
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 8-K

**CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): July 28, 2011

The Williams Companies, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other
jurisdiction of incorporation)

1-4174
(Commission
File Number)

73-0569878
(I.R.S. Employer
Identification No.)

One Williams Center, Tulsa, Oklahoma
(Address of principal executive offices)

74172
(Zip Code)

Registrant's telephone number, including area code: 918/573-2000

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240-14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-
-

Item 7.01. Regulation FD Disclosure

On February 16, 2011, The Williams Companies, Inc. (“Williams”) announced that its Board of Directors approved a reorganization plan to divide its business into two separate, publicly-traded corporations. The initial phase in Williams’ reorganization plan calls for the separation of its exploration and production business into a new, wholly owned subsidiary, WPX Energy, Inc. (“WPX”), and a public offering of WPX common stock. The second phase calls for a tax-free spin-off of Williams’ remaining interest in WPX to Williams’ shareholders. Williams retains the discretion to determine whether and when to complete these transactions. On April 29, 2011, pursuant to the first phase of the reorganization plan, WPX filed a Registration Statement on Form S-1 with the U.S. Securities and Exchange Commission (the “SEC”) with respect to an initial public offering of its equity securities.

On July 29, 2011, WPX filed Amendment No. 3 to its Registration Statement on Form S-1 (File No. 333-173808) with the SEC (the “Amendment”). For Regulation FD purposes, Williams wishes to disclose the information on pages F-8 to F-28 of the Amendment, which information is furnished herewith as Exhibit 99.1 and is incorporated herein by reference (the “WPX S-1 Excerpt”). The information in the WPX S-1 Excerpt will differ in certain respects from the results of Williams’ Exploration & Production segment due to differences associated with reporting WPX on a stand-alone basis.

This information is being furnished pursuant to Item 7.01, Regulation FD Disclosure. The information being furnished in the attached Exhibit 99.1 is not deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, is not subject to the liabilities of that section and is not deemed incorporated by reference in any filing under the Securities Act of 1933, as amended.

Item 9.01. Financial Statements and Exhibits

(d) Exhibits

Exhibit 99.1 WPX S-1 Excerpt.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, Williams has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

THE WILLIAMS COMPANIES, INC.

Date: July 28, 2011

By: /s/ Ted T. Timmermans
Ted T. Timmermans
Vice President, Controller, and
Chief Accounting Officer

INDEX TO EXHIBITS

| <u>EXHIBIT NUMBER</u> | <u>DESCRIPTION</u> |
|---------------------------|--------------------|
| Exhibit 99.1 | WPX S-1 Excerpt. |

WPX Energy
(Note 1)

Condensed Combined Statement of Operations
(Unaudited)

| | Six Months Ended | |
|--|------------------------------|---------------|
| | June 30, | |
| | <u>2011</u> | <u>2010</u> |
| | (Dollars in millions) | |
| Revenues: | | |
| Oil and gas sales, including affiliate | \$1,216 | \$1,114 |
| Gas management, including affiliate | 745 | 922 |
| Hedge ineffectiveness and mark to market gains and losses | 8 | 9 |
| Other | <u>5</u> | <u>23</u> |
| Total revenues | 1,974 | 2,068 |
| Costs and expenses: | | |
| Lease and facility operating, including affiliate | 140 | 132 |
| Gathering, processing and transportation, including affiliate | 240 | 145 |
| Taxes other than income | 76 | 73 |
| Gas management (including charges for unutilized pipeline capacity) | 762 | 934 |
| Exploration | 33 | 18 |
| Depreciation, depletion and amortization | 452 | 433 |
| General and administrative, including affiliate | 135 | 122 |
| Other — net | <u>5</u> | <u>3</u> |
| Total costs and expenses | 1,843 | 1,860 |
| Operating income | 131 | 208 |
| Interest expense, including affiliate | (97) | (50) |
| Interest capitalized | 8 | 8 |
| Investment income and other | <u>12</u> | <u>11</u> |
| Income from continuing operations before income taxes | 54 | 177 |
| Provision for income taxes | <u>19</u> | <u>62</u> |
| Income from continuing operations | 35 | 115 |
| Loss from discontinued operations | <u>(8)</u> | <u>(1)</u> |
| Net income | 27 | 114 |
| Less: Net income attributable to noncontrolling interests | <u>5</u> | <u>4</u> |
| Net income attributable to WPX Energy | \$ 22 | \$ 110 |
| Supplemental pro forma combined basic loss per common share (Note 2) | <u>\$</u> | <u>\$</u> |
| Supplemental pro forma combined diluted loss per common share (Note 2) | <u>\$</u> | <u>\$</u> |

See accompanying notes.

WPX Energy
(Note 1)

Condensed Combined Balance Sheet
(Unaudited)

| | Supplemental Pro Forma June 30, 2011 (Note 2) | June 30, 2011 | December 31, 2010 |
|--|--|--------------------------|------------------------------|
| | (Dollars in millions) | | |
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 36 | \$ 36 | \$ 37 |
| Accounts receivable: | | | |
| Trade, net of allowance for doubtful accounts of \$17 at June 30, 2011 and \$16 at December 31, 2010 | 379 | 379 | 362 |
| Affiliate | 57 | 57 | 60 |
| Derivative assets | 269 | 269 | 400 |
| Inventories | 70 | 70 | 77 |
| Other | 70 | 70 | 22 |
| Total current assets | 881 | 881 | 958 |
| Investments | 114 | 114 | 105 |
| Properties and equipment (successful efforts method of accounting) | 13,190 | 13,190 | 12,564 |
| Less — accumulated depreciation, depletion and amortization | (4,536) | (4,536) | (4,115) |
| Properties and equipment, net | 8,654 | 8,654 | 8,449 |
| Derivative assets | 138 | 138 | 173 |
| Other noncurrent assets | 108 | 108 | 161 |
| Total assets | <u>\$ 9,895</u> | <u>\$ 9,895</u> | <u>\$ 9,846</u> |
| Liabilities and Equity | | | |
| Current liabilities: | | | |
| Accounts payable: | | | |
| Trade | \$ 499 | \$ 499 | \$ 451 |
| Affiliates | 63 | 63 | 64 |
| Accrued and other current liabilities | 155 | 155 | 158 |
| Deferred income taxes | 50 | 50 | 87 |
| Notes payable to Williams | — | — | 2,261 |
| Accrued distribution to Williams | 1,684 | — | — |
| Derivative liabilities | 108 | 108 | 146 |
| Total current liabilities | 2,559 | 875 | 3,167 |
| Deferred income taxes | 1,639 | 1,639 | 1,629 |
| Derivative liabilities | 112 | 112 | 143 |
| Asset retirement obligations | 306 | 306 | 282 |
| Other noncurrent liabilities | 94 | 94 | 125 |
| Contingent liabilities and commitments (Note 8) | | | |
| Equity: | | | |
| Owner's net equity: | | | |
| Owner's net investment | 6,678 | 6,678 | 4,260 |
| Accrued distribution to Williams | (1,684) | — | — |
| Accumulated other comprehensive income | 115 | 115 | 168 |
| Total owner's net equity | 5,109 | 6,793 | 4,428 |
| Noncontrolling interests in combined subsidiaries | 76 | 76 | 72 |
| Total equity | 5,185 | 6,869 | 4,500 |
| Total liabilities and equity | <u>\$ 9,895</u> | <u>\$ 9,895</u> | <u>\$ 9,846</u> |

See accompanying notes.

