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QEP - Q1 2014 QEP Resources, Inc. Earnings Conference Call

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OVERVIEW:

Co. reported 1Q14 net income attributable to QEP of $39.7m.

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PRESENTATION

Operator

Welcome to the QEP Resources first quarter earnings conference call.

(Operator Instructions)

As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Mr Greg Bensen, Director of Investor Relations for QEP Resources. Thank you, Mr Benson. You may begin.

Greg Bensen - *QEP Resources Inc - Director of IR*

Thank you, Doug. Good morning, everyone. Thank you for joining us for the QEP Resources first quarter 2014 results conference call. With me today are: Chuck Stanley, Chairman, President and Chief Executive Officer; Richard Doleshek, Executive Vice President and Chief Financial Officer; Jim Torgerson, Executive Vice President and head of our E&P business; and Perry Richards, Senior Vice President and head of our Midstream business. If you have not done so already, please go to our website qepres.com to obtain copies of our earnings release which contains tables with our financial results and the slide presentation with maps and other supporting materials.

In today's conference call, we will use a non-GAAP measure EBITDA, which is referred to as adjusted EBITDA in our earnings release and SEC filings and is reconciled to net income in the earnings release and SEC filings. In addition, we'll be making numerous forward-looking statements. We remind everyone that our actual results could differ materially from our forward-looking statements for a variety of reasons, many of which are beyond our control. We refer everyone to our more robust forward-looking statement disclaimer and discussion of the risks facing our business in our earnings release and our SEC filings. With that, I would like to turn the call over to Chuck.

Chuck Stanley - *QEP Resources Inc - Chairman, President & CEO*

Thanks, Greg. Good morning, everyone. This morning, I would like to begin with a quick review of our progress on some key initiatives, touch briefly on some operational results for the quarter and finish with our plans for the remainder of 2014. Richard will then review our first quarter results, as well as our 2014 guidance assumptions before we move on to Q&A. Over the past several years, we've been successfully executing our strategy to transition QEP to a more balanced and focused portfolio of E&P assets with an emphasis on growing higher margin crude oil and liquids rich gas production while divesting non-core assets to better focus our human and financial capital.

In the first quarter of 2014, we made substantial progress on both of these fronts. We closed on our Permian Basin acquisition on February 25, just before our year-end 2013 conference call. Since the close, the Permian asset team has made great progress with the asset, ramping from two to five drilling rigs since the close. We've already drilled and cased our first horizontal well. Earlier this week, we announced that we've entered into three definitive agreements to sell certain non-core E&P properties, primarily in the Midcontinent, for a total sales price, subject to customary adjustments of approximately $807 million.

As a reminder, we structured the recent purchase of the Permian assets and the current sales of non-quarry E&P as a reverse 1031 exchange, meaning that we'll be able to transfer the tax basis from the divested assets over to the newly acquired Permian assets. We intend to bring several additional non-core Midcontinent assets to market soon, including our acreage located in the Woodford SCOOP play. Our remaining Midcontinent assets, including the SCOOP, have aggregate net production of approximately 21 million cubic feet of gas equivalent a day. When the remaining divestitures are closed, we will have completely exited the Midcontinent region, with the result being a more focused upstream portfolio.

On May 6, we announced that we had entered into a definitive agreement with QEP Midstream Partners, LP, our Midstream MLP, to sell a 40% equity interest in Green River Processing, LLC for gross proceeds of $230 million. Green River Processing includes our ownership of Blacks Fork and Emigrant Trail processing assets in southwestern Wyoming. By selling the equity interest at a valuation above QEP's EBITDA multiple and below QEPM's, the transaction will be accretive to both entities. You'll recall in December of last year, we announced plans to unlock additional value for QEP shareholders by fully separating our Midstream business, QEP Field Services, including QEP Field Services ownership of QEP Midstream Partners from QEP Resources.

When complete, we believe this separation will better position both our E&P and our Midstream companies to compete and thrive in their respective business environments. We continue to pursue multiple avenues to achieve the Midstream separation, ranging from an outright sale to a straight spin-off of the business to QEP shareholders. In the first quarter, we made substantial progress on the preparation of documents required to affect the separation. First to facilitate discussions with parties interested in an outright purchase of the business or a combination via spin/merge, reverse Morris Trust or similar transaction, we've prepared a Confidential Information Memoranda or CIM that contains asset level operational, commercial and financial information for QEP Field Services.

The work on the CIM is complete and invitations will be sent out soon to qualify parties. To prepare for the possibility of a straight spin or various spin/merge transaction structures, we are also simultaneously preparing a Form 10, which we intend to file with the SEC later on this quarter. While repositioning our upstream portfolio and announcing our first drop down transaction with QEPM are big milestones. Strong ongoing performance of our underlying business is also critical. On that front, our talented asset managers really delivered in the first quarter.

Williston Basin oil production nearly doubled from first quarter 2013. Permian production is consistently tracking ahead of our acquisition forecast. This drove an increase in average daily crude oil production of 11% compared to the fourth quarter of 2013. As a result of this performance, we've raised our full year 2014 crude oil production guidance by 0.5 million barrels net of the forecasted divestitures in the Midcontinent. Clearly, we're making substantial progress on transforming QEP into a more focused upstream Company by optimising our upstream portfolio. We're maximizing shareholder value through the separation of our Midstream business.

