



The Williams Cos., Inc. (WMB)

EDITED TRANSCRIPT

2Q 2022 Earnings Call

August 02, 2022

Forward-looking statements

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 - Levels of dividends to Williams stockholders;
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 - Amounts and nature of future capital expenditures;
 - Expansion and growth of our business and operations;
 - Expected in-service dates for capital projects;
 - Financial condition and liquidity;
 - Business strategy;
 - Cash flow from operations or results of operations;
 - Seasonality of certain business components;
 - Natural gas, natural gas liquids and crude oil prices, supply, and demand;
 - Demand for our services;
 - The impact of the coronavirus (COVID-19) pandemic.
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 - Availability of supplies, market demand, and volatility of prices;
 - Development and rate of adoption of alternative energy sources;
 - The impact of existing and future laws and regulations, the regulatory environment, environmental matters, and litigation, as well as our ability to obtain necessary permits and approvals, and achieve favorable rate proceeding outcomes;
 - Our exposure to the credit risk of our customers and counterparties;
 - Our ability to acquire new businesses and assets and successfully integrate those operations and assets into existing businesses as well as successfully expand our facilities, and to consummate asset sales on acceptable terms;
 - Whether we are able to successfully identify, evaluate, and timely execute our capital projects and investment opportunities;
 - The strength and financial resources of our competitors and the effects of competition;
 - The amount of cash distributions from and capital requirements of our investments and joint ventures in which we participate;
 - Whether we will be able to effectively execute our financing plan;
 - Increasing scrutiny and changing expectations from stakeholders with respect to our environmental, social, and governance practices;
 - The physical and financial risks associated with climate change;
 - The impacts of operational and developmental hazards and unforeseen interruptions;
 - The risks resulting from outbreaks or other public health crises, including COVID-19;
 - Risks associated with weather and natural phenomena, including climate conditions and physical damage to our facilities;
 - Acts of terrorism, cybersecurity incidents, and related disruptions;
 - Our costs and funding obligations for defined benefit pension plans and other postretirement benefit plans;
 - Changes in maintenance and construction costs, as well as our ability to obtain sufficient construction-related inputs, including skilled labor;
 - Inflation, interest rates, and general economic conditions (including future disruptions and volatility in the global credit markets and the impact of these events on customers and suppliers);
 - Risks related to financing, including restrictions stemming from debt agreements, future changes in credit ratings as determined by nationally recognized credit rating agencies, and the availability and cost of capital;
 - The ability of the members of the Organization of Petroleum Exporting Countries and other oil exporting nations to agree to and maintain oil price and production controls and the impact on domestic production;
 - Changes in the current geopolitical situation, including the Russian invasion of Ukraine;
 - Changes in U.S. governmental administration and policies;
 - Whether we are able to pay current and expected levels of dividends;
 - Additional risks described in our filings with the Securities and Exchange Commission (SEC).
- > Given the uncertainties and risk factors that could cause our actual results to differ materially from those contained in any forward-looking statement, we caution investors not to unduly rely on our forward-looking statements. We disclaim any obligations to and do not intend to update the above list or announce publicly the result of any revisions to any of the forward-looking statements to reflect future events or developments.
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- > Because forward-looking statements involve risks and uncertainties, we caution that there are important factors, in addition to those listed above, that may cause actual results to differ materially from those contained in the forward-looking statements. For a detailed discussion of those factors, see (a) Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2021, as filed with the SEC on February 28, 2022, and (b) Part II, Item 1A. Risk Factors in our Quarterly Report on Form 10-Q for the period ended March 31, 2022.

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

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

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

Alan Armstrong

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

Great. Thanks Danilo and thank you all for joining us today. Well, we're here today to talk about another quarter of steady, predictable growth, thanks to a long-term commitment to our natural gas focused strategy and continued crisp execution against that strategy. We saw strong earnings growth in our core businesses and our upstream operations. And the health of our businesses was also demonstrated by equally strong gathering and transportation volumes during the quarter.

Importantly, we expect continued earnings growth in our core G&P and gas transmission businesses as our teams are delivering great execution on our expansion projects. We're also staying laser-focused on doing what's right to ensure sustainable operational performance. We're pleased to share our progress in our 2021 Sustainability Report that was published just last week. I hope you'll take some time to read the report as it really is a testament to the hard work of our entire organization and their passion for doing things the right way.

I'll highlight a few things from the report in our key investor focus areas segment, but for now, let me turn things over to John for a review of our second quarter and our year-to-date results. John?

John Porter

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

Thanks, Alan. Starting here on slide 1 with a summary of our year-over-year financial performance. Overall, 2022 financial performance continues to be quite strong. Beginning with EBITDA, we saw a 14% year-over-year increase for the second quarter and a 10% increase for the first half of 2022 versus the first half of 2021. As we'll see on the next couple of slides, our EBITDA growth has been led by our core, large-scale natural gas Transmission and Gathering and Processing businesses, complemented nicely by growth in our upstream joint ventures.

Our Adjusted EPS increased 48% for the quarter and 29% year-to-date. Available Funds from Operations (AFFO) grew more than EBITDA, continuing the trend of strong growth in this measure, up 23% year-over-year for the quarter or 19% year-to-date. Also, you see our dividend coverage on this page based on AFFO was 2.19 times for second quarter and slightly better at 2.24 times year-to-date. Our Debt-to-Adjusted EBITDA metric continues to improve based on our strong growth in EBITDA and our capital investment discipline, now reaching 3.82 times versus last year's 4.13 times.

So, now let's move to the next slide and dig a little deeper into our EBITDA results for the quarter.

Again, the second quarter built nicely on the strong start we've seen this year with 14% growth, reflecting the combined effect of the performance of our core business and upside from our upstream joint ventures.

Walking now from last year's \$1.317 billion to this year's \$1.496 billion, we start with our upstream joint venture operations included in our other segment, which were up \$66 million. I will point out that we've added a new page to our analyst package for this segment, and in that supplemental information we've included our net upstream sales volumes, which were just under 200 million cubic feet a day for the Haynesville and Wamsutter properties for the second quarter of 2022. Since our first new production in the Haynesville came on line in April of this year, we've seen a rapid ramp in volumes that will continue through the remainder of the year.

