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Q1 2021 Berry Corporation (Bry) Earnings Call

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PRESENTATION

Operator
Ladies and gentlemen, thank you for standing by and welcome to the Berry Corporation Q1 2021 Earnings Conference Call. (Operator Instructions) Please be advised that today's call is being recorded. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Todd Crabtree, Manager of Investor Relations. Thank you, and Please go ahead.

Todd Crabtree *Berry Corporation - Manager of IR*
Thank you, Brandy, and welcome to everyone. Thank you for joining us for Berry's First Quarter 2021 Earnings Teleconference. Yesterday afternoon, Berry issued an earnings release highlighting full first quarter results. Speaking this morning will be Trem Smith, Board Chair and CEO; Fernando Araujo, Chief Operating Officer and Executive Vice President; and Cary Baetz, Chief Financial Officer and Executive Vice President. Trem will discuss our first quarter performance as well as our expectations for the remainder of 2021. Fernando and then Cary will share further details on how we are addressing the operational and financial aspects of our business.

Before turning it over to questions, Trem will make a few concluding remarks. Before we begin, I want to call your attention to the safe harbor language found in our earnings release. The earnings release and today's discussion contain certainly projections and other forward-looking statements within the meaning of federal security laws. These statements are subject to risks and uncertainties that may cause actual results to differ materially from those expressed or implied in these statements. These include risks and other factors outlined in our filings with the SEC. Our website, bry.com, has a link to the earnings release and our most recent investor presentation. Any information, including forward-looking statements made on this call or contained in the earnings release and that presentation, reflect our analysis as of the date made. We have no plans or duty to update them except as required by law. Please refer to the tables in our earnings release and on our website for reconciliation between all adjusted measures mentioned in today's call and related GAAP measures. We will also post the replay link of this call and the transcript on our website.

I will now turn the call over to Trem Smith.

Arthur T. Smith ***Berry Corporation - Chairman, President & CEO***
Thank you, Todd. Good morning, everyone, and thanks for joining us today. Despite the dynamic environment in which we are operating, we are executing as promised and continue to focus on the fundamentals that create value. We had a great quarter. Production was up, OpEx was down. EBITDA on capital spending were better than expected. We generated $16 million in Levered Free Cash Flow, and we had nearly $100 million on cash on hand at the end of the quarter.

Our liquidity position gives us flexibility on growth and returning capital to our shareholders. We restarted our dividend in the first quarter. It has been approved for the second, and we expect it to continue and grow at these price levels. I wanted to quickly address Governor Newsome's proposal to ban hydraulic fracturing in California, as of 2024. This ban does not materially impact Berry's operations and as defined, it does not affect our thermal diatomite production or future operations. However, this type of unilateral action by the governor is not in the best interest of Californians and does not bring the state closer to his goal of being net carbon neutral by 2045.

Studies, including those overseen by the governor's California Air Resources Board, otherwise known as CARB, have shown that Californians will still demand transportation fuels from hydrocarbons well past 2045. Therefore, this ban just shifts the state supply source from local producers, who provide significant economic value locally and statewide through taxes, employment, et cetera, and operate using California's rigorous environmental and safety standards, to foreign oil producers that do not share our social or environmental standards, nor contribute to the economy of the state.

It is important to recall that this year, Berry will pay $40 million in greenhouse gas credits, and the industry as a whole pays more than one billion annually help fund California's greenhouse gas reduction programs. We all want a clean and sustainable environment, and we support the state's goal of carbon neutrality by 2045. But to achieve this, we need to work together and find solutions that are equitable for everyone.

Additionally, the California legislature continues to do its work. It is our belief that we can be part of the solution to provide equitable, affordable, and reliable energy by working with others. We have built relationships through the Western States Petroleum Association and developed coalitions with labor as well as other industries, including lumber, agriculture, and water. This collaborative approach helped us successfully defeat Senate Bill 467, Senator Wiener's wide-ranging anti-oil bill. There are other proposed bills, which we are actively monitoring, that could impact our industry. More details can be found on slide 25 of our investor presentation.

Berry is and will be a part of the energy solution. We continue discussions to increase our scale through

M&A, and we have quantified more than 3 decades of inventory in our sandstone reservoirs alone, that will help me California's long-term energy demand and provide value to all stakeholders for decades to come.

