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Concho Resources Inc. (CXO) CEO Tim Leach on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-29-19 Earnings Summary

Press Release *10-Q* *Slides*

EPS of $0.61 misses by $-0.07 | Revenue of $1.11B (-6.46% Y/Y) beats by $22.84M

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Concho Resources Inc. (NYSE:CXO) Q3 2019 Earnings Conference Call October 30, 2019 9:00 AM ET

Company Participants

Megan Hays - VP, IR & Public Affairs

Tim Leach - Chairman & CEO

Jack Harper - President

Will Giraud - COO

Conference Call Participants

John Freeman - Raymond James

Doug Leggate - Bank of America

Arun Jayaram - JPMorgan

Derrick Whitfield - Stifel

Michael Hall - Heikkinen Energy

Brian Singer - Goldman Sachs

Paul Sankey - Mizuho

David Deckelbaum - Cowen

Scott Hanold - RBC Capital Markets

Bob Brackett - Bernstein Research

Leo Mariani - KeyBanc

Ryan Todd - Piper Jaffray

Nitin Kumar - Wells Fargo

Gail Nicholson - Stephens

Richard Tullis - Capital One

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Q3 2019 Concho Resources Earnings Conference Call.

At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference call is being recorded. [Operator Instructions]

I would now like to [indiscernible] this conference call. Ms. Megan Hays, you may begin.

Megan Hays

Thank you. Good morning and welcome to Concho's third quarter of 2019 earnings call. Our earnings release and corporate presentation are both available on our website.

Participants on today's call will make forward-looking statements based on current expectations. They are subject to risks and uncertainties. Forward-looking statements and other disclaimers are provided in the earnings release and presentation. Our comments today may also reference non-GAAP financial metrics. You'll find the appropriate reconciliations in our earnings material.

I'm joined in Midland today by Tim Leach, our Chairman and CEO; along with President Jack Harper; Chief Operating Office, Will Giraud; and members of the Concho's senior management team. Following our prepared remarks, we will host a question-and-answer session. Please limit yourself to one question and one follow-up.

Now, let me turn the call over to Tim.

Tim Leach

Thanks, Megan. Good morning. Last quarter's results undermined our consistent track record and raise concerns about our execution ability due to the performance of several spacing test. We of course corrected and our priorities are to demonstrate our execution ability, highlight our asset quality, and continue to show financial discipline and cost management.

Our results for the third quarter demonstrate that we're focused on these priorities and that we're making solid progress on what we set out to do. I'm confident that Concho hasn't lost our ability to execute, and that our performance is sustainable over the long term.

During today's call, I hope these key messages resonate. Well cost improved dramatically. We're reducing our operating cost structure. We generated strong cash flow, which exceeded our exploration and development cost. We continue to high grade our portfolio. We have a strong balance sheet which we reinforce with proceeds from asset sales, and we're positioned for growth and returning capital to shareholders.

We want to use our call this morning to emphasize that we're executing a clear strategy and taking steps to position the company for 2020 to provide free cash flow and growth. An important step in improving our capital efficiency and cost structure is the sale of the New Mexico Shelf. The cash flow from this asset funded our discovery and development of other plays in the Permian. However, within our broader portfolio, it no longer competes for capital, and the sale is consistent with our ongoing effort to high grade our assets and accelerate returns to shareholders.

We have a strong foundation for future success and the fundamentals of our business are improving. Looking ahead to 2020, planning around a conservative commodity price, we can deliver oil growth, free cash flow, and shareholder returns. At lower oil prices, our financial strength provides flexibility and we'll manage the business within cash flow. At higher prices, we'll generate more free cash flow which will fund more shareholder returns.

The industry has faced a lot of different challenges over time. Today, sentiment toward the sector is low and amplified by campaign promises to severely limit or regulate away oil and gas operations. This comes at a time when Concho and our peers are making significant strides in reducing our environmental footprint.

All the while unlocking an energy source in our country, this provided us with more security and change the global balance in our favor. Since we don't know how the politics will resolve, I'll clarify that our exposure to federal acreage is about 20% of our total gross and net acreage position. And our capital allocation toward that acreage is roughly the same. We have a great deal of flexibility if we need to reallocate that capital.

