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WPX - Q4 2017 WPX Energy Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 22, 2018 / 3:00PM GMT

THOMSON REUTERS

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PRESENTATION

Operator

Good morning, ladies and gentlemen and welcome to the Q4 2017 WPX Energy Inc. Earnings Conference Call. (Operator Instructions)

As a reminder, this conference call is being recorded. I'd now like to turn the conference over to your host, Mr. David Sullivan, Director of Investor Relations.

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

Thank you. Good morning, everybody. Welcome to the WPX Energy Fourth Quarter 2017 call. We appreciate your interest in WPX Energy. Rick Muncrief, our Chairman and CEO; Clay Gaspar, our President and 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 can find today's presentation and the press release that we issued after the market closed yesterday. Also, our K will be filed later today. Please review the forward-looking statements and the disclaimer of oil and gas reserves at the end of the presentation, they're important and integral to our remarks. Please review them.

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

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

Thank you, David. Good morning to everyone who's joined us today. I know you're in the -- we're all in throws of earnings season, everyone's busy, but we really appreciate you spending a few minutes of your morning with us today. We're excited to report on more progress, more execution and even more opportunities for value-driven growth.

After nearly $8 billion of transactions, our path forward is clear and compelling. It's about consistent execution, sticking with our multi-year plan and continuing to create value by looking ahead. Today, we're now 80% liquids and 20% natural gas. That's a far cry from where the company was at 5 short years ago. Back then, we were 20% liquids and 80% gas.

Now the pillars of our transformation have always been, number one, accountability; number two, a bias for action; and number three, continuous improvement, trying to get a little better every year, every quarter, every month, every week and every day. You'll see evidence of all 3 in our update today. Now let's turn to page 2.

On accountability, we said we'd delever the company and create financial flexibility. Our metric looks better and better beyond what we originally aimed to accomplish. We now believe we can hit a net debt-to-EBITDA target level of 1.5 turns in 2019.

As far as the bias for action, a few weeks ago, we seized another window of opportunity to bring value forward for shareholders by selling our Gallup holdings in the San Juan basin. This was the right decision because we got the right price and it completely refocuses our capital where we have the most long-term running room for value creation. And that's in the Permian and in the Williston.

During the fourth quarter, we also closed the sale of our legacy gas holdings in the San Juan basin and completed the formation of our Permian Basin JV with Howard Energy Partners. Combined, that's more than $500 million of cash received by WPX. As far as continuous improvement, we've made quantum leaps in the Williston Basin from a technical standpoint. We're drilling and completing wells that are better than we ever had. Today, we believe that we have the 2 best horizontal wells that have ever been drilled and completed in the Williston Basin. Our first 2 North Sunday Island wells have 120-day cumulative production of more than 576,000 BOE at an 81% oil cut. Another 7 North Sunday Island wells are scheduled for completion and first delivery later this quarter.

Now let's turn to Page 3. You're going to keep hearing us talk more about our midstream strategy because of the two-fold value it adds to our business. First and foremost, this is what's going to keep our oil barrels flowing out of the Delaware. We're working hard to foresee and alleviate potential bottlenecks as billions of dollars of drilling and completion capital flow into the basin over the next several years. In short, we want to make sure that the WPX barrels are among the very first to hit the pipe and get into the marketplace. This speed and flow assurance will affect our financial results in a very positive way.

Secondly, our midstream portfolio also creates optionality with regard to value creation. At minimum, we're talking about new revenue streams that can create earnings growth and I think differential earnings growth for WPX. Now more strategically, these assets could become opportunities for monetization. Either way, our midstream business is quickly becoming a competitive advantage that distinguishes WPX from many of our peers. Everyone knows that infrastructure is going to be absolutely critical and we're already executing a very effective game plan.

Now let's turn to Page 4. And here's Clay Gaspar to talk about our operations.

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

Thank you, Rick. Good morning, everyone. I'm pleased announce another strong operational quarter.

We posted 70% oil growth in fourth quarter '17 versus 4Q '16. The highlight of this story is 160% oil growth in the Delaware Basin.

Today, excluding San Juan, we're seeing about 70,000 barrels of oil a day.

As I look back at 2017, we enjoyed lots of wins, but also had to fight off several challenges, like tightening labor markets, escalating costs and scarcity of some of our services, and that's on top of the regular dogfight that our ops team faces every day. I'm proud to say that in 2017, the team overcame those challenges and surpassed our critical objectives.

As we turn the page to a new year, we always face new challenges and so far 2018 hasn't disappointed.

Early in the year, the U.S. faced some extreme winter weather and the recent sand logistics challenges have raised awareness of how critical infrastructure is to our execution. As for the winter weather, it's a challenge we routinely deal with, and the team was able to mitigate most of the impact. The sand logistics issue is a very fluid situation, but I'm happy to report that today we have hadn't had to delay any completions or had to alter any completions designs. As an industry, we're not past this disruption. I'm very proud of our supply chain team and the creative solutions, long hours and leveraging relationships to avoid disruption thus far. Our decision to play a very active role in sourcing our critical products continues to pay dividends. We will keep up the fight and let you know if we see notable change in our current outlook.

