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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

Monthly Report

Period: May 1 – May 31, 2012

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This Monthly Report is made possible by support from the American People jointly sponsored by the United States Agency for International Development (USAID) and the Government of the Islamic Republic of Afghanistan. The contents of this Monthly Report were prepared by Advanced Engineering Associates International, Inc. and are the sole responsibility of Advanced Engineering Associates International, Inc. and do not necessarily reflect the views of USAID or the United States Government.

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Acronyms and Abbreviations

AEAI	Advanced Engineering Associates International Inc.
AGE	Afghan Gas Enterprise
APPF	Afghan Public Protection Force
CEO	Chief Executive Officer
CPO	Close Protection Officers
DABS	Da Afghanistan Breshna Sherkat
DCOP	Deputy Chief of Party
GIRoA	Government Islamic Republic of Afghanistan
IT	Information Technology
MEW	Ministry of Energy and Water
MoC	Memorandum of Collaboration
MoM	Ministry of Mines
PMU	Program Management Unit
PSS	Pride Security Services
SGDP	Sheberghan Gas Development Project
SGGA	Sheberghan Gas Generation Activity
TFBSO	Task Force for Business and Stability Operations
TPP	Technical Power Policy
US	United States
USAID	United States Agency for International Development

1 COUNTRY TEAM STAFFING AT THE END OF THE MONTH

Eric Kozak, Project Finance and Accounting Manager. (departed on 30/5/12) and Steve Faleiro, IT Advisor (departed on 25/5/12), Eng. Waki Nassery departed on 21 /5/12. The in-Country team members on May 31 were:

Expatriate Staff	Functional Title
Peter Jezek	Chief of Party
Charles Moseley	Director; Administration, Finance, Security, and Capacity Building
Richard Tainton	Director, Operations
Dave Davis	Director, Security and Transport
Dan Potash	Financial Modeling Specialist
Charles Moseley	Institutional & Sustainability Advisor
Ernest Gerloff	Private Power Advisor
Wayne Register	Procurement/Contract Specialist
Michael Scholder	Project Finance and Economics Manager
Key Afghan Staff	Position
Razia Rasooly	Manager, Human Resource and Training
Amanullah Khan	Deputy Director, Security
Eng. Zalmi	Deputy Co-Director, Joint Gas Working Group
Sher Rahman Mohmand	Customs Specialist & Training/Capacity Building Coordinator
Shokrullah Poyan	Senior. Project Associate
Mohammad Bahir	Electrical Engineer/AutoCAD Specialist
Muzhgan Waseeq	Manager, Office of Chief of Party
Farida Hamidi	Administrative Program Coordinator
Khusraw Razbaan Ahmadzai	Manager, IT and Facilities
Atiqullah Besmil	Senior Finance Officer
Atiqullah Besmil	Manager, Finance and Disbursements
Hanifullah Aziz	Manager, Procurement and Contracts
Abdul Haleem	Manager, Security and Transport Control Center

2 SECURITY

Physical transition of security services from Pride Security Services (PSS) to Afghan Public Protection Force (APPF) was concluded on May 6, 2012 when guard force received their uniforms. Weapons and ammunition were transferred from PSS to APPF in accordance with bridging Task II. APPF ID Cards were issued on May 12, 2012. Mobile Security initially presented a problem because Close Protection Officers (CPO) were being stopped at checkpoints with their weapons. This was solved by obtaining a letter from Brig. Gen. Sharifi (APPF) approving movement with weapons for three days at a time. APPF is working on a long term solution to issue unique ID Cards to the CPO's which include weapon number. All details have been provided to APPF ID Card section. Guards' first salaries (for the month of Saur) were paid into their bank accounts on May 30, 2012, including their food allowance.

Continued

3 KEY PROGRAM ACTIVITIES DURING APRIL

3.1 General Activities

- a) Richard Tainton arrived on May 18 and assumed his responsibilities as Acting DCOP and Director of Operations.
- b) The SGGA team continued the forging of working relationships with MoM, AGE, Oil and Gas Exploration Directorate, MEW, DABS; the formation of effective Joint Task Forces (restructured PMU units) in MEW and DABS and, the preparation of Gas to Power Implementation Action Plans
- c) The requested joint Gas-to-Power Gantt chart was completed and submitted to USAID and other stake holders.
- d) Continued development of a financial model to "stress-test" the viability of the entire Project value chain and the long-term sustainability. Results were presented to USAID in May. Also three sub-sector modules were created, regarding: 1) gas field development and gas processing, 2) power project, and 3) power off-take/DABS financial viability. The models are being continually updated as per the latest cost and price estimates. Model creation and updating will be an important component of capacity building with GIRoA ministries and ultimately the financial modeling task will become wholly the responsibility of relevant Afghan stakeholders.
- e) SGGA completed its settling in to the new and more secure AEAI SGGA compound that is located nearer USAID and key GIRoA Counterparts.

