
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2019

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

(State or Other Jurisdiction of Incorporation or Organization)

73-0569878

(IRS Employer Identification No.)

One Williams Center

Tulsa

Oklahoma

(Address of Principal Executive Offices)

74172

(Zip Code)

918-573-2000

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Common Stock, \$1.00 par value

Trading Symbol(s)

WMB

Name of Each Exchange on Which Registered

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the registrant's most recently completed second quarter was approximately \$32,986,794,536.

The number of shares outstanding of the registrant's common stock outstanding at February 19, 2020 was 1,212,494,859.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Definitive Proxy Statement for the Registrant's Annual Meeting of Stockholders to be held on April 28, 2020, are incorporated into Part III, as specifically set forth in Part III.

THE WILLIAMS COMPANIES, INC.

FORM 10-K

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DEFINITIONS

The following is a listing of certain abbreviations, acronyms, and other industry terminology that may be used throughout this Annual Report.

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

MMdth: One million dekatherms or one trillion British thermal units

MMdth/d: One million dekatherms per day

Tbtu: One trillion British thermal units

Consolidated Entities:

Cardinal: Cardinal Gas Services, L.L.C.

Gulfstar One: Gulfstar One LLC

Northwest Pipeline: Northwest Pipeline LLC

Transco: Transcontinental Gas Pipe Line Company, LLC

UEOM: Utica East Ohio Midstream LLC, previously a Partially Owned Entity until acquiring remaining interest in March 2019

Northeast JV: Ohio Valley Midstream LLC, a partially owned venture that includes our Ohio Valley assets and UEOM

WPZ: Williams Partners L.P. Effective August 10, 2018, we completed our merger with WPZ, pursuant to which we acquired all outstanding common units of WPZ held by others and Williams continued as the surviving entity.

Partially Owned Entities: Entities in which we do not own a 100 percent ownership interest and which, as of December 31, 2019, we account for as an equity-method investment, including principally the following:

Aux Sable: Aux Sable Liquid Products LP

Brazos Permian II: Brazos Permian II, LLC

Caiman II: Caiman Energy II, LLC

Constitution: Constitution Pipeline Company, LLC

Discovery: Discovery Producer Services LLC

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

Jackalope: Jackalope Gas Gathering Services, L.L.C., which was sold in April 2019

Laurel Mountain: Laurel Mountain Midstream, LLC

OPPL: Overland Pass Pipeline Company LLC

RMM: Rocky Mountain Midstream Holdings LLC

Government and Regulatory:

EPA: Environmental Protection Agency

Exchange Act, the: Securities and Exchange Act of 1934, as amended

FERC: Federal Energy Regulatory Commission

IRS: Internal Revenue Service

SEC: Securities and Exchange Commission

Other:

Fractionation: The process by which a mixed stream of natural gas liquids is separated into its constituent products, such as ethane, propane, and butane

GAAP: U.S. generally accepted accounting principles

Geismar Incident: An explosion and fire which occurred on June 13, 2013, at our formerly owned Geismar olefins plant and rendered the facility temporarily inoperable.

LNG: Liquefied natural gas; natural gas which has been liquefied at cryogenic temperatures

MVC: Minimum volume commitment

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

WPZ Merger: The August 10, 2018, merger transactions pursuant to which we acquired all outstanding common units of WPZ held by others, merged WPZ into Williams, and Williams continued as the surviving entity.

The statements in this Annual Report that are not historical information, including statements concerning plans and objectives of management for future operations, economic performance or related assumptions, are forward-looking statements. Forward-looking statements may be identified by various forms of words such as "anticipates," "believes," "seeks," "could," "may," "should," "continues," "estimates," "expects," "forecasts," "intends," "might," "goals," "objectives," "targets," "planned," "potential," "projects," "scheduled," "will," "assumes," "guidance," "outlook," "in-service date," or other similar expressions and other words and terms of similar meaning. Although we believe that our expectations regarding future events are based on reasonable assumptions, we can give no assurance that such expectations or assumptions will be achieved. Additional information regarding forward-looking statements and important factors that could cause actual results to differ materially from those in the forward-looking statements are described under Part I, Item 1A in this Annual Report.

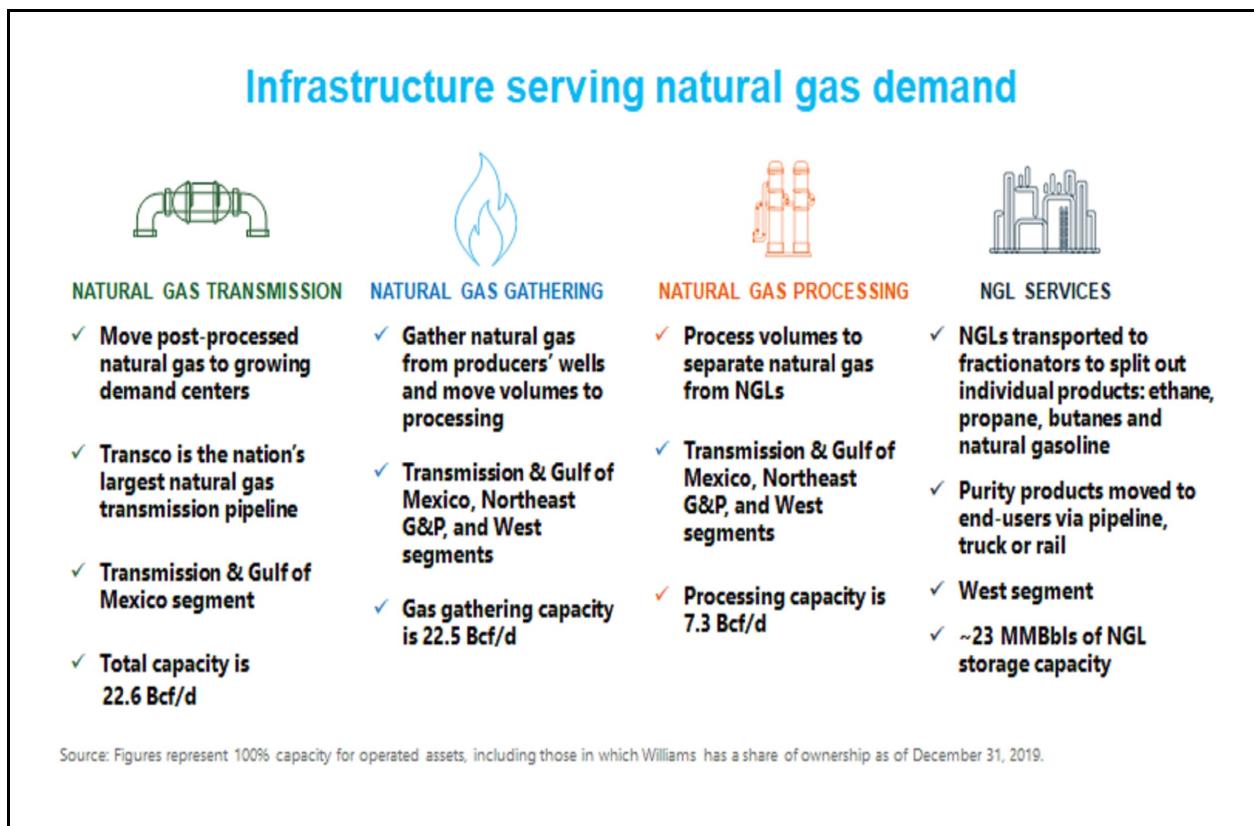
PART I

Item 1. Business

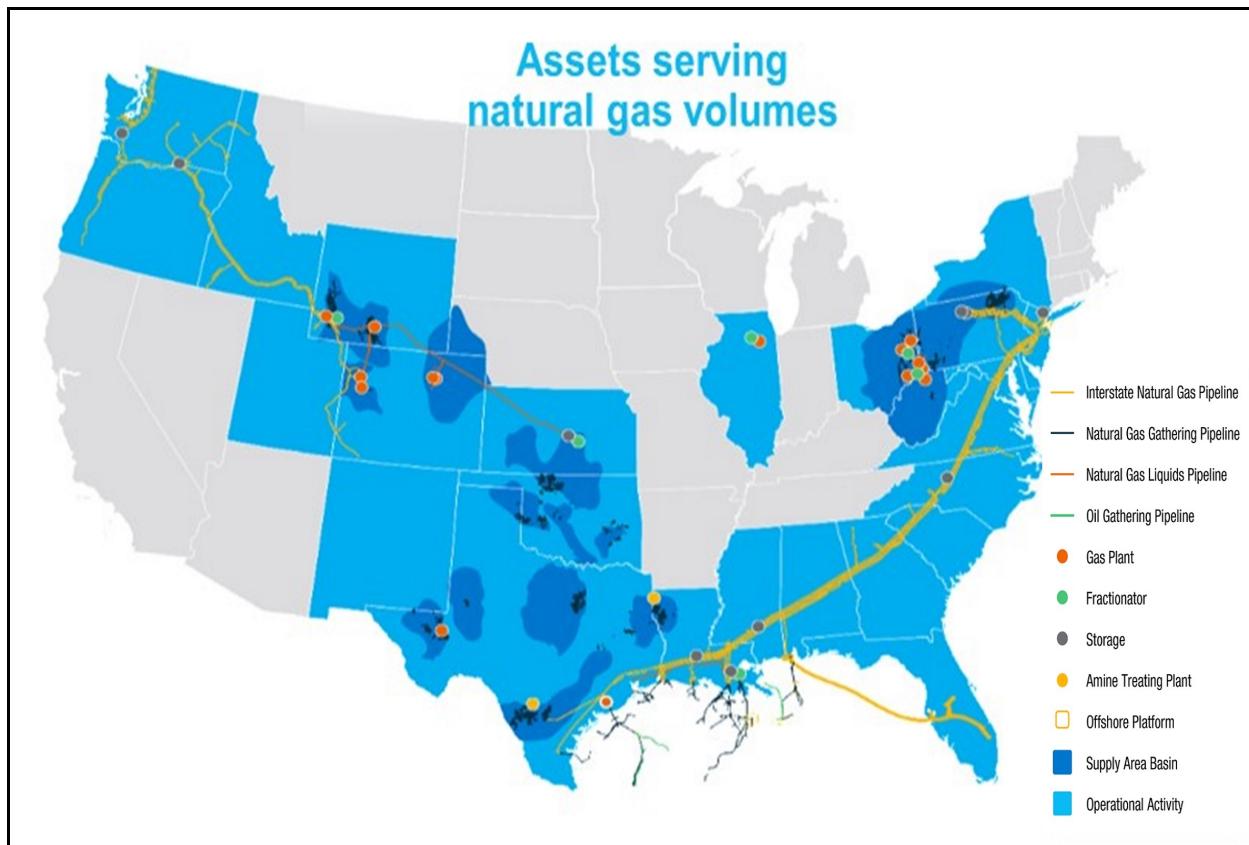
In this report, Williams (which includes The Williams Companies, Inc. and, unless the context otherwise indicates, all of our subsidiaries) is at times referred to in the first person as “we,” “us” or “our.” We also sometimes refer to Williams as the “Company.”

GENERAL

We are an energy infrastructure company committed to be the leader in providing infrastructure that safely delivers natural gas products to reliably fuel the clean energy economy. We have operations in 15 supply areas that provide natural gas gathering, processing, and transmission services and natural gas liquids fractionation, transportation, and storage services to more than 600 customers. We own an interest in and operate over 30,000 miles of pipelines, 28 processing facilities, 7 fractionation facilities, and approximately 23 million barrels of NGL storage capacity, handling approximately 30 percent of the nation’s natural gas volumes.



We were founded in 1908, originally incorporated under the laws of the state of Nevada in 1949 and reincorporated under the laws of the state of Delaware in 1987. Our common stock trades on the New York Stock Exchange under the symbol “WMB.” Our operations are located in the United States. Williams’ headquarters are located in Tulsa, Oklahoma, with other major offices in Salt Lake City, Utah; Houston, Texas; and Pittsburgh, Pennsylvania. Our telephone number is 918-573-2000.



Service Assets, Customers, and Contracts

Interstate Natural Gas Pipeline Assets

Our interstate natural gas pipelines, which are presented in our Transmission & Gulf of Mexico segment as described under the heading “Business Segments,” are subject to regulation by the FERC and as such, our rates and charges for the transportation of natural gas in interstate commerce are subject to regulation. The rates are established through the FERC’s ratemaking process.

Our interstate natural gas pipelines transport and store natural gas for a broad mix of customers, including local natural gas distribution companies, public utilities, municipalities, direct industrial users, electric power generators, and natural gas marketers and producers. We have firm transportation and storage contracts that are generally long-term contracts with various expiration dates and account for the major portion of our regulated businesses. Additionally, we offer storage services and interruptible transportation services under shorter-term agreements. Transco’s and Northwest Pipeline’s three largest customers in 2019 accounted for approximately 28 percent and 48 percent, respectively, of their total revenues.

Gathering, Processing, and Treating Assets

Our gathering, processing, and treating operations are presented within our Transmission & Gulf of Mexico, Northeast G&P, and West reporting segments as described under the heading “Business Segments.”

Our gathering systems receive natural gas from producers’ crude oil and natural gas wells and gather these volumes to gas processing, treating, or redelivery facilities. Typically, natural gas, in its raw form, is not acceptable for transportation in major interstate natural gas pipelines or for commercial use as a fuel. Our treating facilities remove water vapor, carbon dioxide, and other contaminants, and collect condensate. We are generally paid a fee based on the volume of natural gas gathered and/or treated, generally measured in the Btu heating value.

In addition, natural gas contains various amounts of NGLs, which generally have a higher value when separated from the natural gas stream. Our processing plants extract the NGLs, which include ethane, primarily used in the petrochemical industry; propane, used for heating, fuel, and also in the petrochemical industry; and, normal butane, isobutane, and natural gasoline, primarily used by the refining industry.

Our gas processing services generate revenues primarily from the following types of contracts:

- Fee-based: We are paid a fee based on the volume of natural gas processed, generally measured in the Btu heating value. A portion of our fee-based processing revenue includes a share of the margins on the NGLs produced. For the year ended December 31, 2019, 80 percent of our NGL production volumes were under fee-based contracts.
- Noncash commodity-based: We also process gas under two types of commodity-based contracts, keep-whole and percent-of-liquids, where we receive consideration for our services in the form of NGLs. For a keep-whole arrangement we replace the Btu content of the retained NGLs with natural gas purchases, also known as shrink replacement gas. For a percent-of-liquids arrangement, we deliver an agreed-upon percentage of the extracted NGLs and retain the remainder. Retained NGLs are referred to as our equity NGL production. For the year ended December 31, 2019, 20 percent of our NGL production volumes were under noncash commodity-based contracts.

Generally, our gathering and processing agreements are long-term agreements, with terms ranging from month-to-month to the life of the producing lease. Certain contracts include fee redetermination or cost of service mechanisms that are designed to support a return on invested capital and allow our gathering rates to be adjusted, subject to specified caps in certain cases, to account for variability in volume, capital expenditures, commodity price fluctuations, compression and other expenses. We also have certain gas gathering and processing agreements with minimum volume commitments (MVC), whereby the customer is obligated to pay a contractually determined fee based on any shortfall between the actual gathered and processed volumes and the MVC for a stated period.

Demand for gas gathering and processing services is dependent on producers' drilling activities, which is impacted by the strength of the economy, natural gas prices, and the resulting demand for natural gas by manufacturing and industrial companies and consumers. During 2019, our facilities gathered and processed gas and crude oil for approximately 230 customers. Our top ten customers accounted for approximately 75 percent of our gathering and processing fee revenues and NGL margins from our noncash commodity-based agreements.

Crude Oil Transportation and Production Handling Assets

Our crude oil transportation operations, which are presented in our Transmission & Gulf of Mexico segment as described under the heading "Business Segments," earn revenues typically by volumetric-based fee arrangements. Revenue sources have historically included a combination of fixed-fee, volumetric-based fee, and cost reimbursement arrangements. Generally, fixed fees associated with the production at our Gulf Coast production handling facilities are recognized on a units-of-production basis. Certain fixed fees associated with the production at our Gulfstar One facility are recognized based on contractually determined maximum daily quantities. Crude oil marketing activity is presented on a net basis within *Product costs* in the Consolidated Statement of Operations subsequent to the adoption of Accounting Standard Update 2014-09, Revenue from Contracts with Customers (Topic 606) as of January 1, 2018.

Key variables for our all of our businesses will continue to be:

- Obstacles to our expansion efforts, including delays or denials of necessary permits and opposition to hydrocarbon-based energy development;
- Producer drilling activities impacting natural gas supplies supporting our gathering and processing volumes;
- Retaining and attracting customers by continuing to provide reliable services;

- Revenue growth associated with additional infrastructure either completed or currently under construction;
- Prices impacting our commodity-based activities;
- Disciplined growth in our service areas.

BUSINESS SEGMENTS

Effective January 1, 2020, following an organizational realignment, our interstate natural gas pipeline Northwest Pipeline LLC, reported within the West reporting segment throughout 2019, is now managed within the Transmission & Gulf of Mexico reporting segment (previously identified as the Atlantic-Gulf reporting segment). Consistent with the manner in which our chief operating decision maker evaluates performance and allocates resources, our operations are conducted, managed, and presented in Part I of this Annual Report within the following reportable segments: Transmission & Gulf of Mexico, Northeast G&P, and West.

Pursuant to the organizational realignment, our reportable segments are comprised of the following business activities:

- Transmission & Gulf of Mexico is comprised of our interstate natural gas pipelines, Transco and Northwest Pipeline, as well as natural gas gathering, processing, and treating assets and crude oil production handling and transportation assets in the Gulf Coast region, including a 51 percent interest in Gulfstar One (a consolidated variable interest entity), which is a proprietary floating production system, and various petrochemical and feedstock pipelines in the Gulf Coast region, a 50 percent equity-method investment in Gulfstream, and a 60 percent equity-method investment in Discovery.
- Northeast G&P is comprised of our midstream gathering, processing, and fractionation businesses in the Marcellus Shale region primarily in Pennsylvania, New York, and the Utica Shale region of eastern Ohio, as well as a 65 percent interest in our Northeast JV (a consolidated variable interest entity) which operates in West Virginia, Ohio, and Pennsylvania, a 66 percent interest in Cardinal (a consolidated variable interest entity) which operates in Ohio, a 69 percent equity-method investment in Laurel Mountain, a 58 percent equity-method investment in Caiman II, and Appalachia Midstream Services, LLC, which owns equity-method investments with an approximate average 66 percent interest in multiple gas gathering systems in the Marcellus Shale (Appalachia Midstream Investments).
- West is comprised of our gas gathering, processing, and treating operations in the Rocky Mountain region of Colorado and Wyoming, the Barnett Shale region of north-central Texas, the Eagle Ford Shale region of south Texas, the Haynesville Shale region of northwest Louisiana, and the Mid-Continent region which includes the Anadarko, Arkoma, and Permian basins. This segment also includes our NGL and natural gas marketing business, storage facilities, an undivided 50 percent interest in an NGL fractionator near Conway, Kansas, a 50 percent equity-method investment in OPPL, a 50 percent equity-method investment in RMM, and a 15 percent equity-method investment in Brazos Permian II.
- Other includes minor business activities that are not operating segments, as well as corporate operations.

Detailed discussion of each of our reporting segments follows. Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (including the discussion of our ongoing expansion projects) and Item 8. Financial Statements and Supplementary Data continue to present our segments as they were historically defined before the organizational realignment on January 1, 2020.

Transmission & Gulf of Mexico

This segment includes the Transco interstate natural gas pipeline that extends from the Gulf of Mexico to the eastern seaboard, the Northwest Pipeline interstate natural gas pipeline, as well as natural gas gathering, processing and treating, crude oil production handling, and NGL fractionation assets within the onshore, offshore shelf, and

deepwater areas in and around the Gulf Coast states of Texas, Louisiana, Mississippi, and Alabama. This segment also includes various petrochemical and feedstock pipelines in the Gulf Coast region.

Transco

Transco is an interstate natural gas transmission company that owns and operates a 9,800-mile natural gas pipeline system, which is regulated by the FERC, extending from Texas, Louisiana, Mississippi, and the Gulf of Mexico through Alabama, Georgia, South Carolina, North Carolina, Virginia, Maryland, Delaware, Pennsylvania, and New Jersey to the New York City metropolitan area. The system serves customers in Texas and 12 southeast and Atlantic seaboard states, including major metropolitan areas in Georgia, North Carolina, Washington, D.C., Maryland, New York, New Jersey, and Pennsylvania.

At December 31, 2019, Transco's system, which extends from Texas to New York, had a system-wide delivery capacity totaling approximately 17.4 MMdth/d. During 2019, Transco completed four fully-contracted expansions, which added more than 0.6 MMdth of firm transportation capacity per day to our pipeline. Transco's system includes 57 compressor stations, four underground storage fields, and one LNG storage facility. Compression facilities at sea level-rated capacity total approximately 2.3 million horsepower.

Transco has natural gas storage capacity in four underground storage fields located on or near its pipeline system or market areas and operates two of these storage fields. Transco also has storage capacity in an LNG storage facility that it owns and operates. The total usable gas storage capacity available to Transco and its customers in such underground storage fields and LNG storage facility and through storage service contracts is approximately 198 Bcf of natural gas. At December 31, 2019, Transco's customers had stored in its facilities approximately 140 Bcf of natural gas. Storage capacity permits our customers to inject gas into storage during the summer and off-peak periods for delivery during peak winter demand periods.

On August 31, 2018, Transco filed a general rate case with the FERC for an overall increase in rates. In September 2018, with the exception of certain rates that reflected a rate decrease, the FERC accepted and suspended our general rate filing to be effective March 1, 2019, subject to refund and the outcome of a hearing. The specific rates that reflected a rate decrease were accepted, without suspension, to be effective October 1, 2018, as requested by Transco, and were not subject to refund. In March 2019, the FERC accepted our motion to place the rates that were suspended by the September 2018 order into effect on March 1, 2019, subject to refund. In October 2019, we reached an agreement on the terms of a settlement with the participants that would resolve all issues in the rate case without the need for a hearing, and on December 31, 2019, we filed a formal stipulation and agreement with the FERC setting forth such terms of the settlement. We anticipate FERC approval of the stipulation and agreement in the second quarter of 2020. As of December 31, 2019, we have provided a \$189 million reserve for rate refunds related to increased rates collected since March 2019, which we believe is adequate for any refunds that may be required.

Northwest Pipeline

Northwest Pipeline is an interstate natural gas transmission company that owns and operates a natural gas pipeline system, which is regulated by the FERC, extending from the San Juan basin in northwestern New Mexico and southwestern Colorado through Colorado, Utah, Wyoming, Idaho, Oregon, and Washington to a point on the Canadian border near Sumas, Washington. Northwest Pipeline provides services for markets in Washington, Oregon, Idaho, Wyoming, Nevada, Utah, Colorado, New Mexico, California, and Arizona, either directly or indirectly through interconnections with other pipelines.

At December 31, 2019, Northwest Pipeline's system, having long-term firm transportation and storage redelivery agreements with aggregate capacity reservations of approximately 3.9 MMdth/d, was composed of approximately 3,900 miles of mainline and lateral transmission pipeline and 41 transmission compressor stations having a combined sea level-rated capacity of approximately 472,000 horsepower.

Northwest Pipeline owns a one-third undivided interest in the Jackson Prairie underground storage facility in Washington and contracts with a third party for natural gas storage services in the Clay basin underground field in Utah. Northwest Pipeline also owns and operates an LNG storage facility in Washington. These storage facilities have an aggregate working natural gas storage capacity of 14.2 MMdth of natural gas, which is substantially utilized for third-

party natural gas. These natural gas storage facilities enable Northwest Pipeline to balance daily receipts and deliveries and provide storage services to customers.

Gas Transportation, Processing, and Treating Assets

The following tables summarize the significant operated assets of this segment:

Offshore Natural Gas Pipelines

	Location	Pipeline	Inlet		Ownership Interest	Supply Basins
			Miles	Capacity (Bcf/d)		
Consolidated:						
Canyon Chief, including Blind Faith and Gulfstar extensions	Deepwater Gulf of Mexico		156	0.5	100%	Eastern Gulf of Mexico
Other Eastern Gulf	Offshore shelf and other		46	0.2	100%	Eastern Gulf of Mexico
Seahawk	Deepwater Gulf of Mexico		115	0.4	100%	Western Gulf of Mexico
Perdido Norte	Deepwater Gulf of Mexico		105	0.3	100%	Western Gulf of Mexico
Norphlet	Deepwater Gulf of Mexico		58	0.3	100%	Eastern Gulf of Mexico
Other Western Gulf	Offshore shelf and other		103	0.4	100%	Western Gulf of Mexico
Non-consolidated: (1)						
Discovery	Central Gulf of Mexico		594	0.6	60%	Western Gulf of Mexico

Natural Gas Processing Facilities

	Location	Inlet Capacity (Bcf/d)	NGL Production			Supply Basins
			Capacity	Capacity (Mbbls/d)	Ownership Interest	
Consolidated:						
Markham	Markham, TX	0.5	45	100%	Western Gulf of Mexico	
Mobile Bay	Coden, AL	0.7	35	100%	Eastern Gulf of Mexico	
Non-consolidated: (1)						
Discovery	Larose, LA	0.6	32	60%	Western Gulf of Mexico	

(1) Includes 100 percent of the statistics associated with operated equity-method investments.

Crude Oil Transportation and Production Handling Assets

In addition to our natural gas assets, we own and operate four deepwater crude oil pipelines and own production platforms serving the deepwater in the Gulf of Mexico. Our offshore floating production platforms provide centralized services to deepwater producers such as compression, separation, production handling, water removal, and pipeline landings.

The following tables summarize the significant crude oil transportation pipelines and production handling platforms of this segment:

Crude Oil Pipelines				
	Pipeline Miles	Capacity (Mbbls/d)	Ownership Interest	Supply Basins
Consolidated:				
Mountaineer, including Blind Faith and Gulfstar extensions	155	150	100%	Eastern Gulf of Mexico
BANJO	57	90	100%	Western Gulf of Mexico
Alpine	96	85	100%	Western Gulf of Mexico
Perdido Norte	74	150	100%	Western Gulf of Mexico

Production Handling Platforms				
	Crude/NGL			
	Gas Inlet	Handling	Capacity	Ownership
			(MMcf/d)	(Mbbls/d)
			Interest	Supply Basins
Consolidated:				
Devils Tower		110	60	100% Eastern Gulf of Mexico
Gulfstar I FPS (1)		172	80	51% Eastern Gulf of Mexico
Non-consolidated: (2)				
Discovery	75	10	60%	Western Gulf of Mexico

(1) Statistics reflect 100 percent of the assets from our 51 percent interest in Gulfstar One.

(2) Includes 100 percent of the statistics associated with operated equity-method investments.

Transmission & Gulf of Mexico Operating Statistics

	2019	2018	2017
Volumes:			
Interstate natural gas pipeline throughput (Tbtu)	5,593	5,129	4,533
Gathering volumes (Bcf/d) - Consolidated	0.25	0.26	0.31
Gathering volumes (Bcf/d) - Non-consolidated (1)	0.36	0.26	0.44
Plant inlet natural gas volumes (Bcf/d) - Consolidated	0.54	0.50	0.55
Plant inlet natural gas volumes (Bcf/d) - Non-consolidated (1)	0.36	0.27	0.43
NGL production (Mbbls/d) - Consolidated (2)	32	32	33
NGL production (Mbbls/d) - Non-consolidated (1) (2)	25	20	21
NGL equity sales (Mbbls/d) - Consolidated (2)	7	6	9
NGL equity sales (Mbbls/d) - Non-consolidated (1) (2)	6	4	5
Crude oil transportation (Mbbls/d) - Consolidated (2)	136	140	134

(1) Includes 100 percent of the volumes associated with operated equity-method investments.

(2) Annual average Mbbls/d.

Certain Equity-Method Investments

Discovery

We own a 60 percent interest in and operate the facilities of Discovery. Discovery's assets include a 600 MMcf/d cryogenic natural gas processing plant near Larose, Louisiana, a 32 Mbbls/d NGL fractionator plant near Paradis, Louisiana, and a 594-mile offshore natural gas gathering and transportation system in the Gulf of Mexico. Discovery's mainline has a gathering inlet capacity of 600 MMcf/d, while the Keathley Canyon Connector, a deepwater lateral pipeline in the central deepwater Gulf of Mexico has a gathering inlet capacity of 400 MMcf/d. Discovery's assets also include a crude oil production handling platform with capacity of 10 Mbbls/d and gas handling and separation capacity of 75 MMcf/d.

Gulfstream

Gulfstream is a 745-mile interstate natural gas pipeline system extending from the Mobile Bay area in Alabama to markets in Florida, which has a capacity to transport 1.3 Bcf/d. We own, through a subsidiary, a 50 percent equity-method investment in Gulfstream. We share operating responsibilities for Gulfstream with the other 50 percent owner.

Northeast G&P

This segment includes our natural gas gathering, compression, processing, and NGL fractionation businesses in the Marcellus and Utica Shale regions in Pennsylvania, West Virginia, New York, and Ohio.

Acquisition of UEOM and formation of Northeast JV

As of December 31, 2018, we owned a 62 percent interest in UEOM which we accounted for as an equity-method investment. On March 18, 2019, we signed and closed the acquisition of the remaining 38 percent interest in UEOM. Total consideration paid, including post-closing adjustments, was \$741 million in cash funded through credit facility borrowings and cash on hand. As a result of acquiring this additional interest, we obtained control of and now consolidate UEOM. (See Note 3 – Acquisitions and Divestitures of Notes to Consolidated Financial Statements).

Concurrent with the UEOM acquisition, we executed an agreement whereby we contributed our consolidated interests in UEOM and our Ohio Valley midstream business to a newly formed partnership. In June 2019, our partner invested approximately \$1.33 billion for a 35 percent ownership interest, and we retained 65 percent ownership of, as well as operate and consolidate, the Northeast JV business.

The following tables summarize the significant operated assets of this segment:

Natural Gas Gathering Assets

	Location	Inlet		Ownership Interest	Supply Basins
		Pipeline Miles	Capacity (Bcf/d)		
Consolidated:					
Ohio Valley Midstream (1)	Ohio, West Virginia, & Pennsylvania	216	0.8	65%	Appalachian
Utica East Ohio Midstream (1)	Ohio	53	0.4	65%	Appalachian
Susquehanna Supply Hub	Pennsylvania & New York	451	4.3	100%	Appalachian
Cardinal (1)	Ohio	365	0.9	66%	Appalachian
Flint	Ohio	95	0.5	100%	Appalachian
Beaver Creek	Pennsylvania	41	0.1	100%	Appalachian
Non-consolidated: (2)					
Bradford Supply Hub	Pennsylvania	726	3.7	66%	Appalachian
Marcellus South	Pennsylvania & West Virginia	306	0.9	68%	Appalachian
Laurel Mountain	Pennsylvania	2,053	0.7	69%	Appalachian

Natural Gas Processing Facilities

	Location	NGL			Supply Basins
		Inlet	Production		
		Capacity (Bcf/d)	Capacity (Mbbls/d)		
Consolidated:					
Fort Beeler	Marshall County, WV	0.5	62	65%	Appalachian
Oak Grove	Marshall County, WV	0.4	50	65%	Appalachian
Kensington	Columbiana Co., OH	0.6	68	65%	Appalachian
Leesville	Carroll Co., OH	0.2	18	65%	Appalachian

(1) Statistics reflect 100 percent of the assets from our 65 percent ownership in our Northeast JV and 66 percent ownership of Cardinal gathering system.

(2) Includes 100 percent of the statistics associated with operated equity-method investments.

Other NGL Operations

We also own and operate fractionation facilities at Moundsville, West Virginia, de-ethanization and condensate facilities at our Oak Grove plant, a condensate stabilization facility near our Moundsville fractionator, and an ethane transportation pipeline. Our condensate stabilizers are capable of handling approximately 17 Mbbls/d of field condensate. NGLs are extracted from the natural gas stream in our Oak Grove and Fort Beeler cryogenic processing plants. Our Oak Grove de-ethanizer is capable of handling up to approximately 80 Mbbls/d of mixed NGLs to extract up to approximately 40 Mbbls/d of ethane. Ethane produced at our de-ethanizer is transported to markets via our 50-mile ethane pipeline from Oak Grove to Houston, Pennsylvania. The remaining mixed NGL stream from the de-ethanizer is then transported via pipeline and fractionated at our Moundsville fractionation facilities, which are capable of handling approximately 43 Mbbls/d of mixed NGLs. The resulting products are then transported on truck or rail. Ohio Valley Midstream provides residue natural gas take away options for our customers with interconnections to three interstate transmission pipelines. We also have an NGL pipeline that transports product from our Oak Grove plant to Harrison County, Ohio.

We also own and operate 39 Mbbls/d of condensate stabilization capacity, a 135 Mbbls/d NGL fractionation facility, approximately 970,000 barrels of NGL storage capacity, and other ancillary assets, including loading and terminal facilities in Harrison County, Ohio.



	2019	2018	2017
Volumes:			
Gathering (Bcf/d) - Consolidated (1)	4.24	3.63	3.31
Gathering (Bcf/d) - Non-consolidated (2)	4.29	3.76	3.55
Plant inlet natural gas (Bcf/d) - Consolidated (1)	1.04	0.52	0.43
NGL production (Mbbls/d) (3)	76	46	38

- (1) Includes volumes associated with Susquehanna Supply Hub, the Northeast JV, and Utica Supply Hub, all of which are consolidated.
- (2) Includes 100 percent of the volumes associated with operated equity-method investments, including the Laurel Mountain Midstream partnership; and the Bradford Supply Hub and a portion of the Marcellus South Supply Hub within Appalachia Midstream Investments. Volumes handled by Blue Racer Midstream, LLC (Blue Racer), (gathering and processing), which we do not operate, are not included.
- (3) Annual average Mbbls/d.

Certain Equity-Method Investments

Laurel Mountain

We operate and own a 69 percent interest in a joint venture, Laurel Mountain, that includes a 2,053-mile gathering system that we operate in western Pennsylvania with the capacity to gather 0.7 Bcf/d of natural gas. Laurel Mountain has a long-term, dedicated, volumetric-based fee agreement, with exposure to natural gas prices, to gather the anchor customer's production in the western Pennsylvania area of the Marcellus Shale.

Caiman II

We own a 58 percent interest in third-party operated Caiman II, which owns a 50 percent interest in Blue Racer, a joint venture to own, operate, develop, and acquire midstream assets in the Utica Shale and certain adjacent areas in the Marcellus Shale. Blue Racer's assets include 723 miles of gathering pipelines, and the Natrium complex in Marshall County, West Virginia, with a cryogenic processing capacity of 600 MMcf/d and fractionation capacity of approximately 134 Mbbls/d. Blue Racer also owns the Berne complex in Monroe County, Ohio, with a cryogenic processing capacity of 400 MMcf/d, and NGL and condensate pipelines connecting Natrium to Berne. Blue Racer provides gathering, processing, and marketing service primarily under percentage of liquids and fixed fee agreements.

Appalachia Midstream Investments

Through our Appalachia Midstream Investments, we operate 100 percent of and own an approximate average 66 percent interest in the Bradford Supply Hub gathering system and own an approximate average 68 percent interest in the Marcellus South gathering system, together which consist of approximately 1,032 miles of gathering pipeline in the Marcellus Shale region with the capacity to gather 4,623 MMcf/d of natural gas. The majority of our volumes in the region are gathered from northern Pennsylvania, southwestern Pennsylvania, and the northwestern panhandle of West Virginia in core areas of the Marcellus Shale. We operate the assets under long-term, 100 percent fixed-fee gathering agreements that include significant acreage dedications and, in the Bradford Supply Hub, a cost of service mechanism.

During the first quarter of 2017, we exchanged all of our 50 percent interest in the Delaware basin gas gathering system, previously reported within the West segment, for an increased interest in the Bradford Supply Hub natural gas gathering system that is part of the Appalachia Midstream Investments and \$155 million in cash. Following this exchange, we have an approximate average 66 percent interest in the Appalachia Midstream Investments. We continue to account for this investment under the equity-method due to the significant participatory rights of our partners such that we do not exercise control. (See Note 6 – Investing Activities of Notes to Consolidated Financial Statements.)

West

Gas Gathering, Processing, and Treating Assets

The following tables summarize the significant operated assets of this segment:

Natural Gas Gathering Assets					
	Location	Pipeline Miles	Inlet Capacity (Bcf/d)	Ownership Interest	Supply Basins/Shale Formations
Consolidated:					
Wamsutter	Wyoming	2,265	0.7	100%	Wamsutter
Southwest Wyoming	Wyoming	1,614	0.5	100%	Southwest Wyoming
Piceance	Colorado	352	1.8	(2)	Piceance
Barnett Shale	Texas	845	0.8	100%	Barnett Shale
Eagle Ford Shale	Texas	1,275	0.6	100%	Eagle Ford Shale
Haynesville Shale	Louisiana	626	1.8	100%	Haynesville Shale
Permian	Texas	100	0.1	100%	Permian
Mid-Continent	Oklahoma & Texas	2,248	0.9	100%	Miss-Lime, Granite Wash, Colony Wash, Arkoma
Non-consolidated: (1)					
Rocky Mountain Midstream	Colorado	192	0.6	50%	Denver-Julesburg

(1) Includes 100 percent of the statistics associated with an operated equity-method investment.

(2) Includes our 60 percent ownership of a gathering system in the Ryan Gulch area with 140 miles of pipeline and 0.2 Bcf/d of inlet capacity, and our 67 percent ownership of a gathering system at Allen Point with 8 miles of pipeline and 0.1 Bcf/d of inlet capacity. We operate both systems. We own and operate 100 percent of the balance of the Piceance gathering assets.

Natural Gas Processing Facilities					
	Location	Inlet Capacity (Bcf/d)	NGL Production Capacity (Mbbls/d)	Ownership Interest	Supply Basins
Consolidated:					
Echo Springs	Echo Springs, WY	0.7	58	100%	Wamsutter
Opal	Opal, WY	1.1	47	100%	Southwest Wyoming
Willow Creek	Rio Blanco County, CO	0.5	30	100%	Piceance
Parachute	Garfield County, CO	1.1	6	100%	Piceance
Non-consolidated: (1)					
Fort Lupton	Colorado	0.2	50	50%	Denver-Julesburg
Keenesburg I	Colorado	0.2	40	50%	Denver-Julesburg

(1) Includes 100 percent of the statistics associated with operated equity-method investments.

Marketing Services

We market gas and NGL products to a wide range of users in the energy and petrochemical industries. The NGL marketing business transports and markets our equity NGLs from the production at our processing plants, and also markets NGLs on behalf of third-party NGL producers, including some of our fee-based processing customers, and the NGL volumes owned by Discovery and RMM. The NGL marketing business bears the risk of price changes in these NGL volumes while they are being transported to final sales delivery points. In order to meet sales contract obligations, we may purchase products in the spot market for resale.

Other NGL Operations

We own interests in and/or operate NGL fractionation and storage assets in central Kansas near Conway. These assets include a 50 percent interest in an NGL fractionation facility with capacity of slightly more than 100 Mbbls/d and we own approximately 20 million barrels of NGL storage capacity.

West Operating Statistics

	2019	2018	2017
Volumes:			
Gathering (Bcf/d) - Consolidated	3.52	4.27	4.53
Gathering (Bcf/d) - Non-consolidated (1)	0.20	0.08	—
Plant inlet natural gas (Bcf/d) - Consolidated	1.48	2.01	2.07
Plant inlet natural gas (Bcf/d) - Non-consolidated (1)	0.08	0.08	—
NGL production (Mbbls/d) - Consolidated (2)	54	84	77
NGL production (Mbbls/d) - Non-consolidated (1) (2)	12	3	—
NGL equity sales (Mbbls/d) - Consolidated (2)	22	33	29

(1) Includes 100 percent of the volumes associated with operated equity-method investments, including RMM and Jackalope. Jackalope was a consolidated entity in 2017 and first- and second-quarter 2018, an equity-method investment during third- and fourth-quarter 2018 as well as first-quarter 2019, and sold effective with second-quarter 2019.

(2) Annual average Mbbls/d.

Sale of Four Corners Assets

In October 2018, we completed the sale of our natural gas gathering and processing assets in the Four Corners area of New Mexico and Colorado. The system was comprised of 3,742 miles of gathering pipeline with 1.8 Bcf/d of gas gathering inlet capacity and two processing facilities with a combined 0.7 Bcf/d of natural gas processing inlet capacity and 41 Mbbls/d of NGL production capacity.

Certain Equity-Method Investments

Brazos Permian II

We acquired a non-operated 15 percent interest in Brazos Permian II in December 2018 by contributing cash and our existing Delaware basin assets. This partnership consists of 725 miles of gas gathering pipelines, 460 MMcf/d of natural gas processing inlet capacity, and 75 miles of crude oil gathering pipelines.

Rocky Mountain Midstream

During the third quarter of 2018, our joint venture, RMM, purchased a natural gas and crude oil gathering and natural gas processing business in Colorado's Denver-Julesburg basin. As of December 31, 2019, we operate and own 50 percent of RMM. RMM includes an approximate 80-mile crude oil gathering system.

Overland Pass Pipeline

We also operate and own a 50 percent interest in OPPL. OPPL is capable of transporting 255 Mbbls/d of NGLs and includes approximately 1,035 miles of NGL pipeline extending from Opal, Wyoming, to the Mid-Continent NGL market center near Conway, Kansas, along with extensions into the Piceance and Denver-Julesberg basins in Colorado and the Bakken Shale in the Williston basin in North Dakota. Our equity NGL volumes from our Wyoming plants and our Willow Creek facility in Colorado are dedicated for transport on OPPL under a long-term transportation agreement. NGL volumes from our RMM equity-method investment are also transported on OPPL.

Jackalope

We previously owned and operated a 50 percent interest in Jackalope which provides gas gathering and processing services for the Powder River basin. During the second quarter of 2018, we deconsolidated Jackalope (see Note 6 – Investing Activities of Notes to Consolidated Financial Statements). During the second quarter of 2019, we sold our interest in Jackalope. Jackalope, which included the Bucking Horse gas processing plant, consisted of a 257-mile natural gas pipeline, 0.2 Bcf/d of gas gathering inlet capacity, 0.1 Bcf/d of natural gas processing inlet capacity, and 12 Mbbls/d of NGL production capacity.

Delaware basin gas gathering system

We previously owned a non-operated 50 percent interest in the Delaware basin gas gathering system in the Permian basin, which was sold in February 2017. The system was comprised of more than 450 miles of gathering pipeline, located in west Texas.

Other

Other includes our previously owned operations, minor business activities that are not operating segments, as well as corporate operations.

Geismar Interest

In July 2017, we completed the sale of Williams Olefins, L.L.C, a wholly owned subsidiary which owned our 88.5 percent undivided interest in the Geismar, Louisiana, olefins plant (Geismar Interest). Upon closing the sale, we entered into a long-term supply and transportation agreement with the purchaser to provide feedstock to the plant via our Bayou Ethane pipeline system.

Additional Business Segment Information

Revenues by service that exceeded 10 percent of consolidated revenues are presented in Note 2 – Revenue Recognition of Notes to Consolidated Financial Statements.

We perform certain management, legal, financial, tax, consultation, information technology, administrative, and other services for our subsidiaries.

Our principal sources of cash are from dividends and advances from our subsidiaries, investments, payments by subsidiaries for services rendered, and, if needed, external financings, and net proceeds from asset sales and sales of partial interests of our subsidiaries. The terms of our credit agreement, which also govern certain subsidiaries' borrowing arrangements, may limit the transfer of funds to us under certain conditions.

We believe that we have adequate sources and availability of raw materials and commodities for existing and anticipated business needs. Our interstate pipeline systems are all regulated in various ways resulting in the financial return on the investments made in the systems being limited to standards permitted by the regulatory agencies. Each of the pipeline systems has ongoing capital requirements for efficiency and mandatory improvements, with expansion opportunities also necessitating periodic capital outlays.

REGULATORY MATTERS

FERC

Our gas pipeline interstate transmission and storage activities are subject to FERC regulation under the Natural Gas Act of 1938 (NGA) and under the Natural Gas Policy Act of 1978, and, as such, our rates and charges for the transportation of natural gas in interstate commerce, accounting, and the extension, enlargement, or abandonment of our jurisdictional facilities, among other things, are subject to regulation. Each of our gas pipeline companies holds certificates of public convenience and necessity issued by the FERC authorizing ownership and operation of all pipelines, facilities, and properties for which certificates are required under the NGA. FERC Standards of Conduct govern how our interstate pipelines communicate and do business with gas marketing employees. Among other things, the Standards of Conduct require that interstate gas pipelines not operate their systems to preferentially benefit gas marketing functions.

FERC regulation requires all terms and conditions of service, including the rates charged, to be filed with and approved by the FERC before any changes can go into effect. Our interstate gas pipeline companies establish rates through the FERC's ratemaking process. In addition, our interstate gas pipelines may enter into negotiated rate agreements where cost-based recourse rates are made available. Key determinants in the FERC ratemaking process include:

- Costs of providing service, including depreciation expense;
- Allowed rate of return, including the equity component of the capital structure and related income taxes;
- Contract and volume throughput assumptions.

The allowed rate of return is determined in each rate case. Rate design and the allocation of costs between the reservation and commodity rates also impact profitability. As a result of these proceedings, certain revenues previously collected may be subject to refund.

We also own interests in and operate natural gas liquids pipelines that are regulated by various federal and state governmental agencies. Services provided on our interstate natural gas liquids pipelines are subject to regulation under the Interstate Commerce Act by the FERC, which has authority over the terms and conditions of service; rates, including depreciation and amortization policies; and initiation of service. Our intrastate natural gas liquids pipelines providing common carrier service are subject to regulation by various state regulatory agencies.

Pipeline Safety

Our gas pipelines are subject to the Natural Gas Pipeline Safety Act of 1968, as amended, the Pipeline Safety Improvement Act of 2002, the Pipeline Safety, Regulatory Certainty, and Jobs Creation Act of 2011 (Pipeline Safety Act), and the Protecting Our Infrastructure of Pipelines and Enhancing Safety Act of 2016, which regulate safety requirements in the design, construction, operation, and maintenance of interstate natural gas transmission facilities. The United States Department of Transportation Pipeline and Hazardous Materials Safety Administration (PHMSA) administers federal pipeline safety laws.

Federal pipeline safety laws authorize PHMSA to establish minimum safety standards for pipeline facilities and persons engaged in the transportation of gas or hazardous liquids by pipeline. These safety standards apply to the design, construction, testing, operation, and maintenance of gas and hazardous liquids pipeline facilities affecting interstate or foreign commerce. PHMSA has also established reporting requirements for operators of gas and hazardous liquid pipeline facilities, as well as provisions for establishing the qualification of pipeline personnel and requirements for managing the integrity of gas transmission and distribution lines and certain hazardous liquid pipelines. To ensure compliance with these provisions, PHMSA performs pipeline safety inspections and has the authority to initiate enforcement actions.

Federal pipeline safety regulations contain an exemption that applies to gathering lines in certain rural locations. A substantial portion of our gathering lines qualify for that exemption and are currently not regulated under federal law.

States are largely preempted by federal law from regulating pipeline safety for interstate pipelines but most are certified by PHMSA to assume responsibility for enforcing intrastate pipeline safety regulations and inspecting intrastate pipelines. In practice, because states can adopt stricter standards for intrastate pipelines than those imposed by the federal government for interstate lines, they vary considerably in their authority and capacity to address pipeline safety.

Pipeline Integrity Regulations

We have an enterprise-wide Gas Integrity Management Plan that we believe meets the PHMSA final rule that was issued pursuant to the requirements of the Pipeline Safety Improvement Act of 2002. The rule requires gas pipeline operators to develop an integrity management program for gas transmission pipelines that could affect high-consequence areas in the event of pipeline failure. The integrity management program includes a baseline assessment plan along with periodic reassessments to be completed within required time frames. In meeting the integrity regulations, we have identified high-consequence areas and developed baseline assessment plans. Ongoing periodic reassessments and initial assessments of any new high-consequence areas have been completed. We estimate that the cost to be incurred in 2020 associated with this program to be approximately \$133 million. Management considers costs associated with compliance with the rule to be prudent costs incurred in the ordinary course of business and, therefore, recoverable through Northwest Pipeline's and Transco's rates.

We have an enterprise-wide Liquid Integrity Management Plan that we believe meets the PHMSA final rule that was issued pursuant to the requirements of the Pipeline Safety Improvement Act of 2002. The rule requires liquid pipeline operators to develop an integrity management program for liquid transmission pipelines that could affect high-consequence areas in the event of pipeline failure. The integrity management program includes a baseline assessment plan along with periodic reassessments expected to be completed within required time frames. In meeting the integrity regulations, we utilized government defined high-consequence areas and developed baseline assessment plans. We completed assessments within the required time frames. We estimate that the cost to be incurred in 2020 associated with this program will be approximately \$2 million. Ongoing periodic reassessments and initial assessments of any new high-consequence areas are expected to be completed within the time frames required by the rule. Management considers the costs associated with compliance with the rule to be prudent costs incurred in the ordinary course of business.

State Gathering Regulations

Our onshore midstream gathering operations are subject to laws and regulations in the various states in which we operate. For example, the Texas Railroad Commission has the authority to regulate the terms of service for our intrastate natural gas gathering business in Texas. Although the applicable state regulations vary widely, they generally require that pipeline rates and practices be reasonable and nondiscriminatory, and may include provisions covering marketing, pricing, pollution, environment, and human health and safety. Some states, such as New York, have specific regulations pertaining to the design, construction, and operations of gathering lines within such state.

