THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

WPX - Q2 2017 WPX Energy Inc Earnings Call

EVENT DATE/TIME: AUGUST 03, 2017 / 2:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Clay M. Gaspar *WPX Energy, Inc. - COO and SVP*

David Sullivan *WPX Energy, Inc. - Manager of IR*

J. Kevin Vann *WPX Energy, Inc. - CFO and SVP*

Richard E. Muncrief *WPX Energy, Inc. - Chairman, CEO and President*

CONFERENCE CALL PARTICIPANTS

Brian Michael Corales *Scotia Howard Weil, Research Division - Analyst*

David Martin Heikkinen *Heikkinen Energy Advisors, LLC - Founding Partner and CEO*

Derrick Lee Whitfield *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Analyst*

Irene Oiyin Haas *Imperial Capital, LLC, Research Division - MD & Senior Research Analyst*

Jeanine Wai *Citigroup Inc, Research Division - VP and Senior Analyst*

John C. Nelson *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Joshua Ian Silverstein *Wolfe Research, LLC - Director and Senior Analyst of SMID Cap Exploration & Production*

Kashy Oladipo Harrison *Piper Jaffray Companies, Research Division - VP and Senior Research Analyst, Exploration and Production*

Neal David Dingmann *SunTrust Robinson Humphrey, Inc., Research Division - MD*

Subhasish Chandra *Guggenheim Securities, LLC, Research Division - MD and Senior Equity Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the WPX Energy Second Quarter 2017 Earnings Conference Call. (Operator Instructions) As a reminder, this conference call may be recorded. I would now like to turn the conference over to David Sullivan, Director of Investor Relations. You may begin.

David Sullivan - *WPX Energy, Inc. - Manager of IR*

Thank you. Good morning, everybody. Welcome to the WPX Energy second quarter 2017 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. Along with Rick, Clay and Kevin, Bryan Guderian, our Senior Vice President of Business Development, will be available for questions after the presentation.

On our website, wpxenergy.com, you will find today's presentation and the release that was issued after the market closed yesterday. Also, our Q will be filed later today. Please review the forward-looking statements -- statement and disclaimer on oil and gas reserves at the end of the presentation. They are important and integral to our remarks, so please review them.

So with that, Rick, I'll turn it over to you.

Richard E. Muncrief - *WPX Energy, Inc. - Chairman, CEO and President*

Thank you, David. Good morning to everyone who's joining us today. I want to express my gratitude for your time and for your interest in what we're accomplishing. We just wrapped up another very good quarter on multiple fronts, delivering double-digit oil growth in all 3 of our basins and signing yet another strategic transaction that has long-term implications for value creation. In this case, I'm referring to our Permian midstream JV with Howard Energy Partners. Most importantly, we continue to plan and execute in ways that set WPX apart. Our goal is to stay a step ahead wherever we operate.

To give you a couple of examples, this means building pads and facilities ahead of winter weather and securing pipeline capacity in areas of rapid volume growth where bottlenecks could someday hit you. Our actions are driven by our discipline and backstopped by our multiyear plan. In our sector, it's no secret how much difference discipline and forward-thinking makes. Here at WPX, we're going to apply the same level of discipline whether commodity prices are rising or falling. As we have articulated before, back in September of last year, we laid out a long-term plan. In particular, we set specific growth and corresponding leverage targets to reach by year-end 2018. Those goals are front and center and govern every decision we're making. After 6 months into 2017, our progress is firmly on track. Our plan is unchanged and so is my confidence in it. We simply need to stay the course, and that's exactly what we're doing. We anticipated there would be some surprises and curveballs in the market along the way. We have handled them appropriately like we've always done and will continue to do. We have also stayed very active with our hedging program, which protects our cash flow and supports and underpins our long-term plan. You will hear more about that from Kevin in a few moments.

We're going to be very aggressive at managing any new pressures that arise, such as service cost inflation. We lined up many of our services last year and locked in as many costs as we could, but we're not totally immune from cost creep in our industry. Obviously, we deeply appreciate what our service providers contribute to our efficiencies, our operations and our success. As I've always said, it's like a partnership, we're in this together. At the same time, based on my 35-plus years of working on contracts, building relationships and executing in the field, there is a time when the envelope is pushed a little too far. Producers and vendors thrive together when there are realistic expectations on both sides of the table. If those expectations veer off course, well, that's when our discipline is going to kick in. That's how we protect our plan, it's how we protect our capital, and it's how we protect our margins. Without question, our number one priority is to protect the interest of our shareholders. We're certainly going to stay focused on delivering what we promised.

Let's turn to Page 2. Our well performance in all 3 of our basins has been exceeding my own expectations, which, frankly, are pretty high. This productivity drove us to increase our outlook for the year. We originally targeted 30% volume growth on oil in 2017. I'm happy to report that we're now forecasting 40% oil growth this year and could have been -- and we could have set the bar even higher with a more aggressive approach in the Delaware. We have governed the pace, however, with our commitment to our delineation and assessment work. On the transaction front, we have executed more than $7 billion of deals since my first earnings call here at WPX just 3 years ago. We reshaped nearly every aspect of our portfolio and our capacity to increase shareholder value. Once the Permian midstream JV closes, we're going receive $300 million in cash upfront, along with a $132 million capital carry on the buildout of a crude gathering system that's underway and the development of a natural gas processing plant. Based on the terms of the agreement, the total implied value of the joint venture on day 1 is more than $850 million. And as we've detailed before, the JV does not include any of the natural gas and water gathering systems that were part of our 2015 purchase of RKI. The infrastructure and logistics capabilities we're putting together for our Delaware production are quite impressive, and I'm pleased with the diligence of our midstream team to once again help keep WPX a step ahead. We've also began a process to market our legacy gas position in the San Juan Basin. This is a really nice asset with attractive Mancos development opportunities that we've had a number of inquiries on for quite some time. We're pleased with the progress we've seen in our data room, and we'll keep you updated on our progress. Our goal is to do something by year-end, but obviously, it comes down to the numbers. This isn't something we have to do, but it would benefit our deleveraging efforts.

Let's turn to Page 3. I've already expressed my confidence in our multiyear plan, and this page lists more reasons why. The great thing is that our ability to reach our targets isn't based solely on commodity prices, it's based on our discipline, our operational execution and our optionality.

In keeping with our discipline, I'd like to address some of our previous comments about 2018, including remarks that I delivered right here in the same setting on our first quarter call. Hopefully, this will provide some helpful clarity on our rig plans for next year because we're -- we've talked about, in the past, making some modest incremental additions to our fleet. As you know, our plan for 2017 is to run an average of 7 rigs in the Delaware, 2 in the Bakken and one in the San Juan, for a total of 10. Then for 2018, we had contemplated adding 1 to 3 rigs. Based on our progress toward our goals, I don't believe that adding rigs is necessary next year for us to reach our targets. So at this point, my thoughts are to keep our rig count roughly flat for next year. Certainly, there are all kinds of factors that could change our thinking in the future as we keep evaluating things, but right now, I truly feel like we're in a sweet spot. Based on that -- or part of that is based on the efficiencies, I think, that we can achieve with even more pad drilling and longer laterals. In the Delaware, if you think about it, so far, we've been focused on resource assessment and collecting data to better understand our assets, while at the same time, growing production. But as we shift to more and more development, running 7 rigs next year should be just as impactful as if we were running 9 rigs in our current mode. Since we haven't finalized our 2018 plans completely at this point, we'll provide more details later this fall. I do feel, however, that it was appropriate and important to provide at least some color at this point in time on our thoughts for next year.

