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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the First Quarter 2018 WPX Energy Earnings Conference Call. (Operator Instructions)

As a reminder, this call is being recorded.

I would now like to introduce your host for today's conference, Mr. David Sullivan, Director of Investor Relations. Please go ahead, sir.

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

Thank you, good morning, everybody. Welcome to the WPX Energy First Quarter 2018 Call. We appreciate your interest in WPX Energy.

Rick Muncrief, our Chairman and CEO; and 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 -- 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 statement and disclaimer of 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. - CEO & Chairman of the Board*

Thank you, David, and good morning to everyone who's listening to our webcast. As always, we're grateful for your time, your thoughtful analysis of our company and your interest in our future. Now with the recent close of our remaining San Juan Basin assets, we're more focused than ever before. And I'll be right to the point and very candid. I'm more energized about WPX than I've ever been before. The proactive approach we've always taken in reshaping our company, and putting critical assets and systems in place to support our disciplined growth, is clearly paying off.

As I recently said in my annual letter to shareholders, I'm confident WPX will emerge as one of the winners in the Delaware and Williston Basins. And that's no small task, as everyone knows the Delaware is the most exciting area in the world for resource development. With this excitement comes high-activity levels and the corresponding competition for services, equipment, infrastructure and takeaway capacity. We're certainly not immune to the challenges, but thus far, we've been able to remain a step or two ahead of our competition. And we intend to keep it that way while remaining focused on continuous improvement.

One of the things that has separated our strategy from our peers is our emphasis on Midstream infrastructure and marketing. This is a vantage point that comes from our management team's experience that we've gained over the last 20 to 30 years. Our ability to move our product from the wellhead into favorable pricing environments will continue to distinguish us in the days ahead. Our deep, capable and creative marketing experience is clearly a competitive advantage that benefits our shareholders. Now let's turn to Page 2.

At WPX, our outlook is clear and quite compelling. We produce energy in the top 2 oil basins in North America. I'm very pleased to say that our company is producing some of the very best results in each of these areas. Then, you couple that activity with our Permian Midstream portfolio that's designed to provide flow assurance for our oil and gas volumes. It's obviously hard to make much money through products that are stranded at the wellhead, and we have a very capable and dedicated team here working diligently to ensure that, that doesn't happen.

Our Midstream portfolio includes physical assets that we own outright, other assets that we jointly own with a partner and equity positions in third-party projects that we secured by well-timed investments and by leveraging our physical volumes. All of these components have significant and material value. You'll hear more about this a little later from Clay.

This, in a nutshell, is the WPX we've created over the past 4 years. In that time frame, we've increased our total enterprise value by some 50% from $6 billion to $9 billion. I'm equally excited about our rapid growth in cash flows, our ample liquidity and our strong balance sheet. We have the team, resources and capabilities to keep on delivering and accomplishing our plan with our existing asset base. And I'll tell you, we're certainly not content or complacent with what we've accomplished. The very best companies are always evolving, advancing and looking at new ways to innovate, improve margins and take advantage of technology that quite simply makes you stronger, more efficient and more nimble, and that's exactly what's happening here. Now let's turn to Page 3.

Our people at WPX really have a lot to be proud of. We think ahead. We work hard. We respond to challenges. And we get things done. The market is starting to recognize what we have and the optionality we're going to have for creating additional shareholder value. Now while our first quarter oil volumes were somewhat less than we expected, it quite simply came down to one single reason, severe winter weather in the Williston Basin that delayed the start-up of a very large 7-well pad.

Now for context, I have personally lived and worked through several winters up north earlier in my career. There are many difficult days. The relentless nature of it sometimes will test your mettle. But eventually, the sun comes out again, the snow, the cold and the mud are gone, you work hard and you rally back. That's where we stand today, and I applaud our team for their courage and endurance the past few months.

Now that winter is behind us, the thing to pay very close attention to is our guide for the second quarter. We're projecting an increase of over 10,000 barrels a day or 16% growth versus the first quarter, which essentially, replaces all of the Gallup production that we recently sold, and we're doing that in just one quarter, that's quite exciting. As you know, we took those proceeds and paid down 20% of our long-term debt just like we said we would do. Now our next material debt maturity doesn't occur until 2022. Now I hope we don't -- we don't make this sound like it's easy, because it's not. We experience curve balls just like any other business or industry. But at WPX, we're determined to deliver, make good on our word and to win.

Now let's turn to Page 4., and I will turn it over to Clay Gaspar to give you an operational update. Thank you.

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

Thanks, Rick, and good morning, everyone. In the first quarter, we made several important strides towards our value-driven growth objectives. We continue to make great progress in blocking up our land position for long-lateral development; we set new oil production records via high-return wells; and finally, we continue to set the bar for the industry, staying ahead of the upcoming takeaway challenges in the Permian Basin. We also faced a few challenges. The largest challenge was fighting North Dakota weather in February and March, while bringing on the largest pad in our company's history. These challenges delayed the full rate of the 7-well Arikara pad by about 50 days. This impacted first quarter oil production by approximately, 3,500 barrels per day. The great news is that the wells are now online and performing exceptionally well, just as we expected they would.

We also fought through a very tight sand market and still have not had to the delay of a frac because of sand disruption. I credit our supply chain team and the operations organization working together to manage this tight period. As more local Permian sand comes online, this pressure will be further alleviated.