Shifting now to our core business performance, our Transmission and Gulf of Mexico business improved \$4 million, primarily at Transco and largely from the Leidy South expansion project, which came on line in phases last year. Operating and maintenance costs were higher driven in part by an acceleration of maintenance work during the second quarter of this year. Overall, Transmission and Gulf of Mexico's \$652 million of Adjusted EBITDA was just over our business plan for this segment for the second quarter.

Our Northeast G&P business increased \$41 million or 10%, driven by top-line gathering and processing revenue growth on slightly higher volumes. G&P rate growth was supported by a combination of factors including higher commodity-based rates, annual fee escalations, and other expansion-related fee increases that more than offset the lower cost-of-service rates that we have in our Bradford franchise.

We saw an expected sequential increase in Northeast volumes for the second quarter of 2022 versus the first quarter, and we expect continued quarterly increases for volumes for the remainder of the year. Ultimately our plan for the Northeast in 2022 continues to see higher EBITDA versus 2021 on pretty flat volume growth. However, we remain well-positioned to resume stronger volume and EBITDA growth in the Northeast in 2023, driven by several expansion and optimization projects underway that Alan will discuss in more detail.

Shifting now to the West, which saw an impressive \$73 million or 33% improvement over 2021. I'll mention that \$20 million of that \$73 million was attributed to our Trace Midstream acquisition, which closed on April 29. So even without Trace, the West still increased \$53 million or 24%. In the West, we continue to see upside from our commodity price exposed rates, especially in the Barnett and Haynesville, as well as substantially higher volumes in the Haynesville that drove an 11% overall increase in volumes for the West, excluding the Trace acquisition. Also in the West, we see a strong quarter-over-quarter volume growth trajectory throughout the second half of the year, driven primarily by the Haynesville.

Next, we saw a slight decrease for our Gas & NGL marketing services business as was expected in our business plan. As a reminder, the first quarter of each year is typically when this segment will create the majority of its EBITDA. Overall, our marketing services business is extremely well-positioned to take advantage of the recent natural gas price and location volatility we've seen in July, so we expect them to exceed the high-end of the \$50-\$70 million annual Adjusted EBITDA contribution we discussed last quarter.

So again, another strong quarter with 14% growth in EBITDA driven by core business performance and upside in our upstream joint venture operations.

Let's move to Slide 3 and take a look at the year-to-date comparison. So, through the first six months of 2022, we've now generated 10% growth in Adjusted EBITDA over 2021 or 13% if you exclude the unusual first quarter 2021 winter storm benefits. That's two strong quarters to start the year.

So, stepping up from last year's \$2.732 billion to this year's just over \$3 billion, and you start with the \$77 million of those first quarter 2021 winter storm benefits, which we've isolated here in gray. Then moving to the \$122 million contribution from our upstream operations, which were Wamsutter-related in the first quarter of 2022 and then began to have a more significant Haynesville component in the second quarter as discussed on slide 2.

Our Transmission and Gulf of Mexico business has seen 3% growth year-to-date driven by Transco's Leidy South expansion project and strong first quarter 2022 seasonal revenues with, again, some acceleration of maintenance cost into the second quarter of 2022.

The Northeast G&P business has now seen 7% growth year-to-date driven by higher rates on overall flat volumes as discussed on the previous slide.

The West has seen an impressive 25% growth year-to-date, driven by higher commodity-based rates, but also a strong 11% overall volume growth, excluding the Trace acquisition.

Finally, our Gas & NGL Marketing Services segment is up \$28 million, driven by favorable commodity margins as well as the new contributions from the Sequent acquisition that closed on July 1st of last year.

So, an impressive \$275 million or 10% increase to land us with just over \$3 billion of Adjusted EBITDA through the first six months of the year, and we expect things to improve from here for the remainder of the year.

So let's turn the page and take a look at our current thoughts for full-year 2022 financial guidance. We are once again pleased to share a substantial improvement in our 2022 financial guidance, making this the second increase since our initial guidance in February of this year. I won't go through each of these metrics but will offer some commentary on the most pivotal numbers.

So let's start with Adjusted EBITDA, where our midpoint is increasing another \$200 million from our last guidance increase, moving from \$6.05 billion to \$6.25 billion. This second, substantial raise in EBITDA guidance is grounded in our continued confidence in the growth of our core business and represents a nearly 8% increase from our initial guidance given in February.

As we look to the second half of the year, we expect higher EBITDA than the first half for all of our segments, except perhaps the marketing business, and with an overall pick up in sequential EBITDA growth for the fourth quarter over the third quarter. Although it's less certain, our Gas & NGL Marketing business could also match or exceed their first half performance during the last six months of the year, which is a bit unusual for

this business. Their storage and transportation assets and trading capabilities are very well-suited for the volatility we are seeing in the natural gas markets.

Continuing on with the other segments, we expect Transmission and Gulf of Mexico should finish the year strong with fourth quarter numbers more like their first quarter numbers. We continue to expect growing quarterly EBITDA and volumes from our West and Northeast segments, with some level of acceleration through the latter part of the year.

With respect to our upstream operations, we are encouraged by the results we've seen thus far in 2022. In the appendix, you'll see that we're guiding to fourth quarter 2022 gross production of approximately 250 million cubic feet per day for the Wamsutter operation, and we've increased our expectations for Haynesville to an estimated fourth quarter 2022 gross production rate of about 400 million cubic feet per day. Our appendix slides also provide information about the specific hedges we've currently placed against our forecasted net production volumes.

No change to our Capex assumptions from our previous guidance update in May on our first quarter earnings call, which had increased from the February guidance only to reflect the Trace acquisition capital spending.

You see that our Debt-to-Adjusted EBITDA is now expected to be about 3.6 times at midpoint. The remainder of the guidance items either changed in relation to the change in EBITDA I've just discussed or remain unchanged.