Now let's turn to some details about our first quarter results. QEP Energy EBITDA grew 3% from the first quarter 2013 driven by a 55% year-over-year increase in crude oil production. Total natural gas equivalent production declined 5% from last year on a 6 to 1 basis, but increased by 15% on a 20 to 1 basis, which we feel is the more appropriate conversion ratio. Liquids volumes comprised 40% of total company-wide production in the first quarter, dominated by crude oil volumes.

Crude oil volumes accounted for 27% of total production in the first quarter, up from 16% in the first quarter of last year and just 10% in the first quarter of 2012. We're making meaningful and steady progress on our financially disciplined return focus transition to a more balanced upstream portfolio. Despite the continued shift in commodity mix, our natural gas production was a strong financial contributor in the first quarter. Although, overall gas production declined by 24% for the first quarter of 2013, field level natural gas revenue increased by 13% to its highest level in over two years, due to the overall strengthening of natural gas prices and due to our exposure to the premium price Rockies natural gas markets.

While our price risk management program has provided cash flow stability in recent years, it had a negative impact in the first quarter of 2014. Excluding the realized gains and losses on our commodity derivatives and looking at base operating results, EBITDA was up 30% from the first quarter of 2013. Now, let me give you a little more color about our operational results by area and more detail on our plans for 2014. As I do so, I would ask you refer to the slide presentation that accompanied our release yesterday afternoon.

In Williston Basin, we currently have eight rigs running, the same number as last quarter, but they've moved around a bit. At the end of the first quarter, all eight rigs in the Basin were working on our South Antelope property after we moved the last two remaining rigs from Fort Berthold during the quarter. Completion activity declined in the Williston Basin in the first quarter with 14 gross QEP operated wells completed and turned to sales, compared to 26 in the fourth quarter of last year and 12 during the first quarter of 2013. We expect to average between 20 and 25 gross QEP operated well completions per quarter in the Williston for the remainder of 2014.

Performance of both of the recently completed wells and the older wells that have been on for some time remains strong and remain in line with our expectations. We continue to evaluate the potential for increased well density on our acreage. We're monitoring the results of pilot programs that are being conducted by nearby operators. We also have a pilot program underway to evaluate the applicability of increased density development on our own acreage.

We expect to be able to share the results of that project by year end. Finally, we continue to make good progress on well costs in the Williston, due primarily to ongoing operational improvements and efficiency gains due to pad drilling. We currently plan to invest about 51% of QEP Energy's 2014 capital in the Williston Basin. I would refer you to Slide 6 through 8 for more details on our operations there.

Turning to the Permian. We've made great progress in the two months since closing on the acquisition at the end of February. We've increased our drilling activity from two to five rigs on our acreage with four rigs directed at drilling vertical wells and one drilling horizontal wells. We also have a sixth rig moving into the area now. It should start drilling vertical wells late this month or early next month. Remember, we have a lot of science to do to evaluate the horizontal potential on some of the target intervals within the Wolfcamp and Spraberry interval. This science will be done through data that's collected with the vertical well drilling program.

Once we've collected that data, we plan to shift our emphasis to horizontal development. Our plan at the time of acquisition was to ramp the six rigs by the end of 2014. Clearly, we've made better progress on that goal than we had originally scheduled. The team is now focused on accelerating the transition to horizontal development. Production from initial QEP operated vertical wells is tracking ahead of our expectation. We made some minor tweaks to the completion design and the early performance indications point to improved EURs from that adjustment. We talked about that in detail in our release.

Finally, I'm proud to report that the Permian team has already drilled and cased our first horizontal well. It's a 7,500 foot lateral that's targeting the Wolfcamp B interval. We should start completion operations on that well next week. We've also begun drilling our second horizontal Permian well. This second one will target the Wolfcamp D interval. We'll provide more information on results on our first horizontal well and the overall performance of our drilling program and completion operations on the second quarter call in August. Overall, I have to say we're very pleased with our Permian Basin acquisition. Our strong -- our ongoing reservoir evaluation, were coupled with reports of strong initial performance from nearby horizontal wells that are being drilled by other operators, continues to affirm the quality of the acquired properties.

Combining these early results with substantial progress that we've made in offsetting the acquisition costs of the Permian property through the sale of non-core E&P assets, it's clear to me that making this acquisition was the right strategic move for QEP. Excluding acquisition costs, we now plan to invest approximately 20% of QEP Energy's 2014 capital budget in the Permian. That's up from 15% that we discussed in our fourth quarter call due to our team's ability to get more rigs to work so quickly in the Basin. See Slide 9 for more details on our Permian operations.

Turning to Pinedale. Production volumes declined about 15% compared to the fourth quarter of 2013. That's due to the typical seasonal declines that we see as we defer completions through the coldest months of the year. Much of our first -- our last half of 2013 well completion activity was also concentrated in areas where QEP was the operator but had only a small overriding interest in wells that are primarily Wexpro wells. So that also impacted the decline going into the winter. It's also important to note that even though the ethane frac spread was near break-even, the propane frac spread was significantly improved. Due to an increase in the propane recoveries while running our plants in ethane recovery mode, the improved NGL price environment, led us to recover ethane throughout most of the quarter.

For the first quarter, we completed, in terms of sales, 22 new Pinedale wells. At the end of the first quarter, we had 55 gross wells with QEP working interest drilled, cased and awaiting completion. Those wells had an average working interest of 83%. We also had three additional wells where QEP is the operator but only had a small overriding interest that are drilled and cased and waiting completion. We anticipate running four rigs at Pinedale throughout 2014. We should complete somewhere between 110 and 115 wells this year, including 10 wells for which QEP is the operator but only has a small overriding interest. We plan to invest about 13% of our total capital budget at Pinedale. Slides 10 and 11 show the details.

