final

Company Name: Southwestern Energy
Company Ticker: SWN US
Date: 2014-10-16
Event Description: Acquisition of Chesapeake Energy Corporation by Southwestern Energy Co. Call

Market Cap: 11,557.15
Current PX: 32.725
YTD Change($): -6.605
YTD Change(%): -16.794

Bloomberg Estimates - EPS
Current Quarter: 0.517
Current Year: 2.332
Bloomberg Estimates - Sales
Current Quarter: 975.556
Current Year: 4177.545

Acquisition of Chesapeake Energy Corporation by Southwestern Energy Co. Call

Company Participants

- Steven L. Mueller

Other Participants

- Drew E. Venker
- Gil K. Yang
- Matthew M. Portillo
- Charles A. Meade
- Dave W. Kistler
- Bob Christensen
- James Campbell
- Arun Jayaram
- David Heikkinen
- Scott Hanold
- Andrew Coleman

MANAGEMENT DISCUSSION SECTION

Operator

Greetings and welcome to the Southwestern Energy Company Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. In the interests of time, please limit yourself to two questions. Afterward, you may feel free to re-queue for additional questions. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Steve Mueller, Chairman and Chief Executive Officer for Southwestern Energy.

Steven L. Mueller

Thank you. Good morning and thank all of you for joining us today. With me today are Bill Way, our Chief Operating Officer; Craig Owen, our Chief Financial Officer; Jeff Sherrick, Executive VP of Exploration and Business Development; and Michael Hancock, our Director of Investor Relations.

If you've not received a copy of this morning's press release regarding the asset acquisition, you can find a copy of this on our website at swn.com. Also, I'd like to point out that many of the comments during this teleconference are forward-looking statements and 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 sections of our annual and quarterly filings with the Securities and Exchange Commission. 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.

Now let's begin. Let me start by saying that I'm very excited and the whole company's very excited about this acquisition. It fits who we are and what we do best. And we have been very consistent in the past about some very – there are a few, but very, very significant fundamental imperatives for our company, and I'd like to review those and review those in light of the acquisition.

First off, we have a very disciplined approach to investing. Many of you have heard us talk about our present value index where we want to deliver $1.30 discount at 10% for every dollar we invest. That discipline has created a proven record for our earnings, earnings that were driven by natural gas over the several years. And when you look at year-over-year returns, we've been able to beat many of those liquid-centric companies. We believe this acquisition significantly exceeds those economic hurdles, and we'll continue to provide very transparent, long-term, top-tier returns for our company.

The second basic fundamental we have is that we believe in a robust future for natural gas, and we're developing an industry-best portfolio of properties to take advantage of that upside. I think many out there and many in our industry in particular have been missing some of the signals. We've already evidenced the beginning of a new demand growth in 2014, and our company just started to discuss that last conference call when we talked about over 1 Bcf a day of contracts in our various operating areas that were long term.

All the fundamentals for us show that it looks like we're in $4 NYMEX price environment, and we believe that a strong company can make great returns in that environment and can win. Our company's performance certainly has shown that. When you look back in 2012, with much lower gas price environments, we still had great returns. And this acquisition just strengthens that position. As a matter of fact, when you stress-test the acquisition at $3.50 flat forever, we still deliver good returns.

Our third major tenet that we have is that we look for projects that we can apply our unique talents to and create our Value Plus, and I'll talk more about Value Plus through the rest of this presentation. That uniqueness includes vertical integration, continuous improvement and focus. When we focus on a few large projects, it drives unusual value for our shareholders, and we show evidence of that every time we talk about the company.

We've talked about recently at Fayetteville Shale, where a combination of those vertical integrations continuous changing and tinkering has resulted in the best wells ever drilled in that project, and we continue to be the class leader in costs. And we show that every quarter and every presentation when we're one of the few or, as a matter of fact, the only one that I know in the industry, that its costs go down for our drill and complete of our wells every year since 2008.

