California Resources Corporation

Q3 2019 Conference Call

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CORPORATE PARTICIPANTS

Todd Stevens - *President, Chief Executive Officer*

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

Scott Espenshade - *Senior Vice President, Investor Relations*

PRESENTATION

Operator
Good afternoon and welcome to California Resources Corporation's Third Quarter 2019 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 touchtone phone, to withdraw your question, please press "*", then "2." Please note, today's 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'm Scott Espenshade, Senior Vice President of Investor Relations. Welcome to California Resources Corporation's third quarter 2019 conference call.

Participating on today's call is Todd Stevens, President and Chief Executive Officer of CRC, 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 our third quarter results plus additional information. Also, information reconciling non-GAAP financial measures discussed to the most directly comparable GAAP financial measures is available in 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 risk 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, and will be available for at least 30 days following the call. As a reminder, we have allotted a similar time for Q&A at the end of our prepared remarks and would ask that participants limit their questions to a primary question and a follow-up.

I will now turn the call over to Todd.

Todd Stevens
Thank you Scott, and thank you, everyone, for attending today's earnings call. First and foremost, I'd like to thank all of California's firefighters and first responders for their continued efforts to battle fires across our state.

Turning to CRC, our large portfolio of low decline conventional assets and significant inventory of projects with low capital intensity continue to uniquely position us for superior value creation even at lower commodity prices. I'd like to reiterate that we believe that the maintenance capital required to hold oil production flat, will continue to be between $300 million and $400 million annually of internal drilling, completion and workover capital. With continued operational

efficiencies and our recent organizational redesign, we expect maintenance capital to trend down from current levels.

Our sustained strong safety and environmental record, combined with our deep geologic insight across four of California's distinct basins, continues to distinguish CRC as the operator of choice for our partners and state and local governments. We operate in a market that has a large thirst for our crude oil. CRC's native production provides a reliable base supply for refineries that import over 70% of their crude by tanker, with the large majority traveling from Saudi Arabia and its neighbors through the volatile Strait of Hormuz.

As a result, we've achieved realizations averaging above the premium Brent benchmark for much of the year. Our asset base supports a future business model predicated on reasonable growth and strong free cash flow. To get there, we will remain focused on strengthening the balance sheet to enhance our equity value.

In the third quarter of 2019, we saw many external events influence the market's opinions of the exploration and production sector plus a wide range of perceptions on the 2020 petroleum market balance. While market uncertainty remains, CRC has continually received validation from external partners of our quality assets, strong realizations, and operating expertise in this environment. At CRC, we remain laser-focused on what is within our control, and that means continue to show capital discipline and success in "controlling the controllables."

Through these efforts, CRC again delivered consistent results. Third quarter results came in largely as expected, with production within our guidance range and costs and margins at or better than anticipated. This led to free cash flow of $151 million in the quarter, and we are pleased to report additional progress in strengthening our balance sheet and improving our credit position.

Turning to our balance sheet, our bank group reaffirmed our borrowing base at $2.3 billion, once again confirming the value of our predictable, diverse, underlying reserves. This was in the face of the lowest-for-longest price deck we've seen since the spin. We're committed to strengthening and simplifying our balance sheet.

As we take next steps to reduce our debt, we continue to follow on all-of-the-above approach in a disciplined and thoughtful manner. We're actively discussing multiple paths to achieve our balance sheet objectives, recognizing the first set of significant debt matures in 2021. We are finding interest among prospective partners to participate in developing a variety of our diverse assets, including producing properties, exploration, minerals and infrastructure.

As we pursue these opportunities, we seek to maximize value from our asset sales and monetizations and optimize proceeds to meet our key objective of strengthening the balance sheet. We've continued to demonstrate our valuation fundamentals through several completed transactions this year. In May, we divested a 50% interest in our Lost Hills steamflood operation at a value of $88,000 per flowing barrel of oil. The transaction opened the door to more capital investment in that field by the new operator, and we will share in the added revenues through our retained working interest.

In August, we announced our third major development joint venture with Alpine, formally known as our Colony joint venture, with our most favorable terms to date, including warrants at a $40 strike price. We are proud of our safety and environmental record and our progress towards our 2030 Sustainability Goals for water recycling, renewables integration, methane emission reduction, and carbon capture and sequestration that align with state goals.

I'd like to highlight a few milestones in the third quarter that are central to our long-term development plans. Most importantly, CRC received 22 safety awards in the quarter, from the National Safety Council, displaying our continued diligence to make sure our workers return home safely each day. We surpassed our 2030 methane goal by cutting methane emissions from our operations by 60% between 2013 and 2018.

The U.S. Department of Energy awarded CRC and the Electric Power Research Institute a grant for a front-end engineering design study to retrofit our 550-megawatt Elk Hills Power Plant with carbon-capture technology. Our team expects to capture CO_2 produced by the plant, which will be injected into deep oil and gas formations for enhanced oil recovery and sequestration at Elk Hills. We believe capturing the plant's CO_2 for EOR has the potential to add well over 150 million barrels of oil equivalent of resources, reduce our need to acquire greenhouse gas allowances, and in turn significantly lower costs.

