

California Resources Corp.
Third Quarter 2024 Earnings
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CORPORATE PARTICIPANTS

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

Francisco Leon – *Chief Executive Officer*

Nelly Molina – *Chief Financial Officer*

Jay Bys – *Executive Vice President and CCO*

Omar Hayat – *Executive Vice President, Operations*

PRESENTATION

Operator

Good day, and welcome to the California Resources Corporation Third Quarter 2024 Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing star then zero on your telephone keypad. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one on your telephone keypad. To withdraw your question, please press star then two. Please note this event is being recorded.

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

Joanna Park

Good morning, and welcome to California Resources Corporation Third Quarter Conference Call. Following our brief prepared remarks, members of our leadership team will be available to take your questions. By now, I hope you have had a chance to review our earnings release and supplemental slides. We have also provided information, reconciling non-GAAP financial measures discussed to the most directly comparable GAAP financial measures on our website, as well as in our earnings release.

Today, we will be making some forward-looking statements based on current expectations. Actual results may differ due to factors described in our earnings release and in our periodic SEC filings.

As a reminder, please limit your questions to one primary and one follow-up, as this allows us to get more of you on today.

I will now turn the call over to Francisco.

Francisco Leon

Thanks, Joanna. Good day, everyone. By all accounts, this has been a very strong year for CRC, with excellent progress on several fronts. We are bigger and financially stronger following our combination with Aera Energy. We have successfully integrated Aera's talented workforce into CRC to form California's largest producer with a portfolio of high quality, low decline, and low capital intensity conventional fields.

Our statewide portfolio of assets and long-duration development inventory allows for flexible capital allocation opportunities through workovers and sidetracks to offset natural declines in our reservoirs. We have executed on our business strategy, demonstrating an ability to acquire assets and rapidly capture synergies to enhance returns and grow cash flows.

In regards to Aera, we are ahead of schedule, as we have already implemented more than 55% of the \$235 million in annual synergies. Our track record of growing cash flow per share is a core competency in a rapidly consolidating industry. We are an innovative energy solutions provider, helping California decarbonize essential and hard-to-abate industries, while attracting new partners and green capital to the state. And we offer a very compelling investment proposition for existing and prospective shareholders.

Our equity is underpinned by the PDP value of our conventional assets, and our carbon business is gaining momentum with multiple projects in various stages of development. In addition, the combination of our natural gas production with power generation has us well-positioned to monetize excess power capacity to meet this rapidly accelerating electricity demand in California. CRC has a very bright future.

Before taking your specific questions, there are three things I want to discuss. First, Nelly will give us a summary of our third quarter results.

Second, I will provide an update on our carbon management business and the key projects we're advancing. CRC is a sustainability leader and our assets are uniquely positioned to provide efficient, reliable, and near-term energy solutions.

Lastly, I will share some early thoughts on 2025. Although full guidance will come out in normal course next February, we wanted to highlight our top priorities. Let's get started with a recap of our third quarter results. Nelly?

Nelly Molina

Thank you, Francisco. Our operating results exceeded expectations, driven by a strong production, improved operational efficiencies, and lower costs when compared to last quarter. Reservoir performance remained resilient due to the workover program, which effectively manages our production decline.

Third quarter production averaged 145,000 barrels of oil equivalent per day and oil averaged 113,000 barrels per day. Oil sold at 96% of Brent after hedges. We generated \$402 million in adjusted EBITDAX and \$141 million in free cash flow. Results benefited from cash costs that came in approximately 4% below our guidance. In just one quarter, and despite weaker commodity prices and merger-related payments, we rebuilt our cash balance to more than \$200 million and rewarded owners with peer-leading shareholder returns. Our liquidity remains robust at \$1.15 billion, and we are committed to reducing debt to our leveraged target level in 2025 while continuing our dividend and share repurchase programs.

We continue to maintain capital discipline and delivered strong quarterly results on lower-than-expected capital of \$79 million. This decrease is mainly related to lower-than-expected capital deployment after high-grading our workover projects.

We have a track record of returning meaningful cash to shareholders, with approximately \$965 million returned to shareholders since 2021. In the third quarter, we returned \$76 million to shareholders, or more than half of the quarter's free cash flow. This was comprised of \$34 million in dividends and \$42 million in share repurchases. If you have questions on our quarterly financial results, Francisco and I will be happy to answer them at the end of our remarks.

Francisco, back to you.

Francisco Leon

Thanks, Nelly. Now let's talk about our growing carbon management business. We continue to experience significant interest in our carbon management business from various stakeholders as we make progress in helping solve the dual challenge of quickly reducing California's industrial emissions while delivering reliable and affordable energy.

