

FORM 10-K

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

(MARK ONE)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED)

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1996

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)
FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-4174
THE WILLIAMS COMPANIES, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)
ONE WILLIAMS CENTER
TULSA, OKLAHOMA
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

73-0569878
(I.R.S. EMPLOYER IDENTIFICATION NO.)

74172
(ZIP CODE)

Registrant's telephone number, including area code:
(918) 588-2000

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS -----	NAME OF EACH EXCHANGE ON WHICH REGISTERED -----
Common Stock, \$1.00 par value	New York Stock Exchange and the Pacific Stock Exchange
Preferred Stock Purchase Rights	
\$2.21 Cumulative Preferred Stock, \$1.00 par value	New York Stock Exchange
9.60% Subordinated Deferrable Interest Debentures due 2025	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

None

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item
405 of Regulation S-K is not contained herein, and will not be contained, to the
best of registrant's knowledge, in definitive proxy or information statements
incorporated by reference in Part III of this Form 10-K or any amendment to this
Form 10-K.

The aggregate market value of the registrant's voting stock held by
nonaffiliates as of the close of business on March 21, 1997, was approximately
\$7.2 billion.

The number of shares of the registrant's Common Stock outstanding at March
21, 1997, was 158,712,481, excluding 3,637,560 shares held by the Company.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement prepared for the solicitation
of proxies in connection with the Annual Meeting of Stockholders of the Company
for 1997 are incorporated by reference in Part III.

THE WILLIAMS COMPANIES, INC.

FORM 10-K

PART I

ITEM 1. BUSINESS

(A) GENERAL DEVELOPMENT OF BUSINESS

The Williams Companies, Inc. (the "Company" or "Williams") was incorporated under the laws of the State of Nevada in 1949 and was reincorporated under the laws of the State of Delaware in 1987. The principal executive offices of the Company are located at One Williams Center, Tulsa, Oklahoma 74172 (telephone (918) 588-2000). Unless the context otherwise requires, references to the "Company" and "Williams" herein include The Williams Companies, Inc. and its subsidiaries.

On January 16, 1996, the Company acquired a 49.9 percent interest from its partner in Kern River Gas Transmission Company giving the Company 99.9 percent ownership of this natural gas pipeline system. The purchase price was \$206 million. See Note 2 of Notes to Consolidated Financial Statements. The Company acquired the remaining 0.1 percent interest in the partnership on February 28, 1997, for \$387,600.

Also in 1996, the Company combined its energy operations, other than its interstate natural gas pipelines, under a newly created, wholly owned, indirect subsidiary, Williams Energy Group, and began reporting such operations for financial reporting purposes on this basis in the fourth quarter of 1996. In addition, the Company organized the reporting for its communications operations under a single communications reporting entity, Williams Communications Group, Inc., and has reported such operations for financial reporting purposes on this basis since the third quarter of 1996.

In January 1995, the Company sold the network services operations of its telecommunications subsidiary to LDDS Communications, Inc. for \$2.5 billion in cash (the "WNS Sale"). The Company has reported the network services operations as discontinued operations for financial reporting purposes. See Note 3 of Notes to Consolidated Financial Statements. The Company used the proceeds from the WNS Sale to pay off short-term credit facilities, to fund the acquisition of Transco Energy Company discussed below, to finance its ongoing capital program and for other uses.

In December 1994, the Company entered into a merger agreement with Transco Energy Company. Under the agreement, the Company acquired approximately 60 percent of Transco Energy Company's common stock through a cash tender offer completed in January 1995. On April 28, 1995, the Transco Energy Company stockholders approved an agreement and plan of merger whereby Transco Energy Company became a wholly owned subsidiary of the Company effective May 1, 1995. Total value of the transaction was more than \$3 billion, including cash, stock and the assumption of Transco Energy Company debt. As of May 1, 1995, the Company caused Transco Energy Company to declare and pay as dividends to the Company all of Transco Energy Company's interest in Transcontinental Gas Pipe Line Corporation and Texas Gas Transmission Corporation. See Note 2 of Notes to Consolidated Financial Statements.

(B) FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

See Part II, Item 8 -- Financial Statements and Supplementary Data.

(C) NARRATIVE DESCRIPTION OF BUSINESS

The Company, through subsidiaries, engages in the transportation and sale of natural gas and related activities; natural gas gathering, processing, and treating activities; the transportation and terminaling of petroleum products; hydrocarbon exploration and production activities; the production and marketing of ethanol; and energy commodity trading and marketing and provides a variety of other products and services, including price risk management services, to the energy industry. The Company also engages in the communications business. In 1996, the Company's energy subsidiaries owned and operated: (i) five interstate

natural gas pipeline systems; (ii) natural gas production properties; (iii) natural gas gathering and processing facilities; (iv) a common carrier petroleum products and crude oil pipeline system; (v) petroleum products terminals; and (vi) ethanol production facilities. The Company also trades and markets energy commodities and offers price-risk management services. The Company's communications subsidiaries offer: (i) data-, voice- and video-related products and services; (ii) advertising distribution services; (iii) video services and other multimedia services for the broadcast industry; (iv) broadcast facsimile and audio- and videoconferencing services for businesses; (v) interactive, computer-based training and services; (vi) customer-premise voice and data equipment, including installation and maintenance; and (vii) network integration and management services nationwide. The Company also has investments in the equity of certain other companies.

Substantially all operations of Williams are conducted through subsidiaries. Williams performs management, legal, financial, tax, consultative, administrative and other services for its subsidiaries. Williams' principal sources of cash are from dividends and advances from its subsidiaries, investments, payments by subsidiaries for services rendered and interest payments from subsidiaries on cash advances. The amount of dividends available to Williams from subsidiaries largely depends upon each subsidiary's earnings and operating capital requirements. The terms of certain subsidiaries' borrowing arrangements limit the transfer of funds to the Company.

To achieve organizational and operating efficiencies, the Company's interstate natural gas pipelines are grouped together and are referred to internally as the interstate natural gas systems. All other operating companies are owned directly by Williams Holdings of Delaware, Inc., a wholly-owned subsidiary of the Company. The energy operations of Williams Holdings of Delaware, Inc. are grouped into a wholly-owned subsidiary, Williams Energy Group, and its communications operations are grouped into a wholly-owned subsidiary, Williams Communications Group, Inc. Item 1 of this report is formatted to reflect this structure.

WILLIAMS INTERSTATE NATURAL GAS SYSTEMS

The Company's interstate natural gas pipeline group owns and operates a combined total of approximately 28,000 miles of pipelines with a total annual throughput of approximately 3,800 Tbtu* of natural gas and peak-day delivery capacity of approximately 15 Bcf of natural gas. The interstate natural gas pipeline group consists of Transcontinental Gas Pipe Line Corporation, Northwest Pipeline Corporation, Kern River Gas Transmission Company, Texas Gas Transmission Corporation and Williams Natural Gas Company, owners and operators of interstate natural gas pipeline systems. As previously noted, the Company acquired Transcontinental Gas Pipe Line Corporation and Texas Gas Transmission Corporation in 1995. For the accounting treatment of the acquisition, see Note 2 of Notes to Consolidated Financial Statements. Also as noted above, the Company acquired an additional 49.9 percent interest in Kern River Gas Transmission Company in January 1996 and the remaining 0.1 percent interest in February 1997.

The interstate natural gas pipeline group's transmission and storage activities are subject to regulation by the Federal Energy Regulatory Commission ("FERC") under the Natural Gas Act of 1938 ("Natural Gas Act") and under the Natural Gas Policy Act of 1978 ("NGPA"), and, as such, their rates and charges for the transportation of natural gas in interstate commerce, the extension, enlargement or abandonment of jurisdictional facilities, and accounting, among other things, are subject to regulation. Each pipeline holds certificates of public convenience and necessity issued by FERC authorizing ownership and operation of all pipelines, facilities and properties considered jurisdictional for which certificates are required under the Natural Gas Act. Each pipeline is also subject to the Natural Gas Pipeline Safety Act of 1968, as amended by Title I of the Pipeline Safety Act of 1979, which regulates safety requirements in the design, construction, operation and maintenance of interstate gas transmission facilities.

A business description of each company in the interstate natural gas pipeline group follows.

* The term "Mcf" means thousand cubic feet, "MMcf" means million cubic feet and "Bcf" means billion cubic feet. All volumes of natural gas are stated at a pressure base of 14.73 pounds per square inch absolute at 60 degrees Fahrenheit. The term "Btu" means British Thermal Unit, "MMBtu" means one million British Thermal Units and "Tbtu" means one trillion British Thermal Units.

TRANSCONTINENTAL GAS PIPE LINE CORPORATION (TRANSCO)

Transco is an interstate natural gas transmission company that owns a 10,500-mile natural gas pipeline system extending from Texas, Louisiana, Mississippi and the offshore Gulf of Mexico through the states of Alabama, Georgia, South Carolina, North Carolina, Virginia, Maryland, Pennsylvania and New Jersey to the New York City metropolitan area. The system serves customers in Texas and eleven southeast and Atlantic seaboard states, including major metropolitan areas in Georgia, North Carolina, New York, New Jersey and Pennsylvania. Effective May 1, 1995, Transco transferred the operation of certain production area facilities to Williams Field Services Group, Inc., an affiliated company.

Pipeline System and Customers

At December 31, 1996, Transco's system had a mainline delivery capacity of approximately 3.6 Bcf of gas per day from production areas to its primary markets. Using its Leidy Line and market-area storage capacity, Transco can deliver an additional 2.9 Bcf of gas per day for a system-wide delivery capacity total of approximately 6.5 Bcf of gas per day. Excluding the production area facilities operated by Williams Field Services Group, Inc., Transco's system is composed of approximately 7,300 miles of mainline and branch transmission pipelines, 37 compressor stations and six storage locations. Compression facilities at a sea level-rated capacity total approximately 1.2 million horsepower.

Transco's major gas transportation customers are public utilities and municipalities that provide service to residential, commercial, industrial and electric generation end users. Shippers on Transco's pipeline system include public utilities, municipalities, intrastate pipelines, direct industrial users, electrical generators, marketers and producers. Transco's largest customer in 1996 accounted for approximately 11 percent of Transco's total operating revenues. No other customer accounted for more than 10 percent of total operating revenues. Transco's firm transportation agreements are generally long-term agreements with various expiration dates and account for the major portion of Transco's business. Additionally, Transco offers interruptible transportation services under shorter term agreements.

Transco has natural gas storage capacity in five underground storage fields located on or near its pipeline system and/or market areas and operates three of these storage fields and a liquefied natural gas (LNG) storage facility. The total storage capacity available to Transco and its customers in such storage fields and LNG facility is approximately 216 Bcf of gas. Storage capacity permits Transco's customers to inject gas into storage during the summer and off-peak periods for delivery during peak winter demand periods.

Expansion Projects

In August 1996, Transco filed for FERC approval to expand the offshore portion of its existing Southeast Louisiana Gathering System in two phases to provide a total of 660 MMcf of gas per day of additional firm transportation capacity. Transco estimates the cost of the expansion to be approximately \$129 million and expects to invest approximately \$95 million in 1997.

In November 1996, Transco filed for FERC approval to extend and expand its Mobile Bay lateral. The project will include expansion of Transco's existing 123-mile Mobile Bay lateral and construction of a new 77-mile offshore pipeline extension to an area near the outer continental shelf. The project, which would increase capacity as much as 600 MMcf of gas per day at an estimated cost of \$171 million, is targeted to be in service by the 1998-99 winter heating season. In December, Transco received nominations for 300 MMcf of gas per day of capacity in the project.

In November 1996, Transco completed and placed into service the Southeast Expansion Project. Since late 1994, the project has added 205 MMcf of gas per day of firm transportation capacity to Transco's customers in the southeast. The total cost of the expansion was approximately \$106 million, of which approximately \$22 million was invested in 1996.

In November 1996, FERC approved the Pine Needle LNG storage project. Transco and several of its major customers will construct and own the facility, which will be located near Transco's mainline system in Guilford, North Carolina. The project will have 4 Bcf of storage capacity and 400 MMcf of gas per day of

withdrawal capacity. Transco will operate the facility and have a 35 percent ownership interest. Construction began in February 1997, and the project is expected to be in service by the second quarter of 1999. The FERC application estimates the total cost of the project to be \$107 million.

In December 1996, Transco and several major customers announced the filing with the North Carolina Utilities Commission for approval of the Cardinal Pipeline System project. The project involves the acquisition of an existing 37-mile pipeline in North Carolina and construction of a 67-mile pipeline extension. Transco expects to complete construction of the pipeline extension by the end of 1999. Transco will operate the expanded pipeline system and have a 45 percent ownership interest. Transco expects to make equity investments of approximately \$22 million in this project.

In December 1996, FERC approved the SunBelt Expansion Project, which will provide additional firm transportation capacity to markets in Georgia, South Carolina and North Carolina. The SunBelt Expansion Project will provide a total of 146 MMcf of gas per day of firm transportation capacity to existing and new Transco customers by the 1997-1998 winter heating season. Transco estimates the cost of the expansion to be approximately \$85 million. Transco spent approximately \$12 million on the project in 1996 and expects to invest approximately \$68 million in 1997.

In November 1996, FERC made a preliminary determination that public convenience and necessity requires Transco's SeaBoard Expansion Project but denied Transco's request for rolled-in rate treatment. Transco has spent approximately \$6 million on the project to date. In response to FERC's denial of rolled-in rate treatment, Transco has plans to significantly modify this project.

Operating Statistics. The following table summarizes transportation data for the periods indicated, including periods during which the Company did not own Transco:

	1996	1995	1994
	-----	-----	-----
System Deliveries (TBtu)			
Market-area deliveries:			
Long-haul transportation.....	948.9	858.4	805.1
Market-area transportation.....	428.1	467.3	453.6
	-----	-----	-----
Total market-area deliveries.....	1,377.0	1,325.7	1,258.7
Production-area transportation.....	210.0	165.9	185.9
	-----	-----	-----
Total system deliveries.....	1,587.0	1,491.6	1,444.6
	=====	=====	=====
Average Daily Transportation Volumes (TBtu).....	4.3	4.1	4.0
Average Daily Firm Reserved Capacity (TBtu).....	5.2	5.2	4.9

NORTHWEST PIPELINE CORPORATION (NORTHWEST PIPELINE)

Northwest Pipeline is an interstate natural gas transmission company that owns and operates a pipeline system for the mainline transmission of natural gas extending from the San Juan Basin in northwestern New Mexico and southwestern Colorado through Colorado, Utah, Wyoming, Idaho, Oregon and Washington to a point on the Canadian border near Sumas, Washington. Northwest Pipeline provides services for markets in California, New Mexico, Colorado, Utah, Nevada, Wyoming, Idaho, Oregon and Washington, directly or indirectly through interconnections with other pipelines.

Pipeline System and Customers

At December 31, 1996, Northwest Pipeline's system, having an aggregate mainline deliverability of approximately 2.5 Bcf of gas per day, was composed of approximately 3,900 miles of mainline and branch transmission pipelines and 40 mainline compressor stations with a combined capacity of approximately 307,000 horsepower.

In 1996, Northwest Pipeline transported natural gas for a total of 143 customers. Transportation customers include distribution companies, municipalities, interstate and intrastate pipelines, gas marketers and

direct industrial users. The three largest customers of Northwest Pipeline in 1996 accounted for approximately 15.5 percent, 15.3 percent and 10.4 percent, respectively, of total operating revenues. No other customer accounted for more than 10 percent of total operating revenues. Northwest Pipeline's firm transportation agreements are generally long-term agreements with various expiration dates and account for the major portion of Northwest Pipeline's business. Additionally, Northwest Pipeline offers interruptible transportation service under agreements that are generally short term.

As a part of its transportation services, Northwest Pipeline utilizes underground storage facilities in Utah and Washington enabling it to balance daily receipts and deliveries. Northwest Pipeline also owns and operates a liquefied natural gas storage facility in Washington that provides a needle-peaking service for the system. These storage facilities have an aggregate delivery capacity of approximately 973 MMcf of gas per day.

Operating Statistics. The following table summarizes transportation data for the periods indicated (in TBtus):

	1996	1995	1994
	----	----	----
Transportation Volumes.....	834	826	679
Average Daily Transportation Volumes.....	2.3	2.3	1.9
Average Daily Firm Reserved Capacity.....	2.5	2.4	2.4

KERN RIVER GAS TRANSMISSION COMPANY (KERN RIVER)

Kern River is an interstate natural gas transmission company that owns and operates a natural gas pipeline system extending from Wyoming through Utah and Nevada to California. Kern River had been jointly owned and operated by Williams Western Pipeline Company, a subsidiary of the Company, and a subsidiary of an unaffiliated company. As previously indicated, the Company acquired an additional 49.9 percent interest in Kern River in January 1996. See Note 2 of Notes to Consolidated Financial Statements. In February 1997, the Company acquired the remaining 0.1 percent interest in Kern River. The transmission system, which commenced operations in February 1992 following completion of construction, delivers natural gas primarily to the enhanced oil recovery fields in southern California. The system also transports natural gas for utilities, municipalities and industries in California, Nevada and Utah.

Pipeline System and Customers

As of December 31, 1996, Kern River's pipeline system was composed of approximately 705 miles of mainline and branch transmission and five compressor stations having an aggregate mainline delivery capacity of 700 MMcf of gas per day. The pipeline system interconnects with the pipeline facilities of another pipeline company at Daggett, California. From the point of interconnection, Kern River and the other pipeline company have a common 219-mile pipeline which is owned 63.6 percent by Kern River and 36.4 percent by the other pipeline company, as tenants in common, and is designed to accommodate the combined throughput of both systems. This common facility has a capacity of 1.1 Bcf of gas per day.

Gas is transported for others under firm long-term transportation contracts totaling 682 MMcf of gas per day. In 1996, Kern River transported natural gas for customers in California, Nevada and Utah. Gas was transported for five customers in Kern County, California, for reinjection as a part of enhanced oil recovery operations and for 28 local distribution customers, electric utilities, cogeneration projects and commercial and other industrial customers. The five largest customers of Kern River in 1996 accounted for approximately 14 percent, 13 percent, 12 percent, 11 percent and 11 percent, respectively, of operating revenues. Three of these customers serve the enhanced oil recovery fields. No other customer accounted for more than 10 percent of operating revenues in 1996.

During 1995, Kern River executed a seasonal firm transportation contract to deliver natural gas into the Las Vegas, Nevada, market area during the winter months. Kern River expects to begin deliveries of 10 MMcf of gas per day in December 1997 and to escalate such deliveries to 40 MMcf of gas per day on a seasonal basis in 1999.

Operating Statistics. The following table summarizes transportation data for the periods indicated (in TBtus):

	1996	1995	1994
	----	----	----
Transportation Volumes.....	281	286	278
Average Daily Transportation Volumes.....	.77	.78	.76
Average Daily Firm Reserved Capacity.....	.71	.72	.74

TEXAS GAS TRANSMISSION CORPORATION (TXG)

TXG is an interstate natural gas transmission company that owns and operates a natural gas pipeline system originating in the Louisiana Gulf Coast area and in east Texas and running generally north and east through Louisiana, Arkansas, Mississippi, Tennessee, Kentucky, Indiana and into Ohio, with smaller diameter lines extending into Illinois. TXG's direct market area encompasses eight states in the South and Midwest, and includes the Memphis, Tennessee; Louisville, Kentucky; Cincinnati and Dayton, Ohio; and Indianapolis, Indiana, metropolitan areas. TXG also has indirect market access to the Northeast through interconnections with unaffiliated pipelines.

Pipeline System and Customers

At December 31, 1996, TXG's system, having a mainline delivery capacity of approximately 2.8 Bcf of gas per day, was composed of approximately 6,000 miles of mainline and branch transmission pipelines and 32 compressor stations having a sea level-rated capacity totaling approximately 549,000 horsepower.

In 1996, TXG transported gas to customers in Louisiana, Arkansas, Mississippi, Tennessee, Kentucky, Indiana, Illinois and Ohio and to customers in the Northeast served indirectly by TXG. TXG transported gas for 133 distribution companies and municipalities for resale to residential, commercial and industrial users. TXG provided transportation services to approximately 102 industrial customers located along the system. At December 31, 1996, TXG had transportation contracts with approximately 559 shippers. Transportation shippers include distribution companies, municipalities, intrastate pipelines, direct industrial users, electrical generators, marketers and producers. No customer of TXG accounted for more than 10 percent of total operating revenues during 1996. TXG's firm transportation agreements are generally long-term agreements with various expiration dates and account for the major portion of TXG's business. Additionally, TXG offers interruptible transportation services under agreements that are generally short-term.

TXG owns and operates natural gas storage reservoirs in 10 underground storage fields located on or near its pipeline system and/or market areas. The storage capacity of TXG's certificated storage fields is approximately 177 Bcf of gas. TXG's storage gas is used in part to meet operational balancing needs on its system, and in part to meet the requirements of TXG's "no-notice" transportation service, which allows TXG's customers to temporarily draw from TXG's storage gas to be repaid in-kind during the following summer season. A large portion of the gas delivered by TXG to its market area is used for space heating, resulting in substantially higher daily requirements during winter months.

Operating Statistics. The following table summarizes total system transportation volumes for the periods indicated, including periods during which the Company did not own TXG:

	1996 -----	1995 -----	1994 -----
System deliveries (TBtu):			
Long-haul transportation.....	736.0	635.7	618.8
Short-haul transportation.....	58.5	57.6	188.6
	-----	-----	-----
Total system deliveries.....	794.5	693.3	807.4
	=====	=====	=====
Average Daily Transportation Volumes (TBtu).....	2.2	1.9	2.2
Average Daily Firm Reserved Capacity (TBtu).....	2.1	2.0	2.1

WILLIAMS NATURAL GAS COMPANY (WILLIAMS NATURAL GAS)

Williams Natural Gas is an interstate natural gas transmission company that owns and operates a natural gas pipeline system located in Colorado, Kansas, Missouri, Nebraska, Oklahoma, Texas and Wyoming. The system serves customers in seven states, including major metropolitan areas of Kansas and Missouri, its chief market areas.

Pipeline System and Customers

At December 31, 1996, Williams Natural Gas's system, having a mainline delivery capacity of approximately 2.2 Bcf of gas per day, was composed of approximately 6,000 miles of mainline and branch transmission and storage pipelines and 41 compressor stations having a sea level-rated capacity totaling approximately 227,000 horsepower.

In 1996, Williams Natural Gas transported gas to customers in Colorado, Kansas, Missouri, Nebraska, Oklahoma, Texas and Wyoming. Gas was transported for 78 distribution companies and municipalities for resale to residential, commercial and industrial users in approximately 530 cities and towns. Transportation services were provided to approximately 340 industrial customers, federal and state institutions and agricultural processing plants located principally in Kansas, Missouri and Oklahoma. At December 31, 1996, Williams Natural Gas had transportation contracts with approximately 196 shippers. Transportation shippers included distribution companies, municipalities, intrastate pipelines, direct industrial users, electrical generators, marketers and producers.

In 1996, approximately 70 percent (approximately 35 percent each) of total operating revenues were generated from gas transportation services to Williams Natural Gas's two largest customers, Western Resources, Inc. and Missouri Gas Energy Company. Western Resources sells or resells gas to residential, commercial and industrial customers principally in certain major metropolitan areas of Kansas. Missouri Gas Energy sells or resells gas to residential, commercial and industrial customers principally in certain major metropolitan areas of Missouri. No other customer accounted for more than 10 percent of operating revenues during 1996.

Williams Natural Gas provides a significant portion of its transportation services to Western Resources pursuant to a 20-year transportation service agreement. After the initial two-year period which ended in November 1996, the contract allows Western Resources, on twelve-months prior notice, to reduce contracted capacity if Williams Natural Gas does not meet the terms of a competing offer from another natural gas pipeline to serve such capacity. To date, Williams Natural Gas has not received such a notice from Western Resources. Williams Natural Gas provides transportation services to Missouri Gas Energy under contracts primarily varying in terms from two to five years. These contracts do not have competitive out provisions as described in connection with the Western Resources' contract. During 1995, these two customers entered into contracts with a competitor as part of a litigation settlement. Following a decision by the Kansas Court of Appeals, the Western Resources contracts were deemed approved by operation of law. Subsequently, the competitor assigned the contracts with Western Resources and Missouri Gas Energy to another competitor of Williams Natural Gas. The two competitors are engaged in the acquisition of right-of-way and other acts to

begin construction under the contracts with Western Resources and Missouri Gas Energy. Up to 25 percent of the firm capacity now transported by Williams Natural Gas into the Kansas City market could be at risk if the pipeline contemplated by the contracts is built. Certain landowners whose property must be condemned to complete the project are challenging completion of the facilities. The contracts may be subject to termination if certain completion dates are not met.

Williams Natural Gas operates nine underground storage fields with an aggregate working gas storage capacity of approximately 43 Bcf and an aggregate delivery capacity of approximately 1.2 Bcf of gas per day. Williams Natural Gas's customers inject gas in these fields when demand is low and withdraw it to supply their peak requirements. During periods of peak demand, approximately two-thirds of the firm gas delivered to customers is supplied from these storage fields. Storage capacity enables the system to operate more uniformly and efficiently during the year.

In 1996, Williams Natural Gas entered firm transportation contracts to serve two electrical generation plants in the Kansas City area for potential daily usage of up to 100,000 MMBtu per day.

Operating Statistics. The following table summarizes transportation data for the periods indicated (in TBtus):

	1996	1995	1994
	----	----	----
Transportation Volumes.....	341	334	346
Average Daily Transportation Volumes.....	.9	.9	.9
Average Daily Firm Reserved Capacity.....	1.9	2.0	2.0

REGULATORY MATTERS

In 1992, FERC issued Order 636, which required interstate pipeline companies to restructure their tariffs to eliminate traditional on-system sales services. In addition, the Order required implementation of various changes in forms of service, including unbundling of gathering, transmission and storage services; terms and conditions of service; rate design; gas supply realignment cost recovery; and other major rate and tariff revisions. Kern River implemented its restructuring on August 1, 1993; Williams Natural Gas implemented its restructuring on October 1, 1993; and Transco, Northwest Pipeline and TXG implemented their restructurings on November 1, 1993. Certain aspects of four pipeline company's Order 636 restructurings are under appeal.

Each interstate natural gas pipeline has various regulatory proceedings pending. Rates are established primarily through FERC's ratemaking process. Key determinants in the ratemaking process are (1) costs of providing service, including depreciation rates, (2) allowed rate of return, including the equity component of the capital structure, and (3) volume throughput assumptions. FERC determines the allowed rate of return in each rate case. Rate design and the allocation of costs between the demand and commodity rates also impact profitability. As a result of such proceedings, the pipeline companies have collected a portion of their revenues subject to refund. See Note 12 of Notes to Consolidated Financial Statements for the amount of revenues reserved for potential refund as of December 31, 1996.

Each interstate natural gas pipeline company, except Kern River, has undertaken the reformation of its respective gas supply contracts. None of the pipelines have any significant pending supplier take-or-pay, ratable-take or minimum-take claims. For information on outstanding issues with respect to contract reformation, gas purchase deficiencies and related regulatory issues, see Note 17 of Notes to Consolidated Financial Statements.

COMPETITION

Competition for natural gas transportation has intensified in recent years due to customer access to other pipelines, rate competitiveness among pipelines, customers' desire to have more than one transporter and regulatory developments. FERC's stated purpose for implementing Order 636 was to improve the competitive

structure of the natural gas pipeline industry. Future utilization of pipeline capacity will depend on competition from other pipelines, use of alternative fuels, the general level of natural gas demand and weather conditions. Electricity and distillate fuel oil are primary competitive forms of energy for residential and commercial markets. Coal and residual fuel oil compete for industrial and electric generation markets. Nuclear and hydroelectric power and power purchased from grid arrangements among electric utilities also compete with gas-fired power generation in certain markets.

As mentioned, when restructured tariffs became effective under Order 636, all suppliers of natural gas were able to compete for any gas markets capable of being served by the pipelines using nondiscriminatory transportation services provided by the pipelines. As the Order 636 regulated environment has matured, many pipelines have faced reduced levels of subscribed capacity as contractual terms expire and customers opt to reduce firm capacity under contract in favor of alternative sources of transmission and related services. This situation, known in the industry as "capacity turnback," is forcing the pipelines to evaluate the consequences of major demand reductions on system utilization and cost structure to remaining customers.

The Company is aware that several state jurisdictions have been involved in implementing changes similar to the changes that have occurred at the federal level under Order 636. Such activity, frequently referred to as "LDC unbundling," has been most pronounced in the states of New York, New Jersey and Pennsylvania. New York and New Jersey enacted regulations regarding LDC unbundling in 1995. Pennsylvania is expected to enact an LDC unbundling program in 1997. In addition, Maryland currently has a pilot unbundling program for industrial, commercial, and residential end-users and may take additional steps toward unbundling in 1997. Georgia may also act in 1997 to implement an LDC unbundling program. Management expects these regulations to encourage greater competition in the natural gas marketplace.

OWNERSHIP OF PROPERTY

Each of the Company's interstate natural gas pipeline subsidiaries generally owns its facilities in fee. However, a substantial portion of each pipeline's facilities is constructed and maintained pursuant to rights-of-way, easements, permits, licenses or consents on and across properties owned by others. Compressor stations, with appurtenant facilities, are located in whole or in part either on lands owned or on sites held under leases or permits issued or approved by public authorities. The storage facilities are either owned or contracted under long-term leases or easements.

ENVIRONMENTAL MATTERS

Each interstate natural gas pipeline is subject to the National Environmental Policy Act and federal, state and local laws and regulations relating to environmental quality control. Management believes that, with respect to any capital expenditures and operation and maintenance expenses required to meet applicable environmental standards and regulations, FERC would grant the requisite rate relief so that, for the most part, the pipeline subsidiaries could recover such expenditures in their rates. For this reason, management believes that compliance with applicable environmental requirements by the interstate pipelines is not likely to have a material effect upon the Company's earnings or competitive position.

For a discussion of specific environmental issues involving the interstate pipelines, including estimated cleanup costs associated with certain pipeline activities, see "Environmental" under Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 17 of Notes to Consolidated Financial Statements.

WILLIAMS HOLDINGS OF DELAWARE, INC. (WILLIAMS HOLDINGS)

In 1994, the Company established Williams Holdings to be a holding company for its assets other than its interstate natural gas pipelines and related assets. Virtually all of Williams Holdings' assets were operated by other subsidiaries of the Company prior to January 1, 1995.

Williams Holdings' energy subsidiaries are engaged in exploration and production; natural gas gathering and processing; petroleum products transportation and terminaling; ethanol production; and energy commodity marketing and trading and price risk management services. In addition, these subsidiaries provide a variety of other products and services to the energy industry. Williams Holdings' communications subsidiaries offer data-, voice-, and video-related products and services and customer premise voice and data equipment, including installation and maintenance, nationwide. Williams Holdings also has certain other equity investments.

WILLIAMS ENERGY GROUP (WILLIAMS ENERGY)

In 1996, Williams Holdings reorganized its energy operations under a newly created, wholly owned subsidiary, Williams Energy, and began reporting such operations for financial reporting purposes on this basis in the fourth quarter of 1996. Management believes the new structure will better position it to offer customers a full range of energy products and services by capitalizing on synergies of the combined business units.

Williams Energy is comprised of four major business units: Exploration and Production, Field Services, Petroleum Services, and Merchant Services. Through its business units, Williams Energy engages in energy production and exploration activities; natural gas gathering, processing, and treating; petroleum liquids transportation and terminal services; ethanol production; and energy commodity marketing and trading.

Williams Energy, through its subsidiaries, owns 531 Bcf of proved natural gas reserves located primarily in the San Juan Basin of Colorado and New Mexico and owns and operates approximately 11,000 miles of gathering pipelines, eight gas treating plants, 10 gas processing plants, 57 petroleum products terminals, and approximately 9,300 miles of liquids pipeline. Physical and notional volumes traded by Williams Energy's merchant services unit approximated 6,552 TBtu equivalents in 1996. Williams Energy, through its subsidiaries, employs approximately 2,500 employees.

Revenues and operating profit for Williams Energy by business unit are reported in Note 4 of Notes to Consolidated Financial Statements herein.

A business description of each of Williams Energy's business units follows.

EXPLORATION AND PRODUCTION

Williams Energy, through its wholly owned subsidiary Williams Production Company (Williams Production), owns and operates producing gas leasehold properties in Colorado, Louisiana, New Mexico, Texas, Utah, Wyoming, and offshore in the Gulf of Mexico.

In December 1996, Williams Production entered into an agreement with an unaffiliated exploration company for the joint exploration of 27,000 acres in the Houma Embayment Area of southern Louisiana. Williams Production will earn a 50 percent working interest in the leasehold block by drilling up to eight exploratory wells within a 125-square mile 3-D seismic survey during the next 12-18 months. Williams Production also purchased 50 percent of this company's working interest in 23 producing wells and associated facilities in the area with daily production of approximately 9,000 MMBtus per day. Also in 1996, Williams Production acquired leasehold interests in the East Texas Haynesville Cotton Valley Reef and now controls, along with unaffiliated partners, in excess of 135,000 gross acres in this area.

Gas Reserves. As of December 31, 1996, 1995, and 1994, Williams Production had proved developed natural gas reserves of 323 Bcf, 292 Bcf, 269 Bcf, respectively, and proved undeveloped reserves of 208 Bcf, 222 Bcf, and 220 Bcf, respectively. Of Williams Production's total proved reserves, 87 percent are located in the San Juan Basin of Colorado and New Mexico. No major discovery or other favorable or adverse event has caused a significant change in estimated gas reserves since year end.

Customers and Operations. As of December 31, 1996, the gross and net developed leasehold acres owned by Williams Production totaled 263,869 and 114,183, respectively, and the gross and net undeveloped acres owned were 339,540 and 76,722, respectively. As of such date, Williams Production owned interests in 2,911 gross producing wells (523 net) on its leasehold lands. The following table summarizes drilling activity for the periods indicated:

COMPLETED DURING -----	DEVELOPMENT -----	
	GROSS WELLS	NET WELLS
-----	-----	-----
1996.....	65	11
1995.....	61	22
1994.....	66	19

The majority of Williams Production's gas production is currently being sold in the spot market at market prices. Total net production sold during 1996, 1995, and 1994 was 26.8 Bcf, 26.3 Bcf, and 23.2 Bcf, respectively. The average production costs, including production taxes, per Mcf of gas produced were \$.27, \$.26, and \$.30, in 1996, 1995, and 1994, respectively. The average wellhead sales price per Mcf was \$.98, \$.88, and \$1.19, respectively, for the same periods.

In 1993, Williams Production conveyed a net profits interest in certain of its properties to the Williams Coal Seam Gas Royalty Trust. Williams subsequently sold Trust Units to the public in an underwritten public offering. Williams Holdings holds 3,568,791 Trust Units representing 36.8 percent of outstanding Units. Substantially all of the production attributable to the properties conveyed to the Trust was from the Fruitland coal formation and constituted coal seam gas. Proved developed coal seam gas reserves at December 31, 1996, attributed to the properties conveyed were 149 Bcf. Production information reported herein includes Williams Production's interest in such Units.

FIELD SERVICES

Williams Energy, through Williams Field Services Group, Inc. and its subsidiaries (Field Services), owns and operates nonregulated natural gas gathering, processing, and treating facilities located in northwestern New Mexico, southwestern Colorado, southwestern Wyoming, northwestern Oklahoma, southwestern Kansas, and also in areas offshore and onshore in Texas and Louisiana. Field Services also operates regulated gathering facilities owned by Transco, an affiliated company. In February 1996, Field Services and Transco filed applications with FERC to spindown all of Transco's gathering facilities to Field Services. FERC subsequently denied these requests and Field Services and Transco have filed a request for rehearing of this denial. Gathering services provided include the gathering of gas and the treating of coal seam gas.

Expansion Projects. Field Services expanded its gulf coast operations in 1996 primarily through acquisitions. In July, Field Services acquired a 70 MMcf per day processing plant in south-central Louisiana. In November, Field Services signed a letter of intent to acquire the remaining 50 percent interest in a 500 MMcf per day processing plant in southwestern Louisiana and acquired a majority portion in a south Texas gathering system. In addition, Field Services expanded its gathering system in the San Juan Basin, completed construction of a 50 MMcf per day CO(2) treating facility in the Oklahoma Panhandle, and acquired the remaining 50 percent interest in a 60 MMcf per day processing plant in southern Texas.

Customers and Operations. Facilities owned and operated by Field Services consist of approximately 11,000 miles of gathering pipelines, eight gas treating plants and 10 gas processing plants (five of which are partially owned). The aggregate daily inlet capacity is approximately 7.9 Bcf and 6.9 Bcf of gas for the gathering systems and gas processing, treating, and dehydration facilities, respectively. Gathering and processing customers have direct access to interstate pipelines, including affiliated pipelines, which provide access to multiple markets.

During 1996, Field Services gathered natural gas for 314 customers. The largest gathering customer accounted for approximately 15 percent of total gathered volumes. During 1996, Field Services processed natural gas for a total of 119 customers. The three largest customers accounted for approximately 25 percent, 12 percent, and 10 percent, respectively, of total processed volumes. No other customer accounted for more than 10 percent of gathered or processed volumes. Field Services' gathering and processing agreements with

large customers are generally long-term agreements with various expiration dates. These long-term agreements account for the majority of the gas gathered and processed by Field Services.

Operating Statistics. The following table summarizes gathering, processing, and natural gas liquid sales volumes for the periods indicated. The information includes operations attributed to facilities owned by affiliated entities but operated by Field Services:

	1996	1995	1994
	-----	-----	-----
Gas volumes (TBtu, except liquids sales):			
Gathering.....	2,155	1,806	895
Processing.....	484	406	392
Natural gas liquid sales (millions of gallons).....	391	284	281

PETROLEUM SERVICES

Williams Energy, through wholly owned subsidiaries in its Petroleum Services unit, owns and operates a petroleum products and crude oil pipeline, two ethanol production plants (one of which is partially owned), and petroleum products terminals and provides services and markets products related thereto.

Transportation. A subsidiary in the Petroleum Services unit, Williams Pipe Line Company (Williams Pipe Line), owns and operates a petroleum products and crude oil pipeline system which covers an 11-state area extending from Oklahoma in the south to North Dakota and Minnesota in the north and Illinois in the east. The system is operated as a common carrier offering transportation and terminaling services on a nondiscriminatory basis under published tariffs. The system transports refined products, LP-gases, lube extracted fuel oil, and crude oil.

At December 31, 1996, the system traversed approximately 7,300 miles of right-of-way and included approximately 9,300 miles of pipeline in various sizes up to 16 inches in diameter. The system includes 82 pumping stations, 23 million barrels of storage capacity, and 47 delivery terminals. The terminals are equipped to deliver refined products into tank trucks and tank cars. The maximum number of barrels which the system can transport per day depends upon the operating balance achieved at a given time between various segments of the system. Because the balance is dependent upon the mix of products to be shipped and the demand levels at the various delivery points, the exact capacity of the system cannot be stated.

Operating Statistics. The operating statistics set forth below relate to the system's operations for the periods indicated:

	1996	1995	1994
	-----	-----	-----
Shipments (thousands of barrels):			
Refined products:			
Gasolines.....	134,296	125,060	120,682
Distillates.....	68,628	61,238	61,129
Aviation fuels.....	11,189	12,535	9,523
LP-Gases.....	15,618	12,839	10,849
Lube extracted fuel oil.....	8,555	4,462	0
Crude oil.....	891	860	1,062
	-----	-----	-----
Total Shipments.....	239,177	216,994	203,245
	=====	=====	=====
Daily average (thousands of barrels).....	655	595	557
Average haul (miles).....	259	269	284
Barrel miles (millions).....	61,969	58,326	57,631

Environmental regulations and changing crude supply patterns continue to affect the refining industry. The industry's response to environmental regulations and changing supply patterns will directly affect volumes and products shipped on the Williams Pipe Line system. Environmental Protection Agency ("EPA") regulations, driven by the Clean Air Act, require refiners to change the composition of fuel manufactured. A pipeline's ability to respond to the effects of regulation and changing supply patterns will determine its ability

to maintain and capture new market shares. Williams Pipe Line has successfully responded to changes in diesel fuel composition and product supply and has adapted to new gasoline additive requirements. Reformulated gasoline regulations have not yet significantly affected Williams Pipe Line. Williams Pipe Line will continue to attempt to position itself to respond to changing regulations and supply patterns, but the Company cannot predict how future changes in the marketplace will affect Williams Pipe Line's market areas.

Ethanol. Williams Energy, through its wholly owned subsidiary Williams Energy Ventures, Inc. (WEV), is engaged in the production and marketing of ethanol. WEV owns and operates two ethanol plants of which corn is the principal feedstock. The Pekin, Illinois, plant, which WEV purchased in 1995, has an annual production capacity of 100 million gallons of fuel-grade and industrial ethanol and also produces various coproducts. The Aurora, Nebraska, plant (in which WEV owns a 75 percent interest) began operations in November 1995 and has an annual production capacity of 30 million gallons. WEV also markets ethanol produced by third parties.

The sales volumes set forth below include ethanol produced by third parties as well as by WEV for the periods indicated:

	1996 -----	1995 -----	1994 -----
Ethanol sold (thousands of gallons).....	119,800	53,500	n/a
Coproducts sold (thousands of tons).....	398	159	n/a

Terminals and Services Williams Energy, through its subsidiary WEV, operates petroleum products terminals in the western and southeastern United States and provides services including performance additives and ethanol blending. In September 1996, WEV acquired a 45.5 percent interest in eight petroleum products terminals located in the southeast United States. During the last four months of the year, these terminals loaded 7.8 million barrels of refined products.

MERCHANT SERVICES

Williams Energy, through subsidiaries, primarily Williams Energy Services Company and its subsidiaries ("WESCO"), offers a full suite of energy products and services throughout North America and serves over 2,000 companies. WESCO's business includes natural gas and energy commodity marketing activities, at both the wholesale and retail levels. In addition, WESCO offers a comprehensive array of price-risk management products and services and capital services to the diverse energy industry.

WESCO markets natural gas throughout North America and grew its total volumes (physical and notional) to an average of 15.9 Tbtu per day in 1996. The core of WESCO's business has traditionally been the Gulf Coast and eastern regions, using the pipeline systems owned by the Company, but also includes marketing on approximately 30 non-Williams' pipelines. WESCO's natural gas customers include producers, industrials, local distribution companies, utilities, and other marketers.

During 1996, WESCO also marketed natural gas liquids, crude, refined products, and liquefied natural gas with total volumes (physical and notional) averaging 2.0 Tbtu per day.

WESCO entered the power marketing and trading business in 1996. During its first year of operations, WESCO's power group marketed over 4 million megawatt hours (physical and notional) of power.

WESCO provides price risk management services through a variety of financial instruments including option and swap agreements related to various energy commodities. Through its capital financing services, WESCO also provides participants in the energy industry with capital for energy-related projects including acquisitions of proved reserves and re-working of wells.

In 1996, WESCO established a retail energy services group. As a part of this strategy, WESCO acquired a 50 percent interest in Volunteer Energy Corporation, a natural gas marketing company with experience in end-use markets. WESCO has also aligned with Boston Edison Company to form EnergyVision, an enterprise designed to provide access to retail energy markets in the New England area.

Operating Statistics. The following table summarizes operating profit and marketing volumes for the periods indicated (dollars in million, volumes in TBtu equivalents):

	1996	1995	1994
	-----	-----	-----
Operating profit.....	\$ 66.4	\$ 33.2	\$ 3.4
Total marketing volumes (physical and notional).....	6,552	3,822	1,642

REGULATORY MATTERS

Field Services. Historically, an issue has existed as to whether FERC has authority under the Natural Gas Act to regulate gathering and processing prices and services. During 1994, after reviewing its legal authority in a Public Comment Proceeding, FERC determined that while it retains some regulatory jurisdiction over gathering and processing performed by interstate pipelines, pipeline-affiliated gathering and processing companies are outside its authority under the Natural Gas Act. An appellate court has affirmed FERC's determination. As a result of these FERC decisions, several of the individual states in which Field Services conducts its operations may consider whether to impose regulatory requirements on gathering companies. No state currently regulates Field Services' gathering or processing rates or services.

Petroleum Services. Williams Pipe Line, as an interstate common carrier pipeline, is subject to the provisions and regulations of the Interstate Commerce Act. Under this Act, Williams Pipe Line is required, among other things, to establish just, reasonable and nondiscriminatory rates, to file its tariffs with FERC, to keep its records and accounts pursuant to the Uniform System of Accounts for Oil Pipeline Companies, to make annual reports to FERC and to submit to examination of its records by the audit staff of FERC. Authority to regulate rates, shipping rules, and other practices and to prescribe depreciation rates for common carrier pipelines is exercised by FERC. The Department of Transportation, as authorized by the 1992 Pipeline Safety Reauthorization Act, is the oversight authority for interstate liquids pipelines. Williams Pipe Line is also subject to the provisions of various state laws applicable to intrastate pipelines.

On December 31, 1989, a rate cap, which resulted from a settlement with several shippers, effectively freezing Williams Pipe Line's rates for the previous five years, expired. Williams Pipe Line filed a revised tariff on January 16, 1990, with FERC and the state commissions. The tariff set an average increase in rates of 11 percent and established volume incentives and proportional rate discounts. Certain shippers on the Williams Pipe Line system and a competing pipeline carrier filed protests with FERC alleging that the revised rates are not just and reasonable and are unlawfully discriminatory. Williams Pipe Line elected to bifurcate this proceeding in accordance with the then-current FERC policy. Phase I of FERC's bifurcated proceeding provides a carrier the opportunity to justify its rates and rate structure by demonstrating that its markets are workably competitive. Any issues unresolved in Phase I require cost justification in Phase II.

FERC's Presiding Judge issued the Initial Decision in Phase II on May 29, 1996. The Judge ruled that Williams Pipe Line failed to demonstrate that the rates at issue for the 12 less competitive markets were just and reasonable and that Williams Pipe Line must roll back those rates to pre-1990 levels and pay refunds with interest to its shippers. The Initial Decision held that Williams Pipe Line's individual rates must be judged on the basis of cost allocations, although Williams Pipe Line was given no notice of this particular basis of judgment and the Commission expressly declined to adopt such standards in its Opinion No. 391. Moreover, the Commission clarified its final order in Phase I (Opinion No. 391-A) by stating that Williams Pipe Line was not required to defend its rates with cost allocations. Primarily on this basis, Williams Pipe Line sought a review of the Initial Decision by the full Commission by filing a brief on exceptions on June 28, 1996. The review of the Phase II Initial Decision is pending before the Commission, and a shipper's appeal of the Phase I order in the United States Court of Appeals for the District of Columbia Circuit has been stayed pending the completion of Phase II. Williams Pipe Line is not required to comply with the Initial Decision in Phase II prior to the Commission's issuance of a final order. Williams Pipe Line continues to believe that its revised tariffs will ultimately be found lawful. See Note 17 of Notes to Consolidated Financial Statements.

Merchant Services. Management believes that WESCO's activities are conducted in substantial compliance with the marketing affiliate rules of FERC Order 497. Order 497 imposes certain nondiscrimination, disclosure, and separation requirements upon interstate natural gas pipelines with respect to their natural gas trading affiliates. WESCO has taken steps to ensure it does not share employees with affiliated interstate natural gas pipelines and does not receive information from such affiliates that is not also available to unaffiliated natural gas trading companies.

COMPETITION

Exploration and Production. Williams Energy's exploration and production unit competes with a wide variety of independent producers as well as integrated oil and gas companies for markets for its production.

Field Services. Williams Energy competes for gathering and processing business with interstate and intrastate pipelines, producers, and independent gatherers and processors. Numerous factors impact any given customer's choice of a gathering or processing services provider, including rate, term, timeliness of well connections, pressure obligations, and the willingness of the provider to process for either a fee or for liquids taken in-kind.

Petroleum Services. Williams Energy's petroleum services operations are subject to competition because Williams Pipe Line operates without the protection of a federal certificate of public convenience and necessity that might preclude other entrants from providing like service in its area of operations. Further, Williams Pipe Line must plan, operate and compete without the operating stability inherent in a broad base of contractually obligated or owner-controlled usage. Because Williams Pipe Line is a common carrier, its shippers need only meet the requirements set forth in its published tariffs in order to avail themselves of the transportation services offered by Williams Pipe Line.

Competition exists from other pipelines, refineries, barge traffic, railroads, and tank trucks. Competition is affected by trades of products or crude oil between refineries that have access to the system and by trades among brokers, traders and others who control products. Such trades can result in the diversion from the Williams Pipe Line system of volume that might otherwise be transported on the system. Shorter, lower revenue hauls may also result from such trades. Williams Pipe Line also is exposed to interfuel competition whereby an energy form shipped by a liquids pipeline, such as heating fuel, is replaced by a form not transported by a liquids pipeline, such as electricity or natural gas. While Williams Pipe Line faces competition from a variety of sources throughout its marketing areas, the principal competition is other pipelines. A number of pipeline systems, competing on a broad range of price and service levels, provide transportation service to various areas served by the system. The possible construction of additional competing products or crude oil pipelines, conversions of crude oil or natural gas pipelines to products transportation, changes in refining capacity, refinery closings, changes in the availability of crude oil to refineries located in its marketing area, or conservation and conversion efforts by fuel consumers may adversely affect the volumes available for transportation by Williams Pipe Line.

Williams Energy's ethanol operations compete in local, regional, and national fuel additive markets with one large ethanol producer, numerous smaller ethanol producers, and other fuel additive producers, such as refineries.

Merchant Services. Williams Energy's merchant services operations directly compete with large independent energy marketers, marketing affiliates of regulated pipelines and utilities, electric wholesalers and retailers, and natural gas producers. The financial trading business competes with other energy-based companies offering similar services as well as certain brokerage houses. This level of competition contributes to a business environment of constant pricing and margin pressure.

OWNERSHIP OF PROPERTY

The majority of Williams Energy's ownership interests in exploration and production properties are held as working interests in oil and gas leaseholds.

Williams Energy's gathering and processing facilities are owned in fee. Gathering systems are constructed and maintained pursuant to rights-of-way, easements, permits, licenses, and consents on and across properties owned by others. The compressor stations and gas processing and treating facilities are located in whole or in part on lands owned by subsidiaries of Williams Energy or on sites held under leases or permits issued or approved by public authorities.

Williams Energy's petroleum pipeline system is owned in fee. However, a substantial portion of the system is operated, constructed and maintained pursuant to rights-of-way, easements, permits, licenses, or consents on and across properties owned by others. The terminals, pump stations, and all other facilities of the system are located on lands owned in fee or on lands held under long-term leases, permits, or contracts. Management believes that the system is in such a condition and maintained in such a manner that it is adequate and sufficient for the conduct of business.

The primary assets of Williams Energy's merchant services unit are its term contracts, employees, and related systems and technological support.

ENVIRONMENTAL MATTERS

Williams Energy is subject to various federal, state, and local laws and regulations relating to environmental quality control. Management believes that Williams Energy's operations are in substantial compliance with existing environmental legal requirements. Management expects that compliance with such existing environmental legal requirements will not have a material adverse effect on the capital expenditures, earnings, and competitive position of Williams Energy.

The EPA has named Williams Pipe Line as a potentially responsible party as defined in Section 107(a) of the Comprehensive Environmental Response, Compensation, and Liability Act, for a site in Sioux Falls, South Dakota. The EPA placed this site on the National Priorities List in July 1990. In April 1991, Williams Pipe Line and the EPA executed an administrative consent order under which Williams Pipe Line agreed to conduct a remedial investigation and feasibility study for this site. The EPA issued its "No Action" Record of Decision in 1994, concluding that there were no significant hazards associated with the site subject to two additional years of monitoring for arsenic in certain existing monitoring wells. Williams Pipe Line should complete monitoring in the second quarter of 1997.

WILLIAMS COMMUNICATIONS GROUP, INC. (WILLIAMS COMMUNICATIONS GROUP)

The Company organized the reporting for its communications operations under a single communications reporting entity in 1996 and has reported such operations for financial reporting purposes on a consolidated basis since the third quarter of 1996. Management believes that the new structure will better position it to provide total enterprise network solutions and superior customer service on a global basis. In addition, management believes this structure will facilitate growth and diversification while recognizing the convergence of customers, markets and product offerings of its communications entities. Management also believes the combination creates a vehicle to better establish name recognition and presence in the communications industry.

The new entity, Williams Communications Group, Inc. ("Williams Communications Group"), is comprised of four major business units: Williams Telecommunications Systems, Inc.; Vyvx, Inc.; Global Access Telecommunications Services, Inc. (formerly known as ITC mediaConferencing Company); and Williams Learning Network, Inc. Through its business units, Williams Communications Group provides customer-premise voice and data equipment, including installation and maintenance; advertising distribution; network integration and management services; video services and other multimedia services for the broadcasting industry; broadcast facsimile, audio- and videoconferencing services for businesses; and interactive, computer-based training programs and services for a variety of industries.

In March 1997, Williams Communications Group acquired the stock of Critical Technologies, Incorporated, a network systems integrator that designs, builds, implements, and maintains large-scale business communications systems.

Williams Communications Group, through its subsidiaries, owns approximately 11,000 fiber miles of fiber-optic network, approximately 53 television switching centers, more than 1,300 fully equipped service vehicles, and 120 sales and services locations nationwide plus international offices serving Europe, South America and the Pacific Rim. In addition, Williams Communications Group owns or manages five teleports in the United States and has rights to capacity on domestic and international satellite transponders. Williams Communications Group employed approximately 4,300 employees as of December 31, 1996.

Consolidated revenues by business unit and operating profit for Williams Communications Group for 1996 were as follows (dollars in millions):

Revenues:

WilTel	
WilTel Voice.....	\$520.6
WilTel Data.....	47.5
Vyvx.....	100.0
Williams Learning Network.....	17.9
Global Access.....	7.6
Other.....	17.7

Total.....	\$711.3
------------	---------

Operating profit.....	\$ 6.6
	=====

A business description of each of Williams Communications Group's business units follows.

WILLIAMS TELECOMMUNICATIONS SYSTEMS, INC. (WILTEL)

WilTel provides data, voice and video communications products and services to a wide variety of customers nationally. WilTel serves its customers through more than 100 sales and service locations throughout the United States, over 3,100 employees and over 1,300 stocked service vehicles. WilTel employs more than 1,400 technicians and more than 500 sales representatives and sales support personnel to serve an estimated 41,000 commercial, governmental and institutional customer sites. WilTel's customer base ranges from large, publicly-held corporations and the federal government to small privately-owned entities.

WilTel offers its customers a full array of data, multimedia, voice and video network interconnect products including digital key systems (generally designed for voice applications with fewer than 100 lines), private branch exchange (PBX) systems (generally designed for voice applications with greater than 100 lines), voice processing systems, interactive voice response systems, automatic call distribution applications, call accounting systems, network monitoring and management systems, desktop video, routers, channel banks, intelligent hubs and cabling. WilTel's services also include the design, configuration and installation of voice and data networks and the management of customers' telecommunications operations and facilities. WilTel's National Technical Resource Center provides customers with on-line order entry and trouble reporting services, advanced technical assistance and training. Other service capabilities include Local Area Network and PBX remote monitoring and toll fraud detection.

In 1994, WilTel acquired BellSouth's customer premise equipment sales and service operations in 29 states outside of BellSouth's local operating region in the nine southeastern-most states and Jackson Voice Data, a New York City-based customer premise equipment company. In 1996, WilTel acquired Comlink, Inc., a Marlborough, Massachusetts, based voice and network systems integrator. Comlink services approximately 5,000 customers in Vermont, New Hampshire, Maine, Massachusetts, Rhode Island and Connecticut. Also in 1996, WilTel acquired SoftIRON Systems, Inc., a network systems integrator based in California. SoftIRON works with organizations to design, procure, install and support complex data systems. SoftIRON maintains more than 200 sites with high-speed data switches, 5,000 remote access ports and extensive networks managing more than 15,000 devices. These acquisitions have enabled WilTel to capitalize on its existing infrastructure, strengthen its national market presence and geographic customer density and has provided more diversity in product offerings.

Operating Statistics. The following table summarizes the results of operations for the periods indicated (dollars and ports in millions):

	1996 -----	1995 -----	1994 -----
Revenues.....	\$568.1	\$494.9	\$396.6
Percentage of revenues by type of service:			
New system sales.....	40%	34%	33%
System modifications.....	34	39	36
Maintenance.....	24	25	24
Other.....	2	2	7
Backlog.....	\$112.2	\$ 85.0	\$ 92.4
Total ports.....	5.1	4.7	4.1

A port is defined as an electronic address resident in a customer's PBX or key system that supports a station, trunk or data port.

In 1996, WilTel derived approximately 59.7 percent of its revenues from its existing customer base and approximately 40.3 percent from the sale of new telecommunications systems. WilTel's three largest suppliers accounted for approximately 86 percent of equipment sold in 1996. A single manufacturer supplied 73 percent of all equipment sold. In this case, WilTel is the largest independent distributor in the United States of certain of this company's products. About 63 percent of WilTel's active customer base consists of this manufacturer's products. The distribution agreement with this supplier is scheduled to expire at the end of 2000. Management believes there is minimal risk as to the availability of products from suppliers.

