FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

In Reply Refer To:
Office of Enforcement
Docket No. FA14-5-000
June 17, 2015

ConocoPhillips Company
Attention: Casey P. McFaden
Senior Counsel
600 North Dairy Ashford Rd., ML 2064
Houston, TX 77079

Dear Mr. McFaden:

1. The Division of Audits and Accounting (DAA) within the Office of Enforcement (OE) of the Federal Energy Regulatory Commission has completed the audit of ConocoPhillips Company (COP). The audit covered the period from January 1, 2011 through present. The enclosed audit report contains two findings and four recommendations that require COP to take corrective action.

2. The audit evaluated COP's compliance with the Commission's regulations surrounding the reporting of energy transactions, including: (1) reporting on the FERC Form No. 552, Annual Report of Natural Gas Transactions, under 18 C.F.R. § 260.401; and (2) standards for reporting transaction data to price index publishers included in the Policy Statement issued by the Commission under Docket No. PL03-3-000, as well as subsequent clarification orders.

3. On May 28, 2015, you notified us that COP agreed with the audit report findings and will implement corrective actions to address the recommendations. A copy of your verbatim response is included as an appendix to this report. I hereby approve the audit report.

4. COP should submit its implementation plan to comply with the recommendations to DAA within 30 days of this letter order. COP should also make quarterly submissions to DAA describing the progress made to comply with the recommendations. As directed by the audit report, these submissions should be made no later than 30 days after the end of each calendar quarter, beginning with the first quarter after this audit report is issued, and continuing until all the corrective actions are completed.

5. The Commission delegated the 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. COP

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).

6. 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 noncompliance not addressed herein or that may occur in the future may also be subject to investigation and appropriate remedies.

7. I appreciate the courtesies extended to our 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 R. Parkinson,
Director
Office of Enforcement

Enclosures

Federal Energy Regulatory Commission
Office of Enforcement
Division of Audits and Accounting

FINAL AUDIT REPORT

Audit of Price Index Reporting and FERC Form No. 552 Reporting for ConocoPhillips Company

Docket No. FA14-5-000
June 17, 2015

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I. Executive Summary

A. Overview

The Division of Audits and Accounting (DAA) in the Office of Enforcement (OE) of the Federal Energy Regulatory Commission has completed an audit of ConocoPhillips Company (COP). The audit evaluated COP's compliance with the Commission's regulations surrounding the reporting of energy transactions, including: (1) reporting on the FERC Form No. 552, Annual Report of Natural Gas Transactions (Form 552), under 18 C.F.R. § 260.401; and (2) standards for reporting transaction data to price index publishers included in the Policy Statement issued by the Commission under Docket No. PL03-3-000, as well as subsequent clarification orders. The audit covered the period from January 1, 2011 to present.

B. ConocoPhillips Company

ConocoPhillips, headquartered in Houston, TX, is the largest independent natural gas exploration and production company in the world, based on proved reserves. In addition to international natural gas operations, ConocoPhillips also explores for, produces, transports, and markets crude oil, liquefied natural gas (LNG), and natural gas liquids in 27 countries. ConocoPhillips employs approximately 19,000 people and owns $119 billion in assets worldwide. COP is a subsidiary of ConocoPhillips.

In its 2012 Form 552, COP reported physical natural gas purchase volumes of 2,950 trillion British thermal units (TBtu) and sales volumes of 3,249 TBtu. In 2013, COP reported physical natural gas purchase volumes of 2,033 TBtu and sales volumes of 2,453 TBtu. COP indicated in its Form 552 filings that it reports transaction information to price index publishers.

C. Summary of Compliance Findings

Audit staff's compliance findings are summarized below. Audit staff identified two areas of noncompliance. Section IV of this report details our findings.

- COP did not report some physical next-day gas transactions to price index publishers due to deal entry practices used by COP's gas traders. These practices were enabled by lapses in internal controls in COP's deal capture system and processes.

- COP aggregated natural gas volumes purchased and sold by affiliate companies on its 2010, 2011, and 2012 Form 552s, but did not disclose the name of an affiliate company in those filings due to a lack of controls in its Form 552 preparation process. Although COP's reported volumes on the 2010, 2011, and 2012 Form 552 filings were accurate, the omission of the affiliate company's name resulted in a lack of transparency to users of the Form 552.

