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PRESENTATION

Operator

Good morning. My name is Emily, and I will be your conference operator today. At this time, I would like to welcome everyone to the Q3 2017 WPX Energy Inc. Earnings Conference Call. (Operator Instructions) It is now my pleasure to turn the call over to David Sullivan, Director of Investor Relations. You may begin your conference.

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

Thank you. Good morning, everybody, and welcome to WPX Energy Third Quarter 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 press release that was issued after the market closed yesterday. Also, our Q will be filed later today. Please review the forward-looking statements 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, President & CEO*

Thanks, David, and good morning to everyone who's on the phone with us this morning. As always, we're grateful for your interest in our company, and we appreciate the opportunity to tell you more about our story, which is, quite honestly, getting simpler and stronger by the day.

But first, if you'll allow me, I want to congratulate the Los Angeles Dodgers and Houston Astros on an unbelievable World Series. I believe the entire world is somewhat sleep deprived this morning as we awake to a new champion, the Houston Astros. So congratulations to the entire Astros organization, especially for the city of Houston, including many close friends and family of mine.

What you've endured over the past few months should make the taste of victory even sweeter.

When I think through how the Astros got it done, I, like everyone else, think about the strong offensive display they put on and the extremely timing pitching. But for me, I also think through some outstanding defensive plays made by players like Alex Bregman at third base. Wow. He truly is as good as I heard about back in high school days in Albuquerque. So Houston, forget the old line: Houston, we have a problem. For today, and relish in your first-ever World Series championship.

Now back to WPX. I'd like to start by mixing a little history with the here and now. Exactly 1 year ago today, on this very same day, we talked about flexing our muscles a little and revving our engines a little as we launched our 2017 plan. Now to be crystal clear, that was never about growth for growth's sake. That's not who we are and, quite frankly, that's not what the market rewards, nor should it. Almost any company can grow, but what does that growth accomplish? For us, here at WPX, growing our oil volumes is a means to an end. For now, quite simply, more revenue means more debt reduction. The 2 are inextricably tied together, plain and simple. We also know what's expected from our sector now, discipline, living within your means, margin growth, doing more with less, increasing shareholder value. That's the sentiment that drives how we manage our day-to-day business. So how are we doing? Did our revving of our engine translate into something positive? Well, you can probably guess what I have to say about that, but don't measure us by our words. Measure us by our numbers, our actions and our progress.

Let's turn to Page 2. As you can see, we've been checking a lot of boxes on our to-do list. This is a story, quite simply, about execution. These are the things we said we do, and now they're done. Once again, our team delivered an exceptionally impressive quarter, as you've seen in our most recent press release. You'll hear greater detail about that from Clay and Kevin in a few moments.

We also completed our Permian midstream JV transaction, receiving $349 million of cash and setting up a vehicle to create even more future value for investors. We're looking forward to working closely with the Howard team on this new entity. We also said we'd market our San Juan dry gas and do a deal before year end, and now we have a signed PSA under our belt, with closing set for December. With that transaction, we'll be approximately 80% liquids. With natural gas trading in the $3 range, we think that this is truly how you improve margins.

Our oil growth is actually ahead of schedule, and that's happening even as we've built an inventory at DUCs for 2018. So how is that possible? It's the big performance we're seeing from the wells on our wonderful acreage, performance that continues to get even better through our optimization.

All of these are significant items, actions that create value, deleverage the company and show how we're executing on our multi-year plan. More importantly, you're getting a very good picture of how healthy our business is and the overall quality of our assets. Pound for pound, I believe our portfolio can compete with simply anyone in our space. And I still believe we're one of the few, if not the only company in our sector that's actually increased margins while commodity prices plummeted. I'd like to thank our transaction teams and our technical professionals for the great work they're doing, which is evident on this page.

We also continue to strengthen our organization. During this recent quarter, Rich Downey joined us as our new VP of Drilling and Completions. He has a successful track record at EOG and Schlumberger, and I'm grateful for the time he's spending out on the ground in the field to help take us to the next level. Welcome aboard, Rich.

Now let's turn to Page 3. As we prepare for today, I have to tell you how much I was fixated on 2 slides in particular, this one and the one that Kevin will walk through on Page 13. On both pages, you can see the trends we've always envisioned as we turn the company around, transformed our portfolio and laid out a multi-year plan. This is what success at WPX looks like. This is the result of growing our oil volumes, executing our plan, and having a vision to accomplish things that were never done before. And to be quite candid, it's very gratifying to see how hard -- how all of the hard work and heavy lifting over the past year -- 3 years is paying off. The effort and determination of our people have brought us a long, long way. We never have to ask anyone here to buy in to the strategy. That's because we own it. At WPX, we do what we say we're going to do. Transforming our culture and trading the Piceance for the Permian as our flagship asset was a nice narrative, but neither matter unless the results flow through to our financials. But the impact is there all right. You can see it in real time, and it's happening -- and it's been happening for a while. Now it's gaining speed -- steam.

So is there anything major we need to do at this point? Really not so much. We just need to stay after it. Our 2018 plan contemplates $50 oil and $3 gas and keeping our rig count roughly flat or even a little less than this year. Our rocks and the fruit we're reaping from our daily execution are doing all the heavy lifting we need.

Now let's turn to Page 4. The headline here about 2018 is maybe a misnomer, because we've set our sights further down the road. And here's what I mean by that. Our year-end 2018 targets for production and deleveraging are simply another mile marker to measure how we fared against our multi-year plan. Achieving these goals will give WPX even more flexibility for creating shareholder value. But we're certainly not going to stop at the end of 2018. Success breeds success and makes us hungry for more. We expect to keep driving our leverage lower.

We plan to be cash flow positive in 2019. When that happens, we'll have numerous options for the best use of the cash, depending on the realities then. The point here is about optionality. WPX continues to have plenty of good options for increasing cash flow on a per share basis. The path in front of us is clearer than it's ever been.

And with that, I'll turn it over to Clay to show you how we're doing in operations. Clay?

Clay M. Gaspar - *WPX Energy, Inc. - Senior VP & COO*

Thank you, Rick, and good morning, everyone. I'm pleased to discuss another strong operating quarter, with solid results in all 3 basins. As we said for over a year, and Rick just reiterated, our oil growth is not just -- it's not just an objective. It's just a path we're taking towards driving cash flow and creating shareholder value. We strive to accomplish this through the conversion of quality inventory into cash flow growth. Despite taking our foot off the operational pedal a bit and easing fourth quarter rig count and deferring a few completions, we've posted our second beat, and raised for '17 and bumped our '18 guidance as well. This speaks to the quality of our assets and our disciplined approach to growth.

