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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the WPX Energy quarterly report and operations update. (Operator Instructions) As a reminder, this conference may be recorded.

I will now turn the call over to your host, David Sullivan, Director of Investor Relations. Please go ahead.

David Sullivan - ***WPX Energy, Inc. - Director, IR***

Thank you. Good morning, everybody. Welcome to the WPX Energy second-quarter 2016 update call. We appreciate your interest in WPX Energy.

Rick Muncrief, our CEO; Clay Gaspar, our COO; and Kevin Vann, our CFO, will review the prepared slide presentation this morning. Also with Rick, Clay, and Kevin, other members of the senior management team: Bryan Guderian, Senior VP of Business Development, and Mike Fiser, Senior VP of Marketing, will be available for questions after the presentation.

On our website, wpxenergy.com, you will find today's presentation and the press release that was issued after the market closed yesterday. Also, our 10-Q will be filed later today.

Please review the forward-looking statements and the disclaimer on oil and gas reserves at the end of the presentation. They are important and integral to our remarks, so please review them.

With that, Rick, I will turn it over to you.

Rick Muncrief - ***WPX Energy, Inc. - President & CEO***

Thanks, David. Good morning to everyone on the call. Thank you for your continued interest in our company and how we are shaping WPX for an outstanding future.

As noted in last night's press release, we have just completed another very solid quarter where we have remained positive, confident, and action-oriented. Things here at WPX will only get better. We have our goals in sight and we won't stop looking for ways to create value and increase margins.

As we mentioned in our press release last night, we were successful in a recent, nice bolt-on acquisition which puts us at more than 100,000 net acres in the Delaware Basin. We have also dramatically increased our estimates for our resource potential and the drillable locations there in the Delaware.

We have highlighted the upside in our Delaware assets before. Certainly it's one of the things that originally drew us into this basin. We believe our timing to enter the Permian was excellent and now after further detailed technical assessment, we believe that we have now quantified that upside even more.

In the Delaware, we are more than doubling our net resource potential to 2.4 billion barrels of oil equivalent and raising our projected number of gross drillable locations to more than 5,500. This is the result of extensive log analysis, detailed petrophysical work, higher EURs being recognized throughout our industry, the potential for tighter spacing, and additional benches and intervals that were not included in our original assessment just last year.

Our rapid portfolio shift from natural gas to oil is showing great promise. Companywide we have significantly increased and high-graded our drilling inventory. And we are working in three of the best basins that exist today. As we've discussed before, we plan to resume our Bakken completions this month and add a third rig in the Delaware this fall.

Let's turn to page 2. The second quarter of 2016 is indicative, I feel, of how we are proactively managing the Company, executing our strategy, and working through the final stages of our transformation. All things considered, I feel it was a very solid quarter. We raised cash, increased our acreage, reduced more debt even ahead of schedule, closed the Piceance Basin sale, and eliminated all the transport obligations associated with the legacy Piceance asset. These actions alone provide investors with clarity and certainty on several things that were very large question marks only a few months ago.

From my perspective, we have further work to do on our cost structure, some further organizational realignment, and getting the back-office part of our Piceance Basin sale wrapped up. I can assure you that there is clear progress being made on every front.

As we continue to advance the ball, the new WPX emerges more and more. As you've seen through a series of transactions, including our highly-successful equity offering this past June, we are favorably positioned for 2017, 2018, and beyond. We already have the cash on hand to accelerate development appropriately and to expand our midstream system in the Delaware Basin. Tremendous value creation comes from putting this pipe in the ground.

In the current environment, our plan is to take a measured, thoughtful approach to increasing activity as we monitor oil prices. Being disciplined and maintaining financial strength are critical factors for our company's continued success.

Let's turn to page 3. In July, we completed a bolt-on acquisition that gives us another 7,800 net acres in the Delaware. And before you ask, we are keeping the details tight at this time as it continues to be a very competitive market. No surprise to you. Suffice to say, however, we are very, very pleased with this transaction.

Now, combined with our purchase of RKI last year, we have quickly amassed more than 100,000 net acres in what is arguably the number one basin in the entire country. The new acreage is close to our position in south central Eddy County, New Mexico, and has multiple stacked horizontal targets, including several distinct intervals in the Wolfcamp and Bone Springs. The purchase also includes existing production of approximately 425 Boe per day, of which 55% is crude oil.

Now turning to page 4, I want to applaud our technical team for giving us a better picture of the potential resource underlying our existing Delaware acreage. We have worked diligently over the past 12 months to more fully understand these assets. It's a big deal to enter a new basin that adds muscle to your portfolio. It's even a bigger deal to put yourself in a position to reap incremental value from the same rocks.

The opportunity is clearly there. For today we are talking about 2.4 billion barrels of oil equivalent and more than 5,500 drillable locations, and we're just getting started. Over time, with our planned development this potential will translate into strong growth, improved reserves, and production. We will periodically update our resource estimates and keep you apprised of our progress.

For us, we need to keep executing, staying opportunistic, pursuing our vision wells that Clay has talked about, working hard, and continuing our efforts to increase our margins. And at this time, I will turn the call over to Clay to provide more color on our operational progress. Clay?

Clay Gaspar - ***WPX Energy, Inc. - SVP & COO***

Thank you, Rick, and good morning, everyone. I am very proud of the continued operational progress that was made in each of our three core basins. Across the board the teams have continued to reduce well and operating costs and, at the same time, increase the productivity and the economics of this incredible portfolio.

As an organization, we have made the most of the down cycle to improve our portfolio and, at the same time, significantly improve our operational processes and performance. The teams are ready to get back to work and we will start leaning in to the increased activity by completing DUCs in the Williston Basin and adding the third rig to the Delaware Basin in October.

As we ramp up activity I also want to highlight our ability to be flexible with our capital spending. As we have proven before, we can quickly respond to macro influences and, correspondingly, ramp up or down activity as necessary. We are here to create value for the shareholder and with the current combination of our financial health, quality of our inventory, and even in the stressed commodity tape, the right answer is for us to dial up our activity level.

I know many of you are interested in our 2017 plan, especially regarding our capital spending level and allocation. I can tell you we have begun our capital planning process and that it's well under way.