So again, a second substantial increase in EBITDA guidance, representing an almost 8% increase in our midpoint from our initial guidance provided in February of this year, driven by continued growth in our core business as well as contributions from our Trace acquisition and improved expectations for our upstream JV operations.

So, with that, I'll pass it back to Alan to review our key investor focus areas. Alan?

Alan Armstrong

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

Okay. Well, thanks John. I'm going to move on here on slide 5 to the key investor focus areas. So, I know this may sound a little bit like a broken record with this first bullet but without a doubt, we are the most natural gas centric of the large-scale midstream companies, and there's a reason we've stuck with our natural gas focused strategy for as long as we have. Not only is this strategy delivering in the current environment, but the signals coming from the market show that it's going to continue to deliver substantial growth for the long-term as well.

We continue to see strong fundamentals driving a great pipeline of growth opportunities, particularly increasing demand for U.S. LNG exports and power generation along the Transco corridor. Importantly, we continue to see strong demand for our services domestically as well, evidenced by a three-day peak summer delivery that we achieved on the Transco pipeline in early July this year as we continue to see weather-driven demand for cooling. So, really seeing a lot of big pulls. You're seeing some strong basis differentials setting up in these areas where we've got some strong peak demands during the heat wave that the Southeast experienced.

And notably, we continue to see these record levels of demand for natural gas even with the Freeport LNG facility being out. So, we see these as good indicators of the long-term health of our business, but I'll remind you that business on our Transco system is actually driven by contracted capacity and not the actual transported volumes. But obviously, when we see peaks like that, our customers are seeing those as well, and know that the demand on our system and the growth in demand on our system is needed and the contracts come with that.

This demand growth continues to increase in the face of higher natural gas prices, which speaks to the continued inelastic demand for natural gas both here and abroad, and the fact that natural gas remains a bargain versus alternative fuels. Our G&P business also continues to thrive in the current environment, allowing us to capture the upside benefit of pricing and inflation adjusters in our rates that have been sitting on their floors for many years. And recently, volumes on our systems have finally begun to respond to the higher prices that we've seen in the gas space.

So, moving on to financial strength and stability. As John just detailed, we increased our guidance midpoint beyond the high end of the previous range for the second time this year to \$6.25 billion, and this was driven by the following items: First of all, strong base business performance with volumes in the Northeast G&P business expected to rebound for the balance of the year; increased volume outlook for our upstream JVs (especially in the Haynesville); the benefit of higher commodity prices in our upstream JVs; finally, commodity volatility and strong pulls for power generation that are currently driving our Gas & NGL Marketing business upside.

With our recent updated guidance, we expect to achieve a five-year EBITDA CAGR of 7% and an impressive EPS CAGR of 22% at the midpoint of this recent guidance. Our business continues to fire on all cylinders, driving our financial strength and stability. And despite the current inflationary environment, we have significant contract protection to minimize financial impacts from inflation to our business.

Also worth noting, our business is well-positioned given the strong fundamentals today, and we don't expect much to change should a recession come to fruition.

As you may recall, in 2020 Williams exceeded our pre-COVID guidance for that year, despite facing challenges like key producer bankruptcies, declining commodity prices and major hurricanes in the Deepwater Gulf of Mexico.

So, now, looking over at our position of growth, we recently announced that we reached a final investment decision on our Louisiana Energy Gateway project, a 1.8 Bcf per day gathering system that will help us advance our wellhead to water strategy while also positioning our customers with access to favorable pricing markets along Transco.

Within our transmission business, the Gulfstream Phase IV expansion is in-service more than three months early, and I'm also pleased to announce that Williams has reached a rate case settlement in principle on our Northwest Pipeline system. This provides a win-win outcome for both ourselves and our long-term customers on the system.

So, we continue to execute as well on an attractive, high-return backlog of growth projects, including six projects now in the Deepwater Gulf of Mexico, five Transco projects totaling 1.9 Bcf a day, four expansion projects in our Northeast G&P business that will really unlock some high margin business for us in that area, and four in the Haynesville which continues to grow at a pace well beyond our initial expectations.

And as well on the on the Transco projects, just last week, the FERC issued the final EIS on our Regional Energy Access project, expanding takeaway from the Northeast PA area, which obviously helps us as well on our gathering systems up there and the volumes up there, and serving growth in the New Jersey area as well. So, really excited to see the progress with the FERC on bringing that project to fruition.

And in the Haynesville, just another note here, we are really seeing that paying a lot of long-term dividends, not just because of the growth in the business, but because the Trace acquisition along with the LEG project is going to allow us to bring integrated services, connecting the key markets for our customers. So the better markets those customers are connected to, the better margins and the more activity in drilling we see up there.

And in fact, we're seeing significant well outperformance in our upstream JV operations with GeoSouthern, which continue to improve our upstream margins. And as well, I recall that the reasoning behind our upstream JVs was to drive utilization of latent midstream capacity, and this is exactly what's happening in Haynesville right now and we expect the same capture of midstream value in the Wamsutter as our JV drilling program ramps in the coming months there as well.

So, now, moving on to sustainable strategy. I'll cover a few updates here for you on what has been going on our sustainable strategy. First of all, as I mentioned at the top of the call, we published our 2021 Sustainability Report last week, as well as we filed our carbon emissions disclosure with the Carbon Disclosure Project. As both of these reports detail, we are continuing to successfully leverage our natural gas focused strategy and today's technology to deliver on immediate opportunities to reduce emissions.

In fact, we have reduced our company-wide Scope 1 and 2 emissions by 47% since 2005 and we're on our way to meeting our 2030 goal of a 56% below these 2005 levels. I'm certainly proud of the progress that we've made to-date and that we'll continue to make as our 2022 all-employee annual incentive program now includes a total methane emissions reduction of 5% from our three-year average, which personally connects every employee to our long-term commitment to safe, reliable, and environmentally friendly operations.