VYVX, INC. (VYVX)

Vyvx offers broadcast-quality television and multimedia transmission services nationwide by means of its 11,000-mile fiber optic cable system, satellite uplink/downlink facilities and satellite transponder capacity. Vyvx fiber primarily provides backhaul or point-to-point transmission of sports, news and other programming between two or more customer locations. With satellite facilities, Vyvx provides point-to-multipoint transmission service. Vyvx's customers include all of the major broadcast and cable networks. Vyvx is also engaged in the business of advertising distribution and is exploring other multimedia communication opportunities through its fiber optic network.

In 1996, Vyvx acquired four teleports (including satellite earth station facilities) from ICG Wireless Services. The teleports are located in Atlanta, Denver, Los Angeles and New York (Carteret, New Jersey). Also in 1996, Vyvx acquired Global Access Telecommunications Services, Inc., a reseller of worldwide video transmission services, which resulted in the management of a fifth teleport in Kansas City. The business television operations were transferred to ITC mediaConferencing, and Vyvx continues to operate the satellite and transponder facilities of the former Global Access. As discussed below, ITC mediaConferencing has adopted the Global Access name. These acquisitions enabled Vyvx to become a full-service fiber-optic and satellite video transmission provider.

In November and December, 1996, respectively, Vyvx acquired the assets of Cycle-Sat, Inc. and Viacom MGS Services Inc., both distributors of television advertising. These acquisitions provide connectivity and presence in more than 550 television broadcast stations around the country.

Under an agreement with IXC Communications entered into in the fourth quarter 1996, Vyvx will build a 1,600-mile fiber-optic network from Houston to Washington, D.C., in proximity to pipeline right-of-way owned by an affiliated company. Vyvx will then exchange rights to use a portion of the unlit fiber for usage rights to IXC's existing 4,500-mile Los Angeles-to-New York route. It is estimated that by mid-1998, Vyvx will have added 6,100 miles of new, unrestricted network to its existing 11,000-mile system, which is limited to multimedia applications.

WILLIAMS LEARNING NETWORK, INC. (WILLIAMS LEARNING NETWORK)

Williams Learning Network, formerly Williams Knowledge Systems, provides multimedia-based training products for the chemical, refining, utility and manufacturing industries. Williams Learning Network serves approximately 6,500 customers in these industries.

In December 1996, Williams Learning Network announced the formation of a joint venture with the Public Broadcast Service to utilize Internet, video-on-demand, fiber-optic and satellite technologies to bring professional development and training services to the business community. The 20-year agreement provides for a management committee to operate the new entity.

GLOBAL ACCESS TELECOMMUNICATIONS SYSTEMS, INC. (GLOBAL ACCESS)
(FORMERLY ITC MEDIACONFERENCEING COMPANY)

In October 1995, a business unit of Williams Communications Group acquired a 22 percent interest in ITC mediaConferencing Company ("ITC") and acquired the remaining interest in ITC in 1996. ITC, which has changed its name to Global Access, offers multi-point videoconferencing, audioconferencing and enhanced fax services as well as single point to multi-point business television services. The acquisition enables Williams Communications Group to provide customers with integrated media conferences, bringing together voice, video and facsimile by utilizing Williams Communications Group's existing fiber-optic and satellite services.

In March 1997, Global Access acquired Satellite Management, Inc., a systems integrator for business television and provider of other satellite-based services.

REGULATORY MATTERS

The equipment WilTel sells must meet the requirements of Part 68 of the Federal Communications Commission (FCC) rules governing the equipment registration, labeling and connection of equipment to telephone networks. WilTel relies on the equipment manufacturers' compliance with these requirements for its own compliance regarding the equipment it distributes. A subsidiary of WilTel, which provides intrastate microwave communications services for a Federal agency, is subject to FCC regulations as a common carrier microwave licensee. These regulations have a minimal impact on WilTel's operations.

Vyvx is subject to FCC regulations as a common carrier with regard to certain of its transmission services and is subject to the laws of certain states governing public utilities. An FCC rulemaking to eliminate domestic, common carrier tariffs has been stayed pending judicial review. In the interim, the FCC is requiring such carriers to operate under traditional tariff rules. Operations of satellite earth stations and certain other related transmission facilities are also subject to FCC licensing and other regulations. These regulations do not significantly impact Vyvx's operations.

COMPETITION

WilTel has many competitors ranging from Lucent Technologies and the Regional Bell Operating Companies to small individually-owned companies that sell and service customer premise equipment. Competitors include companies that sell equipment comparable or identical to that sold by WilTel. There are virtually no barriers to entry into this market.

Vyvx's video and multimedia transmission operations compete primarily with companies offering video or multimedia transmission services by means of satellite facilities and to a lesser degree with companies offering transmission services via microwave facilities or fiber-optic cable.

Federal telecommunications reform legislation enacted in February 1996 is designed to increase competition both in the long distance market and local exchange market by significantly liberalizing current restrictions on market entry. In particular, the legislation establishes procedures permitting Regional Bell Operating Companies to provide long distance services including, but not limited to, video transmission services, subject to certain restrictions and conditions precedent. Moreover, electric and gas utilities may

provide telecommunications services, including long distance services, through separate subsidiaries. The legislation also calls for tariff forbearance and relaxation of regulation over common carriers. At this time, management cannot predict the impact such legislation may have on the operations of Williams Communications Group.

OWNERSHIP OF PROPERTY

Vyvx owns part of its fiber-optic transmission facilities and leases the remainder. Vyvx carries signals by means of its own fiber-optics facilities, as well as carrying signals over fiber-optic facilities leased from third-party interexchange carriers and the various local exchange carriers. Vyvx holds its satellite transponder capacity under various agreements. Vyvx owns part of its teleport facilities and holds the remainder under either a management agreement or long-term facilities leases.

ENVIRONMENTAL MATTERS

Williams Communications Group is subject to federal, state and local laws and regulations relating to the environmental aspects of its business. Management believes that Williams Communications Group's operations are in substantial compliance with existing environmental legal requirements. Management expects that compliance with such existing environmental legal requirements will not have a material adverse effect on the capital expenditures, earnings and competitive position of Williams Communications Group.

OTHER INFORMATION

Williams believes that it has adequate sources and availability of raw materials to assure the continued supply of its services and products for existing and anticipated business needs. Williams' pipeline systems are all regulated in various ways resulting in the financial return on the investments made in the systems being limited to standards permitted by the regulatory bodies. Each of the pipeline systems has ongoing capital requirements for efficiency and mandatory improvements, with expansion opportunities also necessitating periodic capital outlays.

A plant site in Pensacola, Florida, that was previously operated by a former subsidiary of Williams, has been placed on the National Priorities List. This former subsidiary has also been identified as a potentially responsible party at a National Priorities List cleanup site in Michigan. A third site, located in Lakeland, Florida, which was formerly owned and operated by this subsidiary, is under investigation by the Florida Department of Environmental Protection and cleanup is anticipated. Williams does not believe that the ultimate resolution of the foregoing matters, taken as a whole and after consideration of insurance coverage, contribution or other indemnification arrangements, will have a material adverse financial effect on the Company. See Note 17 of Notes to Consolidated Financial Statements.

At December 31, 1996, the Company had approximately 11,000 full-time employees, of whom approximately 1,200 were represented by unions and covered by collective bargaining agreements. The Company considers its relations with its employees to be generally good.

FORWARD-LOOKING INFORMATION

Certain matters discussed in this report, excluding historical information, include forward-looking statements. Although the Company believes such forward-looking statements are based on reasonable assumptions, no assurance can be given that every objective will be reached. Such statements are made in reliance on the safe harbor protections provided under the Private Securities Litigation Reform Act of 1995.

As required by such Act, the Company hereby identifies the following important factors that could cause actual results to differ materially from any results projected, forecasted, estimated or budgeted by the Company in forward-looking statements: (i) risks and uncertainties impacting the Company as a whole primarily relate to changes in general economic conditions in the United States; changes in laws and regulations to which the Company is subject, including tax, environmental and employment laws and regulations; the cost and effects of legal and administrative claims and proceedings against the Company or its

subsidiaries or which may be brought against the Company or its subsidiaries; conditions of the capital markets utilized by the Company to access capital to finance operations; and, to the extent the Company increases its investments and activities abroad, such investments and activities will be subject to foreign economies, laws, and regulations; (ii) for the Company's regulated businesses, risks and uncertainties primarily relate to the impact of future federal and state regulation of business activities, including allowed rates of return; and (iii) risks and uncertainties associated with the Company's unregulated businesses primarily relate to the ability of such entities to develop expanded markets and product offerings as well as maintaining existing markets. It is also possible that certain aspects of the Company's businesses that are currently unregulated may be subject to both federal and state regulation in the future. In addition, future utilization of pipeline capacity will depend on energy prices, competition from other pipelines and alternate fuels, the general level of natural gas and petroleum product demand and weather conditions, among other things. Further, gas prices which directly impact transportation and gathering and processing throughput and operating profits may fluctuate in unpredictable ways as may corn prices, which directly affect the Company's ethanol business. It is also not possible to predict which of many possible future products and service offerings will be important to maintaining a competitive position in the communications business or what expenditures will be required to develop and provide such products and services.

(D) FINANCIAL INFORMATION ABOUT FOREIGN AND DOMESTIC OPERATIONS AND EXPORT SALES

Williams has no significant foreign operations.

ITEM 2. PROPERTIES

See Item 1(c) for description of properties.

ITEM 3. LEGAL PROCEEDINGS

Other than as described under Item 1 -- Business and in Note 17 of Notes to Consolidated Financial Statements, there are no material pending legal proceedings. Williams is subject to ordinary routine litigation incidental to its businesses.

Subsequent Developments. On February 27, 1997, FERC issued Order 636-C in response to the court's remand affirming that pipelines may recover all of their gas supply realignment costs but requiring pipelines to individually propose the percentage of such costs to be allocated to interruptible transportation services, instead of a uniform 10 percent allocation. The order also prospectively relaxes the eligibility requirements for receiving no-notice service and reduces the right of first refusal matching period from 20 years to five years. Order 636-C is still subject to potential rehearing at FERC.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

EXECUTIVE OFFICERS OF WILLIAMS

The names, ages, positions and earliest election dates of the executive officers of Williams are:

NAME ----	AGE ---	POSITIONS AND OFFICES HELD -----	HELD OFFICE SINCE -----
Keith E. Bailey.....	54	Chairman of the Board, President, Chief Executive Officer and Director (Principal Executive Officer)	05-19-94
John C. Bumgarner, Jr.....	54	Senior Vice President -- Corporate Development and Planning; President -- Williams International Company	01-01-79
James R. Herbster.....	55	Senior Vice President -- Administration	01-01-92
Jack D. McCarthy.....	54	Senior Vice President -- Finance (Principal Financial Officer)	01-01-92
William G. von Glahn.....	53	Senior Vice President and General Counsel	08-01-96
Gary R. Belitz.....	47	Controller (Principal Accounting Officer)	01-01-92
Stephen L. Cropper.....	47	President -- Williams Energy Group	10-01-96
Henry C. Hirsch.....	54	Vice Chairman and Chief Executive Officer -- Williams Communications Group	02-11-97
Howard E. Janzen.....	42	President and Chief Operating Officer -- Williams Communications Group	02-11-97
Brian E. O'Neill.....	61	President -- Transco, Northwest Pipeline, Kern River, TXG and Williams Natural Gas	01-01-88

All of the above officers have been employed by Williams or its subsidiaries as officers or otherwise for more than five years and have had no other employment during such period.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Williams' Common Stock is listed on the New York and Pacific Stock Exchanges under the symbol "WMB." At the close of business on December 31, 1996, Williams had 12,386 holders of record of its Common Stock. The daily closing price ranges (composite transactions) and dividends declared by quarter for each of the past two years (adjusted to reflect the three-for-two stock split discussed below) are as follows:

QUARTER -----	1996			1995		
	HIGH -----	LOW -----	DIVIDEND -----	HIGH -----	LOW -----	DIVIDEND -----
1st.....	\$34	\$28 1/2	\$.227	\$207/12	\$167/12	\$.18
2nd.....	\$355/12	\$311/6	\$.227	\$237/12	\$201/6	\$.18
3rd.....	\$347/12	\$30 1/2	\$.227	\$261/12	\$231/12	\$.18
4th.....	\$38 1/3	\$32 1/2	\$.26	\$29 2/3	\$251/12	\$.18

On December 30, 1996, the Company distributed one share of Common Stock of the Company, \$1 par value, for every two shares of Common Stock outstanding on December 6, 1996, pursuant to a three-for-two stock split.

Terms of certain subsidiaries' borrowing arrangements limit transfer of funds to Williams. These terms have not impeded, nor are they expected to in the future, Williams' ability to meet its cash obligations.

ITEM 6. SELECTED FINANCIAL DATA

The following financial data are an integral part of, and should be read in conjunction with, the consolidated financial statements and notes thereto. Information concerning significant trends in the financial condition and results of operations is contained in Management's Discussion and Analysis of Financial Condition and Results of Operations on pages F-1 through F-9 of this report.

	1996	1995	1994	1993	1992
	(MILLIONS, EXCEPT PER-SHARE AMOUNTS)				
Revenues.....	\$ 3,531.2	\$ 2,855.7	\$1,751.1	\$1,793.4	\$1,983.5
Income from continuing operations*.....	362.3	299.4	164.9	185.4	103.1
Income from discontinued operations**....	--	1,018.8	94.0	46.4	25.2
Fully diluted earnings per share:***					
Income from continuing operations.....	2.14	1.84	1.02	1.14	.65
Income from discontinued operations....	--	6.48	.61	.30	.19
Cash dividends per common share ***.....	.94	.72	.56	.52	.51
Total assets at December 31.....	12,418.8	10,561.2	5,226.1	5,020.4	4,982.3
Long-term obligations at December 31.....	4,376.9	2,874.0	1,307.8	1,604.8	1,683.2
Stockholders' equity at December 31.....	3,421.0	3,187.1	1,505.5	1,724.0	1,518.3

* See Note 6 of Notes to Consolidated Financial Statements for discussion of significant asset sales and write-off of project costs in 1996, 1995 and 1994. Income from continuing operations in 1993 includes a pre-tax gain of \$51.6 million as a result of the sale of 6.1 million units in the Williams Coal Seam Gas Royalty Trust and a pre-tax gain of \$45.9 million as a result of the sale of its intrastate natural gas pipeline system and other related assets in Louisiana.

** See Note 3 of Notes to Consolidated Financial Statements for discussion of the 1995 gain on the sale of discontinued operations. Amounts prior to 1995 reflect operating results for the network services operations.

*** Per-share amounts have been restated to reflect the effect of the December 30, 1996, 3-for-2 common stock split and distribution as discussed in Note 14 of Notes to Consolidated Financial Statements.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

1996 vs. 1995

Northwest Pipeline's revenues increased \$14.5 million, or 6 percent, due primarily to increased transportation rates, effective February 1, 1996, associated with the expansion of mainline capacity placed into service on December 1, 1995. In addition, \$9 million of revenue in 1996 associated with reserve reversals and favorable regulatory decisions was more than offset by the effect of the 1995 reversal of approximately \$16 million of accrued liabilities for estimated rate refund accruals. Total throughput increased 8 TBtu, or 1 percent. Operating profit increased \$9.2 million, or 8 percent, due primarily to increased transportation rates associated with the expansion of mainline capacity, and the reserve reversals and favorable regulatory decisions. Partially offsetting were higher depreciation expense associated with the mainline expansion and the approximate \$11 million net favorable effect of two 1995 reserve accrual adjustments. The 1995 reserve accrual adjustments included a \$16 million favorable adjustment of rate refund accruals based on a favorable rate case order, partially offset by a loss accrual (included in other income -- net) in connection with a lawsuit involving a former transportation customer.

Williams Natural Gas' revenues increased \$4.1 million, or 2 percent, due primarily to increased transportation revenue resulting from new tariff rates that became effective August 1, 1995. Total throughput increased 6.9 TBtu, or 2 percent. Operating profit was substantially the same as the prior year as the effect of a \$4 million 1995 reversal of a regulatory accrual was offset by new tariff rates that became effective August 1, 1995.

Transcontinental Gas Pipe Line's (Transco) revenues increased \$35.1 million, or 5 percent, due primarily to higher natural gas transportation revenues and liquids and liquefiable transportation revenues of \$20 million and \$9 million, respectively. Additionally, revenue for 1996 reflects a full year of operations compared with 1995, which reflected operations from January 18, 1995, when Williams acquired a majority interest in Transco Energy. Revenues associated with the period January 1 through January 17, 1995, were approximately \$36 million. Offsetting these increases were lower revenues resulting from lower transportation costs charged to Transco by others and passed through to customers as provided in Transco's rates. Transportation revenues increased due primarily to increased long-haul throughput, which benefitted from a two-phase system expansion placed in service in late 1996 and late 1995, and new rates effective September 1, 1995, which allowed the passthrough of increased costs. Total throughput increased 176.1 TBtu, or 12 percent, due primarily to a full year of operations in 1996 compared to a partial year in 1995. Operating profit increased \$29.6 million, or 18 percent, due primarily to increased transportation revenues, lower general and administrative expenses and a full year of operations in 1996, partially offset by higher operation and maintenance expenses and higher taxes other than income taxes.

Texas Gas Transmission's revenues and operating profit increased \$29.8 million, or 11 percent, and \$21.1 million, or 33 percent, respectively, due primarily to new rates that became effective April 1, 1995, and an adjustment to regulatory accruals based upon a recent rate case settlement. Also, 1995 reflected operations from January 18, when Williams acquired a majority interest in Transco Energy. Revenues associated with the period January 1 through January 17, 1995, were \$16 million. Total throughput increased 141.1 TBtu, or 22 percent, due primarily to a full year of operations in 1996 compared to a partial year in 1995 and the impact of a colder winter in 1996.

Kern River Gas Transmission's (Kern River) remaining interest was acquired by Williams on January 16, 1996. Revenues and operating profit amounts for 1996 include the operating results of Kern River since the acquisition date. Kern River's revenues were \$160.6 million for 1996, while costs and operating expenses were \$35 million, selling, general and administrative expenses were \$13 million and operating profit was \$113 million. Prior to the acquisition, Williams accounted for its 50 percent ownership in Kern River using the equity method of accounting, with its share of equity earnings recorded in investing income. Throughput was 269.9 TBtu during 1996 (for the period subsequent to the acquisition date). Throughput for 1996 is comparable to 1995.

Field Services' revenues increased \$83.4 million, or 16 percent, due primarily to higher natural gas liquids sales revenues of \$64 million combined with higher gathering and processing revenues of \$6 million and \$13 million, respectively. Natural gas liquids sales revenues increased due to a 36 percent increase in volumes combined with higher average prices. Gathering and processing volumes each increased 19 percent while average gathering rates decreased. Costs and operating expenses increased \$52 million, or 15 percent, due primarily to higher fuel and replacement gas purchases, expanded facilities and increased operations. Other income -- net for 1996 includes a \$20 million gain from the property insurance coverage associated with construction of replacement gathering facilities and \$6 million of gains from the sale of two small gathering systems, partially offset by \$5 million of environmental remediation accruals. Other income -- net for 1995 includes \$20 million in operating profit from a favorable resolution of contingency issues involving previously regulated gathering and processing assets. Operating profit increased \$26.4 million, or 16 percent, due primarily to higher natural gas liquids margins and higher gathering and processing revenues, partially offset by higher costs and operating expenses. Operating profit was favorably impacted in both 1996 and 1995 by approximately \$20 million of other income.

Merchant Services' revenues increased \$107.6 million, or 70 percent, due primarily to higher natural gas and gas liquids marketing, price-risk management activities and petroleum product marketing of \$77 million, \$24 million and \$18 million, respectively, partially offset by lower contract origination revenues of \$10 million. Natural gas and gas liquids marketing revenues increased due to higher marketing volumes and prices. In addition, net physical trading revenues increased \$3 million, due to a 19 percent increase in natural gas physical trading volumes from 754 TBtu to 896 TBtu largely offset by lower physical trading margins. Costs and operating expenses increased \$73 million, or 94 percent, due primarily to higher natural gas purchase volumes and prices. Operating profit increased \$33.2 million, or 100 percent, due primarily to higher price-risk

management revenues, a reduction of development costs associated with its information products business and increased natural gas marketing volumes. Partially offsetting were higher selling, general and administrative expenses and lower contract origination revenues resulting from the impact of profits realized from certain long-term natural gas supply obligations in 1995. Merchant Services' price-risk management and trading activities are subject to risk from changes in energy commodity market prices, the portfolio position of its financial instruments and physical commitments, and credit risk. Merchant Services manages risk by maintaining its portfolio within established trading policy guidelines.

Petroleum Services' revenues increased \$165.2 million, or 50 percent, due primarily to an increase in transportation activities and ethanol sales of \$31 million and \$133 million, respectively. Revenues from transportation activities increased due primarily to a 10 percent increase in shipments and a \$14 million increase in product sales. Shipments increased as a result of new business and the 1995 impacts of unfavorable weather conditions and a fire at a truck-loading rack. Average length of haul and transportation rate per barrel were slightly below 1995 due primarily to shorter haul movements. Ethanol revenues increased following the August 1995 acquisition of Pekin Energy and the fourth-quarter 1995 completion of the Aurora plant. Costs and operating expenses increased \$155 million, or 68 percent, due primarily to a full year of ethanol production activities. Operating profit increased \$6.5 million, or 9 percent, due primarily to increased shipments, partially offset by lower ethanol margins and production levels as a result of record high corn prices.

Exploration and Production's revenues increased \$19.5 million, or 31 percent, due primarily to higher revenues from the marketing of production from the Williams Coal Seam Gas Royalty Trust (Royalty Trust) and increased production revenues of \$9 million and \$8 million, respectively. The increase in marketing revenues reflects both increased volumes and higher average gas prices. The increase in production revenues reflects higher average gas prices. Costs and operating expenses increased \$18 million due primarily to higher Royalty Trust natural gas purchase costs. Other income -- net in 1995 includes an \$8 million loss accrual for a future minimum price natural gas commitment. Operating profit increased \$8.7 million to \$2.8 million in 1996 due primarily to the effect of the \$8 million 1995 loss accrual.

Williams Communications Group's revenues increased \$172.4 million, or 32 percent, due primarily to the 1996 acquisitions which contributed revenues of \$95 million. Additionally, increased business activity resulted in a \$36 million revenue increase in new systems sales and a \$16 million increase in digital fiber television services. The number of ports in service at December 31, 1996, increased 8 percent and billable minutes from occasional service increased 16 percent. Dedicated service voice-grade equivalent miles at December 31, 1996, decreased 6 percent as compared with December 31, 1995, which in part reflects a shift to occasional service. Costs and operating expenses increased \$126 million, or 31 percent, and selling, general and administrative expenses increased \$63 million, or 62 percent, due primarily to the overall increase in business activity and higher expenses for developing additional products and services, including the cost of integrating the most recent acquisitions. Operating profit decreased \$18.4 million, or 74 percent, due primarily to the expenses of developing additional products and services along with integrating the most recent acquisitions.

General corporate expenses increased \$3.7 million, or 10 percent, due primarily to higher employee compensation expense and consulting fees, partially offset by the effect of a \$5 million contribution in 1995 to The Williams Companies Foundation. Interest accrued increased \$82 million, or 30 percent, due primarily to higher borrowing levels including debt associated with the January 1996 acquisition of the remaining interest in Kern River (see Note 2), slightly offset by lower average interest rates. Interest capitalized decreased \$7.6 million, or 53 percent, due primarily to lower capital expenditures for gathering and processing facilities and the 1995 completion of Northwest Pipeline's mainline expansion. Investing income decreased \$75.1 million, or 80 percent, due primarily to the effect of interest earned in 1995 on the invested portion of the cash proceeds from the sale of Williams' network services operations, a \$15 million dividend in 1995 from Texasgulf Inc. (sold in 1995), and \$31 million lower equity earnings from Williams' 50 percent ownership in Kern River. Kern River's 1996 operating results are included in operating profit since the acquisition date (see Note 2). The 1996 gain on sales of assets results from the sale of certain communication rights. The 1995 loss on sales of assets results from the sale of the 15 percent interest in Texasgulf Inc. The 1995 write-off of project costs results from the cancellation of an underground coal gasification project in Wyoming (see Note 6). The \$12 million favorable change in other income (expense) -- net in 1996 is due primarily to the 1995 effect of

approximately \$10 million of minority interest expense associated with the Transco merger and approximately \$10 million of reserve reversals in 1996, partially offset by higher environmental accruals of \$4 million and additional expense of international activities.

The \$81.1 million, or 79 percent, increase in the provision for income taxes on continuing operations is primarily a result of higher pre-tax income and a higher effective income tax rate. The increase in the effective income tax rate is the result of the 1995 recognition of \$29.8 million of previously unrecognized tax benefits realized as a result of the sale of Texasgulf Inc. (see Note 6). The effective income tax rate in 1996 is less than the federal statutory rate due primarily to income tax credits from research activities and coal-seam gas production, partially offset by the effects of state income taxes. In addition, 1996 includes recognition of favorable adjustments totaling \$13 million related to previously provided deferred income taxes on certain regulated capital projects and state income tax adjustments related to 1995. The effective income tax rate in 1995 is less than the federal statutory rate due primarily to income tax credits from coal-seam gas production, partially offset by the effects of state income taxes and minority interest. In addition, 1995 includes the previously unrecognized tax benefits related to the sale of Texasgulf Inc. (see Note 6) and recognition of an \$8 million income tax benefit resulting from settlements with taxing authorities (see Note 7).

On January 5, 1995, Williams sold its network services operations to LDDS Communications, Inc. for \$2.5 billion in cash. The sale yielded an after-tax gain of approximately \$1 billion, which is reported as income from discontinued operations (see Note 3).

Preferred stock dividends decreased \$4.9 million, or 32 percent, due primarily to the 1995 effect of a difference in the fair value of subordinated debentures issued and the carrying value of the exchanged \$2.21 cumulative preferred stock (see Note 14).

1995 vs. 1994

Northwest Pipeline's revenues increased \$16.7 million, or 7 percent, due primarily to the \$16 million reversal of a portion of certain rate refund accruals and increased transportation rates put into effect in November 1994, partially offset by the completion in 1994 of billing contract-reformation surcharges. Mainline throughput increased 22 percent; however, revenues were not significantly affected due to the effects of the straight-fixed-variable rate design prescribed by the Federal Energy Regulatory Commission. Operating profit increased \$11.6 million, or 11 percent, due primarily to higher transportation rates and the approximate \$11 million net effect of two reserve accrual adjustments, partially offset by \$5 million, or 13 percent, higher operations and maintenance expenses. The reserve accrual adjustments involved a \$16 million adjustment to rate refund accruals because of favorable rate case developments, partially offset by a loss accrual (included in other income -- net) in connection with a lawsuit involving a former transportation customer.

Williams Natural Gas' revenues decreased \$57 million, or 25 percent, and costs and operating expenses decreased \$62 million, or 40 percent, due primarily to \$36 million lower direct billing of purchased gas adjustments and lower contract-reformation recovery of \$21 million. Operating profit decreased \$3.8 million, or 8 percent, due primarily to the effect of the 1994 reversal of excess contract-reformation accruals of \$7.4 million (included in other income -- net) and \$3.2 million from lower 1995 average firm reserved capacity, partially offset by \$4.6 million resulting from higher average firm reserved capacity rates, effective August 1, 1995, and higher storage revenues of \$3.7 million.

Transcontinental Gas Pipe Line's revenues were \$725.3 million in 1995, while costs and expenses were \$560 million and operating profit was \$165 million. Throughput was 1,410.9 TBtu in 1995 (for the period subsequent to the acquisition date). Transcontinental Gas Pipe Line placed new, higher rates into effect September 1, 1995, subject to refund. Market-area deliveries in 1995 and 1994 were approximately the same.

Texas Gas Transmission's revenues were \$276.3 million in 1995, while costs and expenses were \$212 million and operating profit was \$64 million. Throughput was 653.4 TBtu in 1995 (for the period subsequent to the acquisition date). Texas Gas placed new, higher rates into effect April 1, 1995, subject to refund.

Field Services' revenues increased \$204.2 million, or 62 percent, due primarily to \$172 million higher gathering revenues. Gathering revenues increased due primarily to a 102 percent increase in gathering volumes, including \$131 million attributable to Transco Energy's Gulf Coast gathering operations, combined with an increase in average gathering prices, excluding Gulf Coast operations. Liquids and processing volumes increased 6 percent and 4 percent, respectively. Costs and operating expenses increased \$149 million, or 78 percent, and selling, general and administrative expenses increased \$25 million, or 91 percent, with Transco Energy's activities contributing \$102 million and \$13 million, respectively. In addition, costs and operating expenses increased due to expanded facilities. Other income -- net for 1995 includes \$20 million in operating profit from the favorable resolution of contingency issues involving previously regulated gathering and processing assets. Operating profit increased \$48.1 million, or 43 percent, primarily resulting from the \$20 million in other income and a doubling of gathering volumes, primarily a result of Transco Energy's gathering activities. Operating profit in 1994 included approximately \$7 million in favorable settlements and adjustments of certain prior period accruals, including income of \$4 million from an adjustment to operating taxes.

Merchant Services' revenues and costs and operating expenses decreased \$228.2 million and \$289 million, respectively. The addition of Transco Energy's gas trading activities was more than offset by the reporting of 1995 natural gas marketing activities on a net-margin basis (see Note 15) and \$72 million in lower petroleum services operations resulting from adverse market conditions. Natural gas physical trading volumes increased to 754 Tbtu in 1995 compared to 148 Tbtu in 1994, primarily from the effect of the Transco Energy acquisition. Selling, general and administrative expenses increased \$28 million due primarily to the increase in trading activity. Operating profit increased \$29.8 million from \$3.4 million in 1994. Trading activities' operating profit increased \$34 million, attributable primarily to income recognition from long-term natural gas supply obligations and no-notice service provided to local distribution companies. Included in trading activities is a price-risk management adjustment of \$4 million from the valuation of certain natural gas supply and sales contracts previously excluded from trading activities. These increases were partially offset by \$6 million of loss provisions, primarily accruals for contract disputes, and increased costs of supporting its information services business.

Petroleum Services' revenues increased \$111.2 million, or 51 percent, due to an increase in transportation activities and ethanol sales of \$33 million and \$84 million, respectively. Revenue from transportation activities increased due primarily to higher shipments and a \$15 million increase in product sales. Shipments, while 7 percent higher than 1994, were reduced by the November 1994 fire at a truck-loading rack and unfavorable weather conditions in the first half of 1995. The average transportation rate per barrel and average length of haul were slightly below 1994 due primarily to shorter haul movements. Ethanol revenues increased following the acquisition of Pekin Energy in August 1995. Costs and operating expenses increased \$93 million, or 69 percent, due primarily to increased operating expenses associated with transportation and ethanol activities. Operating profit increased \$17.3 million, or 33 percent, due primarily to increased shipments, higher product sales margins of \$4 million, \$3 million related to the operations of Pekin Energy and the effect of \$5 million of costs in 1994 for evaluating and determining whether to build an oil refinery near Phoenix.

Exploration and Production's revenues increased \$23.7 million, or 61 percent, due primarily to \$35 million higher revenue from the marketing of production from the Royalty Trust and a 14 percent increase in production volumes, partially offset by a decrease in average gas sales prices. Costs and operating expenses increased \$33 million due primarily to higher Royalty Trust natural gas purchase costs. Other income -- net in 1995 includes an \$8 million loss accrual for a future minimum price natural gas commitment. Operating profit decreased \$19.5 million to a \$5.9 million operating loss in 1995 due primarily to the \$8 million loss accrual, lower average gas sales prices and \$3 million higher selling, general and administrative expenses.

Williams Communications Group's revenues increased \$122.3 million, or 29 percent, due primarily to \$30 million from new systems, \$28 million from existing system enhancements, \$37 million from contract maintenance, moves, adds and changes, and \$15 million in digital fiber television services. These amounts include the effect of the acquisitions of BellSouth Communications Systems in March 1994 and Jackson Voice Data, completed in October 1994. The number of ports in service at December 31, 1995, increased 14 percent, billable minutes from occasional service increased 110 percent and dedicated service voice-grade

equivalent miles at December 31, 1995, increased 50 percent as compared with December 31, 1994. Costs and operating expenses increased \$84 million, or 26 percent, and selling, general and administrative expenses increased \$21 million, or 27 percent, due primarily to the overall increase in volume of sales and services and higher expenses for developing additional products and services. Operating profit increased \$17.4 million from \$7.6 million in 1994 due primarily to increased activity in new system sales, enhancements to existing systems, maintenance, digital television services and the full-year 1995 impact of two 1994 acquisitions.

General corporate expenses increased \$9.7 million, or 35 percent, due primarily to a \$6.4 million increase in charitable contributions, including \$5 million to The Williams Companies Foundation. Interest accrued increased \$132.1 million, or 91 percent, due primarily to the \$2 billion outstanding debt assumed as a result of the Transco Energy acquisition. Interest capitalized increased \$8.5 million, or 143 percent, due primarily to increased expenditures for gathering and processing facilities and Northwest Pipeline's expansion projects. Investing income increased \$44.3 million, or 89 percent, due primarily to interest earned on the invested portion of the cash proceeds from the sale of Williams' network services operations in addition to an \$11 million increase in the dividend from Texasgulf Inc. The 1995 loss on sales of assets results from the sale of the 15 percent interest in Texasgulf Inc. The 1994 gain on sales of assets results from the sale of 3,461,500 limited partner common units in Northern Border Partners, L.P. The 1995 write-off of project costs results from the cancellation of an underground coal gasification project in Wyoming (see Note 6). Other income (expense) -- net in 1995 includes approximately \$10 million of minority interest expense associated with the Transco Energy merger, \$4 million of dividends on subsidiary preferred stock and \$4 million of losses on sales of receivables, partially offset by \$11 million of equity allowance for funds used during construction (AFUDC). Other income (expense) -- net in 1994 includes a credit for \$4.8 million from the reversal of previously accrued liabilities associated with certain Royalty Trust contingencies that expired. Also included is approximately \$4 million of expense related to Statement of Financial Accounting Standards (FAS) No. 112, "Employers' Accounting for Postemployment Benefits," which relates to postemployment benefits being paid to employees of companies previously sold.

The \$20.3 million, or 25 percent, increase in the provision for income taxes on continuing operations is primarily a result of higher pre-tax income, partially offset by a lower effective income tax rate resulting from \$29.8 million of previously unrecognized tax benefits realized as a result of the sale of Texasgulf Inc. (see Note 6) and an \$8 million income tax benefit resulting from settlements with taxing authorities. The effective income tax rate in 1995 is significantly less than the federal statutory rate, due primarily to the previously unrecognized tax benefits realized as a result of the sale of the investment in Texasgulf Inc., income tax credits from coal-seam gas production and recognition of an \$8 million income tax benefit resulting from settlements with taxing authorities, partially offset by the effects of state income taxes and minority interest. The effective income tax rate in 1994 is lower than the statutory rate primarily because of income tax credits from coal-seam gas production, partially offset by state income taxes (see Note 7).

On January 5, 1995, Williams sold its network services operations to LDDS Communications, Inc. for \$2.5 billion in cash. The sale yielded an after-tax gain of approximately \$1 billion, which is reported as income from discontinued operations. Prior period operating results for the network services operations are reported as discontinued operations (see Note 3).

The 1994 extraordinary loss results from the early extinguishment of debt (see Note 8).

Preferred stock dividends increased \$6.5 million as a result of the May 1995 issuance of 2.5 million shares of Williams \$3.50 cumulative convertible preferred stock in exchange for Transco Energy's \$3.50 cumulative convertible preferred stock (see Note 14) in addition to the \$3.5 million premium on exchange of \$2.21 cumulative preferred stock for debentures.

FINANCIAL CONDITION AND LIQUIDITY

Liquidity

Williams considers its liquidity to come from two sources: internal liquidity, consisting of available cash investments, and external liquidity, consisting of borrowing capacity from available bank-credit facilities,

which can be utilized without limitation under existing loan covenants. At December 31, 1996, Williams had access to \$550 million of liquidity representing the available portion of its \$1 billion bank-credit facility plus cash-equivalent investments. This compares with liquidity of \$656 million at December 31, 1995, and \$495 million at December 31, 1994. The decrease in 1996 is due primarily to additional borrowings under the bank-credit facility, partially offset by a \$200 million increase in the capacity of the bank-credit facility (see Note 13). At December 31, 1996, \$200 million in current debt obligations have been classified as non-current obligations based on Williams' intent and ability to refinance on a long-term basis. At December 31, 1996, the amount available on the \$1 billion bank-credit facility of \$500 million is sufficient to complete these refinancings. In January 1997, Williams filed a \$200 million shelf registration statement with the Securities and Exchange Commission to issue trust preferred securities. During 1996, Williams Holdings of Delaware, Inc., a wholly-owned subsidiary of Williams, filed a \$400 million shelf registration statement with the Securities and Exchange Commission and issued \$250 million of debt securities. During 1993, Williams filed a \$300 million shelf registration statement with the Securities and Exchange Commission, increasing the total amount available to \$400 million. The registration statement may be used to issue Williams common or preferred stock, preferred stock purchase rights, debt securities, warrants to purchase Williams common stock or warrants to purchase debt securities. In addition, short-term uncommitted bank lines are utilized in managing liquidity. Williams believes any additional financing arrangements can be obtained on reasonable terms if required.

Williams had a net working-capital deficit of \$309 million at December 31, 1996, compared with \$715 million at December 31, 1995. Williams manages its borrowings to keep cash and cash equivalents at a minimum and has relied on bank-credit facilities to provide flexibility for its cash needs. As a result, it historically has reported negative working capital. The decrease in the working-capital deficit at December 31, 1996, as compared to the prior year-end is primarily a result of higher 1996 levels of receivables.

Terms of certain borrowing agreements limit transfer of funds to Williams from its subsidiaries. The restrictions have not impeded, nor are they expected to impede, Williams' ability to meet its cash requirements in the future.

During 1997, Williams expects to finance capital expenditures, investments and working-capital requirements through cash generated from operations and the use of the available portion of its \$1 billion bank-credit facility, short-term uncommitted bank lines or public debt/equity offerings.

Operating Activities

Cash provided by operating activities was: 1996 -- \$710 million; 1995 -- \$829 million; and 1994 -- \$349 million. The increase in receivables, commodity trading assets and accounts payable is due primarily to increased trading activities by Williams Energy Group's Merchant Services. The increase in property, plant and equipment primarily reflects the consolidation of Kern River following the January 1996 acquisition (see Note 2).

Financing Activities

Net cash provided (used) by financing activities was: 1996 -- \$734 million; 1995 -- (\$1.4) billion; and 1994 -- \$50 million. Long-term debt proceeds, net of principal payments were \$609 million during 1996. Long-term debt principal payments net of debt proceeds were \$610 million during 1995. Long-term debt proceeds, net of principal payments and early extinguishment of debt were \$24 million during 1994. The increase in net new borrowings during 1996 was primarily to fund capital expenditures, investments and acquisitions of businesses.

The majority of the proceeds from issuance of common stock in 1996 resulted from Williams benefit plan stock purchases and exercise of stock options under Williams' stock plan. The 1995 proceeds from issuance of common stock includes \$46.2 million from the sale of 1.8 million shares of Williams common stock, held by a subsidiary of Williams and previously classified as treasury stock in the Consolidated Balance Sheet, in addition to Williams benefit plan stock purchases and exercise of stock options under Williams' stock plans.

The majority of the proceeds from issuance of common stock in 1994 resulted from Williams benefit plan stock purchases and exercise of stock options under Williams' stock plan (see Note 14).

The 1996 purchases of Williams' treasury stock include 957,750 shares of common stock on the open market for \$31 million. The Williams board of directors has authorized up to \$800 million of such purchases. During 1994, Williams and one of its subsidiaries purchased 20.7 million shares of Williams common stock on the open market for \$407 million. Substantially all of the purchases were financed with a \$400 million bank-credit agreement. In 1995, the outstanding amounts under the credit agreement were repaid from the proceeds of the sale of Williams' network services operations, and the credit agreement was terminated. Williams also repurchased 96,300, 142,800 and 258,800 shares of its \$2.21 cumulative preferred stock on the open market for \$3 million, \$4 million and \$6 million in 1996, 1995 and 1994, respectively.

On January 18, 1995, Williams acquired 60 percent of Transco Energy's outstanding common stock in a cash tender offer for \$430.5 million. Williams acquired the remaining 40 percent of Transco Energy's outstanding common stock on May 1, 1995, through a merger by exchanging the remaining Transco Energy common stock for approximately 15.6 million shares of Williams common stock valued at \$334 million. Additionally, \$2.3 billion in preferred stock and debt obligations of Transco Energy was assumed by Williams. Williams made payments to retire and/or terminate approximately \$700 million of Transco Energy's borrowings, preferred stock, interest-rate swaps and sale of receivable facilities. As part of the merger, Williams exchanged Transco Energy's \$3.50 cumulative convertible preferred stock for Williams' \$3.50 cumulative convertible preferred stock (see Note 2). The cash portion of the acquisition and the payments to retire and/or terminate various Transco Energy facilities were financed with the proceeds from the sale of Williams' network services operations (see Note 3).

During 1995, Williams exchanged 2.8 million shares of its \$2.21 cumulative preferred stock with a carrying value of \$69 million for 9.6 percent debentures with a fair value of \$72.5 million (see Note 14).

Long-term debt at December 31, 1996, was \$4.4 billion, compared with \$2.9 billion at December 31, 1995, and \$1.3 billion at December 31, 1994. At December 31, 1996, \$200 million in current debt obligations have been classified as non-current obligations based on Williams' intent and ability to refinance on a long-term basis. The 1996 increase in long-term debt is due primarily to the \$643 million outstanding debt assumed with the acquisition of Kern River (see Note 2), \$300 million in additional borrowings under the \$1 billion bank-credit facility and \$250 million of debt issued by Williams Holdings. The 1995 increase in long-term debt is due primarily to the \$2 billion outstanding debt assumed as a result of the Transco Energy acquisition. The long-term debt to debt-plus-equity ratio was 56.1 percent at year-end, compared with 47.4 percent and 46.5 percent at December 31, 1995 and 1994, respectively. Included in long-term debt due within one year at December 31, 1994, was \$350 million outstanding under Williams' revolving credit facility.

See Note 8 for information regarding early extinguishment of debt by Williams and one of its subsidiaries during 1994.

Investing Activities

Net cash provided (used) by investing activities was: 1996 -- (\$1.4) billion; 1995 -- \$585 million; and 1994 -- (\$427) million. Capital expenditures of pipeline subsidiaries, primarily to expand and modernize systems, were \$441 million in 1996; \$445 million in 1995; and \$96 million in 1994. Expenditures in 1996 include Transcontinental Gas Pipe Line's expansion; expenditures in 1995 include Transcontinental Gas Pipe Line and Northwest Pipeline's expansions; and expenditures in 1994 include Northwest Pipeline's additional mainline expansion. Capital expenditures of Williams Energy Group, primarily to expand and modernize gathering and processing facilities, were \$292 million in 1996; \$336 million in 1995; and \$214 million in 1994. Capital expenditures for discontinued operations were \$143 million in 1994, primarily to expand and enhance Williams' network services operations network. Budgeted capital expenditures and investments for 1997 are approximately \$1.7 billion, primarily to expand pipeline systems, gathering and processing facilities and the fiber-optic network.

On January 16, 1996, Williams acquired the remaining interest in Kern River for \$206 million in cash (see Note 2). In addition, during 1996 Williams acquired various communications technology businesses totaling \$165 million in cash. During 1995, in addition to the Transco Energy acquisition (see Note 2), Williams acquired the Gas Company of New Mexico's natural gas gathering and processing assets in the San Juan and Permian basins for \$154 million (including approximately 10 percent of which was immediately sold to a third party) and Pekin Energy Co., the nation's second largest ethanol producer, for \$167 million in cash.

During 1996, Williams received proceeds of \$23 million from the sale of certain communications rights. During 1995, Williams received proceeds of \$124 million from the sale of its 15 percent interest in Texasgulf Inc. During 1994, Williams received net proceeds of \$80 million from the sale of limited partner units in Northern Border Partners, L.P. (see Note 6).

EFFECTS OF INFLATION

Williams has experienced increased costs in recent years due to the effects of inflation. However, approximately 62 percent of Williams' property, plant and equipment was acquired or constructed during 1996 and 1995. A substantial portion of Williams' property, plant and equipment is subject to regulation, which limits recovery to historical cost. While Williams believes it will be allowed the opportunity to earn a return based on the actual cost incurred to replace existing assets, competition or other market factors may limit the ability to recover such increased costs.

ENVIRONMENTAL

Williams is a participant in certain environmental activities in various stages involving assessment studies, cleanup operations and/or remedial processes. The sites, some of which are not currently owned by Williams (see Note 17), are being monitored by Williams, other potentially responsible parties, the U.S. Environmental Protection Agency (EPA), or other governmental authorities in a coordinated effort. In addition, Williams maintains an active monitoring program for its continued remediation and cleanup of certain sites connected with its refined products pipeline activities. Williams has both joint and several liability in some of these activities and sole responsibility in others. Current estimates of the most likely costs of such cleanup activities, after payments by other parties, are approximately \$80 million, all of which is accrued at December 31, 1996. Williams expects to seek recovery of approximately \$42 million of the accrued costs through future natural gas transmission rates. Williams will fund these costs from operations and/or available bank-credit facilities. The actual costs incurred will depend on the final amount, type and extent of contamination discovered at these sites, the final cleanup standards mandated by the EPA or other governmental authorities, and other factors.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

	PAGE

Report of Independent Auditors.....	F-11
Consolidated Statement of Income.....	F-12
Consolidated Balance Sheet.....	F-14
Consolidated Statement of Stockholders' Equity.....	F-15
Consolidated Statement of Cash Flows.....	F-16
Notes to Consolidated Financial Statements.....	F-17
Quarterly Financial Data (Unaudited).....	F-43

REPORT OF INDEPENDENT AUDITORS

To The Stockholders of
The Williams Companies, Inc.

We have audited the accompanying consolidated balance sheet of The Williams Companies, Inc. as of December 31, 1996 and 1995, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1996. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Williams Companies, Inc. at December 31, 1996 and 1995, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP

Tulsa, Oklahoma
February 10, 1997

THE WILLIAMS COMPANIES, INC.
CONSOLIDATED STATEMENT OF INCOME

	YEARS ENDED DECEMBER 31,		
	1996	1995*	1994*
	(MILLIONS, EXCEPT PER-SHARE AMOUNTS)		
Revenues:			
Williams Interstate Natural Gas Systems (Note 4).....	\$1,675.2	\$1,431.1	\$ 469.8
Williams Energy Group (Note 4).....	1,453.1	1,077.4	966.5
Williams Communications Group.....	711.3	538.9	416.6
Other.....	48.0	17.4	--
Intercompany eliminations (Note 16).....	(356.4)	(209.1)	(101.8)
Total revenues.....	3,531.2	2,855.7	1,751.1
Profit-center costs and expenses:			
Costs and operating expenses.....	2,064.1	1,700.7	1,187.7
Selling, general and administrative expenses.....	585.5	488.8	229.2
Other income -- net.....	(19.8)	(4.5)	(8.1)
Total profit-center costs and expenses.....	2,629.8	2,185.0	1,408.8
Operating profit:			
Williams Interstate Natural Gas Systems (Note 4).....	562.4	389.7	152.9
Williams Energy Group (Note 4).....	332.3	257.5	181.8
Williams Communications Group.....	6.6	25.0	7.6
Other.....	.1	(1.5)	--
Total operating profit.....	901.4	670.7	342.3
General corporate expenses.....	(41.4)	(37.7)	(28.0)
Interest accrued.....	(359.9)	(277.9)	(145.8)
Interest capitalized.....	6.9	14.5	6.0
Investing income (Note 5).....	18.8	93.9	49.6
Gain (loss) on sales of assets (Note 6).....	15.7	(12.6)	22.7
Write-off of project costs (Note 6).....	--	(41.4)	--
Other income (expense) -- net.....	3.9	(8.1)	(.2)
Income from continuing operations before income taxes.....	545.4	401.4	246.6
Provision for income taxes (Note 7).....	183.1	102.0	81.7
Income from continuing operations.....	362.3	299.4	164.9
Income from discontinued operations (Note 3).....	--	1,018.8	94.0
Income before extraordinary loss.....	362.3	1,318.2	258.9
Extraordinary loss (Note 8).....	--	--	(12.2)
Net income.....	362.3	1,318.2	246.7
Preferred stock dividends (Note 14).....	10.4	15.3	8.8
Income applicable to common stock.....	\$ 351.9	\$1,302.9	\$ 237.9

* Certain amounts have been restated or reclassified as described in Note 1.

See accompanying notes.

THE WILLIAMS COMPANIES, INC.
CONSOLIDATED STATEMENT OF INCOME (CONCLUDED)

	YEARS ENDED DECEMBER 31,		
	1996	1995*	1994*
Primary earnings per common and common-equivalent share (Notes 1, 3 and 8):			
Income from continuing operations.....	\$2.17	\$1.86	\$1.02
Income from discontinued operations.....	--	6.65	.61
	-----	-----	-----
Income before extraordinary loss.....	2.17	8.51	1.63
Extraordinary loss.....	--	--	(.08)
	-----	-----	-----
Net income.....	\$2.17	\$8.51	\$1.55
	=====	=====	=====
Fully diluted earnings per common and common-equivalent share (Notes 1, 3 and 8):			
Income from continuing operations.....	\$2.14	\$1.84	\$1.02
Income from discontinued operations.....	--	6.48	.61
	-----	-----	-----
Income before extraordinary loss.....	2.14	8.32	1.63
Extraordinary loss.....	--	--	(.08)
	-----	-----	-----
Net income.....	\$2.14	\$8.32	\$1.55
	=====	=====	=====

* Amounts have been restated as described in Note 1.

See accompanying notes.

THE WILLIAMS COMPANIES, INC.

CONSOLIDATED BALANCE SHEET

ASSETS

	DECEMBER 31,	
	----- 1996 -----	1995 ----- -----
	(DOLLARS IN MILLIONS, EXCEPT PER-SHARE AMOUNTS)	
Current assets:		
Cash and cash equivalents.....	\$ 115.3	\$ 90.4
Receivables less allowance of \$9.7 (\$11.3 in 1995).....	952.9	525.0
Transportation and exchange gas receivable.....	117.7	152.3
Inventories (Note 10).....	204.6	189.0
Commodity trading assets (Note 15).....	147.2	66.8*
Deferred income taxes (Note 7).....	199.5	213.9
Other.....	152.9	140.3*
	-----	-----
Total current assets.....	1,890.1	1,377.7
Investments (Note 5).....	190.6	307.6
Property, plant and equipment -- net (Note 11).....	9,386.3	8,014.7
Other assets and deferred charges.....	951.8	861.2*
	-----	-----
Total assets.....	\$12,418.8	\$10,561.2
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Notes payable (Note 13).....	\$ 269.5	\$ --
Accounts payable (Note 12).....	683.3	472.0
Transportation and exchange gas payable.....	73.7	127.8
Accrued liabilities (Note 12).....	975.3	1,086.2*
Commodity trading liabilities (Note 15).....	137.9	87.2*
Long-term debt due within one year (Note 13).....	59.6	319.9
	-----	-----
Total current liabilities.....	2,199.3	2,093.1
Long-term debt (Note 13).....	4,376.9	2,874.0
Deferred income taxes (Note 7).....	1,626.6	1,568.2
Other liabilities.....	795.0	838.8*
Contingent liabilities and commitments (Note 17)		
Stockholders' equity (Note 14):		
Preferred stock, \$1 par value, 30,000,000 shares authorized, 3,241,552 shares issued in 1996 and 3,739,452 shares issued in 1995.....	161.0	173.5
Common stock, \$1 par value, 240,000,000 shares authorized, 160,214,163 shares issued in 1996 and 158,006,922 shares issued in 1995.....	160.2	158.0
Capital in excess of par value.....	1,047.7	998.4
Retained earnings.....	2,119.5	1,915.6
Unamortized deferred compensation.....	(2.2)	(2.3)
	-----	-----
Total stockholders' equity.....	3,486.2	3,243.2
Less treasury stock (at cost), 2,737,337 shares of common stock in 1996, 2,359,804 shares of common stock in 1995 and 401,600 shares of preferred stock in 1995.....	(65.2)	(56.1)
	-----	-----
Total stockholders' equity.....	3,421.0	3,187.1
	-----	-----
Total liabilities and stockholders' equity.....	\$12,418.8	\$10,561.2
	=====	=====

* Reclassified to conform to current classifications.

See accompanying notes.

THE WILLIAMS COMPANIES, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	PREFERRED STOCK	COMMON STOCK	CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS	UNAMORTIZED DEFERRED COMPENSATION	TREASURY STOCK	TOTAL
	-----	-----	-----	-----	-----	-----	-----
	(DOLLARS IN MILLIONS, EXCEPT PER-SHARE AMOUNTS)						
Balance, December 31, 1993.....	\$100.0	\$154.6	\$ 907.6	\$ 563.7	\$(1.9)	\$ --	\$1,724.0
Net income -- 1994.....	--	--	--	246.7	--	--	246.7
Cash dividends --							
Common stock (\$.56 per share).....	--	--	--	(85.1)	--	--	(85.1)
Preferred stock (Note 14).....	--	--	--	(8.8)	--	--	(8.8)
Issuance of shares --							
2,394,613 common.....	--	2.0	29.4	--	(1.3)	8.1	38.2
Purchase of treasury stock --							
20,685,133 common.....	--	--	--	--	--	(406.8)	(406.8)
258,800 preferred.....	--	--	--	--	--	(6.4)	(6.4)
Tax benefit of stock-based awards.....	--	--	1.8	--	--	--	1.8
Amortization of deferred compensation...	--	--	--	--	1.9	--	1.9
Balance, December 31, 1994.....	100.0	156.6	938.8	716.5	(1.3)	(405.1)	1,505.5
Net income -- 1995.....	--	--	--	1,318.2	--	--	1,318.2
Cash dividends --							
Common stock (\$.72 per share).....	--	--	--	(107.2)	--	--	(107.2)
Preferred stock (Note 14).....	--	--	--	(11.9)	--	--	(11.9)
Issuance of shares --							
19,319,881 common.....	--	1.4	58.3	--	(1.7)	352.7	410.7
2,500,000 preferred.....	142.5	--	--	--	--	--	142.5
Exchange of shares for debentures --							
2,760,548 preferred (Note 14).....	(69.0)	--	(3.5)	--	--	--	(72.5)
Purchase of treasury stock --							
142,800 preferred.....	--	--	--	--	--	(3.7)	(3.7)
Tax benefit of stock-based awards.....	--	--	4.8	--	--	--	4.8
Amortization of deferred compensation...	--	--	--	--	.7	--	.7
Balance, December 31, 1995.....	173.5	158.0	998.4	1,915.6	(2.3)	(56.1)	3,187.1
Net income -- 1996.....	--	--	--	362.3	--	--	362.3
Cash dividends --							
Common stock (\$.94 per share).....	--	--	--	(148.0)	--	--	(148.0)
Preferred stock (Note 14).....	--	--	--	(10.4)	--	--	(10.4)
Issuance of shares --							
2,787,458 common.....	--	2.2	33.6	--	(.6)	12.0	47.2
Purchase of treasury stock --							
957,750 common.....	--	--	--	--	--	(31.3)	(31.3)
96,300 preferred.....	--	--	--	--	--	(2.6)	(2.6)
Retirement of treasury stock --							
497,900 preferred.....	(12.5)	--	(.3)	--	--	12.8	--
Tax benefit of stock-based awards.....	--	--	16.0	--	--	--	16.0
Amortization of deferred compensation...	--	--	--	--	.7	--	.7
Balance, December 31, 1996.....	\$161.0	\$160.2	\$1,047.7	\$2,119.5	\$(2.2)	\$ (65.2)	\$3,421.0
	=====	=====	=====	=====	=====	=====	=====

Note: Certain amounts have been restated to reflect the December 30, 1996 three-for-two common stock split and distribution.

See accompanying notes.