Turning to the Uinta Basin. We continued to make progress on our Red Wash Lower Mesaverde liquids rich play last quarter. We talked about early results from a fundamentally different well design that we think could radically alter the economics of the play in the way we approached development. Production performance on that well continues to be very encouraging. You go out on the state -- Utah state website, you can see the first well was produced nearly 0.5 Bcf in its first three months online. Early in the second quarter, we completed our second well and incorporated the new design.

It's too early to give you any meaningful results on that well, but the initial performance is equally encouraging. With multiple TCF of probable reserves on our 100% working interest, 87% in our acreage position, clearly this project represents not only a significant growth opportunity for QEP Energy, but also for our Midstream business. We currently plan to invest to put approximately 5% of our capital budget in the Uinta Basin this year. But we may reconsider that allocation later on as we continue to see encouraging well results. Slide 12 shows the details of our Uinta Basin activities.

At Field Services, EBITDA was flat compared to the first quarter 2013, excluding the impact of the 42% non-controlling interest of QEP Midstream Partners of $8.2 million. Adding the $8.2 million of QEP Midstream EBITDA back to Field Services, reported figures results in a gross EBITDA of $61.4 million, which was up 15% from the prior year. We saw the benefit of our expanded fractionation capacities at Blacks Fork in the first quarter of 2014.

During the third quarter, you'll recall that we completed construction of the expanded rail loading facilities at the site and an expansion of our 10,000 barrel a day facility to 15,000 barrels a day. This facility will provide additional options for marketing purity ethane and [iso-normal] butane and gasoline range brought us into the fourth -- in the first quarter, the flexibility of being able to access higher value end market supported by the new fractionation facility resulted in improved NGL pricing, about $0.10 a gallon or so on the C3+ components. We expect this impact will be less pronounced, obviously, as we move into the warmer months of this year.

Late in the first quarter, Field Services also commenced construction on a project to debottleneck our Vermillion gas processing plant that's located in southwest Wyoming. When complete, the debottlenecking will expand the capacity of the Vermillion plant from 43 million cubic feet a day of raw gas or approximately 57% -- 57 million cubic feet a day, excuse me. Field Services owns about 71% of the Vermillion plant. The remainder is owned by Wexpro Company which is a Questar subsidiary. The total gross capital costs for the projects approximately $10.5 million with a net capital cost of $7.5 million for QEP Field Services. We think that the project should be complete sometime in the third quarter. We plan to invest approximately $80 million in Field Services projects in 2014, including the capital that we'll invest in QEP.

Looking forward to the remainder of the year, I'm really proud of everything we've accomplished so far. We made substantial progress on multiple strategic initiatives while delivering solid results for our underlying business. I think we're well positioned to continue to grow liquids volumes in 2014 and beyond. While we expect natural gas volumes to decrease again in 2014, allocating capital to higher return oil projects should lead to continued strong crude oil production growth with a corresponding growth in EBITDA.

As we look forward to the end of this year, we expect to merge as a more focused and balanced E&P company with a deep portfolio of high return investment opportunities capable of delivering superior returns around a variety of market conditions. With substantial footprints in two Premier US oil plays and a deep inventory of low cost, liquids risk gas projects, we're confident that our portfolio can support multiple years of profitable growth. We're also excited about the benefit to shareholders from the separation of our Midstream business and about the progress we've made with that effort today. I look forward to providing the updates and our continued progress throughout the year. With that, I would like the turn the call over to Richard.

Richard Doleshek - *QEP Resources Inc - EVP & CFO*

Thank you, Chuck. Good morning, everyone. With Chuck having discussed our strategic and operational highlights for the first quarter of the year, I'll provide you some color about our financial results before we go to Q&A. For the first quarter, we generated $386 million adjusted EBITDA. If we include the public's 14% share of QEP Midstream Partners results, they reported about $394 million of EBITDA. The $386 million of EBITDA generated in the first quarter was $9 million higher than the fourth quarter of 2013 and $11 million higher than the first quarter of 2013. QEP Energy contributed $332 million or 86% of the aggregate first quarter EBITDA. QEP Field Services contributed $53 million or about 14%. QEP Energy's EBITDA was up about $8.9 million. QEP Field Services' EBITDA was down about $3.6 million from their respective level in the fourth quarter of 2013.

Factors driving our first quarter EBITDA included QEP Energy's production which was 73.7 Bcfe or about 1.4 Bcfe lower than the 75.1 Bcfe we reported in the fourth quarter due to declining volumes in Pinedale as we suspended completion activities for the winter offset by a 10% increase in Williston Basin production and a 1.2 Bcfe contribution from the Permian Basin properties which were included for just one month in the quarter. Oil volumes were 3.3 million barrels up 270,000 barrels or 9% from fourth quarter levels. The Permian Basin properties added 140,000 barrels of oil during the quarter. NGL volumes were 1.57 million barrels up 134,000 barrels or 9% from the fourth quarter.

Using the 6 to 1 equivalent conversion, our growth in liquids volume didn't offset the decline in gas volumes. As Chuck said earlier, we continue to make progress increasing the crude oil component of our total production by focusing our capital investment on the development of crude oil weighted properties. In the first quarter of 2014, natural gas comprised just 60% of our net production compared to 75% a year ago. Crude oil comprised 27% of total liquid production in the quarter compared to 16.5% a year ago. Then comparing the first quarter of 2014 to the fourth quarter of 2013, our results were positively impacted by stronger field level oil, gas and NGL prices partially offset by a realized loss of $35.4 million from our derivatives portfolio compared to a $40.5 million gain in the fourth quarter.