Of course, our efforts go beyond what we see as the right here, right now opportunities. We're also focusing on enabling the next generation of clean energy technologies. I mentioned our LEG project a few minutes ago, which is a key component of our low carbon, wellhead to water strategy. And this project is actually very integrated and supports our partnerships with Context Labs, Encino Environmental and Satlantis, whose technology solutions will be integrated into the project and will enable the measurement of end to end, verifiable and transparent emissions data to demonstrate the low carbon benefit of produced and delivered Haynesville natural gas.

We are really happy with the progress we're making on this project in the Haynesville, having recently completed implementation of the onsite monitoring and certification capabilities in our systems up there. So, really a lot of things coming together for us in the Haynesville in terms of great growth in the area as well as us demonstrating some of the new technology that we intend to deploy for that area.

We're also advancing our wellhead to burner tip strategy in the northeast with anchor customers to be announced later this year in that area. So, lots of tangible solutions we will be delivering in the space, and all of these are positioned around supporting and enhancing our strong natural gas focused strategy.

So, let me move on to closing here. I'll reiterate that we have built a business that is steady and predictable with continued growth, improving returns and free cash flows. Our best-in-class long haul pipes are in the right place, serving the right markets. Our formidable gathering assets are in the low-cost basins that will be called on to meet gas demand as it continues to grow for decades. And our Sequent platform is providing infrastructure optimization services that create value for Williams and our customers while mitigating downside risk in these volatile and fast-growing markets.

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

But access to our abundant and low-cost natural gas reserves is dependent on having the appropriate infrastructure to move energy where it is needed. The efforts to build out all forms of key infrastructure have been blocked by obstructionists who don't offer practical and sustainable solutions to serve these growing energy demands.

The impacts of inadequate infrastructure are now finally front and center with consumers bearing the brunt of these actions in the form of high energy prices, high utility bills and energy-driven inflation both here and around the world. The good news is that this is exactly the kind of catalyst that it takes to bring public awareness to these matters and the European crisis is even highlighting the matter further.

That is why we are strongly advocating for actionable energy policy solutions and permitting reform that will support global emissions reductions, keep energy cost affordable and grow our nation's competitiveness. Enabling the efficient, unobstructed buildout of our nation's energy infrastructure is foundational to the U.S.' leadership on greenhouse gas emissions and energy security. And we believe that support is building out for just doing that.

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

QUESTION AND ANSWER SECTION

Chase Mulvehill

Analyst, BofA Securities

Hey, good morning. So, I guess, first thing I just wanted to ask is really about the permitting legislation that's being proposed by Manchin. Just question specific for you guys is, are there any projects that maybe you took off the board previously that could come back if this legislation actually passes? And then, as a follow-up to that, if this legislation does get passed, could you maybe talk about the puts and takes as we think about gas being sourced between the Permian, Marcellus and Haynesville, if this does get passed?

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Alan Armstrong

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

Yeah. Thank you. Great question. Well, first of all, the actual language for that proposed bill is not out. So, it's kind of hard to comment on. But I would say that we've been working hard on our government affairs front and really the whole executive team in trying to influence the policy and the legislation that would come out on that. So, we're hopeful that that'll be very meaningful, and if it does, I would think that it would try to address the situation where we've had states abusing the 401 Water Quality certificate to block projects and that certainly would open up some opportunities for us as we've had some projects blocked on that basis.

So, I would say we're optimistic, but a lot can happen in the world of politics, and we're just not really certain exactly how that bill will come out at this point. But relative to the Haynesville, the Permian and the Marcellus, certainly the Marcellus has been the basin that has been most impacted by a lack of energy policy and a limited amount of infrastructure. So, that's by far the lowest cost basin that we have here in the U.S. from a gas supply standpoint and by far the largest and has the most potential for the long-term.

So, the Haynesville has certainly been chugging hard and doing a lot recently to grow and meet that gap. And obviously, the Permian has decades of low-cost gas as well, but really if we're going to get up on plane and be a large exporter of natural gas, we're going to need the Marcellus for the long-term because that is where a lot of our very low-cost reserves are here in the U.S.

And so, I would say to the degree that there is significant permitting reform, without a doubt, the most impacted basin by that will be the Marcellus because things like, in Louisiana, for instance, that infrastructure, a lot of that is to be expanded within the state and isn't up against some of those same challenges and certainly more supportive politics in those areas. So, we're very hopeful. We think the Marcellus and the Utica both would benefit significantly from the kind of permitting reform that we're looking for.

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Chase Mulvehill

Analyst, BofA Securities

All right. It makes sense and appreciate that, Alan. As a quick follow-up, your Northeast G&P volumes were a tad light in 2Q. I guess kind of wondering if there's anything specific going on there. Also, in the press release you talked about advancing multiple gas gathering projects in the Northeast. So, maybe could you talk about the timing of kind of bringing some of those gas gathering projects online and whether this is kind of targeting more rich gas areas?

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Alan Armstrong

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

Yeah. We do have some pretty exciting projects. I'll let Micheal Dunn talk about some of those that'll unlock from that capacity in the area.

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Micheal Dunn

Chief Operating Officer & Executive Vice President

Sure. Thanks, Alan. Our gathering volumes were up slightly in the second quarter compared to last year. That's really meeting our expectations. Most of our producers are in maintenance mode there and expecting some growth to occur in 2023, but also in the latter half of 2022 as we've been talking about in the previous call, we would expect to some volume increases there coming online before the end of the year. So, stay tuned. We do expect to see some additional volumes coming our way.

In regard to our expansion projects, we do have a number that we've outlined in the presentation materials that are going on in the Northeast, I mean the Northeast PA area. That's targeting dry gas there in the Northeast PA area, and that one will come online in the second half of 2023.

And then we've got several in the rich gas areas in Southwest PA, West Virginia, Ohio areas. And the bulk of those will come online in 2023 as well, as outlined in the material. But we do have an interconnect that we're working between our West Virginia processing areas and the Blue Racer system that will come online this year and that will unlock some additional processing capacity access for our West Virginia properties, where we are currently at capacity in West Virginia processing.

And so, it will help alleviate some of that constraint there by moving that volume over to the Blue Racer system. That'll be online within the next several months. That will unlock some additional opportunity there. But all in all, the bulk of the expansions will come online in 2023, and our producers are gearing up for that.

