

WILLIAMS COMPANIES INC
Form 10-Q
October 30, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

or

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

For the transition period from _____ to _____

Commission file number 1-4174

THE WILLIAMS COMPANIES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

73-0569878

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

ONE WILLIAMS CENTER

TULSA, OKLAHOMA

74172-0172

(Address of principal executive offices)

(Zip Code)

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

NO CHANGE

(Former name, former address and former fiscal year, if changed since last report.)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes No

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Shares Outstanding at October 27, 2014
Common Stock, \$1 par value	747,462,634

The Williams Companies, Inc.
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Certain matters contained in this report include “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements relate to anticipated financial performance, management’s plans and objectives for future operations, business prospects, outcome of regulatory proceedings, market conditions, and other matters. We make these forward-looking statements in reliance on the safe harbor protections provided under the Private Securities Litigation Reform Act of 1995.

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

- The levels of dividends to stockholders;
- Expected levels of cash distributions by Access Midstream Partners, L.P. (ACMP) and Williams Partners L.P. (WPZ) with respect to general partner interests, incentive distribution rights, and limited partner interests;
- The closing, expected timing, and benefits of the proposed merger of ACMP and WPZ (the Proposed Merger);
- Amounts and nature of future capital expenditures;
- Expansion and growth of our business and operations;

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 olefins prices, supply and demand;

Demand for our services.

Forward-looking statements are based on numerous assumptions, uncertainties and risks that could cause future events or results to be materially different from those stated or implied in this report. Many of the factors that will determine these results are beyond our ability to control or predict. Specific factors that could cause actual results to differ from results contemplated by the forward-looking statements include, among others, the following:

Whether WPZ, ACMP, or the merged partnership will produce sufficient cash flows to provide the level of cash distributions we expect;

Whether we are able to pay current and expected levels of dividends;

Availability of supplies, market demand, and volatility of commodity prices;

Inflation, interest rates, fluctuation in foreign exchange rates, and general economic conditions (including future disruptions and volatility in the global credit markets and the impact of these events on our customers and suppliers);

The strength and financial resources of our competitors and the effects of competition;

Whether we are able to successfully identify, evaluate and execute investment opportunities;

Our ability to acquire new businesses and assets and successfully integrate those operations and assets, including

ACMP's business, into our existing businesses, as well as successfully expand our facilities;

Development of alternative energy sources;

The impact of operational and development hazards and unforeseen interruptions;

Costs of, changes in, or the results of laws, government regulations (including safety and environmental regulations), environmental liabilities, litigation, and rate proceedings;

Our costs and funding obligations for defined benefit pension plans and other postretirement benefit plans;

Changes in maintenance and construction costs;

Changes in the current geopolitical situation;

Our exposure to the credit risk of our customers and counterparties;

ACMP's dependence on a limited number of customers and vendors;

Risks related to strategy and financing, including restrictions stemming from our debt agreements, future changes in our credit ratings as well as the credit ratings of ACMP, WPZ, or the merged partnership as determined by nationally-recognized credit rating agencies and the availability and cost of capital;

The amount of cash distributions from and capital requirements of our investments and joint ventures in which we participate;

Risks associated with weather and natural phenomena, including climate conditions;

Acts of terrorism, including cybersecurity threats and related disruptions;

Additional risks described in our filings with the Securities and Exchange Commission.

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 to announce publicly the result of any revisions to any of the forward-looking statements to reflect future events or developments.

In addition to causing our actual results to differ, the factors listed above and referred to below may cause our intentions to change from those statements of intention set forth in this report. Such changes in our intentions may also cause our results to differ. We may change our intentions, at any time and without notice, based upon changes in such factors, our assumptions, or otherwise.

Because forward-looking statements involve risks and uncertainties, we caution that there are important factors, in addition to those listed above, that may cause actual results to differ materially from those contained in the forward-looking statements. For a detailed discussion of those factors, see Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2013, and Part II, Item 1A. Risk Factors of this Form 10-Q.

DEFINITIONS

The following is a listing of certain abbreviations, acronyms, and other industry terminology used throughout this Form 10-Q.

Measurements:

Barrel: One barrel of petroleum products that equals 42 U.S. gallons

Bcf: One billion cubic feet of natural gas

Bcf/d: One billion cubic feet of natural gas per day

British Thermal Unit (Btu): A unit of energy needed to raise the temperature of one pound of water by one degree Fahrenheit

Dekatherms (Dth): A unit of energy equal to one million British thermal units

Mbbls/d: One thousand barrels per day

Mdth/d: One thousand dekatherms per day

MMcf/d: One million cubic feet per day

Consolidated Entities:

ACMP: Access Midstream Partners, L.P.

Constitution: Constitution Pipeline Company, LLC

Gulfstar One: Gulfstar One LLC

Northwest Pipeline: Northwest Pipeline LLC

Transco: Transcontinental Gas Pipe Line Company, LLC

WPZ: Williams Partners L.P.

Partially Owned Entities: Entities in which we do not own a 100 percent ownership interest and which, as of September 30, 2014, we account for as an equity-method investment, including principally the following:

Aux Sable: Aux Sable Liquid Products LP

Bluegrass Pipeline: Bluegrass Pipeline Company LLC

Caiman II: Caiman Energy II, LLC

Discovery: Discovery Producer Services LLC

Gulfstream: Gulfstream Natural Gas System, L.L.C.

Laurel Mountain: Laurel Mountain Midstream, LLC

Moss Lake: Moss Lake Fractionation LLC and Moss Lake LPG Terminal LLC

OPPL: Overland Pass Pipeline Company LLC

Government and Regulatory:

EPA: Environmental Protection Agency

FERC: Federal Energy Regulatory Commission

Other:

B/B Splitter: Butylene/Butane splitter

RGP Splitter: Refinery grade propylene splitter

IDR: Incentive distribution right

NGLs: Natural gas liquids; natural gas liquids result from natural gas processing and crude oil refining and are used as petrochemical feedstocks, heating fuels, and gasoline additives, among other applications

NGL margins: NGL revenues less Btu replacement cost, plant fuel, transportation, and fractionation

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PART I – FINANCIAL INFORMATION

The Williams Companies, Inc.
Consolidated Statement of Income
(Unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
	(Millions, except per-share amounts)			
Revenues:				
Service revenues	\$1,127	\$736	\$2,771	\$2,163
Product sales	942	887	2,725	3,037
Total revenues	2,069	1,623	5,496	5,200
Costs and expenses:				
Product costs	807	710	2,300	2,301
Operating and maintenance expenses	412	269	1,018	820
Depreciation and amortization expenses	369	207	797	606
Selling, general, and administrative expenses	171	130	457	385
Net insurance recoveries – Geismar Incident	—	(50)	(161)	(50)
Other (income) expense – net	3	21	47	26
Total costs and expenses	1,762	1,287	4,458	4,088
Operating income (loss)	307	336	1,038	1,112
Equity earnings (losses)	66	37	55	93
Gain on remeasurement of equity-method investment	2,522	—	2,522	—
Other investing income (loss) – net	11	10	43	62
Interest incurred	(262)	(151)	(623)	(454)
Interest capitalized	52	27	110	75
Other income (expense) – net	10	1	15	1
Income (loss) from continuing operations before income taxes	2,706	260	3,160	889
Provision (benefit) for income taxes	998	62	1,133	260
Income (loss) from continuing operations	1,708	198	2,027	629
Income (loss) from discontinued operations	—	(1)	4	(10)
Net income (loss)	1,708	197	2,031	619
Less: Net income attributable to noncontrolling interests	30	56	110	175
Net income (loss) attributable to The Williams Companies, Inc.	\$1,678	\$141	\$1,921	\$444
Amounts attributable to The Williams Companies, Inc.:				
Income (loss) from continuing operations	\$1,678	\$143	\$1,917	\$454
Income (loss) from discontinued operations	—	(2)	4	(10)
Net income (loss)	\$1,678	\$141	\$1,921	\$444
Basic earnings (loss) per common share:				
Income (loss) from continuing operations	\$2.24	\$.21	\$2.70	\$.66
Income (loss) from discontinued operations	—	—	—	(.01)
Net income (loss)	\$2.24	\$.21	\$2.70	\$.65
Weighted-average shares (thousands)	747,412	683,274	709,809	682,744
Diluted earnings (loss) per common share:				
Income (loss) from continuing operations	\$2.22	\$.20	\$2.68	\$.66
Income (loss) from discontinued operations	—	—	—	(.01)
Net income (loss)	\$2.22	\$.20	\$2.68	\$.65
Weighted-average shares (thousands)	752,064	687,306	714,119	687,007

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Cash dividends declared per common share	\$.56	\$.36625	\$ 1.3875	\$ 1.0575
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See accompanying notes.

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The Williams Companies, Inc.
Consolidated Balance Sheet
(Unaudited)

	September 30, 2014	December 31, 2013
	(Millions, except per-share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$302	\$681
Accounts and notes receivable, net:		
Trade and other	860	600
Income tax receivable	102	74
Deferred income tax asset	126	27
Inventories	284	194
Other current assets and deferred charges	224	107
Total current assets	1,898	1,683
Investments	7,085	4,360
Property, plant, and equipment, at cost	35,568	25,823
Accumulated depreciation and amortization	(8,170)	(7,613)
Property, plant and equipment – net	27,398	18,210
Goodwill	1,658	646
Other intangible assets, net of amortization	11,136	1,644
Regulatory assets, deferred charges, and other	632	599
Total assets	\$49,807	\$27,142
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$1,017	\$960
Accrued liabilities	895	797
Commercial paper	265	225
Long-term debt due within one year	754	1
Total current liabilities	2,931	1,983
Long-term debt	19,922	11,353
Deferred income taxes	4,657	3,529
Other noncurrent liabilities	1,616	1,356
Contingent liabilities (Note 12)		
Equity:		
Stockholders' equity:		
Common stock (960 million shares authorized at \$1 par value; 782 million shares issued at September 30, 2014 and 718 million shares issued at December 31, 2013)	782	718
Capital in excess of par value	14,925	11,599
Retained deficit	(5,315)	(6,248)
Accumulated other comprehensive income (loss)	(222)	(164)
Treasury stock, at cost (35 million shares of common stock)	(1,041)	(1,041)
Total stockholders' equity	9,129	4,864
Noncontrolling interests in consolidated subsidiaries	11,552	4,057
Total equity	20,681	8,921
Total liabilities and equity	\$49,807	\$27,142

See accompanying notes.

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The Williams Companies, Inc.
Consolidated Statement of Changes in Equity
(Unaudited)

	The Williams Companies, Inc., Stockholders							
	Common	Capital in	Retained	Other	Treasury	Total	Noncontrolling	Total
	Stock	Excess of	Deficit	Comprehensive	Stock	Stockholders	Interests	Equity
		Par Value		Income		Equity		
				(Loss)				
	(Millions)							
Balance – December 31, 2013	\$718	\$11,599	\$(6,248)	\$(164)	\$(1,041)	\$4,864	\$4,057	\$8,921
Net income (loss)	—	—	1,921	—	—	1,921	110	2,031
Other comprehensive income (loss)	—	—	—	(38)	—	(38)	(5)	(43)
Issuance of common stock for acquisition of business (Note 10)	61	3,317	—	—	—	3,378	—	3,378
Noncontrolling interest resulting from acquisition of business	—	—	—	—	—	—	7,529	7,529
Cash dividends – common stock	—	—	(986)	—	—	(986)	—	(986)
Dividends and distributions to noncontrolling interests	—	—	—	—	—	—	(509)	(509)
Stock-based compensation and related common stock issuances, net of tax	3	72	—	—	—	75	—	75
Sales of limited partner units of Williams Partners L.P.	—	—	—	—	—	—	55	55
Changes in ownership of consolidated subsidiaries, net	—	(62)	—	(20)	—	(82)	118	36
Contributions from noncontrolling interests	—	—	—	—	—	—	260	260
Deconsolidation of Bluegrass Pipeline (Note 2)	—	—	—	—	—	—	(63)	(63)
Other	—	(1)	(2)	—	—	(3)	—	(3)
Net increase (decrease) in equity	64	3,326	933	(58)	—	4,265	7,495	11,760
Balance – September 30, 2014	\$782	\$14,925	\$(5,315)	\$(222)	\$(1,041)	\$9,129	\$11,552	\$20,681

See accompanying notes.

