FORM 10-K

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

(MARK ONE)
/X/ 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, 1994

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)	73-0569878 (IRS EMPLOYER IDENTIFICATION NO.)
ONE WILLIAMS CENTER TULSA, OKLAHOMA (ADDRESS OF PRINCIPAL EXECUTIVE OFFICE)	74172 (ZIP CODE)

Registrant's telephone number:
(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 Preferred Stock Purchase Rights	New York Stock Exchange and the Pacific Stock Exchange
$2.21 Cumulative Preferred Stock, $1.00 par value	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 /X/ 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 February 28, 1995, was approximately $2.6 billion.

The number of shares of the registrant's Common Stock outstanding at February 28, 1995, was 90,986,242, excluding 964,988 shares held by the Company and 13,383,977 shares owned by a subsidiary of 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 1995 are incorporated by reference in Part III.

THE WILLIAMS COMPANIES, INC.

FORM 10-K

PART I

ITEM I. 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 5, 1995, the Company sold the network services operations of Williams Telecommunications Group, Inc., its telecommunications subsidiary, to LDDS Communications, Inc. for $2.5 billion in cash, (the "WNS Sale"). The Company retained Williams Telecommunications Systems, Inc., a telecommunications equipment supplier and service company, and Vyvx, Inc., which operates a video network specializing in broadcast television applications. The Company has reported the network services operations as discontinued operations for financial reporting purposes beginning with the third quarter of 1994 with prior period operating results restated. See Note 2 of Notes to Consolidated Financial Statements. The description of the Company's telecommunications business contained elsewhere herein describes only those assets retained by the Company.

The Company used the proceeds from the WNS Sale to pay off short-term credit facilities, fund the acquisition of Transco Energy Company ("Transco") discussed below, finance its ongoing capital program and other uses.

On December 12, 1994, the Company announced that it had entered into a merger agreement with Transco. Under the agreement, the Company acquired 24.6 million shares (approximately 60 percent) of Transco's common stock through a cash tender offer completed in January 1995. The agreement also provides for a merger (the "Transco Merger") in which Transco will become a wholly owned subsidiary of the Company and each share of Transco's common stock not acquired through the tender offer will be exchanged for 0.625 shares of the Company's Common Stock. It is anticipated that a meeting of Transco's common stockholders will be held in April 1995 to vote on the merger. Given that the Company owns sufficient shares to approve the Transco Merger without the affirmative vote of any other stockholders, the Transco Merger will be approved and is expected to be completed immediately thereafter. The acquisition will be accounted for as a purchase. The purchase price is approximately $775 million, including fees related to the transaction but excluding assumed debt and preferred stock.

Transco owns Transcontinental Gas Pipe Line Corporation, Texas Gas Transmission Corporation and Transco Gas Marketing Company and has investments in other energy assets. Transcontinental Gas Pipe Line, headquartered in Houston, Texas, owns and operates 10,500 miles of pipeline extending from the Gulf of Mexico through the South and along the Eastern Seaboard to New York City. Its primary customers are natural gas and electric utility companies in the East and Northeast. Texas Gas Transmission, headquartered in Owensboro, Kentucky, owns and operates 6,050 miles of pipeline extending from the Louisiana Gulf Coast up the Mississippi River Valley to Indiana and Ohio. In addition to serving markets in this area, Texas Gas Transmission also serves the Northeast through connections with other pipelines. Transco Gas Marketing buys, sells and arranges transportation for natural gas primarily in the eastern and midwestern United States and Gulf Coast region, processes natural gas and sells natural gas liquids.

It is the Company's intention to cause Transco, as promptly as practicable after the Transco Merger and subject to receipt of any necessary consents, to declare and pay as dividends to the Company all of Transco's interest in Transcontinental Gas Pipe Line, Texas Gas Transmission and Transco Gas Marketing. In addition, the Company intends to continue Transco's program of disposing of noncore assets. The Company has also initiated a plan to recapitalize Transco to, among other things, reduce consolidated interest and preferred stock dividend requirements. See Note 16 of Notes to Consolidated Financial Statements.

Other than as set forth above, the description of the Company's business contained in this Item 1 does not include a description of Transco's business. For a description of such business, reference is made to filings by Transco with the Securities and Exchange Commission.

(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, is engaged in the transportation and sale of natural gas and related activities, natural gas gathering and processing operations, the transportation of petroleum products, the telecommunications business and provides a variety of other products and services to the energy industry and financial institutions. In 1994, the Company's subsidiaries owned and operated: (i) two interstate natural gas pipeline systems and had a 50 percent interest in a third; (ii) a common carrier petroleum products pipeline system; and (iii) natural gas gathering and processing facilities and production properties. The Company also markets natural gas and natural gas liquids. In 1994, the Company's telecommunications subsidiaries offered data, voice and video-related products and services and customer premises equipment nationwide. The Company also has investments in the equity of certain other companies. See Note 3 of Notes to Consolidated Financial Statements.

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 by its staff 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. Certain subsidiaries' debt instruments with outside lenders limit the amount of dividend payments and advances to Williams. See Note 11 of Notes to Consolidated Financial Statements.

ENERGY

INTERSTATE NATURAL GAS PIPELINE GROUP

In 1994, the Company's interstate natural gas pipeline group consisted of Northwest Pipeline Corporation and Williams Natural Gas Company, owners and operators of interstate natural gas pipeline systems and the Company's 50 percent interest in Kern River Gas Transmission Company.

NORTHWEST PIPELINE CORPORATION (Northwest Pipeline)

Northwest Pipeline owns and operates an interstate natural gas pipeline system, including facilities for mainline transmission and gas storage. Northwest Pipeline'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, its rates and charges for the transportation of natural gas in interstate commerce, the extension, enlargement or abandonment of its jurisdictional facilities, and its accounting, among other things, are subject to regulation.

Pipeline System and Customers

Northwest Pipeline owns and operates a pipeline system for the mainline transmission of natural gas. The system extends 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. At December 31, 1994, Northwest Pipeline's system, having an aggregate mainline deliverability of almost 2.5 Bcf* of gas per day, was composed of approximately 3,900 miles of mainline and branch transmission pipelines, and 43 mainline compressor stations with a combined capacity of approximately 291,000 horsepower.

Northwest Pipeline operates under an open-access transportation certificate wherein gas is transported for third party shippers. In 1994, Northwest Pipeline transported natural gas for a total of 101 customers. 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. Transportation customers include distribution companies, municipalities, interstate and intrastate pipelines, gas marketers and direct industrial users. The three largest customers of Northwest Pipeline in 1994 accounted for approximately 20.2 percent, 12.4 percent and 10.7 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. Northwest Pipeline's transportation services represented 100 percent of its total throughput in 1994.

Northwest Pipeline has filed applications for FERC approval to build additional mainline expansions totaling 164 MMcf of gas per day of increased system capacity at an estimated cost of approximately $100 million to be in service by the end of 1995.

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 plant in Washington which provides a needle-peaking service for the system. These storage facilities have an aggregate delivery capacity of approximately 873 MMcf of gas per day.

Operating Statistics

The following table summarizes gas sales and transportation data for the periods indicated:

	YEAR ENDED DECEMBER 31,		
	1994	1993	1992
Gas Volumes (TBtu):			
Gas sales	--	18	19
Transportation	679	606	591
Total throughput	679	624	610
Average Daily Transportation Volumes (TBtu)	1.9	1.7	1.6
Average Daily Firm Reserved Capacity (TBtu)	2.4	--	--

In 1992, FERC issued Order 636 which required interstate pipelines to restructure their tariffs to eliminate traditional sales services and to implement various changes in forms of service. On November 1, 1993, Northwest Pipeline implemented its restructured tariff under Order 636. Under the restructured tariff, Northwest Pipeline's sales service terminated effective November 1, 1993.

Regulatory Matters

Northwest Pipeline's transportation of natural gas in interstate commerce is subject to regulation by FERC under the Natural Gas Act or the NGPA. Northwest Pipeline holds certificates of public convenience

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* 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 "MMBtu" means one million British Thermal Units and "TBtu" means one trillion British Thermal Units.

and necessity issued by FERC authorizing it to own and operate all pipelines, facilities and properties considered jurisdictional for which certificates are required under the Natural Gas Act.

Northwest Pipeline is 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.

Current FERC policy associated with FERC Orders 436 and 500 requires interstate natural 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 such policy, Northwest Pipeline has filed to recover a portion of previously incurred take-or-pay and contract reformation costs through direct bill and surcharge mechanisms. The FERC initially approved a method for Northwest Pipeline to collect its direct billed costs, but when challenged on appeal, sought a remand to reassess such method. Subsequently, Northwest Pipeline received an order from FERC requiring a different allocation of such costs. Although reallocation will require refunds of certain amounts, Northwest Pipeline expects to be permitted to recover substantially all of these costs from other customers.

On July 28, 1994, Northwest Pipeline received an initial decision from an Administrative Law Judge on a rate case filed October 1, 1992. This decision will be reviewed further by FERC prior to issuance of a final order. Northwest Pipeline has raised certain exceptions to the decision and believes the outcome of the final order is not likely to have a significant effect on Northwest Pipeline's financial position.

On November 1, 1994, Northwest Pipeline began collecting new rates, subject to refund, under the provisions of a rate case filed April 29, 1994. This new filing seeks a revenue increase for a projected deficiency caused by increased costs and loss of cost recovery assigned to a transportation contract terminated subsequent to the rate case filed on October 1, 1992.

Competition

No other interstate natural gas pipeline company presently provides significant service to Northwest Pipeline's primary gas consumer market area. However, competition with other interstate carriers exists for expansion markets. Competition also exists with alternate fuels. Electricity and distillate fuel oil are the primary alternate energy sources in the residential and commercial markets. In the industrial markets, high sulfur residual fuel oil is the main alternate fuel source.

Ownership of Property

Northwest Pipeline's system is owned in fee. However, a substantial portion of Northwest Pipeline's system is constructed and maintained pursuant to rights-of-way, easements, permits, licenses or consents on and across properties owned by others. The compressor stations of Northwest Pipeline, with appurtenant facilities, are located in whole or in part upon lands owned by Northwest Pipeline and upon sites held under leases or permits issued or approved by public authorities. The LNG plant is located on lands owned in fee by Northwest Pipeline. Northwest Pipeline's debt indentures restrict the sale or disposal of a major portion of its pipeline system.

Environmental Matters

Northwest Pipeline is subject to the National Environmental Policy Act and other Federal and state legislation regulating the environmental aspects of its business. Management believes that Northwest Pipeline is in substantial compliance with existing environmental requirements. Northwest Pipeline believes that, with respect to any capital expenditures required to meet applicable environmental standards and regulations, FERC would grant the requisite rate relief so that, for the most part, such expenditures and a return thereon would be permitted to be recovered. Northwest Pipeline believes that compliance with applicable environmental requirements is not likely to have a material effect upon its earnings or competitive position.

WILLIAMS NATURAL GAS COMPANY (Williams Natural Gas)

Williams Natural Gas is an interstate natural gas transmission company which 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.

Williams Natural Gas is subject to regulation by FERC under the Natural Gas Act and under the NGPA, and, as such, its rates and charges for transportation of natural gas in interstate commerce, the extension, enlargement or abandonment of facilities, and its accounting, among other things, are subject to regulation.

Pipeline System and Customers

At December 31, 1994, Williams Natural Gas' system, having a mainline delivery capacity of approximately 2.2 Bcf of gas per day, was composed of approximately 6,300 miles of mainline and branch transmission and storage pipelines and 48 compressor stations having a sea level rated capacity totaling approximately 259,000 horsepower.

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' 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 1994, Williams Natural Gas transported gas to customers in Colorado, Kansas, Missouri, Nebraska, Oklahoma, Texas and Wyoming. Gas was transported for 76 distribution companies and municipalities for resale to residential, commercial and industrial users in approximately 530 cities and towns. Transportation services were provided to approximately 350 industrial customers, federal and state institutions and agricultural processing plants located principally in Kansas, Missouri and Oklahoma. At December 31, 1994, Williams Natural Gas had transportation contracts with approximately 206 shippers. Transportation shippers included distribution companies, municipalities, intrastate pipelines, direct industrial users, electrical generators, marketers and producers.

In 1994, approximately 44 percent and 36 percent, respectively, of total operating revenues were generated from gas transportation services to Williams Natural Gas' 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 1994.

Western Resources has entered into a twenty-year transportation service agreement with Williams Natural Gas for a portion of its capacity needs. After the initial two-year period, the contract contains a competitive out option. Transportation services are provided to Missouri Gas Energy under contracts primarily varying in terms from two to five years.

The following table summarizes gas sales and transportation data for the periods indicated:

	1994	1993	1992
Volumes (TBtu):			
Resale sales	--	50	65
Direct and gas processing plant sales	--	1	1
Transportation	346	344	320
Total throughout	346	395	386
Average Daily Transportation Volumes (TBtu)	.9	.9	.9
Average Daily Firm Reserved Capacity (TBtu)	2.0	--	--

In 1992, FERC promulgated Order 636 which required interstate pipelines to restructure their tariffs to eliminate traditional on system sales services (except to certain small customers) before the 1993-1994 heating season and to implement 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. Williams Natural Gas' restructuring tariff became effective on October 1, 1993.

Williams Natural Gas' restructured firm services are offered on a "contract-demand" basis with the fixed costs, including return and tax allowance, recovered through levelized monthly demand charges in accordance with FERC specified straight fixed-variable rate design methodology. This results in a more consistent level of operating results throughout the year, rather than the historical operating results which were most favorable during the winter heating season. In addition, effective October 1, 1993, Williams Natural Gas was granted blanket authority to sell gas at negotiated prices and terms. Such sales must take place prior to the entry of that gas into Williams Natural Gas' transmission system. Pursuant to Order 636, Williams Natural Gas filed for recovery of $36 million of transition costs in June 1994. This amount was direct billed to certain former sales customers in September 1994, subject to FERC's final approval. Williams Natural Gas expects to recover these costs which were associated with its previous gas sales functions.

As part of Williams Natural Gas' restructuring, certain gathering and processing assets have been or will be transferred to third parties including subsidiaries of Williams Field Services Group, Inc., as discussed elsewhere herein. Applications for orders permitting and approving abandonment of certain natural gas facilities have been filed with FERC and final approval has been granted by FERC on two of these filings. Preliminary approval on all other systems, with the exception of the Kansas-Hugoton area, was granted by FERC in December 1994, with final approval conditioned on negotiated or default contracts for each gathering customer and a tariff filing by Williams Natural Gas requesting termination of the gathering service. As discussed below, the abandonment of the Kansas-Hugoton area was filed in October 1994, as part of the producer settlement agreement.

Williams Natural Gas' total estimated proved developed gas reserves under contract as of December 31, 1994, were 195 Bcf. Except for new wells drilled on previously dedicated acreage under existing gas purchase contracts, virtually no new dedicated gas supplies have been connected since 1982.

Williams Natural Gas' total estimated contracted gas reserves, in Bcf, were 195, 1,805 and 2,088 at December 31, 1994, 1993 and 1992, respectively. In 1994, approximately 1,375 Bcf of contracted gas reserves were terminated under the terms of the producer settlement agreement discussed below.

At December 31, 1994, Williams Natural Gas' remaining contracted reserves were primarily attributable to approximately 97 gas purchase contracts with independent producers. The independent producers' supplies are located in Colorado, Kansas, Oklahoma, the Texas Panhandle and Wyoming.

Regulatory Matters

The transportation of natural gas by Williams Natural Gas in interstate commerce is subject to regulation by FERC under the Natural Gas Act or the NGPA. Williams Natural Gas holds certificates of public convenience and necessity issued by FERC authorizing it to own and operate all pipelines, facilities and properties now in operation for which certificates are required under the Natural Gas Act.

Williams Natural Gas is also subject to the Natural Gas Pipeline Safety Act of 1968, as amended, which regulates safety requirements in the design, construction, operation and maintenance of interstate gas transmission and storage facilities.

Williams Natural Gas has been involved in the reformation of its gas purchase contracts in order to obtain releases from future gas purchase obligations and to provide market-responsive terms in its remaining gas supply contracts. Through December 31, 1994, Williams Natural Gas has paid approximately $96.2 million to producers for contract reformations and take-or-pay settlements and has accrued on its balance sheet an additional $47.2 million for future settlement costs. Although Williams Natural Gas believes the accrual to be adequate, the amounts ultimately paid will depend on the outcome of various court proceedings, the provisions and enforceability of each gas purchase contract, the success of settlement negotiations and other factors. As of December 31, 1994, Williams Natural Gas had an asset recorded on its balance sheet for $40 million in recoverable contract reformation and take-or-pay costs. This amount has not yet been paid nor has a filing for recovery of such costs been made. See Note 15 of Notes to Consolidated Financial Statements.

On January 1, 1993, all federal price controls on wellhead sales of natural gas were removed by the Natural Gas Wellhead Price Decontrol Act of 1989. However, some contracts require Williams Natural Gas to continue to pay prices based upon prior regulation. Other contracts revert to contractually specified pricing mechanisms or to market-based pricing.

All remaining nonmarket responsive contracts will be reformed where possible and the associated costs included in a transmission cost recovery mechanism filing. Williams Natural Gas has filed an uncontested stipulation and agreement which has been approved by FERC. This settlement resolved two rate cases and established the cost sharing responsibility up to $50 million between Williams Natural Gas and its customers for contract reformation costs filed by Williams Natural Gas and its former pipeline suppliers under Orders 500 and 528 as well as Order 636 gas supply realignment costs.

Under the terms of the settlement, Williams Natural Gas absorbed 25 percent of costs incurred prior to July 31, 1992, and filed for under Orders 500 and 528. After such date, any additional gas supply realignment costs that may be incurred by Williams Natural Gas will be absorbed on a sliding scale from 9.5 percent of total costs up to $20 million to 22 percent if total costs do not exceed $50 million. Williams Natural Gas will not absorb any costs incurred by its former pipeline suppliers. Williams Natural Gas cannot predict the outcome of its contract realignment efforts. It is likely that the $50 million amount will be exceeded. While the settlement does not preclude Williams Natural Gas from recovery of costs in excess of $50 million, the agreed sliding scale sharing arrangement would not apply. Williams Natural Gas' restructured tariff also allows recovery of above-market gas costs incurred under contracts not reformed, subject to the same allocations and some additional restrictions.

Pursuant to the foregoing, Williams Natural Gas has made two filings to direct bill take-or-pay and gas supply realignment costs recoverable under Orders 436, 500 and 528. 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 additional costs and provided for an offset of $3 million. One party has challenged the prudency of Williams Natural Gas' settlements and has requested FERC to schedule a prudency hearing. Williams Natural Gas will make additional filings in the future under the stipulation and agreement to recover such further contract reformation costs as may be incurred.

In October 1994, Williams Natural Gas and a producer executed a number of definitive agreements to resolve outstanding issues between the two companies and restructure their relationship. The agreements terminate Williams Natural Gas' largest gas purchase contract and resolve a number of disputes, including claims by the producer for take-or-pay deficiencies and a gas pricing dispute. With respect to the gas pricing dispute, Williams Natural Gas paid the producer $35 million in cash and is committed to pay an additional $40 million under certain circumstances, all but a small portion of which Williams Natural Gas believes it will be permitted to recover from certain of its former sales customers. As part of the settlement agreements, Williams Natural Gas filed for the abandonment of the Kansas-Hugoton gathering assets. Upon abandonment approval, the gathering assets will be owned by an affiliate of Williams Natural Gas and will be operated by the producer. The only portions of the settlement subject to regulatory approvals are the settlement payment for the gas pricing dispute and the regulatory abandonment of the Kansas-Hugoton gathering facilities on terms acceptable to Williams Natural Gas. See Note 15 of Notes to Consolidated Financial Statements.

Competition

Williams Natural Gas competes with both interstate and intrastate pipelines and, to a more limited extent, marketers of natural gas, customers who reassign firm transportation capacity and alternate energy forms in all significant markets. Electricity and distillate fuel oil are the primary competitive forms of energy for residential and commercial markets. Coal and residual fuel oil compete for industrial and electric-generating markets. Some nuclear power and power purchased from "grid" arrangements among electric utilities also compete with gas-fired power generation in the markets served by Williams Natural Gas. Effective October 1, 1993, when Williams Natural Gas' restructured tariff became effective under Order 636, all suppliers of natural gas were able to compete for any gas markets capable of being served by Williams Natural Gas' system, using nondiscriminatory transportation services provided by Williams Natural Gas. Effective October 1, 1993, Williams Natural Gas also received blanket sales authority, enabling it to sell gas prior to the entry of that gas into its transmission system at individually negotiated prices and terms in the same manner as other natural gas merchants.

Many areas served by Williams Natural Gas are served or can be served by other pipelines providing transportation services. In this regard, the City of Springfield, Missouri, notified Williams Natural Gas in 1993 of its intention to construct and operate its own pipeline to connect a portion of its existing load to a competitor. Negotiations continued during 1994 to retain their entire load on Williams Natural Gas' system.

Ownership of Property

Williams Natural Gas' pipeline system is owned in fee. However, a substantial portion of Williams Natural Gas' system is constructed and maintained pursuant to rights-of-way, easements, permits, licenses or consents on and across properties owned by others. The compressor stations of Williams Natural Gas, with appurtenant facilities, are located in whole or in part either on lands owned by Williams Natural Gas or on sites held under leases or permits issued or approved by public authorities. The storage facilities are either owned or contracted for under long-term leases.

Environmental Matters

Williams Natural Gas is subject to various federal, state and local laws and regulations relating to environmental quality control. Management believes that Williams Natural Gas' operations are in substantial compliance with existing environmental legal requirements.

Williams Natural Gas believes that, with respect to any capital expenditures required to meet applicable environmental standards and regulations, FERC would grant the requisite rate relief so that, for the most part, such expenditures would be recoverable in rates. Williams Natural Gas believes that compliance with applicable environmental requirements is not likely to have a material effect upon its earnings or competitive position.

