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Noble Energy's (NBL) CEO Dave Stover on Q3 2019 Results - Earnings Call Transcript

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Q3: 11-07-19 Earnings Summary

Press Release *10-Q* *Slides*

EPS of $-0.1 beats by $0.01 | Revenue of $1.12B (-12.10% Y/Y) beats by $6.25M

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Noble Energy, Inc. (NYSE:NBL) Q3 2019 Earnings Conference Call November 7, 2019 11:00 AM ET

Company Participants

Brad Whitmarsh – Investor Relations

Dave Stover – Chairman and Chief Executive Officer

Brent Smolik – President and Chief Operating Officer

Hodge Walker – Senior Vice President of Onshore

Conference Call Participants

Arun Jayaram – JPMorgan

Brian Singer – Goldman Sachs

Doug Leggate – Bank of America Merrill Lynch

Jeanine Wai – Barclays

Ryan Todd – Simmons Energy

Michael Hall – Heikkinen Energy Advisors

Scott Hanold – RBC Capital Markets

Leo Mariani – KeyBanc

Welles Fitzpatrick – SunTrust

Operator

Good morning and welcome to Noble Energy's Third Quarter 2019 Earnings Results Webcast and Conference Call. Following today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Brad Whitmarsh. Please go ahead.

Brad Whitmarsh

Thanks, Andrea, and thanks to all of you for joining our third quarter conference call this morning. I hope you've had a chance to review the news release and presentation deck that we published earlier today. These materials are available on the Investors page of our website and they highlight continued strong performance for the business.

Later today, we plan to file our Form 10-Q with the SEC. Want to remind everyone that today's discussion contains projections and forward-looking statements, as well as, certain non-GAAP financial measures. You read our full disclosures and our latest news releases and SEC filings for a discussion of those items. Following our prepared remarks, we'll hold a question-and-answer session and we will wrap up within an hour today. I would ask that analysts limit themselves to one primary and one follow-up.

Our planned comments this morning will come from Dave Stover, Chairman and CEO; as well as Brent Smolik, President and COO, who has lost his voice somewhat. Also joining us is Hodge Walker, SVP of Onshore, and Hodge will talk us through the U.S. portion of our comments. Both Ken Fisher, EVP and CFO, and Keith Elliott, our SVP of Offshore are joining us remotely this morning.

With that, I want to turn the call over to Dave.

Dave Stover

Thanks, Brad, and good morning everyone and thanks for joining us today. Our teams have continued to execute very well through 2019. We went into the year, focused on creating more certainty throughout our business and positioning our company for long-term success. This morning, I'll highlight how we've already accomplished many of our key goals and targets for the year. In fact, we're on track to realize $300 million of capital and cost reductions, while generating more operating cash flow and volume than the original 2019 plan.

Whether it is taking the Mustang project in the DJ Basin from 0 to 60,000 barrels of oil equivalent per day within 18 months or the Leviathan project execution in the Eastern Mediterranean, Noble Energy continues to deliver and lead across the board. The capital efficiency improvements onshore, progress on offshore projects and capturing new exploration opportunities are all substantial, visible contributors to a long-term sustainable future for our company.

Looking at third quarter results, we performed extremely well on all items within our control, including lower capital, lower cash costs and higher production. Capital expenditures for the quarter came in more than 12% below expectation, with reductions in our U.S. onshore well costs and facility capital and lower Leviathan costs. For the full year, we're now estimating to be $200 million below our original 2019 company capital guide. We continue to maintain discipline and are prioritizing these savings to the balance sheet instead of allocating to additional growth.

On the expense side, we again came in below expectation on production costs and we materially reduced our G&A in the third quarter both benefiting from continuous improvement initiatives. For 2019, we've reduced these cash costs by more than $100 million as compared to our original expectations. Also during the third quarter, we launched a debt transaction designed to extend our maturity tower, clearing out near-term maturities through late 2023. In addition, we issued at record low coupon rates for Noble Energy, which will save a few million dollars per year in interest. I was pleased with the execution of the transaction and the bond market's reception of the issuance.

Total company and U.S. onshore volumes for the third quarter came in at the high end of guidance. The U.S. onshore teams delivered a 30,000 barrels of oil equivalent per day increase over the second quarter of the year, including 10,000 barrels of oil per day. Each onshore business unit reflected material sequential growth. Our original full-year company guidance indicated approximately 10% growth from 2018 to 2019 and we are trending above that number with our performance year-to-date and fourth quarter guidance.

On Slide 4, we've provided a look back at the key deliverables we targeted as we entered the year. The number of check marks here reflects the tremendous execution of our teams and delivery across the portfolio. In addition to the onshore capital efficiencies and major project development successes, I also want to highlight the dividend raise earlier this year, the recent success at Aseng with a new development well, execution of the Columbia exploration agreement and the submission of another comprehensive drilling plan in Colorado. I'm also proud of the effort to produce the company's initial climate resilience report that's available on our website.

