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Conference Call Transcript

UPL - Q2 2011 Ultra Petroleum Corp Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Second Quarter 2011 Ultra Petroleum Corp. Earnings Conference Call. My name is Caris and I will be your coordinator for today. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session.

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(Operator Instructions)

As a reminder, this call is being recorded for replay purposes. I would now like to turn the call over to your host for today, Miss Kelly Whitley, Director, Investor Relations. Please proceed.

Kelly Whitley - Ultra Petroleum Corp - Director, IR

Thank you, Caris. Good morning, ladies and gentlemen. Welcome to Ultra Petroleum's Second Quarter Earnings Conference Call. On the call with me are Mike Watford, Chairman, President and Chief Executive Officer; Mark Smith, Senior Vice President, Chief Financial Officer; Bill Picquet, Senior Vice President, Operations; Brad Johnson, Vice President, Reservoir Engineering and Development and Doug Selvius, Director of Exploration.

Before turning the call to Mike, I'd like to cover a couple administrative items. First, this call will contain forward-looking statements that involve risk factors and uncertainties detailed in our SEC filings. All statements other than statements of historical facts included in this call are forward-looking statements. Also, this call may contain certain non-GAAP financial measures. Reconciliation and calculation schedules for the non-GAAP financial measures can be found in our 10-K and other filings with the SEC available on our website. Second, we filed our 10-Q with the SEC last night. It is now available on our website, or you can access it using the SEC's EDGAR system. Now let me turn the call over to Mike.

Mike Watford - Ultra Petroleum Corp - Chairman, President & CEO

Thanks, Kelly. Good morning, and thank you for joining us. The second quarter of 2011 was a really good quarter for Ultra Petroleum. We achieved record production led by our growth in the Marcellus, a tripling on a year-over-year basis, and a new peak production record in Wyoming.

Our financial metrics were strong. Earnings grew 23% over year-ago comparisons and cash flow by 34%. Our cash flow per share of \$1.55 for the quarter equaled the record set in the third quarter of 2008 when natural gas prices were \$8.00 per Mcf in the Rockies. Since then, our production has grown as has our asset quality and inventory. Our current estimate of low risk reserves, not resource potential -- reserves -- is 20 trillion cubic feet with an associated \$29 billion of future development capital. At today's inflated oilfield service costs, that's an F&D cost of \$1.43 an Mcf.

That's one of the reasons why our cash flow and net income margins are so strong in a low natural gas price environment. In fact, our cash flow margin and cash flow per unit of production for both the second quarter and for the first half of 2011 increased over similar periods in 2010. Margin expansion in a low natural gas price environment.

Our Marcellus activity is accelerating with increasing activity each and every quarter and with two-thirds of 2011's planned wells to come online during the second half of the year. Our reserve estimates, our EURs, are increasing and our partners want to add more wells to the program. In Wyoming our productivity continues to increase, causing us to drill more wells with the same rig fleet. We have new plays to discuss both in existing and new areas.

Mark, do you want to update the financials?

Mark Smith - Ultra Petroleum Corp - SVP, CFO

Sure. Thanks, Mike, and good morning. As Mike outlined and as you've seen from our press release, we had another very good quarter with record production and ongoing improvement and efficiencies in the field. Further, we continue to maintain our industry-leading margins and returns while preserving our financial flexibility.

In terms of natural gas price for the quarter, our realized corporate natural gas price before the effects of hedges increased 7% year-over-year to \$4.38 per Mcf. Again this quarter, I want to emphasize this price before the impact of our hedges registered 101% of Henry Hub, well above our prior guidance range. Our natural gas hedge positions improved our average realized gas price by \$0.79 per Mcf or 18%, to \$5.17 per Mcf. Condensate prices registered \$92.35 per barrel for the quarter.

Our production was up 13% on a comparable year-over-year basis to a record 59.1 Bcfe during the second quarter. This year-over-year increase, combined with 7% improvement in realized natural gas price were the primary factors driving our 22% increase in revenues, including the effects of our hedges of \$325.6 million. From a cost perspective, all of our costs were within or better than our guidance ranges.

Corporate lease operating expenses for the quarter decreased year-over-year to \$0.85 per Mcfe, primarily as a result of reductions in our unit operating costs. Looking at our cash costs, excluding severance taxes or our field level costs, they decreased 7% year-over-year on a unit basis to \$0.43 per Mcfe.

As a result, our operating cash flow increased 34% over prior year levels to \$239.3 million, providing an operating cash flow margin of 73%, up from 67% in the second quarter of 2010. Cash flow per diluted share registered \$1.55 during the quarter.