In case of this acquisition Southwestern Energy is beginning the acquisition with experience over 4,000 wells in Fayetteville Shale and 300 wells in the Marcellus. And I must emphasize we're beginning at that point. We start that as a beginning point. There's very few companies in this industry that can even think about that and it'll drive the future evaluation of this acquisition even better than what we think it is today.

Fourth major point we have is that we have our own unique brand of innovation. It starts with curiosity. That curiosity leans to learning. That learning leads to discovery and that discovery leads to innovation. And that curiosity comes in a lot of different forms. Sometimes it's a continuous where some little anomaly leads us to something else that leads us to something else that's grows to something bigger. And other times one curiosity, one well, like in the case of Fayetteville Shale, discovered a major new province for the U.S. and for our company.

In this case, we see several things in this acquisition that we can use our curiosity and innovation for. We're looking at great rock and great opportunities. That curiosity and innovation also allows us to grow several ways. The first way it allows us to grow is through exploration. That's how we got into the Fayetteville Shale. That's how we got early on into the northeast corner of Pennsylvania, and we plan to continue doing that in the future.

The second way that innovation helps us grow and get better is through building the base that you already have, and we've talked about it in the past. Upper Fayetteville now is a whole new project for us now that had over 900 wells in our inventory. We're testing Upper Marcellus this year and last year, we picked up over 160,000 acres in the Marcellus to build that position which we're also testing. So we will do more of that in the projects we have and we'll be able to do more of that in this acquisition that we have.

And then the final part of that innovation that allows us to grow our company is by finding assets that fit our strategy. Earlier this year, we announced the Sand Wash Basin acquisition. In that case, some wells that were anomalous wells allowed us to go to some operators, pick up that acreage and now, we're working on an exploration project, and obviously, this acquisition is a perfect fit for that. We justified it on what we know today. But we see with innovation, both there's upside in the formations that we'll tackle and in the geographic area that they will cover.

Our fifth major tenet is that we want to be the best citizen we can in the communities where we work. Our formula talks about the right people doing the right things while wisely investing the cash flow from the underlying assets, and I'll talk about the investment from the underlying assets on my next point. But the whole idea here is not just to deliver value, but to deliver something greater than value; to deliver Value Plus and also Values Plus. In our case, we have a long history of working with regulators and communities to do things right and we think we can bring that unique history to this acquisition.

Part of that uniqueness for our company is that we're the only company industry that has a goal to be met – freshwater neutral by 2016 – and we've set internal standards for finding and preventing methane emissions that are more stringent than any current regulations in any state or any legislative body. We do this because it's the right thing, but we also do it because there's economic reasons to do it; it's part of that uniqueness we bring and part of the uniqueness we'll bring to this acquisition.

And finally, our sixth tenet is that we have a commitment to keep a strong balance sheet and keep a clean balance sheet. Now part of the reason for doing that is that there's always going to be those inevitable difficult times when commodity prices are challenging and that strong balance sheet's helped you through those times. But more important, it gives us the opportunity to take advantage of a large project when it comes by that fits our strategy. It allows us to act when others can't. It allows us to buy low rather than wait to buy high. This acquisition fits that perfectly.

Now with that and with this acquisition, our balance sheet will inevitably change, at least for the short term, but we're committed to get that balance sheet back to a point where we can have a concrete opportunity set in the future and grow our company even better.

So what's the result of those six imperatives? Southwestern Energy is already the fourth largest gas producer in the Lower 48, and our current projects in Fayetteville and Marcellus have a large inventory that drive top-tier returns by themselves. When you add this acquisition as a third asset that we can immediately exploit and provide potential, what happens is we can build value faster and quicker for our shareholders.

So what are we buying? Well, we're buying 256 operated wells mainly in the Marcellus and a few horizontal wells in the Utica. We've got another 179 non-operated wells. They're small working interests in Marcellus and Utica, and it's approximately 1,100 old legacy wells that produce total about 10 million a day.