Williams Natural Gas has identified polychlorinated biphenyl ("PCB") contamination in air compressor systems, disposal pits and various other areas at certain compressor station sites. Williams Natural Gas has been involved in negotiations with the Environmental Protection Agency ("EPA") to develop additional screening, detailed sampling and cleanup programs. In addition, negotiations concerning investigative and remedial actions relative to potential mercury contamination at certain gas metering sites have commenced with certain environmental authorities. As of December 31, 1994, Williams Natural Gas has a liability recorded of approximately $28 million representing the current estimate of future environmental cleanup costs to be incurred over the next six to ten years. Although the accrual is believed to be adequate, the 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 EPA and other governmental authorities and other factors. Williams Natural Gas will seek recovery of these costs through future rates and other means. See Note 15 of Notes to Consolidated Financial Statements.

KERN RIVER GAS TRANSMISSION COMPANY (Kern River)

Kern River is an interstate natural gas transmission company which owns and operates a natural gas pipeline system extending from Wyoming through Utah and Nevada to California. Kern River is jointly owned and operated by Williams Western Pipeline Company, a subsidiary of Williams, and a subsidiary of an unaffiliated company. See Note 3 of Notes to Consolidated Financial Statements. 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.

Kern River is subject to regulation by FERC under the Natural Gas Act and under NGPA, and, as such, its rates and charges for the transportation of natural gas in interstate commerce, the extension, enlargement or abandonment of facilities and its accounting, among other things, are subject to regulation.

Pipeline System and Customers

As of December 31, 1994, Kern River's pipeline system was composed of 667 miles of pipeline and three mainline 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 single 337-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.

Kern River operates under an open-access transportation certificate wherein gas is transported for others under firm long-term transportation contracts totaling 675 MMcf of gas per day. During 1994, one shipper exercised adjustment rights under its contract which had the affect of reducing firm transportation commitments by 25 MMcf of gas per day. Another shipper exercised its adjustment rights and increased its firm transportation commitment by 5 MMcf of gas per day.

In 1994, Kern River transported 262 Bcf of 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 19 local distribution customers, electric utilities, cogeneration projects and commercial and other industrial customers. The five largest customers of Kern River in 1994 accounted for approximately 14 percent, 14 percent, 12 percent, 12 percent and 12 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 1994.

Regulatory Matters

The transportation of natural gas by Kern River in interstate commerce is subject to regulation by FERC under the Natural Gas Act or the NGPA. Kern River owns certificates of public convenience and necessity issued by FERC authorizing it to own and operate all pipelines, facilities and properties now in operation for which certificates are required under the Natural Gas Act. Kern River is also subject to regulation under the Natural Gas Pipeline Safety Act of 1968, as amended, which regulates safety requirements in the design, construction, operation and maintenance of interstate gas transmission facilities.

On March 1, 1993, Kern River began collecting new rates, subject to refund, under the provisions of a rate case filed August 31, 1992. Kern River is seeking an increase in rates to cover increased operating costs, recovery of capital for construction of the initial system and a fair rate of return. A settlement has been entered into by and between Kern River, FERC staff and Kern River customers. The settlement was submitted to

FERC for approval on October 18, 1994 and a FERC Order approving the settlement without modification was received on January 25, 1995. Subsequently, Kern River filed for a clarification of certain elements of the FERC Order.

Kern River has filed an application with FERC for authorization to expand capacity to bring an additional 452 MMcf of gas per day of Canadian natural gas into California and Nevada. On August 18, 1994, Kern River submitted a letter to FERC requesting postponement in the issuance of a certificate, pending a re-evaluation of market conditions.

Competition

One other natural gas pipeline presently provides significant service to the enhanced oil recovery fields in Kern County. Pipeline competition also exists for Kern River's other customers as well as for expansion markets. Competition for the customer base is also provided from alternate fuels. Electricity and distillate fuel oil are the primary alternate energy sources competing with gas in the commercial market. In the industrial and cogeneration markets, high sulfur residual fuel oil is the main alternate fuel source providing competition.

Ownership of Property

The Kern River pipeline system is owned in fee. However, a substantial portion of the system is constructed and maintained on rights-of-way, easements, permits, licenses or consents on and across properties owned by others. The compressor stations, with appurtenant facilities, are located in whole or in part on lands owned by Kern River or on sites held under leases or permits issued or approved by public authorities.

Environmental Matters

Kern River is subject to the National Environmental Policy Act and other federal, state and local laws and regulations relating to the environmental aspects of the pipeline operations. Management believes that Kern River is in substantial compliance with existing environmental legal requirements for its business.

Kern River believes that, with respect to any capital expenditures required to meet applicable environmental standards and regulations, FERC would grant requisite rate relief so that, for the most part, such expenditures and a return thereon would be permitted to be recovered. Kern River believes that compliance with applicable environmental requirements pertaining to its business is not likely to have a material effect upon earnings or its competitive position.

WILLIAMS FIELD SERVICES GROUP, INC. (WILLIAMS FIELD SERVICES)

Williams Field Services, through subsidiaries, owns and/or operates both regulated and nonregulated natural gas gathering and processing facilities, markets natural gas and owns and operates natural gas leasehold properties. Williams Field Services was established as a separate business unit in 1993 and all of the Company's natural gas gathering and processing, marketing and production activities have been, or will be, consolidated under Williams Field Services' control and management. As part of Williams Natural Gas' restructuring as previously discussed, certain gathering and processing assets will be transferred to Williams Field Services upon FERC approval.

In 1994 and 1993, gathering and processing activities represented 87 percent and 89 percent, respectively, of Williams Field Services' operating profit. Production and natural gas marketing represented the balance.

In 1994, Williams Field Services increased the capacity of the Manzanares coal seam gas gathering systems in northwestern New Mexico to 750 MMcf of gas per day. Further expansions will be completed in early 1995 which will increase the capacity of the Manzanares system to over 1 Bcf of gas per day. A 120 MMcf of gas per day processing plant in the Wamsutter field of south-central Wyoming began operations in early 1994 and plans are underway to double the capacity in 1995. Williams Field Services completed the construction and acquisition of a 74 MMcf of gas per day processing complex in the Texas Panhandle which was the first grassroots construction project outside Williams Field Services' traditional western market area.

In February 1994, Williams Field Services reached agreement with Public Service Company of New Mexico to acquire its natural gas gathering and processing assets in the San Juan and Permian basins of New Mexico for $155 million. Subsequently, Williams Field Services entered into an agreement to sell the southeastern New Mexico portion of the acquired assets for $14.2 million. The assets retained consist of approximately 1,500 miles of gathering pipelines and three gas processing plants which have an aggregate daily inlet capacity of 300 MMcf of gas. The acquisition is subject to approval from federal and state regulatory agencies and is not expected to close until mid-year 1995.

Gathering and Processing

Williams Field Services, through subsidiaries, owns and operates natural gas gathering and processing facilities located in the San Juan Basin, southwest Wyoming, and the Rocky Mountains of Utah and Colorado. Williams Field Services, through subsidiaries, also operates natural gas gathering and processing facilities located in the Texas Panhandle and the Hugoton Basin in northwest Oklahoma and southwest Kansas which are owned by Williams Natural Gas but which are the subject of applications for orders permitting abandonment, discussed elsewhere herein. Gathering services provided include the gathering of gas and the treating of coal seam gas. The operating information below includes operations attributed to the facilities when they were owned and operated by affiliated entities and operations for facilities currently owned by Williams Natural Gas but operated by Williams Field Services.

Customers and Operations. Williams Field Services' facilities, including those currently owned by Williams Natural Gas, consist of approximately 6,900 miles of gathering pipelines, three gas treating plants and ten gas processing plants (one of which is 20 percent owned and one of which is 66 percent owned) which have an aggregate daily inlet capacity of 2.3 Bcf of gas. Gathering and processing customers have direct access to interstate pipelines, including Northwest Pipeline, Williams Natural Gas and Kern River, which provide access to multiple markets.

During 1994, Williams Field Services gathered natural gas for 157 customers. The two largest gathering customers accounted for approximately 33 percent and 10 percent, respectively, of total gathered volumes. During 1994, natural gas was processed for a total of 108 customers. The three largest customers accounted for approximately 22 percent, 14 percent and 12 percent, respectively, of total processed volumes. No other customer accounted for more than 10 percent of gathered or processed volumes. Williams 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 Williams Field Services.

Liquids extracted at the processing plants are ethane, propane, butane and natural gasoline. Liquid products retained by Williams Field Services' are marketed by an affiliate for a fee. During 1994, liquid products were sold to a total of 20 customers under short-term contracts. The three largest customers accounted for approximately 33 percent, 13 percent and 10 percent, respectively, of total liquid products volumes sold. No other customer accounted for more than 10 percent of volumes sold.

Operating Statistics. The following table summarizes gathering, processing and natural gas liquid volumes for the periods indicated:

	1994	1993	1992
Gas volumes (TBtu, except where noted):			
Gathering	895	789	672
Processing	392	323 *	283 *
Natural gas liquid sales (millions of gallons)	281	295	278

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* Restated to exclude treating volumes.

Natural Gas Marketing and Supply

Williams Gas Marketing, a subsidiary of Williams Field Services, markets natural gas primarily west of the Mississippi River and in certain eastern and southeastern states. Williams Gas Marketing also markets gas in the Midcontinent and Western regions of the U.S. off both interstate and intrastate pipelines, including Williams Natural Gas, Northwest Pipeline and Kern River.

During 1994, no single customer accounted for 10 percent or more of volumes sold. Typically, natural gas sales are made under short-term contracts. Renewal of these contracts is dependent upon, among other things, the ability to provide competitively priced gas.

Williams Gas Marketing supplies its sales commitments through short-term and spot gas purchases as well as purchases under long-term contracts. The suppliers' ability to meet their delivery commitments and Williams Gas Marketing's ability to service its customers may be adversely affected by factors beyond their respective control, such as occasions of force majeure. Certain of these gas purchase contracts obligate Williams Gas Marketing to purchase minimum percentages of the total deliverability of the wells covered by the contracts. During 1994, Williams Gas Marketing incurred no purchase deficiencies under these contracts.

Production

Williams Field Services, through a subsidiary, owns and operates producing gas leasehold properties in the San Juan Basin.

Gas Reserves. As of December 31, 1994, 1993 and 1992, Williams Field Services had proved developed natural gas reserves of 269 Bcf, 229 Bcf and 352 Bcf, respectively, and proved undeveloped reserves of 220 Bcf, 319 Bcf and 287 Bcf, respectively. As discussed below, Williams Field Services conveyed gas reserves to the Williams Coal Seam Gas Royalty Trust in 1993. 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, 1994, the gross and net developed leasehold acres owned by Williams Field Services totaled 228,863 and 98,716, respectively, and the gross and net undeveloped acres owned were 29,369 and 13,669, respectively. As of such date, Williams Field Services owned interests in 2,682 gross producing wells (369 net) on its leasehold lands. The following table summarizes drilling activity for the periods indicated:

	DEVELOPMENT	
COMPLETED DURING	GROSS WELLS	NET WELLS
1994	66	19
1993	39	5
1992	95	11

The majority of Williams Field Services' gas production is currently being sold in the spot market at market prices. Total net production sold during 1994, 1993 and 1992 was 22.6 TBtu, 16.3 TBtu and 23.4 TBtu, respectively. The average production costs per MMBtu of gas produced were $.14, $.17 and $.17 in 1994, 1993 and 1992, respectively. The average sales price per MMBtu was $1.21, $1.44 and $1.14, respectively, for the same periods.

In 1993, Williams Field Services conveyed a net profits interest in certain of its properties to the Williams Coal Seam Gas Royalty Trust. Trust Units were subsequently sold to the public by Williams in an underwritten public offering. Williams continues to hold 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, 1994, attributed to the properties conveyed were 162 Bcf. Production information reported herein includes Williams Field Services' interest in such Units. See Note 4 to Notes to Consolidated Financial Statements.

Regulatory Matters

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 pipelines, pipeline affiliated gathering and processing companies are outside its authority under the Natural Gas Act. Orders issued in 1994 which implement FERC's conclusion that it lacks jurisdiction have been appealed to the Court of Appeals for the District of Columbia Circuit. Williams Field Services believes that these FERC decisions will be upheld on appeal.

As a result of FERC action, several of the states in which Williams Field Services operates may consider whether to impose regulatory requirements on gathering companies. No state in which Williams Field Services operates currently regulates gathering or processing rates or services.

Competition

Williams Field Services competes for gathering and processing business with interstate 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.

Ownership of Property

Williams Field Services' 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 Williams Field Services or on sites held under leases or permits issued or approved by public authorities.

Environmental Matters

Williams Field Services is subject to various federal, state and local laws and regulations relating to environmental quality control. Management believes that Williams Field Services' operations are in substantial compliance with existing environmental legal requirements.

WILLIAMS PIPE LINE COMPANY (WILLIAMS PIPE LINE)

Williams Pipe Line, a wholly owned subsidiary of Williams, operates a petroleum products pipeline system which covers an eleven-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 terminalling services on a nondiscriminatory basis under published tariffs. The system transports crude oil and products, including gasolines, distillates, aviation fuels and LP-gases.

On September 30, 1994, Williams Pipe Line acquired 114 miles of pipeline in Kansas, Missouri and Illinois from ARCO Pipe Line Company. In a related transaction, Williams Pipe Line added a new offline delivery connection to serve markets in northern Missouri and southern Iowa.

Shippers and Pipeline System

At December 31, 1994, the system traversed approximately 7,000 miles of right-of-way and included over 9,200 miles of pipeline in various sizes up to 16 inches. The system includes 81 pumping stations, 23 million barrels of storage capacity and 47 delivery terminals. The terminals are equipped to deliver 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. Since 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.

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

	1994	1993	1992
Shipments (thousands of barrels):			
Refined products:			
Gasolines	120,682	109,841	92,643
Distillates	61,129	51,508	45,920
Aviation fuels	9,523	11,123	11,180
LP-Gases	10,849	9,778	11,362
Crude oil	1,062	3,388	4,481
Total shipments	203,245	185,638	165,586
Daily average (thousands of barrels)	557	509	454
Average haul (miles)	284	279	295
Barrel miles (millions)	57,631	51,821	48,825
Revenues (millions):			
Transportation	$168.0	$153.0	$137.7
Nontransportation	41.7	26.3	10.8
Total revenues	$209.7	$179.3	$148.5
Average transportation revenue per barrel	$.83	$.82	$.83

On December 1, 1993, Williams Pipe Line acquired a 300-mile pipeline, two loading terminals and related storage from Sun Pipe Line Company. The pipeline connects to Williams Pipe Line's systems in Oklahoma and adds Arkansas to its market. Volumes originating on this system accounted for approximately 10 percent of the shipments and transportation revenues in 1994.

In 1994, 75 shippers transported volumes through the system. The seven largest shippers accounted for 55 percent of transportation revenues. These same shippers have accounted for approximately the same percentage of transportation revenues over the past three years. Due to Williams Pipe Line's geographic location within existing supply and demand patterns, including connections to pipelines and refineries within the region, Williams Pipe Line expects to remain the competitive choice in these relationships. The highest revenue-producing shipper accounted for approximately 11 percent of transportation revenues in 1994.

Nontransportation activities accounted for 20 percent of total revenues in 1994. The increase in nontransportation revenues is primarily due to expanded gas liquids and fractionator operations.

At December 31, 1994, the system was directly connected to, and received products from 11 operating refineries reported to have an aggregate crude oil refining capacity of approximately 888,000 barrels per day. Eight of these refineries are located in Kansas and Oklahoma, two in Minnesota and one in Wisconsin. The system also received products through connecting pipelines from other refineries located in Illinois, Indiana, Kansas, Louisiana, Montana, North Dakota, Oklahoma and Texas. Crude oil is received through connections in Kansas and Oklahoma. The refineries, which are connected directly or indirectly to the system, have access to a broad range of crude oil producing areas, including foreign sources. LP-gases are transported from gas producing and storage areas in central Kansas through connecting pipelines in Iowa, Kansas, Missouri and Illinois. In addition to making deliveries to company-owned terminals, the system delivers products to third-party terminals and connecting pipelines.

The refining industry continues to be affected by environmental regulations and changing crude supply patterns. The industry's response to environmental regulations and changing supply patterns will directly affect volumes and products shipped on the Williams Pipe Line system. 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 position itself to respond to changing regulations and supply patterns, but it is not possible to predict how future changes in the marketplace will affect Williams Pipe Line's market areas.

Regulatory Matters

General. 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 which are applicable to intrastate pipelines.

Rate Proceeding. 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. As a result of these protests, FERC suspended the effective date of the tariff for seven months (until September 16, 1990), at which time it became effective, subject to refund. The revised intrastate tariffs filed with state commissions were voluntarily withdrawn and refiled to be effective at the same time as the interstate tariff.

Williams Pipe Line elected to bifurcate this proceeding in accordance with the then-current FERC policy. Phase I of the 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 will require cost justification in Phase II. FERC hearings in Phase I were held before an administrative law judge in the summer of 1991. The Judge's decision, issued January 24, 1992, ruled solely on market power issues and certain discrimination claims. This Initial Decision concluded that Williams Pipe Line had sustained its burden of proof in demonstrating that it "lacks significant market power" and is "workably competitive" in 22 of 32 of its markets and that the alleged discrimination was justified by competitive conditions. On July 27, 1994, FERC issued a Phase I decision, Order 391. The Commission, while citing considerable agreement with the theoretical concepts employed by the administrative law judge, reversed his initial decision regarding the competitive nature of nine specific markets, thus finding that Williams Pipe Line had sustained its burden of proof in showing that it is workably competitive in 13 of 32 markets under investigation. In response to this order, Williams Pipe Line filed a motion to stay Phase II along with a request for reconsideration of nine markets on August 29, 1994. On September 28, 1994, FERC issued a tolling order granting Williams Pipe Line's request for rehearing but denying its motion to stay the Phase II proceedings. Williams Pipe Line filed its direct evidence in Phase II on January 23, 1995, with hearings to begin around September 1995. The current procedural schedule forecasts an initial decision in Phase II in the beginning of 1996. While Williams Pipe Line cannot predict the final outcome of these proceedings, it believes its revised tariffs will ultimately be found lawful.

In June 1993, FERC ruled that Williams Pipe Line must file tariffs and cost justification for transaction charges that are collected for certain bookkeeping services, Product Transfer Orders and Product Authorizations. Williams Pipe Line had previously considered these charges as nonjurisdictional. In order to comply with the ruling, Williams Pipe Line immediately filed tariffs establishing these charges in its tariff. The FERC order to provide cost justification is currently stayed pending rehearing of the case.

On October 22, 1993, FERC issued a new rule making and two companion Notices of Inquiry intended to establish "simplified and generally applicable rate making" as well as procedural streamlining as mandated by the Energy Policy Act of 1992. On July 27, 1994, FERC issued a final rule establishing a "simplified and generally applicable rate making" methodology as mandated by the Energy Policy Act of 1992. FERC has attempted to streamline the rate making process via generic rules and a rate cap mechanism, or index, based on the annual Producer Price Index for Finished Goods less one percentage point ("PPI-1"). The final rule, which became effective January 1, 1995, requires pipelines to use indexing as their primary rate making methodology in markets not determined to be workably competitive. The Association of Oil Pipelines has filed an appeal of this order in the Court of Appeals for the District of Columbia Circuit citing, among other things, the inadequacy of the PPI-1 index. Williams Pipe Line has intervened in this proceeding.

On October 28, 1994, FERC released two additional rule makings. The first established procedures for seeking "market-based" rates. The second sets forth procedures for cost justifying rate increases which exceed the PPI-1 index and establishes several changes in existing accounting and reporting requirements.

Competition

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. Since 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 which 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 which 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.

Ownership of Property

Williams Pipe Line's 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.

Environmental Matters

Williams Pipe Line's operations are subject to various federal, state and local laws and regulations relating to environmental quality control. Management believes that Williams Pipe Line's operations are in substantial compliance with existing environmental legal requirements. Williams Pipe Line has initiated a broad scope of projects related to environmental controls. Under Williams Pipe Line's philosophy of proactive environmental management, $5.7 million was expended in 1994 for environmental-related capital projects.

Williams Pipe Line has been named by the EPA 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. This site was placed 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 ENERGY VENTURES, INC. (WILLIAMS ENERGY VENTURES)

Williams Energy Ventures, a wholly owned subsidiary of Williams, provides price risk management products and services, natural gas liquid marketing services, electronic information services and business development capabilities through three major business groups: Commodities, Information Services and New Ventures.

Commodities Group

In addition to providing commodity price risk management products and services for other Williams subsidiaries, Williams Energy Ventures, through a subsidiary, offers financial instruments and derivatives to producers and consumers of energy as well as to financial entities participating in energy price-risk management. Williams Energy Ventures enters into energy-related financial instruments to hedge against market price fluctuations of certain refined products inventories and natural gas sales and purchase commitments. Williams Energy Ventures expanded these services during the year as transactions increased over 100 percent from 1993 levels, while also being selected to supply a cogeneration facility with a ten-year supply of natural gas beginning in 1997. See Note 13 of Notes to Consolidated Financial Statements.

Williams Energy Ventures also markets the gas liquids produced by Williams Field Services and by unaffiliated companies. Natural gas liquids are sold in the Gulf Coast petrochemical markets under short-term contracts. Propane is marketed primarily in the Rocky Mountain area via truck and railcar loading terminals owned by Williams Field Services.

Information Services Group

Through its information services group, Williams Energy Ventures offers various trading and brokering services in the energy field. Chalkboard, an electronic trading and brokering system for purchases and sales of liquid fuels and crude oil, continues to establish market acceptance following its introduction in 1993. During 1994, Williams Energy Ventures implemented Streamline (a computer-based gas trading and clearing system) at five locations in the United States and at two gas trading hubs in Canada through a joint development partner. Also introduced during the year was Capacity Central, a computer-based gas pipeline capacity sales system.

