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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 Quarterly Report

(Section F, Paragraph B (3))

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Acronyms and Abbreviations

APA	Afghanistan Petroleum Authority
ARDS	Afghanistan Reconstruction Development Service
COR	Contracting Officer's Representative
DABS	Da Breshna Afghanistan Sherkat
IL	Implementation Letter
kV	Kilovolt
LTA	Legal Transaction Adviser
MCM	Million Cubic Meters
MEW	Ministry of Energy and Water
MoMP	Ministry of Mines
NEPA	National Environmental Protection Agency
NEPS	North East Power System
OPIC	Overseas Private Investment Corporation
PSMP	Power Sector Master Plan
QA	Quality Assurance
SGGA	Sheberghan Gas Generation Activity
SGDP	Sheberghan Gas Development Project
TFBSO	Task Force for Business and Stability Operations
USAID	United States Agency for International Development

1. Implementation Letter Conditions Precedent (IL 45-01)

Progress of Major Activity	Problems Encountered	Remedial Steps Taken/Recommended
Approval of Conditions Precedent. By November of 2012, all of the IL Conditions Precedent required within Attachment 2 had been completed by the Ministry of Mines and submitted to USAID.	The approvals were processed via IL Amendment 45-04; however it only included the conditions that were precedent to the first disbursement.	Discussed with counterparts and determined that an additional IL Amendment will be processed to cover the remaining conditions precedent as soon as the on-budget committee completes its review.

2. MoM Procurement Technical Assistance (Objective 2)

Progress of Major Activity	Problems Encountered	Remedial Steps Taken/Recommended
Drilling Tender Progress. The drilling tender ran nearly its full course during this quarter, from shortly after issuance of the tender to bid opening; The Ministry of Mines granted two 14 day extensions to bid opening date.	Because this is an on-budget program, SGGA deferred to MoM; each extension required a formal tender amendment and SGGA provided technical assistance to MoM to issue the amendments through ARDS.	SGGA advised the Ministry to closely scrutinize further bid opening extensions, as the tender had already been out for 90 days; the Ministry agreed and did not grant a third extension of 30 days requested on 26 Feb 13.
Drilling Tender Bid Opening. The bid opening was conducted at 2pm on 2 Mar 12.	Four bids were received; the second lowest was disqualified for submitting a late bid security. This left three responsive bids with prices of: \$29.9M, \$109M, and \$137M.	The loss of the second lower priced bid due to a late bid security has left the Ministry with realistically only one viable bid as the Bid Evaluation Committee entered into deliberations. The lack of any backup option to the apparent low bidder has caused the Ministry great concern. At the end of the quarter, SGGA was assisting USAID and the Ministry in reviewing options for moving forward with obtaining a drilling contractor.
Petroleum Engineering Services Tender Progress. The Ministry of Mines posted a 30 day Expression of Interest through ARDS, but the Ministry was unable to shortlist the required minimum six firms.	The Ministry and ARDS decided to reach out to industry in an attempt to obtain additional companies to shortlist in hopes of increasing from one firm to six.	The biggest problem is that ARDS' advertising in local papers and on the internet falls short in obtaining regional and international interest; the SGGA assisted by advertising in the Khaleej Times (Dubai) in hopes of obtaining greater Gulf country interest.

3. DABS Technical Assistance (Objective 1)

Progress of Major Activity	Problems Encountered	Remedial Steps Taken/Recommended
Dispatch Technical Assistance. Prepared a scope of work to subcontract with Siemens Industry USA, a previous USAID contractor for DABS' NEPS Load Flow and Stability Analysis in Afghanistan.	Research to determine the best firm capable of assisting SGGA with this support, eventually made it clear that only one firm possessed the DABS' NEPS technical data: Siemens.	SGGA is preparing a Request for Consent to Subcontract package and will soon forward the request to USAID for review/approval (though researched and started this quarter, the request will be submitted next quarter).
DABS Mazar-e-Sherif Assessment for Operations Department.	Assessment identified technical challenges faced by Breshna Mazar Operation Department as: <ul style="list-style-type: none"> To continue with the replacement of the old 6kV distribution system redefining the feeder routes along the city and the conductor size depending on the load. To increase the transportation resources to reduce the interruption time due to maintenance and feeder failures. 	In process of completing the assessment process and determining future steps to ensure completeness of defining challenges.
DABS Mazar-e-Sherif Assessment for Commercial Department.	Assessment identified the challenges faced by the Mazar Breshna Commercial Department: <ul style="list-style-type: none"> Meter Reading: Bill Process. Customer Services. 	The assessment is being completed and will be reviewed to determine its effectiveness in identifying these challenges.

