


Big Bucks for Bad Actors

 **Williams Companies is under increased scrutiny for its accounting practices and allegedly engaging in “round trip” energy trades. Instead of cracking down on corporate abuse, will Congress reward Williams with new tax breaks and subsidies in its final energy legislation?**

Corporate Irresponsibility

• **Cooking the Books:** In August 2002, the Securities and Exchange Commission asked Williams for information about how it accounts for credit and “prudence” reserves associated with its trading business. These reserves—or portions of profit set aside essentially as a safety cushion—are permissible under generally accepted accounting practices, but critics say companies can abuse the practice by arbitrarily setting up reserves that can be used later to massage uneven earnings. Reserves set aside in a good quarter, for example, could be booked improperly as earnings in a bad quarter. Similar questions have been raised about reserves at Enron Corp.¹

• **Loaning Millions to Executives:** Former Williams Chairman and CEO Keith Bailey borrowed more than \$24 million under the company's stock option loan program. Bailey owns 1.9 million shares of Williams stock and still owes the company more than \$23 million. Bailey is one of five executives participating in the company's loan program, which has doled out low-interest loans totaling more than \$34 million.² The Sarbanes-Oxley corporate reform law signed by the President in July would bar companies from making personal loans to its top officers.

• **Sham Energy Trades:** Federal agencies continue to investigate Williams' natural gas trading

activities in West Coast markets in connection with a wide-ranging federal probe into “round-trip” trades, in which two companies swap the same amount of energy for the same price, artificially inflating volumes and revenues. Williams has denied engaging in round-trip energy trading or other activities to manipulate the energy market.³

Energy Policy: Throwing Good Money After Bad Actors

Williams stands to benefit from several of the coal provisions in the House and Senate energy bills. Such provisions include:

Giveaways to Big Oil and Gas. Williams is one of the largest natural gas producers in the United States and is involved in the gathering, transportation, refining and marketing of crude oil and natural gas. As such, Williams could benefit from the enormous tax breaks and subsidies for the oil and gas industry in the House and Senate energy bills. The House energy bill includes more than \$23.7 billion in tax breaks and subsidies for the oil and gas industry; the Senate energy bill contains \$5.6 billion in tax breaks.

Subsidizing Dirty Drilling. Williams specializes in extracting natural gas from coalbed methane formations and has drilling operations in the San Juan (Northwest New Mexico and Southwest Colorado), Green River (Wyoming), Powder River

(Wyoming), Wind River (Wyoming), Piceance (Colorado) and Raton (Colorado) basins. The House and Senate bills extend and modify the tax credit for non-conventional fuels, which in recent years has gone largely to coalbed methane development. Coalbed methane operations discharge huge amounts of water onto the ground surface, depleting aquifers and causing soil erosion, stream sedimentation, vegetation loss and water pollution. The House version of this tax credit could cost taxpayers \$2.7 billion; the Senate version could cost \$1.9 billion.

Tax Breaks for Ethanol. The Senate energy bill includes \$4.7 billion in tax incentives for ethanol, seeking to triple the amount of ethanol blended in gasoline. Williams is the second-largest producer and marketer of ethanol in the United States.

 **Williams' Political Influence**

Williams secured an oil- and gas-friendly energy policy in the House and Senate energy bills by helping to elect industry-friendly Members of Congress and buying access with campaign contributions and lobbyists.

Williams' Lobbying Expenses and Contributions to Congressional and Presidential Candidates

	Total
PAC \$ (2000-2002 cycles)	\$297,500
PAC \$ to Energy Bill Conferees (2000-2002 cycles)	\$52,500
Soft \$ (2000-2002 cycles)	\$371,359
Lobbying Expenses 2001	\$1,818,368

Data collected from www.opensecrets.org and Senate Office of Public Records at <http://sopr.senate.gov/>.

Access to the Bush Administration

- Former Chairman and CEO Keith Bailey served on President Bush's transition team on education.

 **Company Background**

Williams is engaged the transportation and storage of natural gas and petroleum; exploration, production and marketing of oil and gas; natural gas gathering, treating and processing activities; natural gas liquids transportation; production and marketing of ethanol and bio-products; and other activities. Williams also is engaged in energy commodity trading and marketing.

Headquarters: Tulsa, Oklahoma
Revenues (1/1/02-6/30/02): \$4.64 billion⁴
CEO Salary in 2001: \$4.2 million⁵
CFO Salary in 2001: \$2.6 million
Salary of CEO, Williams Energy Marketing & Trading Co.: \$4.7 million plus \$850,000 in exercised options

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¹ Chip Cummins. "SEC Asks Williams Cos. for Credit-Reserves Data." *Wall Street Journal*. August 16, 2002.
² Russell Ray. "Williams loaned execs millions." *Tulsa World*. July 26, 2002.
³ "Williams Cos. Energy Trading May Be Probed." *Los Angeles Times*. June 3, 2002.
⁴ Yahoo! Market Guide, <http://biz.yahoo.com/p/w/wmb.html>.
⁵ All salary information obtained from <http://biz.yahoo.com/p/w/wmb.html>.