



The Williams Cos., Inc. (WMB)

EDITED TRANSCRIPT

3Q 2022 Earnings Call

November 01, 2022

Forward-looking statements

- > The reports, filings, and other public announcements of The Williams Companies, Inc. (Williams) may contain or incorporate by reference statements that do not directly or exclusively relate to historical facts. Such statements are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act). These forward-looking statements relate to anticipated financial performance, management’s plans and objectives for future operations, business prospects, outcome of regulatory proceedings, market conditions, and other matters. We make these forward-looking statements in reliance on the safe harbor protections provided under the Private Securities Litigation Reform Act of 1995.
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 - Levels of dividends to Williams stockholders;
 - Future credit ratings of Williams and its affiliates;
 - Amounts and nature of future capital expenditures;
 - Expansion and growth of our business and operations;
 - Expected in-service dates for capital projects;
 - Financial condition and liquidity;
 - Business strategy;
 - Cash flow from operations or results of operations;
 - Seasonality of certain business components;
 - Natural gas, natural gas liquids and crude oil prices, supply, and demand;
 - Demand for our services;
 - The impact of the coronavirus (COVID-19) pandemic.
- > Forward-looking statements are based on numerous assumptions, uncertainties, and risks that could cause future events or results to be materially different from those stated or implied in this report. Many of the factors that will determine these results are beyond our ability to control or predict. Specific factors that could cause actual results to differ from results contemplated by the forward-looking statements include, among others, the following:
 - Availability of supplies, market demand, and volatility of prices;
 - Development and rate of adoption of alternative energy sources;
 - The impact of existing and future laws and regulations, the regulatory environment, environmental matters, and litigation, as well as our ability to obtain necessary permits and approvals, and achieve favorable rate proceeding outcomes;
 - Our exposure to the credit risk of our customers and counterparties;
 - Our ability to acquire new businesses and assets and successfully integrate those operations and assets into existing businesses as well as successfully expand our facilities, and to consummate asset sales on acceptable terms;
 - Whether we are able to successfully identify, evaluate, and timely execute our capital projects and investment opportunities;
 - The strength and financial resources of our competitors and the effects of competition;
 - The amount of cash distributions from and capital requirements of our investments and joint ventures in which we participate;
 - Whether we will be able to effectively execute our financing plan;
 - Increasing scrutiny and changing expectations from stakeholders with respect to our environmental, social, and governance practices;
 - The physical and financial risks associated with climate change;
 - The impacts of operational and developmental hazards and unforeseen interruptions;
 - The risks resulting from outbreaks or other public health crises, including COVID-19;
 - Risks associated with weather and natural phenomena, including climate conditions and physical damage to our facilities;
 - Acts of terrorism, cybersecurity incidents, and related disruptions;
 - Our costs and funding obligations for defined benefit pension plans and other postretirement benefit plans;
 - Changes in maintenance and construction costs, as well as our ability to obtain sufficient construction-related inputs, including skilled labor;
 - Inflation, interest rates, and general economic conditions (including future disruptions and volatility in the global credit markets and the impact of these events on customers and suppliers);
 - Risks related to financing, including restrictions stemming from debt agreements, future changes in credit ratings as determined by nationally recognized credit rating agencies, and the availability and cost of capital;
 - The ability of the members of the Organization of Petroleum Exporting Countries and other oil exporting nations to agree to and maintain oil price and production controls and the impact on domestic production;
 - Changes in the current geopolitical situation, including the Russian invasion of Ukraine;
 - Changes in U.S. governmental administration and policies;
 - Whether we are able to pay current and expected levels of dividends;
 - Additional risks described in our filings with the Securities and Exchange Commission (SEC)
- > Given the uncertainties and risk factors that could cause our actual results to differ materially from those contained in any forward-looking statement, we caution investors not to unduly rely on our forward-looking statements. We disclaim any obligations to and do not intend to update the above list or announce publicly the result of any revisions to any of the forward-looking statements to reflect future events or developments.
- > In addition to causing our actual results to differ, the factors listed above and referred to below may cause our intentions to change from those statements of intention set forth in this report. Such changes in our intentions may also cause our results to differ. We may change our intentions, at any time and without notice, based upon changes in such factors, our assumptions, or otherwise.
- > Because forward-looking statements involve risks and uncertainties, we caution that there are important factors, in addition to those listed above, that may cause actual results to differ materially from those contained in the forward-looking statements. For a detailed discussion of those factors, see (a) Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2021, as filed with the SEC on February 28, 2022, and (b) Part II, Item 1A. Risk Factors in subsequently filed Quarterly Reports on Form 10-Q.

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Good morning, everyone. Thank you for joining us and for your interest in The Williams Companies. Yesterday afternoon, we released our earnings press release and the presentation that our President and CEO, Alan Armstrong; and our Chief Financial Officer, John Porter, will speak to this morning. Also joining us on the call today are Micheal Dunn, our Chief Operating Officer; Lane Wilson, our General Counsel; and Chad Zamarin, our Senior Vice President of Corporate Strategic Development.

In our presentation materials, you'll find a disclaimer related to forward-looking statements. This disclaimer is important and integral to our remarks, and you should review it. Also included in our presentation materials are non-GAAP measures that we reconciled to Generally Accepted Accounting Principles and these reconciliation schedules appear at the back of today's presentation materials.

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

Alan Armstrong

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

Great. Thanks Danilo and thank you all for joining us today. Williams reported another great quarter and John will walk through the details in a moment, but the punch line is that Williams delivered exceptional results in the third quarter with adjusted EBITDA up 15% compared to the same period last year, driven by strong performance across all of our core businesses and our JV upstream operations. Our natural gas strategy has proven that it can capture upside margins and weather commodity price cycles as we work to serve growing demand for clean, secure, and affordable energy. These results really speak to the strength of our assets and our long-term approach to this business.