We all share a common goal, to safely and rapidly decarbonize California.

In our Carbon TerraVault release, we provided some exciting new information, including three major updates.

First, Kern County unanimously approved our conditional use permits for CTV I at Elk Hills. Per the EPA tracker, we expect to receive our final EPA Class VI permits for CTV I 26R reservoir next month. Shortly after receipt of the EPA permit, we expect to FID and break ground on our first carbon capture to storage project at our Elk Hills gas processing plant.

Next, we recently signed a brownfield MOU to develop carbon solutions for a leading California power company, which will allow for up to 1.5 million metric tons per annum of CO₂ sequestration. While important to CRC, this partnership is uniquely aligned with California's goal to decarbonize by 2045. I'll take a moment to explain the significance of this MOU.

California's regulators have highlighted the importance of carbon sequestration and acknowledged that decarbonizing power is critical as this high-emitting industry is vital to grow our economy. Our new MOU with Hull Street Energy, a leading power provider in a state that desperately needs more clean power today, is aligned with ours and the state's climate objectives. Natural gas is necessary to power in California today and combining it with CCS will deliver net zero power, which is needed to achieve the state's climate goals. California's own Senate Bill 100 states 100% of retail electricity sales be sourced from renewable and zero-carbon resources by 2045.

At CRC, we're doing our part to lead California's decarbonization, but we need regulators to do their part and take fast action on CO₂ pipeline regulations to enable the installation of new pipes. This will allow carbon to be safely captured, transported and stored. Our CTV subsidiary is rapidly scaling today with nearly 4.2 million metric tons per annum of CCS projects under consideration and other substantial agreements in discussion.

And lastly, we continue to explore multiple opportunities in connection with new AI data centers in California. Having existing power required to run these centers, coupled with a desire to decarbonize that power, creates a unique first-mover advantage for CRC.

Data centers are expanding rapidly across the country, with contracts for nuclear, SMRs and geothermal energy sources receiving recent attention. We believe that natural gas power generation with CCS is the best option for tech companies in California, given the expansive existing infrastructure and the ability to reduce emissions.

We are positioning CTV as California's energy solutions provider, with the goal of making data centers carbon-free. Together, we can attract and retain highly technical, high-paying jobs, and encouraging new investments in our state with the aim of meeting California's aggressive decarbonization goals and helping ensure the reliability of an already taxed power grid. We hope to have more to report soon on CRC's role in creating the carbon-free digital bridge between energy and tech.

Let me close out our remarks with some preliminary thoughts on 2025.

Over the last few weeks, we have seen tremendous volatility in oil prices. With this backdrop, we have taken steps to provide near-term cash flow certainty through our significant hedge positions.

For the full year 2025, roughly 72% of our oil production is hedged at an average floor price of \$67 per barrel. These positions underpin our merger assumptions and support our cash flow. We are confident that we have the right strategy and our 2025 priorities are clear.

We will maintain our strong balance sheet and improve our bottom line. Through continued capital discipline, delivery of Aera-related synergies, and the strength of our near-term hedges, we expect to generate significant cash to both reduce total debt and return meaningful cash to investors.

In the E&P business, we will proactively manage our low natural declines with a combination of workovers, sidetracks, and new wells with permits on hand. We plan to start 2025 with a one-rig program, which we can sustain through 2026.

In Carbon TerraVault, we will add scale in our leading carbon management business, entering into agreements with new brownfield and greenfield emitters. After years of planning, we are moving closer to our target to inject CO₂ into CTV I by the end of 2025.

In 2025, we will once again demonstrate the strength of our power business. We have resource adequacy contracts in place that will increase these payments by 50% year-over-year to approximately \$150 million in 2025.

Lastly, we will aggressively pursue additional cash flow-generating opportunities. We are in an unrivaled position to provide solutions for AI data centers, the power industry expansion, and other new industries looking to enter our great state. We are a different kind of energy company, and we look forward to unlocking the value of our business for the benefit of our shareholders and our fellow Californians.

With that, we can now open the line for questions.

QUESTION AND ANSWER

Operator

We will now begin the question-and-answer session. To ask a question, you may press star then one on your telephone keypad. If you 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 star then two. Please limit your questions to one primary and one follow-up. At this time, we will pause momentarily to assemble our roster.

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

Scott Hanold

Thanks, good afternoon. I think I want to start with the Hull Energy MOU you signed. Obviously, it's significant in two ways. I think it's your largest agreement to date, and obviously, it's a brownfield situation. You did highlight, obviously, CO₂ pipeline regulation in California would be needed. Can you provide two things? One, can you provide thoughts on where you think that is right now and a timeline of that being addressed?

