The Williams Cos., Inc. (WMB)

EDITED TRANSCRIPT

2Q 2024 Earnings Call

August 6, 2024

Forward-looking statements

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> All statements, other than statements of historical facts, included in this report that address activities, events, or developments that we expect, believe, or anticipate will exist or may occur in the future, are forward-looking statements. Forward-looking statements can be identified by various forms of words such as “anticipates,” “believes,” “seeks,” “could,” “may,” “should,” “continues,” “estimates,” “expects,” “forecasts,” “intends,” “might,” “goals,” “objectives,” “targets,” “planned,” “potential,” “projects,” “scheduled,” “will,” “assumes,” “guidance,” “outlook,” “in-service date,” or other similar expressions. These forward-looking statements are based on management’s beliefs and assumptions and on information currently available to management and include, among others, statements regarding:

- 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.

> 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 and the ability of other energy companies with whom we conduct or seek to conduct business, to obtain necessary permits and approvals, and our ability to 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 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;
- 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 and conflicts in the Middle East, including between Israel and Hamas and conflicts involving Iran and its proxy forces;
- 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, 2023, as filed with the SEC on February 21, 2024, and (b) Part II, Item 1A. Risk Factors in subsequent 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 a 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 Executive 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 the presentation materials are 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'll turn it over to Alan Armstrong.

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Alan Armstrong

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

Great. Well, thanks, Danilo, and thank you all for joining us today. The story that John and I get to lay out for you this morning is one of consecutive growth as Williams continues to deliver on a long-term trend of per share growth and resilience regardless of the macro environment. In fact, we delivered record second quarter results, driven by the strong performance of our transmission and storage business this quarter. Even our gathering and processing business held up very well despite challenging natural gas prices.

The good news is that a meaningful increase in natural gas demand that continues to exceed our expectations will take advantage of these abundant supplies, driving growth for years to come, and the supply side is poised to respond with over 1 Bcf a day of volumes from delayed TILs and temporary shut-ins to return to our gathering systems. And before we get deeper into the financial metrics, I want to hit on a few key themes from the quarter, namely our crisp execution of key projects that are positioning us for continued earnings growth and the ongoing focus we have on optimizing our portfolio and ensuring sustainable operations.

So, starting here on slide 2, our teams have executed on an extraordinary amount of strategic priorities, including placing projects into service in the Northeast, the West, and the Deepwater Gulf of Mexico. Just to run down the list quickly here, last week, we placed Transco's Regional Energy Access into full service ahead of schedule and under budget once again, ensuring clean and reliable natural gas is available to serve the Northeast region for the upcoming winter heating season. And while the D.C. Circuit Court did issue decision last week to vacate the FERC certificate for REA, we believe the court's concerns about the FERC's process are once again flawed and will be fairly easy for the FERC to resolve. In the meantime, we are taking the necessary legal and regulatory steps to address the court's concerns and ensure that this much needed firm transportation capacity continues to be available to serve the needs of our customers without interruptions. I'll remind you that our industry has seen similar court rulings in the past with projects such as Sabal Trails as well as Spire's expansion. With both of these projects operating today, we see limited risk to major interruptions to REA operations and are prepared to help the FERC in reaffirming the merits of this important project.

Other notable expansions we've recently completed include the Marcellus gathering expansion that serves Southwestern’s rich gas zone in the Marcellus and the fully contracted MountainWest’s Uinta Basin transmission expansion. And in the Deepwater, there are two new fields that will increase EBITDA in the third quarter on our Discovery system, which we now fully own. So, we're excited about the acquisition of the additional interest in Discovery, and we're really excited about the kind of growth that we're seeing both here in the near term and the long term. So, first of all, Chevron's large Anchor development and Beacon's Winterfell five-well program are both fully connected and will drive a large increase in EBITDA for 2025, as well as for the balance of this year. Additionally, Hess brought on their Pickerel prospect on June 25 that will grow EBITDA on our Eastern Gulf assets.

We were also active on advancing construction for several key projects. We initiated construction activities on the Louisiana Energy Gateway gathering, treating, and carbon capture project, as well as Transco's Texas to Louisiana Energy Pathway project, which we call TLEP. TLEP project provides our anchor shipper, EOG Resources, with access to the LNG corridor and higher-price markets on the Transco pipeline and specifically, all the way into the Louisiana market. So, we're excited about getting started on that fairly significant project for us. And then recently we also signed a precedent agreement on Transco's Gillis West expansion. This will bring new, reliable, and low-cost supplies to CenterPoint Energy's Houston area market from Louisiana. So, this is effectively a backhaul on Transco, helping CenterPoint to reduce their dependence on the Texas intrastate gas pipeline systems. Importantly, this quick turn project will add meaningful EBITDA with very little capital required on our part to place that into service.

I also want to call out the significant emissions reductions and cost savings accomplished this quarter as part of our system-wide modernization and emission reduction program. Thus far, we have replaced 57 transmission compressor units and are on track to meet our goal of 112 units to be replaced by the end of this year so that we can begin recovering on these investments in our latest rates. And on that note, we will file our new rates on Transco at the end of this month, and the new rates will go into effect in March of 2025. So, an incredible amount of work is going on by the teams to replace a lot of these very old units with modern low-emission equipment on the system. And a lot of times, those kind of projects get overlooked, but tremendous amount of effort and great execution going on by the teams on that front as well.