THE WILLIAMS COMPANIES, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

	YEARS ENDED DECEMBER 31,		
	1996	1995	1994
	(MILLIONS)		
Operating Activities:			
Net income.....	\$ 362.3	\$ 1,318.2	\$ 246.7
Adjustments to reconcile to cash provided from operations:			
Discontinued operations.....	--	(1,018.8)	(94.0)
Extraordinary loss.....	--	--	12.2
Depreciation and depletion.....	411.4	369.4	150.3
Provision for deferred income taxes.....	72.4	125.4	25.8
Write-off of project costs.....	--	41.4	--
(Gain) loss on dispositions of property, plant and equipment.....	(30.7)	(2.1)	.9
(Gain) loss on sale of assets.....	(15.7)	12.6	(22.7)
Changes in receivables sold.....	(13.1)	55.9	--
Changes in receivables.....	(214.2)	33.2	(175.0)
Changes in inventories.....	(16.1)	11.9	10.2
Changes in other current assets.....	3.8	1.1*	13.8*
Changes in accounts payable.....	204.0	(6.5)	20.7
Changes in accrued liabilities.....	(24.9)	(33.4)*	7.3*
Changes in current commodity trading assets and liabilities.....	(29.7)	28.1*	(15.9)*
Changes in non-current commodity trading assets and liabilities.....	(37.7)	(82.1)*	(2.4)
Other, including changes in non-current assets and liabilities.....	38.6	(25.6)	1.7
Net cash provided by continuing operations.....	710.4	828.7	179.6
Net cash provided by discontinued operations.....	--	--	169.4
Net cash provided by operating activities.....	710.4	828.7	349.0
Financing Activities:			
Proceeds from notes payable.....	356.8	116.8	507.0
Payments of notes payable.....	(87.3)	(623.8)	--
Proceeds from long-term debt.....	1,996.7	399.0	480.0
Payments of long-term debt.....	(1,387.7)	(1,009.4)	(456.5)
Proceeds from issuance of common stock.....	54.3	78.1	26.4
Purchases of treasury stock.....	(33.9)	(3.7)	(413.2)
Dividends paid.....	(158.4)	(119.1)	(93.9)
Subsidiary preferred stock redemptions.....	--	(193.7)	--
Other -- net.....	(6.3)	(3.5)	--
Net cash provided (used) by financing activities.....	734.2	(1,359.3)	49.8
Investing Activities:			
Property, plant and equipment:			
Capital expenditures:			
Continuing operations.....	(818.9)	(827.5)	(325.5)
Discontinued operations.....	--	--	(142.8)
Proceeds from dispositions.....	60.2	28.2	1.6
Acquisition of businesses, net of cash acquired.....	(366.2)	(858.9)	(56.5)
Proceeds from sales of businesses.....	--	2,588.3	--
Income tax and other payments related to discontinued operations.....	(261.7)	(350.4)	(1.5)
Proceeds from sales of assets.....	23.0	125.1	80.6
Purchase of investments/advances to affiliates.....	(76.9)	(49.7)	(3.3)
Purchase of note receivable.....	--	(75.1)	--
Other -- net.....	20.8	4.9	20.4
Net cash provided (used) by investing activities.....	(1,419.7)	584.9	(427.0)
Increase (decrease) in cash and cash equivalents.....	24.9	54.3	(28.2)
Cash and cash equivalents at beginning of year.....	90.4	36.1	64.3
Cash and cash equivalents at end of year.....	\$ 115.3	\$ 90.4	\$ 36.1

- -----

* Reclassified to conform to current classifications.

See accompanying notes.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

Operations of The Williams Companies, Inc. (Williams) are located in the United States and are organized into three operating groups as follows: Williams Interstate Natural Gas Systems, which is comprised of five interstate natural gas pipelines located in the eastern, midsouth, Gulf Coast, midwest and northwest regions; Williams Energy Group, which is comprised of natural gas gathering and processing facilities in the Rocky Mountain, midwest and Gulf Coast regions, energy commodity trading and price-risk management activities throughout the United States, a petroleum products pipeline in the midwest region, and hydrocarbon exploration and production activities in the Rocky Mountain and Gulf Coast regions; and Williams Communications Group, which includes Williams' national data, voice, video and Internet communication products and network integration services and fiber-optic and satellite multimedia transmission services. Additional information about these businesses is contained throughout the following notes.

Basis of presentation

Williams Energy Group is comprised of four units. Field Services includes Williams' natural gas gathering and processing activities previously reported in Williams Field Services Group. Merchant Services includes Williams' energy commodity trading and price-risk management activities previously reported in Williams Energy Services. Certain natural gas and natural gas liquids marketing operations formerly reported in Williams Field Services Group are also included in Merchant Services. Petroleum Services includes Williams' interstate petroleum products pipeline, ethanol-producing facilities and petroleum terminals previously reported in Williams Pipe Line. Exploration and Production includes exploration for and production of hydrocarbons previously reported as a component of Williams Field Services Group. Williams Communications Group is the combination of WilTel and WilTech Group, previously reported separately. Revenues and operating profit amounts for 1995 and 1994 have been reclassified to conform to current year classifications.

Revenues and operating profit amounts include the operating results of Kern River Gas Transmission Company (Kern River) since the January 16, 1996, acquisition by Williams of the remaining interest (see Note 2). Prior to this acquisition, Williams accounted for its 50 percent ownership in Kern River using the equity method of accounting, with its share of equity earnings recorded in investing income.

Revenues and operating profit amounts include the operating results of Transco Energy Company (Transco Energy) since its January 18, 1995, acquisition by Williams (see Note 2). The transportation operations from Transco Energy's two interstate natural gas pipelines are reported separately within Williams Interstate Natural Gas Systems. Transco Energy's gas gathering operations are included in Field Services, and its gas marketing operations are included in Merchant Services.

Principles of consolidation

The consolidated financial statements include the accounts of Williams and its majority-owned subsidiaries. Companies in which Williams and its subsidiaries own 20 percent to 50 percent of the voting common stock, or otherwise exercise sufficient influence over operating and financial policies of the company, are accounted for under the equity method.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Cash and cash equivalents

Cash and cash equivalents include demand and time deposits, certificates of deposit and other marketable securities with maturities of three months or less when acquired.

Transportation and exchange gas imbalances

In the course of providing transportation services to customers, the natural gas pipelines may receive different quantities of gas from shippers than the quantities delivered on behalf of those shippers. Additionally, the pipelines and other Williams subsidiaries transport gas on various pipeline systems which may deliver different quantities of gas on their behalf than the quantities of gas received. These transactions result in gas transportation and exchange imbalance receivables and payables which are recovered or repaid in cash or through the receipt or delivery of gas in the future. Settlement of imbalances requires agreement between the pipelines and shippers as to allocations of volumes to specific transportation contracts and timing of delivery of gas based on operational conditions. Transcontinental Gas Pipe Line's imbalances predating August 1, 1991, are being recovered or repaid in cash or through the receipt or delivery of gas upon agreements of allocation.

Inventory valuation

Inventories are stated at cost, which is not in excess of market, except for those held by Merchant Services, which are primarily stated at market. Inventories of natural gas are determined using the last-in, first-out (LIFO) method by Transcontinental Gas Pipe Line and the average-cost method by other subsidiaries. Except for Merchant Services, inventories of petroleum products are determined using average cost. The cost of materials and supplies inventories is determined using the first-in, first-out method (FIFO) by Williams Communications Group and principally using the average-cost method by other subsidiaries.

Property, plant and equipment

Property, plant and equipment is recorded at cost. Depreciation is provided primarily on the straight-line method over estimated useful lives. Gains or losses from the ordinary sale or retirement of property, plant and equipment for regulated pipeline subsidiaries are credited or charged to accumulated depreciation; other gains or losses are recorded in net income.

Treasury stock

Treasury stock purchases are accounted for under the cost method whereby the entire cost of the acquired stock is recorded as treasury stock. Gains and losses on the subsequent reissuance of shares are credited or charged to capital in excess of par value using the average-cost method.

Revenue recognition

Revenues generally are recorded when services have been performed or products have been delivered. Petroleum Services bills customers when products are shipped and defers the estimated revenues for shipments in transit. Williams interstate natural gas pipelines recognize revenues based upon contractual terms and the related transportation volumes through month-end. These pipelines are subject to Federal Energy Regulatory Commission (FERC) regulations and, accordingly, certain revenues are subject to possible refunds pending final FERC orders. Williams records rate refund accruals based on management's estimate of the expected outcome of these proceedings.

Commodity price-risk management activities

Merchant Services has trading operations that enter into energy-related financial instruments (forward contracts, futures contracts, option contracts and swap agreements) to provide price-risk management services

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

to its third-party customers. This operation also enters into short- and long-term energy-related purchase and sale commitments as part of its trading business. All of these investments and commitments are valued at market and are recorded in commodity trading assets, other assets and deferred charges, commodity trading liabilities and other liabilities in the Consolidated Balance Sheet. The change in unrealized market gains and losses is recognized in income currently and is recorded as revenues in the Consolidated Statement of Income. Such market values are subject to change in the near term and reflect management's best estimate of market prices considering various factors including closing exchange and over-the-counter quotations, the terms of the contract, credit considerations, time value and volatility factors underlying the positions. Merchant Services reports its trading operations sales of natural gas, refined products and crude oil net of the related costs to purchase such items, consistent with mark-to-market accounting for such trading activities.

Certain Merchant Services' natural gas, natural gas liquids and refined product marketing revenues previously reported in Williams Field Services Group and/or Williams Pipe Line were not included in trading operations and therefore are not reported net of related costs to purchase such items.

Other Williams operations enter into energy-related financial instruments (primarily futures contracts, option contracts and swap agreements) to hedge against market price fluctuations of certain commodity inventories and sales and purchase commitments. Unrealized and realized gains and losses on these hedge contracts are deferred and recognized in income when the related hedged item is recognized. These contracts are regularly evaluated to determine that there is a high correlation between changes in the market value of the hedge contract and fair value of the hedged item.

Capitalization of interest

Williams capitalizes interest on major projects during construction. Interest is capitalized on borrowed funds and, where regulation by the FERC exists, on internally generated funds. The rates used by regulated companies are calculated in accordance with FERC rules. Rates used by unregulated companies approximate the average interest rate on related debt. Interest capitalized on internally generated funds is included in other income (expense) -- net.

Employee stock-based awards

Employee stock-based awards are accounted for under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Williams' fixed plan common stock options do not result in compensation expense, because the exercise price of the stock options equals the market price of the underlying stock on the date of grant.

Income taxes

Williams includes the operations of its subsidiaries in its consolidated federal income tax return. Deferred income taxes are computed using the liability method and are provided on all temporary differences between the financial basis and the tax basis of Williams' assets and liabilities.

Earnings per share

Primary earnings per share are based on the sum of the average number of common shares outstanding and common-share equivalents resulting from stock options and deferred shares. Fully diluted earnings per share for 1996 and 1995 assumes conversion of the \$3.50 convertible preferred stock into common stock effective May 1, 1995. Shares used in determination of primary earnings per share are as follows (in thousands): 1996 -- 162,118; 1995 -- 153,069; and 1994 -- 153,704. Shares used in determination of fully diluted earnings per share are as follows (in thousands): 1996 -- 168,199; 1995 -- 157,280; and 1994 --

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

153,753. The number of shares for 1995 and 1994 have been restated to reflect the effect of a three-for-two common stock split and distribution (see Note 14).

NOTE 2 -- ACQUISITIONS

On January 16, 1996, Williams acquired the remaining interest in Kern River for \$206 million in cash. The acquisition was accounted for as a purchase, and the acquired assets and liabilities have been recorded based on an allocation of the purchase price, with substantially all of the cost in excess of Kern River's historical carrying value allocated to property, plant and equipment.

On January 18, 1995, Williams acquired 60 percent of Transco Energy's outstanding common stock in a cash tender offer for \$430.5 million. Williams acquired the remaining 40 percent of Transco Energy's outstanding common stock on May 1, 1995, through a merger by exchanging the remaining Transco Energy common stock for approximately 15.6 million shares of Williams common stock valued at \$334 million. The acquisition was accounted for as a purchase with 60 percent of Transco Energy's results of operations included in Williams' Consolidated Statement of Income for the period January 18, 1995, through April 30, 1995, and 100 percent included beginning May 1, 1995. The purchase price, including transaction fees and other related costs, was approximately \$800 million, excluding \$2.3 billion in preferred stock and debt obligations of Transco Energy. The acquired assets and liabilities were recorded based on an allocation of the purchase price with substantially all of the cost in excess of Transco Energy's historical carrying amounts allocated to property, plant and equipment of the two interstate natural gas pipeline systems. The cash portion of the acquisition was financed with the proceeds from the sale of Williams' network services operations (see Note 3).

Transco Energy was engaged primarily in the natural gas pipeline and natural gas marketing businesses. Williams has sold substantially all of Transco Energy's coal operations, coalbed methane properties and certain pipeline and gathering operations. Results of operations and changes in the carrying amount of these businesses during the holding period and from the ultimate dispositions are reflected in the purchase price and are not material.

In connection with the acquisition, Williams made payments to retire and/or terminate approximately \$700 million of Transco Energy borrowings, preferred stock, interest-rate swaps and sale of receivable facilities. As a part of the merger, Williams exchanged Transco Energy's \$3.50 preferred stock for Williams' \$3.50 preferred stock.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following unaudited pro forma information combines the results of operations of Williams and Transco Energy as if the purchase of 100 percent of Transco Energy occurred January 1, 1994.

	UNAUDITED	
	1995	1994
	(MILLIONS, EXCEPT PER-SHARE AMOUNTS)	
Revenues.....	\$2,916.4	\$2,660.3
Income from continuing operations.....	314.4	191.0
Income before extraordinary loss.....	1,333.2	285.0
Net income.....	1,333.2	272.8
Primary earnings per share:		
Income from continuing operations.....	1.95	1.18
Income before extraordinary loss.....	8.61	1.79
Net income.....	8.61	1.71
Fully diluted earnings per share:		
Income from continuing operations.....	1.93	1.18
Income before extraordinary loss.....	8.41	1.79
Net income.....	8.41	1.71

Pro forma financial information is not necessarily indicative of results of operations that would have occurred if the acquisition had occurred on January 1, 1994, or of future results of operations of the combined companies.

NOTE 3 -- DISCONTINUED OPERATIONS

On January 5, 1995, Williams sold its network services operations to LDDS Communications, Inc. for \$2.5 billion in cash. The sale yielded a gain of \$1 billion (net of income taxes of approximately \$732 million) which is reported as income from discontinued operations. Operating results for 1994 for the network services operations are reported as discontinued operations. Under the terms of the agreement, Williams retained Williams Telecommunications Systems, Inc., a national telecommunications equipment supplier and service company, and Vyvx, Inc., which operates a national video network specializing in broadcast television applications and satellite transmission. These operations are included in Williams Communications Group.

Summarized operating results of discontinued operations for 1994 were as follows:

	(MILLIONS)
Revenues.....	\$921.8
Operating profit.....	163.1
Provision for income taxes.....	60.9
Income from discontinued operations.....	94.0

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 4 -- REVENUES AND OPERATING PROFIT

Revenues and operating profit of Williams Interstate Natural Gas Systems and Williams Energy Group for the years ended December 31, 1996, 1995 and 1994, are as follows:

	REVENUES			OPERATING PROFIT		
	1996	1995*	1994*	1996	1995*	1994*
	(MILLIONS)					
Williams Interstate Natural Gas Systems:						
Northwest Pipeline.....	\$ 269.7	\$ 255.2	\$238.5	\$124.9	\$115.7	\$104.1
Williams Natural Gas.....	178.4	174.3	231.3	44.8	45.0	48.8
Transcontinental Gas Pipe Line.....	760.4	725.3	--	194.6	165.0	--
Texas Gas Transmission.....	306.1	276.3	--	85.1	64.0	--
Kern River Gas Transmission.....	160.6	--	--	113.0	--	--
	\$1,675.2	\$1,431.1	\$469.8	\$562.4	\$389.7	\$152.9
Williams Energy Group:						
Field Services.....	\$ 616.3	\$ 532.9	\$328.7	\$187.4	\$161.0	\$112.9
Merchant Services.....	261.1	153.5	381.7	66.4	33.2	3.4
Petroleum Services.....	493.3	328.1	216.9	75.7	69.2	51.9
Exploration and Production.....	82.4	62.9	39.2	2.8	(5.9)	13.6
	\$1,453.1	\$1,077.4	\$966.5	\$332.3	\$257.5	\$181.8

* Certain amounts have been reclassified as described in Note 1.

NOTE 5 -- INVESTING ACTIVITIES

	1996	1995
	(MILLIONS)	
Investments:		
Kern River Gas Transmission Company, at equity (50%) (see Note 2).....	\$ --	\$178.6
Other, at equity.....	105.9	84.2
Cost.....	84.7	44.8
	\$190.6	\$307.6

At December 31, 1996, certain equity investments, with a carrying value of \$36 million, have a market value of \$126 million.

In 1996, Williams acquired the remaining interest in Kern River (see Note 2). Summarized financial position and results of operations for Kern River for 1995 and 1994 are presented below.

	1995	1994
	(MILLIONS)	
Current assets.....	\$ 55.4	\$ 98.3
Non-current assets, principally natural gas transmission plant.....	994.5	1,026.3
Current liabilities.....	(47.3)	(86.9)
Long-term debt.....	(620.5)	(643.2)
Other non-current liabilities.....	(124.1)	(109.5)
Partners' equity.....	\$ 258.0	\$ 285.0
Revenues.....	\$ 187.0	\$ 179.0
Costs and expenses.....	65.7	54.9
Net income.....	38.0	38.1

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Investing income from continuing operations:

	1996	1995	1994
	-----	-----	-----
	(MILLIONS)		
Interest.....	\$11.1	\$37.2	\$ 5.5
Dividends.....	1.6	16.1	4.5
Equity earnings.....	6.1	40.6	39.6
	-----	-----	-----
	\$18.8	\$93.9	\$49.6
	=====	=====	=====

Dividends and distributions received from companies carried on an equity basis were \$7 million in 1996; \$44 million in 1995; and \$43 million in 1994.

NOTE 6 -- ASSET SALES AND WRITE-OFF OF PROJECT COSTS

In the fourth quarter of 1996, Williams recognized a pre-tax gain of \$15.7 million from the sale of certain communication rights for approximately \$38 million.

In 1995, the development of a commercial coal gasification venture in south-central Wyoming was canceled, resulting in a \$41.4 million pre-tax charge. This amount includes what management believes to be a reasonable estimate of future costs of \$4 million to reclaim the site, of which approximately \$3 million remains to be incurred over a five-year period. Williams continues to perform the reclamation of the site in coordination with various governmental agencies and expects to receive necessary environmental releases and approvals upon completion of the reclamation.

In 1995, Williams sold its 15 percent interest in Texasgulf Inc. for approximately \$124 million in cash, which resulted in an after-tax gain of approximately \$16 million because of previously unrecognized tax benefits included in the provision for income taxes.

In 1994, Williams sold 3,461,500 limited partner common units in Northern Border Partners, L.P. Net proceeds from the sale were approximately \$80 million, and the sale resulted in a pre-tax gain of \$22.7 million. As a result of the sale, Williams' original 12.25 percent interest in Northern Border partnerships has been reduced to 3.2 percent.

NOTE 7 -- PROVISION FOR INCOME TAXES

The provision (credit) for income taxes from continuing operations includes:

	1996	1995	1994
	-----	-----	-----
	(MILLIONS)		
Current:			
Federal.....	\$ 96.3	\$(26.5)	\$45.8
State.....	14.4	3.1	10.1
	-----	-----	-----
	110.7	(23.4)	55.9
	-----	-----	-----
Deferred:			
Federal.....	61.9	114.2	23.7
State.....	10.5	11.2	2.1
	-----	-----	-----
	72.4	125.4	25.8
	-----	-----	-----
Total provision.....	\$183.1	\$102.0	\$81.7
	=====	=====	=====

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Reconciliations from the provision for income taxes from continuing operations at the statutory rate to the provision for income taxes are as follows:

	1996	1995	1994
	-----	-----	-----
	(MILLIONS)		
Provision at statutory rate.....	\$190.9	\$140.5	\$ 86.3
Increases (reductions) in taxes resulting from:			
State income taxes.....	16.1	13.5	8.0
Income tax credits.....	(19.0)	(18.7)	(14.9)
Decrease in valuation allowance for deferred tax assets.....	--	(29.8)	--
Reversal of prior tax accruals.....	--	(8.0)	--
Other -- net.....	(4.9)	4.5	2.3
	-----	-----	-----
Provision for income taxes.....	\$183.1	\$102.0	\$ 81.7
	=====	=====	=====

Significant components of deferred tax liabilities and assets as of December 31 are as follows:

	1996	1995
	-----	-----
	(MILLIONS)	
Deferred tax liabilities:		
Property, plant and equipment.....	\$1,748.3	\$1,669.2
Investments.....	119.8	96.9
Other.....	230.6	299.1*
	-----	-----
Total deferred tax liabilities.....	2,098.7	2,065.2
Deferred tax assets:		
Deferred revenues.....	29.1	23.5
Investments.....	31.1	31.3
Rate refunds.....	111.4	70.7
Accrued liabilities.....	183.2	226.4
Minimum tax credits.....	86.8	93.9
Other.....	230.0	265.1*
	-----	-----
Total deferred tax assets.....	671.6	710.9
	-----	-----
Net deferred tax liabilities.....	\$1,427.1	\$1,354.3
	=====	=====

* Reclassified to conform to current classifications.

A valuation allowance for deferred tax assets decreased \$23.4 million during 1995.

Cash payments for income taxes (net of refunds) were \$395 million, \$339 million and \$107 million in 1996, 1995 and 1994, respectively.

NOTE 8 -- EXTRAORDINARY LOSS

The extraordinary loss in 1994 resulted from early extinguishment of debt. Williams and one of its subsidiaries paid \$316.7 million to redeem higher interest rate debt for a \$12.2 million net loss (net of a \$7.7 million benefit for income taxes).

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 9 -- EMPLOYEE BENEFIT PLANS

Pensions

Williams maintains non-contributory defined-benefit pension plans covering the majority of its employees. Benefits are based on years of service and average final compensation. Pension costs are funded to satisfy minimum requirements prescribed by the Employee Retirement Income Security Act of 1974.

Net pension expense consists of the following:

	1996	1995	1994
	-----	-----	-----
	(MILLIONS)		
Service cost for benefits earned during the year.....	\$ 30.3	\$ 19.5	\$13.9
Interest cost on projected benefit obligation.....	43.9	40.1	21.8
Actual return on plan assets.....	(100.6)	(120.3)	3.1
Amortization and deferrals.....	61.3	82.0	(24.2)
	-----	-----	-----
Net pension expense.....	\$ 34.9	\$ 21.3	\$14.6
	=====	=====	=====

Net pension expense increased in 1996 from 1995 as a result of a decrease in the discount rate from 8 1/2 percent to 7 1/4 percent and an increase in the number of plan participants. Net pension expense increased in 1995 from 1994 as a result of the Transco Energy plans' participants.

The following table presents the funded status of the plans:

	1996	1995
	-----	-----
	(MILLIONS)	
Actuarial present value of benefit obligations:		
Vested benefits.....	\$407	\$422
Non-vested benefits.....	37	21
	-----	-----
Accumulated benefit obligations.....	444	443
Effect of projected salary increases.....	167	137
	-----	-----
Projected benefit obligations.....	611	580
Assets at market value.....	637	550
	-----	-----
Assets (in excess of) less than projected benefit obligations.....	(26)	30
Unrecognized net gain.....	37	--
Unrecognized prior-service cost.....	(8)	(11)
Unrecognized transition asset.....	3	4
	-----	-----
Pension liability.....	\$ 6	\$ 23
	=====	=====

The discount rate used to measure the present value of benefit obligations is 7 1/2 percent (7 1/4 percent in 1995); the assumed rate of increase in future compensation levels is 5 percent; and the expected long-term rate of return on assets is 10 percent. Plan assets consist primarily of commingled funds and assets held in a master trust. The master trust is comprised primarily of domestic and foreign common and preferred stocks, United States government securities, corporate bonds and commercial paper.

Williams has retained all liabilities and obligations for service of its network services operations' plan participants up to the date of sale (see Note 3).

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Postretirement benefits other than pensions

Williams sponsors health care plans that provide postretirement medical benefits to retired Williams employees who were employed full time, hired prior to January 1, 1992 (January 1, 1996, for Transco Energy employees) and have met certain other requirements.

The plans provide for retiree contributions and contain other cost-sharing features such as deductibles and coinsurance. The accounting for the plans anticipates future cost-sharing changes to the written plans that are consistent with Williams' expressed intent to increase the retiree contribution rate annually, generally in line with health care cost increases, except for certain retirees whose premiums are fixed. A portion of the cost has been funded in trusts by Williams' FERC-regulated natural gas pipeline subsidiaries to the extent recovery from customers can be achieved. Plan assets consist of assets held in two master trusts and money market funds. One of the master trusts was previously described, and the other consists primarily of domestic and foreign common stocks, government bonds and commercial paper.

Net postretirement benefit expense consists of the following:

	1996	1995	1994
	-----	-----	-----
	(MILLIONS)		
Service cost for benefits earned during the year.....	\$ 6.4	\$ 7.4	\$ 3.9
Interest cost on accumulated postretirement benefit obligation.....	22.7	23.9	7.8
Actual return on plan assets.....	(16.4)	(17.9)	(.6)
Amortization of unrecognized transition obligation.....	5.0	5.0	5.1
Amortization and deferrals.....	19.7	23.1	.1
	-----	-----	-----
Net postretirement benefit expense.....	\$ 37.4	\$ 41.5	\$16.3
	=====	=====	=====

Net postretirement benefit expense increased \$26 million in 1995 from 1994 for the Transco Energy participants.

The following table presents the funded status of the plans:

	1996	1995
	-----	-----
	(MILLIONS)	
Actuarial present value of postretirement benefit obligation:		
Retirees.....	\$200	\$227
Fully eligible active plan participants.....	26	24
Other active plan participants.....	89	85
	-----	-----
Accumulated postretirement benefit obligation.....	315	336
Assets at market value.....	155	124
	-----	-----
Assets less than accumulated postretirement benefit obligation.....	160	212
Unrecognized net gain.....	60	25
Unrecognized prior-service credit (cost).....	1	(6)
Unrecognized transition obligation.....	(65)	(71)
	-----	-----
Postretirement benefit liability.....	\$156	\$160
	====	====

During fourth-quarter 1996, the plans were amended, effective January 1, 1997, to increase the cost-sharing provisions. This amendment decreased the accumulated postretirement benefit obligation approximately \$10 million. The amount of postretirement benefit costs deferred as a regulatory asset at December 31, 1996 and 1995, is \$118 million and \$133 million, respectively, and is expected to be recovered through rates over approximately 15 years.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The discount rate used to measure the present value of benefit obligations is 7 1/2 percent (7 1/4 percent in 1995). The expected long-term rate of return on plan assets is 10 percent (6 percent after taxes). The annual assumed rate of increase in the health care cost trend rate for 1997 is 9 to 10 percent, systematically decreasing to 5 percent by 2004. The health care cost trend rate assumption has a significant effect on the amounts reported. Increasing the assumed health care cost trend rate by 1 percent in each year would increase the aggregate of the service and interest cost components of postretirement benefit expense for the year ended December 31, 1996, by \$4 million and the accumulated postretirement benefit obligation as of December 31, 1996, by \$27 million.

Other

Williams maintains various defined-contribution plans covering substantially all employees. Company contributions are based on employees' compensation and, in part, match employee contributions. Company contributions are invested primarily in Williams common stock. Williams' contributions to these plans were \$23 million in 1996, \$19 million in 1995 and \$14 million in 1994. Contributions to these plans made by discontinued operations were \$3 million in 1994.

NOTE 10 -- INVENTORIES

	1996	1995*
	-----	-----
	(MILLIONS)	
Natural gas in underground storage:		
Transcontinental Gas Pipe Line (LIFO).....	\$ 38.8	\$ 21.4
Merchant Services.....	1.5	6.0
Other.....	--	2.2
Petroleum products:		
Merchant Services.....	12.7	16.5
Other.....	33.7	23.7
Materials and supplies:		
Williams Communications Group.....	32.7	28.2
Other.....	79.3	87.8
Other.....	5.9	3.2
	-----	-----
	\$204.6	\$189.0
	=====	=====

*Certain amounts have been reclassified as described in Note 1.

Inventories valued on the LIFO method at December 31, 1996 and 1995, approximate current average cost.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 11 -- PROPERTY, PLANT AND EQUIPMENT

	1996	1995*
	-----	-----
	(MILLIONS)	
Cost:		
Williams Interstate Natural Gas Systems:		
Northwest Pipeline.....	\$ 1,447.9	\$ 1,403.5
Williams Natural Gas.....	787.4	761.6
Transcontinental Gas Pipe Line....	3,095.7	2,756.7
Texas Gas Transmission.....	958.9	917.3
Kern River Gas Transmission.....	990.5	--
Williams Energy Group:		
Field Services.....	2,188.3	2,099.9
Merchant Services.....	5.4	4.3
Petroleum Services.....	1,073.1	1,023.3
Exploration and Production.....	255.1	225.0
Williams Communications Group.....	257.3	145.9
Other.....	152.7	141.2
	-----	-----
	11,212.3	9,478.7
Accumulated depreciation and depletion.....	(1,826.0)	(1,464.0)
	-----	-----
	\$ 9,386.3	\$ 8,014.7
	=====	=====

* Certain amounts have been reclassified as described in Note 1.

Commitments for construction and acquisition of property, plant and equipment are approximately \$268 million at December 31, 1996.

Effective January 1, 1996, Williams adopted Statement of Financial Accounting Standards No. 121, "Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." Adoption of the standard had no effect on Williams' financial position or results of operations.

NOTE 12 -- ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Under Williams' cash-management system, certain subsidiaries' cash accounts reflect credit balances to the extent checks written have not been presented for payment. The amounts of these credit balances included in accounts payable are \$95 million at December 31, 1996, and \$136 million at December 31, 1995.

	1996	1995
	-----	-----
	(MILLIONS)	
Accrued liabilities:		
Rate refunds.....	\$305.1	\$ 180.6
Employee costs.....	178.1	135.9
Interest.....	95.2	72.9
Income taxes payable.....	77.6	371.6
Taxes other than income taxes.....	66.2	51.2
Other.....	253.1	274.0*
	-----	-----
	\$975.3	\$1,086.2
	=====	=====

* Reclassified to conform to current classifications.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 13 -- DEBT, LEASES AND BANKING ARRANGEMENTS

Notes payable

Williams has entered into various short-term credit agreements with amounts outstanding totaling \$269.5 million at December 31, 1996. The weighted average interest rate on the outstanding short-term borrowings at December 31, 1996, was 7.85 percent.

Debt

	WEIGHTED AVERAGE INTEREST RATE*	DECEMBER 31,	
		1996	1995
(MILLIONS)			
The Williams Companies, Inc. Revolving credit loans.....	--%	\$ --	\$ 50.0
Debentures, 8.875% -- 10.25%, payable 2012, 2020, 2021 and 2025.....	9.6	587.5	587.7
Notes, 7.5% -- 9.625%, payable 1998 through 2001.....	8.8	817.5	842.4
Northwest Pipeline Debentures, 7.125% -- 10.65%, payable through 2025.....	9.0	360.0	369.2
Adjustable rate notes, payable through 2002.....	9.0	10.0	11.7
Williams Natural Gas Variable rate notes, payable 1999.....	8.2	130.0	130.0
Transcontinental Gas Pipe Line Debentures, 7.25% and 9.125%, payable 1998 through 2026.....	8.1	352.4	153.0
Debentures, 7.08%, payable 2026 (subject to debtholder redemption in 2001).....	7.1	200.0	--
Notes, 8.125% and 8.875%, payable 1997 and 2002.....	8.5	227.7	381.1
Adjustable rate notes.....	--	--	125.1
Texas Gas Transmission Notes, 9.625% and 8.625%, payable 1997 and 2004.....	9.0	253.6	255.9
Kern River Gas Transmission Notes, 6.42% and 6.72%, payable through 2001.....	6.6	617.7	--
Williams Holdings of Delaware Revolving credit loans.....	6.0	500.0	150.0
Debentures, 6.25%, payable 2006.....	4.7	248.8	--
Williams Pipe Line Notes, 8.95% and 9.78%, payable through 2001.....	9.4	100.0	110.0
Williams Energy Ventures Adjustable rate notes, payable through 2002.....	8.1	25.6	21.0
Other, payable through 1999.....	7.7	5.7	6.8
		4,436.5	3,193.9
Current portion of long-term debt.....		(59.6)	(319.9)
		\$4,376.9	\$2,874.0
		=====	=====

*At December 31, 1996, including the effects of interest-rate swaps.

In December 1996, Williams increased the amounts available under its existing credit agreement to \$1 billion from \$800 million. Under the credit agreement, Northwest Pipeline, Transcontinental Gas Pipe Line, Texas Gas Transmission, Williams Pipe Line and Williams Holdings of Delaware, Inc. (Williams

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Holdings) have access to various amounts of the facility, while Williams (parent) has access to all unborrowed amounts. Interest rates vary with current market conditions.

For financial statement reporting purposes at December 31, 1996, \$200 million in current debt obligations have been classified as non-current obligations based on Williams' intent and ability to refinance on a long-term basis. At December 31, 1996, the amount available on the \$1 billion credit agreement of \$500 million is sufficient to complete these refinancings.

During March 1996, the Kern River floating-rate bank loan was refinanced through the issuance of 6.42 percent and 6.72 percent fixed-rate notes. Interest-rate swap agreements entered into by Kern River in prior years, which converted floating-rate debt to fixed-rate debt, remain outstanding. Concurrent with the refinancing, Kern River entered into additional interest-rate swap agreements where Kern River receives a fixed interest rate and pays a floating interest rate. The interest-rate swaps are recorded at market with an offsetting deferral of costs as a regulatory asset that is expected to be recovered in transportation rates. The effect is to adjust the new fixed-rate notes to an effective interest rate of 8.5 percent.

In January 1996, Williams Holdings issued \$250 million of 6.25 percent debentures due 2006. In April 1996, Williams Holdings entered into an interest-rate swap agreement, which effectively converted its 6.25 percent fixed-rate debentures to floating-rate debt (4.66 percent at December 31, 1996). The difference between the fixed and variable rate is included in interest expense.

In conjunction with the issuance of \$130 million of variable rate debt by Williams Natural Gas in November 1994, Williams entered into an interest-rate swap agreement under which Williams pays a 7.78 percent fixed rate in exchange for a variable rate (5.5 percent at December 31, 1996). The difference between the fixed and variable rate is included in interest expense.

Aggregate minimum maturities and sinking-fund requirements, excluding lease payments, for each of the next five years are as follows:

	(MILLIONS)

1997.....	\$ 59
1998.....	377
1999.....	355
2000.....	252
2001.....	1,610

Cash payments for interest (net of amounts capitalized) related to continuing operations are as follows: 1996 -- \$347 million; 1995 -- \$266 million; and 1994 -- \$143 million. Cash payments for interest (net of amounts capitalized) related to discontinued operations are \$6 million in 1994.

Leases

Future minimum annual rentals under non-cancelable operating leases related to continuing operations are \$59 million in 1997, \$54 million in 1998, \$48 million in 1999, \$42 million in 2000, \$40 million in 2001 and \$161 million thereafter.

Total rent expense from continuing operations was \$78 million in 1996 and 1995 and \$26 million in 1994. Total rent expense from discontinued operations was \$70 million in 1994.

NOTE 14 -- STOCKHOLDERS' EQUITY

On November 21, 1996, the board of directors of Williams declared a three-for-two common stock split and distribution; 53.8 million shares were issued on December 30, 1996. All references in the financial

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

statements and notes to the number of common shares outstanding and per-share amounts reflect the effect of the split.

In the third quarter of 1996, the Williams' board of directors authorized the open-market purchase of up to \$800 million of Williams common stock. At December 31, 1996, 957,750 shares had been purchased at a total cost of approximately \$31 million.

In connection with the 1995 merger with Transco Energy, Williams exchanged all of Transco Energy's outstanding \$3.50 cumulative convertible preferred stock for 2.5 million shares of Williams' \$3.50 cumulative convertible preferred stock. These shares are redeemable by Williams beginning in November 1999, at an initial price of \$51.40 per share. Each share of \$3.50 preferred stock is convertible at the option of the holder into 2.34375 shares of Williams common stock. Dividends per share of \$3.50 and \$2.33 were recorded during 1996 and 1995, respectively.

During 1995, Williams exchanged 2.8 million shares of its \$2.21 cumulative preferred stock with a carrying value of \$69 million for 9.6 percent debentures with a fair value of \$72.5 million. The difference in the fair value of the new securities and the carrying value of the preferred stock exchanged is recorded as a decrease in capital in excess of par value. This amount did not impact net income, but is included in preferred stock dividends on the Consolidated Statement of Income and in the computation of earnings per share. The 741,552 outstanding shares of \$2.21 cumulative preferred stock are redeemable by Williams at a price of \$25 beginning in September 1997. Dividends per share of \$2.21 were recorded each year during 1996, 1995 and 1994.

In January 1996, the board of directors adopted a Stockholder Rights Plan (the Rights Plan) to replace its existing rights plan, which expired on February 6, 1996. Under the Rights Plan, each outstanding share of common stock has two-thirds of a preferred stock purchase right attached. Under certain conditions, each right may be exercised to purchase, at an exercise price of \$140 (subject to adjustment), one two-hundredth of a share of junior participating preferred stock. The rights may be exercised only if an Acquiring Person acquires (or obtains the right to acquire) 15 percent or more of Williams common stock; or commences an offer for 15 percent or more of Williams common stock; or the board of directors determines an Adverse Person has become the owner of 10 percent or more of Williams common stock. The rights, which do not have voting rights, expire in 2006 and may be redeemed at a price of \$.01 per right prior to their expiration, or within a specified period of time after the occurrence of certain events. In the event a person becomes the owner of more than 15 percent of Williams common stock or the board of directors determines that a person is an Adverse Person, each holder of a right (except an Acquiring Person or an Adverse Person) shall have the right to receive, upon exercise, common stock having a value equal to two times the exercise price of the right. In the event Williams is engaged in a merger, business combination or 50 percent or more of Williams' assets, cash flow or earnings power is sold or transferred, each holder of a right (except an Acquiring Person or an Adverse Person) shall have the right to receive, upon exercise, common stock of the acquiring company having a value equal to two times the exercise price of the right.

Williams has several plans providing for common-stock-based awards to employees and to non-employee directors. The plans permit the granting of various types of awards including, but not limited to, stock options, stock-appreciation rights, restricted stock and deferred stock. Awards may be granted for no consideration other than prior and future services. The purchase price per share for stock options and stock-appreciation rights may not be less than the market price of the underlying stock on the date of grant. Stock options generally become exercisable after five years, subject to accelerated vesting if certain future stock prices are achieved. Stock options expire 10 years after grant. At December 31, 1996, 19,618,842 shares of common stock were reserved for issuance pursuant to existing and future stock awards, of which 7,813,768 shares were available for future grants (4,048,199 at December 31, 1995).

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following summary reflects stock option activity and related information for 1996:

	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
	-----	-----
Outstanding -- December 31, 1995.....	7,868,900	\$20.03
Granted.....	4,101,144	33.41
Exercised.....	(2,035,349)	18.28
Canceled.....	(104,516)	42.02

Outstanding -- December 31, 1996.....	9,830,179	25.70
	=====	
Exercisable -- December 31, 1996.....	5,461,482	\$20.57
	=====	
Weighted average grant date fair value of options granted during the year.....	\$7.84	
	=====	

The following summary provides information about stock options outstanding and exercisable at December 31, 1996:

RANGE OF EXERCISE PRICES	STOCK OPTIONS OUTSTANDING			STOCK OPTIONS EXERCISABLE	
	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	OPTIONS	WEIGHTED AVERAGE PRICE EXERCISE
-----	-----	-----	-----	-----	-----
\$ 9.25 to \$28.38.....	5,634,510	\$19.29	7.2 years	5,255,664	\$19.35
\$32.25 to \$98.67.....	4,195,669	34.32	9.3 years	205,818	51.76
	-----			-----	
Total.....	9,830,179	\$25.70	8.1 years	5,461,482	\$20.57
	=====			=====	

The fair value of the stock options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions: expected life of the stock options of five years; volatility of the expected market price of Williams common stock of 24 percent; risk-free interest rate of 6.2 percent; and a dividend yield of 3 percent.

Williams granted 195,376, 98,168 and 191,559 deferred shares in 1996, 1995 and 1994, respectively. The weighted average grant date fair value of the shares issued in 1996 is \$31.55. Deferred shares are valued at the date of award and are generally charged to expense in the year of award. Williams issued 109,516, 105,183 and 67,947 previously deferred shares in 1996, 1995 and 1994, respectively. Williams also issued 19,650, 82,950 and 67,200 shares of restricted stock in 1996, 1995 and 1994, respectively. The weighted average grant date fair value of the shares issued in 1996 is \$29.50. Restricted stock is valued on the issuance date and the related expense is amortized over varying periods of three to 10 years.

Pro forma net income and earnings per share, assuming Williams had applied the fair-value method of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" in measuring compensation cost beginning with 1995 employee stock-based awards, are as follows:

	1996		1995	
	PRO FORMA	REPORTED	PRO FORMA	REPORTED
	-----	-----	-----	-----
Net income (millions).....	\$359.9	\$362.3	\$1,306.1	\$1,318.2
Earnings per share:				
Primary.....	\$ 2.16	\$ 2.17	\$ 8.45	\$ 8.51
Fully diluted.....	\$ 2.13	\$ 2.14	\$ 8.24	\$ 8.32

Pro forma amounts for 1995 reflect total compensation expense from the awards made in 1995 as these awards fully vested as a result of the accelerated vesting provisions. Since compensation expense from stock

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

options is recognized over the future years' vesting period, and additional awards generally are made each year, pro forma amounts for 1996 may not be representative of future years' amounts.

During November 1994, Williams entered into a deferred share agreement (the Agreement) in connection with the sale of its network services operations. Under the terms of the Agreement, Williams has approximately 1.6 million shares of Williams common stock remaining to distribute to key employees of the network services operations over various periods through 2002, less amounts necessary to meet minimum tax withholding requirements. Williams distributed 637,361, 471,608 and 409,643 shares during 1996, 1995 and 1994, respectively.

NOTE 15 -- FINANCIAL INSTRUMENTS

Fair-value methods

The following methods and assumptions were used by Williams in estimating its fair-value disclosures for financial instruments:

Cash and cash equivalents and notes payable: The carrying amounts reported in the balance sheet approximate fair value due to the short-term maturity of these instruments.

Notes and other non-current receivables: For those notes with interest rates approximating market or maturities of less than three years, fair value is estimated to approximate historically recorded amounts. For those notes with maturities beyond three years and fixed interest rates, fair value is calculated using discounted cash flow analysis based on current market rates.

Investments -- cost: Fair value is estimated to approximate historically recorded amounts as the operations underlying these investments are in their initial phases.

Long-term debt: The fair value of Williams' long-term debt is valued using indicative year-end traded bond market prices for publicly traded issues, while private debt is valued based on the prices of similar securities with similar terms and credit ratings. At December 31, 1996 and 1995, 69 percent and 85 percent, respectively, of Williams' long-term debt was publicly traded. Williams used the expertise of an outside investment banking firm to estimate the fair value of long-term debt.

Interest-rate swaps: Fair value is determined by discounting estimated future cash flows using forward interest rates implied by the year-end yield curve. Fair value was calculated by the financial institutions that are the counterparties to the swaps.

Energy-related trading and hedging: Includes forwards, futures, options, swaps and purchase and sales commitments. Fair value reflects management's best estimate of market prices considering various factors including closing exchange and over-the-counter quotations, the terms of the contract, credit considerations, time value and volatility factors underlying the positions.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Carrying amounts and fair values of Williams' financial instruments

Asset (liability)

	1996		1995	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
	(MILLIONS)			
Cash and cash equivalents.....	\$ 115.3	\$ 115.3	\$ 90.4	\$ 90.4
Notes and other non-current receivables.....	27.4	27.4	25.7	25.8
Investments -- cost.....	71.2	71.2	31.3	31.3
Notes payable.....	(269.5)	(269.5)	--	--
Long-term debt, including current portion.....	(4,435.1)	(4,594.4)	(3,193.1)	(3,476.7)
Interest-rate swaps.....	(54.8)	(63.7)	(.4)	(10.4)
Energy-related trading:				
Assets.....	253.6	253.6	171.4	171.4
Liabilities.....	(339.1)	(339.1)	(343.6)	(343.6)
Energy-related hedging:				
Assets.....	.9	11.2	--	1.7
Liabilities.....	(1.3)	(12.2)	--	(2.6)

The preceding asset and liability amounts for energy-related hedging represent unrealized gains or losses and do not include the related deferred amounts.

The 1996 average fair value of the energy-related trading assets and liabilities is \$196 million and \$322 million, respectively. The 1995 average fair value of the energy-related trading assets and liabilities is \$97 million and \$181 million, respectively.

Williams has recorded liabilities of \$18 million and \$24 million at December 31, 1996 and 1995, respectively, for certain guarantees that represent the estimated fair value of these financial instruments.

Off-balance-sheet credit and market risk

Williams is a participant in the following transactions and arrangements that involve financial instruments that have off-balance-sheet risk of accounting loss. It is not practicable to estimate the fair value of these off-balance-sheet financial instruments because of their unusual nature and unique characteristics.

Williams sold certain receivables. The aggregate limit under revolving receivables facilities was \$135 million at December 31, 1996 and 1995. Williams received \$47 million of proceeds in 1996, \$196 million in 1995 and \$110 million in 1994. At December 31, 1996 and 1995, \$152 million and \$166 million of receivables had been sold, respectively, under the revolving receivables facilities and another arrangement. Based on amounts outstanding at December 31, 1996 and 1995, the maximum contractual credit loss under these arrangements is approximately \$28 million, but the likelihood of loss is remote. In January 1997, Williams expanded their revolving receivables facilities and sold \$200 million of receivables. The Financial Accounting Standards Board has issued a new accounting standard FAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," effective for transactions occurring after December 31, 1996. The adoption of this standard is not expected to impact Williams' consolidated results of operations, financial position or cash flows.

In connection with the sale of units in the Williams Coal Seam Gas Royalty Trust (Trust), Williams indemnified the Trust against losses from certain litigation (see Note 17) and guaranteed minimum gas prices through 1997. At December 31, 1996 and 1995, Williams has a recorded liability of \$5 million and \$10 million, respectively, for these items, representing the maximum amount for the first guarantee and an

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

estimate of the gas price exposure based on historical operating trends and an assessment of market conditions. While Williams' maximum exposure from this guarantee exceeds amounts accrued, it is not possible to determine such amount because it is dependent on future events.

In connection with the sale of Williams' network services operations, Williams has been indemnified by LDDS against any losses related to retained guarantees of \$158 million and \$180 million at December 31, 1996 and 1995, respectively, for lease rental obligations. LDDS has advised that it is negotiating with the guaranteed parties to remove Williams as guarantor.

Williams has issued other guarantees and letters of credit with off-balance-sheet risk that total approximately \$10 million and \$8 million at December 31, 1996 and 1995, respectively. Williams believes it will not have to perform under these agreements because the likelihood of default by the primary party is remote and/or because of certain indemnifications received from other third parties.

Commodity price-risk management services

Williams, through its Merchant Services group, provides price-risk management services associated with the energy industry to its customers. These services are provided through a variety of financial instruments, including forward contracts, futures contracts, option contracts, swap agreements and purchase and sale commitments. See Note 1 for a description of the accounting for these trading activities.

Merchant Services enters into forward contracts and purchase and sale commitments which involve physical delivery of an energy commodity. Prices under these contracts are both fixed and variable. Swap agreements call for Merchant Services to make payments to (or receive payments from) counterparties based upon the differential between a fixed and variable price or variable prices for different locations. The variable prices are generally based on either industry pricing publications or exchange quotations. Merchant Services buys and sells option contracts which give the buyer the right to exercise the options and receive the difference between a predetermined strike price and a market price at the date of exercise. The market prices used for natural-gas-related option contracts are generally exchange quotations. Merchant Services also enters into futures contracts, which are commitments to either purchase or sell a commodity at a future date for a specified price and are generally settled in cash, but may be settled through delivery of the underlying commodity. The market prices for futures contracts are based on exchange quotations.

Merchant Services manages risk from financial instruments by making various logistical commitments and manages profit margins through offsetting financial instruments. As a result, price movements can result in losses on certain contracts offset by gains on others.

Merchant Services takes an active role in managing and controlling market and counterparty risks and has established formal control procedures, which are reviewed on an ongoing basis. Merchant Services attempts to minimize credit-risk exposure to trading counterparties and brokers through formal credit policies and monitoring procedures. In the normal course of business, collateral is not required for financial instruments with credit risk.

The notional quantities for trading financial instruments at December 31, 1996, and December 31, 1995, are as follows:

	1996		1995	
	PAYOR	RECEIVER	PAYOR	RECEIVER
Fixed price:				
Natural gas (TBtu).....	1,066.6	1,196.8	873.2	847.3
Refined products and crude (MMBbls).....	34.4	26.3	15.9	14.9
Variable price:				
Natural gas (TBtu).....	1,584.9	1,123.8	1,841.2	1,517.2
Refined products and crude (MMBbls).....	3.7	3.3	2.8	2.5

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The net cash flow requirement related to these contracts at December 31, 1996 and 1995, was \$117 million and \$215 million, respectively. At December 31, 1996, the cash flow requirements extend primarily through 2006.

In 1995, certain gas marketing operations of Merchant Services, along with gas marketing operations from Transco Energy, were combined with the commodity price-risk management and trading activities of Merchant Services. Such combination in 1995 involves managing the price and other business risks and opportunities of such physical gas trading activities and any related financial instruments previously accounted for as hedges in common-risk portfolios with Merchant Services' other financial instruments. These former marketing activities, consisting of buying and selling natural gas, through 1994 were reported on a "gross" basis in the Consolidated Statement of Income as revenues and profit-center costs. Concurrent with completing the combination of such activities with the commodity price-risk management operations in the third quarter of 1995, the related contract rights and obligations along with any related financial instruments, previously accounted for as hedges, were recorded in the Consolidated Balance Sheet on a current-market-value basis and the related income statement presentation was changed to a net basis. Such revenues reported on a gross basis through the first two quarters of 1995 were reclassified to a net basis concurrent with this change in the third quarter of 1995.

Following is a summary of Merchant Services' revenues:

	1996	1995	1994
	-----	-----	-----
Financial instrument and physical trading market gains -- net.....	\$ 99.2	\$ 65.8	\$ 14.2
Gross marketing revenues.....	--	617.7*	249.2
Gross marketing costs.....	--	(599.2)*	--
Marketing activities not included in trading operations.....	161.9	67.7	118.0
Other.....	--	1.5	.3
	-----	-----	-----
	\$261.1	\$ 153.5	\$381.7
	=====	=====	=====

*Through June 30, 1995.

Concentration of credit risk

Williams' cash equivalents consist of high quality securities placed with various major financial institutions with high credit ratings. Williams' investment policy limits its credit exposure to any one financial institution.

At December 31, 1996 and 1995, approximately 69 percent and 62 percent, respectively, of receivables are for the sale or transportation of natural gas and related products or services. Approximately 23 percent and 27 percent of receivables at December 31, 1996 and 1995, respectively, are for telecommunications and related services. Natural gas customers include pipelines, distribution companies, producers, gas marketers and industrial users primarily located in the eastern, northwestern and midwestern United States. Telecommunications customers include numerous corporations. As a general policy, collateral is not required for receivables, but customers' financial condition and credit worthiness are evaluated regularly.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 16 -- OTHER FINANCIAL INFORMATION

Intercompany revenues (at prices that generally apply to sales to unaffiliated parties) are as follows:

	1996	1995*	1994*
	-----	-----	-----
	(MILLIONS)		
Williams Interstate Natural Gas Systems:			
Northwest Pipeline.....	\$ 1.1	\$ 1.8	\$ 3.4
Williams Natural Gas.....	9.2	9.5	14.2
Transcontinental Gas Pipe Line.....	34.6	34.2	--
Texas Gas Transmission.....	20.5	37.7	--
Williams Energy Group:			
Field Services.....	26.2	14.0	15.1
Merchant Services.....	130.7	62.2	22.0
Petroleum Services.....	67.7	44.6	28.6
Exploration and Production.....	57.1	4.9	18.1
Other.....	9.3	.2	.4
	-----	-----	-----
	\$356.4	\$209.1	\$101.8
	=====	=====	=====

- - - - -

* Certain amounts have been reclassified as described in Note 1.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Information for business segments is as follows:

	1996	1995*	1994*
	-----	-----	-----
	(MILLIONS)		
Identifiable assets at December 31:			
Williams Interstate Natural Gas Systems:			
Northwest Pipeline.....	\$ 1,153.9	\$ 1,147.5	\$1,028.0
Williams Natural Gas.....	704.8	709.2	719.8
Transcontinental Gas Pipe Line.....	3,305.4	3,159.5	--
Texas Gas Transmission.....	1,132.2	1,151.8	--
Kern River Gas Transmission.....	1,081.6	--	--
Williams Energy Group:			
Field Services.....	1,995.0	1,939.3	935.9
Merchant Services.....	839.1	438.2	114.6
Petroleum Services.....	906.5	863.2	674.6
Exploration and Production.....	200.3	164.6	145.4
Williams Communications Group.....	670.6	401.0	315.7
Investments.....	190.6	307.6	379.1
General corporate and other.....	238.8	279.3	169.4
Discontinued operations.....	--	--	743.6
Consolidated.....	\$12,418.8	\$10,561.2	\$5,226.1
Additions to property, plant and equipment:			
Williams Interstate Natural Gas Systems:			
Northwest Pipeline.....	\$ 62.8	\$ 130.5	\$ 62.6
Williams Natural Gas.....	50.9	43.5	32.9
Transcontinental Gas Pipe Line.....	272.1	238.7	--
Texas Gas Transmission.....	50.1	32.1	--
Kern River Gas Transmission.....	4.7	--	--
Williams Energy Group:			
Field Services.....	205.7	232.1	150.0
Merchant Services.....	.6	.4	3.5
Petroleum Services.....	55.8	87.9	46.6
Exploration and Production.....	30.3	15.6	13.5
Williams Communications Group.....	66.9	32.4	12.9
General corporate and other.....	19.0	14.3	3.5
Consolidated.....	\$ 818.9	\$ 827.5	\$ 325.5
Depreciation and depletion:			
Williams Interstate Natural Gas Systems:			
Northwest Pipeline.....	\$ 43.2	\$ 34.9	\$ 33.9
Williams Natural Gas.....	27.5	27.3	27.2
Transcontinental Gas Pipe Line.....	113.7	109.1	--
Texas Gas Transmission.....	41.5	38.9	--
Kern River Gas Transmission.....	15.5	--	--
Williams Energy Group:			
Williams Field Services.....	94.7	100.4	37.1
Merchant Services.....	.6	1.2	.5
Petroleum Services.....	34.1	26.4	22.4
Exploration and Production.....	10.5	9.8	9.6
Williams Communications Group.....	21.3	14.2	12.7
General corporate and other.....	8.8	7.2	6.9
Consolidated.....	\$ 411.4	\$ 369.4	\$ 150.3

* Certain amounts have been reclassified as described in Note 1.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 17 -- CONTINGENT LIABILITIES AND COMMITMENTS

Rate and regulatory matters and related litigation

Williams interstate pipeline subsidiaries, including Williams Pipe Line, have various regulatory proceedings pending. As a result of rulings in certain of these proceedings, a portion of the revenues of these subsidiaries has been collected subject to refund. As to Williams Pipe Line, revenues collected subject to refund were \$251 million at December 31, 1996; it is not expected that the amount of any refunds ordered would be significant. Accordingly, no portion of these revenues has been reserved for refund. As to the other pipelines, see Note 12 for the amount of revenues reserved for potential refund as of December 31, 1996.

In 1992, the Federal Energy Regulatory Commission (FERC) issued Order 636, Order 636-A and Order 636-B. These orders, which were challenged in various respects by various parties in proceedings recently ruled on by the U.S. Court of Appeals for the D.C. Circuit, require interstate gas pipeline companies to change the manner in which they provide services. Kern River Gas Transmission implemented its restructuring on August 1, 1993; Williams Natural Gas implemented its restructuring on October 1, 1993; and Northwest Pipeline, Texas Gas and Transcontinental Gas Pipe Line implemented their restructurings on November 1, 1993. Certain aspects of four pipeline companies' restructuring are under appeal.

On July 16, 1996, the U.S. Court of Appeals for the D.C. Circuit issued an order which in part affirmed and in part remanded Order 636. However, the court stated that Order 636 would remain in effect until FERC issued a final order on remand after considering the remanded issues. With the issuance of this decision, the stay on the appeals of individual pipeline's restructuring cases will be lifted. The only appeal challenging Northwest Pipeline's restructuring has been dismissed.

Contract reformations and gas purchase deficiencies

As a result of FERC Order 636, which requires interstate gas pipelines to change the way they do business, each of the natural gas pipeline subsidiaries has undertaken the reformation or termination of its respective gas supply contracts. None of the pipelines has any significant pending supplier take-or-pay, ratable take or minimum take claims.

Current FERC policy associated with Orders 436 and 500 requires interstate gas pipelines to absorb some of the cost of reforming gas supply contracts before allowing any recovery through direct bill or surcharges to transportation as well as sales commodity rates. Under Orders 636, 636-A and 636-B, costs incurred to comply with these rules are permitted to be recovered in full, although 10 percent of such costs must be allocated to interruptible transportation service.

The previously mentioned July 16, 1996, D.C. Circuit Court of Appeals decision concerning Order 636 has remanded to FERC the issues of whether pipelines should absorb any portion of Order 636 transition costs and whether 10 percent of such costs should have been allocated to interruptible transportation services.