WPX Energy
(Note 1)
Condensed Combined Statement of Equity
(Unaudited)

| | Six Months Ended June 30, | | | | | |
|--|---------------------------|------------------------------|----------------|-----------------------|------------------------------|----------------|
| | 2011 | | | 2010 | | |
| | Owner's Net Equity | Noncontrolling Interests* | Total | Owner's Net Equity | Noncontrolling Interests* | Total |
| | (Millions) | | | | | |
| Beginning balance | \$ 4,428 | \$ 72 | \$4,500 | \$ 5,341 | \$ 64 | \$5,405 |
| Comprehensive income (loss): | | | | | | |
| Net income | 22 | 5 | 27 | 110 | 4 | 114 |
| Other comprehensive income (loss), net of tax: | | | | | | |
| Net change in cash flow hedges | (53) | — | (53) | 105 | — | 105 |
| Total comprehensive income (loss) | (31) | 5 | (26) | 215 | 4 | 219 |
| Contribution of notes payable from Williams | 2,420 | — | 2,420 | — | — | — |
| Dividends to noncontrolling interests | — | (1) | (1) | — | — | — |
| Net transfers with Williams | (24) | — | (24) | 38 | — | 38 |
| Ending balance | <u>\$ 6,793</u> | <u>\$ 76</u> | <u>\$6,869</u> | <u>\$ 5,594</u> | <u>\$ 68</u> | <u>\$5,662</u> |

* Represents the 31 percent interest in Apco Oil and Gas International Inc. owned by others.

See accompanying notes.

WPX Energy
(Note 1)

Condensed Combined Statement of Cash Flows
(Unaudited)

| | Six Months Ended | |
|---|------------------------------|----------------|
| | June 30, | |
| | 2011 | 2010 |
| | (Dollars in millions) | |
| Operating Activities: | | |
| Net income | \$ 27 | \$ 114 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation, depletion, and amortization | 454 | 437 |
| Deferred income taxes provision (benefit) | (17) | 12 |
| Provision for impairment of properties and equipment (including certain exploration expenses) | 42 | 10 |
| Cash provided (used) by operating assets and liabilities: | | |
| Accounts receivable and payable — affiliate | 2 | 18 |
| Accounts receivable — trade | (23) | 77 |
| Inventories | 7 | (25) |
| Margin deposits and customer margin deposits payable | (30) | 5 |
| Other current assets | (7) | 7 |
| Accounts payable — trade | 63 | (65) |
| Accrued and other current liabilities | 15 | (51) |
| Changes in current and noncurrent derivative assets and liabilities | 13 | (18) |
| Other, including changes in noncurrent assets and liabilities | (23) | 5 |
| Net cash provided by operating activities | <u>523</u> | <u>526</u> |
| Investing Activities: | | |
| Capital expenditures* | (683) | (551) |
| Purchases of investments | (6) | (4) |
| Other — net | 22 | 1 |
| Net cash used by investing activities | <u>(667)</u> | <u>(554)</u> |
| Financing Activities: | | |
| Net changes in notes payable to parent | 159 | (10) |
| Net changes in owner's investment | (3) | 39 |
| Revolving debt facility costs | (8) | — |
| Other | (5) | (1) |
| Net cash provided (used) by financing activities | <u>143</u> | <u>28</u> |
| Increase in cash and cash equivalents | (1) | — |
| Cash and cash equivalents at beginning of period | 37 | 34 |
| Cash and cash equivalents at end of period | <u>\$ 36</u> | <u>\$ 34</u> |
| * Increases to property, plant, and equipment | | |
| Changes in related accounts payable and accrued liabilities | <u>(16)</u> | <u>(1)</u> |
| Capital expenditures | <u>\$(683)</u> | <u>\$(551)</u> |

See accompanying notes.

WPX Energy

Notes to Condensed Combined Financial Statements (Unaudited)

Note 1. General

The combined businesses represented herein as WPX Energy (also referred to as the “Company”) comprise substantially all of the exploration and production operating segment of The Williams Companies, Inc. (“Williams”). In these notes, WPX Energy is referred to in the first person as “we”, “us” or “our”.

On February 16, 2011, Williams announced that its Board of Directors approved pursuing a plan to separate Williams’ businesses into two stand-alone, publicly traded companies. The plan first calls for Williams to separate its exploration and production business via an initial public offering (the “Offering”) of up to 20 percent of its interest. As a result, WPX Energy, Inc. was formed in April 2011 to effect the separation. In July 2011, Williams contributed to the Company its investment in certain subsidiaries related to its domestic exploration and production business, including its wholly-owned subsidiaries Williams Production Holdings, LLC and Williams Production Company, LLC, as well as all ongoing operations of Williams Gas Marketing Services, Inc. Additionally, prior to the close of the Offering, Williams will contribute and transfer to the Company its investment in certain subsidiaries related to its international exploration and production business, including its 69 percent ownership interest in Apco Oil and Gas International (“Apco”, NASDAQ listed: APAGF). We refer to the collective contributions described herein as the “Contribution”.

WPX Energy includes natural gas development, production and gas management activities located in the Rocky Mountain (primarily Colorado, New Mexico, and Wyoming), Mid-Continent (Texas), and Appalachian regions of the United States. We specialize in natural gas production from tight-sands and shale formations and coal bed methane reserves in the Piceance, San Juan, Powder River, Green River, Fort Worth, and Appalachian Basins. During 2010, we acquired a company with a significant acreage position in the Williston Basin (Bakken Shale) in North Dakota, which is primarily comprised of crude oil reserves. We also have international oil and gas interests which represented approximately two percent of combined revenues and approximately six percent of proved reserves for the year ended December 31, 2010. These international interests primarily consist of our ownership in Apco, an oil and gas exploration and production company with operations in South America.

Note 2. Basis of Presentation

Our accompanying interim condensed combined financial statements are unaudited and do not include all disclosures required in annual financial statements and therefore should be read in conjunction with the combined financial statements and notes thereto of the Company as of December 31, 2010 and 2009 and for each of the three years in the period ended December 31, 2010, included elsewhere in this registration statement. The accompanying unaudited condensed combined financial statements include all normal recurring adjustments that, in the opinion of our management, are necessary to present fairly our financial position at June 30, 2011 and our results of operations, changes in equity, and cash flows for the six months ended June 30, 2011 and 2010.

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

Discontinued operations

The accompanying condensed combined financial statements and notes reflect the results of operations and financial position of our Arkoma Basin operations as discontinued operations for all periods (See Note 3).

Unless indicated otherwise, the information in the Notes to Condensed Combined Financial Statements relates to our continuing operations.

WPX Energy

Notes to Condensed Combined Financial Statements—(Continued)

Accounting Standards Issued But Not Yet Adopted

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-4, “Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS” (ASU 2011-4). ASU 2011-4 primarily eliminates the differences in fair value measurement principles between the FASB and International Accounting Standards Board. It clarifies existing guidance, changes certain fair value measurements and requires expanded disclosure primarily related to Level 3 measurements and transfers between Level 1 and Level 2 of the fair value hierarchy. ASU 2011-4 is effective on a prospective basis for interim and annual periods beginning after December 15, 2011. We are assessing the application of this Update to our combined financial statements.