Williams Energy Ventures also provides computer-based operator training primarily to the energy industry. Williams Energy Ventures has licensing agreements with over 150 customers in the oil and gas pipeline, terminal and trucking industries.

New Ventures Group

Williams Energy Ventures' new ventures group consists primarily of nonjurisdictional businesses based in petroleum-related and technology-based processes. During 1994, this group initiated the construction of an underground coal gasification facility in Wyoming, with initial operations to determine the commercial feasibility of the process scheduled for early 1995. In support of this and future similar projects, Williams Energy Ventures completed the acquisition of Energy International, a company with technological rights and expertise in conversion of coal into market quality gas. In addition, Williams Energy Ventures entered into a 71 percent majority interest in a joint venture to construct a 25 million gallon per year ethanol plant in Nebraska, with completion scheduled for the fourth quarter of 1995. Development responsibilities also extend to those energy-based projects which employ newly developed technologies and information systems.

TELECOMMUNICATIONS

WILLIAMS TELECOMMUNICATIONS SYSTEMS, INC. (WILTEL)

WilTel provides data, voice and video communications products and services to a wide variety of customers nationally. WilTel is strategically positioned in the marketplace with more than 100 sales and service locations throughout the United States, over 2,500 employees and over 1,300 stocked service vehicles. WilTel believes it is one of only two national providers of customer premise telecommunications equipment.

WilTel employs more than 1,200 technicians and more than 400 sales representatives and sales support personnel to serve an estimated 30,000 commercial, governmental and institutional customers. WilTel's customer base ranges from Fortune 500 corporations and the Federal Government to small privately-owned entities.

WilTel offers its customers a full array of 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 for all voice and data applications. WilTel's services also include the design, configuration and installation of voice and data networks and the management of customers' telecommunications operations and facilities. In addition, WilTel possesses multicustomer service capabilities, including three specialized functions that provide 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 derived approximately 67 percent of its revenues from its existing customer base and approximately 33 percent from the sale of new telecommunications systems. The distribution of revenues for the periods indicated are shown in the following table:

REVENUES	1994	1993	1992
New System Sales	33%	39%	41%
System Modifications	36%	30%	28%
Maintenance	24%	23%	25%
Other	7%	8%	6%

The 1994 decrease in the percentage of revenue derived from the sale of new telecommunications systems was attributed to the March 1994, acquisition of BellSouth's customer premise equipment sales and service operations in the 29 states outside of BellSouth's local operating region and the October 1994, acquisition of Jackson Voice Data, a New York City-based customer premise equipment company. The acquired companies generated the vast majority of their revenue from their existing customer bases. The acquisition of these businesses has allowed WilTel to capitalize on its existing infrastructure, strengthen its national market presence and geographic customer density and has provided more diversity in product offerings.

Although the percentage of revenue attributable to new system sales continues to decline relative to total revenue, year end revenue backlog continues to increase. Estimated year end revenue backlog balances, comprised of new system sales and major system upgrades, were as follows: $92 million in 1994, $52 million in 1993 and $39 million in 1992.

The total number of ports maintained and served by WilTel at the end of 1994 increased to 4.1 million. The bulk of the increase from prior years is attributable to the acquisitions of the BellSouth and Jackson Voice Data customer bases. The two acquisitions contributed in excess of 1.0 million ports to the total WilTel count. A port is defined as an electronic address physically resident in a customer's PBX or key system that supports the operation of a peripheral device such as a station, trunk or data port. The year end port counts were as follows: 4.1 million in 1994, 2.7 million in 1993 and 2.6 million in 1992.

WilTel Data Network Services, an affiliated company, was merged into WilTel December 31, 1994. WilTel Data Network Services provides customer premise data equipment and services for wide and local area networks. The merger allows WilTel to expand its activities into the faster growing data communications marketplace. Expansion into the data market has allowed WilTel to differentiate itself from its traditional competitors, most of whom remain principally involved only in the distribution of PBX and key systems.

WilTel's three largest suppliers accounted for 91 percent of equipment sold in 1994. A single manufacturer supplied 80 percent of all equipment sold. In this case, WilTel is the largest distributor of certain of this company's products. About 70 percent of WilTel's active customer base consists of this manufacturer's products. The distribution agreement with this supplier is scheduled to expire in 1997. This agreement is expected to be renewed upon expiration. There is minimal risk as to the availability of product from suppliers.

WilTel has many competitors ranging from AT&T and the Regional Bell Operating Companies to small individually owned companies which sell and service customer premise equipment. Competitors include companies that sell equipment that is comparable or identical to that sold by WilTel.

WilTel is subject to Federal Communications Commission rules governing the connection of equipment to telephone networks. A subsidiary of WilTel is subject to FCC regulations as a common carrier and as a microwave licensee.

VYVX, INC. (VYVX)

Vyvx offers switched fiber-optic television transmission services nationwide. It provides switched, broadcast-quality, fiber-optic television transmission services as an alternative to satellite and microwave television transmissions. Vyvx primarily provides backhaul transmission of news and other programming between two or more customer locations. For example, the Vyvx network is used for the broadcast coverage of major professional sporting events. Vyvx's customers include all of the major broadcast and cable networks. Vyvx also provides videoconferencing/business television services.

OTHER INFORMATION

Williams believes that it has adequate sources and availability of raw materials to assure the continued supply of its services and completed 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 have ongoing capital requirements for efficiency and mandatory improvements, with expansion opportunities also necessitating periodic capital outlays.

A fertilizer plant site at Pensacola, Florida, that was operated for three years by a former subsidiary of Williams has been placed on the National Priorities List. Williams has been notified by the EPA that it is a potentially responsible party for the site, an assertion which Williams is contesting. This former subsidiary has also been identified as a potentially responsible party along with numerous other parties with respect to the Forest Waste Disposal Site located in Michigan. This site is now a National Priorities List cleanup site. A third active 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 15 of Notes to Consolidated Financial Statements.

On January 25, 1995, Texasgulf Inc. filed a registration statement with the Securities and Exchange Commission providing for the sale of the Company's 15 percent interest in Texasgulf as a registered public offering. The Company anticipates that a sale of its interest in Texasgulf, either through this public offering or in a privately negotiated transaction, will occur in 1995. See Note 3 of Notes to Consolidated Financial Statements.

At December 31, 1994, the Company had approximately 8,200 full-time employees, of whom approximately 636 were represented by unions and covered by collective bargaining agreements. In connection with the WNS Sale in January 1995, as previously discussed, the work force was reduced by approximately 2,070 employees, none of whom were covered by a collective bargaining agreement. In connection with the acquisition of Transco Energy Company in 1995, as previously discussed, the Company expects to add approximately 4,500 employees. The Company considers its relations with its employees to be generally good.

(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 15 of Notes to Consolidated Financial Statements, there are no material pending legal proceedings. Williams is subject to ordinary routine litigation incidental to its businesses.

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

Not applicable.

EXECUTIVE OFFICERS OF WILLIAMS

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

NAME	AGE	POSITIONS AND OFFICES HELD	HELD OFFICE SINCE
Keith E. Bailey...............	52	Chairman of the Board, President, Chief Executive Officer and Director	05-19-94
John C. Bumgarner, Jr.........	52	Senior Vice President -- Corporate Development and Planning	01-01-79
James R. Herbster.............	53	Senior Vice President -- Administration	01-01-92
J. Furman Lewis...............	60	Senior Vice President and General Counsel	07-15-86
Jack D. McCarthy..............	52	Senior Vice President -- Finance (Principal Financial Officer)	01-01-92
Gary R. Belitz................	45	Controller (Chief Accounting Officer)	01-01-92
Stephen L. Cropper............	45	President -- Williams Pipe Line and Williams Energy Ventures	01-22-86
Lloyd A. Hightower............	60	President -- Williams Field Services	05-11-93
Henry C. Hirsch...............	52	President -- Williams Telecommunications Systems	08-21-92
Howard E. Janzen..............	40	Chairman of the Board -- Vyvx	12-01-94
Brian E. O'Neill..............	59	President -- Northwest Pipeline 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 the past 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, 1994, Williams had 7,400 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 are as follows:

	1994			1993		
QUARTER	HIGH	LOW	DIVIDEND	HIGH	LOW	DIVIDEND
1st........................	$27 1/4	$22 3/4	$.21	$24 1/8	$18 1/8	$.19
2nd........................	$30 1/8	$22 1/8	$.21	$27 3/8	$23 11/16	$.19
3rd........................	$32 7/8	$28 3/8	$.21	$31 9/16	$26 5/16	$.19
4th........................	$30 1/4	$24 1/8	$.21	$31 9/16	$24 3/8	$.21

In January 1995, the Board of Directors of the Company approved a 28.5 percent increase in the Common Stock dividend. The dividend approved for the first quarter of 1995 was $.27 per share.

Terms of certain subsidiaries' borrowing arrangements limit transfer of funds to Williams. Terms of other borrowing arrangements limit the payment of dividends on Williams' Common Stock. These restrictions have not impeded, nor are they expected to in the future, Williams' ability to meet its cash obligations. See Note 11 of Notes to Consolidated Financial Statements.

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-8 of this report.

	1994	1993*	1992*	1991*	1990*
	(MILLIONS, EXCEPT PER-SHARE AMOUNTS)				
Revenues**	$1,751.1	$1,793.4	$1,983.5	$1,704.5	$1,445.9
Income from continuing operations**	164.9	185.4	103.1	69.7	36.0
Income from discontinued operations	94.0	46.4	25.2	40.3	41.0
Fully diluted earnings per share:					
Income from continuing operations	1.52	1.71	.97	.69	.29
Income from discontinued operations	.92	.45	.28	.48	.50
Cash dividends per common share	.84	.78	.76	.70	.70
Total assets at December 31	5,226.1	5,020.4	4,982.3	4,247.4	4,034.4
Long-term obligations at December 31	1,307.8	1,604.8	1,683.2	1,541.9	1,374.5
Stockholders' equity at December 31	1,505.5	1,724.0	1,518.3	1,220.0	1,166.5

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* Certain amounts have been restated as described in Note 2 of Notes to Consolidated Financial Statements.

** See Note 4 of Notes to Consolidated Financial Statements for discussion of significant asset dispositions.

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

RESULT OF OPERATIONS

1994 vs. 1993

Northwest Pipeline's revenues decreased 14 percent as expanded firm transportation service was more than offset by the absence of natural gas sales following the fourth-quarter 1993 implementation of Federal Energy Regulatory Commission (FERC) Order 636, and the completion of contract-reformation surcharges. Total mainline throughput increased 9 percent. Firm transportation service increased due to a mainline expansion, supported by 15-year firm transportation contracts, being placed into service on April 1, 1993. Northwest Pipeline placed new increased transportation rates into effect on November 1, 1994, and April 1, 1993, subject to refund. The April 1, 1993, rates reflected the new mainline expansion and straight-fixed-variable rate design that moderates seasonal swings in operating revenues. Costs and operating expenses decreased 32 percent, due primarily to the absence of natural gas purchase volumes and the completion of contract-reformation amortization, slightly offset by increased operating expenses primarily related to the full-year effect on 1994 of the mainline expansion. Operating profit increased 5 percent due primarily to expanded firm transportation service related to the company's mainline system expansion.

Williams Natural Gas' revenues decreased 21 percent, primarily as a result of the absence of natural gas sales resulting from implementation of FERC Order 636 on October 1, 1993. The decrease in revenues was partially offset by the implementation of new rates required by the Order, direct billing of net purchased gas cost adjustment amounts of approximately $40 million and higher direct billing of recoverable contract-reformation costs of approximately $17 million. Costs and operating expenses decreased 30 percent, primarily as a result of lower gas purchase costs resulting from the implementation of FERC Order 636, partially offset by the costs that were direct billed as discussed above. Operating profit increased 19 percent, primarily as a result of the full-year effect of new rates, implementation of Order 636 and the reversal of excess contract-reformation accruals recorded in other income -- net ($7.4 million in 1994 and $2.5 million in 1993), partially offset by the absence of the regulatory accounting effect of an income tax rate increase in 1993 (which was offset in income tax expense). FERC Order 636 utilizes a straight-fixed-variable rate design that is applied to each customer's annual firm contract demand for transportation.

Williams Field Services Group's revenues decreased 17 percent, due primarily to 22 percent lower natural gas sales volumes as a result of the March 1993 sale of Williams' intrastate natural gas pipeline system and related marketing operations in Louisiana. Liquids volumes and prices, average natural gas sales prices and average gathering and processing prices also decreased, but were somewhat offset by increased gathering and processing volumes of 13 percent and 21 percent, respectively. Costs and operating expenses decreased, due primarily to lower natural gas purchase volumes and per-unit costs and the effects of a favorable adjustment of an accrual related to operating taxes, partially offset by higher operations, maintenance and depreciation expenses at expanded gathering facilities. Operating profit increased 5 percent, due primarily to higher gathering and processing volumes, a favorable operating taxes adjustment and other revenues, partially offset by lower per-unit liquids margins, lower average gathering and processing prices and higher operations and maintenance expenses associated with expanded facilities. Operating profit in 1993 included a favorable settlement involving processing revenues from prior periods.

Williams Pipe Line's shipments increased 9 percent, due primarily to new volumes resulting from the December 1993 acquisition of a pipeline system in southern Oklahoma. Revenues increased 17 percent, due primarily to higher shipments and increased gas liquids and fractionator operations. The slightly higher average transportation rate resulted primarily from longer hauls into the northern region and overall increases in tariff rates, effective December 1, 1994, and June 1, 1993, partially offset by lower rates on shorter haul movements from new business. Costs and operating expenses increased, due primarily to gas liquids and fractionator operations, and additional operating expenses. Operating profit increased 25 percent, due primarily to increased shipments and a favorable insurance settlement, partially offset by higher operating and maintenance expenses.

Williams Energy Ventures' revenues increased 72 percent, due primarily to newly established petroleum services activities, partially offset by lower refined product trading margins and the effect of reporting these trading activities on a "net margin" basis effective July 1, 1993. Costs and operating expenses increased as a result of the newly established petroleum services activities and the cost of developing long-term energy industry businesses, partially offset by the effect of reporting refined product trading activities on a "net margin" basis. General and administrative expenses increased, reflecting the costs of establishing appropriate administrative and project support groups to serve growing business activities. An operating loss of $10.8 million in 1994 compares to operating profit of $7.8 million in 1993, reflecting costs of developing long-term energy industry investment opportunities and lower results from price-risk management services, partially offset by improved petroleum services activities. Included in 1994's other income -- net is approximately $5 million of costs for evaluating and determining whether to build an oil refinery near Phoenix. Price-risk management services' results continued to be profitable but were lower in 1994 than 1993 because of reduced gasoline and distillate margins and the effect of location pricing differentials in refined products trading activities, partially offset by an improvement in natural gas trading margins reflecting increased volumes.

Williams Telecommunications Systems' revenues increased 31 percent, due in large part to the March 31, 1994, acquisition of BellSouth's customer equipment sales and service operations in 29 states, as evidenced by a 52 percent increase in the number of ports. Costs and operating expenses and selling, general and administrative expenses increased 31 percent and 20 percent, respectively, due to the increase in volume of equipment sales and services. Operating profit nearly doubled from higher sales volumes, partially offset by an increase in selling, general and administrative expenses. Margins were level between 1994 and 1993, while selling, general and administrative expenses as a percent of revenue decreased in 1994 compared to 1993.

General corporate expenses decreased, reflecting lower supplemental retirement benefits (see Note 7) and incentive compensation accruals. Interest accrued decreased primarily because of lower effective interest rates, partially offset by higher average borrowing levels. Interest capitalized decreased, reflecting the completion of Northwest Pipeline's mainline expansion, which was placed in service April 1, 1993. Investing income decreased, due primarily to lower investment levels and lower equity earnings for Apco Argentina Inc., in addition to the sale of a portion of Williams' interest in Northern Border Partners, L.P. 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 gain on sales of assets in 1993 results from the sale of 6.1 million units in the Williams Coal Seam

Gas Royalty Trust and the sale of the intrastate natural gas pipeline system and other related assets in Louisiana (see Note 4). 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 (SFAS) No. 112, "Employers' Accounting for Postemployment Benefits," which relates to postemployment benefits being paid to employees of companies previously sold. Other income (expense) -- net in 1993 includes $6 million of expense accruals for certain costs associated with businesses previously sold, offset with $6 million of equity allowance for funds used during construction (AFUDC) related to the Northwest Pipeline mainline expansion.

The decrease in the provision for income taxes on continuing operations is primarily a result of lower pre-tax income and the $15.8 million cumulative effect in 1993 of the 1 percent increase in the federal income tax rate. 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. The effective income tax rate in 1993 is higher than the statutory rate, primarily because of the effect of the federal income tax rate increase and state income taxes, partially offset by income tax credits from coal-seam gas production (see Note 5).

The network services operations of WilTel have been presented in the Consolidated Financial Statements as discontinued operations, with prior period operating results restated (see Note 2). Income from discontinued operations more than doubled to $94 million. The increase reflects a 93 percent increase in switched services minutes and a 24 percent increase in private line billable circuits. These increases more than offset a major carrier's long-expected removal of traffic from WilTel's system to the carrier's expanded network. Income was also impacted by a decrease in interest accrued, due to the early extinguishment of network services' long-term debt. The effective income tax rate for both 1994 and 1993 is greater than the federal statutory rate, due to the effect of state income taxes.

The extraordinary credit (loss) results from early extinguishment of debt (see Note 6). Preferred stock dividends decreased, reflecting the redemption of 3,000,000 shares of outstanding $3.875 convertible exchangeable preferred stock during the second quarter of 1993 (see Note 12).

1993 vs. 1992

Northwest Pipeline's revenues increased 10 percent, reflecting increased firm transportation service and higher average transportation rates, partially offset by lower average gas sales prices. Total mainline throughput increased 2 percent. Firm transportation service increased due to a mainline expansion, supported by 15-year firm transportation contracts, being placed into service on April 1, 1993. Northwest Pipeline also placed new, increased transportation rates (subject to refund) into effect on April 1, 1993, that reflected the new mainline expansion and straight-fixed-variable rate design that moderates seasonal swings in operating revenues. Costs and operating expenses decreased 10 percent, due primarily to lower gas purchase volumes and per-unit costs and decreased operation and maintenance expenses, partially offset by increased depreciation. General and administrative expenses increased, due primarily to higher supplemental retirement expenses and increased outside technical and professional fees. Operating profit increased 49 percent, due primarily to increased firm transportation service, higher average transportation rates and lower operation and maintenance expenses, partially offset by higher depreciation and general and administrative expenses and lower gas sales margins.

Williams Natural Gas' revenues decreased 7 percent, primarily as a result of lower natural gas sales volumes reflecting implementation of FERC Order 636 on October 1, 1993, partially offset by higher average transportation rates and volumes and revenues generated from the sale of working gas in storage. Total throughput increased 2 percent, due primarily to cooler weather in the first quarter of 1993 and increased on-system industrial demand, partially offset by lower off-system activity. Costs and operating expenses decreased 9 percent, primarily as a result of decreased gas supply volumes, partially offset by increased operating and maintenance expenses, increased amortization of recoverable contract-reformation costs and higher per-unit gas supply costs. Operating profit increased 4 percent, primarily due to higher average transportation rates and volumes, reversal of excess contract-reformation costs that had been previously accrued and the regulatory accounting for an income tax rate increase. Largely offsetting operating profit increases were lower natural gas sales volumes and higher operating and maintenance expenses. The impact of the regulatory accounting adjustment was offset by additional deferred income tax expense.

Williams Field Services Group's revenues decreased 24 percent, due primarily to lower natural gas sales volumes, partially offset by increased gathering, liquids products and processing volumes, and higher average gathering, processing and natural gas sales prices. Gathering volumes increased 18 percent, natural gas liquids volumes increased 11 percent and processing volumes increased 14 percent when compared with volumes from the prior year. The lower natural gas sales volumes were due to the March 1993 sale of Williams' intrastate natural gas pipeline system and related marketing operations in Louisiana. Costs and operating expenses decreased, due primarily to lower natural gas purchase volumes, partially offset by higher gas costs associated with the liquids extraction process and increased operating and maintenance expenses at expanded gathering and processing facilities. Operating profit increased 9 percent, due primarily to increased volumes at expanded facilities and a favorable settlement involving processing revenues from prior periods, partially offset by decreased gas sales volumes, lower liquids margins and increased operating costs from expanded facilities. Other income -- net and operating profit in 1992 also included a gain on the sale of a gathering facility and the reversal of a loss accrual made in prior years.

Williams Pipe Line's revenues increased 21 percent, due primarily to 12 percent higher shipments, increased other revenues primarily related to gas liquids and fractionator operations, partially offset by a slightly lower transportation rate per barrel. The lower average transportation rate per barrel reflects a 5 percent decrease in the length of the average haul, partially offset by increased tariff rates for portions of both 1992 and 1993. Costs and operating expenses increased, due primarily to gas liquids and fractionator operations. Operating profit increased primarily as a result of higher shipments and lower general and administrative expenses. During the fourth quarter, Williams Pipe Line completed the acquisition of a 300-mile pipeline that connects with the southern portion of its system in Oklahoma. The additional pipeline will provide more direct access to key refining areas and open new markets.

Williams Energy Ventures' revenues and operating costs decreased approximately 27 percent, due primarily to reporting refined product trading activities on a "net margin" basis effective July 1, 1993. Selling, general and administrative expenses increased significantly from costs associated with establishing this company's operations, pursuing new business development and equipping the company to pursue a growing range of financial and information-based opportunities in the energy industry. Operating profit decreased as improved results from price-risk management activities were more than offset by the expense associated with the development and marketing of new information-based products and exploring other growth opportunities in the energy industry. Improved results in price-risk management activities relate to increases in marketing of commodities and derivatives products, in addition to increased refined product trading volumes.

Williams Telecommunications Systems' revenues increased 12 percent, due primarily to higher equipment sales and services. Costs and operating expenses increased 9 percent, due primarily to the increased volume of equipment sales and services. Selling, general and administrative expenses decreased 9 percent as 1992 was negatively impacted by the costs associated with restructuring this business. Operating profit increased to $9.5 million in 1993, compared with an operating loss of $9.8 million in 1992 due to increased margins and volumes and a decrease in selling, general and administrative expenses.