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The Williams Companies, Inc.
Consolidated Statement of Cash Flows
(Unaudited)

	Nine months ended September 30,	
	2014	2013
	(Millions)	
OPERATING ACTIVITIES:		
Net income (loss)	\$2,031	\$619
Adjustments to reconcile to net cash provided (used) by operating activities:		
Depreciation and amortization	797	606
Provision (benefit) for deferred income taxes	1,042	301
Amortization of stock-based awards	36	28
Gain on remeasurement of equity-method investment	(2,522))
Cash provided (used) by changes in current assets and liabilities:		
Accounts and notes receivable	(106)	) 85
Inventories	(89)	) (53)
Other current assets and deferred charges	(49)	) 11
Accounts payable	60	(47)
Accrued liabilities	(126)	) 91
Other, including changes in noncurrent assets and liabilities	30	61
Net cash provided (used) by operating activities	1,104	1,702
FINANCING ACTIVITIES:		
Proceeds from (payments of) commercial paper – net	39	370
Proceeds from long-term debt	6,134	1,705
Payments of long-term debt	(864)	) (2,081)
Proceeds from issuance of common stock	3,414	14
Proceeds from sale of limited partner units of consolidated partnership	55	1,819
Dividends paid	(986)	) (722)
Dividends and distributions paid to noncontrolling interests	(509)	) (344)
Contributions from noncontrolling interests	260	327
Other – net	(16)	) 6
Net cash provided (used) by financing activities	7,527	1,094
INVESTING ACTIVITIES:		
Capital expenditures (1)	(2,943)	) (2,542)
Purchases of and contributions to equity-method investments	(345)	) (350)
Purchase of business, net of cash acquired	(5,958)) —
Other – net	236	(11)
Net cash provided (used) by investing activities	(9,010)	) (2,903)
Increase (decrease) in cash and cash equivalents	(379)	) (107)
Cash and cash equivalents at beginning of period	681	839
Cash and cash equivalents at end of period	\$ 302	\$ 732
(1) Increases to property, plant, and equipment	\$ (2,902)	) \$ (2,685)
Changes in related accounts payable and accrued liabilities	(41)	) 143
Capital expenditures	\$ (2,943)	) \$ (2,542)

See accompanying notes.

The Williams Companies, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

Note 1 – General, Description of Business, and Basis of Presentation

General

Our accompanying interim consolidated financial statements do not include all the notes in our annual financial statements and, therefore, should be read in conjunction with the consolidated financial statements and notes thereto in Exhibit 99.1 of our Form 8-K dated May 22, 2014. The accompanying unaudited financial statements include all normal recurring adjustments and others that, in the opinion of management, are necessary to present fairly our interim financial statements.

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 consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Unless the context clearly indicates otherwise, references in this report to “we,” “our,” “us,” or similar language refer to The Williams Companies, Inc. and its subsidiaries.

Description of Business

Our operations are located principally in the United States and are organized into the Williams Partners, Access Midstream Partners, and Williams NGL & Petchem Services reportable segments. All remaining business activities are included in Other.

Williams Partners consists of our consolidated master limited partnership, Williams Partners L.P. (WPZ), and includes gas pipeline and midstream businesses. The gas pipeline businesses primarily consist of two interstate natural gas pipelines, which are Transcontinental Gas Pipe Line Company, LLC (Transco) and Northwest Pipeline LLC (Northwest Pipeline), a 50 percent equity-method investment in Gulfstream Natural Gas System, L.L.C., and a 41 percent interest in Constitution Pipeline Company, LLC (Constitution) (a consolidated entity). WPZ’s midstream operations are composed of significant, large-scale operations in the Rocky Mountain and Gulf Coast regions, operations in the Marcellus Shale region, and various equity-method investments in domestic natural gas gathering and processing assets and natural gas liquid (NGL) fractionation and transportation assets. WPZ’s midstream assets also include an NGL fractionator and storage facilities near Conway, Kansas as well as an olefins production facility in Geismar, Louisiana, along with associated ethane and propane pipelines, a refinery grade splitter in Louisiana, an oil sands offgas processing plant located near Fort McMurray, Alberta, and an NGL/olefin fractionation facility and butylene/butane splitter facility at Redwater, Alberta.

Access Midstream Partners consists of our consolidated master limited partnership, Access Midstream Partners, L.P. (ACMP), which includes domestic midstream businesses that provide gathering, treating, and compression services to producers under long-term, fee-based contracts in the Marcellus and Utica shale plays, as well as the Eagle Ford, Haynesville, Barnett, Mid-Continent, and Niobrara areas. ACMP also includes a 49 percent equity-method investment in Utica East Ohio Midstream, LLC, and Appalachia Midstream Services, LLC, which owns an approximate average 47 percent interest in 10 gas gathering systems in the Marcellus Shale. We previously owned an equity-method investment in ACMP until July 1, 2014, at which time we acquired all of the interests in ACMP previously held by Global Infrastructure Partners II (GIP), which included 50 percent of the general partner interest and 55.1 million limited partner units for \$5.995 billion in cash (ACMP Acquisition). See Note 3 – Acquisition for further details.

Notes (Continued)

Williams NGL & Petchem Services includes certain other domestic olefins pipeline assets, certain Canadian growth projects under development, including a propane dehydrogenation facility and a liquids extraction plant, as well as a 50 percent equity-method investment in Bluegrass Pipeline Company LLC (Bluegrass Pipeline). See Note 2 – Variable Interest Entities for more information regarding the status of Bluegrass Pipeline.

Other includes other business activities that are not operating segments, as well as corporate operations.

Basis of Presentation

We contributed certain Canadian operations in February 2014 to WPZ (Canada Dropdown) for total consideration of \$56 million of cash (including a \$31 million post-closing adjustment received in the second quarter), 25,577,521 WPZ Class D limited-partner units, and an increase in the capital account of its general partner to allow us to maintain our 2 percent general partner interest. In lieu of cash distributions, the Class D units receive quarterly distributions of additional paid-in-kind Class D units. All Class D units outstanding will be convertible to common units beginning in the first quarter of 2016. The contribution agreement governing the Canada Dropdown provides that WPZ can issue additional Class D units to us on a quarterly basis through 2015 for up to a total of \$200 million in cash for the purpose of funding certain facility expansions. At September 30, 2014, no additional Class D units have been issued to us under this provision. These operations were previously reported within the Williams NGL & Petchem Services segment, but are now reported within Williams Partners. Prior period segment disclosures have been recast for this transaction. In October 2014, a purchase price adjustment was finalized whereby we will pay \$56 million in cash to WPZ in the fourth quarter 2014 and waive \$2 million in payment of incentive distribution rights (IDRs) with respect to the November 2014 distribution.

Consolidated master limited partnerships

During the third quarter of 2014, WPZ issued 1,080,448 common units pursuant to an equity distribution agreement between WPZ and certain banks. Considering this, as well as our contribution of certain Canadian assets discussed above, and WPZ's quarterly distribution of additional paid-in-kind Class D units to us, we own approximately 66 percent of the interests in WPZ, including the interests of the general partner, which are wholly owned by us, and IDRs as of September 30, 2014.

Following the ACMP Acquisition on July 1, 2014, we owned approximately 50 percent of the limited partner units, including all of the Class B units that pay quarterly distribution of additional paid-in-kind Class B units. During the third quarter, we received a quarterly distribution of additional paid-in-kind Class B units and now own 51 percent of the interests in ACMP, including the interests of the general partner, which are wholly owned by us, and IDRs as of September 30, 2014.

The previously described equity issuances by WPZ and ACMP had the combined net impact of increasing Noncontrolling interests in consolidated subsidiaries by \$118 million, and decreasing Capital in excess of par value by \$62 million, Deferred income taxes by \$36 million, and Accumulated other comprehensive income (loss) by \$20 million in the Consolidated Balance Sheet.

WPZ and ACMP are each self-funding and maintain separate lines of bank credit and cash management accounts. WPZ also has a commercial paper program. (See Note 9 – Debt and Banking Arrangements.) Cash distributions from WPZ and ACMP to us, including any associated with our IDRs, occur through the normal partnership distributions from WPZ and ACMP to their respective partners.

Discontinued operations

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

Accounting standards issued but not yet adopted

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update 2014-09 establishing Accounting Standards Codification Topic 606, "Revenue from Contracts with Customers" (ASC 606). ASC 606

Notes (Continued)

establishes a comprehensive new revenue recognition model designed to depict the transfer of goods or services to a customer in an amount that reflects the consideration the entity expects to be entitled to receive in exchange for those goods or services and requires significantly enhanced revenue disclosures. The standard is effective for annual reporting periods beginning after December 15, 2016, and interim periods within the reporting period. Accordingly, we will adopt this standard in the first quarter of 2017. ASC 606 allows either full retrospective or modified retrospective transition and early adoption is not permitted. We are currently evaluating the impact of this new standard on our consolidated financial statements.

Note 2 – Variable Interest Entities

Consolidated VIEs

As of September 30, 2014, we consolidate the following variable interest entities (VIEs):

Gulfstar One

WPZ owns a 51 percent interest in Gulfstar One LLC (Gulfstar One), a subsidiary that, due to certain risk-sharing provisions in its customer contracts, is a VIE. WPZ is the primary beneficiary because it has the power to direct the activities that most significantly impact Gulfstar One's economic performance. WPZ, as construction agent for Gulfstar One, designed, constructed, and installed a proprietary floating-production system, Gulfstar FPS™, and associated pipelines which will initially provide production handling and gathering services for the Tubular Bells oil and gas discovery in the eastern deepwater Gulf of Mexico. The project is expected to be in service in the fourth quarter of 2014. WPZ has received certain advance payments from the producer customers during the construction process. In certain circumstances, the producer customers will be responsible for Gulfstar One's unrecovered portion of the firm price of building the facilities if the production handling agreement is terminated. Construction of an expansion project is underway that will provide production handling and gathering services for the Gunflint oil and gas discovery in the eastern deepwater Gulf of Mexico. The expansion project is expected to be in service in the first quarter of 2016. The current estimate of the total remaining construction costs for both projects is less than \$180 million which we expect will be funded with revenues received from customers and capital contributions from WPZ and the other equity partner on a proportional basis.

Constitution

WPZ owns a 41 percent interest in Constitution, a subsidiary that, due to shipper fixed-payment commitments under its firm transportation contracts, is a VIE. WPZ is the primary beneficiary because it has the power to direct the activities that most significantly impact Constitution's economic performance. WPZ, as construction agent for Constitution, is building a pipeline connecting our gathering system in Susquehanna County, Pennsylvania, to the Iroquois Gas Transmission and the Tennessee Gas Pipeline systems. WPZ plans to place the project in service in late 2015 to 2016 and estimates the total remaining construction costs of the project to be approximately \$525 million, which will be funded with capital contributions from WPZ and the other equity partners on a proportional basis.