D. Summary of Recommendations and Corrective Actions Taken

Audit staff's recommendations to remedy this report's findings are summarized below. Detailed recommendations are included in section IV. Audit staff recommends that COP:

- Strengthen processes and procedures to ensure that all reportable natural gas transactions are reported to price index publishers;

- Conduct employee training for natural gas traders, risk management personnel, and all other employees contributing to the price reporting function, regarding proper recording of natural gas transactions, and the impact that improper recording may have on COP's price reporting function;

- Strengthen processes and procedures to ensure it identifies affiliates with reportable volumes of physical natural gas in the FERC Form No. 552; and

- Revise its 2010, 2011, and 2012 FERC Form No. 552s to include Burlington Resources Oil & Gas (BROG) as an affiliate, and file the corrected forms with the Commission within 30 days of issuance of the final audit report.

E. Compliance and Implementation of Recommendations

Audit staff further recommends that COP:

- Submit its plans for implementing audit staff's recommendations for audit staff's review. COP should submit these plans to audit staff within 30 days after this final audit report is issued.

- Submit quarterly reports to the DAA describing COP's progress in completing each corrective action recommended in this final audit report. COP should make quarterly filings no later than 30 days after the end of each calendar quarter, beginning with the first quarter after the final audit report in this docket is issued, and continuing until COP completes all recommended corrective actions.

- Submit copies of written policies and procedures developed in response to final audit report recommendations. These policies and procedures should be submitted for audit staff's review in the first quarterly filing after COP completes them.

II. Introduction

A. Objectives

The audit evaluated COP's compliance with the Commission's regulations governing the reporting of energy transactions, including reporting on the Form 552 and standards for reporting transaction data to indexes included in the Policy Statement issued by the Commission under Docket No. PL03-3-000 (Policy Statement). The audit covered January 1, 2011 to the present.

B. Scope and Methodology

Audit staff performed several specific actions to conduct this audit. Audit staff first identified the standards and criteria, including Commission rules, regulations, and other requirements necessary to evaluate COP's compliance with these audit objectives. Audit staff then conducted a series of reviews using publicly available information to understand COP's corporate structure, business operations, energy market operations, and regulatory history pertaining to FERC compliance. Audit staff also conducted substantive testing to determine whether COP complied with the provisions of the Policy Statement and the regulations governing the information in the Form 552.

To facilitate its testing and evaluation of compliance, audit staff performed these actions:

- *Issued Data Requests:* Audit staff issued two formal data requests, supplemental information requests, and numerous email requests to COP. Information requested included corporate structure information, descriptions of COP's gas and power market participation, internal policies and procedures, descriptions of internal controls, deal capture system data, price data reported to price index publishers, internal and external audit reports, and other information relevant to the audit objectives. Data requests also included questions about the structure and function of COP's regulatory compliance program. Audit staff used the evidence obtained as its underlying support for testing and evaluating COP's compliance with the criteria under the audit scope.

- *Conducted Site Visits:* Audit staff conducted two site visits to COP headquarters in Houston, TX, to receive presentations from COP subject matter experts regarding COP operations, to conduct interviews with COP staff members, to observe COP's trading floor and price index reporting function, and to inspect underlying procedures, practices, and controls governing COP's energy transaction reporting operations and corporate compliance program. Specifically, these visits enabled audit staff to:

    - Discuss corporate structure, departmental functions, and employee responsibilities, and meet with key company officials involved in the audit;
    - Learn about COP's system operations involving natural gas and power transactions;
    - Tour COP's trading floor and observe market activities COP employees perform;
    - Interview executives, managers, and operational employees about policies and procedures, and their application in daily practice;
    - Review computer software applications used to record, retain, and report natural gas and power sales and purchases;
    - Review external and internal audit reports for areas applicable to this audit's objectives;
    - Discuss and observe COP's corporate regulatory compliance program; and
    - Discuss audit risk areas and collect supporting evidence for audit staff's conclusions.