Williams is the most natural gas centric, large-scale, midstream company around today and there's a reason we've stuck with our natural gas focused strategy for as long as we have. Not only is this strategy delivering in the current environment, but the signals coming from the market show that it is going to continue to deliver substantial growth for the long term as well. We expect strong fundamentals to drive attractive growth opportunities for Williams, including higher demand for US LNG exports and a faster pace of coal to gas conversion with the lion's share of these projects residing along the Transco corridor.

Natural gas demand across various sectors continues to increase in the face of higher natural gas prices. This speaks to the continued inelastic demand for natural gas, both here and abroad, and the fact that domestic natural gas remains a bargain versus alternative fuels. We continue to see strong growth in our quarterly natural gas gathering volumes and our contracted transmission capacity, and we're seeing progress on important projects like our Regional Energy Access project, the Louisiana Energy Gateway and other Transco projects that are currently in execution.

And speaking of execution, our attractive high-return growth backlog in the Gulf of Mexico remains intact, with the six previously announced Deepwater projects set to increase EBITDA by over \$300 million beginning in 2025. And we recently began pipe-lay operations on the Whale project here just recently. Our business continues to fire on all cylinders, driving our financial strength and stability, and despite the current inflationary environment, we will actually see a lift in margins as many of our contracts allow for adjustments that exceed the impact of expenses.

For instance, in our G&P business, our contracts are built with inflation escalators that bolster our margins in the current environment, and within our Transmission business, we are able to recover cost via rate cases which minimizes the impacts of inflation over time. I'll note that Northwest Pipeline recently reached a settlement on its rate case, and we remain on track to file a Transco rate case in 2024.

The benefits of our long-term approach to business also extend to the current interest rate environment. And in fact, all of our debt is fixed rate. John is going to provide some more detail on this in his section, but we are extremely well-positioned in this current environment.

Also worth noting, our business is well-positioned for a recessionary environment. Recall that in 2020, Williams faced a host of challenges, including rapidly declining commodity prices, major producer customer bankruptcies and impactful hurricanes in our Gulf of Mexico business. In the face of these challenges, the company still exceeded the midpoint of the guidance we set well before COVID reared its ugly head. Our business today remains positioned to thrive, even in the face of a potential recession.

In fact, we announced that we expect to be near the high end of our previously raised guidance, putting us on track to achieve four-year earnings per share CAGR of 22% and an EBITDA CAGR of 8%. This, again, underscores just how well our natural gas strategy is translating into solid financial results for our shareholders. And while we will not be providing our 2023 guidance until the next quarterly call, there are some drivers that you should think about for 2023. So, let me go through those here.

First of all, in the Northeast G&P business, we expect higher volume growth and higher cash flows from expansion projects that are currently underway and many of those are nearing completion, and we do provide some details of those in the appendix.

In the West G&P segment, we expect continued contribution from the large number of Haynesville expansion projects that are nearing completion, as well as the Trace Midstream acquisition. But equally important are the expected contributions from our upstream JVs, which should provide incremental volume growth in both the Haynesville and in the Wamsutter area, proving that our strategy to fill up latent midstream capacity is working.

We expect modest growth in other basins as well. For instance, in the Eagle Ford, which has been under the radar recently, we also see a very bright spot here next year as we expect increased activity in the rich gas part of the basin to drive volumes well above the minimum volume commitment level for this segment of the business, which will be a welcome rebound and extend our earnings above that MVC level.

The Eagle Ford should represent upside longer term as well, as new capital will likely be deployed to further develop both the acreage that is already dedicated and some undedicated acreage that we are well positioned to serve.

In the Transmission & Gulf of Mexico business, the growth drivers here include the incremental earnings from our recent production that has been connected along our existing Deepwater assets. So, this is new production that's been recently connected, and will start to show up here in the fourth quarter. It does not include those projects that will start coming on towards the end of 2024. The NorTex acquisition also will be included in our Transmission & Gulf of Mexico business and the continued expansion of our fee-based services on our interstate gas pipeline systems that continue to grow.

Within our upstream JVs, volume growth will remain the story. In the Haynesville, we've stated that we expect an ownership reversion in the first half of 2023, where Williams will own 25% of the PUDs, but we will retain a 75% interest in the PDPs. I want to be clear about this - our interest in the existing flowing production does not get reduced, only our interest in the undeveloped acreage will be reduced. We designed this structure to minimize significant volatility in earnings, and to this end, we expect the Haynesville to remain a source of growth.

In the Wamsutter, where we have a much larger acreage footprint, our JV is just now

beginning to complete wells from the 2022 drilling program, and these will begin to contribute to this volume growth next year. And this, we believe, is going to prove up the benefits of the contiguous acreage in this basin, and we're excited about the Crowheart operations and what we're seeing from those recent drilling and completion operations.

Our primary goal of getting the volumes and cash flows up on these latent midstream assets will be more than met, but the icing on the cake has been the higher-than-expected pricing for these producing reserves. Over the longer term, we see a steady increase in net cash flows as the drilling capital obligations revert more and more to the JV operator and the benefits of the growing volumes build our midstream cash flows. Ultimately, we expect to find a long-term owner for these upstream properties that we can rely on to further grow production, which will translate into even higher midstream free cash flows for Williams.