Intrastate Liquids Pipelines in the Gulf Coast

Our intrastate liquids pipelines in the Gulf Coast are regulated by the Louisiana Public Service Commission, the Texas Railroad Commission, and various other state and federal agencies. These pipelines are also subject to the liquid pipeline safety and integrity regulations discussed above since both Louisiana and Texas have adopted the integrity management regulations defined in PHMSA.

OCSLA

Our offshore gas and liquids pipelines located on the outer continental shelf are subject to the Outer Continental Shelf Lands Act, which provides in part that outer continental shelf pipelines "must provide open and nondiscriminatory access to both owner and nonowner shippers."

See Part II, Item 8. Financial Statements and Supplementary Data — Note 19 – Contingent Liabilities and Commitments of Notes to Consolidated Financial Statements for further details on our regulatory matters. For additional information regarding regulatory matters, please also refer to Part 1, Item 1A. "Risk Factors" — "*The operation of our businesses might be adversely affected by regulatory proceedings, changes in government regulations or in their*

interpretation or implementation, or the introduction of new laws or regulations applicable to our businesses or our customers,” and “The natural gas sales, transportation, and storage operations of our gas pipelines are subject to regulation by the FERC, which could have an adverse impact on their ability to establish transportation and storage rates that would allow them to recover the full cost of operating their respective pipelines, including a reasonable rate of return.”

ENVIRONMENTAL MATTERS

Our operations are subject to federal environmental laws and regulations as well as the state, local, and tribal laws and regulations adopted by the jurisdictions in which we operate. We could incur liability to governments or third parties for any unlawful discharge of pollutants into the air, soil, or water, as well as liability for cleanup costs. Materials could be released into the environment in several ways including, but not limited to:

- Leakage from gathering systems, underground gas storage caverns, pipelines, processing or treating facilities, transportation facilities, and storage tanks;
- Damage to facilities resulting from accidents during normal operations;
- Damages to onshore and offshore equipment and facilities resulting from storm events or natural disasters;
- Blowouts, cratering, and explosions.

In addition, we may be liable for environmental damage caused by former owners or operators of our properties.

We believe compliance with current environmental laws and regulations will not have a material adverse effect on our capital expenditures, earnings, or current competitive position. However, environmental laws and regulations could affect our business in various ways from time to time, including incurring capital and maintenance expenditures, fines and penalties, and creating the need to seek relief from the FERC for rate increases to recover the costs of certain capital expenditures and operation and maintenance expenses.

For additional information regarding the potential impact of federal, state, tribal, or local regulatory measures on our business and specific environmental issues, please refer to Part I, Item 1A. “Risk Factors” — *“Our operations are subject to environmental laws and regulations, including laws and regulations relating to climate change and greenhouse gas emissions, which may expose us to significant costs, liabilities, and expenditures that could exceed our expectations,”* and Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Environmental” and “Environmental Matters” in Part II, Item 8. Financial Statements and Supplementary Data — Note 19 – Contingent Liabilities and Commitments of Notes to Consolidated Financial Statements.

COMPETITION

Gas Pipeline Business

The market for supplying natural gas is highly competitive and new pipelines, storage facilities, and other related services are expanding to service the growing demand for natural gas. Additionally, pipeline capacity in many growing natural gas supply basins is constrained causing competition to increase among pipeline companies as they strive to connect those basins to major natural gas demand centers.

In our business, we predominately compete with major intrastate and interstate natural gas pipelines. In the last few years, local distribution companies have also started entering into the long-haul transportation business through joint venture pipelines. The principle elements of competition in the interstate natural gas pipeline business are based on rates, reliability, quality of customer service, diversity of supply, and proximity to customers and market hubs.

Significant entrance barriers to build new pipelines exist, including federal and growing state regulations and public opposition against new pipeline builds, and these factors will continue to impact potential competition for the foreseeable future. However, we believe our past success in working with regulators and the public, the position of our existing infrastructure, established strategic long-term contracts, and the fact that our pipelines have numerous receipt and

delivery points along our systems provide us a competitive advantage, especially along the eastern seaboard and northwestern United States.

Midstream Business

Competition for natural gas gathering, processing, treating, transporting, and storing natural gas continues to increase as production from shales and other resource areas continues to grow. Our midstream services compete with similar facilities that are in the same proximity as our assets.

We face competition from companies of varying size and financial capabilities, including major and independent natural gas midstream providers, private equity firms, and major integrated oil and natural gas companies that gather, transport, process, fractionate, store, and market natural gas and NGLs, as well as some larger exploration and production companies that are choosing to develop midstream services to handle their own natural gas.

Our gathering and processing agreements are generally long-term agreements that may include acreage dedication. Competition for natural gas volumes is primarily based on reputation, commercial terms (products retained or fees charged), array of services provided, efficiency and reliability of services, location of gathering facilities, available capacity, downstream interconnects, and latent capacity. We believe our significant presence in traditional prolific supply basins, our solid positions in growing shale plays, our expertise and reputation as a reliable operator, and our ability to offer integrated packages of services position us well against our competition.

For additional information regarding competition for our services or otherwise affecting our business, please refer to Part 1, Item 1A, "Risk Factors" - *"The financial condition of our natural gas transportation and midstream businesses is dependent on the continued availability of natural gas supplies in the supply basins that we access and demand for those supplies in the markets we serve,"* *"Our industry is highly competitive and increased competitive pressure could adversely affect our business and operating results,"* and *"We may not be able to replace, extend, or add additional customer contracts or contracted volumes on favorable terms, or at all, which could affect our financial condition, the amount of cash available to pay dividends, and our ability to grow."*

EMPLOYEES

At February 1, 2020, we had 4,812 full-time employees.

WEBSITE ACCESS TO REPORTS AND OTHER INFORMATION

We file our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, and other documents electronically with the SEC under the Exchange Act.

Our Internet website is www.williams.com. We make available, free of charge, through the Investors tab of our Internet website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our Corporate Governance Guidelines, Sustainability Report, Code of Ethics for Senior Officers, Board committee charters, and the Williams Code of Business Conduct are also available on our Internet website. We will also provide, free of charge, a copy of any of our corporate documents listed above upon written request to our Corporate Secretary, One Williams Center, Suite 4700, Tulsa, Oklahoma 74172.

Item 1A. Risk Factors

FORWARD-LOOKING STATEMENTS AND CAUTIONARY STATEMENT FOR PURPOSES OF THE “SAFE HARBOR” PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

The reports, filings, and other public announcements of Williams may contain or incorporate by reference statements that do not directly or exclusively relate to historical facts. Such statements are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (Securities Act) 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 as discussed below. 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,” “goals,” “objectives,” “targets,” “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:

- Levels of dividends to Williams stockholders;
- Future credit ratings of Williams and its affiliates;
- Amounts and nature of future capital expenditures;
- Expansion and growth of our business and operations;
- Expected in-service dates for capital projects;
- Financial condition and liquidity;
- Business strategy;
- Cash flow from operations or results of operations;
- Seasonality of certain business components;
- Natural gas and natural gas liquids 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:

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

- Development and rate of adoption of alternative energy sources;
- The impact of existing and future laws and regulations, the regulatory environment, environmental liabilities, and litigation, as well as our ability to obtain necessary permits and approvals, and achieve favorable rate proceeding outcomes;
- Our exposure to the credit risk of our customers and counterparties;
- Our ability to acquire new businesses and assets and successfully integrate those operations and assets into existing businesses as well as successfully expand our facilities, and to consummate asset sales on acceptable terms;
- Whether we are able to successfully identify, evaluate, and timely execute our capital projects and investment opportunities;
- The strength and financial resources of our competitors and the effects of competition;
- The amount of cash distributions from and capital requirements of our investments and joint ventures in which we participate;
- Whether we will be able to effectively execute our financing plan;
- Increasing scrutiny and changing expectations from stakeholders with respect to our environmental, social and governance practices;
- The physical and financial risks associated with climate change;
- The impact of operational and developmental hazards and unforeseen interruptions;
- Risks associated with weather and natural phenomena, including climate conditions and physical damage to our facilities;
- Acts of terrorism, cybersecurity incidents, and related disruptions;
- Our costs and funding obligations for defined benefit pension plans and other postretirement benefit plans;
- Changes in maintenance and construction costs, as well as our ability to obtain sufficient construction related inputs including skilled labor;
- Inflation, interest rates, and general economic conditions (including future disruptions and volatility in the global credit markets and the impact of these events on customers and suppliers);
- Risks related to financing, including restrictions stemming from debt agreements, future changes in credit ratings as determined by nationally recognized credit rating agencies, and the availability and cost of capital;
- Changes in the current geopolitical situation;
- Whether we are able to pay current and expected levels of dividends;
- 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 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. These factors are described in the following section.

RISK FACTORS

You should carefully consider the following risk factors in addition to the other information in this report. Each of these factors could adversely affect our business, prospects, financial condition, results of operations, cash flows, and, in some cases our reputation. The occurrence of any of such risks could also adversely affect the value of an investment in our securities.

Risks Related to Our Business

The financial condition of our natural gas transportation and midstream businesses is dependent on the continued availability of natural gas supplies in the supply basins that we access and demand for those supplies in the markets we serve.

Our ability to maintain and expand our natural gas transportation and midstream businesses depends on the level of drilling and production by third parties in our supply basins. Production from existing wells and natural gas supply basins with access to our pipeline and gathering systems will naturally decline over time. The amount of natural gas reserves underlying these existing wells may also be less than anticipated, and the rate at which production from these reserves declines may be greater than anticipated. We do not obtain independent evaluations of natural gas reserves connected to our systems and processing facilities. Accordingly, we do not have independent estimates of total reserves dedicated to our systems or the anticipated life of such reserves. In addition, low prices for natural gas, regulatory limitations, or the lack of available capital have, and may continue to, adversely affect the development and production of existing or additional natural gas reserves and the installation of gathering, storage, and pipeline transportation facilities. The import and export of natural gas supplies may also be affected by such conditions. Low natural gas prices in one or more of our existing supply basins, whether caused by a lack of infrastructure or otherwise, could also result in depressed natural gas production in such basins and limit the supply of natural gas made available to us. The competition for natural gas supplies to serve other markets could also reduce the amount of natural gas supply for our customers. A failure to obtain access to sufficient natural gas supplies will adversely impact our ability to maximize the capacities of our gathering, transportation, and processing facilities.

Demand for our services is dependent on the demand for gas in the markets we serve. Alternative fuel sources such as electricity, coal, fuel oils, or nuclear energy, as well as technological advances and renewable sources of energy, could reduce demand for natural gas in our markets and have an adverse effect on our business.

A failure to obtain access to sufficient natural gas supplies or a reduction in demand for our services in the markets we serve could result in impairments of our assets and have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Prices for natural gas, NGLs, oil, and other commodities, are volatile and this volatility has and could continue to adversely affect our financial results, cash flows, access to capital, and ability to maintain our existing businesses.

Our revenues, operating results, future rate of growth, and the value of certain components of our businesses depend primarily upon the prices of natural gas, NGLs, oil, or other commodities, and the differences between prices of these commodities and could be materially adversely affected by an extended period of low commodity prices, or a decline in commodity prices. Price volatility has and could continue to impact both the amount we receive for our products and services and the volume of products and services we sell. Prices affect the amount of cash flow available for capital expenditures and our ability to borrow money or raise additional capital. Price volatility has and could continue to have an adverse effect on our business, results of operations, financial condition, and cash flows.

The markets for natural gas, NGLs, oil, and other commodities are likely to continue to be volatile. Wide fluctuations in prices might result from one or more factors beyond our control, including:

- Worldwide and domestic supplies of and demand for natural gas, NGLs, oil, and related commodities;
- Turmoil in the Middle East and other producing regions;
- The activities of the Organization of Petroleum Exporting Countries;
- The level of consumer demand;
- The price and availability of other types of fuels or feedstocks;
- The availability of pipeline capacity;
- Supply disruptions, including plant outages and transportation disruptions;
- The price and quantity of foreign imports and domestic exports of natural gas and oil;
- Domestic and foreign governmental regulations and taxes;
- The credit of participants in the markets where products are bought and sold.

We are exposed to the credit risk of our customers and counterparties, and our credit risk management will not be able to completely eliminate such risk.

We are subject to the risk of loss resulting from nonpayment and/or nonperformance by our customers and counterparties in the ordinary course of our business. Generally, our customers are rated investment grade, are otherwise considered creditworthy, are required to make prepayments or provide security to satisfy credit concerns or are dependent upon us, in some cases without a readily available alternative, to provide necessary services. However, our credit procedures and policies cannot completely eliminate customer and counterparty credit risk. Our customers and counterparties include industrial customers, local distribution companies, natural gas producers, and marketers whose creditworthiness may be suddenly and disparately impacted by, among other factors, commodity price volatility, deteriorating energy market conditions, and public and regulatory opposition to energy producing activities. In a low commodity price environment certain of our customers have been or could be negatively impacted, causing them significant economic stress resulting, in some cases, in a customer bankruptcy filing or an effort to renegotiate our contracts. To the extent one or more of our key customers commences bankruptcy proceedings, our contracts with the customers may be subject to rejection under applicable provisions of the United States Bankruptcy Code or, if we so agree, may be renegotiated. Further, during any such bankruptcy proceeding, prior to assumption, rejection or renegotiation of such contracts, the bankruptcy court may temporarily authorize the payment of value for our services less than contractually required, which could have a material adverse effect on our business, financial condition, results

of operations, and cash flows. If we fail to adequately assess the creditworthiness of existing or future customers and counterparties or otherwise do not take or are unable to take sufficient mitigating actions, including obtaining sufficient collateral, deterioration in their creditworthiness, and any resulting increase in nonpayment and/or nonperformance by them could cause us to write down or write off accounts receivable. Such write-downs or write-offs could negatively affect our operating results in the periods in which they occur, and, if significant, could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

We face opposition to operation and expansion of our pipelines and facilities from various individuals and groups.

We have experienced, and we anticipate that we will continue to face, opposition to the operation and expansion of our pipelines and facilities from governmental officials, environmental groups, landowners, tribal groups, local groups and other advocates. In some instances, we encounter opposition which disfavors hydrocarbon-based energy supplies regardless of practical implementation or financial considerations. Opposition to our operation and expansion can take many forms, including the delay or denial of required governmental permits, organized protests, attempts to block or sabotage our operations, intervention in regulatory or administrative proceedings involving our assets, or lawsuits or other actions designed to prevent, disrupt or delay the operation or expansion of our assets and business. In addition, acts of sabotage or eco-terrorism could cause significant damage or injury to people, property or the environment or lead to extended interruptions of our operations. Any such event that delays or prevents the expansion of our business, that interrupts the revenues generated by our operations, or which causes us to make significant expenditures not covered by insurance, could adversely affect our financial condition and results of operations.

We may not be able to grow or effectively manage our growth.

As part of our growth strategy, we consider acquisition opportunities and engage in significant capital projects. We have both a project lifecycle process and an investment evaluation process. These are processes we use to identify, evaluate, and execute on acquisition opportunities and capital projects. We may not always have sufficient and accurate information to identify and value potential opportunities and risks or our investment evaluation process may be incomplete or flawed. Regarding potential acquisitions, suitable acquisition candidates or assets may not be available on terms and conditions we find acceptable or, where multiple parties are trying to acquire an acquisition candidate or assets, we may not be chosen as the acquirer. If we are able to acquire a targeted business, we may not be able to successfully integrate the acquired businesses and realize anticipated benefits in a timely manner.

Our growth may also be dependent upon the construction of new natural gas gathering, transportation, compression, processing or treating pipelines, and facilities, NGL transportation, or fractionation or storage facilities as well as the expansion of existing facilities. Additional risks associated with construction may include the inability to obtain rights-of-way, skilled labor, equipment, materials, and other required inputs in a timely manner such that projects are completed, on time or at all, and the risk that construction cost overruns could cause total project costs to exceed budgeted costs. Additional risks associated with growing our business include, among others, that:

- Changing circumstances and deviations in variables could negatively impact our investment analysis, including our projections of revenues, earnings, and cash flow relating to potential investment targets, resulting in outcomes which are materially different than anticipated;
- We could be required to contribute additional capital to support acquired businesses or assets;
- We may assume liabilities that were not disclosed to us, that exceed our estimates and for which contractual protections are either unavailable or prove inadequate;
- Acquisitions could disrupt our ongoing business, distract management, divert financial and operational resources from existing operations and make it difficult to maintain our current business standards, controls, and procedures;

- Acquisitions and capital projects may require substantial new capital, including proceeds from the issuance of debt or equity, and we may not be able to access capital markets or obtain acceptable terms.

If realized, any of these risks could have an adverse impact on our financial condition, results of operations, including the possible impairment of our assets, or cash flows.

Our industry is highly competitive and increased competitive pressure could adversely affect our business and operating results.

We have numerous competitors in all aspects of our businesses, and additional competitors may enter our markets. Any current or future competitor that delivers natural gas, NGLs, or other commodities into the areas that we operate could offer transportation services that are more desirable to shippers than those we provide because of price, location, facilities or other factors. In addition, current or potential competitors may make strategic acquisitions or have greater financial resources than we do, which could affect our ability to make strategic investments or acquisitions. Our competitors may be able to respond more quickly to new laws or regulations or emerging technologies or to devote greater resources to the construction, expansion, or refurbishment of their facilities than we can. Failure to successfully compete against current and future competitors could have a material adverse effect on our business, results of operations, financial condition, and cash flows.

We do not own 100 percent of the equity interests of certain subsidiaries, including the Partially Owned Entities, which may limit our ability to operate and control these subsidiaries. Certain operations, including the Partially Owned Entities, are conducted through arrangements that may limit our ability to operate and control these operations.

The operations of our current non-wholly-owned subsidiaries, including the Partially Owned Entities, are conducted in accordance with their organizational documents. We anticipate that we will enter into more such arrangements, including through new joint venture structures or new Partially Owned Entities. We may have limited operational flexibility in such current and future arrangements and we may not be able to control the timing or amount of cash distributions received. In certain cases:

- We cannot control the amount of cash reserves determined to be necessary to operate the business, which reduces cash available for distributions;
- We cannot control the amount of capital expenditures that we are required to fund and we are dependent on third parties to fund their required share of capital expenditures;
- We may be subject to restrictions or limitations on our ability to sell or transfer our interests in the jointly owned assets;
- We may be forced to offer rights of participation to other joint venture participants in the area of mutual interest;
- We have limited ability to influence or control certain day to day activities affecting the operations;
- We may have additional obligations, such as required capital contributions, that are important to the success of the operations.

In addition, conflicts of interest may arise between us, on the one hand, and other interest owners, on the other hand. If such conflicts of interest arise, we may not have the ability to control the outcome with respect to the matter in question. Disputes between us and other interest owners may also result in delays, litigation or operational impasses.

The risks described above or the failure to continue such arrangements could adversely affect our ability to conduct the operations that are the subject of such arrangements which could, in turn, negatively affect our business, growth strategy, financial condition and results of operations.

We may not be able to replace, extend, or add additional customer contracts or contracted volumes on favorable terms, or at all, which could affect our financial condition, the amount of cash available to pay dividends, and our ability to grow.

We rely on a limited number of customers and producers for a significant portion of our revenues and supply of natural gas and NGLs. Although many of our customers and suppliers are subject to long-term contracts, if we are unable to replace or extend such contracts, add additional customers, or otherwise increase the contracted volumes of natural gas provided to us by current producers, in each case on favorable terms, if at all, our financial condition, growth plans, and the amount of cash available to pay dividends could be adversely affected. Our ability to replace, extend, or add additional customer or supplier contracts, or increase contracted volumes of natural gas from current producers, on favorable terms, or at all, is subject to a number of factors, some of which are beyond our control, including:

- The level of existing and new competition in our businesses or from alternative sources, such as electricity, renewable resources, coal, fuel oils, or nuclear energy;
- Natural gas and NGL prices, demand, availability, and margins in our markets. Higher prices for energy commodities related to our businesses could result in a decline in the demand for those commodities and, therefore, in customer contracts or throughput on our pipeline systems. Also, lower energy commodity prices could negatively impact our ability to maintain or achieve favorable contractual terms, including pricing, and could also result in a decline in the production of energy commodities resulting in reduced customer contracts, supply contracts, and throughput on our pipeline systems;
- General economic, financial markets, and industry conditions;
- The effects of regulation on us, our customers, and our contracting practices;
- Our ability to understand our customers' expectations, efficiently and reliably deliver high quality services and effectively manage customer relationships. The results of these efforts will impact our reputation and positioning in the market.

Certain of our gas pipeline services are subject to long-term, fixed-price contracts that are not subject to adjustment, even if our cost to perform such services exceeds the revenues received from such contracts.

Our gas pipelines provide some services pursuant to long-term, fixed-price contracts. It is possible that costs to perform services under such contracts will exceed the revenues our pipelines collect for their services. Although most of the services are priced at cost-based rates that are subject to adjustment in rate cases, under FERC policy, a regulated service provider and a customer may mutually agree to sign a contract for service at a "negotiated rate" that may be above or below the FERC regulated cost-based rate for that service. These "negotiated rate" contracts are not generally subject to adjustment for increased costs that could be produced by inflation or other factors relating to the specific facilities being used to perform the services.

Some of our businesses are exposed to supplier concentration risks arising from dependence on a single or a limited number of suppliers.

Some of our businesses may be dependent on a small number of suppliers for delivery of critical goods or services. If a supplier on which one of our businesses depends were to fail to timely supply required goods and services, such business may not be able to replace such goods and services in a timely manner or otherwise on favorable terms or at all. If our business is unable to adequately diversify or otherwise mitigate such supplier concentration risks and such

risks were realized, such businesses could be subject to reduced revenues and increased expenses, which could have a material adverse effect on our financial condition, results of operation, and cash flows.

Failure of our service providers or disruptions to our outsourcing relationships might negatively impact our ability to conduct our business.

Certain of our accounting and information technology services are currently provided by third-party vendors, and sometimes from service centers outside of the United States. Services provided pursuant to these agreements could be disrupted. Similarly, the expiration of such agreements or the transition of services between providers could lead to loss of institutional knowledge or service disruptions. Our reliance on others as service providers could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

An impairment of our assets, including property, plant, and equipment, intangible assets, and/or equity-method investments, could reduce our earnings.

GAAP requires us to test certain assets for impairment on either an annual basis or when events or circumstances occur which indicate that the carrying value of such assets might be impaired. The outcome of such testing could result in impairments of our assets including our property, plant, and equipment, intangible assets, and/or equity-method investments. Additionally, any asset monetizations could result in impairments if any assets are sold or otherwise exchanged for amounts less than their carrying value. If we determine that an impairment has occurred, we would be required to take an immediate noncash charge to earnings.

Increasing scrutiny and changing expectations from stakeholders with respect to our environmental, social and governance practices may impose additional costs on us or expose us to new or additional risks.

Companies across all industries are facing increasing scrutiny from stakeholders related to their environmental, social and governance (“ESG”) practices. Investor advocacy groups, certain institutional investors, investment funds and other influential investors are also increasingly focused on ESG practices and in recent years have placed increasing importance on the implications and social cost of their investments. Regardless of the industry, investors’ increased focus and activism related to ESG and similar matters may hinder access to capital, as investors may decide to reallocate capital or to not commit capital as a result of their assessment of a company’s ESG practices. Companies which do not adapt to or comply with investor or stakeholder expectations and standards, which are evolving, or which are perceived to have not responded appropriately to the growing concern for ESG issues, regardless of whether there is a legal requirement to do so, may suffer from reputational damage and the business, financial condition, and/or stock price of such a company could be materially and adversely affected.

We face pressures from our stockholders, who are increasingly focused on climate change, to prioritize sustainable energy practices, reduce our carbon footprint and promote sustainability. Our stockholders may require us to implement ESG procedures or standards in order to remain invested in us or before they may make further investments in us. Additionally, we may face reputational challenges in the event our ESG procedures or standards do not meet the standards set by certain constituencies. We have adopted certain practices as highlighted in our 2018 Sustainability Report, including with respect to air emissions, biodiversity and land use, climate change and environmental stewardship. It is possible, however, that our stockholders might not be satisfied with our sustainability efforts or the speed of their adoption. If we do not meet our stockholders’ expectations, our business, ability to access capital, and/or our stock price could be harmed.

Additionally, adverse effects upon the oil and gas industry related to the worldwide social and political environment, including uncertainty or instability resulting from climate change, changes in political leadership and environmental policies, changes in geopolitical-social views toward fossil fuels and renewable energy, concern about the environmental impact of climate change and investors’ expectations regarding ESG matters, may also adversely affect demand for our services. Any long-term material adverse effect on the oil and gas industry could have a significant financial and operational adverse impact on our business.

The occurrence of any of the foregoing could have a material adverse effect on the price of our stock and our business and financial condition.

We may be subject to physical and financial risks associated with climate change.

The threat of global climate change may create physical and financial risks to our business. Energy needs vary with weather conditions. To the extent weather conditions may be affected by climate change, energy use could increase or decrease depending on the duration and magnitude of any changes. Increased energy use due to weather changes may require us to invest in more pipelines and other infrastructure to serve increased demand. A decrease in energy use due to weather changes may affect our financial condition through decreased revenues. Extreme weather conditions in general require more system backup, adding to costs, and can contribute to increased system stresses, including service interruptions. Weather conditions outside of our operating territory could also have an impact on our revenues. To the extent the frequency of extreme weather events increases, this could increase our cost of providing service. We may not be able to pass on the higher costs to our customers or recover all costs related to mitigating these physical risks.

Additionally, many climate models indicate that global warming is likely to result in rising sea levels and increased frequency and severity of weather events, which may lead to higher insurance costs, or a decrease in available coverage, for our assets in areas subject to severe weather. These climate-related changes could damage our physical assets, especially operations located in low-lying areas near coasts and river banks, and facilities situated in hurricane-prone and rain-susceptible regions.

To the extent financial markets view climate change and greenhouse gas (“GHG”) emissions as a financial risk, this could negatively impact our cost of and access to capital. Climate change and GHG regulation could also reduce demand for our services. Our business could also be affected by the potential for lawsuits against GHG emitters, based on links drawn between GHG emissions and climate change.

Our operations are subject to operational hazards and unforeseen interruptions.

There are operational risks associated with the gathering, transporting, storage, processing, and treating of natural gas, the fractionation, transportation, and storage of NGLs, and crude oil transportation and production handling, including:

- Aging infrastructure and mechanical problems;
- Damages to pipelines and pipeline blockages or other pipeline interruptions;
- Uncontrolled releases of natural gas (including sour gas), NGLs, crude oil, or other products;
- Collapse or failure of storage caverns;
- Operator error;
- Damage caused by third-party activity, such as operation of construction equipment;
- Pollution and other environmental risks;
- Fires, explosions, craterings, and blowouts;
- Security risks, including cybersecurity;
- Operating in a marine environment.

Any of these risks could result in loss of human life, personal injuries, significant damage to property, environmental pollution, impairment of our operations, loss of services to our customers, reputational damage, and substantial losses to us. The location of certain segments of our facilities in or near populated areas, including residential areas, commercial business centers, and industrial sites, could increase the level of damages resulting from these risks. An event such as those described above could have a material adverse effect on our financial condition and results of operations, particularly if the event is not fully covered by insurance.

We do not insure against all potential risks and losses and could be seriously harmed by unexpected liabilities or by the inability of our insurers to satisfy our claims.

In accordance with customary industry practice, we maintain insurance against some, but not all, risks and losses, and only at levels we believe to be appropriate. The occurrence of any risks not fully covered by our insurance could have a material adverse effect on our business, financial condition, results of operations, and cash flows and our ability to repay our debt.

Our assets and operations, as well as our customers' assets and operations, can be adversely affected by weather and other natural phenomena.

Our assets and operations, especially those located offshore, and our customers' assets and operations can be adversely affected by hurricanes, floods, earthquakes, landslides, tornadoes, fires, and other natural phenomena and weather conditions, including extreme or unseasonable temperatures, making it more difficult for us to realize the historic rates of return associated with our assets and operations. A significant disruption in our or our customers' operations or a significant liability for which we are not fully insured could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Our business could be negatively impacted by acts of terrorism and related disruptions.

Given the volatile nature of the commodities we transport, process, store, and sell, our assets and the assets of our customers and others in our industry may be targets of terrorist activities. A terrorist attack could create significant price volatility, disrupt our business, limit our access to capital markets, or cause significant harm to our operations, such as full or partial disruption to our ability to produce, process, transport, or distribute natural gas, NGLs, or other commodities. Acts of terrorism, as well as events occurring in response to or in connection with acts of terrorism, could cause environmental repercussions that could result in a significant decrease in revenues or significant reconstruction or remediation costs, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

A breach of our information technology infrastructure, including a breach caused by a cybersecurity attack on us or third parties with whom we are interconnected, may interfere with the safe operation of our assets, result in the disclosure of personal or proprietary information, and harm our reputation.

We rely on our information technology infrastructure to process, transmit, and store electronic information, including information we use to safely operate our assets. Our Board of Directors has oversight responsibility with regard to assessment of the major risks inherent in our business, including cybersecurity risks, and reviews management's efforts to address and mitigate such risks, including the establishment and implementation of policies to address cybersecurity threats. We have invested, and expect to continue to invest, significant time, manpower and capital in our information technology infrastructure. However, the age, operating systems, or condition of our current information technology infrastructure and software assets and our ability to maintain and upgrade such assets could affect our ability to resist cybersecurity threats. While we believe that we maintain appropriate information security policies, practices, and protocols, we regularly face cybersecurity and other security threats to our information technology infrastructure, which could include threats to our operational industrial control systems that are used to operate our pipelines, plants, and assets. We face unlawful attempts to gain access to our information technology infrastructure, including coordinated attacks from hackers, whether state-sponsored groups, "hacktivists", or private individuals. We face the threat of theft and misuse of sensitive data and information, including customer and employee information. We also face attempts to

gain access to information related to our assets through attempts to obtain unauthorized access by targeting acts of deception against individuals with legitimate access to physical locations or information. We also are subject to cybersecurity risks arising from the fact that our business operations are interconnected with third parties, including third-party pipelines, other facilities and our contractors and vendors. In addition, the breach of certain business systems could affect our ability to correctly record, process and report financial information. Breaches in our information technology infrastructure or physical facilities, or other disruptions including those arising from theft, vandalism, fraud, or unethical conduct, could result in damage to or destruction of our assets, unnecessary waste, safety incidents, damage to the environment, reputational damage, potential liability, the loss of contracts, the imposition of significant costs associated with remediation and litigation, heightened regulatory scrutiny, increased insurance costs, and a material adverse effect on our operations, financial condition, results of operations, and cash flows.

If third-party pipelines and other facilities interconnected to our pipelines and facilities become unavailable to transport natural gas and NGLs or to treat natural gas, our revenues could be adversely affected.

We depend upon third-party pipelines and other facilities that provide delivery options to and from our pipelines and facilities for the benefit of our customers. Because we do not own these third-party pipelines or other facilities, their continuing operation is not within our control. If these pipelines or facilities were to become temporarily or permanently unavailable for any reason, or if throughput were reduced because of testing, line repair, damage to pipelines or facilities, reduced operating pressures, lack of capacity, increased credit requirements or rates charged by such pipelines or facilities or other causes, we and our customers would have reduced capacity to transport, store or deliver natural gas or NGL products to end use markets or to receive deliveries of mixed NGLs, thereby reducing our revenues. Any temporary or permanent interruption at any key pipeline interconnect or in operations on third-party pipelines or facilities that would cause a material reduction in volumes transported on our pipelines or our gathering systems or processed, fractionated, treated, or stored at our facilities could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Our operating results for certain components of our business might fluctuate on a seasonal basis.

Revenues from certain components of our business can have seasonal characteristics. In many parts of the country, demand for natural gas and other fuels peaks during the winter. As a result, our overall operating results in the future might fluctuate substantially on a seasonal basis. Demand for natural gas and other fuels could vary significantly from our expectations depending on the nature and location of our facilities and pipeline systems and the terms of our natural gas transportation arrangements relative to demand created by unusual weather patterns.

We do not own all of the land on which our pipelines and facilities are located, which could disrupt our operations.

We do not own all of the land on which our pipelines and facilities have been constructed. As such, we are subject to the possibility of increased costs to retain necessary land use. In those instances in which we do not own the land on which our facilities are located, we obtain the rights to construct and operate our pipelines and gathering systems on land owned by third parties and governmental agencies for a specific period of time. In addition, some of our facilities cross Native American lands pursuant to rights-of-way of limited terms. We may not have the right of eminent domain over land owned by Native American tribes. Our loss of these rights, through our inability to renew right-of-way contracts or otherwise, could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Our business could be negatively impacted as a result of stockholder activism.

In recent years, stockholder activism, including threatened or actual proxy contests, has been directed against numerous public companies, including ours.

We were the target of a proxy contest from a stockholder activist, which resulted in our incurring significant costs. If stockholder activists were to again take or threaten to take actions against the Company or seek to involve themselves in the governance, strategic direction or operations of the Company, we could incur significant costs as well as the distraction of management, which could have an adverse effect on our business or financial results. In addition, actions

of activist stockholders may cause significant fluctuations in our stock price based on temporary or speculative market perceptions or other factors that do not necessarily reflect the underlying fundamentals and prospects of our business.

Our costs and funding obligations for our defined benefit pension plans and costs for our other postretirement benefit plans are affected by factors beyond our control.

We have defined benefit pension plans and other postretirement benefit plans. The timing and amount of our funding requirements under the defined benefit pension plans depend upon a number of factors that we control, including changes to pension plan benefits, as well as factors outside of our control, such as asset returns, interest rates, and changes in pension laws. Changes to these and other factors that can significantly increase our funding requirements could have a significant adverse effect on our financial condition and results of operations.

Failure to attract and retain an appropriately qualified workforce could negatively impact our results of operations.

Events such as an aging workforce without appropriate replacements, mismatch of skill sets to future needs, the challenges of attracting new, qualified workers to the midstream energy industry, or unavailability of contract labor may lead to operating challenges such as lack of resources, loss of knowledge, and a lengthy time period associated with skill development, including with the workforce needs associated with projects and ongoing operations. Failure to hire and adequately obtain replacement employees, including the ability to transfer significant internal historical knowledge and expertise to the new employees, or the future availability and cost of contract labor may adversely affect our ability to manage and operate the businesses. If we are unable to successfully attract and retain an appropriately qualified workforce, results of operations could be negatively impacted.

Holders of our common stock may not receive dividends in the amount expected or any dividends.

We may not have sufficient cash each quarter to pay dividends or maintain current or expected levels of dividends. The actual amount of cash we dividend may fluctuate from quarter to quarter and will depend on various factors, some of which are beyond our control, including:

- The amount of cash that our subsidiaries distribute to us;
- The amount of cash we generate from our operations, our working capital needs, our level of capital expenditures, and our ability to borrow;
- The restrictions contained in our indentures and credit facility and our debt service requirements;
- The cost of acquisitions, if any.

A failure either to pay dividends or to pay dividends at expected levels could result in a loss of investor confidence, reputational damage, and a decrease in the value of our stock price.

If there is a determination that the spin-off of WPX Energy, Inc. (WPX) stock to our stockholders is taxable for U.S. federal income tax purposes because the facts, representations or undertakings underlying a U.S. Internal Revenue Service private letter ruling or a tax opinion are incorrect or for any other reason, then we and our stockholders could incur significant income tax liabilities.

In connection with our original separation plan that called for an initial public offering (IPO) of stock of WPX and a subsequent spin-off of our remaining shares of WPX to our stockholders, we obtained a private letter ruling from the IRS and an opinion of our outside tax advisor, to the effect that the distribution by us of WPX shares to our stockholders, and any related restructuring transaction undertaken by us, would not result in recognition for U.S. federal income tax purposes, of income, gain or loss to us or our stockholders under section 355 and section 368(a)(1)(D) of the U.S. Internal Revenue Code of 1986, as amended (Code), except for cash payments made to our stockholders in lieu of fractional shares of WPX common stock. In addition, we received an opinion from our outside tax advisor to the effect

that the spin-off pursuant to our revised separation plan which was ultimately consummated on December 31, 2011, which did not involve an IPO of WPX shares, would not result in the recognition, for federal income tax purposes, of income, gain, or loss to us or our stockholders under section 355 and section 368(a)(1)(D) of the Code, except for cash payments made to our stockholders in lieu of fractional shares of WPX. The private letter ruling and opinion have relied on or will rely on certain facts, representations, and undertakings from us and WPX regarding the past and future conduct of the companies' respective businesses and other matters. If any of these facts, representations, or undertakings are, or become, incorrect or are not otherwise satisfied, including as a result of certain significant changes in the stock ownership of us or WPX after the spin-off, or if the IRS disagrees with any such facts and representations upon audit, we and our stockholders may not be able to rely on the private letter ruling or the opinion of our tax advisor and could be subject to significant income tax liabilities.

Risks Related to Financing Our Business

Downgrades of our credit ratings, which are determined outside of our control by independent third parties, impact our liquidity, access to capital, and our costs of doing business.

Downgrades of our credit ratings increase our cost of borrowing and could require us to provide collateral to our counterparties, negatively impacting our available liquidity. In addition, our ability to access capital markets could continue to be limited by the downgrading of our credit ratings.

Credit rating agencies perform independent analysis when assigning credit ratings. This analysis includes a number of criteria such as, business composition, market, and operational risks, as well as various financial tests. Credit rating agencies continue to review the criteria for industry sectors and various debt ratings and may make changes to those criteria from time to time. Credit ratings are subject to revision or withdrawal at any time by the ratings agencies. As of the date of the filing of this report, we have been assigned an investment-grade credit rating by each of the three credit ratings agencies.

Difficult conditions in the global financial markets and the economy in general could negatively affect our business and results of operations.

Our businesses may be negatively impacted by adverse economic conditions or future disruptions in global financial markets. Included among these potential negative impacts are industrial or economic contraction leading to reduced energy demand and lower prices for our products and services and increased difficulty in collecting amounts owed to us by our customers. If financing is not available when needed, or is available only on unfavorable terms, we may be unable to implement our business plans or otherwise take advantage of business opportunities or respond to competitive pressures. In addition, financial markets have periodically been affected by concerns over U.S. fiscal and monetary policies. These concerns, as well as actions taken by the U.S. federal government in response to these concerns, could significantly and adversely impact the global and U.S. economies and financial markets, which could negatively impact us in the manner described above.

Restrictions in our debt agreements and the amount of our indebtedness may affect our future financial and operating flexibility.

Our total outstanding long-term debt (including current portion) as of December 31, 2019, was \$22.3 billion.

The agreements governing our indebtedness contain covenants that restrict our and our material subsidiaries' ability to incur certain liens to support indebtedness and our ability to merge or consolidate or sell all or substantially all of our assets in certain circumstances. In addition, certain of our debt agreements contain various covenants that restrict or limit, among other things, our ability to make certain distributions during the continuation of an event of default, the ability of our subsidiaries to incur additional debt, and our, and our material subsidiaries', ability to enter into certain affiliate transactions and certain restrictive agreements. Certain of our debt agreements also contain, and those we enter into in the future may contain, financial covenants, and other limitations with which we will need to comply.

Our debt service obligations and the covenants described above could have important consequences. For example, they could:

- Make it more difficult for us to satisfy our obligations with respect to our indebtedness, which could in turn result in an event of default on such indebtedness;
- Impair our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate purposes, or other purposes;
- Diminish our ability to withstand a continued or future downturn in our business or the economy generally;
- Require us to dedicate a substantial portion of our cash flow from operations to debt service payments, thereby reducing the availability of cash for working capital, capital expenditures, acquisitions, the payments of dividends, general corporate purposes, or other purposes;
- Limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate, including limiting our ability to expand or pursue our business activities and preventing us from engaging in certain transactions that might otherwise be considered beneficial to us.

Our ability to comply with our debt covenants, to repay, extend, or refinance our existing debt obligations and to obtain future credit will depend primarily on our operating performance. Our ability to refinance existing debt obligations or obtain future credit will also depend upon the current conditions in the credit markets and the availability of credit generally. If we are unable to comply with these covenants, meet our debt service obligations, or obtain future credit on favorable terms, or at all, we could be forced to restructure or refinance our indebtedness, seek additional equity capital or sell assets. We may be unable to obtain financing or sell assets on satisfactory terms, or at all.

Our failure to comply with the covenants in the documents governing our indebtedness could result in events of default, which could render such indebtedness due and payable. We may not have sufficient liquidity to repay our indebtedness in such circumstances. In addition, cross-default or cross-acceleration provisions in our debt agreements could cause a default or acceleration to have a wider impact on our liquidity than might otherwise arise from a default or acceleration of a single debt instrument. For more information regarding our debt agreements, please read Note 15 – Debt and Banking Arrangements of Notes to Consolidated Financial Statements.

Changes to interest rates or increases in interest rates could adversely impact our access to credit, share price, our ability to issue securities or incur debt for acquisitions or other purposes, and our ability to make cash dividends at our intended levels.

Interest rates may increase in the future. As a result, interest rates on future credit facilities and debt offerings could be higher than current levels, causing our financing costs to increase accordingly. As with other yield-oriented securities, our share price will be impacted by the level of our dividends and implied dividend yield. The dividend yield is often used by investors to compare and rank yield-oriented securities for investment decision-making purposes. Therefore, changes in interest rates, either positive or negative, may affect the yield requirements of investors who invest in our shares, and a rising interest rate environment could have an adverse impact on our share price and our ability to issue equity or incur debt for acquisitions or other purposes and to pay cash dividends at our intended levels.

Our hedging activities might not be effective and could increase the volatility of our results.

In an effort to manage our financial exposure related to commodity price and market fluctuations, we have entered, and may in the future enter into contracts to hedge certain risks associated with our assets and operations. In these hedging activities, we have used, and may in the future use, fixed-price, forward, physical purchase, and sales contracts, futures, financial swaps, and option contracts traded in the over-the-counter markets or on exchanges. Nevertheless, no single hedging arrangement can adequately address all risks present in a given contract. For example, a forward contract that would be effective in hedging commodity price volatility risks would not hedge the contract's counterparty

credit or performance risk. Therefore, unhedged risks will always continue to exist. While we attempt to manage counterparty credit risk within guidelines established by our credit policy, we may not be able to successfully manage all credit risk and as such, future cash flows and results of operations could be impacted by counterparty default.

Risks Related to Regulations

The operation of our businesses might be adversely affected by regulatory proceedings, changes in government regulations or in their interpretation or implementation, or the introduction of new laws or regulations applicable to our businesses or our customers.

Public and regulatory scrutiny of the energy industry has resulted in the proposal and/or implementation of increased regulations. Such scrutiny has also resulted in various inquiries, investigations, and court proceedings, including litigation of energy industry matters. Both the shippers on our pipelines and regulators have rights to challenge the rates we charge under certain circumstances. Any successful challenge could materially affect our results of operations.

Certain inquiries, investigations, and court proceedings are ongoing. Adverse effects may continue as a result of the uncertainty of ongoing inquiries, investigations, and court proceedings, or additional inquiries and proceedings by federal or state regulatory agencies or private plaintiffs. In addition, we cannot predict the outcome of any of these inquiries or whether these inquiries will lead to additional legal proceedings against us, civil or criminal fines and/or penalties, or other regulatory action, including legislation, which might be materially adverse to the operation of our business and our results of operations or increase our operating costs in other ways. Current legal proceedings or other matters, including environmental matters, suits, regulatory appeals, and similar matters might result in adverse decisions against us which, among other outcomes, could result in the imposition of substantial penalties and fines and could damage our reputation. The result of such adverse decisions, either individually or in the aggregate, could be material and may not be covered fully or at all by insurance.

In addition, existing regulations, including those pertaining to financial assurances to be provided by our businesses in respect of potential asset decommissioning and abandonment activities, might be revised, reinterpreted, or otherwise enforced in a manner which differs from prior regulatory action. New laws and regulations, including those pertaining to oil and gas hedging and cash collateral requirements, might also be adopted or become applicable to us, our customers, or our business activities. If new laws or regulations are imposed relating to oil and gas extraction, or if additional or revised levels of reporting, regulation, or permitting moratoria are required or imposed, including those related to hydraulic fracturing, the volumes of natural gas and other products that we transport, gather, process, and treat could decline, our compliance costs could increase, and our results of operations could be adversely affected.

The natural gas sales, transportation, and storage operations of our gas pipelines are subject to regulation by the FERC, which could have an adverse impact on their ability to establish transportation and storage rates that would allow them to recover the full cost of operating their respective pipelines, including a reasonable rate of return.

In addition to regulation by other federal, state, and local regulatory authorities, interstate pipeline transportation and storage service is subject to regulation by the FERC. Federal regulation extends to such matters as:

- Transportation and sale for resale of natural gas in interstate commerce;
- Rates, operating terms, types of services, and conditions of service;
- Certification and construction of new interstate pipelines and storage facilities;
- Acquisition, extension, disposition, or abandonment of existing interstate pipelines and storage facilities;
- Accounts and records;
- Depreciation and amortization policies;

- Relationships with affiliated companies who are involved in marketing functions of the natural gas business;
- Market manipulation in connection with interstate sales, purchases, or transportation of natural gas.

Regulatory or administrative actions in these areas, including successful complaints or protests against the rates of the gas pipelines, can affect our business in many ways, including decreasing tariff rates and revenues, decreasing volumes in our pipelines, increasing our costs, and otherwise altering the profitability of our pipeline business.

Our operations are subject to environmental laws and regulations, including laws and regulations relating to climate change and greenhouse gas emissions, which may expose us to significant costs, liabilities, and expenditures that could exceed our expectations.

Our operations are subject to extensive federal, state, tribal, and local laws and regulations governing environmental protection, endangered and threatened species, the discharge of materials into the environment, and the security of industrial facilities. Substantial costs, liabilities, delays, and other significant issues related to environmental laws and regulations are inherent in the gathering, transportation, storage, processing, and treating of natural gas, fractionation, transportation, and storage of NGLs, and crude oil transportation and production handling as well as waste disposal practices and construction activities. Failure to comply with these laws, regulations, and permits may result in the assessment of administrative, civil and/or criminal penalties, the imposition of remedial obligations, the imposition of stricter conditions on or revocation of permits, the issuance of injunctions limiting or preventing some or all of our operations, and delays or denials in granting permits.

Joint and several, strict liability may be incurred without regard to fault under certain environmental laws and regulations, for the remediation of contaminated areas and in connection with spills or releases of materials associated with natural gas, oil, and wastes on, under or from our properties and facilities. Private parties, including the owners of properties through which our pipeline and gathering systems pass and facilities where our wastes are taken for reclamation or disposal, may have the right to pursue legal actions to enforce compliance as well as to seek damages for noncompliance with environmental laws and regulations or for personal injury or property damage arising from our operations. Some sites at which we operate are located near current or former third-party hydrocarbon storage and processing or oil and natural gas operations or facilities, and there is a risk that contamination has migrated from those sites to ours.

We are generally responsible for all liabilities associated with the environmental condition of our facilities and assets, whether acquired or developed, regardless of when the liabilities arose and whether they are known or unknown. In connection with certain acquisitions and divestitures, we could acquire, or be required to provide indemnification against, environmental liabilities that could expose us to material losses, which may not be covered by insurance. In addition, the steps we could be required to take to bring certain facilities into compliance could be prohibitively expensive, and we might be required to shut down, divest or alter the operation of those facilities, which might cause us to incur losses.

In addition, climate change regulations and the costs associated with the regulation of emissions of greenhouse gases have the potential to affect our business. Regulatory actions by the Environmental Protection Agency or the passage of new climate change laws or regulations could result in increased costs to operate and maintain our facilities, install new emission controls on our facilities, or administer and manage our GHG compliance program. We believe it is possible that future governmental legislation and/or regulation may require us either to limit GHG emissions associated with our operations or to purchase allowances for such emissions. However, we cannot predict precisely what form these future regulations might take, the stringency of any such regulations or when they might become effective. Several legislative bills have been introduced in the United States Congress that would require carbon dioxide emission reductions. Previously considered proposals have included, among other things, limitations on the amount of GHGs that can be emitted (so called “caps”) together with systems of permitted emissions allowances. These proposals could require us to reduce emissions or to purchase allowances for such emissions.

In addition to activities on the federal level, state and regional initiatives could also lead to the regulation of GHG emissions sooner than and/or independent of federal regulation. These regulations could be more stringent than any federal legislation that may be adopted. Future legislation and/or regulation designed to reduce GHG emissions could make some of our activities uneconomic to maintain or operate. We continue to monitor legislative and regulatory developments in this area and otherwise take efforts to limit and reduce GHG emissions from our facilities. Although the regulation of GHG emissions may have a material impact on our operations and rates, we believe it is premature to attempt to quantify the potential costs of the impacts.

If we are unable to recover or pass through a significant level of our costs related to complying with climate change regulatory requirements imposed on us, it could have a material adverse effect on our results of operations and financial condition.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Please read "Business" for a description of the location and general character of our principal physical properties. We generally own our facilities, although a substantial portion of our pipeline and gathering facilities is constructed and maintained pursuant to rights-of-way, easements, permits, licenses, or consents on and across properties owned by others.

Item 3. Legal Proceedings

Environmental

Certain reportable legal proceedings involving governmental authorities under federal, state, and local laws regulating the discharge of materials into the environment are described below. While it is not possible for us to predict the final outcome of the proceedings which are still pending, we do not anticipate a material effect on our consolidated financial position if we receive an unfavorable outcome in any one or more of such proceedings.

On June 13, 2013, an explosion and fire occurred at our formerly owned Geismar olefins plant and rendered the facility temporarily inoperable (Geismar Incident). On October 21, 2013, the EPA, Region 6, issued an Inspection Report pursuant to the Clean Air Act's Risk Management Program following its inspection of the facility on June 24 through June 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 have worked with the agency to resolve these matters and in the second half of 2019, entered into a Stipulation of Settlement, which includes a penalty of \$750,000 that will be due within thirty days of the Court's entry of the settlement. The Court set a fairness hearing on the settlement for December 11, 2019. Prior to the scheduled hearing, the Court continued the hearing without setting a new date.

