

FEDERAL ENERGY REGULATORY COMMISSION  
WASHINGTON, D.C. 20426

In Reply Refer To:  
Office of Enforcement  
Docket No. FA14-8-000  
October 24, 2014

Occidental Energy Marketing, Inc.  
Attn: Mr. Chris Hajovsky  
Director of Compliance  
5 E Greenway Plaza, Suite 110  
Houston, TX 77046

Dear Mr. Hajovsky:

1. The Division of Audits and Accounting within the Office of Enforcement (OE) has completed an audit of Occidental Energy Marketing, Inc. (OEMI) for the period January 1, 2012 through December 31, 2013. The audit evaluated OEMI's compliance with Commission filing requirements for the annual report of natural gas transactions under 18 C.F.R. Part 260.401 (2014) and the FERC Form No. 552 (Form 552) instructions.<sup>1</sup> The audit also included select tests of OEMI's physical natural gas transactions to validate the accuracy of the information filed with the Commission in its Form 552 report. The enclosed audit report contains no findings or recommendations.
2. On September 29, 2014, you notified the Division of Audits and Accounting that OEMI agrees with audit staff's conclusions. The appendix to the audit report includes a copy of OEMI's response. I hereby approve the audit report.
3. The Commission delegated authority to act on this matter to the Director of OE under 18 C.F.R. § 375.311 (2014). This letter order constitutes final agency action. You may file a request for rehearing with the Commission within 30 days of the date of this order under 18 C.F.R. § 385.713 (2014).
4. This letter order is without prejudice to the Commission's right to require hereafter any adjustments it may consider proper from additional information that may come to its

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<sup>1</sup> *Transparency Provisions of Section 23 of the Natural Gas Act*, Order No. 704, 121 FERC ¶ 61,295 (2007), *order on reh'g*, Order No. 704-A, 124 FERC ¶ 61,269 (2008), *order on reh'g*, Order No. 704-B, 125 FERC ¶ 61,302 (2008), *order on reh'g*, Order No. 704-C, 131 FERC ¶ 61,246 (2010).

attention. In addition, any instance of noncompliance not addressed herein or that may occur in the future may also be subject to investigation and appropriate remedies.

5. I appreciate the courtesies extended to the auditors. If you have any questions, please contact Mr. Bryan K. Craig, Director and Chief Accountant, Division of Audits and Accounting at (202) 502-8741.

Sincerely,

Larry D. Gasteiger  
Acting Director  
Office of Enforcement

Enclosure



Federal Energy Regulatory Commission

**Audit of FERC Form No. 552  
Reporting Requirements for  
Occidental Energy Marketing,  
Inc.**

Docket No. FA14-8-000  
October 24, 2014

**Office of Enforcement**  
**Division of Audits and Accounting**

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## I. Executive Summary

### Overview

The Division of Audits and Accounting within the Office of Enforcement has completed an audit of Occidental Energy Marketing, Inc. (OEMI). The audit evaluated OEMI's compliance with Commission filing requirements for the annual report of natural gas transactions under 18 C.F.R. Part 260.401 (2014), and FERC Form No. 552 (Form 552) instructions.<sup>1</sup> The audit covered the period January 1, 2012 through December 31, 2013.

### Occidental Energy Marketing, Inc.

OEMI, a subsidiary of Occidental Petroleum Corporation, provides comprehensive crude oil, natural gas, and natural gas liquids marketing services in the United States. OEMI is one of the top natural gas marketers in North America. OEMI is also a leading participant in key U.S. crude oil market centers in California, Oklahoma, Texas, and the Gulf Coast.

In natural gas marketing, OEMI is a major participant in markets that include California, Arizona/Nevada, the Rocky Mountains, Pacific Northwest, Gulf Coast, and the Midwest. OEMI reported physical natural gas transactions to the Commission in its annual Form 552 filing, but has elected not to report transactions to index publishers. In its 2012 Form 552, OEMI reported physical natural gas purchase volumes of 637.8 trillion British Thermal Units (TBtu) and sales volumes of 728.8 TBtu.

### Conclusion

The audit resulted in no findings or recommendations that require OEMI to take corrective action at this time. Audit staff based its conclusion on the review of material OEMI provided in response to audit staff's data requests, interviews with OEMI employees, and a review of publicly available documents.

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<sup>1</sup> *Transparency Provisions of Section 23 of the Natural Gas Act*, Order No. 704, 121 FERC ¶ 61,295 (2007), *order on reh'g*, Order No. 704-A, 124 FERC ¶ 61,269 (2008), *order on reh'g*, Order No. 704-B, 125 FERC ¶ 61,302 (2008), *order on reh'g*, Order No. 704-C, 131 FERC ¶ 61,246 (2010).

