Company Name: **Williams Companies Inc**
Company Ticker: **WMB**
Sector: **Basic Materials**
Industry: **Energy**

Event Description: **Q2 2015 Earnings Call**
Market Cap as of Event Date: **39.78B**
Price as of Event Date: **52.98**

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Williams Companies (WMB) Earnings Report: Q2 2015 Conference Call Transcript

The following Williams Companies conference call took place on July 30, 2015, 09:30 AM ET. This is a transcript of that earnings call:

Company Participants

- John Porter; Williams Companies; Head - IR
- Alan Armstrong; Williams Companies; President, CEO

Other Participants

- Brandon Blossman; Tudor, Pickering, Holt and Co. Securities; Analyst
- Shneur Gershuni; UBS; Analyst
- Jeremy Tonet; JPMorgan; Analyst
- Craig Shere; Tuohy Brothers; Analyst
- Ross Payne; Wells Fargo Securities, LLC; Analyst
- Don Chappel; Williams Companies; SVP, CF
- Timm Schneider; Evercore ISI; Analyst
- Sharon Lui; Wells Fargo Securities, LLC; Analyst
- Chris Sighinolfi; Jefferies LLC; Analyst
- Bob Purgason; Williams Companies; SVP

MANAGEMENT DISCUSSION SECTION

Operator: Good day everyone. Welcome to the Williams and Williams Partners second-quarter earnings release conference call. Today's conference is being recorded. At this time for opening remarks and introductions, I would like to turn the conference over to Mr. John Porter, Head of Investor Relations. I Please go ahead Sir.

John Porter: Thank you Cecelia. Thank you for your interest in Williams and Williams Partners . Yesterday afternoon we released our financial results and posted several important items on our website, Williams.com.

These items include yesterday's press releases and related investor materials. Including the slide deck that our President and CEO, Alan Armstrong will speak to momentarily. Our CFO, Don Chappel is available to respond to questions. And we also have the five leaders of Williams Operating Areas with us. Walter Bennett, lead to the West. John Dearborn, leads NGL & Petchem Services, Rory Miller leads Atlantic Gulf. Bob Ferguson leads Access Midstream, and Jim Scheel leads Northeast G&P.

In our presentation materials, you will find an important disclaimer related to forward-looking statements. This disclaimer is important and integral to all of our remarks and you should review it. Also included in our presentation materials, are various non-GAAP measures that we reconciled to Generally Accepted Accounting Principals. Those reconciliations schedules appear at the back of the presentation materials. So with that I'll turn it over to Alan Armstrong.

Alan Armstrong: Great. Thank you John, and thanks everybody for being on the call with us this morning. We've got a lot of things to cover today, but before we discuss the second-quarter results, I'd like to briefly comment on the WMB [Board] Strategic Alternatives Process that's under way. Williams announced

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on June 21st that it planned to explore a range of strategic alternatives that could include, among other things, a merger, a sale of Williams, or continuing to pursue the Company's existing Operating and Growth Plan.

A robust competitive process we believe is the best way to get the best option on the table and to maximize shareholder value. And the Board's review is meant to accomplish just that. The process is underway and we're pleased with the progress today.

As I'm sure you'll understand we do not intend to comment further on this thorough review of these alternatives, or the WPZ transaction today. We won't be commenting further on that until the process is completed and a more definitive course of action has been determined by the Board. In the meantime, I can assure you that our focus remains on maximizing value and we continue to act in the best interest of our shareholders as we go through this process.

With that, let's move onto the first slide and talk about the tremendous growth that we enjoyed in the second quarter and the strong trajectory of growth in front of us. So you look her on slide two, the package here in the second-quarter certainly demonstrates the benefits from our clearly defined strategy of capitalizing on the significant natural gas market growth by connecting the very best supplied to the best markets. We have been on this strategy for quite some time. It is really starting to deliver a lot of significant growth. Particularly in our fee-based revenues.

For this quarter, WMB's adjusted EBITDA was $1.02 billion, up 32% versus second-quarter of 2014. At WPZ, we had a record distributable cash flow of $701 million. And delivered an adjusted EBITDA of $1.01 billion. Which was driven by fee-based revenue growth.

Overall, we had solid performance from our of our five segments. The performance was delivered despite the fact that volumes were lower in some areas, as a result of price-related shut-ins and also because we are operating in historically low commodity price environment. When we say low we mean lower than they could've been. We actually had very significant growth in a lot of those areas. Certainly a significant impact from volumes being shut in from gas prices.

Let me walk through some of the numbers here. First of all, in the Atlantic Gulf, really the strong performance from Atlantic Gulf, $389 million and adjusted EBITDA this was up 44% on fee-based revenues from new projects.

This group really is managing a tremendous amount of growth, and keeps on delivering this growth in a very safe and reliable manner. We couldn't be prouder of all the great work going on there. At Access, $345 million up 25% on fee-based revenue growth. I will have to say that certainly we are pleased with the contributions being made from this acquisition, and it is not just the predictable growing cash flows that we all expected.

I would tell you probably the piece that has been most impressive from my perspective, is the great injection of new talent and ideas that are coming from our new fellow Williams employees that came from this acquisition.

So integration and the synergies are going even a little better than expected there, and we continue to see great opportunities out in front of us as we take in a lot of the ideas. And we merge the entities, particularly seeing a lot of opportunity up in the Northeast, and we're really starting to get into some of the synergies within our operational excellence in EMC areas as well.

In the Northeast G&P, this was up $92 million, up 21%. And impressively on 54% higher Ohio Valley midstream gathering volumes. Really starting to see that come through and noted that the team had a record volume there just this week.

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Really pushing out some big numbers there as those volume start to come in and I will let Jim Scheel address that later. In the Northeast in general, I would say that as the face of the energy in the US has changed over the past years, and where it is coming from, we have certainly worked very hard to get ourselves into position to unlock the tremendous value of the Marcellus and the Utica areas like never before.

We have put ourselves in a position, and we are the leading gathering systems in the Northeast. We believe our shareholders are going to see great long-term value from this tremendous position that we have been able to accumulate in the Marcellus and Utica position.