In the last five years, WTI has averaged between $50 and $60 with frequent moves outside this range. This has provided a dynamic backdrop as we transition from delineation mode to development, while also optimizing drilling and completion methods.

In this new phase for US shale, we were early to recognize the importance of scale. We built a strong team and high quality portfolio, both of which have been our biggest competitive advantages. Our results for the third quarter demonstrate our ability to leverage those advantages and create value for shareholders.

Before I hand it over, I want to say that I'm proud of the efforts of our employees. I'm thankful for your hard work and dedication to Concho. Now here's Jack with more details on the quarter.

Jack Harper

Thanks, Tim, and good morning. Operationally, we performed well in the third quarter. Production average 330,000 Boe per day and exceeded the high-end of our guidance range. It also represented a 15% interest from the same period last year.

Oil volumes increased 12% year-over-year to 206,000 barrels per day. For the fourth quarter we expect production to average between 318,000 and 325,000 Boe per day, which includes one month of production volumes from the shelf, and compares to our pre-divestiture outlook of 334,000 to 341,000 Boe per day.

Lastly on production, our spacing tests are cycling through and our guidance incorporates our expectations for those tests. In other words, we believe that we've adequately risked the volume guidance to account for the remaining tests that are coming online. And importantly, as we plan for 2020 and beyond, we will develop fewer wells per project at wider spacing.

Financially, we are focused on the things within our control. Our performance was also good. Controllable cash costs which includes lease operating, G&A and interest expense totaled $9.57 per BOE which represents improvement year-over-year and sequentially. We're working to further reduce controllable cash cost to $9 per BOE by year-end 2020.

With the shelf sale, we will divest one-third of our wellbores which will contribute to lowered lease operating expense. Also, we plan to allocate a portion of the sales proceeds to pay off our revolver balance which will reduce interest expense.

I'm happy to report that the third quarter operating cash flow before working capital changes of $706 million exceeded exploration and development capital of $670 million. This marks an important return to free cash generation for the company primarily driven by better capital cost. As you can see on slide 7 in the earnings materials, third quarter well cost represent a strong rate of change admittedly from a high starting point.

Our progress this year is the culmination of a lot of work across the organization which has resulted in efficiency gains in improving cycle times. Key initiatives include continuing to optimize drilling and completion design. Water is also an important part of the supply chain. And in the second quarter, we entered into a joint venture with Solaris that leverages the scale of their system to provide cost effective water management to our operations in Eddy County.

These operating efficiencies and well cost productions provide momentum as we come to the end of 2019 and look ahead to 2020.

Oil has been a decade in the making, and our work in 2019 informs our go forward development strategy. We are assembling a 2020 development program that incorporates everything we've learned this year, from well spacing and density, to lateral placement and completion techniques. We will continue to learn and adapt but not at the expense of returns or consistent execution you expect from us.

With a sharp focus on capital efficiency and managing leverage we control, we're well positioned to deliver on the framework for 2020 that Tim outlined. Sustainable oil growth, free cash flow and shareholder returns. We plan to run a steady program in 2020. This will support predictable performance and a growing wedge of free cash, which we estimate to be $350 million at $50 WTI and $750 million at $60 oil.

Importantly, if oil prices increase, we won't chase the incremental barrel. We have a strong commitment to capital discipline because we believe it's key to maintaining a strong balance sheet and growing long-term value.

Now we'll turn the call over for Q&A.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from John Freeman with Raymond James.

John Freeman

When I – when I look at slide 12 that you all provided which is sort of gives the guide posts on the free cash flow outlook for 2020 which looks – it's very similar to what you all have communicated in the past about sort of steady Riyadh and then free cash flow positive at

$50 billion as you get closer to $60 billion. Should I assume that the kind of same applies with the previous commentary you have had on production in terms of kind of double digit kind of production growth with kind of oil production outpacing the overall growth?

