FINAL TRANSCRIPT

Thomson StreetEvents℠

WMB - Williams Companies 2Q 2007 Earnings Call

Event Date/Time: Aug. 02. 2007 / 10:00AM ET

CORPORATE PARTICIPANTS

Travis Campbell
Williams Companies - VP, IR & Corporate Communications

Steve Malcolm
Williams Companies - Chairman, President & CEO

Don Chappel
Williams Companies - SVP and CFO

Ralph Hill
Williams Companies - President, Exploration and Production

Alan Armstrong
Williams Companies - President, Midstream Gathering & Processing

Bill Hobbs
Williams Companies - President, Power

CONFERENCE CALL PARTICIPANTS

Carl Kirst
Credit Suisse - Analyst

Faisel Khan
Citigroup Inc. - Analyst

Craig Shere
Scottwood Capital - Analyst

Sam Brothwell
Wachovia Securities - Analyst

Rick Gross
Lehman Brothers - Analyst

PRESENTATION

Operator

Good day, everyone, and welcome to the Williams Company's second-quarter 2007 earnings conference call. Today's call is being recorded. At this time for opening remarks and introductions, I would like to turn the call over to Mr. Travis Campbell, head of Investor Relations. Please go ahead, sir.

Travis Campbell - *Williams Companies - VP, IR & Corporate Communications*

(technical difficulty) 2007 earnings call and thanks for your continued interest in our Company. As you will hear this morning, we had a great quarter and the story is very straightforward. So for us, the slide deck is pretty crisp. I know many of you have other calls to monitor this morning so we will get right to it. This morning, Steve Malcolm, our CEO, will lead off, followed by John Chappell, the CFO. Also, Ralph Hill, who heads up the E&P group and Alan Armstrong, who heads the Midstream business, will cover a few slides. Other leaders, including Bill Hobbs and Phil Wright, are also available for questions after the prepared remarks.

Before I turn it over to Steve Malcolm, please note that all of the slides, both those few that are presented today and those in the appendix, are available on our website, Williams.com in a PDF format. The press release and all the accompanying schedules are also available on the website. Our second quarter 10-Q will be filed early next week.

Slide numbers 2 and 3 titled Forward-Looking Statements detail various risk factors and uncertainties related to future outcomes. Please review the information on those slides.

Also, slide #4, oil and gas reserves disclaimer, is also very important and we urge you to read that slide as well.

Also included in the presentation today are various non-GAAP numbers that have been reconciled back to Generally Accepted Accounting Principles. Those schedules follow the presentation and are an integral part of the presentation. So with that, I will turn it over to Steve Malcolm.

Steve Malcolm - *Williams Companies - Chairman, President & CEO*

Thanks, Travis. Good morning and welcome to our second-quarter earnings call. We certainly appreciate your interest in our Company. And as Travis mentioned, in keeping with our last few earnings calls, we have a relatively short slide deck and so we should be able to motor through our presentation pretty quickly this morning.

By almost any measure, we had an outstanding second quarter and our core natural gas businesses delivered very strong performances all across the board.

The highlights of the quarter are shown on slide 6. At $0.43, our key performance measure, that being adjusted recurring earnings per share, is nearly 50% better than a year ago. We've updated our earnings outlook for 2007 to reflect the strong results to date and our confidence that our businesses will continue to deliver.

Our results demonstrate the value of our integrated natural gas businesses. Higher NGL margins drove record Midstream segment profit and margins are at historic highs, again, and we are very well positioned to benefit.

We enjoyed higher production volumes and higher prices in E&P, which translated into a 75% increase in segment profit. Production is up 20% and we are nearing the 1 Bcf a day milestone. For those of you who thought we might suffer from basis differentials in the Rockies and, certainly, many of you asked questions as I was out the early part of this year, that seemed to be a consistent concern and worry. It should be very good news to hear that our average net realized price in the U.S. last quarter was $5.39, and that's up 29% over a year ago. And as Ralph Hill will describe later in the presentation, although most of our production is from Rocky Mountain basins, specifically Piceance and Powder River, only about 7% of our production is priced in the Rockies.

And lastly, new rates are in effect on both Northwest and Transco pipelines and we have some wonderful news to talk about today. Transco and its customers have reached an agreement in principle on all substantive issues on that rate case. And so the next step in that rate case will be to file a formal agreement and receive approval from the Federal Energy Regulatory Commission. As you'll recall, Northwest filed its rate case agreement with the FERC in January this year.

Turning to slide 7 please, and while we are delivering robust earnings performance, we are also focused on executing on a number of other measures designed to deliver value to our shareholders. On May 21st, we announced an agreement to sell our Power assets to Bear Energy. We continue to expect that transaction to close before the end of the year.

Just two weeks ago, we announced plans to create a new publicly traded master partnership limited partnership to own interstate natural gas pipeline assets. And I have a couple of points about the planned MLP.

First, you should note that the guidance numbers we are providing today don't assume an MLP is formed and so we would expect to update our guidance once we complete such a transaction.

The second point I need to make about the planned MLP is that we aren't allowed under SEC rules to say anything more than what we've already announced. We are in a quiet period. That being the case, we won't be taking any questions about the MLP, about the new MLP, or respond to any requests for additional information at this time. We appreciate your understanding and patience on this matter.

The planned Gas Pipeline MLP would be complementary to our existing, very successful Midstream MLP. We have built a very strong track record with Williams Partners, dropped down $1.6 million worth of assets last year, and we remain focused on our commitment to drive growth in Williams Partners through a combination of drop-downs, third-party acquisitions, and organic growth.

Just two weeks ago, we also announced that our Board authorized a program to buy back up to $1 billion of our stock. We are excited that, with our earnings news out to the public today, we will soon be in a position to begin executing on our repurchase program. However, this is another topic where our public announcement provided all the information we can share at this time. Clearly, we are excited about the stock repurchase program, but we aren't in a position today to provide additional information or respond to questions about our plans.