Number two, any kind of context around that agreement relative to location of assets in California? That would be the first likely area you would be looking at for that, and what would it take for you to do front-to-end versus just the storage piece?

Francisco Leon

Hey Scott, so yeah, regarding CO₂ pipelines, that's definitely going to be needed to scale the business to where we want to take it. There's significant market demand and a market need to reduce emissions. I think our MOU with Hull Street proves that there's market appetite, and this is also going to be needed to attract data centers in California. So, I think this transaction or this potential transaction highlights the market need to get there.

So, the next step to be able to scale the business, because this will certainly be one of many opportunities we bring to the table, will be the connectivity on pipe. As we talked about before, we have two ways to think about pipelines. One is a California can, who make around their SB905 bill to be able to regulate pipelines throughout the state. But we also are looking at the federal government, and I believe they're going to start the drafting of potential pipeline legislation soon.

So, we definitely need it to scale the business. As we think about a portfolio of greenfield and brownfields,

we like the combination of new fields with greenfield, existing emitters with brownfields. But this is just a start, right? And the evidence of the market support, the evidence of the market need are going to be critical to take this going forward.

So, the nice thing is we were able to continue to be very selective as we advance the permitting process in getting to this first ever CUP permit at Kern County awaiting the EPA. We're able to now get to the next stage of our development, which is this brownfield emitter portfolio that we've been building.

So excited that we got here with Hull Street to announce an MOU today. We're not being specific at this point on project details. There's still things to work through. But we're building that queue, we're building that inventory for brownfield emitters and a lot more to come.

Scott Hanold

Appreciate the context. As my follow-up, obviously the political landscape has been pretty dynamic, we'll say, in the last month or so. And obviously, with the change that came about last night, how do you think about the prior agreements that you've signed? Were they very reliant on the IRA bill that was put out there, or do you think if there is some uncertainty in the IRA bill or that changes, those prior agreements really, from a financial perspective, don't change for you all too much?

Francisco Leon

Yes. We headed into the election looking at the aspects of the IRA that we're working through as bipartisan. So, if you look at carbon capture and sequestration, it's really being done nationally. There's a lot of interest in states that have both the emissions and the capability to store them, irrespective of if they're red or blue states. We think this is the right compromise solution, right, to use your existing infrastructure and retrofit with CCS.

So, we went into the election thinking it's bipartisan. Certainly, red states use CO₂ for EOR, so we don't see that changing at all. So, we think the IRA is the right thing to bring more technology and investment forward. But as we think about our California projects, there's multiple ways to ultimately make these projects viable, right? So, IRA is one component, we feel very, very good about that. We also have the LCFS program here locally.

But what we're starting to also develop is both the voluntary credit market is starting to take hold, but then you're also going to start seeing a premium value to having clean electrons and clean products, right? That's where bringing the data centers, and it doesn't have to be data centers, right? It could be really any customer that sees value in having clean base load power or clean, lower carbon intensity fuels. That will come to the table and really benefit on CCS.

So, if you look at the entirety of the incentives and the market opportunity, we don't see an over-reliance on one versus the other. We think the whole kit is going to be ultimately what's needed to make this, the CCS, the carbon management business really to take off nationally. But for us specifically in California, we see multiple ways to win, multiple ways to bring these projects forward and we don't see that changing at all with the election.

Operator

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

Kalei Akamine

Hey good morning guys, Francisco and team. I guess first, it's really good to see some definition forming around the option value in your portfolio. As you know, we've been pretty constructive on your power business, and the opportunity to take some of those watts behind-the-meter. If there's demand for clean

base load power, we think that you guys are well-positioned to provide it. And I guess that brings me to the MOU. I don't think it's coincidence that this comes after receiving the surface permit. You have the Class VI penciled in for December. Can you give us a sense of the work that's been building up behind the Class VI and in anticipation of that milestone, and whether we should expect even more news flow after getting that permit?

Francisco Leon

Thanks Kalei for the question. So, yes, we've been talking about our Class VI permit for three years. So, it's great to finally get there where we achieve this milestone and first ever, right? So, we can't dismiss the amount of effort that went into positioning the company to create this permit in Kern County for conditional use. It's really testament to the team at CRC about being able to create value and ultimately bring these projects forward.

It is an important milestone, but we're not done. We see, I mean, clearly the EPA permit should come next and tracking towards next month. But as we've been thinking for several years now on the magnitude and impact of the business, there is significant work, as you say, in understanding first where the value chain ultimately fits.

And just to recap, we see a state that wants to decarbonize. We see a state that by law needs to decarbonize. We have carbon taxes, a greenhouse gas tax that emitters pay today. We see a real need to find and extend the life of a lot of great infrastructure that's already in place and paid for by other emitters.