Notes (Continued)

The following table presents amounts included in our Consolidated Balance Sheet that are for the use or obligation of our consolidated VIEs, which are joint projects in the development and construction phase.

	September 30, 2014 (Millions)	December 31, 2013 (1)	Classification
Assets (liabilities):			
Cash and cash equivalents	\$68	\$130	Cash and cash equivalents
Property, plant and equipment	1,494	1,113	Property, plant, and equipment, at cost
Accounts payable	(83)	(146)	Accounts payable
Construction retainage	—	(3)	Accrued liabilities
Current deferred revenue	—	(10)	Accrued liabilities
Asset retirement obligation	(56)	—	Other noncurrent liabilities
Noncurrent deferred revenue associated with customer advance payments	(178)	(115)	Other noncurrent liabilities

(1) Amounts presented for December 31, 2013, include balances related to Bluegrass Pipeline. See discussion of the subsequent deconsolidation of Bluegrass Pipeline below.

Nonconsolidated VIEs

We have also identified certain interests in VIEs for which we are not the primary beneficiary. These include:

Laurel Mountain

WPZ's 51 percent-owned equity-method investment in Laurel Mountain Midstream, LLC (Laurel Mountain) is considered to be a VIE generally due to contractual provisions that transfer certain risks to customers. As decisions about the activities that most significantly impact the economic performance of this entity require a unanimous vote of all members, WPZ is not the primary beneficiary. Our maximum exposure to loss is limited to the carrying value of this investment, which was \$464 million at September 30, 2014. On October 1, 2014, a restructuring transaction was completed that increased WPZ's ownership interest to 69 percent and amended certain commercial contracts.

Caiman II

During April 2014, Caiman Energy II, LLC (Caiman II), a previously reported VIE, became able to finance its current activities without additional subordinated financial support due in part to its primary investee, Blue Racer Midstream LLC, securing a revolving credit agreement with a third party. The total equity investment at risk of Caiman II is sufficient to finance its activities. As a result, Caiman II is no longer a VIE and continues to be reported as a 58 percent-owned equity-method investment due to the significant participatory rights of our partners such that we do not control.

Bluegrass Pipeline

We own a 50 percent equity-method investment in Bluegrass Pipeline, which was a proposed NGL pipeline that would connect processing facilities in the Marcellus and Utica shale-gas areas in the northeastern United States to growing petrochemical and export markets in the Gulf Coast area of the United States. Bluegrass Pipeline was considered to be a VIE because it had insufficient equity to finance activities during its development stage. From its inception until February 16, 2014, we were the primary beneficiary of this entity because we had the power to direct whether the project moved forward and thus we previously consolidated the Bluegrass Pipeline.

On February 16, 2014, we and our partner executed an amendment to the governing documents that removed our power to direct whether the project moved forward. As a result, we were no longer the primary beneficiary as of that date, and we deconsolidated the Bluegrass Pipeline and began reporting our 50 percent interest as an equity-method investment. There was no gain or loss recognized upon deconsolidation.

Notes (Continued)

Based on a lack of customer commitments and other factors, our management decided in April 2014 to discontinue further funding of the project. The capitalized project development costs at the Bluegrass Pipeline entity were written off as of March 31, 2014, and as a result, we recognized \$67 million in related equity losses in the first quarter of 2014. On September 2, 2014, we received a notice of dissolution from our partner with respect to the Bluegrass Pipeline entity and the related Moss Lake entities. We have begun the dissolution process for these entities.

Moss Lake

We own 50 percent equity-method investments in Moss Lake Fractionation LLC and Moss Lake LPG Terminal LLC (collectively referred to as Moss Lake) which were considered to be VIEs because they had insufficient equity to finance activities during their development stage. Moss Lake was being developed to construct a proposed large-scale fractionation plant, expand natural gas liquids storage facilities in Louisiana and construct a proposed pipeline connecting these facilities to the Bluegrass Pipeline. Additionally, Moss Lake would construct a proposed new liquefied petroleum gas (LPG) terminal. We were not the primary beneficiary of this entity because we did not have the power to direct the majority of the activities of Moss Lake that most significantly impact its economic performance at this stage. In the first quarter of 2014, we recognized \$4 million in equity losses related to Moss Lake, primarily associated with the underlying write-off of capitalized project development costs at Moss Lake. The carrying value of our investment in Moss Lake is less than \$1 million at September 30, 2014. As a result of the circumstances noted above in our Bluegrass Pipeline discussion, on September 2, 2014, we received a notice of dissolution from our partner with respect to the Bluegrass Pipeline entity and Moss Lake entities. We have begun the dissolution process.

Note 3 – Acquisition

On July 1, 2014, we acquired 50 percent of the general partner interest and 55.1 million limited partner units in ACMP previously held by GIP for \$5.995 billion in cash. We now own 100 percent of the general partner interest, including IDRs, and approximately 50 percent of the limited partner units in ACMP. The acquisition was funded through the issuance of equity (See Note 10 – Stockholders' Equity) and debt (See Note 9 – Debt and Banking Arrangements), credit facility borrowings, and cash on hand.

ACMP is a publicly traded master limited partnership listed on the New York Stock Exchange that owns, operates, develops, and acquires natural gas gathering systems and other midstream energy assets. The purpose of the acquisition is to enhance our position in the Marcellus and Utica shale plays, provide additional diversity via the Eagle Ford, Haynesville, Barnett, Mid-Continent, and Niobrara areas, and to fortify our stable, fee-based business model and support our dividend growth strategy.

Following the ACMP Acquisition, we no longer account for our investment in ACMP by applying the equity method. The preliminary acquisition-date fair value of our equity-method investment in ACMP was \$4.6 billion. As a result of remeasuring our equity-method investment to fair value, we recognized a \$2.5 billion non-cash gain in the third quarter of 2014 associated with obtaining control and we now consolidate our investment in ACMP.

Through our 100 percent ownership of the general partner, we have obtained control of ACMP. Therefore, this acquisition was accounted for as a business combination which, among other things, requires identifiable assets acquired and liabilities assumed to be measured at their acquisition-date fair values. The excess of the consideration, including the fair value of the noncontrolling interest and our previously held equity-method interest, over those fair values is recorded as goodwill. Goodwill recognized in the acquisition relates primarily to enhancing and diversifying our basin positions and is reported in our Access Midstream Partners segment. Allocation to its reporting units has not

been completed. The goodwill is not subject to amortization, but will be evaluated at least annually for impairment or more frequently if impairment indicators are present. Substantially all of the goodwill is expected to be deductible for tax purposes.

The valuation techniques used to measure the acquisition-date fair value of our equity-method investment in ACMP consisted of valuing the existing limited partner units and general partner interest separately. The limited partner units, consisting of common and Class B units, were valued based on ACMP's closing common unit price at July 1, 2014. The general partner interest, including IDRs, was valued on a noncontrolling basis using an income approach based

Notes (Continued)

on a discounted cash flow analysis and two market approaches consisting of comparable guideline companies and an implied fair value from our GIP purchase.

The following table presents the preliminary allocation of the acquisition-date fair value of the major classes of the assets acquired, which are presented in the Access Midstream Partners segment, liabilities assumed, and noncontrolling interest at July 1, 2014. These amounts are preliminary because our valuation work has not been completed. The fair value of accounts receivable acquired equals contractual amounts receivable.

Accounts receivable	\$ 177	
Other current assets	61	
Investments	4,648	
Property, plant, and equipment - net	7,092	
Goodwill	1,012	
Other intangible assets	9,615	
Current liabilities	(407)
Debt	(4,052)
Other noncurrent liabilities	(10)
Noncontrolling interest in ACMP's subsidiaries	(985)
Noncontrolling interest in ACMP	(6,544)

Intangible assets recognized in the acquisition are related to contractual customer relationships from gas gathering agreements with our customers. The basis for determining the value of these intangible assets is estimated future net cash flows to be derived from acquired customer contracts and relationships and discounted using a risk-adjusted discount rate. These intangible assets are being amortized on a straight-line basis over 30 years during which customer contracts are expected to contribute to our cash flows. We expense costs incurred to renew or extend the terms of our gas gathering, processing, and fractionation contracts with customers. Approximately 59 percent of the expected future revenues from the customer contracts associated with the ACMP Acquisition are impacted by our ability and intent to renew or renegotiate existing customer contracts. Based on the estimated future revenues during the current contract periods, the weighted-average periods prior to the next renewal or extension of the existing customer contracts is approximately 17 years.

The non-cash adjustment to record the fair value of the noncontrolling interest in ACMP was determined based on the common units owned by the noncontrolling interest and ACMP's closing common unit price at July 1, 2014.

The following unaudited pro forma revenues and net income attributable to The Williams Companies, Inc. for the three months ended September 30, 2013, and nine months ended September 30, 2014 and 2013, are presented as if the ACMP Acquisition had been completed on January 1, 2013. These pro forma amounts are not necessarily indicative of what the actual results would have been if the acquisition had in fact occurred on the date or for the periods indicated, nor do they purport to project revenues or net income attributable to The Williams Companies, Inc. for any future periods or as of any date. These amounts do not give effect to any potential cost savings, operating synergies, or revenue enhancements to result from the transactions or the potential costs to achieve these cost savings, operating synergies, and revenue enhancements.

Three months ended September 30, 2013	Nine months ended September 30, 2014	2013
--	--	------

Revenues	\$1,884	\$6,066	\$5,945
Net income attributable to The Williams Companies, Inc.	\$130	\$1,899	\$387

Notes (Continued)

Significant adjustments to net income attributable to The Williams Companies, Inc. include additional depreciation and amortization expense associated with reflecting the acquired property, plant, and equipment and other intangible assets at fair value. The adjustments assume estimated useful lives of 30 years. Other significant adjustments to net income attributable to The Williams Companies, Inc. include interest expense related to debt financing associated with the acquisition as well as net income attributable to noncontrolling interests.

During the three and nine months ended September 30, 2014, ACMP contributed revenues of \$300 million and net income attributable to The Williams Companies, Inc. of \$37 million.

ACMP has one customer that accounted for \$257 million of revenue for the three months ended September 30, 2014, and is included in our consolidated results. This customer accounted for \$470 million for the six months ended June 30, 2014, and \$220 million and \$633 million for the three and nine months ended September 30, 2013, respectively, that occurred prior to our acquisition and are not included in our consolidated results but are included in the pro forma results in the above table.

Costs related to this acquisition are \$15 million and are reported within our ACMP segment and included in Selling, general, and administrative expenses in our Consolidated Statement of Income. Direct transaction costs associated with financing commitments are \$9 million and reported within Interest incurred in our Consolidated Statement of Income. Equity earnings (losses) includes \$19 million of equity losses associated with certain compensation-related costs at ACMP that were triggered by the acquisition.

Note 4 – Other Income and Expenses

The following table presents certain gains or losses reflected in Other (income) expense – net within Costs and expenses in our Consolidated Statement of Income:

	Three months ended September 30, 2014		Nine months ended September 30, 2013	
	2014	2013	2014	2013
	(Millions)			
Williams Partners				
Amortization of regulatory assets associated with asset retirement obligations	\$8	\$8	\$25	\$15
Write-off of the Eminence abandonment regulatory asset not recoverable through rates	—	9	—	15
Insurance recoveries associated with the Eminence abandonment	—	(3)	—	(15)
Impairment of certain equipment held for sale (see Note 11)	—	—	17	—
Net gain related to partial acreage dedication release	(12)	—	(12)	—
Accrued loss associated with a producer claim	—	9	—	9

Geismar Incident

On June 13, 2013, an explosion and fire occurred at WPZ's Geismar olefins plant. The fire was extinguished on the day of the incident. The incident (Geismar Incident) rendered the facility temporarily inoperable and resulted in significant human, financial, and operational effects.

