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WPX - Q3 2014 WPX Energy Inc Earnings Call

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PRESENTATION

Operator

Good day ladies and gentlemen, and welcome to the WPX Energy third quarter webcast. My name is Alicia and I'll be your operator for today.

(Operator Instructions)

As a reminder this conference is being recorded for replay purposes. I would now like to introduce Mr. David Sullivan, Director of Investor Relations. Please proceed, sir.

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

Thank you. Good morning, everybody. Welcome to the WPX Energy third quarter operational update. We appreciate your interest in WPX Energy. Rick Muncrief, our CEO; and Larry Faulkner, our Director of Financial Reporting, will review the prepared slide presentation this morning.

Along with Rick and Larry, members of the senior management team, Clay Gaspar, Senior Vice President of Operations; Bryan Guderian, Senior Vice President of Business Development; and Mike Fisher, Senior Vice President of Marketing will be available for questions after the presentation. On our website, WPXEnergy.com, you can find today's presentation and the press release that was issued after the market closed yesterday. The third quarter 10-Q will be filed later today and you'll be able to access that on the website as well.

Please review the forward-looking statements on slide 2 and the disclaimer on oil and gas reserves on slide number 3. They are important and integral to our remarks so please review them.

Also included are various non-GAAP numbers that have been reconciled back to Generally Accepted Accounting Principles. Those schedules follow the presentation. So with that, Rick I'll turn it over to you.

Richard Muncrief - *WPX Energy Inc - President & CEO*

Thank you David, and good morning to everyone. Thanks for joining us on today's call. This morning we'll be spending some time updating you on our third quarter results and we'll be able to provide additional color during our Q&A session.

As you recall, we recently laid out a multi-year strategy for WPX which is highlighted by margin growth and commodity diversification. We also discussed how we will transition the Company to take advantage of optimizing our current asset base while continually looking for additional value-adding opportunities. The focus we now have will continue to pay off for our investors.

2014 has been a year of transformation for WPX and although I've only been here at just under six months, I'm extremely pleased with the progress to date. We've laid out a foundation for the future and we'll continue toward near-term to crystallize our story. We have work to do but we have the team to do it.

Along those lines, I want to share that today's webcast is the first for our newest team member, Clay Gaspar. Many of you know Clay, but if not he joined us recently to serve as Senior Vice President of Operations and Resource Development and we are elated to have him here. He's a talented leader with a great deal of experience, most recently at Newfield, and prior to that at Anadarko.

We think we will derive a lot of benefits from having Clay here so welcome aboard, Clay. Really look forward to working with you.

We also continue to buttress our balance sheet. Along these lines, we recently increased our financial flexibility with a $500 million bond offering. We had an extremely favorable response from the market and received attractive terms.

Additionally, we just executed and announced a new five-year $1.5 billion credit facility, which also provides better terms and flexibility. We've linked our hedging strategy to our capital program, which provides more certainty for 2015 and the outer years. This is important, especially in times of uncertainty like we have today.

The recent announcements by the Saudis over the past few days have illustrated this need. Their actions also bolster the need for American companies to be able to export crude oil, LNG, and natural gas liquids to markets worldwide. When this happens we'll truly have fair trade.

I'm optimistic that yesterday's message from Americans during the elections is that we need real leadership in Washington to address these issues such as exports. And now we have the traction that has been needed to reverse archaic restrictions and now to be able to compete globally.

But here at home, WPX is on track. We discussed our strategy in great detail just a few weeks ago. Now we want to spend some time this morning to give you a quick update on our third quarter results.

Third quarter highlights. Domestic oil production of just under 26,000 barrels a day which grew 52%, from the third quarter 2014 over third quarter of 2013. If you look at our current oil rate, we are tracking at 29,000 barrels a day net in the Piceance, San Juan and Bakken. Oil and liquids now account for 56% of our total domestic production revenues. And that's a year-to-date 40% increase over prior year.

