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PRESENTATION

Operator

Good day, everyone, and welcome to today's Ultra Petroleum Corporation Fourth Quarter 2017 Earnings Conference Call. (Operator Instructions) Please note, this conference may be recorded.

I will be standing by should you need any assistance. It is now my pleasure to turn today's conference over to Director of Investor Relations, Sandi Kraemer. Please go ahead, ma'am.

Sandra D. Kraemer - *Ultra Petroleum Corp. - Director of IR & External Reporting*

Thanks, operator. I'd like to point out that many of the comments during this conference call are forward-looking statements that involve risks and uncertainties affecting outcomes, many of which are beyond our control and are discussed in more detail in the risk factors and forward-looking statements section of our annual and quarterly filings with the SEC. Although we believe these expectations expressed are based on reasonable assumptions, they are not guarantees of future performance, and actual results or developments may differ materially.

Also, this call may contain certain non-GAAP financial measures. Reconciliation and calculation schedules can be found on our website.

Thank all of you for joining us today. With me today is Brad Johnson, our Interim CEO; and Garland Shaw, our Chief Financial Officer.

Now I'll turn the call over to Brad.

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

Thanks, Sandi. Good morning to everyone, and welcome to Ultra Petroleum's fourth quarter conference call.

Let me start by saying that it's going to be a very exciting year for Ultra in 2018. I want to thank the Board of Directors for entrusting me to lead the company as we embark on a new course, a course that will be rooted in capital efficiency, visibility to cash flow and the pursuit of higher returns in order to drive shareholder value.

I would also like to thank Mr. Watford, Mr. Brown and Dr. Helton for their many years of service and leadership here at Ultra. Under Mike's leadership and with Roger and Charlie's guidance and support over the years, this company has built a foundation that includes hyperfocus on cost control, empowerment to create value through the [Department of] Technology and a genuine care for our talented employees. These strengths of our organization shall continue, and I consider it an honor to help lead Ultra on our new course.

Earlier this morning, we included our news release results from 2017 and our plans for 2018. In this call, we will provide more commentary and present additional information using our new investor presentation.

Slide 4 provides an overview of the company including key steps on production reserves, acreage and location counts.

In 2017, we demonstrated consistent production growth each quarter, with fourth quarter volumes reaching 74.5 Bcfe. And when adjusting for volumes sold as part of our divestiture of assets in Pennsylvania, we delivered at midpoint of guidance.

For year-end '17, our SEC proved reserves included nearly 2.4 Bcfe of proved developed reserves. Because we are in early stages of our horizontal program, the incremental reserves are not immediately booked as PUDs. However, based on the earlier results, we are directing 1/3 of our operated drilling investments to horizontal wells as we throttle down our vertical program. This shift is appropriately reflected in our PUD reserves for year-end 2017 for a smaller set of vertical PUDs comports with a reduced vertical program and a horizontal effort that should add PUDs in a more significant way beginning in 2018.

Our 78,000 net acres is the dominant position in Pinedale. We have 27,000 net acres within the historical economic boundary of vertical well development and another 28,000 net acres corresponding to the nearly 1,600 gross horizontal locations identified on the immediate flanks of the field, and we also have another 23,000 net acres beyond the immediate flanks that are also perspective for horizontals.

With 4,600 vertical locations that are low risk and resilient to commodity price cycles and 1,600 horizontal locations with the potential for exceptional returns and incremental resources, Ultra has a long runway of drilling locations to focus its investment efforts.

In 2017, we delivered consistent production growth with the drilling of 212 vertical wells in Pinedale. In November, we announced a very significant horizontal well with an IP of 51 million cubic feet equivalents per day, which included an oil rate of 705 barrels of oil. That oil rate alone might qualify this well for sweet spot status in many other oil plays in North America.

In the fourth quarter, we closed on the sale of our Pennsylvania assets ahead of schedule and at a premium to recent comparable transactions. We are actively marketing our assets in Utah with bids expected in March.

