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BRY.OQ - Q1 2019 Berry Petroleum Corp Earnings Call

EVENT DATE/TIME: MAY 09, 2019 / 3:00PM GMT



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**Cary D. Baetz** *Berry Petroleum Corporation - Executive VP, CFO & Director*

**Gary A. Grove** *Berry Petroleum Company, LLC - Executive VP & COO*

**Todd Crabtree** *Berry Petroleum Corporation - Manager of IR*

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## PRESENTATION

### Operator

Good day, ladies and gentleman and welcome to Berry Petroleum's First Quarter 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session and instructions will be given at that time. (Operator Instructions)

As a reminder, today's conference is being recorded. I would now like to turn the call over to Mr. Todd Crabtree, Investor Relations. Sir, you may begin.

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**Todd Crabtree** - *Berry Petroleum Corporation - Manager of IR*

Thank you, Victor, and welcome to everyone. Speaking this morning will be Trem Smith, Board Chair, CEO and President; Gary Grove, Chief Operating Officer and Executive Vice President and Cary Baetz, Chief Financial Officer and Executive Vice President. Trem will review activities and highlights from the quarter, Gary and then Cary will discuss our key operational and financial results. Trem will have a few concluding remarks mainly on the upcoming Analyst Day.

As a reminder, today's call contains certain projections and other forward-looking statements within the meaning of federal securities laws. These statements are subject to risks and uncertainties that may cause actual results to differ from those expressed or implied in these statements. These include risks outlined in the public filings. Today we will be referencing slides from the May investor presentation deck, which is posted on the investor page of our website. Our website includes reconciliations for the non-GAAP financial measures we use to the related GAAP measures from our financial statements. The replay link of this call and a transcript will also be made available on our investor web page.

I will now turn the call over to Trem Smith, Berry's President and CEO.

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**Arthur Smith** - *Berry Petroleum Corporation - Chairman, President & CEO*

Thank you, Todd. Welcome and thank you for joining us for Berry Petroleum's first quarter 2019 earnings call. My focus for Berry has been, and will continue to be, on execution. Every day, we are focused on executing our plan, creating value by protecting our base and growing our production, being a good corporate citizen, including keeping our employees safe, living within free cash flow and returning capital to the shareholders. While other E&P companies promises, we are doing it now and we have the results to prove it.

Our California production has grown by 12% since Q1 2018. We have lived completely out of free cash flow, spending \$181 million in capital expenditures, \$27 million in common dividends and \$28 million in share repurchases. And I am pleased to say that the board just approved our

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second quarter dividend of \$0.12 per share to be paid to shareholders of record as of June 14, continuing our promise to spend capital wisely and create value for our shareholders.

We are not driven by quarter-by-quarter results. We are fixated on long-term value that is created throughout the cycle. As I've said numerous times, the Berry business model is simple. We pay our expenses and financial obligations including interest and return capital to our shareholders in the form of dividends while sufficiently funding CapEx to maintain production and subsequently growing value and production out of, what we call, levered free cash flow. By having a simple business model, a flexible plan and a management team obsessed with increasing shareholder value, and data driven decision making, we are able to respond to shifting market conditions and manage what we can't control, but we can and do mitigate, like global and regional commodity pricing and the political environment, 2 topics I will address head-on in my comments.

First, I will speak to our high OpEx this past quarter and then I will talk about the topic on everyone's mind, the California Assembly and the current legislative docket including Assembly Bill 345. Our OpEx was unexpectedly high in the first quarter due to an unanticipated spike in natural gas prices in California. This pricing was way outside of historic norms. Please see Page 22 of our updated investor deck. We use a significant amount of natural gas to generate steam for thermal recovery, which is the largest single component of our operating costs.

As I have mentioned in past calls, California is a unique energy market as it is a Brent based and natural gas short market. Being Brent based is a big advantage for Berry, [but as] a significant natural gas consumer the lack of natural gas storage can cause wide fluctuations in pricing. In the first quarter, the western United States was cool and wet, increasing the demand for natural gas which increased pricing and negatively impacted our first quarter results. However, these prices are incorporated in our annual guidance and Berry continues to execute its 2019 development plan in line with expectations as our full-year production and spending are on track. In other words, our long-term plan and guidance for the year remain unchanged.