Tim Leach

Yeah, John. I think that the way to think about 2020 is those are the sideboards, and we're going to run a steady ship within those sideboards. And so, that pro forma oil growth within those sideboards is kind of that low double-digit growth no matter if it was $50 billion or $60 billion. And if it goes above $60 billion, then you -- it'll -- we won't chase oil up as Jack said. If it goes below $50 billion, we have the flexibility then to stay within cash flow.

John Freeman

Great. And then just a follow-up from me. Can you sort of talk about kind of the decision process to drawdown DUCs maybe a little earlier than anticipated and maintain sort of the steady frac crew count? Was that just mainly due to the improvements that you have on the cost front?

Will Giraud

Hey John, its Will. That's exactly it. We've seen a pretty meaningful efficiency gain in cost savings over the last quarter. And so, that's going to allow us to keep running two frac crews that we were planning on dropping in the fourth quarter. And the result of that is a more smooth transition from the fourth quarter of 2019 into the first quarter of 2020 and a reduction in the year in 2019 DUC countdown to roughly 70. But importantly, our 2019 capital budget guidance is unchanged.

John Freeman

Great. I appreciate it. Well done, guys.

Operator

Our next question comes from Doug Leggate with Bank of America.

Doug Leggate

Hi. Good morning, everyone. Thanks for taking my questions. Tim, I wonder if I could go back to the gate post for 2020 and ask what – I know you're going to a guidance later on. But what kind of capital goes along with that $350 million to $375 million to $750 million free cash flow number. Because I'm guessing the CapEx has started through the year. And if I could bolt-on to that, maybe this is my part two. If you could help us with, what was the cash flow given up from the sale of the shelf. I'll leave it there. Thanks.

Tim Leach

Well, we haven't come out with our capital budget and communicated that for 2020. But it's – we have said, that would be kind of steady throughout the year. And Jack you want to comment on the [indiscernible].

Jack Harper

Yeah. Yeah in previous calls, we've talked about a $60 oil free cash approaching $1 billion. And so, when you add the shelf cash flow at that level plus revert to gas prices that were – they look more like they looked a year ago, that that kind of bridges that gap.

Doug Leggate

That's helpful guys. Maybe I will take a second if I may that the cadence on the tails, I just wonder if you could – obviously you've step by a couple of completions again, as you pointed out with the additional frac or retaining the frac crews. But it looks to us it's going to set you up with pretty strong momentum going into the back end of the year. I'm just wondering if you could give us some idea as to what the cadence of those completions looks like as we head into 2020. Now, I'll leave it there. Thank you.

Will Giraud

Sure. I mean, just for clarity sake, what we're doing is not dropping those two crews. It's not that we're adding to the cadence on that pretty steady.

Doug Leggate

Through the quarter, Will?

Will Giraud

Yes.

Doug Leggate

Okay. Great, stuff. Thanks, guys.

Operator

Our next question comes from Arun Jayaram with JPMorgan.

Arun Jayaram

First question regarding your free cash flow outlook for 2020. It looks to be, call it $100 million above the street is at, using a more conservative deck. I was wondering if you could give us some color on what kind of D&C cost savings that you're assuming which is underpinning that free cash flow outlook? It looks like you did about $955 per lateral foot in the third quarter. I was wondering if you maybe comment on what drove the declines that you saw in the third quarter, the sustainability and how our service costs are factoring in to the overall D&C environment?

Tim Leach

Sure. Arun, going to your first question, that outlook kind of reflects the world as we see it today from a cost standpoint. And we were showing it there on slide 7, the cost were running in the back half of 2018 and have been a major focus point throughout 2019.

The inefficiencies peaked in the first quarter with several shorter lateral projects and negative impact from rapidly ramping down from kind of a mid-30s rig count to 18 we're at today. And that steady improvement in cost per foot in the second and third quarters were driven both by sustainable gains and how we drill and complete the wells, but also more cyclical benefits of an overall slowing Permian activity.

Arun Jayaram

Great. And just my follow up, Tim, you mentioned some thoughts on maybe a low double digit oil growth number in 2020. Just for our modeling, could you give us what your pro forma in a 2019 oil number excluding the impact from shelf volumes would be? So what the pro forma 2019 oil number including the fourth quarter guide.