General corporate expenses increased, reflecting higher supplemental retirement benefits (see Note 7) and incentive compensation accruals, in addition to a contribution to The Williams Companies Foundation. Interest accrued increased, primarily because of higher average borrowing levels, partially offset by a lower effective interest rate including the effects of interest-rate swap agreements (see Note 11). Investing income increased, reflecting higher equity earnings from the Kern River Gas Transmission Company pipeline, which became operational February 1992, and higher levels of short-term investments. The gain on sales of assets in 1993 results from the sale of 6.1 million units in the Williams Coal Seam Gas Royalty Trust and the sale of the intrastate natural gas pipeline system and other related assets in Louisiana. The 1992 gain on sales of assets results from the sale of a tract of land in Florida that had been retained from the assets of Agrico Chemical Company, which was sold in 1987. Other income (expense) -- net is unfavorable to 1992, primarily because of decreased equity AFUDC related to Northwest Pipeline's mainline expansion and expense accruals for certain costs associated with businesses previously sold.

The increase in the provision for income taxes is primarily a result of higher pre-tax income and the $15.8 million cumulative effect of the 1 percent increase in the federal income tax rate. The effective income tax rate in 1993 is higher than the statutory rate, primarily because of the effect of the federal income tax rate increase and state income taxes, partially offset by income tax credits from coal-seam gas production. The effective income tax rate in 1992 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 5).

Income from discontinued operations related to WilTel's network services operations increased 84 percent to $46.4 million in 1993 (see Note 2). The increase is due primarily to a 122 percent increase in switched services minutes, a 32 percent increase in private line billable circuits and lower provisions for bad debt expense, partially offset by a decrease in the weighted average price per circuit. The effective income tax rate for both 1993 and 1992 is greater than the federal statutory rate due to the effect of state income taxes.

Preferred stock dividends decreased, reflecting the redemption of 3,000,000 shares of outstanding $3.875 convertible exchangeable preferred stock during the second quarter of 1993 (see Note 12).

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, 1994, Williams had access to $495 million of liquidity, representing the available portion of its $600 million bank-credit facility (see Note 11). This compares with liquidity of $639 million at December 31, 1993, and $780 million at December 31, 1992, including $178 million from Northwest Pipeline. 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, Northwest Pipeline has $50 million remaining on a registration statement filed with the Securities and Exchange Commission in 1992. Williams does not anticipate the need for additional financing arrangements; however, Williams believes it could be obtained on reasonable terms if required.

Williams had a net working-capital deficit of $17 million at December 31, 1994, including net assets of discontinued operations of $744 million, compared with $106 million at December 31, 1993. Subsequent to December 31, 1994, $398 million of notes payable and $350 million of revolving credit loans (see Note 11) were repaid from proceeds of the sale of WilTel's network services operations. 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.

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.

Subsequent to December 31, 1994, Williams completed the sale of WilTel's network services operations, and also acquired 60 percent of Transco Energy Company (Transco). See Notes 2 and 16 and the subsequent events section of Management's Discussion and Analysis for additional information regarding the impact these transactions will have on Williams' financial condition and liquidity. During 1995, Williams expects to finance capital expenditures, the Transco acquisition, investments and working-capital requirements through the use of its $600 million bank-credit facility or public debt/equity offerings and the proceeds from the sale of WilTel's network services operations.

Operating Activities

Cash provided by continuing operating activities was: 1994 -- $189 million; 1993 -- $187 million; and 1992 -- $141 million. Accounts receivable increased because of expanded activities of Williams Energy Ventures and acquisitions made by Williams Telecommunications Systems, partially offset by the reclassification of WilTel's network services receivables to net assets of discontinued operations (see Note 2). Accounts payable and accrued liabilities also declined as a result of the network services reclassification.

Cash provided by discontinued operations was: 1994 -- $179 million; 1993 -- $162 million; 1992 -- $113 million. The increases during the periods primarily reflect improved operating results.

Financing Activities

Net cash provided (used) by financing activities was: 1994 -- $31 million; 1993 -- ($220) million; 1992 -- $421 million. Long-term debt proceeds, net of principal payments and early extinguishments of debt, were $24 million during 1994. Long-term debt principal payments totaled $192 million during 1993. Long-term debt proceeds, net of principal payments, during 1992 were $264 million. The increase in net new borrowings during 1992 was primarily to fund capital expenditures and investments and advances to affiliates.

During 1994, Williams and one of its subsidiaries purchased 13.8 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. Subsequent to December 31, 1994, the outstanding amounts under the credit agreement were repaid from the proceeds of the sale of WilTel's network services operations, and the credit agreement was terminated. Williams also repurchased 258,800 shares of its $2.21 cumulative preferred stock on the open market for $6 million.

The majority of the proceeds from issuance of common stock in 1994 and 1993 resulted from certain Williams benefit plan stock purchases and exercise of stock options under Williams' stock plan (see Note 12). During 1992, Williams received net proceeds of $96 million from the sale of 4,000,000 shares of $2.21 cumulative preferred stock and $119 million from the sale of 7,100,000 shares of common stock.

During 1993, Williams called for redemption of its 3,000,000 shares of outstanding $3.875 convertible exchangeable preferred stock. Substantially all of the preferred shares were converted into 7,600,000 shares of Williams common stock.

Long-term debt at December 31, 1994, was $1.3 billion, compared with $1.6 billion at December 31, 1993, and $1.7 billion at December 31, 1992. The long-term debt to debt-plus-equity ratio was 46.5 percent at year-end, compared with 48.2 percent and 52.6 percent at December 31, 1993 and 1992, respectively. If short-term notes payable and long-term debt due within one year are included in the calculations, these ratios would be 59.3 percent, 49 percent and 54.9 percent, respectively. Included in long-term debt due within one year is $350 million outstanding under Williams' revolving credit loan (see Note 11).

See Note 6 for information regarding early extinguishment of debt by Williams and its subsidiaries during 1994 and 1992.

Investing Activities

Net cash used by investing activities was: 1994 -- $427 million; 1993 -- $277 million; 1992 -- $511 million. Capital expenditures for discontinued operations were $143 million in 1994; $101 million in 1993; and $59 million in 1992, primarily to expand and enhance WilTel's network. Capital expenditures of pipeline subsidiaries, primarily to expand and modernize systems, were $272 million in 1994; $405 million in 1993; and $500 million in 1992. Expenditures in 1994 include Northwest Pipeline's additional mainline expansion and the expansion of various gathering and processing facilities. Expenditures in 1993 include the completion of Northwest Pipeline's first mainline expansion and the expansion of various gathering and processing facilities. Approximately two-thirds of the 1992 expenditures relate to Northwest Pipeline's mainline expansion. Budgeted capital expenditures for 1995 are approximately $1.3 billion, primarily to expand pipeline systems and gathering and processing facilities, develop an underground coal gasification project and acquire certain gathering and processing assets in New Mexico.

During 1994, Williams received net proceeds of $80 million from the sale of limited partner units in Northern Border Partners, L.P. During 1993, Williams received net proceeds of $113 million from the sale of 6.1 million units in the Williams Coal Seam Gas Royalty Trust. In addition, Williams sold its intrastate natural gas pipeline system and other related assets in Louisiana for $170 million (see Note 4).

Subsequent to December 31, 1994, Williams announced that Texasgulf Inc. (in which Williams owns 15 percent) had filed registration statements with the Securities and Exchange Commission covering the initial public offering for all of Texasgulf's common stock and certain senior subordinated notes (see Note 3).

EFFECTS OF INFLATION

Williams has experienced increased costs in recent years due to the effects of inflation. However, approximately 90 percent of Williams' property, plant and equipment has been purchased since 1982, a period of relatively low inflation. 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.

OTHER

In 1992, the FERC issued Order 636, Order 636-A and Order 636-B. These orders, which have been challenged in various respects by various parties in proceedings pending in 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. Williams Natural Gas implemented its restructuring on October 1, 1993, and Northwest Pipeline implemented its restructuring on November 1, 1993. Certain aspects of each pipeline company's restructuring are under appeal (see Note 15).

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 15), are being monitored by Williams, other potentially responsible parties, 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 $40 million, all of which is accrued at December 31, 1994. Williams expects to seek recovery of approximately $28 million of these costs through future 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.

See Note 7 for the effects of a new accounting standard on postemployment benefits; Note 13 for fair value and off-balance-sheet risk of financial instruments; and Note 15 for contingencies.

SUBSEQUENT EVENTS

In January 1995, the Williams Board of Directors increased the quarterly cash dividend on Williams common stock to $.27 per share, a 28.5 percent increase over the previous amount.

Subsequent to December 31, 1994, Williams completed its previously announced sale of WilTel's network services operations for $2.5 billion in cash. The estimated after-tax gain of approximately $1 billion will be recorded in the first quarter of 1995 (see Note 2). Net proceeds from the sale have been or will be used to reduce Williams bank debt, finance the cash tender offer for shares of Transco's common stock, retire certain Transco borrowings and preferred stock, and finance Williams' 1995 capital expenditures program.

Subsequent to December 31, 1994, Williams acquired 60 percent of Transco in a cash tender offer for $430.5 million. Williams will acquire the remaining 40 percent of Transco's outstanding common stock through a merger, which will result in the issuance of approximately 10.2 million shares of Williams common stock (see Note 16). In connection with the acquisition, Williams plans to redeem for cash $150 million in Transco's $4.75 preferred stock, issue $125 million in Williams preferred stock in exchange for Transco's $3.50 preferred stock and retire approximately $550 million of Transco's borrowings and subsidiary preferred stock, interest-rate swaps and sale of receivables facilities. Williams may also provide funds for Transco working capital and other needs.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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, 1994 and 1993, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1994. Our audits also included the financial statement schedules listed in the Index at Item 14(a). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules 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, 1994 and 1993, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1994, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP

Tulsa, Oklahoma
February 10, 1995

THE WILLIAMS COMPANIES, INC.

CONSOLIDATED STATEMENT OF INCOME

	YEARS ENDED DECEMBER 31,		
	1994	1993*	1992*
		(MILLIONS)	
Revenues:			
Interstate Natural Gas Pipelines:			
Northwest Pipeline	$ 238.5	$ 276.5	$ 251.4
Williams Natural Gas	231.3	294.1	314.7
Williams Field Services Group	589.0	707.0	925.3
Liquids Pipeline/Energy Ventures:			
Williams Pipe Line	209.7	179.3	148.5
Williams Energy Ventures	137.6	80.0	109.8
Williams Telecommunications Systems	396.6	302.8	271.1
Other	18.2	10.4	8.6
Intercompany eliminations (Note 14)	(69.8)	(56.7)	(45.9)
Total revenues	1,751.1	1,793.4	1,983.5
Profit-center costs and expenses:			
Costs and operating expenses	1,187.7	1,283.9	1,560.3
Selling, general and administrative expenses	229.2	203.2	194.5
Other income -- net	(8.1)	(7.8)	(7.6)
Total profit-center costs and expenses	1,408.8	1,479.3	1,747.2
Operating profit (loss):			
Interstate Natural Gas Pipelines:			
Northwest Pipeline	104.1	98.8	66.4
Williams Natural Gas	48.8	41.0	39.4
Williams Field Services Group	131.4	125.5	114.9
Liquids Pipeline/Energy Ventures:			
Williams Pipe Line	60.1	48.2	33.0
Williams Energy Ventures	(10.8)	7.8	10.1
Williams Telecommunications Systems	18.9	9.5	(9.8)
Other	(10.2)	(16.7)	(17.7)
Total operating profit	342.3	314.1	236.3
General corporate expenses	(28.0)	(38.4)	(27.2)
Interest accrued	(145.8)	(151.2)	(145.4)
Interest capitalized	6.0	10.4	8.9
Investing income (Note 3)	49.6	65.2	50.5
Gain on sales of assets (Note 4)	22.7	97.5	14.6
Other income (expense) -- net	(.2)	.4	7.8
Income from continuing operations before income taxes	246.6	298.0	145.5
Provision for income taxes (Note 5)	81.7	112.6	42.4
Income from continuing operations	164.9	185.4	103.1
Income from discontinued operations (Note 2)	94.0	46.4	25.2
Income before extraordinary credit (loss)	258.9	231.8	128.3
Extraordinary credit (loss) (Note 6)	(12.2)	--	9.9
Net income	246.7	231.8	138.2
Preferred stock dividends	8.8	11.8	14.5
Income applicable to common stock	$ 237.9	$ 220.0	$ 123.7

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* Restated as described in Note 2.

See accompanying notes.

THE WILLIAMS COMPANIES, INC.

CONSOLIDATED STATEMENT OF INCOME -- (CONCLUDED)

	YEARS ENDED DECEMBER 31,		
	1994	1993*	1992*
Primary earnings per common and common-equivalent share (Notes 1, 2 and 6):			
Income from continuing operations	$1.52	$1.74	$ .97
Income from discontinued operations	.92	.46	.28
Income before extraordinary credit (loss)	2.44	2.20	1.25
Extraordinary credit (loss)	(.12)	--	.11
Net income	$2.32	$2.20	$1.36
Fully diluted earnings per common and common-equivalent share (Notes 1, 2 and 6):			
Income from continuing operations	$1.52	$1.71	$ .97
Income from discontinued operations	.92	.45	.28
Income before extraordinary credit (loss)	2.44	2.16	1.25
Extraordinary credit (loss)	(.12)	--	.11
Net income	$2.32	$2.16	$1.36

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* Restated as described in Note 2.

See accompanying notes.

THE WILLIAMS COMPANIES, INC.

CONSOLIDATED BALANCE SHEET

	DECEMBER 31, 1994	DECEMBER 31, 1993
	(MILLIONS)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 36.1	$ 64.3
Receivables less allowance of $7.9 million ($10.2 million in 1993)	452.3	360.1
Inventories (Note 8)	112.3	108.2
Net assets of discontinued operations (Note 2)	743.6	--
Deferred income taxes (Note 5)	57.1	40.3
Other	55.4	53.6
Total current assets	1,456.8	626.5
Investments (Note 3)	379.1	437.1
Property, plant and equipment -- net (Note 9)	3,124.0	3,678.6
Other assets and deferred charges	266.2	278.2
Total assets	$5,226.1	$5,020.4
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable (Note 11)	$ 507.0	$ --
Accounts payable (Note 10)	222.5	298.4
Accrued liabilities (Note 10)	361.4	380.3
Long-term debt due within one year (Note 11)	383.0	54.0
Total current liabilities	1,473.9	732.7
Long-term debt (Note 11)	1,307.8	1,604.8
Deferred income taxes (Note 5)	662.9	625.2
Deferred income and other liabilities	276.0	333.7
Contingent liabilities and commitments (Note 15)		
Stockholders' equity (Note 12):		
Preferred stock, $1 par value, 30,000,000 shares authorized, 4,000,000 shares issued	100.0	100.0
Common stock, $1 par value, 240,000,000 shares authorized, 104,401,819 shares issued in 1994 and 103,078,505 shares issued and outstanding in 1993	104.4	103.1
Capital in excess of par value	991.0	959.1
Retained earnings (Note 11)	716.5	563.7
Unamortized deferred compensation	(1.3)	(1.9)
	1,910.6	1,724.0
Less treasury stock, 13,516,994 shares of common stock and 258,800 shares of preferred stock, at cost	(405.1)	--
Total stockholders' equity	1,505.5	1,724.0
Total liabilities and stockholders' equity	$5,226.1	$5,020.4

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
				(MILLIONS)			
Balance, December 31, 1991	$150.0	$83.5	$621.1	$365.8	$(.4)	$--	$1,220.0
Net income -- 1992	--	--	--	138.2	--	--	138.2
Cash dividends --							
Common stock ($.76 per share)	--	--	--	(68.2)	--	--	(68.2)
Preferred stock (Note 12)	--	--	--	(14.5)	--	--	(14.5)
Issuance of shares --							
8,780,080 common	--	8.8	138.0	--	(.7)	--	146.1
4,000,000 preferred	100.0	--	(3.8)	--	--	--	96.2
Amortization of deferred compensation	--	--	--	--	.4	--	.4
Other	--	--	.1	--	--	--	.1
Balance, December 31, 1992	250.0	92.3	755.4	421.3	(.7)	--	1,518.3
Net income -- 1993	--	--	--	231.8	--	--	231.8
Cash dividends --							
Common stock ($.78 per share)	--	--	--	(77.6)	--	--	(77.6)
Preferred stock (Note 12)	--	--	--	(11.8)	--	--	(11.8)
Issuance of shares -- 3,174,439 common	--	3.2	55.2	--	(1.7)	--	56.7
Conversion of preferred stock (Note 12)	(150.0)	7.6	141.8	--	--	--	(.6)
Tax benefit of non-qualified stock option exercises	--	--	6.7	--	--	--	6.7
Amortization of deferred compensation	--	--	--	--	.5	--	.5
Balance, December 31, 1993	100.0	103.1	959.1	563.7	(1.9)	--	1,724.0
Net income -- 1994	--	--	--	246.7	--	--	246.7
Cash dividends --							
Common stock ($.84 per share)	--	--	--	(85.1)	--	--	(85.1)
Preferred stock (Note 12)	--	--	--	(8.8)	--	--	(8.8)
Issuance of shares -- 1,596,409 common	--	1.3	30.1	--	(1.3)	8.1	38.2
Purchase of treasury stock --							
Common 13,790,089	--	--	--	--	--	(406.8)	(406.8)
Preferred 258,800	--	--	--	--	--	(6.4)	(6.4)
Tax benefit of non-qualified stock option exercises	--	--	1.8	--	--	--	1.8
Amortization of deferred compensation	--	--	--	--	1.9	--	1.9
Balance, December 31, 1994	$100.0	$104.4	$991.0	$716.5	$(1.3)	$(405.1)	$1,505.5

See accompanying notes.

THE WILLIAMS COMPANIES, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

	YEARS ENDED DECEMBER 31,		
	1994	1993*	1992*
		(MILLIONS)	
Operating Activities:			
Net income	$ 246.7	$ 231.8	$ 138.2
Adjustments to reconcile to cash provided from operations:			
Discontinued operations	(94.0)	(46.4)	(25.2)
Extraordinary (credit) loss	12.2	--	(9.9)
Depreciation and depletion	150.3	137.8	122.2
Provision (credit) for deferred income taxes	25.8	8.1	(8.6)
(Gain) loss on sales of property, plant and equipment	.9	(102.0)	(18.9)
Gain on sale of investment	(22.7)	--	--
Changes in receivables sold	--	(94.7)	(32.4)
Changes in receivables	(175.0)	99.9	(105.7)
Changes in inventories	10.2	(.8)	9.9
Changes in other current assets	(2.8)	(16.9)	25.3
Changes in accounts payable	20.7	(37.6)	29.9
Changes in accrued liabilities	8.1	(43.2)	42.7
Other, including changes in non-current assets and liabilities	8.0	50.9	(26.2)
Net cash provided by continuing operations	188.4	186.9	141.3
Net cash provided by discontinued operations	179.2	162.6	112.7
Net cash provided by operating activities	367.6	349.5	254.0
Financing Activities:			
Changes in notes payable	507.0	--	--
Proceeds from long-term debt	480.0	--	476.3
Payments of long-term debt:			
Continuing operations	(328.5)	(169.6)	(167.4)
Discontinued operations	(128.0)	(22.6)	(45.1)
Premium on early extinguishment of debt	(18.6)	--	--
Proceeds from issuance of preferred stock	--	--	96.2
Proceeds from issuance of common stock	26.4	63.4	146.1
Purchases of treasury stock	(413.2)	--	--
Dividends paid	(93.9)	(89.4)	(82.7)
Other--net	--	(2.1)	(2.0)
Net cash provided (used) by financing activities	31.2	(220.3)	421.4
Investing Activities:			
Property, plant and equipment:			
Capital expenditures:			
Continuing operations	(325.5)	(428.3)	(526.7)
Discontinued operations	(142.8)	(100.8)	(59.6)
Proceeds from sales	1.6	295.4	29.5
Changes in accounts payable and accrued liabilities	19.1	(48.4)	65.2
Acquisition of businesses	(56.5)	--	--
Proceeds from sale of investments	80.6	8.8	--
Other -- net	(3.5)	(3.9)	(19.7)
Net cash used by investing activities	(427.0)	(277.2)	(511.3)
Increase (decrease) in cash and cash equivalents	(28.2)	(148.0)	164.1
Cash and cash equivalents at beginning of year	64.3	212.3	48.2
Cash and cash equivalents at end of year	$ 36.1	$ 64.3	$ 212.3

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* Restated as described in Note 2.

See accompanying notes.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of The Williams Companies, Inc. and majority-owned subsidiaries (Williams). 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.

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.

Inventory valuation

Inventories are stated at cost, which is not in excess of market, except for those held by Williams Energy Ventures (see Commodity price-risk management activities accounting policy). Inventories of natural gas are determined using the average-cost method. Williams Pipe Line's inventories of petroleum products are also principally determined using average cost. The cost of materials and supplies inventories is determined principally using the first-in, first-out method by Williams Telecommunications Systems and 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. Natural gas transportation revenues are recognized based upon contractual terms and the related transported volume through month-end. Williams Pipe Line bills customers when products are shipped and defers the estimated revenues for shipments in transit.

Commodity price-risk management activities

Williams Energy Ventures enters into energy-related financial instruments (primarily futures contracts, options contracts and swap agreements) to hedge against market price fluctuations of certain refined products inventories and natural gas sales and purchase commitments. Gains and losses on these hedge contracts are recognized in income when the related hedged item is recognized.

Williams Energy Ventures also uses energy-related financial instruments (forward contracts, futures contracts, options contracts and swap agreements) and physical inventory to provide price-risk management services to its customers. These investments are valued at market and are primarily recorded in other current assets and other accrued liabilities in the Consolidated Balance Sheet. The resulting change in unrealized

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

market gains and losses is recognized in income currently and is recorded as revenues in the Consolidated Statement of Income. Such market values 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.

