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AFGHANISTAN

SHEBERGHAN GAS GENERATION ACTIVITY (SGGA)

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

Monthly Report

Period: February 1 – February 29, 2012

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Acronyms and Abbreviations

AC	Alternating Current
AEAI	Advanced Engineering Associates International, Inc.
ACOTR	Acting Contracting Officer's Technical Representative
ADB	Asian Development Bank
AGE	Afghan Gas Enterprise
AGS	Afghan Geological Survey
CAC	Common Access Card
CCO	Chief Commercial Officer
CNPC	Chinese National Petroleum Corporation
COO	Chief Operating Officer
COTR	Contracting Officer's Technical Representative
DABS	Da Afghanistan Breshna Sherkat
DC	Direct Current
DCOP	Deputy Chief of Party
DG	Director General
EGAT	Economic Growth and Trade
EIA	Environmental Impact Assessments
EOI	Expression of Interest
GIRoA	Government Islamic Republic of Afghanistan
IL	Implementation Letter
IPP	Independent Power Plant
IPS	Industrial Promotion Services
IRD	International Relief and Development
ISAF	International Security Assistance Force
KED	Kabul Electricity Department
KESIP	Kabul Electricity Service Improvement Project
kV	Kilovolt
kWh	Kilowatt Hour
LLC	Limited Liability Company
LOI	Letter of Intent
MEW	Ministry of Energy and Water
MFF	Multi-Tranche Financing Facility
MMCMD	Million Cubic Meter per Day
MoC	Memorandum of Collaboration
MoE	Ministry of Economy
MoM	Ministry of Mines
MW	Megawatt
NEPS	North East Power System
NFPP	Northern Fertilizer and Power Plant
NW	North West
OAPA	Office of Afghanistan and Pakistan Affairs
OIEE	Office of International Education and Exchange

OPIC	Overseas Private Investment Corporation
PDIL	Projects and Development India Limited
PMC	Program Manager/Coordinator
PMU	Program Management Unit
PPA	Public Private Alliance
PRG	Partial Risk Guarantee
QCBS	Quality and Cost Based Selection
RT	Real Time
SDO RC	Senior Development Officer Regional Command
SGPP	Sheberghan Gas Power Program
SGSMU	Sheberghan Gas Supply Management Unit
SOW	Scope of Work
SVP	Senior Vice President
SWG	Sheberghan Working Group
TA	Technical Assistance
TAPI	Turkmenistan-Afghanistan-Pakistan-India
TBD	To be determined
TCM	Trillion Cubic Meters
TFBSO	Task Force for Business and Stability Operation
TOR	Term of Reference
USAID	United States Agency for International Development
USG	United States Government
VTC	Video Teleconference
WB	World Bank

1 SECTION I

1.1 Sheberghan Working Group Meeting

The first expanded Sheberghan Working Group (SWG) meeting was held on February 1, 2012 at the American Embassy, Kabul. Meeting Minutes, including the list of invitees/participants, are attached as Annex 1.

2 SECTION II

2.1 February Activities

Status (as of February 29, 2012) of Action Items Resulting from the February 1, 2012 SWG Meeting

- USAID will work with GIRoA agencies to execute the Implementation Letter prerequisite to the on-budget funding provided by USAID for the implementation of the gas well drilling and the gas processing plant – The IL is still under preparation and review within USAID;
- USAID will endeavor to have all parties sign an updated Memorandum of Collaboration (MoC) when the Implementation Letter is signed. The MoC was signed in September before the project configuration was finalized. – The original MoC was only partially executed on September 22, 2011; USAID plans to seek execution of the “Updated MoC” at the time of IL execution
- USAID and the State Department will continue consultations with TFBSO on providing transaction advisers to the Ministry of Mines (MoM) and DABS. – Consultations with TFBSO, including OPIC continue.
- AEAI, the Program Manager/Coordinator (PMC) will review the viability of rehabilitating/restarting the Gerquduq Soviet-built gas processing plant to process gas from the Juma and Bashikurd fields and, if deemed viable, develop an approach to establishing cost and feasibility of including this effort in the program in the interest of accelerating the supply of power plant quality gas to the IPP. – PMC seeking expert assistance to re-assess the Gerquduq gas processing plant; one hands-on gas processing expert willing to work in Afghanistan has been identified, but is currently under contract in Tanzania; this expert is well suited to take on the assessment (including dismantling of the plant and rehabilitation if deemed technically and economically viable) because he is not affiliated with a major company, thus he is in a position to manage the risk associated with this type of work; PMC is also in consultation with PDIL (UK/Pakistani) gas processing engineering and construction company; PDIL is prepared to field from their Lahore, Pakistan office five member specialist team to perform estimated 7 days at the site assessment:
 - Mechanical,
 - Instrumentation,
 - Process/Commissioning,
 - Construction
 - Project Management/Subcontracting
- PDIL can field the team immediately subject to housing, security and transportation being available. Estimated total cost of this field assessment is \$ (financial information omitted) as PDIL is willing to do the work at cost and their deployment is only from Lahore, Pakistan; subject to USAID approval the PMC will prepare logistics, etc. and get PDIL ready for field work starting o/a April 20 (due to forthcoming New Year holidays).
- PMC will support DABS in evaluating the viability of power supply from the IPP to the Jowzjan-Balkh-Farah region via 110 kV grid in order to determine the viability of commissioning a modular power plant by the IPP starting in 2013 (assuming gas supply is available). – PMC had several meetings with DABS on this issue; DABS provided power supply/demand table for one year for the target area; the data is being checked and the methodology for establishing these numbers is

being obtained; there are several issues that need to be reconciled to assure the data represents the current situation and can be used for demand projections; work in progress.

- PMC will work with USAID, OPIC, ADB and the WB to develop a process for producing the required environmental impact assessments. – draft analysis and recommended approach have been prepared and will be submitted to USAID for review and further discussion/development and decision on next steps
- USAID will work with the World Bank to coordinate the efforts to corporatize and commercialize Afghan Gas Enterprise (AGE). – Agreement-in-principle on allocation of responsibilities was reached between USAID and the WB; WB TA will handle the “big picture” in the gas sector and the PMC shall focus on “SGPP transaction” related issues; consultation with MoM is still required
- OPIC will provide a Scope of Work for legal assistance to the MoM and DABS regarding sale and purchase of gas and power. – OPIC provided draft SOW;

2.2 Meeting with the ADB

February 7, 2012 – AEAI, the Program Manager/Coordinator (PMC) met with Asad Aleem, Energy Specialist, for consultations following the SWG meeting. Topics included the ADB-funded transmission line projects seen as integral components of the Sheberghan Gas-to-Power Program (SGPP), namely the Sheberghan IPP 220 kV link to Naibabad switching station and Pul-i-Khumri to Kabul transmission expansion (most likely 500 kV either AC or DC. Related ADB activities in the energy sector and the energy sector master plan being prepared by Fichtner were also discussed. Meeting Minutes are attached as Annex 2.

2.3 Meeting with Fichtner

February 9, 2012 – The PMC met with Fichtner representative, Farrukh Mian, to discuss the scope, progress, implementation issues and inclusion of the SGPP 200 MW IPP and its grid interconnection, in the Power Sector Master Plan. Meeting Minutes are attached as Annex 3. The Terms of Reference for the Power Sector Master Plan, including the implementation schedule, are attached as Annex 4.