I will now turn it over to Fernando.

Fernando Araujo ***Berry Corporation - Executive VP & COO***
Thank you, Trem. In Q1, we continued to create value by optimizing the performance of our current asset base and by generating meaningful growth from our oil-rich conventional place. For 2021, we expect almost 90% of our total production to be oil. Also, I'm proud to report that we continue to achieve excellent environment, health and safety results in Q1. In fact, we just passed the one-year mark without recordable incidents as a company. Also, we did not have any vehicle incidents for the second quarter in a row.

We will continue to dedicate the necessary resources to ensure the safety of our employees and contractors, to safeguard and respect the environment, to meet all regulatory commitments, and to maintain the quality of our infrastructure. Moving to performance, production in Q1 averaged 27,100 barrels equivalent per day. This is 2% higher than Q4 2020. Our California oil production, which constitutes 81% of the total, also increased quarter on quarter by 3%.

It was previously stated in 2021, we intend to keep production essentially flat, year on year. Q2 production will be adversely affected by plugging and abandonment activity in thermal diatomite wells and by the timing of putting new wells on production. This P&A activity will allow us to optimize our base production and recompletion program in Q3 and Q4. We expect to see a slight production growth in the second half of the year with a higher exit rate, compared to last year.

For most of Q1, we operated with 2 drilling rigs drilling 45 new producers, all in thermal sandstone reservoirs in California, and 5 delineation wells. In April, we added a drilling rig in Utah. We saw an opportunity, an attractive opportunity, to drill and complete 7 to 10 wells in our predictable, conventional assets in the Uinta basin (in Utah). Our plan in California is to pick up a third drilling rig in June, targeting additional thermal sandstone wells.

I want to highlight our drilling activity in the hill property in the San Joaquin Valley. These are vertical wells targeting the predictable Tulare formation, where actual production is exceeding our type curves by close to 20%, resulting in very attractive returns. As a result, the asset is currently producing at a 30-year high.

I also want to highlight the excellent results from our workover activity. This is a new focus area for Berry in 2021. These activities are yielding at a rate of return in excess of 100%, with 46 wells brought back into production in Q1. Our plan is to maintain an aggressive workover campaign throughout the year.

Next, let's turn to operating expenses. This is a great story. In Q1, we averaged an operating expense of

$14.40 per BOE. This is a $4.11 per BOE improvement, when compared to the 2020 annual average. We reduced non-energy OpEx by about $1 per BOE, compared to last year's average. Our internal cost-cutting campaign is resulting in sustainable savings in most line items within our operating structure. Our energy OpEx was reduced significantly compared to last year, mainly because of the one-time price spike that we saw in electricity sales during the winter storms in February. As you may remember, our energy OpEx includes fuel gas purchases, which are mostly hedged, offset by electricity sales from our co-generation plants in California.

Now let's turn to capital. CapEx in Q1 was slightly lower than expected at $24 million. We maintained our plan level of activity. However, our drilling costs came in under budget. We reduced drilling costs by changing well designs and improving the rigs' operating efficiency. Our capital program in 2021 remains unchanged in the $120 to $130 million range.

In terms of well permitting, we have enough permits in hand to execute our capital program in 2021. After Kern County recertified the environmental impact report in March, the county resumed responsibility over oil and gas land use permits. In response, we aggressively sought county permits and now have applications for our entire 2022 drilling program, pending approval.

The Lawrence Livermore Laboratory study on high pressure cyclic steam operations in the thermal diatomite reservoir is complete and it's under review by the Newsome administration. We are waiting on CalGEM to release this study. We anticipate the opportunity to further work with CalGEM to obtain new permit approvals for future thermal dynamite operations. Remember our 2021 plans currently do not include new thermal dynamite development.

And with that, I'll turn it over to Cary.

