

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

In Reply Refer To:
Office of Enforcement
Docket No. FA11-18-000
January 26, 2012

Total Gas & Power North America, Inc.
Attention: Ms. Sally Vaughan
Internal Controller
1201 Louisiana, Suite 1601
Houston, TX 77002

Dear Ms. Vaughan:

1. The Division of Audits in the Office of Enforcement (OE) has completed an audit of Total Gas & Power North America, Inc (Total Gas) for the period of January 1, 2009 through December 31, 2010. The audit evaluated Total Gas' 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.¹ The audit also included selective tests of Total Gas' 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 finding and recommendations.

2. On December 22, 2011, you notified us that Total Gas agrees with audit staff's finding and four recommendations in the audit report. The audit report identified that Total Gas did not report the correct amounts for physical natural gas purchase and sales volumes in its 2009 FERC Form No. 552. The recommendations require Total Gas to update procedures, correct and refile its 2009 FERC Form No. 552, and reexamine its 2010 FERC Form No. 552. Total Gas' comments acknowledge that it has or will take corrective actions to address the recommendations in the audit report. We included a copy of your response as an appendix to the audit report. Docket No. FA11-18-000 is now closed.

¹ *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).

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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. Total Gas 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 Total Gas & Power
North America, Inc.**

Docket No. FA11-18-000
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 Total Gas. The audit evaluated Total Gas' 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.¹ The audit covered the period January 1, 2009 through December 31, 2010.

B. Total Gas & Power North America, Inc.

Total Gas is an affiliate of Total, S.A. (Total), a French *société anonyme* (limited company) incorporated in France. Total operates in more than 130 countries and has activities in three business segments, including upstream (oil and gas exploration, development, and production, and liquefied natural gas (LNG)), downstream (refining, marketing, and the trading and shipping of crude oil and petroleum products), and chemicals (petrochemicals and fertilizers). Total also has interests in coal mining and power generation. In the United States, Total Gas markets natural gas in the West, Mid-Continent, Midwest, Northeast, Texas, Gulf Coast, and Southeast regions.

In its 2009 FERC Form No. 552 Total Gas reported physical natural gas purchase volumes of 1,600 trillion British thermal unit (Tbtu) and sales volumes of 1,477 Tbtu. Among the top 20 natural gas sellers, Total Gas ranked 6th and 5th, respectively, for volume of total sales and total purchases reported in the FERC Form No. 552. Total Gas indicated that it reports natural gas transactions to price index publishers. Therefore, all of their index forming transactions contribute to the formation of price indexes at hubs and city gates where it trades.

C. Summary of Compliance Finding

Audit staff identified one area of noncompliance related to the reporting accuracy of physical natural gas purchase and sales volumes in the 2009 FERC Form No. 552. Audit staff based its finding on a review of materials Total Gas provided in response to data requests, employee interviews, and information reported in its FERC Form No. 552.

¹ *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).

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Details of this finding are in Section IV of this report.

D. Summary of Recommendations and Corrective Actions Taken

Audit staff recommends that Total Gas take corrective action to address the four recommendations below. Details for these recommendations are discussed in Section IV of this report.

1. Update procedures for preparing the FERC Form No. 552 to ensure it accurately reports physical natural gas transactions volumes.
2. Revise the 2009 FERC Form No. 552 to reflect corrected volumes for each category, and total purchases and sales.
3. File the corrected 2009 FERC Form No. 552 with the Commission within 30 days of issuance of the final audit report.
4. Examine the 2010 FERC Form No. 552 data to ensure that the errors found in the 2009 report are not being carried forward.

E. Compliance and Implementation of Recommendations

Audit staff further recommends that Total Gas submit to audit staff for review within 30 days of issuance of the 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. 552.² The order has its genesis from the Energy Policy Act of 2005, which added section 23 of the Natural Gas Act (NGA).³ 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.”⁴ 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.⁵ 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 Commission a FERC Form No. 552, under the form’s definitions and general

² *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).

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

⁴ 15 U.S.C. § 717t-2(a)(1) (2006).

⁵ *Transparency Provisions of Section 23 of the Natural Gas Act*, 72 Fed. Reg. 20,791 (Apr. 26, 2007), FERC, Stats. & Regs. ¶ 32, 614 (2007).

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 a 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.⁶

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.

⁶ *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

Audit objectives were to evaluate Total Gas' 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 report 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 Total Gas' compliance with the audit objectives. Audit staff then reviewed publicly available information to understand Total Gas' corporate environment, business operations, customer activities, and regulatory history relevant to the FERC Form No. 552. Audit staff conducted substantive testing to determine whether Total Gas 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:

- *Gathered Relevant Data:* Audit staff issued data requests to Total Gas. 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 Total Gas' compliance with the FERC Form No. 552 requirements. Responses to data requests also provided information about the structure and operation of Total Gas' regulatory compliance program.
- *Conducted Interviews and Teleconferences:* Audit staff interviewed Total Gas 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:* 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 Total Gas' compliance with requirements relevant to the audit scope:

- *Reporting of Affiliates:* Audit staff reviewed corporate organizational charts and held discussions with Total Gas to identify all affiliates that purchased or sold physical natural gas subject to the reporting requirements of the FERC Form No. 552.
- *Reporting to Price Index Publishers:* Audit staff requested supporting documentation and held discussions with employees to determine whether Total Gas 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 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. Total Gas provided this data on a monthly basis for January 1, 2009 through December 31, 2009.
- *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.
- *Reportable and Nonreportable Transactions:* Audit staff analyzed physical natural gas transactions to ensure Total Gas 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.

Total Gas & Power North America, Inc.