We were one of the first to release formal guidance for 2018. Like last year, this has allowed us to help -- to have those important planning conversations with our service company partners. And these conversations are opening lines that are very similar to last year. We have great assets. We have the support of our board via capital commitment. We have strong commodity price downside protection from our hedge book, and we're looking for partners to run alongside us. This has been very well received, and I'm very confident in our vendor alignment.

Now let's turn to Slide 6 and take a bit more of a look at the Delaware Basin. The steps we've taken over the last few years have positioned us well and ahead of most of our peers in regard to moving to full development mode. Important work like our three-dimensional spacing tests, testing 8 different landing zones, incredible land work to core up our position and, finally, our forward-thinking midstream strategy has set us up for a great 2018 and beyond.

The well results in the Delaware continue to get better and better. The 1.5 mile Lindsay wells are a great example of the step change as we move to multiwell pad, longer lateral development. The Lindsay wells have a 30-day average IP of over 3,000 barrels a day.

In the fourth quarter, we'll be taking the opportunity to upgrade a couple of our rigs in the fleet. We will gap these replacement rigs so that we manage the capital for 2017. We estimate that we'll have 20 to 25 DUCs by year-end in the Delaware, and this will give us a good running start for 2018.

As of my last production update report, our Delaware production is well over 30,000 barrels of oil a day and is up 100% versus this time last year. Delaware is now taking the pole position in our oil growth story.

Last month, we closed the joint venture with Howard Energy Partners and received $349 million. $49 million of that was reimbursement for capital WPX has invested to date on the crude gathering system and the gas processing plant. As you know, the crude gathering system is up and running and now moving over 20,000 barrels of oil a day. And the first 200 million a day cryogenic processing facility is under construction and will be in service around mid-year of 2018.

Let's turn to Slide 7. We plan to drill 20% more lateral feet in 2018 versus 2017, with roughly a flat rig count. As an aside, our current and anticipated efficiency gains, I'm betting on the over on this one. The 20% is based on more pad drilling and focused on longer laterals. In 2018, about 75% of the wells will be 1.5 miles or 2-mile laterals. The average lateral length will be about 8,000 feet, which is 30% more than the average in 2017 and more than double the lateral length from when we acquired RKI back in 2015. I've talked about the last 2 years and how hard we've worked and our land team on coring up acreage and getting ready for this opportunity.

Today, I can say we have about 70% of all of our Wolfcamp and Bone Spring rights in our core acreage set up for long lateral development. This puts us way ahead of our peers that have shotgun pattern land positions. These long laterals not only improve our already strong returns but also gives us much more efficient operation capabilities.

Let's turn to Slide 8. The first thing I want to point out is that this is Sullivan's best artistic attempt at a frac job. We've been watching our dollars closely around here, and it's not like we have a great graphics art department to draw from. We'll be completing over 50% more lateral feet in 2017 in the Delaware. To put this in perspective, we will stimulate over 100 miles of lateral in 2018.

As I mentioned on the drilling side, we'll be drilling more wells on pads going forward. This allows the frac crew to be more efficient when completing a batch of wells on a single location. Also, focusing on the primary target in 2018, the upper and lower Wolfcamp A creates less variability in well design and also adds to efficiency.

Let's turn to Slide 9 and discuss the Williston. I know a lot of you have been waiting for us to raise our type curve on the Williston. Well, your wait's over. The average type curve is now 1 million barrels. We just remember, not all 1 million type curves are created equal. Oil cut and early time performance is incredibly important, and I believe our results stack up with the best out there. Also, in typical WPX fashion, just as we increase our WPX EUR to 1 million barrels, I'm going to show you early time production for 2 North Sunday Island wells that are performing way above the 1 million barrel type curve.

The Mandan North well had a 24-hour IP of 4,464 BOE per day, with an oil cut of 81%. The Hidatsa North well had a 24-hour IP of 4,081 BOE per day, also with an oil cut of 81%. These North Sunday Island wells are located on the north side of the lake, and our 2018 drilling plans, we have allocated about a rig to this area. We plan on drilling 21 more of these type wells in 2018.

With only a 2-rig program in the Williston, oil has grown 81% since third quarter of '16 versus third quarter '17. The Williston has been a work horse in 2017. And as I mentioned earlier, with continued strong well results, high oil cuts, improving oil differential, this gives Williston a very impressive return in today's commodity price.

Let's turn to Slide 10. We've now signed a PSA for our San Juan gas asset position. We expect to close that later this quarter. On the oil side, we've unitized 2 additional blocks in the Gallup, the Rodeo unit, which is just south of the West Lybrook unit and the Escovada unit, which is just East of the Rodeo unit. Rodeo will have 26 wells, and Escovada will have another 40 wells. We're in the process of dropping the San Juan rig for a period of time and will push out 12 completions into '18. There's no doubt that this is strictly a capital management decision, but our team will certainly benefit from a breather and allow our analysis to catch up with the incredibly fast development pace.

Capital management is the prudent and disciplined thing to do as we rapidly delever and expand our margins at WPX. With the results we continue to post, both operationally and financially, it would be easy to spend more and show even more greater growth. But remaining disciplined and focused on our strategic target is what will ultimately drive shareholder value.

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

J. Kevin Vann - *WPX Energy, Inc. - Senior VP & CFO*

Thank you, Clay. That's great news across-the-board. It's absolutely incredible for WPX to be on the cusp of oil volumes at the end of 2017 that we thought we'd reach by the year 2020 when we rolled out our multi-year strategy back in late 2014. And as Rick and Clay have said, our operational success is flowing through to our financials. In my role, I was able to see this coming several quarters ago. All we had to do was execute, and that is what we did and what we will continue to do. You can see it in the third quarter results, but the best is still yet to come.

With that, the WPX transformation is clearly expanding. We've already seen a portfolio transformation, an organizational transformation, a technical transformation and a cultural transformation. Now we're seeing multiple trends that point to a financial transformation. Ultimately, this is why we've undertaken such dramatic changes throughout WPX.