We have substantial insurance coverage for repair and replacement costs, lost production, and additional expenses related to the incident as follows:

Property damage and business interruption coverage with a combined per-occurrence limit of \$500 million and retentions (deductibles) of \$10 million per occurrence for property damage and a waiting period of 60 days per occurrence for business interruption;

Notes (Continued)

- General liability coverage with per-occurrence and aggregate annual limits of \$610 million and retentions (deductibles) of \$2 million per occurrence;
- Workers' compensation coverage with statutory limits and retentions (deductibles) of \$1 million total per occurrence. During the nine month period ended September 30, 2014, we received \$175 million, and during the three and nine month periods ended September 30, 2013, we received \$50 million of insurance recoveries related to the Geismar Incident. These amounts are reported within Williams Partners and reflected in Net insurance recoveries – Geismar Incident in the Consolidated Statement of Income. Also included in Net insurance recoveries – Geismar Incident are \$14 million of related covered insurable expenses incurred in excess of our retentions (deductibles) during the nine month period ended September 30, 2014. The three and nine month periods ended September 30, 2013, include \$4 million and \$10 million, respectively, of costs under our insurance deductibles reported in Operating and maintenance expenses in the Consolidated Statement of Income.

Additional Items

The nine month period ended September 30, 2014, includes \$19 million of project development costs related to the Bluegrass Pipeline reported within Williams NGL & Petchem Services and reflected in Selling, general, and administrative expenses in the Consolidated Statement of Income.

The three month periods ended September 30, 2014 and 2013, include \$14 million and \$11 million, respectively, and the nine month periods ended September 30, 2014 and 2013, include \$41 million and \$37 million, respectively, of interest income associated with a receivable related to the sale of certain former Venezuela assets reflected in Other investing income (loss) – net in the Consolidated Statement of Income.

The three and nine month periods ended September 30, 2014 include \$1 million and \$5 million, respectively, and the nine month period ended September 30, 2013 includes \$26 million of gains resulting from ACMP's equity issuances reflected in Other investing income (loss) – net in the Consolidated Statement of Income. These equity issuances resulted in the dilution of our equity-method investment ownership interest and are accounted for as though we sold a portion of our equity-method investment.

Note 5 – Provision (Benefit) for Income Taxes

The Provision (benefit) for income taxes includes:

	Three months ended September 30, 2014		Nine months ended September 30, 2014	
	2013	2013	2013	2013
	(Millions)			
Current:				
Federal	\$(15	) \$25	\$98	\$(47
State	(2	) —	2	3
Foreign	2	2	7	3
	(15	) 27	107	(41
Deferred:				
Federal	911	21	910	233
State	98	9	103	41
Foreign	4	5	13	27
	1,013	35	1,026	301
Total provision (benefit)	\$998	\$62	\$1,133	\$260

Notes (Continued)

The effective income tax rate for the total provision for the three months ended September 30, 2014, is greater than the federal statutory rate primarily due to the effect of state income taxes, partially offset by taxes on foreign operations and the impact of nontaxable noncontrolling interests.

The effective income tax rate for the total provision for the nine months ended September 30, 2014, is greater than the federal statutory rate primarily due to the effect of state income taxes and taxes on foreign operations, partially offset by a tax benefit related to the completion of the Canada Dropdown in the first quarter of 2014 and the impact of nontaxable noncontrolling interests.

The federal and state income tax provisions for the three and nine months ended September 30, 2014 include the tax effect of a \$2.5 billion gain associated with remeasuring our equity-method investment to fair value as a result of the ACMP Acquisition. (See Note 3 – Acquisition).

The effective income tax rates for the total provision for the three and nine months ended September 30, 2013, are less than the federal statutory rate primarily due to the impact of nontaxable noncontrolling interests and taxes on foreign operations, partially offset by the effect of state income taxes. The 2013 state deferred provision includes \$10 million, net of federal benefit, related to the impact of a second-quarter Texas franchise tax law change.

As a result of closing the Canada Dropdown, approximately \$64 million of previously deferred tax liability has been reclassified as a current income tax liability through the third quarter of 2014.

During the next 12 months, we do not expect ultimate resolution of any unrecognized tax benefit associated with domestic or international matters to have a material impact on our unrecognized tax benefit position.

Note 6 – Earnings (Loss) Per Common Share from Continuing Operations

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
	(Dollars in millions, except per-share amounts; shares in thousands)			
Income (loss) from continuing operations attributable to The Williams Companies, Inc. available to common stockholders for basic and diluted earnings (loss) per common share	\$1,678	\$143	\$1,917	\$454
Basic weighted-average shares	747,412	683,274	709,809	682,744
Effect of dilutive securities:				
Nonvested restricted stock units	2,424	1,901	2,205	1,975
Stock options	2,210	2,113	2,087	2,169
Convertible debentures	18	18	18	119
Diluted weighted-average shares	752,064	687,306	714,119	687,007
Earnings (loss) per common share from continuing operations:				
Basic	\$2.24	\$.21	\$2.70	\$.66
Diluted	\$2.22	\$.20	\$2.68	\$.66

We have nonvested service-based restricted stock units that contain a nonforfeitable right to dividends during the vesting period and are considered participating securities. Dividends associated with these participating securities were \$1 million and \$3 million for the three and nine months ended September 30, 2014, respectively, and have been subtracted from Income (loss) from continuing operations attributable to The Williams Companies, Inc. available to common stockholders for basic and diluted earnings (loss) per common share in the calculation of earnings (loss) per common share.

Notes (Continued)

Note 7 – Employee Benefit Plans

Net periodic benefit cost (credit) is as follows:

	Pension Benefits			
	Three months ended September 30, 2014		Nine months ended September 30, 2014	
	2013	2013	2013	2013
	(Millions)			
Components of net periodic benefit cost:				
Service cost	\$10	\$11	\$30	\$33
Interest cost	15	12	46	38
Expected return on plan assets	(19	) (15	) (57	) (45
Amortization of prior service cost	—	1	—	1
Amortization of net actuarial loss	10	15	29	45
Net periodic benefit cost	\$16	\$24	\$48	\$72

	Other Postretirement Benefits			
	Three months ended September 30, 2014		Nine months ended September 30, 2014	
	2013	2013	2013	2013
	(Millions)			
Components of net periodic benefit cost (credit):				
Service cost	\$—	\$1	\$1	\$2
Interest cost	2	2	7	8
Expected return on plan assets	(3	) (3	) (9	) (7
Amortization of prior service credit	(5	) (3	) (15	) (7
Amortization of net actuarial loss	—	1	—	4
Reclassification to regulatory liability	1	1	3	1
Net periodic benefit cost (credit)	\$(5	) \$(1	) \$(13	) \$1

Amortization of prior service credit and net actuarial loss included in net periodic benefit cost (credit) for our other postretirement benefit plans associated with Transco and Northwest Pipeline are recorded to regulatory assets/liabilities instead of other comprehensive income (loss).

Amounts recognized in regulatory assets/liabilities include:

	Three months ended September 30, 2014		Nine months ended September 30, 2014	
	2013	2013	2013	2013
	(Millions)			
Amortization of prior service credit	\$(3	) \$(1	) \$(9	) \$(4
Amortization of net actuarial loss	—	—	—	2

During the nine months ended September 30, 2014, we contributed \$61 million to our pension plans and \$5 million to our other postretirement benefit plans. We presently anticipate making additional contributions of approximately \$2 million to our pension plans and approximately \$1 million to our other postretirement benefit plans in the remainder of 2014.

Notes (Continued)

Note 8 – Inventories

	September 30, 2014	December 31, 2013
	(Millions)	
Natural gas liquids, olefins, and natural gas in underground storage	\$202	\$111
Materials, supplies, and other	82	83
	\$284	\$194

Note 9 – Debt and Banking Arrangements

Long-Term Debt

Long-term debt of ACMP is as follows:

	September 30, 2014 (Millions)
Unsecured:	
5.875% Notes due 2021	\$750
6.125% Notes due 2022	750
4.875% Notes due 2023	1,400
4.875% Notes due 2024	750
Credit facility loans	466
Other, including capital lease obligations	6
Premium on debt	244
Total long-term debt, including current portion	4,366
Long-term debt due within one year	(4
Long-term debt	\$4,362

The indentures governing ACMP's notes contain covenants that, among other things, limit ACMP's ability and the ability of certain of ACMP's subsidiaries to: (1) sell assets including equity interests in its subsidiaries; (2) pay distributions on, redeem or purchase ACMP's units, or redeem or purchase ACMP's subordinated debt; (3) make investments; (4) incur or guarantee additional indebtedness or issue preferred units; (5) create or incur certain liens; (6) enter into agreements that restrict distributions or other payments from certain subsidiaries to ACMP; (7) consolidate, merge or transfer all or substantially all of ACMP's or certain of ACMP's subsidiaries' assets; (8) engage in transactions with affiliates; and (9) create unrestricted subsidiaries. These covenants are subject to important exceptions and qualifications. If ACMP's notes achieve an investment grade rating from either of Moody's Investors Service, Inc. or Standard & Poor's Ratings Services and no default, as defined in the indentures, has occurred or is continuing, many of these covenants will terminate.

Issuances

On June 27, 2014, WPZ completed a public offering of \$750 million of 3.9 percent senior unsecured notes due 2025 and \$500 million of 4.9 percent senior unsecured notes due 2045. WPZ used a portion of the net proceeds to repay amounts outstanding under its commercial paper program, to fund capital expenditures, and for general partnership purposes.

On June 24, 2014, we completed a public offering of \$1.25 billion of 4.55 percent senior unsecured notes due 2024 and \$650 million of 5.75 percent senior unsecured notes due 2044. We used the net proceeds to finance a portion of the ACMP Acquisition (See Note 3 – Acquisition.)

Notes (Continued)

On March 4, 2014, WPZ completed a public offering of \$1 billion of 4.3 percent senior unsecured notes due 2024 and \$500 million of 5.4 percent senior unsecured notes due 2044. WPZ used the net proceeds to repay amounts outstanding under its commercial paper program, to fund capital expenditures, and for general partnership purposes.

Commercial Paper Program

At September 30, 2014, WPZ had \$265 million of Commercial paper outstanding at a weighted average interest rate of 0.26 percent under its \$2 billion commercial paper program.

Credit Facilities

On June 27, 2014, we entered into Amendment No. 1 (the Amendment) to the First Amended & Restated Credit Agreement, dated as of July 31, 2013. The Amendment changed certain defined terms and provisions concerning the maintenance of ownership of the general partner of Williams Partners L.P. and the indebtedness of certain of our subsidiaries that act as general partner of WPZ and of ACMP and increased our permitted financial covenant thresholds. Our significant financial covenants after the Amendment require our ratio of debt to EBITDA (each as defined in the credit facility) to be no greater than 4.75 to 1. For the fiscal quarter and the two following fiscal quarters in which one or more acquisitions for a total aggregate purchase price equal to or greater than \$50 million has been executed, we are required to maintain a ratio of debt to EBITDA of no greater than 5.5 to 1.

Letter of credit capacity under our \$1.5 billion and WPZ's \$2.5 billion credit facilities is \$700 million and \$1.3 billion, respectively. At September 30, 2014, no letters of credit have been issued and loans totaling \$320 million were outstanding on our credit facility. At September 30, 2014, no letters of credit have been issued and no loans were outstanding on WPZ's credit facility. We issued letters of credit totaling \$14 million and WPZ issued letters of credit totaling \$1 million as of September 30, 2014, under certain bilateral bank agreements.