With that, I'll now turn it over to Clay to walk you through our strong operations update.

Clay M. Gaspar - *WPX Energy, Inc. - COO and SVP*

Thank you, Rick, and good morning, everyone. I'm pleased to report on another strong operational quarter. We're raising our full year oil guidance to a range of 57,000 to 60,000 barrels per day, which increases our year-over-year oil growth rate to 40%. This increase speaks to the confidence in our quality of our assets and even better-than-expected performance from our wells. Year-to-date in the Delaware, we have focused on resource assessment and a spacing test in the Wolfcamp A. We completed wells in the Second and Third Bone Spring, the Wolfcamp X/Y, the Upper and Lower Wolfcamp A, the Wolfcamp B, the Wolfcamp C and in the Wolfcamp D. These early production tests, along with the Wolfcamp A spacing test, provides incredibly important information for us to formulate and execute the best development plan. Our completions team is currently completing a 6-well and 7-well pad. These long lateral Wolfcamp wells should be very, very impressive. They are also representative of the wells that we'll be focused on during the second half of 2017. This large group of high-quality wells will be coming on later this quarter. Although I would enjoy seeing another nearly 30% quarter-over-quarter oil growth, like we did this quarter, it will not happen every quarter due to the timing of pads coming on. This will set us up for a moderate growth in third quarter oil and very strong growth in fourth quarter.

We realize today that there are many challenges in the industry. I tend to bucket those challenges into 3 categories: commodity price, service company availability and inflation, and finally, infrastructure. You are very aware of our extensive hedge book and some of the great work that we've done to align with service companies and where necessary, step vertically into sourcing our own materials to ensure supply and lock in price.

Now let's turn to Slide 5, and I'll talk a bit more about our infrastructure strategy. When we acquired our core position in the Delaware, we called it a high-class neighborhood with high-class neighbors. The great news is that it's gotten significantly better in the last couple of years. As we have learned from other world-class basins, congested infrastructure can become a major constraint to growth. With that, we have been very proactive in making sure that we have the capabilities in place to get our oil, gas and NGLs all the way to premium markets. This begins with local gathering, then requires getting into a regional hub, and then finally, out of that hub to the most liquid markets. Our Permian midstream JV was a significant step for value creation and checking a few of these boxes. When we acquired RKI, it included significant infrastructure in the Stateline area. While we understood and appreciated the value of these assets, it wasn't apparent until the market -- until we completed the $850 million JV value marker. I should also point out that we still own all of the hard assets that came with RKI and have only JV'd the gas processing and oil gathering for Stateline.

We see the Stateline -- we see the remaining Stateline assets and the significant other Delaware assets and rights as future value to unlock. So let's start with oil. We talked quite a bit about our Stateline oil gathering system. It's up and running, and we continue to build out towards a full 125,000 barrel per day capacity. We have also recently announced a deal with Oryx to get our oil to Crane and Midland. We will own a 12.5% equity stake in the pipe, with an option at our discretion to double-up on that ownership. As we saw with the Permian in 2014, just because you get oil to Midland, doesn't get you out of the potential for market disruptions. Therefore, we have also acquired space to get barrels out of the Permian market all the way to the Gulf Coast. Going through Midland also gives us great access to Cushing if it proves to be a better market in time. Although gas is a byproduct when you look at the value revenue composition, it can be a critical path in being able to produce the oil.

Our midstream JV is already constructing the first 200 million cubic feet a day cryogenic processing plant. This facility should come online midyear 2018, and we've also begun planning our second 200 million a day plant. It should be noted that in addition to the $300 million upfront we receive at closing of the JV, we will also be carried on most of the costs of these first 2 cryo plants.

We signed a deal with WhiteWater Midstream to get our residue gas to Waha. I cannot overstate how important the gas buildout and planning will be for the Delaware Basin. We see this alignment with WhiteWater as imperative to protecting our revenue stream as well as a significant value opportunity in having a 10% ownership in the system, with the option to double that stake at our discretion. Ultimately, we structured the WhiteWater agreement to provide WPX the flexibility to take up to 500 million cubic feet a day of capacity. Assuming the continued success of the Permian and especially of some of the gassier plays, there is little doubt that Waha will become a significant chokepoint, and the differentials will reflect that.

To stay ahead of this, we now have agreements in place to move our gas beyond Waha to the Gulf Coast markets. Once again, this is a very critical step in making sure a blowout in differentials or even worse, a physical constraint, will not jeopardize our development plans.

The NGLs are a much simpler story. There is already significant pipe in place and projects underway to achieve similar market surety as we've had to create with oil and gas. I'm very proud of our team for developing these options and strategies, but also for doing it in a way that will unlock significant upside value potential to WPX shareholders.

Now let's turn to Page 6. I'm not going to spend a lot of time on this slide, but I thought it was important to update everyone on a recent shut-in test for CBR-22. This is probably the most robust Wolfcamp A spacing test in the Delaware Basin. Testing a 15-well per basin -- excuse me, 15-well per spacing concept, the result, as you can see in the plot to the right, shows little to no well-to-well interference. While there is a lot -- there is lots of hard work and advance science that goes into this test and the results are much more data and then a single plot, let me just simplify it by saying, this is great news and allows us to move forward with confidence in our development of the Wolfcamp A. We will add the X/Y wells to this pad later this year to give us additional information about the ultimate spacing for the X/Y and how we can ideally place them relative to the A development. Ultimately, we are attempting to place wells throughout this 3-dimensional cube to have just a bit of vertical and horizontal communication. The earlier we get this formula right, the sooner we will avoid any over- or under-development of this incredible resource.

Now let's look to Page 7. As I mentioned in my opening remarks, we have done quite a bit of delineation work in the Delaware. In the first half of the year, we have completed wells in 8 different landing zones and incredibly, they are all looking very promising. The goal is to understand the potential for each of these zones and determine which intervals may compete with our gold standard, the Wolfcamp A. Based on early time results. I feel confident that some of these zones will compete, if not exceed, our expectations of the A. The spacing and ultimate well count will also be very important to infrastructure design and timing. We're very excited about our first Third Bone Spring, 1-mile well drilled in our Lindsay area. The 30-day average for this well was 1,647 barrels of oil equivalent per day, with a 50% oil cut on a 3-stream basis. We also saw very strong results from the 1-mile Wolfcamp A Blue well, posting a 30-day average of 1,560 BOE a day, with 69% oil in our eastern part of our position.