The numbers highlight the significant improvement in our financial health at current commodity price levels. The portfolio of assets that we have generates attractive returns even in the range-bound commodity price world for which we live today. The extent of how we are executing on our multi-year plan and the rapid rate at which we've done so has put us in an enviable position. We've talked about a critical milestone for over a year now. That point is the end of 2018 and what our financial position looks like then through successful execution of our strategy. Our third quarter results reflect the success we are seeing in the team's execution. We have a clear and well defined path for reaching our deleveraging targets, being cash flow neutral in 2018 and generating free cash flow in 2019 and beyond.

What we've accomplished financially this year is a real credit to how everything is coming together. Our financial flexibility is going to be a springboard for building more shareholder value. It's truly exciting to think about the possibilities.

Now let's turn to Slide 12 and review our third quarter results. For the quarter, at 64,800 barrels per day, our oil production is 67% higher than for the same period of 2016. Across our basins, our oil growth is -- was impressive. However, as Rick and Clay have stated, we are not growing for growth's sake. The trajectory we laid out last year was purposeful for many reasons, most importantly, our leverage. The increase in our Delaware production demonstrates that the operations team is catching its stride. The Williston team flexed its muscle over the last couple of quarters, and now we are starting to see the Delaware carry the growth profile. This growth in cash flows and margins across the company provides us more financial flexibility.

When comparing to the second quarter of 2017, our oil production was up 11%. This quarter-over-quarter growth was driven by the Delaware, with many of the wells not coming on until late August and into September. In addition, the relative contribution of the San Juan team's efforts to sequential growth reflects the quality of that program.

At 204 million cubic feet per day, our natural gas production for the third quarter was approximately flat versus the same quarter of 2016 and the second quarter of this year. The third quarter volumes were temporarily impacted by downstream operational shut-ins related to Hurricane Harvey's impact on Gulf Coast facilities. Our oil volumes were not impacted by the storm.

Our NGL production of 13,300 barrels per day was 17% higher than the third quarter of '16, which further helped our absolute revenues given the composite price received on those barrels this year versus last. Compared to the second quarter of this year, the production was down slightly, which resulted from the impacts of Harvey. At 112,000 equivalent barrels per day, our production is 33% higher than the third quarter of last year and 6% higher than the second quarter of this year, with oil volumes again leading that increase.

For the quarter, we are reporting an adjusted EBITDAX of $188 million, which is $73 million higher than the third quarter of prior year and $36 million higher than the second quarter of this year. What's driving this improvement? I said it last quarter, but the improvement formula is pretty simple. Our oil production is growing, and the margins associated with each barrel produced continues to improve, which I'll touch on in the next slide. We have historically benefited from commodity hedge realizations that were once dramatically higher than spot prices. Our current cash flows and returns are being driven by these current spot prices. For us, these results demonstrate the quality of our underlying assets. I emphasized last quarter that we were seeing this improvement, and now our financial statements are really showing it.

For the quarter, we are reporting an adjusted net loss of $40 million versus a net loss of $59 million in 2016. The improvement was driven by the same factors impacting adjusted EBITDAX, higher oil volumes and better margins on each barrel produced. There were other noncash items that impacted the quarter as well. First, depreciation, depletion and amortization was $19 million higher this quarter versus 2016, which resulted from higher production volumes. However, our DD&A rate per barrel continues to improve dramatically. As I had mentioned the last couple of quarters, these types of results are often subtle in the financial performance, but it reflects that we are drilling better wells at improved costs. And lastly, our G&A came in $9 million lower than the same period of 2016 and $4 million under the second quarter of this year.

Our capital expenditures incurred for the third quarter totaled $315 million. Of this amount, approximately $30 million relates to infrastructure development that was reimbursed in the JV closing process, together with facilities, construction and land. We are slowing down our capital spend in the fourth quarter, as Clay mentioned, by deferring a portion of the completion activity, limiting our San Juan 2017 drilling program and the scheduled release of a rig in the Delaware. In the same breath, we are increasing our oil production guidance for 2017 to 60,000 to 62,000 barrels per day versus the previous 57,000 to 60,000.

Now my favorite slide, turning to Slide 13. As difficult as a portfolio, organizational and cultural transformation can be, the financial transformation that results from these changes takes several quarters before it begins to manifest its way through the financial statements. Here at WPX, we're focused on the future, managing the risk and opportunities that tomorrow brings. However, we must look over our shoulders from time to time and scorecard ourselves on where we are against the plans that we laid out. As you can see on this slide, we are deep into our financial transformation. And thanks to the entire WPX team, we are ahead of schedule.

In the third quarter of last year, we laid out a path forward. From that point, you can see the dramatic improvement in many of our financial metrics, which is driven by the 45% growth in oil volumes. From the fourth quarter of 2016 to this quarter, our unhedged discretionary cash flow per BOE has improved by 67%, from $9.68 to $16.20 per barrel. Our unhedged adjusted EBITDAX over that same period has grown at an even more impressive rate of 87% from $93 million to $174 million. So as oil volumes grew by 45%, our cash flow growth was driven by the margin improvement on each incremental barrel produced.

Also, as we execute on our multi-year plan, the evidence that we are growing into our capital and organizational structure could not be more evident. From the fourth quarter of last year to this quarter, our interest expense per BOE has decreased by $1.26, and our G&A has decreased by $2.62 per BOE, decreasing from $6.71 to $4.09. We're not done with managing our costs, but the improvement demonstrates what we are already doing.

I can't see how the results could be any more evident. We are executing on our plan and delivering yet again on what we said we were going to do.

Now turning back to the future, Slide 14. We are excited to be providing guidance for 2018 today, which grows oil production by 40% to 45%. We are guiding to a production range of 132,000 to 143,000 equivalent barrels. Of this amount, our oil production is expected to be 82,000 to 88,000 barrels. More importantly, this guidance allows us to drive leverage below 2.5 turns by the end of 2018. Further, if you were to annualize the fourth quarter 2018 expected EBITDAX, our leverage will be lower than 2.25 turns.

You can see the financial transformation emerging through this quarter's results. This will continue as we execute and hit our marks. Our 2018 full year capital guidance range is between $1.1 billion and $1.2 billion. As Rick mentioned, the capital program contemplates 6 to 7 rigs in the Delaware, 2 to 3 rigs in the Williston and 0 to 1 rig in the San Juan Gallup.

Last year, when we gave 2017 capital guidance, I indicated that as production from the Delaware becomes a higher percentage of our overall portfolio, certain consolidated items like price differentials and production taxes will continue to decrease. We have definitely seen improvement in differentials up in the Williston. However, our oil differentials continue to come in as Delaware production grows further.

