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The Williams Cos., Inc. (WMB)

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to The Williams and Williams Partners Second Quarter 2017 Earnings Call. At this time, for opening remarks and introductions, I would like to turn the call over to Mr. John Porter, Head of Investor Relations. Please go ahead, sir.

John D. Porter
Head-Investor Relations, The Williams Cos., Inc.

Thanks, Felicia. Good morning, and 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. These items include press releases and related investor materials, including the slide deck that our President and CEO, Alan Armstrong, will speak to momentarily. Joining us today is our CFO, Don Chappel; and our Chief Operating Officer, Michael Dunn.

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 with Generally Accepted Accounting Principles, and these reconciliation schedules appear at the back of today's presentation material.

So, with that, I will turn it over to Alan Armstrong.

Alan S. Armstrong
President, Chief Executive Officer & Director, The Williams Cos., Inc.

Great. Well, thank you, John, and welcome, everyone. I'm going to keep my remarks fairly brief this morning, so we can move quickly to your questions.

I'd like to start by thanking those of you who attended our recent Analyst Day event. Really it was great to reengage a lot of folks, and to lay out our solid plan for Williams. And of course, we've chartered to deliver on this low-risk, sustainable growth, and a very focused and clear strategy that we continue to execute against.

I was also pleased to introduce our new COO, Michael Dunn, at Analyst Day. He's really hit the ground running, and is making a big impact on our operations through his commitment to execution and accountability across the organization.

Within Michael's organization, we've recently announced the appointment of Frank Ferazzi as Senior Vice President of Atlantic-Gulf. And Frank replaces Rory Miller, who announced his retirement earlier this year. And of course, Frank's previous role was running our Eastern Interstate. So we've got a nice continuity there of leadership in that area.

More recently, we've added another key player to our leadership team. Chad Zamarin came on-board as Senior Vice President of Corporate Development in late June. And Chad joined us from Cheniere and is focused squarely on the opportunities and larger strategic initiatives that we can drive from an enterprise level. So, really excited to have Chad join us here and his energy level, and he's got a lot of wood to chop and he's getting right after it. So, excited about the new energy we've got here at the senior leadership team.

We're also pleased with our efforts to drive costs out of the business, continually improve our project execution, and we've made some strides on further improving our operational safety metrics.

On July 6, we completed the sale of Geismar to NOVA Chemicals. That sale, along with the sale of Canadian assets last year, removed a significant amount of commodity risk from our business, as you're well aware, and we now stand at around 97% of our gross margins coming from predictable fee-based sources that are aligned with natural gas volumes.

This move also allows us to streamline the support services around the organization, as we really have narrowed our lines of business and we continue to grow scale within these fewer lines of business. So, a lot of opportunity that we're seeing to really get focused on the natural gas, transmission, gathering and processing side of the business, and getting some of those businesses that were more ancillary to that really does allow us to narrow the services that we provide around the organization.

We did use a portion of the proceeds in the quarter to pay off – or sorry, just more recently here, to pay off our $850 million term loan and, of course, further strengthening our balance sheet, which we made tremendous progress on here in the last 12 months. The team executing on the Geismar sale did a great job, and really want to recognize their tremendous efforts, really excited about the way that transaction was executed by our team.

We're also crisply executing on our 2017 project commitments. You'll remember we talked about our key five projects that are coming online in 2017, and of course, that was Gulf Trace, Hillabee Phase 1, Dalton, New York Bay and the Virginia Southside II project. We're chipping away at all these important projects. As you know, Gulf

Trace came into service in the first quarter and Hillabee Phase 1, which provides all of the supply for Sabal Trail, came online in early July.

And then, just this week on August 1, the Dalton capacity was placed in service to serve Northern Georgia markets from supply points at the northern end of Transco. So, really an exciting project there and that we're really starting to now provide capacity moving toward the northern end into these growing southeast markets. And so more of those to come, but really excited to see that project come online.

Our line of sight to future growth is evident as we target the second half of 2017 and the in-service dates coming up for Virginia Southside II, New York Bay, and also we'll get Garden State Phase 1 in this year as well it looks like.

So, in summary, if you kind of think about the $1.4 billion roughly in projects that we were going to be placing in full service, about 20% of that came on in the first half of 2017 and now another roughly 55% in this July, August timeframe. And then, of course, the balance of that will be in the second half of 2017. So, great job by our team, that does take a lot of work that's been going on to execute on that with plenty of resistance in a lot of these areas, but team's doing a great job of executing in face of that.

So let's look at the results for our second quarter of 2017 now. We met or exceeded our business performance expectations in all three remaining businesses and although the results were somewhat offset by Geismar's continued outage and lower margins. In fact, the go-forward business, which excludes the NGL & Petchem, was up 6.6% over 2Q of 2016 on an adjusted EBITDA basis.

As you probably know, we will not have any continued operations or assets to be reported in the NGL-Petchem sector, other than what will come through in the third quarter here, as we wrapped up the closing for Geismar in third quarter. So, really the go-forward, you'll see those three business units and just kind of the tailings of the NGL & Petchem business there.

Looking first at our GAAP results. WPZ delivered $320 million in net income in the second quarter. And once again, we demonstrated the long-term benefits of our strategy as we delivered year-over-year growth on our adjusted EBITDA measure for now the 15th consecutive quarter. So, a very nice drumbeat we've got going there and we've got confidence in being able to continue that for many quarters to come.