I want to be true to our guiding principles and take accountability and responsibility for not anticipating the natural gas spike -- price spike, while also reassuring you that this will not happen again. We have now hedged the majority of our gas needs for the next 18 months. Gary and Cary will talk more specifically about these efforts.

Second, the topic on everyone's mind, what is going on in Sacramento. As usual, California legislators in both the Assembly and the Senate have introduced a number of bills detrimental to our industry that will potentially increase the state's reliance on oil from environmentally unfriendly waterborne transportation, which currently accounts for approximately 70% of California's oil needs. Berry is dedicated to proactively working with legislators and regulators to stop and/or mitigate any legislation that increases dependence on foreign sources of oil and reduces the people of California's access to affordable energy.

For example, as many of you know on April 22, the California Assembly's Natural Resources Committee moved the initial version of Assembly Bill 345 which increases well location restrictions by increasing what are known as setbacks out of committee. As it is drafted today, the bill primarily impacts urban areas like LA County where the population density is 2,490 people per square mile based on the 2018 Census Bureau. On the other hand, 94% of Berry's California production is currently realized in a more rural area of the state, the San Joaquin basin Kern County, where the population density is only 108 people per square mile, most of those residing in the Bakersfield area. Therefore we project that this proposed legislation would impact only 4% of Berry's total company-wide proved reserves. While the area we do business in -- areas we do business in are rural and less populated, they are still significantly dependent upon the oil and gas industry to support their local economies. As a good corporate citizen, Berry is committed to safely producing and providing affordable energy to these communities and all Californians.

Assembly Bill 345 is still in the early phases of the legislative process. However, as of yesterday, the Appropriations Committee placed the bill in the Suspense File meaning it has stopped going through the legislative process for now. This is good news, but we must and will continue to monitor the bill's status and continue to work with industry partners, local governments and trade associations, utilizing our Berry First approach to inform and educate constituents, legislators and stakeholders on the impact of this bill and several others.

For a year, I have been speaking about our Berry First approach and we are seeing the positive results of this work. As a reminder, the Berry First approach strives to produce a win-win result allowing both Berry and the communities where we do business to achieve their objectives. Through this work, we have received necessary permits and exemptions, as well as seen great improvements in our relationships with regulators. We



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anticipate that California, like every state, will continue to be a challenging political environment. With that being said, we expect and hope that Governor Newsom takes a pragmatic approach to his energy policy, balancing companies' rights with the environmental and economic impact, resulting in an affordable and reliable energy program for all Californians. To make sure this positive progress continues, we have hired Megan Silva, as our new Vice President of Government, Environment and Regulatory Affairs.

Megan has a terrific track record and reputation with the California regulatory community and in the industry. Her broad experience, relationships and expertise add tremendous value to our work in this area. Her network of personal relationships spans across state, county and municipal regulatory agencies, including close relationships with environmental agencies. Megan's role is critical in continuing to promote the Berry First strategy. In addition to Megan joining us, we are implementing an outreach communication strategy and stakeholder engagement plan as part of our ongoing efforts to proactively message to California's politicians, regulators and voters.

Looking forward, we remain focused in California, with the majority of our production coming from our fields in the world-class super basin, the San Joaquin basin. As I mentioned before, we focus our production in the rural parts of California where 94% of our California production is currently realized. The San Joaquin has more than a century of producing history. Nonetheless, it is not an over matured petroleum province. It has plenty of resource and therefore upside remaining. And history has shown its conventional reservoirs respond very favorably to investment, which is advantageous to Berry's vision for growth. Please see Slide 10 in the investor presentation.

Finally, next week is a big week for the Berry team. We will be hosting our first Investors' Day, since our IPO in July of last year in New York on Thursday, May 16.

Gary will now give you greater insight into our operational performance for the first quarter.

