

FEDERAL ENERGY REGULATORY COMMISSION  
WASHINGTON, D.C. 20426

In Reply Refer To:  
Office of Enforcement  
Docket No. FA11-20-000  
January 26, 2012

Petrohawk Energy Corporation  
Attention: Mr. Steve Herod  
Executive Vice President - Corporate Level  
1000 Louisiana, Suite 5600  
Houston, TX 77002

Dear Mr. Herod:

1. The Division of Audits in the Office of Enforcement (OE) has completed an audit of Petrohawk Energy Corporation (Petrohawk Energy) for the period of January 1, 2009 through December 31, 2010. The audit evaluated Petrohawk Energy's compliance with the Commission's filing requirements for the annual report of natural gas transactions under 18 C.F.R. Part 260.401 (2010), and the Commission's FERC Form No. 552 instructions.<sup>1</sup> The audit also included selective tests of Petrohawk Energy's physical natural gas transactions to validate the accuracy of the information filed with the Commission in its FERC Form 552 report. The enclosed audit report explains our audit findings and recommendations.

2. On December 21, 2011, you notified us that Petrohawk Energy agrees with audit staff's findings and recommendations in the audit report. The audit report identified that Petrohawk Energy: reported sales of physical natural gas its subsidiary HK Energy made, but did not identify HK Energy as an affiliate in its FERC Form No. 552; incorrectly reported sales transaction volumes for unprocessed gas, natural gas liquids, and oil in its FERC Form No. 552; and mistakenly identified in its FERC Form No. 552 that it reported transactions to price index publishers. The recommendations require Petrohawk Energy to update certain procedures, correct and refile its 2009 and 2010 FERC Form No. 552, and train employees with regard to distinguishing reportable and nonreportable transactions. Petrohawk Energy's comments acknowledge that it intends

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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).

Petrohawk Energy Corporation

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to comply with the recommended actions set forth in the audit report. We included a copy of your response as an appendix to the audit report. Docket No. FA11-20-000 is now closed.

3. The Commission delegated authority to act on this matter to the Director of OE under 18 C.F.R. § 375.311 (2011). This letter order constitutes final agency action. Petrohawk Energy 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 (2011).

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 attention. In addition, any instance of non-compliance 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, at (202) 502-8741.

Sincerely,

Norman C. Bay  
Director  
Office of Enforcement

Enclosure



Federal Energy Regulatory Commission

# Audit of FERC Form No. 552 for Petrohawk Energy Corporation

Docket No. FA11-20-000  
January 26, 2012

**Office of Enforcement**  
**Division of Audits**

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## I. Executive Summary

### A. Overview

The Division of Audits within the Office of Enforcement has completed an audit of Petrohawk Energy Corporation (Petrohawk Energy). The audit evaluated Petrohawk Energy's compliance with the Commission's filing requirements for the annual report of natural gas transactions under 18 C.F.R. Part 260.401 (2010), and FERC Form No. 552 instructions.<sup>1</sup> The audit covered the period January 1, 2009 through December 31, 2010.

### B. Petrohawk Energy Corporation

Petrohawk Energy is an independent oil and natural gas company engaged in the exploration, development and production of predominately natural gas properties in the United States. It is listed as one of the top 40 natural gas producers in the U.S. Its business is comprised of oil and natural gas production, and midstream operations segments. Its oil and natural gas properties are concentrated in three premier domestic shale areas that it believes have decades of future development potential.

Petrohawk Energy organizes its oil and natural gas operations into two principal regions: the Mid-Continent, which includes its Louisiana and East Texas properties; and the Western, which includes its South Texas properties. Its midstream segment consists of its wholly owned gathering and treating subsidiary, Hawk Field Services, LLC. Petrohawk Energy has among several subsidiaries, HK Energy Marketing, LLC (HK Energy) that markets natural gas that Petrohawk Energy produces.

In its 2009 FERC Form No. 552, Petrohawk Energy reported physical natural gas sales volumes of 183 trillion British thermal unit (TBTu). Petrohawk Energy reported zero purchases given it only produces and sells natural gas.

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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).