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Chase Mulvehill

Analyst, BofA Securities

Okay. All right. Helpful color. I'll turn it back over.

Marc Solecitto

Analyst, Barclays

Hi. Good morning. So, maybe just to start on the upward guidance revision, could you frame up the puts and takes of the upper and lower end of the revised range? And maybe kind of that's tying on to that, for the unhedged portion of remaining 2022 production volumes, has your pricing assumptions around Henry Hub changed at all from your Analyst Day or if the current strip holds with that of the upside?

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Alan Armstrong

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

Yeah. We're not going to provide a whole lot of detail on that just because it kind of becomes an endless thread to pull on from a pricing standpoint, but I would just say that there is upside at the current strip, there is upside against our midpoint and that would push us up closer to the high end of the range if we were to see the current strip hold on natural gas. We don't update our oil side so much, there is a little bit of impact to both NGLs and oil, but obviously would be down a little bit from previous expectations.

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Marc Solecitto

Analyst, Barclays

Got it. Appreciate the color there. And then costs generally ticked up on a sequential basis, particularly in the Northeast and Transmission segments. Wondering if you could give a little more color around the drivers there. Was that just a factor of timing or general cost inflation that you're seeing, or were there any discrete factors that we should be thinking about as we think about the trajectory through the remainder of the year?

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Micheal Dunn

Chief Operating Officer & Executive Vice President

Sure. This is Micheal. I'll take that. So, in the Transmission & Gulf of Mexico business, we did see some cost increases there and that was primarily driven by maintenance activities that we accelerated into the second quarter. We did anticipate some significant volume demands on the Transco system and seeing that, the expectation out there, we did accelerate some work to get that out of the way for the summer air conditioning loads on the power generation side.

And so, we accelerated that work. We also had some unforeseen integrity work that we undertook in the second quarter, and we obviously didn't anticipate that, but that impacted our expenses there. I would just say in rounding that out though, we did exceed our EBITDA expectations in our plan for the Transmission & Gulf of Mexico business in the quarter and year-to-date. So, those expenses didn't impact our planned numbers and our expectations there.

And in the Northeast, very similar story there. We're just working on various maintenance overhauls and things of that nature in the second quarter. So, costs are up slightly there. Some of that driven by activity that we've expected to do in the second quarter. Really nothing unforeseen there against our budget, though, I would say.

Marc Solecitto

Analyst, Barclays

Got it. Appreciate the time.

Jean Ann Salisbury

Analyst, Sanford C. Bernstein & Co. LLC

Hey, good morning. It seems like Mountain Valley Pipeline could actually happen. There have been prospects before, but it may actually happen this time. Would that starting up have any material impact on your EBITDA?

Alan Armstrong

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

Yes, it would. There's quite a bit of gas supply back in the gathering systems upstream of that. So, recall that EQT bought out Chevron's acreage which is a lot around our West Virginia assets, so, some of our high margin business in that area from that original dedication from Chevron, which actually came originally from Atlas.

And so, some pretty nice pull on our gathering systems and as well on a longer-term basis that would enable us to be able to continue to provide less capital investment in expansions on our Transco system with bringing supplies into that area, which becoming more and more in demand.

So, yes, we would see Mountain Valley Pipeline as very positive to us in the immediate term around increased gathering flows on our system and processing and fractionation. But as well provides lower cost, lower capital expansion opportunities on Transco that, of course, allow us to make higher returns and better margin on a Transco business. So, we're certainly pulling for Mountain Valley Pipeline to get built.

Jean Ann Salisbury

Analyst, Sanford C. Bernstein & Co. LLC

Great. Very clear. Thank you. And then how large of an operational impact, if any, could this EPA turbine emissions rule create for Williams? Can you give some color on how you see the way forward from here?

Micheal Dunn

Chief Operating Officer & Executive Vice President

Yeah, Jean Ann. I'll take that. This is Micheal. We don't anticipate that having any impact on our business. And the requirements to go out and do the testing is underway, and we're seeing the results such that it will have no impact on our business.

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Jean Ann Salisbury

Analyst, Sanford C. Bernstein & Co. LLC

Great. That's all from me. Thank you.

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Praneeth Satish

Analyst, Wells Fargo

Hi. Good morning. So, leverage is down to 3.6x this year and EBITDA is growing at a double-digit rate. So, I'm just wondering with the strong backdrop how you think about capital return for the balance of the year and into 2023. It feels like you've raised guidance twice this year, so, maybe you have some more flexibility to return capital. So, curious on your thoughts.

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John Porter

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

Thanks, Praneeth. This is John Porter. I'll take that. Yeah. So, relative to capital allocation, I might just sort of restate our current priorities and guidelines remain unchanged with the focus on our balance sheet strength and our growing dividend with very strong coverage, our strategic organic investments including investments in modernizing our regulated assets and making disciplined new energy investments.

Now, beyond these priorities, we maintain excellent financial flexibility to manage debt refinancing through the volatile debt capital markets we've been seeing lately, pursuing bolt-on transactions that can add scale to our core natural gas-based strategy like the Trace acquisition or the pursuit stock repurchases. And I might just say a little more on the stock repurchases since I know it's an important topic out there.

As you'll recall, we've previously discussed initiating share repurchases based on reaching an undisclosed spread between our equity yield and our 10-year debt cost. Now, obviously since then, we've seen significant increases in our 10-year debt cost which really would have made it increasingly unlikely that share repurchases would be triggered.

So, we did recently revisit those principles. And we're not only considering the current equity yield now, but we're also considering a level of expected growth in the business given the solid growth we've seen in the business now for many, many years. The effect of this change will provide us more flexibility to be opportunistic around share repurchases should we see a significant pullback from current valuation levels. This might be the case if a recession gains strength and the energy macro conditions were to deteriorate.

We have more confidence than ever in our ability to perform very well even through a severe recession and we feel like our performance in 2020 during the heart of the pandemic really proved this to be true. So, our current share buyback principles will allow us to act opportunistically if we see a valuation dislocation. And by the way, the strong free cash flows coming off our upstream JVs would be a great source of capital to affect share repurchases under these circumstances.