Just yesterday, we announced the extremely significant milestone of closing of the EMG Pipeline acquisition, which opens a key pathway for natural gas deliveries from Israel into Egypt. Keith is in Israel, as we speak, ensuring the final steps of the Leviathan project completion and field start-up. Leviathan's first gas sales is fast approaching with initial deliveries now expected in December. In addition to an early start-up, we've lowered the gross capital expenditure estimate to $3.6 billion, $150 million decrease from the original budget. It's extremely exciting and remarkable to be involved with the project that will have such a historic impact to a country and a region.

There is a tremendous amount of effort remaining to bring the project to completion and we remain highly focused on delivering a successful and safe start-up at Leviathan. I want to thank all the Noble project teams, our partners, vendors and key regulators who have all worked so hard to bring this transformational project to reality. One other important catalyst for us as we close out 2019 is reaching conclusion on the midstream strategic review. We've worked through multiple alternatives and are on track to complete the review by the end of the year. Our focus has remained on the best long-term value creation for Noble shareholders and NBLX unitholders. I'm confident that we are reaching the best outcome for all.

Let me now hand it over to Brent to update you on our operational performance and then I will come back with some closing comments before opening for questions.

Brent Smolik

Thanks, Dave. Good morning, everyone. And I apologize, little scratchy this morning, so I'll try to get through this here. As Dave mentioned, we had a tremendous success so far in 2019 and we're undergoing substantial transformation as we move into next year with significantly lower capital, increasing cash flow and increase in production volumes. Our rate of change is largely due to Leviathan. And if you look at our Israeli assets, they're high quality reservoirs with reliable production, which reduces volatility in our cash flows. In fact, we recently surpassed 2 Tcf of production from Tamar with over 99% runtime since inception in 2013. The Leviathan project remains ahead of cost and schedule, once again demonstrating the skill of our major projects team.

During the third quarter, the production decks were successfully installed, including a world record offshore crane lift at 15,300 metric tons. We're now in the final commissioning phase of the production facilities. As Dave mentioned, we estimate cumulative gross savings of about $150 million versus the project sanction, which is truly remarkable for a multi-year project of the scale and a credit to our teams and the 2,200 people that have worked on the project around the world. We're nearing the finish line and we're looking forward to first production next month.

In Q3, we had announced the amendment of the Dolphinus gas sales agreements in Egypt from Tamar and Leviathan. The original firm contracts of 1.15 Tcf over 10 years have been expanded to 3 Tcf over 15 years, reflecting the long-term demand in the region. Initial firm volumes under the Dolphinus agreements begin at 200 million cubic feet per day, step up to 450 in mid 2020 and increase to 650 in mid-2022 and the rest of the 15-

year term. These gas export contracts to Egypt and Jordan represent a new era of exports for Israel and a new chapter of regional cooperation and our Noble team is excited to take part in that transition.

Post Leviathan, Noble is moving from a single asset supplying Israel domestic customers to multiple assets supplying over 45 gas sales contracts to customers in three countries. As demand in the region evolves and our Leviathan production capacity expands, we naturally expect a greater range of sales volumes. We currently estimate combined Tamar and Leviathan sales to average between 1.6 Bcf per day and 1.8 Bcf per day gross for full year 2020 and we expect the first half of the year to range from 1.4 Bcf per day to 1.6 Bcf per day with growth in the second half of the year to 1.8 Bcf per day to 2 Bcf per day.

We had a really important inflection point for Noble Energy and it's made possible by bringing on the largest project in our history and one of the largest ever infrastructure projects in Israel. In West Africa, Aseng 6P development well was drilled and completed under budget this quarter. First production commenced in October and the well is performing as expected. Over the well's life, we expect to recover approximately 10 million barrels of oil, which will add to about 100 million barrel milestone that we recently surpassed at the Aseng field.

At Alen, we continue to focus on base decline in reservoir management, which has resulted in lower production decline in the field. The Alen gas monetization project is progressing well. Construction materials are expected to arrive in the first quarter of next year and we're still targeting start up in the first half of 2021. As a reminder, this is a unique capital efficient project that will utilize existing production wells and facilities and the LNG infrastructure on Bioko Island. We're very excited about the cash flow profile of this project and its ability to grow without additional CapEx as Alen gas backfills are growing LNG plant availability.

I'd ask now Hodge to take us through the U.S. onshore update, if you would, Hodge.

Hodge Walker

Thanks, Brent. Good morning, everyone. In the U.S. onshore business, we achieved further capital efficiency improvements and substantial production growth in the quarter. Production volumes were up 11% sequentially with capital down over $70 million. Our well costs have continued to improve as a result of shorter cycle times and better execution. For example in the DJ, we set a world record of over 10,300 feet drilled in a 24-hour period and in the Delaware, we drilled 9,300 foot lateral in under 12.8 days. These new records are setting the drilling benchmarks in each area. There are also fundamental in our continuous improvement culture. If we can do it on a single well, then we can improve the average well.