Looking at the second column, we continue to take steps to optimize our asset portfolio. We sold our stake in the Aux Sable joint venture at an attractive gain and consolidated our ownership interest in the Gulf of Mexico Discovery system at an attractive value given both the very near and long-term growth on this asset. From a financial perspective, we remain on track to achieve the top half of 2024 EBITDA guidance. And we also reaffirm our expectations for 2025, which translate into a five-year EBITDA CAGR of 8%. More importantly, the growth in our per share metrics will be just as strong over this five-year period with an AFFO per share CAGR of 7%, and our EPS CAGR of 12% over this five-year period. Of note, the fundamentals to sustain and even improve on this industry-leading earnings and cash flow growth beyond 2025 actually continue to improve. Our Southeast Supply Enhancement project is just the first of a few projects we expect from the secular trend of increased demand for power generation, and we remain in the best position to secure additional infrastructure solutions in and around our Transco pipeline footprint.

Finally, we continue to prioritize being a responsible operator in all that we do, and this is clearly outlined in our 2023 Sustainability Report that we published last week. This report is really a deep dive on how we focus on doing business the right way. And one area I'll call out is our efforts in progressing on our decarbonization goals. We are focused on proving up that the natural gas industry can play an even more important role in providing affordable and reliable energy while also continuing to reduce greenhouse gas emissions here at home and around the world. And so with that, I'll turn it over to John to walk through the second quarter financials. John?

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John Porter

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

Thanks, Alan. Starting here on slide 3 with a summary of our year-over-year financial performance, beginning with adjusted EBITDA, we saw about a 3.5% year-over-year increase despite low natural gas prices that fell about 5% versus 2Q 2023, averaging close to around $2 for second quarter of 2024. And that 3.5% adjusted EBITDA growth is over our second quarter last year that had grown about 8%. So, in spite of low natural gas prices, once again, our resilient business continued to grow even as producer customers employed pretty significant temporary production reduction measures like not completing drilled wells and/or not turning in-line wells that now stand ready to flow as prices improve. As we'll see on the next slide, our adjusted EBITDA growth was driven by strong growth from our large-scale natural gas transmission and storage businesses, including the favorable effects of our recent acquisitions.

Year-to-date, our adjusted EBITDA is now up 6%, so right in the middle of our long-term growth target of 5% to 7%. For 2Q, our adjusted EPS was up 2%, and year-to-date our EPS is up about 3%. So, a bit slower EPS growth in 2024 as compared to the 19% five-year CAGR that we've seen through 2023. But as Alan mentioned, looking through 2025, we do see a five-year CAGR that will be in excess of 12%. For 2Q, available funds from operations, AFFO growth, was 3% and 4% year to date. Similar story here with this slower 2024 growth following an 8% five-year CAGR through 2023, and when you look through 2025, we see a five-year CAGR of 7%. Also, you see our 2Q dividend coverage based on AFFO was a very strong 2.16 times on a dividend that grew 6.1% over the prior year and 2.38 times coverage year-to-date. And our debt to adjusted EBITDA was 3.76 times, which is in line with our expectations for slightly higher leverage in 2024 before dropping back down in 2025 to guidance of 3.6 times or better.

So, before we move to the next slide and dig a little deeper into our adjusted EBITDA growth for the quarter, we'll provide an update to our financial guidance. In general, our second quarter update is unchanged from what we provided in our first quarter earnings presentation. Based on our strong start to 2024, we guided to the upper half of our 2024 adjusted EBITDA range of $6.95 billion to $7.1 billion. And we indicated that we were well-positioned for upsides to drive towards the high-end of this original guidance. We also shared that we remain well-positioned to deliver on our 2025 adjusted EBITDA range of $7.2 billion to $7.6 billion. And that based on our improved 2024 adjusted EBITDA outlook and some other changes, we saw our key per share metrics, adjusted EPS and AFFO per share coming in at the high end of their ranges for 2024. So, again, no major shifts to that first quarter update except perhaps to say that we are increasingly comfortable that we can clear the $7 billion level for 2024 adjusted EBITDA, while still not counting on any additional help from Sequent. And, of course, we also wouldn't include ~ $150 million gain we expect to have on the Aux Sable sale in there as well – as we exclude gains and losses on asset sales from our adjusted EBITDA measure.

So, let's turn to the next slide and take a little closer look at our first quarter results. Walking now from last year's $1.611 billion to this year's $1.667 billion, we start with our Transmission & Gulf of Mexico business, which improved $64 million or just over 8.5% due to the combined effects of a full quarter contribution from the Hartree Gulf Coast storage acquisition, which is delivering as expected following a flawless integration effort. We also had higher Transco revenues, including partial in-service from the Regional Energy Access Project, and segment growth was unfavorably impacted by last year's Bayou Ethane divestiture and also some planned downtime in the Eastern Gulf of Mexico. Now, the $36 million unfavorable variance for the Northeast G&P business is really against a strong quarter last year that included the effect of a one-time $15 million favorable gathering revenue catch-up adjustment. However, we did see lower Northeast gathering volumes that were driven by those temporary producer reductions that were basically roughly in line with our plan for the year. And those volume reductions were partially offset by rate escalations across several franchises in the Northeast.

Shifting now to the West, which increased about $7 million, benefiting from the DJ transactions that we completed in the fourth quarter of 2023. The increase in the DJ Basin results was about the same magnitude as the unfavorable loss of hedge gains we had in 2023. Segment performance was also favorably impacted by higher NGL services results, including higher Overland Pass Pipeline volumes, where low natural gas prices have supported greater ethane recoveries. Overall, West gathering volumes were also lower as a result of temporary producer reductions, primarily in the dry gas Haynesville area. And then you see the $2 million lower marketing loss that was in line with our plan based on the expectation that our natural gas marketing business will typically have a loss in the second quarter. Our upstream joint venture operations included in our Other segment were up about $12 million from last year. So, again, a second quarter that continued to beat our business plan, proving once again our ability to grow our business in spite of a challenging natural gas price environment and also giving us further confidence in our ability to beat $7 billion of adjusted EBITDA in 2024. And with that, I'll turn it back to Alan.