So, when we looked at the landscape, we saw this opportunity to deploy capital alongside with Brookfield across the value chain. But as you go through a first of a kind, then you have people that want to take the wait, let's wait and see if CRC can deliver. I think the proof point is there, that we are making really good progress, that we're ahead of anybody else in the state.

And you can see that with our MOU today. And I believe the same will apply to data centers. You see a real need, a market need. But then when you drive a first of a kind solution like natural gas combined cycle with CCS, I think it's legitimate for people to say, okay, is this real or not. And I think we're right there, right?

So, yes, to the question of would I expect more. Absolutely. The market's right for these solutions and we're ready to provide them. Obviously, can't speak to other conversations other than to say that I would expect more to come in the coming months. As we have a finite resource, which is pore space. These reservoirs will get full over time. So, I think the time has come to bring in the right partners, the right long-term partners that ultimately get a clear benefit from being able to do storage and capture of CO2.

Kalei Akamine

I appreciate that Francisco. This is my really quick follow-up. So last week, the regulators at FERC pushed back on Susquehanna plant going behind-the-meter. Can you talk a little bit about why the California market is different than PJM? And I'll leave it there.

Francisco Leon

Yes and, I won't speak to what's happening in other states and might not know the details to speak to them. But the dynamic in California is unique. We laid out already there's mandates to decarbonize, and this is not about a— there's both carrots and sticks around that ultimately to make these companies viable going forward, they need to find a solution to store that CO2. We can't continue where our goal is to lower emissions.

So, when we think about what's in place in California, there's a significant penetration of renewable solar and wind, and there's an appetite to move away from natural gas power. Well, as we do that, what we've seen is it's a cost increase to consumers on electricity. We've also seen a lack of reliability in the system.

So, as we think forward, okay, what do we need to do to deliver both, right. They should not be mutually exclusive. We can lower emissions and we can provide reliability. We think it's this infrastructure that's in place that today acts more as peakers and not as base load. These are going to be great solutions for the state.

And the key is to take some of these power behind-the-meter that's not servicing the communities, but it also can be used to attract new businesses that ultimately have a great benefit for California. So, the dynamics are different here. We have excess capacity in natural gas generation. We're going to make it clean and we would like to bring it behind-the-meter.

Operator

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

Betty Jiang

Hello, thank you for taking my question. It's definitely great to see the momentum that you're seeing in a carbon management business. But as those activities start to pick up and you're imminent to FID, your own gas processing carbon capture project starting for next year, how should we be thinking about the capex, the capital allocation that you expect to put into the carbon management business next year? And just help us, remind us, like, what percentage of the capital is being spent at the CRC level versus what's being funded at the subsidiary JV level? Thanks.

Francisco Leon

Yes. Betty, thanks for the question. So, our first project, 35R, is our own carbon capture project of an existing facility, pre-combustion of CO₂. We're going to strip out the CO₂ from the gas stream, expect to get to FID on that project very shortly after we have receipt of the EPA permit. It's basically the last remaining condition precedent to move forward on the project.

As we stated before that project is less than \$20 million. It's, I would say, a relatively simple modification of the existing plant. We also have the injector very, very close by. I think it's like 4,000 feet away. So very short pipe. The facility already exists and it can be modified. So, a low capital project, and we'll disclose the details once we reach FID.

And so, I would say 2025, it will depend on other projects that we may bring to the table. But for now, what we have lying aside to and we communicated to the market is just this project, 25R, in terms of capital.

The run rate of the business is a combination of permits and it's a combination of people costs. So that's disclosed in our financials, a small amount of run rate, op ex, and G&A to move this project forward.

The big capital projects will come later as we advance the capture, transport, and storage business, in particular to brownfield emitters. And that's where we have a great partnership and joint venture with Brookfield, where, if you recall, we have the ability to sell down a portion of the pore space, 49% working interest in the pore space, at \$10 per ton. That ultimately helps us finance the capital calls on the CRC business. It effectively could become a self-funding business as we move the ball forward.

So, I would say 2025 should be a year of further proof points, further market evolution. I would expect more emitters of the different industries to come in and partner with us, expect to continue advancing in

those fronts. But capital, for the most part, should be limited in 2025 to the 35R project that we're launching this year, and then we'll see in 2026, we should be ready to talk about further larger capital investments.

Betty Jiang

That's really helpful. Thank you for that. My follow-up is cash return and buyback specifically. The third quarter, we see the first full quarter of Aera impact and seeing the cash flow generation capability of this business. The adjusted free cash flow is \$171 million this quarter, and then you bought back only \$42 million. It's a bit less than we thought you are capable of doing. So, as we look forward to 2025, the business protected by hedges. So, should we be expecting that buyback pace to pick up, or any reason that it wouldn't?

