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Range Resources Corp. (RRC)

Q4 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Range Resources Fourth Quarter and Year End 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.

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 year-end earnings call. The 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've posted on our website. We also filed our 10-K with the SEC yesterday, it's 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've 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, everyone, for joining us on this morning's call. Looking back at 2019, Range made steady progress on key strategic objectives, improving our cost structure, executing multiple accretive assets sales, reducing debt, bolstering liquidity, and completing our 2019 drilling program safely and under our original budget.

Looking at unit costs first, Range was able to reduce cash unit costs by 12%, over the course of 2019. Mark will touch on the improvements in more detail, but it's important to point out that these unit costs reductions drive lasting enhancements to margins and cash flow that don't require a change in commodity price.

While we made significant improvements across the board in 2019, on GP&T, LOE, G&A, and interest expense, we remain focused on becoming even more efficient in the years ahead. Operationally, the team continues to innovate and reduce normalized well costs.

As a result of thoughtful planning, efficient operations, and a laser focus on capital discipline, the team was able to deliver the 2019 operational plan for $28 million less than originally budgeted. This is the second consecutive year Range has achieved these types of savings, spending less than budgeted, which is a reflection of our commitment to discipline capital spending.

Range has been a leader in well costs per foot amongst Appalachian producers, since discovering the Marcellus. As Dennis will discuss the operational plan that we've laid out for 2020, shows that we're continuing to find ways to become even more efficient with our well costs approaching $600 per lateral foot, which is the best amongst our peers. Range's class-leading D&C costs, coupled with our shallow base decline, and our substantial core inventory, all come together to support a very low and sustainable maintenance capital. Range's base decline entering 2020 was approximately 20%, allowing for maintenance capital of approximately $500 million.

Importantly, this maintenance capital figure is sustainable as the lateral footage Range's drilling, completing, and turning in line for the year, is all very similar, leaving us well positioned to continue into 2021 and beyond, with equal or better capital efficiencies. This is unlike what we've seen from many others in the industry, who are relying on significant DUC drawdown for massive outspends in the last couple of years to provide a short live tailwind in the 2020. Rather, our $525 million, all-in capital to produce 2.3 Bcfe per day is sustainable going forward and is a positive differentiator for Range.

We announced this year's $520 million capital program last month, which is aimed at aligning spending with cash flow. Prices have come down since then. But we are fortunate and that we have flexibility to adjust our program as we are efficiently utilizing our existing infrastructure and have cushion over and above our various commitments. In every year's budgeting cycle, we're looking at multiple scenarios, as we seek to optimize our operational plans and financial outcomes. This year is no different and if we don't see an improving macro. We will adjust our capital accordingly, as aligning spending with cash flow remains a priority.

As I just previously highlighted, Range's coming below budget for the last two years. [ph] We'd (4:56) touted our shallow base decline, low well costs, and maintenance capital requirements for years. Importantly, these positive differentiators bear out in the reported results. Taking a simple look at the relative capital efficiency, using actual D&C capital spent for unit of production. Range led all Appalachian producers in 2019, and we expect similar results going forward as others' exhauster core inventories in the years ahead, Range remains well-positioned with multiple decades of inventory, providing us a solid base for delivering free cash flow over time.

Looking back at the last 18 months, Range also made significant progress, bolstering our financial position. Not only have we improved our cost structure, streamlined our operations and continued to add hedges, our capital spending has been at or near cash flow from operations, allowing us to reduce absolute debt by approximately $1 billion through asset sales.

In the fourth quarter of 2019, we also increased the commitments on our credit facility from $2 billion to $2.4 billion, further enhancing liquidity. When paired with the refinancing of $550 million of debt in January. Range has materially de-risked its go-forward plans. We remain active in our efforts to monetize additional assets and remain focused on positioning the company for success through the cycles.

The asset sales that Range accomplished in 2019, not only improved our financial position, but also reflect the significant value that Range has in its asset base, value that we believe is not reflected in the equity market today. This substantial store of value is also reflected in Range's proved reserves at year-end 2019.

At year-end 2019, the PV10 of Range's proved reserves was $7.6 billion. For context, after backing at our current debt balances, this equates to over $17 per share. In addition to proved reserves, which only accounts for the next five years of development, Range also has thousands of additional core Marcellus wells that provide Range, a class-leading inventory and future runway.

As inventory life and core exhaustion become growing narratives for the shale industry, Range's depth of core inventory is an important differentiator and competitive advantage in comparison to both Appalachian peers as well as operators in other basins.

Before turning it over to Mark and Dennis, I'll reiterate that I think Range has made great progress over the last 18 months in the face of a difficult commodity environment. We lowered our unit costs significantly, we delivered our operational plans at less than originally budgeted for the second year in a row, we continue to lead in well costs and capital efficiencies, and we significantly derisked our go-forward plans, paying down over $1 billion in debt and refinancing our nearest-term maturities.

Over to you Dennis.