Our guidance for 2014, pro forma for the Granite Wash and Woodford Cana asset divestitures which we expect to close by mid-year, forecast natural gas volumes to be 166 to 181 Bcf. Our forecast for oil volumes is 14.2 to 15.2 million barrels, an increase from our previous guidance despite the sale of 300,000 barrels of production forecasted from the Midcontinent properties and up 44% from 2013 at midpoint. Our guidance for NGL volumes for the year is 3.8 to 4.3 million barrels. The midpoint of which is down about 16% from 2013, assuming that will be in ethane rejection the remainder of the year.

QEP Energy's combined lease operating and transportation expenses were $121 million in the quarter, up from $113 million in the fourth quarter of 2013 and up $97 million in the first quarter of 2013. On a per unit basis, lease operating expenses were $0.76 per Mcfe and transportation expense was $0.88 per Mcfe or $1.64 per Mcfe for the two items combined. Our guidance for lease operating and transportation expenses for 2014 is unchanged at $1.50 to $1.65 per Mcfe for the full year.

Finally, QEP Field Services first quarter EBITDA was $53.2 million which was flat compared to prior-year period and down slightly from the fourth quarter. Processing margin was up about $8 million or 24% in the quarter compared to the fourth quarter of 2013 as a result of higher NGL sales. Gathering margin was down $14 million or 30% compared to the fourth quarter of 2013 due primarily to decreases in gathering volumes. Sequential G&A expenses were up $1.7 million primarily the result of higher expense for outside professional services, in field services employee retention program and expenses associated with the replacement of many of our IT corporate systems.

Our guidance for G&A expense for 2014 is unchanged at $190 million to $210 million. Reported net income attributed to QEP of $39.7 million in the quarter including $45.5 million of unrealized loss on our derivative portfolio. Excluding the unrealized loss and other non-recurring items, QEP reported adjusted net income of $68.1 million or $0.38 per share as compared to first call consensus mean of $0.26 per share. Capital expenditures on the accrual basis for E&P drilling and completion activities were $1.26 billion in the quarter, including $945 million related to the Permian Basin acquisition. Capital expenditures in our Midstream business were $21.5 million. If you exclude the acquisitions, our capital investments were about

$45 million less than our EBITDA in the quarter. We are forecasting midpoint for our 2014 capital program to be about $1.65 billion for QEP Energy, about $80 million for QEP Field Services and $25 million for corporate, again, excluding acquisitions.

Then with regard to our balance sheet. We closed the Permian Basin acquisition at the end of February, which drove a $1.2 billion increase in total assets of $10.6 billion at the end of the quarter. We funded the acquisition with $50 million in cash, $300 million from our expanded term loan which is due in 2017 and approximately $595 million under our revolving credit facility. Our debt at the end of the quarter was approximately $3.9 billion which was about a 2.5 times multiple of our trailing 12 months EBITDA. Our debt consist of $2.2 billion of senior notes, $600 million under the term loan and $1.1 billion under the revolving credit. Pro forma for the $1 billion plus announced in asset sales, our revolving credit balance would be under $100 million and our total debt the trailing 12 months of EBITDA would fall below 1.9 times. With that, Doug, we would like to open the line for questions-and-answers.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

David Tameron, Wells Fargo.

David Tameron - *Wells Fargo Securities, LLC - Analyst*

Chuck, can you talk about -- you talk a little bit about it. Can you talk about the Permian ramp? How we should think about it over the next, call it, six to nine months or even two or three quarters out?

Chuck Stanley - *QEP Resources Inc - Chairman, President & CEO*

Sure, David. As we stated back when we announced the acquisition, our original plan was to have six rigs operating in the Basin by year end, a mixture of vertical and horizontal rigs. What we've done is we've picked up some additional vertical rigs, as I mentioned in my prepared remarks. One of the keys to designing a development program to target all the different horizontal intervals is making sure we have accurate rock property data on the individual flow units. In order to do that, we need to drill vertical wells that are data wells basically. Because, historically in the area, the previous operator had drilled the wells, cased them and then run case hole logs and hadn't obtained open hole log data which is very important in order to design where you want to land the laterals and also frac design in order to get the good rock property.

So our plan is to accelerate the vertical program to collect this data. Give us an opportunity to plan our horizontal development based on detailed petrophysical work and then shift to a more balanced program. Ultimately, probably about half and half, vertical rigs and horizontal rigs. We have a couple hundred more vertical locations to drill. Obviously, we'll consume those relatively quickly if we continue with the nearly 100% vertical program. That's not the intention. So towards the end of the year, we should be more balanced.

I think it's too early to kind of give you guidance -- one year guidance on activity levels, because a lot of it is going to depend on the data collection that we're doing. There's obvious horizontal targets the Wolfcamp AB, the Spraberry, AB, the Wolfcamp D is less well understood. Although, we're drilling a well in it right now to collect realtime data. The offset operator results so far have been very encouraging in the Wolfcamp D. But we need some additional core. We need some additional open hole log data before we can really give you full guidance. If you want to just look at our thoughts around the next several years of production guidance, you can go back to our announcement back in December when we put out a slide deck. I don't know, about a half a dozen slides or so in conjunction with our announcement of the acquisition of the Permian assets. Our view on production volumes haven't changed, although obviously we're striving to do better than that.