Pursuant to a stipulation and agreement approved by the FERC, Williams Natural Gas has made seven filings to direct bill take-or-pay and gas supply realignment costs. The first provided for the offset of certain amounts collected subject to refund against previous take-or-pay direct-billed amounts and, in addition, covered \$24 million in new costs. This filing was approved, and the final direct-billed amount, taking into consideration the offset, was \$15 million. The second filing covered \$18 million in gas supply realignment costs, and provided for an offset of \$3 million. The third filing covered \$6.5 million in gas supply realignment costs. The remaining filings covered additional costs of approximately \$15 million, which are similar in nature to the costs in the second filing. An intervenor has filed a protest seeking to have the Commission review the prudence of certain of the costs covered by these filings. On July 31, 1996, the administrative law judge issued an initial decision rejecting the intervenor's prudence challenge. As of December 31, 1996, this subsidiary had an accrual of \$75 million for its then-estimated remaining contract-reformation and gas supply realignment

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

costs. Williams Natural Gas will make additional filings under the applicable FERC orders to recover such further costs as may be incurred in the future. Williams Natural Gas has recorded a regulatory asset of approximately \$73 million for estimated future recovery of the foregoing costs.

In September 1995, Texas Gas received FERC approval of a settlement regarding Texas Gas' recovery of gas supply realignment costs. The settlement provides that Texas Gas will recover 100 percent of such costs up to \$50 million, will share in costs incurred between \$50 million and \$80 million, and will absorb any such costs above \$80 million. Through December 31, 1996, Texas Gas has paid approximately \$76 million and expects to pay no more than \$80 million for gas supply realignment costs, primarily as a result of contract terminations. Texas Gas has recovered approximately \$59 million, plus interest, in gas supply realignment costs and has recorded a regulatory asset of approximately \$9 million for the estimated future recovery of such costs, most of which will be collected from customers prior to December 31, 1997. Ninety percent of the cost recovery is collected through demand surcharges on Texas Gas' firm transportation rates; the remaining 10 percent is recoverable from interruptible transportation service.

The foregoing accruals are in accordance with Williams' accounting policies regarding the establishment of such accruals, which take into consideration estimated total exposure, as discounted and risk-weighted, as well as costs and other risks associated with the difference between the time costs are incurred and the time such costs are recovered from customers. The estimated portion of such costs recoverable from customers is deferred or recorded as a regulatory asset based on an estimate of expected recovery of the amounts allowed by FERC policy. While Williams believes that these accruals are adequate and the associated regulatory assets are appropriate, costs actually incurred and amounts actually recovered from customers will depend upon the outcome of various court and FERC proceedings, the success of settlement negotiations and various other factors, not all of which are presently foreseeable.

Environmental matters

Since 1989, Texas Gas and Transcontinental Gas Pipe Line have had studies under way to test certain of their facilities for the presence of toxic and hazardous substances to determine to what extent, if any, remediation may be necessary. Transcontinental Gas Pipe Line has responded to data requests regarding such potential contamination of certain of its sites. The costs of any such remediation will depend upon the scope of the remediation. At December 31, 1996, these subsidiaries had reserves totaling approximately \$29 million for these costs.

Certain Williams subsidiaries, including Texas Gas and Transcontinental Gas Pipe Line, have been identified as potentially responsible parties (PRP) at various Superfund and state waste disposal sites. Although no assurances can be given, Williams does not believe that the PRP status of these subsidiaries will have a material adverse effect on its financial position, results of operations or net cash flows.

Transcontinental Gas Pipe Line, Texas Gas and Williams Natural Gas have identified polychlorinated biphenyl (PCB) contamination in air compressor systems, soils and related properties at certain compressor station sites. Transcontinental Gas Pipe Line, Texas Gas and Williams Natural Gas have also been involved in negotiations with the U.S. Environmental Protection Agency (EPA) and state agencies to develop screening, sampling and cleanup programs. In addition, negotiations with certain environmental authorities and other programs concerning investigative and remedial actions relative to potential mercury contamination at certain gas metering sites have been commenced by Williams Natural Gas, Texas Gas and Transcontinental Gas Pipe Line. As of December 31, 1996, Williams Natural Gas had recorded a liability for approximately \$18 million, representing the current estimate of future environmental cleanup costs to be incurred over the next six to 10 years. The Field Services unit of Williams Energy Group has recorded an aggregate liability of approximately \$15 million, representing the current estimate of their future environmental and remediation costs, including approximately \$6 million relating to former Williams Natural Gas facilities. Texas Gas and Transcontinental Gas Pipe Line likewise have recorded liabilities for these costs which are included in the

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

\$29 million reserve mentioned above. Actual costs incurred will depend on the actual number of contaminated sites identified, the actual amount and extent of contamination discovered, the final cleanup standards mandated by the EPA and other governmental authorities and other factors. Texas Gas, Transcontinental Gas Pipe Line and Williams Natural Gas have deferred these costs pending recovery as incurred through future rates and other means.

In connection with the 1987 sale of the assets of Agrico Chemical Company, Williams agreed to indemnify the purchaser for environmental cleanup costs resulting from certain conditions at specified locations, to the extent such costs exceed a specified amount. It appears certain that such costs will exceed this amount. At December 31, 1996, Williams had approximately \$10 million accrued for such excess costs. The actual costs incurred will depend on the actual amount and extent of contamination discovered, the final cleanup standards mandated by the EPA or other governmental authorities, and other factors.

A lawsuit was filed in May 1993, in a state court in Colorado in which certain claims have been made against various defendants, including Northwest Pipeline, contending that gas exploration and development activities in portions of the San Juan Basin have caused air, water and other contamination. The plaintiffs in the case sought certification of a plaintiff class. In June 1994, the lawsuit was dismissed for failure to join an indispensable party over which the state court had no jurisdiction. The Colorado Court of Appeals has affirmed the dismissal and remanded the case to Colorado district court for action consistent with the appeals court's decision. Since June 1994, eight individual lawsuits have been filed against Northwest Pipeline and others in U.S. District Court in Colorado, making essentially the same claims. Northwest Pipeline is vigorously defending these lawsuits.

Other legal matters

In 1991, the Southern Ute Indian Tribe (the Tribe) filed a lawsuit against Williams Production, a wholly owned subsidiary of Williams, and other gas producers in the San Juan Basin area, alleging that certain coal strata were reserved by the United States for the benefit of the Tribe and that the extraction of coal-seam gas from the coal strata was wrongful. The Tribe seeks compensation for the value of the coal-seam gas. The Tribe also seeks an order transferring to the Tribe ownership of all of the defendants' equipment and facilities utilized in the extraction of the coal-seam gas. In September 1994, the court granted summary judgment in favor of the defendants and the Tribe lodged an interlocutory appeal with the U.S. Court of Appeals for the Tenth Circuit. Williams Production agreed to indemnify the Williams Coal Seam Gas Royalty Trust (Trust) against any losses that may arise in respect of certain properties subject to the lawsuit. In addition, if the Tribe is successful in showing that Williams Production has no rights in the coal-seam gas, Williams Production has agreed to pay to the Trust for distribution to then-current unitholders, an amount representing a return of a portion of the original purchase price paid for the units. While Williams believes that such a payment is not probable, it has reserved a portion of the proceeds from the sale of the units in the Trust.

In October 1990, Dakota Gasification Company (Dakota), the owner of the Great Plains Coal Gasification Plant (Plant), filed suit in the U.S. District Court in North Dakota against Transcontinental Gas Pipe Line and three other pipeline companies alleging that the pipeline companies had not complied with their respective obligations under certain gas purchase and gas transportation contracts. In September 1992, Dakota and the Department of Justice on behalf of the Department of Energy filed an amended complaint adding as defendants in the suit, Transco Energy Company, Transco Coal Gas Company and all of the other partners in the partnership that originally constructed the Plant and each of the parent companies of these entities. Dakota and the Department of Justice sought declaratory and injunctive relief and the recovery of damages, alleging that the four pipeline defendants underpaid for gas, collectively, as of June 30, 1992, by more than \$232 million plus interest and for additional damages for transportation services and costs and expenses including attorneys' fees. By order dated December 18, 1996, the FERC approved a settlement of the

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

litigation. No party to the FERC proceeding has sought review of this order. The final settlement terms went into effect February 1, 1997, which will allow Transcontinental Gas Pipe Line to recover its cost.

In connection with agreements to resolve take-or-pay and other contract claims and to amend gas purchase contracts, Transcontinental Gas Pipe Line and Texas Gas each entered into certain settlements with producers, which may require the indemnification of certain claims for additional royalties which the producers may be required to pay as a result of such settlements. As a result of such settlements, Transcontinental Gas Pipe Line and Texas Gas were named as defendants in, respectively, six and two lawsuits. Six of the eight lawsuits have been settled for cash payments aggregating approximately \$9 million, all of which have previously been accrued, and of which approximately \$3 million is recoverable as transition costs under Order 636. Damages, including interest, of approximately \$29 million have been asserted in the remaining cases. Producers have received and may receive other demands, which could result in additional claims. Indemnification for royalties will depend on, among other things, the specific lease provisions between the producer and the lessor and the terms of the settlement between the producer and either Transcontinental Gas Pipe Line or Texas Gas. Texas Gas may file to recover 75 percent of any such additional amounts it may be required to pay pursuant to indemnities for royalties under the provisions of Order 528.

In November 1994, Continental Energy Associates Limited Partnership (the Partnership) filed a voluntary petition under Chapter 11 of the Bankruptcy Code with the U.S. Bankruptcy Court, Middle District of Pennsylvania. The Partnership owns a cogeneration facility in Hazelton, Pennsylvania (the Facility). Hazelton Fuel Management Company (HFMC), a subsidiary of Transco Energy, formerly supplied natural gas and fuel oil to the Facility. As of December 31, 1996, HFMC had current outstanding receivables from the Partnership of approximately \$20 million, all of which have been reserved. The Partnership recently negotiated settlements of its power purchase agreements with two electric utilities. The settlements have been approved by the Bankruptcy Court and Pennsylvania Public Utility Commission. The time for appealing the Pennsylvania Public Utility Commission approval of the settlements expires on February 23, 1997. Assuming no appeals are filed the settlements will become binding. A Plan of Reorganization (the Plan) acceptable to all parties has been negotiated and drafted. The Plan is contingent upon the power purchase agreement settlements being approved. It is anticipated the Plan will be filed with the Bankruptcy Court for approval on or before February 28, 1997. Under the Plan, all litigation involving HFMC will be fully settled, and a net payment in some amount to HFMC is anticipated under the Plan. It is not possible to predict with certainty the amount of such a payment.

On July 18, 1996, an individual filed a lawsuit in the U.S. District Court for the District of Columbia against 70 natural gas pipelines and other gas purchasers or former gas purchasers. All of Williams' natural gas pipeline subsidiaries are named as defendants in the lawsuit. The plaintiff claims, on behalf of the United States under the False Claims Act, that the pipelines have incorrectly measured the heating value or volume of gas purchased by the defendants. The plaintiff claims that the United States has lost royalty payments as a result of these practices. The pipelines are vigorously defending against these claims.

In addition to the foregoing, various other proceedings are pending against Williams or its subsidiaries which are incidental to their operations.

Summary

While no assurances may be given, Williams does not believe that the ultimate resolution of the foregoing matters, taken as a whole and after consideration of amounts accrued, insurance coverage, recovery from customers or other indemnification arrangements, will have a materially adverse effect upon Williams' future financial position, results of operations and cash flow requirements.

THE WILLIAMS COMPANIES, INC.

QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data are as follows (millions, except per-share amounts). Per-share amounts have been restated to reflect the effect of the three-for-two common stock split and distribution (see Note 14).

1996 ----	FIRST QUARTER -----	SECOND QUARTER -----	THIRD QUARTER -----	FOURTH QUARTER -----
Revenues.....	\$ 893.7	\$837.5	\$842.2	\$957.8
Costs and operating expenses.....	499.4	493.9	509.3	561.5
Net income.....	104.9	80.4	71.0	106.0
Primary earnings per common and common- equivalent share.....	.63	.48	.42	.64
Fully diluted earnings per common and common- equivalent share.....	.62	.47	.42	.63
1995 ----				
Revenues.....	\$ 642.4	\$663.9	\$712.4	\$837.0
Costs and operating expenses.....	351.1	400.1	438.9	510.6
Net income.....	1,088.9	83.3	68.5	77.5
Primary earnings per common and common- equivalent share.....	7.71	.52	.39	.47
Fully diluted earnings per common and common- equivalent share.....	7.70	.52	.39	.46

The sum of earnings per share for the four quarters may not equal the total earnings per share for the year due to changes in the average number of common shares outstanding.

Second-quarter 1996 net income includes recognition of favorable income tax adjustments totaling \$10 million related to research credits and previously provided deferred income taxes on certain regulated capital projects. Third-quarter 1996 net income includes approximately \$6 million, net of federal income tax effect, from the effects of state income tax adjustments related to 1995.

First-quarter 1995 net income includes the after-tax gain of \$1 billion on the sale of Williams' network services operations (see Note 3 of Notes to Consolidated Financial Statements). The second quarter of 1995 includes a \$16 million after-tax gain from the sale of Williams' 15 percent interest in Texasgulf Inc. (see Note 6 of Notes to Consolidated Financial Statements) and an \$8 million income tax benefit resulting from settlements with taxing authorities. Northwest Pipeline's third-quarter 1995 operating profit includes the approximate \$11 million net favorable effect of two reserve accrual adjustments. In third-quarter 1995, Field Services recorded \$20 million of income from the favorable resolution of contingency issues involving previously regulated gathering and processing assets. In third-quarter 1995, Exploration and Production recorded an \$8 million loss accrual for a future minimum price natural gas purchase commitment.

Selected comparative fourth-quarter data are as follows (millions, except per-share amounts). Certain 1995 amounts have been restated and/or reclassified as described in Note 1 of Notes to Consolidated Financial Statements.

	1996	1995
	-----	-----
Operating profit (loss):		
Williams Interstate Natural Gas Systems:		
Northwest Pipeline.....	\$ 21.8	\$ 25.1
Williams Natural Gas.....	10.9	15.5
Transcontinental Gas Pipe Line.....	61.0	47.4
Texas Gas Transmission.....	29.5	28.6
Kern River Gas Transmission.....	29.3	--
Williams Energy Group:		
Field Services.....	56.3	41.6
Merchant Services.....	13.6	1.6
Petroleum Services.....	18.3	19.1
Exploration and Production.....	3.7	.4
Williams Communications Group.....	.6	8.0
Other.....	(2.9)	(.1)
	-----	-----
Total operating profit.....	242.1	187.2
General corporate expenses.....	(11.6)	(12.1)
Interest expense -- net.....	(91.9)	(69.7)
Investing income.....	4.1	12.7
Gain on sale of asset.....	15.7	--
Write-off of project costs.....	--	(41.4)
Other income -- net.....	8.0	5.2
	-----	-----
Income from continuing operations before income taxes.....	166.4	81.9
Provision for income taxes.....	60.4	17.5
	-----	-----
Income from continuing operations.....	106.0	64.4
Income from discontinued operations.....	--	13.1
	-----	-----
Net income.....	\$106.0	\$ 77.5
	=====	=====
Primary earnings per common and common-equivalent share....	\$.64	\$.47
	=====	=====
Fully diluted earnings per common and common-equivalent share.....	\$.63	\$.46
	=====	=====

Field Services' fourth-quarter 1996 operating profit includes a gain of approximately \$20 million from the property insurance coverage associated with construction of replacement gathering facilities. In addition, 1996 segment operating profit and general corporate expenses together include approximately \$10 million related to an all-employee bonus that was linked to achieving record financial performance. In fourth-quarter 1996, Williams recognized a pre-tax gain of \$15.7 million from the sale of certain communication rights.

Merchant Services' fourth-quarter 1995 operating profit includes loss accruals of approximately \$6 million, primarily related to contract disputes. In fourth-quarter 1995, the development of a commercial coal gasification venture in south-central Wyoming was canceled, resulting in a \$41.4 million pre-tax charge (see Note 6 of Notes to Consolidated Financial Statements). Fourth-quarter 1995 income from discontinued operations reflects the after-tax effect of the reversal of accruals established at the time of the sale of the network services operations (see Note 3 of Notes to Consolidated Financial Statements).

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

THE WILLIAMS COMPANIES, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
ITEM 14(A) 1 AND 2

	PAGE

Covered by report of independent auditors:	
Consolidated statement of income for the three years ended December 31, 1996.....	F-12
Consolidated balance sheet at December 31, 1996 and 1995.....	F-14
Consolidated statement of stockholders' equity for the three years ended December 31, 1996.....	F-15
Consolidated statement of cash flows for the three years ended December 31, 1996.....	F-16
Notes to consolidated financial statements.....	F-17
Schedule for the three years ended December 31, 1996:	
II -- Valuation and qualifying accounts.....	F-46
Not covered by report of independent auditors:	
Quarterly financial data (unaudited).....	F-43

All other schedules have been omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the financial statements and notes thereto.

THE WILLIAMS COMPANIES, INC.

SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS(a)

	BEGINNING BALANCE	ADDITIONS			ENDING BALANCE
		CHARGED TO COSTS AND EXPENSES	OTHER	DEDUCTIONS(B)	
			(MILLIONS)		
Allowance for doubtful accounts:					
1996.....	\$11.3	\$4.1	\$1.3(c)	\$7.0	\$ 9.7
1995.....	7.9	3.8	1.6(c)	2.0	11.3
1994.....	10.2	4.2(d)	--	6.5(e)	7.9

- - - - -

(a) Deducted from related assets.

(b) Represents balances written off, net of recoveries and reclassifications.

(c) Primarily relates to acquisitions of businesses.

(d) Excludes \$5.7 million related to discontinued operations.

(e) Includes the discontinued operations beginning balance reclassification of \$3.6 million.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information regarding the Directors and nominees for Director of Williams required by Item 401 of Regulation S-K is presented under the heading "Election of Directors" in Williams' Proxy Statement prepared for the solicitation of proxies in connection with the Annual Meeting of Stockholders of the Company for 1997 (the "Proxy Statement"), which information is incorporated by reference herein. A copy of the Proxy Statement is filed as an exhibit to the Form 10-K. Information regarding the executive officers of Williams is presented following Item 4 herein, as permitted by General Instruction G(3) to Form 10-K and Instruction 3 to Item 401(b) of Regulation S-K. Information required by Item 405 of Regulation S-K is included under the heading "Compliance with Section 16(a) of the Securities Exchange Act of 1934" in the Proxy Statement, which information is incorporated by reference herein.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 402 of Regulation S-K regarding executive compensation is presented under the headings "Election of Directors" and "Executive Compensation and Other Information" in the Proxy Statement, which information is incorporated by reference herein. Notwithstanding the foregoing, the information provided under the headings "Compensation Committee Report on Executive Compensation" and "Stockholder Return Performance Presentation" in the Proxy Statement are not incorporated by reference herein. A copy of the Proxy Statement is filed as an exhibit to the Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information regarding the security ownership of certain beneficial owners and management required by Item 403 of Regulation S-K is presented under the headings "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement, which information is incorporated by reference herein. A copy of the Proxy Statement is filed as an exhibit to the Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

There is no information regarding certain relationships and related transactions required by Item 404 of Regulation S-K to be reported.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 1 and 2. The financial statements and schedule listed in the accompanying index to consolidated financial statements are filed as part of this annual report.

(a) 3 and (c). The exhibits listed below are filed as part of this annual report.

Exhibit 2 --

*(a) Stock Purchase Agreement by and among LDDS Communications, Inc., The Williams Companies, Inc., and WTG Holdings, Inc., dated as of August 22, 1994 (filed as Exhibit 2 to Williams Form 8-K, filed August 22, 1994).

*(b) Agreement and Plan of Merger, dated as of December 12, 1994, among Williams, WC Acquisition Corp. and Transco (filed as Exhibit (c)(1) to Schedule 14D-1, dated December 16, 1994).

*(c) Amendment to Agreement and Plan of Merger, dated as of February 17, 1995 (filed as Exhibit 6 to Amendment No. 8 to Schedule 13D, dated February 23, 1995).

Exhibit 3 --

* (a) Restated Certificate of Incorporation of Williams (filed as Exhibit 4(a) to Form 8-B Registration Statement, filed August 20, 1987).

* (b) Certificate of Designation with respect to the \$2.21 Cumulative Preferred Stock (filed as Exhibit 4.3 to the Registration Statement on Form S-3, filed August 19, 1992).

* (c) Certificate of Amendment of Restated Certificate of Incorporation, dated May 20, 1994 (filed as Exhibit 3(d) to Form 10-K for the fiscal year ended December 31, 1994).

* (d) Certificate of Designation with respect to the \$3.50 Cumulative Convertible Preferred Stock (filed as Exhibit 3.1(c) to the Prospectus and Information Statement to Amendment No. 2 to the Registration Statement on Form S-4, filed March 30, 1995).

* (e) Certificate of Increase of Authorized Number of Shares of Series A Junior Participating Preferred Stock (filed as Exhibit 3(f) to Form 10-K for the fiscal year ended December 31, 1995).

* (f) Rights Agreement, dated as of February 6, 1996, between Williams and First Chicago Trust Company of New York (filed as Exhibit 4 to Williams Form 8-K, filed January 24, 1996).

* (g) By-laws of Williams, as amended (filed, as amended, as Exhibit 3 to Form 10-Q for the quarter ended September 30, 1996).

Exhibit 4 --

* (a) Form of Senior Debt Indenture between the Company and Chase Manhattan Bank (formerly Chemical Bank), Trustee, relating to the 10 1/4% Debentures, due 2020; the 9 3/8% Debentures, due 2021; the 8 1/4% Notes, due 1998; Medium-Term Notes (8.50%-9.31%), due 1998 through 2001; the 7 1/2% Notes, due 1999, and the 8 7/8% Debentures, due 2012 (filed as Exhibit 4.1 to Form S-3 Registration Statement No. 33-33294, filed February 2, 1990).

* (b) Form of Subordinated Debt Indenture between the Company and Chase Manhattan Bank (formerly Chemical Bank), Trustee, relating to 9.60% Quarterly Income Capital Securities, due 2025 (filed as Exhibit 4.2 to Form S-3 Registration Statement No. 33-60397, filed June 20, 1995).

(c) U.S. \$1,000,000,000 Amended and Restated Credit Agreement, dated as of December 20, 1996, among Williams and certain of its subsidiaries and the banks named therein and Citibank, N.A., as agent.

Exhibit 10(iii) -- Compensatory Plans and Management Contracts

* (a) The Williams Companies, Inc. Supplemental Retirement Plan, effective as of January 1, 1988 (filed as Exhibit 10(iii)(c) to Form 10-K for the year ended December 31, 1987).

* (b) Form of Employment Agreement, dated January 1, 1990, between Williams and certain executive officers (filed as Exhibit 10(iii)(d) to Form 10-K for the year ended December 31, 1989).

* (c) Form of The Williams Companies, Inc. Change in Control Protection Plan between Williams and employees (filed as Exhibit 10(iii)(e) to Form 10-K for the year ended December 31, 1989).

* (d) The Williams Companies, Inc. 1985 Stock Option Plan (filed as Exhibit A to Williams' Proxy Statement, dated March 13, 1985).

* (e) The Williams Companies, Inc. 1988 Stock Option Plan for Non-Employee Directors (filed as Exhibit A to Williams' Proxy Statement, dated March 14, 1988).

* (f) The Williams Companies, Inc. 1990 Stock Plan (filed as Exhibit A to Williams' Proxy Statement, dated March 12, 1990).

* (g) The Williams Companies, Inc. Stock Plan for Non-Officer Employees (filed as Exhibit 10(iii)(g) to Form 10-K for the fiscal year ended December 31, 1995).

* (h) The Williams Companies, Inc. 1996 Stock Plan (filed as Exhibit A to Williams' Proxy Statement, dated March 27, 1996).

* (i) The Williams Companies, Inc. 1996 Stock Plan for Non-Employee Directors (filed as Exhibit B to Williams' Proxy Statement, dated March 27, 1996).

* (j) Indemnification Agreement, effective as of August 1, 1986, between Williams and members of the Board of Directors and certain officers of Williams (filed as Exhibit 10(iii)(e) to Form 10-K for the year ended December 31, 1986).

- Exhibit 11 -- Computation of Earnings Per Common and Common-equivalent Share.
- Exhibit 12 -- Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividend Requirements.
- Exhibit 20 -- Definitive Proxy Statement of Williams for 1997 (as filed with the Commission on March 26, 1997).
- Exhibit 21 -- Subsidiaries of the registrant.
- Exhibit 23 -- Consent of Independent Auditors.
- Exhibit 24 -- Power of Attorney together with certified resolution.
- Exhibit 27 -- Financial Data Schedule.
- Exhibit 27.1 -- Restated Financial Data Schedule for the year ended December 31, 1995.

(b) Reports on Form 8-K.

On December 30, 1996, the Company filed a report on Form 8-K to report the Company's distribution of one share of Common Stock of the Company, \$1 par value, for every two shares of Common Stock outstanding on December 6, 1996, pursuant to a three-for-two stock split.

(d) The financial statements of partially-owned companies are not presented herein since none of them individually, or in the aggregate, constitute a significant subsidiary.

- - - - -

* Each such exhibit has heretofore been filed with the Securities and Exchange Commission as part of the filing indicated and is incorporated herein by reference.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED.

THE WILLIAMS COMPANIES, INC.
(Registrant)

By: /s/ SHAWNA L. BARNARD

Shawna L. Barnard
Attorney-in-fact

Dated: March 26, 1997

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS ON BEHALF OF THE REGISTRANT IN THE CAPACITIES AND ON THE DATES INDICATED.

SIGNATURE -----	TITLE -----
/s/ KEITH E. BAILEY* ----- Keith E. Bailey	Chairman of the Board, President, Chief Executive Officer (Principal Executive Officer) and Director
/s/ JACK D. MCCARTHY* ----- Jack D. McCarthy	Senior Vice President -- Finance (Principal Financial Officer)
/s/ GARY R. BELITZ* ----- Gary R. Belitz	Controller (Principal Accounting Officer)
/s/ GLENN A. COX* ----- Glenn A. Cox	Director
/s/ THOMAS H. CRUIKSHANK* ----- Thomas H. Cruikshank	Director
/s/ PATRICIA L. HIGGINS* ----- Patricia L. Higgins	Director
----- W. R. Howell	Director
/s/ ROBERT J. LAFORTUNE* ----- Robert J. LaFortune	Director
/s/ JAMES C. LEWIS* ----- James C. Lewis	Director
/s/ JACK A. MACALLISTER* ----- Jack A. MacAllister	Director
/s/ JAMES A. MCCLURE* ----- James A. McClure	Director

/s/ PETER C. MEINIG* Director

Peter C. Meinig

/s/ KAY A. ORR* Director

Kay A. Orr

/s/ GORDON R. PARKER* Director

Gordon R. Parker

/s/ JOSEPH H. WILLIAMS* Director

Joseph H. Williams

*By /s/ SHAWNA L. BARNARD

Shawna L. Barnard
Attorney-in-fact

Dated: March 26, 1997

EXHIBIT INDEX

EXHIBIT NUMBER -----	DESCRIPTION -----
4(c)	-- Amended Restated Credit Agreement
11	-- Computation of Earnings Per Common and Common-equivalent Share.
12	-- Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividend Requirements.
21	-- Subsidiaries of the registrant.
23	-- Consent of Independent Auditors.
24	-- Power of Attorney together with certified resolution.
27	-- Financial Data Schedule.
27.1	-- Restated Financial Data Schedule for the year ended December 31, 1995.

U.S. \$1,000,000,000

AMENDED AND RESTATED CREDIT AGREEMENT

Dated as of December 20, 1996

Among

THE WILLIAMS COMPANIES, INC.
NORTHWEST PIPELINE CORPORATION
TRANSCONTINENTAL GAS PIPE LINE CORPORATION
TEXAS GAS TRANSMISSION CORPORATION
WILLIAMS PIPE LINE COMPANY
WILLIAMS HOLDINGS OF DELAWARE, INC.

as Borrowers

THE BANKS NAMED HEREIN

as Banks

and

CITIBANK, N.A.

as Agent

TABLE OF CONTENTS

Page

ARTICLE I
DEFINITIONS AND ACCOUNTING TERMS

Section 1.01.	Certain Defined Terms	1
Section 1.02.	Computation of Time Periods	12
Section 1.03.	Accounting Terms	12
Section 1.04.	Miscellaneous	13
Section 1.05.	Ratings	13

ARTICLE II
AMOUNTS AND TERMS OF THE ADVANCES

Section 2.01.	The A Advances	13
Section 2.02.	Making the A Advances	13
Section 2.03.	Fees	16
Section 2.04.	Reduction of the Commitments	16
Section 2.05.	Repayment of A Advances	16
Section 2.06.	Interest on A Advances	17
Section 2.07.	Additional Interest on Eurodollar Rate Advances	17
Section 2.08.	Interest Rate Determination	17
Section 2.09.	Evidence of Debt	18
Section 2.10.	Prepayments	18
Section 2.11.	Increased Costs	18
Section 2.12.	Illegality	19
Section 2.13.	Payments and Computations	20
Section 2.14.	Taxes	21
Section 2.15.	Sharing of Payments, Etc.	22
Section 2.16.	The B Advances	22
Section 2.17.	Optional Termination	25
Section 2.18.	Extension of Termination Date.	25
Section 2.19.	Voluntary Conversion of Advances.	26
Section 2.20.	Automatic Provisions	26

ARTICLE III
CONDITIONS

Section 3.01.	Conditions Precedent to Initial Advances	26
Section 3.02.	Additional Conditions Precedent to Each A Borrowing	27
Section 3.03.	Conditions Precedent to Each B Borrowing	27

ARTICLE IV
REPRESENTATIONS AND WARRANTIES

Section 4.01.	Representations and Warranties of the Borrowers	28
---------------	---	----

ARTICLE V
COVENANTS OF THE BORROWERS

Section 5.01.	Affirmative Covenants	33
Section 5.02.	Negative Covenants	36

ARTICLE VI
EVENTS OF DEFAULT

Section 6.01.	Events of Default	40
---------------	-----------------------------	----

ARTICLE VII
THE AGENT

Section 7.01.	Authorization and Action	42
Section 7.02.	Agent's Reliance, Etc.	42
Section 7.03.	Citibank and Affiliates	43
Section 7.04.	Bank Credit Decision	43
Section 7.05.	Indemnification	43
Section 7.06.	Successor Agent	44

ARTICLE VIII
MISCELLANEOUS

Section 8.01.	Amendments, Etc.	44
Section 8.02.	Notices, Etc.	44
Section 8.03.	No Waiver; Remedies	45
Section 8.04.	Costs, Expenses and Taxes	45
Section 8.05.	Right of Set-off	46
Section 8.06.	Binding Effect; Transfers	46
Section 8.07.	Governing Law	48
Section 8.08.	Interest	48
Section 8.09.	Execution in Counterparts	49
Section 8.10.	Survival of Agreements, Representations and Warranties, Etc.	49
Section 8.11.	Borrowers' Right to Apply Deposits	49
Section 8.12.	Confidentiality	49
Section 8.13.	WAIVER OF JURY TRIAL	50
Section 8.14.	Miscellaneous	50

Schedule I - Bank Information

Schedule II - Borrower Information

Schedule III - Permitted NWP Liens

Schedule IV - Permitted TGPL Liens

Schedule V - Permitted TGT Liens

Schedule VI - Permitted TWC Liens

Schedule VII - Permitted WPL Liens

Schedule VIII - Permitted WHD Liens

Schedule IX - Commitments

Exhibit A-1 - Form of A Note

Exhibit A-2 - Form of B Note

Exhibit B-1 - Notice of A Borrowing

Exhibit B-2 - Notice of B Borrowing

Exhibit C - Opinion of William G. von Glahn

Exhibit D - Opinion of Special Counsel to Agent

Exhibit E - Existing Transfer Restrictions

Exhibit F - Form of Transfer Agreement

AMENDED AND RESTATED CREDIT AGREEMENT

Dated as of December 20, 1996

This Amended and Restated Credit Agreement dated as of December 20, 1996, is by and among the Borrowers, the Agent and the Banks. In consideration of the mutual covenants and agreements contained herein, the Borrowers, the Agent and the Banks hereby agree as set forth herein.

PRELIMINARY STATEMENTS

1. The Borrowers, the Agent and the Banks are parties to the Credit Agreement dated as of February 23, 1995 (as previously amended, the "1995 Credit Agreement").
2. The Borrowers have requested that the 1995 Credit Agreement be further amended and, as so further amended, be restated in its entirety, and the parties hereto have agreed to do so on the terms and conditions set forth herein.
3. The parties hereto have agreed to restate the 1995 Credit Agreement in its entirety for convenience, and this Amended and Restated Credit Agreement constitutes for all purposes an amendment to the 1995 Credit Agreement, and each reference to an Advance or Borrowing herein shall include each advance or borrowing made heretofore under the 1995 Credit Agreement as well as each Advance or Borrowing made hereafter under this Agreement.

ARTICLE I

DEFINITIONS AND ACCOUNTING TERMS

Section 1.01. Certain Defined Terms. As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"A Advance" means an advance by a Bank to a Borrower as part of an A Borrowing and refers to a Base Rate Advance or a Eurodollar Rate Advance, each of which shall be a "Type" of A Advance.

"A Borrowing" means a borrowing consisting of simultaneous A Advances of the same Type to the same Borrower made by each of the Banks pursuant to Section 2.01.

"A Note" means a promissory note of a Borrower payable to the order of any Bank, in substantially the form of Exhibit A-1 hereto, evidencing the aggregate indebtedness of such Borrower to such Bank resulting from the A Advances to such Borrower owed to such Bank.

"Advance" means an A Advance or a B Advance.

"Agent" means Citibank, N.A. in its capacity as agent pursuant to Article VII hereof and any successor Agent pursuant to Section 7.06.

"Agreement" means this Amended and Restated Credit Agreement dated as of December 20, 1996 among the Borrowers, the Agent and the Banks, as amended or modified from time to time.

"Applicable Lending Office" means, with respect to each Bank, such Bank's Domestic Lending Office in the case of a Base Rate Advance and such Bank's Eurodollar Lending Office in the case of a Eurodollar Rate Advance and, in the case of a B Advance, the office of such Bank notified by such Bank to the Agent as its Applicable Lending Office with respect to such B Advance.

"Applicable Margin" means

(i) as to any Eurodollar Rate Advance to any Borrower (other than WPL during such times as WPL is Unrated), the rate per annum set forth in the following table for the relevant Rating Category applicable to such Borrower from time to time:

Rating Category	Applicable Margin
-----	-----
One	.25%
Two	.30%
Three	.35%
Four	.45%
Five	.65%
Six	.75%
Seven	1.00%

and (ii) for each day during such times as WPL is Unrated, as to any Eurodollar Rate Advance to WPL, the rate per annum set forth in the following table for the relevant amount of the Applicable WPL Debt to TNW Ratio for such day:

Applicable WPL Debt to TNW Ratio	Applicable Margin
-----	-----
Less than .55	.35%
.55 or greater and less than .60	.45%
.60 or greater	.75%

The Applicable Margin determined pursuant to clause (i) of this definition for any Eurodollar Rate Advance to any Borrower shall change when and as the relevant Rating Category applicable to such Borrower changes. Furthermore, the applicability of clause (i) or (ii) of this definition to WPL shall change when and as the status of WPL as Unrated or not Unrated changes. For example, if WPL borrows on September 15 of a year a Eurodollar

Rate Advance with a three month Interest Period and WPL is Unrated from September 15 through October 15 of such year and is not Unrated thereafter, then the Applicable Margin for such Advance will be determined (1) pursuant to the foregoing clause (ii) from September 15 through October 15 of such year (and the Applicable WPL Debt to TNW Ratio (a) for the days from September 15 through September 30 will be the WPL Debt to TNW Ratio on March 31 of such year and (b) for the days after September 30 will be the WPL Debt to TNW Ratio on June 30 of such year), and (2) pursuant to the foregoing clause (i) during the other days of such Interest Period. Furthermore if, in such example, the Rating Category applicable to WPL from October 16 through October 20 was Rating Category Five and thereafter was Rating Category Four, the Applicable Margin for such Advance would be .65% from October 16 through October 20 and .45% thereafter.

"Applicable WPL Debt to TNW Ratio" for any day means the WPL Debt to TNW Ratio as of the end of the calendar quarter which is the second calendar quarter prior to such day. For example, the Applicable WPL Debt to TNW Ratio for any day in the calendar quarter ending September 30 of a year will be the WPL Debt to TNW Ratio as of March 31 of such year.

"Arranger" means Citicorp Securities, Inc.

"Attributable Obligation" of any Person means, with respect to any Sale and Lease-Back Transaction of such Person as of any particular time, the present value at such time discounted at the rate of interest implicit in the terms of the lease of the obligations of the lessee under such lease for net rental payments during the remaining term of the lease (including any period for which such lease has been extended or may, at the option of such Person, be extended).

"B Advance" means an advance by a Bank to a Borrower as part of a B Borrowing resulting from the auction bidding procedure described in Section 2.16.

"B Borrowing" means a borrowing consisting of simultaneous B Advances to the same Borrower from each of the Banks whose offer to make one or more B Advances as part of such borrowing has been accepted by such Borrower under the auction bidding procedure described in Section 2.16.

"B Note" means a promissory note of a Borrower payable to the order of any Bank, in substantially the form of Exhibit A-2 hereto, (or, in the case of B Advances outstanding on December 20, 1996, in substantially the form of Exhibit A-2 to the 1995 Credit Agreement) evidencing the indebtedness of such Borrower to such Bank resulting from a B Advance made to such Borrower by such Bank.

"B Reduction" has the meaning specified in Section 2.01.

"Banks" means the lenders listed on the signature pages hereof and each other Person that becomes a Bank pursuant to the last sentence of Section 8.06(a).

"Base Rate" means a fluctuating interest rate per annum as shall be in effect from time to time which rate per annum shall at all times be equal to the highest of:

(a) the rate of interest announced publicly by Citibank in New York, New York, from time to time, as Citibank's base rate; or

(b) 1/2 of one percent per annum above the latest three-week moving average of secondary market morning offering rates in the United States for three-month certificates of deposit of major United States money market banks, such three-week moving average being determined weekly on each Monday (or, if any such day is not a Business Day, on the next succeeding Business Day) for the three-week period ending on the previous Friday by Citibank on the basis of such rates reported by certificate of deposit dealers to and published by the Federal Reserve Bank of New York or, if such publication shall be suspended or terminated, on the basis of quotations for such rates received by Citibank from three New York certificate of deposit dealers of recognized standing selected by Citibank, in either case adjusted to the nearest 1/4 of one percent or, if there is no nearest 1/4 of one percent, to the next higher 1/4 of one percent; or

(c) 1/2 of one percent per annum above the Federal Funds Rate in effect from time to time.

"Base Rate Advance" means an A Advance which bears interest as provided in Section 2.06(a).

"Borrowers" means TWC, WHD, NWP, TGPL, TGT and WPL.

"Borrowing" means an A Borrowing or a B Borrowing.

"Business Day" means a day of the year on which banks are not required or authorized to close in New York City and, if the applicable Business Day relates to any Eurodollar Rate Advances or relates to any B Advance as to which the related Notice of B Borrowing is delivered pursuant to clause (B) of Section 2.16(a)(i), on which dealings are carried on in the London interbank market.

"Citibank" means Citibank, N.A.

"Code" means, as appropriate, the Internal Revenue Code of 1986, as amended, or any successor Federal tax code, and any reference to any statutory provision shall be deemed to be a reference to any successor provision or provisions.

"Commitment" of any Bank to any Borrower means at any time the lesser of (i) the amount set opposite or deemed (pursuant to clause (vii) of the last sentence of Section 8.06(a) and as reflected in the relevant Transfer Agreement referred to in such sentence) to be set opposite such Bank's name for such Borrower on Schedule IX hereof as such amount may be terminated, reduced or increased after December 20, 1996 pursuant to Section 2.04, Section 2.17, Section 6.01 or Section 8.06(a), or (ii) the amount of the Commitment of such Bank to TWC at such time.

"Consolidated" refers to the consolidation of the accounts of any Person and its subsidiaries in accordance with generally accepted accounting principles.

"Consolidated Net Worth" of any Person means the Net Worth of such Person and its Subsidiaries on a Consolidated basis.

"Consolidated Tangible Net Worth" of any Person means the Tangible Net Worth of such Person and its Subsidiaries on a Consolidated basis.

"Convert", "Conversion" and "Converted" each refers to a conversion of Advances of one Type into Advances of the other Type pursuant to Section 2.02, Section 2.19 or Section 2.20.

"Debt" means, in the case of any Person, (i) indebtedness of such Person for borrowed money, (ii) obligations of such Person evidenced by bonds, debentures or notes, (iii) obligations of such Person to pay the deferred purchase price of property or services, (iv) monetary obligations of such Person as lessee under leases which are, in accordance with generally accepted accounting principles, recorded as capital leases, (v) obligations of such Person under guaranties in respect of, and obligations (contingent or otherwise) to purchase or otherwise acquire, or otherwise to assure a creditor against loss in respect of, indebtedness or obligations of others of the kinds referred to in clauses (i) through (iv) or clause (vii) of this definition, (vi) indebtedness or obligations of others of the kinds referred to in clauses (i) through (v) or clause (vii) of this definition secured by any Lien on or in respect of any property of such Person, and (vii) all liabilities of such Person in respect of unfunded vested benefits under any Plan; provided, however, that Debt shall not include any obligation under or resulting from any agreement referred to in paragraph (y) of Schedule III, paragraph (y) of Schedule IV, paragraph (y) of Schedule V, paragraph (y) of Schedule VI, paragraph (h) of Schedule VII or paragraph (y) of Schedule VIII or under or resulting from any sale and leaseback referred to in paragraph (aa) of Schedule III, paragraph (aa) of Schedule IV, paragraph (aa) of Schedule V, paragraph (bb) of Schedule VI, paragraph (j) of Schedule VII or paragraph (aa) of Schedule VIII.

"Domestic Lending Office" means, with respect to any Bank, the office of such Bank specified as its "Domestic Lending Office" opposite its name on Schedule I hereto or pursuant to Section 8.06(a), or such other office of such Bank as such Bank may from time to time specify to the Borrowers and the Agent.

"Environment" shall have the meaning set forth in 42 U.S.C. Section 9601(8) as defined on the date of this Agreement, and "Environmental" shall mean pertaining or relating to the Environment.

"Environmental Protection Statute" shall mean any United States local, state or federal, or any foreign, law, statute, regulation, order, consent decree or other agreement or Governmental Requirement arising from or in connection with or relating to the protection or regulation of the Environment, including, without limitation, those laws, statutes, regulations, orders, decrees, agreements and other Governmental Requirements relating to the disposal, cleanup, production, storing, refining, handling, transferring, processing or transporting of Hazardous Waste, Hazardous Substances or any pollutant or contaminant, wherever located.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations promulgated and rulings issued thereunder from time to time.

"ERISA Affiliate" of any Borrower means any trade or business (whether or not incorporated) which is a member of a group of which such Borrower is a member and which is under common control within the meaning of the regulations under Section 414 of the Code.

"Eurocurrency Liabilities" has the meaning assigned to that term in Regulation D of the Board of Governors of the Federal Reserve System, as in effect from time to time.

"Eurodollar Lending Office" means, with respect to any Bank, the office of such Bank specified as its "Eurodollar Lending Office" opposite its name on Schedule I hereto or pursuant to Section 8.06(a) (or, if no such office is specified, its Domestic Lending Office) or such other office of such Bank as such Bank may from time to time specify to the Borrowers and the Agent.

"Eurodollar Rate" means, for any Interest Period for each Eurodollar Rate Advance comprising part of the same A Borrowing, an interest rate per annum (rounded upward to the nearest whole multiple of 1/16 of 1% per annum, if such rate is not such a multiple) equal to the rate per annum at which deposits in U.S. dollars are offered by the principal office of Citibank in London, England to prime banks in the London interbank market at 11:00 A.M. (London time) two Business Days before the first day of such Interest Period in an amount substantially equal to the amount of the Eurodollar Rate Advance of Citibank comprising part of such A Borrowing to be outstanding during such Interest Period and for a period equal to such Interest Period.

"Eurodollar Rate Advance" means an A Advance which bears interest as provided in Section 2.06(b).

"Eurodollar Rate Reserve Percentage" of any Bank for any Interest Period for any Eurodollar Rate Advance means the reserve percentage applicable during such Interest Period (or if more than one such percentage shall be so applicable, the daily average of such percentages for those days in such Interest Period during which any such percentage shall be so applicable) under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, without limitation, any emergency, supplemental or other marginal reserve requirement) for such Bank with respect to liabilities or assets consisting of or including Eurocurrency Liabilities having a term equal to such Interest Period.

"Events of Default" has the meaning specified in Section 6.01. For purposes of clause (iv) of the definition herein of "Interest Period", Section 2.19 and Section 6.01, an Event of Default exists as to a particular Borrower if such Event of Default exists wholly or in part as a result of any event, condition, action, inaction, representation or other matter of, by or otherwise directly or indirectly pertaining to such Borrower or any Subsidiary of such Borrower. Without limiting the foregoing and for purposes of further clarification, it is agreed that inasmuch as each of WHD, NWP, WPL, TGPL and TGT is a Subsidiary of

TWC, any Event of Default that exists as to any of WHD, NWP, WPL, TGPL or TGT also exists as to TWC.

"Federal Funds Rate" means, for any period, a fluctuating interest rate per annum equal for each day during such period to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for such day on such transactions received by the Agent from three Federal funds brokers of recognized standing selected by it.

"Governmental Requirements" means all judgments, orders, writs, injunctions, decrees, awards, laws, ordinances, statutes, regulations, rules, franchises, permits, certificates, licenses, authorizations and the like and any other requirements of any government or any commission, board, court, agency, instrumentality or political subdivision thereof.

"Hazardous Substance" shall have the meaning set forth in 42 U.S.C. Section 9601(14) and shall also include each other substance considered to be a hazardous substance under any Environmental Protection Statute.

"Hazardous Waste" shall have the meaning set forth in 42 U.S.C. Section 6903(5) and shall also include each other substance considered to be a hazardous waste under any Environmental Protection Statute (including, without limitation 40 C.F.R. Section 261.3).

"Insufficiency" means, with respect to any Plan, the amount, if any, by which the present value of the vested benefits under such Plan exceeds the fair market value of the assets of such Plan allocable to such benefits.

"Interest Period" means, for each A Advance to a Borrower comprising part of the same A Borrowing, the period commencing on the date of such A Advance or the date of the Conversion of any Base Rate Advance into a Eurodollar Rate Advance and ending on the last day of the period selected by such Borrower pursuant to the provisions below and, thereafter, each subsequent period commencing on the last day of the immediately preceding Interest Period and ending on the last day of the period selected by such Borrower pursuant to the provisions below. The duration of each Interest Period shall be one, two, three or six months, in each case as such Borrower may, upon notice received by the Agent not later than 11:00 A.M. (New York City time) on the third Business Day prior to the first day of such Interest Period, select (it being agreed that selection of a subsequent Interest Period for an outstanding Eurodollar Rate Advance does not require that a Notice of A Borrowing be given, inasmuch as no Advance is being requested or made as a result of such selection); provided, however, that:

(i) Interest Periods commencing on the same date for A Advances comprising part of the same A Borrowing shall be of the same duration;

(ii) whenever the last day of any Interest Period would otherwise occur on a day other than a Business Day, the last day of such Interest Period shall be extended to occur on the next succeeding Business Day, provided that if such extension would cause the last day of such Interest Period to occur in the next following calendar month, the last day of such Interest Period shall occur on the next preceding Business Day;

(iii) any Interest Period which begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month in which it would have ended if there were a numerically corresponding day in such calendar month; and

(iv) no Borrower may select any Interest Period which ends after the Termination Date, and no Borrower may select any Interest Period if any Event of Default exists as to such Borrower.

"Lien" means any mortgage, lien, pledge, charge, deed of trust, security interest, encumbrance or other type of preferential arrangement to secure or provide for the payment of any obligation of any Person, whether arising by contract, operation of law or otherwise (including, without limitation, the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement).

"Majority Banks" means at any time Banks holding at least 66-2/3% of the then aggregate unpaid principal amount of the A Notes held by Banks, or, if no such principal amount is then outstanding, Banks having at least 66-2/3% of the Commitments or, if no such principal amount is then outstanding and all Commitments have terminated, Banks holding at least 66-2/3% of the then aggregate unpaid principal amount of the B Notes held by Banks (provided that for purposes of this definition and Sections 2.17, 6.01 and 7.01 neither any Borrower nor any Subsidiary or Related Party of any Borrower, if a Bank, shall be included in (i) the Banks holding the A Notes or B Notes or (ii) determining the aggregate unpaid principal amount of the A Notes or the B Notes or the amount of the Commitments).

"Moody's" means Moody's Investors Service, Inc.

"Multiemployer Plan" means a "multiemployer plan" as defined in Section 4001(a)(3) of ERISA to which any Borrower or any ERISA Affiliate of any Borrower is making or accruing an obligation to make contributions, or has within any of the preceding five plan years made or accrued an obligation to make contributions.

"Multiple Employer Plan" means an employee benefit plan, other than a Multiemployer Plan, subject to Title IV of ERISA to which any Borrower or any ERISA Affiliate of any Borrower, and one or more employers other than any Borrower or an ERISA Affiliate of any Borrower, is making or accruing an obligation to make contributions or, in the event that any such plan has been terminated, to which any Borrower or any ERISA Affiliate of any Borrower made or accrued an obligation to make contributions during any of the five plan years preceding the date of termination of such plan.

"Net Worth" of any Person means, as of any date of determination, the excess of total assets of such Person over total liabilities of such Person, total assets and total liabilities each to be determined in accordance with generally accepted accounting principles.

"1995 Credit Agreement" has the meaning specified in the preliminary statements of this Agreement.

"Non-Borrowing Subsidiary" of any Borrower means a Subsidiary of such Borrower which Subsidiary is not itself a Borrower.

"Note" means an A Note or a B Note.

"Notice of A Borrowing" has the meaning specified in Section 2.02(a).

"Notice of B Borrowing" has the meaning specified in Section 2.16(a).

"NWP" means Northwest Pipeline Corporation, a Delaware corporation.

"PBGCC" means the Pension Benefit Guaranty Corporation.

"Permitted NWP Liens" means Liens specifically described on Schedule III.

"Permitted TGPL Liens" means Liens specifically described on Schedule IV.

"Permitted TGT Liens" means Liens specifically described on Schedule V.

"Permitted TWC Liens" means Liens specifically described on Schedule VI.

"Permitted WHD Liens" means Liens specifically described on Schedule VIII.

"Permitted WPL Liens" means Liens specifically described on Schedule VII.

"Person" means an individual, partnership, corporation, business trust, joint stock company, trust, unincorporated association, joint venture or other entity, or a government or any political subdivision or agency thereof.

"Plan" means an employee pension benefit plan (other than a Multiemployer Plan) as defined in Section 3(2) of ERISA currently maintained by, or to which contributions have been made at any time after December 31, 1984 by, any Borrower or any ERISA Affiliate of any Borrower for employees of a Borrower or any such ERISA Affiliate and covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Code.

"Public Filings" means TWC's, NWP's, TGPL's and TGT's respective annual reports on Form 10-K for the year ended December 31, 1995 and TWC's, NWP's, TGPL's and TGT's respective quarterly reports on Form 10-Q for the quarters ended March 31, 1996, June 30, 1996 and September 30, 1996.

"Rating Category" means any of Rating Category One, Rating Category Two, Rating Category Three, Rating Category Four, Rating Category Five, Rating Category Six or Rating Category Seven.

"Rating Category One" is applicable to a Borrower at such times as the senior unsecured long-term debt of such Borrower is rated A- or better by S&P or A3 or better by Moody's.

"Rating Category Two" is applicable to a Borrower at such times as (i) Rating Category One is not applicable to such Borrower and (ii) the senior unsecured long-term debt of such Borrower is rated BBB+ by S&P or Baa1 by Moody's.

"Rating Category Three" is applicable to a Borrower at such times as (i) neither Rating Category One nor Rating Category Two is applicable to such Borrower and (ii) the senior unsecured long-term debt of such Borrower is rated BBB by S&P or Baa2 by Moody's.

"Rating Category Four" is applicable to a Borrower at such times as (i) neither Rating Category One nor Rating Category Two nor Rating Category Three is applicable to such Borrower and (ii) the senior unsecured long-term debt of such Borrower is rated BBB- by S&P or Baa3 by Moody's.

"Rating Category Five" is applicable to a Borrower at such times as (i) neither Rating Category One nor Rating Category Two nor Rating Category Three nor Rating Category Four is applicable to such Borrower and (ii) the senior unsecured long-term debt of such Borrower is rated BB+ by S&P or Ba1 by Moody's.

"Rating Category Six" is applicable to a Borrower at such times as (i) neither Rating Category One nor Rating Category Two nor Rating Category Three nor Rating Category Four nor Rating Category Five is applicable to such Borrower and (ii) the senior unsecured long-term debt of such Borrower is rated BB by S&P or Ba2 by Moody's.

"Rating Category Seven" is applicable to a Borrower at such times as neither Rating Category One nor Rating Category Two nor Rating Category Three nor Rating Category Four nor Rating Category Five nor Rating Category Six is applicable to such Borrower.

"Related Party" of any Person means any corporation, partnership, joint venture or other entity of which more than 10% of the outstanding capital stock or other equity interests having ordinary voting power to elect a majority of the board of directors of such corporation, partnership, joint venture or other entity shall or might have voting power upon the occurrence of any contingency) is at the time directly or indirectly owned by such Person or which owns at the time directly or indirectly more than 10% of the outstanding capital stock or other equity interests having ordinary voting power to elect a majority of the board of directors of such Person or others performing similar functions (irrespective of whether or not at the time capital stock or other equity interests of any other class or classes of such corporation, partnership, joint venture or other entity

shall or might have voting power upon the occurrence of any contingency); provided, however, that neither TWC nor any Subsidiary of TWC shall be considered to be a Related Party of TWC or any Subsidiary of TWC.

"S&P" means Standard & Poor's Ratings Group, a division of Mc-Graw Hill, Inc. on the date hereof.

"Sale and Lease-Back Transaction" of any Person means any arrangement entered into by such Person or any Subsidiary of such Person, directly or indirectly, whereby such Person or any Subsidiary of such Person shall sell or transfer any property, whether now owned or hereafter acquired, and whereby such Person or any Subsidiary of such Person shall then or thereafter rent or lease as lessee such property or any part thereof or other property which such Person or any Subsidiary of such Person intends to use for substantially the same purpose or purposes as the property sold or transferred; provided, however, that any sale and lease-back of cushion gas, whether now or hereafter existing, shall not be considered to be a Sale and Lease-Back Transaction and any sale and lease-back of inventory, whether now or hereafter existing, by WPL or any of its Subsidiaries (other than another Borrower) shall not be considered to be a Sale and Lease-Back Transaction.

"Stated Termination Date" means October 31, 2001 or such later date, if any as may be agreed to by the Borrowers and the Banks pursuant to Section 2.18.

"Subordinated Debt" means any Debt of any Borrower which is effectively subordinated to the obligations of such Borrower hereunder and under the Notes.

"Subsidiary" of any Person means any corporation, partnership, joint venture or other entity of which more than 50% of the outstanding capital stock or other equity interests having ordinary voting power to elect a majority of the board of directors of such corporation, partnership, joint venture or other entity or others performing similar functions (irrespective of whether or not at the time capital stock or other equity interests of any other class or classes of such corporation, partnership, joint venture or other entity shall or might have voting power upon the occurrence of any contingency) is at the time directly or indirectly owned by such Person.

"Tangible Net Worth" of any Person means, as of any date of determination, the excess of total assets of such Person over total liabilities of such Person, total assets and total liabilities each to be determined in accordance with generally accepted accounting principles, excluding, however, from the determination of total assets (i) patents, patent applications, trademarks, copyrights and trade names, (ii) goodwill, organizational, experimental, research and development expense and other like intangibles, (iii) treasury stock, (iv) monies set apart and held in a sinking or other analogous fund established for the purchase, redemption or other retirement of capital stock or Subordinated Debt, and (v) unamortized debt discount and expense.

"Termination Date" means the earlier of (i) the Stated Termination Date or (ii) the date of termination in whole of the Commitments pursuant to Section 2.04, 2.17 or 6.01.

"Termination Event" means (i) a "reportable event", as such term is described in Section 4043 of ERISA (other than a "reportable event" not subject to the provision for 30-day notice to the PBGC), or an event described in Section 4062(f) of ERISA, or (ii) the withdrawal of any Borrower or any ERISA Affiliate of any Borrower from a Multiple Employer Plan during a plan year in which it was a "substantial employer", as such term is defined in Section 4001(a)(2) of ERISA, or the incurrence of liability by any Borrower or any ERISA Affiliate of any Borrower under Section 4064 of ERISA upon the termination of a Plan or Multiple Employer Plan, or (iii) the distribution of a notice of intent to terminate a Plan pursuant to Section 4041(a)(2) of ERISA or the treatment of a Plan amendment as a termination under Section 4041 of ERISA, or (iv) the institution of proceedings to terminate a Plan by the PBGC under Section 4042 of ERISA, or (v) any other event or condition which might constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan.

"TGPL" means Transcontinental Gas Pipe Line Corporation, a Delaware corporation.