This is just one of the many opportunities available to us across our large asset portfolio. We've provided more details about our sustainability targets and projects in our recent voluntary report to the CDP, formally known as the Carbon Disclosure Project. Last year, we received the CDP's second highest score among U.S. independents and we anticipate the 2019 scoring to be released in the coming months.

California's 2019 legislative year ended in September. Only a handful of bills were passed and signed that focused on the oil and gas sector. These bills mainly expand the duties of the state oil and gas regulators, require regulators to re-evaluate abandonment costs and indemnity bonds, and tighten leasing of state lands. We don't expect these bills to have a significant effect on CRC's production or project inventory, particularly given our integrated infrastructure under the state's leading standards and our comprehensive agreements covering our operations on state lands.

Several oil and gas bills garnered much media attention in 2019, but failed to advance. We believe they would face similar widespread and vocal opposition from labor and community groups if pursued again in the next year. Events over the past few months have further highlighted the susceptibility of California's energy supply and cost of living to both international turmoil and outages in the state's electric grid. These events reinforce California's need to grow a balanced local supply of energy including native oil and natural gas production as well as renewable sources in order to preserve affordability, reliability, and resilience.

As we look toward 2020, we remained well situated with our drilling permit inventory. We continue to benefit from a balanced mix of production from diverse fields, and are not dependent on any single drive mechanism or play type. Additionally, our production comes from minerals held by a variety of ownership types with approximately 55% of our production from CRC owned lands, 21% from private owners, 20% from state lands, and 4% on federal lands.

To put this in economic context, our Long Beach operation alone has provided nearly $5 billion to the State, LA County, and the City of Long Beach over the past 15 years from operations on state lands in Long Beach. We continue our constructive dialogue with our coalition partners to better California communities as we prepare for next year's legislative session.

In terms of our operational performance, CRC remains intensely focused on our efforts to control our controllables. Innovation by our operations and engineering teams has yielded what we believe will be significant sustained cost reductions and improved efficiencies.

As a result, we will continue to review and refine our organizational design and have recently taken steps to reduce our headcount. We believe that our actions will reduce our annual cash costs by about $50 million, helping us to sustain margins for debt reduction and value creation. To put this in context, we are now operating our assets with little over half the number of employees we had prior to the spin. We expect to see the impact of our recent cost reductions beginning in the fourth quarter.

Our 2019 capital investment program has focused on enhancing cash margins and maximizing the value of our investment as we continue to strengthen our balance sheet while living within cash flow. We continue to apply our disciplined capital allocation process to ensure that we create the most value, relying on our internal VCI metric to adjust quickly to market conditions and align our investments with an expected cash flow.

To that end, we have currently reduced our CRC rigs to two, and we expect to invest less than $60 million of total internally funded capital in the fourth quarter, of which about two-thirds is expected to be drilling, completion and workover capital. We also expect to operate seven rigs on behalf of our joint ventures. As noted in our slides, joint venture investments to-date have delivered gross production volumes in line with our expectations and should exit the year close to 12,000 BOE per day.

Our debt is trading at levels that provide a very compelling opportunity for us to reduce principal and associated interest expense. With our operating cash flow, we will continue to balance debt repurchases with investing in our resource base to drive value for our shareholders. I'm pleased our debt is near its lowest level since our spin, under $5 billion, which we reduced from a peak post-spin level of over $6.7 billion, while remaining free cash flow positive for the year.

We see a risk-free investment opportunity in our debt with a VCI in excess of two, based on the dislocation between current solid commodity market fundamentals and the pricing of our publicly traded debt. We will approach 2020 with the same mindset, living within cash flow and balancing open market purchases of our deeply discounted debt with investment in our assets.

We will continue to utilize our joint venture capital to flex our spending, de-risk our portfolio, and bring production forward, we will summarize our 2020 capital plan in our next earnings call.

As we've stated in prior calls, we plan to utilize 10% to 15% of discretionary cash flow to enhance the balance sheet and advance our deleveraging. Through the first three quarters of 2019, we repurchased $229 million in face value of Second Lien Notes for $149 million in cash.

We posted solid cash flow during the first three quarters of 2019 with EBITDAX totaling $834 million, an increase of 4% over the prior-year period. We also delivered a $195 million of free cash flow year-to-date, after internally funded capital -- a record for CRC. I should also note this is over 40% of our current market cap.

Year-to-date, we have benefited from higher crude oil realizations which have averaged over 100% of Brent. As you know, we receive attractive Brent-based pricing as waterborne crudes sets the price for the California market.

Looking ahead to the impact of IMO 2020, we expect CRC’s price realizations to remain strong relative to similar worldwide grades of crude. Demand for California production is steady and CRC’s portfolio of crudes is well-positioned against global alternatives.

Of interest in California, CRC's average sulfur content is competitive compared to that of crude imported to California. As other in-state production sources decline, the demand for our California crude remains high and refinery runs remain stable. At the same time, we are thoughtfully putting crude oil hedges in place to underpin our cash flow opportunistically through the cycle.