Francisco Leon

So, I guess the first point to raise, Betty, is that we see tremendous value in our stock. If you think about all the business lines that we have, the business opportunities, all the catalysts that we have, and great to see the first catalyst starting to arrive with our MOU today, we don't see the value captured in the stock. So as long as that continues, we'll continue buying back our shares aggressively.

We bought back— we have a share repurchase program since 2021. And if you look at the track record over the last four years, we've used about 65% of our free cash flow to buy back shares, right? So that's the indication of the past.

As you point out, the Aera transaction brings more stability, bigger scale and more cash flow to the business. As we closed the Aera transaction, we took our cash levels down to zero, and then we rebuilt it in one quarter to over \$200 million, right, just to showcase, again, it showcases the capacity— the cash flow capacity of the business.

So, we still have about \$600 million remaining under the Board authorization on the share buyback. And we evaluate it every day. We look at ways to deploy capital in a smart way. And like I said, we see a lot of value in the stock. So, we haven't been prescriptive on a go-forward basis as to how many shares we're going to buy. But I think we can look at our track record as evidence of what we've done and where we might be heading if the opportunities continue.

So, the nice thing about our cash generation business and the hedge book is we also can bring down debt. We have about \$240 million of 2026 bonds outstanding. We're also looking at that. Those are callable at par starting next year. So that's the commitment that you have with CRC. We'll manage very strong balance sheets and our liquidity and deploy capital in a way that ultimately rewards investors in different forms. So that's where I'll leave it on the shareholder return policy.

Operator

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

David Deckelbaum

Good afternoon guys, thank you for taking my questions. I was curious just as you think about 2025, obviously, there was some outperformance in the upstream business on just capital deployment this quarter. As you integrate the Aera assets and you think about you kind of gave some bookends around production guidance for next year. As you think about optimization, was some of that optimization and high grading workovers this quarter more of a one-time thing, or do you see future opportunities as you kind of look through that portfolio where you could significantly lower capital expenditures next year as you kind of look to high grading?

Francisco Leon

Yes. No. First of all, we see a lot of opportunities as we continue to integrate. We now have the hands on the steering wheel, have a really good sense of the opportunity set and the capacity of the business. Yes, the bread and butter of California is through workovers and sidetracks. And those are great projects that make really good returns and help offset the decline.

I would not say that the third quarter is evidence of any sort of one-time activity. I think it's the continuation of the business is to continue to really focus on those type of projects on a go forward basis.

We obviously are not going to guide today to 2025 in terms of specifics, but we see a very similar trajectory of the business in 2025 from an E&P perspective in terms of capital deployment, in terms of activity set, in terms of decline rate.

So, it's a steady business in that we can do a lot of the blocking and tackling by surveillance-based management, workovers and sidetracks, and expect that to continue as we keep getting a lot, we've been rebuilding the permit inventory as well.

So, we see a similar trajectory into next year as we've had this year, and it was great to see the production coming in strongly as it did. That's just a testament to the quality of the assets and the quality of the team that runs them.

David Deckelbaum

I appreciate the color there. And congrats, obviously, on the MOU on the carbon storage side. I am curious if you have an update on just your views on the solar market as it relates to your surface acreage. It's obviously something that was highlighted last quarter. I think you guys had around 84, 85 megawatts of projects in development. As you kind of consider all of the solutions for increasing power generation in the state, obviously, there is a huge opportunity with carbon capture and a clean energy source from existing emitters, how are things progressing on the solar side and how you are seeing -- how would you kind of weigh the demand for opportunity between solar and use of surface acreage versus inbounds around carbon capture?

Francisco Leon

Yes. It all is very complementary. As the largest mineral acreage holder in the state and a pretty significant surface owner, a lot of solar projects are enabled through our land. We have the ability to bring more solar solutions into California. So those are progressing well, and it's going to be part of the portfolio of clean energy that we offer.

But I really don't want to stop the conversation there. If you think about what we have battery solutions and more traditional battery solutions that we're considering, but we also have a great opportunity to bring what's called enhanced geothermal into California. And that's using the heat from reservoirs, the natural heat from reservoirs or in the steam flooding to create clean energy. And that's using basically the earth as a battery and the ability to bring that energy, something that has us really excited as well.

So, we're looking at many fronts, whether it's to provide backup power for data centers or to further make the grid green. We see ourselves as incubators of these technologies, more so because we have the reservoirs, we have the land, we have the, in a lot of cases, interconnectivity to make these projects go from great idea generation into solid solutions.