2.4 Meetings with the Ministry of Energy and Water

February 6, 2012 – The PMC met with Madam Zia Gul Saljuki, Director General of Planning to brief her on the SWG because she was unable to attend the meeting. Meeting Minutes are attached as Annex 5.

February 19, 2012 – The PMC met with the Minister of Energy and Water Ismail Khan, Madam Zia Gul Sajuki, Director General of Planning and Eng. Mohammad Sami, Deputy Minister for Administration and Finance. This meeting was requested by the Minister to discuss the SGPP and the Ministry’s support of the program, the development of IPP structure in Afghanistan and support required for the Power Sector Master Plan. Meeting Minutes are attached as Annex 6.

February 20, 2012 - The PMC met with Madam Zia Gul Saljuki, Director General of Planning, Eng. Malali, Director of Policy Planning and Eng. Hashim (responsible for completing the Electricity Law promulgation effort) of the Ministry of Energy and Water for consultations. Issues discussed:

- Power Sector policy development
- IPP program development and the MEW being a champion of the program providing single stop support to investors
- Guidance of the Power Sector Master Plan being prepared by Fichtner with ADB funding
- Status of the Electricity Law and issues of concern in the “final” draft of the Law

Development of terms of reference for three international advisors and recruitment of the advisors to support the three above activities was also discussed.

Meeting Minutes are attached as Annex 7.

2.5 Meetings with DABS

February 14, 2012 – The PMC met with Mirwais Alami, CCO, Eng. Shekeeb Nessar COO and Khwaja Masood, Director of Planning, of DABS for consultations. Topics included next steps and identification of necessary technical and commercial issues that DABS will need to address as part of the SGPP. DABS was also requested (follow up request to the Contour Global request made during the SWG meeting) to provide a regional load study for northwestern Afghanistan in connection with possible early, modular implementation of the IPP. Meeting minutes are attached as Annex 8.

February 19, 2012 – The PMC met with Mirwais Alami, CCO, Khwaja Masood, Director of Planning, Richard Tainton, Commercialization Advisor, KESIP to discuss DABS response to MEW questions concerning SGPP. Meeting Minutes are attached as Annex 9.

February 29, 2012 – The PMC met with Khwaja Masood, Director of Planning to obtain and discuss the supply/demand situation in load centers that could possibly be supplied by the IPP:

- Mazar-i-Sharif
- Sheberghan
- Sar-i-Pul
- Maimana
- Juma Bazar
- Shireen-Tagab
- Andkhoy

Meeting Minutes are attached as Annex 10

2.6 Meeting with the Ministry of Mines

February 21, 2012 – The PMC met with Marzia Akbari, Director of Investment Promotion and Mr. Nasir Ahmad "Mahmoodi", Policy Adviser of the Ministry of Mines, to discuss the status of the SGPP and to discuss gas pricing, among other things. The Ministry of Mines was asked to report on the SGPP at the next Cabinet meeting. Participants also discussed the need for a coordinated strategy between the SGPP and the GIRoA. A request was made for the PMC to prepare a statement on the SGPP to be used by the MoM in internal discussions and in discussions with the Cabinet. The Statement is attached as Annex 11.

2.7 Meeting with the World Bank

February 5, 2012 – The PMC met with Richard Spencer, Infrastructure Sector Leader and Mary Louise Vitelli, Consultant to the WB, to discuss their WB plans for restructuring of the natural gas sector and corporatization of Afghan Gas. LOI for the Technical Assistance was issued on January 30, 2012 (attached as Annex 12). Meeting Minutes are attached as Annex 13.

2.8 Meetings with IPP Investors

February 1, 2012 – PMC met with Industrial Promotion Services – Asia (IPS-Asia), Matt Scanlon for consultations. Topics included the next steps for the SGPP and the concerns of IPS in the transaction.

IPS-Asia also agreed to the use of their (Roshan) video conferencing facilities in Kabul for future SWG meetings.

February 24, 2012 - PMC met with Industrial Promotion Services – Asia (IPS), Matt Scanlon in Dubai to further discuss development of the SGPP and identify issues of concern to IPS. Meeting Minutes are attached as Annex 14.

February 1, 2012 – PMC met with Alex Krakovski, SVP, Contour Global for consultations. Topics included the next steps for the SGPP and the concerns of Contour Global in the transaction.

2.9 Meeting with Roshan as SWG Facilitator

February 13, 2012 – PMC met with Narisa Ladak and technical representatives of Roshan to discuss arrangements for future SWG video conference meetings, to be held at the main Roshan facilities located at Wazir Akbar Khan in Kabul.

2.10 Meetings with USAID

February 6, 2012 – PMC received a call from John Stich and Allen Eisendrath. Subject was discussion of scope adjustment resulting from realignment of project components and USAID/Afghanistan budget reduction and the issuance by MoM of the EOI for WB-funded TA for gas sector restructuring and Afghan Gas corporatization, commercialization and capacity building, namely:

- Eliminate from the scope the NFPP 48 MW power plant
- Eliminate from the scope the Sheberghan to Mazar-i-Sharif pipeline
- Add to the scope 200 MW IPP
- Add to the scope gas processing plant to treat 1.5 MMCMD of sour gas exclusively for the IPP
- Refocus corporatization of Afghan Gas on creation of a commercially viable gas supply entity that will own and operate the assets implemented under the SGPP; this entity will also have to be the gas supply entity under the Gas Supply Agreement to be executed with DABS – thus the project will focus on transaction issues while the WB TA will undertake gas sector strategy development and general Afghan Gas corporatization work.

February 7, 2012 - PMC received phone call from John Stich and Allen Eisendrath. Discussion of conclusions drawn by USAID from consultation with the World Bank on their TA for MoM covering gas sector policy and Afghan Gas corporatization, commercialization and capacity building. It is advisable to focus PMC activities on the SGPP transactions and the SGPP project related activities, while the WB-funded TA will handle the big picture for the gas sector and Afghan Gas. This is a practical solution promoting cooperation and minimizing possibility of conflicts.

February 9, 2012 – PMC met with OIEE, Roseann Casey, ACOTR and Division Chief for Energy and Water; John Cole, COTR and John Stich, EG (COTR to be). Two significant issues and several minor issues were discussed:

- Need to replace Edrees Saljuki, COP with Peter Jezek, DCOP due to personal emergency requiring Edrees to depart Kabul and work out of the US supporting the project for the foreseeable future. This change of Key Personnel was endorsed by CORT, ACOTR, based on Peter's experience and track record relevant to the SGPP.
- Need to provide high level introduction of PMC to Ministers to assure the PMC is properly supported by the Afghan SGPP counterparts. In the ministries all decisions are made by Ministers not by their subordinates. OIEE proposed that Ambassador Olson should make the introduction.
- Minor, but important issues also discussed were CAC, asset acquisition, Source Code.