ACMP Credit Facility

ACMP's amended and restated senior secured revolving credit facility dated May 13, 2013, matures in May 2018 and includes revolving commitments of \$1.75 billion, including a sublimit of \$100 million for same-day swing line advances and a sub-limit of \$200 million for letters of credit. In addition, the revolving credit facility's accordion feature allows ACMP to increase the available borrowing capacity under the facility up to \$2 billion, subject to the satisfaction of certain conditions, including the identification of lenders or proposed lenders that agree to satisfy the increased commitment amounts under the revolving credit facility. At September 30, 2014, no letters of credit and no same-day swing line advances have been issued and loans totaling \$466 million are outstanding on ACMP's credit facility.

Borrowings under the revolving credit facility are available to fund working capital, finance capital expenditures and acquisitions, provide for the issuance of letters of credit and for general partnership purposes. The revolving credit facility is secured by all of ACMP's assets, and loans thereunder (other than swing line loans) bear interest at ACMP's option at either (i) the greater of (a) the reference rate of Wells Fargo Bank, NA, (b) the federal funds effective rate plus 0.50 percent or (c) the Eurodollar rate which is based on the London Interbank Offered Rate (LIBOR), plus 1.00 percent, each of which is subject to a margin that varies from 0.50 percent to 1.50 percent per annum, according to ACMP's leverage ratio (as defined in the agreement), or (ii) the Eurodollar rate plus a margin that varies from 1.50 percent to 2.50 percent per annum, according to ACMP's leverage ratio. If ACMP reaches investment grade status, ACMP will have the option to release the security under the credit facility and amounts borrowed will bear interest under a specified ratings-based pricing grid. The unused portion of the credit facility is subject to commitment fees of (a) 0.25 percent to 0.375 percent per annum while ACMP is subject to the leverage-based pricing grid, according to ACMP's leverage ratio and (b) 0.15 percent to 0.30 percent per annum while ACMP is subject to the ratings-based pricing grid, according to its senior unsecured long-term debt ratings.

Additionally, the revolving credit facility contains various covenants and restrictive provisions which limit ACMP and its subsidiaries' ability to incur additional indebtedness, guarantees and/or liens; consolidate, merge or transfer all or substantially all of ACMP's assets; make certain investments or restricted payments; modify certain material

agreements; engage in certain types of transactions with affiliates; dispose of assets; and prepay certain indebtedness. If ACMP fails to perform its obligations under these and other covenants, the revolving credit commitment could be

Notes (Continued)

terminated and any outstanding borrowings, together with accrued interest, under the revolving credit facility could be declared immediately due and payable. The revolving credit facility also has cross default provisions that apply to any other indebtedness ACMP may have with an outstanding principal amount in excess of \$50 million.

The revolving credit facility agreement contains certain negative covenants that (i) limit ACMP's ability, as well as the ability of certain of its subsidiaries, among other things, to enter into hedging arrangements and create liens and (ii) require ACMP to maintain a consolidated leverage ratio, and an EBITDA to interest expense ratio, in each case as described in the credit facility agreement. The revolving credit facility agreement also provides for the discontinuance of the requirement for ACMP to maintain the EBITDA to interest expense ratio and allows for ACMP to release all collateral securing the revolving credit facility if ACMP reaches investment grade status. The revolving credit facility agreement also requires ACMP to maintain a consolidated leverage ratio of 5.5 to 1.0 (or 5.0 to 1.0 after ACMP has released all collateral upon achieving investment grade status). At September 30, 2014, ACMP was in compliance with these financial covenants.

Note 10 – Stockholders' Equity

On June 23, 2014, we issued 61 million shares of common stock at a price of \$57.00 per share. That amount includes 8 million shares purchased pursuant to the full exercise of the underwriter's option to purchase additional shares. The net proceeds of \$3.378 billion were used in July 2014 to finance a portion of the ACMP Acquisition. (See Note 3 – Acquisition).

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The following table presents the changes in Accumulated other comprehensive income (loss) by component, net of income taxes:

	Cash Flow Hedges	Foreign Currency Translation	Pension and Other Post Retirement Benefits	Total
	(Millions)			
Balance at December 31, 2013	\$(1	) \$128	\$(291	) \$(164
Other comprehensive income (loss) before reclassifications	—	(53	) —	(53
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	15	15
Other comprehensive income (loss)	—	(53	) 15	(38
Changes in ownership of consolidated subsidiaries, net	—	(20	) —	(20
Balance at September 30, 2014	\$(1	) \$55	\$(276	) \$(222

Notes (Continued)

Reclassifications out of Accumulated other comprehensive income (loss) are presented in the following table by component for the nine months ended September 30, 2014:

Component	Reclassifications (Millions)	Classification
Pension and other postretirement benefits:		
Amortization of prior service cost (credit) included in net periodic benefit cost	\$(6	) Note 7 – Employee Benefit Plans
Amortization of actuarial (gain) loss included in net periodic benefit cost	29	Note 7 – Employee Benefit Plans
Total pension and other postretirement benefits, before income taxes	23	
Income tax benefit	(8) Provision (benefit) for income taxes
Reclassifications during the period	\$ 15	

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Notes (Continued)

Note 11 – Fair Value Measurements and Guarantees

The following table presents, by level within the fair value hierarchy, certain of our financial assets and liabilities. The carrying values of cash and cash equivalents, accounts receivable, commercial paper, and accounts payable approximate fair value because of the short-term nature of these instruments. Therefore, these assets and liabilities are not presented in the following table.

	Carrying Amount	Fair Value	Fair Value Measurements Using Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	(Millions)					
Assets (liabilities) at September 30, 2014:						
Measured on a recurring basis:						
ARO Trust investments	\$42	\$42	\$42	\$—	\$—	
Energy derivatives assets designated as hedging instruments	1	1	—	1	—	
Energy derivatives assets not designated as hedging instruments	2	2	—	—	2	
Energy derivatives liabilities not designated as hedging instruments	(3) (3) —	(1) (2)
Additional disclosures:						
Notes receivable and other	30	70	1	4	65	
Long-term debt, including current portion (1)	(20,669	) (21,598	) —	(21,598) —	
Guarantee	(31	) (28	) —	(28) —	
Assets (liabilities) at December 31, 2013:						
Measured on a recurring basis:						
ARO Trust investments	\$33	\$33	\$33	\$—	\$—	
Energy derivatives assets not designated as hedging instruments	3	3	—	—	3	
Energy derivatives liabilities not designated as hedging instruments	(3) (3) —	(1) (2)
Additional disclosures:						
Notes receivable and other	77	140	1	6	133	
Long-term debt (1)	(11,353	) (11,971	) —	(11,971) —	
Guarantee	(32	) (29	) —	(29) —	

(1) Excludes capital leases

Fair Value Methods

We use the following methods and assumptions in estimating the fair value of our financial instruments:

Assets and liabilities measured at fair value on a recurring basis

ARO Trust investments: Transco deposits a portion of its collected rates, pursuant to its rate case settlement, into an external trust (ARO Trust) that is specifically designated to fund future asset retirement obligations. The ARO Trust

invests in a portfolio of actively traded mutual funds that are measured at fair value on a recurring basis based on quoted prices in an active market, is classified as available-for-sale, and is reported in Regulatory assets, deferred charges, and other in the Consolidated Balance Sheet. Both realized and unrealized gains and losses are ultimately recorded as regulatory assets or liabilities.

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Notes (Continued)

Energy derivatives: Energy derivatives include commodity based exchange-traded contracts and over-the-counter (OTC) contracts, which consist of physical forwards, futures, and swaps that are measured at fair value on a recurring basis. 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 do not include cash held on deposit in margin accounts that we have received or remitted to collateralize certain derivative positions. Energy derivatives assets are reported in Other current assets and deferred charges and Regulatory assets, deferred charges, and other in the Consolidated Balance Sheet. Energy derivatives liabilities are reported in Accrued liabilities and Other noncurrent liabilities in the Consolidated Balance Sheet.

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 transfers between Level 1 and Level 2 occurred during the nine months ended September 30, 2014 or 2013.

Additional fair value disclosures

Notes receivable and other: Notes receivable and other consists of various notes, including a receivable related to the sale of certain former Venezuela assets. The disclosed fair value of this receivable is determined by an income approach. We calculated the net present value of a probability-weighted set of cash flows utilizing assumptions based on contractual terms, historical payment patterns by the counterparty, future probabilities of default, our likelihood of using arbitration if the counterparty does not perform, and discount rates. We determined the fair value of the receivable to be \$65 million at September 30, 2014. The carrying value of this receivable is \$25 million at September 30, 2014. The current and noncurrent portions are reported in Accounts and notes receivable, net and Regulatory assets, deferred charges, and other, respectively, in the Consolidated Balance Sheet.

At December 31, 2013, notes receivable and other also included a receivable from our former affiliate, WPX Energy, Inc. (WPX) related to various proceedings involving prices charged for power in California and other western states (see Note 12 – Contingent Liabilities). In second quarter 2014, the proceedings related to this receivable were settled, and we received \$42 million and recorded pretax Income (loss) from discontinued operations of \$7 million.

Long-term debt: The disclosed fair value of our long-term debt is determined by a market approach using broker quoted indicative period-end bond prices. The quoted prices are based on observable transactions in less active markets for our debt or similar instruments.

Guarantee: The guarantee represented in the table consists of a guarantee we have provided in the event of nonpayment by our previously owned communications subsidiary, Williams Communications Group (WilTel), on a lease performance obligation that extends through 2042.

To estimate the disclosed fair value of the guarantee, an estimated default rate is applied to the sum of the future contractual lease payments using an income approach. The estimated default rate is determined by obtaining the average cumulative issuer-weighted corporate default rate based on the credit rating of WilTel's current owner and the term of the underlying obligation. The default rate is published by Moody's Investors Service. This guarantee is reported in Accrued liabilities in the Consolidated Balance Sheet.

Assets and liabilities measured at fair value on a nonrecurring basis

In second quarter 2014, we designated certain equipment within our Williams Partners segment as held for sale. The estimated fair value (less cost to sell) of the equipment at September 30, 2014, is \$44 million and is reported in Other current assets and deferred charges in the Consolidated Balance Sheet. The estimated fair value was determined by a market approach based on our analysis of information related to sales of similar pre-owned equipment in the principal market. This analysis resulted in a second quarter impairment charge of \$17 million, recorded in Other (income) expense – net within Costs and expenses. This nonrecurring fair value measurement fell within Level 3 of the fair value hierarchy.

Notes (Continued)

Guarantees

We are required by our revolving credit agreements to indemnify lenders for certain taxes required to be withheld from payments due to the lenders and for certain tax payments made by the lenders. The maximum potential amount of future payments under these indemnifications is based on the related borrowings and such future payments cannot currently be determined. These indemnifications generally continue indefinitely unless limited by the underlying tax regulations and have no carrying value. We have never been called upon to perform under these indemnifications and have no current expectation of a future claim.

Regarding our previously described guarantee of Wiltel's lease performance, the maximum potential exposure is approximately \$34 million and \$35 million at September 30, 2014 and December 31, 2013, respectively. Our exposure declines systematically throughout the remaining term of WilTel's obligation.

We have provided guarantees in the event of nonpayment by our previously owned subsidiary, WPX, on certain contracts, primarily a natural gas purchase contract extending through 2023. We estimate the maximum undiscounted potential future payment obligation under these remaining guarantees is approximately \$53 million at September 30, 2014. Our recorded liability for these guarantees, which considers our estimate of the fair value of the guarantees, is insignificant.

Note 12 – Contingent Liabilities

Indemnification of WPX Matters

We have agreed to indemnify our former affiliate, WPX and its subsidiaries, related to the following matters.