I'm pleased to report, as we've improved execution efficiencies, we've also improved our personal and process safety performance. This reflects a strong safety culture of our organization and demonstrates that efficient operations are usually safe operations. On discussing the U.S. onshore operations, I want to point out that our midstream business also had an excellent quarter of execution. They delivered record gathering volumes and capital efficiency gains in both the DJ and Delaware Basins. And we'll look for opportunities to collaborate on ways to make both businesses more efficient.

Slide 11 includes a little more color on the U.S. upstream results by BU. The DJ Basin continued to deliver significant growth, setting record production volumes, while generating free cash flow. Total volumes of 158,000 barrels of oil equivalent per day were higher than our expectations and up 25% from third quarter of last year. During the quarter, we drilled 38 wells, 15 in Mustang Row 2 and the remainder in Wells Ranch. Our Mustang Row development produced over 60,000 barrels of oil equivalent per day net to Noble.

We've also deployed our first electric line power drilling rig in Mustang, which reduces noise and emissions and reduces capital, due to less diesel fuel in use . We've also moved to electric powered compressors and tankless production facilities. All these changes enhanced environmental stewardship, while continuing to improve safe and efficient operations. In the fourth quarter, we expect to TIL approximately 20 wells in the DJ Basin, primarily focused in Wells Ranch in the East Pony areas. Looking further ahead, we're pursuing a second CDP in North Wells Ranch. The application consists of about 38,000 acres in the oilier part of the basin and the new CDP will ultimately add up to 250 additional drilling permits.

In the Delaware, we had another quarterly record of 70,000 barrels of oil equivalent per day. The Delaware production benefited from shorter cycle time and productivity improvements during the year. In the first half of 2018, 24-hour test rates on our new wells averaged approximately 190 barrels of oil equivalent per 1,000 foot of lateral. During the third quarter, new wells averaged over 220 barrels of oil equivalent per 1,000 foot. In addition, we have several wells in the southern portion of our acreage, which started up early in the fourth quarter with encouraging early time production. In the fourth quarter, activity in Delaware will be lower with 10 TILs planned.

Wrapping up the U.S. onshore, in the Eagle Ford, we brought on 16 DUCs late in the second quarter, which contributed to the significant third quarter jump in production. We also partially offset some unplanned downtime at one of our large production facilities, which required production to be shut-in and a portion of the field during most of September and October. We've made the necessary repairs and oil production is coming back online. However, the third and fourth quarters will be impacted by about 5,000 barrels of oil equivalent per day and about 1,000 barrels of oil per day.

With that, I'll hand it back to Brent.

Brent Smolik

Thanks, Hodge. So, clearly, capital and operating cost improvements have been a big focus for us in the onshore U.S. business. Our results are summarized on Slide 14. In addition to the drilling gains, as Hodge mentioned earlier, completion cycle times have also continued to improve, average well cost in both the DJ and Delaware Basins are down, an incremental $500,000 from mid-year of this year. In total, we're down almost $2 million per well from the end of last year in each basin, which is a remarkable accomplishment. It's a significant driver of the reduced capital guidance for 2019. In the current environment, I feel really good that we can maintain these cost reductions heading into 2020.

Lease operating expenses have also been front center for our production ops teams. The DJ Basin is down 15% per BOE from the fourth quarter of 2018 with improvements in compression optimization and chemical costs leading the way. Delaware Basins decrease unit LOE by over 30%. Costs are lower in almost every expense category including lower workover costs. So, going forward, we expect our recently installed electric power facilities to further reduce fuel and rental generation cost, while at the same time increasing the reliability of our production.

So overall, I'm very pleased with the year-to-date execution on capital expenses and our volumes in both the U.S. onshore and offshore. In total, we've successfully reduced our capital expenditures by over $200 million and by reducing cycle time we've benefited from lower capital and an accelerated TIL schedule and higher volumes in the first three quarter. Since we've chosen to not redeploy the capital savings into further growth, we expect 4Q volumes, onshore volumes to be down some from the third quarter and TILs will be down in the second half of the year versus the first half.

Eagle Ford is anticipated to be down meaningfully, because we haven't had a new activity there since the first half of the year. The Delaware will be down – down flat to slightly down and the DJ will grow slightly in Q4. On the international front, West Africa gas sales should be lower than Q3 and Israel could be down slightly due to normal seasonality that we see in Israel. I wanted to point out that we've not included any of Leviathan volumes in our guidance for the fourth quarter. However, we expect to have some sales of meaningful amounts of commissioning gas in the month of December.

Before I hand it back to Dave, I just want to summarize some of the things that really excited me and I think are competitive advantages for Noble as we move into 2020. First, our continuous improvement culture is delivering the sustainable reductions in capital per well, significantly reducing our annual maintenance capital needs. Second, we've improved our execution in the U.S. onshore business with Row developments and we're now positioned to deliver free cash flow in 2020. Third, our Leviathan project readiness and long-term availability. So we sanctioned that project just 2.5 years ago and it's literally changing the future of our company. And fourth, we're commencing the next major project at Alen in EG. These major projects are important sources of long-term stable cash flows and are significant growth and value drivers for the company.