Onto the West, EBITDA was $150 million, and this was down 27%. As we mentioned, this really was driven by lower NGL margins. That really was the big story out there.

I will tell you from an operations standpoint, continuing to see great performance there on both reliability of our operations out there, and the safety of our operations out there. In fact, in the quarter, our gathering volumes were flat. Really as compared to the prior quarter and as the year-over-year quarterly comparison, our equity gallons -- so the gallons that we take for our account, and our plant inlet volumes were both higher on a year-over-year comparison. The West continues to hold its own, but certainly impacted by lower prices there in the second quarter.

Then in the NGL and Petchem space, the adjusted EBITDA was just $33 million, and that number is certainly lower than last year due to the absence of the business interruption proceeds that we recorded in the second quarter 2014.

The near zero prices for propane that we saw in the Edmonton spot prices from our Canadian Operations. This of course was a little bit offset by the Geismar, as Geismar began to ramp up here in the second quarter. Really that was probably the disappointment from my perspective for the quarter, was not getting Geismar up as soon as we would have liked to.

And we did have some very serious electrical power problems on the feed into the plants. We have gotten that behind us now, but it has certainly hampered our operations there in the second quarter.

So once again I want to reiterate the overall growth our teams are delivering, and we have begun to enjoy the fruits of our labor as we manage at the tremendous growth that we really have fought very hard to win. On our Transco system in the deep water, and certainly in the Northeast G&P. We expect a big improvement now in our NGL and Petchem Services Group for the balance of 2015, with Geismar now online and [Horizon] coming on toward the very end of 2015.

When you look at our results this quarter, you will see that our fee-based revenue growth really is coming through in a big way and pretty powerful the way it overpowered lower commodity prices in the quarter. That is really important that we are executing on that strategy in a big way, of shifting our business to fee-based revenues.

And this quarter is an example where that really pushed through what was some really strong head winds on the commodity prices quarter. In fact that at WPZ, our fee-based revenues were up $537 million or 72%. While a lot of that was driven by the Access acquisition, a lot of this came through our major projects that we are ramping up.

If you look at just the WPZ historic assets our fee-based revenues were up 17%. This does not include fee-based revenues from things like our proportional JVs. For assets like Discovery, which of course got a big boost from the Keathley Canyon Project coming on. And our UEO investment in the Utica, big improvements in fee-based revenues there. Given the way that we account for that, that does not show up in that $130 million of the incremental fee-based revenues.

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On the NGL margin side, we certainly experienced some serious head winds. And our NGL margins were down $56 million here for the second quarter of 2015. In fact we only recorded $38 million of NGL margins for the quarter.

And it has been a long time since we had that low -- an NGL margin [sector]. The Geismar plant, just to mention what is going on there, did ramp up in the second quarter. And albeit that was slower than we expected, but it is now online and consistently operating at or near its full production capacity. And we expect significant contributions from the plan here in the second half of the year as I mentioned earlier.

On a personal note, I would just like to recognize that leadership team there at Geismar has been through a lot. I want to recognize the fact they have really kept their eyes on getting that plant back up in a safe manner, and they continue to hit some really impressive safety records there despite a tremendous amount of activity going on at the plant there. And I cannot tell you how hard that team has worked to get the plant back up and running safely, and I'm very appreciative of their efforts.

Let's move on to guidance. First of all, we are reaffirming our Williams Dividend Guidance for 2015 through 2020. I would point out that the guidance that we've provided is based on an assumption of the completion of the Williams Partners -- completion of the acquisitions of the Williams Partners Public Units by Williams.

We are also reaffirming our adjusted EBITDA guidance for 2016 through 2018. Although we are lowering the 2015 adjusted EBITDA mid-point guidance that we issued in February by about 6%. Of course this reflects the lower commodity prices that are showing in the market right now for the balance of the year. And as well the problems we had at Geismar and the ramp up in the second quarter.

The Geismar impact of that is really already in our second quarter, and the balance of that lowering is coming through commodity prices for the balance of the year. We also are reaffirming our dividend of $0.64 per share in third quarter of 2015, or $2.56 annualized, and also our dividend of $2.85 in 2016 with 10% to 15% annual dividend growth coming through 2020.

And so on to the last point on this slide. Certainly, a tremendous amount of growth continues to come at us, and I want to say that we are very excited about how the major projects that are now contributing on a fee-based revenue side are really starting to drive our business. Also a lot of projects that are on our list right now that will continue to build a stream of growing cash flows for years to come.

Now moving on to the next slide here and this is slide 4. First of all, the projects that are beginning to contribute, we said back in the first quarter at our analyst day in May, that the demand side of the natural gas market is driving our project list. And we are really reinforcing that here again today. As we look at some of the significant projects that we've put into service here in the second quarter, it is easy to see that we have really been executing and delivering on these projects.

Here, as you look at the second quarter for example on our Transco system you can see here we delivered three very important projects in the quarter. The Rockaway Lateral and the Northeast Connector Project that goes with the Rockaway Lateral. But two independent projects there. The Mobile-based South III Project was brought into service in April of 2015, and that was on time and on budget.

And the Woodbridge Project which was brought into service on schedule and below budget. Our New York Bay Expansion Project just one more example, we did make our FIRC application in July here just recently as well.

A lot of hits just keep coming on the Transco side. Gulf Star One, these big projects we put into service at the end of the first quarter -- really provided a lot of strong contribution here in the second quarter. The production volumes from the Tubular Bells prospect does continue to grow. And in fact a fourth well was

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just brought on recently there by the operator.

Our Discovery Keathley Canyon Connector certainly drove our proportional JB EBITDA in the quarter. And again these are fee-based revenues that are coming from Exxon's Hadrian facility and Anadarko's Lucius facility. Our discovery system is running completely full now, and we are really liking the prospects that sit around the Keathley Canyon System.

And the kind of high-margin business that will continue to flow in on this system that is so well positioned now in the Keathley Canyon. We also completed an acquisition of the Fox Creek gathering and treating system. This expands accesses, Eagle Ford footprint, and as we said in the last call, we expected to see producer systems come into the M&A space, and this acquisition is a really good example of that.