Finally, I want to highlight the abundance of value creating growth opportunities within our businesses. In each of the next two years, we plan to invest at least $1.3 billion to develop our low-risk, high-return natural gas reserves. Couple that with the growth projects in Midstream, like Perdido Norte, Blind Faith, Willow Creek, emerging Canadian opportunities, and expansions on all of our interstate natural gas pipeline systems, and you can appreciate just how bright our future is. We are truly opportunity rich.

And so with that introduction, I will turn it over to Don.

Don Chappel - *Williams Companies - SVP and CFO*

Thanks, Steve, and good morning. We're delighted to report these strong results and we are delighted with the performance of our business.

I will be focusing my attention on recurring results from continuing operations, but before I dive into that, I would like to note something regarding discontinued operations.

If we could turn to the next slide please, #9. Again, the results from the discontinued operations, largely are our former Power segment, were substantial -- we recorded a substantial gain this quarter as we reclassified previously deferred marked-to-market effects under hedge accounting from OCI to income. As we noted in our prior press release when we announced the transaction, we indicated that we expected the gain and loss to be insignificant. That's still our view. So we would expect offsetting losses as the deal is closed, so I'd just like to note that for you before we dive into the rest of this presentation.

Let's now focus on our key earnings measure, one that strips out nonrecurring items as well as marked-to-market effects, and that is at the bottom of this schedule and that is the $0.43 versus the $0.29 a year ago. Again, up nearly 50% or on a year-to-date basis, $0.74 versus $0.52 a year ago or up 42%.

The next slide please, #10. This slide just details the nonrecurring items, which are fairly modest in size. I would note that there is also a tax effect where the tax provision was adjusted this quarter, deemed to be nonrecurring. That's there for your information. The next slide please, #11.

This walks through the marked-to-market adjustment. Again, reversing forward unrealized marked-to-market losses totaling $61 million in the quarter, adding back realized gains from marked-to-market previously recognized totaling $8 million, gets us to $69 million add-back pretax, $26 million tax effect for a $43 million second-quarter adjustment. And again, we would expect that the marked-to-market effects would diminish sharply as we close the Power sale and we become relatively small by 2008.

The next slide, please, #12. Second-quarter segment profit. I will focus my comments on the recurring. The details of the nonrecurring items were just reviewed as well as they are available in our appendix. First, let me focus on the first subtotal. You can see the $617 million Recurring Segment Profit as compared to the $442 million for our three core businesses is improved by about 40% year-over-year. And the second major total, segment profit after marked-to-market adjustments at $625 million is up $167 million or 36% year-over-year. We will dive into some of the details right now.

E&P at $209 million is up 75% from a year ago, having increased its daily U.S. and international production to 945 million cubic feet per day, an increase of 20% versus the second quarter of '06. Note that U.S. average daily production totaled 898 Mcf a day and increased by nearly 22% over the same period last year.

Net realized price averaged $5.39, up 29% from '06 and up slightly from the first quarter.

Our transportation contracts to move gas out of the Rockies and our financial hedges enabled us to once again achieve superior pricing for our gas, and Ralph will talk about this in some detail during his presentation.

On a year-to-date basis, overall daily average production was up 22% and that realized price increased 21%.

Our Midstream business had an extraordinary quarter with $250 million in segment profit, up from $199 million last year. Midstream once again delivered these very, very strong results and results that were higher than our prior forecast. The principal driver was higher net liquid margins in the West for a combination of high NGL prices and lower natural gas costs produced these extraordinary margins.

Note that while low natural gas prices in the West had a minor effect on our E&P results, as a result of the transportation and financial hedges that were in place, the low natural gas prices in the West were very beneficial to Midstream.

Other factors in our second-quarter results included $9 million higher olefins margins and $12 million lower deepwater gathering and production handling, as production declined somewhat until the next bit of supply is attached, and that is as expected. Overall operating expenses were steady. On a year-to-date basis, Midstream was at $396 million, up 15%.

Let's focus now on Gas Pipelines. Gas Pipeline reported profits of $158 million, up 28% from the prior year. The higher level of profitability is a result of new rate cases that went into effect earlier in the year. January 1 for Northwest Pipeline and March 1 for Transco. Again, the Transco results, or rates, were subject to refund, and obviously, we are delighted by the agreement in principle to settle this rate case, as announced in our press release. These higher revenues were offset somewhat by somewhat higher expenses.

Back to Gas Marketing Services, Gas Marketing Services includes certain contracts related to the former Power segment as well as the activities related to marketing E&P gas and buying fuel and shrink for the Midstream business. We are reporting a GAAP loss as well as a recurring loss. However, when the marked-to-market adjustments, as noted lower on this schedule, are taken into account, you can see the bottom line for this activity and that is at the bottom of this schedule. It shows Gas Marketing Services after marked-to-market adjustments with profitability of $6 million this year as compared to $21 million a year ago. Again, this business is principally focused on providing services to our E&P business and our Midstream business, as well as liquidating or bandaging down some of the former Power positions. Again, the total, $625 million, up 36% from a year ago.

I won't to add -- let's turn to the next slide, please, #13. I won't comment in detail, but I will just focus on some totals. Again, the three core businesses reporting $1.1 billion of segment profit year-to-date, up 27% and segment profit after marked-to-market adjustments at 1.116 billion, up 29% from a year ago.

With that, I will turn it over to Ralph Hill.

Ralph Hill - *Williams Companies - President, Exploration and Production*

Thank you, Don. Slide 14. I'm very pleased to share another very strong quarter of production and profit growth with the audience today.

I'll have three main segments to my short group of slides today. First, I will give a few highlights of our overall E&P as well as our basins highlights and I'm going to discuss how we proactively manage our transport and basin level collars, which Steve and Don have mentioned briefly.