For more details on our third quarter performance, I will now turn the call over to Mark.

Mark Smith

Thanks, Todd. CRC's high quality, low decline asset base has continued to perform in line with our expectations through the first three quarters of 2019. Thanks to the hard work of our teams and organizational efficiencies, we reduced overall costs while strengthening our balance sheet through significant debt repurchases all while keeping production within guidance.

We secured our ninth credit amendment, granting us more flexibility for potential royalty transactions. As Todd noted, we also received our eighth straight affirmation of our $2.3 billion borrowing base in the semi-annual redetermination by our bank group on November 1st.

Balance sheet strengthening continues to be a top priority. The third quarter marks the sixth consecutive quarter that we've repurchased our Second Lien Notes and marks the largest repurchase in a single quarter-to-date. During the quarter, we repurchased $153 million in face value for $90 million in cash for a discount of 41%. This brings our debt below $5 billion, nearly the lowest level since our spin.

The face value of our Second Lien Notes now stands well below $2 billion, and we have meaningful flexibility within our credit agreement to opportunistically repurchase additional notes. We continue to take advantage of the trading levels of our debt and utilize our JV capital to maintain investments in our assets, all while living within cash flow and focusing on our commitment to balance sheet strengthening.

CRC's operational focus continues to be on growing values; we work to control the controllables. We remain disciplined in our capital allocation process and invest capital in our highest VCI projects. Total production for the third quarter was 128,000 barrels of oil equivalent per day, leading the quarterly adjusted EBITDAX of $278 million and an adjusted EBITDAX margin of 41%.

Our strong oil and gas realizations and capital discipline, partially offset by continued weakness in NGL prices, led to free cash flow of $151 million and an adjusted net income of $17 million, or $0.35 per diluted share.

In the third quarter, we maintained our capital discipline and held our internally funded activity level constant. We utilized the investment of our new joint venture partner, Alpine, formerly known as our Colony joint venture, to allow us to invest within our cash flow while still increasing development of our flagship Elk Hills field and bringing forward reserves. We internally funded $117 million of capital projects and our joint venture partners funded an additional $71 million for a total investment of $188 million while averaging 10 rigs with seven rigs operating with joint venture capital.

As Todd mentioned, we reduced our CRC rig count to two rigs at the start of the fourth quarter and we plan to limit the majority of fourth quarter internal capital to projects with low capital intensity, while continuing to deploy joint venture investments to provide additional flexibility to our capital plans to the rest of 2019 and into 2020.

This reduction in CRC capital should improve our free cash flow and give us flexibility to further reduce debt. We expect that our operating cash flow plus revolver availability will provide adequate capacity for the $100 million of senior notes maturing in January 2020.

Our drilling program in the third quarter 2019 continued to focus primarily on the San Joaquin Basin where we drilled 82 wells, and in the Los Angeles Basin where we drilled eight wells. We also drilled one exploration well in Ventura with promising results, while Sacramento continue to show a modest natural gas production decline with no CRC drilling activity. We focused the majority of our drilling capital on low-risk primary wells and waterfloods.

In terms of production, we produced an average of 128,000 BOE per day during the quarter, while oil production averaged 79,000 barrels per day. Production was down 4% compared to the third quarter of 2018 excluding approximately 2,000 barrels per day of decrease due to the Lost Hills divestiture with a remainder due to our low natural decline and decreased capital investment.

As a reminder, the third quarter of 2019 reflects the first quarter of full effects of the Lost Hills divestiture. So sequential results were affected by over a 700 barrel per day reduction in oil production from Lost Hills, as well as other factors offset by positive PSC effects of approximately 1,300 barrels per day.

As Todd noted, our oil realizations continued to be strong, registering a 101% of Brent before the effect of hedges. We continue to believe that realizations will remain strong throughout the remainder of the year and into 2020. Our hedge program continues to help mitigate the downside and this volatile market environment by supporting our cash flow, which in turn can be used to help strengthen the balance sheet.

Hedges enhanced our realized oil price by $5.56 per barrel during the quarter for an average realized price of $68.41 per barrel. NGL realizations came in at 38% of Brent, the midpoint of guidance, primarily due to excess supply in local and national markets and weaker demand due to L.A. and Bay Area refinery downtimes. We're beginning to see NGL realizations increase in the fourth quarter as demand strengthens and refineries begin to increase their utilization levels after scheduled maintenance is completed. Natural gas realizations registered 120% of NYMEX, above our guidance, primarily due to increased demand in local markets.

Production costs for the third quarter 2019 were $221 million, or $18.82 per BOE. Due to our teams' efforts and our focus on controlling costs, we were able to lower our production costs on both an overall and per barrel basis compared to the prior year period, as well as sequentially.

These were primarily due to reduced costs in both downhole and surface operations partially offset by heightened energy costs. Excluding PSC effects, our third quarter production costs would have been $17.44 per BOE.