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Alan Armstrong

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

Okay. Well, thanks, John. Just a few closing remarks before we turn it over to your questions. I'll end where I started with my remarks, and that is to emphasize what Williams has been able to deliver in the current environment and how well-positioned we are for the future as natural gas demand continues to grow. As we think about our long-term strategy, we are confident in the role our valuable natural gas infrastructure will play in meeting both today's energy demand as well as the projected growth from power generation and LNG exports. We are seeing demand grow at an unprecedented pace and expansions of our uniquely placed infrastructure will demand a premium.

Simply put, there is no other midstream company today that is set up better than Williams to capture this demand growth. We are the most natural gas-centric, large scale midstream company around today. And our natural gas-focused strategy continues to deliver growth on top of growth, quarter after quarter. And to that point, we've now seen 11 consecutive years of adjusted EBITDA growth and an 8% compound annual growth rate of our adjusted EBITDA since 2018. In addition, we have realized a 19.5% return on our invested capital during the last four years, and our steadfast project execution has led to record contracted transmission capacity and will continue to drive per share growth in 2024 and beyond. In fact, our current projects and execution have higher returns than the prior four years. So, in closing, we've built a business that is delivering record profitability and strong financial returns in the present but is positioned for an even faster-growing future. And so, with that, we'll open it up to your questions. Thank you.

Question & Answer Section

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Praneeth Satish
Analyst, Wells Fargo

Hi, all. Good morning. Maybe I'll start with data centers here. So, you mentioned that SSE is just the first in maybe a handful of other data center projects. I guess two questions here – can you give us a sense of the size and scope of some of the other projects that you're looking at in the backlog? And then, how do you think about the returns on future projects? For SSE, I mean, we're estimating around a five times EBITDA multiple. Do you think that some of the future data center projects that are in the backlog could earn similar types of returns?

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

Yeah. Well, first of all, Praneeth, thank you for the question and important issue. First of all, on SSE, actually our return is even better than that. Probably, as we've mentioned, the best return we've ever seen on a large-scale project on Transco, and actually any of our transmission expansions over the long history for Williams. So, a pretty extraordinary return opportunity there. In terms of the data center load, we are right in the throes of that. We have a very long backlog of projects. And I will tell you that particularly in the Southeast and the Mid-Atlantic, those expansion opportunities that we have, we frankly are kind of overwhelmed with the number of requests that we're dealing with, and we are trying to make sense of those projects. Obviously, we're not going to start or announce another expansion project on the top of SSE because obviously that would force a combination of projects. And so, it doesn't make any sense for us to be making any announcements when we've got a large project that we've committed to our customers to do everything we can to get that permitted cleanly and push that ahead. So, extremely critical expansion for our utility customers there in the Mid-Atlantic and the Southeast. And we understand that. And we're going to make sure that we deliver on that first to our customers.

But despite the fact that there's a lot of attention there in the Southeast and the Mid-Atlantic, we're actually seeing strong demand response and a lot of projects that we're dealing with and trying to figure out how we can respond to in the Rocky Mountain states, particularly in Eastern Washington, in the Quincy area, and in Idaho, in Salt Lake City region. So, a lot of demand going on everywhere. And frankly, the big developers that we're working with are looking to find where they can – because time is of the essence probably more than we can even imagine in our business – and so, they are looking to where the permitting regime is right, where there's access to abundant natural gas supplies, and frankly, where expansions on our systems are available. And so, this has moved from being one where people have been very focused previously in cloud-based data centers, they've been very focused on the latency issue or in other words the connection into very fast and broadband networks to where they are now focused on the latency being less of an issue – I wouldn't say it's not an issue, but less of an issue. And the speed to market for power generation and gas resources being available to power that are coming front and center along with the local air permitting issues associated with that.

So, I would just tell you it is kind of an exciting time for us and even for me personally to be in such a steep learning curve on how we are going to make the very best use of our assets. But there certainly is not a dearth of opportunity for us in that regard. In fact, as I said, it's a little bit overwhelming and we're going to have to just make sure we make the very highest use of our assets. Because there obviously is, as we expand the lower-cost expansions, drive very high returns, but we only have so many of those, and those are precious, and we know that. And so, we're making sure that we make the very highest return associated with the expansion around our assets. So, we're not going to put a number on it because I hear people putting a number on it. And frankly, that's a very large guess. And in a timeframe, frankly, that's out there so far that – and if you're not speaking to the returns that you're making on the project, I'm not really sure of the purpose of quoting those kind of numbers when you're not really talking about economic or financial impact to your business, and we're not ready to lay that out. But I can tell you that if anybody else has more opportunity than we do, I wish them luck because we're going to have a hard time keeping up with the opportunity in front of us right now. So, hopefully that gives you some color. But I would tell you I think it's not all that meaningful to quote volumes on expansions if you're not talking about returns and you're not talking about the timeframe for those opportunities.

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Praneeth Satish
Analyst, Wells Fargo

Got it. No, that's helpful. That's great. And maybe just switching gears, can you help us understand what the next steps are for REA following the D.C. Circuit Court's decision? I guess, have you filed for an emergency petition to keep the pipeline in service? And is there gas flowing today? Just trying to understand whether this impacts the early in-service at all.

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

Yeah. Well, first of all, yes, gas is up and flowing and kudos to our team for being able to respond so quickly to that, just incredible project execution on that project in a difficult area. And I'm going to turn it to Lane Wilson, our General Counsel, to speak to the legal proceedings.

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Lane Wilson
General Counsil & Senior Vice President, The Williams Cos., Inc.