WPZ's adjusted EBITDA of $1.1 billion was a $39 million increase over 2016, primarily due to increased fee-based revenues and an increase in proportional EBITDA from joint ventures. Distributable cash flow for the quarter was $698 million, which was down over the second quarter of 2016, primarily from the planned removal of $58 million in non-cash deferred revenue amortization associated with our fourth quarter 2016 contract where we restructured the Barnett Shale and some of the Mid-Continent region business as well. This is nothing new. We mentioned this reduction on our last quarter's call as well. But just to remind you, that amortization is flowing through our EBITDA but we removed it on the DCF.

Importantly, the WPZ coverage for the quarter came in at 1.22x and this put us at 1.27x for the year-to-date. The cash retained due to this healthy coverage supports further investment in our leading growth portfolio.

So now we'll take a look at each of our segments. We'll start with the Atlantic-Gulf where continued strong performance, coupled with expected growth for the balance of the year, gives us confidence we'll achieve our prior guidance on both adjusted EBITDA and DCF.

And our adjusted EBITDA for Atlantic-Gulf came in at $462 million, an increase of around $94 million, or almost 26% over the first quarter of 2016. The increase was primarily driven by an $88 million higher fee-based revenues coming from increased volumes through our Gulfstar One due to the Gunflint Tieback, which happened in third quarter of last year, and stronger volumes from Tubular Bells, and of course, other Transco expansions that just keep coming online and into service, and the steady drumbeat of those projects.

This really is another proof point of our ability to deliver predictable sustained growth from markets along Transco, and further demonstration of our leading position out in the Gulf.

In the West, gathered volumes were up approximately 4% versus first quarter of 2017, after we adjusted for the Marcellus-for-Permian transaction. So, after taking the DBJV impact out of there, that gives you that 4%. The seasonal issues experienced in the first quarter this year have lifted, and we continue to place a sharp focus on cost and operational discipline throughout our western operations, which now includes what was previously the central area as well.

For the quarter, our adjusted EBITDA came in at $372 million, down versus 2Q of 2016, primarily due to the Barnett and Niobrara contract restructures. And the Niobrara, that contract restructure really just affected how we record revenues in the Niobrara, and then the DBJV sale and our lower volumes in that area. The declines were partially offset by a $14 million reduction in O&M and SG&A expenses. So really proud of the way the team continues to really push on their cost in the West.

And now going over the Northeast G&P, where volumes increased in our Susquehanna and Ohio River Systems, but declined on our rich Utica Systems compared to 2Q 2016. We talked last quarter about being in an inflection point on the Utica volume increases, and we continue to expect to pick up through the rest of the year. Specifically, we have seen pretty dramatic [ph] clines (11:34) in the wet Utica over the last five quarters, but expect the Chesapeake rigs to move back in and to begin to offset previous decline later this year and into 2018.

So, quite a bit of movement going on within the Northeast and even within the Utica zone. But I'll remind you relative to the wet Utica that, while we have confidence in the wet Utica volumes coming back here, as we are seeing the activity picking up, if they don't return, our fees would increase, because those wet Utica volumes are under a cost of service agreement.

And so, even though it's starting from a much smaller base, we have already seen strong and expected growth in the dry Utica. So, remember, we have two basic systems there. We have the Cardinal system that takes in the wet Utica volumes, and then we have what we refer to as our Flint system that is the dry Utica. The dry Utica has seen some really fast growth going on, but it's from a much smaller base.

But the wet Utica has not had the benefits of any drilling for a long time. So it's pretty interesting to watch in these basins, where in some areas, we're still enjoying DUCs and, in an area like the wet Utica, we're really seeing what the raw decline really would look like. And I would tell you, I think that is an interesting macro picture for people to pay attention to.

It's also important to remember that infrastructure constraints continue to limit the Northeast volume growth. And certainly, we're anxious to see a lot of these big projects come on, because we really think that's going to unlock a tremendous amount of growth. But we do see here in the third quarter – we've seen some pretty soft pricing in the third quarter, and certainly that could have some short-term impact and really cap the growth in our volumes here in the short-term.

But overall, for the second quarter, Northeast adjusted EBITDA increased $26 million compared to the same period last year. Increased Bradford ownership resulting from the DBJV sale primarily drove the increase, with Marcellus volume growth offset by rich volume declines we talked about earlier. Fee-based revenues remained relatively stable through the period.

I'd also like to just comment kind of a little more forward-looking on this. Our teams are having great success on the commercial front, which I would tell you is following from a great operational performance in terms of reliability in the Northeast. And we're really excited to see what the next 12 months hold for this area that is poised to grow rapidly. And I would tell you, it's looking like we may be able to pick up more than our market share of that growth as we look forward, given the great performance by our team up there.

As we go now to NGL & Petchem Services, the second quarter adjusted EBITDA was affected by the unplanned downtime at Geismar in the March-April timeframe we discussed on last quarter's call, as well as a modest reduction in per-unit margins due to price movements on those products there. The Geismar transaction, as I mentioned, closed on July 6. So there is no gain on the sale in this quarter's result, but we expect a $1.1 billion gain to be recorded in the third quarter.

