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Range Resources Corp. (RRC)

Q2 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Range Resources Second Quarter 2019 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. Statements made during this conference call that are not historical facts are forward-looking statements. Such statements are subject to risks and uncertainties which could cause actual results to differ materially from those in the forward-looking statements. After the speakers' remarks there will be a question-and-answer period.

At this time, I would like to turn the call over to Mr. Laith Sando, Vice President, Investor Relations at Range Resources. Please go ahead, sir.

Laith Sando
Vice President-Investor Relations, Range Resources Corp.

Thank you, operator. Good morning everyone and thank you for joining Range's second quarter earnings call. Speakers on today's call are Jeff Ventura, Chief Executive Officer; Dennis Degner, Chief Operating Officer; and Mark Scucchi, Chief Financial Officer. Hopefully you've had a chance to review the press release and updated investor presentation that we posted on our website. We also filed our 10-Q with the SEC yesterday, available on our website under the Investors tab, or you can access it using the SEC's EDGAR system. Please note that we'll be referencing certain non-GAAP measures on today's call. Our press release provides reconciliations of these to the most comparable GAAP figures. For additional information, we posted supplemental tables on our website to assist in the calculation of EBITDAX, cash margins, and other non-GAAP measures.

With that, let me turn the call over to Jeff.

Jeffrey L. Ventura

President, Chief Executive Officer & Director, Range Resources Corp.

Thanks, Laith, and thanks to everyone for joining us on this morning's call. In the first half of 2019 Range delivered on key strategic initiatives generating organic free cash flow, reducing absolute debt, improving our cost structure, and efficiently executing our 2019 operational plan safely and within budget. I'm proud of the team's efforts day in and day out to make this happen.

The industry is clearly in the middle of challenging times with natural gas and NGL prices lower on seasonal weakness and energy equity struggling to find investor interest. Against this difficult backdrop, we remain focused on the things that will drive long-term shareholder value and we remain committed to positioning Range for success through the commodity cycles. In fact, I believe the company is in a better position today than at any time in our past in terms of our ability to not only withstand low prices but to thrive when the commodity turns in our favor.

With Range's stock trading where it is, that might seem counterintuitive. But let me walk you through why I believe that Range is positioned so well currently coupled with some of the things we're doing to further improve on our competitiveness which Mark and Dennis will elaborate on. First, we have reduced absolute debt in the last nine months by approximately $1 billion following the recent sale of a 2% overriding royalty on our Southwest Pennsylvania acreage. This latest sale improves interest expense by $30 million per year, has a minimal impact to well economics, significantly derisks the balance sheet, and highlights the substantial value that we have on our assets that is not being reflected in today's equity market.

Second, Range has captured almost 0.5 million acres in the core of the Marcellus. This acreage position is largely held by production and has been derisked by over 1,000 Range Marcellus wells and thousands of industry wells that surround our acreage. This large, derisked blocky position not only allows us flexibility in our capital plans but it also allows for increasingly efficient operations as we utilize existing pads, optimize infrastructure, drill longer laterals, and effectively source and recycle water. These operational efficiencies are reflecting what we believe are the best drilling and completion cost in the industry.

Third, Range's class-leading drilling complete costs and core inventory support a very competitive corporate base decline and low maintenance capital requirements. Range's base decline entering 2019 was below 20%, driving a D&C maintenance capital of less than $600 million. This low, sustaining maintenance capital is a differentiator for Range, making Range very durable through the low points of the commodity cycle and providing a solid base for delivering sustainable free cash flow long-term.

Fourth, Range has fully utilized its transportation and processing capacity, providing us flexibility in setting our operational plans from here forward. We're also able to move our products to a variety of markets throughout the US and abroad. With projects like the Shell cracker and numerous in-basin power projects and petchem facilities being contemplated near our core operating area, we're well-positioned to meet that demand when commodity prices warrant that investment.

Lastly, we're improving our cost structure by optimizing our transportation and gathering portfolio, rightsizing our G&A, and operating efficiently. In fact, we have improved our cost structure approximately 5% since year end 2018 and expect to improve an additional 5% by the end of 2019, putting us well on our way to achieving the improvements we were targeting in our five-year outlook in February. Mark will discuss the improvements that we see across the various cost items in a few minutes, but to put these unit cost improvements into perspective, every $0.01 improvement to our cost structure provides an uplift of over $8 million to annualized cash flow. In other words, the 10% improvement in unit cost we expect between the fourth quarter of 2018 to the fourth quarter of 2019 equates to over $160 million in annual uplift to cash flow or over 10% of our current market cap. These unit cost improvements demonstrate Range's commitment to efficient operations and our resiliency during the challenging commodity environment as these cost reductions provide uplift to cash flow that is agnostic to commodity prices.