In June 2011, the FASB issued Accounting Standards Update No. 2011-5, “Comprehensive Income (Topic 220) Presentation of Comprehensive Income” (ASU 2011-5). ASU 2011-5 requires presentation of net income and other comprehensive income either in a single continuous statement or in two separate, but consecutive, statements. The Update requires separate presentation in both net income and other comprehensive income of reclassification adjustments for items that are reclassified from other comprehensive income to net income. The new guidance does not change the items reported in other comprehensive income, nor affect how earnings per share is calculated and presented. We currently report net income in the combined statement of operations and report other comprehensive income in the combined statement of equity. The standard is effective beginning the first quarter of 2012, with a retrospective application to prior periods. We plan to apply the new presentation beginning in 2012.

Unaudited Supplemental pro forma balance sheet and pro forma combined loss per share

Inasmuch as our planned separation from Williams requires us to make a distribution from the Offering proceeds, which is not reflected in the historical June 30, 2011 balance sheet, and since the distribution is in excess of our combined estimated Offering proceeds and last twelve months’ earnings, we have presented a supplemental unaudited pro forma balance sheet as of June 30, 2011, and also given effect to this via supplemental pro forma combined earnings/loss per share. For pro forma purposes, this distribution is considered a dividend to Williams.

Basic and diluted pro forma combined loss per share for the six months ended June 30, 2011 were calculated using the assumed issuance of Class A common shares from the Offering, and the assumed issuance of Class B common shares to Williams in exchange for all of the net assets contributed to us by Williams. Additionally, for purposes of calculating basic and diluted pro forma combined loss per share, our historical net income was decreased by \$45 million to reflect incremental interest expense (net of tax) related to the portion of the \$1,684 million distribution that exceeds the proceeds from the Offering and our earnings for the previous twelve months.

WPX Energy

Notes to Condensed Combined Financial Statements—(Continued)

Note 3. Discontinued Operations

Summarized Results of Discontinued Operations

| | Six Months Ended June 30, | |
|--|------------------------------|---------------|
| | 2011 | 2010 |
| | (Millions) | |
| Revenues | \$ 7 | \$ 9 |
| Loss from discontinued operations before impairment and income taxes | \$ (2) | \$ (2) |
| Impairment of producing properties | (11) | — |
| Benefit for income taxes | 5 | 1 |
| Loss from discontinued operations | <u>\$ (8)</u> | <u>\$ (1)</u> |

Impairment in 2011 reflects a write-down to an estimate of fair value less costs to sell the assets of our Arkoma Basin operations that were classified as held for sale as of June 30, 2011. This nonrecurring fair value measurement, which falls within Level 3 of the fair value hierarchy, was based on a probability-weighted discounted cash flow analysis that included offers we have received on the assets.

The assets of our discontinued operations comprise significantly less than one percent of our total combined assets as of June 30, 2011, and December 31, 2010, and are reported within other current assets and other noncurrent assets, respectively, on our Condensed Combined Balance Sheet. Liabilities of our discontinued operations are insignificant for these periods.

4. Related Party Transactions

Transactions with Williams and Other Affiliated Entities

Below is a summary of the related party transactions for the three months ended June 30, 2011 and 2010:

| | Six Months Ended June 30, | |
|---|---------------------------------|--------|
| | 2011 | 2010 |
| | (Millions) | |
| Oil and gas sales revenues — sales of NGLs to WPZ | \$ 178 | \$ 127 |
| Gas management revenues — sales of natural gas for fuel and shrink to WPZ and another Williams subsidiary | 254 | 277 |
| Lease and facility operating expenses from Williams-direct employee salary and benefit costs | 10 | 12 |
| Gathering, processing and transportation expense from WPZ: | | |
| Gathering and processing | 158 | 67 |
| Transportation | 20 | 11 |
| General and administrative from Williams: | | |
| Direct employee salary and benefit costs | 54 | 49 |
| Charges for general and administrative services | 30 | 28 |
| Allocated general corporate costs | 30 | 32 |
| Other | 7 | 6 |
| Interest expense on notes payable to Williams | 94 | 49 |

WPX Energy

Notes to Condensed Combined Financial Statements—(Continued)

Daily cash activity from our domestic operations was transferred to or from Williams on a regular basis and was recorded as increases or decreases in the balance due under unsecured promissory notes we had in place with Williams through June 30, 2011, at which time the notes were cancelled by Williams. The amount due to Williams at the time of cancellation was \$2.4 billion and is reflected as an increase in owner's net investment.

As previously discussed, the domestic operations were contributed to WPX Energy Inc. on July 1, 2011. As of June 30, 2011, Williams Production, Williams Production RMT and the entity that was formerly Williams Gas Marketing withdrew from Williams' benefit plans and terminated their personnel services agreements with Williams' payroll companies. Simultaneously, two new administrative services entities, Williams Production Services LLC and Williams Gas Marketing Services, LLC, executed new personnel services agreements with the payroll companies and joined the Williams plans as participants. The effect of these transactions is that none of the companies contributed to WPX Energy has any employees as of June 30, 2011. The services entities employ all personnel that provide services to WPX Energy and remain owned and controlled 100% by Williams.

In addition, the current amount due to or from affiliates consists of normal course receivables and payables resulting from the sale of products to and cost of gathering services provided by WPZ. Below is a summary of these payables and receivables which are settled monthly:

| | <u>June 30,</u> <u>2011</u> | <u>December 31,</u> <u>2010</u> |
|--|--------------------------------|------------------------------------|
| | (Millions) | |
| Current: | | |
| Accounts receivable: | | |
| Due from WPZ and another Williams subsidiary | \$ 57 | \$ 60 |
| Accounts payable: | | |
| Due to WPZ | \$ 16 | \$ 12 |
| Due to Williams for cash overdraft | 37 | 38 |
| Due to Williams for accrued payroll and benefits | 10 | 14 |
| | <u>\$ 63</u> | <u>\$ 64</u> |
| Current derivative asset with WPZ | <u>\$ 5</u> | <u>\$ —</u> |
| Current derivative liability with WPZ | <u>\$ 5</u> | <u>\$ —</u> |

Note 5. Exploration Expenses

The following presents a summary of exploration expenses:

| | <u>2011</u> | <u>Six Months Ended June 30, 2010</u> |
|---|--------------|---|
| | (Millions) | |
| Geologic and geophysical costs | \$ 3 | \$ 10 |
| Dry hole costs | 1 | — |
| Unproved leasehold property impairment, amortization and expiration | 29 | 8 |
| Total exploration expense | <u>\$ 33</u> | <u>\$ 18</u> |

WPX Energy

Notes to Condensed Combined Financial Statements—(Continued)

Note 6. Inventories

| | June 30, 2011 | December 31, 2010 |
|------------------------------------|------------------|----------------------|
| | (Millions) | |
| Natural gas in underground storage | \$ 31 | \$ 31 |
| Materials, supplies and other | 39 | 46 |
| Total inventories | \$ 70 | \$ 77 |

Note 7. Provision for Income Taxes

The provision for income taxes includes:

| | Six Months Ended June 30, | |
|------------------------|---------------------------------|--------------|
| | 2011 | 2010 |
| | (Millions) | |
| Current: | | |
| Federal | \$ 24 | \$ 49 |
| State | 2 | (4) |
| Foreign | 5 | 5 |
| | 31 | 50 |
| Deferred: | | |
| Federal | (11) | 7 |
| State | (1) | 5 |
| Foreign | — | — |
| | (12) | 12 |
| Total provision | \$ 19 | \$ 62 |

The effective income tax rate on the total provision for the six months ended June 30, 2011 is less than the federal statutory rate due primarily to taxes on foreign operations offset with the effect of state income taxes.