Also this year, we increased our borrowing base from $1.2 billion to $1.4 billion and maintained an undrawn revolver of $425 million for improved liquidity.

These results have established positive momentum for Ultra as we move into 2018.

Going forward, we will focus on capital efficiency, cash flows visibility and a disciplined approach to optimize investment returns.

In 2018, that means a reduction of vertical drilling in Pinedale that gives way to increased horizontal activity. It also means a more robust program for hedging, free cash flow generation and improved communication to investors.

We are projecting EBITDA at $540 million for the year with sufficient headroom to our debt ratio that recently stepped down to 4x. It's important that we maintain a flexible balance sheet as we balance growth with free cash flow generation.

We've had a great start in 2018, so far, that is strongly aligned with our renewed focus. Today, we are announcing initial results from our second 2-mile horizontal in the Lower Lance A interval. The Warbonnet 9-23-A-2H well is currently flowing at 45 million equivalents per day, which includes the 800 barrels a day I mentioned earlier. Rates are still increasing as we continue to manage the flowback of this well. Total costs are estimated at $9 million. We have more details on this well that we plan to share using a later slide in this presentation.

We also brought online our first horizontal well in the Mesaverde formation. The Warbonnet 9-23-A-1H had an initial 24-hour production rate of 17 million equivalents per day, including an oil rate of 335 barrels of oil per day. This 1-mile lateral was drilled to a total measure depth of 19,115 feet. The estimated total cost for this horizontal is $13 million. As we expected, we encountered higher pressures, 0.84-psi per foot in the reservoir, along with high-quality pay intervals. These results validate the potential for horizontals in the deeper, higher-pressure Mesaverde interval.

Our vertical program is delivering stronger results. In January, the average IP among operated wells brought online was 8.1 million a day. This includes 2 vertical wells in the core of riverside area that each had IPs over 14 million.

We are reducing our capital investment levels in 2018 in response to lower gas prices, while at the same time, increasing our horizontal program. In the past week, we have dropped 2 rigs and plan to drop another 1 in March. Over the last year, we have been diligent about transitioning our rig fleet to be 100% horizontal capable. And when we get to 4 rigs in April, the entire fleet will be ready to drill 2-mile laterals from our drilling pads.

Since the beginning of the year, we've been busy strengthening our hedge book. Currently, 65% of our 2018 volumes are hedged, including recent hedges of Rockies basis differentials as well as hedges for oil.

We've been actively marketing our Utah assets. This effort has attracted a high level of interest, and we expect to receive bids on these assets next month.

All of our teams across the organization are continuing their good work and are laser-focused on executing our plan for 2018.

I will now turn the call over to Garland to provide a financial update.

Garland R. Shaw - *Ultra Petroleum Corp. - CFO and SVP*

Thanks, Brad. Slide 8 illustrates the progression and increasing intensity of our hedging activity over the last several months as part of our efforts to protect our cash flows from commodity price risk and provide clearer cash flow visibility. As Brad just pointed out, we now have hedges in place equivalent to 65% of our full-year 2018 production forecast.

The upper left-hand chart depicts our 2018 gas hedging evolution, which we believe is now largely complete, and we are now looking to add hedges for 2019. The vast majority of our gas hedges are for the second through the fourth quarters of this year, but we have NYMEX swaps in place for nearly 690 MMbtu per day, which is equivalent to 85% of our April to December 2018 forecasted production for an average price of $2.89 per MMbtu. In addition to these swaps, which provide downside protection for Henry Hub price volatility, we have just recently also began entering into basis hedges as is shown in the lower left chart. We now have added basis hedges for the equivalent of 1/3 of our forecasted April to December gas volumes at an average differential of $0.61 relative to Henry Hub.