Looking beyond 2023, we believe that our projects are supportive of a 5% to 7% long-term EBITDA CAGR. The annual growth rate may fluctuate a bit given the timing of new, large projects like Regional Energy Access and our big Deepwater projects coming on at the end of 2024 and into 2025, but the bottom line is that we see a clear trajectory to continued earnings growth based on the opportunity set of our footprint today.

Finally, as we think about value chain integration, we are further advancing our integrated clean energy value chain strategy. Our acquisition of the NorTex storage facility and last week's approval from the FERC for Transco's Washington Storage facility in Louisiana enables us to offer competitive market-based rates to LNG, power generation, and other customers in the Gulf Coast area. This will be a critical element of our wellhead to water strategy as this combined 110 Bcf of working gas storage and our expansive Transco network are fortified with low-emissions Haynesville production from the LEG project.

We are also making strides in advancing our wellhead to end user strategy with our agreement with Penn Energy Resources to support the marketing and delivery of certified low-emissions gas that we refer to as NextGen Natural Gas. This agreement includes an independent third-party certification process that verifies best practices are being followed to minimize emissions and produce natural gas in the most environmentally responsible manner. This is another exciting step to grow the delivery of NextGen Gas to markets across the US, as well as overseas.

So, with that, I'll pause and turn it over to John to walk through the quarter and our year-to-date results, and then we'll open it up for your questions. John?

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John Porter

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

Thanks, Alan. Starting here on slide 2 with a summary of our year-over-year financial performance, overall 2022 financial performance continues to be quite strong. Beginning with adjusted EBITDA, we saw a 15% year-over-year increase for the third quarter and a 12% increase for the first nine months of 2022 versus 2021. As we'll see on the next couple of slides, our adjusted EBITDA growth has been led by our core large-scale natural gas transmission and gathering and processing businesses, complemented nicely by growth in our upstream joint ventures.

Our adjusted EPS increased just over 37% for the quarter and 34% year-to-date. Available funds from operations (AFFO), which is basically our cash flow from operations less working capital fluctuations and non-controlling interest cash flows, grew in line or better than adjusted EBITDA at 15% year-over-year for the quarter or 18% for the nine-month period.

Also, you see our dividend coverage on this page based on AFFO was 2.4x for third quarter and 2.29x year-to-date. Our debt to adjusted EBITDA metric continues to improve, based on our strong growth in adjusted EBITDA and our capital investment discipline, now reaching 3.68x versus last year's 4.0x.

So, now let's move to the next slide and dig a little deeper into our adjusted EBITDA results for the quarter. Again, the third quarter built nicely on the strong start we've seen this year with 15% growth reflecting the combined effect of the performance of our core business and upside from our upstream joint ventures. Walking now from last year's \$1.420 billion to this year's \$1.637 billion, we start with our upstream joint venture operations that are included in our Other segment, which were up \$60 million. Since our first new production in the Haynesville came on line in April of this year, we've seen a rapid ramp in volumes that will continue through the remainder of the year. As Alan mentioned, the strategic purpose of our upstream joint ventures is to fuel growth in our core-related gathering assets, and that's certainly what we see happening in 2022.

Shifting now to our core business performance, our Transmission & Gulf of Mexico business improved \$41 million or 6% due to improved contributions from both Transco and our Gulf of Mexico businesses. Transco saw higher revenues largely from the Leidy South expansion project, which came on line in phases last year. Gulf of Mexico was significantly higher in 2022 due in part to a lack of hurricane-related impacts that occurred in 2021. Operating and maintenance costs were higher driven in part by higher maintenance activities, but we're tracking very close to plan through the first nine months of the year.

Our Northeast G&P business increased \$22 million or 5%, driven by top line gathering and processing revenue growth on slightly lower volumes. Gathering and processing rate growth was supported by a combination of factors, including higher commodity-based rates, annual fee escalations, and other expansion related fee increases that more than offset the lower cost of service rates at our Bradford franchise. Overall, Northeast volumes were 10.8 Bcf/d and roughly in line with our current forecast for total 3Q volumes. We continue to expect an increase from this volume level for the fourth quarter, but as we've mentioned in past calls, our 2022 plan for the Northeast has always been higher EBITDA versus 2021 on pretty flat volume growth. However, as Alan mentioned, we remain well positioned to resume stronger volume and EBITDA growth in the Northeast in 2023, driven by several expansion and optimization projects.

Shifting now to the West, which saw another impressive quarter of year-over-year growth, up \$80 million or 31% over 2021. I should mention that \$27 million of the \$80 million was attributed to our Trace Midstream acquisition, which closed on April 29th this year. So even without Trace, the West still increased \$53 million or 21%. In the West, we continue to see upside from our commodity price exposed rates, especially in the Barnett and Haynesville, as well as substantially higher volumes in the Haynesville that drove a 12% overall increase in volumes for the West and that's excluding the Trace acquisition.

Next, we saw a \$4 million or 12% increase for our Gas & NGL Marketing Services business. This increase was despite taking a \$54 million lower of cost or market adjustment to our gas and NGL inventories in September of this year. Generally speaking, most of this adjustment, which was associated with our gas and storage, will result in higher margins when those products are sold out as inventory late this year or early next year.

So again, another strong quarter with 15% growth in EBITDA driven by core business performance and upside in our upstream joint venture operations.

Let's move to slide 4 and look at the year-to-date comparison. Through the first nine months of 2022, we've now generated 12% growth in adjusted EBITDA over 2021. Three strong consecutive quarters for this year. So, stepping now from last year's \$4.152 billion to this year's \$4.644 billion, starting with the \$77 million of first quarter 2021 winter storm benefits that we're showing here in gray, and then moving to the \$182 million contribution from our midstream operations, which were Wamsutter related in the first quarter of 2022 and then begin to have a more significant Haynesville component in the second and third quarters.