Our current production total as of September 2014 is 336 million cubic foot a day, and for the first time in a long time, we can talk about liquids; about 45% of that has some kind of liquid component to it. So that's the base that we're doing.

Certainly, as we build through the rest of the year and we get to the end of the year, we'll talk about what those reserves go with that base. But I'll just tell you that just the PDP by itself without any kind of other locations on it we believe is over 900 Bcf.

One of the things that the acquisition is subject to is a consent of the co-owner on this acreage and in addition, they also have a 30-day preferential right to purchase. What that means is they have 30 days to decide if they want to buy this acreage for the $5.4 billion. That 30 days starts today.

In a minute, we'll open the call to some questions, but I want to spend a few minutes and a few moments here mentioning that we do not plan to answer any questions related to third quarter or our potential 2015 budget. We have a conference call already scheduled for next week to talk about our earnings release and it'll take some time for us to digest this as well as get those pref rights in before we start talking about 2015.

In addition, you may not hear from us much after this call for the next few weeks until we learn more about that consent and pref rights. It's not that we don't have a lot to say and it's not that we're not excited about what we have to say, but we don't want it to be part of the speculation or even fuel any further speculation. So we'll just wait and talk when we get the opportunity then.

With that, operator, we're now open to the call to answer some questions.

Q&A

Operator

Thank you. [Operator Instructions] Our first question comes from the line of Drew Venker with Morgan Stanley. Please go ahead with your question.

<Q - Drew E. Venker>: Hi. Good morning, everyone.

<A - Steven L. Mueller>: Morning.

<Q - Drew E. Venker>: Steve, I was hoping you could address whether this acquisition means you might underpin a longer-term growth profile similar to what some of your peers have put out in the past. Like a 20% or 25% a year growth rate over the long term or whether it's too early for that?

<A - Steven L. Mueller>: Yeah. It's too early to address that. Certainly, if you look at where our current growth rate is, it's a very respectable 15% plus and I have no doubt that we can grow at that rate or higher for a long time, but we'll talk more details about what that is and how that works in the future.

<Q - Drew E. Venker>: Okay. And then you mentioned a commitment to a strong balance sheet. Obviously, you've had a strong balance sheet historically. Do you have any target leverage metrics?

<A - Steven L. Mueller>: I don't know that we can say that we have specific targets on the leverage. I will say that we're dedicated to stay investment grade. And so whatever we do, however we finance and whatever we do, we will be investment grade when it's all done.

<Q - Drew E. Venker>: Okay. And then do you have any details on who has a preferential right to purchase the properties, whether you've had any conversations with them?

<A - Steven L. Mueller>: I do not have any details there. They are getting the notice today to start the 30-day clock, and that notice, when I say notice, they actually have to see the document and have to accept that document the way it's written if they want to exercise a pref right. Other than that, we will be talking with them, and as I say, they've got 30 days, and I don't have any guess whether that's going to take all 30 days or less than 30 days or anything.

<Q - Drew E. Venker>: Great. Thanks, Steve.

Operator

The next question comes from the line of Gil Yang with Discern. Please go ahead with your question.

<Q - Gil K. Yang>: Morning, Steve. Can you talk about what percentage of the acreage you view as being de-risked?

<A - Steven L. Mueller>: The best way that I can describe that, we will talk a lot more detail on that in the future, but we've got HBP right now over 50%, so certainly, there's at least 50% that's de-risked.

<Q - Gil K. Yang>: Okay, great. And regarding the pref rights, do you know if they are all or nothing? Or can they take partial interest or on parts of the acreage?

<A - Steven L. Mueller>: Without getting into too much detail on this, it's a pref right, and it's fairly clear pref rights, and that's all I'll say right now.

<Q - Gil K. Yang>: Okay. And just last question is, do you – a marketing contract, can you talk about sort of marketing contract and strategy that you're inheriting from Chesapeake and what you expect the strategy to be going forward for liquids in particular?