### **C. Summary of Compliance Findings**

Audit staff identified three areas of noncompliance related to Petrohawk Energy's FERC Form No. 552 report filed with the Commission. Audit staff based its findings on material Petrohawk Energy provided in response to data requests, employee interviews, and a review of publicly available documents. Audit staff's compliance findings are summarized below. Details of these findings are in Section IV of this report.

- *Reporting of Affiliates* – Petrohawk Energy reported sales of physical natural gas its subsidiary HK Energy made, but did not identify HK Energy as an affiliate in its FERC Form No. 552.
- *Nonreportable Sales Volumes* – Petrohawk Energy incorrectly reported sales transaction volumes for unprocessed gas, natural gas liquids, and oil in its FERC Form No. 552.
- *Reporting of Transactions to Price Index Publishers* – Petrohawk Energy mistakenly identified in its FERC Form No. 552 that it reported transactions to price index publishers.

### **D. Summary of Recommendations and Corrective Actions Taken**

Audit staff's recommendations to remedy the findings in this report are summarized below. Details are discussed in Section IV of this report.

Audit staff recommends that Petrohawk Energy:

1. Update procedures to ensure it identifies affiliates with reportable volumes of physical natural gas in its FERC Form No. 552. These procedures should also ensure Petrohawk Energy includes reportable volumes in its FERC Form No. 552 and excludes sales volumes associated with unprocessed gas, natural gas liquids, and oil.
2. Train employees on the FERC Form No. 552 instructions to ensure they can distinguish reportable from nonreportable transactions.
3. Revise the 2009 and 2010 FERC Form No. 552 to name HK Energy as an affiliate, and to identify that Petrohawk Energy did not report transaction information to a price index publisher during the report year. This revision should also exclude nonreportable sales volumes for unprocessed gas, natural gas liquids and oil so only reportable physical natural gas volumes are in the FERC Form No. 552.

4. File the corrected 2009 and 2010 FERC Form No. 552s with the Commission within 30 days of issuance of the final audit report.

**E. Compliance and Implementation of Recommendations**

Audit staff further recommends that Petrohawk Energy submit to audit staff for review within 30 days of issuance of this final audit report:

- Plans for implementing the recommendations in this final audit report.
- Copies of any written policies and procedures developed in response to recommendations in this final audit report.

## 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 the annual submission of a new form, the FERC Form No. 552.<sup>2</sup> The order has its genesis from the Energy Policy Act of 2005, which added section 23 of the Natural Gas Act (NGA).<sup>3</sup> Section 23 of the NGA, 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 a number of entities that may not otherwise be subject to the Commission’s traditional NGA jurisdiction, to report certain information concerning their natural gas sales and purchases annually.

This information includes an annual requirement for certain buyers and sellers of natural gas to report whether or not they report transactions to index publishers and volumes of relevant transactions for the previous calendar year.<sup>5</sup> The annual reporting requirement allows the Commission and the public to assess the importance of index pricing in the natural gas markets, and to determine the size of the fixed-price transactions that contribute to or may contribute to formation of price indexes.

### B. FERC Form No. 552

The Commission requires natural gas market participants subject to the Commission’s reporting requirements to file the FERC Form No. 552 annually, unless the Commission has exempted a participant or granted it a waiver. Specifically, 18 C.F.R. § 260.401 (a) requires participants to file the FERC Form No. 552 for the calendar year ending December 31, 2008 and each calendar year from then on. Under 18 C.F.R. § 260.401 (b)(1), unless the Commission has exempted a participant or granted it a waiver by rule or order, each participant (i.e., any buyer or seller engaged in physical natural gas transactions the previous calendar year), must prepare and file with the

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<sup>2</sup> *Transparency Provisions of Section 23 of Natural Gas Act*, Order No. 704, 73 Fed. Reg. 1,014 (Jan. 4, 2008), FERC Stats. & Regs. ¶ 31,260 (2007) (Final Rule).

<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> *Transparency Provisions of Section 23 of the Natural Gas Act*, 72 Fed. Reg. 20,791 (Apr. 26, 2007), FERC, Stats. & Regs. ¶ 32, 614 (2007).



