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WILLIAMS COMPANIES

May 7, 2001
9:00 a.m. CDT

Moderator

Ladies and gentlemen, thank you for standing by, and welcome to the joint Williams and Barrett Analyst teleconference call. At this time, all participants are in a listen-only mode. Later, we will be on a question and answer session. And I will give you instructions at that time. Should you require assistance while you're on this call simply press 0 then star and an operator will come on the line to assist you. As a reminder, today's conference call is being recorded. It will also be replayed. Please stay on the line at the conclusion of the call for the replay information.

I would now like to turn the conference over to the Chairman of the Board and the Chief Executive Officer of Barrett Resources, Mr. Peter Dea. Please go ahead.

P. Dea

Thank you. Good morning from Denver, Colorado. Welcome to the Barrett Resources and Williams Conference call. I am Peter Dea, Chairman and Chief Executive Office of Barrett, and with me today is Keith Bailey, Chairman, Chief Executive Officer and President of Williams.

We are pleased to have you join us this morning on such short notice. Barrett Resources announced today that it has reached a definitive agreement for the Williams Companies to acquire Barrett for 50% cash and 50% stock. Williams will acquire all of the outstanding shares of Barrett in a transaction valued at approximately \$2.8 billion, including the assumption of about \$300 million in debt. Based on Williams' closing

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price on Friday, May 4, 2001, the transaction has a blended value of \$73.32 per share.

Before I turn the call over to Keith Bailey to take you through the details of what this merger means for our two companies, I'd like to just spend a few brief moments to share some of my thoughts on our process and what this means for Barrett. Barrett's Board of Directors and I are very excited to have accomplished this extremely successful transaction for our shareholders, employees and customers. The process was designed to maximize shareholder value, while keeping our interested parties on a level playing field. This is all a tremendous success.

Williams will benefit from Barrett's leading position in the Rocky Mountain Region, where we are at the forefront of natural gas exploration and production. Barrett's substantial acreage and natural gas reserves lie within some of the largest and least exploited natural gas basins in the lower 48 states. The acreage in reserves consists predominantly of natural gas located on properties where Barrett has a high working interest ownership, and Barrett operates over 90% of its production.

As most of you know, Barrett recently received a favorable ruling from the Colorado Oil & Gas Conservation Commission, allowing the company to add 212 billion cubic feet of proved gas reserves from 202 additional well locations in the Piceance Basin. As of April 30, 2001, Barrett's total proved gas and oil reserves equal 2.1 trillion cubic feet of gas equivalents, an increase of over 50% from December 31, 2000. The reserve additions demonstrate the inherent quality of Barrett's core holdings in the Rocky Mountains, and the success of our exploration and development strategy that we look forward to continuing as part of Williams.

We are very pleased that many of our employees, who have been the key to our success, will have exciting opportunities within Williams. We are also extremely pleased to receive William's equity, along with cash, which will allow our shareholders to continue to participate in the significant upside of the combined company.

After comments from Keith, we will have a question and answer period, and then adjourn this at 9:45, since we need to have an employee meeting here in Denver. I'd now like to turn it over to Keith Bailey.

K. Bailey

Thank you, Peter. As you saw in the Williams' Press Release, this is a very exciting day for Williams. As I look back over the various acquisitions that we've made during the course

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of my career at Williams, I really have not thought of one that is a better fit, from the standpoint of both the value that we will receive from the transaction, as well as what it does for our company in a strategic sense.

We point out in the press release that this will be immediately accretive to earnings, that because of the structure of the agreement with half cash/half stock, it's being done in a way that strengthens our balance sheet and improves our credit ratios. We are acquiring a group of talented people, as well as ideally situated energy assets, that will reinforce our businesses comprehensively west of the Rockies. If you look at the map of where these reserves fall, the primary area of concentration for Barrett, they're an ideal fit and very complimentary to Williams and our position in the Rockies as well. We are a major gatherer and processor in this region, and this offers additional opportunities to that part of our business. We have major natural gas pipelines and gas liquids pipelines that move product out of the Rockies, and this provides an opportunity to reinforce growth in those parts of our company as well.

Most importantly, it is a very significant strategic acquisition, in that it balances the risk profile of our rapidly growing power portfolio, by enabling us to add significant additional new gas reserves, so that we have a physical hedge, and natural hedge, against the short position that's created as we add additional power generation facilities.

Another aspect that we find very attractive about this transaction is the fact that these are long-lived reserves, and have a high percentage of what we consider to be very good probable opportunities. It's an asset that will not only serve in the short-term, but offers the opportunity for long-term and steady growth.