Adjusted general and administrative costs were $5.54 per BOE, or $1.03 below the previous quarter and well below our guidance range. Most of the decrease from the previous quarter resulted from lower cash-settled equity-based compensation, which was about an $8 million reduction, due to a lower stock price at the end of the quarter.

As we've previously discussed, changes in our stock price introduced volatility in our income statement because a significant portion of our stock-based awards are cash-settled and are marked-to-market every quarter.

As Todd mentioned, operational and organizational efficiencies implemented by our teams resulted in a recent reduction of our workforce. We will record a total related charge in the range of $35 million to $40 million in the fourth quarter of 2019. As a result, we anticipate on going cost savings of approximately $50 million annually with slightly more than 50% of the reductions in G&A expenses with the remaining in production costs beginning in the fourth quarter of 2019.

Taxes other than on income, which are largely comprised of Ad Valorem taxes based on the value of minerals in the ground and are paid to the counties, as well as our GHG costs, came in as we expected. In the third quarter of 2019, we reported net income of $94 million attributable to our common stock, or $1.89 per diluted share.

Adjusting for unusual and infrequent items and other non-cash items, such as gains on early extinguishment of debt, that are generally excluded from core earnings by investment analysts, our net income would have been $17 million, or $0.35 per diluted share.

Adjusted EBITDAX for the third quarter of 2019 was $278 million, compared to $308 million for the prior year quarter primarily due to a 6% year-over-year decrease in production including the Lost Hills divestiture and lower natural gas trading income. While adjusted EBITDAX margins improved sequentially to 41% from 39%. The increase in adjusted EBITDAX from the second quarter of 2019 was largely driven by higher natural gas trading activity and improved costs.

CRC reported cash flow from operating activities of $268 million in the third quarter of 2019, significantly higher than the second quarter due primarily to the timing of cash interest payments and Ad Valorem cash taxes. In the third quarter, we generated approximately $153 million in discretionary cash flow and $419 million through the first nine months of the year, comparing favorably to our internally funded capital investments of $345 million through the first nine months of the year.

As we pointed out, CRC has a high level of operational control over our diverse portfolio, which allows us to pivot during volatile periods and rapidly recalibrate our activity with expected cash flows. We have a proven track record of focusing on value and will continue to respond and adapt accordingly to succeed through a wide range of price environments.

We believe our success is evident with the amount of free cash flow that CRC has generated in 2019. In the third quarter, we provided $151 million of free cash flow and $195 million for the first nine months, after internally funded capital. We believe we will generate additional free cash flow in the fourth quarter with our prudent capital investment plan.

In the fourth quarter, CRC will deploy capital only to the highest VCI projects in our inventory. We front-end loaded our capital for the year to offset part of our natural decline rate and plan to primarily utilize our joint venture capital for added flexibility and to continue bringing forward cash flow.

Also please note that we provide a detailed analysis of adjusted items, as well as, key fourth quarter 2019 guidance information and current hedge positions 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. Thanks, I'll now turn the call back over to Todd.

Todd Stevens
Thanks, Mark. CRC remains laser focused on our strategy to capture the full value of our asset portfolio. Our team continued to deliver solid results in the first three quarters of 2019 with a disciplined capital program that has focused on value since our inception.

Our diverse low-decline asset base with exposure to healthy Brent-based realizations and a continued focus on costs, margins, and “controlling our controllables” allows CRC to achieve reliable and consistent results. These attributes combined with the optionality of our resource base and our capital discipline have enabled us to continue to generate free cash flow.

We remain keenly focused on strengthening and simplifying our balance sheet, lowering our absolute level of debt, while utilizing joint ventures to provide capital flexibility and to de-risk and unlock the full value potential of CRC’s large asset base.

We'd now be happy to take your questions.

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're using a speakerphone we ask you to please pick up your handset before pressing the keys. To return your question please press "*", then "2.".

Today's first question comes from Pavel Molchanov of Raymond James. Please go ahead.

Muhammed Ghulam
Hi guys. Thanks for taking the questions. This is Muhammed Ghulam on behalf of Pavel Molchanov. So first, you know, wildfires have been in the headlines a lot. I don't think any of your assets are affected by this directly, but I'm curious, given the growing severity and frequency of these kinds of events. Can you talk a bit about your fire protection…about the fire protection measures you've taken across your asset base?

Todd Stevens
Yes. Thanks, Muhammed. The California wildfire season, our mudslide season, and earthquake preparedness is something that we take very seriously. And this is not the first time we've dealt with these kinds of issues. We're well prepared for this, and we work regularly with the local first responders and in different agencies of the government.

To give you an idea, we do have minor impacts and some of the impacts could be directly related to something like the Maria fire, which is around our operations, but also some of the fires where they do safety shut offs of the power in anticipation of high wind events by SoCal Edison and PG&E. So we do have some of that, but we take that into our guidance and it's not a material thing from a CRC perspective. But yes, it is something, and as I noted at the outset, we take very seriously, we really appreciate the work being done by all the firefighters and all the first responders as they react to these events that occur here unfortunately in California every year pretty much.