Commission a FERC Form No. 552, under the form's definitions and general instructions. However, during the time this audit was conducted, a participant was exempted from this filing requirement if it engaged in reportable physical natural gas sales or purchases amounting to less than 2.2 TBtu for the previous calendar year. Also, 18 C.F.R. § 260.401 (b)(2) requires participants to file the FERC Form No. 552 by May 1 of each year, unless otherwise instructed by the Commission, 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 over the use of indexes to price physical natural gas. FERC Form No. 552 also informs the Commission and the public on what volumes contribute to, or may contribute to the formation of a price index during the subject calendar year. Many market participants rely on daily and monthly indexes as a way to reference market prices without taking on the risks of active trading. During the time of this audit, Order No. 704, and Order Nos. 704-A, 704-B, and 704-C required market participants to report physical natural gas purchases or sales that used an natural gas index and, contributed to, or could contribute to the formation of a price index in the FERC Form No. 552, page 4, lines 1-9, as reflected below.<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 at 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 sum on lines 2, 3, 4, 5, 6, and 7.
9. Difference between respondent's sales reported on line 1 and the sum on lines 2, 3, 4, 5, 6, and 7.

Besides this information, the FERC Form No. 552 permits the aggregation of affiliates. The respondent must complete the "Schedule of Reporting Companies", on page 3 of the FERC Form No. 552, which lists those affiliates. Further, this schedule requires the respondent to indicate 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> *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).

### **III. Introduction**

#### **A. Objectives**

The audit objectives were to evaluate Petrohawk Energy's compliance with the Commission's regulations for the annual report of natural gas transactions under 18 C.F.R. Part 260.401 (2010), and determine whether the information filed in its FERC Form No. 552 was accurate. The audit covered January 1, 2009 through December 31, 2010.

#### **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 Petrohawk Energy's compliance with the audit objectives. Audit staff then reviewed publicly available information to understand Petrohawk Energy's corporate environment, business operations, customer activities, and regulatory history relevant to the FERC Form No. 552. Audit staff conducted substantive testing to determine whether Petrohawk Energy reported volumes in its FERC Form No. 552 consistent with the definitions and general instructions in that form.

Audit staff performed the actions below to facilitate its testing and evaluation of compliance:

1. *Gathered Relevant Data:* Audit staff issued data requests to Petrohawk Energy. The information sought included internal policies and procedures, transactional data and contracts, internal and external reports, and other information relevant to the audit objectives. Audit staff used this information as support for testing and evaluating Petrohawk Energy's compliance with the FERC Form No. 552 requirements. Responses to data requests also provided information about the structure and operation of Petrohawk Energy's regulatory compliance program.
2. *Conducted Interviews and Teleconferences:* Audit staff interviewed Petrohawk Energy 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.
3. *Met with Commission Staff:* Audit 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 Petrohawk Energy's compliance with requirements relevant to the audit scope:

4. *Reporting of Affiliates:* Audit staff reviewed corporate organizational charts and held discussions with Petrohawk Energy to identify all affiliates that purchased or sold physical natural gas subject to the reporting requirements of the FERC Form No. 552.
5. *Reporting to Price Index Publishers:* Audit staff requested supporting documentation and held discussions with employees to determine whether Petrohawk Energy reported transaction information to Price Index Publishers.
6. *Total Transaction Volumes:* Audit staff reviewed total reportable physical natural gas purchases and sales volumes to verify the accuracy and completeness of the FERC Form No. 552. This required audit staff to compare the FERC Form No. 552 reported volumes to transactional data the Company provided to support the accuracy of the purchases and sales associated with those volumes. Petrohawk Energy provided this data on a monthly basis for January 1, 2009 through December 31, 2009.
7. *Classification of Transaction Volumes:* Audit staff evaluated the 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 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, audit staff requested and evaluated transactional data to ensure that the transactions were completed in the last five business days of the month (during bidweek) and were for uniform physical delivery over the next month.
8. *Reportable and Nonreportable Transactions:* Audit staff analyzed physical natural gas transactions to ensure Petrohawk Energy reported all of them in the FERC Form No. 552. For example, audit staff requested a sample of all physical natural gas transactions to verify the Company reported only required transaction volumes. Audit staff also reviewed specific nonreportable transactions, such as affiliate transactions, unprocessed gas, and international transportation volumes to verify the Company did not report these types of transactions in its FERC Form No. 552.