To the right of the chart, you can see how these basis hedges when paired with a NYMEX swap [actually] lock in our realized gas prices. With our average NYMEX swaps and an average of Henry Hub prices $2.89 per MMbtu, plus our average basis differential of $0.61, we realize a net price of $2.28 per MMbtu, which, after applying 1.07 BTU factor, results in an average price per Mcf of $2.44. When we take our recently added oil hedges into account, we arrive at a locked-in price per Mcfe of $2.82. We will look to opportunistically add further hedges in the near future.

As for oil hedges, we have now hedged volumes equivalent to 55% of our full-year oil production forecast, an equivalent to 2/3 of our April to December forecast at an attractive average price of $59.90.

In the Appendix of this presentation, you will find more extensive details regarding our hedging activities for 2018 and 2019 volumes.

The Pinedale Anticline is one of the most prolific gas fields in the United States. We produce there from a 6,000 foot gross [pay] section consisting of the Lance and Mesaverde formations. With our many years of experience in the basin, continuous acreage position and leading cost structure, we're able to achieve the lowest natural gas breakeven prices in the industry. While the other major plays, including the Marcellus, Utica and Haynesville, have breakeven prices of over $2.50 per Mcf, at Pinedale, we are breakeven at a little under $2 for a 4 Bcf vertical and at just over $1 per Mcf for horizontal wells.

Ultra Petroleum truly has best-in-class margins among its gas-weighted peers. We continue to be among the very lowest cost natural gas producers in our industry, which, along with better western gas price realizations and relative high liquids content, allows us to generate superior EBITDA margins to our peers.

The chart on Page 10 compares Ultra's EBITDA margin to those of its [gas] peers, all of which are Marcellus, Utica producers. For the first 3 quarters of 2017, our EBITDA margin of $2.13 per Mcfe was over 20% better than the closest peer. As we direct more and more of our development activity to horizontal wells, which have a much higher productivity than our current vertical portfolio, we expect our margins to further improve.

Now back to you Brad.

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

On Slide 11, we have updated our vertical well performance chart to include the wells drilled in 2017. We have also included a breakout for each quarter to provide more clarity around these wells. As we've discussed before, the wells we brought online in the first quarter were below historical averages. During the year, we had increasingly more activity toward the core of the field with average IPs increasing.

On the chart, you can find the average production curves for wells brought online since Q1 and see that they are tracking the 4 Bcfe type curve. That trend has continued to improve into 2018, where the 21 wells brought online in January averaged 8.1 million cubic feet equivalent per day.

For 2018, we are focused on capital efficiency. As we reduce our operated rig count from 7 to 4, we expect our vertical program to deliver $175 million of free cash flow at the asset level. Meanwhile, we are accelerating our horizontal program, where approximately 1/3 of the operated joint capital will be directed. In 2017, we drilled 3 horizontal wells. In 2018, we plan to drill between 15 and 20 horizontal wells and have already started the planning for a 3-rig 36-horizontal well per year program in 2019.

We've identified 1,600 horizontal locations around the flank of Pinedale with an estimated 700 net horizontal locations. Over 500 of the net locations have working interest greater than 50%, and nearly 300 of the net locations have working interest greater than 75%. For the program in 2018, we expect working interest to average approximately 70%.

Slide 14 shows the type log of Pinedale, along with the 8 integrals we have currently identified as potential landing zones for horizontals. Using 1,300 feet offsets between wells and a single interval, we estimate 4 horizontals per target. With 8 total targets, we get to 32 horizontal wells per pad. And with 50 pads, 1,600 gross horizontal locations are estimated for the immediate flanks of Pinedale.

With the impressive results we have achieved so far in this program, we have implemented an accelerated ramp-up of horizontal activity. In the first half of 2018, we expect to drill 6 to 8 horizontals with another 9 to 12 horizontals in the second half of the year. By the end of this year, we expect each of the 4 rigs in our operated fleet to be utilized to drill a horizontal.

We are not feeding a rig line in a traditional sense. Instead, we have planned out a program that allows us to use any of the rigs, any of the pads to take wells horizontally when we are ready to do so. This provides a lot of flexibility and also the opportunity to adjust our program as we learn with each well. We will certainly learn along the way and quickly incorporate those learnings, but our main goal in 2018 is to drill horizontal wells that can each produce 30 million a day.