Our Transmission & Gulf of Mexico business has seen 4% growth year-to-date, driven by Transco's Leidy South expansion project and strong first quarter 2022 seasonal revenues, and also higher Gulf of Mexico results due to less hurricane related impacts in 2022 versus 2021, partially offset by higher operating and maintenance costs.

The Northeast G&P business has now seen 6% growth year-to-date, driven by higher rates on overall flat volumes as previously discussed. The West has seen an impressive 27% growth year-to-date, driven by higher commodity base rates, but also strong 11% overall volume growth, excluding the Trace acquisition.

Finally, our Gas & NGL Marketing Services segment is up \$32 million, driven by favorable commodity margins, as well as the new contributions from the Sequent acquisition that closed on July 1st of 2021. And the year-to-date comparison was also unfavorably impacted by lower of cost or market adjustments on inventories as discussed in the third quarter comparison, which as we discussed should result in higher margins in the future.

So an impressive \$491 million or 12% increase to land us with over \$4.6 billion of adjusted EBITDA through the first nine months of the year.

Before I turn it back over to Alan, I'll offer a few thoughts for full year 2022 financial guidance. As we previously announced, based on strong third quarter performance and expectations for the fourth quarter, we anticipate full year adjusted EBITDA will be near the high end of our previously announced guidance range of \$6.1 billion to \$6.4 billion, which implies a strong fourth quarter. We see multiple contributors to this expected strong finish to the year, including continued growth in our upstream joint ventures, but also growth across our other business segments versus our third quarter results.

One other note regarding the third quarter, you probably noticed in our 10-Q that we did initiate share repurchases in September. As we discussed on our second quarter call, we stand ready to take action on share repurchases when we see a pullback in our valuation and that's what we did in September. Our share buyback principles center around a returns-based approach considering our current equity yield plus a level of expected

growth in the business. We are more confident than ever in the long-term growth of our business and so, we remain ready to purchase additional shares as an important element of our capital allocation strategy.

Debt financing costs have also been topical lately with the sharp rise we've seen in borrowing costs. We've included some helpful information on our well-positioned debt portfolio in the appendix, but I'll briefly touch on a few key facts. First off, we have an entirely fixed rate debt portfolio with an average rate of 4.78% and a weighted average maturity of 12.2 years. Second, following our well-timed August debt issuance and subsequent call of \$850 million of 2023 notes recently in October, we now only have \$600 million of maturities in 2023. And finally, we will continue to enjoy excellent financial flexibility with our \$3.75 billion credit facility.

So, again, with our expectations to finish 2022 near the high end of our adjusted EBITDA guidance, this would amount to over 13.5% growth versus 2021 and a four-year CAGR of about 8%, driven by continued growth in our core business, as well as contributions from our Trace acquisition and upstream JV operations.

So, with that, I'll pass it back to Alan for closing remarks. Alan?

Alan Armstrong

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

Okay. Well, great. Thanks, John. And I'll close by reiterating my remarks at the top of the call that quarter after quarter, we continue to demonstrate that we have built a core business that has steady, predictable growth and is resilient in the face of multiple macroeconomic conditions. In fact, this makes the 27th quarter in a row that we've either met or exceeded the Street consensus.

A careful allocation of capital has delivered improving returns on capital employed and, in fact, this is a 21.7% return on invested capital as we've showed in recent presentations. We delivered a very strong balance sheet, and we have a growing dividend with best-in-class coverage.

Our long-haul pipes are in the right places serving the right markets. Our formidable gathering assets are in the low-cost basins that will be called on to meet gas demand as it continues to grow for decades, and our Sequent platform is providing infrastructure optimization services that create value for Williams and our customers while mitigating downside risk in these volatile and fast-growing markets.

You've heard me say before that we are bullish on natural gas because of the critical role it plays and will continue to play in both our countries and the world's pursuit of a clean energy future. But, even more so, we are also bullish on America's ability to lead on all fronts when it comes to clean, reliable, and affordable energy. The United States is positioned better than any other country to solve the energy crisis and the climate crisis we're facing around the world.

But I'll stand on my soapbox again and remind you that access to our abundant and low-cost natural gas reserves here in the US is dependent on having the appropriate infrastructure to move energy where it is needed. We're seeing and feeling today the impacts of the inadequate infrastructure, both here at home and especially in Europe, with consumers bearing the brunt of these actions in the form of high energy prices, high utility

bills, and energy-driven inflation.

The good news is that we have a solution that is readily available, a solution that will support global emissions reductions, keep energy costs affordable, and grow our nation's competitiveness. Enabling the efficient, unobstructed buildout of our nation's energy infrastructure to ensure delivery of natural gas is foundational to the US' leadership on greenhouse gas emissions reductions and energy security. We at Williams will proudly continue our efforts to strongly advocate for actionable energy policy solutions and permitting reform in the days, months, and years ahead.

And with that, I'll open it up for your questions.

QUESTION AND ANSWER SECTION

Jeremy Tonet

Analyst, JPMorgan Securities LLC

Hi, good morning.

Alan Armstrong

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

Good morning, Jeremy.

Jeremy Tonet

Analyst, JPMorgan Securities LLC

Just wanted to kind of start off with the Haynesville here and this new project that you talked about in the slides regarding carbon capture. I was just wondering if you could touch base on what moved that forward at this point, was it the higher 45Qs coming from IRA here that got over the finish line? And also, I guess, how big could the scope of this project be over time? Thanks.

Chad Zamarin

Senior Vice President-Corporate Strategic Development, The Williams Cos., Inc.