On May 5, 2017, we entered into a Consent Order with the Georgia Department of Natural Resources, Environmental Protection Division (GADNR) pertaining to alleged violations of the Georgia Water Quality Control Act and associated rules arising from a permit issued by GADNR for construction of Transco's Dalton expansion project. Pursuant to the Consent Order, we paid a fine of \$168,750 and agreed to a Corrective Action Plan.

On January 19, 2016, we received a Notice of Noncompliance with certain Leak Detection and Repair (LDAR) regulations under the Clean Air Act at our Moundsville Fractionator Facility from the EPA, Region 3. Subsequently, the EPA alleged similar violations of certain LDAR regulations at our Oak Grove Gas Plant. On March 19, 2018, we received a Notice of Violation of certain LDAR regulations at our former Ignacio Gas Plant from the EPA, Region 8, following an on-site inspection of the facility. On March 20, 2018, we also received a Notice of Violation of certain LDAR regulations at our Parachute Creek Gas Plant from the EPA, Region 8. All Notices were subsequently referred to a common attorney at the Department of Justice (DOJ). We are exploring global resolution of the claims at these facilities, as well as alleged violations at certain other facilities, with the DOJ. Global resolution would include both

payment of a civil penalty and an injunctive relief component. We continue to work with the DOJ and the other agencies to resolve these claims, whether individually or globally, and negotiations are ongoing.

Other environmental matters called for by this Item are described under the caption “*Environmental Matters*” in Note 19 – Contingent Liabilities and Commitments of Notes to Consolidated Financial Statements included under Part II, Item 8 Financial Statements of this report, which information is incorporated by reference into this Item.

Other litigation

The additional information called for by this Item is provided in Note 19 – Contingent Liabilities and Commitments of Notes to Consolidated Financial Statements included under Part II, Item 8 Financial Statements of this report, which information is incorporated by reference into this Item.

Item 4. Mine Safety Disclosures

Not applicable.

Information About Our Executive Officers

The name, title, age, period of service, and recent business experience of each of our executive officers as of February 24, 2020, are listed below.

Name and Position	Age	Business Experience in Past Five Years	
Alan S. Armstrong	57	2011 to present	Director, Chief Executive Officer, and President, The Williams Companies, Inc.
		2015 to 2018	Chairman of the Board, WPZ
		2014 to 2018	Chief Executive Officer, WPZ
		2012 to 2018	Director of the general partner, WPZ
Walter J. Bennett	50	2020 to present	Senior Vice President Gathering & Processing, The Williams Companies, Inc.
		2015 to 2019	Senior Vice President – West, The Williams Companies, Inc.
		2013 to 2018	Senior Vice President – West of the general partner, WPZ
		2017	Director of the general partner, WPZ
John D. Chandler	50	2017 to present	Senior Vice President and Chief Financial Officer, The Williams Companies, Inc.
		2017 to 2018	Director of the general partner, WPZ
		2009 to 2014	Senior Vice President and Chief Financial Officer, Magellan GP, LLC
		2013 to 2018	Senior Vice President – Chief Human Resources Officer, The Williams Companies, Inc.
Debbie Cowan	42	2018 to present	Global Vice President of Human Resources, Koch Chemical Technology Group, LLC
		2017 to 2018	Executive Vice President and Chief Operating Officer, The Williams Companies, Inc.
		2015 to 2016	President / Executive Vice President, Questar Pipeline / Questar Corporation
		2010 to 2015	President and Chief Executive Officer, PacifiCorp Energy
Scott A. Hallam	43	2020 to present	Senior Vice President Transmission & Gulf of Mexico, The Williams Companies, Inc.
		2019	Senior Vice President – Atlantic-Gulf, The Williams Companies, Inc.
		2017 to 2019	Vice President GM Atlantic-Gulf, The Williams Companies, Inc.
		2015 to 2017	Vice President Northeast OA, The Williams Companies, Inc.
John E. Poarch	54	2020 to present	General Manager – Utica, ACMP
		2017 to 2019	Senior Vice President Project Execution, The Williams Companies, Inc.
		2015 to 2017	Senior Vice President – Engineering Services, The Williams Companies, Inc.
		2011 to 2015	Vice President – Commercial - West, The Williams Companies, Inc.
		2017	Vice President – Commercial & Business Development, The Williams Companies, Inc.
		2015 to 2017	General Manager – Eagle Ford, ACMP

Name and Position	Age	Business Experience in Past Five Years	
John D. Porter Vice President, Controller, and Chief Accounting Officer	50	2020 to present	Vice President, Controller, and Chief Accounting Officer, The Williams Companies, Inc.
		2017 to 2019	Vice President Enterprise Financial Planning & Analysis and Investor Relations, The Williams Companies
		2013 to 2017	Director of Investor Relations & Enterprise Planning
T. Lane Wilson Senior Vice President, General Counsel	53	2017 to present	Senior Vice President and General Counsel, The Williams Companies, Inc.
		2009 to 2017	United States Magistrate Judge for the Northern District of Oklahoma
Chad J. Zamarin Senior Vice President – Corporate Strategic Development	43	2017 to present	Senior Vice President – Corporate Strategic Development, The Williams Companies, Inc.
		2017 to 2018	Director of the general partner, WPZ
		2014 to 2017	President – Pipeline and Midstream, Cheniere Energy

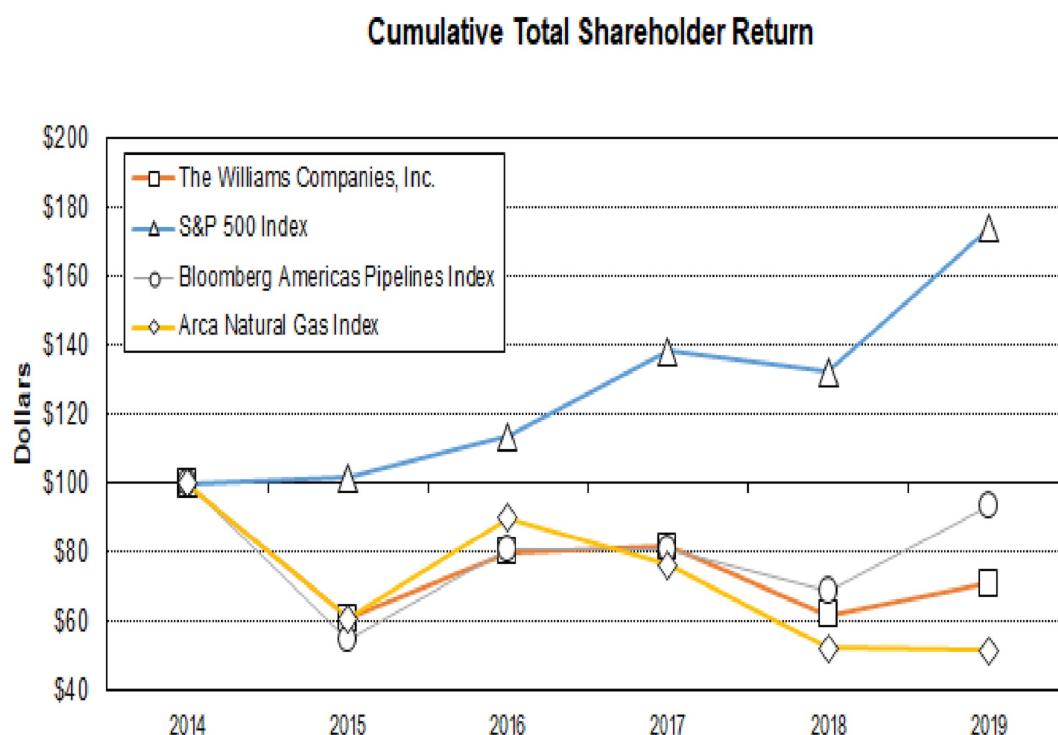
PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is listed on the New York Stock Exchange under the symbol "WMB." At the close of business on February 19, 2020, we had 6,512 holders of record of our common stock.

Performance Graph

Set forth below is a line graph comparing our cumulative total stockholder return on our common stock (assuming reinvestment of dividends) with the cumulative total return of the S&P 500 Stock Index, the Bloomberg Americas Pipelines Index, and the Arca Natural Gas Index for the period of five fiscal years commencing January 1, 2015. The Bloomberg Americas Pipelines Index is composed of Enbridge Inc., Kinder Morgan, Inc., TC Energy Corporation, ONEOK, Inc., Pembina Pipeline Corporation, Cheniere Energy, Inc., Targa Resources Corp., Inter Pipeline Ltd., and Williams. The Arca Natural Gas Index is comprised of over 20 highly capitalized companies in the natural gas industry involved primarily in natural gas exploration and production and natural gas pipeline transportation and transmission. The graph below assumes an investment of \$100 at the beginning of the period.



	2014	2015	2016	2017	2018	2019
The Williams Companies, Inc.	100.0	60.8	79.8	81.5	62.0	70.8
S&P 500 Index	100.0	101.4	113.5	138.3	132.2	173.8
Bloomberg Americas Pipelines Index	100.0	55.0	80.7	80.5	69.0	93.4
Arca Natural Gas Index	100.0	61.0	89.7	76.3	52.1	51.5

Item 6. Selected Financial Data

The following financial data at December 31, 2019 and 2018, and for each of the three preceding years in the period ended December 31, 2019, should be read in conjunction with the other financial information included in Part II, Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations* and Part II, Item 8, *Financial Statements and Supplementary Data* of this Form 10-K. All other financial data has been prepared from our accounting records.

	Year Ended December 31,				
	2019	2018	2017	2016	2015
	(Millions, except per-share amounts)				
Revenues	\$ 8,201	\$ 8,686	\$ 8,031	\$ 7,499	\$ 7,360
Income (loss) from continuing operations (1)	729	193	2,509	(350)	(1,314)
Amounts attributable to The Williams Companies, Inc. available to common stockholders:					
Income (loss) from continuing operations (2)	862	(156)	2,174	(424)	(571)
Diluted income (loss) from continuing operations per common share	.71	(.16)	2.62	(.57)	(.76)
Total assets at December 31	46,040	45,302	46,352	46,835	49,020
Commercial paper, lease liabilities, and long-term debt (including current portions) at December 31	22,497	22,414	20,935	23,502	24,487
Stockholders' equity at December 31 (3)	13,363	14,660	9,656	4,643	6,148
Cash dividends declared per common share	1.52	1.36	1.20	1.68	2.45
Diluted weighted-average shares outstanding (thousands)	1,214,011	973,626	828,518	750,673	749,271

(1) Income (loss) from continuing operations:

- For 2019 includes \$464 million of impairments of certain assets, including a \$354 million impairment of Constitution's capitalized project costs, and \$186 million impairments of certain equity-method investments, partially offset by a \$122 million gain on the sale of our Jackalope equity-method investment;
- For 2018 includes a \$1.849 billion impairment of certain assets located in the Barnett Shale region, partially offset by a \$591 million gain on the sale of our Four Corners area assets, a \$141 million gain on the deconsolidation of certain Permian assets, and a \$101 million gain from the sale of our Gulf Coast pipeline system assets;
- For 2017 includes a \$1.923 billion benefit for income taxes resulting from Tax Reform rate change and a \$1.095 billion pre-tax gain on the sale of our Geismar Interest, partially offset by \$1.248 billion of pre-tax impairments of certain assets and \$776 million of pre-tax regulatory charges resulting from Tax Reform;
- For 2016 includes an \$873 million impairment of certain assets and a \$430 million impairment of certain equity-method investments;
- For 2015 includes a \$1.4 billion impairment of certain equity-method investments and a \$1.1 billion impairment of goodwill.

(2) Income (loss) from continuing operations attributable to The Williams Companies, Inc. available to common stockholders:

- For 2019 includes benefit of \$209 million reflecting the noncontrolling interests' share of the impairment of Constitution's capitalized project costs.

(3) Stockholders' equity at December 31:

- For 2019 includes a decrease related to a sale of a partial interest in our Northeast JV business;
- For 2018 includes an increase reflecting our issuance of common stock associated with our merger with WPZ in August 2018;
- For 2017 includes increases reflecting our issuance of common stock as part of our Financial Repositioning and a significant increase in our ownership of WPZ.

Item 7. 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 and NGLs through our gas pipeline and midstream business. Our operations are located in the United States.

Our interstate natural gas pipeline strategy is to create value by maximizing the utilization of our pipeline capacity by providing high quality, low cost transportation of natural gas to large and growing markets. Our gas pipeline businesses' interstate transmission and 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 limited near-term impact on these revenues because the majority of cost of service is recovered through firm capacity reservation charges in transportation rates.

The ongoing strategy of our midstream operations is to safely and reliably operate large-scale midstream infrastructure 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. These services include natural gas gathering, processing, treating, and compression, NGL fractionation and transportation, crude oil production handling and transportation, marketing services for NGL, crude oil and natural gas, as well as storage facilities.

As of December 31, 2019, our operations are presented within the following reportable segments: Atlantic-Gulf, Northeast G&P, and West, consistent with the manner in which our chief operating decision maker evaluates performance and allocates resources. All remaining business activities as well as corporate activities are included in Other. Our reportable segments are comprised of the following businesses:

- Atlantic-Gulf is comprised of our interstate natural gas pipeline, Transco, and natural gas gathering and processing and crude oil production handling and transportation assets in the Gulf Coast region, including a 51 percent interest in Gulfstar One (a consolidated variable interest entity), which is a proprietary floating production system, as well as a 50 percent equity-method investment in Gulfstream, a 60 percent equity-method investment in Discovery, and a 41 percent equity-method investment in Constitution as of December 31, 2019.
- Northeast G&P is comprised of our midstream gathering, processing, and fractionation businesses in the Marcellus Shale region primarily in Pennsylvania, New York, and the Utica Shale region of eastern Ohio, as well as a 65 percent interest in our Northeast JV (a consolidated variable interest entity) which operates in West Virginia, Ohio, and Pennsylvania, a 66 percent interest in Cardinal (a consolidated variable interest entity) which operates in Ohio, a 69 percent equity-method investment in Laurel Mountain, a 58 percent equity-method investment in Caiman II, and Appalachia Midstream Services, LLC, which owns equity-method investments with an approximate average 66 percent interest in multiple gas gathering systems in the Marcellus Shale (Appalachia Midstream Investments).
- West is comprised of our interstate natural gas pipeline, Northwest Pipeline, and our gas gathering, processing, and treating operations in the Rocky Mountain region of Colorado and Wyoming, the Barnett Shale region of north-central Texas, the Eagle Ford Shale region of south Texas, the Haynesville Shale region of northwest Louisiana, and the Mid-Continent region which includes the Anadarko, Arkoma, Delaware, and Permian basins. This segment also includes our NGL and natural gas marketing business, storage facilities, an undivided 50 percent interest in an NGL fractionator near Conway, Kansas, a 50 percent equity-method investment in OPPL, a 50 percent equity-method investment in RMM, and a 15 percent equity-method investment in Brazos Permian II. West also included our former natural gas gathering and processing assets in the Four Corners area of New Mexico and Colorado, which were sold during the fourth quarter of 2018 (see Note 3 – Acquisitions and Divestitures of Notes to Consolidated Financial Statements), and our former 50 percent interest in Jackalope (an equity-method investment following deconsolidation as of June 30, 2018), which was sold in April 2019,

and our previously owned 50 percent equity-method investment in the Delaware basin gas gathering system (DBJV) (see Note 6 – Investing Activities of Notes to Consolidated Financial Statements).

- Other includes minor business activities that are not operating segments, as well as corporate operations. Other also includes our previously owned operations, including an 88.5 percent undivided interest in an olefins production facility in Geismar, Louisiana, which was sold in July 2017 (see Note 3 – Acquisitions and Divestitures of Notes to Consolidated Financial Statements), and a refinery grade propylene splitter in the Gulf region, which was sold in June 2017.

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 included in Part II, Item 8 of this report. Effective January 1, 2020, the composition of our reportable segments changed (see Part I, Item I Business Segments for further discussion).

Dividends

In December 2019, we paid a regular quarterly dividend of \$0.38 per share. On January 28, 2020, our board of directors approved a regular quarterly dividend of \$0.40 per share payable on March 30, 2020.

Overview

Net income (loss) attributable to The Williams Companies, Inc., for the year ended December 31, 2019, increased \$1.005 billion compared to the year ended December 31, 2018, reflecting:

- A \$1.451 billion decrease in *Impairment of certain assets*;
- A \$431 million increase in *Service revenues* primarily associated with Transco expansion projects, the consolidation of UEOM beginning March 2019, and growth in Northeast G&P volumes, partially offset by lower revenues from our Barnett Shale operations primarily associated with the reduced recognition of deferred revenue and the end of a contractual MVC period, as well as the absence of revenues from operations sold or deconsolidated during 2018;
- A \$484 million decrease to *Net income (loss) attributable to noncontrolling interests* primarily due to the WPZ Merger in the third quarter of 2018, as well as the noncontrolling interests' share of the 2019 Constitution impairment.

These favorable changes were partially offset by:

- A \$694 million decrease in the *Gain on sale of certain assets and businesses* primarily related to the sale of the Four Corners area business in the fourth quarter of 2018;
- A \$266 million decrease in *Other investing income (loss) – net* primarily due to the absence of 2018 gains on deconsolidations and 2019 impairments of equity-method investments, partially offset by a 2019 gain on the sale of our interest in Jackalope;
- \$138 million of lower commodity margins;
- \$74 million of higher net interest expense;
- \$58 million lower allowance for equity funds used during construction (AFUDC);
- A \$197 million increase in provision for income taxes driven by higher pre-tax income, partially offset by the absence of a 2018 charge to establish a valuation allowance on deferred tax assets that may not be realized following the WPZ merger.

Acquisition of UEOM

As of December 31, 2018, we owned a 62 percent interest in UEOM which we accounted for as an equity-method investment. On March 18, 2019, we signed and closed the acquisition of the remaining 38 percent interest in UEOM. Total consideration paid, including post-closing adjustments, was \$741 million in cash funded through credit facility borrowings and cash on hand. As a result of acquiring this additional interest, we obtained control of and now consolidate UEOM. (See Note 3 – Acquisitions and Divestitures of Notes to Consolidated Financial Statements.)

Northeast JV

Concurrent with the UEOM acquisition, we executed an agreement whereby we contributed our consolidated interests in UEOM and our Ohio Valley midstream business to a newly formed partnership. In June 2019, our partner invested approximately \$1.33 billion for a 35 percent ownership interest, and we retained 65 percent ownership of, as well as operate and consolidate, the Northeast JV business. (See Note 3 – Acquisitions and Divestitures of Notes to Consolidated Financial Statements.)

Sale of Jackalope

In April 2019, we sold our 50 percent equity-method interest in Jackalope for \$485 million in cash, resulting in a gain on the disposition of \$122 million. (See Note 6 – Investing Activities of Notes to Consolidated Financial Statements.)

Constitution

Although Constitution received a certificate of public convenience and necessity from the FERC to construct and operate the proposed pipeline and obtained, among other approvals, a waiver of the water quality certification under Section 401 of the Clean Water Act for the New York portion of the project, the members of Constitution, following extensive evaluation and discussion, recently determined that the underlying risk-adjusted return for this greenfield pipeline project has diminished in such a way that further development is no longer supported. (See Note 4 – Variable Interest Entities of Notes to Consolidated Financial Statements for further discussion.)

Expansion Project Updates

Significant expansion project updates for the period, including projects placed into service are described below. Ongoing major expansion projects are discussed later in Company Outlook.

Northeast G&P

Ohio River Supply Hub Expansion

We agreed to expand our services for certain customers to provide additional rich gas processing capacity in the Marcellus and Upper Devonian Shale in West Virginia and Pennsylvania. Associated with these agreements, we have expanded the inlet processing capacity of our Oak Grove facility to 400 MMcf/d. We have also constructed a new NGL pipeline from Moundsville to the Harrison Hub fractionation facility to provide an additional outlet for NGLs. These expansions are supported by long-term, fee-based agreements and volumetric commitments.

Susquehanna Supply Hub Expansion

In November 2019, we completed a 500 MMcf/d expansion of the gathering systems in the Susquehanna Supply Hub to bring the capacity to approximately 4.3 Bcf/d.

Atlantic-Gulf

Rivervale South to Market

In August 2018, we received approval from the FERC to expand Transco's existing natural gas transmission system to provide incremental firm transportation capacity from the existing Rivervale interconnection with Tennessee Gas Pipeline on Transco's North New Jersey Extension to other existing Transco locations within New

Jersey. The project was placed into partial service in July 2019. The remaining portion of the project was placed into service in September 2019. The full project increased capacity by 190 Mdth/d.

Norphlet Project

In March 2016, we announced that we reached an agreement to provide deepwater gas gathering services to the Appomattox development in the Gulf of Mexico. We completed modifications to install an alternate delivery route to our Main Pass 261 Platform, as well as modifications to our onshore Mobile Bay processing facility. The project went in service early in July 2019, at which time we also purchased a 54-mile-long, 16-inch-diameter pipeline (the Norphlet Pipeline) for \$200 million. This pipeline transports gas from the Appomattox development to our Main Pass 261 Platform.

Gateway

In December 2018, we received approval from the FERC to expand Transco's existing natural gas transmission system to provide incremental firm transportation capacity from PennEast Pipeline Company's proposed interconnection with Transco's mainline south of Station 205 in New Jersey to other existing Transco meter stations within New Jersey. The project was placed into service in December 2019 and increased capacity by 65 Mdth/d.

Gulf Connector

In January 2019, the Gulf Connector project was placed into service. This project expanded Transco's existing natural gas transmission system to provide incremental firm transportation capacity from Station 65 in Louisiana to delivery points in Wharton and San Patricio Counties, Texas. The project increased capacity by 475 Mdth/d.

West

North Seattle Lateral Upgrade

In July 2018, we received approval from the FERC to expand delivery capabilities on Northwest Pipeline's North Seattle Lateral. The project consists of the removal and replacement of approximately 5.9 miles of 8-inch diameter pipeline with new 20-inch diameter pipeline. The project was placed into service in November 2019. The project increased delivery capacity by approximately 159 Mdth/d.

Wamsutter Expansion

We have expanded our gathering and processing infrastructure in the Wamsutter region of Wyoming in order to meet our customers' production plans. We have completed construction of new compressor stations and modifications to our processing facilities, which were placed into service throughout 2019. The expansion added approximately 20 miles of gathering pipelines and approximately 15,000 horsepower of compression.

Filing of Rate Case

On August 31, 2018, Transco filed a general rate case with the FERC for an overall increase in rates. In September 2018, with the exception of certain rates that reflected a rate decrease, the FERC accepted and suspended our general rate filing to be effective March 1, 2019, subject to refund and the outcome of a hearing. The specific rates that reflected a rate decrease were accepted, without suspension, to be effective October 1, 2018, as requested by Transco, and were not subject to refund. In March 2019, the FERC accepted our motion to place the rates that were suspended by the September 2018 order into effect on March 1, 2019, subject to refund. In October 2019, we reached an agreement on the terms of a settlement with the participants that would resolve all issues in the rate case without the need for a hearing, and on December 31, 2019, we filed a formal stipulation and agreement with the FERC setting forth such terms of settlement. We anticipate FERC approval of the stipulation and agreement in the second quarter of 2020. As of December 31, 2019, we have provided a \$189 million reserve for rate refunds related to increased rates collected since March 2019, which we believe is adequate for any refunds that may be required.

Commodity Prices

NGL per-unit margins were approximately 44 percent lower in 2019 compared to 2018 primarily due to a 31 percent and a 44 percent decrease in per-unit non-ethane and ethane sales prices, respectively, slightly offset by an approximate 10 percent decrease in per-unit natural gas feedstock prices.

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 potential impact of commodity prices on our business is further discussed in the following Company Outlook.

Company Outlook

Our strategy is to provide large-scale energy infrastructure designed to maximize the opportunities created by the vast supply of natural gas and natural gas products that exists in the United States. We accomplish this by connecting the growing demand for cleaner fuels and feedstocks with our major positions in the premier natural gas and natural gas products supply basins. We continue to maintain a strong commitment to safety, environmental stewardship, operational excellence, and customer satisfaction. We believe that accomplishing these goals will position us to deliver safe and reliable service to our customers and an attractive return to our shareholders.

Our business plan for 2020 includes a continued focus on earnings and cash flow growth, while continuing to improve leverage metrics and control operating costs. Many of our producer customers are being impacted by extremely low natural gas and NGL prices, which are driving decreased drilling. We are responding by reducing the pace of our capital growth spending in our gathering and processing business and remaining committed to operating cost discipline.

In 2020, our operating results are expected to include increases from Transco’s recent expansion projects placed in-service and general rate settlement as previously discussed. We also expect an increase from a full year contribution from the Norphlet project, partially offset by lower deferred revenue amortization from Gulfstar, both in the Eastern Gulf region. Northeast results are expected to increase from higher gathering and processing volumes. We expect decreases in the West primarily due to lower deferred revenue amortization in the Barnett Shale and lower revenues from our Haynesville operations, partially offset by increased results from our DJ Basin and Eagle Ford operations. Additionally, we expect our recently implemented organizational realignment will benefit our expenses.

Our growth capital and investment expenditures in 2020 are expected to be in a range from \$1.1 billion to \$1.3 billion. Growth capital spending in 2020 primarily includes Transco expansions, all of which are fully contracted with firm transportation agreements, and our Bluestem NGL pipeline project in the Mid-Continent region. In addition to growth capital and investment expenditures, we also remain committed to projects that maintain our assets for safe and reliable operations, as well as projects that meet legal, regulatory, and/or contractual commitments.

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

- Opposition to, and legal regulations affecting, our infrastructure projects, including the risk of delay or denial in permits and approvals needed for our projects;
- Counterparty credit and performance risk;
- Unexpected significant increases in capital expenditures or delays in capital project execution;
- Unexpected changes in customer drilling and production activities, which could negatively impact gathering and processing volumes;

- Lower than anticipated demand for natural gas and natural gas products which could result in lower than expected volumes, energy commodity prices, and margins;
- General economic, financial markets, or further industry downturns, including increased interest rates;
- Physical damages to facilities, including damage to offshore facilities by named windstorms;
- Other risks set forth under Part I, Item 1A. Risk Factors in this report.

We seek to maintain a strong financial position and liquidity, as well as manage a diversified portfolio of energy infrastructure assets which continue to serve key growth markets and supply basins in the United States.

Expansion Projects

Our ongoing major expansion projects include the following:

Atlantic-Gulf

Hillabee

In February 2016, the FERC issued a certificate order for the initial phases of Transco's Hillabee Expansion Project. The project involves an expansion of Transco's existing natural gas transmission system from Station 85 in west central Alabama to a new interconnection with the Sabal Trail pipeline in Alabama. The project is being constructed in phases, and all of the project expansion capacity is dedicated to Sabal Trail pursuant to a capacity lease agreement. Phase I was completed in 2017 and it increased capacity by 818 Mdth/d. The in-service date of Phase II is planned for the second quarter of 2020, and together Phases I and II are expected to increase capacity by 1,025 Mdth/d.

Northeast Supply Enhancement

In May 2019, we received approval from the FERC to expand Transco's existing natural gas transmission system to provide incremental firm transportation capacity from Station 195 in Pennsylvania to the Rockaway Delivery Lateral transfer point in New York. Approvals required for the project from the New York State Department of Environmental Conservation and the New Jersey Department of Environmental Protection remain pending, with each such agency having denied, without prejudice, Transco's applications for such approvals. We have refiled our applications for those approvals and have addressed the technical issues identified by the agencies. We plan to place the project into service in the fall of 2021, assuming timely receipt of these remaining approvals. The project is expected to increase capacity by 400 Mdth/d.

Southeastern Trail

In October 2019, we received approval from the FERC to expand Transco's existing natural gas transmission system to provide incremental firm transportation capacity from the Pleasant Valley interconnect with Dominion's Cove Point Pipeline in Virginia to the Station 65 pooling point in Louisiana. We plan to place the project into service in late 2020. The project is expected to increase capacity by 296 Mdth/d.

Leidy South

In July 2019, we filed an application with the FERC for approval of the project to expand Transco's existing natural gas transmission system and also extend its system through a capacity lease with National Fuel Gas Supply Corporation that will enable us to provide incremental firm transportation from Clermont, Pennsylvania and from the Zick interconnection on Transco's Leidy Line to the River Road regulating station in Lancaster County, Pennsylvania. We plan to place the project into service as early as the fourth quarter of 2021, assuming timely receipt of all necessary regulatory approvals. The project is expected to increase capacity by 582 Mdth/d.

Project Bluestem

We are expanding our presence in the Mid-Continent region through building a 188-mile NGL pipeline from our fractionator near Conway, Kansas to an interconnect with a third-party NGL pipeline system in Oklahoma, providing us with firm access to Mt. Belvieu pricing. As part of the project, the third-party intends to construct a 110-mile pipeline extension of their existing NGL pipeline system that will have an initial capacity of 120 Mbbls/d. Further, during the first quarter of 2019, we exercised an option to purchase a 20 percent equity interest in a Mt. Belvieu fractionation train developed by the third party. The pipeline and extension projects are expected to be placed into service during the first quarter of 2021.

Critical Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. We believe that the nature of these estimates and assumptions is material due to the subjectivity and judgment necessary, or the susceptibility of such matters to change, and the impact of these on our financial condition or results of operations.

Pension and Postretirement Obligations

We have employee benefit plans that include pension and other postretirement benefits. Net periodic benefit cost and obligations for these plans are impacted by various estimates and assumptions. These estimates and assumptions include the expected long-term rates of return on plan assets, discount rates, cash balance interest crediting rate, and employee demographics, including retirement age and mortality. These assumptions are reviewed annually and adjustments are made as needed. The assumptions utilized to compute cost and the benefit obligations are shown in Note 10 – Employee Benefit Plans of Notes to Consolidated Financial Statements.

The following table presents the estimated increase (decrease) in net periodic benefit cost and obligations resulting from a one-percentage-point change in the specific assumption.

	Benefit Cost		Benefit Obligation	
	One-Percentage-Point Increase	One-Percentage-Point Decrease	One-Percentage-Point Increase	One-Percentage-Point Decrease
	(Millions)			
Pension benefits:				
Discount rate	\$ (2)	\$ 4	\$ (102)	\$ 120
Expected long-term rate of return on plan assets	(12)	12	—	—
Cash balance interest crediting rate	12	(10)	71	(60)
Other postretirement benefits:				
Discount rate	1	2	(23)	28
Expected long-term rate of return on plan assets	(2)	2	—	—

Our expected long-term rates of return on plan assets, as determined at the beginning of each fiscal year, are based on the average rate of return expected on the funds invested in the plans. We determine our long-term expected rates of return on plan assets using our expectations of capital market results, which include an analysis of historical results as well as forward-looking projections. These capital market expectations are based on a period of at least 10 years and take into account our investment strategy and mix of assets. We develop our expectations using input from our third-party independent investment consultant. The forward-looking capital market projections start with current conditions of interest rates, equity pricing, economic growth, and inflation and those are overlaid with forward looking projections of normal inflation, growth, and interest rates to determine expected returns. The capital market return projections for specific asset classes in the investment portfolio are then applied to the relative weightings of the asset classes in the investment portfolio. The resulting rates are an estimate of future results and, thus, likely to be different than actual results.

Our expected long-term rate of return on plan assets used for our pension plans was 5.26 percent in 2019. The 2019 actual return on plan assets for our pension plans was approximately 19.0 percent. The 10-year average rate of return on pension plan assets through December 2019 was approximately 8.1 percent. The expected rates of return on plan assets are long-term in nature and are not significantly impacted by short-term market performance. Changes to our asset allocation also impact the expected rates of return.

The discount rates are used to measure the benefit obligations of our pension and other postretirement benefit plans. The objective of the discount rates is to determine the amount, if invested at the December 31 measurement date in a portfolio of high-quality debt securities, that will provide the necessary cash flows when benefit payments are due. Increases in the discount rates decrease the obligation and, generally, decrease the related cost. The discount rates for our pension and other postretirement benefit plans are determined separately based on an approach specific to our plans and their respective expected benefit cash flows as described in Note 1 – General, Description of Business, Basis of Presentation, and Summary of Significant Accounting Policies and Note 10 – Employee Benefit Plans of Notes to Consolidated Financial Statements. Our discount rate assumptions are impacted by changes in general economic and market conditions that affect interest rates on long-term, high-quality debt securities as well as by the duration of our plans' liabilities.

The cash balance interest crediting rate assumption represents the average long-term rate by which the pension plans' cash balance accounts are expected to grow. Interest on the cash balance accounts is based on the 30-year U.S. Treasury securities rate and is credited to the accounts quarterly. An increase in this rate causes the pension obligation and cost to increase.

Equity-Method Investments

We continue to monitor our equity-method investments for any indications that the carrying value may have experienced an other-than-temporary decline in value. When evidence of a loss in value has occurred, we compare our estimate of the fair value of the investment to the carrying value of the investment to determine whether an impairment has occurred. We generally estimate the fair value of our investments using an income approach where significant judgments and assumptions include expected future cash flows and the appropriate discount rate. We also utilize a form of market approach to estimate the fair value of our investments. During 2019, we recognized impairments totaling \$186 million related to our equity-method investments. (See Note 18 – Fair Value Measurements, Guarantees, and Concentration of Credit Risk of Notes to Consolidated Financial Statements.)

Results of Operations

Consolidated Overview

The following table and discussion is a summary of our consolidated results of operations for the three years ended December 31, 2019. The results of operations by segment are discussed in further detail following this consolidated overview discussion.

	Year Ended December 31,					
	2019	\$ Change from 2018*	% Change from 2018*	2018	\$ Change from 2017*	% Change from 2017*
				(Millions)		
Revenues:						
Service revenues	\$ 5,933	+431	+8 %	\$ 5,502	+190	+4 %
Service revenues – commodity consideration	203	-197	-49 %	400	+400	NM
Product sales	2,065	-719	-26 %	2,784	+65	+2 %
Total revenues	8,201			8,686		8,031
Costs and expenses:						
Product costs	1,961	+746	+28 %	2,707	-407	-18 %
Processing commodity expenses	105	+32	+23 %	137	-137	NM
Operating and maintenance expenses	1,468	+39	+3 %	1,507	+69	+4 %
Depreciation and amortization expenses	1,714	+11	+1 %	1,725	+11	+1 %
Selling, general, and administrative expenses	558	+11	+2 %	569	+25	+4 %
Impairment of certain assets	464	+1,451	+76 %	1,915	-667	-53 %
Gain on sale of certain assets and businesses	2	-694	NM	(692)	-403	-37 %
Regulatory charges resulting from Tax Reform	—	-17	-100 %	(17)	+691	NM
Other (income) expense – net	8	+59	+88 %	67	+4	+6 %
Total costs and expenses	6,280			7,918		7,104
Operating income (loss)	1,921			768		927
Equity earnings (losses)	375	-21	-5 %	396	-38	-9 %
Other investing income (loss) – net	(79)	-266	NM	187	-95	-34 %
Interest expense	(1,186)	-74	-7 %	(1,112)	-29	-3 %
Other income (expense) – net	33	-59	-64 %	92	+117	NM
Income (loss) from continuing operations before income taxes	1,064			331		535
Provision (benefit) for income taxes	335	-197	-143 %	138	-2,112	NM
Income (loss) from continuing operations	729			193		2,509
Income (loss) from discontinued operations	(15)	-15	NM	—	—	— %
Net income (loss)	714			193		2,509
Less: Net income (loss) attributable to noncontrolling interests	(136)	+484	NM	348	-13	-4 %
Net income (loss) attributable to The Williams Companies, Inc.	\$ 850			\$ (155)		\$ 2,174

* + = Favorable change; - = Unfavorable change; NM = A percentage calculation is not meaningful due to a change in signs, a zero-value denominator, or a percentage change greater than 200.

2019 vs. 2018

Service revenues increased primarily due to higher transportation fee revenues at Transco associated with expansion projects placed in service in 2019 and 2018, as well as the impact of the consolidation of UEOM, higher Northeast volumes at the Susquehanna Supply Hub and Ohio Valley Midstream regions, and higher gathering rates and volumes at the Utica Shale region. These increases are partially offset by the absence of revenues associated with asset divestitures and deconsolidations during 2018, including our former Four Corners area operations, as well as lower revenue in the Barnett Shale associated with the end of a contractual MVC period and lower revenue at Gulfstar primarily associated with producer operational issues.

Service revenues – commodity consideration decreased due to lower NGL prices and lower volumes primarily due to the absence of our former Four Corners area operations. These revenues represent consideration we receive in the form of commodities as full or partial payment for processing services provided. Most of these NGL volumes are sold within the month processed and therefore are offset in *Product costs* below.

Product sales decreased primarily due to lower NGL and natural gas prices associated with our marketing and equity NGL sales activities, lower volumes from our equity NGL sales primarily reflecting the absence of our former Four Corners area operations, and lower system management gas sales, partially offset by higher marketing volumes. Marketing sales and system management gas sales are substantially offset in *Product costs*.

Product costs decreased primarily due to lower NGL and natural gas prices associated with our marketing and equity NGL production activities. This decrease also includes lower volumes acquired as commodity consideration for NGL processing services reflecting the absence of our former Four Corners area operations and lower system management gas purchases, partially offset by higher volumes for marketing activities.

Processing commodity expenses decreased primarily due to lower production of equity NGLs primarily related to ethane rejection and the absence of our former Four Corners area operations, and lower prices for natural gas purchases associated with our NGL production.

Operating and maintenance expenses decreased primarily due to the absence of our former Four Corners area operations and lower contracted services at Transco primarily due to the timing of required engine overhauls and integrity testing. These decreases are partially offset by the impact of the consolidation of UEOM and by a \$32 million charge for severance and related costs primarily associated with a voluntary separation program (VSP) in 2019.

Depreciation and amortization expenses decreased primarily due to the 2018 impairment of certain assets in the Barnett Shale region and the absence of assets disposed including our former Four Corners area operations, partially offset by new assets placed in service and by the impact of the consolidation of UEOM.

Selling, general, and administrative expenses decreased primarily due to the absences of a charitable contribution of preferred stock to the Williams Foundation, Inc. (see Note 16 – Stockholders' Equity of Notes to Consolidated Financial Statements) and fees associated with the WPZ Merger, partially offset by a \$25 million charge for severance and related costs primarily associated with our 2019 VSP, and transaction expenses associated with the acquisition of UEOM and the formation of the Northeast JV.

Impairment of certain assets includes 2019 impairments of our Constitution development project, certain Eagle Ford Shale gathering assets, and certain assets that may no longer be in use or are surplus in nature. Asset impairments in 2018 included certain assets in the Barnett Shale region and certain idle pipelines (see Note 18 – Fair Value Measurements, Guarantees, and Concentration of Credit Risk of Notes to Consolidated Financial Statements).

Gain on sale of certain assets and businesses includes gains recognized on the sales of our Four Corners area and our Gulf Coast pipeline systems in 2018 (see Note 3 – Acquisitions and Divestitures of Notes to Consolidated Financial Statements).

The favorable change in *Other (income) expense – net* within *Operating income (loss)* includes net favorable changes to charges and credits to regulatory assets and liabilities, partially offset by the absence of a 2018 gain on asset retirement (see Note 7 – Other Income and Expenses of Notes to Consolidated Financial Statements).

The favorable change in *Operating income (loss)* includes lower impairments of assets, an increase in *Service revenues* primarily associated with Transco projects placed in-service and higher volumes in the Northeast region, the favorable impact of acquiring the additional interest of UEOM, and higher Transco rates and favorable changes in the amortization of regulatory assets and liabilities. The change is also impacted favorably by the absence of a charitable contribution of preferred stock to the Williams Foundation, Inc., and the absence of fees associated with the WPZ Merger. These favorable changes were partially offset by the impact of asset divestitures and deconsolidations during 2018, including the related gains on sales. They were also partially offset by lower margins associated with our equity NGL production primarily associated with lower prices, higher depreciation expense associated with new assets placed in service, and charges for severance and related costs primarily associated with our VSP.

The unfavorable change in *Equity earnings (losses)* is primarily due to 2019 losses from our Brazos Permian II investment acquired in December 2018 of \$14 million, the impact of the consolidation of UEOM during the first quarter of 2019 which reduced equity earnings by \$9 million, and a \$7 million unfavorable impact related to the April 2019 sale of our Jackalope investment. Additionally, equity earnings at Aux Sable decreased \$9 million related to lower rates reflecting lower NGL prices. These decreases are partially offset by improved results at our Appalachia Midstream Investments of \$20 million.

The unfavorable change in *Other investing income (loss) – net* includes higher impairments of equity-method investments, the absence of 2018 gains on the deconsolidations of our Delaware basin assets and Jackalope, and a 2019 loss on the deconsolidation of Constitution. These were partially offset by a 2019 gain on the disposition of Jackalope (see Note 6 – Investing Activities of Notes to Consolidated Financial Statements).

Interest expense increased primarily due to an increase in financing obligations associated with Transco's Atlantic Sunrise project and lower *Interest capitalized* related to construction projects that have been placed into service. (See Note 15 – Debt and Banking Arrangements of Notes to Consolidated Financial Statements.)

The unfavorable change in *Other income (expense) – net* below *Operating income (loss)* is primarily due to a decrease in equity AFUDC associated with reduced capital expenditures on projects, partially offset by the absence of 2018 unfavorable settlement charges from our pension early payout program (see Note 7 – Other Income and Expenses of Notes to Consolidated Financial Statements).

Provision (benefit) for income taxes changed unfavorably primarily due to higher pre-tax income attributable to The Williams Companies, Inc, partially offset by the absence of a charge to establish a \$105 million valuation allowance, recorded in 2018, on certain deferred tax assets that may not be realized following the WPZ merger. See Note 8 – Provision (Benefit) for Income Taxes of Notes to Consolidated Financial Statements for a discussion of the effective tax rate compared to the federal statutory rate for both periods.

The favorable change in *Net income (loss) attributable to noncontrolling interests* is primarily due to our third- quarter 2018 acquisition of the publicly held interests in WPZ associated with the WPZ Merger, the impairment of Constitution project costs, and lower results at Gulfstar.

2018 vs. 2017

Service revenues increased primarily due to higher transportation fee revenues at Transco associated with expansion projects placed in-service in 2017 and 2018, as well as higher gathering volumes at the Susquehanna Supply Hub and Ohio River Supply Hub. These increases were partially offset by an unfavorable change in the rate of deferred revenue recognition resulting from implementing Accounting Standards Update 2014-09 "Revenue from Contracts with Customers" (ASC 606), reduced revenues from our Four Corners area operations that were sold in October 2018, a reduction of rates resulting from a Northwest Pipeline rate case settlement, and a decrease following the Jackalope deconsolidation.

Service revenues – commodity consideration increased as the result of implementing ASC 606 using a modified retrospective approach, effective January 1, 2018. Therefore, prior periods were not recast. These revenues represent consideration we receive in the form of commodities as full or partial payment for gathering and processing services provided. (See Note 1 – General, Description of Business, Basis of Presentation, and Summary of Significant Accounting

Policies of Notes to Consolidated Financial Statements.) Most of these NGL volumes are sold within the month processed and therefore are offset in *Product costs* below.

Product sales increased primarily due to higher marketing sales and higher system management gas sales, which are offset in *Product costs*, and higher sales from the production of our equity NGLs, reflecting higher NGL prices. These increases are partially offset by the absence of \$269 million in olefins sales associated with our former olefins operations in 2017.

The increase in *Product costs* is primarily due to the impact of ASC 606 in which costs reflected in this line item for 2018 include volumes acquired as commodity consideration for NGL processing services, as well as higher marketing and system management gas purchases. This increase is partially offset by the absence of \$147 million of olefin feedstock purchases due to the sale of our former olefins operations, as well as the absence of natural gas purchases associated with the production of equity NGLs, which are reported in *Processing commodity expenses* in conjunction with the 2018 implementation of ASC 606.

Processing commodity expenses presents the natural gas purchases associated with the production of equity NGLs as previously described in conjunction with the implementation of ASC 606.

Operating and maintenance expenses decreased primarily due to the absence of \$80 million of costs associated with our former olefins and Four Corners area operations.

Depreciation and amortization expenses decreased primarily due to the absence of our former olefins and Four Corners area operations, partially offset by new assets placed in-service.

Selling, general, and administrative expenses decreased primarily due to the absence of severance-related, organizational realignment, and Financial Repositioning costs incurred in 2017, \$25 million in reduced costs associated with our former olefins and Four Corners area operations, and cost containment efforts. These decreases are partially offset by a charitable contribution of preferred stock to The Williams Companies Foundation, Inc. and fees associated with the WPZ Merger.

Impairment of certain assets includes 2018 impairments on certain assets in the Barnett Shale region and certain idle pipelines and 2017 impairments associated with certain assets in the Mid-Continent, Marcellus South, and Houston Ship Channel areas (see Note 18 – Fair Value Measurements, Guarantees, and Concentration of Credit Risk of Notes to Consolidated Financial Statements).

Gain on sale of certain assets and businesses includes gains recognized on the sales of our Four Corners area in October 2018, our Gulf Coast pipeline systems in December 2018 and our Geismar Interest in July 2017 (see Note 3 – Acquisitions and Divestitures of Notes to Consolidated Financial Statements).

Regulatory charges resulting from Tax Reform relates to the 2017 establishment of regulatory liabilities for the probable return to customers through future rates of the future decrease in income taxes payable associated with Tax Reform. (See Note 1 – General, Description of Business, Basis of Presentation, and Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements).

The favorable change in *Other (income) expense – net* within *Operating income (loss)* includes the benefit of establishing a regulatory asset associated with an increase in Transco's estimated deferred state income tax rate following the WPZ Merger in 2018, substantially offset by the absence of gains from certain contract settlements and terminations in 2017, the absence of a gain on the sale of our RGP Splitter in 2017, and 2018 charges establishing a regulatory liability associated with a decrease in Northwest Pipeline's estimated deferred state income tax rate following the WPZ Merger (see Note 7 – Other Income and Expenses of Notes to Consolidated Financial Statements).

Operating income (loss) changed unfavorably primarily due to higher impairments of assets, lower gains on sales of assets and businesses, and the absence of operating income associated with our former olefins and Four Corners area operations, partially offset by the absence of regulatory charges resulting from Tax Reform, higher *Service revenues* primarily from expansion projects, and higher NGL margins.

The unfavorable change in *Equity earnings (losses)* is primarily due to a decrease in volumes at Discovery, partially offset by improved results at our Appalachia Midstream Investments and the deconsolidation of our Jackalope interest, which is accounted for as an equity-method investment beginning in the second quarter of 2018.

Other investing income (loss) – net includes a 2017 gain on disposition of our investments in DBJV and Ranch Westex JV LLC, a 2018 impairment related to our investment in UEOM, and 2018 gains on the deconsolidations of certain Permian basin assets and of our interest in Jackalope. (See Note 6 – Investing Activities of Notes to Consolidated Financial Statements.)

Interest expense increased primarily due to an increase in other financing obligations associated with Transco's Dalton and Atlantic Sunrise projects, as well as expense related to the deemed financing component of certain contract liabilities resulting from our implementation of ASC 606 in 2018. This increase is partially offset by lower interest rates on our outstanding debt in 2018 and lower borrowings on our credit facilities in 2018.

Other income (expense) – net below *Operating income (loss)* changed favorably primarily due to a decrease in charges reducing regulatory assets related to deferred taxes on equity AFUDC resulting from Tax Reform, an increase in equity AFUDC, and a lower settlement charge from the pension early payout program. These favorable changes were partially offset by a decrease due to the absence of a net gain on early retirement of debt in 2017 and a loss on early retirement of debt in 2018. (See Note 7 – Other Income and Expenses of Notes to Consolidated Financial Statements.)

Provision (benefit) for income taxes changed unfavorably primarily due to the absence of a \$1.923 billion tax provision benefit associated with Tax Reform and releasing a \$127 million valuation allowance in 2017. The unfavorable change also reflects a \$105 million valuation allowance in 2018 associated with certain foreign tax credits. See Note 8 – Provision (Benefit) for Income Taxes of Notes to Consolidated Financial Statements for a discussion of the effective tax rate compared to the federal statutory rate for both periods.

The unfavorable change in *Net income (loss) attributable to noncontrolling interests* is primarily related to WPZ, reflective of both our acquisition of the publicly held interests in WPZ associated with the WPZ Merger and a fourth quarter 2017 net loss incurred by WPZ, partially offset by lower operating results at Gulfstar.

Year-Over-Year Operating Results – Segments

We evaluate segment operating performance based upon *Modified EBITDA*. Note 20 – Segment Disclosures of Notes to Consolidated Financial Statements includes a reconciliation of this non-GAAP measure to *Net income (loss)*. Management uses *Modified EBITDA* because it is an accepted financial indicator used by investors to compare company performance. In addition, management believes that this measure provides investors an enhanced perspective of the operating performance of our assets. *Modified EBITDA* should not be considered in isolation or as a substitute for a measure of performance prepared in accordance with GAAP.

Atlantic-Gulf

	Year Ended December 31,		
	2019	2018	2017
	(Millions)		
Service revenues	\$ 2,861	\$ 2,509	\$ 2,239
Service revenues – commodity consideration	41	59	—
Product sales	288	435	484
Segment revenues	3,190	3,003	2,723
Product costs	(288)	(438)	(437)
Processing commodity expenses	(16)	(16)	—
Other segment costs and expenses	(814)	(799)	(819)
Impairment of certain assets	(354)	—	—
Gain on sale of certain assets and businesses	—	81	—
Regulatory charges resulting from Tax Reform	—	9	(493)
Proportional Modified EBITDA of equity-method investments	177	183	264
Atlantic-Gulf Modified EBITDA	<u>\$ 1,895</u>	<u>\$ 2,023</u>	<u>\$ 1,238</u>
Commodity margins	\$ 25	\$ 40	\$ 47

2019 vs. 2018

Atlantic-Gulf Modified EBITDA decreased primarily due to the impairment of Constitution, the absence of a 2018 *Gain on sale of certain assets and businesses*, and higher *Other segment costs and expenses*, partially offset by increased *Service revenues* related to expansion projects placed into service during 2018 and 2019.