Dennis L. Degner

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

Thanks, Jeff. Capital spending for the fourth quarter came in at approximately $152 million, with our capital spend for the year totaling $728 million. This includes $667 million for drilling and completions, $57 million on acreage, and $4 million for gathering and other support activity. Our actual spend was $28 million below our capital plan set at the beginning of 2019 and is a direct result of the [ph] operational and – upon (8:15) Range's operational efficiencies, implement innovative technologies, such as an electric fracturing fleet and reduced service costs in the current environment.

Similar to our message one year ago, the initiatives that underpinned our capital underspend in 2019 are primarily attributed to the continued success of our water recycling program, improved drilling and completion efficiencies and service cost reductions.

I'll go into more detail on these items in just a few minutes. Last year our message was clear. We expect capital spending at or below budget to be the rule, not the exception, and the team delivered yet again. Production for the fourth quarter came in above 2.34 Bcf equivalent per day, putting us firmly at the upper end of our Q4 production guidance.

This generated annual production of approximately 2.28 Bcf equivalent per day, 4% higher than 2018. Our annual production was comprised of 30% liquids and includes the production impact of asset sales executed during the year. Continued excellent field run time of our operations and strong well performance from both new and existing wells across Southwest PA helped us deliver on our production plan to round out the year.

As we look forward into 2020, our capital budget has been set at $520 million with our activity focused on the Appalachia, Marcellus program. We have earmarked 94% of the capital to be directed towards drilling and completions-related activity which is in line with last year's budget. The program will consist of 72 wells being turned to sales during the year, while capital allocation will result in approximately 50% of our turn-in lines to be located in our dry gas acreage with the remaining 50% being split across our liquids-rich position.

Similar to prior years, approximately half of the wells planned to turn to sales this year will be from pads with existing production.

Moving back to pads with existing production has become a routine part of our program year-in and year-out, allowing us to reduce costs, maximize infrastructure utilization and now will be a great fit with an electric fracturing fleet, which I'll go into more detail later.

Our planned average horizontal length per well is projected to increase this year. With our turn in line averaging approximately 11,200 feet, while the average drilled horizontally will increase to over 11,400 feet, a year-over-year increase for both. The capital plan for 2020 is projected to maintain production at approximately 2.3 Bcf equivalent per day and provide ample flexibility as we evaluate options for 2021.

Consistent with prior years, capital spending is expected to be weighted towards the first half of the year, with approximately 60% of the capital spend taking a place across the first and second quarters.

Looking back on some of the fourth quarter's operational highlights. In Appalachia, the team turned to sales 23 wells on seven pads during the quarter, from an average horizontally of over 11,900 feet. This brought the 2019 total number of wells turned to sales to 84, with approximately 60% of the wells located in the wet and super-rich portions of the field, allowing for utilization of existing infrastructure.

The wells turned to sales in the fourth quarter were spread across all three areas of the field covering our dry, wet and super-rich acreage and generated some of our top-producing wells for the year. This included six of our top-producing wells for 2019.

In the wet gas area, we turned to sales 10 wells in the fourth quarter with an average horizontal length of more than 14,500 feet. The wells were strong performers and help fully utilize our wet gas gathering system in Q4, resulting in lower unit costs.

In the super-rich portion of the field, we turned to sales 5 wells on 2 pads in the quarter. These pads were approximately 30 miles apart, flanking the north and south ends of our super-rich position. Both pads have generated strong 30-day rates of more than 15 million cubic feet equivalent per day per well, further showing the consistency of our acreage and ability for repeatable performance in the years ahead.

And lastly, in the dry gas area, we turned to sales our highest total producing pad of 2019 where our 7-well pad was turned to sales early in the fourth quarter and produced at approximately 150 million cubic feet per day under constrained conditions for the remainder of the year.

In addition to drilling some of our longest laterals in 2019, the team was able to achieve new operational efficiency levels with our average daily lateral footage drilled increasing approximately 30% in the fourth quarter, compared to Q3 and 36% higher than the full-year average.

In fact, during the quarter, Range experienced our most efficient month for drilling operations, capturing an average daily lateral footage drilled of more than 5,200 feet per day, all while staying within our planned target level. This substantial increase in daily footage drilled is directly attributed to utilizing the latest directional drilling and drilling fluid technologies for both curve and lateral applications. This type of performance is a key driver in our peer-leading drill and complete capital efficiency for 2020.

In completions, during the year, the team completed just under 4,400 frac stages at an efficiency of 6.8 stages per day, which represents an 8% increase compared to the prior year, all while reducing the average number of crews needed.

In addition to improving efficiencies, the completions team continued their testing efforts of an electric-powered fracturing fleet, which resulted in contracting that fleet starting in the fourth quarter. By replacing the diesel fuel with this fleet on the 3 test pads in 2019, the team was able to capture over $1.5 million in savings, while reducing operational noise levels and emissions.