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

Thanks, Fernando. We were off to a very strong start executing our 2021 plan. We continue to manage controllable costs with non-energy OPEX per BOE, down 11% compared to the fourth quarter of 2020 and adjusted GNA down 10%. Furthermore, our gas hedging strategy is working. We protected 85% of our first quarter gas purchases from the historical price spike driven by winter storm Uri. Our gas hedge prices were less than $3 per MMBtu when market prices exceed $100 per MMBtu for a few days. Additionally, we have realized a significant unstageable pickup in electricity sales, driven by the high gas prices due to the tight natural gas supply. Finally, our Rockies gas sales revenue were nearly as high in the first quarter as they were in all of 2020 due to the winter storm. While we certainly can't count on gas and electricity sales impact from these unseasonably high prices every quarter, we can rely on having stable gas purchase costs with our hedging strategy, which in turn provides stability, visibility to our overall cost structure.

Oil prices continue to rise in Q1 with Brent averaging $61 a barrel in the quarter. You may recall last year we put on significant oil hedges in place for 2021, when we plan for a 2 year down cycle due to the uncertainty of how long COVID-19 and oil price war would last. Despite the unfavorable impact from our first quarter oil hedges, we still achieved Adjusted EBITDA of $52 million, and we continued to build cash with $16 million of levered free cash flow even with an increased capital compared to 2020 and reinstating our dividend for the first quarter. Our cash grew from $80 million at year end to nearly a $100 million at the end of January, which we maintained at the end of the first quarter. With this performance, we are still an excellent position to continue to return capital to our shareholders and in fact, the board recently approved the second quarter dividend of $0.04 per share.

On another liquidity note, last week we completed our scheduled semi-annual RBL borrowing base redetermination, which resulted in reaffirmed borrowing base and company-elected commitments of $200 million. As of quarter end, we had liquidity of $292 million consisting of cash on hand and the RBL borrowing availability. As a reminder, we primarily use the RBL facility to manage working capital fluctuations and have no outstanding borrowings on the line today.

For 2021, we still expect our total average production to be relatively flat year over year, but with higher year end exit rate. However, for the second quarter, we're reshuffling the development schedule a bit as we focus on maximizing our capital efficiency and as a result, expect to see relatively flat production in the current quarter with an accelerated pace in the second half of the year. We currently aren't making any changes to our capital guidance, but we are pleased with the capital efficiency in Q1 and look to continue to build on that success for the rest of the year.

All in all, it was a strong quarter, which demonstrates that the way we manage our costs and our natural gas hedging strategy ensures that we are generating the best margins by being the low cost producer of oil in California. Our 10-Q will be filed later today, if you want to take a deeper dive into the financials.

Now I'll turn it back over to Trent for final remarks.

Arthur T. Smith ***Berry Corporation - Chairman, President & CEO***
Thanks, Cary. As Cary and Fernando demonstrated, we had a fruitful quarter, and we are well positioned for the rest of the year. I want to briefly touch on our environmental, social and governance efforts or ESG. We recognize the importance of this work to all our stakeholders and the growing interest by our investors. We were designing our ESG strategy to focus on those initiatives that are most material to Berry and value adding to our shareholders.

And these priorities will guide our future investments and reporting. Our ESG reporting will be solely focused on the areas that are measurable and achievable, help Berry meet its business goals and are based on real data and science. For information on our ESG approach and initiatives, more information can be found on the 2020 annual report. We look forward to continuing our work in this area and welcome stakeholder feedback.

In closing, I believe that for the energy transition to be successful, we must recognize some realities exist. Populations continue to grow locally and worldwide and are putting increased stress on the environment we live in. People expect to, at the very least, maintain their current lifestyles, if not improve them over time and do not expect to go broke in the process. If we are to be successful in providing Californians with affordable, equitable, and reliable energy, we need a solution that includes all forms and sources of energy; wind, solar biomass, hydro, hydrogen, oil, and gas, for example. An “all of the above” energy solution.

Now I'll open it up for questions.

QUESTIONS AND ANSWERS

Operator
(Operator Instructions) Your first question comes from the line of Leo Mariani with KeyBanc.

Leo Paul Mariani ***KeyBanc Capital Markets Inc., Research Division - Analyst***
I was hoping you'd provide a little bit more detail on your commentary around second quarter production. You guys talked about it, being flat here, with one key before you start to see outsize growth in the second half. Just wanting to clarify, it sounded like maybe there was a bunch of work-over activity that was taking some wells offline and you also mentioned a reshuffling of the schedule. We just going to see not a lot of wells turned on as well in the second quarter where it's more pushed to the back half. Just wanted to make sure I kind of understood the operational dynamics there behind it.

