

CH/KS

TC 99-010

DOCKET NO.

In the Matter of \_\_\_\_\_

IN THE MATTER OF THE  
APPLICATION OF WILLIAMS  
COMMUNICATIONS, INC. FOR A  
CERTIFICATE OF AUTHORITY TO  
PROVIDE TELECOMMUNICATIONS  
SERVICES IN SOUTH DAKOTA

## Public Utilities Commission of the State of South Dakota

DATE	MEMORANDA
1/26 99	Filed andocketed;
1/28 99	Weekly Filings;
3/24 99	Passing Tariff Pages;
3/24 99	Approved for Confidential Treatment of Information;
6/3 99	Weekly Filings;
6/22 99	After Meeting COA;
6/22 99	ocket Closed.

TC99-010

RECEIVED

JAN 24 1999



Overnight Federal Express

SOUTH DAKOTA PUBLIC  
UTILITIES COMMISSION

Network  
P.O. Box 22067  
Tulsa, Oklahoma 74121

January 22, 1999

Hailan Best, Deputy Director-Fixed Utilities  
South Dakota Public Utilities Commission  
Capitol Building 1<sup>st</sup> Floor  
500 East Capitol Avenue  
Pierre, SD 57501-5070

Re: **Williams Communications, Inc.'s Application to Provide  
Interexchange Telecommunications Service.**

Dear Mr. Best:

Enclosed are the original and Nine (9) copies of a new tariff for WILLIAMS COMMUNICATIONS, INC.

Pages included in this filing are as follows:

Original Application with supporting exhibits.

Please acknowledge receipt of this filing by date stamping the four (4) extra copies of this application and returning it to me in the self-addressed, FedEx Pak provided for that purpose.

Thank you for your consideration in this matter. Any questions or comments regarding this filing may be directed to my attention at (918) 573-8771.

Sincerely,

A handwritten signature in dark ink, appearing to read "Mickey S. Moon", with a stylized flourish at the end.

Mr. Mickey S. Moon  
Director of Regulatory Affairs  
Williams Communications, Inc.  
Williams Resource Center  
2 East First Street  
Mail Drop RC3-1  
Tulsa, Oklahoma  
Tel: (918) 573-8771  
Fax: (918) 573-0669  
Email: [mickey.moon@wilcom.com](mailto:mickey.moon@wilcom.com)



**SOUTH DAKOTA PUBLIC  
UTILITIES COMMISSION**

Application of  
**WILLIAMS COMMUNICATIONS, INC.**  
For a Certificate of Authority to  
Provide Interexchange Services  
in the State of South Dakota

BEFORE THE SOUTH DAKOTA PUBLIC UTILITY COMMISSION

RECEIVED

JAN 26 1999

In the Matter of the Application of )  
Williams Communications, Inc. )  
For a Certificate of Authority to )  
Provide Interexchange Services )  
In the State of South Dakota )

Application No. \_\_\_\_\_

SOUTH DAKOTA PUBLIC  
UTILITIES COMMISSION

**APPLICATION FOR CERTIFICATE OF AUTHORITY**

Williams Communications, Inc., (hereinafter "Williams" or "Applicant") hereby applies for a Certificate of Authority, pursuant to SDCL § 49-31-3 and ARSD 20:10:24:02, to provide interexchange services within the State of South Dakota. In support of this Application, Williams provides the following:

1. **Name and Address and Telephone Numbers of Applicant**

Applicant's legal name and postal address is:

Williams Communications, Inc.  
P.O. Box 22067  
Tulsa, Oklahoma 74121

Applicant's main street address and telephone number is:

Williams Communications, Inc.  
2600 One Williams Center  
Tulsa, Oklahoma 74172  
Tel: (918) 573-6000

Correspondence concerning this Application should be directed to:

Mickey S. Moon  
Director of Regulatory Affairs  
Williams Communications, Inc.  
Williams Resource Center  
2 East First Street, Mail Drop RC3-1  
Tulsa, Oklahoma 74172  
Tel: (918) 573-8771  
Fax: (918) 573-0669

With copies to:

Mr. Kelly L. Perry, Regulatory Consultant  
Pacific Southwest Consulting, Inc.  
465 South Bluff Street #287  
St. George, Utah 84738  
Tel: (435) 688-7310  
Fax: (435) 688-7309  
Email: kperry@infowest.com

And

Williams Communications, Inc.  
Attn: General Counsel  
4100 One Williams Center  
Tulsa, Oklahoma 74172

2. Corporate Information

Williams is a wholly owned subsidiary of Williams Communications Group, Inc., which, in turn, is a wholly owned subsidiary of Williams Holdings of Delaware, Inc. The Williams Companies, Inc., a publicly traded company, owns 100 percent of Williams Holdings of Delaware, Inc. The address of The Williams Companies, Inc. is as follows:

The Williams Companies, Inc.  
4900 One Williams Center  
Tulsa, OK 74172  
Phone: (918) 573-2000

Williams and all of the other companies listed above are Delaware corporations. Exhibit 1 hereto sets forth a diagram of these corporate relationships. Williams was incorporated in 1989 in the State of Delaware. Exhibit 2 to this application contains a copy of Williams' Certificate of Authority to transact business in South Dakota from the South Dakota Secretary of State.

The following is the name and address for Williams' registered agent for service of process in the State of South Dakota:

CT Corporation System  
319 South Coteau  
Pierre, SD 57501

3. Description of the Telecommunications Services to Be Offered

Williams will offer interexchange switched services and interexchange non-switched, private line services. Williams intends to provide interexchange switched voice services<sup>1</sup> primarily to the wholesale market, which consists of other telecommunications carriers. As such, it will act as a "carrier's carrier." For example, if a local exchange carrier wants to provide its end users with both local and long distance telecommunications services, but lacks the facilities to provide the long distance services, it can purchase long distance voice service from Williams and resell that service to its end users. Such wholesale services proposed by Williams are competitive, since most resellers of interexchange services have a number of underlying carriers from which to choose. Although Williams will be the underlying carrier to its wholesale customers, it will be transparent to the end user since all branding will be done in our customer's name.

To meet the wholesale switched services needs of our customers, Williams must maintain an open network. In other words, all carriers that have a four digit Carrier Identification Code ("CIC") also have a Carrier Access Code ("CAC"), which consists of "101" followed by the carrier's four digit CIC (i.e., 101XXXX). Therefore, while Williams will not market its voice services to end users, and an end user would be unable to choose Williams as his or her presubscribed interexchange carrier ("PIC"), an end user would still be able to "dial around" the interexchange carrier "PIC'd" to that particular access line by dialing Williams' CAC to reach Williams' network to complete an interexchange call. As these calls cannot be traced back by Williams to one of its carrier

<sup>1</sup> Included within this planned set of services are 1+ voice service, directory assistance, toll free services, and alternate billed services such as calling card, prepaid calling card, and operator services. Williams plans to purchase operator services and directory assistance from other telecommunications carriers for resale to its carrier customers.

customers, Williams must be able to directly bill end users for such "casual calls," and its switched services tariff contains the rates for such Casual Calling Service.

Williams also plans to offer interexchange private line service (DS-1 to OC-3) within the State of South Dakota. Williams expects that most of its customers for this service will primarily be end users composed of business customers and Internet service providers, and other end users that demand large amounts of bandwidth, as well as other telecommunications carriers. Customers will use this service to support voice, data, video, Internet, and multimedia applications, and some customers may also use the service to connect their own facilities, or to connect their facilities to the facilities of other telecommunications providers or Internet service providers.

#### **4. Statement of the Means by which the Services Will Be Provided**

Nationally, Williams presently has about 18,000 miles of fiber optic cable and should have about 33,000 miles by 2000, linking every major city in America. Williams' entire network architecture, unburdened by obsolete legacy equipment, uses state of the art asynchronous transfer mode ("ATM") packet-switching technology over a synchronous optical network ("SONET") based transmission layer to provide reliable, high-speed communications capabilities. Currently, Williams offers four basic types of transmission services over its network: ATM, Internet Protocol ("IP") and Frame Relay (the ATM architecture is fully operational with frame relay and IP packets), and Private Line Services (where Williams provide the customer with the circuit and optronics to "light" the fiber, but the customer may install its own ATM, Frame Relay or IP packet-switching equipment).

Williams recognizes the existing requirements for most purely voice applications are incompatible with Williams current network design, however. Williams wants to

provide a single source solution to retail carriers' needs to provide their end users with both data and voice services, not just data services. Therefore, on November 16, 1998, Williams publicly announced that it is going to add voice switched services to its product line. To accomplish this, Williams has purchased, and is currently installing throughout its network, Nortel switches for routing voice traffic. Williams will provide service as a reseller except to the extent it has facilities in place to provide service over its own facilities.

**5. Geographic Areas in which the Services Will Be Offered**

Williams's plans to offer interexchange services throughout the entire State of South Dakota.

**6. Financial Statements**

A copy of The Williams Companies, Inc.'s most recent annual filing with the Securities Exchange Commission is attached as Exhibit 3. A copy of its Annual Report to stockholders is attached as Exhibit 4.

**7. Tariff**

A copy of Williams' tariff for interexchange switched services is attached as Exhibit 5. A copy of Williams' tariff for interexchange non-switched service is attached as Exhibit 6.

**8. Williams' Representatives for Regulatory Matters and Complaints**

Williams' representative for inquiries regarding regulatory matters is as follows:

Mickey S. Moon  
Director of Regulatory Affairs  
Williams Communications, Inc.  
Williams Resource Center, MD RC3-1  
2 East First Street  
Tulsa, OK 74172

Phone: (918) 573-8771  
Fax: (918) 573-0669  
E-Mail: [mickey.moon@wilcom.com](mailto:mickey.moon@wilcom.com)  
Toll Free: (800) 324-8686

Williams' Representative for customer complaints and billing inquiries is as follows:

Kathy Case  
Manager, Customer Care  
Williams Communications, Inc.  
Williams Resource Center, MD RC3-N  
2 East First Street  
Tulsa, OK 74172  
Phone: (918) 573-5625  
Fax: (918) 573-8933  
E-Mail: [kathy.case@wilcom.com](mailto:kathy.case@wilcom.com)  
Toll Free: (888) 465-9516

9. Customer Billing and Customer Service

Williams plans to bill end users for services provided to end users, i.e., casual calling and private line services, through the end users' local exchange carrier. Williams will bill its carrier customers directly. Customers with billing questions or similar inquiries may call (888) 465-9516. Customers may call (888) 275-9080 to report service interruptions and repairs.

10. States in which Williams Is Registered or Certified to Provide Telecommunications Service

Williams is currently authorized to provide telecommunications service in the following states: Alabama, Colorado, Florida, Georgia, Idaho, Iowa, Kansas, Louisiana, Maryland, Michigan, Minnesota, Missouri, Mississippi, Montana, New Jersey, New York, Oregon, Pennsylvania, South Carolina, and Texas. Vyvx of Virginia, Inc., a



wholly owned subsidiary of Williams, has authority to provide telecommunications service within the State of Virginia.

Williams has never been denied registration or certification in any state and is in good standing with the appropriate regulatory agencies in the states where it is registered or certified.

**11. Williams' Marketing Plan**

Williams plans to market its switched services through trade shows and through sales representatives employed by Williams. Williams' target market for switched services is primarily other providers of telecommunications services. Williams does not and will not engage in any type of multilevel marketing. Williams will not market its 101XXXX Carrier Access Code. Williams will market its non-switched, private line services through marketing agreements with other carriers, who will act as sales agents for Williams. Attached as Exhibit 7 are copies of Williams' brochures used to assist in the sale of services.

**12. Cost Support**

To the extent the services described in this Application are classified as noncompetitive or emerging competitive, Williams requests a waiver from the requirement to provide cost support for the rates shown in its proposed tariffs for these services.

**13. Federal Tax Identification Number**

The federal tax identification number for Williams is 73-1349451.

**14. "Slamming" Complaints Made against Williams**

Williams has never had a complaint filed against it with any state or federal regulatory commission regarding the unauthorized switching of a customer's telecommunications provider or regarding the act of charging customers for services that have not been ordered.

15. Request for Waivers and Variances

To the extent it is applicable to the services described in this Application, Williams respectfully requests a waiver from the requirements of ARSD § 20:10:24:02(12) and, pursuant to ARSD § 20:10:24:10, a variance from ARSD §§ 20:10:24:06 to 20:10:24:09, inclusive, for good cause. The services for which authority is requested are competitive services, and Williams currently has no market share in the intrastate market in South Dakota.

WHEREFORE, Williams Communications, Inc. requests that the South Dakota Public Service Commission enter an order granting a Certificate of Authority to Williams Communications, Inc. to provide interexchange telecommunications services in the State of South Dakota.

Respectfully submitted,

  
Mickey S. Moon  
Director of Regulatory Affairs  
Williams Communications, Inc.  
Williams Resource Center  
2 East First Street, Mail Drop RC3-I  
Tulsa, OK 74172  
Phone: (918) 573-8771  
Fax: (918) 573-0669  
E-mail: mickey.moon@wilcom.com

VERIFICATION

Mickey Moon, being of proper age and duly sworn, states that he is Director of Regulatory Affairs of Williams Communications, Inc. ("Williams") and is authorized to act on behalf of Williams, that he has read the foregoing Application of Williams for a Certificate of Authority, that he is familiar with the contents thereof, and that such is true, accurate, and correct to the best of his knowledge and belief.

Mickey S. Moon  
Mickey S. Moon

Subscribed and sworn to before me this 20<sup>th</sup> day of January 1999.

Doraine King  
Notary Public

My Commission Expires:

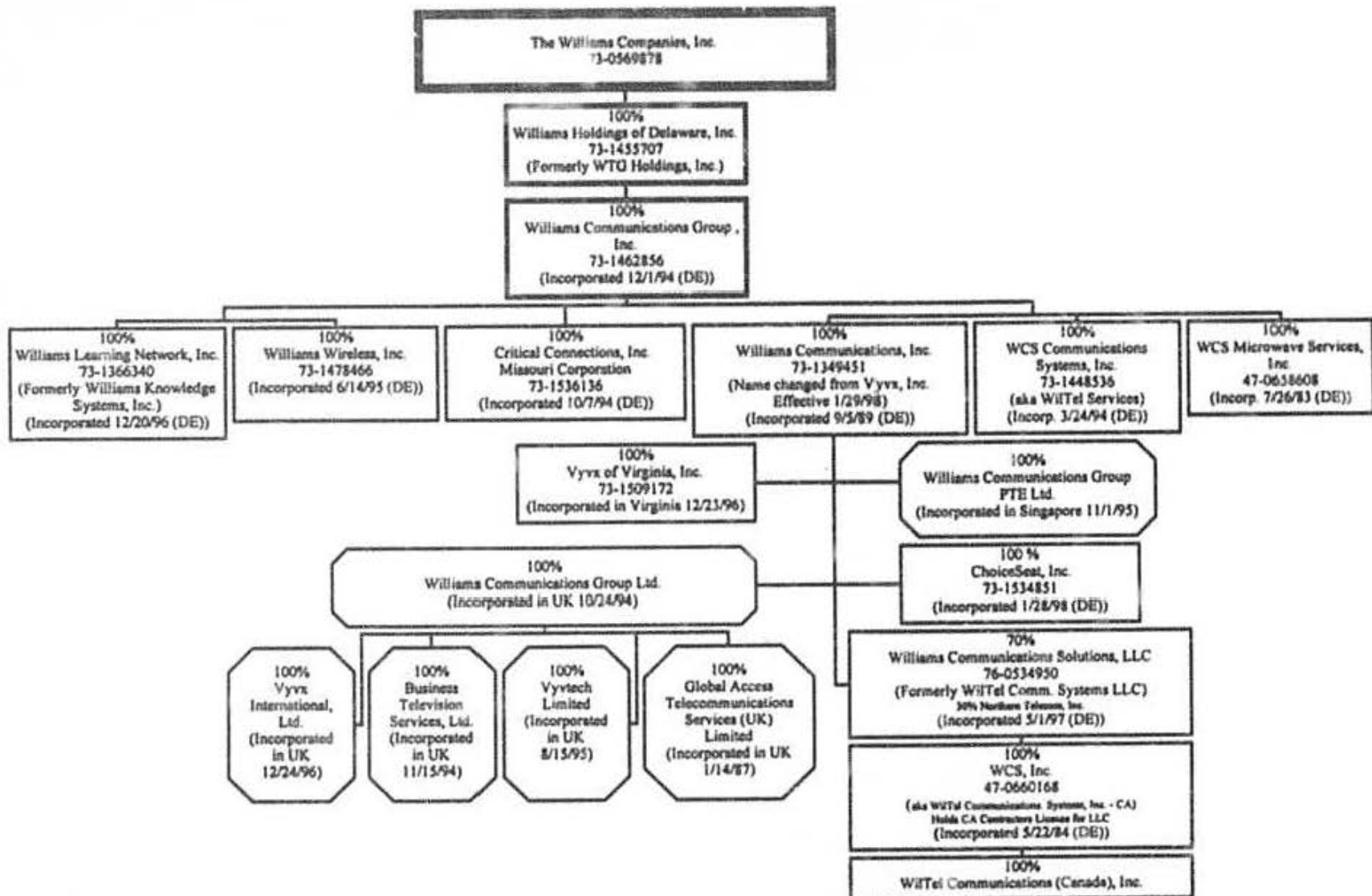
August 13 2001

[SEAL]

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# WCG Subsidiary Chart as of 12/31/98



# State of South Dakota



## OFFICE OF THE SECRETARY OF STATE

### CERTIFICATE OF AUTHORITY

I, JOYCE HAZELTINE, Secretary of State of the State of South Dakota, hereby certify that the Application for a Certificate of Authority of WILLIAMS COMMUNICATIONS, INC. (DE) to transact business in this state duly signed and verified pursuant to the provisions of the South Dakota Corporation Acts, have been received in this office and are found to conform to law.

ACCORDINGLY and by virtue of the authority vested in me by law, I hereby issue this Certificate of Authority and attach hereto a duplicate of the application to transact business in this state under the name of WILLIAMS COMMUNICATIONS, INC.



IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the Great Seal of the State of South Dakota, at Pierre, the Capital, this March 24, 1998.

*Joyce Hazeltine*

JOYCE HAZELTINE  
Secretary of State



SECRETARY OF STATE  
STATE CAPITOL  
500 E. CAPITOL  
PIERRE, S.D. 57501-5077  
605-773-4845  
FAX (605) 773-4550

FILE NO. \_\_\_\_\_  
RECEIPT NO. \_\_\_\_\_

APPLICATION FOR CERTIFICATE OF AUTHORITY

Pursuant to the provisions of S.D.A.C. 17-8-7, the undersigned corporation hereby applies for a Certificate of Authority to transact business in the State of South Dakota and for that purpose submits the following statement:

(1) The name of the corporation is Williams Communications, Inc.

(Exact corporate name)

(2) If the name of the corporation does not contain the word "corporation", "company", "incorporated" or "limited" or does not contain an abbreviation of one of such words, then the name of the corporation with the word or abbreviation which it elects to add thereto for use in this state is \_\_\_\_\_

(3) State where incorporated Delaware Federal Taxpayer ID# 73-1342451

(4) The date of its incorporation is September 5, 1989 and the period of its duration, which may be perpetual, is Perpetual

(5) The address of its principal office in the state or country under the laws of which it is incorporated is

1209 Orange Street, Wilmington, Delaware Zip Code 19801

mailing address if different from above is: Same

Zip Code \_\_\_\_\_

(6) The street address, or a statement that there is no street address, of its proposed registered office in the State of South Dakota is c/o C T Corporation System, 319 S. Coteau Zip 57501  
and the name of its proposed registered agent in the State of South Dakota at that address is

C T Corporation System

(7) The purposes which it proposes to pursue in the transaction of business in the State of South Dakota are: (state specific purpose) To construct and operate a fiber optic system.

(8) The names and respective addresses of its directors and officers are:

Name	Officer Title	Street Address	City	State	Zip
See attached list of directors and					

(9) The aggregate number of shares which it has authority to issue, itemized by classes, par value of shares, shares without par value, and series, if any, within a class is:

Number of shares	Class	Series	Par value per share or statement that shares are without par value
<u>1,000</u>	<u>common</u>	<u>(No series)</u>	<u>\$1.00</u>



(10) The aggregate number of its issued shares, itemized by classes, par value of shares, shares without par value, and series, if any, within a class, is:

Number of shares	Class	Series	Par value per share or statement that shares are without par value
<u>1,000</u>	<u>common</u>	<u>(No series)</u>	<u>\$1.00</u>

(11) The amount of its stated capital is \$ 1,000

Shares issued times par value equals stated capital. In the case of no par value stock, stated capital is the consideration received for the issued shares.

(12) This application is accompanied by a CERTIFICATE OF FACT or a CERTIFICATE OF GOOD STANDING duly acknowledged by the secretary of state or other officer having custody of corporate records in the state or country under whose laws it is incorporated.

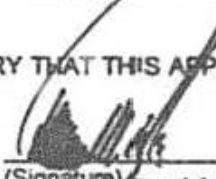
(13) That such corporation shall not directly or indirectly combine or make any contract with any incorporated company, foreign or domestic, through their stockholders or the trustees or assigns of such stockholders, or with any copartnership or association of persons, or in any manner whatever to fix the prices, limit the production or regulate the transportation of any product or commodity so as to prevent competition in such prices, production or transportation or to establish excessive prices therefor.

(14) That such corporation, as a consideration of its being, permitted to begin or continue doing business within the State of South Dakota, will comply with all the laws of the said State with regard to foreign corporations.

The application must be signed, in the presence of a notary public, by the chairman of the board of directors, or by the president or by another officer.

I DECLARE AND AFFIRM UNDER THE PENALTY OF PERJURY THAT THIS APPLICATION IS IN ALL THINGS, TRUE AND CORRECT.

Dated 3/17 1998

  
(Signature) David M. Higbee

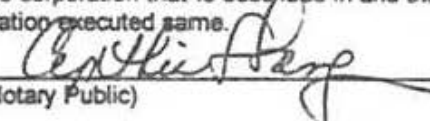
Secretary  
(Title)

State of Oklahoma  
County of Tulsa

On this 13<sup>th</sup> day of March, 1998, before me Cynthia L. Lang personally appeared David M. Higbee known to me, or proved to me, to be the Secretary of the corporation that is described in and that executed the within instrument and acknowledged to me that such corporation executed same.

My Commission Expires: 9/30/00

Notarial Seal

  
(Notary Public)

\*\*\*\*\*

The Consent of Appointment below must be signed by the registered agent listed in number six.

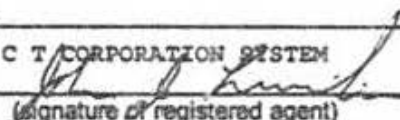
### CONSENT OF APPOINTMENT BY THE REGISTERED AGENT

I, C T Corporation System, hereby give my consent to serve as the  
(name of registered agent)

registered agent for Williams Communications, Inc.  
(corporate name)

Dated March 19 1998

C T CORPORATION SYSTEM

  
(signature of registered agent)

John J. Linnihan-Assst. Vice President



OFFICERS:

Howard E. Janzen Chairman of the Board

Primary 111 East 1st Street  
Address: Tulsa, OK 74103-2808  
Home 6840 E. 106th Street  
Address: Tulsa, OK 74133

Delwin L. Bothof President

Primary 111 East 1st Street  
Address: Tulsa, OK 74103-2808  
Home 2890 E. 35th Place  
Address: Tulsa, OK 74105

Gordon C. Martin Vice President, Assistant Secretary & Assistant Treasurer

Primary 2800 Post Oak Blvd.  
Address: Houston, TX 77056  
Home 9710 Appon Falls Court  
Address: Spring, TX 77379

S. Miller Williams Vice President

Primary 111 East 1st Street  
Address: Tulsa, OK 74103-2808  
Home 2121 S. Yorktown, #1103  
Address: Tulsa, OK 74114

Assistant Secretary

Primary 111 East 1st Street  
Address: Tulsa, OK 74103-2808  
Home 2121 S. Yorktown, #1103  
Address: Tulsa, OK 74114

Assistant Treasurer

Primary 111 East 1st Street  
Address: Tulsa, OK 74103-2808  
Home 2121 S. Yorktown, #1103  
Address: Tulsa, OK 74114

Joseph C. Turcotte Vice President - Operations & Engineering, Assistant Secretary & Assistant Treasurer

Primary 111 East 1st Street  
Address: Tulsa, OK 74103-2808  
Home 1551 Riverside Dr.  
Address: Tulsa, OK 74119

Laura A. Kenny Vice President - Marketing

Primary 111 East 1st Street  
Address: Tulsa, OK 74103-2808  
Home 11234 S. 66th East Court  
Address: Bixby, OK 74008

Assistant Secretary

Primary 111 East 1st Street  
Address: Tulsa, OK 74103-2808

Home Address:	11234 S. 66th East Court Bixby, OK 74008	
Primary Address:	111 East 1st Street Tulsa, OK 74103-2808	Assistant Treasurer
Home Address:	11234 S. 66th East Court Bixby, OK 74008	
Wesley B. Hanemayer		Vice President, Assistant Secretary & Assistant Treasurer
Primary Address:	None given	
Home Address:	None given	
David M. Higbee		Secretary
Primary Address:	One Williams Center Tulsa, OK 74172	
Home Address:	8916 S. Quebec Tulsa, OK 74137	
David P. Batow		General Counsel
Primary Address:	One Williams Center Tulsa, OK 74172	
Home Address:	8516 South Winston Tulsa, OK 74137	
Primary Address:	One Williams Center Tulsa, OK 74172	Assistant Secretary
Home Address:	8516 South Winston Tulsa, OK 74137	
Richard A. Blake		Assistant Secretary
Primary Address:	2800 Post Oak Blvd. Houston, TX 77056	
Home Address:	18 Brushwood Ct. The Woodlands, TX 77380	
Kenneth L. Clagett		Assistant Secretary
Primary Address:	None given	
Home Address:	None given	
Greg S. Floorke		Assistant Secretary
Primary Address:	One Williams Center Tulsa, OK 74172	
Home Address:	None given	
Shawna L. Gehres		Assistant Secretary
Primary Address:	One Williams Center Tulsa, OK 74172	

Williams Communications, Inc.

---

Home 1703 S. Quaker, Apt. #2  
Address: Tulsa, OK 74120-7007

Nancy G. McCracken Assistant Secretary

Primary 2800 Post Oak Blvd.  
Address: Houston, TX 77056  
Home 15003 River Park Drive  
Address: Houston, TX 77070

Joseph W. Miller Assistant Secretary

Primary None given  
Address:  
Home None given  
Address:

# Secretary of State

State Capitol, Ste 204  
500 East Capitol Avenue  
Pierre, South Dakota  
57501-5070  
TDD (605) 773-5010



JOYCE HAZELTINE

Secretary of State

TOM LECHER  
Deputy

FROM: Joyce Hazeltine, Secretary of State  
Corporations

RE: FOREIGN CORPORATION

The application for certificate of authority has been received and filed on behalf of the name enclosed.

Enclosed is the Certificate attached to the duplicate application along with a receipt for the filing fee.

SDCL: 47-9-3 requires the filing of a corporate annual report with our office between the anniversary date of qualification and prior to the first day of the second month following. The report is due the year following qualification. An annual report form will be mailed to the corporate address listed in number five on the application for timely filing. Please contact our office if the corporate address changes or if the form is not received.

Thank you.



# Form 10-K

## SECURITIES AND EXCHANGE COMMISSION Washington, D.C. 20549

(Mark One)

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

For the fiscal year ended December 31, 1997

OR

- ☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

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)

One Williams Center Tulsa, Oklahoma  
(Address of principal executive offices)

73-E 69878

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

74172

(Zip Code)

Registrant's telephone number, including area code:  
(918) 588-2000

#### SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, \$1.00 par value	New York Stock Exchange and the
Preferred Stock Purchase Rights	Pacific Stock Exchange

#### SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

None

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

The aggregate market value of the registrant's voting stock held by nonaffiliates as of the close of business on March 23, 1998, was approximately \$10.3 billion.

The number of shares of the registrant's Common Stock outstanding at March 23, 1998, was 323,219,054, excluding 6,541,475 shares held by the Company.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement prepared for the solicitation of proxies in connection with the Annual Meeting of Stockholders of the Company for 1998 are incorporated by reference in Part III.



THE WILLIAMS COMPANIES, INC.

FORM 10-K

PART I

Item 1. *Business*

(a) *General Development of Business*

The Williams Companies, Inc. (the "Company" or "Williams") was incorporated under the laws of the State of Nevada in 1949 and was reincorporated under the laws of the State of Delaware in 1987. The principal executive offices of the Company are located at One Williams Center, Tulsa, Oklahoma 74172 (telephone (918) 588-2000). Unless the context otherwise requires, references to the "Company" and "Williams" herein include The Williams Companies, Inc. and its subsidiaries.

On November 24, 1997, the Company announced that it had entered into a definitive merger agreement to acquire MAPCO Inc. ("MAPCO") in a stock-for-stock transaction based upon a fixed exchange ratio of 1.665 shares of the Company's Common Stock and .555 associated preferred stock purchase rights (adjusted to reflect the Company's two-for-one stock split on December 29, 1997) for each share of MAPCO Common Stock and associated preferred stock purchase rights. The Company's and MAPCO's shareholders approved actions necessary to complete the transaction at special stockholder meetings on February 26, 1998. See Note 19 to Notes to Consolidated Financial Statements. The Federal Trade Commission announced on March 27, 1998, that it would allow the parties to consummate the transaction, and the parties closed the transaction on March 28, 1998.

MAPCO is a Tulsa, Oklahoma-based diversified energy company. Subsidiaries of MAPCO engage in the transportation by pipeline of natural gas liquids ("NGLs"), anhydrous ammonia, crude oil, and refined petroleum products; the transportation by truck and rail of NGLs and refined petroleum products; the refining of crude oil; the marketing and trading of NGLs, refined petroleum products, and crude oil; NGL storage; and the marketing of motor fuel and merchandise through convenience store operations. MAPCO's subsidiary, Mid-America Pipeline Company, owns and operates 7,668 miles of pipeline and related pumping, metering, and storage facilities. Subsidiaries of MAPCO also own and operate two petroleum products refineries, one in Alaska, which markets approximately 44,000 barrels of refined products per day in Alaska, Canada, and the Pacific Rim, and one in Tennessee, which markets approximately 110,000 barrels of refined products per day. MAPCO's subsidiary, Thermogas Company, is the fourth largest propane marketer in the United States and sells propane in 18 states to more than 350,000 customers. Its MAPCO Express subsidiaries operate approximately 230 convenience stores and travel centers primarily in Tennessee and Alaska. MAPCO also owns subsidiaries providing fleet operators with motor fuel and data management and providing energy-related information services. MAPCO also holds equity investments in other businesses.

Management believes the acquisition furthers its strategy of seeking growth through strategic acquisitions and alliances and that MAPCO's assets and operations complement the Company's existing lines of business. Following the acquisition, the Company will operate the MAPCO businesses through Williams Energy Group.

On January 5, 1998, the Company's three-year non-compete agreement resulting from the 1995 sale of the network services operations of its telecommunications subsidiary expired, and the Company announced plans to re-enter the long-distance telecommunications market as a provider of wholesale communications services over an 18,000-mile network expected to be in operation by the beginning of 1999.

In April 1997, the Company merged its wholly owned subsidiary, Williams Telecommunications Systems, Inc. with Nortel Communications Systems, Inc., which was a wholly owned subsidiary of Northern Telecom, Inc. The Company holds a 70 percent interest in the newly formed entity, Williams Communications Solutions, LLC. See Note 2 of Notes to Consolidated Financial Statements.

In January 1996, the Company acquired a 49.9 percent interest from its partner in Kern River Gas Transmission Company giving the Company 99.9 percent ownership of this natural gas pipeline system. The purchase price was \$206 million. See Note 2 of Notes to Consolidated Financial Statements. The Company acquired the remaining 0.1 percent interest in the partnership in February 1997, for \$387,600.

**(b) Financial Information About Industry Segments**

See Part II, Item 8 — Financial Statements and Supplementary Data.

**(c) Narrative Description of Business**

The Company, through subsidiaries, engages in the transportation and sale of natural gas and related activities; natural gas gathering, processing, and treating activities; the transportation and terminaling of petroleum products; hydrocarbon exploration and production activities; the production and marketing of ethanol; and energy commodity marketing and trading and provides a variety of other products and services, including price risk management services, to the energy industry. The Company also engages in the communications business. In 1997, the Company's energy subsidiaries owned and operated: (i) five interstate natural gas pipeline systems; (ii) natural gas production properties; (iii) natural gas gathering and processing facilities; (iv) a common carrier petroleum products and crude oil pipeline system; (v) petroleum products terminals; and (vi) ethanol production facilities. The Company's communications subsidiaries offer: (i) data-, voice- and video-related products and services; (ii) advertising distribution services; (iii) video services and other multimedia services for the broadcast industry; (iv) enhanced facsimile and audio- and videoconferencing services for businesses; (v) customer-premise voice and data equipment, including installation, maintenance, and integration; and (vi) network integration and management services nationwide. The Company also has investments in the equity of certain other companies.

Substantially all operations of Williams are conducted through subsidiaries. Williams performs management, legal, financial, tax, consultative, administrative, and other services for its subsidiaries. Williams' principal sources of cash are from external financings, dividends and advances from its subsidiaries, investments, payments by subsidiaries for services rendered and interest payments from subsidiaries on cash advances. The amount of dividends available to Williams from subsidiaries largely depends upon each subsidiary's earnings and operating capital requirements. The terms of certain subsidiaries' borrowing arrangements limit the transfer of funds to the Company.

To achieve organizational and operating efficiencies, the Company's interstate natural gas pipelines are grouped together under its wholly owned subsidiary, Williams Interstate Natural Gas Systems, Inc. All other operating companies are owned by Williams Holdings of Delaware, Inc., a wholly-owned subsidiary of the Company. The energy operations of Williams Holdings of Delaware, Inc. are grouped into a wholly-owned subsidiary, Williams Energy Group, and its communications operations are grouped into a wholly-owned subsidiary, Williams Communications Group, Inc. Item 1 of this report is formatted to reflect this structure.

**WILLIAMS INTERSTATE NATURAL GAS SYSTEMS, INC.**

The Company's interstate natural gas pipeline group, comprised of Williams Interstate Natural Gas Systems, Inc. and its subsidiaries, owns and operates a combined total of approximately 27,000 miles of pipelines with a total annual throughput of approximately 3,700 TBtu\* of natural gas and peak-day delivery capacity of approximately 15 Bcf of natural gas. The interstate natural gas pipeline group consists of Transcontinental Gas Pipe Line Corporation, Northwest Pipeline Corporation, Kern River Gas Transmission Company, Texas Gas Transmission Corporation and Williams Gas Pipelines Central, Inc. The pipeline group also holds minority interests in joint venture interstate natural gas pipeline systems. The Company acquired Transcontinental Gas Pipe Line Corporation and Texas Gas Transmission Corporation in 1995. For the accounting treatment of the acquisition, see Note 2 of Notes to Consolidated Financial Statements. As noted above, the Company acquired an additional 49.9 percent interest in Kern River Gas Transmission Company in January 1996 and the remaining 0.1 percent interest in February 1997.

\* The term "Mcf" means thousand cubic feet, "MMcf" means million cubic feet and "Bcf" means billion cubic feet. All volumes of natural gas are stated at a pressure base of 14.73 pounds per square inch absolute at 60 degrees Fahrenheit. The term "Btu" means British Thermal Unit, "MMBtu" means one million British Thermal Units and "TBtu" means one trillion British Thermal Units. The term "Dth" means dekatherm. The term "Mbbbl" means one thousand barrels. The term "GWh" means gigawatt hour.

In 1997, the Company's gas pipeline group began the process of combining certain administrative functions, such as human resources, information services, technical services, and finance, of its operating companies in an effort to lower costs and increase effectiveness. In addition, the Company combined the management teams of two of the operating companies, Northwest Pipeline Corporation and Kern River Gas Transmission Company, in 1997. Also in 1997, the senior vice president and general manager of Texas Gas Transmission Corporation assumed additional responsibilities as senior vice president and general manager of Williams Gas Pipelines Central, Inc. The Company made these management changes to increase the organizational efficiency of its natural gas pipeline group; however, each of these operating companies continues to operate as a separate legal entity. The Company's gas pipeline subsidiaries employ approximately 3,600 employees.

The interstate natural gas pipeline group's transmission and storage activities are subject to regulation by the Federal Energy Regulatory Commission ("FERC") under the Natural Gas Act of 1938 ("Natural Gas Act") and under the Natural Gas Policy Act of 1978 ("NGPA"), and, as such, their rates and charges for the transportation of natural gas in interstate commerce, the extension, enlargement or abandonment of jurisdictional facilities, and accounting, among other things, are subject to regulation. Each pipeline holds certificates of public convenience and necessity issued by FERC authorizing ownership and operation of all pipelines, facilities and properties considered jurisdictional for which certificates are required under the Natural Gas Act. Each pipeline is also subject to the Natural Gas Pipeline Safety Act of 1968, as amended by Title I of the Pipeline Safety Act of 1979, which regulates safety requirements in the design, construction, operation and maintenance of interstate gas transmission facilities.

A business description of each company in the interstate natural gas pipeline group follows.

#### **TRANSCONTINENTAL GAS PIPE LINE CORPORATION (Transco)**

Transco is an interstate natural gas transmission company that owns a 10,500-mile natural gas pipeline system extending from Texas, Louisiana, Mississippi and the offshore Gulf of Mexico through the states of Alabama, Georgia, South Carolina, North Carolina, Virginia, Maryland, Pennsylvania, and New Jersey to the New York City metropolitan area. The system serves customers in Texas and eleven southeast and Atlantic seaboard states, including major metropolitan areas in Georgia, North Carolina, New York, New Jersey and Pennsylvania. Effective May 1, 1995, Transco transferred the operation of certain production area facilities to Williams Field Services Group, Inc., an affiliated company.

##### *Pipeline System and Customers*

At December 31, 1997, Transco's system had a mainline delivery capacity of approximately 3.8 Bcf of gas per day from production areas to its primary markets. Using its Leidy Line and market-area storage capacity, Transco can deliver an additional 2.9 Bcf of gas per day for a system-wide delivery capacity total of approximately 6.7 Bcf of gas per day. Excluding the production area facilities operated by Williams Field Services Group, Inc., Transco's system is composed of approximately 7,300 miles of mainline and branch transmission pipelines, 39 compressor stations and six storage locations. Compression facilities at a sea level-rated capacity total approximately 1.3 million horsepower.

Transco's major gas transportation customers are public utilities and municipalities that provide service to residential, commercial, industrial and electric generation end users. Shippers on Transco's pipeline system include public utilities, municipalities, intrastate pipelines, direct industrial users, electrical generators, marketers and producers. Transco's largest customer in 1997 accounted for approximately 12 percent of Transco's total operating revenues. No other customer accounted for more than 10 percent of total operating revenues in 1997. Transco's firm transportation agreements are generally long-term agreements with various expiration dates and account for the major portion of Transco's business. Additionally, Transco offers interruptible transportation services under shorter term agreements.

Transco has natural gas storage capacity in five underground storage fields located on or near its pipeline system and/or market areas and operates three of these storage fields and a liquefied natural gas (LNG) storage facility. The total top gas storage capacity available to Transco and its customers in such storage fields



and LNG facility is approximately 216 Bcf of gas. Storage capacity permits Transco's customers to inject gas into storage during the summer and off-peak periods for delivery during peak winter demand periods.

#### *Expansion Projects*

In February 1997, Pine Needle LNG Company, LLC, which is owned by Transco and several of its major customers, commenced construction of an LNG storage project in Guilford County, North Carolina. The project will have 4 Bcf of storage capacity and 400 MMcf per day of withdrawal capacity, and is expected to be placed into service on or about May 1, 1999. The project is estimated to cost approximately \$107 million. Transco will operate the facility and have a 35 percent ownership interest. Transco expects to make equity investments of approximately \$19 million in this project.

In March 1997, Transco announced its MarketLink Expansion Project. MarketLink will expand Transco's Leidy Line and market-area mainline facilities, providing the final transportation link for several pipeline projects designed to transport Canadian and Rocky Mountain gas supplies to eastern markets. The total cost and capacity of the project, which is targeted to be in service for the 1999-2000 winter heating season, will be determined based on market subscriptions. Transco plans to file for FERC approval of the project during the first quarter of 1998.

In March 1997, Independence Pipeline Company filed with FERC an application, which was amended in December 1997, for approval to construct and operate a pipeline consisting of approximately 400 miles of 36-inch diameter pipe from ANR Pipeline Company's existing compressor station at Defiance, Ohio to Transco's facilities at Leidy, Pennsylvania. Independence will provide approximately 916 MMcf per day of firm gas transportation capacity and is expected to be in service in the 1999-2000 time frame. The estimated cost of the project is \$678 million, and Transco's equity contributions will be approximately \$68 million based on its expected one-third ownership interest in the project.

In April 1997, Transco withdrew its FERC certificate application for the Seaboard Expansion Project and filed an application with the FERC for the Pocono Expansion Project, which was completed and placed into service in November 1997. Pocono added 35 MMcf per day of firm gas transportation capacity on Transco's Leidy Line in Pennsylvania. The cost of the expansion is approximately \$16 million.

In August 1997, FERC issued a certificate authorizing Transco to expand its existing Maiden Lateral to Piedmont Natural Gas Company, Inc. in Lincoln and Catawba Counties, North Carolina. The project facilities include approximately 18 miles of 16-inch pipeline loop and an expansion of Transco's existing Lowersville Meter Station. The project was placed into service in November 1997. The cost for the facilities is approximately \$13 million.

In November 1997, Transco completed and placed into service the SunBelt Expansion Project. This project added approximately 146 MMcf per day of firm gas transportation capacity to markets in Georgia, South Carolina, and North Carolina. The total cost of the expansion was approximately \$85 million, of which \$61 million was expended in 1997.

In November 1997, the North Carolina Utilities Commission issued an order approving the Cardinal Pipeline System Project. Wholly owned subsidiaries of Transco and three of its North Carolina customers will own the pipeline, which will involve the acquisition of the existing 37-mile Cardinal pipeline in North Carolina and construction of an approximately 67-mile extension of the pipeline to new interconnections near Clayton County, North Carolina. This project will provide 140 MMcf per day of additional firm gas transportation capacity to North Carolina markets and is expected to be placed into service by the end of 1999. A wholly owned subsidiary of Transco will operate the pipeline and have a 45 percent ownership interest in the project. Transco expects to make equity investments of approximately \$22 million in this project, of which approximately \$900,000 was invested during 1997.

In December 1997, Transco and AGL Resources Inc. (AGL) formed Cumberland Gas Pipeline Company. Under this project, existing pipeline facilities of Transco and AGL will be expanded northward into Tennessee, establishing a 135-mile pipeline that is expected to provide firm transportation capacity to markets in Georgia and Tennessee by the 2000-2001 winter heating season. The project is expected to be submitted for

FERC approval in the third quarter of 1998. Transco will operate the pipeline facilities and have a 50 percent ownership interest. Transco estimates that the total cost of this project will be up to \$115 million, and expects to make equity investments of up to \$29 million. To complement the Cumberland project, Transco will offer additional pipeline capacity from the terminus of its existing Mobile Bay Lateral in Choctaw County, Alabama, to its interconnect with Cumberland at Transco's Station 125 in Walton County, Georgia, at a cost of up to \$120 million.

In January 1998, the FERC approved the Mobile Bay Lateral Expansion Project, an expansion of Transco's existing 123-mile Mobile Bay Lateral. The project is expected to provide new firm transportation capacity of 350 MMcf of gas per day from the outer continental shelf to Transco's Station 82 and increase capacity on the existing onshore lateral from 520 MMcf of gas per day to 784 MMcf of gas per day. The project is targeted to be placed into service in two phases during 1998 at a cost of approximately \$120 million, of which approximately \$36 million was invested during 1997.

In January 1998, FERC approved the 1998 Cherokee Expansion Project, an incremental expansion of Transco's pipeline system in its southern market area which will provide approximately 84 MMcf of gas per day of new firm gas transportation capacity on Transco's system by a proposed in-service date of November 1, 1998. The estimated cost for this project is \$68 million, of which \$9.3 million was invested during 1997.

In January 1998, Transco and Duke Energy Corporation announced plans to form a joint venture to develop a new natural gas pipeline project into New York City. The project, called the Cross Bay Pipeline, will combine Duke's previously announced Excelsior<sup>SM</sup> project with the existing Long Beach delivery facilities on Transco's system into a new integrated delivery pipeline. The project will provide up to 700 MMcf of gas per day on a phased-in basis, with the in-service date of the initial phase being targeted for 1999.

*Operating Statistics.* The following table summarizes transportation data for the periods indicated, including the portion of 1995 during which the Company did not own Transco (in TBtus):

	1997	1996	1995
System Deliveries (TBtu)			
Market-area deliveries:			
Long-haul transportation .....	940.2	948.9	858.4
Market-area transportation .....	438.9	428.1	467.3
Total market-area deliveries .....	1,379.1	1,377.0	1,325.7
Production-area transportation .....	186.8	210.0	165.9
Total system deliveries .....	1,565.9	1,587.0	1,491.6
Average Daily Transportation Volumes .....	4.3	4.3	4.1
Average Daily Firm Reserved Capacity .....	5.5	5.2	5.2

#### NORTHWEST PIPELINE CORPORATION (Northwest Pipeline)

Northwest Pipeline is an interstate natural gas transmission company that owns and operates a pipeline system for the mainline transmission of natural gas 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 California, New Mexico, Colorado, Utah, Nevada, Wyoming, Idaho, Oregon and Washington, directly or indirectly through interconnections with other pipelines.

##### *Pipeline System and Customers*

At December 31, 1997, Northwest Pipeline's system, having an aggregate mainline deliverability of approximately 2.5 Bcf of gas per day, was composed of approximately 3,900 miles of mainline and branch transmission pipelines and 40 mainline compressor stations with a combined capacity of approximately 307,000 horsepower.

In 1997, Northwest Pipeline transported natural gas for a total of 153 customers. Transportation customers include distribution companies, municipalities, interstate and intrastate pipelines, gas marketers and direct industrial users. The five largest customers of Northwest Pipeline in 1997 accounted for approximately 17 percent, 16.9 percent, 11.8 percent, 10.6 percent and 10.4 percent, respectively, of its total operating revenues. No other customer accounted for more than 10 percent of total operating revenues. Northwest Pipeline's firm transportation agreements are generally long-term agreements with various expiration dates and account for the major portion of Northwest Pipeline's business. Additionally, Northwest Pipeline offers interruptible transportation service under agreements that are generally short term.

As a part of its transportation services, Northwest Pipeline utilizes underground storage facilities in Utah and Washington enabling it to balance daily receipts and deliveries. Northwest Pipeline also owns and operates a liquefied natural gas storage facility in Washington that provides a needle-peaking service for the system. These storage facilities have an aggregate delivery capacity of approximately 973 MMcf of gas per day.

*Operating Statistics.* The following table summarizes transportation data for the periods indicated (in TBtus):

	1997	1996	1995
Transportation Volumes .....	714	834	826
Average Daily Transportation Volumes .....	2.0	2.3	2.3
Average Daily Firm Reserved Capacity .....	2.5	2.5	2.4

Transportation volumes declined from 1996 to 1997 as a result of Northwest Pipeline's sale in late 1996 of a majority of its South End Facilities.

#### **KERN RIVER GAS TRANSMISSION COMPANY (Kern River)**

Kern River is an interstate natural gas transmission company that owns and operates a natural gas pipeline system extending from Wyoming through Utah and Nevada to California. Kern River had been jointly owned and operated by Williams Western Pipeline Company, a subsidiary of the Company, and a subsidiary of an unaffiliated company. As previously indicated, the Company acquired an additional 49.9 percent interest in Kern River in January 1996. See Note 2 of Notes to Consolidated Financial Statements. In February 1997, the Company acquired the remaining 0.1 percent interest in Kern River. The transmission system, which commenced operations in February 1992 following completion of construction, delivers natural gas primarily to the enhanced oil recovery fields in southern California. The system also transports natural gas for utilities, municipalities and industries in California, Nevada and Utah.

##### *Pipeline System and Customers*

As of December 31, 1997, Kern River's pipeline system was composed of approximately 705 miles of mainline and branch transmission pipelines and five compressor stations having an aggregate mainline delivery capacity of 700 MMcf of gas per day. The pipeline system interconnects with the pipeline facilities of another pipeline company at Daggett, California. From the point of interconnection, Kern River and the other pipeline company have a common 219-mile pipeline which is owned 63.6 percent by Kern River and 36.4 percent by the other pipeline company, as tenants in common, and is designed to accommodate the combined throughput of both systems. This common facility has a capacity of 1.1 Bcf of gas per day.

Kern River transports gas for others under firm long-term transportation contracts totaling 694 MMcf of gas per day. In 1997, Kern River transported natural gas for customers in California, Nevada, and Utah. Gas was transported for reinjection as a part of enhanced oil recovery in Kern County, California, and for local distribution customers, electric utilities, cogeneration projects, and commercial and other industrial customers. The four largest customers of Kern River in 1997 accounted for approximately 16 percent, 14 percent, 12 percent, and 10 percent, respectively, of its total operating revenues. Three of these customers serve the enhanced oil recovery fields. No other customer accounted for more than 10 percent of total operating revenues in 1997.

Kern River has executed a seasonal firm transportation contract to deliver natural gas into the Las Vegas, Nevada, market area during the winter months. Kern River began deliveries of approximately 10 MMcf of gas per day during 1997 and expects to escalate such deliveries to 40 MMcf of gas per day on a seasonal basis by 1999.

*Operating Statistics.* The following table summarizes transportation data for the periods indicated, including periods during which the Company owned less than 100 percent of Kern River (in TBtus):

	1997	1996	1995
Transportation Volumes.....	285	281	286
Average Daily Transportation Volumes.....	.78	.77	.78
Average Daily Firm Reserved Capacity.....	.73	.71	.72

#### TEXAS GAS TRANSMISSION CORPORATION (TXG)

TXG is an interstate natural gas transmission company that owns and operates a natural gas pipeline system originating in the Louisiana Gulf Coast area and in east Texas and running generally north and east through Louisiana, Arkansas, Mississippi, Tennessee, Kentucky, Indiana and into Ohio, with smaller diameter lines extending into Illinois. TXG's direct market area encompasses eight states in the South and Midwest, and includes the Memphis, Tennessee; Louisville, Kentucky; Cincinnati and Dayton, Ohio; and Indianapolis, Indiana, metropolitan areas. TXG also has indirect market access to the Northeast through interconnections with unaffiliated pipelines.

##### *Pipeline System and Customers*

At December 31, 1997, TXG's system, having a mainline delivery capacity of approximately 2.8 Bcf of gas per day, was composed of approximately 6,000 miles of mainline and branch transmission pipelines and 32 compressor stations having a sea level-rated capacity totaling approximately 549,000 horsepower.

In 1997, TXG transported gas to customers in Louisiana, Arkansas, Mississippi, Tennessee, Kentucky, Indiana, Illinois, and Ohio and to customers in the Northeast served indirectly by TXG. TXG transported gas for 110 distribution companies and municipalities for resale to residential, commercial and industrial users. TXG provided transportation services to approximately 20 industrial customers located along the system. At December 31, 1997, TXG had transportation contracts with approximately 588 shippers. Transportation shippers include distribution companies, municipalities, intrastate pipelines, direct industrial users, electrical generators, marketers and producers. The largest customer of TXG in 1997 accounted for approximately 12.4 percent of its total operating revenues. No other customer accounted for more than 10 percent of total operating revenues during 1997. TXG's firm transportation and storage agreements are generally long-term agreements with various expiration dates and account for the major portion of TXG's business. Additionally, TXG offers interruptible transportation and storage services under agreements that are generally short-term.

TXG owns and operates natural gas storage reservoirs in 10 underground storage fields located on or near its pipeline system and/or market areas. The storage capacity of TXG's certificated storage fields is approximately 177 Bcf of gas. TXG's storage gas is used in part to meet operational balancing needs on its system, in part to meet the requirements of TXG's firm and interruptible storage customers, and in part to meet the requirements of TXG's "no-notice" transportation service, which allows TXG's customers to temporarily draw from TXG's storage gas to be repaid in-kind during the following summer season. A large portion of the gas delivered by TXG to its market area is used for space heating, resulting in substantially higher daily requirements during winter months.

*Operating Statistics.* The following table summarizes total system transportation volumes for the periods indicated, including the portion of 1995 during which the Company did not own TXG (in TBtus):

	1997	1996	1995
Transportation Volumes.....	773.6	794.5	693.3
Average Daily Transportation Volumes.....	2.1	2.2	1.9
Average Daily Firm Reserved Capacity.....	2.2	2.1	2.0



## WILLIAMS GAS PIPELINES CENTRAL, INC. (Central)

Central, formerly known as Williams Natural Gas Company, is an interstate natural gas transmission company that owns and operates a natural gas pipeline system located in Colorado, Kansas, Missouri, Nebraska, Oklahoma, Texas, and Wyoming. The system serves customers in seven states, including major metropolitan areas of Kansas and Missouri, its chief market areas.

### *Pipeline System and Customers*

At December 31, 1997, Central's system, having a mainline delivery capacity of approximately 2.2 Bcf of gas per day, was composed of approximately 6,000 miles of mainline and branch transmission and storage pipelines and 42 compressor stations having a sea level-rated capacity totaling approximately 218,000 horsepower.

In 1997, Central transported gas to customers in Colorado, Kansas, Missouri, Nebraska, Oklahoma, Texas, and Wyoming. Gas was transported for 70 distribution companies and municipalities for resale to residential, commercial and industrial users in approximately 530 cities and towns. Transportation services were provided to approximately 303 industrial customers, federal and state institutions and agricultural processing plants located principally in Kansas, Missouri and Oklahoma. At December 31, 1997, Central had transportation contracts with approximately 201 shippers. Transportation shippers included distribution companies, municipalities, intrastate pipelines, direct industrial users, electrical generators, marketers and producers.

In 1997, approximately 68 percent (approximately 34 percent each) of total operating revenues were generated from gas transportation services to Central's two largest customers, Kansas Gas Service Company, a division of Oneok, Inc., formerly Western Resources, Inc., and Missouri Gas Energy Company. Kansas Gas Service Company sells or resells gas to residential, commercial and industrial customers principally in certain major metropolitan areas of Kansas. Missouri Gas Energy sells or resells gas to residential, commercial and industrial customers principally in certain major metropolitan areas of Missouri. No other customer accounted for more than 10 percent of operating revenues during 1997.

In 1997, Central reached agreement with its two major customers to renew a major portion of their firm capacity that was to expire under then-existing contracts. The majority of the new contracts have terms ranging from four to five years. Central's remaining firm transportation agreements have various expiration dates ranging from one year to twenty years, with the majority expiring in three to eight years. Additionally, Central offers interruptible transportation services under agreements that are generally short term.

Central operates nine underground storage fields with an aggregate working gas storage capacity of approximately 43 Bcf and an aggregate delivery capacity of approximately 1.2 Bcf of gas per day. Central's customers inject gas in these fields when demand is low and withdraw it to supply their peak requirements. During periods of peak demand, approximately two-thirds of the firm gas delivered to customers is supplied from these storage fields. Storage capacity enables the system to operate more uniformly and efficiently during the year.

During 1997, Central completed four expansion projects which resulted in additional firm transportation contracts totaling over 71,000 Dth per day.

*Operating Statistics.* The following table summarizes transportation data for the periods indicated (in TBtus):

	1997	1996	1995
Transportation Volumes .....	337	341	334
Average Daily Transportation Volumes .....	.9	.9	.9
Average Daily Firm Reserved Capacity .....	2.1	1.9	2.0

### *Regulatory Matters*

In 1992, FERC issued Order 636, which required interstate pipeline companies to restructure their tariffs to eliminate traditional on-system sales services. In addition, the Order required implementation of various

changes in forms of service, including unbundling of gathering, transmission and storage services; terms and conditions of service; rate design; gas supply realignment cost recovery; and other major rate and tariff revisions. Kern River implemented its restructuring on August 1, 1993; Central implemented its restructuring on October 1, 1993; and Transco, Northwest Pipeline and TXG implemented their restructurings on November 1, 1993. Certain aspects of three pipeline companies' Order 636 restructurings are under appeal.

Each interstate natural gas pipeline has various regulatory proceedings pending. Rates are established primarily through FERC's ratemaking process. Key determinants in the ratemaking process are (1) costs of providing service, including depreciation rates, (2) allowed rate of return, including the equity component of the capital structure, and (3) volume throughput assumptions. FERC determines the allowed rate of return in each rate case. Rate design and the allocation of costs between the demand and commodity rates also impact profitability. As a result of such proceedings, the pipeline companies have collected a portion of their revenues subject to refund. See Note 13 of Notes to Consolidated Financial Statements for the amount of revenues reserved for potential refund as of December 31, 1997.

Each of the interstate natural gas pipeline companies that were formerly gas supply merchants has undertaken the reformation of its respective gas supply contracts. None of the pipelines have any significant pending supplier take-or-pay, variable-take or minimum-take claims. Central has an accrued liability recorded of \$94 million for its estimated remaining contract reformation and gas supply realignment costs under Order 636. These contracts are presently subject to certain FERC proceedings. For information on outstanding issues with respect to contract reformation, gas purchase deficiencies and related regulatory issues, see Note 18 of Notes to Consolidated Financial Statements.

#### Competition

FERC continues to regulate each of the Company's interstate natural gas pipeline companies pursuant to the Natural Gas Act and the NGPA. However, competition for natural gas transportation has intensified in recent years due to customer access to other pipelines, rate competitiveness among pipelines, customers' desire to have more than one transporter and regulatory developments. FERC's stated purpose for implementing Order 636 was to improve the competitive structure of the natural gas pipeline industry. Future utilization of pipeline capacity will depend on competition from other pipelines, use of alternative fuels, the general level of natural gas demand and weather conditions. Electricity and distillate fuel oil are primary competitive forms of energy for residential and commercial markets. Coal and residual fuel oil compete for industrial and electric generation markets. Nuclear and hydroelectric power and power purchased from grid arrangements among electric utilities also compete with gas-fired power generation in certain markets.

As mentioned, when restructured tariffs became effective under Order 636, all suppliers of natural gas were able to compete for any gas markets capable of being served by the pipelines using nondiscriminatory transportation services provided by the pipelines. As the Order 636 regulated environment has matured, many pipelines have faced reduced levels of subscribed capacity as contractual terms expire and customers opt to reduce firm capacity under contract in favor of alternative sources of transmission and related services. This situation, known in the industry as "capacity turnback," is forcing the pipelines to evaluate the consequences of major demand reductions in traditional long-term contracts. It could also result in significant shifts in system utilization, and possible realignment of cost structure for remaining customers since all interstate natural gas pipeline companies continue to charge rates approved by FERC on a cost of service basis.

The Company is aware that several state jurisdictions have been involved in implementing changes similar to the changes that have occurred at the federal level under Order 636. Such activity, frequently referred to as "LDC unbundling," has been most pronounced in the states of New York, New Jersey, Georgia, and Pennsylvania. New York and New Jersey began establishing LDC unbundling regulations in 1995 and continue to develop regulations regarding LDC unbundling. Georgia enacted an LDC unbundling program in 1997. Pennsylvania is currently considering LDC unbundling and may enact such legislation in 1998. In addition, Maryland and Delaware currently have pilot unbundling programs for industrial, commercial, and

residential end-users. Management expects these regulations to encourage greater competition in the natural gas marketplace.

#### **Ownership of Property**

Each of the Company's interstate natural gas pipeline subsidiaries generally owns its facilities in fee. However, a substantial portion of each pipeline's facilities is constructed and maintained pursuant to rights-of-way, easements, permits, licenses or consents on and across properties owned by others. Compressor stations, with appurtenant facilities, are located in whole or in part either on lands owned or on sites held under leases or permits issued or approved by public authorities. The storage facilities are either owned or contracted under long-term leases or easements.

#### **Environmental Matters**

Each interstate natural gas pipeline is subject to the National Environmental Policy Act and federal, state and local laws and regulations relating to environmental quality control. Management believes that, with respect to any capital expenditures and operation and maintenance expenses required to meet applicable environmental standards and regulations, FERC would grant the requisite rate relief so that, for the most part, the pipeline subsidiaries could recover such expenditures in their rates. For this reason, management believes that compliance with applicable environmental requirements by the interstate pipelines is not likely to have a material effect upon the Company's earnings or competitive position.

For a discussion of specific environmental issues involving the interstate pipelines, including estimated cleanup costs associated with certain pipeline activities, see "Environmental" under Management's Discussion and Analysis of Financial Condition and Results of Operations and "Environmental Matters" in Note 18 of Notes to Consolidated Financial Statements.

### **WILLIAMS HOLDINGS OF DELAWARE, INC. (Williams Holdings)**

Williams Holdings' energy subsidiaries are engaged in exploration and production; natural gas gathering, processing and treating activities; petroleum products transportation and terminaling; ethanol production and marketing; and energy commodity marketing and trading and price risk management and energy finance services. In addition, these subsidiaries provide a variety of other products and services to the energy industry. Williams Holdings' communications subsidiaries offer data-, voice-, and video-related products and services and customer premise voice and data equipment, including installation, maintenance, and integration, nationwide. Williams Holdings also has certain other equity investments.

#### **WILLIAMS ENERGY GROUP (Williams Energy)**

In 1996, Williams Holdings reorganized its energy operations under a newly created, wholly owned subsidiary, Williams Energy Group, and began reporting such operations for financial reporting purposes on this basis in the fourth quarter of 1996.

Williams Energy is comprised of four major business units: Exploration and Production, Field Services, Petroleum Services, and Energy Marketing and Trading. Through its business units, Williams Energy engages in energy production and exploration activities; natural gas gathering, processing, and treating; petroleum liquids transportation and terminal services; ethanol production; and energy commodity marketing and trading.

Williams Energy, through its subsidiaries, owns 600 Bcf of proved natural gas reserves located primarily in the San Juan Basin of Colorado and New Mexico and owns or operates approximately 11,000 miles of gathering pipelines (including certain gathering lines owned by an affiliate but operated by Field Services), 10 gas treating plants, 10 gas processing plants, 53 petroleum products terminals, and approximately 9,100 miles of liquids pipeline. Physical and notional volumes marketed and traded by Williams Energy's Energy Marketing and Trading unit approximated 11,018 TBtu equivalents in 1997. In support of its power marketing activities, Williams Energy acquired a cogeneration plant in Hazleton, Pennsylvania, in 1997 and also owns a cogeneration plant in northwestern New Mexico. These facilities add approximately 113

megawatts of capacity to its portfolio. Williams Energy, through its subsidiaries, employs approximately 2,800 employees.

Revenues and operating profit for Williams Energy by business unit are reported in Note 4 of Notes to Consolidated Financial Statements herein.

A business description of each of Williams Energy's business units follows.

## EXPLORATION AND PRODUCTION

Williams Energy, through its wholly owned subsidiary Williams Production Company (Williams Production), owns and operates producing natural gas leasehold properties in the United States. In addition, Williams Production is actively exploring for oil and gas.

*Oil and gas properties.* Exploration and production properties are located primarily in the Rocky Mountains and Gulf Coast areas. Rocky Mountain properties are located in the San Juan Basin in New Mexico and Colorado, in Wyoming, and in Utah. Gulf Coast properties include North Louisiana, the Houma Embayment and Transition Zone in Southern Louisiana, Pinnacle Reef play in East Texas, Sligo and Wilcox trends in South Texas, and offshore Gulf of Mexico.