Slide 16 provides a map and a summary of horizontal activity in Pinedale. On the south edge of Pinedale in east flank of Jonah, 2 additional wells were drilled by Jonah Energy. The Antelope 311-19H and the 342-19H. Results of these 2 wells have not yet been released by the operator. Both wells are offsetting Jonah Energy's best horizontal well, the 341-19H, which posted an IP of 12 million equivalents per day.

Moving north on this map to Ultra's activity, you will find updates on our most recent horizontal wells. Starting at the top-right text box, you will find our first horizontal well we drilled in 2016 that targeted the Lower Lance B. Moving down the list, you will find the most recent well we brought online, the Warbonnet 9-23-A-2H. Previous wells brought online are also included in the text boxes. The lower 2 boxes on the right side of the slide are on the Warbonnet 8-25 pad, which is immediately south of the pad we drilled in 2017. We are currently drilling these 2 wells in batch mode. The surface holes of both wells have been drilled. The intermediate section on the A-2H has been drilled and cased to the landing zone. We are currently drilling the intermediate section on the A-1H. We didn't expect to drill the horizontal sections of both these wells sequentially in March. These 2 wells are depicted with red dash lines along with all the other locations planned for 2018.

If there is a best-in-class designation to be awarded to any of our slides today, it's Slide 17. Here, we provide a comparison of the 2 Lower Lance A wells on the Warbonnet 9-23 pad. The] [longest] reach well are displayed at the top of the slide and demonstrate the repeat success of encountering significant amounts of [pay]. The gamma ray log is shaded yellow to indicate sand. The A-1H has a net-to-gross pay ratio of 82%, and the A-2H is at 78%. Both wells were completed with similar frac designs, each including 12 million pounds of proppant.

The bottom left panel provides a comparison of production rates over time. Recall, the A-1H had an IP of 51 million equivalents per day. It has now produced 3.7 Bcfe in its first 120 days. And our newest well, the A-2H, is still increasing during its flowback currently at 45 million equivalents per day.

And on the bottom right panel, we provide some additional comparisons between the 2 wells. For the A-2H, we drilled longer, faster and cheaper, and we also significantly reduced the cycle time of our completion operations. We expect to continue this trend of improvements as we drill additional horizontals.

The next slide provides an update to the potential of our horizontal program, and based on recent results, we have updated a few of the economic inputs. The potential is very compelling, with internal rates of return exceeding 100% and a breakeven price of $1.03 per Mcf. The gross resource potential of 48 Tcfe for flank horizontals is incremental to the 39 Ts of resource already assigned to the core of Pinedale.

Slide 19 provides a comparison of returns between vertical and horizontal wells. We provide a sensitivity to gas prices ranging from $2 to $4. As you might expect, the horizontal wells offer significant upside, which compels us to pursue this opportunity. For our vertical program, we are focused on core locations that can deliver EURs of 4 Bcfe and 20% returns for 2018. And for the horizontal wells, our goal is to bring online wells at 30 million a day or greater, delivering returns north of 100%.

Our reduced capital program of $400 million, down 30% from 2017, is directed entirely to Pinedale. Despite the overall reduction in capital investments year-over-year, we are significantly increasing our budget for horizontal wells up to $120 million.

For production, we are guiding to the full year range of 280 to 290 Bcfe. We've included volumes for Utah only through the first quarter. And for the first quarter, our production guidance ranges from 790 million to 810 million equivalents per day. With a midpoint, it is 2% above fourth quarter pro forma rates.

In the bottom right panel of this slide, expense guidance is provided for Q1 ranging from $2.25 to $2.40 per Mcfe.

So in summary, our plans for 2018 correspond with our renewed focus on capital efficiency, cash flow visibility and driving shareholder value. This plan includes a disciplined approach to capital investments with a reduced but more return-driven program.