Brad Whitmarsh

Thanks Brent then Hodge both of you for the good wrap up on the operations. As you've heard from us this morning, critical to our differentiated outlook is our diversified portfolio, providing both high return and high margin unconventional opportunities, as well as, long life, low cost conventional major projects. This combination enhances capital allocation optionality and reduces long-term volatility.

Slide 15 is a slide that you've seen in our presentation, disclosures from earlier this year, highlighting one specific benefit and competitive advantage from our portfolio. You can see in the bar is the rate of change in our corporate decline profile, as Leviathan comes on production. From mid 30% range this year to low 20% range next year, this lower corporate decline benefits us by reducing annual maintenance capital needs.

Leviathan also creates a noticable net cash flow swing from 2019 to 2020, as capital investments roll-off and we generate substantial cash flow in 2020. Benefits of the diversified portfolio become even clearer when you consider the significant growth potential as Leviathan production expands to the installed capacity and Alen gas comes online. The growth in offshore provides us great flexibility in making the right capital allocation decisions in the U.S. onshore business, while prioritizing returns and free cash flow generation.

As we move into this transformational 2020, we continue to face a volatile commodity environment. We are evaluating various capital scenarios for next year and we remain focused on generating organic free cash flow, improving corporate returns, protecting the balance sheet and returning capital to investors. In all potential scenarios, we remain laser focused on an organic free cash flow target of at least $500 million. I expect our 2020 outlook will reflect continued capital efficiency improvement.

As we wrap up 2019, I want to come back to three key factors where Noble Energy is distinguishing itself. The positive rate of change heading into 2020 from significantly decreasing capital is the first and increasing cash flow and volume; second, the move to an even lower annual corporate decline rate and lower maintenance capital; and third, a global inventory that include substantial low cost discovered resources that can utilize existing infrastructure to generate significant returns. Our accomplishments through 2019 are setting the stage for a significant transformation of the company as we head into 2020, providing a platform for long-term sustainable free cash flow for our investors.

Thank you for the time this morning and we'll now open for questions. Andrea?

Question-and-Answer Session

Operator

We will now begin the question-and-answer session. [Operator Instructions] And our first question comes from Arun Jayaram of JPMorgan. Please go ahead.

Arun Jayaram

Dave, I was wondering if you could elaborate a little bit more on your thoughts on the U.S. onshore business next year. I know you plan to prioritize free cash flow generation. You do have Leviathan coming along, but given some of the improvements you've seen in terms of capital efficiency. Do you plan to have a program, if oil was in the mid 50s that could, keep call it, U.S. onshore oil growth flat with the second half levels? Or are you thinking more on a year-over-year basis?

Dave Stover

Well, yes, I think, Arun, it's one of the things that we're reviewing right now as we lay out our plans and look at scenarios for next year. I think that you highlight a couple of key things. One is that the focus, the primary focus is on making sure that we set ourselves up to support and generate that $500 million plus of free cash flow for next year. So, that's kind of first and foremost. In the current price environment, there has been a little softer commodity price on NGLs and gas. But as you highlighted the efficiencies that we've seen help offset a lot of that. So, I think when you get down to it, the thing that we'll continue to ask ourselves is with this double-digit growth rate that Leviathan, not just Leviathan but the Eastern Med business provides for next year? What is the right amount of growth to drive in the onshore business from the US?

I think to your point, whatever capital allocation we end up with the oil growth will be higher in our onshore US than our base onshore growth. Just when you think about it from the way we're allocating capital in the onshore US to the DJ and Delaware, and the Eagle Ford will be declining off. So, our onshore oil growth rate will be higher than our overall onshore growth rate on a year-on-year basis. But we'll finalize that as we determine what's the right amount of capital to spend in the onshore business and how much growth do we want to drive overall in our onshore business next year. So, I guess, long way of saying, we're looking at some different sensitivities there. Primary focus again is on making sure that we support and sustain that free cash flow growth that we've kind of highlighted and promised to investors.

Brent Smolik

And as Dave said that really well, Arun. But just to add some emphasis on all of the U.S. onshore scenarios that we've been looking at grow year-over-year.

Arun Jayaram

That's helpful, Brent. Brent, I was wondering if you can maybe also talk a little bit about what you're seeing in terms of well productivity in the Delaware Basin. I also – in particular, I was hoping you could elaborate on what you're seeing in the southern portion of your acreage position in Reeves County?

Brent Smolik

Yes. So, I think the way I'd summarize the Delaware high level, Arun, is that we've made significant improvements on the execution side and I'm really proud of the cost and efficiency gains on both the CapEx and the OpEx side. The work that we still have to do is optimizing the completions. Hodge pointed out in the prepared comments that we're improving as we go through the year, but I don't think we're done yet. I think we still got work to go. We definitely have some – there's an area we call [indiscernible] you're down to – in the southern part that you referenced that we like the early results of, but I don't think Hodge those are even released yet on the 24-hour test. So, I think we're in that phase or that stage where we're continuing to optimize the completions and get them – make them even better.

