California Resources Corporation

Q1 2019 Earnings Conference Call

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CORPORATE PARTICIPANTS

Todd Stevens - *President, Chief Executive Officer*

Mark Smith - *Senior Executive Vice President, Chief Financial Officer*

Scott Espenshade - *Senior Vice President, Investor Relations and Land*

PRESENTATION

Operator
Good day and welcome to the California Resources Corporation First Quarter 2019 Earnings Conference Call. All participants will be in a 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 telephone keypad. 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 Scott Espenshade. Please go ahead, sir.

Scott Espenshade
Thank you. I am Scott Espenshade, Senior Vice President of Investor Relations and Land. Welcome to California Resources Corporation's First Quarter 2019 Conference Call.

Participating on today's call is Todd Stevens, President and Chief Executive Officer and Mark Smith, Senior 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 in our Investor Relations section on our website, www.crc.com. These slides provide additional insight into our operations and first quarter results plus additional information. Also, information reconciling non GAAP financial measures discussed to the most directly comparable GAAP financial measures is available on the Investor Relations portion of our website and in our earnings release.

Today's conference call contains certain projections and other forward-looking statements within the meaning of federal security laws. These statements are subject to risks and uncertainties that may cause actual results to differ from those expressed or implied in these statements. Additional information on factors that could cause results to differ is available on the company's 10-Q, which is being filed later today. We'd ask that you review it when available and the cautionary statement in our earnings release.

A replay and a transcript will be made available on our website following today's call, which will be available for at least 30 days following the call. As a reminder, we have allotted a similar time for earnings Q&A at the end of our prepared remarks. And we'd ask the participants to limit their questions to a primary plus a follow up.

I will now turn the call over to Todd.

Todd Stevens
Thank you, Scott. Thank you to everyone for attending today's earnings call. CRC started 2019 with a great first quarter and made significant progress towards strengthening our balance sheet. We demonstrated the flexibility of our business model as well as our ability to quickly adjust to market conditions and align our value-driven capital program, with expected cash flow. CRC benefits from the differentiated scale and diversity of our world-class portfolio which provides exceptional optionality that enhances our operations in California while navigating commodity price volatility.

As we highlighted on our last earnings call, we lowered the number of rigs in late 2018 to respond to this volatility and we reduced our activity as we entered the year and moved to the quarter. As always, our 2019 plan focuses on living within cash flow, enhancing cash margins, and maximizing the value of our investments.

There's been a lot of recent interest in California legislative activity and I want to start out by providing context to our state's energy landscape. California has an incredible thirst for petroleum products, which underpin our modern lifestyle, well beyond gas for our cars and trucks. Californians consume an immense amount of energy. On a standalone basis, we are the fourth largest global consumer of energy. To meet this need, the state imports 73% of its crude.

Last year, Californians effectively sent over $32 billion to Saudi Arabia, Iraq, and Kuwait and other places outside the state by importing oil. By comparison, this is the equivalent of 26% of California's General Fund Budget last year. Californians consume every drop of oil produced in the state and we represent a vital industry that provides high-paying, middle-class career paths that enable Californians to achieve the American dream. CRC produces under the world's leading environmental, safety, labor and human rights standard and is inherently aligned with the California's progressive values.

Native production doesn't just benefit our shareholders, workforce and consumers. The California State Lands Commission is one of the largest mineral owners and the oil gas industry contributes substantially to state and local revenues. For example, our Long Beach operations alone have generated over $4.8 billion in the last 15 years for the state, Los Angeles County, and the City of Long Beach. Legislation that would export jobs, diminish much needed public revenue, and creates reliance on oil imported from countries that don't share our values and environmental standards is both irresponsible and misguided.

In fact, just shipping imported oil to California already burns over 250 million gallons of marine fuel per year. Replacing native production with imported oil would burn nearly an additional 100 million gallons of marine fuel per year, further increasing overall worldwide emissions. Responsible policymakers in Sacramento and across the state recognize these facts and thecritical role of our industry and workforce. We expect their thoughtful leadership to prevail as it has in the past.