There's no question that the Delaware is the epicenter of the world's resource play activity. The good news is that our acreage position continues to prove to be right in the sweet spot, and we continue to effectively navigate the high level of activity in the basin. As evidence of that, this quarter, we put 25 wells on first sales. This is a record number of Delaware first sales for us in a quarter. With the Williston now hitting on all cylinders and the Delaware continuing to plow ahead on its amazing growth path, the second quarter oil production is expected to be 75,000 to 77,000 barrels a day and will mark a 10,000 barrel a day increase over the first quarter. And in just one quarter, will essentially replace the oil production from the San Juan asset that we sold for $700 million.

Now let's turn to Slide 5, and we'll talk about our crude takeaway strategy. With the recent widening of the Midland crude basis, investors are starting to focus on how exposure to Midland prices will impact company profitability and which companies are most exposed. We welcome this added interest from the investors. We've been dialed into our midstream-value opportunities since we acquired RKI in 2015. After we invested the first year to really dive in and study the geology and well results, we began to wrap our heads around how big the Delaware was going to become and how important our takeaway strategy would be. In fact, when challenged on my biggest concerns about our development in early 2016, my standard response was then and still is today, first, of course, commodity price; second, service cost and availability; and finally, midstream takeaway.

In the fall of 2016, we began working our Midstream options, and in 2017, we signed most of our agreements, putting us well ahead of the market. You may remember a year ago on this call, we tipped our hand showing a quick summary of the deals that we are working in regards to oil, gas and NGL takeaway. Now that the market is starting to really tighten, our position continues to provide us the confidence that our flow assurance and price assurance are intact as we convert this incredible well inventory to incredible value.

As we've discussed in the past, we will move a significant portion of our barrels to Midland on the Oryx II line as it goes into service over the coming months. As a reminder, we will own 25% of the Oryx II system once we exercise our option this summer. In addition to Oryx, we have multiple connections off of our oil-gathering system to the Plains, Rangeland and Energy Transfer systems and currently have firm sales under each system. Once the barrels get to Midland, essentially, 1 of 2 things happens. We sell the barrels in the basin to refiners at a price that is hedged at less than $1 behind WTI. For the rest of the barrels, we have firm transport and firm sales commitments on BridgeTex, Cactus and Basin pipelines to move the barrels to Houston, Corpus Christi and to Cushing. Getting our barrels to Cushing gets us out of the Midland congestion and out of the price penalty box. Getting our barrels to Houston and Corpus will actually yield a net price premium to WTI tieing much of our sales to Brent and Gulf Coast prices.

So when you layer in our firm transport and firm sales with our basis hedge position, WPX has very little exposure to the Midland basis. I think it's important to remind everyone that these agreements were not thrown together in the last few weeks or months, but have been thoughtfully worked and negotiated over the last 2 years. This forward-thinking not only provides flow assurance, but the contracted rates have proven to be market-leading and will protect our very strong well returns. Now let's turn to Slide 6, and I'll discuss our natural gas strategy.

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On the natural gas side, WPX has been very proactive when it comes to mitigating the end basin, physical takeaway and pricing risk. Since the RKI acquisition, we recognized these risks and that led us to make decisions related to gas takeaway and basis hedging as early as 2016. Today, we stand with essentially no Waha basis exposure for the balance of '18 and 2019.

On the matter of gas takeaway, we secured a firm transport deal with Atmos, allowing us to move 200,000 MMBtu per day from Waha to the Houston ship channel. We actually agreed to this deal with Atmos prior to consummating the WhiteWater deal, indicating our sense of urgency around securing capacity out of Waha. Speaking of WhiteWater, we have a great relationship with the WhiteWater Midstream team. Our agreement with them includes a 20% equity stake and allows volumes to ramp up to 500,000 MMBtu per day, moving gas from Stateline area to Waha. We use the same analysis and forward thinking in our gas deals as we did with our oil strategy. The transport agreements in Waha basis hedges were negotiated in '16 and signed in '17, that timing has allowed us to be well ahead of the market pressures that others are experiencing today. Let's turn to Slide 7, and I'll discuss some of the Delaware activities in the first quarter.

We've had a very active quarter in the Delaware. We added our sixth and seventh rigs to the basin and continue to upgrade our fleet. Also, we added our third full-time frac crew, allowing us draw down our DUC inventory. During the quarter, this allowed us to put on 25 wells for sales. We've seen impressive oil growth in the Delaware of 150% since first quarter of '17. Our 6-well, 2-mile Quinn Pad came on during the quarter. This pad's 24-Hr IP was 2,400 barrels of BOE per day per well, and the pad has cumulative oil production of 357,000 barrels of oil in the first 50 days. Due to water-disposal-capacity limits, these wells were already restricted a little more than I would have preferred. The flow back team held back 5 of the wells a little extra and allowed the 5H to flow a bit more aggressively to better understand the cost benefit of even more aggressive flowbacks.

The 5H well had a 30-day IP of nearly 3,300 BOE per day with 71% oil. This speaks to the quality and the potential of these long-lateral wells which is very impressive. I mentioned earlier the great progress we've made on our land coring up strategy. These deals often take months, if not years, to finally get across the finish line. I'm happy to report, for the balance of the year, we will be drilling and completing almost all long laterals. Sand supply is one of the things that continues to distinguish E&P operator performance. In the first quarter, our sand storage transload facility was put into service.

These silos can hold 36 million pounds of sand, and importantly, take unit train offloads. This is roughly enough sand to complete 2 1.5-mile laterals. We also have 12 portable sand silos that move around the field and follow the frac fleets, with a total capacity of 5 million pounds. This gives us over 40 million pounds of sand capacity to stage ahead of our contracted frac fleets. With the challenges of road traffic, scarcity of trucks, this has been a critical piece of our sand-supply strategy.