Besides these actions, audit staff reviewed Petrohawk Energy's regulatory compliance program. Audit staff assessed the compliance program for the audit scope areas consistent with prior Commission orders and policy statements. Specifically, audit staff:

- Reviewed Petrohawk Energy'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 Petrohawk Energy's Internal Audit department structure, including chain-of-command and access to the Board of Directors through the Audit Committee to assess the effectiveness and independence of the audit process.
- Interviewed executives, managers, and operational employees to evaluate their knowledge and application of Petrohawk Energy's compliance program.

## IV. Findings and Recommendations

### 1. Reporting of Affiliates

Petrohawk Energy reported sales of physical natural gas its subsidiary HK Energy made, but did not identify HK Energy as an affiliate in its FERC Form No. 552.

#### Pertinent Guidance

Section 260.401(b) of the Commission's regulations requires a natural gas market participant that engaged in physical natural gas transactions the previous calendar year to prepare and file with the Commission the FERC Form No. 552 pursuant to the definitions and general instructions set forth in that form.

FERC Form No. 552 Instructions, Definition XII states:

Respondent – The person, corporation, licensee, agency, authority, or other entity or instrumentality that is submitting the report either on its own behalf, or on behalf of itself and/or its Affiliates. A Respondent may choose to either report for all its Affiliates collectively, or may choose to have each of its Affiliates report separately as their own “Respondent.” If reporting collectively, the “Respondent” must report for each “Affiliate” in the “Schedule of Reporting Companies” and the “Price Index Reporting Schedule,” and collectively for all its Affiliates in the “Purchase and Sales Information” schedule.

Affiliate – An affiliate means a person, who controls, is controlled by or is under common control with another person. For purposes of the completion of FERC Form No. 552, a joint public action agency may submit members' collective information as if those members were Affiliates.

#### Background

Audit staff reviewed Petrohawk Energy's corporate structure to identify affiliates that purchase or sell physical natural gas subject to the FERC Form No. 552 reporting requirements. This review found that Petrohawk Energy entered directly into gas sales contracts with unaffiliated third parties. It also found that Petrohawk Energy entered into gas sales contracts with HK Energy, which in turn as the marketing affiliate entered into gas sales contracts with unaffiliated third parties. HK Energy effectively assumed title to the gas upon purchasing it from Petrohawk Energy, making HK Energy's third-party sales subject to FERC Form No. 552 reporting. Although Petrohawk Energy aggregated

its sales with HK Energy sales in the FERC Form No. 552, it did not reflect HK Energy as an affiliate in the schedule provided on page 3 of the FERC Form No. 552 filed with the Commission in 2009 and 2010.

Petrohawk Energy said it overlooked its sale of gas to HK Energy as a transfer of title because it was an intercompany transaction. In reviewing gas sales contracts, Petrohawk Energy realized HK Energy executed some gas sales contracts with third parties; this signified it had title to the gas. In light of this discovery, Petrohawk Energy agreed it should identify HK Energy as an affiliate in its FERC Form No. 552 report. Distinguishing affiliates is important because the FERC Form No. 552 collects transactional information between unaffiliated third parties that have reportable physical natural gas purchases or sales equal to or greater than 2.2 TBtu in the reporting year. It also serves to provide information on price transparency in markets where the sale of physical natural gas occurs in interstate commerce.

## **Recommendations**

We recommend Petrohawk Energy:

1. Update its procedures to ensure it identifies affiliates with reportable volumes of physical natural gas in the FERC Form No. 552.
2. Revise its 2009 and 2010 FERC Form No. 552s to name HK Energy as an affiliate, and file the corrected forms with the Commission within 30 days of issuance of the final audit report.<sup>7</sup>

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<sup>7</sup> Petrohawk Energy has the option to file a separate FERC Form No. 552 for each affiliate rather than aggregating the volumes in one report when volumes are equal to or greater than 2.2 TBtu for each affiliate.

## 2. Reporting of Nonreportable Sales Transaction Volumes

Petrohawk Energy incorrectly reported sales transaction volumes for unprocessed gas, natural gas liquids, and oil in its FERC Form No. 552.