Arun Jayaram

Great, thanks a lot.

Operator

Our next question comes from Brian Singer of Goldman Sachs. Please go ahead.

Brian Singer

Thank you. Good morning.

Dave Stover

Hey, Brian.

Brian Singer

I wanted to follow-up on Arun's question with regards to the 2020 outlook and your response there. Should we view 2020 onshore growth as below what you would regard as a sustainable growth rate because you're essentially choosing to slow it – potentially choosing to slow it given the greater growth temporarily coming as a result of Leviathan? Or are you kind of looking more at trying to create more ratable sustainable growth as you go into 2020, again assuming oil prices are mid-50s or whatever you would regard as reasonable?

Dave Stover

Yes. Well, I think it starts with what we've said previously is that we want to make sure our onshore business is supporting itself with its own cash flow and so we'll set it up accordingly. I think as we've talked about, we're going to be looking at some different scenarios there on the onshore business. I would expect and we've seen this over the last few years too, as you look at how you shape at the onshore business in 2020, the shape will be somewhat similar to the shape this year where its first half will be a little lower than the second half, just based on activity levels in any scenario we lay out there.

Brent Smolik

Yes. The other thing I'd say, Brian, is if you go back to what we rolled out in February for the long-term, the way we're thinking about the business and the five-year capital plan. We're right on that plan. And remember what we said at the time was that we had some flexibility and growth rates in the U.S. because we have discretion in that program and we have years like 2021 Leviathan is coming on where U.S. doesn't need to grow as much. So, I think we're right on top of that plan.

Dave Stover

And the other thing to add and that's a good point from Brent is that our 2020 and I made this in my prepared comments, but our 2020 outlook will reflect in improved capital efficiency as you're looking at year-on-year. You go from 2018 to 2019; we saw an improvement 2019 to 2020 is going to be a significant improvement. One, you've got the impact of Leviathan, obviously but second, I can't overstate the importance of the efficiency improvements that have been now embedded in the business that Brent, Hodge and the teams have done that will roll forward into 2020. So, I think whenever we finally rollout our 2020 outlook, I think everybody will be very pleased with the capital efficiency outlook that gets rolled out.

Brian Singer

That's great, thanks. And then my follow-up is that you made a reference to exploratory activities. And I just wondered if you can give us an update on key areas of focus and timing?

Dave Stover

Yes. Exploration is obviously has been a capability that we've maintained. I think it's going to become even more important going forward. As you look at the importance of the conventional assets. I think you're seeing a resurgence in the recognition of some of the importance of these conventional assets. Obviously for us to bring some big major projects on like a Leviathan, like a Alen and the expansion of Eastern Med I like that. But all of those came from exploration successes. So, we're going to be anxious to get back to some exploration drilling next year. Again this is starting out at a modest level, but probably the first key well will be the well in Colombia, next year. It will probably start at about mid-year, the second half of the year, but we'll have results on that next year and we're really looking forward to being able to test that, very high quality project down there.

Brian Singer

Great, thank you.

Brent Smolik

Thanks, Brian.

Operator

Our next question comes from Doug Leggate of Bank of America Merrill Lynch. Please go ahead. Doug, your line is open on our end. Are you muted?

Doug Leggate

Hi, sorry guys, I was on mute – no, I'm here. I'm here, I had mute on, I'm so sorry.

Dave Stover

It’s okay. If you're on mute...

Doug Leggate

Well, I guess, you can hear me now. Yes, it's been one of those weeks. I'm sorry, fellows. So, I've got two questions. I'm afraid, I'd like to hark on – I was talking to myself, there for a minute. So, I'll repeat myself. I'd like to hark on a little bit, but this onshore story, a little bit and ask the question a little differently. The efficiency gains that you have secured and outperformed, I would say, relative to, I think what the Street was expecting. What would the minimum level of activity on the onshore required to be in order to make sure you don't lose – you don't give any of those up? And I'm thinking everything you've talked about 5%, sub $2 billion CapEx. Is that, I know you want to be specific, but am I in the ballpark?

Brent Smolik

Say again, the number.

Doug Leggate

5%, sub $2 billion capital.

Dave Stover

Yes, you're talking on company level as far as total capital.

Doug Leggate

No, just on onshore – onshore oil sub 5% growth. But total company capital sub $2 billion. That's kind of, I'm just trying to get a handle as to you don't – you're already one of the most competitive growth stories in the sector with Leviathan. You don't need to go to Lower 48. So, I'm just trying to understand what the minimum would be to retain those efficiencies?

Dave Stover

Yes, I think let's talk about it from an activity standpoint. This year we were at relatively low activities, we had two rigs running most of the year in the DJ and we're able to drive these efficiencies. But we've been able to reduce the frac crews to less than two on average because they're getting faster. I think we'll be able to hang on to all those operational efficiencies. And then some of this year's capital was Eagle Ford, remember though it was just completing DUCs and that's going to fall off next year because we don't have any DUC inventory in Eagle Ford. So, we'd really be back to speed down to the Delaware and so focusing in those two basins, I think we'll have enough activity in each area that we'll be able to hang on to all the operational efficiencies.

