, and welcome to the California Resources Corporation Third Quarter Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing "*" then "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, VP of Investor Relations and Treasurer. Please go ahead.

Joanna Park
Welcome to California Resources Corporation third quarter 2022 conference call. Participating on today's call are Mac McFarland, President and Chief Executive Officer; Francisco Leon, Executive Vice President and Chief Financial Officer, as well as the entire Executive Committee.

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 our third quarter results. 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, we are making some forward-looking statements based on current expectations. Actual results could differ due to factors described in our earnings release and in our periodic SEC filings. As a reminder, we have allotted additional time for Q&A at the end of our prepared remarks. And we ask that participants limit their questions to one primary and one follow-up.

With that, I will now turn the call over to Mac.

Mac McFarland
Great, and thank you, Joanna. At CRC, we are a different kind of energy company. We are focused on delivering consistent and predictable free cash flow. We are focused on disciplined capital allocation and shareholder returns from the free cash we generate. And we are focused on advancing and accelerating our carbon management business. A simple but focused strategy. So let's discuss each of these in greater detail.

First, consistent, predictable cash flow. During the third quarter, we continued to deliver strong results by producing 92,000 barrels of oil equivalent per day, and $128 million of after-tax free cash flow. We did this despite externalities including the continued litigation over the Kern County EIR which has been recently resolved in the courts, as well as ongoing inflationary pressures. We were able to accomplish these results, because we have a robust portfolio of assets that allows us to adapt to the ever changing landscape.

Our portfolio allowed us to ramp up to five D&C rigs during the year and increase our down hole maintenance activity to deliver on our production goals. For the full year 2022, we are projecting approximately $235 million of D&C capital expenditures, while maintaining oil production essentially flat entry to exit. And that's after adding back the impact from the Kern County EIR litigation delay, and taking into account A&D transactions from earlier this year. And while inflation has impacted our non-energy OPEX and CAPEX costs, and as a result, slightly squeezed our margins, we're still delivering on full year 2022 expectations on the current price deck. Francisco will describe this in greater detail, but as we have said, we anticipate long-term average D&C capital of approximately $300 million per year to keep oil production flat, after adjusting for the inflationary pressures that we are seeing. We have a resilient portfolio that delivers consistent and predictable cash flow.

Second, disciplined capital allocation. Until recently, we had a stated long-term capital allocation framework of recycling approximately 50% or less of our operating free cash flow to maintain our oil production. And then we would split the remaining free cash flow 50:50 between shareholder returns and investment in our carbon management business. Now, that has significantly changed with our Carbon TerraVault JV with Brookfield. Because the JV, is expected to fund the carbon management business by our [indiscernible] Carbon TerraVault's into the JV and a 10 ton buy-in to these vaults by Brookfield, our carbon management business is essentially self-funding through the end of the decade if the JV is successful in its objectives. That means we can now focus our free cash flow after CAPEX with shareholder returns and after making limited investments in early stage CTV Storage Vaults as we've said previously, and that is our new disciplined capital allocation framework.

In fact, through the third quarter, we have returned 105% of free cash flow through our share repurchase program and our dividend. And because we are further committing to shareholder returns, we are increasing our dividend by 66% to $0.2825 per share and increasing our share repurchase program by an additional $200 million for a total program of $850 million. And we are also extending the program through the end of 2023.

In fact, if we complete our entire share repurchase program by year end 2023, and include our fixed quarterly dividend, CRC is on pace for nearly $1 billion in total shareholder returns on a cumulative basis.

Finally, we continue to advance and accelerate our carbon management business. Last quarter, we closed the CTV JV with Brookfield, and we are now focused on execution and continue to see a tremendous opportunity with the passing of the Inflation Reduction Act, and the increase in 45Q incentives we see a growing and expanding target market opportunity.

For permanent sequestration, we see a growing set of new opportunities for Carbon TerraVault in the new energy economy, new counterparties in hydrogen and ammonia, renewable diesel. These are Greenfield opportunities that we believe can fit within our economic type curve for CMB, or carbon management business, because they have lower cost of capture and can be constructed in close proximity to our storage vaults, which limits transportation requirements. While this target market opportunity is not yet defined, as our existing sources in the state, many of the counterparties we have recently engaged with are part of this newly emerging economy and something we find very exciting.