4. Capacity Development (Objectives 1 & 5)

Progress of Major Activity	Problems Encountered	Remedial Steps Taken/Recommended
MoM Capacity Development. Held four formal training sessions for the Ministry of Mines during this quarter: Introduction to Oil and Gas Engineering (8 students) Exploration & Production Investment in the Oil and Natural Gas Industry (16 students) Organizational Development (23 students), and Gender Training (16 students).	The Ministry is creating a new division, the Afghanistan Petroleum Authority (APA), headed by a Director General answering directly to the Minister. According to information available to the SGGA, several individuals with whom SGGA has been working will not transfer to the new division.	Until APA staffing is settled, SGGA has been and will continue to concentrate on capacity development of general application. When APA staffing is better determined, SGGA will focus training on individuals the Ministry will require for managing drilling contractor operations, including a contract manager and on-location representatives.
MoM Bid Evaluation Committee Training. Three orientation modules	The bid opening took place on 2 Mar 13. Despite repeated SGGA	MoM finally allowed SGGA to conduct bid evaluation training on 10

Progress of Major Activity	Problems Encountered	Remedial Steps Taken/Recommended
related to the bid opening and evaluation were prepared: Tender requirements, technical evaluation, and bid opening/bid evaluation documentation.	offers to provide training the Ministry's Project Manager did not respond promptly to requests to schedule the training. The day after the bid opening the project manager and his deputy visited SGGA to discuss their high concern and inability to understand why one of the bids was disqualified when the bid security was submitted nearly an hour after bids were closed.	Mar 13. It took an awkward bid opening and the late bid security for the Project Manager to realize how important the bid evaluation training was, though fortunately, the committee postponed the start of bid evaluation (by seven days) start until after the training was provided.
DABS Capacity Development.	Assessment identified training opportunities to improve Breshna Mazar Operation Department, such as: <ul style="list-style-type: none"> • To improve the management and analysis skills on all departments' level. • To reinforce the capability in the design and construction of Distribution Networks, coordination of the protection relays, load forecasting. 	In the process of coordinating with the Office of Economic Growth and Infrastructure to ensure that SGGA and other USAID capacity development efforts at DABS do not overlap or leave gaps.

5. Policy Support (Objectives 3 & 4)

Progress of Major Activity	Problems Encountered	Remedial Steps Taken/Recommended
USAID Approval of Environmental Scoping Study.	Due to miscommunications about the review process, there were concerns that the required environmental scoping study had not been approved.	The COR investigated and determined that the draft submitted had been approved by the USAID Bureau Environmental Officer in January; Bureau Environmental Officer approved the final study on 5 Mar 13.
Afghan National Environmental Protection Agency Approvals for Re-entry/Drilling Operations.	Unlike usual process, in which a production sharing contract prepares and submits the application to NEPA, for the planned work the Ministry, as the field owner and operator, will need to submit the application to NEPA.	SGGA is assisting the Ministry to prepare the NEPA application, which will include the now-approved environmental scoping study (in NEPA terms, the "screening study") and a proposed environmental management plan.
MoM Gas Business Unit.	The Ministry has indicated informally to SGGA that the gas supply operations for SGDP will likely be under the control of a proposed Afghan Petroleum Corporation,	SGGA met with with TFSBO to begin coordination of effort with the goal of assuring that corporatization is carried out so as not to conflict with organizational and legal

Progress of Major Activity	Problems Encountered	Remedial Steps Taken/Recommended
	which will be formed from the existing Afghan Gas State Owned Enterprise. TFBSO is providing the Ministry legal and financial expertise to accomplish the conversion of Afghan Gas to a commercial corporation as provided by Afghan law.	requirements seen as necessary for SGDP success.
MEW/DABS review of ADB's Power Sector Master Plan (PSMP) done by Fichtner.	SGGA assisted MEW and DABS in the preparation of comments to the PSMP being the major ones related to the evaluation of the different options to synchronize Sheberghan thermal power plant to Turkmenistan and NEPS systems and the evaluation, by Fichtner, of how the Afghan power system would remain stable after the contingency of losing a 500kV projected transmission line.	MEW and DABS Comments were to be addressed by Fichtner and ADB during the Final Review meeting of the Power Sector Master Plan on 11 Feb 13 and to include the evaluations and solutions in the final version of the PSMP. Waiting results from 11 Dec 13 meeting to determine impact, if any on Sheberghan project.