Capitalization of interest

Williams capitalizes interest on major projects during construction. Interest is capitalized on borrowed funds and, where regulation by the Federal Energy Regulatory Commission (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.

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 1993 assumes conversion of the convertible exchangeable preferred stock (CEPS) into common stock effective January 1, 1993. The CEPS were not dilutive in 1992. Shares used in determination of primary earnings per share are as follows (in thousands): 1994 -- 102,470; 1993 -- 99,911; and 1992 -- 90,816. Shares used in determination of fully diluted earnings per share are as follows (in thousands): 1994 -- 102,502; 1993 -- 103,171; and 1992 -- 90,816.

NOTE 2 -- DISCONTINUED OPERATIONS

In August 1994, Williams signed a definitive agreement to sell WilTel's network services operations to LDDS Communications, Inc. (LDDS) for $2.5 billion in cash. The sale closed January 5, 1995, yielding an after-tax gain of approximately $1 billion, which will be recorded in the first quarter of 1995. Under the terms of the agreement, Williams retained WilTel Communications Systems, Inc. (which has been renamed 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. The Consolidated Financial Statements have been prepared to present operating results of network services as discontinued operations, with prior period operating results restated.

Summarized operating results of discontinued operations are as follows:

	1994	1993	1992
		(MILLIONS)	
Revenues	$921.8	$663.8	$494.2
Operating profit	163.1	97.0	58.6
Provision for income taxes	60.9	32.2	16.2
Income from discontinued operations	94.0	46.4	25.2

The assets and liabilities that were transferred to LDDS in the sale of the network services operations are presented in the Consolidated Balance Sheet on a net basis at December 31, 1994. Net assets consist of current assets ($86.5 million), net property, plant and equipment ($797.8 million), other assets and deferred

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

charges ($144.3 million), less current liabilities ($218.3 million) and deferred income and other liabilities ($66.7 million).

NOTE 3 -- INVESTING ACTIVITIES

	1994	1993
	(MILLIONS)	
Investments:		
Kern River Gas Transmission Company (50%)*	$179.4	$179.3
Northern Border Pipeline partnerships (3.2% in 1994 and 12.25% in 1993)* (Note 4)	20.0	78.6
Texasgulf Inc. (15%)	150.0	150.0
Other*	29.7	29.2
	$379.1	$437.1

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* Accounted for on the equity method.

Williams' investment in Texasgulf Inc. is subject to certain rights under a shareholder agreement. Williams has the right to sell the shares to the majority owner under various specified terms and to require Texasgulf to register the shares for public offering. Most of the rights under the shareholder agreement, including the right to sell to the majority owner, are not transferable in the event Williams sells the shares or there is a change in control of Williams.

Subsequent to December 31, 1994, Williams and the majority owner of Texasgulf filed registration statements with the Securities and Exchange Commission covering an initial public offering of all Texasgulf's common stock and certain senior subordinated notes. If the common stock offering is completed as filed, Williams will sell all of its interests in Texasgulf except for certain nonproducing phosphate reserves. After giving consideration to the expected effect of these transactions, the estimated net realizable value of certain properties which are expected to be retained, dividends already received from Texasgulf in 1995 and previously unrecognized income tax benefits, Williams does not expect to incur an after-tax loss on the disposition. If the above public offerings do not occur or are significantly altered, Williams believes it will ultimately realize its after-tax investment in Texasgulf through other rights or alternatives.

At December 31, 1994, other investments carried at $30 million have a market value of $73 million.

Investing income from continuing operations:

	1994	1993	1992
		(MILLIONS)	
Interest	$ 5.5	$10.0	$ 4.7
Dividends	4.5	5.6	5.2
Equity earnings	39.6	49.6	40.6
	$49.6	$65.2	$50.5

Dividends and distributions received from companies carried on an equity basis were $43 million in 1994; $39 million in 1993; and $10 million in 1992.

Summarized financial position and results of operations for Kern River Gas Transmission Company are presented below. Kern River operations began in February 1992.

	1994	1993	1992
		(MILLIONS)	
Current assets	$ 114.1	$ 78.7	$ 46.6
Non-current assets, principally natural gas transmission plant	1,026.3	1,026.8	1,003.5
Current liabilities	(86.4)	(60.2)	(34.2)
Long-term debt	(643.2)	(662.9)	(675.9)
Other non-current liabilities	(109.5)	(65.5)	(16.3)
Partners' equity	$ 301.3	$ 316.9	$ 323.7
Revenues	$ 179.0	$ 178.7	$ 127.5
Costs and expenses	54.9	50.6	31.7
Net income	38.1	42.1	34.1

NOTE 4 -- SALES OF ASSETS

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.

In a 1993 public offering, Williams sold 6.1 million units in the Williams Coal Seam Gas Royalty Trust (Trust), which resulted in net proceeds of $113 million and a pre-tax gain of $51.6 million. The Trust owns defined net profits interests in the developed coal-seam properties in the San Juan Basin of New Mexico and Colorado, which were conveyed to the Trust by Williams Production Company. Ownership of an additional 3.6 million units remains with Williams.

In March 1993, Williams sold its intrastate natural gas pipeline system and other related assets in Louisiana for $170 million in cash, resulting in a pre-tax gain of $45.9 million.

The 1992 gain of $14.6 million resulted from the sale of a tract of land in Florida that had been retained from the assets of Agrico Chemical Company, which was sold several years ago.

NOTE 5 -- PROVISION FOR INCOME TAXES

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

	1994	1993	1992
		(MILLIONS)	
Current:			
Federal	$45.8	$ 84.1	$40.5
State	10.1	20.4	10.5
	55.9	104.5	51.0
Deferred:			
Federal	23.7	15.8	(6.3)
State	2.1	(7.7)	(2.3)
	25.8	8.1	(8.6)
Total provision	$81.7	$112.6	$42.4

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The 1993 provision for income taxes includes the effect of a 1 percent increase in the federal income tax rate, which was made retroactive to January 1, 1993. Effective January 1, 1993, Williams adopted Statement of Financial Accounting Standards (FAS) No. 109, "Accounting for Income Taxes." Adoption of the standard had a cumulative favorable effect of approximately $2 million on net income. The effect is recorded in income tax expense because of immateriality. Prior to 1993, Williams accounted for deferred income taxes under FAS No. 96. As permitted under the new rules, prior years' financial statements have not been restated.

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

	1994	1993	1992
		(MILLIONS)	
Provision at statutory rate	$ 86.3	$104.3	$49.5
Increases (reductions) in taxes resulting from:			
Increase in statutory tax rate on beginning of year deferred tax balances	--	15.8	--
State income taxes	8.0	8.2	5.3
Income tax credits	(14.9)	(12.8)	(9.5)
Other -- net	2.3	(2.9)	(2.9)
Provision for income taxes	$ 81.7	$112.6	$42.4

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial purposes and the amounts used for income tax purposes.

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

	1994	1993
	(MILLIONS)	
Deferred tax liabilities:		
Property, plant and equipment	$732.1	$703.4
Investments	85.1	114.8
Other	82.5	101.7
Total deferred tax liabilities	899.7	919.9
Deferred tax assets:		
Deferred revenues	42.1	49.3
Investments	59.0	88.9
Rate refunds	33.7	17.5
Regulatory liabilities	14.4	16.1
Accrued liabilities	67.7	54.9
State deferred taxes	24.9	22.7
Minimum tax credits	--	8.5
Other	84.1	110.8
Total deferred tax assets	325.9	368.7
Valuation allowance for deferred tax assets	32.0	33.7
Net deferred tax assets	293.9	335.0
Net deferred tax liabilities	$605.8	$584.9

The valuation allowance for deferred tax assets decreased $1.7 million and $3.4 million during 1994 and 1993, respectively.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Cash payments for income taxes are as follows: 1994 -- $113 million, before refunds of $6 million; 1993 -- $129 million; and 1992 -- $50 million.

NOTE 6 -- EXTRAORDINARY CREDIT (LOSS)

The extraordinary items in 1994 and 1992 result from early extinguishment of debt. During 1994, 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). In 1992, two of Williams' subsidiaries paid a total of $55.7 million to redeem debt resulting in a $9.9 million net gain (including a $.7 million benefit for income taxes).

NOTE 7 -- EMPLOYEE BENEFIT PLANS

Pensions

Williams maintains non-contributory defined-benefit pension plans covering the majority of 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:

	1994	1993	1992
		(MILLIONS)	
Service cost for benefits earned during the year	$ 13.9	$ 10.9	$ 10.5
Interest cost on projected benefit obligation	21.8	21.1	18.9
Actual return on plan assets	3.1	(28.3)	(17.9)
Amortization and deferrals	(24.2)	8.2	(.7)
Settlement loss	--	5.7	--
Net pension expense	$ 14.6	$ 17.6	$ 10.8
Net pension expense:			
Continuing operations	$ 10.0	$ 14.9	$ 8.5
Discontinued operations	4.6	2.7	2.3
	$ 14.6	$ 17.6	$ 10.8

During 1993, certain supplemental retirement plan participants elected to receive lump-sum benefits, which resulted in a settlement loss of $5.7 million.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following table presents the funded status of the plans:

	1994	1993
	(MILLIONS)	
Actuarial present value of benefit obligations:		
Vested benefits	$191	$229
Non-vested benefits	10	14
Accumulated benefit obligations	201	243
Effect of projected salary increases	58	75
Projected benefit obligations	259	318
Assets at market value	251	275
Assets less than projected benefit obligations	8	43
Unrecognized net loss	(12)	(38)
Unrecognized prior-service cost	(10)	(9)
Unrecognized transition asset	5	6
Pension (asset) liability	$ (9)	$ 2

Williams has retained all liabilities and obligations of WilTel's network services operations' plan participants up to the date of sale (see Note 2).

At December 31, 1994, assets of two of Williams' pension plans exceeded the projected benefit obligations by $5 million. However, the preceding table includes pension plans that had projected benefit obligations of $26 million and assets of $13 million at December 31, 1994.

The discount rate used to measure the present value of benefit obligations is 8 1/2 percent (7 1/4 percent in 1993); 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, corporate bonds, United States government securities and commercial paper.

Postretirement benefits other than pensions

Williams sponsors a health care plan that provides postretirement medical benefits to retired employees who were employed full time, hired prior to January 1, 1992, have worked five years, attained age 55 while in service with Williams and are a participant in the Williams pension plans. The plan provides for retiree contributions and contains other cost-sharing features such as deductibles and coinsurance. The accounting for the plan anticipates future cost-sharing changes to the written plan that are consistent with Williams' expressed intent to increase the retiree contribution rate annually for the expected general inflation rate for that year. 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 a master trust (previously described) and money market funds.

Effective January 1, 1993, Williams prospectively adopted FAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." Application of the standard reduced 1993 net income by approximately $2 million.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Net postretirement benefit expense consists of the following:

	1994	1993
	(MILLIONS)	
Service cost for benefits earned during the year	$ 3.9	$ 3.7
Interest cost on accumulated postretirement benefit obligation	7.8	8.2
Actual return on plan assets	(.6)	(.7)
Amortization of unrecognized transition obligation	5.1	5.2
Amortization and deferrals	.1	(3.5)
Net postretirement benefit expense	$16.3	$12.9
Net postretirement benefit expense:		
Continuing operations	$14.7	$11.4
Discontinued operations	1.6	1.5
	$16.3	$12.9

The estimated expense of providing these benefits to retirees was $8 million in 1992 ($1 million for discontinued operations) and included accruals of $4 million for future benefits payable to eligible active employees.

The following table presents the funded status of the plan:

	1994	1993
	(MILLIONS)	
Actuarial present value of postretirement benefit obligation:		
Retirees	$ 55	$ 65
Fully eligible active plan participants	11	11
Other active plan participants	34	41
Accumulated postretirement benefit obligation	100	117
Assets at market value	16	10
Assets less than accumulated postretirement benefit obligation	84	107
Unrecognized net gain (loss)	19	(4)
Unrecognized transition obligation	(78)	(83)
Postretirement benefit liability	$ 25	$ 20

The postretirement benefit liability at December 31, 1994, includes approximately $5 million for WilTel's network services operations' plan participants. Williams has no obligation to pay postretirement medical benefits for these participants after the date of sale (see Note 2).

The discount rate used to measure the present value of benefit obligations is 8 1/2 percent (7 1/4 percent in 1993). The expected long-term rate of return on plan assets is 10 percent. The annual assumed rate of increase in the health care cost trend rate for 1995 is 10 to 14 percent, systematically decreasing to 6 percent by 2003. 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, 1994, by $2 million and the accumulated postretirement benefit obligation as of December 31, 1994, by $14 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 $14 million in 1994, $13 million in 1993 and $11 million in 1992. Contributions to these plans made by discontinued operations were $3 million in 1994 and 1993, and $2 million in 1992.

Effective January 1, 1994, Williams adopted Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits," which requires the accrual of benefits provided to former or inactive employees after employment but before retirement. Adoption of the standard reduced 1994 net income by approximately $2 million and is not reported as a change in accounting principle due to immateriality.

NOTE 8 -- INVENTORIES

	1994	1993
	(MILLIONS)	
Natural gas in underground storage	$ 9.9	$ 12.1
Petroleum products:		
Williams Pipe Line	12.1	11.6
Williams Energy Ventures	25.6	22.8
Other	3.7	3.8
Materials and supplies:		
Williams Telecommunications Systems	28.6	22.6
Other	32.4	35.3
	$112.3	$108.2

NOTE 9 -- PROPERTY, PLANT AND EQUIPMENT

	1994	1993
	(MILLIONS)	
Cost:		
Northwest Pipeline	$1,275.4	$1,221.6
Williams Natural Gas	745.0	721.6
Williams Field Services Group	1,274.4	1,117.6
Williams Pipe Line	781.9	750.0
Williams Energy Ventures	31.4	6.3
Williams Telecommunications Systems	32.1	25.3
Discontinued operations (Note 2)	--	1,052.8
Other	170.9	137.9
	4,311.1	5,033.1
Accumulated depreciation	(1,187.1)	(1,354.5)
	$3,124.0	$3,678.6

Commitments for construction and acquisition of property, plant and equipment are approximately $70 million at December 31, 1994.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 10 -- 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 $41 million at December 31, 1994, and $53 million at December 31, 1993.

	1994	1993
	(MILLIONS)	
Accrued liabilities:		
Rate refunds	$ 83.8	$ 42.7
Employee costs	51.7	62.3
Interest	39.9	42.9
Deferred revenue	24.5	54.8
Income taxes payable	38.0	22.2
Taxes other than income taxes	41.8	38.5
Other	81.7	116.9
	$361.4	$380.3

NOTE 11 -- LONG-TERM DEBT, LEASES AND BANKING ARRANGEMENTS

Notes payable

During 1994, a subsidiary of Williams entered into a $400 million short-term credit agreement to finance the acquisition of Williams common stock. Notes payable totaling $398 million were outstanding under this agreement at December 31, 1994. These notes were repaid in January 1995.

The weighted average interest rate on the $507 million outstanding short-term borrowings at December 31, 1994, was 6.75 percent. There were no short-term borrowings outstanding at December 31, 1993.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Long-term debt

	WEIGHTED AVERAGE INTEREST RATE*	(MILLIONS) 1994	1993
The Williams Companies, Inc.			
Revolving credit loans	6.6%	$ 350.0	$ --
Debentures, 8.875% -- 10.25%, payable 2012, 2020 and 2021	9.5	379.7	400.0
Notes, 7.5% -- 13%, payable through 2001	8.3	363.8	524.8
Capital lease obligations, 11.1%, payable through 2014	11.1	31.0	31.4
Northwest Pipeline			
Debentures, 9% -- 10.65%, payable through 2022	9.6	293.0	304.3
Adjustable rate notes, payable through 2002	9.0	13.3	15.0
Williams Natural Gas			
Variable rate notes, payable 1999	6.2	130.0	--
Debentures at 10.25%	--	--	120.0
Williams Field Services Group			
Other, payable through 1999	8.0	5.7	--
Williams Pipe Line			
Notes, 8.95% and 9.78%, payable through 2001	9.3	120.0	130.0
Williams Telecommunications Systems			
Other	7.9	4.3	5.8
Discontinued operations (Note 2)			
Notes at 9.61% and 9.81%	--	--	127.5
		1,690.8	1,658.8
Current portion of long-term debt		(383.0)	(54.0)
		$1,307.8	$1,604.8

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* At December 31, 1994.

Under Williams' $600 million credit agreement, Northwest Pipeline, Williams Natural Gas and Williams Pipe Line have access to various amounts of the facility while Williams (parent) has access to all unborrowed amounts. Interest rates vary with current market conditions. Certain amounts outstanding at December 31, 1994, under this facility do not reduce amounts available to Williams in the future. The available amount at December 31, 1994, is $495 million. The agreement terminates in December 1995 and Williams expects to replace it with a similar agreement.

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 (5.81 percent at December 31, 1994). The difference between the fixed and variable rate is included in interest expense.

During 1993, Williams sold to financial institutions options to enter into future interest-rate swap agreements on $220 million of fixed-rate debt. Net proceeds of $22 million from the sale of these options were deferred and amortized as a reduction of interest expense over the remaining term of the original debt agreements. In 1994, the original debt was prepaid, the options were terminated and the remaining deferred proceeds from the sale of the options have been included in the extraordinary loss on the debt extinguishments (see Note 6).

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

During 1992, Williams entered into interest-rate swap agreements to effectively convert $450 million of fixed-rate debt to variable-rate debt. Subsequently, Williams entered into a forward termination of the agreements, effective March 1993, which resulted in Williams receiving $29 million in net proceeds. This amount has been deferred and is being amortized as a reduction of interest expense over the remaining term of the original agreements.

Terms of borrowings require maintenance of certain financial ratios, limit the sale or encumbrance of assets and limit the amount of additional borrowings. In addition, certain debt agreements include a restriction on the payment of dividends on common stock and the amount that can be expended to acquire Williams common stock. At December 31, 1994, Williams had $565 million available under this covenant. Terms of certain subsidiaries' borrowing arrangements with institutional lenders limit the transfer of funds to Williams. Net assets of consolidated subsidiaries at December 31, 1994, are $2.7 billion, of which approximately $432 million is restricted. Undistributed earnings of companies and partnerships accounted for under the equity method of $64 million are included in Williams' consolidated retained earnings at December 31, 1994.

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

	(MILLIONS)
1995	$381
1996	44
1997	21
1998	131
1999	302

Cash payments for interest (net of amounts capitalized) related to continuing operations are as follows: 1994 -- $143 million; 1993 -- $144 million; and 1992 -- $119 million. Cash payments for interest (net of amounts capitalized) related to discontinued operations are as follows: 1994 -- $6 million; 1993 -- $16 million; and 1992--$18 million.

Leases

Future minimum annual rentals under non-cancelable leases related to continuing operations are as follows:

	CAPITAL LEASES	OPERATING LEASES
	(MILLIONS)	
1995	$ 5	$21
1996	5	19
1997	4	17
1998	4	14
1999	4	12
Thereafter	57	83
Total minimum annual rentals	79	$166
Imputed interest at 11%	46	
Present value of net minimum annual rentals	$33	

Total rent expense from continuing operations was $26 million in 1994, $22 million in 1993, and $23 million in 1992. Total rent expense from discontinued operations was $70 million in 1994, $59 million in 1993, and $48 million in 1992.

NOTE 12 -- STOCKHOLDERS' EQUITY

The outstanding $2.21 cumulative preferred shares are redeemable by Williams at a price of $25, beginning in September 1997. Dividends per share of $2.21, $2.21 and $.72 were recorded during 1994, 1993 and 1992, respectively.

During 1993, Williams called for redemption of its 3,000,000 shares of outstanding $3.875 convertible exchangeable preferred stock. Substantially all of the preferred shares were converted into 7.6 million shares of Williams common stock. Dividends per share of $.97 and $3.875 were recorded during 1993 and 1992, respectively.

Each outstanding share of common stock has one-half of a preferred stock purchase right attached. Under certain conditions, each right may be exercised to purchase, at an exercise price of $75 (subject to adjustment), one two-hundredth of a share of a new series of junior participating preferred stock. The rights may be exercised only if an Acquiring Person acquires (or obtains the right to acquire) 20 percent or more of Williams common stock; or commences an offer for 30 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 1996 and may be redeemed at a price of $.05 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 20 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 acquired in a merger or other business combination, 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.

The 1990 Stock Plan (the Plan) permits granting of various types of awards including, but not limited to, stock options, stock-appreciation rights, restricted stock and deferred stock. The Plan provides for granting of awards to key employees, including officers and directors who are employees. Such 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 fair-market value of the stock on the date of grant. Another stock option plan provides for the granting of non-qualified options to non-employee directors. Options generally become exercisable in three annual installments beginning within one year after grant, and they expire 10 years after grant.

The following summary reflects option transactions during 1994.

		OPTION PRICE	
	SHARES	PER SHARE	TOTAL (MILLIONS)
Shares under option:			
December 31, 1993	2,455,785	$11-27	$48
Granted	824,679	25-30	24
Canceled or surrendered	(27,310)	14-30	(1)
Exercised	(369,146)	11-27	(6)
December 31, 1994	2,884,008	$11-30	$65
Shares exercisable December 31, 1994	1,305,971		

Under the Plan, Williams granted 127,706, 97,504 and 108,920 deferred shares in 1994, 1993 and 1992, respectively, to key employees. Deferred shares are valued at the date of award and generally charged to expense in the year of award. Williams issued 45,298, 191,007 and 70,958 of previously deferred shares in

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

1994, 1993 and 1992, respectively. Williams also issued 44,800, 62,000 and 40,000 shares of restricted stock in 1994, 1993 and 1992, respectively. Restricted stock is valued on the issuance date, and the related expense is amortized over varying periods of three to ten years.