"TGT" means Texas Gas Transmission Corporation, a Delaware corporation.

"Transfer Agreement" has the meaning specified in Section 8.06.

"TWC" means The Williams Companies, Inc., a Delaware corporation.

"Type" has the meaning set forth in the definition herein of A Advance.

"Unrated" means, as to any Borrower, that no senior unsecured long-term debt of such Borrower is rated by S&P and no senior unsecured long-term debt of such Borrower is rated by Moody's.

"Wholly-Owned Subsidiary" of any Person means any Subsidiary of such Person all of the capital stock and other equity interests of which is owned by such Person or any Wholly-Owned Subsidiary of such Person.

"Withdrawal Liability" shall have the meaning given such term under Part I of Subtitle E of Title IV of ERISA.

"WEV" means Williams Energy Ventures, Inc., a Delaware corporation.

"WFS" means Williams Field Services Group, Inc., a Delaware corporation.

"WHD" means Williams Holdings of Delaware, Inc., a Delaware corporation.

"WNG" means Williams Natural Gas Company, a Delaware corporation.

"WPL" means Williams Pipe Line Company, a Delaware corporation.

"WPL Debt to TNW Ratio" means at any date the ratio of (i) the aggregate amount at such date of all Debt of WPL and its Subsidiaries on a Consolidated basis to (ii) the sum

of the Consolidated Tangible Net Worth at such date of WPL plus the aggregate amount at such date of all Debt of WPL and its Subsidiaries on a Consolidated basis.

Section 1.02. Computation of Time Periods. In this Agreement in the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including" and the words "to" and "until" each means "to but excluding."

Section 1.03. Accounting Terms. All accounting terms not specifically defined herein shall be construed in accordance with generally accepted accounting principles, and each reference herein to "generally accepted accounting principles" shall mean generally accepted accounting principles consistent with those applied in the preparation of the financial statements referred to in Section 4.01(e)(i).

Section 1.04. Miscellaneous. The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Article, Section, Schedule and Exhibit references are to Articles and Sections of and Schedules and Exhibits to this Agreement, unless otherwise specified.

Section 1.05. Ratings. A rating, whether public or private, by S&P or Moody's shall be deemed to be in effect on the date of announcement or publication by S&P or Moody's, as the case may be, of such rating, or, in the absence of such announcement or publication, on the effective date of such rating and will remain in effect until the announcement or publication of, or in the absence of such announcement or publication, the effective date of, any change in, or withdrawal or termination of, such rating. In the event the standards for any rating by Moody's or S&P are revised, or any such rating is designated differently (such as by changing letter designations to different letter designations or to numerical designations), the references herein to such rating shall be deemed to refer to the revised or redesignated rating for which the standards are closest to, but not lower than, the standards at the date hereof for the rating which has been revised or redesignated, all as determined by the Majority Banks in good faith. Long-term debt supported by a letter of credit, guaranty, insurance or other similar credit enhancement mechanism shall not be considered as senior unsecured long-term debt. If either Moody's or S&P has at any time more than one rating applicable to senior unsecured long-term debt of a Borrower, the lowest such rating shall be applicable for purposes hereof. For example, if Moody's rates some senior unsecured long-term debt of a Borrower Ba1 and other such debt of such Borrower Ba2, the senior unsecured long-term debt of such Borrower shall be deemed to be rated Ba2 by Moody's.

ARTICLE II

AMOUNTS AND TERMS OF THE ADVANCES

Section 2.01. The A Advances. Each Bank severally agrees, on the terms and conditions hereinafter set forth, to make A Advances to each Borrower from time to time on any Business Day during the period from the date hereof until the Termination Date in an aggregate amount outstanding not to exceed at any time such Bank's Commitment to such Borrower, provided that the aggregate amount of the Commitments of the Banks to any Borrower shall, except for purposes of Section 2.03(a), be deemed used from time to time to the extent of the aggregate amount

of the B Advances then outstanding to such Borrower and such deemed use of the aggregate amount of such Commitments shall be applied to the Banks ratably according to their respective Commitments to such Borrower (such deemed use of the aggregate amount of the Commitments of any Borrower being a "B Reduction"), and provided further that the aggregate amount of all A Advances to all Borrowers by any Bank shall not exceed at any time outstanding such Bank's Commitment to TWC (determined after giving effect to such Bank's ratable share of all B Reductions). Each A Borrowing shall be in an aggregate amount not less than \$5,000,000 or an integral multiple of \$1,000,000 in excess thereof, and shall consist of A Advances of the same Type made to the same Borrower on the same day by the Banks ratably according to their respective Commitments. Within the limits of each Bank's Commitment to a Borrower, such Borrower may borrow, prepay pursuant to Section 2.10 and reborrow under this Section 2.01.

Section 2.02. Making the A Advances. (a) Each A Borrowing shall be made on notice, given not later than (1) in the case of a proposed Borrowing comprised of Eurodollar Rate Advances, 11:00 A.M. (New York City time) at least three Business Days prior to the date of the proposed Borrowing, and (2) in the case of a proposed Borrowing comprised of Base Rate Advances, 10:00 A.M. (New York City time) on the date of the proposed Borrowing, by the Borrower requesting such A Borrowing to the Agent, which shall give to each Bank prompt notice thereof by telecopy, telex or cable. Each such notice of an A Borrowing (a "Notice of A Borrowing") shall be by telecopy, telex or cable, confirmed immediately in writing, in substantially the form of Exhibit B-1 hereto, executed by the Borrower requesting such A Borrowing and specifying therein the requested (i) date of such A Borrowing (which shall be a Business Day), (ii) initial Type of A Advances comprising such A Borrowing, (iii) aggregate amount of such A Borrowing, and (iv) in the case of an A Borrowing comprised of Eurodollar Rate Advances, initial Interest Period for each such A Advance. Each Bank shall, before 11:00 A.M. (New York City time) on the date of such A Borrowing, make available for the account of its Applicable Lending Office to the Agent at its New York address referred to in Section 8.02, in same day funds, such Bank's ratable portion of such A Borrowing. After the Agent's receipt of such funds and upon fulfillment of the applicable conditions set forth in Article III, the Agent will make such funds available to the Borrower requesting such A Borrowing at the Agent's aforesaid address. Notwithstanding the other provisions hereof, each Bank that is to be paid by any Borrower on December 20, 1996 any principal amount outstanding under the 1995 Credit Agreement as contemplated by Section 8.14 shall apply the proceeds of any Advance to be made by it to such Borrower on such date to pay such amount and only an amount equal to the difference (if any) between the amount of such Advance and the principal amount being so paid shall be made available by such Bank to the Agent as provided herein, or remitted by such Borrower to the Agent as provided in Section 2.13, as the case may be.

(b) Anything herein to the contrary notwithstanding:

(i) at no time shall there be outstanding to any one Borrower more than six A Borrowings comprised of Eurodollar Rate Advances;

(ii) no Borrower may select Eurodollar Rate Advances for any Borrowing if the aggregate amount of such Borrowing is less than (x) if such Borrowing is made by WPL, \$5,000,000, and (y) if such Borrowing is made by any other Borrower, \$20,000,000;

(iii) if the Majority Banks shall notify the Agent that either (A) the Eurodollar Rate for any Interest Period for any Eurodollar Rate Advances will not adequately reflect the cost to such Banks of making or funding their respective Eurodollar Rate Advances for such Interest Period, or (B) that U.S. dollar deposits for the relevant amounts and Interest Period for their respective Advances are not available to them in the London interbank market, or it is otherwise impossible to have Eurodollar Rate Advances, the Agent shall forthwith so notify the Borrowers and the Banks, whereupon (I) each Eurodollar Rate Advance will automatically, on the last day of the then existing Interest Period therefor, Convert into a Base Rate Advance, and (II) the obligations of the Banks to make, or to Convert Advances into, Eurodollar Rate Advances shall be suspended until the Agent, at the request of the Majority Banks, shall notify the Borrowers and the Banks that the circumstances causing such suspension no longer exist, and, except as provided in Section 2.02(b)(v), each Advance comprising any requested A Borrowing shall be a Base Rate Advance;

(iv) if the Agent is unable to determine the Eurodollar Rate for Eurodollar Rate Advances, the obligation of the Banks to make, or to Convert Advances into, Eurodollar Rate Advances shall be suspended until the Agent shall notify the Borrowers and the Banks that the circumstances causing such suspension no longer exist, and, except as provided in Section 2.02(b)(v), each Advance comprising any requested A Borrowing shall be a Base Rate Advance; and

(v) if a Borrower has requested a proposed A Borrowing consisting of Eurodollar Rate Advances and as a result of circumstances referred to in Section 2.02(b)(iii) or (iv) such A Borrowing would not consist of Eurodollar Rate Advances, such Borrower may, by notice given not later than 3:00 P.M. (New York City time) at least one Business Day prior to the date such proposed A Borrowing would otherwise be made, cancel such A Borrowing, in which case such A Borrowing shall be cancelled and no Advances shall be made as a result of such requested A Borrowing, but such Borrower shall indemnify the Banks in connection with such cancellation as contemplated by Section 2.02(c).

(c) Each Notice of A Borrowing shall be irrevocable and binding on the Borrowers, except as set forth in Section 2.02(b)(v). In the case of any A Borrowing requested by a Borrower which the related Notice of A Borrowing specifies is to be comprised of Eurodollar Rate Advances, such Borrower shall indemnify each Bank against any loss, cost or expense incurred by such Bank as a result of any failure to fulfill on or before the date specified in such Notice of A Borrowing for such A Borrowing the applicable conditions set forth in Article III, including, without limitation, any loss (including loss of reasonably anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Bank to fund the A Advance to be made by such Bank as part of such A Borrowing when such A Advance, as a result of such failure, is not made on such date. A certificate in reasonable detail as to the basis for and the amount of such loss, cost or expense submitted to such Borrower and the Agent by such Bank shall be prima facie evidence of the amount of such loss, cost or expense. If an A Borrowing requested by a Borrower which the related Notice of A Borrowing specifies is to be comprised of Eurodollar Rate Advances is not made as an A Borrowing comprised of Eurodollar Rate Advances as a result of Section 2.02(b), such Borrower shall indemnify each Bank against any loss (excluding loss of profits), cost or expense incurred by such Bank by reason of the liquidation or reemployment of deposits or other funds acquired by such Bank prior to the time such Bank is

actually aware that such A Borrowing will not be so made to fund the A Advance to be made by such Bank as part of such A Borrowing. A certificate in reasonable detail as to the basis for and the amount of such loss, cost or expense submitted to such Borrower and the Agent by such Bank shall be prima facie evidence of the amount of such loss, cost or expense.

(d) Unless the Agent shall have received notice from a Bank prior to the date of any A Borrowing to a Borrower that such Bank will not make available to the Agent such Bank's ratable portion of such A Borrowing, the Agent may assume that such Bank has made such portion available to the Agent on the date of such A Borrowing in accordance with subsection (a) of this Section 2.02 and the Agent may, in reliance upon such assumption, make available to such Borrower requesting such A Borrowing on such date a corresponding amount. If and to the extent that such Bank shall not have so made such ratable portion available to the Agent, such Bank and such Borrower severally agree to repay to the Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to such Borrower until the date such amount is repaid to the Agent, at (i) in the case of such Borrower, the interest rate applicable at the time to A Advances comprising such A Borrowing and (ii) in the case of such Bank, the Federal Funds Rate. If such Bank shall repay to the Agent such corresponding amount, such amount so repaid shall constitute such Bank's A Advance as part of such A Borrowing for purposes of this Agreement.

(e) The failure of any Bank to make the A Advance to be made by it as part of any A Borrowing shall not relieve any other Bank of its obligation, if any, hereunder to make its A Advance on the date of such A Borrowing, but no Bank shall be responsible for the failure of any other Bank to make the A Advance to be made by such other Bank on the date of any A Borrowing.

Section 2.03. Fees.

(a) Commitment Fee. TWC agrees to pay to the Agent for the account of each Bank a commitment fee on the average daily unused (for the purposes of this Section 2.03(a) A Advances made to any Borrower shall be considered to have been made to TWC, but B Advances to any Borrower shall not, for purposes of this Section 2.03(a), be considered to be usage of any Commitment) portion of such Bank's Commitment to TWC from the date hereof until the Termination Date at a rate per annum from time to time equal to (i) at such times as Rating Category One is applicable to TWC, .08%, (ii) at such times as Rating Category Two is applicable to TWC, .10%, (iii) at such times as Rating Category Three is applicable to TWC, .11%, (iv) at such times as Rating Category Four is applicable to TWC, .15%, (v) at such times as Rating Category Five is applicable to TWC, .20%, (vi) at such times as Rating Category Six is applicable to TWC, .25% and (vii) at such times as Rating Category Seven is applicable to TWC, .375%, payable in arrears on the last day of each March, June, September and December during the term such Bank has any Commitment to any Borrower and on the Termination Date.

(b) Agent's Fees. TWC agrees to pay to the Agent, for its sole account, such fees as may be separately agreed to in writing by TWC and the Agent.

Section 2.04. Reduction of the Commitments.

(a) Optional. Each Borrower shall have the right, upon at least three Business Days notice to the Agent, to terminate in whole or reduce ratably in part the unused portions of the

respective Commitments of the Banks to such Borrower, provided that each partial reduction shall be in the aggregate amount of at least \$20,000,000, and provided further, that the aggregate amount of the Commitments of the Banks to any Borrower shall not be reduced to an amount which is less than the aggregate principal amount of the Advances then outstanding to such Borrower, and provided further, that the aggregate amount of the Commitments of the Banks to TWC shall not be reduced to an amount which is less than the aggregate principal amount of the Advances then outstanding to the Borrower as to which the aggregate outstanding principal amount of Advances is then the largest.

(b) Termination. If all of the Commitments of the Banks to a Borrower (other than TWC) are terminated pursuant to Section 2.04(a) and such Borrower has paid all principal, interest, fees, costs and other amounts owed by it hereunder and under the Notes executed by it, such Borrower shall have the right, upon at least three Business Days notice to the Agent, to elect to cease to be a Borrower hereunder, except for purposes of the definition herein of Majority Banks and for purposes of Sections 2.11, 2.14 and 8.04.

Section 2.05. Repayment of A Advances. Each Borrower shall repay, on the Stated Termination Date or such earlier date as the Notes may be declared due pursuant to Article VI, the unpaid principal amount of each A Advance made by each Bank to such Borrower.

Section 2.06. Interest on A Advances. Each Borrower shall pay interest on the unpaid principal amount of each A Advance made by each Bank to such Borrower from the date of such A Advance until such principal amount shall be paid in full, at the following rates per annum:

(a) Base Rate Advances. At such times as such A Advance is a Base Rate Advance, a rate per annum equal at all times to the Base Rate in effect from time to time, payable quarterly in arrears on the last day of each March, June, September and December and on the date such Advance shall be Converted or paid in full; provided that any amount of principal of any Base Rate Advance, interest, fees and other amounts payable hereunder (other than principal of any Eurodollar Rate Advance) which is not paid when due (whether at stated maturity, by acceleration or otherwise) shall bear interest, from the date on which such amount is due until such amount is paid in full, payable on demand, at a rate per annum equal at all times to the sum of the Base Rate in effect from time to time plus 2% per annum.

(b) Eurodollar Rate Advances. At such times as such A Advance is a Eurodollar Rate Advance, a rate per annum equal at all times during each Interest Period for such A Advance to the sum of the Eurodollar Rate for such Interest Period plus the Applicable Margin in effect from time to time for such A Advance, payable on the last day of such Interest Period and, if such Interest Period has a duration of more than three months, on each day which occurs during such Interest Period every three months from the first day of such Interest Period; provided that any amount of principal of any Eurodollar Rate Advance which is not paid when due (whether at stated maturity, by acceleration or otherwise) shall bear interest, from the date on which such amount is due until such amount is paid in full, payable on demand, at a rate per annum equal at all times to the greater of (x) the sum of the Base Rate in effect from time to time plus 2% per annum and (y) the sum of the rate per annum required to be paid on such A Advance immediately prior to the date on which such amount became due plus 2% per annum.

Section 2.07. Additional Interest on Eurodollar Rate

Advances. Each Borrower shall pay to each Bank, so long as such Bank shall be required under regulations of the Board of Governors of the Federal Reserve System to maintain reserves with respect to liabilities or assets consisting of or including Eurocurrency Liabilities, additional interest on the unpaid principal amount of each Eurodollar Rate Advance of such Bank to such Borrower, from the date of such Advance until such principal amount is paid in full, at an interest rate per annum equal at all times to the remainder obtained by subtracting (i) the Eurodollar Rate for the Interest Period for such Advance from (ii) the rate obtained by dividing such Eurodollar Rate by a percentage equal to 100% minus the Eurodollar Rate Reserve Percentage of such Bank for such Interest Period, payable on each date on which interest is payable on such Advance. Such additional interest shall be determined by such Bank and notified to such Borrower through the Agent. A certificate as to the amount of such additional interest submitted to such Borrower and the Agent by such Bank shall be conclusive and binding for all purposes, absent manifest error. No Bank shall have the right to recover any additional interest pursuant to this Section 2.07 for any period more than 90 days prior to the date such Bank notifies the Borrowers that additional interest may be charged pursuant to this Section 2.07.

Section 2.08. Interest Rate Determination. The Agent shall

give prompt notice to the Borrower to which an A Advance is made and the Banks of the applicable interest rate for each Eurodollar Rate Advance determined by the Agent for purposes of Section 2.06(b).

Section 2.09. Evidence of Debt. The indebtedness of each

Borrower resulting from the A Advances owed to each Bank by such Borrower shall be evidenced by an A Note of such Borrower payable to the order of such Bank.

Section 2.10. Prepayments.

(a) No Borrower shall have any right to prepay any principal amount of any A Advance except as provided in this Section 2.10.

(b) Any Borrower may, in respect of Base Rate Advances upon notice to the Agent before 10:00 A.M. (New York City time) on the date of prepayment, and in respect of Eurodollar Rate Advances upon at least three Business Days' notice to the Agent, in each case stating the proposed date (which shall be a Business Day) and aggregate principal amount of the prepayment, and if such notice is given such Borrower shall, prepay the outstanding principal amounts of the A Advances comprising part of the same A Borrowing in whole or ratably in part, together with accrued interest to the date of such prepayment on the principal amount prepaid and amounts, if any, required to be paid pursuant to Section 8.04(b) as a result of such prepayment; provided, however, that each partial prepayment pursuant to this Section 2.10(b) shall be in an aggregate principal amount not less than \$5,000,000 and in an aggregate principal amount such that after giving effect thereto no A Borrowing comprised of Base Rate Advances shall have a principal amount outstanding of less than \$5,000,000 and no A Borrowing comprised of Eurodollar Rate Advances shall have a principal amount outstanding of less than (i) if such A Borrowing was made by WPL, \$5,000,000, and (ii) if such A Borrowing was made by any other Borrower, \$20,000,000.

(c) Each Borrower will give notice to the Agent at or before the time of each prepayment by such Borrower of Advances pursuant to this Section 2.10 specifying the Advances which are to be prepaid and the amount of such prepayment to be applied to such Advances, and

each payment of any Advance pursuant to this Section 2.10 or any other provision of this Agreement shall be made in a manner such that all Advances comprising part of the same Borrowing are paid in whole or ratably in part.

Section 2.11. Increased Costs.

(a) If, due to either (i) the introduction of or any change (other than any change by way of imposition or increase of reserve requirements included in the Eurodollar Rate Reserve Percentage) in or in the interpretation, application or applicability of any law or regulation or (ii) the compliance with any guideline or request from any central bank or other governmental authority (whether or not having the force of law), there shall be any increase in the cost to any Bank of agreeing to make or making, funding or maintaining Eurodollar Rate Advances to any Borrower, then such Borrower shall from time to time, upon demand by such Bank (with a copy of such demand to the Agent), pay to the Agent for the account of such Bank additional amounts sufficient to compensate such Bank for such increased cost. A certificate as to the amount of such increased cost, submitted to such Borrower and the Agent by such Bank, shall be prima facie evidence of the amount of such increased cost. No Bank shall have the right to recover any such increased costs for any period more than 90 days prior to the date such Bank notifies the Borrowers of any such introduction, change, compliance or proposed compliance.

(b) If any Bank determines that compliance with any law or regulation or any guideline or request from any central bank or other governmental authority (whether or not having the force of law) affects or would affect the amount of capital required or expected to be maintained by such Bank or any corporation controlling such Bank and that the amount of such capital is increased by or based upon the existence of such Bank's commitment to lend to any Borrower hereunder and other commitments of this type, then, upon demand by such Bank (with a copy of such demand to the Agent), such Borrower shall immediately pay to the Agent for the account of such Bank, from time to time as specified by such Bank, additional amounts sufficient to compensate such Bank or such corporation in the light of such circumstances, to the extent that such Bank reasonably determines such increase in capital to be allocable to the existence of such Bank's commitment to lend hereunder. A certificate as to the amount of such additional amounts, submitted to such Borrower and the Agent by such Bank, shall be prima facie evidence of the amount of such additional amounts. No Bank shall have any right to recover any additional amounts under this Section 2.11(b) for any period more than 90 days prior to the date such Bank notifies the Borrower of any such compliance.

(c) In the event that any Bank makes a demand for payment under Section 2.07 or this Section 2.11, TWC may within ninety days of such demand, if no Event of Default or event which, with the giving of notice or lapse of time or both, would constitute an Event of Default then exists, replace such Bank with another commercial bank in accordance with all of the provisions of the last sentence of Section 8.06(a) (including execution of an appropriate Transfer Agreement) provided that (v) all obligations of such Bank to lend hereunder shall be terminated and the Notes payable to such Bank and all other obligations owed to such Bank hereunder shall be purchased in full without recourse at par plus accrued interest at or prior to such replacement, (vi) such replacement bank shall be reasonably satisfactory to the Agent and the Majority Banks, (vii) such replacement bank shall, from and after such replacement, be deemed for all purposes to be a "Bank" hereunder with a Commitment to each Borrower in the amount of the respective Commitment of such Bank to such Borrower immediately prior to such replacement (plus, if such replacement bank

is already a Bank prior to such replacement the respective Commitment of such Bank to such Borrower prior to such replacement), as such amount may be changed from time to time pursuant hereto, and shall have all of the rights, duties and obligations hereunder of the Bank being replaced, and (viii) such other actions shall be taken by the Borrowers, such Bank and such replacement bank as may be appropriate to effect the replacement of such Bank with such replacement bank on terms such that such replacement bank has all of the rights, duties and obligations hereunder as such Bank (including, without limitation, execution and delivery of new Notes of each Borrower to such replacement bank, redelivery to each Borrower in due course of the Notes of such Borrower payable to such Bank and specification of the information contemplated by Schedule I as to such replacement bank).

Section 2.12. Illegality. Notwithstanding any other provision of this Agreement, if any Bank shall notify the Agent that the introduction of or any change in or in the interpretation of any law or regulation shall make it unlawful, or that any central bank or other governmental authority shall assert that it is unlawful, for any Bank or its Eurodollar Lending Office to perform its obligations hereunder to make, or Convert a Base Rate Advance into, a Eurodollar Rate Advance or to continue to fund or maintain any Eurodollar Rate Advance, then, on notice thereof to the Borrowers by the Agent, (i) the obligation of each of the Banks to make, or to Convert Advances into, Eurodollar Rate Advances shall be suspended until the Agent, at the request of the Majority Banks, shall notify the Borrowers and the Banks that the circumstances causing such suspension no longer exist, and (ii) the Borrowers shall forthwith prepay in full all Eurodollar Rate Advances of all Banks then outstanding together with all accrued interest thereon and all amounts payable pursuant to Section 8.04(b), unless each Bank shall determine in good faith in its sole opinion that it is lawful to maintain the Eurodollar Rate Advances made by such Bank to the end of the respective Interest Periods then applicable thereto or unless the Borrower, within five Business Days of notice from the Agent, Converts all Eurodollar Rate Advances of all Banks then outstanding into Base Rate Advances in accordance with Section 2.19.

Section 2.13. Payments and Computations.

(a) Each Borrower shall make each payment hereunder and under the Notes to be made by it not later than 11:00 A.M. (New York City time) on the day when due in U.S. dollars to the Agent at its New York address referred to in Section 8.02 in same day funds. The Agent will promptly thereafter cause to be distributed like funds relating to the payment of principal, interest or commitment fees ratably (other than amounts payable pursuant to Section 2.07, 2.11, 2.14, 2.16 or 8.04(b)) to the Banks for the account of their respective Applicable Lending Offices, and like funds relating to the payment of any other amount payable to any Bank to such Bank for the account of its Applicable Lending Office, in each case to be applied in accordance with the terms of this Agreement. In no event shall any Bank be entitled to share any fee paid to the Agent pursuant to Section 2.03(b), any auction fee paid to the Agent pursuant to Section 2.16(a)(i) or any other fee paid to the Agent, as such.

(b) Each Borrower hereby authorizes each Bank, if and to the extent payment owed to such Bank by such Borrower is not made when due hereunder or under any Note of such Borrower held by such Bank, to charge from time to time against any or all of such Borrower's accounts with such Bank any amount so due.

(c) All computations of interest based on clause (a) or clause (b) of the definition herein of Base Rate and of commitment fees shall be made by the Agent on the basis of a year of 365 or 366 days, as the case may be, and all computations of interest based on the Eurodollar Rate, the Federal Funds Rate or clause (c) of the definition herein of Base Rate shall be made by the Agent, and all computations of interest pursuant to Section 2.07 shall be made by a Bank, on the basis of a year of 360 days, in each case for the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest or commitment fees are payable. Each determination by the Agent (or, in the case of Section 2.07, by a Bank) of an interest rate hereunder shall be conclusive and binding for all purposes, absent manifest error.

(d) Whenever any payment hereunder or under the Notes shall be stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payment of interest or commitment fee, as the case may be; provided, however, if such extension would cause payment of interest on or principal of Eurodollar Rate Advances to be made in the next following calendar month, such payment shall be made on the next preceding Business Day.

(e) Unless the Agent shall have received notice from a Borrower prior to the date on which any payment is due by such Borrower to any Bank hereunder that such Borrower will not make such payment in full, the Agent may assume that such Borrower has made such payment in full to the Agent on such date and the Agent may, in reliance upon such assumption, cause to be distributed to each Bank on such due date an amount equal to the amount then due such Bank. If and to the extent such Borrower shall not have so made such payment in full to the Agent, each Bank shall repay to the Agent forthwith on demand such amount distributed to such Bank together with interest thereon, for each day from the date such amount is distributed to such Bank until the date such Bank repays such amount to the Agent, at the Federal Funds Rate.

Section 2.14. Taxes.

(a) Any and all payments by any Borrower hereunder or under the Notes shall be made, in accordance with Section 2.13, free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings with respect thereto, and all liabilities with respect thereto, excluding in the case of each Bank and the Agent, taxes imposed on its income, and franchise taxes imposed on it, by the jurisdiction under the laws of which such Bank or the Agent (as the case may be) is organized or any political subdivision thereof and, in the case of each Bank, taxes imposed on its income, and franchise taxes imposed on it, by the jurisdiction of such Bank's Applicable Lending Office or any political subdivision thereof (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If any Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under any Note to any Bank or the Agent, (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.14) such Bank or the Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) such Borrower shall make such deductions and (iii) such Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law.

(b) In addition, each Borrower agrees to pay any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies which arise from any payment made by such Borrower hereunder or under the Notes executed by it or from the execution, delivery or registration of, or otherwise with respect to, this Agreement or such Notes (hereinafter referred to as "Other Taxes").

(c) Each Borrower will indemnify each Bank and the Agent for the full amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes imposed by any jurisdiction on amounts payable under this Section 2.14) owed and paid by such Bank or the Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto. This indemnification shall be made within 30 days from the date such Bank or the Agent (as the case may be) makes written demand therefor.

(d) Within 30 days after the date of the payment of Taxes by or at the direction of any Borrower, such Borrower will furnish to the Agent, at its address referred to in Section 8.02, the original or a certified copy of a receipt evidencing payment thereof. Should any Bank or the Agent ever receive any refund, credit or deduction from any taxing authority to which such Bank or the Agent would not be entitled but for the payment by a Borrower of Taxes as required by this Section 2.14 (it being understood that the decision as to whether or not to claim, and if claimed, as to the amount of any such refund, credit or deduction shall be made by such Bank or the Agent, as the case may be, in its sole discretion), such Bank or the Agent, as the case may be, thereupon shall repay to such Borrower an amount with respect to such refund, credit or deduction equal to any net reduction in taxes actually obtained by such Bank or the Agent, as the case may be, and determined by such Bank or the Agent, as the case may be, to be attributable to such refund, credit or deduction.

(e) Without prejudice to the survival of any other agreement of the Borrowers hereunder, the agreements and obligations of the Borrowers contained in this Section 2.14 shall survive the payment in full of principal and interest hereunder and under the Notes.

Section 2.15. Sharing of Payments, Etc. If any Bank shall obtain any payment (whether voluntary or involuntary, or through the exercise of any right of set-off or otherwise) on account of the A Advances made by it (other than pursuant to Section 2.07, 2.11, 2.14 or 8.04(b)) in excess of its ratable share of payments on account of the A Advances obtained by all the Banks, such Bank shall forthwith purchase from the other Banks such participations in the A Advances owed to them as shall be necessary to cause such purchasing Bank to share the excess payment ratably with each of them, provided, however, that if all or any portion of such excess payment is thereafter recovered from such purchasing Bank, such purchase from each Bank shall be rescinded and such Bank shall repay to the purchasing Bank the purchase price to the extent of such Bank's ratable share (according to the proportion of (i) the amount of the participation purchased from such Bank as a result of such excess payment to (ii) the total amount of such excess payment) of such recovery together with an amount equal to such Bank's ratable share (according to the proportion of (i) the amount of such Bank's required repayment to (ii) the total amount so recovered from the purchasing Bank) of any interest or other amount paid or payable by the purchasing Bank in respect of the total amount so recovered. Each Borrower agrees that any Bank so purchasing a participation from another Bank pursuant to this Section 2.15 may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of set-off) with respect to such participation as fully as if such Bank were the direct creditor of such Borrower in the amount of such participation.

Section 2.16. The B Advances.

(a) Each Bank severally agrees that each Borrower may make B Borrowings under this Section 2.16 from time to time on any Business Day during the period from the date hereof until the earlier of (I) the Termination Date or (II) the date occurring 30 days prior to the Stated Termination Date in the manner set forth below; provided that, following the making of each B Borrowing, the aggregate amount of the Advances then outstanding to such Borrower shall not exceed the aggregate amount of the Commitments of the Banks to such Borrower (computed without regard to any B Reduction) and the aggregate amount of all Advances then outstanding shall not exceed the aggregate amount of the Commitments of the Banks to TWC (computed without regard to any B Reduction).

(i) A Borrower may request a B Borrowing under this Section 2.16 by delivering to the Agent, by telecopier, telex or cable, confirmed immediately in writing, a notice of a B Borrowing (a "Notice of B Borrowing"), in substantially the form of Exhibit B-2 hereto, specifying the date and aggregate amount of the proposed B Borrowing, the maturity date for repayment of each B Advance to be made as part of such B Borrowing (which maturity date may not be earlier than the date occurring 14 days after the date of such B Borrowing or later than the earlier of (x) 6 months after the date of such B Borrowing or (y) the Stated Termination Date), the interest payment date or dates relating thereto, and any other terms to be applicable to such B Borrowing (including, without limitation, the basis to be used by the Banks in determining the rate or rates of interest to be offered by them as provided in paragraph (ii) below and prepayment terms, if any, but excluding any waiver or other modification to any of the conditions set forth in Article III), not later than 10:00 A.M. (New York City time) (A) at least one Business Day prior to the date of the proposed B Borrowing, if such Borrower shall specify in the Notice of B Borrowing that the rates of interest to be offered by the Banks shall be fixed rates per annum and (B) at least five Business Days prior to the date of the proposed B Borrowing, if the Borrower shall instead specify in the Notice of B Borrowing the basis to be used by the Banks in determining the rates of interest to be offered by them. The Agent shall in turn promptly notify each Bank of each request for a B Borrowing received by it from a Borrower by sending such Bank a copy of the related Notice of B Borrowing. Each time that a Borrower gives a Notice of B Borrowing, such Borrower shall pay to the Agent an auction fee equal to \$2000.

(ii) Each Bank may, if in its sole discretion it elects to do so, irrevocably offer to make one or more B Advances to a Borrower as part of such proposed B Borrowing at a rate or rates of interest specified by such Bank in its sole discretion, by notifying the Agent (which shall give prompt notice thereof to such Borrower), before 10:00 A.M. (New York City time) (x) on the date of such proposed B Borrowing, in the case of a Notice of B Borrowing delivered pursuant to clause (A) of paragraph (i) above, and (y) three Business Days before the date of such proposed B Borrowing in the case of a Notice of B Borrowing delivered pursuant to clause (B) of paragraph (i) above, of the minimum amount and maximum amount of each B Advance which such Bank would be willing to make as part of such proposed B Borrowing (which amounts may, subject to the proviso to the first sentence of this Section 2.16(a), exceed such Bank's Commitment to such Borrower), the rate or rates of interest therefor and such Bank's Applicable Lending Office with respect to such B Advance; provided that if the Agent in its capacity as a Bank shall, in its sole

discretion, elect to make any such offer, it shall notify such Borrower of such offer before 9:45 A.M. (New York City time) on the date on which notice of such election is to be given to the Agent by the other Banks. If any Bank shall elect not to make such an offer, such Bank shall so notify the Agent, before 10:00 A.M. (New York City time) on the date on which notice of such election is to be given to the Agent by the other Banks, and such Bank shall not be obligated to, and shall not, make any B Advance as part of such B Borrowing; provided that the failure by any Bank to give such notice shall not cause such Bank to be obligated to make any B Advance as part of such proposed B Borrowing.

(iii) The Borrower requesting such proposed B Borrowing shall, in turn, before 11:00 A.M. (New York City time) (x) on the date of such proposed B Borrowing in the case of a Notice of B Borrowing delivered pursuant to clause (A) of paragraph (i) above and (y) three Business Days before the date of such proposed B Borrowing in the case of a Notice of B Borrowing delivered pursuant to clause (B) of paragraph (i) above, either

(A) cancel such B Borrowing by giving the Agent notice to that effect, or

(B) accept one or more of the offers made by any Bank or Banks pursuant to paragraph (ii) above, in order of the lowest to highest rates of interest or margins (or, if two or more Banks bid at the same rates of interest, and the amount of accepted offers is less than the aggregate amount of such offers, the amount to be borrowed from such Banks as part of such B Borrowing shall be allocated among such Banks pro rata on the basis of the maximum amount offered by such Banks at such rates or margin in connection with such B Borrowing), in any aggregate amount up to the aggregate amount initially requested by the Borrower in the relevant Notice of B Borrowing, by giving notice to the Agent of the amount of each B Advance (which amount shall be equal to or greater than the minimum amount, and equal to or less than the maximum amount, notified to such Borrower by the Agent on behalf of such Bank for such B Advance pursuant to paragraph (ii) above) to be made by each Bank as part of such B Borrowing, and reject any remaining offers made by Banks pursuant to paragraph (ii) above by giving the Agent notice to that effect.

(iv) If the Borrower requesting such B Borrowing notifies the Agent that such B Borrowing is cancelled pursuant to paragraph (iii)(A) above, the Agent shall give prompt notice thereof to the Banks and such B Borrowing shall not be made.

(v) If the Borrower requesting such B Borrowing accepts one or more of the offers made by any Bank or Banks pursuant to paragraph (iii)(B) above, the Agent shall in turn promptly notify (A) each Bank that has made an offer as described in paragraph (ii) above, of the date and aggregate amount of such B Borrowing and whether or not any offer or offers made by such Bank pursuant to paragraph (ii) above have been accepted by such Borrower, (B) each Bank that is to make a B Advance as part of such B Borrowing, of the amount of each B Advance to be made by such Bank as part of such B Borrowing, and (C) each Bank that is to make a B Advance as part of such B Borrowing, upon receipt, that the Agent has received forms of documents appearing to fulfill the applicable conditions set forth in Article III. Each Bank that is to make a B Advance as part of such B Borrowing

shall, before 12:00 noon (New York City time) on the date of such B Borrowing specified in the notice received from the Agent pursuant to clause (A) of the preceding sentence or any later time when such Bank shall have received notice from the Agent pursuant to clause (C) of the preceding sentence, make available for the account of its Applicable Lending Office to the Agent at its New York address referred to in Section 8.02 such Bank's portion of such B Borrowing, in same day funds. Upon fulfillment of the applicable conditions set forth in Article III and after receipt by the Agent of such funds, the Agent will make such funds available to such Borrower at the Agent's aforesaid address. Promptly after each B Borrowing the Agent will notify each Bank of the amount of the B Borrowing, the Borrower to which such B Borrowing was made, the consequent B Reduction and the dates upon which such B Reduction commenced and will terminate.

(b) Each B Borrowing shall be in an aggregate amount of not less than \$5,000,000 or an integral multiple of \$1,000,000 in excess thereof. Each Borrower agrees that it will not request a B Borrowing unless, upon the making of such B Borrowing, the limitations set forth in the proviso to the first sentence of Section 2.16(a) are complied with.

(c) Within the limits and on the conditions set forth in this Section 2.16, each Borrower may from time to time borrow under this Section 2.16, repay or prepay pursuant to subsection (d) below, and reborrow under this Section 2.16, provided that a B Borrowing shall not be made by any Borrower within three Business Days of the date of another B Borrowing to such Borrower.

(d) Each Borrower shall repay to the Agent for the account of each Bank which has made a B Advance to such Borrower, or each other holder of a B Note of such Borrower, on the maturity date of each B Advance made to such Borrower (such maturity date being that specified by such Borrower for repayment of such B Advance in the related Notice of B Borrowing delivered pursuant to subsection (a)(i) above and provided in the B Note evidencing such B Advance) the then unpaid principal amount of such B Advance. No Borrower shall have any right to prepay any principal amount of any B Advance unless, and then only on the terms, specified by such Borrower for such B Advance in the related Notice of B Borrowing delivered pursuant to subsection (a)(i) above and set forth in the B Note evidencing such B Advance.

(e) Each Borrower shall pay interest on the unpaid principal amount of each B Advance made to such Borrower from the date of such B Advance to the date the principal amount of such B Advance is repaid in full, at the rate of interest for such B Advance specified by the Bank making such B Advance in its notice with respect thereto delivered pursuant to subsection (a)(ii) above, payable on the interest payment date or dates specified by such Borrower for such B Advance in the related Notice of B Borrowing delivered pursuant to subsection (a)(i) above, as provided in the B Note evidencing such B Advance.

(f) The indebtedness of each Borrower resulting from each B Advance made to such Borrower as part of a B Borrowing shall be evidenced by a separate B Note of such Borrower payable to the order of the Bank making such B Advance.

(g) The failure of any Bank to make the B Advance to be made by it as part of any B Borrowing shall not relieve any other Bank of its obligation, if any, hereunder to make its B Advance on the date of such B Borrowing, but no Bank shall be responsible for the failure of any other Bank to make the B Advance to be made by such other Bank on the date of any B Borrowing.

Section 2.17. Optional Termination. Notwithstanding anything to the contrary in this Agreement, if (ix) any Person (other than a trustee or other fiduciary holding securities under an employee benefit plan of TWC or of any Subsidiary of TWC) or two or more Persons acting in concert (other than any group of employees of TWC or of any of its Subsidiaries) shall have acquired beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934), directly or indirectly, of securities of TWC (or other securities convertible into such securities) representing 20% or more of the combined voting power of all securities of TWC entitled to vote in the election of directors, other than securities having such power only by reason of the happening of a contingency, or (x) during any period of up to 24 consecutive months, commencing before or after the date of this Agreement, individuals who at the beginning of such 24-month period were directors of TWC or who were elected by individuals who at the beginning of such period were such directors or by individuals elected in accordance with this clause (ii) shall cease for any reason to constitute a majority of the board of directors of TWC, or (xi) any Person (other than TWC or a Wholly-Owned Subsidiary of TWC) or two or more Persons acting in concert shall have acquired by contract or otherwise, or shall have entered into a contract or arrangement which upon consummation will result in its or their acquisition of, the power to exercise, directly or indirectly, a controlling influence over the management or policies of any Borrower; then the Agent shall at the request, or may with the consent, of the holders of at least 66-2/3% in principal amount of the A Notes then outstanding or, if no A Notes are then outstanding, Banks having at least 66-2/3% of the Commitments, by notice to the Borrowers, declare all of the Commitments and the obligation of each Bank to make Advances to be terminated, whereupon all of the Commitments and each such obligation shall forthwith terminate, and no Borrower shall have any further right to borrow hereunder.

Section 2.18. Extension of Termination Date. By notice given to the Agent and the Banks, at least thirty days but not more than forty-five days before October 1 of any year after 1999, the Borrowers may request the Banks to extend the Stated Termination Date for an additional year to a date which is an anniversary date of the Stated Termination Date. Within thirty days after receipt of such request, each Bank that agrees, in its sole and absolute discretion, to so extend the Stated Termination Date shall notify the Borrowers and the Agent that it so agrees, and if all Banks so agree the Stated Termination Date shall be so extended.

Section 2.19. Voluntary Conversion of Advances. Any Borrower may on any Business Day, if no Event of Default then exists as to such Borrower, upon notice (which shall be irrevocable) given to the Agent not later than 11:00 A.M. (x) in the case of a proposed Conversion into Eurodollar Rate Advances, on the third Business Day prior to the date of the proposed conversion, and (y) in the case of a proposed Conversion into Base Rate Advances, on the date of the proposed Conversion, and subject to the provisions of Sections 2.02 and 2.12, Convert all Advances of one Type comprising the same A Borrowing into Advances of the other Type; provided that (i) no Conversion of any Eurodollar Rate Advances shall occur on a day other than the last day of an Interest Period for such Eurodollar Rate Advances, except as contemplated by Section 2.12, and (ii) Advances may not be Converted into Eurodollar Rate Advances if the aggregate unpaid

principal amount of the Advances is less than \$20,000,000. Each such notice of a Conversion shall, within the restrictions specified above, specify (i) the date of such Conversion, (ii) the A Advances to be Converted, and (iii) if such Conversion is into Eurodollar Rate Advances, the duration of the Interest Period for each such Advance.

Section 2.20. Automatic Provisions.

(a) If any Borrower shall fail to select the duration of any Interest Period for Eurodollar Rate Advances in accordance with the provisions contained in the definition of "Interest Period" in Section 1.01, the Agent will forthwith so notify such Borrower and the Lenders, and such Advances will automatically, on the last day of the then existing Interest Period therefor, Convert into Base Rate Advances.

(b) On the date on which the aggregate unpaid principal amount of the Eurodollar Rate Advances of any Borrower shall be reduced to less than \$20,000,000, all of such Eurodollar Rate Advances shall automatically Convert into Base Rate Advances.

ARTICLE III

CONDITIONS

Section 3.01. Conditions Precedent to Initial Advances. The obligation of each Bank to make its initial Advance on or after the date hereof is subject to the condition precedent that the Agent shall have received on or before the date hereof, each dated on or before such date, in form and substance satisfactory to the Agent and (except for the Notes) in sufficient copies for each Bank:

(a) The A Notes executed severally by each of the respective Borrowers to the order of each of the respective Banks and this Agreement executed by the Borrowers.

(b) Certified copies of the resolutions of the Board of Directors, or the Executive Committee thereof, of each Borrower authorizing the execution of this Agreement and the Notes to be executed by such Borrower.

(c) A certificate of the Secretary or an Assistant Secretary of each Borrower certifying (i) all changes, if any, that have been made to the Certificate of Incorporation or Bylaws of such Borrower on or after June 15, 1995, and (ii) the names and true signatures of the officers of such Borrower authorized to sign this Agreement, Notices of A Borrowing, Notices of B Borrowing and the Notes to be executed by such Borrower and any other documents to be delivered hereunder by such Borrower.

(d) An opinion of William G. von Glahn, General Counsel of TWC, substantially in the form of Exhibit C hereto and as to such other matters as any Bank through the Agent may reasonably request.

(e) An opinion of Bracewell & Patterson, L.L.P., special counsel to the Agent, substantially in the form of Exhibit D hereto.

(f) A certificate of an officer of each Borrower (other than WPL) stating the respective ratings by each of S&P and Moody's of the senior unsecured long-term debt of such Borrower as in effect on the date of this Agreement and a certificate of an officer of WPL stating (and showing the calculation of) the WPL Debt to TNW Ratio as of September 30, 1996.

Section 3.02. Additional Conditions Precedent to Each A Borrowing. The obligation of each Bank to make an A Advance to a Borrower on the occasion of any A Borrowing (including the initial A Borrowing) shall be subject to the further conditions precedent that on the date of such A Borrowing (a) the following statements shall be true (and each of the giving of the applicable Notice of A Borrowing and the acceptance by such Borrower of the proceeds of such A Borrowing shall constitute a representation and warranty by such Borrower that on the date of such A Borrowing such statements are true):

(i) The representations and warranties contained in Section 4.01 pertaining to such Borrower and its Subsidiaries are correct on and as of the date of such A Borrowing, before and after giving effect to such A Borrowing and to the application of the proceeds therefrom, as though made on and as of such date,

(ii) No event has occurred and is continuing, or would result from such A Borrowing or from the application of the proceeds therefrom, which constitutes an Event of Default or which would constitute an Event of Default but for the requirement that notice be given or time elapse or both, and

(iii) After giving effect to such A Borrowing and all other Borrowings which have been requested on or prior to such date but which have not been made prior to such date, the aggregate principal amount of all Advances will not exceed the aggregate of the Commitments of the Banks to TWC (computed without regard to any B Reduction);

and (b) the Agent shall have received such other approvals, opinions or documents as any Bank through the Agent may reasonably request.

Section 3.03. Conditions Precedent to Each B Borrowing. The obligation of each Bank which is to make a B Advance to a Borrower on the occasion of a B Borrowing (including the initial B Borrowing) to make such B Advance as part of such B Borrowing is subject to the further conditions precedent that (i) at or before the time required by paragraph (iii) of Section 2.16(a), the Agent shall have received the written confirmatory notice of such B Borrowing contemplated by such paragraph, (ii) on or before the date of such B Borrowing, but prior to such B Borrowing, the Agent shall have received a B Note executed by such Borrower payable to the order of such Bank for each of the one or more B Advances to be made by such Bank as part of such B Borrowing, in a principal amount equal to the principal amount of the B Advance to be evidenced thereby and otherwise on such terms as were agreed to for such B Advance in accordance with Section 2.16, and (iii) on the date of such B Borrowing (a) the following statements shall be true (and each of the giving of the applicable Notice of B Borrowing and the acceptance by such Borrower of the proceeds of such B Borrowing shall constitute a representation and warranty by such Borrower that on the date of such B Borrowing such statements are true):

(1) The representations and warranties contained in Section 4.01 pertaining to such Borrower and its Subsidiaries are correct on and as of the date of such B Borrowing, before and after giving effect to such B Borrowing and to the application of the proceeds therefrom, as though made on and as of such date,

(2) No event has occurred and is continuing, or would result from such B Borrowing or from the application of the proceeds therefrom, which constitutes an Event of Default or which would constitute an Event of Default but for the requirement that notice be given or time elapse or both,

(3) Following the making of such B Borrowing and all other Borrowings to be made on the same day to such Borrower under this Agreement, the aggregate principal amount of all Advances to such Borrower then outstanding will not exceed the aggregate amount of the Commitments to such Borrower (computed without regard to any B Reduction), and

(4) After giving effect to such B Borrowing and all other Borrowings which have been requested on or prior to such date but which have not been made prior to such date, the aggregate principal amount of all Advances will not exceed the aggregate of the Commitments of the Banks to TWC (computed without regard to any B Reduction);

and (b) the Agent shall have received such other approvals, opinions or documents as any Bank through the Agent may reasonably request.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

Section 4.01. Representations and Warranties of the Borrowers. Each Borrower represents and warrants as to itself and its Subsidiaries as follows:

(a) Each Borrower is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all corporate powers and all governmental licenses, authorizations, certificates, consents and approvals required to carry on its business as now conducted in all material respects, except for those licenses, authorizations, certificates, consents and approvals the failure to have which could not reasonably be expected to have a material adverse effect on the business, assets, condition or operation of such Borrower and its Subsidiaries taken as a whole. Each Subsidiary of each Borrower is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation, except where the failure to be so organized, existing and in good standing could not reasonably be expected to have a material adverse effect on the business, assets, condition or operations of such Borrower and its Subsidiaries taken as a whole. Each Subsidiary of a Borrower has all corporate powers and all governmental licenses, authorizations, certificates, consents and approvals required to carry on its business as now conducted in all material respects, except for those licenses, authorizations, certificates, consents and approvals the failure to have which could not reasonably be expected to have a material adverse effect on the business, assets, condition or operation of such Borrower and its Subsidiaries taken as a whole.

(b) The execution, delivery and performance by each Borrower of this Agreement and the Notes and the consummation of the transactions contemplated by this Agreement are within such Borrower's corporate powers, have been duly authorized by all necessary corporate action, do not contravene (i) such Borrower's charter or by-laws or (ii) law or any contractual restriction binding on or affecting such Borrower and will not result in or require the creation or imposition of any Lien prohibited by this Agreement. At the time of each borrowing of any Advance by a Borrower, such borrowing and the use of the proceeds of such Advance will be within such Borrower's corporate powers, will have been duly authorized by all necessary corporate action, will not contravene (i) such Borrower's charter or by-laws or (ii) law or any contractual restriction binding on or affecting such Borrower and will not result in or require the creation or imposition of any Lien prohibited by this Agreement.

(c) No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required for the due execution, delivery and performance by any Borrower of this Agreement or the Notes or the consummation of the transactions contemplated by this Agreement. At the time of each borrowing of any Advance by a Borrower, no authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body will be required for such borrowing or the use of the proceeds of such Advance.

(d) This Agreement has been duly executed and delivered by each Borrower. This Agreement is the legal, valid and binding obligation of each Borrower enforceable against each Borrower in accordance with its terms, except as such enforceability may be limited by any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditors' rights generally and by general principles of equity. The A Notes of each Borrower are, and when executed the B Notes of such Borrower will be, the legal, valid and binding obligations of such Borrower enforceable against such Borrower in accordance with their respective terms, except as such enforceability may be limited by any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditors' rights generally and by general principles of equity.

(e) (i) The Consolidated and consolidating balance sheets of TWC and its Subsidiaries as at December 31, 1995, and the related Consolidated and consolidating statements of income and cash flows of TWC and its Subsidiaries for the fiscal year then ended, copies of which have been furnished to each Bank, and the Consolidated and consolidating balance sheets of TWC and its Subsidiaries as at September 30, 1996 and the related Consolidated and consolidating statements of income and cash flows of TWC and its Subsidiaries for the nine months then ended, duly certified by an authorized financial officer of TWC, copies of which have been furnished to each Bank, fairly present, subject, in the case of such balance sheets as at September 30, 1996 and such statements of income and cash flows for the nine months then ended, to year-end audit adjustments, the Consolidated and consolidating financial condition of TWC and its Subsidiaries as at such dates and the Consolidated and consolidating results of operations of TWC and its Subsidiaries for the year and nine month period, respectively, ended on such dates, all in accordance with generally accepted accounting principles consistently applied. Since September 30, 1996, there has been no material adverse change in the condition or operations of TWC or its Subsidiaries.

(ii) The consolidating balance sheets of TWC and its Subsidiaries as at December 31, 1995 and September 30, 1996 referred to in Section 4.01(e)(i), and the related consolidating statements of income and cash flows of TWC and its Subsidiaries for the fiscal year and nine months, respectively, then ended referred to in Section 4.01(e)(i), to the extent such balance sheets and statements pertain to NWP, fairly present (subject, in the case of such balance sheet as at September 30, 1996 and such statements of income and cash flows for the nine months then ended, to year-end audit adjustments) the Consolidated financial condition of NWP and its Subsidiaries as at such dates and the Consolidated results of operations of NWP and its Subsidiaries for the year and nine month period, respectively, ended on such dates, all in accordance with generally accepted accounting principles consistently applied. Since September 30, 1996, there has been no material adverse change in the condition or operations of NWP or its Subsidiaries.

(iii) The Consolidated balance sheet of WPL and its Subsidiaries as at December 31, 1995, and the related Consolidated statement of income and cash flows of WPL and its Subsidiaries for the fiscal year then ended, copies of which have been furnished to each Bank, and the Consolidated balance sheet of WPL and its Subsidiaries as at September 30, 1996 and the related Consolidated statement of income and cash flows of WPL and its Subsidiaries for the nine months then ended, duly certified by an authorized financial officer of WPL, copies of which have been furnished to each Bank, fairly present, subject, in the case of such balance sheet as at September 30, 1996 and such statement of income and cash flows for the nine months then ended, to year-end audit adjustments, the Consolidated financial condition of WPL and its Subsidiaries as at such dates and the Consolidated results of operations of WPL and its Subsidiaries for the year and nine month period, respectively, ended on such dates, all in accordance with generally accepted accounting principles consistently applied. Since September 30, 1996, there has been no material adverse change in the condition or operations of WPL or its Subsidiaries.

(iv) The Consolidated balance sheet of TGPL and its Subsidiaries as at December 31, 1995, and the related Consolidated statement of income and cash flows of TGPL and its Subsidiaries for the fiscal year then ended, copies of which have been furnished to each Bank, and the Consolidated balance sheet of TGPL and its Subsidiaries as at September 30, 1996 and the related Consolidated statement of income and cash flows of TGPL and its Subsidiaries for the nine months then ended, duly certified by an authorized financial officer of TGPL, copies of which have been furnished to each Bank, fairly present, subject, in the case of such balance sheet as at September 30, 1996 and such statement of income and cash flows for the nine months then ended, to year-end audit adjustments, the Consolidated financial condition of TGPL and its Subsidiaries as at such dates and the Consolidated results of operations of TGPL and its Subsidiaries for the year and nine month period, respectively, ended on such dates, all in accordance with generally accepted accounting principles consistently applied. Since September 30, 1996, there has been no material adverse change in the condition or operations of TGPL or its Subsidiaries.

(v) The Consolidated balance sheet of TGT and its Subsidiaries as at December 31, 1995, and the related Consolidated statement of income and cash flows of TGT and its Subsidiaries for the fiscal year then ended, copies of which have been furnished to each Bank, and the Consolidated balance sheet of TGT and its Subsidiaries as at September 30, 1996, and the related Consolidated statement of income and cash flows of

TGT and its Subsidiaries for the nine months then ended, duly certified by an authorized financial officer of TGT, copies of which have been furnished to each Bank, fairly present, subject, in the case of such balance sheet as at September 30, 1996 and such statement of income and cash flows for the nine months then ended, to year-end audit adjustments, the Consolidated financial condition of TGT and its Subsidiaries as at such dates and the Consolidated results of operations of TGT and its Subsidiaries for the year and nine month period, respectively, ended on such dates, all in accordance with generally accepted accounting principles consistently applied. Since September 30, 1996, there has been no material adverse change in the condition or operations of TGT or its Subsidiaries.

(vi) The Consolidated balance sheet of WHD and its Subsidiaries as at December 31, 1995, and the related Consolidated statement of income and cash flows of WHD and its Subsidiaries for the fiscal year then ended, copies of which have been furnished to each Bank, and the Consolidated balance sheet of WHD and its Subsidiaries as at September 30, 1996 and the related Consolidated statement of income and cash flows of WHD and its Subsidiaries for the nine months then ended, duly certified by an authorized financial officer of WHD, copies of which have been furnished to each Bank, fairly present, subject, in the case of such balance sheet as at September 30, 1996 and such statement of income and cash flows for the nine months then ended, to year-end audit adjustments, the Consolidated financial condition of WHD and its Subsidiaries as at such dates and the Consolidated results of operations of WHD and its Subsidiaries for the year and nine month period, respectively, ended on such dates, all in accordance with generally accepted accounting principles consistently applied. Since September 30, 1996, there has been no material adverse change in the condition or operations of WHD or its Subsidiaries.

(f) Except as set forth in the Public Filings or as otherwise disclosed in writing by a Borrower to the Banks and the Agent after the date hereof and approved by the Majority Banks, there is, as to each Borrower, no pending or, to the knowledge of such Borrower, threatened action or proceeding affecting such Borrower or any Subsidiary of such Borrower before any court, governmental agency or arbitrator, which could reasonably be expected to materially and adversely affect the financial condition or operations of such Borrower and its Subsidiaries taken as a whole or which purports to affect the legality, validity, binding effect or enforceability of this Agreement or any Note.

(g) No proceeds of any Advance will be used for any purpose or in any manner not permitted by Section 5.02(k).

(h) No Borrower is engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation U issued by the Board of Governors of the Federal Reserve System), and no proceeds of any Advance will be used to purchase or carry any such margin stock (other than purchases of common stock expressly permitted by Section 5.02(k)) or to extend credit to others for the purpose of purchasing or carrying any such margin stock. Following the application of the proceeds of each Advance, not more than 25% of the value of the assets of any Borrower will be represented by such margin stock and not more than 25% of the value of the assets of any Borrower and its Subsidiaries will be represented by such margin stock.