When we look at using EPA emissions factors, utilizing this technology versus a conventional fleet becomes impactful, creating a significant reduction in emissions. Combined the emissions reduction with the ability to fuel our operations with clean burning natural gas and we see this as a significant win on several fronts and a great next step to achieving our environmental goals.

The fleet will be fully utilized in our 2020 program, as we operate on pads with existing production, which again represents approximately half of our activity this year. In the fourth quarter, the team also initiated our first efforts to source frac sand directly for our completions.

Projecting from our early savings observed and completed – and coupled with the cost reduction associated with the electric fracturing fleet, is estimated to reduce completion costs by approximately $30 million in 2020, producing yet another layer of durable cost reductions.

Lastly, similar to our discussions on prior calls, Range's water recycling program continues to reduce costs and improve efficiencies in Appalachia. In addition to recycling 100% of Range's Southwest PA water, utilizing other producers' water totaled just under 5 million barrels in 2019 and represented a year-over-year increase of more than 12% versus 2018. And as a result, reduced our completion costs by over $10 million.

In addition to the efficiency gains, cost reductions and technology deployment, the teams have remained just as focused on our safety performance. Through training efforts and job task evaluation, the teams were able to reduce contractor workforce OSHA recordables by 29% and preventable vehicle incidents just under 15%, compared to the prior year. The message from our team is loud and clear. Having a safe work environment is of paramount importance and we look forward to building upon these results in the year ahead with expanded goals and initiatives.

When you consider the repeatable operational efficiencies captured by the teams, deployment of new technology, water recycling, and utilizing pads with existing production, we see this translating into a durable market-leading capital efficiency, producing a drill and complete cost of $610 per foot.

On the marketing front, the current natural gas strip is obviously challenged, but we see reasons for optimism as it relates to natural gas fundamentals. Looking out through the balance of the year, with the reducing rig counts and frac crews, along with the shift by most producers to spend at or below cash flow and lower year-on-year CapEx guidance, we anticipate US natural gas supply will decline year-over-year as we exit 2020, the first decline since the spring of 2016.

On the demand side, additional coal-to-gas switching is leading to record winter gas power burn and additional coal plant retirement announcements. US LNG feedgas recently reached new highs in excess of 9 Bcf per day in late January.

Looking internationally, we are cautiously optimistic that higher coal-to-gas switching in Asia and Europe and lower pipeline gas imports into Europe can contribute to rebalancing European gas storage this summer.

Looking into next year, a significant slowdown in global LNG supply growth and potential improved industrial demand in Asia points to improving fundamentals, with 2021 international gas prices continuing to trade above $5 per MMBTU. We believe this improving demand picture coupled with declining domestic supply, should serve to improve domestic natural gas balances and pricing.

On the liquids side, Range's fourth quarter NGL realizations increased on continued escalations of premiums at the export dock, as well as crop drying demand for propane and heavy gasoline blending demand for butanes.

Looking forward, starting in April 2020, Range will increase its capacity on Mariner East 2 as we continue to see a significant benefit to international LPG exposure. International demand growth for 2020, coupled with the lack of US Gulf Coast capacity expansions until later this year, is expected to support strong premiums at Marcus Hook. This is reflected in our 2020 NGL pricing guidance of a premium to Mont Belvieu for Range's barrels.

As we wrap-up the operations section, I'd like to congratulate our teams for all their achievements in 2019 along with the creative initiatives being executed today, allowing us to deliver on our operational, safety, and environmental goals, all while we produce our most operational and capital-efficient program yet.

I'll now turn it over to Mark.

Mark S. Scucchi

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

Thank you, Dennis. As mentioned on previous calls, our strategic priorities or guiding principles are to fund investments in the business from cash flow to further strengthen the financial position and to protect and grow margins through continuous cost management and innovative sales agreements. Collectively executing on these principles, we believe can create significant sustainable stockholder value.

First, let's discuss significant strides taken reinforcing Range's financial foundation. We've been decisive and early to monetize assets as the first among public peers to sell royalty interests and non-core acreage for $1.1 billion. Scale and cost advantage asset base supported a $400 million increase in commitments under the bank credit facility during the fourth quarter. And in January, we were prepared and moved quickly to issue unsecured bonds raising $550 million in capital to refinance nearer-term maturities.

In the aggregate, this totals over $2 billion in capital brought into the business over the last 15 months, reducing debt by 22%, expanding liquidity by $1.2 billion, and extending the debt maturity profile.

Questions are common in this market about the workings of a reserve-based lending facility [indiscernible] (19:47) of current bank commitments. We have consistently made conservative elections to set Range's borrowing base and commitment levels well below the calculated value according to reserve-based lending methodology.

At the last redetermination date, the maximum calculated borrowing base under RBL methodology, was approximately $4 billion. This compares to the $2.4 billion in commitments. We will soon have our annual redetermination. And using the latest price assumptions from lenders, we continue to see substantial cushion above both Range's $3 billion borrowing base and its $2.4 billion in commitments.