<A - Steven L. Mueller>: I won't go into detail. We do get both liquids and gas with this, and as we've been working through the various negotiations over time, there's been some opportunities that Chesapeake has had to commit to some future, and we helped them with those commitments and we will talk more about that down the road, but we do have plenty of liquid contracts that come with this deal.

<Q - Gil K. Yang>: All right, great. Thanks.

Operator

Our next question comes from the line of Matt Portillo with Tudor, Pickering, Holt. Please go ahead with your question.

<Q - Matthew M. Portillo>: Morning, Steve.

<A - Steven L. Mueller>: Good morning.

<Q - Matthew M. Portillo>: Just a quick question. You guys have mentioned in the past your Midstream assets potentially being used as an opportunity if the right deal came along to help finance a transaction and potentially selling that down. Is that something you guys would consider alongside your non-strategic components of your portfolio? Or could you provide some more context around kind of your views on financing here?

<A - Steven L. Mueller>: We're still working on the financing component. Certainly, we're going to look at a lot of different ways to do that and make sure that it's done the best way possible. And specifically, when it comes to Midstream, I don't know that it's high on our list of potential right now, but we just have to wait and see how this all plays out.

<Q - Matthew M. Portillo>: Great. And then just a second question, and I don't know if you guys will address this later on or not, but you've kind of laid out the rig count schedule here through kind of 2017. Is there any color you could provide us in terms of kind of from the current production today, if you kind of hold onto that rig count, where this kind of asset could get to in terms of the production by that 2017 timeframe? Or is that something that you guys will provide later on?

<A - Steven L. Mueller>: We'll provide later on, but it can certainly grow as fast as our current Marcellus is growing.

<Q - Matthew M. Portillo>: Great. Thank you.

Operator

The next question comes from the line of Charles Meade with Johnson Rice. Please go ahead with your question.

<Q - Charles A. Meade>: Good morning, Steve, and to the rest of your team there. You touched on this in your prepared remarks, but I'm wondering if you could speak a little bit more about how this deal evolved and your market view that led you to this. Maybe it was a top down. It sounds like it was top down. Do you have a feeling about North American natural gas and whether this is a deliberate effort to stay gassy versus some of your – and it represents a departure from some of your more oil-directed new ventures efforts lately?

<A - Steven L. Mueller>: Yeah. We've talked about in the past that that number one point I've talked about, we're going to be financially – or we're going to be disciplined in what we go after and we're going to make good returns but we're not necessarily worried about making good returns in oil or gas.

Having said that, for the last two or three years, we've been watching gas prices in particular, and even as early as early 2013, we thought that we were at the lows in 2012 and there was a lot of fundamentals that said it ought to get better going in the future. And we see that and we're starting to see the evidence of that and it's mainly demand driven. And so, in this case, certainly there're some fundamentals about that because if you didn't think the gas was something important in the future, you wouldn't look at this asset.

Now the other part that drives this asset is the geology. I mean this is great rock. It's got enough wells in it to show it's good rock. That early development that we have planned will be mainly Marcellus because we know more about it. But I think a lot of good surprises are heading up in the future just like we had good surprises in Fayetteville, just like we had good surprises in the Marcellus.

And then kind of part of your question was how did we come about this. I have said in the past that we contact people all the time and look at areas that we would like to get into. And sometimes they're interested in talking to us; sometimes they're not interested in talking to us. And so I don't know anything about what they did and what their process was. I can say that we were interested and they knew we were interested.

<Q - Charles A. Meade>: Got it. That's great added detail, Steve. And I was going to ask you about some of the really exciting things, but I was going to hold off on that question because I recognize you're kind of – it's – until you get through this pref right period, you don't want to talk about it too much. But I can tell a lot of us are looking at that – some of those deeper Utica tests there and I didn't know if that's anything that you could comment on, whether you evaluated it and whether it's ascribed any value or something you're interested in?