Service revenues increased primarily due to a \$403 million increase in Transco's natural gas transportation revenues primarily driven by a \$358 million increase related to expansion projects placed in service in 2018 and 2019, as well as higher revenue associated with Transco's general rate case settlement and increased amounts for reimbursable power and storage expenses. Partially offsetting these increases were lower fee revenues of \$62 million primarily due to producer operational issues and lower deferred revenue amortization at Gulfstar, as well as the sale of certain Gulf Coast pipeline assets in fourth-quarter 2018.

The net sum of *Service revenues – commodity consideration*, *Product sales*, *Product costs*, and *Processing commodity expenses* comprise our commodity margins. Our commodity margins associated with our equity NGLs decreased \$16 million, consisting of a \$26 million decrease associated with unfavorable net realized NGL sales prices, partially offset by a \$10 million increase associated with higher sales volumes. The higher NGL volumes were primarily related to the absence of 2018 downtime to modify the Mobile Bay processing plant for the Norphlet project. Additionally, the decrease in *Product sales* includes a \$93 million decrease in commodity marketing sales due to lower NGL prices and volumes and a \$39 million decrease in system management gas sales. Marketing sales and system management gas sales are substantially offset in *Product costs* and therefore have little impact to *Modified EBITDA*.

Other segment costs and expenses increased primarily due a \$56 million unfavorable change in equity AFUDC due to lower construction activity, a \$32 million charge in 2019 for severance and related costs primarily associated with our 2019 VSP, a \$21 million increase in reimbursable power and storage expenses, \$16 million of expense in 2019 related to the reversal of expenditures previously capitalized, and the absence of a \$12 million 2018 gain on asset retirements. These unfavorable changes were partially offset by \$77 million of net favorable changes to charges and credits associated with regulatory assets and liabilities, which were significantly driven by the previously mentioned settlement in Transco's general rate case, and a \$46 million decrease in Transco's contracted services compared to 2018 mainly due to the timing of required engine overhauls and integrity testing.

Impairment of certain assets includes the 2019 impairment of our Constitution development project (see Note 18 – Fair Value Measurements, Guarantees, and Concentration of Credit Risk of Notes to Consolidated Financial Statements).

Gain on sale of certain assets and businesses reflects an \$81 million gain from the sale of our Gulf Coast pipeline system assets in fourth-quarter 2018 (see Note 3 – Acquisitions and Divestitures of Notes to Consolidated Financial Statements).

2018 vs. 2017

Atlantic-Gulf Modified EBITDA increased primarily due to the absence of regulatory charges associated with the impact of Tax Reform at Transco, higher *Service revenues*, and a 2018 gain on the sale of certain assets; partially offset by lower *Proportional Modified EBITDA* of equity-method investments.

Service revenues increased primarily due to a \$253 million increase in Transco's natural gas transportation fee revenues primarily due to a \$241 million increase associated with expansion projects placed in-service in 2017 and 2018.

Service revenues – commodity consideration increased as a result of implementing ASC 606 using a modified retrospective approach. These revenues represent consideration we received in the form of commodities as full or partial payment for gathering and processing services provided. Most of these NGL volumes are sold within the month processed and therefore are offset in *Product costs* below.

The decrease in *Product sales* includes:

- A \$90 million decrease in commodity marketing sales driven by a \$149 million decrease in crude oil sales as this activity is now presented on a net basis within *Product costs* in conjunction with the adoption of ASC 606, partially offset by a \$59 million increase in NGL marketing sales primarily reflecting 20 percent higher non-ethane prices;
- A \$14 million decrease in sales associated with the production of our equity NGLs, as further described below as part of our commodity margins;
- A \$57 million increase in system management gas sales. System management gas sales are offset in *Product costs* and therefore have little impact to *Modified EBITDA*.

Product costs slightly increased primarily due to a \$59 million increase in system management gas purchases (substantially offset in *Product sales*) and the impact of ASC 606 in which costs reflected in this line item for 2018 include volumes acquired as commodity consideration for NGL processing services. This increase was partially offset by an \$87 million decrease in marketing purchases (more than offset in *Product sales*) and the absence of natural gas purchases associated with the production of equity NGLs, which are now reported in *Processing commodity expenses* in conjunction with the implementation of ASC 606.

Processing commodity expenses presents the natural gas purchases associated with the production of equity NGLs as previously described in conjunction with the implementation of ASC 606.

The net sum of *Service revenues – commodity consideration*, *Product sales*, *Product costs*, and *Processing commodity expenses* comprise our commodity margins.

Other segment costs and expenses decreased primarily due to a \$17 million increase in Transco's equity AFUDC as a result of higher construction activity in 2018.

Gain on sale of certain assets reflects an \$81 million gain from the sale of our Gulf Coast pipeline system assets in fourth-quarter 2018, as previously mentioned.

The decrease in *Regulatory charges resulting from Tax Reform* reflects the absence of \$493 million of regulatory charges in 2017 associated with the impact of Tax Reform at Transco (See Note 1 – General, Description of Business, Basis of Presentation, and Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements).

The decrease in *Proportional Modified EBITDA of equity-method investments* is due to an \$89 million decrease at Discovery, primarily related to a \$76 million decrease associated with production ending on certain wells.

Northeast G&P

	Year Ended December 31,		
	2019	2018	2017
	(Millions)		
Service revenues	\$ 1,338	\$ 976	\$ 872
Service revenues – commodity consideration	12	20	—
Product sales	150	287	291
Segment revenues	1,500	1,283	1,163
Product costs	(152)	(289)	(286)
Processing commodity expenses	(8)	(9)	—
Other segment costs and expenses	(470)	(392)	(386)
Impairment of certain assets	(10)	—	(124)
Proportional Modified EBITDA of equity-method investments	454	493	452
Northeast G&P Modified EBITDA	<u>\$ 1,314</u>	<u>\$ 1,086</u>	<u>\$ 819</u>
Commodity margins	\$ 2	\$ 9	\$ 5

2019 vs. 2018

Northeast G&P Modified EBITDA increased primarily due to higher *Service revenues* due to increased gathering volumes, as well as the \$38 million favorable impact of acquiring the additional interest of UEOM, partially offset by 2019 impairments.

Service revenues increased primarily due to:

- A \$158 million increase associated with the consolidation of UEOM, as previously discussed;
- A \$102 million increase associated with higher gathering revenues at Susquehanna Supply Hub reflecting 18 percent higher gathering volumes due to increased production from customers and higher rates;
- A \$49 million increase at Ohio Valley Midstream primarily due to higher gathering, processing, and transportation volumes;
- A \$36 million increase in gathering revenues in the Utica Shale region due to higher rates and volumes from new wells;
- A \$14 million increase in compression revenues for services charged to an affiliate driven by higher volumes.

Product sales decreased primarily due to lower non-ethane volumes and prices within our marketing activities. The changes in marketing revenues are offset by similar changes in marketing purchases, reflected above as *Product costs*.

Other segment costs and expenses increased primarily due to:

- A \$53 million increase associated with the consolidation of UEOM;
- A \$10 million increase related to transaction expenses associated with the acquisition of UEOM and the formation of the Northeast JV;
- A \$7 million charge in 2019 for severance and related costs primarily associated with our VSP.

Impairment of certain assets increased due to a \$10 million write-down of other certain assets that may no longer be in use or are surplus in nature in 2019 (see Note 18 – Fair Value Measurements, Guarantees, and Concentration of Credit Risk of Notes to Consolidated Financial Statements).

Proportional Modified EBITDA of equity-method investments decreased \$59 million as a result of the consolidation of UEOM and \$10 million due to unfavorable rates reflecting lower NGL prices at Aux Sable. This decrease was partially offset by a \$29 million increase at Appalachia Midstream Investments, reflecting higher volumes due to increased customer production.

2018 vs. 2017

Northeast G&P Modified EBITDA increased primarily due to the absence of *Impairment of certain assets* in 2017, and higher *Service revenues* and *Proportional Modified EBITDA of equity-method investments*.

Service revenues increased due to:

- A \$65 million increase in gathering fee revenues at Susquehanna Supply Hub due to 13 percent higher gathering volumes reflecting increased customer production;
- A \$24 million increase at Ohio River Supply Hub reflecting higher gathering volumes due to increased customer production;
- An \$11 million increase in Utica gathering fee revenues reflecting higher rates and volumes.

Service revenues – commodity consideration increased as a result of implementing ASC 606 using a modified retrospective approach. These revenues represent consideration we receive in the form of commodities as full or partial payment for gathering and processing services provided. Most of these NGL volumes are sold within the month processed and therefore are offset in *Processing commodity expenses*.

Product sales decreased primarily due to \$31 million lower marketing sales, driven by lower non-ethane volumes and prices. The changes in marketing sales are offset by similar changes in marketing purchases, reflected above as *Product costs*. The decrease in *Product sales* is partially offset by \$21 million in higher system management gas sales. System management gas sales are offset in *Product costs* and therefore have no impact on *Modified EBITDA*.

Impairment of certain assets reflects the absence of a \$115 million impairment of certain gathering operations in the Marcellus South region in 2017.

Proportional Modified EBITDA of equity-method investments increased primarily due to a \$33 million increase at Appalachia Midstream Investments reflecting our increased ownership acquired in late first-quarter 2017 and higher volumes. Improvements at Aux Sable and Caiman II also contributed to the increase.

West

	Year Ended December 31,		
	2019	2018	2017
	(Millions)		
Service revenues	\$ 1,813	\$ 2,085	\$ 2,246
Service revenues – commodity consideration	150	321	—
Product sales	1,797	2,448	2,013
Segment revenues	3,760	4,854	4,259
Product costs	(1,774)	(2,448)	(1,842)
Processing commodity expenses	(79)	(116)	—
Other segment costs and expenses	(688)	(825)	(832)
Impairment of certain assets	(100)	(1,849)	(1,032)
Gain on sale of certain assets and businesses	(2)	591	—
Regulatory charges resulting from Tax Reform	—	7	(220)
Proportional Modified EBITDA of equity-method investments	115	94	79
West Modified EBITDA	<u>\$ 1,232</u>	<u>\$ 308</u>	<u>\$ 412</u>
Commodity margins	\$ 94	\$ 205	\$ 171

2019 vs. 2018

West Modified EBITDA increased primarily due to lower *Impairment of certain assets* and lower *Other segment costs and expenses*, partially offset by a lower gain on sale of certain assets in 2019, lower *Service revenues*, and lower commodity margins.

Service revenues decreased primarily due to:

- A \$218 million decrease associated with asset divestitures and deconsolidations during 2018 and 2019, including our former Four Corners area assets, certain Delaware basin assets that were contributed to our Brazos Permian II equity-method investment, and our Jackalope assets which were deconsolidated in second-quarter 2018 and subsequently sold in second-quarter 2019;
- A \$57 million decrease driven by lower deferred revenue amortization and MVC deficiency fee revenues in the Barnett Shale region primarily associated with the expiration of a certain MVC agreement;
- A \$17 million decrease driven by lower gathering volumes primarily in the Mid-Continent, Barnett Shale, and Wamsutter regions, partially offset by higher gathering volumes primarily in the Haynesville Shale and Eagle Ford regions;
- A \$15 million decrease associated with lower processing rates primarily driven by lower commodity pricing in the Piceance region;
- A \$15 million decrease associated with lower gathering rates primarily in the Mid-Continent and Haynesville Shale regions;
- A \$17 million increase related to other MVC deficiency fee revenues;
- A \$13 million increase related to higher fractionation and storage fees;
- An \$8 million increase associated with the resolution of a prior period performance obligation.

The net sum of *Service revenues – commodity consideration*, *Product sales*, *Product costs*, and *Processing commodity expenses* comprise our commodity margins. Our commodity margins associated with our equity NGLs decreased \$127 million primarily due to:

- A \$98 million decrease associated with lower sales volumes, consisting of \$54 million related to the absence of our former Four Corners area assets and \$44 million due to 12 percent lower non-ethane volumes and 33 percent lower ethane sales volumes primarily due to higher ethane rejection in 2019, natural declines, less producer drilling activity, and more severe weather conditions in first-quarter 2019;
- A \$66 million decrease associated with lower sales prices primarily due to 29 percent and 48 percent lower average net realized per-unit non-ethane and ethane sales prices, respectively;
- A \$37 million increase related to lower natural gas purchases associated with lower equity NGL production volumes and lower natural gas prices, including \$9 million related to the absence of our former Four Corners area assets.

Additionally, the decrease in *Product sales* includes a \$447 million decrease in marketing sales, which is due to lower sales prices, partially offset by higher sales volumes, and a \$36 million decrease related to the sale of other products. These decreases are substantially offset in *Product costs*. Marketing margins increased by \$27 million primarily due to favorable changes in prices.

Other segment costs and expenses decreased primarily due to a \$127 million reduction associated with the absences of our former Four Corners area assets and from the Jackalope deconsolidation in second-quarter 2018, the absence of a 2018 unfavorable charge of \$12 million for a regulatory liability associated with a decrease in Northwest Pipeline's estimated deferred state income tax rate following the WPZ Merger, \$12 million favorable settlements in 2019, as well as \$10 million lower ad valorem taxes. These decreases were partially offset by an unfavorable charge in 2019 for severance and related costs primarily associated with our VSP of \$17 million.

Impairment of certain assets decreased primarily due to the absence of the \$1,849 million Barnett impairment in 2018, partially offset by various 2019 impairments (see Note 18 – Fair Value Measurements, Guarantees, and Concentration of Credit Risk of Notes to Consolidated Financial Statements).

The decrease in *Gain on sale of certain assets and businesses* reflects the absence of the gain from the sale of our Four Corners area assets recorded in the fourth quarter of 2018 (see Note 3 – Acquisitions and Divestitures of Notes to Consolidated Financial Statements).

Proportional Modified EBITDA of equity-method investments increased primarily due to the additions of the RMM and Brazos Permian II equity-method investments in the second half of 2018, partially offset by the sale of our Jackalope investment in second-quarter 2019.

2018 vs. 2017

West Modified EBITDA decreased primarily due to the increase in *Impairment of certain assets* and lower *Service revenues*. These decreases were partially offset by the *Gain on sale of certain assets and businesses* in 2018, the absence of regulatory charges associated with the impact of Tax Reform, and higher NGL margins driven by higher NGL prices and lower realized natural gas prices, partially offset by lower NGL volumes.

Service revenues decreased primarily due to:

- A \$64 million decrease primarily associated with implementing the new revenue guidance under ASC 606 including a \$118 million decrease related to lower amortization of deferred revenue associated with the up-front cash payments received in conjunction with the fourth quarter 2016 Barnett Shale and Mid-Continent contract restructurings, partially offset by a \$54 million increase related to other deferred revenue amortization primarily in the Permian basin;

- A \$42 million decrease associated with the sale of our Four Corners area assets in October 2018;
- A \$30 million decrease at Northwest Pipeline primarily due to the reduction of its rates as a result of a rate case settlement that became effective January 1, 2018;
- A \$29 million decrease following the Jackalope deconsolidation in second-quarter 2018;
- A \$15 million decrease driven by lower gathering volumes primarily in the Eagle Ford Shale, Barnett Shale, and Mid-Continent regions, partially offset by higher volumes in the Niobrara (prior to the Jackalope deconsolidation), Piceance, and Permian regions;
- A \$21 million increase associated with higher gathering and processing rates in the Piceance region driven by higher NGL prices as well as higher average gathering and processing rates across most other areas, partially offset by lower contract rates primarily in the Haynesville Shale region.

Service revenues – commodity consideration increased as a result of implementing ASC 606 using a modified retrospective approach. These revenues represent consideration we receive in the form of commodities as full or partial payment for gathering and processing services provided. Most of these NGL volumes are sold within the month processed and therefore are offset in *Product costs* below.

The increase in *Product sales* includes:

- A \$373 million increase in marketing sales primarily due to increases in realized NGL prices including a 14 percent increase in average non-ethane per-unit sales prices and a 25 percent increase in ethane prices, in addition to a 15 percent increase in ethane volumes (more than offset by higher *Product costs*);
- A \$47 million increase in sales associated with the production of our equity NGLs, as further described below as part of our commodity margins;
- An \$18 million increase in system management gas sales due to a change in presentation in accordance with ASC 606, which are more than offset in *Product costs* and, therefore, have little impact on *Modified EBITDA*.

The increase in *Product costs* includes the impact of ASC 606 in which costs reflected in this line item for 2018 include volumes acquired as commodity consideration for NGL processing services, a \$381 million increase in marketing purchases (substantially offset in *Product sales*), a \$19 million increase in system management gas purchases (substantially offset in *Product sales*), partially offset by the absence of natural gas purchases associated with the production of equity NGLs, which are now reported in *Processing commodity expenses* in conjunction with the implementation of ASC 606.

Processing commodity expenses presents the natural gas purchases associated with the production of equity NGLs as previously described in conjunction with the implementation of ASC 606.

The net sum of *Service revenues – commodity consideration*, *Product sales*, *Product costs*, and *Processing commodity expenses* comprise our commodity margins. Our commodity margins increased primarily due to a \$40 million increase in NGL product margins partially offset by an \$8 million decrease in marketing margins. NGL margins are driven by \$56 million in higher ethane and non-ethane per-unit prices, reflecting 19 percent higher realized non-ethane per-unit sales prices and 50 percent higher realized ethane per-unit sales prices. These increases were partially offset by \$18 million in lower volumes primarily due to the sale of our Four Corners area assets in October 2018.

Other segment costs and expenses decreased primarily due to \$57 million lower operating and maintenance and general and administrative costs. This reduction in costs is due primarily to the Four Corners area sale in October 2018, ongoing cost containment efforts, and the deconsolidation of our Jackalope interest in second-quarter 2018. These reductions are partially offset by a \$24 million regulatory charge associated with Northwest Pipeline's approved rates related to Tax Reform, the absence of a \$15 million gain from contract settlements and terminations in 2017, and a \$12

million charge for a regulatory liability associated with a decrease in Northwest Pipeline's estimated deferred state income tax rate following the WPZ Merger.

Impairment of certain assets increased primarily due to the \$1.849 billion impairment of certain assets in the Barnett Shale region in 2018, partially offset by the absence of a \$1.019 billion impairment of certain gathering operations in the Mid-Continent region in 2017 (see Note 18 – Fair Value Measurements, Guarantees, and Concentration of Credit Risk of Notes to Consolidated Financial Statements).

Gain on sale of certain assets and businesses reflects a gain from the sale of our Four Corners area assets in fourth quarter 2018.

Regulatory charges resulting from Tax Reform decreased primarily due to the absence of the \$220 million initial regulatory charge associated with the impact of Tax Reform at Northwest Pipeline in 2017 (see Note 1 – General, Description of Business, Basis of Presentation, and Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements).

Proportional Modified EBITDA of equity-method investments increased primarily due to the deconsolidation of our Jackalope interest, which is accounted for as an equity-method investment beginning in the second quarter of 2018.

Other

	Year Ended December 31,		
	2019	2018	2017
	(Millions)		
Other Modified EBITDA	\$ 6	\$ (29)	\$ 997

2019 vs. 2018

Other Modified EBITDA increased primarily due to:

- The absence of the \$66 million impairment of certain idle pipelines in the second quarter of 2018 (see Note 18 – Fair Value Measurements and Guarantees of Notes to Consolidated Financial Statements);
- The absence of a \$35 million charge in 2018 associated with a charitable contribution of preferred stock to The Williams Companies Foundation, Inc. (a not-for-profit corporation) (See Note 16 – Stockholders' Equity of Notes to Consolidated Financial Statements);
- The absence of \$20 million in costs in 2018 associated with the WPZ Merger (See Note 1 – General, Description of Business, Basis of Presentation, and Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements);
- An \$8 million increase related to the absence of 2018 unfavorable Modified EBITDA associated with the results of certain of our former Gulf Coast area operations sold in 2018;
- The absence of a \$7 million loss on early retirement of debt in 2018 (see Note 7 – Other Income and Expenses of Notes to Consolidated Financial Statements).

These increases were partially offset by:

- The absence of a \$37 million benefit of establishing a regulatory asset associated with an increase in Transco's estimated deferred state income tax rate following the WPZ Merger in 2018 and a subsequent unfavorable \$12 million adjustment in the first quarter of 2019;
- A \$26 million decrease in income associated with a regulatory asset related to deferred taxes on equity funds used during construction;

- The absence of a \$20 million gain on the sale of certain assets and operations located in the Gulf Coast area in 2018 (see Note 3 – Acquisitions and Divestitures of Notes to Consolidated Financial Statements).

2018 vs. 2017

Modified EBITDA changed unfavorably primarily due to:

- The absence of a \$1.095 billion gain on the sale of our Geismar Interest in 2017 (see Note 3 – Acquisitions and Divestitures of Notes to Consolidated Financial Statements);
- The absence of \$54 million of *Modified EBITDA* associated with the results of our former Geismar Olefins and RGP Splitter plants subsequent to their sale in July 2017;
- A \$35 million charge in 2018 associated with a charitable contribution of preferred stock to The Williams Companies Foundation, Inc. (a not-for-profit corporation), as previously mentioned;
- A \$34 million decrease due to the absence of a net gain on early retirement of debt in 2017 and a loss on early retirement of debt in 2018 (see Note 7 – Other Income and Expenses of Notes to Consolidated Financial Statements);
- A \$26 million decrease in income associated with a regulatory asset related to deferred taxes on equity funds used during construction;
- \$20 million in costs in 2018 associated with the WPZ Merger, as previously mentioned;
- The absence of a \$12 million gain on the sale of the Refinery Grade Propylene Splitter in 2017 (see Note 7 – Other Income and Expenses of Notes to Consolidated Financial Statements).

These decreases were partially offset by:

- The absence of a \$68 million impairment for a certain NGL pipeline asset in the third quarter of 2017 and a \$23 million impairment of an olefins pipeline project in the Gulf Coast region in the second quarter of 2017, partially offset by a \$66 million impairment of certain idle pipelines in the second quarter of 2018 (see Note 18 – Fair Value Measurements, Guarantees, and Concentration of Credit Risk of Notes to Consolidated Financial Statements);
- A \$62 million favorable change for lower charges to reduce regulatory assets related to deferred taxes on AFUDC resulting from Tax Reform (see Note 7 – Other Income and Expenses of Notes to Consolidated Financial Statements);
- \$40 million of lower costs, driven by the absence of expenses associated with severance and related costs, Financial Repositioning, and strategic alternative costs;
- A \$37 million increase associated with the benefit of establishing a regulatory asset associated with an increase in Transco's estimated deferred state income tax rate following the WPZ Merger, as previously mentioned;
- A \$30 million favorable change in the settlement charge expense related to the program to pay out certain deferred vested pension benefits of employees associated with former operations (see Note 10 – Employee Benefit Plans of Notes to Consolidated Financial Statements);
- A \$20 million gain on the sale of certain assets and operations located in the Gulf Coast area, as previously mentioned.

Management's Discussion and Analysis of Financial Condition and Liquidity

Overview

As previously discussed, we have continued to focus on earnings and cash flow growth, while continuing to improve leverage metrics and control operating costs. In 2019, we acquired the remaining outstanding ownership interests in UEOM for \$728 million and subsequently formed a new partnership which includes UEOM and our Ohio Valley Midstream business. Our partner purchased a 35 percent ownership interest in the partnership for \$1.3 billion. Also, during the second quarter of 2019 we sold our 50 percent ownership interest in Jackalope for \$485 million. See also the following table of *Sources (Uses) of Cash*.

Outlook

As previously discussed in Company Outlook, our growth capital and investment expenditures in 2020 are currently expected to be in a range from \$1.1 billion to \$1.3 billion. Growth capital spending in 2020 includes Transco expansions, all of which are fully contracted with firm transportation agreements, and our Bluestem NGL pipeline project in the Mid-Continent region. In addition to growth capital and investment expenditures, we also remain committed to projects that maintain our assets for safe and reliable operations, as well as projects that meet legal, regulatory, and/or contractual commitments. We intend to fund substantially all of our planned 2020 capital spending with cash available after paying dividends. We retain the flexibility to adjust planned levels of growth capital and investment expenditures in response to changes in economic conditions or business opportunities.

As of December 31, 2019, we have \$2.121 billion of long-term debt maturing in 2020. Our potential sources of liquidity available to address these maturities include proceeds from refinancing at attractive long-term rates or from our credit facility, as well as proceeds from asset monetizations.

Liquidity

Based on our forecasted levels of cash flow from operations and other sources of liquidity, we expect to have sufficient liquidity to manage our businesses in 2020. Our potential material internal and external sources and uses of liquidity are as follows:

Sources:

- Cash and cash equivalents on hand
- Cash generated from operations
- Distributions from our equity-method investees
- Utilization of our credit facility and/or commercial paper program
- Cash proceeds from issuance of debt and/or equity securities
- Proceeds from asset monetizations
- Contributions from noncontrolling interests

Uses:

- Working capital requirements
- Capital and investment expenditures
- Quarterly dividends to our shareholders
- Debt service payments, including payments of long-term debt
- Distributions to noncontrolling interests

Potential risks associated with our planned levels of liquidity discussed above include those previously discussed in Company Outlook.

As of December 31, 2019, we had a working capital deficit of \$2.388 billion, including cash and cash equivalents and long-term debt due within one year. Our available liquidity is as follows:

Available Liquidity	December 31, 2019
	(Millions)
Cash and cash equivalents	\$ 289
Capacity available under our \$4.5 billion credit facility, less amounts outstanding under our \$4 billion commercial paper program (1)	4,500
	\$ 4,789

- (1) In managing our available liquidity, we do not expect a maximum outstanding amount in excess of the capacity of our credit facility inclusive of any outstanding amounts under our commercial paper program. We had no commercial paper outstanding as of December 31, 2019. The highest amount outstanding under our commercial paper program and credit facility during 2019 was \$1.226 billion. At December 31, 2019, we were in compliance with the financial covenants associated with our credit facility. See Note 15 – Debt and Banking Arrangements of Notes to Consolidated Financial Statements for additional information on our credit facility and commercial paper program.

Dividends

We increased our regular quarterly cash dividend to common stockholders by approximately 12 percent from the previous quarterly cash dividends of \$0.34 per share paid in each quarter of 2018, to \$0.38 per share for the quarterly cash dividends paid in each quarter of 2019.

Registrations

In February 2018, we filed a shelf registration statement as a well-known seasoned issuer. In August 2018, we filed a prospectus supplement for the offer and sale from time to time of shares of our common stock having an aggregate offering price of up to \$1 billion. These sales are to be made over a period of time and from time to time in transactions at then-current prices. Such sales are to be made pursuant to an equity distribution agreement between us and certain entities who may act as sales agents or purchase for their own accounts as principals at a price agreed upon at the time of the sale.

Distributions from Equity-Method Investees

The organizational documents of entities in which we have an equity-method investment generally require distribution of their available cash to their members on a quarterly basis. In each case, available cash is reduced, in part, by reserves appropriate for operating their respective businesses. See Note 6 – Investing Activities of Notes to Consolidated Financial Statements for our more significant equity-method investees.

Credit Ratings

The interest rates at which we are able to borrow money are impacted by our credit ratings. The current ratings are as follows:

Rating Agency	Outlook	Senior Unsecured Debt Rating
S&P Global Ratings	Stable	BBB
Moody's Investors Service	Stable	Baa3
Fitch Ratings	Rating Watch Positive	BBB-

These credit ratings are included for informational purposes and are not recommendations to buy, sell, or hold our securities, and each rating should be evaluated independently of any other rating. No assurance can be given that the credit rating agencies will continue to assign us investment-grade ratings even if we meet or exceed their current criteria.

for investment-grade ratios. A downgrade of our credit ratings might increase our future cost of borrowing and would require us to provide additional collateral to third parties, negatively impacting our available liquidity.

Sources (Uses) of Cash

The following table summarizes the sources (uses) of cash and cash equivalents for each of the periods presented (see Notes to Consolidated Financial Statements for the Notes referenced in the table):

	Cash Flow Category	Year Ended December 31,		
		2019	2018	2017
(Millions)				
Sources of cash and cash equivalents:				
Operating activities – net	Operating	\$ 3,693	\$ 3,293	\$ 3,089
Proceeds from sale of partial interest in consolidated subsidiary (see Note 3)	Financing	1,334	—	—
Proceeds from credit-facility borrowings	Financing	700	1,840	1,635
Proceeds from dispositions of equity-method investments (see Note 6)	Investing	485	—	200
Proceeds from long-term debt (see Note 15)	Financing	67	2,086	1,698
Contributions in aid of construction	Investing	52	411	426
Proceeds from issuance of common stock	Financing	10	15	2,131
Proceeds from sale of businesses, net of cash divested (see Note 3)	Investing	(2)	1,296	2,067
Uses of cash and cash equivalents:				
Capital expenditures	Investing	(2,109)	(3,256)	(2,399)
Common dividends paid	Financing	(1,842)	(1,386)	(992)
Payments on credit-facility borrowings	Financing	(860)	(1,950)	(2,140)
Purchases of businesses, net of cash acquired (see Note 3)	Investing	(728)	—	—
Purchases of and contributions to equity-method investments (see Note 6)	Investing	(453)	(1,132)	(132)
Dividends and distributions paid to noncontrolling interests	Financing	(124)	(591)	(822)
Payments of long-term debt (see Note 15)	Financing	(49)	(1,254)	(3,785)
Payments of commercial paper – net	Financing	(4)	(2)	(93)
Other sources / (uses) – net	Financing and Investing	(49)	(101)	(154)
Increase (decrease) in cash and cash equivalents		<u>\$ 121</u>	<u>\$ (731)</u>	<u>\$ 729</u>

Operating activities

The factors that determine operating activities are largely the same as those that affect *Net income (loss)*, with the exception of noncash items such as *Depreciation and amortization*, *Provision (benefit) for deferred income taxes*, *Equity (earnings) losses*, *Gain on disposition of equity-method investments*, *Impairment of equity-method investments*, *(Gain) on sale of certain assets and businesses*, *Impairment of certain assets*, *(Gain) loss on deconsolidation of businesses*, and *Regulatory charges resulting from Tax Reform*.

Our *Net cash provided (used) by operating activities* in 2019 increased from 2018 primarily due to the net favorable changes in operating working capital in 2019, including the collection of Transco's filed rates subject to refund and the receipt of an income tax refund, as well as higher operating income (excluding noncash items as previously discussed) in 2019, partially offset by the impact of decreased distributions from unconsolidated affiliates in 2019.

Our *Net cash provided (used) by operating activities* in 2018 increased from 2017 primarily due to higher operating income (excluding noncash items as previously discussed) in 2018, partially offset by the impact of decreased distributions from unconsolidated affiliates in 2018.

Off-Balance Sheet Arrangements and Guarantees of Debt or Other Commitments

We have various other guarantees and commitments which are disclosed in Note 4 – Variable Interest Entities, Note 12 – Property, Plant, and Equipment, Note 18 – Fair Value Measurements, Guarantees, and Concentration of Credit Risk, and Note 19 – Contingent Liabilities and Commitments of Notes to Consolidated Financial Statements. We do not believe these guarantees and commitments or the possible fulfillment of them will prevent us from meeting our liquidity needs.

Contractual Obligations

The table below summarizes the maturity dates of our contractual obligations at December 31, 2019:

	2020	2021 - 2022	2023 - 2024	Thereafter	Total
	(Millions)				
Long-term debt, including current portion: (1)					
Principal	\$ 2,141	\$ 2,918	\$ 3,756	\$ 13,650	\$ 22,465
Interest	1,097	2,004	1,709	8,561	13,371
Operating leases	29	61	41	157	288
Purchase obligations (2)	890	647	245	290	2,072
Other obligations (3)(4)	3	5	—	—	8
Total	\$ 4,160	\$ 5,635	\$ 5,751	\$ 22,658	\$ 38,204

(1) Includes any borrowings outstanding under credit facilities, but does not include any related variable-rate interest payments.

(2) Includes:

- Approximately \$206 million in open property, plant, and equipment purchase orders;
- An estimated \$589 million long-term mixed NGLs purchase obligation with index-based pricing terms that is reflected in this table at December 31, 2019 prices;
- An estimated \$193 million long-term ethane purchase obligation with index-based pricing terms that primarily supplies third parties at their plants and is reflected in this table at a value calculated using December 31, 2019 prices. Any excess purchased volumes may be sold at comparable market prices;
- An estimated \$163 million long-term ethane purchase obligation with index-based pricing terms that primarily supplies a third party for consumption at their plant and is reflected in this table at a value calculated using December 31, 2019 prices. Any excess purchased volumes may be sold at comparable market prices;
- An estimated \$149 million long-term ethane purchase obligation with index-based pricing terms that is reflected in this table at December 31, 2019 prices. This obligation is part of an overall exchange agreement whereby volumes we transport on OPPL are sold at a third-party fractionator near Conway, Kansas, and we are subsequently obligated to purchase ethane volumes at Mont Belvieu. The purchased ethane volumes may be utilized or sold at comparable prices in the Mont Belvieu market;
- An estimated \$129 million long-term mixed NGLs purchase obligation with index-based pricing terms that is reflected in this table at December 31, 2019 prices.

In addition, we have not included certain natural gas life-of-lease contracts for which the future volumes are indeterminable. We have not included commitments, beyond purchase orders, for the acquisition or construction of property, plant, and equipment or expected contributions to our jointly owned investments. (See Company Outlook — Expansion Projects.)

- (3) Does not include estimated contributions to our pension and other postretirement benefit plans. We made contributions to our pension and other postretirement benefit plans of \$68 million in 2019 and \$93 million in 2018. In 2020, we expect to contribute approximately \$19 million to these plans (see Note 10 – Employee Benefit Plans of Notes to Consolidated Financial Statements). Tax-qualified pension plans are required to meet minimum contribution requirements. In the past, we have contributed amounts to our tax-qualified pension plans in excess of the minimum required contribution. These excess amounts can be used to offset future minimum contribution requirements. During 2019, we contributed \$60 million to our tax-qualified pension plans. In addition to these contributions, a portion of the excess contributions was used to meet the minimum contribution requirements. During 2020, we expect to contribute approximately \$10 million to our tax-qualified pension plans and use excess amounts to satisfy minimum contribution requirements, if needed. Additionally, estimated future minimum funding requirements may vary significantly from historical requirements if actual results differ significantly from estimated results for assumptions such as returns on plan assets, interest rates, retirement rates, mortality, and other significant assumptions or by changes to current legislation and regulations.
- (4) We have not included income tax liabilities in the table above. See Note 8 – Provision (Benefit) for Income Taxes of Notes to Consolidated Financial Statements for a discussion of income taxes, including our contingent tax liability reserves.

Effects of Inflation

Our operations have historically not been materially affected by inflation. Approximately 49 percent of our gross property, plant, and equipment is comprised of our interstate natural gas pipeline assets. They are subject to regulation, which limits recovery to historical cost. While amounts in excess of historical cost are not recoverable under current FERC practices, we anticipate being allowed to recover and earn a return based on increased actual cost incurred to replace existing assets. Cost-based regulations, along with competition and other market factors, may limit our ability to recover such increased costs. For our gathering and processing assets, operating costs are influenced to a greater extent by both competition for specialized services and specific price changes in crude oil and natural gas and related commodities than by changes in general inflation. Crude oil, natural gas, and NGL prices are particularly sensitive to the market perceptions concerning the supply and demand balance in the near future, as well as general economic conditions. However, our exposure to certain of these price changes is reduced through the fee-based nature of certain of our services and the use of hedging instruments.

Environmental

We are a participant in certain environmental activities in various stages including assessment studies, cleanup operations, and/or remedial processes at certain sites, some of which we currently do not own (see Note 19 – Contingent Liabilities and Commitments of Notes to Consolidated Financial Statements). We are monitoring these sites in a coordinated effort with other potentially responsible parties, the EPA, or other governmental authorities. We are jointly and severally liable along with unrelated third parties in some of these activities and solely responsible in others. Current estimates of the most likely costs of such activities are approximately \$31 million, all of which are included in *Accrued liabilities and Regulatory liabilities, deferred income, and other* in the Consolidated Balance Sheet at December 31, 2019. We will seek recovery of the accrued costs related to remediation activities by our interstate gas pipelines totaling approximately \$4 million through future natural gas transmission rates. The remainder of these costs will be funded from operations. During 2019, we paid approximately \$6 million for cleanup and/or remediation and monitoring activities. We expect to pay approximately \$8 million in 2020 for these activities. Estimates of the most likely costs of cleanup are generally based on completed assessment studies, preliminary results of studies, or our experience with other similar cleanup operations. At December 31, 2019, certain assessment studies were still in process for which the ultimate outcome may yield different estimates of most likely costs. Therefore, the actual costs incurred will depend on the final amount, type, and extent of contamination discovered at these sites, the final cleanup standards mandated by the EPA or other governmental authorities, and other factors.

The EPA and various state regulatory agencies routinely promulgate and propose new rules and issue updated guidance to existing rules. These rulemakings include, but are not limited to, rules for reciprocating internal combustion engine and combustion turbine maximum achievable control technology, air quality standards for one-hour nitrogen dioxide emissions, and volatile organic compound and methane new source performance standards impacting design

and operation of storage vessels, pressure valves, and compressors. The EPA previously issued its rule regarding National Ambient Air Quality Standards for ground-level ozone. We are monitoring the rule's implementation as it will trigger additional federal and state regulatory actions that may impact our operations. Implementation of the regulations is expected to result in impacts to our operations and increase the cost of additions to *Property, plant, and equipment – net* in the Consolidated Balance Sheet for both new and existing facilities in affected areas. We are unable to reasonably estimate the cost of additions that may be required to meet the regulations at this time due to uncertainty created by various legal challenges to these regulations and the need for further specific regulatory guidance.

Our interstate natural gas pipelines consider prudently incurred environmental assessment and remediation costs and the costs associated with compliance with environmental standards to be recoverable through rates.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

Our current interest rate risk exposure is related primarily to our debt portfolio. Our debt portfolio is primarily comprised of fixed rate debt, which mitigates the impact of fluctuations in interest rates. Any borrowings under our credit facility and any issuances under our commercial paper program could be at a variable interest rate and could expose us to the risk of increasing interest rates. The maturity of our long-term debt portfolio is partially influenced by the expected lives of our operating assets. (See Note 15 – Debt and Banking Arrangements of Notes to Consolidated Financial Statements.)

The tables below provide information by maturity date about our interest rate risk-sensitive instruments as of December 31, 2019 and 2018. See Note 18 – Fair Value Measurements, Guarantees, and Concentration of Credit Risk of Notes to Consolidated Financial Statements for the methods used in determining the fair value of our long-term debt.

	2020	2021	2022	2023	2024	Thereafter (1)	Total	Fair Value December 31, 2019
	(Millions)							
Long-term debt, including current portion:								
Fixed rate	\$ 2,141	\$ 893	\$ 2,025	\$ 1,477	\$ 2,279	\$ 13,473	\$ 22,288	\$ 25,319
Weighted-average interest rate	5.2%	5.2%	5.3%	5.4%	5.6%	5.6%		
Variable rate	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Long-term debt, including current portion:								
	2019	2020	2021	2022	2023	Thereafter (1)	Total	Fair Value December 31, 2018
	(Millions)							
Fixed rate	\$ 47	\$ 2,138	\$ 890	\$ 2,021	\$ 1,473	\$ 15,685	\$ 22,254	\$ 23,170
Weighted-average interest rate	5.2%	5.2%	5.2%	5.3%	5.5%	5.7%		
Variable rate (2)	\$ —	\$ —	\$ —	\$ —	\$ 160	\$ —	\$ 160	\$ 160

(1) Includes unamortized discount / premium and debt issuance costs.

(2) The weighted-average interest rate for our \$160 million credit facility borrowing at December 31, 2018, was 3.77 percent.

Commodity Price Risk

We are exposed to the impact of fluctuations in the market price of NGLs and natural gas, as well as other market factors, such as market volatility and energy commodity price correlations. We are exposed to these risks in connection with our owned energy-related assets, our long-term energy-related contracts, and limited proprietary trading activities. Our management of the risks associated with these market fluctuations includes maintaining sufficient liquidity, as well as using various derivatives and nonderivative energy-related contracts. The fair value of derivative contracts is subject to many factors, including changes in energy commodity market prices, the liquidity and volatility of the markets in which the contracts are transacted, and changes in interest rates. At December 31, 2019 and 2018, our derivative activity was not material. (See Note 18 – Fair Value Measurements, Guarantees, and Concentration of Credit Risk of Notes to Consolidated Financial Statements.)

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

The Stockholders and the Board of Directors of
The Williams Companies, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of The Williams Companies, Inc. (the Company) as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income (loss), changes in equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and the financial statement schedule listed in the index at Item 15(a) (collectively referred to as the “consolidated financial statements”). In our opinion, based on our audits and the report of other auditors, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2019 and 2018, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We did not audit the financial statements of Gulfstream Natural Gas System, L.L.C. (Gulfstream), a limited liability corporation in which the Company has a 50 percent interest. In the consolidated financial statements, the Company’s investment in Gulfstream was \$217 million and \$225 million as of December 31, 2019 and 2018, respectively, and the Company’s equity earnings in the net income of Gulfstream were \$74 million in 2019, \$75 million in 2018 and \$75 million in 2017. Gulfstream’s financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Gulfstream, is based solely on the report of other auditors.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 24, 2020 expressed an unqualified opinion thereon.

Adoption of New Accounting Standard

As discussed in Note 1 to the consolidated financial statements, the Company changed its method for accounting for revenue in 2018.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

UEOM Acquisition

Description of the Matter

During 2019, the Company completed an acquisition of the remaining 38 percent interest in Utica East Ohio Midstream LLC (UEOM) for consideration of \$741 million, as disclosed in Note 3 to the consolidated financial statements. The acquisition was accounted for as a business combination.

Auditing the Company's accounting for its acquisition of UEOM was complex due to the estimation required in the Company's determination of the fair value of the assets acquired and required the involvement of specialists due to the highly judgmental nature of certain assumptions. Estimation uncertainty was present due to the assets' fair values being sensitive to changes in the underlying significant assumptions. The significant assumptions included the weighted average cost of capital and forecasted volume growth.

How We Addressed the Matter in Our Audit

We tested the Company's controls over its accounting for the acquisition, including controls over the estimation process supporting the recognition and measurement of the acquired assets. We also tested controls over management's review of the significant assumptions used in the valuation models.

To test the estimated fair value of the acquired assets, we performed audit procedures that included, among others, evaluating the Company's selection of the valuation methodologies, evaluating the significant assumptions used in the valuation, and testing the completeness and accuracy of the underlying data supporting the significant assumptions and estimates. For example, we compared the significant assumptions used to estimate future cash flows to historical operating results, obtained third-party support, where available, to evaluate operating data, performed a sensitivity analysis to evaluate the assumptions that were most significant to the fair value estimate, and recalculated management's estimate. We involved our valuation specialists to assist with our evaluation of the methodologies used by the Company and significant assumptions included in the fair value estimates.

Pension and Other Postretirement Benefit Obligations

Description of the Matter

At December 31, 2019, the Company's aggregate pension and other postretirement benefit obligations were \$1,452 million and were exceeded by the fair value of pension and other postretirement plan assets of \$1,546 million, resulting in overfunded pension and other postretirement benefit obligations of \$94 million. As explained in Note 10 to the consolidated financial statements, the Company utilized key assumptions to determine the pension and other postretirement benefit obligations.

Auditing the pension and other postretirement benefit obligations is complex and required the involvement of specialists due to the highly judgmental nature of the actuarial assumptions (e.g., discount rates, future compensation levels, mortality rates, expected returns on plan assets) used in the measurement process. These assumptions have a significant effect on the projected benefit obligations.

*How We
Addressed the
Matter in Our
Audit*

We tested controls that address the risks of material misstatement relating to the measurement and valuation of the pension and other postretirement benefit obligations. For example, we tested controls over management's review of the pension and postretirement benefit obligations, the significant actuarial assumptions and the data inputs provided to the actuary.

To test the pension and other postretirement benefit obligations, our audit procedures included, among others, evaluating the methodologies used, the significant actuarial assumptions discussed above and the underlying data used by the Company. We compared the actuarial assumptions used by management to historical trends and evaluated the changes in the funded status from prior year. In addition, we involved our actuarial specialists to assist with our procedures. For example, we evaluated management's methodology for determining the discount rates that reflect the maturity and duration of the benefit payments and are used to measure the pension and other postretirement benefit obligations. As part of this assessment, we compared the projected cash flows to prior year and compared the current year benefits paid to the prior year projected cash flows. To evaluate the future compensation levels and the mortality rates, we assessed whether the information is consistent with publicly available information, and whether any market data adjusted for entity-specific adjustments were applied. Additionally, to evaluate the expected returns on plan assets, we assessed whether management's assumptions were consistent with a range of returns for portfolios of comparative investments. We also tested the completeness and accuracy of the underlying data, including the participant data.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 1962.
Tulsa, Oklahoma
February 24, 2020

Report of Independent Registered Public Accounting Firm

To the Management Committee and Members of Gulfstream Natural Gas System, L.L.C.:

Opinion on the Financial Statements

We have audited the balance sheets of Gulfstream Natural Gas System, L.L.C. (the “Company”) as of December 31, 2019 and 2018, and the related statements of operations, comprehensive income, cash flows, and members’ equity for each of the three years in the period ended December 31, 2019, including the related notes (collectively referred to as the “financial statements”) (not presented herein). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these financial statements in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

Houston, Texas
February 24, 2020

We have served as the Company’s auditor since 2018.

The Williams Companies, Inc.
Consolidated Statement of Operations

	Year Ended December 31,		
	2019	2018	2017
(Millions, except per-share amounts)			
Revenues:			
Service revenues	\$ 5,933	\$ 5,502	\$ 5,312
Service revenues – commodity consideration (Note 1)	203	400	—
Product sales	2,065	2,784	2,719
Total revenues	8,201	8,686	8,031
Costs and expenses:			
Product costs	1,961	2,707	2,300
Processing commodity expenses	105	137	—
Operating and maintenance expenses	1,468	1,507	1,576
Depreciation and amortization expenses	1,714	1,725	1,736
Selling, general, and administrative expenses	558	569	594
Impairment of certain assets (Note 18)	464	1,915	1,248
Gain on sale of certain assets and businesses (Note 3)	2	(692)	(1,095)
Regulatory charges resulting from Tax Reform (Note 1)	—	(17)	674
Other (income) expense – net	8	67	71
Total costs and expenses	6,280	7,918	7,104
Operating income (loss)	1,921	768	927
Equity earnings (losses)	375	396	434
Other investing income (loss) – net	(79)	187	282
Interest incurred	(1,218)	(1,160)	(1,116)
Interest capitalized	32	48	33
Other income (expense) – net	33	92	(25)
Income (loss) from continuing operations before income taxes	1,064	331	535
Provision (benefit) for income taxes	335	138	(1,974)
Income (loss) from continuing operations	729	193	2,509
Income (loss) from discontinued operations	(15)	—	—
Net income (loss)	714	193	2,509
Less: Net income (loss) attributable to noncontrolling interests	(136)	348	335
Net income (loss) attributable to The Williams Companies, Inc.	850	(155)	2,174
Preferred stock dividends (Note 16)	3	1	—
Net income (loss) available to common stockholders	\$ 847	\$ (156)	\$ 2,174
Amounts attributable to The Williams Companies, Inc. available to common stockholders:			
Income (loss) from continuing operations	\$ 862	\$ (156)	\$ 2,174
Income (loss) from discontinued operations	(15)	—	—
Net income (loss)	\$ 847	\$ (156)	\$ 2,174
Basic earnings (loss) per common share:			
Income (loss) from continuing operations	\$.71	\$ (.16)	\$ 2.63
Income (loss) from discontinued operations	(.01)	—	—
Net income (loss)	\$.70	\$ (.16)	\$ 2.63
Weighted-average shares (thousands)	1,212,037	973,626	826,177
Diluted earnings (loss) per common share:			
Income (loss) from continuing operations	\$.71	\$ (.16)	\$ 2.62
Income (loss) from discontinued operations	(.01)	—	—
Net income (loss)	\$.70	\$ (.16)	\$ 2.62
Weighted-average shares (thousands)	1,214,011	973,626	828,518

See accompanying notes.

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

	Year Ended December 31,		
	2019	2018	2017
	(Millions)		
Net income (loss)	\$ 714	\$ 193	\$ 2,509
Other comprehensive income (loss):			
Cash flow hedging activities:			
Net unrealized gain (loss) from derivative instruments, net of taxes of \$1 and \$2 in 2018 and 2017, respectively	—	(7)	(9)
Reclassifications into earnings of net derivative instruments (gain) loss, net of taxes of (\$1) and (\$1) in 2018 and 2017, respectively	—	8	6
Foreign currency translation activities:			
Foreign currency translation adjustments	—	—	1
Pension and other postretirement benefits:			
Amortization of prior service cost (credit) included in net periodic benefit cost (credit), net of taxes of \$2 in 2017	—	—	(3)
Net actuarial gain (loss) arising during the year, net of taxes of (\$20), \$3, and (\$15) in 2019, 2018, and 2017, respectively	59	(6)	44
Amortization of actuarial (gain) loss and net actuarial loss from settlements included in net periodic benefit cost (credit), net of taxes of (\$4), (\$11), and (\$37) in 2019, 2018, and 2017, respectively	12	35	61
Other comprehensive income (loss)	71	30	100
Comprehensive income (loss)	785	223	2,609
Less: Comprehensive income (loss) attributable to noncontrolling interests	(136)	346	334
Comprehensive income (loss) attributable to The Williams Companies, Inc.	<u>\$ 921</u>	<u>\$ (123)</u>	<u>\$ 2,275</u>

See accompanying notes.