February 16, 2012, - PMC met with John Cole, COTR, John Stich, EG (and COTR to be), Roseann Casey, ACOTR and Division Chief, Energy and Water. Discussion of scope realignment issues resulting from the change in project configuration to assure implementability and resulting from USAID budget reduction. Also discussed were issues concerning the PMC's ability to rapidly develop the SGPP:

- Subcontracting with aXseum – urgent, but on hold due to scope realignment
- Subcontracting with Senergy – of key importance in monitoring the well drilling contractor; will require change of prescribed Source Code (from 000 to 935); cost of personnel above USAID max, but unavoidable; contract cannot be fixed price due to the nature of work.
- Timing of deliverables as a result of scope realignment
- Travel authorizations and country clearances
- Responsibilities for on-budget oversight
- Property acquisition by transfer from closing IPs – practical, but also necessary due to budget limitations.
- Planned move to Shash Darak – reduction in time wasted in city travel (current location near Kabul University requires on average 2 hrs RT when going to MoM, USAID, DABS)
- Work Bank-funded TA in support of the MoM – issues arising out of that TA; need to minimize possibility of conflict and duplication of work; focus on the SGPP transaction leave the big gas sector picture for the WB TA to address including Afghan Gas corporatization.

2.11 Meetings with AEAI's Proposed Subcontractors for SGPP

February 13, 2012 - PMC met with aXseum Solutions LLC; objective was to assure aXseum is appraised of project developments and therefore ready to enter into the proposed subcontract and immediately field critical personnel once AEAI receives approval from the CO. aXseum assured AEAI that it is ready. Also discussed aXseum's current gas sector work with MoM that is directly relevant to the SGPP.

February 17, 2012 – PMC met with Gustavson Associates; They have been responsible for developing the solicitation (being issued on February 18) for work over of 8 wells funded by the ADB under the MFF. Discussion of possible outcomes and possible efficiencies by combining ADB and USAID funded well drilling work assuming tenders are successful and timing allows.

February 23, 2012 – PMC met with Senergy; Discussed the state of the SGPP as it relates to Senergy deployment. Requested Senergy to provide a preview of their monitoring and evaluation program, for AEAI to be better prepared for scoping the required work to be covered by Senergy.

February 29, 2012 – PMC met with aXseum Solutions LLC. Discussion with Michael Perez, President, Axseum Solutions concerning staff mobilization and other operational issues once aXseum is under contract with AEAI. Also discussed aXseum work currently underway for MoM funded by TFBSO covering gas pricing in connection with the TAPI pipeline project and institutional restructuring of the gas sector and corporatization of Afghan Gas. Both of these activities are directly related and are impacting on the SGPP.

3 SECTION III

3.1 Next Steps

- Completion of realignment of SOW is urgently needed to allow preparation of Work plan,

- realignment of deliverables, subcontracting and staffing.
- Continue work with DABS on commercial and technical issues to assist them in becoming a knowledgeable partner in the SGPP; major issues: Tolling agreement, power price and grid connection for the IPP (synchronization).
 - Continue work with MoM to prepare them for receipt and execution of the IL; assure the Drilling Tender is ready to be issued as soon as funding is in place and the Minister of Mines approves the issuance.
 - Continue work with MEW to enable them to become the champion of the IPP program (a single window point of contact with GIROA); also assist MEW in managing the preparation of the Power Sector Master Plan, because the plan will have a direct impact on the IPP.
 - Start work with MoE to enable the Ministry to become an arbiter of interests between the power and gas sectors. The MoE has a major role to play in supporting the SGPP and assuring the resulting projects and supporting agreements are commercially viable and sustainable.
 - Continue working on the “rehabilitation and re-commissioning” option for the Gerquduq gas processing plant (assuming the TFBSO does not take over this activity)
 - Continue working on defining the power demand in the vicinity of the IPP to determine viability of the power plant supplying power locally rather than to the 220 kV (or the future 500 kV grid).

4 SECTION IV

4.1 Potential Problems Identified

World Bank-funded Gas Sector TA – Restructuring of the Gas Sector as a result of the TA will significantly impact of the SGPP potentially causing delays or conflict with SGPP recommendations/outcomes; continuous coordination is required

TFBSO-funded Gas Sector work – Work performed by FTBSO contractors advising the Minister of Mines will impact on the SGPP work and may conflict with SGPP recommendations/outcomes; continuous coordination is required.

DABS lack of resources/knowledge and conflicting missions – DABS is in need of, but have not asked for, technical and commercial assistance in support of its role in the SGPP; DABS has a key role to play in making the SGPP commercially viable and sustainable, but without external support, DABS will not be able to play that role neither technically nor commercially.

Delays in ratifying the IL – until the IL is ratified and the funding for the Juma and Bashikurd gas well drilling is in place, the Well Drilling tender cannot be issued; without the tender issued there is no visible progress of the SGPP; after issuance of the tender it will be seven months for the contractor to be mobilized in the field, followed by about nine months of drilling and work over of wells; the gas gathering system and gas processing plant design cannot be done until the well drilling and completion work is nearing completion; thus delays in IL ratification directly impact the entire program creating significant risks that cannot be adequately assessed at this time.

USG introduction of the PMC to key Ministers – in Afghanistan all decisions are made by ministers; without proper introduction by the USG of the PMC and its role it will be very difficult if not impossible, to achieve a reasonable efficiency in the PMC’s work; this introduction is urgently needed.

Major technical concerns – timely and adequate gas supply; synchronization of the IPP with NEPS.

5 SECTION V

5.1 Accrual Report

Reference: EPP-I-00-03-00004-00	
Task Order: AID-306-TO-12-00002	
Sheberghan Gas-to-Power Program	
Reporting Period February 29, 2012	
January 2012	\$ (financial information omitted)
February 2012	\$ (financial information omitted)
Total	\$ (financial information omitted) 6% of obligated

ANNEX 1

Sheberghan Gas-to-Power Strategic Program

Sheberghan Working Group Monthly Meeting

Meeting Minutes

February 1, 2012

Attendees: Attending Sheberghan Working Group members or their delegates are listed below. An updated contact list is attached containing names, titles and contact information for participants.

Participant	Organization
Benjamin Kinney	AEAI
Edrees Saljuki	AEAI
Dr. Peter Jezek	AEAI
Asad Aleem	Asian Development Bank
Alex Krakovsky	Contour Global
Mirwais Alami	Da Afghanistan Breshna Sherkat (DABS)
Matthew Scanlon	Industrial Promotion Services, Asia
Matthew Conklin	IRD
Ben Crossley	ISAF
Mohammed Ismail Dahimi	Ministry of Economy
Ghulam Faruq Qazi zada*	Ministry of Energy and Water
Zia Gul Saljuki*	Ministry of Energy and Water
Abdul Jalil Jumriany	Ministry of Mines of Afghanistan
Marzia Akbari	Ministry of Mines of Afghanistan
Bill Pegues	Overseas Private Investment Corporation (OPIC)
Jim Williams	Overseas Private Investment Corporation (OPIC)
Robert Drumheller	Overseas Private Investment Corporation (OPIC)
Mike Haumer	Task Force for Business and Stability Operations (TFBSO)
Robert McFadden	Task Force for Business and Stability Operations (TFBSO)
Steve Halpern	Task Force for Business and Stability Operations (TFBSO)
Dwight Nystrom	U.S. Department of State
Chuck Drilling	USAID Afghanistan
John Stich	USAID Afghanistan
Allen Eisendrath	USAID EGAT/Washington
Mark Karnes	USAID OAPA
Roseann Casey	USAID OIEE Afghanistan
Rozbih Mihran	USAID OIEE Afghanistan
Chris Edwards*	USAID SDO RC North
Cynthia Huger*	USAID Afghanistan On-budget
Patty Buckles*	USAID / ISAF

* *Invited, but unable to attend*

Action Items

- USAID will work with GIRoA agencies to execute the Implementation Letter prerequisite to the on-budget funding provided by USAID for the implementation of the gas well drilling and the gas processing plant.
- USAID will endeavor to have all parties sign an updated Memorandum of Collaboration (MoC) when the Implementation Letter is signed. The MoC was signed in September before the project configuration was finalized.