Now let's turn to Slide 5 and talk about our exciting results in the Delaware Basin. In 2018, our development plan is primarily focused on Wolfcamp A with long laterals. In fact, about 70% of our 2018 wells are 1.5 miles or 2 miles laterals. As I mentioned last quarter, but it's very noteworthy, it's worth repeating that our team has done an incredible job of coring up the acreage with the current estimate of 70% of our acreage set up for long-lateral development. As you know, this supercharges well economics and significantly benefits infrastructure design and allows for less surface disturbance. With the incredible number of wells that we will eventually drill in this acreage, we need to be very thoughtful of these considerations.

The well results on this slide and the next slide highlight our incredible resource in the Delaware and the meaningful impact and uplift we get from drilling long laterals, both operationally and financially. These wells are in the Stateline area where we plan to invest most of our 2018 Delaware capital. The CBR 6-7 pad is in the heart of our Stateline position. The 2-mile laterals are tracking on a 2 million BOE curve, averaging over 2,000 BOE per day for the first 120 days of production, yielding 52% oil. The shorter wells are tracking towards the 1.5 million BOE curve. My reservoir engineers threw a little caution in there that it's a bit dangerous to project EURs this early in a well's life. But I can tell you, the early results are very encouraging. The well pads have averaged over 1,800 BOE per day for the first 120 days.

Now let's turn to Slide 6. The Lindsays are just east of our CBR wells in the greater Stateline area. The Lindsay 10-15 pad primarily focused on Wolfcamp A 1.5 miles laterals and 1 4500-foot lateral. The longer wells are trending towards the 2 million BOE curve, each averaging over 2,300 BOE per day for the first 90 days of production, yielding 55% oil. On the Lindsay 10-13 A or CB 10-3A, we have 1.5 miles XY well that averaged nearly 1,500 barrels of oil per day for the first 90 days of production. That's pretty impressive for one of our many "secondary targets."

As we continue to drill long laterals, we have more production data and we'll likely be able to put out type curves for the longer laterals possibly later this year. Staying on Permian but shifting to midstream, let's turn to Slide 7.

Early last year, we talked more holistically about our midstream strategy and how important we believe it was going to be for the Delaware Basin. I can tell you, our team was hard at work well before that point. This slide shows some of the output of that impressive work. As Rick mentioned, we have amassed quite a nice portfolio of midstream assets. This has not been a random acquisition program, but rather a very well-thought-out strategic plan primarily focused on flow assurance, but also taking advantage of an incredible business opportunity to leverage our upstream assets and to capture significant value for shareholders.

Our biggest deal done to date is our JV with Howard. We couldn't be more pleased with that partnership and the great work that the combined team is pulling off in a very tight construction environment. The photo in the background of this slide is the 200 million per day cryo plant that will be online this summer. We've also been very thoughtful to leverage our acreage position into some quite valuable equity positions in critical assets. We're now in the driver's seat as we execute our upstream strategy and leverage this infrastructure.

Let's turn to the next slide and look at North Sunday Island results and Williston. On the third-quarter call, I showed you very impressive early-time results of our first 2 producing wells in the North Sunday Island area. Updating that early time and based on the first 120 days of oil production, these wells are the best 2 performing horizontal wells ever drilled in Middle Bakken or Three Forks formations. Later this quarter, we will have 7 or 8 more wells come on and 4 Mandan North pad wells are being drilled from this North Sunday Island area, and I look forward to sharing those results with you. The Mandaree South pad has been a -- also been a strong performer, trending well above our 1 million BOE type curve for the first 60 days and averaging about 1,700 barrels of oil a day during that period.

When we announced the San Juan Gallup sale in early February, we stated that Gallup capital would be redirected towards a third Williston rig. That rig will be scheduled to spud its first well in early April. Finally, we sold some nonoperated minerals off the reservation for about $20 million. We should receive those proceeds by the end of the first quarter.

Now I'll turn it over to our CFO, Kevin, for the financial update.

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

Thank you, Clay. We appreciate everything your team is doing in operations. I know conditions are tough. I know many on the team are working around-the-clock to put revenues on the board and manage costs all at the same time.

At WPX, we take pride in having a culture that values simply doing what has to be done. This kind of drive is just one of the reasons why we continue to have such a bright future ahead. I'm very proud to be part of this team.

Our main goal right now is execution. Through asset transactions reducing our leverage and hitting the targets on our multi-year plan, we're building flexibility for the days ahead as we create shareholder value. We can see the discipline around our multi-year plan in our 2017 results. I'm very pleased to report that all the major indicators continue to point in the right direction. I'm referring to margins, unhedged discretionary cash flows, unhedged adjusted EBITDAX and oil volumes, and on a per unit -- per BOE basis, our G&A interest expense and DD&A. I'm a numbers guy, but I firmly believe that our financial transformation will be just as consequential as our portfolio transformation, and that's saying a lot when you consider what we've accomplished.

Let's turn to Slide 10 and I'll take you through the highlights. For the quarter, at 75,200 barrels per day, our oil production is 68% higher than for the same period of 2016. As Clay said, the 160% increase in our Delaware production, together with the 38% increase -- 38% growth in Williston volumes, drove this increase. For the full year, our oil production is 48% higher than last year. At 231 million cubic feet per day, our natural gas production for the fourth quarter increased 16% versus the same quarter of 2016 and up nearly 30% for the full year. Our NGL production hit nearly 17,000 barrels per day, up 57% versus the same quarter of '16. For the full year, we produced nearly 14,000 barrels per day, which was up 38%. At over nearly 131,000 equivalent barrels per day, our production is 47% higher than the fourth quarter of last year. And at 110,000 barrels per day, we are 30% higher on a full year basis.