Adjusted for our unrealized gains associated with the mark-to-market position on our hedges, our net income registered \$101.9 million for the quarter, for a 31% margin and \$0.66 per diluted share.

In terms of breakeven levels, our net income breakeven is now at \$2.73 per Mcfe, with cashflow breakeven at \$1.15 per Mcfe.

Our adjusted return on average capital employed, on an annualized basis, for the second quarter was 14%, and our adjusted return on equity was 32%.

From a balance sheet perspective, we continue to be very well positioned. As of the end of the quarter, we had \$6.7 million in cash and cash equivalents on hand, and \$154 million borrowed under our bank facility at an interest rate of roughly 1.5%. Overall, our debt capacity is in excess of \$2.5 billion and provides us with just under \$800 million in unused senior debt capacity. As an update, we plan to refinance our senior bank facility in the late third quarter early fourth quarter in an increased amount up to roughly \$1 billion.

I should point out that the Ruby pipeline went into service as anticipated in the latter portion of July, and we continue to expect the Kern River Apex expansion of 300 million cubic feet per day to follow in the fourth quarter of the year. Again, we see excess Rockies natural gas pipeline take-away capacity at roughly 4 bcf per day extending for quite some time.

Moving on to hedging, as detailed on page 10 of our press release, we have approximately 95.5 bcf, or roughly 76% of our remaining 2011 forecast natural gas production, hedged through fixed price swaps, at weighted average price of roughly \$5.21 per MMBtu. For calendar 2012, we have about 129.1 bcf hedge and a price of roughly \$5.02 per MMBtu.

I'll wrap up my comments by again observing that as we look toward the remainder of 2011, we continue to see ourselves well on our way to meeting our objective of better than 20% growth in adjusted earnings and cash flow.

Now I'll pass it off to Bill for an update on our operations. Bill?

Bill Picquet - Ultra Petroleum Corp - SVP, Operations

Thanks, Mark. In Wyoming in the second quarter, Ultra brought on stream 43 net new producing wells. The average initial 24-hour sales rate for these new Pinedale producers was 7.2 million cubic feet per day. Ultra's operated wells averaged 7.6 million cubic feet per day, while the non-operated wells averaged 6.3 million cubic feet per day. We drilled a total 38 net new wells in the quarter.

Our drilling efficiency continues to improve. Reduced drill times are allowing us to sustain excellent cost performance, as the upward pressure in cost of services continues. We average \$4.8 million per well in our operated program in Pinedale during the second quarter.

For the quarter, we averaged just over 12 days spud to TD for Ultra-operated wells, a 17% improvement over the average for 2Q 2010. This is another record for Ultra's drilling operations in Pinedale.

During the second quarter, our average drilling time, rig-release to rig-release was 15 days, down 14% from our Q2 2010 average.

For the quarter, 92% of our wells were drilled in less than 15 days, spud to TD. Drilling a "sub-15-day well" is a milestone that we first reached just over 2 years ago in Pinedale. It's significant that we are now consistently below this mark achieving it with all rigs. We're often asked what are the limits to efficiency gains, and we still don't know. We're now beginning to drill a higher number of wells below 10 days and we anticipate

continuing to increase this success as we work toward this new target for the entire fleet. We demonstrated the 15-day goal was achievable and our team believes that in time the same will be true of our new 10 day goal. Our record well currently stands at just under 9 days, spud to TD.

Our drilling and completion operations, cost of services has increased during 2011. We've been successful finding new efficiencies to offset some of these increases. Our unique alliances with our service providers give us consistency and continuity in our operations - a key factor in our ongoing efficiency gain.

Upward cost pressures in our frac operations has caused an increase in our overall completion costs for the first time in quite some time. Q2, we averaged 22 stages per well. Our cost averaged just over \$83,000 per stage compared to \$76,000 in Q1. We're increasing our focus on efficiencies in the completion operation and we're confident that we'll continue to produce excellent overall cost performance. So far, our successes in these efforts have enabled us to hold the overall average cost to drilling complete close to prior-year levels.

With that, I'll turn things over to Brad for a Pennsylvania update.

Brad Johnson - Ultra Petroleum Corp - VP, Reservoir Engineering and Development

During the second quarter, Ultra Petroleum and its partners drilled 23 net horizontal wells in Pennsylvania, compared to 17 net wells in the first quarter. This activity brings Ultra's total Pennsylvania shale program to 133 net horizontal wells since its inception in 2009. The Company also participated in 5 net vertical wells across this acreage.

Also in the second quarter, Ultra and its partners initiated production from 14 net horizontal wells versus 8 net in the first quarter. These wells had an average lateral length of 5,061 feet, with an average of 15 frac stages per well. Initial production of these wells averaged 5.8 million cubic feet per day. Currently 10 drilling rigs and 3 completion crews are active in the Company's Pennsylvania acreage position.