So now let's move on to the next slide and take a quick look at our year-to-date results. We delivered GAAP net income of $954 million with adjusted EBITDA of over $2.2 billion, up about 4.5% compared to the same period in 2016. The year-to-date 2017 segment results generally reflect the same drivers we saw in the second quarter. The only primary exceptions I would point out there is the typical seasonal issues that we see on big systems like Transco, where we have short-term firm that we sell as well as interruptible volumes that flow on those system. Relatively small compared to Transco, but we do see some fluctuation there.

That is very typical, and you can go back and look at any quarters, previous first quarter to second quarter, and you'll see that movement. And also our West volumes, which we were pleased to see rebound from the first quarter after some freeze-offs in the Western operations.

Coverage at WPZ came in at 1.27x on the back of $1.45 billion in DCF. And this solid coverage, which excludes the $116 million of revenue amortization, continues to grow and provide solid coverage that we can reinvest.

So now let's look at some of our executional highlights for the second quarter. I've already touched on the first couple of projects here. And obviously, the Geismar sale was significant. But another area I'd like to emphasize is our growth in the Gulf.

It's important to remember the strong competitive position of Atlantic-Gulf's offshore assets, which really showed up here in the second quarter and some new volumes and some new business that we contracted that came on. And we continue to make progress on Atlantic Sunrise, where construction continues on the mainline facilities, and we will see early mainline service revenues this September.

Assuming timely regulatory approvals, we expect to hit our target in-service date of mid-2018. And with respect to completing the entire project, the long lead item is the greenfield compressor station work. As we've discussed in the past, the majority of the takeaway capacity could be available once the pipeline is in service, even if the greenfield compression isn't in place. And so, that's really going to be a big game-changer in the area as we bring on what we refer to as the Central Penn Line in the area.

And in fact, we're in the final phases of permitting for the Central Penn Line, which is all in Pennsylvania, and our team continues to work cooperatively with PA DEP, with Pennsylvania Department of Environmental Protection, and other agencies. I would tell you, we've got a very good relationship there and we have worked hard to meet their very stringent and careful requirements. I would tell you, PA DEP has been extremely cautious, as you would expect, in the environment they're operating in. But we found them to be very professional and diligent in their efforts.

For all of our projects and operations, we try to differentiate Williams from our competitors in the way we listen to our landowners and the public, and work hard to understand their concerns as well as the regulators. And we think, over time, this trust that we continue to build pays dividends as our pipelines are going to be there for a very long time and we understand that, and we go into it with that attitude.

In fact, we just finished a public comment period and a round of public hearings for Atlantic Sunrise in Pennsylvania, in which a tremendous number of people stood up to support our project, including people from labor unions, business, manufacturing as well as local elected officials.

To be sure, there is some opposition to the project, as you pick up in the media, but we know the majority of Pennsylvanians understand how important natural gas takeaway capacity is to the future of the commonwealth there.

In addition to our project, our progress on Atlantic Sunrise in 2017 Transco projects, as we've discussed, our Northeast Supply Enhancement project is progressing as expected as well. And in the West, we expect to place two gathering expansions in service for this year at the Wamsutter and Haynesville spaces. So, nice example of high incremental returns in those areas where we've got a very strong presence already. And so, nice to see some increased volumes to be coming on in those areas.

Our Northeast G&P team is also working hard to place expansions in service by year-end. That will allow Cabot to meet its commitment to Atlantic Sunrise and other new takeaway arrangements that they had reported on.

So, as I wrap up, I'd emphasize we're pleased with where we are here in mid-2017, and especially on our project execution, our solid performance and focus on execution this year, positions us very well going into 2018, and especially with the high incremental return projects we have coming down the pike in both the Northeast and now the Haynesville and Wamsutter fields. We're able to fund our growth within a very comfortable credit metric, along with our retained cash flow.

So, in general, I would tell you, the U.S. really has a tremendous competitive advantage because of our abundant low-cost natural gas supply. Williams' advantaged position between these abundant supplies and growing natural gas demand is continuing to deliver tremendous growth prospects with better-than-industry average returns.

Our employees across the country are very passionate about driving value and building Williams for the future and doing it the right way. And on a personal note, I'm really pleased with the significant contributions of our new leaders are making here, as we continue creating low-risk, predictable growth for our shareholders.

So, with that, I thank you, and we'll turn it over to the operator for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] We'll go first to Jean Ann Salisbury of Bernstein.

Jean Ann Salisbury
Analyst, Sanford C. Bernstein & Co. LLC
Q

Hi. Good morning. Can you just remind us of the major permits to watch for for Atlantic Sunrise to be on time for Phase 1 and Phase 2?

Alan S. Armstrong
President, Chief Executive Officer & Director, The Williams Cos., Inc.
A

Yeah. Sure. I'll have Michael Dunn take that for you.

Michael G. Dunn
Chief Operating Officer & Executive Vice President, The Williams Cos., Inc.
A

Good morning. Right now we're looking at three primary permits to finalize the permitting process. One is the 404 permit that the Corps of Engineers is processing. And the other two are from PA DEP, or the Pennsylvania Department of Environmental Protection, those are 102, 105 permits as they are designated.

All of these are water-related type permits and we've obviously finished all the public comment periods for all of these. And we do expect these permits to be in hand in August and that would allow us to start construction certainly thereafter.

So what would happen after we receive those permits, as we would go back to the FERC and ask for a Notice to Proceed, and at that point, we would be able to begin construction on the project.