The Williams Companies, Inc.
Consolidated Balance Sheet

	December 31,	
	2019	2018
(Millions, except per-share amounts)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 289	\$ 168
Trade accounts and other receivables (net of allowance of \$6 at December 31, 2019 and \$9 at December 31, 2018)	996	992
Inventories	125	130
Other current assets and deferred charges	170	174
Total current assets	1,580	1,464
Investments	6,235	7,821
Property, plant, and equipment – net	29,200	27,504
Intangible assets – net of accumulated amortization	7,959	7,767
Regulatory assets, deferred charges, and other	1,066	746
Total assets	\$ 46,040	\$ 45,302
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 552	\$ 662
Accrued liabilities	1,276	1,102
Long-term debt due within one year	2,140	47
Total current liabilities	3,968	1,811
Long-term debt	20,148	22,367
Deferred income tax liabilities	1,782	1,524
Regulatory liabilities, deferred income, and other	3,778	3,603
Contingent liabilities and commitments (Note 19)		
Equity:		
Stockholders' equity:		
Preferred stock	35	35
Common stock (\$1 par value; 1,470 million shares authorized at December 31, 2019 and December 31, 2018; 1,247 million shares issued at December 31, 2019 and 1,245 million shares issued at December 31, 2018)	1,247	1,245
Capital in excess of par value	24,323	24,693
Retained deficit	(11,002)	(10,002)
Accumulated other comprehensive income (loss)	(199)	(270)
Treasury stock, at cost (35 million shares of common stock)	(1,041)	(1,041)
Total stockholders' equity	13,363	14,660
Noncontrolling interests in consolidated subsidiaries	3,001	1,337
Total equity	16,364	15,997
Total liabilities and equity	\$ 46,040	\$ 45,302

See accompanying notes.

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

The Williams Companies, Inc. Stockholders											
	Preferred Stock	Common Stock	Capital in Excess of Par Value	Retained Deficit	AOCI*	Treasury Stock	Total Stockholders' Equity		Noncontrolling Interests		Total Equity
					(Millions)						
Balance – December 31, 2016	\$ —	\$ 785	\$ 14,887	\$ (9,649)	\$ (339)	\$ (1,041)	\$ 4,643	\$ 9,403	\$ 14,046		
Adoption of new accounting standard	—	—	1	36	—	—	37	—	—	37	
Net income (loss)	—	—	—	2,174	—	—	2,174	335	2,509		
Other comprehensive income (loss)	—	—	—	—	101	—	101	(1)	100		
Issuance of common stock (Note 16)	—	75	2,043	—	—	—	2,118	—	2,118		
Cash dividends – common stock (\$1.20 per share)	—	—	—	(992)	—	—	(992)	—	(992)		
Dividends and distributions to noncontrolling interests	—	—	—	—	—	—	—	(883)	(883)		
Stock-based compensation and related common stock issuances, net of tax	—	1	73	—	—	—	74	—	74		
Sales of limited partner units of Williams Partners L.P.	—	—	—	—	—	—	—	61	61		
Changes in ownership of consolidated subsidiaries, net	—	—	1,497	—	—	—	1,497	(2,407)	(910)		
Contributions from noncontrolling interests	—	—	—	—	—	—	—	17	17		
Other	—	—	7	(3)	—	—	4	(6)	(2)		
Net increase (decrease) in equity	—	76	3,621	1,215	101	—	5,013	(2,884)	2,129		
Balance – December 31, 2017	—	861	18,508	(8,434)	(238)	(1,041)	9,656	6,519	16,175		
Adoption of new accounting standards	—	—	—	(23)	(61)	—	(84)	(37)	(121)		
Net income (loss)	—	—	—	(155)	—	—	(155)	348	193		
Other comprehensive income (loss)	—	—	—	—	32	—	32	(2)	30		
WPZ Merger (Note 1)	—	382	6,112	—	(3)	—	6,491	(4,629)	1,862		
Issuance of preferred stock (Note 16)	35	—	—	—	—	—	35	—	35		
Cash dividends – common stock (\$1.36 per share)	—	—	—	(1,386)	—	—	(1,386)	—	(1,386)		
Dividends and distributions to noncontrolling interests	—	—	—	—	—	—	—	(637)	(637)		
Stock-based compensation and related common stock issuances, net of tax	—	1	60	—	—	—	61	—	61		
Sales of limited partner units of Williams Partners L.P.	—	—	—	—	—	—	—	46	46		
Changes in ownership of consolidated subsidiaries, net	—	—	14	—	—	—	14	(18)	(4)		
Contributions from noncontrolling interests	—	—	—	—	—	—	—	15	15		
Deconsolidation of subsidiary (Note 6)	—	—	—	—	—	—	—	(267)	(267)		
Other	—	1	(1)	(4)	—	—	(4)	(1)	(5)		
Net increase (decrease) in equity	35	384	6,185	(1,568)	(32)	—	5,004	(5,182)	(178)		
Balance – December 31, 2018	35	1,245	24,693	(10,002)	(270)	(1,041)	14,660	1,337	15,997		
Net income (loss)	—	—	—	850	—	—	850	(136)	714		
Other comprehensive income (loss)	—	—	—	—	71	—	71	—	71		
Cash dividends – common stock (\$1.52 per share)	—	—	—	(1,842)	—	—	(1,842)	—	(1,842)		
Dividends and distributions to noncontrolling interests	—	—	—	—	—	—	—	(124)	(124)		
Stock-based compensation and related common stock issuances, net of tax	—	2	56	—	—	—	58	—	58		
Sale of partial interest in consolidated subsidiary (Note 3)	—	—	—	—	—	—	—	1,334	1,334		
Changes in ownership of consolidated subsidiaries, net (Note 3)	—	—	(426)	—	—	—	(426)	567	141		
Contributions from noncontrolling interests	—	—	—	—	—	—	—	36	36		
Deconsolidation of subsidiary (Note 4)	—	—	—	—	—	—	—	(13)	(13)		
Other	—	—	—	(8)	—	—	(8)	—	(8)		
Net increase (decrease) in equity	—	2	(370)	(1,000)	71	—	(1,297)	1,664	367		
Balance – December 31, 2019	\$ 35	\$ 1,247	\$ 24,323	\$ (11,002)	\$ (199)	\$ (1,041)	\$ 13,363	\$ 3,001	\$ 16,364		

* Accumulated Other Comprehensive Income (Loss)

See accompanying notes.

The Williams Companies, Inc.
Consolidated Statement of Cash Flows

	Year Ended December 31,		
	2019	2018	2017
	(Millions)		
OPERATING ACTIVITIES:			
Net income (loss)	\$ 714	\$ 193	\$ 2,509
Adjustments to reconcile to net cash provided (used) by operating activities:			
Depreciation and amortization	1,714	1,725	1,736
Provision (benefit) for deferred income taxes	376	220	(2,012)
Equity (earnings) losses	(375)	(396)	(434)
Distributions from unconsolidated affiliates	657	693	784
Gain on disposition of equity-method investments (Note 6)	(122)	—	(269)
Impairment of equity-method investments (Note 18)	186	32	—
(Gain) on sale of certain assets and businesses (Note 3)	2	(692)	(1,095)
Impairment of certain assets (Note 18)	464	1,915	1,249
(Gain) loss on deconsolidation of businesses (Note 6)	29	(203)	—
Amortization of stock-based awards	57	55	78
Regulatory charges resulting from Tax Reform (Note 1)	—	(15)	776
Cash provided (used) by changes in current assets and liabilities:			
Accounts and notes receivable	34	(36)	(88)
Inventories	5	(16)	8
Other current assets and deferred charges	21	17	(21)
Accounts payable	(46)	(93)	118
Accrued liabilities	153	23	(92)
Other, including changes in noncurrent assets and liabilities	(176)	(129)	(158)
Net cash provided (used) by operating activities	3,693	3,293	3,089
FINANCING ACTIVITIES:			
Proceeds from (payments of) commercial paper – net	(4)	(2)	(93)
Proceeds from long-term debt	767	3,926	3,333
Payments of long-term debt	(909)	(3,204)	(5,925)
Proceeds from issuance of common stock	10	15	2,131
Proceeds from sale of partial interest in consolidated subsidiary (Note 3)	1,334	—	—
Common dividends paid	(1,842)	(1,386)	(992)
Dividends and distributions paid to noncontrolling interests	(124)	(591)	(822)
Contributions from noncontrolling interests	36	15	17
Payments for debt issuance costs	—	(26)	(17)
Other – net	(13)	(46)	(92)
Net cash provided (used) by financing activities	(745)	(1,299)	(2,460)
INVESTING ACTIVITIES:			
Property, plant, and equipment:			
Capital expenditures (1)	(2,109)	(3,256)	(2,399)
Dispositions – net	(40)	(7)	(41)
Contributions in aid of construction	52	411	426
Proceeds from sale of businesses, net of cash divested	(2)	1,296	2,067
Purchases of businesses, net of cash acquired (Note 3)	(728)	—	—
Proceeds from dispositions of equity-method investments (Note 6)	485	—	200
Purchases of and contributions to equity-method investments (Note 6)	(453)	(1,132)	(132)
Other – net	(32)	(37)	(21)
Net cash provided (used) by investing activities	(2,827)	(2,725)	100
Increase (decrease) in cash and cash equivalents	121	(731)	729
Cash and cash equivalents at beginning of year	168	899	170

Cash and cash equivalents at end of year	\$ 289	\$ 168	\$ 899
(1) Increases to property, plant, and equipment	\$ (2,023)	\$ (3,021)	\$ (2,662)
Changes in related accounts payable and accrued liabilities	(86)	(235)	263
Capital expenditures	\$ (2,109)	\$ (3,256)	\$ (2,399)

See accompanying notes.

The Williams Companies, Inc.
Notes to Consolidated Financial Statements

Note 1 – General, Description of Business, Basis of Presentation, and Summary of Significant Accounting Policies

General

Unless the context clearly indicates otherwise, references in this report to “Williams,” “we,” “our,” “us,” or like terms refer to The Williams Companies, Inc. and its subsidiaries. Unless the context clearly indicates otherwise, references to “Williams,” “we,” “our,” and “us” include the operations in which we own interests accounted for as equity-method investments that are not consolidated in our financial statements. When we refer to our equity investees by name, we are referring exclusively to their businesses and operations.

WPZ Merger

On August 10, 2018, we completed our merger with Williams Partners L.P. (WPZ), our previously consolidated master limited partnership, pursuant to which we acquired all of the approximately 256 million publicly held outstanding common units of WPZ in exchange for 382 million shares of our common stock (WPZ Merger). Williams continued as the surviving entity. The WPZ Merger was accounted for as a noncash equity transaction resulting in increases to *Common stock* of \$382 million, *Capital in excess of par value* of \$6.112 billion, and *Regulatory assets, deferred charges, and other* of \$33 million and decreases to *Accumulated other comprehensive income (loss) (AOCI)* of \$3 million, *Noncontrolling interests in consolidated subsidiaries* of \$4.629 billion, and *Deferred income tax liabilities* of \$1.829 billion in the Consolidated Balance Sheet. Prior to the completion of the WPZ Merger and pursuant to its distribution reinvestment program, WPZ had issued common units to the public in 2018 and 2017 associated with reinvested distributions of \$46 million and \$61 million, respectively.

Financial Repositioning

In January 2017, we entered into agreements with WPZ, wherein we permanently waived the general partner’s incentive distribution rights and converted our 2 percent general partner interest in WPZ to a noneconomic interest in exchange for 289 million newly issued WPZ common units. Pursuant to this agreement, we also purchased approximately 277 thousand WPZ common units for \$10 million. Additionally, we purchased approximately 59 million common units of WPZ at a price of \$36.08586 per unit in a private placement transaction, funded with proceeds from our equity offering (see Note 16 – Stockholders’ Equity). According to the terms of this agreement, concurrent with WPZ’s quarterly distributions in February 2017 and May 2017, we paid additional consideration totaling \$56 million to WPZ for these units.

Description of Business

We are a Delaware corporation whose common stock is listed and traded on the New York Stock Exchange. Our operations are located in the United States and are presented within the following reportable segments: Atlantic-Gulf, Northeast G&P, and West, consistent with the manner in which our chief operating decision maker evaluates performance and allocates resources. All remaining business activities as well as corporate activities are included in Other.

Atlantic-Gulf is comprised of our interstate natural gas pipeline, Transcontinental Gas Pipe Line Company, LLC (Transco), and natural gas gathering and processing and crude oil production handling and transportation assets in the Gulf Coast region, including a 51 percent interest in Gulfstar One LLC (Gulfstar One) (a consolidated variable interest entity, or VIE), which is a proprietary floating production system, as well as a 50 percent equity-method investment in Gulfstream Natural Gas System, L.L.C. (Gulfstream), a 60 percent equity-method investment in Discovery Producer Services LLC (Discovery), and, at December 31, 2019, a 41 percent equity-method investment in Constitution Pipeline Company, LLC (Constitution) (see Note 4 – Variable Interest Entities).

Northeast G&P is comprised of our midstream gathering, processing, and fractionation businesses in the Marcellus Shale region primarily in Pennsylvania and New York, and the Utica Shale region of eastern Ohio, as well as a 66 percent interest in Cardinal Gas Services, L.L.C. (Cardinal) (a consolidated VIE) which operates in Ohio, a 69 percent equity-method investment in Laurel Mountain Midstream, LLC (Laurel Mountain), a 58 percent equity-method

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

investment in Caiman Energy II, LLC (Caiman II), and Appalachia Midstream Services, LLC, which owns equity-method investments with an approximate average 66 percent interest in multiple gas gathering systems in the Marcellus Shale (Appalachia Midstream Investments). Northeast G&P includes a 65 percent interest in Ohio Valley Midstream LLC (Northeast JV) (a consolidated VIE) which operates in West Virginia, Ohio, and Pennsylvania. The Northeast JV includes our Ohio Valley assets and Utica East Ohio Midstream LLC (UEOM), a former equity-method investment in which we acquired the remaining ownership interest in March 2019 (see Note 3 – Acquisitions and Divestitures).

West is comprised of our interstate natural gas pipeline, Northwest Pipeline LLC (Northwest Pipeline), and our gas gathering, processing, and treating operations in the Rocky Mountain region of Colorado and Wyoming, the Barnett Shale region of north-central Texas, the Eagle Ford Shale region of south Texas, the Haynesville Shale region of northwest Louisiana, and the Mid-Continent region which includes the Anadarko, Arkoma, Delaware, and Permian basins. This segment also includes our natural gas liquid (NGL) and natural gas marketing business, storage facilities, an undivided 50 percent interest in an NGL fractionator near Conway, Kansas, a 50 percent equity-method investment in Overland Pass Pipeline Company LLC (OPPL), a 50 percent equity-method investment in Rocky Mountain Midstream Holdings LLC (RMM), and a 15 percent equity-method investment in Brazos Permian II, LLC (Brazos Permian II). West also included our former natural gas gathering and processing assets in the Four Corners area of New Mexico and Colorado, which were sold during the fourth quarter of 2018 (see Note 3 – Acquisitions and Divestitures), our former 50 percent interest in Jackalope Gas Gathering Services, L.L.C. (Jackalope) (an equity-method investment following deconsolidation as of June 30, 2018), which was sold in April 2019, and our previously owned 50 percent equity-method investment in the Delaware basin gas gathering system (DBJV) (see Note 6 – Investing Activities).

Other includes minor business activities that are not operating segments, as well as corporate operations. Other also includes our previously owned operations, including an 88.5 percent undivided interest in an olefins production facility in Geismar, Louisiana (Geismar Interest), which was sold in July 2017 (see Note 3 – Acquisitions and Divestitures), and a refinery grade propylene splitter in the Gulf region, which was sold in June 2017.

Basis of Presentation

Discontinued operations

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

Significant risks and uncertainties

We believe that the carrying value of certain of our property, plant, and equipment and other identifiable intangible assets, notably certain acquired assets accounted for as business combinations between 2012 and 2014, may be in excess of current fair value. However, the carrying value of these assets, in our judgment, continues to be recoverable based on our evaluation of undiscounted future cash flows. It is reasonably possible that future strategic decisions, including transactions such as monetizing non-core assets or contributing assets to new ventures with third parties, as well as unfavorable changes in expected producer activities could impact our assumptions and ultimately result in impairments of these assets. Such transactions or developments may also indicate that certain of our equity-method investments have experienced other-than-temporary declines in value, which could result in impairment, or that the fair value of the reporting unit for our goodwill is less than its carrying amount, which would result in impairment.

Summary of Significant Accounting Policies

Principles of consolidation

The consolidated financial statements include the accounts of all entities that we control and our proportionate interest in the accounts of certain ventures in which we own an undivided interest. Our judgment is required to evaluate whether we control an entity. Key areas of that evaluation include:

- Determining whether an entity is a VIE;

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

- Determining whether we are the primary beneficiary of a VIE, including evaluating which activities of the VIE most significantly impact its economic performance and the degree of power that we and our related parties have over those activities through our variable interests;
- Identifying events that require reconsideration of whether an entity is a VIE and continuously evaluating whether we are a VIE's primary beneficiary;
- Evaluating whether other owners in entities that are not VIEs are able to effectively participate in significant decisions that would be expected to be made in the ordinary course of business such that we do not have the power to control such entities.

We apply the equity method of accounting to investments over which we exercise significant influence but do not control. Distributions received from equity-method investees are presented in the Consolidated Statement of Cash Flows according to the nature of the distributions approach, which classifies distributions received from equity-method investees as either returns on investment (cash inflows from operating activities) or returns of investment (cash inflows from investing activities) based on the nature of the activities of the equity-method investee that generated the distribution.

Equity-method investment basis differences

Differences between the cost of our equity-method investments and our underlying equity in the net assets of investees are accounted for as if the investees were consolidated subsidiaries. *Equity earnings (losses)* in the Consolidated Statement of Operations includes our allocable share of net income (loss) of investees adjusted for any depreciation and amortization, as applicable, associated with basis differences.

Use of estimates

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.

Significant estimates and assumptions include:

- Impairment assessments of investments, property, plant, and equipment, goodwill, and other identifiable intangible assets;
- Litigation-related contingencies;
- Environmental remediation obligations;
- Depreciation and/or amortization of long-lived assets;
- Depreciation and/or amortization of equity-method investment basis differences;
- Asset retirement obligations (AROs);
- Pension and postretirement valuation variables;
- Measurement of regulatory liabilities;

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

- Measurement of deferred income tax assets and liabilities, including assumptions related to the realization of deferred income tax assets;
- Revenue recognition, including estimates utilized in recognition of deferred revenue;
- Purchase price accounting.

These estimates are discussed further throughout these notes.

Regulatory accounting

Transco and Northwest Pipeline are regulated by the Federal Energy Regulatory Commission (FERC). Their rates, which are established by the FERC, are designed to recover the costs of providing the regulated services, and their competitive environment makes it probable that such rates can be charged and collected. Therefore, we have determined that it is appropriate under Accounting Standards Codification (ASC) Topic 980, “Regulated Operations,” (ASC 980) to account for and report regulatory assets and liabilities related to these operations consistent with the economic effect of the way in which their rates are established. Accounting for these operations that are regulated can differ from the accounting requirements for nonregulated operations. For example, for regulated operations, allowance for funds used during construction (AFUDC) represents the estimated cost of debt and equity funds applicable to utility plant in the process of construction and is capitalized as a cost of property, plant, and equipment because it constitutes an actual cost of construction under established regulatory practices; nonregulated operations are only allowed to capitalize the cost of debt funds related to construction activities, while a component for equity is prohibited. The components of our regulatory assets and liabilities relate to the effects of deferred taxes on equity funds used during construction, asset retirement obligations, fuel cost differentials, levelized incremental depreciation, negative salvage, pension and other postretirement benefits, and rate allowances for deferred income taxes at a historically higher federal income tax rate.

In December 2017, the Tax Cuts and Jobs Act (Tax Reform) was enacted, which, among other things, reduced the federal corporate income tax rate from 35 percent to 21 percent (see Note 8 – Provision (Benefit) for Income Taxes). In accordance with ASC 980-740-25-2, Transco and Northwest Pipeline have recognized regulatory liabilities to reflect the probable return to customers through future rates of the future decrease in income taxes payable associated with Tax Reform. These liabilities represent an obligation to return amounts directly to our customers. While a majority of our customers have entered into tariff rates based on our cost-of-service proceedings and related rate base therein, certain other contracts with customers reflect contractually-based rates that are designed to recover the cost of providing those services, including an allowance for income taxes, with no expected future rate adjustment for the term of those contracts. This relative mix of contracts for services was considered in determining the probable amount to be returned to customers through future rates. The regulatory liabilities were recorded in December 2017 through regulatory charges to operating income totaling \$674 million. Adjustments recorded in 2018 decreased this amount by \$17 million. For Transco, the timing and actual amount of the return to the customers is stated in its formal stipulation and agreement that has been filed, subject to FERC approval (See Note 19 – Contingent Liabilities and Commitments).

Certain of our equity-method investees recorded similar regulatory liabilities, for which our *Equity earnings (losses)* in the Consolidated Statement of Operations for 2017 were reduced by \$11 million related to our proportionate share of the associated regulatory charges.

Our regulatory assets associated with the effects of deferred taxes on equity funds used during construction were also impacted by Tax Reform and were reduced by \$102 million in December 2017 through a charge to *Other income (expense) – net* below *Operating income (loss)* in the Consolidated Statement of Operations (see Note 7 – Other Income and Expenses). This amount, along with the previously described charges for establishing the regulatory liabilities resulting from Tax Reform, is reported within *Regulatory charges resulting from Tax Reform* within the Consolidated Statement of Cash Flows.

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

Our current and noncurrent regulatory asset and liability balances for the years ended December 31, 2019 and 2018 are as follows:

	December 31,	
	2019	2018
	(Millions)	
Current assets reported within <i>Other current assets and deferred charges</i>	\$ 72	\$ 103
Noncurrent assets reported within <i>Regulatory assets, deferred charges, and other</i>	466	495
Total regulated assets	\$ 538	\$ 598
Current liabilities reported within <i>Accrued liabilities</i>	\$ 60	\$ 5
Noncurrent liabilities reported within <i>Regulatory liabilities, deferred income, and other</i>	1,277	1,321
Total regulated liabilities	\$ 1,337	\$ 1,326

Cash and cash equivalents

Cash and cash equivalents in the Consolidated Balance Sheet consist of highly liquid investments with original maturities of three months or less when acquired.

Accounts receivable

Accounts receivable are carried on a gross basis, with no discounting, less an allowance for doubtful accounts. We estimate the allowance for doubtful accounts based on existing economic conditions, the financial condition of our customers, and the amount and age of past due accounts. We do not offer extended payment terms and typically receive payment within one month. We consider receivables past due if full payment is not received by the contractual due date. Interest income related to past due accounts receivable is generally recognized at the time full payment is received or collectability is assured. Past due accounts are generally written off against the allowance for doubtful accounts only after all collection attempts have been exhausted.

Inventories

Inventories in the Consolidated Balance Sheet primarily consist of NGLs, natural gas in underground storage, and materials and supplies and are stated at the lower of cost or net realizable value. The cost of inventories is primarily determined using the average-cost method.

Property, plant, and equipment

Property, plant, and equipment is initially recorded at cost. We base the carrying value of these assets on estimates, assumptions, and judgments relative to capitalized costs, useful lives, and salvage values.

As regulated entities, Northwest Pipeline and Transco provide for depreciation using the straight-line method at FERC-prescribed rates. Depreciation for nonregulated entities is provided primarily on the straight-line method over estimated useful lives, except for certain offshore facilities that apply an accelerated depreciation method.

Gains or losses from the ordinary sale or retirement of property, plant, and equipment for regulated pipelines are credited or charged to accumulated depreciation. Other gains or losses are recorded in *Other (income) expense – net* included in *Operating income (loss)* in the Consolidated Statement of Operations.

Ordinary maintenance and repair costs are generally expensed as incurred. Costs of major renewals and replacements are capitalized as property, plant, and equipment.

We record a liability and increase the basis in the underlying asset for the present value of each expected future ARO at the time the liability is initially incurred, typically when the asset is acquired or constructed. As regulated

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

entities, Northwest Pipeline and Transco offset the depreciation of the underlying asset that is attributable to capitalized ARO cost to a regulatory asset as we expect to recover these amounts in future rates. We measure changes in the liability due to passage of time by applying an interest rate to the liability balance. This amount is recognized as an increase in the carrying amount of the liability and as a corresponding accretion expense included in *Operating and maintenance expenses* in the Consolidated Statement of Operations, except for regulated entities, for which the liability is offset by a regulatory asset. The regulatory asset is amortized commensurate with our collection of those costs in rates.

Measurements of AROs include, as a component of future expected costs, an estimate of the price that a third party would demand, and could expect to receive, for bearing the uncertainties inherent in the obligations, sometimes referred to as a market-risk premium.

Goodwill

Goodwill included within *Intangible assets – net of accumulated amortization* in the Consolidated Balance Sheet represents the excess of the consideration, plus the fair value of any noncontrolling interest or any previously held equity interest, over the fair value of the net assets acquired. It is not subject to amortization but is evaluated annually as of October 1 for impairment or more frequently if impairment indicators are present that would indicate it is more likely than not that the fair value of the reporting unit is less than its carrying amount. As part of the evaluation, we compare our estimate of the fair value of the reporting unit with its carrying value, including goodwill. If the carrying value of the reporting unit exceeds its fair value, an impairment charge is recorded for the difference (not to exceed the carrying value of goodwill). Judgments and assumptions are inherent in our management's estimates of fair value.

Other intangible assets

Our identifiable intangible assets included within *Intangible assets – net of accumulated amortization* in the Consolidated Balance Sheet are primarily related to gas gathering, processing, and fractionation contractual customer relationships. Our intangible assets are amortized on a straight-line basis over the period in which these assets contribute to our cash flows. We evaluate these assets for changes in the expected remaining useful lives and would reflect any changes prospectively through amortization over the revised remaining useful life.

Impairment of property, plant, and equipment, other identifiable intangible assets, and investments

We evaluate our property, plant, and equipment and other identifiable intangible assets for impairment when events or changes in circumstances indicate, in our judgment, that the carrying value of such assets may not be recoverable. When an indicator of impairment has occurred, we compare our estimate of undiscounted future cash flows attributable to the assets to the carrying value of the assets to determine whether an impairment has occurred and we may apply a probability-weighted approach to consider the likelihood of different cash flow assumptions and possible outcomes including selling in the near term or holding for the remaining estimated useful life. If an impairment of the carrying value has occurred, we determine the amount of the impairment recognized in the financial statements by estimating the fair value of the assets and recording a loss for the amount that the carrying value exceeds the estimated fair value. This evaluation is performed at the lowest level for which separately identifiable cash flows exist.

For assets identified to be disposed of in the future and considered held for sale, we compare the carrying value to the estimated fair value less the cost to sell to determine if recognition of an impairment is required. Until the assets are disposed of, the estimated fair value, which includes estimated cash flows from operations until the assumed date of sale, is recalculated when related events or circumstances change.

We evaluate our investments for impairment when events or changes in circumstances indicate, in our judgment, that the carrying value of such investments may have experienced an other-than-temporary decline in value. When evidence of loss in value has occurred, we compare our estimate of fair value of the investment to the carrying value of the investment to determine whether an impairment has occurred. If the estimated fair value is less than the carrying value and we consider the decline in value to be other-than-temporary, the excess of the carrying value over the fair value is recognized in the consolidated financial statements as an impairment charge.

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

Judgments and assumptions are inherent in our estimate of undiscounted future cash flows and an asset's or investment's fair value. Additionally, judgment is used to determine the probability of sale with respect to assets considered for disposal.

Contingent liabilities

We record liabilities for estimated loss contingencies, including environmental matters, when we assess that a loss is probable, and the amount of the loss can be reasonably estimated. These liabilities are calculated based upon our assumptions and estimates with respect to the likelihood or amount of loss and upon advice of legal counsel, engineers, or other third parties regarding the probable outcomes of the matters. These calculations are made without consideration of any potential recovery from third parties. We recognize insurance recoveries or reimbursements from others when realizable. Revisions to these liabilities are generally reflected in income when new or different facts or information become known or circumstances change that affect the previous assumptions or estimates.

Cash flows from revolving credit facilities and commercial paper program

Proceeds and payments related to borrowings under our credit facilities are reflected in the financing activities in the Consolidated Statement of Cash Flows on a gross basis. Proceeds and payments related to borrowings under our commercial paper program are reflected in the financing activities in the Consolidated Statement of Cash Flows on a net basis, as the outstanding notes generally have maturity dates less than three months from the date of issuance. (See Note 15 – Debt and Banking Arrangements.)

Treasury stock

Treasury stock purchases are accounted for under the cost method whereby the entire cost of the acquired stock is recorded as *Treasury stock, at cost* in the Consolidated Balance Sheet. Gains and losses on the subsequent reissuance of shares are credited or charged to *Capital in excess of par value* in the Consolidated Balance Sheet using the average-cost method.

Derivative instruments and hedging activities

We may utilize derivatives to manage a portion of our commodity price risk. These instruments consist primarily of swaps, futures, and forward contracts involving short- and long-term purchases and sales of energy commodities. We report the fair value of derivatives, except those for which the normal purchases and normal sales exception has been elected, in *Other current assets and deferred charges; Regulatory assets, deferred charges, and other; Accrued liabilities; or Regulatory liabilities, deferred income, and other* in the Consolidated Balance Sheet. We determine the current and noncurrent classification based on the timing of expected future cash flows of individual trades. We report these amounts on a gross basis. Additionally, we report cash collateral receivables and payables with our counterparties on a gross basis. (See Note 18 – Fair Value Measurements, Guarantees, and Concentration of Credit Risk.)

The accounting for the changes in fair value of a commodity derivative can be summarized as follows:

Derivative Treatment	Accounting Method
Normal purchases and normal sales exception	Accrual accounting
Designated in a qualifying hedging relationship	Hedge accounting
All other derivatives	Mark-to-market accounting

We may elect the normal purchases and normal sales exception for certain short- and long-term purchases and sales of physical energy commodities. Under accrual accounting, any change in the fair value of these derivatives is not reflected on the balance sheet after the initial election of the exception.

We may also designate a hedging relationship for certain commodity derivatives. For a derivative to qualify for designation in a hedging relationship, it must meet specific criteria and we must maintain appropriate documentation.

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

We establish hedging relationships pursuant to our risk management policies. We evaluate the hedging relationships at the inception of the hedge and on an ongoing basis to determine whether the hedging relationship is, and is expected to remain, highly effective in achieving offsetting changes in fair value or cash flows attributable to the underlying risk being hedged. We also regularly assess whether the hedged forecasted transaction is probable of occurring. If a derivative ceases to be or is no longer expected to be highly effective, or if we believe the likelihood of occurrence of the hedged forecasted transaction is no longer probable, hedge accounting is discontinued prospectively, and future changes in the fair value of the derivative are recognized currently in *Product sales* or *Product costs* in the Consolidated Statement of Operations.

For commodity derivatives designated as a cash flow hedge, the change in fair value of the derivative is reported in AOCI in the Consolidated Balance Sheet and reclassified into earnings in the period in which the hedged item affects earnings. Gains or losses deferred in AOCI associated with terminated derivatives, derivatives that cease to be highly effective hedges, derivatives for which the forecasted transaction is reasonably possible but no longer probable of occurring, and cash flow hedges that have been otherwise discontinued remain in AOCI until the hedged item affects earnings. If it becomes probable that the forecasted transaction designated as the hedged item in a cash flow hedge will not occur, any gain or loss deferred in AOCI is recognized in *Product sales* or *Product costs* in the Consolidated Statement of Operations at that time. The change in likelihood of a forecasted transaction is a judgmental decision that includes qualitative assessments made by us.

For commodity derivatives that are not designated in a hedging relationship, and for which we have not elected the normal purchases and normal sales exception, we report changes in fair value currently in *Product sales* or *Product costs* in the Consolidated Statement of Operations.

Certain gains and losses on derivative instruments included in the Consolidated Statement of Operations are netted together to a single net gain or loss, while other gains and losses are reported on a gross basis. Gains and losses recorded on a net basis include unrealized gains and losses on all derivatives that are not designated as hedges and for which we have not elected the normal purchases and normal sales exception.

Realized gains and losses on derivatives that require physical delivery, as well as natural gas derivatives for NGL processing activities and which are not held for trading purposes nor were entered into as a pre-contemplated buy/sell arrangement, are recorded on a gross basis.

Revenue recognition (subsequent to the adoption of ASC 606 effective January 1, 2018)

Customers in our gas pipeline businesses are comprised of public utilities, municipalities, gas marketers and producers, intrastate pipelines, direct industrial users, and electrical generators. Customers in our midstream businesses are comprised of oil and natural gas producer counterparties. Customers for our product sales are comprised of public utilities, gas marketers, and direct industrial users.

Service revenue contracts from our gas pipeline and midstream businesses contain a series of distinct services, with the majority of our contracts having a single performance obligation that is satisfied over time as the customer simultaneously receives and consumes the benefits provided by our performance. Most of our product sales contracts have a single performance obligation with revenue recognized at a point in time when the products have been sold and delivered to the customer.

Certain customers reimburse us for costs we incur associated with construction of property, plant, and equipment utilized in our operations. For our rate-regulated gas pipeline businesses that apply ASC 980, we follow FERC guidelines with respect to reimbursement of construction costs. FERC tariffs only allow for cost reimbursement and are non-negotiable in nature; thus, in our judgment, the construction activities do not represent an ongoing major and central operation of our gas pipeline businesses and are not within the scope of ASC Topic 606, “Revenue from Contracts with Customers” (ASC 606). Accordingly, cost reimbursements are treated as a reduction to the cost of the constructed asset. For our midstream businesses, reimbursement and service contracts with customers are viewed together as providing the same commercial objective, as we have the ability to negotiate the mix of consideration between reimbursements

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

and amounts billed over time. Accordingly, we generally recognize reimbursements of construction costs from customers on a gross basis as a contract liability separate from the associated costs included within property, plant, and equipment. The contract liability is recognized into service revenues as the underlying performance obligations are satisfied.

Service Revenues

Gas pipeline businesses: Revenues from our regulated interstate natural gas pipeline businesses, which are subject to regulation by certain state and federal authorities, including the FERC, include both firm and interruptible transportation and storage contracts. Firm transportation and storage agreements provide for a fixed reservation charge based on the pipeline or storage capacity reserved, and a commodity charge based on the volume of natural gas delivered/stored, each at rates specified in our FERC tariffs or based on negotiated contractual rates, with contract terms that are generally long-term in nature. Most of our long-term contracts contain an evergreen provision, which allows the contracts to be extended for periods primarily up to one year in length an indefinite number of times following the specified contract term and until terminated generally by either us or the customer. Interruptible transportation and storage agreements provide for a volumetric charge based on actual commodity transportation or storage utilized in the period in which those services are provided, and the contracts are generally limited to one-month periods or less. Our performance obligations related to our interstate natural gas pipeline businesses include the following:

- Firm transportation or storage under firm transportation and storage contracts—an integrated package of services typically constituting a single performance obligation, which includes standing ready to provide such services and receiving, transporting or storing (as applicable), and redelivering commodities;
- Interruptible transportation and storage under interruptible transportation and storage contracts—an integrated package of services typically constituting a single performance obligation once scheduled, which includes receiving, transporting or storing (as applicable), and redelivering commodities.

In situations where, in our judgment, we consider the integrated package of services as a single performance obligation, which represents a majority of our interstate natural gas pipeline contracts with customers, we do not consider there to be multiple performance obligations because the nature of the overall promise in the contract is to stand ready (with regard to firm transportation and storage contracts), receive, transport or store, and redeliver natural gas to the customer; therefore, revenue is recognized over time upon satisfaction of our daily stand ready performance obligation.

We recognize revenues for reservation charges over the performance obligation period, which is the contract term, regardless of the volume of natural gas that is transported or stored. Revenues for commodity charges from both firm and interruptible transportation services and storage services are recognized when natural gas is delivered at the agreed upon delivery point or when natural gas is injected or withdrawn from the storage facility because they specifically relate to our efforts to provide these distinct services. Generally, reservation charges and commodity charges in our interstate natural gas pipeline businesses are recognized as revenue in the same period they are invoiced to our customers. As a result of the ratemaking process, certain amounts collected by us may be subject to refund upon the issuance of final orders by the FERC in pending rate proceedings. We use judgment to record estimates of rate refund liabilities considering our and other third-party regulatory proceedings, advice of counsel, and other risks.

Midstream businesses: Revenues from our non-regulated gathering, processing, transportation, and storage midstream businesses include contracts for natural gas gathering, processing, treating, compression, transportation, and other related services with contract terms that are generally long-term in nature and may extend up to the production life of the associated reservoir. Additionally, our midstream businesses generate revenues from fees charged for storing customers' natural gas and NGLs, generally under prepaid contracted storage capacity contracts. In situations where, in our judgment, we provide an integrated package of services combined into a single performance obligation, which represents a majority of this class of contracts with customers, we do not consider there to be multiple performance obligations because the nature of the overall promise in the contract is to provide

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

gathering, processing, transportation, storage, and related services resulting in the delivery, or redelivery in the context of storage services, of pipeline-quality natural gas and NGLs to the customer. As such, revenue is recognized at the daily completion of the integrated package of services as the integrated package represents a single performance obligation. Additionally, certain contracts in our midstream businesses contain fixed or upfront payment terms that result in the deferral of revenues until such services have been performed or such capacity has been made available.

We also earn revenues from offshore crude oil and natural gas gathering and transportation and offshore production handling. These services represent an integrated package of services and are considered a single distinct performance obligation for which we recognize revenues as the services are provided to the customer.

We generally earn a contractually stated fee per unit for the volume of product transported, gathered, processed, or stored. The rate is generally fixed; however, certain contracts contain variable rates that are subject to change based on commodity prices, levels of throughput, or an annual adjustment based on a formulaic cost of service calculation. In addition, we have contracts with contractually stated fees that decline over the contract term, such as declines based on the passage of time periods or achievement of cumulative throughput amounts. For all of our contracts, we allocate the transaction price to each performance obligation based on the judgmentally determined relative standalone selling price. The excess of consideration received over revenue recognized results in the deferral of those amounts until future periods based on a units of production or straight-line methodology as these methods appropriately match the consumption of services provided to the customer. The units of production methodology requires the use of production estimates that are uncertain and the use of judgment when developing estimates of future production volumes, thus impacting the rate of revenue recognition. Production estimates are monitored as circumstances and events warrant. Certain of our gas gathering and processing agreements have minimum volume commitments (MVC). If a customer under such an agreement fails to meet its MVC for a specified period (thus not exercising all the contractual rights to gathering and processing services within the specified period, herein referred to as “breakage”), it is obligated to pay a contractually determined fee based upon the shortfall between the actual gathered or processed volumes and the MVC for the period contained in the contract. When we conclude, based on management’s judgment, it is probable that the customer will not exercise all or a portion of its remaining rights, we recognize revenue associated with such breakage amount in proportion to the pattern of exercised rights within the respective MVC period.

Under keep-whole and percent-of-liquids processing contracts, we receive commodity consideration in the form of NGLs and take title to the NGLs at the tailgate of the plant. We recognize such commodity consideration as service revenue based on the market value of the NGLs retained at the time the processing is provided. The current market value, as opposed to the market value at the contract inception date, is used due to a combination of factors, including the fact that the volume, mix, and market price of NGL consideration to be received is unknown at the time of contract execution and is not specified in our contracts with customers. Additionally, product sales revenue (discussed below) is recognized upon the sale of the NGLs to a third party based on the sales price at the time of sale. As a result, revenue is recognized in the Consolidated Statement of Operations both at the time the processing service is provided in *Service revenues – commodity consideration* and at the time the NGLs retained as part of the processing service are sold in *Product sales*. The recognition of revenue related to commodity consideration has the impact of increasing the book value of NGL inventory, resulting in higher cost of goods sold at the time of sale. Given that most inventory is sold in the same period that it is generated, the impact of these transactions is expected to have little impact to operating income.

Product Sales

In the course of providing transportation services to customers of our gas pipeline businesses and gathering and processing services to customers of our midstream businesses, we may receive different quantities of natural gas from customers than the quantities delivered on behalf of those customers. The resulting imbalances are primarily settled through the purchase or sale of natural gas with each customer under terms provided for in our FERC tariffs or gathering and processing agreements, respectively. Revenue is recognized from the sale of natural gas upon settlement of imbalances.

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Notes to Consolidated Financial Statements – (Continued)

In certain instances, we purchase NGLs, crude oil, and natural gas from our oil and natural gas producer customers. In addition, we retain NGLs as consideration in certain processing arrangements, as discussed above in the Service Revenues - Midstream businesses section. We recognize revenue from the sale of these commodities when the products have been sold and delivered. Our product sales contracts are primarily short-term contracts based on prevailing market rates at the time of the transaction.

Contract Assets

Our contract assets primarily consist of revenue recognized under contracts containing MVC features whereby management has concluded it is probable there will be a short-fall payment at the end of the current MVC period, which typically follows the calendar year, and that a significant reversal of revenue recognized currently for the future MVC payment will not occur. As a result, our contract assets related to our future MVC payments are generally expected to be collected within the next 12 months and are included within *Other current assets and deferred charges* in our Consolidated Balance Sheet until such time as the MVC short-fall payments are invoiced to the customer.

Contract Liabilities

Our contract liabilities consist of advance payments primarily from midstream business customers which include construction reimbursements, prepayments, and other billings for which future services are to be provided under the contract. These amounts are deferred until recognized in revenue when the associated performance obligation has been satisfied, which is primarily based on a units of production methodology over the remaining contractual service periods, and are classified as current or noncurrent according to when such amounts are expected to be recognized. Current and noncurrent contract liabilities are included within *Accrued liabilities* and *Regulatory liabilities, deferred income, and other*, respectively, in our Consolidated Balance Sheet.

Contracts requiring advance payments and the recognition of contract liabilities are evaluated to determine whether the advance payments provide us with a significant financing benefit. This determination is based on the combined effect of the expected length of time between when we transfer the promised good or service to the customer, when the customer pays for those goods or services, and the prevailing interest rates. We have assessed our contracts for significant financing components and determined, in our judgment, that one group of contracts entered into in contemplation of one another for certain capital reimbursements contains a significant financing component. As a result, we recognize noncash interest expense based on the effective interest method and revenue (noncash) is recognized when the underlying asset is placed into service utilizing a units of production or straight-line methodology over the life of the corresponding customer contract.

Revenue recognition (prior to the adoption of ASC 606)

Revenues

As a result of the ratemaking process, certain revenues collected by us may be subject to refunds upon the issuance of final orders by the FERC in pending rate proceedings. We record estimates of rate refund liabilities considering our and other third-party regulatory proceedings, advice of counsel, and other risks.

Service revenues

Revenues from our interstate natural gas pipeline businesses include services pursuant to long-term firm transportation and storage agreements. These agreements provide for a reservation charge based on the volume of contracted capacity and a commodity charge based on the volume of gas delivered, both at rates specified in our FERC tariffs. We recognize revenues for reservation charges ratably over the contract period regardless of the volume of natural gas that is transported or stored. Revenues for commodity charges, from both firm and interruptible transportation services and storage injection and withdrawal services, are recognized when natural gas is delivered at the agreed upon delivery point or when natural gas is injected or withdrawn from the storage facility.

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

Certain revenues from our midstream operations include those derived from natural gas gathering, processing, treating, and compression services and are performed under volumetric-based fee contracts. These revenues are recorded when services have been performed.

Certain of our gas gathering and processing agreements have MVCs. If a customer under such an agreement fails to meet its MVC for a specified period, generally measured on an annual basis, it is obligated to pay a contractually determined fee based upon the shortfall between actual production volumes and the MVC for that period. The revenue associated with MVCs is recognized in the period that the actual shortfall is determined and is no longer subject to future reduction or offset, which is generally at the end of the annual period or fourth quarter.

Crude oil gathering and transportation revenues and offshore production handling fees are recognized when the services have been performed. Certain offshore production handling contracts contain fixed payment terms that result in the deferral of revenues until such services have been performed or such capacity has been made available.

Storage revenues from our midstream operations associated with prepaid contracted storage capacity contracts are recognized on a straight-line basis over the life of the contract as services are provided.

Product sales

In the course of providing transportation services to customers of our interstate natural gas pipeline businesses, we may receive different quantities of gas from shippers than the quantities delivered on behalf of those shippers. The resulting imbalances are primarily settled through the purchase and sale of gas with our customers under terms provided for in our FERC tariffs. Revenue is recognized from the sale of gas upon settlement of the transportation and exchange imbalances.

We market NGLs, crude oil, and natural gas that we purchase from our producer customers as part of the overall service provided to producers. Revenues from marketing activities are recognized when the products have been sold and delivered.

Under our keep-whole and percent-of-liquids processing contracts, we retain the rights to all or a portion of the NGLs extracted from the producers' natural gas stream and recognize revenues when the extracted NGLs are sold and delivered.

Our former domestic olefins business produced olefins from purchased or produced feedstock and we recognized revenues when the olefins were sold and delivered.

Leases (subsequent to the adoption of ASU 2016-02 effective January 1, 2019)

We recognize a lease liability with an offsetting right-of-use asset in our Consolidated Balance Sheet for operating leases based on the present value of the future lease payments. We have elected to combine lease and nonlease components for all classes of leased assets in our calculation of the lease liability and the offsetting right-of-use asset.

Our lease agreements require both fixed and variable periodic payments, with initial terms typically ranging from one year to 15 years, but a certain land lease has a term of 108 years. Payment provisions in certain of our lease agreements contain escalation factors which may be based on stated rates or a change in a published index at a future time. The amount by which a lease escalates based on the change in a published index, which is not known at lease commencement, is considered a variable payment and is not included in the present value of the future lease payments, which only includes those that are stated or can be calculated based on the lease agreement at lease commencement. In addition to the noncancelable periods, many of our lease agreements provide for one or more extensions of the lease agreement for periods ranging from one year in length to an indefinite number of times following the specified contract term. Other lease agreements provide for extension terms that allow us to utilize the identified leased asset for an indefinite period of time so long as the asset continues to be utilized in our operations. In consideration of these renewal features, we assess the term of the lease agreements, which includes using judgment in the determination of which

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Notes to Consolidated Financial Statements – (Continued)

renewal periods and termination provisions, when at our sole election, will be reasonably certain of being exercised. Periods after the initial term or extension terms that allow for either party to cancel the lease are not considered in the assessment of the lease term. Additionally, we have elected to exclude leases with an original term of one year or less, including renewal periods, from the calculation of the lease liability and the offsetting right-of-use asset.

We use judgment in determining the discount rate upon which the present value of the future lease payments is determined. This rate is based on a collateralized interest rate corresponding to the term of the lease agreement using company, industry, and market information available.

When permitted under our lease agreements, we may sublease certain unused office space for fixed periods that could extend up to the length of the original lease agreement.

Interest capitalized

We capitalize interest during construction on major projects with construction periods of at least 3 months and a total project cost in excess of \$1 million. Interest is capitalized on borrowed funds and, where regulation by the FERC exists, on internally generated funds (equity AFUDC). The latter is included in *Other income (expense) – net* below *Operating income (loss)* in the Consolidated Statement of Operations. The rates used by regulated companies are calculated in accordance with FERC rules. Rates used by nonregulated companies are based on our average interest rate on debt.

Employee stock-based awards

We recognize compensation expense on employee stock-based awards on a straight-line basis; forfeitures are recognized when they occur. (See Note 17 – Equity-Based Compensation.)

Pension and other postretirement benefits

The funded status of each of the pension and other postretirement benefit plans is recognized separately in the Consolidated Balance Sheet as either an asset or liability. The funded status is the difference between the fair value of plan assets and the plan's benefit obligation. The plans' benefit obligations and net periodic benefit costs (credits) are actuarially determined and impacted by various assumptions and estimates. (See Note 10 – Employee Benefit Plans.)

The discount rates are determined separately for each of our pension and other postretirement benefit plans based on an approach specific to our plans. The year-end discount rates are determined considering a yield curve comprised of high-quality corporate bonds and the timing of the expected benefit cash flows of each plan.

The expected long-term rates of return on plan assets are determined by combining a review of the historical returns within the portfolio, the investment strategy included in the plans' investment policy statement, and capital market projections for the asset classes in which the portfolio is invested, as well as the weighting of each asset class.

Unrecognized actuarial gains and losses and unrecognized prior service costs and credits are deferred and recorded in AOCI or, for Transco and Northwest Pipeline, as a regulatory asset or liability, until amortized as a component of net periodic benefit cost (credit). Unrecognized actuarial gains and losses in excess of 10 percent of the greater of the benefit obligation or the market-related value of plan assets are amortized over the participants' average remaining future years of service, which is approximately 13 years for our pension plans and approximately 7 years for our other postretirement benefit plan.

The expected return on plan assets component of net periodic benefit cost (credit) is calculated using the market-related value of plan assets. For our pension plans, the market-related value of plan assets is equal to the fair value of plan assets adjusted to reflect the amortization of gains or losses associated with the difference between the expected and actual return on plan assets over a 5-year period. Additionally, the market-related value of assets may be no more than 110 percent or less than 90 percent of the fair value of plan assets at the beginning of the year. The market-related

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

value of plan assets for our other postretirement benefit plan is equal to the unadjusted fair value of plan assets at the beginning of the year.