For all these reasons I just mentioned, I believe Range is in good shape to not only weather the current commodity headwinds but to generate sustainable free cash flow through the cycles. We've captured a highly contiguous position in the core of the Marcellus, we have filled our infrastructure, we have the ability to reach multiple markets to sell our products; and our cost structure, shallow base decline, and peer-leading maintenance capital requirements provide a solid foundation from which we can make capital decisions.

While Range is in good shape for a challenging commodity tape, we see many reasons to be optimistic for the future of natural gas and NGLs. At a high level, we're producing cleaner, more efficient fuels that are seeing increased demand globally, demand that's growing much faster than for oil. As evidence of this, Range is in discussions with numerous second wave LNG projects that are looking to secure long-term supplies. Several of these projects made FID in the second quarter were secured key long-term sales agreements supporting our expectation that LNG demand reaches 18 Bcf per day in the next five years. Looking at where the natural gas market sits today, we're currently seeing record power demand, record LNG exports, record Mexican exports, and industrial projects along the Gulf Coast and even in Pennsylvania. This is happening at a time when natural gas producers are slowing activity and storage is at similar levels to last year when looked at on a days of supply basis. We think this sets up a very constructive story that's not being reflected in the forward curve.

At a fundamental level, we can take a look at what price might be required to meet the increase in demand that's expected over the next decade. Assuming the Permian continues to grow a couple of Bcf per day each year, we still see a significant call in Appalachia to supply incremental growth. Looking at Southwest Appalachia today, you'll find that our peers are not capable of generating free cash flow and growth at current prices. We do not expect that investors will fund massive outspends and therefore the pace of growth will slow, perhaps significantly.

Before turning it over to Mark and Dennis, I'll just reiterate that I believe Range is well-positioned for the current commodity backdrop as we have a great deal of flexibility in setting our capital program given our advantaged base decline, low maintenance capital, existing infrastructure, and improving cost structure. Range also has an unrivaled inventory of high-quality Marcellus locations that provide a good base for not only generating free cash flow at relatively low prices but to continue for decades into a market that will no doubt see other producers exhausting their core inventories. We believe that as we continue to make progress on improving the balance sheet, Range's competitive advantages and peer-leading inventory will begin to be reflected in the market. We've made good progress, having paid down $1 billion in debt over the last nine months and having generated organic free cash flow over the same timeframe, and the entire Range team and board remain committed and focused on further improving our financial position as quickly and prudently as possible.

I'll now turn it over to Dennis to discuss operations.

Dennis L. Degner

Senior Vice President & Chief Operating Officer, Range Resources Corp.

Thank you, Jeff. Consistent with our prior call, our operating teams have continued with their strong start to the year with production on track and capital spending in line with our 2019 plan. The second quarter capital spending came in at approximately 25% of the total capital budget, with first half of the year spending totaling 55% of the

2019 capital plan, both as projected. This is consistent with our plan outlined earlier in the year with activity front-loaded resulting in a lower capital spend in the second half of the year while generating a significant production increase in Q4.

Production for the second quarter came in at 2.287 Bcf equivalent per day, slightly above our production guide for the quarter. This was achieved despite some headwinds associated with unplanned weather and field upsets in the Southwest Pennsylvania liquids gathering and processing systems. Exceptional well performance in both the dry gas and liquids-rich portions of the field for wells turned in line throughout the first and second quarters helped underpin the production results captured in Q2.

The second quarter resulted in us turning in line 18 wells across both divisions. In Appalachia we turned to sales 16 wells on four pads focusing on liquids-rich acreage with the wells evenly split between the wet and super-rich areas of our acreage. In the dry gas portion of the field we continue to see exceptional performance from wells that were brought on line in the first quarter. As an example, one of our recent dry gas pads has produced over 100 million cubic feet per day for more than four months from seven wells from an average lateral length of 13,800 feet. We often talk about the strong gas rates in this area, and this pad is no different, having produced over 15 Bcfs of gross gas to-date under a constrained environment, keeping a portion of our dry gas gathering fully utilized.

Shifting to the super-rich, in the second quarter we turned to sales four remaining wells on a seven-well pad where sales was initiated at the end of the first quarter. As an example of the productivity we see in our best super-rich locations, this pad continues to produce more than 2,000 barrels per day of condensate after three months of production and is consistent with an offset pad which has been producing for more than two years and is still capable of producing over 1,000 barrels of condensate per day. Lastly, similar to the prior dry gas example this pad is flowing under constrained conditions and is keeping a part of our liquids-rich gathering system fully utilized.