Many of you will recall the description of our capital allocation as a brutally competitive process. The ultimate goal of that process is a perfect balance of that competitive spirit and the full accountability of delivering on these promises. We expect this process to run its normal course this fall and we will communicate the status of that work as it progresses.

Let's turn to slide 6 and take a look at our flagship asset in the Delaware Basin. As I've mentioned before, in conversations about acquisitions in the Delaware Basin people would often ask me what I'm most excited about. Without hesitation, my response was and still is the vast upside of this incredible stack of rocks in the Wolfcamp, Bone Spring, Avalon, and Delaware sands.

As we approach the one-year anniversary of operating this asset, my confidence in that upside continues to significantly increase. I'd like to start with an update of how we view that upside.

As Rick mentioned, our estimated resource potential has increased from 1.1 billion barrels to over 2.4 billion barrels and we have increased the gross location count by more than 50% to 5,500 wells. Now our industry throws around some really big numbers in regard to risk resource potential. The absolute numbers are impressive, but in our case, I would like -- I think what provides a credibility in the scale is our methodology to establish these numbers and the magnitude of the change.

As a point of clarity, this is the same evaluation team using the same set of governing assumptions that now sees more than double the resource potential as compared to a year ago.

The asset team is gearing up to add the third Delaware rig in October. This rig will allow us to speed up the delineation of Wolfcamp B, the X/Y, as well as other zones that we are seeing other operators get really excited about. We are also working toward spacing tests and pad development, which will give us the critical information as we plan the ultimate development program.

The Wolfcamp A wells continue to exceed expectations. The chart on the right shows our Wolfcamp A well performance relative to our 900 Mboe type curve. Remember, our acquisition type curve was 670 Mboe and over the last 12 months we've bumped that curve three times. And I'm very confident that we will be getting to our 1 million Boe vision type well by year-end, as many of our current wells already exceed that mark.

Remember, we are still relatively early in our understanding of this immense opportunity. WPX has only spud 25 wells since we took over operations and we're still doing quite a bit of experimenting in landing zones, perforation strategy, and with the completion design. This group of wells averages 4,600 feet and we are quickly extending that average lateral length to 4,800 feet per well.

We are also making the improvements in the land department, getting us ready for full long-lateral development.

On the cost side of the equation, we are certainly on track to achieve $5 million year-end vision targets. Just last yesterday we TD-ed our first well with the newly-upgraded rig and there was an instant four- to five-day improvement over our average well. The well TD-ed in 18 days and the team, in true WPX form, immediately identified three days of opportunity for additional improvement. With continued performance like this, we will blow through the $5 million target.

Now let's turn to slide 7. Since the acquisition, I've talked about the importance of gas and water infrastructure that came with the RKI assets. When we launched the equity deal in June, we announced that we would build out an oil gathering system in the Stateline area. The planning and engineering is well underway and the initial phase could be in service by mid-2017.

The total system will include approximately 50 miles of pipe and approximately 100,000 barrels of capacity per day. The benefits of the system are very significant. They include increased market options, improved differentials, improved lease operating expense, reduced well downtime, and significantly reducing the challenges of the truck traffic on these roads.

Let's turn to slide 8 and talk DUC hunting in North Dakota. The recent well results in the Williston continue to track wells well above the 850 type curve. As spelled out in the last quarter's call, we haven't completed any wells in the Williston Basin since February. I can tell you the team is ready to get back to work.

With the great work we have accomplished with the drastically-reduced well costs, in conjunction with the outstanding well performance, and finally, the great work that Brian and Kevin's team have done in shoring up our financial health, we're ready to start working through our DUC inventory. The timing in the lower-left corner shows the anticipated initial flow rates for these wells -- initial flowback timing of these wells.

Completing a portion of the DUC inventory in the back half of the year won't impact our full 2016 production meaningfully, but it will allow us to enjoy production momentum heading into 2017. As with the Permian team, the Williston team is well on track to achieve their vision year-end targets of $5.5 million including drilling, completions, facilities, and artificial lift.

As an aside, I get a lot of raised eyebrows on this slide as we show the continued significant outperformance of these wells relative to the type curve. Yes, some of these wells will exceed 1.2 million barrels of EUR, but when we talk about well performance, we are talking about what we expect on average over the next couple of years. Not every well will be as good as these, but I assure you, even at today's prices, the vision well economics are very strong. I'm also sure it's not lost on the audience that we have a tendency to bump these curves over time.

Let's turn to slide 9 so I can update you on San Juan. The San Juan team continues to get more efficient. We averaged 7.7 days spud to rig release for the six-well pad in West Lybrook. These wells averaged 1.5-mile laterals. We were able to drill one of these wells for $88 per lateral foot.

We brought the wells online, as planned, in early July and the initial flow back rates were very encouraging. Unfortunately, about a week into the flow back we had a fire on some temporary oil tanks. The local first responders in our Aztec field organization did a great job of minimizing the damage and we are now in the process of bringing those wells back online.

At the bottom of this slide, we show the initial performance of these wells. It should be noted that the West Lybrook 24-hour rates are not full IPs, but I wanted to share the results with you thus far. These wells have averaged 65% oil cuts and give us a lot of excitement about the potential for this area. After we fully ramp production and these wells cleanup, we will update this table for future release.

Now I will turn it over to Kevin for the financial update.

Kevin Vann ***- WPX Energy, Inc. - SVP & CFO***

Thank you, Clay. To me, there are a couple of key takeaways about our story right now.

As Rick mentioned, we are almost done with our transformation. For 2016 we are walking through the punch lists. You can see this kind of cleanup work in the second-quarter results and there will be some more in the back half of the year. Soon the results from the work that Clay and his team have accomplished will be flowing through our financial results and getting more swings at the plate will help drive our batting average up.

Number two, we are set up really well for the future, both operationally and financially. Clay's team is accomplishing things that have never been done before at WPX and financially there's a strong foundation here to get things done. I will provide an update to our liquidity in a few slides, but we now have the jet fuel to fund the high-return assets that now comprise our portfolio.