## II. Background Information

### A. Regulatory Overview

On December 26, 2007, the Commission issued a final rule in Order No. 704, which amended part 260 of its regulations to require annual submission of a new form, the Form 552.<sup>2</sup> The order was derived from the Energy Policy Act of 2005, which added section 23 of the Natural Gas Act (NGA).<sup>3</sup> Section 23, among other mandates, directs the Commission “to facilitate price transparency in markets for the sale or transportation of physical natural gas in interstate commerce, having due regard for the public interest, the integrity of those markets, and the protection of consumers.”<sup>4</sup>

Accordingly, Order No. 704 required natural gas wholesale market participants, including several entities that may not otherwise be subject to Commission traditional NGA jurisdiction, to report certain information about their natural gas sales and purchases annually to the Commission. Order No. 704 requires certain natural gas buyers and sellers to report whether or not they reported transactions to index publishers and the volumes of relevant transactions for the previous calendar year.<sup>5</sup> This requirement allows the Commission and the public to assess the importance of index pricing in natural gas markets, and determine the size of fixed-price transactions that can or may contribute to formation of price indexes.

### B. FERC Form No. 552

The Commission requires natural gas market participants subject to Commission reporting requirements to file the Form 552 annually, unless the Commission has exempted a participant or granted it a waiver. Specifically, 18 C.F.R. § 260.401(a)(2014) required participants to file the Form 552 for the 2008 calendar year, and each calendar year thereafter. Under 18 C.F.R. § 260.401(b)(1)(2014), unless the Commission has exempted a participant or granted it a waiver by rule or order, each participant (i.e., any buyer or seller active in physical natural gas transactions the previous calendar year) must prepare and file with the Commission a Form 552, under the form’s definitions and general instructions. However, when this audit was conducted, a participant was exempted from this requirement if it bought or sold reportable physical natural gas of less than 2.2 TBtu for the previous calendar year. Also, 18 C.F.R. § 260.401(b)(2)(2014) requires participants to file the Form 552 by May 1 of each year, unless the Commission

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<sup>2</sup> Order No. 704, FERC Stats. & Regs. ¶ 31,260 (2007).

<sup>3</sup> Energy Policy Act of 2005, Pub. L. No. 109-58, 119 Stat. 594 (2005).

<sup>4</sup> 15 U.S.C. § 717t-2(a)(1) (2006).

<sup>5</sup> Order No. 704, FERC, Stats. & Regs. ¶ 32, 614 (2007).

has instructed otherwise, and prepare it so it conforms with Commission software and guidance posted on FERC's web site.

The basic purpose of reporting physical natural gas sales and purchases is to provide greater transparency of the indexes used to price physical natural gas. Form 552 also informs the Commission and the public on what volumes can or may contribute to the formation of a price index during a calendar year. Many market participants rely on daily and monthly indexes as a reference to market prices without assuming the risk of active trading. During the audit period, Order Nos. 704, 704-A, 704-B, and 704-C required market participants to report physical natural gas purchases or sales that used a natural gas index and contributed to, or could contribute to, formation of a price index. The purchases and sales volumes reflected below should be reported in the Form 552, page 4, lines 1-9.<sup>6</sup>

1. Total volume of the respondent's reportable physical sales and purchases.
2. Quantities contracted at fixed prices for next-day delivery.
3. Quantities contracted at prices in published daily gas price indices.
4. Quantities contracted at fixed prices for next-month delivery.
5. Quantities contracted at prices at published monthly gas price indices.
6. Quantities contracted under trigger agreements (e.g., NYMEX Plus contracts).
7. Quantities contracted as physical basis transactions.
8. Difference between respondent's purchases reported on line 1 and the sums on lines 2, 3, 4, 5, 6, and 7.
9. Difference between respondent's sales reported on line 1 and the sums on lines 2, 3, 4, 5, 6, and 7.

Besides this information, the Form 552 permits the aggregation of information of affiliates. The respondent must complete the "Schedule of Reporting Companies" on page 3 of the Form 552, which lists those affiliates. Further, this schedule requires the respondent to say whether it or any affiliate listed reported any transaction information to price index publishers during the report year.

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<sup>6</sup> See *supra* note 1.

### III. Introduction

#### A. Objectives

The audit objectives were to evaluate OEMI's compliance with Commission filing requirements for the annual report of natural gas transactions under 18 C.F.R. Part 260.401 (2014), and Form 552 instructions. The audit covered January 1, 2012 through December 31, 2013.

#### B. Scope and Methodology

Audit staff performed several specific actions to conduct this audit. Audit staff first identified standards and criteria, including Commission rules, regulations, and other requirements, to evaluate OEMI's compliance with the audit objectives. Audit staff then reviewed publicly available information to understand OEMI's corporate environment, business operations, customer activity, and regulatory history relevant to the Form 552. Audit staff conducted substantive testing to determine whether OEMI reported gas purchase and sales volumes in its Form 552, consistent with the definitions and general instructions in that form.