Fernando Araujo ***Berry Corporation - Executive VP & COO***
This is Fernando. Our expectation for Q2 is again, to keep production essentially flat compared to Q1. In Q2, we have some planned downtime associated to PNA activity in the thermal dynamite reservoirs and this is affecting production. But at the same time, we have picked up a third drilling rig in Utah. We're currently drilling Utah wells and we'll be drilling 7 to 10 Wells in Utah. Though we won't see this production until early June because of the completion on the fracks that we're doing there. We do those by pad. So we won't see that the production until June.

At the same time, we expect to increase production in Q3, as we will be picking up a third drilling rig for California. And at the same time, we'll be optimizing our base production in the thermal dynamite reservoir, after we finish the P&A (plugging & abandonment) campaign in Q2. And then on the workovers, we completed 46 workovers in Q1 and our expectation is to complete about 200 workovers throughout the year. And we're seeing some excellent results and we'll continue to do that for the rest of the year. But again, our expectation is to have our exit production at the end of the year, to be higher production compared to last year's exit production.

Leo Paul Mariani ***KeyBanc Capital Markets Inc., Research Division - Analyst***
Okay. I'm just wanting to kind of jump in on the regulatory side here. I guess it seems there's been a pretty significant delay in the kind of final results of the Lawrence Livermore study that's given to you guys. Have you guys heard any update with respect, the potential timing on that? And also just sticking with the regulatory front, just wanted to get a sense of what you guys think of the potential traction that

2,500 foot setbacks might be having in the state. And if you think that is approved, what do you think the impact to Berry would be? Obviously, you guys have got some more rural operations concentrated in Kern County. And just thinking along the lines, there might be a bunch of local control and perhaps Kern County is allowed to do their own thing on setbacks.

Arthur T. Smith ***Berry Corporation - Chairman, President & CEO***
Leo, this is Trem. First part of the question is the activity and conversation between WSPA and each individual company and CalGEM on generally keeping permitting in general on course in the state, is very active at the moment. Lots of help being accomplish with the current county EIR in place now. There's some clarity around how to expedite permits and we're taking full advantage of that.

Part of that conversation is CalGEM is trying to usher through the governor's office where that final approval of the high pressure cyclic steam study needs to occur. And that's up to them, Leo. We're not going to predict anymore what the governor's going to do. We do not incorporate those thermal diatomite walls as Fernando very clearly stated in our plans. And we manage our thermal diatomite production very well in it. And as you know it's not a huge component of our overall production, so we're good. And it's also, in the meantime, we have plenty of sandstone reservoirs to be drilling and lots of opportunity there. On the rest of it with a 2,500 foot setback, you'll remember that Senate Bill 467, Scott Wiener's bill, was killed in committee.

That was the effort this year for the 2,500 foot setbacks. The governor responded by coming out with his edict, his executive order to start a rulemaking process to eliminate fracking by January of 2024. And that there is no other legislation that we're aware of that's in process that would deal with any kind of setbacks this year. So that is a moot discussion at this point, we do monitor that of course, and we pay attention. And just in general for those that may be asking coming up, at the moment there don't appear to be significant oil production impactful legislation in process. Which is pretty good. I learned yesterday, there are 2,700 bills in the state legislature at the moment and going through a process and very happy to say that none of them impact oil and gas production at the moment.

Leo Paul Mariani ***KeyBanc Capital Markets Inc., Research Division - Analyst***
Okay. That's a great update. And just lastly for me, you've mentioned it in your prepared remarks. Do you guys still see just M&A as a critical focus for the company here in 2021? And you guys have confidence that you might be able to procure a deal this year. I know you're very focused on looking at conventional assets.

Cary D. Baetz ***Berry Corporation - Executive VP, CFO & Director***
Yes. Leo, this is Cary. I think we've made it very clear that scale is very important for us. We continue to turn every stone and look forward to finding something that works and works for our current shareholders, works for our balance sheet. And as soon as we do, we will let everybody know, but it's a top priority of all of us.