Our assets are poised to generate rapid production and cash flow growth. Our liquidity also provides the security to be prudent and remain financially stable when commodity prices soften. As I look to 2017 and 2018, the assets, our team, and the operational results that are now possible make the future here at WPX brighter than it ever has been.

Let's turn to slide 11 to take a look at the second-quarter results, which were pretty much in the fairway for what we expected. As I just mentioned, the second quarter was impacted by a couple of items that can be attributed to our portfolio transformation. For the quarter, our oil production is 32% higher than for the same period of 2015. Obviously, our 2016 results benefited from Delaware operations that were not present in 2015.

When comparing to the first quarter of this year, our Delaware oil production rose by 15% to approximately 14,000 barrels per day. Overall, our oil production was slightly down versus the first quarter as completions in the Williston Basin stopped. At approximately 206 million cubic feet per day our natural gas production for the second quarter was up by 26% over second quarter of 2015. The increase is driven by the additional volumes being generated out of the Delaware.

Natural gas production is up by 11% versus the first quarter of 2016, which was impacted by the outage of a third-party processing plant. At over 85,000 equivalent barrels per day, we are 34% higher than last year and 6% higher since the first quarter of this year.

For the second quarter, we are reporting an adjusted EBITDAX of $94 million, which is $87 million lower than the second quarter of prior year. Although oil and gas volumes were significant higher than the prior year, the decrease in realized oil prices of 20% offset the production increase.

On the gas side, realized gas prices were down 26% when compared to 2015. However, the decrease in adjusted EBITDAX is primarily driven by the realization of lower pricing on our commodity hedges. The lower hedge realizations accounted for $63 million of the decline.

Also reflected in this quarter's results are the impact of $7 million of severance and relocation costs associated with our efforts to size the organization commensurate with the remaining portfolio. We are still providing transition services to the purchaser of the Piceance asset. The contract for those services expires in September.

In addition, this quarter reflects the impact of excess transportation capacity that was retained after the closing of the Piceance transaction. The financial impact to the second quarter of $16 million is reflected in gas management activities on the income statement. Given our proactive buyout of these contracts, we will not have these costs in the future.

For the quarter, we were reporting an adjusted net loss of $85 million versus net income of $25 million in 2015. The decline was driven by the same factors impacting adjusted EBITDAX, but also by higher depreciation, depletion, and amortization this year.

This higher DD&A is driven by three factors. 2015 did not include any Permian activity. Number two, the reserve base used in the calculation is determined based on the average 12-month trailing price. As realized commodity prices in the second quarter of 2016 were lower than 2015, our DD&A rate effectively increased. Lastly, our production continues to outpace our expectations, particularly in the Williston Basin.

Our capital expenditures incurred in the second quarter totaled $94 million. On a year-to-date basis, total CapEx of $264 million includes $26 million of Piceance expenditures that were reimbursed to us by the buyer of those assets, which closed in April. The lower CapEx in the second quarter versus the first quarter reflects the decrease in activity in the Williston Basin as we ceased completing wells. This amount is also consistent with where we anticipated being halfway through the year.

Turning to slide 12, I wanted to touch on a couple of points regarding our financial position and how we are managing our balance sheet to maintain strong financial health.

First, as you will see, our liquidity is strong given the closing of both the Piceance and San Juan midstream divestitures during 2016 together with the $540 million of proceeds generated from the issuance of common stock in June. Also, as discussed last quarter, we amended our credit facility during the first quarter, achieving an enhanced covenant package which will ensure our liquidity through lower or higher commodity prices.

As of June 30, we had over $1 billion of cash on hand and an undrawn revolver. With the buyout of the Piceance transportation obligation and the remaining $160 million of 2017 bonds yet to be retired, our pro forma liquidity of $1.65 billion is substantial. Subsequent to June 30, we have lowered the remaining balance on the 2017 notes further to $125 million.

As Rick mentioned earlier, the cash that we have on hand is adequate to handle the potential outspend above cash flow from operations to support our 2017 and 2018 drilling and completion needs.

Our hedge position for 2016 has not changed since the end of the first quarter. We have approximately 80% of our anticipated oil production hedged at over $60 per barrel and are effectively fully hedged for gas at $3.93. For 2017, we did add 3,000 additional barrels of protection. The average swap price remained at approximately $51 per barrel.

On the natural gas side, for 2017 we have 110,000 in Mmbtu per day hedged at $2.91. Lastly, I will once again point out that after paying off the remaining balance of $125 million on our 2017 notes, we do not have another debt maturity until 2020.

Turning to slide 13, as you will recall, we raised our production guidance during the quarter study from higher performance we are seeing from our oil wells in the Williston and Delaware Basins. We've also tightened the range on our price differentials, lowered the outlook for our overall cash operating expenses, and increased DD&A. The DD&A increased was driven by the factors that I discussed earlier that impacted the quarterly results.

In summary, I would just add that everyone here understands the importance of sustaining and building on the momentum that we've worked so hard to achieve. We've climbed several mountains over the past few years and run a few races. The goal was, and is, to continue to challenge ourselves for greater success. We are proud of the work done so far, but believe that we can always do better.

Now I will turn it back over to Rick.

Rick Muncrief - ***WPX Energy, Inc. - President & CEO***

Thanks, Kevin. On page 14, I feel that this represents the foundation that we have now put in place. This reflects the transformational processes that we have been working on so diligently over the past two years.

I can't begin to express how excited our entire company is about the potential we have, the upside we see, and the extent of which we can achieve with the talented staff that we have. This company simply is built now to grow and we have the ability to make it happen. We are in a great place today because we remain active, opportunistic, disciplined, and focused on our goals to increase reserves, production, cash flows, and shareholder value.

With our current assets, our attractive hedge position, and our cash on hand, we believe we can deliver substantial crude oil volume growth over the next several years. We will provide more clarity around this in future communications as we finalize our plans. I can tell you that WPX has all the ingredients for a long and successful run.

This concludes our prepared remarks this morning. At this time we can open up the line for questions. I'll turn it back over to you, operator.

QUESTION AND ANSWER

Operator

(Operator Instructions) Brian Corales, Howard Weil.