Another area of logistics focus is water infrastructure. We continue to build out our supply, gathering, recycling and disposal of water systems in the Stateline area with an increased focus on water recycling. We've been testing various amounts of recycled water used in many frac jobs and also various recycling processes. Our results give us strong confidence in our ability to reuse a significant amount of our produced water in our frac jobs. In time, this will help us lower our LOE with less disposal and lower our well costs with cheaper water supply. By year-end 2018, we expect over 50% of our water for the Stateline area to be -- our frac water to be used using recycled-produced water. Let's turn to Slide 8, and we'll look at our activities in the Williston.

The well results for the Williston continues to be nothing short of amazing. The industry record Williston wells that I discussed in the previous call continue to perform. In the first 180 days, these 2 wells, the Mandan North and Hidatsa North, have cum production of over 685,000 barrels of equivalent, 81% oil. I'll save you the math, this breaks down to over 1,500 barrels of oil per day for half a year per well. The 7-well record pad was delayed, as I mentioned earlier, but did come on, on a rate-restricted basis in late March. The pad has cum production of 345,000 barrels of oil equivalent for the first 30 days, with 81% oil. Because of limited trucking during the winter breakup season, these wells will likely produce even more in the second 30 days than they did in the first 30 days. As you can see from the completion time line on the slide, we recently completed 4 additional wells on the Mandan North pad. The Mandan 13-24HA had a 24-hour IP of 4,200 barrels of oil per day. I didn't say BOE, that's oil. I'm usually never too excited about an IP, but, dang, this is great stuff, I have to say. In mid-August, we'll have the 7-well Hidatsa North schedule to come on, and then soon after that, we'll have the Raptor pad as well. Hang on, these are going to be very impressive.

With that, I'll turn it over to Kevin for the financial update. Kev?

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

Thank you, Clay. It's always great to hear about our impressive results at the wellhead. It's also great to see how we are adding value downstream through our midstream and marketing expertise. On my side of the house, our financial transformation is in full stride. It's real and it's gaining some nice momentum. I'm happy to report increased margins -- on increased margins, lower debt, higher credit capacity, strong cash flows and EBITDAx that's more than double what we saw a year ago. These metrics demonstrate WPX's ability to create shareholder value with our asset base.

In addition, these assets will provide us the framework for creating years of future shareholder value. All the while, we're staying right on track with the targets in our disciplined multiyear plan fueled by our excellent results in the field and our continued execution on the transaction front, most recently with the closing of our San Juan Gallup sale.

Now let's turn to Slide 10 and review our first quarter results. And also just as a reminder, these numbers exclude the results of our San Juan Basin, given that such results have been reclassified into discontinued operations. For the quarter at 65,800 barrels, our oil production is 69% higher than for the same period of 2017, the increase, as Clay mentioned, in our Delaware production drove the improvement. Also, our Delaware team, as Clay indicated -- our Delaware team executed well in managing the activity and growth the basin is experiencing. This growth in the Delaware also represents an 8% increase when compared to the fourth quarter of 2017.

For the first quarter, we are reporting an adjusted EBITDAX of $200 million, which is $115 million higher than the first quarter of prior year. That's pretty amazing when you consider that we were pretty close to being fully hedged on oil production in the low-50s for the quarter. We have indicated many times in the past that our asset base generates great returns even at $50 crude. This quarter's results are an indication of that fact. As our production grows throughout the year, our hedge percentage comes down, thus allowing us to capture more barrels at spot prices. Again, I will emphasize the transformation of our portfolio and how we are continuing to see improving results from a margin per unit perspective as they manifest themselves throughout the financials. For the quarter, our LOE, G&A and interest expense per equivalent barrel have also seen decreases when compared to the first quarter of 2017. Our margin improvement on higher production is driving our financial storyline.

For the quarter, we are reporting an adjusted net loss of $22 million versus a net loss of $56 million in 2017. The improvement was driven by the same factors impacting adjusted EBITDAX. However, our DD&A was $48 million higher than last year. Despite that absolute increase, our DD&A rate improved by over $3 per barrel. As we continue to drill better wells at better costs, this rate continues to improve.

I've said it on previous earnings calls, but these types of results are often subtle in the financial performance. But as we get more swings at the plate, our batting average continues to improve. Our capital expenditures incurred for the first quarter totaled $349 million. Of this amount, $26 million relates to capital that was incurred on behalf of the purchaser of the San Juan Gallup assets. These costs were reimbursed to us through adjustments in the purchase price upon closing of the deal. Nevertheless, they are required to be reported as capital expenditures in our financial statements.

Our capital spend from continuing operations is in line with our 2018 capital guidance. Drilling and completion expenditures, excluding San Juan Gallup, were $288 million for the quarter and included the completion of higher-level of DUCS than a normal quarterly run rate. During the quarter, we also incurred $13 million in Midstream-related development and another $5 million in land.

Turning to Slide 11. The highlight of this slide is that after our debt tender, where we used the San Juan Gallup proceeds, we now have no material debt maturity until 2022. Not only do we not have any debt due until then, our absolute debt has decreased by $0.5 billion. We accelerated our deleveraging plans, and as Clay indicated earlier, we will be effectively replacing the San Juan oil production as we project in the second quarter. At this point, given the quality of our assets we have in the portfolio, our absolute debt levels are in great shape, especially given the size of the company that we are and will continue to grow into by the end of 2018.