Issues resulting from California energy crisis

WPX's former power business was engaged in power marketing in various geographic areas, including California. Prices charged for power by WPX and other traders and generators in California and other western states in 2000 and 2001 were challenged in various proceedings, including those before the Federal Energy Regulatory Commission (FERC). WPX has 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, WPX continued to have potential refund exposure to nonsettling parties, including various California end users that did not participate in the Utilities Settlement. On April 24, 2014, the FERC approved a settlement among the California utilities, WPX, and us which resolves the remaining legal issues (WPX's collection of accrued interest from counterparties as well as WPX's payment of accrued interest on refund amounts) arising from the 2000-2001 California Energy Crisis. In May 2014, WPX paid to us approximately \$42 million in settlement proceeds that it received from the California utilities and the dissolution of escrow accounts.

Reporting of natural gas-related information to trade publications

Direct and indirect purchasers of natural gas in various states filed class actions against WPX and others alleging the manipulation of published gas price indices and seeking unspecified amounts of damages. Such actions were transferred to the Nevada federal district court for consolidation of discovery and pre-trial issues.

In 2011, the Nevada district court granted WPX's 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. The plaintiffs appealed the court's ruling and on April 10, 2013, the Ninth Circuit Court of Appeals reversed the district court and remanded the cases to the district court to permit the plaintiffs to pursue their state antitrust claims for natural gas sales that were not subject to FERC jurisdiction under the Natural Gas Act. On July 1, 2014, the U.S. Supreme Court agreed to hear the cases. Because of the uncertainty around the remaining 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 and our related indemnification obligation could

Notes (Continued)

result in future charges that may be material to our results of operations. In connection with this indemnification, we have an accrued liability balance associated with this matter, and as a result, have an indirect exposure to future developments in this matter.

Other Legal Matters

Geismar Incident

As a result of the previously discussed Geismar Incident, there were two fatalities, and numerous individuals (including employees and contractors) reported injuries, which varied from minor to serious. WPZ is cooperating with the Chemical Safety Board and the U.S. Environmental Protection Agency (EPA) regarding their investigations of the Geismar Incident. On October 21, 2013, the EPA issued an Inspection Report pursuant to the Clean Air Act's Risk Management Program following its inspection of the facility on June 24 through 28, 2013. The report notes the EPA's preliminary determinations about the facility's documentation regarding process safety, process hazard analysis, as well as operating procedures, employee training, and other matters. On June 16, 2014, we received a request for information related to the Geismar Incident from the EPA under Section 114 of the Clean Air Act to which we responded on August 13, 2014. We and the EPA continue to discuss preliminary determinations, and the EPA could issue penalties pertaining to final determinations. On December 11, 2013, the Occupational Safety and Health Administration (OSHA) issued citations in connection with its investigation of the June 13, 2013 incident, which included a Notice of Penalty for \$99,000. We settled the citations with OSHA on September 12, 2014 for a penalty of \$36,000. The settlement was judicially approved on September 23, 2014. On June 25, 2013, OSHA commenced a second inspection pursuant to its Refinery and Chemical National Emphasis Program (NEP). OSHA did not issue a citation to WPZ in connection with this NEP inspection and there is a six month statute of limitations for violation of the Occupational Safety and Health Act of 1970 or regulations promulgated under such act. On June 28, 2013, the Louisiana Department of Environmental Quality (LDEQ) issued a Consolidated Compliance Order & Notice of Potential Penalty to Williams Olefins, L.L.C. that consolidates claims of unpermitted emissions and other deviations under the Clean Air Act that the parties had been negotiating since 2010 and alleged unpermitted emissions arising from the Geismar Incident. Negotiations with the LDEQ are ongoing. Any potential fines and penalties from these agencies would not be covered by our insurance policy. Additionally, multiple lawsuits, including class actions for alleged offsite impacts, property damage, customer claims, and personal injury, have been filed against various of our subsidiaries.

Due to the ongoing investigation into the cause of the incident, and the limited information available associated with the filed lawsuits, which generally do not specify any amounts for claimed damages, we cannot reasonably estimate a range of potential loss related to these contingencies at this time.

Gulf Liquids litigation

Gulf Liquids, one of our subsidiaries, contracted with Gulsby Engineering Inc. (Gulsby) and Gulsby-Bay (a joint venture between Gulsby and Bay Ltd.) for the construction of certain gas processing plants in Louisiana. National American Insurance Company (NAICO) and American Home Assurance Company provided payment and performance bonds for the projects. In 2001, the contractors and sureties filed multiple cases in Louisiana and Texas against Gulf Liquids and us. On January 28, 2008, the court issued its judgment awarding certain damages against Gulf Liquids in favor of Gulsby and Gulsby-Bay. Gulf Liquids, Gulsby, Gulsby-Bay, Bay Ltd., and NAICO appealed the judgment. In February 2009, we settled with Bay Ltd. and Gulsby-Bay. On May 8, 2012, the Texas Court of Appeals issued its mandate remanding the original breach of contract claims involving Gulsby and attorney fee claims to trial court. The parties reached an agreement to settle on October 2, 2014.

Alaska refinery contamination litigation

In 2010, James West filed a class action lawsuit in state court in Fairbanks, Alaska on behalf of individual property owners whose water contained sulfolane contamination allegedly emanating from the Flint Hills Oil Refinery in North Pole, Alaska. The suit named our subsidiary, Williams Alaska Petroleum Inc. (WAPI), and Flint Hills Resources

Alaska, LLC (FHRA), a subsidiary of Koch Industries, Inc., as defendants. We owned and operated the refinery until 2004 when we sold it to FHRA. We and FHRA have made claims under the pollution liability insurance policy issued in

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Notes (Continued)

connection with the sale of the North Pole refinery to FHRA. We and FHRA also filed claims against each other seeking, among other things, contractual indemnification alleging that the other party caused the sulfolane contamination.

In 2011, we and FHRA settled the James West claim. We and FHRA subsequently filed motions for summary judgment on the other's claims. On November 5, 2013, the court ruled that the applicable statute of limitations bars all FHRA's claims against us and dismissed those claims with prejudice. FHRA asked the court to reconsider and clarify its ruling. On July 8, 2014, the court reaffirmed its dismissal of all FHRA's claims and entered judgment for us. On August 6, 2014, FHRA appealed the court's decision to the Alaska Supreme Court.

We currently estimate that our reasonably possible loss exposure in this matter could range from an insignificant amount up to \$32 million, although uncertainties inherent in the litigation process, expert evaluations, and jury dynamics might cause our exposure to exceed that amount.

Independent of the litigation matter described in the preceding paragraphs, the Alaska Department of Environmental Conservation (ADEC) indicated that it views FHRA and us as responsible parties. During the first quarter of 2013 and again on December 23, 2013, ADEC informed FHRA and us that ADEC intends to enter a compliance order to address the environmental remediation of sulfolane and other possible contaminants including cleanup work outside the refinery's boundaries to be performed in 2014. In addition, ADEC will seek from each of FHRA and us an adequate financial performance guarantee for the benefit of ADEC. On March 6, 2014, the State of Alaska filed suit against FHRA and us in state court in Fairbanks seeking injunctive relief and damages in connection with the sulfolane contamination. On May 5, 2014, FHRA filed cross-claims against us in the State of Alaska suit, and FHRA also seeks injunctive relief and damages. Due to the ongoing assessment of the level and extent of sulfolane contamination and the ultimate cost of remediation and division of costs among the potentially responsible parties, we are unable to estimate a range of exposure at this time.

Transco 2012 rate case

On August 31, 2012, Transco submitted to the Federal Energy Regulatory Commission (FERC) a general rate filing principally designed to recover increased costs and to comply with the terms of the settlement in its prior rate proceedings. The new rates became effective March 1, 2013, subject to refund and the outcome of the hearing. On August 27, 2013, Transco filed a stipulation and agreement with the FERC proposing to resolve all issues in this proceeding without the need for a hearing (Agreement). On December 6, 2013, the FERC issued an order approving the Agreement without modifications. Pursuant to its terms, the Agreement became effective March 1, 2014. We paid \$118 million of rate refunds on April 18, 2014.

ACMP matters

Certain of ACMP's customers, including one of its major customers, have been named in various lawsuits alleging underpayment of royalty. In certain of these cases, ACMP has also been named as a defendant based on allegations that it improperly participated with that major customer in causing the alleged royalty underpayments. Management believes that the claims asserted to date are subject to indemnity obligations owed to ACMP by that major customer. While no assurance can be given as to the ultimate outcome of these cases, management currently believes that the final resolution of these cases will not have a material adverse effect on our results of operations, financial position, or liquidity.

Environmental Matters

We are a participant in certain environmental activities in various stages including assessment studies, cleanup operations and remedial processes at certain sites, some of which we currently do not own. We are monitoring these sites in a coordinated effort with other potentially responsible parties, the EPA, and other governmental authorities. We are jointly and severally liable along with unrelated third parties in some of these activities and solely responsible in others. Certain of our subsidiaries have been identified as potentially responsible parties at various Superfund and state waste disposal sites. In addition, these subsidiaries have incurred, or are alleged to have incurred, various other

hazardous materials removal or remediation obligations under environmental laws. As of September 30, 2014, we have accrued liabilities totaling \$43 million for these matters, as discussed below. Our accrual reflects the most likely costs of cleanup, which are generally based on completed assessment studies, preliminary results of studies or our experience with other

Notes (Continued)

similar cleanup operations. Certain assessment studies are still in process for which the ultimate outcome may yield significantly different estimates of most likely costs. Any incremental amount in excess of amounts currently accrued cannot be reasonably estimated at this time due to uncertainty about the actual number of contaminated sites ultimately identified, the actual amount and extent of contamination discovered and the final cleanup standards mandated by the EPA and other governmental authorities.

The EPA and various state regulatory agencies routinely promulgate and propose new rules, and issue updated guidance to existing rules. More recent 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, one hour nitrogen dioxide emission limits, and new air quality standards impacting storage vessels, pressure valves, and compressors. 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.

Continuing operations

Our interstate gas pipelines are involved in remediation activities related to certain facilities and locations for polychlorinated biphenyls, mercury, and other hazardous substances. These activities have involved the EPA and various state environmental authorities, resulting in our identification as a potentially responsible party at various Superfund waste sites. At September 30, 2014, we have accrued liabilities of \$11 million for these costs. We expect that these costs will be recoverable through rates.

We also accrue environmental remediation costs for natural gas underground storage facilities, primarily related to soil and groundwater contamination. At September 30, 2014, we have accrued liabilities totaling \$6 million for these costs.

Former operations, including operations classified as discontinued

We have potential obligations in connection with assets and businesses we no longer operate. These potential obligations include remediation activities at the direction of federal and state environmental authorities and the indemnification of the purchasers of certain of these assets and businesses for environmental and other liabilities existing at the time the sale was consummated. Our responsibilities relate to the operations of the assets and businesses described below.

Former agricultural fertilizer and chemical operations and former retail petroleum and refining operations;

Former petroleum products and natural gas pipelines;

Former petroleum refining facilities;

Former exploration and production and mining operations;

Former electricity and natural gas marketing and trading operations.

At September 30, 2014, we have accrued environmental liabilities of \$26 million related to these matters.

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, property damage, environmental matters, right of way and other representations that we have provided.