We continue to see very strong results from our Wolfcamp D wells. As you can see in the production graph, our Wolfcamp D wells are performing at/or above the 2 million BOE type curve. As Rick mentioned in his remarks, we are entering a process to market the San Juan gas. The decision was in part based on our confidence in the Wolfcamp D. The understanding we now have with the D gave us confidence that we have very strong gas-weighted options in our portfolio that we could lean on given a relative move in gas price. We now have tested the D in 4 important wells, we have a good handle on yield and performance, and going forward, we can watch these wells over time to get a good idea of where they fit in the extensive development plan.

Let's turn to Slide 8, and we'll take a look at the Williston update. We have been very busy in the Williston testing multiple completion designs, and the early results are very encouraging. On the left side, you see 3 different pads with 3 different designs, for the Caribou, Grizzly and Beaks pad. The variables of these pads were the number of stages, 40 versus 60, the number of clusters per stage, 5 versus 10, and proppant load of 6 and 9 million pounds. The Caribou and Grizzly pads are performing well above our 850 MBOE type curve, and the Beaks pad is slightly below. As you can see on the bottom right of the slide, the 30-, 60- and 90-day oil cumes for the 60-stage completions exceed the 40-stage wells. There are always more variables than we can possibly show on a single slide, but consistently, we're drilling better in-field wells than the parent wells, which clearly points to improved frac design. We are working diligently to make sure that we have the right value-driven solution for each opportunity. As always, we'll continue to challenge ourselves and push the envelope on completions. Later this year, we plan to test even larger completion designs.

Let's turn to Page 9. The San Juan Gallup is a story of incredible efficiency and strong well economics. In the San Juan Gallup, we're only running one rig, but that rig can drill almost twice as many wells as rigs in the other basins. And remember, those 40-plus spuds on average are 1.5-mile lateral wells. To stay ahead of this fast-moving rig, the San Juan team completed construction of all pads and facilities and will -- that we will need through early '18. So that capital has been incurred for wells that would be drilled and completed in the second half of '17 and well into '18. The primary focus of that drilling will be in the West Lybrook unit. The well results have been very impressive. As you can see on the cume plots, we are trending better than type curve. These $4 million wells continue to compete for capital and are high-quality inventory. With one rig running, we should see steady production growth of the San Juan Gallup through 2018.

With that, I'll turn it over to our CFO, Kevin Vann. Kevin?

J. Kevin Vann - *WPX Energy, Inc. - CFO and SVP*

Thank you, Clay, and thank you to your team and the commitment to keeping our plan on track and helping WPX deleverage through the drill bit.

First and foremost, it's been almost a year since we rolled out our plan to grow cash flows and reduce our overall leverage by using available liquidity to fund the amazing suite of assets that our organization works so hard to obtain. Our second quarter results continued to reflect the trajectory that we laid out then and where we are headed by the end of 2018. Every spud, every completion, every barrel puts us another step closer to our goal. There is plenty of work to do and lots of steps ahead, but we're making progress, advancing the ball down the field and putting ourselves in position to do what needs to be done. We don't take long water breaks here at WPX, that's what is expected of us, that's what we expect out of ourselves, and that's what we'll do.

Our second quarter numbers continued to reflect that we are on the right path to achieving our stated goals of being below 2.5x leverage by the end of 2018. We have this opportunity only because of the portfolio that we now have and the continued focus on that goal. The obvious drivers of the continued improvement are higher oil volumes. Along those lines, as Rick and Clay mentioned earlier, we're remaining opportunistic with our hedging strategy. Key to our hedging program is understanding how these contracts fit into our capital structure management. Having this clarity around cash flows sets the foundation for a development program and is instrumental in our ability to meet our deleveraging targets. Our continued growth reflects the outstanding assets we acquired 2 years ago, some of the best-quality rock in the world. Our focus and discipline is paving the way for the future of our drilling plans and optimizing the tremendous value we have up and down the portfolio.

Let's turn to Slide 11 and review our second quarter results. For the quarter, at 58,600 barrels per day, our oil production is 43% higher than for the same period in 2016. Across our basins, our oil growth was impressive. The increase in our Delaware and Williston production demonstrates the focus the teams have on beating our stated growth in cash flows. When comparing to the first quarter of 2017, our oil production was up 27%. This quarter-over-quarter growth was driven by the Delaware and a full quarter contribution from the wells and activity we acquired in the first quarter acquisition of Panther. In addition, the relative contribution of the Williston team's efforts to sequential growth reflects the quality of that program.

At 203 million cubic feet per day, our natural gas production for the second quarter was down approximately 1% versus the same quarter of 2016 and up 4% compared to the first quarter. However, the second quarter does reflect the impact of some further cleanup divestiture work of our legacy gas portfolio.

Our NGL production was almost 4,000 barrels per day higher than the second quarter of 2016, which further helped our absolute revenues given the composite price received on those barrels this year versus last year. At 106,000 equivalent barrels per day, our production is 25% higher than the second quarter of last year and 18% higher than the first quarter.

For the second quarter, we are reporting an adjusted EBITDAX of $152 million, which is $58 million higher than the second quarter of last year and $37 million higher than the first quarter of this year. What's driving this improvement? It's pretty simple, our oil production is growing and the margins associated with each barrel produced continues to improve. One might say, yes, that's right, but you realized higher prices on each barrel produced this year versus last year. While that is a true statement, our hedging program this year realized less overall value than last year, which means that each incremental barrel being produced this year is contributing more to our leverage goal. I emphasized that last quarter, that we are seeing this improvement, and now our financial statements are starting to reflect it.

For the quarter, we did see a $12 million increase in lease operating expenses when compared to the second quarter of '16. However, this absolute increase is really driven by the increase in production volumes. On a per unit basis, we are still close to the same level as last year and better than the first quarter of 2017.

For the quarter, we are reporting an adjusted net loss of $57 million versus a net loss of $85 million in 2016. The improvement was driven by the same factors impacting adjusted EBITDAX, higher oil volumes and better margin on each barrel produced. However, there were other noncash items that impacted the quarter as well. First, depreciation, depletion and amortization was $8 million higher this quarter versus 2016, which resulted from higher production volumes. However, our DD&A rate per barrel continues to improve dramatically as we drill better wells at lower cost. With our Delaware assets, we have the potential to continue to drive that consolidated rate even further down. As I mentioned last quarter, these types of results are often subtle in the financial performance, but as we get more swings at the plate, our batting average continues to improve.

Lastly, our G&A came in a little higher this quarter versus last quarter, however, the quarter included some additional costs we don't anticipate going forward. Most of these additional costs relate to incremental costs incurred associated with services related to the transition of the Panther operations. For the full year, we have also incurred some additional costs related to our Permian joint venture process. Our capital expenditures incurred for the second quarter totaled $317 million. Of this amount, $285 million relates to true D&C capital, while $22 million is for further expenditures related to the construction of the Delaware infrastructure that will be reimbursed to us under our arrangement with Howard Energy Partners. During the quarter, we also incurred approximately $9 -- approximately $9 million for the acquisition of additional acreage, which was basically all in the Delaware. Our drilling and completion capital spending was in line with where we expected to be at this point in the year. I will touch further on our expected capital expenditures for the balance of 2017 on the next slide.