Yes. I think the next step will be seeking a temporary certificate. This is not new to FERC. They've dealt with this issue before. We fully anticipate they'll be defending the certificate. We'll be seeking rehearing on a timely basis – and that's probably about 35 days out at this point, maybe 37, 38. But we don't have any concerns that we're going to be able to continue to operate, don't have any concerns about getting a temporary certificate and ultimately don't have any concerns about defending what FERC has done on this project.

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Praneeth Satish
Analyst, Wells Fargo

Got it. Thank you

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Jeremy Tonet
Analyst, JP Morgan

Good morning. Just wanted to look at the guidance here and see what the current thoughts are with regards to producer production expectations over the, I guess, the balance of the year and into 2025 here. Is the expectation that we've kind of hit the lows and there's kind of growth from these points, or just how you see production trending across your gathering assets?

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

Good morning, Jeremy. It's Micheal. Yeah, I think, right now, we feel good about where we're at in regard to our current forecast for the production profiles coming from our customers. You've got to look at it between the rich basins and the dry gas, and obviously the dry gas is challenged by pricing now. So, producers are making a month-by-month decision on gas volumes that they might shut in. I think you probably saw Coterra's announcement where they were shutting in 300 million for the month of August. And it's really a month-by-month decision for all the producers out there.

But right now, we've anticipated this as you've probably seen through the first half of the year. The team did a really good job anticipating where the production shut-ins would occur and the delayed TILs and DUCs. I would say, right now, we've got over 1 Bcf of delayed TILs in the queue right now between all of our customer base, meaning that the producers have drilled the wells and completed them and we've connected to them. And they are ready to go when the price signals are there. And there's over 1 Bcf as well of DUCs. So, they've been drilled but not completed on our system. So, there's definitely a lot of opportunity to bring on gas as the producers see a price signal.

And so, I'd say our rich basins are still outperforming. We're seeing good pricing netbacks for the producers there. And that certainly buffers the dry gas situation that we have right now. But all in all, we feel good about our end of year forecast. Then, certainly 2025 is going to be price sensitive as well. The Golden Pass LNG facility – you probably saw the announcement yesterday that they're going to be an end of 2025 in service it appears. And so, that should have been anticipated already by the market, it looks like with the forward curves and producers will be making decisions on these curves. And when prices elevate, obviously, they'll hedge into that and keep their volumes flowing is what we anticipate. So, we're really comfortable with where our current forecasts are.

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Jeremy Tonet
Analyst, JP Morgan

Got it. That's very helpful. Thank you for that. And just wanted to pivot towards the LEG, if I could, and just want to see your latest thoughts on moving forward there with regards to FERC requesting more information. Just wondering if you could update us there and how you think about that?

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Lane Wilson
General Counsil & Senior Vice President, The Williams Cos., Inc.

Yeah. We've responded to the FERC data request, and we fully anticipate that FERC is either going to dismiss this matter or find that LEG is a gathering system. We really don't have any concerns there. And so, there's really nothing for us to do right now except continue down the current road which is in construction. So, again, we feel pretty confident about where we are in this project.

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Jeremy Tonet
Analyst, JP Morgan

Got it. Understood. Thank you for that.

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Spiro Dounis
Analyst, Citigroup

Morning, everybody. Alan, wanted to go back to some of your closing comments there and maybe if we could tie power generation demand with how you're thinking about the EBITDA outlook longer term. So, one of your slides, slide 17, points to 10 times the amount of electricity demand growth over the next 10 years versus the last 10 years. And I think you mentioned in your comments there, you guys have been able to grow at about an 8% CAGR historically. So, as you think about the go-forward here, you guys have that 5% to 7% growth target out there, is it time to sort of start thinking about that as maybe potentially moving higher in this environment, which I don't think you contemplated when you sort of laid that out there?

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

Yeah, Spiro. It's a great question, actually. And I do think that there is plenty of potential even in the face of just the law of big numbers and continuing to put an absolute level of growth against a bigger and bigger number that, as you know, has grown faster than we've expected over the last three, four years. But I do think that given the strength of the return on our projects and the kinds of opportunities that are coming at us right now, I do think that that is a fairly high probability that we could expand beyond that. And particularly, as we get into the 2027 and 2028 timeframe. Because I do think that, for instance, data center load and power gen load, for us, that's going to result in capacity sales on our transmission systems. And that is going to take time. We're completely contracted out on our existing capacity. And so, that is going to take time to build that out. But I do think as we get into 2027 and 2028, we're going to see a very strong impact from the kind of demand that we're seeing right now.

The good news is, for us and I think a little bit uniquely, I think, is the number of projects we already have coming on in 2025, 2026 and 2027 give us a great runway of growth. And I don't remember a time when we've looked out and thought we've got this kind of accelerating growth into that past the next three or four years. So, I do think that we just got done with our long-range plan and strategic planning, and it was a very encouraging look at what our business looks like for the future with the kind of demand that we have coming in. And frankly, I would say we've been pretty conservative in marking that into our plan at this point. So, yes, I do think that we certainly – there's a very high probability that we'll be able to exceed that over the next five years.

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Spiro Dounis
Analyst, Citigroup

Great. That's helpful color. Second question, just going to M&A, was hoping for an update on the landscape and if you're seeing the same value proposition you saw over the last two years, or maybe if we could expect you to look a little more inward now and consolidate some of these other JV positions?