- *Conducted Interviews and Teleconferences:* Audit staff conducted numerous teleconference interviews with COP employees involving administrative and technical matters relevant to the audit scope. Audit staff used phone interviews to discuss data responses and observations audit staff made during site visits.

- *Conducted Office Outreach:* Audit staff spoke with members of the Office of Enforcement, including the Division of Analytics and Surveillance, the Division of Investigations, and the Division of Energy Market Oversight about audit developments and potential compliance issues to ensure audit report findings were consistent with Commission precedent and policy.

To evaluate COP's compliance with the Commission's Policy Statement for entities that report transactions to price index publishers, audit staff performed these actions:

- *Gas and Power Transactions:* Audit staff reviewed COP's gas and power market operations to determine the nature and extent of COP's energy market transactions.

- *Code of Conduct:* Audit staff searched COP's corporate web site to ensure that it had a publicly available code of conduct for reporting trade data to a price index publisher.

- *Source of Data:* Audit staff observed COP's trading operations, reviewed its organizational and operational structure, and reviewed the flow of trade data through COP's IT systems to determine if a department separate from COP's trading function was responsible for reporting data to price index publishers.

- *Data Reported:* Audit staff conducted testing of approximately 6,000 reported daily and monthly natural gas deals transacted by COP to ensure that deals reported to price index publishers were bilateral, arm's-length transactions for physical gas between nonaffiliated companies. Additionally, audit staff verified the terms of a sample of reported COP natural gas deals by comparing COP's raw transactional data with data from the Intercontinental Exchange (ICE). Audit staff conducted testing of raw transactional data from COP's deal capture system to ensure that all reportable deals were reported by COP.

- *Error Resolution Process:* Audit staff reviewed COP's process for resolving errors and omissions in data reported to price index publishers. Audit staff reviewed several types of errors discovered by COP in its data provided to price index publishers and verified that the errors had been resolved.

- *Data Retention and Review:* Audit staff tested COP's retention of data relevant to trades reported to price index publishers. Audit staff accomplished this by reviewing COP's systems used to record and retain trade data, reviewing COP's record retention policies and procedures, interviewing personnel responsible for retaining COP trade data, and by reviewing a sample of COP's retained reports to index publishers.

- *Price Reporting Policies and Procedures:* Audit staff reviewed COP's policy governing its reporting of gas and power transactions to price index publishers. Audit staff interviewed the employees responsible for complying with the price reporting policy, and observed COP employees as the price reporting function was performed.

To evaluate COP's compliance with the Commission's Form 552 reporting requirements, audit staff performed these actions:

- *Reviewed COP's Form 552 Filings:* Audit staff obtained COP's Form 552 filings from the Commission's eLibrary web site and performed analysis to determine the amounts and types of natural gas transactions conducted by COP during the audit period.

- *Reviewed COP's Procedures Governing Form 552 Preparation:* Audit staff reviewed COP's processes and procedures governing its preparation and submittal of the Form 552. Audit staff also reviewed the data query used by COP personnel to pull data from its system of record during preparation of the Form 552.

- *Reporting of Affiliates:* Audit staff reviewed corporate organizational charts and held discussions with COP to identify all affiliates that purchased or sold physical natural gas subject to the reporting requirements of the Form 552.

- *Reporting to Price Index Publishers:* Audit staff requested supporting documentation and held discussions with COP employees to determine the extent to which COP reported transaction information to price index publishers.

- *Total Transaction Volumes:* Audit staff reviewed total reportable physical natural gas purchases and sales volumes to verify the accuracy and completeness of the Form 552. This required audit staff to compare the Form 552 reported volumes to transactional data the company provided to support the accuracy of the purchases and sales associated with those volumes. COP provided this data on a monthly basis from January 1, 2011 to December 31, 2012.

- *Classification of Transaction Volumes:* Audit staff evaluated the physical natural gas purchases and sales volumes reported in the Form 552 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 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.

- *Reportable and Nonreportable Transactions:* Audit staff analyzed physical natural gas transactions to ensure COP reported them completely in the Form 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 Form 552.