What our attempt was to minimize our E&P exposure to this year's basis widening, which I will be able to show you on a slide, while simultaneously, I believe, you will see that Midstream has benefited very well from the basis widening at the same time. So it's been a very good team effort to do that.

Looking at slide 15, second-quarter accomplishments, our total production is $945 million a day, which is up 20% compared to the second quarter of '06. That's up 6% sequentially also. Very strong production growth for the year. Our segment profit of $209 million, which is a record quarter for E&P, was up 75% compared to the second quarter of '06. And our year-to-date profit of $397 million is 49% above last year's at this time.

We've been able to continue to upgrade and high-grade our rig fleet primarily in the Piceance and the Piceance Highlands and we're very pleased with that in addition to our activities in the Fort Worth Basin. And during the quarter, we have accomplished three -- two larger and one smaller undeveloped acreage acquisitions, totaling about -- including drilling capital, about $95 million for the quarter, which is why our capital guidance has gone up. One was in the Piceance Highlands in the Ryan Gulch area and two were in the Fort Worth area, near our Fort Worth activity in the Barnett. Combined, these will total, again, as I mentioned, about $95 million of additional expenditures this year, which includes approximately $19 million for additional drilling and then the acquisition prices in the $77 million range. And they're roughly split between.

We're very pleased with both of these; the Fort Worth acquisitions are in the core area of the Barnett and the Piceance Highlands is a direct bolt-on to the best acreage we have in our Ryan Gulch area. We're very pleased to have gotten both of these. Both bring a substantial amount of undeveloped locations with them, which is what we try to -- which we focus our efforts on.

Slide 16, this is a repeat of what we had for last call except now we have updated for the first quarter '07. If you look at the slide, particularly on the right-hand side, we remain the second-largest, fastest-growing and the 13th largest U.S. producer in the first quarter. The only producer that grew faster than us had significant acquisitions last year that obviously impacted their production growth. So included in our growth, once again, through organic growth, we have been able to achieve substantial growth in our production.

We believe that our 22% growth in the second quarter, which we don't have all the statistics in for all the companies listed here, will again be industry-leading. We will share that statistic with you next quarter.

Slide 17, some Basin highlights. Piceance Valley is nearing $500 million at the time in the second quarter, which is up 25% over a year ago. We have 18 rigs operating in the valley, but as you know, we have 25 total in the Piceance area when you include the Highlands. And our simultaneous operations, which we call sime-ops, continues to improve our cycle times.

In the Highlands, our production is up 56% over a year ago with $25 million a day of net production. We have done our seasonal drilling ramp-up, which we do and we're up to seven rigs already this year in the Highlands and our well performance continues to meet our expectations.

In the Powder River, continued strong growth, up 21% over a year ago. 166 million cubic feet a day. Our seasonal drilling window is just underway. August 1st is when really most of the stipulations end in the Powder and then we have about 90 to 100-day significant drilling window and we are rapidly in that as we speak. And gathering expansions have continued to progress with the Fort Union, which will be done this fall. Late this year, will significantly impact our ability to move gas from this area and help us quite a bit. And also some other smaller gathering expansions have been accomplished.

Slide 18 San Juan Basin, steady production of 147 million in this very mature basin. It was down slightly from the first quarter; that's primarily due to plant maintenance, which affected volumes; should rise again in the third quarter. We continue to do many things with this mature field of optimization efforts and they continue to pay dividends as our production normally and continues to go up in the San Juan Basin, where many have their production actually is declining.

Fort Worth, which is our newest Basin, we're up to 32 million a day, which is 146% increase over a year ago. We're at four rigs drilling. Deal flow is significant out there for the size and type of deals that I mentioned we did earlier in the slideshow. We have quite a bit of deal flow coming our way. Tighter well density also offers significant growth for us. And we're gaining efficiencies through size and scale on all of our operating costs and our ability to drill more efficiently.

Slide 19, a key question that Steve, Don and I receive quite often is in regard to the Rockies basis, and this year's base is widening, which many of you have seen. As I have mentioned for several years now, we have been proactively managing for this problem and we believe we -- during the last couple of years, by taking firm transportation out -- and there's a slide in the appendix that discusses that -- and by putting on Basin-level collars and hedges to minimize our current Rockies basis, this current Rockies basis problem from our portfolio. Thus, we're not as vulnerable as other Rockies' producers to the wide basis, as this slide will detail. So looking at the slide, our total domestic production was $898 million a day in the second quarter on average.

29% was at Rockies prices, which you look at this slide, you add the 22% Rockies hedges and the 7% Rockies and that makes the 29%. So that is what we have, which would be at Rockies prices. And 71% of our gas, through our proactive ability to move our gas away, is either produced or transported and a lot of it is transported. As you know, we're primarily Rockies producers to other price points. So if you take the $260 million of the Rockies prices, expose to Rockies prices and you take out our hedges positions that we have in our collars and our fixed prices of $200 million a day, we had approximately $60 million a day or only about 7% of our entire portfolio exposed to the lower Rockies prices, which you can see an example of Rockies prices is in the next bullet, CIG was 386 for the second quarter '07 and Northwest Pipe was 378. So of our entire portfolio, a very, very small piece of that was exposed to those type of prices.

And although it is apples to oranges, if you look at the -- what are net realized prices versus just a pure index, because the net realized price takes out fuel shrinkage and transportation, but our net realized price for the second quarter '07 was $5.39. So we feel we have been very proactive in working with the Power group and with our sister companies in making sure that we can get our gas out of the Basin, as we talked about, out of the Rockies, for quite a while. And this slide depicts where the majority of our gas is either priced and/or transported away from the Rockies.