As we look forward into the second half of 2019, we are scheduled to turn to sales approximately 30 wells in the third quarter which helps drive Q4 production. But well count only provides one perspective. Looking at this another way, we turned to sales just under 400,000 feet of completed lateral in the first half of 2019, with plans to turn in line over 600,000 feet of completed lateral throughout the third and fourth quarters. After adjusting for recent asset sales, we expect third quarter production to come in at 2.25 Bcf equivalent per day to 2.26 Bcf equivalent per day. With our anticipated ramp in the fourth quarter, this places our production on track and capital spending at or better than our 2019 plan.

As the story line regarding parent-child impacts continues to grow for other basins such as the Permian, we continue to see the reservoir quality of our assets, coupled with our approach to inter-well spacing and completion design, result in positive, consistent results as we continue to develop our acreage and deliver on our financial objectives. As an example, we recently turned to sales a four-well pad that was in the middle of a mature portion of our Southwest PA acreage with adjacent well development and historical production. We are in the early time production phase for these wells, but cumulative production is right in line with expectations for this area and showing no indications of impacts due to existing offset production. This is similar to long-dated results we have from going back to existing pads which has become common practice for our team.

Now, I'd like to go over some of our operational highlights for the quarter. Similar to prior quarters, our drilling team has been able to capture operational efficiency gains by drilling long laterals and returning to existing producing well pads. In the second quarter the team drilled four of our top 20 longest wells in our Marcellus program history. The average lateral length of these four wells averaged over 16,500 feet per well with a drilling cost per lateral foot that is 22% lower than the year-to-date average cost per lateral foot. We continue to see the operational and capital efficiency of drilling long laterals by increasing the average lateral length by 7% over the first quarter while reducing the average number of drilling days per lateral to eight days.

An important part of capturing these cost reductions and efficiency gains is being repeatable, and that is exactly what our drilling team has been able to accomplish. As of now, we've been able to drill over 20 consecutive horizontal well bores greater than 15,000 feet without an operational issue, a strong achievement due to the teamwork between our service partners, technical, and operational teams.

A key part of our program remains our ability to drill from existing pads while generating consistent, normalized well performance as compared to the original wells, and the second quarter was no exception as we saw half of the wells drilled in Q2 from pads with prior production. Drilling from existing pads is more capital efficient as many of the costs associated with pad construction, road upgrades, facilities, and gathering have been previously realized. Range's footprint and inventory of built producing pads also affords the flexibility to reduce site development timelines associated with design, permitting, and construction.

We have the ability to return to existing well pads that were drilled with historically shorter laterals and apply current operational techniques, new technology, and designs allowing us to produce additional reserves from the same location. An example of this I'd like to share was in the second quarter where our drilling team returned to an existing pad with two wells drilled during 2012 with a total of 6,500 feet of completed lateral length. On the return trip the team drilled an additional 52,000 feet of lateral to the pad from the same location. These wells will be completed in the months ahead and we look forward to sharing their results on a future call.

Shifting over to completions. During the second quarter the completions team successfully completed Range's two longest horizontals to-date with completed lateral lengths of approximately 18,800 feet and 18,700 feet. The team will be finishing completions operations on the remaining wells on this pad during the third quarter with first sales scheduled for early Q4. Long lateral well performance continues to impress as the wells develop producing history. As of today, we have 10 wells with lateral lengths greater than 15,000 feet with production varying from less than six months to approximately two years. As we monitor each well, we see their performance in line or above the published type curves, furthering our confidence for repeatability in a long lateral development. Lastly, we have 25 additional laterals greater than 15,000 feet in either the drilling or completion phases which should provide some exciting results to discuss in the quarters ahead.

In addition to long lateral operations, the team has continued to harvest operational and capital efficiencies by extending its water-sharing program. Utilizing other producers' water, or as we call it water-sharing, in the second quarter totaled more than 750,000 barrels which represents a 6% increase over the same time period last year and a $2 million reduction in completion cost for the quarter. This translates into real savings for our operations, increased capital efficiency; and overall, it aligns with our corporate values for safe operations while being good stewards of the environment.