The effective income tax rate on the total provision for the six months ended June 30, 2010, is greater than the federal statutory rate due primarily to the effect of state income taxes and taxes on foreign operations.

During the next twelve months, we do not expect ultimate resolution of any uncertain tax position will result in a significant increase or decrease of our unrecognized tax benefit.

Note 8. Contingent Liabilities and Commitments

Royalty litigation

In September 2006, royalty interest owners in Garfield County, Colorado, filed a class action suit in District Court, Garfield County Colorado, alleging we improperly calculated oil and gas royalty payments, failed to account for the proceeds that we received from the sale of natural gas and extracted products, improperly charged certain expenses and failed to refund amounts withheld in excess of ad valorem tax obligations. Plaintiffs sought to certify as a class of royalty interest owners, recover underpayment of royalties and obtain corrected payments resulting from calculation errors. We entered into a final partial settlement agreement. The partial settlement agreement defined the class members for class certification, reserved two claims for court resolution, resolved all other class claims relating to past calculation of royalty and overriding royalty payments, and established certain rules to govern future royalty and overriding royalty payments. This

WPX Energy

Notes to Condensed Combined Financial Statements—(Continued)

settlement resolved all claims relating to past withholding for ad valorem tax payments and established a procedure for refunds of any such excess withholding in the future. The first reserved claim is whether we are entitled to deduct in our calculation of royalty payments a portion of the costs we incur beyond the tailgates of the treating or processing plants for mainline pipeline transportation. We received a favorable ruling on our motion for summary judgment on the first reserved claim. Plaintiffs appealed that ruling and the Colorado Court of Appeals found in our favor in April 2011. In June 2011, Plaintiffs filed a Petition for Certiorari with the Colorado Supreme Court. We anticipate that Court will issue a decision on whether to grant further review later in 2011 or early in 2012. The second reserved claim relates to whether we are required to have proportionately increased the value of natural gas by transporting that gas on mainline transmission lines and, if required, whether we did so and are thus entitled to deduct a proportionate share of transportation costs in calculating royalty payments. We anticipate trial on the second reserved claim following resolution of the first reserved claim. We believe our royalty calculations have been properly determined in accordance with the appropriate contractual arrangements and Colorado law. At this time, the plaintiffs have not provided us a sufficient framework to calculate an estimated range of exposure related to their claims. However, it is reasonably possible that the ultimate resolution of this item could result in a future charge that may be material to our results of operations.

Other producers have been in litigation or discussions with a federal regulatory agency and a state agency in New Mexico regarding certain deductions, comprised primarily of processing, treating and transportation costs, used in the calculation of royalties. Although we are not a party to these matters, we have monitored them to evaluate whether their resolution might have the potential for unfavorable impact on our results of operations. One of these matters involving federal litigation was decided on October 5, 2009. The resolution of this specific matter is not material to us. However, other related issues in these matters that could be material to us remain outstanding. We received notice from the U.S. Department of Interior Office of Natural Resources Revenue (ONRR) in the fourth quarter of 2010, intending to clarify the guidelines for calculating federal royalties on conventional gas production applicable to our federal leases in New Mexico. The ONRR's guidance provides its view as to how much of a producer's bundled fees for transportation and processing can be deducted from the royalty payment. We believe using these guidelines would not result in a material difference in determining our historical federal royalty payments for our leases in New Mexico. No similar specific guidance has been issued by ONRR for leases in other states, but such guidelines are expected in the future. However, the timing of receipt of the necessary guidelines is uncertain. In addition, these interpretive guidelines on the applicability of certain deductions in the calculation of federal royalties are extremely complex and will vary based upon the ONRR's assessment of the configuration of processing, treating and transportation operations supporting each federal lease. From January 2004 through December 2010, our deductions used in the calculation of the royalty payments in states other than New Mexico associated with conventional gas production total approximately \$55 million. Correspondence in 2009 with the ONRR's predecessor did not take issue with our calculation regarding the Piceance Basin assumptions which we believe have been consistent with the requirements. The issuance of similar guidelines in Colorado and other states could affect our previous royalty payments and the effect could be material to our results of operations.

Environmental matters

The EPA and various state regulatory agencies routinely promulgate and propose new rules, and issue updated guidance to existing rules. These new rules and rulemakings include, but are not limited to, rules for reciprocating internal combustion engine maximum achievable control technology, new air quality standards for ground level ozone, and one hour nitrogen dioxide emission limits. We are unable to estimate the costs of asset additions or modifications necessary to comply with these new regulations due to uncertainty created by the various legal challenges to these regulations and the need for further specific regulatory guidance.

WPX Energy

Notes to Condensed Combined Financial Statements—(Continued)

Matters related to Williams' former power business

California energy crisis

Our former power business was engaged in power marketing in various geographic areas, including California. Prices charged for power by us and other traders and generators in California and other western states in 2000 and 2001 were challenged in various proceedings, including those before the FERC. We have entered into settlements with the State of California (State Settlement), major California utilities (Utilities Settlement), and others that substantially resolved each of these issues with these parties.

Although the State Settlement and Utilities Settlement resolved a significant portion of the refund issues among the settling parties, we continue to have potential refund exposure to nonsettling parties, including various California end users that did not participate in the Utilities Settlement. We are currently in settlement negotiations with certain California utilities aimed at eliminating or substantially reducing this exposure. If successful, and subject to a final "true-up" mechanism, the settlement agreement would also resolve our collection of accrued interest from counterparties as well as our payment of accrued interest on refund amounts. Thus, as currently contemplated by the parties, the settlement agreement would resolve most, if not all, of our legal issues arising from the 2000-2001 California Energy Crisis. With respect to these matters, amounts accrued are not material to our financial position.

Certain other issues also remain open at the FERC and for other nonsettling parties.

Reporting of natural gas-related information to trade publications

Civil suits based on allegations of manipulating published gas price indices have been brought against us and others, in each case seeking an unspecified amount of damages. We are currently a defendant in class action litigation and other litigation originally filed in state court in Colorado, Kansas, Missouri and Wisconsin brought on behalf of direct and indirect purchasers of natural gas in those states. These cases were transferred to the federal court in Nevada. In 2008, the court granted summary judgment in the Colorado case in favor of us and most of the other defendants based on plaintiffs' lack of standing. On January 8, 2009, the court denied the plaintiffs' request for reconsideration of the Colorado dismissal and entered judgment in our favor. We expect that the Colorado plaintiffs will appeal now that the court's order became final on July 18, 2011.

In the other cases, on July 18, 2011, the Nevada district court granted our joint motions for summary judgment to preclude the plaintiffs' state law claims because the federal Natural Gas Act gives the FERC exclusive jurisdiction to resolve those issues. The court also denied the plaintiffs' class certification motion as moot. On July 22, 2011, the plaintiffs filed their notice of appeal with the Nevada district court. Because of the uncertainty around these current pending unresolved issues, including an insufficient description of the purported classes and other related matters, we cannot reasonably estimate a range of potential exposures at this time. However, it is reasonably possible that the ultimate resolution of these items could result in future charges that may be material to our results of operations.