Looking ahead, CRC's greatest competitive advantage lie in our long-life, low-risk, high-quality resource base operated by our exceptional team. One factor that highlights this strength is our R/P ratio of nearly 15, supported by low capital intensity, low declining assets. The majority of our proved reserves nearly -- three quarters -- are in the proved develop category, which further highlights the low-risk, predictable and long-life nature of our California resource base. This provides for a healthy pipeline of development opportunities ahead, as well as continued growth in our 3P reserves.

Another factor that highlights our resource base is our significant inventory that meets or exceeds our internal VCI metric of 1.3. The strength of this pipeline has also been validated through continued joint venture interest. At $65 Brent, our actionable inventory currently stands above 800 million barrels of oil equivalent and over 1 billion barrels of oil equivalent at $75 Brent.

Finally, CRC's resource advantage is further demonstrated by our attractive organic finding and development costs, which have run approximately $7.50 per barrel over the last three years. This low F&D cost aids in our value-driven, full cycle economic and translates to cash margin expansion. I'm also pleased to say that our valuable resources were validated just yesterday with the reaffirmation of our borrowing base at $2.3 billion.

We will continue to strategically leverage CRC's resource advantage are made prudent with our capital investment. We expect relatively flat production from the second quarter through the end of the year with investments focused primarily on crude oil. While there appear to be many factors pointing to higher prices throughout the year, we are prepared for future volatility. We remain responsive, enhance our hedge book as needed, and continue to pursue discipline capital allocation.

Based on the current strip, we believe our 2019 capital program, which was based on $60 Brent, will allow CRC to generate substantial free cash flow. This amount of free cash flow will ultimately depend upon realized prices for the remainder of the year and it could be significant, particularly relative to size of our planned program. We will dedicate this free cash flow in addition to proceeds from potential transaction activity towards strengthening our balance sheet. This will enable CRC to achieve our objective of applying 10% to 15% -- or more -- of our discretionary cash flow toward that end.

On the transaction front, we have progressed multiple discussions with several counterparties following a pause during the crude oil market downturn during the fourth quarter of 2018. We maintain an all of the above approach to reducing our debt burden. We know there are multiple ways to achieve our balance sheet objectives, and we intend to be strategic as we continue these discussions.

On that point, we closed on the monetization of a producing asset yesterday, selling a 50% interest and operatorship of certain shallow zones at our Lost Hills steamflood field in a transaction with a private E&P company for total consideration in excess of $200 million. This consisted of $168 million in cash, and a minimum carry on our remaining 50% non-operated working interest of $35 million.

This reflects a valuation of $88,000 per flowing barrel, including the carry. The carry covers 100% of our investment in 200 development wells through 2023. CRC will retain all of our deep rights. Prior to the sale, our Lost Hills oil field produced approximately 4,600 net barrels of oil per day.

Our diverse portfolio of assets is generating interest on many fronts, including producing properties, minerals, and infrastructure transactions. We continue to execute against our capital program and pursue JVs as they make sense to bring value forward for our shareholders.

We posted solid cash flow during the first quarter and EBITDAX was $301 million. Production was down slightly from the prior quarter, due to downtime at one of our gas plants and other factors. Although, occasional downtime is to be expected, given CRCs large-scale operations, we are able to consistently maintain a high level of reliability, thanks to our team's quick turnaround time to ensure continuity across our operations.

With this laser focus on operational excellence, we also maintain a relatively flat cost structure during the first quarter on the operations side, despite higher energy costs. During the quarter we also benefited from higher crude oil realizations, which were up about 10% year-over-year including hedges.

As you know, we receive attractive Brent based pricing as waterborne crude drives the California market. California, has complex refineries for which CRC's crude is ideal. International analogues to CRC grade crude remain in high demand.

Additionally, the same in state refineries produce a spec product of gasoline and low-sulfur diesel. These factors position CRC well for the shift to the International Maritime Organization's sulfur standards next year, and set up strong demand for native California crude for the foreseeable future. At the same time, we are thoughtfully putting hedges in place to underpin our cash flow opportunistically through the cycle.