Audit staff performed the actions below to facilitate its testing and evaluation of OEMI's compliance with requirements relevant to the audit scope:

- *Gathered Relevant Data* - Issued data requests to OEMI seeking internal policies and procedures, transactional data and contracts, internal and external reports, and other information relevant to audit objectives. Audit staff used this information as support for testing and evaluating OEMI's compliance with the Form 552 requirements. Responses to data requests also provided information about the structure and operation of OEMI's regulatory compliance program.
- *Conducted Interviews and Teleconferences* - Interviewed OEMI employees and spoke with them via teleconference to discuss administrative and technical matters, and assist in evaluating the company's compliance with the audit objectives.
- *Met with Commission Staff* - Met with Commission staff to discuss audit developments, potential compliance issues, and ensure audit report findings were consistent with Commission precedent and policy.

Audit staff performed the actions below to evaluate OEMI's compliance with requirements relevant to the audit scope:

- *Reporting Oversight* - Reviewed OEMI's processes, procedures, and controls over Form 552 to identify reporting strengths and weaknesses. Also interviewed employees and managers responsible for Form 552 to ensure actual practices aligned with these processes and procedures, and that controls could not be circumvented.
- *Reporting of Affiliates* - Reviewed corporate organizational charts and held discussions with OEMI to identify all affiliates that bought or sold physical natural gas subject to the reporting requirements of the Form 552.
- *Reporting to Price Index Publishers* - Requested supporting documentation and held discussions with employees to determine whether OEMI reported transaction information to price index publishers.
- *Total Transaction Volumes* - Reviewed total reportable physical natural gas purchases and sales volumes to verify the accuracy and completeness of the company's Form 552. This required audit staff to compare Form 552 reported volumes to transactional data the company provided to support the accuracy of the purchases and sales for those volumes. OEMI provided monthly data for January 1, 2012 through December 31, 2012.
- *Classification of Transaction Volumes* - Evaluated physical natural gas purchases and sales volumes reported in the form to verify the accuracy of each transaction category. For example, for the "fixed price, next-day delivery" category, audit staff requested and evaluated transactional data to ensure that the transactions were completed before the North American Energy Standards Board (NAESB) nomination deadline (11:30 a.m., Central time) and were for uniform delivery over the next pipeline day. Also, for the fixed price, next-month delivery category, evaluated transactional data to ensure that the transactions were completed in the last five business days of the month (during bid week) and were for uniform physical delivery over the next month.
- *Reportable and Nonreportable Transactions* - Analyzed physical natural gas transactions to ensure OEMI reported only required volumes in the Form 552. Specifically, audit staff selected a one-month sample of all physical natural gas transactions from the company's trade capture system. Reviewed these transactions to ensure OEMI did not reflect nonreportable transactions, such as cash-out and imbalance makeup, unprocessed gas, international transportation, and affiliate transactions, as reportable purchase and sales volumes in its Form

552. This step also ensured that OEMI correctly reflected all reportable transaction volumes as required by Form 552 instructions.

Besides these actions, audit staff reviewed OEMI's regulatory compliance program. Audit staff assessed OEMI's program in the audit scope areas for consistency with the factors and criteria in the Commission's Order on Enforcement of Statutes, Orders, Rules, and Regulations.<sup>7</sup> Specifically, audit staff:

- Reviewed OEMI's regulatory compliance program structure, including its authority and responsibilities for overseeing corporate compliance and the delegation of compliance responsibilities at the department level.
- Reviewed OEMI's Internal Audit department structure, including chain-of-command and access to the Company's Board of Directors through its Audit Committee to assess the effectiveness and independence of the compliance process. Also, reviewed OEMI's Internal Audit department's annual audit plan and reports to understand its oversight of physical natural gas purchase and sales transaction and Form 552 reporting.
- Examined compliance procedures and controls in audit scope areas to determine if they were adequate to ensure compliance with FERC requirements. Evaluated whether areas of noncompliance, if any, could have been reduced by more effective compliance procedures, controls, and oversight.
- Interviewed executives, managers, and operational employees to evaluate their knowledge and application of OEMI's compliance program to achieve compliance with audit scope areas.

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<sup>7</sup> *Enforcement of Statutes, Orders, Rules, and Regulations*, Revised Policy Statement on Penalty Guidelines, 132 FERC 61,216 (2010).

## IV. Appendix-Company Response to Report



**Occidental Energy Marketing, Inc.**  
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September 29, 2014

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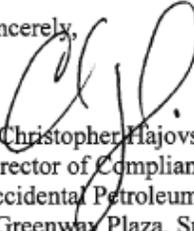
Re: Docket No. FA14-8-000

Dear Mr. Craig:

Occidental Energy Marketing, Inc. ("OEMI") has reviewed Audit Staff's draft Audit Report dated September 15, 2014 in the above-referenced docket regarding its audit of OEMI's compliance with the reporting requirements under FERC Form No. 552. OEMI agrees with Audit Staff's conclusions.

Thank you for your time and attention in this matter.

Sincerely,



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cc: John Blattner