Other Divestiture Indemnifications

Pursuant to various purchase and sale agreements relating to divested businesses and assets, we have indemnified certain purchasers against liabilities that they may incur with respect to the businesses and assets acquired from us. The indemnities provided to the purchasers are customary in sale transactions and are contingent upon the purchasers incurring liabilities that are not otherwise recoverable from third parties. The indemnities generally relate to breach of warranties, tax, historic litigation, personal injury, environmental matters, right of way and other representations that we have provided.

At June 30, 2011, we do not expect any of the indemnities provided pursuant to the sales agreements to have a material impact on our future financial position. However, if a claim for indemnity is brought against

WPX Energy

Notes to Condensed Combined Financial Statements—(Continued)

us in the future, it may have a material adverse effect on our results of operations in the period in which the claim is made.

In addition to the foregoing, various other proceedings are pending against us which are incidental to our operations.

Summary

Litigation, arbitration, regulatory matters, and environmental matters are subject to inherent uncertainties. Were an unfavorable ruling to occur, there exists the possibility of a material adverse impact on the results of operations in the period in which the ruling occurs. As of June 30, 2011 and December 31, 2010, the Company had accrued approximately \$23 million and \$21 million, respectively, for loss contingencies associated with royalty litigation, reporting of natural gas information to trade publications and other contingencies. Management, including internal counsel, currently believes that the ultimate resolution of the foregoing matters, taken as a whole and after consideration of amounts accrued, insurance coverage, recovery from customers or other indemnification arrangements, is not expected to have a materially adverse effect upon our future liquidity or financial position; however, it could be material to our results of operations in any given year.

Commitments

As part of managing our commodity price risk, we utilize contracted pipeline capacity (including capacity on affiliates' systems, resulting in a total of \$420 million for all years) primarily to move our natural gas production to other locations in an attempt to obtain more favorable pricing differentials. Our commitments under these contracts as of June 30, 2011 are as follows:

| | <u>(Millions)</u> |
|-------------------|------------------------|
| Remainder of 2011 | \$ 102 |
| 2012 | 216 |
| 2013 | 207 |
| 2014 | 177 |
| 2015 | 166 |
| Thereafter | 633 |
| Total | <u>\$ 1,501</u> |

We also have certain commitments to an equity investee and others, primarily for natural gas gathering and treating services and well completion services, which total \$803 million over approximately seven years.

We hold a long-term obligation to deliver on a firm basis 200,000 MMBtu per day of natural gas to a buyer at the White River Hub (Greasewood-Meeker, Colorado), which is the major market hub exiting the Piceance Basin. This obligation expires in 2014.

In connection with a gathering agreement entered into by WPZ with a third party in December 2010, we concurrently agreed to buy up to 200,000 MMBtu per day of natural gas at Transco Station 515 (Marcellus Basin) at market prices from the same third party. Purchases under the 12-year contract are expected to begin in the third quarter of 2011. We expect to sell this natural gas in the open market and may utilize available transportation capacity to facilitate the sales.

WPX Energy

Notes to Condensed Combined Financial Statements—(Continued)

Future minimum annual rentals under noncancelable operating leases as of June 30, 2011, are payable as follows:

| | <u>(Millions)</u> |
|-------------------|-------------------|
| Remainder of 2011 | \$ 20 |
| 2012 | 62 |
| 2013 | 57 |
| 2014 | 48 |
| 2015 | 24 |
| Thereafter | 15 |
| Total | \$ 226 |

Note 9. Fair Value Measurements

The following table presents, by level within the fair value hierarchy, our assets and liabilities that are measured at fair value on a recurring basis.

| | <u>June 30, 2011</u> | | | | <u>December 31, 2010</u> | | | |
|---------------------|----------------------|----------------|----------------|--------------|--------------------------|----------------|----------------|--------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| | <u>(Millions)</u> | | | | <u>(Millions)</u> | | | |
| Assets: | | | | | | | | |
| Energy derivatives | \$ 46 | \$ 358 | \$ 3 | \$407 | \$ 97 | \$ 474 | \$ 2 | \$573 |
| Liabilities: | | | | | | | | |
| Energy derivatives | \$ 41 | \$ 177 | \$ 2 | \$220 | \$ 78 | \$ 210 | \$ 1 | \$289 |

Energy derivatives include commodity based exchange-traded contracts and over the counter (OTC) contracts. Exchange-traded contracts include futures, swaps, and options. OTC contracts include forwards, swaps and options.

Many contracts have bid and ask prices that can be observed in the market. Our policy is to use a mid-market pricing (the mid-point price between bid and ask prices) convention to value individual positions and then adjust on a portfolio level to a point within the bid and ask range that represents our best estimate of fair value. For offsetting positions by location, the mid-market price is used to measure both the long and short positions.

The determination of fair value for our assets and liabilities also incorporates the time value of money and various credit risk factors which can include the credit standing of the counterparties involved, master netting arrangements, the impact of credit enhancements (such as cash collateral posted and letters of credit) and our nonperformance risk on our liabilities. The determination of the fair value of our liabilities does not consider noncash collateral credit enhancements.

Exchange-traded contracts include New York Mercantile Exchange and Intercontinental Exchange contracts and are valued based on quoted prices in these active markets and are classified within Level 1.

Forward, swap, and option contracts included in Level 2 are valued using an income approach including present value techniques and option pricing models. Option contracts, which hedge future sales of our production, are structured as costless collars and are financially settled. They are valued using an industry standard Black-Scholes option pricing model. Significant inputs into our Level 2 valuations include commodity prices, implied volatility by location, and interest rates, as well as considering executed transactions or broker quotes corroborated by other market data. These broker quotes are based on observable market prices at which transactions could currently be executed. In certain instances where these inputs are not observable for all

WPX Energy

Notes to Condensed Combined Financial Statements—(Continued)

periods, relationships of observable market data and historical observations are used as a means to estimate fair value. Where observable inputs are available for substantially the full term of the asset or liability, the instrument is categorized in Level 2.

Our energy derivatives portfolio is largely comprised of exchange-traded products or like products and the tenure of our derivatives portfolio is relatively short with more than 99 percent of the net fair value of our derivatives portfolio expiring in the next 18 months. Due to the nature of the products and tenure, we are consistently able to obtain market pricing. All pricing is reviewed on a daily basis and is formally validated with broker quotes and documented on a monthly basis.

Certain instruments trade with lower availability of pricing information. These instruments are valued with a present value technique using inputs that may not be readily observable or corroborated by other market data. These instruments are classified within Level 3 when these inputs have a significant impact on the measurement of fair value. The instruments included in Level 3 at June 30, 2011, consist primarily of natural gas index transactions that are used to manage our physical requirements.

Reclassifications of fair value between Level 1, Level 2, and Level 3 of the fair value hierarchy, if applicable, are made at the end of each quarter. No significant transfers between Level 1 and Level 2 occurred during the period ended June 30, 2011 or 2010. During the period ended June 30, 2011, certain NGL swaps that originated during the first quarter of 2011 were transferred from Level 3 to Level 2. Prior to March 31, 2011, these swaps were considered Level 3 due to a lack of observable third-party market quotes. Due to an increase in exchange traded transactions and greater visibility from OTC trading, we transferred these instruments to Level 2.

The following table presents a reconciliation of changes in the fair value of our net energy derivatives classified as Level 3 in the fair value hierarchy.