For details on our first quarter performance and our borrowing base affirmation, I will now turn the call over to Mark.

Mark Smith
Thanks, Todd. CRC's asset based performance was as expected in the first quarter of the year, delivering production within our guidance range while maintaining relatively flat production costs.

Our overall economics and margin performance remain strong, underscoring the diversity and optionality of our asset base, as well as, our operational focus on driving value. We registered production of 133,000 barrels of oil equivalent per day during the first quarter, contributing to quarterly EBITDAX of $301 million, EBITDAX margins of 38%, and adjusted net income of $31 million, or $0.63 per diluted share.

After the Lost Hills transaction, we expect relatively flat production through the end of the year under our current capital program. As Todd highlighted, we responded quickly to the steep decline in commodity prices experienced in the fourth quarter of last year. We began the first quarter of 2019 by initiating a lower capital program, aligning our activity with expected cash flow, and a continued focus on efficiency.

Capital in the quarter was largely directed to activity in the San Joaquin and Los Angeles basins. We drilled 60 wells, centered primarily on our core San Joaquin basin properties, including the Elk Hills and Buena Vista Fields.

The Los Angeles basin saw activity in both the Huntington Beach area and Wilmington Field, while both Sacramento and Ventura operations continued to show remarkable resilience by maintaining flat production on a sequential basis, with no capital directed toward drilling new development wells, relying instead on limited workovers and thorough well surveillance.

During the quarter, we "controlled the controllables" and delivered consistent cash flow generation from our high-margin, low-decline asset base. With opportunistic hedges to underpin our capital program and JV capital to supplement our internally funded capital program, we look to extend our proven track record in 2019, capitalizing on healthy Brent based differentials and capturing the full value of our world class resources.

As we've discussed, we have multiple monetization opportunities within our large portfolio of assets to strengthen our financial position. As Todd noted, the Lost Hills transaction garnered over $200 million of consideration including $168 million in cash, which we applied to pay down our revolver. In addition, during the first quarter CRC purchased an aggregate $18 million face value of our Second Lien Notes in the open market for a price of $14 million, demonstrating our commitment to balance sheet strengthening.

Through debt repurchases in the quarter and debt reduction from the proceeds of the Lost Hills transaction, we've made good progress in lowering our total debt to $5.1 billion. I'm pleased to advise that our bank group reaffirmed our borrowing base at $2.3 billion effective yesterday, which we consider another point of external validation of our commitment to balance sheet strengthening.

Now, turning to the details of our financial performance for the first quarter of 2019. We produced an average of 133,000 BOE per day during the first quarter, that's up 8% over the prior year period. Our performance included oil production averaging 84,000 barrels per day, which was up 9% over the prior year period.

First quarter 2019 results included negative PSC effects, the gas plant downtime that Todd mentioned earlier, as well as power outages. We continue to benefit from premium based pricing and realizations in the first quarter of 2019.

Oil differentials were robust, registering 99% of Brent before the effect of hedges. Our hedge program, which underpins our capital program by supporting cash flow in the face of volatile commodity prices enhanced our realized pricing by $1.98 per barrel for an average realized price of $65.28 per barrel.

NGL realizations were stronger than expected and came in at 67% of Brent, continuing to reflect compelling local markets. Natural gas realizations were at 106% of NYMEX due to seasonality trends magnified by limited third-party storage within California.

Production costs for the first quarter 2019 were $233 million, or $19.46 per BOE, within our stated guidance range. Despite higher energy prices our focus on our controllable costs kept per barrel cost relatively flat with the prior year period. Excluding PSC effects, our first quarter production costs would have been $18.01 for BOE.

General and administrative costs were $6.93 per BOE in line with our guidance range. The majority of the increase over the previous quarter corresponded to a 51% increase in CRC’s stock price during the first quarter, which drove higher cash-settled equity-based incentive compensation costs at all levels of the organization.

As we previously discussed changes in our stock price introduce volatility in our income segment because a portion of our stock-based awards are cash-settled and our marked-to-market every quarter. Taxes other than on income, which are largely comprised of ad valorem taxes based on the value of the resource of the ground and paid to the counties plus our GHG costs came in as expected.

