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October 9, 2001

BY HAND

Office of the Secretary
Federal Trade Commission
600 Pennsylvania Avenue, N.W.
Washington, DC 20580

Re: Comments of The Williams Companies, Inc. on the Proposed Consent Decree Issued in *In the Matter of Chevron Corporation and Texaco Inc.* (Docket No. C-4023)

Dear Sir/Madam:

This letter sets forth the comments of The Williams Companies, Inc. ("Williams") to the above-referenced Consent Decree. Williams' comments relate to the Decision and Order and Order to Hold Separate and Maintain Assets (collectively referred to as the "Orders").

I. BACKGROUND

Williams owns a 50% interest in Discovery Producer Services LLC ("Discovery LLC"), the owner of the Discovery Pipeline System ("Discovery System"), a natural gas pipeline in the Gulf of Mexico. The other two owners of Discovery LLC are Texaco Discovery Holdings LLC, an affiliate of Texaco, Inc. ("Texaco"), which has a 33.33% interest and is the operator of the pipeline, and British-Borneo Pipeline LLC, which has a 16.67% interest.

Chevron Corporation ("Chevron") has a 25% equity interest in Dynegy and a contractual obligation to market all of its natural gas and natural gas liquids ("NGLs") through Dynegy.

Chevron, through Dynegy and directly, has a 77% interest in the Venice Gathering System ("VGS") offshore pipeline, which competes with the Discovery System in certain regions of the Gulf of Mexico for the transportation of natural gas.[1] The other owners of the VGS are Enterprise (13%) and Koch (10%).

Texaco has a 60% interest in the Bridgeline intrastate natural gas pipeline system ("Bridgeline"), the primary outlet for natural gas from the Discovery System. In addition, Texaco owns the Texaco Expanded Natural Gas Liquids System ("TENDS"), an onshore NGL pipeline and sole outlet to the Paradis Fractionation Facility ("Paradis"). Paradis and the Larose Processing Facility ("Larose") are owned by the Discovery System; all natural gas from the Discovery System is processed at Larose.

Williams has four comments on the Orders. First, Section V.E. of the Decision and Order should be revised because, as drafted, it does not require the resignation of Texaco as operator of the Discovery System as soon as practicable. Second, Texaco should be required to segregate the Paradis fractionator from its other facilities at the site and ensure that the fractionator can be run independently. Third, ChevronTexaco's (the post-merger firm) ownership interest in Bridgeline, combined with its ownership in VGS will give it an incentive to disadvantage customers using the Discovery System after Texaco sells its interest in the Discovery System. The Texas Eastern interconnect, the only other outlet for natural gas from Discovery, will be insufficient to remedy this problem due to capacity constraints and a non-competitive price to producers. Fourth, ChevronTexaco's ownership of TENDS will allow it to hold Discovery captive to TENDS through contractual arrangements requiring Discovery to use the Paradis fractionator. Section V.C. of the Decision and Order, as presently drafted, will not fully remedy this problem. Each of these comments is discussed in detail below.

II. RESIGNATION OF TEXACO AS OPERATOR OF DISCOVERY

Section V.E. of the Decision and Order provides that Respondents shall give notice of Texaco's resignation as operator of the Discovery System within five (5) business days of the Merger Date and resign immediately after obtaining the approvals required by the Agreement for the Operation and Management of the Larose Gas Processing Plant & Paradis Fractionation Facility dated February 1, 1997 ("Agreement") and any other applicable agreements, but in no event later than one (1) year after the notice is given.