Level 3 Fair Value Measurements Using Significant Unobservable Inputs

| | Six Months Ended | |
|--|------------------|-------------|
| | June 30, | |
| | <u>2011</u> | <u>2010</u> |
| | (Millions) | |
| Beginning balance | \$ 1 | \$ 1 |
| Realized and unrealized gains included in income from continuing operations | 8 | 1 |
| Settlements | (5) | (1) |
| Transfers into Level 3 | — | — |
| Transfers out of Level 3 | (3) | — |
| Ending balance | <u>\$ 1</u> | <u>\$ 1</u> |
| Unrealized gains included in income from continuing operations relating to instruments still held at June 30 | <u>\$ —</u> | <u>\$ —</u> |

Realized and unrealized gains included in income from continuing operations for the above periods are reported in revenues in our Condensed Combined Statement of Operations.

WPX Energy

Notes to Condensed Combined Financial Statements—(Continued)

Note 10. Financial Instruments, Derivatives, Guarantees, and Concentration of Credit Risk

Financial Instruments

Fair-value methods

We use the following methods and assumptions in estimating our fair-value disclosures for financial instruments:

Cash and cash equivalents and restricted cash: The carrying amounts reported in the Condensed Combined Balance Sheet approximate fair value due to the nature of the instrument and/or the short-term maturity of these instruments.

Other: Includes margin deposits and customer margin deposits payable for which the amounts reported in the Condensed Combined Balance Sheet approximate fair value.

Energy derivatives: Energy derivatives include futures, forwards, swaps, and options. These are carried at fair value in the Condensed Combined Balance Sheet. See Note 9 for a discussion of the valuation of our energy derivatives.

Carrying amounts and fair values of our financial instruments were as follows:

| Asset (Liability) | June 30, 2011 | | December 31, 2010 | |
|-----------------------------------|-----------------|------------|-------------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | (Millions) | | | |
| Cash and cash equivalents | \$ 36 | \$ 36 | \$ 37 | \$ 37 |
| Restricted cash | \$ 29 | \$ 29 | \$ 24 | \$ 24 |
| Other | \$ 5 | \$ 5 | \$ (25) | \$ (25) |
| Net energy derivatives: | | | | |
| Energy commodity cash flow hedges | \$ 182 | \$ 182 | \$ 266 | \$ 266 |
| Other energy derivatives | \$ 5 | \$ 5 | \$ 18 | \$ 18 |

Energy Commodity Derivatives

Risk management activities

We are exposed to market risk from changes in energy commodity prices within our operations. We utilize derivatives to manage exposure to the variability in expected future cash flows from forecasted sales of natural gas and crude oil attributable to commodity price risk. Certain of these derivatives utilized for risk management purposes have been designated as cash flow hedges, while other derivatives have not been designated as cash flow hedges or do not qualify for hedge accounting despite hedging our future cash flows on an economic basis.

We produce, buy, and sell natural gas and crude oil at different locations throughout the United States. To reduce exposure to a decrease in revenues from fluctuations in natural gas and crude oil market prices, we enter into natural gas and crude oil futures contracts, swap agreements, and financial option contracts to mitigate the price risk on forecasted sales of natural gas and crude oil. We have also entered into basis swap agreements to reduce the locational price risk associated with our producing basins. Those agreements and contracts designated as cash flow hedges are expected to be highly effective in offsetting cash flows attributable to the hedged risk during the term of the hedge. However, ineffectiveness may be recognized primarily as a result of locational differences between the hedging derivative and the hedged item. Our financial option contracts are either purchased options or a combination of options that comprise a net purchased option or a zero-cost collar.

WPX Energy

Notes to Condensed Combined Financial Statements—(Continued)

The following table sets forth the derivative volumes designated as hedges of production volumes as of June 30, 2011:

| Commodity | Period | Contract Type | Location | Notional Volume (BBtu) | Weighted Average Price (\$/MMBtu) |
|-------------|--------------|-----------------|-----------|------------------------|-----------------------------------|
| Natural Gas | Jul-Dec 2011 | Costless Collar | Rockies | 8,280 | \$5.30 - \$7.10 |
| Natural Gas | Jul-Dec 2011 | Costless Collar | San Juan | 16,560 | \$5.27 - \$7.06 |
| Natural Gas | Jul-Dec 2011 | Costless Collar | MidCon | 14,720 | \$5.10 - \$7.00 |
| Natural Gas | Jul-Dec 2011 | Costless Collar | SoCal | 5,520 | \$5.83 - \$7.56 |
| Natural Gas | Jul-Dec 2011 | Costless Collar | Northeast | 5,520 | \$6.50 - \$8.14 |
| Natural Gas | Jul-Dec 2011 | Location Swaps | Rockies | 17,480 | \$5.31 |
| Natural Gas | Jul-Dec 2011 | Location Swaps | San Juan | 20,240 | \$5.10 |
| Natural Gas | Jul-Dec 2011 | Location Swaps | MidCon | 4,600 | \$5.05 |
| Natural Gas | Jul-Dec 2011 | Location Swaps | SoCal | 7,360 | \$4.95 |
| Natural Gas | Jul-Dec 2011 | Location Swaps | Northeast | 21,150 | \$5.40 |
| Natural Gas | 2012 | Location Swaps | Rockies | 49,410 | \$4.76 |
| Natural Gas | 2012 | Location Swaps | San Juan | 40,260 | \$4.94 |
| Natural Gas | 2012 | Location Swaps | MidCon | 32,025 | \$4.76 |
| Natural Gas | 2012 | Location Swaps | SoCal | 11,895 | \$5.14 |
| Natural Gas | 2012 | Location Swaps | Northeast | 52,460 | \$5.58 |
| Natural Gas | 2013 | Location Swaps | Northeast | 1,800 | \$6.48 |

| Commodity | Period | Contract Type | Location | Notional Volume (Mbbbls) | Weighted Average Price (\$/Bbl) |
|-----------|--------------|------------------------|----------|--------------------------|---------------------------------|
| Crude Oil | Jul-Dec 2011 | Business Day Avg Swaps | WTI | 782 | \$96.31 |
| Crude Oil | 2012 | Business Day Avg Swaps | WTI | 2,624 | \$97.32 |

We also enter into forward contracts to buy and sell natural gas to maximize the economic value of transportation agreements and storage capacity agreements. To reduce exposure to a decrease in margins from fluctuations in natural gas market prices, we may enter into futures contracts, swap agreements, and financial option contracts to mitigate the price risk associated with these contracts. Hedges for transportation contracts are designated as cash flow hedges and are expected to be highly effective in offsetting cash flows attributable to the hedged risk during the term of the hedge. However, ineffectiveness may be recognized primarily as a result of locational differences between the hedging derivative and the hedged item. Hedges for storage contracts have not been designated as hedging instruments, despite economically hedging the expected cash flows generated by those agreements.

We also enter into energy commodity derivatives for other than risk management purposes, including managing certain remaining legacy natural gas contracts and positions from our former power business and providing services to third parties and affiliated entities. These legacy natural gas contracts include substantially offsetting positions and have an insignificant net impact on earnings.