Cash operating expenses, which include lease operating expenses, gathering processing and transportation and severance taxes should average between $9.75 and $11 for 2018.

Lastly, I will point out that nonoperating expenses on a per equivalent barrel basis, including G&A and interest expense, are continuing on the trajectory that was depicted on the last slide.

So we've talked a lot about our 2018 financial and operational goals. They go hand-in-hand. The trajectory of the last 4 quarters show where we started, where have we come and, most importantly, where we are headed. This team continues to execute. The entire organization knows and understands the goals that Rick has laid out. There is a lot yet to come, but that quick glance over our shoulder validates that we're executing on what we said we were going to do. In fact, we are ahead of schedule.

Now I'll turn it back over to Rick for some closing comments.

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

Thank you, Kevin. Nice job. We started talking today about our story, and I'm going to finish on the same note. Here at WPX, our story and our strategy have never been simpler or more straightforward. It comes down to execution, and that's something that this current management team is known for, and we're doing extremely well on that front. Our strategy is firmly in place, our vision is clear, and our progress is ahead of schedule. What we need to do is continue to stay disciplined and focused.

At this time, we can now open the line for questions. And I'll turn it back over to the operator.

QUESTIONS AND ANSWERS

Operator

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

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

Clay, can you talk about, given the results that you've seen so far, obviously, have been very positive here, even these last results you talked about in the Delaware. Can you talk a little bit -- I know you haven't detailed exactly yet in '18, but maybe talk a little bit about cadence in the Delaware in '18 and, specifically, how are you going to target the area up in Eddy versus down in Culberson, Reeves, Loving, to start maybe there on just a regional basis. And then I've got one follow-up there.

Clay M. Gaspar - *WPX Energy, Inc. - Senior VP & COO*

Yes, good question, Neal. Cadence will be dictated by our completion crews and their ability to work through. So stages per day, number of frac crews, we're finalizing that right now. Now the direction of those crews is something that's -- it's a very, very interesting internal debate. So as you can imagine, there's geological challenges or opportunities, there's landing zones, there's different geographic areas. Now we have a motivation to really take a look at some of the midstream opportunities we have and take that into consideration. And so there's a lot of -- a lot that goes into it. I would say that our focus is the Stateline area. It's our most mature well-delineated, best understood area, and you'll see a disproportionate share of our rigs focused there. Second, the Central Reeves stuff that we picked up from Panther is, on a per foot basis, really some of the best stuff we have. It competes very, very well, even though most of those will be 1-mile laterals. So it will be an interesting balance. Up into Eddy County, we'll continue to mature that land position a little bit. We're watching our neighbors very closely. We'll do a little bit of work up there, but it'll fall in behind the other 2 on priority.

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

And then just to follow up, staying in that area, Clay, just on -- certainly for this year, you targeted mostly As, a lot of these Upper Wolfcamp As. Could you just talk about on -- the focus there on sort of developmental activity. Are you going to continue mostly on Wolfcamp As? I know you've tested some of Ds, and you've in fact, I think, what, drilled in, what, 8 zones are what you all have said. Could you talk about sort of developmental versus exploration activity?

Clay M. Gaspar - *WPX Energy, Inc. - Senior VP & COO*

Yes, last year, we really -- we wanted to make sure we allocated some dollars to understand the different landing zones. And as you mentioned, we tested 8 different horizons, all of which were successful. Now the Ds is an example of a little bit higher gas cut than some of the other opportunities. So we'll push that back probably a little bit further behind the Wolfcamp As, the Wolfcamp X/Ys. Some of the other zones, B, Cs and even up in the Bone Spring, I think we need a little bit more some production time on those wells to really understand shape of the curve, how do their economics really compete. I can tell you I'm very encouraged, but we know that we have the X/Y and the A is kind of our premier standard go to. To me, that's the bar that the other zones really have to surpass. I expect that some will. But for 2018, it's time to get to work, turning that inventory into cash flow and, at the same time, we'll continue doing some of the science in the background, really understanding the other zones that we have now producing.

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

And maybe if I could just sneak one last one. Rick, I'm just real curious, you guys have kept this plan so constant for so long and spot on. Do you see yourself changing this plan anytime in the next several quarters?

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

Neal, I really don't. Unless we see performance somehow slip or commodity prices to the downside really show up, I think what we have talked about is a range of $40 to $60, $45 to $60, something like that, really not altering our plan much. And I think that's still where we're at. We -- if crude elevates to the -- from, let's say, this plan is built on $50 oil, so if it elevates to $55 to the $60 range, I think we'd have to be probably mid-60s, low to mid-60s before we would really alter much, to be honest with you, because in the meantime, we are -- I want to make it crystal clear that we are hell bent on delevering, because that is the thing that we've got universal feedback over the last 2 years that we should do. And we agree with that. And so I think crude would really, really have to increase pretty dramatically for us to alter our plan. So I think the simple answer to your question is, no, we plan to stay with our strategy.

Operator

Our next question comes from Brian Corales, Howard Weil.

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

I'll start in the Permian. I mean, those 1.5 miles wells look very attractive. Can you maybe -- do you have an early time EUR estimate? Or what are you all kind of just modeling internally for EURs, the longer laterals in the Delaware?

Clay M. Gaspar - *WPX Energy, Inc. - Senior VP & COO*

Yes, it's a little bit tricky. What we're -- when you're scaling up 1 mile to 1.5 miles or 2, my historical reference point has been kind of a 1.7 to a 1.8 scaling factor. So if you double the lateral length, you have essentially 1.75x the EUR. If theory holds, the cost should only scale up 1.2 to 1.3x. So there's -- you can see the accretion in that model. I would say it's still a little bit early on the number of wells. If that ends up being a -- is that a 1.7 or a 1.8, I can tell you we're very encouraged that the scaling could be even higher than that. It's very realistic to think that, in some areas, we've seen a one-for-one uplift. I'm not predicting that just yet, but for now let's call it a 1.75 uplift scaling factor, and I think that will get you really close.

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

Okay. And then on the CapEx, are you all -- I mean, you all did a good job in '17 kind of controlling the cost side of it and the inflation. Are you all seeing much inflation coming, or how much are you all estimating on the CapEx side, what you're seeing on the inflation?