For the first quarter of 2019, we reported a net loss of $67 million attributable to our common stock or $1.38 per diluted share. Adjusting for unusual and infrequent items and other non-cash items such as non-cash derivative gains and losses that are generally excluded from core earnings by investment analysts, our net income would have been $31 million, or $0.63 per diluted share.

Adjusted EBITDAX for the first quarter of 2019 was $301 million, up 20% from the same quarter last year, reflecting a stable adjusted EBITDAX margin of 38%.

CRC reported cash flow from operating activities of $158 million in the first quarter of 2019. Cash flow was affected by a negative working capital change, as fourth quarter 2018 levels rolled off, as we move through the first part of the year.

In the first quarter, we generated approximately $190 million in discretionary cash flow, comparing favorably to our internally funded capital investments of $104 million. This level of free cash flow generation demonstrates the flexibility of our business model, responsiveness to commodity prices during the fourth quarter of 2018, and our move to prudently adjusted capital program in the first quarter of 2019.

We reduced our rig count from 10 rigs at the end of the fourth quarter down to six rigs by the end of the first quarter of 2019, including rigs focused on JV drilling. This quick action lowered our internally funded capital by 40% and our total capital program by 30% from fourth quarter 2018 levels. A high level of operational control over our broad portfolio allows us to pivot during volatile periods and rapidly adjust plans to recalibrate our activity with expected cash flows. We have a proven track record of focusing on value, and we'll continue to respond and adapt accordingly to succeed in the wide range of environments.

Our philosophy regarding hedging continues to target up to 50% of our oil production, generally over 12 to 18 month periods, in order to provide more certainty in cash flows and support our capital program. We've recently added 5,000 barrels per day of swaps and 10,000 barrels per day of puts spreads covering the first half of 2020, bringing the total hedged volume to 25,000 barrels and 15,000 barrels for the first and second quarters of 2020, respectively. Please refer to our earnings release for the details on our hedge positions.

As we look ahead, we'll continue to play to our strengths, developing our extensive inventory of actionable projects, working to capture the full value of our high-quality, long-life and low-risk assets. We take pride in our flexible business model, which is designed to facilitate dynamic capital allocation and deliver value utilizing our VCI metric across a varying range of price scenarios.

Additionally, we benefit from both our integrated infrastructure designed for scale, as well as, a relentless drive for operational excellence. We'll continue to identify bold ways we can add value for CRC shareholders.

Please note that, we provide a detailed analysis of the adjusted items, as well as, key second quarter 2019 guidance information in the attachments to our earnings release. I'll be happy to take any questions you may have on that information and other aspects of our results during the Q&A portion of the call.

I'll now turn it back over to Todd.

Todd Stevens
Thanks Mark. CRC continued to deliver solid results in the first quarter 2019. With a disciplined capital program, a diverse low-decline asset base with healthy Brent-based realizations, and a focus on margins that centers on "controlling our controllables."

CRC is able to register predictable and consistent results quarter-after-quarter, demonstrating our optionality and importantly meaningful cash flow generation. In addition, we remain keenly focused on simplifying our balance sheet, lowering the overall level of debt while utilizing joint ventures to de-risk and unlock the full potential of CRC's resilient asset base. We are now happy to take your questions.

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." We ask that you limit yourself to one question and one follow-up, then you may re-queue for additional questions. At this time, we will pause momentarily to assemble the roster.

And our first question today comes from Kalei Akamine with Bank of America. Please go ahead.

Kalei Akamine
Hi, guys good afternoon. Thanks for taking my question here.

Todd Stevens
Hi, Kalei.

Kalei Akamine
Todd, in your opening remarks you started off by addressing the California legislation AB345 and I am not going to ask you to handicap the odds of this passing, but I will ask you to talk about where the bill is in the legislative process and any important dates that we should be paying attention to over the course of this quarter?