<A - Steven L. Mueller>: Well, certainly the Utica on this acreage has not had many tests on it, but as you said, there's a lot of very exciting tests around the acreage and so it was part of the evaluation but it was also part of what I talked about, where we value this on the knowns and then we've got the upside. So that's probably all I'll say on that right now.

<Q - Charles A. Meade>: Thanks for that, Steve.

Operator

Our next question is from the line of David Kistler with Simmons & Company. Please go ahead with your question.

<Q - Dave W. Kistler>: Morning, guys. Real quickly, kind of thinking about what this means for capital spending for next year and possibility of living within cash flow, can you comment on a four- to six-rig program and what that does to that outlook?

<A - Steven L. Mueller>: We'll talk more about it next year and the future, but as I said, we're committed to get our balance sheet and keep our balance sheet in good order so we can take advantage of more opportunities. So we're not going to be investing significantly above cash flow as we look out in the future.

<Q - Dave W. Kistler>: Okay. Appreciate that. And then, maybe with respect to the overall acreage position, if you could kind of break it down on that 413,000 acres for us in terms of what you think is prospective Utica, Marcellus, Devonian? Or at least how you thought about, okay, this is the section that we have high confidence in and sets our base case and then all the rest being gravy, that would be helpful.

<A - Steven L. Mueller>: Yeah. When you look at geology, that kind of Panhandle area of West Virginia is the epicenter for several different zones. As I said before, the one that has most drilling on it today is in the Marcellus, and that's what we know most about. That's what we built most of our evaluation on. Above that, there's three or four zones in the Devonian that other companies in the area have tested, and we have at least as thick if not better-looking zones there. And then, when you start getting to the Utica and even potentially deeper than the Utica down the road, what we see with the acreage that we have and the wells around us is that it's very comparable and it would be, when you think about it, Upper Devonian is dry gas; the Marcellus has liquids with it, that's where most of your liquids are, and then the Utica will be dry gas.

Operator

Thank you. [Operator Instructions] The next question comes from the line of Bob Christensen with Imperial Capital. Please go ahead with your question.

<Q - Bob Christensen>: Yeah. Congratulations, Steve. The question is what kind of pipeline transportation do you have for the gas? And what's sort of lined up for the future to get the gas out of the region? And then, same question pertinent to the liquids; what kind of arrangements did Chesapeake have and what do you spot for the future?

<A - Steven L. Mueller>: We'll talk more on the specifics of what pipeline and how much production and what kind of processing that is out there for the liquids, but I'll remind everyone that that southwest corner of PA, Pennsylvania, Ohio and Northern West Virginia, was ahead of the game very quickly as you first started seeing the Utica develop and as the Marcellus in Pennsylvania and Ohio. Now, it's got more new projects coming on there than anywhere else in the Northeast. And so the combination, we're going to get a combination from Chesapeake of some of the older projects that they had in place where they were growing production and had put contracts in place to help them grow production, and then there's some of this new stuff coming on in the next few years. And once we get to a point where we're talking about budgets and the next couple of years and those things, we'll outline what that firm is and what the processing capabilities are.

Rest assured that the five-rig program that we're talking about next year, we're very comfortable that we have the capacity to handle that. And we're very comfortable that we either have or will have the capacity to go to that larger rig program in 2017. So we're built our acquisition parameters on making sure that we could also have the firm and oil processing we need to handle whatever's coming up in the future.

<Q - Bob Christensen>: Will you hedge aggressively the current production? Not that it's that much production, but will that be hedged? And will you be, in effect, hedging some future production even to stabilize the EBITDA of the company, revenues of the company for a good year or so to get all smoothed out?

<A - Steven L. Mueller>: Right. We will certainly look at that as a way to finance and look at the future. I'll remind everyone that our current production base, again, we're getting 300 million a day on basically 2.1 Bcf a day that we currently have, current production base is hedged about 30% next year. And then, when you add that Midstream to it and you add the fact we're vertically integrated, between costs and all of those factors, we're well over 50% hedged now on our cash flow. So we feel comfortable about our base cash flow and as you said, the 300 million a day is important and there may be a little bit more hedging but I don't think it's going to change significantly our current hedging strategy.