Brian Corales - ***Scotia Howard Weil - Analyst***

Good morning, guys; a couple for you. I'm assuming you all don't want to talk about the price that you paid for the new acreage. Is that fair?

Rick Muncrief - ***WPX Energy, Inc. - President & CEO***

That's fair, Brian. Actually we've got some other deals in sight and so we'd prefer not to talk about it at this time, but, hopefully, in the future we will be a little more open and candid about that. But like I say, suffice to say we are very pleased with what we've done thus far.

Brian Corales - ***Scotia Howard Weil - Analyst***

Understood, understood. Clay, maybe for you. I know you all are big -- want to drill longer laterals. When do you all start drilling longer laterals in the Delaware?

Clay Gaspar - ***WPX Energy, Inc. - SVP & COO***

Yes, I would say, on a big scale, we have a couple of land things we need to get done, some trades, kind of blocking up the acreage for the master full development plan. We are in the process now; they are on schedule, kind of ones and twos here and there.

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We'll have a handful of them; they are on the calendar now. I would say but the full -- being able to turn Stateline fully in two-mile laterals is still a few months off.

Brian Corales - ***Scotia Howard Weil - Analyst***

Okay. And then I noticed the vision well in the Bakken at 5.5 million. How does that compare to the last Bakken well I guess you all drilled and completed earlier this year? Do you all recall what that cost was?

Clay Gaspar - ***WPX Energy, Inc. - SVP & COO***

It's pretty complicated because you are adding -- some of the wells were drilled even 12 months ago. But if you look at the wells we are drilling today, the completions that we are about to start on, we have a really good handle on current bids, current costs. That's very much in line. We are not too far from it.

Like I said, we have a year-end target of that 5.5 million. We are heading in the right direction there.

Brian Corales - ***Scotia Howard Weil - Analyst***

One more, if I could. Just I noticed that some of those rates at San Juan looked really good. Where does that rank? If you're adding rigs or adding capital, where does adding a rig in the San Juan, where would that rank?

Clay Gaspar - ***WPX Energy, Inc. - SVP & COO***

I think it's early to say. Right now the results are as good as anything in our portfolio, but remember this is a small data set. There's a lot more fuzziness in the numbers and so what we need -- and I've conveyed to the team -- is we need to increase confidence in the consistency and the predictability of those results.

And then also make sure that we've got a clear path ahead of us with all of the hurdles around regulatory and permits and everything that we need to get done, so that when we stand a rig up; we're ready to get after it. And so the team is aware of that and certainly working on that.

Brian Corales - ***Scotia Howard Weil - Analyst***

Thanks, guys.

Operator

Subash Chandra, Guggenheim.

Subash Chandra - ***Guggenheim Securities - Analyst***

How do we or should we think about your acquisition strategy? Is it opportunistic or should we sort of build in an expectation every year that you commit more to the Delaware? And how about the financing of an acquisition plan?

Rick Muncrief - ***WPX Energy, Inc. - President & CEO***

Subash, what we will continue to do is we have got a lot of basic blocking and tackling we are doing on trying to build our position there. We also will be at the table with all the large processes that we typically see down there. Very competitive and so we will see how that all plays out, but we have a fairly high degree of confidence that we will be able to continue to build our position in the Delaware.

That is the number one focus for us, if you look at our three basins. It's also where we think that we can have the most impact on building long-term shareholder value.

How we finance those, I think it depends on what the size is and, in some cases, if they're smaller deals similar to what we have on this last one, we are able to finance that with the cash that we have on hand.

Larger deals, I believe that if you look at companies that have a track record of execution, that have a track record of value creation, I think the equity market certainly could potentially be open there. So we will just have to play that by ear. It will all depend on the size and scale.

Kevin, do you have anything you want to add to that?

Kevin Vann - ***WPX Energy, Inc. - SVP & CFO***

I think it also depends on what you buy in terms of any flowing production that you could get out of it and what the debt markets looks like at the time. But that would obviously give you a little more flexibility of at least tapping into that side of the financing equation as well.

Clay Gaspar - ***WPX Energy, Inc. - SVP & COO***

Subash, I might add one thing as well. The RKI deal for us was absolutely transformational and a necessary move in our portfolio. Now that we have that -- we just talked about the resource potential there -- the bar has moved materially higher for that next bolt-on or that next material deal.

We don't need to do a deal, but with the amount of transactions and the amount of opportunity in this amazing basin, as Rick mentioned, we want to be in the conversation and at the table on every deal. But know that we are continuing to raise that bar and make sure that it makes good sense for our organization.

Subash Chandra - ***Guggenheim Securities - Analyst***

Okay. I just was curious about this: there's some Delaware IPOs lining up, but I imagine that they might also be interested in selling the asset outright, perhaps to a public company, as a shortcut to an IPO, etc. If you've looked at that and if you see there's a difference in valuations between, say, an asset transaction and some of the IPOs that might be closed out there?

Rick Muncrief - ***WPX Energy, Inc. - President & CEO***

I think we're going to see all types of proposals over the next 12 months. Some of those are outright sales; you could see some consolidation potentially. I don't know that you will see public company consolidation, per se, but certainly assets consolidating into public companies I can see that playing out.

If you are the seller of an asset, I think you will have to feel very good about the public company you're going into. And in the case of companies, I would say we can compete real nicely in that arena because I think that people see that we've got a lot of upside to our valuation. And while we may pay a lower equivalent dollar per acre headline, I think someone could feel very, very good about what that equity value could grow into over time.

There's a lot of things to consider, but I do know that a lot of the transactions -- you've already seen several of them that have been announced and I think there could be a few more in the queue.

Subash Chandra - ***Guggenheim Securities - Analyst***

And the final one for me. With this resource update, big upside in there, how do you think of what the optimal development scenario could look like here, if you can express that in rig count or well count type number? In order to sort of enhance the NPV.

Rick Muncrief - ***WPX Energy, Inc. - President & CEO***

I think obviously the easy or the quick answer to that question is you try to accelerate all you can, try to bring as much of that present value forward, the value forward. But the reality is we are going to -- we had to start somewhere. We had to start with the resource to understand what's under the hood, and that will be, if you will, the foundation for the development plan.