Cash flow from operations grew 50% over the last 12 months, and we also had some highlights that we really wanted to illustrate, and in the San Juan in our Gallup play, with just over one rig operating out there, one to two rigs, in fewer than 18 months we've sold our 1 millionth net barrel of oil. And as we've talked quite a bit over the last few months, our high grading portfolio continues.

Let's talk about domestic production. We have had quite a bit of movement in our asset base, but I think it's important for us to step back and show you a clear picture of what is underlying, is going on, and we are projecting that from the fourth quarter of 2014 -- or from fourth quarter of 2013 to the fourth quarter of 2014, that we'll see 9% growth on our base assets.

We've taken out the legacy transaction in the Piceance basin. We've taken out the Powder River Basin coal bed methane, and we've also removed the international interest to give you a clear picture. And when we do that, you can see the 9% production growth and oil production during that same time is expected to be up approximately 60%, so extremely nice performance.

We spent some time on our assets. In the Williston we continue to see efficiencies that we're really pleased with. We have strong production growth in the third quarter.

We averaged just over 20,000 barrels of crude oil per day. That also contemplates the fact that we did have some complications on some of the early cleanups from some of our larger jobs. We've got those issues behind us and the team is executing nicely now.

But if you look at Q3 of last year, over Q3 of this year, oil production in the Bakken is up 44% so some very, very attractive growth. We have seen some nice performance from some of our larger stimulations. We've got those illustrated here, we'll talk about that in a minute.

And we're also going to continue to have a relentless focus on cost in Williston. And that's across the board, as we're drilling the completion that's our facility's design and our lease operating expense, and I can tell you that I'm real pleased with not only the efforts that we've seen but the attitude of the team that's stepping up and addressing these issues.

On the next slide, we show that we have gone in and basically blended our middle Bakken and Three Forks infill curve. And what you have is a corresponding type curve of 609 MBOE. That's illustrated in the dotted line.

We've also got the updated curves from the actual performance from the larger jobs. And once again we are extremely excited about what we've seen there. These wells are all in a fairly close location to each other so we need to spend a little more time, get a little more data, but I can tell you that I personally am very interested and after spending a lot of time in the Bakken, I think that we are going to continue to like the results and there will be more that we'll be communicating over the next several months on that.

The next slide is in the Gallup, where we continue to grow our oil production there. We've talked about how it provides some of the best economics we have in the Company.

In the third quarter we were just under 4,000 barrels a day. Our current production there is approaching 6,000 barrels a day. So you can see that oil production does continue to go up, but just Q over Q, second quarter from the second quarter, we increased oil production 30% into the third quarter, and that did have some incremental downtime associated with it with some infrastructure issues.

We have added our third rig in the Gallup. And as you've seen, we've been increasing our spuds due to some additional opportunities and some efficiencies from 40 wells to 48 this year. And we did, as we talked about on our strategy rollout a few weeks ago, we have had a couple wells drilled under 10 days from spud to rig release; those the kind of efficiencies that we continue to see.

We also have just completed two of our 7,500-foot laterals that were drilled by a third party that came via an acquisition. We think there are some things that we have learned from that completion, but I can tell you I'm pleased, the IPs were slightly below what I thought they may have been, but I'm pleased with the performance and that the production is leveling off in the 450 barrels a day range after 60 days, and it looks like it has a slightly lower decline rate than what we've seen in the 4,500-foot laterals. So what we are contemplating is if at this point in time that you're looking at about 100 barrels of oil equivalent on a per lateral foot drilled basis.

Our 4,300-foot laterals that we drilled thus far internally were using a 450 MBOE type curve. As we've stated before, we think that the 7,500-foot laterals will deliver 750 MBOE. So hopefully that will address some of the questions that have been out there.

In addition, we are so excited about our oil growth here that we went ahead and we signed a five-year 10,000-barrel a day rail deal where a unit train facility will be in place in the third quarter of next year. We think it has some very attractive terms and gives us close proximity to the West Coast refining markets. We also have got additional capacity that we will add on over time as this exciting play continues to materialize.