- USAID and the State Department will continue consultations with TFBSO on providing transaction advisers to the Ministry of Mines (MoM) and DABS.
- AEAI, the Program Manager/Coordinator (PMC) will review the viability of rehabilitating/restarting the Gerquduq Soviet-built gas processing plant to process gas from the Juma and Bashikurd fields and, if deemed viable, develop an approach to establishing cost and feasibility of including this effort in the program in the interest of accelerating the supply of power plant quality gas to the IPP.
- PMC will support DABS in evaluating the viability of power supply from the IPP to the Jowzjan-Balkh-Farah region via 110 kV grid in order to determine the viability of commissioning a modular power plant by the IPP starting in 2013 (assuming gas supply is available).
- PMC will work with USAID, OPIC, ADB and the WB to develop a process for producing the required environmental impact assessments.
- USAID will work with the World Bank to coordinate the efforts to corporatize and commercialize Afghan Gas Enterprise (AGE).
- OPIC will provide a Scope of Work for legal assistance to the MoM and DABS regarding sale and purchase of gas and power.

Outstanding Critical Issues

- Finalization of Implementation Letter; signature by GIRoA and USAID.
- Identification of donor and funding for legal advisory service to MoM.

Suggested Items

- None.

SWG Decisions/Agreements

- Prioritization of key action items (point 1 above).
- Working group will convene monthly, and will choose a standing meeting time and day going forward (TBD in early February). Monthly meetings will be via phone/VTC. Effort will be made to host face to face meetings quarterly or semi-annually as needed.

Additions to the Risk/Issues Matrix and/or Financial Estimates

- None at this time.

Discussion Summary

- The meeting began at 9:45 a.m. with introductions of the participants. A contact information sheet was distributed and is attached. Please take a Moment to verify your contact information and email any corrections to bkinney@aeai.net.
- USAID opened the meeting by expressing appreciation for the attendance of all, noting that this is the first opportunity for all parties to gather in person to discuss the planned activities. USAID stressed the high priority that senior mission and Department of State Leadership have shown for this project, noting that this is an excellent opportunity for successful collaboration across the public and private sectors, with partnership by various ministries, donors and institutions. The goals of the meeting were addressed, noting that objectives included better understanding by all of the many players involved, better understanding of the roles of each entity, and clear identification of near term actions that must be taken to move forward (i.e. a six month plan). Participants were informed that the Cabinet formally approved the Sheberghan Gas-to-Power Strategic Program on Monday, January 30, 2012. USAID noted the importance of this approval, and the implied support and prioritization of this project by GIRoA.

- Edrees Saljuki, the Chief of Party for the Sheberghan Gas-to-Power Program Management/Coordination Project, made a presentation on the current status of the Sheberghan Gas-to-Power Strategic Program. Dr. Peter Jezek also discussed the main objectives of the Program which are: 1) to restart the natural gas industry in Afghanistan using the 200 MW power plant as an anchor customer for gas sales; 2) use the 200 MW IPP as an initial step towards improving security of power supply by increasing domestic power generation, thus beginning to reduce reliance on power imports.
- The group briefly discussed some of the recent Cabinet issues regarding gas utilization and gas reserves. It was pointed out that the likely reserves in the Afghan part of the Amu Darya basin are on the order of 1 trillion cubic meters (TCM). There was some discussion regarding anticipated electricity supply shortages. Although Afghanistan will need to continue to rely on power imports particularly under the relatively advantageous current conditions and pricing scenario, increasing low cost domestic power generation is a requirement for future energy security. Using the initial increment of gas produced through the restart of the domestic natural gas production for power generation represents the best strategic value for the gas. Discussion also noted that proven reserves are far higher than what will be used to supply the IPP, and that ADB and others are actively planning other drilling activities.
- Dr. Jezek described the next steps in the program implementation process. He emphasized the process of consultations and working with each stakeholder through the issues of importance to them, including the corporatization of AGE. OPIC raised the question of whether the DABS corporatization process could provide useful lessons for the corporatization of AGE, which was answered affirmatively. There was also a brief discussion of whether the project could/would benefit from the Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline program. PMC discussed the high-level timeline for the various activities of the Sheberghan Gas-to-Power Program, which began a discussion on the commercial viability of DABS.
- OPIC asked about the status of the corporatization process of DABS. OPIC is interested in seeing a viable company with good corporate governance as the anchor customer for energy, and asked whether incentives existed in the implementation letter between USAID and GIRoA to encourage good corporate governance practices. USAID responded that DABS has good articles of incorporation and good bylaws, as well as a proper board, and that the board was meeting on a regular basis, financial reporting was being improved, an annual business plan was being developed and the first annual independent financial audit was done for the year 1388 and the audit for 1389 is under way. DABS also insisted on the independence of DABS operations and that DABS was making significant progress in improving power supply metering and revenue collection and working on transparency. USAID affirmed that ongoing programming will support both capacity development and commercialization activities at DABS over the coming three years, addressing operational, management and commercialization challenges.
- USAID discussed the Implementation Letter (IL) anticipated to be signed soon with the GIRoA. USAID discussed the background and rationale for the on-budget process under which GIRoA institutions will be responsible to procure hard assets with USAID oversight. This on-budget approach is similar to the on-budget process which is currently being implemented through the Ministry of Finance and DABS for expansion of the North East Power System (NEPS) and South East Power System (SEPS). USAID offered a brief description of the IL and on-budget process to be used with the Ministry of Mines. The IL will authorize transfer of funds; these funds will be deposited into a special account designated specifically for these program activities. The responsibility for contracting will be left to the MoM. The MoM will be responsible for contract management, but with appropriate oversight provided by the USAID funded technical assistance project, the PMC. USAID responded to a question about access to the IL documentation under which funding for the gas well drilling and the gas processing plant will be authorized, by stating

that the documents would be provided to working group members or posted on a user-restricted site, to be set up by the PMC.