So, I hope that provides an overview on the capital allocation question. I think relative to the leverage in particular, the 3.6x that we're guiding to now is obviously well below the 4.2x metric, which we believe is more of the ceiling for maintaining our strong BBB credit ratings. We do continue to believe a BBB credit rating remains optimal for our business and we are also mindful that our current metrics are benefiting from a pretty strong commodity price backdrop.

But in any case, we are pleased with the financial flexibility we have had under the present circumstances and excited about our future prospects really no matter where this energy cycle goes next.

Praneeth Satish

Analyst, Wells Fargo

Got it. Thanks for that. And then switching gears, can you talk about what you're seeing in the Eagle Ford? I think drilling activity has been picking up, and I know you have some MVCs there. Do you think volumes could move above MVCs at some point in the coming years or do you think they'll kind of stay below MVCs? Thanks.

Alan Armstrong

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

Yeah. I would say just added to that one contract with Chesapeake we obviously have other customers out there, and we're picking up new business out there as a result of some of that returned activity. So, we're excited to see that. But relative to the one contract that has MVCs in it, kind of there's a way to go, I would just say, to get over and above the MVC out there and it would take pretty active responses from the producers. But we are excited to see the activity and we are picking up business from other producers out there as well. It's helping us out.

Praneeth Satish

Analyst, Wells Fargo

Got it. Thanks.

Jeremy Tonet

Analyst, JPMorgan Securities LLC

Hey. Thanks. Just want to come back to the Inflation Reduction Act for a little bit if I could. Just want to see, I guess, what are some of the things you're watching there that could positively influence your business specifically as it relates to the tax credits. If some of those do come to fruition, how might that impact your view of CCUS, hydrogen or other?

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Chad Zamarin

Senior Vice President-Corporate Strategic Development

Sure. Yeah. Thanks. I'd say we have announced potential projects in the CCUS arena. We're very active in exploring the hydrogen potential – we've been public in discussing the fact that we're participating in four potential hydrogen hubs, that were a part of the Infrastructure Act, the funding through DOE was part of the Infrastructure Act. And so, we've been actively pursuing multiple opportunities to prove out those areas.

The proposed tax credits would be supportive of our strategy. Certainly, the 45Q credits would be very supportive of our CCUS project in the Haynesville, which would be a project that would be built alongside our LEG system that would decarbonize that project and production in the Haynesville. So, we're very excited to see that move forward.

And hydrogen still has a long way to go. The credits that we think are being discussed are primarily in support of green hydrogen, and we've got great opportunities across our footprint to complement our infrastructure with green hydrogen production. But also seeing the CCUS credits and the hydrogen credits together would be the most impactful for supporting kind of a natural gas production of hydrogen.

So, we're encouraged with those. As we spoke on previous earnings calls, those credits are in line with our expectations, and we would see projects that would move forward based on those credits. So, I'd say stay tuned.

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Jeremy Tonet

Analyst, JPMorgan Securities LLC

Got it. That's helpful and just wanted to pivot towards the Haynesville a little bit here. You gave some good color but wondering if you could provide a little bit more with regards to Trace performance versus expectations and, specifically, incremental expansion projects there. Just wondering how you see the cadence of Haynesville growth on your systems and how long is the runway?

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Micheal Dunn

Chief Operating Officer & Executive Vice President

Hi, Jeremy. This is Micheal. Yeah, Trace is performing as we expected. So far, so good. We've integrated the team there very well and really taking hold of what the culture is here at Williams. So, very pleased with what we're seeing there so far.

On the rest of the Haynesville, we are seeing some great improvement year-over-year in regard to our gathering volumes there. So, we're very pleased with that and across a great array of different producer customers. We do have a number of expansions underway in the north part of the system. Some of that will come on line later this fall, but we also have some in our South Mansfield system that we are anticipating bringing on as well.

So, a lot of activity and associated expansion opportunity for a number of different producers there, both public and private, and we've outlined that in the presentation materials. But these expansions are pretty reasonable costs as well from a capital investment standpoint, just because of the backbone nature of the systems that we have built out there.

We've talked about GeoSouthern driving a lot of new capacity through our systems that we had already built out a long time ago, and we're seeing the benefits of that now with these low capital investment opportunities that are driving very significant volume growth out of the Haynesville.

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Jeremy Tonet

Analyst, JPMorgan Securities LLC

Got it. That's helpful. I'll leave it there. Thanks.

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Brian Reynolds

Analyst, UBS Securities LLC

Hi. Good morning, everyone. First question, really want to just follow up on some of the capital allocation commentary previously. I appreciate the color. But as a follow-up, you talked about the spread between the equity yield and credit. I'm just kind of curious just given Williams is headed towards sub-3.5 leverage, just wondering if there's a point where Williams will consider sub-optimal leverage as another consideration in terms of the cap allocation framework in case Williams did not see that potential equity pull back alluded to. Thanks.

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John Porter

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

Yeah. I think we are really just focused in on maintaining our BBB credit rating as really being optimal for the business, and we've got to stay mindful of the amount of tailwind that's coming from the very strong commodity prices right now. So, we're taking a long-term view of the business cycles and the commodity price cycles and continuing to think

about what leverage target makes the most sense. But really, we're focused on the strong BBB credit ratings and being durable through many different business cycle iterations, as well as having dry powder along the way, too, for bolt-on transactions that might really help our natural gas scale.

Brian Reynolds

Analyst, UBS Securities LLC

Great. Appreciate the color. And then as a follow-up, I appreciate the commentary on tax credits. Maybe to talk a little bit more about the corporate minimum tax proposals, any initial comments that you could have on the impacts to Williams? And then as it relates to NOLs, I know there's a difference between book and tax. So, any initial takes on potential impacts to Williams there? Thanks.

John Porter

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

Thanks, Brian. My response will be pretty general, given that we're still tracking the continued development of the legislation, and a lot of the more important specifics will probably be a result of work getting done by the IRS or the Treasury Department down the road.