6. Transactions Involving Sale of Gas and Purchase of Power (Objective 5)

Progress of Major Activity	Problems Encountered	Remedial Steps Taken/Recommended
Legal Transaction Advisors.	SGGA, under Task 5 of its SOW is to provide "Legal Transaction Advisors" (LTAs) to the Ministry of Mines and DABS. Items for the SOW for the LTAs provided by OPIC and the IPP investors the reasonable scope and budget for the requirements of Task 5. At a December 2012 meeting, OPIC was requested to limit its request and to allow SGGA to obtain local legal support to perform some of the work. OPIC has not provided a formal response to that request.	SGGA anticipates that Afghan legal support for local issues could be arranged within the next month. Retaining local counsel could be the catalyst to re-visit and finalize the LTA scope and work arrangements.
Sale of Gas / Purchase of Power.	Director General Jumriany has expressed concern that the "placeholder" gas price of US\$104/MCM for SGGA's economic model would be criticized by the Ministry of Finance; and that too low gas prices would be a disincentive to future gas exploration and production investment.* It appears that it is likely that the Ministry and	SGGA has proposed that major business issues such as gas and power issues be resolved through consultations among key ministries, including Finance, Economy, and Commerce and Industry. SGGA is prepared to support this resolution process with technical support as requested.

Progress of Major Activity	Problems Encountered	Remedial Steps Taken/Recommended
	<p>DABS may not be able to reach an agreement on price, and that DABS may turn to better priced offers for its supply.</p> <p>* The current SGGA model indicates the following retail electricity/gas price relationship: 8.9 ¢ per kWh at \$180 MCM 8 ¢ per kWh at \$150 MCM 7.1 ¢ per kWh at \$120 MCM (based on 200MW capacity at 85% power dispatch).</p>	

7. Infrastructure Activities (Objective 2)

Progress of Major Activity	Problems Encountered	Remedial Steps Taken/Recommended
<p>Gas Gathering System.</p>	<p>Task 2.e. requires SGGA to provide technical assistance for the design and construction of a gas gathering system ("field collector lines and main manifold feeder line" from the fields to the gas processing facility. An additional implementation letter will be needed to define funding.</p>	<p>Taking into consideration the difficulties experience to date in tendering for oil and gas projects in Afghanistan, SGGA is preparing a a conceptual engineering study to support a tender for design and construction of the needed gas gathering system. The first draft of the study was completed on 28 March.</p>
<p>Gas Processing Plant.</p>	<p>Task 2.f. requires SGGA to provide technical assistance for the design and construction of the proposed gas treatment plant. Given the large expense of constructing such a plant, design concepts for the plant should take into account future demand for gas that will require treatment.</p>	<p>SGGA is preparing a conceptual study to support a tender for design and construction of the gas treatment plant. The study examines estimated gas supplies that might be treated at this plant if demand increases. Potential gas supply in the area includes fields currently being re-worked under Asian Development Bank funding and others available for possible future private investment in gas exploration and development.</p>

8. Deliverables Submitted This Period (Section F)

Objective 1: Technical Assistance, Training, and Capacity Enhancement		
No.	Description	Date Submitted
6	IL/SGDP Activities Performance Report (Note, currently this is a consolidation of two required monthly report requirements, pending the commencement of drilling contractor mobilization, at which time Objective 2, Deliverable 9 reporting (Special Weekly, Monthly, and Quarterly QA and Progress Reports on drilling gas gathering/processing performance results) will begin.)	Monthly, By the 7 th of following month. Submitted three Monthly Reports during this period.
10	PMU Agreements with MoM, DABS, and MEW including Expat to Afghan Transition Plans.	13 Jan 13
Objective 2: Provide Procurement Support to MoM to implement the SGDP		
No.	Description	Date Submitted
2	Report on Completed and Issued Drilling Contract Tendering Documents.	13 Jan 13
8	Final Environmental Terms of Reference (Environmental Assessment/Evaluation).	23 Jan 13
10	Support Joint Capacity Enhancement, Training, and Mentoring Program including Expat to Afghan Transition Plan.	On-going
Objective 2: Transactions and Reform Advice and Support		
No.	Description	Date Submitted
1	Model Gas Supply Agreement.	12 Jan 13
3	Multiple Corporatization Models including Public Private Partnerships.	14 Feb 13
4	Single Window Strategy for Promoting Private Investment and Participation in the Power Sector.	14 Feb 13
5	Support Joint Capacity Enhancement, Training, and Mentoring Program including Expat to Afghan Transition Plan.	On-going
Objective 3: Feasibility Report on Industrial Development of Natural Gas Market in Afghanistan		
No.	Description	Date submitted
1	Report on Current State of Natural Gas Sector.	15 Jan 13