- ADB described their efforts in the natural gas fields. They will be posting tender documents for the rehabilitation of 6-8 gas wells in the Yatimtaq and Kahoka Gogerdak gas fields. The rehabilitation program is anticipated to cost approximately \$ 20 million. DG Policy MoM informed the meeting that gas from the ADB rehabilitated wells (Yatimtaq and Gerguduq) will feed into Northern Fertilizer and Power Plant (NFPP).
- The group then discussed the best use for the additional gas supplies that would be available. The group decided that it would be important to get a commitment from GIROA regarding the additional gas supplies and use by the IPP (at least partial) and also to understand the future of the Northern Fertilizer and Power Plant (NFPP), which is currently the only major consumer of natural gas in Afghanistan, and a planned beneficiary of the additional ADB-funded rehabilitation project.
- Contour Global was interested in the timeline for the natural gas processing plant and whether it was possible to “oversize” the sweetening plant (i.e. construct it to be able to accommodate the worst quality of gas anticipated to be supplied from the designated fields, thus allowing parties to proceed with processing plant design and construction before the gas supply wells are completed). *Additional participants arrived and the group took a break before discussing the issue further.*
- Upon reconvening, Mr. Jalil Jumriani, MoM representative, informed the group that the gas supplies that would be available from the ADB-funded well rehabilitation project would go to Mazar-e-Sharif. AGE will be replacing the existing 89 kilometer, 12 inch pipeline between Khoja Gogerdak and the NFPP in Mazar-e-Sharif with a pipeline constructed from the pipe used in the old export line (estimated to be approximately 36 inches in diameter). The MoM will be funding the excavation of the old pipe and construction of the new pipeline. The MoM also informed the group that it would be rehabilitating the existing Soviet-built processing plant on the northern edge of the Gerquduq field. The current plant engineers told the MoM that the processing plant could be operational if one million cubic meters of gas per day is supplied to the plant. According to the engineers, one part of the plant is operating already, but they are facing power supply issues.
- Contour Global asked whether it would be possible to use the Soviet sweetening plant and avoid constructing a new natural gas processing plant or to use the plant to accelerate supply of power plant quality gas to the IPP to start in 2013. PMC responded that three independent studies concluded that rehabilitation of the existing Soviet plants was unlikely to be viable. The MoM responded that they had not seen the studies regarding the rehabilitation potential for the plants and that it may be possible to use the Soviet processing plant for a year until the new gas processing plant was constructed. PMC offered to investigate the option of restarting the Soviet processing plant to process gas from the Juma and Bashikurd fields and report back to the group at the next working group meeting on whether a full effort to rehabilitate the Gerquduq Soviet processing plant is justified and what would be involved in the process.
- ADB then discussed the transmission system expansion program that would accommodate the 200 MW power plant. ADB provided an introduction to the Multi-Tranche Financing Facility (MFF) and explained the process by which DABS receives ADB funds to design and build the transmission lines. DABS is in the process of recruiting a consulting firm for the design of new transmission lines and the ADB was anticipating that the firm will begin work in mid-May of 2012 to be completed by March 2013.. Construction of the transmission line projects is anticipated to take 12-18 months from June 2013.
- The group then discussed the various transmission line components. There are no known transmission issues between the Naibabad switching station and Pul-e-Khumri. The major constraint in the transmission of power south to Kabul and beyond is the 220 kV system over Salang from Pul-e-Khumri to Chintala. Moving additional power to Kabul requires additional

transmission capacity, in the form of a new transmission line constructed over the Salang Pass. USAID is working on the second phase of a Reactive Power Compensation project for the existing 220 kV transmission system that would increase the capacity of the existing transmission line from Pul-e-Khumri to Chimtala to 430-450 MW. However, additional transformers/substations will be required to distribute the additional power supplied. As for the ADB-funded projects, it may be possible to adjust the timeline, but the most realistic anticipated completion date would be in the first quarter of 2015.

- Another issue was raised concerning additional power supply requirements to meet the growing demand of Kabul. DABS is currently importing more than the 300 MW maximum allowed under their current PPA with UzbekEnergo, and is already importing the maximum capacity available from Tajikistan and Turkmenistan.
- Non-synchronous operation of the Turkmen, Uzbek, and Tajik grids and the prohibition to synchronize domestic Afghan power plants with the Uzbek supply requires islanded operation of the systems. This issue needs to be addressed in the near future to allow rational development of the NEPS transmission system and economic dispatch of power plants. Efficient operation/dispatch of IPPs, including the Sheberghan 200 MW IPP will heavily depend not only on the transmission interconnection with NEPS, but also on the ability to synchronize its operation with power import(s).
- To facilitate addition supply of power from the north of Afghanistan (imported power and domestic generation, including the planned IPP), the Pul-e-Khumri to Kabul transmission link needs to be expanded. It was strongly recommended that only 500 kV and not 220 kV should be considered. The analysis should however consider AC and DC options to best serve Afghanistan's interests in the mid to long term. It was emphasized that construction over the Salang Pass will be complicated with the requirement for additional demining and a reduced construction season of about 5 months per year due to weather, altitude and terrain. Planning and scheduling of implementation of this segment needs to take these issues into consideration to avoid serious delays experienced with the first 220 kV transmission link.
- The investors asked how much power can be evacuated from the IPP power plant, and within what time frame. Contour Global suggested that the investors were thinking about a modular power plant, possibly in 50 MW blocks, allowing generation capacity to come online to serve local demand initially, and to be transmitted as transmission line projects were completed. DABS suggested that their requirement was that the IPP-supplied electricity be competitive in price with imported power supplies. The investors responded that the terms of the contract would be different from the terms of the imported power one-year-at-a-time contracts, which would affect the price. DABS suggested that the City of Sheberghan could use some power and that the region could absorb about 60 MW. DABS would be willing to replace the existing power imports from Turkmenistan with the Sheberghan IPP power supply for the region, provided that the IPP power plant could supply the electricity for the same price. Currently, the PPA with Turkmenistan sets the price at 2.8 cents US/kWh. Contour Global asked whether there was a local market that could be supplied earlier than 2015, and whether a modular plant with a staged implementation plan would allow the IPP to begin operation in 2013 versus 2015. ADB responded that if DABS is comfortable with the plans for the power plant, ADB thinks construction of the transmission link could begin in the summer of 2013, with completion in 12-18 months. DABS suggested that sufficient load existed in the region to allow it to begin taking power soon. The MoM suggested the process should be expedited by beginning the process of signing the agreements in order to work the various component projects in parallel. Upon request of Contour Global, DABS agreed to provide information concerning the local load in the near future. PMC proposed to meet with DABS to develop the required information concerning local load, etc. to be shared with the SWG. Contour Global stated that the investors were not looking at a combined cycle plant at this time, and that a modular approach allows a more safe and sustainable investment. With this approach,

the investors will be able to compress the power plant implementation timeline and would like other stakeholders to do the same to get the project up and running as soon as possible.

- The next issue was the necessity of preparing the Environmental Impact Assessments (EIAs) required for final project approvals and financing. USAID suggested that it is the responsibility of the MoM to conduct the EIAs as part of the contracting and construction process. OPIC will also be checking with the World Bank regarding the application of their standards due to the proposed use of a Partial Risk Guarantee (PRG). The group briefly discussed the possibility of an umbrella EIA for the project. USAID and PMC decided to discuss the issue further at a future date and would work together to resolve the obligations regarding the EIAs, including the applicable standards. They will recommend to the SWG how the costs should be born. No definitive decision was reached concerning the EIAs, but this was prioritized for future action.
- It was stated that the investors will be responsible for building the substation for the IPP power plant.
- The group then discussed the format, timing, and other issues regarding future SWG meetings. As agreed, PMC will coordinate with the stakeholders and recommend the next meeting date and time and the facilities to use, as well as conduct individual consultations with SWG delegates to determine the agenda and issues for the next SWG meeting.
- PMC will set up an on-line password-protected system for the sharing of documents between SWG members. PMC emphasized the summary of project objectives and the role of PMC in providing assistance to stakeholders by helping to define the issues and concerns of individual stakeholders and developing the processes to resolve/address the issues and concerns.
- ADB and USAID are currently funding technical assistance to DABS that will improve commercial viability of DABS and future assistance may assist DABS in NEPS transmission system operations and maintenance including bulk power purchases and sales.
- The MoM recently released a request for Expression of Interest for World Bank funded TA to address institutional and gas sector developmental issues including the responsibility for corporatization, commercialization, and capacity building of the AGE, which is also one of the components of the USAID technical assistance project to the MoM. USAID stated that they are meeting with representatives from the World Bank to coordinate these efforts.
- The SWG briefly discussed the need to provide legal and transactional advisers to the Ministry of Mines for AGE and DABS. There was a consensus that TFBSO could be the best source to provide the funding for transactional advisers and preliminary discussions with TFBSO have already taken place. OPIC offered to provide a Scope of Work and a list of law firms that would be available/suitable to provide this type of assistance. USAID and the State Department will discuss the issue with TFBSO and keep the SWG posted on progress.
- ADB offered to look into whether it could provide funding for legal/transaction advisors for DABS through an existing project, if the TFBSO process fails. OPIC and the investors both stated that it will be necessary to get transactional advisers for AGE and DABS as soon as possible because this Sheberghan IPP will be a trailblazing project and the Afghan institutions lack the experience with GSA and PPA contractual instruments.
- ADB through the MEW is funding a power sector master plan that should provide additional information regarding supply/demand projections and transmission system expansion for a 20 year horizon. The document will be made available to the group once it is completed. Completion is scheduled for December 2012. Interim Report should be available in March 2012.