Again, as we look at this from a Williams' perspective, I really can't think of a better acquisition from the standpoint of the immediate value that it should create for our shareholders, the long-term value that it should continue to add, and the strategic goal that it achieves of creating a good balance in the risk profile, as between our physical and natural gas position and our power generation position.

I think with that, it probably would be well to turn to your questions, and we'll do that at this time.

Moderator

Our first question comes from the line of Jeff Dieter of Simmons. Please go ahead.

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J. Dieter Keith, Jeff Dieter with Simmons & Company. Could you talk about the synergy values that you're expecting, either from a cost savings perspective, or the synergy associated with the midstream or petroleum services businesses that you've got?

K. Bailey Jeff, from the standpoint of the traditional sorts of synergies that you would see in a merger of two companies, one of the things that we have in this situation is just very little overlap. Each of the companies have had similar staffing philosophies, so I would guess that we would see synergies only in the \$10 to \$20 million range, because of that, as we said in the press release, our expectation is simply to roll our Rocky Mountain activities into the Barrett offices in Denver. As we look at the organization, we see that the substantial majority of the organization are important, and were an important part of the consideration that we had as we looked at doing this transaction.

From the standpoint of other synergies, clearly those will play out over time, but by being a major, actually probably the major natural gas producer in the Rocky Mountain Regions, we think this should steadily add to our ability to grow our gathering and processing businesses, our gas liquids business, and it can reinforce the expansions we have in our gas pipeline activities. As you know, we have a major expansion underway, both going to the West Coast and one leaving the Rockies and coming back to the mid-continent.

J. Dieter Good. Can you talk a little bit about how you would approach this acquisition from a hedging perspective? Would you consider costless collars? Would you lock in some hedging for a portion of the production? Would you talk about that a little bit?

K. Bailey Well, we will do this in the context of our overall trading book. Remember at the outset that the physical gas provides a natural hedge to some of the short positions that we would have on gas in our power portfolio. We will simply need to look at this in the context of our overall book, and we will hedge appropriately according to that.

J. Dieter Thank you.

Moderator The next question comes from the line of Scott Merviss of Glenview Capital. Please go ahead.

S. Merviss Yeah, Hi. As far as the hedging, as you put on power, you constantly hedge out the gas exposure as well, so would this acquisition make you long that gas at this point and as you put on power you won't have to hedge out? Can you go into a

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little bit further explanation?

- K. Bailey No. It does not make us long. With the combined production, we still would be short the gas that would be associated with the power portfolio that we have in place today, and as you know, that's grown to around 15,000 megawatts at the end of the first quarter. If you look at that, my recollection is that should be approaching a Bcf-and-a-half a day of natural gas, and obviously you have to make some heat rate assumptions, but in round numbers that's roughly the gas demand for that. We would be in generally a 50% hedged position with the physical gas, when you combine the production of the two companies as it develops out, concurrent with the full development of that 15,000 megawatts.
- S. Merviss Okay. Also, can you talk about what kind of discount it was to buy Barrett versus going into the forward market and proceeding with your hedging as you've been going that way?
- K. Bailey Well, it changes day-to-day, as you know, because the forward market moves with every day's activities, but as your question obviously points out, it has been a reality that a transaction like this, and this transaction will be a discount to the forward market in terms of the trading market or the strip. I can't tell you today what the precise update is with regard to the level of that discount.
- S. Merviss But presumably you took into consideration the percentage of probability that you got gas out, and going through all those calculations when you were looking at, it was still cheaper to buy the physical assets than going forward, and doing it in the forward market?
- K. Bailey Yes. That was one of the elements we looked at. The other thing we would observe is that the physical gas has a lot higher BTU content than the forward market strip. When you look at the reality of hedging and the strategic value that's created, you do have the ability to fill a significant percentage of your requirements with physical gas. Depending on supply/demand balances at any point in time, we believe that can be strategically very important and certainly provides a moderating influence on the risk profile of Williams' power portfolio.
- S. Merviss Okay. Thanks.
- Moderator The next question comes from the line of Ray Deacon of Dain Rauscher. Please go ahead.
- R. Deacon Good morning. Keith, I had a question about how you looked at the stock and valued it, in terms of either net asset value? What was your main

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valuation criteria, was it EBIT DA multiple or asset value, Mcf in the ground? Could you just elaborate on that?

K. Bailey

Well, our basic evaluation tool is the discounted cash flow analysis. As we look at the discounted cash flow returns, this fell very much in the fairway of the kinds of returns we look for with these kinds of activities. We also tested this against the entire range of ways that you might value this business, including comparable transactions, including cost per Mcf of gas in the ground. We went through the whole range of that as we considered it. As we look at it, we believe that the transaction measured by some of the comparables is sort of in the middle of the range of recent activities. As we look at the overall portfolio though, and what we consider to be very high-quality probables, we would actually assess the cost in the ground at a very attractive number.