For 2008, we expect Rockies Express, as many of you see, the basis is narrowing when Rockies Express is expected to come on. As you know, we have a couple hundred million a day on that expansion through a marketing arrangement. We expect that will help and we also have additional ability to move our gas, so the exposure if you will, to Rockies, which we don't know if that is a bad exposure, because the basis is significantly declined, drops or increases from the 7% to approximately about 15 or 17%. So still very, very manageable. And as you can see from our proactive ability to move our gas out of the Basin, we will be able to move to preferred pricing points.

And finally slide 20, what we have done is we have avoided the Rockies basis blowout this year. While Williams has benefited from our Midstream business, as Alan will talk about that in a few minutes, our production is increasing rapidly. Our costs are in line with our expectations, exactly where we thought they would be with the expectations. And our profit is up significantly to record levels. We are currently developing our detailed 2008 plan and we hope to be able to demonstrate by the next call that we can increase our activity level if possible. But there would be our speed of development strategy, which as you've seen, we've been continued to develop execute on.

And our workforce continues to be very dedicated and I thank them for an outstanding quarter for everything they did for us this year so far and for the future. Now I'll turn it over to Alan Armstrong.

Alan Armstrong - *Williams Companies - President, Midstream Gathering & Processing*

Thanks, Ralph and good morning. It's certainly a pleasure to the reporting on Midstream's strep record quarter today, but more importantly from my perspective, to be able to demonstrate once again the strength of our Williams portfolio and the ability to continue to generate a lot of cash across the units in a multitude of pricing environments. Our segment profit for Midstream was $250 million this quarter. That was a record as it exceeded our previous record of $228 million in the third quarter of '06. This performance along with the current market fundamentals have allowed us to raise our guidance by $150 million at midpoint and this marks the seventh time in the last nine quarters that we've been able to raise our segment profit guidance for Midstream.

The NGL margin was certainly driven by the gas basis differential between Henry's and the Rockies, as Ralph pointed out a while ago. And the basis in the second quarter exceeded $3 and we are realizing continued gas prices, fundamentals, in the third quarter, that support the guidance raise as I mentioned a while ago.

Just to kind of give you a feel for what that looked like for us in terms of margin, our Rockies margin and so that would be Opal and Echo in particular our Rockies margin, was $0.54 and then on a consolidated basis, we saw $0.47 per gallon. And to put that in a dollar per MMBtu perspective, we basically took our WACOG or our cost of gas for the Rockies was 447 for the quarter. And we basically converted that $11 per MMBtu sales on the liquid side and that's after TNF, so we basically saw a margin of about $6.50 per MMBtu on the gas that we processed.

And so I think that helps demonstrate the kind of strength that we've got in the Rockies. Certainly, as new pipeline capacity comes on out there, we would expect that margin, and particularly in the Rockies, to fall back to more normal levels next year.

Additionally, in terms of being able to raise our guidance, we did acquire the BASF's interest in Geismar, and we had a right of first refusal on that investment. We operate that facility today. We did own 40% or 5/12 and we acquired another 5/12 through this [rofer]. Just to give you an idea of the profitability of that, we spent about $62 million and we expect that to generate on a full-year basis, about $26 million in EBITDA a year, or of segment profit plus depreciation. And that business is supported by -- or a contract is about 300 million pounds a year through 2009, and so that's an offtake agreement with BASF that supports that investment. So very excited about this addition. Really no distraction to our business as that is something we already operate today and we found that to be a favorable price.

Additionally, I want to comment on the progress we're making on our Canadian oilsands. We did make a press release I believe on Tuesday talking about some of the letters of intent that we have signed and we have signed two letters of intent that anchor the construction of a cryogenic plant expanding our Redwater fractionator and adding a de-ethanizer to our Redwater complex as well.

The first part of that project being serviced by 2010 and a new cryo by 2012. These projects, I think most importantly to mention here is not only do these projects extract additional value out of the Canadian oilsands off gas and provide value to our customers, they also are extremely impactful to the emissions reduction in Canada. In fact, our current operations at Fort McMurray reduce carbon dioxide by about 219 tons per year. And these other projects, of course, will expand that even further.

Another important thing to note about this is the scale of this opportunity. We expect that by 2012, if we are successful in pursuing the opportunities we see before us up there, that we could be doubling or matching, is another way of saying, matching our current U.S. production of about 200,000 barrels a day with production out of Canada. And a lot of this business, particularly the business on the front end of this, is all fee based production, so we will not be exposed to the pricing there on the front end.

These projects also have the benefit of being very long-term in nature with the Canadian oilsands reserves standing behind them and they are not exposed to the typical field declines that we have in our Midstream business. And so a lot of free cash flow generation for years to come without much capital reinjection into those businesses. So exciting opportunity and we're thrilled to see that kind of getting off the ground for us.

Moving onto the next slide on 23 here. This again, we've shown this slide in the past. This is a depiction of our growth opportunities in the various stages. And there on the left, you see projects and opportunities in their least mature state and then moving to the right through as we become more sure of them and we move them into guidance. And key notes to make on this slide this time is the amount that got moved over to our end guidance area. Two things there to note -- the additional interest in Geismar and a deepwater tieback that will be tied back to Devils Tower. And you can see the strength of those opportunities in terms of the kind of segment profit addition that those will bring to us. Additionally, you will see there a major expansion in our under negotiations area as we bring in those Canadian oilsand projects that I just talked about. So this continues to be a lot of growth opportunities for us. And really, we expect that to continue on the in-development and proposal stage to come in from all three areas -- the deepwater, the Western GNP and the Canadian oilsands.

Moving to the summary slide here on 24, we certainly were able to post a dramatic increase in our segment profit guidance, primarily on the strength of our NGL margins, as those set new record highs. I certainly should comment as well that we are experiencing high margins in the current environment as it exists and we see fundamentals that support that really throughout the remainder of 2007.

We are well-positioned for growth in three areas that I mentioned just a while ago and probably most importantly, and I think our biggest challenge is Midstream is with all this growth in front of us is to continue to focus, have the most reliable operations in the Midstream sector, and that is certainly what brings the opportunities for us that we continue to be able to discuss with you. And that's all I've got and I think I'll turn it back to Don.