In addition, in April, we successfully amended and extended our revolving credit facility, which now expires in 2023. The borrowing base on the facility increased to $1.8 billion with commitments of $1.5 billion. Not only is our liquidity in amazing shape, but our leverage continues to decrease, thus further solidifying our overall balance sheet strength.

Turning to Slide 12 now. Over the last couple of quarters, I've been able to show that our unhedged margins were growing at an outstanding pace, that story continues. However, this depiction of that growth also shows our willingness to rationalize our portfolio with the San Juan sale and the further improvement of our margins per BOE. The green bar effectively shows our continued growth in margins, however, the difference between the gray and the green bars shows our focus on improving margins through portfolio rationalization. The San Juan assets are great assets. However, the redeployment of capital from San Juan to the Delaware and Williston Basins was a decision that was not strictly based on our ability to accelerate deleveraging, but was also based on the discipline we have shown in allocating capital to the best-returning projects we have in the company.

We are committed to increasing our full cycle returns of capital and adding shareholder value through our capital-allocation decisions. From this slide, you can also see that underlying these improving margins has been a well-documented strategy of increasing our overall oil composition. By divesting of our San Juan assets, our overall liquids percentage grew from 64% to 77% in '17 -- or in, yes, in 2017. Further, that percentage is closer to 79% for the first quarter of 2018. Like many of you, I like to manage my facts. Well, the last 3 quarters of our financial results have demonstrated that the portfolio transformation is paying dividends. The WPX team is focused on generating returns that will ultimately lead to increased optionality on how we return value to our shareholders.

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

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

Thank you, Kevin. Well, as you've heard this morning, I believe that we're uniquely positioned in our entire peer group. We're able to demonstrate very clear strength in every area of the company where it's possible to create shareholder value. We've lowered our debt, as you've heard from Kevin, and then transferred that value to our equity holders. I think our strategy is clear, straightforward and easy to understand. On top of that, we have decades of drilling in our portfolio in the 2 very best oil basins. Finally, we have new ways to create value beyond the drill bit. All of this is even more compelling against the backdrop of our healthy worldwide economy, rising oil prices and continued growth in global demand for light sweet oil.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Brad Heffern of RBC Capital Markets.

Bradley Barrett Heffern - *RBC Capital Markets, LLC, Research Division - Associate*

This quarter you guys had some wells in the Delaware that were sort of away from the bread and butter, A and X/Y wells, I think a B, a D and a Bone Spring, any comments on those? Anything interesting from those results?

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

Yes, we continue to, as we've said before, we're going to focus on the: A, upper and lower, and the X/Y is really our core for 2018, but we also want to kind of continue to peck around and understand the uphole and downhole potential. I think the B results were still a little early. We only have a few of those wells. But I would say, in certain areas of our play, they will compete every day with the Wolfcamp A, and so we're excited about that, especially as you see kind of more of the southeast acreage, that's we call the 7 Lakes -- or excuse me, the Sand Lakes area, which is kind of Central Reeves County, that looks really good on the B. In the Stateline area, the Wolf -- or excuse me, the Bone Springs, second and third both look very, very promising. We continue to drill some of those, we got some 2-mile laterals coming on. I think those can very likely compete with the A. The A is still the gold standard. We need to understand the upside potential of these other zones so that we can feather them in and hopefully accelerate those, we're currently on the drill schedule for 22 and 23, bring those up forward to maybe even compete for 19 and 20, and so, yes, pretty exciting. The last one you mentioned is Wolfcamp, we know it's a little bit more on the gas side, the latest well is about 30% oil cut, which is encouraging. But in today's commodity price, just still doesn't grab the dollars like the Wolfcamp A would when you see the strong oil price we're seeing today.

Bradley Barrett Heffern - *RBC Capital Markets, LLC, Research Division - Associate*

Okay. Appreciate that. And then switching to the Bakken, obviously, these North Sunday Island wells have just been off the charts. I'm curious how you guys think about the inventory once those locations are exhausted? Is the rest of what you guys have in the Bakken sort of on that 1,000 MBOE-type curve? Or are the North Sunday wells sort of pulling that up and the locations after that going to be lower?

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

Yes, that's a good question. Certainly, I will echo your comments on North Sunday Island. These are 23 wells that are just going to be off the charts good. But as you recall -- back, say a year ago, we're drilling the Mandans and the Emma Owners some of these wells that were still North of the 1 million barrel curve. So looking forward, I would guess, we'll have some -- a little above the 1 million curve, some of below the 1 million curve, I think we're pretty thoughtful about putting that curve out there. I think if you model that, you should be in reasonable shape going forward.

Operator

Our next question is from Neal Dingmann of SunTrust.

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

Clay, just to sort of follow on that last question. In the Bakken, we're seeing some wells with IP rates that we just have not seen for, I don't know, even ever. Could you talk about your thoughts on choke management? And just sort of frac and proppant load, I mean, have sort of some of these IPs and some of these things change your mindset? I know you guys were a little -- you just feel a little more conservative on the choke management, just wondering based on some of the peer results you're seeing, has anything changed that, that line of thinking?