But based on what we know today, we'd offer the following comments. Under the current tax code, we resume paying some cash taxes in 2025, but with a more significant step-up in 2026. So, this policy change would really just mean that we start paying cash taxes in 2023. However, this appears to just be a timing issue and not a permanent increase in tax.

In other words, we would be able to claim a credit for the booked minimum taxes paid against our future regular corporate tax. So, from a valuation perspective, it's pretty immaterial versus the status quo scenario. In other words, the impact is really just the equivalent of advancing via government a fairly immaterial noninterest-bearing loan that might grow for three to four years and then start to decline as we utilize the credit against our regular taxes, which again become more significant in the 2026 timeframe.

Now, additionally, as Chad mentioned, we would also be able to use green energy credits against the booked minimum tax, but not until those projects are placed into service.

As you know, Williams is enjoying a lot of financial strength and flexibility right now with our 2.29 times dividend coverage. So, we feel like we remain very well-positioned to absorb the impact of this minimum booked tax which, in our case, again is just essentially an advance to the government of the taxes that were likely coming due in a few years anyway.

And one last comment, we don't expect the booked minimum tax to affect our regulated rate-based assets either.

Brian Reynolds

Analyst, UBS Securities LLC

Great. I really appreciate the color. Have a good rest of your day, everyone.

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Gabriel Moreen

Analyst, Mizuho Securities

Hi, everyone. A couple ones I just wanted to maybe ask about the backlog in the projects in development slide. It's shifted a little bit since 1Q. It seems like maybe some projects have dropped off from LNG, but also been added to the industrial backlog. Just wondering if there's any larger reads there from that as far as either competition or just demand for more infrastructure.

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Alan Armstrong

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

Yeah, Gabe. I'm looking at Micheal here to see if he had any insight on that. I don't know what would have dropped off of there other than maybe we pulled the LEG project off and move that into execution. So, that probably occurred, that's about the only thing because that was slated as an LNG project. So, I suspect that that moved.

But other than that, I would tell you that we just continue to be impressed with the amount of demand for increased services on our Transco system, particularly in kind of the traditional parts of our market, as well as a lot of opportunities for serving LNG in Gulf, but I don't think there has been any shift in our business other than the LEG project getting pulled from pipeline into execution.

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Micheal Dunn

Chief Operating Officer & Executive Vice President

Yes. That's right, Alan.

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Gabriel Moreen

Analyst, Mizuho Securities

Thanks, Alan. And then I know it's not a huge driver for Williams but clearly spent a lot of time focusing on the Conway NGL markets over the last couple of weeks. I was wondering if you can just maybe speak how your assets are positioned there and whether there has been any, I guess, upside to Williams.

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Micheal Dunn

Chief Operating Officer & Executive Vice President

Gabe, this is Micheal. Yeah, I think we'll see some opportunity there to work that issue for the benefit of both ourselves and the third-party there ONEOK, that has the issue. But right now we are working to make sure we can accommodate volumes into our systems. But it looks like we'll be able to accomplish that and certainly help the industry out in that regard. But there will be some upside to Williams for the business that we'll take on there.

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Gabriel Moreen

Analyst, Mizuho Securities

Great. Thanks, Micheal.

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Michael Lapidés

Analyst, Goldman Sachs & Co. LLC

Hey, guys. Thank you for taking my question. I'd say I had two of them. First one, you've gotten a lot of questions today on capital location. Just curious, you've made a lot of progress in moving forward with some new projects. Congrats on Regional Energy Access and the EIS, by the way. Congrats on LEG as well. Just curious how you're thinking about growth capex for next year and the year after. I know you're not going to give the actual number, but just directionally you've got a lot of projects in the hopper. Should we think that growth capex in the coming years as a little bit above kind of where you're expecting this year to be?

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Alan Armstrong

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

Yeah, Michael. Not really. I mean, a lot of that's been in the forecast and a lot of that money has been being spent already. So, for instance things like Whale, a lot of that money was spent already on the pipe. A lot of the prefab work – a lot of those very expensive Deepwater specialty products that we use for the interconnections, a lot of that money was spent. The late portion of that project will start this year and that's already in that capital budget.

So, I would say while it may appear that way, there's actually, if you look at the timing of some of the spend on these projects, it's actually pretty levelized over the period. So, not really seeing any big increase beyond kind of the normal run rate right now on capital. So, excited about the projects.

I would tell you the one thing we didn't mention maybe enough, and I think that's very unique to Williams, is our ability to turn the dial up and down on modernization capital

and emission reduction work on the Transco system. And so, that's an attractive alternative that we have that's pretty unique.

And so, when it comes to capital allocation questions, that's an interesting dial that we have. And obviously, share buybacks or anything else really has to compete with those returns on investing in updating our regulated transmissions systems. So, that's probably a variable that sits out there over the longer term, but here for the next couple of years, I think our capital will be pretty ratable to where we've been seeing that. And I'm excepting obviously things like the Trace acquisition and kind of pulling the Trace acquisition off of that and thinking about it from a growth capital for organic development.

Michael Lapidés

Analyst, Goldman Sachs & Co. LLC

Okay. And then one follow-up, and this is a little bit granular, and I apologize, but just curious when you're thinking about your gas production assets in the Wamsutter and in the Haynesville. Just curious, do you have kind of like a hedging philosophy you want to stick to, or the company and the board want you all to stick to, meaning how much of like next year do you want to have hedged going into the year relative to your production levels?

Alan Armstrong

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

Yeah. No. Not really, Michael. Good question. I would say that when we see opportunity and we see market volatility that props prices up, we tend to take advantage of that. But we're not needing to hedge for cash just for security of cash flow.

So, it's really a value proposition question and when we think there's good upside in capturing some of those hedges or we think the market is overheated a little bit from time to time, we'll try to pick that up. So, not really any clear corporate policy on that other than to be opportunistic when we see opportunities in the market that we think are a good value for the cash flows we have.

Micheal Dunn

Chief Operating Officer & Executive Vice President

And to add that, in the Wamsutter, we want to be careful, too, to not have a situation where we have a physical flow issue due to freeze offs. So, we'll be pretty careful in Wyoming as well as to what we hedge up there going into the winter months.