However, the Agreement does not contain procedures for the resignation of Texaco as operator of the Discovery System. The Agreement does allow Texaco to terminate upon one-

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1 Chevron owns 54% of VGS directly and Dynegy owns 23%.

year's notice and allows Discovery LLC to terminate if Texaco no longer has an interest in the company, but neither one of these provisions would require Texaco to resign as soon as one of the other members or a third party can take over as operator. Moreover, the Agreement is only one of three that appoints Texaco as operator of the Discovery System. The other two are (1) the Agreement for the Operation, Management, Maintenance and Expansion of the Discovery Pipeline System by and between Discovery Gas Transmission LLC and Bridgeline Gas Distribution LLC dated as of February 1, 1997 and (2) the Agreement for the Operation, Management, Maintenance and expansion of the Discovery Gathering System by and between the Discovery Producer Services LLC and Bridgeline Gas Distribution LLC dated as of February 1, 1997.[2] These agreements contain the same provisions on termination and do not specifically cover resignation of the operator. Because resignation is not covered by the agreements, Williams is concerned that Texaco could delay resigning for a full year.

Williams suggests the following amendment to the Decision and Order to remedy this concern:

<u>Additional Definitions</u>

"Larose Agreement" means Agreement for the Operation and Management of the Larose Gas Processing Plant & Paradis Fractionation Facility dated as of February 1, 1997.

"Discovery Pipeline Agreement" means the Agreement for the Operation, Management, Maintenance and Expansion of the Discovery Pipeline System by and between Discovery Gas Transmission LLC and Bridgeline Gas Distribution LLC dated as of February 1, 1997.

"Discovery Gathering Agreement" means the Agreement for the Operation, Management, Maintenance and Expansion of the Discovery Gathering System by and between Discovery Producer Services LLC and Bridgeline Gas Distribution LLC dated as of February 1, 1997.

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2 Copies of these agreements have been provided to the Federal Trade Commission.

New Section V.E.

No later than five (5) business days following the Merger Date, Respondents shall give notice that it is terminating the Larose Agreement, pursuant to Section 8.2(b)(iii), the Discovery Pipeline Agreement, pursuant to Section 5.2(b)(iii), and the Discovery Gathering Agreement, pursuant to Section 5.2(b)(iii); such terminations shall be effective on the earlier of (a) one year after notice is given or (b) immediately upon waiver of the one-year notice requirement by the other members of the Discovery System. Upon giving such notice of termination, with respect to any vote related to approval of the new operator (including all terms of the operating agreement), Respondents shall vote Texaco's interest in the Discovery System in accordance with the majority of votes cast by its other owners. For a six (6) month period beginning upon the effective date of such terminations, Respondents, at their sole expense, will provide assistance, personnel, training and further transitional services to the other members of the Discovery System for the expedited transfer of the operations of the Discovery System to another member of the Discovery System or a third party and, upon the request of the other members of the Discovery System, will act as operator of the Discovery System as a subcontractor.

III. SEGREGATION OF PARADIS FRACTIONATOR

The Paradis fractionator was constructed inside the fence of another Texaco facility, which has been and/or is currently used for gas processing, compression and various intrastate natural gas and NGL pipeline services. The two facilities are so intertwined that it will be difficult to operate them as separate facilities. Accordingly, the Federal Trade Commission ("FTC") should require Texaco, at its own expense, to adequately separate the two facilities such that Paradis can be operated autonomously from the Texaco facilities within six (6) months of the Merger Date.

IV. BRIDGELINE

As noted above, Texaco is a majority owner of Bridgeline. Bridgeline is the major on-shore outlet for natural gas from the Discovery System. At present, Texaco has an incentive to offer competitive prices for access to Bridgeline to producers using the Discovery System because this assures sufficient throughput on the Discovery System. However, after Texaco sells its interest in the Discovery System (as required by the Orders) it will no longer have this incentive. Moreover, it will have an incentive to disadvantage the Discovery System because this would be likely to lead to greater throughput on VGS, which competes for natural gas production with the Discovery System and will be majority owned by ChevronTexaco after the merger is consummated. Effectively, Discovery's competitive position has been diminished by the Order's requirement that Texaco divest its interest. The Orders do not obligate Respondents to offer competitive rates on Bridgeline to producers using the Discovery System.