In 2018, we will continue to increase hedges in order to mitigate downside risk to cash flows.

We expect to grow at a reasonable rate but concurrently generate significant free cash flow. The horizontal program looks to be a significant inflection point for Ultra, and we look forward to updating investors with incremental results, perhaps as many as 15 to 20 times this year.

Sandra D. Kraemer - *Ultra Petroleum Corp. - Director of IR & External Reporting*

With that, we'll turn the call back over to the operator for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Mike Scialla with Stifel.

Michael Stephen Scialla - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

I wanted to ask about the prove reserves and the PUD reduction there. Was any of that due to price or performance? Or was that all just replacing vertical locations with horizontals?

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

Yes, yes, it all is related to the scaling back the PUD inventory to accommodate the accelerated horizontal program.

Michael Stephen Scialla - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

And do you have a number, Brad, in terms of how many PUDs were actually removed?

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

No, I don't have the number of PUD removals. As a reminder, last year, we had 0 PUDs on the books while we were on bankruptcy. And so this year, as we restore vertical locations to our PUD pool, it was very deliberate that we used a small set of vertical wells because we're anticipating transitioning to horizontals very quickly. Unfortunately, we just don't have the opportunity to drill the -- or excuse me, the PUD up the horizontals at year-end '17 because we're early in the program.

Michael Stephen Scialla - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Right. Understood. And I guess, does Netherland, Sewell still the one that does your reserves? And do they do a total resource assessment for you still?

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

Netherland, Sewell still does our reserves. Nothing different there, and all our process around that is unchanged. We have not updated our 3P resource. We decided to hold off on that until later this year so we can incorporate more information from the horizontal program.

Michael Stephen Scialla - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Okay. But safe to say your vertical resource would not have changed at all?

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

Correct.

Michael Stephen Scialla - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Okay. And then just one last one for me. I wanted to ask on the -- obviously, some great results on your Lower Lance, your next Lower Lance well. The Mesaverde well, do you have any update on -- you gave us an IP rate. Any update on how that well has been performing over time?

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

Yes, that well has just been online for a month, and then it did IP at 17 million a day. It has been on decline since that time, and we'll have updates for that well in the coming months.

Operator

Our next question comes from Leo Mariani with Nat Alliances.

Leo Paul Mariani - *National Alliance Securities, LLC, Research Division - Research Analyst*

I just want to follow up a little bit on the performance there on the Mesaverde well. Obviously, a very high pressure well. But flow rates, much lower than the Lower Lance A wells. Can you maybe just talk about any drivers there? And do you think that maybe the well wasn't placed as optimally in the zone? Anything that went on there as to why the well maybe wasn't as good as around the Mesaverde's a pretty prolific vertical producer for you guys?

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

Yes, that's correct. And as you may know, the Mesaverde carries a lot more pressure, and the pay sands are much more prolific. The Mesaverde was a 1-mile lateral versus 2-mile laterals of the Lower Lance. And our net-to-gross was about 40% in the Mesaverde, wherein the Lower Lance, our net-to-gross is 80%. So you have half the lateral and half the net-to-gross, so you're kind of 25% right there on a net pay basis. So 17 million a day is a pretty impressive rate for the Mesaverde. We're really happy with that. It will take some time to watch performance to see truly how many of the sands we effectively connected with that horizontal well.

Leo Paul Mariani - *National Alliance Securities, LLC, Research Division - Research Analyst*

All right. And I guess, in your 2018 plan on the horizontal, are you guys just going to focus on the Lower Lance A? Or any other Mesaverde [virgin land] If you can just talk about what you plan to test here horizontally this year.

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

Sure. Yes, our 2018 program will be focused on the Lower Lance.

Leo Paul Mariani - *National Alliance Securities, LLC, Research Division - Research Analyst*

Okay. Is it just the A zone or anything else? Or...

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

Multiple spots within the Lower Lance. Yes.