During November 1994, Williams entered into a deferred share agreement (the Agreement) in connection with the sale of WilTel's network services operations. Under the terms of the Agreement, Williams will distribute up to approximately 2.6 million shares of Williams common stock to key employees over various periods through 1998. During 1994, the initial stock distribution of 273,095 shares was made.

At December 31, 1994, 7,131,209 shares of common stock were reserved for stock awards, of which 1,835,014 were available for future grants (3,200,354 at December 31, 1993).

NOTE 13 -- 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.

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, 1994 and 1993, 59 percent and 76 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.

Call options sold on interest-rate swaps: Fair value is determined by discounting estimated future cash flows using forward interest rates implied by the year-end yield curve and standard option pricing techniques. Fair value was calculated by the two financial institutions holding the options.

Interest-rate swap: 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 institution who is the counterparty to the swap.

Energy-related futures, swaps and options: 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.

Carrying amounts and fair values of Williams' financial instruments

Asset (liability)

	1994		1993	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
	(MILLIONS)			
Cash and cash equivalents	$ 36.1	$ 36.1	$ 64.3	$ 64.3
Notes and other non-current receivables	63.1	62.3	31.7	31.3
Investment in Texasgulf Inc. (see Note 3)	150.0	150.0	150.0	150.0
Notes payable	(507.0)	(507.0)	--	--
Long-term debt, including current portion	(1,657.6)	(1,679.9)	(1,624.1)	(1,807.0)
Call options sold on interest-rate swaps	--	--	(18.4)	(25.4)
Interest-rate swap	(.3)	1.4	--	--
Energy-related trading:				
Futures	(2.0)	(2.0)	2.0	2.0
Swaps and options:				
Assets	22.7	22.7	7.0	7.0
Liabilities	(13.8)	(13.8)	(6.3)	(6.3)
Energy-related hedging:				
Futures	(3.3)	(3.3)	(.9)	(.9)
Swaps and options:				
Assets	.3	.3	--	--
Liabilities	(5.2)	(5.2)	--	--

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

The 1994 average fair value of the energy-related trading futures contracts is a liability of $1.5 million. The 1994 average fair value of the trading swaps and options assets and liabilities are $9.2 million and $7 million, respectively.

Williams has recorded liabilities of $27 million and $37 million at December 31, 1994 and 1993, respectively, for certain guarantees that qualify as financial instruments. It is not practicable to estimate the fair value of these guarantees because of their unusual nature and unique characteristics.

Off-balance-sheet credit and market risk

Williams is a participant in numerous 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, with limited recourse, certain receivables. The aggregate limit under these receivables facilities was $80 million at December 31, 1994 (all related to discontinued operations) and $180 million at December 31, 1993. Williams received $45 million of additional net proceeds in 1994, none in 1993 and $171 million in 1992. At December 31, 1994 and 1993, $80 million and $35 million (all related to discontinued operations) of such receivables had been sold, respectively. Under a different arrangement, one of Williams' subsidiaries sold $18 million of receivables with limited recourse in 1992. Williams has no risk of credit loss because amounts outstanding relate to discontinued operations (see Note 2).

In connection with certain assets disposed in 1987, Williams has been providing, for the benefit of the mortgage lender, a guarantee of the sufficiency of certain lease rentals to meet a portion of the debt service associated with the assets. At December 31, 1994 and 1993, the maximum possible loss under this arrangement was approximately $16 million and $15 million, respectively, before consideration of future contractual and estimated sublease income, which is expected to be substantial. In January 1995, Williams acquired from the lender the underlying debt and mortgage and believes that under the arrangement the guarantee terminated by its terms. The debtor and owner of the assets has disputed Williams' interpretation of the guarantee.

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 15), guaranteed certain minimum ownership interests based on natural gas reserve volumes through 1993 only and guaranteed minimum gas prices through 1997. At December 31, 1994 and 1993, Williams has a recorded liability of $10 million and $15 million, respectively, for these items, representing the maximum amounts for the first two guarantees and an 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 practicable to determine such amount because of the unique aspects of the guarantee.

In connection with the sale of WilTel's network services operations, Williams has been indemnified by LDDS against any losses related to retained guarantees of $200 million for lease rental obligations. LDDS 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 $9 million and $20 million at December 31, 1994 and 1993, 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.

In accordance with historical industry practice, Williams' natural gas subsidiaries have gas purchase contracts with commitments to buy minimum quantities of natural gas, primarily at market prices, for varying periods estimated to extend through at least 2014. The subsidiaries currently have or will enter into gas sales contracts for these volumes, or the subsidiaries will negotiate the termination of contracts that are not required to meet gas sales demand (see Note 15).

Commodity price-risk management services

Williams Energy Ventures 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, options contracts and swap agreements. See Note 1 for a description of the accounting for these trading activities. The net gain for 1994 from all trading activities was $14.2 million and is reported as revenues in the Consolidated Statement of Income.

Williams Energy Ventures manages risk from financial instruments by making various logistical commitments which manage profit margins through offsetting financial instruments. As a result, price movements can result in losses on certain contracts offset by gains on others.

Williams Energy Ventures 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. Williams Energy Ventures 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The notional quantities and average prices for natural gas related swap agreements, options contracts and futures contracts at December 31, 1994, are as follows:

	PAYOR	RECEIVER
Trading:		
Fixed-price swaps:		
Quantities (TBtu)	86.0	100.9
Average price (per MMBtu)	$2.01	$1.86
Location differential swaps:		
Quantities (TBtu)	85.0	136.3
Average price (per MMBtu)	$1.42	$1.43
Options:		
Quantities (TBtu)	15.1	17.9
Average strike price (per MMBtu)	$1.91	$2.19
Futures:		
Quantities (TBtu)	80.3	60.7
Average price (per MMBtu)	$1.91	$1.92
Hedging:		
Fixed-price swaps:		
Quantities (TBtu)	28.4	4.1
Average price (per MMBtu)	$2.21	$2.16
Options:		
Quantities (TBtu)	5.5	3.7
Average strike price (per MMBtu)	$2.07	$2.05
Futures:		
Quantities (TBtu)	21.3	3.1
Average price (per MMBtu)	$1.90	$1.91

At December 31, 1993, Williams Energy Ventures was the payor and receiver under natural gas fixed-price swap agreements having notional quantities of 44.1 TBtu and 43.9 TBtu, respectively. Average prices are $2.24 and $2.18, respectively. In addition, Williams Energy Ventures was the payor and receiver under location differential variable-priced swap agreements having notional quantities of 26.3 TBtu and 38.8 TBtu, respectively, at December 31, 1993. The average price under these agreements was $1.77.

The swap agreements call for Williams Energy Ventures 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. Williams Energy Ventures buys and sells options 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 contracts are generally exchange quotations. Williams Energy Ventures 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. The swap agreements extend for various periods through 2000; options contracts and futures contracts extend for various periods through 1996. Average prices are based on weighted averages for contracts outstanding at December 31, 1994 and 1993. Average prices for location differential swaps incorporate forward prices based on the appropriate index.

Williams Energy Ventures enters into energy-related financial instruments to hedge against market price fluctuations of certain refined products inventories and natural gas sales and purchase commitments. Net deferred losses at December 31, 1994, on anticipated sales and purchase commitments were $9 million. It is expected that substantially all of these deferred amounts will be recognized in income during 1995. See Note 1 for a description of the accounting for these hedging activities.

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 the company's credit exposure to any one financial institution.

At December 31, 1994 and 1993, approximately 40 percent and 48 percent, respectively, of receivables are for the sale or transportation of natural gas and related products or services. Approximately 30 percent and 43 percent of receivables at December 31, 1994 and 1993, respectively, are for telecommunications and related services. Natural gas customers include pipelines, distribution companies, producers, gas marketers and industrial users primarily located in the northwestern and central United States. Telecommunications customers include numerous corporations. As a general policy, collateral is not required for receivables, but customers' financial conditions and credit worthiness are evaluated regularly.

NOTE 14 -- OTHER FINANCIAL INFORMATION

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

	1994	1993	1992
		(MILLIONS)	
Northwest Pipeline	$ 3.4	$ 3.6	$ 8.6
Williams Natural Gas	14.2	5.4	5.4
Williams Field Services Group	7.8	37.8	20.6
Williams Pipe Line	28.6	6.8	--
Williams Energy Ventures	15.5	3.1	11.3
Williams Telecommunications Systems	.3	--	--
	$69.8	$56.7	$45.9

Williams Natural Gas had sales to a natural gas distributor that accounted for 15 percent in 1993 and 11 percent in 1992 of Williams' revenues.

Information for business segments is as follows:

	1994	1993*	1992*
		(MILLIONS)	
Identifiable assets at December 31:			
Northwest Pipeline	$1,028.0	$1,032.6	$1,064.2
Williams Natural Gas	719.8	697.0	704.8
Williams Field Services Group	1,097.5	996.5	1,081.2
Williams Pipe Line	599.5	587.8	535.8
Williams Energy Ventures	172.7	57.8	13.3
Williams Telecommunications Systems	255.5	169.1	157.0
Investments	379.1	437.1	434.9
General corporate and other	230.4	147.3	141.3
Discontinued operations	743.6	895.2	849.8
Consolidated	$5,226.1	$5,020.4	$4,982.3
Additions to property, plant and equipment:			
Northwest Pipeline	$ 62.6	$ 175.7	$ 297.6
Williams Natural Gas	32.9	54.9	47.8
Williams Field Services Group	153.8	117.3	142.7
Williams Pipe Line	35.5	61.4	26.9
Williams Energy Ventures	24.6	3.0	--
Williams Telecommunications Systems	4.9	1.9	5.0
General corporate and other	11.2	14.1	6.7
Consolidated	$ 325.5	$ 428.3	$ 526.7
Depreciation and depletion:			
Northwest Pipeline	$ 33.9	$ 30.7	$ 24.2
Williams Natural Gas	27.2	27.3	26.0
Williams Field Services Group	47.2	44.0	38.9
Williams Pipe Line	22.3	21.4	21.2
Williams Energy Ventures	.3	.1	--
Williams Telecommunications Systems	5.3	4.7	3.7
General corporate and other	14.1	9.6	8.2
Consolidated	$ 150.3	$ 137.8	$ 122.2

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* Restated as described in Note 2.

NOTE 15 -- CONTINGENT LIABILITIES AND COMMITMENTS

Rate and regulatory matters and related litigation

In June 1990, a producer brought suit against Williams Natural Gas alleging antitrust and interference with contract claims regarding the transportation of gas and seeking actual, treble and punitive damages and injunctive relief. Williams Natural Gas has denied any liability. In April 1991, Williams Natural Gas was granted summary judgment on the antitrust claim and at the close of the plaintiff's case, a directed verdict was granted in favor of Williams Natural Gas on the remaining claims. The plaintiff filed an appeal on November 18, 1992, and on January 12, 1995, the lower court's judgment was affirmed.

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 $111 million at December 31, 1994; 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 10 for the amount of revenues reserved for potential refund as of December 31, 1994.

In 1992, the FERC issued Order 636, Order 636-A and Order 636-B. These orders, which have been challenged in various respects by various parties in proceedings pending in 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. Williams Natural Gas implemented its restructuring on October 1, 1993, and Northwest Pipeline implemented its restructuring on November 1, 1993. Certain aspects of each pipeline company's restructuring are under appeal.

Contract reformations and gas purchase deficiencies

Williams Natural Gas has undertaken the reformation of its respective gas supply contracts to settle gas purchase deficiencies, avoid future gas purchase deficiencies, reduce prices to market levels or make other appropriate modifications. As of December 31, 1994, Williams Natural Gas' total supplier take-or-pay, ratable take and minimum take claims were not significant.

Williams Natural Gas and a producer have executed a number of definitive agreements to resolve outstanding issues between the two companies and restructure their relationship. Among other things, the agreements terminate Williams Natural Gas' largest gas purchase contract and resolve a number of disputes and litigation, including a $203 million claim by the producer for take-or-pay deficiencies and a gas pricing dispute. With respect to the latter dispute, Williams Natural Gas paid the producer $35 million in cash and is committed to pay an additional $40 million under certain circumstances, all but a small portion of which payments Williams Natural Gas believes it will be permitted to recover from certain of its former sales customers. Portions of the settlement are subject to regulatory approvals, including the regulatory abandonment of a certain Williams Natural Gas gathering system on terms acceptable to Williams Natural Gas.

Williams Natural Gas also has commitments under gas supply contracts reflecting prices in excess of market-based prices. The estimated commitment amounts at December 31, 1994, attributable to these contracts were:

	1995	1996	1997	1998	1999	POST 1999
			(MILLIONS)			
Commitments	$10	$10	$12	$12	$13	$133

Williams has an accounting policy of determining accruals taking into consideration both historical and future gas quantities and appropriate prices to determine an estimated total exposure. This exposure is discounted and risk-weighted to determine the appropriate accrual. The estimated portion recoverable from sales and transportation customers is deferred based on Williams' estimate of its expected recovery of the amounts allowed by FERC policy. As of December 31, 1994, Williams Natural Gas had a remaining accrual of $47 million for take-or-pay settlements and reformation of the non-market responsive contracts. Although Williams believes these accruals are adequate, the actual amount paid for take-or-pay settlements and contract reformation will depend on the outcome of various court proceedings; the provisions and enforceability of each gas purchase contract; the success of settlement negotiations; and other factors.

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. Pursuant to FERC Order 500, Williams Natural Gas has filed to recover a portion of previously incurred take-or-pay and contract-reformation costs. As of December 31, 1994, this subsidiary had $40 million included in recoverable contract-reformation and take-or-pay settlement costs which had not yet been paid and filed for recovery with the FERC. 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 FERC initially approved a method for Northwest Pipeline to direct bill its contract-reformation costs, but when challenged on appeal, sought a remand to reassess such method. Northwest Pipeline has received an order from the FERC that requires a different allocation of such costs which is now being challenged by certain customers. Northwest Pipeline does not expect any reallocation to result in a significant financial impact upon the company.

Pursuant to a stipulation and agreement approved by the FERC, Williams Natural Gas has made two filings to direct bill take-or-pay and gas supply realignment costs recoverable under Orders 436, 500 and 528. 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 additional costs, and provided for an offset of $3 million. An intervenor has filed a protest seeking to have the Commission review the prudence of certain of the costs covered by the second filing. Williams Natural Gas believes that the filing will most likely be approved and will make additional filings in the future under the stipulation and agreement to recover such further contract-reformation costs as may be incurred.

Other legal matters

Williams Natural Gas has identified polychlorinated biphenyl (PCB) contamination in air compressor systems, disposal pits and related properties at certain compressor station sites and has been involved in negotiations with the U.S. Environmental Protection Agency (EPA) to develop additional screening, detailed sampling and cleanup programs. In addition, negotiations concerning investigative and remedial actions relative to potential mercury contamination at certain gas metering sites have commenced with certain environmental authorities. As of December 31, 1994, Williams Natural Gas had recorded a liability for approximately $28 million, representing the current estimate of future environmental cleanup costs to be incurred over the next six to ten years. 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. Williams Natural Gas 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 probable that such costs will exceed this amount. At December 31, 1994, Williams had approximately $6 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 on May 14, 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. On June 28, 1994, the lawsuit was dismissed for failure to join an indispensable party over which the state court had no jurisdiction. This decision is being appealed by the plaintiffs. Since June 28, 1994, four individual lawsuits have been filed against Northwest Pipeline in U.S. district court in Colorado, making essentially the same claims. Northwest Pipeline is vigorously defending these lawsuits.

On December 31, 1991, the Southern Ute Indian Tribe (the Tribe) filed a lawsuit against Williams Production Company, 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. On September 13, 1994, the Court granted summary judgment in favor of the defendants. The Tribe sought a certification of an interlocutory appeal from the Court which was denied. Nevertheless, the Tribe has 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.

Relative to a proposal for the acquisition of WilTel submitted to Williams by LDDS Communications, Inc. (LDDS), contained in a letter dated May 3, 1994, and attached as an exhibit to a report on Form 8-K filed by LDDS on that day, two class action lawsuits were filed on May 9, 1994, in the Chancery Court of Delaware alleging that Williams' directors breached their fiduciary duty to the plaintiff and the members of the putative class by summarily rejecting the LDDS proposal and by issuing false and misleading statements. On September 26, 1994, both suits were dismissed without prejudice. See Note 2 for information regarding the sale of WilTel's network services operations on January 5, 1995.

On October 6, 1994, the Antitrust Division of the Department of Justice issued a civil investigation demand to Williams Natural Gas concerning its provision of transportation services in Kansas and Missouri. Williams Natural Gas has filed a response, and believes that it has not violated the antitrust laws in the conduct of its business.

On December 21, 1994, Williams Natural Gas received a second civil investigative demand from the Antitrust Division of the Department of Justice concerning certain gathering activities of Williams Natural Gas and Williams' other operating subsidiaries. Williams is preparing a response but believes that none of its subsidiaries has violated the antitrust laws in the conduct of its business.

Relative to a certain Agreement and Plan of Merger, dated December 12, 1994, among Williams, a Williams subsidiary and Transco Energy Company (Transco), seven class action lawsuits were filed on December 12, 1994, and later, in the Chancery Court of Delaware, challenging the transaction and alleging a breach of fiduciary duties by Transco's directors. In six of the lawsuits, Williams was named as a party defendant, the plaintiffs alleging that Williams aided and abetted the alleged breach of duty. On January 6, 1995, the parties to all of the lawsuits entered into an agreement in principle and on January 9, 1995, a stipulation and agreement of compromise, settlement and release was executed subject to approval of the Court. See Note 16 for information regarding the acquisition of Transco.

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

Summary

Williams does not believe that the ultimate resolution of the foregoing matters, taken as a whole and after consideration of amounts accrued, insurance coverage or other indemnification arrangements, will have a materially adverse financial effect upon Williams in the future.

NOTE 16 -- TRANSCO ACQUISITION

Subsequent to December 31, 1994, Williams acquired 60 percent of Transco's outstanding common stock in a cash tender offer for $430.5 million. Williams also plans to acquire the remaining 40 percent of Transco's outstanding common stock through a merger which will exchange the remaining Transco common stock for approximately 10.2 million shares of Williams common stock. The cash portion of the acquisition was financed from the proceeds of the WilTel network services sale.

Transco is engaged primarily in the natural gas pipeline and natural gas marketing businesses. Williams plans to sell certain other Transco operations, such as coal mining and coalbed methane extraction in 1995. The estimated purchase price, including transaction fees and other related costs, is approximately $775 million, excluding $2.3 billion in preferred stock and debt obligations of Transco. The acquisition will be accounted for as a purchase in 1995 and it is expected that the excess purchase price will be allocated to Transco's property, plant and equipment.

THE WILLIAMS COMPANIES, INC.

QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data are as follows (millions, except per-share amounts). Certain amounts have been restated as described in Note 2 of Notes to Consolidated Financial Statements.

1994	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
Revenues	$386.6	$419.9	$467.3	$477.3
Costs and operating expenses	248.5	274.0	335.4	329.8
Income before extraordinary loss	52.8	74.0	55.6	76.5
Net income	52.8	62.9	55.6	75.4
Primary earnings per common and common-equivalent share:				
Income before extraordinary loss	.48	.69	.51	.77
Net income	.48	.58	.51	.76
Fully diluted earnings per common and common-equivalent share:				
Income before extraordinary loss	.48	.69	.51	.77
Net income	.48	.58	.51	.76
1993				
Revenues	$613.2	$388.8	$371.0	$420.4
Costs and operating expenses	448.2	279.8	267.1	288.8
Net income	125.6	36.1	18.0	52.1
Primary earnings per common and common-equivalent share	1.28	.33	.15	.48
Fully diluted earnings per common and common-equivalent share	1.21	.32	.15	.48

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 1994 includes a $23 million gain from the sale of assets (see Note 4 of Notes to Consolidated Financial Statements).

First-quarter 1993 includes gains totaling $95 million from the sales of assets (see Note 4 of Notes to Consolidated Financial Statements). Third-quarter 1993 net income was reduced $15 million related to the cumulative effect of the 1 percent increase in the federal income tax rate.

Selected comparative fourth-quarter data are as follows (millions, except per-share amounts). Certain 1993 amounts have been restated as described in Note 2 of Notes to Consolidated Financial Statements.

	1994	1993
Operating profit (loss):		
Interstate Natural Gas Pipelines:		
Northwest Pipeline	$ 22.7	$ 20.1
Williams Natural Gas	15.1	13.6
Williams Field Services Group	39.3	31.8
Liquids Pipeline/Energy Ventures:		
Williams Pipe Line	19.8	10.7
Williams Energy Ventures	(11.0)	.1
Williams Telecommunications Systems	6.7	3.8
Other	(4.2)	(4.8)
Total operating profit	88.4	75.3
General corporate expenses	(7.0)	(15.9)
Interest expense -- net	(39.1)	(34.4)
Investing income	10.8	13.5
Other income (expense) -- net	(2.5)	.2
Income from continuing operations before income taxes	50.6	38.7
Provision for income taxes	16.4	3.5
Income from continuing operations	34.2	35.2
Income from discontinued operations	42.3	16.9
Income before extraordinary loss	76.5	52.1
Extraordinary loss	(1.1)	--
Net income	$ 75.4	$ 52.1
Primary and fully diluted earnings per common and common-equivalent share	$ .76	$ .48

In fourth-quarter 1994, Williams Natural Gas recorded a $7 million reversal of excess contract-reformation accruals. Williams Energy Ventures' fourth-quarter operating loss includes $5 million in costs for evaluating and determining whether to build an oil refinery. Fourth-quarter 1994 discontinued operations includes favorable adjustments of approximately $15 million relating to bad debt recoveries and accrual reversals.

In fourth-quarter 1993, Williams Field Services Group recorded an $11 million favorable settlement involving processing revenues from prior periods. General corporate expenses in the fourth quarter of 1993 include $5 million of additional accruals for supplemental retirement benefits. Fourth-quarter 1993 discontinued operations includes favorable adjustments of approximately $6 million relating to bad debt recoveries and accrual reversals.