To continue with this theme, the Range Appalachia operations team was an early adopter in reducing emissions and utilizing field gas to fuel both drilling rigs and frac crews. Over the past several years this was achieved by having biofuel equipment when possible. To continue this effort, the team has taken the next step by successfully completing a three-well pad with an all-electric frac fleet powered by a natural gas turbine from the Southwest PA field gas. In addition to the reduction in emissions by using clean-burning natural gas as the fuel source, the estimated cost reduction associated with the diesel fuel displaced for an over 90-stage completion was approximately $250,000. We will be utilizing this fleet on a second pad this year and evaluating the results for future consideration. To reiterate a point from earlier, it is Range's large, contiguous acreage position and ability to move back to existing pads that allows us to take advantage of this type of technology and reduce emissions and capture additional savings in the years ahead. Lastly for completions, frac efficiencies for the first half of 2019 have increased over 10% versus the same time period a year ago. We're proud of the operating team's continued success and ability to generate a safe and efficient program with a top-tier per foot cost structure.

On the gas marketing side, as Jeff mentioned we continue to have ongoing discussions with new LNG buyers. Range plans to play a part in this long-term natural gas story with current arrangements to supply 440 million cubic feet per day to five different LNG facilities. On liquids, the Mariner East 1 pipeline was returned to service in late April, allowing Range to resume exports of 20,000 barrels per day of ethane and 20,000 barrels per day of propane. Range also made use of the Mariner East 2 pipeline and rail for transporting additional propane and butane to Marcus Hook for subsequent waterborne exports. The international arbs for LPG expanded to the highest levels in five years on strong demand and curtailments in supply from various regions. This resulted in high capacity utilization at U.S. export terminals and strong premiums on exported barrels relative to domestic market sales. We expect this dynamic to continue into the third and fourth quarters.

Closing out the operations section, the team has delivered on another successful quarter by executing safe operations; by generating repeatable, long lateral operational results; and by capturing strong efficiencies, resulting in our best program yet.

I'll now turn it over to Mark to discuss the financials.

Mark S. Scucchi
Senior Vice President & Chief Financial Officer, Range Resources Corp.

Thank you, Dennis. Despite the second quarter being challenging from a commodity price perspective, Range executed on its operating and financial strategy, efficiently managed the business, remained free cash flow positive year-to-date, and continued efforts to enhance margins through prudent cost management initiatives. In summary, financial results mid-year 2019 are in line with the key principles of our business – first, operate a self-funding, cash flow generating business; second, enhance margins and profitability through both price and cost management; and third, but equally important, improve the balance sheet through monetization of assets.

With operations tracking planned results, Range has generated year-to-date cash flow from operations of $446 million compared to capital spending of $413 million, resulting in free cash flow of $33 million before dividends. As discussed last year, we made the transition to free cash flow mid-year 2018. We've continued that trend and expect to generate free cash flow for the full year 2019.

Range's ability to generate free cash flow even in a low price environment is underpinned by its capital efficiency and cost structure. Continuous efforts on optimizing costs have yielded, and will continue to yield, enhanced profitability and resiliency. For the second quarter we delivered on near-term plans with unit costs better than guidance. The quarter-over-quarter improvement of $0.05 per unit and $0.10 per unit compared to the fourth quarter last year are the result of efficiency across the board led by improvements in the gathering, processing, and transport line item. To frame this significant improvement, recall that Range guided to a $0.30 improvement over the course of the five-year outlook whereas in six months we've achieved one-third of that goal. I'll spend a minute walking through each expense line item and our expectations for each.

Gathering, processing, and transport expense was $1.45 per Mcfe in the second quarter compared to $1.49 in the first quarter and $1.51 in the fourth quarter of 2018. Last year we guided to this line item peaking at the time our last contracted pipeline capacity came on line, which was in the fourth quarter. As planned, full utilization of infrastructure is driving down this cost on a unit basis.

As a reminder, this cost consists of infield gathering, processing plant expenses, and long-haul transport for natural gas and natural gas liquids. Long-haul transport is largely a fixed cost with all of our contracted gas capacity on line. Infield gathering has both fixed and variable elements; much of the gathering system is fully utilized and, as cost recovery hurdles are met, the fixed rate component will decline over time. On the processing side, this is predominantly structured as a percent of proceeds from NGL sales and will vary with our pre-hedged NGL realizations. For context, per Mcfe gathering represents roughly $0.50, transport roughly $0.50, and processing around $0.45. The unit cost decline over the past couple quarters has been driven by modest production growth. Going forward, however, even in a reduced growth scenario there are reductions in absolute spend that can continue the improving trend in the per unit GP&T costs near, medium, and long-term.

Range's lease operating costs have declined in the absolute and on a per unit of production basis compared to second quarter last year. Range's operating costs are competitive with liquids producing peers and, at a more granular level, our cost in the dry gas areas are also competitive with best-in-class dry gas-only producers. This continued strong performance is driven by diligent operations in the field with specific savings related to water handling.