Yeah. Thanks, Jeremy. This is Chad. Yeah, the IRA and the increase in 45Q credits is certainly a benefit that helped that project move forward. The scope of that project is alongside our Louisiana Energy Gateway project. As we're gathering large volumes in the Haynesville, we'll be taking the CO₂ that today is vented in the basin into the pipeline and we'll also be gathering CO₂ from third parties and moving that CO₂ to the southern end of the Louisiana Energy Gateway gathering project. And at that location, we're going to install treating facilities that will remove the CO₂ and transport it to sequestration sites so that it can be permanently stored underground. We see that somewhere around the potential for 2 million tons of annual CO₂ to be captured and sequestered, and we think that that could increase over time as we continue to further develop that project. So, we feel really good about it, and we're focused on bringing that on line alongside our LEG project, which could be in service as early as Q4 2024.

Jeremy Tonet

Analyst, JPMorgan Securities LLC

Got it. Very helpful there. Thank you. And just wanted to pivot, if I could, to the producing assets in the Haynesville. It seems like the ramp in production there is quite strong, and I think it might kind of reach what you guys were hoping for when you attained the assets, getting it to a growth trajectory that build your pipes to serve that purpose there. And if it's on that trajectory, does that kind of make you guys think about potential timeline to divest those assets if they are delivering the volume utilization that you're looking for?

Alan Armstrong

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

Yeah. Jeremy, just let me be clear on that. First of all, I think there's been a lot of confusion out there in the market on the forms of those contracts. We expect our net interest production to continue to grow in 2023. And so, we have been very pleased with GeoSouthern's efforts out there. They've been a great operator, and they've really been hitting it out of the park, so to speak, in their efforts and the performance on wells both on the cost side as well as the delivery side. So, we're really excited about their activities out there.

So, we do expect our net interest production to continue to grow into 2023. And so, people have been talking about a decline relative to the reversion, our interest in the undeveloped acreage declines, but not our interest in the existing flowing production. And, in fact, the nice thing about that is our capital obligations really fall back really hard in 2023 after that reversion occurs because we won't be continuing to have to invest so heavily in the drilling operations there.

But in terms of looking to sell the asset, we certainly – that is our long-term objective and continues to be. And, we think, the acreage is certainly proving itself up to exceed. And I would tell you, though, it's got long ways to go from where it is today in terms of the total volume growth in that area. In fact, really just starting to scratch the surface of that inventory in the area.

So, yes, we certainly have our eyes and ears open but, no, we are not getting near the peak of the volumes out there at all. And so, it's really playing out almost exactly like we intended, except that we've had this nice big upside of pricing here in the current environment and the volumes this year are outperforming where we thought they would be. So, great news really kind of all the way around there in terms of the upside and it's going to drive a lot of free cash flow into 2023 and 2024.

Jeremy Tonet

Analyst, JPMorgan Securities LLC

Got it. And just a quick follow-up on that, is there a certain production level you're looking for before you would entertain divesting those assets?

Alan Armstrong

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

No. I would just say there's a lot more room to grow out there than what people are expecting, I think. I think we continue to be impressed by the kind of numbers that GeoSouthern is informing us on in terms of kind of what the total production out there - that's well beyond the current production level.

So, I would just say we're not waiting, if you will, necessarily. We just want to be assured that the production growth will continue on the pace if we're not the owner and I think certainly the alignment we've had with GeoSouthern out there has been productive for both of us. But no, we're not waiting on any particular volume number. We think the evidence is pretty clear in terms of the performance out there at this point. So, we think that the viability of that acreage has been pretty well proven up already just in terms of the performance GeoSouthern has shown already.

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Jeremy Tonet

Analyst, JPMorgan Securities LLC

Got it. I'll leave it there. Thank you.

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Praneeth Satish

Analyst, Wells Fargo Securities LLC

Thanks. Good morning. In light of the NorTex acquisition, I was just wondering if you could elaborate on the benefits of gas storage right now. Do you think storage has become more valuable? Do you think spreads could widen out? How does this fit with Sequent? And then finally, do you envision building out more gas storage assets organically or doing more acquisitions in this space?

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Alan Armstrong

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

Yeah, thanks for the question. And first of all, Sequent was a sizeable customer there to NorTex and we were looking at their process as they were going through that to – and realizing what they could charge for that storage. And frankly, we were pretty impressed from our perspective, what they could've charged for storage in that area and recognized that we thought that rates could probably be driven up there just because of the value of that storage in these more volatile markets, and we continue to believe that today. The load from the variability of gas-fired power generation, as well as LNG, we think is going to continue to drive value for natural gas storage. We're certainly seeing that as Sequent was a buyer of storage and used to be a large buyer of storage. We understand that market very well and we think there's a lot of value there. That's first thing.

Second thing, one thing that I commented on in my opening comments that we're excited about as well is we did get an order from the FERC last week to be able to put market-based rates in place on our Washington gas storage. We still have a lot of work to do on that, so we have to go through the process of filing those rates, but we did get a very important order out of FERC last week to be able to go to market-based rates for our Washington gas storage. And so, that is a very large deal for us. That's about 75 Bcf/d of

working gas storage. And so, that gives us about 110 Bcf/d of storage in the Gulf Coast area between NorTex and Washington gas storage.

So, yes, we are pretty committed to this concept. We think there's a lot of value there and finding ways to extract the real value out of our current assets and out of NorTex is certainly going to be a mission for us in the years looking forward.