This is a bolt onto our business there in the Eagle Ford, and a very nice addition of predictable fee-based cash flows coming in there. We also acquired some additional interest in UEO, and that interest is now up to 62%. And this area is really enjoying tremendous volume growth here in the Utica.

On Geismar, as I said earlier, Geismar is now producing their full expanded capacity. In fact, our production here on Tuesday was about 5.27 million pounds a day of both ethylene and propylene. And so doing very well there and we will continue to optimize between our ethylene and propylene production, depending on margins.

Coming soon, as we look forward, a lot of exciting projects left to come on for the year. Our Virginia Southside project is expected to come in service in the third quarter of 2015. Our Leidy Southeast project is expected to come on in service in fourth quarter 2015. We are making good progress on those items. Our Canadian off-gas processing, we are making great progress towards bringing CNRL Horizon projects start up in 2015. And our Kodiak tieback, which is a tieback to our Devils Tower platform is expected to come on in the fourth quarter of 2015.

And these tiebacks that we are getting to experience out here are really powerful tools in terms of driving a return on our business, as they require very little capital and large amounts of fee-based revenues.

In fact, our Devils Tower field is now nearly 12 years old, and this is the fifth field to be produced from this platform now and Gunflint will be the first tieback to our Gulfstar platform and that is expected to come on in 2016. I would tell you that is well ahead of our original expectations that we had for that investment thesis in Gulfstar. Really enjoying the benefits of really learning to aggregate and tieback production in these big deep water [spores].

Once again, this list is certainly very extensive and I am very proud of our team's progress as they have really started delivering the growth that is out in front of us now.

Moving on to slide 5, we have said many times that Williams is uniquely in position to connect the best natural gas supply to the very best markets. And we have certainly focused our strategy on natural gas, and are positioned to take advantage of the demand growth that is both here today and that is coming in the next few years.

We have bought and built our way into being the largest gas gatherer and the largest and fastest-growing gas supply basin. We've built Transco into the largest and fastest-growing natural gas pipeline.

Our second-quarter results are certainly a reflection of the fact that our efforts are driving tremendous cash flow growth despite stark commodity price head winds.

And our large-scale fee-based projects are meeting or exceeding our expectations as they begin to contribute in a big way. So, the revenues from a big project like Keathley Canyon and Gulfstar are really doing very well, and in many cases as I said, going beyond our expectations. O

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ur focused on the fee-based growth means that we are expecting about 89% of WMB's 2015 through 2017 gross margin to come from fee-based revenues. And we have $9.8 billion of the total 2015 through 2017 in guidance growth CapEx and 96% of that is focused on fee-based projects.

We have also committed potential growth capital through 2000 -- we have committed and potential growth capital through 2020 of over $30 billion. I will tell you that is very rapidly growing. We really have not updated that guidance in quite a while. I will tell you that book of business is rapidly expanding.

It also, when we put that out we do not include things like our M&A bolt ons. We have a lot of M&A bolt ons that are coming at us that we are very well-positioned for. And those are not included in the opportunity list as well. So our backlog of projects does continue to grow, and we just have not updated that just because it is so large to start with. We do continue to see great opportunities in our business. Both in terms of the known projects and the potential projects both continue to expand.

I would like to sum things up like this. With over 1 billion of adjusted EBITDA for the quarter, and the record quarterly DCF, both of these are driven by strong fee-based revenue growth.

And we are very pleased with our second-quarter results as the head winds of lower commodity prices are overwhelming -- that the lower commodity prices are certainly being overwhelmed by the tremendous growth in fee-based revenues that will continue for years to come. S

o some pretty serious head winds that have been out there, but wow it is really impressive now to see all of these projects starting to take hold and really starting to make our NGO margin rather insignificant up against the growth of our business.

Certainly, the growth that we are seeing demonstrates the performance of our premier asset footprint in the natural gas infrastructure space. This includes the fastest-growing pipeline in the US, and the largest and fastest-growing position in tremendous Marcellus and Utica basins.

With that, as we move into the Q&A session, I would just like to remind everyone that the purpose of today's call is to discuss our operational and financial results for the second quarter of 2015. I ask that you please limit your questions to these topics.

We will not be taking questions on the strategic alternatives process or the WPZ transaction. Once again, I can assure you that the focus of our strategic alternatives review remains on maximizing value. And that the Board and Management Team will continue to act in the best interest of our shareholders. We are excited about doing that. With that, let's move on to the second quarter (inaudible).

QUESTIONS & ANSWERS

Operator: (Operator Instructions) Our first question comes from Brandon Blossman of Tudor Pickering and Holding Company.

Brandon Blossman: Good morning everyone.

Alan Armstrong: Good morning.

Brandon Blossman: A big picture question first. Alan, you suggested that the backlog is actually growing, no change to the official guidance. Qualitatively when would we, or should we, expect some updates there or is it just as things come to fruition or is it more of a quarterly type event?

Alan Armstrong: There are really two things you should see moving there. One, is that many of the projects that are in our potential backlog, so that are in that $30 billion plus, some of those projects will start to be moving into guidance as we close deals there. A lot of big opportunities right now particularly

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in the Northeast, as well as Transco continues to be very successful in contracting for new business along its system. So you'll start to see some business migrate from that $30 billion plus into the guidance numbers. In terms of timing, we will update that in that particular case, those deals are closed. Secondly, on the potential bucket, the demand side of our business is really picking up in a big way.

And we are extremely well-positioned to capture a lot of that. We are seeing a lot of additional interest in that, and we just obviously don't update that every single quarter on the potential side.

For one reason, it is so large already it's not going to drive all that much. As we see significant projects move in there we are beginning to expand that. The first thing you should expect to see in the near term is, projects in the guidance side starting to build.

Brandon Blossman: That's actually very helpful. Somewhat related, you mentioned access operational synergies kind of showing up here recently. Is there anything, any detail that you can provide around that? Or any specific synergies you want to highlight?