We continue to make progress, and are advancing multiple CDMAs or carbon dioxide management agreements, with our counterparties. These CDMAs are detailed frameworks which address the key project terms including pore space, volume commitments, economics, development milestones, facilities and the like. The CDMAs are also subject to conditions and provide a useful roadmap to reach agreement on final investment decisions on an expedited basis. We remain confident in our goal of signing a CDMA by the year end, putting us on track for first injection by the end of 2025.

On the permitting front, we expect to end the year with approximately 140 million tons of filed permits, and while our previous stated goal was 200 million tons of permit on file by the year end, we remain confident in our backlog of permits. The fact is, as we advance permits for permanent storage in a constructive dialogue with the EPA, we are continuing to refine and define best-in-class permit applications, and the standards for best-in-class continue to increase in the level of detail and rigor, something we are keenly positioned to meet. That being said, we have a significant backlog of permit applications, but we are assuring that we file permits of the highest quality, while maintaining our credibility as a leader in carbon management.

Our carbon management business was also bolstered by Senate Bill 905, which was focused on advancing and streamlining the process for permitting CCS in California. While the law itself can be improved with further details and clarifications, the author of the Bill has acknowledged the willingness to work to improve the law further, and we look forward to engaging on these fronts. Given CO2 EOR was banned from Senate Bill 905 and the increase in 45-Q tax credits, we are shifting our CalCapture project to permanent storage and continuing to advance the FEED study. We remain excited about the prospects of this project.

So in summary, consistent cash flows, disciplined capital allocation with a focus on shareholder returns and growing a carbon management business, that is how we are building a different kind of energy company.

I'll now turn it over to Francisco for further details on our results, including how we continue to refine our portfolio. Francisco…

Francisco Leon
Thank you, Mac. Our assets continued to perform well, delivering consistent and predictable results. Third quarter production averaged 92,000 barrels of oil equivalent per day, up 1% from the second quarter. Changes in our development plan and well mix in response to the Kern County EIR litigation and the heat related electricity outages throughout the state impacted our quarterly production volumes. Yesterday afternoon, the court issued a favorable ruling lifting the stay in the Kern County EIR litigation. We expect the County to promptly begin processing permits in accordance with that ruling.

From a commodity realization standpoint, CRC continued to benefit from strong realized prices across all three hydrocarbons. Our average realized price for oil in the third quarter, after settling payments on our derivative contracts, registered at $62.45 per barrel. Third quarter NGL realizations declined from the second quarter, which were in line with seasonal pricing and expectations at $57.68 per barrel. California natural gas prices remain strong, registering five consecutive quarters of increases. CRC realized 109% of NYMEX after hedges at $8.58 per MCF. As we turn to the cost side of the business, we saw total quarterly non-energy operating costs rise by $0.77 per BoE quarter-over-quarter, mainly as a result of increased down hole maintenance activity.

In addition, increases to natural gas prices drove energy related operating cost of $1.63 per BOE or 17% from the previous quarter. As California's largest natural gas producer, we are net long the commodity, which means that what we produce and sell, is greater than the natural gas purchased for use in our operations. During the third quarter, CRC generated $234 of adjusted EBITDAX, and quarterly operating cash flow of $235 million demonstrating CRC's significant cash generation capability.

We remain disciplined and invested $107 million in CAPEX, which is $9 million above the second quarter, mainly due to the addition of a fifth rig in the La Basin. In the fourth quarter, we're temporarily shifting a rig from the San Joaquin Basin to our Huntington Beach field to conduct a six to eight well program and to prioritize available permits on hand.

CRC entered the fourth quarter with four drilling rigs, and we expect to exit the year with 94,000 BOEs per day in total production and 55,000 barrels per day of oil production. For the year, we are maintaining net oil production relatively flat entry to exit after adjusting for A&D activity, with approximately $235 million in D&C capital which is below our stated maintenance CAPEX levels.

After funding our capital program, we generated $128 million of free cash flow for the quarter. Through the third quarter, we have generated $272 million of free cash flow. This provides another example of the financial results our business model delivers, and as Mac mentioned earlier, provides ample opportunity to accelerate the CRC shareholder return strategy.

This quarter, we are increasing both the fixed dividend and the share repurchase program. We believe this allows us to provide competitive returns, which puts us in the top quartile of small and mid-cap tiers from a fixed dividend standpoint. Further, we continue to execute on our stock repurchase program, and have used $424 million of cash to-date to repurchase nearly 13% of our shares outstanding. With the expanded and extended SRP program, we have a lot of dry powder left. We also continued to build our cash balance to nearly $360 million at the end of the third quarter, up from $305 million at the end of 2021, and we have a net leverage ratio of approximately 0.3 times.