Cash G&A expenses declined in the absolute and on a per unit basis. Proactive, thoughtful management of G&A has driven current reductions but also drives expected future savings. G&A is often thought of as strictly corporate overhead; it actually includes critical investments supporting sound operations including safety, environmental, regulatory, land administration, IT as well as more administrative functions. In terms of head count, when Range's operations included more basins head count peaked at over 1,000 employees. Today, Range has approximately 750 extremely hardworking employees. Just over the last year, there's been a 12% reduction in G&A head count as a result of asset sales and a reduction in force. Active surveillance of expenses by teams at Range of every element in G&A is expected to generate future cash savings of roughly 10% in absolute dollars on an annualized run rate basis.

On the matter of equity compensation expense, as a reminder it should be noted that even though potential stock grants – specifically performance shares – are expensed, that does not mean shares were issued. In fact, significant forfeitures have been experienced which is evident in the modest change in diluted shares outstanding.

During the quarter we closed on acreage sales of $34 million and, as recently announced, we have signed and now closed on the sale of royalty interests for gross proceeds of $600 million. Divestiture proceeds; reduced borrowings; and, pro forma, the borrowings under the bank line of credit as of June 30 would be $295 million or less than 10% of the borrowing base. This results in pro forma liquidity under the borrowing base of nearly $2.5 billion. The borrowing base approved in March already contemplated the royalty sales and certain other divestitures. Consequently, there was no change to the borrowing base.

Range was in full compliance with the financial covenants in the credit agreement, and with the asset sales completed we have further bolstered that position. There are three financial maintenance covenants under the revolving credit agreement. One, a minimum current ratio; two, a minimum cash interest coverage ratio; and three, a minimum ratio of present value of reserves at bank pricing to total debt. Each of these has substantial cushion. Additional disclosure has been added to the company presentation further explaining these items.

Looking at Range's debt maturity profile, our first maturity is mid-2021. With ample liquidity under the revolving line of credit, we effectively have a backstop to help manage maturities. We remain focused on reducing debt, reducing borrowing costs, and maintaining a comfortable maturity ladder. On the topic of further balance sheet improvement, we are currently marketing several additional opportunities. These processes are in various stages and, as we have consistently done in the past, we will announce results but we will not negotiate against ourselves by establishing a public dollar threshold or timeline. Suffice it to say, we have a deep inventory of projects that we believe we can divest at reasonable values particularly in comparison to the value of our common equity.

As we look at the progress made to-date in 2019, tangible achievements have been delivered against the plan as laid out early this year. As we look forward to the balance of 2019, we intend to successfully execute on our plan of generating positive free cash flow while we accelerate value creation through inventory management. In summary, we remain focused on converting consistently efficient operations on top-tier acreage into tangible shareholder returns in the form of free cash flow, through the application of a disciplined capital allocation framework coupled with continuous cost management efforts.

Back to you, Jeff.

Jeffrey L. Ventura
President, Chief Executive Officer & Director, Range Resources Corp.

Operator, let's open it up for Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you, Mr. Ventura. [Operator Instructions] Your first question comes from the line of Kashy Harrison with Simmons Energy.

Kashy Harrison
Analyst, Simmons Energy

Q

Good morning everyone and thanks for taking my questions. So I know it's early to talk about 2020, but I was wondering if you could share some color on how we should think about capital allocation in a $2.50 environment.

Jeffrey L. Ventura
President, Chief Executive Officer & Director, Range Resources Corp.

A

At a high level, let me just say we have a lot of flexibility and very low maintenance capital. But Mark, why don't you talk a little bit more about our framework and thought process?

Mark S. Scucchi
Senior Vice President & Chief Financial Officer, Range Resources Corp.

A

Sure. I think the key principle that we've laid out in the strategy section upfront in the company presentation is the fact that our capital allocation process starts with free cash flow as a priority. So given Range's peer-leading decline rate, low maintenance CapEx number, and the fact that we have tremendous latitude nearly every option is on the table as we chart the path through the end of 2020. We have no drilling obligations; our infrastructure is fully utilized. So with that, we can be responsive to prices, adjust the capital spending appropriately. And as we gain a little bit greater visibility into 2020, as this year unfolds, we can design the most suitable program, again being responsive to both gas and NGL prices.

