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SHEBERGHAN GAS GENERATION ACTIVITY (SGGA)

Contract No. EPP-I-00-03-00004-00, Task Order No. AID-306-TO-12-00002

SGGA Inception and Status Report

(Deliverable 1-1)

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Acronyms and Abbreviations

AEAI	Advanced Engineering Associates International, Inc.
AFMIS	Afghanistan Financial Management Information System
AGE	Afghan Gas Enterprise
DG	Director General (of MoM)
DM	Deputy Minister (of MoM)
E&Y	Ernst and Young
FIDIC	International Federation of Consulting Engineers
GIRoA	Government Islamic Republic of Afghanistan
Grantee	Ministry of Mines
HR	Human Resources
IL	Implementation Letter
MoF	Ministry of Finance
MoM	Ministry of Mines
OFM	Office of Financial Management (USAID)
O&GS	General Directorate of Oil & Gas Survey
SGDP	Sheberghan Gas Development Project
SGFD-I	Phase I - Sheberghan Gas Field Development
SGGA	Sheberghan Gas Generation Activity
SGSMU	Sheberghan Gas Supply Management Unit
SPMT	Sheberghan Project Management Team (SPMT)
USAID	United States Agency for International Development
USD	United States Dollar
USG	United States Government

1 Executive Summary

The Sheberghan Gas Generation Activity (SGGA), supported by the Task Order No. AID-306-TO-12-00002 awarded December 16th, 2011, provides Off-budget Technical Assistance through Advanced Engineering Associates International, Inc. (AEAI) to serve as a technical and financial advisor to the Ministry of Mines (MoM) for the Sheberghan Gas Development Project (SGDP). That support also includes quality assurance/quality control (QA/QC) for the (financial information omitted) On-budget funding for SGGA: Phase I. Sheberghan Gas Field Development (SGFD-I) and Phase II. Construction of a Gas Processing Plant, the Sheberghan Gas Development Project.

After twelve months of SGGA performing activities to support the SGDP, the purpose of this “Program Status and Inception Report” is more focused on providing USAID with the status of the activities that have been undertaken under SGGA.

Related to the Off-budget Technical Assistance, this report groups the activities into two categories: the first group are the Preliminary Activities Category consisting of the activities and status of the “Condition Precedents” included in the Implementation Letter (IL) No. 1 and its two attachments signed by Ministry of Mines (MoM) and USAID on 21 May 2012; the second group are the Off-budget Primary Activities Category consisting of the activities included in Contract Modification #2 (MOD # 2) between USAID and AEAJ signed on 14 November 2012.

The Off-budget Primary Activities Category herein included are:

- 3.2.1 Capacity building
- 3.2.2 Project Management Unit (PMU)
- 3.2.3 Gas Market Feasibility Study

About the activities part of the On-budget funding for SGGA, this Report is mainly reporting the status of the activities related to the tender for the rehabilitation of two existing gas wells and the drilling of up to two additional gas wells, Procurement of Works for Development of BashiKurd/Juma Gas Field, since the rest of the On-budget activities depend on the result of this tender.

Greater details about plans for work, including Off-budget and On-budget activities for the following year are covered in the Revised Annual Work and Staffing Plan, Deliverable 1-2.

Table 1-Deliverable 1-2

Objective 1: Technical Assistance, Training, and Capacity Enhancement			
Deliverable	Description	Base Due	Turn-in-Date
1-2	Revised Annual Work and Staffing Plan	45 days after effective date of Mod 02	12/29/2012

2 Background

The foundation of the Sheberghan Gas Development Project (SGDP) is the United States Agency for International Development’s (USAID) Strategic Objective Grant Agreement for a Thriving Economy Led by the Private Sector (USAID Grant Agreement No.306-05-00, “the Agreement”).

2.1 Sheberghan Gas Development Project (SGDP)

The SGDP includes two distinct components to be implemented in two separate phases as follows:

Phase I: Sheberghan Gas Field Development (SGFD-I):

This component of SGDP includes the rehabilitation of two existing gas wells and drilling of up to two additional gas wells. The objective of this component is to prove gas reserves and develop the wells for gas production.