So, we're building that portfolio that it's not just solar. Like I said, it's traditional geothermal, enhanced geothermal, it's battery storage, and we really like how this business is heading. And so, again, as we mentioned many times, it's a full solution platform and it's embracing California's trajectory to

decarbonize. We also want lower emissions and our projects are going to deliver.

Operator

The next question comes from Josh Silverstein with UBS. Please go ahead.

Josh Silverstein

Thanks everyone. I have a couple of upstream questions for you guys. First is on oil realizations. I'm curious what you guys see potentially happening down the road, given the recent news of a California refinery shutting down and maybe perhaps others shutting down. I know you guys are more linked to Brent. Do you see any of the discount with— or I guess the discount that you guys have to Brent or the improvement— the higher realization relative to WTI changing at all from this over the next few years?

Francisco Leon

Yes. No. Appreciate the question. I think the reality that just to remind the audience is, California consumes a lot of oil through gasoline and jet fuel. I think California is one-tenth of the entire consumption of gasoline and about a third of the jet fuel. So, the demand is still very much there.

So then if you look at the refining capacity of the state, we have about a 1.5 million barrels that get produced through refining. In that's say, compared to the California production of close to 300,000 barrels a day, more than a third come from CRC.

These refineries were built for California crude. In this you have to look at the Nelson Complexity, the ability to create jet fuel and other products through this. That's what these refineries need today.

So, we use our crude as a blending source. So, as you bring lighter crude or high sulfur crude from other states or countries, a lot of foreign country imports, there's a strong preference for our crude to blend it. So that's where you continue to see very high realizations, even on our heavy crude that trades above WTI in California.

But maybe I'll turn it to Jay Bys to see if he has anything else to add.

Jay Bys

I think Francisco basically captured the essence of this. 1.5 million in demand versus 300,000 in native production. It's a nice ratio. These refiners are really built around the local crude and that's not changed. It could change, but it would take capital investment, which I think right now you'd find most refiners reticent to make. So, I think for the time being, we're going to continue to see strong demand for our products in particular.

Josh Silverstein

Got it, thanks for that. Next one is, I'm curious what you guys need to do to implement and execute on the remaining \$100 million of the Aera synergies. You've done a really good job on the financing and G&A side. It looks like the bulk of the \$100 million is more operational related. So, what needs to happen for you guys to execute on that? Thanks.

Francisco Leon

Yes. No. I appreciate the question. That's an absolutely tremendous job by the team. We talked about it as we announced the Aera merger. This is a unique fit of assets. They're right next to each other, have been running independently for decades.

So, when we talked about synergies and the confidence we had on those, it wasn't just about rightsizing an organization and thinking about the organization. We were really focused on a lot of the operational

synergies.

You can see in our slide deck the disclosure we have between G&A and op ex. And ultimately, we see a natural progression of synergies focused on supply chain, focused on infrastructure optimization and steamflood optimization.

But I'll pass it over to Omar Hayat to provide more color and some examples on where the next \$100 million will come from.

Omar Hayat

Yes. Thank you. So, the way to think about synergies is really think about it on a timeline. So, what we have done so far is we have executed the projects that we can execute fast and deliver value, which is the workforce optimization and the supply chain contracts, re-evaluating them, moving the combined company to more favorable contracts now that we have doubled our scale.

The next thing in the line is really around infrastructure consolidation. And what we're looking at here is leveraging our proximity to Aera assets and connecting those assets to move the products in the most economical direction.

So, what I mean by that is if you look at power, while we feed most of our operations with our own generated power and therefore can provide power at a low cost, there are still leases and assets that are on PG&E power at a higher cost. So, we look at the opportunities to bring those assets at a lower energy cost by power provided from our own assets.

Similarly, if you look at gas, we have net producers in Elk Hills and net consumers in Belridge, which are our two major fields. So, we have recently connected those two fields, and we look at moving the gas in the right direction based on prices and consumption.

We also have a lot of capacity in our cryogenic gas plant at Elk Hills, and not all our assets are connected to that plant. So, there is a large opportunity we see in bringing gas to CGP and extract natural gas liquid in the future.

And comments that were made earlier by Jay and Francisco, we now produce quite an array of oil in terms of API gravity. And our marketing team continuously works with operations to look at the right blends to send to refineries to optimize our realization prices.

And then finally, the water is the same way. There are disposal capacities. We have excess disposal capacities in some areas. We are pinched in others. So, we consolidate to optimize costs around water movement. So those are just some of the examples around infrastructure consolidation.

Operator

The next question comes from Scott Gruber with Citigroup. Please go ahead.