Kashy Harrison
Analyst, Simmons Energy

Q

Got you. So spending down year-over-year; got it. And then the other question I had, there was some commentary earlier in the call on just a lot of discussion on reducing cash cost to drive sustainable improvements in free cash flow generation moving forward. I was wondering if you could just share some thoughts on consolidation as a whole – your thoughts on consolidation as a whole in the Appalachian Basin and whether there could, in fact, be opportunities to expand free cash flow potential through mergers of equals and reductions in head count and so forth? Thank you.

Jeffrey L. Ventura
President, Chief Executive Officer & Director, Range Resources Corp.

A

Yeah. I would just say – I'll start with Range and then try to hit – actually answer your question at the end. But I think we're in a good position. When you look at Range, we have strong inventory but then you've got to look at the specifics of each company. So we have, I think, one of the lowest corporate decline rates really even in the basin which puts us in a good position, very low maintenance capital. We're capable of generating free cash flow now versus our peers in the south. We can generate free cash flow and get a little bit of growth; most of our peers or all of our peers in the southwest part of the basin aren't doing that. Midstream commitments that we have are full. When you look at our cost to drill and complete, they're the lowest in the entire basin; in fact, a lot of the peers are striving to hit our costs. And we think we can drive those down through technology and probably through a softening of the service cost environment, our acreage is HBP and so on. So I think we've got a great path forward. Everybody talks about consolidation in the basin, and theoretically some of those things could make sense, but I think we'll stay disciplined in terms of the path that we're on. But from a theoretical point of view, you could argue some of that could make sense.

Kashy Harrison
Analyst, Simmons Energy

Q

Got it. That's it for me. Thank you.

Jeffrey L. Ventura
President, Chief Executive Officer & Director, Range Resources Corp.

A

Thank you.

Operator: Thank you. And your next question is from the line of Arun Jayaram with JPMorgan

Arun Jayaram
Analyst, JPMorgan Securities LLC

Q

Yeah, good morning. I wanted to get your thoughts on if Range decided to move into maintenance mode in 2020, call it from a 2.4 Bcf a day fourth quarter kind of exit rate, what type of capital rig activity [ph] tails (00:34:31) would you need to keep, call it, that fourth quarter run rate to flat from an overall production basis?

Mark S. Scucchi
Senior Vice President & Chief Financial Officer, Range Resources Corp.

A

Sure, Arun. This is Mark. I'll start with that and then we can each chime in from an operational perspective and so forth. So the D&C maintenance CapEx that we had guided for 2018, the fourth quarter from 2017, was $525 million; add in let's call it $50 million or so in land. If you roll that forward to our exit rate, the number as you guided to, and think starting from a higher rate and holding that flat, you're probably in the low $600 million range for D&C maintenance CapEx from fourth quarter 2019 to fourth quarter 2020. But keep in mind that since you're holding the high point from 2019 through calendar 2020, that's actually generating call it mid-single-digit type growth on an annualized basis.

Arun Jayaram
Analyst, JPMorgan Securities LLC

Q

That's helpful. And any just thoughts on rig activity or [ph] tails (00:35:39) to do that?

Dennis L. Degner
Senior Vice President & Chief Operating Officer, Range Resources Corp.

A

Yeah, this is Dennis. We've taken a strong look throughout the balance of the year at what it would take especially as we looked at early on the five-year outlook. And the program that we have in place now, one of the focus is how do we maintain our leading operational efficiencies and keep driving down our cost structure, and we feel like we're able to do that with the current rig activity that we have in place in Southwest PA with a couple of rigs and also a frac crew or two. It'll be focused on making sure that we keep water handling, those efficiencies, and as we talked about the water-sharing value harvested. So we feel like it's going to be more in line with what we actually have as we finish out the second half of the year.

Arun Jayaram
Analyst, JPMorgan Securities LLC

Q

Great, appreciate that commentary. My next question, you guys have guided to a 5% decline in your unit cost structure between the second quarter and the fourth quarter. Assuming you do go to maintenance mode next year just as a case or scenario, Mark, what are your thoughts on your cash cost structure in 2020? I do believe some of your Terryville MVCs do roll off next year. But just directionally, how do you think your per unit costs would trend into 2020?

Mark S. Scucchi
Senior Vice President & Chief Financial Officer, Range Resources Corp.

A

Yeah, I think that's a good and a very important question. So the cost trend both on a per unit basis and, in certain contracts, in the absolute spend sense do decline into next year. As you point out, there is a processing capacity agreement where our MVC rolls off early in 2020 with a fairly substantial reduction in cost there. Again, full utilization of the capacity that came online at the end of 2018. Further optimization, to the extent there's growth that's being sold in-basin, again further drives down the unit costs on a GP&T basis. I would couple that with the trend line you've seen in absolute reductions on LOE. The team has been extremely efficient in handling water and found opportunities there. Our G&A savings that we've achieved so far this year, many of the additional initiatives have not materialized because we're waiting for contracts that are not being renewed to roll off over the remaining months of this year, so the benefits of those will really materialize in 2020.