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**Gary A. Grove** - *Berry Petroleum Company, LLC - Executive VP & COO*

Thank you, Trem and good morning everyone. From an operations perspective, we are in line with our projections. During my comments, I will highlight a few results from the last quarter in regards to production, capital and expenses. For additional details, please reference the earnings release that was distributed last night, as well as the slides on our website and our 10-Q, which will be filed later today.

First, I'll speak to production. Quarterly production is in line with our expectation. First quarter sales of 27,800 Boe a day were down 0.6% from the 28,000 Boe a day in the fourth quarter of 2018. However, when adjusting for the sale of our East Texas property in the fourth quarter, our sales were in fact up 1.2% quarter-over-quarter.

Our production mix in the first quarter was 87% oil, 12% gas and 1% NGLs with California making up 76% of total production and 87% of oil production. First quarter 2019 production results from our ongoing California operations are as expected. From first quarter 2018 to first quarter 2019, California production rose 12% while the total company production grew 10%, again excluding the sale of our East Texas assets. Additionally, the new wells drilled in late 2018 in Utah continued to perform very well exceeding our internal projections.

Now I will touch on capital. Overall our capital is also in line with our expectations. Capital expenditures for the first quarter 2019 were at \$49.1 million compared to \$53.3 million in the fourth quarter of 2018. Further, we drilled a total of 96 wells in the first quarter, 65 thermal sandstone wells including 41 producers, 14 and 10 delineation wells and 31 thermal diatomite wells including 25 and 6 delineation wells as compared to 69 total wells in the fourth quarter of last year.

As I mentioned on our last call, in January we added a rig in California increasing our total rigs running in the state to 4. As a note, first and second quarter drilling plans include some thermal diatomite wells that we expect to come online later in the year following the onetime needed approval of the Midway-Sunset aquifer exemption that is scheduled for third quarter and is also on track.

Last, I want to touch on expenses. As Trem mentioned our OpEx was higher than we anticipated this past quarter due to higher fuel prices for purchased gas during the month of February and a lower overall hedge position. In addition, Q1 OpEx was also negatively impacted from selling our East Texas natural gas assets in November, which had a lower cost on a per Boe basis compared to our other operations.



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Our first quarter OpEx was \$21.71 per Boe versus \$18.77 per Boe in the fourth quarter of 2018. We purchased and utilized approximately 71,000 MMBtu per day of natural gas in our thermal operations during the quarter, which is unchanged from the fourth quarter of last year. The first quarter average cost of fuel gas prior to our hedge position was \$4.94 per MMBtu versus \$4.15 per MMBtu in the fourth quarter of 2018 and \$2.78 per MMBtu in the first quarter of 2018. As Trem noted, this abnormally high price was driven by cool and wet weather in the western U.S. The last time a spike in fuel gas prices of this magnitude occurred in January or February time frame was in 2014. Please refer to Slide 22 of our latest investor presentation for more details and a visual representation of this information.

To give you some context, this is approximately \$2 per MMBtu higher than the first quarter of each of the last 4 years, or about \$12 million in higher gas costs and nearly \$15 million higher than the first quarter of 2018. While we are able to mitigate some of our fuel-related costs with electricity sales from our cogens, this impact is limited in the winter months when we do not receive the seasonal capacity payments from our PPA contracts. So to further mitigate the impact moving forward, we've increased our hedge position significantly for the remainder of the year as Cary will address shortly. Please note that our non-energy OpEx cost in this quarter were in line with our expectations.

So on behalf of the entire operations teams, we do continue to execute on our 2019 plan to increase the value of Berry. And with that I will point to our earnings release as well as the IR slides and 10-Q that have more information about the results this quarter and turn it over to Cary.

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**Cary D. Baetz** - *Berry Petroleum Corporation - Executive VP, CFO & Director*

Thanks, Gary. As noted by Trem and Gary, the full-year production and spending are on track. However, the substantially higher fuel gas costs this past quarter did negatively impact our OpEx. As Trem pointed out, we have now hedged majority of our gas needs for the next 18 months.