With net production for the quarter averaging 106 million cubic feet per day, we posted a 16% increase from Q1, and 321% increase from the second quarter of last year. In the second quarter, Pennsylvania production reached a peak of 118 million cubic feet per day, and in July, Ultra's net production reach 131 million cubic feet per day.

In the Company's operated acreage position located in its northern area, Ultra completed 2 more extended lateral tests on the Pierson 810 pad. Including the Pierson 810 #3H well from the previous quarter, these three extended laterals on this pad had an average of 6,300 feet of lateral length, 21 frac stages per well and the laterals were spaced 750 feet apart. This set of extended laterals had an average initial rate of 8.3 million cubic feet per day. We shared additional well results in our press release that also demonstrate the high quality of our northern area.

In Ultra's southern acreage area, actual well performance and execution is well ahead of our expectations. In July, in a previously untested portion of Lycoming County, another 6-well pad was brought on-line, with an average initial production of 7.3 million cubic feet per day, per well. These recent tests, along with the production performance of previous wells, demonstrate much stronger results than our current 5 bcf type curve.

Consistently strong IPs, flatter declines, and longer production histories for more than 125 wells is the reason Ultra is raising its type curve in 2 areas. In the Northern area, Ultra is increasing its type curve ultimate recovery from 3.75 bcf to 4.25 bcf per well. This is being applied to the eastern half of Tioga County, where over 60 wells have been producing for more than 180 days.

In the Southern area of Ultra's acreage position, Ultra is increasing its type curve from 5.0 bcf to 6.3 bcf per well. This higher estimated ultimate recovery is being applied to certain areas in Lycoming and Clinton counties, and is based on more than 20 wells producing at flatter production and higher flowing pressures than previously expected.

We have shared some of these observations before, but it is important to note again that the Marcellus horizontal wells continue to demonstrate flatter declines and increasing EURs with more production history. But, it is even more important to understand that Ultra's resource estimates are not based solely on conventional decline-curve analysis. The Company has conducted advanced geological, geophysical, and petrophysical studies to understand the rock. We have also incorporated analytical models to predict reservoir flow dynamics and completion efficiency, and we have utilized advanced well-performance models, to confirm our production forecast and reserve estimates. It is with strong intention that Ultra is rigorous and conservative with its reserve estimates and type curve models.

As we reported last quarter, the activity, pace, and production volumes in Pennsylvania are ramping up during the course of 2011. Significant increases were posted for the second quarter, and we expect that pace to increase even more in the second half of the year. In the first half of

2011, 33 horizontal wells were brought online. In July alone, 12 wells were brought online, thus demonstrating that our ramp up for the second half of the year is well underway. We expect to bring online twice as many wells in the second half of the year as we did in the first half of the year.

At this time, Doug is going to discuss more about our technical studies in Pennsylvania, and also an update on our efforts and New Ventures.

Doug Selvius - Ultra Petroleum Corp - Director, Exploration

Thank you, Brad. Although we're getting quite comfortable with our Marcellus resource, we are constantly working to improve knowledge and gain further efficiencies.

Last call I mentioned a study we conducted with Schlumberger that utilized our well and seismic data to help identify Marcellus sweet spots. We've since tested that model with additional completions that further support its usefulness in defining high-value areas. We are extending this work now across the rest of our data, and have realized similar success in matching seismic attributes to well performance. As a result, we are currently acquiring an additional 140 square miles of 3-D data in an area we think lends itself to sweet spot delineation.

Something else we've talked about in the past are pilot studies for well spacing. Ultra has now completed 3 pilots -- 2 with wells 500 feet apart, and a third with wells spaced 750 feet. The first pilot, at 500 feet, performed poorly, and made us think the wells were too close together. We've since taken a second look at this area in light of our seismic work and now think those wells are poor for geologic reasons, not because they were too close. Our second pilot, also at 500 feet, yielded much more encouraging results, and the same is true for our third pilot, at 750 feet. We need to watch all of these pilots for a while to understand interference effects, but down spacing looks like a real possibility and we have 3 more studies planned between now and the end of the year.

The other studies we're conducting are focused on completion technique. We've been testing fluid and proppant volumes, stage spacing, and perf cluster counts, all in an attempt to maximize efficiency. Early data suggests we could possibly reduce stage counts and proppant volumes without materially impacting well performance. This is early information that needs verification, but if it holds up the savings will be substantial. For that reason Ultra and its partners will be conducting 2 more well-spacing pilots, 3 more stage-spacing pilots, 2 stage volume pilots, and at least 1 perf cluster pilot in the coming months.

