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Occidental Petroleum Corporation Q4 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions). Your first question comes from the line of Michael Jacobs.

Michael Jacobs - Tudor Pickering Holt

Good morning.

Steve Chazen

Good morning.

Michael Jacobs - Tudor Pickering Holt

Thank you for all the additional guidance on capital spending. Steve, you touched on your return focused investment philosophy. And while your business model doesn't warrant some of the tougher decisions of trying to live within cash flow, can you take a second to discuss what differentiates the Oxy business model and how you think about potentially accelerating cash flow at the cost of returns in the current environment?

Steve Chazen

Since we can't predict oil prices, and we have to live with what the oil prices are, and if we look at each project, especially the US projects which are sort of infinitely deferrable, we look at the returns at the current oil situation or gas situation, figure out what the returns are, and if the returns are below our cost of capital we'll defer it. When you get a different cost structure or price structure, whichever or both, we'll reevaluate that and boost the spending or decrease it for that matter. So we have a lot of flexibility in deferral, maybe not infinite, but a lot.

The contracts outside the United States basically are production sharing contracts, which tend to protect the returns when things are real good. They don't return as well as you might hope, and when things are bad they cushion the blow. So we lived with this \$40 environment. It wasn't that long ago, so we're borrowing all we're doing is bringing our capital spending down to our 2007 levels. We are investing for growth and we're protecting our long-term outlook, but just deferring some things that we can defer.

Michael Jacobs - Tudor Pickering Holt

That's great. Moving on to reserves and specifically focusing on Oman, we've seen some pretty meaningful production growth in the last few quarters. It seems steam is clearly penetrating the reservoir Mukhaizna. Can you give us a quick update of what you're seeing operationally and how that factored into reserve adds in 2008?

Steve Chazen

We'll let Casey talk about the operational part, I think. But on the reserve adds, it was a sizable reserve add in Oman, probably the almost -- I guess the largest single area of reserve adds last year. Also there were positive price impact there too because of the production sharing contracts. We're not through with the reserve adds there, just so there is still more -- as the steam continues to penetrate we'll add additional reserves. Casey?

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