*Gas Reserves.* As of December 31, 1997, 1996, and 1995, Williams Production had proved developed natural gas reserves of 362 Bcf, 323 Bcf, and 292 Bcf, respectively, and proved undeveloped reserves of 238 Bcf, 208 Bcf, and 222 Bcf, respectively. Of Williams Production's total proved reserves, 89 percent are located in the San Juan Basin of Colorado and New Mexico. No major discovery or other favorable or adverse event has caused a significant change in estimated gas reserves since year end.

*Customers and Operations.* As of December 31, 1997, the gross and net developed leasehold acres owned by Williams Production totaled 268,331 and 115,728 respectively, and the gross and net undeveloped acres owned were 447,458 and 121,351 respectively. As of such date, Williams Production owned interests in 3,113 gross producing wells (558 net) on its leasehold lands. The following tables summarize drilling activity for the periods indicated:

<u>1997 Wells</u>	<u>Gross</u>	<u>Net</u>
Development		
Drilled .....	198	32.6
Completed .....	198	32.6
Exploration		
Drilled .....	12	4.6
Completed .....	9	2.8
<u>Completed During</u>	<u>Gross Wells</u>	<u>Net Wells</u>
1997 .....	207	35
1996 .....	65	11
1995 .....	61	22

The majority of Williams Production's gas production is currently being sold in the spot market at market prices. Total net production sold during 1997, 1996, and 1995 was 37.1 Bcf, 31.0 Bcf, and 30.0 Bcf, respectively. The average production costs, including production taxes, per Mcf of gas produced were \$.42, \$.23, and \$.23, in 1997, 1996, and 1995, respectively. The average wellhead sales price per Mcf was \$1.62, \$.98, and \$.88, respectively, for the same periods. Net production sold and average production costs for 1996 and 1995 have been restated to include net profits volumes not previously reported.

In 1993, Williams Production conveyed a net profits interest in certain of its properties to the Williams Coal Seam Gas Royalty Trust. Williams subsequently sold Trust Units to the public in an underwritten public offering. Williams Holdings owns 3,568,791 Trust Units representing 36.8 percent of outstanding Units. Substantially all of the production attributable to the properties conveyed to the Trust was from the Fruitland



coal formation and constituted coal seam gas. Production information reported herein includes Williams Production's interest in such Units.

## FIELD SERVICES

Williams Energy, through Williams Field Services Group, Inc. and its subsidiaries (Field Services), owns and operates natural gas gathering, processing, and treating facilities located in northwestern New Mexico, southwestern Colorado, southwestern Wyoming, northwestern Oklahoma, southwestern Kansas, and also in areas offshore and onshore in Texas and Louisiana. Field Services also operates gathering facilities that are owned by Transco, an affiliated company, and that are currently regulated by the FERC. In February 1996, Field Services and Transco filed applications with FERC to spindown all of Transco's gathering facilities to Field Services. FERC subsequently denied the request in September 1996. Field Services and Transco sought rehearing in October 1996. In August 1997, Field Services and Transco filed a second request for expedited treatment of the rehearing request. FERC has yet to rule on this request for rehearing.

**Expansion Projects.** Field Services continued to expand its operations in the gulf coast region during 1997 primarily through the Mobile Bay Project. During the year, Field Services obtained a life-of-reserves commitment from SOCO Offshore to anchor the construction of the Field Services' facilities required to gather and process near the Outer Continental Shelf. These committed reserves along with existing production from the Mobile Bay area will more than adequately supply this plant, scheduled to begin operations in early 1999. In addition, Field Services has acquired the remaining 50 percent interest in the 500 MMcfd Cameron Meadows processing plant in south Texas, has reached an agreement to partner in a 200 MMcfd processing plant in Louisiana, and finalized construction plans for a deep water gathering line to Green Canyon Federal Block 205 off Transco's Southeast Louisiana gathering system where planned capacity is expected to reach 90 MMcfd in the fourth quarter of 1998.

**Customers and Operations.** Facilities owned and/or operated by Field Services consist of approximately 11,000 miles of gathering pipelines (including certain gathering lines owned by an affiliate but operated by Field Services), 10 gas treating plants and 10 gas processing plants (one of which is partially owned). The aggregate daily inlet capacity is approximately 7.9 Bcf for the gathering systems and 6.7 Bcf of gas for the gas processing, treating, and dehydration facilities. Gathering and processing customers have direct access to interstate pipelines, including affiliated pipelines, which provide access to multiple markets.

During 1997, Field Services gathered natural gas for 296 customers. The largest gathering customer accounted for approximately 17 percent of total gathered volumes. During 1997, Field Services processed natural gas for a total of 130 customers. The largest customer accounted for approximately 24 percent of total processed volumes. No other customer accounted for more than 10 percent of gathered or processed volumes. Field Services' gathering and processing agreements with large customers are generally long-term agreements with various expiration dates. These long-term agreements account for the majority of the gas gathered and processed by Field Services.

**Operating Statistics.** The following table summarizes gathering, processing, and natural gas liquid sales volumes for the periods indicated. The information includes operations attributed to facilities owned by affiliated entities but operated by Field Services, including the portion of 1995 during which the Company did not own such facilities:

	1997	1996	1995
Gas volumes (TBtu, except liquids sales):			
Gathering .....	2,153	2,155	1,806
Processing .....	520	484	406
Natural gas liquid sales (millions of gallons) .....	551	403	284

## PETROLEUM SERVICES

Williams Energy, through wholly owned subsidiaries in its Petroleum Services unit, owns and operates a petroleum products and crude oil pipeline system, two ethanol production plants (one of which is partially owned), and petroleum products terminals and provides services and markets products related thereto.

**Transportation.** A subsidiary in the Petroleum Services unit, Williams Pipe Line Company (Williams Pipe Line), owns and operates a petroleum products and crude oil pipeline system which covers an 11-state area extending from Oklahoma in the south to North Dakota and Minnesota in the north and Illinois in the east. The system is operated as a common carrier offering transportation and terminaling services on a nondiscriminatory basis under published tariffs. The system transports refined products, LP-gases, lube extracted fuel oil, and crude oil.

At December 31, 1997, the system traversed approximately 7,100 miles of right-of-way and included approximately 9,100 miles of pipeline in various sizes up to 16 inches in diameter. The system includes 77 pumping stations, 23 million barrels of storage capacity, and 40 delivery terminals. The terminals are equipped to deliver refined products into tank trucks and tank cars. The maximum number of barrels which the system can transport per day depends upon the operating balance achieved at a given time between various segments of the system. Because the balance is dependent upon the mix of products to be shipped and the demand levels at the various delivery points, the exact capacity of the system cannot be stated.

An affiliate of Williams Pipe Line, Longhorn Enterprises of Texas, Inc. ("LETI"), owns a 31.5 percent interest in Longhorn Partners Pipeline, LP, a joint venture formed to construct and operate a refined products pipeline from Houston to El Paso, Texas. The pipeline is expected to commence operations in 1998. Williams Pipe Line will design, construct, and operate the pipeline, and LETI has irrevocably committed to contribute \$57.4 million to the joint venture in 1998.

**Operating Statistics.** The operating statistics set forth below relate to the system's operations for the periods indicated:

	1997	1996	1995
Shipments (thousands of barrels):			
Refined products:			
Gasolines .....	132,428	134,296	125,060
Distillates .....	71,694	68,628	61,238
Aviation fuels .....	10,557	11,189	12,535
LP-Gases .....	13,322	15,618	12,839
Lube extracted fuel oil .....	7,471	8,555	4,462
Crude oil .....	31	891	860
Total Shipments .....	<u>235,503</u>	<u>239,177</u>	<u>216,994</u>
Daily average (thousands of barrels) .....	645	655	595
Average haul (miles) .....	259	259	269
Barrel miles (millions) .....	61,086	61,969	58,326

Environmental regulations and changing crude supply patterns continue to affect the refining industry. The industry's response to environmental regulations and changing supply patterns will directly affect volumes and products shipped on the Williams Pipe Line system. Environmental Protection Agency ("EPA") regulations, driven by the Clean Air Act, require refiners to change the composition of fuel manufactured. A pipeline's ability to respond to the effects of regulation and changing supply patterns will determine its ability to maintain and capture new market shares. Williams Pipe Line has successfully responded to changes in diesel fuel composition and product supply and has adapted to new gasoline additive requirements. Reformulated gasoline regulations have not yet significantly affected Williams Pipe Line. Williams Pipe Line will continue to attempt to position itself to respond to changing regulations and supply patterns but cannot predict how future changes in the marketplace will affect its market areas.



**Ethanol.** Williams Energy, through its wholly owned subsidiary Williams Energy Ventures, Inc. (WEV), is engaged in the production and marketing of ethanol. WEV owns and operates two ethanol plants of which corn is the principal feedstock. The Pekin, Illinois, plant, which WEV purchased in 1995, has an annual production capacity of 100 million gallons of fuel-grade and industrial ethanol and also produces various coproducts. The Aurora, Nebraska, plant (in which WEV owns a 74.68 percent interest) began operations in November 1995 and has an annual production capacity of 30 million gallons. WEV also markets ethanol produced by third parties.

The sales volumes set forth below include ethanol produced by third parties as well as by WEV for the periods indicated:

	1997	1996	1995
Ethanol sold (thousands of gallons) .....	145,612	119,800	53,500
Coproducts sold (thousands of tons) .....	494	398	159

**Terminals and Services.** Williams Energy, through its subsidiary WEV, operates petroleum products terminals in the western and southeastern United States and provides services including performance additives and ethanol blending. In September 1996, WEV acquired a 45.5 percent interest in eight petroleum products terminals located in the southeast United States. In 1997, these terminals loaded approximately 17.3 million barrels of refined products. In December 1997, WEV acquired a terminal in Dallas, Texas. The preceding volume data do not reflect activity at this terminal.

## ENERGY MARKETING AND TRADING

Williams Energy, through subsidiaries, primarily Williams Energy Services Company and its subsidiaries ("WESCO"), is a national energy services provider that buys, sells, and transports a full suite of energy commodities, including natural gas, electricity, refined products, natural gas liquids, crude oil, and liquefied natural gas, on a wholesale and retail level, serving over 3,500 companies. In addition, WESCO offers a comprehensive array of price-risk management products and services and capital services to the diverse energy industry.

WESCO markets natural gas throughout North America and grew its total volumes (physical and notional) to an average of 22.3 Bcf per day in 1997. The core of WESCO's business has traditionally been the Gulf Coast and eastern regions, using the pipeline systems owned by the Company, but also includes marketing on approximately 50 non-Williams' pipelines. During 1997, approximately one-third of WESCO's volumes were from the Mid-Continent region, up from 10 percent in 1996. WESCO's natural gas customers include producers, industrials, local distribution companies, utilities, and other marketers.

During 1997, WESCO also marketed refined products, natural gas liquids, crude, and liquefied natural gas with total volumes (physical and notional) averaging 1,208.2 Mbbl per day. WESCO's acquisition in 1997 of the wholesale propane business of Level Energy significantly enhanced its natural gas liquids marketing effort.

WESCO entered the power marketing and trading business in 1996. During 1997, WESCO marketed 8.3 GWh per hour (physical and notional) of electricity.

WESCO provides price-risk management services through a variety of financial instruments including forwards, futures, and option and swap agreements related to various energy commodities. Through its energy capital services, WESCO provides participants in both the upstream and downstream portions of the energy industry with capital for energy-related projects including acquisitions of proved reserves and related drilling projects.

During 1997, WESCO has continued to develop its retail energy services group through acquisitions and alliances. As part of that strategy, WESCO acquired Utility Management Corporation, an energy management services and marketing company in the southeastern United States, serving small- to mid-sized

commercial, industrial, and municipal customers. WESCO also has signed a letter of intent with GPU Advanced Resources to form an alliance which will serve markets in six mid-Atlantic states.

*Operating Statistics.* The following table summarizes operating profit and marketing volumes for the periods indicated:

	1997	1996	1995
Average marketing volumes (physical and notional):			
Natural gas (Bcfd) .....	22.3	15.9	10.2
Refined products, natural gas liquids, crude (MBpd) .....	1,208	384	19
Electricity (GWh/hr) .....	8.3	0.5	—

#### Regulatory Matters

*Field Services.* In May 1994, after reviewing its legal authority in a Public Comment Proceeding, FERC determined that while it retains some regulatory jurisdiction over gathering and processing performed by interstate pipelines, pipeline-affiliated gathering and processing companies are outside its authority under the Natural Gas Act. An appellate court has affirmed FERC's determination and the U.S. Supreme Court has denied requests for certiorari. As a result of these FERC decisions, some of the individual states in which Field Services conducts its operations have considered whether to impose regulatory requirements on gathering companies. Kansas, Oklahoma, and Texas currently regulate gathering activities using complaint mechanisms under which the state commission may resolve disputes involving an individual gathering arrangement. Other states may also consider whether to impose regulatory requirements on gathering companies.

*Petroleum Services.* Williams Pipe Line, as an interstate common carrier pipeline, is subject to the provisions and regulations of the Interstate Commerce Act. Under this Act, Williams Pipe Line is required, among other things, to establish just, reasonable and nondiscriminatory rates, to file its tariffs with FERC, to keep its records and accounts pursuant to the Uniform System of Accounts for Oil Pipeline Companies, to make annual reports to FERC and to submit to examination of its records by the audit staff of FERC. Authority to regulate rates, shipping rules, and other practices and to prescribe depreciation rates for common carrier pipelines is exercised by FERC. The Department of Transportation, as authorized by the 1995 Pipeline Safety Reauthorization Act, is the oversight authority for interstate liquids pipelines. Williams Pipe Line is also subject to the provisions of various state laws applicable to intrastate pipelines.

On December 31, 1989, a rate cap, which resulted from a settlement with several shippers, effectively freezing Williams Pipe Line's rates for the previous five years, expired. Williams Pipe Line filed a revised tariff on January 16, 1990, with FERC and the state commissions. The tariff set an average increase in rates of 11 percent and established volume incentives and proportional rate discounts. Certain shippers on the Williams Pipe Line system and a competing pipeline carrier filed protests with FERC alleging that the revised rates are not just and reasonable and are unlawfully discriminatory. Williams Pipe Line elected to bifurcate this proceeding in accordance with the then-current FERC policy. Phase I of FERC's bifurcated proceeding provides a carrier the opportunity to justify its rates and rate structure by demonstrating that its markets are workably competitive. Any issues unresolved in Phase I require cost justification in Phase II.

FERC's Presiding Judge issued the Initial Decision in Phase II on May 29, 1996. The Judge ruled that Williams Pipe Line failed to demonstrate that the rates at issue for the 12 less competitive markets were just and reasonable and that Williams Pipe Line must roll back those rates to pre-1990 levels and pay refunds with interest to its shippers. The Initial Decision held that Williams Pipe Line's individual rates must be judged on the basis of cost allocations, although Williams Pipe Line was given no notice of this particular basis of judgment and the Commission expressly declined to adopt such standards in its Opinion No. 391. Moreover, the Commission clarified its final order in Phase I (Opinion No. 391-A) by stating that Williams Pipe Line was not required to defend its rates with cost allocations. Primarily on this basis, Williams Pipe Line sought a review of the Initial Decision by the full Commission by filing a brief on exceptions on June 28, 1996. The review of the Phase II Initial Decision is pending before the Commission, and a shipper's appeal of the Phase I

order in the United States Court of Appeals for the District of Columbia Circuit has been stayed pending the completion of Phase II. Williams Pipe Line is not required to comply with the Initial Decision in Phase II prior to the Commission's issuance of a final order. Williams Pipe Line continues to believe that its revised tariffs will ultimately be found lawful. See Note 18 of Notes to Consolidated Financial Statements.

*Energy Marketing and Trading.* Management believes that WESCO's activities are conducted in substantial compliance with the marketing affiliate rules of FERC Order 497. Order 497 imposes certain nondiscrimination, disclosure, and separation requirements upon interstate natural gas pipelines with respect to their natural gas trading affiliates. WESCO has taken steps to ensure it does not share employees with affiliated interstate natural gas pipelines and does not receive information from such affiliates that is not also available to unaffiliated natural gas trading companies.

#### Competition

*Exploration and Production.* Williams Energy's exploration and production unit competes with a wide variety of independent producers as well as integrated oil and gas companies for markets for its production.

*Field Services.* Williams Energy competes for gathering and processing business with interstate and intrastate pipelines, producers, and independent gatherers and processors. Numerous factors impact any given customer's choice of a gathering or processing services provider, including rate, term, timeliness of well connections, pressure obligations, and the willingness of the provider to process for either a fee or for liquids taken in-kind.

*Petroleum Services.* Williams Energy's petroleum services operations are subject to competition because Williams Pipe Line operates without the protection of a federal certificate of public convenience and necessity that might preclude other entrants from providing like service in its area of operations. Further, Williams Pipe Line must plan, operate and compete without the operating stability inherent in a broad base of contractually obligated or owner-controlled usage. Because Williams Pipe Line is a common carrier, its shippers need only meet the requirements set forth in its published tariffs in order to avail themselves of the transportation services offered by Williams Pipe Line.

Competition exists from other pipelines, refineries, barge traffic, railroads, and tank trucks. Competition is affected by trades of products or crude oil between refineries that have access to the system and by trades among brokers, traders and others who control products. Such trades can result in the diversion from the Williams Pipe Line system of volume that might otherwise be transported on the system. Shorter, lower revenue hauls may also result from such trades. Williams Pipe Line also is exposed to interfuel competition whereby an energy form shipped by a liquids pipeline, such as heating fuel, is replaced by a form not transported by a liquids pipeline, such as electricity or natural gas. While Williams Pipe Line faces competition from a variety of sources throughout its marketing areas, the principal competition is other pipelines. A number of pipeline systems, competing on a broad range of price and service levels, provide transportation service to various areas served by the system. The possible construction of additional competing products or crude oil pipelines, conversions of crude oil or natural gas pipelines to products transportation, changes in refining capacity, refinery closings, changes in the availability of crude oil to refineries located in its marketing area, or conservation and conversion efforts by fuel consumers may adversely affect the volumes available for transportation by Williams Pipe Line.

Williams Energy's ethanol operations compete in local, regional, and national fuel additive markets with one large ethanol producer, numerous smaller ethanol producers, and other fuel additive producers, such as refineries.

*Energy Marketing and Trading.* Williams Energy's energy marketing and trading operations directly compete with large independent energy marketers, marketing affiliates of regulated pipelines and utilities, electric wholesalers and retailers, and natural gas producers. The financial trading business competes with other energy-based companies offering similar services as well as certain brokerage houses. This level of competition contributes to a business environment of constant pricing and margin pressure.



### Ownership of Property

The majority of Williams Energy's ownership interests in exploration and production properties are held as working interests in oil and gas leaseholds.

Williams Energy's gathering and processing facilities are owned in fee. Gathering systems are constructed and maintained pursuant to rights-of-way, easements, permits, licenses, and consents on and across properties owned by others. The compressor stations and gas processing and treating facilities are located in whole or in part on lands owned by subsidiaries of Williams Energy or on sites held under leases or permits issued or approved by public authorities.

Williams Energy's petroleum pipeline system is owned in fee. However, a substantial portion of the system is operated, constructed and maintained pursuant to rights-of-way, easements, permits, licenses, or consents on and across properties owned by others. The terminals, pump stations, and all other facilities of the system are located on lands owned in fee or on lands held under long-term leases, permits, or contracts. Management believes that the system is in such a condition and maintained in such a manner that it is adequate and sufficient for the conduct of business.

The primary assets of Williams Energy's energy marketing and trading unit are its term contracts, employees, and related systems and technological support.

### Environmental Matters

Williams Energy is subject to various federal, state, and local laws and regulations relating to environmental quality control. Management believes that Williams Energy's operations are in substantial compliance with existing environmental legal requirements. Management expects that compliance with such existing environmental legal requirements will not have a material adverse effect on the capital expenditures, earnings, and competitive position of Williams Energy.

The EPA has named Williams Pipe Line as a potentially responsible party as defined in Section 107(a) of the Comprehensive Environmental Response, Compensation, and Liability Act, for a site in Sioux Falls, South Dakota. The EPA placed this site on the National Priorities List in July 1990. In April 1991, Williams Pipe Line and the EPA executed an administrative consent order under which Williams Pipe Line agreed to conduct a remedial investigation and feasibility study for this site. The EPA issued its "No Action" Record of Decision in 1994, concluding that there were no significant hazards associated with the site subject to two additional years of monitoring for arsenic in certain existing monitoring wells. Williams Pipe Line completed monitoring in the second quarter of 1997 and has submitted a report of results to the EPA. Management believes no significant additional expenditures will be required for investigation and follow-up at this site.

### WILLIAMS COMMUNICATIONS GROUP, INC. (Williams Communications)

As of December 31, 1997, Williams Communications has organized its operating companies into three business units: Solutions, which provides customer-premise voice and data equipment, including installation, integration, and maintenance; Network, which operates the Company's fiber optic network; and Applications, which provides video services and other multimedia services for the broadcast industry, advertising distribution; business television applications; and audio- and videoconferencing services and enhanced facsimile services for businesses. Management believes that the new structure will better position it to provide total enterprise network solutions and superior customer service. In addition, management believes this structure will facilitate growth and diversification while recognizing the convergence of customers, markets and product offerings of its communications entities. In Canada, Solutions operates through its subsidiary, WiTel Communications (Canada), Inc. In late 1997, Williams Communications announced plans to sell its product and content training services business, Williams Learning Network, Inc. See Note 6 of Notes to Consolidated Financial Statements.

Williams Communications and its subsidiaries own an approximately 11,000-mile communications network (with an additional 21,000-route miles planned or under construction), maintain 155 offices primarily across North America but also in London, Singapore, and Australia, service approximately 133,000 customer

sites with approximately 11 million customer ports. In addition, Williams Communications owns or manages five teleports in the United States and has rights to capacity on domestic and international satellite transponders. Williams Communications employed approximately 8,000 employees as of December 31, 1997.

Consolidated revenues by business unit and operating profit/loss for Williams Communications were as follows for 1997 (dollars in millions):

Revenues:	
Solutions .....	\$1,206.5
Network .....	43.0
Application .....	222.4
Eliminations .....	(26.6)
Total .....	<u>\$1,445.3</u>
Operating loss .....	<u>\$ (55.7)</u>

The revenues for the Solutions business unit include only eight months of revenues resulting from the merger, which is discussed below, with Nortel Communications Systems, Inc., effective April 30, 1997. The operating loss includes \$49.8 million in fourth quarter charges related to the previously noted decision to sell the learning content business and the write-down of assets and the development costs associated with certain advanced applications.

A business description of each of Williams Communications' business units follows.

## SOLUTIONS

The Solutions unit of Williams Communications provides data, voice and video communications products and services to customers in the United States and Canada. In April 1997, Williams Communications merged its wholly owned subsidiary, Williams Telecommunications Systems, Inc. with Nortel Communications Systems Inc., which was a wholly owned subsidiary of Northern Telecom, Inc. (Northern Telecom). Williams Communications holds a 70 percent interest in the newly formed entity, Williams Communications Solutions, LLC (WCS). Northern Telecom owns the remaining 30 percent. This merger effectively doubled the size of Williams Communications Solutions' customer premise and network solutions operations.

Williams Communications, through subsidiaries including WCS, serves its customers through more than 120 sales and service locations throughout the United States, over 6,000 employees and over 2,200 stocked service vehicles. WCS employs more than 2,500 technicians and more than 700 sales representatives and sales support personnel to serve an estimated 133,000 commercial, governmental and institutional customer sites. WCS's customer base ranges from large, publicly-held corporations and the federal government to small privately-owned entities.

WCS offers its customers a full array of data, multimedia, voice and video network interconnect products including digital key systems (generally designed for voice applications with fewer than 100 lines), private branch exchange (PBX) systems (generally designed for voice applications with greater than 100 lines), voice processing systems, interactive voice response systems, automatic call distribution applications, call accounting systems, network monitoring and management systems, desktop video, routers, channel banks, intelligent hubs and cabling. WCS's services also include the design, configuration and installation of voice and data networks and call centers and the management of customers' telecommunications operations and facilities. WCS's National Technical Resource Center provides customers with on-line order entry and trouble reporting services, advanced technical assistance and training. Other service capabilities include Local Area Network and PBX remote monitoring and toll fraud detection.

*Operating Statistics.* The following table summarizes the results of operations for Williams Communications Solutions for the periods indicated (dollars and ports in millions):

	1997	1996	1995
Revenues .....	\$1,206.5	\$568.1	\$494.9
Percentage of revenues by type of service:			
New system sales .....	52%	40%	34%
System modifications .....	28	34	36
Maintenance .....	19	24	25
Other .....	1	2	2
Backlog .....	\$ 202.5	\$112.2	\$ 85.0
Total ports .....	11.0	5.1	4.7

A port is defined as an electronic address resident in a customer's PBX or key system that supports a station, trunk, or data port.

In 1997, WCS derived approximately 47.8 percent of its revenues from its existing customer base and approximately 52.2 percent from the sale of new telecommunications systems. WCS's three largest suppliers accounted for approximately 86 percent of equipment sold in 1997. A single manufacturer, Northern Telecom, supplied 73 percent of all equipment sold. In this case, WCS is the largest independent distributor in the United States of certain of this company's products. About 63 percent of WCS's active customer base consists of this manufacturer's products. The distribution agreement with this supplier is scheduled to expire at the end of 2000. Management believes there is minimal risk as to the availability of products from suppliers.

#### NETWORK

The Network unit of Williams Communications owns and operates an approximately 11,000-route mile communications network, which is restricted to multi-media applications, and is currently constructing an unrestricted network along a 1,600 mile route from Houston to Washington, D.C. in proximity to pipeline right-of-way owned by an affiliated company. Williams Communications Inc., a subsidiary of Williams Communications, has entered into an exchange agreement with IXC Communications under which it will provide IXC Communications rights to use dark fiber along the Houston-to-Washington, D.C. route and obtain rights to use dark fiber along a 4,500-mile route from Los Angeles to New York, which IXC Communications is constructing. In addition, Williams Communications, Inc. also owns an interest in a joint venture constructing a 1,600-mile fiber optic network on a route connecting Portland, Salt Lake City, and Las Vegas, with a dark fiber agreement extending the network to Los Angeles. With these construction projects and dark fiber agreements and other projects, Williams Communications, Inc. anticipates having an 18,000-route mile fiber optic network in operation by the end of 1998. Williams Communications, Inc. has also signed an agreement to acquire a 350-mile fiber network in Florida and plans to construct additional fiber to connect the Florida network to its existing network in the southeastern United States, and to construct a new fiber route in the Midwestern United States from Chicago westward. The Network unit has ultimate plans for a 32,000-route mile network.

Upon the expiration of the non-compete agreement related to the Company's 1995 sale of its network services operations on January 5, 1998, Williams Communications announced that it was re-entering the long-distance communications market as a wholesale provider of telecommunications services and had entered into a five-year, multimillion dollar agreement with U S WEST Communications Group to provide wholesale services using its fiber optic network. Williams Communications has also entered into an agreement with Concentric Network Corporation to provide wholesale communications services.

During 1997, Williams Communications acquired Critical Technologies, Inc., a professional services company deriving revenue from integrating, designing, building, implementing, and maintaining large-scale business communications systems. In addition, Williams Communications acquired a 12.5 percent interest in Concentric Network Corporation, a provider of Internet protocol-based networking services for business and consumer markets.



## APPLICATIONS

### *Vyvx*

Vyvx, an unincorporated business unit of Williams Communications, Inc., offers broadcast-quality television and multimedia transmission services nationwide by means of Network's 11,000-mile multimedia network, five satellite uplink/downlink facilities and satellite capacity on 30 transponders. Vyvx owns 53 television switching centers, 29 sales and service locations in the United States, and sales and service offices in London, Singapore, and Australia. Vyvx primarily provides backhaul or point-to-point transmission of sports, news and other programming between two or more customer locations. With satellite facilities, Vyvx provides point-to-multipoint transmission service. Vyvx's customers include all of the major broadcast and cable networks. Vyvx is also engaged in the business of advertising distribution and is exploring other multimedia communication opportunities.

Vyvx owns four teleports (including satellite earth station facilities) located near Atlanta, Denver, Los Angeles, and New York, and operates a fifth teleport in Kansas City. Vyvx also owns assets for the distribution of television advertising, which provide connectivity and presence in more than 550 television broadcast stations around the country.

### *Global Access*

Global Access, offers multi-point videoconferencing, audioconferencing and enhanced facsimile services as well as single point to multi-point business television services. Global Access enables Williams Communications to provide customers with integrated media conferences, bringing together voice, video and facsimile by utilizing Williams Communications's existing fiber-optic and satellite services.

In March 1997, Global Access acquired Satellite Management, Inc., a U.S.-based satellite integrator for business television applications, interactive long distance learning, and corporate communications.

In December 1996, Williams Communications announced the formation of The Business Channel, a joint venture with the Public Broadcast Service (PBS), to utilize Internet, video-on-demand, fiber-optic and satellite technologies to bring professional development and training services to the business community.

### *Regulatory Matters*

The equipment WCS sells must meet the requirements of Part 68 of the Federal Communications Commission (FCC) rules governing the equipment registration, labeling and connection of equipment to telephone networks. WCS relies on the equipment manufacturers' compliance with these requirements for its own compliance regarding the equipment it distributes. These regulations have a minimal impact on WCS's operations.

Williams Communications, Inc. is subject to FCC regulations as common carriers with regard to certain of their transmission services and are subject to the laws of certain states governing public utilities. An FCC rulemaking to eliminate domestic, common carrier tariffs has been stayed pending judicial review. In the interim, the FCC is requiring such carriers to operate under traditional tariff rules. Operations of intrastate microwave communications, satellite earth stations and certain other related transmission facilities are also subject to FCC licensing and other regulations. These regulations do not significantly impact Williams Communications, Inc.'s operations. In 1997, the FCC began implementation of the Universal Service Fund contemplated in the Telecommunications Act of 1996. Williams Communications, Inc. is required to contribute to this fund based upon certain revenues. Although Williams Communications, Inc. intends to pass on such charges to its customers, FCC rulings raise questions about the right of companies like Williams Communications, Inc. to do so.

### *Competition*

WCS has many competitors ranging from Lucent Technologies and the Regional Bell Operating Companies to small individually-owned companies that sell and service customer premise equipment.

Competitors include companies that sell equipment comparable or identical to that sold by WCS. There are virtually no barriers to entry into this market.

Vyvx's video and multimedia transmission operations compete primarily with companies offering video or multimedia transmission services by means of satellite facilities and to a lesser degree with companies offering transmission services via microwave facilities or fiber-optic cable.

Network faces existing competition from a number of large, well-established interexchange carriers, some with extensive fiber optic networks. Several other carriers are constructing or have plans to construct new fiber optic networks or are establishing networks based on dark fiber rights obtained from facilities-based carriers.

Federal telecommunications reform legislation enacted in February 1996 is designed to increase competition both in the long distance market and local exchange market by significantly liberalizing current restrictions on market entry. In particular, the legislation establishes procedures permitting Regional Bell Operating Companies to provide long distance services including, but not limited to, video transmission services, subject to certain restrictions and conditions precedent. Moreover, electric and gas utilities may provide telecommunications services, including long distance services, through separate subsidiaries. The legislation also calls for elimination of federal tariff filing requirements and relaxation of regulation over common carriers. At this time, management cannot predict the impact such legislation may have on the operations of Williams Communications, Inc.

In late 1997, a Federal District Court decision, which has been stayed pending appeal, invalidated provisions of the 1996 federal legislation. While legislation or rulings by appellate courts may overturn this lower court ruling, the Regional Bell Operating companies continue to seek regulatory approval to provide national long distance services. As courts or regulators remove restrictions on the Regional Bell Operating Companies, they will be both important potential customers and important potential competitors of Network.

#### **Ownership of Property**

Williams Communications owns part of its fiber-optic transmission facilities and leases the remainder. Approximately 11,000-route miles of its owned facilities are comprised of a single fiber, which is on a portion of the fiber optic network of WorldCom, Inc. ("WorldCom") and is restricted to multimedia content usage. Williams Communications retained this fiber when a predecessor of WorldCom purchased the Company's network services operations in 1995. Williams Communications and WorldCom are currently in litigation to clarify, among other things, whether the usage restriction would permit internet services and Williams Communications' right to purchase additional WorldCom fiber. Williams Communications carries signals by means of its own fiber-optics facilities, as well as carrying signals over fiber-optic facilities leased from third-party interexchange carriers and the various local exchange carriers. Williams Communications holds its satellite transponder capacity under various agreements. Williams Communications owns part of its teleport facilities and holds the remainder under either a management agreement or long-term facilities leases.

Williams Network intends to obtain capacity primarily by means of the fiber optic networks Williams Communications is constructing or plans to construct or acquire, as well as acquiring dark fiber rights on fiber optic facilities of other carriers. Network obtains dark fiber rights in the form of the purchase or lease of "indefeasible rights of use" or "IRUs" in specific fiber strands. Purchased IRUs have many of the characteristics of ownership, including many of the associated risks, but the owner of the fiber optic cable retains legal title to the fibers.

#### **Environmental Matters**

Williams Communications is subject to federal, state, and local laws and regulations relating to the environmental aspects of its business. Management believes that Williams Communications' operations are in substantial compliance with existing environmental legal requirements. Management expects that compliance with such existing environmental legal requirements will not have a material adverse effect on the capital expenditures, earnings and competitive position of Williams Communications.

## OTHER INFORMATION

Williams believes that it has adequate sources and availability of raw materials to assure the continued supply of its services and products for existing and anticipated business needs. Williams' 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 bodies. Each of the pipeline systems has ongoing capital requirements for efficiency and mandatory improvements, with expansion opportunities also necessitating periodic capital outlays.

A plant site in Pensacola, Florida, that was previously operated by a former subsidiary of Williams, has been placed on the National Priorities List. This former subsidiary has also been identified as a potentially responsible party at a National Priorities List cleanup site in Michigan. A third site, located in Lakeland, Florida, which was formerly owned and operated by this subsidiary, is under investigation by the Florida Department of Environmental Protection and cleanup is anticipated. Williams does not believe that the ultimate resolution of the foregoing matters, taken as a whole and after consideration of insurance coverage, contribution or other indemnification arrangements, will have a material adverse financial effect on the Company. See Note 18 of Notes to Consolidated Financial Statements.

At December 31, 1997, the Company had approximately 15,000 full-time employees, of whom approximately 2,300 were represented by unions and covered by collective bargaining agreements. The Company considers its relations with its employees to be generally good.

### Forward-Looking Information

Certain matters discussed in this report, excluding historical information, include forward-looking statements. Although the Company believes such forward-looking statements are based on reasonable assumptions, no assurance can be given that every objective will be reached. Such statements are made in reliance on the safe harbor protections provided under the Private Securities Litigation Reform Act of 1995.

As required by such Act, the Company hereby identifies the following important factors that could cause actual results to differ materially from any results projected, forecasted, estimated or budgeted by the Company in forward-looking statements: (i) risks and uncertainties impacting the Company as a whole relate to changes in general economic conditions in the United States; the availability and cost of capital; changes in laws and regulations to which the Company is subject, including tax, environmental and employment laws and regulations; the cost and effects of legal and administrative claims and proceedings against the Company or its subsidiaries or which may be brought against the Company or its subsidiaries; conditions of the capital markets utilized by the Company to access capital to finance operations; and, to the extent the Company increases its investments and activities abroad, such investments and activities will be subject to foreign economics, laws, and regulations; (ii) for the Company's regulated businesses, risks and uncertainties primarily relate to the impact of future federal and state regulations of business activities, including allowed rates of return and the resolution of other matters discussed herein; and (iii) risks and uncertainties associated with the Company's unregulated businesses primarily relate to energy prices and the ability of such entities to develop expanded markets and product offerings as well as their ability to maintain existing markets. It is also possible that certain aspects of the Company's businesses that are currently unregulated may be subject to both federal and state regulation in the future. In addition, future utilization of pipeline capacity will depend on energy prices, competition from other pipelines and alternate fuels, the general level of natural gas and petroleum product demand and weather conditions, among other things. Further, gas prices, which directly impact transportation and gathering and processing throughput and operating profit, may fluctuate in unpredictable ways as may corn prices, which directly affect the Company's ethanol business. Factors impacting future results of the Company's communications business include successful completion of its network build, technological developments, high levels of competition, lack of customer diversification, and general uncertainties of governmental regulation.

### (d) Financial Information about Foreign and Domestic Operations and Export Sales

Williams has no significant foreign operations.

## Item 2. *Properties*

See Item 1(c) for description of properties.

## Item 3. *Legal Proceedings*

For information regarding certain proceedings pending before federal regulatory agencies, see Note 18 of Notes to Consolidated Financial Statements. Williams is also subject to other ordinary routine litigation incidental to its businesses.

### *Contract reformations and gas purchase deficiencies*

As a result of FERC Order 636, which requires interstate gas pipelines to change the way they do business, each of the natural gas pipeline subsidiaries has undertaken the reformation or termination of its respective gas supply contracts. None of the pipelines has any significant pending supplier take-or-pay, ratable take or minimum take claims.

Current FERC policy associated with Orders 436 and 500 requires interstate gas pipelines to absorb some of the cost of reforming gas supply contracts before allowing any recovery through direct bill or surcharges to transportation as well as sales commodity rates. Under Orders 636, 636-A, 636-B and 636-C, costs incurred to comply with these rules are permitted to be recovered in full, although a percentage of such costs must be allocated to interruptible transportation service.

Pursuant to a stipulation and agreement approved by the FERC, Williams Gas Pipelines Central (Central) has made 11 filings to direct bill take-or-pay and gas supply realignment costs. The total amount approved for direct billing, net of certain amounts collected subject to refunds, is \$67 million. An intervenor has filed protests seeking to have the FERC review the prudence and eligibility of approximately \$40 million of costs covered by these filings. On July 31, 1996, the administrative law judge issued an initial decision rejecting the intervenor's prudence challenge. On September 30, 1997, the FERC, by a two-to-one vote, reversed the administrative law judge and determined that three life-of-lease producer contracts were imprudently entered into in 1982. Central has filed for rehearing, and management plans to vigorously defend the prudence of these contracts. An intervenor has also filed a protest seeking to have the FERC decide whether non-settlement costs are eligible for recovery under Order No. 636. In January 1997, the FERC held that none of the non-settlement costs could be recovered by Central if these costs were not eligible for recovery under Order No. 636. This order was affirmed on rehearing in April 1997. An initial decision from the administrative law judge is expected in the first quarter of 1998. If the FERC's final ruling on eligibility is unfavorable, Central will appeal these orders to the courts. Central will make additional filings under the applicable FERC orders to recover such additional costs as may be incurred in the future.

Because of the uncertainties pertaining to the outcome of these issues currently pending at the FERC and the status of settlement negotiation and various other factors, Central cannot reasonably estimate the costs that may be incurred nor the related amounts that could be recovered from customers. Central is actively pursuing negotiations with the producers to resolve all outstanding obligations under the contracts. Based on the terms of what Central believes would be a reasonable settlement, \$94 million has been accrued as a liability at December 31, 1997, including a \$5 million fourth-quarter 1997 charge to expense for additional absorption of future costs. Central also has an \$88 million regulatory asset at December 31, 1997, for estimated recovery of future costs from customers. Central cannot predict the final outcome of the FERC's rulings on contract prudence and cost recovery under Order No. 636 and is unable to determine the ultimate liability and loss, if any, at this time. If Central does not prevail in these FERC proceedings or any subsequent appeals, and if Central is able to reach a settlement with the producers consistent with the \$94 million accrued liability, the loss could be the total of the regulatory asset and the \$40 million of protested assets. Central continues to believe that it entered into the gas purchase contracts in a prudent manner under FERC rules in place at the time. Central also believes that the future recovery of these costs would be in accordance with the terms of Order No. 636.



The foregoing accruals are in accordance with Williams' accounting policies regarding the establishment of such accruals which take into consideration estimated total exposure, as discounted and risk-weighted, as well as costs and other risks associated with the difference between the time costs are incurred and the time such costs are recovered from customers. The estimated portion of such costs recoverable from customers is deferred or recorded as a regulatory asset based on an estimate of expected recovery of the amounts allowed by FERC policy. While Williams believes that these accruals are adequate and the associated regulatory assets are appropriate, costs actually incurred and amounts actually recovered from customers will depend upon the outcome of various court and FERC proceedings, the success of settlement negotiations and various other factors, not all of which are presently foreseeable.

#### *Environmental matters*

Since 1989, Texas Gas and Transcontinental Gas Pipe Line have had studies under way to test certain of their facilities for the presence of toxic and hazardous substances to determine to what extent, if any, remediation may be necessary. Transcontinental Gas Pipe Line has responded to data requests regarding such potential contamination of certain of its sites. The costs of any such remediation will depend upon the scope of the remediation. At December 31, 1997, these subsidiaries had reserves totaling approximately \$28 million for these costs.

Certain Williams subsidiaries, including Texas Gas and Transcontinental Gas Pipe Line, have been identified as potentially responsible parties (PRP) 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. Although no assurances can be given, Williams does not believe that the PRP status of these subsidiaries will have a material adverse effect on its financial position, results of operations or net cash flows.

Transcontinental Gas Pipe Line, Texas Gas and Central have identified polychlorinated biphenyl (PCB) contamination in air compressor systems, soils and related properties at certain compressor station sites. Transcontinental Gas Pipe Line, Texas Gas and Central have also been involved in negotiations with the U.S. Environmental Protection Agency (EPA) and state agencies to develop screening, sampling and cleanup programs. In addition, negotiations with certain environmental authorities and other programs concerning investigative and remedial actions relative to potential mercury contamination at certain gas metering sites have been commenced by Central, Texas Gas and Transcontinental Gas Pipe Line. As of December 31, 1997, Central had recorded a liability for approximately \$17 million, representing the current estimate of future environmental cleanup costs to be incurred over the next six to ten years. The Field Services unit of Energy Services had recorded an aggregate liability of approximately \$12 million, representing the current estimate of its future environmental and remediation costs, including approximately \$5 million relating to former Central facilities. Texas Gas and Transcontinental Gas Pipe Line likewise had recorded liabilities for these costs which are included in the \$28 million reserve mentioned above. Actual costs incurred will depend on the actual number of contaminated sites identified, the actual amount and extent of contamination discovered, the final cleanup standards mandated by the EPA and other governmental authorities and other factors. Texas Gas, Transcontinental Gas Pipe Line and Central have deferred these costs pending recovery as incurred through future rates and other means.

In connection with the 1987 sale of the assets of Agrico Chemical Company, Williams agreed to indemnify the purchaser for environmental cleanup costs resulting from certain conditions at specified locations, to the extent such costs exceed a specified amount. Such costs have exceeded this amount. At December 31, 1997, Williams had approximately \$11 million accrued for such excess costs. The actual costs incurred will depend on the actual amount and extent of contamination discovered, the final cleanup standards mandated by the EPA or other governmental authorities, and other factors.

A lawsuit was filed in May 1993 in a state court in Colorado in which certain claims have been made against various defendants, including Northwest Pipeline, contending that gas exploration and development activities in portions of the San Juan Basin have caused air, water and other contamination. The plaintiffs in the case sought certification of a plaintiff class. In June 1994, the lawsuit was dismissed for failure to join an

indispensable party over which the state court had no jurisdiction. The Colorado court of appeals has affirmed the dismissal and remanded the case to Colorado district court for action consistent with the appeals court's decision. Since June 1994, eight individual lawsuits have been filed against Northwest Pipeline and others in U.S. district court in Colorado, making essentially the same claims. The district court has stayed all of the cases involving Northwest Pipeline until the plaintiffs exhaust their remedies before the Southern Ute Indian Tribal Court. Some plaintiffs filed cases in the Tribal court, but none named Northwest Pipeline as a defendant.

#### *Other legal matters*

Williams Communications owns one fiber, which is restricted to media content usage, on a portion of the fiber optic network of WorldCom, Inc. ("WorldCom"). Williams Communications retained this fiber, along with an option to purchase additional fiber from WorldCom in connection with WorldCom's subsequent fiber builds, acquisitions, and expansions, when a predecessor of WorldCom purchased the Company's network services operations in 1995. On March 20, 1998, Williams Communications filed suit in Oklahoma District Court in Tulsa County against WorldCom claiming that WorldCom had failed to fulfill its obligations associated with the single fiber as well as a number of other obligations arising from the agreements entered into in 1995 in conjunction with the network services operations sale.

In 1991, the Southern Ute Indian Tribe (the Tribe) filed a lawsuit against Williams Production Company (Williams Production), a wholly-owned subsidiary of Williams, and other gas producers in the San Juan Basin area, alleging that certain coal strata were reserved by the United States for the benefit of the Tribe and that the extraction of coal-seam gas from the coal strata was wrongful. The Tribe seeks compensation for the value of the coal-seam gas. The Tribe also seeks an order transferring to the Tribe ownership of all of the defendants' equipment and facilities utilized in the extraction of the coal-seam gas. In September 1994, the court granted summary judgment in favor of the defendants and the Tribe lodged an interlocutory appeal with the U.S. Court of Appeals for the Tenth Circuit. Williams Production agreed to indemnify the Williams Coal Seam Gas Royalty Trust (Trust) against any losses that may arise in respect of certain properties subject to the lawsuit. In addition, if the Tribe is successful in showing that Williams Production has no rights in the coal-seam gas, Williams Production has agreed to pay to the Trust for distribution to then-current unitholders, an amount representing a return of a portion of the original purchase price paid for the units. On July 16, 1997, the U.S. Court of Appeals for the Tenth Circuit reversed the decision of the district court, held that the Tribe owns the coal-seam gas produced from certain coal strata on fee lands within the exterior boundaries of the Tribe's reservation, and remanded the case to the district court for further proceedings. On September 16, 1997, Amoco Production Company, the class representative for the defendant class (of which Williams Production is a part), filed its motion for rehearing en banc before the Court of Appeals. On December 4, 1997, the Tenth Circuit Court of Appeals agreed to rehear the appeal.

In connection with agreements to resolve take-or-pay and other contract claims and to amend gas purchase contracts, Transcontinental Gas Pipe Line and Texas Gas each entered into certain settlements with producers which may require the indemnification of certain claims for additional royalties which the producers may be required to pay as a result of such settlements. In one of the two remaining cases, a jury verdict found that Transcontinental Gas Pipe Line was required to pay to a producer damages of \$23.3 million including \$3.8 million in attorneys' fees. Transcontinental Gas Pipe Line is considering an appeal. In the other remaining case, a producer has asserted damages, including interest calculated through December 31, 1996, of approximately \$6 million.

#### *Summary*

While no assurances may be given, Williams does not believe that the ultimate resolution of the foregoing matters, taken as a whole and after consideration of amounts accrued, insurance coverage, recovery from customers or other indemnification arrangements, will have a materially adverse effect upon Williams' future financial position, results of operations or cash flow requirements.



Item 4. *Submission of Matters to a Vote of Security Holders*

Not applicable.

Executive Officers of Williams

The names, ages, positions and earliest election dates of the executive officers of Williams are:

<u>Name</u>	<u>Age</u>	<u>Positions and Offices Held</u>	<u>Held Office Since</u>
Keith E. Bailey .....	55	Chairman of the Board, President, Chief Executive Officer and Director (Principal Executive Officer)	05-19-94
John C. Bumgarner, Jr. ...	55	Senior Vice President — Corporate Development and Planning; President — Williams International Company	01-01-79
James R. Herbster .....	56	Senior Vice President — Administration	01-01-92
Jack D. McCarthy .....	55	Senior Vice President — Finance (Principal Financial Officer)	01-01-92
William G. von Glahn ....	54	Senior Vice President and General Counsel	08-01-96
Gary R. Belitz .....	48	Controller (Principal Accounting Officer)	01-01-92
Stephen L. Cropper .....	48	President — Williams Energy Group	10-01-96
Howard E. Jansen .....	44	President and Chief Operating Officer — Williams Communications, Inc.	02-11-97
Brian E. O'Neill .....	62	President — Williams Interstate Natural Gas Systems, Inc.	01-01-88

All of the above officers have been employed by Williams or its subsidiaries as officers or otherwise for more than five years and have had no other employment during such period.

## PART II

### Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

Williams' Common Stock is listed on the New York and Pacific Stock exchanges under the symbol "WMB." At the close of business on December 31, 1997, Williams had approximately 12,250 holders of record of its Common Stock. The daily closing price ranges (composite transactions) and dividends declared by quarter for each of the past two years (adjusted to reflect the December 29, 1997, two-for-one common stock split and distribution) are as follows:

Quarter	1997			1996		
	High	Low	Dividend	High	Low	Dividend
1st .....	\$23.38	\$18.19	\$ .13	\$17.00	\$14.25	\$ .114
2nd .....	\$23.50	\$20.00	\$ .13	\$17.71	\$15.58	\$ .113
3rd .....	\$24.59	\$21.56	\$ .13	\$17.29	\$15.25	\$ .113
4th .....	\$28.50	\$23.09	\$ .15	\$19.16	\$16.25	\$ .13

On December 29, 1997, the Company distributed one additional share of Common Stock of the Company, \$1 par value, for every share of Common Stock outstanding on December 5, 1997, pursuant to a two-for-one stock split.

## Item 6. Selected Financial Data

The following financial data are an integral part of, and should be read in conjunction with, the consolidated financial statements and notes thereto. Information concerning significant trends in the financial condition and results of operations is contained in Management's Discussion and Analysis of Financial Condition and Results of Operations on pages F-1 through F-13 of this report.

	1997	1996	1995	1994	1993
	(Millions, except per-share amounts)				
Revenues.....	\$ 4,409.6	\$ 3,531.2	\$ 2,855.7	\$1,751.1	\$1,793.4
Income from continuing operations(1) .....	350.5	362.3	299.4	164.9	185.4
Income from discontinued operations(2) .....	—	—	1,018.8	94.0	46.4
Extraordinary loss(3) .....	(79.1)	—	—	(12.2)	—
Diluted earnings per share:(4)					
Income from continuing operations .....	1.04	1.07	.92	.51	.57
Income from discontinued operations .....	—	—	3.25	.30	.15
Extraordinary loss(3) .....	(.24)	—	—	(.04)	—
Cash dividends per common share(4) .....	.54	.47	.36	.28	.26
Total assets at December 31.....	13,879.0	12,418.8	10,561.2	5,226.1	5,020.4
Long-term obligations at December 31 .....	4,565.3	4,376.9	2,874.0	1,307.8	1,604.8
Stockholders' equity at December 31 .....	3,571.7	3,421.0	3,187.1	1,505.5	1,724.0

- (1) See Notes 2 and 6 of Notes to Consolidated Financial Statements for discussion of the gain on sale of interest in subsidiary, significant asset sales and write-offs in 1997, 1996 and 1995. Income from continuing operations in 1994 includes a \$22.7 million pre-tax gain from the sale of a portion of Williams' interest in Northern Border Partners, L.P. Income from continuing operations in 1993 includes a pre-tax gain of \$51.6 million as a result of the sale of 6.1 million units in the Williams Coal Seam Gas Royalty Trust.
- (2) See Note 3 of Notes to Consolidated Financial Statements for discussion of the gain from the 1995 sale of discontinued operations. Amounts prior to 1995 reflect operating results of the network services' operations.
- (3) See Note 8 of Notes to Consolidated Financial Statements for discussion of the 1997 extraordinary loss.
- (4) Per-share amounts reflect the adoption of Statement of Financial Accounting Standards No. 128, "Earnings per Share," and the effect of the December 29, 1997, common stock split and distribution as discussed in Notes 1 and 15, respectively, of Notes to Consolidated Financial Statements.

## Item 7. Management's Discussion & Analysis of Financial Conditions, and Results of Operations

### Results of Operations

#### 1997 vs. 1996

Central's revenues increased \$6 million, or 3 percent, due primarily to the net effect of adjustments to certain accruals in 1997. Total throughput decreased 4.2 TBtu, or 1 percent, due primarily to lower interruptible volumes.

Other (income) expense — net includes a \$7 million gain from the sale-in-place of natural gas from a decommissioned storage field.

Operating profit increased \$12.2 million, or 27 percent, due primarily to the gain from the sale-in-place of natural gas, lower operating and maintenance expenses, an increase in firm reserved capacity and lower general and administrative expenses.

Kern River Gas Transmission's (Kern River) revenues increased \$6.5 million, or 4 percent, due primarily to a full year of Williams' ownership in 1997 as compared to 1996 and increased transportation revenues. Results for 1996 reflect operations from January 16, 1996, when Williams acquired the remaining interest in

Kern River. Total throughput increased 15.5 TBtu, or 6 percent, due primarily to the full year of Williams' ownership in 1997 and increased firm transportation volumes during the last half of 1997.

Operating profit increased \$7.3 million, or 6 percent, due primarily to the full year of Williams' ownership in 1997, higher transportation revenues and lower operations and maintenance expenses, partially offset by the impact of Kern River's levelized rate design.

Northwest Pipeline's revenues increased \$3.4 million, or 1 percent, due primarily to a new rate design, effective March 1, 1997, that enabled greater short-term firm and interruptible transportation volumes and a \$3.5 million gain on the sale of system balancing gas. Largely offsetting these increases were \$7 million of adjustments to rate refund accruals in 1997 and the effect of \$9 million of revenue in 1996 associated with reserve reversals and favorable regulatory decisions. Total throughput decreased 120.3 TBtu, or 14 percent, as a result of the 1996 sale of the south-end facilities.

Operating profit decreased \$900,000, or 1 percent, due primarily to the combined impact of the increase to rate reserve accruals in 1997 and recognition in 1996 of favorable regulatory actions, significantly offset by the new transportation rates effective in 1997, lower operating and maintenance expenses and the \$3.5 million gain on the sale of system balancing gas.

Texas Gas Transmission's revenues decreased \$13.1 million, or 4 percent, and costs and operating expenses decreased \$13 million, or 8 percent, due primarily to lower reimbursable costs passed through to customers as provided in Texas Gas' rates including \$6 million related to the suspension of gas supply realignment cost recovery from firm transportation customers. Total throughput decreased 20.9 TBtu, or 3 percent.

Operating profit increased \$2.5 million, or 3 percent, due primarily to cost reductions and efficiency efforts and the favorable resolutions in 1997 of certain contractual and regulatory issues, partially offset by lower gas processing revenue and favorable 1996 adjustments to rate refund accruals.

Transcontinental Gas Pipe Line's (Transco) revenues increased \$5.9 million, or 1 percent, due primarily to the effects of a mainline expansion placed into service in late 1996, new services begun in late 1997, new rates effective May 1, 1997, to recover costs associated with increased capital expenditures, and the effects of a 1996 downward adjustment (offset in costs) of \$14 million to reflect a rate case settlement, partially offset by \$23 million of lower reimbursable costs passed through to customers as provided in Transco's rates. Total throughput decreased 21.1 TBtu, or 1 percent, due primarily to milder weather during 1997 as compared to 1996, which lowered firm long-haul and production area interruptible transportation volumes.

Costs and operating expenses decreased \$17.3 million, or 4 percent, due primarily to the lower reimbursable costs charged to Transco and passed through to customers, lower operation and maintenance expenses and a \$5.4 million settlement related to a prior rate proceeding, partially offset by the effect of a 1996 downward adjustment (offset in revenues) of \$14 million to depreciation expense to reflect a rate case settlement and higher depreciation expense in 1997 associated with recent capital expenditures.

Operating profit increased \$30.7 million, or 16 percent, due primarily to lower operation and maintenance expenses, the \$5.4 million settlement and the effects of the mainline expansion, new services and the new rates effective May 1, 1997, slightly offset by higher depreciation expense.

Energy Marketing & Trading's revenues decreased \$125.3 million, or 48 percent, and costs and operating expenses decreased \$141 million, or 93 percent, due primarily to the 1997 reporting on a net margin basis of certain natural gas and gas liquids marketing operations previously not considered to be included in trading operations. Excluding this decrease, revenues increased \$16 million due primarily to the initial income recognition from long-term electric power contracts, increased physical and notional natural gas volumes of 22 percent and 44 percent, respectively, and higher petroleum trading volumes, partially offset by lower natural gas trading margins as a result of decreased price volatility. Revenues also increased from project financing services for energy producers and the sale of excess transportation capacity.



Operating profit increased \$4.2 million, or 6 percent, due primarily to the \$16 million increase in net revenues and a \$6.3 million recovery of an account previously written off, largely offset by the expenses associated with expansion of business growth platforms.

Exploration & Production's revenues increased \$47.7 million, or 58 percent, due primarily to higher average natural gas sales prices for company-owned production and from the marketing of Williams Coal Seam Gas Royalty Trust (Royalty Trust) natural gas, and a 21 percent increase in company-owned production volumes.

Costs and operating expenses increased \$23 million, or 32 percent, due primarily to higher Royalty Trust natural gas purchase prices, increased production activities and higher dry hole costs.

Operating profit increased \$27.5 million, from \$2.8 million in 1996, due primarily to the increase in average natural gas prices and company-owned production volumes, partially offset by higher expenses associated with increased activity levels.

Field Services' revenues increased \$74 million, or 12 percent, due primarily to higher natural gas liquids sales of \$44 million, receipt of \$8 million of business interruption insurance proceeds related to a 1996 claim, and higher gathering, processing and condensate revenues of \$7 million, \$5 million and \$11 million, respectively. Natural gas liquids sales increased due to a 37 percent increase in volumes, slightly offset by lower average sales prices.

Costs and operating expenses increased \$79 million, or 20 percent, due primarily to \$56 million higher fuel and replacement gas purchases, a \$9 million increase in operating and maintenance expenses, and \$8 million higher depreciation.

Other (income) expense — net for 1996 includes a \$20 million gain from the property insurance coverage associated with construction of replacement gathering facilities and \$6 million of gains from the sale of two small gathering systems, partially offset by \$5 million of environmental remediation accruals.

Operating profit decreased \$24.4 million, or 13 percent, due primarily to lower per-unit liquids margins, the \$12 million net effect of lower insurance recoveries between 1997 and 1996, higher operating and maintenance expenses, increased depreciation, and higher gathering fuel and replacement gas purchase costs, partially offset by increased liquids and processing volumes.

Petroleum Services' revenues increased \$55.4 million, or 11 percent, due primarily to a \$24 million increase in product sales from transportation activities and a \$27 million increase in ethanol sales. Ethanol sales increased as a result of 22 percent higher sales volumes, partially offset by lower average ethanol sales prices. Ethanol production was reduced during the second half of 1996 due to unfavorable market conditions. Pipeline shipments and average rates were comparable to 1996.

Costs and operating expenses increased \$33 million, or 9 percent, due primarily to the increase in refined product sales and ethanol production, partially offset by lower corn costs.

Operating profit increased \$21.3 million, or 28 percent, due primarily to increased ethanol sales volumes and per-unit margins.

Communications' revenues increased \$734 million, or 103 percent, due primarily to acquisitions which contributed revenues of approximately \$650 million, including \$536 million from the acquisition of the customer premise equipment sales and services operations of Northern Telecom. Additionally, increased business activity resulted in a \$119 million revenue increase in new system sales, partially offset by a \$46 million decrease in system modification revenues. The number of ports in service at December 31, 1997, more than doubled as compared to December 31, 1996, due primarily to the Nortel acquisition. Fiber billable minutes from occasional service increased 47 percent. Dedicated service voice-grade equivalent miles at December 31, 1997, increased 26 percent as compared with December 31, 1996.

Costs and operating expenses increased \$550 million, or 102 percent, due primarily to acquired operations, the overall increase in business activity, higher expenses for developing advanced network applications and increased depreciation associated with added capacity. Selling, general and administrative



expenses increased \$198 million, or 121 percent, due primarily to acquired operations, the overall increase in business activity, higher expenses for developing advanced network applications and expanding the infrastructure of this business for future growth.

Other (income) expense — net includes \$49.8 million of charges in 1997 related to the decision to sell the learning content business, and the write-down of assets and the development expenses associated with certain advanced applications.

Operating profit decreased \$62.3 million from a \$6.6 million operating profit in 1996 to a \$55.7 million operating loss in 1997, due primarily to the other expense charges of \$49.8 million and the expense of developing infrastructure while integrating the most recent acquisitions, partially offset by improved operating profit from Communications Solutions including the impact of the Nortel acquisition.

General corporate expenses increased \$9.5 million, or 23 percent, due primarily to costs related to the pending MAPCO acquisition and higher consulting fees. Interest accrued increased \$44.6 million, or 12 percent, due primarily to higher borrowing levels including increased borrowing under the \$1 billion bank-credit facility and Williams Holdings' commercial paper program, partially offset by a lower average interest rate. The lower average interest rate reflects lower rates on new 1997 borrowings as compared to previously outstanding borrowings. Interest capitalized increased \$9 million, or 132 percent, due primarily to capital expenditures for Communications' fiber-optic network. For information concerning the 1997 gain on sale of interest in subsidiary, see Note 2. The 1996 gain on sales of assets results from the sale of certain communication rights. The minority interest in income of consolidated subsidiaries in 1997 is related primarily to the 30 percent interest held by Williams Communications Solutions, LLC's minority shareholders (see Note 2). The \$12 million unfavorable change in other income (expense) — net in 1997 is due primarily to the costs associated with expansion of the sale of receivables program in 1997 and the effect of \$10 million of reserve reversals in 1996, partially offset by lower environmental accruals in 1997.

The provision for income taxes on continuing operations decreased \$5.1 million, or 3 percent. The effective income tax rate in 1997 is less than the federal statutory rate due primarily to the effect of the non-taxable gain recognized in 1997 (see Note 2) and income tax credits from coal-seam gas production, partially offset by the effects of state income taxes. The effective tax rate in 1996 is less than the federal statutory rate due primarily to income tax credits from research activities and coal-seam gas production, partially offset by the effects of state income taxes. In addition, 1996 includes recognition of favorable adjustments totaling \$13 million related to previously provided deferred income taxes on certain regulated capital projects and state income tax adjustments.

The 1997 extraordinary loss results from the early extinguishment of debt (see Note 8).

#### 1996 vs. 1995

Central's revenues increased \$4.1 million, or 2 percent, due primarily to increased transportation revenue resulting from new tariff rates that became effective August 1, 1995. Total throughput increased 6.9 TBtu, or 2 percent.

Operating profit was substantially the same as the prior year as the effect of a \$4 million 1995 reversal of a regulatory accrual was offset by new tariff rates that became effective August 1, 1995.

Kern River's remaining interest was acquired by Williams on January 16, 1996. Revenues and operating profit amounts for 1996 include the operating results of Kern River since the acquisition date. Kern River's revenues were \$160.6 million for 1996, while costs and operating expenses were \$35 million, selling, general and administrative expenses were \$13 million and operating profit was \$113 million. Prior to the acquisition, Williams accounted for its 50 percent ownership in Kern River using the equity method of accounting, with its share of equity earnings recorded in investing income. Throughput was 269.9 TBtu during 1996 (for the period subsequent to the acquisition date). Throughput for 1996 is comparable to 1995.

Northwest Pipeline's revenues increased \$14.5 million, or 6 percent, due primarily to increased transportation rates, effective February 1, 1996, associated with the expansion of mainline capacity placed into

service on December 1, 1995. In addition, \$9 million of revenue in 1996 associated with reserve reversals and favorable regulatory decisions was more than offset by the effect of the 1995 reversal of approximately \$16 million of accrued liabilities for estimated rate refund accruals. Total throughput increased 8 TBtu, or 1 percent.

Operating profit increased \$9.2 million, or 8 percent, due primarily to increased transportation rates associated with the expansion of mainline capacity, and the reserve reversals and favorable regulatory decisions. Partially offsetting were higher depreciation expense associated with the mainline expansion and the approximate \$11 million net favorable effect of two 1995 reserve accrual adjustments. The 1995 reserve accrual adjustments included a \$16 million favorable adjustment of rate refund accruals based on a favorable rate case order, partially offset by a loss accrual (included in other (income) expense — net) in connection with a lawsuit involving a former transportation customer.