Active portfolio management is a key pillar of CRC's strategy, just as we have focused on our core operations to optimize cash flow and leveraged our asset position to develop Carbon TerraVault. CRC continuously optimizes and evaluates its assets as part of the value proposition. Many of our assets hold appreciable value beyond the years of oil and gas-producing assets either through CCS or real estate development. As such, we are evaluating a potential sale of a small parcel of land near our Huntington Beach field to test the real estate market and to optimize future plans for the larger strip.

Looking forward to next year, we see a handful of items to keep in mind. First, consistent with our strategy, CRC will continue to advance operations for Carbon TerraVault. These may require some additional facilities to prepare certain reservoirs to receive CO2 injections. As a reminder, we expect that the majority of these costs will be recouped through the $10 per metric ton buying into our JV partnership.

Second, we will begin to see more commodity exposure in our results as our legacy hedges begin to roll off. This would exceed and offset inflation that we're seeing across several categories in our business.

Third, and we have demonstrated this year, we believe that on average over the next five years, drilling and completion capital requirements to hold oil flat requires approximately $300 million per year. Our portfolio of assets allows us to deliver predictable results which support our consistent free cash flow.

Given our continued strong financial results and our limited NOL position, we expect to be a cash income tax payer in the range of 15% to 20% of taxable income in 2023. CRC's outstanding total return profile combined with the leading carbon management business further reinforces the exceptional investment opportunity CRC offers as we create a different kind of energy company.

Now I'll turn the call over back to Mac. Mac…

Mac McFarland
Before we conclude and thanks Francisco, I would like to thank the employees of CRC for their tireless dedication as well as their safety and environmental stewardship. Nothing would be possible and the results that we achieved wouldn't be without their hard work. 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
Thank you. 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. If at any time, your question has been addressed and you would like to withdraw your question, please press "*" then "2". At this time, we will pause momentarily to assemble our roster.

And our first question will come from Davis Petros with RBC Capital Markets. Please go ahead.

Scott Hanold
Yes. Hi, it's Scott Hanold here with RBC. Just kind of curious now that the current county oil and gas permitting is kind of green lit, can you talk about like why…you know how many, I guess permits you have in there in what we call backlog and how long do you think it's going to take you to get some of

those. So, ultimately when you do think you can get kind of back on page 2, what you view is the most optimized drilling program in 2023?

Mac McFarland
Yes. Hey, good morning Scott. It's Mac. I want to put this over to Shawn Kerns, our Chief Operating Officer, but look, it's late breaking news, okay, and it's good news and we're optimistic about what this brings to us. But I'll let Shawn tell you about some of the process that we're looking at from here.

Shawn Kerns
Yes. Good morning, Scott. Yes, you know, late breaking news. We're very encouraged by what we've heard with the Court's decision. As you are aware, we're having conversations with the permitting agencies about how they're going to restart in an orderly manner. So, we've been engaged in conversations throughout the year anticipating that this may happen and so, I think it will take a little bit of time to unpack the permitting backlog, but I'm very excited about what this can mean for 2023.

Scott Hanold
Yes, do you have a sense…kind of curious on your backlog…

Shawn Kerns
Yeah we have a number of permits that are kind of in place and under hold and so, you know, there are some conversations going on of how to get those restarted and then we have a number there just waiting on the permit systems to reopen.

Mac McFarland
Yes, Scott the way I'd say it is that there's a number of permits. It's not just us that has created a backlog and that has to be worked through, certified under this EIR as well as going through the CalGEM process, but we remain cautiously optimistic that it will return to normalized activity in 2023.

Scott Hanold
That's good to hear, thanks. And as my follow-up, you know it was good to hear you kind of reaffirm your view that the…you hope to having an emitter signed up by the end of the year. And you know, a couple of things with that. First of all, is there certain things that we should look for as is sort of steps that need to occur? I know there's an EIR in Kern County for 26R. Then I think we should be getting some kind of follow on soon. And then also, to the point of the slide that you all have on your presentation on page 19 where you defined those existing sources that can be Greenfield projects. Currently, I think a lot of those may not be in the LCFS compliant molecules but are you seeing any progress to kind of, you know, get that put into an LCFS compliance bucket, even make more enhanced opportunities?