We still have got a lot of work to do there. If you listen to what Clay was saying, we've got some resource assessment we need to understand on drilling some distinct intervals. Understand just how good the X/Y is, how good is the C, how good is the D, different benches. And the same thing in the second and third Bone Springs and even the Avalon. We are adjacent to some Avalon acreage that is very, very impressive.

And so we've got a lot to learn. I think that over time, Subash, we will be able to lay out what that ultimate development plan will look like. But once again I will say that we are all about focusing on improving margins and right now our margins in the Permian are better than they are in our other two so I think we will try to manage our capital spend. We will go to where the best returns are, but just know that preferentially I think going into it Permian will get the lion's share of the CapEx.

Subash Chandra *- Guggenheim Securities - Analyst*

Thank you.

Operator

John Nelson, Goldman Sachs.

John Nelson *- Goldman Sachs - Analyst*

Thanks. I think Subash just hit on the main part of my question there. I guess maybe moving over to the San Juan; could you maybe speak to how we should maybe think about the potential volumes to track over the back half of the year, given the unfortunate events that transpired?

Then also it seemed like there were actually pretty good results on the acreage. Does that change your thoughts on how it competes for capital or value you might attract from a divestment process?

Clay Gaspar *- WPX Energy, Inc. - SVP & COO*

I think that's a great, fair question, John. As I think about San Juan, what we were trying to achieve with these six wells, if you recall I think from our November call, we had some early results in the three wells mentioned on that same slide and was pretty excited about the IP rates. We had changed a lot of methodology on how we drill, how we steer, how we complete, how we orient the well, length of laterals and these were the first tests.

Now, granted, very small sample. What we wanted to do is continue to expand that sample, hit six wells, especially in this West Lybrook unit where we have 53 additional locations in this unit that are kind of ready-to-go natural expansions of the same work. And then we have other three or four units that will progress nicely, a couple that are closer than the others.

So I think the big challenge going forward will be, as fast as these rigs drill, one rig can burn through a heck of a lot of inventory. And so what we need to make sure of is that when we stand a rig up, we are ready to keep pace with that rig. 7.7 days to drill mile-and-a-half laterals; that's moving really fast. And so we want to make sure that we give the team the opportunity to have enough inventory ahead of it so we are not lifting up and laying down rigs back and forth.

Rick Muncrief *- WPX Energy, Inc. - President & CEO*

John, it's Rick. I will also interject that, specific to San Juan, we've got a legacy gas position there, some of which is non-op, some of which is operated. We're looking at that pretty closely to see what kind of potential it has or what kind of potential it doesn't have, and we will be evaluating and communicating that I think as we go forward.

It's something right now that if you look at a couple of our other core assets, whether it's the Gallup, whether it's the Permian, or the Bakken, you are looking at lower margins there. So something that we are focused on and we will continue to evaluate and act on if we need to.

John Nelson *- Goldman Sachs - Analyst*

That's great. Then just the volume progression for the disruption. Should that have a pretty significant step down in 3Q or later? Any color on how we should think about San Juan volumes over the back half?

Clay Gaspar - ***WPX Energy, Inc. - SVP & COO***

John, sorry I didn't get to that. It's all still baked into our guidance. Our current -- what we have for the outlook we will absorb -- what we've basically done is delayed that start up, that six-well pad about a month. And that puts a little bit of pressure on the guidance, but we had enough cushion in the numbers that we feel that we can continue to -- the guidance, as forecasted, is still valid.

John Nelson - ***Goldman Sachs - Analyst***

Great. And then just one housekeeping one from me. Do you guys have expected timing for when we might see the results from the first Wolfcamp D and Wolfcamp X/Y wells?

Clay Gaspar - ***WPX Energy, Inc. - SVP & COO***

We have the first Wolfcamp D flowing back now; very early in its life. We have a couple other wells that are queued up: one that is completing now, another one that's about to be drilled.

I would say my preference would be two or three wells so we have some meaningful data before we start talking about any one well as we start entering new horizons. I would say the good proxy that we are looking at is look over to our west. Our buddies at Cimarex are doing a great job in the same interval that we are chasing right now in what we call the Wolfcamp D.

Rick Muncrief - ***WPX Energy, Inc. - President & CEO***

What about on the X/Y?

Clay Gaspar - ***WPX Energy, Inc. - SVP & COO***

The X/Y -- great question, Rick. Thanks for asking it.

Rick Muncrief - ***WPX Energy, Inc. - President & CEO***

I am repeating John.

Clay Gaspar - ***WPX Energy, Inc. - SVP & COO***

X/Y in our proxy is Matador up to the northwest and the southeast of our Stateline position. They are doing a great job. We have the X/Y queued up as the next well to spud. We will spud it in the next couple of weeks.

And so, again, I would rather not extrapolate 5,500 wells of potential based on single data points. As we get more rigs running it will help us build that data set sooner. I assure you; we are not trying to starve you guys of information, but trying not to mislead one side or the other on single data points. That could be kind of dangerous.

John Nelson - ***Goldman Sachs - Analyst***

That's helpful. So I guess just as I hear that it's more of a first half 2017 is probably a reasonable expectation for when we should look for that update than a 3Q results type timeframe?

Clay Gaspar - ***WPX Energy, Inc. - SVP & COO***

Yes, unlikely in the 3Q, but, yes, certainly by first half 2017.

John Nelson - ***Goldman Sachs - Analyst***

Great. All right, that's all for me. Congrats on the execution.

Operator

Neal Dingmann, SunTrust.

Neal Dingmann - ***SunTrust Robinson Humphrey - Analyst***

Morning, guys. Say, could you talk M&A a little bit? Clay -- really wondering, Clay, if you continue to see opportunities, how much money you're able to pry out of Kevin.

Clay Gaspar - ***WPX Energy, Inc. - SVP & COO***

Great question. We have kind of had this back-and-forth and we've talked about this many times with the Board. For a while there, I wasn't wanting any more money from Kevin. We had a decoupling of prices related to well costs; they were still high, the commodity price was low. We just -- everything turned upside down for a period there and I can tell you we were slamming on the brakes as fast as we possibly could.