Jean Ann Salisbury
Analyst, Sanford C. Bernstein & Co. LLC
Q

Okay. And that's kind of just a one-for-one delay, I guess. So, if that gets delayed by two weeks, then construction start would get delayed by two weeks basically?

Michael G. Dunn
Chief Operating Officer & Executive Vice President, The Williams Cos., Inc.
A

Well, yeah, it would be a day-for-day delay, but we're pretty optimistic we're going to receive those permits here in the month of August. And FERC has been pretty generous in turning around Notice to Proceed requests for the industry fairly quickly. So we would expect to be able to start construction shortly thereafter.

Jean Ann Salisbury
Analyst, Sanford C. Bernstein & Co. LLC
Q

Great. Thank you. And then, as a follow-up, as I'm sure you're aware, there have been a lot of rigs added in the Haynesville since the beginning of the year, which should lead to volumes in the back half. You now get fixed fee on that, right? I'm wondering if the ramp has been more than what you expected in your guidance and kind of more than minimum that you agreed with Chesapeake a couple years ago.

Alan S. Armstrong
President, Chief Executive Officer & Director, The Williams Cos., Inc.

A

They're a little bit ahead. But part of that obligations they have was a certain number of wells turned in line. I would say what's been surprising to us is not the number, but really the performance that they've had on those wells that they've continued to do better and better on.

We do have a new piece of capacity coming on on what's called our Springridge system. And so, that allowed about 150 million cubic feet a day of capacity, and it is needed because there are volumes stacking up behind that. So we're excited to be turning that on here in the very near future and that will unleash some volumes in that area.

So, yeah, we're enjoying growth there and excited to see some of the well performance in that area.

Jean Ann Salisbury
Analyst, Sanford C. Bernstein & Co. LLC

Q

Great. Thanks a lot. That's all for me.

Operator: We'll go next to Ted Durbin of Goldman Sachs.

Theodore Durbin
Analyst, Goldman Sachs & Co. LLC

Q

Thanks. Appreciate the update on Southeastern Trail. I just wonder if you can give us a little more sense of how much capacity you're marketing there, the type of capital you might be deploying, what kind of returns you're looking at on that project, please?

Alan S. Armstrong
President, Chief Executive Officer & Director, The Williams Cos., Inc.

A

Yeah. I would say, still yet to be determined. As we've reported in the past, we've got some very valuable capacity there, a lot of demand for it in the market. And we want to make sure that we get the very best investments around that. So I would say we remain excited. We haven't pinned that down. We do have a binding open season that's going to be closing here as we speak.

But we're going to make sure that we get the absolute optimum value out of that because that incremental capacity south bound within our mainline or brownfield, if you will, is extremely valuable and we want to make sure we get whatever other strategic benefits might come with that. And so, that's what we're working on.

So I would say, very optimistic there, but we're going to be patient in making sure that we get the very best alternatives out of that last easy expansion that we have coming south there.

Theodore Durbin
Analyst, Goldman Sachs & Co. LLC

Q

Okay. That's helpful. And then, you saw an uptick in the West and maybe I just missed the comments on your gathering volumes sort of second quarter versus first quarter. I wonder if you can just give us a little more sense of the drivers there that are sort of offsetting what has been a more of a declining area than a growing area.

Alan S. Armstrong
President, Chief Executive Officer & Director, The Williams Cos., Inc.

A

Yeah. Sure. Mostly, I would tell you, it's just recovery from some of the production freeze-offs in general. But for instance, in the Barnett, we are starting to see – and this is more recent, but we are starting to see Total. Remember, they had a roughly $40 million a year obligation for drilling dollars in the area. They were kind of late to get started on that just because they had a lot of issues to deal with as they took over as operator. But I would say, they're really starting to get after that and we are starting to see some improvement from their investments there. So, Barnett has been a pretty heavy decline area and we're starting to see that be arrested.

Mike, I don't know what other comments you might speak to.

Michael G. Dunn
Chief Operating Officer & Executive Vice President, The Williams Cos., Inc.

A

Well, I would say, across the board, there were improvements in most of those franchise areas in the West, pretty significantly in Eagle Ford, Haynesville, and also the Southwest Wyoming. So we recovered from the problems we had obviously in Southwest Wyoming over the winter and saw a pretty good uptick there.

Theodore Durbin
Analyst, Goldman Sachs & Co. LLC

Q

Okay. Great. I'll leave it at that. Thank you.

Alan S. Armstrong
President, Chief Executive Officer & Director, The Williams Cos., Inc.

A

Thank you.

Operator: We'll go next to Jeremy Tonet of JPMorgan.

Q

Yeah. Hi. This is [ph] Charlie (27:08) in for Jeremy. Just one clarification on the Petchem segment. So there will be just that first week that Geismar was still technically before it was finally sold in that first week of July? And then the RGP splitter, that was sold. Is that correct?

Alan S. Armstrong
President, Chief Executive Officer & Director, The Williams Cos., Inc.

A

That is correct. I think that closed June 30. So, that won't even be in the third quarter.

Q

Okay. Great. And then, just on maintenance CapEx, obviously below the guidance. Just trying to understand on kind of cadence for 3Q and 4Q. Similar step-up that we saw in 1Q and 2Q to kind of hit, or is there – I mean, any reason why you'd come in below that $500 million guidance?