Leo Paul Mariani - *National Alliance Securities, LLC, Research Division - Research Analyst*

Yes. Okay. And then maybe could you talk a little about the recent sort of breakdown in western gas price differentials here versus NYMEX? And maybe talk a little bit about your outlook for the rest of the year. Obviously guys layered in some basis hedges, which indicates some information to the market for sure. But maybe just talk about that dynamic and how you see that playing out as you work our way into the out years here.

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

Sure. And obviously, recently, those differentials [and interrogatives] have turned them favorable, as many people know. In our view, there's a number of factors going on. And I'm not sure you want to actually predict all the differentials go forward, and I'm really not interested in doing so either. We are focused on managing the sincerity by implementing more systematic hedging [for] basis differentials.

Leo Paul Mariani - *National Alliance Securities, LLC, Research Division - Research Analyst*

Okay. And I guess, clearly you guys have really [skinned] back CapEx this year in a big way. Historically, Ultra has obviously been a growth company. Clearly, there's been a leadership change, and there could be some [title] changes to the board as well going forward. Can you maybe just talk about the decision to really manage the capital spend here just much more closely, I guess, here in 2018 and kind of shift more towards just down sheet preservation as opposed to growth mode?

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

Sure, and that's certainly a shift, and that's our focus for '18 and go forward, and that is to increase our focus on capital discipline. We're going to make sure we're efficient with every investment dollar that we place into our asset, and we're not going to chase growth for growth's sake alone. We have the opportunity to grow at a modest rate, generate free cash and we want to maximize the flexibility of our balance sheet go forward.

Operator

Our next question comes from David Epstein with Cowen.

David Michael Epstein - *Cowen and Company, LLC, Research Division - MD and Analyst*

So obviously, you guys trimmed CapEx a good bit, but I want to sort of talk about the production growth you're seeing with that CapEx. You guys know that in the past, you had the sensitivity slides, where you have sort of show that you'd get 15% production growth even at a $450 million vertical program. So I guess I'm a little surprised that $400 million -- a $400 million program, including some horizontals, would be consistent with that previous presentation. So it feels like maybe a little reduction there. So I wanted to ask, is it maybe just conservatism now? Or you -- was it maybe a little too much optimism before? Or is it all about inflation, maybe some inflation's creeping in?

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

Sure. Really, I'll address the latter. It's not inflation. And when you look at the capital, last year, we were $550 million. And we are reducing our vertical program nearly in half, where the vertical program is going to be $270 million if we include the non-op piece. So that's cutting the vertical program in half. Concurrently, we are directing $120 million to the horizontal program. And we've shared a lot of impressive results. Very excited about that. It makes all the sense in the world to do so. But the volumes with that vertical program generator have a lag to them, so we're not going to realize the volumes of the horizontal program in 2018. A couple of other pieces to consider, in 2017, we had all the production from our Pennsylvania assets, which represented about 11 Bs for the year. We've sold that. Utah makes up about 5.5 to 6 Bs on an equivalent basis. And in our 2018 guidance, we only included the first quarter of volumes for Utah. And then finally, I've imposed a more conservative run time factor on our base reduction. Everything's fine with operations, but I prefer to under-promise and over-deliver.

David Michael Epstein - *Cowen and Company, LLC, Research Division - MD and Analyst*

However you'd want to define it, do you have a sense of what maintenance CapEx would be to keep some production level flat, whether you want to call that Q1 '18, full year '18, to just give us some sort of normalized sense?

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

Sure. When I take the horizontal capital out of the equation for 2018, you come up with probably $280 million. And essentially, the vertical program holds things flat relative to fourth quarter volumes at least.

David Michael Epstein - *Cowen and Company, LLC, Research Division - MD and Analyst*

At $280 million?

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

About $280 million for fourth quarter volumes on a pro forma, of course, Wyoming-only basis.

David Michael Epstein - *Cowen and Company, LLC, Research Division - MD and Analyst*

That's Q4 '17?

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

Yes, sir.