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

Yes, Neal. I would say, this is not just a choke management delta. When you bring on these kinds of wells, first of all, you're -- we found some spots, we still have some of the best geology to develop. You can't do anything about bad rock. This happens to be some of the best rock in the country. It had some complex land issues that we had to work through, and that's the only reason this wasn't developed years ago. as we've gotten past those land deals, that freed us up. Again, we knew it's going to be exceptionally good rock. You compound that with kind of best of completion technologies today, and then we're putting a lot bigger equipment so that we have the capabilities to open those chokes and manage that. I think it's a combination of several of those things. End of the day, it's not just bigger IPs. You see the 30s and 60s, we just quoted some 180s. The EURs for these wells are just substantially better than we've ever seen. So really excited about the go forward. And I'm excited about all those 4, 5 things that I listed after the geology because the 1A quality rock that's just outside, not quite as good as what we're seeing here. I think it will significantly benefit from the same methodologies we're using. So pretty bullish on the Williston and where we're headed.

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

And then, Clay, I know you've added that, that rig in the Bakken. What's your thought based on, again, let's assume for a minute that the spreads, the Midland sand, you guys are covered obviously very well for what you have now in the Midland, but let's assume some of the spreads at least stay there well into a bit in the '19. What's your thought when you think of expansion when you and Rick sort of sit down, is the thought those maybe continue to expand Williston a bit more or get on thinking if you add that, would it be a fourth rig in the Williston or an eighth rig in the Delaware, I'm wondering how you think about it now given the diffs that are going on between the 2 plays?

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

Yes, Neal, it's a great point because there's the diffs and then there's also the percent oil. We're 81% oil on these wells and so a $10 move, up or down, significantly more impacts the Williston. The good news is we finally get to the other side of the oil moves, and we're seeing some things move up. That significantly benefits Williston Basin. So I'm really happy to have the 3 rigs there at the pace at which we're drilling, I would say, we're good for now in the Williston. The -- next, as we mentioned last time we talked about adding, I think, when we sold San Juan, wherever the capital goes, the first $100 million would go to Williston rig program there, and then we would probably feather in the next following several rigs to Permian. I think there is so much opportunity, as I talked about, the other zones that we're landing in, the Stateline now being so mature from a land perspective. These 2-mile laterals are game changers. We've purposely held back a little bit to make sure that we didn't paint ourselves into a corner, drill a bunch of 1-mile laterals and then get the deals done and then kind of have to fill in one mile around that. Our land team has done a good job and now we're ready to go forward and really hit these wells pretty hard. So excited about adding more rigs to Permian when the opportunity comes.

Operator

Our next question is from Asit Sen of Bank of America Merrill Lynch.

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

Rick, your 2018 guidance is based on a $45 to $60 oil. Balance sheet is in a lot better shape, oil price a lot higher. Could you talk about how you're thinking about optionality? And I just wanted to get your updated thoughts. And on those lines, historically, your hedge ratio has been high given the recent commodity price action and improved balance sheet, how are you thinking about hedging strategy?

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

Yes, I'm going to -- I'll weigh in on that, and probably let Kevin maybe share his thoughts. But if you look at our hedge position, we are very, very well hedged in the $52, $53 range for the balance of 2018. So I don't think our strategy is going to change that much here near term in 2018. To the extent, we outperformed, stack a little cash. I think what we would do is probably just hang on to that a little bit. I think we have the flexibility now because if you think about what we should be, with exit volumes based on the guidance that we've given, we're going to be entering 2019 with a lot of momentum and a lot of, I think, very attractive operational results. And so from a hedging perspective, we're about a third hedged or so for '19. I think we will watch it, because we tried to do maybe a little extra work around understanding the world markets and watching where demand is around the world. And right now, I could to tell you, it seems to be quite bullish. I don't think we're going to increase our activity near-term much. And I would just assume, go ahead, and even though our balance sheet is much stronger, I think that we're going to maintain our discipline. And Kevin?

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

Yes, just to remind you, our hedge levels that we historically had have really been driven by the leverage that we had on the balance sheet. The goal that we established for a leverage target by the end of '18. Obviously, with the help that we've seen in commodity prices and the sale of the San Juan Gallup, we've effectively accelerated those deleveraging goals. I think, as Rick mentioned, we've kind of get a little more flexibility, but that's really driven by the strength of our balance sheet. Our hedging decision is really struck first and foremost with how looking at hedging the PDP stream for the upcoming year. And then as we get closer into deciding what our capital plan will look like for '19, you might see us start to layer in a little more hedges at that point. But again, we've got more -- because of the strength in the balance sheet that we have now versus what we had 12 months or 18 months or 24 months ago, we don't -- it's another tool that we use to manage basically the cash structure. But we don't have to hedge nearly as much right now so we can -- we've always been really thoughtful about the hedges that we put on and then understanding and really trying to capitalize on events going on in the market. But first and foremost, they are used to really protect the balance sheet and try to hit our leverage targets.

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

Clay, you talked about a tight or tighter sand market, could you update on the well cost in the Delaware, particularly if you can focus on a 1.5-miler, please?

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

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Yes. I'll add a little more on that because I think about 1 miles and 2 miles and, of course, the 1.5 in between factoring in what we have seen from steel. I know that the tariffs are on again, off again, but I could tell you as a consumer of steel, they are in place because that's the effect that we see as a buyer. That's about $150,000 to $200,000 per well. And then what we're seeing in just general services, we've been very proactive on our rig fleet and our frac fleets managing those agreements, such are really big-dollar items. Water, sand, chemical, steel facilities, those are kind of your second other -- second items. The things that are getting that sort of are wirelines and coil tubing that are 10% here, 15% there just that puts a little pressure on our numbers. I would say, today a 1-mile lateral for Wolfcamp A, which is kind of proxy for what we're doing just above and below that horizon. It's about $7 million. As you move up to 2-mile lateral, it's somewhere north of $10 million, probably $10.5 million, and of course, the 7,500 would be between interpolated between the 2.