So let's turn to Slide 12, and as Rick and Clay mentioned, we are raising our full year oil growth. Our new projections now have us between 57,000 and 60,000 barrels of oil per day per year. This increase reflects the continued outperformance by the wells that we are drilling across our portfolio. At the same time, we are revising our full year natural gas production guidance downward, which reflects the disposition of our remaining Marcellus production and some other non -- some other small nonoperated assets that were previously in guidance.

For the full year, we are slightly raising our capital guidance, which is driven by 3 primary factors. With the increased activity in the Delaware, our nonoperated capital projections have increased. The quality of the rock there continues to draw more interest across other operators, which drives our nonop capital higher. Second, we continue to focus on drilling in areas with the highest returns and therefore, the average working interest associated with our drilling program has increased for the balance of the year. Lastly, despite our contracted service costs, we are not completely immune to the inflationary pressures associated with the Delaware. I do want to mention that of the $50 million to $60 million of Delaware infrastructure costs, Howard will be reimbursing us for actual expenditures until close, which we expect to be around $35 million.

The next item that we are adjusting is the average price differential for natural gas. With the higher realized NYMEX prices, the average basis spread has increased as well, which is typically what you see in the gas markets. I mentioned earlier that our DD&A rate continues to come in as we drill better wells at lower cost. In addition, our rate will continue to improve as we get more cuts at the plate in the Delaware. Lastly, we have increased our G&A guidance slightly by $10 million for the full year. I discussed earlier some of the drivers on the previous slide.

Let's turn to Slide 13 and talk a little bit about our hedge position. As most of you are probably aware, our hedging position for 2017 is strong. We have nearly 3/4 of our remaining oil and natural gas production locked in at over $50 per barrel and right at $3 per MMBtu. For 2018, we have continued to add to our hedging position for -- with over 55,000 barrels of oil hedged at nearly $53 per barrel. On the natural gas side for '18, we have 185,000 in MMBtus per day hedged at $2.98. With 2019 coming into view, we have layered in 17,000 barrels of oil per day in 2,000 -- at roughly $51 per barrel.

As I have said before, our hedging program is a function of our capital program and the growth and deleveraging goals that we laid out nearly a year ago. I have been asked by some of my counterparts as to how our internal process works around hedging. The simple answer to that question is that when you have a clearly defined goal in 2018, our hedging decisions to manage the commodity risk associated with our expected production is quite simple. We always have a market view that hitting our cash flow forecast is our first and primary objective. As you can see from the slide, our hedge position is not only close to the top in terms of price per barrel, but at 60% hedged, we have the largest relative hedge position among our peers for 2018. The WPX team understands the leverage goal, and we are doing everything that we can to manage the risk associated with achieving that goal.

We've talked a lot about our 2018 financial and operational goals, they go hand-in-hand. The second quarter results demonstrate that we are on the right trajectory to achieving those goals.

I will now turn it back to Rick for some closing comments.

Richard E. Muncrief - *WPX Energy, Inc. - Chairman, CEO and President*

Thank you, Kevin. As you all know, there is a tempo that ebbs and flows from quarter-to-quarter. Through it all though, what's important are the actions along the way and the progress that comes from them. WPX has been and will continue to think strategically and to be very action-oriented. We are continuing to make some really nice progress. We're staying disciplined, pragmatic and true to our plan. We feel that this adds up to a very appealing value-adding and value-creation proposition. And at this time, we can now open the line for questions, and I'll turn it back to the operator.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Neal Dingmann of SunTrust.

Neal David Dingmann - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

And first question for Clay. Clay, you -- looking in that Slide 6, you guys have had a lot of success on this downspace in the Wolfcamp A. Could you talk about, is there further room for improvement there? Or I mean, are you there now for -- where do you think you'll be in the next few quarters?

Clay M. Gaspar - *WPX Energy, Inc. - COO and SVP*

Yes. That's a great question, Neal. Thanks for that. Our entry assumptions for the RKI acquisition was 8 wells per section. That was one landing zone, 8 wells per section. When we really started diving into it, we found that there was really 2 sweet-spot landing zones. We weren't sure how they were going to communicate, and we had hoped that, hey, this potentially doubling up of that inventory was possible. So this spacing test confirms that is very possible. Now is it ideal? You never really know. So we are going to test some tighter spacing. We're going to test some wider spacing and continue to hone into that. But the early results from this 15-well pilot is very, very exciting for us and it's very encouraging about -- we have a very good solution to move forward.

Neal David Dingmann - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

And then one last one. Could you just talk about the sand source? I know that some guys are lining that up. Talk maybe about that guys.

Clay M. Gaspar - *WPX Energy, Inc. - COO and SVP*

Sure, Neal. We have been very proactive on sand. I mean, the dizzying array of options, they will kind of make your eyes cross at times. But the -- we have been -- we've moved in from everything from Wisconsin to Arizona to some local sources. We've used all of those. We continue to watch the market. We're wide open to using local sources that will continue to drive down costs, but I've been very, very pleased. And we just haven't, one, we haven't had an issue with getting sand to location, and two, we haven't had any inflation in sand relatively speaking. So the challenge that we face, along with the rest of the industry, is more around logistics. So it's making sure that we have enough trucks, we have the transload capacity and then we have enough storage on location. So that's something that we have modified and tweaked throughout the year, and I feel really good about where we're at.

Operator

Our next question comes from the line of Jeanine Wai of Citi.

Jeanine Wai - *Citigroup Inc, Research Division - VP and Senior Analyst*

You've had great success at repositioning the portfolio over the past few years, and based on our estimates though, your leverage currently still remains above average, but we see that heading down closer to 2x by year-end '18, which is in line with kind of your comments. But in terms of accelerating the deleveraging process, one scenario could be a larger divestiture and then using that cash to immediately deliver. So my question is probably for Kevin. When are your 2020 -- or 2022's, do you know it's callable? And if those are longer-dated, what's your appetite to keep cash on the balance sheet to achieve a more attractive current net debt-to-EBITDA?

J. Kevin Vann - *WPX Energy, Inc. - CFO and SVP*

Yes, well, first of all, they are not callable to -- none of our debt structure allows for us to call our debt in earlier without some type of make-whole premium. But we are actively looking at that. In terms of what are the potential -- some of the potential options to manage that, in particular, that net -- next debt tower and obviously, the larger debt tower that we spun out with, which was about 2022. I think it all comes back to the economics of what we could buy in if we had some available cash sitting on the balance sheet, just for deleveraging purposes, what the economics look like in terms of being able to buy that debt back in. But in terms of appetite, yes, we definitely have an appetite of trying to whittle away at some of that, especially as we get some proceeds in or some, potentially get some proceeds in and around some of these noncore asset processes.

Jeanine Wai - *Citigroup Inc, Research Division - VP and Senior Analyst*

So you could do open-market repurchases, but you're not willing to pay the premium -- to make whole premium, essentially?