Operator

Your next question comes from the line of Charles Meade with Johnson Rice.

Charles Arthur Meade ***Johnson Rice & Company, L.L.C., Research Division - Analyst***
I want to just go back to some of your regulatory comments, because I think I might've been confused or maybe a little less than clear on something. So you mentioned in your press release the current -- the [Newsom's] proposal as it's currently defined, doesn't affect your thermal diatomite program. Are we to make the inference that it does affect your sandstone, which is the bulk of your plan.

Arthur T. Smith ***Berry Corporation - Chairman, President & CEO***
Charles, I can always count on you to ask the question for clarification, just to make it very clear. It has no impact on our sandstones, period. Okay and because thermal diatomite comes up so often we tend to maybe overstate the impact of any of these pieces of legislation on it, okay. So, I really appreciate your take and asking this question. The reason we're excited that we've quantified over 3 decades of sandstone locations is trying to put that whole question to bed, okay. Does that help?

Charles Arthur Meade ***Johnson Rice & Company, L.L.C., Research Division - Analyst***
Yes, it does. Do I understand correctly that it's because you're not relying on any fracking for that thermal sandstone?

Arthur T. Smith ***Berry Corporation - Chairman, President & CEO***
That's correct. The sandstones have of moderate, like 20% porosities, which is great. But they also have huge permeabilities, so there's no need to frack any of those, or even come close to something called fracking there.

Charles Arthur Meade ***Johnson Rice & Company, L.L.C., Research Division - Analyst***
The last little bit of cleanup on this front end. Obviously your fracking is the thing that has... the activity has a target on its back. But is there in any of this [Newsom's] ideas or are there things that we should be on the lookout for that might be in somebody's list of things we don't want to see that would affect your thermal sandstone?

Arthur T. Smith ***Berry Corporation - Chairman, President & CEO***
Not that we're aware of at all. And we do monitor that. There's nothing on the horizon there.

Charles Arthur Meade ***Johnson Rice & Company, L.L.C., Research Division - Analyst***
Got it, got it. All right, thank you for that. Hopefully I'm not the only one who needed that clarification, but in any case, I appreciate it. And then the one follow up, if I do have a follow-up? You talked about the Western States Petroleum Association and not only other oil and gas producers, but also other kinds of maybe extractive industries that are maybe simply frustrated. Is there a wider picture you can paint for us either among the California oil producers or other California industries, whether it be your forestry or things like that? Is there any kind of broader response that's maybe starting to come into shape against some of this extremism or some of this excessive, progressive stuff coming out of Sacramento?

Arthur T. Smith ***Berry Corporation - Chairman, President & CEO***
The answer is a qualitative yes, that's very true. It's the coalitions are coming together -- the coalitions that you may not think of naturally are coming together quite quickly here. Because of the number of jobs... the issues around the regulatory environment, et cetera. For example, all those industries that you just mentioned require land use permits, for example. And all of them are going through a similar process and as frustrated, et cetera, as anybody. So, when you start seeing restrictions and bans and things coming out of the governor's office, all those industries see a threat to themselves and therefore generate come together as a natural coalition.

Then we're seeing very active, I'm a co-chair of an energy working group something called B3K, which is our current county itself -remember its size of state in New Jersey with lots of renewables and lots of oil - is going to become carbon neutral by 2045. The coalition that's obvious there includes by the way, some renewable industry, wind and solar as well as the counties, the unions, the firefighters, the police. Those that are impacted by the reduction in revenue, should any of those industries be impacted. So, the answer to your question is the coalescing of coalition partners is happening quite rapidly now, which I'm sorry it had to happen, but I'm glad to see it happening.

Operator
(Operator Instructions) Your next question comes from the line of Nicholas Pope with Seaport Global.

Nicholas Paul Pope ***Seaport Global Securities LLC, Research Division - Research Analyst***
I was hoping -- there's a lot of noise in the operating expense line item. And I was hoping maybe we could give a little bit of that on lease operating expenses that $62 million. How much of that is attributed to the workover increase that you guys had during the quarter. And do you all expect to -- can I continue to ask you the rest of the year? And also, I'm just, because of the big move and the natural gas derivatives, I'm trying to just make sure I'm understanding the apples to apples on how that relates to kind of the current guidance that you all have for the full year.