Phase II: Construction of a Gas Processing Plant:

This component of SGDP includes the construction of a gas processing plant capable of sweetening sufficient gas from the Sheberghan wells to meet the needs of the planned 200 MW Independent Power Producer's (IPP) plant, which is expected to be constructed by the private sector. This includes the continuous removal of sulfur and other contaminants from the raw gas is a prerequisite for utilization by the IPP plant.

2.2 Sheberghan Gas Generation Activity

The Sheberghan Gas Generation Activity (SGGA), supported by the Task Order No. AID-306-TO-12-00002, provides "Off-budget" technical assistance through AEAI to serve as a technical and financial advisor to the MoM for the Sheberghan Gas Development Project (SGDP). That support also includes quality assurance/quality control (QA/QC) for the \$ (financial information omitted) On-budget funding for SGDP Phase I (SGDP – I). Sheberghan Gas Field Development and Phase II. Construction of a Gas Processing Plant.

The focus of this Inception and Status Report is SGDP - I work alone since Phase II work will depend on the findings of Phase I.

3 Off-Budget –Technical Assistance

3.1 Off-Budget Preliminary Activities Category- IL Conditions Precedent

The United States Agency for International Development (USAID) – which has been a key agent in restoring and modernizing the energy sector since 2004 as a lynchpin for the country's peaceful development –crafted Implementation Letter (IL) No. 1 to delineate the conditions upon which the United States Government (USG) would transfer funding to pay for Phase I - Sheberghan Gas Field Development (SGFD-I). The IL also requires the GIRoA to implement government institutional business reforms that will help to safeguard the funds involved and increase the capacity of the Ministry of Mines (MoM) as the Grantee and primary agency of GIRoA for the development of the Sherberghan gas fields.

USAID contracted with Advanced Engineering Associates International, Inc. (AEAI, or Contractor) to provide expert advice, technical assistance and capacity building support for SGDP-I through the implementation of the complementary Sherberghan Gas Generation Activities (SGGA).

AEAI is executing the SGGA, through which USAID continues to assist MoM in many different ways, particularly in satisfying the IL fifteen (15) Conditions Precedent to release of funds for SGDP.

At the time of this Report MoM, assisted by SGGA, has completed 100% with the IL No. 1 Conditions Precedent, and submitted to USAID as follow:

- 7 of the 15 Conditions Precedent were fairly straightforward and were processed in a first package on 7 August 2012;
- of the 15 were more complex and were processed in a follow-up second package on 18 August 2012;
- 3 of the 15 are non-precedent to the first distribution and were processed as a third package by 26 November 2012

Table 2 below shows the fifteen Condition Precedents together with the Turn-In Date

Table 2-IL No. 1, Conditions Precedent (C.P.)

Implementation Letter No. 1 – Conditions Precedent (C.P.)			
Order	Reference	Subject of Condition Precedent	Turn-In Date
C.P. # 1	Atch 2, Para I(a)	Establish a special United States Dollar account for SGDP at Da Afghanistan Bank, non-commingled.	18-Aug-12
C.P. # 2	Atch 2, Para I(b)	Include SGDP in GIRoA's annual budget.	7-Aug-12
C.P. # 3	Atch 2, Para I(c)(i)	Establish a Monitoring and Evaluation Committee.	7-Aug-12
C.P. # 4	Atch 2, Para I(c)(ii)	Develop a Monitoring, Evaluation, and Reporting Plan.	7-Aug-12
C.P. # 5	Atch 2, Para I(d)(i)	Develop a Sustainability or Operations and Maintenance Plan for SGDP.	18-Aug-12
C.P. # 7	Atch 2, Para I(e)(ii)	Provide evidence that it has established, approved, and implemented a Procurement Committee.	7-Aug-12
C.P. # 8	Atch 2, Para I(e)(iii)	Provide a MoM Procurement Manual.	18-Aug-12
C.P. # 9	Atch 2, Para I(f)(i)	Provide the plan to transition its current financial management system to a computer-based, fully integrated financial management information system where the Afghanistan Financial Management Information System (AFMIS) may serve as the base system.	7-Aug-12