J. Kevin Vann - *WPX Energy, Inc. - CFO and SVP*

It just, yes, it just depends on when -- where they are trading at the time.

Operator

And our next question comes from the line of Brian Corales of Howard Weil.

Brian Michael Corales - *Scotia Howard Weil, Research Division - Analyst*

Rick, you made some comments on your opening statement about 7 rigs may do the same as 9. Were you implying just with pad drilling faster drill times or well performance has exceeded expectations? Can you maybe elaborate a little bit?

Richard E. Muncrief - *WPX Energy, Inc. - Chairman, CEO and President*

You bet. I just think that based on prior experience, these other basins which we operate, we're really, I think, on the leading edge there of seeing some pretty meaningful improvements in our drilling times, case in point, we just had one of our wells the other day that was -- basically, the intermediate point in the curve set a 7 inch at -- in about 8 days, and that's a marked improvement. And so, I guess, my thoughts are with the -- my thoughts are with the more and more of the pads, the efficiencies, getting honed in on from your geosteering perspective of where the real sweet spot and landing point is. We're going to get better and better at that. And I will say also that we have upgraded our rig fleet some. If you'll recall, Brian, we went from 2 rigs to 7 in about a 6 to -- at about 8 -- or excuse me, about an 8- or 9-month period, and we're just going to get better and better with our timing. So I think that if you put all that together and that's where I think you're going to see improved efficiencies. We've seen the same thing in the other 2 basins. Now Clay, you may want some more -- do you have thoughts on that?

Clay M. Gaspar - *WPX Energy, Inc. - COO and SVP*

Yes, Brian, one thing I would just add onto that is, the amount of work that we've done, up and down the whole and then geographically, I mean, stepping into Panther and really understanding the opportunities there, that's -- that takes a little bit of a toll on the pace to do that much in the first half of this year. And so as I look forward to second half of '17 and then to '18, I think we have the knowledge we need to really start honing in to more development mode, more multi-well pads, more longer laterals and really turning the crank just more efficiently. I don't -- please don't hear me that I'm second-guessing at all -- anything we've done in the first half of the year. That's been incredibly important information, and we have been able to make some very important strategic decisions based on that information. So we will continue to watch. Wolfcamp D is a perfect example. We're kind of in the watch mode now. Where does it fit, when does it fit, how does it fit, that all come in time and but we needed to get those early swings to really get it into the data pool and let our engineers and scientists really weigh in on that information.

Brian Michael Corales - *Scotia Howard Weil, Research Division - Analyst*

All right. And on the midstream side, it seems like you all have kind of been much more proactive in kind of building yourselves and partnering with others. I mean, is the ultimate goal to have a lot of this midstream just drop down into the JV? Or what is the bigger picture goal over the next few years?

Richard E. Muncrief - *WPX Energy, Inc. - Chairman, CEO and President*

I think number one is we want, in an area, a basin as hot as the Permian is, and you're going to see a lot of growth over the next few years and then probably the next couple of decades. We feel that we would like to control our destiny. In some cases, we've seen some third-party performance that wasn't as strong as we'd like, and so we feel that if we control our destiny then we can, I think, just deliver day-in, day-out better results. That's the first thing. The second thing is, to your point, I think that we are very focused on creating value for shareholders, and there is a lot of ways you get there. And we have a track record over the last 3 years of building systems, having either a 100% ownership in it or an equity, a smaller equity ownership, that ultimately through some type of monetization event have turned into real value for shareholders. And so I see that continuing, and one of my comments was optionality. And we have -- as a company, we have a lot of options in front of us, a lot of opportunities. And we're willing to make those bets. We're very confident in doing that because we've done it in the past. And so I think we can truly grow a midstream presence or a position that's very attractive.

Operator

And our next question comes from the line of David Heikkinen of Heikkinen Energy.

David Martin Heikkinen - *Heikkinen Energy Advisors, LLC - Founding Partner and CEO*

And I really do appreciate the 2018 perspective, Rick. It is helpful. Thinking through the Delaware Basin and all the moves you made kind of forward-thinking on midstream, on transportation and then as you grow volumes, Clay or Rick, can you talk a little bit about what are the unit costs expected to be just from either a total dollar amount or even just kind of fixed and variable on those components as we think about where you are now and then really where you'll be, even in the year-end guidance, would be helpful?

Richard E. Muncrief - *WPX Energy, Inc. - Chairman, CEO and President*

Clay, you want to (inaudible).

Clay M. Gaspar - *WPX Energy, Inc. - COO and SVP*

Yes, sure. David, I'll take a stab at it. There is a lot of moving parts and a lot of components to it, so I would say, in general, we're looking at surprisingly deals that we've been able to strike and the deals that are on the table over the last 12 months that we've been working these things. We see them as essentially flat to what we're running today on our GP&T type costs. And so as an example, as we move from a third-party gas processor to processing our own gas, remember, we get 50% of that revenue back to our own coffers. So even though the absolute value, the dollar per Mcf is going up, we see the cost net-neutral to us. As we look at hauling -- excuse me, putting water -- some oil on pipe rather than hauling, there's significant savings there. And I can tell you, in a cool market, there are significant savings in a very hot market. Where it's hard to get trucks and those kind of things, it has very significant savings, and I don't know how to even predict that, but it's a very material piece. The deals that we've done, moving outside of the basin, without getting into the specifics, I can tell you, they're in the money today. So we're very pleased with the deals that we've struck and as we look forward. Kevin, do you have anything...

J. Kevin Vann - *WPX Energy, Inc. - CFO and SVP*

Yes, the one thing I would add to that is, and not to get too deep into the accounting, when you think about the partnership that we do have on our Permian, Delaware and gas processing and crude gathering, the rate that we pay, you may see a slight increase in terms of your GP&T, but on a net cash flow basis, it's going to come back to you in the form of return equity income, which will be on another line item, obviously, on the income statement.

David Martin Heikkinen - *Heikkinen Energy Advisors, LLC - Founding Partner and CEO*

Yes. The 50% back. Yes. So you see direct goes up and then you get 50% back. And then just thinking about that oil on pipe, are you getting the Cushing or are you getting the Houston? I'm kind of seeing about a $1.10 a barrel kind of type cost. I'm just trying to get an idea of order of magnitude of that oil on pipe and where it's going, and for maybe the options of where it's going, you might have multiple.

Richard E. Muncrief - *WPX Energy, Inc. - Chairman, CEO and President*

Well, we do -- the good thing about our -- the system, the plan was -- is we have options to go either to the Gulf Coast or to Cushing. And so I think as we're sitting here, the markets move around a little bit. I don't know -- Todd, are you -- you or Kevin, want to...

J. Kevin Vann - *WPX Energy, Inc. - CFO and SVP*

Yes, Corpus -- we have the option to go to Corpus and Cushing. But I think the rate, the $1.10 is pretty consistent.

Richard E. Muncrief - *WPX Energy, Inc. - Chairman, CEO and President*

That's close, yes.

Operator

Our next question comes from the line of Subhasish Chandra of Guggenheim Partners.