(i) No Borrower is an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

(j) No Termination Event has occurred or is reasonably expected to occur with respect to any Plan for which an Insufficiency exists. No Borrower nor any ERISA Affiliate of any Borrower has received any notification that any Multiemployer Plan is in reorganization or has been terminated, within the meaning of Title IV of ERISA, and no Borrower is aware of any reason to expect that any Multiemployer Plan is to be in reorganization or to be terminated within the meaning of Title IV of ERISA.

(k) As of the date of this Agreement, the United States federal income tax returns of each Borrower (other than WHD) and the Subsidiaries of each Borrower (other than Subsidiaries not in existence on December 31, 1989) have been examined through the fiscal year ended December 31, 1989. Each Borrower and the Subsidiaries of each Borrower have filed all United States Federal income tax returns and all other material domestic tax returns which are required to be filed by them and have paid, or provided for the payment before the same become delinquent of, all taxes due pursuant to such returns or pursuant to any assessment received by any Borrower or any such Subsidiary, other than those taxes contested in good faith by appropriate proceedings. The charges, accruals and reserves on the books of each Borrower and the Subsidiaries of each Borrower in respect of taxes are adequate.

(l) No Borrower is a "holding company", or a "subsidiary company" of a "holding company", or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company", or a "public utility" within the meaning of the Public Utility Holding Company Act of 1935, as amended.

(m) Except as set forth in the Public Filings or as otherwise disclosed in writing by a Borrower to the Banks and the Agent after the date hereof and approved by the Majority Banks, the Borrowers and their respective Subsidiaries are in compliance in all material respects with all Environmental Protection Statutes to the extent material to their respective operations or financial condition. Except as set forth in the Public Filings or as otherwise disclosed in writing by a Borrower to the Banks and the Agent after the date hereof and approved by the Majority Banks, the aggregate contingent and non-contingent liabilities of each Borrower and its Subsidiaries (other than those reserved for in accordance with generally accepted accounting principles and set forth in the financial statements regarding such Borrower referred to in Section 4.01(e) and delivered to each Bank) which are reasonably expected to arise in connection with (i) the requirements of Environmental Protection Statutes or (ii) any obligation or liability to any Person in connection with any Environmental matters (including, without limitation, any release or threatened release (as such terms are defined in the Comprehensive Environmental Response, Compensation and Liability Act of 1980) of any Hazardous Waste, Hazardous Substance, other waste, petroleum or petroleum products into the Environment) does not exceed 10% of the Consolidated Tangible Net Worth of such Borrower (excluding liabilities to the extent covered by insurance if the insurer has confirmed that such insurance covers such liabilities or which such Borrower reasonably expects to recover from ratepayers).

ARTICLE V

COVENANTS OF THE BORROWERS

Section 5.01. Affirmative Covenants. So long as any Note shall remain unpaid or any Bank shall have any Commitment to any Borrower hereunder, each Borrower will, unless the Majority Banks shall otherwise consent in writing:

(a) Compliance with Laws, Etc. Comply, and cause each of its Subsidiaries to comply, in all material respects with all applicable laws, rules, regulations and orders (except where failure to comply could not reasonably be expected to have a material adverse effect on the business, assets, condition or operations of such Borrower and its Subsidiaries taken as a whole), such compliance to include, without limitation, the payment and discharge before the same become delinquent of all taxes, assessments and governmental charges or levies imposed upon it or any of its Subsidiaries or upon any of its property or any property of any of its Subsidiaries, and all lawful claims which, if unpaid, might become a Lien upon any property of it or any of its Subsidiaries, provided that no Borrower nor any Subsidiary of a Borrower shall be required to pay any such tax, assessment, charge, levy or claim which is being contested in good faith and by proper proceedings and with respect to which reserves in conformity with generally accepted accounting principles, if required by such principles, have been provided on the books of such Borrower or such Subsidiary, as the case may be.

(b) Reporting Requirements. Furnish to each of the

Banks:

(i) as soon as possible and in any event within five days after the occurrence of each Event of Default or each event which, with the giving of notice or lapse of time or both, would constitute an Event of Default, continuing on the date of such statement, a statement of an authorized financial officer of such Borrower setting forth the details of such Event of Default or event and the actions, if any, which such Borrower has taken and proposes to take with respect thereto;

(ii) as soon as available and in any event not later than 60 days after the end of each of the first three quarters of each fiscal year of such Borrower, the Consolidated and, in the case of TWC, consolidating balance sheets of such Borrower and its Subsidiaries as of the end of such quarter and the Consolidated and, in the case of TWC, consolidating statements of income and cash flows of such Borrower and its Subsidiaries for the period commencing at the end of the previous year and ending with the end of such quarter, all in reasonable detail and duly certified (subject to year-end audit adjustments) by an authorized financial officer of such Borrower as having been prepared in accordance with generally accepted accounting principles, together with a certificate of said officer (a) stating that he has no knowledge that an Event of Default, or an event which, with notice or lapse of time or both, would constitute an Event of Default has occurred and is continuing or, if an Event of Default or such an event has occurred and is continuing, a statement as to the nature thereof and the action, if any, which such Borrower proposes to take with respect thereto, and (b) showing in detail the calculation supporting such statement in respect of Section 5.02(b);

(iii) as soon as available and in any event not later than 105 days after the end of each fiscal year of such Borrower, a copy of the annual audit report for such year for such Borrower and its Subsidiaries, including therein Consolidated and, in the case of TWC, consolidating balance sheets of such Borrower and its Subsidiaries as of the end of such fiscal year and Consolidated and, in the case of TWC, consolidating statements of income and cash flows of such Borrower and its Subsidiaries for such fiscal year, in each case prepared in accordance with generally accepted accounting principles and certified by Ernst & Young or other independent certified public accountants of recognized standing acceptable to the Majority Banks, together with a certificate of such accounting firm to the Banks (a) stating that, in the course of the regular audit of the business of such Borrower and its Subsidiaries, which audit was conducted by such accounting firm in accordance with generally accepted auditing standards, such accounting firm has obtained no knowledge that an Event of Default or an event which, with notice or lapse of time or both, would constitute an Event of Default, has occurred and is continuing, or if, in the opinion of such accounting firm, an Event of Default or such an event has occurred and is continuing, a statement as to the nature thereof, and (b) showing in detail the calculations supporting such statement in respect of Section 5.02(b); provided, however, that in the case of NWP the primary audited financial statements required by this Section 5.01(b)(iii) may be presented on a historical cost basis, but such audited financial statements shall include, as additional information, on a push-down basis reflecting the purchase price of NWP paid by TWC, a Consolidated balance sheet, a Consolidated statement of income and a Consolidated cash flow statement of NWP and its Subsidiaries as of the end of and for the relevant fiscal year, all prepared in accordance with generally accepted accounting principles but excluding footnotes for the push-down financial statements;

(iv) such other information respecting the business or properties, or the condition or operations, financial or otherwise, of such Borrower or any of its Subsidiaries as any Bank through the Agent may from time to time reasonably request;

(v) promptly after the sending or filing thereof, copies of all proxy material, reports and other information which such Borrower sends to any of its security holders, and copies of all final reports and final registration statements which such Borrower or any Subsidiary of such Borrower files with the Securities and Exchange Commission or any national securities exchange;

(vi) as soon as possible and in any event (A) within 30 Business Days after such Borrower or any ERISA Affiliate of such Borrower knows or has reason to know that any Termination Event described in clause (i) of the definition of Termination Event with respect to any Plan has occurred and (B) within 30 Business Days after such Borrower or any ERISA Affiliate of such Borrower knows or has reason to know that any other Termination Event with respect to any Plan has occurred or is reasonably expected to occur, a statement of the chief financial officer or chief accounting officer of such Borrower describing such Termination Event and the action, if any, which such Borrower or such ERISA Affiliate of such Borrower proposes to take with respect thereto;

(vii) promptly and in any event within 25 Business Days after receipt thereof by such Borrower or any ERISA Affiliate of such Borrower, copies of each notice received by such Borrower or any ERISA Affiliate of such Borrower from the PBGC stating its intention to terminate any Plan or to have a trustee appointed to administer any Plan;

(viii) within 30 days following request therefor by any Bank, copies of each Schedule B (Actuarial Information) to each annual report (Form 5500 Series) of such Borrower or any ERISA Affiliate of such Borrower with respect to each Plan;

(ix) promptly and in any event within 25 Business Days after receipt thereof by such Borrower or any ERISA Affiliate of such Borrower from the sponsor of a Multiemployer Plan, a copy of each notice received by such Borrower or any ERISA Affiliate of such Borrower concerning (A) the imposition of a Withdrawal Liability by a Multiemployer Plan, (B) the determination that a Multiemployer Plan is, or is expected to be, in reorganization within the meaning of Title IV of ERISA, (C) the termination of a Multiemployer Plan within the meaning of Title IV of ERISA, or (D) the amount of liability incurred, or expected to be incurred, by such Borrower or any ERISA Affiliate of such Borrower in connection with any event described in clause (A), (B) or (C) above;

(x) not more than 45 days (or 90 days in the case of the last fiscal quarter of a fiscal year of such Borrower) after the end of each fiscal quarter of such Borrower, a certificate of an authorized financial officer of such Borrower (a) stating the respective ratings, if any, by each of S&P and Moody's of the senior unsecured long-term debt of such Borrower as of the last day of such quarter, and (b) if such Borrower is WPL, stating (and showing the calculation of) the WPL Debt to TNW Ratio on the last day of such quarter; and

(xi) promptly after any withdrawal or termination of the letter referred to in the second to last sentence of Section 1.05 or any change in the indicated rating set forth therein or any change in, or issuance, withdrawal or termination of, the rating of any senior unsecured long-term debt of such Borrower by S&P or Moody's, notice thereof.

(c) Maintenance of Insurance. Maintain, and cause each of its Subsidiaries to maintain, insurance with responsible and reputable insurance companies or associations in such amounts and covering such risks as is usually carried by companies engaged in similar businesses and owning similar properties in the same general areas in which such Borrower or its Subsidiaries operate, provided that such Borrower or any of its Subsidiaries may self-insure to the extent and in the manner normal for companies of like size, type and financial condition.

(d) Preservation of Corporate Existence, Etc. Preserve and maintain, and cause each of its Subsidiaries to preserve and maintain, its corporate existence, rights, franchises and privileges in the jurisdiction of its incorporation, and qualify and remain qualified, and cause each Subsidiary to qualify and remain qualified, as a foreign corporation in each

jurisdiction in which qualification is necessary or desirable in view of its business and operations or the ownership of its properties, except (1) in the case of any Non-Borrowing Subsidiary of such Borrower, where the failure of such Subsidiary to so preserve, maintain, qualify and remain qualified could not reasonably be expected to have a material adverse effect on the business, assets, condition or operations of such Borrower and its Subsidiaries taken as a whole and (2) in the case of such Borrower, where the failure of such Borrower to preserve and maintain such rights, franchises and privileges and to so qualify and remain qualified could not reasonably be expected to have a material adverse effect on the business, assets, condition or operations of such Borrower and its Subsidiaries taken as a whole.

Section 5.02. Negative Covenants. So long as any Note shall remain unpaid or any Bank shall have any Commitment to any Borrower hereunder, no Borrower will, without the written consent of the Majority Banks:

(a) Liens, Etc. Create, assume, incur or suffer to exist, or permit any of its Subsidiaries to create, assume, incur or suffer to exist, any Lien on or in respect of any of its property, whether now owned or hereafter acquired, or assign or otherwise convey, or permit any such Subsidiary to assign or otherwise convey, any right to receive income, in each case to secure or provide for the payment of any Debt of any Person, except that:

(i) TWC and its Non-Borrowing Subsidiaries which are not Subsidiaries of any other Borrower may create, incur, assume or suffer to exist Permitted TWC Liens;

(ii) WHD and its Non-Borrowing Subsidiaries which are not Subsidiaries of any other Borrower (other than TWC) may create, incur, assume or suffer to exist Permitted WHD Liens;

(iii) NWP and its Non-Borrowing Subsidiaries may create, incur, assume or suffer to exist Permitted NWP Liens;

(iv) TGPL and its Non-Borrowing Subsidiaries may create, incur, assume or suffer to exist Permitted TGPL Liens;

(v) TGT and its Non-Borrowing Subsidiaries may create, incur, assume or suffer to exist Permitted TGT Liens; and

(vi) WPL and its Non-Borrowing Subsidiaries may create, incur, assume or suffer to exist Permitted WPL Liens.

(b) Debt. (i) In the case of TWC, permit the ratio of (A) the aggregate amount of all Debt of TWC and its Subsidiaries on a Consolidated basis to (B) the sum of the Consolidated Net Worth of TWC plus the aggregate amount of all Debt of TWC and its Subsidiaries on a Consolidated basis to exceed 0.65 to 1.0 at any time;

(ii) In the case of WHD, permit the ratio of (A) the aggregate amount of all Debt of WHD and its Subsidiaries on a Consolidated basis to (B) the sum of the Consolidated Net

Worth of WHD plus the aggregate amount of all Debt of WHD and its Subsidiaries on a Consolidated basis to exceed 0.55 to 1.0 at any time; and

(iii) In the case of any Borrower (other than TWC and WHD), permit the ratio of (A) the aggregate amount of all Debt of such Borrower and its Subsidiaries on a Consolidated basis to (B) the sum of the Consolidated Net Worth of such Borrower plus the aggregate amount of all Debt of such Borrower and its Subsidiaries on a Consolidated basis to exceed 0.60 to 1.0 at any time.

(c) Merger and Sale of Assets. Merge or consolidate with or into any other Person, or sell, lease or otherwise transfer all or substantially all of its assets, or permit any of its Subsidiaries (except immaterial Subsidiaries (other than WNG and WFS) that are not Borrowers) to merge or consolidate with or into any other Person, or sell, lease or otherwise transfer all or substantially all of its assets, except that this Section 5.02(c) shall not prohibit:

(i) any Borrower and its Subsidiaries from selling, leasing or otherwise transferring their respective assets in the ordinary course of business;

(ii) if, but only if, (x) there shall not exist or result an Event of Default or an event which with notice or lapse of time or both would constitute an Event of Default and (y) in the case of each transaction referred to in this paragraph (ii) involving any Borrower or any of its Subsidiaries, such transaction could not reasonably be expected to impair materially the ability of such Borrower to perform its obligations hereunder and under the Notes and such Borrower shall continue to exist, any merger, consolidation or sale, lease or other transfer of assets that does not involve any Person other than TWC and its Subsidiaries;

(iii) if, but only if, there shall not exist or result an Event of Default or an event which with notice or lapse of time or both would constitute an Event of Default, any Borrower and its Subsidiaries from selling, leasing or otherwise transferring their respective gathering assets and other production area facilities, or the stock of any Person substantially all of the assets of which are gathering assets and other production area facilities, to TWC or to any Subsidiary of TWC for consideration that is not materially less than the net book value of such assets and facilities;

(iv) any sale and lease-back of cushion gas by any Borrower or any of its Subsidiaries or any sale and lease-back of inventory by WPL or any of its Subsidiaries (other than another Borrower);

(v) sales of receivables of any kind; or

(vi) if, but only if, there shall not exist or result an Event of Default or an event which with notice or lapse of time or both would constitute an Event of Default, any sale, lease or other transfer of any stock or assets of Transco Energy Company and its Subsidiaries so long as prior to the time of such sale, lease or other transfer Transco Energy Company and its Subsidiaries shall have transferred to

TWC all of their respective interests in TGPL and TGT and shall not have reacquired any such interest.

(d) Agreements to Restrict Dividends and Certain Transfers. Enter into or suffer to exist, or permit any of its Subsidiaries to enter into or suffer to exist, any consensual encumbrance or restriction on the ability of any Subsidiary of TWC (iii) to pay, directly or indirectly, dividends or make any other distributions in respect of its capital stock or pay any Debt or other obligation owed to TWC or to any Subsidiary of TWC; or (iv) to make loans or advances to TWC or any Subsidiary of TWC, except (1) encumbrances and restrictions on any immaterial Non-Borrowing Subsidiary of TWC (other than WNG and WFS), (2) those encumbrances and restrictions existing on the date hereof and described in Exhibit E, (3) other encumbrances and restrictions now or hereafter existing of any Borrower or any of its Subsidiaries that are not more restrictive in any material respect than the encumbrances and restrictions with respect to such Borrower or its Subsidiaries described in Exhibit E, and (4) any encumbrances and restrictions created in connection with any sale and lease-back of cushion gas by any Borrower or any Subsidiary of any Borrower or any sale and lease-back of inventory by WPL or any of its Subsidiaries (other than another Borrower).

(e) Loans and Advances. Borrow or otherwise receive any loan or advance from TWC, and TWC will not make or permit to remain outstanding any loan or advance to, or own, purchase or acquire any obligations or debt securities of, any Subsidiary of TWC, except that TWC may make and permit to remain outstanding loans and advances to its Subsidiaries (and such Subsidiaries may borrow or otherwise receive such loans and advances) if each such loan or advance (excluding loans and advances to a Subsidiary of TWC if the aggregate principal amount of all such excluded loans and advances to such Subsidiary does not exceed \$100,000) is evidenced by a written instrument duly executed by the Subsidiary of TWC to which such loan or advance is made, bears interest at TWC's or such Subsidiary's market rate of interest and matures on or before the Termination Date.

(f) Maintenance of Ownership of Certain Subsidiaries. Sell, issue or otherwise dispose of, or create, assume, incur or suffer to exist any Lien on or in respect of, or permit any of its Subsidiaries to sell, issue or otherwise dispose of or create, assume, incur or suffer to exist any Lien on or in respect of, any shares of or any interest in any shares of the capital stock of (1) WHD, WNG, WFS, WPL, TGPL, TGT or NWP or any of their respective material Subsidiaries or (2) any Subsidiary of TWC at the time it owns any shares of or any interest in any shares of the capital stock of WHD, WNG, WFS, WPL, TGPL, TGT or NWP or any of their respective material Subsidiaries; provided, however, that if, but only if, (x) there shall not exist or result an Event of Default or an event which with notice or lapse of time or both would constitute an Event of Default and (y) in the case of each sale or other disposition referred to in this proviso involving any Borrower or any of its Subsidiaries, such sale or other disposition could not reasonably be expected to impair materially the ability of such Borrower to perform its obligations hereunder and under the Notes and such Borrower shall continue to exist, this Section 5.02(f) shall not prohibit the sale or other disposition of the stock of any Subsidiary of TWC to TWC or any Wholly-Owned Subsidiary of TWC.

(g) Compliance with ERISA. (i) Terminate, or permit any ERISA Affiliate of such Borrower to terminate, any Plan so as to result in any liability of such Borrower or any such ERISA Affiliate to the PBGC in excess of \$5,000,000, or (ii) permit to exist any occurrence of any Termination Event with respect to a Plan for which there is an Insufficiency in excess of \$5,000,000.

(h) Transactions with Related Parties. Make any sale to, make any purchase from, extend credit to, make payment for services rendered by, or enter into any other transaction with, or permit any Subsidiary of such Borrower to make any sale to, make any purchase from, extend credit to, make payment for services rendered by, or enter into any other transaction with, any Related Party of such Borrower or of such Subsidiary unless as a whole such sales, purchases, extensions of credit, rendition of services and other transactions are (at the time such sale, purchase, extension of credit, rendition of services or other transaction is entered into) on terms and conditions reasonably fair in all material respects to such Borrower or such Subsidiary in the good faith judgment of such Borrower.

(i) Guarantees. Guarantee or otherwise become contingently liable for, or permit any of its Subsidiaries to guarantee or otherwise become contingently liable for, Debt of any Subsidiary of TWC (other than Williams Energy Company and its Subsidiaries which are not Borrowers) while an Event of Default is continuing.

(j) Sale and Lease-Back Transactions. Enter into, or permit any of its Subsidiaries to enter into, any Sale and Lease-Back Transaction, if after giving effect thereto such Borrower would not be permitted to incur at least \$1.00 of additional Debt secured by a Lien permitted by (i) paragraph (z) of Schedule III in the case of NWP and its Subsidiaries, (ii) paragraph (z) of Schedule VI in the case of TWC and its Non-Borrowing Subsidiaries which are not Subsidiaries of any other Borrower, (iii) paragraph (z) of Schedule IV in the case of TGPL and its Subsidiaries, (iv) paragraph (z) of Schedule V in the case of TGT and its Subsidiaries, (v) paragraph (i) of Schedule VII in the case of WPL and its Subsidiaries and (vi) paragraph (z) of Schedule VIII in the case of WHD and its Subsidiaries.

(k) Use of Proceeds. Use any proceeds of any Advance for any purpose other than general corporate purposes (including, without limitation, repurchases by TWC of its capital stock, working capital and capital expenditures) or use any such proceeds in any manner which violates or results in a violation of law; provided, however that no proceeds of any Advance will be used to acquire any equity security of a class which is registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended, (other than any purchase of common stock of any corporation, if such purchase is not subject to Sections 13 and 14 of the Securities Exchange Act of 1934 and is not opposed, resisted or recommended against by such corporation or its management or directors, provided that the aggregate amount of common stock of any corporation (other than Apco Argentina Inc., a Cayman Islands corporation) purchased during any calendar year shall not exceed 1% of the common stock of such corporation issued and outstanding at the time of such purchase) or in any manner which contravenes law, and no proceeds of any Advance will be used to purchase or carry any margin stock (within the meaning of Regulation G or Regulation U issued by

the Board of Governors of the Federal Reserve System), except purchases by TWC of its capital stock if, after giving effect thereto, none of the Advances would constitute purpose credit within the meaning of such Regulation U or purpose credit within the meaning of such Regulation G.

ARTICLE VI

EVENTS OF DEFAULT

Section 6.01. Events of Default. If any of the following events ("Events of Default") shall occur and be continuing:

- (a) Any Borrower shall fail to pay any principal of any Note executed by it when the same becomes due and payable, or shall fail to pay any interest on any such Note or any fee or other amount to be paid by it hereunder within ten days after the same becomes due and payable; or
- (b) Any certification, representation or warranty made by any Borrower herein or by any Borrower (or any officer of any Borrower) in writing under or in connection with any Note or this Agreement (including, without limitation, representations and warranties deemed made pursuant to Section 3.02 or 3.03) shall prove to have been incorrect in any material respect when made or deemed made; or
- (c) Any Borrower shall fail to perform or observe (i) any term, covenant or agreement contained in Section 5.01(b) on its part to be performed or observed and such failure shall continue for five Business Days after the earlier of the date notice thereof shall have been given to such Borrower by the Agent or any Bank or the date such Borrower shall have knowledge of such failure, or (ii) any term, covenant or agreement contained in this Agreement (other than a term, covenant or agreement contained in Section 5.01(b)) or any Note on its part to be performed or observed; or
- (d) Any Borrower or any Subsidiary of any Borrower shall fail to pay any principal of or premium or interest on any Debt which is outstanding in a principal amount of at least \$20,000,000 in the aggregate (excluding Debt evidenced by the Notes) of such Borrower or such Subsidiary (as the case may be), when the same becomes due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Debt; or any other event shall occur or condition shall exist under any agreement or instrument relating to any such Debt and shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such event or condition is to accelerate, or to permit the acceleration of, the maturity of such Debt; or any such Debt shall be declared to be due and payable, or required to be prepaid (other than by a regularly scheduled required prepayment or as required pursuant to an illegality event of the type set forth in Section 2.12), prior to the stated maturity thereof; or

(e) Any Borrower or any Subsidiary of any Borrower (except any immaterial Subsidiary of such Borrower other than WNG, WEV and WFS) shall generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against any Borrower or any Subsidiary of any Borrower (except any immaterial Subsidiary of such Borrower other than WNG, WEV and WFS) seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, or other similar official for it or for any substantial part of its property and, in the case of any such proceeding instituted against it (but not instituted by it), shall remain undismissed or unstayed for a period of 30 days; or any Borrower or any Subsidiary of any Borrower (except any immaterial Subsidiary of such Borrower other than WNG, WEV and WFS) shall take any corporate action to authorize any of the actions set forth above in this subsection (e); or

(f) Any judgment or order for the payment of money in excess of \$20,000,000 shall be rendered against any Borrower or any Subsidiary of any Borrower (except any immaterial Subsidiary of such Borrower other than WEV, WNG and WFS) and remain unsatisfied and either (i) enforcement proceedings shall have been commenced by any creditor upon such judgment or order or (ii) there shall be any period of 30 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or

(g) Any Termination Event with respect to a Plan shall have occurred and, 30 days after notice thereof shall have been given to any Borrower by the Agent, (i) such Termination Event shall still exist and (ii) the sum (determined as of the date of occurrence of such Termination Event) of the Insufficiency of such Plan and the Insufficiency of any and all other Plans with respect to which a Termination Event shall have occurred and then exist (or in the case of a Plan with respect to which a Termination Event described in clause (ii) of the definition of Termination Event shall have occurred and then exist, the liability related thereto) is equal to or greater than \$5,000,000; or

(h) Any Borrower or any ERISA Affiliate of any Borrower shall have been notified by the sponsor of a Multiemployer Plan that it has incurred Withdrawal Liability to such Multiemployer Plan in an amount which, when aggregated with all other amounts required to be paid to Multiemployer Plans in connection with Withdrawal Liabilities (determined as of the date of such notification), exceeds \$15,000,000 in the aggregate or requires payments exceeding \$10,000,000 per annum; or

(i) Any Borrower or any ERISA Affiliate of any Borrower shall have been notified by the sponsor of a Multiemployer Plan that such Multiemployer Plan is in reorganization or is being terminated, within the meaning of Title IV of ERISA, if as a result of such reorganization or termination the aggregate annual contributions of the Borrowers and their respective ERISA Affiliates to all Multiemployer Plans which are then in reorganization or being terminated have been or will be increased over the amounts

contributed to such Multiemployer Plans for the respective plan years which include the date hereof by an amount exceeding \$5,000,000;

then, and in any such event, the Agent (i) shall at the request, or may with the consent, of the holders of at least 66-2/3% in principal amount of the A Notes then outstanding or, if no A Notes are then outstanding, Banks having at least 66-2/3% of the Commitments, by notice to the Borrowers, declare all of the Commitments and the obligation of each Bank to make Advances to be terminated, whereupon all of the Commitments and each such obligation shall forthwith terminate, and (ii) shall at the request, or may with the consent, of the holders of at least 66-2/3% in principal amount of the A Notes then outstanding or if no A Notes are then outstanding, Banks having at least 66-2/3% of the Commitments, or, if no A Notes are then outstanding and all Commitments have terminated, the holders of at least 66-2/3% in principal amount of the B Notes then outstanding, by notice to the Borrower as to which an Event of Default exists (determined as contemplated by the definition herein of Events of Default), declare the Notes of such Borrower, all interest thereon and all other amounts payable by such Borrower under this Agreement to be forthwith due and payable, whereupon such Notes, such interest and all such amounts shall become and be forthwith due and payable, without requirement of any presentment, demand, protest, notice of intent to accelerate, further notice of acceleration or other further notice of any kind (other than the notice expressly provided for above), all of which are hereby expressly waived by each Borrower; provided, however, that in the event of any Event of Default described in Section 6.01(e), (A) the obligation of each Bank to make Advances shall automatically be terminated and (B) the Notes, all such interest and all such amounts shall automatically become and be due and payable, without presentment, demand, protest, notice of intent to accelerate, notice of acceleration or any other notice of any kind, all of which are hereby expressly waived by each Borrower.

ARTICLE VII

THE AGENT

Section 7.01. Authorization and Action. Each Bank hereby appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Agent by the terms hereof, together with such powers as are reasonably incidental thereto. As to any matters not expressly provided for by this Agreement (including, without limitation, enforcement or collection of the Notes), the Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of holders of at least 66-2/3% in principal amount of the A Notes then outstanding or, if no A Notes are then outstanding, Banks having at least 66-2/3% of the Commitments (or, if no A Notes are then outstanding and all Commitments have terminated, upon the instructions of holders of at least 66-2/3% in principal amount of the B Notes then outstanding), and such instructions shall be binding upon all Banks and all holders of Notes; provided, however, that the Agent shall not be required to take any action which exposes the Agent to personal liability or which is contrary to any Note, this Agreement or applicable law. The Agent agrees to give to each Bank prompt notice of each notice given to it by any Borrower pursuant to the terms of this Agreement.

Section 7.02. Agent's Reliance, Etc. Neither the Agent nor any of its directors, officers, agents or employees shall be liable for any action taken or omitted to be taken by it or them under or in connection with any Note or this Agreement, except for its or their own gross negligence or willful misconduct. Without limitation of the generality of the foregoing, the Agent: (i) may treat the payee of any Note as the holder thereof until the Agent receives and accepts a Transfer Agreement executed by a Borrower, the Bank which is the payee of such Note, as assignor, and the assignee in accordance with the last sentence of Section 8.06(a); (ii) may consult with legal counsel (including counsel for any Borrower), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts; (iii) makes no warranty or representation to any Bank and shall not be responsible to any Bank for any statements, warranties or representations (whether written or oral) made in or in connection with any Note or this Agreement; (iv) shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of any Note or this Agreement on the part of any Borrower or to inspect the property (including the books and records) of any Borrower; (v) shall not be responsible to any Bank for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of any Note or this Agreement or any other instrument or document furnished pursuant hereto; and (vi) shall incur no liability under or in respect of any Note or this Agreement by acting upon any notice, consent, certificate or other instrument or writing (which may be by telecopier, telegram, cable or telex) believed by it to be genuine and signed or sent by the proper party or parties.

Section 7.03. Citibank and Affiliates. With respect to its Commitments, the Advances made by it and the Notes issued to it, Citibank shall have the same rights and powers under any Note and this Agreement as any other Bank and may exercise the same as though it was not the Agent; and the term "Bank" or "Banks" shall, unless otherwise expressly indicated, include Citibank in its individual capacity. Citibank and its affiliates may accept deposits from, lend money to, act as trustee under indentures of, and generally engage in any kind of business with, any Borrower, any Subsidiary of any Borrower, any Person who may do business with or own, directly or indirectly, securities of any Borrower or any such Subsidiary and any other Person, all as if Citibank were not the Agent and without any duty to account therefor to the Banks.

Section 7.04. Bank Credit Decision. Each Bank acknowledges that it has, independently and without reliance upon the Agent or any other Bank and based on the financial statements referred to in Section 4.01(e) and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Bank also acknowledges that it will, independently and without reliance upon the Agent or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under any Note or this Agreement.

Section 7.05. Indemnification. The Banks agree to indemnify the Agent (to the extent not reimbursed by the Borrowers), ratably according to the respective principal amounts of the A Notes then held by each of them (or if no A Notes are at the time outstanding or if any A Notes are held by Persons which are not Banks, ratably according to either (i) the respective amounts of their Commitments to TWC, or (ii) if all Commitments to TWC have terminated, the respective amounts of the Commitments to TWC immediately prior to the time the Commitments to TWC terminated), from and against any and all liabilities, obligations, losses, damages, penalties, actions,

judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against the Agent in any way relating to or arising out of any Note or this Agreement or any action taken or omitted by the Agent under any Note or this Agreement, provided that no Bank shall be liable to the Agent for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the Agent's gross negligence or willful misconduct. Without limitation of the foregoing, each Bank agrees to reimburse the Agent promptly upon demand for its ratable share of any out-of-pocket expenses (including counsel fees) incurred by the Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, any Note or this Agreement to the extent that the Agent is not reimbursed for such expenses by the Borrowers.

Section 7.06. Successor Agent. The Agent may resign at any time as Agent under this Agreement by giving written notice thereof to the Banks and the Borrowers and may be removed at any time with or without cause by the Majority Banks. Upon any such resignation or removal, the Majority Banks shall have the right to appoint, with the consent of TWC (which consent shall not be unreasonably withheld), a successor Agent from among the Banks. If no successor Agent shall have been so appointed by the Majority Banks with such consent, and shall have accepted such appointment, within 30 days after the retiring Agent's giving of notice of resignation or the Majority Banks' removal of the retiring Agent, then the retiring Agent may, on behalf of the Banks, appoint a successor Agent, which shall be a Bank which is a commercial bank organized under the laws of the United States of America or of any State thereof and having a combined capital and surplus of at least \$500,000,000. Upon the acceptance of any appointment as Agent under this Agreement by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent and shall function as the Agent under this Agreement, and the retiring Agent shall be discharged from its duties and obligations as Agent under this Agreement. After any retiring Agent's resignation or removal hereunder as Agent, the provisions of this Article VII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement.

ARTICLE VIII

MISCELLANEOUS

Section 8.01. Amendments, Etc. No amendment or waiver of any provision of any Note or this Agreement, nor consent to any departure by any Borrower therefrom, shall in any event be effective unless the same shall be in writing and signed by the Majority Banks, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no amendment, waiver or consent shall, unless in writing and signed by all the Banks, do any of the following: (a) waive any of the conditions specified in Article III, (b) increase the Commitments of the Banks or subject the Banks to any additional obligations, (c) reduce the principal of, or interest on, the Notes or any fees or other amounts payable hereunder, (d) postpone any date fixed for any payment of principal of, or interest on, the Notes or any fees or other amounts payable hereunder, (e) take any action which requires the signing of all

the Banks pursuant to the terms of this Agreement, (f) change the percentage of the Commitments or of the aggregate unpaid principal amount of the A Notes or B Notes, or the number of Banks, which shall be required for the Banks or any of them to take any action under this Agreement, or (g) amend this Section 8.01; and provided, further, that no amendment, waiver or consent shall, unless in writing and signed by the Agent in addition to the Banks required above to take such action, affect the rights or duties of the Agent under any Note or this Agreement.

Section 8.02. Notices, Etc. All notices and other communications provided for hereunder shall be in writing (including telecopy, telegraphic, telex or cable communication) and mailed, telecopied, telegraphed, telexed, cabled or delivered, if to any Bank, as specified opposite its name on Schedule I hereto or specified pursuant to Section 8.06(a); if to any Borrower, as specified opposite its name on Schedule II hereto; and if to Citibank, as Agent, to its address at 399 Park Avenue, New York, New York 10043, (telecopier number: (212) 527-1084), Attention: John Sahr, with a copy to Citicorp North America, Inc., 1200 Smith Street, Suite 2000, Houston, Texas 77002 (telecopier number: (713) 654-2849; telex number 127001 (Attn: Route Code HOUAA)), Attention: The Williams Companies, Inc. Account Officer; or, as to any Borrower or the Agent, at such other address as shall be designated by such party in a written notice to the other parties and, as to each other party, at such other address as shall be designated by such party in a written notice to the Borrowers and the Agent. All such notices and communications shall, when mailed, telecopied, telegraphed, telexed or cabled, be effective when received in the mail, sent by telecopier to any party to the telecopier number as set forth herein or on Schedule I or Schedule II or specified pursuant to Section 8.06(a) (or other telecopy number specified by such party in a written notice to the other parties hereto), delivered to the telegraph company, telexed to any party to the telex number set forth herein or on Schedule I or Schedule II or specified pursuant to Section 8.06(a) (or other telex number designated by such party in a written notice to the other parties hereto), confirmed by telex answerback, or delivered to the cable company, respectively, except that notices and communications to the Agent shall not be effective until received by the Agent.

Section 8.03. No Waiver; Remedies. No failure on the part of any Bank or the Agent to exercise, and no delay in exercising, any right under any Note or this Agreement shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right. The remedies provided in any Note and this Agreement are cumulative and not exclusive of any remedies provided by law.

Section 8.04. Costs, Expenses and Taxes. (a)(i) TWC agrees to pay on demand all reasonable out-of-pocket costs and expenses of the Arranger and the Agent in connection with the preparation, execution, delivery, administration, modification and amendment of this Agreement, the Notes and the other documents to be delivered under this Agreement, including, without limitation, the reasonable fees and out-of-pocket expenses of counsel for the Agent with respect thereto and with respect to advising the Agent as to its rights and responsibilities under any Note and this Agreement, and (ii) each Borrower agrees to pay on demand all costs and expenses, if any (including, without limitation, reasonable counsel fees and expenses, which may include allocated costs of in-house counsel), of the Agent and each Bank in connection with the enforcement (whether through negotiations, legal proceedings or otherwise) against such Borrower of any Note of such Borrower or this Agreement and the other documents to be delivered by such Borrower under this Agreement.

(b) If any payment (or purchase pursuant to Section 2.11(c) or Section 8.06(b)) of principal of, or Conversion of, any Eurodollar Rate Advance or B Advance made to any Borrower is made other than on the last day of an Interest Period relating to such Advance (or in the case of a B Advance, other than on the original scheduled maturity date thereof), as a result of a payment pursuant to Section 2.10 or 2.12 or acceleration of the maturity of the Notes pursuant to Section 6.01 or for any other reason or as a result of any such purchase or any Conversion, such Borrower shall, upon demand by any Bank (with a copy of such demand to the Agent), pay to the Agent for the account of such Bank any amounts required to compensate such Bank for any additional losses, costs or expenses which it may reasonably incur as a result of any such payment, purchase or Conversion, including, without limitation, any loss, cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Bank to fund or maintain such Advance.

(c) Each Borrower agrees, to the fullest extent permitted by law, to indemnify and hold harmless the Agent, the Arranger and each Bank and each of their respective directors, officers, employees and agents from and against any and all claims, damages, liabilities and out-of-pocket expenses (including, without limitation, reasonable fees and disbursements of counsel) for which any of them may become liable or which may be incurred by or asserted against the Agent, the Arranger or such Bank or any such director, officer, employee or agent (other than by another Bank or any successor or assign of another Bank), in each case in connection with or arising out of or by reason of any investigation, litigation, or proceeding, whether or not the Agent, the Arranger or such Bank or any such director, officer, employee or agent is a party thereto, arising out of, related to or in connection with this Agreement or the Notes or any transaction in which any proceeds of all or any part of the Advances are applied (other than any such claim, damage, liability or expense to the extent attributable to the gross negligence or willful misconduct of, or violation of any law or regulation by, either the party seeking indemnity under this Section 8.04(c) or any of its directors, officers, employees or agents).

Section 8.05. Right of Set-off. Upon (i) the occurrence and during the continuance of any Event of Default and (ii) the making of the request or the granting of the consent specified by Section 6.01 to authorize the Agent to declare the Notes of a Borrower due and payable pursuant to the provisions of Section 6.01, each Bank is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Bank to or for the credit or the account of such Borrower against any and all of the obligations of such Borrower now or hereafter existing under this Agreement and the Notes held by such Bank, irrespective of whether or not such Bank shall have made any demand under this Agreement or such Notes and although such obligations may be unmatured. Each Bank agrees promptly to notify such Borrower after such set-off and application made by such Bank, provided that the failure to give such notice shall not affect the validity of such set-off and application. The rights of each Bank under this Section are in addition to other rights and remedies (including, without limitation, other rights of set-off) which such Bank may have.

Section 8.06. Binding Effect; Transfers. (a) This Agreement shall become effective when it shall have been executed by the Borrowers and the Agent and when each Bank listed on the signature pages hereof has delivered an executed counterpart hereof to the Agent, has sent to the Agent a facsimile copy of its signature hereon or has notified the Agent that such Bank has executed

this Agreement and thereafter shall be binding upon and inure to the benefit of the Borrowers, the Agent and each Bank and their respective successors and assigns, except that the Borrowers shall not have the right to assign any of their respective rights hereunder or any interest herein without the prior written consent of the Banks. Each Bank may assign to one or more banks, financial institutions or government entities all or any part of, or may grant participations to one or more banks, financial institutions or government entities in or to all or any part of, any Advance or Advances owing to such Bank, any Note or Notes held by such Bank and all or any portion of such Bank's Commitments, and to the extent of any such assignment or participation (unless otherwise stated therein) the assignee or purchaser of such assignment or participation shall, to the fullest extent permitted by law, have the same rights and benefits hereunder and under such Note or Notes as it would have if it were such Bank hereunder, provided that, except in the case of an assignment meeting the requirements of the next sentence hereof, (1) such Bank's obligations under this Agreement, including, without limitation, its Commitments to the Borrowers hereunder, shall remain unchanged, such Bank shall remain responsible for the performance thereof, such Bank shall remain the holder of any such Note or Notes for all purposes under this Agreement, and the Borrowers, the other Banks and the Agent shall continue to deal solely with and directly with such Bank in connection with such Bank's rights and obligations under this Agreement; and (2) no Bank shall assign or grant a participation that conveys to the assignee or participant the right to vote or consent under this Agreement, other than the right to vote upon or consent to (i) any increase in the amount of any Commitment of such Bank; (ii) any reduction of the principal amount of, or interest to be paid on, such Bank's Advance or Advances or Note or Notes; (iii) any reduction of any fee or other amount payable hereunder to such Bank; or (iv) any postponement of any date fixed for any payment of principal of, or interest on, such Bank's Advance or Advances or Note or Notes or any fee or other amount payable hereunder to such Bank.

If (I) the assignee of any Bank either (1) is another Bank or (2) is approved in writing by the Agent and the Borrowers or (3) is approved in writing by the Agent and either an Event of Default exists or the Borrowers have relinquished the right to approve the assignment pursuant to Section 8.06(b), and (II) such assignee assumes all or any portion (which portion shall be a constant, and not a varying, percentage, and the amount of the Commitment to TWC assigned, whether all or a portion, shall be in a minimum amount of \$5,000,000 or such lesser amount as may be approved in writing by the Agent and TWC for such assignment) of each of the Commitments of such assigning Bank to the respective Borrowers (either all of each such Commitment shall be assigned or the percentage portion of each such Commitment assigned shall be the same as to each Borrower) by executing a document in the form of Exhibit F (or with such changes thereto as have been approved in writing by the Agent in its sole discretion as evidenced by its execution thereof) duly executed by the Agent, the Borrowers (unless an Event of Default exists or the Borrowers have relinquished the right to approve the assignment pursuant to Section 8.06(b)), such assigning Bank and such assignee and delivered to the Agent ("Transfer Agreement"), then upon such delivery, (i) such assigning Bank shall be released from its obligations under this Agreement with respect to all or such portion, as the case may be, of its Commitments, (ii) such assignee shall become obligated for all or such portion, as the case may be, of such Commitments and all other obligations of such assigning Bank hereunder with respect to or arising as a result of all or such portion, as the case may be, of such Commitments, (iii) such assignee shall be assigned the right to vote or consent under this Agreement, to the extent of all or such portion, as the case may be, of such Commitments, (iv) each Borrower shall deliver, in replacement of the A Note of such Borrower to such assigning Bank then

outstanding (a) to such assignee, a new A Note of such Borrower in the amount of the Commitment of such assigning Bank to such Borrower which is being so assumed by such assignee plus, in the case of any assignee which is already a Bank hereunder, the amount of such assignee's Commitment to such Borrower immediately prior to such assignment (any such assignee which is already a Bank hereunder agrees to cancel and return to such Borrower, with reasonable promptness following the delivery of such new A Note, the A Note being replaced thereby), (b) to such assigning Bank, a new A Note in the amount of the balance, if any, of the Commitment of such assigning Bank to such Borrower (without giving effect to any B Reduction) retained by such assigning Bank (and such assigning Bank agrees to cancel and return to such Borrower, with reasonable promptness following delivery of such new A Notes, the A Note being replaced thereby), and (c) to the Agent, photocopies of such new A Notes, (v) if such assignment is of all of such assigning Bank's Commitments to the Borrowers, all of the outstanding A Advances made by such assigning Bank shall be transferred to such assignee, (vi) if such assignment is not of all of such Commitments, a part of each A Advance to each Borrower equal to the amount of such Advance multiplied by a fraction, the numerator of which is the amount of such portion of such assigning Bank's Commitment to such Borrower so assumed and the denominator of which is the amount of the Commitment of such assigning Bank to such Borrower (without giving effect to any B Reduction) immediately prior to such assumption, shall be transferred to such assignee and evidenced by such assignee's A Note from such Borrower, and the balance of such A Advance shall be evidenced by such assigning Bank's new A Note from such Borrower delivered pursuant to clause (iv)(b) of this sentence, (vii) if such assignee is not a "Bank" hereunder prior to such assignment, such assignee shall become a party to this Agreement as a Bank and shall be deemed to be a "Bank" hereunder, and the amount of all or such portion, as the case may be, of the Commitment to each of the respective Borrowers so assumed shall be deemed to be the amount for such Borrower set opposite such assigning Bank's name on Schedule IX for purposes of this Agreement, and (viii) if such assignee is not a Bank hereunder prior to such assignment, such assignee shall be deemed to have specified the offices of such assignee named in the respective Transfer Agreement as its "Domestic Lending Office" and "Eurodollar Lending Office" for all purposes of this Agreement and to have specified for purposes of Section 8.02 the notice information set forth in such Transfer Agreement; and the Agent shall promptly after execution of any Transfer Agreement by the Agent and the other parties thereto notify the Banks of the parties to such Transfer Agreement and the amounts of the assigning Bank's Commitments assumed thereby.

(b) If the Borrowers do not consent to a proposed assignment by a Bank pursuant to the last sentence of Section 8.06(a), TWC may, within 15 days of its receipt of a request that it consent to such assignment nominate by notice to the Agent and such Bank a bank which, if it is not a Bank, is acceptable to the Agent, and which unconditionally offers in writing (with a copy to the Agent) to purchase and assume, to the extent of the amount of such proposed assignment, in accordance with all of the provisions of the last sentence of Section 8.06(a) (including execution of an appropriate Transfer Agreement), all of such Bank's rights and obligations (including, without limitation, its Commitments) hereunder and interest in the Advances owing to such Bank and the Notes held by such Bank without recourse at par plus interest accrued thereon to the date of such purchase on a date therein specified (not less than three nor greater than five Business Days after such nomination). Such Bank at its option may elect to accept or not accept such purchase offer. If a Bank accepts such an offer and the bank first nominated by TWC pursuant to this Section 8.06(b) fails to purchase such rights and interest on such specified date in accordance with the terms

of such offer, TWC may, within 15 days of such failure, repeat the process contemplated by the first sentence of this Section 8.06(b) by nominating another bank for purposes of this Section 8.06(b) by notice to the Agent and such Bank. If TWC does not so nominate such a bank within 15 days of its receipt of such request that it consent to such assignment or if TWC fails to nominate another bank following such a failure to purchase or if such second nominated bank fails to purchase in accordance with the terms of an offer complying with the first sentence of this Section 8.06(b), the Borrowers shall be deemed to have relinquished their right to consent to such assignment. If such Bank elects to not accept such a purchase offer under this Section 8.06(b) as to a particular proposed assignment, the Borrowers shall not be deemed to have relinquished their right to consent to such assignment.

(c) The Borrowers agree to promptly execute the Transfer Agreement pertaining to any assignment as to which approval by the Borrowers of the assignee is not required by clause (I) of the last sentence of Section 8.06(a).

(d) Any Bank may assign, as collateral or otherwise, any of its rights (including, without limitation, rights to payments of principal of and/or interest on the Notes) under this Agreement or any of the Notes to any Federal Reserve Bank without notice to or consent of any Borrower or the Agent.

Section 8.07. Governing Law. This Agreement and the Notes shall be governed by, and construed in accordance with, the laws of the State of New York.

Section 8.08. Interest. It is the intention of the parties hereto that the Agent and each Bank shall conform strictly to usury laws applicable to it, if any. Accordingly, if the transactions with the Agent or any Bank contemplated hereby would be usurious under applicable law, then, in that event, notwithstanding anything to the contrary in the Notes, this Agreement or any other agreement entered into in connection with or as security for this Agreement or the Notes, it is agreed as follows: (i) the aggregate of all consideration which constitutes interest under applicable law that is contracted for, taken, reserved, charged or received by the Agent or such Bank, as the case may be, under the Notes, this Agreement or under any other agreement entered into in connection with or as security for this Agreement or the Notes shall under no circumstances exceed the maximum amount allowed by such applicable law and any excess shall be cancelled automatically and, if theretofore paid, shall at the option of the Agent or such Bank, as the case may be, be credited by the Agent or such Bank, as the case may be, on the principal amount of the obligations owed to the Agent or such Bank, as the case may be, by the appropriate Borrower or refunded by the Agent or such Bank, as the case may be, to the appropriate Borrower, and (ii) in the event that the maturity of any Note or other obligation payable to the Agent or such Bank, as the case may be, is accelerated or in the event of any required or permitted prepayment, then such consideration that constitutes interest under law applicable to the Agent or such Bank, as the case may be, may never include more than the maximum amount allowed by such applicable law and excess interest, if any, to the Agent or such Bank, as the case may be, provided for in this Agreement or otherwise shall be cancelled automatically as of the date of such acceleration or prepayment and, if theretofore paid, shall, at the option of the Agent or such Bank, as the case may be, be credited by the Agent or such Bank, as the case may be, on the principal amount of the obligations owed to the

Agent or such Bank, as the case may be, by the appropriate Borrower or refunded by the Agent or such Bank, as the case may be, to the appropriate Borrower.

Section 8.09. Execution in Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

Section 8.10. Survival of Agreements, Representations and Warranties, Etc. All warranties, representations and covenants made by any Borrower or any officer of any Borrower herein or in any certificate or other document delivered in connection with this Agreement shall be considered to have been relied upon by the Banks and shall survive the issuance and delivery of the Notes and the making of the Advances regardless of any investigation. The indemnities and other payment obligations of each Borrower contained in this Agreement, and the indemnities by the Banks in favor of the Agent and its officers, directors, employees and agents, will survive the repayment of the Advances and the termination of this Agreement.

Section 8.11. Borrowers' Right to Apply Deposits. In the event that any Bank is placed in receivership or enters a similar proceeding, each Borrower may, to the full extent permitted by law, make any payment due to such Bank hereunder, to the extent of finally collected unrestricted deposits of such Borrower in U.S. dollars held by such Bank, by giving notice to the Agent and such Bank directing such Bank to apply such deposits to such indebtedness. If the amount of such deposits is insufficient to pay such indebtedness then due and owing in full, such Borrower shall pay the balance of such insufficiency in accordance with this Agreement.

Section 8.12. Confidentiality. Each Bank agrees that it will use best efforts, to the extent not inconsistent with practical business requirements, not to disclose without the prior consent of TWC (other than to employees, auditors, accountants, counsel or other professional advisors of the Agent or any Bank) any information with respect to the Borrowers or their Subsidiaries which is furnished pursuant to this Agreement and which (i) the Borrowers in good faith consider to be confidential and (ii) is either clearly marked confidential or is designated by the Borrowers to the Agent or the Banks in writing as confidential, provided that any Bank may disclose any such information (a) as has become generally available to the public, (b) as may be required or appropriate in any report, statement or testimony submitted to or required by any municipal, state or Federal regulatory body having or claiming to have jurisdiction over such Bank or submitted to or required by the Board of Governors of the Federal Reserve System or the Federal Deposit Insurance Corporation or similar organizations (whether in the United States or elsewhere) or their successors, (c) as may be required or appropriate in response to any summons or subpoena in connection with any litigation, (d) in order to comply with any law, order, regulation or ruling applicable to such Bank, (e) to the prospective transferee in connection with any contemplated transfer of any of the Notes or any interest therein by such Bank, provided that such prospective transferee executes an agreement with or for the benefit of the Borrowers containing provisions substantially identical to those contained in this Section 8.12, and provided further that if the contemplated transfer is a grant of a participation in a Note (and not an assignment), no such information shall be authorized to be delivered to such participant pursuant to this clause (e) except (i) such information delivered pursuant to Section 4.01(e) or Section 5.01(b) (other than

paragraph (iv) thereof), and (ii) if prior notice of the delivery thereof is given to TWC, such information as may be required by law or regulation to be delivered, (f) in connection with the exercise of any remedy by such Bank pertaining to this Agreement, any of the Notes or any other document delivered in connection herewith, (g) in connection with any litigation involving such Bank pertaining to this Agreement, any of the Notes or any other document delivered in connection herewith, (h) to any Bank or the Agent, or (i) to any affiliate of any Bank, provided that such affiliate executes an agreement with or for the benefit of the Borrowers containing provisions substantially identical to those contained in this Section 8.12.

Section 8.13. WAIVER OF JURY TRIAL. THE BORROWERS, THE AGENT, AND THE BANKS HEREBY IRREVOCABLY WAIVE ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT, ANY NOTE OR ANY OF THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 8.14. Miscellaneous. This Agreement shall become effective in accordance with the first sentence of Section 8.06(a). Subject to compliance with such sentence, the amendments to the 1995 Credit Agreement effected by this Agreement (including, without limitation, the amendments to the definition of "Applicable Margin") shall for all purposes be effective as of December 20, 1996. On December 20, 1996, each Borrower will pay in full all principal, interest and fees owed by it outstanding under the 1995 Credit Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

BORROWERS:

THE WILLIAMS COMPANIES, INC.

NORTHWEST PIPELINE CORPORATION

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

TRANSCONTINENTAL GAS PIPE LINE CORPORATION

TEXAS GAS TRANSMISSION CORPORATION

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

WILLIAMS HOLDINGS OF DELAWARE, INC.

WILLIAMS PIPE LINE COMPANY

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

AGENT:

CITIBANK, N.A., as Agent

By: -----
J Christopher Lyons
Vice President

BANKS:

CITIBANK, N.A.

By: -----
J. Christopher Lyons
Vice President

BANK OF AMERICA NATIONAL TRUST
AND SAVINGS ASSOCIATION

By: -----
Authorized Officer

THE CHASE MANHATTAN BANK

By: -----
Authorized Officer

CIBC INC.

By: -----
Authorized Officer

CREDIT LYONNAIS NEW YORK BRANCH

By: -----
Authorized Officer

THE FIRST NATIONAL BANK OF CHICAGO

By: -----
Authorized Officer

BANK OF MONTREAL

By: -----
Authorized Officer

THE BANK OF NEW YORK

By: -----
Authorized Officer

THE BANK OF NOVA SCOTIA

By: -----
Authorized Officer

BARCLAYS BANK PLC

By: -----
Authorized Officer

BOATMEN'S NATIONAL BANK
OF OKLAHOMA

By: -----
Authorized Officer

THE FIRST NATIONAL BANK OF BOSTON

By: -----
Authorized Officer

THE FUJI BANK, LIMITED,
HOUSTON AGENCY

By: -----
Authorized Officer

MELLON BANK, N.A.

By: -----
Authorized Officer

MORGAN GUARANTY TRUST COMPANY
OF NEW YORK

By: -----
Authorized Officer

ROYAL BANK OF CANADA

By: -----
Authorized Officer

SOCIETE GENERALE, SOUTHWEST AGENCY

By: -----
Authorized Officer

WELLS FARGO BANK, N.A.

By: -----
Authorized Officer

BANK OF OKLAHOMA, N.A.

By: -----
Authorized Officer

COMMERCE BANK, N.A.