The following table depicts the notional amounts of the net long (short) positions which we did not designate as hedges of our production in our commodity derivatives portfolio as of June 30, 2011. Natural gas is presented in millions of British Thermal Units (MMBtu). All of the Central hub risk realizes by March 31, 2012 and 100% of the basis risk realizes by 2013. The net index position includes contracts for the future sale of physical natural gas related to our production. Offsetting these sales are contracts for the future production

WPX Energy

Notes to Condensed Combined Financial Statements—(Continued)

of physical natural gas related to WPZ's natural gas shrink requirements. These contracts result in minimal commodity price risk exposure and have a value of less than \$1 million at June 30, 2011.

| Derivative Notional Volumes | Unit of Measure | Central Hub Risk(a)(d) | Basis Risk(b) | Index Risk(c) |
|--|-----------------|------------------------|---------------|---------------|
| Not Designated as Hedging Instruments | | | | |
| Risk Management | MMBtu | (12,940,000) | (15,965,000) | (46,487,263) |
| Other | MMBtu | — | (8,007,500) | |

- (a) includes physical and financial derivative transactions that settle against the Henry Hub price;
- (b) includes financial derivative transactions priced off the difference in value between the Central Hub and another specific delivery point;
- (c) includes physical derivative transactions at an unknown future price, including purchases of 113,089,081 MMBtu primarily on behalf of WPZ and sales of 159,576,344 MMBtu.
- (d) includes financial derivatives entered into with WPZ to reduce its exposure to decreases in its revenues from fluctuations in NGL market prices or increases in costs and operating expenses from fluctuations in natural gas market prices. These contracts are offset by 3rd party agreements.

Fair values and gains (losses)

The following table presents the fair value of energy commodity derivatives. Our derivatives are presented as separate line items in our Condensed Combined Balance Sheet as current and noncurrent derivative assets and liabilities. Derivatives are classified as current or noncurrent based on the contractual timing of expected future net cash flows of individual contracts. The expected future net cash flows for derivatives classified as current are expected to occur within the next 12 months. The fair value amounts are presented on a gross basis and do not reflect the netting of asset and liability positions permitted under the terms of our master netting arrangements. Further, the amounts below do not include cash held on deposit in margin accounts that we have received or remitted to collateralize certain derivative positions.

| | June 30, 2011 | | December 31, 2010 | |
|--|---------------|---------------|-------------------|---------------|
| | Assets | Liabilities | Assets | Liabilities |
| | (Millions) | | | |
| Designated as hedging instruments | \$ 207 | \$ 25 | \$ 288 | \$ 22 |
| Not designated as hedging instruments: | | | | |
| Legacy natural gas contracts from former power business | 174 | 173 | 186 | 187 |
| All other | 26 | 22 | 99 | 80 |
| Total derivatives not designated as hedging instruments | 200 | 195 | 285 | 267 |
| Total derivatives | \$ 407 | \$ 220 | \$ 573 | \$ 289 |

WPX Energy

Notes to Condensed Combined Financial Statements—(Continued)

The following table presents pre-tax gains and losses for our energy commodity derivatives designated as cash flow hedges, as recognized in accumulated other comprehensive income (AOCI) or revenues.

| | Six Months Ended June 30, | | Classification |
|--|------------------------------|--------|----------------|
| | 2011 | 2010 | |
| | (Millions) | | |
| Net gain recognized in other comprehensive income (loss) (effective portion) | \$ 58 | \$ 294 | AOCI |
| Net gain reclassified from AOCI into income (effective portion) | \$ 142 | \$ 130 | Revenues |
| Gain recognized in income (ineffective portion) | \$ — | \$ 3 | Revenues |

There were no gains or losses recognized in income as a result of excluding amounts from the assessment of hedge effectiveness.

The following table presents pre-tax gains and losses for our energy commodity derivatives not designated as hedging instruments.

| | Six Months Ended June 30, | |
|-------------------------|------------------------------|-------------|
| | 2011 | 2010 |
| | (Millions) | |
| Gas management revenues | \$ 7 | \$ 14 |
| Gas management expenses | — | 7 |
| Net gain | <u>\$ 7</u> | <u>\$ 7</u> |

The cash flow impact of our derivative activities is presented in the Condensed Combined Statement of Cash Flows as *changes in current and noncurrent derivative assets and liabilities*.

Credit-risk-related features

Certain of our derivative contracts contain credit-risk-related provisions that would require us, in certain circumstances, to post additional collateral in support of our net derivative liability positions. These credit-risk-related provisions require us to post collateral in the form of cash or letters of credit when our net liability positions exceed an established credit threshold. The credit thresholds are typically based on our senior unsecured debt ratings from Standard and Poor's and/or Moody's Investors Service. Under these contracts, a credit ratings decline would lower our credit thresholds, thus requiring us to post additional collateral. We also have contracts that contain adequate assurance provisions giving the counterparty the right to request collateral in an amount that corresponds to the outstanding net liability. Additionally, we have an unsecured credit agreement with certain banks related to hedging activities. We are not required to provide collateral support for net derivative liability positions under the credit agreement as long as the value of our domestic natural gas reserves, as determined under the provisions of the agreement, exceeds by a specified amount certain of its obligations including any outstanding debt and the aggregate out-of-the-money position on hedges entered into under the credit agreement.

As of June 30, 2011, we did not have any collateral posted to derivative counterparties to support the aggregate fair value of our net \$21 million derivative liability position (reflecting master netting arrangements in place with certain counterparties), which includes a reduction of significantly less than \$1 million to our liability balance for our own nonperformance risk. At December 31, 2010, we had collateral totaling \$8 million posted to derivative counterparties, all of which was in the form of letters of credit, to support the aggregate fair value of our net derivative liability position (reflecting master netting arrangements in place with certain counterparties) of \$36 million, which included a reduction of less than \$1 million to our liability balance for

WPX Energy

Notes to Condensed Combined Financial Statements—(Continued)

our own nonperformance risk. The additional collateral that we would have been required to post, assuming our credit thresholds were eliminated and a call for adequate assurance under the credit risk provisions in our derivative contracts was triggered, was \$21 million and \$29 million at June 30, 2011 and December 31, 2010, respectively.

Cash flow hedges

Changes in the fair value of our cash flow hedges, to the extent effective, are deferred in AOCI and reclassified into earnings in the same period or periods in which the hedged forecasted purchases or sales affect earnings, or when it is probable that the hedged forecasted transaction will not occur by the end of the originally specified time period. As of June 30, 2011, we have hedged portions of future cash flows associated with anticipated energy commodity purchases and sales for up to two years. Based on recorded values at June 30, 2011, \$98 million of net gains (net of income tax provision of \$59 million) will be reclassified into earnings within the next year. These recorded values are based on market prices of the commodities as of June 30, 2011. Due to the volatile nature of commodity prices and changes in the creditworthiness of counterparties, actual gains or losses realized within the next year will likely differ from these values. These gains or losses are expected to substantially offset net losses or gains that will be realized in earnings from previous unfavorable or favorable market movements associated with underlying hedged transactions.