Don Chappel - *Williams Companies - SVP and CFO*

Thanks, Alan. Let's turn next to slide #26. I'll focus my comments on the bottom line. Our key earnings measure, diluted earnings per share on a recurring basis after marked-to-market adjustment; we've updated our guidance, lifted the bottom end of the range to $1.30 to a top end of $1.50 from our previous range of $1.15 to $1.50. The primary driver of the increase is the strong Midstream results and view of continuing strong liquids margins, and that's offset somewhat by the absence of Power's results. The wide range is principally related to a range of assumptions for energy commodity prices for the balance of the year and that's summarized on slide #69 in this slide presentation.

Let's turn now to slide #27. Just a quick update on each of our businesses. E&P has tightened its 2007 guidance range somewhat on the strength of its continued production growth. Midstream has significantly increased its 2007 guidance as a result of very strong margins. Note that the 2008 guidance range is steady and assumes a less favorable margin environment, perhaps a more conservative forecast. Gas Pipelines has tightened its 2007 guidance range and raised its 2008 guidance.

Gas marketing, both on a reported and forecast results are affected somewhat by marked-to-market effects, which we plan to take action to reduce. Gas marketing forecast, inclusive of marked-to-market effects, exclusive of marked-to-market effects, is shown at the bottom of the schedule. And, again, you can see a forecast of zero to $25 million in 2007 and basically a breakeven plus or minus $20 million in 2008. Again, gas marketing is principally providing services to E&P and Midstream.

In terms of the total, again, the increase in the Midstream results drive the total recurring after marked-to-market adjustments, offset somewhat by the absence of Power's contribution.

Let's turn to the next slide, capital spending. Focus first on E&P. Again, the increase in the E&P capital expenditure guidance relates to the acquisition of undeveloped properties in the Piceance and Fort Worth basins that Ralph spoke to. The Midstream increase relates to the acquisition of the official interest in Geismar as well as additional planned projects. And then finally, Gas Pipeline relates to principally to new products.

I would also note that, as Steve has indicated, we continue to be opportunity rich. We would expect to see continued growth in investment in each of our businesses and we will continue to update those forecasts as we walk through future quarters.

The next slide please, #29. Again, we've talked about segment profit. Cash flow from operations 2007 is steady. 2008 is slightly lower, as the Power contribution is now absent. Capital spending, we just reviewed. Again, the caveat here is again, we are opportunity rich. We fully expect to make additional investments that we believe will create even more value for our investors.

Operating free cash flow is currently forecast to be negative this year and again, this is before dividend minority interest and other cash requirements by 2008 and this forecast is positive. Again, I would note that capital spending could grow somewhat as we seize additional opportunities. Also note that there are no MLP capital contributions included in this forecast of cash flow. With that, I'll turn it back to Steve.

Steve Malcolm - *Williams Companies - Chairman, President & CEO*

Thanks, Don. I think we can sum things up by saying that our integrated natural gas businesses clearly are delivering value. Our portfolio is turning in very strong performance even in a pretty volatile challenging commodity market. We achieved tremendous results in the second quarter. We think the rest of the year will be very strong as well. You can see that confidence in our improved earnings outlook. We continue to increase production. There are a few E&P companies that are generating 20+% growth through organic drilling opportunities. We are delivering record Midstream results on robust NGL margins in the processing margin environment; economics continue to be very attractive in the third quarter. Our pipeline profitability is up on new higher rates. We're investing in high-quality growth opportunities in our businesses, and we are executing on significant value-creating initiatives. The Power sale is getting closer. We are executing on an MLP strategy. We will be moving forward with our $1 billion stock repurchase program.

So we clearly have the franchise type assets, a very talented workforce, abundant growth opportunities and we continue to expand our growth platform, all of which will enable us to create significant shareholder value in the future. And with that, we will be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). Carl Kirst, Credit Suisse.

Carl Kirst - *Credit Suisse - Analyst*

Good morning, everybody, and certainly congratulations on a great quarter here. Three questions if I could. Just first, Ralph, looking at specifically the Piceance Valley, we seem to be getting to a place where the infrastructure is maxxed out in that region. Are there any opportunities to invest in infrastructure that would allow you to put more better rigs to work there rather than just high-grading?

Ralph Hill - *Williams Companies - President, Exploration and Production*

Well, I think what -- well, I guess just my version of high-grading is we are putting better rigs to work. We've been able to lay down a number of rigs that we would deem very inefficient and continue to, even as we speak today, we will be bringing in another rig and laying another one down this week. It's a much more newer, efficient rig. So we are getting much better equipment. And I think the ability to do more is what we are working on and looking forward to doing in the Highlands.

As you know, our projections going forward have about four rigs operating in the Highlands on an annual basis. And as you know, that's seasonal. It can drop to as low as one or two and go as high as seven or eight. But I hope that we'll be able to tell you in the future that instead of four rigs operating year-round, we will have more double that or maybe eight to ten rigs operating in the Highlands. So that's where we see more opportunity and that's why we are doing all of our infrastructure buildouts as we have done so far. The majority of those are done. And we are rapidly, as fast as we can, testing all of the areas of the fields we have so we know where to go hit, which parts of the field to hit first.

Carl Kirst - *Credit Suisse - Analyst*

Certainly appreciate that, but specifically with respect to the Piceance Valley as far as absolute number of rigs, once we kind of finish high-grading, if you will, are we sort of now capped out at the amount of the number of rigs we can put to work in the Valley with now all the future growth from the Piceance coming from the Highlands? Is that still a correct way of looking at it?