Subhasish Chandra - *Guggenheim Securities, LLC, Research Division - MD and Senior Equity Analyst*

Rick, so Anadarko said something on their call that I would like your thoughts on. So they said for HSC reasons, you're looking at stabilizers in the Delaware, even though oil volatility may not necessarily -- necessitate the use of it. What are your thoughts there and what kind of -- how much do stabilizers cost? I mean, my experience has been in the Eagle Ford, I guess. I'm just curious how simple a mechanism that is in the Delaware.

Richard E. Muncrief - *WPX Energy, Inc. - Chairman, CEO and President*

Well, I might have Clay really weigh in, but I think from our perspective, it just depends on -- I think you see stabilization in the past is always more of a function of what kind of gravity are you dealing with. So where stabilization really comes into play, typically, is in the over 50, especially 55 and above gravity. I think as you go west in the Delaware, you could -- further west from probably from most of our acreage, you can get possibly into some of that. But I think from where we're at and then to the east, I don't know that it's quite as big of an issue. But Clay, you may want to add some more color on that.

Clay M. Gaspar - *WPX Energy, Inc. - COO and SVP*

Sure. I think this is a perfect example of us wanting to control our destiny, so as we move our oil to a centralized facility, we're blending lots of crude to get to an overall gravity. Then we have batching availability, which will allow us, if we even did move to a situation where there was a price delta from the gravity we're delivering to the standard market, we could batch into this and actually deliver those barrels to the desired premium location. For example, Corpus would be one that is often wanting more of the higher-gravity barrels. I can tell you to date, and as we look forward, we haven't seen a delta in a price impact to the barrels that we're delivering. Our blended average is high 40s, around 50 API, and that seemed to be very much a sweet spot in the market. But again, optionality and flexibility, going forward, is the key, and so you fast forward 2, 3, 4 years from now, I can't tell you what the desire is going to be. And if there is an ability for us to batch and move that oil to that premium location, it becomes a very material value-creation opportunity for us.

Richard E. Muncrief - *WPX Energy, Inc. - Chairman, CEO and President*

And I guess the last point, if -- and we have not talked specifically to Anadarko about what they're thinking, but to -- in regards to HSC, if there is in fact an HSC issue there, I can assure you, this organization will be looking into that and making sure we're not missing something. But we're not aware of it from our perspective in how we're operating today.

Subhasish Chandra - *Guggenheim Securities, LLC, Research Division - MD and Senior Equity Analyst*

Yes. Got it. Yes, it might be more regional for them in other areas of their footprint. My second question is, the pads, the infield pads you have underway now, are they -- is the proppant intensity still on that 2,000, the 2,500-pound neighborhood?

Clay M. Gaspar - *WPX Energy, Inc. - COO and SVP*

Yes, I would say our state-of-the-art is somewhere between 2,000 and 3,000 pounds. And that's -- again, as we move to more 3,000, we've even had a 4,000-plus pound per foot test. Obviously, that weighs in on well cost. There's always the ultimate test of is it net-net creating value. And so as the market dynamics ebb and flow, we're always watching that, the different landing zones, the different part of the geography that we land these in.

Clay M. Gaspar - *WPX Energy, Inc. - COO and SVP*

But I would say that the 13 wells that were competed now, they're in the range of that 2,000 to 3,000 pounds per foot. Essentially, our standard is in that range, and we'll continue to hone into where is the 3,000 down to the right recipe versus 2,000 pounds.

Operator

Our next question comes from the line of Kashy Harrison of Simmons Piper Jaffray.

Kashy Oladipo Harrison - *Piper Jaffray Companies, Research Division - VP and Senior Research Analyst, Exploration and Production*

Rick, as you think about the business, on maybe on a longer-term basis and at a higher level and maybe as we get towards the end of the decade, do you envision transitioning to growing oil production within cash flow or maybe even essentially growing oil production while generating free cash flow?

Richard E. Muncrief - *WPX Energy, Inc. - Chairman, CEO and President*

Absolutely. A very good question. That's what we've talked about, and that's why we're driving so hard toward this year-end 2018 and our deleveraging goals. We want to be in a position where as we -- or in '19 and certainly in '20, that we're stacking cash. And we have got optionalities to look at just absolute debt reduction or continuing to grow at an attractive pace, an appropriate pace, with our cash flow from operations. And so that's our plan, and I certainly can see, in my mind, a fairly good line of sight, at least for the next 24 months that we can get there. And it's absolutely what we'd like to do.

Kashy Oladipo Harrison - *Piper Jaffray Companies, Research Division - VP and Senior Research Analyst, Exploration and Production*

Excellent. Excellent. And then, Clay, you've highlighted a lot of productive zones across your acreage position. In the Stateline area, I was just wondering if you could just give us a sense of how each of the zones right now are stacking relative to each other in terms of rates of returns and how that may impact your development of the asset moving forward.

Clay M. Gaspar - *WPX Energy, Inc. - COO and SVP*

Yes. So our gold standard today is the Wolfcamp A. And that's a blended upper and lower interval, and that's what everyone else gets measured by, the internal competition we have for capital, be it the Second Bone, Third Bone or something deeper in the Wolfcamp. I can tell you, right now, the risk -- on a risk basis, because we have so many swings of the bat of -- on the Wolfcamp A, that's still in the pole position. The zones that are really showing some interest, especially the Second and Third Bone Spring, they're a little cheaper to drill, they come in with some really phenomenal rates, the oil cut is holding in really nicely. But we need some more iterations to really move those forward. They're set up nicely for long laterals, so we'll move quickly to testing 2-mile laterals for those. It will be a very fluid transition to that. As you move deeper in the horizon, B, C and D, the B is, in some areas, very similar to the A, especially some of the Panther acreage that we've picked up, they're performing really, really well. As you move into the C and D, you get a little bit higher gas cut, and so they also get much higher EURs and so -- and they're a little bit more expensive to drill, a little bit more expensive to complete. So you weigh all that in, they probably fall in a little bit further down the line for development, but we'll have to watch. I'm really thrilled that we have the C and the D -- well, we have one C well that's coming online probably in the next 3 months. The D well that we have online we continue to watch, and we'll weigh in and see where they fit in the portfolio. My guess today is that as you move deeper into the section, those get pushed off until a brighter day, where gas relative to oil is a little bit more in line. Oh, I'm sorry, I forgot the X/Y. That's almost part of the greater A. That was a perfect zone example that we had no contemplation of value when we did the RKI. It has quickly moved into a very competitive spot with the Wolfcamp A. In fact, this year, about 15% to 20% of our capital will be in the X/Y. So the Wolfcamp A is, by far, #1, the X/Y is #2 on capital, and then the third is testing these other zones.

Kashy Oladipo Harrison - *Piper Jaffray Companies, Research Division - VP and Senior Research Analyst, Exploration and Production*

Got you. And then if I can just sneak one more in. On the exploratory acreage you acquired recently at a low cost, I was wondering if you have any updates maybe near -- recent nearby offset operator results or anything you can speak about, anything you can just tell us about that acreage.