<Q - Bob Christensen>: If I could just take one more question pertaining to vertical integration. Would you have your own drilling rigs there before too long, invest in your own equipment like you did in the Fayetteville and just have it working for yourself? Can we expect that, an 11-rig program, relatively short order?

<A - Steven L. Mueller>: You can expect it. We will vertically integrate very quickly. And I'll just remind everyone, we're in the process of upgrading several of our rigs and we have the option and had originally planned to sell some rigs as we upgraded. And we have the option now to keep some of those rigs and put them to work in this new acquisition. So we can scale up with some of our equipment very quickly, and we're already looking at how we might do more than just the rig component. But I think over the next 12 months, once we get into it, you'll see significant vertical integration in this overall process.

<Q - Bob Christensen>: Thank you.

Operator

Our next question comes from the line of James Campbell with CalPERS. Please go ahead with your question.

<Q - James Campbell>: Morning, gentlemen. Yeah, just two questions. First, with regard to this acquisition, just wondering if any of the property that is included here has some of the volumetric production payments associated with the 2007 December deal, or is that property excluded from this acquisition?

<A - Steven L. Mueller>: There is nothing on any of this acreage.

<Q - James Campbell>: Great. Okay.

<A - Steven L. Mueller>: This acreage is, for the most part, a combination of those older wells that are HBP with some older leases and some very young leases, but there are no encumbrances, there's no ties back on it to anything that Chesapeake did or didn't do.

<Q - James Campbell>: Okay. Okay, great. My second question goes back to just the balance sheet and your investment-grade rating. I know that earlier you said you didn't want to discuss leverage specifically, but what are some of the factors that you're thinking of in general that give you confidence you're going to be able to keep your investment-grade rating going forward?

<A - Steven L. Mueller>: I don't know that they're factors as much as to say that we're basically living within our cash flow right now as a company. We've got, as you know, a very low debt ratio to begin with and we've got a lot of capacity from a lot of different directions. So we've got several levers we can pull, and in the next 30 to 60 days, we'll talk about what those are and how we're going to do that.

<Q - James Campbell>: Great. Thank you.

<A - Steven L. Mueller>: Thank you.

Operator

Thank you. Our next question is from the line of Arun Jayaram with Credit Suisse. Please go ahead with your question.

<Q - Arun Jayaram>: Good morning, gentlemen.

<A - Steven L. Mueller>: Good morning.

<Q - Arun Jayaram>: Steve, I like the strategic move, but I wanted to talk to you a little bit about the valuation. It looks like the assets were generating, at least over the last 12 months, about $350 million of EBITDA. So if you just did that math, it looks like a multiple around 15 times. So I wanted to get maybe your thoughts on the growth of the asset over time, and maybe if you could go through and run through your valuation work and how you thought $5.4 billion was an appropriate value for the transaction.

<A - Steven L. Mueller>: Yeah. I can tell you that we didn't worry too much about multiples, and I'll use the example. If I've got an exploration success and that first well was drilled and I'm excited about it, I've got an infinite multiple, but I could have a Fayetteville Shale behind it. And so this acquisition isn't based on the past; it's based on the future. And we believe there's more than enough potential to grow at the pace we need to grow to make this valuation look very, very good. And that 5- to 11-rig program we're talking about, we think we'll do that and you will see significant cash flow in just a few years out of this project.

<Q - Arun Jayaram>: When do you think, Steve, that this would be kind of an accretive – at what time period, given the growth outlook, do you see that you think this would be accretive?

<A - Steven L. Mueller>: Yeah, we'll talk more about that at another time, but again, we're very comfortable you'll see significant growth.