As a result of these higher costs and comparably lower oil prices, our Q1 adjusted EBITDA was about \$13 million lower than Q4, coming in at \$69 million. On an unhedged basis, adjusted EBITDA was \$54 million in the first quarter compared to \$73 million in the fourth quarter. We had continued to manage our hedge portfolio and now have Brent swaps on just under 60% of our expected second half 2019 oil sales at about \$72.50 per barrel. We've also started to layer in 2020 hedges as we expect to have at least 50% of our 2020 production hedged by this summer. For 2020, we currently have approximately 8,000 barrels per day hedged at \$67.66 Brent. Please see Page 21 of our updated investor deck.

As Gary mentioned, the price of natural gas we purchased for our steam operations was unseasonably high for the quarter. But we have mitigated the impact through our cogeneration facilities and by increasing our hedge position. As he stated, the spike resulted in an un-hedged cost of \$4.94 per MMBtu for the quarter. We had approximately 20,000 MMBtu per day of natural gas purchased hedge at about \$2.68 per MMBtu in the first quarter. In order to reduce any further impact from these type of market disruptions, we have been increasing our gas purchase hedge positions and have currently hedged about three-quarters of our expected purchases from Q2 2019 through October of 2020 at roughly \$3 per MMBtu. Please see Page 23 of our updated investor deck.

Gary gave some good commentary on the impact of fuel cost on a sequential and comparative basis. However, I want to highlight sensitivity. Based on our daily consumption of fuel gas, a \$0.25 unhedged change per MMBtu impacts our gross annual fuel cost and therefore OpEx by approximately \$6.5 million either up or down. Hedging that volatility provides Berry and the investment community a better understanding of our operating cost structure through the cycle.

Now I will touch on G&A expenses, which improved in the first quarter. This improvement is largely due to the impact from higher stock compensation associated with performance shares meeting target thresholds in the fourth quarter of 2018. We continue to see a slight decline in non-recurring, restructuring and other costs in the first quarter.

Adjusted G&A was essentially flat at \$11.6 million in the first quarter compared to the prior quarter. We think these costs have essentially leveled out on an absolute dollar basis, and we should start seeing improvement on a per Boe basis as production increases.

Our cash flow from operations in the first quarter was \$19 million and included \$37 million of annual or semiannual payments that occur in the first quarter of each year such as \$23 million of annual royalty payment and other accrued liabilities and \$14 million of semi-annual interest payment on our notes.



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Our adjusted EBITDA covered our capital expenditures of \$49 million as well as our financial obligations, including interest and dividends. In other words, we operated within levered free cash flow. In April of 2019, we completed our semi-annual RBL borrowing base redetermination which was affirmed at \$750 million of which we have elected to have the lenders provide commitments of \$400 million. As of April 30 we had no borrowings and availability of \$391 million due to \$9 million of outstanding letters of credit. Our liquidity was \$395 million, including a cash balance of \$4 million.

We continued our share repurchase program during the first quarter, resulting in a cumulative reduction of 2.6 million outstanding shares of common stock, 2.2 million shares in Q1, for a total cost of \$28 million of which approximately \$25 million was spent in Q1. As a reminder, we closed out the stock claims for bankruptcy and in connection with the process issued common shares for unsecured claims of only 2.8 million shares out of the 7.1 million shares originally initially reserved. The remaining 4.3 million shares were never issued and retired. These changes in shares from all of these activities are reflected in our EPS on a weighted average basis during the first quarter. At the end of the quarter, our fully diluted shares were approximately 82 million shares.

Before handing it back to Trem and in an effort to avoid any potential confusion, I want to let everyone know that we will be filing our 10-Q today. It will include both the regular filing and the re-filing for the purpose of our outstanding shelf registration statement.

And with that housekeeping item, I'll turn it back over to you Trem.

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**Arthur Smith** - *Berry Petroleum Corporation - Chairman, President & CEO*

Thank you Cary and Gary. As both referenced, we are executing our plan as expected and creating value for our shareholders as promised. Again, our long-term plan and guidance for the year remain unchanged. Please refer to the investor presentation and earnings release for more details.

One last item I want to touch on before I open it up for questions. Again, next week is our Analyst Day in New York on May 16. I hope to see you there. We will be taking a deeper look into our operations, including our thermal recovery program.