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

Yes. I mean, there's certainly an inventory of opportunity. Obviously, the Discovery joint venture that we bought in here just recently is one of those that was important for us and particularly where we're seeing the growth. And certainly, as we look at the free cash flow that this business generates, we are looking for places to make wise investments with that capital. And so that certainly represents a target opportunity for us in terms of the joint ventures that we – I would say we were very fortunate to have great partners like the Canadian Public Investment Fund that helped us in the OVM area and helped us really expand that area pretty dramatically. And we're excited to have them as partners. But there will be a time, perhaps, where they would want to monetize that. So, a good example of one where it worked out perfectly well and now provides an inventory of investment opportunity for us in the future. But I would say we're going to be patient about that and we're going to have to have a willing seller on the other side if we want to go and execute those.

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Spiro Dounis
Analyst, Citigroup

Got it. I will leave it there. Thanks as always.

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Manav Gupta
Analyst, UBS

Hi. Quick follow-up, a little bit on the lines of Spiro. Looks like you bought some stuff from PSX, I know as a part of partnership, about $170 million you paid for it. So, help us understand the strategic thought rationale of buying at this point and buying from PSX. And obviously, I think PSX is in the market with some other assets. Would you be interested in those also?

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Chad Zamarin
Executive Vice President-Corporate Strategic Development, The Williams Cos., Inc.

Yeah. This is Chad Zamarin. I'd say, again, we owned 60% of the Discovery joint venture with Phillips 66 and they've been a great partner for us. But you've heard a lot about our offshore growth, and so, certainly a core part of our business and a very attractive growth profile ahead. And so, very core for us, and I think you'd probably hear not core for PSX. So, as Alan mentioned, where we have joint venture interests, we understand the operations of those facilities. It's a low-risk investment for us. We see growth coming in this quarter. If you think about Discovery, we were able to acquire that at a – what we think is a low multiple on a go-forward basis. As you'll see, the growth in Discovery really ramp up through the remainder of this year and even more impressively into 2025 and beyond. And Aux Sable, on the other hand, again, an asset that we've owned for a long time, had a great relationship there, but not core to our business. And Pembina has been consolidating their ownership in Aux Sable and the Alliance Pipeline system. And so, we were able to sell that at what we saw as a pretty high multiple. And you think about the difference in those cash flows – Aux Sable is a more volatile commodity exposed set of cash flows; Discovery is a highly contracted asset that's going to grow. So, I don't think that that should be translated to other assets that PSX may own. It really is us, I think, rotating and optimizing our portfolio in a way that's going to create incremental value. And that's really the strategy when we look at any transaction – where do we have a unique opportunity to turn something into more value by owning or consolidating that interest

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Manav Gupta
Analyst, UBS

Perfect. My quick follow-up is, obviously, we get a lot of questions on storage. So, what is your thought process on current storage rates and expansion opportunities? If you could talk about the set of opportunities that specifically relates to storage. Thank you.

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Chad Zamarin
Executive Vice President-Corporate Strategic Development, The Williams Cos., Inc.

Sure. Yes. This is Chad again. We've only owned the Hartree storage assets for just six, seven months, and we've already seen really attractive re-contracting of storage at rates that have exceeded our expectation. We have been in the market to test whether or not we're seeing those rates and the tenor of terms approach expansion economics. We've seen the storage market certainly growing in value. That's why we acquired NorTex and the Gulf Coast storage. We acquired Clay Basin, the largest storage asset in the Rockies as part of the MountainWest acquisition. And in all cases, we've seen an increase in value in storage over the last few years. I'd say that we're still climbing the curve towards what we think makes sense from an expansion perspective. We are, I think, approaching the rates that are required for both brownfield and potentially greenfield expansion, but we're still needing to see a bit more depth in the term contracts for us to put large capital to work in expanding those facilities. But all signs are – we've shown the fundamentals. We haven't grown storage as a country at all over the last 10 years while gas demand has been and will continue to grow significantly, and importantly will grow in more volatile markets. And so, we have a lot of confidence that storage will continue to increase in value, and we will, at some point, reach the point at which expansion makes a lot of sense.

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Manav Gupta
Analyst, UBS

Thank you.

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Neal Dingmann
Analyst, Truist

Thanks for fitting me in. My first question is on the Gulf of Mexico, especially, could you talk about the continued upside there specifically? It's interesting, it seems like you have a lot of opportunities for additional projects. I mean, I think you all mentioned the 2 zero-capex tiebacks that you announced after winning that acreage dedication. So, I'm just wondering sort of – not even for the remainder of this year but in 2025 – how are you sort of looking at upside potential there?

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

Yeah, great question. A lot of exciting things going on in the Deepwater. And, again, we've got so much activity going on that I think it's easy to overlook the amount of execution that's gone on on projects like Whale, which – where Shell is working away at, most of our work is retired on that at this point. And so, there's a little bit of remaining commissioning, but for the most part, our work there and the risk of our work has been retired. So, we're excited about seeing that project come on, and that by far is the largest. The second largest is

Chevron's Ballymore project, and that's actually been accelerated a little bit from our original plans in terms of the timing on that. It will take a shutdown on their Blind Faith platform that feeds into us here in the back half of this year, but exciting project coming on there as well. And a great example of a very large project, kind of like Anchor, but no capital required on our part. Those are our very favorite projects in terms of adding incremental value on the business. And there's a lot of drilling activity going on in and around our assets that we think is going to continue to drive value.