Texas Gas Transmission's revenues and operating profit increased \$29.8 million, or 11 percent, and \$21.1 million, or 33 percent, respectively, due primarily to new rates that became effective April 1, 1995, and an adjustment to regulatory accruals based upon a recent rate case settlement. Also, 1995 reflected operations from January 18, when Williams acquired a majority interest in Transco Energy. Revenues associated with the period January 1 through January 17, 1995, were \$16 million. Total throughput increased 141.1 TBtu, or 22 percent, due primarily to a full year of Williams' ownership in 1996 compared to a partial year in 1995 and the impact of a colder winter in 1996.

Transco's revenues increased \$35.1 million, or 5 percent, due primarily to higher natural gas transportation revenues and liquids and liquefiable transportation revenues of \$20 million and \$9 million, respectively. Additionally, revenue for 1996 reflects a full year of Williams' ownership as compared with 1995, which reflected operations from January 18, 1995, when Williams acquired a majority interest in Transco Energy. Revenues associated with the period January 1 through January 17, 1995, were approximately \$36 million. Offsetting these increases were lower revenues resulting from lower transportation costs charged to Transco by others and passed through to customers as provided in Transco's rates. Transportation revenues increased due primarily to increased long-haul throughput, which benefitted from a two-phase system expansion placed in service in late 1996 and late 1995, and new rates effective September 1, 1995, which allowed the passthrough of increased costs. Total throughput increased 176.1 TBtu, or 12 percent, due primarily to a full year of Williams' ownership in 1996 compared to a partial year in 1995.

Operating profit increased \$29.6 million, or 18 percent, due primarily to increased transportation revenues, lower general and administrative expenses and a full year of Williams' ownership in 1996, partially offset by higher operation and maintenance expenses and higher taxes other than income taxes.

Energy Marketing & Trading's revenues increased \$107.6 million, or 70 percent, due primarily to higher natural gas and gas liquids marketing, price-risk management activities and petroleum product marketing of \$77 million, \$24 million and \$18 million, respectively, partially offset by lower contract origination revenues of \$10 million. Natural gas and gas liquids marketing revenues increased due to higher marketing volumes and prices. In addition, net physical trading revenues increased \$3 million, due to a 19 percent increase in natural gas physical trading volumes from 754 TBtu to 896 TBtu, largely offset by lower physical trading margins.

Costs and operating expenses increased \$73 million, or 94 percent, due primarily to higher natural gas purchase volumes and prices.

Operating profit increased \$33.2 million, or 100 percent, due primarily to higher price-risk management revenues, a reduction of development costs associated with its information products business and increased natural gas marketing volumes. Partially offsetting were higher selling, general and administrative expenses and lower contract origination revenues resulting from the impact of profits realized from certain long-term natural gas supply obligations in 1995.

Exploration & Production's revenues increased \$19.5 million, or 31 percent, due primarily to higher revenues from the marketing of production from the Royalty Trust and increased production revenues of \$9 million and \$8 million, respectively. The increase in marketing revenues reflects both increased volumes and higher average gas prices. The increase in production revenues reflects higher average gas prices.

Costs and operating expenses increased \$18 million due primarily to higher Royalty Trust natural gas purchase costs. Other (income) expense — net in 1995 includes an \$8 million loss accrual for a future minimum price natural gas commitment.

Operating profit increased \$8.7 million to \$2.8 million in 1996 due primarily to the effect of the \$8 million 1995 loss accrual.

Field Services' revenues increased \$83.4 million, or 16 percent, due primarily to higher natural gas liquids sales revenues of \$64 million combined with higher gathering and processing revenues of \$6 million and \$13 million, respectively. Natural gas liquids sales revenues increased due to a 36 percent increase in volumes combined with higher average prices. Gathering and processing volumes each increased 19 percent while average gathering rates decreased.

Costs and operating expenses increased \$52 million, or 15 percent, due primarily to higher fuel and replacement gas purchases, expanded facilities and increased operations. Other (income) expense — net for 1996 includes a \$20 million gain from the property insurance coverage associated with construction of replacement gathering facilities and \$6 million of gains from the sale of two small gathering systems, partially offset by \$5 million of environmental remediation accruals. Other (income) expense — net for 1995 includes \$20 million in operating profit from a favorable resolution of contingency issues involving previously regulated gathering and processing assets.

Operating profit increased \$26.4 million, or 16 percent, due primarily to higher natural gas liquids margins and higher gathering and processing revenues, partially offset by higher costs and operating expenses. Operating profit was favorably impacted in both 1996 and 1995 by approximately \$20 million of other income.

Petroleum Services' revenues increased \$165.2 million, or 50 percent, due primarily to an increase in transportation activities and ethanol sales of \$31 million and \$133 million, respectively. Revenues from transportation activities increased due primarily to a 10 percent increase in shipments and a \$14 million increase in product sales. Shipments increased as a result of new business and the 1995 impacts of unfavorable weather conditions and a fire at a truck-loading rack. Average length of haul and transportation rate per barrel were slightly below 1995 due primarily to shorter haul movements. Ethanol revenues increased following the August 1995 acquisition of Pekin Energy and the fourth-quarter 1995 completion of the Aurora plant.

Costs and operating expenses increased \$155 million, or 68 percent, due primarily to a full year of ethanol production activities.

Operating profit increased \$6.5 million, or 9 percent, due primarily to increased shipments, partially offset by lower ethanol margins and production levels as a result of record high corn prices.

Communications' revenues increased \$172.4 million, or 32 percent, due primarily to the 1996 acquisitions which contributed revenues of \$95 million. Additionally, increased business activity resulted in a \$36 million revenue increase in new systems sales and a \$16 million increase in digital fiber television services. The number of ports in service at December 31, 1996, increased 8 percent and billable minutes from occasional service increased 16 percent. Dedicated service voice-grade equivalent miles at December 31, 1996, decreased 6 percent as compared with December 31, 1995, which in part reflects a shift to occasional service.

Costs and operating expenses increased \$126 million, or 31 percent, and selling, general and administrative expenses increased \$63 million, or 62 percent, due primarily to the overall increase in business activity and higher expenses for developing additional products and services, including the cost of integrating the most recent acquisitions.

Operating profit decreased \$18.4 million, or 74 percent, due primarily to the expenses of developing additional products and services along with integrating the most recent acquisitions.

General corporate expenses increased \$3.7 million, or 10 percent, due primarily to higher employee compensation expense and consulting fees, partially offset by the effect of a \$5 million contribution in 1995 to The Williams Companies Foundation. Interest accrued increased \$82 million, or 30 percent, due primarily to higher borrowing levels including debt associated with the January 1996 acquisition of the remaining interest in Kern River (see Note 2), slightly offset by lower average interest rates. Interest capitalized decreased



\$7.6 million, or 53 percent, due primarily to lower capital expenditures for gathering and processing facilities and the 1995 completion of Northwest Pipeline's mainline expansion. Investing income decreased \$75.1 million, or 80 percent, due primarily to the effect of interest earned in 1995 on the invested portion of the cash proceeds from the sale of Williams' network services operations, a \$15 million dividend in 1995 from Texasgulf Inc. (sold in 1995), and \$31 million lower equity earnings from Williams' 50 percent ownership in Kern River. Kern River's 1996 operating results are included in operating profit since the acquisition date (see Note 2). The 1996 gain on sales of assets results from the sale of certain communication rights. The 1995 loss on sales of assets results from the sale of the 15 percent interest in Texasgulf Inc. The 1995 write-off of project costs results from the cancellation of an underground coal gasification project in Wyoming (see Note 6). Minority interest in income of consolidated subsidiaries in 1995 is associated with the Transco merger. The \$2 million favorable change in other income (expense) — net in 1996 is due primarily to approximately \$10 million of reserve reversals in 1996, partially offset by higher environmental accruals of \$4 million and additional expense of international activities.

The \$81.1 million, or 79 percent, increase in the provision for income taxes on continuing operations is primarily a result of higher pre-tax income and a higher effective income tax rate. The increase in the effective income tax rate is the result of the 1995 recognition of \$29.8 million of previously unrecognized tax benefits realized as a result of the sale of Texasgulf Inc. (see Note 6). The effective income tax rate in 1996 is less than the federal statutory rate due primarily to income tax credits from research activities and coal-seam gas production, partially offset by the effects of state income taxes. In addition, 1996 includes recognition of favorable adjustments totaling \$13 million related to previously provided deferred income taxes on certain regulated capital projects and state income tax adjustments related to 1995. The effective income tax rate in 1995 is less than the federal statutory rate due primarily to income tax credits from coal-seam gas production, partially offset by the effects of state income taxes and minority interest. In addition, 1995 includes the previously unrecognized tax benefits related to the sale of Texasgulf Inc. (see Note 6) and recognition of an \$8 million income tax benefit resulting from settlements with taxing authorities (see Note 7).

On January 5, 1995, Williams sold its network services operations to LDDS Communications, Inc. for \$2.5 billion in cash. The sale yielded an after-tax gain of approximately \$1 billion, which is reported as income from discontinued operations (see Note 3).

Preferred stock dividends decreased \$4.9 million, or 32 percent, due primarily to the 1995 effect of a difference in the fair value of subordinated debentures issued and the carrying value of the exchanged \$2.21 cumulative preferred stock (see Note 15).

#### **Financial Condition and Liquidity**

##### *Debt Restructuring*

In September 1997, Williams initiated a restructuring of a portion of its debt portfolio (see Note 14). As of December 31, 1997, Williams has paid approximately \$1.4 billion to redeem approximately \$1.3 billion of debt with stated interest rates in excess of 8.8 percent, resulting in an extraordinary loss of \$79.1 million (see Note 8). The restructuring is expected to reduce interest expense by approximately \$25 million annually. The restructuring was temporarily financed with a combination of borrowings under the \$1 billion bank-credit facility, commercial paper and new short-term bank agreements with commitments totaling \$1.2 billion. Registration statements were filed with the Securities and Exchange Commission in September 1997 by Williams, Williams Holdings of Delaware, Northwest Pipeline and Transcontinental Gas Pipe Line (each a wholly-owned subsidiary of Williams). These additional filings brought the total shelf financing availability to \$900 million, \$820 million, \$400 million and \$500 million, respectively, prior to the restructuring. During the fourth quarter of 1997 and January 1998, \$1.1 billion of debentures and notes with interest rates ranging from 5.91 percent to 6.625 percent were issued under these registration statements in connection with the restructuring. The restructuring is expected to be completed during the first quarter of 1998 with the issuance of additional long-term debt securities.

### *Liquidity*

Williams considers its liquidity to come from two sources: internal liquidity, consisting of available cash investments, and external liquidity, consisting of borrowing capacity from available bank-credit facilities and Williams Holdings' commercial paper program, which can be utilized without limitation under existing loan covenants. At December 31, 1997, Williams had access to \$155 million of liquidity including \$132 million available under its \$1 billion bank-credit facility. This compares with liquidity of \$550 million at December 31, 1996, and \$656 million at December 31, 1995. The decrease in 1997 is due primarily to additional borrowings under the bank-credit facility to finance increased capital expenditures and to provide interim financing related to the debt restructuring program.

During 1997, Williams Holdings entered into a commercial paper program backed by \$650 million of new short-term bank-credit facilities. At December 31, 1997, \$645 million of commercial paper was outstanding under the program. After completion of the debt restructuring, Williams expects approximately \$1 billion of shelf availability to remain under outstanding registration statements. These registration statements may be used to issue a variety of debt or equity securities. In addition, short-term uncommitted bank lines are utilized in managing liquidity. Williams believes any additional financing arrangements can be obtained on reasonable terms if required.

Williams had a net working-capital deficit of \$772 million at December 31, 1997, compared with \$309 million at December 31, 1996. Williams manages its borrowings to keep cash and cash equivalents at a minimum and has relied on bank-credit facilities to provide flexibility for its cash needs. As a result, it historically has reported negative working capital. The increase in the working-capital deficit at December 31, 1997, as compared to prior year-end is primarily a result of short-term borrowings under the commercial paper program.

Terms of certain borrowing agreements limit transfer of funds to Williams from its subsidiaries. The restrictions have not impeded, nor are they expected to impede, Williams' ability to meet its cash requirements in the future.

During 1998, Williams expects to finance capital expenditures, investments and working-capital requirements through cash generated from operations and the use of the available portion of its \$1 billion bank-credit facility, commercial paper, short-term uncommitted bank lines and debt or equity public offerings.

### *Operating Activities*

Cash provided by operating activities was: 1997 — \$920 million; 1996 — \$710 million; and 1995 — \$829 million. Receivables, inventories and accounts payable increased due primarily to the combination of customer equipment sales and services operations with Nortel (see Note 2) and increased trading activities by Energy Marketing & Trading.

### *Financing Activities*

Net cash provided (used) by financing activities was: 1997 — \$317 million; 1996 — \$734 million; and 1995 — (\$1.4) billion. Long-term debt principal payments, net of debt proceeds, were \$161 million during 1997, and notes payable proceeds, net of notes payable payments, were \$615 million during 1997. The increase in notes payable at December 31, 1997, reflects borrowings under the new commercial paper program to fund capital expenditures, investments and acquisition of businesses. Long-term debt proceeds, net of principal payments, were \$609 million during 1996. The increase in net new borrowings during 1996 was primarily to fund capital expenditures, investments and acquisitions of businesses. Long-term debt principal payments, net of debt proceeds, were \$610 million during 1995. The net payments in 1995 were primarily a result of payments Williams made to retire and/or terminate approximately \$700 million of Transco Energy's borrowings, preferred stock, interest-rate swaps and sale of receivable facilities in connection with the acquisition of Transco Energy.



The proceeds from issuance of common stock in 1997, 1996 and 1995 include Williams' benefit plan stock purchases and exercise of stock options under Williams' stock plan. The 1995 proceeds from issuance of common stock also includes \$46.2 million from the sale of 3.6 million shares of Williams common stock.

The 1996 purchases of Williams' treasury stock include 1.9 million shares of common stock on the open market for \$31 million. The Williams' board of directors authorized up to \$800 million of such purchases. No additional shares were purchased during 1997, and Williams' board of directors terminated the repurchase program during the fourth quarter of 1997.

Long-term debt at December 31, 1997, was \$4.6 billion, compared with \$4.4 billion at December 31, 1996, and \$2.9 billion at December 31, 1995. At December 31, 1997 and 1996, \$560 million and \$200 million, respectively, in current debt obligations have been classified as non-current obligations based on Williams' intent and ability to refinance on a long-term basis. The 1996 increase in long-term debt is due primarily to the \$643 million outstanding debt assumed with the acquisition of Kern River (see Note 2), \$300 million in additional borrowings under the \$1 billion bank-credit facility and \$250 million of debt issued by Williams Holdings. The long-term debt to debt-plus-equity ratio was 56.1 percent for 1997 and 1996 compared to 47.4 percent at December 31, 1995. If short-term notes payable and long-term debt due within one year are included in the calculations, these ratios would be 59.7 percent, 57.9 percent and 50.1 percent, respectively.

#### *Investing Activities*

Net cash provided (used) by investing activities was: 1997 — (\$1.3) billion; 1996 — (\$1.4) billion; and 1995 — \$585 million. Capital expenditures of gas pipeline subsidiaries, primarily to expand and modernize systems, were \$419 million in 1997, \$441 million in 1996, and \$445 million in 1995. Expenditures in 1997 and 1996 include Transcontinental Gas Pipe Line's expansion; expenditures in 1995 include Transcontinental Gas Pipe Line and Northwest Pipeline's expansions. Capital expenditures of Energy Services, primarily to expand and modernize gathering and processing facilities, were \$305 million in 1997, \$292 million in 1996, and \$336 million in 1995. Capital expenditures of Communications were \$276 million in 1997, \$67 million in 1996, and \$32 million in 1995. The 1997 expenditures include the fiber-optic network. Budgeted capital expenditures and investments for 1998 are estimated to be approximately \$2.5 billion, primarily to expand and modernize pipeline systems, gathering and processing facilities and the fiber-optic network. If the pending MAPCO acquisition is completed, budgeted capital expenditures will increase an estimated \$400 million.

On April 30, 1997, Williams and Northern Telecom (Nortel) combined their customer-premise equipment sales and services operations into a limited liability company, Williams Communications Solutions, LLC (LLC). In addition, Williams paid \$68 million to Nortel. Williams has accounted for its 70 percent interest in the operations that Nortel contributed to the LLC as a purchase business combination. Williams recorded the 30 percent reduction in its operations contributed to the LLC as a sale to the minority shareholders of the LLC (see Note 2). During 1997, Williams also purchased a 20 percent interest in a foreign telecommunications business for \$65 million in cash. During 1996, Williams acquired the remaining interest in Kern River for \$206 million cash (see Note 2). In addition, during 1996 Williams acquired various communications technology businesses totaling \$165 million in cash. In 1995, Williams acquired all of Transco Energy's outstanding common stock for cash of \$430.5 million and 31.2 million shares of Williams common stock valued at \$334 million (see Note 2). During 1995, Williams also acquired the Gas Company of New Mexico's natural gas gathering and processing assets in the San Juan and Permian basins for \$154 million and Pekin Energy Co., the nation's second largest ethanol producer, for \$167 million in cash.

During 1995, Williams received proceeds of \$2.5 billion in cash from the sale of its network services operations (see Note 3) and proceeds of \$124 million from the sale of its 15 percent interest in Texasgulf Inc. (see Note 6).

#### *New Accounting Standards*

See Note 1 for the effects of Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income," and SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information."

## MAPCO Acquisition

On November 24, 1997, Williams and MAPCO Inc. announced that they had entered into a definitive merger agreement whereby Williams would acquire MAPCO by exchanging 1.665 share of Williams common stock for each outstanding share of MAPCO common stock. In addition, outstanding MAPCO employee stock options would be converted into Williams common stock. Based on the closing market price of Williams common stock on December 31, 1997, approximately 96.8 million shares of Williams common stock valued at approximately \$2.8 billion would be issued in the transaction (see Note 19). The transaction closed on March 28, 1998.

## Effects of inflation

Williams has experienced increased costs in recent years due to the effects of inflation. However, approximately 66 percent of Williams' property, plant and equipment has been acquired or constructed since 1995, a period of relatively low inflation. A substantial portion of Williams' property, plant and equipment is subject to regulation, which limits recovery to historical cost. While Williams believes it will be allowed the opportunity to earn a return based on the actual cost incurred to replace existing assets, competition or other market factors may limit the ability to recover such increased costs.

## Environmental

Williams is a participant in certain environmental activities in various stages involving assessment studies, cleanup operations and/or remedial processes. The sites, some of which are not currently owned by Williams (see Note 18), are being monitored by Williams, other potentially responsible parties, the U.S. Environmental Protection Agency (EPA), or other governmental authorities in a coordinated effort. In addition, Williams maintains an active monitoring program for its continued remediation and cleanup of certain sites connected with its refined products pipeline activities. Williams has both joint and several liability in some of these activities and sole responsibility in others. Current estimates of the most likely costs of such cleanup activities, after payments by other parties, are approximately \$73 million, all of which is accrued at December 31, 1997. Williams expects to seek recovery of approximately \$41 million of the accrued costs through future natural gas transmission rates. Williams will fund these costs from operations and/or available bank-credit facilities. 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.

## Year 2000 Compliance

Williams has initiated an enterprise-wide project to address the year 2000 compliance issue for all technology hardware and software, external interfaces with customers and suppliers, operations process control, automation and instrumentation systems, and facility items. The assessment phase of this project as it relates to traditional information technology areas should be substantially complete by the end of the first quarter of 1998. Completion of the assessment phase for non-traditional information technology areas is expected in mid-1998. Necessary conversion and replacement activities will begin in 1998 and continue through mid-1999. Testing of systems has begun and will continue throughout the process. Williams has initiated a formal communications process with other companies with which Williams' systems interface or rely on to determine the extent to which those companies are addressing their year 2000 compliance, and where necessary, Williams will be working with those companies to mitigate any material adverse effect on Williams.

Williams expects to utilize both internal and external resources to complete this process. Existing resources will be redeployed and previously planned system replacements will be accelerated during this time. For example, implementation of previously planned financial and human resources systems is currently in process. These systems will address the year 2000 compliance issues in certain areas. Costs incurred for new software and hardware purchases will be capitalized and other costs will be expensed as incurred. For the regulated pipelines, Williams considers costs associated with the year 2000 compliance to be prudent costs

incurred in the ordinary course of business, and, therefore, recoverable through rates. While the total cost of this project is still being evaluated, Williams estimates that external costs, excluding previously planned system replacements, necessary to complete the project within the schedule described will total at least \$15 million. Williams will update this estimate as additional information becomes available. The costs of the project and the completion dates are based on management's best estimates, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources, third party year 2000 compliance modification plans and other factors. There can be no guarantee that these estimates will be achieved and actual results could differ materially from these estimates.

#### **Market Risk Disclosures**

##### *Interest Rate Risk*

Williams' interest rate risk exposure results from short-term rates, primarily LIBOR based borrowings from commercial banks and the issuance of commercial paper, and long-term U.S. Treasury rates. To mitigate the impact of fluctuations in interest rates, Williams targets to maintain a significant portion of its debt portfolio in fixed rate debt. At December 31, 1997, the amount of Williams' fixed and variable rate debt was approximately the same as a result of a debt restructuring program begun in 1997 where Williams extinguished higher cost long-term debt. During early 1998, the percent of fixed rate debt will increase to targeted levels as Williams completes issuing long-term debt under the restructuring program and repays its interim financings. The maturity of Williams' long-term debt portfolio is influenced by the life of its operating assets. Williams also utilizes interest rate swaps to change the ratio of its fixed and variable rate debt portfolio based on management's assessment of future interest rates, volatility of the yield curve and Williams' ability to access the capital markets in a timely manner. Williams has entered into interest rate forward contracts to establish an effective borrowing rate for anticipated long-term debt issuances.

The following table provides information about Williams' notes payable, long-term debt, interest rate swaps and interest rate forward contracts that are subject to interest rate risk. For notes payable and long-term debt, the table presents principal cash flows and weighted average interest rates by expected maturity dates. For interest rate swaps and interest rate forward contracts, the table presents notional amounts and weighted average interest rates by contractual maturity dates. Notional amounts are used to calculate the contractual cash flows to be exchanged under the interest rate swaps and the settlement amounts under the interest rate forward contracts.

	1998	1999	2000	2001	2002	Thereafter	Total	Fair Value December 31, 1997
	(Dollars in millions)							
Notes payable	\$ 693	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 693	\$ 693
Interest rate	6.6%							
Long-term debt, including current portion:								
Fixed rate	\$ 40	\$219	\$251	\$776	\$ 441	\$1,373	\$3,100	\$3,188
Interest rate	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%		
Variable rate	\$ —	\$130	\$ —	\$276	\$1,071	\$ 28	\$1,505	\$1,505
Interest rate (1)								
Interest rate swaps:								
Pay variable/receive fixed	\$ 36	\$ 42	\$ 47	\$461	\$ —	\$ 450	\$1,036	\$ 9
Pay rate (2)								
Receive rate	6.3%	6.3%	6.4%	6.4%	6.8%	6.5%		
Pay fixed/receive variable (3)	\$ 36	\$172	\$ 47	\$ 53	\$ 59	\$ 349	\$ 716	\$ (56)
Pay rate	7.8%	7.8%	7.8%	8.0%	8.0%	8.0%		
Receive rate (4)								
Interest rate forward contracts purchased related to anticipated long-term debt issuances	\$1,150	\$ —	\$ —	\$ —	\$ —	\$ —	\$1,150	\$ (8)

Average locked in rate of 5.9 percent referenced to underlying Treasury securities having a weighted-average maturity of 6 years.

- (1) LIBOR plus .33 percent.
- (2) LIBOR, except \$250 million notional amount maturing after 2002 is at LIBOR less 1.04 percent.
- (3) Counterparties have an option to cancel all outstanding swaps in 2001.
- (4) LIBOR.

#### Commodity Price Risk

Energy Marketing & Trading has trading operations that provide price risk management services to third-party customers. The trading operations have commodity price risk exposure associated with the crude oil, natural gas, refined products, natural gas liquids and electricity energy markets in the United States and the natural gas markets in Canada. The trading operations enter into energy-related financial instruments (forward contracts, futures contracts, option contracts and swap agreements) and have commodity inventories and purchase and sale commitments which involve the physical delivery of an energy commodity. These financial instruments and physical positions and commitments are valued at market value and unrealized gains and losses from changes in market value are recognized in income. The trading operations are subject to risk from changes in energy commodity market prices, the portfolio position of its financial instruments and physical commitments, the liquidity of the market in which the contract is transacted, changes in interest rates and credit risk. Energy Marketing & Trading manages risk by maintaining its portfolio within established trading policy guidelines. A Risk Control Group, independent of the trading operations, monitors compliance with established trading policy guidelines and measures the risk associated with the trading portfolio.

Energy Marketing & Trading uses a value at risk methodology to estimate the potential one day loss from adverse changes in the market value of its trading operations. At December 31, 1997, the value at risk for the trading operations is \$4 million. This reflects a 97.5 percent probability that as a result of changes in



commodity prices, the one day loss in the market value of the trading portfolio will not exceed the value at risk. The value at risk includes all the financial instruments and physical positions and commitments that expose the trading operations to market risk. The value-at-risk model estimates assume normal market conditions based upon historical market prices. Value at risk does not purport to represent actual losses in market value that could be incurred from the trading portfolio, nor does it consider that changing our trading portfolio in response to market conditions could affect market prices and could take longer to execute than the one-day holding period assumed in our value at risk model.

#### *Foreign Currency Risk*

Williams has investments in companies whose operations are located in foreign countries, of which \$87 million are accounted for using the cost method. Fair value for the cost method investments is deemed to approximate their carrying amount, because estimating cash flows by year is not practicable given that the time frame for selling these investments is uncertain. Williams' financial results could be affected if the investments incur a permanent decline in value as a result of changes in foreign currency exchange rates and the economic conditions in foreign countries. Williams attempts to mitigate these risks by investing in different countries and business segments. Approximately 80 percent of the cost method investments are in Asian countries and 20 percent in South American countries. Of the Asian investments, approximately 50 percent are in countries whose currencies have recently suffered significant devaluations and volatility. The ultimate duration and severity of the conditions in Asia remains uncertain as does the long-term impact on Williams' investments.

**Item 8. Financial Statements and Supplementary Data**

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## REPORT OF INDEPENDENT AUDITORS

To the Stockholders of  
The Williams Companies, Inc.

We have audited the accompanying consolidated balance sheet of The Williams Companies, Inc. as of December 31, 1997 and 1996, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1997. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Williams Companies, Inc. at December 31, 1997 and 1996, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP

Tulsa, Oklahoma  
February 13, 1998

**THE WILLIAMS COMPANIES, INC.**  
**CONSOLIDATED STATEMENT OF INCOME**

	Years Ended December 31,		
	1997	1996	1995
	(Millions, except per-share amounts)		
Revenues:			
Gas Pipelines (Note 4)	\$1,683.9	\$1,675.2	\$1,431.1
Energy Services (Note 4)	1,504.9	1,453.1	1,077.4
Communications (Note 2)	1,445.3	711.3	538.9
Other	38.4	48.0	17.4
Intracompany eliminations (Note 17)	(262.9)	(356.4)	(209.1)
Total revenues	<u>4,409.6</u>	<u>3,531.2</u>	<u>2,855.7</u>
Profit-center costs and expenses:			
Costs and operating expenses	2,664.5	2,064.1	1,700.7
Selling, general and administrative expenses	780.1	585.5	488.8
Other (income) expense—net (Note 6)	38.6	(19.8)	(4.5)
Total profit-center costs and expenses	<u>3,483.2</u>	<u>2,629.8</u>	<u>2,185.0</u>
Operating profit:			
Gas Pipelines (Note 4)	614.2	562.4	389.7
Energy Services (Note 4)	360.9	332.3	257.5
Communications (Notes 2 and 6)	(55.7)	6.6	25.0
Other	7.0	.1	(1.5)
Total operating profit	<u>926.4</u>	<u>901.4</u>	<u>670.7</u>
General corporate expenses	(50.9)	(41.4)	(37.7)
Interest accrued	(404.5)	(359.9)	(277.9)
Interest capitalized	15.9	6.9	14.5
Investing income (Note 5)	19.2	18.8	93.9
Gain on sale of interest in subsidiary (Note 2)	44.5	—	—
Gain (loss) on sales of assets (Note 6)	—	15.7	(12.6)
Write-off of project costs (Note 6)	—	—	(41.4)
Minority interest in income of consolidated subsidiaries (Note 2)	(14.0)	—	(10.0)
Other income (expense)—net	(8.1)	3.9	1.9
Income from continuing operations before income taxes	<u>528.5</u>	<u>545.4</u>	<u>401.4</u>
Provision for income taxes (Note 7)	<u>178.0</u>	<u>183.1</u>	<u>102.0</u>
Income from continuing operations	<u>350.5</u>	<u>362.3</u>	<u>299.4</u>
Income from discontinued operations (Note 3)	—	—	1,018.8
Income before extraordinary loss	<u>350.5</u>	<u>362.3</u>	<u>1,318.2</u>
Extraordinary loss (Note 8)	<u>(79.1)</u>	<u>—</u>	<u>—</u>
Net income	<u>271.4</u>	<u>362.3</u>	<u>1,318.2</u>
Preferred stock dividends (Note 15)	<u>9.8</u>	<u>10.4</u>	<u>15.3</u>
Income applicable to common stock	<u>\$ 261.6</u>	<u>\$ 351.9</u>	<u>\$ 1,302.9</u>
Basic earnings per common share (Notes 1 and 9):			
Income from continuing operations	\$ 1.06	\$ 1.10	\$ .94
Income from discontinued operations (Note 3)	—	—	3.36
Income before extraordinary loss	1.06	1.10	4.30
Extraordinary loss (Note 8)	(.25)	—	—
Net income	<u>\$ .81</u>	<u>\$ 1.10</u>	<u>\$ 4.30</u>
Diluted earnings per common share (Notes 1 and 9):			
Income from continuing operations	\$ 1.04	\$ 1.07	\$ .92
Income from discontinued operations (Note 3)	—	—	3.25
Income before extraordinary loss	1.04	1.07	4.17
Extraordinary loss (Note 8)	(.24)	—	—
Net income	<u>\$ .80</u>	<u>\$ 1.07</u>	<u>\$ 4.17</u>

See accompanying notes.



THE WILLIAMS COMPANIES, INC.  
CONSOLIDATED BALANCE SHEET  
ASSETS

	December 31,	
	1997	1996
	(Dollars in millions, except per-share amounts)	
Current assets:		
Cash and cash equivalents	\$ 81.3	\$ 115.3
Receivables less allowance of \$19.3 (\$9.7 in 1996)	1,200.5	952.9
Transportation and exchange gas receivable	130.4	117.7
Inventories (Note 11)	300.5	204.6
Commodity trading assets	180.3	147.2
Deferred income taxes (Note 7)	224.6	199.5
Other	138.3	152.9
Total current assets	2,255.9	1,890.1
Investments (Note 5)	291.4	190.6
Property, plant and equipment—net (Note 12)	10,055.6	9,386.3
Goodwill and other intangible assets—net (Notes 1 and 2)	435.2	198.1
Other assets and deferred charges	840.9	753.7
Total assets	\$13,879.0	\$12,418.8
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable (Note 14)	\$ 693.0	\$ 269.5
Accounts payable (Note 13)	886.3	683.3
Transportation and exchange gas payable	67.7	73.7
Accrued liabilities (Note 13)	1,157.3	975.3
Commodity trading liabilities	182.0	137.9
Long-term debt due within one year (Note 14)	41.1	59.6
Total current liabilities	3,027.4	2,199.3
Long-term debt (Note 14)	4,565.3	4,376.9
Deferred income taxes (Note 7)	1,718.9	1,626.6
Other liabilities	878.6	787.5
Minority interest in consolidated subsidiaries (Note 2)	117.1	7.5
Contingent liabilities and commitments (Note 18)		
Stockholders' equity (Note 15):		
Preferred stock, \$1 par value, 30,000,000 shares authorized, 2,497,472 shares issued in 1997 and 3,241,552 shares issued in 1996	142.2	161.0
Common stock, \$1 par value, 480,000,000 shares authorized, 325,065,668 shares issued in 1997 and 320,428,326 shares issued in 1996	325.1	320.4
Capital in excess of par value	957.6	887.5
Retained earnings	2,209.4	2,119.5
Other	(4.5)	(2.2)
	3,629.8	3,486.2
Less treasury stock (at cost), 4,879,127 shares of common stock in 1997 and 5,474,674 shares of common stock in 1996	(58.1)	(65.2)
Total stockholders' equity	3,571.7	3,421.0
Total liabilities and stockholders' equity	\$13,879.0	\$12,418.8

See accompanying notes.

**THE WILLIAMS COMPANIES, INC.**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**

	Preferred Stock	Common Stock	Capital in Excess Per Value	Retained Earnings	Other	Treasury Stock	Total
	(Dollars in millions, except per-share amounts)						
Balance, December 31, 1994	\$100.0	\$313.2	\$782.2	\$ 716.5	\$(1.3)	\$(405.1)	\$1,505.5
Net income — 1995	—	—	—	1,318.2	—	—	1,318.2
Cash dividends —							
Common stock (\$36 per share)	—	—	—	(107.2)	—	—	(107.2)
Preferred stock (Note 15)	—	—	—	(11.9)	—	—	(11.9)
Issuance of shares —							
38,639,762 common	—	2.8	56.9	—	(1.7)	352.7	410.7
2,500,000 preferred	142.5	—	—	—	—	—	142.5
Exchange of shares for debentures —							
2,760,548 preferred (Note 15)	(69.0)	—	(3.5)	—	—	—	(72.5)
Purchase of treasury stock —							
142,800 preferred	—	—	—	—	—	(3.7)	(3.7)
Tax benefit of stock-based awards	—	—	4.8	—	—	—	4.8
Amortization of deferred compensation	—	—	—	—	.7	—	.7
Balance, December 31, 1995	173.5	316.0	840.4	1,915.6	(2.3)	(56.1)	3,187.1
Net income — 1996	—	—	—	362.3	—	—	362.3
Cash dividends —							
Common stock (\$47 per share)	—	—	—	(148.0)	—	—	(148.0)
Preferred stock (Note 15)	—	—	—	(10.4)	—	—	(10.4)
Issuance of shares — 5,574,916 common	—	4.4	31.4	—	(.6)	12.0	47.2
Purchase of treasury stock —							
1,915,500 common	—	—	—	—	—	(31.3)	(31.3)
96,300 preferred	—	—	—	—	—	(2.6)	(2.6)
Retirement of treasury stock —							
497,900 preferred	(12.5)	—	(.3)	—	—	12.8	—
Tax benefit of stock-based awards	—	—	16.0	—	—	—	16.0
Amortization of deferred compensation	—	—	—	—	.7	—	.7
Balance, December 31, 1996	\$161.0	\$320.4	\$887.5	\$2,119.5	\$(7.2)	\$(65.2)	\$3,421.0
Net income — 1997	—	—	—	271.4	—	—	271.4
Cash dividends —							
Common stock (\$54 per share)	—	—	—	(171.7)	—	—	(171.7)
Preferred stock (Note 15)	—	—	—	(9.8)	—	—	(9.8)
Issuance of shares — 5,221,039 common	—	4.7	48.7	—	(.7)	7.1	59.8
Conversion of preferred stock — 2,528 shares	(.3)	—	.3	—	—	—	—
Redemption of preferred stock — 741,552 shares (Note 15)	(18.5)	—	—	—	—	—	(18.5)
Tax benefit of stock-based awards	—	—	21.1	—	—	—	21.1
Amortization of deferred compensation	—	—	—	—	.8	—	.8
Unrealized loss on marketable equity securities	—	—	—	—	(2.4)	—	(2.4)
Balance, December 31, 1997	<u>\$142.2</u>	<u>\$325.1</u>	<u>\$957.6</u>	<u>\$2,209.4</u>	<u>\$(4.5)</u>	<u>\$(58.1)</u>	<u>\$3,571.7</u>

Note: Certain amounts have been restated to reflect the December 29, 1997, two-for-one stock split and distribution.

See accompanying notes.

THE WILLIAMS COMPANIES, INC.  
CONSOLIDATED STATEMENT OF CASH FLOWS

	Years Ended December 31,		
	1997	1996	1995
	(Millions)		
Operating Activities:			
Net income	\$ 271.4	\$ 362.3	\$ 1,318.2
Adjustments to reconcile to cash provided from operations:			
Discontinued operations	—	—	(1,018.8)
Extraordinary loss	79.1	—	—
Premium on early extinguishment of debt	(171.2)	—	—
Depreciation, depletion and amortization	499.5	421.0	375.5
Provision for deferred income taxes	81.8	72.4	125.4
Provision for loss on property and other assets	49.8	—	41.4
(Gain) loss on dispositions of property and interest in subsidiary	(56.8)	(46.4)	10.5
Minority interest in income of consolidated subsidiaries	14.0	—	10.0
Changes in receivables sold	188.6	(13.1)	55.9
Changes in receivables	(180.6)	(214.2)	33.2
Changes in inventories	(73.7)	(16.1)	11.9
Changes in other current assets	25.5	3.8	1.1
Changes in accounts payable	195.8	204.0	(6.5)
Changes in accrued liabilities	(7.9)	(24.9)	(33.4)
Changes in current commodity trading assets and liabilities	11.0	(29.7)	28.1
Changes in non-current commodity trading assets and liabilities	(47.7)	(37.7)	(82.1)
Other, including changes in non-current assets and liabilities	41.0	29.0	(41.7)
Net cash provided by operating activities	919.6	710.4	828.7
Financing Activities:			
Proceeds from notes payable	1,860.4	356.8	116.8
Payments of notes payable	(1,245.9)	(87.3)	(623.8)
Proceeds from long-term debt	2,007.7	1,996.7	399.0
Payments of long-term debt	(2,169.0)	(1,387.7)	(1,009.4)
Proceeds from issuance of common stock	62.9	54.3	78.1
Purchases of treasury stock	—	(33.9)	(3.7)
Dividends paid	(181.5)	(158.4)	(119.1)
Subsidiary preferred stock redemptions	—	—	(193.7)
Other — net	(17.7)	(6.3)	(3.5)
Net cash provided (used) by financing activities	316.9	734.2	(1,359.3)
Investing Activities:			
Property, plant and equipment:			
Capital expenditures	(1,162.1)	(818.9)	(827.5)
Proceeds from dispositions	100.3	60.2	28.2
Acquisition of businesses, net of cash acquired	(87.0)	(366.2)	(858.9)
Proceeds from sales of businesses	—	—	2,588.3
Income tax and other payments related to discontinued operations	(9.7)	(261.7)	(350.4)
Proceeds from sales of assets	5.2	23.0	125.1
Purchase of investments/advances to affiliates	(134.2)	(76.9)	(49.7)
Purchase of note receivable	—	—	(75.1)
Other — net	17.0	20.8	4.9
Net cash provided (used) by investing activities	(1,270.5)	(1,419.7)	584.9
Increase (decrease) in cash and cash equivalents	(34.0)	24.9	54.3
Cash and cash equivalents at beginning of year	115.3	90.4	36.1
Cash and cash equivalents at end of year	\$ 81.3	\$ 115.3	\$ 90.4

See accompanying notes.

**THE WILLIAMS COMPANIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. Summary of significant accounting policies**

*Nature of Operations*

Operations of The Williams Companies, Inc. (Williams) are located principally in the United States and are organized into three operating groups as follows: (1) Gas Pipelines, which is comprised of five interstate natural gas pipelines located in the eastern, midsouth, Gulf Coast, midwest and northwest regions; (2) Energy Services, which is comprised of natural gas gathering and processing facilities in the Rocky Mountain, midwest and Gulf Coast regions, energy trading and price-risk management activities throughout the United States, a petroleum products pipeline and ethanol production/marketing operations in the midwest region, and hydrocarbon exploration and production activities in the Rocky Mountain and Gulf Coast regions; and (3) Communications, which includes network integration and management services; video and other multimedia transmission services for the broadcast industry; business audio and video conferencing services; and installation and maintenance of customer-premise voice and data equipment. Additional information about these businesses is contained throughout the following notes.

*Basis of Presentation*

Revenues and operating profit amounts previously reported as Williams Natural Gas and Merchant Services are now reported as Central and Energy Marketing & Trading, respectively.

On April 30, 1997, Williams and Northern Telecom (Nortel) combined their customer-premise equipment sales and service operations into a limited liability company, Williams Communications Solutions, LLC (LLC), formerly WiTel Communications, LLC (see Note 2). Communications' revenues and operating profit amounts for 1997 include the operating results of the LLC beginning May 1, 1997.

Revenues and operating profit amounts include the operating results of Kern River Gas Transmission Company (Kern River) since the January 16, 1996, acquisition by Williams of the remaining interest (see Note 2). Prior to this acquisition, Williams accounted for its 50 percent ownership in Kern River using the equity method of accounting, with its share of equity earnings recorded in investing income.

Revenues and operating profit amounts include the operating results of Transco Energy Company (Transco Energy) since its January 18, 1995, acquisition by Williams (see Note 2). The transportation operations from Transco Energy's two interstate natural gas pipelines are reported separately within the Gas Pipelines group. Transco Energy's gas gathering operations are included in Field Services, and its gas marketing operations are included in Energy Marketing & Trading.

*Principles of Consolidation*

The consolidated financial statements include the accounts of Williams and its majority-owned subsidiaries. Companies in which Williams and its subsidiaries own 20 percent to 50 percent of the voting common stock, or otherwise exercise sufficient influence over operating and financial policies of the company, are accounted for under the equity method.

*Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles 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.

*Cash and Cash Equivalents*

Cash and cash equivalents include demand and time deposits, certificates of deposit and other marketable securities with maturities of three months or less when acquired.



THE WILLIAMS COMPANIES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

*Transportation and Exchange Gas Imbalances*

In the course of providing transportation services to customers, the natural gas pipelines may receive different quantities of gas from shippers than the quantities delivered on behalf of those shippers. Additionally, the pipelines and other Williams subsidiaries transport gas on various pipeline systems which may deliver different quantities of gas on their behalf than the quantities of gas received. These transactions result in gas transportation and exchange imbalance receivables and payables which are recovered or repaid in cash or through the receipt or delivery of gas in the future. Settlement of imbalances requires agreement between the pipelines and shippers as to allocations of volumes to specific transportation contracts and timing of delivery of gas based on operational conditions.

*Inventory Valuation*

Inventories are stated at cost, which is not in excess of market, except for those held by Energy Marketing & Trading, which are primarily stated at market. The cost of inventories is primarily determined using the average-cost method, except for certain inventories held by Transcontinental Gas Pipe Line, which are determined using the last-in, first-out (LIFO) method.

*Property, Plant and Equipment*

Property, plant and equipment is recorded at cost. Depreciation is provided primarily on the straight-line method over estimated useful lives. Gains or losses from the ordinary sale or retirement of property, plant and equipment for regulated pipeline subsidiaries are credited or charged to accumulated depreciation; other gains or losses are recorded in net income.

*Goodwill and Other Intangible Assets*

Goodwill, which represents the excess of cost over fair value of assets of businesses acquired, is amortized on a straight-line basis over periods not exceeding 25 years. Other intangible assets are amortized on a straight-line basis over periods not exceeding 11 years. Accumulated amortization at December 31, 1997 and 1996 was \$56 million and \$31.8 million, respectively. Amortization of intangible assets was \$24.2 million, \$9.6 million and \$6.2 million in 1997, 1996 and 1995, respectively.

*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. Gains and losses on the subsequent reissuance of shares are credited or charged to capital in excess of par value using the average-cost method.

*Revenue Recognition*

Revenues generally are recorded when services have been performed or products have been delivered. Petroleum Services bills customers when products are shipped and defers the estimated revenues for shipments in transit. The Gas Pipelines recognize revenues based upon contractual terms and the related transportation volumes through month-end. These pipelines are subject to Federal Energy Regulatory Commission (FERC) regulations and, accordingly, certain revenues are subject to possible refunds pending final FERC orders. Williams records rate refund accruals based on management's estimate of the expected outcome of these proceedings. Communications' customer-premise equipment sales and service business primarily uses the percentage of completion method of recognizing revenues for services provided.

THE WILLIAMS COMPANIES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

*Commodity Price-Risk Management Activities*

Energy Marketing & Trading has trading operations that enter into energy-related derivative financial instruments and derivative commodity instruments (forward contracts, futures contracts, option contracts and swap agreements) to provide price-risk management services to its third-party customers. This trading operation also has commodity inventories and enters into short- and long-term energy-related purchase and sale commitments which involve physical delivery of an energy commodity. These financial instruments, physical inventories and commitments are valued at market and are recorded in commodity trading assets, other assets and deferred charges, commodity trading liabilities and other liabilities in the Consolidated Balance Sheet. The change in unrealized market gains and losses is recognized in income currently and is recorded as revenues in the Consolidated Statement of Income. Such market values are subject to change in the near term and reflect management's best estimate of market prices considering various factors including closing exchange and over-the-counter quotations, liquidity of the market in which the contract is transacted, the terms of the contract, credit considerations, time value and volatility factors underlying the positions. Energy Marketing & Trading reports its trading operations' physical sales transactions net of the related purchase costs, consistent with market value accounting for such trading activities.

Certain Energy Marketing & Trading's revenues were not considered to be trading operations in 1996 and 1995 and, therefore, were not reported net of related costs to purchase such items.

Williams' operations also enter into energy-related derivative financial instruments and derivative commodity instruments (primarily futures contracts, option contracts and swap agreements) to hedge against market price fluctuations of certain commodity inventories and sales and purchase commitments. Unrealized and realized gains and losses on these hedge contracts are deferred and recognized in income when the related hedged item is recognized and recorded with the related hedged item. These contracts are initially and regularly evaluated to determine that there is a high correlation between changes in the market value of the hedge contract and market value of the hedged item.

*Interest-Rate Derivatives*

Williams enters into interest-rate swap agreements to modify the interest characteristics of its long-term debt. These agreements are designated with all or a portion of the principal balance and term of specific debt obligations. These agreements involve the exchange of amounts based on a fixed-interest rate for amounts based on variable interest rates without an exchange of the notional amount upon which the payments are based. The difference to be paid or received is accrued and recognized as an adjustment of interest expense. Gains and losses from terminations of interest-rate swap agreements are deferred and amortized as an adjustment to interest expense over the original term of the terminated swap agreement.

Kern River specifically has interest-rate swap agreements that are not designated with long-term debt that are recorded in other liabilities at market value. Changes in market value are recorded as adjustments to a regulatory asset which is expected to be recovered in transportation rates.

Williams enters into interest-rate forward contracts to lock-in underlying treasury rates on anticipated long-term debt issuances. The settlement amounts upon termination of the contracts are deferred and amortized as an adjustment to interest expense of the issued long-term debt over the term of the settled forward contract.

*Capitalization of Interest*

Williams capitalizes interest on major projects during construction. Interest is capitalized on borrowed funds and, where regulation by the FERC exists, on internally generated funds. The rates used by regulated companies are calculated in accordance with FERC rules. Rates used by unregulated companies approximate

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

the average interest rate on related debt. Interest capitalized on internally generated funds is included in non-operating other income (expense) — net.

*Employee Stock-Based Awards*

Employee stock-based awards are accounted for under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Williams' fixed plan common stock options do not result in compensation expense, because the exercise price of the stock options equals the market price of the underlying stock on the date of grant.

*Income Taxes*

Williams includes the operations of its subsidiaries in its consolidated federal income tax return. 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 Williams' assets and liabilities.

*Earnings Per Share*

Basic earnings per share are based on the sum of the average number of common shares outstanding and issuable restricted and deferred shares. Diluted earnings per share assumes issuance of common stock from dilutive stock options and conversion of the \$3.50 cumulative convertible preferred stock into common stock effective May 1, 1995. The earnings per share amounts and number of shares for 1996 and 1995 have been restated to reflect the effect of the two-for-one stock split and distribution (see Note 15) and the adoption of Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share" (see Note 9).

*New Accounting Standards*

In June 1997, the Financial Accounting Standards Board issued two new accounting standards, SFAS No. 130, "Reporting Comprehensive Income," and SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." Both standards, effective for fiscal years beginning after December 15, 1997, are disclosure-oriented standards. Therefore, neither standard will affect Williams' reported consolidated net income or cash flows.

*Note 2. Acquisitions*

*Nortel*

On April 30, 1997, Williams and Nortel combined their customer-premise equipment sales and service operations into a limited liability company, Williams Communications Solutions, LLC. In addition, Williams paid \$68 million to Nortel. Williams has accounted for its 70 percent interest in the operations that Nortel contributed to the LLC as a purchase business combination, and beginning May 1, 1997, has included the results of operations of the acquired company in Williams' Consolidated Statement of Income. Accordingly, the acquired assets and liabilities, including \$163 million in accounts receivable, \$68 million in accounts payable and accrued liabilities and \$150 million in debt obligations, have been recorded based on an allocation of the purchase price, with substantially all of the cost in excess of historical carrying values allocated to goodwill.

Williams recorded the 30 percent reduction in its operations contributed to the LLC as a sale to the minority shareholders of the LLC. Williams recognized a gain of \$44.5 million based on the excess of the fair value over the net book value (approximately \$71 million) of its operations conveyed to the LLC minority interest. Income taxes were not provided on the gain, because the transaction did not affect the difference between the financial and tax bases of identifiable assets and liabilities.

**THE WILLIAMS COMPANIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

If the transaction had occurred on January 1, 1996, Williams' unaudited pro forma revenues for the years ended 1997 and 1996 would have been \$4,658 million and \$4,268 million, respectively. The pro forma effect of the transaction on Williams' net income is not significant. Pro forma financial information is not necessarily indicative of results of operations that would have occurred if the transaction had occurred on January 1, 1996, or of future results of operations of the combined companies.

*Kern River*

On January 16, 1996, Williams acquired the remaining interest in Kern River for \$206 million in cash. The acquisition was accounted for as a purchase, and the acquired assets and liabilities have been recorded based on an allocation of the purchase price, with substantially all of the cost in excess of Kern River's historical carrying value allocated to property, plant and equipment.

*Transco*

On January 18, 1995, Williams acquired 60 percent of Transco Energy's outstanding common stock in a cash tender offer for \$430.5 million. Williams acquired the remaining 40 percent of Transco Energy's outstanding common stock on May 1, 1995, through a merger by exchanging the remaining Transco Energy common stock for approximately 31.2 million shares of Williams common stock valued at \$334 million. The acquisition was accounted for as a purchase with 60 percent of Transco Energy's results of operations included in Williams' Consolidated Statement of Income for the period January 18, 1995, through April 30, 1995, and 100 percent included beginning May 1, 1995. The purchase price, including transaction fees and other related costs, was approximately \$800 million, excluding \$2.3 billion in preferred stock and debt obligations of Transco Energy.

**Note 3. Discontinued operations**

On January 5, 1995, Williams sold its network services operations to LDDS Communications, Inc. for \$2.5 billion in cash. The sale yielded a gain of \$1 billion (net of income taxes of approximately \$732 million) which is reported as income from discontinued operations.

**Note 4. Revenues and operating profit**

Revenues and operating profit of Gas Pipelines and Energy Services for the years ended December 31, 1997, 1996 and 1995, are as follows:

	1997	1996 (Millions)	1995
Revenues:			
Gas Pipelines:			
Central .....	\$ 184.4	\$ 178.4	\$ 174.3
Kern River Gas Transmission .....	167.1	160.6	—
Northwest Pipeline .....	273.1	269.7	255.2
Texas Gas Transmission .....	293.0	306.1	276.3
Transcontinental Gas Pipe Line .....	766.3	760.4	725.3
	<u>\$1,683.9</u>	<u>\$1,675.2</u>	<u>\$1,431.1</u>



THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	1997	1996 (Millions)	1995
Energy Services:			
Energy Marketing & Trading .....	\$ 135.8	\$ 261.1	\$ 153.5
Exploration & Production .....	130.1	82.4	62.9
Field Services .....	690.3	616.3	532.9
Petroleum Services .....	548.7	493.3	328.1
	<u>\$1,504.9</u>	<u>\$1,453.1</u>	<u>\$1,077.4</u>
Operating Profit:			
Gas Pipelines:			
Central .....	\$ 57.0	\$ 44.8	\$ 45.0
Kern River Gas Transmission .....	120.3	113.0	—
Northwest Pipeline .....	124.0	124.9	115.7
Texas Gas Transmission .....	87.6	85.1	64.0
Transcontinental Gas Pipe Line .....	225.3	194.6	165.0
	<u>\$ 614.2</u>	<u>\$ 562.4</u>	<u>\$ 389.7</u>
Energy Services:			
Energy Marketing & Trading .....	\$ 70.6	\$ 66.4	\$ 33.2
Exploration & Production .....	30.3	2.8	(5.9)
Field Services .....	163.0	187.4	161.0
Petroleum Services .....	97.0	75.7	69.2
	<u>\$ 360.9</u>	<u>\$ 332.3</u>	<u>\$ 257.5</u>

Note 5. Investing activities

Investing income for the years ended December 31, 1997, 1996 and 1995, is as follows:

	1997	1996 (Millions)	1995
Interest .....	\$ 9.9	\$ 11.1	\$ 37.2
Dividends .....	1.4	1.6	16.1
Equity earnings .....	7.9	6.1	40.6
	<u>\$ 19.2</u>	<u>\$ 18.8</u>	<u>\$ 93.9</u>

Dividends and distributions received from companies carried on an equity basis were \$7 million in 1997 and 1996, and \$44 million in 1995.

At December 31, 1997, certain equity investments, with a carrying value of \$46 million, have a market value of \$175 million.

Note 6. Asset sales and write-offs

In the fourth quarter of 1997, Communications incurred charges totaling \$49.8 million related to the decision to sell the learning content business, and the write-down of assets and the development costs associated with certain advanced applications.

In 1996, Williams recognized a pre-tax gain of \$15.7 million from the sale of certain communication rights for approximately \$38 million.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In 1995, the development of a commercial coal gasification venture in south-central Wyoming was canceled, resulting in a \$41.4 million pre-tax charge.

In 1995, Williams sold its 15 percent interest in Texasgulf Inc. for approximately \$124 million in cash, which resulted in an after-tax gain of approximately \$16 million because of previously unrecognized tax benefits included in the provision for income taxes.

Note 7. Provision for income taxes

The provision (credit) for income taxes from continuing operations includes:

	1997	1996 (Millions)	1995
Current:			
Federal .....	\$ 75.9	\$ 96.3	\$(26.5)
State .....	18.4	14.4	3.1
Foreign .....	1.9	—	—
	<u>96.2</u>	<u>110.7</u>	<u>(23.4)</u>
Deferred:			
Federal .....	70.4	61.9	114.2
State .....	11.4	10.5	11.2
	<u>81.8</u>	<u>72.4</u>	<u>125.4</u>
Total provision .....	<u>\$178.0</u>	<u>\$183.1</u>	<u>\$102.0</u>

Reconciliations from the provision for income taxes from continuing operations at the statutory rate to the provision for income taxes are as follows:

	1997	1996 (Millions)	1995
Provision at statutory rate .....	\$185.0	\$190.9	\$140.5
Increases (reductions) in taxes resulting from:			
State income taxes .....	19.3	16.1	13.5
Income tax credits .....	(16.5)	(19.0)	(18.7)
Non-taxable gain from sale of interest in subsidiary (Note 2) ..	(15.6)	—	—
Decrease in valuation allowance for deferred tax assets .....	—	—	(29.8)
Reversal of prior tax accruals .....	—	—	(8.0)
Other — net .....	5.8	(4.9)	4.5
Provision for income taxes .....	<u>\$178.0</u>	<u>\$183.1</u>	<u>\$102.0</u>

**THE WILLIAMS COMPANIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Significant components of deferred tax liabilities and assets as of December 31 are as follows:

	1997	1996*
	(Millions)	(Millions)
Deferred tax liabilities:		
Property, plant and equipment .....	\$1,839.4	\$1,755.8
Investments .....	120.9	93.3
Other .....	116.8	120.3
Total deferred tax liabilities .....	2,077.1	1,969.4
Deferred tax assets:		
Deferred revenues .....	84.9	31.5
Rate refunds .....	119.9	111.4
Accrued liabilities .....	144.5	171.7
Minimum tax credits .....	131.3	86.8
Other .....	102.2	140.9
Total deferred tax assets .....	582.8	542.3
Net deferred tax liabilities .....	<u>\$1,494.3</u>	<u>\$1,427.1</u>

\* Reclassified to conform to current classifications.

Cash payments for income taxes (net of refunds) were \$48 million, \$395 million and \$339 million in 1997, 1996 and 1995, respectively.

**Note 8. Extraordinary loss**

In September 1997, Williams initiated a restructuring of its debt portfolio (see Note 14). During 1997, Williams paid approximately \$1.4 billion to redeem approximately \$1.3 billion of debt with stated interest rates in excess of 8.8 percent, resulting in an extraordinary loss of \$79.1 million (net of a \$46.6 million benefit for income taxes). In addition, approximately \$30 million of costs to redeem have been deferred as a regulatory asset for rate recovery.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 9. Earnings per share

Basic and diluted earnings per common share are computed for the years ended December 31, 1997, 1996 and 1995, as follows:

	1997	1996	1995
	(Dollars in millions, except per-share amounts; shares in thousands)		
Income from continuing operations .....	\$350.5	\$362.3	\$299.4
Preferred stock dividends .....	(9.8)	(10.4)	(15.3)
Income from continuing operations available to common stockholders for basic earnings per share .....	340.7	351.9	284.1
Effect of dilutive securities:			
Convertible preferred stock dividends .....	8.7	8.8	5.8
Income from continuing operations available to common stockholders for diluted earnings per share .....	\$349.4	\$360.7	\$289.9
Basic weighted-average shares .....	321,184	319,048	302,807
Effect of dilutive securities:			
Convertible preferred stock .....	11,717	11,718	7,866
Stock options .....	4,638	5,232	3,370
	16,355	16,950	11,236
Diluted weighted-average shares .....	337,539	335,998	314,043
Earnings per share from continuing operations:			
Basic .....	\$1.06	\$1.10	\$0.94
Diluted .....	\$1.04	\$1.07	\$0.92

Options to purchase approximately 3.1 million shares of common stock at a weighted-average exercise price of \$27.93 were outstanding at December 31, 1997, but were not included in the computation of diluted earnings per common share. Inclusion of these shares would be antidilutive, as the exercise prices of the options exceed the average market price of the common shares.

Note 10. Employee benefit plans

Pensions

Williams maintains non-contributory defined-benefit pension plans covering substantially all of its employees. Benefits are based on years of service and average final compensation. Pension costs are funded to satisfy minimum requirements prescribed by the Employee Retirement Income Security Act of 1974.

Net pension expense consists of the following:

	1997	1996	1995
	(Millions)		
Service cost for benefits earned during the year .....	\$ 30.9	\$ 30.3	\$ 19.5
Interest cost on projected benefit obligation .....	49.8	43.9	40.1
Actual return on plan assets .....	(94.1)	(100.6)	(120.3)
Amortization and deferrals .....	44.1	61.3	82.0
Net pension expense .....	\$ 30.7	\$ 34.9	\$ 21.3



THE WILLIAMS COMPANIES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Net pension expense increased in 1996 from 1995 as a result of a decrease in the discount rate from 8½ percent to 7¼ percent and an increase in the number of plan participants.

The following table presents the funded status of the plans:

	1997	1996
	(Millions)	(Millions)
Actuarial present value of benefit obligations:		
Vested benefits .....	\$507	\$407
Non-vested benefits .....	42	37
Accumulated benefit obligations .....	549	444
Effect of projected salary increases .....	208	167
Projected benefit obligations .....	757	611
Assets at market value .....	736	637
Assets less than (in excess of) projected benefit obligations .....	21	(26)
Unrecognized net (loss) gain .....	(12)	37
Unrecognized prior-service cost .....	(6)	(8)
Unrecognized transition asset .....	3	3
Pension liability .....	<u>\$ 6</u>	<u>\$ 6</u>

The discount rate used to measure the present value of benefit obligations is 7¼ percent (7½ percent in 1996); the assumed rate of increase in future compensation levels is 5 percent; and the expected long-term rate of return on assets is 10 percent. Plan assets consist primarily of commingled funds and assets held in a master trust. The master trust is comprised primarily of domestic and foreign common and preferred stocks, corporate bonds, United States government securities and commercial paper.

Subsequent to December 31, 1997, Williams offered an early retirement incentive program to a certain group of employees. This program will not have a material impact on the funded status of the plans or Williams' financial position.

*Postretirement Benefits Other Than Pensions*

Williams sponsors health care plans that provide postretirement medical benefits to retired Williams employees who were employed full time, hired prior to January 1, 1992 (January 1, 1996, for Transco Energy employees) and have met certain other requirements.

The plans provide for retiree contributions and contain other cost-sharing features such as deductibles and coinsurance. The accounting for the plans anticipates future cost-sharing changes to the written plans that are consistent with Williams' expressed intent to increase the retiree contribution rate annually, generally in line with health care cost increases, except for certain retirees whose premiums are fixed. A portion of the cost has been funded in trusts by Williams' FERC-regulated natural gas pipeline subsidiaries to the extent recovery from customers can be achieved. Plan assets consist of assets held in two master trusts and money market funds. One of the master trusts was previously described, and the other consists primarily of domestic and foreign common stocks, government bonds and commercial paper.

THE WILLIAMS COMPANIES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Net postretirement benefit expense consists of the following:

	1997	1996	1995
		(Millions)	
Service cost for benefits earned during the year	\$ 7.1	\$ 6.4	\$ 7.4
Interest cost on accumulated postretirement benefit obligation	24.4	22.7	23.9
Actual return on plan assets	(19.4)	(16.4)	(17.9)
Amortization of unrecognized transition obligation	4.1	5.0	5.0
Amortization and deferrals	21.0	19.7	23.1
Net postretirement benefit expense	<u>\$ 37.2</u>	<u>\$ 37.4</u>	<u>\$ 41.5</u>

The following table presents the funded status of the plans:

	1997	1996
	(Millions)	
Actuarial present value of postretirement benefit obligation:		
Retirees	\$223	\$200
Fully eligible active plan participants	34	26
Other active plan participants	126	89
Accumulated postretirement benefit obligation	383	315
Assets at market value	185	155
Assets less than accumulated postretirement benefit obligation	198	160
Unrecognized net gain	18	60
Unrecognized prior-service credit	4	1
Unrecognized transition obligation	(61)	(65)
Postretirement benefit liability	<u>\$159</u>	<u>\$156</u>

The amount of postretirement benefit costs deferred as a regulatory asset at December 31, 1997 and 1996, is \$107 million and \$118 million, respectively, and is expected to be recovered through rates over approximately 15 years.

The discount rate used to measure the present value of benefit obligations is 7½ percent (7½ percent in 1996). The expected long-term rate of return on plan assets is 10 percent (6 percent after taxes). The annual assumed rate of increase in the health care cost trend rate for 1998 is 8½ to 9½ percent, systematically decreasing to 5 percent by 2006. The health care cost trend rate assumption has a significant effect on the amounts reported. Increasing the assumed health care cost trend rate by 1 percent in each year would increase the aggregate of the service and interest cost components of postretirement benefit expense for the year ended December 31, 1997, by \$5 million and the accumulated postretirement benefit obligation as of December 31, 1997, by \$46 million.

*Other*

Williams maintains various defined-contribution plans covering substantially all employees. Company contributions are based on employees' compensation and, in part, match employee contributions. Company contributions are invested primarily in Williams common stock. Williams' contributions to these plans were \$29 million in 1997, \$23 million in 1996 and \$19 million in 1995.