I'd like to move away from the Marcellus, and now make a few comments about the Geneseo and our New Ventures effort.

In the Geneseo, we TD'd our first horizontal well in late March. We drilled a 4,300 foot lateral and kept it in zone the entire length. We completed the well 2 months later and began flowing it back on June 4. After achieving early flow-back rates of 2.5 million a day, the well stabilized at just over 1 million a day and has been steady at that rate for over 60 days now.

We are encouraged by this test and we're also encouraged by the reports we're seeing from other operators in the area. As a result, we're trying to learn as much as we can about the Geneseo. We've acquired core in 2 wells and have plans to acquire core in 4 more wells in the coming 6 months. We're also making plans to drill as many as 5 Geneseo laterals during that same period. Our geology indicates the Geneseo has potential across 75% of our acreage position, so we're going to keep working to delineate it.

Let me finish now with a few words about New Ventures. We've assessed resource opportunities throughout North America and it's no secret we've seen some things we like in the Niobrara. Because of that, we've assembled roughly 100,000 acres in the DJ basin. We are not in the center of the current Niobrara activity, though. This is an exploratory venture for us, but I'd like to emphasize that we don't jump into plays like this recklessly. There are a number of factors driving our decisions, and I'd like to summarize the main ones.

First, we've done the regional work to support our decision. We've mapped all 3 chalk benches from both a structural and a thickness standpoint. We've also mapped thermal maturity and net oil pay across the DJ basin.

Second, beyond regional mapping, we have 30 feet of recent conventional core from a Niobrara bench in the middle of our lease position. We've got a full suite of shale logs, including fracture identification logs from that same key well. We also have 21 square miles of 3-D seismic data, regional gravity, and regional aeromagnetic data. Everything we've seen so far indicates our leasehold is every bit as prospective as Weld and Laramie counties, where it's currently being played. Our rock quality from a porosity, oil saturation, lithology, brittleness standpoint, looks every bit as good, if not better, than it does in those areas. We have positive indications of fracturing in our well logs and regional work indicating the area is likely to be fractured. In short, we like what we see.

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The third factor behind our decision is cost. We have assembled an attractive leasehold position in a highly prospective area, at costs much lower than leases in Weld and Laramie counties. We're currently making plans to drill 4 exploratory wells across our acreage position this winter. We'll be acquiring modern shale logs and taking additional Niobrara core. Our intent is to test the Niobrara chalk benches individually in these wells, since all 3 look prospective in the area and we want to determine where the value is. We plan to test the resource with horizontal wells early next year.

Assuming EURs of 250,000 barrels per well and 320-acre spacing, our acreage position exposes us to well over 50 million barrels of potential. Tighter well spacing could more than double that. At the same time, we're continuing to grow our leasehold position out there and are optimistic this new play will add significant value to the Company.

Now let me turn it back to Mike for some final comments.

Mike Watford - Ultra Petroleum Corp - Chairman, President & CEO

Thanks, Doug. As opposed to summarizing our comments today, which is my normal style, let me just list some second-half expectations.

In Wyoming, our legacy property, we will continue to increase efficiency and productivity while enjoying healthy margins in a low commodity price environment. We have an extensive inventory of wells to drill -- over \$13 billion of future development capital.

In Marcellus, we are barely scratching the surface and we are enjoying improving results.

Our Marcellus activity will continue to accelerate into 2012 with more wells drilled, completed, and put on line.

For second half production, our July Company production just set a new monthly record.

We are excited about the opportunities in the Geneseo and Niobrara and will work to evaluate those.

We will deliver 20% growth in earnings and cash flow for the calendar year.

On a net asset value comment -- Ultra's year-end 2010 proved reserves were 4.4 trillion cubic feet equivalent, and that included a 3-year limited on PUDs, our more conservative nature. We disclosed that exclusive of that PUD limit, our proved reserves do total 8.8 trillion cubic feet equivalent. Of course, with our success in 2011 that number's grown. But at the 8.8 trillion cubic feet equivalent of proved reserves, if we look at our enterprise value today of somewhere near \$7.8 billion, \$7.9 billion equity and debt, then Ultra is valued at about \$0.89 per Mcfe for proved reserves, which in my mind is quite a bargain when you look at our low cost and resource upside.

With that, I'll end my comments and take any questions.

QUESTION AND ANSWER

Operator

(Operator Instructions)

Brian Singer, Goldman Sachs.

Brian Singer - Goldman Sachs - Analyst

Can you talk to some of the geological characteristics you see or are expecting south in your position south of Denver, and how that compares to what you or others are seeing in the Wattenberg or central DJ basin?