We've gotten our feet on the ground. We've made the turn. As we've explained over the last several quarters, the well costs, the well productivity have both moved significantly in the right direction. And as a result, even in today's commodity price, with some internal hurdles, that are [returns] on the order north of 30%. I don't want to lean into anything less than that.

I can tell you we are well north of that in the opportunity set we have today. And so then I kind of hand it back to Kevin and say okay, what's the right investment level for us as an organization? Because I've got as many of these opportunities as you want to chase.

So now it's a little bit more of a capital constraint, and so we are starting to look at how far do you lean into the capital? I tell you, I mentioned the capital allocation process. We are running sensitivities right now on how many rigs, what should those rigs be doing?

You look at an opportunity like Permian and you start talking about pad development, these can be some massive, massive pads. So you might have a dozen or more wells before you turn it to production, and those have significant production impacts. So we are evaluating the pros and cons of all of that analysis right now, and that's what I was talking about. Later in the fall, we will have more information to roll out there.

Kevin Vann - ***WPX Energy, Inc. - SVP & CFO***

Neal, I will say that given the liquidity that we currently have on hand, we have the ability to really accelerate growth. I think it's just the management team sitting around and going, what is the right cadence and the tempo to really start to accelerate this? The liquidity that we do have right now, we can push the envelope on growth pretty quickly.

Rick Muncrief - ***WPX Energy, Inc. - President & CEO***

Kevin tells me all the time it's time to go fast again, Bobby. Ricky Bobby, let's go.

Kevin Vann - ***WPX Energy, Inc. - SVP & CFO***

It is.

Neal Dingmann - ***SunTrust Robinson Humphrey - Analyst***

Thanks, guys.

Operator

Matt Portillo, TPH.

Matt Portillo - ***Tudor, Pickering, Holt & Co. - Analyst***

Good morning, guys. Just a quick follow to one of the previous questions. I just wanted to clarify on the lateral length progression in the Delaware Basin. As we think about 2017, is the current hope or plan to get to long laterals next year? And if that is the case, is there any color or context you can provide around kind of the incremental increase in the well costs, potentially some of the capital efficiency gains you may be able to pick up with long lateral development on that Loving County acreage?

Clay Gaspar - ***WPX Energy, Inc. - SVP & COO***

Yes, great question, Matt. It's a little hard to predict because we are relying on counterparties to do some of the trades. I think everybody is willing, but at the same time everyone is looking out for their own best interest and we're trying to make sure we have full alignment as we get all the agreements in place to really turn it over to full development.

So 2017 is hard to predict. I hate to give you a percentage on how many are going to be two miles versus one-mile laterals, but that's definitely our intention and what we are working toward. As soon as we can get to those longer laterals, the better.

I mentioned a rig upgrade. We have two rigs running in the Permian right now, both of those have had 5,000 psi pumps, and that is not quite a limiting factor, but it certainly has negatively influenced our penetration rates in the laterals. We've just recently upgraded the first. We're about to upgrade the second rig and that has made a marked difference on these one-mile laterals.

Now as we move to a mile-and-a-half and two-mile laterals it becomes imperative that we have those rigs capable of that ability. Those are all moves that we are making to gear up toward that two-mile lateral. My historical point of reference is that the rough numbers, the well costs from a one-mile to a two-mile lateral, increases by 1.3 times. The EURs are roughly 1.75 to 1.8 times.

You don't get a full 2 turns, but a material improvement when you start running that through the math of a $5 million well, 1 million barrel EUR. You can see why we're so excited about chasing it now.

Matt Portillo - ***Tudor, Pickering, Holt & Co. - Analyst***

Great. And then just a clarification question on slide 6. The wells that are highlighted in the Wolfcamp A and the outperformance you are seeing versus the 900 Mboe curve, are those based on the current well designs, i.e., the 1,500 to 2,000 pound frac job, or does that include any of the older well designs in there as well? Just trying to make sure we are using an apples-to-apples analysis.

Clay Gaspar - ***WPX Energy, Inc. - SVP & COO***

This is all of them. We have different completion designs, different landing zones, different amount of sand in the wells, perforation strategies, and so that's why I mentioned some of these. As you are experimenting, you are seeing what works and where you have a correlation -- hey, this is working and it's working consistently -- and so let's repeat some of those.

Now, obviously, when you are experimenting like this, you are going to have some that just don't work as well and so you will, theoretically, eliminate all of the bottom curves and increase all of the top curves. And that's what we're doing.

I will tell you, looking at that curve, the 900 Mboe curve, the million-barrel curve is not very far north of that and depending on how you hold your head just right you can say we were already at that 1 million barrel mark. So we're not too far from that and I see continued upside for next year on how we continue to push the envelope there. Then again, as you pointed out, when you move the needle to the two-mile laterals, the whole thing just shifts.

Matt Portillo - ***Tudor, Pickering, Holt & Co. - Analyst***

Great. Then just quickly shifting gears to the Bakken. As you guys add back capital to the play and potentially accelerate the rig count, is the intention to focus more on your western acreage around the Mandaree Van Hook position?

And just trying to get a little bit more color, as you mentioned, around the high-graded drilling program. Is it fair to assume that in the high-graded drilling case or the higher intensity fracks that you should be able to achieve that 1 million to 1.2 million barrel EUR over the next year or so? Then I have a follow-up on down spacing in some of the deeper intervals.

Clay Gaspar - ***WPX Energy, Inc. - SVP & COO***

So we will have -- there's a little bit of difference between the DUC inventory and what we are going to drill next. The DUC inventory, obviously it's drilled. We're going to be completing those wells and they are all not right next door to the Emma Owner or the Mandaree. They are kind of spread out a little bit all over the place. So you will see that as we roll through the DUCs.

As we start drilling the wells, we certainly have a great handle on what we would consider internally a Tier 1, the best of the best acreage, and we're trying to line up as much of that in the program as possible. But you also start expanding out; you want -- some of our positions are a little less delineated and it's incumbent on us to make sure that we test that as well and understand that potential. So we will feather in some of that as well.

Matt Portillo - ***Tudor, Pickering, Holt & Co. - Analyst***

Great. And last question from me on the Bakken. Just curious on inventory, depth expansion; probably not something there's been a lot of questions on as of late. But was just wondering, as you guys think about progressing into 2017 and 2018, what your thoughts are in potentially down-spacing potential in the Middle Bakken.