For the fourth quarter where we are reporting an adjusted EBITDAX of $255 million, which is $120 million higher than the fourth quarter of prior year. I said it during our third quarter call, but we are well into our financial transformation of WPX.

I'm really past saying that our plan is to delever. We have deleveraged and we'll continue to drive it further down. As we continue to execute operationally, our oil production has increased. Our EBITDAX and cash flows continues to increase, and our margins continue to grow as well. I understand that many folks have to see it to believe it. Well, we were talking about it nearly 1.5 years ago. We said we were going to do it and we haven't deviated from what we said. As a matter of fact, if you annualize the fourth quarter EBITDAX and compare it to the net debt that we have at the end of the year, our leverage is now below 2.5 turns.

For the full year, the $710 million of EBITDAX was $235 million higher than prior year. Now comparing across years, in 2016, we realized $302 million on our hedge book. In 2017, that number was $4 million. So yes, prices did go up approximately $9 per barrel for the full year in 2017. However, despite a drop in hedgebook cash flows of $300 million, we realized $235 million in higher EBITDAX. That's over $0.5 billion in improved realized value out of our underlying assets.

We did see some absolute increases in our cash operating costs, inclusive of lease operating expense, gathering, processing and transportation and production taxes. On a per unit basis, those costs went from $9.65 to $10.33 per barrel. However, production taxes was the vast majority of that increase at $0.51 per barrel. As our realized prices went up in '17, we just paid higher production taxes. As far as the other cost in the system, our G&A and interest expense, both went out on an absolute basis. More importantly, on a per unit basis, both of these costs decreased dramatically. For example, our G&A was $6.71 per barrel in the fourth quarter of 2016. That metric for the fourth quarter of 2017 was below $4 per barrel and continuing to trend down.

For the quarter, we are reporting an adjusted net loss of $9 million versus a net loss of $54 million in 2016. The improvement was driven by the same factors impacting adjusted EBITDAX, but also impacting those numbers was $50 million of higher depreciation, depletion and amortization in 2017. The higher absolute level of DD&A was driven by the dramatically higher production volumes. However, our DD&A rate fell from over $20 a barrel to under $17 per barrel. Two reasons why. Number one, we continue to drill better wells at lower costs. And two, the trailing 12-month price used in the calculation of the reserves continue to get better.

Our capital expenditures incurred for the fourth quarter totaled $321 million. On a year-to-date basis, our total CapEx of $1.232 billion includes $65 million of land acquisition cost and $49 million related to Permian midstream infrastructure cost reimbursed to us by Howard Energy when we closed that deal. And another $9 million that will be reimbursed to us when we close the San Juan Gallup transaction. Excluding those -- these amounts, our full year capital spending was approximately $1.1 billion for D&C and infrastructure, or $30 million above our full year guidance. As you've heard, we had the opportunity to bring a couple of additional completion crews as an audition for their -- for 2018 during December. These additional costs hit our 2017 CapEx using -- causing much of the variance.

Turning to Slide 11. We showed a version of this slide during the third quarter call. I just mentioned that we were below 2.5 turns when you annualize the fourth quarter results. As you can see, as we have taken the cash that we had of the balance sheet at the beginning of 2017 and embraced our drill bit deleveraging strategy, our amazing assets have driven our net debt-to-EBITDA from a high of 5.5 turns down to 2.4 turns.

As Rick said, we also believe that we have a clear line of sight to a leverage marked below 1.5 turn. At the same time our unhedged adjusted EBITDAX has increased 195% from the fourth quarter of 2016, growing from $93 million to $274 million in the most recent quarter. Only great assets and great execution can deliver this kind of change over such a short time period.

Turning to Slide 12, we can continue to be excited about our guidance for 2018. On a pro forma basis, adjusted for the effects of the San Juan sale, we are guiding to production range of 117,000 to 126,000 equivalent barrels of oil production per day. Of this amount, our oil production is expected to be 75,000 to 80,000 barrels. We will accomplish these production results through our drilling and completion -- through a drilling and completion capital program between $1.04 billion and $1.11 billion. Total continuing capital will be between $1.125 billion to $1.25 billion, which includes $60 million to $90 million of potential midstream opportunities. Previously, we had not provided any guidance on potential land acquisition opportunities. Today, we are guiding to a range of $25 million to $50 million for those. Also, we are guiding today to a range of $35 million to $60 million of potential midstream equity investments as we continue to look at opportunistic deals where we take an equity stake in various projects that ensure physical flow of our production out of the Delaware. These will show up as additions to property, plant and equipment, but will most likely be treated as equity investments on the balance sheet.

Lastly, we had indicated where we would be -- where we will be incurring capital cost on behalf of the purchaser of the San Juan Gallup asset up until the time it was that deal closes. We will get reimbursed for those costs through purchase price adjustment upon closing.

Over the last couple of years, I've answered a lot of questions regarding our leverage. Yes, we bought a tremendous asset in the Delaware during the summer of 2015. Yes, at that time it seemed like quite the stretch for WPX to make such a bold acquisition. As you've seen from our financial results over the last couple of quarters, it was worth it. Our margins are going up and our leverage is going down. These assets that we have in the Delaware, together with the amazing position in the Williston, are going to continue to show up in our results. The WPX team has shown they understand the importance of doing so.