R. Deacon

Okay. Just one more quick question. They had some oil properties in the Uinta Basin, would you consider those non-core, maybe sell some of the assets that are not gas-oriented?

K. Bailey

Clearly, our businesses are gas dominated, but it's premature to make any judgment with regard to any particular piece of the business. You are correct, in that we are gas dominated, both EMP business and company.

R. Deacon

Okay. Thanks.

Moderator

The next question comes from the line of Jay Unello, of UBS Warburg. Please go ahead.

J. Unello

Good morning, Keith. I know I'm a little ahead of myself here, but given that the target is to get roughly 25,000 megawatts by year-end 2003 and 40,000 megawatts by year-end 2005. Given the momentum lately, where you're having great success in achieving those goals, and it looks like you're on track to blow those goals away, though there's no guaranties. Looking out over the next couple of years, is it fair to say we should be looking for other transactions to deliver this?

K. Bailey

Well I do think you're a little ahead of yourself, Jay. Obviously, this was an opportunity that was created really by an event that Barrett didn't precipitate, but based on that event, they engaged in a process that gave this a current reality. I think what we need to do is get through the process of getting these two companies put together smoothly. We will continue to be opportunistic. There will be times that this sort of opportunity presents itself, that we may in fact take a look at.

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costs on the reserves in the Piceance, in the Powder River Basin. The Piceance F&D is in that \$0.65 per Mcf range. In the Powder River coal bed methane, where we also released new reserves, you're looking about \$0.30 per Mcfe, so extremely attractive finding costs in both of those core assets.

- P. Connor Right. Okay, Great. Then a question for Keith. You mentioned a lot of value on the probables. I wondered if you could characterize that a little more for us, kind of what percent of the value you would have assigned to the proved reserves, and what percentage of the valuation you have for the probables?
- K. Bailey Well, probably the most straightforward way to answer that would be you've seen the purchase price spread over the proved reserves in the press release, the \$1.34. If you were to take the proved reserves and our risk weighting of the probable reserves, that number drops by over half. That gives you a sense of where we believe we came out in the mix.
- P. Connor It sure does. Okay, Great. All right, very good. Thanks.
- Moderator The next question comes from the line of Bob Christensen of First Albany. Please go ahead.
- B. Christensen Congratulations, guys. I'm very happy about this. Just give me a sense of this breakup fee though. How are these things, termination fees, who determines them? Just briefly on that?
- K. Bailey That's an element of the negotiation.
- B. Christensen Okay. I guess the other question is that Barrett has quite a trading desk. Does this get rolled into Williams in Tulsa, the Energy Trading Desk, and how do you plan, Keith, on keeping all the talent that Barrett has?
- K. Bailey My sense, Bob, is that it's probably more fairly characterized as a marketing operation, and we would anticipate moving the responsibility for the marketing risk management to our trading floor.
- B. Christensen Then how about some of the engineering, geologic staff that has been so good working in the Rockies over the years, that Barrett has?
- K. Bailey As I said in my opening comments, Bob, one of the attractions of the talented work force and people that they have in the organization. What you do in a process like this, we have an energy services team here in Denver with us today, and that process of trying to lock down the talent will begin as we speak. As Peter said, we have an employee meeting coming up here in a few

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minutes, and we will start then and will continue that from this point forward.

B. Christensen Great. Congratulations to both of you.

Moderator The next question comes from the line of Irene Hoff of Sanders, Morris, Harris. Please go ahead.

I. Hoff My questions have been answered. Congratulations, everybody.

Moderator Okay. The next question comes from the line of John Woodbury of Cobalt Capital. Please go ahead.

J. Woodbury Hi, guys. Congratulations. Listen, just a question, you were saying that this transaction obviously reduces your short position. Could you comment on how short you would like to be over the next few years, or perhaps how hedged you'd like to be over the next couple of years?

K. Bailey Well, I don't know that we have a precise number that we could pin down, but just speaking on a personal level, I'd like to see us have physical hedges in place at least in the 25 to 50% range. While that's a fairly wide range, it, I think, captures also the range of opinion that you might have within the Trading and Management group at Williams.

J. Woodbury So the production coming out of Devon takes your short book from what percent to what percent?

K. Bailey Well, we really don't have a lot of production coming out of Devon, but the production that will come--

J. Woodbury So you're long gas, you become more long gas, obviously. Barrett, I'm sorry.

K. Bailey Yes, but the Barrett combined with ours should move us up into that range, with the current capacity.

J. Woodbury From 20 to 50?

K. Bailey In that 25 to 50% range for the current operating capacity, and as we look at a drilling program, as we bring the balance of that 15,000 megawatts on line, I think it gives us the capability of staying in that range.