Before the merger, Discovery had two outlets for its gas from the Larose plant, Bridgeline and Texas Eastern. Due to a number of factors, including the problems with Texas Eastern described below, and Bridgeline's willingness to discount because of its affiliation with Discovery, over 90% of the gas from Larose moved on the Bridgeline system.

Texas Eastern by itself is not an adequate outlet for Discovery for the following reasons:

1. Capacity. The current interconnect from Larose to Texas Eastern was designed for a capacity of only 300 MMcfd. However, due to pressure limitations on Texas Eastern's pipeline, Willams believes this point can handle only 200 MMcfd on a consistent basis. This capacity cannot be feasibly expanded because firm shippers on the Texas Eastern System generally choose to receive their gas at receipt points upstream of the Discovery interconnection, leaving inadequate capacity on Texas Eastern at the Discovery interconnection. The highest possible capacity on the leg of Texas Eastern that Discovery is connected to is 925 MMcfd. Average flows from upstream of Discovery are 700 MMcfd. This leaves only 225 MMcfd of unused capacity. Moreover, the 925 MMcfd of total capacity is overstated because Texas Eastern is made up of two legs, the other of which has a capacity of only 900 MMcfd. The total capacity of Texas Eastern downstream of the point where the two legs connect is only 1.4 Bcfd. Therefore, both legs cannot run at full capacity at the same time.

2. Price. The actual price that producers receive on Texas Eastern has been $.09 lower than the Henry Hub price in 2001 and was $.07 lower on average in 2000. The Henry Hub is a point where much of the gas supply available in South Louisiana is priced. Other interstate gas transmission systems, such as the Transcontinental Pipe Line Corp., Columbia Gulf Transmission Co. and Florida Gas Transmission Co., show transfer prices at or above the Henry Hub price for onshore gas deliveries in South Louisiana.

Williams believes that, apart from an amendment to the consent decree, the most certain way for Williams to assure a competitive outlet for natural gas from the Discovery System would be for Williams to build a new pipeline, bypassing Bridgeline, to Transco's station 62 in Terrebonne Parish or to a point that would similarly access this infrastructure. This pipeline would be approximately 35 miles in length, 24-30 inches in diameter and cost about $50 million to construct.

V. TENDS

The issues related to TENDS are similar to those related to Bridgeline. Texaco owns TENDS, which is the only outlet for the Discovery System for its NGLs and to Larose. Texaco and Williams currently have a contract in effect for the use by Discovery of TENDS. (This agreement is defined in the Orders as the Texaco-Williams Contract.[3]) The Orders provide that Respondents shall enter into a contract with the acquirer of Texaco's interest in the Discovery System that is no less favorable to the acquirer than the Texaco-Williams Contract (Decision and Order, § V.C.). Although this provision is designed to maintain the status quo, as a practical matter it will be insufficient to ensure that Discovery has a competitive outlet for its NGLs. The Texaco-Williams Contract was negotiated when Texaco owned an interest in the Discovery System and had an incentive to work with the Discovery System owners. After Texaco sells its interest in the Discovery System, it will no longer have an incentive to cooperate. Texaco will be able to use its control over the only outlet from the Paradis Fractionator to disadvantage Discovery. This problem can be remedied by getting Discovery raw make to other fractionators with access to pipelines that are not controlled by Texaco. Discovery needs access to Texaco's pipelines to bypass the Paradis fractionator.

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3 This agreement was originally between Mapco Energy L.L.C., an affiliate of Williams, and Bridgeline Gas LLC, a wholly owned affiliate of Texaco. Williams subsequently transferred its interest to Williams Energy L.L.C., another one of its affiliates. Although Bridgeline Gas LLC is a party to the agreement, the agreement covers only NGLs transported on TENDS, not natural gas transported on Bridgeline.

We hope this information is helpful to the FTC's consideration of the consent decree. Williams is available to provide you with additional information if you believe it would be of further assistance.

Sincerely,

M. Elaine Johnston D.S.D.

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