Ralph Hill - *Williams Companies - President, Exploration and Production*

We should have substantial growth in the Valley still, and the way we will do that is with the fleet -- we will have our fleet in place that we want, the type of rigs we want, both the high-efficiency rigs and the conventional rigs. And after that, it will just be a matter of doing what we have always done, decreasing our cycle times. And that's happening as we went through our simultaneous operations, through our drill bit technology, just through everything we're doing. So what I think is the same amount of rigs you see operating as soon as we get done with all the high-grading and the team is in place, which it essentially is, we will be working to continuously drive down that spud to spud time. And that will -- same amount of equipment can then do more rigs or more wells. I'm sorry.

Carl Kirst - *Credit Suisse - Analyst*

Great. No, I appreciate that. Second question, Alan, just as we look at obviously the blowout in keep-whole margins, particularly in the Rockies right now, just from maybe sort of a philosophical standpoint, are you looking to keep the amount of keep-whole exposure right now as sort of a natural hedge enterprise-wide, or do you try and take advantage of kind of the record margins to perhaps get better than you might otherwise expect fee-based margins?

Alan Armstrong - *Williams Companies - President, Midstream Gathering & Processing*

It's a great question and generally, this is exactly when we see opportunities to contract for fee-base margins and the two factors that you mention there, first of all looking at our corporate exposure to gas and then secondly, opportunities to price our fee-based business long term is exactly when we do that. And in fact, in the Canadian projects that I mentioned, those projects are -- while the value being generated is emissions reductions and substantial spread between gas and propane and propylene, both of those projects are fee-based projects.

Carl Kirst - *Credit Suisse - Analyst*

Okay. Thank you. And then lastly, Steve, Don, and I'll try and ask this in a way to not run afoul here the MLP issue, but maybe specifically looking on Williams Partners, WPZ. As you look into the future, do you find that we now have a more limited window of when we can access the capital market in WPZ or do you think WPZ's dynamics is really going to work independent of anything else that might be out there?

Steve Malcolm - *Williams Companies - Chairman, President & CEO*

I don't see any change in our intentions and what we've talked about with respect to WPZ, as a result of our intention to create a Gas Pipeline MLP.

Carl Kirst - *Credit Suisse - Analyst*

But specifically being able to access the equity markets, does that -- did you feel now more constrained of when you can put out WPZ equity because of perhaps other equity you might be doing?

Steve Malcolm - *Williams Companies - Chairman, President & CEO*

No, that was obviously an important part of our analysis and so the answer is no. We don't believe that we will be constrained in terms of being -- getting successfully to the markets.

Carl Kirst - *Credit Suisse - Analyst*

Great. I'll ask my other questions back in the queue. Thank you.

Operator

Faisel Khan, Citi.

Faisel Khan - *Citigroup Inc. - Analyst*

On the Powder River Basin volumes, up 21% over last year, was a lot of the growth of that basin a result of a lot of the dewatering you had from last year and some of the number of wells you will drill year-over-year, like basically '06 over '05? Or is that real organic growth that can continue for the next couple years?

Ralph Hill - *Williams Companies - President, Exploration and Production*

It's real organic growth. Now it is dewatering from wells that were drilled more in '06 and so that are coming on now. But clearly we're drilling this year and those wells will dewater and be on in '08 and '09. We have a strong outlook on the building for our Powder production to continue to grow.

As you know, we were very proactive in managing our water. Our previous partner was not but now with our current partner, Anadarko, in there, they are doing a great job of proactively managing their water, hooking up wells that were stranded, and that helps us also, because all the production growth until recently has been from Williams side, and now it's a pleasure to have our partner also participate in that.

Faisel Khan - *Citigroup Inc. - Analyst*

Got you. And how much room do you have to run in the Fort Worth area? You talked about how your volumes are up tremendously over the year. How much more room do you guys have to run there?

Ralph Hill - *Williams Companies - President, Exploration and Production*

We have at least 100 locations to drill and probably more as we look at some of our down spacing opportunities there and we have actually done six bolt-ons in the last 1.5 years and we have a tremendous amount of deal flow coming in still. We're specializing, as you can tell, more in this 25 to $50 million range, but they bring quite a bit of opportunities. So we feel we have a lot of growth already in front of us just with the 100 or more locations that we have in our current inventory and probably more as we look at the rest of the inventory that's -- or deal flow -- that's coming to us, assuming we can pick up some of that.

Faisel Khan - *Citigroup Inc. - Analyst*

Okay, great. And then on the pipeline, the rates that went into effect on March 1st, is that similar to what you guys are looking at in terms of your settlement with your shippers?

Bill Hobbs - *Williams Companies - President, Power*

This is Bill. Actually we've already made adjustments in our forecast to reflect where we thought we would be. And so we've got those piped in. It will not be the motion rates that were filed, if that responds to your question.

Faisel Khan - *Citigroup Inc. - Analyst*

Okay. And then in terms of Pacific Connector, with your partners there, there has been some rummaging of some -- our position to that pipeline. Where do you guys stand with that project?

Bill Hobbs - *Williams Companies - President, Power*

Well, as we announced previously, we had a very successful open season on that project and we are moving ahead. We actually have 97% of the right-of-way. We have rights to survey, which is a very positive indication, in our view, as to how that project is proceeding and it's virtually impossible to have such a project in today's world that won't have some folk raising their voice in opposition. Although I would say in a contrast to other projects, that, for example, might congest the Columbia River, this project would not, in fact do that. And of all the places you could probably locate along the Western coast, the local support has been very heartening for the project.

Faisel Khan - *Citigroup Inc. - Analyst*

Okay. And then in terms of your continued ability to drop down assets into the partnership -- into WPZ, have you noticed -- has there been any constraint do you think at all with the increase in credit spreads in the market that might influence that sort of strategy?

Steve Malcolm - *Williams Companies - Chairman, President & CEO*

Faisel, certainly what's happening in the market I think affects everyone in the market, but nonetheless, we think that our MLP plans are largely unchanged.