With that, I'll turn it back to Rick for some closing comments.

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

Thank you, Kevin. Good job to you and your team along with Clay and his team as well. I'm very proud of the company we've now become through the hard work, discipline, sacrifice and creativity of our employees. We've seen the portfolio transformation. Now we're seeing the financial transformation. We look forward to the flexibility that comes with being free cash flow positive, targeted for 2019 as we've said before. Based on the inventory in our world-class portfolio, our expectation is to hit 150,000 barrels of crude oil per day during 2022 and with increasingly strong margins, our cash flow generating capability should drive attractive optionality to significantly benefit shareholders. At this time, we can open the line for questions, and I'll turn it back over to the operator.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And your first question comes from Neal Dingmann from SunTrust.

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

Maybe for Clay. Clay, it sounds like much of the upcoming activities are going to come from that very attractive Stateline area. Could you talk about maybe spacing and pad size in that area as you all continue to progress with all the delineation you've had?

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

Yes, Neal, happy to talk about that. We go back a little over a year ago, we're talking a lot about section 22, it is still our most densely spaced, kind of, holistic view of spacing. We're continuing to learn a lot about that. Recall that Wolfcamp A, our primary target is really 2 targets, an upper and a lower. Each of those are typically spaced at 8 wells per section and then sometimes 6 wells per section, and we're looking at well-to-well interference and watching that over time. I can tell you, it's probably a little different solution as you'd look at our $45 to $50 world versus a $55 to $60 world encouraging you to go after a few more barrels. As you look at it today, that 8 wells per section per landing zone remains to be our base plan, something we're excited about and continue to work towards.

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

Got it. And then one last follow-up on -- could you just talk about which service cost which you're assuming? And then for you and Kevin in the plan and then your thoughts on self-sourcing sand?

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

Yes. So service cost, I would say state-of-the-art today, Wolfcamp A, 1 mile laterals. We're just shy of $7 million. That includes everything we have contracted from rigs from sand, from frac crews as we really forecast into '18. As you scale that up to a 2 mile lateral, gets up just shy of $10 million and I think that you see the power of the economics when you're essentially doubling the EUR or pretty close to that for about 1.4x on the cost. Logistics around sand, as I mentioned, it's very fluid. We source from Wisconsin to West Texas and all points in between. The current topic du jour over the last couple of weeks has really been around train logistics. I can tell you, trucks are just as much of a challenge. It goes from one thing to the other. We've been very proactive, as you know, contracting directly with the mines, spending a lot of time with the railroads. We own our own stake in transload facilities. Trucks are always going to be very challenging. Trucks, sourcing trucks -- truck drivers, making sure that those guys, the trucks and trains run on time, is always going to be a logistical challenge, but I'm incredibly proud of the way our teams pulled off in a very tough environment. Kevin, do you have anything to add to that?

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

No.

Operator

Your next question comes from Jeanine Wai from Citigroup.

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

My question -- my first question is for Kevin. Kevin, you spoke about WPX's anticipated financial transformation. And how much improvement do you see on the per unit cash operating cost over, say, the next 2 or 3 years? And I know that's a tough question, but how much do you think is related to getting more efficient versus growing volumes in the denominator? Because we kind of see your cost structure as something that stands out versus the Permian group?

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

Yes. Janine, I think from a cash operating cost perspective and I don't want to really think about LOE, GP&T and production taxes, production taxes obviously are going to ebb and flow, contingent upon the commodity pricing. From a GP&T with San Juan on a pro forma basis, you're going to see that GP&T cost as we've guided to come down by a little over $1. LOE, I think we're going to -- and Clay can add a little more color here, I think we're going to continue to get a little more efficient there, especially as we look to drill more in that Stateline area where we've got the water and gathering systems that really help, kind of, keep those water handling costs in check. From a G&A and interest perspective, I think you're going to continue to see some G&A overall, kind of, reductions. Obviously, the biggest reduction on terms of a per unit basis is just going to need to be as we continue to grow the company and obviously not just growing for growth's sake, but obviously value-driven growth that Rick has talked about. Interest expense is something that with the proceeds from the San Juan Gallup sale. Obviously, we don't know exactly the manner or the timing for which we'll tender for some debt, but that's obviously as we've already said that's going to be earmarked -- a large portion of those proceeds are going to be earmarked for debt reduction. So with that debt reduction, obviously, we hope with where the new issue rates are currently, we'll continue to see interest cost on a per unit basis come down.

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

I'll just add a little bit to that, Janine. This is Clay. So the LOE, that was a big challenge we talked about and specifically in the Permian over the last couple of years, as we bought assets that were little more remote, didn't have a lot of infrastructure, where hauling water, that is the big cost driver. We've rectified a lot of those issues, drilled some disposal wells, put in the infrastructure, continue to do so, and we saw a pretty incredible LOE per barrel cost dropped throughout the year. I think we began '17 around $9 a barrel and ended the year around $5 a barrel. Certainly helped by the denominator, as Kevin mentioned, the real benefit for all of those metrics are scaling into growing the assets into the quality company that we've built. And so I think each one of those metrics and our continued growth rate will continue to work towards the right direction for us over time.

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

Okay, great. And then for my second question, on the 2022 150 barrels a day oil target, can you walk us through your thought process on why you're providing such a long-term target, given the potentially volatile commodity price environment, given the moving target on growth versus free cash flow that the market rewards and just plain old optionality?