Alan S. Armstrong
President, Chief Executive Officer & Director, The Williams Cos., Inc.

A

Well, I would say we have a lot of work to do, and it's somewhat dependent on our ability to get to that. But we'll be pushing hard to get that done. And so I think, probably the best pattern probably to look at is previous year's patterns. I think that's probably pretty good indicator of the cadence that we have that's driven by both weather and loads on our system. Said another way, we have so much load on our systems typically that we have to be careful when we take them offline to be able to do the work.

So those patterns are pretty well fixed, and really wouldn't expect anything very different in terms of percentage per quarter that we're spending in there. So I'd say that's probably the best guidepost to look at.

Q

Great.

Donald R. Chappel
Chief Financial Officer & Senior Vice President, The Williams Cos., Inc.

A

This is Don Chappel. Just to clarify on NGL-Petchem, you'll see I think, as Alan mentioned, six days of operations of Geismar. You'll see the expected gain on the sale that we disclosed an estimate of $1.1 billion. And then you'll see any other, call it, miscellaneous cleanup kind of changes in reserves, things like that, that relate to that segment that'll dribble in a bit over time.

But really, from an operating standpoint, it's really only six days of operation of Geismar, the gain on sale and then just, I'll call it a dribbling, if you will, of any other adjustments or costs or revenues that might dribble through there.

Q

Great. And then just real quick lastly, during the Analyst Day, you mentioned, within the Atlantic-Gulf segment, the couple of projects that were in negotiations. Just any update there? I believe there was one that you touched on earlier, but just curious on the remainder of those.

Alan S. Armstrong
President, Chief Executive Officer & Director, The Williams Cos., Inc.

A

Yeah. We're not quite ready to announce anything on those. So, lots of expansion work going on – or development work going on. But I'd say, on the Transco system, it's petty complex right now, a lot of opportunities that we're pursuing. But, coupled with Southeastern Trails, we're having to make – again, as I mentioned earlier, we're really trying to make sure we're optimizing, because we understand how valuable these tranches of capacity are.

Q

Great. Thank you.

Operator: We'll go next to Colton Bean of Tudor, Pickering, Holt & Co.

Colton Bean
Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.

Q

Morning, guys. So I appreciate the comments on Atlantic Sunrise and that there's still a few moving pieces to nail down there. But I think, on Q1, you kind of referenced the variance in CapEx guidance as largely attributable to Sunrise timing. So, maybe a better sense of how that progresses through the back half of the year? Can you guys refine that range at all?

Alan S. Armstrong
President, Chief Executive Officer & Director, The Williams Cos., Inc.

A

Well, I would say we're probably – given kind of where the timing is working out, we'll probably wind up closer to the midpoint of that, rather than the low-end or the high-end of it, because we are – the high end would have had us already under major construction, and the midpoint is about kind of what we're expecting, and it looks like that's going to come out. So I would say kind of the midpoint is probably pretty good indicator right now.

Colton Bean
Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.

Q

Okay. Thanks for that. And then, on the West segment, so you mentioned the reversal of freeze-offs seen on the gathering side. We didn't necessarily see that for processing. So is there also a bit of a mix shift going on there, in terms of rebounding volumes on the dry gas basins and maybe more of a flatter trajectory for rich gas?

Alan S. Armstrong
President, Chief Executive Officer & Director, The Williams Cos., Inc.

A

Yeah. Yeah. We did have some shifts at our Opal facility there. We had Ultra, where we reformed the contract there. And then, on LINN Energy, they rejected a contract that we had, that also showed up in the first quarter, but they rejected a contract that we had out there.

We are looking at being able to pick up some volumes in the area, but that really was the change in those. So one shifting from fee to commodity risk, and the other was, we actually lost the volumes there at the end of the fourth quarter.

Colton Bean
Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.

Q

Got it. That's it for me. Thanks, guys.

Alan S. Armstrong
President, Chief Executive Officer & Director, The Williams Cos., Inc.

A

Thank you.

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

Timm A. Schneider
Analyst, Evercore ISI

Q

Hey. Good morning, guys. Thanks for all the color. My question, I guess, is a bit more longer-term strategic. Specifically, if I look at your business model, right, you have obviously the natural gas pipelines which are, I'd say, best-in-breed. Then you have the Gulf of Mexico and Rockies or West gathering and processing.

As you look at your growth CapEx portfolio, I mean, the majority of that is centered around Transco, and it's not near-term, but over the next three, four, five years, what's beyond Transco? Would you actually think Transco is going to be the pillar going forward here as well? Or is there other things that you guys are looking at in the portfolio? Basically it's kind of like, everybody looks at Williams in the context of, hey, maybe they're a takeout target. I'm kind of thinking of it the other way around. Is there anything that you guys are interested in?

Alan S. Armstrong
President, Chief Executive Officer & Director, The Williams Cos., Inc.

A

Well, Timm, thanks for the question. I would just say we're very excited about the strategy that we have and the opportunities that are coming along. We're really working to be the best operator in this space, in this strategy. And I would say we're working extremely hard as a team to not just be good in this space, but great.

And we think as we continue to execute over time, that that's going to open up opportunities for us to continue to expand in our strategy. But I would say, it is blocking and tackling first, and we remain extremely focused on that. And, as you mentioned, we have so much opportunity here that's right in front of us that we're really narrowing our focus on delivering on that.