Operator

Our next question is from Jeffrey Campbell of Tuohy Brothers.

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

Let me ask you first, what are the average lateral lengths in the Bakken currently? And how much is that, just in broad terms, how much is that over the last couple of years? Where are these lengths headed in the next couple of years?

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

Yes, we're right at 10,000 feet. Everything is essentially blocked up 2-mile laterals. It's almost an exception to the rule or a rare exception when we respond we need to drill 1 mile. And we might have 1 or 2 in the calendar, but every now and then also, Rick was just saying, depending upon land situation, we actually reach out and grow to 3-mile laterals at that. I would say comfortably, we're averaged 2-mile laterals and that's been pretty steady for the last few years. Last year, it might have been '16 -- '16 '17, we drilled a total of about 18 3-mile laterals and then a handful of 1-mile laterals. So our average might have been actually a bit higher that year.

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

And, Clay, just wanted to sort of added, the 1 million BOE-type curve that we've been talking about, is that 10,000 foot lateral?

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

Correct.

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

Your highlighted Bakken production had a higher oil cut than historical averages, and we're seeing this from other operators as well. I'm wondering is, is this truly a geological variation? Or is there something about how you're completing your wells that's enhancing the oil cut?

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

If I recall, we had something a little odd with our first quarter Williston gas numbers. Was there a...

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

Yes, yes. I mean, that just -- it really depends on, if we have any adjustments that will impact volumes from a gas or an NGL perspective up in the Williston and that can drive that percentage around. Yes, it's the percentage point.

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

It really is a small amount. What I can tell you is, we've been saying 80% to 85% oil cuts, that's been very steady, it's geologically driven. There's not a whole lot you can do from a stimulation standpoint. You can manage your chokes, you can manage the bubble point, but that's pretty secondary. This is just a really oily basin and obviously, when you're looking at all these IPs, oil cut matters, especially in today's world, especially, in the Williston Basin where gas price is extremely challenging.

Operator

Our next question is from Brian Corales of Johnson Rice.

Brian Michael Corales - *Johnson Rice & Company, L.L.C., Research Division - Analyst*

On the Delaware, now that you're going more in pad development, are you all seeing cost savings with some of the efficiencies there? And is that helping to offset inflation?

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

It is. We have -- we definitely have some efficiencies there as we build scale, we're able to mitigate some cost as well. I think anytime you're stepping out to drill a single well in kind of a stretched-out area of your portfolio, it's a challenge. LOE is going to be high from a water disposal, water supply is going to be exceptionally high. Your rig and everything at one time for one activity, There's just a lot of inefficiencies that kind of work into the system. Contrast that to where we're at today, this year, we're really in development mode, as we're stretching out to more and more 2-mile laterals, multi-well pads, that really helps our efficiencies, and that's how we've been able to keep costs kind of in check. I think the $7 million number that I just quoted for a 1-mile lateral is pretty competitive with where we're at with our peers and pretty pleased with that. The good news is the commodity price and the oil realizations that we're achieving it provides some incredible overall returns. And so we're still full speed ahead and looking to get more efficiencies in time.

Brian Michael Corales - *Johnson Rice & Company, L.L.C., Research Division - Analyst*

All right. And then maybe one for Kevin, I mean, now that you're down to, call it, $2 billion in debt plus or minus, is that the right absolute number where you all feel comfortable? Can you maybe just elaborate, I know you talked maybe stock piling some cash next year if there's free cash flow, but can you maybe talk about your absolute debt levels?

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

Yes, Brian, I think $2 billion is just the right number. When you think about the amount of production that we're going to have online by the end of 2018, and we start looking at what our margins are, and what our interest cost per barrel will be by the end of 2018, that kind of puts us up -- I think, the right level to withstand if we had another big drop in commodity moves, you're not getting eaten up with interest expense, if crude prices/were to drop to $40 a barrel. So we've kind of done some, a lot of analysis, we kind of feel like $2 billion is about the right absolute level given the size of the company.

Brian Michael Corales - *Johnson Rice & Company, L.L.C., Research Division - Analyst*

Okay. And if I can squeeze one more in and maybe for Clay, that Arikara however you say it, if that wasn't constrained, what do you think that would have produced in the first 30 days or the first month?

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

Yes. So let me add a little color to that constraint because I think it -- yes, you guys hear all the time, "ah, that well's constrained, or that well's choked back." This one was kind of unique. We built facilities for some really big wells, and obviously these are big, big wells. During the Williston spring season, when the things are kind of thawing out, you're getting snow one day, it's freezing one day, then it's thawing the next, it can be hugely destructive to the roads in the area. And so the county commissioners can throw what they call on the frost laws. The last couple of years, that's been about a week, depending on the county you're in, and pretty light, just amount of snow you have and how abruptly that kind of winter ends. What we found second half of February throughout March, we're in and out of this frost laws and it -- the first thing that does it restricts the way at which your trucks can carry materials, namely, oil. So we had a certain amount of oil that we had on pipe, the increment above that we're going to truck. But when the trucks can only carry 40% to 50% of capacity, essentially it need more than double the number of trucks. And to tell you, that's just not very practical, so that was the real restriction for us in addition to some timing that was really around the weather itself. These wells, I think we had the newest well that I quoted to you over 4,000 barrels a day, that one was a little bit -- again, we're trying to free up one well, flow it back the way we want, knowing that you can't flow every well, it can't build these facilities to flow out these big 7-well pads, water, gas, oil at peak rate. So I would say it's probably not 4,000 barrel a day plus If you had unlimited facilities, we certainly can push these well beyond 5, but there's a point of diminishing returns on the economics where you're trying to get to an IP versus really overall well value. And you heard in my opening remarks, we are a value-driven growth company, and that's where really where we want to focus.