In addition to these actions, audit staff reviewed COP's regulatory compliance program. Audit staff assessed COP's compliance program for the audit scope areas consistent with the guidelines included in the Revised Policy Statement on Penalty Guidelines.[1] Specifically, audit staff:

- Reviewed the staffing and structure of COP's regulatory compliance program, authority and responsibilities of compliance managers, and the reporting relationships between managers, senior executives, and the Board of Directors. Audit staff evaluated the program's effectiveness and independence from operating units responsible for performing jurisdictional functions.

- Reviewed COP's Internal Audit department structure and its access to the Board of Directors to assess the effectiveness and independence of the audit process. Audit staff also reviewed internal audit reports to identify compliance issues relevant to Commission regulatory oversight authority, and the actions and corrective measures taken to resolve issues.

- Interviewed compliance officials regarding their oversight and procedures to ensure and promote compliance with Commission policies and regulations. Audit staff examined COP's methods to communicate compliance procedures

[1] *Revised Policy Statement on Penalty Guidelines*, 132 FERC ¶ 61,216 (2010).

to employees, actions taken to monitor and enforce COP's compliance program, and actions taken after detection of violations.

- Audit staff evaluated compliance procedures and controls in audit scope areas to determine if they adequately ensured compliance with FERC policies and regulations. As part of this review, audit staff evaluated whether areas of noncompliance could have been reduced by more effective compliance procedures, controls, and oversight.

III. Background

A. Company Operations

ConocoPhillips is an independent exploration and production company, headquartered in Houston, TX. ConocoPhillips was incorporated on November 16, 2001, in connection with, and in anticipation of, the merger of Conoco Inc. and Phillips Petroleum Company. The merger was consummated on August 30, 2002. ConocoPhillips, with approximately 19,000 employees and $119 billion in assets, operates in 27 countries exploring for, producing, transporting, and marketing crude oil, natural gas, bitumen, liquefied natural gas, and natural gas liquids.

ConocoPhillips, through its subsidiary ConocoPhillips Company (COP), is one of the largest natural gas producers and marketers in the United States, its domestic natural gas assets consisting of production wells, surface equipment, gathering systems, processing plants, and intrastate pipelines. COP's U.S. gas production occurs primarily in Texas, New Mexico, Colorado, Wyoming, North Dakota, Alaska, and the Gulf of Mexico. COP markets natural gas throughout the United States. In 2013, COP purchased approximately 2,033 TBtu and sold approximately 2,453 TBtu of natural gas in reportable purchases and sales, according to COP's 2013 FERC Form No. 552, Annual Report of Natural Gas Transactions (Form 552).

COP operates as a power marketer with market-based rate authority to sell power, capacity and ancillary services throughout the United States. Prior to the corporate separation that transferred its power generation to Phillips 66 on May 1, 2012, COP held ownership interest in 10 generation facilities. [2]

COP provides transactional data related to its physical natural gas and power purchases and sales to several publishers of price indices. Transactions reported by COP include daily and monthly gas deals, as well as daily power (on-peak and off-peak) transactions. Additionally, COP files the Form 552 to disclose its volumes of natural gas transactions that utilize, or could contribute to, a price index.

B. Organizational Changes During the Audit Period

On April 30, 2012, ConocoPhillips completed the separation of its downstream business into an independent, publicly traded company, Phillips 66. This separation

[2] *ConocoPhillips Company*, Order Authorizing Disposition of Jurisdictional Facilities, 139 FERC ¶ 62,025 (2012).

transferred the refining, marketing, and transportation business, most of the midstream gas segment, chemicals, and power generation and certain technology operations into an independent, publicly traded company, Phillips 66. In this transaction, Phillips 66 received, among other assets, ConocoPhillips' refineries, including cogeneration facilities that supplied power to the refineries. COP maintained market-based rate authority subsequent to the separation, though it no longer owns power generation or transmission assets.

ConocoPhillips' transfer of assets to Phillips 66 impacted its gas and power operations, as well as its FERC filing requirements. Subsequent to the transfer, COP was no longer affiliated with DCP Midstream LLC (DCP) and WRB Refining LP (WRB) as a result of the separation. DCP owns and operates natural gas plants, gathering systems, storage facilities, and fractionation plants. WRB owns refineries that process crude oil into various products. ConocoPhillips owned 50% interests in DCP and WRB prior to the separation. Prior to separation, COP had included WRB in its Form 552 filings and excluded transactions with affiliated entities from the Form 552 and from its reports to index publishers. Subsequent to the separation, COP's transactions with these entities are reportable to index publishers and on the Form 552.