Tim Leach

Oh I think we'll probably have Megan to follow up with you on that. But as we've said before, the shelf was producing about 25,000 Boes per day and it was 13,000 oil – about yeah, 57 – 56% 57% oil, so I think that could get you there.

Arun Jayaram

Okay, thanks a lot, guys.

Operator

Our next question comes from Derrick Whitfield of Stifel.

Derrick Whitfield

Hi, good morning, all, and congrats on the strong quarter and operations update. Perhaps for Tim. Could you elaborate on the measures management can take to mitigate potential federal exposure from a frac band and perhaps more specifically how fluidly can the company redeploy capital into nonfederal lands.

Tim Leach

Yeah, I commented on that in my prepared remarks that we can move rigs and our capital around pretty efficiently. It's obvious that the federal lands are in New Mexico and the permits on federal lands take longer to get, so there’s a more lead time.

So the things that we are doing to mitigate that are, we have quite a bit of activity on them right now, and then we've always run a program where we have properties right across the state line where you can move rigs back and forth, so that’s – some of the beauty too of having assets in both the Delaware and the Midland Basin and in New Mexico and the Texas side the Delaware Basin.

Derrick Whitfield

Great. And for my follow up, perhaps for Jack or Will, based on our last meeting, I know management generally wants to let the results do the talking from here. Having said that are there any qualitative or quantitative comments you can make on the performance of your Q3 wells put on production? And also, would it be safe to assume that the tighter and wider space wells are performing in line or better than your expectations?

Tim Leach

Sure. I mean, we've shown you there on slide 8 kind of a 180-day look at a couple of different assets. And so, we’ve – for better or worse, we have a series of spacing tests in 2019. Our guidance here in the fourth quarter bakes in kind of what we're seeing on that. And I would say it's all generally performing as we expected.

Operator

Our next question comes from Michael Hall with Heikkinen Energy Advisors.

Michael Hall

Thanks. Congrats on the progress. I guess kind of follow-up a little bit on that, I mean, when do you think – so, it seems like to us the capital side of the equation has very clearly been addressed and has a lot of momentum behind it. And, I guess, we still see some questions around the productivity side of the concerns raised in the first half of the year. And it sounds like you're still working some of those projects through here obviously in the back half.

How quickly do you think we see or we see in the quarterly results the kind of improved productivity from the shift to wider spacing and smaller projects away from the spacing test? That's something that very quickly becomes evident, you think, in the beginning of 2020, or is it going to take a little longer to work its way through the system?

Tim Leach

Sure. Well, we began moving into the wider spacing program this summer. So, while we still have a few spacing test rattling through the back half of this year, you see those less density space projects could be put on a production in the fourth quarter and then increasingly into 2020.

Michael Hall

And okay. And so like I guess early in 2020 that seems reasonable to start to maybe see an uplift in capital efficiency.

Tim Leach

From a productivity standpoint, That's right.

Michael Hall

Right. Yeah. Okay. And then, yeah, I was just curious as we – as you think about the cost side, the substantial improvements you saw in the third quarter versus the first half, how you're thinking about the rest of the year like is it, I guess how are you playing that through the guide and the commentary for next year. But then, yeah, do you think it's reasonable? Do you think we'll still see continued improvement in the fourth quarter? Or do you think you've kind of cut what you can now at this point?

Tim Leach

Oh, that's a tough question. I mean, there's been a lot of work that that's happened this year to get us in the position we are today. There are certainly things we're continuing to work on both from kind of a structural sustainable improvement side, which we've seen a lot of improvement there.

On the cyclical side, that's really hard to predict. I mean the big question is what happened when the calendar turns to 2020. I think it's clear that the independents have got religion around capital discipline. And so we don't expect a meaningful pick up of activity there. But any real incremental benefit there on the cyclical side probably relies on the majors in the private that's not increasing activity into 2020 which is a big unknown.

Michael Hall

Yeah. Okay. Fair enough. I appreciate it and I'll turn it over. Thanks.

Tim Leach

Thank you.

Operator

Our next question comes from Brian Singer with Goldman Sachs.