Clay M. Gaspar - *WPX Energy, Inc. - Senior VP & COO*

Brian, there's good and bad about working in the center of the world's hottest basin. The good news is it is that good. And everyone knows where the hotspot is. The bad news is everyone starts crowding in around you, and things start getting a little bit crowded. So we are seeing some inflation. We have worked very diligently, starting more than a year ago to lock in as much as we can. In reality, our working partners, our service company partners, they need to flex as well. And so we work with those guys. We want to be a good longer-term partner with them. And so we've seen some inflation kick in. As we've started to expand, talking about a third frac crew, certainly, that comes in more of a market rate. We'll encourage those guys to think a little bit longer term and see us as a longer-term partner. That's probably the biggest area is the frac fleets from a year ago today have moved up pretty markedly. I would say what's happening now is a lot of the new equipment is coming online first quarter of '18, and that's allowed prices to kind of modulate just a little bit. I would say, a quarter ago, it was kind of runaway. I think the quarter going forward, it'll be much more reasonable. And we have a high degree of confidence we'll have 3 good frac crews lined up for our Delaware asset starting very tail end of this year, first of next year.

Operator

Your next question comes from the line of Jeanine Wai with Citigroup.

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

So my question is probably for Rick. In your prepared comments, you mentioned the things that you're managing your day-to-day business to. And if I caught them all, I think they were disciplined margin growth, more with less, increasing shareholder value. And I don't think I heard anything on production growth there. I think more recently, it seems like production growth has become less popular to talk about explicitly but given the optionality that WPX has starting in 2019 and beyond, can you just talk a little bit about what range of more normalized or sustainable year-over-year production growth or oil growth that you think is enough to get rewarded by the market?

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

I think that's a very interesting question, Jeanine, to think out to, let's say, 2020 through 2022. I think that, for us, through 2020, as we laid out our plan a year ago in September, we thought that we could deliver 30% to 35% to 40% annualized growth on a compounded basis. And this year, we've got off to a great start. We've laid out our 2018 plan, which I think is going to be a great year as well. I think as you get out into 2020 and let's just say the early '20s, now I think the market is -- if you think about where the market is today, I think the cash flow generation is what the market is going to reward more so than absolute growth. And as we've talked about, the growth from our perspective is driven by the wonderful returns on our acreage. And so -- and it is really an outcome. But it helps us reach these strategic financial targets that we have. I believe the growth percentages are going to come down as you get into the '20 -- for us, as you get into the 2020 and beyond. But we'll see how that all plays out. But what I would like for folks to understand is that we have so -- the optionality we have in this organization is incredible. And just remember, the value that we're building in our midstream sector, I think, is -- group is going to pay some big dividends a year or 2, 3 down the road. So obviously, your growth rate on a percentage basis is typically going to come down as you grow from a larger and larger base. And -- but I think you'll see us continue to put up some pretty nice growth numbers, if that's what the market's rewarding.

Operator

Our next question comes from the line of Derrick Whitfield with Stifel Financial.

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

Rick, building on the last caller's question, could you expand on your free cash flow generation in 2019 and beyond comment? I mean, could this free cash flow generation result in a return of capital to investors in the form of dividends or buybacks?

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

I think that's certainly one of the options, Derrick. As we sit here today, it's -- you can think about what investors are calling for today is somewhat different than it was 1.5 to 2 years ago, to some degree. Maybe not totally but to some degree. And so I think what we'll do is -- I mean, we're trying to get this message out that there is, that's our plan is to be generating free cash. And we'll look at what investors are really calling for. That optionality is the key for us. And once again, remember, we've got different avenues of cash flow generation, not just on our base development program but the midstream side as well. Clay, do you want to add to that?

Clay M. Gaspar - *WPX Energy, Inc. - Senior VP & COO*

I just wanted to add to that, Rick. I think it's an excellent point. I love the line of questions, because I think it really points to the work that we've done during this transition period, '16, '17, '18. '18 is really the third year of 3. You've heard so many people talk about a 3-year plan. We got a 3-year plan. And then the next year, they end up with another 3-year plan. Well, we've had a 3-year plan and a 2-year plan, and now we've got a 1-year, the third year of a 3-year plan, to make this transition. There's a full steam ahead, direct course through '18 that just opens the world up to us in 2019. I can tell you we're having a ton of really interesting dialogue with the board around what those options could be, and how do we make the most of that opportunity, but we are thinking much further out than even '18 and '19 in regards to the strategic look for the company.

J. Kevin Vann - *WPX Energy, Inc. - Senior VP & CFO*

Yes. And I think what's critical to that is having the suite of assets that give you that optionality. As Rick mentioned, it's not just the great upstream assets, but it's the midstream assets to and the development of those that give us that capability.

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

Got it. And my follow up, Rick or Clay, I mean, so we've heard from industry that cycle times are deteriorating due to service quality and less experienced crews. Given the strength of your operations, could you comment on what you're doing to counter some of these forces?

Clay M. Gaspar - *WPX Energy, Inc. - Senior VP & COO*

Yes, cycle times are very interesting. I think of rig cycle times, there is a direct correlation between how long it takes you to drill the well and the cost of the well. And on the completion side of the house, it's not exactly the same correlation. What you end up with, it takes you longer to complete the wells, but we're typically paying on a per stage fee, and so there's not an as direct correlation. What happens is you see slippage in first sales, you see people pushing production out for a quarter, which is certainly not a good thing and not what we would tolerate going forward. I think our motivation has been, let's align with the right vendors. Let's make sure that they have the capabilities, they have the staffing. They're thoughtful about their preventive maintenance so that they could keep up and running. And if necessary, we'll bring in 3 crews instead of 2, let those guys run at a slower pace. I'm perfectly fine with that as well. I just want to make sure that we are being anticipatory in how those -- how the stages manifest over time and make sure that we are accurately projecting that so that if we need the right number of crews, we can get there. As I mentioned in a previous Q&A, I see the number of frac fleets coming into the Delaware Basin growing pretty substantially. I think that's going to help quite a bit, and I think the preferred E&P companies that have a strong forward-looking plan, I think will be able to really capture some of the best crews out there, and we're doing that right now.

Operator

Your next question comes from the line of Asit Sen with Bank of America.

Asit Kumar Sen - *BofA Merrill Lynch, Research Division - Research Analyst*

So appreciate the color on 2018. Just wanted to get a little more granularity on completions. Just wondering if you could provide a split between Wolfcamp A and other zones of interest, assuming Wolfcamp A would be more than 60%? And then also a mix of 1, 1.5 and 2 milers, please?