THE WILLIAMS COMPANIES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 11. Inventories

	1997	1996
	(Millions)	
Natural gas in underground storage:		
Transcontinental Gas Pipe Line (LIFO) .....	\$ 38.3	\$ 38.8
Energy Marketing & Trading .....	3.0	1.5
Other .....	16.5	—
Petroleum products:		
Energy Marketing & Trading .....	68.6	12.7
Other .....	30.1	33.7
Materials and supplies .....	140.3	112.0
Other .....	3.7	5.9
	<u>\$300.5</u>	<u>\$204.6</u>

If inventories valued on the LIFO method at December 31, 1997, were valued at current average cost, the amount would increase by approximately \$13 million. Inventories valued on the LIFO method at December 31, 1996, approximate current average cost.

Note 12. Property, plant and equipment

	1997	1996
	(Millions)	
Cost:		
Gas Pipelines:		
Central .....	\$ 844.2	\$ 787.4
Kern River Gas Transmission .....	1,003.9	990.5
Northwest Pipeline .....	1,478.6	1,447.9
Texas Gas Transmission .....	1,022.7	958.9
Transcontinental Gas Pipe Line .....	3,334.8	3,095.7
Energy Services:		
Energy Marketing & Trading .....	43.0	5.4
Exploration & Production .....	318.5	255.1
Field Services .....	2,352.4	2,188.3
Petroleum Services .....	1,055.2	1,073.1
Communications .....	535.0	257.3
Other .....	296.1	152.7
	12,284.4	11,212.3
Accumulated depreciation and depletion .....	(2,228.8)	(1,826.0)
	<u>\$10,055.6</u>	<u>\$ 9,386.3</u>

Commitments for construction and acquisition of property, plant and equipment are approximately \$530 million at December 31, 1997.

**THE WILLIAMS COMPANIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**Note 13. Accounts payable and accrued liabilities**

Under Williams' cash-management system, certain subsidiaries' cash accounts reflect credit balances to the extent checks written have not been presented for payment. The amounts of these credit balances included in accounts payable are \$92 million at December 31, 1997, and \$95 million at December 31, 1996.

	1996	1997
	(Millions)	
Accrued liabilities:		
Rate refunds .....	\$ 337.5	\$305.1
Employee costs .....	191.5	178.1
Interest .....	79.4	95.2
Income taxes payable .....	76.0	77.6
Taxes other than income taxes .....	72.4	66.2
Other .....	400.5	253.1
	<u>\$1,157.3</u>	<u>\$975.3</u>

**Note 14. Debt, leases and banking arrangements**

*Notes Payable*

During 1997, Williams Holdings of Delaware, Inc. (Williams Holdings) entered into a commercial paper program backed by new short-term bank-credit facilities totaling \$650 million. At December 31, 1997, \$645 million of commercial paper was outstanding under the program. In addition, Williams has entered into various other short-term credit agreements with amounts outstanding totaling \$48 million and \$269.5 million at December 31, 1997 and 1996, respectively. The weighted-average interest rate on the outstanding short-term borrowings at December 31, 1997 and 1996, was 6.56 percent and 7.85 percent, respectively.



THE WILLIAMS COMPANIES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

*Debt*

	Weighted-average interest rate*	December 31,	
		1997	1996
		(Millions)	
The Williams Companies, Inc.			
Revolving credit loans .....	7.1%	\$ 383.0	\$ —
Debentures, 8.875% — 10.25%, payable 2012, 2020, 2021 and 2025 .....	8.6	137.0	587.5
Notes, 6.365% — 9.625%, payable through 2004 .....	7.0	994.7	817.5
Williams Gas Pipelines Central			
Variable rate notes, payable 1999 .....	8.2	130.0	130.0
Kern River Gas Transmission			
Notes, 6.42% and 6.72%, payable through 2001 .....	6.6	586.4	617.7
Northwest Pipeline			
Debentures, 7.125% — 10.65%, payable through 2025 .....	8.3	151.6	360.0
Notes, 6.625%, payable 2007 .....	6.6	250.0	—
Adjustable rate notes, payable through 2002 .....	9.0	8.3	10.0
Texas Gas Transmission			
Debentures, 7.25%, payable 2027 .....	7.3	99.0	—
Notes, 9.625% and 8.625%, payable 1997 and 2004 .....	8.6	152.4	253.6
Transcontinental Gas Pipe Line			
Revolving credit loans .....	6.3	160.0	—
Debentures, 7.25% and 9.125%, payable through 2026 .....	7.3	199.7	352.4
Debentures, 7.08%, payable 2026 (subject to debtholder redemption in 2001) .....	7.1	200.0	200.0
Notes, 8.125% and 8.875%, payable 1997 and 2002 .....	8.9	128.2	227.7
Adjustable rate note, payable 2002 .....	5.8	150.0	—
Williams Holdings of Delaware			
Revolving credit loans .....	6.3	200.0	500.0
Debentures, 6.25%, payable 2006 .....	4.8	248.9	248.8
Notes, 6.365% — 6.91%, payable through 2002 .....	6.7	258.6	—
Williams Pipe Line			
Notes, 8.95% and 9.78%, payable through 2001 .....	9.0	40.0	100.0
Williams Energy Ventures			
Adjustable rate notes .....	—	—	25.6
Williams Communications Solutions, LLC			
Revolving credit loans .....	6.2	125.0	—
Other, payable through 2000 .....	7.8	3.6	5.7
		4,606.4	4,436.5
Current portion of long-term debt .....		(41.1)	(59.6)
		<u>\$4,565.3</u>	<u>\$4,376.9</u>

\* At December 31, 1997, including the effects of interest-rate swaps.

THE WILLIAMS COMPANIES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In September 1997, Williams initiated a restructuring of its debt portfolio. As of December 31, 1997, Williams has redeemed approximately \$1.3 billion of debt with stated interest rates in excess of 8.8 percent. In January 1998, Williams redeemed \$40 million of additional debt obligations. The restructuring was temporarily financed with the combination of short-term bank agreements, commercial paper and Williams' existing bank-credit agreement, until new long-term debt securities were issued. During the fourth quarter of 1997, Williams issued \$550 million of new long-term debt obligations. In January 1998, Williams issued approximately \$700 million in additional debt obligations.

In July 1997, Williams entered into a new \$1 billion bank-credit agreement, replacing the previous agreement. Under the new credit agreement, Northwest Pipeline, Transcontinental Gas Pipe Line, Texas Gas Transmission, and Williams Communications Solutions, LLC have access to various amounts of the facility, while Williams (parent) and Williams Holdings have access to all unborrowed amounts. Interest rates vary with current market conditions.

For financial statement reporting purposes at December 31, 1997, \$560 million in notes payable and current debt obligations, primarily related to the restructuring noted above, have been classified as non-current obligations based on Williams' intent and ability to refinance on a long-term basis. Williams' subsequent issuance of \$700 million of long-term debt obligations in January 1998 is sufficient to complete these refinancings.

Interest-rate swaps with a notional value of \$450 million are currently being utilized to convert certain fixed rate debt obligations resulting in an effective weighted-average floating rate of 5.24 percent at December 31, 1997. Interest-rate swaps with a notional value of \$130 million are currently being utilized to convert certain variable rate debt obligations resulting in an effective weighted-average fixed rate of 7.78 percent at December 31, 1997.

Certain interest-rate swap agreements relating to Kern River which preceded the January 1996 purchase of Kern River by Williams and the subsequent Kern River debt refinancing, remain outstanding. In 1996, Kern River entered into additional interest-rate swap agreements to manage the exposure from the original interest-rate swap agreements. As described in Note 1, these interest-rate swap agreements are not designated with the Kern River debt, but when combined with interest on the debt obligations, Kern River's effective interest rate is 8.5 percent.

Aggregate minimum maturities and sinking-fund requirements, excluding lease payments and considering the reclassification of current obligations as previously described, for each of the next five years are as follows:

	(Millions)
1998 .....	\$ 40
1999 .....	349
2000 .....	251
2001 .....	1,052
2002 .....	<u>1,512</u>

Cash payments for interest (net of amounts capitalized) are as follows: 1997 — \$396 million; 1996 — \$347 million; and 1995 — \$266 million.

*Leases*

Future minimum annual rentals under non-cancelable operating leases are \$113 million in 1998, \$99 million in 1999, \$84 million in 2000, \$59 million in 2001, \$55 million in 2002 and \$176 million thereafter.

Total rent expense was \$126 million in 1997 and \$78 million in 1996 and 1995.

THE WILLIAMS COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 15. Stockholders' equity

On November 20, 1997, the board of directors of Williams declared a two-for-one common stock split and distribution; 160.1 million shares were issued on December 29, 1997. All references in the financial statements and notes to the number of common shares outstanding and per-share amounts reflect the effect of the split.

In the third quarter of 1996, the board of directors authorized the open-market purchase of up to \$800 million of Williams common stock. During 1996, 1.9 million shares were purchased at a total cost of approximately \$31 million. No shares were purchased during 1997. In the fourth quarter of 1997, Williams' board of directors terminated the repurchase program.

In connection with the 1995 merger with Transco Energy, Williams exchanged all of Transco Energy's outstanding \$3.50 cumulative convertible preferred stock for 2.5 million shares of Williams' \$3.50 cumulative convertible preferred stock. These shares are redeemable by Williams beginning in November 1999, at an initial price of \$51.40 per share. Each share of \$3.50 preferred stock is convertible at the option of the holder into 4.6875 shares of Williams common stock. Dividends per share of \$3.50 were recorded in 1997 and 1996, and \$2.33 in 1995.

During 1995, Williams exchanged 2.8 million shares of its \$2.21 cumulative preferred stock with a carrying value of \$69 million for 9.6 percent debentures with a fair value of \$72.5 million. The difference in the fair value of the new securities and the carrying value of the preferred stock exchanged was recorded as a decrease in capital in excess of par value. This amount did not impact net income, but is included in preferred stock dividends on the Consolidated Statement of Income and in the computation of earnings per share. The remaining shares of \$2.21 cumulative preferred stock were redeemed by Williams at par (\$25) in September 1997 for a total of \$18.5 million. Dividends per share of \$1.47 were recorded in 1997, and \$2.21 in 1996 and 1995.

In 1996, the board of directors adopted a Stockholder Rights Plan (the Rights Plan). Under the Rights Plan, each outstanding share of common stock has one-third of a preferred stock purchase right attached. Under certain conditions, each right may be exercised to purchase, at an exercise price of \$140 (subject to adjustment), one two-hundredth of a share of junior participating preferred stock. The rights may be exercised only if an Acquiring Person acquires (or obtains the right to acquire) 15 percent or more of Williams common stock; or commences an offer for 15 percent or more of Williams common stock; or the board of directors determines an Adverse Person has become the owner of 10 percent or more of Williams common stock. The rights, which do not have voting rights, expire in 2006 and may be redeemed at a price of \$.01 per right prior to their expiration, or within a specified period of time after the occurrence of certain events. In the event a person becomes the owner of more than 15 percent of Williams common stock or the board of directors determines that a person is an Adverse Person, each holder of a right (except an Acquiring Person or an Adverse Person) shall have the right to receive, upon exercise, common stock having a value equal to two times the exercise price of the right. In the event Williams is engaged in a merger, business combination or 50 percent or more of Williams' assets, cash flow or earnings power is sold or transferred, each holder of a right (except an Acquiring Person or an Adverse Person) shall have the right to receive, upon exercise, common stock of the acquiring company having a value equal to two times the exercise price of the right.

Williams has several plans providing for common-stock-based awards to employees and to non-employee directors. The plans permit the granting of various types of awards including, but not limited to, stock options, stock-appreciation rights, restricted stock and deferred stock. Awards may be granted for no consideration other than prior and future services. The purchase price per share for stock options and the grant price for stock-appreciation rights may not be less than the market price of the underlying stock on the date of grant. Stock options generally become exercisable after five years, subject to accelerated vesting if certain future stock prices are achieved. Stock options expire 10 years after grant. At December 31, 1997, 46.7 million shares

THE WILLIAMS COMPANIES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

of common stock were reserved for issuance pursuant to existing and future stock awards, of which 21.4 million shares were available for future grants (15.6 million at December 31, 1996).

The following summary reflects stock option activity and related information for 1997 and 1996:

	1997		1996	
	Options	Weighted-Average Exercise Price (Options in millions)	Options	Weighted-Average Exercise Price
Outstanding — beginning of year .....	19.7	\$12.85	15.7	\$10.02
Granted .....	6.7	24.83	8.2	16.71
Exercised .....	(3.8)	11.13	(4.0)	9.14
Canceled .....	(.3)	19.82	(.2)	21.01
Outstanding — end of year .....	<u>22.3</u>	<u>\$16.66</u>	<u>19.7</u>	<u>\$12.85</u>
Exercisable at end of year .....	<u>15.7</u>	<u>\$13.21</u>	<u>10.9</u>	<u>\$10.29</u>
Weighted-average grant date fair value of options granted during the year .....		<u>\$ 5.98</u>		<u>\$ 3.92</u>

The following summary provides information about stock options outstanding and exercisable at December 31, 1997:

Range of Exercise Prices	Options (millions)	Stock Options Outstanding		Options (millions)	Stock Options Exercisable	
		Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life		Weighted-Average Exercise Price	
\$4.62 to \$17.32 .....	15.4	\$12.91	7.5 years	15.4	\$12.91	
\$18.00 to \$49.34 .....	<u>6.9</u>	<u>24.98</u>	<u>9.6 years</u>	<u>.3</u>	<u>28.14</u>	
Total .....	<u>22.3</u>	<u>\$16.66</u>	<u>8.1 years</u>	<u>15.7</u>	<u>\$13.21</u>	

The fair value of the stock options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions: expected life of the stock options of five years; volatility of the expected market price of Williams common stock of 23 percent (24 percent in 1996 and 1995); risk-free interest rate of 6.1 percent (6.2 percent in 1996 and 1995); and a dividend yield of 2.4 percent (3 percent in 1996 and 1995).

Pro forma net income and earnings per share, assuming Williams had applied the fair-value method of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" in measuring compensation cost beginning with 1995 employee stock-based awards, are as follows:

	1997		1996		1995	
	Pro forma	Reported	Pro forma	Reported	Pro forma	Reported
Net income (millions) .....	\$252.8	\$271.4	\$359.9	\$362.3	\$1,306.1	\$1,318.2
Earnings per share:						
Basic .....	\$ .76	\$ .81	\$ 1.10	\$ 1.10	\$ 4.26	\$ 4.30
Diluted .....	\$ .74	\$ .80	\$ 1.07	\$ 1.07	\$ 4.13	\$ 4.17



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Pro forma amounts for 1997 include the remaining total compensation expense from the awards made in 1996, as these awards fully vested in 1997 as a result of the accelerated vesting provisions. Pro forma amounts for 1995 include total compensation expense from the awards made in 1995, as these awards fully vested in 1995 as a result of the accelerated vesting provisions. Since compensation expense from stock options is recognized over the future years' vesting period, and additional awards generally are made each year, pro forma amounts may not be representative of future years' amounts.

**Note 16. Financial instruments**

*Fair-Value Methods*

The following methods and assumptions were used by Williams in estimating its fair-value disclosures for financial instruments:

*Cash and cash equivalents and notes payable:* The carrying amounts reported in the balance sheet approximate fair value due to the short-term maturity of these instruments.

*Notes and other non-current receivables:* For those notes with interest rates approximating market or maturities of less than three years, fair value is estimated to approximate historically recorded amounts.

*Investments — cost:* Fair value is estimated to approximate historically recorded amounts as the operations underlying these investments are in their initial phases.

*Long-term debt:* The fair value of Williams' long-term debt is valued using indicative year-end traded bond market prices for publicly traded issues, while private debt is valued based on the prices of similar securities with similar terms and credit ratings. As of December 31, 1997 and 1996, 57 percent and 69 percent, respectively, of Williams' long-term debt was publicly traded. Williams used the expertise of an outside investment banking firm to estimate the fair value of long-term debt.

*Interest-rate swaps:* Fair value is determined by discounting estimated future cash flows using forward interest rates derived from the year-end yield curve. Fair value was calculated by the financial institutions that are the counterparties to the swaps.

*Interest-rate locks:* Fair value is determined using year-end traded market prices for the referenced U.S. Treasury securities underlying the contracts. Fair value was calculated by the financial institutions that are parties to the locks.

*Energy-related trading and hedging:* Includes forwards, options, swaps and purchase and sales commitments. Fair value reflects management's best estimate of market prices considering various factors including closing exchange and over-the-counter quotations, liquidity of the market in which the contract is transacted, the terms of the contract, credit considerations, time value and volatility factors underlying the positions.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

*Carrying amounts and fair values of Williams' financial instruments*

Asset (Liability)	1997		1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Millions)			
Cash and cash equivalents .....	\$ 81.3	\$ 81.3	\$ 115.3	\$ 115.3
Notes and other non-current receivables ..	32.5	32.5	27.4	27.4
Investments — cost .....	102.8	102.8	71.2	71.2
Notes payable .....	(693.0)	(693.0)	(269.5)	(269.5)
Long-term debt, including current portion	(4,605.4)	(4,693.0)	(4,435.1)	(4,594.4)
Interest-rate swaps .....	(51.1)	(46.8)	(54.8)	(63.7)
Interest-rate locks .....	—	(8.3)	—	—
Energy-related trading:				
Assets .....	324.9	324.9	253.6	253.6
Liabilities .....	(383.7)	(383.7)	(339.1)	(339.1)
Energy-related hedging:				
Assets .....	.9	11.0	.9	11.2
Liabilities .....	—	(3.6)	(1.3)	(12.2)

The preceding asset and liability amounts for energy-related hedging represent unrealized gains or losses and do not include the related deferred amounts.

The 1997 average fair value of the energy-related trading assets and liabilities is \$258 million and \$345 million, respectively. The 1996 average fair value of the energy-related trading assets and liabilities is \$196 million and \$322 million, respectively.

Williams has recorded liabilities of \$21 million and \$18 million at December 31, 1997 and 1996, respectively, for certain guarantees that represent the estimated fair value of these financial instruments.

*Off-Balance-Sheet Credit and Market Risk*

Williams is a participant in the following transactions and arrangements that involve financial instruments that have off-balance-sheet risk of accounting loss. It is not practicable to estimate the fair value of these off-balance-sheet financial instruments because of their unusual nature and unique characteristics.

In 1997, Williams entered into agreements to sell, on an ongoing basis, certain of their accounts receivables. Williams also sold certain receivables in 1996 under another revolving receivable sales program. At December 31, 1997 and 1996, \$343 million and \$152 million have been sold, respectively.

In connection with the sale of Williams' network services operations, Williams has been indemnified by LDDS against any losses related to retained guarantees of \$135 million and \$158 million at December 31, 1997 and 1996, respectively, for lease rental obligations.

Williams has issued other guarantees and letters of credit with off-balance-sheet risk that total approximately \$56 million and \$10 million at December 31, 1997 and 1996, respectively. Williams believes it will not have to perform under these agreements because the likelihood of default by the primary party is remote and/or because of certain indemnifications received from other third parties.

*Commodity Price-Risk Management Services*

Williams, through Energy Marketing & Trading, provides price-risk management services associated with the energy industry to its customers. These services are provided through a variety of financial instruments, including forward contracts, futures contracts, option contracts, swap agreements and purchase and sale

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

commitments. See Note 1 for a description of the accounting for these trading activities. The net gain from trading activities was \$125.8 million, \$99.2 million and \$65.8 million in 1997, 1996 and 1995, respectively.

Energy Marketing & Trading enters into forward contracts and purchase and sale commitments which involve physical delivery of an energy commodity. Prices under these contracts are both fixed and variable. Swap agreements call for Energy Marketing & Trading to make payments to (or receive payments from) counterparties based upon the differential between a fixed and variable price or variable prices for different locations. The variable prices are generally based on either industry pricing publications or exchange quotations. Energy Marketing & Trading buys and sells option contracts which give the buyer the right to exercise the options and receive the difference between a predetermined strike price and a market price at the date of exercise. The market prices used for option contracts are generally exchange quotations. Energy Marketing & Trading also enters into futures contracts, which are commitments to either purchase or sell a commodity at a future date for a specified price and are generally settled in cash, but may be settled through delivery of the underlying commodity. The market prices for futures contracts are based on exchange quotations.

Energy Marketing & Trading is subject to market risk from changes in energy commodity market prices, the portfolio position of its financial instruments and physical commitments, the liquidity of the market in which the contract is transacted, and changes in interest rates and credit risk.

Energy Marketing & Trading manages market risk through established trading policy guidelines, which are monitored on an ongoing basis. Energy Marketing & Trading attempts to minimize credit-risk exposure to trading counterparties and brokers through formal credit policies and monitoring procedures. In the normal course of business, collateral is not required for financial instruments with credit risk.

The notional quantities for trading activities at December 31 are as follows:

	1997		1996	
	Payer	Receiver	Payer	Receiver
Fixed price:				
Natural gas (TBtu) .....	1,327.9	1,702.5	1,066.6	1,196.8
Refined products and crude (MMBbls) .....	337.2	230.7	34.4	26.3
Power (Terawatt Hrs) .....	20.0	16.7	—	—
Variable price:				
Natural gas (TBtu) .....	2,091.1	1,508.2	1,584.9	1,123.8
Refined products and crude (MMBbls) .....	4.5	3.1	3.7	3.3
Power (Terawatt Hrs) .....	.2	2.1	—	—

The net cash flow requirement related to these contracts at December 31, 1997 and 1996, was \$92 million and \$117 million, respectively. At December 31, 1997, the cash flow requirements extend primarily through 2007.

*Concentration of Credit Risk*

Williams' cash equivalents consist of high quality securities placed with various major financial institutions with high credit ratings. Williams' investment policy limits its credit exposure to any one financial institution.

At December 31, 1997 and 1996, approximately 57 percent and 69 percent, respectively, of receivables are for the sale or transportation of natural gas and related products or services. Approximately 33 percent and 23 percent of receivables at December 31, 1997 and 1996, respectively, are for communications and related services. Natural gas customers include pipelines, distribution companies, producers, gas marketers and industrial users primarily located in the eastern, northwestern and midwestern United States. Communica-

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

tions' customers include numerous corporations. As a general policy, collateral is not required for receivables, but customers' financial condition and credit worthiness are evaluated regularly.

Note 17. Other financial information

Intercompany revenues (at prices that generally apply to sales to unaffiliated parties) are as follows:

	1997	1996 (Millions)	1995
Gas Pipelines:			
Central .....	\$ 6.1	\$ 9.2	\$ 9.5
Northwest Pipeline .....	2.8	1.1	1.8
Texas Gas Transmission .....	7.6	20.5	37.7
Transcontinental Gas Pipe Line .....	40.5	34.6	34.2
Energy Services:			
Energy Marketing & Trading* .....	(47.1)	130.7	62.2
Exploration & Production .....	125.5	57.1	4.9
Field Services .....	32.3	26.2	14.0
Petroleum Services .....	81.6	67.7	44.6
Other .....	12.6	9.3	.2
	<u>\$262.9</u>	<u>\$356.4</u>	<u>\$209.1</u>

\* Energy Marketing & Trading intercompany cost of sales, which are netted in revenues consistent with market-value accounting, exceed intercompany revenues in 1997.

Information for business segments is as follows:

	1997	1996 (Millions)	1995
Identifiable assets at December 31:			
Gas Pipelines:			
Central .....	\$ 854.9	\$ 704.8	\$ 709.2
Kern River Gas Transmission .....	1,083.0	1,081.6	—
Northwest Pipeline .....	1,161.3	1,153.9	1,147.5
Texas Gas Transmission .....	1,162.1	1,132.2	1,151.8
Transcontinental Gas Pipe Line .....	3,413.9	3,305.4	3,159.5
Energy Services:			
Energy Marketing & Trading .....	725.1	839.1	438.2
Exploration & Production .....	247.1	200.3	164.6
Field Services .....	2,038.4	1,995.0	1,939.3
Petroleum Services .....	904.6	906.5	863.2
Communications .....	1,312.9	670.6	401.0
Investments .....	291.4	190.6	307.6
General corporate and other .....	684.3	238.8	279.3
Consolidated .....	<u>\$13,879.0</u>	<u>\$12,418.8</u>	<u>\$10,561.2</u>



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	1997	1996	1995
	(Millions)		
Additions to property, plant and equipment:			
Gas Pipelines:			
Central .....	\$ 60.4	\$ 50.9	\$ 43.5
Kern River Gas Transmission .....	15.3	4.7	—
Northwest Pipeline .....	44.4	62.8	130.5
Texas Gas Transmission .....	74.5	50.1	32.1
Transcontinental Gas Pipe Line .....	224.8	272.1	238.7
Energy Services:			
Energy Marketing & Trading .....	37.6	.6	.4
Exploration & Production .....	63.3	30.3	15.6
Field Services .....	158.8	205.7	232.1
Petroleum Services .....	45.0	55.8	87.9
Communications .....	276.3	66.9	32.4
General corporate and other .....	161.7	19.0	14.3
Consolidated .....	<u>\$ 1,162.1</u>	<u>\$ 818.9</u>	<u>\$ 827.5</u>
Depreciation, depletion and amortization:			
Gas Pipelines:			
Central .....	\$ 28.0	\$ 27.5	\$ 27.3
Kern River Gas Transmission .....	17.8	15.5	—
Northwest Pipeline .....	55.2	43.2	34.9
Texas Gas Transmission .....	42.5	41.5	38.9
Transcontinental Gas Pipe Line .....	129.5	113.7	109.1
Energy Services:			
Energy Marketing & Trading .....	.7	.6	1.2
Exploration and Production .....	12.6	10.5	9.8
Field Services .....	102.7	94.7	100.4
Petroleum Services .....	35.0	34.1	26.4
Communications .....	66.8	30.9	20.3
General corporate and other .....	8.7	8.8	7.2
Consolidated .....	<u>\$ 499.5</u>	<u>\$ 421.0</u>	<u>\$ 375.5</u>

Identifiable assets are gross assets used by a business segment, including an allocated portion of assets used jointly by more than one business segment. Items such as investments are considered to be general corporate assets rather than identifiable assets of individual business segments.

Note 18. Contingent Liabilities and Commitments

Rate and regulatory matters and related litigation

Williams' interstate pipeline subsidiaries, including Williams Pipe Line, have various regulatory proceedings pending. As a result of rulings in certain of these proceedings, a portion of the revenues of these subsidiaries has been collected subject to refund. As to Williams Pipe Line, revenues collected subject to refund were \$328 million as of December 31, 1997; it is not expected that the amount of any refunds ordered would be significant. Accordingly, no portion of these revenues has been reserved for refund. As to the other pipelines, \$337 million of revenues has been reserved for potential refund as of December 31, 1997.

In 1997, the Federal Energy Regulatory Commission (FERC) issued orders addressing, among other things, the authorized rates of return for three of Williams' interstate natural gas pipeline subsidiaries. All of

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the orders involve rate cases that became effective between 1993 and 1995 and, in each instance, these cases have been superseded by more recently filed rate cases. In the three orders, the FERC continued its practice of utilizing a methodology for calculating rates of return that incorporates a long-term growth rate component. However, the long-term growth rate component used by the FERC is now a projection of U.S. gross domestic product growth rates. Generally, calculating rates of return utilizing a methodology which includes a long-term growth rate component results in rates of return that are lower than they would be if the long-term growth rate component were not included in the methodology. Each of the three pipeline subsidiaries challenged its respective FERC order in an effort to have the FERC change its rate of return methodology with respect to these and other rate cases. In October 1997, the FERC voted not to reconsider an order issued in one of the three pipeline proceedings, but convened a conference on January 30, 1998, to consider, on an industry-wide basis, issues with respect to pipeline rates of return.

In 1992, the FERC issued Order 636, Order 636-A and Order 636-B. These orders, which were challenged in various respects by various parties in proceedings ruled on by the U.S. Court of Appeals for the D.C. Circuit, require interstate gas pipeline companies to change the manner in which they provide services. Williams' gas pipelines subsidiaries implemented restructurings in 1993. Certain aspects of three of its pipeline companies' restructurings are under appeal.

On July 16, 1996, the U.S. Court of Appeals for the D.C. Circuit issued an order which in part affirmed and in part remanded Order 636. However, the court stated that Order 636 would remain in effect until FERC issued a final order on remand after considering the remanded issues. With the issuance of this decision, the stay on the appeals of individual pipeline's restructuring cases was lifted. The only appeal challenging Northwest Pipeline's restructuring has been dismissed. On February 27, 1997, the FERC issued Order No. 636-C which dealt with the six issues remanded by the D.C. Circuit. In that order, the FERC affirmed that pipelines should be exempt from sharing gas supply realignment costs. Requests for rehearing have been filed for the order.

*Contract reformations and gas purchase agreements*

As a result of FERC Order 636, which requires interstate gas pipelines to change the way they do business, each of the natural gas pipeline subsidiaries has undertaken the reformation or termination of its respective gas supply contracts. None of the pipelines has any significant pending supplier take-or-pay, payable take or minimum take claims.

Current FERC policy associated with Orders 436 and 500 requires interstate gas pipelines to absorb some of the cost of reforming gas supply contracts before allowing any recovery through direct bill or surcharges to transportation as well as rates commodity rates. Under Orders 636, 636-A, 636-B and 636-C, costs incurred to comply with these rules are permitted to be recovered in full, although a percentage of such costs must be allocated to interruptible transportation service.

Pursuant to a stipulation and agreement approved by the FERC, Williams Gas Pipelines Central (Central) has made 11 filings to direct bill take-or-pay and gas supply realignment costs. The total amount approved for direct billing, net of certain amounts collected subject to refund, is \$67 million. An intervenor has filed protests seeking to have the FERC review the prudence and eligibility of approximately \$40 million of costs covered by these filings. On July 31, 1996, the administrative law judge issued an initial decision rejecting the intervenor's prudence challenge. On September 30, 1997, the FERC, by a two-to-one vote, reversed the administrative law judge and determined that three life-of-lease producer contracts were impermissibly entered into in 1982. Central has filed for rehearing, and management plans to vigorously defend the prudence of these contracts. An intervenor has also filed a protest seeking to have the FERC decide whether non-settlement costs are eligible for recovery under Order No. 636. In January 1997, the FERC held that none of the non-settlement costs could be recovered by Central if these costs were not eligible for recovery under Order No. 636. This order was affirmed on rehearing in April 1997. An initial decision from

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the administrative law judge is expected in the first quarter of 1998. If the FERC's final ruling on eligibility is unfavorable, Central will appeal these orders to the courts. Central will make additional filings under the applicable FERC orders to recover such additional costs as may be incurred in the future.

Because of the uncertainties pertaining to the outcome of these issues currently pending at the FERC and the status of settlement negotiation and various other factors, Central cannot reasonably estimate the costs that may be incurred nor the related amounts that could be recovered from customers. Central is actively pursuing negotiations with the producers to resolve all outstanding obligations under the contracts. Based on the terms of what Central believes would be a reasonable settlement, \$94 million has been accrued as a liability at December 31, 1997, including a \$5 million fourth-quarter 1997 charge to expense for additional absorption of future costs. Central also has an \$88 million regulatory asset at December 31, 1997, for estimated recovery of future costs from customers. Central cannot predict the final outcome of the FERC's rulings on contract prudence and cost recovery under Order No. 636 and is unable to determine the ultimate liability and loss, if any, at this time. If Central does not prevail in these FERC proceedings or any subsequent appeals, and if Central is able to reach a settlement with the producers consistent with the \$94 million accrued liability, the loss could be the total of the regulatory asset and the \$40 million of protested assets. Central continues to believe that it entered into the gas purchase contracts in a prudent manner under FERC rules in place at the time. Central also believes that the future recovery of these costs would be in accordance with the terms of Order No. 636.

In September 1995, Texas Gas received FERC approval of a settlement regarding Texas Gas' recovery of gas supply realignment costs. Through December 31, 1997, Texas Gas has paid approximately \$76 million and expects to pay no more than \$80 million for gas supply realignment costs, primarily as a result of contract terminations. Texas Gas has recovered approximately \$66 million, plus interest, in gas supply realignment costs.

The foregoing accruals are in accordance with Williams' accounting policies regarding the establishment of such accruals which take into consideration estimated total exposure, as discounted and risk-weighted, as well as costs and other risks associated with the difference between the time costs are incurred and the time such costs are recovered from customers. The estimated portion of such costs recoverable from customers is deferred or recorded as a regulatory asset based on an estimate of expected recovery of the amounts allowed by FERC policy. While Williams believes that these accruals are adequate and the associated regulatory assets are appropriate, costs actually incurred and amounts actually recovered from customers will depend upon the outcome of various court and FERC proceedings, the success of settlement negotiations and various other factors, not all of which are presently foreseeable.

*Environmental matters*

Since 1989, Texas Gas and Transcontinental Gas Pipe Line have had studies under way to test certain of their facilities for the presence of toxic and hazardous substances to determine to what extent, if any, remediation may be necessary. Transcontinental Gas Pipe Line has responded to data requests regarding such potential contamination of certain of its sites. The costs of any such remediation will depend upon the scope of the remediation. At December 31, 1997, these subsidiaries had reserves totaling approximately \$28 million for these costs.

Certain Williams subsidiaries, including Texas Gas and Transcontinental Gas Pipe Line, have been identified as potentially responsible parties (PRP) 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. Although no assurances can be given, Williams does not believe that the PRP status of these subsidiaries will have a material adverse effect on its financial position, results of operations or net cash flows.



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Transcontinental Gas Pipe Line, Texas Gas and Central have identified polychlorinated biphenyl (PCB) contamination in air compressor systems, soils and related properties at certain compressor station sites. Transcontinental Gas Pipe Line, Texas Gas and Central have also been involved in negotiations with the U.S. Environmental Protection Agency (EPA) and state agencies to develop screening, sampling and cleanup programs. In addition, negotiations with certain environmental authorities and other programs concerning investigative and remedial actions relative to potential mercury contamination at certain gas metering sites have been commenced by Central, Texas Gas and Transcontinental Gas Pipe Line. As of December 31, 1997, Central had recorded a liability for approximately \$17 million, representing the current estimate of future environmental cleanup costs to be incurred over the next six to ten years. The Field Services unit of Energy Services had recorded an aggregate liability of approximately \$12 million, representing the current estimate of its future environmental and remediation costs, including approximately \$5 million relating to former Central facilities. Texas Gas and Transcontinental Gas Pipe Line likewise had recorded liabilities for these costs which are included in the \$28 million reserve mentioned above. Actual costs incurred will depend on the actual number of contaminated sites identified, the actual amount and extent of contamination discovered, the final cleanup standards mandated by the EPA and other governmental authorities and other factors. Texas Gas, Transcontinental Gas Pipe Line and Central have deferred these costs pending recovery as incurred through future rates and other means.

In connection with the 1987 sale of the assets of Agrico Chemical Company, Williams agreed to indemnify the purchaser for environmental cleanup costs resulting from certain conditions at specified locations, to the extent such costs exceed a specified amount. Such costs have exceeded this amount. At December 31, 1997, Williams had approximately \$11 million accrued for such excess costs. The actual costs incurred will depend on the actual amount and extent of contamination discovered, the final cleanup standards mandated by the EPA or other governmental authorities, and other factors.

A lawsuit was filed in May 1993 in a state court in Colorado in which certain claims have been made against various defendants, including Northwest Pipeline, contending that gas exploration and development activities in portions of the San Juan Basin have caused air, water and other contamination. The plaintiffs in the case sought certification of a plaintiff class. In June 1994, the lawsuit was dismissed for failure to join an indispensable party over which the state court had no jurisdiction. The Colorado court of appeals has affirmed the dismissal and remanded the case to Colorado district court for action consistent with the appeals court's decision. Since June 1994, eight individual lawsuits have been filed against Northwest Pipeline and others in U.S. district court in Colorado, making essentially the same claims. The district court has stayed all of the cases involving Northwest Pipeline until the plaintiffs exhaust their remedies before the Southern Ute Indian Tribal Court. Some plaintiffs filed cases in the Tribal court, but none named Northwest Pipeline as a defendant.

*Other legal matters*

In 1991, the Southern Ute Indian Tribe (the Tribe) filed a lawsuit against Williams Production Company (Williams Production), a wholly-owned subsidiary of Williams, and other gas producers in the San Juan Basin area, alleging that certain coal strata were reserved by the United States for the benefit of the Tribe and that the extraction of coal-seam gas from the coal strata was wrongful. The Tribe seeks compensation for the value of the coal-seam gas. The Tribe also seeks an order transferring to the Tribe ownership of all of the defendants' equipment and facilities utilized in the extraction of the coal-seam gas. In September 1994, the court granted summary judgment in favor of the defendants and the Tribe lodged an interlocutory appeal with the U.S. Court of Appeals for the Tenth Circuit. Williams Production agreed to indemnify the Williams Coal Seam Gas Royalty Trust (Trust) against any losses that may arise in respect of certain properties subject to the lawsuit. In addition, if the Tribe is successful in showing that Williams Production has no rights in the coal-seam gas, Williams Production has agreed to pay to the Trust for distribution to then-current unitholders, an amount representing a return of a portion of the original purchase price paid for the units. On July 16, 1997,



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the U.S. Court of Appeals for the Tenth Circuit reversed the decision of the district court, held that the Tribe owns the coal-seam gas produced from certain coal strata on fee lands within the exterior boundaries of the Tribe's reservation, and remanded the case to the district court for further proceedings. On September 16, 1997, Amoco Production Company, the class representative for the defendant class (of which Williams Production is a part), filed its motion for rehearing en banc before the Court of Appeals. On December 4, 1997, the Tenth Circuit Court of Appeals agreed to rehear the appeal.

In connection with agreements to resolve take-or-pay and other contract claims and to amend gas purchase contracts, Transcontinental Gas Pipe Line and Texas Gas each entered into certain settlements with producers which may require the indemnification of certain claims for additional royalties which the producers may be required to pay as a result of such settlements. In one of the two remaining cases, a jury verdict found that Transcontinental Gas Pipe Line was required to pay to a producer damages of \$23.3 million including \$3.8 million in attorneys' fees. Transcontinental Gas Pipe Line is considering an appeal. In the other remaining case, a producer has asserted damages, including interest calculated through December 31, 1996, of approximately \$6 million.

Producers have received and may receive other demands, which could result in additional claims. Indemnification for royalties will depend on, among other things, the specific lease provisions between the producer and the lessor and the terms of the settlement between the producer and either Transcontinental Gas Pipe Line or Texas Gas. Texas Gas may file to recover 75 percent of any such additional amounts it may be required to pay pursuant to indemnities for royalties under the provisions of Order 528.

In November 1994, Continental Energy Associates Limited Partnership (the Partnership) filed a voluntary petition under Chapter 11 of the Bankruptcy Code with the U.S. Bankruptcy Court, Middle District of Pennsylvania. The Partnership owned a cogeneration facility in Hazleton, Pennsylvania (the Facility). Hazleton Fuel Management Company (HFMC), a subsidiary of Transco Energy, formerly supplied natural gas and fuel oil to the Facility. Pursuant to a court-approved Plan of Reorganization, all litigation involving HFMC has been fully settled, and HFMC received \$6.3 million from the bankruptcy estate, leaving it with approximately \$14 million of outstanding receivables, all of which have been fully reserved.

In addition to the foregoing, various other proceedings are pending against Williams or its subsidiaries which are incidental to their operations.

*Summary*

While no assurances may be given, Williams does not believe that the ultimate resolution of the foregoing matters, taken as a whole and after consideration of amounts accrued, insurance coverage, recovery from customers or other indemnification arrangements, will have a materially adverse effect upon Williams' future financial position, results of operations or cash flow requirements.

**19. MAPCO acquisition**

On November 24, 1997, Williams and MAPCO Inc. announced that they had entered into a definitive merger agreement whereby Williams would acquire MAPCO by exchanging 1.665 shares of Williams common stock for each outstanding share of MAPCO common stock. In addition, outstanding MAPCO employee stock options would be converted into Williams common stock. Approximately 96.8 million shares of Williams common stock valued at approximately \$2.8 billion, based on the closing market price of Williams common stock on December 31, 1997, would be issued in the transaction. The transaction, subject to approval by both Williams and MAPCO stockholders and to review under federal anti-trust laws, is expected to close during the first quarter of 1998. MAPCO is engaged in the NGL pipeline, petroleum refining and marketing and propane marketing businesses, and will become part of the Energy Services business unit.

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The merger will be accounted for as a pooling of interests. Anticipated changes in accounting methods as a result of the merger are not expected to have a material impact on the financial position or results of operations of the combined entity.

The following unaudited pro forma information combines the results of operations of Williams and MAPCO as if the companies had been combined throughout the periods presented.

	Years Ended December 31,		
	1997	1996	1995
	(billions, except per-share amounts)		
Revenues .....	\$8,241.6	\$6,842.9	\$5,655.0
Income from continuing operations .....	458.6	492.5	363.6
Net income .....	373.2	459.8	1,392.9
Basic earnings per common share:			
Income from continuing operations .....	1.09	1.16	.87
Net income .....	.88	1.08	3.43
Diluted earnings per common share:			
Income from continuing operations .....	1.06	1.14	.86
Net income .....	.86	1.06	3.35

Pro forma financial information is not necessarily indicative of results of operations that would have occurred if the companies had been combined throughout the periods presented or of future results of operations of the combined companies.

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**QUARTERLY FINANCIAL DATA (Unaudited)**

Summarized quarterly financial data are as follows (millions, except per-share amounts). Per-share amounts reflect the effect of the two-for-one common stock split and distribution (see Note 15) and the adoption of SFAS No. 128.

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
<u>1997</u>				
Revenues .....	\$1,001.4	\$1,020.6	\$1,121.0	\$1,266.6
Costs and operating expenses .....	581.3	625.1	705.3	752.8
Income before extraordinary loss .....	105.9	107.8	65.3	71.5
Net income (loss) .....	105.9	107.8	(8.4)	66.1
Basic earnings per common share:				
Income before extraordinary loss .....	.32	.33	.20	.21
Net income (loss) .....	.32	.33	(.03)	.19
Diluted earnings per common share:				
Income before extraordinary loss .....	.31	.32	.19	.21
Net income (loss) .....	.31	.32	(.03)	.19
<u>1996</u>				
Revenues .....	\$ 893.7	\$ 837.5	\$ 842.2	\$ 957.8
Costs and operating expenses .....	499.4	493.9	509.3	561.5
Net income .....	104.9	80.4	71.0	106.0
Basic earnings per common share .....	.32	.24	.21	.32
Diluted earnings per common share .....	.31	.24	.21	.31

The sum of earnings per share for the four quarters may not equal the total earnings per share for the year due to changes in the average number of common shares outstanding.

Second-quarter 1997 net income includes a \$44.5 million gain related to the combination of Williams' and Nortel's customer-premise equipment sales and service business (see Note 2 of Notes to Consolidated Financial Statements). Third-quarter 1997 net income includes an extraordinary loss of \$74 million related to the restructuring of Williams' debt portfolio (see Note 8 of Notes to Consolidated Financial Statements).

Second-quarter 1996 net income includes recognition of favorable income tax adjustments totaling \$10 million related to research credits and previously provided deferred income taxes on certain regulated capital projects. Third-quarter 1996 net income includes approximately \$6 million, net of federal income tax effect, from the effects of state income tax adjustments related to 1995.

Selected comparative fourth-quarter data are as follows (millions, except per-share amounts).

	1997	1996
Operating profit:		
Gas Pipelines:		
Central .....	\$ 5.6	\$ 10.9
Kern River Gas Transmission .....	29.7	29.3
Northwest Pipeline .....	29.5	21.8
Texas Gas Transmission .....	32.1	29.5
Transcontinental Gas Pipe Line .....	63.4	61.0
Energy Services:		
Energy Marketing & Trading .....	42.0	13.6
Exploration & Production .....	10.2	3.7
Field Services .....	33.5	56.3
Petroleum Services .....	33.9	18.3
Communications .....	(51.8)	.6
Other .....	2.8	(2.9)
Total operating profit .....	230.9	242.1
General corporate expenses .....	(18.7)	(11.6)
Interest expense net .....	(97.4)	(91.9)
Investing income .....	7.4	4.1
Gain on sale of asset .....	—	15.7
Minority interest in income of consolidated subsidiaries .....	(4.5)	—
Other income (expense) net .....	(1.8)	8.0
Income before income taxes .....	115.9	166.4
Provision for income taxes .....	44.4	60.4
Income before extraordinary loss .....	71.5	106.0
Extraordinary loss .....	(5.4)	—
Net income .....	\$ 66.1	\$ 106.0
Basic earnings per common share .....	\$ .19	\$ .32
Diluted earnings per common share .....	\$ .19	\$ .31

Communications' fourth-quarter 1997 operating profit includes charges totaling approximately \$49.8 million, related to the decision to sell the learning content business, the write-down of assets and the development costs associated with advanced applications. In addition, 1997 general corporate expenses include approximately \$5 million in costs related to the MAPCO acquisition (see Note 19 of Notes to Consolidated Financial Statements).

Field Services' fourth-quarter 1996 operating profit includes a gain of approximately \$20 million from the property insurance coverage associated with construction of replacement gathering facilities. In addition, 1996 segment operating profit and general corporate expenses together include approximately \$10 million related to an all-employee bonus that was linked to achieving record financial performance. In fourth-quarter 1996, Williams recognized a pre-tax gain of \$15.7 million from the sale of certain communication rights.

**Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.**

None.



THE WILLIAMS COMPANIES, INC.  
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS  
Item 14(a) 1 and 2

	<u>Page</u>
Covered by report of independent auditors:	
Consolidated statement of income for the three years ended December 31, 1997 .....	F-16
Consolidated balance sheet at December 31, 1997 and 1996 .....	F-17
Consolidated statement of stockholders' equity for the three years ended December 31, 1997 ....	F-18
Consolidated statement of cash flows for the three years ended December 31, 1997 .....	F-19
Notes to consolidated financial statements .....	F-20
Schedule for the three years ended December 31, 1997:	
II — Valuation and qualifying accounts .....	F-50
Not covered by report of independent auditors:	
Quarterly financial data (unaudited) .....	F-47

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.

THE WILLIAMS COMPANIES, INC.  
SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS(a)

	<u>Beginning Balance</u>	<u>Additions</u>		<u>Deductions(b)</u>	<u>Ending Balance</u>
		<u>Charged to Costs and Expenses</u>	<u>Other(c) (Millions)</u>		
Allowance for doubtful accounts:					
1997 .....	\$ 9.7	\$8.8	\$7.8	\$7.0	\$19.3
1996 .....	11.3	4.1	1.3	7.0	9.7
1995 .....	7.9	3.8	1.6	2.0	11.3

(a) Deducted from related assets.

(b) Represents balances written off, net of recoveries and reclassifications.

(c) Primarily relates to acquisitions of businesses.

### PART III

#### **Item 10. *Directors and Executive Officers of the Registrant***

The information regarding the Directors and nominees for Director of Williams required by Item 401 of Regulation S-K is presented under the heading "Election of Directors" in Williams' Proxy Statement prepared for the solicitation of proxies in connection with the Annual Meeting of Stockholders of the Company for 1998 (the "Proxy Statement"), which information is incorporated by reference herein. A copy of the Proxy Statement is filed as an exhibit to the Form 10-K. Information regarding the executive officers of Williams is presented following Item 4 herein, as permitted by General Instruction G(3) to Form 10-K and Instruction 3 to Item 401(b) of Regulation S-K. Information required by Item 405 of Regulation S-K is included under the heading "Compliance with Section 16(a) of the Securities Exchange Act of 1934" in the Proxy Statement, which information is incorporated by reference herein.

#### **Item 11. *Executive Compensation***

The information required by Item 402 of Regulation S-K regarding executive compensation is presented under the headings "Election of Directors" and "Executive Compensation and Other Information" in the Proxy Statement, which information is incorporated by reference herein. Notwithstanding the foregoing, the information provided under the headings "Compensation Committee Report on Executive Compensation" and "Stockholder Return Performance Presentation" in the Proxy Statement are not incorporated by reference herein. A copy of the Proxy Statement is filed as an exhibit to the Form 10-K.

#### **Item 12. *Security Ownership of Certain Beneficial Owners and Management***

The information regarding the security ownership of certain beneficial owners and management required by Item 403 of Regulation S-K is presented under the headings "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement, which information is incorporated by reference herein. A copy of the Proxy Statement is filed as an exhibit to the Form 10-K.

**Item 13. *Certain Relationships and Related Transactions***

There is no information regarding certain relationships and related transactions required by Item 404 of Regulation S-K to be reported.

**PART IV**

**Item 14. *Exhibits, Financial Statement Schedules and Reports on Form 8-K***

(a) 1 and 2. The financial statements and schedule listed in the accompanying index to consolidated financial statements are filed as part of this annual report.

(a) 3 and (c). The exhibits listed below are filed as part of this annual report.

**Exhibit 2 —**

\* (a) Agreement and Plan of Merger, dated as of November 23, 1997, and as amended on January 25, 1998, among The Williams Companies, Inc., MAPCO Inc. and TML Acquisition Corp. (filed as Exhibit 2.1 to the Company's Registration Statement on Form S-4, filed January 27, 1998).

**Exhibit 3 —**

\* (a) Restated Certificate of Incorporation of Williams (filed as Exhibit 4(a) to Form 8-B Registration Statement, filed August 20, 1987).

\* (b) Certificate of Amendment of Restated Certificate of Incorporation, dated May 20, 1994 (filed as Exhibit 3(d) to Form 10-K for the fiscal year ended December 31, 1994).

\* (c) Certificate of Amendment of Restated Certificate of Incorporation dated May 16, 1997 (filed as Exhibit 4.3 to the Registration Statement on Form S-8 filed November 21, 1997).

(d) Certificate of Amendment of Restated Certificate of Incorporation, dated February 26, 1998.

\* (e) Certificate of Designation with respect to the \$3.50 Cumulative Convertible Preferred Stock (filed as Exhibit 3.1(c) to the Prospectus and Information Statement to Amendment No. 2 to the Registration Statement on Form S-4, filed March 30, 1995).

\* (f) Certificate of Increase of Authorized Number of Shares of Series A Junior Participating Preferred Stock (filed as Exhibit 3(f) to Form 10-K for the fiscal year ended December 31, 1995).

(g) Certificate of Increase of Authorized Number of Shares of Series A Junior Participating Preferred Stock, dated December 31, 1997.

\* (h) Rights Agreement, dated as of February 6, 1996, between Williams and First Chicago Trust Company of New York (filed as Exhibit 4 to Williams Form 8-K, filed January 24, 1996).

\* (i) By-laws of Williams, as amended (filed, as amended, as Exhibit 3 to Form 10-Q for the quarter ended September 30, 1996).

**Exhibit 4 —**

\* (a) Form of Senior Debt Indenture between the Company and Chase Manhattan Bank (formerly Chemical Bank), Trustee, relating to the 10 1/4% Debentures, due 2020; the 9 1/4% Debentures, due 2021; the 8 1/4% Notes, due 1998; Medium-Term Notes (9.10%-9.31%), due 2001; the 7 1/2% Notes, due 1999, and the 8 1/2% Debentures, due 2012 (filed as Exhibit 4.1 to Form S-3 Registration Statement No. 33-33294, filed February 2, 1990).

\* (b) Form of Subordinated Debt Indenture between the Company and Chase Manhattan Bank (formerly Chemical Bank), Trustee, relating to 9.60% Quarterly Income Capital Securities, due 2025 (filed as Exhibit 4.2 to Form S-3 Registration Statement No. 33-60397, filed June 20, 1995).



(c) U.S. \$1,000,000,000 Amended and Restated Credit Agreement, dated as of July 23, 1997, among Williams and certain of its subsidiaries and the banks named therein and Citibank, N.A., as agent.

\* (d) Form of Senior Debt Indenture between the Company and The First National Bank of Chicago, Trustee, relating to 6.50% Notes due 2002; 6.625% Notes due 2004; floating rate notes due 2000; 6 1/4% Notes due 2001; and 6 1/4% Mandatory Puttable/Remarkable Securities due 2012 (filed as Exhibit 4.1 to Registration Statement on Form S-3 filed September 8, 1997).

\* (e) Form of Debenture representing \$360,000,000 principal amount of 6% Convertible Subordinated Debenture Due 2005 (filed as Exhibit 4.7 to the Registration Statement on Form S-8, filed August 30, 1996).

\* (f) Form of Warrant to purchase 11,305,720 shares of the Common Stock of the Company (filed as Exhibit 4.8 to the Registration Statement on Form S-8, filed August 30, 1996).

**Exhibit 10(iii) — Compensatory Plans and Management Contracts**

\* (a) The Williams Companies, Inc. Supplemental Retirement Plan, effective as of January 1, 1988 (filed as Exhibit 10(iii)(c) to Form 10-K for the year ended December 31, 1987).

\* (b) Form of Employment Agreement, dated January 1, 1990, between Williams and certain executive officers (filed as Exhibit 10(iii)(d) to Form 10-K for the year ended December 31, 1989).

\* (c) Form of The Williams Companies, Inc. Change in Control Protection Plan between Williams and employees (filed as Exhibit 10(iii)(e) to Form 10-K for the year ended December 31, 1989).

\* (d) The Williams Companies, Inc. 1985 Stock Option Plan (filed as Exhibit A to Williams' Proxy Statement, dated March 13, 1985).

\* (e) The Williams Companies, Inc. 1988 Stock Option Plan for Non-Employee Directors (filed as Exhibit A to Williams' Proxy Statement, dated March 14, 1988).

\* (f) The Williams Companies, Inc. 1990 Stock Plan (filed as Exhibit A to Williams' Proxy Statement, dated March 12, 1990).

\* (g) The Williams Companies, Inc. Stock Plan for Non-Officer Employees (filed as Exhibit 10(iii)(g) to Form 10-K for the fiscal year ended December 31, 1995).

\* (h) The Williams Companies, Inc. 1996 Stock Plan (filed as Exhibit A to Williams' Proxy Statement, dated March 27, 1996).

\* (i) The Williams Companies, Inc. 1996 Stock Plan for Non-Employee Directors (filed as Exhibit B to Williams' Proxy Statement, dated March 27, 1996).

\* (j) Indemnification Agreement, effective as of August 1, 1986, between Williams and members of the Board of Directors and certain officers of Williams (filed as Exhibit 10(iii)(e) to Form 10-K for the year ended December 31, 1986).

**Exhibit 11 — Computation of Earnings Per Common and Common-equivalent Share.**

**Exhibit 12 — Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividend Requirements.**

**Exhibit 20 — Definitive Proxy Statement of Williams for 1998 (as filed with the Commission on March 27, 1998).**

**Exhibit 21 — Subsidiaries of the registrant.**

**Exhibit 23 — Consent of Independent Auditors.**

**Exhibit 24 — Power of Attorney together with certified resolution.**

**Exhibit 27 — Financial Data Schedule.**

Exhibit 27.1 — Restated Financial Data Schedule for the year ended December 31, 1996.

Exhibit 27.2 — Restated Financial Data Schedule for the year ended December 31, 1995.

(b) Reports on Form 8-K.

On October 29, 1997, the Company filed a report on Form 8-K to report the results of the Company's debt tender offer.

On November 15, 1997, the Company filed a report on Form 8-K/A to report the results of the Company's debt tender offer.

On November 27, 1997, the Company filed a report on Form 8-K to report the Company's execution of an Agreement and Plan of Merger, dated November 23, 1997, among the Company, MAPCO Inc., and TML Acquisition Corp., providing for the Company to acquire MAPCO, Inc.

(d) The financial statements of partially-owned companies are not presented herein since none of them individually, or in the aggregate, constitute a significant subsidiary.

- \* Each such exhibit has heretofore been filed with the Securities and Exchange Commission as part of the filing indicated and is incorporated herein by reference.

# 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/ SHAWNA L. GEHRES  
Shawna L. Gehres  
Attorney-in-fact

Dated: March 30, 1998

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 in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>
<u>/s/ KEITH E. BAILEY*</u> Keith E. Bailey	Chairman of the Board, President, Chief Executive Officer (Principal Executive Officer) and Director
<u>/s/ JACK D. MCCARTHY*</u> Jack D. McCarthy	Senior Vice President — Finance (Principal Financial Officer)
<u>/s/ GARY R. BELITZ*</u> Gary R. Belitz	Controller (Principal Accounting Officer)
<u>/s/ GLENN A. COX*</u> Glenn A. Cox	Director
<u>/s/ THOMAS H. CRUIKSHANK*</u> Thomas H. Cruikshank	Director
<u>/s/ WILLIAM E. GREEN*</u> William E. Green	Director
<u>/s/ PATRICIA L. HIGGINS*</u> Patricia L. Higgins	Director
<u>/s/ W.R. HOWELL*</u> W. R. Howell	Director
<u>/s/ ROBERT J. LAFORTUNE*</u> Robert J. LaFortune	Director
<u>/s/ JAMES C. LEWIS*</u> James C. Lewis	Director
<u>/s/ JACK A. MACALLISTER*</u> Jack A. MacAllister	Director

Signature

Title

<u>/s/ PETER C. MEINIG*</u> Peter C. Meinig	Director
<u>/s/ KAY A. ORR*</u> Kay A. Orr	Director
<u>/s/ GORDON R. PARKER*</u> Gordon R. Parker	Director
<u>/s/ JOSEPH H. WILLIAMS*</u> Joseph H. Williams	Director
By: <u>/s/ SHAWNA L. GEHRES</u> Shawna L. Gehres <i>Attorney-in-fact</i>	

Dated: March 30, 1998



**REGULATIONS AND SCHEDULE OF CHARGES  
APPLICABLE TO INTRASTATE INTEREXCHANGE SWITCHED SERVICES  
FURNISHED BY  
WILLIAMS COMMUNICATIONS, INC.**

This Tariff contains the rates, terms and conditions applicable to intrastate interexchange switched services offered by Williams Communications, Inc. of Tulsa, Oklahoma within the State of South Dakota. The provisions of this tariff apply only to the intrastate interexchange services described in this tariff.

The services described in this tariff may be provided by any means of wire, terrestrial communications systems, satellite, microwave, and other transmission systems, or any combination thereof.

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**ISSUED:** *[date]*

**EFFECTIVE:** *[date]*

**ISSUED BY:** Mickey S. Moon, Director of Regulatory Affairs  
One Williams Center, RC3-1  
Tulsa, Oklahoma 74172  
(918) 573-8771

## CHECK SHEET

The Title Page and pages listed below are inclusive and effective as of the date shown. Revised pages as named below contain all changes from the original Tariff that are in effect on the date shown on each page.

Page #	Revision	Page #	Revision
Title Page	Original *	28	Original *
1	Original *	29	Original *
2	Original *	30	Original *
3	Original *	31	Original *
4	Original *	32	Original *
5	Original *	33	Original *
6	Original *	34	Original *
7	Original *	35	Original *
8	Original *	36	Original *
9	Original *	37	Original *
10	Original *	38	Original *
11	Original *	39	Original *
12	Original *	40	Original *
13	Original *	41	Original *
14	Original *	42	Original *
15	Original *	43	Original *
16	Original *	44	Original *
17	Original *	45	Original *
18	Original *	46	Original *
19	Original *	47	Original *
20	Original *	48	Original *
21	Original *	49	Original *
22	Original *	50	Original *
23	Original *	51	Original *
24	Original *	52	Original *
25	Original *	53	Original *
26	Original *	54	Original *
27	Original *	55	Original *

\* Indicates tariff pages included in this filing.

ISSUED: [date]

EFFECTIVE: [date]

ISSUED BY: Mickey S. Moon, Director of Regulatory Affairs  
One Williams Center, RC3-1  
Tulsa, Oklahoma 74172  
(918) 573-8771

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Check Sheet .....	1
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ISSUED: [date]

EFFECTIVE: [date]

ISSUED BY: Mickey S. Moon, Director of Regulatory Affairs  
One Williams Center, RC3-I  
Tulsa, Oklahoma 74172  
(918) 573-8771

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TARIFF FORMAT

- A. **Page Numbering** - Page numbers appear in the upper right corner of the page. Pages are numbered sequentially. However, new pages are occasionally added to the tariff. When a new page is added between pages already in effect, a decimal is added.
- B. **Page Revision Numbers** - Revision numbers also appear in the upper right corner of each page. These numbers are used to determine the most current page version on file with the Commission. For example, the 4th revised Page 14 cancels the 3rd revised Page 14. Because of the various suspension periods and deferrals the Commission follows in its tariff approval process, the most current page number on file with the Commission is not always the tariff page in effect. Consult the check sheet for the page currently in effect.
- C. **Paragraph Numbering Sequence** - There are nine levels of paragraph coding. Each level of coding is subservient to its next higher level:
- 2
  - 2.1
  - 2.1.1
  - 2.1.1.A
  - 2.1.1.A.1
  - 2.1.1.A.1.(a)
  - 2.1.1.A.1.(a).I
  - 2.1.1.A.1.(a).I.(i)
  - 2.1.1.A.1.(a).I.(i).(1)
- D. **Check Sheets** - When a tariff filing is made with the Commission an updated check sheet accompanies the filing. The check sheet lists the pages contained in the tariff, with a cross reference to the current revision number. When new pages are added, the check sheet is changed to reflect the revision. All revisions made in a given filing are designated by an asterisk (\*). There shall be no other symbols used on this page if these are the only changes made to it. The tariff user should refer to the latest check sheet to find out if a particular page is the most current on file with the Commission.

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ISSUED: [date]

EFFECTIVE: [date]

ISSUED BY: Mickey S. Moon, Director of Regulatory Affairs  
One Williams Center, RC3-1  
Tulsa, Oklahoma 74172  
(918) 573-8771



CONCURRING CARRIERS

None

CONNECTING CARRIERS

None

OTHER PARTICIPATING CARRIERS

None

EXPLANATION OF SYMBOLS

Changes to this tariff shall be identified on the revised page(s) through the use of symbols. The following are the only symbols used for the purposes indicated below:

- (C) To signify changed regulation.
- (D) To signify discontinued rate or regulation.
- (I) To signify an increase.
- (M) To signify matter relocated without change.
- (N) To signify new rate or regulation.
- (R) To signify reduction.
- (S) To signify reissued matter.
- (T) To signify change in text but no change in rate or regulation.
- (Z) To signify a correction.

ISSUED: [date]

EFFECTIVE: [date]

ISSUED BY: Mickey S. Moon, Director of Regulatory Affairs  
One Williams Center, RC3-1  
Tulsa, Oklahoma 74172  
(918) 573-8771

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APPLICATION OF TARIFF

This Tariff is available for public inspection during normal business hours at the main office of Williams Communications, Inc., located at Williams Resource Center, 2 East First Street, Tulsa, OK 74172.

This Tariff contains the rates, terms and conditions of service applicable to the furnishing of the within described intrastate interexchange services by Williams Communications, Inc. This Tariff applies to interexchange switched services offered by Williams Communications, Inc. to the general public, which, for purposes of this Tariff, consist of casual calling customers and other providers of Telecommunications Services or Information Services (Reseller Customers) for resale, and which are subject to regulation by the Commission. These services are provided in conjunction with the Company's interstate telecommunications services originating or terminating within the state. This Tariff does not apply to the within described services which are provided by Williams Communications, Inc.:

- (a) to other providers of Telecommunications Services or Information Services pursuant to any contractual arrangements that have been or are entered into on an Individual Case Basis pursuant to Section 2.1.7;
- (b) pursuant to other Williams Communications, Inc. tariffs unless specifically stated therein;
- (c) to affiliates of the Company; and
- (d) on an interstate or international basis.

Williams Communications, Inc. does not provide service to, and this Tariff is not applicable to, presubscribed residential customers. With the exception of Casual Calling Service, Williams' services as specified herein are applicable to Reseller Customers only.

---

ISSUED: [date]

EFFECTIVE: [date]

ISSUED BY: Mickey S. Moon, Director of Regulatory Affairs  
One Williams Center, RC3-I  
Tulsa, Oklahoma 74172  
(918) 573-8771

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---

ISSUED: [date]

EFFECTIVE: [date]

ISSUED BY: Mickey S. Moon, Director of Regulatory Affairs  
One Williams Center, RC3-1  
Tulsa, Oklahoma 74172  
(918) 573-8771

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**SECTION 1 - TERMS AND ABBREVIATIONS**

**Access Line** - A facility arrangement which connects Customer's location to Company's POP.

**Access Service Request (ASR)** - An order placed with a Local Access Provider for Local Access.

**Account Code** - A series of digits entered by End User to associate a call with a particular department, cost center, or Customer. A non-verified Account Code shall be accepted if it contains the proper number of digits. A verified Account Code shall only be accepted if it can be matched with a number on the list of valid Account Codes provided by End User.