And then I guess in the deeper horizons, particularly the deeper bench of the Three Forks on your more western acreage, how prospective do you see that? And any color or context you could provide around inventory upside if you had success on down-spacing.

Rick Muncrief - ***WPX Energy, Inc. - President & CEO***

Matt, we will continue to look at some potential down spacing going forward in Middle Bakken and I would say in the first bench of the Three Forks. When you look at the second and third benches of the Three Forks, we feel that it is prospective in the western-most, certainly the northwestern-most of our acreage. And I think the second bench, in my mind, is quite prospective.

We just need to get back to work up there. Obviously, we have had a limited capital budget, as we have had over the last couple of years. It's hard to advance the ball quite as far as we would like, but we really like what we have up there.

So it's just going to be a balance, as Clay talks about. We've got quite a few wells in the queue in the Van Hook and Mandaree area over the next couple years that are going to be very, very strong wells. Probably will replicate what you've seen on the last few wells.

He mentioned also feathering in. If you look down in the southern-most part of our acreage, we have not drilled a lot of wells down there, but we do have quite a few offsetting operators that have drilled some nice wells down there. We are just very bullish on our entire 85,000-plus acres that we have in the Bakken, so stay tuned because I think it's going to be a wonderful story.

Matt Portillo - ***Tudor, Pickering, Holt & Co. - Analyst***

Great, thank you very much.

Operator

Derek Whitfield, GMP Securities.

Derrick Whitfield - ***GMP Securities - Analyst***

Good morning, guys. With regard to the resource update on page 4, can you generally comment on your well coverage both op and non-op across those intervals? Then, specifically, could you point out any intervals where you meaningfully bumped your EURs?

Rick Muncrief - ***WPX Energy, Inc. - President & CEO***

I think where we have bumped our -- as far as the second part is, where we meaningfully bumped our EURs obviously are in the Upper and Lower Wolfcamp A's and I would say probably the D as well. Second and Third Bone Springs we've bumped some of those some, but I think the biggest drivers have been the A and the D.

Then also, you start looking at things like the C, Wolfcamp C and the X/Y. We really didn't have a lot of inventory that we had identified at that point in time.

We also have done -- because of the thickness in the Delaware intervals, predominately in the Brushy Canyon, we think that it certainly has got a high likelihood. That's what you do with these resource potential studies is, it's got a high likelihood of down-spacing potential, and that's down to 20-acre spacing, which is not too out of the norm certainly in the Permian Basin. You see that routinely.

So I think that that probably gives you a little color on the EURs. Second part of your question, Derrick?

Derrick Whitfield - ***GMP Securities - Analyst***

It was just well coverage across those intervals, both op and non-op.

Rick Muncrief - ***WPX Energy, Inc. - President & CEO***

I think we focus really more on our operated piece, which is, I'd say, at least two-thirds of our acreage in that greater Stateline area. On the non-op piece, there probably will be some down-spacing potential on the non-op that we have with Concho and Devon and Apache and others, but that has not been one of our biggest drivers.

Derrick Whitfield - ***GMP Securities - Analyst***

Okay. And one last question on that same page. Is it safe to assume that the acreage that you acquired is not exposed to any Pugh clauses and, therefore, the acquired locations then are simply where you have the results today?

Rick Muncrief - ***WPX Energy, Inc. - President & CEO***

You will have a few clauses out there, but that's just something that we just we manage. And that's why we've got these -- we stay on top of that. It is just part of our land management system.

Bryan, do you want to add anything to that?

Bryan Guderian - ***WPX Energy, Inc. - SVP, Business Development***

I would just say the development plan that we have in place for the new acreage position is designed to hold all depths that we feel are prospective. And there very limited drilling obligations associated with what we acquired, so we think it's really very manageable.

Rick Muncrief - ***WPX Energy, Inc. - President & CEO***

One of the things we see when we go out and -- we needed to test the Wolfcamp D, but I can assure you that's one of the advantages of doing some D development is you will hold everything above that. And as we do more and more testing, if you will, of the C and certainly the X/Y and the Upper and Lower A you will see that holding all that acreage gives you a little breathing room, if you will, so that when you go in and try to optimize your long-term developments you can do it in a very responsible way.

Derrick Whitfield - ***GMP Securities - Analyst***

Very good. And, Clay, perhaps one quick one for you. Could you comment on average proppant intensity for Q2 in the Wolfcamp A and perhaps where that projects for Q3?

Clay Gaspar - ***WPX Energy, Inc. - SVP & COO***

I would say the average is something less than 2,000 feet -- 1,500 to 2,000 feet. I know we have done some of both. On the drawing board are 2,500 feet -- 2,500 pounds per foot and then we are watching closely some of our neighbors, specifically to the south, that have put a heck of a lot more sand in the ground than that.

So we are certainly not done. We haven't finalized where we are at from there. We are starting -- we think we might be seeing the point of diminishing returns, but every time we see that something like commodity price or well costs or productivity changes and you have to kind of rework the equation.

Derrick Whitfield - ***GMP Securities - Analyst***

Thanks, that's all for me.

Operator

David Heikkinen, Heikkinen.

David Heikkinen - ***Heikkinen Energy Advisors - Analyst***

Good morning, guys. I had a question: as you think about the trajectory of costs going through the remainder of the year, you talked about operating costs potentially coming in. But then also wanted to make sure I dialed in your G&A cost savings in the fourth quarter. So if you could just talk about per-barrel operating costs for the remainder of the year and then G&A as well?

Kevin Vann - ***WPX Energy, Inc. - SVP & CFO***

This is Kevin. I will touch on G&A and then I will let Clay touch on operating costs. On G&A, what we have stated is that once we get to the fourth quarter our target run rate is about $150 million a year.

We are actively, and I would say very actively, looking at what additional costs are in our system outside of just employee costs. Obviously when you think about the transition services agreement with the buyer of the Piceance assets expiring in September, obviously there will be some further cost reductions that will come on the heels of that. But we are really looking across the board at everything that we are doing and so I don't think that run rate target of $150 million by the end of the fourth quarter has changed.