Mac McFarland
Yes, there's a lot to unpack there. I mean so look, as far as the overall process is concerned, you know you mentioned 26R. We're just passing a year in the permitting process. As we've always said, we're expecting that permit by the end of next year under that two year timeframe. So, we're excited about that and that permit as well as the A1/A2 permit continue to progress through as well as our other permits. And going on that timeline, we said we are targeting a metered contract, which we are calling a CDMA at this point. And those CDMAs, if we attain our objective by the end of the year, it sort of puts us on track going to final investment decision hopefully right around the time that we have the permit. So we remain confident that we will be able to do that. I think what's exciting about the page that you brought up on page 19 and the prior page on page 18 which just shows an expanded market opportunity is that when you think about some of the new energy economy, whether the hydrogen, ammonia, ethanol, et cetera, there is a lot that is coming to the forefront and why that is happening is, because of the changes with the Inflation Reduction Act and the $85 for permanent storage that has moved things that don't have a lot of capture capital into the economic discussions. Things that we think would fit within the economic type curve that we laid out. The other advantage is that they can be collocated next to our sites, and so

therefore, that has an advantage for elimination of transportation and things and like. Anything you want to add, Francisco.

Francisco Leon
Just building that point Mac, we have 47,000 surface acres in Elk Hills. We are one of the largest surface owners in the state, so it's a really good way to think about how to leverage our land position.

Mac McFarland
And Scott, I think you also asked about LCFS pathway. So you know, for example on ammonia and hydrogen, there is not an established pathway that I am aware, but…well there is for hydrogen for the fueling stations, but if they are used for transportation fuels, there is an ability to apply for that pathway, so that would allow you to do the stacking as well. But this is, you know, I think these are pretty exciting, as well as, there are ongoing conversations associated with the direct air capture in California in addition to that.

Scott Hanold
Appreciate all that color. Thank you.

Operator
Our next question will come from Doug Leggate with Bank of America. Please go ahead.

Kalei Akamine
Hey, good morning guys, this is Kalei on for Doug. So thanks for taking the questions. My first one is a follow up on the Kern EIR. So my understanding with that when the ruling occurred in May, some of the permits that you had were frozen. Can you talk about whether or not those permits are now viable again and what would happen to the permit if the opposition should do an appeal?

Shawn Kerns
Yes Kalei. This is Shawn. Yes those permits…those permits that were frozen in May are still viable. So they were just really pending the outcome of an EIR kind of segue notification. So you have some in the queue, some that are yet to be filed, but as a team, we have been thinking through different scenarios and planning for those events. So there will be more conversations in the near future of how to get this, we have started in an orderly fashion.

Kalei Akamine
Got it. What happens in an appeal Shawn?

Shawn Kerns
Yes. I will let Mike take this.

Michael Preston
So the stay was left in and the permitting process can begin immediately. However, obviously, the litigation is not completely resolved and the original petitioners will have the opportunity to seek and appeal if they tend to stay the new process, if they so choose. That's certainly not a foregone conclusion that they would be able to achieve a further stay and you think as an observer of the litigation that both the county and the judge have been very careful in addressing all of the issues that were raised in the first appeal. So you know, no guarantees about the future results in the litigation but we are optimistic.

Kalei Akamine
Got it. So maybe, if I can summarize, it sounds like you are not totally out of woods yet, but it feels like the worst of the possible outcomes is now behind us, is that fair?

Mac McFarland
Yes, correct. I would say you know the indications we get right now is it's resuming. So the teams are meeting on how to restart permitting and that's what we are going to be focused on.

Kalei Akamine
Okay. I appreciate it. My next question is on the setback rule, as it relates to LA Basin. As you have set that impact, can you talk about how you are thinking about the production cadence and the inventory depth to those assets, anything you could add on? We came across a comment in a note in the slide deck presentation that stated that workovers in the LA Basin provided about 3,500 BOE per year in terms of production. So it seems like the impact if it does effect the workovers and could be quite meaningful. How do you guys give the cadence?

Mac McFarland
Yes, on the SB1137 again, it still has to go through a rule making process there to fully kind of understand the impact. We've put out what we think preliminary impact to be on certain portions of our asset. There are other areas of the field, you know, it's a very large field where you can continue developing or drilling from different locations. So it…I mean is yet to be seen what the impact is there.