One of the things that really changed in the Deepwater is if you roll the clock back 15, 20 years ago, people were building these mammoth floating platforms, Deepwater platforms, that were incredible engineering feats. But it took a long time, a lot of uncertainty, and a lot of risk. And today, what we're seeing is producers working hard to find reserves and develop reserves around their asset base and their existing infrastructure. And with that comes extremely high incremental returns for us because we're not having to build out to that new infrastructure. And so, I would say in the Deepwater, that is one of the really powerful things for us, is the fact that we built a lot of this infrastructure with latent capacity in it. And as that – just because it costs so much to lay a line in that depth of water anyway, and as that latent capacity fills up, we're getting very high incremental cash flows off of that. So, we are continuing to see a lot of activity. And we're very fortunate that a lot of the activity happens to be centered around our asset base in the Deepwater. And it really goes not just in Western Gulf, where there's a lot of activity, the Central Gulf, which we've talked about today with both Anchor and Winterfell and Shenandoah is the next to come on next year. We spent a lot of time and effort getting prepared for Shenandoah because it is a fairly large prospect that will be coming on to our Discovery system. That will be coming on next year. And then in the Eastern Gulf, of course, you heard me mention the Hess Pickerel project, that's a tieback to Gulfstar as well as Chevron's Ballymore prospect. So, a lot of activity going on. We couldn't be happier to have the really strong competitive advantages that we have there in the Deepwater.

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Neal Dingmann

Analyst, Truist

Fantastic details. And then just one quick one on West. Specifically, there's been quite a bit going on in the DJ around the acquisitions there. I'm just wondering, can you talk about potential near-term upside around what you see post those acquisitions?

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Chad Zamarin

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

Yeah. I would just say that area continues to perform and frankly outperform. We really like the positioning that we have. We've got – not only are we seeing more integration value in being able to optimize processing and gathering in basin, but because we market and transport the NGLs, we see a lot of margin from that growth further downstream. And so, yeah, I think you're already seeing some of the important contributions. And we do expect that to continue to grow for a long time to come. So, we do expect outperformance in the DJ.

Neal Dingmann
Analyst, Truist

Thank you so much.

Zack Van Everen
Analyst, Tudor, Pickering, Holt & Co

Hey, guys. Thanks for taking my question. Just shifting to the Northeast, you mentioned rates on Susquehanna and Bradford ticked up this quarter. I know you have cost of service contracts, at least on the Bradford side. Was that part of the dynamic or was this something else? And is this kind of a good run rate going forward, or is this kind of a one-time revenue make-up like we saw last year?

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

This is Micheal. The cost-of-service agreement we had with Bradford has reverted to a fixed fee per the contract terms. So, that has been finished and completed and negotiated with all the customers on the Bradford. And so, I would just say we did have a one-time true-up last year that obviously affected the comparable quarter this year. But other than that, you should expect to see this as a run rate fee with obviously escalation being the variable there going forward. And then any expansions that we do would be negotiated as well through the capital that would be invested in those expansion opportunities there in the Bradford.

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

Probably the main thing that you see in the numbers you're looking at is the fact that when we see more and more activity in the rich gas like we've been seeing, you see our margins in the rich gas are almost double what they are in the dry gas, and sometimes more than that. And so, as the drilling moves into some of these rich gas developments like in the Utica and in Southwestern PA and West Virginia, you will see our average rate increase as more and more of the mix moves into the rich gas. In addition to that, though, we have the inflation adjuster that hits every spring as well. And so, that picks up those rates as well. So, a lot of positive momentum on rates. And importantly, as we've said in the past, when the dry gas area is challenged, typically, we see the rich gas respond and we make so much higher margin on the rich gas because of all the services we provide on it, that tends to offset declines in the dry gas.

Zack Van Everen
Analyst, Tudor, Pickering, Holt & Co

Got you. That makes sense. Thank you for that. And then maybe shifting to the Rockies, one of your peers announced they'd be converting their crude pipe out of the Bakken that flows into Wyoming into NGL service. Probably a little bit far out, but is there space on

Overland? And would you guys be interested and able to take those volumes if they were to approach you on that?

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Chad Zamarin
Executive Vice President-Corporate Strategic Development, The Williams Cos., Inc.

Yeah. Sure. This is Chad. There is space on Overland Pass, and we do see that as an opportunity and I think it is good, frankly, for the Bakken producers that there is some takeaway diversity. We're certainly focused on making sure we'd be a good option to receive NGLs from the Bakken and from the Powder River Basin. So, yeah, we do think there is an opportunity there. We're not going to get too far ahead of that, but we're hopeful to see those barrels heading south. And, yes, we've got capacity in Overland Pass that would be available.

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Zack Van Everen
Analyst, Tudor, Pickering, Holt & Co

Awesome. Thanks, guys.

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Robert Catellier
Analyst, CIBC

Hey. Good morning, everybody. Understanding that you will file rates by the end of month on Transco, could you give us any insight into the progress you're making there and the likelihood of a settlement? And also, your interpretation of shipper appetite to support modernization investments in light of your new methane intensity targets.

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

Yeah. Thanks for the question. We would love to see a settlement there. We'll obviously get our rate case filed at the end of the month and then work on seeing if we can get to a settlement. We've obviously been talking to the customers for quite some time about the modernization efforts that we have underway. And there should be no surprise to them when we make our filing, and they see the amount of investment that we've made there. And so, we do think that will help possibly grease the skids for some type of modernization tracker with them so that we can smooth out some of these increases going forward on the Transco assets just like we've done on the Northwest Pipeline rates with our last rate case that we settled there. So, that is the intent going in is hopefully we can get a modernization tracker not just for our emissions reduction program, but for some of our pipe replacements that are needed in some of the growing population centers there. We have a significant amount of pipe that we de-rated over the last several years and decades that we could upgrade – and we will be doing that – but it would be better to do that through a modernization tracker as well. So, that is the intent. But we've had a pretty good opportunity to discuss and alert the customers as to what to expect in this rate case. And once we get it filed, we'll start the settlement opportunities. But as you probably well know, the rates will go into effect on March 1 of next year, subject to refund once we either get a settlement or fully litigate the outcome of the rate case.