Doug Selvius - Ultra Petroleum Corp - Director, Exploration

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Sure. Any particular characteristic you're interested in?

Brian Singer - Goldman Sachs - Analyst

Ideally thickness, depth, liquids content, and then if you have any initial expectation for EURs and well cost.

Doug Selvius - Ultra Petroleum Corp - Director, Exploration

There's a lot of items there. From a thickness standpoint, we've got all 3 benches and I'm sure you're familiar with the A, the B, and the C that's typically discussed across the basin. The one that looks best to us petrophysically is the C, and it's in the 35- to 50-foot, actually the 65 feet in thickness range.

The A and the B are even actually thicker in certain areas. The A and B don't have lateral extent across the entire position; that's primarily the C, but they're all got pretty good thicknesses.

Resistivities -- you didn't mention that one -- but we've got resistivities in the 50 to 60 ohm range. We expect it to be oil-saturated. Water saturations are 25% to 50% in the good zones; a little bit higher than that in some of the marls in between. Anything else that I've neglected there?

Brian Singer - Goldman Sachs - Analyst

I think you mentioned you thought it would be predominantly oil or do you have a sense of what GOR or what the oil/gas-NGL breakout would be?

Doug Selvius - Ultra Petroleum Corp - Director, Exploration

Don't have that yet, no.

Brian Singer - Goldman Sachs - Analyst

Then you may have mentioned this earlier, in the Marcellus, can you just talk to backlog of wells -- apologies again, if you mentioned this -- drilled uncompleted, and then completed and awaiting tie-in.

Brad Johnson - Ultra Petroleum Corp - VP, Reservoir Engineering and Development

At the end of the second quarter we had 78 wells waiting on completion, and 32 wells completed and waiting on hookups.

Mike Watford - Ultra Petroleum Corp - Chairman, President & CEO

That's gross wells. Let's talk net. On a net basis, the number I think is 53 wells waiting on completion and gathering to go on line. So the backlog has grown over the course of the year. Most of that's aimed at one of our partners up there, and who is accelerating, and wants to go even faster next year.

They've talked about doubling their effort in 2012 versus 2011, which we're not on board with yet, but they have continued to add human resources and technical resources to catch up. The bottom line is the backlog has grown to 53 net wells, which is more than a quarter of a billion dollars of idle capital force. So we're visiting with them routinely to see if we can't help them move forward faster.

Operator

David Tameron, Wells Fargo.

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David Tameron - Wells Fargo Securities - Analyst

Good morning. Mike, you did talk about a few quarters back, you laid out a 20% growth target over the next 3 years. Is that still on track for 2012? If so, if you hold the Pinedale flat, that essentially means doubling full-year Marcellus. Is that 20% still a target, and secondly, is that the right way to think about that?

Mike Watford - Ultra Petroleum Corp - Chairman, President & CEO

I think that's the correct way to think about it. A year or so back, we talked about an early 2012 target of 290 Bs or thereabouts. Let me talk about Marcellus first. We're talking about 40 plus or minus Bs, probably more than 40 Bs of production in 2011.

Our early look at 2012 is anywhere between 80 Bs to 100 Bs, and that's without much of a reduction in the backlog. If we can get better performance from one of our partners up there to where that backlog shrinks, which is what they're committed to, then that range goes up, obviously. But if we think of 80 Bs to 100 Bs there and we think of 200 Bs to 210 Bs in Wyoming, then we are at what is that, 280 Bs to 300 Bs.

But the odds are that moves up, given progress in Marcellus, which we see. We see July record production for the Company, with most of that growth coming from Marcellus. We see more wells already being completed, waiting on gathering system for August and September. It's about to happen, but we're not committing to it yet until we see more real evidence.

David Tameron - Wells Fargo Securities - Analyst

Can you give us any color? Obviously with higher production, higher cash flow, can you give us a sense for where you'd expect -- call it E and D levels, 2012 versus 2011 on the CapEx front?

Mike Watford - Ultra Petroleum Corp - Chairman, President & CEO

Assuming there is no more oilfield cost inflation, which with slightly lower oil prices it brings it down some. We're a fan of \$80 oil. We like that. We would anticipate the 2012 CapEx would be less than where we are in 2011 now.

David Tameron - Wells Fargo Securities - Analyst

E&D CapEx or total CapEx? You have some acreage in there this year, right?

Mike Watford - Ultra Petroleum Corp - Chairman, President & CEO

We've got some acreage in there. But we're not forecasting 2012 CapEx at \$1.35 billion. We would have something less than that, but we're not prepared to go there yet.

Operator

Leo Mariani, RBC.