Faisel Khan - *Citigroup Inc. - Analyst*

And lastly on your sale of the Power to Bear Power, any -- are there any issues on their side with the issues they've been having with the subprime that might impede the sale of this asset to them?

Steve Malcolm - *Williams Companies - Chairman, President & CEO*

We're not aware of any. They continue to be pleased with the progress that we're making in terms of getting assignments completed and continue to be very optimistic about our ability to close before the end of the year.

Faisel Khan - *Citigroup Inc. - Analyst*

Great. Thanks for the time, guys. I appreciate it.

Operator

Craig Shere, Scottwood Capital.

Craig Shere - *Scottwood Capital - Analyst*

Don, do you have a sense for how much second-quarter earnings might have been a tad lower if marked-to-market adjusted Power book results were still in continuing ops along with the new gas marketing segment?

Don Chappel - *Williams Companies - SVP and CFO*

Craig, we have not provided any guidance by quarter for Power, but you may recall that our Power results for full-year forecast were in the range of 50 to $100 million more or less. So obviously it somewhat varies by season, but full-year affect somewhere in that range of 50 to $100 million.

Craig Shere - *Scottwood Capital - Analyst*

Okay. And a couple of questions for Alan. Alan, what are the assumptions for profit per gallon going out '08 and beyond? Is it like $0.20 or so?

Alan Armstrong - *Williams Companies - President, Midstream Gathering & Processing*

You're saying what's embedded to get to the midpoint of our guidance?

Craig Shere - *Scottwood Capital - Analyst*

Yes, I'm sorry.

Alan Armstrong - *Williams Companies - President, Midstream Gathering & Processing*

What we're using is a current market forecast and with that kind of number, which is in the mid-40s range, that would get us to the top of our range there right now. If that answers your question.

Craig Shere - *Scottwood Capital - Analyst*

Okay. So you're using some kind of forward numbers even through all of '08?

Alan Armstrong - *Williams Companies - President, Midstream Gathering & Processing*

Sorry. I thought you were talking about '07. I'm sorry. In '07, my answer was responsive to '07, which was about $0.47. And on the '08 numbers, we're using, I think we've posted our commodity price assumptions in some of the appendix information. And generally what we're using in our long-range plan there is around $0.27 for our '08 numbers.

Craig Shere - *Scottwood Capital - Analyst*

I know for the longer-term guidance, you all have kind of conservatively used like five-year averages or something. Can you speak to the probability of the margins falling whatever it is, 40% or so, next year maybe with the new Rockies Express pipeline? Or is this just, again, being conservative and moving towards the five-year average?

Alan Armstrong - *Williams Companies - President, Midstream Gathering & Processing*

We're staying fairly consistent with the five-year average, and I think that we will come very close this year as we look back post-'07, if '07 completes the way we think it will be, at $0.27, will be around the five-year average. However, we certainly arrived at that number in a different manner. I would say that that just happens to be somewhat coincidental. In most of that impact or negative impact to that number is the Rockies basis differential.

Craig Shere - *Scottwood Capital - Analyst*

Okay. And last question, Alan, do you have a rough estimate for what all the CapEx plans might be for the oilsands gas processing investments?

Alan Armstrong - *Williams Companies - President, Midstream Gathering & Processing*

Well, the two projects that we've got in there are right at about $240 million. There's actually two fairly large projects there and then there's some smaller projects that enhance our existing facilities and those total about $240 million that are in that middle pie there, if you will -- pie chart showing the under negotiation.

Craig Shere - *Scottwood Capital - Analyst*

Great. Good quarter. I appreciate it, guys.

Operator

(OPERATOR INSTRUCTIONS). Sam Brothwell, Wachovia.

Sam Brothwell - *Wachovia Securities - Analyst*

You guys answered my question. Thanks.

Operator

Carl Kirst, Credit Suisse.

Carl Kirst - *Credit Suisse - Analyst*

Two quick follow-ups, please. First, Don, the $1.7 billion of cash on hand we have at the end of the quarter, notwithstanding the $1 billion share buyback that I know you can't talk about. How much cash should we think about you guys maintaining on hand on sort of a go-forward basis as you kind of come up the credit curve?

Don Chappel - *Williams Companies - SVP and CFO*

Good question, Carl. Maybe just a couple of comments. Of the total cash balance, about -- somewhere between 4 to $500 million is international cash that is offshore and has not been taxed either from an income statement or from a cash tax standpoint. Our intention is to leave that offshore at this point. We do have some growing opportunities offshore, including the Canadian opportunity that Alan pointed out, which would be a terrific use for that cash. So stripping out the international cash, we get down to a domestic cash balance more in the $1.2 billion, $1.3 billion range. I would say that post sale of Power, cash balance of a few hundred million dollars would be logical, excluding that international cash that I just outlined.

Carl Kirst - *Credit Suisse - Analyst*

Excluding. Okay. Great. Thank you. And just last question, Ralph, in the interest of time, I don't think much was said about any of the new areas [mark us tied off] you went to. Was there anything in particular maybe that stood out worth highlighting for the second quarter or are we still kind of too early on to really yet have a feel?

Ralph Hill - *Williams Companies - President, Exploration and Production*

It's still early. We are on our third wheel on the paradox though, so we continue to drill ahead on that. But it is too early, but we obviously intend to drill our fourth well here in the paradox in the fall and we will have four to continue to do all of our technical analysis. But we accumulated quite a bit of acreage down there and we have not been disappointed with what we've seen so far.

Carl Kirst - *Credit Suisse - Analyst*

Perfect. Thanks, and good luck, guys.

Operator

Rick Gross, Lehman Brothers.

Rick Gross - *Lehman Brothers - Analyst*

Good morning. A couple of E&P questions. On the cost structure, it looked like you had improving unit costs for LOE and SG&A. And my assumption was on the SG&A part it was just better volume absorption. On the LOE, you had a bunch of accruals and things running back and I assume that's kind of normalized. Is that reasonable assumptions?