Todd Stevens
Yes, Kalei, obviously I think topical in many ways, but it's really early in legislative process prematurely to speculate on this bill or other bills, but you've got to remember, we have a proven track record at CRC of constructive outreach on policy issues that affect our state and our communities and we have done this for years, so this is not anything new. But, when you think about where it is, like I said, it's fairly new, it has passed out of an Assembly Committee. I don't think anyone thought that there was a chance it wasn't going to pass out of the Assembly Committee. It would have to pass out of the Appropriations Committee where it sits, and take into account the environmental, employee and other economic impacts. I addressed some of that earlier when we talked about it. And if it passes out of that, it would have to then go to the Assembly and then it will continue this process into the State Senate and be assigned to a Senate Committee…and then would have to be passed out of that and go into the Appropriation side of the Senate. And then it would have to go to full Senate. And then, if this goes… then it would end up on the Governor's desk. In this timeframe to give you an idea, the legislative session would end sometime in September or October when these bills could end up on the Governor's desk. But I think the fact that the way the bill sits in its current form…essentially that the odds are really close to zero, if not zero, of the bill in its current form making it through all this to that.

Kalei Akamine
I appreciate your answering that. My second question is just on Lost Hills, just want to understand a little bit better, it looks like pretty fairly priced deal that could improve in your favor as the asset grows. Wondering if you can share a little bit about the rationale, why this asset and why now, and your broader philosophy about monetizing upstream cash flows?

Todd Stevens
Yes as, you know, we…everything is done around VCI metric and we rank all of our inventory on our VCI metric. And we look for things that complete for CRC capital while we live within cash flow and then we look at things that can be potentially JV'd or and if we didn't think it could be JV'd, are there ways to monetize it that makes sense and I think what we did here is effectively create a hybrid JV while monetizing 50% of our interests and transferring operatorship and control of the asset while having a carry on our remaining interests, because we don't think it will probably would repeat for our internal capital going forward.

And so… we like the asset and we think that the new operator has an opportunity now to improve on the economics and invest that company's capital in the asset. So I think that's a potential win-win with kind of this hybrid JV monetization that we did here. And we are pleased with the upfront monetizing, we are pleased with the opportunity to grow the value and hopefully get it to compete for capital in the future.

And also you remember, here we retain the deep rights and as, you know, California is fairly prolific with over 400 different producing horizons and this is really the shallow steam flood is what we're talking about that was monetized here at Lost Hills.

Kalei Akamine
I appreciate it. I will let somebody else jump on.

Todd Stevens
Thanks, Kalei.

Operator
And our next question comes from Silvio Micheloto with Mizuho. Please go ahead with your question.

Paul Sankey
Hi, guys this is Paul Sankey with Silvio alongside me. One just quick question as a follow-up on the California stuff is what, I don't if this is a smart question or not. But why did the stock get so heavily hit on this, when as you said, it wasn't really a surprise and probably it won't go anywhere?

Todd Stevens
I think there is just heightened awareness given we have…this type of activity in California for many years and we….

Paul Sankey
Yes, because Silvio and I cover refining in California as well for many, many years and we sort of been through this movie before.

Todd Stevens
Correct. To give you an idea, you see this…like in California had a severance tax proposed this year. I think in the last 30 years there has probably hasn't been a year that wasn't one proposed including a ballot measure, but they have never come to fruition. Again, I think you get through the kind of misguided and irresponsible legislation and it has to work its way through all the gateways of the system. And I think the heightened awareness of the activism that has gone on here in California for years it's gone to Colorado and elsewhere. So I think that…there

was somebody who I can't remember the name of it that published, the awareness of AB-345. And it just spooked everyone. And I think they sold first and asked questions later.

And we had that terrible down day last week. But I think fundamentals haven't changed at all. We've dealt with these types of…like I said, misguided legislation in the past, and frankly, very reckless when you think about the California economy. So again, it's ordinary, of course, the businesses things will work through. And we think the thoughtful people in Sacramento will eventually come to bear and understand what this…what this means.