Alan Armstrong: Sure. Thank you for that question. We had identified that we would have 25% last year upon the acquisition, and then 50% on the merger. Right now we have in our sights a number that is better than 50% here for 2015.

And because some of that is being -- even though will show up in 2015 some of that will be full run rate next year, we will actually see a larger number than that next year.

A lot of those things are you know on some of the support services side, but we are also in the process, we reorganized our leadership in the Northeast under Jim Scheel there. And so we are starting to look at the synergies that are available to us in the Northeast gathering area. Those really will be 16 kind of improvements in synergies, and we are just really starting to identify what that really looks like.

Brandon Blossman: So stay tuned for the 2016 guidance number on synergies?

Alan Armstrong: Yes.

Brandon Blossman: Okay. Thank you that is good for me for right now. I will handed over.

Alan Armstrong: Okay.

Brandon Blossman: Thank you

Operator: Our next question comes from Shneur Gershui of UBS.

Shneur Gershuni: Hello, good morning guys. A couple of questions on my front here. First if we can talk about the [MVC] exposures at the old access assets, there's been a lot of discussion about it lately. When you look at your exposures relative to your producer customers, do you think of it in a basin by basin basis, and if there any regions where it's possible to produce your customer has -- has low to negative IRR's. That likely is not the case in the Northeast, but I was wondering if you could comment if there any regions where you see some weaknesses where producers are likely to be at or below the MVCs, should the commodity prices continue to be at the current levels, or possibly get worse?

Alan Armstrong: Let me try to take that (inaudible) here. If you are speaking of MVCs outside of the Chesapeake business, for instance we do have some shut-ins in the Marcellus area. And those contracts are under cost of service.

So, that value proposition that would come back to us when that rate gets adjusted on an annual basis. That is I think the best way to think about that, relative to the Chesapeake business. The MVCs that exist in the other Northeast, I would say we are well above those even at current shut-in production levels we

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are well above those. The way you should think about that, is that the volume support that we really have with that will come when the big pipeline projects come into service.

And there is known obligations to volumes into those downstream pipelines. Constitution, Atlantic Sunrise and Leidy Southeast. Obligations into those projects will drive some support for volumes, just because we know with the obligations are into those take-or-pay obligations on those pipelines.

I was just going to add, you know the two areas where we've got pure MVCs in the Barnett and Haynesville. Obviously were below the MVC in the Barnett. We do look at them on a basin by basin basis, and our view is that drilling the Haynesville, will come under the MVC that is growing in that area.

You are seeing that in the volumes that are showing up. But the Barnett is just not attracting the drill bit right now, and we don't think will be for a while. Still is producing good cash flow in terms of its lifting cost compared to the current [net backs].

Shneur Gershuni: To confirm the Barnett is not attracting the drill bit, likely negative returns for your producer customers. Is that the case also in the Haynesville? That is where you are saying it's going to probably come under the MVC at some point?

Alan Armstrong: I would not speculate as to Chesapeake's returns in that area in totals. I'd note that the Barnett is producing good free cash flow in almost any environment, and that the Haynesville is attracting the drill bit currently.

Shneur Gershuni: Okay. My follow-up question, there was a big pickup in ethane volume sales in the Northeast. Can you talk about the big shift? Is it something that you did, is rejection suddenly (inaudible) happening? Can you give us a little bit of color on that?

Alan Armstrong: One thing we did not mention, was that towards the end of the second quarter we brought our ethane pipeline up there into service.

And so we now are running our de ethanizer and that ethane pipeline feeds in to the some of the contracts where producers have to sell their ethane. That is what is driving that. Now we are getting incremental fees for those ethane services, that we would not have been getting until that pipeline and the de ethanized replacement service.

Shneur Gershuni: Okay. Final question. I realize you cannot talk about the strategic review process and so forth. Can you confirm whether a data room is currently open or not?

Alan Armstrong: We are not going to talk about that, Shneur we are going to have to hold a firm line on that.

Shneur Gershuni: Okay. No problem. Thank you very much guys I appreciate that color.

Alan Armstrong: Thank you.

Operator: And next question comes from Jeremy Tonet of JP Morgan.

Jeremy Tonet: Good morning.

Alan Armstrong: Good morning.

Jeremy Tonet: Just for the strategic process, I appreciate you might not be able to say anything here but I wanted to bounce a couple of thoughts. Is there anything you can share with us as far as what the timeline might be there? And also you talked about some smaller bolt-on acquisitions. Does this process interfere with any larger M&A aspirations you might have?

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Alan Armstrong: I will take the second question just to say that it is business as usual in terms of our bolt-on M&A efforts and so we continue to execute on our planned and our strategy in that regard.

Jeremy Tonet: Okay, great thanks for that. In the Northeast it looks like gathering volumes were down a little bit quarter-over-quarter, but processing was up. Could you share a bit more with us in terms of what you hear with regards to producer-customer activity there in the back half of the year, and how you guys are thinking about volumes of this point.

Alan Armstrong: Sure. I will take that quickly and then if you have more details, Jim Scheel can chime in. Really the only impact, the gathering volumes and the production available is actually growing pretty rapidly.

And as you saw, the big increase we had in OVM volumes with a 54% increase in gathering volumes in the Ohio Valley area. The real impact was from shut-ins, particularly from producers up in the Susquehanna County area, and some very substantial shut-ins that are due to lack of infrastructure availability.

We hear the term gas price there, but in fact really, the problem is not the gas prices, they were enjoying it $2.70 gas price up there they would be pulling everything they could. In fact, with all the constraints and lack of take away infrastructure right now, they are not getting that kind of pricing level.

And some of those big producers start to [hit] against themselves, so they put additional supplies into the market. And so they are taking actions to curtail that production.

In fact, continue to develop the reserve, and are making ready for when these big pipeline projects like Leidy Southeast, Constitution and Atlantic Sunrise come on up there. There are some big volumes, and big gas purchase contracts that we'll stand behind those.

They are ready, their availability to deliver against those obligations. It is just about that simple. The rest of the business, the Northeast volumes are like I said, OVM volumes are doing very well and the Utica volumes are doing well. As well on the joint venture operations that we have there.