Scott Gruber

Hi and good morning on your end. We've covered a lot of ground, so just one for me, given the MOU announced. I'm curious, is big tech interested in directly underwriting capture on gas plants? Are you having those types of conversations, or is it kind of the broader market forces here and the incentives in place that's really underpinning the interest or capital to come into this space? I'm just curious how direct or indirect that big tech driver is today when it comes to capture on gas plants?

Francisco Leon

I think we're about to find out. When you have a project that really very few people have, no one has set up the stage we have, which is the ability to take a great infrastructure, natural gas combined cycle power and then do CCS to lower emissions, it really solves for everything that we think big tech is looking for as they develop AI.

So why are we not seeing announcements across the U.S.? Because it doesn't exist, right? But you see how power hungry they are, looking in every direction to get their hands on power as they compete for market share.

So, what does that ultimately stand in terms of interest? I think it's high. Is there an underwriting capacity? We don't know yet. And that's where having these proof points or permits, that's where we're having the showcase of what we can bring to the table. Today at Elk Hills with really what's a one stop shop for land, water, fiber networks, power, pore space for CCS, we think is going to be an attractive proposition.

So, it's really about capitalizing a first mover initiative that now becomes what we think is going to be a market leader. And that also gives us time to be selective, to make sure we have the right partner, the right capital structure and the right return profile for our investors. So that's what we're ultimately working towards, and we'll be happy to announce when we have an update.

Scott Gruber

That's great and certainly a great solution. I guess in terms of cadence, in your view, after you kind of work through the small stock of nukes that we can restart, do you think the interest in carbon capture on gas plants takes a meaningful step higher? Is that what we kind of need to progress through?

Francisco Leon

Yes. Absolutely. I think that should be the natural progression that we see in the state. We see a lot of opportunity. I mean, we really are just getting started. And this brownfield conversation of: "Can this be something that CRC executes?" I think we proved that today that we can. But there's a lot of market appetite behind this, and I look forward to bringing more projects forward so that we can talk about it.

Operator

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

Leo Mariani

I wanted to just follow up on the drilling permit situation. It seems like that CalGEM has been kind of rethinking that for many, many months now. And I was just curious if there was kind of any update there. Are there any actual drilling permits coming out of CalGEM to you or others that you guys could kind of talk about? I certainly know there's workover and sidetrack permits or whatnot, but just curious if there's any update there?

Francisco Leon

Yes. Leo, thanks for the question. So, yes, multiple avenues to get permits back on track. There's the Kern County environmental impact report that we talked about. We also are pursuing what's called a Conditional Use Permit.

In particular, through the CUPs or Conditional Use Permit, we're seeing good progress made by other operators. Over the last two quarters, we've seen about 80 new permits to other operators in the state. And they basically have taken the same path that we're taking. And it's basically doing Conditional Use Permit field-level CEQA, so not countywide, but specific to fields. And that's the process that we're undertaking.

Now, we have some of the biggest fields in California. And most of our CUP submissions have been in around four fields, Elk Hills, Buena Vista, Kern Front and Belridge. Combined, they make up about 85% of our proved undeveloped reserves.

So, we see different paths that can get us back to permits. We still see potential resolution in the second half of next year. We're working through it and watching the Kern County make progress on their adoption of revised ordinance, and we also are working with CalGEM to satisfy the requirements under CEQA.

So, lots of work happening. We see some good progress with other operators, other smaller operators. We're also seeing really good progress on workovers and sidetracks. So those are coming in as per usual. So, we're growing in confidence that a resolution is coming. It's hard to predict when. It's difficult to pinpoint timing, but we do see constructive discussions happening on the permitting front.

Leo Mariani

Then earlier you mentioned certainly the need in the state to get some pipeline regulations in place on the CO2 side. Just wanted to get a sense. I know that was something that might have been getting discussed in the legislature over the summer. Do you sense that there's been any real progress there, or is this issue just kind of slipped? Maybe there were other priorities and do you have expectations this can get taken up again by the legislature maybe early next year when things are back in session?

Francisco Leon

Yes. That was my expectation. There's a lot of support and a lot of interest in the legislature to lift the moratorium on CO2 pipelines. And I think it's just a matter of who comes first, right? So, we see California moving in that direction. We see the federal government also trying to address it. Again, we need one. One of the two would satisfy it.

But really what we see is California has an opportunity to move forward and ultimately capture an advantage that we have over the rest of the country by doing this earlier and attracting significant capital into the state.

That's the opportunity we've been conveying that to legislatures. And, yes, I would expect it to be picked up at the next session as we move forward. And but it's all connected, right? I think if you start delivering the proof point, so there's a market need, there's permits flowing on the subsurface, that's a natural step to look at ways to bring in existing pipelines that can be retrofitted to transport CO2 as a natural next step. So, continue to have those constructive conversations and I do expect the conversations to continue as the sessions begins again next year.