Operator

Our next question is from Biju Perincheril with Susquehanna.

Biju Z. Perincheril - *Susquehanna Financial Group, LLLP, Research Division - Analyst*

Clay, my question was you all have done a very good job to mature in the Stateline area into a full-field development. And can you talk a little bit more about your acreage block now in Eddy County and if there's still an opportunity to block up more of that acreage? And also, where are you in terms of vertical delineation of that area?

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

So that's the area we refer to as Rustler Breaks, following our Matador buddies kind of naming convention, and really, I mean it's great rock. It's good stuff, we -- you can make money in developing those wells every single day. The approach that we have taken is to preserve the leasehold, block up, do some of the trades, continue some of the maturing of the land situation, but end of the day, when we look at the tight investment dollars, Kevin doesn't give me all the money I want. So when I look at the allocation of those precious resource dollars, Stateline wins out and then the areas that Reeves County stuff we call Sand Lakes near the river tracks over there. So we've drilled a few wells, we'll continue to drill a few wells, it's mostly X/Y. There's some deep potential, there's a Second Bone Spring up there. We're looking -- and right across the fence there's guys drilling some really good wells. We stay exceptionally current on the industry activity. We participate in some of those through some non-operated interest, but I would just say that falls a little bit further down the list of our priorities for the current capacity -- capital capacity that we have. As we add rigs, as Neal asked about earlier, that could be one of the areas that would benefit from it, along with Stateline and the others.

Biju Z. Perincheril - *Susquehanna Financial Group, LLLP, Research Division - Analyst*

Okay. Then in Reeves County, at about the time of the Panther acquisition you talked about opportunity to block up some of that acreage to be able to drill longer laterals. Is that mostly done at this point? or is that still a work in progress?

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

Yes. So the Sand Lakes area, which is kind of a checkerboard we acquired from Panther, that we were hopeful. We've got some consistent partners that have the opposite checkerboard. Those partners are not-- don't seem very interested in doing the trade. So we're moving forward, that area actually competes with 1-mile laterals with some of the rest of the stuff in our portfolio. So it's close enough, where you can still build oil, water and gas infrastructure, we will be able to develop these, that would be developed on 1-mile pads, but it's really hot area and it's competing for capital today.

Operator

Our next question is from Michael Glick of JPMorgan.

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

I know your position well in the infrastructure and marketing side with mid Cush at $12, just kind of curious as to what you're seeing on the ground right now in terms of tightness in the oil side? And then on the gas side, could you give us your thoughts on how the takeaway situation plays out in terms of tightness kind of later this year and then in 2019? And whether you expect a flaring or shut-ins for the industry?

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

Yes. So compounded question, I'll try and hit both. But let me know if I miss something along on the way. I reiterate my comments. I mean, I think the industry was a little bit dismissive of how tight things were going to get and how quick. To be honest, this is a little ahead of schedule from we thought. We talked a lot internally about, "hey, let's get prepared for end of '18 because the storm is coming. "Storm arrived a little bit early, and I think people are really waking up to the fact. You mentioned that $12 -- it's $12 back, I think current number within last 15 minutes is $13 back, very volatile. How does that manifest into prices versus activity versus shut-in, flaring those kinds of things. I think on the oil side, thankfully we are in a $65 to $70 oil price world. You can probably handle with the quality of this rock, $13 to $15 and still keep plowing ahead. It would be painful to pay that. We're really happy that we're kind of out ahead of those things. On the gas, it's trickier. If you don't have processing capacity, if you don't have the pipe, there's is no hedging that can get you out of that. So ultimately, you end up shutting wells in, pinching it back or flaring. We all know what happened in the Williston around flaring, and we certainly don't want to get into that situation again. I think the industry is much more aware of it. You guys are asking the questions way ahead. And so think it's -- again storm is coming, I think it's a different than in places like

Marcellus, where it was a gas-driven investment, gas prices fell down, industries stopped or slowed way down. In an oil-driven market like the Delaware for the most part there was oil driven those that are, gas price could get to 0, gas price could go to negative and you still could have positive economics. The challenge becomes that physical take away. So I think that is exceptionally important, I would say, very close to that. There will be flaring, there will be upsets, there is a lot of plant capacity coming on line. Ultimately, there will be pipes in the ground, we'll be able to develop this, I would say in '19 and '20 or even '18 could be really tricky for the industry.

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

I think, that's -- as Clay said, I believe that would clearly differentiates us from a lot of our competition is because we got ahead of this. This is not our team's first basin that we've operated that really got active. And so you really have to think strategically, which is what, I think, one of our competencies. I think it's been paying off in a big way

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

Yes, I agree. And then just given the competitive advantage you do have a midstream versus peers, how much you've cleaned up the balance sheet. Any appetite that failed further in the Delaware, smaller peers start to struggle?