Leo Mariani - RBC Capital Markets - Analyst

I just wanted to touch base on the CapEx once again, here. Wanted to get a sense of how much of the incremental 2011 CapEx -- I guess is roughly \$250 million from your prior budget is going towards new acreage here?

Mike Watford - Ultra Petroleum Corp - Chairman, President & CEO

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Only about \$10 million is new acreage. We already had a \$30 million budget before, so we just bumped it up to \$40 million at this point in time.

Leo Mariani - RBC Capital Markets - Analyst

With respect to the Niobrara, are you continuing to pick up acreage there? Or are you guys content with your 100,000 acres at this point?

Doug Selvius - Ultra Petroleum Corp - Director, Exploration

We aren't content. We are continuing to pursue acreage out there.

Leo Mariani - RBC Capital Markets - Analyst

In terms of well cost, wondering what you guys are spending right now in Lycoming County, on the Marcellus and Tioga, and if you'd comment on the Geneseo well cost also.

Brad Johnson - Ultra Petroleum Corp - VP, Reservoir Engineering and Development

Well costs up in our northern area are running about \$4.8 million per well. Down south, those are deeper and longer laterals, so those costs are running to \$7.5 million per well. With respect to the Geneseo, those costs are slightly less than our northern area acreage, \$4.5 million-per-well range. Those wells are drilled about 1,500 feet shallower.

Operator

Jessica Chipman, Tudor, Pickering, Holt.

Jessica Chipman - Tudor, Pickering, Holt & Co. - Analyst

I wanted to ask on the CapEx raise, how much of that was due to third-party activity?

Mike Watford - Ultra Petroleum Corp - Chairman, President & CEO

Let me go at it this way. 11% -- we had 11% increase overall for just cost inflation, which was about \$130 million, and that is clearly far more weighted to Marcellus than it is Wyoming. I would say 70% or so off the top of my head, or more. So maybe 80% there, and that's going to be all outside operated at this point in time.

Then the remainder would be to Wyoming. About \$110 million associated with more wells being drilled in Wyoming because our rig fleet is more productive getting wells down faster, or net wells. And then more wells in Marcellus because our partners are smiling broadly at the success and wondering why we're so conservative in our reserve estimates. Nonetheless, they want to drill more wells and we want to see them drill more wells because the returns are outstanding, even at \$4 gas prices.

Jessica Chipman - Tudor, Pickering, Holt & Co. - Analyst

You gave a lot of good color on the Niobrara. One thing that wasn't hit was what depths and what well costs you would expect for the first well.

Doug Selvius - Ultra Petroleum Corp - Director, Exploration

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We appreciated your report yesterday, Jessica. The depths we're looking at are probably 1,000 to 1,500 feet shallower than the Weld and Laramie County areas. Our acreage spans probably 4,000 feet down to 7,500 feet, something like that. And I can't remember what else you asked, I'm sorry.

Jessica Chipman - Tudor, Pickering, Holt & Co. - Analyst

Just well costs expected.

Doug Selvius - Ultra Petroleum Corp - Director, Exploration

We're projecting \$4 million to \$4.5 million for a completed lateral.

Operator

(Operator Instructions)

Noel Parks, Ladenburg Thalmann. Please proceed.

Noel Parks - Ladenburg Thalmann & Company Inc. - Analyst

Looking ahead to the Niobrara, assuming success out there, do you have any sense what your infrastructure investment might look like? How aggressive you would be as opposed to relying more on third-party infrastructure, and contributors' infrastructure, existing vendors, and so forth?

Mike Watford - Ultra Petroleum Corp - Chairman, President & CEO

There is no existing infrastructure. We haven't dealt with that yet at all. We want to go in there and drill some vertical wells first and then based on that drill our horizontal wells so we aren't really ready to deal with the infrastructure issue.

Noel Parks - Ladenburg Thalmann & Company Inc. - Analyst

A little soon, then, to think about whether you look to go at it alone, or more be more aggressive on your own in that respect?

Doug Selvius - Ultra Petroleum Corp - Director, Exploration

That's correct.

Noel Parks - Ladenburg Thalmann & Company Inc. - Analyst

You were talking about the Niobrara spacing, your ideas of that. I'm assuming that's more or less on the conservative end of things at this point.

Doug Selvius - Ultra Petroleum Corp - Director, Exploration

Exactly right. We could go down from 320's to 160's.

Noel Parks - Ladenburg Thalmann & Company Inc. - Analyst

You talked about your process of elimination in the acreage that you did go after, increasingly -- especially the last few months -- people have ventured even further and wider in pursuing the Niobrara, some folks much further west, some folks a little deeper into the Powder River basin, and so forth. Can you talk a little bit about how you prioritized your particular targets?