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Praneeth Satish

Analyst, Wells Fargo Securities LLC

Okay, great. And just switching gears, if I look at the financial metrics this year, the leverage is good, and EBITDA is on pace to grow 13% or 14%. But on the capital return side, the dividend is only up 4% and there's been some buybacks, but it's been fairly modest. So, I guess my question is, does the strong performance this year influence how you look at capital return heading into 2023?

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Alan Armstrong

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

Well, that's a great question, and the answer is yes it certainly does influence how we look, and we recognize we're outpacing, both our AFFO and our EBITDA have been outpacing our dividend growth and we certainly recognize that. And so, I would just say we're going to make sure that our dividend is durable, but we've also said that we're going to continue to grow our dividend along with our cash flows. So, it's a great question. The board level decision will be made later this year and into next year, that decision will get made. But we certainly have the coverage and the cash flow growth to be able to increase the growth rate in our dividend at this point.

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Praneeth Satish

Analyst, Wells Fargo Securities LLC

Thank you.

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Chase Mulvehill

Analyst, BofA Securities

Hey, good morning. I guess just a quick question and kind of want to follow up, you mentioned a little bit of this during the prepared remarks, but just kind of looking forward to 2023, thinking about some of the puts and takes. I mean, obviously, when we look at 2023 versus 2022, you've got the full year of some of the M&A you did. You got the Springridge gathering expansion and some Northeast gathering expansion. And then you've got some Gulf of Mexico stuff that starts up and you probably have some higher E&P volumes. So, I guess, just – am I missing anything there when we think about 2023 growth opportunities? And then kind of offsets, how should we think about the offsets for 2023? I mean, the curve is backwardated, but the curve is not always right. But just kind of how should we think about the offsets in 2023?

Alan Armstrong

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

Yeah. Great question. I think you've laid that out pretty well actually. I'd say the other thing that we didn't enjoy this year that we will enjoy next year is the investments that we've been putting into the Wamsutter JV this year. As I mentioned, we're continuing the drilling program, but we are just now starting the completions effort out there. And so, the benefit of the drilling capital we've been spending up there this year really start to play out in 2023 as well. So, that's a key issue. As I mentioned, the Eagle Ford, we're seeing some pretty rapid development going on and the rich gas that will exceed the MVC out there. So, that's attractive.

In terms of the headwinds, I certainly think pricing is a consideration, but I think it's also important to realize the amount of hedges that we had on this year that kept us from enjoying extremely high gas prices this year. And so, I think if you look year-to-year, there's probably not likely going to be that big a spread, but I would say we continue to look at the strip. So, that's probably the primary headwind, but from what we're seeing right now, that is going to be dramatically overcome by volumes in the E&P space. And so, yes, we could see lower price, but our volumes, I think, will surprise people to the upside next year.

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Chase Mulvehill

Analyst, BofA Securities

Great. Makes sense. As a kind of, maybe a somewhat related follow-up, on slide 24 you show an 8% increase in power demand year-to-date. Obviously, don't do too much on the power side, but could you kind of explain kind of what's happening there and how sustainable you think that growth is in power demand as we kind of look forward?

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Alan Armstrong

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

Yeah. I would just say we continue to be surprised. I would say that probably, as we mentioned earlier in the year, probably our biggest surprise has been the resilience of gas demand in the face of higher price. And I think what we learned was that the utilities and the power generators are not really able to flip back to coal for a number of reasons. One, they don't have the long-term contracts, a lot of those expired. And two, obviously, the price of coal has come up right alongside gas. And so, we just did not see the flip back to coal-fired generation we would have expected at this kind of pricing environment.

Obviously, I think what you're seeing is a result of the utilities, and I don't think this is going to end any time soon, where as renewables come on, the backup for that is going to be natural gas and it's going to continue to take coal-fired generation out of the space and we're going to continue to see increases. So, if you're listening to the rhetoric in the market and in the media, you would think that gas volumes were going to decline dramatically. If you saw the RFPs for new services coming in our door, you would think otherwise.

And so, I think, what we are seeing is continued strong demand from gas-fired generation from utilities, particularly in the mid-Atlantic and the Southeast. So we remain

bullish not because of rhetoric, but because of what we're seeing from requests for long-term services coming in the door.

Chase Mulvehill

Analyst, BofA Securities

Got it. Perfect. Understood. I'll turn it back over. Thanks, Alan.

Gabriel Moreen

Analyst, Mizuho Securities

Hey. Good afternoon, everyone. Maybe if I could ask another question about 2023 and just talking about how to frame CapEx. There's clearly some projects finishing up, some bigger ones, like Regional Energy Access and LEG that are out there, where maybe the spend gets spread over 2023, 2024. So, I'm just wondering how to think about growth CapEx within the context of what it was this year and some of these longer-term projects?

Micheal Dunn

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

Hi, Gabe. Good morning. It's Micheal. Yeah, I would expect, as we talked about in previous calls, to see some lumpiness in our growth CapEx. As you've indicated, we've got Regional Energy Access that we'll be ramping up construction next year. The Whale project, although we started construction on that, will be ongoing as well in 2023. And obviously LEG will be ramping up as well.

So, those are some pretty large capital outlays that we'll be ramping up next year, but as we've indicated in the past, we're working real hard to keep our growth CapEx in line with previous years. And so, when you think about where we're at this year, it's \$1.2 billion to \$1.3 billion level, that's what we're targeting on typical years going forward, but you will see some lumpiness when these big projects start construction. So, you can anticipate that being a 2023 story with these big projects coming on, but we're still very focused on managing that growth CapEx to a level that's about \$1.2 billion on average per year.