Clay M. Gaspar - *WPX Energy, Inc. - COO and SVP*

Well, I think it's playing out just how we planned. There is lot of activity, with some of the operators keeping it pretty tight, but inevitably, it comes out in time. The good news is we have lots of time on the clock for this asset. We don't plan on spending any of our own capital on it for quite a while, but we'll see, we'll be able to watch this asset mature. I would say early encouraging results. We always knew it was a gassier side of the basin, but a couple of the zones have a fair -- pretty nice oil cut, and we're encouraged by that. So I would say it's still too early to drive a stake in the sand on it, but we're encouraged by what we're seeing so far.

Operator

Our next question comes from the line of Irene Haas of Imperial Capital.

Irene Oiyin Haas - *Imperial Capital, LLC, Research Division - MD & Senior Research Analyst*

Just looking at the San Juan Basin and your West Lybrook project, are you kind of happy with your 670,000 barrel type curve? And is there any chance that as you drill more, that this could be upward for you guys?

Clay M. Gaspar - *WPX Energy, Inc. - COO and SVP*

Yes, certainly so. I think what's interesting about that plot, you look at where the final production day is relative to that type curve, and I would say it looks okay. You see some above, some below. But when you're looking at the shape of that curve, the final couple of weeks of production and that trend relative to the type curve, it really gets pretty impressive. And so what I mean by that is the well rates are hanging on longer than we anticipated than in the type curve. Irene, one of the things we're really focused on there is spacing tests, so we've done some 800s, 1,000s, 1,200s, and we're definitely seeing more communication as you get tighter. So we'll continue to watch that and make sure we're developing it appropriately. We've even done some -- instead of just continuing to work in a linear fashion, we've jumped all the way down to the southern end, drilled and completed a couple of wells down there, just to make sure that we're not getting ahead of ourselves and ahead of our understanding. So far, it's all green lights, and we're full speed ahead.

Operator

Our next question comes from the line of Josh Silverstein of Wolfe Research.

Joshua Ian Silverstein - *Wolfe Research, LLC - Director and Senior Analyst of SMID Cap Exploration & Production*

I think a couple of questions near at the end. Just thinking with the San Juan Basin, and I know you're divesting the gas portion, just curious, why not the basin as a whole? Is this an asset that just stays at one rig for you guys, just still trying to learn what's there? Do you want it to be a free cash flow asset? Or just any thoughts there would be helpful.

Richard E. Muncrief - *WPX Energy, Inc. - Chairman, CEO and President*

Yes, Josh. Good question. We -- we're still #1. We're very pleased with the performance of that asset out there. And we have -- we think there is a chance it's got a little more upside than what we've really communicated in the past and that some step-outs that we've done are really quite interesting and encouraging. And so, yes, I think when you start thinking about the capital spend there on an efficient rig, it is a meaningful capital commitment, but we are truly growing volumes. I think current rates are a little higher than what certainly the second quarter were. And so we'll continue to grow those. And we get a lot of questions about what it means to us in a portfolio. We get an unbelievable number of inquiries that come in on trying to take that off our hands. And -- quite honestly, there's a -- we're pretty proud of it from the perspective of it's something we've been the leader in and it's not in the fairway of some of the more traditional basins, and I think it shows some of our exploration capabilities. And -- but we see a point where it will be generating cash certainly above the capital commitments. It's in a growth mode right now, but at this point in time, it's a pretty nice asset for us.

Clay M. Gaspar - *WPX Energy, Inc. - COO and SVP*

Yes, one quick thing I'll just reiterate, Rick pointed out, sometimes it's nice being out of the limelight. We have not seen the inflationary pressure, the challenges that we've had in some of the other hotter basins there in the San Juan. So the well costs remain in check, and I feel really good about where those are heading going forward.

Richard E. Muncrief - *WPX Energy, Inc. - Chairman, CEO and President*

Both in the San Juan and the Bakken.

Clay M. Gaspar - *WPX Energy, Inc. - COO and SVP*

Yes, Bakken certainly as well.

Joshua Ian Silverstein - *Wolfe Research, LLC - Director and Senior Analyst of SMID Cap Exploration & Production*

Yes. I'd agree with that both, the last 2 days for sure. And just lastly for me, you guys have been a little bit more upfront about wanting to get your gas out of the basin. Can you just talk about, I guess, where your concern is for on where Waha could go? One of the trends we have seen this quarter has been weaker gas realizations from the Permian producers. Is your thought that there are periods of blowouts, and that's what you're trying to avoid? Or do you think there is just a general kind of downward trend in terms of realizations in the basin?

Richard E. Muncrief - *WPX Energy, Inc. - Chairman, CEO and President*

Well, I think it's still a little bit early, but you have seen those basis differentials widen a little bit as you've seen more and more of the Delaware volumes come on. Just fundamentally, we like to be able to get gas to the markets, and we've had basis hedges that we've locked in to protect ourselves. But it was also why we wanted to control our destiny with some of these capacity deals we've done and up to and including taking some equity interest in it. Where will it go in the future? It's -- time will tell, and I think if you think about the Delaware economics, typically, what's driving the economics of Delaware is going to be, a, it's going to be your oil; b, probably, is a little closer, but it would be the NGL pricing depending on how they look; and then lastly, on the gas side. And so there is a chance you could see some further widening, and so what we've done is we've just tried to contemplate that happening. And if you think about just our company history and personally, where we've worked over last -- for a long time is, as we've just seen, that has been a recurring theme, when these resource plays actually get even better than a lot of people think. And so it's -- I think it's very prudent and I think it's going to add in to -- it's going to add up to additional value for us, but -- and prudent for us to do that. And sitting with the other guys, Kevin or Clay, you got any other comments?

Clay M. Gaspar - *WPX Energy, Inc. - COO and SVP*

Yes, what I would just add to that, we're putting some capital upfront to join as an equity partner in these -- a couple of positions, but we see a potential monetization path very clear out in front of us as well for that. The cost, the fee structure associated with these deals are essentially flat to what we're paying now and really provides us some incredibly cheap insurance from that blowout. Again, this is either very low-dollar, low-exposure insurance packages that ensure our ability to execute on an amazing piece of development that we have over the next decades.

J. Kevin Vann - *WPX Energy, Inc. - CFO and SVP*

And I think what's key to that is we're taking that capacity. It's one of our lessons learned, obviously, from operating in the Piceance. We're taking out capacity that's commensurate with, really, our development plans. So we are keeping that in mind as well so we don't get a little bit too far over our skis. But Clay is exactly right, it's pretty cheap insurance to make sure those oil barrels continue to flow.

Operator

Our next question comes from the line of John Nelson of Goldman Sachs.

John C. Nelson - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

I know cash is funded well, but I guess to some degree to come back to Jeanine's question and just conceptually ask how we think about the pecking order for cash. You're going to have about, just call it, $0.5 billion plus or minus come onto the balance sheet over the next 6 months. You can hold cash or you can kind of redeploy it in the ground to improve leverage metrics. Could you just speak to kind of how you think about kind of those 2 options? And is there a particular commodity price scenarios at which you'd be more likely to accelerate?