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Doug Selvius - Ultra Petroleum Corp – Director, Exploration

It was based on our regional geology. The initial thing that got us interested was just mapping those individual Niobrara benches out. We saw similar characteristics. As we acquired more data, we started to drill down into the lithology variances, the porosities, and the perms.

We were very fortunate to get the core and the full suite of recent shale logs. Everything we're looking at shows us the rocks we've got are very comparable to, if not better than, what's up in Weld and Laramie, where the play's going on. It was driven by regional mapping. Does that answer your question?

Operator

Ron Mills, Johnson Rice.

Ron Mills - Johnson Rice & Company - Analyst

Trying to look at the percentage of Pennsylvania versus Wyoming. The Pennsylvania budget went up \$175 million, \$185 million. In trying to back out the cost increases that you highlighted, on average then, would that suggest that your overall activity level looks like you may drill another 15 to 25 net wells in the second half of the year? Is that the primary driver behind that big Marcellus increase?

Mike Watford - Ultra Petroleum Corp - Chairman, President & CEO

Part of it is the service cost inflation that someone asked about, with more of that \$130 million, some maybe 80%, as Brad was waving at me, aimed toward Marcellus, and the remainder is net wells. I think the net well add is 8 on the Anadarko side. Our budget with Anadarko has gone up from \$120 million, \$220 million over the course of the year. That has to do with their well costs not being where they thought they would be.

They still don't have fit-for-purpose rigs. They still don't have their water distribution system built. They've got a number of inefficiencies. We thought their well cost would be down closer to \$6.5 million and it's at \$7.5 million, so we're dealing with that reality. The fact that they're drilling 6, 7, 8 B wells and maybe even some 9, 10 B wells in some of the areas makes it very economic. We just need to right-size our capital expectations. So it is more net wells there, clearly.

Ron Mills - Johnson Rice & Company - Analyst

I'm assuming it's not just those 8 net wells. You also have increased in terms of net wells with shale up in Tioga as well?

Mike Watford - Ultra Petroleum Corp - Chairman, President & CEO

No, that's not true. The shale is not meeting the expectations. They're doing a better job at drilling. They're behind and completions and on-line. They've allocated a tremendous number of additional human resources to try to get permitting caught up, trying to get gathering systems caught up, trying to get right-level compression.

We thought that with their acquisition of East in July a year ago that would be behind them, but it's not behind them. They've tried to accelerate and they've hit a few bumps in the road and we're confident they're going to get it right.

It's important to them. They spent \$5 billion buying this property. They want to double activity next year, but we're less inclined to do that. So there's no lack of enthusiasm. They just need to catch up with where they're behind before we'd agree to do that. But there is no new activity in terms of drilling there, no new addition.

Ron Mills - Johnson Rice & Company - Analyst

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On the Geneseo, 75% of your acreage, is it more prospective on the northern portion of your acreage or on the southern portion? I'm assuming that is that first well, is that one that you operated and not under either the Anadarko or Shell?

Doug Selvius - Ultra Petroleum Corp – Director, Exploration

That is correct. The first well that I was mentioning in the call was the one that we drilled. The Geneseo is prospective across all of our northern acreage, and a good part of -- the eastern half probably -- of our southern acreage. Where it gets to the far southwest it starts to get pretty thin and doesn't seem to have the shale look we want to see out there. Everything to the north looks prospective and the east half of our southern position.

Operator

Bob Morris, Citigroup.

Bob Morris - Citigroup - Analyst

One more question on the Niobrara. Where you're positioned in your acreage down there, there are already huge water shortages and municipalities fighting over water rights there. How are you positioned for water in facing these wells?

Mike Watford - Ultra Petroleum Corp - Chairman, President & CEO

I will let Doug answer, but we are in great shape. Go ahead, Doug.

Doug Selvius - Ultra Petroleum Corp - Director, Exploration

There is ground water present in the area. We don't expect to be without challenges, but there is ground water that exists, and we believe we're going to get access to the rights.

Mike Watford - Ultra Petroleum Corp - Chairman, President & CEO

Remember, we are buying 18,000 acres in fee, the surface and everything. I won't go into details, 100,000 acres leased. Water's not going to be an issue. Don't need potable water, remember that.

Operator

Michael McAllister, Sterne, Agee.

Michael Mc Allister - Stern, Agee & Leach - Analyst

How much of the new acreage is on federal land?

Mike Watford - Ultra Petroleum Corp - Chairman, President & CEO

Zero.

Michael Mc Allister - Stern, Agee & Leach - Analyst

Zero? Good.

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Mike Watford - Ultra Petroleum Corp - Chairman, President & CEO

We agree.