But certainly, we're paying attention to long-term trends and where we need to be next. And I think we've always done a good job strategically of positioning ourselves in the right place and we'll continue to do that. But I would say, there's a pretty intense focus right now on delivering what we have, because there's so much value to be created just delivering what's right in front of us right now.

Michael G. Dunn
Chief Operating Officer & Executive Vice President, The Williams Cos., Inc.

A

Hey, Timm, yeah, I would that...

Timm A. Schneider
Analyst, Evercore ISI

Q

Yeah. And then...

Michael G. Dunn
Chief Operating Officer & Executive Vice President, The Williams Cos., Inc.

A

...if you go back to our Analyst Day, we talked a lot about the Northeast, where we have an opportunity to increase our revenues up there, fairly significantly with less capital infusion. And that's just because of the backbone systems that we've already built up in that area up there. So, that's one of the areas that we talked about at lot at Analyst Day that we have great opportunities going forward.

Timm A. Schneider
Analyst, Evercore ISI

Q

Got it. And I guess, let me ask one follow-up on that. And I know that focus really has been – you guys have done a tremendous job on this kind of shifting towards just the [ph] mantle (35:43) fee or that take-or-pay business model on the gas pipeline side.

But would you be categorically opposed to looking at gathering and processing assets, if they have the right structure, right, so if that commodity price exposure may be more fee-based, minimum volume commitments, stuff like that?

Alan S. Armstrong
President, Chief Executive Officer & Director, The Williams Cos., Inc.
A

Yeah. No, we're not at all opposed if it's the right risk-adjusted return. We think we're very good in that space and we think we're a good operator in that space and have a lot of talents and capabilities. So, yeah, we'll certainly continue there.

I would say that, even within the gathering and processing space in particular, it gets pretty hard to match the quality of our cash flows, given our contracts and the growth opportunity that we have around some of our business. And so I would tell you, at any time we're going to look at anything, it's going to be a mix of quality of cash flows. We've got a pretty highbrow mix of cash flows that I think is pretty hard to compete with both in the current and in the forward booking.

Timm A. Schneider
Analyst, Evercore ISI
Q

Got it. And, lastly, I mean if I look at your geographic footprint, are you guys kind of happy with the basins you're in right now or is there anything else that you'd like to be in? And obviously, I'm kind of hinting at you guys don't really have – you guys sold some stuff in the Permian, no scale there. Is it too late to get in there at this point in a big way, or is there still some opportunities if they were available?

Alan S. Armstrong
President, Chief Executive Officer & Director, The Williams Cos., Inc.
A

Yeah. I would just say, first of all, we do have some pretty significant acreage dedication in the Permian that we think could be significant as the play develops. But, as we've mentioned, we really don't have all of the vertical integration that a lot of the big players have in there and, frankly, we're not interested in paying the kind of multiples that have been getting paid to get in there, because you're not just betting – I mean, there's no upside left when you pay those kind of multiples.

And so I would say we've seen that as pretty pricey, but we certainly are taking a look at it as it could impact gas volumes. We have a lot to offer via the Transco system and being able to distribute those volumes to market. And so we'll continue to keep an eye on any opportunity there, and certainly see both the Mexico markets and the LNG markets, along with Gulf Coast, as something that we're well-positioned to serve. And, however, we can use our assets to gain competitive advantage towards those alternatives we're certainly going to be having an eye to.

But I would just say there's a lot of well-heeled players in that basin. And I think the question we have is how do we use our skill sets to help take care some of those volumes. But I think going head-to-head on the upstream gathering and processing out there looks pretty pricey right now.

Timm A. Schneider
Analyst, Evercore ISI
Q

Okay. Got it. Appreciate it. That's it from me.

Operator: We'll go next to Craig Shere of Tuohy Brothers.

Craig K. Shere
Analyst, Tuohy Brothers Investment Research, Inc.
Q

Morning.

Alan S. Armstrong
President, Chief Executive Officer & Director, The Williams Cos., Inc.
A

Morning.

Craig K. Shere
Analyst, Tuohy Brothers Investment Research, Inc.
Q

Just looking for a little more color around what governs the potential time gap between the greenfield Central Penn Line for Atlantic Sunrise being in service and the compressor station? And if I recall from Analyst Day, the monthly revenue pickup when the compressor is online, is about $11 million a month. Is that correct?

Alan S. Armstrong
President, Chief Executive Officer & Director, The Williams Cos., Inc.
A

I'm going to turn that to Michael Dunn here today. Good morning.

Michael G. Dunn
Chief Operating Officer & Executive Vice President, The Williams Cos., Inc.
A

Good morning, Craig. So let's start with what we hope to put in service this fall with some mainline facilities that we have underway right now. So we would expect to start seeing some revenue, as you heard Alan talk about it earlier, from that in September timeframe. And that's reversals of our compressor stations on the Transco mainline as well as one brownfield compressor addition at one of our existing stations.

That does not get us capacity all the way back into the Northeast PA basin. So what we would anticipate, once we get the Central Penn Line completed, and that would be about two months or so ahead of the greenfield compression on the Central Penn Line. So we would have two months there of about 1.2 Bcf a day of capacity that would come out of the basin there, that would certainly create an outlet for our customers up there. And then, ultimately, the compression coming online which is at about 1.7 Bcf a day.