Jeremy Tonet: Great. Thanks for that. Just a follow-up on the Northeast. You had outlined some of the cost savings that the access merger have brought into the fold. I was just wondering if you might be able to talk a little bit more about the commercial synergies that you might see.

During the analyst day you talked about the specific hubs there, and opportunities related to that. Are there any further thoughts as far as what commercial, joint commercial opportunities could occur with the after the combination?

Alan Armstrong: Sure. You know a lot happening there. Probably the most obvious and easiest to talk about is in the OVM in the Ohio Valley Midstream Area, where Access is North Victory Systems hits just to the north of our OVM system, and extends the reach there. As well, the ACMPs teams' capabilities on building out the gathering systems and the compression modular compression to attract those volumes is well known by producers in the area.

We have a really big list of producers that we are working with right now, that leverage off of the combination of those existing a ACMP systems feeding in OVM, as well as the expansion of those systems into new acreage that has been taken up there. A lot happening on that front. It really boils down there within OVM, it boils down to the expansion, and the reach of our system just got a lot bigger into the OVM processing and fractionation complex.

In addition to that, I would mention the two other things. First of all the Utica Dry is really starting to hit some people -- far exceed, especially our expectations I would say, in terms of the potential of those reserves in production. And we are extremely well-positioned there on capturing the Utica Dry business.

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So again, the reach of the access system that is in the area along with the OVM system is powerful in that regard. Finally, the joint ventures between the Blue Racer Midstream business and the UEO system. Both are very well positioned on the Utica, and are enjoying growth there. Of course, we are looking to find ways to combine those systems in a way that provides a super system for the area. We think we are extremely well positioned to bring that about.

A lot happening there, that really is the combination of the historic Access assets and the historic Williams assets. Backup a couple years from now and look at this very impressive coverage of the area. In terms of being able to offer producer services on both Utica Dry but Utica Wet and the Marcellus Wet. And particularly where those things crossover. A lot happening there, and we could not be more excited about the number of opportunities that are coming at us right now in Jim Scheels' area.

Jeremy Tonet: Do you see more opportunities to of take advantage of that liquids production, extending your footprint further downstream?

Alan Armstrong: A lot of great projects out there. We are certainly working with our producers who control those liquids to try to find the right opportunities. Certainly are encouraging that infrastructure to get built on the downstream side.

From our vantage point we are looking to try to encourage the development of that infrastructure. But it is really our producers volumes, and they will be the ones that need to speak for the support of those projects.

Jeremy Tonet: Great, thanks. One last one if I could. With regards to Geismar how close will 3Q 2015 be to a complete full quarter? Is the O&M run rate in 2Q, is that a good run rate for the segment?

Alan Armstrong: Let me have John Dearborn take that.

John Dearborn: As Alan mentioned, we made about 5.27 million pounds per day on Tuesday. That would be a pretty reasonable rate to expect, because we've been able to demonstrate that for reasonably long periods of time. In excess of a week through this past several weeks as we brought the plant into full operations. We are very encouraged with where we are today.

That is a fair way to look going forward. The one thing to take into consideration on the O&M numbers is we did face a rather substantive power failure power during the second quarter, which would have seen some higher O&M costs.

I'm going to venture to say someone in the range of about $6 million, to repair furnaces which were unexpected. Those furnaces, it's a pretty normal thing, when you face a significant power outage that you have to going to repair the furnaces. That's what takes time. And it took some money in the second quarter.

Jeremy Tonet: Great, thank you for all the color.

Alan Armstrong: Thank you.

Operator: And next question comes from Craig Shere of Tuohy Brothers.

Craig Shere: Morning guys.

Alan Armstrong: Good morning Craig.

Craig Shere: I have one follow-up on Brandon and Jeremy's question in the Northeast and then a couple on commodities. Picking up on the Northeast opportunities, there have been a couple absolutely monster Utica dry gas flows.

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I think one was just reported this morning and in the last week a couple of really big ones. Is there any way to give a rough range of the potential size of midstream service opportunities in the dry gas area out there?

Alan Armstrong: Great question. I will tell you that I think the challenge for everybody up there right now is getting the take-away capacity out of the area. There is no doubt that the potential is there at this point.

I don't think anybody that's involved or engaged in the business up their doubts the potential. Especially, in areas where you already have pads established for the Marcellus Wet, and even some of the Marcellus Dry. The underlying Utica under that and the ability to take advantage of the existing pads, and the existing infrastructure to bring that production on, is where we think a lot of that big production will come on when there is an adequate call for it by the market.

As we sit today, the market, the supply side is desperate to see those expansion projects come online on the gas take-away side to be able to alleviate that. I think that is really the curtailment if you will right now that will stop that from going gang busters. But it is impressive, in terms of the opportunity for us, we have got a multi-billion dollar opportunities right now.

That we are looking at in terms of expansion of our systems up there. A lot of which is driven by both the Utica Dry and where it overlays with the Marcellus Wet. We've got very far along in the negotiations. As I mentioned earlier, that is really where you ought to start to see our growth come from, in terms of our potential projects. Besides the Transco demand-side, you also should expect some of that business that was in the potential start to move into the guidance. As we start to close up on some of that business that is out there in front of us.

Craig Shere: Great. That is helpful. And then on the commodity side. A couple of related questions. First on the $150 million EBITDA guidance change relating to commodity price deck, can you roughly split that between Geismar (inaudible) and all other. And elaborate on what you are seeing is drivers right now for (inaudible) into 2016? Are you still seeing, or expecting a least a couple cent premium to Bellevue there? Then the final thing, on new projects relating to commodity issues. Any updates on PDH or Geismar Two?

Alan Armstrong: That was a lot of questions Craig.

Craig Shere: Sorry.

Alan Armstrong: Let me -- I can take the hundred and $150 million change a commodities since our February, we should have guidance in February based on the price a look at that time. Something under $60 million was olefins. The balance was in NGL margins. And curtailment's (inaudible) related curtailment.