By: -----
Authorized Officer

SCHEDULE I

APPLICABLE LENDING OFFICES

Name of Bank -----	Domestic Lending Office -----	Eurodollar Lending Office -----
Citibank N.A.	<p>Citibank N.A. 399 Park Avenue New York, New York 10043</p> <p>Notices: Citibank, N.A. 399 Park Avenue New York, New York 10043 Telecopier: (212) 527-1084 Telex: None Attn: Christine Grundle Dept: Medium Term Finance</p> <p>with copies to:</p> <p>Citicorp North America, Inc. 1200 Smith Street, Suite 2000 Houston, Texas 77002 Telecopier: (713) 654-2849 Telex: 127001 (Attn. Route Code HOUAA) Attn: The Williams Companies, Inc. Account Officer</p>	<p>Citibank N.A. 399 Park Avenue New York, New York 10043</p> <p>Notices: Citibank, N.A. 399 Park Avenue New York, New York 10043 Telecopier: (212) 527-1084 Telex: None Attn: Christine Grundle Dept: Medium Term Finance</p> <p>with copies to:</p> <p>Citicorp North America, Inc. 1200 Smith Street, Suite 2000 Houston, Texas 77002 Telecopier: (713) 654-2849 Telex: 127001 (Attn. Route Code HOUAA) Attn: The Williams Companies, Inc. Account Officer</p>
Bank of America National Trust and Savings Association	<p>Bank of America National Trust and Savings Association Corporate Service Center #1233 1850 Gateway Boulevard Concord, California 94520 Telecopier: (415) 675-7531 Telex: 34346 Attn: Camille Gabby</p>	<p>Bank of America National Trust and Savings Association Corporate Service Center #1233 1850 Gateway Boulevard Concord, California 94520 Telecopier: (415) 675-7531 Telex: 34346 Attn: Camille Gabby</p>
Bank of Montreal	<p>Bank of Montreal 700 Louisiana, Suite 4400 Houston, Texas 77002 Telecopier: (713) 225-1845 Telex: 77-5640 Attn: Doug Deal</p>	<p>Bank of Montreal 700 Louisiana, Suite 4400 Houston, Texas 77002 Telecopier: (713) 225-1845 Telex: 77-5640 Attn: Doug Deal</p>
The Bank of New York	<p>The Bank of New York 1 Wall Street, 19th Floor New York, New York 10286 Telecopier: (212) 635-7923 Telex: 420268 Attn: Annamarie Schron Administrator</p>	<p>The Bank of New York 1 Wall Street, 19th Floor New York, New York 10286 Telecopier: (212) 635-7923 Telex: 420268 Attn: Annamarie Schron Administrator</p>

Name of Bank -----	Domestic Lending Office -----	Eurodollar Lending Office -----
The Bank of Nova Scotia	The Bank of Nova Scotia 600 Peachtree St., N.E., Suite 2700 Atlanta, Georgia 30308 Telecopier: (404) 888-8889 Telex: 00542319 Attn: Robert L. Ahern	The Bank of Nova Scotia 600 Peachtree St., N.E., Suite 2700 Atlanta, Georgia 30308 Telecopier: (404) 888-8889 Telex: 00542319 Attn: Robert L. Ahern
	with a copy to:	with a copy to:
	The Bank of Nova Scotia Houston Representative Office 1100 Louisiana, Suite 3000 Houston, Texas 77002 Telecopier: (713) 752-2425 Telex: RCA 216312 Attn: Michael Nepveux	The Bank of Nova Scotia Houston Representative Office 1100 Louisiana, Suite 3000 Houston, Texas 77002 Telecopier: (713) 752-2425 Telex: RCA 216312 Attn: Michael Nepveux
Bank of Oklahoma, N.A.	Bank of Oklahoma, N.A. Bank of Oklahoma Tower Tulsa, Oklahoma 74192 Telecopier: (918) 588-6880 Telex: None Attn: Beverly Smith	Bank of Oklahoma, N.A. Bank of Oklahoma Tower Tulsa, Oklahoma 74192 Telecopier: (918) 588-6880 Telex: None Attn: Beverly Smith
Barclays Bank PLC	Barclays Bank PLC 222 Broadway, 12th Floor New York, New York 10038 Telecopier: (212) 412-5002 Telex: 126195 Answerback: BARCLADOM NYK Attn: Anand Chand-Sui	Barclays Bank PLC 222 Broadway, 12th Floor New York, New York 10038 Telecopier: (212) 412-5002 Telex: 126195 Answerback: BARCLADOM NYK Attn: Anand Chand-Sui
Boatmen's National Bank of Oklahoma	Boatmen's National Bank of Oklahoma 515 South Boulder, 9th Floor Tulsa, Oklahoma 74103 Telecopier: (918) 591-8221 Telex: 796112 Answerback: FIRSTINTLOK Attn: Barry Woods	Boatmen's National Bank of Oklahoma 515 South Boulder, 9th Floor Tulsa, Oklahoma 74103 Telecopier: (918) 591-8221 Telex: 796112 Answerback: FIRSTINTLOK Attn: Barry Woods
The Chase Manhattan Bank	The Chase Manhattan Bank 270 Park Avenue, 8th Floor New York, New York 10017 Telecopier: (212) 888-9515 Telex: None Attn: John Gehebe	The Chase Manhattan Bank Nassau Branch 55 Water Street, Room 1812 New York, New York 10041 Telex: None Telecopier: (212) 888-9515 Attn: Bob Cumming

Name of Bank -----	Domestic Lending Office -----	Eurodollar Lending Office -----
CIBC Inc.	CIBC Inc. Two Paces West 2727 Paces Ferry Road., Suite 1200 Atlanta, Georgia 30339 Telecopier: (404) 955-1185 Telex: 542413 Answerback: CANBANK ATL Attn: Mary Ann Stathis	CIBC Inc. Two Paces West 2727 Paces Ferry Road., Suite 1200 Atlanta, Georgia 30339 Telecopier: (404) 955-1185 Telex: 542413 Answerback: CANBANK ATL Attn: Mary Ann Stathis
Commerce Bank, N.A.	Commerce Bank, N.A. 1000 Walnut Street, 17th Floor Kansas City, Missouri 64141 Telecopier: (816) 234-7290 Telex: None Attn: Dennis Block	Commerce Bank, N.A. 1000 Walnut Street, 17th Floor Kansas City, Missouri 64141 Telecopier: (816) 234-7290 Telex: None Attn: Dennis Block
Credit Lyonnais New York Branch	Credit Lyonnais New York Branch 1000 Louisiana, Suite 5360 Houston, Texas 77002 Telecopier: (713) 751-0307 Telex: 6868674 Attn: Nicole H. Johnson, A.S.	Credit Lyonnais New York Branch 1000 Louisiana, Suite 5360 Houston, Texas 77002 Telecopier: (713) 751-0307 Telex: 6868674 Attn: Nicole H. Johnson, A.S.
The First National Bank of Chicago	The First National Bank of Chicago Two First National Plaza, Suite 0363 Chicago, Illinois 60670-0363 Telecopier: (312) 732-3055 Telex: 4330253 Answerback: FNBCUI Attn: Marilyn Pelkowski	The First National Bank of Chicago Two First National Plaza, Suite 0363 Chicago, Illinois 60670-0363 Telecopier: (312) 732-3055 Telex: 4330253 Answerback: FNBCUI Attn: Marilyn Pelkowski
	with copies to:	with copies to:
	The First National Bank of Chicago One First National Plaza, Suite 0363 Chicago, Illinois 60670-0363 Telecopier: (312) 732-3055 Telex: 4330253 Answerback: FNBCUI Attn: Jackie Reitz	The First National Bank of Chicago One First National Plaza, Suite 0363 Chicago, Illinois 60670-0363 Telecopier: (312) 732-3055 Telex: 4330253 Answerback: FNBCUI Attn: Jackie Reitz
The First National Bank of Boston	The First National Bank of Boston 100 Federal Street, M/S 01-08-04 Boston, MA 02110 Telephone: (617) 434-9623 Telecopier: (617) 434-9821/9820 Telex: 4996527 Attn: Debora Williams	The First National Bank of Boston 100 Federal Street, M/S 01-08-04 Boston, MA 02110 Telephone: (617) 434-9623 Telecopier: (617) 434-9821/9820 Telex: 4996527 Attn: Debora Williams

Name of Bank -----	Domestic Lending Office -----	Eurodollar Lending Office -----
The Fuji Bank, Limited, Houston Agency	The Fuji Bank, Limited, Houston Agency 1221 McKinney Street, Suite 4100 One Houston Center Houston, Texas 77010 Telecopier: (713) 759-0048 Telex: 790026 Attn: Jenny Lin	The Fuji Bank, Limited, Houston Agency 1221 McKinney Street, Suite 4100 One Houston Center Houston, Texas 77010 Telecopier: (713) 759-0048 Telex: 790026 Attn: Jenny Lin
Morgan Guaranty Trust Company of New York	Morgan Guaranty Trust Company of New York 60 Wall Street New York, New York 10260 Telecopier: (212) 648-5163 Telex: 177 615 Answerback: MTG UI Attn: Loan Department	Morgan Guaranty Trust Company of New York Nassau, Bahamas Office c/o Morgan Christiana Corp. Euro-Loan Servicing Unit 902 Market Street Wilmington, Delaware 19801 Telecopier: (302) 634-1094 Telex: 0835 383 Answerback: JPM DELA WIL Attn: Multi-Options Facilities Unit
Royal Bank of Canada	Royal Bank of Canada Cayman Branch c/o Royal Bank of Canada 1 Financial Square, 24th Floor New York, New York 10005-3531 Telecopier: (718) 428-2372 Telex: 420464 Attn: Linda Smith	Royal Bank of Canada Cayman Branch c/o Royal Bank of Canada 1 Financial Square, 24th Floor New York, New York 10005-3531 Telecopier: (718) 428-2372 Telex: 420464 Attn: Linda Smith
	with copies to:	with copies to:
	Royal Bank of Canada 600 Wilshire Boulevard, Suite 800 Los Angeles, California 90017-3220 Telecopier: (213) 955-5350 Attn: J. D. Frost	Royal Bank of Canada 600 Wilshire Boulevard, Suite 800 Los Angeles, California 90017-3220 Telecopier: (213) 955-5350 Attn: J. D. Frost
Mellon Bank, N.A.	Mellon Bank, N.A. Three Mellon Bank Center, Room 2332 Pittsburgh, Pennsylvania 15259 Telecopier: (412) 234-5049 Telex: 812 367 Attn: Theresa Hayward Loan Administrator	Mellon Bank, N.A. Three Mellon Bank Center, Room 2332 Pittsburgh, Pennsylvania 15259 Telecopier: (412) 234-5049 Telex: 812 367 Attn: Theresa Hayward Loan Administrator
Societe Generale, Southwest Agency	Societe Generale, Southwest Agency 2001 Ross Avenue, Suite 4800 Dallas, Texas 75201 Telecopier: (214) 754-0171 Telex: 170494 Attn: Angela Batson Loan Specialist	Societe Generale, Southwest Agency 2001 Ross Avenue, Suite 4800 Dallas, Texas 75201 Telecopier: (214) 754-0171 Telex: 170494 Attn: Angela Batson Loan Specialist

Name of Bank -----	Domestic Lending Office -----	Eurodollar Lending Office -----
Wells Fargo Bank, N.A.	Wells Fargo Bank, N.A. 707 Wilshire Blvd., W7-21 Los Angeles, CA 90017 Telecopier: (213) 688-9909 Telex: None Attn: Josephine Lai	Wells Fargo Bank, N.A. 707 Wilshire Blvd., W7-21 Los Angeles, CA 90017 Telecopier: (213) 688-9909 Telex: None Attn: Josephine Lai

SCHEDULE II
BORROWER INFORMATION

Name of Borrower

Information for Notices

The Williams Companies, Inc.

The Williams Companies, Inc.
One Williams Center, Suite 4800
Tulsa, Oklahoma 74172
Attention: Patti J. Kastl
Telecopier: (918) 588-4755
Telex: 910-845-2325
Answerback: WILLIAMS-TUL

Williams Holdings of Delaware, Inc.

Williams Holdings of Delaware, Inc.
One Williams Center, Suite 4800
Tulsa, Oklahoma 74172
Attention: Patti J. Kastl
Telecopier: (918) 588-4755
Telex: 910-845-2325
Answerback: WILLIAMS-TUL

Northwest Pipeline Corporation

Northwest Pipeline Corporation
295 Chipeta Way
Salt Lake City, Utah 84158
Attention: Curtis C. Kennedy
Telecopier: (801) 584-6726

Transcontinental Gas Pipe Line Corporation

Transcontinental Gas Pipe Line Corporation
2800 Post Oak Boulevard, 21st Floor
Houston, Texas 77056
Attention: Nick Bacile
Telecopier: (713) 439-2440
Telex: 792013
Answerback: TRANSCO HOU A

Texas Gas Transmission Corporation

Texas Gas Transmission Corporation
3800 Frederica St.
Owensboro, Kentucky 42302
Attention: Jack Ralph
Telecopier: (502) 683-5657

Williams Pipe Line Company

Williams Pipe Line Company
One Williams Center, Suite 4800
Tulsa, Oklahoma 74172
Attention: Paul W. Nelson
Telecopier: (918) 588-3371
Telex: 910-845-2325
Answerback: WILLIAMS-TUL

SCHEDULE III

PERMITTED NWP LIENS

(a) Any purchase money Lien created by NWP or any of its Subsidiaries to secure all or part of the purchase price of any property (or to secure a loan made to enable NWP or any of its Subsidiaries to acquire the property secured by such Lien), provided that the principal amount of the Debt secured by any such Lien, together with all other Debt secured by a Lien on such property, shall not exceed the purchase price of the property acquired.

(b) Any Lien existing on any property at the time of the acquisition thereof by NWP or any of its Subsidiaries, whether or not assumed by NWP or any of its Subsidiaries, and any Lien on any property acquired or constructed by NWP or any of its Subsidiaries and created not later than 12 months after (i) such acquisition or completion of such construction or (ii) commencement of full operation of such property, whichever is later; provided, however, that if assumed or created by NWP or any of its Subsidiaries, the principal amount of the Debt secured by such Lien, together with all other Debt secured by a Lien on such property, shall not exceed the purchase price of the property acquired and/or the cost of the property constructed.

(c) Any Lien created or assumed by NWP or any of its Subsidiaries on any contract for the sale of any product or service or any rights thereunder or any proceeds therefrom, including accounts and other receivables, related to the operation or use of any property acquired or constructed by NWP or any of its Subsidiaries and created not later than 12 months after (i) such acquisition or completion of such construction or (ii) commencement of full operation of such property, whichever is later; provided, however, that the principal amount of the Debt secured by such mortgage together with all other Debt secured by any such contract, rights or property, shall not exceed the purchase price of the property acquired and/or the cost of the property constructed.

(d) Any Lien existing on any property of a Subsidiary of NWP at the time it becomes a Subsidiary of NWP.

(e) Any refunding or extension of maturity, in whole or in part, of any Lien created or assumed in accordance with the provisions of paragraph (a), (b), (c) or (d) above or (j) below, provided that the principal amount of the Debt secured by such refunding Lien or extended Lien shall not exceed the principal amount of the Debt secured by the Lien to be refunded or extended outstanding at the time of such refunding or extension and that such refunding Lien or extended Lien shall be limited to the same property that secured the Lien so refunded or extended.

(f) Mechanics' or materialmen's liens arising in the ordinary course of business which are not more than 90 days past due or are being contested in good faith by appropriate proceedings or any Lien arising by reason of pledges or deposits to secure payment of workmen's compensation or other insurance, good faith deposits in connection with tenders or leases of real estate, bids or contracts (other than contracts for the payment of money), in each case to secure obligations of TWC or any of its Subsidiaries.

(g) Deposits to secure public or statutory obligations, deposits to secure or in lieu of surety, stay or appeal bonds and deposits as security for the payment of taxes or assessments or other

similar charges, in each case to secure obligations of TWC or any of its Subsidiaries; provided, however, that the aggregate amount of obligations secured by Liens permitted by this paragraph (g) shall not exceed 10% of Consolidated Tangible Net Worth of TWC.

(h) Any Lien arising by reason of deposits with or the giving of any form of security to any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation (i) as a condition to the transaction by TWC or any of its Subsidiaries of any business or the exercise by TWC or any of its Subsidiaries of any privilege or license, (ii) to enable TWC or any of its Subsidiaries to maintain self-insurance or to participate in any fund for liability on any insurance risks or (iii) in connection with workmen's compensation, unemployment insurance, old age pensions or other social security with respect to TWC or any of its Subsidiaries or to enable TWC or any of its Subsidiaries to share in the privileges or benefits required for companies participating in such arrangements.

(i) Any Lien which is payable, both with respect to principal and interest, solely out of the proceeds of oil, gas, coal or other minerals or timber to be produced from the property subject thereto and to be sold or delivered by NWP or any of its Subsidiaries, including any interest of the character commonly referred to as a "production payment".

(j) Any Lien created or assumed by a Subsidiary of NWP on oil, gas, coal or other mineral or timber property, owned or leased by such Subsidiary to secure loans to such Subsidiary for the purposes of developing such properties, including any interest of the character commonly referred to as a "production payment"; provided, however, that neither NWP nor any other Subsidiary of NWP shall assume or guarantee such loans or otherwise be liable in respect thereto.

(k) Liens incurred in the ordinary course of business upon rights-of-way.

(l) Undetermined mortgages and charges incidental to construction or maintenance arising in the ordinary course of business which are not more than 90 days past due or are being contested in good faith by appropriate proceedings.

(m) The right reserved to, or vested in, any municipality or governmental or other public authority or railroad by the terms of any right, power, franchise, grant, license, permit or by any provision of law, to terminate or to require annual or other periodic payments as a condition to the continuance of such right, power, franchise, grant, license or permit.

(n) The Lien of taxes and assessments which are not at the time delinquent.

(o) The Lien of specified taxes and assessments which are delinquent but the validity of which is being contested in good faith by NWP or any of its Subsidiaries by appropriate proceedings and with respect to which reserves in conformity with generally accepted accounting principles, if required by such principles, have been provided on the books of NWP or the relevant Subsidiary of NWP, as the case may be.

(p) The Lien reserved in leases entered into in the ordinary course of business for rent and for compliance with the terms of the lease in the case of real property leasehold estates.

(q) Defects and irregularities in the titles to any property (including rights-of-way and easements) which are not material to the business, assets, operations or financial condition of NWP and its Subsidiaries considered as a whole.

(r) Any Liens securing Debt neither assumed nor guaranteed by NWP or any of its Subsidiaries nor on which any of them customarily pays interest, existing upon real estate or rights in or relating to real estate (including rights-of-way and easements) acquired by NWP or any of its Subsidiaries for pipeline, metering station or right-of-way purposes, which Liens were not created in anticipation of such acquisition and do not materially impair the use of such property for the purposes for which it is held by NWP or such Subsidiary.

(s) Easements, exceptions or reservations in any property of NWP or any of its Subsidiaries granted or reserved in the ordinary course of business for the purpose of pipelines, roads, telecommunication equipment and cable, streets, alleys, highways, railroads, the removal of oil, gas, coal or other minerals or timber, and other like purposes, or for the joint or common use of real property, facilities and equipment, which do not materially impair the use of such property for the purposes for which it is held by NWP or such Subsidiary.

(t) Rights reserved to or vested in any municipality or public authority to control or regulate any property of NWP or any of its Subsidiaries, or to use such property in any manner which does not materially impair the use of such property for the purposes for which it is held by NWP or such Subsidiary.

(u) Any obligations or duties, affecting the property of NWP or any of its Subsidiaries, to any municipality or public authority with respect to any franchise, grant, license or permit.

(v) (i) The Liens of any judgments in an aggregate amount for NWP and all of its Subsidiaries not in excess of \$5,000,000, the execution of which has not been stayed and (ii) the Liens of any judgments in an aggregate amount for NWP and all of its Subsidiaries not in excess of \$25,000,000, the execution of which has been stayed and which have been appealed and secured, if necessary and permitted hereby, by the filing of an appeal bond.

(w) Zoning laws and ordinances.

(x) Any Lien existing on any office equipment, data processing equipment (including computer and computer peripheral equipment), motor vehicles, aircraft, marine vessels or similar transportation equipment.

(y) Any Lien consisting of interests in receivables in connection with agreements for sales of receivables of any kind by NWP or any of its Subsidiaries for cash.

(z) Any Lien not permitted by paragraphs (a) through (y) above or (aa) below securing Debt of NWP and its Subsidiaries or securing any Debt of NWP and its Subsidiaries which constitutes a refunding or extension of any such Debt if at the time of, and after giving effect to, the creation or assumption of any such Lien, the sum of the aggregate of all Debt of NWP and its Subsidiaries secured by all such Liens not so permitted by paragraphs (a) through (y) above or (aa) below plus the amount of Attributable Obligations of NWP and its Subsidiaries in respect of Sale and Lease-Back Transactions permitted by Section 5.02(j) does not exceed 10% of the sum of (i) Consolidated Tangible Net Worth of NWP plus (ii) Debt of NWP and its Subsidiaries on a Consolidated basis.

(aa) Any Lien resulting from any sale and lease-back of cushion gas by NWP or any of its Subsidiaries.

SCHEDULE IV

PERMITTED TGPL LIENS

(a) Any purchase money Lien created by TGPL or any of its Subsidiaries to secure all or part of the purchase price of any property (or to secure a loan made to enable TGPL or any of its Subsidiaries to acquire the property secured by such Lien), provided that the principal amount of the Debt secured by any such Lien, together with all other Debt secured by a Lien on such property, shall not exceed the purchase price of the property acquired.

(b) Any Lien existing on any property at the time of the acquisition thereof by TGPL or any of its Subsidiaries, whether or not assumed by TGPL or any of its Subsidiaries, and any Lien on any property acquired or constructed by TGPL or any of its Subsidiaries and created not later than 12 months after (i) such acquisition or completion of such construction or (ii) commencement of full operation of such property, whichever is later; provided, however, that if assumed or created by TGPL or any of its Subsidiaries, the principal amount of the Debt secured by such Lien, together with all other Debt secured by a Lien on such property, shall not exceed the purchase price of the property acquired and/or the cost of the property constructed.

(c) Any Lien created or assumed by TGPL or any of its Subsidiaries on any contract for the sale of any product or service or any rights thereunder or any proceeds therefrom, including accounts and other receivables, related to the operation or use of any property acquired or constructed by TGPL or any of its Subsidiaries and created not later than 12 months after (i) such acquisition or completion of such construction or (ii) commencement of full operation of such property, whichever is later; provided, however, that the principal amount of the Debt secured by such mortgage together with all other Debt secured by any such contract, rights or property, shall not exceed the purchase price of the property acquired and/or the cost of the property constructed.

(d) Any Lien existing on any property of a Subsidiary of TGPL at the time it becomes a Subsidiary of TGPL.

(e) Any refunding or extension of maturity, in whole or in part, of any Lien created or assumed in accordance with the provisions of paragraph (a), (b), (c) or (d) above or (j) below, provided that the principal amount of the Debt secured by such refunding Lien or extended Lien shall not exceed the principal amount of the Debt secured by the Lien to be refunded or extended outstanding at the time of such refunding or extension and that such refunding Lien or extended Lien shall be limited to the same property that secured the Lien so refunded or extended.

(f) Mechanics' or materialmen's liens arising in the ordinary course of business which are not more than 90 days past due or are being contested in good faith by appropriate proceedings or any Lien arising by reason of pledges or deposits to secure payment of workmen's compensation or other insurance, good faith deposits in connection with tenders or leases of real estate, bids or contracts (other than contracts for the payment of money), in each case to secure obligations of TWC or any of its Subsidiaries.

(g) Deposits to secure public or statutory obligations, deposits to secure or in lieu of surety, stay or appeal bonds and deposits as security for the payment of taxes or assessments or other similar charges, in each case to secure obligations of TWC or any of its Subsidiaries; provided,

however, that the aggregate amount of obligations secured by Liens permitted by this paragraph (g) shall not exceed 10% of Consolidated Tangible Net Worth of TWC.

(h) Any Lien arising by reason of deposits with or the giving of any form of security to any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation (i) as a condition to the transaction by TWC or any of its Subsidiaries of any business or the exercise by TWC or any of its Subsidiaries of any privilege or license, (ii) to enable TWC or any of its Subsidiaries to maintain self-insurance or to participate in any fund for liability on any insurance risks or (iii) in connection with workmen's compensation, unemployment insurance, old age pensions or other social security with respect to TWC or any of its Subsidiaries or to enable TWC or any of its Subsidiaries to share in the privileges or benefits required for companies participating in such arrangements.

(i) Any Lien which is payable, both with respect to principal and interest, solely out of the proceeds of oil, gas, coal or other minerals or timber to be produced from the property subject thereto and to be sold or delivered by TGPL or any of its Subsidiaries, including any interest of the character commonly referred to as a "production payment".

(j) Any Lien created or assumed by a Subsidiary of TGPL on oil, gas, coal or other mineral or timber property, owned or leased by such Subsidiary to secure loans to such Subsidiary for the purposes of developing such properties, including any interest of the character commonly referred to as a "production payment"; provided, however, that neither TGPL nor any other Subsidiary of TGPL shall assume or guarantee such loans or otherwise be liable in respect thereto.

(k) Liens incurred in the ordinary course of business upon rights-of-way.

(l) Undetermined mortgages and charges incidental to construction or maintenance arising in the ordinary course of business which are not more than 90 days past due or are being contested in good faith by appropriate proceedings.

(m) The right reserved to, or vested in, any municipality or governmental or other public authority or railroad by the terms of any right, power, franchise, grant, license, permit or by any provision of law, to terminate or to require annual or other periodic payments as a condition to the continuance of such right, power, franchise, grant, license or permit.

(n) The Lien of taxes and assessments which are not at the time delinquent.

(o) The Lien of specified taxes and assessments which are delinquent but the validity of which is being contested in good faith by TGPL or any of its Subsidiaries by appropriate proceedings and with respect to which reserves in conformity with generally accepted accounting principles, if required by such principles, have been provided on the books of TGPL or the relevant Subsidiary of TGPL, as the case may be.

(p) The Lien reserved in leases entered into in the ordinary course of business for rent and for compliance with the terms of the lease in the case of real property leasehold estates.

(q) Defects and irregularities in the titles to any property (including rights-of-way and easements) which are not material to the business, assets, operations or financial condition of TGPL and its Subsidiaries considered as a whole.

(r) Any Liens securing Debt neither assumed nor guaranteed by TGPL or any of its Subsidiaries nor on which any of them customarily pays interest, existing upon real estate or rights in or relating to real estate (including rights-of-way and easements) acquired by TGPL or any of its Subsidiaries for pipeline, metering station or right-of-way purposes, which Liens were not created in anticipation of such acquisition and do not materially impair the use of such property for the purposes for which it is held by TGPL or such Subsidiary.

(s) Easements, exceptions or reservations in any property of TGPL or any of its Subsidiaries granted or reserved in the ordinary course of business for the purpose of pipelines, roads, telecommunication equipment and cable, streets, alleys, highways, railroads, the removal of oil, gas, coal or other minerals or timber, and other like purposes, or for the joint or common use of real property, facilities and equipment, which do not materially impair the use of such property for the purposes for which it is held by TGPL or such Subsidiary.

(t) Rights reserved to or vested in any municipality or public authority to control or regulate any property of TGPL or any of its Subsidiaries, or to use such property in any manner which does not materially impair the use of such property for the purposes for which it is held by TGPL or such Subsidiary.

(u) Any obligations or duties, affecting the property of TGPL or any of its Subsidiaries, to any municipality or public authority with respect to any franchise, grant, license or permit.

(v) (i) The Liens of any judgments in an aggregate amount for TGPL and all of its Subsidiaries not in excess of \$5,000,000, execution of which has not been stayed and (ii) the Liens of any judgments in an aggregate amount for TGPL and all of its Subsidiaries not in excess of \$25,000,000, the execution of which has been stayed and which have been appealed and secured, if necessary and permitted hereby, by the filing of an appeal bond.

(w) Zoning laws and ordinances.

(x) Any Lien existing on any office equipment, data processing equipment (including computer and computer peripheral equipment), motor vehicles, aircraft, marine vessels or similar transportation equipment.

(y) Any Lien consisting of interests in receivables in connection with agreements for sales of receivables of any kind by TGPL or any of its Subsidiaries for cash.

(z) Any Lien not permitted by paragraphs (a) through (y) above or (aa) below securing Debt of TGPL and its Subsidiaries or securing any Debt of TGPL and its Subsidiaries which constitutes a refunding or extension of any such Debt if at the time of, and after giving effect to, the creation or assumption of any such Lien, the sum of the aggregate of all Debt of TGPL and its Subsidiaries secured by all such Liens not so permitted by paragraphs (a) through (y) above or (aa) below plus the amount of Attributable Obligations of TGPL and its Subsidiaries in respect of Sale and Lease-Back Transactions permitted by Section 5.02(j) does not exceed 5% of the sum of (i) Consolidated Tangible Net Worth of TGPL plus (ii) Debt of TGPL and its Subsidiaries on a Consolidated basis.

(aa) Any Lien resulting from any sale and lease-back of cushion gas by TGPL or any of its Subsidiaries.

SCHEDULE V

PERMITTED TGT LIENS

(a) Any purchase money Lien created by TGT or any of its Subsidiaries to secure all or part of the purchase price of any property (or to secure a loan made to enable TGT or any of its Subsidiaries to acquire the property secured by such Lien), provided that the principal amount of the Debt secured by any such Lien, together with all other Debt secured by a Lien on such property, shall not exceed the purchase price of the property acquired.

(b) Any Lien existing on any property at the time of the acquisition thereof by TGT or any of its Subsidiaries, whether or not assumed by TGT or any of its Subsidiaries, and any Lien on any property acquired or constructed by TGT or any of its Subsidiaries and created not later than 12 months after (i) such acquisition or completion of such construction or (ii) commencement of full operation of such property, whichever is later; provided, however, that if assumed or created by TGT or any of its Subsidiaries, the principal amount of the Debt secured by such Lien, together with all other Debt secured by a Lien on such property, shall not exceed the purchase price of the property acquired and/or the cost of the property constructed.

(c) Any Lien created or assumed by TGT or any of its Subsidiaries on any contract for the sale of any product or service or any rights thereunder or any proceeds therefrom, including accounts and other receivables, related to the operation or use of any property acquired or constructed by TGT or any of its Subsidiaries and created not later than 12 months after (i) such acquisition or completion of such construction or (ii) commencement of full operation of such property, whichever is later; provided, however, that the principal amount of the Debt secured by such mortgage together with all other Debt secured by any such contract, rights or property, shall not exceed the purchase price of the property acquired and/or the cost of the property constructed.

(d) Any Lien existing on any property of a Subsidiary of TGT at the time it becomes a Subsidiary of TGT.

(e) Any refunding or extension of maturity, in whole or in part, of any Lien created or assumed in accordance with the provisions of paragraph (a), (b), (c) or (d) above or (j) below, provided that the principal amount of the Debt secured by such refunding Lien or extended Lien shall not exceed the principal amount of the Debt secured by the Lien to be refunded or extended outstanding at the time of such refunding or extension and that such refunding Lien or extended Lien shall be limited to the same property that secured the Lien so refunded or extended.

(f) Mechanics' or materialmen's liens arising in the ordinary course of business which are not more than 90 days past due or are being contested in good faith by appropriate proceedings or any Lien arising by reason of pledges or deposits to secure payment of workmen's compensation or other insurance, good faith deposits in connection with tenders or leases of real estate, bids or contracts (other than contracts for the payment of money), in each case to secure obligations of TWC or any of its Subsidiaries.

(g) Deposits to secure public or statutory obligations, deposits to secure or in lieu of surety, stay or appeal bonds and deposits as security for the payment of taxes or assessments or other similar charges, in each case to secure obligations of TWC or any of its Subsidiaries; provided,

however, that the aggregate amount of obligations secured by Liens permitted by this paragraph (g) shall not exceed 10% of Consolidated Tangible Net Worth of TWC.

(h) Any Lien arising by reason of deposits with or the giving of any form of security to any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation (i) as a condition to the transaction by TWC or any of its Subsidiaries of any business or the exercise by TWC or any of its Subsidiaries of any privilege or license, (ii) to enable TWC or any of its Subsidiaries to maintain self-insurance or to participate in any fund for liability on any insurance risks or (iii) in connection with workmen's compensation, unemployment insurance, old age pensions or other social security with respect to TWC or any of its Subsidiaries or to enable TWC or any of its Subsidiaries to share in the privileges or benefits required for companies participating in such arrangements.

(i) Any Lien which is payable, both with respect to principal and interest, solely out of the proceeds of oil, gas, coal or other minerals or timber to be produced from the property subject thereto and to be sold or delivered by TGT or any of its Subsidiaries, including any interest of the character commonly referred to as a "production payment".

(j) Any Lien created or assumed by a Subsidiary of TGT on oil, gas, coal or other mineral or timber property, owned or leased by such Subsidiary to secure loans to such Subsidiary for the purposes of developing such properties, including any interest of the character commonly referred to as a "production payment"; provided, however, that neither TGT nor any other Subsidiary of TGT shall assume or guarantee such loans or otherwise be liable in respect thereto.

(k) Liens incurred in the ordinary course of business upon rights-of-way.

(l) Undetermined mortgages and charges incidental to construction or maintenance arising in the ordinary course of business which are not more than 90 days past due or are being contested in good faith by appropriate proceedings.

(m) The right reserved to, or vested in, any municipality or governmental or other public authority or railroad by the terms of any right, power, franchise, grant, license, permit or by any provision of law, to terminate or to require annual or other periodic payments as a condition to the continuance of such right, power, franchise, grant, license or permit.

(n) The Lien of taxes and assessments which are not at the time delinquent.

(o) The Lien of specified taxes and assessments which are delinquent but the validity of which is being contested in good faith by TGT or any of its Subsidiaries by appropriate proceedings and with respect to which reserves in conformity with generally accepted accounting principles, if required by such principles, have been provided on the books of TGT or the relevant Subsidiary of TGT, as the case may be.

(p) The Lien reserved in leases entered into in the ordinary course of business for rent and for compliance with the terms of the lease in the case of real property leasehold estates.

(q) Defects and irregularities in the titles to any property (including rights-of-way and easements) which are not material to the business, assets, operations or financial condition of TGT and its Subsidiaries considered as a whole.

(r) Any Liens securing Debt neither assumed nor guaranteed by TGT or any of its Subsidiaries nor on which any of them customarily pays interest, existing upon real estate or rights in or relating to real estate (including rights-of-way and easements) acquired by TGT or any of its Subsidiaries for pipeline, metering station or right-of-way purposes, which Liens were not created in anticipation of such acquisition and do not materially impair the use of such property for the purposes for which it is held by TGT or such Subsidiary.

(s) Easements, exceptions or reservations in any property of TGT or any of its Subsidiaries granted or reserved in the ordinary course of business for the purpose of pipelines, roads, telecommunication equipment and cable, streets, alleys, highways, railroads, the removal of oil, gas, coal or other minerals or timber, and other like purposes, or for the joint or common use of real property, facilities and equipment, which do not materially impair the use of such property for the purposes for which it is held by TGT or such Subsidiary.

(t) Rights reserved to or vested in any municipality or public authority to control or regulate any property of TGT or any of its Subsidiaries, or to use such property in any manner which does not materially impair the use of such property for the purposes for which it is held by TGT or such Subsidiary.

(u) Any obligations or duties, affecting the property of TGT or any of its Subsidiaries, to any municipality or public authority with respect to any franchise, grant, license or permit.

(v) (i) The Liens of any judgments in an aggregate amount for TGT and all of its Subsidiaries not in excess of \$5,000,000, execution of which has not been stayed and (ii) the Liens of any judgments in an aggregate amount for TGT and all of its Subsidiaries not in excess of \$25,000,000, the execution of which has been stayed and which have been appealed and secured, if necessary and permitted hereby, by the filing of an appeal bond.

(w) Zoning laws and ordinances.

(x) Any Lien existing on any office equipment, data processing equipment (including computer and computer peripheral equipment), motor vehicles, aircraft, marine vessels or similar transportation equipment.

(y) Any Lien consisting of interests in receivables in connection with agreements for sales of receivables of any kind by TGT or any of its Subsidiaries for cash.

(z) Any Lien not permitted by paragraphs (a) through (y) above or (aa) below securing Debt of TGT and its Subsidiaries or securing any Debt of TGT and its Subsidiaries which constitutes a refunding or extension of any such Debt if at the time of, and after giving effect to, the creation or assumption of any such Lien, the sum of the aggregate of all Debt of TGT and its Subsidiaries secured by all such Liens not so permitted by paragraphs (a) through (y) above or (aa) below plus the amount of Attributable Obligations of TGT and its Subsidiaries in respect of Sale and Lease-Back Transactions permitted by Section 5.02(j) does not exceed 5% of the sum of (i) Consolidated Tangible Net Worth of TGT plus (ii) Debt of TGT and its Subsidiaries on a Consolidated basis.

(aa) Any Lien resulting from any sale and lease-back of cushion gas by TGT or any of its Subsidiaries.

SCHEDULE VI
PERMITTED TWC LIENS

(a) Any purchase money Lien created by TWC or any of its Subsidiaries to secure all or part of the purchase price of any property (or to secure a loan made to enable TWC or any of its Subsidiaries to acquire the property secured by such Lien), provided that the principal amount of the Debt secured by any such Lien, together with all other Debt secured by a Lien on such property, shall not exceed the purchase price of the property acquired.

(b) Any Lien existing on any property at the time of the acquisition thereof by TWC or any of its Subsidiaries, whether or not assumed by TWC or any of its Subsidiaries, and any Lien on any property acquired or constructed by TWC or any of its Subsidiaries and created not later than 12 months after (i) such acquisition or completion of such construction or (ii) commencement of full operation of such property, whichever is later; provided, however, that if assumed or created by TWC or any of its Subsidiaries, the principal amount of the Debt secured by such Lien, together with all other Debt secured by a Lien on such property, shall not exceed the purchase price of the property acquired and/or the cost of the property constructed.

(c) Any Lien created or assumed by TWC or any of its Subsidiaries on any contract for the sale of any product or service or any rights thereunder or any proceeds therefrom, including accounts and other receivables, related to the operation or use of any property acquired or constructed by TWC or any of its Subsidiaries and created not later than 12 months after (i) such acquisition or completion of such construction or (ii) commencement of full operation of such property, whichever is later; provided, however, that the principal amount of the Debt secured by such mortgage together with all other Debt secured by any such contract, rights or property, shall not exceed the purchase price of the property acquired and/or the cost of the property constructed.

(d) Any Lien existing on any property of a Subsidiary of TWC at the time it becomes a Subsidiary of TWC.

(e) Any refunding or extension of maturity, in whole or in part, of any Lien created or assumed in accordance with the provisions of paragraph (a), (b), (c) or (d) above or (j) below, provided that the principal amount of the Debt secured by such refunding Lien or extended Lien shall not exceed the principal amount of the Debt secured by the Lien to be refunded or extended outstanding at the time of such refunding or extension and that such refunding Lien or extended Lien shall be limited to the same property that secured the Lien so refunded or extended.

(f) Mechanics' or materialmen's liens arising in the ordinary course of business which are not more than 90 days past due or are being contested in good faith by appropriate proceedings or any Lien arising by reason of pledges or deposits to secure payment of workmen's compensation or other insurance, good faith deposits in connection with tenders or leases of real estate, bids or contracts (other than contracts for the payment of money), in each case to secure obligations of TWC or any of its Subsidiaries.

(g) Deposits to secure public or statutory obligations, deposits to secure or in lieu of surety, stay or appeal bonds and deposits as security for the payment of taxes or assessments or other

similar charges, in each case to secure obligations of TWC or any of its Subsidiaries; provided, however, that the aggregate amount of obligations secured by Liens permitted by this paragraph (g) shall not exceed 10% of Consolidated Tangible Net Worth of TWC.

(h) Any Lien arising by reason of deposits with or the giving of any form of security to any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation (i) as a condition to the transaction by TWC or any of its Subsidiaries of any business or the exercise by TWC or any of its Subsidiaries of any privilege or license, (ii) to enable TWC or any of its Subsidiaries to maintain self-insurance or to participate in any fund for liability on any insurance risks or (iii) in connection with workmen's compensation, unemployment insurance, old age pensions or other social security with respect to TWC or any of its Subsidiaries or to enable TWC or any of its Subsidiaries to share in the privileges or benefits required for companies participating in such arrangements.

(i) Any Lien which is payable, both with respect to principal and interest, solely out of the proceeds of oil, gas, coal or other minerals or timber to be produced from the property subject thereto and to be sold or delivered by TWC or any of its Subsidiaries, including any interest of the character commonly referred to as a "production payment".

(j) Any Lien created or assumed by a Subsidiary of TWC on oil, gas, coal or other mineral or timber property, owned or leased by such Subsidiary to secure loans to such Subsidiary for the purposes of developing such properties, including any interest of the character commonly referred to as a "production payment"; provided, however, that neither TWC nor any other Subsidiary of TWC shall assume or guarantee such loans or otherwise be liable in respect thereto.

(k) Liens incurred in the ordinary course of business upon rights-of-way.

(l) Undetermined mortgages and charges incidental to construction or maintenance arising in the ordinary course of business which are not more than 90 days past due or are being contested in good faith by appropriate proceedings.

(m) The right reserved to, or vested in, any municipality or governmental or other public authority or railroad by the terms of any right, power, franchise, grant, license, permit or by any provision of law, to terminate or to require annual or other periodic payments as a condition to the continuance of such right, power, franchise, grant, license or permit.

(n) The Lien of taxes and assessments which are not at the time delinquent.

(o) The Lien of specified taxes and assessments which are delinquent but the validity of which is being contested in good faith by TWC or any of its Subsidiaries by appropriate proceedings and with respect to which reserves in conformity with generally accepted accounting principles, if required by such principles, have been provided on the books of TWC or the relevant Subsidiary of TWC, as the case may be.

(p) The Lien reserved in leases entered into in the ordinary course of business for rent and for compliance with the terms of the lease in the case of real property leasehold estates.

(q) Defects and irregularities in the titles to any property (including rights-of-way and easements) which are not material to the business, assets, operations or financial condition of TWC and its Subsidiaries considered as a whole.

(r) Any Liens securing Debt neither assumed nor guaranteed by TWC or any of its Subsidiaries nor on which any of them customarily pays interest, existing upon real estate or rights in or relating to real estate (including rights-of-way and easements) acquired by TWC or any of its Subsidiaries, which Liens were not created in anticipation of such acquisition and do not materially impair the use of such property for the purposes for which it is held by TWC or such Subsidiary.

(s) Easements, exceptions or reservations in any property of TWC or any of its Subsidiaries granted or reserved in the ordinary course of business for the purpose of pipelines, roads, telecommunication equipment and cable, streets, alleys, highways, railroads, the removal of oil, gas, coal or other minerals or timber, and other like purposes, or for the joint or common use of real property, facilities and equipment, which do not materially impair the use of such property for the purposes for which it is held by TWC or such Subsidiary.

(t) Rights reserved to or vested in any municipality or public authority to control or regulate any property of TWC or any of its Subsidiaries, or to use such property in any manner which does not materially impair the use of such property for the purposes for which it is held by TWC or such Subsidiary.

(u) Any obligations or duties, affecting the property of TWC or any of its Subsidiaries, to any municipality or public authority with respect to any franchise, grant, license or permit.

(v) (i) The Liens of any judgments in an aggregate amount for TWC and all of its Subsidiaries not in excess of \$5,000,000, the execution of which has not been stayed and (ii) the Liens of any judgments in an aggregate amount for TWC and all of its Subsidiaries not in excess of \$25,000,000, the execution of which has been stayed and which have been appealed and secured, if necessary and permitted hereby, by the filing of an appeal bond.

(w) Zoning laws and ordinances.

(x) Any Lien existing on any office equipment, data processing equipment (including computer and computer peripheral equipment), motor vehicles, aircraft, marine vessels or similar transportation equipment.

(y) Any Lien consisting of interests in receivables in connection with agreements for sales of receivables of any kind by TWC or any of its Subsidiaries for cash.

(z) Any Lien not permitted by paragraphs (a) through (y) above or (aa) or (bb) below securing Debt of TWC and its Subsidiaries or securing any Debt of TWC and its Subsidiaries which constitutes a refunding or extension of any such Debt if at the time of, and after giving effect to, the creation or assumption of any such Lien, the sum of the aggregate of all Debt of TWC and its Subsidiaries secured by all such Liens not so permitted by paragraphs (a) through (y) above or (aa) or (bb) below plus the amount of Attributable Obligations of TWC and its Subsidiaries in respect

of Sale and Lease-Back Transactions permitted by Section 5.02(j) does not exceed 5% of the sum of (i) Consolidated Tangible Net Worth of TWC plus (ii) Debt of TWC and its Subsidiaries on a Consolidated basis.

(aa) Any overriding royalties or other rights of Pacific Northwest Pipeline Corporation, a Delaware corporation ("Pacific") and Phillips Petroleum Company ("Phillips") or their respective successors in interest under a contract dated January 9, 1953, as amended, between Phillips and Pacific, to which TWC is successor in interest; and the obligations of TWC to surrender, transfer, release or reassign the leases or interests or rights to which said instruments relate under the conditions and upon the occurrence of the events specified in said instruments.

(bb) Any Lien resulting from any sale and lease-back of cushion gas by TWC or any of its Subsidiaries or from any sale and lease-back of inventory by WPL or any of its Subsidiaries (other than another Borrower).

SCHEDULE VII
PERMITTED WPL LIENS

(a) Any liens imposed by law, such as carriers', warehousemen's and mechanics' liens and other similar liens arising in the ordinary course of business which are not more than 90 days past due or are being contested in good faith by appropriate proceedings or any Lien arising by reason of pledges or deposits to secure payment of workmen's compensation, unemployment insurance, old age pensions or other social security or retirement benefits or benefits under similar legislation, in each case to secure obligations of TWC or any of its Subsidiaries.

(b) Liens for taxes, assessments or governmental charges or levies which are not delinquent or thereafter can be paid without penalty or which are being contested in good faith by WPL or any of its Subsidiaries by appropriate proceedings and with respect to which reserves in conformity with generally accepted accounting principles, if required by such principles, have been provided on the books of WPL or the relevant Subsidiary of WPL, as the case may be.

(c) Other Liens incidental to the conduct of the business of, or the ownership of the property and assets of, WPL or any of its Subsidiaries which do not secure Debt, which were incurred in the ordinary course of business and which do not in the aggregate materially detract from the value of such property or assets or materially impair the use thereof in the operation of such business.

(d) Liens on the assets or properties of a Subsidiary of WPL in favor of WPL to secure Debt of such Subsidiary to WPL.

(e) Liens existing on any property of any corporation at the time it becomes a Subsidiary of WPL, or existing prior to the time of acquisition, upon any property acquired by WPL or any of its Subsidiaries through purchase, merger, consolidation or otherwise, whether or not assumed by WPL or any of its Subsidiaries, to secure a portion of the purchase price thereof; provided that (i) any such Lien shall not encumber any other property of WPL or any of its Subsidiaries, (ii) the aggregate principal amount of Debt secured by all Liens permitted by this clause (e) and any Liens permitted by clause (f) below does not exceed an amount equal to 20% of Consolidated Tangible Net Worth of WPL and, provided further that the Debt secured thereby is permitted hereby.

(f) Any Lien renewing, extending or refunding any Lien permitted by clause (e) above, provided that the principal amount secured is not increased, and the Lien is not extended to any other property.

(g) Any Lien created by any Person other than WPL or any of its Subsidiaries or any renewal or extension of any such Lien which is a Lien upon the lands over which easements or rights-of-way for pipeline purposes are held, securing Debt which has not been assumed or

guaranteed by WPL or any of its Subsidiaries and on which Debt neither WPL nor any of its Subsidiaries pays interest charges.

(h) Any Lien consisting of interests in receivables in connection with agreements for sales of receivables of any kind by WPL or any of its Subsidiaries for cash.

(i) Any Lien not permitted by paragraphs (a) through (h) above or (j) below securing Debt of WPL and its Subsidiaries or securing any Debt of WPL and its Subsidiaries which constitutes a refunding or extension of any such Debt if at the time of, and after giving effect to, the creation or assumption of any such Lien, the sum of the aggregate of all Debt of WPL and its Subsidiaries secured by all such Liens not so permitted by paragraphs (a) through (h) above or (j) below plus Debt secured by Liens permitted by paragraph (e) or by paragraph (f) of this Schedule VI plus the amount of Attributable Obligations of WPL and its Subsidiaries in respect of Sale and Lease-Back Transactions permitted by Section 5.02(j) does not exceed 10% of the sum of (i) Consolidated Tangible Net Worth of WPL plus (ii) Debt of WPL and its Subsidiaries on a Consolidated basis.

(j) Any Lien resulting from any sale and lease-back of inventory by WPL or any of its Subsidiaries (other than another Borrower).

SCHEDULE VIII

PERMITTED WHD LIENS

(a) Any purchase money Lien created by WHD or any of its Subsidiaries to secure all or part of the purchase price of any property (or to secure a loan made to enable WHD or any of its Subsidiaries to acquire the property secured by such Lien), provided that the principal amount of the Debt secured by any such Lien, together with all other Debt secured by a Lien on such property, shall not exceed the purchase price of the property acquired.

(b) Any Lien existing on any property at the time of the acquisition thereof by WHD or any of its Subsidiaries, whether or not assumed by WHD or any of its Subsidiaries, and any Lien on any property acquired or constructed by WHD or any of its Subsidiaries and created not later than 12 months after (i) such acquisition or completion of such construction or (ii) commencement of full operation of such property, whichever is later; provided, however, that if assumed or created by WHD or any of its Subsidiaries, the principal amount of the Debt secured by such Lien, together with all other Debt secured by a Lien on such property, shall not exceed the purchase price of the property acquired and/or the cost of the property constructed.

(c) Any Lien created or assumed by WHD or any of its Subsidiaries on any contract for the sale of any product or service or any rights thereunder or any proceeds therefrom, including accounts and other receivables, related to the operation or use of any property acquired or constructed by WHD or any of its Subsidiaries and created not later than 12 months after (i) such acquisition or completion of such construction or (ii) commencement of full operation of such property, whichever is later; provided, however, that the principal amount of the Debt secured by such mortgage together with all other Debt secured by any such contract, rights or property, shall not exceed the purchase price of the property acquired and/or the cost of the property constructed.

(d) Any Lien existing on any property of a Subsidiary of WHD at the time it becomes a Subsidiary of WHD.

(e) Any refunding or extension of maturity, in whole or in part, of any Lien created or assumed in accordance with the provisions of paragraph (a), (b), (c) or (d) above or (j) below, provided that the principal amount of the Debt secured by such refunding Lien or extended Lien shall not exceed the principal amount of the Debt secured by the Lien to be refunded or extended outstanding at the time of such refunding or extension and that such refunding Lien or extended Lien shall be limited to the same property that secured the Lien so refunded or extended.

(f) Mechanics' or materialmen's liens arising in the ordinary course of business which are not more than 90 days past due or are being contested in good faith by appropriate proceedings or any Lien arising by reason of pledges or deposits to secure payment of workmen's compensation or other insurance, good faith deposits in connection with tenders or leases of real estate, bids or contracts (other than contracts for the payment of money), in each case to secure obligations of TWC or any of its Subsidiaries.

(g) Deposits to secure public or statutory obligations, deposits to secure or in lieu of surety, stay or appeal bonds and deposits as security for the payment of taxes or assessments or other similar charges, in each case to secure obligations of TWC or any of its Subsidiaries; provided, however, that the aggregate amount of obligations secured by Liens permitted by this paragraph (g) shall not exceed 10% of Consolidated Tangible Net Worth of TWC.

(h) Any Lien arising by reason of deposits with or the giving of any form of security to any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation (i) as a condition to the transaction by TWC or any of its Subsidiaries of any business or the exercise by TWC or any of its Subsidiaries of any privilege or license, (ii) to enable TWC or any of its Subsidiaries to maintain self-insurance or to participate in any fund for liability on any insurance risks or (iii) in connection with workmen's compensation, unemployment insurance, old age pensions or other social security with respect to TWC or any of its Subsidiaries or to enable TWC or any of its Subsidiaries to share in the privileges or benefits required for companies participating in such arrangements.

(i) Any Lien which is payable, both with respect to principal and interest, solely out of the proceeds of oil, gas, coal or other minerals or timber to be produced from the property subject thereto and to be sold or delivered by WHD or any of its Subsidiaries, including any interest of the character commonly referred to as a "production payment".

(j) Any Lien created or assumed by a Subsidiary of WHD on oil, gas, coal or other mineral or timber property, owned or leased by such Subsidiary to secure loans to such Subsidiary for the purposes of developing such properties, including any interest of the character commonly referred to as a "production payment"; provided, however, that neither WHD nor any other Subsidiary of WHD shall assume or guarantee such loans or otherwise be liable in respect thereto.

(k) Liens incurred in the ordinary course of business upon rights-of-way.

(l) Undetermined mortgages and charges incidental to construction or maintenance arising in the ordinary course of business which are not more than 90 days past due or are being contested in good faith by appropriate proceedings.

(m) The right reserved to, or vested in, any municipality or governmental or other public authority or railroad by the terms of any right, power, franchise, grant, license, permit or by any provision of law, to terminate or to require annual or other periodic payments as a condition to the continuance of such right, power, franchise, grant, license or permit.

(n) The Lien of taxes and assessments which are not at the time delinquent.

(o) The Lien of specified taxes and assessments which are delinquent but the validity of which is being contested in good faith by WHD or any of its Subsidiaries by appropriate proceedings and with respect to which reserves in conformity with generally accepted accounting principles, if required by such principles, have been provided on the books of WHD or the relevant Subsidiary of WHD, as the case may be.

(p) The Lien reserved in leases entered into in the ordinary course of business for rent and for compliance with the terms of the lease in the case of real property leasehold estates.

(q) Defects and irregularities in the titles to any property (including rights-of-way and easements) which are not material to the business, assets, operations or financial condition of WHD and its Subsidiaries considered as a whole.

(r) Any Liens securing Debt neither assumed nor guaranteed by WHD or any of its Subsidiaries nor on which any of them customarily pays interest, existing upon real estate or rights in or relating to real estate (including rights-of-way and easements) acquired by WHD or any of its Subsidiaries for pipeline, metering station or right-of-way purposes, which Liens were not created in anticipation of such acquisition and do not materially impair the use of such property for the purposes for which it is held by WHD or such Subsidiary.

(s) Easements, exceptions or reservations in any property of WHD or any of its Subsidiaries granted or reserved in the ordinary course of business for the purpose of pipelines, roads, telecommunication equipment and cable, streets, alleys, highways, railroads, the removal of oil, gas, coal or other minerals or timber, and other like purposes, or for the joint or common use of real property, facilities and equipment, which do not materially impair the use of such property for the purposes for which it is held by WHD or such Subsidiary.

(t) Rights reserved to or vested in any municipality or public authority to control or regulate any property of WHD or any of its Subsidiaries, or to use such property in any manner which does not materially impair the use of such property for the purposes for which it is held by WHD or such Subsidiary.

(u) Any obligations or duties, affecting the property of WHD or any of its Subsidiaries, to any municipality or public authority with respect to any franchise, grant, license or permit.

(v) (i) The Liens of any judgments in an aggregate amount for WHD and all of its Subsidiaries not in excess of \$5,000,000, execution of which has not been stayed and (ii) the Liens of any judgments in an aggregate amount for WHD and all of its Subsidiaries not in excess of \$25,000,000, the execution of which has been stayed and which have been appealed and secured, if necessary and permitted hereby, by the filing of an appeal bond.

(w) Zoning laws and ordinances.

(x) Any Lien existing on any office equipment, data processing equipment (including computer and computer peripheral equipment), motor vehicles, aircraft, marine vessels or similar transportation equipment.

(y) Any Lien consisting of interests in receivables in connection with agreements for sales of receivables of any kind by WHD or any of its Subsidiaries for cash.

(z) Any Lien not permitted by paragraphs (a) through (y) above or (aa) below securing Debt of WHD and its Subsidiaries or securing any Debt of WHD and its Subsidiaries which constitutes a refunding or extension of any such Debt if at the time of, and after giving effect to, the creation or assumption of any such Lien, the sum of the aggregate of all Debt of WHD and its Subsidiaries secured by all such Liens not so permitted by paragraphs (a) through (y) above or (aa) below plus the amount of Attributable Obligations of WHD and its Subsidiaries in respect of Sale and Lease-Back Transactions permitted by Section 5.02(j) does not exceed 5% of the sum of (i) Consolidated Tangible Net Worth of WHD plus (ii) Debt of WHD and its Subsidiaries on a Consolidated basis.

(aa) Any Lien resulting from any sale and lease-back of cushion gas by WHD or any of its Subsidiaries.

(bb) Any Lien created by WHD or any of its Subsidiaries on any contract (or any rights thereunder or proceeds therefrom) providing for advances by WHD or any of its Subsidiaries to finance gas exploration and development, which Lien is created to secure only indebtedness incurred to finance such advances.

SCHEDULE IX
COMMITMENTS

as of December 20, 1996

Banks	TWC Commitment	WHD Commitment	NWP Commitment	TGPL Commitment	TGT Commitment	WPL Commitment
Citibank, N.A.	\$ 65,000,000	\$ 39,000,000	\$ 26,000,000	\$ 26,000,000	\$ 13,000,000	6,500,000
Bank of America National Trust and Savings Association	60,000,000	36,000,000	24,000,000	24,000,000	12,000,000	6,000,000
The Chase Manhattan Bank	60,000,000	36,000,000	24,000,000	24,000,000	12,000,000	6,000,000
CIBC Inc.	60,000,000	36,000,000	24,000,000	24,000,000	12,000,000	6,000,000
Credit Lyonnais New York Branch	60,000,000	36,000,000	24,000,000	24,000,000	12,000,000	6,000,000
The First National Bank of Chicago	60,000,000	36,000,000	24,000,000	24,000,000	12,000,000	6,000,000
Bank of Montreal	50,000,000	30,000,000	20,000,000	20,000,000	10,000,000	5,000,000
The Bank of New York	50,000,000	30,000,000	20,000,000	20,000,000	10,000,000	5,000,000
The Bank of Nova Scotia	50,000,000	30,000,000	20,000,000	20,000,000	10,000,000	5,000,000
Barclays Bank Plc	50,000,000	30,000,000	20,000,000	20,000,000	10,000,000	5,000,000
Boatmen's National Bank of Oklahoma	50,000,000	30,000,000	20,000,000	20,000,000	10,000,000	5,000,000
The First National Bank of Boston	50,000,000	30,000,000	20,000,000	20,000,000	10,000,000	5,000,000
The Fuji Bank, Limited, Houston Agency	50,000,000	30,000,000	20,000,000	20,000,000	10,000,000	5,000,000
Mellon Bank, N.A.	50,000,000	30,000,000	20,000,000	20,000,000	10,000,000	5,000,000
Morgan Guaranty Trust Company of New York	50,000,000	30,000,000	20,000,000	20,000,000	10,000,000	5,000,000
Royal Bank of Canada	50,000,000	30,000,000	20,000,000	20,000,000	10,000,000	5,000,000
Societe Generale, Southwest Agency	50,000,000	30,000,000	20,000,000	20,000,000	10,000,000	5,000,000
Wells Fargo Bank, N.A.	50,000,000	30,000,000	20,000,000	20,000,000	10,000,000	5,000,000
Bank of Oklahoma, N.A.	20,000,000	12,000,000	8,000,000	8,000,000	4,000,000	2,000,000
Commerce Bank, N.A.	15,000,000	9,000,000	6,000,000	6,000,000	3,000,000	1,500,000
COMMITMENTS	\$1,000,000,000	\$600,000,000	\$400,000,000	\$400,000,000	\$200,000,000	\$100,000,000

EXHIBIT A-1

A PROMISSORY NOTE

U.S. \$ _____ Dated: _____, _____

FOR VALUE RECEIVED, the undersigned, [Borrower], a Delaware corporation (the "Borrower"), HEREBY PROMISES TO PAY to the order of _____ (the "Bank"), for the account of its Applicable Lending Office (as defined in the Credit Agreement referred to below), on the Stated Termination Date (as defined in the Credit Agreement referred to below), the principal amount of \$ _____, or, if less, the aggregate principal amount of the A Advances (as defined in the Credit Agreement referred to below) owed to the Bank by the Borrower on such Stated Termination Date.