Muhammed Ghulam

Okay. And let me also ask a bit about the policy landscape. The governor seems to be coming under more and more pressure to restrict oil and gas drilling in the state. Do you guys anticipate something like AB 345 getting revived during next year's legislative session?

Todd Stevens
I think every year there's legislation that's brought up, that, and you can look at even the severance tax that's been brought up for decades in some form. In California, they deal with things that have real impacts like a severance tax, which would take money out of the county coffers and put it in the state coffers. But there is always the irresponsible legislation push for political purposes. AB 345 was something…a lot of cities and local governments already have their own setbacks and deal with these issues.

Again, I think if it got to be more than vague language, it might be something that even industry could get behind in support, but it's…it was a two-year bill, so it probably will come back. And there will be other things that we can't think of today that will happen, but that is the nature of the world we live in. We're in a hyper-politicized landscape that we deal with here in California and other parts of the country where this just happens every year, but I think things that are responsible and serve the people of California and make sure they ensure that we have a diverse reliable and local energy supply that is resilient into the challenges of wildfires and the like are something that is important to everyone here.

Muhammed Ghulam
Okay, understood. That's all from me. Thanks.

Todd Stevens
Thanks.

Operator
And our next question today comes from Karl Blunden of Goldman Sachs. Please go ahead.

Karl Blunden
Hi, guys. Good evening. Thanks for taking the time. Taking a look at some of your uses of cash, you've obviously bought back bonds at a discount. On the liquidity front, though it does pressure the metrics just a little bit. Interested in your take on choosing just minimum liquidity you'd need to manage intra-quarter swings in working capital, for example. And then, second, I noticed that the borrowing base is reaffirmed, which is a positive, but what would it take for you guys to take a look at increasing your commitments under that facility? We've seen a couple of other issuers do that, just to give themselves a bit of more flexibility given where commodities are right now.

Todd Stevens
I think for us…a few different questions you asked there. We're always trying to balance out as we look to simplify the balance sheet. Remember, we started with a simple balance sheet. We knowingly complicated the balance sheet to protect, preserve and create value for our shareholders. And now, we're looking to re-simplify the balance sheet with a few things in mind. We're trying to bring down the absolute quantum of debt. We're trying to bring down our fixed charges and we're trying to balance that with liquidity and ultimately the maturities. So for us, we view ourselves in a unique opportunity from a value perspective to be able to bring down the absolute quantum of debt.

Like I noted in my comments, we're sitting here at a $60 Brent environment, it's not a $30 Brent environment. But that's what the market's acting like with regards to the way our debt is trading.

So I think it's a unique opportunity for us to bring down our quantum of debt, our fixed charges, and balance that out against liquidity. That's something we're always looking at. When I talk about working capital swings, I think we swing a few hundred million dollars each month as we look depending on the investment and the bills that come due each month.

Karl Blunden
That's helpful. And then in your restricted payment capacity, can you try and update on where that stands right now?

Todd Stevens
I will let Mark walk you through that.

Mark Smith
You want to clarify for us what you mean whenever you say, our restricted payment capacity, there are several different aspects. I want to make sure I understand what you are referring to.

Karl Blunden
In this one, ability to buy back bonds?

Mark Smith
We have roughly $200 million of availability under what we referred to as the non-borrowing base asset sale basket.

Karl Blunden
Great. Thanks for your help. I appreciate it.

Mark Smith
Sure.

Operator
And the next question today comes from Gregg Brody of Bank of America. Please go ahead.

Gregg Brody
Good afternoon, guys.

Todd Stevens
Hi, Greg.

Todd Stevens
You've ran through those cost cutting numbers. I missed some of that, and maybe you could just clarify some things. So if you run through it and then just clarify, the $35 million to $40 million of charges that's going to take place this quarter, how much of that is cash. And then I think you said you allocate it where we'd see the savings, I heard 50% reduction cost, but I missed the rest.

Todd Stevens
Yes. So it's about $50 million a year reduction in overall cost and about 60% of that's related to G&A and about 40% of that is related to Opex.

Gregg Brody
And then how much of…?

Todd Stevens
And going forward, we should start seeing it in the fourth quarter. And as far as the charges, I'll let Mark tell you exactly what that was.

Mark Smith
Yes, Gregg, we expect to take $35 million to $40 million one time charge, and then on a cash basis, that will be paid out over the remainder of roughly the next year.

Gregg Brody
Remainder of next year.

Mark Smith
Yes.

Gregg Brody
Got it. So…but all of that is cash, so the $50 million?

Mark Smith
So we'll be taking…so I just want to make sure we're really clear here, Gregg. That $35 million to $40 million will be the accrual we take and then that will flow out in terms of cash over the next year.

Gregg Brody
So nothing in the fourth quarter?

Mark Smith
The charges will all be in the fourth quarter.

Gregg Brody
I get it. I'm thinking about cash. So you are saying all of it will be charged in the fourth quarter, but you'll see the cash impact of $30 million to $40 million throughout the 2020?

Mark Smith
Yes.

Gregg Brody
But that's really $50 million in savings over the...