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

Yes, Janine, it's Rick. I think that it's important for us to lay something out there that shows where we're headed. From our perspective, we're not where we want to be today from a free cash flow generating perspective. However, that's going to be changing very dramatically. And we want people like yourself to be able to model what that profile looks like and it's quite attractive. And so that is the primary reason we've done that.

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

Okay. And is that on a flat 55 deck?

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

That's correct.

Operator

And your next question comes from David Heikkinen from Heikkinen Energy.

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

One thing that I wanted to make sure is that we and I guess the Street are modeling and thinking about your midstream correctly and thinking about your GP&T guidance, does that include the midstream that you own? Or is that net of midstream cost? Or can you give us a framework of thinking about EBITDA contribution from the midstream as you head forward in the plan?

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

Yes. David, it's Kevin. I think when you think about the EBITDA contribution coming from our midstream assets, right now we have them included in our plan more as a -- the cost of the use and service of those assets. We really haven't looked at it in terms of EBITDA being generated from those assets, whether that's third-party EBITDA or third-party revenues or be ultimately the path that we may go down in terms of monetizing of those assets. I think when you think about our midstream value, we've been really programmatic as we think about the optionally that it contains. And so we have deliberately said it up where we may warehouse those assets. We may sell those assets. We may drop them into a public vehicle if the market conditions warrant. But currently the way we're looking at those is more as a matter of just a cost associated with operating those assets. I think when you think about the assets that have been dropped into the Howard joint venture, the way to look at those is -- we do have a rate associated with the joint venture processing those. That's a market rate, but then also one thing you have to consider is that we get 50% of those fees, effective we pay the JV, we get those back in the form of equity or income from that investment.

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

And then any third party would be a net -- I mean this isn't as big issue but as it grows, currently third-party volumes just being net against your GP&T?

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

Third-party volumes would not be a net against -- because those third-party volumes would effectively -- to the extent that they're setting the joint venture, that would come back again.

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

Through equity flows?

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

Yes, exactly.

Operator

And your next question comes from Asit Sen from Bank of America.

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

My first -- first question for Kevin. Kevin, if we were to assume the noncore asset sale of, say, $200 million coming to fruition in 2018, how should we think about reinvestment of proceeds? Growth or growing the footprint? How should we think about it?

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

The $200 million of noncore assets that I think we laid out back in September at the Barclays conference, we really have checked that box at this point. That included the San Juan gas assets that we really closed on in December. We also -- as we said today, we did announce that we sold some mineral interest up in the Bakken for about $20 million. So we really have checked that box. We're going continue to look and be opportunistic about other potential, call them, low to no EBITDA generating assets. But in terms of that goal that we had set out, we really checked that box at this point. And then, again, with the San Juan Gallup proceeds, with that transaction expected to close in the next couple of months, as we said before, a lot of that's earmarked for debt reduction, looking to, kind of, manage some of the debt towers in addition to just the overall interest expense when you look at what the new issue rates currently are.

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

Great. My next one is, Rick, what are your thoughts on consolidating your acreage outside of the Stateline area? Could you force rank your portfolio outside the Stateline? And any thoughts on the nonop position in New Mexico?

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

Yes. So we're considering to look at that. There are some -- we've talked in the past about the non-op position in the far northern part of the Delaware and as being a possible monetization candidates. It's not real impactful for us, but I can tell you we're strengthening commodity prices. Some of the operators in that immediate area have really had some pretty intriguing and interesting recent completions. And so I think we're going to be very, very thoughtful about that. It still remains on our list of possible divestiture candidates. I think we'll try to do what we've done in the past as trying to time the market appropriately. So we're going to watch things there. I think as you look across our acreage position, if you look in the -- along the Stateline in the Lindsay area. But if you look in the southeast part up Loving County, we have an area down there we generally call it our Haley area, if you will. And we have 6 well pad coming on, as we speak. We'll be able to talk about next quarter that I think it's going to be very strong. That is a great area over the Southeast Loving County. As you think about Southwest Loving County into more the Central Reeves where we have, call it, Central Mentone area. Some of which was the acreage we picked up from Panther. Seen some great returns there in the well results. And so if you think about those 4 areas, Stateline, Stateline Lindsay, Haley and that Central Mentone area are all, I can tell you, just absolute top tier returns and then have -- Clay shed some more light on that in -- we do have an acreage block of about 8,000 or 9,000 acres down into southern, kind of, South Central Reeves that we have a couple of existing wells on. We're excited about drilling the 3 wells down in that area this year with our landings zones, our completion designs and now that we have some facilities in play, we really look towards seeing how those wells turn out. And see how that stacks up with the other core acreage positions we have, so. Clay, you think you need to add anything to that?

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

I think you covered it.

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

Yes. And we've also gotten just -- so we also have Rustler Breaks. If you think about some of recent completions you're seeing in that Rustler Breaks area and also some of the recent completions you're seen between our Northern Stateline block and Rustler Breaks, some really, really strong wells. So we feel great about that acreage well. We're actually testing a 3-well pad, we will 2 XYs and a Third Bone Spring on the same pad. So just a little bit more resource assessment, but I'm personally very excited about seeing what that yields.

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

Very helpful. And historically you guys have hedged aggressively. How should we think about your hedging philosophy given a pretty backward-dated forward market?