Now moving slightly North up into the Piceance Basin, we continue to be pleased with some of the efficiencies we're seeing there, the cost controls, and the production performance we're seeing. We highlighted Ryan Gulch, and as you recall Ryan Gulch is an area we're going to see quite a bit of growth opportunities from. The team has got a great track record of driving down well costs, and we really, really like what we're seeing there.

In the Niobrara we did mention during our strategy rollout of that we've completed our most recent well at 14 million a day, this is a one mile lateral, 40 million a day, 7,200 feet. And I can tell you that the team is continuing to look at operating efficiencies. We just drilled a curve in 40 hours; I'll contrast that with three to eight days, I believe, on the prior curves and so they're going to continue to drive performance there.

And so we'll continue to assess that resource along with the Mancos. As you recall, in that Mancos Niobrara, group you've got a thick massive section of about 5,000 feet, so we think there's a lot of target, there's a great deal of gas in place there, it's just a matter of time before we can crack the nut.

Okay, at this time I'm going to turn it over to Larry to go through some of our financial results for the third quarter.

Larry Faulkner - *WPX Energy Inc - Director of Financial Reporting*

Thanks, Rick. I'm going to cover our third quarter 2014 results in comparison to our third quarter 2013. Rick has already spent some time covering some of the results, but I'll touch further on production, adjusted EBITDAX, adjusted net income from continuing operations, and finally, capital expenditures.

With the exception of capital expenditures, all of the items that I'll be discussing exclude amounts associated with our Powder River Basin, which is now reported as a discontinued operation due to the previously announced sale of these assets. However, our third quarter results still include the results for International, for which we signed an agreement subsequent to September 30 for the sale of those interests.

Move on to slide 11. Overall, our production volumes were down this quarter when compared to the third quarter of 2013. However, if we exclude the volumes in 2013, related to the working interest sold to Legacy during the second quarter of 2014 our production volumes increased by 5%.

Our natural gas production was down approximately 9%. However, again, adjusting 2013 for the sale of the working interests, natural gas production was only down 1%. Additionally, Piceance volumes were hampered in the third quarter by third-party gathering outages.

We're extremely pleased about the continued growth in our oil production, as volumes were 52% higher during this quarter versus third quarter of last year. On an equivalent basis we are reporting production of 1.065 billion cubic feet per day compared to 1.094 billion cubic feet per day during 2013.

Despite the decrease in production, our adjusted EBITDAX increased 32% from $174 million during third quarter of 2013 to $230 million during 2014. This adjusted EBITDAX metric excludes the non-cash impact of unrealized mark to market gains and losses on our economic hedges and impairments in 2013. The overall increase was largely due to the growth of our consolidated oil revenues, which now, when combined with our NGL revenues, represent approximately 59% of total product revenues, or 50% of our total domestic revenues.

This growth in oil production and its associated revenues was the primary driver of the higher adjusted EBITDAX. Our adjusted EBITDAX through the first nine months of 2014 is $797 million, or approximately 41% higher than the same period of 2013.

Our adjusted net loss of $4 million or $0.02 per share is $76 million favorable to the adjusted loss for the third quarter of 2013. This measure excludes the impact, again, of unrealized mark to market gains and losses, the impairments in write-downs of certain exploratory costs, and excludes $14 million of expenses associated with an early exit program and an early rig release.

In relation to our CapEx, capital expenditures for the third quarter, they were $597 million and were largely focused on development of our higher returning oil assets, including acquisitions of acreage in the San Juan Gallup area. 87% of our capital expenditures in the third quarter were in our three core basins.

Turning to our guidance slide, slide 12, you'll see that we've now updated our guidance to reflect the recent asset sales we're in the process of completing. As I previously mentioned, our Powder River operations are already excluded from continuing operations. Our International operations will also be excluded from continuing operations in future quarters, therefore, the guidance adjustments shown here reflect the change for the full year 2014 guidance.