C.P. # 10	Atch 2, Para I(f)(ii)	Provide a copy of the MoM established, approved, and operational cash control system procedures.	7-Aug-12
C.P. # 11	Atch 2, Para I(g)	Provide a plan outlining the types, qualifications, and numbers of grantee staff who will be assigned to work on SGDP to include vacancy recruiting plans.	18 Aug 12
C.P. # 12	Atch 2, Para I(h)	Provide its certification to USAID that (1) no USAID funds will be used to purchase ineligible commodities; (2) no USAID funds will be used to finance a restricted commodity; and (3) no USAID funds will be used deal with ammonium nitrate or calcium ammonium nitrate. The Grantee will transfer these conditions into all contracts awarded by it for SGDP and required this be passed along to subcontractors. Additionally, contracts will not be awarded to prohibited sources.	7-Aug-12
C.P. # 13	Atch 2, Para II(i)	Provide on a quarterly basis, a full accounting of all transactions and activities of the Special U.S. Dollar account, including a copy of all monthly bank statements.	26-Nov-12
C.P. # 14	Atch 2, Para II(ii)	Provide on a monthly basis, progress reports on SGDP.	26-Nov-12
C.P. # 15	Atch 2, Para II(iii)	Provide evidence that the MoM has developed and approved a written Human Resource (HR) Manual.	26-Nov-12

There is a more detailed report regarding "MoM SGDP/IL Advice and Support Action Plan with Schedule" (Deliverable 1-4), which elaborates on the conditions precedent work and progress.

Table 3-Deliverable 1-4

Objective 1: Technical Assistance, Training, and Capacity Enhancement			
Deliverable	Description	Base Due	Turn-in-Date
1-4	MoM SDGP/IL Advice and Support Action Plan with Schedule	15 days after effective date of Mod 02	11/29/2012

3.2 Off-Budget Primary Activities Category

The second group is the Off-budget Primary Activities Category consisting of the activities included in MOD # 2 between USAID and AEAI signed on 14 November 2012. These activities are:

- 3.2.1 Capacity building
- 3.2.2 Project Management Unit (PMU)
- 3.2.3 Gas Market Feasibility Study
- 3.2.4 Preparation and submission of deliverables to USAID

3.2.1 Capacity Building

The main focus of the USAID program for SGDP is Capacity Building to all the relevant GIRoA stakeholders for both, the direct and indirect structural elements as well as the design, negotiation, execution and implementation of the SDGP project required to properly establish of it. The relevant GIRoA stakeholders already identified are Ministry of Mines (MoM), particularly the Afghan Gas Enterprise (AGE) and General Directorate of Oil & Gas Survey (O&GS); Ministry of Energy and Water (MEW) and Da Afghanistan Breshna Sherkat (DABS).

The SGDP Capacity Building program will increase the capacity of

- MoM with implementation of infrastructure activities necessary to identify, quantify and develop gas fields, such as testing and re-working existing wells, drilling new wells, and construction of a gas processing (sweetening) plant. This will include assistance to MoM staff in scheduling, procurement, construction, inspection, and all other related gas and electrical power development activities;
- MoM to commercialize the Afghan Gas Enterprise (AGE) or other appropriate entity's components relevant to the SGDP;
- MEW in developing policy and the regulatory foundation for private investment in the power sector, enabling MEW to become a "champion" for private investment by acting as a "single window" point of contact between private investors and GIRoA; and
- DABS in technical and commercial areas directly relevant to the 200 MW IPP, thus assuring DABS becomes a knowledgeable, commercially viable and partner to the SGDP

All components will be carried out in tandem with the SGGA, with the goal of leaving behind sustainable systems, procedures, staff and curricula -- in effect the institutionalization of the outcomes of the SGDP program.