Handouts

- Strategic Program Map
- Presentation on the Strategic Gas-to-Power Program
- Detailed Timeline on Major Projects for the next 12 months

ANNEX 2

Meeting with ADB, February 7, 2012

- ADB is expecting the Power Sector Master Plan from Fichtner to be completed in December 2012 with an interim report due in June 2012. The ADB will arrange for SGPP to meet with Fichtner to discuss the Power Sector Master Plan.
- ADB is in the process of recruiting consultants for the design of the transmission links and will need to know in the next few months whether the SGPP project is moving forward.
- Award of engineering design for the transmission links is expected in late March or early April, 2012

ANNEX 3

Meeting with Fichtner, February 9, 2012

- Fichtner will not field to Afghanistan any expatriate personnel due to security concerns; only Eng. Farrukh Mian (on leave from the Islamic Development Bank and retained by Fichtner) will periodically visit Afghanistan to provide management oversight
- Data and information gathering in Afghanistan will be accomplished by Afghan subcontractors to Fichtner
- Information/data gathering process was progressing very slowly due to difficulties experienced in obtaining information from Afghan sources and in some cases reluctance of sources to provide information to Fichtner

ANNEX 4

- Terms of Reference for the ADB-funded Power Sector Master Plant
- See attached PDF document

ANNEX 5

Meeting with MEW, February 6, 2012

- Briefing on the discussions and outcomes of the February 1, 2012 SWG meeting
- The Director General of Planning requested the PMC to brief the Minister in the near future
- Status of the Electricity Law was discussed together with issues that will impact on the Sheberghan IPP
- Issue of Power Sector Regulation was discussed and the necessity to initially maintain this sector function within the MEW, while planning for future independent regulator
- MEW role as the champion of private power was discussed together with the required steps to be taken by the MEW to be able to play that role
- The MEW together with DABS need to manage or at least guide the preparation of the Power Sector Master Plan by Fichtner, particularly because Fichtner is not fielding experienced expat experts; the Master Plan will be seen as the blueprint for power sector development in Afghanistan for many years to come; it is important that the Plan is prepared with full recognition of the current, very complex conditions and problems relevant to the sector, but also with recognition of future complex needs of Afghanistan and the objective to achieve a least cost supply of power

ANNEX 6

Meeting with MEW, February 19, 2012

Meeting with the Minister of Energy and Water; Director General of Planning and Deputy Minister for Finance and Administration

Briefing on the SGPP, major points discussed:

- The SGPP has two objectives:
 - Restarting the development of Afghanistan's gas resources
 - Domestic power generation based on natural gas, utilizing the IPP mechanism to attract private investment, thus improving balance between power imports and domestic power generation, increasing power supply security
- MEW and other GIRoA ministries and agencies should focus on the process leading to efficient gas and electricity pricing rather than, at this stage, attempting to set prices without the required analytical backup and without a clearly defined strategic objective
- Pricing of gas and electricity must address the following objectives:
 - The price of gas has to be adequately low to support economical electricity pricing that is required to support further economic development and increasing standard of living in Afghanistan.
 - However, the price of gas has to be adequately high to not only cover the cost of supply, but also to generate additional revenues that will stimulate new investment in gas exploration and production.
- For the development of IPPs, the MEW should be the champion stimulating efficient private investment by developing transparent policies and implementation guidelines in support of IPPs; the MEW should function as a single window to facilitate IPP investments by streamlining the licensing and permitting process until a more mature institutional structure in the power sector develops, including the regulator; this is particularly important because the Sheberghan IPP will set the tone for the upcoming two IPPs-- Aynak and Hajigak. It is important to focus on developing the right foundation for the IPP program to assure sustainability and least cost power delivery from the IPP projects.
- On the gas development and supply side, the initial USAID/MoM-funded drilling will verify Soviet era data and is expected to supply gas for about 100 MW of power. Additional funding from MoM or other sources will be required to complete sufficient number of wells to supply gas for the 200 MW IPP. The drilling program is expected to stimulate private sector participation in exploration and exploitation of gas resources, thus leading to further development of natural gas sector improving energy supply security for Afghanistan.

Minister's Comments/Reactions:

- Private sector participation in the energy sector is not only welcomed, but is essential
- It is important to focus on the process
- Since there is a profit motive for the private sector participation, there is also a benefit for GIRoA; therefore, through negotiations both sides will come up with a win-win deal
- The Sheberghan team should assist MEW in setting up some of the policies and the framework for private sector participation in the power sector.

- The Minister welcomed the idea of meeting on a regular basis to update him on the project. He also instructed Madam Zia to setup a committee to work on IPP and sector planning issues, going forward.

ANNEX 7

Meeting with MEW, February 20, 2012

- Discussion of the SGPP
- Discussion of MEW's needs in general Power Sector Policy Planning
- Discussion of MEW's needs in IPP support structure development
- Discussion of MEW's needs to guide the preparation of the Power Sector Master Plan
- Status and problems associated with the completion and promulgation of the Electricity Law
- MEW expressed strong support for the SGPP and other IPPs assuming they result in efficient private sector investment

MEW requests;

- Provide assistance in developing TOR for an IPP adviser who will guide development of the supporting structure within the MEW
- Provide assistance in developing TOR for an adviser to guide preparation of the Power Sector Master Plan by Fichtner
- Provide assistance in developing TOR for an adviser to guide the development of Power Sector Policy

ANNEX 8

Meeting with DABS, February 14, 2012

- PMC explained the technical and commercial challenges associated with the Sheberghan IPP project
- PMC discussed the synchronization issues and challenges regarding integration with Central Asian grid systems
- DABS said that they would continue buying power from Turkmenistan at 2.8 cents US/kWh, would not replace that supply with power from the IPP if priced at 6 cents US/kWh. PMC pointed out that the power supply from Turkmenistan is spot and not long term supply based on the current PPA; thus DABS needs for security of supply (long term contract) are not met. DABS agreed that the security of supply was an issue and that Afghanistan would need negotiating leverage derived from domestic, long term supply.
- PMC emphasized the process to deal with issues arising out of the SGPP; advised against uninformed decisions being made
- MPC emphasized the need to identify both technical and commercial issues and not just cents per kilowatt hour
- Local load in the area of NW Afghanistan was discussed as a follow up on the SWG information/data request made to DABS; the CCO assigned the DABS Director of Planning to develop the data and provide it to the PMC.
- To avoid the synchronization issue DABS brought up the issue of selling power only to customers in Northwest Afghanistan
- PMC agreed to develop a list of commercial and technical issues stemming from the SGPP that impact DABS; the objective is to work with DABS on addressing all of the issues and finding solutions