Thank you for being on the call today. Now I'll open it up for questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Leo Mariani, KeyBanc.

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**Leo Paul Mariani** - *KeyBanc Capital Markets Inc., Research Division - Analyst*

Question around your California production here. Just noticing that your oil volumes were down a little bit in the first quarter versus 4Q. It's roughly [2%] on my math. Just wanted to get any color behind that and should we start kind of seeing more orderly sort of increases in the next few quarters here?

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**Gary A. Grove** - *Berry Petroleum Company, LLC - Executive VP & COO*

Leo, this is Gary. So, yes it's within expectations of what we have. Again, I think Trem mentioned it earlier and I mentioned it again, quarter-to-quarter for us is not how we manage through the business. Being a thermal property, we will see moves up and down, potentially quarter to quarter but longer-term cycle is how we measure performance and would go towards our expectations. So as you see the latter half of the year and I think I did reference one other piece that we're drilling some wells in the first and second quarter that we're going to see response later in the year due

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to the Midway-Sunset aquifer exemption scheduled approval in the third quarter. So, yes, to answer your question it's as expected. We would expect to see production growth as we continue through the year, but more significantly in the latter half of the year.

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**Leo Paul Mariani** - *KeyBanc Capital Markets Inc., Research Division - Analyst*

Okay, that's helpful for sure. And just wanted to jump over to some of the comments you made around the potential impact of the new California bill, which I guess nice to hear that it's really been stalled out a little bit in the State Assembly there. But you guys mentioned that it could impact 4% of the reserves here. Wanted to get a sense, would that number be a different number if we looked at the production side? So how much of the production potentially could be affected based on sort of the same methodology there?

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**Gary A. Grove** - *Berry Petroleum Company, LLC - Executive VP & COO*

If you look at -- this is Gary again and I'll let Trem add as well. Actually Trem why don't you go ahead first?

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**Arthur Smith** - *Berry Petroleum Corporation - Chairman, President & CEO*

Leo, it's very premature. This bill is so early in the legislative process. If it were to occur, it's very premature to understand the impact. There are several things we can do. It's worth that we take a look at, but there are so many variables that might change. I'd rather just have it, at this point the impact on the total reserves as we know it based on what we know today.

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**Leo Paul Mariani** - *KeyBanc Capital Markets Inc., Research Division - Analyst*

Okay.

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**Arthur Smith** - *Berry Petroleum Corporation - Chairman, President & CEO*

It won't be significant though.

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**Leo Paul Mariani** - *KeyBanc Capital Markets Inc., Research Division - Analyst*

Okay. And I guess you mentioned some of the new kind of regulatory outreach efforts with the recent hire over there. Just trying to get a sense, have you folks had any good conversations with the new Governor or Governor Newsom out there or maybe any of his high-ranking members, the staff kind of surrounding what his thoughts are on the matter at this point?

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**Arthur Smith** - *Berry Petroleum Corporation - Chairman, President & CEO*

We -- I got to be careful here a little bit, Leo, because this -- we are big on interpersonal relationships and our recent hire you mentioned is Megan Silva and she spends a significant amount of time up in Sacramento working on just that. That is part of our outreach issue, okay and so -- anyway, that's how I would answer that. The answer is yes anyway. So the answer is obviously yes. I am getting -- I am getting some feedback here. But just to be clear, it's not with the Governor directly, but his office [and high] agencies. Okay?

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**Leo Paul Mariani** - *KeyBanc Capital Markets Inc., Research Division - Analyst*

Okay. Now that's helpful for sure. I am sure a lot of that --



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**Arthur Smith** - *Berry Petroleum Corporation - Chairman, President & CEO*

Leo, maybe the takeaway for everybody on the call here is this is a primary aspect of my focus at the moment, okay. This is -- this is not a surprise for any state in the United States or quite honestly any country, okay. Dealing with regulators and politicians is a normal course of business as you interact with the communities and the people that you're doing business in. So I just wanted to be very clear. This is expected and this is the height of the legislative cycle and that's what we're up to.