Operator

Andrew Coleman, Raymond James.

Andrew Coleman - Raymond James - Analyst

You may have covered this at the beginning -- do you have deeper rights for this acreage in Colorado? Or is it just the Niobrara?

Doug Selvius - Ultra Petroleum Corp - Director, Exploration

Full right to all depths.

Andrew Coleman - Raymond James - Analyst

Given your portfolio mix and the recent move here in oil price, have service companies been a little more receptive to you guys, or is there any opportunity you might have to accelerate some of this testing?

Doug Selvius - Ultra Petroleum Corp - Director, Exploration

I'm not sure I understand that question. We're going to be able to get services down there, if that's what you're asking.

Mike Watford - Ultra Petroleum Corp - Chairman, President and CEO

Our issue with is how fast we go in evaluating. It has nothing to do with service cost availability or service availability.

Andrew Coleman - Raymond James - Analyst

Let me ask you this way. Given the higher gas weighting of your portfolio there, how much more insulated are you to slowing down activity? I refer to some operators say that around \$70 a barrel would impact them and given your existing portfolio, can you, at current gas prices, you can keep going. How much more insulated are you if, on the oil side, the price continues to fall?

Mike Watford - Ultra Petroleum Corp - Chairman, President & CEO

Let's deal with our economics, our sort of exploration-based economics. Do you want to go through that Brad?

Brad Johnson - Ultra Petroleum Corp - VP, Reservoir Engineering and Development

On the economics for Niobrara region, we are using 250,000 barrels per well and \$4.1 million for drill complete and equip of horizontal wells in development mode. A lot of factors are still yet to be determined with respect to the rock fluid types, but break-even prices could get down to \$30 or \$40 per barrel depending on fracture content and the GORs we encounter. We are focusing our efforts on higher-quality Niobrara acreage. We believe in the success case, we would have a lot of room for margins.

Doug Selvius - Ultra Petroleum Corp - Director, Exploration

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\$70 to \$80 oil is very economical.

Operator

(Operator Instructions)

Devin Geoghegan, Zimmer Lucas Partners.

Devin Geoghegan - Zimmer Lucas Partners - Analyst

I was wondering if you could shed some clarity on 2013's guidance as well, given your comments on 2012, and how the timing of the backlog impacts the speed of the production, in terms of the beat relative to your current 2012 guidance versus 2013, if that makes sense?

Mike Watford - Ultra Petroleum Corp - Chairman, President & CEO

I think I'm sticking my neck out to talk about 2012. I don't think I have anything to add about 2013. I mean, 2012, that Marcellus piece at 80 B's to 100 B's without any significant reduction of the backlog. Obviously with the new reduction backlog, 55 net wells is a big production boost. I'm confident, very confident, all of that will be behind us by 2013.

Devin Geoghegan - Zimmer Lucas Partners - Analyst

When do you think the backlog will be removed?

Mike Watford - Ultra Petroleum Corp - Chairman, President & CEO

We are not planning on it being removed in our forecast. That's why there is so much upside to the volumes. I'm just going to know they are working it diligently, but right now we are going to be very conservative in our estimate.

Devin Geoghegan - Zimmer Lucas Partners - Analyst

If the backlog were moved, there is significant upside to the 3-year plan that you guys have already gone out with.

Mike Watford - Ultra Petroleum Corp - Chairman, President & CEO

Yes, absolutely.

Operator

Andy Parr, Fidelity.

Andy Parr - Fidelity - Analyst

What's the gross well count now for the Pinedale?

Mike Watford - Ultra Petroleum Corp - Chairman, President & CEO

Wells that have been drilled historically?

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Andy Parr - Fidelity - Analyst

For the year, the new well count, gross operated well count.

Mike Watford - Ultra Petroleum Corp - Chairman, President & CEO

Gross operated. Hold on, Brad will get it. I'll get it for you. The gross total is 234, or something like that.

Andy Parr - Fidelity - Analyst

And how many operated rigs is that?

Mike Watford - Ultra Petroleum Corp - Chairman, President & CEO

We have 8 operated rigs. Andy, I'm sorry, that wasn't our operated; that was gross. But we'll get it for you.

Operator

And at this time there are no further questions in queue, and I would now like to turn the call back over to Mr. Mike Watford for closing remarks.

Mike Watford - Ultra Petroleum Corp - Chairman, President & CEO

Thank you. I want to thank everyone on the phone this morning. We look forward to updating you on our third-quarter results this fall. Should anyone still have questions, please call the Investor Relations team. Thank you.

Operator

Ladies and gentlemen, that concludes today's conference. Thank you for your participation. You may now disconnect. Have a wonderful day.

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