Consequently, we are confident in the durability of Range's liquidity position. We believe Range's debt reduction, refinancing and expanded liquidity, creates a long runway [ph] several years (20:36), before there is a need to access capital markets. Despite creating a long runway, it is not our strategy to passively wait for improved prices. Though, we do believe visibly declining US production and growing demand will rebalance prices. Nevertheless, asset sales remain a high priority and we are actively marketing and negotiating multiple packages. These are our formal processes and we look forward to announcing results. As is our practice, rather than publicly set a target divestiture amount, we'll strive to maximize value for stockholders, as quickly as we can.

As investors evaluate our plans and objectives for 2020, including possible divestitures, it's informative to recall what we have successfully delivered towards prior plans, as well as what we intend to do going forward. Results for the fourth quarter and full year 2019 reflect Range's focus and ability to deliver on financial and operating objectives.

Consistent with prior periods, operating efficiency and our close attention to capital discipline, delivered planned production, capital spending better than budget, and continuing to drive down unit costs. Capital spending for 2019 beat budget by $28 million.

Turning to cash unit costs and continuing progress to drive unit costs to and below $2 per Mcfe. In the fourth quarter, Range achieved all-in cash cost of $1.92 per unit of production, including lower LOE, gathering, processing transport, G&A and interest expense. We delivered on guidance and the forecasted trend in unit costs. The quarter-over-quarter improvement of $0.10 per unit, and $0.26 per unit compared to the fourth quarter of 2018 are the result of efficiency across the board led by improvements in gathering, processing, and transport.

Over time, we expect a downward trend in cash unit costs to continue. At times, margin enhancing, transportation or sales agreements may cause slight upticks in GP&T expense, due to the accounting geography in the income statement. But when that occurs you will see higher relative expected sales price and higher margins.

As an example, this year Range has capacity on Mariner East 2 slated to come online. These barrels are currently transported by rail under a net price arrangement. Consequently, when the pipeline capacity is available that transport costs will be classified as GP&T expense, but it is more than offset with improved margins.

It is also worth noting that, no incremental production is needed to fill this capacity. To put these unit costs savings in perspective, just assuming 2019 annual production of 833 Bcfe each $0.01 in margin adds over [indiscernible] (23:17) to the bottom line [Technical Difficulty] (23:18 – 23:24) direct operating expenses continue to benefit from efficient water handling and the sale of legacy properties.

G&A has been reduced through both asset sales and staffing reductions, with full-time employee head count reduced 18% this year. Annual cash interest expense was also reduced by $19 million due to lower debt balances. In the fourth quarter, we recorded non-cash impairment charges reducing book value of proved and unproved properties in North Louisiana.

The non-cash charges for North Louisiana result from our strategic focus on the highest-return projects in the Marcellus. The lack of intent to drill the unproved Louisiana acreage, combined with lower commodity prices, affecting the book value of Louisiana proved properties. There were no impairments of the Marcellus.

The first step in a GAAP proved property impairment test is to compare undiscounted future net revenue to book value. At year-end strip pricing for the Marcellus, future net revenue exceeds book value by greater than $20 billion, or roughly 600%, providing substantial cushion.

As we begin 2020, while near-term commodity prices remain under pressure, Range's resilience and its ability to adapt has been demonstrated. For 2020, Range developed a plan driven by internal cash flow preserving and enhancing liquidity, maintaining capital efficiency, managing leverage, and efficiently utilizing existing infrastructure.

In planning these objectives to maximize value from the 2020 capital program, we developed a $520 million capital plan that is focused and efficient with virtually all capital going to the Marcellus. This 2020 budget is 31% or $236 million lower than 2019's budget and targets production approximately flat to fourth quarter 2019.

Range is well hedged for 2020 with over 60% of natural gas protected at an average of $2.64 and approximately 80% of our condensate hedged at $58 per barrel. Additionally, the capital plan is flexible such that we can and will adapt spending to changes in commodity prices.

In summary, Range delivered again on its operating and financial plans, has created significant running room for supply and demand to rebalance prices, recast the cost structure to enhance resilience for a low-priced environment, and continues to work meaningful asset sales with the goal of continuing these trends.

Jeff, back to you.

Jeffrey L. Ventura

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

Operator, we'll be happy to take questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. Mr. Ventura. The question-and-answer session will now begin. [Operator Instructions] Your first question comes from the line of Arun Jayaram with JPMorgan. Your line is open.

Arun Jayaram
Analyst, JPMorgan Securities LLC

Q

Yeah. Good morning. My first question involves the capital allocation in 2020 versus 2019. As you mentioned in your prepared comments, you're now allocating 51% of the capital to the dry gas assets in Southwest PA versus 36% last year and it does reflect lower capital allocation to the super-rich. So just wondering if you could talk about the year-over-year changes in that higher capital allocation to dry gas, just given the weakness we were seeing in gas prices?

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

A

Yeah. Good morning, Arun. This is Dennis. As we look at the plan, really year-in and year-out, it's important that we look at a host of variables on how we consider capital allocation. And one of those being where we have room in the existing gathering system and our ability to fully utilize that and keep our unit costs low.