**Leo Paul Mariani** - *KeyBanc Capital Markets Inc., Research Division - Analyst*

Okay, that's helpful commentary. And I guess just over to the buyback, I know clearly part of the motivation for the buyback was to take out the shares that were issued kind of post the bankruptcy to sort of take care of that. I certainly noticed that kind of the buyback amount since the fourth quarter earnings call was a lot lower. Just wanted to get your thoughts and sort of plans and how you are sort of viewing the kind of remaining authorization under the buyback here going forward.

**Cary D. Baetz** - *Berry Petroleum Corporation - Executive VP, CFO & Director*

Yes. Leo, this is Cary. I think the way we would describe it, I've said this before, we're not going to be a massive repurchaser of shares. We'd rather [park] the capital into the operations and generate the capital out of that, but we will be opportunistic buybackers. We will also manage dilution trying to keep our share count relatively flat, because I think that gives better guidance. But our job right now is to try to maximize the value of the assets.

**Operator**

(Operator Instructions) Jacob Roberts, TPH.

**Jacob Phillip Roberts** - *Tudor, Pickering, Holt & Co. Securities, Inc., Research Division - Analyst of Exploration and Production Research*

Just from a permitting standpoint, I know that 2019 program was pretty well buttoned up in terms of what was needed for aquifer exemptions and [Williston permits]. Just trying to get an idea, a little longer term into 2020, 2021 how the process is going and what it looks like going forward.

**Gary A. Grove** - *Berry Petroleum Company, LLC - Executive VP & COO*

This is Gary, Jacob. So for 2020, yeah, we -- I think we mentioned before, we do plan on the 2-year cycle. So I appreciate that commentary. And so for 2020, once the aquifer exemption is approved in Midway-Sunset, it will no longer have an impact on us and timing going forward. So we've taken that into consideration. I think you saw us earlier, we moved some of the capital that we had appropriated for the Hill property in Belridge into 2020, which would be part of the WST permitting process as well as we gain consistency on when we can expect those permits to be approved. And as Trem mentioned, Megan has joined us recently as well and has excellent relations there. And so our full expectation is, we'll be able to plan around that very effectively in the upcoming months for the following year.

**Arthur Smith** - *Berry Petroleum Corporation - Chairman, President & CEO*

And Jacob, this is Trem, just to add to that. We plan on going in great detail on this next week in New York at the Analyst Day.





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**Jacob Phillip Roberts** - Tudor, Pickering, Holt & Co. Securities, Inc., Research Division - Analyst of Exploration and Production Research

And just another quick one, and I hate to harp on 345 but I noticed one of the last things added --

**Arthur Smith** - Berry Petroleum Corporation - Chairman, President & CEO

Go ahead. Jacob.

**Jacob Phillip Roberts** - Tudor, Pickering, Holt & Co. Securities, Inc., Research Division - Analyst of Exploration and Production Research

I noticed one of the last things added before I think it left the Natural Resources Committee was a line about enhancement operations. And I'm just trying to understand is that going to be impactful to steam flood operations or are they referencing to something else?

**Gary A. Grove** - Berry Petroleum Company, LLC - Executive VP & COO

Impact for the steam flood operation.

**Arthur Smith** - Berry Petroleum Corporation - Chairman, President & CEO

Steam -- no, it's not and it was added, but -- but I think it's going to be -- no, it's not.

**Gary A. Grove** - Berry Petroleum Company, LLC - Executive VP & COO

Yeah. And I would add to that too. Again, where we talk about the majority of our properties being in a very rural location as well that applies here too. Even though we do inject steam in the one area that we talked about before that might be impacted by 345, the bulk of our operations and the bulk of our thermal operations happen in an area located outside of that. But just to reiterate what Trem said, we don't believe enhanced operations would include thermal stimulation.

**Arthur Smith** - Berry Petroleum Corporation - Chairman, President & CEO

Hey, Jacob. One other add, this is Trem. DOGGR came out with a report yesterday or a report attributed to DOGGR was released yesterday, which goes over the economic impact of 345. There is a fair amount of resistance to the legislation from groups other than the industry itself in terms of a job -- how it impacts jobs throughout the state. So I could refer you to that as well.