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

None.

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 1995 (the "Proxy Statement"), which information is incorporated by reference herein. A copy of the Proxy Statement will be 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 will be 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 will be 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 in response to this Item.

PART IV

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

(a) 1 and 2. The financial statements and schedules 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) 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).

*(b) 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).

*(c) Stock Option Agreement, dated as of December 12, 1994, by and between Williams and Transco (filed as Exhibit (c)(2) to Schedule 14D-1, dated December 16, 1994).

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 Increase of Authorized Number of Shares of Series A Junior Participating Preferred Stock (filed as Exhibit 3(c) to Form 10-K for the year ended December 31, 1988).

(d) Certificate of Amendment of Restated Certificate of Incorporation, dated May 20, 1994.

*(e) Amended and Restated Rights Agreement, dated as of July 12, 1988, between Williams and First Chicago Trust Company of New York (filed as Exhibit 4(c) to Williams Form 8, dated July 28, 1988).

*(f) By-laws of Williams (filed as Exhibit 3 to Form 10-Q for the quarter ended September 30, 1993).

Exhibit 4 --

*(a) Form of Senior Debt Indenture between the Company and 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 1996 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) U.S. $800,000,000 Credit Agreement, dated as of February 23, 1995, 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) 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 1995 (to be filed by amendment).

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

(b) Reports on Form 8-K.

No reports on Form 8-K were filed by Williams with the Securities and Exchange Commission during the fourth quarter of 1994.

(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.

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* 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.

THE WILLIAMS COMPANIES, INC.

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

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 I -- CONDENSED FINANCIAL INFORMATION OF REGISTRANT

STATEMENT OF INCOME (PARENT)

	YEARS ENDED DECEMBER 31,		
	1994	1993*	1992*
	(MILLIONS, EXCEPT PER-SHARE AMOUNTS)		
Investing income	$ 29.4	$ 27.3	$ 16.3
Interest accrued	(91.8)	(95.8)	(90.9)
Gain on sales of assets (Note 2)	--	51.6	--
Other income (expense) -- net	2.9	(16.9)	.6
Loss from continuing operations before income taxes and equity in subsidiaries' income	(59.5)	(33.8)	(74.0)
Equity in consolidated subsidiaries' income	195.0	189.8	131.5
Income from continuing operations before income taxes	135.5	156.0	57.5
Credit for income taxes	(29.4)	(29.4)	(45.6)
Income from continuing operations	164.9	185.4	103.1
Income from discontinued operations (Note 1)	94.0	46.4	25.2
Income before extraordinary credit (loss)	258.9	231.8	128.3
Extraordinary credit (loss) from early extinguishment of debt	(12.2)	--	9.9
Net income	246.7	231.8	138.2
Preferred stock dividends	8.8	11.8	14.5
Income applicable to common stock	$237.9	$220.0	$123.7
Primary earnings per common and common-equivalent share:			
Income from continuing operations	$ 1.52	$ 1.74	$ .97
Income from discontinued operations	.92	.46	.28
Income before extraordinary credit (loss)	2.44	2.20	1.25
Extraordinary credit (loss)	(.12)	--	.11
Net income	$ 2.32	$ 2.20	$ 1.36
Fully diluted earnings per common and common-equivalent share:			
Income from continuing operations	$ 1.52	$ 1.71	$ .97
Income from discontinued operations	.92	.45	.28
Income before extraordinary credit (loss)	2.44	2.16	1.25
Extraordinary credit (loss)	(.12)	--	.11
Net income	$ 2.32	$ 2.16	$ 1.36

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

See accompanying notes.

THE WILLIAMS COMPANIES, INC.

SCHEDULE I -- CONDENSED FINANCIAL INFORMATION OF REGISTRANT -- (CONTINUED)

BALANCE SHEET (PARENT)

	DECEMBER 31, 1994	DECEMBER 31, 1993
	(MILLIONS)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 16.5	$ 26.1
Due from consolidated subsidiaries	138.4	31.5
Receivables	65.3	1.8
Investment in discontinued operations (Note 1)	743.6	--
Other	4.9	.5
Total current assets	968.7	59.9
Investments:		
Equity in consolidated subsidiaries	1,634.8	2,658.4
Receivables from consolidated subsidiaries	387.8	260.2
	2,022.6	2,918.6
Other	44.0	43.7
	2,066.6	2,962.3
Property, plant and equipment -- net	36.3	47.4
Other assets and deferred charges	14.8	46.9
Total assets	$3,086.4	$3,116.5
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	$ 73.8	$ --
Due to consolidated subsidiaries	137.6	256.6
Accounts payable and accrued liabilities	84.1	71.2
Long-term debt due within one year (Note 3)	361.5	11.4
Total current liabilities	657.0	339.2
Long-term debt (Note 3)	763.0	944.8
Other liabilities	160.9	108.5
Stockholders' equity:		
Preferred stock	100.0	100.0
Common stock	104.4	103.1
Capital in excess of par value	991.0	959.1
Retained earnings	716.5	563.7
Unamortized deferred compensation	(1.3)	(1.9)
	1,910.6	1,724.0
Less treasury stock (Note 4)	(405.1)	--
Total stockholders' equity	1,505.5	1,724.0
Total liabilities and stockholders' equity	$3,086.4	$3,116.5

See accompanying notes.

THE WILLIAMS COMPANIES, INC.

SCHEDULE I -- CONDENSED FINANCIAL INFORMATION OF REGISTRANT -- (CONTINUED)

STATEMENT OF CASH FLOWS (PARENT)

	YEARS ENDED DECEMBER 31,		
	1994	1993*	1992*
	(MILLIONS)		
Operating activities:			
Net income	$ 246.7	$ 231.8	$ 138.2
Adjustments to reconcile to cash provided from operations:			
Equity in subsidiaries' income, net of cash dividends	153.1	(60.0)	(101.5)
Discontinued operations	(94.0)	(46.4)	(25.2)
Extraordinary (credit) loss	12.2	--	(9.9)
Depreciation	4.3	4.2	4.3
Provision (credit) for deferred income taxes	20.8	(1.7)	(4.5)
Gain on sales of property, plant and equipment	--	(52.1)	--
Changes in receivables	(59.5)	5.0	(7.0)
Changes in other current assets	(7.1)	1.4	(1.5)
Changes in accounts payable	3.0	(.7)	(.2)
Changes in accrued liabilities	(12.1)	(18.7)	13.1
Other, including changes in non-current assets and liabilities	6.4	58.5	(4.2)
Net cash provided by operating activities	273.8	121.3	1.6
Financing activities:			
Changes in notes payable	73.8	--	--
Proceeds from long-term debt	350.0	--	300.0
Payments of long-term debt	(181.7)	(128.8)	(44.0)
Premium on early extinguishment of debt	(8.9)	--	--
Proceeds from issuance of preferred stock	--	--	96.2
Proceeds from issuance of common stock	26.4	63.4	146.1
Purchase of treasury stock	(18.4)	--	--
Dividends paid	(93.9)	(89.4)	(82.7)
Other -- net	--	(.6)	--
Net cash provided (used) by financing activities	147.3	(155.4)	415.6
Investing activities:			
Property, plant and equipment:			
Capital expenditures	(1.1)	(1.6)	(1.3)
Proceeds from sales of property, plant and equipment	--	115.1	--
Investments in consolidated subsidiaries	(71.2)	(75.3)	(184.9)
Changes in advances to subsidiaries	(354.4)	1.0	(251.1)
Other -- net	(4.0)	(.6)	(1.0)
Net cash provided (used) by investing activities	(430.7)	38.6	(438.3)
Increase (decrease) in cash and cash equivalents	(9.6)	4.5	(21.1)
Cash and cash equivalents at beginning of year	26.1	21.6	42.7
Cash and cash equivalents at end of year	$ 16.5	$ 26.1	$ 21.6

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

See accompanying notes.

THE WILLIAMS COMPANIES, INC.

SCHEDULE I -- CONDENSED FINANCIAL INFORMATION OF REGISTRANT -- (CONCLUDED)

NOTES TO FINANCIAL INFORMATION (PARENT)

NOTE 1. DISCONTINUED OPERATIONS

In August 1994, Williams signed a definitive agreement to sell WilTel's network services operations to LDDS Communications, Inc. (LDDS) for $2.5 billion in cash. The sale closed January 5, 1995, yielding an after-tax gain of approximately $1 billion, which will be recorded in the first quarter of 1995. The Condensed Financial Information of Registrant have been prepared to present operating results of network services as discontinued operations, with prior period operating results restated.

NOTE 2. SALES OF ASSETS

In a 1993 public offering, Williams sold 6.1 million units in the Williams Coal Seam Gas Royalty Trust (Trust), which resulted in net proceeds of $113 million and a pre-tax gain of $51.6 million. The Trust owns defined net profits interests in the developed coal-seam properties in the San Juan Basin of New Mexico and Colorado, which were conveyed to the Trust by Williams Production Company. Ownership of an additional 3.6 million units remains with Williams.

NOTE 3. LONG-TERM DEBT AND LEASES

Long-term debt due within one year includes $350 million of borrowings under Williams' $600 million credit agreement. This agreement terminates in December 1995 and Williams expects to replace it with a similar agreement.

Aggregate minimum maturities and sinking-fund requirements, excluding lease payments, for each of the next five years are as follows: 1995 -- $361 million; 1996 -- $23 million; 1997 -- none; 1998 -- $110 million; and 1999 -- $150 million.

Future minimum annual rentals under non-cancelable capital leases for each of the next five years are $4 million. See Note 11 of Notes to Consolidated Financial Statements for additional information on long-term debt.

NOTE 4. TREASURY STOCK

For financial reporting purposes, treasury stock of $394.8 million held by a wholly-owned subsidiary of Williams has been presented as a reduction of stockholders' equity.

NOTE 5. DIVIDENDS RECEIVED

Cash dividends from subsidiaries and companies accounted for on an equity basis are as follows: 1994 -- $354.2 million; 1993 -- $142.6 million; and 1992 -- $36 million.

NOTE 6. INCOME TAX AND INTEREST PAYMENTS

Cash payments for income taxes are as follows: 1994 -- $112 million; 1993 -- $118 million; and 1992 -- $49.6 million.

Cash payments for interest are as follows: 1994 -- $90 million; 1993 -- $96.6 million; and 1992 -- $79.2 million.

NOTE 7. FINANCIAL INSTRUMENTS

Disclosure of financial instruments for the parent company are included in the consolidated disclosures. See Note 13 of Notes to Consolidated Financial Statements.

THE WILLIAMS COMPANIES, INC.

SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS(A)

		ADDITIONS			
	BEGINNING BALANCE	CHARGED TO COSTS AND EXPENSES	OTHER	DEDUCTIONS(B)	ENDING BALANCE
			(MILLIONS)		
Allowance for doubtful accounts:					
1994	$10.2	$ 4.2(c)	$ --	$ 6.5(d)	$ 7.9
1993	17.3	.5(e)	--	7.6	10.2
1992	22.4	16.2	--	21.3	17.3

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(a) Deducted from related assets.

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

(c) Excludes $5.7 million related to discontinued operations.

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

(e) Includes $4.1 million reversal of amounts previously accrued.

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/ DAVID M. HIGBEE
David M. Higbee
Attorney-in-Fact

Dated: March 2, 1995

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 (Chief Accounting Officer)
/s/ HAROLD W. ANDERSEN* Harold W. Andersen	Director
Ralph E. Bailey	Director
/s/ GLENN A. COX* Glenn A. Cox	Director
/s/ THOMAS H. CRUIKSHANK* Thomas H. Cruikshank	Director
/s/ ERVIN S. DUGGAN* Ervin S. Duggan	Director
/s/ ROBERT J. LAFORTUNE* Robert J. LaFortune	Director
/s/ JAMES C. LEWIS* James C. Lewis	Director

SIGNATURE	TITLE
/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
*By /s/ DAVID M. HIGBEE David M. Higbee Attorney-in-Fact	Director

Dated: March 2, 1995

INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
Exhibit 2 --	*(a) 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).
	*(b) 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).
	*(c) Stock Option Agreement, dated as of December 12, 1994, by and between Williams and Transco (filed as Exhibit (c)(2) to Schedule 14D-1, dated December 16, 1994).
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 Increase of Authorized Number of Shares of Series A Junior Participating Preferred Stock (filed as Exhibit 3(c) to Form 10-K for the year ended December 31, 1988).
	(d) Certificate of Amendment of Restated Certificate of Incorporation, dated May 20, 1994.
	*(e) Amended and Restated Rights Agreement, dated as of July 12, 1988, between Williams and First Chicago Trust Company of New York (filed as Exhibit 4(c) to Williams Form 8, dated July 28, 1988).
	*(f) By-laws of Williams (filed as Exhibit 3 to Form 10-Q for the quarter ended September 30, 1993).
Exhibit 4 --	*(a) Form of Senior Debt Indenture between the Company and 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 1996 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) U.S. $800,000,000 Credit Agreement, dated as of February 23, 1995, 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) 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 1995 (to be filed by amendment).
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 3(d)

STATE OF DELAWARE

OFFICE OF THE SECRETARY OF STATE

I, WILLIAM T. QUILLEN, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF AMENDMENT OF "THE WILLIAMS COMPANIES, INC.", FILED IN THIS OFFICE ON THE TWENTIETH DAY OF MAY, A.D. 1994, AT 10 O'CLOCK A.M.

A CERTIFIED COPY OF THIS CERTIFICATE HAS BEEN FORWARDED TO THE NEW CASTLE COUNTY RECORDER OF DEEDS FOR RECORDING.

[SEAL] /s/ William T. Quillen
William T. Quillen, Secretary of State

2116534 8100 AUTHENTICATION: 7125786

944090114 DATE: 05-20-94

CERTIFICATE OF AMENDMENT

OF

RESTATED CERTIFICATE OF INCORPORATION

****

THE WILLIAMS COMPANIES, INC., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, DOES HEREBY CERTIFY:

FIRST: That the Board of Directors of The Williams Companies, Inc., at a meeting of the Board of Directors duly called and held on January 23, 1994, adopted a resolution proposing and declaring advisable the following amendment to the Restated Certificate of Incorporation, as amended, of said Company:

> RESOLVED that the Board of Directors of the Company hereby declares it advisable to amend Article FOURTH of the Company's Restated Certificate of Incorporation, as amended, to increase the authorized Common Stock, $1.00 par value, so that, as amended, the first paragraph of Article FOURTH shall be, and read, as follows:
>
> > "FOURTH: The total number of shares of capital stock which the Company shall have authority to issue is 270,000,000 shares, consisting of 240,000,000 shares of Common Stock, par value $1.00 per share (the "Common

Stock") and 30,000,000 shares of Preferred Stock, par value $1.00 per share (the "Preferred Stock")."

SECOND: That the aforesaid amendment was duly adopted in accordance with the applicable provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, said The Williams Companies, Inc. has caused this Certificate to be signed by J. Furman Lewis, its Senior Vice President and General Counsel, and attested by David M. Higbee, its Secretary, this 20th day of May, 1994.

THE WILLIAMS COMPANIES, INC.

BY: /s/ J. Furman Lewis
J. Furman Lewis
Senior Vice President and
General Counsel

ATTEST:

By: /s/ David M. Higbee
David M. Higbee
Secretary

EXHIBIT 4(b)

U.S. $800,000,000

CREDIT AGREEMENT

Dated as of February 23, 1995

Among

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

as Borrowers

and

THE BANKS NAMED HEREIN

as Banks

and

CITIBANK, N.A.

as Agent

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CREDIT AGREEMENT

Dated as of February 23, 1995

This Credit Agreement dated as of February 23, 1995, 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.

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 Credit Agreement dated as of February 23, 1995 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 A 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 Type of such A Advance and for the relevant Rating Category applicable to such Borrower from time to time:

Rating Category	Eurodollar Rate Advance	Base Rate Advance
One	.35%	0
Two	.40%	0
Three	.45%	0
Four	.55%	0
Five	.75%	.25%
Six	1.125%	.50%
Seven	1.50%	.75%

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

Applicable WPL Debt to TNW Ratio	Eurodollar Rate Advance	Base Rate Advance
Less than .55	.45%	0
.55 or greater and less than .60	.55%	0
.60 or greater	.75%	.25%

The Applicable Margin determined pursuant to clause (i) of this definition for any A 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 .75% from October 16 through October 20 and .55% 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, 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, 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 the signature pages hereof as such amount may be terminated, reduced or increased 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 or paragraph (h) of Schedule VII 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 or paragraph (j) of Schedule VII.

"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 off-ice of Citibank in London, England to prime banks in the London interbank market at I 1:00 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 NWP, WPL, TGPL and TGT is a Subsidiary of TWC, any Event of Default that exists as to any of 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; 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.

"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.

"PBGC" 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 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 Filing" means TWC'S, NWP'S, TGPL's and TGT's respective annual reports on Form 10-K for the year ended December 31, 1993, and TWC'S, NWP'S, TGPL's and TGT's respective quarterly reports on Form 10-Q for the quarters ended March 31, 1994, June 30, 1994 and September 30, 1994.

"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 Baal 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 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 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 February 29, 2000 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.

"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.

(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 (1) 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, .10%, (ii) at such times as Rating Category Two is applicable to TWC, .125%, (iii) at such times as Rating Category Three is applicable to TWC, .15%, (iv) at such times as Rating Category Four is applicable to TWC, .20%, (v) at such times as Rating Category Five is applicable to TWC, .30%, (vi) at such times as Rating Category Six is applicable to TWC, .375% and (vii) at such times as Rating Category Seven is applicable to TWC, .50%, 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 plus the Applicable Margin in effect from time to time for such A Advance, 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 the Applicable Margin for Base Rate Advances to such Borrower 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 the Applicable Margin for Base Rate Advances to such Borrower 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 (i) 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, (ii) such replacement bank shall be reasonably satisfactory to the Agent and the Majority Banks, (iii) 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 (iv) 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 $250 times the number of Banks at such time.

(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 (i) 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 (ii) 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 (iii) 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 February 1 of any year after 1998, 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 is subject to the condition precedent that the Agent shall have received on or before the day of the initial Borrowing, each dated on or before such day, 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 approving 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) that attached thereto are true and complete copies of the Certificate of Incorporation and Bylaws of such Borrower as in effect on the date hereof, 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 J. Furman Lewis, Esq., 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 William G. von Glahn, Associate General Counsel of TWC, substantially in the form of Exhibit D and as to such other matters as any Bank through the Agent may reasonably request.

(f) An opinion of David E. Varmer, counsel for TGPL and TGT, substantially in the form of Exhibit E and as to such other matters as any Bank through the Agent may reasonably request.

(g) An opinion of Messrs. Bracewell & Patterson, counsel for the Agent, substantially in the form of Exhibit F hereto.

(h) A statement executed by TWC confirming that the Credit Agreement dated as of December 23, 1992 among the Borrowers, Citibank, N.A., as agent, and the lenders parties thereto, as amended, has been terminated (except as contemplated by the last sentence of Section 8.10 thereof) and that all principal, interest and other amounts owed thereunder have been paid in full. Each Bank hereby waives the requirement of notice of termination contemplated by Section 2.04(a) of such Credit Agreement, as amended.

(i) 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, 1994.

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, 1993, 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, 1994, 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, 1994 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, 1994, there has been no material adverse change in the condition or operations of TWC or its Subsidiaries. It is agreed that the sale of Williams

Telecommunications Group, Inc., a Delaware corporation, and its Subsidiaries and the purchase of Transco Energy Company, a Delaware corporation, and its Subsidiaries (and (i) payment of cash by TWC and issuance of shares by TWC in connection with such purchase, (ii) assumption by TWC of debt of Transco Energy Company and its Subsidiaries outstanding on the date hereof, (iii) the proposed merger related to such purchase with a Subsidiary of TWC that is not a Borrower, and (iv) contributions of capital to and loans to Transco Energy Company and its Subsidiaries by TWC in an aggregate amount of up to $950,000,000) do not constitute a material adverse change with respect to any Borrower; provided, however, that this sentence shall not be applicable to any adverse change resulting from or arising in connection with any event, circumstance or condition (other than those listed in clauses (i) through (iv) of this sentence) occurring or existing after the date hereof.

(ii) The consolidating balance sheets of TWC and its Subsidiaries as at December 31, 1993 and September 30, 1994 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, 1994 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, 1994, there has been no material adverse change in the condition or operations of NWP or its Subsidiaries.

(iii) The consolidating balance sheets of TWC and its Subsidiaries as at December 31, 1993 and September 30, 1994 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 WPL, fairly present (subject, in the case of such balance sheet as at September 30, 1994 and such statements 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, 1994, there has been no material adverse change in the condition or operations of WPL or its Subsidiaries. It is agreed that the Minneapolis terminal fire (involving an estimated uninsured loss of approximately $750,000) is not a material adverse change.

(iv) The Consolidated balance sheet of TGPL and its Subsidiaries as at December 31, 1993, 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, 1994, 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, 1994 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, 1994, there has been no material adverse change in the condition or operations of TGPL or its Subsidiaries. It is agreed that the $6,000,000 increase in the reserve for refund obligations that has been made since September 30, 1994 but prior to the date hereof is not a material adverse change.

(v) The Consolidated balance sheet of TGT and its Subsidiaries as at December 31, 1993, 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, 1994, 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, 1994 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, 1994, there has been no material adverse change in the condition or operations of TGT or its Subsidiaries.

(f) Except as set forth in the Public Filings or in Exhibit I 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 and the Subsidiaries of each Borrower 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 reports and 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 change in, or withdrawal or termination of, the rating of any senior unsecured Iong-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) NWP and its Subsidiaries may create, incur, assume or suffer to exist Permitted NWP Liens;

(iii) TGPL and its Subsidiaries may create, incur, assume or suffer to exist Permitted TGPL Liens;

(iv) TGT and its Subsidiaries may create, incur, assume or suffer to exist Permitted TGT Liens; and

(v) WPL and its 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; and

(ii) In the case of any Borrower (other than TWC), 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 (i) 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 (ii) 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 G, (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 G, 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) 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 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, and (v) paragraph (i) of Schedule VII in the case of WPL and its Subsidiaries.