Income taxes

We include the operations of our domestic corporate subsidiaries and income from our subsidiary partnerships in our consolidated federal income tax return and also file tax returns in various foreign and state jurisdictions as required. Deferred income taxes are computed using the liability method and are provided on all temporary differences between the financial basis and the tax basis of our assets and liabilities. Our judgment and income tax assumptions are used to determine the levels, if any, of valuation allowances associated with deferred tax assets.

Earnings (loss) per common share

Basic earnings (loss) per common share in the Consolidated Statement of Operations is based on the sum of the weighted-average number of common shares outstanding and vested restricted stock units. *Diluted earnings (loss) per common share* in the Consolidated Statement of Operations includes any dilutive effect of stock options, nonvested restricted stock units, and convertible debt, unless otherwise noted. *Diluted earnings (loss) per common share* are calculated using the treasury-stock method.

Accounting standards issued and adopted

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02 “Leases (Topic 842)” (ASU 2016-02). ASU 2016-02 establishes a comprehensive new lease accounting model. ASU 2016-02 modifies the definition of a lease, requires a dual approach to lease classification similar to prior lease accounting, and causes lessees to recognize operating leases on the balance sheet as a lease liability measured as the present value of the future lease payments with a corresponding right-of-use asset, with an exception for leases with a term of one year or less. Additional disclosures are required regarding the amount, timing, and uncertainty of cash flows arising from leases. In January 2018, the FASB issued ASU 2018-01 “Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842” (ASU 2018-01). Per ASU 2018-01, land easements and rights-of-way are required to be assessed under ASU 2016-02 to determine whether the arrangements are or contain a lease. ASU 2018-01 permits an entity to elect a transition practical expedient to not apply ASU 2016-02 to land easements that exist or expired before the effective date of ASU 2016-02 and that were not previously assessed under the previous lease guidance in ASC Topic 840 “Leases.”

In July 2018, the FASB issued ASU 2018-11 “Leases (Topic 842): Targeted Improvements” (ASU 2018-11). Prior to ASU 2018-11, a modified retrospective transition was required for financing or operating leases existing at or entered into after the beginning of the earliest comparative period presented in the financial statements. ASU 2018-11 allows entities an additional transition method to the existing requirements whereby an entity could adopt the provisions of ASU 2016-02 by recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption without adjustment to the financial statements for periods prior to adoption. ASU 2018-11 also allows a practical expedient that permits lessors to not separate nonlease components from the associated lease component if certain conditions are present. ASU 2016-02 is effective for interim and annual periods beginning after December 15, 2018. We prospectively adopted ASU 2016-02 effective January 1, 2019, and did not adjust prior periods as permitted by ASU 2018-11 (see Note 11 – Leases).

We completed our review of contracts to identify leases based on the modified definition of a lease and implemented changes to our internal controls to support management in the accounting for and disclosure of leasing activities upon adoption of ASU 2016-02. We implemented a financial lease accounting system to assist management in the accounting for leases upon adoption. The most significant changes to our financial statements as a result of adopting ASU 2016-02 relate to the recognition of a \$225 million lease liability and offsetting right-of-use asset in our Consolidated Balance Sheet for operating leases. We also evaluated ASU 2016-02’s available practical expedients on adoption and have generally elected to adopt the practical expedients, which includes the practical expedient to not separate lease and nonlease components by both lessees and lessors by class of underlying assets and the land easements practical expedient.

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Notes to Consolidated Financial Statements – (Continued)

Accounting standards issued but not yet adopted

In June 2016, the FASB issued ASU 2016-13 “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (ASU 2016-13). ASU 2016-13 changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, held-to-maturity debt securities, loans, and other instruments, entities will be required to use a new forward-looking “expected loss” model that generally will result in the earlier recognition of allowances for losses. The guidance also requires increased disclosures. ASU 2016-13 is effective for us for interim and annual periods beginning after December 15, 2019. We are adopting ASU 2016-13 effective January 1, 2020. We anticipate that ASU 2016-13 will primarily apply to our trade receivables. While we do not expect a significant financial impact, we have analyzed our historical credit loss experience, and considered current conditions and reasonable forecasts, in developing our expected credit loss rate, and continue to develop and implement processes, procedures, and internal controls in order to make the necessary credit loss assessments and required disclosures upon adoption.

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Notes to Consolidated Financial Statements – (Continued)

Note 2 – Revenue Recognition

Revenue by Category

The following table presents our revenue disaggregated by major service line:

	Transco	Northwest Pipeline	Atlantic-Gulf Midstream	Northeast Midstream	West Midstream	Other	Eliminations	Total								
	(Millions)															
2019																
Revenues from contracts with customers:																
Service revenues:																
Non-regulated gathering, processing, transportation, and storage:																
Monetary consideration	\$ —	\$ —	\$ 479	\$ 1,171	\$ 1,309	\$ —	\$ (75)	\$ 2,884								
Commodity consideration	—	—	41	12	150	—	—	203								
Regulated interstate natural gas transportation and storage	2,336	450	—	—	—	—	(6)	2,780								
Other	11	—	26	147	42	—	(16)	210								
Total service revenues	2,347	450	546	1,330	1,501	—	(97)	6,077								
Product Sales:																
NGL and natural gas	106	—	185	150	1,795	—	(173)	2,063								
Total revenues from contracts with customers	2,453	450	731	1,480	3,296	—	(270)	8,140								
Other revenues (1)	1	—	8	20	14	30	(12)	61								
Total revenues	\$ 2,454	\$ 450	\$ 739	\$ 1,500	\$ 3,310	\$ 30	\$ (282)	\$ 8,201								
2018																
Revenues from contracts with customers:																
Service revenues:																
Non-regulated gathering, processing, transportation, and storage:																
Monetary consideration	\$ —	\$ —	\$ 541	\$ 861	\$ 1,590	\$ 2	\$ (73)	\$ 2,921								
Commodity consideration	—	—	59	20	321	—	—	400								
Regulated interstate natural gas transportation and storage	1,921	443	—	—	—	—	(2)	2,362								
Other	2	—	17	94	46	—	(15)	144								
Total service revenues	1,923	443	617	975	1,957	2	(90)	5,827								
Product Sales:																
NGL and natural gas	127	—	307	287	2,421	—	(382)	2,760								
Other	—	—	—	—	21	—	(4)	17								
Total product sales	127	—	307	287	2,442	—	(386)	2,777								
Total revenues from contracts with customers																
2,050	443	924	1,262	4,399	2	(476)	8,604									
Other revenues (1)	11	—	18	21	12	32	(12)	82								
Total revenues	\$ 2,061	\$ 443	\$ 942	\$ 1,283	\$ 4,411	\$ 34	\$ (488)	\$ 8,686								

(1) Revenues not within the scope of ASC 606, “Revenue from Contracts with Customers,” consist of leasing revenues associated with our headquarters building and management fees that we receive for certain services we provide to operated equity-method investments, which are reported in *Service revenues* in our Consolidated Statement of Operations, and amounts associated with our derivative contracts, which are reported in *Product sales* in our Consolidated Statement of Operations.

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Notes to Consolidated Financial Statements – (Continued)

Contract Assets

The following table presents a reconciliation of our contract assets:

	Year Ended December 31,	
	2019	2018
	(Millions)	(Millions)
Balance at beginning of period	\$ 4	\$ 4
Revenue recognized in excess of amounts invoiced	62	66
Minimum volume commitments invoiced	(58)	(66)
Balance at end of period	<u>\$ 8</u>	<u>\$ 4</u>

Contract Liabilities

The following table presents a reconciliation of our contract liabilities:

	Year Ended December 31,	
	2019	2018
	(Millions)	(Millions)
Balance at beginning of period	\$ 1,397	\$ 1,596
Payments received and deferred	157	314
Significant financing component	13	16
Deconsolidation of Jackalope interest (Note 6)	—	(52)
Deconsolidation of certain Permian assets (Note 6)	—	(26)
Recognized in revenue	(352)	(451)
Balance at end of period	<u>\$ 1,215</u>	<u>\$ 1,397</u>

Remaining Performance Obligations

Remaining performance obligations primarily include reservation charges on contracted capacity for our gas pipeline firm transportation contracts with customers, storage capacity contracts, long-term contracts containing minimum volume commitments associated with our midstream businesses, and fixed payments associated with offshore production handling. For our interstate natural gas pipeline businesses, remaining performance obligations reflect the rates for such services in our current FERC tariffs for the life of the related contracts; however, these rates may change based on future tariffs approved by the FERC and the amount and timing of these changes are not currently known.

Our remaining performance obligations exclude variable consideration, including contracts with variable consideration for which we have elected the practical expedient for consideration recognized in revenue as billed. Certain of our contracts contain evergreen and other renewal provisions for periods beyond the initial term of the contract. The remaining performance obligation amounts as of December 31, 2019, do not consider potential future performance obligations for which the renewal has not been exercised and excludes contracts with customers for which the underlying facilities have not received FERC authorization to be placed into service. Consideration received prior to December 31, 2019, that will be recognized in future periods is also excluded from our remaining performance obligations and is instead reflected in contract liabilities.

The following table presents the amount of the contract liabilities balance expected to be recognized as revenue when performance obligations are satisfied and the transaction price allocated to the remaining performance obligations under certain contracts as of December 31, 2019.

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Notes to Consolidated Financial Statements – (Continued)

	Contract Liabilities	Remaining Performance Obligations
	(Millions)	(Millions)
2020	\$ 160	\$ 3,418
2021	121	3,241
2022	113	3,117
2023	101	2,524
2024	91	2,339
Thereafter	629	18,815
Total	\$ 1,215	\$ 33,454

Note 3 – Acquisitions and Divestitures

UEOM

As of December 31, 2018, we owned a 62 percent interest in UEOM which we accounted for as an equity-method investment. On March 18, 2019, we signed and closed the acquisition of the remaining 38 percent interest in UEOM. Total consideration paid, including post-closing adjustments, was \$741 million in cash funded through credit facility borrowings and cash on hand. As a result of acquiring this additional interest, we obtained control of and now consolidate UEOM.

UEOM is involved primarily in the processing and fractionation of natural gas and natural gas liquids in the Utica Shale play in eastern Ohio. The purpose of the acquisition was to enhance our position in the region. We expect synergies through common ownership of UEOM and our Ohio Valley midstream systems to create a more efficient platform for capital spending in the region, resulting in reduced operating and maintenance expenses and creating enhanced capabilities and benefits for producers in the area.

The acquisition of UEOM was accounted for as a business combination, which requires, among other things, that identifiable assets acquired and liabilities assumed be recognized at their acquisition date fair values. In March 2019, based on the transaction price for our purchase of the remaining interest in UEOM as finalized just prior to the acquisition, we recognized a \$74 million noncash impairment loss related to our existing 62 percent interest (see Note 18 – Fair Value Measurements, Guarantees, and Concentration of Credit Risk). Thus, there was no gain or loss on remeasuring our existing equity-method investment to fair value due to the impairment recognized just prior to closing the acquisition of the additional interest.

The valuation techniques used to measure the acquisition date fair value of the UEOM acquisition consisted of the market approach for our previous equity-method investment in UEOM and the income approach (excess earnings method) for valuation of intangible assets and depreciated replacement costs for property, plant, and equipment.

The following table presents the allocation of the acquisition date fair value of the major classes of the assets acquired, which are presented in the Northeast G&P segment, and liabilities assumed at March 18, 2019. The net assets acquired reflect the sum of the consideration transferred and the noncash elimination of the fair value of our existing equity-method investment upon our acquisition of the additional interest. The fair value of accounts receivable acquired, presented in current assets in the table, equals contractual amounts receivable. After the March 31, 2019 financial statements were issued, we received an updated valuation report from a third-party valuation firm. Significant changes from the preliminary allocation disclosed in the first quarter to the final allocation, which were recorded in the second quarter of 2019, reflect an increase of \$169 million in goodwill, and decreases of \$106 million in property, plant, and equipment and \$61 million in other intangible assets.

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Notes to Consolidated Financial Statements – (Continued)

	(Millions)
Current assets, including \$13 million cash acquired	\$ 55
Property, plant, and equipment	1,387
Other intangible assets	328
Total identifiable assets acquired	1,770
Current liabilities	7
Total liabilities assumed	7
Net identifiable assets acquired	1,763
Goodwill	188
Net assets acquired	<u>\$ 1,951</u>

The goodwill recognized in the acquisition relates primarily to enhancing and diversifying our basin positions and is reported within the Northeast G&P segment. Substantially all of the goodwill is expected to be deductible for tax purposes. Goodwill is included within *Intangible assets – net of accumulated amortization* in the Consolidated Balance Sheet and represents the excess of the consideration, plus the fair value of any previously held equity interest, over the fair value of the net assets acquired.

Other intangible assets recognized in the acquisition are related to contractual customer relationships from gas gathering, processing, and fractionation 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 contractual customer relationships discounted using a risk-adjusted discount rate. These intangible assets are being amortized on a straight-line basis over a period of 20 years which represents the term over which the contractual customer relationships are expected to contribute to our cash flows. Approximately 49 percent of the expected future revenues from these contractual customer relationships are impacted by our ability and intent to renew or renegotiate existing customer contracts. We expense costs incurred to renew or extend the terms of our gas gathering, processing, and fractionation contracts with customers. Based on the estimated future revenues during the current contract periods (as estimated at the time of the acquisition), the weighted-average period prior to the next renewal or extension of the existing contractual customer relationships was approximately 10 years.

The following unaudited pro forma *Revenues* and *Net income (loss) attributable to The Williams Companies, Inc.* for the years ended December 31, 2019 and 2018, respectively, are presented as if the UEOM acquisition had been completed on January 1, 2018. 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 (loss) 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 transaction or the potential costs to achieve these cost savings, operating synergies, and revenue enhancements.

	Year Ended December 31,	
	2019	2018
(Millions)		
Revenues	\$ 8,233	\$ 8,836
Net income (loss) attributable to The Williams Companies, Inc.	928	(128)

Adjustments to pro forma *Net income (loss) attributable to The Williams Companies, Inc.* include the removal of the previously described \$74 million impairment loss recognized in March 2019 just prior to the acquisition.

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

During the period from the acquisition date of March 18, 2019 to December 31, 2019, UEOM contributed *Revenues* of \$179 million and *Net income (loss) attributable to The Williams Companies, Inc.* of \$53 million.

Costs related to this acquisition are \$4 million and are reported within our Northeast G&P segment and included in *Selling, general, and administrative expenses* in our Consolidated Statement of Operations.

Northeast JV

Concurrent with the UEOM acquisition, we executed an agreement whereby we contributed our consolidated interests in UEOM and our Ohio Valley midstream business to a newly formed partnership. In June 2019, our partner invested approximately \$1.33 billion for a 35 percent ownership interest, and we retained 65 percent ownership of, as well as operate and consolidate, the Northeast JV business. The change in ownership due to this transaction increased *Noncontrolling interests in consolidated subsidiaries* by \$567 million, and decreased *Capital in excess of par value* by \$426 million and *Deferred income tax liabilities* by \$141 million in the Consolidated Balance Sheet. Costs related to this transaction are \$6 million and are reported within our Northeast G&P segment and included in *Selling, general, and administrative expenses* in our Consolidated Statement of Operations.

Sale of Gulf Coast Pipeline Systems

In November 2018, we completed the sale of certain assets and operations located in the Gulf Coast area for \$177 million in cash. As a result of this sale, we recorded a gain of approximately \$101 million in the fourth quarter of 2018, consisting of \$81 million in our Atlantic-Gulf segment and \$20 million in Other.

Previous impairments made to a portion of these assets and operations include \$66 million related to certain idle pipelines in the second quarter of 2018, as well as \$68 million and \$23 million related to an NGL pipeline near the Houston Ship Channel region and project development costs associated with an olefins pipeline project, respectively, in 2017. These impairments are reflected in *Impairment of certain assets* in the Consolidated Statement of Operations. (See Note 18 – Fair Value Measurements, Guarantees, and Concentration of Credit Risk.) The results of operations for this disposal group, excluding the impairments and gains noted, were not significant for the reporting periods.

Sale of Four Corners Assets

In October 2018, we completed the sale of our natural gas gathering and processing assets in the Four Corners area of New Mexico and Colorado for total consideration of \$1.125 billion. As a result of this sale, we recorded a gain of approximately \$591 million within the West segment in the fourth quarter of 2018.

The following table presents the results of operations for the Four Corners area, excluding the gain noted above:

	Year Ended December 31,	
	2018	2017
	(Millions)	
Income (loss) before income taxes of Four Corners area	\$ 52	\$ 47
Income (loss) before income taxes of Four Corners area attributable to The Williams Companies, Inc.	43	35

Sale of Geismar Interest

In July 2017, we completed the sale of Williams Olefins, L.L.C., a wholly owned subsidiary which owned our Geismar Interest, for total consideration of \$2.084 billion in cash. We received a final working capital adjustment of \$12 million in October 2017. Upon closing of the sale, we entered into a long-term supply and transportation agreement with the purchaser to provide feedstock to the plant via its Bayou Ethane pipeline system. As a result of this sale, we recorded a gain of \$1.095 billion in the third quarter of 2017 in our Other segment.

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

The following table presents the results of operations for the Geismar Interest, excluding the gain noted above:

	Year Ended December 31,
	2017
	(Millions)
Income (loss) before income taxes of the Geismar Interest	\$ 26
Income (loss) before income taxes of the Geismar Interest attributable to The Williams Companies, Inc.	19

Note 4 – Variable Interest Entities

Consolidated VIEs

As of December 31, 2019, we consolidate the following VIEs:

Gulfstar One

We own a 51 percent interest in Gulfstar One, a subsidiary that, due to certain risk-sharing provisions in its customer contracts, is a VIE. Gulfstar One includes a proprietary floating-production system, Gulfstar FPS, and associated pipelines which provide production handling and gathering services in the eastern deepwater Gulf of Mexico. We are the primary beneficiary because we have the power to direct the activities that most significantly impact Gulfstar One's economic performance.

Cardinal

We own a 66 percent interest in Cardinal, a subsidiary that provides gathering services for the Utica Shale region and is a VIE due to certain risks shared with customers. We are the primary beneficiary because we have the power to direct the activities that most significantly impact Cardinal's economic performance. Future expansion activity is expected to be funded with capital contributions from us and the other equity partner on a proportional basis.

Northeast JV

As a result of the June 2019 sale of a 35 percent interest in the Northeast JV (Note 3 – Acquisitions and Divestitures), we now own a 65 percent interest in the Northeast JV, a subsidiary that is a VIE due to certain of our voting rights being disproportionate to our obligation to absorb losses and substantially all of the Northeast JV's activities being performed on our behalf. We are the primary beneficiary because we have the power to direct the activities that most significantly impact the Northeast JV's economic performance. The Northeast JV provides midstream services for producers in the Marcellus Shale and Utica Shale regions. Future expansion activity is expected to be funded with capital contributions from us and the other equity partner on a proportional basis.

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

The following table presents amounts included in our Consolidated Balance Sheet that are only for the use or obligation of our consolidated VIEs:

	December 31,		
			2018
	(Millions)		
Assets (liabilities):			
<i>Cash and cash equivalents</i>	\$	102	\$ 33
<i>Trade accounts and other receivables – net</i>		167	62
<i>Other current assets and deferred charges</i>		5	2
<i>Property, plant, and equipment – net</i>		5,745	2,363
<i>Intangible assets – net of accumulated amortization</i>		2,669	1,177
<i>Regulatory assets, deferred charges, and other</i>		13	—
<i>Accounts payable</i>		(58)	(15)
<i>Accrued liabilities</i>		(66)	(115)
<i>Regulatory liabilities, deferred income, and other</i>		(283)	(264)

Nonconsolidated VIEs

Jackalope

At December 31, 2018, we owned a 50 percent interest in Jackalope, which provides gathering and processing services for the Powder River basin and was a VIE due to certain risks shared with customers. In April 2019, we sold our interest in Jackalope for \$485 million in cash (see Note 6 – Investing Activities).

Brazos Permian II

We own a 15 percent interest in Brazos Permian II (see Note 6 – Investing Activities), which provides gathering and processing services in the Delaware basin and is a VIE due primarily to our limited participating rights as the minority equity holder. At December 31, 2019, the carrying value of our investment in Brazos Permian II was \$194 million. Our maximum exposure to loss is limited to the carrying value of our investment.

Constitution

As of December 31, 2019, we own a 41 percent interest in Constitution, a subsidiary which proposed a pipeline project extending from Susquehanna County, Pennsylvania, to the Iroquois Gas Transmission and the Tennessee Gas Pipeline systems in New York. Constitution was considered a VIE due to shipper fixed-payment commitments under its long-term firm transportation contracts, and we were the primary beneficiary because we had the power to direct the activities that most significantly impacted Constitution's economic performance during its construction phase. Thus, prior to December 31, 2019, we consolidated Constitution.

Although Constitution received a certificate of public convenience and necessity from the FERC to construct and operate the proposed pipeline and obtained, among other approvals, a waiver of the water quality certification under Section 401 of the Clean Water Act for the New York portion of the project, the members of Constitution, following extensive evaluation and discussion, recently determined that the underlying risk-adjusted return for this greenfield pipeline project has diminished in such a way that further development is no longer supported. Accordingly, we recognized a \$354 million impairment of the consolidated capitalized project costs in the fourth quarter of 2019, which considered our estimate of the fair value of the disposal group under various probability-weighted disposal alternatives. (See Note 18 – Fair Value Measurements, Guarantees, and Concentration of Credit Risk.) Our partners' \$209 million share of this impairment is reflected within *Net income (loss) attributable to noncontrolling interests* in the Consolidated Statement of Operations.

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

Constitution is still considered a VIE due to insufficient equity at risk, but we are no longer the primary beneficiary. As a result, we deconsolidated Constitution as of December 31, 2019, recognizing a loss on deconsolidation of \$27 million in the fourth quarter of 2019, which is included in *Other investing income (loss) - net* in the Consolidated Statement of Operations.

Note 5 – Related Party Transactions

Transactions with Equity-Method Investees

We have purchases from our equity-method investees included in *Product costs* in the Consolidated Statement of Operations of \$304 million, \$236 million, and \$226 million for the years ended 2019, 2018, and 2017, respectively. We have \$36 million and \$18 million included in *Accounts payable* in the Consolidated Balance Sheet with our equity-method investees at December 31, 2019 and 2018, respectively.

We have operating agreements with certain equity-method investees. These operating agreements typically provide for reimbursement or payment to us for certain direct operational payroll and employee benefit costs, materials, supplies, and other charges and also for management services. The total charges to equity-method investees for these fees are \$103 million, \$75 million, and \$67 million for the years ended 2019, 2018, and 2017, respectively.

Note 6 – Investing Activities

Other investing income (loss) – net

The following table presents certain items reflected in *Other investing income (loss) – net* in the Consolidated Statement of Operations:

	Year Ended December 31,		
	2019	2018	2017
	(Millions)		
Impairment of equity-method investments (Note 18)	\$ (186)	\$ (32)	\$ —
Gain (loss) on deconsolidation of businesses	(29)	203	—
Gain on disposition of equity-method investments	122	—	269
Other	14	16	13
Other investing income (loss) – net	\$ (79)	\$ 187	\$ 282

Brazos Permian II Equity-Method Investment

During the fourth quarter of 2018, we contributed the majority of our existing Delaware basin assets and \$27 million in cash in exchange for a 15 percent interest in the Brazos Permian II, which consists of gas and crude oil gathering pipelines, natural gas processing, and oil storage facilities. We recorded a deconsolidation gain of \$141 million reflected in *Other investing income (loss) – net* in the Consolidated Statement of Operations reflecting the excess of the fair value of our acquired interest over the carrying value of the assets contributed. We estimated the fair value of our interest to be \$192 million primarily using a market approach (a Level 3 measurement within the fair value hierarchy). This approach involved the observation of recent transaction multiples in the Permian basin, including recent acquisitions consummated during 2018. Our interest in Brazos Permian II is considered an equity-method investment due to the fact that we are able to exert significant influence over its operating and financial policies.

RMM Equity-Method Investment

During the third quarter of 2018, our joint venture, RMM, purchased a natural gas and oil gathering and natural gas processing business in Colorado's Denver-Julesburg basin. Our initial economic ownership was 40 percent, but increased to 50 percent at December 31, 2018, based on additional capital contributions made after the initial purchase.

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

Jackalope Deconsolidation

During the second quarter of 2018, we deconsolidated our 50 percent interest in Jackalope (see Note 4 – Variable Interest Entities). We recorded our interest in Jackalope as an equity-method investment at its estimated fair value, resulting in a deconsolidation gain of \$62 million reflected in *Other investing income (loss) – net* in the Consolidated Statement of Operations. We estimated the fair value of our interest to be \$310 million using an income approach based on expected future cash flows and an appropriate discount rate (a Level 3 measurement within the fair value hierarchy). The determination of expected future cash flows involved significant assumptions regarding gathering and processing volumes and related capital spending. A 10.9 percent discount rate was utilized and reflected our estimate of the cost of capital as impacted by market conditions and risks associated with the underlying business. The deconsolidated carrying value of the net assets of Jackalope included \$47 million of goodwill.

Sale of Jackalope

In April 2019, we sold our 50 percent equity-method interest in Jackalope for \$485 million in cash, resulting in a gain on the disposition of \$122 million, reflected in *Other investing income (loss) – net* in the Consolidated Statement of Operations.

Constitution Deconsolidation

We deconsolidated our interest in Constitution as of December 31, 2019, recognizing a loss on deconsolidation of \$27 million. See Note 4 – Variable Interest Entities for further discussion.

Acquisition of Additional Interests in Appalachia Midstream Investments

During the first quarter of 2017, we exchanged all of our 50 percent interest in DBJV for an increased interest in two natural gas gathering systems that are part of the Appalachia Midstream Investments and \$155 million in cash. This transaction was recorded based on our estimate of the fair value of the interests received as we have more insight to this value as we operate the underlying assets. Following this exchange, we have an approximate average 66 percent interest in the Appalachia Midstream Investments. We continue to account for this investment under the equity method of accounting due to the significant participatory rights of our partners such that we do not exercise control. We also sold all of our interest in Ranch Westex JV LLC (Ranch Westex) for \$45 million. These transactions resulted in a total gain of \$269 million reflected in *Other investing income (loss) – net* in the Consolidated Statement of Operations.

The fair value of the increased interests in the Appalachia Midstream Investments received as consideration was estimated to be \$1.1 billion using an income approach based on expected cash flows and an appropriate discount rate (a Level 3 measurement within the fair value hierarchy). The determination of estimated future cash flows involved significant assumptions regarding gathering volumes, rates, and related capital spending. A 9.5 percent discount rate was utilized and reflected our estimate of the cost of capital as impacted by market conditions and risks associated with the underlying business.

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

Equity-Method Investments

	Ownership Interest at December 31, 2019	December 31,	
		2019	2018
	(Millions)		
Appalachia Midstream Investments	(1)	\$ 3,236	\$ 3,218
RMM	50%	881	776
Discovery	60%	472	507
Caiman II	58%	428	412
OPPL	50%	403	415
Laurel Mountain	69%	249	314
Gulfstream	50%	217	225
Brazos Permian II	15%	194	191
UEOM	(2)	—	1,293
Jackalope	(3)	—	343
Other	Various	155	127
		<u>\$ 6,235</u>	<u>\$ 7,821</u>

- (1) Includes equity-method investments in multiple gathering systems in the Marcellus Shale with an approximate average 66 percent interest.
- (2) At December 31, 2018, we owned a 62 percent interest in UEOM. On March 18, 2019, we acquired the remaining 38 percent interest. As a result of acquiring this additional interest, we obtained control of and now consolidate UEOM.
- (3) At December 31, 2018, we owned a 50 percent interest in Jackalope. In April 2019, we sold our interest in Jackalope.

We have differences between the carrying value of our equity-method investments and the underlying equity in the net assets of the investees of \$1 billion at December 31, 2019 and \$1.8 billion at December 31, 2018. These differences primarily relate to our investments in Appalachia Midstream Investments (and UEOM at December 31, 2018), resulting from property, plant, and equipment, as well as customer-based intangible assets and goodwill.

Purchases of and contributions to equity-method investments

We generally fund our portion of significant expansion or development projects of these investees through additional capital contributions. These transactions increased the carrying value of our investments and included:

	Year Ended December 31,		
	2019	2018	2017
	(Millions)		
RMM	\$ 145	\$ 795	\$ —
Appalachia Midstream Investments	140	246	70
Laurel Mountain	36	16	—
Caiman II	28	—	24
Jackalope	24	42	—
Brazos Permian II	18	27	—
Discovery	—	5	1
DBJV	—	—	32
Other	62	1	5
	<u>\$ 453</u>	<u>\$ 1,132</u>	<u>\$ 132</u>

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

Dividends and distributions

The organizational documents of entities in which we have an equity-method investment generally require distribution of available cash to members on at least a quarterly basis. These transactions reduced the carrying value of our investments and included:

	Year Ended December 31,		
	2019	2018	2017
	(Millions)	(Millions)	(Millions)
Appalachia Midstream Investments	\$ 293	\$ 297	\$ 270
Gulfstream	86	93	92
OPPL	77	73	68
Caiman II	42	46	49
Discovery	41	45	127
RMM	38	—	—
Laurel Mountain	30	23	32
UEOM	13	70	80
DBJV	—	—	39
Other	37	46	27
	\$ 657	\$ 693	\$ 784

Summarized Financial Position and Results of Operations of All Equity-Method Investments

	December 31,		
	2019	2018	2017
	(Millions)	(Millions)	(Millions)
Assets (liabilities):			
Current assets	\$ 581	\$ 834	\$ 834
Noncurrent assets	11,966	13,199	—
Current liabilities	(341)	(605)	(605)
Noncurrent liabilities	(2,532)	(2,491)	(2,491)

	Year Ended December 31,		
	2019	2018	2017
	(Millions)	(Millions)	(Millions)
Gross revenue	\$ 2,490	\$ 2,411	\$ 1,961
Operating income	685	804	871
Net income	598	795	806

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

Note 7 – Other Income and Expenses

The following tables present by segment, certain other items included in our Consolidated Statement of Operations:

	Year Ended December 31,		
	2019	2018	2017
	(Millions)	(Millions)	(Millions)
<i>Other (income) expense – net within Costs and expenses</i>			
Atlantic-Gulf			
Amortization of regulatory assets associated with asset retirement obligations	\$ 21	\$ 33	\$ 33
Net accrual (amortization) of regulatory liability related to overcollection of certain employee expenses	(17)	22	22
Project development costs related to Constitution (see Note 4)	3	4	16
Amortization of regulatory liability associated with Tax Reform	(26)	—	—
Gains on asset retirements	—	(12)	—
West			
Regulatory charge per approved rates related to Tax Reform	24	24	—
Charge for regulatory liability associated with the decrease in Northwest Pipeline's estimated deferred state income tax rates following WPZ Merger	—	12	—
Gains on contract settlements and terminations	—	—	(15)
Other			
Change to (benefit of) regulatory asset associated with Transco's estimated deferred state income tax rate following WPZ Merger	12	(37)	—
Gain on sale of refinery grade propylene splitter	—	—	(12)

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

	Year Ended December 31,		
	2019	2018	2017
	(Millions)	(Millions)	(Millions)
<i>Other income (expense) – net below Operating income (loss)</i>			
Atlantic-Gulf			
Allowance for equity funds used during construction	\$ 29	\$ 87	\$ 70
Settlement charge from pension early payout program	—	(7)	(15)
Regulatory adjustments resulting from Tax Reform	—	—	(33)
Northeast G&P			
Settlement charge from pension early payout program	—	(4)	(7)
West			
Settlement charge from pension early payout program	—	(6)	(13)
Regulatory adjustments resulting from Tax Reform	—	—	(6)
Other			
Income associated with a regulatory asset related to deferred taxes on equity funds used during construction	9	35	52
Net gain (loss) associated with early retirement of debt	—	(7)	27
Settlement charge from pension early payout program	—	(5)	(35)
Regulatory adjustments resulting from Tax Reform	—	(1)	(63)

Severance and other related costs included within *Operating and maintenance expenses* and *Selling, general, and administrative expenses* are as follows:

	Year Ended December 31,		
	2019	2018	2017
	(Millions)	(Millions)	(Millions)
Atlantic-Gulf			
Northeast G&P	\$ 32	\$ —	\$ —
West	7	—	—
Other	17	—	—
	1	—	22

Selling, general, and administrative expenses for the year ended December 31, 2018, includes a \$35 million charge associated with a charitable contribution of preferred stock to The Williams Companies Foundation, Inc. (a not-for-profit corporation) within the Other segment (see Note 16 – Stockholders' Equity) and \$20 million for WPZ Merger related costs within the Other segment.

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

Note 8 – Provision (Benefit) for Income Taxes

The *Provision (benefit) for income taxes* includes:

	Year Ended December 31,		
	2019	2018	2017
	(Millions)		
Current:			
Federal	\$ (41)	\$ (83)	\$ 15
State	(5)	1	23
Foreign	2	—	—
	(44)	(82)	38
Deferred:			
Federal	280	183	(2,004)
State	99	37	(8)
	379	220	(2,012)
Provision (benefit) for income taxes	\$ 335	\$ 138	\$ (1,974)

Reconciliations from the *Provision (benefit) at statutory rate* to recorded *Provision (benefit) for income taxes* are as follows:

	Year Ended December 31,		
	2019	2018	2017
	(Millions)		
Provision (benefit) at statutory rate	\$ 224	\$ 69	\$ 187
Increases (decreases) in taxes resulting from:			
Impact of nontaxable noncontrolling interests	29	(73)	(117)
Federal Tax Reform rate change	—	—	(1,932)
State income taxes (net of federal benefit)	74	(10)	(17)
State deferred income tax rate change	—	38	26
Foreign operations – net (including tax effect of Canadian Sale)	2	—	(127)
Federal valuation allowance	3	105	—
Other – net	3	9	6
Provision (benefit) for income taxes	\$ 335	\$ 138	\$ (1,974)

Income (loss) from continuing operations before income taxes includes \$6 million, \$3 million, and \$7 million of foreign loss in 2019, 2018, and 2017, respectively.

Foreign operations – net (including tax effect of Canadian Sale) in 2017 reflects the release of a valuation allowance associated with impairments and losses on the sale of our Canadian operations.

On December 22, 2017, Tax Reform was enacted. Most of the provisions of Tax Reform were effective after January 1, 2018. However, the deferred tax impact of reducing the U.S. corporate tax rate from 35 percent to 21 percent was recognized in the period of enactment. This remeasurement resulted in a reduction of our deferred tax liabilities of approximately \$1.9 billion, with a corresponding net adjustment to *Provision (benefit) for income taxes* in 2017.

During the course of audits of our business by domestic and foreign tax authorities, we frequently face challenges regarding the amount of taxes due. These challenges include questions regarding the timing and amount of deductions and the allocation of income among various tax jurisdictions. In evaluating the liability associated with our various filing positions, we apply the two-step process of recognition and measurement. In association with this liability, we record an estimate of related interest and tax

exposure as a component of our tax provision. The impact of this accrual is included within *Other – net* in our reconciliation of the *Provision (benefit) at statutory rate* to recorded *Provision (benefit) for income taxes*.

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

Significant components of *Deferred income tax liabilities* and *Deferred income tax assets* are as follows:

	December 31,	
	2019	2018
	(Millions)	
Deferred income tax liabilities:		
Property, plant and equipment	\$ 1,921	\$ 2,317
Investments	1,411	295
Other	82	30
Total deferred income tax liabilities	3,414	2,642
Deferred income tax assets:		
Accrued liabilities	729	667
Minimum tax credit	29	71
Foreign tax credit	140	140
Federal loss carryovers	544	147
State losses and credits	362	319
Other	147	94
Total deferred income tax assets	1,951	1,438
Less valuation allowance	319	320
Net deferred income tax assets	1,632	1,118
Overall net deferred income tax liabilities	\$ 1,782	\$ 1,524

The valuation allowance at December 31, 2019 and 2018, serves to reduce the available deferred income tax assets to an amount that will, more likely than not, be realized. We considered all available positive and negative evidence, including projected future taxable income, which incorporates available tax planning strategies, and management's estimate of future reversals of existing taxable temporary differences, and have determined that a portion of our deferred income tax assets related to the *Foreign tax credit* and *State losses and credits* may not be realized. The completion of the WPZ Merger (see Note 1 – General, Description of Business, Basis of Presentation, and Summary of Significant Accounting Policies) was a taxable exchange to the WPZ unit holders, which resulted in an adjustment to the tax basis in the underlying assets deemed acquired. A reduction to the deferred tax liability of \$1.829 billion related to the book-tax basis difference in this investment was recorded in 2018. Increased tax depreciation from the additional tax basis will reduce future taxable income, which serves to impact our expected realization of the *Foreign tax credit*. The amounts presented in the table above are, with respect to state items, before any federal benefit. The change from prior year for the *State losses and credits* reflects increases in losses and credits generated in the current and prior years less losses and/or credits utilized in the current year. We have loss and credit carryovers in multiple state taxing jurisdictions. Additionally, valuation allowances on state net operating losses decreased by \$31 million in 2018 after the completion of the WPZ Merger. These attributes generally expire between 2019 and 2038 with some carryovers having indefinite carryforward periods. The remaining federal *Minimum tax credit* of \$29 million will be refunded/utilized no later than 2021.

Federal loss carryovers include deferred tax assets of \$5 million at the end of 2019 that are expected to be utilized by us prior to expiration between 2020 and 2023. Deferred tax assets on net operating loss carryovers of \$539 million have no expiration date.

Cash refunds for income taxes (net of payments) were \$86 million in 2019. Cash payments for income taxes (net of refunds) were \$11 million, and \$28 million in 2018 and 2017, respectively.

As of December 31, 2019, we had approximately \$51 million of unrecognized tax benefits. If recognized, income tax expense would be reduced by \$51 million for each of the years 2019 and 2018, including the effect of these changes on other tax attributes, with state income tax amounts included net of federal tax effect. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:



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

	2019	2018
	(Millions)	
Balance at beginning of period	\$ 51	\$ 50
Additions for tax positions of prior years	—	1
Balance at end of period	<u>\$ 51</u>	<u>\$ 51</u>

We recognize related interest and penalties as a component of *Provision (benefit) for income taxes*. Total interest and penalties recognized as part of income tax provision were expenses of \$500 thousand and \$800 thousand for 2019 and 2018, respectively. Approximately \$3 million of interest and penalties primarily relating to uncertain tax positions have been accrued as of both December 31, 2019 and 2018.

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.

Consolidated U.S. Federal income tax returns are open to Internal Revenue Service (IRS) examination for years after 2010, excluding 2015, for which the statute expired on August 31, 2019. As of December 31, 2019, examinations of tax returns for 2011 through 2013 are currently in process. We do not expect material changes in our financial position resulting from these examinations. The statute of limitations for most states expires one year after expiration of the IRS statute. Generally, tax returns for our previously owned Canadian entities are open to audit for tax years after 2012. Tax years 2013 and 2014 are currently under income tax examination, while tax year 2016 is under Goods and Services Tax (GST) examination. In September 2016, we sold the majority of our Canadian operations and, as part of the sale, indemnified the purchaser for any increases in Canadian tax due to an audit of any tax periods prior to the sale.

Note 9 – Earnings (Loss) Per Common Share from Continuing Operations

	Year Ended December 31,		
	2019	2018	2017
	(Dollars in millions, except per-share amounts; shares in thousands)		
Income (loss) from continuing operations available to common stockholders	\$ 862	\$ (156)	\$ 2,174
Basic weighted-average shares	<u>1,212,037</u>	<u>973,626</u>	<u>826,177</u>
Effect of dilutive securities:			
Nonvested restricted stock units	1,811	—	1,704
Stock options	163	—	637
Diluted weighted-average shares (1)	<u>1,214,011</u>	<u>973,626</u>	<u>828,518</u>
Earnings (loss) per common share from continuing operations:			
Basic	\$.71	\$ (.16)	\$ 2.63
Diluted	\$.71	\$ (.16)	\$ 2.62

(1) For the year ended December 31, 2018, 2.0 million weighted-average nonvested restricted stock units and 0.5 million weighted-average stock options have been excluded from the computation of diluted earnings (loss) per common share as their inclusion would be antidilutive due to our loss from continuing operations attributable to The Williams Companies, Inc.

Note 10 – Employee Benefit Plans

We have noncontributory defined benefit pension plans in which eligible employees participate. Currently, eligible employees earn benefits primarily based on a cash balance formula. At the time of retirement, participants may elect, to the extent they are eligible for the various options, to receive annuity payments, a lump-sum payment, or a combination of annuity and lump-sum payments. In addition to our pension plans, we currently provide subsidized retiree medical and life insurance benefits (other postretirement benefits) to certain eligible participants. Generally, employees hired after December 31, 1991, are not eligible for the subsidized retiree medical benefits, except for participants that were employees or retirees of Transco Energy Company on December 31, 1995. Subsidized retiree medical benefits for

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

eligible participants age 65 and older are paid through contributions to health reimbursement accounts. Subsidized retiree medical benefits for eligible participants under age 65 are provided through a self-insured medical plan sponsored by us. The self-insured retiree medical plan provides for retiree contributions and contains other cost-sharing features such as deductibles, co-payments, and co-insurance. The accounting for this plan anticipates estimated future increases to our contribution levels to the health reimbursement accounts for participants age 65 and older, as well as future cost-sharing that is consistent with our expressed intent to increase the retiree contribution level generally in line with health care cost increases for participants under age 65.

In 2018, our defined benefit pension and our defined contribution plans were amended. Eligible employees hired or rehired on or after January 1, 2019, are not eligible to participate in the pension plan, but are eligible for an additional fixed annual contribution made by us to the defined contribution plan. Additionally, as of January 1, 2020, certain active eligible employees no longer receive future compensation credits under the defined benefit pension plan, but are eligible for an additional fixed annual contribution made by us to the defined contribution plan. Also as of January 1, 2020, certain active eligible employees continue to receive compensation credits under the defined benefit pension plans and these employees are not eligible to receive the fixed annual contribution under the defined contribution plan. As a result of this amendment, a curtailment gain and a prior service credit were recorded to *Accumulated other comprehensive income (loss)*. These amounts were not significant and are reported in Net actuarial gain (loss) within the subsequent tables of changes in benefit obligations, amounts included in *Accumulated other comprehensive income (loss)*, and other changes in plan assets and benefit obligations recognized in other comprehensive income (loss) before taxes.

In 2017, we initiated a program to pay out certain deferred vested pension benefits to reduce investment risk, cash funding volatility, and administrative costs. In December 2017 and August 2018, lump-sum payments were made, and annuity payments commenced in relation to this program. As a result of these lump-sum payments, as well as lump-sum benefit payments made throughout 2017 and 2018, settlement accounting was required. We recognized pre-tax, noncash settlement charges of \$23 million in 2018 and \$71 million in 2017, which are substantially reported in *Other income (expense) – net* below *Operating income (loss)* in the Consolidated Statement of Operations (see Note 7 – Other Income and Expenses). These amounts are included within the subsequent tables of net periodic benefit cost (credit) and other changes in plan assets and benefit obligations recognized in other comprehensive income (loss) before taxes.

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

Funded Status

The following table presents the changes in benefit obligations and plan assets for pension benefits and other postretirement benefits for the years indicated:

	Pension Benefits		Other Postretirement Benefits	
	2019	2018	2019	2018
	(Millions)			
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 1,187	\$ 1,319	\$ 186	\$ 206
Service cost	45	50	1	1
Interest cost	50	46	8	7
Plan participants' contributions	—	—	2	2
Benefits paid	(111)	(35)	(12)	(13)
Net actuarial loss (gain)	69	(90)	30	(17)
Settlements	(3)	(103)	—	—
Net increase (decrease) in benefit obligation	50	(132)	29	(20)
Benefit obligation at end of year	<u>1,237</u>	<u>1,187</u>	<u>215</u>	<u>186</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	1,132	1,227	214	227
Actual return on plan assets	218	(45)	38	(7)
Employer contributions	63	88	5	5
Plan participants' contributions	—	—	2	2
Benefits paid	(111)	(35)	(12)	(13)
Settlements	(3)	(103)	—	—
Net increase (decrease) in fair value of plan assets	167	(95)	33	(13)
Fair value of plan assets at end of year	<u>1,299</u>	<u>1,132</u>	<u>247</u>	<u>214</u>
Funded status — overfunded (underfunded)	<u>\$ 62</u>	<u>\$ (55)</u>	<u>\$ 32</u>	<u>\$ 28</u>
Accumulated benefit obligation	<u><u>\$ 1,221</u></u>	<u><u>\$ 1,171</u></u>		

The overfunded (underfunded) status of our pension plans and other postretirement benefit plan presented in the previous table are recognized in the Consolidated Balance Sheet within the following accounts:

	December 31,	
	2019	2018
	(Millions)	
Overfunded (underfunded) pension plans:		
Noncurrent assets	\$ 92	\$ —
Current liabilities	(3)	(2)
Noncurrent liabilities	(27)	(53)
Overfunded (underfunded) other postretirement benefit plan:		
Noncurrent assets	38	34
Current liabilities	(6)	(6)

The plan assets within our other postretirement benefit plan are intended to be used for the payment of benefits for certain groups of participants. The *Current liabilities* for the other postretirement benefit plan represent the current portion of benefits expected to be payable in the subsequent year for the groups of participants whose benefits are not expected to be paid from plan assets.

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

The pension plans' benefit obligation *Net actuarial loss (gain)* of \$69 million in 2019 is primarily due to the impact of a decrease in the discount rates utilized to calculate the benefit obligation, partially offset by the impact of a decrease in the cash balance interest crediting rate assumption. The pension plans' benefit obligation *Net actuarial loss (gain)* of \$(90) million in 2018 is primarily due to the impact of an increase in the discount rates utilized to calculate the benefit obligation.

The 2019 benefit obligation *Net actuarial loss (gain)* of \$30 million for our other postretirement benefit plan is primarily due a decrease in the discount rate used to calculate the benefit obligation and other assumption changes, partially offset by the impact of benefit payment experience and tax law changes. The 2018 benefit obligation *Net actuarial loss (gain)* of \$(17) million for our other postretirement benefit plan is primarily due to an increase in the discount rate used to calculate the benefit obligation.

The following table summarizes information for pension plans with obligations in excess of plan assets.

	December 31,	
	2019	2018
	(Millions)	
Plans with a projected benefit obligation in excess of plan assets:		
Projected benefit obligation	\$ 29	\$ 1,187
Fair value of plan assets	—	1,132

Plans with an accumulated benefit obligation in excess of plan assets:

Accumulated benefit obligation	26	367
Fair value of plan assets	—	326

Pre-tax amounts not yet recognized in *Net periodic benefit cost (credit)* at December 31 are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2019	2018	2019	2018
	(Millions)		(Millions)	
Amounts included in <i>Accumulated other comprehensive income (loss)</i>:				
Net actuarial loss	\$ (243)	\$ (347)	\$ (21)	\$ (12)
Amounts included in regulatory liabilities associated with Transco and Northwest Pipeline:				
Net actuarial gain	N/A	N/A	\$ 11	\$ 4

In addition to the regulatory liabilities included in the previous table, differences in the amount of actuarially determined *Net periodic benefit cost (credit)* for our other postretirement benefit plan and the other postretirement benefit costs recovered in rates for Transco and Northwest Pipeline are deferred as a regulatory asset or liability. We have regulatory liabilities of \$106 million at December 31, 2019 and \$116 million at December 31, 2018, related to these deferrals. Additionally, Transco recognizes a regulatory liability for rate collections in excess of its amount funded to the tax-qualified pension plans. At December 31, 2019 and 2018, these regulatory liabilities were \$43 million and \$49 million, respectively. These pension and other postretirement plans amounts will be reflected in rates based on the rate structures of these gas pipelines.

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

Net Periodic Benefit Cost (Credit)

Net periodic benefit cost (credit) for the years ended December 31 consist of the following:

	Pension Benefits			Other Postretirement Benefits		
	2019	2018	2017	2019	2018	2017
	(Millions)					
Components of net periodic benefit cost (credit):						
Service cost	\$ 45	\$ 50	\$ 50	\$ 1	\$ 1	\$ 1
Interest cost	50	46	59	8	7	8
Expected return on plan assets	(61)	(63)	(82)	(10)	(11)	(11)
Amortization of prior service credit	—	—	—	—	(2)	(13)
Amortization of net actuarial loss	15	23	27	—	—	—
Net actuarial loss from settlements	1	23	71	—	—	—
Reclassification to regulatory liability	—	—	—	1	2	3
Net periodic benefit cost (credit)	\$ 50	\$ 79	\$ 125	\$ —	\$ (3)	\$ (12)

The components of *Net periodic benefit cost (credit)* other than the *service cost* component are included in *Other income (expense) – net* below *Operating income (loss)* in the Consolidated Statement of Operations.