### Pertinent Guidance

The Commission requires the natural gas market participant to report the transactions that are defined in the Instructions on FERC Form No. 552.

FERC Form No. 552 Instructions, Definition IV states:

Physical Natural Gas Transaction – For purposes of FERC Form No. 552, Physical natural gas transactions are only those transactions that either use an index, or that contribute to, or may contribute to the formation of a gas index during the calendar year. These transactions are generally included in line 2 through 7 of page 4 of the form and are referred to as “*reportable*” transactions.

The Commission’s instructions on FERC Form No. 552 require the natural gas market participant to report transactions of lean unprocessed natural gas that will not undergo processing to remove natural gas liquids before consumption, but not to report transactions of natural gas that is both unprocessed and upstream of a processing facility.

FERC Form No. 552 Instructions, Definition IV states:

Reportable transactions that can or may contribute to gas index formation:

- i. Lean unprocessed natural gas that will *not* undergo processing to remove natural gas liquids before consumption (Order 704-C, paragraphs 38 and 39).<sup>8</sup>

Not Reportable Transactions - notwithstanding the above, the volumes are not reportable and should, in all cases, be excluded in volumetric data submitted in FERC Form No. 552:

- c. Transactions of natural gas that is both: (i) Unprocessed, i.e. natural gas liquids have not been removed from the gas, and (ii) Upstream of a processing facility (that is, volumes reasonably expected to travel through a processing facility before consumption.)

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<sup>8</sup> *Transparency Provisions of Section 23 of the Natural Gas Act*, Order No. 704-C, 131 FERC ¶ 61,246 (2010).

## Background

Audit staff reviewed the transactions supporting the sales volumes reported in Petrohawk Energy's 2009 FERC Form No. 552 to verify the accuracy of these volumes. This review identified Petrohawk Energy mistakenly reported some nonreportable transaction volumes. These nonreportable transaction volumes included sales of unprocessed gas, natural gas liquids extracted at the processing plant, and oil extracted from natural gas at the wellhead. As reflected in the table below, this affected the accuracy of reportable volumes of natural gas contracted at daily and monthly indices, which resulted in Petrohawk Energy overstating its reportable sales volumes by 11 TBtu in the 2009 FERC Form No. 552.

Line	Description	Reported	Revised	Adjustment
1	Total Volume of Physical Natural Gas	183	172	11
3	Contracted at prices - Daily Indices	37	34	3
5	Contracted at prices - Monthly Indices	146	138	8

Petrohawk Energy explained it included nonreportable transactions of unprocessed gas because it did not fully understand the FERC Form No. 552 filing instructions and definitions for reportable transactions. As for natural gas liquids and oil, Petrohawk Energy included these transactions because its procedures lacked adequate checks and balances to identify these nonreportable transactions. Petrohawk Energy acknowledged it also included nonreportable transaction volumes in its 2010 FERC Form No. 552, but did not provide those volumes to audit staff during the course of the audit.

The FERC Form No. 552 excludes nonreportable transactions because they are irrelevant to the use and formation of natural gas price indices. Specifically, transactions involving unprocessed natural gas are not relevant because it requires the removal of natural gas liquids before consumption or sale can occur. Transactions involving oil and natural gas liquids are not relevant because they represent byproducts of natural gas production and processing; and are sold to consumers separately from physical natural gas. For these reasons, market participants should exclude these types of transactions from the FERC Form No. 552.



## **Recommendations**

We recommend Petrohawk Energy:

3. Update its procedures to ensure reportable physical natural gas transaction volumes do not include unprocessed gas, natural gas liquids, and oil in the Company's FERC Form No. 552.
4. Revise its 2009 and 2010 FERC Form No. 552s to exclude nonreportable transaction volumes for unprocessed gas, natural gas liquids, and oil, and file the corrected forms with the Commission within 30 days of issuance of the final audit report.
5. Conduct employee training on the instructions of the FERC Form No. 552 so they can distinguish reportable from nonreportable transactions.

### **3. Reporting of Transactions to Price Index Publishers**

Petrohawk Energy mistakenly identified in its FERC Form No. 552 that it reported transactions to price index publishers.