Paul Sankey
Understood, so that if I could ask you a question, which I think you are probably a lot happier talking about, but I was intrigued that you are highlighting your degree of flexibility. And you talked about how you've been able to change number of rigs as rapidly as you were, through you know, what's been the extraordinary volatility really over the last, what is it now eight months in oil? I just wondered…could you dig a bit deeper on the ability to change, it seems, I don't now understand quite how contractually you could drop rigs as quick as you can or pick them up again? For example, any other observations you have about that? Thank you,

Todd Stevens
Paul, good question. I think it highlights really our asset base, but also the supply chain market for services here in California. I think when you look at our asset base, we really have the assets of a super major buried in an independent. So we have effectively operating control over almost every one of our assets. And now Lost Hills obviously we ceded operatorship.

So the ability to quickly shift activity, we have that within our grasp, we're not at anyone else's behest. The supply chain, when you think about the type of rigs and the type of services that are in California, most of that iron doesn't really leave the state, it's really the deep iron will leave the state, the deep, more complex rigs. But the shallower rigs, the medium rigs, they typically stay in the state. So you're able to…being the largest operator and most active drilleror both…drilling rigs and workover rigs… in the state, we were able to price in this flexibility and enable us to have this kind of optionality because we've had to manage through this downturn, since inception. So it's been important for us to be able to manage our activity and manage our cash flow appropriately.

Paul Sankey
Understood. Thanks guys.

Operator
And our next question comes from Pavel Molchanov with Raymond James. Please go ahead.

Pavel Molchanov
Thanks for taking the question. Apologies, but I'm going to ask another one about AB-345. To your knowledge, is there anybody from the Governor's office that is encouraging or pushing this effort in the legislature?

Todd Stevens
Not to my knowledge, and I think that if you were to ask the long line of people, not just our industry, but business, agriculture, and everyone else up in Sacramento and all kind of responsible citizens that are up against this, I think it will be hard to find someone that's pushing behind the scenes with the exception of probably some irrational activists who want to send us back to a pre-industrial age.

Pavel Molchanov
Okay. And there are some reporting in the media that Governor Newsom plans to issue his own kind of oil and gas policy in the near future. Any sense of what the process will be for that, and in any indications on what he may say?

Todd Stevens
We have no indication of what he might say…I think it would be speculative, premature of me to say anything that I think. Just so you know, he's been around Sacramento and understands what drives the state, what drives the state economy. And I know thoughtful heads will prevail here at the end of the day, but he's also driven to try and drive to a more balanced approach and driving more renewables into the system, which we've done in the state effectively, but I think, also understands the value that our industry brings in the meantime.

Pavel Molchanov
Okay, and then lastly, on the same topic, are there any outside groups, environmental or labor or otherwise, that have been lobbying either for or against AB-345? And I mean, outside of oil and gas groups, obviously, but anybody outside of that, are they involved in the process of shepherding this bill or opposing it?

Todd Stevens
I think the only people that we are aware of that have been for the bill have been environmental groups, again, who are trying to de-industrialize the country. But as opposed to, I know that labor has been on our side, agricultural groups, other business groups, community groups. I think the vast majority of folks have been on our side and see this is frankly, like I said irresponsible and reckless.

Pavel Molchanov
Okay, I'll leave it there. Thank you, guys.

Operator
And our next question comes from Sean Sneeden with Guggenheim. Please go ahead.

Sean Sneeden
Hi, and thanks for taking the questions. You, I guess, just Mark like to start off…can you talk about the borrowing base a little bit. Is that inclusive of the Lost Hills transaction, or should we expect that actually gets revised at all post closing, and can you also just remind us what the remaining basket is at this point on the junior buybacks.

Todd Stevens
Sean, this is Todd. What I'll say is, as you know, we have been thoughtful as commodity prices have risen and we have pulled things out of the borrowing base. Lost Hills was not in the borrowing base, so this will be no adjustment to our borrowing base. We have been thoughtful and done this through the process as we looked to monetize things and whether it will be royalty or producing assets or infrastructure. So with that said, I will let Mark get into the other question.

Mark Smith

Sean, so following on to Todd's comments that the Lost Hills assets constituted non-borrowing base assets for purposes of the credit agreement we were able to build a basket…and that basket for repurchases that you described now stands at $305 million.