**Alternative Access** - A form of Local Access except that the provider of the Service is an entity, other than the Local Exchange Carrier, authorized or permitted to provide such Service.

**Ancillary Charges** - Charges for supplementary Services as set forth in this Tariff which may consist of both nonrecurring and monthly recurring charges.

**Authorization Code** - A numerical code, one or more of which are available to Customer's End Users to enable them to access Company's network, and which are used by Company both to prevent unauthorized access to its facilities and to identify End Users for billing purposes.

**Available/Availability** - Condition in which Company has the facilities necessary to provide Service and such facilities are not already committed to other parties or other Customers and are accessible for Service to Customer, as determined by the Company, in its sole discretion.

**Casual Calling** - Access to Company's network and the subsequent use of Service by an End User Customer through the dialing of a carrier access code in the format of 101XXXX, where the four (4) digits represented by the "X" are the unique Carrier Identification Code (CIC) assigned to Company.

---

ISSUED: [date]

EFFECTIVE: [date]

ISSUED BY: Mickey S. Moon, Director of Regulatory Affairs  
One Williams Center, RC3-1  
Tulsa, Oklahoma 74172  
(918) 573-8771



---

**SECTION 1 - TERMS AND ABBREVIATIONS, (CONT'D.)**

**Channel(s) or Circuit(s)** - A communications path between two or more points.

**Collect Call** - A billing arrangement which bills the charge for a long distance call to the called station's telephone number. The person agreeing to accept the call is responsible for all charges related to the call.

**Commission** - The South Dakota Public Utility Commission.

**Conversation Minutes** - For billing purposes calls are billed based on Conversation Minutes, which begin when the called party answers, as determined by answer supervision, and end when either party disconnects.

**Company or Carrier** - Williams Communications, Inc. unless otherwise clearly indicated by the context.

**Customer** - The natural person or legal entity which orders Service and is therefore responsible for the payment of charges due as a result of using the Service and for compliance with the Company's tariff. The Customer may be a certified reseller of telecommunications services who, under the terms of a Service Agreement, orders or uses Service and is therefore responsible for the payment of charges due and for compliance with Carrier's tariff regulations.

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ISSUED: [date]

EFFECTIVE: [date]

ISSUED BY: Mickey S. Moon, Director of Regulatory Affairs  
One Williams Center, RC3-1  
Tulsa, Oklahoma 74172  
(918) 573-8771

---

SECTION 1 - TERMS AND ABBREVIATIONS, (CONT'D.)

**Day** - From 8 AM up to but not including 5 PM, Monday through Friday.

**Dialed Number Information Service (DNIS)** - A service option of Toll Free Service under which Company electronically transmits to Customer (or to an End User of Customer) the telephone number of the party calling Customer or its End User.

**Due Date** - The date on which payment is due as indicated on Company's invoice to Customer.

**End User** - The natural person or legal entity which either; (1) orders service through a certified Reseller Customer or (2) uses the Company's Casual Calling service directly as a Customer through dialing the Company's designated access code or other access number.

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SECTION 1 - TERMS AND ABBREVIATIONS, (CONT'D.)

FCC - Federal Communications Commission.

**Individual Case Basis (ICB)** - Determinations involving situations where nonstandard arrangements are required to satisfy specialized needs. The nature of such Service requirements makes it difficult or impossible to establish general Tariff provisions for such circumstances. When it becomes possible to determine specific terms and conditions for such offerings, they shall be offered pursuant to such terms and conditions when set forth in writing and subscribed to by authorized representatives of Customer and Company.

**Information Services** - The term "Information Services" has the same meaning as contained in 47 U.S.C. § 153(20), as interpreted by the FCC and federal courts.

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**SECTION 1 - TERMS AND ABBREVIATIONS, (CONT'D.)**

**Installation - Establishment of Service.**

**Interexchange Service -** Service provided to a Customer over a Channel or Circuit between a Company designated POP in one exchange and a Company designated POP in another exchange.

**LATA (Local Access Transport Area) -** A geographical area established for the provision and administration of communications Service, as provided for in the Modification of Final Judgement (MFJ), the consent decree between GTE Corporation and the Department of Justice, and any further modifications thereto.

**Local Access -** The portion of the Service between a customer premise and a Company designated POP.

**Local Access Provider -** An entity providing Local Access.

**Local Exchange Carrier (LEC) -** The local telephone utility that provides exchange telephone services.

**N/A -** Not applicable.

**N/C -** No charge.

**Non-Day -** All hours other than those included in the Day rate period.

**Nonrecurring Charge -** One-time charge relevant to Service.

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SECTION 1 - TERMS AND ABBREVIATIONS, (CONT'D.)

**On-Net** - A Circuit traversing the Williams Network, both end points of which originate and terminate at a Williams designated POP.

**Off-Net** - A circuit that is not On-Net.

**POP (Point of Presence)** - A Company designated location where a facility is maintained for the purpose of providing access to the Company's Services by Customer and/or its End Users.

**Reseller** - A Customer which purchases Service from the Company through a Service Agreement and resells service to its own End Users. End Users of a Reseller are not Customers of the Company. A Reseller must be authorized to operate in the State before it can Resell Services to its End Users.

**Service** - Williams' Interexchange Services as described in this Tariff as modified from time to time.

**Service Commitment Period** - The period selected by the Customer, agreed to by Company and stated on the relevant Service Agreement, during which Company will provide and Customer will accept and pay for the Service described therein.

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**SECTION 1 - TERMS AND ABBREVIATIONS, (CONT'D.)**

**Service Agreement** - An agreement between Carrier and Customer which, subject to the terms and conditions of this tariff; defines the relationship between Carrier and Customer.

**Service Area** - The geographic area in which Customer or its End Users may access and use Service.

**Tariff** - The Company's South Dakota Intrastate Tariff No. 1, and effective revisions thereto filed by the Company with the Commission.

**Telecommunications Service** - The term "Telecommunications Service" has the same meaning as contained in 47 U.S.C. § 153(46), as interpreted by the FCC and federal courts.

**Term** - Service Commitment Period.

**United States** - For purposes of this tariff the term "United States" includes the Mainland United States of America, Alaska, Hawaii, Puerto Rico, U.S. Virgin Islands, Guam, and the Commonwealth of the Northern Mariana Islands (CNMI).

**Williams** - Used throughout this tariff to refer to Williams Communications, Inc.

**Williams Network** - The telecommunications transmission system operated by Williams and which is capable of providing Service between Williams designated POPs.

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SECTION 2 - RULES AND REGULATIONS**2.1 Undertaking of Company and Limitations of Services**

- 2.1.1** The Company undertakes to furnish Service pursuant to the terms of this Tariff for the transmission of information originating and terminating within the State. Service under this Tariff is offered only to Company's Reseller Customers, except that, due to the nature of Services provided, End Users may access Company's Casual Calling Service. Company reserves the right to deny Service: (i) to any Customer that, in Company's reasonable opinion, presents an undue risk of nonpayment; (ii) in circumstances in which Company has reason to believe that the use of the Service would violate the provisions of this Tariff or any applicable law or if any applicable law restricts or prohibits provision of the Service; or (iii) if, in Company's sole opinion, insufficient facilities or equipment are Available to provide the Service.
- 2.1.2** The provision of Service shall not create a partnership or joint venture between the Company and Customer nor result in joint service offerings to their respective customers or End-Users.
- 2.1.3** Company owns or operates transmission facilities within the State and/or resells telecommunications services provided by other carriers. Notwithstanding the resale of telecommunications services provided by other carriers, Customer shall be considered a customer of Company, and not a customer of any other carrier.

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SECTION 2 - RULES AND REGULATIONS (CONT'D)

## 2.1 Undertaking of Company and Limitations of Services (cont'd)

- 2.1.4 Carrier may, when authorized by Customer, act as Customer's agent for ordering dedicated Access Lines or facilities provided by other carriers to allow connection of specified locations of Customer and/or its End Users to the network of Carrier. Customer shall be responsible for all charges due for such service arrangements.
- 2.1.5 Service is offered subject to the availability of the necessary facilities and subject to the provisions of this Tariff.
- 2.1.6 Service is provided under the terms and conditions of an applicable Service Agreement and this Tariff; and is available twenty-four (24) hours per day, seven (7) days per week.
- 2.1.7 To the extent that any conflict arises between the terms and conditions of a Service Agreement and the terms and conditions of this Tariff, the Tariff shall prevail, except such terms and conditions in a Service Agreement that are expressly set forth therein as ICB terms or conditions, in which case such ICB terms and conditions shall prevail.

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SECTION 2 - RULES AND REGULATIONS (CONT'D)

## 2.1 Undertaking of Company and Limitations of Services (cont'd)

- 2.1.8 Carrier reserves the right to discontinue furnishing Service, or to limit the use of Service, when necessitated by conditions beyond its control, when Customer or an End User is using Service in violation of the law or in violation of the provisions of this tariff, or for non-payment by Customer.
- 2.1.9 Service provided under this Tariff is directly controlled by Carrier, and Customer may not transfer or assign the use of Service, except with the prior written consent of Carrier. Such transfer or assignment shall only apply where there is no interruption in the use or location of Service, and all regulations and conditions contained in this Tariff as well as all conditions for Service, shall apply to all such permitted assignees or transferees.
- 2.1.10 The Customer shall not use nor permit others to use the Service in a manner that could interfere with Services provided to others or that could harm the facilities of the Company or others.
- 2.1.11 Service furnished by Williams may be connected with the services or facilities of other carriers. Customer is responsible for all charges billed by other carriers in connection with the use of Service. Any special equipment or facilities necessary to achieve compatibility between carriers are the sole responsibility of Customer.

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SECTION 2 - RULES AND REGULATIONS (CONT'D)

## 2.2 Resale of Company Services

- 2.2.1 In addition to the other provisions in this Tariff, a Customer reselling Service shall be responsible for all interaction and interface with its own subscribers or customers. The reselling of Service by a Customer or reselling of Service with enhancements provided by Customer shall not create a partnership or joint venture between Company and Customer nor result in a joint service offering to any third parties by either Company or the Customer.
- 2.2.2 Notwithstanding the resale of Service by Customer and regardless of the Company's knowledge of same, the Customer remains liable for all obligations under this Tariff. The Company shall have no liability to any person or entity other than the Customer and only as set forth in Section 2.3.

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SECTION 2 - RULES AND REGULATIONS (CONT'D)

## 2.3 Liability of the Company

- 2.3.1 Except as otherwise specifically provided for in this Tariff, the Company and/or its affiliates shall not be liable to Customer or any other person, firm or entity for any failure of performance hereunder if such failure is due to any cause or causes beyond the reasonable control of the Company. Such causes shall include, without limitation, acts of God, fire, explosion, vandalism, sabotage, cable cut, storm or other similar occurrence, any law, order, regulation, direction, action or request of the United States government or of any other government or of any civil or military authority, national emergencies, insurrections, riots, wars, condemnation, strikes, lockouts or work stoppages or other labor difficulties, supplier failures, shortages, breaches or delays, or preemption of existing Services to restore Service in compliance with Part 64, Subpart D, Appendix A, of the FCC's Rules and Regulations or other applicable laws, regulations, or orders. The Carrier's liability, if any, for its gross negligence or willful misconduct is not limited by the tariff.
- 2.3.2 The Company is not liable for any act or omission of any other company or companies furnishing a portion of the Service or facilities, equipment, or services associated with such Service.

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SECTION 2 - RULES AND REGULATIONS (CONT'D)

## 2.3 Liability of the Company (cont'd)

2.3.3 The Customer shall indemnify and hold the Company harmless from and against any court, administrative or agency action, suit or similar proceeding brought against Company and/or any affiliate of the Company for:

- (a) claims arising out of or related to the contents transmitted via the Services (whether over the Williams Network or Local Access facilities) including, but not limited to, claims, actual or alleged, relating to any violation of copyright law, export control laws, failure to procure necessary authorizations, clearances or consents, failure to meet governmental or other technical broadcast standards, or claims that such transmission contents are libelous, slanderous, an invasion of privacy, pornographic, or otherwise unauthorized or illegal;
- (b) patent infringement claims arising from combining or connecting the Service with equipment and systems of the Customer;
- (c) all other claims arising out of any act or omission of the Customer in connection with any Service provided by the Company;
- (d) defacement of, or damage to, the premises of Customer and Authorized Users resulting from the installation, and/or removal of facilities or the attachment of instruments, equipment and associated wiring on or from the Customer's Premises. No agents or employees of other participating carriers shall be deemed to be agents or employees of the Company; and
- (e) claims arising out of the use of Services or associated equipment in an unsafe manner (such as use in an explosive atmosphere) or the negligent or willful act of any person other than the Company, its agents, or employees.

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SECTION 2 - RULES AND REGULATIONS (CONT'D)

## 2.3 Liability of the Company (Cont'd)

- 2.3.4 The Customer shall indemnify and hold the Company harmless from any and all loss, claims, demands, suits, or other action, or any liability whatsoever, whether suffered, made, instituted or asserted by the Customer or by any other party or persons, for any personal injury to, or death of, any person or persons, and for any loss, damage or destruction of any property, whether owned by the Customer or others, caused or claimed to have been caused directly or indirectly by the installation or operation of Service or equipment and facilities of Company associated with the Service, unless such installation, operation, failure to operate, maintenance, condition, location or use is the direct result of the Company's knowing and willful misconduct.

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SECTION 2 - RULES AND REGULATIONS (CONT'D)

## 2.3 Liability of the Company (Cont'd)

- 2.3.5 The Company shall not be liable to the Customer or any other person or entity in any respect whatsoever as a result of mistakes, accidents, errors, omissions, interruptions, delays, or defects in Service (collectively "Defects" or "Defective Service"). Defects caused by or contributed to, directly or indirectly, by act or omission of Customer (including authorized users) or Customer's customers, affiliates, agents, representatives, invitees, licensees, successors or assigns or which arise from or are caused by the use of facilities or equipment of Customer or related parties shall not result in the imposition of any liability whatsoever upon the Company, and Customer shall pay to the Company any reasonable costs, expenses, damages, fees or penalties incurred by the Company as a result thereof, including, without limitation, costs of Local Access Providers' labor and materials. In addition, all or a portion of the Service may be provided over facilities of third parties, and the Company shall not be liable to Customer or any other person, firm or entity in any respect whatsoever arising out of Defects caused by such third parties. COMPANY SHALL NOT BE LIABLE FOR ANY DIRECT, INDIRECT, CONSEQUENTIAL, SPECIAL, ACTUAL, PUNITIVE OR ANY OTHER DAMAGES, OR BUSINESS INTERRUPTION, OR FOR ANY LOST PROFITS OF ANY KIND OR NATURE WHATSOEVER ARISING OUT OF ANY DEFECTIVE SERVICE OR ANY OTHER CAUSE. ANY WARRANTIES AND REMEDIES EXPLICITLY SET FORTH IN THIS TARIFF ARE EXCLUSIVE AND IN LIEU OF ALL OTHER WARRANTIES OR REMEDIES, WHETHER EXPRESSED, IMPLIED OR STATUTORY, INCLUDING WITHOUT LIMITATION IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE. IN THE EVENT OF AN INTERRUPTION IN SERVICE, ANY DEFECT IN THE SERVICE WHATSOEVER OR A FAILURE TO PERFORM UNDER THIS TARIFF, NEITHER COMPANY NOR ANY THIRD PARTY PROVIDER OR OPERATOR OF FACILITIES EMPLOYED IN THE PROVISION OF THE SERVICE SHALL BE LIABLE FOR ANY DIRECT, INDIRECT, CONSEQUENTIAL, SPECIAL, ACTUAL, PUNITIVE OR ANY OTHER DAMAGES, OR FOR ANY LOST PROFITS OF ANY KIND OR NATURE WHATSOEVER.

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SECTION 2 - RULES AND REGULATIONS (CONT'D)

## 2.3 Liability of the Company (Cont'd)

- 2.3.6 In the event parties other than Customer (e.g., Customer's customers or End-Users) shall have use of the Service directly or indirectly through Customer, Customer shall forever indemnify and hold Company and any third-party provider or operator of facilities employed in provision of the Service harmless from and against any and all claims, demands, suits, actions, losses, damages, assessments or payments which may be asserted by said parties arising out of or relating to any defect or any claims described in this Section.
- 2.3.7 In the event that Company is required to perform a Circuit redesign due to inaccurate information provided by the Customer or, Company incurs costs and expenses under circumstances in which such costs and expenses are caused to be incurred by the Customer or reasonably incurred by Company for the benefit of the Customer, the Customer is responsible for the payment of any resulting costs incurred by Company.
- 2.3.8 Customer agrees to defend the Company against the claims as set forth in this Section and to pay all reasonable litigation costs, attorneys' fees, court costs, settlement payments, and any damages awarded or resulting from any such claims.
- 2.3.9 The failure to give notice of default, to enforce or insist upon compliance with any of the terms or conditions herein, the waiver of any term or conditions herein, or the granting of an extension of time for performance by the Company or the Customer shall not constitute the permanent waiver of any term or condition herein. Each of the provisions shall remain at all times in full force and effect until modified in writing.

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SECTION 2 - RULES AND REGULATIONS (CONT'D)

## 2.4 Cancellation of Service by Customer

- 2.4.1 Reseller Customers order Service from Company pursuant to the terms and conditions of a Service Agreement. Any cancellation or termination of Service is subject to the terms and conditions of that Service Agreement. End User Customers order Service from Company by dialing the Company's carrier access code number for Casual Service.
- 2.4.2 If Customer, either on behalf of itself or an End User, orders Service from the Company which requires special construction or facilities for Customer's or End User's use, and then cancels its order before Service begins, a charge shall be made to Customer for the non-recoverable portions of the expenditures or liabilities incurred on behalf of Customer or End User by the Company.
- 2.4.3 If Customer terminates Service prior to the end of the Term specified in the Service Agreement, Customer shall be responsible for all charges incurred to the date of termination, including, but not limited to, all charges to the Company by other carriers for Service provided Customer or its End Users, and any applicable cancellation or termination charges specified in the Service Agreement.

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SECTION 2 - RULES AND REGULATIONS (CONT'D)

## 2.5 Cancellation for Cause by Company

2.5.1 For nonpayment by Customer of any undisputed sum owing to the Company for more than 30 days, or for violation by Customer of any of the provisions governing the furnishing of Service under this Tariff or the Service Agreement, the Company may, after ten (10) days written notification to Customer of such nonpayment or violation and forthcoming termination therefor, without incurring any liability, immediately cancel or discontinue the furnishing of such Service. Customer shall be deemed to have canceled Service as of the date of such termination and shall be liable for any cancellation charges as set forth in this Tariff.

2.5.2 Without incurring any liability, the Company may cancel Service prior to commencement or discontinue the furnishing of Service to Customer immediately and without notice if the Company deems that such action is necessary to prevent or to protect against fraud or to otherwise protect its personnel, agents, facilities or Services or under any of the following circumstances:

- (a) if Customer refuses to furnish or provides false information to the Company regarding the Customer's identity, address, credit-worthiness, past or current use of Service, or its planned use of Service;
- (b) for noncompliance with any of the provisions of this Tariff;
- (c) if the Customer or End User is using the Service in violation of any applicable law or regulation.
- (d) if such actions are reasonably appropriate to avoid violation of applicable law; or
- (e) if there is a reasonable risk that criminal, civil or administrative proceedings or investigations based upon the transmission contents shall be instituted against Company.

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SECTION 2 - RULES AND REGULATIONS (CONT'D)

2.5 Cancellation for Cause by Company

- 2.5.3 The discontinuance of Service by the Company pursuant to this Section does not relieve the Customer of any obligations to pay the Company for charges accrued for Service which has been furnished up to the time of discontinuance nor does it relieve the Customer of applicable cancellation charges. The remedies set forth herein shall not be exclusive and the Company shall at all times be entitled to all rights available to it under either law or equity.

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SECTION 2 - RULES AND REGULATIONS (CONT'D)

## 2.6 Billing and Payment For Service

## 2.6.1 Responsibility for Charges

The Customer is responsible for payment of all charges for Services furnished to the Customer or authorized End User. This includes payment for Services specifically requested by the Customer. This responsibility is not changed due to any use, misuse, or abuse of the Customer's Service or Customer provided equipment by third parties, the Customer's employees, or the public. A Customer whose Service has been discontinued for non-payment of bills shall be required to pay any unpaid balance due to Company before Service is restored.

## 2.6.2 Payment Arrangements

2.6.2.A All payments due by the Customer shall be remitted and payable to the Company or any billing agent duly authorized and designated by the Company to receive such payments.

2.6.2.B Service is provided and billed on a monthly basis. Usage sensitive charges are billed in arrears and fixed monthly recurring charges, if any, are billed one month in advance. Unless required in advance, installation charges, and other non-recurring charges shall be due on the first day of the month following the month in which the Service was provided.

2.6.2.C The security of Authorization Codes used by Customer or its End Users are the responsibility of the Customer. All calls placed using such Authorization Codes or using facilities owned or controlled by Customer or its End Users shall be billed to Customer and must be paid by Customer.

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SECTION 2 - RULES AND REGULATIONS (CONT'D)**2.6 Billing and Payment For Service (Cont'd)****2.6.3 Late Payment Fee**

Bills are due and payable upon receipt. In the event Customer fails to pay or remit payment in full to the proper address for Services billed by the Company or authorized billing agent on or before thirty (30) days after the Due Date, Customer shall also pay a late fee in the amount of the lesser of one and one-half percent (1.5%) of the unpaid balance per month or the maximum lawful rate under applicable state law.

**2.6.4 Return Check Charge**

A return check charge of \$25.00 will be assessed for checks made payable to the Company and returned for insufficient funds. For service billed on behalf of the Company, any applicable return check charges will be assessed according to the terms and conditions of the Company's billing agent.

**2.6.5 Validation of Credit**

**2.6.5.A** The Company reserves the right to validate the creditworthiness of Customers through available verification procedures. If at any time a Customer presents an undue risk of non-payment, or if a Customer fails to comply with the payment terms of this Tariff or applicable Service Agreement, the Company may require a deposit or other forms of security for payment.

**2.6.5.B** In determining whether a Customer presents an undue risk of nonpayment, the Company may consider, but is not limited to, the following factors: (i) the Customer's payment history (if any) with the Company, (ii) Customer's ability to demonstrate adequate ability to pay for the Service, (iii) credit and related information provided by Customer, lawfully obtained from third parties or publicly available, and (iv) information relating to Customer's management, owners and affiliates (if any).

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SECTION 2 - RULES AND REGULATIONS (CONT'D)

## 2.6 Payment Arrangements (Cont'd)

## 2.6.7 Disputed Charges

Disputes with respect to charges must be presented to the Company in writing within 30 days after the Due Date or such invoice shall be deemed to be correct and binding on the Customer. In instances of a dispute, the Customer is required to pay the undisputed portion of the bill in its entirety within 30 days after the Due Date. For Casual Calling Customers, if, after investigation and review by the Company, a disagreement remains as to the disputed amount, the Customer or Company may file an appropriate complaint with the Commission. For all other Customers, resolution of disputes will be governed by the applicable Service Agreement.

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SECTION 2 - RULES AND REGULATIONS (CONT'D)

## 2.7 Taxes and Fees

- 2.7.1 Service may be subject to State and/or local taxes (e.g., gross receipts tax, sales tax, and municipal utilities tax) and/or fees (e.g., intrastate access charges and contributions to the State universal service program), if Service originates and terminates in the State. An amount equal to such taxes and fees shall be charged to the Customer in addition to the charges stated in this Tariff. All charges related to such taxes and fees shall each be shown as a separate line item on the Customer's monthly invoice.
- 2.7.2 Service shall not be subject to taxes for a given jurisdiction if Customer provides the Company with written verification, acceptable to the Company and to the relevant taxing jurisdiction, that Customer has been granted a tax exemption. Service shall also not be subject to contribution to the State universal service program if Customer provides the Company with written verification, acceptable to the Company and to the State Commission, that the Service will be resold by Customer and that the revenues from such resale shall be subject to the State universal service program's contribution requirements.
- 2.7.3 The Company may also include among such fees and surcharges any Primary Interexchange Carrier (PIC) charges charged against the Company by a Local Access Provider, as well as any other Local Access charges, whether for originating or terminating Local Access, charged against the Company for originating or terminating intrastate interexchange communications. Company shall also include any compensable intrastate payphone service provider charges charged against the Company incurred for any intrastate toll-free number and/or access code calls made from payphones and attributable to the Customer at a rate of \$0.35 per call.

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SECTION 2 - RULES AND REGULATIONS (CONT'D)**2.8 Inspection, Testing and Adjustments**

2.8.1 The Company may, upon notice, make such tests and inspections as may be necessary to determine that the requirements of this Tariff are being complied with in the installation, operation or maintenance of Customer's or the Company's equipment. The Company may interrupt the Service at any time, without penalty or liability to the Company, because of departure from any of these requirements.

2.8.2 Upon reasonable notice, the facilities provided by the Company shall be made available to the Company for such tests and adjustments as may be necessary to maintain them in satisfactory condition; no interruption allowance shall be granted for the time during which such tests and adjustments are made.

**2.9 Terminal Equipment**

Service may be used with or terminated in terminal equipment or communications systems, such as a PBX or key telephone system, provided by Customer or its End User. Such terminal equipment or communications systems shall be furnished by and maintained at the expense of Customer or its End User, except as otherwise provided. Customer or its End User is also responsible for all costs at its premises incurred in the use of Service, including but not limited to equipment, wiring, electrical power, and personnel. When such terminal equipment or communications systems are used, they shall in all respects comply with the generally accepted minimum protective standards of the telecommunications industry as endorsed by the FCC.

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SECTION 2 - RULES AND REGULATIONS (CONT'D)

## 2.10 Refunds or Credits for Interruptions in Service

2.10.1 No credits or refunds for interruptions of Service shall be made for:

- (a) Interruptions caused by the negligence or willful misconduct (including the provision of inaccurate information) of the Customer or its End Users.
- (b) Interruptions during any period which the Company or its agents are not afforded access to any Customer premise where Service is originated or terminated.
- (c) Interruptions during any period when the Customer or End-User has released the Service to the Company for maintenance or rearrangement purposes, or for the implementation of Service.
- (d) Interruptions during periods when the Customer elects not to release the Service for testing or repair and continues to use the Service on an impaired basis.
- (e) Interruptions not reported to the Company.
- (f) Interruptions caused by outages or failure of Local Access provided by a Local Access Provider.

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SECTION 2 - RULES AND REGULATIONS (CONT'D)

## 2.10 Refunds or Credits for Interruptions (Cont'd)

2.10.2 It shall be the obligation of Customer to notify Company immediately of any interruption of Service (as defined in the applicable Service Agreement) for which a credit is desired. If Customer reports an interruption in Service to Company and the affected Service is not restored (as defined in the applicable Service Agreement) within two hours of such report, Customer shall, upon request directed to the Customer's designated customer service representative, receive a credit at the rate of 1/720 of the monthly recurring charges applicable to Service directly affected by such interruption for each hour or fraction thereof, over the initial two hours, during which service is interrupted. No credit will be given for interruptions of less than two hours in duration. The formula used for computation of credits is as follows:

$$\text{Credit} = A / 720 \times B$$

A = Interruption time in hours or fraction thereof (must be over 2 hours)

B = total monthly recurring charge for the affected service.

2.10.3 Notice of Interruption should be reported by the Customer to the Company's Network Control Center or other location designated by Company. An interruption ends when the Service is restored. If the Customer reports the Service to be inoperative but declines to release it for testing and repair, the Service shall be deemed to be impaired, but not subject to an interruption nor corresponding credit as provided in Section 2.10.2.

2.10.4 If the Customer elects to use another means of transmission during the period of interruption, the Customer is solely responsible for payment of the charges for the alternate transmission service used.

2.10.5 The credit provided in Section 2.10.2 is Customer's sole and exclusive remedy for any interruption in the Service.

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SECTION 2 - RULES AND REGULATIONS (CONT'D)

## 2.11 Systems Security

2.11.1 Where Customers are permitted access to the Company's computer systems and data (hereinafter "Systems") for the purposes of managing and maintaining their own telecommunications system, they will adhere to the following:

- (a) Customers may access the Company's Systems only to the extent required by and incident to the administration and management of the Customer's telecommunications system.
- (b) Customers may not disclose or use information which may be learned as a consequence of access to the Company's Systems except as may be directly required to insure the proper operation of the Customer's telecommunications system. Customers must take all reasonable precautions to prevent any other person or entity who does not have a need to know from acquiring such information.
- (c) Customers shall not in any manner or form disclose, provide, or otherwise make available, in whole or in part, these Systems, documentation, any related material or any other confidential material except to those who have a need to know incident to the operation of the Customer's telecommunications system. These Systems remain the property of the Company and may not be copied, reproduced or otherwise disseminated without the prior written permission of the Company.
- (d) Customers shall take all reasonable precautions to maintain the confidentiality of Systems. Such precautions shall include the use of Personal Identification Numbers (PINs) and passwords selected by and known only to the Customer's individual authorized users. Telephone numbers and dial-up access numbers assigned to the Customer by Company, PINs or any aspect of access and sign-on methodology used to access these Systems shall not be posted or shared with others under any circumstances. Customers shall follow normal log-off procedures prior to leaving a terminal unattended. Customers shall report any known or suspected unauthorized attempt by others to access these Systems.

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SECTION 2 - RULES AND REGULATIONS (CONT'D)

2.11 Systems Security (Cont'd)

- 2.11.2 In the event that a security access device assigned to a Customer for dial-up access is lost, stolen, or misplaced, the Customer must notify Company immediately. Access into these Systems beyond that authorized may result in civil and/or criminal penalties.

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SECTION 2 - RULES AND REGULATIONS (CONT'D)**2.12 Restoration of Service**

The use and Restoration of Service in emergencies shall be in accordance with Part 64, Subpart D of the Federal Communications Commission's Rules and Regulations to the extent it is applicable, which specifies the priority system for such activities.

**2.13 Company Provided Equipment**

- 2.13.1** The Customer agrees to operate any Company provided equipment in accordance with instructions of the Company or the Company's agent or designee. Failure to do so shall void any Company liability for interruption of Service and may make Customer responsible for damage to equipment pursuant to Section 2.13.2 below.
- 2.13.2** Customer agrees to return to the Company all Company-provided equipment within five (5) days of termination of the Service in connection with which the equipment was used. Said equipment shall be in the same condition as when delivered to Customer, normal wear and tear excepted. Customer shall reimburse the Company, upon demand, for any costs incurred by the Company (e.g., the cost of the equipment) due to Customer's failure to comply with this provision.
- 2.13.3** The Company may substitute, change or rearrange any equipment or facility at any time, but shall endeavor to maintain the technical parameters of the service provided the Customer. In the event that technical parameters change as a result of the Company's actions, the Company will provide the Customer with thirty (30) days notice prior to such change.

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SECTION 2 - RULES AND REGULATIONS (CONT'D)

## 2.14 Other Terms and Conditions

- 2.14.1 A Customer shall not use any service mark or trademark of the Company or refer to the Company in connection with any product, equipment, promotion, or publication of the Customer without prior written approval of the Company.
- 2.14.2 In the event suit is brought or an attorney is retained by the Company to enforce the terms of this Tariff, the Company shall be entitled to recover, in addition to any other remedy, reimbursement for reasonable attorneys' fees, court costs, costs of investigation and other related expenses incurred in connection therewith.
- 2.14.3 Company shall assess a Reseller Customer a \$200 Unauthorized Carrier Change Charge (UCCC) for each Primary Interexchange Carrier (PIC) change made without prior valid authorization which results in the Company being named in a complaint filed with a state or federal regulatory or judicial body. Continued acts of unauthorized PIC changes by any Reseller shall be considered grounds for refusing to provide or for discontinuing Service to that Reseller.
- 2.14.4 Company, when acting at the Customer's request and/or as Customer's authorized agent, shall make reasonable efforts to arrange for special Service requirements such as the provision of Off-Net Circuits. Due to the specialized nature of such an arrangement, however, such arrangement may be provided ICB.

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**SECTION 3 – DESCRIPTION OF SERVICE****3.1 General**

Williams undertakes to offer and provide wholesale interexchange telecommunications services within its Service Area to Reseller Customers for resale to their End Users or to other Telecommunications Service providers or Information Service providers. The Services described herein are part of the Company's one-stop shopping package offering a full service platform to the wholesale marketplace, including interstate and international voice and data services.

Although Williams is not professing to offer any of the Services described in this Section directly to End Users in the State of South Dakota, rather the Services described in this Section are offered only to other carriers for resale to the general public, it is impractical for Williams to block all 101XXXX access code calls from subscriber lines not presubscribed to Williams Network (i.e., Casual Calls). Any such calls that are not attributed to a Williams Customer are deemed to be unclaimed calls. Williams, therefore, reserves the right to directly charge an End User as a Customer for any such unclaimed calls pursuant to the rates set forth in Section 4.3. Williams may use an unaffiliated entity for billing and collection for unclaimed calls.

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SECTION 3 - DESCRIPTION OF SERVICE (CONT'D)

## 3.2 Wholesale Service Offerings

Applicable rate schedules for the following services are provided in Section 4. Dedicated Access Lines may be required to connect Customer to Company's POP. Such dedicated Access Lines, when required, shall be the sole responsibility of Customer. Notwithstanding such responsibility, Company shall, upon Customer's request, order such dedicated Access Lines on behalf of Customer or its End Users, and shall invoice Customer for all related recurring and non-recurring charges. Intrastate rate plans are tied to specific interstate and international rate plans.

- 3.2.1 Williams "Nationwide Origination Switched Service" offers Reseller Customers interexchange Services via Feature Group D Access Lines for seamless origination, transmission and termination of communications. Feature Group D access is provided by the Local Exchange Carrier and allows the Customer to use its own Carrier Identification Code to route traffic to the Company's POP while the Customer's End Users will recognize the Customer as the End User's presubscribed interexchange carrier. The rates for Nationwide Origination Switched Service consist of a bundled rate for origination, transport and termination and are set forth in Section 4.2.1.
- 3.2.2 Williams "Nationwide Origination Dedicated Service" offers Reseller Customers interexchange Services via dedicated Access Lines for seamless origination, transmission and termination of communications. Dedicated access to the Company's POP may be provided by the Customer, Company or a Local Access Provider. The rates for Nationwide Origination Dedicated Service consist of a bundled rate for transport and termination and are set forth in Section 4.2.2.
- 3.2.3 Williams "LATA Termination Service" offers Reseller Customers interexchange Services via dedicated Access Lines with least cost routing capabilities. With this Service, the Reseller Customer can choose Williams to transport and terminate certain traffic to specific LATAs. The rates for LATA Termination Service are dependant upon the LATA in which the Customer's traffic terminates. The rates for LATA Termination Service are set forth in Section 4.2.3.

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**SECTION 3 - DESCRIPTION OF SERVICE (CONT'D)****3.2 Wholesale Service Offerings (cont'd)**

3.2.4 Williams "LATA/LEC Termination Service" offers Reseller Customers interexchange Services via dedicated Access Lines with least cost routing capabilities. With this Service, the Reseller Customer can choose Williams to transport and terminate certain traffic to specific LECs in specific LATAs. The rates for LATA/LEC Termination Service are dependant upon the LATA and the LEC to which the Customer's traffic terminates. The rates for LATA/LEC Termination Service are set forth in Section 4.2.4.

3.2.5 Williams "Toll Free Service" offers Reseller Customers a toll free number (e.g., 800, 888 or 877) and allows callers to reach the subscriber without toll charges. The subscriber pays for all incoming calls made on its assigned toll free number. Toll Free Service consists of a basic service (assignment of a toll free telephone number and a toll free calling area selected by the Customer) and additional features that Customers can select.

3.2.5.A Switched Toll Free Service is an inbound long distance service. This service terminates calls over the local telephone lines of Customer or its End Users, and calls are toll-free to the calling party. The rates for Switched Toll Free Service are set forth in Section 4.2.5.

3.2.5.B Dedicated Toll Free Service is an inbound long distance service. This service terminates calls over dedicated Access Lines from Company's POP to the service location(s) of Customer or its End Users, and calls are toll-free to the calling party. The rates for Dedicated Toll Free Service are set forth in Section 4.2.6.

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SECTION 3 - DESCRIPTION OF SERVICE (CONT'D)

## 3.2 Wholesale Service Offerings (Cont'd)

- 3.2.6 "Directory Assistance Service" offers Reseller Customers the ability to provide their End Users with phone numbers, addresses and NPA/Country codes and automatic call completion. A per-call surcharge is assessed against the Customer for each call made by the Customer's presubscribed End-Users. This surcharge applies whether or not the Directory Assistance operator furnishes the requested telephone number(s), e.g., the requested number is unlisted, non-published or no record can be found. Requests for information other than telephone numbers will be charged for as requests for telephone numbers.

Directory Assistance Service gives the option of completing a call to the called station telephone number received from the Directory Assistance operator without hanging up and originating a new call. A usage rate for call completion applies in addition to the Directory Assistance per-call surcharge if the caller accepts the offer. The call completion charge will not apply if the call cannot be completed. The per-call surcharge and usage rates for Directory Assistance Service are set forth in Section 4.2.10.

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SECTION 3 - DESCRIPTION OF SERVICE (CONT'D)

## 3.2 Wholesale Service Offerings (Cont'd)

3.2.7 Williams "Calling Card Service" offers Reseller Customers the ability to allow its End Users to originate long distance calls from locations other than their primary service location through the use of a toll free network access number and an Authorization Code. Williams Calling Card Service provides an access number and authorization code issued by Williams which the Reseller Customer will incorporate into its End User's calling card. Williams Calling Card Service allows Customer's End Users who are away from their home or business, or who wish to have Calling Card Service only, access to Williams Network to place calls from any location in the State. Access to Williams Network for Calling Card Service is gained by dialing an access number. End Users may bill calls to their Calling Card account when calling from any location within the State. Applicable usage rates for Operator Service will apply when Calling Card Service is used. The rates for Calling Card Service are set forth in Section 4.2.7.

3.2.8 "Prepaid Calling Card Service" offers Reseller Customers the ability to allow its End Users to originate long distance calls on a prepaid basis via a toll free network access number and an Authorization Code. Customer shall be given notice two (2) minutes before the available account balance is depleted, based upon the applicable rates for the call in progress. When the available balance is depleted, the call shall be terminated. A prepaid calling account shall expire on the date specified on the card, unless replenished by a charge to a commercial credit card as authorized by the Customer beforehand. The End-User will use the access number on the Prepaid Calling Card to access Williams Network. The applicable usage rate will be deducted on a real-time basis as the card is used until the full amount of the card is exhausted. Applicable usage rates for Operator Service will apply when Prepaid Calling Card Service is used. The rates for Prepaid Calling Card Service are set forth in Section 4.2.8.

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**SECTION 3 - DESCRIPTION OF SERVICE (CONT'D)****3.2 Wholesale Service Offerings (Cont'd)**

- 3.2.9** Williams "Operator Service" offers Reseller Customers the ability to provide its End Users with call completion functions performed either by a live operator or by automated systems. Such functions include collect calling, third party billing and calling card services. Access to Williams Operator Services can be obtained by the following dialing methods: (A) "00" from a telephone subscribed to Williams Network in a Feature Group D (FGD) area; (B) "0+ (NPA-NXX-XXXX)" from a telephone subscribed to Williams Network in a FGD area; (C) "101XXXX+ 0" from any non-pay telephone in a FGD area; and (D) "1-800-XXXX" from any location. The rates for Operator Service are set forth in Section 4.2.9.

Williams' Reseller Customers of Operator Service shall be responsible for compliance with all signage, labeling and tariffing requirements of the Commission regarding alternative operator services ("AOS") and consumer protection policies.

**3.3 End User Services****3.3.1 Casual Calling**

Casual Calling Service permits End User Customers to obtain Service without the necessity of presubscription of their local lines. Customers utilizing Casual Calling Service shall access Service by dialing an access code in the form of 101XXXX, where "X" is the 4 digit Carrier Identification Code (CIC) assigned to the Company. When dialing, the access code shall be followed by the normal sequence of 1+ Area Code + Number. Calls placed using Casual Calling Service are billed to Customer in whole minute increments rounded up to the next full minute through the serving Local Exchange Carrier's (LEC) monthly bill. All End Users of Casual Calling are Customers of the Company, even when they are End Users of a Reseller for other Services. The rates for Casual Calling Service are set forth in Section 4.3.

Casual Calling Service cannot be obtained through aggregator locations such as payphones. Williams will block all 101XXXX calls to its Carrier Access Code made from such locations.

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SECTION 3 – DESCRIPTION OF SERVICE (CONT'D)

## 3.4 Terms and Conditions

3.4.1 Services will be provided if the Customer agrees to each of the following points that are applicable:

- (A) Secure and maintain all necessary state certifications, tariffs, and comply with the rules and regulations as set forth by the Commission.
- (B) Provide all billing and collection services under its own brand name.
- (C) Provide customer service under its own brand name.
- (D) Secure and maintain a signed copy of the "letter of agency" from the End-User which defines the relationship between the End-User and the Reseller.
- (E) Assume all responsibility for PIC disputes and complaints with the Local Exchange Carrier.
- (F) Use its own product names which do not identify Williams products.
- (G) Use the Williams name only in post-sale communications which inform its subscribers that Williams is the underlying carrier and that the Williams name may appear on copies of their local phone bills using specific language authorized by Williams.
- (H) The End-User is the customer of the Reseller, not Williams.
- (I) Assume all risk for bad debt.
- (J) Accept responsibility for all charges, costs, etc. incurred by Williams with respect to Ancillary Services.
- (K) Accept responsibility for all interaction and interface with its own subscribers or customers.

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SECTION 3 - DESCRIPTION OF SERVICE (CONT'D)

## 3.4 Terms and Conditions (cont'd)

- 3.4.2 The minimum Term for Service provided On-Net is one month (30 days), except where special construction is requested in which case the minimum Term may be longer. The minimum Term for Service provided Off-Net shall be the same as that minimum service term imposed on Williams for leasing the Off-Net facilities.
- 3.4.2 Service is available twenty-four (24) hours a day, seven (7) days a week. The beginning time for outbound calls is determined by the time at the point of origination. The beginning time for inbound calls (Toll Free Service) is determined by the time at the point of termination.
- 3.4.3 A per call payphone surcharge, as authorized by FCC Docket No. 96-128, is applicable to calls that originate from any payphone within the state used to access Williams Network. This surcharge, which is in addition to standard tariffed usage charges and ancillary charges associated with Williams Service, is applicable to toll free access and dial around telephone calls from payphones.
- 3.4.4 Usage sensitive charges are based on the actual usage of Company's facilities (On-Net and Off-Net). Such charges are measured in Conversation Minutes counted in six (6) second increments. Unless otherwise specified in this Tariff, the minimum call duration for billing purposes is six (6) seconds and usage is rounded to the next higher six (6) second increment after the initial period.
- 3.4.5 Chargeable time for Customer shall begin when the called party answers, as determined by hardware answer supervision, provided that such capabilities are available from the local telephone company. If hardware answer supervision is not available, then Carrier will employ industry accepted standards for the timing of calls. Chargeable time for a call shall end upon disconnection by either party.

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**SECTION 4 – RATES AND CHARGES****4.1 General**

- 4.1.1** Conversation Minutes, reflecting usage sensitive charges resulting from use of Service, are billed in increments of six (6) seconds with an initial period (minimum billing period) of six (6) seconds, unless otherwise specified. Following the initial period, all charges are rounded to the next higher six (6) second increment for billing purposes, unless otherwise specified.
- 4.1.2** Other than the charges indicated for each Service, there are no installation or other nonrecurring charges or monthly recurring charges for Service, except for the installation charges and/or monthly recurring charges associated with the use of dedicated Access Lines ordered by Carrier on behalf of Customer or its End Users.

**4.2 Wholesale Service Rates****4.2.1 Nationwide Origination Switched Service**

Usage Sensitive Charges (Rate Per Minute): \$0.3152

Non-Usage Sensitive Charges: N/A

**4.2.2 Nationwide Origination Dedicated Service**

Usage Sensitive Charges (Rate Per Minute): \$0.2534

Non-Usage Sensitive Charges: N/A

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SECTION 4 - RATES AND CHARGES (CONT'D)

4.2 Wholesale Service Rates (cont'd)

4.2.3 LATA Termination Service

Usage Sensitive Charges (Rate Per Minute):

LATA 640: \$0.2534

Non-Usage Sensitive Charges: N/A

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## SECTION 4 – RATES AND CHARGES (CONT'D)

## 4.2 Wholesale Service Rates (cont'd)

## 4.2.4 LATA/LEC Termination Service

Usage Sensitive Charges (Rate Per Minute):

Terminating LATA	Terminating LEC	RATE
640	BOC	\$0.2534
	other	\$0.2534

Non-Usage Sensitive Charges: N/A

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SECTION 4 – RATES AND CHARGES (CONT'D)

4.2 Wholesale Service Rates (cont'd)

4.2.5 Switched Toll Free Service

Usage Sensitive Charges (Rate Per Minute): \$0.3208

Non-Usage Sensitive Charges: N/A

4.2.6 Dedicated Toll Free Service

Usage Sensitive Charges (Rate Per Minute): \$0.2596

Non-Usage Sensitive Charges: N/A

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**SECTION 4 – RATES AND CHARGES (CONT'D)**

**4.2 Wholesale Service Rates (cont'd)**

**4.2.7 Calling Card Service**

Conversation Minutes for Calling Card Service are billed in increments of six (6) seconds with an initial period (minimum billing period) of eighteen (18) seconds.

Usage Sensitive Charges (Rate Per Minute): \$0.3152

Non-Usage Sensitive Charges: \$0.75

**4.2.8 Prepaid Calling Card Service**

Conversation Minutes for Prepaid Calling Card Service are billed in increments of six (6) seconds with an initial period (minimum billing period) of eighteen (18) seconds.

Usage Sensitive Charges (Rate Per Minute): \$0.3152

Non-Usage Sensitive Charges: \$0.75

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SECTION 4 - RATES AND CHARGES (CONT'D)

## 4.2 Wholesale Service Rates (cont'd)

## 4.2.9 Operator Service

Conversation Minutes for Operator Service are billed in increments of six (6) seconds with an initial period (minimum billing period) of eighteen (18) seconds.

Usage Sensitive Charges (Rate Per Minute): \$0.3152

Non-Usage Sensitive Charges:

Charge per call:

Platform Charge:	\$0.75
Non-Complete Call Charge:	\$0.10
Person-to-person:	\$2.00
Station-to-station:	\$1.00

## 4.2.10 Directory Assistance Service

Conversation Minutes for Directory Assistance Call Completion Service are billed in increments of six (6) seconds with an initial period (minimum billing period) of eighteen (18) seconds.

Usage Sensitive Charges (Rate Per Minute) for call completion: \$0.3152

Non-Usage Sensitive Charges:

Charge per call:	\$0.50 without call completion
	\$1.00 with call completion

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SECTION 4 - RATES AND CHARGES (CONT'D)

4.3 End User Casual Calling Service Rates

Conversation Minutes for Casual Calling Service are billed in increments of six (6) seconds with an initial period (minimum billing period) of eighteen (18) seconds.

Usage Sensitive Charges (Rate Per Minute): \$0.30

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**SECTION 5 – CONTRACTS AND PROMOTIONS****5.1 Contracts**

At the option of the Company, Service may be offered on an ICB basis to meet the specialized requirements of Customers. The terms of each such ICB arrangement shall be mutually agreed upon between the Customer and Company and may include discounts off of the rates contained herein, waiver of recurring or nonrecurring charges, charges for specially designed and constructed services not contained in this Tariff, or other customized features. The terms of such an ICB arrangement may be based partially or completely on a Term or volume commitment, type of originating or terminating access, mixture of services or other distinguishing features. Such ICB arrangements will be available to all similarly situated Customers for a fixed period of time following the initial offering to the first ICB Customer as specified in each ICB contract, subject to, in the Company's sole discretion, the Availability of facilities.

**5.2 Promotions**

- 5.2.1 From time to time, Company may, at its option, promote subscription or stimulate Service usage by offering to waive or reduce some or all of the nonrecurring or recurring charges for the Customer (if eligible) for a limited duration. Such promotions shall be made available to all similarly situated Customers in the target market area and will comply with all applicable Commission regulations. In no case, shall the resulting rates and charges exceed the rates and charges listed in this tariff for the same services.
- 5.2.2 From time to time, subject to Commission rules, Company may demonstrate Service for potential Customers by providing free use of its Services on a limited basis for a period of time, not to exceed one (1) month. Demonstration of Service and the type, duration or quantity of Service provided shall be at the Company's discretion.
- 5.2.3 Promotional and other credits offered by Company in marketing its Services cannot be assigned. Such credits must be used by the Customer to whom they were offered or the Customer who earned them under the provisions of the offer.

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REGULATIONS AND SCHEDULE OF CHARGES

APPLICABLE TO INTRASTATE INTEREXCHANGE NON-SWITCHED SERVICES

FURNISHED BY

WILLIAMS COMMUNICATIONS, INC.

This tariff contains the rates, terms and conditions applicable to intrastate interexchange non-switched services offered by Williams Communications, Inc. of Tulsa, Oklahoma within the State of South Dakota. The services described in this tariff are offered throughout South Dakota. The provisions of this tariff apply to all Williams Communications intrastate interexchange services described in this tariff.

The services described in this tariff may be provided by any means of wire, terrestrial communications systems, satellite, microwave, and other transmission systems, or any combination thereof.

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## CHECK SHEET

The Title Page and pages listed below are inclusive and effective as of the date shown. Original and revised pages as named below contain all changes from the original tariff that are in effect on the date shown on each page.

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22	Original *	50	Original *
23	Original *	51	Original *
24	Original *	52	Original *
25	Original *	53	Original *
26	Original *	54	Original *
27	Original *	55	Original *

\* These tariff pages are included in this filing.

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**TARIFF FORMAT**

- A. Page Numbering** - Page numbers appear in the upper right corner of the page. Pages are numbered sequentially. However, new pages are occasionally added to the tariff. When a new page is added between pages already in effect, a decimal is added.
- B. Page Revision Numbers** - Revision numbers also appear in the upper right corner of each page. These numbers are used to determine the most current page version on file with the Commission. For example, the 4th revised Page 14 cancels the 3rd revised Page 14. Because of the various suspension periods and deferrals the Commission follows in its tariff approval process, the most current page number on file with the Commission is not always the tariff page in effect. Consult the check sheet for the page currently in effect.
- C. Paragraph Numbering Sequence** - There are nine levels of paragraph coding. Each level of coding is subservient to its next higher level:
- 2
  - 2.1
  - 2.1.1
  - 2.1.1.A
  - 2.1.1.A.1
  - 2.1.1.A.1.(a)
  - 2.1.1.A.1.(a).I
  - 2.1.1.A.1.(a).I(i)
  - 2.1.1.A.1.(a).I(i).I
- D. Check Sheets** - When a tariff filing is made with the Commission an updated check sheet accompanies the filing. The check sheet lists the pages contained in the tariff, with a cross reference to the current revision number. When new pages are added, the check sheet is changed to reflect the revision. All revisions made in a given filing are designated by an asterisk (\*). There shall be no other symbols used on this page if these are the only changes made to it. The tariff user should refer to the latest check sheet to find out if a particular page is the most current on file with the Commission.

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**CONCURRING CARRIERS**

None

**CONNECTING CARRIERS**

None

**OTHER PARTICIPATING CARRIERS**

None

**EXPLANATION OF SYMBOLS**

Changes to this tariff shall be identified on the revised page(s) through the use of symbols. The following are the only symbols used for the purposes indicated below:

- (C) To signify changed regulation.
- (D) To signify discontinued rate or regulation.
- (I) To signify an increase.
- (M) To signify matter relocated without change.
- (N) To signify new rate or regulation.
- (R) To signify reduction.
- (S) To signify reissued matter.
- (T) To signify change in text but no change in rate or regulation.
- (Z) To signify a correction.

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**APPLICATION OF TARIFF**

This Tariff includes the rates, terms and conditions of service applicable to the furnishing of the within described intrastate interexchange services by Williams Communications, Inc., within the State of South Dakota. This Tariff applies only to Services subject to regulation by the South Dakota Public Utility Commission. This Tariff does not apply to the within described Services which are provided by Williams Communications, Inc.:

- (a) to other communications carriers pursuant to any contractual arrangements;
- (b) pursuant to other Williams Communications, Inc. tariffs unless specifically stated therein;
- (c) to affiliates of the Company; and
- (d) on an interstate or international basis.

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**SECTION 1 - TERMS AND ABBREVIATIONS**

**Alternative Access** - A form of Local Access except that the provider of the Service is an entity, other than the Local Exchange Carrier, authorized or permitted to provide such Service.

**Acceptance/Accepted** - The concurrence by Customer and Company that, following Installation, a Service is fully operational and ready for Customer use. In any event, once Customer commences using the Service, Acceptance shall be deemed to have occurred.

**Access Service Request (ASR)** - An order placed with a Local Access Provider for Local Access.

**Analog** - A mode of transmission in which information is transmitted by converting it to a continuously variable electrical signal.

**Ancillary Charges** - Charges for supplementary Services as set forth in this Tariff which may consist of both nonrecurring and monthly recurring charges.

**Authorized User** - A person, firm, corporation or other entity (including Customer) that 1) is authorized by the Customer to be connected to and utilize the Company's services under the terms and regulations of this tariff or 2) either is authorized by the Customer to act as Customer in matters of ordering, changing or canceling Service or is placed in a position by the Customer, either through acts or omissions, to act as Customer in such matters. Such actions by an Authorized User shall be binding on Customer and shall subject Customer to any associated charges.

**Available/Availability** - Condition in which Company has on its network Circuits between specific POPs (as may be requested by Customer) and such Circuits are not already committed to other parties or other Customers and are accessible for Service to Customer, as determined by the Company, in its sole discretion.

**Base Rate** - The nondiscounted monthly recurring charge for Williams Private Line Service.

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**SECTION 1 - TERMS AND ABBREVIATIONS, (CONT'D.)**

**Bill Date/Billing Date** - The date on which billing information is compiled and sent to the Customer.

**Channel(s) or Circuit(s)** - A dedicated communications path between two or more points.

**Commission** - The South Dakota Public Utility Commission.

**Company or Carrier** - Williams Communications, Inc. unless otherwise clearly indicated by the context.

**Cross-Connect** - Electrical connection within a POP of two Circuits in order to complete connectivity between such Circuits.

**Customer** - The person, firm, corporation, governmental unit or other entity (including the successors and assigns of such entities and their Authorized Users) which arranges for the Company to provide, discontinue or rearrange telecommunications services on behalf of itself or others; uses the Company's telecommunications services; and is responsible for payment of charges, all under the provisions and terms of this tariff.

**Customer Premise/Customer's Premise** - Locations designated by a Customer or Authorized User (regardless as to whether the designated premises are controlled or operated by such Customer) where Service is originated/terminated for Customer's own needs or for the use of third parties.

**Dedicated Service** - Point-to-point interexchange Channel(s) or Circuit(s) provided to a Customer between POPs by the Company and available for use twenty-four hours a day, seven days a week.

**Digital** - A mode of transmission in which information is coded in binary form for transmission on a network.

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SECTION 1 - TERMS AND ABBREVIATIONS, (CONT'D.)

**Diversity** - Customer-designated routing agreed to by an authorized representative of Company which indicates a Customer designated departure from a Company Primary Route. The provision of Diversity with respect to Circuits may entail Circuits routed on physically separate facilities on a geographic or systems basis (to the extent possible, i.e., 100% route Diversity on a POP-to-POP or Customer Premise-to-Customer Premise basis is not guaranteed) between the same city pair where the facilities required to provide the relevant Circuits are determined by Company to be Available. Diversity arrangements shall be ICB.

**DS-0** - Digital Signal Level 0 Service, a 64 Kbps signal.

**DS-1** - Digital Signal Level 1 Service, a 1.544 Mbps signal.

**DS-3** - Digital Signal Level 3 Service, a 44.736 Mbps signal.

**DS-0 with Analog Access** - Service with Analog Local Access facilities provides for the transmission of analog voice and/or data within the 300 hertz to 3000 hertz frequency range.

**DS-0 with Digital Access** - Service with Digital Local Access facilities provides for the transmission of Digital data at speeds of 2.4, 4.8, 9.6, 19.2, 56 or 64 Kbps.

**Due Date** - The date on which payment is due as indicated on Company's invoice to Customer.

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**SECTION 1 - TERMS AND ABBREVIATIONS, (CONT'D.)**

**Expedited Service Order** - A Service Order that is processed at the request of the Customer in a time period shorter than the Company standard Service interval.

**FCC** - Federal Communications Commission.

**Fractional DS-1** - A Service provided in multiples of 2 to 24 DS-0 channels and connected to a Customer Premise via DS-1 level Local Access facilities.

**Individual Case Basis (ICB)** - Determinations involving situations where nonstandard arrangements are required to satisfy specialized needs. The nature of such Service requirements makes it difficult or impossible to establish general Tariff provisions for such circumstances. When it becomes possible to determine specific terms and conditions for such offerings, they shall be offered pursuant to such terms and conditions when set forth in writing and subscribed to by authorized representatives of Customer and Company.

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**SECTION 1 - TERMS AND ABBREVIATIONS, (CONT'D.)**

**Installation** - Establishment of Service.

**Interexchange Service** - Service provided to a Customer over a Channel or Circuit between a Company designated POP in one exchange and a Company designated POP in another exchange.

**Interruption** - A condition whereby the Service or a portion thereof is inoperative (as defined in Section 3.1.3.B), beginning at the time of notice by the Customer to Company that such Service is inoperative and ending at the time of restoration (see Section 2.13.3).

**Kbps** - Kilobits per second.

**LATA (Local Access Transport Area)** - A geographical area established for the provision and administration of communications Service, as provided for in the Modification of Final Judgement (MFJ), the consent decree between GTE Corporation and the Department of Justice, and any further modifications thereto.

**Local Access** - The portion of the Service between a Customer Premise and a Company designated POP.

**Local Access Provider** - An entity providing Local Access.

**Local Exchange Carrier (LEC)** - The local telephone utility that provides exchange telephone services.

**Mainland United States** - The forty-eight (48) states within the continental United States of America and the District of Columbia.

**Mbps** - Megabits per second.

**N/A** - Not applicable.

**N/C** - No charge.

**Nonrecurring Charge** - One-time charge relevant to Service.

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**SECTION 1 - TERMS AND ABBREVIATIONS, (CONT'D.)**

**OC-3** - Optical Circuit Level 3 Service, a 155.520 Mbps signal.

**OC-12** - Optical Circuit Level 12 Service, a 622.080 Mbps signal.

**On-Net** - A Circuit traversing the Williams Network, both end points of which originate or terminate at a Williams designated POP.

**Off-Net** - A circuit that is not On-Net.

**Payment Method** - The manner in which the Customer is authorized by the Company to pay charges for Service.

**Point-to-Point** - Service provided between two POPs/Customer Premises.

**POP (Point of Presence)** - A Company designated location where a facility is maintained for the purpose of providing access to the Company's Service where Available.

**Primary Route** - The route, which in the absence of a Diversity arrangement, would be solely determined and used by Company in the provision of Service.

**Requested Service Date** - The date requested by the Customer for commencement of Service and agreed to by Company.

**Restore/Restored** - To make Service operative following an Interruption by repair, reassignment, re-routing, substitution of component parts, or otherwise, as determined by the Company or carrier(s) involved.

**Service** - Williams Private Line Service, including any requested or required Ancillary or supplementary services, as described in this Tariff as modified from time to time.

**Service Commitment Period** - The period selected by the Customer, agreed to by Company and stated on the relevant Service Order, during which Company will provide and Customer will accept and pay for the Service described therein.

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**SECTION 1 - TERMS AND ABBREVIATIONS, (CONT'D.)**

**Service Order** - Standard Company order form(s), in effect from time to time, or Customer's forms accepted in writing by an authorized representative of Company for Service which in total includes pertinent billing, technical and other descriptive information which shall enable Company to provide Service.

**Special Promotional Offerings** - Authorized trial offerings, discounts, or modifications of Company's regular Service offerings, which may, from time to time, be offered by Company to Customers for a particular Service. Such offerings may be limited to certain dates, times, and locations.

**Start of Service** - The Requested Service Date or the date or time Service first becomes available for Customer use, whichever is later.

**Tariff** - The Company's South Dakota Intrastate Tariff No. 1, and effective revisions thereto filed by the Company with the Commission.

**Term** - Service Commitment Period.

**United States** - For purposes of this tariff the term "United States" includes the Mainland United States of America, Alaska, Hawaii, Puerto Rico, U.S. Virgin Islands, Guam, and the Commonwealth of the Northern Mariana Islands (CNMI).

**V & H Coordinates** - Geographic points which define the originating and terminating points of a private line in mathematical terms so that the airline mileage of the private line may be determined. Private line mileage may be used for the purpose of rating calls.

**Williams** - Used throughout this tariff to refer to Williams Communications, Inc.

**Williams Network** - The fiber optic digital telecommunications transmission system operated by Williams and which is capable of providing Service between Williams designated POPs.

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**SECTION 2 - RULES AND REGULATIONS****2.1 Limitations of Services**

- 2.1.1** The Company undertakes to furnish intrastate Interexchange Service pursuant to the terms of this Tariff for the transmission of data, voice and/or video communications. Any member of the general public (including any natural person or legally organized entity such as a corporation, partnership, or governmental body) is entitled to obtain Service under this Tariff, provided that Company reserves the right to deny Service: (i) to any Customer that, in Company's reasonable opinion, presents an undue risk of nonpayment and refuses to comply with the deposit requirements set forth in Section 2.10, (ii) in circumstances in which Company has reason to believe that the use of the Service would violate the provisions of this Tariff or any applicable law or if any applicable law restricts or prohibits provision of the Service, or (iii) if, in Company's sole opinion, insufficient facilities or equipment are Available to provide the Service.
- 2.1.2** The provision of Service shall not create a partnership or joint venture between the Company and Customer nor result in joint service offerings to their respective customers.

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SECTION 2 - RULES AND REGULATIONS, (CONT'D.)

## 2.2 Use of Service

- 2.2.1 The Services offered herein may be used for any lawful purpose, including residential, business, governmental, or other use, including joint use or resale by Customer. Notwithstanding the joint use, sharing or resale of Service by Customer and regardless of the Company's knowledge of same, the Customer remains liable for all obligations under this Tariff. The Company shall have no liability to any person or entity other than the Customer and only as set forth in Section 2.6. The Customer shall not use nor permit others to use the Service in a manner that could interfere with Services provided to others or that could harm the facilities of the Company or others.
- 2.2.2 Neither the Service furnished by the Company nor transmissions or communications carried over such Service shall be used for any unlawful or fraudulent purposes. Nor shall Service be used for any purpose for which any payment or other compensation is received by the Customer except when the Customer is a communications common carrier, a resale common carrier or an enhanced service provider who has subscribed to the Service. However, this provision does not preclude an agreement between the Customer and Authorized Users in a joint use arrangement to share the cost of the Service as long as this arrangement generates no profit for anyone participating in a joint use arrangement.
- 2.2.3 Company's Services are not adapted to the use of recording devices, and Customers who use such devices to record transmissions, or for other purposes, do so at their own risk. Neither Customer nor any other entity may record a conversation except as permitted by applicable law.