#### **Pertinent Guidance**

The Commission's FERC Form No. 552 instructions require Natural Gas Market Participants to indicate whether they reported any transaction information to the Price Index Publishers. Specifically, the FERC Form No. 552, Page 3, Schedule of reporting companies and Price Index Reporting requires the respondent to identify whether they report transaction information to Price Index Publishers during the report year.

#### **Background**

Audit staff reviewed Petrohawk Energy's FERC Form No. 552 to determine whether it followed Commission instructions for preparing that form. The Company's FERC Form No. 552 disclosed it reports transactions to price index publishers. However, Petrohawk Energy confirmed it did not report transactions of physical natural gas transactions to them for the reporting years 2009 and 2010. Petrohawk Energy explained this occurred due to a procedural oversight in preparing the FERC Form No. 552.

The basic purpose of reporting physical natural gas sales and purchases in the FERC Form No. 552 is to provide greater transparency concerning the use of indices that form natural gas prices, and gauge how well index prices reflect market forces. Market participants rely on indices as a way to reference market prices and can use the FERC Form No. 552 to learn about the companies that report to price index publishers and influence publishers' indices. Petrohawk Energy indicating that it reported transaction information to these publishers was misleading to market participants and other users of the Company's FERC Form No. 552.

#### **Recommendation**

We recommend Petrohawk Energy:

6. Revise its 2009 and 2010 FERC Form No. 552s to reflect it did not report transaction information to price index publishers during the report year, and file the corrected forms with the Commission within 30 days of issuance of the final audit report.

## V. Appendix



Bryan K. Craig  
Director and Chief Accountant  
Division of Audits  
Federal Energy Regulatory Commission  
888 First Street NE, Room 51-37  
Washington, DC 20426

December 21, 2011

Re: Office of Enforcement  
Docket No. FA11-20-000  
December 9, 2011  
Petrohawk Energy Corporation's response to Preliminary Audit Report

Dear Mr. Craig:

By letter dated December 9, 2011, Petrohawk Energy Corporation ("Petrohawk") received notice that the Division of Audits (the "DA") within the Office of Enforcement of the Federal Energy Regulatory Commission (the "Commission") had completed its audit (the "Audit") evaluating Petrohawk's compliance with the Commission's filing requirements for the annual report of natural gas transactions under 18 C.F.R. Part 260.401 (201), and the FERC Form No. 552 instructions. Additionally, Petrohawk was provided with a copy of the DA's draft audit report relating to the Audit, in which the DA recommended the following actions by Petrohawk:

1. Update procedures to ensure it identifies affiliates with reportable volumes of physical natural gas in its FERC Form No. 552. These procedures should also ensure Petrohawk includes reportable volumes in its FERC Form No. 552 and excludes sales volumes associated with unprocessed gas, natural gas liquids, and oil.
2. Train employees on the FERC Form No. 552 instructions to ensure they can distinguish reportable from nonreportable transactions.
3. Revise the 2009 and 2010 FERC Form No. 552 to name HK Energy Marketing, LLC as an affiliate and to identify that Petrohawk did not report transaction information to a price index publisher during the report year. This revision should also exclude nonreportable sales volumes for unprocessed gas, natural gas liquids and oil so only reportable physical natural gas volumes are in the FERC Form No. 552.
4. File the corrected 2009 and 2010 FERC Form No. 552s with the Commission within 30 days of issuance of the final audit report.
5. Submit to audit staff plans for implementing the recommendations in the final audit report within 30 days of its issuance.

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Petrohawk Energy Corporation

Docket No. FA11-20-000

6. Submit to audit staff copies of any written policies and procedures developed in response to recommendations in the final audit report within 30 days of its issuance.

After review of the DA's draft audit report, Petrohawk is in agreement with the facts stated in the draft report and intends to comply with the recommended actions set forth in the draft report should they be reiterated in the DA's final audit report.

Sincerely,



David Elkouri  
Petrohawk Energy Corporation

cc: Brian Harrington, FERC (email)  
Songthara Omkar, FERC (email)  
Steve Herod, Petrohawk Energy Corporation (email)  
Travis Counts, Petrohawk Energy Corporation (email)  
Amy Baird, Jackson Walker L.L.P. (email)

Document Content(s)

FA11-20-000.DOC.....1-20