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

Well, over the last couple of years, really the last 3 years given just the leverage profile that we had and especially coming out of the Delaware acquisition and the capital program that we had to embark on and really in order to just grow into the leverage that we incurred at the time of the deal, we were aggressively hedging. We had -- obviously, had great margins and great returns coming out of $50 to $55 pricing. So that's why you saw us being aggressive as we were trying to hit that leverage target by the end of '18. As we talked about it earlier, we have really hit that leverage target already. We have a lot more -- all that being said, we have a lot more flexibility in '19 and '20 as to how much we need to hedge. I think you'll still see us be proactive in hedging that PDP stream, being kind of opportunistic as we do so. But I would still say that you're probably going to see us hedging somewhere to -- if I was to use percentages, 25% to 50%, because that kind of equates back to that PDP stream. Above that, as we get closer to '19, as we start thinking about our '19 capital program, you'll start to see us potentially layering in some more hedges at that point.

Operator

And your next question comes from Leo Mariani from National Alliance Securities.

Leo Paul Mariani - *National Alliance Securities, LLC, Research Division - Research Analyst*

Obviously, extremely strong wells here in the Bakken of late. Can you touch a little bit on what the well costs are there? And then how repeatable do you think those are across your broader acreage position? Do you think those are just going to be, kind of, confined to maybe a few areas of position?

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

Leo, this is Clay. We -- I think the bar has continued to be raised throughout the acreage position. Without question, the 2 wells that we talk about, record wells for the Basin, I'd love to tell you that's the remaining balance of what we have in reality. Those are pretty exceptional wells. We do have 3 more pads of wells in the same geography. Like I said, there's going to be as good -- every bit as good as these first 2, but we have every reason to believe that geology should hold up. We're just bringing those wells online later this quarter. The first big pad that will be exciting results to bring in. And then we'll have a subsequence had a couple of pads throughout the year. So the well cost today, real happy with the Williston. One of the reasons we've redirected capital is the inflation remains very much in check. We are about $5.5 million for the wells coming in the trough and I would say today we are running about $6 million for the 2 miles state-of-the-art completions. And so those kind of economics doesn't take a rocket science to figure out that's pretty compelling. So we're happy with the inventory have and we'll keep pushing it. You'll see the third rig kind of stepped-out a little bit and spread out around our acreage position. But we have -- we're seeing a lot of good wells in the area, and we're all excited about what the third rig will bring.

Leo Paul Mariani - *National Alliance Securities, LLC, Research Division - Research Analyst*

All right, that's helpful, for sure. And just in terms of the production cadence here in 2018. Can you maybe talk about a little bit just kind of is the growth more back-half weighted? Is it going to be level-loaded? Just what kind of qualitative look can you put on that?

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

Yes, first couple of weeks of year, boy, it was tough because of the weather. And I can tell you, sitting on this table, I had a lot of people giving me the looks and all right, come on Clay, let's get to it. We've caught up pretty good bit, as I mentioned on the call, we're about 70,000 barrels a day, which is kind of right on track to what we plan on doing. You know the nature of these big pads, especially when you're bringing on 6, 7 well pads, it gets lumpy. Get some weather, those get delayed a couple of weeks and that affects quarterly numbers. I feel pretty good about where you're at for this early in the year. I feel really good about how we're shaping up for the year, kind of, where we're at with our guidance, 75,000 to 80,000 barrels of oil a day averaging for the year. Looks very attainable at this point. So as I mentioned, it's a dogfight every day and there's a lot curve balls coming our way, but I'm real confident in our team's ability to duck and dive and go after the opportunity when it presents.

Operator

And your next question comes from John Nelson of Goldman Sachs.

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

I wanted to follow up first on Neal's earlier question, just about, kind of, the more recent concerns on sand availability within the Basin. Can you just speak conceptually as the situation continues to evolve, if you do run into issues, would the preference be to maybe throttle down the proppant intensity? Or defer completions? Just how you guys are thinking about that challenge if it should show up?

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

Yes, John, so far as I mentioned, we haven't had to delay or alter the completions, which is -- just speaks volumes to the hard work of our team here that's on the phone making those calls happen and just getting the sand to location. Let me just clarify, there is no doubt there's plenty of sand on the planet for all the fracking we're going to be doing. The challenge has been getting that sand to the right location. Trucks, trains, transloads, those are all logistical challenges that ebb and flow and will continue to as we see this -- the whole industry reaching for more sand. The good news is we have more sources coming on. From Wisconsin to West Texas, we have contracts in place, we have mines that are coming on, as we speak, in West Texas now that will alleviate a lot of the truck, excuse me the trains and the transloads. Maybe put a little extra pressure on some of the trains. And so we've anticipate this is best we can. We try and stay ahead. I can tell you that the relationships we've built over the last couple years have been very, very valuable. We've had other operators calling and sharing resources back and forth. We've had service companies that we work with and some that we don't work also kind of into the mix trying to help each other get to through a bind. Back to your question on how we react in a pinch. I would say if it's a short duration, we're halfway through a job, let's say we have a 6-well pad and we're running short, we wouldn't want to shut that frac down and then hold up the whole pads. And so we -- in that case, we would probably try and alter the completions as early as we could, so you kind of -- you take a little bit off of several wells to make it through. If we saw a situation where, hey, we just don't have sand, we wouldn't start a job knowing that we don't have enough sand to finish the job. That doesn't make a whole lot of sense. So I think we had to just play it real time. I'll just reiterate, so far so good, very fluid, a lot of hard-working people trying to get through this every single day. As I look more tactically at the Williston, I think we feel good about where we're at. In the Permian, I think we feel real good through February. March, we still have some gaps to fill, working on that today. So will continue to put up the good fight. I think by April this whole thing is resolved and we'll have a new challenge facing us, whatever that is.