Brian Singer

Thank you. Good morning. A couple of follow-ups on similar topics. On slide 9, you talked about decades long inventory in the six to eight per section spacing range. To what degree would you be planning to be using the low end of that range in the 2020 program? And what do you see as the impact on productivity, i.e., what is the gain in EU are that are six well per section program would provide versus, say, an eight well per section?

Tim Leach

Sure. Probably we'll get into a whole lot more detail about 2020 and individuals facing the projects probably next quarter. But I think the main takeaway there ought to be that regardless of the ultimate spacing density, we expect to have an inventory life measured in multiple decades. But clearly, 2020 will move towards a more meaningful up space program than we've had in the past – that we've had in 2019.

Brian Singer

Got it. Okay. Thanks. And then, you do have a few moving pieces that are impacting end of year into early next year production trajectory. You've got tighter spaced wells which have the strong first three month production. But the greater subsequent declines and one would think there would be an impact from wells drilled in third quarter or even second quarter that are going to be seen then.

You've got that mix to the wider spaced wells and then you've got the docks that were highlighted earlier coming online. Can you just speak to what you see as the aggregate impact on the trajectory in the first half, first quarter, second quarter next year, and whether you expect ratable growth particularly on the oil side through the quarters or more backend loaded production profile?

Tim Leach

Yeah, Brian. So I think to say it another way, the collection of those things and the sale of the shelf has increased our base decline a bit. However, the efficiency gains that we've seen on the up space program in 2020 I think provides a pretty good offset to that. So we expect to continue the fourth quarter momentum into 2020.

Brian Singer

Got it. And can you say what the base – what the updated base decline is? And does that come down over the course of 2020?

Tim Leach

Sure. Yeah. The – our overall base decline is in the high 30s and oil is in the low 40s. And as we move through 2020 and move into 2021, we see that oil decline moving back into the 30s.

Brian Singer

Great. Thank you.

Operator

Our next question comes from Vin Lovaglio with Mizuho. Vin, your line is open. You can ask your question.

Paul Sankey

Hi. Sorry, guys. It's Paul Sankey. I wasn't thinking. The outlooks 2020 is obviously very important. We really appreciate the free cash flow parameters that you've laid down. Could we just dig in a little bit more, if possible? I know you may be reluctant to answer some of these questions, but on [indiscernible] you've implied that you're using a lower gas and NGL price.

Could you talk more about what you're assuming there? Could you talk a bit about non-operated activity assumed as well, and any thoughts about well cost reductions and any other parameters that you can give us to sort of dig into that 350 at 50 number which is so important? Thank you.

Jack Harper

I don't want to comment on the exact gas and NGL assumption other than to say it's conservative. And then on the non-op side, I think what we should expect from us year-over-year is probably a bit less activity in that area and more control over our higher percentage of our capital for 2020.

Paul Sankey

Okay. Thank you. And then a follow-up is simply is there potential for more disposals and can you talk a little bit more about the decision to buy back stock as opposed to for example raising the dividend? Thank you.

Jack Harper

Sure. On slide 10, we show kind of the last four years-worth of asset divestitures, and I think some level of that is, it should be expected. I think this year was a little bit higher because of the shelf.

Tim Leach

Yeah, let me – on the how we balance dividend versus stock buybacks. I would say that it would kind of laid out a framework for where we think the free cash flow could be under the different side boards. And I think philosophically you'll see us kind of increase the dividend more in a systematic way and in a way that we can sustain forever. And then every other dollar that's available especially at this price, I'm going to be buying stock back.

Operator

Our next question comes from David Deckelbaum with Cowen.

David Deckelbaum

Good morning everyone. I appreciate the time. Jack, I wanted to ask a little bit more on the comments about not chasing the incremental barrel with the 2020 thoughts, I guess, one, should we think about those bookends of free cash as sort of underpinning an identical rate program at the bottom and top ends of that spectrum?

And then two, are you conceptualizing this as finding a steady state rig program that you would then just extrapolate into 2021 unless oil prices were lower than $50, so that this free cash wedge that you're targeting in 2020 would grow into 2021.