And so, assuming that we get a construction start date this fall, we think it's about a 10-month construction for the entire project. Optimistically, we could get the pipelines in service a few months before that on the greenfield and be able to put about 1.2 Bcf a day in service on that project.

Craig K. Shere
Analyst, Tuohy Brothers Investment Research, Inc.
Q

Okay. So it's really just logistics and construction. There isn't a separate regulatory permitting issue relating to the compression.

Michael G. Dunn
Chief Operating Officer & Executive Vice President, The Williams Cos., Inc.
A

No. No, there's not. I mean, ultimately, we go to FERC in a few weeks once we get the 102 and 105 permits from Pennsylvania, the 404 from the Corps. We asked for a Notice to Proceed for the entire project. It's just the timing of this schedule. It just takes longer to build the greenfield compressor stations than it does the greenfield pipeline.

Craig K. Shere
Analyst, Tuohy Brothers Investment Research, Inc.
Q

Understood. And then any more color around what's going on in Constitution?

Alan S. Armstrong
President, Chief Executive Officer & Director, The Williams Cos., Inc. A

I would just say we continue to expect something coming out of the second circuit there. But I would tell you we were very encouraged by the D.C. Circuit ruling on Millennium and then basically telling the New York D.C. had waived and that they should go to the FERC for their permit. That was very instructive, I would say, relative to Constitution. And so we're excited about that and continue to work with the staff in the White House to move things along, because we think they have the rights to move things along on that project.

So, remains a two-pronged approach, but I would tell you the last month or so here has been encouraging in terms of how the court ruled on the Millennium project and the attention that that's gotten within the White House staff. So, anyway, continue to push on that, nothing moves very fast on that front, but continue to be encouraged by what we're seeing there.

Craig K. Shere
Analyst, Tuohy Brothers Investment Research, Inc. Q

Could you still see potential favorable 2017 announcements?

Alan S. Armstrong
President, Chief Executive Officer & Director, The Williams Cos., Inc. A

Yeah. My patience has been strained obviously [ph] there and we've been (43:25) pushing on that. But, yeah, I would expect to see some action here in 2017 still. So I feel pretty good. Now, we've got a lot of work to do to then get the system installed and get through all the very final permitting issues, but remember we already have our certificate from the FERC on that.

And so I think the political environment is ripe and I think we either get some help from the court, which there's some probability, but it's a little bit unusual for a court to overrule an agency like that. But we think we've got a very good case in that regard. But I'd probably say, I'm more optimistic about the pathway through both the court and the FERC to gain approval with the White House's assistance on that.

Craig K. Shere
Analyst, Tuohy Brothers Investment Research, Inc. Q

Great. And last question, Don, I just wanted to confirm, for the third quarter, there's going to be no cash tax drag relating to that Geismar sale up at the C-corp, is that correct?

Donald R. Chappel
Chief Financial Officer & Senior Vice President, The Williams Cos., Inc. A

Craig, we do not expect a cash tax drag related to the Geismar sale. There could be a modest amount, but right now it's expected to be zero or a very modest amount.

Craig K. Shere
Analyst, Tuohy Brothers Investment Research, Inc. Q

Great. Thank you very much.

Donald R. Chappel
Chief Financial Officer & Senior Vice President, The Williams Cos., Inc. A

Welcome.

Alan S. Armstrong
President, Chief Executive Officer & Director, The Williams Cos., Inc.
A

Thanks, Craig.

Operator: We'll take our next question from Christine Cho of Barclays.

Christine Cho
Analyst, Barclays Capital, Inc.
Q

Hi. I just have one question. We've seen some consolidation among producers in the Northeast. It's pretty fragmented up there, so I'm sure we'll continue to see some consolidation, as well as acreage changing hands. There's also a whole bunch of producer-sponsored MLPs on the gathering side. Are you seeing any initial signs of any of these guys wanting to monetize?

And then, separately, what do you think we need to see for the opportunity for some of your partners wanting to get out of the JVs they're in with you on? Are we waiting for pipeline capacity on the gas and NGL side to come on, or is there any other gating items that we should be aware about?

Alan S. Armstrong
President, Chief Executive Officer & Director, The Williams Cos., Inc.
A

Yeah. Christine, good morning, and thanks for the good question. Yeah. I think the consolidation [ph] of those (45:56) is well underway. I think that EQT and Steve Schlotterbeck are really, I think, onto a path that's important, in terms of being a low-cost manufacturer in the basin, and they certainly have, with the Rice transaction, would have a tremendous position up there. And I think we'll continue to see that where people are really focused on those areas, on the one hand.

On the other hand, I would tell you, in some areas, there's just so much remaining drilling locations. For instance, for companies like Cabot, they just have so many remaining locations within the large acreage position they do have that they've got plenty of scale to execute at a low cost in the area. So I guess I would say, I do think we'll continue to see consolidation, but maybe for varying reasons up there.

On the midstream side, I do think that we'll continue to see consolidation as well. As you point out rightly, there's a lot of private equity that's had money up there, and it's probably getting a little stale and a little ripe, because they've been in those positions for quite a while. And typically, the way they're rewarded as management teams have them anxious to get out at some point in time, and it's certainly usually inside of five years.

So, I do think there will be some pressure up there, but I think there's probably just deltas in bid-ask right now between people's expectations and what [indiscernible] (47:35) might allow for. And I'd say we're just in the process of seeing those bid-ask spreads close in on themselves. So, that's kind of how I'd describe that.