And then it just leaves – and remember that we didn't get all those operational efficiencies on day one in January. We've been acquiring – accumulating them over the year and I think we'll have a full year benefit of those cycle time reduction kind of efficiencies next year. Then on top of that, if you look at inflation, it feels like we're in a good place right now with relatively low fourth quarter activities that started even back in the third quarter. So, we're feeling pretty good that we can hang on to all of the efficiencies for the full-year of next year, at levels kind of near this year or even a little below.

Hodge Walker

Doug, you bring up a good point to emphasize that, which is the significant rate of change story for us going from 2019 into 2020 and what we laid out earlier this year and what Brent highlighted is the consistency and actually the improvement in that story that we've now created through the visibility of that through what we've done this year. I mean, if you think back to the two key elements that we've laid out going forward. One was delivering that organic free cash flow, which I think is underpinned with more certainty even now with the efficiency improvements that we've seen and the cost management that the organization's delivered through a wide spectrum of commodity price environments, if you will.

And secondly, that rate of change is driven by our year-on-year significant decrease in capital that we've talked about previously, and significant increase in volume and both of those elements are going to be still realized. So, we're pretty excited about where we are right now and I share your enthusiasm.

Doug Leggate

[Indiscernible] sorry for joining.

Brent Smolik

I think you're $2 billion reference, if you go back to the five-year framework, on average we said we'd expect to spend $2 billion to $2.2 billion a year and you kind of laid out how we thought about – thought about allocating that capital. I think for 2020 we're comfortable we're going to be below the low end of that range.

Dave Stover

And I think you'll see when we roll stuff out for the full picture is that our maintenance capital is coming down. I mean, there is no doubt.

Doug Leggate

That was what I was trying to get to guys sub $2 billion. Thank you for that.

And my follow-up, hopefully is a quicker one. I have to say I disagree slightly with one of my colleague's comments about the temporary growth in Leviathan because to me it can set you up for a multi-year growth phase beyond the start-up. But can you – I just wonder if – I wonder if you could just walk us through any visibility you have on incremental expansion, not capital expansion, but sort of free growth if you like with our additional spending over the next couple of years and I'll leave it there?

Dave Stover

Yes, I think the point you're alluding to is that Leviathan our Eastern Med volumes over the next year or two can expand without capital, given the infrastructure and capacity will have in place. And you start to see just the way we've kind of laid out, first half to second half of the year how we're kind of growing into some of that capacity. We haven't filled it up by the second half of the year. But as you move into 2021, 2022 and you start to fill that up, you have inherent growth that essentially no capital, which creates an ongoing capital efficiency improvement story, if you will.

I think the other thing that's key there is we'll start to learn more about this as we start to get a few months of production on with Leviathan, then as we have a chance to come back in February we'll have gained a good bit of knowledge just from commissioning sales and starting to see actual product moving both in country and exports. So, we'll be able to continue to update as we go. But it's setting itself up for a – just a fantastic story, which is why it's so significant this milestone. Not only the ability now to make sure we're going into Jordan and Egypt and have exports, but now with Leviathan online and visible in the next month or so. Then you're setting the stage for a growing market in Israel also.

Doug Leggate

I would just say, Dave, if you build it, they will come. So I am very grateful for taking my questions. Thanks so much.

Dave Stover

Dave Stover

Thanks, Doug.

Brent Smolik

Thanks, Doug.

Operator

Our next question will come from Jeanine Wai of Barclays. Please go ahead.

Jeanine Wai

Hi, good morning, everyone.

Dave Stover

Hi, Jeanine.

Jeanine Wai

Just trying to follow-up on a couple of the prior questions. So, you indicated that all of your 2020 scenarios involve the U.S. growing year-over-year. But I think that might have been specifically in regards to 2020? And so, I guess, when we're thinking long-term given upside opportunities elsewhere in the portfolio. And there's been a lot of talk about upside in Eastern Med so far. Are you thinking about the U.S. onshore long-term as more of a growth asset or more of a free cash flow assets?

Dave Stover

I think it will be – it will be transitioning into both here over the next year or so. That's the part about setting it up, so that it can live within its own cash flow and actually start to generate cash flow and as it continues to grow and it will continue to grow in any plan and scenario that we're looking at. It will be able to do both over time. So, the nice part is as we've laid out the program, when we talked about earlier this year, modest growth setting ourselves up as a company, but sustainable organic free cash flow delivery. It will be supplemented at a time with major projects coming on, which will give you a high growth years like we're seeing in 2020 at times, but underpinning all that you have growth in both parts of the business. You have growth in the offshore and you have growth in the onshore.

Jeanine Wai

Okay, great, that's very helpful. And then, let's see switching here to the Eastern Med. On Slide 8 of your presentation, can you talk about any changes in volume expectations across Tamar and Leviathan that went into your updated gross volume forecast? They're a little bit different than what we had expected?