<Q - Arun Jayaram>: Okay. And just – what my follow-up would be, in terms of financing the deal, in order to maintain that investment-grade rating, assume equity would be a part of the financing. What about – you have a very valuable Midstream piece, thinking about your Midstream assets, would that be a candidate to think about doing an MLP or some sort of strategic deal with your existing Midstream?

<A - Steven L. Mueller>: I would say it's down the list, when we're doing that. There are a lot of ways we could finance this, and we'll talk about it when we get ready to finalize the financing. But we believe we can finance it without doing anything with our Midstream. And as I said before, that Midstream we believe is very important to us, and it gives us great returns. So we're excited to have the Midstream.

<Q - Arun Jayaram>: Okay. Thank you very much, Steve.

Operator

Our next question is from the line of David Heikkinen, Heikkinen Energy Advisors. Please go ahead with your question.

<Q - David Heikkinen>: Steve, that's a perfect segue of just wanted to see who owns and operates the current Midstream, assuming is there a plan I guess for you to in-source that Midstream build-out in the future on these assets?

<A - Steven L. Mueller>: The Marcellus, for the most part, is tied to third parties, and I won't go into details who those third parties are. When you start talking about the dry gas component of it, those are not tied to anything and so our Midstream has the potential to...

<Q - David Heikkinen>: To work there.

<A - Steven L. Mueller>: To do something there as well. And again, we're going to do the thing that's the most value to our shareholders. So we could do it ourselves, we could get someone else to do it, we do some kind of combination. You've seen us do both. You've seen us do it almost all ourselves in the Fayetteville. You've seen us do a combination in northeast corner of Pennsylvania. So we'll just work through that and all I'll do is promise it'll be the best value we can for our shareholders.

<Q - David Heikkinen>: And then, can you talk about just the base decline on the assets? They've been pretty under-invested in. So we're [ph] 58,000 (35:05) in the second quarter, talk about 56,000 barrels equivalent today, just any thoughts around base decline would be helpful.

<A - Steven L. Mueller>: And to tell you the truth, that September number was a number they supplied. I don't have – the most updated data is actually a little bit earlier than that. But I can tell you that there was about a 2% growth from May to September.

<Q - David Heikkinen>: Okay. All right. Thanks, guys.

Operator

Our next question is from the line of Bob Christensen with Imperial Capital. Please go ahead with your question.

<Q - Bob Christensen>: Yeah, Steve, how many rigs are working on these properties at the moment?

<A - Steven L. Mueller>: I believe there's at least one working on it today. They have other acreage. They kept all of their acreage in Ohio and some other areas. And there's two to three rigs that kind of move in and out of the acreage, so but I believe today there's one.

<Q - Bob Christensen>: And you say you have a pretty concentrated acreage position in the Panhandle of West Virginia. That's been where some of these lately big tests have been for Utica. I know Chesapeake had that well. Were there other Chesapeake wells that tested the Utica that I'm unaware of in the Panhandle area, Marshall County, I think?

<A - Steven L. Mueller>: There's a recently drilled Chesapeake well that I believe is either in the last few days put on production or will be put on production in the near future. And once we get some results on that, we'll talk about it.

<Q - Bob Christensen>: Sounds great. Thanks.

<A - Steven L. Mueller>: Thank you.

Operator

Our next question is from the line of Scott Hanold with RBC Capital Markets. Please go ahead with your question, sir.

<Q - Scott Hanold>: Yeah. Thanks. Good morning, guys. Just a couple questions. Obviously, a lot's been asked here, but when you take a look at sort of your portfolio, does this change plans at all on some of the exploration projects you had, like in the Sand Wash Basin, the Smackover, DJ or New Brunswick?

<A - Steven L. Mueller>: It could change it slightly. As I say, we're still going to do exploration. It may be, as part of that, making sure we kept the investment-grade and working our – any kind of ratios down, that we go a little bit slower on exploration. So rather than 10%, maybe it's at 7% or 8% of our capital budget. But it's not going to be a significant change in what we're doing exploration-wise.