Concentration of Credit Risk

Derivative assets and liabilities

We have a risk of loss from counterparties not performing pursuant to the terms of their contractual obligations. Counterparty performance can be influenced by changes in the economy and regulatory issues, among other factors. Risk of loss is impacted by several factors, including credit considerations and the regulatory environment in which a counterparty transacts. We attempt to minimize credit-risk exposure to derivative counterparties and brokers through formal credit policies, consideration of credit ratings from public ratings agencies, monitoring procedures, master netting agreements and collateral support under certain circumstances. Collateral support could include letters of credit, payment under margin agreements, and guarantees of payment by credit worthy parties. The gross credit exposure from our derivative contracts as of June 30, 2011, is summarized as follows:

| <u>Counterparty Type</u> | <u>Investment Grade(a) (Millions)</u> | <u>Total</u> |
|---|---|--------------|
| Gas and electric utilities and integrated oil and gas companies | \$ 9 | \$ 9 |
| Energy marketers and traders | — | 112 |
| Financial institutions | <u>286</u> | <u>286</u> |
| | <u>\$ 295</u> | <u>407</u> |
| Credit reserves | | <u>—</u> |
| Gross credit exposure from derivatives | | <u>\$407</u> |

We assess our credit exposure on a net basis to reflect master netting agreements in place with certain counterparties. We offset our credit exposure to each counterparty with amounts we owe the counterparty

WPX Energy

Notes to Condensed Combined Financial Statements—(Continued)

under derivative contracts. The net credit exposure from our derivatives as of June 30, 2011, excluding collateral support discussed below, is summarized as follows:

| <u>Counterparty Type</u> | <u>Investment Grade(a) (Millions)</u> | <u>Total</u> |
|---|---|--------------|
| Gas and electric utilities and integrated oil and gas companies | \$ 3 | \$ 3 |
| Energy marketers and traders | — | 1 |
| Financial institutions | <u>204</u> | <u>204</u> |
| | <u>\$ 207</u> | <u>208</u> |
| Credit reserves | | — |
| Net credit exposure from derivatives | | <u>\$208</u> |

- (a) We determine investment grade primarily using publicly available credit ratings. We include counterparties with a minimum Standard & Poor's rating of BBB- or Moody's Investors Service rating of Baa3 in investment grade.

Our seven largest net counterparty positions represent approximately 92 percent of our net credit exposure from derivatives and are all with investment grade counterparties. Included within this group are counterparty positions, representing 83 percent of our net credit exposure from derivatives, associated our hedging facility. Under certain conditions, the terms of this credit agreement may require the participating financial institutions to deliver collateral support to a designated collateral agent (which is another participating financial institution in the agreement). The level of collateral support required is dependent on whether the net position of the counterparty financial institution exceeds specified thresholds. The thresholds may be subject to prescribed reductions based on changes in the credit rating of the counterparty financial institution.

At June 30, 2011, the designated collateral agent is not required to hold any collateral support on our behalf under our hedging facility. We hold collateral support, which may include cash or letters of credit, of \$4 million related to our other derivative positions.

Note 11. Revolving Credit Agreement

On June 3, 2011, WPX Energy, Inc., as borrower, entered into a new \$1.5 billion five-year senior unsecured revolving credit facility agreement (the "Credit Facility Agreement"), together with the lenders named therein, and Citibank N.A. ("Citi"), as administrative agent and swingline lender. Under the terms of the Credit Facility Agreement and subject to certain requirements, WPX Energy, Inc. may request an increase in the commitments of up to an additional \$300 million by either commitments from new lenders or increased commitments from existing lenders. Borrowings under the Credit Facility Agreement may be used for working capital, acquisitions, capital expenditures and other general corporate purposes.

Under the Credit Facility Agreement, WPX Energy, Inc. may also obtain same day funds by requesting a swingline loan of up to an amount of \$125 million from the swingline lender. Interest on swingline loans will be payable at a fluctuating base rate equal to Citi's adjusted base rate plus the applicable margin.

The Credit Facility Agreement will not be effective until the date on which certain conditions listed in the agreement (including, among others, the completion of the initial public offering of WPX Energy, Inc.) have been met or waived; provided that the effective date must be on or before November 30, 2011 or such later date as may be agreed to by WPX Energy, Inc. and the lenders. If the effective date has not occurred by November 30, 2011, the Credit Facility Agreement will automatically terminate unless otherwise extended by WPX Energy, Inc. and the lenders. Costs totalling \$8 million associated with the establishment of this facility have been deferred in other assets and will be amortized over the life of the agreement.

WPX Energy

Notes to Condensed Combined Financial Statements—(Continued)

Interest on borrowings under the Credit Facility Agreement will be payable at rates per annum equal to, at the option of WPX Energy, Inc.: (1) a fluctuating base rate equal to Citi's adjusted base rate plus the applicable margin, or (2) a periodic fixed rate equal to LIBOR plus the applicable margin. The adjusted base rate will be the highest of (i) the federal funds rate plus 0.5 percent, (ii) Citi's publicly announced base rate, and (iii) one-month LIBOR plus 1.0 percent. WPX Energy, Inc. will be required to pay a commitment fee based on the unused portion of the commitments under the Credit Facility Agreement. The applicable margin and the commitment fee will be determined by reference to a pricing schedule based on WPX Energy, Inc.'s senior unsecured debt ratings.

Under the Credit Facility Agreement, prior to the occurrence of the Investment Grade Date (as defined below), WPX Energy, Inc. will be required to maintain a ratio of PV to debt (each as defined in the Credit Facility Agreement) of at least 1.50 to 1.00. PV is determined as of the end of each fiscal year and reflects the present value, discounted at 9 percent, of projected future cash flows of domestic proved oil and gas reserves (with a limitation of no more than 35% of proved undeveloped reserves), based on lender projected commodity price assumptions and after giving effect to hedge arrangements. Also, for WPX Energy, Inc. and its consolidated subsidiaries, the ratio of debt to capitalization (defined as net worth plus debt) will not be permitted to be greater than 60%. Each of the above ratios will be tested beginning June 30, 2011 at the end of each fiscal quarter. Investment Grade Date means the first date on which WPX Energy, Inc.'s long-term senior unsecured debt ratings are BBB- or better by S&P or Baa3 or better by Moody's (without negative outlook or negative watch), provided that the other of the two ratings is at least BB+ by S&P or Ba1 by Moody's.

The Credit Facility Agreement contains customary representations and warranties and affirmative, negative and financial covenants which were made only for the purposes of the Credit Facility Agreement and as of the specific date (or dates) set forth therein, and may be subject to certain limitations as agreed upon by the contracting parties. The covenants limit, among other things, the ability of WPX Energy, Inc.'s subsidiaries to incur indebtedness, WPX Energy, Inc. and its material subsidiaries from granting certain liens supporting indebtedness, making investments, loans or advances and entering into certain hedging agreements, WPX Energy, Inc.'s ability to merge or consolidate with any person or sell all or substantially all of its assets to any person, enter into certain affiliate transactions, make certain distributions during the continuation of an event of default and allow material changes in the nature of its business. In addition, the representations, warranties and covenants contained in the Credit Facility Agreement may be subject to standards of materiality applicable to the contracting parties that differ from those applicable to investors. Investors are not third-party beneficiaries of the Credit Facility Agreement and should not rely on the representations, warranties and covenants contained therein, or any descriptions thereof, as characterizations of the actual state of facts or conditions of WPX Energy, Inc.

The Credit Facility Agreement includes customary events of default, including events of default relating to non-payment of principal, interest or fees, inaccuracy of representations and warranties in any material respect when made or when deemed made, violation of covenants, cross payment-defaults, cross acceleration, bankruptcy and insolvency events, certain unsatisfied judgments and a change of control. If an event of default with respect to a borrower occurs under the Credit Facility Agreement, the lenders will be able to terminate the commitments and accelerate the maturity of the loans of the defaulting borrower under the Credit Facility Agreement and exercise other rights and remedies.