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Williams buys stake in Access

By: D. Ray Tuttle The Journal Record December 12, 2012 0

TULSA – Williams Cos. is betting $2.4 billion that it can profit from a shale-pipeline partnership Chesapeake Energy Corp. exited this year.

Tulsa-based Williams, the third-largest U.S. pipeline company, said on Tuesday it agreed to acquire a 25-percent stake in Access Midstream Partners LP and a 50-percent stake in the privately held Access Midstream Partners GP.

Chesapeake assets are coming home, said M. "Jake" Dollarhide, CEO of Tulsa-based Longbow Asset Management. Chesapeake sold its stake in the Access pipeline venture, formerly known as Chesapeake Midstream, in June. Oklahoma City-based Chesapeake, one of the nation's largest gas producers, has this year been auctioning properties from Appalachia to the Rocky Mountains to plug a cash-flow shortfall.

"Chesapeake will be a survivor, but right now they are not in a strong position," Dollarhide said.

The Access agreement allows Williams to get very large-scale positions in basins, as opposed to having to go in and get struggling positions in basins and try to build those up, Williams CEO Alan Armstrong said during a conference call with analysts.

"From a strategic standpoint, Williams does not get many opportunities to invest in areas where we can get a large-scale position," Armstrong said. "We want to invest in large-scale opportunities and it is difficult to get a No. 1 or No. 2 position in a basin, and there are just not that many positions like that."

With the investment in Access, Williams is able to take advantage of Access Midstream's relationship to Chesapeake, Armstrong said.

"Access has a tremendous acreage dedication which allows them to build large-scale and a strong competitive position in the markets that they serve," Armstrong said. "It is a complementary to our own strategy."

The transaction provides cost and growth synergies for two Oklahoma-based companies said Qian Zhang, research assistant for Tulsa-based Fredric E. Russell Investment.

The deal will significantly enhance Williams' geographic exposure, Zhang said. The Chesapeake assets are primarily in the Marcellus, Utica, Eagle Ford, Haynesville and Niobrara shale plays.

Access Midstream said in a statement that the acquisition will provide it with well-established footholds in virtually all of the major unconventional basins in the U.S.

"It will position the company to benefit from unconventional basins in the U.S.," Zhang said. "Since the easy energy has been found, the energy companies need to work harder to find unconventional energy sources in the next decades."

The assets are producing 3.9 billion cubic feet of natural gas per day on 8.7 million acres, Armstrong said.

"This bolsters our position in the Marcellus and the Utica gives us great exposures to the great resources plays that Chesapeake has been successful in," he said.

In the Niobrara shale play, Williams already has some synergy to pull between the two entities, Armstrong said.

"We have such a strong position in Wyoming from the processing perspective and our natural gas liquids infrastructure via our Overland Pass," Armstrong said.

Williams operates Overland Pass Pipeline Co., a joint venture that Oneok Partners and Williams established in 2006. The Overland Pass Pipeline includes a 760-mile natural gas liquids pipeline from Opal, Wyo., to the Mid-Continent NGL market center in Conway, Kan.

Williams sees this as an opportunity, Dollarhide said.

Unlike Chesapeake and Devon, Williams exited the exploration and production business when it spun off WPX

Energy a year ago, Dollarhide said.

"When they spun off WPX on Dec. 31 last year, Williams wiped its hands of the volatile E&P sector," Dollarhide said. "Now, Williams is strictly a pipeline and midstream company."

As part of the deal, Access unveiled an offering of 13.8 million common units and an offering of $1.4 billion in senior notes due in 2023, looking to use the proceeds to fund its $2.16 billion purchase of Chesapeake's remaining midstream assets.

Shares of Access Midstream Partners tumbled $1.88, or 5.52 percent, to close $32.15 on the New York Stock Exchange on Wednesday. Williams' shares dropped 25 cents to close at $31.13 on the NYSE while Chesapeake fell 13 cents to close at $16.96 on the NYSE.

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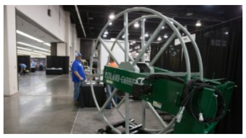

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