Craig Shere: I got you…

Alan Armstrong: That is certainly the big number was on the NGL piece and then the Geismar piece which is really behind us now. The PDH and Geismar 2, good late progress really on both of those projects. And both in terms of putting the finishing touches on the contract for the polypropylene at PDH.

And we do expect to be bringing that forward here in August, for the board for further consideration on that project. Things are actually improving on that project in terms of as we have started to get in quotes for a lot of the big equipment for that project. We are really excited about the way that is going right now.

On Geismar 2, very strong interest from two parties that we have narrowed that down to. I would say that we are into some serious diligence now, with one party in particular, at this point. I think very serious interest on their part and our part, in terms of going ahead with the Geismar 2 project. Really great

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progress on both fronts.

Craig Shere: Great. And I'm sorry I threw a barrage at you. The one additional item, I just noticed that with 2015 [dead] coming down but 2016 unchanged, I think there was over a 30% increase in expected crack spreads. I was wondering if you could give additional color around drivers that you are seeing into 2016 at Geismar?

John Dearborn: I think there were couple of things. Let me take that one third in line. First, to add to an earlier answer that I gave that that power outage that we faced, was related to a utility power failure to our plant, so that was not inside our plant. It was rather the supply to the plan to took the plant down, totally unexpectedly, and in a very significant and severe manner.

Second, you had asked about premium to Bellevue I believe. And now with {Evanteline] running, with us running, that premium has essentially fallen back to more normal levels in the $0.01 to $0.02 range. Though remember, that Louisiana is a thinly traded market.

And so you don't get every day visibility into what that premium is. Also, remember that our customers have a call on about 80% of our production. So we have only available to us about 20% sell into the stock market. And coming through the second quarter, certainly through June and in July, we have been satisfying our full contract requirements to our customers.

So selling essentially all of our volume at contract. There have been some diminimus volumes that we have sold into the stock market. Only when there are some discontinuities between what our customers needed and what we were able to produce. Now that I've gotten through those two, somehow I've lost track of what the third question was.

Alan Armstrong: It was the 30% increase in crack spread.

John Dearborn: The 30% increasing crack spread. Thanks. Looking at this year, I think earlier in the year we were saying that we saw inventories rather low in ethylene. And that we could expect some demand growth and we could expect perhaps some disruptions in supply that might drive to a tightness in ethylene that would help improve that situation. We have not seen that materialize quite as yet in this year.

But certainly, as time passes into next year and subsequent years. Up until a time when the new crackers come on, you expect that continued demand growth, and of course recoveries of international markets and the like that might be hampering volumes these days, would result in some strengthening opportunities for margin growth. I think that is what we see behind the future there.

Craig Shere: Great, thank you very much.

Operator: We will go next to Ross Payne of Wells Fargo.

Ross Payne: Hello how are you doing gentlemen?

Alan Armstrong: Good morning.

NEW SPEAKER: Good morning. A couple of quick questions. Could we get a rough debt number or debt number for WMB or WPZ? Secondarily, thanks for the guidance on the fee-based from [2005] - 2017.

Can you give us a rough estimate of what fee-based is currently for the company? Then third, you know I was going through your press release. Can you talk about the profits that the Geismar is currently generating? Or what it was maybe in the second quarter? Thanks.

Don Chappel: Ross this is Don Chappel. The debt numbers are in the 10-Qs that we filed this morning. I

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will try to grab something real quick here for you. Again we filed the Williams and Williams Partners 10-Q this morning. All of that detail is out there. Long-term debt this is at Williams, $21.285 billion.

Ross Payne: Great. I'll check the queue on that.

Don Chappel: Okay great thank you.

Ross Payne: On the fee-based?

Don Chappel: The fee-based percentage I think for this quarter and for 2015 is going to be in excess of 90%. I think somewhere in the 92% range. Given that Geismar was down for portion of the year, and kind of where commodities are. We are estimating or forecasting the fee-based percentage to be just a little below that over the three year period, 2015 through 2017 at about 89%.

Ross Payne: Okay. The Geismar profits?

Don ChappelO: I don't think we disclose to be specific Geismar profits, but we did indicate that there was $50 million of gross margin for the quarter.

Ross Payne: Okay. All right. When I'm looking at the press release and it goes over the Geismar incident adjustment of a negative 126%, how do I think about that?

John Dearborn: That was business interruption and insurance proceeds. Again, a year ago the plan was down, but we had business interruption insurance, and we estimated that during the second quarter of last year that we had a right to about $122 million.

Since that date we have collected, we had a $500 million policy. We had losses, property losses, approaching $70 million. With just a little over $430 million I believe of BI, we have collected more than $420 million. We have a claim for $20 million that is open, that is still being negotiated with an insurer. But again the vast majority of our insurance claim has now been paid.

Ross Payne: Okay. Looking at this it look like it was 96% in the second quarter 2014, and then swung to a negative 126% for the second quarter of 2015. So..

John Dearborn: Again there's a difference between GAAP and adjusted. So for GAAP, for financial statement purposes we record the cash, the insurance proceeds when we have a signed settlement agreement with the insurers, or we actually receive the cash, for adjusted earnings. We in fact accrued it based on our expectation of collection.

Alan Armstrong: John Dearborn from Investor Relations can walk you through -- John Porter excuse me. John Porter in our IR shop can walk you through the GAAP to non- GAAP numbers.

Ross Payne: Okay. Thanks. Just one more. Do guys know the timing of when your strategic review will be complete? Thank you.

Alan Armstrong: There is no timing announced.

Ross Payne: [All right. Great. Thanks guys.

Operator: We'll go next to Timm Schneider of Evercore.

Timm Schneider: Alan, when we spoke in April, I think you were saying this was the earliest time you guys had locked up all of your Conway storage and rail racks for some of the Northeast NGLs. If you look at some of the EMP numbers, realizations were pretty awful.

How do you guys see that shake out as we get into the [shoulder] season of 2016 right? Q2, Q3 without

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really any incremental export capacity slated to come on until the end of that year? And what impact that is going to have?