Aside from the adjustment for discontinued operations, our underlying production guidance for natural gas production and crude oil is unchanged from our second quarter call. And we continue to see excellent results from our drilling programs. We continue to anticipate that 2014 domestic oil growth will be around 55% annually.

Our capital forecast is mostly unchanged, but we have increased our spending expectations in our San Juan Gallup play, where we've added a third rig and expect to spud an additional eight wells this year for a total of 48. These returns continue to be outstanding and we are pleased to continue to deploy capital to this play.

Given the divestitures of Apco and Powder River, we've also updated our price realization and expense guidance for 2014 to reflect the results just of the continuing operations. We have left our gas realizations unchanged but are increasing our oil price realizations as our product production will now be more heavily weighted, or only weighted, to the US production. Several of our per-unit expense categories have changed as well, highlighted by reduction in gathering, processing, and transportation expense due to exclusion of the Powder River production.

In summary, our third quarter results continue to reflect our continued commitment to grow our oil production and margins, and reinvest in our highest returning growth areas. With that I'd like to turn it back over to Rick.

Richard Muncrief - *WPX Energy Inc - President & CEO*

Thanks, Larry. Good job. Appreciate you filling in today for Kevin, who was out with a short-term illness and we look forward to getting him back here soon.

Okay, I'm going to finalize our slide. Our last slide that we have in our slide deck today is just some summary comments. As you've seen over the last six months we've done a tremendous amount of high grading of our portfolio; that's going to continue. We are going to, as Larry mentioned, we're going to see some nice continued growth in oil volumes. Throughout the year we're hitting our guidance. Cash flow from operations grew 50% over the last year.

Want to remind everyone that next week that the Rockies Express transportation deal actually rolls off, and that has over $100 million EBITDA impact to our balance sheet and income statement. So we do have a strong balance sheet.

We've provided some color earlier about our bond offering and our new credit facility, which is going to give us a lot of flexibility. And we think that should have our 2015 guidance both on a CapEx and our volume forecast for next year released by early December upon approval of our Board of Directors. We'll have our meeting on our Board next week, so with that I think we're ready to turn it over for the operator for Q&A.

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

We're ready for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Brian Gamble, Simmons & Company.

Brian Gamble - *Simmons & Company International - Analyst*

Couple things, Rick. On the Bakken stimulations, you mentioned obviously these new wells are performing well above that old type curve. You also mentioned that the footprint that you've tested so far is rather small.

Could you maybe quantify that? How much of your acreage are these wells spaced over and then what is the plan for getting to a larger chunk of that in 2015? Should we get to the vast majority of it by the end of 2015 or kind of give me a little color there if you could?

Richard Muncrief - *WPX Energy Inc - President & CEO*

Yes, Brian, I think that number 1 is when we talked about the geographic -- these are both down in the Mandaree area. And we still have got, I think, some opportunities up in the VanHook to go back in an area which is the North part of our acreage. But specifically on the wells that we've drilled thus far, the aerial extent is they're still fairly close to each other.

I do want to remind everyone, the infill curves that we have blended took a middle Bakken and the Three Forks, those were actually -- we've assumed that the infill drilling will deliver approximately 75% of what the original wells were. And that's an assumption that we're pressure testing over time and we'll see what kind of actual results. Obviously, you can see by the curves that they're -- we're outperforming quite a bit, at least near-term and so we're optimistic about that.

Your question around whether we'll have everything tested by 2015, we're going to have -- I think we'll have a good idea by year-end 2015. Hopefully we'll have an updated type curve, I'm going to guess maybe midyear, somewhere in that timeframe, because we'll get several months of production over several parts of our acreage.

And so we're very, very optimistic. I can tell you we're excited about these wells coming on.

Some of first wells we had, actually, we would go ahead and put submersible pumps into them to try to maximize our production near-term. These wells are all flowing naturally and we're extremely excited about the productivity.