Operator

The next question comes from Michael Scialla with Stephens.

Michael Scialla

Hi everybody, thank you. If you do find that big tech is willing to underwrite the decarbonization of power plants, you have a large Co-Gen plant there at Midway Sunset. I was wondering if all the capacity there is needed to power that field or is there some excess capacity there, like you have at Elk Hills that could be used by a customer and do you have any plans to decarbonize that plant?

Francisco Leon

Yes. So, if you look at the power generation that ultimately flows to CRC, we have over 850 megawatts of power generation throughout the state through multiple plants. We use less than half of the capacity for the oil field. The rest of it participates in resource adequacy and goes to the grid. We're always looking to optimize what's the best, what ultimately delivers the greatest value to our shareholders.

So, I don't want to be prescriptive about any other plans. I mean, we talked about CalCapture, which is Elk Hills. We will do CCS there. We're evaluating cost benefit on everything else in the portfolio. But we're long power. We like owning power assets in the state, and we think this is a great compromise solution to do CCS or natural gas generation.

So that's our plan going forward, right? So that's the opportunity is how much of this capacity can we turn into firm contracts, long-term PPAs, whether it's with big tech or someone else. That's the opportunity that's in front of us, and that's what we're pursuing as aggressively as we can.

Michael Scialla

And then with Elk Hills, any step portion, you have the excess there that goes to the grid now. Is that, I guess, tied to the grid or what would be if you did have an opportunity to have a customer there? How much is that free to go to the customer?

Francisco Leon

Yes. So, the way to think about it, so the plant generates about 550 megawatts. About one-third of that power is consumed by our E&P operations. That means two-thirds really doesn't have a home. So, we put it in the grid at whatever the spot prices are throughout the year.

Then we participate separately for that excess capacity on resource adequacy, which is basically standby power. When the grid is particularly taxed, typically in the hotter months of the year, you have contracts with different groups throughout the state that ultimately pay for that standby capacity.

So, we've been participating in the resource adequacy program for years and we've seen that the contract value go up. What we talked about is in 2024, we've made \$100 million for being on that standby power or having that standby power to California. That will move to \$150 million of contracted value in 2025.

But it's really more of a— it's capacity that ultimately doesn't really have a home and that's why it goes to the grid. We have the ability to bring it all behind-the-meter and we think that's consistent with what California wants, which is to make more of the grid as renewable as possible.

So, the plan is can we bring in partners? Can we ultimately use that— have a usable power in a way that's optimized and we think it's tech? It could be others that ultimately value that base load power with CCS for their own businesses, right? It could be manufacturing. It could be chip manufacturing. It could be other sort of industries. And the key is to be able to find that customer base that can take that power behind the grid.

So those are the dynamics that we have to work with. Right now, we feel good about resource adequacy and we're certainly participating in that. But that is ultimately a decision that we make as we try to optimize the value of our excess power.

Operator

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

Noel Parks

Hi good afternoon. Just had a few things I wanted to ask. Just wondering, could you talk about sort of the relative maybe momentum and timing you're seeing between brownfield projects versus with emitters versus your discussions on new generation of projects like for data centers? I'm just wondering, is it the basics of the terms that are the main things that are in discussion or is it sort of more complexity around, I don't know, risk sharing as you try to set an agreement in motion?

Francisco Leon

Yes. So, we've talked about CRC being catalyst rich and it's great to see the catalyst starting to arrive. And so, yes, the combination of brownfield versus greenfield. As we said before, brownfield, the key there will be the connectivity, the physical connectivity between the emitter and the storage site. So that's why the conversation around CO2 pipelines is important.

But then think about it maybe from a different perspective. We're going to build these greenfield projects on top of Elk Hills. They are going to have— we're going to have renewable natural gas. We're going to have clean hydrogen. We're going to have renewable diesel. Once we look for market opportunities to deploy the clean fuels, you could also come to these emitters and provide an input of that fuel to ultimately lower their emission footprint, right?

So, there's a lot of synergistic elements to how we're thinking about the portfolio and the different aspects of the project still need some work and we do need to build projects. We also need connectivity. But we're excited about being the solutions provider in the State of California and we see us particularly well-positioned and more advanced than others to be able to capture that market share. So, we're excited to run towards that end. A lot of details to work out, but I think it should be clear that the market opportunity is very strong.

CONCLUSION**Operator**

I see that we're past the top of the hour. This concludes our question-and-answer session. I would like to turn the conference back over to Francisco Leon for any closing remarks.

Francisco Leon

Thank you so much for joining us today. We will be presenting at several investor conferences in both November and early December and look forward to seeing everybody on the road. Thanks.

Operator

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