Part of Q3 and Q4 of last year really involved a – 65% and 73% of our turn-in lines were really in wet and super-rich. So we're now getting an opportunity today to harvest those volumes as a part of the plan that were toward the second half of last year. That's critical and key when you think about just the development process as a whole.

But as we look towards the 2020 program, there will be 20% – 50% of the program be in the dry gas and that is to also utilize some gathering that was – a project that was starting to be put in place toward – in the middle of 2019 is in further developing. So again, we'll fully utilize that and look to keep our unit costs low.

Lastly, we always keep some flexibility in the plan with our ability to move back into existing pads, so that when we do see commodity prices change, we always allow for some flexibility so that we can move back into those pad sites and take advantage of market condition changes. But we don't tend to also try and overcorrect on the steering with our program because we also know it's key to stay focused on multiple metrics.

Arun Jayaram
Analyst, JPMorgan Securities LLC

Q

Great. And I just wondering, if perhaps you could elaborate a little bit more on the Mariner East 2 capacity. You mentioned it is driving up your GP&T costs. But could you comment on what you expect is the offset in terms of the NGL price?

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

A

Yeah, sure Arun. This is Mark. I'll start and then hand it over to Alan Engberg, our Vice President of NGL Marketing. So I think the first key point to understand is the accounting behind this. It's really geography in the income statement. As I tried to describe in the scripted portion of the call, the current sales arrangement is net price, meaning we are paid a price that is after the cost of transport by rail that is carried by the buyer.

When this capacity comes online, it is something that Range can control and optimize. So in essence it's a check that we're cutting, it shows up in the gathering, processing, transport line item. But we receive a higher price. So net-net, this is a cost saving and margin enhancement because moving NGLs by pipe is cheaper than moving it by rail.

So Alan, would you add to that?

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

A

Yeah. I would just add to that that the overall attractiveness of access to the international markets is really a differentiator for Range. We're one of only two independent E&Ps in the country that can directly access the export markets. The premiums that we've been seeing at the dock have improved considerably during 2019 and it continue to improve actually. We saw premiums.

If I go back to fourth quarter of 2018, they were roughly $0.055 at the export docks. By the third quarter of 2019, they were at $0.07. By the fourth quarter of 2019, they were $0.12. And actually, despite everything going on in the world today and the larger macro environment, the year-to-date premiums has actually published by one of the price reporters in the US here.

The year-to-date premiums are actually at $0.15 per gallon. So overall, we've guided higher in our NGL realizations for 2020, because we expect to do much better with continued growth and expansion in our export program.

Arun Jayaram
Analyst, JPMorgan Securities LLC

Q

Great. Thanks a lot.

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

A

Thank you.

Operator: Brian Singer with Goldman Sachs. Your line is open.

Brian Singer
Analyst, Goldman Sachs & Co. LLC

Q

Thank you. Good morning.

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

A

Good morning.

Brian Singer
Analyst, Goldman Sachs & Co. LLC

Q

Realize that, when you think about your cost structure, not all of it is variable. But given the low gas and NGL price environment, just wanted to get a better sense of how you debate internally, both what price environment you would need to see or sustained price environment for either a further slowing of activity? Or then, is there some point at which at least wells that may be a little bit more marginal within the portfolio should be temporarily shut in?

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

A

Well, let me start and then flip it over to Mark. Yeah. We're, again, laser-focused on making sure that our program is going to be aligned with cash flow. We have multiple scenarios that we look at and we'll be sensitive to that and react in enough time to make sure that that occurs.

Obviously, the changes that we'll make will focus on wells that have better return versus the poor return. And as Dennis said, we'll look at unit costs and all the other things to optimize the program. Team does a good job. If you look at the last couple of years, we've adjusted our program; we've come in below budget. We flip over to Mark.

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

A

Sure, Brian. I would say there's really two essential elements for Range that come to bear on the question you've asked and that's, first of all, the flexibility we have. The fact that our gathering infrastructure and long-haul transport is fully utilized, gives us a tremendous amount of flexibility.

In other words, we're not trying to cover those costs and doing analysis on a sunk-cost basis. In fact, we have production above and beyond our take-or-pay contract. So, again, that gives us flexibility in terms of determining the level of activity in the year and/or if you were in an extreme scenario, in evaluating shutting-in production, what that would mean in terms of your cost structure?

And cost structure is really the second main point I wanted to bring it back to, and that's with cash unit costs fourth quarter of $1.92. That puts us in very good stead, in the environment, for 2020 and beyond. We've shown a consistent track record of driving that down.

And I would also note that the preservation and expansion of our margins is critical there. If you look at the gross margin, if you will, as a percentage of revenue, that's been sustained, even the prices have come down, given the fact that we have driven down absolute costs.