Items Recognized in Other Comprehensive Income (Loss) and Regulatory Assets and Liabilities

Other changes in plan assets and benefit obligations recognized in *Other comprehensive income (loss)* before taxes for the years ended December 31 consist of the following:

	Pension Benefits			Other Postretirement Benefits		
	2019	2018	2017	2019	2018	2017
	(Millions)					
Other changes in plan assets and benefit obligations recognized in <i>Other comprehensive income (loss)</i>:						
Net actuarial gain (loss)	\$ 88	\$ (18)	\$ 62	\$ (9)	\$ 9	\$ (3)
Amortization of prior service credit	—	—	—	—	—	(5)
Amortization of net actuarial loss	15	23	27	—	—	—
Net actuarial loss from settlements	1	23	71	—	—	—
Other changes in plan assets and benefit obligations recognized in <i>Other comprehensive income (loss)</i>	\$ 104	\$ 28	\$ 160	\$ (9)	\$ 9	\$ (8)

Other changes in plan assets and benefit obligations for our other postretirement benefit plan associated with Transco and Northwest Pipeline are recognized in regulatory assets and liabilities. Amounts recognized in regulatory assets and liabilities for the years ended December 31 consist of the following:

	2019			2018			2017		
	(Millions)			(Millions)			(Millions)		
Other changes in plan assets and benefit obligations recognized in <i>regulatory assets and liabilities</i>:									
Net actuarial gain (loss)	\$ 7	\$ (10)	\$ 6	—	—	—	—	—	—
Amortization of prior service credit	—	—	—	(2)	—	—	(8)	—	—

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

Key Assumptions

The weighted-average assumptions utilized to determine benefit obligations as of December 31 are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2019	2018	2019	2018
Discount rate	3.19%	4.34%	3.27%	4.39%
Rate of compensation increase	3.68	4.83	N/A	N/A
Cash balance interest crediting rate	3.50	4.25	N/A	N/A

The weighted-average assumptions utilized to determine *Net periodic benefit cost (credit)* for the years ended December 31 are as follows:

	Pension Benefits			Other Postretirement Benefits		
	2019	2018	2017	2019	2018	2017
Discount rate	4.33%	3.67%	4.17%	4.39%	3.71%	4.27%
Expected long-term rate of return on plan assets	5.26	5.34	6.45	5.01	4.95	5.53
Rate of compensation increase	4.83	4.93	4.87	N/A	N/A	N/A
Cash balance interest crediting rate	4.25	4.25	4.25	N/A	N/A	N/A

The mortality assumptions used to determine the benefit obligations for our pension and other postretirement benefit plans reflect generational projection mortality tables.

The assumed health care cost trend rate for 2020 is 7.2 percent. This rate decreases to 4.5 percent by 2028.

Plan Assets

Plan assets for our pension and other postretirement benefit plans consist primarily of equity and fixed income securities including mutual funds and commingled investment funds invested in equity and fixed income securities. The plans' investment policy provides for a strategy in accordance with the Employee Retirement Income Security Act (ERISA), which governs the investment of the assets in a diversified portfolio. The plans follow a policy of diversifying the investments across various asset classes and investment managers. Additionally, the investment returns on approximately 37 percent of the other postretirement benefit plan assets are subject to income tax; therefore, certain investments are managed in a tax efficient manner.

The investment policy for the pension plans includes a general target asset allocation at December 31, 2019, of 25 percent equity securities and 75 percent fixed income securities. The target allocation includes the investments in equity and fixed income mutual funds and commingled investment funds.

Equity securities may include U.S. equities and non-U.S. equities. Investment in Williams' securities or an entity in which Williams has a majority ownership is prohibited except where these securities may be owned in a commingled investment fund in which the plans' trusts invest. No more than 5 percent of the total stock portfolio valued at market may be invested in the common stock of any one corporation.

Fixed income securities may consist of U.S. as well as international instruments, including emerging markets. The fixed income strategies may invest in government, corporate, asset-backed securities, and mortgage-backed obligations. The weighted-average credit rating of the fixed income strategies must be at least "investment grade" including ratings by Moody's and/or Standard & Poor's. No more than 5 percent of the total fixed income portfolio may be invested in the fixed income securities of any one issuer with the exception of bond index funds and U.S. government guaranteed and agency securities.

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

The following securities and transactions are not authorized: unregistered securities, commodities or commodity contracts, short sales or margin transactions, or other leveraging strategies. Additionally, real estate equity, natural resource property, venture capital, leveraged buyouts, and other high-return, high-risk investments are generally restricted. Use of derivative securities in mutual funds and commingled investment funds held by the plans' trusts is allowed. However, direct investment in derivative securities requires approval. Currently, investment managers are approved to enter into U.S. Treasury futures contracts on behalf of the plans to implement and manage duration and yield curve strategy in the fixed income portfolio.

There are no significant concentrations of risk within the plans' investment securities because of the diversity of the types of investments, diversity of the various industries, and the diversity of the fund managers and investment strategies. Generally, the investments held in the plans are publicly traded, therefore, minimizing liquidity risk in the portfolio.

The fair values of our pension plan assets at December 31, 2019 and 2018 by asset class are as follows:

	2019				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	
	(Millions)				
Pension assets:					
Cash management fund	\$ 11	\$ —	\$ —	\$ 11	
Equity securities	41	22	—	63	
Fixed income securities (1):					
U.S. Treasury securities	62	—	—	62	
Governments and municipal bonds	—	35	—	35	
Mortgage and asset-backed securities	—	11	—	11	
Corporate bonds	—	360	—	360	
Other	5	4	—	9	
	<u>\$ 119</u>	<u>\$ 432</u>	<u>\$ —</u>	<u>551</u>	
Commingled investment funds measured at net asset value practical expedient (2):					
Equities — U.S. large cap				133	
Equities — Global large and mid cap				100	
Equities — International emerging markets				26	
Fixed income — U.S. long and intermediate duration				380	
Fixed income — Corporate bonds				109	
Total assets at fair value at December 31, 2019				<u>\$ 1,299</u>	

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

	2018					
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	(Millions)	
Pension assets:						
Cash management fund	\$ 10	—	—	\$ 10		
Equity securities	52	—	—	52		
Fixed income securities (1):						
U.S. Treasury securities	157	—	—	157		
Government and municipal bonds	—	21	—	21		
Mortgage and asset-backed securities	—	48	—	48		
Corporate bonds	—	210	—	210		
Insurance company investment contracts and other	—	6	—	6		
	<hr/> <u>\$ 219</u>	<hr/> <u>\$ 285</u>	<hr/> <u>\$ —</u>	<hr/> <u>504</u>		
Commingled investment funds measured at net asset value practical expedient (2):						
Equities — U.S. large cap	123					
Equities — International small cap	8					
Equities — International emerging markets	19					
Equities — International developed markets	51					
Fixed income — U.S. long duration	335					
Fixed income — Corporate bonds	92					
Total assets at fair value at December 31, 2018	<hr/> <u>\$ 1,132</u>					

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

The fair values of our other postretirement benefits plan assets at December 31, 2019 and 2018 by asset class are as follows:

	2019				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	
	(Millions)				
Other postretirement benefit assets:					
Cash management funds	\$ 11	—	—	\$ 11	
Equity securities	35	9	—	—	44
Fixed income securities (1):					
U.S. Treasury securities	8	—	—	8	
Governments and municipal bonds	—	4	—	4	
Mortgage and asset-backed securities	—	1	—	1	
Corporate bonds	—	43	—	43	
Mutual fund — Municipal bonds	46	—	—	46	
	\$ 100	\$ 57	\$ —	157	
Commingled investment funds measured at net asset value practical expedient (2):					
Equities — U.S. large cap					16
Equities — Global large and mid cap					12
Equities — International emerging markets					3
Fixed income — U.S. long and intermediate duration					46
Fixed income — Corporate bonds					13
Total assets at fair value at December 31, 2019				\$ 247	

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

	2018				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	
	(Millions)				
Other postretirement benefit assets:					
Cash management funds	\$ 11	—	—	\$ 11	
Equity securities	29	5	—	34	
Fixed income securities (1):					
U.S. Treasury securities	19	—	—	19	
Government and municipal bonds	—	2	—	2	
Mortgage and asset-backed securities	—	6	—	6	
Corporate bonds	—	25	—	25	
Mutual fund — Municipal bonds	43	—	—	43	
	<hr/> <u>\$ 102</u>	<hr/> <u>\$ 38</u>	<hr/> <u>\$ —</u>	<hr/> <u>140</u>	
Commingled investment funds measured at net asset value practical expedient (2):					
Equities — U.S. large cap	14				
Equities — International small cap	1				
Equities — International emerging markets	2				
Equities — International developed markets	6				
Fixed income — U.S. long duration	40				
Fixed income — Corporate bonds	11				
Total assets at fair value at December 31, 2018	<hr/> <u>\$ 214</u>				

- (1) The weighted-average credit quality rating of the fixed income security portfolio is investment grade with a weighted-average duration of approximately 14 years for 2019 and 13 years for 2018.
- (2) The stated intents of the funds vary based on each commingled fund's investment objective. These objectives generally include strategies to replicate or outperform various market indices. Certain standard withdrawal restrictions generally apply, which may include redemption notification period restrictions ranging from 1 day to 30 days. Additionally, the fund managers retain the right to restrict withdrawals from and/or purchases into the funds so as not to disadvantage other investors in the funds. Generally, the funds also reserve the right to make all or a portion of the redemption in-kind rather than in cash or a combination of cash and in-kind.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement of an asset.

Shares of the cash management funds and mutual funds are valued at fair value based on published market prices as of the close of business on the last business day of the year, which represents the net asset values of the shares held.

The fair values of equity securities traded on U.S. exchanges are derived from quoted market prices as of the close of business on the last business day of the year. The fair values of equity securities traded on foreign exchanges are also derived from quoted market prices as of the close of business on an active foreign exchange on the last business day of the year. However, the valuation requires translation of the foreign currency to U.S. dollars and this translation is considered an observable input to the valuation.

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

The fair values of all commingled investment funds are determined based on the net asset values per unit of each of the funds. The net asset values per unit represent the aggregate values of the funds' assets at fair value less liabilities, divided by the number of units outstanding.

The fair values of fixed income securities, except U.S. Treasury securities, are determined using pricing models. These pricing models incorporate observable inputs such as benchmark yields, reported trades, broker/dealer quotes, and issuer spreads for similar securities to determine fair value. The U.S. Treasury securities are valued at fair value based on closing prices on the last business day of the year reported in the active market in which the security is traded.

There have been no significant changes in the preceding valuation methodologies used at December 31, 2019 and 2018. Additionally, there were no transfers or reclassifications of investments between Level 1 and Level 2 from December 2018 to December 2019. If transfers between levels had occurred, the transfers would have been recognized as of the end of the period.

Plan Benefit Payments and Employer Contributions

Following are the expected benefits to be paid by the plans. These estimates are based on the same assumptions previously discussed and reflect future service as appropriate. The actuarial assumptions are based on long-term expectations and include, but are not limited to, assumptions as to average expected retirement age and form of benefit payment. Actual benefit payments could differ significantly from expected benefit payments if near-term participant behaviors differ significantly from the actuarial assumptions.

	Pension Benefits	Other Postretirement Benefits
	(Millions)	
2020	\$ 100	\$ 14
2021	99	14
2022	97	14
2023	93	14
2024	90	14
2025-2029	433	62

In 2020, we expect to contribute approximately \$10 million to our tax-qualified pension plans and approximately \$3 million to our nonqualified pension plans, for a total of approximately \$13 million, and approximately \$6 million to our other postretirement benefit plan.

Defined Contribution Plan

We also maintain a defined contribution plan for the benefit of substantially all of our employees. Generally, plan participants may contribute a portion of their compensation on a pre-tax and after-tax basis in accordance with the plan's guidelines. We match employees' contributions up to certain limits. Our contributions charged to expense were \$36 million in 2019, \$35 million in 2018, and \$34 million in 2017.

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

Note 11 – Leases

We are a lessee through noncancellable lease agreements for property and equipment consisting primarily of buildings, land, vehicles, and equipment used in both our operations and administrative functions.

	Year Ended December 31,	
	2019	
	(Millions)	
<i>Lease Cost:</i>		
Operating lease cost	\$	40
Short-term lease cost		—
Variable lease cost		27
Sublease income		(2)
Total lease cost	\$	65
Cash paid for amounts included in the measurement of operating lease liabilities	\$	39
December 31, 2019		
(Millions)		
<i>Other Information:</i>		
Right-of-use asset (included in <i>Regulatory assets, deferred charges, and other</i> in our Consolidated Balance Sheet)	\$	207
Operating lease liabilities:		
Current (included in <i>Accrued liabilities</i> in our Consolidated Balance Sheet)	\$	21
Noncurrent (included in <i>Regulatory liabilities, deferred income, and other</i> in our Consolidated Balance Sheet)	\$	188
Weighted-average remaining lease term – operating leases (years)		13
Weighted-average discount rate – operating leases		4.61%

Prior to adopting ASU 2016-02, which was effective January 1, 2019 (see Note 1 – General, Description of Business, Basis of Presentation, and Summary of Significant Accounting Policies), total rent expense was \$73 million in 2018 and \$62 million in 2017 and primarily included in *Operating and maintenance expenses* and *Selling, general, and administrative expenses* in the Consolidated Statement of Operations.

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

As of December 31, 2019, the following table represents our operating lease maturities, including renewal provisions that we have assessed as being reasonably certain of exercise, for each of the years ended December 31:

	(Millions)
2020	\$ 29
2021	33
2022	28
2023	22
2024	19
Thereafter	157
Total future lease payments	288
Less amount representing interest	79
Total obligations under operating leases	\$ 209

We are the lessor to certain lease agreements for office space in our headquarters building, which are insignificant to our financial statements.

Note 12 – Property, Plant, and Equipment

The following table presents nonregulated and regulated *Property, plant, and equipment – net* as presented on the Consolidated Balance Sheet for the years ended:

	Estimated Useful Life (1) (Years)	Depreciation Rates (1) (%)	December 31,	
			2019	2018
(Millions)				
Nonregulated:				
Natural gas gathering and processing facilities	5 - 40		\$ 17,593	\$ 15,324
Construction in progress	Not applicable		354	778
Other	2 - 45		2,519	2,356
Regulated:				
Natural gas transmission facilities		1.25 - 7.13	18,076	17,312
Construction in progress	Not applicable	Not applicable	586	965
Other	5 - 45	0.00 - 33.33	2,382	1,926
Total property, plant, and equipment, at cost			41,510	38,661
Accumulated depreciation and amortization			(12,310)	(11,157)
Property, plant, and equipment — net			\$ 29,200	\$ 27,504

(1) Estimated useful life and depreciation rates are presented as of December 31, 2019. Depreciation rates and estimated useful lives for regulated assets are prescribed by the FERC.

Depreciation and amortization expense for *Property, plant, and equipment – net* was \$1.390 billion, \$1.392 billion, and \$1.389 billion in 2019, 2018, and 2017, respectively.

Regulated *Property, plant, and equipment – net* includes approximately \$547 million and \$586 million at December 31, 2019 and 2018, respectively, related to amounts in excess of the original cost of the regulated facilities within our gas pipeline businesses as a result of our prior acquisitions. This amount is being amortized over 40 years using the straight-line amortization method. Current FERC policy does not permit recovery through rates for amounts in excess of original cost of construction.

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

Asset Retirement Obligations

Our accrued obligations relate to underground storage caverns, offshore platforms and pipelines, fractionation and compression facilities, gas gathering well connections and pipelines, and gas transmission pipelines and facilities. At the end of the useful life of each respective asset, we are legally obligated to plug storage caverns and remove any related surface equipment, to restore land and remove surface equipment at gas processing, fractionation, and compression facilities, to dismantle offshore platforms and appropriately abandon offshore pipelines, to cap certain gathering pipelines at the wellhead connection and remove any related surface equipment, and to remove certain components of gas transmission facilities from the ground.

The following table presents the significant changes to our ARO, of which \$1.117 billion and \$968 million are included in *Regulatory liabilities, deferred income, and other* with the remaining current portion in *Accrued liabilities* at December 31, 2019 and 2018, respectively.

	December 31,	
	2019	2018
	(Millions)	(Millions)
Beginning balance	\$ 1,032	\$ 998
Liabilities incurred	15	21
Liabilities settled	(8)	(19)
Accretion expense	59	71
Revisions (1)	67	(39)
Ending balance	<u>\$ 1,165</u>	<u>\$ 1,032</u>

- (1) Several factors are considered in the annual review process, including inflation rates, current estimates for removal cost, market risk premiums, discount rates, and the estimated remaining useful life of the assets. The 2019 revisions reflect changes in removal cost estimates, decreases in the estimated remaining useful life of certain assets, increases in inflation rates, and decreases in the discount rates used in the annual review process. The 2018 revisions reflect changes in removal cost estimates, decreases in the estimated remaining useful life of certain assets, and increases in the discount rates used in the annual review process.

The funds Transco collects through a portion of its rates to fund its ARO are deposited into an external trust account dedicated to funding its ARO (ARO Trust). (See Note 18 – Fair Value Measurements, Guarantees, and Concentration of Credit Risk.) Under its current rate settlement, Transco’s annual funding obligation is approximately \$36 million, with installments to be deposited monthly.

Note 13 – Goodwill and Other Intangible Assets

Goodwill

Changes in the carrying amount of goodwill, included in *Intangible assets – net of accumulated amortization* in the Consolidated Balance Sheet, by reportable segment for the periods indicated are as follows:

	Northeast G&P	West	Total
	(Millions)	(Millions)	(Millions)
December 31, 2017	\$ —	\$ 47	\$ 47
Jackalope Deconsolidation (see Note 6)	—	(47)	(47)
December 31, 2018	<u>—</u>	<u>—</u>	<u>—</u>
UEOM Acquisition (see Note 3)	188	—	188
December 31, 2019	<u>\$ 188</u>	<u>\$ —</u>	<u>\$ 188</u>

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

Our goodwill is not subject to amortization, but is evaluated at least annually for impairment or more frequently if impairment indicators are present. We did not identify or recognize any impairments to goodwill in connection with our evaluation of goodwill for impairment during the years ended December 31, 2019, 2018, and 2017, respectively.

Other Intangible Assets

The gross carrying amount and accumulated amortization of other intangible assets, included in *Intangible assets – net of accumulated amortization* in the Consolidated Balance Sheet, at December 31 are as follows:

	2019		2018	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(Millions)			
Contractual customer relationships	\$ 9,560	\$ (1,789)	\$ 9,232	\$ (1,465)

Other intangible assets primarily relate to gas gathering, processing, and fractionation contractual customer relationships recognized in acquisitions. The increase in the gross carrying amount of other intangible assets during 2019 is primarily related to the acquisition of UEOM (see Note 3 – Acquisitions and Divestitures). Other intangible assets are being amortized on a straight-line basis over a period of 20 years for the acquisition of UEOM and 30 years for other acquisitions, which represents a portion of the term over which the contractual customer relationships 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. Based on the estimated future revenues during the contract periods (as estimated at the time of the acquisition), the weighted-average period prior to the next renewal or extension of the contractual customer relationships associated with the UEOM acquisition was approximately 10 years. Although a significant portion of the expected future cash flows associated with these contractual customer relationships are dependent on our ability to renew or extend the arrangements beyond the initial contract periods, these expected future cash flows are significantly influenced by the scope and pace of our producer customers' drilling programs. Once producer customers' wells are connected to our gathering infrastructure, their likelihood of switching to another provider before the wells are abandoned is reduced due to the significant capital investment required.

The amortization expense related to other intangible assets was \$324 million, \$333 million, and \$347 million in 2019, 2018, and 2017, respectively. The estimated amortization expense for each of the next five succeeding fiscal years is approximately \$328 million.

Note 14 – Accrued Liabilities

	December 31,	
	2019	
	(Millions)	
Interest on debt	\$ 288	\$ 282
Employee costs	226	205
Estimated rate refund liabilities (Note 19)	189	—
Contract liabilities (Note 2)	158	244
Asset retirement obligation (Note 12)	48	64
Operating lease liabilities (Note 11)	21	—
Other, including other loss contingencies	346	307
	\$ 1,276	\$ 1,102

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

Note 15 – Debt and Banking Arrangements

Long-Term Debt

	December 31,		
	2019		2018
	(Millions)		
Transco:			
7.08% Debentures due 2026	\$	8	\$ 8
7.25% Debentures due 2026		200	200
7.85% Notes due 2026		1,000	1,000
4% Notes due 2028		400	400
5.4% Notes due 2041		375	375
4.45% Notes due 2042		400	400
4.6% Notes due 2048		600	600
Other financing obligation - Atlantic Sunrise		857	807
Other financing obligation - Dalton		259	260
Northwest Pipeline:			
7.125% Debentures due 2025		85	85
4% Notes due 2027		500	500
WMB:			
4.125% Notes due 2020		600	600
5.25% Notes due 2020		1,500	1,500
4% Notes due 2021		500	500
7.875% Notes due 2021		371	371
3.35% Notes due 2022		750	750
3.6% Notes due 2022		1,250	1,250
3.7% Notes due 2023		850	850
4.5% Notes due 2023		600	600
4.3% Notes due 2024		1,000	1,000
4.55% Notes due 2024		1,250	1,250
3.9% Notes due 2025		750	750
4% Notes due 2025		750	750
3.75% Notes due 2027		1,450	1,450
7.5% Debentures due 2031		339	339
7.75% Notes due 2031		252	252
8.75% Notes due 2032		445	445
6.3% Notes due 2040		1,250	1,250
5.8% Notes due 2043		400	400
5.4% Notes due 2044		500	500
5.75% Notes due 2044		650	650
4.9% Notes due 2045		500	500
5.1% Notes due 2045		1,000	1,000
4.85% Notes due 2048		800	800
Various — 7.625% to 10.25% Notes and Debentures due 2019 to 2027		24	55
Credit facility loans		—	160
Debt issuance costs		(119)	(131)

Net unamortized debt premium (discount)	(58)	(62)
Total long-term debt, including current portion	22,288	22,414
Long-term debt due within one year	(2,140)	(47)
Long-term debt	\$ 20,148	\$ 22,367

Certain of our debt agreements contain covenants that restrict or limit, among other things, our ability to create liens supporting indebtedness, sell assets, and incur additional debt. Default of these agreements could also restrict our ability to make certain distributions or repurchase equity.

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

The following table presents aggregate minimum maturities of long-term debt and other financing obligations, excluding net unamortized debt premium (discount) and debt issuance costs, for each of the next five years:

	December 31, 2019 (Millions)
2020	\$ 2,141
2021	893
2022	2,025
2023	1,477
2024	2,279

Issuances and retirements

We retired \$14 million of 8.75 percent senior unsecured notes that matured on January 15, 2020.

We retired \$32 million of 7.625 percent senior unsecured notes that matured on July 15, 2019.

On August 24, 2018, Northwest Pipeline issued \$250 million of 4 percent senior unsecured notes to investors in a private debt placement. The notes are an additional issuance of Northwest Pipeline's existing 4 percent senior unsecured notes due 2027. In the fourth quarter of 2018, Northwest Pipeline filed a registration statement and completed an exchange of these notes for substantially identical new notes that are registered under the Securities Act of 1933, as amended.

Northwest Pipeline retired \$250 million of 6.05 percent senior unsecured notes that matured on June 15, 2018.

On March 5, 2018, WPZ completed a public offering of \$800 million of 4.85 percent senior unsecured notes due 2048. WPZ used the net proceeds for general partnership purposes, primarily the March 28, 2018 repayment of \$750 million of 4.875 percent senior unsecured notes that were due in 2024.

On March 15, 2018, Transco issued \$400 million of 4 percent senior unsecured notes due 2028 and \$600 million of 4.6 percent senior unsecured notes due 2048 to investors in a private debt placement. Transco used the net proceeds to retire \$250 million of 6.05 percent senior unsecured notes that matured on June 15, 2018, and for general corporate purposes, including the funding of capital expenditures. In the third quarter of 2018, Transco filed a registration statement and completed an exchange of these notes for substantially identical new notes that are registered under the Securities Act of 1933, as amended.

Other financing obligations

During the construction of the Atlantic Sunrise and Dalton projects, Transco received funding from its partners for their proportionate share of construction costs. Amounts received were recorded within noncurrent liabilities and the costs associated with construction were capitalized in our Consolidated Balance Sheet. Upon placing these projects into service Transco began utilizing the partners' undivided interest in the assets, including the associated pipeline capacity, and reclassified the funding previously received from its partners from noncurrent liabilities to debt. The obligations, which mature in 2038 and 2052, respectively, require monthly interest and principal payments and both bear an interest rate of approximately 9 percent.

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

Credit Facilities

	December 31, 2019	
	Stated Capacity	Outstanding
	(Millions)	
Long-term credit facility (1)	\$ 4,500	\$ —
Letters of credit under certain bilateral bank agreements		14

(1) In managing our available liquidity, we do not expect a maximum outstanding amount in excess of the capacity of our credit facility inclusive of any outstanding amounts under our commercial paper program.

Revolving credit facility

On July 13, 2018, we along with Transco and Northwest Pipeline, the lenders named therein, and an administrative agent entered into a credit agreement (Credit Agreement) with aggregate commitments available of \$4.5 billion, with up to an additional \$500 million increase in aggregate commitments available under certain circumstances. On August 10, 2018, following the completion of the WPZ Merger, the Credit Agreement became effective. The maturity date of the credit facility is August 10, 2023. However, the co-borrowers may request up to two extensions of the maturity date each for an additional one-year period to allow a maturity date as late as August 10, 2025, under certain circumstances. The Credit Agreement allows for swing line loans up to an aggregate of \$200 million, subject to available capacity under the credit facility, and letters of credit commitments of \$1 billion. Transco and Northwest Pipeline are each able to borrow up to \$500 million under this credit facility to the extent not otherwise utilized by the other co-borrowers.

The Credit Agreement contains the following terms and conditions:

- Various covenants may limit, among other things, a borrower's and its material subsidiaries' ability to grant certain liens supporting indebtedness, merge or consolidate, sell all or substantially all of its assets, make certain distributions during an event of default, and enter into certain restrictive agreements.
- If an event of default with respect to a borrower occurs under the credit facility, the lenders will be able to terminate the commitments and accelerate the maturity of the loans and exercise other rights and remedies.
- Other than swing line loans, each time funds are borrowed, the applicable borrower may choose from two methods of calculating interest: a fluctuating base rate equal to Citibank N.A.'s alternate base rate plus an applicable margin or a periodic fixed rate equal to the London Interbank Offered Rate plus an applicable margin. We are required to pay a commitment fee based on the unused portion of the credit facility. The applicable margin and the commitment fee are determined by reference to a pricing schedule based on the applicable borrower's senior unsecured long-term debt ratings.

Significant financial covenants under the Credit Agreement require the ratio of debt to EBITDA (earnings before interest, taxes, depreciation, and amortization), each as defined in the credit facility, to be no greater than:

- 5.75 to 1 for each fiscal quarter end through June 30, 2019;
- 5.5 to 1 for the fiscal quarters ending September 30, 2019, and December 31, 2019;
- 5.0 to 1 for the fiscal quarter ending March 31, 2020, and each subsequent fiscal quarter end, except for the fiscal quarter and the two following fiscal quarters in which one or more acquisitions with a total aggregate purchase price of \$25 million or more has been executed, in which case the ratio of debt to EBITDA is to be no greater than 5.5 to 1.

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

The ratio of debt to capitalization (defined as net worth plus debt) must be no greater than 65 percent for each of Transco and Northwest Pipeline.

At December 31, 2019, we are in compliance with these covenants.

Commercial Paper Program

On August 10, 2018, following the consummation of the WPZ Merger, we entered into a \$4 billion commercial paper program. The maturities of the commercial paper notes vary but may not exceed 397 days from the date of issuance. The commercial paper notes are sold under customary terms in the commercial paper market and are issued at a discount from par, or, alternatively, are sold at par and bear varying interest rates on a fixed or floating basis. The net proceeds of issuances of the commercial paper notes are expected to be used to fund planned capital expenditures and for other general corporate purposes. At December 31, 2019 and 2018, no commercial paper was outstanding.

Cash Payments for Interest (Net of Amounts Capitalized)

Cash payments for interest (net of amounts capitalized) were \$1.153 billion in 2019, \$1.064 billion in 2018, and \$1.110 billion in 2017.

Note 16 – Stockholders' Equity

On January 28, 2020, our board of directors approved a regular quarterly dividend to common stockholders of \$0.40 per share payable on March 30, 2020.

In July 2018, through a wholly owned subsidiary, we contributed 35,000 shares of newly issued Series B Non-Voting Perpetual Preferred Stock (Preferred Stock) to The Williams Companies Foundation, Inc. (a not-for-profit corporation) for use in future charitable and nonprofit causes. The charitable contribution of Preferred Stock was recorded as an expense in the third quarter of 2018. The Preferred Stock was issued for an aggregate value of \$35 million and pays non-cumulative quarterly cash dividends when, as and if declared, at a rate of 7.25 percent per year. Our certificate of incorporation authorizes 30 million shares of Preferred Stock, \$1 par value per share.

In January 2017, we issued 65 million shares of common stock in a public offering at a price of \$29.00 per share. In February 2017, we issued 9.75 million shares of common stock pursuant to the full exercise of the underwriter's option to purchase additional shares. The net proceeds of approximately \$2.1 billion were used to purchase newly issued common units in WPZ as part of our Financial Repositioning. (See Note 1 – General, Description of Business, Basis of Presentation, and Summary of Significant Accounting Policies.)

AOCI

The following table presents the changes in AOCI by component, net of income taxes:

	Cash Flow Hedges	Foreign Currency Translation	Pension and Other Post Retirement Benefits	Total
	(Millions)			
Balance at December 31, 2018	\$ (2)	\$ (1)	\$ (267)	\$ (270)
<i>Other comprehensive income (loss) before reclassifications</i>	—	—	59	59
Amounts reclassified from <i>accumulated other comprehensive income (loss)</i>	—	—	12	12
<i>Other comprehensive income (loss)</i>	—	—	71	71
Balance at December 31, 2019	<u>\$ (2)</u>	<u>\$ (1)</u>	<u>\$ (196)</u>	<u>\$ (199)</u>

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

Reclassifications out of AOCI are presented in the following table by component for the year ended December 31, 2019:

Component	Reclassifications	Classification
	(Millions)	
Pension and other postretirement benefits:		
<i>Amortization of actuarial (gain) loss and net actuarial loss from settlements included in net periodic benefit cost (credit)</i>	\$ 16	<i>Other income (expense) – net below Operating income (loss)</i>
Income tax benefit	(4)	<i>Provision (benefit) for income taxes</i>
Reclassifications during the period	<u>\$ 12</u>	

Note 17 – Equity-Based Compensation

Williams' Plan Information

The Williams Companies, Inc. 2007 Incentive Plan (the Plan) provides common-stock-based awards to both employees and nonmanagement directors. To date, 40 million new shares have been authorized for making awards under the Plan. The Plan permits the granting of various types of awards including, but not limited to, restricted stock units and stock options. At December 31, 2019, 23 million shares of our common stock were reserved for issuance pursuant to existing and future stock awards, of which 11 million shares were available for future grants.

Additionally, up to 3.6 million new shares of our common stock have been authorized to date to be available for sale under our Employee Stock Purchase Plan (ESPP). Employees purchased 322 thousand shares at a weighted-average price of \$19.55 per share during 2019. Approximately 424 thousand shares were available for purchase under the ESPP at December 31, 2019.

Operating and maintenance expenses and Selling, general, and administrative expenses in the Consolidated Statement of Operations include equity-based compensation expense for the years ended December 31, 2019, 2018, and 2017 of \$57 million, \$54 million, and \$70 million, respectively. Income tax benefit recognized related to the stock-based compensation expense for the years ended December 31, 2019, 2018, and 2017 was \$14 million, \$14 million, and \$17 million, respectively. Measured but unrecognized stock-based compensation expense at December 31, 2019, was \$60 million, comprised of \$2 million related to stock options and \$58 million related to restricted stock units. These amounts are expected to be recognized over a weighted-average period of 2.8 years.

Stock Options

The following summary reflects stock option activity and related information for the year ended December 31, 2019:

<u>Stock Options</u>	Options (Millions)	Weighted-Average Exercise Price	Aggregate Intrinsic Value
			(Millions)
Outstanding at December 31, 2018	7.3	\$ 31.55	
Granted	—	\$ —	
Exercised	(0.4)	\$ 11.31	
Cancelled	(0.1)	\$ 35.62	
Outstanding at December 31, 2019	<u>6.8</u>	<u>\$ 32.64</u>	<u>\$ 2</u>
Exercisable at December 31, 2019	<u>5.8</u>	<u>\$ 33.22</u>	<u>\$ 2</u>

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

The following table summarizes additional information related to stock option activity during each of the last three years:

	Year Ended December 31,		
	2019	2018	2017
	(Millions)		
Total intrinsic value of options exercised	\$ 6	\$ 3	\$ 4
Tax benefits realized on options exercised	\$ 1	—	\$ 1
Cash received from the exercise of options	<u>\$ 4</u>	<u>\$ 9</u>	<u>\$ 7</u>

The weighted-average remaining contractual lives for stock options outstanding and exercisable at December 31, 2019, were 4.2 years and 3.6 years, respectively.

The estimated fair value at date of grant of options for our common stock granted in each respective year, using the Black-Scholes option pricing model, is as follows:

	2018	2017
Weighted-average grant date fair value of options for our common stock granted during the year, per share	<u>\$ 5.49</u>	<u>\$ 6.61</u>
Weighted-average assumptions:		
Dividend yield	4.7%	4.2%
Volatility	30.1%	35.1%
Risk-free interest rate	2.7%	2.1%
Expected life (years)	6.0	6.0

There were no stock options granted in 2019. The expected dividend yield for each respective year is based on the dividend forecast for that year and the grant-date market price of our stock. Our expected future volatility is determined using the historical volatility of our stock and implied volatility on our traded options. Historical volatility is based on the blended 10-year historical volatility of our stock and certain peer companies. The risk-free interest rate is based on the U.S. Treasury Constant Maturity rates as of the grant date. The expected life of the option is based on historical exercise behavior and expected future experience.

Nonvested Restricted Stock Units

The following summary reflects nonvested restricted stock unit activity and related information for the year ended December 31, 2019:

<u>Restricted Stock Units Outstanding</u>	Shares	Weighted-Average Fair Value (1)	
		(Millions)	
Nonvested at December 31, 2018	4.5	\$ 28.96	
Granted	2.5	\$ 25.87	
Forfeited	(0.5)	\$ 28.48	
Vested	(1.1)	\$ 26.25	
Nonvested at December 31, 2019	<u>5.4</u>	<u>\$ 28.11</u>	

(1) Performance-based restricted stock units are valued considering measures of total shareholder return utilizing a Monte Carlo valuation method and return on capital employed. All other restricted stock units are valued at the grant-date market price. Restricted stock units generally vest after three years.

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

Value of Restricted Stock Units	2019	2018	2017
Weighted-average grant date fair value of restricted stock units granted during the year, per share	\$ 25.87	\$ 30.48	\$ 29.47
Total fair value of restricted stock units vested during the year (in millions)	\$ 29	\$ 35	\$ 33

Performance-based restricted stock units granted under the Plan represent 39 percent of nonvested restricted stock units outstanding at December 31, 2019. These grants may be earned at the end of the vesting period based on actual performance against a performance target. Based on the extent to which certain financial targets are achieved, vested shares may range from zero percent to 200 percent of the original grant amount.

Note 18 – Fair Value Measurements, Guarantees, and Concentration of Credit Risk

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, margin deposits, 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.

	Fair Value Measurements Using				
	Carrying Amount	Fair Value	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 December 31, 2019:					
Measured on a recurring basis:					
ARO Trust investments	\$ 201	\$ 201	\$ 201	—	—
Energy derivative assets not designated as hedging instruments	1	1	1	—	—
Energy derivative liabilities not designated as hedging instruments	(3)	(3)	(1)	—	(2)
Additional disclosures:					
Long-term debt, including current portion	(22,288)	(25,319)	—	(25,319)	—
Guarantees	(41)	(27)	—	(11)	(16)
Assets (liabilities) at December 31, 2018:					
Measured on a recurring basis:					
ARO Trust investments	\$ 150	\$ 150	\$ 150	—	—
Energy derivative assets not designated as hedging instruments	3	3	3	—	—
Energy derivative liabilities not designated as hedging instruments	(7)	(7)	(4)	—	(3)
Additional disclosures:					
Long-term debt, including current portion	(22,414)	(23,330)	—	(23,330)	—
Guarantees	(43)	(30)	—	(14)	(16)

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

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 that is specifically designated to fund future ARO's. 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 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.

Energy derivatives: Energy derivatives include commodity-based exchange-traded contracts and over-the-counter 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 derivative assets are reported in *Other current assets and deferred charges and Regulatory assets, deferred charges, and other* in the Consolidated Balance Sheet. Energy derivative liabilities are reported in *Accrued liabilities and Regulatory liabilities, deferred income, and other* 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 years ended December 31, 2019 or 2018.

Additional fair value disclosures

Long-term debt, including current portion: The disclosed fair value of our long-term debt is determined primarily 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. The fair values of the financing obligations associated with our Dalton lateral and Atlantic Sunrise projects, which are included within long-term debt, were determined using an income approach (see Note 15 – Debt and Banking Arrangements).

Guarantees: Guarantees primarily consist 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. Guarantees also include an indemnification related to a disposed operation.

To estimate the fair value of the WilTel 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. The carrying value of the WilTel guarantee is reported in *Accrued liabilities* in the Consolidated Balance Sheet. The maximum potential undiscounted exposure is approximately \$28 million at December 31, 2019. Our exposure declines systematically through the remaining term of WilTel's obligation.

The fair value of the guarantee associated with the indemnification related to a disposed operation was estimated using an income approach that considered probability-weighted scenarios of potential levels of future performance. The terms of the indemnification do not limit the maximum potential future payments associated with the guarantee. The carrying value of this guarantee is reported in *Regulatory liabilities, deferred income, and other* in the Consolidated Balance Sheet.

We are required by our revolving credit agreement 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

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

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.

Nonrecurring fair value measurements

The following table presents impairments of assets and equity-method investments associated with certain nonrecurring fair value measurements within Level 3 of the fair value hierarchy, except as specifically noted. Impairments of equity-method investments are reported in *Other investing income (loss) – net* in the Consolidated Statement of Operations.

Segment	Date of Measurement	Fair Value	Impairments				
			Year Ended December 31,				
			2019	2018	2017		
(Millions)							
<i>Impairment of certain assets:</i>							
Certain pipeline project (1)	Atlantic-Gulf	December 31, 2019	\$ 22	\$ 354			
Certain gathering assets (2)	West	December 31, 2019	25	20			
Certain gathering assets (2)	West	June 30, 2019	40	59			
Certain idle gathering assets (3)	West	March 31, 2019	—	12			
Certain gathering assets (4)	West	December 31, 2018	470		\$ 1,849		
Certain idle pipeline assets (5)	Other	June 30, 2018	25		66		
Certain gathering assets (6)	West	September 30, 2017	439		\$ 1,019		
Certain gathering assets (7)	Northeast G&P	September 30, 2017	21		115		
Certain NGL pipeline (8)	Other	September 30, 2017	32		68		
Certain olefins pipeline project (9)	Other	June 30, 2017	18		23		
Other impairments and write-downs (10)			19	—	23		
Impairment of certain assets			<u>\$ 464</u>	<u>\$ 1,915</u>	<u>\$ 1,248</u>		
<i>Impairment of equity-method investments:</i>							
Laurel Mountain (11)	Northeast G&P	September 30, 2019	\$ 242	\$ 79			
Appalachia Midstream Investments (12)	Northeast G&P	September 30, 2019	102	17			
Pennant (13)	Northeast G&P	August 31, 2019	11	17			
UEOM (14)	Northeast G&P	March 17, 2019	1,210	74			
UEOM (14)	Northeast G&P	December 31, 2018	1,293		\$ 32		
Other			(1)				
Impairment of equity-method investments			<u>\$ 186</u>	<u>\$ 32</u>			

(1) Relates to the Constitution development project. The estimated fair value of the *Property, plant, and equipment – net* was based on probability-weighted third-party quotes. See Note 4 – Variable Interest Entities for further discussion.

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

- (2) Relates to a gas gathering system in the Eagle Ford region with expected declines in asset utilization and possible idling of the gathering system. We designated these operations as held for sale, included in *Other current assets and deferred charges*, as of December 31, 2019. As a result, we measured the fair value of the disposal group using the expected sales price under a contract with a third party. These inputs resulted in a fair value measurement within Level 2 of the fair value hierarchy. The estimated fair value of the *Property, plant, and equipment – net* at June 30, 2019, was determined using a market approach, which incorporated indications of interest from third parties.
- (3) Reflects impairment of *Property, plant, and equipment – net* that is no longer in use for which the fair value was determined to be lower than the carrying value.
- (4) Relates to our gathering operations in the Barnett Shale. Certain of our contractual gathering rates, primarily those in the Barnett Shale, are based on a percentage of the New York Mercantile Exchange (NYMEX) natural gas prices. During the fourth quarter of 2018, we determined there was a sustained decline in the forward price curves for natural gas. During this same period, a large producer customer in the Barnett Shale removed their remaining drilling rig. These factors gave rise to an impairment evaluation of these assets, which incorporated management's projections of future drilling activity and gathering rates, taking into consideration the information previously noted as well as recently available information regarding producer drilling cost assumptions in the basin. The resulting estimate of future undiscounted cash flows was less than our carrying value, necessitating the estimation of the fair value of the *Property, plant, and equipment – net* and *Intangible assets – net of accumulated amortization*. To arrive at the fair value, we utilized an income approach with a discount rate of 8.5 percent, reflecting an estimated cost of capital and risks associated with the underlying assets.
- (5) Relates to certain idle pipelines. The estimated fair value of the *Property, plant, and equipment – net* was determined by a market approach incorporating information derived from bids received for these assets, which we marketed for sale together with certain other assets. These inputs resulted in a fair value measurement within Level 2 of the fair value hierarchy. We sold these assets in the fourth quarter of 2018. (See Note 3 – Acquisitions and Divestitures.)
- (6) Relates to certain gathering operations in the Mid-Continent region. During the third quarter of 2017, we received solicitations and engaged in negotiations for the sale of certain of these assets which led to our impairment evaluation. The estimated fair value of the *Property, plant, and equipment – net* and *Intangible assets – net of accumulated amortization* was determined using an income approach and incorporated market inputs based on ongoing negotiations for a potential sale of a portion of the underlying assets. For the income approach, we utilized a discount rate of 10.2 percent, reflecting an estimated cost of capital and risks associated with the underlying assets.
- (7) Relates to certain gathering operations in the Marcellus South region resulting from an anticipated decline in future volumes following a third-quarter 2017 shut-in by the primary producer. The estimated fair value of the *Property, plant, and equipment – net* and *Intangible assets – net of accumulated amortization* was determined by the income approach utilizing a discount rate of 11.1 percent, reflecting an estimated cost of capital and risks associated with the underlying assets.
- (8) Relates to an NGL pipeline near the Houston Ship Channel region which we anticipated would be underutilized for the foreseeable future. The estimated fair value of the *Property, plant, and equipment – net* was primarily determined by using a market approach based on our analysis of observable inputs in the principal market. We sold these assets in the fourth quarter of 2018. (See Note 3 – Acquisitions and Divestitures.)
- (9) Relates primarily to project development costs associated with an olefins pipeline project in the Gulf Coast region, where we consider the likelihood of completion to be remote. The estimated fair value of the remaining *Property, plant, and equipment – net* considered a market approach based on our analysis of observable inputs in the principal

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

market, as well as an estimate of replacement cost. We sold these assets in the fourth quarter of 2018. (See Note 3 – Acquisitions and Divestitures.)

- (10) Reflects multiple individually insignificant impairments and write-downs of other certain assets that may no longer be in use or are surplus in nature for which the fair value was determined to be lower than the carrying value.
- (11) Relates to a gas gathering system in the Marcellus region that was adversely impacted by lower sustained forward natural gas price expectations and changes in expected producer activity. The estimated fair value was determined using an income approach. We utilized a discount rate of 10.2 percent in our analysis.
- (12) Relates to a certain gathering system held in Appalachia Midstream Investments that was adversely impacted by changes in the timing of expected producer activity. The estimated fair value was determined using an income approach. We utilized a discount rate of 9.0 percent in our analysis.
- (13) The estimated fair value of Pennant Midstream, LLC (“Pennant”) was determined by a market approach based on recent observable third-party transactions. These inputs resulted in a fair value measurement within Level 2 of the fair value hierarchy.
- (14) The estimated fair value at March 17, 2019, was determined by a market approach based on the transaction price for the purchase of the remaining interest in UEOM as finalized just prior to the signing and closing of the acquisition in March 2019 (see Note 3 – Acquisitions and Divestitures). These inputs resulted in a fair value measurement within Level 2 of the fair value hierarchy. The estimated fair value at December 31, 2018, was determined by a market approach based on our analysis of inputs in the principal market.

Concentration of Credit Risk

The following table summarizes concentration of receivables, net of allowances:

	December 31,	
	2019	2018
	(Millions)	
NGLs, natural gas, and related products and services	\$ 613	\$ 626
Transportation of natural gas and related products	277	232
Accounts Receivable related to revenues from contracts with customers	890	858
Other	106	134
<i>Trade accounts and other receivables</i>	<i>\$ 996</i>	<i>\$ 992</i>

Customers include producers, distribution companies, industrial users, gas marketers, and pipelines primarily located in the continental United States. As a general policy, collateral is not required for receivables, but customers' financial condition and credit worthiness are evaluated regularly. Based upon this evaluation, we may obtain collateral to support receivables.

In 2019, 2018, and 2017, Chesapeake Energy Corporation, and its affiliates, a customer currently primarily within our West segment, accounted for approximately 6 percent, 8 percent, and 10 percent, respectively, of our consolidated revenues, and as of December 31, 2019, accounted for \$78 million of the consolidated *Trade accounts and other receivables* balance.

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

Note 19 – Contingent Liabilities and Commitments

Reporting of Natural Gas-Related Information to Trade Publications

Direct and indirect purchasers of natural gas in various states filed individual and class actions against us, our former affiliate WPX Energy, Inc. (WPX) and its subsidiaries, 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. We have agreed to indemnify WPX and its subsidiaries related to this matter.

In the individual action, filed by Farmland Industries Inc. (Farmland), the court issued an order on May 24, 2016, granting one of our co-defendant's motion for summary judgment as to Farmland's claims. On January 5, 2017, the court extended such ruling to us, entering final judgment in our favor. Farmland appealed. On March 27, 2018, the appellate court reversed the district court's grant of summary judgment, and on April 10, 2018, the defendants filed a petition for rehearing with the appellate court, which was denied on May 9, 2018. The case was remanded to the Nevada federal district court and subsequently has been remanded to its originally filed court, the Kansas federal district court.

In the putative class actions, on March 30, 2017, the court issued an order denying the plaintiffs' motions for class certification. On June 13, 2017, the United States Court of Appeals for the Ninth Circuit granted the plaintiffs' petition for permission to appeal the order. On August 6, 2018, the Ninth Circuit reversed the order denying class certification and remanded the case to the Nevada federal district court.

We reached an agreement to settle two of the actions, and on April 22, 2019, the Nevada federal district court preliminarily approved the settlements, which are on behalf of Kansas and Missouri class members. The final fairness hearing on the settlement occurred August 5, 2019, and a final judgment of dismissal with prejudice was entered the same day.

Two putative class actions remain unresolved, and they have been remanded to their originally filed court, the Wisconsin federal district court.

Because of the uncertainty around the remaining pending unresolved issues, we cannot reasonably estimate a range of potential exposure at this time. However, it is reasonably possible that the ultimate resolution of these actions and our related indemnification obligation could result in a potential loss 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 exposure to future developments.

Alaska Refinery Contamination Litigation

We are involved in litigation arising from our ownership and operation of the North Pole Refinery in North Pole, Alaska, from 1980 until 2004, through our wholly owned subsidiaries, Williams Alaska Petroleum Inc. (WAPI) and MAPCO Inc. We sold the refinery to Flint Hills Resources Alaska, LLC (FHRA), a subsidiary of Koch Industries, Inc., in 2004. The litigation involves three cases, with filing dates ranging from 2010 to 2014. The actions primarily arise from sulfolane contamination allegedly emanating from the refinery. A putative class action lawsuit was filed by James West in 2010 naming us, WAPI, and FHRA as defendants. We and FHRA 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 claim with James West. Certain claims by FHRA against us were resolved by the Alaska Supreme Court in our favor. FHRA's claims against us for contractual indemnification and statutory claims for damages related to off-site sulfolane were remanded to the Alaska Superior Court. The State of Alaska filed its action in March 2014, seeking damages. The City of North Pole (North Pole) filed its lawsuit in November 2014, seeking past and future damages, as well as punitive damages. Both we and WAPI asserted counterclaims against the State of Alaska and North Pole, and cross-claims against FHRA. FHRA has also filed cross-claims against us.

The underlying factual basis and claims in the cases are similar and may duplicate exposure. As such, in February 2017, the three cases were consolidated into one action in state court containing the remaining claims from the James

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

West case and those of the State of Alaska and North Pole. The State of Alaska later announced the discovery of additional contaminants per- and polyfluoralkyl (PFOS and PFOA) offsite of the refinery, and the Court permitted the State of Alaska to amend its complaint to add a claim for offsite PFOS/PFOA contamination. The Court subsequently remanded the offsite PFOS/PFOA claims to the Alaska Department of Environmental Conservation for investigation and stayed the claims pending their potential resolution at the administrative agency. Several trial dates encompassing all three cases have been scheduled and stricken. In the summer of 2019, the Court deconsolidated the cases for purposes of trial. A bench trial on all claims except North Pole's claims began in October 2019.

In January 2020, the Alaska Superior Court issued its Memorandum of Decision finding in favor of the State of Alaska and FHRA, with the total incurred and potential future damages estimated to be \$86 million. The Court did not award natural resource damages to the State of Alaska and also found that FHRA is not entitled to contractual indemnification from us because FHRA contributed to the sulfolane contamination. A final judgment has not been entered in the case. We expect to appeal the decision. We have recorded an additional charge in the fourth quarter of 2019, reported within *Income (loss) from discontinued operations* in the Consolidated Statement of Operations, adjusting our accrued liability to our estimate of the probable loss. It is reasonably possible that we may not be successful on appeal and could ultimately pay up to the amount of judgment.