Sean Sneeden
Okay. That's the tougher one. I guess when we try to think about the kind of remaining non-borrowing base assets, is there any kind of directional guidance of how we should think about that and I think you have talked about royalties and some like in the past, but could you help kind of shape our thinking around how to think about the potential valuations around that?

Todd Stevens
Yes, I mean for us it's been all the above approach, and like I said earlier, we go through the process of looking at the value of our assets and our inventory and what we are going to invest in with our capital, the JV capital. And if we don't see a window for investment in a reasonable timeframe, we want to accelerate that value. We look at monetizing different things. We are not conducting a fire sale. We want to get a value that makes sense for our shareholders, so…and then we felt like this was a win-win here with Lost Hills.

We are looking at everything from infrastructure to royalties to…as you know, we have a comprehensive set of assets that's really a business, not just assets from the midstream, upstream and everything in-between, so we are continuing to evaluate that and we have been in active negotiations for not just that but also for new joint ventures as I have outlined before and kind of meaningful joint ventures. So I think this is something that's important for you understand and we are not just targeting one thing. We are looking at many things and we only going to do what makes sense at the end of the day.

Mark Smith
And Sean, tying in again to what Todd said and helping to frame before you, those significant infrastructure assets that Todd described are considered non-borrowing base assets. The way to think about it is -- what's in the borrowing base -- is oil and gas producing assets, so that would exclude non-borrowing base assets, infrastructure assets and it would include select other properties such as Lost Hills that we see, that we may have the potential to…potentially do something with or J/V, et cetera. And we have…as you know, we have a very good working relationship with the banks and we will keep them right in the front seat with us and we will work closely with them in order to maintain the borrowing base on the one hand and preserve flexibility in terms of non-borrowing base assets on the other.

Sean Sneeden
Got it. That makes sense, and then Todd, you had mentioned that you kind of think of the Lost Hills transaction as kind of a hybrid JV and we have previously talked about potential for JV this year. Is that the Lost Hills transaction or is there still something more to come on that front?

Todd Stevens
No, we are still on active negotiations with some larger JVs and also JVs of similar size.

Sean Sneeden
Got it. Thank you very much.

Operator
And our last question will come from Gregg Brody with Bank of America. Please go ahead.

Gregg Brody
Good afternoon, guys and congrats on the sale. So you mentioned a production number associated with Lost Hills, I want to make sure that I heard it right. You said 3,500 net per day.

Todd Stevens
Just before the sale when it was 100% owned by us in the first quarter, it is 4,600 barrels of oil per day.

Gregg Brody
Yes, I thought I misheard, so that's sounds right, so 100% and you keep 50%. Will you have any G&A reductions as a result of moving it to a non-operating position?

Todd Stevens
It would be modest at best under the field level G&A that you have an opportunity for the new operator to purchase, but it's…the vast majority is coming from OPEX.

Gregg Brody
Got you and when I look…I think this is heavy oil field, so it is 100% oil, is that right?

Todd Stevens
Right.

Gregg Brody
Did you…I wasn't sure what…you gave the production guidance. And I…so I guess it's…it's just as simple as adjusting that by 100%, by 2.3 thousand barrels a day to figure out kind of what the pro forma oil, NGLs, and natural gas will be going forward.

Todd Stevens
We gave guidance out and this is basically oil coming off, 2,300 barrels a day coming off as you heard, Mark and I both say, we think it will be relatively flattish and we just closed on this yesterday.

Gregg Brody
Got it. It is flattish on crude oil or total production or both? I guess the total production would be both.

Operator
And this will conclude our question-and-answer session. I would like to turn the conference back over to Todd Stevens for any closing remarks.

CONCLUSION

Todd Stevens
Thank you all for participating in today's call and your time and interest on California's political landscape. We plan to move forward and replicate the fundamentals of CRC's strong first quarter performance throughout 2019. We will continue to be guided by disciplined capital allocation aligned with expected cash flows to capture the full value of our high-quality, low-decline and low-risk resource base aided by an unrelenting focus on operational excellence. Our business model is built to perform through the cycle and deliver consistent value to our shareholders. We look forward to seeing you on the road. Thank you.

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