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Robert Catellier
Analyst, CIBC

Okay. And then the next question here is just – what's going on in the legal realm? How does the D.C. Circuit decision on REA and also the Chevron deference case reversal impact how you're approaching permitting?

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Lane Wilson
General Counsil & Senior Vice President, The Williams Cos., Inc.

Yes. Lane Wilson. On REA – well, let me first address the Chevron deference. I don't think anybody really knows for certain how that's going to play out except that it will likely force the administration and subsequent administrations to stick more closely to what Congress has set out in the laws, and probably means fewer pendulum swings. I think that's probably good for the industry on the whole. And in terms of REA, what was your specific question?

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Robert Catellier
Analyst, CIBC

Yeah. I'm just wondering if that decision changes how you approach future permitting activities.

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Lane Wilson
General Counsil & Senior Vice President, The Williams Cos., Inc.

I don't think so. I mean, I think we feel like the FERC drafted a certificate order that was very defensible. The decision is unfortunate that the D.C. Circuit did what it generally does. And this situation kind of laid out a path for the FERC to fix the certificate, and that's what we expect to happen. I don't think that the Chevron Loper case, has any real impact on the way we will approach certificates in the future.

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Robert Catellier
Analyst, CIBC

Okay. Thanks very much.

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Tristan Richardson
Analyst, Scotiabank

Hi. Good morning, guys. Just a question on the Gillis West Project, a small project, but can you talk about maybe some of the key differences between this project as a Transco expansion versus, say, a LEG from a permitting standpoint – right of way standpoint? It seems like this is certainly a smaller project but offers quite a few efficiencies from a capital and permitting perspective.

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

Yeah. Tristan, thanks for the question. The reason this is important is because CenterPoint has been plagued with a number of very high price spikes in the Texas intrastate market for various reasons. And this allows them access to gas supplies that are more associated with the Henry Hub from a pricing point and gives them reliable access to supplies from Louisiana without being dependent on the volatility that some of the Texas intrastate pipes and markets have imposed on them – both for power generation and for the normal residential loads. So, we think it's a great project for CenterPoint, and important for us. Really, all we need to do there is primarily just an interconnect, and that will allow for us to provide gas supplies coming into the Louisiana market, places like Gillis, which is becoming obviously an important pooling point for supplies. And this will allow them access to those supply points from places like the Haynesville and diversify their supply and again kind of moves them away from the volatility. So, for us, it's a great project because it's effectively – we're getting paid for transportation capacity flowing back to Texas and requires very little capital on our part, mostly just the interconnect there. So, exciting and I think a meaningful improvement for Texas and the volatility they've had to deal with there from some of the suppliers into that market. And – but in terms of – this is just basically transmission quality gas coming out of Gillis that will help supply directly to their markets there down the Transco corridor. So, pretty simple on one hand, but pretty important on the other.

Tristan Richardson
Analyst, Scotiabank

I appreciate it, Alan. And then maybe just on the last line of questioning, a broader question about the regulatory environment. It's been two years since you've had a full board of commissioners, and we're here at a time where you're seeing meaningful demand in the Southeast, Mid-Atlantic. Can you talk about what you would like to see on the permitting side from a streamlining, or just anything to be able to better accommodate the demand you're seeing?

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

Yeah, it's a great question. I think the primary issue with the permitting is not really the FERC. FERC, I think, has been a very responsible agency, particularly under Chairman Phillips' leadership. And I think they're trying to do their very best to see responsible infrastructure get developed. And they realize, it's very clear to them the kind of challenges that we're going to have on the grid if we don't have natural gas supplies available to provide incremental power supplies on the one hand and backing up renewables on the other. That is not lost on them at all. They face that responsibility as a commission and an agency, and I think they take it very seriously. So, that's not really where the problem is. The problem really revolves around the NEPA process and the handles that it gives to environmental opposition to take up issues that have very little to do with the pipeline construction but have to do with their own fight against fossil fuels. And because the NEPA process allows them to kind of grab hold of projects inappropriately, the need for reform is probably the most important thing. I'm really excited – everybody has been talking about the Chevron deference, which we think is important – but you also saw the Supreme Court agree to take up review of the NEPA process as well. And I actually am really excited to see that. That could really reform permitting in a way that's meaningful and really stop people from being able to just arbitrarily stop projects in their tracks and cause lawsuits in the process, which is the NEPA process that we know today. And so, anyway, that's important to us. The 401-water quality certificate that the states are allowed – that gives them a right to just stop projects is important to see that turned around, and as well as the judicial standard for the way that a court would review a complaint against the permit. So, those are really the three primary things that we're looking for. And I'm normally not very optimistic about seeing anything happen on permitting reform, but really excited to see the Supreme Court taking on the NEPA review. So, yeah, we could see some – it's not going to be quick, but we could see some relief there down the road.

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Tristan Richardson
Analyst, Scotiabank

Appreciate it. Thank you, Alan, very much.

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Theresa Chen
Analyst, Barclays

Good morning. Based on what we've seen in the market very recently as far as the data center-related or data center-driven brownfield expansion on natural gas transmission, the implied rates seem to be far above several multiples of existing tariffs and economics. Is that consistent with your expectations as you move through the process of addressing the sheer number of requests you have? And is that a key hurdle in getting these projects done in addition to speed to market?