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

That makes sense. And then just thinking about, kind of, what that EBITDA trajectory could look like for the midstream assets. Can you just help us with what the tariffs are on the WhiteWater and the Oryx systems?

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

Yes, I don't think we can state what the tariff is on WhiteWater at this point.

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

I can tell you, they're in the money.

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

Yes. Definitely in the money. And then the Oryx rate, I don't think we can state that one either. I apologize, John.

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

It's worth a shot.

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

John, here's the deal. I mean, I think we -- again, this is proactive. Getting out in front, making sure that our upstream business has the midstream capability to produce. That's a #1. And then as we started really diving into this, I can tell you a bright midstream marketing team, these guys are really good. They're thinking as business people three steps forward and what they see is, hey, you know what, we've got this amazing asset that all of these pipes want a piece of, we can leverage that into equity ownership. And as you will know, man, some of these equity values are quite outstanding. So we're checking the first box. And then because we're being opportunistic and business minded, we're really creating a lot of value as Rick pointed out in one of his earlier slides.

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

Very, very much agree. I guess, kind of, toggle to another question then. Before -- Wall Street has a tendency to get ahead of itself with spreadsheet math, and so I guess I'm just thinking with most of your Stateline -- most of your activity focused at Stateline, is there any meaningful amount of, kind of, downtime for offset completions that we should, kind of, be aware of that might be focused in a single quarter as you go through the course of 2018? Just back to that thinking of about the general shape of the curve for the year.

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

Yes, every day. We have well shut in for offset production, either our own production or maybe offset operators' production. We try and bake all of that into our forecast. We try and get those facts well online as quick as we possibly can. But it's all contemplated as best we can kind of go into our number, so that's all included.

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

But it seems to me to, John -- to answer your question, really ties to what Leo was asking a while ago as far as the production cadence and the profile. I don't know that we're going to have a real large number of 6- and 8-well type pads that could be problematic from a quarter performance. I think we'll see relatively smooth production cadence as we go through 2018. That's the goal.

Operator

And your next question comes from Derrick Whitfield of Stifel.

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

So for Rick or Clay, you guys have clearly been one of the better companies for execution in the Permian. More broadly than the previous sand-related questions, when you take a step back and about with ramp and industry activity across the Permian, what gives you the greatest level of concern as it relates to your operations?

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

Yes, it all boils down to people. We talk internally about the quality of our people and our -- everything from supply chain, making the right decisions to the quality of our engineers and geologists planning the wells, but also think about the people associated with our service companies and the companies we partner with. Interestingly, as we start looking -- historically, when you're engaging with a service company, you'll ask about their current manpower, their equipment, their safety records, some of the obvious capability questions. Now the conversation is much more turned to, okay, I understand where you're at today, but talk to me about your next 12 months of plan. And if you see a big ramp in their activity, how are you actually going to do that? Talk to me about equipment, talk to me about sourcing your people. And are you just going to rob my existing frac fleet to source your additional frac fleet you're adding. That came to burn us a little bit in third quarter of last year and so that's something we're hyperaware of and I think we're really very -- we're excited about the alignment that we have in '18 to mitigate some of those kind of concerns. Now it's still a fight. Everybody's -- as you well know, the Delaware Basin and the Midland Basins are 2 of the hottest basins in the world. And with that comes scarcity of people and equipment, and so we had to make sure that we are doing our very best to recruit, retain, engage our employees, make sure that our service companies are doing the same. We can work that together, but I would put people first. A distant second to that is all the other tangible things, things like sand and water and disposal and even the midstream stuff that we've talked about over the last year so much, it all boils down to getting the right people and the right partners and giving them the information so they can stay out ahead of our development plans. And as I mentioned in my prepared remarks, in -- our Howard JV has turned out to be a great partnership, really excited about the infrastructure that's in place. And that's allowing us to feel a lot more confident about our ability to get our commodities processed and sold.

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

That's certainly a very thoughtful response. Switching gears over to the Delaware and the asset itself. In the past, you've talked about a ratio of 1 7, call it, 1 8 to 2 for XO wells, the well performance you outlined on Page 5 and 6 would seem to suggest better. It is that a fair assessment?

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

Yes, I would agree. Some of that I'll caution you on is how aggressively flow the wells back. So that's something you have to be thoughtful about. It's hard to judge in 90 days or even 120 days, but you're right. As I -- the frame of reference you guys heard me quote before is kind of a 1.7 or 1.8 ratio on EUR, and that's kind of doubling your lateral length and a cost of a 1.35 to 1.4, again, doubling your lateral length. One other thing I think is important, typically, we see maybe about a 1.5 to 1 on IPs. That is -- what happens typically on these longer laterals is as you draw that well down, you get more contribution longer out into the lateral and you end up with a flatter decline that generates that 1.8 EUR benefit. These wells coming in really strong. We've been thoughtful about facility design, flow back, making sure we had the capabilities to really let these wells come back. We think that's beneficial not just from a flashy IP standpoint but really to unload the laterals and give these wells a better EUR capabilities and also -- ultimately creating more value.