David Tameron - *Wells Fargo Securities, LLC - Analyst*

Okay. Let me jump to the Uinta. It didn't sound like you went there in the prepared remarks. I guess, I don't know what you call it, but the new completion design. You've drilled three wells. Where I'm going with it is, there's some state data out there that indicates the first flow looks pretty good. I know you guys didn't get that well off completely -- I think you had some issues on the completion front. But the cum rate looks like it's about 3 times what we had modeled for a vertical, just above 3 times. Any -- do you want to give us anymore color on that?

Chuck Stanley - *QEP Resources Inc - Chairman, President & CEO*

Well, obviously the well has been online now for, what, seven, eight -- almost eight months. We forecast that well based on early time production data, putting a tight curve on it, as a 6.5 to 7 Bcfe range well. That's from, as you stated, a partial completion. It's one well. The second well we have drilled. We have completed. It's been to sales for a while now. But these wells are somewhat reminiscent of the lower Cotton Valley wells we drilled in northwest Louisiana. For the first -- for early time, they make all flowback water with very little gas. If you look at the state records, you can see that for the first well. So they take awhile -- a considerable amount of time to clean up before we can get real gas production performance and put a good forecast on the well.

The second well, way too early to even comment on it, other than to say it looks encouraging at this point. Then the third well is just drilling. So we really only have one data point. Yes, that data point is very encouraging. That's what led us to pause in our original development plan. Original -- it was really a Pinedale clone, if you will, of pad drilling directional wells and rethink the development plans here. I will say that we've gone back into some of the original wells we drilled -- vertical wells we drilled after core work and additional petrophysical work and recompleted some of those wells in intervals that we thought were wet that turned out to be gas bearing.

So our overall view of the vertical development program has changed positively with the results of those recompletions. The recompletions were very encouraging. They added about 1 million a day of production to the wells initially. Arguably, fundamentally changed our economics around that program. But given the early time results from the new completion design, we're going to drill a few more wells before we make a final determination. But early results are looking very encouraging.

David Tameron - *Wells Fargo Securities, LLC - Analyst*

Okay. You are completing this? This isn't a Blackhawk? Or a Mancos? This is a Mesaverde. Are you getting --

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Chuck Stanley - *QEP Resources Inc - Chairman, President & CEO*

So, it's a lower Mesaverde interval. As you'll recall, the lower Mesaverde interval is interbedded sands and silt stones with some shale. It is -- it looks identical to the stuff in Pinedale or anywhere else in the Uinta Basin where you have discontinuous sand bodies. Some are more continuous than others. We're targeting the lower Mesaverde sand stones.

David Tameron - *Wells Fargo Securities, LLC - Analyst*

Okay. Just one follow-up there. Just -- so the plans are, if I'm hearing you right, just have a one rig out there, continue to drill and watch the well performance and maybe this is more of a 2015 type of ramp? Is that --

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Chuck Stanley - *QEP Resources Inc - Chairman, President & CEO*

Yes. I mean, we could potentially step up the drilling activity toward the end of the year. But it's not going to have a big impact on production volumes or capital because it will be back loaded.

David Tameron - *Wells Fargo Securities, LLC - Analyst*

Okay. I'll let somebody else jump in. Thanks.

Chuck Stanley - *QEP Resources Inc - Chairman, President & CEO*

Thanks, David.

Operator

David Heikkinen, Heikkinen Energy Partners.

David Heikkinen - *Heikkinen Energy Partners - Analyst*

Congratulations on the quarter. Because I was thinking about your Field Services gathering volumes, can you give us an outlook for what you're expecting heading forward?

Chuck Stanley - *QEP Resources Inc - Chairman, President & CEO*

Well, I think the one area that is very obviously in decline, because we've been deliberately funding oil and wet gas development areas, is the Haynesville system. The Haynesville system is really what's been driving the decline in throughput. The other systems have been flattish, slightly down in the Vermillion and Uinta, but overall, the systems, especially the ones owned in the MLP, which is everything except Haynesville and Uinta have been flat to growing. We would anticipate modest growth and throughput on those systems this year.

David Heikkinen - *Heikkinen Energy Partners - Analyst*

I guess no third-party volume growth as others are ramping in the Haynesville? Everything is just tied to your Haynesville at this point?

Chuck Stanley - *QEP Resources Inc - Chairman, President & CEO*

That's correct. There's a little bit of third-party, but it's miniscule compared to the QEP operating volumes.

David Heikkinen - *Heikkinen Energy Partners - Analyst*

Cool. Then in your guidance, particularly on the oil side, can you give some splits for volumes out of the Bakken and volumes out of the Permian? As we try to think about this ramp in the Permian, I just want to make sure we're modeling that roughly appropriately.

Chuck Stanley - *QEP Resources Inc - Chairman, President & CEO*

Greg can throw some numbers out at you here.

Greg Bensen - *QEP Resources Inc - Director of IR*

Yes. So, I mean, round numbers, Williston, we're expecting growth in the 35%, 40% range on a Bcfe basis. The Permian --

Chuck Stanley - *QEP Resources Inc - Chairman, President & CEO*

We've given some indication of Permian production growth back in that December 9 release, David.