Clay M. Gaspar - *WPX Energy, Inc. - Senior VP & COO*

I'll go back to my prepared remarks on the averages. I don't have the split broken out like that. And it's a, certainly, a very large percentage, north of 60%, probably north of 70% will be Wolfcamp A. North of 70% will be long laterals. That's a combination of 1.5 miles and 2-mile laterals. Maybe you can get back with David on the exact -- more granular breakdown of well counts.

Asit Kumar Sen - *BofA Merrill Lynch, Research Division - Research Analyst*

Okay, sure. And then on service costs. WPX has been proactive in locking service contracts. I think the last number of 70% contracted. Given what you're talking about, pockets of tightness, could you outline your contracting strategy as you head into 2018?

Clay M. Gaspar - *WPX Energy, Inc. - Senior VP & COO*

Yes, we're going to take a very similar approach. The first step is getting board approval and getting that clear line in the sand that, okay, we have a certain rig count, a certain plan that we can go to our peer companies, our service companies with and say, okay, let's get aligned. The other thing that we bring to the table is the quality of the assets, the surety of that, predictability is incredibly important. That hedge piece for the real forward thinkers, knowing that we have midstream capabilities in place. So that's kind of our opening lines that we use in these negotiations. What we're looking for on the other side are companies that have their own staying power. Are they equipped? Are they staffed? What's the status of their preventive maintenance programs and their ability to run with us? You never can really predict that until you're in the sprint running side by side, and sometimes they can't keep up. And that affects us directly, so we don't take those decisions lightly. I think the other thing we're looking for as we're partnering up with these companies, much like our consideration with Howard, that management team is very, very important. Inevitably, things are not going to go as planned when you lay it out originally and have to sign it up. You want to have somebody across the table that you can work through the upsets in the system, the unplanned activities for the up or for the down and then continue to work through. And so that's very high, very important for us as well.

Asit Kumar Sen - *BofA Merrill Lynch, Research Division - Research Analyst*

Great. And I have a quick one for -- okay.

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

Yes, I'd like to interject one thing. Just from a board perspective, if you recall, our board really worked very effectively with us on a 2-year budget approval a year ago, and that really allowed Clay and his team to go out and lock in some very attractive terms for pricing. And then, once again, the guidance that we've laid out, you need to remember, we are ahead of the curve. This is our approved budget. This is not just directional guidance.

This is our approved budget. And that also gives Clay and his team a lot of trust that he can sit down with those critical service providers and work closely with them to deliver not only good pricing but good service and good outcomes as well.

Asit Kumar Sen - *BofA Merrill Lynch, Research Division - Research Analyst*

Great, Rick, a quick one for you. Could you perhaps talk about your philosophy on multi-basin exposure and perhaps talk about the advantages of being in the Bakken given the service environment?

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

Sure. We have talked -- we've had a lot of investors ask us whether with our wonderful Delaware position if we shouldn't be a pure-play Delaware. And I think that is a very valid question and one that we as an organization and we as a board continue to pressure test. But I can tell you that in times like we just went through in the last quarter, having optionality from a basin perspective really paid off. For instance, our impacts from the hurricane were basically -- we saw a little bit on the gas and NGL side. But other than that, from an oil perspective, was almost nonexistent. And that was primarily because not just that we're in multi-basins, but it's the quality of the acreage in those 3 basins we're in, it's just a differentiator. So I think that, over time, there's no doubt, our inventory in the Gallup is half of what it is in the Bakken, and our Bakken inventory is maybe 10% of what we have in a Delaware, something like that. So I think over time, as Clay and Kevin have talked about, you're going to see more and more of our capital continue to funnel into the Delaware. But at the end of the day, it comes down to returns. The returns are so critical for us, certainly over the next few years. And our Bakken acreage is one thing you need to remember, it's not like most people's Bakken acreage. There's few people that have got the quality of acreage that we have with the oil cut and the immaturity from a development perspective. Clay talked about and showed examples of that North Sunday Island, and you drill 20 wells like that in a year. We're very excited about the quality of that asset. So the multi-basins have paid us nice dividends over the last couple of years. And so I don't see a change in that near term.

Operator

Your next question comes from the line of Michael Glick with JPMorgan.

Michael Adam Glick - *JP Morgan Chase & Co, Research Division - Senior Analyst*

I know you guys are delevering quite rapidly. But beyond the San Juan asset sale, are there other assets you'd consider trimming from the portfolio such non-op Delaware or noncore assets in the Williston, given the hot A&D markets in the basin?

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

Yes, I'm going to ask Bryan Guderian maybe to provide a little color there, but I think on the last call, we did mention some assets that we thought we could do some additional pruning to bring some cash in the door. Bryan, you want to share?

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

Yes, I'll speak to it briefly here. I think we're at a point in the Delaware specifically where we can do some high-grading of the portfolio. We're actually seeing, I think, a number of our peers do a similar thing there. There continues to be a pretty deep market on the buy-side for quality assets in the Delaware. And we have a few areas that are somewhat extensional or step outs from our core footprint but still very much in the core of the basin. And so without telegraphing too specifically what we intend to do, we do see opportunities to bring some cash forward through small sort of extensional divestment opportunities that aren't generating EBITDA currently.

Michael Adam Glick - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Got it. And then maybe for Clay, but one thing -- theme we've heard a decent amount a bit lately has been parent/child interference, not really in the Delaware yet but more on the Midland side, and we've seen operators go to cube style development in an effort to mitigate the risk of potential degradation of productivity. Could you talk a bit about your thinking on that topic? How big of a risk do you think it is and maybe how your experience on the CBR pad influences that thinking?

Clay M. Gaspar - *WPX Energy, Inc. - Senior VP & COO*

I think it's not really a risk. It's reality. And I think the ultimate design -- I talk about a three-dimensional spacing test, you will -- you want a little bit of well-to-well communication, both vertically and horizontally. We were very aggressive in our section 22 spacing test, 330-foot spacing between those Wolfcamp A wells, of course, on a wine rack staggered pattern. We're now layering in the X/Y wells, because we want to understand that. We've designed that with the idea that there will be some communication. I would say, early on, we didn't see any. We're roughly 6 months in, maybe a little bit more, and we're starting to see some correlation between the 2, not like we've seen in other basins where you shut one well in, you have an immediate bump in the other wells that tells you that you really don't need as many wells as you planned. So what we're seeing in the Delaware, and that's not our only spacing test, we have several, you're starting to see a little bit of communication. I think ideally, you'd probably plan for maybe a 10% degradation from a parent to a child, and that -- and what that means is you have properly spaced and properly capitalized that development. If there's no communication, then you really haven't drilled enough wells, or you haven't stimulated big enough. So it's an interesting -- something we're working through. Again, I think we're a little further along than some of our peers in that regard. Very encouraged from what we've seen thus far. And of course, we're watching the Midland real closely and trying to learn from those guys as well.