Mark Smith
Yes. That's correct. Over roughly the next 12 months, right.

Gregg Brody
Thank you. And you expect to be full run rate in 12 months?

Mark Smith
I want to make sure I've got it…I've got you clear on it, Gregg. We'll take the accrual in the fourth quarter, and so that will bring our run rate on an ongoing basis, down to normalized levels.

Gregg Brody
So you're saying there…you are there in the fourth quarter?

Mark Smith
Right.

Gregg Brody
Got it. Thank you. Sorry for complicating that one.

Mark Smith
Sure.

Gregg Brody
And then maybe, I don't…maybe just a second question there just and I'll leave it there. Just on the asset sale process, can you kind of give us an update sort of where things are today, what you're thinking about? Can you just give us some color?

Todd Stevens
I know I mentioned in my opening comments it's all about strategy, but truly is. And I know some people would like to have a bunch of specifics. Some of it is confidential, but when you think about it, again, we don't just have some leases and pumping units. We actually have a vibrant business that you typically would see inside of a super major. So when we say we're really looking at all-of-the-above, we're looking at things from the standpoint…any part of our infrastructure assets, in our midstream assets, monetizations there, monetization of existing producing assets.

We went through the downturn, preserved our asset value to get to a point where we had stable prices like now, around $60 Brent, so we wouldn't conduct fire sales. We have surface land; I think everybody knows we have a large position at Huntington Beach and elsewhere, which we're looking at creative ways to monetize. And there are all kinds of financial engineering ways you can dream up. But you could talk about M&A, whether it be us acquiring something else here in California. It could be a deleveraging event, depending on how you capitalize things. Do a business development opportunity elsewhere. So I could expound all day long about all the things we're looking at, but it is not just one shot. We have lots of ammunition and we're pursuing a lot of paths here.

Gregg Brody
I appreciate that. You've been consistent on that. Thank you for the additional color.

Todd Stevens
Thanks Gregg.

Operator
Our next question comes from Paul Sankey at Mizuho. Please go ahead.

Paul Sankey
Hi, guys.

Todd Stevens
Hi, Paul.

Paul Sankey
I was thinking at a sort of high level about what it was like back in February 2016. The stock was a bit lower, but nevertheless the argument back then was that, if you believe in oil at $60 Brent,

this would be an enormous homerun. And I was just wondering, and when I think operationally you would say and tell me if I'm wrong, that over the period between '16 and now, there haven't been essentially negative operational surprises as regards to how well the company performs at the different oil prices. I think it's fair to say. So it would seem to be more, as you say, a market perception trade that's occurring in so far as, I guess, the sell down in equity, oil equities across the board, may be less appetite for risk in oil debt. I just wondered what your perception is on all of that stuff.

Todd Stevens
Paul, I think it's still the same thing. We have…we screen poorly on debt, but I don't think people try to peel back the onion too often to look at what are the underlying assets. We're not a capital-intensive asset business. We've been able to be free cash flow positive since the spin, even in February 2016. We've been able to do what we say we're going to do from February '16, which is much more bleak times than now. And I think right now, my perception is that energy is definitely out of favor for whatever reason. I think too many people have been burned too many times in the last five years. But I also think that there's a perception with CRC, the debt investors want to have a self-fulfilling prophecy of a reorganization when, in reality, there is maturity wall out there in 2021. It's not like we're not aware of it.

Again, we're trying to work through methodically things that we have been contemplating since the spin, but the conditions haven't been right to do this kind of monetization, where it wouldn't be fire sale type of values. And you see us start to that earlier this year. We've been very methodical, very strategic.

You know my background. We're going to keep our cards close to the vest and do things that are going to maximize value for our shareholders. And we have plenty of time left to execute on that prior to all these assumptions about what's going to happen. And I view the distressed debt pricing as an opportunity for us to de-lever. Again, Brent is $62 something today; it's not $30 a barrel.

Paul Sankey
Yes. I mean it was kind of an obvious point, but I just wanted you give your thoughts on that, given that you mentioned it in your comments. And did you update on the potential for royalty or other deals. I'm sure you must have referenced it. But is it because it's fire sale pricing that you're reluctant to do it, or what's happening?

Todd Stevens
It's a work-in-progress. I'd say, if I was doing it, I would expect it would've been done by now, but it's not me. There are two parties involved and, in some cases, there are actually more parties involved. So we're in the business of trying to create the most value, so we've been working with some parties, and one party has stood out. We've been giving them some time. And we have plan B, C, D, E, and F waiting to be executed on if that one doesn't go the way we anticipate it to go. So again, we have a lot of levers to pull. We have a real business, full of different types of assets, again, like a super major. So we're really just taking our time trying to do what's in the best interest of our shareholders, and not rush and do something that we're going to regret after we do it.

Paul Sankey
Understood. Thanks, Todd.

Todd Stevens
Thanks Paul

Operator
Our next question today comes from Sean Sneeden of Guggenheim. Please go ahead.