ANNEX 9

Meeting with DABS, February 19, 2012

- DABS was not able to develop the demand data previously requested by the SWG for NW Afghanistan
- Discussion of billing and revenue collection within KED
- What is the best way to move the Sheberghan IPP forward, while assuring DABS interests are protected since DABS will not have access to subsidies
- DABS requested PMC input on questions raised by the MEW concerning the DGPP; PMC provided written inputs

ANNEX 10

Meeting with DABS, February 29, 2012

- Director of Planning, DABS made a presentation on NW Afghanistan demand data
- Total demand in the area (including Mazar-i-Sharif) is currently about 65 MW
- Demand far exceeds supply
- Voltage problems exist
- Data in spreadsheet format was provided for one year
- Further cooperation was agreed on

ANNEX 11

Meeting with MoM, February 21, 2012

- PMC discussed the objectives of the SGPP
- PMC discussed the envisioned process to move forward in close cooperation with the individual stakeholders including the MoM
- MoM requested the PMC to prepare a statement concerning the SGPP that can be used by the MoM in internal discussion and in discussions with the Cabinet and Parliament (See below)
- PMC advised against exclusive focus on price of gas and price of electricity; instead information based decision making process needs to be developed to build the necessary knowledge base
- MoM pledged cooperation to rapidly identify and address the issues of importance to MoM

Draft, February 22, 2012

Sheberghan Gas-to-Power Program

Statement for Use of the Ministry of Mines

The Sheberghan Gas-to-Power Program is designed to support GIRoA strategy aiming to:

- Restart the development of the Sheberghan gas resources by utilizing the initial new gas being produced for power generation
- Through the gas-fired, privately funded and operated power plant (IPP), increase electricity supply security by expanding domestic power generation using Afghanistan's own energy resources, thus reducing dependence on power imports

To implement the above strategy the Sheberghan Gas-to-Power Program consists of several pioneering projects, namely:

- Drilling new gas wells and redeveloping explorations wells for production in the discovered, but never produced Juma and Bashikurd gas fields (jointly funded by USAID and GIRoA)
- Designing and building gas gathering system delivering gas from the new production wells to a gas processing plant (funded by GIRoA)
- Designing and building a new gas processing plant to process the new gas by removing the corrosive sour gases (hydrogen sulfide and carbon dioxide) from the gas to make it usable in gas turbines for electricity generation (jointly funded by USAID and GIRoA)
- A 200 MW gas-fired power plant funded, built and operated by the private sector; this will be the first private investment in electricity generation in Afghanistan using an IPP model universally utilized in many countries
- Transmission link to the North East Power System (NEPS) to support reliable delivery of the electricity produced, to customers within NEPS (funding provided by the ADB, projects implemented by DABS)

All of these complex projects presenting challenges must be coordinated and implemented following a well synchronized schedule to rapidly implement the above stated strategy of GIRoA. Because of the unique nature of the projects and to assure commercial viability, all projects once completed must operate without GIRoA subsidies. The relevant ministries, Ministry of Mines for the gas supply, Ministry of Energy and Water for the IPP power plant and Ministry of Finance for the investments and the subsequent commercial operation of the projects, shall provide policy guidance and close monitoring to assure rapid and quality implementation based on plan and to maximize efficiency of investment, implementation and operation.

The required policy guidance will assure that the SGPP will serve as a trigger program for restarting the development of Sheberghan gas resources and expanding domestic power generation utilizing Afghanistan's own energy resources. It is likely that the Amu Darya basin in Afghanistan could produce about 1 trillion cubic meters of natural gas. (The figure of 1 TCM is based on available data (including geophysical, drilling, structural and similarities with producing structure in Turkmenistan and Uzbekistan) and includes 3P reserves (Proven, Probable and Possible); more specifically the 1 TCM breaks down to 250-300 BCM in shallow and 700 BCM in deep structures; the Hill International Report summarizes all available information including ADB and Acres Reports; the USGS have done further work in assessing available and new data (P3 Orion airborne geophysics; the 1 TCM number should be used as a reason to develop and implement a systematic assessment, exploration/production and gas use program; it should NOT be used to fan the idea that Afghanistan is rich – only wisely developed and managed program of gas resource development can assure that the people of Afghanistan benefit from these resources – that is a very difficult and long term undertaking). For illustration, the 200 MW power plant will use only 16 billion cubic meters of gas during its 30 year operation, or about 1.6% of the likely total gas reserve. Therefore the above outlined program must trigger additional exploration and production of additional gas. Both exploration and production, particularly from the deep, sour gas containing, high pressure reservoirs, will require significant investment and technological knowhow. Therefore, private sector investment and participation will be desirable. To assure the benefits from the large domestic natural resources are realized for the people of Afghanistan quickly and efficiently, the Ministry of Mines, will develop the required policies to guide not only the above outlined gas supply projects, but also the additional subsequent exploration and production of additional natural gas.

The Ministry of Mines established a Sheberghan Gas Supply Management Unit (SGSMU), formerly known as the PMU, staffed with Afghan experts, supported by foreign 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. Two components of the SGSMU work are given high priority:

- Pricing of gas – two competing objectives must be satisfied by the pricing strategy that is being developed, namely:
 - The price of gas supplied to the power plant has to be adequately low to lead to affordable electricity being delivered to DABS, leading to further stimulation of economic growth and improving standard of living in Afghanistan. However, at the same time gas price should reflect the real cost of its production and processing for Afghan Gas (Ministry of Mines) since we don't intend to inject any subsidy to this project. (the gas price should not only reflect the true cost of production, processing and supply, it should also generate additional revenues adequate to stimulate further exploration and production – however the gas pricing structure over time, must be designed to assure the process of restarting the development of Afghan natural gas resources actually takes place; this will require starting with a reasonably low price and escalating over time, once confidence in the reserves and ability to actually produce the gas improves the price should escalate; also keep in mind that gas, in contrast to oil, cannot be produced without users in place (oil can be stored); end users of gas need to be developed and the use must be high value use, that is a rather complex issue we will deal with during the SGPP; as I indicated we have started the development of a model to enable all of us to quantify ideas and options)
 - However, the gas pricing structure developed for the first project utilizing new gas must signal that adequate revenues can be generated to stimulate additional investment in

exploration and production of additional gas in accordance with the above stated strategy – the first project should be a trigger for additional gas developments

- Institutional structure – the entity that will be designated by MoM will own, operate and maintain the gas production and processing facilities implemented under the SGPP, must be commercially viable and self-sustaining, that is operating without government subsidies; the entity may also be responsible or participate in, either directly or as the representative of GIRoA interests, for additional gas exploration and production work in the Amu Darya basin; this gas production/supply entity will have to be the commercially viable entity entering into a long term gas supply agreement with DABS for gas to be used in power generation; the gas production/supply entity must be commercially strong and able to reliably supply gas during the contract term of 25-30 years to the power plant to minimize the exposure to risk of GIRoA.