Jack Harper

Yeah, good question. We – as we've mentioned in the prepared remarks, we really value a steady program from here out. And so to answer your specific question, there is no rig change is assumed in that different – in those different oil price scenarios.

And then beyond 2020, we'll have to see what the landscape looks like. But combining growth with an ever increasing free cash flow amount is what we're targeting. And so, whatever rig count is appropriate to effect that is what we're targeting. But anything that – from this point on will be steady and marked as we move up.

David Deckelbaum

I appreciate that. Also, just curious as you commented earlier that your gas and NGL assumption for next year is conservative. Well, obviously what's happening on the screen is that influencing any differencing capital allocation next year maybe away from Delaware into Midland that's maybe helping that oil growth a bit in the model.

Jack Harper

Sure. There's a lot of things impacting our allocation decisions in 2020. And I really don't want to get into too much detail. But we do have a portfolio that allows us to target more oily zones if need be. I would also remind you, we have some gas hedges in place in 2020,as well, that help offset some of those declines.

Tim Leach

And the sale of the shelf is gassier than the whole company.

Jack Harper

Exactly.

Tim Leach

But that improves it.

David Deckelbaum

I appreciate the responses guys. Good luck. Thanks.

Operator

Our next question comes from Scott Hanold with RBC Capital Markets.

Scott Hanold

Thanks. Good morning. Nice rebound guys If I go back to page 7, because I think this is to me an important slide, it shows certainly a great progression on the cost side. Obviously, you guys came down to a very competitive level relative to the best peers this quarter already. And do you find these as generally sustainable levels?

And is there more opportunity to improve as you go to these pilots that aren't as – go to development that's not as tightly based as the pilots, meaning, as you kind of more from the tighter space pilots, off to your 2020 program later in the year, does that provide a little bit of a tailwind on the cost side?

Tim Leach

Sure. I mean, I do think the teams have done a great job getting the cost down pretty impressively over the course of the year. And I wouldn't want to predict the ability to improve from here, but certainly that's a major focal point. I kind of talked earlier about what some of the factors are on the cyclical side that could cause it to improve potentially from here.

There are definitely things -- there's a whole slew of smaller gains around how we drill and complete the wells that should allow us to shave kind of days and thus cost off. But it's going to probably be a bit of a slog from here to implement those.

Scott Hanold

Understood.

Tim Leach

And I would I would just add that we pointed out before that changing pace, there's a lot of inefficiency into the system. And that's when we slowed down in early 2019. They created a lot of inefficiency in our system as well. And as Jack has described a more steady pace, I think just by its very nature, that steady pace will be more efficient than what we've done in 2019.

Scott Hanold

Okay. Perfect. And as a follow-up, and, Tim you'd talked about with free cash flow priorities, certainly the dividends, one of those, can you give a little color on what you see as a competitive dividend for your company? Is it relative to some of your large cap E&P peers? Do you look at the S&P 500? What is sort of that benchmark you'd like to see it at?

Tim Leach

Well you know we've said for a couple of years now that we would like the dividend to be an important part of your investment decision in Concho. And so I think it has to be competitive with other peers and other industrial companies eventually. But I think the most important thing on the dividend is just the steady growth of the dividend.

Operator

Our next question comes from Bob Brackett with Bernstein Research.

Bob Brackett

Hey. Good morning. If we can revisit the comments you made on the federal frac band, could you give us any color you've had with conversations with the New Mexico government given your important role in that state?

Tim Leach

Yeah, they've become very -- an important partner to work within the state of New Mexico because of how much of their budget comes from the oil and gas industry. And probably more than half of their lands in New Mexico, more than half of the revenues they're getting are coming from federal activity. So they're running a budget surplus right now.

They understand completely that that budget surplus is coming from the activity and Lea and Eddy County, New Mexico. And so they're very much on the same page with us. Interested in continuing that economic activity and understanding that that's what's going to fund schools and roads in their state.

Bob Brackett

Good. Thanks. And a follow up on a different topic. You mentioned the allocation of asset sale proceeds, they’re sort of 60:40 split between the debt and share repurchases, how do we think about that ratio for future free cash flow or another way to think about it, what's the ideal sort of debt level at which you're happy with debt and incremental cash goes to share repurchases?