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**SECTION 2 - RULES AND REGULATIONS, (CONT'D.)****2.3 Resale of Company Services**

- 2.3.1 In addition to the other provisions in this Tariff, a Customer reselling Service shall be responsible for all interaction and interface with its own subscribers or customers. The reselling of Service by a Customer or reselling of Service with enhancements provided by Customer shall not create a partnership or joint venture between Company and Customer nor result in a joint service offering to any third parties by either Company or the Customer.

**2.4 Assignment and Transfer**

- 2.4.1 All facilities provided under this Tariff are directly or indirectly controlled by Company and the Customer may not transfer or assign the use of service or facilities without the express written consent of the Company. All regulations and conditions contained in this Tariff shall apply to all such permitted assignees or transferees, as well as all conditions of service. Such transfer or assignment, when permitted, shall only apply where there is no interruption of the use or location of the Service or facilities.
- 2.4.2 The obligations set forth in this Tariff shall be binding upon and inure to the benefit of the parties hereto and their respective successors or assigns, provided, however, that the Customer shall not assign or transfer its rights or obligations without the prior written consent of the Company.

**2.5 Interconnection with Other Carriers**

- 2.5.1 Service furnished by Williams may be connected with the services or facilities of other carriers, including local exchange service and/or facilities of a local exchange carrier. Such service or facilities are provided under the terms, rates and conditions of the other carrier and, at Customer's request, pursuant to Section 4.5.3.

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SECTION 2 - RULES AND REGULATIONS, (CONT'D.)

## 2.6 Liability of the Company

- 2.6.1 Except as otherwise specifically provided for in this Tariff, the Company and/or its affiliates shall not be liable to Customer or any other person, firm or entity for any failure of performance hereunder if such failure is due to any cause or causes beyond the reasonable control of the Company. Such causes shall include, without limitation, acts of God, fire, explosion, vandalism, sabotage, cable cut, storm or other similar occurrence, any law, order, regulation, direction, action or request of the United States government or of any other government or of any civil or military authority, national emergencies, insurrections, riots, wars, condemnation, strikes, lockouts or work stoppages or other labor difficulties, supplier failures, shortages, breaches or delays, or preemption of existing Services to restore Service in compliance with Part 64, Subpart D, Appendix A, of the FCC's Rules and Regulations or other applicable laws, regulations, or orders.
- 2.6.2 The Company is not liable for any act or omission of any other company or companies furnishing a portion of the Service or facilities, equipment, or services associated with such Service.
- 2.6.3 The Company and its affiliates shall be indemnified and held harmless against and from any court, administrative or agency action, suit or similar proceeding brought against Company and/or any affiliate of the Company for:
- (a) claims arising out of or related to the contents transmitted via the Services (whether over the Company network or Local Access Circuits) including, but not limited to, claims, actual or alleged, relating to any violation of copyright law, export control laws, failure to procure necessary authorizations, clearances or consents, failure to meet governmental or other technical broadcast standards, or claims that such transmission contents are libelous, slanderous, an invasion of privacy, pornographic, or otherwise unauthorized or illegal;
  - (b) patent infringement claims arising from combining or connecting the Service with equipment and systems of the Customer or Authorized Users;
  - (c) all other claims arising out of any act or omission of the Customer or Authorized Users in connection with any Service provided by the Company;

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SECTION 2 - RULES AND REGULATIONS, (CONT'D.)

## 2.6 Liability of the Company, (Cont'd.)

- (d) defacement of, or damage to, the premises of Customer and Authorized Users resulting from the installation, and/or removal of facilities or the attachment of instruments, equipment and associated wiring on or from the Customer's Premises. No agents or employees of other participating carriers shall be deemed to be agents or employees of the Company; and
- (e) claims arising out of the use of Services or associated equipment in an unsafe manner (such as use in an explosive atmosphere) or the negligent or willful act of any person other than the Company, its agents, or employees.

2.6.4 The Customer is responsible for taking all necessary legal steps for interconnecting the Customer provided terminal equipment with the Company facilities, including Local Access. The Customer shall ensure that the signals emitted into the Company's network do not damage Company equipment, injure personnel or degrade Service to other Customers. The Customer is responsible for securing all licenses, permits, rights-of-way, and other arrangements necessary for such interconnection. In addition, the Customer shall comply with applicable Local Access Provider's signal power limitations.

2.6.5 The Company may rely on Local Access Providers for the performance of other services such as Local Access. Upon Customer request and execution and delivery of appropriate authorizing documents, the Company may act as agent for Customer in obtaining such other services such as Local Access. Customer's liability for charges hereunder shall not be reduced by untimely installation or non-operation of Local Access or Customer provided facilities and equipment.

2.6.6 The Customer indemnifies and holds the Company harmless from any and all loss, claims, demands, suits, or other action, or any liability whatsoever, whether suffered, made, instituted or asserted by the Customer or by any other party or persons, for any personal injury to, or death of, any person or persons, and for any loss, damage or destruction of any property, whether owned by the Customer or others, caused or claimed to have been caused directly or indirectly by the installation or operation of Service or equipment and facilities of Company associated with the Service, unless such installation, operation, failure to operate, maintenance, condition, location or use is the direct result of the Company's knowing and willful misconduct.

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SECTION 2 - RULES AND REGULATIONS, (CONT'D.)

## 2.6 Liability of the Company, (Cont'd.)

2.6.7 The Company shall not be liable to the Customer or any other person, firm or entity in any respect whatsoever as a result of mistakes, accidents, errors, omissions, Interruptions, delays, or defects in Service (collectively "Defects" or "Defective Service"). Defects caused by or contributed to, directly or indirectly, by act or omission of Customer (including Authorized Users) or Customer's customers, affiliates, agents, representatives, invitees, licensees, successors or assigns or which arise from or are caused by the use of facilities or equipment of Customer or related parties shall not result in the imposition of any liability whatsoever upon the Company, and Customer shall pay to the Company any reasonable costs, expenses, damages, fees or penalties incurred by the Company as a result thereof, including, without limitation, costs of Local Access Providers' labor and materials. In addition, all or a portion of the Service may be provided over facilities of third parties, and the Company shall not be liable to Customer or any other person, firm or entity in any respect whatsoever arising out of Defects caused by such third parties. COMPANY SHALL NOT BE LIABLE FOR ANY DIRECT, INDIRECT, CONSEQUENTIAL, SPECIAL, ACTUAL, PUNITIVE OR ANY OTHER DAMAGES, OR BUSINESS INTERRUPTION, OR FOR ANY LOST PROFITS OF ANY KIND OR NATURE WHATSOEVER ARISING OUT OF ANY DEFECTIVE SERVICE OR ANY OTHER CAUSE. ANY WARRANTIES AND REMEDIES EXPLICITLY SET FORTH IN THIS TARIFF ARE EXCLUSIVE AND IN LIEU OF ALL OTHER WARRANTIES OR REMEDIES, WHETHER EXPRESSED, IMPLIED OR STATUTORY, INCLUDING WITHOUT LIMITATION IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE. IN THE EVENT OF AN INTERRUPTION IN SERVICE, ANY DEFECT IN THE SERVICE WHATSOEVER OR A FAILURE TO PERFORM UNDER THIS TARIFF, NEITHER COMPANY NOR ANY THIRD PARTY PROVIDER OR OPERATOR OF FACILITIES EMPLOYED IN THE PROVISION OF THE SERVICE SHALL BE LIABLE FOR ANY DIRECT, INDIRECT, CONSEQUENTIAL, SPECIAL, ACTUAL, PUNITIVE OR ANY OTHER DAMAGES, OR FOR ANY LOST PROFITS OF ANY KIND OR NATURE WHATSOEVER.

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SECTION 2 - RULES AND REGULATIONS, (CONT'D.)

## 2.6 Liability of the Company, (Cont'd.)

- 2.6.8 In the event parties other than Customer (e.g., Customer's customers or Authorized Users) shall have use of the Service directly or indirectly through Customer, Customer shall forever indemnify and hold Company and any third-party provider or operator of facilities employed in provision of the Service harmless from and against any and all claims, demands, suits, actions, losses, damages, assessments or payments which may be asserted by said parties arising out of or relating to any Defects or any claims described in Section 2.6.3.
- 2.6.9 In the event that Company is required to perform a Circuit redesign due to inaccurate information provided by the Customer or, Company incurs costs and expenses under circumstances in which such costs and expenses are caused to be incurred by the Customer or reasonably incurred by Company for the benefit of the Customer, the Customer is responsible for the payment of any resulting costs incurred by Company.
- 2.6.10 Customer agrees to defend the Company against the claims as set forth in this Section 2.6 and to pay all reasonable litigation costs, attorneys' fees, court costs, settlement payments, and any damages awarded or resulting from any such claims.
- 2.6.11 The failure to give notice of default, to enforce or insist upon compliance with any of the terms or conditions herein, the waiver of any term or conditions herein, or the granting of an extension of time for performance by the Company or the Customer shall not constitute the permanent waiver of any term or condition herein. Each of the provisions shall remain at all times in full force and effect until modified in writing.

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SECTION 2 - RULES AND REGULATIONS, (CONT'D.)

## 2.7 Application for Service

- 2.7.1 The Customer is responsible for the placement of Service Orders for the Service described herein as well as complying with the provisions of this Tariff. Customer may be required to execute written Service Orders or other documents relating to the Service, but Customer shall be obligated under the terms of this Tariff even if such Service Orders or other documentation have not been executed.
- 2.7.2 The business records of Company shall be deemed determinative as to the contents of the Service Order(s). When Customer places a Service Order for Service, the Customer must provide the Company with the Customer's name and address for billing purposes and a contact name and phone number. Customer must also provide the Company with the contact name, telephone number, and address at each of the premises where Service is to be installed. Each Service Order shall reference this Tariff. When the Service Order is accepted in writing by Company, the relevant Service Order shall be deemed to set forth the final operative obligations between Company and the Customer regarding the Services described therein to the extent that it specifies the type of Service, quantity of Circuits, originating and terminating cities, Requested Service Date, Term and other information necessary for Company to provide the Service to Customer.
- 2.7.3 Any other items and conditions that are typed, printed or otherwise included in any Service Order shall be deemed to be solely for the convenience of the parties unless specifically noted as an Individual Case Basis (ICB) term or condition. No action by Company (including, without limitation, provision of Service to Customer pursuant to such Service Order) shall be construed as binding or estopping Company with respect to such term or condition, unless such Service Order containing said specific term or condition has been signed by an authorized representative of Company and Customer. Company shall have no obligation except those as set forth in this Tariff or contained in Service Orders, and all other representations or agreements, oral or written, shall be of no effect. In the event any provisions set forth in Service Orders conflict with the provisions set forth in this Tariff, the provisions set forth in this Tariff shall prevail.

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SECTION 2 - RULES AND REGULATIONS, (CONT'D.)**2.8 Cancellation of Service by Customer**

**2.8.1** Customer may cancel Service by providing written notice thereof to Company thirty (30) days in advance of the effective date of cancellation.

**2.8.2** If a Service Order for Installation of Service is delayed for more than thirty (30) days beyond the Requested Service Date, and such delay is not requested or caused by the Customer, the Customer may cancel the portion of Service affected thereby without incurring the cancellation charges described in Section 2.8.4.

**2.8.3** After Start of Service, if Service is Interrupted for a period of 30 days, then, in addition to the remedies set forth in Section 2.13, Customer, pursuant to Section 2.8.1, may notify Company in writing of its conditional intent to cancel the directly affected Service. If such affected Service is not Restored within 30 days after receipt of such notice, Customer may terminate the affected portion of the Service for such cause and without incurring the cancellation charges described in Section 2.8.4 at the expiration of the notice period.

**2.8.4** Customer shall be subject to the following cancellation charges upon cancellation of Service for the convenience of Customer, i.e., without cause, as opposed to cancellation of service for cause as would be the case for Defective Service, as described in Section 2.6.7. In such case, Customer is also liable for (A) cancellation charges as specified in Section 4, (B) any charges, expenses, fees, or penalties incurred by Company, its affiliates or other third party providers of Service due to cancellation of Local Access; and (C) any other costs, expenses, or additional charges reasonably incurred by Company on behalf of Customer.

**2.8.4.A** If Customer cancels Service before the Company has incurred any costs for the Installation of such Service, Customer shall pay to Company a cancellation charge in an amount equal to any charges, expenses, fees, or penalties incurred by Company due to cancellation of Local Access and any other costs, expenses, or additional charges reasonably incurred by Company prior to such cancellation.

**2.8.4.B.** If Customer cancels Service after the Company has incurred costs for Installation but prior to Start of Service, Customer shall pay to Company a cancellation charge in an amount equal to any Installation charges or Ancillary charges not yet paid.

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SECTION 2 - RULES AND REGULATIONS, (CONT'D.)

## 2.8 Cancellation of Service by Customer, (Cont'd.)

## 2.8.4 (Cont'd.)

2.8.4.C. If Customer cancels Service after the Start of Service, unless otherwise specified in this Tariff, Customer shall pay to Company a cancellation charge in an amount equal to (i) the prorated monthly Base Rate charge for such canceled Service as set forth in Section 4 times the number of months in the relevant Term, less the charges for such Service actually provided to Customer through the effective date of cancellation (but in no event less than zero), and (ii) any Installation charges or Ancillary Charges not yet paid.

2.8.4.D. As Company's damages in the event of a cancellation are difficult or impossible to ascertain, the foregoing provisions providing for a cancellation charge are intended to establish liquidated damages in the event of a cancellation of a Service and do not represent a penalty of any kind.

2.8.5 Notwithstanding the foregoing, and upon thirty (30) days' prior written notice, either Customer or Company shall have the right, without cancellation charge or other liability to the other, to cancel the affected portion of the Service, if Company is prohibited by governmental authority from furnishing said portion, or if any material rate or term contained herein and relevant to the affected Service is substantially changed by order of the highest court of competent jurisdiction to which the matter is appealed, the FCC, or other local, state or federal government authority.

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SECTION 2 - RULES AND REGULATIONS, (CONT'D.)

## 2.9 Cancellation for Cause by Company

2.9.1 For nonpayment by Customer of any undisputed sum owing to the Company, or for violation by Customer of any of the provisions governing the furnishing of Service under this Tariff, the Company may, after seven (7) days written notification to Customer of such nonpayment or violation and forthcoming termination therefor, without incurring any liability, immediately discontinue the furnishing of such Service. Customer shall be deemed to have canceled Service as of the date of such disconnection and shall be liable for any cancellation charges set forth in this Tariff.

2.9.2 Without incurring any liability, the Company may discontinue the furnishing of Service to Customer immediately and without notice if the Company deems that such action is necessary to prevent or to protect against fraud or to otherwise protect its personnel, agents, facilities or Services or under any of the following circumstances:

- (a) if Customer fails to make proper application for Service;
- (b) if Customer refuses to furnish or provides false information to the Company regarding the Customer's identity, address, credit-worthiness, past or current use of Service, or its planned use of Service;
- (c) if Customer gives Company reasonable cause to believe that Customer will not comply with a request of the Company for reasonable security for the payment for Service;

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SECTION 2 - RULES AND REGULATIONS, (CONT'D.)

## 2.9 Cancellation for Cause by Company, (Cont'd.)

## 2.9.2 (Cont'd.)

- (d) if the Customer is using the Service in violation of this Tariff;
- (e) if the Customer is using the Service in violation of any applicable law or regulation.
- (f) if such actions are reasonably appropriate to avoid violation of applicable law; or
- (g) if there is a reasonable risk that criminal, civil or administrative proceedings or investigations based upon the transmission contents shall be instituted against Company.

2.9.3 The discontinuance of Service by the Company pursuant to this Section does not relieve the Customer of any obligations to pay the Company for charges accrued for Service which has been furnished up to the time of discontinuance nor does it relieve the Customer of applicable cancellation charges. The remedies set forth herein shall not be exclusive and the Company shall at all times be entitled to all rights available to it under either law or equity.

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**SECTION 2 - RULES AND REGULATIONS, (CONT'D.)****2.10 Billing and Payment For Service****2.10.1 Responsibility for Charges**

The Customer is responsible for payment of all charges for Services furnished to the Customer or Authorized User. This includes payment for Services specifically requested by the Customer. This responsibility is not changed due to any use, misuse, or abuse of the Customer's Service or Customer provided equipment by third parties, the Customer's employees, or the public.

**2.10.2 Payment Arrangements**

**2.10.2.A** All payments due by the Customer shall be remitted and payable to the Company or any billing agent duly authorized and designated by the Company to receive such payments. An authorized billing agent may be a Local Exchange Carrier or other billing agent.

**2.10.2.B** Unless the Company requires an advance Payment Method or other arrangement due to Customer's presenting an undue risk of nonpayment as described in this Section, payment for all pro-rated monthly recurring charges (charges for monthly Service provided for less than a calendar month), Installation charges, and other non-recurring charges shall be due on the first day of the month following the month in which the Service was provided. Payment for all monthly recurring charges for full months during which the Service is to be provided following Start of Service shall be due in advance on the first day of that month, except that when billing is based upon Customer usage, usage charges will be billed monthly in arrears for Service provided during the preceding billing period.

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**SECTION 2 - RULES AND REGULATIONS, (CONT'D.)****2.10 Billing and Payment For Service, (Cont'd.)****2.10.3 Late Payment Fee**

In the event Customer fails to pay or remit payment in full to the proper address for Services billed by the Company or authorized billing agent on or before thirty (30) days after the Due Date, Customer shall also pay a late fee in the amount of the lesser of one and one-half percent (1.5%) of the unpaid balance per month or the maximum lawful rate under applicable state law.

**2.10.4 Return Check Charge**

A return check charge of \$25.00 will be assessed for checks made payable to the Company and returned for insufficient funds. For service billed on behalf of the Company, any applicable return check charges will be assessed according to the terms and conditions of the Company's billing agent.

**2.10.5 Validation of Credit**

**2.10.5.A** The Company reserves the right to validate the creditworthiness of Customers and billed parties through available verification procedures. If at any time a Customer presents an undue risk of non-payment, the Company may refuse to provide Service, require a deposit or advance payment pursuant to Section 2.10.6 or otherwise restrict or interrupt Service to a Customer.

**2.10.5.B** In determining whether a Customer presents an undue risk of nonpayment, the Company may consider, but is not limited to, the following factors: (i) the Customer's payment history (if any) with the Company, (ii) Customer's ability to demonstrate adequate ability to pay for the Service, (iii) credit and related information provided by Customer, lawfully obtained from third parties or publicly available, and (iv) information relating to Customer's management, owners and affiliates (if any).

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SECTION 2 - RULES AND REGULATIONS, (CONT'D.)

## 2.10 Billing and Payment For Service, (Cont'd.)

## 2.10.6 Advance Payments and Deposits

A Customer who presents an undue risk of nonpayment may be required at any time prior to the commencement of Service to pay the Company in advance the monthly service charge, and any fixed charges, including the applicable Installation charges, applicable for the first month of Service under the Tariff. Additionally, to guarantee payment of current bills, Company may require such Customer to provide a security deposit, in cash or the equivalent of cash, up to an amount equal to two months of actual or estimated usage charges for the Service to be provided. Simple interest shall be paid by the Company on the deposits at the rate of not less than 6% per annum, payable annually at the request of the Customer or upon return of the deposit, for the time the deposit is held by the utility, provided it is not less than six (6) months.

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**SECTION 2 - RULES AND REGULATIONS, (CONT'D.)****2.10 Payment Arrangements, (Cont'd.)****2.10.7 Disputed Charges**

Disputes with respect to charges must be presented to the Company in writing within 30 days after the Due Date or such invoice shall be deemed to be correct and binding on the Customer. In instances of a dispute, the Customer is required to pay the undisputed portion of the bill in its entirety within 30 days after the Due Date. If, after investigation and review by the Company, a disagreement remains as to the disputed amount, the Customer or Company may file an appropriate complaint with the South Dakota Public Service Commission.

**2.10.8** In the event the Company incurs fees or expenses, including attorney's fees, in collecting, or attempting to collect, any charges owed the Company, the Customer shall be liable to the Company for the payment of all such fees and expenses reasonably incurred.

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SECTION 2 - RULES AND REGULATIONS, (CONT'D.)

## 2.11 Tax Adjustments

2.11.1 All stated charges in this Tariff are computed by the Company exclusive of any applicable federal, state, or local use, excise, gross receipts, sales or privilege taxes, duties, fees, or similar liabilities whether charged to or against the Company or its Customer. An amount equal to such taxes, fees, etc. shall be charged to the Customer in addition to the charges stated in this Tariff. All charges related to such taxes, duties, and fees shall each be shown as a separate line item on the Customer's monthly invoice and, unless stated otherwise, are not included in the quoted rates and charges set forth in this Tariff.

2.11.2 The Company has discretion to include among such fees and surcharges a "Universal Service Subsidy" fee to support universal service in high cost areas and to low income users of telecommunications in addition to assisting schools, libraries and rural health care providers to obtain telecommunications and information services. The Universal Service Subsidy fee, however, shall not be assessed to the portion of Service taken for resale by any Customer who is an entity required by the State of South Dakota to contribute directly to these universal service support programs, provided that such entity has notified the Company of its intention to resell such Service and of its universal service obligations.

For all other Customers the charges for the Universal Service Subsidy, as stated on a separate line item on the Customer's monthly invoice, shall be six (6) percent of the Customer's gross invoice amount attributable to intrastate Services (exclusive of taxes). This Universal Service Subsidy percentage shall be subject to periodic adjustments.

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SECTION 2 - RULES AND REGULATIONS, (CONT'D.)**2.11 Tax Adjustments, (Cont'd.)**

2.11.3 A surcharge is imposed on all charges for Service originating at addresses in states which levy a gross receipts tax on Customer's operations. Pending the conclusion of any litigation challenging a jurisdiction's right to impose any tax, Company may elect to impose and collect a surcharge covering such tax, unless otherwise constrained by court order or direction, or it may elect to waive any surcharge. If it has collected a surcharge or tax and the challenged surcharge or tax is found to have been invalid and unenforceable, Company shall credit or refund such sums to each affected Customer if either Company has retained such funds or Company has remitted such funds to the collecting jurisdiction and the funds have been returned to Company. The surcharge shall be shown as a separate line item on the Customer's monthly invoice.

**2.12 Inspection, Testing and Adjustments**

2.12.1 The Company may, upon notice, make such tests and inspections as may be necessary to determine that the requirements of this Tariff are being complied with in the installation, operation or maintenance of Customer or the Company's equipment. The Company may interrupt the Service at any time, without penalty to the Company, because of departure from any of these requirements.

2.12.2 Upon reasonable notice, the Channels provided by the Company shall be made available to the Company for such tests and adjustments as may be necessary to maintain them in satisfactory condition; no interruption allowance shall be granted for the time during which such tests and adjustments are made.

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SECTION 2 - RULES AND REGULATIONS, (CONT'D.)

## 2.13 Refunds or Credits for Interruptions in Service

## 2.13.1 No credits or refunds for interruptions of Service shall be made for:

- (a) Interruptions caused by the negligence or willful misconduct (including the provision of inaccurate information) of the Customer or its Authorized Users.
- (b) Interruptions during any period which the Company or its agents are not afforded access to any Customer premise where Service is originated or terminated.
- (c) Interruptions during any period when the Customer or user has released the Service to the Company for maintenance or rearrangement purposes, or for the implementation of a Customer Service Order.
- (d) Interruptions during periods when the Customer elects not to release the Service for testing or repair and continues to use the Service on an impaired basis.
- (e) Interruptions not reported to the Company.
- (f) Interruptions occurring prior to Start of Service.
- (g) Interruptions caused by outages or failure of Local Access provided by a Local Access Provider.

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SECTION 2 - RULES AND REGULATIONS, (CONT'D.)

## 2.13 Refunds or Credits for Interruptions (Cont'd.)

2.13.2 Following the Start of Service date, if Customer reports an interruption in Service to Company and the affected Service is not Restored within two hours of such report, Customer shall, upon request directed to the Customer's designated customer service representative, receive a credit at the rate of 1/720 of the monthly recurring charges applicable to Service directly affected by such interruption for each hour or major fraction thereof, over the initial two hours, during which service is interrupted. No credit will be given for interruptions of less than two hours in duration. The formula used for computation of credits is as follows:

$$\text{Credit} = A / 720 \times B$$

A = Interruption time in hours or fraction thereof (must be over 2 hours)

B = total monthly recurring charge for the affected service.

2.13.3 Notice of Interruption should be reported by the Customer to the Company's Network Control Center or other location designated by Company. An Interruption ends when the Service is Restored. If the Customer reports the Service to be inoperative but declines to release it for testing and repair, the Service shall be deemed to be impaired, but not subject to an Interruption nor corresponding credit as provided in Section 2.13.2.

2.13.4 If the Customer elects to use another means of transmission during the period of Interruption, the Customer is solely responsible for payment of the charges for the alternate transmission service used.

2.13.5 The credit provided in Section 2.13.2 is Customer's sole and exclusive remedy for any Interruption in the Service.

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SECTION 2 - RULES AND REGULATIONS. (CONT'D.)

## 2.14 Systems Security

2.14.1 Where Customers are permitted access to the Company's computer systems and data (hereinafter "Systems") for the purposes of managing and maintaining their own telecommunications system, they will adhere to the following:

- (a) Customers may access the Company's Systems only to the extent required by and incident to the administration and management of the Customer's telecommunications system.
- (b) Customers may not disclose or use information which may be learned as a consequence of access to the Company's Systems except as may be directly required to insure the proper operation of the Customer's telecommunications system. Customers must take all reasonable precautions to prevent any other person or entity who does not have a need to know from acquiring such information.
- (c) Customers shall not in any manner or form disclose, provide, or otherwise make available, in whole or in part, these Systems, documentation, any related material or any other confidential material except to those who have a need to know incident to the operation of the Customer's telecommunications system. These Systems remain the property of the Company and may not be copied, reproduced or otherwise disseminated without the prior written permission of the Company.
- (d) Customers shall take all reasonable precautions to maintain the confidentiality of Systems. Such precautions shall include the use of Personal Identification Numbers (PINs) and passwords selected by and known only to the Customer's individual authorized users. Telephone numbers and dial-up access numbers assigned to the Customer by Company, PINs or any aspect of access and sign-on methodology used to access these Systems shall not be posted or shared with others under any circumstances. Customers shall follow normal log-off procedures prior to leaving a terminal unattended. Customers should report any known or suspected unauthorized attempt by others to access these Systems.

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SECTION 2 - RULES AND REGULATIONS, (CONT'D.)

2.14 Systems Security, (Cont'd.)

- 2.14.2 In the event that a security access device assigned to a Customer for dial-up access is lost, stolen, or misplaced, the Customer must notify Company immediately. Access into these Systems beyond that authorized may result in civil and/or criminal penalties.

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**SECTION 2 - RULES AND REGULATIONS, (CONT'D.)****2.15 Restoration of Service**

- 2.15.1** The use and Restoration of Service in emergencies shall be in accordance with Part 64, Subpart D of the Federal Communications Commission's Rules and Regulations to the extent it is applicable, which specifies the priority system for such activities.

**2.16 Customer Provided Equipment**

- 2.16.1** Customer Premises Circuit terminating equipment such as Channel Service units (CSUs) and Multiplexing equipment and any other terminal equipment such as telephone sets or systems shall be provided by the Customer and furnished and maintained at the Customer's expense, except as expressly provided otherwise in writing and set forth in a Service Order accepted by an authorized representative of Company.

**2.17 Company Provided Equipment**

- 2.17.1** The Customer agrees to operate any Company provided equipment in accordance with instructions of the Company or the Company's agent or designee. Failure to do so shall void any Company liability for Interruption of Service and may make Customer responsible for damage to equipment pursuant to Section 2.17.2 below.
- 2.17.2** Customer agrees to return to the Company all Company-provided equipment within five (5) days of termination of the Service in connection with which the equipment was used. Said equipment shall be in the same condition as when delivered to Customer, normal wear and tear excepted. Customer shall reimburse the Company, upon demand, for any costs incurred by the Company (e.g., the cost of the equipment) due to Customer's failure to comply with this provision.
- 2.17.3** The Company may substitute, change or rearrange any equipment or facility at any time, but shall endeavor to maintain the technical parameters of the service provided the Customer. In the event that technical parameters change as a result of the Company's actions, the Company will provide the Customer with thirty (30) days notice prior to such change.

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SECTION 2 - RULES AND REGULATIONS, (CONT'D.)

## 2.18 Other Terms and Conditions

- 2.18.1 A Customer shall not use any service mark or trademark of the Company or refer to the Company in connection with any product, equipment, promotion, or publication of the Customer without prior written approval of the Company.
- 2.18.2 In the event suit is brought or an attorney is retained by the Company to enforce the terms of this Tariff, the Company shall be entitled to recover, in addition to any other remedy, reimbursement for reasonable attorneys' fees, court costs, costs of investigation and other related expenses incurred in connection therewith.
- 2.18.3 Any legal action or proceeding with respect to the collection of charges due under this Tariff may be brought in the Courts of the State of Oklahoma in and for the County of Tulsa or the United States of America for the Northern District of Oklahoma. By Customer's obtaining Service pursuant to this Tariff, both Customer and Company shall be deemed to have submitted to such jurisdiction, thereby expressly waiving whatever rights may correspond to either of them by reason of their present or future domicile.
- 2.18.4 Except as otherwise provided in this Tariff or as specified in writing by the party entitled to receive notice, notices between Customer and Company shall be given in writing to the persons whose names and business addresses appear on the relevant Service Order and the effective date of any notice shall be the date of delivery of such notice, not the date of mailing. By written notice, Company or Customer may change the party to receive notice and/or the address to which such notice is to be delivered. In the event no Customer or Company address is provided in the relevant Service Order, notice shall be given to the last known business address of Customer or Company, as the case may be.
- 2.18.5 Company, when acting at the Customer's request and/or as Customer's authorized agent, shall make reasonable efforts to arrange for special Service requirements such as the provision of Off-Net Circuits. Due to the specialized nature of such an arrangement, however, such arrangement shall be provided ICB.

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SECTION 3 - APPLICATION OF TECHNICAL STANDARDS

## 3.1 Application of Technical Standards

3.1.1 The following Technical Standards for Private Line Services set forth objectives for Company to follow. In no circumstance shall these Technical Standards be construed as creating any warranty on the part of Company, with the exception of those warranties expressly set forth in the preceding Sections of this Tariff.

## 3.1.2 Interconnection Specifications:

3.1.2.A DS-0 through DS-3 ("DS-N") - provided in accordance with ANSI Standard T1.102 (formerly AT&T Compatibility Bulletin 119) and Technical Reference 54014 >4.

3.1.2.B OC-3 through OC-48 ("OC-N") - provided in accordance with ANSI Standard T1.105.

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**SECTION 3 - APPLICATION OF TECHNICAL STANDARDS, (CONT'D.)****3.1 Application of Technical Standards****3.1.3 Quality Standards****3.1.3.A General**

Standards for DS-N and OC-N Services apply independently for Local Access and Interexchange Services and exclude non-performance due to circumstances listed in Section 2.3.1 or planned Interruptions for necessary maintenance purposes. Local Access standards apply on a one-way basis between each Customer Premises Network Interface Points ("CPNIP") and the Company POP. Interexchange Service standards apply on a one-way basis between the originating and terminating Company POPs. The actual end-to-end (CPNIP to CPNIP) availability and performance of DS-N and OC-N will be a combined function of the Local Access and Interexchange Service specifications and may be affected by the Customer provided equipment, dependent upon the type and quality of Customer equipment used. (Customer provided Local Access may not meet these specifications).

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SECTION 3 - APPLICATION OF TECHNICAL STANDARDS, (CONT'D.)

## 3.1 Application of Technical Standards, (Cont'd.)

## 3.1.3 Quality Standards (cont'd.)

## 3.1.3.B Availability

Availability, as used in this Section 3, is a measurement of the percent of total time that Service is operative when measured over a 365 consecutive day (8760 hour) period. DS-N and OS-N Services are considered inoperative when there has been a loss of signal or when two consecutive 15 second loop-back tests confirm the observation of any severely errored seconds or a bit error rate equal to or worse than  $1 \times 10^{-3}$ . The Local Access Availability standards for DS-N and OC-N Services are established by the Local Access Provider. For Services on the Williams Network, Availability shall be 99.99% from POP to POP measured over a one year period. For Services not on the Williams Network, the Off-Net provider will establish Availability.

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**SECTION 3 - APPLICATION OF TECHNICAL STANDARDS, (CONT'D.)****3.1 Application of Technical Standards, (Cont'd.)****3.1.3 Quality Standards, (cont'd.)****3.1.3.C Performance (% Error Free Seconds, while Available)**

Performance is noted in Error Free Seconds ("EFS") which are a measure of the percentage of total seconds when measured over a consecutive 24 hour period that do not contain bit errors. Performance shall be measured on a one-way basis using a Pseudo Random Bit Sequence test pattern as defined in CCITT Recommendation 0.151. The EFS standards for Local Access for DS-N and OC-N is established by the Local Access Provider. For Services on the Williams Network, the EFS shall be 99.5% from POP to POP measured over a monthly period. For Services not on the Williams Network, the Off-Net provider will establish the EFS.

- 3.1.4 Repair efforts will be undertaken upon notification of trouble by internal network surveillance and network surveillance and performance systems or by notification of trouble and release of all or part of the DS-N or OC-N Service by the Customer for testing.
- 3.1.5 Mean Time to Restore ("MTTR") is the average time required to Restore Service and resume Availability and is stated in terms of equipment and cable outages or failures. The MTTR objective shall be two (2) hours for equipment and six (6) hours for cable.
- 3.1.6 The Company calculates network Availability on Customer action requests. The Customer must notify Williams Network Customer Care department or other location designated by Company and initiate an action request to determine if the Service variables stated above were met.
- 3.1.7 Notwithstanding the foregoing, at Company's option, Company may provide a comparable transmission alternative, e.g. satellite transmission, ("Alternative Transmission"). Such Alternative Transmission shall comply with the respective standards commonly used in the industry for such service.

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SECTION 4 - SERVICE DESCRIPTIONS AND RATES

## 4.1 General

Williams Private Line Service is a Dedicated Service that offers Channels or Circuits dedicated to the use of a specific Customer on a twenty-four hours per day, seven days per week basis. Company offers Williams Private Line Service, subject to Availability between Company designated POPs.

## 4.2 Distance Calculation

For Private Line Services, mileage measurements are based on the distance in airline miles between Williams POPS associated with each end of the Circuit. Distance measurements are computed using industry standard Vertical (V) and Horizontal (H) Coordinates according to the following formula.

Formula:

$$\sqrt{\frac{(V1-V2)^2 + (H1-H2)^2}{10}} \times 0$$

Where V<sub>1</sub> and H<sub>1</sub> correspond to the V&H Coordinates of POP<sub>1</sub>, and V<sub>2</sub> and H<sub>2</sub> correspond to the V&H Coordinates of POP<sub>2</sub>.

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SECTION 4 - SERVICE DESCRIPTIONS AND RATES, (CONT'D.)

## 4.3 Term Plans

- 4.3.1 Customers subscribing to Williams Private Line Service may order Service on a monthly basis or for Service Commitment Periods of one, two, three, four or five years.
- 4.3.2 The term "Minimum Monthly Commitment" as used in Section 4 of this tariff shall mean the aggregate of all Base Rate charges, as described in Section 4.4, for each Williams Private Line Service (regardless of whether such Base Rates are themselves subject to any discount limitation) which in total is within the amounts stated for each level of the relevant discount schedule. No other charges including Ancillary, Installation or Service Order charges will be included when determining whether a Customer meets its Minimum Monthly Commitment.
- 4.3.3 The discount level, if any, applicable to a Customer for a particular Service or Services shall be the rate or volume discount level in effect at the beginning of the monthly billing period applicable to the Customer for the particular Service or Services.
- 4.3.4 Following the expiration of the Term relevant to Service, such Service shall continue to be provided in accordance with this Tariff, subject to written notice of termination by either Company or Customer.
- 4.3.5 The Customer may be responsible for other charges as described in this Tariff which may include, but are not limited to Ancillary Charges and cancellation charges.

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ISSUED: [date]

EFFECTIVE: [date]

ISSUED BY: Mickey S. Moon, Director of Regulatory Affairs  
One Williams Center, RC3-M  
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(918) 573-8771

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**SECTION 4 - SERVICE DESCRIPTIONS AND RATES, (CONT'D.)****4.4 Application of Base Rates and Discounts**

Customers subscribing to each type of Williams Private Line Service (e.g., DS-0, DS-1, etc.) shall be charged a Base Rate (on a per circuit basis) as set forth below in this Section 4, which shall consist of (1) a fixed monthly charge irrespective of distance, and (2) a per mile per month charge based on the distance between applicable Company POPs. Customers who subscribe for Service Commitment Periods ranging from one to five years, inclusive, will receive a discount off of the Base Rate for the Term of the Service Commitment Period based upon the "Minimum Monthly Commitment" dollar amount and the Term of the Service Commitment Period.

**4.5 Application of Ancillary Charges****4.5.1 Installation Charges**

A non-recurring installation charge applies to each Circuit provided by the Company. Installation charges also apply to existing Service moved to a new location at the Customer's request. Rates and charges vary by type of service as specified in this Section. Term and volume commitments do not apply to Installation charges.

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SECTION 4 - SERVICE DESCRIPTIONS AND RATES, (CONT'D.)

## 4.5 Application of Ancillary Charges, (Cont'd.)

## 4.5.2 Service Order Charges

## 4.5.2.A General

No Service Order charges apply to initial Service Orders for new Service placed by the Customer. Where Customer requests a change in a pending Service Order or requests changes to an existing Circuit, non-recurring charges may apply to each change as described below. Non-recurring charges vary based on type of Service ordered by Customer.

Circuits or Channels provide by the Company may be connected to other Circuits or Channels provided by the Company (On-Net); to Local Access facilities; or facilities provided by another carrier (Off-Net) through the use of Cross-Connects.

Service Order charges apply as follows based on the content of the Order:

- a) Where Service Orders require the installation, rearrangement, or removal of Company-provided Circuits only, Per Circuit charges apply.
- b) Where Service Orders require the installation, rearrangement, or removal of Company-provided Cross-Connects only, Per Cross-Connect charges apply. For Cross-Connects between two facilities of different band-widths, the Per Cross-Connect charge associated with the higher bandwidth service applies.
- c) Where Service Orders require the installation, rearrangement, or removal of Company-provided Circuits and Cross-Connects, both Per Circuit and Per Cross-Connect charges apply.

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**SECTION 4 - SERVICE DESCRIPTIONS AND RATES, (CONT'D.)****4.5 Application of Ancillary Charges, (Cont'd.)****4.5.2 Service Order Charges (Cont'd.)****4.5.2.B Change of Requested Service Date**

Customers may request a change in the Requested Service Date for pending Service Orders. Change of Requested Service Date charges apply when a change of the Requested Service Date is the only customer requested change to the original Service Order.

When a Customer requests that its Requested Service Date be extended, the new Requested Service Date must be within thirty (30) days of the previously set Requested Service Date. If the new Requested Service Date is more than thirty (30) days beyond the existing Requested Service Date or unknown, the Service affected thereby will be deemed canceled by the Customer and subject to applicable cancellation charges.

If the first requested change of the Requested Service Date is received more than ten (10) working days prior to the original Requested Service Date, there will be no charge. A Change in Requested Service Date charge applies for all subsequent changes to a Requested Service Date or if the requested change is made within ten (10) working days of the established Requested Service Date.

If the new Requested Service Date is earlier than the Requested Service Date on the original Service Order, and requires an Expedited Service Order, non-standard installation, maintenance and engineering charges may apply in addition to a charge for a Change of Requested Service Date.

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SECTION 4 - SERVICE DESCRIPTIONS AND RATES, (CONT'D.)

## 4.5 Application of Ancillary Charges, (Cont'd.)

## 4.5.2 Service Order Charges (Cont'd.)

## 4.5.2.C Change of Service Order

Change of Order charges apply to changes requested by the Customer to the information contained in a service order, other than changes in Requested Service Date, prior to Start of Service.

Pre-engineering charges apply when a Service Order has been entered into the Company's order processing system within five (5) working days, and the Customer requests a modification to the information contained in the Service Order.

Post-engineering charges apply when a Service Order has been entered into the Company's order processing system for over five (5) working days and the Customer requests a modification to the information contained in the Service Order.

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SECTION 4 - SERVICE DESCRIPTIONS AND RATES, (CONT'D.)

4.5 Application of Ancillary Charges, (Cont'd.)

4.5.2 Service Order Charges (Cont'd.)

4.5.2.D Order Cancellation

Order Cancellation Charges apply for Service Orders canceled prior to Customer acceptance. These charges are intended to supplement any Service cancellation charges set for in Section 2.

Pre-engineering charges apply when a Service Order has been entered into the Company's order processing system within five (5) working days and the Customer requests cancellation of the Service Order prior to Acceptance.

Post-engineering charges apply when a Service Order has been entered into the Company's order processing system for over five (5) working days and the Customer requests cancellation of the Service Order prior to Acceptance.

---

ISSUED: [date]

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SECTION 4 - SERVICE DESCRIPTIONS AND RATES, (CONT'D.)

## 4.5 Application of Ancillary Charges, (Cont'd.)

## 4.5.2 Service Order Charges (Cont'd.)

## 4.5.2.E Change of Service

Change of Service charges apply to changes made after a Circuit has been installed and accepted by the Customer. This charge is only applicable where re-engineering of the affected Service is required. No charge applies for changes in Service made for administrative purposes (e.g., change of name, billing address, etc.). Change of Service re-engineering charges apply, but are not limited to, Service Orders that are re-engineered due to Customer requested changes in Local Access Service, transmission speed, transmission mode, DXC or Local Access Termination location, or terminating equipment.

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SECTION 4 - SERVICE DESCRIPTIONS AND RATES, (CONT'D.)

## 4.5 Application of Ancillary Charges, (Cont'd.)

## 4.5.3 Local Access Charges

- 4.5.3.A Access to Williams Private Line Services must be obtained by the Customer from the Company or third-party carrier, including a serving Local Exchange Carrier, an Alternative Access Provider or other Local Access Provider. Third party Local Access facilities if provided by the Company are offered at a pass through rate equal to the price at which those channels or services are provided to Company by the Local Access Provider. The rates and charges of the Local Access Provider apply for all Local Access facilities used in conjunction with the Company's Service(s).
- 4.5.3.B At the Customer's request, Williams may act as the Customer's agent for payment of Local Access charges to the Local Access Provider. In such cases, the Company will charge a nonrecurring Local Access Billing Administration fee of \$150.00 per Local Access circuit in addition to pass-through rates associated with the Local Access facilities billed through the Company.
- 4.5.3.C At the Customer's request, Williams may act as the Customer's agent for ordering and coordinating installation, re-arrangement or removal of Local Access facilities. In such cases, a \$100.00 Local Access Administration fee will apply to each ASR issued to the Local Access Provider including ASRs for initial service installation, changes in requested service date, changes in service configuration, or cancellation of Local Access service orders. Where Company acts as the Customer's agent for payment of Local Access charges, the Company will also pass along to the Customer any Local Access Provider charges associated with the Customer's request order, if applicable.
- 4.5.3.D Subject to the availability of personnel, Company may perform other operational functions related to administration and maintenance of Local Access facilities. Such functions will be provided at non-standard installation, maintenance and engineering rates contained in this Tariff.

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SECTION 4 - SERVICE DESCRIPTIONS AND RATES, (CONT'D.)

## 4.5 Application of Ancillary Charges, (Cont'd.)

## 4.5.4 Non-Standard Installation, Maintenance and Engineering Charges

Additional charges may apply when the Customer requests the following:

- a) Installation or Circuit changes during non-business hours or under unusual circumstances.
- b) a Company technician at the Customer Premises or trouble that results from problems in the Customer's equipment.
- c) the provision of engineering design or other activities which are not normally provided as part of the design and Installation of Service.
- d) Expedited Service Orders.

The Customer will be billed for non-standard services provided by Company personnel at the following rates:

Monday through Friday, 8:00 AM to 5:00 PM	\$25.00 per quarter hour
All Other Hours	\$31.25 per quarter hour

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## SECTION 4 - SERVICE DESCRIPTIONS AND RATES, (CONT'D.)

## 4.6 Base Rates, Discounts and Ancillary Charges

## 4.6.1 DS-0 Service

Williams DS-0 Private Line Service provides 64 Kbps of bandwidth for the digital transmission of data, voice and video signals. Williams DS-0 with Analog Access Service combines Digital Interexchange Service with Analog Local Access. Williams DS-0 with Digital Access Service provides Point-to-Point Digital Service.

## 4.6.1.A Base Rates and Ancillary Charges

Rate Element	Per Circuit	Per Cross-Connect
Fixed Monthly	\$280.00	n/a
Per Mile Monthly	\$0.32	n/a
Installation	\$150.00	n/a
Change of Requested Service Date	\$50.00	\$50.00
Change of Order, Pre-Engineering	\$50.00	\$50.00
Change of Order, Post-Engineering	\$50.00	\$50.00
Order Cancellation, Pre-Engineering	\$50.00	\$50.00
Order Cancellation, Post-Engineering	\$50.00	\$50.00
Change of Service, Re-Engineering	\$50.00	\$50.00

4.6.1.B Discounts - The discount percentages applicable for DS-0 Private Line Service are as follows. The Minimum Monthly Commitment applies to the Fixed Monthly and Per Mile Monthly Rate Elements (base rates) only.

Minimum Monthly Commitment ("MMC")	1 Year	2 Year	3 Year	4 Year	5 Year
Up to \$2,499	4%	5%	6%	8%	10%
\$2,500-\$4,999	5%	6%	7%	9%	11%
\$5,000-\$7,499	6%	7%	8%	10%	12%
\$7,500-\$9,999	7%	8%	9%	11%	13%
\$10,000-\$12,499	8%	9%	10%	12%	14%
\$12,500-\$14,999	9%	10%	11%	13%	15%
\$15,000-\$17,499	10%	11%	12%	14%	16%
\$17,500-\$19,999	11%	12%	13%	15%	17%
\$20,000 or higher	12%	13%	14%	16%	18%

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## SECTION 4 - SERVICE DESCRIPTIONS AND RATES, (CONT'D.)

## 4.6 Base Rates, Discounts and Ancillary Charges (Cont'd.)

## 4.6.2 Fractional DS-1 Service

Williams Fractional DS-1 Private Line Service provides DS-0 multiples of 2 to 24 Channels for the digital transmission of data, voice and video signals and requires a minimum order of two DS-0 Channels.

## 4.6.1.A Base Rates and Ancillary Charges

Rate Element	Per Circuit	Per Cross-Connect
Fixed Monthly	\$280.00	n/a
Per Mile Monthly	\$0.32	n/a
Installation	\$400.00	n/a
Change of Requested Service Date	\$150.00	\$150.00
Change of Order, Pre-Engineering	\$150.00	\$150.00
Change of Order, Post-Engineering	\$150.00	\$150.00
Order Cancellation, Pre-Engineering	\$150.00	\$150.00
Order Cancellation, Post-Engineering	\$150.00	\$150.00
Change of Service, Re-Engineering	\$150.00	\$150.00

4.6.2.B Discounts - The discount percentages applicable for Fractional DS-1 Private Line Service are as follows. The Minimum Monthly Commitment applies to the Fixed Monthly and Per Mile Monthly Rate Elements (base rates) only.

Minimum Monthly Commitment ("MMC")	1 Year	2 Year	3 Year	4 Year	5 Year
Up to \$4,999	10%	12%	13%	15%	18%
\$5,000-\$9,999	12%	14%	15%	17%	20%
\$10,000-\$14,999	14%	16%	17%	19%	22%
\$15,000-\$19,999	16%	18%	19%	21%	24%
\$20,000-\$24,999	18%	20%	21%	23%	26%
\$25,000-\$29,999	20%	22%	23%	25%	27%
\$30,000-\$34,999	22%	24%	25%	27%	29%
\$35,000-\$39,999	26%	28%	29%	31%	33%
\$40,000 or higher	30%	32%	33%	35%	37%

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## SECTION 4 - SERVICE DESCRIPTIONS AND RATES, (CONT'D.)

## 4.6 Base Rates, Discounts and Ancillary Charges (Cont'd.)

## 4.6.3 DS-1 Service

Williams DS-1 Private Line Service provides 1.544 Mbps of point-to-point bandwidth for the digital transmission of data, voice and video signals.

## 4.6.1.A Base Rates and Ancillary Charges

Rate Element	Per Circuit	Per Cross-Connect
Fixed Monthly	\$1350.00	n/a
Per Mile Monthly	\$3.99	n/a
Installation	\$400.00	n/a
Change of Requested Service Date	\$150.00	\$150.00
Change of Order, Pre-Engineering	\$150.00	\$150.00
Change of Order, Post-Engineering	\$150.00	\$150.00
Order Cancellation, Pre-Engineering	\$150.00	\$150.00
Order Cancellation, Post-Engineering	\$150.00	\$150.00
Change of Service, Re-Engineering	\$150.00	\$150.00

4.6.3.B Discounts - The discount percentages applicable for DS-1 Private Line Service are as follows. The Minimum Monthly Commitment applies to the Fixed Monthly and Per Mile Monthly Rate Elements (base rates) only.

Minimum Monthly Commitment ("MMC")	1 Year	2 Year	3 Year	4 Year	5 Year
Up to \$4,999	10%	11%	12%	13%	14%
\$5,000-\$9,999	11%	12%	13%	14%	15%
\$10,000-\$14,999	12%	13%	14%	15%	16%
\$15,000-\$19,999	13%	14%	15%	16%	17%
\$20,000-\$24,999	14%	15%	16%	17%	18%
\$25,000-\$34,999	16%	17%	18%	19%	20%
\$35,000-\$44,999	18%	19%	20%	21%	22%
\$45,000-\$54,999	20%	21%	22%	23%	24%
\$55,000 or higher	22%	23%	24%	25%	26%

ISSUED: [date]

EFFECTIVE: [date]

ISSUED BY: Mickey S. Moon, Director of Regulatory Affairs  
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**SECTION 4 - SERVICE DESCRIPTIONS AND RATES, (CONT'D.)****4.6 Base Rates, Discounts and Ancillary Charges (Cont'd.)****4.6.4 DS-3 Service**

Williams DS-3 Private Line Service provides 44.736 Mbps of point-to-point bandwidth for the digital transmission of data, voice and video signals.

**4.6.1.A Base Rates and Ancillary Charges**

Rate Element	Per Circuit	Per Cross-Connect
Fixed Monthly	\$17,000.00	n/a
Per Mile Monthly	\$48.00	n/a
Installation	\$2,000.00	n/a
Change of Requested Service Date	\$500.00	\$250.00
Change of Order, Pre-Engineering	\$500.00	\$250.00
Change of Order, Post-Engineering	\$2,000.00	\$500.00
Order Cancellation, Pre-Engineering	\$500.00	\$250.00
Order Cancellation, Post-Engineering	\$2,000.00	\$500.00
Change of Service, Re-Engineering	\$2,000.00	\$500.00

**4.6.4.B Discounts** - The discount percentages applicable for DS-3 Private Line Service are as follows. The Minimum Monthly Commitment applies to the Fixed Monthly and Per Mile Monthly Rate Elements (base rates) only.

Minimum Monthly Commitment ("MMC")	1 Year	2 Year	3 Year	4 Year	5 Year
Up to \$24,999	10%	11%	12%	13%	14%
\$25,000-\$49,999	11%	12%	13%	14%	15%
\$50,000-\$74,999	12%	13%	14%	15%	16%
\$75,000-\$99,999	13%	14%	15%	16%	17%
\$100,000-\$124,999	14%	15%	16%	17%	18%
\$125,000-\$149,999	15%	16%	17%	18%	19%
\$150,000-\$174,999	16%	17%	18%	19%	20%
\$175,000 or higher	17%	18%	19%	20%	21%

ISSUED: [date]

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SECTION 5 - CONTRACTS AND PROMOTIONS

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**5.1 Contracts**

At the option of the Company, Service may be offered on an ICB basis to meet the specialized requirements of Customers. The terms of each such ICB arrangement shall be mutually agreed upon between the Customer and Company and may include discounts off of the rates contained herein, waiver of recurring or nonrecurring charges, charges for specially designed and constructed services not contained in this Tariff, or other customized features. The terms of such an ICB arrangement may be based partially or completely on a Term or volume commitment, type of originating or terminating access, mixture of services or other distinguishing features. Such ICB arrangements will be available to all similarly situated Customers for a fixed period of time following the initial offering to the first ICB Customer as specified in each ICB contract, subject to, in the Company's sole discretion, the Availability of facilities.

**5.2 Promotions**

5.2.1 From time to time, Company may, at its option, promote subscription or stimulate Service usage by offering to waive some or all of the nonrecurring or recurring charges for the Customer (if eligible) for a limited duration. Such promotions shall be made available to all similarly situated Customers in the target market area and will comply with all applicable Commission regulations.

5.2.2 From time to time, subject to Commission rules, Company may demonstrate Service for potential Customers by providing free use of its Services on a limited basis for a period of time, not to exceed one (1) month. Demonstration of Service and the type, duration or quantity of Service provided shall be at the Company's discretion.

5.2.3 Promotional and other credits offered by Company in marketing its Services cannot be assigned. Such credits must be used by the Customer to whom they were offered or the Customer who earned them under the provisions of the offer.

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ISSUED BY: Mickey S. Moon, Director of Regulatory Affairs  
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Williams Communications  
P.O. Box 22067  
Tulsa, OK 74103

VENDOR ID  
20471  
VENDOR LOC CODE

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1/7/99

01 06 1999	010009	SEND OK TO AVE DE LA CHINA XXXX-REPLICATION FEE	250.00		250.00
TC99-010					



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South Dakota Public Utilities Commission

**WEEKLY FILINGS**

For the Period of January 21, 1999 through January 27, 1999

If you need a complete copy of a filing faxed, overnight expressed, or mailed to you, please contact Delaine Kolbo within five business days of this filing.

Phone: 605-773-3705. Fax: 605-773-3809.

**ELECTRIC**

- EL99-002 In the Matter of the Filing by Big Stone City, South Dakota and Whetstone Valley Electric Cooperative, Inc. for Approval of Electrical Service Area Boundaries.

Big Stone City, South Dakota and Whetstone Valley Electric Cooperative, Milbank, South Dakota, filed for approval by the Commission a Boundary Agreement in which the parties have come to a mutual agreement relative to the south boundary dividing the electric utility customers for Big Stone City and Whetstone Valley.

Staff Attorney: Karen Cremer  
Staff Analyst: Martin Bettmann  
Date Filed: 01/25/99  
Intervention Deadline: N/A

**GRAIN DEALER**

- GD99-001 In the Matter of the Receivership of Grain Dealer Bonds of Britton Durum Corporation.

The South Dakota Public Utilities Commission (Commission) has been appointed a Receiver by the Fifth Judicial Circuit Court to take possession of grain dealer bond proceeds of Britton Durum Corporation, Britton, South Dakota. The bond company is St. Paul Mercury Insurance Company. The Commission has entered an Order and will publish a Notice of Hearing in this matter in the Aberdeen American News of Aberdeen, South Dakota, and the Britton Journal, Britton, South Dakota. Notice is given that a hearing will be held on February 18, 1999, at 1:30 P.M., at the Community Room, Brown County Courthouse, 25 Market Street, Aberdeen, South Dakota. Claimants are encouraged to appear at this hearing to present evidence of their claims which may include, but be limited to, such documents as scale tickets, settlement sheets, bad checks and other evidence of a sale of grain to Britton Durum Corporation which have not been paid. The Commission's decision as Receiver is subject to the final approval of the Fifth Circuit Court of the state of South Dakota and appeal to the South Dakota Supreme Court.

Staff Attorney: Camron Hoseck  
Staff: Jeff Lorensen, Director  
Transportation and Warehouse Division

#### TELECOMMUNICATIONS

- TC99-007 In the Matter of the Filing by U S WEST Communications, Inc. for Approval of Negotiated/Arbitrated Terms of Agreement for Interconnection, Resale, and Unbundled Elements between CCCSD, Inc. dba Connect! and U S WEST Communications, Inc.

Any party wishing to comment on the agreement may do so by filing written comments with the Commission and the parties to the agreement no later than February 10, 1999. Parties to the agreement may file written responses to the comments within twenty days of service of the comments.

Staff Attorney: Camron Hoseck  
Staff Analyst: Harlan Best  
Date Filed: 01/21/99  
Comments Due: 02/10/99

- TC99-008 In the Matter of the Application of HJN Telecom, Inc. for a Certificate of Authority to Provide Local Exchange Service in South Dakota.

HJN Telecom, Inc. is a reseller which intends to offer all forms of intrastate local exchange services in areas served by any LECs that are not eligible for a small or rural carrier exemption.

Staff Attorney: Karen Cremer  
Staff Analyst: Keith Senger  
Date Filed: 01/22/99  
Intervention Date: 02/12/99

- TC99-009 In the Matter of the Application of Maxis Communications, Inc. for a Certificate of Authority to Provide Telecommunications Services in South Dakota.

Maxis Communications, Inc. by their attorneys, notified the Commission of an acquisition of assets from Cherry Communications Incorporated to Maxis Communications, Inc. and requested that Cherry's Certificate of Authority be transferred to Maxis Communications, Inc.

Staff Attorney: Karen Cremer  
Staff Analyst: Harlan Best  
Date Filed: 01/26/99  
Intervention Deadline: 02/12/99



**TCB 010**

In the Matter of the Application of Williams Communications, Inc. for a Certificate of Authority to Provide Telecommunications Services in South Dakota.

Williams Communication, Inc. intends to provide interexchange switched voice services primarily to the wholesale market, which consists of other telecommunications carriers. Williams also plans to offer interexchange private line services.

Staff Attorney: Camron Hoseck

Staff Analyst: Keith Senger

Date Filed: 01/26/99

Intervention Deadline: 02/12/99

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You may subscribe to the PUC mailing list at <http://www.state.sd.us/puc/>

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SOUTH DAKOTA PUBLIC  
UTILITIES COMMISSION

REGULATIONS AND SCHEDULE OF CHARGES

APPLICABLE TO INTRASTATE INTEREXCHANGE NON-SWITCHED SERVICES

FURNISHED BY

WILLIAMS COMMUNICATIONS, INC.

This tariff contains the rates, terms and conditions applicable to intrastate interexchange non-switched services offered by Williams Communications, Inc. of Tulsa, Oklahoma within the State of South Dakota. The services described in this tariff are offered throughout South Dakota. The provisions of this tariff apply to all Williams Communications intrastate interexchange services described in this tariff.

The services described in this tariff may be provided by any means of wire, terrestrial communications systems, satellite, microwave, and other transmission systems, or any combination thereof.

ISSUED: [date]

EFFECTIVE: [date]

ISSUED BY: Mickey S. Moon, Director of Regulatory Affairs  
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## CHECK SHEET

The Title Page and pages listed below are inclusive and effective as of the date shown. Original and revised pages as named below contain all changes from the original tariff that are in effect on the date shown on each page.

Page #	Revision	Page #	Revision
Title Page	Original *	28	Original *
1	Original *	29	Original *
2	Original *	30	Original *
3	Original *	31	Original *
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21	Original *	49	Original *
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23	Original *	51	Original *
24	Original *	52	Original *
25	Original *	53	Original *
26	Original *	54	Original *
27	Original *	55	Original *

\* These tariff pages are included in this filing.

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**TARIFF FORMAT**

- A. Page Numbering** - Page numbers appear in the upper right corner of the page. Pages are numbered sequentially. However, new pages are occasionally added to the tariff. When a new page is added between pages already in effect, a decimal is added.
- B. Page Revision Numbers** - Revision numbers also appear in the upper right corner of each page. These numbers are used to determine the most current page version on file with the Commission. For example, the 4th revised Page 14 cancels the 3rd revised Page 14. Because of the various suspension periods and deferrals the Commission follows in its tariff approval process, the most current page number on file with the Commission is not always the tariff page in effect. Consult the check sheet for the page currently in effect.
- C. Paragraph Numbering Sequence** - There are nine levels of paragraph coding. Each level of coding is subordinate to its next higher level:
- 2
  - 2.1
  - 2.1.1
  - 2.1.1.A
  - 2.1.1.A.1
  - 2.1.1.A.1.(a)
  - 2.1.1.A.1.(a).I
  - 2.1.1.A.1.(a).I.(i)
  - 2.1.1.A.1.(a).I.(i).(1)
- D. Check Sheets** - When a tariff filing is made with the Commission an updated check sheet accompanies the filing. The check sheet lists the pages contained in the tariff, with a cross reference to the current revision number. When new pages are added, the check sheet is changed to reflect the revision. All revisions made in a given filing are designated by an asterisk (\*). There shall be no other symbols used on this page if these are the only changes made to it. The tariff user should refer to the latest check sheet to find out if a particular page is the most current on file with the Commission.

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**CONCURRING CARRIERS**

None

**CONNECTING CARRIERS**

None

**OTHER PARTICIPATING CARRIERS**

None

**EXPLANATION OF SYMBOLS**

Changes to this tariff shall be identified on the revised page(s) through the use of symbols. The following are the only symbols used for the purposes indicated below:

- (C) To signify changed regulation.
- (D) To signify discontinued rate or regulation.
- (I) To signify an increase.
- (M) To signify matter relocated without change.
- (N) To signify new rate or regulation.
- (R) To signify reduction.
- (S) To signify reissued matter.
- (T) To signify change in text but no change in rate or regulation.
- (Z) To signify a correction.

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APPLICATION OF TARIFF

This Tariff includes the rates, terms and conditions of service applicable to the furnishing of the within described intrastate interexchange services by Williams Communications, Inc., within the State of South Dakota. This Tariff applies only to Services subject to regulation by the South Dakota Public Utility Commission. This Tariff does not apply to the within described Services which are provided by Williams Communications, Inc.:

- (a) to other communications carriers pursuant to any contractual arrangements;
- (b) pursuant to other Williams Communications, Inc. tariffs unless specifically stated therein;
- (c) to affiliates of the Company; and
- (d) on an interstate or international basis.

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**SECTION 1 - TERMS AND ABBREVIATIONS**

**Alternative Access** - A form of Local Access except that the provider of the Service is an entity, other than the Local Exchange Carrier, authorized or permitted to provide such Service.

**Acceptance/Accepted** - The concurrence by Customer and Company that, following Installation, a Service is fully operational and ready for Customer use. In any event, once Customer commences using the Service, Acceptance shall be deemed to have occurred.

**Access Service Request (ASR)** - An order placed with a Local Access Provider for Local Access.

**Analog** - A mode of transmission in which information is transmitted by converting it to a continuously variable electrical signal.

**Ancillary Charges** - Charges for supplementary Services as set forth in this Tariff which may consist of both nonrecurring and monthly recurring charges.

**Authorized User** - A person, firm, corporation or other entity (including Customer) that 1) is authorized by the Customer to be connected to and utilize the Company's services under the terms and regulations of this tariff or 2) either is authorized by the Customer to act as Customer in matters of ordering, changing or canceling Service or is placed in a position by the Customer, either through acts or omissions, to act as Customer in such matters. Such actions by an Authorized User shall be binding on Customer and shall subject Customer to any associated charges.

**Available/Availability** - Condition in which Company has on its network Circuits between specific POPs (as may be requested by Customer) and such Circuits are not already committed to other parties or other Customers and are accessible for Service to Customer, as determined by the Company, in its sole discretion.

**Base Rate** - The nondiscounted monthly recurring charge for Williams Private Line Service.

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**SECTION 1 - TERMS AND ABBREVIATIONS, (CONT'D.)**

**Bill Date/Billing Date** - The date on which billing information is compiled and sent to the Customer.

**Channel(s) or Circuit(s)** - A dedicated communications path between two or more points.

**Commission** - The South Dakota Public Utility Commission.

**Company or Carrier** - Williams Communications, Inc. unless otherwise clearly indicated by the context.

**Cross-Connect** - Electrical connection within a POP of two Circuits in order to complete connectivity between such Circuits.