The capacity building design and implementation work were fully described in three reports already delivered: began with Joint Report on Capability and Needs Assessment of MoM, (Deliverable 1-7) continued through the Joint Program Implementation Strategies and Procedures Manual, (Deliverable 1-8) and then captured in the Three-Year Joint Capacity Enhancement, Training, and Mentoring Program with Expat to Afghan Transition Plan, (Deliverable 1-9).

Table 4-Capacity Building Deliverables

Objective 1: Technical Assistance, Training, and Capacity Enhancement			
Deliverable	Description	Base Due	Turn-in-Date
1-7	Joint Report on Capability and Needs Assessment of MoM	45 days after effective date of Mod 02	12/29/2012
1-8	Joint Program Implementation Strategies and Procedures Manual	45 days after effective date of Mod 02	12/29/2012

transmission analysis and load forecasting, policies to attract international investors, definition of single window

“shopping” approach for independent power producers, among others.

3.2.2 Program Management Unit (PMU)

The proper performance of the SDGP work will require a coordinated effort with the applicable GIRoA stakeholders, which is proposed to be formalized in the proposed organizations with the generic title of Project Management Unit (PMU). There will likely be three separate groups, one each for MoM, DABS, and MEW

The MoM PMU has the role to manage daily operations and set priorities to meet the SGDP's goals and requires a dedicated support group, proposed as PMU's during both Phases I and II. The planned PMUs will be responsible for coordinating daily activities as well as providing information and requested guidance to the Ministry of Mines' special Monitoring, Evaluation, and Reporting Committee, the donors, and other stakeholders on all aspects of Sheberghan gas and related infrastructure projects. The PMUs for DABS and MEW will have similar responsibilities of providing information and requested guidance to their senior management, donors and other stakeholders. Additionally, all three PMUs should have key roles in the capacity building effort.

On February 2012, the MoM established a Sheberghan Gas Supply Management Unit (SGSMU), formerly known as the PMU, staffed with Afghan experts, supported by specialists to assist the Ministry by analyzing and addressing policy, institutional, technical, commercial and operational issues concerning gas supply as relevant to the SGPP strategy. MoM renamed the SGSMU to Sheberghan Project Management Team (SPMT).

As part of the SPMT achievements are the establishments of a Monitoring and Evaluation Committee as well as the Procurement Committee.

Figure 2, PMU's Diagram below shows the structure and critical issues for each of the PMU at MoM, DABS and MEW.

Figure 2-PMU's Diagram



In a subsequent report, PMU Agreements with MoM, DABS, and MEW including Expat to Afghan Transition Plans, Deliverables, 1-10, there will be an elaboration on the roles and responsibilities of the SGGA and MoM, DABS, and MEW staff.

Table 5-Deliverable 1-10

Objective 1: Technical Assistance, Training, and Capacity Enhancement			
Deliverable	Description	Base Due	Turn-in-Date
1-10	PMU Agreements with MoM, DABS, and MEW including Expat to Afghan Transition Plan	60 days after effective date of Mod 02	1/13/2013

3.2.3 Gas Market Feasibility Study

In the context of the anticipated considerable gas resource (about 1 TCM) present in the Amu Darya basin in northern Afghanistan, other uses of natural gas need to be assessed, to identify economic priority uses of natural gas. Therefore, SGGA has to prepare a feasibility report addressing the current state of Natural Gas Sector; precondition to expanded demand; priority uses of natural gas based on value added and overall economic benefit; conceptual road map for the development of gas utilization; proposed institutional structure for an expanded gas market.