David Heikkinen - *Heikkinen Energy Partners - Analyst*

Yes. With the additional rig, I guess, that was the -- I mean --

Chuck Stanley - *QEP Resources Inc - Chairman, President & CEO*

Yes, I mean, it should positively impact it. But, remember, it's drilling vertical wells. Those wells come on a couple hundred barrels a day apiece. So, a couple 300 barrels a day apiece. So, it's not a big sling. The real catalyst for changing the trajectory of growth -- give us another quarter or two, we'll be bringing on horizontal wells. Because obviously, based on what we've seen from offset operators, the horizontal production performance has been quite good. So it could fundamentally change our forecast. But let us get the first well completed and online, please. Then we'll try to give you an update.

Richard Doleshek - *QEP Resources Inc - EVP & CFO*

David, it's Richard. If you just kind of annualize -- quarterize the first quarter for Permian and Williston, Williston is still about two-thirds of our oil production. If you just kind of grow those -- that ratio is going to stay pretty consistent, maybe some degradation as we ramp Permian. But that's probably not a bad ratio to use.

Chuck Stanley - *QEP Resources Inc - Chairman, President & CEO*

Yes, there is some other oil production that we don't talk about very much. We've got 2,500, 3,000 barrels a day production coming out of the Uinta Basin, black wax, that's sort of baseline. It doesn't move around very much.

David Heikkinen - *Heikkinen Energy Partners - Analyst*

Okay. Thanks, guys.

Chuck Stanley - *QEP Resources Inc - Chairman, President & CEO*

Thank you.

Operator

Brian Gamble, Simmons.

Brian Gamble - *Simmons & Company - Analyst*

I wanted to shift over and talk about the Williston for a second. You mentioned you shifted all the rigs over to the Antelope portion. I just wanted to get a little bit of color as to why that was? Then do you think growth during the quarter without the benefit of a lot of completions? Just any color there would be helpful as well.

Chuck Stanley - *QEP Resources Inc - Chairman, President & CEO*

I'll take the second one first. We had a significant number of completions in the fourth quarter. They were toward the end of the fourth quarter, sort of back-end loaded. I don't remember the number. 24 in the fourth quarter.

Richard Doleshek - *QEP Resources Inc - EVP & CFO*

That's about right.

Chuck Stanley - *QEP Resources Inc - Chairman, President & CEO*

In round numbers. So the fourth quarter completion activity obviously drove a production response in the first quarter. We had 14 wells that were actually completed and turned to sales in the first quarter. A couple more that were drilled in case that were almost completed during the quarter. But the production response obviously was compounded or helped by the fourth quarter activity. The shifting of rigs back and forth between South Antelope and the reservation is for basically operational efficiency and scheduling of completions. I wouldn't read anything more into it than that. In some of the areas where we're drilling, winter weather -- it's tough to be out on the extreme extension of some of the roads and close to steep drop-offs on the edge of the lake. So we just prefer to stay away from those areas in the wintertime.

Richard Doleshek - *QEP Resources Inc - EVP & CFO*

26 Williston completions (multiple speakers).

Chuck Stanley - *QEP Resources Inc - Chairman, President & CEO*

26. Sorry. 24 to 26.

Brian Gamble - *Simmons & Company - Analyst*

Great. Then the Wolfcamp B, the horizontal, you mentioned you drilled and cased it. Any stories there or go as planned? Just any color.

Chuck Stanley - *QEP Resources Inc - Chairman, President & CEO*

Jim, it was not a difficult well to drill? Went pretty well for our first well?

Jim Torgerson - *QEP Resources Inc - EVP, Head of E&P*

Very smoothly and ahead of schedule so far.

Chuck Stanley - *QEP Resources Inc - Chairman, President & CEO*

So stay tuned. We hope to have some good results on that well pretty soon. One of the things I will say, I said it in the call cryptically, but I'll say it overtly, that is, we don't intend on issuing well results out of period. We prefer just to tell you about our well results on a quarterly basis because we view this as a development program. First of all, we'll just need to do some production performance on these wells before we can really say much about them. But I think it's just in everybody's interest to just do it on a quarterly basis.

Brian Gamble - *Simmons & Company - Analyst*

Then, finally, on the CIM document that you're sending out. Is there any timeframe as to when qualified buyers have to respond to that document?

Chuck Stanley - *QEP Resources Inc - Chairman, President & CEO*

Well, first, we'll be -- the first thing we'll do, as typical with these processes is we'll send out a teaser that will have a CA associated with it, Confidentiality Agreement. We'll have to negotiate and get those executed before we can send out the actual CIM. Then, that will start a process. Richard, do you want to give a little more color around that?

Richard Doleshek - *QEP Resources Inc - EVP & CFO*

I think it's safe to say that we should have information in the qualified interested party's hands during the month of May. Then how the process runs, June, early July, we won't speculate. But certainly the information will be in the market in terms of that business and what it looks like this month.

Brian Gamble - *Simmons & Company - Analyst*

Thank you, guys.

Chuck Stanley - *QEP Resources Inc - Chairman, President & CEO*

Thank you.

Operator

Gabriel Daoud, Jefferies.

Gabriel Daoud - *Jefferies & Co. - Analyst*

I just wanted to go back to vertical wells in the Permian. I know a lot of them are data wells. But I guess if you could just give some color on current well costs? What you see them ending up going to, I guess, as the year progresses?

Chuck Stanley - *QEP Resources Inc - Chairman, President & CEO*

Well cost?

Jim Torgerson - *QEP Resources Inc - EVP, Head of E&P*

About $3 million right now well cost. But that includes some logging and sidewall cores and stuff -- some other testing that we won't do once we get in full development mode.