David Michael Epstein - *Cowen and Company, LLC, Research Division - MD and Analyst*

Okay. And I think you said you probably won't be able to go deep into it, but I know like a lot of the market is focused on, and we sort of know that it feels like current differentials are probably more like low to mid-80s rather than 90. And anything you can do to address that or mention if there are any particular strategies you guys think you can take to try to improve realizations, would appreciate it. If they'll have to wait, we understand.

Operator

Our next question comes from Anup Goswami with Cantor.

Anup Goswami

Just a follow-up on the differential question. Just talk about what factors, sort of macro factors that caused that to worsen and what can bring that back into balance.

Garland R. Shaw - *Ultra Petroleum Corp. - CFO and SVP*

Yes, so this is Garland. West Texas has definitely been a factor. As those pipes going from West Texas [Permian] going to California, have filled up. We're also seeing increased volumes coming down from Canada due to low pricing up there as well as just there's been a recent lack of demand in California due to warm weather, so that side has been a factor as well. There's also gas storage issues in California. All those factors have weighed on the differentials. What we're trying to do is to make sure gas gets moved, as much gas gets moved away from the West Coast as possible, so we're looking at different options to try to affect that. And then -- and also eventually, we're going to see pipes built to take gas from the Permian to the Gulf Coast sometime next year. So I mean, as Brad said, we're trying to opportunistically lock in basis when we can at reasonable levels.

Anup Goswami

One other quick question. I apologize if I missed this, but cost of the vertical -- horizontal well, $9 million. Where could that be brought down to, do you think, for the next year?

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

We're -- I think we're targeting getting that down to about $7.5 million by the year 2018 -- into the year 2018.

Operator

Our next question comes from Sean Sneeden with Guggenheim.

Sean M. Sneeden - *Guggenheim Securities, LLC - MD & Trading Desk Credit Strategist*

On the 700 net locations, or horizontal locations, what spacing assumption are you guys thinking about in the Pinedale there? Or how should we kind of think about that?

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

Sure. Our sticks on the map that are shown on the slide -- in the slide deck are all assuming 2-mile laterals being drilled from pads that are a part of our vertical well infrastructure. They're all oriented east, west, drilling [outboard] from the foundry of the field. So each unit, drill space unit, is generally going to be 1,280 acres in size. And then from there, we evaluate the acreage position with each specific drill space unit that we've built out, and it's that acreage position that we hold currently determines the working interest to be composed on that DSU. And that's how we get from 1,600 to the 700 net.

Sean M. Sneeden - *Guggenheim Securities, LLC - MD & Trading Desk Credit Strategist*

Okay. That's helpful. And then just on the, I guess, the guidance around spend within cash flow. I guess, one, just to be sure, was that based on the current strip today? Or is it year-end strip? And what was the differential that you guys were assuming in there?

Garland R. Shaw - *Ultra Petroleum Corp. - CFO and SVP*

It was based on current strip as far as Henry Hub and differentials and takes into account or hedges, which are very large -- a large percent of our production now.

Sean M. Sneeden - *Guggenheim Securities, LLC - MD & Trading Desk Credit Strategist*

Okay. That makes sense. And then, I guess, longer term, is the thought more of a kind of return of capital vis-à-vis share buybacks or dividends? Is that kind of more of the strategy we should be thinking about as you head '19, '20 and beyond? Or how do you kind of think about the long-term plan?

Garland R. Shaw - *Ultra Petroleum Corp. - CFO and SVP*

Yes. I think, ultimately, we'd like to get to a point where we can repurchase shares. Clearly, [not sure it's] going to happen in 2018. [It's going to be on] 2019. It's something that we'll be thinking about again.

Sean M. Sneeden - *Guggenheim Securities, LLC - MD & Trading Desk Credit Strategist*

And I guess, maybe from the high level, how do you think about doing that? Is it -- do you need to have leverage at a certain level? Or what's kind of like the governor around ultimately kind of going towards the share buyback route?