Dave Stover

Well, I think what we're representing, and I mentioned it earlier that we're still early in this. You got a lot more customers, so you're bringing in a lot more new information, if you will. So, we're going to start out with our best understanding at this point, as we get a few months into this and get some real production and see where it's going, and who has taken what, we'll be able to highlight a little better how it's split between pieces. But I think obviously, first half of the year Tamar has the larger portion of the volume and you would expect that because it coincides with what we laid out in the Dolphinus amended agreement too, how it ramps up from first to second half of the year. And then the second half of the year Leviathan starts to catch up some.

Jeanine Wai

Okay, great, very helpful, thank you for taking my questions.

Operator

Our next question comes from Ryan Todd of Simmons Energy. Please go ahead.

Ryan Todd

Thanks. Maybe a couple of kind of specific ones, I mean, on your – the amount that you've been able to drive down costs this year, not just on the well side, but on the operating side as well. I'm thinking like your unit lifting costs and even G&A. Do you expect to be able to carry all that momentum into 2020 and how would you think about unit cost to trend next year given the material uplift in volumes from the low cost Leviathan project?

Brent Smolik

Yes, I think we should expect it to trend. Again in the right direction because we didn't realize all those LOE savings on day one this year. We've been working our way through those changes and then we'll have increasing – flat to increasing volumes, as we've been talking about. So, that – in the U.S. onshore, so that will help with the unit cost story. And then, G&A is the same thing. The G&A savings we've had are relatively recent. So, we'll get a full-year benefit next year. So I think we're going to – I think we're going to we're going to continue to trend well on op costs.

Dave Stover

Well and then think about it, you got that large volume in the Eastern Med at a very low operating costs, so brings your weighted average down and really sets you up nicely.

Ryan Todd

That's great, thanks. And then maybe in the DJ Basin, there was obviously there was a greater mix at Wells Ranch and East Pony wells relative to Mustang in second half. But as we look into next year and I think you said the next Mustang well to come out maybe in 2Q, But on an overall idea as we think about 2020, what sort of mix should we expect in the development phase of between kind of Wells Ranch, East Pony and Mustang. Any thoughts there?

Brent Smolik

Yes, we're not all the way there yet, on our final plans. So, Hodge, I mean, at a high level it will be similar to this year, right. I mean, most of the scenarios we're going to – we could pick up a little more of the oily portions of the basin in 2020 versus 2019.

Dave Stover

Yes, going into 2020, I think you would expect that we're going to start that year going back into Row development within Mustang. And as we move through the year, I think from an operational standpoint, a little bit less East Pony next year than this year. But overall, it will be between Mustang and Wells Ranch.

Hodge Walker

And the Row you're moving into in Mustang is a little oilier Row than you were in this year.

Dave Stover

It will be a sister to our Row and we'll be moving to across.

Ryan Todd

Great. I appreciate the color, guys.

Brent Smolik

That is high level though. So we get everything finalized.

Ryan Todd

Of course, thanks.

Operator

Our next question comes from Michael Hall of Heikkinen Energy Advisors. Please go ahead.

Michael Hall

Thanks. Just kind of wanted to I guess come back on the capital efficiency side of things as you kind of look out to 2020, given the well costs that we had in the third quarter. I understand, we took down capital $200 million this year, but that's kind of a weighted average through the course of the year. If you were to annualize the current well costs, what sort of savings would that have represented for 2019 if you have that. And then how should we think about PDP declines in the U.S. only business in 2020?

Brent Smolik

The cost for – to the cost first, that's let me think about answering the question. So, we got quite a bit of the savings early. So I'd probably would say we were within $1 million fairly quickly in the year on average per well and then by the end of the year we're at $2 million in the fourth quarter. So, thinking of an annual trend $1 million early, $2 million late, $1.5 million kind of average. I think the numbers will go around.

We did get a few more wells, you know, so that's clear, we'll get a few more wells done in the DJ than we originally had budgeted for less capital. So, some of that's being utilized. But I think that's a reasonable way to think about it. Base declines, I don't have in front of us Hodge. So, the total company that we've been talking about is probably the best place to start. But I don't have the basin by basin ones in front of me. In total company's probably in the low-30s and then after Leviathan comes on, we're going to be in the low-20s.

Michael Hall

Okay. Yes, I can follow-up on that. Yes. That's helpful though. And yes, I guess following up on the last question, what sort of LOE should we use in the Eastern Med, just want to make sure we're thinking about that right going forward?

Dave Stover

I think it's probably going to be pretty similar to Tamar LOE.

Michael Hall

Okay.

Brent Smolik

A little higher starting up.

Dave Stover

Yes, start-up maybe a little bit higher, but as we get it lined out, especially as you get into the second half of the year. I would expect it to be fairly close.

Michael Hall

Great, thanks.

Operator

Our next question comes from Scott Hanold of RBC Capital Markets. Please go ahead.