The third point I would make there is, we evaluate prices, and people are looking at natural gas prices. It's important to note that even on an unhedged basis when you look back at Range's realized price per Mcfe, even unhedged, it was $0.30 above NYMEX for 2019. And if you look back over the last few years, it's anywhere from that $0.20 to $0.30. So, again, that gives us a lot of flexibility to adapt to whatever prevailing market prices are.

Brian Singer
Analyst, Goldman Sachs & Co. LLC

Q

Great. Thanks. And then my follow up is also on the cost structure, the capital cost structure. You highlighted a number of the initiatives you were taking on in terms of e-fleets and water. And I think you mentioned that the e-fleets are reducing your completion costs by about $30 million this year. Is that $30 million built into your capital budget? Or would that be an area where you could potentially spend under your budget? And can you talk within the other initiatives that you mentioned, if that's built in or if there's the potential for either further savings relative to that capital budget that you have?

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

Yeah. Brian, I would say, a significant portion of the cost savings that we're projecting for the year are built into that $610 per foot assessment that we're communicating today. However, the team always continues to move the goalposts, and I could spend a whole another calls worth of time talking about the good work that the team has done. And year-over-year they continue to drive additional water recycling, taking other operators – through a collaborative effort, their water, capturing those additional savings. And really on the drilling side, same thing, we see that the efficiencies that we're planning for – a lot of times the team is exceeding those expectations through the balance of the year.

So, from what we're planning for today and what [ph] I expect us to have (34:53) additional savings, certainly wouldn't surprise me because the team just continues to really do a great job and exceed expectations. And it's been really the cornerstone of why we've come in under budget, the past two years consistently. So, we would hope and expect to see some additional savings come to fruition.

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

I would be referencing what Dennis is saying, the team continues to get better and move the goalpost. So, last year I think a lot of our peers were targeting, Range cost to drill and complete per foot at – whatever it was $750 per foot or whatever and they're still striving to hit that yet. What we did is moved it further down to approximately $600 per foot.

And I have great faith in the team that they'll continue to find ways to lead the pack. We put a new slide in our deck, it's a slide 11, and its – looks at – we talked about peer-leading capital efficiency. Whether you look at it on well costs per lateral foot and I think importantly, the new part at the bottom where you look at total drilling-complete capital per Mcfe added, and we put it in there over the last three years or three year average and last year Range was best in the entire basin and the great results across three years. So, great faith the team will do that. And also like Mark said, that we have flexibility and being able to alter the budget as needed.

Brian Singer
Analyst, Goldman Sachs & Co. LLC
Q

Thank you.

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

Thank you.

Operator: Jane Trotsenko with Stifel. Your line is open.

Jane Trotsenko
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Good morning, and thanks for taking my questions.

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

Good morning.

Jane Trotsenko
Analyst, Stifel, Nicolaus & Co., Inc.

Q

The first one is – yeah, on asset sales and royalties, if you can comment on how the market for this assets looks like today than let's say compared to a year ago, so?

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

A

Sure. As I described earlier, we have multiple active processes underway. We've spoken of Northeast Pennsylvania before, the Lycoming County asset, there's discussions ongoing there. We have obviously had success in monetizing a small portion of our inventory and resource potential in Southwest Pennsylvania, half million acres of stack pay potential there, $1.1 billion in proceeds out of the royalty. But given the scale of that asset, it clearly represents future potential.

And then obviously, an asset that has not garnered its fair share of capital within our portfolio becomes an active candidate. So, we do have a process and data room open on North Louisiana. So, there are multiple dialogues across multiple assets and projects. And I think I would look back on Range's track record of being able to deliver on divestitures over the last number of years as an indicator of what we intend to do.

Jane Trotsenko
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Would you generally characterize that there is like more interest for royalties rather than assets?

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

A

I would not characterize it that way. It depends on the asset base and the location. There are different buyers for different assets. Some operators in a given area may want a bolt-on, just to add production to their given area, that's efficient.

If you're in the Gulf Coast, that one's adjacent to petrochemical demand and LNG offtake. So, that has appealing interest of both domestic and international players. So, it depends on the asset and the location you're talking about as to who the interested parties may be.

Jane Trotsenko
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay, got it. And then the second question, so the revolver discussion that you had in the prepared remarks was very helpful and thank you for that. I have a question regarding the near-term maturities and to what extent it would be possible to put them, maybe a portion of that, on the revolver, and if it's even an option?

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

A

Yes. It is an option. As we disclosed, I think beginning in Q2, we had begun repurchasing nearer-term maturities on the open market. And we will continue to do that carefully. So, that is definitely an option, and we have substantial liquidity to deal with near-term maturities, combined that [indiscernible] (38:48) refinancing we did it early this year, pushing maturities out, and expanding the credit facility last fall. And then lastly, and most importantly, the fact that we see substantial cushion to the current borrowing base at current prices and assumptions by the lenders. We feel like we're in great shape as it comes to the debt maturity profile.

Jane Trotsenko
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. Got it. Thank you so much.

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

A

Thank you.

Operator: Jeffrey Campbell with Tuohy Brothers. Your line is open.