**Customer** - The person, firm, corporation, governmental unit or other entity (including the successors and assigns of such entities and their Authorized Users) which arranges for the Company to provide, discontinue or rearrange telecommunications services on behalf of itself or others; uses the Company's telecommunications services; and is responsible for payment of charges, all under the provisions and terms of this tariff.

**Customer Premise/Customer's Premise** - Locations designated by a Customer or Authorized User (regardless as to whether the designated premises are controlled or operated by such Customer) where Service is originated/terminated for Customer's own needs or for the use of third parties.

**Dedicated Service** - Point-to-point interexchange Channel(s) or Circuit(s) provided to a Customer between POPs by the Company and available for use twenty-four hours a day, seven days a week.

**Digital** - A mode of transmission in which information is coded in binary form for transmission on a network.

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**SECTION 1 - TERMS AND ABBREVIATIONS, (CONT'D.)**

**Diversity** - Customer-designated routing agreed to by an authorized representative of Company which indicates a Customer designated departure from a Company Primary Route. The provision of Diversity with respect to Circuits may entail Circuits routed on physically separate facilities on a geographic or systems basis (to the extent possible, i.e., 100% route Diversity on a POP-to-POP or Customer Premise-to-Customer Premise basis is not guaranteed) between the same city pair where the facilities required to provide the relevant Circuits are determined by Company to be Available. Diversity arrangements shall be ICB.

**DS-0** - Digital Signal Level 0 Service, a 64 Kbps signal.

**DS-1** - Digital Signal Level 1 Service, a 1.544 Mbps signal.

**DS-3** - Digital Signal Level 3 Service, a 44.736 Mbps signal.

**DS-0 with Analog Access** - Service with Analog Local Access facilities provides for the transmission of analog voice and/or data within the 300 hertz to 3000 hertz frequency range.

**DS-0 with Digital Access** - Service with Digital Local Access facilities provides for the transmission of Digital data at speeds of 2.4, 4.8, 9.6, 19.2, 56 or 64 Kbps.

**Due Date** - The date on which payment is due as indicated on Company's invoice to Customer.

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**SECTION 1 - TERMS AND ABBREVIATIONS, (CONT'D.)**

**Expedited Service Order** - A Service Order that is processed at the request of the Customer in a time period shorter than the Company standard Service interval.

**FCC** - Federal Communications Commission.

**Fractional DS-1** - A Service provided in multiples of 2 to 24 DS-0 channels and connected to a Customer Premise via DS-1 level Local Access facilities.

**Individual Case Basis (ICB)** - Determinations involving situations where nonstandard arrangements are required to satisfy specialized needs. The nature of such Service requirements makes it difficult or impossible to establish general Tariff provisions for such circumstances. When it becomes possible to determine specific terms and conditions for such offerings, they shall be offered pursuant to such terms and conditions when set forth in writing and subscribed to by authorized representatives of Customer and Company.

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**SECTION 1 - TERMS AND ABBREVIATIONS, (CONT'D.)**

**Installation** - Establishment of Service.

**Interexchange Service** - Service provided to a Customer over a Channel or Circuit between a Company designated POP in one exchange and a Company designated POP in another exchange.

**Interruption** - A condition whereby the Service or a portion thereof is inoperative (as defined in Section 3.1.3.B), beginning at the time of notice by the Customer to Company that such Service is inoperative and ending at the time of restoration (see Section 2.13.3).

**Kbps** - Kilobits per second.

**LATA (Local Access Transport Area)** - A geographical area established for the provision and administration of communications Service, as provided for in the Modification of Final Judgement (MFJ), the consent decree between GTE Corporation and the Department of Justice, and any further modifications thereto.

**Local Access** - The portion of the Service between a Customer Premise and a Company designated POP.

**Local Access Provider** - An entity providing Local Access.

**Local Exchange Carrier (LEC)** - The local telephone utility that provides exchange telephone services.

**Mainland United States** - The forty-eight (48) states within the continental United States of America and the District of Columbia.

**Mbps** - Megabits per second.

**N/A** - Not applicable.

**N/C** - No charge.

**Nonrecurring Charge** - One-time charge relevant to Service.

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**SECTION 1 - TERMS AND ABBREVIATIONS, (CONT'D.)**

**OC-3** - Optical Circuit Level 3 Service, a 155.520 Mbps signal.

**OC-12** - Optical Circuit Level 12 Service, a 622.080 Mbps signal.

**On-Net** - A Circuit traversing the Williams Network, both end points of which originate or terminate at a Williams designated POP.

**Off-Net** - A circuit that is not On-Net.

**Payment Method** - The manner in which the Customer is authorized by the Company to pay charges for Service.

**Point-to-Point** - Service provided between two POPs/Customer Premises.

**POP (Point of Presence)** - A Company designated location where a facility is maintained for the purpose of providing access to the Company's Service where Available.

**Primary Route** - The route, which in the absence of a Diversity arrangement, would be solely determined and used by Company in the provision of Service.

**Requested Service Date** - The date requested by the Customer for commencement of Service and agreed to by Company.

**Restore/Restored** - To make Service operative following an Interruption by repair, reassignment, re-routing, substitution of component parts, or otherwise, as determined by the Company or carrier(s) involved.

**Service** - Williams Private Line Service, including any requested or required Ancillary or supplementary services, as described in this Tariff as modified from time to time.

**Service Commitment Period** - The period selected by the Customer, agreed to by Company and stated on the relevant Service Order, during which Company will provide and Customer will accept and pay for the Service described therein.

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**SECTION 1 - TERMS AND ABBREVIATIONS, (CONT'D.)**

**Service Order** - Standard Company order form(s), in effect from time to time, or Customer's forms accepted in writing by an authorized representative of Company for Service which in total includes pertinent billing, technical and other descriptive information which shall enable Company to provide Service.

**Special Promotional Offerings** - Authorized trial offerings, discounts, or modifications of Company's regular Service offerings, which may, from time to time, be offered by Company to Customers for a particular Service. Such offerings may be limited to certain dates, times, and locations.

**Start of Service** - The Requested Service Date or the date or time Service first becomes available for Customer use, whichever is later.

**Tariff** - The Company's South Dakota Intrastate Tariff No. 1, and effective revisions thereto filed by the Company with the Commission.

**Term** - Service Commitment Period.

**United States** - For purposes of this tariff the term "United States" includes the Mainland United States of America, Alaska, Hawaii, Puerto Rico, U.S. Virgin Islands, Guam, and the Commonwealth of the Northern Mariana Islands (CNMI).

**V & H Coordinates** - Geographic points which define the originating and terminating points of a private line in mathematical terms so that the airline mileage of the private line may be determined. Private line mileage may be used for the purpose of rating calls.

**Williams** - Used throughout this tariff to refer to Williams Communications, Inc.

**Williams Network** - The fiber optic digital telecommunications transmission system operated by Williams and which is capable of providing Service between Williams designated POPs.

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**SECTION 2 - RULES AND REGULATIONS****2.1 Limitations of Services**

**2.1.1** The Company undertakes to furnish intrastate Interexchange Service pursuant to the terms of this Tariff for the transmission of data, voice and/or video communications. Any member of the general public (including any natural person or legally organized entity such as a corporation, partnership, or governmental body) is entitled to obtain Service under this Tariff, provided that Company reserves the right to deny Service: (i) to any Customer that, in Company's reasonable opinion, presents an undue risk of nonpayment and refuses to comply with the deposit requirements set forth in Section 2.10, (ii) in circumstances in which Company has reason to believe that the use of the Service would violate the provisions of this Tariff or any applicable law or if any applicable law restricts or prohibits provision of the Service, or (iii) if, in Company's sole opinion, insufficient facilities or equipment are Available to provide the Service.

**2.1.2** The provision of Service shall not create a partnership or joint venture between the Company and Customer nor result in joint service offerings to their respective customers.

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SECTION 2 - RULES AND REGULATIONS, (CONT'D.)

## 2.2 Use of Service

- 2.2.1 The Services offered herein may be used for any lawful purpose, including residential, business, governmental, or other use, including joint use or resale by Customer. Notwithstanding the joint use, sharing or resale of Service by Customer and regardless of the Company's knowledge of same, the Customer remains liable for all obligations under this Tariff. The Company shall have no liability to any person or entity other than the Customer and only as set forth in Section 2.6. The Customer shall not use nor permit others to use the Service in a manner that could interfere with Services provided to others or that could harm the facilities of the Company or others.
- 2.2.2 Neither the Service furnished by the Company nor transmissions or communications carried over such Service shall be used for any unlawful or fraudulent purposes. Nor shall Service be used for any purpose for which any payment or other compensation is received by the Customer except when the Customer is a communications common carrier, a resale common carrier or an enhanced service provider who has subscribed to the Service. However, this provision does not preclude an agreement between the Customer and Authorized Users in a joint use arrangement to share the cost of the Service as long as this arrangement generates no profit for anyone participating in a joint use arrangement.
- 2.2.3 Company's Services are not adapted to the use of recording devices, and Customers who use such devices to record transmissions, or for other purposes, do so at their own risk. Neither Customer nor any other entity may record a conversation except as permitted by applicable law.

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**SECTION 2 - RULES AND REGULATIONS, (CONT'D.)****2.3 Resale of Company Services**

- 2.3.1 In addition to the other provisions in this Tariff, a Customer reselling Service shall be responsible for all interaction and interface with its own subscribers or customers. The reselling of Service by a Customer or reselling of Service with enhancements provided by Customer shall not create a partnership or joint venture between Company and Customer nor result in a joint service offering to any third parties by either Company or the Customer.

**2.4 Assignment and Transfer**

- 2.4.1 All facilities provided under this Tariff are directly or indirectly controlled by Company and the Customer may not transfer or assign the use of service or facilities without the express written consent of the Company. All regulations and conditions contained in this Tariff shall apply to all such permitted assignees or transferees, as well as all conditions of service. Such transfer or assignment, when permitted, shall only apply where there is no interruption of the use or location of the Service or facilities.
- 2.4.2 The obligations set forth in this Tariff shall be binding upon and inure to the benefit of the parties hereto and their respective successors or assigns, provided, however, that the Customer shall not assign or transfer its rights or obligations without the prior written consent of the Company.

**2.5 Interconnection with Other Carriers**

- 2.5.1 Service furnished by Williams may be connected with the services or facilities of other carriers, including local exchange services and/or facilities of a local exchange carrier. Such service or facilities are provided under the terms, rates and conditions of the other carrier and, at Customer's request, pursuant to Section 4.5.3.

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SECTION 2 - RULES AND REGULATIONS, (CONT'D.)**2.6 Liability of the Company**

- 2.6.1 Except as otherwise specifically provided for in this Tariff, the Company and/or its affiliates shall not be liable to Customer or any other person, firm or entity for any failure of performance hereunder if such failure is due to any cause or causes beyond the reasonable control of the Company. Such causes shall include, without limitation, acts of God, fire, explosion, vandalism, sabotage, cable cut, storm or other similar occurrence, any law, order, regulation, direction, action or request of the United States government or of any other government or of any civil or military authority, national emergencies, insurrections, riots, wars, condemnation, strikes, lockouts or work stoppages or other labor difficulties, supplier failures, shortages, breaches or delays, or preemption of existing Services to restore Service in compliance with Part 64, Subpart D, Appendix A, of the FCC's Rules and Regulations or other applicable laws, regulations, or orders.
- 2.6.2 The Company is not liable for any act or omission of any other company or companies furnishing a portion of the Service or facilities, equipment, or services associated with such Service.
- 2.6.3 The Company and its affiliates shall be indemnified and held harmless against and from any court, administrative or agency action, suit or similar proceeding brought against Company and/or any affiliate of the Company for:
- (a) claims arising out of or related to the contents transmitted via the Services (whether over the Company network or Local Access Circuits) including, but not limited to, claims, actual or alleged, relating to any violation of copyright law, export control laws, failure to procure necessary authorizations, clearances or consents, failure to meet governmental or other technical broadcast standards, or claims that such transmission contents are libelous, slanderous, an invasion of privacy, pornographic, or otherwise unauthorized or illegal;
  - (b) patent infringement claims arising from combining or connecting the Service with equipment and systems of the Customer or Authorized Users;
  - (c) all other claims arising out of any act or omission of the Customer or Authorized Users in connection with any Service provided by the Company;

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SECTION 2 - RULES AND REGULATIONS, (CONT'D.)

## 2.6 Liability of the Company, (Cont'd.)

- (d) claims arising out of the use of Services or associated equipment in an unsafe manner (such as use in an explosive atmosphere) or the negligent or willful act of any person other than the Company, its agents, or employees.

2.6.4 The Customer is responsible for taking all necessary legal steps for interconnecting the Customer provided terminal equipment with the Company facilities, including Local Access. The Customer shall ensure that the signals emitted into the Company's network do not damage Company equipment, injure personnel or degrade Service to other Customers. The Customer is responsible for securing all licenses, permits, rights-of-way, and other arrangements necessary for such interconnection. In addition, the Customer shall comply with applicable Local Access Provider's signal power limitations.

2.6.5 The Company may rely on Local Access Providers for the performance of other services such as Local Access. Upon Customer request and execution and delivery of appropriate authorizing documents, the Company may act as agent for Customer in obtaining such other services such as Local Access. Customer's liability for charges hereunder shall not be reduced by untimely installation or non-operation of Local Access or Customer provided facilities and equipment.

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SECTION 2 - RULES AND REGULATIONS, (CONT'D.)

## 2.6 Liability of the Company, (Cont'd.)

- 2.6.6 Defects caused by or contributed to, directly or indirectly, by act or omission of Customer (including Authorized Users) or Customer's customers, affiliates, agents, representatives, invitees, licensees, successors or assigns or which arise from or are caused by the use of facilities or equipment of Customer or related parties shall not result in the imposition of any liability whatsoever upon the Company, and Customer shall pay to the Company any reasonable costs, expenses, damages, fees or penalties incurred by the Company as a result thereof, including, without limitation, costs of Local Access Providers' labor and materials. In addition, all or a portion of the Service may be provided over facilities of third parties, and the Company shall not be liable to Customer or any other person, firm or entity in any respect whatsoever arising out of Defects caused by such third parties.

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SECTION 2 - RULES AND REGULATIONS, (CONT'D.)

## 2.6 Liability of the Company, (Cont'd.)

- 2.6.7 In the event parties other than Customer (e.g., Customer's customers or Authorized Users) shall have use of the Service directly or indirectly through Customer, Customer shall forever indemnify and hold Company and any third-party provider or operator of facilities employed in provision of the Service harmless from and against any and all claims, demands, suits, actions, losses, damages, assessments or payments which may be asserted by said parties arising out of or relating to any Defects or any claims described in Section 2.6.3.
- 2.6.8 In the event that Company is required to perform a Circuit redesign due to inaccurate information provided by the Customer or, Company incurs costs and expenses under circumstances in which such costs and expenses are caused to be incurred by the Customer or reasonably incurred by Company for the benefit of the Customer, the Customer is responsible for the payment of any resulting costs incurred by Company.
- 2.6.9 The failure to give notice of default, to enforce or insist upon compliance with any of the terms or conditions herein, the waiver of any term or conditions herein, or the granting of an extension of time for performance by the Company or the Customer shall not constitute the permanent waiver of any term or condition herein. Each of the provisions shall remain at all times in full force and effect until modified in writing.

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**SECTION 2 - RULES AND REGULATIONS, (CONT'D.)****2.7 Application for Service**

- 2.7.1 The Customer is responsible for the placement of Service Orders for the Service described herein as well as complying with the provisions of this Tariff. Customer may be required to execute written Service Orders or other documents relating to the Service, but Customer shall be obligated under the terms of this Tariff even if such Service Orders or other documentation have not been executed.
- 2.7.2 The business records of Company shall be deemed determinative as to the contents of the Service Order(s). When Customer places a Service Order for Service, the Customer must provide the Company with the Customer's name and address for billing purposes and a contact name and phone number. Customer must also provide the Company with the contact name, telephone number, and address at each of the premises where Service is to be installed. Each Service Order shall reference this Tariff. When the Service Order is accepted in writing by Company, the relevant Service Order shall be deemed to set forth the final operative obligations between Company and the Customer regarding the Services described therein to the extent that it specifies the type of Service, quantity of Circuits, originating and terminating cities, Requested Service Date, Term and other information necessary for Company to provide the Service to Customer.
- 2.7.3 Any other items and conditions that are typed, printed or otherwise included in any Service Order shall be deemed to be solely for the convenience of the parties unless specifically noted as an Individual Case Basis (ICB) term or condition. No action by Company (including, without limitation, provision of Service to Customer pursuant to such Service Order) shall be construed as binding or estopping Company with respect to such term or condition, unless such Service Order containing said specific term or condition has been signed by an authorized representative of Company and Customer. Company shall have no obligation except those as set forth in this Tariff or contained in Service Orders, and all other representations or agreements, oral or written, shall be of no effect. In the event any provisions set forth in Service Orders conflict with the provisions set forth in this Tariff, the provisions set forth in this Tariff shall prevail.

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SECTION 2 - RULES AND REGULATIONS, (CONT'D.)**2.8 Cancellation of Service by Customer**

- 2.8.1** Customer may cancel Service by providing written notice thereof to Company thirty (30) days in advance of the effective date of cancellation.
- 2.8.2** If a Service Order for Installation of Service is delayed for more than thirty (30) days beyond the Requested Service Date, and such delay is not requested or caused by the Customer, the Customer may cancel the portion of Service affected thereby without incurring the cancellation charges described in Section 2.8.4.
- 2.8.3** After Start of Service, if Service is Interrupted for a period of 30 days, then, in addition to the remedies set forth in Section 2.13, Customer, pursuant to Section 2.8.1, may notify Company in writing of its conditional intent to cancel the directly affected Service. If such affected Service is not Restored within 30 days after receipt of such notice, Customer may terminate the affected portion of the Service for such cause and without incurring the cancellation charges described in Section 2.8.4 at the expiration of the notice period.
- 2.8.4** Customer shall be subject to the following cancellation charges upon cancellation of Service for the convenience of Customer, i.e., without cause, as opposed to cancellation of service for cause as would be the case for Defective Service, as described in Section 2.6.7. In such case, Customer is also liable for (A) cancellation charges as specified in Section 4, (B) any charges, expenses, fees, or penalties incurred by Company, its affiliates or other third party providers of Service due to cancellation of Local Access; and (C) any other costs, expenses, or additional charges reasonably incurred by Company on behalf of Customer.
- 2.8.4.A** If Customer cancels Service before the Company has incurred any costs for the Installation of such Service, Customer shall pay to Company a cancellation charge in an amount equal to any charges, expenses, fees, or penalties incurred by Company due to cancellation of Local Access and any other costs, expenses, or additional charges reasonably incurred by Company prior to such cancellation.
- 2.8.4.B.** If Customer cancels Service after the Company has incurred costs for Installation but prior to Start of Service, Customer shall pay to Company a cancellation charge in an amount equal to any Installation charges or Ancillary charges not yet paid.

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SECTION 2 - RULES AND REGULATIONS, (CONT'D.)

## 2.8 Cancellation of Service by Customer, (Cont'd.)

## 2.8.4 (Cont'd.)

2.8.4.C. If Customer cancels Service after the Start of Service, unless otherwise specified in this Tariff, Customer shall pay to Company a cancellation charge in an amount equal to (i) the prorated monthly Base Rate charge for such canceled Service as set forth in Section 4 times the number of months in the relevant Term, less the charges for such Service actually provided to Customer through the effective date of cancellation (but in no event less than zero), and (ii) any Installation charges or Ancillary Charges not yet paid.

2.8.4.D. As Company's damages in the event of a cancellation are difficult or impossible to ascertain, the foregoing provisions providing for a cancellation charge are intended to establish liquidated damages in the event of a cancellation of a Service and do not represent a penalty of any kind.

2.8.5 Notwithstanding the foregoing, and upon thirty (30) days' prior written notice, either Customer or Company shall have the right, without cancellation charge or other liability to the other, to cancel the affected portion of the Service, if Company is prohibited by governmental authority from furnishing said portion, or if any material rate or term contained herein and relevant to the affected Service is substantially changed by order of the highest court of competent jurisdiction to which the matter is appealed, the FCC, or other local, state or federal government authority.

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SECTION 2 - RULES AND REGULATIONS, (CONT'D.)**2.9 Cancellation for Cause by Company**

2.9.1 For nonpayment by Customer of any undisputed sum owing to the Company for more than 30 days, or for violation by Customer of any of the provisions governing the furnishing of Service under this Tariff or the Service Agreement, the Company may, after ten (10) days written notification to Customer of such nonpayment or violation and forthcoming termination therefor, without incurring any liability, immediately cancel or discontinue the furnishing of such Service. Customer shall be deemed to have canceled Service as of the date of such termination and shall be liable for any cancellation charges as set forth in this Tariff.

2.9.2 Without incurring any liability, the Company may discontinue the furnishing of Service to Customer immediately and without notice if the Company deems that such action is necessary to prevent or to protect against fraud or to otherwise protect its personnel, agents, facilities or Services or under any of the following circumstances:

- (a) if Customer fails to make proper application for Service;
- (b) if Customer refuses to furnish or provides false information to the Company regarding the Customer's identity, address, credit-worthiness, past or current use of Service, or its planned use of Service;
- (c) if Customer gives Company reasonable cause to believe that Customer will not comply with a request of the Company for reasonable security for the payment for Service;

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SECTION 2 - RULES AND REGULATIONS, (CONT'D.)

## 2.9 Cancellation for Cause by Company, (Cont'd.)

## 2.9.2 (Cont'd.)

- (d) if the Customer is using the Service in violation of this Tariff;
- (e) if the Customer is using the Service in violation of any applicable law or regulation.
- (f) if such actions are reasonably appropriate to avoid violation of applicable law; or
- (g) if there is a reasonable risk that criminal, civil or administrative proceedings or investigations based upon the transmission contents shall be instituted against Company.

2.9.3 The discontinuance of Service by the Company pursuant to this Section does not relieve the Customer of any obligations to pay the Company for charges accrued for Service which has been furnished up to the time of discontinuance nor does it relieve the Customer of applicable cancellation charges. The remedies set forth herein shall not be exclusive and the Company shall at all times be entitled to all rights available to it under either law or equity.

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**SECTION 2 - RULES AND REGULATIONS, (CONT'D.)****2.10 Billing and Payment For Service****2.10.1 Responsibility for Charges**

The Customer is responsible for payment of all charges for Services furnished to the Customer or Authorized User. This includes payment for Services specifically requested by the Customer. This responsibility is not changed due to any use, misuse, or abuse of the Customer's Service or Customer provided equipment by third parties, the Customer's employees, or the public.

**2.10.2 Payment Arrangements**

**2.10.2.A** All payments due by the Customer shall be remitted and payable to the Company or any billing agent duly authorized and designated by the Company to receive such payments. An authorized billing agent may be a Local Exchange Carrier or other billing agent.

**2.10.2.B** Unless the Company requires an advance Payment Method or other arrangement due to Customer's presenting an undue risk of nonpayment as described in this Section, payment for all pro-rated monthly recurring charges (charges for monthly Service provided for less than a calendar month), Installation charges, and other non-recurring charges shall be due on the first day of the month following the month in which the Service was provided. Payment for all monthly recurring charges for full months during which the Service is to be provided following Start of Service shall be due in advance on the first day of that month, except that when billing is based upon Customer usage, usage charges will be billed monthly in arrears for Service provided during the preceding billing period.

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**SECTION 2 - RULES AND REGULATIONS, (CONT'D.)****2.10 Billing and Payment For Service, (Cont'd.)****2.10.3 Late Payment Fee**

In the event Customer fails to pay or remit payment in full to the proper address for Services billed by the Company or authorized billing agent on or before thirty (30) days after the Due Date, Customer shall also pay a late fee in the amount of the lesser of one and one-half percent (1.5%) of the unpaid balance per month or the maximum lawful rate under applicable state law.

**2.10.4 Return Check Charge**

A return check charge of \$25.00 will be assessed for checks made payable to the Company and returned for insufficient funds. For service billed on behalf of the Company, any applicable return check charges will be assessed according to the terms and conditions of the Company's billing agent.

**2.10.5 Validation of Credit**

**2.10.5.A** The Company reserves the right to validate the creditworthiness of Customers and billed parties through available verification procedures. If at any time a Customer presents an undue risk of non-payment, the Company may refuse to provide Service, require a deposit or advance payment pursuant to Section 2.10.6 or otherwise restrict or interrupt Service to a Customer.

**2.10.5.B** In determining whether a Customer presents an undue risk of nonpayment, the Company may consider, but is not limited to, the following factors: (i) the Customer's payment history (if any) with the Company, (ii) Customer's ability to demonstrate adequate ability to pay for the Service, (iii) credit and related information provided by Customer, lawfully obtained from third parties or publicly available, and (iv) information relating to Customer's management, owners and affiliates (if any).

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**SECTION 2 - RULES AND REGULATIONS, (CONT'D.)****2.10 Billing and Payment For Service, (Cont'd.)****2.10.3 Late Payment Fee**

In the event Customer fails to pay or remit payment in full to the proper address for Services billed by the Company or authorized billing agent on or before thirty (30) days after the Due Date, Customer shall also pay a late fee in the amount of the lesser of one and one-half percent (1.5%) of the unpaid balance per month or the maximum lawful rate under applicable state law.

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**2.10.5.B** In determining whether a Customer presents an undue risk of nonpayment, the Company may consider, but is not limited to, the following factors: (i) the Customer's payment history (if any) with the Company, (ii) Customer's ability to demonstrate adequate ability to pay for the Service, (iii) credit and related information provided by Customer, lawfully obtained from third parties or publicly available, and (iv) information relating to Customer's management, owners and affiliates (if any).

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**SECTION 2 - RULES AND REGULATIONS, (CONT'D.)****2.10 Billing and Payment For Service, (Cont'd.)****2.10.6 Advance Payments and Deposits**

A Customer who presents an undue risk of nonpayment may be required at any time prior to the commencement of Service to pay the Company in advance the monthly service charge, and any fixed charges, including the applicable Installation charges, applicable for the first month of Service under the Tariff. Additionally, to guarantee payment of current bills, Company may require such Customer to provide a security deposit, in cash or the equivalent of cash, up to an amount equal to two months of actual or estimated usage charges for the Service to be provided. Simple interest shall be paid by the Company on the deposits at the rate of not less than 6% per annum, payable annually at the request of the Customer or upon return of the deposit, for the time the deposit is held by the utility, provided it is not less than six (6) months.

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SECTION 2 - RULES AND REGULATIONS, (CONT'D.)

## 2.10 Payment Arrangements, (Cont'd.)

## 2.10.7 Disputed Charges

Disputes with respect to charges must be presented to the Company in writing within 180 days after the Due Date or such invoice shall be deemed to be correct and binding on the Customer. In instances of a dispute, the Customer is required to pay the undisputed portion of the bill in its entirety within 30 days after the Due Date. If, after investigation and review by the Company, a disagreement remains as to the disputed amount, the Customer or Company may file an appropriate complaint with the South Dakota Public Service Commission.

To the Company @:  
The Director of Customer Care  
Williams Communications, Inc.  
Williams Resource Center  
2 East First Street, Mail Drop RC3-N  
Tulsa, Oklahoma 74172

Telephone - (888) 465-9516  
Fax - (918) 573-8933

To the Commission @:  
South Dakota Public Utilities Commission  
State Capital Building  
500 East Capitol Avenue  
Pierre, South Dakota 57501-5070

Telephone - (605) 773-3201  
Fax - (605) 773-3809  
Consumer Hotline - 1-800-877-1782  
TTY - 1-800-877-1113

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**SECTION 2 - RULES AND REGULATIONS, (CONT'D.)****2.11 Tax Adjustments**

2.11.1 All stated charges in this Tariff are computed by the Company exclusive of any applicable federal, state, or local use, excise, gross receipts, sales or privilege taxes, duties, fees, or similar liabilities whether charged to or against the Company or its Customer. An amount equal to such taxes, fees, etc. shall be charged to the Customer in addition to the charges stated in this Tariff. All charges related to such taxes, duties, and fees shall each be shown as a separate line item on the Customer's monthly invoice and, unless stated otherwise, are not included in the quoted rates and charges set forth in this Tariff.

2.11.2 The Company has discretion to include among such fees and surcharges a "Universal Service Subsidy" fee to support universal service in high cost areas and to low income users of telecommunications in addition to assisting schools, libraries and rural health care providers to obtain telecommunications and information services. The Universal Service Subsidy fee, however, shall not be assessed to the portion of Service taken for resale by any Customer who is an entity required by the State of South Dakota to contribute directly to these universal service support programs, provided that such entity has notified the Company of its intention to resell such Service and of its universal service obligations.

For all other Customers the charges for the Universal Service Subsidy, as stated on a separate line item on the Customer's monthly invoice, shall be six (6) percent of the Customer's gross invoice amount attributable to intrastate Services (exclusive of taxes). This Universal Service Subsidy percentage shall be subject to periodic adjustments.

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SECTION 2 - RULES AND REGULATIONS, (CONT'D.)

## 2.11 Tax Adjustments, (Cont'd.)

2.11.3 A surcharge is imposed on all charges for Service originating at addresses in states which levy a gross receipts tax on Customer's operations. Pending the conclusion of any litigation challenging a jurisdiction's right to impose any tax, Company may elect to impose and collect a surcharge covering such tax, unless otherwise constrained by court order or direction, or it may elect to waive any surcharge. If it has collected a surcharge or tax and the challenged surcharge or tax is found to have been invalid and unenforceable, Company shall credit or refund such sums to each affected Customer if either Company has retained such funds or Company has remitted such funds to the collecting jurisdiction and the funds have been returned to Company. The surcharge shall be shown as a separate line item on the Customer's monthly invoice.

## 2.12 Inspection, Testing and Adjustments

2.12.1 The Company may, upon notice, make such tests and inspections as may be necessary to determine that the requirements of this Tariff are being complied with in the installation, operation or maintenance of Customer or the Company's equipment. The Company may interrupt the Service at any time, without penalty to the Company, because of departure from any of these requirements.

2.12.2 Upon reasonable notice, the Channels provided by the Company shall be made available to the Company for such tests and adjustments as may be necessary to maintain them in satisfactory condition; no interruption allowance shall be granted for the time during which such tests and adjustments are made.

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SECTION 2 - RULES AND REGULATIONS, (CONT'D.)

## 2.13 Refunds or Credits for Interruptions in Service

## 2.13.1 No credits or refunds for interruptions of Service shall be made for:

- (a) Interruptions caused by the negligence or willful misconduct (including the provision of inaccurate information) of the Customer or its Authorized Users.
- (b) Interruptions during any period which the Company or its agents are not afforded access to any Customer premise where Service is originated or terminated.
- (c) Interruptions during any period when the Customer or user has released the Service to the Company for maintenance or rearrangement purposes, or for the implementation of a Customer Service Order.
- (d) Interruptions during periods when the Customer elects not to release the Service for testing or repair and continues to use the Service on an impaired basis.
- (e) Interruptions not reported to the Company.
- (f) Interruptions occurring prior to Start of Service.
- (g) Interruptions caused by outages or failure of Local Access provided by a Local Access Provider.

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SECTION 2 - RULES AND REGULATIONS, (CONT'D.)

## 2.13 Refunds or Credits for Interruptions (Cont'd.)

- 2.13.2 Following the Start of Service date, if Customer reports an Interruption in Service to Company and the affected Service is not Restored within two hours of such report, Customer shall, upon request directed to the Customer's designated customer service representative, receive a credit at the rate of 1/720 of the monthly recurring charges applicable to Service directly affected by such Interruption for each hour or major fraction thereof, over the initial two hours, during which service is Interrupted. No credit will be given for Interruptions of less than two hours in duration. The formula used for computation of credits is as follows:

$$\text{Credit} = A / 720 \times B$$

A = Interruption time in hours or fraction thereof (must be over 2 hours)

B = total monthly recurring charge for the affected service.

- 2.13.3 Notice of Interruption should be reported by the Customer to the Company's Network Control Center or other location designated by Company. An Interruption ends when the Service is Restored. If the Customer reports the Service to be inoperative but declines to release it for testing and repair, the Service shall be deemed to be impaired, but not subject to an Interruption nor corresponding credit as provided in Section 2.13.2.

- 2.13.4 If the Customer elects to use another means of transmission during the period of Interruption, the Customer is solely responsible for payment of the charges for the alternate transmission service used.

- 2.13.5 The credit provided in Section 2.13.2 is Customer's sole and exclusive remedy for any Interruption in the Service.

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SECTION 2 - RULES AND REGULATIONS, (CONT'D.)

## 2.14 Systems Security

2.14.1 Where Customers are permitted access to the Company's computer systems and data (hereinafter "Systems") for the purposes of managing and maintaining their own telecommunications system, they will adhere to the following:

- (a) Customers may access the Company's Systems only to the extent required by and incident to the administration and management of the Customer's telecommunications system.
- (b) Customers may not disclose or use information which may be learned as a consequence of access to the Company's Systems except as may be directly required to insure the proper operation of the Customer's telecommunications system. Customers must take all reasonable precautions to prevent any other person or entity who does not have a need to know from acquiring such information.
- (c) Customers shall not in any manner or form disclose, provide, or otherwise make available, in whole or in part, these Systems, documentation, any related material or any other confidential material except to those who have a need to know incident to the operation of the Customer's telecommunications system. These Systems remain the property of the Company and may not be copied, reproduced or otherwise disseminated without the prior written permission of the Company.
- (d) Customers shall take all reasonable precautions to maintain the confidentiality of Systems. Such precautions shall include the use of Personal Identification Numbers (PINs) and passwords selected by and known only to the Customer's individual authorized users. Telephone numbers and dial-up access numbers assigned to the Customer by Company, PINs or any aspect of access and sign-on methodology used to access these Systems shall not be posted or shared with others under any circumstances. Customers shall follow normal log-off procedures prior to leaving a terminal unattended. Customers should report any known or suspected unauthorized attempt by others to access these Systems.

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SECTION 2 - RULES AND REGULATIONS, (CONT'D.)

2.14 Systems Security, (Cont'd.)

- 2.14.2 In the event that a security access device assigned to a Customer for dial-up access is lost, stolen, or misplaced, the Customer must notify Company immediately. Access into these Systems beyond that authorized may result in civil and/or criminal penalties.

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**SECTION 2 - RULES AND REGULATIONS, (CONT'D.)**

**2.15 Restoration of Service**

- 2.15.1** The use and Restoration of Service in emergencies shall be in accordance with Part 64, Subpart D of the Federal Communications Commission's Rules and Regulations to the extent it is applicable, which specifies the priority system for such activities.

**2.16 Customer Provided Equipment**

- 2.16.1** Customer Premises Circuit terminating equipment such as Channel Service units (CSUs) and Multiplexing equipment and any other terminal equipment such as telephone sets or systems shall be provided by the Customer and furnished and maintained at the Customer's expense, except as expressly provided otherwise in writing and set forth in a Service Order accepted by an authorized representative of Company.

**2.17 Company Provided Equipment**

- 2.17.1** The Customer agrees to operate any Company provided equipment in accordance with instructions of the Company or the Company's agent or designee. Failure to do so shall void any Company liability for Interruption of Service and may make Customer responsible for damage to equipment pursuant to Section 2.17.2 below.
- 2.17.2** Customer agrees to return to the Company all Company-provided equipment within five (5) days of termination of the Service in connection with which the equipment was used. Said equipment shall be in the same condition as when delivered to Customer, normal wear and tear excepted. Customer shall reimburse the Company, upon demand, for any costs incurred by the Company (e.g., the cost of the equipment) due to Customer's failure to comply with this provision.
- 2.17.3** The Company may substitute, change or rearrange any equipment or facility at any time, but shall endeavor to maintain the technical parameters of the service provided the Customer. In the event that technical parameters change as a result of the Company's actions, the Company will provide the Customer with thirty (30) days notice prior to such change.

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SECTION 2 - RULES AND REGULATIONS, (CONT'D.)**2.18 Other Terms and Conditions**

- 2.18.1** A Customer shall not use any service mark or trademark of the Company or refer to the Company in connection with any product, equipment, promotion, or publication of the Customer without prior written approval of the Company.
- 2.18.2** In the event suit is brought or an attorney is retained by the Company to enforce the terms of this Tariff, the Company shall be entitled to recover, in addition to any other remedy, reimbursement for reasonable attorneys' fees, court costs, costs of investigation and other related expenses incurred in connection therewith as provided by South Dakota Law.
- 2.18.3** Any legal action or proceeding with respect to the collection of charges due under this Tariff may be brought in the Courts of the State of Oklahoma in and for the County of Tulsa or the United States of America for the Northern District of Oklahoma. By Customer's obtaining Service pursuant to this Tariff, both Customer and Company shall be deemed to have submitted to such jurisdiction, thereby expressly waiving whatever rights may correspond to either of them by reason of their present or future domicile.
- 2.18.4** Except as otherwise provided in this Tariff or as specified in writing by the party entitled to receive notice, notices between Customer and Company shall be given in writing to the persons whose names and business addresses appear on the relevant Service Order and the effective date of any notice shall be the date of delivery of such notice, not the date of mailing. By written notice, Company or Customer may change the party to receive notice and/or the address to which such notice is to be delivered. In the event no Customer or Company address is provided in the relevant Service Order, notice shall be given to the last known business address of Customer or Company, as the case may be.
- 2.18.5** Company, when acting at the Customer's request and/or as Customer's authorized agent, shall make reasonable efforts to arrange for special Service requirements such as the provision of Off-Net Circuits. Due to the specialized nature of such an arrangement, however, such arrangement shall be provided ICB.

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**SECTION 3 - APPLICATION OF TECHNICAL STANDARDS****3.1 Application of Technical Standards**

3.1.1 The following Technical Standards for Private Line Services set forth objectives for Company to follow. In no circumstance shall these Technical Standards be construed as creating any warranty on the part of Company, with the exception of those warranties expressly set forth in the preceding Sections of this Tariff.

**3.1.2 Interconnection Specifications:**

3.1.2.A DS-0 through DS-3 ("DS-N") - provided in accordance with ANSI Standard T1.102 (formerly AT&T Compatibility Bulletin 119) and Technical Reference 54014 >4.

3.1.2.B OC-3 through OC-48 ("OC-N") - provided in accordance with ANSI Standard T1.105.

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**SECTION 3 - APPLICATION OF TECHNICAL STANDARDS, (CONT'L.)****3.1 Application of Technical Standards****3.1.3 Quality Standards****3.1.3.A General**

Standards for DS-N and OC-N Services apply independently for Local Access and Interexchange Services and exclude non-performance due to circumstances listed in Section 2.3.1 or planned Interruptions for necessary maintenance purposes. Local Access standards apply on a one-way basis between each Customer Premises Network Interface Points ("CPNIP") and the Company POP. Interexchange Service standards apply on a one-way basis between the originating and terminating Company POPs. The actual end-to-end (CPNIP to CPNIP) availability and performance of DS-N and OC-N will be a combined function of the Local Access and Interexchange Service specifications and may be affected by the Customer provided equipment, dependent upon the type and quality of Customer equipment used. (Customer provided Local Access may not meet these specifications).

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**SECTION 3 - APPLICATION OF TECHNICAL STANDARDS, (CONT'D.)****3.1 Application of Technical Standards, (Cont'd.)****3.1.3 Quality Standards (cont'd.)****3.1.3.B Availability**

Availability, as used in this Section 3, is a measurement of the percent of total time that Service is operative when measured over a 365 consecutive day (8760 hour) period. DS-N and OS-N Services are considered inoperative when there has been a loss of signal or when two consecutive 15 second loop-back tests confirm the observation of any severely errored seconds or a bit error rate equal to or worse than  $1 \times 10^{-3}$ . The Local Access Availability standards for DS-N and OC-N Services are established by the Local Access Provider. For Services on the Williams Network, Availability shall be 99.99% from POP to POP measured over a one year period. For Services not on the Williams Network, the Off-Net provider will establish Availability.

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**SECTION 3 - APPLICATION OF TECHNICAL STANDARDS, (CONT'D.)****3.1 Application of Technical Standards, (Cont'd.)****3.1.3 Quality Standards, (cont'd.)****3.1.3.C Performance (% Error Free Seconds, while Available)**

Performance is noted in Error Free Seconds ("EFS") which are a measure of the percentage of total seconds when measured over a consecutive 24 hour period that do not contain bit errors. Performance shall be measured on a one-way basis using a Pseudo Random Bit Sequence test pattern as defined in CCITT Recommendation 0.151. The EFS standards for Local Access for DS-N and OC-N is established by the Local Access Provider. For Services on the Williams Network, the EFS shall be 99.5% from POP to POP measured over a monthly period. For Services not on the Williams Network, the Off-Net provider will establish the EFS.

- 3.1.4 Repair efforts will be undertaken upon notification of trouble by internal network surveillance and network surveillance and performance systems or by notification of trouble and release of all or part of the DS-N or OC-N Service by the Customer for testing.
- 3.1.5 Mean Time to Restore ("MTTR") is the average time required to Restore Service and resume Availability and is stated in terms of equipment and cable outages or failures. The MTTR objective shall be two (2) hours for equipment and six (6) hours for cable.
- 3.1.6 The Company calculates network Availability on Customer action requests. The Customer must notify Williams Network Customer Care department or other location designated by Company and initiate an action request to determine if the Service variables stated above were met.
- 3.1.7 Notwithstanding the foregoing, at Company's option, Company may provide a comparable transmission alternative, e.g. satellite transmission, ("Alternative Transmission"). Such Alternative Transmission shall comply with the respective standards commonly used in the industry for such service.

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**SECTION 4 - SERVICE DESCRIPTIONS AND RATES****4.1 General**

Williams Private Line Service is a Dedicated Service that offers Channels or Circuits dedicated to the use of a specific Customer on a twenty-four hours per day, seven days per week basis. Company offers Williams Private Line Service, subject to Availability between Company designated POPs.

**4.2 Distance Calculation**

For Private Line Services, mileage measurements are based on the distance in airline miles between Williams POPs associated with each end of the Circuit. Distance measurements are computed using industry standard Vertical (V) and Horizontal (H) Coordinates according to the following formula.

Formula:

$$\sqrt{\frac{(V1-V2)^2 + (H1-H2)^2}{10}} \text{ 0}$$

Where V<sub>1</sub> and H<sub>1</sub> correspond to the V&H Coordinates of POP<sub>1</sub>, and V<sub>2</sub> and H<sub>2</sub> correspond to the V&H Coordinates of POP<sub>2</sub>.

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SECTION 4 - SERVICE DESCRIPTIONS AND RATES, (CONT'D.)**4.3 Term Plans**

- 4.3.1 Customers subscribing to Williams Private Line Service may order Service on a monthly basis or for Service Commitment Periods of one, two, three, four or five years.
- 4.3.2 The term "Minimum Monthly Commitment" as used in Section 4 of this tariff shall mean the aggregate of all Base Rate charges, as described in Section 4.4, for each Williams Private Line Service (regardless of whether such Base Rates are themselves subject to any discount limitation) which in total is within the amounts stated for each level of the relevant discount schedule. No other charges including Ancillary, Installation or Service Order charges will be included when determining whether a Customer meets its Minimum Monthly Commitment.
- 4.3.3 The discount level, if any, applicable to a Customer for a particular Service or Services shall be the rate or volume discount level in effect at the beginning of the monthly billing period applicable to the Customer for the particular Service or Services.
- 4.3.4 Following the expiration of the Term relevant to Service, such Service shall continue to be provided in accordance with this Tariff, subject to written notice of termination by either Company or Customer.
- 4.3.5 The Customer may be responsible for other charges as described in this Tariff which may include, but are not limited to Ancillary Charges and cancellation charges.

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ISSUED: [date]

EFFECTIVE: [date]

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**SECTION 4 - SERVICE DESCRIPTIONS AND RATES, (CONT'D.)****4.4 Application of Base Rates and Discounts**

Customers subscribing to each type of Williams Private Line Service (e.g., DS-0, DS-1, etc.) shall be charged a Base Rate (on a per circuit basis) as set forth below in this Section 4, which shall consist of (1) a fixed monthly charge irrespective of distance, and (2) a per mile per month charge based on the distance between applicable Company POPs. Customers who subscribe for Service Commitment Periods ranging from one to five years, inclusive, will receive a discount off of the Base Rate for the Term of the Service Commitment Period based upon the "Minimum Monthly Commitment" dollar amount and the Term of the Service Commitment Period.

**4.5 Application of Ancillary Charges****4.5.1 Installation Charges**

A non-recurring installation charge applies to each Circuit provided by the Company. Installation charges also apply to existing Service moved to a new location at the Customer's request. Rates and charges vary by type of service as specified in this Section. Term and volume commitments do not apply to Installation charges.

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SECTION 4 - SERVICE DESCRIPTIONS AND RATES, (CONT'D.)

## 4.5 Application of Ancillary Charges, (Cont'd.)

## 4.5.2 Service Order Charges

## 4.5.2.A General

No Service Order charges apply to initial Service Orders for new Service placed by the Customer. Where Customer requests a change in a pending Service Order or requests changes to an existing Circuit, non-recurring charges may apply to each change as described below. Non-recurring charges vary based on type of Service ordered by Customer.

Circuits or Channels provide by the Company may be connected to other Circuits or Channels provided by the Company (On-Net); to Local Access facilities; or facilities provided by another carrier (Off-Net) through the use of Cross-Connects.

Service Order charges apply as follows based on the content of the Order:

- a) Where Service Orders require the installation, rearrangement, or removal of Company-provided Circuits only, Per Circuit charges apply.
- b) Where Service Orders require the installation, rearrangement, or removal of Company-provided Cross-Connects only, Per Cross-Connect charges apply. For Cross-Connects between two facilities of different band-widths, the Per Cross-Connect charge associated with the higher bandwidth service applies.
- c) Where Service Orders require the installation, rearrangement, or removal of Company-provided Circuits and Cross-Connects, both Per Circuit and Per Cross-Connect charges apply.

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**SECTION 4 - SERVICE DESCRIPTIONS AND RATES, (CONT'D.)****4.5 Application of Ancillary Charges, (Cont'd.)****4.5.2 Service Order Charges (Cont'd.)****4.5.2.B Change of Requested Service Date**

Customers may request a change in the Requested Service Date for pending Service Orders. Change of Requested Service Date charges apply when a change of the Requested Service Date is the only customer requested change to the original Service Order.

When a Customer requests that its Requested Service Date be extended, the new Requested Service Date must be within thirty (30) days of the previously set Requested Service Date. If the new Requested Service Date is more than thirty (30) days beyond the existing Requested Service Date or unknown, the Service affected thereby will be deemed canceled by the Customer and subject to applicable cancellation charges.

If the first requested change of the Requested Service Date is received more than ten (10) working days prior to the original Requested Service Date, there will be no charge. A Change in Requested Service Date charge applies for all subsequent changes to a Requested Service Date or if the requested change is made within ten (10) working days of the established Requested Service Date.

If the new Requested Service Date is earlier than the Requested Service Date on the original Service Order, and requires an Expedited Service Order, non-standard installation, maintenance and engineering charges may apply in addition to a charge for a Change of Requested Service Date.

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SECTION 4 - SERVICE DESCRIPTIONS AND RATES, (CONT'D.)

4.5 Application of Ancillary Charges, (Cont'd.)

4.5.2 Service Order Charges (Cont'd.)

4.5.2.C Change of Service Order

Change of Order charges apply to changes requested by the Customer to the information contained in a service order, other than changes in Requested Service Date, prior to Start of Service.

Pre-engineering charges apply when a Service Order has been entered into the Company's order processing system within five (5) working days, and the Customer requests a modification to the information contained in the Service Order.

Post-engineering charges apply when a Service Order has been entered into the Company's order processing system for over five (5) working days and the Customer requests a modification to the information contained in the Service Order.

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SECTION 4 - SERVICE DESCRIPTIONS AND RATES, (CONT'D.)

## 4.5 Application of Ancillary Charges, (Cont'd.)

## 4.5.2 Service Order Charges (Cont'd.)

## 4.5.2.D Order Cancellation

Order Cancellation Charges apply for Service Orders canceled prior to Customer acceptance. These charges are intended to supplement any Service cancellation charges set for in Section 2.

Pre-engineering charges apply when a Service Order has been entered into the Company's order processing system within five (5) working days and the Customer requests cancellation of the Service Order prior to Acceptance.

Post-engineering charges apply when a Service Order has been entered into the Company's order processing system for over five (5) working days and the Customer requests cancellation of the Service Order prior to Acceptance.

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**SECTION 4 - SERVICE DESCRIPTIONS AND RATES, (CONT'D.)****4.5 Application of Ancillary Charges, (Cont'd.)****4.5.2 Service Order Charges (Cont'd.)****4.5.2.E Change of Service**

Change of Service charges apply to changes made after a Circuit has been installed and accepted by the Customer. This charge is only applicable where re-engineering of the affected Service is required. No charge applies for changes in Service made for administrative purposes (e.g., change of name, billing address, etc.). Change of Service re-engineering charges apply, but are not limited to, Service Orders that are re-engineered due to Customer requested changes in Local Access Service, transmission speed, transmission mode, IXC or Local Access Termination location, or terminating equipment.

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SECTION 4 - SERVICE DESCRIPTIONS AND RATES, (CONT'D.)

## 4.5 Application of Ancillary Charges, (Cont'd.)

## 4.5.3 Local Access Charges

- 4.5.3.A Access to Williams Private Line Services must be obtained by the Customer from the Company or third-party carrier, including a serving Local Exchange Carrier, an Alternative Access Provider or other Local Access Provider. Third party Local Access facilities if provided by the Company are offered at a pass through rate equal to the price at which those channels or services are provided to Company by the Local Access Provider. The rates and charges of the Local Access Provider apply for all Local Access facilities used in conjunction with the Company's Service(s).
- 4.5.3.B At the Customer's request, Williams may act as the Customer's agent for payment of Local Access charges to the Local Access Provider. In such cases, the Company will charge a nonrecurring Local Access Billing Administration fee of \$150.00 per Local Access circuit in addition to pass-through rates associated with the Local Access facilities billed through the Company.
- 4.5.3.C At the Customer's request, Williams may act as the Customer's agent for ordering and coordinating installation, re-arrangement or removal of Local Access facilities. In such cases, a \$100.00 Local Access Administration fee will apply to each ASR issued to the Local Access Provider including ASRs for initial service installation, changes in requested service date, changes in service configuration, or cancellation of Local Access service orders. Where Company acts as the Customer's agent for payment of Local Access charges, the Company will also pass along to the Customer any Local Access Provider charges associated with the Customer's request order, if applicable.
- 4.5.3.D Subject to the availability of personnel, Company may perform other operational functions related to administration and maintenance of Local Access facilities. Such functions will be provided at non-standard installation, maintenance and engineering rates contained in this Tariff.

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**SECTION 4 - SERVICE DESCRIPTIONS AND RATES, (CONT'D.)****4.5 Application of Ancillary Charges, (Cont'd.)****4.5.4 Non-Standard Installation, Maintenance and Engineering Charges**

Additional charges may apply when the Customer requests the following:

- a) Installation or Circuit changes during non-business hours or under unusual circumstances.
- b) a Company technician at the Customer Premises or trouble that results from problems in the Customer's equipment.
- c) the provision of engineering design or other activities which are not normally provided as part of the design and Installation of Service.
- d) Expedited Service Orders.

The Customer will be billed for non-standard services provided by Company personnel at the following rates:

Monday through Friday, 8:00 AM to 5:00 PM	\$25.00 per quarter hour
All Other Hours	\$31.25 per quarter hour

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## SECTION 4 - SERVICE DESCRIPTIONS AND RATES, (CONT'D.)

## 4.6 Base Rates, Discounts and Ancillary Charges

## 4.6.1 DS-0 Service

Williams DS-0 Private Line Service provides 64 Kbps of bandwidth for the digital transmission of data, voice and video signals. Williams DS-0 with Analog Access Service combines Digital Interexchange Service with Analog Local Access. Williams DS-0 with Digital Access Service provides Point-to-Point Digital Service.

## 4.6.1.A Base Rates and Ancillary Charges

Rate Element	Per Circuit	Per Cross-Connect
Fixed Monthly	\$280.00	n/a
Per Mile Monthly	\$0.32	n/a
Installation	\$150.00	n/a
Change of Requested Service Date	\$50.00	\$50.00
Change of Order, Pre-Engineering	\$50.00	\$50.00
Change of Order, Post-Engineering	\$50.00	\$50.00
Order Cancellation, Pre-Engineering	\$50.00	\$50.00
Order Cancellation, Post-Engineering	\$50.00	\$50.00
Change of Service, Re-Engineering	\$50.00	\$50.00

4.6.1.B Discounts - The discount percentages applicable for DS-0 Private Line Service are as follows. The Minimum Monthly Commitment applies to the Fixed Monthly and Per Mile Monthly Rate Elements (base rates) only.

Minimum Monthly Commitment ("MMC")	1 Year	2 Year	3 Year	4 Year	5 Year
Up to \$2,499	4%	5%	6%	8%	10%
\$2,500-\$4,999	5%	6%	7%	9%	11%
\$5,000-\$7,499	6%	7%	8%	10%	12%
\$7,500-\$9,999	7%	8%	9%	11%	13%
\$10,000-\$12,499	8%	9%	10%	12%	14%
\$12,500-\$14,999	9%	10%	11%	13%	15%
\$15,000-\$17,499	10%	11%	12%	14%	16%
\$17,500-\$19,999	11%	12%	13%	15%	17%
\$20,000 or higher	12%	13%	14%	16%	18%

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## SECTION 4 - SERVICE DESCRIPTIONS AND RATES, (CONT'D.)

## 4.6 Base Rates, Discounts and Ancillary Charges (Cont'd.)

## 4.6.2 Fractional DS-1 Service

Williams Fractional DS-1 Private Line Service provides DS-0 multiples of 2 to 24 Channels for the digital transmission of data, voice and video signals and requires a minimum order of two DS-0 Channels.

## 4.6.1.A Base Rates and Ancillary Charges

Rate Element	Per Circuit	Per Cross-Connect
Fixed Monthly	\$280.00	n/a
Per Mile Monthly	\$0.32	n/a
Installation	\$400.00	n/a
Change of Requested Service Date	\$150.00	\$150.00
Change of Order, Pre-Engineering	\$150.00	\$150.00
Change of Order, Post-Engineering	\$150.00	\$150.00
Order Cancellation, Pre-Engineering	\$150.00	\$150.00
Order Cancellation, Post-Engineering	\$150.00	\$150.00
Change of Service, Re-Engineering	\$150.00	\$150.00

4.6.2.B Discounts - The discount percentages applicable for Fractional DS-1 Private Line Service are as follows. The Minimum Monthly Commitment applies to the Fixed Monthly and Per Mile Monthly Rate Elements (base rates) only.

Minimum Monthly Commitment ("MMC")	1 Year	2 Year	3 Year	4 Year	5 Year
Up to \$4,999	10%	12%	13%	15%	18%
\$5,000-\$9,999	12%	14%	15%	17%	20%
\$10,000-\$14,999	14%	16%	17%	19%	22%
\$15,000-\$19,999	16%	18%	19%	21%	24%
\$20,000-\$24,999	18%	20%	21%	23%	26%
\$25,000-\$29,999	20%	22%	23%	25%	27%
\$30,000-\$34,999	22%	24%	25%	27%	29%
\$35,000-\$39,999	26%	28%	29%	31%	33%
\$40,000 or higher	30%	32%	33%	35%	37%

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## SECTION 4 - SERVICE DESCRIPTIONS AND RATES, (CONT'D.)

## 4.6 Base Rates, Discounts and Ancillary Charges (Cont'd.)

## 4.6.3 DS-1 Service

Williams DS-1 Private Line Service provides 1.544 Mbps of point-to-point bandwidth for the digital transmission of data, voice and video signals.

## 4.6.1.A Base Rates and Ancillary Charges

Rate Element	Per Circuit	Per Cross-Connect
Fixed Monthly	\$1350.00	n/a
Per Mile Monthly	\$3.99	n/a
Installation	\$400.00	n/a
Change of Requested Service Date	\$150.00	\$150.00
Change of Order, Pre-Engineering	\$150.00	\$150.00
Change of Order, Post-Engineering	\$150.00	\$150.00
Order Cancellation, Pre-Engineering	\$150.00	\$150.00
Order Cancellation, Post-Engineering	\$150.00	\$150.00
Change of Service, Re-Engineering	\$150.00	\$150.00

4.6.3.B Discounts - The discount percentages applicable for DS-1 Private Line Service are as follows. The Minimum Monthly Commitment applies to the Fixed Monthly and Per Mile Monthly Rate Elements (base rates) only.

Minimum Monthly Commitment ("MMC")	1 Year	2 Year	3 Year	4 Year	5 Year
Up to \$4,999	10%	11%	12%	13%	14%
\$5,000-\$9,999	11%	12%	13%	14%	15%
\$10,000-\$14,999	12%	13%	14%	15%	16%
\$15,000-\$19,999	13%	14%	15%	16%	17%
\$20,000-\$24,999	14%	15%	16%	17%	18%
\$25,000-\$34,999	16%	17%	18%	19%	20%
\$35,000-\$44,999	18%	19%	20%	21%	22%
\$45,000-\$54,999	20%	21%	22%	23%	24%
\$55,000 or higher	22%	23%	24%	25%	26%

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## SECTION 4 - SERVICE DESCRIPTIONS AND RATES, (CONT'D.)

## 4.6 Base Rates, Discounts and Ancillary Charges (Cont'd.)

## 4.6.4 DS-3 Service

Williams DS-3 Private Line Service provides 44.736 Mbps of point-to-point bandwidth for the digital transmission of data, voice and video signals.

## 4.6.1.A Base Rates and Ancillary Charges

Rate Element	Per Circuit	Per Cross-Connect
Fixed Monthly	\$17,000.00	n/a
Per Mile Monthly	\$48.00	n/a
Installation	\$2,000.00	n/a
Change of Requested Service Date	\$500.00	\$250.00
Change of Order, Pre-Engineering	\$500.00	\$250.00
Change of Order, Post-Engineering	\$2,000.00	\$500.00
Order Cancellation, Pre-Engineering	\$500.00	\$250.00
Order Cancellation, Post-Engineering	\$2,000.00	\$500.00
Change of Service, Re-Engineering	\$2,000.00	\$500.00

4.6.4.B Discounts - The discount percentages applicable for DS-3 Private Line Service are as follows. The Minimum Monthly Commitment applies to the Fixed Monthly and Per Mile Monthly Rate Elements (base rates) only.

Minimum Monthly Commitment ("MMC")	1 Year	2 Year	3 Year	4 Year	5 Year
Up to \$24,999	10%	11%	12%	13%	14%
\$25,000-\$49,999	11%	12%	13%	14%	15%
\$50,000-\$74,999	12%	13%	14%	15%	16%
\$75,000-\$99,999	13%	14%	15%	16%	17%
\$100,000-\$124,999	14%	15%	16%	17%	18%
\$125,000-\$149,999	15%	16%	17%	18%	19%
\$150,000-\$174,999	16%	17%	18%	19%	20%
\$175,000 or higher	17%	18%	19%	20%	21%

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**SECTION 5 - CONTRACTS AND PROMOTIONS****5.1 Contracts**

At the option of the Company, Service may be offered on an ICB basis to meet the specialized requirements of Customers. The terms of each such ICB arrangement shall be mutually agreed upon between the Customer and Company and may include discounts off of the rates contained herein, waiver of recurring or nonrecurring charges, charges for specially designed and constructed services not contained in this Tariff, or other customized features. The terms of such an ICB arrangement may be based partially or completely on a Term or volume commitment, type of originating or terminating access, mixture of services or other distinguishing features. Such ICB arrangements will be available to all similarly situated Customers for a fixed period of time following the initial offering to the first ICB Customer as specified in each ICB contract, subject to, in the Company's sole discretion, the Availability of facilities.

**5.2 Promotions**

**5.2.1** From time to time, Company may, at its option, promote subscription or stimulate Service usage by offering to waive some or all of the nonrecurring or recurring charges for the Customer (if eligible) for a limited duration. Such promotions shall be made available to all similarly situated Customers in the target market area and will comply with all applicable Commission regulations.

**5.2.2** From time to time, subject to Commission rules, Company may demonstrate Service for potential Customers by providing free use of its Services on a limited basis for a period of time, not to exceed one (1) month. Demonstration of Service and the type, duration or quantity of Service provided shall be at the Company's discretion.

**5.2.3** Promotional and other credits offered by Company in marketing its Services cannot be assigned. Such credits must be used by the Customer to whom they were offered or the Customer who earned them under the provisions of the offer.

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TC99-010

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MAR 24 1999

SOUTH DAKOTA PUBLIC  
UTILITIES COMMISSION

**REGULATIONS AND SCHEDULE OF CHARGES**

**APPLICABLE TO INTRASTATE INTEREXCHANGE SWITCHED SERVICES**

**FURNISHED BY**

**WILLIAMS COMMUNICATIONS, INC.**

This Tariff contains the rates, terms and conditions applicable to intrastate interexchange switched services offered by Williams Communications, Inc. of Tulsa, Oklahoma within the State of South Dakota. The provisions of this tariff apply only to the intrastate interexchange services described in this tariff.

The services described in this tariff may be provided by any means of wire, terrestrial communications systems, satellite, microwave, and other transmission systems, or any combination thereof.

**ISSUED:** [date]

**EFFECTIVE:** [date]

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## CHECK SHEET

The Title Page and pages listed below are inclusive and effective as of the date shown. Revised pages as named below contain all changes from the original Tariff that are in effect on the date shown on each page.

Page #	Revision	Page #	Revision
Title Page	Original *	28	Original *
1	Original *	29	Original *
2	Original *	30	Original *
3	Original *	31	Original *
4	Original *	32	Original *
5	Original *	33	Original *
6	Original *	34	Original *
7	Original *	35	Original *
8	Original *	36	Original *
9	Original *	37	Original *
10	Original *	38	Original *
11	Original *	39	Original *
12	Original *	40	Original *
13	Original *	41	Original *
14	Original *	42	Original *
15	Original *	43	Original *
16	Original *	44	Original *
17	Original *	45	Original *
18	Original *	46	Original *
19	Original *	47	Original *
20	Original *	48	Original *
21	Original *	49	Original *
22	Original *	50	Original *
23	Original *	51	Original *
24	Original *	52	Original *
25	Original *	53	Original *
26	Original *	54	Original *
27	Original *	55	Original *

\* Indicates tariff pages included in this filing.

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TARIFF FORMAT

- A. **Page Numbering** - Page numbers appear in the upper right corner of the page. Pages are numbered sequentially. However, new pages are occasionally added to the tariff. When a new page is added between pages already in effect, a decimal is added.
- B. **Page Revision Numbers** - Revision numbers also appear in the upper right corner of each page. These numbers are used to determine the most current page version on file with the Commission. For example, the 4th revised Page 14 cancels the 3rd revised Page 14. Because of the various suspension periods and deferrals the Commission follows in its tariff approval process, the most current page number on file with the Commission is not always the tariff page in effect. Consult the check sheet for the page currently in effect.
- C. **Paragraph Numbering Sequence** - There are nine levels of paragraph coding. Each level of coding is subservient to its next higher level:
- 2
  - 2.1
  - 2.1.1
  - 2.1.1.A
  - 2.1.1.A.1
  - 2.1.1.A.1(a)
  - 2.1.1.A.1(a).I
  - 2.1.1.A.1(a).I(i)
  - 2.1.1.A.1(a).I(i).1
- D. **Check Sheets** - When a tariff filing is made with the Commission an updated check sheet accompanies the filing. The check sheet lists the pages contained in the tariff, with a cross reference to the current revision number. When new pages are added, the check sheet is changed to reflect the revision. All revisions made in a given filing are designated by an asterisk (\*). There shall be no other symbols used on this page if these are the only changes made to it. The tariff user should refer to the latest check sheet to find out if a particular page is the most current on file with the Commission.