So setting growth aside for a moment, we think that we can continue to achieve meaningful improvement in the unit cost structure. I would also add to that that there's some additional savings on the gathering processing, specifically transport side, as ME2 comes online next year. Currently, some barrels are being railed which is more expensive. So once ME2 comes online we'll still be able to reach exports and reduce that absolute spend.

Arun Jayaram
Analyst, JPMorgan Securities LLC

Q

Great. Thanks a lot.

Operator: Your next question is from the line of Ron Mills with Johnson Rice.

Ronald E. Mills
Analyst, Johnson Rice & Co. LLC

Q

Good morning. Question maybe for you, Mark, I don't know. On NGL pricing, you have a couple really good slides in terms of how the macro is improving in terms of days of storage, and if you look at your realizations relative to a Mont Belvieu barrel they've just improved significantly over the past six to nine months. Wondering if you could just provide a little bit more color on your outlook for NGLs and how do you think that translates in terms of timing and relative price improvement?

Dennis L. Degner
Senior Vice President & Chief Operating Officer, Range Resources Corp.

A

Yeah, Ron. This is Dennis. I'm going to pitch this over to Alan. I think he's going to have some good color on just how we view the downfield vision of NGL pricing and where things are headed.

Alan Engberg
Vice President-Liquids Marketing, Range Resources Corp.

A

Hey, Ron. This is Alan Engberg. I head up our liquids business. Man, I could give you a whole kind of dissertation on NGL so I'll try to keep it brief and just to say that, yeah, the second quarter prices were challenging, but overall fundamentals are actually improving as we speak and we're kind of cautiously optimistic and encouraged by some of what we're seeing during the second quarter. But if we look at let's say propane as a proxy for the NGL barrel, going into the second half of this year we see things – let's say we ended the second quarter, in particular in the northeast, with stocks that were lower year-on-year. In fact, they were roughly on a four-week moving average basis using the EIA PADD 1 data, at the end of the second quarter we were 7% under last year; and as of the most recent EIA posting, again on a four-week moving average basis, we're roughly 8% under last year, so the northeast is actually tightening.

If we take a broader look at the overall US fundamentals, they're also improving. In fact, we started off from a high level at the end of the first quarter and we started the build season probably 25% higher than where we were a year ago. But during the second quarter, especially May and June, we started to work that off. In fact, June in particular we saw inventories actually decrease by roughly 5 million barrels year-on-year. So for those reasons we're going into the third quarter now with fundamentals that are actually starting to improve. In particular, we're looking at an addition to export capacity that's going to be coming up during the third quarter; that's Enterprise's terminal where they're adding 175,000 barrels per day, and that's going to free up the U.S.'s ability to move more product. We're seeing again from the tightening fundamental trend that we've been seeing of late, we're expecting that we're going to get into start of winter with inventories on a day supply basis that are going to be lower than last year. We have additionally new export capacity coming on during 2020 that is significant; it's like 750,000 barrels of new export capacity which is way in excess of what supply growth is going to be. So overall, for all those reasons we think the picture looks pretty good.

Now, some people might ask can the rest of the world absorb all the exports that the U.S. is going to be sending out? And for that – you said you'd looked at the slide deck. If you look at, I think slide number 39, if you don't mind I'd be happy to walk you through that. But in slide 39, for global LPG S&D, we start with demand of around 9.6 million barrels at the end of 2018. Now, the last five years we've had growth of roughly 5% globally for LPG. To be conservative, we're going to say growth over the next five years will be 3%. And if we apply that to the base demand which is rescomm, kind of home heating, industrial, auto gas, we get growth over the next five years of around 850,000 barrels per day. Then we take a look at the chemical sector, and we won't apply the 3% on that;

we'll actually be stricter and we'll say let's just look at projects that are under construction globally and projects that are post-FID, so they've got their financing in place. That adds another 700,000 barrels per day of demand, so it's 350,000 barrels per day for PDHs and 350 barrels per day for ethylene plants that'll consume LPG, so total demand growth is about 1.6 million barrels.