On February 23, 2011, COP submitted a revised market-based rate schedule to the Commission to change its status from a Category 2 Seller to a Category 1 Seller. [3] The revision was due to COP's sale of a 425 MW cogeneration plant located in the Southwestern United States. COP's sale of the plant resulted in COP satisfying all requirements to be a Category 1 Seller in the Southwest region, as well as in all other regions in the United States.

C. Price Reporting Function

On January 9, 2004, COP filed a notice informing FERC that it reports monthly gas deals and electric power transactions to publishers of price indices. COP amended this filing on February 19, 2004 to include its reporting of daily natural gas transactions to price index publishers.

During the audit period, COP reported daily and monthly gas transactions, as well as daily power transactions, to several price index publishers. COP's price reporting function is performed by its Risk Operations group, which performs queries of COP's trade capture system to identify reportable transactions. The Risk Operations group is a

[3] ConocoPhillips Company, Revisions to Market-Based Rate Tariff to Update Seller Category Status and "Appendix B" Asset Tables, Docket No. ER11-2940-000 (filed Feb. 23, 2011).

mid-office function that is independent of COP's trading function. Risk Operations' queries filter the data to search for physical, nonaffiliated transactions that meet the daily or monthly criteria.

COP's price reporting function is initially performed at approximately 3 pm each day. A Risk Operations employee runs an automated query of the trade capture system. A manual review of the query results is then performed to identify deals that are not reportable. The final deal listing is emailed to the index developers. The following morning, Risk Operations runs another query of the previous day's trade data to identify any deal edits, additions, or deletions made to reportable trades after COP's initial 3 pm report. The morning query is used to identify trades that were initially nonreportable, but subsequently became reportable due to a change in deal terms made after COP's initial 3 pm report.

COP's price reporting function is governed by its Natural Gas and Power Price Reporting Procedures (Procedures). COP has made the Procedures publicly available, as required by the Commission's Policy Statement, on COP's web site. The Procedures contain provisions that are consistent with the Policy Statement. COP's Risk Operations employees are trained on the Procedures at least annually.

COP's Internal Audit department (IAD) performs an annual audit of the price reporting function. The IAD tests the functioning of several controls over the price reporting function, including a review of statistically valid samples to ensure that reported transactions meet the criteria in the Commission's Policy Statement. The IAD also performs a review of IT controls over price data.

D. Trade Capture Systems and Flow of Trade Data

COP utilized multiple trade capture systems during the audit period. Prior to August 1, 2013, COP utilized three separate systems for its gas and power trading. Trade Pilot was used for deal capture and scheduling; TransEnergy was the system of record for physical transactions and also housed price index values for physical deals; and Zainet was used for financial risk management. COP transitioned all of these functions to the CXL deal capture system, effective August 1, 2013 (COP's power trading used CXL beginning April 2010 and thus was already part of CXL). CXL is the system queried by Risk Operations when performing COP's price reporting function. CXL is also the system used by COP's gas and power traders to record deals.

E. FERC Form No. 552

COP files the Form 552 annually with the Commission. The Form 552 contains transactional data for natural gas market participants for the calendar year. COP makes a single filing on behalf of itself and its natural gas subsidiaries. For reporting years 2010 through 2012, COP included WRB on its Form 552. In 2013, COP included Burlington Resources Oil & Gas Company (BROG) on its Form 552. BROG, an owner and operator of natural gas wells, was erroneously omitted from COP's Form 552 filings from 2010 through 2012.

IV. Findings and Recommendations

1. Aggregation of Next-Day Gas Deals

COP did not report some physical next-day gas transactions to price index publishers due to deal entry practices used by COP's gas traders. These practices were enabled by lapses in internal controls in COP's deal capture system and processes.