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

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I might interject one thing. If you look at some of the other basins, even that we operate in, I'll give you a couple of examples. One is in the Gallup, and if you go back to where we saw some early time, I'd call it marginal performance, if I'm just very, very blunt, performance from 3 or 4 years ago. It was in areas where you had quite a bit of vertical development, and we just -- we saw performance -- it wasn't as optimum as it is as when you step out. I think we see the same thing up in the Bakken. We probably have been a little more on the conservative side. Our geology, if you look at our assumptions, where we're 11 wells per spacing. DSU, certainly in that Mandaree area, was 6 in the Bakken and 5 in the first bench of the Three Forks. But you'll see other operators in some areas may have a bit experience in a little more communication and interference than what we have. And so I think Clay really summed it up nicely. It's something that you expect, and you try to model and optimize that. In an ideal world, you will try to have just a small amount of interference in between the parent and child. And that tells you that you're probably developing in a proper way.

Operator

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

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

I guess if I could just take a step back and think about your 2018 guidance at a high level. The capital spending you've been running year-to-date, if I back out leasehold, is, I think, about $260 million a quarter. So as I look at the 2018 number, it's up, call it, 10%. And I think you talked about completed lateral feet being up 50%. So can you just help us kind of reconcile those efficiencies? I know, Clay, you mentioned kind of that -- from moving from single lateral to long lateral, that calculation earlier, but could help me kind of bridge how we would get to that level of productivity?

J. Kevin Vann - *WPX Energy, Inc. - Senior VP & CFO*

John, this is Kevin, and I can touch a little bit. And I'll let Clay add in terms of just some of efficiencies that we're seeing in terms of drilling to the -- going to the longer laterals. But one thing you also have to think about is kind of what -- we've scaled back a little bit in the fourth quarter and, in particular, down in San Juan. The capital run rate in the San Juan, it's because we -- it is so efficient down there. We were really drilling about a well almost every single week down there. And so by taking that program to 0 to maybe 0.5 rigs during the course of the year, you really are cutting back quite a bit of your capital spend for next year. And then also I'll let Clay touch on the efficiencies and what that really means to the capital program.

Clay M. Gaspar - *WPX Energy, Inc. - Senior VP & COO*

Yes, in those slides, we really kind of moved away from well count, because it's less about well counts, and it's more about the productivity of those wells. And obviously, as we're moving to substantially longer laterals, that just gives us that -- those efficiency gains. So we do have quite a bit more completions, quite a bit more drilling. But it's essentially the same rig count. Obviously, the completion side of the house that will -- we'll be investing more dollars there. We think we can get all that done for a relatively flat budget to what we were doing this year.

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

At the end of the day, John, it'll be all about managing our cash. And as we see how the volumes come in, commodity price, everything else, I think we will manage it that way. I feel very confident with Clay and his team on the execution side. And I think that as we've modeled our forecast. We showed you some wonderful results in all 3 basins. I think we have a fairly high degree of confidence that we can deliver the plan as we've laid it out.

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

That's great, and then congrats on a phenomenal job improving the cost structure thus far. I think those are some pretty powerful slides you've had in the deck. As I look at the '18 guidance on just cash operating cost per BOE, it's pretty similar to where you are in 2017. Should we think about that as potentially being more cushioned, that we could see an improvement potentially as we go over the course of 2018? Or do you think you've driven operating costs -- cash operating costs down to just about as far as they can go?

J. Kevin Vann - *WPX Energy, Inc. - Senior VP & CFO*

I'll let Clay touch in terms of how much headroom we have there in terms of just the absolute number. But one thing you really need to consider, too, is by selling the San Juan legacy gas position out, we're getting more oily. And with that oil production [becomes] a little bit higher LOE on a per unit basis for next year. And for next year, I think we're looking at that higher oil cut and just overall higher oil production.

Clay M. Gaspar - *WPX Energy, Inc. - Senior VP & COO*

As we look on it a per basin basis, the Williston has worked a small miracle over the last few years driving their cost down. I think we're still a little bit earlier in our Permian driving the cost down. The big item there, the big ticket item is water. Water sourcing, water disposal, water transportation. And as we further build out that infrastructure and connect things up, I think that really helps us out, especially on the newer acquired acreage in Reeves County. That's been a big driver for us, and I think it's a big opportunity going forward.

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

John, one thing I may insert as well is I think maybe -- not -- we've laid out in 2018, but as you think about 2019 and 2020 and beyond, you're going to see Delaware have a much bigger percentage of our production. And from a -- I think the cash operating cost includes your severance taxes, and if you think about the State of North Dakota, it is on the high end vs. Texas and New Mexico. So for near term, what you're seeing in '17 and what you'll see in '18 is the Bakken is still big contributor, but it does have a little higher tax rate as well. That's something we can't really necessarily impact.

Clay M. Gaspar - *WPX Energy, Inc. - Senior VP & COO*

But John, to your point, we're at $16.20 this most recent quarter, $16.20 on a margin per unit basis, and you're -- we're going to -- you're going to continue to see that move upward to that $20, if not higher than the $20 range.

Operator

And your next question comes from the line of Subash Chandra from Guggenheim.

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

So trying to think about your '18 guidance in context of how you crushed '17. So, I guess, not to put words in your mouth, but you sort of inferred that next year is going to be mainly Delaware, primarily Delaware. This year, you have some contribution from the other regions. And is -- does that maybe then render the '18 program as something that -- I think Kevin said he saw it coming months early, that you'd be able to crush it the way you did in '17. Do you -- I mean, it's a bit of an unfair question, but do you think that's a setup we can see in '18 again? Or because it's primarily a single basin growth, you feel that it's a good plan, but it's one that you're going to have to work to deliver.