Operator

And your next question comes from Jeffrey Campbell from Tuohy Brothers.

Jeffrey Leon Campbell - *Tuohy Brothers Investment Research, Inc. - Senior Analyst of Exploration and Production, and Oil Services*

You've shown some very strong Wolfcamp A and Wolfcamp XY results over the past year. What's the next interval in the Delaware Basin that you hope is going to become core as you continue to do appraisal work over '18 and '19?

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

So Rick tipped the hat a little bit on the Third Bone Springs well that we have.

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

I apologize for that.

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

That was the great surprise coming up. Now there's -- I talk about -- and Jeff, this XY is kind of a secondary target, man, I'll tell you, the wells that we have, kind of, in Central Reeves, we're drilling some D wells, they're phenomenal, up to the north, the XY wells and the Third Bone Springs, right in middle of Stateline, we have some Third Bone Spring wells that look really, really strong. Don't forget the D wells, they're gassier wells, but these wells are -- they'll make 700, 800, 900 barrels of oil a day on top of the tremendous amount of gas. Those economics work. I mean, that really looks good. So we talk about Permian math and how many laterals we'll drill. Guys, I believe it. I mean, it's just -- it is some really, really good stuff and the big challenge for our team right now is the challenge of how to figure out which one's first and how do you ultimately develop. So the approach we're taking is this upper, lower, Wolfcamp A and XY we see is kind of one overall flow package and that's why we're really attacking that more in one fell swoop. The Third Bone, Second Bone, we see those as separate round up with multiple targets in the Third Bone. As we go deeper, some of those zones will probably communicate a little bit more well-to-well and zone-to-zone, and so we'll put those together in packages. I mentioned in the Central Reeves, we're doing some Wolfcamp A and Wolfcamp B. That landing zone in B, a little higher in section. We think it has some interaction with the A, so we're going to try and connect those up and develop that. So being very thoughtful about the development cube, but there's lots of great targets out there. We've got a lot run room ahead of us.

Jeffrey Leon Campbell - *Tuohy Brothers Investment Research, Inc. - Senior Analyst of Exploration and Production, and Oil Services*

That's very useful color. I appreciate that. For my follow-up, returning to the acreage potential position appraisal question earlier, do you see a pathway to development in either Eddy or Culberson through your 2020 long-term view? And if so, will either one of them require the kind of midstream development or investment that you're -- that's similar to what you're doing with Howard and Stateline now?

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

Well, I think with Eddy, we've talked about the Rustler Breaks area and I think that you'll see some activity there. As far as Culberson, what we have there is basically a 1-well commitment in 2018. Now along with that 1-well commitment is an option to defer that into 2019 for pretty modest payment to the royalty owner. So don't expect quite a much activity out in Culberson County. And as far as midstream infrastructure build-out, that's something I think that's a little longer term, but I look at that as having some upside for us that will take place and we've got some options of what we can do there.

Operator

Your next question comes from Matt Portillo from TPH.

Matthew Portillo - *Tudor, Pickering, Holt & Co. Securities, Inc., Research Division - MD of Exploration and Production Research*

This is a likely question for Clay. Just curious if you could update us on your current thoughts about completion optimization in the Delaware Basin and specifically around the potential to continue to tighten your cluster spacing? And then additionally, any color or thoughts around moving to the finer mesh sand as you start to develop the asset?

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

Yes, Matt, we continue to evolve. We're long past stage 3 or level 3 or whatever others have called it along. We have -- it's just kind of continual evolution. I think you're hitting on the right things. The tighter cluster spacing, we've tried several different diverters. We've increased sand, we've reduced sand, increased water, reduced water. I think all of those things are active and in play, continue to work towards what we think is the right solution. And as we start to approach it, then oil price moves and you know what? I think that needs to change the equation. One thing to talk about in the current environment, the trend is to more finer grain sands. We're already at 40 70 combined with 100 mesh. We're moving towards more 100 mesh. But it's pretty dynamic and I would say at this point availability also plays into that consideration. And so we have great success with 40 70, great success with 100 mesh. That percentage from one to the other continues to vary. As we've talked about before, in most of our Wolfcamp A, XY, Third Bone Spring, all of those completions, we can use any of the sand sources and they're very effective for those development. As we move into Wolfcamp D, that will probably take a little bit of the stronger sand, but it'll be a nice balance bringing that in from some the Wisconsin mines when we need to do that.

Operator

And our final question comes from Gail Nicholson of KLR Group.

Gail Amanda Nicholson Dodds - *KLR Group Holdings, LLC, Research Division - MD*

Just a question on cryo with that coming on midyear, how does that change your NGL extraction?

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

It'll actually improve the net backs that we get. And I think it'll also significantly improve the run times. Right now we have a great rate with the processor, but we're kind of the last guys in, and so we continue to have disruptions on our gas as we flow it west to the plant. Once we own and operate the plant, I think our ability for consistency and that overall yield will be much better.

Operator

I would now like to turn the floor over to the Rick Muncrief, Chairman and CEO.

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

We really appreciate your time today and your interest -- continued interest in WPX. We are really pleased with the year that we've just completed. We're equally pleased with the start of this year. We're very confident we're going to have a great year in 2018. Shareholders will definitely benefit. And it's time for us to get back to work. Have a nice day.

Operator

And this concludes today's conference call. You may now disconnect.