Pertinent Guidance

18 C.F.R. § 284.403, Code of Conduct for Persons Holding Blanket Marketing Certificates, states in part:

> (a) To the extent Seller engages in reporting of transactions to publishers of electricity or natural gas indices, Seller must provide accurate and factual information, and not knowingly submit false or misleading information or omit material information to any such publisher, by reporting its transaction in a manner consistent with the procedures set forth in Policy Statement on Natural Gas and Electric Price Indices, issued by the Commission in Docket No. PL03-3-000 and any clarifications thereto.

Policy Statement on Natural Gas and Electric Price Indices states in part:

> 1. Data Reported. A data provider should report each bilateral, arm's-length transaction between non-affiliated companies in the physical markets at all trading locations. Data should be provided for each transaction separately. For each transaction, the following information should be provided: (a) price; (b) volume; (c) buy/sell indicator; (d) delivery/receipt location; (e) transaction date and time; and (f) term (next day or next month).[4]

[4] *Price Discovery in Natural Gas and Electric Markets, Policy Statement on Natural Gas and Electric Price Indices* (Policy Statement), 104 FERC ¶ 61,121 (2003), *order on clarification*, 105 FERC ¶ 61,282 (2003); *order on clarification*, 112 FERC ¶ 61,040 (2005).

Background

Audit staff sampled COP's physical daily natural gas trade data for eight days in the audit period. In the sample, staff compared COP's transactional data from its deal capture systems to the approximately 3,750 transactions reported by COP to price index publishers during the eight-day period. This test revealed seven reportable next-day transactions, occurring in March 2012, that were not reported by COP. Audit staff interviewed employees from COP's Risk Operations and Scheduling departments regarding these transactions while on site. As a result of these interviews and the results of the initial sampling, audit staff expanded its testing to include all of the first quarter of 2012.

The results of audit staff's expanded testing of Quarter 1, 2012 data found 151 reportable next-day gas transactions that were not reported to price index publishers by COP. The unreported transactions represent approximately .4 percent of COP's total number of reportable transactions for Quarter 1, 2012. These transactions were not identified as reportable in COP's price reporting process due to a practice by COP's gas traders of aggregating multiple daily gas deals under a single deal ID number, instead of assigning a unique deal ID number to each daily deal. By aggregating discrete daily gas deals with a single counterparty under a single deal ID number, COP's gas traders were relieved of an administrative burden associated with entering new daily deals in COP's Trade Pilot deal capture system. The Trade Pilot system, COP's deal capture system in place prior to August 2013, facilitated the aggregation of multiple daily deals under single ID numbers due to its system design and its lack of a control preventing deal aggregation.

The aggregation of daily deals, accomplished through multiple revisions by traders to the "end date" of the deal in Trade Pilot, caused ConocoPhillips' price reporting query to see the deals as nonreportable multi-day deals, instead of as several reportable discrete daily deals. The practice of aggregating discrete daily deals was used by COP's gas traders prior to August 2013. In August 2013, ConocoPhillips transitioned to the CXL deal capture system, which eliminated the administrative convenience for traders to aggregate deals, but did not contain a measure or control to ensure that deals were not aggregated. Audit staff did not observe any instances of deal aggregation after August 2013.

Audit staff performed an analysis of the potential impact that the unreported trades would have had on the Platts Gas Daily published price index had the trades been reported by COP. Audit staff's analysis found that the largest potential impact on the Platts index would have been $.003, with an average daily impact of $.0007. This potential impact was less than the rounding error used by Platts in its calculation of the daily price index, meaning that it is unlikely that COP's failure to report the daily gas deals had an impact on index prices.

It is the trader's responsibility to completely and accurately enter the deal terms in a timely manner. COP's price reporting process assumes that the deals are correctly entered and does not have a control or review process to detect reportable trades that have been entered in a manner that pre-empts the price reporting process. Audit staff believes that COP needs to implement a control to detect reportable transactions or implement a review that ensures that all trades are reported to price index publishers.

Recommendations

We recommend COP:

1. Strengthen processes and procedures to ensure that all reportable natural gas transactions are reported to price index publishers, and

2. Conduct employee training for natural gas traders, risk management personnel, and all other employees contributing to the price reporting function, regarding proper recording of natural gas transactions, and the impact that improper recording may have on COP's price reporting function.