Brian Gamble - *Simmons & Company International - Analyst*

Great, Rick. And then Board meeting coming up, obviously going to have to be diligent with your thoughts about what you view the oil price market doing in 2015, how that relates to strategy of operations and what you're going to drill and how much you're going to spend. Could you maybe give us a little bit of color on how you're going to be pitching things and what your current views are and how that might influence what WPX does in 2015?

Richard Muncrief - *WPX Energy Inc - President & CEO*

That's a good question, Brian. What we're looking at doing is we're still going to be, I want to get somewhere around 80% of our capital budget is currently forecasted to go toward our two primary oil plays in the Bakken and in the Gallup. The Gallup, once again at $80 crude oil price, for instance, still delivers somewhere in the 50% return, and so it's very attractive, there's no need to let off the throttle on that one.

In the Bakken we continue to see these types of results. We currently are running at five rigs, and right now our preliminary recommendation would probably be to keep that activity somewhere in that range. Possibly ramping up later in the year, but we'll just let that play out. And that's why we mentioned when you've got hedges at 50% or slightly over that, it gives you that confidence to go ahead and keep your activity at the level it's at.

Brian Gamble - *Simmons & Company International - Analyst*

Appreciate that, Rick.

Operator

Brian Corales, Howard Weil.

Brian Corales - *Howard Weil Incorporated - Analyst*

Maybe another question on the Bakken, and that slide 7's very good with the bigger completions. Are those Three Forks wells, are those multiple -- are those all up or Three Forks or did you all go to multiple benches there?

Richard Muncrief - *WPX Energy Inc - President & CEO*

No, Brian, those are all in the upper Three Forks.

Brian Corales - *Howard Weil Incorporated - Analyst*

Okay. And our you all planning to test some of the lower Three Forks?

Richard Muncrief - *WPX Energy Inc - President & CEO*

We will eventually, but if you'll recall, we have mentioned on prior slides that the geology in the Williston changes a little bit. We don't have quite as much lower Three Forks, which other companies call the TF2, TF3, and TF4, as you do out along the, say, the [ness anata cline]. We do have some TF2 that we think are prospective and we'll be testing those over time.

Brian Corales - *Howard Weil Incorporated - Analyst*

Okay. And can you maybe, on the Gallup play the 7,500-foot wells you all inherited and you all completed, can you maybe comment on what you would do differently or what you're going to differently going forward or what you would change?

Richard Muncrief - *WPX Energy Inc - President & CEO*

Yes, I think one thing that, as we've gone back in and looked at it, Brian, I think the landing -- the target was a little, I'll say suboptimized to what we would do. I think we can improve that; it's probably the biggest single thing that we've seen thus far. And -- but as we mentioned, we're now drilling our first operated 7,500-foot lateral, so we look forward to being able to share on the next call what kind of results we're seeing. But still feel very optimistic and confident that we'll be able to deliver what we've laid out.

Brian Corales - *Howard Weil Incorporated - Analyst*

Okay. All right. Thank you, guys.

Operator

David Heikkinen, Heikkinen Energy Advisors.

David Heikkinen - *Heikkinen Energy Advisors - Analyst*

Just a specific question on fourth quarter domestic oil volumes. With production expected to be up 60%, that gets you to roughly 30,500 or 31,000 barrels of oil a day. Is that a good number to use for fourth quarter?

Richard Muncrief - *WPX Energy Inc - President & CEO*

You know, Dave, I think that's right in range. Sure is.

David Heikkinen - *Heikkinen Energy Advisors - Analyst*

Okay, cool. And then whenever you've raised your San Juan activity levels by $70 million for those eight extra wells, what's the -- one of those is a longer lateral and are the others 4,500-foot laterals, and kind of timing, those will come on in first quarter? Or what's the way to think about that increased CapEx and impact on --?