Scott Hanold

Thanks guys. Hey, quickly on the Permian Basin, with this big slug of wells that you all put on in 3Q in the Row development. Is there anything that you learned in that process that surprised you to the positive and negative? And could you also give us some sense of, it looks like the oil cut is around 61%, it's dropped, I guess, over the last several quarters. Is that because of better gas capture or is that just the trend we should continue to expect to see?

Brent Smolik

Yes to the second part, I think better capture. We did drill one pad that was further East that we talked about in the last quarter that was – we knew would be gas here, but we haven't been surprised on GOR across the field. Those forecast have held up pretty well. So, some of its we're right regionally, but I think we're on top of that, okay.

The other part on Row development is clearly the benefits that we've seen from the efficiencies and they show up in both the midstream company and the upstream company by being able to develop them in that fashion. We're driving down cost on D&C and facilities both companies and so, I don't think it was surprised but it was a pleasant surprise how big it was. I think on LOE, we had a factor because obviously everything is right there in the close proximity. So, we get a benefit on the LOE side on how we operate the fields. So, I think all of that stuff is as good as we expected or better.

On the completion side, as I mentioned, we're still optimizing. We may use less 100 mesh for example, and we may use and we may change some of the stage pacing, but that's normal optimization, I would say.

Scott Hanold

Okay, got it. And a quick follow-up on the Eagle Ford and I know that you guys are going to have details on 2020. But, I guess, am I reading into your comments that the Eagle Ford may not get a lot of capital allocation next year? And where does that strategically fall in terms of like do you guys need to have that asset?

Brent Smolik

The benefit strategically is I think there was a question earlier about onshore strategy and Dave answered and in total for onshore, within that strategy though we've got three assets. Eagle Ford will be more cash flow contributor with less growth expectations from it. The DJ Basin is already free cash flow positive for all of 2019 and then Permian is moving into that phase. So, I think it has a fit in the strategy in that regard because it's a cash flow contributor.

Scott Hanold

Okay, thank you.

Operator

Our next question is from Leo Mariani of KeyBanc. Please go ahead.

Leo Mariani

Hey guys, I was hoping you could just clarify a little bit on the $500 million of free cash flow. Just wanted to make sure that that's a pre-dividend number in 2020, and I was hoping you could talk to the uses of that free cash flow in terms of priorities? Is the priority to pay down debt? Is it to get the buyback program going again or increase the dividend? How do you think about those three pieces?

Brent Smolik

Right. I think on Slide 16, we touched on some of that, Leo. But, yes, it’s consistent with the way we've been talking about it, it's before dividend. And again, the discussion has been around generating at least $500 million free cash flow whatever commodity price environment we're in or supplying that. The – no change in how we thought about uses of that free cash flow. We've always talked about dividend growth with cash flow growth. We've talked about continuing to strengthen our balance sheet and then be an opportunistic on share buybacks. So, I think those three pieces are all part of that balance.

Leo Mariani

Okay, that's helpful. And I guess, just you one slide, where you talked about the Israeli gas price for 2020. I think it was $5.25, just kind of looking at this past quarter, in third quarter I think it was about $5.55. Just wanted to get a sense there. Is that just really reflecting the fact that your Leviathan volumes are going to be closer to $5 next year where your Tamar is going to be closer to that by $5.50, just trying to make sure I kind of understood how that price changes in 2020?

Dave Stover

Well, you've got a mix, now you're blending a lot more contracts, I think what we talked about over 45 contracts, they get blended into there. And the other thing, when you think about on a lot of new contracts, they're tied to Brent. Some of the old ones weren't, they had some different ties, if you will, and what we're assuming the Brent price of I think around $60. So, those obviously have room to move at higher oil price.

Leo Mariani

Okay. Thank you.

Operator

Our next question comes from Welles Fitzpatrick of SunTrust. Please go ahead.

Welles Fitzpatrick

Hey, good morning.

Dave Stover

Good morning, Welles.

Welles Fitzpatrick

Welles Fitzpatrick

On the north Wells Ranch CDP, a; is it fair to say that the Roadrunner, which I think is an [indiscernible] gave you confidence in the area to pursue that? And what are your thoughts on the Codell up there. I know you have some – some older wells from 13?

Hodge Walker

Hi, Welles. This is Hodge. I think to your point on did the Roadrunner gave us confidence. The Roadrunner was one of the appraisal wells we did up there. Taking into consideration the other wells in the area, our experience down in Wells Ranch putting all that together is what's giving us confidence on that CDP and moving that CDP forward.

Welles Fitzpatrick

Okay, fair enough. And do you think that you guys could have a development rig up there in 2020 or was that probably one with the CDP process?

Hodge Walker

Possibly 2020, we are moving through the process right now and expectations are that – that will be occurring here. That process is ongoing and we should be moving through that probably in the first half of 2020.

Welles Fitzpatrick

Okay, perfect. That's all I had. Thanks so much.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Brad Whitmarsh for any closing remarks.

Brad Whitmarsh

Again thanks, Andrea. Appreciate everybody that joined us today. If you have any follow-up questions, please don't hesitate to reach out to Kim or myself. We'll be around to answer your calls. Thanks guys.

Operator

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.