Sean Sneeden
Hi, good afternoon. And thanks for taking the questions. I guess, you guys called out maintenance capital in your prepared remarks and I guess how that may ultimately trend down, I think, is what you kind of alluded to. From our perspective, how do you think about…with the addition of the Colony JV, has that transformed how you guys think about maintenance capital at all, or what are the levers that kind of get you to that lower level?

Todd Stevens
I think it is an added tool in the toolbox for us. Again, remember the JVs are really a powerful tool because it helps us manage our cash flow in a commodity business where there are volatile swings. It helps us de-risk opportunities, working with our partners. And it helps us bring value forward to things that weren't competing for internal capital. So it's an important tool in our toolbox for us.

As we look to manage the business going forward, and ultimately people forget about this, they do have reversions in the JVs, too, which is real cash flow and they all revert differently. They all have different…slightly different criteria. We're very pleased with the Colony JV. But talking about what you referenced, we're always striving to get better at what we do and so we're always looking to get better. So part of our restructuring, it wasn't something that we thought about, "Oh boy, let's change this." This actually started about six months ago where I sat down with our team and we challenged ourselves and we thought, "Hey, we can do this better, faster, be more efficient, and come out leaner and meaner in the end."

So we spent a really long time looking at this and working and getting to a structure at the organization that we feel is going to yield the kind of benefits, and we're starting to see that on the margin. It's not big numbers. We're starting to see it right away anyhow. We feel like, what we've always said, kind of our maintenance capital, $300 million to $400 million of drilling, completion and workover capital help us keep oil production flat for three-to-five years. That's something that we're validating even further and pushing that down with our new structure and looking to take cost out of the system from an operating standpoint and also from a G&A standpoint, and then, from a capital standpoint, becoming more efficient. We're already kind of very low capital-intensity, so we think, over time that will make us even bigger and faster and stronger.

Sean Sneeden
Got it. And I guess some of the cost savings that come into the $50 million number you referenced was kind of a part of that strategy in trying to lower the kind of maintenance capital business. Is that a fair way to think about it?

Todd Stevens
No. I think was two-fold. A little bit was, we went into the downturn. We spun off with well over 2,000 employees and I think about 8,000 contractors, if I remember right. And remember on December 1, 2014, was the Monday after the Friday when OPEC said they weren't going to support prices. So we quickly reduced our activity to remain within free cash flow and we continue to do so. And then during the downturn, we had to do things a different way to manage the business to enable us to be free cash flow positive and take the steps necessary to do so. We're trying to preserve as much organizational capacity as we could so that when we came out of the downturn, we were able to do some of those things.

What we realized is, we probably preserved too much organizational capacity as we went in and started really studying how we did the work. It wasn't an exercise when you're at a larger company, where you say, I need so many heads or so much money. It was really how can we make the organization better and start from the bottom up and then really look at how we work, how we do things and how we deploy our financial capital and our human capital to the highest value projects in the company. And that's why I think it wasn't an exercise. It ended up with $50 million of absolute savings a year, in cash savings, from Opex and G&A. But I think the reality is, it started as something like we can be better at what we're doing right now and let's redesign the whole organization that way.

Sean Sneeden
That makes sense. And then I guess, Mark, just to be clear, the $200 million basket for bond repurchases that I think you referenced earlier, that applies specifically to the Second Lien or the unsecureds right? And then, I guess just curious to get your thoughts around how you're thinking about the significant discount on the 1.5 Lien Term Loan, if that has changed any of the calculus around buybacks for you.

Mark Smith
Well, I think this will go to answer both components to that question. That $200 million associated with the non-borrowing base basket can be used to repurchase any debt at a discount, Sean. So we tend to evaluate the various components of the capital structure and look at where we might get the biggest benefit and we'll call it accordingly.

Todd Stevens
Yes, Sean, I think I'd focus you on, remember when we got the 9th amendment, that was in early August. We were contemplating using proceeds from a transaction that go after the best value opportunity for the shareholders, which was the 1.5 Liens, because of the high coupon associated with them. But as our other debt has traded down, we now balance that opportunity set and saying, "What is the best value proposition from both a principal reduction and a fixed charge...reducing our fixed charges?"

So I think from our standpoint, we're just evaluating the landscape as we look at where the debt trades each day and try to be opportunistic in the marketplace. Some of it is extremely liquid. Some of it is not. You can see where you think it's trading, based on your Bloomberg screen, but in reality, there are some of that stuff that doesn't trade and that's just some hypothetical price, or there are some particular buyers, I won't name one here, but they know who they are and they're listening, who buy up every single last dollar of some of that stuff when it becomes available.

Sean Sneeden
Got it. That's helpful. And if I could just squeeze one last one in. On the DOE grant that you guys talked about, how actionable is that in the near term here and how should we think about that? Is it kind of like it immediately kind of adding 150 million of reserves, or how should we kind of think about what the capital needs of the program will be?