Gabriel Moreen

Analyst, Mizuho Securities

Thanks, Micheal. And this might be another one for you, but in the NWP rate case, it seems like you achieved sort of a modernization rider, or there's some language about that. Can you talk about that and whether that's going to be significant and also whether that can be a precedent for Transco in the upcoming rate case?

Micheal Dunn

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

Yeah, great question. We do have our uncontested settlement in front of the FERC right now for approval. We would expect to receive that before the end of the year, put those

rates into effect next year, and a great outcome by the team there achieving an emissions reduction program rider, as you indicated. And I would say it's certainly a good framework or pattern for us to go into the Transco rate case with that same thought process in front of us where we have a lot of compression on both Northwest Pipeline and the Transco system that we can replace – that makes sense to replace. In many of these areas where we're in non-attainment or being challenged by some of the regulators, like in the Pacific Northwest, to improve the emissions profile of our units. And it's just a great opportunity for us to make an investment in our regulated business.

And I would say the Northwest Pipeline opportunity is certainly not as great as the Transco opportunity for capital deployment there, just with the number of units that we have on the Northwest Pipeline system versus Transco. The horsepower on Transco is a significant order of magnitude higher than Northwest, but certainly a great opportunity there and very well received by our customers on Northwest Pipeline for us to go and implement these emissions reductions.

Gabriel Moreen

Analyst, Mizuho Securities

Great. I mean, if I could squeeze just a quick last one, it seems like you got a ruling in the Energy Transfer litigation. They're appealing. Is there any timing as far as how long that appeal may take to play out?

Lane Wilson

Senior Vice President & General Council, The Williams Cos., Inc.

Yeah. This is Lane Wilson. We would anticipate sometime probably late second quarter, early third quarter, maybe even early fourth quarter, depending upon how quickly the Delaware court moves.

Gabriel Moreen

Analyst, Mizuho Securities

Great. Thank you.

Brian Reynolds

Analyst, UBS Securities LLC

Hi. Good morning, everyone. Maybe just talk a little bit about, a follow-up on capital allocation and the growth CapEx. With the acquisitions of Trace and NorTex, could you just maybe talk about what the base business kind of growth CapEx run rate is going forward now?

Micheal Dunn

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

Yeah, sure. This is Micheal. As I indicated, we think it's going to be about \$1.2 billion,

very similar to what we see this year on average going forward. But as I've talked about on previous calls, we do have some lumpiness anticipated there when these larger projects start to ramp up construction. Regional Energy Access will be ramping up construction next year. The LEG project will also be starting construction next year, and then the Whale project in the Gulf of Mexico will be in some pretty significant construction activities as well next year, although that has started this year.

So, as always, it will be lumpy, but we're very focused on being efficient in regard to our growth capital. So, I would expect you would see a \$1.2 billion to \$1.3 billion average CapEx on our growth side for the foreseeable future.

Brian Reynolds

Analyst, UBS Securities LLC

Great, thanks. And then maybe as a follow-up on some of the upstream business, you guys outlaid some of the hedging profile that you have into 2023. Kind of curious if you can just give an update about where you're comfortable like hedging as a percentage of the overall volumes expected, just given some weakness in recent nat-gas pricing, just given some record US nat-gas production and some constraints on the LNG side. Thanks.

Alan Armstrong

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

Yeah. Thank you. Well, we do have some favorable hedges on right now for 2023. I think we've got around 15% or so for the year that's on right now and we'll continue to look at that opportunistically. I would tell you that it's really nice having our Sequent team that is joined at the hip when it comes to making those decisions and having a real vantage point on the market and what they're seeing as well. So, I would just say we will continue to be somewhat opportunistic about that, but we certainly will continue just like we did this year. We'll continue to take on hedges as we see fit, but I would say we don't have any particular formula or requirement for that. It's simply a way of when we see opportunities in the market, we see things flare up in the market, we'll hedge into that. And so, I would say we'll be fairly opportunistic but with no particular requirement for a minimum level of hedges need to be put on.

Brian Reynolds

Analyst, UBS Securities LLC

Great. Would second half of 2022 be a good kind of barometer of where we should expect it going forward or, I guess remains to be seen?

Alan Armstrong

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

I'm sorry, I didn't quite follow that last part.

Brian Reynolds

Analyst, UBS Securities LLC

Was the 50% hedging profile that you kind of had outlaid for the second half of 2022, is that kind of a fair estimate for 2023?

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Alan Armstrong

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

Yeah, I mean, I would just say it's very dependent on what the markets do versus how we're seeing the fundamentals. Looking forward, the good news is we have such a good read on both what's going on in production because we gather in 15 different basins, so we have a very good read about what's going on in production, as well as we see a good read from the markets as well that we use that to inform our fundamentals. And if we see the pricing, obviously, get fair relative to those fundamentals then we will hedge. So again, I wouldn't put a particular percentage on it as much as it is us looking at the fundamentals versus the pricing in the forward markets.

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Chad Zamarin

Senior Vice President-Corporate Strategic Development, The Williams Cos., Inc.

Alan, may be worth mentioning that 2023 will have less to prove up as far as volumes. In 2022, we did have the growth in the Haynesville that outperformed our expectations, which was great, but in 2023 we've really proven up volumes. And so, we've got much less volume risk coming in 2023 as a result of the success that we've seen in 2022.

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Alan Armstrong

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

Yeah, that's a really good point that some of our reluctance to hedge at the beginning of 2022 was based on us not wanting to hedge until we actually saw that production flowing, given the volatility in the markets. And certainly didn't want to get cut short in an upswing in the market. So, next year we'll have less of that – in the Haynesville, we'll have less of that volume growth risk, not so much in the Wamsutter.