The Ministry of Mines as major stakeholder in the project will participate in monthly meetings of the Sheberghan Working Group (SWG) that includes all of the eleven program stakeholders, namely: Ministry of Finance, Ministry of Economy, Ministry of Mines, Ministry of Energy and Water, DABS, USAID, ADB, The World Bank, Afghan Gas Enterprise, Private Investors (IPS and Contour Global), Overseas Private Investment Corporation. The SWG is responsible, through continuous consultations, for addressing all issues that may obstruct or slow down the implementation of the SGPP.

The MoM will be reporting monthly to the Cabinet on progress of the gas supply program for the SGPP and on relevant policy issues, as they are identified and addressed.

ANNEX 12

EOI for World Bank funded TA for the MoM in support of the Gas Sector Sustainable Development of Natural Resources Project (PHASE-II) in Afghanistan: Consultancy Services, for Improving the Business Environment: Reform of the Afghanistan State Gas Enterprise (Afghan Gas)

World Bank - WB

Status Current

KEY INFORMATION

Project Reference No(s):

H966-AF MoM/PMU/CT-II-44-1 WB565-815/12

Contacts:

Mohammad Haroon Naim

Director of Operations

Ministry of Mines, Program Management Unit (PMU)

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IMPORTANT DATES:

Announced Date

January 30, 2012

Express Interest By

February 25, 2012

General Information

Opportunity Type:

Services

Country/Region:

Afghanistan

Publication Date:

Jan 31, 2012

Contract Award

Add Contract Award

Notice/Contract Number:

H966-AF MoM/PMU/CT-II-44-1 WB565-815/12

Project Summary

Country:	Afghanistan
Project:	SUSTAINABLE DEVELOPMENT OF NATURAL RESOURCES PROJECT (PHASE-LL)
Financing:	World Bank
Abstract:	CONSULTANCY SERVICES, FOR IMPROVING THE BUSINESS ENVIRONMENT: REFORM OF THE AFGHANISTAN STATE GAS ENTERPRISE ("AFGHAN GAS")
Sector:	Consultants
Loan/Credit Number:	IDA Grant No.: H966-AF, Project ID No.: 118925
Contract/Bid Number:	Reference: MoM/PMU/CT-II-44-1
Deadline:	25 February 2012

The Government of the Islamic Republic of Afghanistan has received a grant from the World Bank toward the cost of achieving Sustainable Development of Natural Resources in Afghanistan. The Project is being implemented through a Program Management Unit (PMU) within the Ministry of Mines. The PMU is now seeking

to hire a qualified Firm.

Scope of Work:

Task 1 Literature Review and Consultations

Consultant shall review available documents and meet with Ministry of Mines, government and donor representatives relevant to Afghan gas activities.

Task 2 Functional Analysis and Institutional Relations: Review, Analysis and Recommendations

Consultant shall review the structure of Afghan Gas including its staffing arrangements, technical operations, core and non-core business units, headquarter and field operations. Consultant shall prepare an overview document that graphically describes the status of the Afghan Gas structure and supporting operations, staffing.

Task 3 Financial Review and Recommendations on Afghan Gas Assets and Liabilities

Legal Requirements for Financial Performance. Consultant shall become familiar with payments and protocols to be followed by Afghan Gas as a State Owned Enterprise and assess Afghan Gas' performance.

Task 4 Technical Review of Afghan Gas Operations

Infrastructure and Equipment Assessment. Based on existing information, Consultant technical review of Afghan Gas operations including distribution networks and provide recommendations as to what aspects of existing infrastructure may be salvaged for future use.

Task 5 Customer, Pricing and Market Assessment

Customer Base. Consultant shall gain an understanding of the existing and potential Afghan gas. This shall include an assessment of potential gas imports and exports. In order to develop a natural gas exploration strategy, the expectations of gas market development including the price that the market will pay for gas supply is essential.

Task 6 "New Afghan Gas" Structure and Transition Plan

New Institutional and Staffing Requirements. Consultant shall provide recommendation Afghan Gas structure and staffing arrangements and identify areas where former Afghan Gas arrangements may be transitioned to the new enterprise.

Task 7 Design and Implement a program of Afghan Gas corporatization commercialization, modernization and restructuring that includes capacity building

The Afghanistan Ministry of Mines now invites eligible consultants to indicate their interest in providing the services. Interested consultants must provide information indicating that they are qualified to perform the services (brochures, description of similar assignments, experience in similar conditions, availability of appropriate skills among staff, etc.). Consultants may associate to enhance their qualifications.

Firms and agencies will be selected in accordance with the procedures set out in the World Bank's Procurement Guidelines: Selection and Employment of Consultants by World Bank Borrowers (January 2011). The method of selection shall be Quality and Cost Based Selection (QCBS) method.

Interested firms and agencies may obtain further information at the address below during office hours 08.00 - 16.00 hours.

Expressions of interest must be delivered to the email address below no later than 25th February 2012, 16:00 hrs local time. Reference MoM/PMU/CT-II-44-1, must be quoted on all correspondence and the Expression of Interest.

Contact:

Ministry of Mines, Program Management Unit (PMU).
Attention: Mohammad Haroon Naim.
Director of Operations.
Afghanistan Geological Survey Building (AGS), 2nd floor, Annex Building.
Close to Abdul Haq roundabout, 2nd Makrorayan, Kabul, Afghanistan.
Cell phone: + 93 (0) 700068328.
E-mail: haroon.pmu@gmail.com and copy to haroon@MoM.gov.af

The above is a complete copy of the original procurement notice.

ANNEX 13

Meeting with the World Bank, February 5, 2012

- PMC outlined the scope of the SGPP
- World Bank questioned the advisability of such a large investment in support of only \$75 million private sector investment in the IPP
- World Bank indicated that the scope of its gas sector assistance to the MoM was not fully developed
- World Bank indicated that funding for the TA was not a problem, but did not disclose the planned amount
- World Bank indicated that the TA may run 2-3 years or longer, but did not state the current term
- World Bank suggested that perhaps the gas or power from Sheberghan should be the source of energy for Hajigag to facilitate a green project in line with the resource corridors strategy
- World Bank pointed out that the oil production sharing leasing process resulted in an award to CNPC
- World Bank felt that the time for a 200 MW gas fired project in Sheberghan being a trigger for restarting the development of Afghan gas resources has past
- PMC suggested that World Bank should be a stakeholder in the SWG, because of its activities in the gas sector; World Bank stated that no one has invited them to join the SWG.

ANNEX 14

Meeting with IPS Asia, February 24, 2012

- IPS agrees with moving at a speed to make sure the transaction is sustainable; they will discuss this issue with Contour Global.
- IPS indicated that everyone discounts the Russian gas processing technology, but Contour Global and IPS feel it is not that bad and the Russian plants should last a long time; PMC asked whether IPS knows a top notch Gas Processing Plant expert; IPS promised to look into it and look for someone particularly with experience in Russian technology/plants.
- Discussed project financing issues and cost of financing
- IPS feels strongly about its partnership with Contour Global, because of strategic synergies between the companies.
- IPS sent an email to Allen Eisendrath asking USAID to think about funding additional drilling to assure adequate gas supply for the 200 MW IPP.
- IPS enquired about the status of the IL
- IPS was asking about the SOW for the GIRoA transaction advisers; will also ask OPIC
- IPS will do a test video conference with PMC in Kabul to test the Roshan Kabul facility before the next SWG videoconference