J. Kevin Vann - *WPX Energy, Inc. - CFO and SVP*

Well, I think you have to -- John, this is Kevin. I think you have to go back and look at the first quarter. And obviously, when we exited 2016, we had about a $0.5 billion of cash on the balance sheet. Obviously, the Panther acquisition, we used a little bit of that cash and we used a little bit of cash on the Taylor Ranch acquisition. I think some of the cash that we've got coming in, associated with once we get the Permian joint venture deal closed, I think that helps basically fund the capital program as we had previously laid it out, whenever we were thinking about that growth trajectory going into 2018 and then funding that development to really help leverage goals. When you think about anything kind of incrementally above that, I think one of the things that as we were -- as I was mentioning earlier, is the fact that we are extremely focused on deleveraging and that gives us some additional optionality about how we may potentially accelerate some of those deleveraging goals. 3 years, it will be quickly upon us, 2020 will be quickly upon us, and that's when our debt maturity -- next debt maturity is, and so we're laser-focused on how we start whittling that down long before we get into the shadow of that debt tower.

John C. Nelson - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Okay. Okay. So not a particular commodity price at which you would be thinking more about (inaudible)?

Richard E. Muncrief - *WPX Energy, Inc. - Chairman, CEO and President*

Yes, John, what we've thought through and I think we've articulated in the past, and as we sit here today, I don't know that it's really changed a whole lot, and that is what would it take to change the path, your plan that you're on right now. And we've said to the low side. If crude gets below $40, then I think that we have to -- we'd have think about it, that's why we locked in. If crude gets to $60, then I think we have to then maybe think about acceleration. And quite honestly, those are some pretty solid sideboards and as we sit here today. And so I think that whether we keep the cash on the balance sheet and look at it from a net debt perspective or whether we go ahead and try to do some things, with actually buying that debt down, I think that's probably how we will lean right now. It's obvious that our assets are all performing. I think this team is going to continue to find ways to enhance performance. So but with that, absent those, anything happening on the high end or the low end, I think you're going to see us do just what Kevin articulated.

J. Kevin Vann - *WPX Energy, Inc. - CFO and SVP*

Yes, John, the -- really, when we -- when we're thinking about how do we deploy that capital, we look at the returns, not only associated with buying some of that debt back in. But if you're at $60 oil and we decided that we were going to redeploy some of that cash down through the drill bit, then one of the things that obviously you would see us do is, again, we've been very disciplined with our hedging program, you'd see us layering in some additional hedges to protect that value to increase -- to decrease that risk-adjusted return associated with that investment.

John C. Nelson - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

That's really helpful. And then all actually makes a lot of sense, especially on the hedging. And kudos to being disciplined in that regard relative to some of your peers. My second question, just kind of more of a clarification, but Rick, as we think about -- it will depend on commodity prices, but if we were to, say, see a more flat rig count in '18, there were some commentary around efficiencies, so just I guess I want to be clear. If we saw the flat rig count in '18, should we think about this in the construct of your 2020, 30% to 40% production growth CAGR guidance being at more towards the low end, or through 2020, that doesn't necessarily impact, kind of where we would fall in that range?

Richard E. Muncrief - *WPX Energy, Inc. - Chairman, CEO and President*

Yes, I don't think we would change that CAGR. As we go into it, I think, as we sit here today, it still looks very much in play. And it's interesting, the -- when I said the 7 rigs could feel like 9 a year from now, I don't think it's out of the realm of possibility. Could 7 be more than -- I feel like more than that, well, that's possible too. If that's the case, then we would really have to question ourselves whether you really need 7 rigs because at the end of the day, the rigs are only our proxy when we're looking at this for the capital spend. And we're going to be disciplined and prudent about that, and so that's probably how I would address that, John. We have had some feedback on our additional capital that we've guided to for this year, and I think that you heard throughout the morning that part of that -- we have to count that because it hasn't -- since our deal hasn't closed. But the bottom line is, we're going to get part of that back, and a lot of this other spend is being very proactive in getting us ready to really ramp in '18.

John C. Nelson - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

That's helpful. And if I could just squeeze in one housekeeping item. The $35 million roughly of capital reimbursement, does that happen in 3Q or 4Q? And then just should we expect any taxes associated with that essentially $335 million of proceeds then?

J. Kevin Vann - *WPX Energy, Inc. - CFO and SVP*

A very minimal tax leakage on it, just because of some of the NOLs that we still have yet to utilize. And yes, we do expect the $35 million, really, the $335 million to come in, in the third quarter at this point.

Operator

And our final question comes from the line of Derrick Whitfield of Stifel Financial.

Derrick Lee Whitfield - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Analyst*

Rick or Clay, stand on the capital efficiently front. Could you comment more on the progression of pad and long-lateral development for '18 and specifically, how much longer, on average, could your lateral link be in '18?

Clay M. Gaspar - *WPX Energy, Inc. - COO and SVP*

I would say, I don't have that number. As we work through the '18 details, we don't have a precise number laid out for '18. But I would say it's certainly north of what we're doing today. We probably have, a ballpark, 40% of our wells that are coming online this year are long laterals. I think we've quoted 6,400 feet as an average for '17. I think all of that is still very much in line for '17. I would say something north of that for '18. One of the things that could materially change this is, let's say we move to some more Second Bone and Third Bone Spring into the mix, those will be mostly, I would say almost exclusively, long laterals. And so you have some things like that, that come in that really starting to just understand. We're still processing the Panther acreage. It's a phenomenal acreage. It competes with capital. We work trades every single day. We made some great progress on that recently. But I can tell you, some of the Panther acreage, some of those 1-mile laterals can compete in the mix as well. And so I would say it's a bit too early to call, but if I had to push the over and under on the 6,400, I would say -- I would definitely go with the over for '18.

Derrick Lee Whitfield - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Analyst*

Got it. Great. And then going back to the midstream side of the equation. It appears this quarter that, certainly, water disposal has become a potential issue in the Midland Basin. Could you guys comment on how you think about managing water disposal needs over the longer term?

Clay M. Gaspar - *WPX Energy, Inc. - COO and SVP*

Yes, water is something we have been dialed into, really since the RKI acquisition. Water is critically, critically important. We have a very robust disposal system. That's worked very well for us today. In Stateline, we average about $0.35 a barrel. We have lots of capacity there. It's working very well. It's a very known entity. We drill through it all the time. As we move out to some of the newly acquired areas, we're working on an infrastructure today. That's some of the capital that we're investing this year to build water disposal systems. And we'll continue to press that as something that's very important, just continue to drive down our LOE.

Richard E. Muncrief - *WPX Energy, Inc. - Chairman, CEO and President*

Folks, we appreciate everybody's attendance, and we've gone a little bit longer, but appreciate your patience. We've got a lot of good news, got a lot of things that we're very proud of for this most recent quarter, but more importantly, I think we've got a wonderful future. And we appreciate your time this morning. Have a great day.

Operator

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