(k) Use of Proceeds. Use any proceeds of any Advance for any purpose other than general corporate purposes (including, without limitation, 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).

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 $715,000,000 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) 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 H (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 Commitments to the respective Borrowers so assumed shall be deemed to be the amount set opposite such assignee's name on the signature pages hereof 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 Bank's 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 (1) 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 an), 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.

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.

By: ------------------------------

Name: ----------------------------

Title: ---------------------------

NORTHWEST PIPELINE CORPORATION

By: ------------------------------

Name: ----------------------------

Title: ---------------------------

TRANSCONTINENTAL GAS PIPE LINE
CORPORATION

By:

Name:

Title:

TEXAS GAS TRANSMISSION
CORPORATION

By: /s/ E.J. Ralph

Name:

Title:

WILLIAMS PIPE LINE COMPANY

By:

Name:

Title:

AGENT:

CITIBANK, N.A., as Agent

By:

Authorized Officer

Commitments		BANKS
TWC Commitment	$60,000,000	CITIBANK, N.A.
NWP Commitment	$30,000,000	
TGPL Commitment	$30,000,000	
TGT Commitment	$15,000,000	By:
WPL Commitment	$ 7,500,000	------------------------------
		Authorized Officer
TWC Commitment	$50,000,000	BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION
NWP Commitment	$25,000,000	
TGPL Commitment	$25,000,000	
TGT Commitment	$12,500,000	
WPL Commitment	$ 6,250,000	By: ------------------------------
		Authorized Officer
TWC Commitment	$50,000,000	CHEMICAL BANK
NWP Commitment	$25,000,000	
TGPL Commitment	$25,000,000	
TGT Commitment	$12,500,000	By:
WPL Commitment	$ 6,250,000	------------------------------
		Authorized Officer
TWC Commitment	$50,000,000	CIBC INC.
NWP Commitment	$25,000,000	
TGPL Commitment	$25,000,000	
TGT Commitment	$12,500,000	By:
WPL Commitment	$ 6,250,000	------------------------------
		Authorized Officer
TWC Commitment	$42,000,000	BARCLAYS BANK PLC
NWT Commitment	$21,000,000	
TGPL Commitment	$21,000,000	
TGT Commitment	$10,500,000	By:
WPL Commitment	$ 5,250,000	------------------------------
		Authorized Officer

TWC Commitment	$42,000,000	THE FIRST NATIONAL BANK OF CHICAGO
NWP Commitment	$21,000,000	
TGPL Commitment	$21,000,000	
TGT Commitment	$10,500,000	
WPL Commitment	$ 5,250,000	By: ------------------------------ Authorized Officer

TWC Commitment	$42,000,000	FIRST INTERSTATE BANK OF CALIFORNIA
NWP Commitment	$21,000,000	
TGPL Commitment	$21,000,000	
TGT Commitment	$10,500,000	
WPL Commitment	$ 5,250,000	By: ------------------------------ Authorized Officer

TWC Commitment	$42,000,000	MORGAN GUARANTY TRUST COMPANY OF NEW YORK
NWP Commitment	$21,000,000	
TGPL Commitment	$21,000,000	
TGT Commitment	$10,500,000	
WPL Commitment	$ 5,250,000	By: ------------------------------ Authorized Officer

TWC Commitment	$42,000,000	ROYAL BANK OF CANADA
NWP Commitment	$21,000,000	
TGPL Commitment	$21,000,000	
TGT Commitment	$10,500,000	By:
WPL Commitment	$ 5,250,000	------------------------------ Authorized Officer

TWC Commitment	$35,000,000	THE FIRST NATIONAL BANK OF BOSTON
NWP Commitment	$17,500,000	
TGPL Commitment	$17,500,000	
TGT Commitment	$ 8,750,000	
WPL Commitment	$ 4,375,000	By: ------------------------------ Authorized Officer

TWC Commitment	$35,000,000	
NWP Commitment	$17,500,000	THE BANK OF NEW YORK
TGPL Commitment	$17,500,000	
TGT Commitment	$ 8,750,000	
WPL Commitment	$ 4,375,000	By: ------------------------------ Authorized Officer

TWC Commitment	$35,000,000	THE BANK OF NOVA SCOTIA
NWP Commitment	$17,500,000	
TGPL Commitment	$17,500,000	
TGT Commitment	$ 8,750,000	By:
WPL Commitment	$ 4,375,000	------------------------------
		Authorized Officer

TWC Commitment	$35,000,000	THE CHASE MANHATTAN BANK, N.A.
NWP Commitment	$17,500,000	
TGPL Commitment	$17,500,000	
TGT Commitment	$ 8,750,000	By:
WPL Commitment	$ 4,375,000	------------------------------
		Authorized Officer

TWC Commitment	$35,000,000	CREDIT LYONNAIS
NWP Commitment	$17,500,000	CAYMAN ISLAND BRANCH
TGPL Commitment	$17,500,000	
TGT Commitment	$ 8,750,000	
WPL Commitment	$ 4,375,000	By:

		Authorized Officer

TWC Commitment	$35,000,000	THE FUJI BANK, LIMITED
NWP Commitment	$17,500,000	
TGPL Commitment	$17,500,000	
TGT Commitment	$ 8,750,000	By:
WPL Commitment	$ 4,375,000	------------------------------
		Authorized Officer

TWC Commitment	$35,000,000	MELLON BANK, N.A.
NWP Commitment	$17,500,000	
TGPL Commitment	$17,500,000	
TGT Commitment	$ 8,750,000	By:
WPL Commitment	$ 4,375,000	------------------------------
		Authorized Officer

TWC Commitment	$35,000,000	SOCIETE GENERALE
NWP Commitment	$17,500,000	SOUTHWEST AGENCY
TGPL Commitment	$17,500,000	
TGT Commitment	$ 8,750,000	
WPL Commitment	$ 4,375,000	By:

		Authorized Officer

TWC Commitment	$35,000,000	BANK OF SCOTLAND
NWP Commitment	$17,500,000	
TGPL Commitment	$17,500,000	
TGT Commitment	$ 8,750,000	By:
WPL Commitment	$ 4,375,000	------------------------------
		Authorized Officer

TWC Commitment	$35,000,000	BANK OF MONTREAL
NWP Commitment	$17,500,000	
TGPL Commitment	$17,500,000	
TGT Commitment	$ 8,750,000	By:
WPL Commitment	$ 4,375,000	------------------------------
		Authorized Officer

TWC Commitment	$10,000,000	BANK OF OKLAHOMA, N.A.
NWP Commitment	$ 5,000,000	
TGPL Commitment	$ 5,000,000	
TGT Commitment	$ 2,500,000	By:
WPL Commitment	$ 1,250,000	------------------------------
		Authorized Officer

TWC Commitment	$10,000,000	COMMERCE BANK, N.A.
NWP Commitment	$ 5,000,000	
TGPL Commitment	$ 5,000,000	
TGT Commitment	$ 2,500,000	By:
WPL Commitment	$ 1,250,000	------------------------------
		Authorized Officer

TWC Commitment	$10,000,000	BANK IV OKLAHOMA, N.A.
NWP Commitment	$ 5,000,000	
TGPL Commitment	$ 5,000,000	
TGT Commitment	$ 2,500,000	By:
WPL Commitment	$ 1,250,000	------------------------------
		Authorized Officer

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$800,000,000	Total of the TWC Commitments
$400,000,000	Total of the NWP Commitments
$400,000,000	Total of the TGPL Commitments
$200,000,000	Total of the TGT Commitments
$100,000,000	Total of the WPL Commitments

Exhibit 11

THE WILLIAMS COMPANIES, INC.
COMPUTATION OF EARNINGS PER COMMON AND COMMON-EQUIVALENT SHARE

	Years ended December 31,		
	1994	1993*	1992*
	(Thousands, except per-share amounts)		
Primary earnings:			
Income from continuing operations	$164,900	$185,400	$103,100
Preferred stock dividends:			
$2.21 cumulative preferred stock	8,800	8,900	2,900
$3.875 cumulative convertible exchangeable preferred stock	-	2,900	11,600
Income from continuing operations, net of preferred stock dividends	156,100	173,600	88,600
Income from discontinued operations	94,000	46,400	25,200
Income before extraordinary credit (loss), net of preferred stock dividends	250,100	220,000	113,800
Extraordinary credit (loss)	(12,200)	-	9,900
Income applicable to common stock	$237,900	$220,000	$123,700
Primary shares:			
Average number of common shares outstanding during the period	101,235	98,735	89,964
Common-equivalent shares attributable to options and deferred stock	1,235	1,176	852
Total common and common-equivalent shares	102,470	99,911	90,816
Primary earnings per common and common-equivalent share:			
Income from continuing operations	$ 1.52	$ 1.74	$ .97
Income from discontinued operations	.92	.46	.28
Income before extraordinary credit (loss)	2.44	2.20	1.25
Extraordinary credit (loss)	(.12)	-	.11
Net income	$ 2.32	$ 2.20	$ 1.36
Fully diluted earnings:			
Income from continuing operations	$164,900	$185,400	$103,100
Preferred stock dividends:			
$2.21 cumulative preferred stock	8,800	8,900	2,900
$3.875 cumulative convertible exchangeable preferred stock	-	-	11,600
Income from continuing operations, net of preferred stock dividends	156,100	176,500	88,600
Income from discontinued operations	94,000	46,400	25,200
Income before extraordinary credit (loss), net of preferred stock dividends	250,100	222,900	113,800
Extraordinary credit (loss)	(12,200)	-	9,900
Income applicable to common stock	$237,900	$222,900	$123,700
Fully diluted shares:			
Average number of common shares outstanding during the period	101,235	98,735	89,964
Common-equivalent shares attributable to options and deferred stock	1,267	1,318	852
Shares attributable to conversion, assumed at January 1, 1993 to the conversion dates, of convertible exchangeable preferred stock	-	3,118	-
Total common and common-equivalent shares	102,502	103,171	90,816
Fully diluted earnings per common and common-equivalent shares:			
Income from continuing operations	$ 1.52	$ 1.71	$ .97
Income from discontinued operations	.92	.45	.28
Income before extraordinary credit (loss)	2.44	2.16	1.25
Extraordinary credit (loss)	(.12)	-	.11
Net income	$ 2.32	$ 2.16	$ 1.36

*Restated as described in Note 2 of the Notes to Consolidated Financial Statements.

EXHIBIT 12

THE WILLIAMS COMPANIES, INC. AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES
AND PREFERRED STOCK DIVIDEND REQUIREMENTS
(Dollars in millions)

	Years Ended December 31,				
	1994	1993*	1992*	1991*	1990*
Earnings:					
Income from continuing operations before income taxes	$246.6	$298.0	$145.5	$ 93.1	$ 39.6
Add:					
Interest expense--net	139.8	140.8	136.5	134.2	108.5
Rental expense representative of interest factor	9.2	8.1	8.3	5.3	3.0
Preferred dividends of subsidiaries	-	-	.3	.8	1.6
Interest accrued--50% owned company	31.7	31.3	27.3	10.3	-
Other	2.0	4.1	.4	.9	(.7)
Total earnings as adjusted plus fixed charges	$429.3	$482.3	$318.3	$244.6	$152.0
Fixed charges and preferred stock dividend requirements:					
Interest expense--net	$139.8	$140.8	$136.5	$134.2	$108.5
Capitalized interest	6.0	10.4	8.9	4.7	2.8
Rental expense representative of interest factor	9.2	8.1	8.3	5.3	3.0
Pretax effect of dividends on preferred stock of the Company	13.1	19.1	19.4	15.9	15.4
Pretax effect of preferred dividends of subsidiaries	-	-	.4	1.2	2.5
Interest accrued--50% owned company	31.7	31.3	27.3	10.3	-
Combined fixed charges and preferred stock dividend requirements	$199.8	$209.7	$200.8	$171.6	$132.2
Ratio of earnings to combined fixed charges and preferred stock dividend requirements	2.15	2.30	1.59	1.43	1.15

*Restated as described in Note 2 of the Notes to Consolidated Financial Statements.

Exhibit 21

THE WILLIAMS COMPANIES, INC. & AFFILIATES

March 1, 1995

	Jurisdiction of Incorporation	Percent Owned by Immediate Parent
The Williams Companies, Inc.	Delaware	62.60%
Apco Argentina Inc.	Cayman Islands	100%
Apco Properties Ltd.	Cayman Islands	50%
Kern River Gas Supply Corporation	Delaware	50%
Kern River Service Corporation	Delaware	100%
Langside Limited	Bermuda	100%
Northwest Pipeline Corporation	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%
Transco Energy Company*	Delaware	60%
Tulsa Williams Company	Delaware	100%
WTG Holdings, Inc.	Delaware	100%
WCS Communications Systems, Inc.	Delaware	100%
Williams Telecommunications Systems, Inc.	Delaware	100%
WCS, Inc.	Delaware	100%
WCS Microwave Services, Inc.	Nevada	100%
Vyvx, Inc.	Delaware	100%
WilTel Financial Corporation	Delaware	100%
WilTel Technology Ventures, Inc.	Delaware	100%
Wilko, Inc.	Delaware	100%
Williams Acquisition Holding Company, Inc.	New Jersey	100%
Agrico Foreign Sales Corporation	Guam	100%
Fishhawk Ranch, Inc.	Florida	100%
Texasgulf Inc.	Delaware	15%
Williams Energy Company	Delaware	100%
Williams Energy Ventures, Inc.	Delaware	100%
Carbon County UCG, Inc.	Delaware	100%
Energy International Corporation	Pennsylvania	100%
F T & T, Inc.	Delaware	100%
Nebraska Energy, L.L.C.	Kansas	71%
Williams Brokering Services, Inc.	Delaware	100%
Williams Canadian Holding, Inc.	Delaware	100%
Williams Energy Brokering Company	Delaware	100%
Williams Energy Derivatives and Trading Company	Delaware	100%
Williams Energy Systems Company	Delaware	100%
Williams Knowledge Systems, Inc.	Delaware	100%
Williams Producer's Services Company	Delaware	100%
Williams U.S. Holding, Inc.	Delaware	100%
Williams Exploration Company	Delaware	100%
Rainbow Resources, Inc.	Colorado	100%

*The Exhibit 21 for Transco Energy Company & Affiliates is attached.

	Jurisdiction of Incorporation	Percent Owned by Immediate Parent
Williams Field Services Group, Inc.	Delaware	100%
Williams CNG Company	Delaware	100%
Williams Field Services Company	Utah	100%
Williams Field Services - Michigan Company	Delaware	100%
Williams Gas Company	Delaware	100%
Williams Gas Management Company	Delaware	100%
Williams Gas Marketing Company	Delaware	100%
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 Gas Supply Company	Delaware	100%
Williams Power Company	Delaware	100%
Williams Power Investments, Inc.	Delaware	100%
Williams Power Services, Inc.	Delaware	100%
Williams Production Company	Delaware	100%
Williams Washington Power Services, Inc.	Delaware	100%
Williams Information Services Corporation	Delaware	100%
Williams International Company	Delaware	100%
Williams International Ventures Company	Delaware	100%
WEV, Inc. (New Zealand)	Delaware	100%
Williams Energy Ventures Corporation (New Zealand) . . .	Delaware	100%
Williams International Pipeline Company	Delaware	100%
Williams International Pipeline Company - Colombia	Delaware	100%
Williams Natural Gas Company	Delaware	100%
WNG - Kansas Hugoton, Inc.	Delaware	100%
WNG - Oklahoma Hugoton, Inc.	Delaware	100%
WNG - Wamsutter, Inc.	Delaware	100%
Williams Gathering Company	Delaware	100%
Williams Pipe Line Company	Delaware	100%
WillBros Terminal Company	Delaware	100%
Williams Terminals Company	Delaware	100%
Williams Relocation Services, Inc.	Delaware	100%
Williams Storage Company	Delaware	100%
Williams Underground Gas Storage Company	Delaware	100%
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 Partnerehip)	0.175%
Northwest Land Company	Delaware	100%
Williams Western Pipeline Company	Delaware	100%
Kern River Gas Transmission Company	Texas(Partnership)	50%
WilMart, Inc.	Delaware	100%

TRANSCO ENERGY COMPANY SUBSIDIARIES

Subsidiary Name	% Owned By Parent	State of Incorporation
Energy Tech, Inc.	100.00	Delaware
Gasco Insurance Company Limited	100.00	Bermuda
Hazleton Fuel Management Company	100.00	Delaware
Hazleton Pipeline Company	100.00	Delaware
TM Cogeneration Company	100.00	Delaware
Transco Coal Company	100.00	Delaware
Cross Mtn. Coal, Inc.	100.00	Tennessee
Farmer Coal Company, Inc.	100.00	Kentucky
Highland Coal, Inc.	100.00	Kentucky
Interstate Coal Company, Inc.	100.00	Kentucky
Beech Grove Processing Company	100.00	Tennessee
Bledsoe Coal Leasing Company	100.00	Delaware
Inland Ports, Inc.	100.00	Tennessee
Leeco, Inc.	100.00	Kentucky
Mountain Clay, Inc.	100.00	Kentucky
Randall Fuel Company, Inc.	100.00	Georgia
Stansbury & Company, Inc.	100.00	Delaware
Typo Mining, Inc.	100.00	Delaware
Aceco, Inc.	100.00	Kentucky
Bituminous-Laurel Mining, Inc.	100.00	Kentucky
New Brush Creek Mining, Inc.	100.00	Kentucky
Polls Creek Coal Co., Inc.	100.00	Kentucky
Oswayo Mining, Inc	100.00	Kentucky
Sizemore Trucking, Inc.	100.00	Kentucky
Pro-Land, Inc.	100.00	Kentucky
River Coal Company, Inc.	100.00	Kentucky
Valley View Coal, Inc.	100.00	Tennessee
Transco Coal Gas Company	100.00	Delaware
Transco Energy Investment Company	100.00	Delaware
Transco Exploration Company	100.00	Delaware
Transco Gas Company	100.00	Delaware
Border Gas, Inc.	10.00	Delaware
Liberty Operating Company	100.00	Delaware
NESP Supply Corp.	33.33	Delaware
Texas Gas Investment Co.	100.00	Delaware
Texas Gas Transmission Corporation	100.00	Delaware
Trans-Jeff Chemical Corporation	50.00	Delaware
Transco Blue Ridge Pipeline Company	100.00	Delaware

Transco Gas Gathering Company	100.00	Delaware
Magnolia Pipeline Corporation	100.00	Alabama
Nuval lntrastate Transmission Company	I00.00	Delaware
Transco Brine Services Company	100.00	Delaware
Transco Industrial Pipeline Company	100.00	Delaware
Transco Matagorda Pipeline Company	100.00	Delaware
Transco Offshore Gathering Company	100.00	Delaware
Transco Terminal Company	100.00	Delaware
Transco-Louisiana Intrastate Pipeline Company	100.00	Delaware
Transco-Texas Intrastate Pipeline Company	100.00	Delaware
Transco Gas Marketing Company	100.00	Delaware
Transco Energy Marketing Company	100.00	Delaware
Transco Liquids Company	100.00	Delaware
HI-BOL Pipeline Company	100.00	Delaware
Transco Power Trading Co.	100.00	Delaware
TXG Energy Services Company	100.00	Delaware
TXG Gas Marketing Company	100.00	Delaware
TXG Intrastate Pipeline Company	100.00	Delaware
Transco Liberty Pipeline Company	100.00	Delaware
Transco Production Services Company	100.00	Delaware
Transcontinental Gas Pipe Line Corporation	100.00	Delaware
Transeastern Gas Pipeline Company, Inc.	100.00	Delaware
TXG Engineering, Inc.	100.00	Delaware
Transco P-S Company	100.00	Delaware
Transco Resources, Inc.	100.00	Delaware
ForTran Exploration Company	100.00	Delaware
Magnolia Methane Corp.	100.00	Delaware
Transco Transportation Company	100.00	Delaware
Tubexpress, Inc.	50.00	Delaware
Transco Tower Realty, Inc.	100.00	Delaware
TREN-FUELS, Inc.	100.00	Texas
Fleet Star, Inc.	100.00	Delaware
Enfuels Corporation	37.50	Delaware
FST Holdings, Inc.	50.00	Delaware
Fleet Star of Texas, L.C.	50.00	Texas
TRANSTAR Technologies, L.C.	50.00	Texas
Tren-Fuels Services, Inc.	100.00	Colorado

Exhibit 23

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, 1995, with respect to the consolidated financial statements and schedules of The Williams Companies, Inc. included in this Annual Report (Form 10-K) for the year ended December 31, 1994.

Form S-3:	Registration No. 33-47061; Registration No. 33-53662; Registration No. 33-49835
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

ERNST & YOUNG LLP

Tulsa, Oklahoma
March 1, 1995

Exhibit 24

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 J. FURMAN LEWIS, BOBBY E. POTTS and DAVID M. HIGBEE 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, 1994, 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 J. FURMAN LEWIS, BOBBY E. POTTS and DAVID M. HIGBEE 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 22nd day of January, 1995.

/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
(Chief Accounting Officer)

/s/ Harold W. Andersen Harold W. Andersen Director	_________________________ Ralph E. Bailey Director
/s/ Glenn A. Cox Glenn A. Cox Director	/s/ Thomas H. Cruikshank Thomas H. Cruikshank Director
/s/ Ervin S. Duggan Ervin S. Duggan 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/ J. Furman Lewis
J. Furman Lewis
Senior Vice President

ATTEST:

/s/ David M. Higbee
David M. Higbee
Secretary

[THE WILLIAMS COMPANIES, INC. LOGO]

Exhibit 24

I, the undersigned, DAVID M. HIGBEE, 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 22, 1995, 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, 1994.

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 27th day of February, 1995.

/s/ David M. Higbee
David M. Higbee
Secretary

(CORPORATE SEAL)

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DEC-31-1994
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2.32