Cary D. Baetz ***Berry Corporation - Executive VP, CFO & Director***
Yes. Nick, this will be Cary. I'll jump in just a little bit on the financial side and I'll let Fernando fill in any holes, but overall workovers are primarily capitalized for us and not in your operating expense. And we've highlight that in the past and this is kind of a new program. But they're primarily capitalized. The big number in the LOE is fuel, unhedged fuel. So when we saw again you've got per MMBTU prices over a $100 for an extended period of time. That shows you kind of why we do a hedging strategy. I think that's the perfect example of why we do the hedging strategy, but I think that really the noise around, if you're looking for noise in the LOE, it would have to do with the unhedged fuel.

But I think from our point of view, that's the reason we continue to have a hedging program on natural gas and keeping about $3 per MMBtu as best we can. And we're actually in very good shape for most of... through October this year and starting to add considerably the next year to eliminate that. I don't know, Fernando, you have, I think from a non-energy OpEx things are considering to going well. And again, costs are being realized.

Fernando Araujo ***Berry Corporation - Executive VP & COO***
Yes, just to put a little color around the non-energy side in Q1, as you saw, we lowered our nonenergy OpEx by about a dollar a barrel, compared to last year's average. And we believe that most of these cost reductions are going to be sustainable. As we've seen reductions in every major category. Really, their reductions are a combination of several things, including re-negotiating contracts with our vendors. Also, changing some operating practices, also implementing some facility solutions to reduce LOE long-term, and also by engaging the field staff in our business. And they're coming up with ideas to reduce operating expenses every day. In fact, in Q1, they came up with over 200 ideas to reduce operating expenses. So we've had great success and we believe it's going to be sustainable in terms of lowering our non-energy operating expenses.

Cary D. Baetz ***Berry Corporation - Executive VP, CFO & Director***
Does that give you the color you're looking for?

Nicholas Paul Pope ***Seaport Global Securities LLC, Research Division - Research Analyst***
Yes, that's helpful. And also just kind of further on that, on that point, the guidance that you gave for operating expenses last quarter, that's $17.25 to $18.55 per BOE. What is that comparable to, what am I comparing that to on these line items right now?

Cary D. Baetz ***Berry Corporation - Executive VP, CFO & Director***
So, you're talking about our annual guidance and looking at our annual -- yes, we're obviously well below that at this point in time, and the reason for that is, as we talked about first quarter, the really, the anomaly was gas -- was the sale of electricity during the first quarter, that is usually minimal. In the first quarter, we primarily see major sell of power in June, July, August, September, kind of the hot season, the air conditioning season, but because of Winter Storm Uri, the amount of gas that moved east versus traditionally moving west this time of year, it caused a supply problem, natural gas. It caused some of your major power producers in here to reduce their capacity. They leaned on Cogent and PPAs to offset that. That raised, the rising tide, raises all boats right? That's what we saw across our platform.

And I think probably other producers and other people with Cogens and PPA saw the same thing. So next that's the biggest driver of why we're considerably below guidance at this point in time. We expect second quarter, natural gas sales, I mean, power sales, to be kind of historical. And we don't see a big blow up in natural gas, in the second quarter, and I will say that in the second quarter. We do look through the third quarter and again, with natural gas, tight across north America and in a hot summer could cause some more sparks, but again, another reason we're hedged. Did that help?

Nicholas Paul Pope ***Seaport Global Securities LLC, Research Division - Research Analyst***
Yes. So the $14.40 per BOE is what's comparable for BOE and as for the quarter. Okay. That is helpful. And you've also mentioned previously, this greenhouse gas costs that I think is in, right now, it's in current liability or current liabilities. I think it's a $40 million payment. Is that right? That's somewhere...

Cary D. Baetz ***Berry Corporation - Executive VP, CFO & Director***
Roughly $40 million. Yes.

Nicholas Paul Pope ***Seaport Global Securities LLC, Research Division - Research Analyst***
And what is cash? Is that at a cash outlay in 4Q. And is that something that is going to be ongoing and in future use, or?