Jeffrey Campbell
Analyst, Tuohy Brothers Investment Research

Q

Good morning. My first question is, there's been a lot of really interesting discussion about cost reduction, and a lot of specifics. I just wanted to kind of back up and ask what portion of this leading cost per barrel, a lateral foot cost surrounds returning to your portfolio's 200 pads as opposed to the other items that you discussed?

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

A

Yeah, Jeffrey. This is Dennis. Year-in and year-out I've kind of tried to touch on it during the call this morning, but this year's activity will represent about 50% of it will be going back to pads with existing production. But if you were to look back over the past several years, it can be as much as 50% on a year-in and year-out basis. So we look at our cost savings, are there cost savings we're capturing due to this? Absolutely. But what we see though is, is that there's a fair bit of durability in the cost savings that we're capturing this year that are repeatable year-in and year-out and that's just one of them.

The other is, clearly, the team being creative and looking at sourcing sand directly for our completions operations. That's an initiative that may not necessarily be new to the E&P space. However, we feel like patience has kind of paid off for us in that regard, because of where the market is from a profit standpoint. We see there being a fair bit of durability then, and that going into 2021 and beyond. So, as we start to stack-up electric fracturing fleets, the technology, the drilling teams deploying, moving back into existing pads, we see there's a fair bit of durability in capturing these costs savings, not only this year, but also in the years to come.

Jeffrey Campbell
Analyst, Tuohy Brothers Investment Research

Q

Okay. Thank you for that. And then, regarding North Louisiana, bearing in mind that it sounds like that it's apparently or potentially for sale. Do you have any midstream volume requirements in 2020 that – and can you meet them until a sale can close? Just wondering about midstream down there.

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

A

So, I think we've alluded to before and was disclosed early on at the time of the acquisition, there are commitments on processing volumes. So, those processing volumes are not fully utilized right now, but that cost is already reflected in Range's GP&T line item. So, even though, we are paying for some processing capacity that's not fully utilized, we've still driven the cost from $1.51 in the fourth quarter of last year, down to $1.39. So, we did have early this year, a $40 million to $50 million portion of that commitment, roll-off. So that'll be an improved run rate for 2020, and we'll continue to certainly work to optimize that in the context of a potential sale

Jeffrey Campbell
Analyst, Tuohy Brothers Investment Research

Q

Okay. Great. I appreciate that color. Thank you.

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

A

Thank you.

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

A

Thank you.

Operator: David Deckelbaum with Cowen. Your line is open.

David Adam Deckelbaum
Analyst, Cowen & Co. LLC

Q

Good morning, guys. Thanks for the time.

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

A

Good morning.

David Adam Deckelbaum
Analyst, Cowen & Co. LLC

Q

Just expand a little bit more, so I understand them, the multiple years of capital efficiency. Being on 50%, your budget on existing pads this year is, obviously, helping you get those well costs down on a blended basis. If you were just to remain on existing pads, how long could that program sustained for?

Alan W. Farquharson
Senior Vice President-Reservoir Engineering & Economics, Range Resources Corp.

A

Yeah. This is Alan Farquharson, let me kind of take that question a little bit. First of all, we've been as Dennis mentioned a little bit ago, if you look at our track record over the past several years, we've probably been about 50% of the wells on the pad, probably on average we have over 200 pads out there, and on average we're probably in the five to six wells on an existing pad.

So, we built these pads to handle up to 20 wells, so I think the runway is very long on our ability to be able to keep that happening. So, I think our low costs aren't necessarily reflective of going back on pads for 50% this year. It's been built into the entire cycle.

So you can always see we're always building some pads every single year, if you only going back on, on half the wells to be able to get this, so you always have some, some of that opportunity down the road, so eventually you'll be in a situation where you won't be building any new pads. So costs actually could come down as you think through the longer cycle.

David Adam Deckelbaum
Analyst, Cowen & Co. LLC
Q

I guess, I'm wondering the market is obviously not particularly robust right now. Why isn't that percentage increasing more as a way of sort of augmenting your margins?

Alan W. Farquharson
Senior Vice President-Reservoir Engineering & Economics, Range Resources Corp.
A

Well, I think part of that starts with – I'll go ahead and start with that. I think part of that starts with just the way the development plan is set up, the permitting process in Pennsylvania is somewhat cumbersome and takes a fair amount of time. So a lot of the pads have already been built, they may have been built in 2019.

And as a result, you've now just getting to drill the wells in 2020, so I think you'll see a change over time. And it's just a matter of the way the development plan is put together and just the timing of everything. And of course, you want to be able to efficiently use gathering system as well.

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

Comes back to cash flow; where there's room in the gathering system, where you can get that production online to market, and where the net back and quickest payback period for those dollars invested are? It boils down to the cash flow.