Greg Bensen - *QEP Resources Inc - Director of IR*

Keep in mind, we're kind of going the opposite direction from a typical development -- just blowing down vertical well development program. We're drilling the wells to keep the hole engaged or keep a fairly constant diameter, which adds costs, slows you down a bit and then as Jim mentioned, we're collecting a lot of science data to help guide our horizontal development. Really -- this property and the acquisition is all about horizontal development. So I wouldn't dwell too much on the vertical wells.

Gabriel Daoud - *Jefferies & Co. - Analyst*

Okay. Got you. That's great. That's all I had, guys. Thank you.

Chuck Stanley - *QEP Resources Inc - Chairman, President & CEO*

Thank you.

Operator

Andrew Coleman, Raymond James.

Andrew Coleman - *Raymond James & Associates - Analyst*

The first question was just generally on the Bakken. I don't think I heard this in the prepared remarks. Can you detail any sort of completion, sort of variety you all are looking at? Some of your competitors are looking at slick water fracs, et cetera. Have you looked at any of that?

Chuck Stanley - *QEP Resources Inc - Chairman, President & CEO*

Good morning, Andrew. Yes, we have. There's a constant -- through monitoring and debate and discussion going on in our shop around optimal completion design. We can make some general observations about -- the larger the size of the job in general, the better the well performance up to a point. It's interesting that there have been different things tried. Large -- huge volumes of profit pumped in by some operators and some wells with encouraging results. Others now are focused on fluid volume at the expense of or to minimize the amount of profit or reduce profit and seeing similar results. So there's a huge sort of dichotomy there of results and strategies. Our current design hasn't changed radically from what we were pumping 12 months ago. We increased the size some, but we haven't radically changed it.

I think, like in many plays, in many basins, the completion design has got to be tailored to the specific area of the basin and the rock properties. In South Antelope, we're making great wells in what I think is some of the best rock, highest oil saturation in the basin. It may not need the huge hammer, so to speak, that some of the more marginal areas in the basin, where if we transported our completion design there might result in an uneconomic well, whereas a massive frac using a huge volume of sand may result in an economic well. So I think we can look at what is going on around the basin. We can learn from it to a certain extent. But you really have to be cognizant of the very build in both the Middle Bakken and Three Forks reservoirs across the Basin and design your fracs for the rocks that you have in your area.

Andrew Coleman - *Raymond James & Associates - Analyst*

Okay. All right. Then I think about the Midcontinent asset package that you have on the market. I think some of the acreage that's based on the teaser map that's out there, is that you're pretty close to some of the Cana acreage. Is there any ROFRs on that acreage that the buyers of the Cana package might have over SCOOP acreage? Or are those two packages completely separate?

Chuck Stanley - *QEP Resources Inc - Chairman, President & CEO*

All right. So let me just make sure I understand your question. So the two packages that we announced were Granite Wash package and a Cana package. The Cana package includes the core of the Cana and acreage up dip and to the east of the core of the Cana that some operators call a stack play. It does not include the southern extension into the so-called SCOOP play. So that will be the next package that's out there.

With respect to ROFRs, there are -- in some of the JOAs, there's rights of first refusal for our partners to elect to take out a competing bid. But in aggregate, those are relatively small in dollar wise. But there are multiple ROFRs out there. We wouldn't anticipate a major change in ownership, if you will, as a result of the ROFRs. The stack acreage to the south that will be marketed next -- I'm sorry, SCOOP stack. I keep getting them mixed up. The SCOOP acreage to the south that will be marketed. It's about 7,500 or so net acres in that part of the play.

Andrew Coleman - *Raymond James & Associates - Analyst*

Okay.

Chuck Stanley - *QEP Resources Inc - Chairman, President & CEO*

We've got additional -- out of the 21 million or so a day of equivalent production there, there's additional -- that's about one-third of the total production volume. 7 or 8 million cubic feet equivalent a day.

Andrew Coleman - *Raymond James & Associates - Analyst*

Okay. Did you say that the data room had opened for that? Or is that about to open?

Chuck Stanley - *QEP Resources Inc - Chairman, President & CEO*

It hasn't opened yet. We're still putting the stuff in the data room.

Andrew Coleman - *Raymond James & Associates - Analyst*

Okay. Is that a second quarter kind of --

Chuck Stanley - *QEP Resources Inc - Chairman, President & CEO*

Andrew, we're going to try to get it done before the window closes on the 1031 exchange, which is in August.

Andrew Coleman - *Raymond James & Associates - Analyst*

Okay.

Chuck Stanley - *QEP Resources Inc - Chairman, President & CEO*

We'll just have to see if we can get the bids in and select a high bidder by then.

Andrew Coleman - *Raymond James & Associates - Analyst*

Okay.

Chuck Stanley - *QEP Resources Inc - Chairman, President & CEO*

It's going to be a push.

Andrew Coleman - *Raymond James & Associates - Analyst*

All right. Well, good luck with that. Thanks, again, for the Q&A today. Congrats on the quarter.

Chuck Stanley - *QEP Resources Inc - Chairman, President & CEO*

Thanks, Andrew.

Operator

Dan McSpirit, BMO Capital Markets.

Dan McSpirit - *BMO Capital Markets - Analyst*

Just turning to the Williston Basin, you mentioned in your prepared remarks a pilot program underway to evaluate downspacing. If you could, elaborate on that. That is, how many wells per DSU, both Middle Bakken and Three Forks? What could it mean for the inventory count?