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Brian Reynolds

Analyst, UBS Securities LLC

Great. No, that's super helpful. Appreciate the color and enjoy the rest of your morning, everyone.

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Sunil Sibal

Analyst, Seaport Global Securities LLC

Yes. Hi. Good morning, folks, and thanks for all of the clarity. I just wanted to go back to the opening comments regarding 5% to 7% EBITDA growth. So, is that kind of the run rate we can assume based on your asset base now for the next few years?

Alan Armstrong

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

Yes, that is correct. Obviously, as we mentioned, we've been overachieving on that a bit. We've had that 5% to 7% growth rate out there for quite some time, and that was assuming a \$1.2 billion to \$1.5 billion capital program back when we first established that level of growth rate. And I would just say, we've got some efficiencies coming into like 2025, where we've got some very large growth on a limited amount of capital in the Deepwater. That gives us some very high return investments because, in some cases, we're being reimbursed for the capital, or the producer is providing the capital upfront on some of those big Deepwater projects. So obviously, those returns are kind of outsized there and will provide better growth. But, in general, as Micheal said, we're expecting this \$1.2 billion to \$1.3 billion capital and we believe that kind of investment will continue to propel the 5% to 7% growth rate.

Sunil Sibal

Analyst, Seaport Global Securities LLC

Okay. Thanks for that. And then regards to the Eagle Ford, I think you mentioned you're seeing some activity pick up there. I was curious what kind of gas or NGL prices kind of support this uptick in activity? And do you anticipate this activity uptick to kind of go into 2023 and further out?

Chad Zamarin

Senior Vice President-Corporate Strategic Development, The Williams Cos., Inc.

Yeah. I would just say that the Eagle Ford is highly economic right now. Chesapeake has been allocating more of their capital to their gas-focused areas, and they have been out in the market talking about the potential to sell their Eagle Ford position. But we see both on the rich gas side and on the oil side of that system - we have really two different systems there, the oil driven system and a rich gas gathering system. And as Alan mentioned, the rich gas gathering system has already been ramping up in activity and is now exceeding the MVC. And we're seeing, I think, very strong economics behind the oil side of that asset as well. And so, we would expect that you'll continue to see increased activity on the oil side as well. So, that's a very highly economic asset and really, it's just been not the number one priority for kind of the current producer there.

Sunil Sibal

Analyst, Seaport Global Securities LLC

Got it. Thanks for that.

John Mackay

Analyst, Goldman Sachs & Co. LLC

Hey, everyone. Good morning. Thanks for the time. I wanted to pick up on the

Haynesville again. You guys are obviously adding a lot of your own volumes. You're talking about adding a lot of gathering capacity over the next 12 months. Can you maybe just share some of your thoughts on how we're thinking about takeaway out of the basin and maybe differential impacts on your upstream business, particularly on the next nine months until we – or next while until we get LEG on? Thanks.

Micheal Dunn

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

Sure. Thanks for the question. This is Micheal again. I would say we're very well positioned there with our gathering systems being connected to about nine different outlet pipelines out of the basin and having Sequent alongside us evaluating those takeaway opportunities has been very helpful. I believe they were well in front of any anticipated constraints out there in front of the market and really went out and acquired some capacity out of the basin that made sure that not only our customers' volumes could flow, but our partnership upstream volumes could flow as well. So, we feel very comfortable about our position in getting our gas out of the basin, as well as our customers' gas out of there. We've helped a lot of our customers make sure that they had opportunities to move their gas out of the basin, based on what we were seeing with Sequent. So, we feel really good about that. We're certainly working to get the LEG project up and running as fast as possible to help make sure that none of those constraints arise for our customers or our partnership.

John Mackay

Analyst, Goldman Sachs & Co. LLC

That's great. Thanks for that. Maybe one last one from me. Can you just walk us through again final steps on Regional Energy Access? I know we're kind of looking for a few things from the FERC, but more importantly, a couple of things from the state side, maybe just a refresh there would be helpful. Thank you.

Micheal Dunn

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

Yeah. Sure thing. Micheal once again answering this question. We are awaiting the FERC 7(c) certificate. We would expect to have that before the end of the year. The final EIS was issued in July. Just as a reminder, that was a very favorable EIS for the project. The other remaining outstanding permits are the air permit, this is a Title 5 modification for Station 505 in New Jersey. We've been through the whole public comment process, and this is a great opportunity for us to once again deploy our emissions reduction program here. We take off some existing compression and replace it with a much better emissions profile. So, very favorably received by the state and certainly we saw some very positive comments there in the public comment meetings, overwhelming support for that. So we expect that air permit by the end of this year as well.

And then finally, the Corps of Engineers will issue a 404 permit. This is a water quality permit. We would expect that probably in the first quarter of 2023, but it could come as early as the fourth quarter here in 2022. We've already had our 401 water certification

from the state of Pennsylvania that's been in hand for a number of months now and no technical issues remaining on 404 permit, just waiting for the process to play out.

So, those are the three outstanding things we're waiting on Regional Energy Access right now. And just as a reminder, we positioned this project very well to avoid any controversial permits and certainly position that air permit in New Jersey would be favorably received with the deployment of new compression there to take off some old vintage reciprocating compression.

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John Mackay

Analyst, Goldman Sachs & Co. LLC

That's great. Thanks for that. Appreciate it.

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CLOSING REMARKS

Alan Armstrong

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

Okay. Well, thank you all very much for the great questions and appreciate your continued interest in the company. We're very excited about the way the business is running right now, and we're extremely well positioned for growth in 2023 as we discussed. We look forward to talking to you at our 4Q earnings call and laying out in more detail what 2023 looks like. So, thanks again for joining us this morning.