J. Woodbury Would you rather buy more assets or start selling more electricity?

K. Bailey We would like to do some of both. I don't know that we necessarily need to buy assets, but we would like to grow both businesses, and we would like to grow them proportionately, because we think the strategic benefits of doing that are significant.

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J. Woodbury Great answer. Thanks.

Moderator The next question comes from the line of Denatto Easee of Merrill Lynch. Please go ahead.

D. Easee Good morning, gentlemen. Congratulations as well. Keith, I have a handful of quick questions. One is, how much of Barrett's production is currently hedged? How much do you have to work with on a leveraged basis?

Two, on the breakup fee, is it specific to the entire transaction or just the equity portion of the transaction, just to clarify that?

In step with Who Wants to be a Millionaire, is this your final answer, if Shell comes in and trumps your bid, where do you go from there? Thank you.

K. Bailey Let me answer the first question. I believe roughly a third of the production is hedged currently. Those hedges have various durations and will burn off over time, and we will, as I say, move the production back into our overall risk management portfolio and hedge it in the context of our overall book.

From the standpoint of the breakup fee, I'm not sure I really understood your question, in the sense that without equity there's not a deal, so it is tied to the execution of this deal.

D. Easee Just as the breakup fee on the total transaction value?

K. Bailey Well the breakup fee is described in absolute dollars, and you can apply that against whatever numbers you want to.

D. Easee I didn't get the ratios, so I apologize.

K. Bailey Yes. The breakup fee is described in dollars in the press release.

Then from the standpoint of your last question, that's not a polite question, and it's not one that I think warrants an answer.

D. Easee Okay. Fair enough, Keith, and good luck with it.

K. Bailey Thank you, Denatto.

D. Easee One last question, you mentioned in your opening remarks that out of all the transactions that you've looked since you've made some acquisitions, this clearly is one of the best. Obviously, every time you've made an announcement the stock tends to take a bit of a beating early, but tends to rebound rather nicely. Even when you contrast this versus the

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Transco acquisition, could you kind of give us a flavor for the balance in that acquisition versus this one, in your overall opinion?

K. Bailey

Obviously, with Transco we had a combination of the market that didn't like it, that layered on top of the typical arbitrage of shorting the acquirer and going long on the acquired company that happens in virtually any merger. Yet, when people look back on it, it's been judged as one of the top ten transactions of the 90's for creating shareholder value.

I think as people look back on this decade, this has exactly the same opportunity. If you look at the way this suite of activities and businesses fit, it is a much tighter fit with Williams, because of the fact that we already have assets in the Rocky Mountains, and when we did Transco, that was really a physical step out from a historic footprint. This is not. This is a very complimentary acquisition in a geography where we have a number of complimentary assets and activities. I think this is, on that basis alone, going in, is a better transaction. It's our intent to do exactly what we did with Transco, and that's have the business perform over the next number of years in a way that makes it equally good in a retrospective way from a shareholder point of view.

D. Easee

Right. Thanks, Keith, and good luck.

Moderator

The next question comes from Anatoll Fajen of JP Morgan. Please go ahead.

A. Fajen

Good morning, Keith. Congratulations. A quick question, you guys were kind enough to share with us last week the methodology for risk management that you follow. Does this deal impact significantly, or to ask another way, is the accretion from this deal to some extent driven by the hedge that you're putting on with this physical gas?

K. Bailey

No. As I said, the hedging philosophy will be done in the context of our overall book, and you, as you point out, had an opportunity last week to visit with our trading folks and gain an understanding of that philosophy. The accretion is based on just our sense of the business performance and what we would anticipate delivering as a result of net income, without considering hedging. To the extent that we can optimize or reduce the risk profile of that forward income stream, we will certainly do that, but only in the context of the overall book.

A. Fajen

Right, but from the standpoint that this provides a large physical hedge to the book going forward, that's an incremental benefit,

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that's not captured in the kind of straight out accretion analysis that we're doing right now?

K. Bailey That's right. That, again, is probably not described as much in the actual printed earnings as it is in the risk profile surrounding those earnings.

A. Fajen Great.

K. Bailey This will have, I think, a significant moderating impact on the risk profile, even though, as you know from your visit, we take a very conservative approach, I think relative to our peers in that regard in any event.

A. Fajen Absolutely. Thanks, Keith.

Moderator Next we go to Oscar Woo of Numera Securities. Please go ahead.