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

Well, as I mentioned a while ago, I think it's a plan that we have a pretty high confidence in. The reality, as you -- as we sit here, first week of November, you have winter looming on you. Obviously, we have -- I've been through a lot of tough North Dakota winters over the last 35-plus years. So it's probably a little early. We are going to have contribution from the Bakken as well. The North Sunday Island wells that Clay showed, I think it's going to help us. And so -- but it's -- we are more and more of a Delaware execution story. And that's exciting. But I've got -- from my perspective, I've got a high degree of confidence in our team, in our execution. And so I think it's a good plan. It's a good solid plan. And I think, as I sit here tonight, I'm not losing a lot of sleep that we can deliver on this plan.

Clay M. Gaspar - *WPX Energy, Inc. - Senior VP & COO*

But I'm always stressed this time of year, just so you know.

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

Right. And then on the Delaware long laterals, and I don't recall if this was -- you'd answered this on a prior call, but in terms of location count, given the lease limitations, et cetera, how prevalent could those 1-mile plus, 1.5 miles be?

Clay M. Gaspar - *WPX Energy, Inc. - Senior VP & COO*

Yes, so we've done a lot of work. I told my VP of Land, Greg Geist, that I struggle with the question, so what percentage of your total acreage can you drill long laterals on today? And I said, Greg, help me with that. I know it's a loaded question, because there's so many "well, except for" and "what about," and all these things. So they've done this exhaustive study, and I just got it on my desk yesterday, and I'm really proud of the work. And they've kind of honed in on each of our core positions. This is Stateline; the Rustler Breaks area; the Central [Panther], which is Central Reeves; Southern Reeves; Haley area; and even Taylor Ranch. So 6 kind of core areas. And what it does, it takes off a single section or a half section here or there, because we certainly have some of that. But in those 6 core areas, we looked at all of the Wolfcamp rights, all of the Bone Spring rights, total all that up. And when you add it all up together, it's about 70% that we are essentially ready to drill or we are very high degree of confidence that we can pull that into a 1.5-mile or 2-mile development. So that is, I can tell you that is light-years from where we were just a sort time ago. The team has done a remarkable job. Really, really happy with that result.

Unidentified Analyst

Yes, great timely report. We won't have to ask the question again. And a final one, I guess, Rick, from your language on -- well, I guess, on the cash flow neutrality or free cash flow. Because your argument is that you can earn more at the drill bit than you can by cutting a check to investors, et cetera. So is this something your -- I guess, your desire to be a free cash flow company, is that something that you feel that is because it's what the investors want, given the market today? Or do you -- can you justify based on a returns-oriented calculation?

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

Well, I think that's why I mentioned the optionality. If you just look at raw returns, you would want to redeploy that cash into your development opportunities. But at the same time, I do think that what investors are asking for today is something that I think we need to be very thoughtful of. It's real easy to step back and look, as we've seen this -- the world has changed from a commodity perspective. It's really easy to talk about how this industry has "destroyed capital." But the fact of the matter is we've had just an unbelievable shift in the commodity price. And there's still some volatility. So I think that, from our perspective, we would prefer right now to talk about the optionality, if the right thing to do is to entertain things like special dividends, share buybacks, those sort of things, I think that's something we contemplate in 2019 and 2020. If, on the other hand, it's -- the case is -- could be made for reinvesting that cash flow, then I think that you have to contemplate that. But I think it's just a little early to absolutely lock down on that. But I do want everyone to know that this management team is going to preserve that optionality to do things that maybe are not just redeploying the cash into the drill bit. We're going to look at different things. And as we've said on several locations, the -- do not underestimate the ability of the value creation on the Midstream side, because we feel very, very good about the outlook of that.

Operator

And your next question comes from the line of Jeff Grampp of Northland Capital Management.

Jeffrey Scott Grampp - *Northland Capital Markets, Research Division - MD & Senior Research Analyst*

As you guys kind of move into development mode here in the Wolfcamp A and the Delaware, can you guys maybe just talk a little bit about kind of what a leading edge completion looks like today and maybe how that's evolved for you guys over the last 6 or 12 months?

Clay M. Gaspar - *WPX Energy, Inc. - Senior VP & COO*

Sure, Jeff. It's Clay. It definitely has evolved, and it continues to evolve. As you know, the general trend is tighter cluster spacing, more sand, longer laterals overall stimulate more rock. Obviously, that comes with a direct correlation to the cost of the well. As we've continued to push, we've been up to 2,500 to 3,000, and we've tested well north of that. I think with the service cost we're seeing today, the commodity price we're seeing today and the well performance, that kind of calculus between the 3, our state-of-the-art is somewhere around 2,500 pound per foot. Tighter cluster spacings, we continue to move towards that. And really looking for those cost efficiencies. How much water do we need to pump, are there more efficient ways to deliver the sand to formation, things along the lines of diverting agents and other relatively low costs adders that can help the overall stimulation. I would tell you, one thing that we're not done, it's always going to continue to evolve, and as commodity price moves, service cost moves, technology moves, that continues to kind of a stir up the mix. So we're really excited about where we're at, and I'm fully confident will continue to improve our completions from here.

Jeffrey Scott Grampp - *Northland Capital Markets, Research Division - MD & Senior Research Analyst*

Okay, perfect. And then for a follow-up, I know you guys don't want to get too definitive on things beyond 2018 but just within the context of free cash flow generation in 2019. Does that contemplate generally a similar CapEx or rig cadence to 2018? And can you talk about any ongoing midstream investments that you guys might be contemplating beyond 2018 as well?

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

Yes, obviously, our 2018 is basically flat, flattish to this year. In our midstream, we will have some midstream CapEx that's styled into that $1.2 billion or $1.1 billion to $1.2 billion range that we've given. But remember, most of our capital that's going to be spent this year on midstream is -- we carried on a CapEx with the agreement we have with Howard. So I think the CapEx in 2019, you'll start seeing may be a little bit more CapEx there but it's not substantial. But I think you'll see some meaningful valuation increase occur. So, in my mind, I think that the total gross CapEx as we've modeled out in the outer years, it stays relatively flat and not only in this year to next year, but also next year into 2019. So not a dramatic increase in capital expenditures.

Operator

At this time, I'd like to turn the call back over to Mr. Rick Muncrief, CEO. Please go ahead.

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

Well, thank you very much for joining us today. We've had once again, wrapped up a very nice quarter, had a good session today. And we appreciate your time, we appreciate your interest in the company. And want you to have a good day, and we're getting back to work. Take care, and we'll talk soon.

Operator

Thank you very much for your participation. This concludes today's conference call. You may all disconnect.