Michael Lapidès

Analyst, Goldman Sachs & Co. LLC

Got it. Thank you, guys. Much appreciated.

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Craig Shere

Analyst, Tuohy Brothers

Good morning. Thanks for taking the questions. First, John mentioned prospective, more accretive bolt-on opportunities in terms of potential uses of free cash flow, can you opine on where you still see low-hanging fruit there, specifically with opportunities in the Northeast G&P as well as across the West?

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Chad Zamarin

Senior Vice President-Corporate Strategic Development

Yeah. I'd just say that we remain very disciplined when it comes to bolt-on transactions. We're always looking for places where we can leverage our footprint, our scale. We do see bolt-on transaction opportunities in the Northeast and continued consolidation in the Haynesville, and virtually across kind of our footprint, including some potential opportunities that would complement our transmission and storage businesses.

So, we'll continue to evaluate those. But I would say I think you'll see more of the same where we've been very disciplined in making sure that anything that we do has real synergies and leverages our strengths. And so, we continue to feel like there may be opportunities for that.

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Craig Shere

Analyst, Tuohy Brothers

Thank you for that. The increased guidance was not unexpected, but I think a little more than the Street was anticipating. Some of that clearly driven by some volumes that are looking very attractive and you all mentioned are ramping into the end of the year.

So, if I just annualize the implied second half, I get very close to a \$6.5 billion EBITDA run rate, but the Street's under \$6.4 billion and volumes are ramping. I realize there's issues of commodity pricing year-over-year, but would it be fair to say that you all are pretty comfortable that you're looking good relative to Street expectations heading into next year?

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Alan Armstrong

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

Yeah. Craig, I think you described that actually very well. We do have continued growth into next year, but I would say that that's offset by kind of the current strip, obviously, in terms of pricing on the E&P space, but we do have growth in that as well.

So, yes, we are positioned for an attractive 2023, but obviously we don't have guidance out there and that will be somewhat dependent on how prices actually are realized next year on the E&P business.

But certainly a lot of volume growth to be coming on the E&P business through the balance of the year that will extend itself into 2023, and the gathering volumes in the Northeast are going to be very durable, and the growth that we're seeing in the Haynesville will continue. So, a lot of very positive tailwinds I would say right now for the balance of 2022 as well as setting up for a very attractive 2023.

And then, even as we get into 2024 and 2025, a lot of the transmission projects that we're executing on right now, and the Deepwater Gulf of Mexico really pile on to what's a great base of growth. So, I would say we're pretty bullish right now about the way the next three years are stacking up in terms of very visible growth across the business right now.

Craig Shere

Analyst, Tuohy Brothers

Thank you.

Neal Dingmann

Analyst, Truist Securities

Morning. Thanks for taking my call. Alan, you've touched a lot about this, but I was hoping maybe to get a little more detail, specifically your thoughts on maybe spending or specifically if you've got a bit of an update on your capex guide. I'm just wondering, you've talked around that a little bit today in the prepared and Q&A and just wonder if any more color you can give on that updated guide.

Alan Armstrong

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

Yeah. For 2022 or for beyond 2022 on capex?

Neal Dingmann

Analyst, Truist Securities

Yeah. More for beyond. Again, I kind of obviously get what you're doing this year and so more as expectations and kind of, you've got a lot of exciting projects. So, I'm just trying to get an idea of maybe sort of organic versus these other projects and, as you said, more in the sort of beyond.

Alan Armstrong

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

Yeah. Okay. Sorry. I understand your question a little better now. Well, I would just say kind of as you lay out the puts and takes right now, a lot of money being spent right now in the Deepwater Gulf of Mexico, as I mentioned, particularly on the Whale prospect and, for the balance of the year, that'll kind of wane off. And as we get into 2023 as well, a lot of expansion projects in our gathering and processing areas that will also start to wane off as we get into 2023 and those will be somewhat replaced by executing on some of our transmission projects and that group of five that we're executing on right now for 1.9 Bcf a day of new capacity.

So, that's kind of how I would stack that up as Deepwater and Gathering and Processing driving that quite a bit through the balance of this year and into the first part of next year, and then that starts to be replaced with execution around our transmission projects. So, I think that's a good set up.

I would say we continue to see these demand pulls on the gathering systems while we're not building that growth in right now, certainly potential for some of that to continue. But again, pretty efficient capital investment projects in our gathering systems relative to the growth, as Micheal pointed out earlier.

Neal Dingmann

Analyst, Truist Securities

Great. Great. And then lastly, just a quick follow-up. You've seen and continue to see some great commodity price upside around those upstream JVs of yours. I'm just wondering, could you help me a bit – I don't know if you can frame this a little bit, but what type of price sensitivity do you have? It appears to me that prices are going to stay high or maybe even go higher. So, I'm just trying to get a sense of sensitivity around some of those upstream JVs.

John Porter

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

Yeah. I think it's a little bit of a moving target. We have given some good volume information in the Appendix of the presentation. Those volumes are ramping pretty quickly quarter by quarter right now and will continue to do so into 2023. So, we'll continue to try to provide clarity around the volumes.

We've also kind of laid out what hedges we put against those. So, it's a bit of a moving target and it will change each quarter as our net production volumes continue to increase and as the overall hedge portfolio changes. But we're going to continue to provide that information in the Appendix every quarter so that you can keep up with how that's changing.

Neal Dingmann

Analyst, Truist Securities

Very good. That's helpful. Thanks, guys.

CLOSING REMARKS

Alan Armstrong

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

Okay. Well, thank you all very much. Thanks for the great questions. Another really terrific quarter and great setup for both the balance of the year and into 2023. So, really excited about where we're positioned today and really hopeful that some of the permitting issues are going to be dealt with in light of a lot of concern over the energy crisis that is beginning to be felt here even in the U.S.

So, we think that's going to bring some attention to needed permitting reform, and we intend to be front and center in trying to make that good for both our country and for Williams as well. So, we thank you for joining us today and have a great day.