Then if we look at the supply side, the EIA's global outlook came up with supply growth outside of the US over the next five years for LPG of 350,000 barrels per day; that's only 22% without increase in demand. So that means that the rest of it is up to the U.S. to fill and that's a call on the U.S. of 1.2 million barrels per day. Now at current strip pricing, one of the consultants that we respect, we looked at their numbers and their forecast is growth of only 750,000 barrels per day. So do the math on that and we end up with a global short of around 450,000 barrels per day. Now, that's just one scenario but it's a decent scenario that says, number one, the world does want the rest of the U.S.'s exports, the U.S. needs more export capacity, and you could argue it needs more supply if this scenario plays out. Does that answer your question? Hello?

Operator: He is out of queue now.

Alan Engberg
Vice President-Liquids Marketing, Range Resources Corp.
A

Okay.

Operator: We are nearing the end of today's conference call and we will go to David Deckelbaum of Cowen for our final question.

David Adam Deckelbaum
Analyst, Cowen & Co. LLC
Q

Thanks for putting me at the end, guys. I appreciate the time.

Jeffrey L. Ventura
President, Chief Executive Officer & Director, Range Resources Corp.
A

Thank you.

David Adam Deckelbaum
Analyst, Cowen & Co. LLC
Q

I just had two questions. One, congratulations on the recent overriding royalty interest sale; it took about a half a turn out of your leverage. What other meaningful opportunities have you identified and can we expect similar types of impacts within the efforts going forward? And would you be willing or do you have the capacity to do similar transactions now?

Mark S. Scucchi
Senior Vice President & Chief Financial Officer, Range Resources Corp.
A

Yeah. This is Mark. I'll start off. So given the sheer depth of inventory of projects, the scale of our footprint, the time horizon we're talking about in terms of developing that, there are extremely high-quality projects that we believe can find a good bid in the market today. We are focused on as I mentioned during my scripted portion accelerating the value of some of that through the divestiture processes. We have a number of processes underway. I'm reluctant to get into specifics on any one, but suffice it to say we are actively working multiple meaningful projects and would eagerly look forward to announcing those. But we are keenly interested in monetizing some of that, materially improving and altering the capital structure, and capturing some of the value from the depth of this inventory.

David Adam Deckelbaum
Analyst, Cowen & Co. LLC

Q

Would that include other potential overriding royalty interest packages?

Mark S. Scucchi
Senior Vice President & Chief Financial Officer, Range Resources Corp.

A

I would say we've got a very open mind. I mean, you could see the value and the bid for those that we've achieved in three transactions, raising $900 million. So there's clearly a bid for that type of asset, so we would keep that in mind.

David Adam Deckelbaum
Analyst, Cowen & Co. LLC

Q

Okay. I guess I just recall the last time you guys were asked about this, I think you had said that you would be willing to do up to 2% this year. I guess can you remind us why that was the upper limit and what might exist beyond that?

Mark S. Scucchi
Senior Vice President & Chief Financial Officer, Range Resources Corp.

A

As we laid out the guidelines, what we were starting with was roughly an 83% NRI, and as guideposts we said that we think that being around 80% would still be an advantageous position for Range to be in relative to average NRIs of peers and it's clearly not a material detriment to the returns of the wells. So that's not a hard and fast number; it was a guidepost that we were indicating that even after divestiture of a few points we would still be in a very strong position, and I think that sitting at 80% today I think we find ourselves in still a very good position.

David Adam Deckelbaum
Analyst, Cowen & Co. LLC

Q

Yeah, I'd agree. My last question, just if you might – could you give us any specific dollar color on the savings you'll experience next year and the following year from some of the MVCs rolling off I guess just as a total dollar amount to the company?

Mark S. Scucchi
Senior Vice President & Chief Financial Officer, Range Resources Corp.

A

What I'll do is actually point you to the old disclosures on the North Louisiana assets. You can look back at the MVC processing commitment. It's not material to Range's overall costs in terms of the individual contracts, but I'll point you back to the last 10-K that Memorial would've filed that broke down the individual contracts, the capacity, and the timeline, and you can calculate what the roll off is.

David Adam Deckelbaum
Analyst, Cowen & Co. LLC

Q

Okay. All right. Appreciate the time guys.

Jeffrey L. Ventura
President, Chief Executive Officer & Director, Range Resources Corp.

A

Thank you.

Mark S. Scucchi
Senior Vice President & Chief Financial Officer, Range Resources Corp.

A

Thank you.

Operator: Thank you. And this does conclude today's question-and-answer session. I'd like to turn the call back over to Mr. Ventura for his closing remarks.

Jeffrey L. Ventura
President, Chief Executive Officer & Director, Range Resources Corp.

I just want to thank everybody for participating on today's call and feel free to follow up with our IR team with additional questions. Thank you.

Operator: Thank you for participating in today's conference. You may now disconnect at this time.