Ralph Hill - *Williams Companies - President, Exploration and Production*

Last year in particular there was a number of things that hit in the second quarter, so, yes, it's really more of a normalized basis now.

Rick Gross - *Lehman Brothers - Analyst*

Okay. And then the area that did jump, as you continue to see a pretty good jump in the D&A rate, is that just because you continue to drill PUDs that we aren't seeing a whole lot of migration of 2P, 3P this early in the year?

Ralph Hill - *Williams Companies - President, Exploration and Production*

As you know, we're continuing to expand in particular of our Piceance Valley drilling. Also we do a number, in that rate, there will be all of the facilities we've put into. So that is a correct statement. But I will say it's exactly where we planned on it being at this point. So we are -- based on our plan, our DD&A rate is sitting right where we thought it would be.

Rick Gross - *Lehman Brothers - Analyst*

Okay. And then the volumes that we are seeing out of the Piceance Valley, year-over-year -- or excuse me, the Highlands, jumped very nicely, but they have been roughly flat for about a year. And I was curious as to whether or not we've got an infrastructure issue or something else that's kind of delayed the nature of seeing production ramp continue to ramp up there?

Ralph Hill - *Williams Companies - President, Exploration and Production*

They -- it's really -- they jumped from the third quarter to the fourth quarter significantly and what that is, that's a result of the amount of drilling we're able to do in the window between June and October. And that's what you will see again this year is we'll see a jump as we move into the drilling window and we are into it now, but obviously that didn't -- wasn't in time to have a significant impact on the second-quarter volumes. And what we are working for, obviously, is year-round drilling in all the Highlands and you know we did that as our trial in the Trail Ridge area. We expect to continue to do that again this winter and also in the Allen Point area. So really it's a seasonal where we'll go for about seven rigs for about five months and then we'll drop down to one or two rigs. And we hope to make that on a much more levelized basis. So it's really just the seasonality of the rig season.

Rick Gross - *Lehman Brothers - Analyst*

Okay, and there was also, when we did the Piceance tour, wasn't there an expansion of the pipe that takes all that out of there, going on as well?

Ralph Hill - *Williams Companies - President, Exploration and Production*

There is, the expansion of the Northwest Pipeline [ore] from the Valley, you mean, or --?

Rick Gross - *Lehman Brothers - Analyst*

Yes.

Ralph Hill - *Williams Companies - President, Exploration and Production*

Yes, that is there. We, the Rockies, as you all probably know, are very tight. It is very tight. So there's, on any given day, we will have gas that is shut in, either in the Valley or the Highlands just because a downstream area or maybe a compressor of our own will be kicked off. So it's just so tight until Rockies Express gets on, there are opportunities for gas unfortunately to be contrailed from time to time. And that does affect some of the volumes you see here. But I think that's all alleviated with all -- by next year with the infrastructure improvements we're doing and also with the new take away. But there is some on any given day with the amount of volumes we have moving, there can be gas that is not getting to market just because of an infrastructure upset somewhere.

Rick Gross - *Lehman Brothers - Analyst*

Okay. And then in response to a question earlier on the Powder, you said something about 100 locations. My impression was you're drilling 900 wells a year, and that should last -- the inventory that you've indicated is thousands of wells -- 10,000 or so, and that at the current pace you've got like a 10, 15-year inventory.

Ralph Hill - *Williams Companies - President, Exploration and Production*

The 100 locations was for the Barnett.

Rick Gross - *Lehman Brothers - Analyst*

Oh the Barnett. I'm sorry.

Ralph Hill - *Williams Companies - President, Exploration and Production*

Yes. We said we currently have an inventory of 100 locations and we'll probably have more as we continue to down space or do tighter density drilling in the Barnett. So that was in response to Powder. Powder is still in that, I believe it's the last slides we have are 7500 to 8000 locations.

Rick Gross - *Lehman Brothers - Analyst*

Yes. Okay, thank you.

Operator

Faisel Khan, Citi.

Faisel Khan - *Citigroup Inc. - Analyst*

Just a couple more questions. On your new gas marketing segment, is it fair for me to take the pipeline capacity and the storage capacity you used to have at Power and that's pretty much in your Gas Marketing business today?

Ralph Hill - *Williams Companies - President, Exploration and Production*

This is Ralph. I think there are parts of that are for the E&P and the -- were primarily for moving the E&P business. There's also some historical part that was with the Power group that will be with us until we, as we said in our press release, work to remove those contracts and minimize our exposure to marked-to-market. So yes, initially, yes, but I think another way to answer that is we expect to see a lot of that go away.

Faisel Khan - *Citigroup Inc. - Analyst*

Okay, got you. And in terms of the -- how we should take a long-term view on the capital structure of the C-Corp over a long period of time, what kind of credit -- cash flow ratios or multiples should we be looking at in terms of debt to EBITDA over a longer period of time or debt to total cap?

Don Chappel - *Williams Companies - SVP and CFO*

Faisel, we're not prepared to offer any specific guidance, but I can tell you that, again, Williams will likely be the developer of projects that are not appropriate, either not qualified or just in their development stage, and as a result, we will need to have a solid financial foundation to be the developer of projects that are not yet cash flowing. So to give you some sense of where we will be. Other considerations are the amount of cash will come up from the MLPs.

Faisel Khan - *Citigroup Inc. - Analyst*

Sure. Understood. Thank you.

Operator

With that, we will conclude our question-and-answer session. I would like to hand the conference back to management for closing remarks.

Steve Malcolm - *Williams Companies - Chairman, President & CEO*

Thank you. Appreciate your interest. We're delighted with the quarter and very excited about the future and we look forward to speaking with you next time.

Operator

That does conclude our conference. Thank you all for your participation. We do hope you enjoy the rest of your day.