Clay Gaspar - ***WPX Energy, Inc. - SVP & COO***

On the operating expense, combination of lease operating expense and GP&T, you notice we reduced the guidance there full year for $1, $1 a barrel, which is a pretty material improvement. I can tell you we still have a lot of opportunity there, specifically in the Permian Basin.

I see some of the inefficiencies, the processes that we have. I've told this story before: these guys every so often would have a 1,000 barrel a day well and they had a very manual process of sending their best people to go handle it. Now, essentially every well that comes on is a 1,000 barrel a day well and we just can't put enough people and processes in place.

So there's some automation we are putting in place; well underway on. We have a lot of telemetry, the oil gathering system that I mentioned, all of those things will be massive step changes in how we manage that and will significantly help lease operating expense.

I think if you look back over the last 12 to 18 months, what we've with done lease operating expense in the Williston Basin, we are continuing to tighten the numbers there. And I would see the continued tightening in San Juan as well. So I think you will continue to see positive pressure on that operating expense across the board.

David Heikkinen *- Heikkinen Energy Advisors - Analyst*

How much is trucking now in the Delaware versus what you expect once you have oil on pipe?

Clay Gaspar *- WPX Energy, Inc. - SVP & COO*

Trucking is about $1.50 today, but I think it's a little -- it's pretty light as we forecast that forward, especially in a recovery market. There's only so many trucks. They, literally, start bumping into each other when you get too many on the road.

And so by having pipe in the ground in the face of what we know will be an increasing activity level in and around us, we think we will be offsetting as much as $3 a barrel related to the trucking in the future state.

David Heikkinen *- Heikkinen Energy Advisors - Analyst*

That's helpful. Then one of the key questions is trajectory on oil, and I know it's tough with 20 DUCs, roughly, in the Williston and the six wells in the San Juan and ramping in the Delaware as well. But you trough in the third quarter and then you start bringing things in.

Do you have any indication of trajectory in the fourth quarter of oil volumes -- that would be helpful -- versus third quarter the troughs call at around 39,000 barrels of oil a day?

Clay Gaspar *- WPX Energy, Inc. - SVP & COO*

I think we are real comfortable in this $40 to $50 range; that we've got a great plan. And I think that's where we see things going.

Now if it dips into the $30s, certainly that heightens our attention, as I mentioned in my prepared remarks. We can move quickly. There's nothing that we have -- no agreements or commitments that we've entered into that would bind us to essentially carrying out this work blindly.

We are going to watch the market. We know from past experience that things move rapidly. And, at the end of the day, we want to make sure we maintain the health of the Company and that we are investing in projects that create value and not destroy it.

Kevin Vann *- WPX Energy, Inc. - SVP & CFO*

I think if you look where 2017 is trading at this point, we are real comfortable with the returns at $47 oil prices. And I think that is -- as we start thinking about that trajectory for 2017 and 2018, that's why we are really interested and the current plans are just to get back to work.

David Heikkinen *- Heikkinen Energy Advisors - Analyst*

So no numbers on volumes?

Rick Muncrief - ***WPX Energy, Inc. - President & CEO***

What do you think on exit rate in 2016? You guys thinking about a trajectory somewhere -- some of our projections that we have right now. Dave, we will preface that with finalizing our plan. But where do you think we're going to exit 2016 at?

Clay Gaspar - ***WPX Energy, Inc. - SVP & COO***

I think, just for December itself, you are looking at 43,000 barrels a day of oil, maybe a little better than that. Overall, you are probably well north of -- a little north of 85 on Boe. Now that's December, that's not fourth quarter, but that's as modeled with the current activity, that's how we shape things up.

David Heikkinen - ***Heikkinen Energy Advisors - Analyst***

Thanks, guys.

Operator

Irene Haas, Wunderlich.

Irene Haas - ***Wunderlich Securities - Analyst***

Good morning. My question has to do with infrastructure, understanding that you guys are very meticulous about what you've done at the Stateline area. Just curious about the new acquisition; how is the infrastructure there? And also, would you, in general, consider using SIMOPS for drilling and completion?

Rick Muncrief - ***WPX Energy, Inc. - President & CEO***

I think, Irene, on the new acquisition, speaking to that, that will be a third-party gathered gas area. Now, on the water side, we could see opportunity to build our own water system there and possibly a smaller crude system, but we will see how that all plays out over time.

As far as our greater infrastructure perspective, Clay put together a team and we are --. When you start thinking about our Permian Basin infrastructure: we have crude oil, we have natural gas. We have potentially NGLs if we were to do our own processing. We we have our water gathering, and we will be doing quite a bit of recycling. The way our acreage is set up, we can do a fair amount of recycling which you will utilize for stimulation.

In doing so, we will need some water supply. And if we have gas lift or artificial lift methods, some gas supply lines as well. So have a fair amount to do and understand, but we know that focusing on that is going to create a lot of value for us, whether it's near term or over the long haul in maximizing our margins. But it's something very important for us.

Specifically to the acquisition acreage, third party -- we will have third-party gas gathering and processing and potentially some company-owned and water gathering.

Clay Gaspar - ***WPX Energy, Inc. - SVP & COO***

Irene, I think you asked also about SIMOPS. We are certainly open to that. There's certainly protocols you need to put in place; many places we work it's kind of standard procedure. So understanding it building your facilities, making sure that you have the proper spacing for the activity and the production is all critical to that, but certainly not something we would rule out.

Irene Haas - ***Wunderlich Securities - Analyst***

Great, thank you very much.

Operator

That does conclude the Q&A session. I will now turn the call back over to Rick Muncrief for closing remarks.

Rick Muncrief - ***WPX Energy, Inc. - President & CEO***

I want to thank everyone once again for joining us today. As I said in my prepared remarks, we had a very solid quarter, but I think that just really sets the stage for what the future holds for this company.

We are very excited. We've got -- things are ready to go; cash on hand. We're ready to get back to work and look forward to sharing results in future calls. Take care, have a nice day.

Operator

Thank you, ladies and gentlemen. That does conclude today's conference. You may all disconnect and, everyone, have a great day.