Royalty Matters

Certain of our customers, including one major customer, have been named in various lawsuits alleging underpayment of royalties and claiming, among other things, violations of anti-trust laws and the Racketeer Influenced and Corrupt Organizations Act. We have also been named as a defendant in certain of these cases filed in Pennsylvania based on allegations that we improperly participated with that major customer in causing the alleged royalty underpayments. We believe that the claims asserted are subject to indemnity obligations owed to us by that major customer. That customer has reached a tentative settlement to resolve substantially all Pennsylvania royalty cases pending, which settlement would apply to both the customer and us. The settlement as reported would not require any contribution from us.

Litigation Against Energy Transfer and Related Parties

On April 6, 2016, we filed suit in Delaware Chancery Court against Energy Transfer Equity, L.P. (Energy Transfer) and LE GP, LLC (the general partner for Energy Transfer) alleging willful and material breaches of the Agreement and Plan of Merger (ETE Merger Agreement) with Energy Transfer resulting from the private offering by Energy Transfer on March 8, 2016, of Series A Convertible Preferred Units (Special Offering) to certain Energy Transfer insiders and other accredited investors. The suit seeks, among other things, an injunction ordering the defendants to unwind the Special Offering and to specifically perform their obligations under the ETE Merger Agreement. On April 19, 2016, we filed an amended complaint seeking the same relief. On May 3, 2016, Energy Transfer and LE GP, LLC filed an answer and counterclaims.

On May 13, 2016, we filed a separate complaint in Delaware Chancery Court against Energy Transfer, LE GP, LLC, and the other Energy Transfer affiliates that are parties to the ETE Merger Agreement, alleging material breaches of the ETE Merger Agreement for failing to cooperate and use necessary efforts to obtain a tax opinion required under the ETE Merger Agreement (Tax Opinion) and for otherwise failing to use necessary efforts to consummate the merger under the ETE Merger Agreement wherein we would be merged with and into the newly formed Energy Transfer Corp LP (ETC) (ETC Merger). The suit sought, among other things, a declaratory judgment and injunction preventing Energy Transfer from terminating or otherwise avoiding its obligations under the ETE Merger Agreement due to any failure to obtain the Tax Opinion.

The Court of Chancery coordinated the Special Offering and Tax Opinion suits. On May 20, 2016, the Energy Transfer defendants filed amended affirmative defenses and verified counterclaims in the Special Offering and Tax Opinion suits, alleging certain breaches of the ETE Merger Agreement by us and seeking, among other things, a declaration that we were not entitled to specific performance, that Energy Transfer could terminate the ETC Merger, and that Energy Transfer is entitled to a \$1.48 billion termination fee. On June 24, 2016, following a two-day trial, the

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

court issued a Memorandum Opinion and Order denying our requested relief in the Tax Opinion suit. The court did not rule on the substance of our claims related to the Special Offering or on the substance of Energy Transfer's counterclaims. On June 27, 2016, we filed an appeal of the court's decision with the Supreme Court of Delaware, seeking reversal and remand to pursue damages. On March 23, 2017, the Supreme Court of Delaware affirmed the Court of Chancery's ruling. On March 30, 2017, we filed a motion for reargument with the Supreme Court of Delaware, which was denied on April 5, 2017.

On September 16, 2016, we filed an amended complaint with the Court of Chancery seeking damages for breaches of the ETE Merger Agreement by defendants. On September 23, 2016, Energy Transfer filed a second amended and supplemental affirmative defenses and verified counterclaim with the Court of Chancery seeking, among other things, payment of the \$1.48 billion termination fee due to our alleged breaches of the ETE Merger Agreement. On December 1, 2017, the court granted our motion to dismiss certain of Energy Transfer's counterclaims, including its claim seeking payment of the \$1.48 billion termination fee. On December 8, 2017, Energy Transfer filed a motion for reargument, which the Court of Chancery denied on April 16, 2018. The Court of Chancery previously scheduled trial for May 20 through May 24, 2019; the court struck the trial setting and has rescheduled trial for June 8 through June 11 and June 15, 2020.

Former Olefins Business

SABIC Petrochemicals, the other interest owner in our former Geismar, Louisiana, olefins facility we sold in July 2017, is seeking recovery from us for losses it allegedly suffered, including its share of personal injury settlements in which it was a co-defendant, as well as amounts related to lost income, defense costs, and property damage associated with an explosion and fire at the plant in June 2013. Due to the complexity of the various claims and available defenses, we are unable to reliably estimate any reasonably possible losses at this time. Trial began on October 14, 2019, as scheduled, but on October 21, 2019, the Court declared a mistrial due to the conduct of an officer of SABIC Petrochemicals and SABIC Petrochemicals' expert witness. No new trial date has been set. We believe that certain losses incurred arising directly from the explosion and fire will be covered by our general liability policy and any uninsured losses are not expected to be material.

Other

On August 31, 2018, 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, 2019, subject to refund and the outcome of a hearing. In October 2019, we reached an agreement on the terms of a settlement with the participants that would resolve all issues in the rate case without the need for a hearing, and on December 31, 2019, we filed a formal stipulation and agreement with the FERC setting forth such terms of settlement. We anticipate FERC approval of the stipulation and agreement in the second quarter of 2020. As of December 31, 2019, we have provided a \$189 million reserve for rate refunds related to increased rates collected since March 2019, which we believe is adequate for any refunds that may be required.

Environmental Matters

We are a participant in certain environmental activities in various stages including assessment studies, cleanup operations, and/or 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 U.S. Environmental Protection Agency (EPA), or 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 December 31, 2019, we have accrued liabilities totaling \$31 million for these matters, as discussed below. Estimates of the most likely costs of cleanup are generally based on completed assessment studies, preliminary results of studies, or our experience with other similar cleanup operations. At December 31, 2019, certain assessment studies were still

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Notes to Consolidated Financial Statements – (Continued)

in process for which the ultimate outcome may yield different estimates of most likely costs. Therefore, the actual costs incurred will depend on the final amount, type, and extent of contamination discovered at these sites, the final cleanup standards mandated by the EPA or other governmental authorities, and other factors.

The EPA and various state regulatory agencies routinely promulgate and propose new rules and issue updated guidance to existing rules. These rulemakings include, but are not limited to, rules for reciprocating internal combustion engine and combustion turbine maximum achievable control technology, air quality standards for one-hour nitrogen dioxide emissions, and volatile organic compound and methane new source performance standards impacting design and operation of storage vessels, pressure valves, and compressors. The EPA previously issued its rule regarding National Ambient Air Quality Standards for ground-level ozone. We are monitoring the rule's implementation as it will trigger additional federal and state regulatory actions that may impact our operations. Implementation of the regulations is expected to result in impacts to our operations and increase the cost of additions to *Property, plant, and equipment – net* in the Consolidated Balance Sheet for both new and existing facilities in affected areas. We are unable to reasonably estimate the cost of additions that may be required to meet the regulations at this time due to uncertainty created by 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 December 31, 2019, we have accrued liabilities of \$4 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 December 31, 2019, we have accrued liabilities totaling \$7 million for these costs.

Former operations

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 December 31, 2019, we have accrued environmental liabilities of \$20 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

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

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.

At December 31, 2019, 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, none of which are expected to be material to our expected future annual results of operations, liquidity, and financial position.

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.

Commitments

Commitments for construction and acquisition of property, plant, and equipment are approximately \$206 million at December 31, 2019.

Note 20 – Segment Disclosures

Our reportable segments are Atlantic-Gulf, Northeast G&P, and West. All remaining business activities are included in Other. (See Note 1 – General, Description of Business, Basis of Presentation, and Summary of Significant Accounting Policies.)

Performance Measurement

We evaluate segment operating performance based upon *Modified EBITDA* (earnings before interest, taxes, depreciation, and amortization). This measure represents the basis of our internal financial reporting and is the primary performance measure used by our chief operating decision maker in measuring performance and allocating resources among our reportable segments. Intersegment revenues primarily represent the sale of NGLs from our natural gas processing plants to our marketing business.

We define *Modified EBITDA* as follows:

- Net income (loss) before:
 - Income (loss) from discontinued operations;
 - Provision (benefit) for income taxes;
 - Interest incurred, net of interest capitalized;
 - Equity earnings (losses);
 - Other investing income (loss) – net;

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Notes to Consolidated Financial Statements – (Continued)

- Depreciation and amortization expenses;
- Accretion expense associated with asset retirement obligations for nonregulated operations.
- This measure is further adjusted to include our proportionate share (based on ownership interest) of *Modified EBITDA* from our equity-method investments calculated consistently with the definition described above.

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

The following table reflects the reconciliation of *Segment revenues* to *Total revenues* as reported in the Consolidated Statement of Operations and *Other financial information*:

	Atlantic-Gulf	Northeast G&P	West	Other	Eliminations	Total						
	(Millions)											
2019												
Segment revenues:												
Service revenues												
External	\$ 2,812	\$ 1,291	\$ 1,813	\$ 17	\$ —	\$ 5,933						
Internal	49	47	—	13	(109)	—						
Total service revenues	2,861	1,338	1,813	30	(109)	5,933						
Total service revenues – commodity consideration	41	12	150	—	—	203						
Product sales												
External	217	115	1,733	—	—	2,065						
Internal	71	35	64	—	(170)	—						
Total product sales	288	150	1,797	—	(170)	2,065						
Total revenues	<u>\$ 3,190</u>	<u>\$ 1,500</u>	<u>\$ 3,760</u>	<u>\$ 30</u>	<u>\$ (279)</u>	<u>\$ 8,201</u>						
Other financial information:												
Additions to long-lived assets	\$ 1,179	\$ 1,245	\$ 466	\$ 21	\$ —	\$ 2,911						
Proportional Modified EBITDA of equity-method investments	177	454	115	—	—	746						
2018												
Segment revenues:												
Service revenues												
External	\$ 2,460	\$ 935	\$ 2,085	\$ 22	\$ —	\$ 5,502						
Internal	49	41	—	12	(102)	—						
Total service revenues	2,509	976	2,085	34	(102)	5,502						
Total service revenues – commodity consideration	59	20	321	—	—	400						
Product sales												
External	174	245	2,365	—	—	2,784						
Internal	261	42	83	—	(386)	—						
Total product sales	435	287	2,448	—	(386)	2,784						
Total revenues	<u>\$ 3,003</u>	<u>\$ 1,283</u>	<u>\$ 4,854</u>	<u>\$ 34</u>	<u>\$ (488)</u>	<u>\$ 8,686</u>						
Other financial information:												
Additions to long-lived assets	\$ 2,297	\$ 477	\$ 361	\$ 36	\$ —	\$ 3,171						
Proportional Modified EBITDA of equity-method investments	183	493	94	—	—	770						
2017												
Segment revenues:												
Service revenues												
External	\$ 2,202	\$ 837	\$ 2,246	\$ 27	\$ —	\$ 5,312						
Internal	37	35	—	11	(83)	—						
Total service revenues	2,239	872	2,246	38	(83)	5,312						
Product sales												
External	257	264	1,840	358	—	2,719						

Internal	227	27	173	8	(435)	—
Total product sales	484	291	2,013	366	(435)	2,719
Total revenues	\$ 2,723	\$ 1,163	\$ 4,259	\$ 404	\$ (518)	\$ 8,031
Other financial information:						
Additions to long-lived assets	\$ 2,001	\$ 460	\$ 321	\$ 32	\$ —	\$ 2,814
Proportional Modified EBITDA of equity-method investments	264	452	79	—	—	795

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

The following table reflects the reconciliation of *Modified EBITDA* to *Net income (loss)* as reported in the Consolidated Statement of Operations:

	Year Ended December 31,		
	2019	2018	2017
	(Millions)	(Millions)	(Millions)
Modified EBITDA by segment:			
Atlantic-Gulf	\$ 1,895	\$ 2,023	\$ 1,238
Northeast G&P	1,314	1,086	819
West	1,232	308	412
Other	6	(29)	997
	<u>4,447</u>	<u>3,388</u>	<u>3,466</u>
Accretion expense associated with asset retirement obligations for nonregulated operations			
	(33)	(33)	(33)
Depreciation and amortization expenses	(1,714)	(1,725)	(1,736)
Equity earnings (losses)	375	396	434
Other investing income (loss) – net	(79)	187	282
Proportional Modified EBITDA of equity-method investments	(746)	(770)	(795)
Interest expense	(1,186)	(1,112)	(1,083)
(Provision) benefit for income taxes	(335)	(138)	1,974
Income (loss) from discontinued operations	(15)	—	—
Net income (loss)	\$ 714	\$ 193	\$ 2,509

The following table reflects *Total assets* and *Equity-method investments* by reportable segments:

	Total Assets		Equity-Method Investments	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
	(Millions)	(Millions)	(Millions)	(Millions)
Atlantic-Gulf	\$ 16,575	\$ 16,346	\$ 741	\$ 776
Northeast G&P	15,399	14,526	3,973	5,319
West	13,487	13,948	1,521	1,726
Other	1,151	849	—	—
Eliminations (1)	(572)	(367)	—	—
Total	\$ 46,040	\$ 45,302	\$ 6,235	\$ 7,821

(1) Eliminations primarily relate to the intercompany notes and accounts receivable generated by our cash management program.

The Williams Companies Inc.

Quarterly Financial Data
(Unaudited)

Summarized quarterly financial data are as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(Millions, except per-share amounts)			
2019				
Revenues	\$ 2,054	\$ 2,041	\$ 1,999	\$ 2,107
Product costs and processing commodity expenses	565	507	453	541
Income (loss) from continuing operations	214	324	242	(51)
Income (loss) from discontinued operations	—	—	—	(15)
Net income (loss)	214	324	242	(66)
Amounts attributable to The Williams Companies, Inc. available to common stockholders:				
Income (loss) from continuing operations	194	310	220	138
Income (loss) from discontinued operations	—	—	—	(15)
Net income (loss)	194	310	220	123
Basic and diluted income (loss) from continuing operations per common share	.16	.26	.18	.11
Basic and diluted income (loss) from discontinued operations per common share	—	—	—	(.01)
Basic and diluted net income (loss) per common share	.16	.26	.18	.10
2018				
Revenues	\$ 2,088	\$ 2,091	\$ 2,303	\$ 2,204
Product costs and processing commodity expenses	648	662	820	714
Income (loss) from continuing operations	270	269	200	(546)
Net income (loss)	270	269	200	(546)
Amounts attributable to The Williams Companies, Inc. available to common stockholders:				
Income (loss) from continuing operations	152	135	129	(572)
Net income (loss)	152	135	129	(572)
Basic and diluted net income (loss) per common share	.18	.16	.13	(.47)

The sum of earnings (loss) per share for the four quarters may not equal the total earnings (loss) per share for the year due to changes in the average number of common shares outstanding and rounding.

2019

Net income (loss) for fourth-quarter 2019 includes \$354 million of impairment of Constitution's capitalized project costs (see Note 4 – Variable Interest Entities of Notes to Consolidated Financial Statements).

Net income (loss) for third-quarter 2019 includes \$114 million of impairment of certain equity-method investments (see Note 18 – Fair Value Measurements, Guarantees, and Concentration of Credit Risk of Notes to Consolidated Financial Statements).

Net income (loss) for second-quarter 2019 includes a \$122 million gain on sale of our equity-method investment in Jackalope (see Note 6 – Investing Activities of Notes to Consolidated Financial Statements).

2018

Net income (loss) for fourth-quarter 2018 includes:

- \$1.849 billion impairment of certain assets in the Barnett Shale region (see Note 18 – Fair Value Measurements, Guarantees, and Concentration of Credit Risk of Notes to Consolidated Financial Statements);

The Williams Companies Inc.
Quarterly Financial Data – (Continued)
(Unaudited)

- \$591 million gain on the sale of our natural gas gathering and processing assets in the Four Corners area of New Mexico and Colorado (see Note 3 – Acquisitions and Divestitures of Notes to Consolidated Financial Statements);
- \$141 million deconsolidation gain associated with our investment in the Brazos Permian II joint venture (see Note 6 – Investing Activities of Notes to Consolidated Financial Statements);
- \$101 million gain on the sale of certain assets and operations located in the Gulf Coast area (see Note 3 – Acquisitions and Divestitures of Notes to Consolidated Financial Statements).

The Williams Companies, Inc.

Schedule II — Valuation and Qualifying Accounts

	Beginning Balance	Additions			(Millions)	Ending Balance
		Charged (Credited)	To Costs and Expenses	Other		
				Deductions		
2019						
	Deferred tax asset valuation allowance (1)	\$ 320	\$ (1)	\$ —	\$ —	\$ 319
2018						
	Deferred tax asset valuation allowance (1)	224	96	—	—	320
2017						
	Deferred tax asset valuation allowance (1)	334	(110)	—	—	224

(1) Deducted from related assets.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures**Disclosure Controls and Procedures**

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures (as defined in Rules 13a - 15(e) and 15d - 15(e) of the Securities Exchange Act) (Disclosure Controls) will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. We monitor our Disclosure Controls and make modifications as necessary; our intent in this regard is that the Disclosure Controls will be modified as systems change and conditions warrant.

Evaluation of Disclosure Controls and Procedures

An evaluation of the effectiveness of the design and operation of our Disclosure Controls was performed as of the end of the period covered by this report. This evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these Disclosure Controls are effective at a reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There have been no changes during the fourth quarter of 2019 that have materially affected, or are reasonably likely to materially affect, our Internal Control over Financial Reporting.

Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a - 15(f) and 15d - 15(f) under the Securities Exchange Act of 1934). Our internal control over financial reporting is designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of financial statements in accordance with accounting principles generally accepted in the United States. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorization of our management and board of directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

All internal control systems, no matter how well designed, have inherent limitations including the possibility of human error and the circumvention or overriding of controls. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we assessed the effectiveness of our internal control over financial reporting as of December 31, 2019, based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control — Integrated Framework* (2013). Based on our assessment, we concluded that, as of December 31, 2019, our internal control over financial reporting was effective.

Ernst & Young LLP, our independent registered public accounting firm, has audited our internal control over financial reporting, as stated in their report which is included in this Annual Report on Form 10-K.

Report of Independent Registered Public Accounting Firm

The Stockholders and the Board of Directors of
The Williams Companies, Inc.

Opinion on Internal Control Over Financial Reporting

We have audited The Williams Companies, Inc.'s internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, The Williams Companies, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheet of the Company as of December 31, 2019 and 2018, and the related consolidated statements of operations, comprehensive income (loss), changes in equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and the financial statement schedule listed in the index at Item 15(a) and our report dated February 24, 2020, expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Tulsa, Oklahoma
February 24, 2020

Item 9B. Other Information

None.

PART III**Item 10. Directors, Executive Officers and Corporate Governance**

The information regarding our directors and nominees for director required by Item 401 of Regulation S-K will be presented under the heading “Election of Directors” in our definitive proxy statement prepared for the solicitation of proxies in connection with our Annual Meeting of Stockholders to be held April 28, 2020, which shall be filed no later than March 19, 2020 (Proxy Statement), which information is incorporated by reference herein.

Information regarding our executive officers required by Item 401(b) of Regulation S-K is presented at the end of Part I herein and captioned “Information About Our Executive Officers,” as permitted by General Instruction G(3) to and Instruction 3 to Item 401(b) of Regulation S-K.

Information required by paragraphs (c)(3), (d)(4) and (d)(5) of Item 407 of Regulation S-K will be included under the heading “Questions and Answers About the Annual Meeting and Voting” and “Corporate Governance and Board Matters” in our Proxy Statement, which information is incorporated by reference herein.

Our Code of Business Conduct, together with our Corporate Governance Guidelines, the charters for each of our board committees, and our Code of Business Conduct applicable to all employees, including our Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer, or persons performing similar functions, are available on our Internet website at www.williams.com. We will provide, free of charge, a copy of our Code of Business Conduct or any of our other corporate documents listed above upon written request to our Corporate Secretary at Williams, One Williams Center, Suite 4700, Tulsa, Oklahoma 74172. We intend to disclose any amendments to or waivers, in each case, of the Code of Business Conduct on behalf of our Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer, and persons performing similar functions on the corporate governance section of our Internet website at www.williams.com, promptly following the date of any such amendment or waiver.

Item 11. Executive Compensation

The information required by Item 402 and paragraphs (e)(4) and (e)(5) of Item 407 of Regulation S-K regarding executive compensation will be presented under the headings “Compensation Discussion and Analysis,” “Executive Compensation and Other Information,” “Compensation of Directors,” “Compensation and Management Development Committee Report on Executive Compensation,” and “Compensation and Management Development Committee Interlocks and Insider Participation” in our Proxy Statement, which information is incorporated by reference herein. Notwithstanding the foregoing, the information provided under the heading “Compensation and Management Development Committee Report on Executive Compensation” in our Proxy Statement is furnished and shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, is not subject to the liabilities of that section and is not deemed incorporated by reference in any filing under the Securities Act of 1933, as amended.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information regarding securities authorized for issuance under equity compensation plans required by Item 201(d) of Regulation S-K and the security ownership of certain beneficial owners and management required by Item 403 of Regulation S-K will be presented under the headings “Equity Compensation Stock Plans” and “Security Ownership of Certain Beneficial Owners and Management” in our Proxy Statement, which information is incorporated by reference herein.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information regarding certain relationships and related transactions required by Item 404 and Item 407(a) of Regulation S-K will be presented under the heading “Corporate Governance and Board Matters” in our Proxy Statement, which information is incorporated by reference herein.

Item 14. Principal Accountant Fees and Services

The information regarding our principal accounting fees and services required by Item 9(e) of Schedule 14A will be presented under the heading “Principal Accountant Fees and Services” in our Proxy Statement, which information is incorporated by reference herein.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) 1 and 2.

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Covered by report of independent auditors:	
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Consolidated statement of comprehensive income (loss) for each year in the three-year period ended December 31, 2019	77
Consolidated balance sheet at December 31, 2019 and 2018	78
Consolidated statement of changes in equity for each year in the three-year period ended December 31, 2019	79
Consolidated statement of cash flows for each year in the three-year period ended December 31, 2019	80
Notes to consolidated financial statements	81
Schedule for each year in the three-year period ended December 31, 2019:	
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Not covered by report of independent auditors:	
Quarterly financial data (unaudited)	145

All other schedules have been omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the financial statements and notes thereto.

(a) 3 and (b). The exhibits listed below are filed as part of this annual report.

INDEX TO EXHIBITS

Exhibit No.	Description
2.1	— Agreement and Plan of Merger dated as of May 12, 2015, by and among The Williams Companies, Inc., SCMS LLC, Williams Partners, L.P., and WPZ GP LLC (filed on May 13, 2015, as Exhibit 2.1 to The Williams Companies, Inc.'s current report on Form 8-K (File No. 001-04174) and incorporated herein by reference).
2.2	— Agreement and Plan of Merger dated as of May 16, 2018, by and among The Williams Companies, Inc., SCMS LLC, Williams Partners L.P., and WPZ GP LLC (filed on May 17, 2018 as Exhibit 2.1 to The Williams Companies, Inc.'s current report on Form 8-K (File No. 001-04174) and incorporated herein by reference).
2.3	— Amendment No 1. to Agreement and Plan of Merger dated as of May 1, 2016, by and among The Williams Companies, Inc., Energy Transfer Corp LP, Energy Transfer Corp GP, LLC, Energy Transfer Equity, L.P., LE GP, LLC and Energy Transfer Equity GP, LLC (filed on May 3, 2016, as Exhibit 2.1 to The Williams Companies, Inc.'s current report on Form 8-K (File No. 001-04174) and incorporated herein by reference).
2.4	— Agreement and Plan of Merger dated as of September 28, 2015, by and among The Williams Companies, Inc., Energy Transfer Corp LP, Energy Transfer Corp GP, LLC, Energy Transfer Equity, L.P., LE GP, LLC and Energy Transfer Equity GP, LLC (filed on October 1, 2015, as Exhibit 2.1 to The Williams Companies, Inc.'s current report on Form 8-K (File No. 001-04174) and incorporated herein by reference).

**Exhibit
No.**

Description

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- | | |
|-----|--|
| 2.5 | — Interest Swap and Purchase Agreement by and among Western Gas Partners, LP, WGR Operating, LP, Delaware Basin JV Gathering LLC, Williams Partners L.P., Williams Midstream Gas Services LLC, and Appalachia Midstream Services, L.L.C., dated February 9, 2017 (filed on February 10, 2017, as Exhibit 2.1 to The Williams Companies Inc.'s current report on Form 8-K (File No. 001-04174) and incorporated herein by reference). |
| 2.6 | — Membership Interest Purchase Agreement, dated as of April 13, 2017, among Williams Field Services Group, LLC, Williams Partners L.P., Williams Olefins, L.L.C., NOVA Chemicals Inc., and NOVA Chemicals Corporation (filed on August 3, 2017, as Exhibit 2.2 to Williams Partners L.P.'s quarterly report on Form 10-Q (File No. 001-34831) and incorporated herein by reference). |
| 3.1 | — Amended and Restated Certificate of Incorporation, (filed on May 26, 2010, as Exhibit 3.(i)1 to The Williams Companies Inc.'s current report on Form 8-K (File No. 001-04174) and incorporated herein by reference). |
| 3.2 | — Certificate of Designations of Series B Preferred Stock of the Williams Companies, Inc. (filed on July 17, 2018, as Exhibit 3.1 to The Williams Companies, Inc. current report on Form 8-K (File No. 001-04174) and Incorporated herein by reference). |
| 3.3 | — Certificate of Amendment dated August 10, 2018 (filed on August 10, 2018, as Exhibit 3.1 to The Williams Companies, Inc.'s current report on Form 8-K (File No. 001-04174) and incorporated herein by reference). |
| 3.4 | — By-Laws (filed on January 20, 2017, as Exhibit 3.1 to The Williams Companies Inc.'s current report on Form 8-K (File No. 001-04174) and incorporated herein by reference). |
| 4.1 | — Senior Indenture, dated February 25, 1997, between MAPCO Inc. and Bank One Trust Company, N.A. (formerly The First National Bank of Chicago), as Trustee (filed on February 25, 1997, as Exhibit 4.5.1 to MAPCO Inc.'s Amendment No. 1 to registration statement on Form S-3 (File No. 333-20837) and incorporated herein by reference). |
| 4.2 | — Supplemental Indenture No. 2, dated March 5, 1997, between MAPCO Inc. and Bank One Trust Company, N.A. (formerly The First National Bank of Chicago), as Trustee (filed on March 4, 1998, as Exhibit 4(p) to MAPCO Inc.'s annual report on Form 10-K for the fiscal year ended December 31, 1997 (File No. 001-05254) and incorporated herein by reference). |
| 4.3 | — Supplemental Indenture No. 3, dated March 31, 1998, among MAPCO Inc., Williams Holdings of Delaware, Inc. and Bank One Trust Company, N.A. (formerly The First National Bank of Chicago), as Trustee (filed on March 30, 1999, as Exhibit 4(J) to Williams Holdings of Delaware, Inc.'s annual report on Form 10-K for the fiscal year ended December 31, 1998 (File No. 000-20555) and incorporated herein by reference). |
| 4.4 | — Fourth Supplemental Indenture, dated as of July 31, 1999, among Williams Holdings of Delaware, Inc., The Williams Companies, Inc. and Bank One Trust Company, N.A. (formerly The First National Bank of Chicago), as Trustee (filed on March 28, 2000, as Exhibit 4(q) to The Williams Companies, Inc.'s annual report on Form 10-K (File No. 001-04174) and incorporated herein by reference). |
| 4.5 | — Fifth Supplemental Indenture, dated as of February 1, 2010, between The Williams Companies, Inc. and The Bank of New York Mellon Trust Company, N.A. (filed on February 2, 2010, as Exhibit 4.3 to The Williams Companies, Inc.'s current report on Form 8-K (File No. 001-04174) and incorporated herein by reference). |
| 4.6 | — Fifth Supplemental Indenture between The Williams Companies, Inc. and Bank One Trust Company, N.A., as Trustee, dated as of January 17, 2001 (filed on March 12, 2001, as Exhibit 4(k) to The Williams Companies, Inc.'s annual report on Form 10-K (File No. 001-04174) and incorporated herein by reference). |
-

**Exhibit
No.**

Description

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- 4.7 — [Seventh Supplemental Indenture, dated March 19, 2002, between The Williams Companies, Inc. as Issuer and Bank One Trust Company, National Association, as Trustee \(filed on May 9, 2002, as Exhibit 4.1 to The Williams Companies, Inc.'s quarterly report on Form 10-Q \(File No. 001-04174\) and incorporated herein by reference\).](#)
 - 4.8 — [Eleventh Supplemental Indenture, dated as of February 1, 2010, between The Williams Companies, Inc. and The Bank of New York Mellon Trust Company, N.A. \(filed on February 2, 2010, as Exhibit 4.1 to The Williams Companies, Inc.'s current report on Form 8-K \(File No. 001-04174\) and incorporated herein by reference\).](#)
 - 4.9 — [Indenture, dated December 18, 2012, between The Williams Companies, Inc. and The Bank of New York Mellon Trust Company, N.A. as trustee \(filed on December 20, 2012, as Exhibit 4.1 to The Williams Companies, Inc.'s current report on Form 8-K \(File No. 001-04174\) and incorporated herein by reference\).](#)
 - 4.10 — [First Supplemental Indenture, dated December 18, 2012, between The Williams Companies, Inc. and The Bank of New York Mellon Trust Company, N.A. as trustee \(filed on December 20, 2012, as Exhibit 4.2 to The Williams Companies, Inc.'s current report on Form 8-K \(File No. 001-04174\) and incorporated herein by reference\).](#)
 - 4.11 — [Second Supplemental Indenture, dated as of June 24, 2014, between The Williams Companies, Inc. and The Bank of New York Mellon Trust Company, N.A., as trustee \(filed on June 24, 2014, as Exhibit 4.1 to The Williams Companies, Inc.'s current report on Form 8-K \(File No. 001-04174\) and incorporated herein by reference\).](#)
 - 4.12 — [Indenture, dated as of February 9, 2010, between Williams Partners L.P. and The Bank of New York Mellon Trust Company, N.A. \(filed on February 10, 2010, as Exhibit 4.1 to The Williams Companies, Inc.'s current report on Form 8-K \(File No. 001-04174\) and incorporated herein by reference\).](#)
 - 4.13 — [First Supplemental Indenture, dated as of February 2, 2015, between Williams Partners L.P. and The Bank of New York Mellon Trust Company, N.A. \(filed on February 3, 2015, as Exhibit 4.5 to Williams Partners L.P.'s current report on Form 8-K \(File No. 001-34831\) and incorporated herein by reference\).](#)
 - 4.14 — [Second Supplemental Indenture, dated as of August 10, 2018, between The Williams Companies, Inc. and The Bank of New York Mellon Trust Company, N.A. \(filed on August 10, 2018, as Exhibit 4.2 to The Williams Companies, Inc.'s current report on Form 8-K \(File No. 001-04174\) and incorporated herein by reference\).](#)
 - 4.15 — [Indenture, dated as of November 9, 2010, between Williams Partners L.P. and The Bank of New York Mellon Trust Company, N.A., as trustee \(filed on November 12, 2010, as Exhibit 4.1 to Williams Partners L.P.'s current report on Form 8-K \(File No. 001-32599\) and incorporated herein by reference\).](#)
 - 4.16 — [First Supplemental Indenture, dated as of November 9, 2010, between Williams Partners L.P. and The Bank of New York Mellon Trust Company, N.A., as trustee \(filed on November 12, 2010, as Exhibit 4.2 to Williams Partners L.P.'s current report on Form 8-K \(File No. 001-32599\) and incorporated herein by reference\).](#)
 - 4.17 — [Second Supplemental Indenture, dated as of November 17, 2011, between Williams Partners L.P. and The Bank of New York Mellon Trust Company, N.A., as trustee \(filed November 18, 2011, as Exhibit 4.1 to Williams Partners L.P.'s current report on Form 8-K \(File No. 001-32599\) and incorporated herein by reference\).](#)

Exhibit No.	Description
4.18	— <u>Third Supplemental Indenture (including Form of 3.35% Senior Notes due 2022), dated as of August 14, 2012, between Williams Partners L.P. and The Bank of New York Mellon Trust Company, N.A., as trustee (filed on August 14, 2012 as Exhibit 4.1 to Williams Partners L.P.'s current report on Form 8-K (File No. 001-32599) and incorporated herein by reference).</u>
4.19	— <u>Fourth Supplemental Indenture, dated as of November 15, 2013, between Williams Partners L.P. and The Bank of New York Mellon Trust Company, N.A., as trustee (filed on November 18, 2013, as Exhibit 4.1 to Williams Partners L.P.'s current report on Form 8-K (File No. 001-32599) and incorporated herein by reference).</u>
4.20	— <u>Fifth Supplemental Indenture, dated as of March 4, 2014, between Williams Partners L.P. and The Bank of New York Mellon Trust Company, N.A., as trustee (filed on March 4, 2014, as Exhibit 4.1 to Williams Partners L.P.'s current report on Form 8-K (File No. 001-32599) and incorporated herein by reference).</u>
4.21	— <u>Sixth Supplemental Indenture, dated as of June 27, 2014, between Williams Partners L.P. and The Bank of New York Mellon Trust Company, N.A., as trustee (filed on June 27, 2014, as Exhibit 4.1 to Williams Partners L.P.'s current report on Form 8-K (File No. 001-32599) and incorporated herein by reference).</u>
4.22	— <u>Seventh Supplemental Indenture, dated as of February 2, 2015, between Williams Partners L.P. and The Bank of New York Mellon Trust Company, N.A. (filed on February 3, 2015, as Exhibit 4.4 to Williams Partners L.P.'s current report on Form 8-K (File No. 001-34831) and incorporated herein by reference).</u>
4.23	— <u>Eighth Supplemental Indenture, dated as of March 3, 2015, between Williams Partners L.P. and The Bank of New York Mellon Trust Company, N.A., as trustee (filed on March 3, 2015, as Exhibit 4.1 to Williams Partners L.P.'s current report on Form 8-K (File No. 001-34831) and incorporated herein by reference).</u>
4.24	— <u>Ninth Supplemental Indenture, dated as of June 5, 2017, between Williams Partners L.P. and The Bank of New York Mellon Trust Company, N.A., as trustee (filed on June 5, 2017, as Exhibit 4.1 to Williams Partners L.P.'s current report on Form 8-K (File No. 001-34831) and incorporated herein by reference).</u>
4.25	— <u>Tenth Supplemental Indenture, dated as of March 5, 2018, between Williams Partners L.P. and The Bank of New York Mellon Trust Company, N.A., as trustee (filed on March 5, 2018, as Exhibit 4.1 to Williams Partners L.P.'s current report on Form 8-K (File No. 001-34831) and incorporated herein by reference).</u>
4.26	— <u>Eleventh Supplemental Indenture, dated as of August 10, 2018, between The Williams Companies Inc. and The Bank of New York Mellon Trust Company, N.A. (filed on August 10, 2018, as Exhibit 4.1 to The Williams Companies, Inc.'s current report on Form 8-K (File No. 001-04174) and incorporated herein by reference).</u>
4.27	— <u>Senior Indenture, dated as of November 30, 1995, between Northwest Pipeline Corporation and Chemical Bank, Trustee (filed September 14, 1995, as Exhibit 4.1 to Northwest Pipeline's registration statement on Form S-3 (File No. 033-62639) and incorporated herein by reference).</u>
4.28	— <u>Indenture, dated as of April 3, 2017, between Northwest Pipeline LLC and The Bank of New York Mellon Trust Company, N.A., as trustee (filed on April 3, 2017, as Exhibit 4.1 to Northwest Pipeline's current report on Form 8-K (File No. 001-07414) and incorporated herein by reference).</u>
4.29	— <u>Senior Indenture, dated as of July 15, 1996, between Transcontinental Gas Pipe Line Corporation and Citibank, N.A., as Trustee (filed on April 2, 1996, as Exhibit 4.1 to Transcontinental Gas Pipe Line Corporation's registration statement on Form S-3 (File No. 333-02155) and incorporated herein by reference).</u>

Exhibit No.	Description
4.30	— Indenture, dated as of August 12, 2011, between Transcontinental Gas Pipe Line Company, LLC and The Bank of New York Mellon Trust Company, N.A., as trustee (filed on August 12, 2011, as Exhibit 4.1 to Transcontinental Gas Pipe Line Company, LLC's current report on Form 8-K (File No. 001-07584) and incorporated herein by reference).
4.31	— Indenture, dated as of July 13, 2012, between Transcontinental Gas Pipe Line Company, LLC and The Bank of New York Mellon Trust Company, N.A., as trustee (filed on July 16, 2012 as Exhibit 4.1 to Transcontinental Gas Pipe Line Company, LLC's current report on Form 8-K (File No. 001-07584) and incorporated herein by reference).
4.32	— Indenture, dated as of January 22, 2016, between Transcontinental Gas Pipe Line Company, LLC and The Bank of New York Mellon Trust Company, N.A., as trustee (filed on January 22, 2016, as Exhibit 4.1 to The Williams Companies, Inc.'s current report on Form 8-K (File No. 001-04174) and incorporated herein by reference).
4.33	— Indenture, dated as of March 15, 2018, between Transcontinental Gas Pipe Line Company, LLC and The Bank of New York Mellon Trust Company, N.A., as trustee (filed on March 15, 2018, as Exhibit 4.1 to The Williams Companies, Inc.'s current report on Form 8-K (File No. 001-04174) and incorporated herein by reference).
4.34*	— Description of Securities.
10.1§	— Form of Director and Officer Indemnification Agreement (filed on September 24, 2008, as Exhibit 10.1 to The Williams Companies, Inc.'s current report on Form 8-K (File No. 001-04174) and incorporated herein by reference).
10.2§	— Form of 2013 Nonqualified Stock Option Agreement among Williams and certain employees and officers (filed on February 27, 2013, as Exhibit 10.6 to The Williams Companies, Inc.'s annual report on Form 10-K (File No. 001-04174) and incorporated herein by reference).
10.3§	— Form of 2013 Restricted Stock Unit Agreement among Williams and certain nonmanagement directors (filed on February 26, 2014, as Exhibit 10.11 to The Williams Companies, Inc. annual report on Form 10-K (File No. 001-04174) and incorporated herein by reference).
10.4§	— Form of 2014 Nonqualified Stock Option Agreement among Williams and certain employees and officers (filed on February 26, 2014, as Exhibit 10.8 to The Williams Companies, Inc. annual report on Form 10-K (File No. 001-04174) and incorporated herein by reference).
10.5§	— Form of 2014 Restricted Stock Unit Agreement among Williams and certain nonmanagement directors (filed on February 25, 2015, as Exhibit 10.12 to The Williams Companies, Inc. annual report on Form 10-K (File No. 001-04174) and incorporated herein by reference).
10.6§	— Form of 2015 Time-Based Restricted Stock Unit Agreement among Williams and certain employees and officers (filed on February 25, 2015, as Exhibit 10.16 to The Williams Companies, Inc. annual report on Form 10-K (File No. 001-04174) and incorporated herein by reference).
10.7§	— Form of 2015 Nonqualified Stock Option Agreement among Williams and certain employees and officers (filed on February 25, 2015, as Exhibit 10.17 to The Williams Companies, Inc. annual report on Form 10-K (File No. 001-04174) and incorporated herein by reference).
10.8§	— Form of 2016 Performance-Based Restricted Stock Unit Agreement among Williams and certain employees and officers (filed on February 22, 2017, as Exhibit 10.18 to The Williams Companies, Inc.'s annual report on Form 10-K (File No. 001-04174) and incorporated herein by reference).
10.9§	— Form of 2016 Time-Based Restricted Stock Unit Agreement among Williams and certain employees and officers (filed on February 22, 2017, as Exhibit 10.19 to The Williams Companies, Inc.'s annual report on Form 10-K (File No. 001-04174) and incorporated herein by reference).

Exhibit No.	Description
10.10§	— Form of 2016 Time-Based Restricted Stock Unit Agreement among Williams and certain employees and officers vesting February 22, 2019 (filed on February 22, 2017, as Exhibit 10.20 to The Williams Companies, Inc.'s annual report on Form 10-K (File No. 001-04174) and incorporated herein by reference).
10.11§	— Form of 2016 Time-Based Restricted Stock Unit Agreement among Williams and certain non-management directors (filed on February 22, 2017, as Exhibit 10.21 to The Williams Companies, Inc.'s annual report on Form 10-K (File No. 001-04174) and incorporated herein by reference).
10.12§	— Form of 2016 Nonqualified Stock Option Agreement among Williams and certain employees and officers (filed on February 22, 2017, as Exhibit 10.22 to The Williams Companies, Inc.'s annual report on Form 10-K (File No. 001-04174) and incorporated herein by reference).
10.13§	— Form of 2017 Time-Based Restricted Stock Unit Agreement among Williams and certain employees and officers (filed on February 22, 2017, as Exhibit 10.23 to The Williams Companies, Inc.'s annual report on Form 10-K (File No. 001-04174) and incorporated herein by reference).
10.14§	— Form of 2017 Time-Based Restricted Stock Unit Agreement among Williams and certain non-management directors (filed on February 22, 2017, as Exhibit 10.24 to The Williams Companies, Inc.'s annual report on Form 10-K (File No. 001-04174) and incorporated herein by reference).
10.15§	— Form of 2017 Nonqualified Stock Option Agreement among Williams and certain employees and officers (filed on February 22, 2017, as Exhibit 10.25 to The Williams Companies, Inc.'s annual report on Form 10-K (File No. 001-04174) and incorporated herein by reference).
10.16§	— Form of 2017 Performance-Based Restricted Stock Unit Agreement among Williams and certain employees and officers (filed on May 4, 2017, as Exhibit 10.10 to The Williams Companies, Inc.'s quarterly report on Form 10-Q (File No. 001-04174) and incorporated herein by reference).
10.17§	— Form of 2018 Time-Based Restricted Stock Unit Agreement among Williams and certain employees and officers (filed on May 3, 2018, as Exhibit 10.3 to The Williams Companies, Inc.'s quarterly report on Form 10-Q (File No. 001-04174) and incorporated herein by reference).
10.18§	— Form of 2018 Performance-Based Restricted Stock Unit Agreement among Williams and certain employees and officers (filed on May 3, 2018, as Exhibit 10.4 to The Williams Companies, Inc.'s quarterly report on Form 10-Q (File No. 001-04174) and incorporated herein by reference).
10.19§	— Form of 2018 Nonqualified Stock Option Agreement among Williams and certain employees and officers (filed on May 3, 2018, as Exhibit 10.5 to The Williams Companies, Inc.'s quarterly report on Form 10-Q (File No. 001-04174) and incorporated herein by reference).
10.20§	— Form of 2018 Time-Based Restricted Stock Unit Agreement among Williams and certain non-management directors (filed on August 2, 2018, as Exhibit 10.2 to The Williams Companies, Inc.'s quarterly report on Form 10-Q (File No. 001-04174) and incorporated herein by reference).
10.21§	— Form of 2019 Executive Performance-Based Restricted Stock Unit Agreement among Williams and certain employees and officers (filed on May 2, 2019, as Exhibit 10.1 to The Williams Companies, Inc.'s quarterly report on Form 10-Q (File No. 001-04174) and incorporated herein by reference).
10.22§	— Form of 2019 Performance-Based Restricted Stock Unit Agreement among Williams and certain employees and officers (filed on May 2, 2019, as Exhibit 10.2 to The Williams Companies, Inc.'s quarterly report on Form 10-Q (File No. 001-04174) and incorporated herein by reference).

Exhibit No.	Description
10.23§	— Form of 2019 Time-Based Restricted Stock Unit Agreement among Williams and certain employees and officers (filed on May 2, 2019, as Exhibit 10.3 to The Williams Companies, Inc.'s quarterly report on Form 10-Q (File No. 001-04174) and incorporated herein by reference).
10.24§	— Form of 2019 Time-Based Restricted Stock Unit Agreement among Williams and certain non-management directors (filed on May 2, 2019, as Exhibit 10.4 to The Williams Companies, Inc.'s quarterly report on Form 10-Q (File No. 001-04174) and incorporated herein by reference).
10.25§	— The Williams Companies, Inc. 1996 Stock Plan for Nonemployee Directors (filed on March 27, 1996, as Exhibit B to The Williams Companies, Inc.'s Definitive Proxy Statement (File No. 002-27038) and incorporated herein by reference).
10.26§	— The Williams Companies, Inc. 2002 Incentive Plan as amended and restated effective as of January 23, 2004 (filed on August 5, 2004, as Exhibit 10.1 to The Williams Companies, Inc.'s quarterly report on Form 10-Q (File No. 001-04174) and incorporated herein by reference).
10.27§	— Amendment No. 1 to The Williams Companies, Inc. 2002 Incentive Plan (filed on February 25, 2009, as Exhibit 10.11 to The Williams Companies, Inc.'s annual report on Form 10-K (File No. 001-04174) and incorporated herein by reference).
10.28§	— Amendment No. 2 to The Williams Companies, Inc. 2002 Incentive Plan (filed on February 25, 2009, as Exhibit 10.12 to The Williams Companies, Inc.'s annual report on Form 10-K (File No. 001-04174) and incorporated herein by reference).
10.29§*	— Change in Control and Restrictive Covenant Agreement between certain executive officers (Tier One Executives) and The Williams Companies, Inc.
10.30§*	— Change in Control and Restrictive Covenant Agreement between certain executive officers (Tier Two Executives) and The Williams Companies, Inc.
10.31§	— The Williams Companies, Inc. Executive Severance Pay Plan, dated November 14, 2012 (filed July 20, 2016, as Exhibit 10.2 to The Williams Companies, Inc.'s current report on Form 8-K (File No. 001-04174) and incorporated herein by reference).
10.32§	— First Amendment to The Williams Companies, Inc. Executive Severance Pay Plan (filed July 20, 2016, as Exhibit 10.1 to The Williams Companies, Inc.'s current report on Form 8-K (File No. 001-04174) and incorporated herein by reference).
10.33§	— The Williams Companies, Inc. 2007 Incentive Plan as amended and restated effective July 14, 2016 (filed on February 22, 2017, as Exhibit 10.38 to The Williams Companies, Inc.'s annual report on Form 10-K (File No. 001-04174) and incorporated herein by reference).
10.34	— Credit Agreement dated as of July 13, 2018, between The Williams Companies, Inc., Northwest Pipeline LLC, and Transcontinental Gas Pipe Line Company, LLC as co-borrowers, the lenders named therein, and Citibank, N.A. as Administrative Agent (filed on July 17, 2018, as Exhibit 10.1 to The Williams Companies, Inc.'s current report on Form 8-K (File No. 001-04174) and incorporated herein by reference).
10.35	— Form of Commercial Paper Dealer Agreement, dated as of August 10, 2018, between The Williams Companies, Inc., as Issuer, and the Dealer party thereto (filed on August 10, 2018, as Exhibit 10.1 to The Williams Companies, Inc.'s current report on Form 8-K (File No. 001-04174) and incorporated herein by reference).
21*	— Subsidiaries of the registrant.

Exhibit No.	Description
23.1*	— Consent of Independent Registered Public Accounting Firm, Ernst & Young LLP.
23.2*	— Consent of Independent Registered Public Accounting Firm, PricewaterhouseCoopers LLP.
31.1*	— Certification of the Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended, and Item 601(b)(3l) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	— Certification of the Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended, and Item 601(b)(3l) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32**	— Certification of the Chief Executive Officer and the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	— XBRL Instance Document. The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the inline XBRL document.
101.SCH*	— XBRL Taxonomy Extension Schema.
101.CAL*	— XBRL Taxonomy Extension Calculation Linkbase.
101.DEF*	— XBRL Taxonomy Extension Definition Linkbase.
101.LAB*	— XBRL Taxonomy Extension Label Linkbase.
101.PRE*	— XBRL Taxonomy Extension Presentation Linkbase.
104*	— Cover Page Interactive Data File. The cover page interactive data file does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document (contained in Exhibit 101).

* Filed herewith

** Furnished herewith

§ Management contract or compensatory plan or arrangement

Item 16. Form 10-K Summary

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE WILLIAMS COMPANIES, INC.
(Registrant)

By: /s/ JOHN D. PORTER

John D. Porter
*Vice President, Controller and
Chief Accounting Officer*

Date: February 24, 2020

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
<u>/s/ ALAN S. ARMSTRONG</u> Alan S. Armstrong	President, Chief Executive Officer and Director (Principal Executive Officer)	February 24, 2020
<u>/s/ JOHN D. CHANDLER</u> John D. Chandler	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	February 24, 2020
<u>/s/ JOHN D. PORTER</u> John D. Porter	Vice President, Controller and Chief Accounting Officer (Principal Accounting Officer)	February 24, 2020
<u>/s/ STEPHEN W. BERGSTROM</u> Stephen W. Bergstrom	Chairman of the Board	February 24, 2020
<u>/s/ NANCY K. BUESE</u> Nancy K. Buese	Director	February 24, 2020
<u>/s/ STEPHEN I. CHAZEN</u> Stephen I. Chazen	Director	February 24, 2020
<u>/s/ CHARLES I. COGUT</u> Charles I. Cogut	Director	February 24, 2020
<u>/s/ KATHLEEN B. COOPER</u> Kathleen B. Cooper	Director	February 24, 2020
<u>/s/ MICHAEL A. CREEL</u> Michael A. Creel	Director	February 24, 2020
<u>/s/ VICKI L. FULLER</u> Vicki L. Fuller	Director	February 24, 2020
<u>/s/ PETER A. RAGAUSS</u> Peter A. Ragauss	Director	February 24, 2020

Signature	Title	Date
/s/ SCOTT D. SHEFFIELD Scott D. Sheffield	Director	February 24, 2020
/s/ MURRAY D. SMITH Murray D. Smith	Director	February 24, 2020
/s/ WILLIAM H. SPENCE William H. Spence	Director	February 24, 2020