But I definitely think that we'll see some shift going on up there. Just like we always do in big, fast-growing basins, there's a lot of people to start with, and then the big players tend to consolidate because they've got the right scale, they've got the right cost structure, and they've got the right market outlets, and those tend to drive the volumes to those systems. So I think we'll continue to see some pretty sizable consolidations here in the next 18 months in the Northeast.

Christine Cho
Analyst, Barclays Capital, Inc.
Q

And as a follow-up, when I kind of think about the Northeast, obviously you talked about Cabot. Your gathering should benefit when Atlantic Sunrise comes on. In Southwest PA, do you think the bigger bottleneck is gas pipeline capacity that needs to come on for you guys to see your volumes increase? Or do you think it's more NGL takeaway, like Mariner East?

Alan S. Armstrong
President, Chief Executive Officer & Director, The Williams Cos., Inc.
A

Yeah. The NGL takeaway issue is more an issue of price, right, because you can clear your barrels. It's a matter of what you get for them by getting them out of there, versus, on the gas side, it's an absolute issue, because there's no alternative other than the gas pipeline. But of course, you have rail and trucking to get liquids out of there.

So I do think some price improvement on NGLs would be welcome to the basin. And that could have some impact. But I clearly think the biggest issue right now is on gas takeaway, because it's a point of diminishing returns on the gas. If you turn any new gas on, not only does that gas get underpriced, it just puts price pressure on the other gas that you have in the basin. And so it's a very constrained and finite point, in terms of getting gas out of the basin.

And so I think, to answer your question, I think gas is probably more important than the liquids.

Christine Cho
Analyst, Barclays Capital, Inc.
Q

Got it. Thank you for the color.

Operator: We'll go next to Eric Genco of Citi.

Eric C. Genco
Analyst, Citigroup Global Markets, Inc. (Broker)
Q

Hi. I was just wondering, on Constitution, I'm just trying to remember. If you were to get a Millennium-type decision, how long would it take to put the pipe into service? And can you remind us if there are some seasonal issues, and what type of barriers would be to starting construction and bird's nesting, et cetera?

Alan S. Armstrong
President, Chief Executive Officer & Director, The Williams Cos., Inc.
A

Yeah. Michael, do you want to take that?

Michael G. Dunn
Chief Operating Officer & Executive Vice President, The Williams Cos., Inc.
A

Yeah. So, right now, we would anticipate the earliest we can get that project in is early 2019, so probably second quarter 2019. And there are quite a few windows, but backing into an opportunity to get released this fall, that would put us in first half of 2019 [indiscernible] (50:28)

Eric C. Genco
Analyst, Citigroup Global Markets, Inc. (Broker)

Q

Okay. And then, in terms of cost savings in the West, it was pretty impressive. I just wanted to ask where do you think you are in terms of like what inning and if you could expand a little more there. And do you think there's more to come in that segment or maybe other areas? And just how that's been going for you?

Michael G. Dunn
Chief Operating Officer & Executive Vice President, The Williams Cos., Inc.

A

I'm sorry. Could you repeat the question?

Eric C. Genco
Analyst, Citigroup Global Markets, Inc. (Broker)

Q

Michael, the question was on cost savings in the West and whether we should expect to see continuation of that improvement.

Michael G. Dunn
Chief Operating Officer & Executive Vice President, The Williams Cos., Inc.

A

Yeah. Thanks for that question. Our team is doing a great job out there taking cost out of their business, and I think we will continue to seek those opportunities and find opportunities to continue to take cost, not just out of the West business but out of the rest of the business where it makes sense.

And there's still opportunities there. We have a lot of consolidation, for example, in our measurement systems where we had the legacy Access and the legacy Williams measurement systems, for example, that we're consolidating. And we'll be able to continue to take cost out of the business in that fashion. So there's opportunities just like that all across our business and certainly in the West we'll continue to do that.

Eric C. Genco
Analyst, Citigroup Global Markets, Inc. (Broker)

Q

That's great. And then a final one for me. I just wanted to ask if you had any recent conversation with the rating agencies, or if you have any plans to kind of post the Geismar sale. I realize it was announced a while ago, but just didn't know what the schedule was there?

Michael G. Dunn
Chief Operating Officer & Executive Vice President, The Williams Cos., Inc.

A

We're in regular conversation with the agencies. So, yes, we update our model and discussions with them, and obviously that's a major milestone. So we'll continue those conversations. What they do with it, who knows, but we think our credit is improving steadily and we're hopeful that they'll agree.

Eric C. Genco
Analyst, Citigroup Global Markets, Inc. (Broker)

Q

Thanks very much.

Alan S. Armstrong
President, Chief Executive Officer & Director, The Williams Cos., Inc.

A

Thank you.

Operator: And that is all the time we have for questions. I would like to turn the call back over to our speakers for any additional or closing comments.

Alan S. Armstrong

President, Chief Executive Officer & Director, The Williams Cos., Inc.

Okay. Well, great. Well, thank you. Very excited about the quarter and excited about how we're positioned here for the next 12 months, and got a lot of exciting things ahead of us continuing to come on. So, appreciate your continued interest in the company and hope you have a great day. Thank you. Bye.

Operator: That does conclude our conference for today. We thank you for your participation.