Garland R. Shaw - *Ultra Petroleum Corp. - CFO and SVP*

We have to get leverage down to under 3x really before we started purchasing shares.

Operator

Our next question comes from Marshall Carver with Heikkinen Energy.

Marshall Hampton Carver - *Heikkinen Energy Advisors, LLC - Founding Partner and Director of Research*

Yes. When thinking about the horizontals this year, are all those planned to be the 2-mile long laterals? Or will some of them be 1-mile? How are you thinking about that?

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

Yes, we -- our 2018 program is -- includes all 2-mile laterals targeting the Lower Lance interval.

Marshall Hampton Carver - *Heikkinen Energy Advisors, LLC - Founding Partner and Director of Research*

Okay. And it looks like on the map there, that several of the wells are near other wells. How much downtime should we consider? How should we think about that as you're drilling wells near current producers?

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

So the -- we're not -- we don't plan to shut in any wells while we drill, complete or turn on new wells, so I would not factor in any material downtime associated with the adjacent drilling program.

Marshall Hampton Carver - *Heikkinen Energy Advisors, LLC - Founding Partner and Director of Research*

Okay. And last question, you talked about your goal or your target as to be drilling 30 million a day wells. Is that what's cooked into your guide from the production from horizontal wells? Or is there a more conservative number?

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

We managed to bake in a little more conservative number in our model. We're using 22 million equivalents for an IP in our model.

Operator

Now we'll take a follow-up from Mike Scialla with Stifel.

Michael Stephen Scialla - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Yes. Brad, maybe just to build on that last question. Curious, you had said earlier too that the horizontal program was really going to impact 2019 more than 2018. Can you give us any kind of sense of what's baked into the guidance for 2018, the split on production vertical versus horizontal?

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

Yes, yes, we can help on that. So for 2018, the incremental volumes tied to our horizontal program right now is totaling up to about 17 Bs. And as a reminder, the activity is a bit backloaded for the year, so the CapEx will be upon us and the volumes to follow.

Michael Stephen Scialla - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Okay. And then it looks like those next couple of horizontal wells are pretty close to your Warbonnet wells. What are your plans to delineate the play this year? Or are you going to stay pretty focused on that area that's been working for you?

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

Yes, we're going to stay in this same ZIP Code for a while, and we're definitely interested and want to learn more around the flanks. But right now, our focus is delivering repeatable results.

Operator

And we'll take another follow-up from Leo Mariani with Nat Alliances.

Leo Paul Mariani - *National Alliance Securities, LLC, Research Division - Research Analyst*

Guys, just wanted to quickly ask around the rig drops that you folks are executing here. I wasn't sure if those were rigs where you're breaking contracts on? And I guess, if so, [could] you talk about what the cause would be to break all those rigs you're looking to?

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

Sure. We're not incurring any early termination fees related to our reduction rigs. We had built in as part of our planning or anticipating this possibility and maintained a lot of flexibility with our rig count. So no early term fees.

Leo Paul Mariani - *National Alliance Securities, LLC, Research Division - Research Analyst*

Okay. That's helpful. And I guess you also talked about potentially giving your well cost down horizontally to $7.5 million at the end of the year from, I guess, roughly $9 million. Can you maybe talk about sort of the key levers there in terms of getting there?

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

Sure. A lot of success so far. Really very pleased with the performance to date, but there are opportunities where we can reduce our BHA trips and all -- in the intermediate and in the lateral sections of the well. I think we can continue to chip away at our cycle times. There's still room there as we look at the performance to date, and then I think we might be optimizing our completions a little further go forward.

Operator

And we have no further questions at this time. I would like to turn the program back over to Brad Johnson for any additional or closing remarks.

C. Bradley Johnson - *Ultra Petroleum Corp. - SVP of Operations*

I wish to thank everybody for joining us this morning in our call. And if you have questions, please follow-up with Sandi Kraemer. Thank you, and goodbye.

Operator

This does conclude today's program. You may disconnect your line at any time, and have a wonderful day.