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

[indiscernible] (44:19) lastly, but I think a piece of this is, it's ever evolving. So when you look at the lateral lengths and how they've increased over the past, let's just say two to three years, not only for us but for a lot of folks but especially Range, and the efficiencies associated with that, we're seeing the opportunity to reduce the number of pad size that we're needing to build and touching on that a little bit with just the average lateral lengths increasing, the gathering system. So all of this really becomes a very integral piece of the planning process as we think about as Mark touched on efficiently using the gathering and infrastructure in our processing.

David Adam Deckelbaum
Analyst, Cowen & Co. LLC
Q

Appreciate that color. Just my second question. As you look at the landscape right now in Appalachia, you've talked a lot about initiatives that delever through asset sales. You've had a lot of success with non-core asset sales and overriding royalty interest sales.

But, on the other side of it I guess when you think about some cost control, as some of your peers look at insolvency, or obviously, the market is undergoing a lot of distress. Are you seeing opportunities to renegotiate things with your gathering partners, with your processing partners? And do you foresee opportunities to renegotiate with long haul as well?

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

I think just getting a good deed on our situation today is important and then we can consider how renegotiations may play into that going forward. With over a decade of development of the Marcellus and assigning of the earliest gathering processing and transport agreements, you're at the stage where some of those early agreements are already at their option to extend or drop at Range's election.

So beginning this year, next year and kind of as a steady cadence, thereafter, we have portions of capacity that we can allow to just drop off, that do not require renegotiation that's just our option.

You also have elements of the cost structure, particularly on the gathering side we've spoken to before, where some of the capital recovery pieces begin to drop out, and the cost do decline over time. So, the glide slope there is in our favor for a long running, steady decline in the cost structure on the gathering, processing, transport.

But I'll let, Dennis, speak to more detail on renegotiation.

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

A

Yeah. I think ultimately, I'll kind of step up higher-level here for a second. But we are working always on ways to optimize our portfolio, and that doesn't – that includes all aspects of the gathering, the processing and the transportation side of our business.

As Mark indicated being an early mover there are packages that we're seeing, the opportunity to let those expire. And then also be strategic about how we consider renewing or adding transport to our portfolio down the road sometimes. So we like where we're at. We're exceeding our FT commitments today, we're maximizing our portfolio.

However, look, these are our partners as well, and so we're always actively looking for ways that we can renegotiate. We can also look for ways for strategically reducing costs, making sure that we have the right cost structure for the cycle.

As we put in our slide deck, we already had a $0.12 reduction in our GP&T costs over the past 12 months when you look from Q4 2018 to Q4 2019. And we're projecting a similar trajectory in the years ahead, So it'll come – our cost reductions will come through multiple avenues, one of which could be renegotiations.

David Adam Deckelbaum
Analyst, Cowen & Co. LLC

Q

Thank you, guys.

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

A

Thank you.

Operator: [Operator Instructions] We will go to Sameer Panjwani with Tudor, Pickering, Holt for our final question. Your line is open.

Sameer Panjwani
Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.

Q

Hi, guys, good morning. I wanted to ask on the 2020 outlook. I know there's been some back and forth on this call here. But I guess just to clarify, do you see the current program as free cash flow neutral or positive at current strip? And then can you also quantify the buffer you have in terms of production above your midstream commitments?

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

A

So as it relates to the 2020 plan when we rolled that out in January, obviously, prices were somewhat higher, and that program was designed to be cash flow neutral to positive at strip prices at the time. Again, given the prices have come down somewhat, it would require some adjustment to that plan, and as Jeff and Dennis and I have each described, our primary motivating factor, kind of the guiding principle, is to self-fund the program to be cash flow neutral, cash flow positive throughout the cycle.

So, there is flexibility and it would be our intent to make adjustments to that plan as need be over the course of this year to make sure that we are self-funding that to the maximum extent possible.

Sameer Panjwani
Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.

Q

Okay. And are you able to quantify that buffer you have in terms of production above your midstream commitments?

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

A

So, on the FT side, commitments are roughly [ph] 1.6, and production about 1.8 (49:15), so you got a good 10% buffer.

Sameer Panjwani
Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.

Q

Okay, got it. And then on the asset sale side of things, you mentioned there's a data room open for Louisiana and, yeah, Northeast Pennsylvania assets been on the market for a while. Do you happen to have PV10 values as of the end of 2019 for each of those? And just from a higher-level standpoint, when you're kind of marketing these, are you hoping to get some level of undeveloped acreage, kind of, ascribed in the transaction values?

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

A

I mean, yes, we have PV10 values, but we're not going to set any markers out there for individual assets or the aggregate asset sale proceeds. So we will just continue to seek to maximize the value, so that it's both deleveraging, enhancing to the cash flow going forward, and just monetize those as quickly as we can.

Sameer Panjwani
Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.

Q

Okay. Thank you.

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

A

Thank you.

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

A

Thank you.

Operator: Thank you. This concludes today's question-and-answer session. I'd now like to turn the call back over to Mr. Ventura for his concluding remarks.

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

Yeah. I just want to thank, everybody, for participating on the call and feel free to follow up with additional questions. Thank you.

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