Chuck Stanley - *QEP Resources Inc - Chairman, President & CEO*

Good morning, Dan. It's focused on the Middle Bakken. It would result in a pattern of basically six wells per DSU in the Middle Bakken, instead of four. The real question is, as we look at some of the offset operators that have gone back into the older parts of the field and drilled brand new wells in the reservoirs where there have been substantial depletion. Multiple million barrels of oil recovered from a well bore and it's snuggled up next to those well bores and drilled new wells that have come on and appeared to perform not much differently than the first well in a spacing unit. I think that's the most important data point, because ultimately it could lead to another round of in-filling the existing pattern.

I think the end member on that obviously is a doubling of the number of well locations. That really is something that nobody has tried yet in an area where three or four wells already in a spacing unit. There's a lot of oil in the reservoir, as you know. The recovery factors are still pretty skinny on a total oil in place number. So ultimately, I think, that's the real pilot that needs to be done, is to go back into an area that has four wells per section and see how much additional incremental recovery you get from an in-fill program doing that. We haven't started -- we haven't done anything like that. We're drilling in basically, a block of virgin rock with six wells versus four wells right now.

Dan McSpirit - *BMO Capital Markets - Analyst*

Got it. Then turning to the Permian Basin. Can you sketch for us the field level economics on horizontal wells? That is early drilling? Complete costs? How they may trend over time? Then the recoveries on those horizontal wells?

Chuck Stanley - *QEP Resources Inc - Chairman, President & CEO*

It would all be speculation at this point, Dan. I mean, when we did the acquisition, we assumed for a 7,500 foot lateral between 550,000 and 600,000 BOE. That well -- and a well cost of $7.5 million in round numbers gross completed well cost.

Richard Doleshek - *QEP Resources Inc - EVP & CFO*

$9 million.

Chuck Stanley - *QEP Resources Inc - Chairman, President & CEO*

$9 million -- I'm sorry, $9 million-- I said $7.5 million -- 7,500 foot. $9 million gross completed well cost. Sorry. That's based on our AFE estimates and on looking at what other operators have been doing in the area. But I just think it's too early to give you meaningful economics on wells until we get our own wells down with our own drilling experience and get some well performance on them. I think the 550,000 barrel EUR -- BOE EUR is probably conservative based on what we've seen from offset wells. But, again, it's too soon to give you anymore color than that. I will say that those wells, even with the cost and EURs that we assume, generate a very robust 40%, 50% IRR. So that's certainly acceptable. I think we can do better than that.

Dan McSpirit - *BMO Capital Markets - Analyst*

Got it. I appreciate it. Thank you.

Chuck Stanley - *QEP Resources Inc - Chairman, President & CEO*

Thank you.

Operator

Gregg Brody, JPMorgan.

Gregg Brody - *JPMorgan - Analyst*

Sorry, if you addressed this on the call, there's just been a busy 9 o'clock slot. Just -- you've announced some of the asset sales. Can you talk a little bit about how you're thinking about redeploying the cash? Maybe a little bit of a focus on how you're thinking about your leverage management and sort of the credit?

Richard Doleshek - *QEP Resources Inc - EVP & CFO*

Hey, Gregg, it's Richard. So we finished the quarter with $3.9 billion of debt. The revolver was north of $1.1 billion. So the many use of proceeds when we close the transactions on June 30 and July 1 will be to pay down the revolver. You get back to below 1.9 times that multiple of EBITDA which is kind of where we were at the end of the year. So when we view what we're going to accomplish in the first half of the year is putting our balance sheet back to where it was prior to the Permian acquisition and levering up to make that happen. I think you've heard us say that we think we're comfortable in the 1.5 to 2 times debt multiple EBITDA range. So I think in terms of what to expect from us, on a transaction basis, we'll be above that. Kind of on a run rate basis, that's where you should expect us to be.

Gregg Brody - *JPMorgan - Analyst*

Then just in terms of the agencies, have you gotten any color from them? How they feel about this sort of -- clearly, you're conservative in your metrics, but the reduction in size, is there any feedback from them in terms of (multiple speakers) --

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Richard Doleshek - *QEP Resources Inc - EVP & CFO*

Yes. But I think both agencies put out notes related to the transactions -- but either have put out notes or will put out notes today. They're both reaffirming what their positions were back in December when we announced the transactions. I think obviously, it increased liquidity and makes the agencies feel better. As we decrease the amount of Field Services contribution, which is perceived as a more stable contribution, that sort of offsets the improved liquidity to some degree. So that's sort of the trade off.

Gregg Brody - *JPMorgan - Analyst*

Okay. So do you think you're going to -- you'll remain DD?

Richard Doleshek - *QEP Resources Inc - EVP & CFO*

With the transactions closing, I would be surprised if we don't -- if we do not retain a Ba1/BB+ rating.

Gregg Brody - *JPMorgan - Analyst*

Thank you. That's very helpful.

Operator

There are no further questions in the queue. I would like to hand the call back over to management for closing comments.

Chuck Stanley - *QEP Resources Inc - Chairman, President & CEO*

Thanks, everyone, for dialing in today. I realized when I answered Andrew Coleman's question around the SCOOP that I had too many numbers rattling around in my head and not enough coffee this morning. I said 7,500 net acres. That's the 7.5 million a day of net production on the acreage. The actual acreage in our SCOOP play is about 39,000 net acres. I apologize for that incorrect number that I threw out.

We look forward to seeing you all in the near future as we attend various conferences. We also have several non-deal road shows planned for later on this year. Thanks for your interest in QEP. Have a good day.

Operator

Ladies and gentlemen, this does conclude today's teleconference. Thank you for your participation. You may disconnect your lines at this time. Have a wonderful day.