Richard Muncrief - *WPX Energy Inc - President & CEO*

I would say that the project mix is going to be pretty much dominated by one-mile laterals. We do have, as we mentioned, the 7,500-foot lateral, we spud our first one and I believe we have plans for one or two others, I believe. But it's going to be dominated by the shorter laterals and it's just the way the program has set up with our land position.

Bryan Guderian - *WPX Energy Inc - SVP of Business Development*

We do plan -- sorry, Dave. We do plan to increase the number of longer laterals in our 2015 program.

David Heikkinen - *Heikkinen Energy Advisors - Analyst*

Okay. No, that was helpful. Thanks, guys.

Operator

(Operator Instructions)

Jeoffrey Lambujon, Tudor, Pickering, Holt & Co.

Jeoffrey Lambujon - *Tudor, Pickering, Holt & Co. Securities - Analyst*

Just on the San Juan, looks like the mix was a bit gassier quarter-over-quarter, looks like all composed about 65% this quarter versus closer to 80% in Q2. Can you provide more color on the shift in mix there and how you look at that going forward?

Richard Muncrief - *WPX Energy Inc - President & CEO*

You bet. Jeff, what we did is in Q2, I think the mix that was shown is just based on sales volumes. We were, actually, as we were building our infrastructure out, bringing the wells on, we were actually forced to do more flaring in the second quarter as the -- toward the end of the second quarter, we were able to minimize that.

And so the team has done a nice job, we're getting our wells on real quickly with just a minimal amount of flaring now. So I believe that the 65%, 65% to high 60%s is probably more representative of what you should see going forward when you look at crude oil. So the mix would be, I think it's about 15% to 18% NGLs on top of that, and so your total liquids are about 80%, somewhere in that range. But 65% crude oil is probably the best way to look at that going forward.

Jeoffrey Lambujon - *Tudor, Pickering, Holt & Co. Securities - Analyst*

Great, that's helpful. And then just switching to the Piceance, you previously talked about shifting more capital towards the Ryan Gulch. How do you think about drilling activity there and then your overall Piceance program in 2015 and beyond?

Richard Muncrief - *WPX Energy Inc - President & CEO*

Well, what we've laid out at, least preliminarily, and once again I'll preface that with the fact that we don't have final approval, but we've talked about a program would contemplate five to six rigs in the Piceance. That's down from our current nine rigs. I think it's important that we continue to spend some level of capital to determine the productivity of not only of the Niobrara but also the upper Mancos, where we've seen some very encouraging results.

And -- but right now, Ryan Gulch, you're probably talking a couple of rigs, two to three rigs, Ryan Gulch, maybe one in the Valley and one in our Trail Ridge; that's the carried program that we announced here earlier this year which with G2X. And so that's how we end up with the five to six but once again that's more directional than absolute right now.

Jeoffrey Lambujon - *Tudor, Pickering, Holt & Co. Securities - Analyst*

Thank you.

Operator

We have no additional questions at this time. I would like to turn the call back over to Mr. Rick Muncrief, CEO of WPX Energy.

Richard Muncrief - *WPX Energy Inc - President & CEO*

Okay, thank you very much. Once again everyone, we appreciate your time today, all your questions and your interest in WPX.

As I stated earlier, WPX is a company that's financially healthy, long-term focused, and aggressively changing. We will roll out our 2015 budget and guidance early December, after we receive final approval from our Board of Directors. Going forward, we're going to be known for technical excellence, outstanding operational performance, and margin expansion.

The way we manage our assets, develop our resources, and the speed at which we move is going to set us apart. Our 20/20 vision is our road map for the next five years. It's measurable, it's aggressive, and it makes us accountable, not only internally but externally as well.

From our Account Payable clerks to our lease operators, everyone at WPX understands the mission that we're now on, and comes to work every day ready to achieve our goals. Thank you very much for your time today. Have a wonderful day.

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

Thank you.

Operator

Ladies and gentlemen, thank you for joining today's conference. This concludes your presentation and you may now disconnect. Have a great day.