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**CONCURRING CARRIERS**

None

**CONNECTING CARRIERS**

None

**OTHER PARTICIPATING CARRIERS**

None

**EXPLANATION OF SYMBOLS**

Changes to this tariff shall be identified on the revised page(s) through the use of symbols. The following are the only symbols used for the purposes indicated below:

- (C) To signify changed regulation.
- (D) To signify discontinued rate or regulation.
- (I) To signify an increase.
- (M) To signify matter relocated without change.
- (N) To signify new rate or regulation.
- (R) To signify reduction.
- (S) To signify reissued matter.
- (T) To signify change in text but no change in rate or regulation.
- (Z) To signify a correction.

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**ISSUED BY:** Mickey S. Moon, Director of Regulatory Affairs  
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APPLICATION OF TARIFF

This Tariff is available for public inspection during normal business hours at the main office of Williams Communications, Inc., located at Williams Resource Center, 2 East First Street, Tulsa, OK 74172.

This Tariff contains the rates, terms and conditions of service applicable to the furnishing of the within described intrastate interexchange services by Williams Communications, Inc. This Tariff applies to interexchange switched services offered by Williams Communications, Inc. to the general public, which, for purposes of this Tariff, consist of casual calling customers and other providers of Telecommunications Services or Information Services (Reseller Customers) for resale, and which are subject to regulation by the Commission. These services are provided in conjunction with the Company's interstate telecommunications services originating or terminating within the state. This Tariff does not apply to the within described services which are provided by Williams Communications, Inc.:

- (a) to other providers of Telecommunications Services or Information Services pursuant to any contractual arrangements that have been or are entered into on an Individual Case Basis pursuant to Section 2.1.7;
- (b) pursuant to other Williams Communications, Inc. tariffs unless specifically stated therein;
- (c) to affiliates of the Company; and
- (d) on an interstate or international basis.

Williams Communications, Inc. does not provide service to, and this Tariff is not applicable to, presubscribed residential customers. With the exception of Casual Calling Service, Williams' services as specified herein are applicable to Reseller Customers only.

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**SECTION 1 - TERMS AND ABBREVIATIONS**

**Access Line** - A facility arrangement which connects Customer's location to Company's POP.

**Access Service Request (ASR)** - An order placed with a Local Access Provider for Local Access.

**Account Code** - A series of digits entered by End User to associate a call with a particular department, cost center, or Customer. A non-verified Account Code shall be accepted if it contains the proper number of digits. A verified Account Code shall only be accepted if it can be matched with a number on the list of valid Account Codes provided by End User.

**Alternative Access** - A form of Local Access except that the provider of the Service is an entity, other than the Local Exchange Carrier, authorized or permitted to provide such Service.

**Ancillary Charges** - Charges for supplementary Services as set forth in this Tariff which may consist of both nonrecurring and monthly recurring charges.

**Authorization Code** - A numerical code, one or more of which are available to Customer's End Users to enable them to access Company's network, and which are used by Company both to prevent unauthorized access to its facilities and to identify End Users for billing purposes.

**Available/Availability** - Condition in which Company has the facilities necessary to provide Service and such facilities are not already committed to other parties or other Customers and are accessible for Service to Customer, as determined by the Company in its sole discretion.

**Casual Calling** - Access to Company's network and the subsequent use of Service by an End User Customer through the dialing of a carrier access code in the format of 101XXXX, where the four (4) digits represented by the "X" are the unique Carrier Identification Code (CIC) assigned to Company.

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**SECTION 1 - TERMS AND ABBREVIATIONS, (CONT'D.)**

**Day** - From 8 AM up to but not including 5 PM, Monday through Friday.

**Dialed Number Information Service (DNIS)** - A service option of Toll Free Service under which Company electronically transmits to Customer (or to an End User of Customer) the telephone number of the party calling Customer or its End User.

**Due Date** - The date on which payment is due as indicated on Company's invoice to Customer.

**End User** - The natural person or legal entity which either; (1) orders service through a certified Reseller Customer or (2) uses the Company's Casual Calling service directly as a Customer through dialing the Company's designated access code or other access number.

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**SECTION 1 - TERMS AND ABBREVIATIONS, (CONT'D.)**

**On-Net** - A Circuit traversing the Williams Network, both end points of which originate and terminate at a Williams designated POP.

**Off-Net** - A circuit that is not On-Net.

**POP (Point of Presence)** - A Company designated location where a facility is maintained for the purpose of providing access to the Company's Services by Customer and/or its End Users.

**Reseller** - A Customer which purchases Service from the Company through a Service Agreement and resells service to its own End Users. End Users of a Reseller are not Customers of the Company. A Reseller must be authorized to operate in the State before it can Resell Services to its End Users.

**Service** - Williams' Interexchange Services as described in this Tariff as modified from time to time.

**Service Commitment Period** - The period selected by the Customer, agreed to by Company and stated on the relevant Service Agreement, during which Company will provide and Customer will accept and pay for the Service described therein.

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**SECTION 1 - TERMS AND ABBREVIATIONS, (CONT'D.)**

**Channel(s) or Circuit(s)** - A communications path between two or more points.

**Collect Call** - A billing arrangement which bills the charge for a long distance call to the called station's telephone number. The person agreeing to accept the call is responsible for all charges related to the call.

**Commission** - The South Dakota Public Utility Commission.

**Conversation Minutes** - For billing purposes calls are billed based on Conversation Minutes, which begin when the called party answers, as determined by answer supervision, and end when either party disconnects.

**Company or Carrier** - Williams Communications, Inc. unless otherwise clearly indicated by the context.

**Customer** - The natural person or legal entity which orders Service and is therefore responsible for the payment of charges due as a result of using the Service and for compliance with the Company's tariff. The Customer may be a certified reseller of telecommunications services who, under the terms of a Service Agreement, orders or uses Service and is therefore responsible for the payment of charges due and for compliance with Carrier's tariff regulations.

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**SECTION 1 - TERMS AND ABBREVIATIONS, (CONT'D.)**

**Service Agreement** - An agreement between Carrier and Customer which, subject to the terms and conditions of this tariff, defines the relationship between Carrier and Customer.

**Service Area** - The geographic area in which Customer or its End Users may access and use Service.

**Tariff** - The Company's South Dakota Intrastate Tariff No. 1, and effective revisions thereto filed by the Company with the Commission.

**Telecommunications Service** - The term "Telecommunications Service" has the same meaning as contained in 47 U.S.C. § 153(46), as interpreted by the FCC and federal courts.

**Term** - Service Commitment Period.

**United States** - For purposes of this tariff the term "United States" includes the Mainland United States of America, Alaska, Hawaii, Puerto Rico, U.S. Virgin Islands, Guam, and the Commonwealth of the Northern Mariana Islands (CNMI).

**Williams** - Used throughout this tariff to refer to Williams Communications, Inc.

**Williams Network** - The telecommunications transmission system operated by Williams and which is capable of providing Service between Williams designated POPs.

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**SECTION 2 - RULES AND REGULATIONS****2.1 Undertaking of Company and Limitations of Services**

- 2.1.1** The Company undertakes to furnish Service pursuant to the terms of this Tariff for the transmission of information originating and terminating within the State. Service under this Tariff is offered only to Company's Reseller Customers, except that, due to the nature of Services provided, End Users may access Company's Casual Calling Service. Company reserves the right to deny Service: (i) to any Customer that, in Company's reasonable opinion, presents an undue risk of nonpayment; (ii) in circumstances in which Company has reason to believe that the use of the Service would violate the provisions of this Tariff or any applicable law or if any applicable law restricts or prohibits provision of the Service; or (iii) if, in Company's sole opinion, insufficient facilities or equipment are Available to provide the Service.
- 2.1.2** The provision of Service shall not create a partnership or joint venture between the Company and Customer nor result in joint service offerings to their respective customers or End Users.
- 2.1.3** Company owns or operates transmission facilities within the State and/or resells telecommunications services provided by other carriers. Notwithstanding the resale of telecommunications services provided by other carriers, Customer shall be considered a customer of Company, and not a customer of any other carrier.

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SECTION 2 - RULES AND REGULATIONS (CONT'D)

## 2.1 Undertaking of Company and Limitations of Services (cont'd)

- 2.1.4 Carrier may, when authorized by Customer, act as Customer's agent for ordering dedicated Access Lines or facilities provided by other carriers to allow connection of specified locations of Customer and/or its End Users to the network of Carrier. Customer shall be responsible for all charges due for such service arrangements.
- 2.1.5 Service is offered subject to the availability of the necessary facilities and subject to the provisions of this Tariff.
- 2.1.6 Service is provided under the terms and conditions of an applicable Service Agreement and this Tariff; and is available twenty-four (24) hours per day, seven (7) days per week.
- 2.1.7 To the extent that any conflict arises between the terms and conditions of a Service Agreement and the terms and conditions of this Tariff, the Tariff shall prevail, except such terms and conditions in a Service Agreement that are expressly set forth therein as ICB terms or conditions, in which case such ICB terms and conditions shall prevail.

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SECTION 2 - RULES AND REGULATIONS (CONT'D)

## 2.1 Undertaking of Company and Limitations of Services (cont'd)

- 2.1.8 Carrier reserves the right to discontinue furnishing Service, or to limit the use of Service, when necessitated by conditions beyond its control, when Customer or an End User is using Service in violation of the law or in violation of the provisions of this tariff, or for non-payment by Customer.
- 2.1.9 Service provided under this Tariff is directly controlled by Carrier, and Customer may not transfer or assign the use of Service, except with the prior written consent of Carrier. Such transfer or assignment shall only apply where there is no interruption in the use or location of Service, and all regulations and conditions contained in this Tariff as well as all conditions for Service, shall apply to all such permitted assignees or transferees.
- 2.1.10 The Customer shall not use nor permit others to use the Service in a manner that could interfere with Services provided to others or that could harm the facilities of the Company or others.
- 2.1.11 Service furnished by Williams may be connected with the services or facilities of other carriers. Customer is responsible for all charges billed by other carriers in connection with the use of Service. Any special equipment or facilities necessary to achieve compatibility between carriers are the sole responsibility of Customer.

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SECTION 2 - RULES AND REGULATIONS (CONT'D)

## 2.2 Resale of Company Services

- 2.2.1 In addition to the other provisions in this Tariff, a Customer reselling Service shall be responsible for all interaction and interface with its own subscribers or customers. The reselling of Service by a Customer or reselling of Service with enhancements provided by Customer shall not create a partnership or joint venture between Company and Customer nor result in a joint service offering to any third parties by either Company or the Customer.
- 2.2.2 Notwithstanding the resale of Service by Customer and regardless of the Company's knowledge of same, the Customer remains liable for all obligations under this Tariff. The Company shall have no liability to any person or entity other than the Customer and only as set forth in Section 2.3.

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SECTION 2 - RULES AND REGULATIONS (CONT'D)

## 2.3 Liability of the Company

- 2.3.1 Except as otherwise specifically provided for in this Tariff, the Company and/or its affiliates shall not be liable to Customer or any other person, firm or entity for any failure of performance hereunder if such failure is due to any cause or causes beyond the reasonable control of the Company. Such causes shall include, without limitation, acts of God, fire, explosion, vandalism, sabotage, cable cut, storm or other similar occurrence, any law, order, regulation, direction, action or request of the United States government or of any other government or of any civil or military authority, national emergencies, insurrections, riots, wars, condemnation, strikes, lockouts or work stoppages or other labor difficulties, supplier failures, shortages, breaches or delays, or preemption of existing Services to restore Service in compliance with Part 64, Subpart D, Appendix A, of the FCC's Rules and Regulations or other applicable laws, regulations, or orders. The Carrier's liability, if any, for its gross negligence or willful misconduct is not limited by the tariff.
- 2.3.2 The Company is not liable for any act or omission of any other company or companies furnishing a portion of the Service or facilities, equipment, or services associated with such Service.

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SECTION 2 - RULES AND REGULATIONS (CONT'D)

## 2.3 Liability of the Company (cont'd)

2.3.3 The Customer shall indemnify and hold the Company harmless from and against any court, administrative or agency action, suit or similar proceeding brought against Company and/or any affiliate of the Company for:

- (a) claims arising out of or related to the contents transmitted via the Services (whether over the Williams Network or Local Access facilities) including, but not limited to, claims, actual or alleged, relating to any violation of copyright law, export control laws, failure to procure necessary authorizations, clearances or consents, failure to meet governmental or other technical broadcast standards, or claims that such transmission contents are libelous, slanderous, an invasion of privacy, pornographic, or otherwise unauthorized or illegal;
- (b) patent infringement claims arising from combining or connecting the Service with equipment and systems of the Customer;
- (c) all other claims arising out of any act or omission of the Customer in connection with any Service provided by the Company;
- (d) claims arising out of the use of Services or associated equipment in an unsafe manner (such as use in an explosive atmosphere) or the negligent or willful act of any person other than the Company, its agents, or employees.

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SECTION 2 - RULES AND REGULATIONS (CONT'D)

## 2.3 Liability of the Company (Cont'd)

- 2.3.4 The Customer shall indemnify and hold the Company harmless from any and all loss, claims, demands, suits, or other action, or any liability whatsoever, whether suffered, made, instituted or asserted by the Customer or by any other party or persons, for any personal injury to, or death of, any person or persons, and for any loss, damage or destruction of any property, whether owned by the Customer or others, caused or claimed to have been caused directly or indirectly by the installation or operation of Service or equipment and facilities of Company associated with the Service, unless such installation, operation, failure to operate, maintenance, condition, location or use is the direct result of the Company's knowing and willful misconduct.

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SECTION 2 - RULES AND REGULATIONS (CONT'D)

## 2.3 Liability of the Company (Cont'd)

- 2.3.5 Defects caused by or contributed to, directly or indirectly, by act or omission of Customer (including authorized users) or Customer's customers, affiliates, agents, representatives, invitees, licensees, successors or assigns or which arise from or are caused by the use of facilities or equipment of Customer or related parties shall not result in the imposition of any liability whatsoever upon the Company, and Customer shall pay to the Company any reasonable costs, expenses, damages, fees or penalties incurred by the Company as a result thereof, including, without limitation, costs of Local Access Providers' labor and materials. In addition, all or a portion of the Service may be provided over facilities of third parties, and the Company shall not be liable to Customer or any other person, firm or entity in any respect whatsoever arising out of Defects caused by such third parties.

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SECTION 2 - RULES AND REGULATIONS (CONT'D)

## 2.3 Liability of the Company (Cont'd)

- 2.3.6 In the event that Company is required to perform a Circuit redesign due to inaccurate information provided by the Customer or, Company incurs costs and expenses under circumstances in which such costs and expenses are caused to be incurred by the Customer or reasonably incurred by Company for the benefit of the Customer, the Customer is responsible for the payment of any resulting costs incurred by Company.
- 2.3.7 The failure to give notice of default, to enforce or insist upon compliance with any of the terms or conditions herein, the waiver of any term or conditions herein, or the granting of an extension of time for performance by the Company or the Customer shall not constitute the permanent waiver of any term or condition herein. Each of the provisions shall remain at all times in full force and effect until modified in writing.

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SECTION 2 - RULES AND REGULATIONS (CONT'D)**2.4 Cancellation of Service by Customer**

- 2.4.1** Reseller Customers order Service from Company pursuant to the terms and conditions of a Service Agreement. Any cancellation or termination of Service is subject to the terms and conditions of that Service Agreement. End User Customers order Service from Company by dialing the Company's carrier access code number for Casual Service.
- 2.4.2** If Customer, either on behalf of itself or an End User, orders Service from the Company which requires special construction or facilities for Customer's or End User's use, and then cancels its order before Service begins, a charge shall be made to Customer for the non-recoverable portions of the expenditures or liabilities incurred on behalf of Customer or End User by the Company.
- 2.4.3** If Customer terminates Service prior to the end of the Term specified in the Service Agreement, Customer shall be responsible for all charges incurred to the date of termination, including, but not limited to, all charges to the Company by other carriers for Service provided Customer or its End Users, and any applicable cancellation or termination charges specified in the Service Agreement.

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SECTION 2 - RULES AND REGULATIONS (CONT'D)

## 2.5 Cancellation for Cause by Company

2.5.1 For nonpayment by Customer of any undisputed sum owing to the Company for more than 30 days, or for violation by Customer of any of the provisions governing the furnishing of Service under this Tariff or the Service Agreement, the Company may, after ten (10) days written notification to Customer of such nonpayment or violation and forthcoming termination therefor, without incurring any liability, immediately cancel or discontinue the furnishing of such Service. Customer shall be deemed to have canceled Service as of the date of such termination and shall be liable for any cancellation charges as set forth in this Tariff.

2.5.2 Without incurring any liability, the Company may cancel Service prior to commencement or discontinue the furnishing of Service to Customer immediately and without notice if the Company deems that such action is necessary to prevent or to protect against fraud or to otherwise protect its personnel, agents, facilities or Services or under any of the following circumstances:

- (a) if Customer refuses to furnish or provides false information to the Company regarding the Customer's identity, address, credit-worthiness, past or current use of Service, or its planned use of Service;
- (b) for noncompliance with any of the provisions of this Tariff;
- (c) if the Customer or End User is using the Service in violation of any applicable law or regulation.
- (d) if such actions are reasonably appropriate to avoid violation of applicable law; or
- (e) if there is a reasonable risk that criminal, civil or administrative proceedings or investigations based upon the transmission contents shall be instituted against Company.

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SECTION 2 - RULES AND REGULATIONS (CONT'D)

2.5 Cancellation for Cause by Company

- 2.5.3 The discontinuance of Service by the Company pursuant to this Section does not relieve the Customer of any obligations to pay the Company for charges accrued for Service which has been furnished up to the time of discontinuance nor does relieve the Customer of applicable cancellation charges. The remedies set forth herein shall not be exclusive and the Company shall at all times be entitled to all rights available to it under either law or equity.

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SECTION 2 - RULES AND REGULATIONS (CONT'D)**2.6 Billing and Payment For Service****2.6.1 Responsibility for Charges**

The Customer is responsible for payment of all charges for Services furnished to the Customer or authorized End User. This includes payment for Services specifically requested by the Customer. This responsibility is not changed due to any use, misuse, or abuse of the Customer's Service or Customer provided equipment by third parties, the Customer's employees, or the public. A Customer whose Service has been discontinued for non-payment of bills shall be required to pay any unpaid balance due to Company before Service is restored.

**2.6.2 Payment Arrangements**

- 2.6.2.A** All payments due by the Customer shall be remitted and payable to the Company or any billing agent duly authorized and designated by the Company to receive such payments.
- 2.6.2.B** Service is provided and billed on a monthly basis. Usage sensitive charges are billed in arrears and fixed monthly recurring charges, if any, are billed one month in advance. Unless required in advance, installation charges, and other non-recurring charges shall be due on the first day of the month following the month in which the Service was provided.
- 2.6.2.C** The security of Authorization Codes used by Customer or its End Users are the responsibility of the Customer. All calls placed using such Authorization Codes or using facilities owned or controlled by Customer or its End Users shall be billed to Customer and must be paid by Customer.

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**SECTION 2 - RULES AND REGULATIONS (CONT'D)****2.6 Billing and Payment For Service (Cont'd)****2.6.3 Late Payment Fee**

Bills are due and payable upon receipt. In the event Customer fails to pay or remit payment in full to the proper address for Services billed by the Company or authorized billing agent on or before thirty (30) days after the Due Date, Customer shall also pay a late fee in the amount of the lesser of one and one-half percent (1.5%) of the unpaid balance per month or the maximum lawful rate under applicable state law.

**2.6.4 Return Check Charge**

A return check charge of \$25.00 will be assessed for checks made payable to the Company and returned for insufficient funds. For service billed on behalf of the Company, any applicable return check charges will be assessed according to the terms and conditions of the Company's billing agent.

**2.6.5 Validation of Credit**

**2.6.5.A** The Company reserves the right to validate the creditworthiness of Customers through available verification procedures. If at any time a Customer presents an undue risk of non-payment, or if a Customer fails to comply with the payment terms of this Tariff or applicable Service Agreement, the Company may require a deposit or other forms of security for payment.

**2.6.5.B** In determining whether a Customer presents an undue risk of nonpayment, the Company may consider, but is not limited to, the following factors: (i) the Customer's payment history (if any) with the Company, (ii) Customer's ability to demonstrate adequate ability to pay for the Service, (iii) credit and related information provided by Customer, lawfully obtained from third parties or publicly available, and (iv) information relating to Customer's management, owners and affiliates (if any).

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SECTION 2 - RULES AND REGULATIONS (CONT'D)

## 2.6 Payment Arrangements (Cont'd)

## 2.6.7 Disputed Charges

Disputes with respect to charges for Casual Calling Service must be presented to the Company in writing within 180 days after the Due Date or such invoice shall be deemed to be correct and binding on the Customer. In instances of a dispute, the Customer is required to pay the undisputed portion of the bill in its entirety within 30 days after the Due Date. For Casual Calling Customers, if, after investigation and review by the Company, a disagreement remains as to the disputed amount, the Customer or Company may file an appropriate complaint with the Commission. For all other Customers, resolution of disputes will be governed by the applicable Service Agreement. Contact information regarding disputes is as follows:

To the Company:

The Director of Customer Care  
Williams Communications, Inc.  
Williams Resource Center  
2 East First Street, Mail Drop RC3-N  
Tulsa, Oklahoma 74172

Telephone - (888) 465-9516  
Fax - (918) 573-8033

To the Commission:

South Dakota Public Utilities Commission  
State Capital Building  
500 East Capitol Avenue  
Pierre, South Dakota 57501-5070

Telephone - (605) 773-3201  
Fax - (605) 773-3809  
Consumer Hotline - 1-800-877-1782  
TTY - 1-800-877-1113

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SECTION 2 - RULES AND REGULATIONS (CONT'D)

## 2.7 Taxes and Fees

- 2.7.1 Service may be subject to State and/or local taxes (e.g., gross receipts tax, sales tax, and municipal utilities tax) and/or fees (e.g., intrastate access charges and contributions to the State universal service program), if Service originates and terminates in the State. An amount equal to such taxes and fees shall be charged to the Customer in addition to the charges stated in this Tariff. All charges related to such taxes and fees shall each be shown as a separate line item on the Customer's monthly invoice.
- 2.7.2 Service shall not be subject to taxes for a given jurisdiction if Customer provides the Company with written verification, acceptable to the Company and to the relevant taxing jurisdiction, that Customer has been granted a tax exemption. Service shall also not be subject to contribution to the State universal service program if Customer provides the Company with written verification, acceptable to the Company and to the State Commission, that the Service will be resold by Customer and that the revenues from such resale shall be subject to the State universal service program's contribution requirements.
- 2.7.3 The Company may also include among such fees and surcharges any Primary Interexchange Carrier (PIC) charges charged against the Company by a Local Access Provider, as well as any other Local Access charges, whether for originating or terminating Local Access, charged against the Company for originating or terminating intrastate interexchange communications. Company shall also include any compensable intrastate payphone service provider charges charged against the Company incurred for any intrastate toll-free number and/or access code calls made from payphones and attributable to the Customer at a rate of \$0.35 per call.

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SECTION 2 - RULES AND REGULATIONS (CONT'D)**2.8 Inspection, Testing and Adjustments**

2.8.1 The Company may, upon notice, make such tests and inspections as may be necessary to determine that the requirements of this Tariff are being complied with in the installation, operation or maintenance of Customer's or the Company's equipment. The Company may interrupt the Service at any time, without penalty or liability to the Company, because of departure from any of these requirements.

2.8.2 Upon reasonable notice, the facilities provided by the Company shall be made available to the Company for such tests and adjustments as may be necessary to maintain them in satisfactory condition; no interruption allowance shall be granted for the time during which such tests and adjustments are made.

**2.9 Terminal Equipment**

Service may be used with or terminated in terminal equipment or communications systems, such as a PBX or key telephone system, provided by Customer or its End User. Such terminal equipment or communications systems shall be furnished by and maintained at the expense of Customer or its End User, except as otherwise provided. Customer or its End User is also responsible for all costs at its premises incurred in the use of Service, including but not limited to equipment, wiring, electrical power, and personnel. When such terminal equipment or communications systems are used, they shall in all respects comply with the generally accepted minimum protective standards of the telecommunications industry as endorsed by the FCC.

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SECTION 2 - RULES AND REGULATIONS (CONT'D)

**2.10 Refunds or Credits for Interruptions in Service**

**2.10.1** No credits or refunds for interruptions of Service shall be made for:

- (a) Interruptions caused by the negligence or willful misconduct (including the provision of inaccurate information) of the Customer or its End Users.
- (b) Interruptions during any period which the Company or its agents are not afforded access to any Customer premise where Service is originated or terminated.
- (c) Interruptions during any period when the Customer or End-User has released the Service to the Company for maintenance or rearrangement purposes, or for the implementation of Service.
- (d) Interruptions during periods when the Customer elects not to release the Service for testing or repair and continues to use the Service on an impaired basis.
- (e) Interruptions not reported to the Company.
- (f) Interruptions caused by outages or failure of Local Access provided by a Local Access Provider.

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SECTION 2 - RULES AND REGULATIONS (CONT'D)

## 2.10 Refunds or Credits for Interruptions (Cont'd)

- 2.10.2 It shall be the obligation of Customer to notify Company immediately of any interruption of Service (as defined in the applicable Service Agreement) for which a credit is desired. If Customer reports an interruption in Service to Company and the affected Service is not restored (as defined in the applicable Service Agreement) within two hours of such report, Customer shall, upon request directed to the Customer's designated customer service representative, receive a credit at the rate of  $1/720$  of the monthly recurring charges applicable to Service directly affected by such interruption for each hour or fraction thereof, over the initial two hours, during which service is interrupted. No credit will be given for interruptions of less than two hours in duration. The formula used for computation of credits is as follows:

$$\text{Credit} = A / 720 \times B$$

A = Interruption time in hours or fraction thereof (must be over 2 hours)

B = total monthly recurring charge for the affected service.

- 2.10.3 Notice of Interruption should be reported by the Customer to the Company's Network Control Center or other location designated by Company. An interruption ends when the Service is restored. If the Customer reports the Service to be inoperative but declines to release it for testing and repair, the Service shall be deemed to be impaired, but not subject to an interruption nor corresponding credit as provided in Section 2.10.2.
- 2.10.4 If the Customer elects to use another means of transmission during the period of interruption, the Customer is solely responsible for payment of the charges for the alternate transmission service used.
- 2.10.5 The credit provided in Section 2.10.2 is Customer's sole and exclusive remedy for any interruption in the Service.

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SECTION 2 - RULES AND REGULATIONS (CONT'D)

## 2.11 Systems Security

2.11.1 Where Customers are permitted access to the Company's computer systems and data (hereinafter "Systems") for the purposes of managing and maintaining their own telecommunications system, they will adhere to the following:

- (a) Customers may access the Company's Systems only to the extent required by and incident to the administration and management of the Customer's telecommunications system.
- (b) Customers may not disclose or use information which may be learned as a consequence of access to the Company's Systems except as may be directly required to insure the proper operation of the Customer's telecommunications system. Customers must take all reasonable precautions to prevent any other person or entity who does not have a need to know from acquiring such information.
- (c) Customers shall not in any manner or form disclose, provide, or otherwise make available, in whole or in part, these Systems, documentation, any related material or any other confidential material except to those who have a need to know incident to the operation of the Customer's telecommunications system. These Systems remain the property of the Company and may not be copied, reproduced or otherwise disseminated without the prior written permission of the Company.
- (d) Customers shall take all reasonable precautions to maintain the confidentiality of Systems. Such precautions shall include the use of Personal Identification Numbers (PINs) and passwords selected by and known only to the Customer's individual authorized users. Telephone numbers and dial-up access numbers assigned to the Customer by Company, PINs or any aspect of access and sign-on methodology used to access these Systems shall not be posted or shared with others under any circumstances. Customers shall follow normal log-off procedures prior to leaving a terminal unattended. Customers shall report any known or suspected unauthorized attempt by others to access these Systems.

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SECTION 2 - RULES AND REGULATIONS (CONT'D)

2.11 Systems Security (Cont'd)

- 2.11.2 In the event that a security access device assigned to a Customer for dial-up access is lost, stolen, or misplaced, the Customer must notify Company immediately. Access into these Systems beyond that authorized may result in civil and/or criminal penalties.

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SECTION 2 - RULES AND REGULATIONS (CONT'D)**2.12 Restoration of Service**

The use and Restoration of Service in emergencies shall be in accordance with Part 64, Subpart D of the Federal Communications Commission's Rules and Regulations to the extent it is applicable, which specifies the priority system for such activities.

**2.13 Company Provided Equipment**

**2.13.1** The Customer agrees to operate any Company provided equipment in accordance with instructions of the Company or the Company's agent or designee. Failure to do so shall void any Company liability for interruption of Service and may make Customer responsible for damage to equipment pursuant to Section 2.13.2 below.

**2.13.2** Customer agrees to return to the Company all Company-provided equipment within five (5) days of termination of the Service in connection with which the equipment was used. Said equipment shall be in the same condition as when delivered to Customer, normal wear and tear excepted. Customer shall reimburse the Company, upon demand, for any costs incurred by the Company (e.g., the cost of the equipment) due to Customer's failure to comply with this provision.

**2.13.3** The Company may substitute, change or rearrange any equipment or facility at any time, but shall endeavor to maintain the technical parameters of the service provided the Customer. In the event that technical parameters change as a result of the Company's actions, the Company will provide the Customer with thirty (30) days notice prior to such change.

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SECTION 2 - RULES AND REGULATIONS (CONT'D)

## 2.14 Other Terms and Conditions

- 2.14.1 A Customer shall not use any service mark or trademark of the Company or refer to the Company in connection with any product, equipment, promotion, or publication of the Customer without prior written approval of the Company.
- 2.14.2 In the event suit is brought or an attorney is retained by the Company to enforce the terms of this Tariff, the Company shall be entitled to recover, in addition to any other remedy, reimbursement for reasonable attorneys' fees, court costs, costs of investigation and other related expenses incurred in connection therewith as provided by South Dakota Law.
- 2.14.3 Company shall assess a Reseller Customer a \$200 Unauthorized Carrier Change Charge (UCCC) for each Primary Interexchange Carrier (PIC) change made without prior valid authorization which results in the Company being named in a complaint filed with a state or federal regulatory or judicial body. Continued acts of unauthorized PIC changes by any Reseller shall be considered grounds for refusing to provide or for discontinuing Service to that Reseller.
- 2.14.4 Company, when acting at the Customer's request and/or as Customer's authorized agent, shall make reasonable efforts to arrange for special Service requirements such as the provision of Off-Net Circuits. Due to the specialized nature of such an arrangement, however, such arrangement may be provided ICB.

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**SECTION 3 - DESCRIPTION OF SERVICE****3.1 General**

Williams undertakes to offer and provide wholesale interexchange telecommunications services within its Service Area to Reseller Customers for resale to their End Users or to other Telecommunications Service providers or Information Service providers. The Services described herein are part of the Company's one-stop shopping package offering a full service platform to the wholesale marketplace, including interstate and international voice and data services.

Although Williams is not professing to offer any of the Services described in this Section directly to End Users in the State of South Dakota, rather the Services described in this Section are offered only to other carriers for resale to the general public, it is impractical for Williams to block all 101XXXX access code calls from subscriber lines not presubscribed to Williams Network (i.e., Casual Calls). Any such calls that are not attributed to a Williams Customer are deemed to be unclaimed calls. Williams, therefore, reserves the right to directly charge an End User as a Customer for any such unclaimed calls pursuant to the rates set forth in Section 4.3. Williams may use an unaffiliated entity for billing and collection for unclaimed calls.

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**SECTION 3 - DESCRIPTION OF SERVICE (CONT'D)****3.2 Wholesale Service Offerings**

Applicable rate schedules for the following services are provided in Section 4. Dedicated Access Lines may be required to connect Customer to Company's POP. Such dedicated Access Lines, when required, shall be the sole responsibility of Customer. Notwithstanding such responsibility, Company shall, upon Customer's request, order such dedicated Access Lines on behalf of Customer or its End Users, and shall invoice Customer for all related recurring and non-recurring charges. Intrastate rate plans are tied to specific interstate and international rate plans.

**3.2.1** Williams "Nationwide Origination Switched Service" offers Reseller Customers interexchange Services via Feature Group D Access Lines for seamless origination, transmission and termination of communications. Feature Group D access is provided by the Local Exchange Carrier and allows the Customer to use its own Carrier Identification Code to route traffic to the Company's POP while the Customer's End Users will recognize the Customer as the End User's presubscribed interexchange carrier. The rates for Nationwide Origination Switched Service consist of a bundled rate for origination, transport and termination and are set forth in Section 4.2.1.

**3.2.2** Williams "Nationwide Origination Dedicated Service" offers Reseller Customers interexchange Services via dedicated Access Lines for seamless origination, transmission and termination of communications. Dedicated access to the Company's POP may be provided by the Customer, Company or a Local Access Provider. The rates for Nationwide Origination Dedicated Service consist of a bundled rate for transport and termination and are set forth in Section 4.2.2.

**3.2.3** Williams "LATA Termination Service" offers Reseller Customers interexchange Services via dedicated Access Lines with least cost routing capabilities. With this Service, the Reseller Customer can choose Williams to transport and terminate certain traffic to specific LATAs. The rates for LATA Termination Service are dependant upon the LATA in which the Customer's traffic terminates. The rates for LATA Termination Service are set forth in Section 4.2.3.

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SECTION 3 - DESCRIPTION OF SERVICE (CONT'D)

## 3.2 Wholesale Service Offerings (cont'd)

3.2.4 Williams "LATA/LEC Termination Service" offers Reseller Customers interexchange Services via dedicated Access Lines with least cost routing capabilities. With this Service, the Reseller Customer can choose Williams to transport and terminate certain traffic to specific LECs in specific LATAs. The rates for LATA/LEC Termination Service are dependant upon the LATA and the LEC to which the Customer's traffic terminates. The rates for LATA/LEC Termination Service are set forth in Section 4.2.4.

3.2.5 Williams "Toll Free Service" offers Reseller Customers a toll free number (e.g., 800, 888 or 877) and allows callers to reach the subscriber without toll charges. The subscriber pays for all incoming calls made on its assigned toll free number. Toll Free Service consists of a basic service (assignment of a toll free telephone number and a toll free calling area selected by the Customer) and additional features that Customers can select.

3.2.5.A Switched Toll Free Service is an inbound long distance service. This service terminates calls over the local telephone lines of Customer or its End Users, and calls are toll-free to the calling party. The rates for Switched Toll Free Service are set forth in Section 4.2.5.

3.2.5.B Dedicated Toll Free Service is an inbound long distance service. This service terminates calls over dedicated Access Lines from Company's POP to the service location(s) of Customer or its End Users, and calls are toll-free to the calling party. The rates for Dedicated Toll Free Service are set forth in Section 4.2.6.

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SECTION 1 - DESCRIPTION OF SERVICE (CONT'D)

## 3.2 Wholesale Service Offerings (Cont'd)

- 3.2.6 "Directory Assistance Service" offers Reseller Customers the ability to provide their End Users with phone numbers, addresses and NPA/Country codes and automatic call completion. A per-call surcharge is assessed against the Customer for each call made by the Customer's presubscribed End-Users. This surcharge applies whether or not the Directory Assistance operator furnishes the requested telephone number(s), e.g., the requested number is unlisted, non-published or no record can be found. Requests for information other than telephone numbers will be charged for as requests for telephone numbers.

Directory Assistance Service gives the option of completing a call to the called station telephone number received from the Directory Assistance operator without hanging up and originating a new call. A usage rate for call completion applies in addition to the Directory Assistance per-call surcharge if the caller accepts the offer. The call completion charge will not apply if the call cannot be completed. The per-call surcharge and usage rates for Directory Assistance Service are set forth in Section 4.2.10.

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SECTION 3 - DESCRIPTION OF SERVICE (CONT'D)

## 3.2 Wholesale Service Offerings (Cont'd)

3.2.7 Williams "Calling Card Service" offers Reseller Customers the ability to allow its End Users to originate long distance calls from locations other than their primary service location through the use of a toll free network access number and an Authorization Code. Williams Calling Card Service provides an access number and authorization code issued by Williams which the Reseller Customer will incorporate into its End User's calling card. Williams Calling Card Service allows Customer's End Users who are away from their home or business, or who wish to have Calling Card Service only, access to Williams Network to place calls from any location in the State. Access to Williams Network for Calling Card Service is gained by dialing an access number. End Users may bill calls to their Calling Card account when calling from any location within the State. Applicable usage rates for Operator Service will apply when Calling Card Service is used. The rates for Calling Card Service are set forth in Section 4.2.7.

3.2.8 "Prepaid Calling Card Service" offers Reseller Customers the ability to allow its End Users to originate long distance calls on a prepaid basis via a toll free network access number and an Authorization Code. Customer shall be given notice two (2) minutes before the available account balance is depleted, based upon the applicable rates for the call in progress. When the available balance is depleted, the call shall be terminated. A prepaid calling account shall expire on the date specified on the card, unless replenished by a charge to a commercial credit card as authorized by the Customer beforehand. The End-User will use the access number on the Prepaid Calling Card to access Williams Network. The applicable usage rate will be deducted on a real-time basis as the card is used until the full amount of the card is exhausted. Applicable usage rates for Operator Service will apply when Prepaid Calling Card Service is used. The rates for Prepaid Calling Card Service are set forth in Section 4.2.8.

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SECTION 3 - DESCRIPTION OF SERVICE (CONT'D)

## 3.2 Wholesale Service Offerings (Cont'd)

3.2.9 Williams "Operator Service" offers Reseller Customers the ability to provide its End Users with call completion functions performed either by a live operator or by automated systems. Such functions include collect calling, third party billing and calling card services. Access to Williams Operator Services can be obtained by the following dialing methods: (A) "00" from a telephone subscribed to Williams Network in a Feature Group D (FGD) area; (B) "0+ (NPA-NXX-XXXX)" from a telephone subscribed to Williams Network in a FGD area; (C) "101XXXX+ 0" from any non-pay telephone in a FGD area; and (D) "1-800-XXXX" from any location. The rates for Operator Service are set forth in Section 4.2.9.

Williams' Reseller Customers of Operator Service shall be responsible for compliance with all signage, labeling and tariffing requirements of the Commission regarding alternative operator services ("AOS") and consumer protection policies.

## 3.3 End User Services

## 3.3.1 Casual Calling

Casual Calling Service permits End User Customers to obtain Service without the necessity of presubscription of their local lines. Customers utilizing Casual Calling Service shall access Service by dialing an access code in the form of 101XXXX, where "X" is the 4 digit Carrier Identification Code (CIC) assigned to the Company. When dialing, the access code shall be followed by the normal sequence of 1+ Area Code + Number. Calls placed using Casual Calling Service are billed to Customer in whole minute increments rounded up to the next full minute through the serving Local Exchange Carrier's (LEC) monthly bill. All End Users of Casual Calling are Customers of the Company, even when they are End Users of a Reseller for other Services. The rates for Casual Calling Service are set forth in Section 4.3.

Casual Calling Service cannot be obtained through aggregator locations such as payphones. Williams will block all 101XXXX calls to its Carrier Access Code made from such locations.

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SECTION 3 - DESCRIPTION OF SERVICE (CONT'D)

## 3.4 Terms and Conditions

3.4.1 Services will be provided if the Customer agrees to each of the following points that are applicable:

- (A) Secure and maintain all necessary state certifications, tariffs, and comply with the rules and regulations as set forth by the Commission.
- (B) Provide all billing and collection services under its own brand name.
- (C) Provide customer service under its own brand name.
- (D) Secure and maintain a signed copy of the "letter of agency" from the End-User which defines the relationship between the End-User and the Reseller.
- (E) Assume all responsibility for PIC disputes and complaints with the Local Exchange Carrier.
- (F) Use its own product names which do not identify Williams products.
- (G) Use the Williams name only in post-sale communications which inform its subscribers that Williams is the underlying carrier and that the Williams name may appear on copies of their local phone bills using specific language authorized by Williams.
- (H) The End-User is the customer of the Reseller, not Williams.
- (I) Assume all risk for bad debt.
- (J) Accept responsibility for all charges, costs, etc. incurred by Williams with respect to Ancillary Services.
- (K) Accept responsibility for all interaction and interface with its own subscribers or customers.

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SECTION 3 - DESCRIPTION OF SERVICE (CONT'D)

## 3.4 Terms and Conditions (cont'd)

- 3.4.2 The minimum Term for Service provided On-Net is one month (30 days), except where special construction is requested in which case the minimum Term may be longer. The minimum Term for Service provided Off-Net shall be the same as that minimum service term imposed on Williams for leasing the Off-Net facilities.
- 3.4.2 Service is available twenty-four (24) hours a day, seven (7) days a week. The beginning time for outbound calls is determined by the time at the point of origination. The beginning time for inbound calls (Toll Free Service) is determined by the time at the point of termination.
- 3.4.3 A per call payphone surcharge, as authorized by FCC Docket No. 96-128, is applicable to calls that originate from any payphone within the state used to access Williams Network. This surcharge, which is in addition to standard tariffed usage charges and ancillary charges associated with Williams Service, is applicable to toll free access and dial around telephone calls from payphones.
- 3.4.4 Usage sensitive charges are based on the actual usage of Company's facilities (On-Net and Off-Net). Such charges are measured in Conversation Minutes counted in six (6) second increments. Unless otherwise specified in this Tariff, the minimum call duration for billing purposes is six (6) seconds and usage is rounded to the next higher six (6) second increment after the initial period.
- 3.4.5 Chargeable time for Customer shall begin when the called party answers, as determined by hardware answer supervision, provided that such capabilities are available from the local telephone company. If hardware answer supervision is not available, then Carrier will employ industry accepted standards for the timing of calls. Chargeable time for a call shall end upon disconnection by either party.

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**SECTION 4 – RATES AND CHARGES****4.1 General**

- 4.1.1** Conversation Minutes, reflecting usage sensitive charges resulting from use of Service, are billed in increments of six (6) seconds with an initial period (minimum billing period) of six (6) seconds, unless otherwise specified. Following the initial period, all charges are rounded to the next higher six (6) second increment for billing purposes, unless otherwise specified.
- 4.1.2** Other than the charges indicated for each Service, there are no installation or other nonrecurring charges or monthly recurring charges for Service, except for the installation charges and/or monthly recurring charges associated with the use of dedicated Access Lines ordered by Carrier on behalf of Customer or its End Users.

**4.2 Wholesale Service Rates****4.2.1 Nationwide Origination Switched Service**

Usage Sensitive Charges (Rate Per Minute): \$0.3152

Non-Usage Sensitive Charges: N/A

**4.2.2 Nationwide Origination Dedicated Service**

Usage Sensitive Charges (Rate Per Minute): \$0.2534

Non-Usage Sensitive Charges: N/A

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SECTION 4 - RATES AND CHARGES (CONT'D)

4.2 Wholesale Service Rates (cont'd)

4.2.3 LATA Termination Service

Usage Sensitive Charges (Rate Per Minute):

LATA 640: \$0.2534

Non-Usage Sensitive Charges: N/A

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## SECTION 4 - RATES AND CHARGES (CONT'D)

## 4.2 Wholesale Service Rates (cont'd)

## 4.2.4 LATA/LEC Termination Service

Usage Sensitive Charges (Rate Per Minute):

Terminating LATA	Terminating LEC	RATE
640	BOC	\$0.2534
	other	\$0.2534

Non-Usage Sensitive Charges: N/A

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**SECTION 4 – RATES AND CHARGES (CONT'D)**

**4.2 Wholesale Service Rates (cont'd)**

**4.2.5 Switched Toll Free Service**

Usage Sensitive Charges (Rate Per Minute): \$0.3208

Non-Usage Sensitive Charges: N/A

**4.2.6 Dedicated Toll Free Service**

Usage Sensitive Charges (Rate Per Minute): \$0.2596

Non-Usage Sensitive Charges: N/A

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SECTION 4 - RATES AND CHARGES (CONT'D)

4.2 Wholesale Service Rates (cont'd)

4.2.7 Calling Card Service

Conversation Minutes for Calling Card Service are billed in increments of six (6) seconds with an initial period (minimum billing period) of eighteen (18) seconds.

Usage Sensitive Charges (Rate Per Minute): \$0.3152

Non-Usage Sensitive Charges: \$0.75

4.2.8 Prepaid Calling Card Service

Conversation Minutes for Prepaid Calling Card Service are billed in increments of six (6) seconds with an initial period (minimum billing period) of eighteen (18) seconds.

Usage Sensitive Charges (Rate Per Minute): \$0.3152

Non-Usage Sensitive Charges: \$0.75

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SECTION 4 - RATES AND CHARGES (CONT'D)

## 4.2 Wholesale Service Rates (cont'd)

## 4.2.9 Operator Service

Conversation Minutes for Operator Service are billed in increments of six (6) seconds with an initial period (minimum billing period) of eighteen (18) seconds.

Usage Sensitive Charges (Rate Per Minute): \$0.3152

Non-Usage Sensitive Charges:

Charge per call:

Platform Charge:	\$0.75
Non-Complete Call Charge:	\$0.10
Person-to-person:	\$2.00
Station-to-station:	\$1.00

## 4.2.10 Directory Assistance Service

Conversation Minutes for Directory Assistance Call Completion Service are billed in increments of six (6) seconds with an initial period (minimum billing period) of eighteen (18) seconds.

Usage Sensitive Charges (Rate Per Minute) for call completion: \$0.3152

Non-Usage Sensitive Charges:

Charge per call:	\$0.50 without call completion
	\$1.00 with call completion

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SECTION 4 - RATES AND CHARGES (CONT'D)

4.3 End User Casual Calling Service Rates

Conversation Minutes for Casual Calling Service are billed in increments of six (6) seconds with an initial period (minimum billing period) of eighteen (18) seconds.

Usage Sensitive Charges (Rate Per Minute): \$0.30

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May 19, 1999

**VIA FEDERAL EXPRESS**  
**AIR BILL NO. 81059795\*488**

**RECEIVED**

MAY 20 1999

**SOUTH DAKOTA PUBLIC  
UTILITIES COMMISSION**

Bill Bullard  
Executive Director  
South Dakota Public Utilities Commission  
State Capitol Building  
500 East Capitol Avenue  
Pierre, South Dakota 57501-5070

**Re: In the Matter of the Application of Williams Communications, Inc.  
For a Certificate of Authority to Provide Interexchange Services  
in the State of South Dakota - TC 99-010**

Dear Mr. Bullard:

Enclosed please find a request for confidential treatment of information to protect the confidentiality of certain documents (the "Confidential Information") requested by the Staff of the South Dakota Public Utilities Commission ("Commission") in connection with the processing of the above-captioned Application of Williams Communications, Inc. ("Williams"). Also enclosed, in a sealed envelope marked "Confidential Treatment Requested," is a single copy of the Confidential Information for which Williams seeks confidential treatment.

Please acknowledge receipt of this filing by date-stamping the extra copy of this transmittal letter and returning it to me in the enclosed, self-addressed FedEx Pak.

If you have any questions, please do not hesitate to contact me.

Sincerely,

William H. Gault

Enclosures

xc: Keith Senger (without enclosures)  
Mickey Moon (without enclosures)  
Beth Lewis, Esq.

**BEFORE THE  
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION**

In the Matter of the Application of	)	
Williams Communications, Inc.	)	
For a Certificate of Authority to	)	TC 99-010
Provide Interexchange Services	)	
In the State of South Dakota	)	

**REQUEST FOR CONFIDENTIAL TREATMENT OF INFORMATION**

1. Williams Communications, Inc. ("Williams"), is in possession of information (the "Confidential Information") requested for filing by the Staff of the South Dakota Public Utilities Commission (the "Commission") in connection with this docket.
  
2. Section 20:10:01:39 of the Commission's Rules provides that all information in the possession of the Commission is available for "examination by the public" except, among other exclusions, "[i]nformation which is determined confidential by the commission." Section 20:10:01:41 sets forth the information that must be submitted in a request to the Commission for confidential treatment of information.
  
3. The Confidential Information is not presently available to the public; and, if it is accessed without an order granting confidential treatment, it is possible that unauthorized individuals could obtain access to it and use it in a manner that could result in material damage to Williams' financial and competitive position and impair the public interest.
  
4. Accordingly, Williams requests confidential treatment of the Confidential Information and provides the following information required by Section 20:10:01:41:

- A. The Confidential Information consists of unaudited financial information for Williams for the year ending 1998, including a financial statement, balance sheet, and cash flow statement.
- B. Williams requests confidential treatment of the Confidential Information for a period of time necessary for the Commission to render a decision on Williams' Application for a Certificate of Authority. At the end of this period, Williams requests that the Confidential Information, and all copies or portions thereof, in any form, including, without limitation, electronic form, be either returned to Williams or destroyed. In the alternative, if the Commission must retain the Confidential Information for a period of time after final resolution of the Application for a Certificate of Authority, Williams requests that the information receive confidential treatment until it is either returned to Williams or destroyed in accordance with the foregoing sentence.
- C. The contact person in connection with this Request is:
- William H. Gault  
Attorney  
The Williams Companies, Inc.  
4100 One Williams Center  
Tulsa, Oklahoma 74172  
Tel: (918) 573-4865  
Fax: (918) 573-3005  
E-mail: [wgault@lgl.twc.com](mailto:wgault@lgl.twc.com)
- D. The authority pursuant to which this Request is filed is SDCL § 49-1-11 and ARSD §§ 20:10:01:39 – 44.



E. The factual basis that qualifies the Confidential Information for confidential treatment under the authority cited in Paragraph 4.D is set forth in Paragraph 3.

5. A single copy of the Confidential Information is submitted to the Executive Director of the Commission in a sealed envelope. The envelope and each page of Confidential Information contained therein is conspicuously marked with the words "Confidential Treatment Requested."

6. Williams submits the Confidential Information subject to the following additional conditions:

A. That the Confidential Information be kept in locked files and that a notice substantially in the form of Exhibit A shall be posted at the locked facilities in which the Confidential Information is located. ARSD § 20:10:01:40.

B. That the Confidential Information shall be treated as confidential and shall not be released until after a confidentiality determination is made. ARSD § 20:10:01:42.

C. That if a request for access to the Confidential Information is received, Williams requests the Commission issue a protective order, which shall

**START**

**OF**

**RETAKE**

3. The factual basis that qualifies the Confidential Information for confidential treatment under the authority cited in Paragraph 4.D is set forth in Paragraph 3.

5. A single copy of the Confidential Information is submitted to the Executive Director of the Commission in a sealed envelope. The envelope and each page of Confidential Information contained therein is conspicuously marked with the words "Confidential Treatment Requested."

6. Williams submits the Confidential Information subject to the following additional conditions:

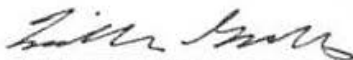
- A. That the Confidential Information be kept in locked files and that a notice substantially in the form of Exhibit A shall be posted at the locked facilities in which the Confidential Information is located. ARSD § 20:10:01:40.
- B. That the Confidential Information shall be treated as confidential and shall not be released until after a confidentiality determination is made. ARSD § 20:10:01:42.
- C. That if a request for access to the Confidential Information is received, Williams requests the Commission issue a protective order, which shall

contain procedures for handling the information and for controlling access to it for hearing purposes. ARSD § 20:10:01:43(3).

- D. That if the Commission determines that the Confidential Information is not entitled to a protective order, Williams shall have a period of ten days or longer to seek review by a court. ARSD § 20:10:01:43(4).
- E. That Commission orders that rely on the Confidential Information shall be drafted so as not to disclose such information or as otherwise provided in ARSD § 20:10:01:43(5).

WHEREFORE, Williams requests that the Confidential Information receive confidential treatment and that the Commission issue a protective order upon a request for access to the same.

Respectfully submitted,



William H. Gault, Attorney  
The Williams Companies, Inc.  
4100 One Williams Center  
Tulsa, Oklahoma 74172  
Telephone: (918) 573-4865  
Facsimile: (918) 573-0669  
E-mail: wgault@lgl.twc.com

**EXHIBIT A**

**NOTICE**

The information in this file is designated confidential under chapter \_\_\_\_.



**END**

**OF**

**RETAKE**

CONFIDENTIAL 1



COMMUNICATIONS  
P.O. Box 22067  
Tulsa, Oklahoma 74121

June 2, 1999

Mr. Keith Senger  
South Dakota Public Utilities Commission  
State Capitol Building  
500 East Capitol Avenue  
Pierre, South Dakota 57501-5070

**RECEIVED**

JUN 03 1999

SOUTH DAKOTA PUBLIC  
UTILITIES COMMISSION

VIA FEDERAL EXPRESS OVERNIGHT

RE: TC 99-010

Dear Mr. Senger:

Williams encloses herewith a \$25,000. performance bond payable to the South Dakota Public Utilities Commission and South Dakota Consumers in accordance with the Commission's Interexchange Carrier and Classification Rule 20:10:24:04.05. You may recall our telephone conversation last week wherein you requested receipt of this bond in advance of the hearing on Williams' certificate of authority on Tuesday, June 8, 1999. May I point out that Williams name appears to be spelled incorrectly throughout the June 8, 1999 docket? It should be Williams Communications, Inc., not Williams Communication, Inc.

If you should have any questions with regard to this bond, please do not hesitate to contact me at (918) 573-2291.

Sincerely,

Anne de la Chapa  
Regulatory Affairs Analyst

cc: Beth Lewis, Esq.  
Camron Hoseck, Esq. (via Federal Express overnight)

Bond 5998992

LICENSE OR PERMIT BOND

KNOW ALL BY THESE PRESENTS, That we, Williams Communications, Inc.  
as Principal, of One Williams Center, RC3-1  
(Street and Number)  
Tulsa, OK 74172 and the SAFECO INSURANCE COMPANY OF  
(City) (State)  
AMERICA, a Washington corporation, as Surety, are held and  
bound unto South Dakota Public Utilities Commission and South Dakota Consumers  
as Obligor, in the sum of  
Twenty Five Thousand and 00/100 Dollars (\$ 25,000.00)  
for which sum, well and truly to be paid, we bind ourselves, our heirs, executors, administrators, successors and assigns,  
jointly and severally, firmly by these presents.

Sealed with our seals, and dated this 1st day of June, 1999.

THE CONDITION OF THIS OBLIGATION IS SUCH, That WHEREAS, the Principal has been or is about to be granted  
a license or permit to do business as requirement for certificate of authority to operate as a telecommunications company in  
the State of South Dakota  
by the Obligor.

NOW, THEREFORE, if the Principal well and truly comply with applicable local ordinances, and conduct business in  
conformity therewith, then this obligation to be void; otherwise to remain in full force and effect.

PROVIDED, HOWEVER:

1. This bond shall continue in force:  
☐ Until \_\_\_\_\_, or until the date of expiration of any Continuation Certificate executed by  
the Surety  
OR  
☒ Until canceled as herein provided.
2. This bond may be canceled by the Surety by the sending of notice in writing to the Obligor, stating when, not less than  
thirty days thereafter, liability hereunder shall terminate as to subsequent acts or omissions of the Principal.

*Original Bond is in  
Business bottom  
desk  
Hamer*



Williams Communications, Inc.

Principal

Sandy Moore  
Atty-in-Fact

SAFECO INSURANCE COMPANY OF AMERICA

By Lisa A. Ward  
Lisa A. Ward, Attorney-in-Fact



POWER  
OF ATTORNEY

SAFECO INSURANCE COMPANY OF AMERICA  
GENERAL INSURANCE COMPANY OF AMERICA  
HOME OFFICE: SAFECO PLAZA  
SEATTLE, WASHINGTON 98105

No. 5713

KNOW ALL BY THESE PRESENTS:

That SAFECO INSURANCE COMPANY OF AMERICA and GENERAL INSURANCE COMPANY OF AMERICA, each a Washington corporation, does each hereby appoint  
DONALD R. GIBSON; SANDRA PARKER; LISA A. WARD; WILLIAM L. POWER; MELISSA HADDICK; KIM STRAHM;  
Houston, Texas

its true and lawful attorney(s)-in-fact, with full authority to execute on its behalf fidelity and surety bonds or undertakings and other documents of a similar character issued in the course of its business, and to bind the respective company thereby.

IN WITNESS WHEREOF, SAFECO INSURANCE COMPANY OF AMERICA and GENERAL INSURANCE COMPANY OF AMERICA have each executed and attested these presents

this 30 day of April, 19 98.

CERTIFICATE

Extract from the By-Laws of SAFECO INSURANCE COMPANY OF AMERICA  
and of GENERAL INSURANCE COMPANY OF AMERICA:

"Article V, Section 13. - FIDELITY AND SURETY BONDS . . . the President, any Vice President, the Secretary, and any Assistant Vice President appointed for that purpose by the officer in charge of surety operations, shall each have authority to appoint individuals as attorneys-in-fact or under other appropriate titles with authority to execute on behalf of the company fidelity and surety bonds and other documents of similar character issued by the company in the course of its business . . . On any instrument making or evidencing such appointment, the signatures may be affixed by facsimile. On any instrument conferring such authority or on any bond or undertaking of the company, the seal, or a facsimile thereof, may be impressed or affixed or in any other manner reproduced; provided, however, that the seal shall not be necessary to the validity of any such instrument or undertaking."

Extract from a Resolution of the Board of Directors of SAFECO INSURANCE COMPANY OF AMERICA  
and of GENERAL INSURANCE COMPANY OF AMERICA adopted July 28, 1970:

"On any certificate executed by the Secretary or an assistant secretary of the Company setting out,

(a) The provisions of Article V, Section 13 of the By-Laws, and

(b) A copy of the power-of-attorney appointment, executed pursuant thereto, and

(c) Certifying that said power-of-attorney appointment is in full force and effect,

the signature of the certifying officer may be by facsimile, and the seal of the Company may be a facsimile thereof."

I, R. A. Pierson, Secretary of SAFECO INSURANCE COMPANY OF AMERICA and of GENERAL INSURANCE COMPANY OF AMERICA, do hereby certify that the foregoing extracts of the By-Laws and of a Resolution of the Board of Directors of these corporations, and of a Power of Attorney issued pursuant thereto, are true and correct, and that both the By-Laws, the Resolution and the Power of Attorney are still in full force and effect.

IN WITNESS WHEREOF, I have hereto set my hand and affixed the facsimile seal of said corporation

this 1st day of June, 19 99.

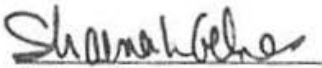


### LIMITED POWER OF ATTORNEY


KNOW ALL MEN BY THESE PRESENTS, that Williams Communications, Inc. a Delaware corporation, having its principal place of business at One Williams Center, Tulsa, Oklahoma, hereinafter referred to as the "Company", does hereby make, constitute and appoint DAVID ENSMINGER, LENORE DUBALDO and SANDY MOORE, with the full authority hereinafter provided, the true and lawful "Attorneys-in-Fact" of the Company, authorized and empowered on behalf of the Company and in the Company's name, and for the sole and exclusive benefit of the Company and not on behalf of any other person, corporation or association, in whole or in part, to commit the Company under all surety bonds which are used in the ordinary course of business by the Company, giving and granting, individually, unto said Attorneys-in-Fact full and complete power and authority to bind the Company as fully and to the same extent as if signed by the duly authorized officers of the Company; and all the facts of said Attorneys-in-Fact, pursuant to the authority hereby given, are hereby ratified and confirmed, with the qualification that said authority to act shall terminate on July 31, 1999, and shall be expressly limited for the purpose as herein stated.

IN WITNESS WHEREOF, Williams Communications, Inc. has caused its name to be subscribed and its corporate seal to be affixed this 1 day of June, 1999

ATTEST:

  
Shawna Gehres  
Corporate Secretary

WILLIAMS COMMUNICATIONS, INC.

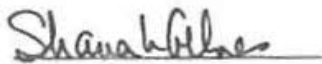
By   
Howard E. Janzen  
President & CEO

### CERTIFICATE

I, the undersigned, Corporate Secretary of Williams Communications, Inc., do hereby certify that the original Power of Attorney of which the foregoing is a full, true and correct copy is in full force and effect on the date of this Certificate, and the President who executed the said Limited Power of Attorney was and is a duly elected officer of Williams Communications, Inc.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the Corporate Seal of Williams Communications, Inc. to these presents this 1 day of June, 1999.

[SEAL]

  
Shawna Gehres  
Corporate Secretary

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF SOUTH DAKOTA**

IN THE MATTER OF THE APPLICATION OF )  
WILLIAMS COMMUNICATIONS, INC. FOR A )  
CERTIFICATE OF AUTHORITY TO PROVIDE )  
TELECOMMUNICATIONS SERVICES IN )  
SOUTH DAKOTA )

ORDER GRANTING  
CERTIFICATE OF  
AUTHORITY

TC99-010

On January 26, 1999, the Public Utilities Commission (Commission), in accordance with SDCL 49-31-3 and ARSD 20:10:24:02, received an application for a certificate of authority from Williams Communications, Inc. (Williams).

Williams proposes to offer interexchange switched services and interexchange non-switched, private line services within South Dakota. A proposed tariff was filed by Williams. The Commission has classified long distance service as fully competitive.

On January 28, 1999, the Commission electronically transmitted notice of the filing and the intervention deadline of February 12, 1999, to interested individuals and entities. No petitions to intervene or comments were filed and at its June 8, 1999, meeting, the Commission considered Williams' request for a certificate of authority. Commission Staff recommended granting a certificate of authority as Williams had furnished the Commission with a surety bond.

The Commission finds that it has jurisdiction over this matter pursuant to Chapter 49-31, specifically 49-31-3 and ARSD 20:10:24:02 and 20:10:24:03. The Commission finds that Williams has met the legal requirements established for the granting of a certificate of authority. Williams has, in accordance with SDCL 49-31-3, demonstrated sufficient technical, financial and managerial capabilities to offer telecommunications services in South Dakota. The Commission approves Williams' application for a certificate of authority. As the Commission's final decision in this matter, it is therefore

ORDERED, that Williams' application for a certificate of authority is hereby granted. It is

FURTHER ORDERED, that Williams shall file informational copies of tariff changes with the Commission as the changes occur.

Dated at Pierre, South Dakota, this 22nd day of June, 1999.

<b>CERTIFICATE OF SERVICE</b>
The undersigned hereby certifies that this document has been served today upon all parties of record in this docket, as listed on the docket service list, by first class mail, in properly addressed envelopes, with charges prepaid thereon.
By: <u><i>Delvin Kales</i></u>
Date: <u>6/22/99</u>
(OFFICIAL SEAL)

BY ORDER OF THE COMMISSION:

*Pam Nelson*  
PAM NELSON, Commissioner

*Laska Schoenfelder*  
LASKA SCHOENFELDER, Commissioner

# **SOUTH DAKOTA PUBLIC UTILITIES COMMISSION**

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## **AMENDED CERTIFICATE OF AUTHORITY**

To Conduct Business As A Telecommunications Company  
Within The State Of South Dakota

Authority was Granted June 8, 1999  
Docket No. TC99-010

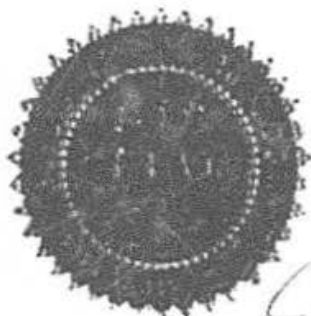
*This is to certify that*

**WILLIAMS COMMUNICATIONS, INC.**

*is authorized to provide telecommunications services in South Dakota.*

This certificate is issued in accordance with SDCL 49-31-3 and ARSD 20:10 24.02, and is subject to all of the conditions and limitations contained in the rules and statutes governing its conduct of offering telecommunications services.

Dated at Pierre, South Dakota, this 22nd day of June, 1999.



**SOUTH DAKOTA PUBLIC  
UTILITIES COMMISSION:**

  
PAM NELSON, Commissioner

  
LASKA SCHOENFELDER, Commissioner