Alan Armstrong: Timm, great question.

Certainly one that a lot of people should be paying attention to obviously. Even though there is not any new export capacity coming on, there is, as you know that has not been fully utilized. The limitation there has been on ships, having the capacity to carry that out. That is kind of the next bottle neck, if you will for the industry to face.

Keeping a close eye on the availability of the shipping capacity to get out of the exports is probably the next thing to keep your eye on in terms of opening the markets up. Other than that, you know I don't really see much changing here domestically, in terms of either storage capacity or railroading capacity. Everything that can move and store NGLs right now is in full utilization. Building up behind the next bottleneck, which as I mentioned, in this case is the export capacity getting the shipping capacity available to them. That is the next thing to keep our eyes on in here for the shoulder month. But certainly don't see any near-term big relief here. We are probably three or four months out before we start to see (inaudible).

Timm Schneider: My follow-up is, you know obviously I saw your large proposed merger transaction up in the Northeast with two of your competitors. From your standpoint, how does that change the competitive landscape in the Northeast in terms of competing for projects and whatnot? How do you guys see that from your perspective?

Alan Armstrong: I don't really expect a whole lot of change. I think from our perspective we are pretty excited to see Marathon bringing you know their business, and they have always had and interest and are very well positioned to take care of a lot of the heavies, and the condensate in the area. I'm really excited to have them engaged in bringing take-away solutions to the area. That is kind of a net positive out of it.

In terms of competition, I think you know we've got such major acreage dedications already to us and it's a matter of getting the take-away capacity coming online for the Northeast. Now even for the Wet Marcellus and the Dry Utica. That will be really the drivers there, is that capacity coming online.

And then we will be in a position to provide a lot of supply infrastructure to handle that as those markets open up in the future. I really see that as really the determinant up there. More than the competitive landscape.

Timm Schneider: Okay got it, thank you.

Alan Armstrong: Thank you.

Operator: We will go next to Sharon Lui of Wells Fargo.

Sharon Lui: Hi, good morning. Just a quick question for John. Perhaps maybe you can just talk about your outlook for NGL pricing up in Canada? How maybe the recent weakness could impact I the returns of some projects coming on the back half of this year?

John Dearborn: That's a great question and perhaps I can take it on by giving you a little bit of background on how we make money there. It is important for us all to remember that we make money on the spread between gas, and what is substantially an olefin stream. So we make money between gas and propylene and gas and [acolit].

Of course, we are protected on floor price on our ethylene production up there in Canada. So really the

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substantive exposure that we face, that certainly causes us concern, is on the NGL portion or the out [cane] portion of that production. And certainly, today propane is not returning a [keep] value. So, therefore it is one product that not making money for his up in the Canadian pocket right now.

We are just looking for opportunities where we might be able to mitigate that situation. We have not found it yet, so I do not have a clear solution for you yet. We have found a way to deal with the heavier part of that barrel, it's making money now.

And all of the rest of the parts of barrel are making money. If you think about the pocket in that way I think you understand that we are still contributing income in Canada despite the NGL difficulty.

One last point though, and that is the stranded nature of that propane up in Alberta, does substantiate our thesis on why we think the PBH and the creation of a demand center in Canada creates a value-added project and a sustainability advantage project into the future.

Sharon Lui: Do you see any potential catalyst that would decrease that propane oversupply in Canada?

John Dearborn: Well if you mean by catalyst, a process that uses a catalyst to convert the propane into something else? I'm sorry.

Sharon Lui: Or maybe a project that would alleviate the oversupply situation up in Canada? LIke any drivers?

John Dearborn: The only thing that we occasionally see through is, whether [coaching] whatever reverse it right now the [diluin] is needed up in Canada. In the absence of another large pipeline that traverses rather long distances, to move the propane to the Midwest or somewhere else in the United States. I think it is very hard to imagine something that is going to alleviate the situation on propane.

Sharon Lui: Okay.

Alan Armstrong: I would just say, Sharon -- and certainly we have our eyes on that and as John mentioned -- there are ways that we are looking to help mitigate that. Part of that is to getting the propane back into the fuel markets. If you think about that where there are big strata plants that are extracting propane.

Our facility extracting propane. The simple way is to get those propane barrels back into the gas screen where they came from in the first place, in the most part. You will see moves on people's parts to start to get a lot of that propane back into those streams.

Sharon Lui: Okay. A follow-up, how should we think about the near-term returns on the Horizon investment?

Alan Armstrong: In the near term, while NGL prices are still where they are, I'd suspect they're probably going to fall a little bit short of where we would expect long-term returns to be. On a volume perspective, think of Horizon is being about a third of what we are doing in [Suncorp] for today. I think that gives you a view on both the margin and the kind of volume.

Just to remind you, on that Sharon, the bulk of the income on that asset really comes off the propylene and the butylenes. And then the fee-based contract -- contract with the ethane already embedded which gives us a margin on the ethane and ethylene. That's really where the bulk of the value comes from and the propane stream, even though it is very depressed right now, is certainly has not been and probably is not expected to be a big contributor to value in the future.

Sharon Lui: Okay, that's very helpful. Thank you.

Alan Armstrong: Thank you.

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Operator: Our final question in queue comes from Chris Sighinolfi of Jefferies.

Chris Sighinolfi: Hello, good morning Alan. Thanks for the color this morning. I have a few questions or comments I promise to be quick. First, following on Shneur's inquiry about the relationship with Chesapeake.

Just wondering, he was speaking specifically or inquiring specifically about MVCs. More broadly about the [counter party exposure] you have to them. There's obviously been some visible setbacks for them the last couple of months.

Within the context of that have you tempered at all your expectations for the cost of service growth in the Northeast? I know your guidance in aggregate remained unchanged 2015 to 2018. Was there any movement within that on cost of service efforts given CapEx head winds potentially? And then related, any recent conversations with them about the mid-stream contracts you have with them? Any effort to renegotiate? Do see that as a risk?

Alan Armstrong: I will take a stab at the broad relationship and the contract discussions, and I will ask Bob Purgason to speak to the cost of service expectations in the Northeast and broadly. First of all, on a broad level, I will just tell you we continue to enjoy a very good relationship with Chesapeake.