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Besides these actions, audit staff reviewed Total Gas' 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 Total Gas' regulatory compliance program structure, including its authority and responsibilities for overseeing corporate compliance and the delegation of compliance responsibilities at the department level.
- Reviewed Total Gas' Internal Audit department structure, including chain-of-command and access to the Board of Director 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 Total Gas' compliance program.

IV. Finding and Recommendations

1. Reporting of Physical Natural Gas Purchase and Sales Volumes

Total Gas did not report the correct amounts for physical natural gas purchase and sales volumes in its 2009 FERC Form No. 552.

Pertinent Guidance

The Commission's instructions for filing the Form 552 require the respondent to include the volumes of physical natural gas transactions that use indexes in volumetric data submitted in FERC Form No. 552 as follows:

- Transactions that Use Daily Indices (line 3 of page 4) - delivery of natural gas pursuant to a transaction that refers to published daily index, which is used to price natural gas. The index is usually a gas index, but other indices such as coal, petroleum, LNG, inflation, etc. or a basket of indices maybe used.
- Transactions that Use Monthly Indices (line 5 of page 4) - delivery of natural gas pursuant to a transaction that refers to a published monthly index, which is used to price natural gas. The index is usually a gas index, but other indices such as coal, petroleum, LNG, inflation, etc. or a basket of indices may be used.

The Commission's instructions for filing the Form 552 require the respondent to include the volumes of physical natural gas transactions that can or may contribute to gas index formation in volumetric data submitted in Form 552 as follows:

- Trigger Agreements (line 6 of page 4) - a NYMEX trigger transaction that is contingent upon a futures contract that trades on an exchange, resulting in an automatic physical trade at an agreed upon price. If such a Fixed Price physical transaction was triggered or originated by a NYMEX futures contract during bidweek and can contribute to an index, it is reportable.

Background

In 2009, Total Gas reported total physical natural gas purchase and sales volumes of 1,600 TBtu and 1,477 TBtu, respectively. As reflected in the table below, Total Gas reported inaccurate transaction volumes it contracted at prices that refer to published daily

Total Gas & Power North America, Inc.

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and monthly indices on lines 3 and 5, and through trigger agreements on line 6. This resulted in Total Gas over-reporting purchase volumes by 87 TBtu and under-reporting sales volumes by 38 TBtu on line 1 of its 2009 FERC Form No. 552.

Line	Item	Over/Under Amount	
		Purchases (TBtu)	Sales (TBtu)
1	Total Physical Natural Gas Transactions	87	(38)
3	Prices that refer to Published Daily Indices	30	(130)
5	Prices that refer to Published Monthly Indices	57	89
6	Trigger Agreements, such as NYMEX Plus	0	3

Total Gas said amounts reported on these lines included incorrect volumes, purchase transactions mistakenly reported as sales volumes, sales transactions mistakenly reported as purchase volumes, and missing transactions. These errors occurred in the Company's compiling of individual transactions from its trade database into the FERC Form No. 552 reporting format.

Reporting accurate information in the FERC Form No. 552 is important. This report provides information about physical natural gas transactions that use, contribute to, or may contribute to a natural gas price index. This reporting requirement is aimed at providing market participants and other users information on price transparency for transactions of physical natural gas in interstate commerce.

Recommendations

We recommend Total Gas:

1. Update procedures for preparing the FERC Form No. 552 to ensure it accurately reports physical natural gas transaction volumes.
2. Revise its 2009 FERC Form No. 552 to reflect corrected volumes for each category, and total purchases and sales.
3. File its corrected 2009 FERC Form No. 552 with the Commission within 30 days of issuance of the final audit report.
4. Examine the 2010 FERC Form No. 552 data to ensure that the errors found in the 2009 report are not being carried forward.

V. Appendix

TOTAL GAS & POWER NORTH AMERICA, INC.

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

Sally Vaughan
Internal Controller
Total Gas & Power North America, INC
1201 Louisiana Street
Suite 1600
Houston
Texas
77021

12/22/11

Audit of FERC Form No. 552
for Total Gas & Power
North America, Inc.

Total Gas & Power North America, INC

Feedback to Audit points by Sally Vaughan, Internal Controller.

Dear Brian K. Craig,

Total Gas & Power North America, INC. Agree with the findings and recommendations in the 2011 552 Audit performed by FERC and are implementing the below corrective action.

Please find below my comments and corrective plans for the above audit points.

Update procedures for preparing the FERC Form No. 552 to ensure it accurately reports physical natural gas transaction volumes.

Total Gas & Power NA, INC have improved the 552 procedure by automating the query of data to be used to complete and submit the 552. Each submitted year will now be tested on a regular basis to ensure changes above the tolerance are re submitted within a timely manner.



1201 Louisiana, Suite 1600, Houston, TX 77002
Tel 713.647.4000 - Fax 713.647.4030

TOTAL GAS & POWER NORTH AMERICA, INC.

Implementation – Jan 2012

Revise its 2009 FERC Form No. 552 to reflect corrected volumes for each category, and total purchases and sales.

Total Gas & Power will use this new tool to revise the 2009 552 data

Implementation – Jan 2012 (within 30 days of the final audit report)

3. File its corrected 2009 FERC Form No. 552 with the Commission within 30 days of issuance of the final audit report.

Now the Audit is complete Total Gas & Power NA, INC will resubmit the 2009 552 data. Jan 2012

Implementation – Jan 2012 (within 30 days of the final audit report)

Examine the 2010 FERC Form No. 552 data to ensure that the errors found in the 2009 report are not being carried forward.

Total Gas & Power NA, INC will use the new tool to re consider the 2010 552 data.

Implementation – Jan 2012 (within 30 days of the final audit report)



Sally Vaughan
Internal Controller



1201 Louisiana, Suite 1600, Houston, TX 77002
Tel 713.647.4000 - Fax 713.647.4030

Document Content(s)

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