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

I think we'll always look at that. There was actually a question a while go about Rustler Breaks, a really phenomenal area, and yet it may be the third level of our internal portfolio. So the current portfolio, we'll always look at that, and we've been an opportunistic company. But I can tell you that our appetite right now, our focus is clearly on executing on our existing portfolio. And so we'll be thoughtful about that, but I don't think you should count on us being the first one out of the gate to jump on things.

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

Got it. And then if I can just sneak one more in. On the marketing side, are you guys seeing or heard of any gravity deducts in the Delaware at this point?

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

Not really. We really haven't. That's something that you started hearing about 2 years ago as you get out in the Western part of the basin. That was something that you heard about when you had some of the higher GOR areas closer to a condensate. At the end of the day, we're really not seeing anything.

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

I would add to that, I think, couple of steps we have taken. One, getting those barrels so the Gulf Coast and getting them out on the world market is a huge advantage. There is a high demand for light crude around the globe, it's just getting it there. So when we checked that box, the second thing is when you have capacity on these pipes, you can do batch loads into the Gulf Coast. So you don't -- if they ever get to a situation where the getting penalized because of blending, if it happens Midland deducts we can elect to do the batch. We can get the barrels all the way to the Gulf coast in a pure form, get into that international sales opportunities and even potentially command a premium for them. So excited about the barrels we have and the thoughtfulness we have around that marketing.

Operator

Our next question is from Derrick Whitfield of Stifel.

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

Rick or Clay, so throughout earnings, full-field development and sequencing have become important topics. When you guys think about development concepts at Stateline, what are your latest views on codeveloping and the need to minimize parent/child performance issues?

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

Yes, great question. I think it's a good update. We've been talking a lot about flow units over the last several quarters, clearly, Wolfcamp A upper and lower A, we are codeveloping. I would in that Wolfcamp X/Y, you see us in the Stateline are really starting to test that X/Y how all these sink together. So in my mind, most of our acreage position, I would say, X/Y and A, we will codevelop. And part of our position, I would say, the A and B, we will codevelop. geology obviously changes in different parts of the area. As you move up into the Bone Spring, the areas that we're landing in the Third Bone are really pretty separate from the X/Y. But I would say that there are some landing zones in the Third Bone Spring that could communicate with the X/Y. So it will be different for different areas. That's kind of our focus, but we're really thinking about X/Y, upper A, lower A for the majority of acreage position and then A, B and subset of our acreage position more of our southern acreage.

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

Got it. Very helpful, Clay. And then moving over to the Bakken, we heard from industry that potential of gas processing tightness later this year as a result of increased gas capture requirements in November? Can you comment on where you guys stand at present in your deal on macro conditions in the basin?

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

I'm really happy to report, we have met every month the gas capture requirements, and I project that we will meet it every month going forward. Now it is not without challenge. Gathering gas, processing gas, we are working with our gatherers and processors to expand that capacity, but it's tough They have continued to struggle, and as a result, we struggle right along with them. The things that we have done more proactively, we have moved in MRUs to on-location and what that does it's a mini plant, think of it in that terms. You take the gas, the wet gas, credibly rich wet gas, run it through this plant you strip out the liquids. At that point, you have, less leaner gas that you do flare, but then you capture those barrels and actually create some value from that, essentially offsets the cost of that processing. We've been very active with those along with JT skids as well, a little different process, but a similar on-location solution.

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

One thing I'll add about our acreage, we are in the area that I would consider the lower GOR area. But I think where Clay talked about our challenges, just the sheer productivity of our wells, just -- they're phenomenal wells. But so we will try to keep that balance making sure that we spend our capital wisely and the timing of it, it would really easy to pull well results to put a couple of more rigs out. But that's one things we contemplate, we are going to stay in compliance, and we are going to manage through that.

Operator

We have time for one more question. Our last question is from Kashy Harrison of Piper Jaffray.

Kashy Oladipo Harrison - *Piper Jaffray Companies, Research Division - Research Analyst*

Kevin, when you looked at your all differentials in Q1, they were significantly stronger than the guided $4- to $5-barrel range. I was wondering if you could walk us through the drivers of the stronger realizations than guided? And how anything else would think through longer-term differentials across the Delaware and Williston?

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

The differentials really haven't changed that much in terms of what we guided to. One of the things that you see in the first quarter that you'll see later whenever we file our Q it is actually an accounting regulation that was adopted during the first quarter, where effectively, we had to -- it's a re-class on our income statement, where you'll see our GP&T go up slightly and to offsetting that, we'll get a little better realizations and that really comes back to contracts where you got kind of an embedded transportation agreement or embedded transportation cost. And so we've strip those out, and then reclassify those with the adoption of this new accounting rule, just put those into GP&T and then that's obviously helped their differentials and those out of the realized price.

Kashy Oladipo Harrison - *Piper Jaffray Companies, Research Division - Research Analyst*

Got you. That's helpful. And then, Clay, in the prepared remarks, you mentioned completions are moving forward are longer laterals in the Delaware. I was just wondering if you could give us a sense of the average lateral length through the rest of the year? Is it 7,500 on average, 10,000, just some color there would helpful.

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

Yes, we're probably 8,000 feet. So anything beyond the mile we'd consider extended, lateral, and they pretty much 7,500 or 10,000 mentally going through the checklist , I would call it 8,000.

Operator

And that concludes our Q&A session for today. I'd like to turn the call back over to Mr. Rick Muncrief, CEO, for any further remarks.

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

Thank you very much. We appreciate everyone listening in and great questions. We're extremely excited about our future here. Very proud of our team and our assets and our strategies. So thanks, again, for your time, and have a great day.

Operator

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

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