**Gary A. Grove** - Berry Petroleum Company, LLC - Executive VP & COO

Yes, Jacob (inaudible) you could find that -- you can look at the bill and the California Legislature and also the Assembly Committee appropriations, the DOGGR report on the economic impact, which is significant.

**Operator**

Thank you. And I am currently showing no further questions at this time. I'd like to turn the call back to Trem Smith for closing remarks.

**Arthur Smith** - Berry Petroleum Corporation - Chairman, President & CEO

Thank you, all. Thank you, all very --

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**Operator**

[It seems that we] have one question.

**Arthur Smith** - *Berry Petroleum Corporation - Chairman, President & CEO*

[Oh, I'll take it.]

**Operator**

Kashy Harrison, Simmons Energy.

**Kashy Oladipo Harrison** - *Piper Jaffray Companies, Research Division - Research Analyst*

And thanks for taking my question right here at the end here. Sorry for the delayed prompt. So just -- really just one quick one for me. It looked like the Uinta volumes were up quarter-on-quarter. I was just wondering if you could kind of walk us through just what's the latest on that asset, how's the performance trending relative to expectations and how should we think -- how should we look at production from that asset throughout the rest of the year. And then same thing goes for California. Just how should we think about growth from California on a sequential basis through the [rest of the year]?

**Gary A. Grove** - *Berry Petroleum Company, LLC - Executive VP & COO*

This is Gary. So let's talk about Utah real quickly first. Yes, the wells we drilled at the end of last year are performing well. We're happy with the way they're performing, actually outperforming our tight curves to this point in time. So that's been very good. So that's definitely a big part of the sequential uplift quarter-over-quarter. We did have some inventory sales as part of that as well. As you look at that going forward, we do not, as we sit today, have any capital scheduled to drill in Utah in 2019 and -- however, the big reason we are waiting on that was we're awaiting for the markets to improve. We're starting to see those markets improve today. Differentials are improving in that particular marketplace. And so as we look towards the end of the year, again part of the thing that we can be as nimble and if we think that there's a good opportunity for us to do something later in the year or especially in 2020 we will be ready to do that in Utah, again based on the results we're seeing today. In California, and again Trem mentioned this earlier about some other things, but we're going to go into a lot of detail on what -- the thermal operations and how you can effectively look to model them going forward for us. As we talk about drilling wells, we don't give a lot of individual well results because quite frankly they're all within a fairly set range and they are pretty much as expected. Now just to guide you going forward, I would tell you that you're going to see injectors that get drilled, producers that get drilled that don't start with peak rate right away. That's why you might -- that's why we say we don't measure quarter-to-quarter. However, that being said, the full lifecycle implementation of the drilling that happens throughout the year will have a bigger impact in 2019 towards the latter half of the year, as I spoke earlier. We'll go into a lot more detail again of that next week in New York as well.

**Arthur Smith** - *Berry Petroleum Corporation - Chairman, President & CEO*

Hi, Kashy. One last thing, not on production, but talking about the differential and pricing in Utah, you'll also notice, when you're looking at hedges we have swapped the little bit of WTI. And that is -- that's associated with Utah at a attractive pricing differentials to make sure we're exceeding our cost of capital and getting a good return on that. [As I said we] thought it was good to swap some of that as well.

**Kashy Oladipo Harrison** - *Piper Jaffray Companies, Research Division - Research Analyst*

All right, makes sense. Thank you.



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**Arthur Smith** - *Berry Petroleum Corporation - Chairman, President & CEO*

Thanks, Kashy.

**Operator**

Thank you. And I'd like to turn the call back to Mr. Trem Smith for closing remarks.

**Arthur Smith** - *Berry Petroleum Corporation - Chairman, President & CEO*

Well, I want to thank everybody for joining us today. Appreciate the questions and look forward to talking to you in the future and seeing you next week in New York on Investor Day on May 16. Thanks.

**Operator**

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may all disconnect. Everyone have a great day.

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