Notes (Continued)

At September 30, 2014, other than as previously disclosed, we are not aware of any material claims against us involving the indemnities; thus, we do not expect any of the indemnities provided pursuant to the sales agreements to have a material impact on our future financial position. Any claim for indemnity brought against us in the future 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

We have disclosed our estimated range of reasonably possible losses for certain matters above, as well as all significant matters for which we are unable to reasonably estimate a range of possible loss. We estimate that for all other matters for which we are able to reasonably estimate a range of loss, our aggregate reasonably possible losses beyond amounts accrued are immaterial to our expected future annual results of operations, liquidity and financial position. These calculations have been made without consideration of any potential recovery from third parties.

Note 13 – Segment Disclosures

Our reportable segments are Williams Partners, Access Midstream Partners, and Williams NGL & Petchem Services. All remaining business activities are included in Other. (See Note 1 – General, Description of Business, and Basis of Presentation.)

Performance Measurement

We currently evaluate segment operating performance based upon Segment profit (loss) from operations, which includes Segment revenues from external and internal customers, segment costs and expenses, Equity earnings (losses) and Income (loss) from investments. General corporate expenses represent Selling, general, and administrative expenses that are not allocated to our segments. Intersegment revenues are generally accounted for at current market prices as if the sales were to unaffiliated third parties.

Notes (Continued)

The following table reflects the reconciliation of Segment revenues and Segment profit (loss) to Total revenues and Operating income (loss) as reported in the Consolidated Statement of Income and Total assets by reportable segment.

	Williams Partners	Access Midstream Partners	Williams NGL & Petchem Services	Other	Eliminations	Total	
	(Millions)						
Three months ended September 30, 2014							
Segment revenues:							
Service revenues							
External	\$765	\$300	\$—	\$62	\$—	\$1,127	
Internal	1	—	—	7	(8) —	
Total service revenues	766	300	—	69	(8	) 1,127
Product sales							
External	942	—	—	—	—	942	
Internal	—	—	—	—	—	—	
Total product sales	942	—	—	—	—	942	
Total revenues	\$1,708	\$300	\$—	\$69	\$(8	) \$2,069
Segment profit (loss)	\$373	\$2,563	\$(3	) \$1		\$2,934
Less:							
Equity earnings (losses)	36	29	1	—		66	
Income (loss) from investments	—	2,519	—	—		2,519	
Segment operating income (loss)	\$337	\$15	\$(4	) \$1		349
General corporate expenses						(42)
Operating income (loss)						\$307	
Three months ended September 30, 2013							
Segment revenues:							
Service revenues							
External	\$731	\$—	\$—	\$5	\$—	\$736	
Internal	—	—	—	2	(2) —	
Total service revenues	731	—	—	7	(2	) 736
Product sales							
External	887	—	—	—	—	887	
Internal	—	—	—	—	—	—	
Total product sales	887	—	—	—	—	887	
Total revenues	\$1,618	\$—	\$—	\$7	\$(2	) \$1,623
Segment profit (loss)	\$411	\$6	\$(4	) \$(1	)	\$412
Less:							
Equity earnings (losses)	31	6	—	—		37	
Income (loss) from investments	(1) —	—	—		(1)
Segment operating income (loss)	\$381	\$—	\$(4) \$(1)	376	

General corporate expenses	(40)
Operating income (loss)	\$336	

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Notes (Continued)

	Williams Partners (Millions)	Access Midstream Partners	Williams NGL & Petchem Services	Other	Eliminations	Total
Nine months ended September 30, 2014						
Segment revenues:						
Service revenues						
External	\$2,291	\$300	\$—	\$180	\$—	\$2,771
Internal	1	—	—	14	(15) —
Total service revenues	2,292	300	—	194	(15	) 2,771
Product sales						
External	2,725	—	—	—	—	2,725
Internal	—	—	—	—	—	—
Total product sales	2,725	—	—	—	—	2,725
Total revenues	\$5,017	\$300	\$—	\$194	\$(15	) \$5,496
Segment profit (loss)	\$1,269	\$2,578	\$(111	) \$5		\$3,741
Less:						
Equity earnings (losses)	91	42	(78	) —		55
Income (loss) from investments	—	2,523	—	—		2,523
Segment operating income (loss)	\$1,178	\$13	\$(33	) \$5		1,163
General corporate expenses						(125
Operating income (loss)						\$1,038
Nine months ended September 30, 2013						
Segment revenues:						
Service revenues						
External	\$2,150	\$—	\$—	\$13	\$—	\$2,163
Internal	—	—	—	8	(8) —
Total service revenues	2,150	—	—	21	(8	) 2,163
Product sales						
External	3,037	—	—	—	—	3,037
Internal	—	—	—	—	—	—
Total product sales	3,037	—	—	—	—	3,037
Total revenues	\$5,187	\$—	\$—	\$21	\$(8	) \$5,200
Segment profit (loss)	\$1,332	\$35	\$(7	) \$(5	)	\$1,355
Less:						
Equity earnings (losses)	84	9	—	—		93
Income (loss) from investments	(3	) 26	—	—		23
Segment operating income (loss)	\$1,251	\$—	\$(7) \$(5)	1,239
General corporate expenses						(127
Operating income (loss)						\$1,112

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September 30, 2014							
Total assets	\$25,814	\$22,765	\$ 516	\$1,251	\$(539)	\$49,807
December 31, 2013							
Total assets	\$23,571	\$2,161	\$486	\$1,359	\$(435	)	\$27,142

Notes (Continued)

Note 14 – Subsequent Event

On October 26, 2014, we announced that WPZ and ACMP, our consolidated master limited partnerships, entered into a merger agreement. The merged partnership will be named Williams Partners L.P. Under the terms of the agreement, each publicly held WPZ common unit will be exchanged for 0.86672 ACMP common units. Prior to completing the merger, each publicly held ACMP common unit will receive an additional 0.06152 ACMP common unit. Upon consummation of these transactions, we expect to receive ACMP common units representing a net effective exchange ratio of 0.82080 ACMP common units for each WPZ common unit we hold. The WPZ Class D units that we currently hold will convert to WPZ common units in conjunction with the merger. Following the merger, we expect to own approximately 60 percent of the merged partnership, including the general partner interest and IDRs. The approval and adoption of the merger agreement and the merger by WPZ requires approval by a majority of the outstanding WPZ common units. Our subsidiary, Williams Gas Pipeline Company LLC, which owns a sufficient number of WPZ common units to approve the merger on behalf of all WPZ unitholders, has executed a support agreement in which it has irrevocably agreed to consent to the merger. The merger is expected to close in early 2015, subject to customary closing conditions, including effectiveness of a registration statement on Form S-4 related to the issuance of new ACMP common units to WPZ common unitholders.

Item 2

Management's Discussion and Analysis of
Financial Condition and Results of Operations

General

We are an energy infrastructure company focused on connecting North America's significant hydrocarbon resource plays to growing markets for natural gas, natural gas liquids, and olefins. Our operations are located principally in the United States, but span from the deepwater Gulf of Mexico to the Canadian oil sands, and are organized into the Williams Partners, Access Midstream Partners, and Williams NGL & Petchem Services reportable segments. All remaining business activities are included in Other.

Unless indicated otherwise, the following discussion and analysis of results of operations and financial condition and liquidity relates to our current continuing operations and should be read in conjunction with the consolidated financial statements and notes thereto of this Form 10-Q and our annual consolidated financial statements and notes thereto in Exhibit 99.1 of our Form 8-K dated May 22, 2014.

Williams Partners

Williams Partners includes WPZ, our consolidated master limited partnership, which includes two interstate natural gas pipelines, as well as investments in natural gas pipeline-related companies, which serve regions from the San Juan basin in northwestern New Mexico and southwestern Colorado to Oregon and Washington and from the Gulf of Mexico to the northeastern United States. WPZ also includes natural gas gathering, processing, and treating facilities and oil gathering and transportation facilities located primarily in the Rocky Mountain, Gulf Coast, and Marcellus Shale regions of the United States. WPZ also owns a 5/6 interest in an olefins production facility, along with an RGP Splitter and pipelines in the Gulf region, an oil sands offgas processing plant near Fort McMurray, Alberta, and an NGL/olefin fractionation facility and B/B Splitter facility at Redwater, Alberta. As of September 30, 2014, we own approximately 66 percent of the interests in WPZ, including the interests of the general partner, which is wholly owned by us, and IDRs.

Williams Partners' ongoing strategy is to safely and reliably operate large-scale, interstate natural gas transmission and midstream infrastructures where our assets can be fully utilized and drive low per-unit costs. We focus on consistently attracting new business by providing highly reliable service to our customers and utilizing our low cost-of-capital to invest in growing markets, including the deepwater Gulf of Mexico, the Marcellus Shale, the Gulf Coast Region, the Canadian oil sands, and areas of increasing natural gas demand.

Williams Partners' interstate transmission and related storage activities are subject to regulation by the FERC and as such, our rates and charges for the transportation of natural gas in interstate commerce, and the extension, expansion or abandonment of jurisdictional facilities and accounting, among other things, are subject to regulation. The rates are established through the FERC's ratemaking process. Changes in commodity prices and volumes transported have little near-term impact on revenues because the majority of cost of service is recovered through firm capacity reservation charges in transportation rates.

Access Midstream Partners

Access Midstream Partners consists of our consolidated master limited partnership, ACMP, which includes domestic midstream businesses that provide gathering, treating, and compression services to producers under long-term, fee-based contracts in the Marcellus and Utica shale plays as well as the Eagle Ford, Haynesville, Barnett, Mid-Continent, and Niobrara areas. ACMP also includes a 49 percent equity-method investment in Utica East Ohio Midstream, LLC, and Appalachia Midstream Services, LLC, which owns an approximate average 47 percent interest in 10 gas gathering systems in the Marcellus Shale.

We previously owned an equity-method investment in ACMP until July 1, 2014, at which time we acquired all of the interests in ACMP held by Global Infrastructure Partners II (GIP) which included 50 percent of the general partner

Management's Discussion and Analysis (Continued)

interest and 55.1 million limited partner units for \$5.995 billion in cash (ACMP Acquisition). We now own 100 percent of the general partner interest, including IDRs, and approximately 50 percent of the limited partner units in ACMP. As discussed in Note 14 – Subsequent Event, WPZ and ACMP have entered into a merger agreement. The merger is expected to close in early 2015, subject to customary closing conditions, including effectiveness of a registration statement on Form S-4 related to the issuance of new ACMP common units to WPZ common unitholders. All subsequent references to forecast amounts within this Management's Discussion and Analysis do not reflect the proposed merger.

Williams NGL & Petchem Services

Williams NGL & Petchem Services includes certain other domestic olefins pipeline assets, certain Canadian growth projects under development, including a propane dehydrogenation facility and a liquids extraction plant, as well as the proposed Bluegrass Pipeline joint project (see Note 2 – Variable Interest Entities of Notes to Consolidated Financial Statements for more information regarding the status of Bluegrass Pipeline). As discussed in Note 1 – General, Description of Business, and Basis of Presentation of Notes to Consolidated Financial Statements, the currently operating Canadian assets were contributed to Williams Partners in the first quarter of 2014 and are now presented in the Williams Partners segment. As a result, the Williams NGL & Petchem Services segment is currently comprised primarily of projects under development and thus has no operating revenues to date. We anticipate contributing to WPZ the assets and projects that comprise this segment by late 2014 or early 2015. The transaction is subject to execution of an agreement, review, and recommendation by the Conflicts Committee of the general partner of WPZ, and approval of both our and WPZ's Board of Directors.

Dividends

In September 2014, we paid a regular quarterly dividend of \$0.56 per share, which was 53 percent higher than the same period last year and 32 percent higher than the prior quarter. Also, consistent with our expectation of receiving increasing cash distributions from our interests in WPZ and ACMP, we expect to increase our dividend on a quarterly basis. We expect a dividend increase of approximately 15 percent annually - from the higher third-quarter 2014 base - through 2017.