Cary D. Baetz ***Berry Corporation - Executive VP, CFO & Director***
Yes, so most of our GHG, we pay on a, you never notice that it's just a regular ongoing, over the last couple of years, we've been able to negotiate a deferred payment on those and those that deferred payment is what we're realizing this year. And it is going, it will go throughout, the first, really the first 3 quarters of this year. So you'll see it out a little bit, it was done Q1, you didn't notice that much. You'll see some more of it in Q2 and in Q3 and it will go through our accounts payable side. So you'll see it in working capital on accounts payable.

Nicholas Paul Pope ***Seaport Global Securities LLC, Research Division - Research Analyst***
And on an ongoing basis when it's not, this negotiated deferred payment. Where does it normally show up? Is that an LOE kind of line item where it's, where that normally?

Cary D. Baetz ***Berry Corporation - Executive VP, CFO & Director***
It is in taxes other than income taxes.

Operator
Your next question comes from the line of Devon Mathis as a Berry stakeholder.

Devon Mathis ***- Berry Stakeholder***
I should have said CA assembly member Devon Mathis there. I apologize. I'd just like one of you guys to expand a little bit. I know the partnerships with the different industries are going quite well. I've seen that firsthand and do appreciate your time on things like the CP Trip and other stuff, really having those collaborative conversations. But what is that looking like from your end? Looking at going, obviously, talking about second quarter, same flat, but second half of the year, things rising, because I've got to think about sustainability for constituents and what that's going to look like in the overall, in the San Joaquin valley economy as a whole. But also realizing that we do need a diversified portfolio. So it's very refreshing to hear you all talk about it and I've seen you on the ground doing it. Could you expand on that a little bit and what that looks like from your end?

Arthur T. Smith ***Berry Corporation - Chairman, President & CEO***
Sure. Devon, by the way, thank you for joining us this morning. I think you're the first assembly member to join us for the call and to speak up. It's very, I really, really personally appreciate it. And the answer to your question is we would like, for a lot of reasons that we can list here today, we would like to be able to grow Berry's, presence and production in California, and to provide an oil source. There's plenty of oil here. Okay. There's plenty of oil in the San Joaquin. I would like to start eliminating foreign imports into

the state so that we end up with more employment and pay higher taxes, more taxes, et cetera, et cetera, to the state, to the economy itself, which doesn't happen with the foreign imports as you know. And at the same time, in my experience, there's no place that you can work without a diversified source of anything.

And that includes energy, to make it affordable, equitable, and reliable. And California of course needs that more than ever, now. There's plenty of room for renewables, there's plenty of room for biomass, there's plenty of room for all of the above, as I said at the end. So -- but to allow oil to manage -- there's no reason that oil is declining in the state. It's just a matter of people investing and having confidence to invest in the state. Berry has that confidence, and we'd like to see more of it to hold the production at least flat, if not grow it for the overall state. And Berry's going to do its part of course, as you've heard, but that's at the expense of imports, not at the expense of diversification of energy sources for the people of California. Does that make sense?

Devon Mathis ***- Berry Stakeholder***

It does. And I think the group, I mean obviously the materials and the meetings I sit in, we are quite a bit about, California oil is clean oil and we need to look at that as a better option versus imports. I wish my colleagues on the other side of the aisle understood that. And it sounds like we have defeated quite a bit of legislation over the years, and to see and hear those numbers, I don't think people realize the gravity of the fact that we started with over 3000 pieces of legislation this year, and whittling 300 of those away, before we even hit appropriations is a huge thing. But no, I think the partnerships are great. I think the communication is going well. And I think to your credit and to the group's credit, it shows the dividends by defeating these things out the gate before they get to rear their ugly heads up. So thank you guys for what you do on that side.

Operator

And there are no further questions at this time, I will now turn the call back over for any closing remarks.

Arthur T. Smith ***Berry Corporation - Chairman, President & CEO***

I want to thank everybody for their time today and look forward to talking to you again and at the end of the second quarter.

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

Great.

Arthur T. Smith ***Berry Corporation - Chairman, President & CEO***

Have a good day, everyone.

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

Thank you.

Operator

This concludes today's conference call. You may now disconnect.