We're very impressed with their responsiveness to the situation that they are in. I can tell you that they continue to work hard, obviously they announced an asset sale in the quarter. They continue to look for opportunities, and we will continue to be constructive and work with them where we can on that. I will just tell you again I remain very impressed and very confident in their actions to put themselves in a position to have the right capital focused on the right assets. And I am confident that they are going to be able to do that.

In terms of restructuring, certainly, they take the lead on that and we try to provide support and find win-win ways where they can add volumes that help offset some of those obligations. And that is the kind of things that we are looking at. And you know I'm not going to get ahead of them on that, but I will just tell you that we are very excited about some of the new opportunities that we can help with where they can bring on new volumes up against existing obligations. With that I will have Bob tried to take the cost of service question.

Bob Purgason: In terms of our cost to service growth there in the Northeast, it is really our Marcellus North area where were adding to compression to continue the support the development there. That's an area where the cost of service contracts are delivering. We will call it a great market fees. You noticed we had a fee reduction in the first quarter, and it was related some -- one it part of it was related to fee reduction in the North area due to the high volumes that drive that fee lower. So we continue to see that.

In our Utica area, which is cost service as well, continuing to expand compression there to support really great Wet Utica results that you are also seeing show up in our UEO in volumes. We still see, particularly those Northeast contracts, as good strong pieces of our portfolio. And also look to be good in Chesapeake's activities as well.

Chris Sighinolfi: Okay. Great, thanks a lot for that color. Sticking on the Northeast, and this is a follow-up to Craig's question about the monster dry gas (inaudible) we have seen recently.

From a gathering perspective, can you address those types of wells or pads with the same type of infrastructure you have been using? Or is it a concentrated magnitude of production from those wells going to alter how you have to service them? And does that have any ramifications on either the type of return or the profile of return you might see gathering for such well?

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Bob Purgason: Certainly already having the right-of-way and the infrastructure in the area, as you know, in a lot of our OVM area we have a loop system so we have one line that we can dedicate to rich service, and one line we can dedicate to lean service. Having said that, the kind of size of some of these wells that are being hit, are obviously going to require some massive expansion of those systems.

Having the right-of-way established and having the interconnects into multiple take away pipelines, is going to be what is valuable. That is exactly how we are positioning ourselves out there. If you think about it, an existing pad up there is almost like -- and sometimes I think it is even more so the case. It's almost like an offshore platform because (inaudible) getting a flat spot and having a road into it, and having pipelines into it, in that very difficult terrain up there, is really a precious piece of real estate.

That's where you will see the development a lot of that Utica drive. Particularly in the northern part of West Virginia there. We have the pipelines into those locations, and the right way into those locations, and I think we will be very successful in continuing to pick up those volumes as they come on there.

You are right, the existing infrastructure to the degree that we get take-away capacity established out of the area, and by that I mean long haul pipeline. Long haul interstate pipelines established in the area. The existing infrastructure would be overwhelmed, if the producers started going after drilling plan in those areas. Because there is so much productivity. Obviously though, the productivity is going to have to stay in check with demand in the market.

Alan Armstrong: It's a great example of where Access and legacy and the Williams fit together. This initial wave of development is going to be used existing plumbing to the extent with proximal pipelines and or rights-of-way we can give near-term service. Then we can wait for this big take-away opportunity, which will create a whole new wave of large infrastructure investment to meet these big wells. We are positioned well to capture that business, and give near-term service to those who want to produce dry wells given their economics.

Bob Purgason: I think one of the interesting elements of all of this big Utica dry gas that may or may not be obvious at this point, is that it will really provide a lot of blending capacity into the gas pipelines. If you think about this concern about the ethane recoveries, and ethane take-away all of this big dry gas really provides a lot more capacity to put ethane into the long-haul pipeline and still meet gas specs.

Ultimately, what that means is it somewhat could help solve the storage problem or ethane feed into some of the big crackers that are being developed there.

Because in effect, the gas pipelines becomes that storage element, and if there's a problem with the cracker for or the gas, the ethane just goes in the gas stream but still stays on specs. That's actually one of the really interesting developments from our perspective, coming out of this big Utica Dry volumes that we are seeing show up.

Chris Sighinolfi: That's a great point, Alan. My final question.

You mentioned take away from the basin. I just wanted to follow up with you quickly on Constitution. I think at the time of your analyst day you were waiting or hopeful for a (inaudible) permit in June. I know that did not happen but I was just curious for an update on where the regulatory process for that project stands? I realize it's not a huge CapEx item for you in the greater context, but when we think about effect on the basin take-away I'm just curious for an update.

Alan Armstrong: We have been working very closely with the DEC, and are excited and very optimistic about where we stand and hope to see a permit very soon.

Chris Sighinolfi: Is there a point at which -- is there point at which it has a cascading effect on the time

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when the you put forward for in-service? Are we anywhere near that (inaudible)?

Alan Armstrong: Right now we feel good about the dates that we put out there for getting that finished by the end of 2016, and so I think right now we feel pretty confident in that. And feel like we have got a good path to get that done. There are certainly some tight windows that we will be pushing through here. We hope in the very near future. We remain confident as we sit here today.

Chris Sighinolfi: Great. I appreciate it. Thank you for taking my question.

Alan Armstrong: Thank you.

Operator: That concludes the question and answer session for today. I would like to turn the conference back over to Mr. Alan Armstrong for any additional or closing remarks.

Alan Armstrong: Thank you all for joining us today. A really tremendous amount of fee-based revenue growth that is coming on. Excited to have the Geismar expansion behind us, and having that up and running. And really excited about the way the execution is going on these major projects that are out in front of us.

And we are going to continue to march our fee-based revenue growth up 17% in the first quarter growth, 17% here in the second quarter growth and we are just going to continue to see a big march as these projects come on. I appreciate your involvement in the company and we look forward to updating you on our shareholder value propositions as that becomes available. Thank you.

Operator: This does conclude today's conference.

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