Overview of Nine Months Ended September 30, 2014

Income (loss) from continuing operations attributable to The Williams Companies, Inc., for the nine months ended September 30, 2014, changed favorably by \$1,463 million compared to the nine months ended September 30, 2013, primarily due to a \$2.5 billion gain as a result of remeasuring our previous equity-method investment to fair value, as well as increased service revenues. This was partially offset by interest expense related to higher debt levels and equity losses from the proposed Bluegrass Pipeline project, reflecting a write-off of development costs that were previously capitalized and other associated costs that were incurred during the first quarter and lower olefin and NGL margins. See additional discussion in Results of Operations.

Abundant and low-cost natural gas reserves in the United States continue to drive strong demand for midstream and pipeline infrastructure. We believe that we have successfully positioned our energy infrastructure businesses for significant future growth.

Williams Partners

Canada Dropdown

On February 28, 2014, we contributed certain of our Canadian operations to WPZ, including an oil sands offgas processing plant near Fort McMurray, Alberta, and an NGL/olefin fractionation facility and B/B Splitter facility at Redwater, Alberta. These businesses were previously reported within our Williams NGL & Petchem Services segment, but are now reported within Williams Partners. Prior period segment disclosures have been recast for this transaction. WPZ funded the transaction with \$56 million of cash including \$31 million that was received in the second quarter, the issuance of 25,577,521 Class D limited-partner units, and an increase in the capital account of its general partner to allow us to maintain our 2 percent general partner interest. In lieu of cash distributions, the Class D units receive quarterly distributions of additional paid-in-kind Class D units. All Class D units outstanding will be convertible to common units beginning in the first quarter of 2016. The contribution agreement governing the Canada

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Management's Discussion and Analysis (Continued)

provides that WPZ can issue additional Class D units to us on a quarterly basis through 2015 for up to a total of \$200 million in cash for the purpose of funding certain facility expansions. At September 2014, no additional Class D units have been issued to us under this provision. In October 2014, a purchase price adjustment was finalized whereby we will pay \$56 million in cash to WPZ in the fourth quarter 2014 and waive \$2 million in payments of IDRs with respect to the November 2014 distribution.

Geismar Incident

On June 13, 2013, an explosion and fire occurred at WPZ's Geismar olefins plant. The fire was extinguished on the day of the incident. The Geismar Incident rendered the facility temporarily inoperable and resulted in significant human, financial, and operational effects.

We have substantial insurance coverage for repair and replacement costs, lost production and additional expenses related to the incident as follows:

Property damage and business interruption coverage with a combined per-occurrence limit of \$500 million and retentions (deductibles) of \$10 million per occurrence for property damage and a 60-day waiting period per occurrence for business interruption;

General liability coverage with per-occurrence and aggregate annual limits of \$610 million and retentions (deductibles) of \$2 million per occurrence;

Workers' compensation coverage with statutory limits and retentions (deductibles) of \$1 million total per occurrence.

During the first nine months of 2014, we received \$175 million of insurance recoveries related to the Geismar Incident and incurred \$14 million of related covered insurable expenses in excess of our retentions (deductibles). These amounts are reflected as a net gain in Net insurance recoveries- Geismar Incident within Costs and expenses in our Consolidated Statement of Income.

Following the repair and an expansion of the plant, we expect the Geismar plant to return to operation in the fourth quarter of 2014. We expect our total loss to exceed our \$500 million policy limit, which would result in a total claim of approximately \$433 million related to business interruption and approximately \$67 million related to the repair of the plant. Through September 2014, we have received a total of \$225 million from insurers. We received \$50 million of our most recent claim of \$200 million as the insurers are evaluating our claim and have raised questions around key assumptions involving our business interruption claim. We continue to work with insurers in support of all claims, as submitted, and are vigorously pursuing collection of the remaining \$275 million insurance limits. We, in consultation with independent experts, presented further support for our insurance claim to insurers in September 2014 and have agreed with insurers to non-binding mediation, which is scheduled to begin in late November, in an effort to advance the resolution of the claim.

Further, we are impacted by certain uninsured losses, including amounts associated with the 60-day waiting period for business interruption, as well as other deductibles, policy limits, and uninsured expenses. Our assumptions and estimates, including the timing for the expanded plant return to operation, repair cost estimates and insurance proceeds associated with our property damage and business interruption coverage, are subject to various risks and uncertainties that could cause the actual results to be materially different.

New Transco rates effective

On August 31, 2012, Transco submitted to the FERC a general rate filing principally designed to recover increased costs and to comply with the terms of the settlement in its prior rate proceeding. The new rates became effective March 1, 2013, subject to refund and the outcome of a hearing. On August 27, 2013, Transco filed a stipulation and agreement with the FERC proposing to resolve all issues in this proceeding without the need for a hearing (Agreement). On December 6, 2013, the FERC issued an order approving the Agreement without modifications. Pursuant to its terms, the Agreement became effective March 1, 2014. We paid \$118 million of rate refunds on April 18, 2014.

Caiman II

As a result of contributions made in the first quarter of 2014, our ownership in the Caiman II joint project increased to 58 percent at June 30, 2014. These contributions are used to fund Caiman II's 50 percent investment in Blue Racer

Management's Discussion and Analysis (Continued)

Midstream LLC, which is expanding gathering and processing and the associated liquids infrastructure serving oil and gas producers in the Utica Shale.

Volatile commodity prices

NGL margins were approximately 22 percent lower in the first nine months of 2014 compared to the same period of 2013 driven by lower volumes, as well as higher natural gas prices, partially offset by favorable non-ethane prices. Volumes declined primarily due to a customer contract in the West that expired in September 2013, as well as higher inventory levels. Due to unfavorable ethane economics, we further reduced our recoveries of ethane in our domestic plants in the first nine months of 2014, compared to the same period in 2013. These reductions are substantially offset by new volumes generated by our Canadian ethane recovery facility which was placed into service in December 2013. NGL margins are defined as NGL revenues less any applicable Btu replacement cost, plant fuel, and third-party transportation and fractionation. Per-unit NGL margins are calculated based on sales of our own equity volumes at the processing plants. Our equity volumes include NGLs where we own the rights to the value from NGLs recovered at our plants under both "keep-whole" processing agreements, where we have the obligation to replace the lost heating value with natural gas, and "percent-of-liquids" agreements whereby we receive a portion of the extracted liquids with no obligation to replace the lost heating value.

The following graph illustrates the effects of this margin volatility, notably the decline in equity ethane sales driven by reduced recoveries, as well as the margin differential between ethane and non-ethane products and the relative mix of those products.

Management's Discussion and Analysis (Continued)

Williams NGL & Petchem Services

Bluegrass Pipeline and Moss Lake

We own a 50 percent equity-method investment in Bluegrass Pipeline, which was a proposed NGL pipeline that would connect processing facilities in the Marcellus and Utica shale-gas areas in the northeastern United States to growing petrochemical and export markets in the Gulf Coast area of the United States. Completion of this project was subject to execution of customer contracts sufficient to support the project. Based on a lack of customer commitments and other factors, our management decided in April 2014 to discontinue further funding of the project. The capitalized project development costs at the Bluegrass Pipeline entity were written off as of March 31, 2014.

We also own 50 percent interests in Moss Lake. Moss Lake was being developed to construct a proposed new large-scale fractionation plant, expand natural gas liquids storage facilities in Louisiana and construct a proposed pipeline connecting these facilities to the Bluegrass Pipeline. Additionally, Moss Lake would construct a proposed new liquefied petroleum gas (LPG) terminal. The capitalized project development costs at the Moss Lake entities were written off as of March 31, 2014.

On September 2, 2014, we received a notice of dissolution from our partner with respect to the Bluegrass entity and the related Moss Lake entities. We have begun the dissolution process for all three entities.

Company Outlook

Our strategy is to provide large-scale energy infrastructure designed to maximize the opportunities created by the vast supply of natural gas, natural gas products, and crude oil that exists in North America. We seek to accomplish this through further developing our scale positions in current key markets and basins and entering new growth markets and basins where we can become the large-scale service provider. We will maintain a strong commitment to safety, environmental stewardship, operational excellence and customer satisfaction. We believe that accomplishing these goals will position us to deliver an attractive return to our shareholders.

Consistent with our strategy, we recently completed the ACMP Acquisition which is expected to bolster our position in the Marcellus and Utica shale plays and add diversity via the Eagle Ford, Haynesville, Barnett, Mid-Continent, and Niobrara areas. As previously discussed, WPZ and ACMP have entered into a merger agreement that is expected to close in early 2015.

Fee-based businesses are a significant component of our portfolio and are expected to increase as a result of the ACMP Acquisition. As we continue to transition to an overall business mix that is increasingly fee-based, the influence of commodity price fluctuations on our operating results and cash flows is expected to become somewhat less significant.

Our business plan for 2014 reflects both significant capital investment and continued dividend growth. Our planned consolidated capital investments for 2014 total approximately \$10.9 billion, including both the ACMP Acquisition and ACMP's capital investments for the remainder of the year. We also expect approximately 36 percent growth in total 2014 dividends, including the previously mentioned third-quarter increase, which we expect to fund primarily with distributions received from WPZ and ACMP. We expect to maintain an attractive cost of capital and reliable access to capital markets, both of which will allow us to pursue development projects and acquisitions.

Potential risks and obstacles that could impact the execution of our plan include:

- General economic, financial markets, or industry downturn;
- Unexpected significant increases in capital expenditures or delays in capital project execution;
- Lower than anticipated or delay in receiving insurance recoveries associated with the Geismar Incident;
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Lower than expected distributions, including IDRs, from WPZ and ACMP. WPZ's liquidity could also be impacted by a lack of adequate access to capital markets to fund its growth;

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Management's Discussion and Analysis (Continued)

• Limited availability of capital due to a change in our financial condition, interest rates, market or industry conditions;
• Counterparty credit and performance risk;

• Decreased volumes from third parties served by our midstream business;

• Lower than anticipated energy commodity prices and margins;

• Changes in the political and regulatory environments;

• Physical damages to facilities, including damage to offshore facilities by named windstorms;

• Reduced availability of insurance coverage.

We continue to address these risks through disciplined investment strategies, sufficient liquidity from cash and cash equivalents and available capacity under our revolving credit facilities.

In 2014, we anticipate an overall improvement in operating results compared to 2013 primarily due to an increase in our fee-based and Canadian midstream businesses, partially offset by lower olefins and NGL margins and higher operating expenses associated with the growth of our business. As a result of the ACMP Acquisition, we anticipate higher fee-based business results for the remainder of 2014, partially offset by higher depreciation and amortization expenses.

The following factors, among others, could impact our businesses in 2014.

Williams Partners

Commodity price changes

NGL and olefin price changes have historically correlated somewhat with changes in the price of crude oil, although NGL, olefin, crude, and natural gas prices are highly volatile, and difficult to predict. Commodity margins are highly dependent upon regional supply/demand balances of natural gas as they relate to NGL margins, while olefins are impacted by global supply and demand fundamentals. NGL prices will benefit from exports to satisfy global demand. NGL products are currently the preferred feedstock for ethylene and propylene production, and are expected to remain advantaged over crude-based feedstocks into the foreseeable future. We continue to benefit from our strategic feedstock cost advantage in propylene production from Canadian oil sands offgas.

We anticipate the following trends in overall commodity prices for the remainder of 2014, as compared to the same period in 2013:

• Natural gas and ethane prices are expected to be comparable to 2013 levels.

• Propane prices are expected to be lower than last year primarily due to milder temperatures and higher inventory levels.

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