Todd Stevens
So this is a large capital project. This is something that...you book reserves when they become commercially viable. So they are in a contingent category, because, I think at this point in time, there are technical reserves that actually work but you have to have a commitment to invest the money and the facilities to grow this. So it is something that we are doing the FEED study right now. We have people working on this. This isn't going to be overnight, but once you start

committed to building the facility, you could start booking those reserves. So I think we have a slide on that in the deck, on slide seven. So you can take a look at that. But it gives you kind of a time frame of where we think based on today. It could be accelerated, but I would think at this point in time, if you look on slide seven, you can see it looks like it comes on stream around 2023. But it is something that we are in the process of working on right now.

Sean Sneeden
Got it. That's very helpful. Thanks for all the time, guys.

Operator
And our next question comes today comes from Andrew Ginsburg of R.W. Pressprich. Please go ahead.

Andrew Ginsburg
Hi, guys. Thanks for taking my call. So I just wanted to ask a question in terms of the recent COSCO sanctions that the Trump administration placed on the Chinese shipping firm. So I know a lot of the crude is imported from Saudi Arabia and the Middle East, and since tanker rates have been kind of exploding lately, are you guys...did that provide any tailwind to you guys from realization to Brent?

Todd Stevens
I think it just firms our realizations up and it causes upward pressure on our barrels because that added cost…because remember 73%, 74% of the crude is imported into California. It's almost entirely supertankers, whether it's the 10% from Alaska or the two-thirds from mostly the Middle East. Yes, that is just giving upward pressure to the pricing in California and our ability to bid up our barrels.

Andrew Ginsburg
Alright. Now that makes sense. And then just circling back to the carbon capture study, you mentioned that you think it could be accretive to the overall cost structure. Did you have an idea of like an estimate of percentage in terms of costs or on how much you'd be able to decrease cost from that?

Todd Stevens
It is probably too early to know exactly, because what happens in that GHG market, it's actually a bid marketplace, so that gets bid up over time. And we've seen some financial players come in there. So we wait and see, but we think over time, that will be bid up. But we have some estimates but I think it's too premature to say how much that might be.

Andrew Ginsburg
Right. So then really from the cost perspective, any positive momentum from that would really be from the credits that you need to pay for in terms of any kind of emissions you're saying.

Todd Stevens
Yes. We would no longer need to buy credit for our power plant.

Andrew Ginsburg
Okay. Awesome. That's really helpful. Thank you.

Todd Stevens
Thanks.

Operator
And our next question today comes from Tarek Hamid of JP Morgan. Please go ahead.

Tarek Hamid
Good afternoon.

Todd Stevens
Hi, Tarek.

Tarek Hamid
On the … can you just talk a little bit more about sort of what you're seeing in terms of the impact of the wildfires on natural gas pricing? Obviously, you sort of...you got the impact both on supply but you've also had a bit of a demand impact as well with a bunch of power bases sort of brought up and back down over and over again?

Todd Stevens
I think we haven't seen any real impact on City Gate pricing in the state. I think with a lot of people rushing out to buy natural gas generators, it'll probably create some demand over time, as they see the grid being pretty unreliable. But that's just my commentary.

Tarek Hamid
Got it. And then, you touched on this a little bit with your other comments, but if you just think about sort of a lot of the balls you have in the air, between sort of asset sales and liability management, do you have any sort of thoughts around, kind of, when you would expect to sort of have something meaningful to announce? I hate to put you on the spot, but it's sort of an important question to ask,

Todd Stevens
No. Like I said to Paul earlier, I think we would hope we'd be across the finish line. A lot of these things we're contemplating, there isn't a lot of lawyering involved. But we are trying to work the best solution for our shareholders so we're trying to be patient, and to use the military term, wait for the whites of their eyes. We are not going to pull the trigger too soon. We're going to do what's best and try to get the maximum value, and if that means we have to wait a little while, we are going to wait a little while and continue to run the business and continue to generate free cash flow. Again, we're not in a rush to do anything. We'd love to be done here in a few weeks, but when you have other parties involved, you're at their whims sometimes, when you're trying to work with them. So it doesn't always happen in your time frame.

Tarek Hamid
Fair enough. And then, just last one from me. With the borrowing base reaffirmation, I'm assuming no changes to the covenants from the ninth amendment. I just want to make sure that's correct.

Mark Smith
Tarek, that's correct.

Tarek Hamid
Good. I just want to clarify that.

Mark Smith

Borrowing base was reaffirmed with no other provisions.

Tarek Hamid
Great. Well, that's it from me. Thank you for taking my questions.

Todd Stevens
Thanks Tarek.

Operator
And ladies and gentlemen, this concludes our question and answer session. I would just like to turn the conference back over to Todd Stevens for any closing remarks.

CONCLUSION

Todd Stevens
Thank you, everyone, for participating in today's call. CRC has a track record of completing meaningful transactions, and we're keenly focused on additional transactions to further our de-levering and advance our high VCI inventory. We'll 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 our unrelenting focus on operational excellence, our business model is built to perform throughout the cycle and can deliver consistent value to our shareholders. We will see you out there on the road. Thank you.

Operator
And thank you, sir. The conference has now concluded. We thank you all for attending today's presentation. You may now disconnect your lines and have a wonderful day.