Francisco Leon
And as you saw Kalei, this is Francisco, we've changed our drilling rigs to come into this year to drill some wells, in the LA Basin. We had these locations identified as prime candidates for the beginning of next year, but we are moving them into this year. As a result of that they might be potentially impacted by setbacks in the future. So we're accelerating activity in that basin because of that reason.

Kalei Akamine
Francisco, may be just to put a final point on it. What do you see the inventory depth in the LA basin? How long can you hold current production flat?

Francisco Leon
Yes, I mean, we're still evaluating the impact Kalei, but it is not indicating. These are large fields that have...will still have room to go. Indeed the setback doesn't impact the entirety of the field. So, we're still evaluating the numbers. We still obviously have to see what the final rules are going to be, but we do have inventory left and we will talk about it in the future once I have more clarity as to what the inventory looks like.

Kalei Akamine
I appreciate it. Thank you.

Operator
Our next question will come from Leo Mariani with MKM Partners. Please go ahead.

Leo Mariani
Hi, guys. Why don't you follow-up a little bit on the Brookfield deal here that I saw in the release that you made some comments that you put a handful of maybe new projects in front of Brookfield and providing more color on that, and is there some kind of timeframe they have to kind of look at these projects and decide to move forward on them. How do the mechanics sort of work there?

Mac McFarland
Hi, Leo, it's Mac. Good morning or afternoon. So we did submit a couple other…the A1/A2, CTV2 and CTV3 through the JV as farmdowns into the structure. And there is the commercial terms that I don't know that we've necessarily disclosed, but there's a defined timeframe by which they have an opportunity to respond if they decide not to pull those into the JV or drop them in from our perspective, but there's a deferral mechanism that has some carry on it. And then it's basically part of their right of first look or et

cetera, as we described, for them to take a look at it until we go through FID and then it's an ultimate decision that has to be made. So right now, we're in the waiting timeframe and should hear relatively shortly as to whether or not this will be dropped in immediately or deferred.

Leo Mariani
Okay. And then also in your prepared comments, I think you said, that some place you're going to get Class VI permits around 120 tons this year, and I think the goal was 200 something, it's kind of a little bit short there if I heard that right. Just any color around that and we're just looking at maybe some minor delays and what are you seeing happening there on those permits?

Mac McFarland
I'm going to let Chris Gould jump in and explain, because he is handling that process, but I would say in a simple fashion is that the stakes are being taken up at EPA, and we've been building credibility all along the way with the quality of our permits. And so, we want to make sure that we have the highest quality of permits, and so we're just not going to rush anything. But Chris, you want to provide additional color.

Chris Gould
Yes. Good morning. I think that's right. We've always been committed to setting the highest standards and given the previously limited amount of Class VI applications before CCS has really come onto the scene here. It's expected that the EPA is going to learn and adjust and frankly, we appreciate the need to have the highest standards on projects, so this is important. So we're well-positioned to keep our standards high and meet their standards. And we're talking about things related to data requests and additional requirements around the edges, but nonetheless, things that we want to deliver are very thoughtful, very careful about how we deliver these permits at the highest standard. So we remain on track for our eyes set for 200 million tonnes of permits, and to hit our 5 million tonne per annum goal in 2027.

Leo Mariani
Alright. Just wanted to follow up on the oil production here. So, I think if I heard it right or fair comments. You guys are talking about a 50,000 or 55,000 barrel a day exit rate, is what you are kind of expecting? I guess that's kind of flat where you were in the third quarter. Just wanted to acquire just some context in the press release where I think you referenced that. Maybe a loss to another kind of 1,000 barrels a day. Just kind of reshuffling of the permits and moving the rigs around. Did I kind of hear those numbers right that in terms of the ops, we're a little behind on the oil just because of having to reshuffle the program. Is that continuing to kind of be an issue, and I would assume that if this EIR is not appealed, and is fully resolved, that this issue would pretty much go away and in 2023.

Francisco Leon
Yes, it's right. This is Francisco. The 1,000 barrel impact shown on slide 10, it's a full year impact as we look at, okay, look back at the Kern County EIR delays, and we would want to measure, okay, how much we could have done if there wasn't for that litigation to about a 1,000 barrels for the full year. Our exit rate numbers already take this into account, there is no...in order to obtain this, we just wanted to say okay, this is the impact based on the litigation and we expect to be go back on a normalized basis in 2023.