The Borrower promises to pay interest on the unpaid principal amount hereof until such principal amount is paid in full, at such interest rates, and payable at such times, as are specified in the Credit Agreement referred to below. Both principal and interest are payable in lawful money of the United States of America to Citibank, N.A., as Agent, at 399 Park Avenue, New York, New York 10043, in same day funds. Each A Advance owed to the Bank by the Borrower, and all payments made on account of principal thereof, shall be recorded by the Bank and, prior to any transfer hereof, endorsed on the grid attached hereto which is part of this A Promissory Note.

This A Promissory Note is one of the A Notes referred to in, and is subject to and entitled to the benefits of, the Amended and Restated Credit Agreement dated as of December 20, 1996 (as amended or otherwise modified from time to time, the "Credit Agreement") among the Borrower, the Bank, certain other borrowers parties thereto, certain other banks parties thereto and Citibank, N.A., as Agent for the Bank and such other banks. The Credit Agreement, among other things, (i) provides for the making of advances to the Borrower from time to time pursuant to Section 2.01 of the Credit Agreement in an aggregate outstanding amount not to exceed at any time the U.S. dollar amount first above mentioned, the indebtedness of the Borrower resulting from each such advance owed to the Bank being evidenced by this A Promissory Note, and (ii) contains provisions for acceleration of the maturity hereof upon the happening of certain stated events and also for prepayments on account of principal hereof prior to the maturity hereof upon the terms and conditions therein specified. Capitalized terms used herein which are not defined herein and are defined in the Credit Agreement are used herein as therein defined.

The Borrower hereby waives presentment, demand, protest, notice of intent to accelerate, notice of acceleration and any other notice of any kind, except as provided in the Credit Agreement. No failure to exercise, and no delay in exercising, any rights hereunder on the part of the holder hereof shall operate as a waiver of such rights.

This A Promissory Note shall be governed by, and construed in accordance with, the laws of the State of New York.

[BORROWER]

By: _____

Name: _____

Title: _____

ADVANCES AND PAYMENTS OF PRINCIPAL

Date -----	Amount of Advance -----	Amount of Principal Paid or Prepaid -----	Unpaid Principal Balance -----	Notation Made By -----
---------------	----------------------------------	---	---	------------------------------

EXHIBIT A-2

B PROMISSORY NOTE

U.S. \$ _____

Dated: _____, _____

FOR VALUE RECEIVED, the undersigned, [Borrower], a Delaware corporation (the "Borrower"), HEREBY PROMISES TO PAY to the order of _____ (the "Bank") for the account of its Applicable Lending Office (as defined in the Credit Agreement referred to below), on _____, the principal amount of _____ U.S. Dollars (\$_____).

The Borrower promises to pay interest on the unpaid principal amount hereof from the date hereof until such principal amount is paid in full, at the interest rate and payable on the interest payment date or dates provided below:

Interest Rate: _____% per annum (calculated on the basis of a year of _____ days for the actual number of days elapsed).

Interest Payment Date or Dates: _____

Both principal and interest are payable in lawful money of the United States of America to Citibank, N.A., as Agent, for the account of the Bank at the office of Citibank, N.A., at 399 Park Avenue, New York, New York 10043, in same day funds.

This B Promissory Note is one of the B Notes referred to in, and is entitled to the benefits of, the Amended and Restated Credit Agreement dated as of December 20, 1996 (as amended or otherwise modified from time to time, the "Credit Agreement") among the Borrower, the Bank, certain other borrowers parties thereto, certain other banks parties thereto and Citibank, N.A., as Agent for the Bank and such other banks. The Credit Agreement, among other things, contains provisions for acceleration of the maturity hereof upon the happening of certain stated events. Capitalized terms used herein which are not defined herein and are defined in the Credit Agreement are used herein as therein defined.

The Borrower hereby waives presentment, demand, protest, notice of intent to accelerate, notice of acceleration and any other notice of any kind, except as provided in the Credit Agreement. No failure to exercise, and no delay in exercising, any rights hereunder on the part of the holder hereof shall operate as a waiver of such rights.

This B Promissory Note shall be governed by, and construed in accordance with, the laws of the State of New York.

[BORROWER]

By: _____

Name: _____

Title: _____

EXHIBIT B-1

NOTICE OF A BORROWING

Citibank, N.A., as Agent
for the Banks parties
to the Credit Agreement
referred to below
399 Park Avenue
New York, New York 10043

[Date]

Attention: John Sahr

Ladies and Gentlemen:

The undersigned, [Borrower] (the "Borrower"), refers to the Amended and Restated Credit Agreement, dated as of December 20, 1996 (as amended or otherwise modified from time to time, the "Credit Agreement"; the terms defined therein and not defined herein being used herein as therein defined), among the undersigned, certain other borrowers parties thereto, certain Banks parties thereto and Citibank, N.A., as Agent for such Banks, and hereby gives you notice, irrevocably, pursuant to Section 2.02 of the Credit Agreement that the undersigned hereby requests an A Borrowing under the Credit Agreement, and in that connection sets forth below the information relating to such A Borrowing (the "Proposed A Borrowing") as required by Section 2.02(a) of the Credit Agreement:

(i) The Business Day of the Proposed A Borrowing is _____, 19__.

(ii) The Type of A Advances comprising the Proposed A Borrowing is [Base Rate Advances] [Eurodollar Rate Advances].

(iii) The aggregate amount of the Proposed A Borrowing is \$_____.

[(iv) The Interest Period for each A Advance made as part of the Proposed A Borrowing is _____ months.]

The undersigned hereby certifies that the following statements are true on the date hereof, and will be true on the date of the Proposed A Borrowing:

(a) the representations and warranties contained in Section 4.01 of the Credit Agreement as to the Borrower and its Subsidiaries are correct on and as of the date of the Proposed A Borrowing, before and after giving effect to the Proposed A Borrowing and to the application of the proceeds therefrom, as though made on and as of such date;

(b) no event has occurred and is continuing, or would result from the Proposed A Borrowing or from the application of the proceeds therefrom, which constitutes an Event of Default or which would constitute an Event of Default but for the requirement that notice be given or time elapse or both; and

(c) after giving effect to the Proposed A Borrowing and all other Borrowings which have been requested on or prior to the date of the Proposed A Borrowing but which have not been made

prior to such date, the aggregate principal amount of all Advances will not exceed the aggregate of the Commitments of the Banks to TWC (computed without regard to any B Reduction).

Very truly yours,

[BORROWER]

By:

Name:

Title:

cc: Citicorp North America, Inc.
1200 Smith Street, Suite 2000
Houston, Texas 77002
Attn: The Williams Companies, Inc.
Account Officer

EXHIBIT B-2

NOTICE OF B BORROWING

Citibank, N.A., as Agent
for the Banks parties
to the Credit Agreement
referred to below
399 Park Avenue
New York, New York 10043

[Date]

Attention: John Sahr

Ladies and Gentlemen:

The undersigned, [Borrower] (the "Borrower"), refers to the Amended and Restated Credit Agreement, dated as of December 20, 1996 (as amended or otherwise modified from time to time, the "Credit Agreement"; the terms defined therein and not defined herein being used herein as therein defined), among the undersigned, certain other borrowers parties thereto, certain Banks parties thereto and Citibank, N.A., as Agent for such Banks, and hereby gives you notice, irrevocably, pursuant to Section 2.16 of the Credit Agreement that the undersigned hereby requests a B Borrowing under the Credit Agreement, and in that connection sets forth the terms on which such B Borrowing (the "Proposed B Borrowing") is requested to be made:

- (A) Date of B Borrowing _____
- (B) Amount of B Borrowing _____
- (C) Maturity Date _____
- (D) Interest Rate Basis _____
- (E) Interest Payment Date(s) _____
- (F) Prepayment Permitted [Yes/No] [Conditions] _____
- (G) _____

The undersigned hereby certifies that the following statements are true on the date hereof, and will be true on the date of the Proposed B Borrowing:

(a) the representations and warranties contained in Section 4.01 of the Credit Agreement as to the Borrower and its Subsidiaries are correct on and as of the date of the Proposed B Borrowing, before and after giving effect to the Proposed B Borrowing and to the application of the proceeds therefrom, as though made on and as of such date;

(b) no event has occurred and is continuing, or would result from the Proposed B Borrowing or from the application of the proceeds therefrom, which constitutes an Event of Default or which would constitute an Event of Default but for the requirement that notice be given or time elapse or both;

(c) following the making of the Proposed B Borrowing and all other Borrowings to be made on the same day under the Credit Agreement, the aggregate principal amount of all

Advances of the Banks to the Borrower then outstanding will not exceed the aggregate amount of the Commitments of the Banks to the Borrower (computed without regard to any B Reduction); and

(d) after giving effect to the Proposed B Borrowing and all other Borrowings which have been requested on or prior to the date of the Proposed B Borrowing but which have not been made prior to such date, the aggregate principal amount of all Advances will not exceed the aggregate of the Commitments of the Banks to TWC (computed without regard to any B Reduction).

The undersigned hereby confirms that the Proposed B Borrowing is to be made available to it in accordance with Section 2.16(a)(v) of the Credit Agreement.

Very truly yours,

[BORROWER]

By:

Name:

Title:

cc: Citicorp North America, Inc.
1200 Smith Street, Suite 2000
Houston, Texas 77002
Attn: The Williams Companies, Inc.
Account Officer

EXHIBIT C

December 20, 1996

To each of the Banks parties to the Amended and Restated Credit Agreement, dated as of December 20, 1996 among The Williams Companies, Inc., Northwest Pipeline Corporation, Transcontinental Gas Pipe Line Corporation, Texas Gas Transmission Corporation, Williams Pipe Line Company, Williams Holdings of Delaware, Inc., the Banks and Citibank, N.A., as Agent for the Banks, and to Citibank, N.A., as Agent

Ladies and Gentlemen:

This opinion is furnished to you pursuant to Section 3.01(d) of the Amended and Restated Credit Agreement dated as of December 20, 1996 (the "Credit Agreement"), among The Williams Companies, Inc. ("TWC"), Northwest Pipeline Corporation, Transcontinental Gas Pipe Line Corporation, Texas Gas Transmission Corporation, Williams Holdings of Delaware, Inc., and Williams Pipe Line Company, each a Delaware corporation (collectively, the "Borrowers"), the Banks parties thereto and Citibank, N.A., as Agent for the Banks. Terms defined in the Credit Agreement are used herein as therein defined.

I am General Counsel of TWC, and I have acted as counsel for the Borrowers in connection with the preparation, execution and delivery of the Credit Agreement and the A Notes.

In that connection, I or attorneys acting under my supervision have examined:

- (1) Original counterparts of the Credit Agreement executed by the Agent and the Borrowers and one hundred twenty original A Notes dated December 20, 1996 executed by the respective Borrowers, consisting of one A Note executed severally by each Borrower payable to each Bank ("Executed Notes").
- (2) The documents furnished by the Borrowers pursuant to Section 3.01 of the Credit Agreement.
- (3) The Certificate of Incorporation of each Borrower and all amendments thereto (the "Charter" of such Borrower).
- (4) The by-laws of each Borrower and all amendments thereto (the "By-laws" of such Borrower).
- (5) Certificates of the Secretary of State of the State of Delaware, dated December __, 1996, attesting to the continued corporate existence and good standing of each of the Borrowers in that State.

I have also examined the originals, or copies certified to my satisfaction, of such corporate records of the Borrowers, certificates of public officials and of officers of the Borrowers, and agreements, instruments, and other documents, as I have deemed necessary as a basis for the opinions expressed below. As to questions of fact material to such opinions, I have, when relevant facts were not independently established by me, relied upon certificates of officers of the Borrowers or of public officials. I have assumed (i) the genuineness of all signatures of the Banks and the Agent, (ii) the capacity of the signing officers of each of the Banks and the Agent, (iii) the authenticity of all documents submitted to me as original and the conformity with the authentic originals of all documents submitted to me as copies and (iv) the due execution and delivery, pursuant to due authorization, of the Credit Agreement by the Banks and the Agent and the enforceability (subject to limitations on enforceability of the types referred to in paragraphs (a) through (c) of this opinion) of the Credit Agreement against the Banks and the Agent.

Based upon the foregoing and upon such investigation as I have deemed necessary, I am of the following opinion:

(1) Each of the Borrowers is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware.

(2) The execution, delivery, and performance by each Borrower of the Credit Agreement, the Executed Notes executed by such Borrower, and the Notes to be executed by such Borrower and the consummation of the transactions contemplated by the Credit Agreement are within such Borrower's corporate powers, have been duly authorized by all necessary corporate action, do not contravene (i) the Charter or the By-laws of such Borrower or (ii) any law, rule, or regulation applicable to such Borrower (including, without limitation, Regulation X of the Board of Governors of the Federal Reserve System) or (iii) any contractual or legal restriction and will not result in or require the creation or imposition of any Lien prohibited by the Credit Agreement. With respect to the Notes to be executed after the date hereof by any Borrower, this opinion is limited to law, the Charter and By-laws of such Borrower and restrictions in effect on the date hereof. The Credit Agreement has been duly executed and delivered by each of the Borrowers and each of the Executed Notes has been duly executed and delivered by the appropriate Borrower. Each Borrower has duly executed and delivered to the Agent an A Note payable to each Bank.

(3) No authorization, approval, or other action by, and no notice to or filing with, any governmental authority or regulatory body is required for the due execution, delivery, and performance by any of the Borrowers of the Credit Agreement and the respective Notes or the consummation of the transactions contemplated by the Credit Agreement except in the case of such performance (A) for such authorizations, approvals, actions, notices, and filings which have been made or obtained and (B) such authorizations, approvals, actions, notices, and filings that are required by the terms of the Credit Agreement (such as filings made under the Securities Exchange Act of 1934) which would not customarily be made or obtained prior to the time when they are required.

(4) Each of the Executed Notes executed by, and the other Notes when funded and when executed and delivered by a Borrower and the Credit Agreement constitute a legal, valid

and binding obligation of such Borrower enforceable against such Borrower in accordance with its respective terms.

(5) Except as set forth in the Public Filings, to my knowledge there are no pending or overtly threatened actions or proceedings against any Borrower or any of its Subsidiaries before any court, governmental agency or arbitrator that purport to affect the legality, validity, binding effect, or enforceability of the Credit Agreement or any of the Notes or that could reasonably be expected to have a materially adverse effect upon the financial condition or operations of such Borrower and its Subsidiaries, taken as a whole.

(6) No Borrower is an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended. No Borrower is a "holding company," or a "subsidiary company" of a "holding company," or an "affiliate" of a "holding company," or of a "subsidiary company" of a "holding company," or a "public utility" within the meaning of the Public Utility Holding Company Act of 1935, as amended.

(7) In any action or proceeding arising out of or relating to the Credit Agreement or any of the Notes in any court of the State of Oklahoma or in any Federal court sitting in the State of Oklahoma, assuming proper venue, jurisdiction, and a full and proper presentation of the issue and the law to the court, assuming such action or proceeding is not dismissed on the basis of an inconvenient forum and assuming that the court properly applies Oklahoma law, such court would recognize and give effect to the provisions of Section 8.07 of the Credit Agreement, and construe the Credit Agreement and the Notes in accordance with the internal laws of the State of New York. Subject to the foregoing and without limiting the generality thereof, a court of the State of Oklahoma or a Federal court sitting in the State of Oklahoma would apply the usury law of the State of New York, and would not apply the usury law of the State of Oklahoma, to the Credit Agreement and the Notes. However, if a court were to hold that the Credit Agreement or any of the Notes are governed by, or to be construed in accordance with, the laws of the State of Oklahoma, the Credit Agreement, the Executed Notes, and the other Notes, when executed, delivered and funded, would be, under the laws of the State of Oklahoma, legal, valid and binding obligations of the Borrower signatory thereto enforceable against such Borrower in accordance with their respective terms.

(8) In any action or proceeding arising out of or relating to the Credit Agreement or any of the Notes in any court of the State of Utah or in any Federal court sitting in the State of Utah, assuming proper venue, jurisdiction and a full and proper presentation of the issue and the law to the court, assuming such action or proceeding is not dismissed on the basis of an inconvenient forum and assuming the court properly applies Utah law, such court would recognize and give effect to the provisions of Section 8.07 of the Credit Agreement wherein the parties thereto agree that the Credit Agreement and the Notes shall be governed by, and construed in accordance with, the laws of the State of New York. Subject to the foregoing and without limiting the generality thereof, a court of the State of Utah or a Federal court sitting in the State of Utah would apply the usury law of the State of New York, and would not apply the usury law of the State of Utah to the Credit Agreement and the Notes. However, if a court were to hold that the Credit Agreement or any of the Notes are governed by, or to be construed in

accordance with, the laws of the State of Utah, the Credit Agreement, the Executed Notes and other Notes, when executed, delivered and funded, would be, under the laws of the State of Utah, legal, valid and binding obligations of the Borrower signatory thereto enforceable against such Borrower in accordance with their respective terms.

The opinions set forth above are subject to the following qualifications:

(a) My opinions in paragraph 4 above and my opinion in the last sentence of each of paragraph 7 and paragraph 8 above are subject, insofar as enforceability is concerned, to the effect of any applicable bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or similar law affecting creditors' rights and remedies generally.

(b) My opinions in paragraph 4 above and my opinion in the last sentence of each of paragraph 7 and paragraph 8 above are subject, insofar as enforceability is concerned, to the effect of general principles of equity including principles of commercial reasonableness, good faith, and fair dealing (regardless of whether considered in a proceeding in equity or at law).

(c) I express no opinion with respect to the enforceability of any of the following: indemnification provisions to the extent same are violative of federal or state securities laws, rules, or regulations or of public policy, clauses waiving right to trial by jury, exculpation clauses, or clauses granting offset rights to the Banks or against any deposits or in respect of matured claims, clauses relating to recovery of attorney's fees in connection with the enforcement of obligations, clauses relating to release of unmatured claims, integration clauses to the effect that no representation was made other than as appears in the Credit Agreement, clauses purporting to waive unmatured rights, representations, warranties or affirmative or negative covenants to the extent such representations, warranties, or covenants can be construed to be independent clauses which purport to be legal, valid, binding, and enforceable by themselves, as distinguished from being clauses that trigger an event of default, and severability and similar clauses, and clauses that incorporate by reference a document or instrument or agreement not in existence on the date hereof to the extent that any such document, instrument, or agreement is the basis of an effort to enforce the Notes or Credit Agreement, insofar as any of the foregoing are contained in the Credit Agreement or the Notes.

(d) I express no opinion as to the effect on the opinions herein stated of compliance or non-compliance by any Bank with any applicable state, federal, or other laws or regulations applying only to banks, or the legal or regulatory status of any Bank.

(e) My opinion in paragraph 4 above and my opinion in each of paragraph 7 and paragraph 8 above assumes (i) application of New York law would not be found to be contrary to a fundamental policy of a state with a materially greater interest in determining the question presented and the laws of which would govern in absence of an effective choice of law, (ii) Citibank, N.A. has a place of business located in the State of New York, and (iii) the Borrowers are required to perform a part of their respective obligations relating to the transaction contemplated by the Credit Agreement, such as delivery of payment, in the State of New York.

(f) I am admitted to practice law in the State of Oklahoma and the State of New York, and, accordingly, the opinions expressed herein are based upon and limited exclusively to the laws of the State of Oklahoma, the laws of the State of New York, the General Corporation Law of the State of Delaware and the laws of the United States of America insofar as any of such laws are applicable, and I render no opinion with respect to any other laws except the laws of Utah, insofar as such laws are applicable to the matters opined upon herein. In giving the opinions expressed herein as to the laws of the State of Utah, I have, with your approval and without independent investigation, relied solely upon attorneys acting under my supervision admitted to practice law in that State.

(g) My opinion in paragraph 1 above as to the due qualification and good standing of the Borrowers is based solely on certificates, dated as of December __, 1996, from the Secretary of State of the State of Delaware certifying as to such matters.

This opinion is solely for the benefit of the Banks, the Agent, their respective successors, assigns, participants, and other transferees and counsel for the Persons referred to in this sentence, and may be relied upon only by such Persons and such counsel. This opinion speaks as of its date, and I undertake no, and hereby expressly disclaim any, duty to advise you as to any changes of fact or law coming to my attention after the date hereof.

Very truly yours,

William G. von Glahn

EXHIBIT D

December 20, 1996

To each of the Banks party to
the Credit Agreement described
below and to Citibank, N.A., as Agent

Ladies and Gentlemen:

We have acted as special counsel to Citibank, N.A., acting for itself and as Agent, in connection with the preparation, execution and delivery of the Amended and Restated Credit Agreement, dated as of December 20, 1996 (the "Credit Agreement"), among The Williams Companies, Inc., Williams Holdings of Delaware, Inc., Northwest Pipeline Corporation, Transcontinental Gas Pipe Line Corporation, Texas Gas Transmission Corporation, Williams Pipe Line Company, each a Delaware corporation (collectively, the "Borrowers"), and each of you. Terms defined in the Credit Agreement are used herein as therein defined.

In that connection, we have examined the following documents:

(1) Counterparts of the Credit Agreement, executed by the Agent and the Borrowers, respectively.

(2) The documents furnished by the Borrowers pursuant to Section 3.01 of the Credit Agreement and listed on Annex A hereto, including the opinion of William G. von Glahn ("Opinion").

In our examination of the documents referred to above, we have assumed the authenticity of all such documents submitted to us as originals, the genuineness of all signatures and the conformity to the originals of all such documents submitted to us as copies. We have also assumed the accuracy of all matters set forth in the certificates referred to on Annex A hereto and assumed that each of the Borrowers, the Banks and the Agent has duly executed and delivered, with all necessary power and authority (corporate and otherwise), the Credit Agreement and that each of the Borrowers has duly executed and delivered, with all necessary power and authority (corporate and otherwise), the respective A Notes. We have also assumed that no Bank has requested that the opinion required by Section 3.01(d) of the Credit Agreement contain any matter not contained in the form of opinion set forth as Exhibit C to the Credit Agreement.

Based upon the foregoing examination of documents and assumptions and upon such other investigation as we have deemed necessary, we are of the opinion that the Opinion and the other documents referred to in item (2) above are substantially responsive to the requirements of the Credit Agreement.

This opinion is solely for the benefit of the Banks, the Agent, their respective successors, assigns, participants and other transferees and may be relied upon only by such Persons.

Very truly yours,

Bracewell & Patterson, L.L.P.

ANNEX A

- (1) The respective A Notes dated December 20, 1996 of each of the Borrowers payable to the order of the respective Banks.
- (2) Certified copies of resolutions of the Board of Directors of each Borrower pertaining to the Credit Agreement and the respective A Notes of such Borrower.
- (3) A certificate of the Secretary or an Assistant Secretary of each Borrower certifying the name and the signature of an officer of such Borrower authorized to sign the Credit Agreement and the respective A Notes of such Borrower and certifying copies of the Certificate of Incorporation and Bylaws of such Borrower.
- (4) The opinion of William G. von Glahn, Esq., substantially in the form of Exhibit C to the Credit Agreement.

EXHIBIT E

RESTRICTIONS DESCRIBED IN
PARAGRAPH 5.02(d) OF THE CREDIT AGREEMENT

1. Transco Energy Company Indenture dated as of May 1, 1990, as amended by the First Supplemental Indenture dated as of June 20, 1990, the Second Supplemental Indenture dated as of November 29, 1990, the Third Supplemental Indenture dated as of April 23, 1991, the Fourth Supplemental Indenture dated as of August 22, 1991 and the Fifth Supplemental Indenture dated as of May 1, 1995, which has been assumed by The Williams Companies, Inc. as of May 1, 1995.
2. Northwest Pipeline Corporation Note Purchase Agreement dated as of April 15, 1982.
3. Northwest Pipeline Corporation Debenture Agreement dated as of June 6, 1986.
4. Northwest Pipeline Corporation Indenture dated as of November 15, 1988.
5. Northwest Pipeline Corporation Senior Indenture dated as of August 1, 1992.
6. Texas Gas Transmission Corporation Indenture dated as of July 1, 1992.
7. Texas Gas Transmission Corporation Indenture dated as of April 11, 1994.
8. Transcontinental Gas Pipeline Corporation Indenture dated as of June 1, 1983, as amended by the First Supplemental Indenture dated as of September 20, 1984, the Second Supplemental Indenture dated as of May 31, 1985, the Third Supplemental Indenture dated as of December 3, 1985, the Fourth Supplemental Indenture dated as of November 7, 1986, the Fifth Supplemental Indenture dated as of January 15, 1987 and the Sixth Supplemental Indenture dated as of September 15, 1987.
9. Transcontinental Gas Pipeline Corporation Indenture dated as of September 15, 1992.
10. Williams Natural Gas Company \$130,000,000 Credit Agreement dated as of November 14, 1994.
11. Williams Pipe Line Company Senior Note Agreement dated July 28, 1986.
12. Williams Pipe Line Company Senior Note Agreement dated July 13, 1990.
13. Kern River Funding Corporation Trust Indenture dated as of March 15, 1996.

EXHIBIT F

TRANSFER AGREEMENT

This Transfer Agreement dated as of _____ (this "Agreement"), is made by and among The Williams Companies, Inc. ("TWC"), Williams Holdings of Delaware, Inc. ("WHD"), Northwest Pipeline Corporation ("NWP"), Transcontinental Gas Pipe Line Corporation ("TGPL"), Texas Gas Transmission Corporation ("TGT"), Williams Pipe Line Company ("WPL"), each a Delaware corporation (TWC, WHD, NWP, TGPL, TGT and WPL being each a "Borrower" and collectively, the "Borrowers"), Citibank, N.A., as Agent for the banks party to the Amended and Restated Credit Agreement dated as of December 20, 1996 (as may be amended from time to time, the "Credit Agreement") among the Borrowers, such Agent and such banks, _____ ("Assignor") and _____ ("Assignee"). In consideration of the mutual covenants herein contained, the parties hereto agree as set forth herein.

1. Transfer. Pursuant to the last sentence of Section 8.06(a) of the Credit Agreement, Assignor hereby assigns to Assignee (without representation or warranty to Assignee and without Assignee having recourse against Assignor as a result of such assignment), and Assignee hereby assumes, a constant _____% of each of the Assignor's Commitments (such term used throughout this Agreement without giving effect to any B Reduction) to each of the Borrowers under the Credit Agreement, such assignment from Assignor to Assignee being [all of Assignor's Commitments to each of the Borrowers] [(a) \$_____ of Assignor's \$_____ Commitment to TWC, (b) \$_____ of Assignor's Commitment to WHD, (c) \$_____ of Assignor's \$_____ Commitment to NWP, (d) \$_____ of Assignor's \$_____ Commitment to TGPL, (e) \$_____ of Assignor's \$_____ Commitment to TGT, and (f) \$_____ of Assignor's \$_____ Commitment to WPL, (the amount of each such Commitment to a Borrower so assigned is called the "Assigned Portion" of such Commitment). [The Assignee is already a Bank under the Credit Agreement with a Commitment of \$_____, \$_____, \$_____, \$_____, \$_____ and \$_____, to TWC, WHD, NWP, TGPL, TGT and WPL, respectively, prior to the assumption contemplated hereby.] [The Assignee is hereby approved by the Agent [and the Borrowers] for purposes of the assignment and assumption contemplated hereby.] As contemplated by such Section 8.06, it is hereby agreed that:

- (i) the Assignor is hereby released from all of its obligations under the Credit Agreement with respect to or arising as a result of the Assigned Portions of its Commitments assigned hereby;
- (ii) the Assignee hereby becomes obligated for the Assigned Portions of such Commitments and all other obligations of the Assignor (including, without limitation, obligations to the Agent under Section 7.05 of the Credit Agreement or otherwise) under the Credit Agreement with respect to or arising as a result of the Assigned Portions of such Commitments;
- (iii) the Assignee is hereby assigned the right to vote or consent under the Credit Agreement and the other rights and obligations of the Assignor under the Credit Agreement, in each case to the extent of the Assigned Portions of such Commitments;
- (iv) TWC, contemporaneously with its execution and delivery hereof, will deliver, in replacement of the A Note of the Assignor currently outstanding [(and in replacement

of Assignee's existing \$_____ A Note)] (a) to the Assignee, a new A Note in the amount of \$_____, [(and the Assignee agrees to cancel and return to TWC, with reasonable promptness following such delivery, the A Note of the Assignee being replaced thereby)] (b) to the Assignor, a new A Note in the amount of \$_____ (and the Assignor agrees to cancel and return to TWC, with reasonable promptness following delivery of such new A Note, the A Note of the Assignor being replaced thereby), and (c) to the Agent, photocopies of all such new A Notes and of all such cancelled A Notes;

- (v) WHD, contemporaneously with its execution and delivery hereof, will deliver, in replacement of the A Note of the Assignor currently outstanding [(and in replacement of Assignee's existing \$_____ A Note)] (a) to the Assignee, a new A Note in the amount of \$_____, [(and the Assignee agrees to cancel and return to WHD, with reasonable promptness following such delivery, the A Note of the Assignee being replaced thereby)] (b) to the Assignor, a new A Note in the amount of \$_____ (and the Assignor agrees to cancel and return to WHD, with reasonable promptness following delivery of such new A Note, the A Note of the Assignor being replaced thereby), and (c) to the Agent, photocopies of all such new A Notes and of all such cancelled A Notes;
- (vi) NWP, contemporaneously with its execution and delivery hereof, will deliver, in replacement of the A Note of the Assignor currently outstanding [(and in replacement of Assignee's existing \$_____ A Note)] (a) to the Assignee, a new A Note in the amount of \$_____, [(and the Assignee agrees to cancel and return to NWP, with reasonable promptness following such delivery, the A Note of the Assignee being replaced thereby)] (b) to the Assignor, a new A Note in the amount of \$_____ (and the Assignor agrees to cancel and return to NWP, with reasonable promptness following delivery of such new A Note, the A Note of the Assignor being replaced thereby), and (c) to the Agent, photocopies of all such new A Notes and of all such cancelled A Notes;
- (vii) TGPL, contemporaneously with its execution and delivery hereof, will deliver, in replacement of the A Note of the Assignor currently outstanding [(and in replacement of Assignee's existing \$_____ A Note)] (a) to the Assignee, a new A Note in the amount of \$_____, [(and the Assignee agrees to cancel and return to TGPL, with reasonable promptness following such delivery, the A Note of the Assignee being replaced thereby)] (b) to the Assignor, a new A Note in the amount of \$_____ (and the Assignor agrees to cancel and return to TGPL, with reasonable promptness following delivery of such new A Note, the A Note of the Assignor being replaced thereby), and (c) to the Agent, photocopies of all such new A Notes and of all such cancelled A Notes;
- (viii) TGT, contemporaneously with its execution and delivery hereof, will deliver, in replacement of the A Note of the Assignor currently outstanding [(and in replacement of Assignee's existing \$_____ A Note)] (a) to the Assignee, a new A Note in the amount of \$_____, [(and the Assignee agrees to cancel and return to TGT, with reasonable promptness following such delivery, the A Note of the Assignee being replaced thereby)] (b) to the Assignor, a new A Note in the amount of \$_____ (and the Assignor agrees to cancel and return to TGT, with reasonable promptness following delivery of such new A Note, the A Note of the Assignor being replaced

thereby), and (c) to the Agent, photocopies of all such new A Notes and of all such cancelled A Notes;

(ix) WPL, contemporaneously with its execution and delivery hereof, will deliver, in replacement of the A Note of the Assignor currently outstanding [(and in replacement of Assignee's existing \$_____ A Note)] (a) to the Assignee, a new A Note in the amount of \$_____, [(and the Assignee agrees to cancel and return to WPL, with reasonable promptness following such delivery, the A Note of the Assignee being replaced thereby)] (b) to the Assignor, a new A Note in the amount of \$_____ (and the Assignor agrees to cancel and return to WPL, with reasonable promptness following delivery of such new A Note, the A Note of the Assignor being replaced thereby), and (c) to the Agent, photocopies of all such new A Notes and of all such cancelled A Notes;

[(x) in as much as there are currently no outstanding A Advances, no transfer of A Advances is hereby made];

[(x) \$_____, \$_____, \$_____, \$_____, \$_____ and \$_____, of the Assignor's outstanding A Advances to TWC, WHD, NWP, TGPL, TGT and WPL, respectively, are hereby transferred to the Assignee, which amounts represent [the aggregate amount of all of the Assignor's outstanding A Advances to TWC, WHD, NWP, TGPL, TGT and WPL, respectively,] [the amount of the assigned portions of the outstanding A Advances of the Assignor to TWC, WHD, NWP, TGPL, TGT and WPL, respectively, there being hereby assigned to Assignee a portion of each such A Advance with the assigned portion of each such A Advance being equal to the amount of such A Advance multiplied by a fraction, the numerator of which is the amount of the Assignor's Commitments assumed hereby by the Assignee and the denominator of which is the amount of the Assignor's Commitments (without giving effect to any B Reduction) immediately prior to such assumption]; [and]

(xi) the Assignee hereby confirms that it is a party to the Credit Agreement as a Bank and agrees that after giving effect to this Agreement its Commitments will be \$_____, \$_____, \$_____, \$_____, \$_____ and \$_____, to TWC, WHD, NWP, TGPL, TGT and WPL; [and]

[(xii) the Assignee hereby specifies the following offices as its Applicable Lending Offices under the Credit Agreement:

Domestic
Lending Office

Eurodollar
Lending Office

Attention: -----

Telephone: -----

Telecopy: -----

Telex: -----

Answerback: -----

Attention: -----

Telephone: -----

Telecopy: -----

Telex: -----

Answerback: -----

[(xiii) the Assignee hereby specifies the following as its address for notices and communications under the Credit Agreement:

[Assignee]

Attention: -----
Telephone: -----
Telecopy: -----
Telex: -----
Answerback: -----

2. Miscellaneous.

2.1 Amendments, Etc. This Agreement shall not be amended, waived or otherwise modified except in writing executed by the parties hereto.

2.2 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

2.3 Definitions. Capitalized terms used herein which are defined in the Credit Agreement and not defined herein are used herein as defined in the Credit Agreement.

2.4. Execution in Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

2.5. Effective Date. This Agreement shall be effective as of the date first above written for purposes of computation of commitment fees under the Credit Agreement and for all other relevant purposes.

2.6. Assignee Credit Decision. The Assignee acknowledges that it has, independently and without reliance upon the Agent or any other Bank and based on such financial statements and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. The Assignee also acknowledges that it will, independently and without reliance upon the Agent or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under any Note, the Credit Agreement or this Agreement.

2.7. Indemnity. The Assignee agrees to indemnify and hold the Assignor harmless against any and all losses, costs and expenses (including without limitation reasonable attorneys' fees) and liabilities incurred by the Assignor in connection with or arising in any manner from the Assignee's performance or non-performance of obligations assumed by Assignee under this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

THE WILLIAMS COMPANIES, INC.

NORTHWEST PIPE LINE CORPORATION

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

TRANSCONTINENTAL GAS
PIPE LINE CORPORATION

TEXAS GAS TRANSMISSION
CORPORATION

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

WILLIAMS PIPE LINE COMPANY

WILLIAMS HOLDINGS OF DELAWARE, INC.

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

[NAME OF ASSIGNEE]

[NAME OF ASSIGNOR]

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

CITIBANK, N.A., as Agent

By: _____
Name: _____
Title: _____

THE WILLIAMS COMPANIES, INC.

COMPUTATION OF EARNINGS PER COMMON AND COMMON-EQUIVALENT SHARE

	YEARS ENDED DECEMBER 31,		
	1996	1995	1994
	(THOUSANDS, EXCEPT PER-SHARE AMOUNTS)		
Primary earnings:			
Income from continuing operations.....	362,300	299,400	164,900
Preferred stock dividends:			
\$2.21 cumulative preferred stock.....	1,600	6,000	8,800
\$3.50 cumulative convertible preferred stock.....	8,800	5,800	--
Effect of preferred stock exchange.....	--	3,500	--
Income from continuing operations, net of preferred stock dividends.....	351,900	284,100	156,100
Income from discontinued operations.....	--	1,018,800	94,000
Income before extraordinary loss, net of preferred stock dividends.....	351,900	1,302,900	250,100
Extraordinary loss.....	--	--	(12,200)
Income applicable to common stock.....	351,900	1,302,900	237,900
Primary shares:			
Average number of common shares outstanding during the period.....	157,079	148,069	151,853
Common-equivalent shares attributable to options and deferred stock.....	5,039	5,000	1,851
Total common and common-equivalent shares.....	162,118	153,069	153,704
Primary earnings per common and common-equivalent share:			
Income from continuing operations.....	\$ 2.17	\$ 1.86	\$ 1.02
Income from discontinued operations.....	--	6.65	.61
Income before extraordinary loss.....	2.17	8.51	1.63
Extraordinary loss.....	--	--	(.08)
Net income.....	\$ 2.17	\$ 8.51	\$ 1.55
Fully diluted earnings:			
Income from continuing operations.....	362,300	299,400	164,900
Preferred stock dividends:			
\$2.21 cumulative preferred stock.....	1,600	6,000	8,800
Effect of preferred stock exchange.....	--	3,500	--
Income from continuing operations, net of preferred stock dividends.....	360,700	289,900	156,100
Income from discontinued operations.....	--	1,018,800	94,000
Income before extraordinary loss, net of preferred stock dividends.....	360,700	1,308,700	250,100
Extraordinary loss.....	--	--	(12,200)
Income applicable to common stock.....	360,700	1,308,700	237,900
Fully diluted shares:			
Average number of common shares outstanding during the period.....	157,079	148,069	151,853
Common-equivalent shares attributable to options and deferred stock.....	5,260	5,278	1,900
Dilutive preferred shares.....	5,860	3,933	--
Total common and common-equivalent shares.....	168,199	157,280	153,753
Fully diluted earnings per common and common-equivalent share:			
Income from continuing operations.....	\$ 2.14	\$ 1.84	\$ 1.02
Income from discontinued operations.....	--	6.48	.61
Income before extraordinary loss.....	2.14	8.32	1.63
Extraordinary loss.....	--	--	(.08)
Net income.....	\$ 2.14	\$ 8.32	\$ 1.55

Note: Share and per-share amounts have been restated to reflect the effect of the December 30, 1996, 3-for-2 common stock split and distribution.

THE WILLIAMS COMPANIES, INC. AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES
AND PREFERRED STOCK DIVIDEND REQUIREMENTS

	YEARS ENDED DECEMBER 31,				
	1996	1995	1994	1993	1992
	(DOLLARS IN MILLIONS)				
Earnings:					
Income from continuing operations before income taxes.....	\$545.4	\$401.4	\$246.6	\$298.0	\$145.5
Add:					
Interest expense -- net.....	353.0	263.4	139.8	140.8	136.5
Rental expense representative of interest factor.....	27.7	26.9	9.2	8.1	8.3
Preferred dividends of subsidiaries.....	--	3.7	--	--	.3
Interest accrued -- 50% owned company.....	1.3	30.7	31.7	31.3	27.3
Minority interest expense.....	--	10.0	--	--	--
Other.....	4.2	5.5	2.0	4.1	.4
Total earnings as adjusted plus fixed charges.....	\$931.6	\$741.6	\$429.3	\$482.3	\$318.3
Combined fixed charges and preferred stock dividend requirements:					
Interest expense -- net.....	\$353.0	\$263.4	\$139.8	\$140.8	\$136.5
Capitalized interest.....	6.9	14.5	6.0	10.4	8.9
Rental expense representative of interest factor.....	27.7	26.9	9.2	8.1	8.3
Pretax effect of dividends on preferred stock of the Company.....	16.2	18.0	13.1	19.1	19.4
Pretax effect of dividends on preferred stock of subsidiaries.....	--	5.8	--	--	.4
Interest accrued -- 50% owned company.....	1.3	30.7	31.7	31.3	27.3
Combined fixed charges and preferred stock dividend requirements.....	\$405.1	\$359.3	\$199.8	\$209.7	\$200.8
Ratio of earnings to combined fixed charges and preferred stock dividend requirements.....	2.30	2.06	2.15	2.30	1.59

THE WILLIAMS COMPANIES, INC. & AFFILIATES

March 24, 1997

	Jurisdiction of Incorporation -----	Owned by Immediate Parent -----
THE WILLIAMS COMPANIES, INC.	Delaware	
KERN RIVER ACQUISITION CORPORATION.....	Delaware	100%
Kern River Gas Transmission Company.....	Texas (Partnership)	49.9%
Kern River Funding Corporation.....	Delaware	100%
NORTHWEST PIPELINE CORPORATION.....	Delaware	100%
Apco Liquidating Trust.....	Delaware	35.33%
NWP Enterprises, Inc.....	Delaware	100%
TEXAS GAS TRANSMISSION CORPORATION.....	Delaware	100%
TGT Enterprises, Inc.....	Delaware	100%
TRANSCONTINENTAL GAS PIPE LINE CORPORATION.....	Delaware	100%
Cardinal Operating Company.....	Delaware	100%
Pine Needle Operating Company.....	Delaware	100%
TGPL Enterprises, Inc.....	Delaware	100%
TransCardinal Company.....	Delaware	100%
TransCarolina LNG Company.....	Delaware	100%
WGP Enterprises, Inc.....	Delaware	100%
WILLIAMS HOLDINGS OF DELAWARE, INC.....	Delaware	100%
Apco Argentina Inc.	Cayman Islands	64.51%
Apco Properties Ltd.	Cayman Islands	100%
Beech Grove Processing Company.....	Tennessee	100%
Inland Ports, Inc.....	Tennessee	100%
Langside Limited.....	Bermuda	100%
Longhorn Enterprises of Texas, Inc.....	Delaware	100%
Northwest Exploration Company.....	Delaware	100%
Realco Realty Corp.	Delaware	100%
Realco of Crown Center, Inc.	Delaware	100%
Realco of San Antonio, Inc.	Delaware	100%
Realco Realty Developments, Inc.	Delaware	100%
The Tennessee Coal Company.....	Delaware	100%
Williams Communications Group, Inc.....	Delaware	100%
Global Access Telecommunications Services, Inc.....	Delaware	100%
Technologies Acquisition Corporation.....	Missouri	100%
Vyvx, Inc.	Delaware	100%
Global Access Telecommunications Services, Inc.....	Massachusetts	100%
Vyvx of Virginia, Inc.....	Virginia	100%
WCG Teleservices, Inc.....	Delaware	100%
WCS Communications Systems, Inc.....	Delaware	100%
Williams Learning Network, Inc.	Delaware	100%
Williams Telecommunications Systems, Inc.....	Delaware	100%
WCS, Inc.....	Delaware	100%
WCS Microwave Services, Inc.....	Nevada	100%
Williams Wireless, Inc.....	Delaware	100%
WilTech Cable Television Services, Inc.....	Delaware	100%
CVS Partners.....	Delaware	25%
WilTel Financial Corporation.....	Delaware	100%

	Jurisdiction of Incorporation -----	Percent Owned by Immediate Parent -----
Transco Energy Company	Delaware	100%
Energy Tech, Inc.....	Delaware	100%
Gasco Insurance Company Limited.....	Bermuda	100%
Hazleton Fuel Management Company.....	Delaware	100%
Hazleton Pipeline Company.....	Delaware	100%
TM Cogeneration Company.....	Delaware	100%
Transco Coal Gas Company.....	Delaware	100%
Transco Energy Investment Company.....	Delaware	100%
Transco Exploration Company.....	Delaware	100%
Transco Gas Company.....	Delaware	100%
Border Gas, Inc.....	Delaware	10%
Liberty Operating Company.....	Delaware	100%
NESP Supply Corp.....	Delaware	33.33%
Transco Liberty Pipeline Company.....	Delaware	100%
Transeastern Gas Pipeline Company, Inc.....	Delaware	100%
Transco P-S Company.....	Delaware	100%
Transco Resources, Inc.....	Delaware	100%
Magnolia Methane Corp.....	Delaware	100%
Tubexpress, Inc.....	Delaware	50%
Transco Terminal Company.....	Delaware	100%
Transco Tower Realty, Inc.....	Delaware	100%
Tulsa Williams Company.....	Delaware	100%
Valley View Coal, Inc.....	Tennessee	100%
WHD Enterprises, Inc.....	Delaware	100%
Willco, Inc.	Delaware	100%
Williams Acquisition Holding Company, Inc.....	Delaware	100%
Williams Acquisition Holding Company, Inc.....	New Jersey	100%
Agrico Foreign Sales Corporation.....	Guam	100%
Fishhawk Ranch, Inc.	Florida	100%
Reserveco Inc.	Delaware	15%
Williams Aircraft, Inc.....	Delaware	100%
Williams Energy Company.....	Delaware	100%
Williams Energy Group	Delaware	100%
Williams Energy Group Services, Inc.....	Delaware	100%
Williams Energy Ventures, Inc.....	Delaware	100%
Nebraska Energy, L.L.C.....	Kansas	71%
Wiljet, LLC.....	Arizona	50%
Williams Ethanol Production Company.....	Delaware	100%
Pekin Energy Company.....	Illinois (General Partnership)	99%
Williams Ethanol Services, Inc.....	Delaware	100%
Pekin Energy Company.....	Illinois (General Partnership)	1%
Williams Field Services Group, Inc.....	Delaware	100%
Carbon County UCG, Inc.....	Delaware	100%
Trans-Jeff Chemical Corporation.....	Delaware	100%
WFS Enterprises, Inc.	Delaware	100%
Williams Field Services - Gulf Coast Company, L.P.	Delaware	99%
WFS - Gas Gathering Company.....	Delaware	100%
WFS - Offshore Gathering Company.....	Delaware	100%
WFS - Pipeline Company.....	Delaware	100%

	Jurisdiction of Incorporation -----	Percent Owned by Immediate Parent -----
WFS Investment Co.....	Delaware	100%
WFS - Liquids Company.....	Delaware	100%
HI-BOL Pipeline Company.....	Delaware	100%
WFS Management Co.....	Delaware	100%
WFS - Nuval Gathering Co.	Delaware	100%
WFS - OCS Gathering Co.	Delaware	100%
WFS - Power Services Company.....	Delaware	100%
Energy International Corporation.....	Pennsylvania	100%
WFS - Production Services Company.....	Delaware	100%
Williams CNG Company.....	Delaware	100%
Williams Field Services Company.....	Utah	100%
Williams Field Services - Gulf Coast Company, L.P.	Delaware	1%
Williams Gas Processing - Blanco, Inc.....	Delaware	100%
Williams Gas Processing Company.....	Delaware	100%
Williams Gas Processing - Kansas Hugoton Company.....	Delaware	100%
Williams Gas Processing - Mid-Continent Region Company.....	Delaware	100%
Williams Gas Processing - Wamsutter Company.....	Delaware	100%
Williams Power Company	Delaware	100%
Williams Merchant Services Company, Inc.....	Delaware	100%
Williams Energy Services Company.....	Delaware	100%
Rio Bravo Energy Marketing Company L.L.C.....	Delaware	50%
Transco Energy Marketing Company.....	Delaware	100%
TXG Gas Marketing Company.....	Delaware	100%
Williams Gas Company.....	Delaware	100%
TransNetwork Holding Company.....	Delaware	100%
Altra Energy Technologies L.L.C.....	Delaware	50%
Williams Energy Network, Inc.....	Delaware	100%
F T & T, Inc.	Delaware	100%
Volunteer Energy Corporation.....	Delaware	50%
Williams Pipe Line Company.....	Delaware	100%
WillBros Terminal Company.....	Delaware	100%
Williams Pipe Line Company of Wisconsin.....	Wisconsin	100%
Williams Terminals Company.....	Delaware	100%
Williams Production Company.....	Delaware	100%
WFS Gas Resources Company.....	Delaware	100%
Williams Production Gulf Coast Company, L.P.....	Delaware	1%
WPX Enterprises, Inc.....	Delaware	100%
Williams Production Gulf Coast Company, L.P.....	Delaware	99%
Williams Energy Projects, Inc.....	Delaware	100%
Williams Enterprises of Delaware, Inc.....	Delaware	100%
Williams Environmental Services Company.....	Delaware	100%
Williams Exploration Company.....	Delaware	100%
Rainbow Resources, Inc.	Colorado	100%
Williams Headquarters Acquisition Company.....	Delaware	100%
Williams Headquarters Building Company.....	Delaware	100%
Parkco, L.L.C.....	Oklahoma	50%
Williams Headquarters Management Company.....	Delaware	100%
Williams Information Services Corporation.....	Delaware	100%

	Jurisdiction of Incorporation -----	Percent Owned by Immediate Parent -----
Williams International Company.....	Delaware	100%
Williams International Australian Telecom Limited.....	Cayman Islands	100%
Williams International (Bermuda) Limited.....	Bermuda	100%
Williams International El Furrial Limited.....	Cayman Islands	100%
Williams International Investment Ventures (Cayman) Limited.....	Cayman Islands	100%
Williams International Investments (Cayman) Limited.....	Cayman Islands	100%
Williams International Telecom Limited.....	Cayman Islands	100%
Williams International Ventures (Bermuda) Limited.....	Bermuda	100%
Free Port Terminal Company Limited.....	Bermuda (Ltd. Partnership)	65%
Williams International Pipeline Company.....	Delaware	100%
Williams International Pipeline Company - Colombia.....	Delaware	100%
Williams International Telecommunications Investments (Cayman) Limited.....	Cayman Islands	100%
Williams International Ventures Company.....	Delaware	100%
Williams International Indonesia Ventures Company.....	Delaware	100%
Williams Learning Network (UK) Limited.....	England	100%
Williams Learning Center, Inc.....	Delaware	100%
Williams Pipeline Services Company.....	Delaware	100%
Williams Relocation Management, Inc.	Delaware	100%
Williams Sodium Products Company.....	Delaware	100%
American Soda, L.L.P.....	Colorado	60%
Williams Underground Gas Storage Company.....	Delaware	100%
Kiowa Gas Storage, L.L.C.....	Delaware	50%
Williams Western Holding Company, Inc.	Delaware	100%
Northwest Alaskan Pipeline Company.....	Delaware	100%
Northwest Argentina Corporation.....	Utah	100%
Northwest Border Pipeline Company.....	Delaware	100%
Northern Border Partners, L.P.....	Delaware(Limited Partnership)	4.375%
Northern Border Intermediate Limited Partnership.....	Delaware(Limited Partnership)	0.175%
Northwest Land Company.....	Delaware	100%
WilMart, Inc.	Delaware	100%
WILLIAMS NATURAL GAS COMPANY.....	Delaware	100%
Williams Hugoton Compression Services, Inc.....	Delaware	100%
WILLIAMS STORAGE COMPANY.....	Delaware	100%
WILLIAMS WESTERN PIPELINE COMPANY.....	Delaware	100%
Kern River Gas Transmission Company.....	Texas (Partnership)	50%

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the following registration statements on Form S-3 and related prospectuses and in the following registration statements on Form S-8 of The Williams Companies, Inc. of our report dated February 10, 1997, with respect to the consolidated financial statements and schedule of The Williams Companies, Inc. included in this Annual Report (Form 10-K) for the year ended December 31, 1996.

Form S-3: Registration No. 33-47061; Registration No. 33-53662; Registration No. 33-49835; Registration No. 333-20929

Form S-8: Registration No. 33-2442; Registration No. 33-24322; Registration No. 33-36770; Registration No. 33-44381; Registration No. 33-40979; Registration No. 33-45550; Registration No. 33-43999; Registration No. 33-51539; Registration No. 33-51543; Registration No. 33-51551; Registration No. 33-51549; Registration No. 33-51547; Registration No. 33-51545; Registration No. 33-56521; Registration No. 333-03957; Registration No. 333-11151

ERNST & YOUNG LLP

Tulsa, Oklahoma
March 26, 1997

II-6

THE WILLIAMS COMPANIES, INC.

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that each of the undersigned individuals, in their capacity as a director or officer, or both, as hereinafter set forth below their signature, of THE WILLIAMS COMPANIES, INC., a Delaware corporation ("Williams"), does hereby constitute and appoint WILLIAM G. VON GLAHN, DAVID M. HIGBEE and SHAWNA L. BARNARD their true and lawful attorneys and each of them (with full power to act without the others) their true and lawful attorneys for them and in their name and in their capacity as a director or officer, or both, of Williams, as hereinafter set forth below their signature, to sign Williams' Annual Report to the Securities and Exchange Commission on Form 10-K for the fiscal year ended December 31, 1996, and any and all amendments thereto or all instruments necessary or incidental in connection therewith; and

THAT the undersigned Williams does hereby constitute and appoint WILLIAM G. VON GLAHN, DAVID M. HIGBEE and SHAWNA L. BARNARD its true and lawful attorneys and each of them (with full power to act without the others) its true and lawful attorney for it and in its name and on its behalf to sign said Form 10-K and any and all amendments thereto and any and all instruments necessary or incidental in connection therewith.

Each of said attorneys shall have full power of substitution and resubstitution, and said attorneys or any of them or any substitute appointed by any of them hereunder shall have full power and authority to do and perform in the name and on behalf of each of the undersigned, in any and all capacities, every act whatsoever requisite or necessary to be done in the premises, as fully to all intents and purposes as each of the undersigned might or could do in person, the undersigned hereby ratifying and approving the acts of said attorneys or any of them or of any such substitute pursuant hereto.

IN WITNESS WHEREOF, the undersigned have executed this instrument, all as of the 26th day of January, 1997.

/s/ Keith E. Bailey

Keith E. Bailey
Chairman of the Board,
President and
Chief Executive Officer
(Principal Executive Officer)

/s/ Jack D. McCarthy

Jack D. McCarthy
Senior Vice President
(Principal Financial Officer)

/s/ Gary R. Belitz

Gary R. Belitz
Controller
(Principal Accounting Officer)

/s/ Glenn A. Cox

Glenn A. Cox
Director

/s/ Thomas H. Cruikshank

Thomas H. Cruikshank
Director

/s/ Patricia L. Higgins

Patricia L. Higgins
Director

/s/ Robert J. LaFortune

Robert J. LaFortune
Director

/s/ James C. Lewis

James C. Lewis
Director

/s/ Jack A. MacAllister

Jack A. MacAllister
Director

/s/ James A. McClure

James A. McClure
Director

/s/ Peter C. Meinig

Peter C. Meinig
Director

/s/ Kay A. Orr

Kay A. Orr
Director

/s/ Gordon R. Parker

Gordon R. Parker
Director

/s/ Joseph H. Williams

Joseph H. Williams
Director

THE WILLIAMS COMPANIES, INC.

By /s/ William G. von Glahn

William G. von Glahn
Senior Vice President

ATTEST:

/s/ David M. Higbee

David M. Higbee
Secretary

I, the undersigned, SHAWNA L. BARNARD, Assistant Secretary of THE WILLIAMS COMPANIES, INC., a Delaware company (hereinafter called the "Company"), do hereby certify that at a meeting of the Board of Directors of the Company, duly convened and held on January 26, 1997, at which a quorum of said Board was present and acting throughout, the following resolution was duly adopted:

RESOLVED that the Chairman of the Board, the President or any Vice President of the Company be, and each of them hereby is, authorized and empowered to execute a Power of Attorney for use in connection with the execution and filing, for and on behalf of the Company, under the Securities Exchange Act of 1934, of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996.

I further certify that the foregoing resolution has not been modified, revoked or rescinded and is in full force and effect.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of THE WILLIAMS COMPANIES, INC., this 25th day of March, 1997.

/s/ Shawna L. Barnard

Shawna L. Barnard
Assistant Secretary

(CORPORATE SEAL)

5
1,000

12-MOS		
	DEC-31-1996	
	JAN-01-1996	
	DEC-31-1996	
		115,344
		0
		1,080,392
		(9,743)
		204,591
		1,890,102
		11,212,254
		(1,825,966)
		12,418,772
	2,199,298	
		4,376,914
	0	
		161,039
		160,213
		3,099,722
12,418,772		
		0
	3,531,212	
		0
		2,629,762
		0
		(4,066)
		359,947
		545,406
		183,067
	362,339	
		0
		0
		0
		362,339
		2.17
		2.14

A 3-for-2 common stock split and distribution occurred effective December 30, 1996. Prior financial data schedules have not been restated for this recapitalization.

12-MOS
DEC-31-1995
JAN-01-1995
DEC-31-1995
90,383
0
688,595
(11,338)
189,038
1,377,655
9,478,732
(1,463,987)
10,561,201
2,093,080
2,874,042
0
173,486
105,337
2,908,275
10,561,201
2,855,674
0
2,184,962
0
3,767
277,924
401,360
101,988
299,372
1,018,805
0
0
1,318,177
12.77
12.48