<Q - Scott Hanold>: Okay. So looking at some of these liquid plays still remains a core tenet of what Southwestern wants to do going forward?

<A - Steven L. Mueller>: Yeah, you will see us do exploration forever, as long as we're around, and the real question is how much do you do year to year and what kind of opportunities you have, but we'll continue doing that.

<Q - Scott Hanold>: Okay. And I'm going to ask another, kind of a follow-up on sort of the Midstream questions. I know you've answered this like five different times in different ways but maybe I can be a little more targeted with my questions. So...

<A - Steven L. Mueller>: Okay. So we do it a sixth time?

<Q - Scott Hanold>: Yeah. That's right. Sixth time's a charm, right? But certainly, Chesapeake in the past has discussed this as being an area that's been constrained and so it's not been high on their capital development plans for a bit of time. And when you look at your firm capacity, it's good to hear that you guys can run say five rigs next year and still not be constrained. But my sense is that the firm that you got transferred to you by Chesapeake was below what your production is right now. And does that mean you guys have sourced some on your own or used interruptible? And maybe as a quick follow-up, what other constraints do you see to these assets as you look ahead to your development plans?

<A - Steven L. Mueller>: Yeah. I'll start the second part of the question. I don't know about the other constraints that we see. We've built in a lot of risks into our valuation and as I said, we've kind of evaluated on what we knew, not on what we were hoping toward. So there's a lot of that built in.

As far as the future capacity, I don't know anything about whether Chesapeake thought they were constrained or are constrained, but I can tell you that we're comfortable that we have the capacity to grow at the pace that we say we can grow. Certainly, there's dynamics with this and part of that dynamics is some commitments that Chesapeake has made that will be coming online that they don't have today, but we're comfortable those will be online, be online at the right time and we'll be able to do it.

<Q - Scott Hanold>: Okay. Appreciate that. Thanks, guys.

Operator

Thank you. Our next question is from the line of Andrew Coleman, Raymond James. Please go ahead with your question.

<Q - Andrew Coleman>: Hey. Good morning. Thanks for taking my questions. First one is, do you have all the people you need up in the region to, I guess, roll these properties or...

<A - Steven L. Mueller>: Yeah. We certainly have the skill set throughout the company to add five rigs into the schedule. And as a matter of fact, if you look back three years ago, we were running at about four to five more rigs than we're running today. So we've got that capacity.

As far as the field goes, we will have the opportunity to hire some of the Chesapeake people in the field. So I think we're in good shape in that direction.

<Q - Andrew Coleman>: Okay, great. And then, the second one is I guess if you look at all the – there are some more coal mines in this area. Does that produce any, I guess, surface issues when you're kind of working with the coal operations? Or is that a de minimis piece on the acreage that you purchased?

<A - Steven L. Mueller>: I don't know if it's a de minimis piece. This is coal country and we will be working on some of the acreage with the coal mines, but Chesapeake has been doing that and they've been doing it very successfully, so we just have to step into those shoes and continue doing it well.

<Q - Andrew Coleman>: All right, great. Thank you for taking the questions.

Operator

Thank you. [Operator Instructions] Thank you, ladies and gentlemen. At this time, we have reached the end of our allotted time for questions. I would like to turn the floor back to Mr. Mueller for closing comments.

Steven L. Mueller

Thank you. Obviously, we're excited about this acquisition, and I talked early on that it fits Southwestern perfectly. And I know you've got a lot of questions, and that goes back to when I talked about the innovation and curiosity. I'm excited about your curiosity. If you'd see us around here, we're excited about our curiosity also. And I think this is going to be a great trip for the investors. It's going to be a great trip for our company. And it's going to be providing a great future for us.

So I'm excited about the fact that we can innovate together and head on down the road. I look forward to talking to you again next week on our earnings call. And with that, we'll close this conference call.

Operator

Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.