Leo Mariani
Okay. Thanks.

Operator
Our next question will come from Nate Pendleton with Stifel. Please go ahead.

Nate Pendleton
Good morning, thanks for taking my questions. So, my first question regarding your Carbon TerraVault business, can you speak of potential logistics your team is working through to move the captured CO2 to the planned sequestration sites? And how transportation impacts your assessment of potential sources of CO2?

Mac McFarland
Yes, Nate, good morning it's Mac. Yes, obviously one of the things we are talking about with this new energy economy is the ability to not have to move it very far. With respect to existing sources and being able to move, we've looked at things that are within close proximity, I mean, call it a 30 mile radius. And those are longer term, because you would have to basically create a point to point pipe if you will, because there is no pipeline here of CO2 at the moment. So, it goes into our calculation as to what are the best opportunities, okay, from an economic standpoint, because obviously with an economic cost of having a pipeline that connects source to sync, however as was mentioned in this Greenfield opportunities we can set it right, and of course, as Francisco mentioned earlier, you don't have a lot of piping to do at all, in-field for all practical purposes.

Nate Pendleton
Got it. I appreciate that. And then as my follow up, given your subsurface understanding and progress in the Class VI process? Can you help us understand how your position is differentiated for sequestration from a geologic perspective in the state, especially the reservoirs presented in the JV, and how widespread that opportunity is for high quality sequestration across your acreage?

Mac McFarland
Yes, good morning. So we're positioned well. We talked about many times here our subsurface expertise. In the reservoirs that we brought… four thus far, we are one of the largest holders, if not the largest of seismic data, 3D seismic in State of California. So obviously, when you're characterizing these reservoirs, you have to know how they will act with CO2, and you need the subsurface data to be able to do that, which we have, as we're the largest holder. That then translates into us being one of the largest mineral and surface owners in the state and you combine that with the skills and expertise of a company that's been focused on California for decades. That is where our competitive advantage comes into play.

Nate Pendleton
Right, thanks for your time.

Operator
Again, if you have a question, please press "*" then "1." Our next question will come from Eric Seeve with GoldenTree. Please go ahead.

Eric Seeve
Hey, guys, congratulations on the favorable ruling in the Kern County EIR litigation. I understand that you guys are still working through the permitting process with the regulators there, and are still working through your 2023 budget. But my question is sort of a qualitative one, given that I know you're still working through those things. If you can achieve flat oil production with $300 million of D&C CAPEX, on my numbers, that seems to imply really spectacular return on capital for the drilling program. So my question is, what is your intent and what is your ability with respect to the drilling program in '23? So…are you know…if you can achieve such a terrific return on capital? Is there any intent to grow? And do you have clarity yet on the permitting constraints? Would that be a constraint to growth? Thanks.

Francisco Leon
Eric, it's Francisco. Yes, we're still working through it… we had multiple different variations of the business plan for next year anticipating the favorable resolution, but also thinking about, okay what happens if it doesn't come through right. So we're looking at all the options, we're going to deliver an

optimized plan next year, and we haven't come to a decision as to how many rigs, and what the pacing of that's going to be yet. We're focused on finishing the year strong, focusing on accelerating some of these wells that we thought could be impacted down the road. So I think it's just a matter of we saw the ruling yesterday after the market closed, and we're working hard to provide more clarity.

Eric Seeve
Okay, great. Thank you. My other question is on Huntington Beach. I think you guys mentioned, you're going to do sort of do an exploratory process with a small part of the real estate there. Just trying to get a rough sense of how big is that piece? And is it contiguous with, with the rest of it or just curious, how you cited that how big it is and how you're thinking about that? Thanks.

Francisco Leon
Yes, Eric. So we have a number of properties that are attractive future real estate developments. And this one in particular is not contiguous to our bigger Huntington Beach strip, but it's close, it's within a few blocks also beachfront property and this is a very marketable property. It's an oilfield today, but it will, will do the work to get it in a position so that it tries to maximize real estate value. So we're going to work through that. It's like I said beachfront property, and I'll show you some pictures so you can look at it, it's right next to the oilfield.

Eric Seeve
How many acres is it?

Francisco Leon
It's one acre, approximately.

Eric Seeve
Okay, thanks a lot guys.

Mac McFarland
Thank you.

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

CONCLUSION

Mac McFarland
Great. Thanks, everyone for joining us, and we look forward to your continued support at CRC. Have a good day.

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