2. FERC Form No. 552 Reporting

COP aggregated natural gas volumes purchased and sold by affiliate companies on its 2010, 2011, and 2012 Form 552s, but did not disclose the name of an affiliate company in those filings due to a lack of controls in its Form 552 preparation process. Although COP's reported volumes on the 2010, 2011, and 2012 Form 552 filings were accurate, the omission of the affiliate company's name resulted in a lack of transparency to users of the Form 552.

Pertinent Guidance

The General Instructions for Form 552 state, "Aggregation across Affiliates (or members of a public joint action agency) is permitted, though not required. The Respondent must complete the "Schedule of Reporting Companies" (page 3), which lists those Affiliates and a separate "Price Index Reporting" schedule for itself and each affiliate."

Background

Audit staff reviewed COP's corporate structure to identify affiliates that purchase or sell physical natural gas subject to the FERC Form No. 552 filing requirements. This review found that COP affiliate Burlington Resources Oil and Gas (BROG) engaged in physical sales of natural gas during 2010, 2011, and 2012. COP reported these volumes on its 2010, 2011, and 2012 Form 552 filings, but did not disclose BROG as an affiliate in the schedule provided on page 3 of the Form 552s filed with the Commission in 2010, 2011, and 2012.

COP correctly reported physical natural gas volumes transacted by BROG on its Form 552 filings through a comprehensive query of its business segments. However, an error in the preparation of the Form 552s in 2010, 2011, and 2012 led to the omission of BROG from page 3 of the filings. A check was not present in COP's process to ensure that all affiliates were reported in the Form 552. Audit staff recommends that COP strengthen its Form 552 procedures to include verification that all affiliates meeting the reporting threshold are reported on page 3. COP properly identified BROG as an affiliate on its 2013 Form 552.

Recommendations

We recommend COP:

3. Strengthen processes and procedures to ensure it identifies affiliates with reportable volumes of physical natural gas in the FERC Form No. 552, and

4. Revise its 2010, 2011, and 2012 FERC Form No. 552s to include BROG as an affiliate, and file the corrected forms with the Commission within 30 days of issuance of the final audit report.

Appendix A – COP's Response to the Draft Audit Report

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May 28, 2015

Bryan K. Craig
Director and Chief Accountant
Division of Audits and Accounting
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Federal Energy Regulatory Commission
888 First Street, N.E.
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VIA ELECTRONIC MAIL AND OVERNIGHT DELIVERY

Re: ConocoPhillips Company—Docket No. FA14-5-000
Response to Draft Audit Report

Dear Mr. Craig:

ConocoPhillips Company ("ConocoPhillips") appreciates the opportunity to review and respond to the Draft Audit Report ("Draft Report"), which describes the findings and recommendations of the Division of Audits and Accounting ("the DAA") of the Federal Energy Regulatory Commission ("FERC" or "the Commission"). Further, ConocoPhillips appreciates the professionalism and courtesy extended to it by the DAA's staff throughout the audit process.

ConocoPhillips accepts all of the findings and recommendations set forth in the Draft Report. Consistent with FERC's audit process and the Draft Report, ConocoPhillips will submit an implementation plan to the DAA within thirty (30) days of the issuance of a final audit report in this matter. Additionally, and consistent with the DAA's recommendations, ConocoPhillips also will revise and re-file its 2010, 2011 and 2012 FERC Form No. 552s within thirty (30) days of the issuance of a final audit report in this matter.

Further, ConocoPhillips will submit quarterly progress reports and supporting documentation to the DAA not later than thirty (30) days after the end of each calendar quarter to describe its progress in completing the corrective actions recommended by the DAA. ConocoPhillips will begin submitting such quarterly reports with the first calendar quarter after the issuance of a final audit report and will continue to submit such quarterly progress reports to the DAA until ConocoPhillips completes all recommended corrective actions.

ConocoPhillips appreciates the DAA's assistance throughout the audit process.

Respectfully submitted,

Casey P. McFaden

Casey P. McFaden
Attorney for ConocoPhillips Company

cc: Sylvia Anderson, Audit Manager, FERC
Michael Bullard, Auditor-In-Charge, FERC

Document Content(s)