Correspondingly to the above, USAID Task Order No. AID-306-TO-12-00002, Objective 3: Feasibility Report on Industrial Development of Natural Gas Market in Afghanistan, SGGA is mandated to prepare two reports: Deliverable 3-1 Report on Current State of Natural Gas Sector, and Deliverable 3-2 Final

Feasibility Report on Industrial Development and Natural Gas Market Development in Afghanistan, deliverables following the schedule below:

Table 6-Gas Market Deliverables

Objective 3: Feasibility Report on Industrial Development of Natural Gas Market in Afghanistan			
Deliverable	Description	Base Due	Turn-in-Date
3-1	Report on Current State of Natural Gas Sector	Two months after effective date of Mod 02	01/14/2013
3-2	Final Feasibility Report on Industrial Development and Natural Gas Market Development in Afghanistan.	Six months after effective date of Mod 02	05/14/2013

To complete these deliverables, the involved staff team is gathering all the information, public and official, regarding the natural gas market in Afghanistan such as production, sales, imports, prices, etc. Then they will construct a database for those variables, in a time series format. The staff will also collect economic information about Afghanistan, such as GDP, population, etc. for the status and future analysis purposes. Thereafter the current state of natural gas sector report will be produced.

As part of the effort of gathering information, our staff has held meetings and site visits in Sheberghan with:

- Afghan Gas Enterprise with Eng Sali Mohammad
- Oil and Gas survey with Dr. Outbuddin Qaeym
- Fertilizer Plant
- CNG Facility in Sheberghan City

4 On-Budget – Bid Documents and Tender Process

Concerning the activities part of the On-budget funding for SGGA, this Inception and Status Report is only reporting the status of the activities related to the Bidding Documents (the tender) for the rehabilitation of two existing gas wells and the drilling of up to two additional gas wells, Procurement of Works for Development of Bashikurd/Juma Gas Field, since the rest of the activities depend on the result of this tender.

MoM advertised the Bidding Documents the 3 December 2012, as a "Lump sum" project which Scope includes the design of the operations to drill and/or re-enter four wells, test, complete, and equip them; carry out all required auxiliary operations such as the building or repair of field roads, drill site locations, and contractor camp; providing specifications for and procuring well casing, tubing, other production equipment, and wellheads. The main objective for the drilling program is to prove and develop sufficient gas reserves to supply fuel for a proposed Sheberghan gas-fired power plant near the gas fields.

The publication of the Bidding Documents was an effort of SGGA staff in coordination with MoM, the Government procurement agency - Afghan Reconstruction Development Service (ARDS), and USAID, effort that started with the signing of Implementation Letter No. 1 on 21 May 2012.

After several meetings and exchanging of comments conducted to find an effective contracting mechanism to meet with the requirements under the policies developed by the Procurement Policy Unit (PPU)/ARDS that could also meet the specific contract needs of oil and gas service firms, MoM, working with SGGA staff, ARDS staff and advisors; developed for a tender based on the International Federation of Consulting Engineer (FIDIC) format to invite bids for a fixed price "Lump sum" contract for all well and associated operations, with a single contractor providing all of the services required.

The advertising of the Bidding Documents on 3 December 2012 triggers the following schedule which assumes that no major revisions are required by MoM or ARDS, and also that weather and security conditions do not delay or prevent any step, especially the bidders' conference and site visit.

Release of Bidding Document	3 December 2012
Pre-Bid Conference and site visit in Afghanistan	7 January 2013
Submission of written Questions by bidders	8 January 2013
Response to Questions by MOM	10 January 2013
Deadline for bid submission at 1400 hours Kabul	2 February 2013
Expected date of contract award:	8 May 2013
Expected mobilization of rig and equipment to site	8 July 2013

Greater details about SGGP coordination efforts to release of Bidding Document were covered in Deliverable 2-1, Report on Draft of Drilling Contract Tendering Documents for Review, which it is the first of three deliverables associated with this tender.

Table 7- Deliverable 2-1

Objective 2: Provide Procurement Support to MoM to implement the SGDP			
Deliverable	Description	Base Due	Turn-in-Date
2-1	Report on Draft of Drilling Contract Tendering Documents for Review	30 days after effective date of Mod 02	12/14/2012