Tim Leach

Sure, we'll close this sale and paying down our revolver balance, we are happy with where our debt stands for now. And so incremental cash flow in the near term will be divided between our dividend and the share repurchase.

Operator

Our next question comes from Leo Mariani with KeyBanc.

Leo Mariani

Hey guys just wanted to conceptually follow up a little bit on the goalposts here for 2020. You guys did mention some steady rig ads throughout the year. Obviously you guys reduced the activity substantially during 2019. In the past, you guys have talked about kind of a similar level of activity and CapEx in 2020. Just trying to get a sense, does that still apply or are we going to see similar activity or should we expect maybe a little bit lower activity in 2020 versus 2019?

Tim Leach

Oh, I think whatever you should expect. It will be steady and nothing drastic when we do add a rig or two from where we are at this moment. So we will give all those details though in February when we stew in the correct cost at that time, our current efficiency outlook. So that's when we'll roll that out.

Leo Mariani

Okay, and I guess just a question around your comment about low double-digit oil growth in 2020, is the expectation. I'm just trying to get a sense, is that sort of adjust for the New Mexico shelf sale. I guess where I'm going is, would that sort of assume you didn't have the shelf in 2019 when we do the kind of low double-digit percentage increase to get there.

Tim Leach

Yeah.

Jack Harper

That's correct.

Tim Leach

Right. It's pro forma oil growth.

Leo Mariani

Okay. Now, that makes sense. All right. And just a couple questions on a few of your guidance numbers. So, you guys talked about GP&T going up to about $1.40 per Boe in the fourth quarter. Just trying to get a sense if that's the right run rate we should be thinking about into 2020. And then the same question on the G&A side, I guess that went down a bunch this quarter. Is that kind of right run rate on G&A as well?

Tim Leach

Sure. I'll take the GP&T piece which is just – what you're seeing there is that Gulf Coast pricing contract coming into effect in the fourth quarter [indiscernible] we have 400 GP&T rather than the impact on our realized price. And I think Jack you want to hit the G&A.

Jack Harper

Yeah. I think they're – when you think about G&A in the near-term, roughly $2 a unit is the right way to think about that and trending down over time as we work towards that $9 controlled book cash goal.

Operator

Our next question comes from Ryan Todd with Piper Jaffray.

Ryan Todd

Thanks. Maybe just the high level kind of from a philosophical point of view and how do you think about the ideal pace of growth for your company over the medium to long-term. I mean you indicated low double-digits for next year. Is that the right number in terms of kind of maximizing the efficiency, the organization that you have. Or how do we think about that relative to the mid-single or mid-double-digit type of growth number in terms of the most efficient use of your organization.

Tim Leach

I've always thought of growth being an output of good execution and efficiency. So, I don't start with a targeted growth number. I think on this, and if we described in the slides, we've kind of targeted a lower commodity price that we could operate and have free cash flow breakeven cash flow at lower oil prices. That's the starting point.

And then at – while we think the average oil prices I described in my prepared remarks, the average of what it's been over the last five years, that gives you the sideboards of our activity level and how much free cash flow you can expect in addition to what I think double-digit growth is growth enough. I think for our industry to start attracting capital again, we're going to have to offer an investment thesis that is different than what we've done in the past.

And I think having growth and a robust amount of free cash flow this return to shareholders, I think we can do that. And we may be one of the few companies that can do that. And so, that's what we're going to demonstrate.

Ryan Todd

Thanks. That's helpful. I appreciate the color there. And then maybe just a quick one, though, on slide 8, the production curves that you have there that show the comparison between the more tightly spaced and the wider spaced wells, are those wider spaced curves there, are those based on recent developments of yours that have been sort of been a wider spacing?

Going back a couple of years over different projects you have, that's based on actual data and is that kind of representative of what we should expect filling going forward from a real well productivity point of view?

Tim Leach

Yeah, I mean we've been on a relatively long evolutionary track of density testing kind of over the eight years we’ve been drilling holes for oil. And so yes, that reflects the wider spacing we tested before we moved to the more dense space, and that's really what underlies our confidence and what will happen is we revert to a wider spacing better.