O. Woo Thanks. My questions have been answered.

Moderator Next we go to Todd Mason of Alpine Associates. Please go ahead.

T. Mason Yes. The question was asked earlier, concerning what might happen, I guess if the stock of Williams rallied a lot, so that the value of the stock part of the merger would be a lot higher than the tender price. I gather there's nothing in the agreement to contemplate that sort of situation?

K. Bailey Actually we're doing a fixed exchange ratio, and frankly, that's a very happy answer for every shareholder.

T. Mason Sure, but you get sort of a funny, catch 22 situation, where if it's a condition that people must tender to a lower price, there should be a mechanism, so that there doesn't have to be a renegotiation of the agreement to get some closing on the merger?

K. Bailey Again, as you well know in a situation like this, you probably have reprofiled the shareholder base to one that has a lot of trading money in it, in addition to the long-term investors. My sense is that a lot of that trading money will move to the cash and the long-term investors have a very good opportunity to continue to invest in these assets in the context of a larger company.

T. Mason The happier situation you have with Williams, the more the traders are going to be inclined to want to go for a stock election if it's a premium to the cash?

K. Bailey We'll just have to see how that plays itself out.

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T. Mason I assume there'd be some flexibility, if you got to a situation where-- There have been situations before where there weren't enough shareholders to take cash, and in those situations companies have sat down and re-jiggered the structure to allow a one-step and finesse that problem.

K. Bailey Well as I say, I learned a long time ago that it's probably not useful to speculate and deal with assumptions based on assumptions. We have what I consider to be an executable deal on the table. We think the structure makes a lot of sense, and we have every expectation of this deal going to the finish line as we've proposed it.

T. Mason Okay. Thank you.

Moderator The next question comes from the line of Jeff Dieter of Simmons. Please go ahead.

J. Dieter It's Jeff Dieter with Simmons. Could you talk about what kind of production growth rate you would expect as an overall company after the Barrett merger is closed? Production growth.

K. Bailey Jeff, I think that is something that will be picked up in the context of the tender documents themselves.

T. Mason Okay. Thank you very much.

Moderator The next question comes from the line of Ray Deacon of Dain Rauscher. Please go ahead.

R. Deacon Keith, are there any employment contracts on the Barrett side that are going to go along with this? You talked about trying to retain as many people as you could, but are you going to try to lock anybody up?

K. Bailey At this point, Williams obviously isn't in a position to do anything in that regard.

R. Deacon Okay.

K. Bailey Whatever exists, from a Barrett point of view, is there and will be just a factor that we deal with, as we look at putting together the team that we'll have going forward.

R. Deacon Okay. You said you'd talk about the production levels you see in the tender offer document I guess, but can you say anything about the budget? Are there any areas where you feel like you would maybe accelerate what Barrett is doing or expand the budget in any way?

K. Bailey Let me just answer that in a broad sense, as we've looked at their budget, it is not at all inconsistent with the sort of budget that we

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think we would have put together for the same properties. Clearly, one of the things that we will do over the course of time, as we lead up to the completion of this merger, will be to fine-tune that. Based on what we have seen through the data room process, and through our discussions with the Barrett management, I would be surprised if there are any major changes from what they had outlined.

R. Deacon

Okay. Thank you.

Moderator

There are no further questions at this time. Please continue.

K. Bailey

From our point of view, again, this is a very exciting day. I think it will go down as one of the best acquisitions that Williams has been able to engage in, certainly over the course of my time at the company. I think as people look back, it will be something that they're very pleased with, whether they are shareholders that elect to take the cash portion, or those that elect to remain an ongoing shareholder.

P. Dea

I'd just like to close by saying that I believe this transaction allows Barrett shareholders to participate in a broader range of the value change between the well head, the burner tip, and the electrical generation side. What Barrett brings to the new company are core assets of natural gas, and a very talented exploration and production pool of employees, who as I mentioned before, can produce gas for as low as \$0.30 per Mcfe. So when we add these high quality physical and human assets, and link those with Williams' midstream and downstream, and some of their upstream assets, you've really got a powerhouse to bring some very powerful synergies and value to all the shareholders.

With that, I'll thank you all very much for your participation today.

K. Bailey

Thank you.

Moderator

Ladies and gentlemen, this conference will be available for replay, beginning 2:30 p.m. Central Time today, going through midnight the evening of May 14th, which is next Monday. You may access the AT&T Executive Playback Service by dialing one of the following two numbers, 1-800-475-6701 or 320-365-3844, and when prompted, please enter the access code 585970.

That does conclude our conference for today. Thank you for your participation and for using AT&T Executive Teleconference. You may now disconnect.