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

Hey, Theresa. This is Micheal. Yeah. I would say we're still going to be seeing negotiated rate contracts as we've been doing on our transmission businesses that are in excess of our base tariff rates. I believe that's what your question was. And as Alan said, there's a lot of opportunities that we're exploring not just on Transco, but on Northwest Pipeline, on MountainWest pipeline and Overthrust Pipeline that we're considering. And allocating resources to all of these projects to analyze has been a bit of a challenge. And so, redeploying some of our engineers and our project development teams to really focus on this has been a critical activity over the last several months. But I would say we're going to see, I think, really good multiples on our projects. We aren't doing 6x multiple projects on any of our transmission businesses. And, in fact, none of them have a five handle anymore. So, I think that trend will continue because, as Alan said, the speed to market is incredibly important for these data center loads. And the fact that they need to be online quickly is their biggest priority as opposed to what their energy costs are, it appears to us. And so, that does certainly give us some leverage in the marketplace. And especially with where our assets are located, I think it gives us an incredible opportunity to serve these new loads.

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Theresa Chen
Analyst, Barclays

Got it. And a follow-up on the regulatory front. As we approach the election season in the fall, what are your latest thoughts around that as it pertains to assets within your business, any key considerations on your mind as we move through the next few months on this front?

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

Yeah. Well, that's a big hairy topic, but I'll just try to address it quickly. First of all, the taxes are probably the most important thing, and it's very real to us in terms of the ability to continue to invest in these high-return projects that we have as an opportunity in front of us – is the tax impact on our business and the amount of free cash flow. So, it's pretty obvious to us that delta and something we're keeping a close eye on. Beyond that, I would tell you that – and I have to remind people this that even during the prior Trump administration, we had major projects get stopped like Constitution and NESE because of the 401 water quality certificate that allowed a state to stop a project without really an ability for the federal government to solve that. And so, I think it's great that there will be a bigger push. I actually think paying more attention to how Congress turns out and the legislative front is actually a bigger push because that's actually where we might see some reform in the law in a way that allows us to build out the pipeline infrastructure that we need. And so, we saw recently the Manchin-Barrasso bill did really nothing for the pipeline industry. And while we're very thankful for both Senator Manchin and Senator Barrasso, and what they've done for our industry, in this case that was really a throw to the transmission side of the business and really didn't do much for pipelines. And so, we think there's got to be some – and we get that. That's the state of the current Congress and the way the numbers stack up in there today. I think they both would like to do more, obviously, for pipelines if they thought that was possible. And so, we do think that watching to see how the legislature turns out could be an opportunity to see some serious reform on the permitting front. So, I would say we're paying a little more attention to that, frankly.

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Theresa Chen
Analyst, Barclays

Thank you.

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John Mackay
Analyst, Goldman Sachs

Hey. Good morning, everyone. I wanted to go back to the conversation quickly, if we can, around data centers. Just on the comments around speed to market, I was just wondering if you could flesh that out a little bit more for us what that would actually look like. Is that co-location on Transco? Is that something non-FERC jurisdictional? Anything you could frame up there would be helpful.

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Alan Armstrong

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

Yeah. Well, John, thanks for the question. I would just say that what we're seeing is a shift, because I think that the big developers are realizing that they're kind of up against a brick wall right now in terms of extracting more generation off the grid. They realize that that's pretty well-exhausted. And so, they're going to look to areas where both natural gas resource is available, the capacity for it is available, and as well as the permitting environment allows them to go build out some very significant power generation behind the meter on the one hand. We're still seeing a lot of growth on the utilities as well, more for the conventional data centers and the cloud-based data centers, a lot of growth continuing, as well as just general electrification of load that is driving that as well. But in terms of the hyperscaler and their approach right now, we are seeing them look all the way back into areas where the gas resource is abundant, and the permitting allows for getting on with developing the infrastructure that they need to have reliable and affordable power into those markets. But as Micheal pointed out, the speed to market seems to be the thing that is most top of mind for the big hyperscaler developers. And so, that's where we think there's going to be opportunity in places like Wyoming, where we have a lot of gas resource available and a lot of wind resource available as well. And so, I think we're going to see that. But we're also going to get a lot of indirect load from our utilities in these other areas as both the conventional data centers and electrification continues to grow in those markets.

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John Mackay
Analyst, Goldman Sachs

I appreciate that and acknowledge we're at top of the hour, I'll squeeze one more in. Gillis West, relatively small but actually pretty interesting. I guess we've had a lot of conversations around trying to get gas out of Texas into Louisiana given the LNG ramp. I guess I'd just be curious your perspective, is this a macro trend kind of shifting, is this kind of more of a maybe one-off with this customer? Anything you can kind of frame up from a kind of Louisiana demand ramp perspective would be interesting.

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Alan Armstrong

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

Yeah. Well, I would just say, if you think about all of the supply that the Haynesville has available and some of the resources even south of Haynesville that we think will get developed in a pricing environment that's coming forward right now, we think that having access to those Louisiana supplies and diversity of supply is really important. And, again, as I've mentioned in my comments, if you think about the pain that has been inflicted on some of the Texas utilities from the Texas intrastate market, where they didn't have access to a more diverse supply, we think this is a trend. I mean, it only makes sense that they're going to look back to see what's been imposed on them from a pricing standpoint and look for more reliable low cost supplies to be available. And to me, that's the important thing about this – is them recognizing that that fluctuation did not occur in places like Louisiana. It really only occurred on the Texas intrastate markets. And this gives them access to a more diverse supply. So, that to me is the keynote to take away from that project.

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John Mackay
Analyst, Goldman Sachs

Interesting. Thank you, Alan. Appreciate the time.

Closing Remarks

Okay. Well, thank you all very much for joining us today. An exciting time for us here at Williams as we continue to deliver the long list of projects that we have in execution, and that continues to mount growth for us. And importantly how strong the future is in terms of the demand that we are excited that we have an opportunity to help address, but an exciting challenge for the organization that we're excited to show what we're made of on that front. So, with that, thank you very much for joining us today.