Ryan Todd

Great, I appreciate it. Great quarter, guys.

Tim Leach

All right, thank you.

Operator

Our next question comes from Nitin Kumar with Wells Fargo.

Nitin Kumar

Oh, good morning and thank you for taking my questions. Just want to touch base on the slide 7 there. Obviously very impressive defining your cost, I'm just wondering, was that – you had a few more closely spaced wells in the first half of this year, was there any part of the design of those wells that drove cost up. You've talked about efficiencies and other things. I mean, you said differently, could you deliver closely spaced well for about $1,100 a foot today?

Tim Leach

That's a – that's a good question, I mean, probably not, is the answer today. I mean, clearly one of the things you saw there was the higher cost in the end of 2018 and the very first quarter of 2019 was, we found some inefficiencies as you try to more densely develop and keep wells as you're drilling with it, and more tightly spaced window for example.

And so force you to slow down relative to what you can do if you don't have such a narrow window that you're targeting. So I do think there’s – some of the improvement is the decision to move to a water spacing.

Nitin Kumar

Okay, great. And, so my follow up at the end of the quarter, you had 85 docks, that’s about 4.5 wells per rig. I think you’ve mentioned 70 docks by the end of this year. What's a normal run rate as you move through a wider spacing and shorter – sorry, smaller projects in 2020? What’s a good run rate for us and think about in terms of docks per rig?

Tim Leach

Probably in that two to three times territory or rig count.

Nitin Kumar

Great. Thank you.

Operator

Our next question comes from Gail Nicholson with Stephens.

Gail Nicholson

Good morning everyone. Thanks for taking my questions. In regard to the JV with Solaris, can you just talk about any potential CapEx, well cost or ROE savings we should conceptualize with that agreement?

Tim Leach

Oh, one of the big benefits is they have a very sizable amount of existing infrastructure. And then as part of that deal, we contributed in Eddy County are water handling infrastructure as well. So it should help us mitigate the need to spend incremental capital on those types of things in the future.

Gail Nicholson

Okay. Great. And then just from a housekeeping aspect, what are the – what was the ROE for the shelf assets on a per daily basis?

Tim Leach

It was substantially higher than our company average.

Operator

Our last question comes from Richard Tullis with Capital One.

Richard Tullis

All right. Thanks. Good morning everyone. Two quick questions, one for Will, what's the planned average project size for 2020? And at a high level, what do you expect the allocation of CapEx to be between the Midland and Delaware basins next year?

Will Giraud

Yeah. Those are definitely topics we'll get into in a lot more detail here in February. But in general, I would say the average project size will be slightly smaller the average project size will be slightly smaller, and certainly, the change will be – the very large projects will be a lot closer to that average number.

Richard Tullis

Okay. And then just lastly for Tim or Jack, just maybe more of a macro view question. What's next for the US E&P sector? Are you expecting a acceleration of consolidation due to the current investor environment for free cash flow, slower growth and maybe the scale required to deliver consistent operational results?

Will Giraud

I think yes on both fronts. I think first of all, more disciplined capital decisions and capital efficiency, more discipline across the industry. And then, yeah, I think – we've been talking about consolidation for years, though, and it's just a slow process to grind out cost at a – and efficiency out of this industry.

Tim Leach

Yeah. Richard, I think this price discovery phase is – it will single out the companies that have the scale and the capabilities to do what we're talking about over a multiple decade period. And I think that's what will define the winners.

Richard Tullis

All right. Very good. Nice quarter. Thank you.

Tim Leach

All right. Thank you.

Operator

Ladies and gentlemen, this concludes today's Q&A portion. I'd like to turn the call back over to our host.

Tim Leach

Great. Thank you again for dialing in. This is a great conversation, very proud, as I said, of our employees at Concho and the work they've done this quarter. And I'm very happy with the results and look forward to talking to you in February. Thank you.

Operator

Ladies and gentlemen, this concludes today's presentation. You may now disconnect and have a wonderful day.