3.2 Sheberghan Working Group

The Sheberghan Working Group Meeting scheduled for May 2nd that was rescheduled for May 22 due to on-going security incident and it was eventually rescheduled to June 19 to allow for addressing disagreements between USAID and TFBSO concerning location and size of the power plant, project structure and strategic objectives.

3.3 MoM – SGDP IL and Other Gas Elements of the Gas-to-Power Program

- a. **Draft Implementation Letter (IL)** -The implementation Letter has been signed by all Parties and last signature was provided by the Minister of Finance on May 26, 2012. AEAI continued to work closely with MoM on addressing the conditions precedent. The present strategy is for MoM to submit to USAID documents addressing the Conditions Precedent in three packages to make review by USAID of the documents more manageable. The first package is nearly complete and will contain MoM's response to 7 of the 15 primary conditions precedent. At present, there are only a few letters and documents still awaiting completion. The final IL Condition Precedent of the first submission package will be the opening of the US dollar, non-commingled no interest bearing account at Da Afghanistan Bank for transferring funds between USAID, MoM. Contractor will be paid from this account.
- b. **Bashtikurd/Juma Gas Field Development Tender**- The MoM decided to issue the Bashtikurd/Juma gas field drilling tender before the IL Conditions Precedent are met. A final technical specifications review was initiated based upon meetings held with Afghan Gas and the Oil and Gas Exploration Directorate. Additional gas well details have been obtained for the two Bashtikurd wells slated for rehabilitation (wells number 3 & 9). The Asian Development Bank funded project aimed at rehabilitating up to 8 wells in the producing fields nearby, resulted in several bids. Therefore AEAI decided to tighten/improve technical specifications to increase the likelihood of successful/durable well completions, without negatively impacting broad industry interest. The primary remaining concern is whether to tender "daily-rate" or "fixed-price." The MoM favors tendering "fixed-price", while AEAI staff and industry experts queried thus far, favor a "daily rate".

- c. **Teaming with Afghan Gas & Oil and Gas Exploration Directorate** -In May AEAI held five days of meetings with members of Afghan Gas Enterprise; and the Oil and Gas Exploration Directorate. The meetings were extremely productive and led to plans to create a Working Group made up of 2 to 3 members from each organization and AEAI staff going forward. The Working Group will initially be based in Kabul working 2 weeks each month until the field/drilling operations in Sheberghan begin. Both delegations had a wealth of local knowledge and expertise and provided key information that will improve the well rehabilitation and drilling technical specifications. In this way AEAI plan to ensure participation of both organizations in management/operations of the SGDP.

3.4 MEW Work

MEW has agreed to provide office space for a Joint MEW-AEAI team with follow up Meeting in June. MEW has requested AEAI review and comment for Terms of Reference regarding power plant feasibility and turnkey contracting. MEW and AEIA will meet in June to launch the operation of the TPP Policy unit of MEW.

3.5 Meetings with DABS

AEAI met with representatives of DABS on several occasions to discuss various issues associated with the implementation of the Sheberghan Gas to Power Program. AEAI has worked with DABS to identify and outfit a Sheberghan Power Project office, where the Joint DABS-AEAI-team will operate.

3.6 Capacity Building & Sustainable Institutional Development Strategy

Most joint capacity building and sustainable institutional development activities are on hold pending the Modification of the SGGA Task Order.

4 STATUS OF DELIVERABLES

As indicated in the April Monthly Report, AEAI must defer the final preparation of deliverables until Sections C and F of SGGA are revised to reflect the evolved scope of USAID support of the Gas-to-Power Program. Significant preparatory work continues with the assumption that the Task Order will be modified soon and permitting early submission of front end deliverables soon after Sections C and F of the Task Order are revised.

5 IMPORTANT GENERAL ISSUES TO BE ADDRESSED

Memorandum of Collaboration (MoC) - as stated in the April monthly report. USAID has agreed to have all parties sign an updated MoC once the Implementation Letter is signed. - The original MoC was signed on September 22, 2011 in Washington, DC by USAID and three other Sheberghan Gas-to-Power Stakeholders. Key objectives of the proposed updated MoC are the incorporation of final information regarding USAID's now final Sheberghan Gas Development Project design, and the inclusion of all key Stakeholders as signatories of the MoC.

6 KEY AEAI IMPACTS

A major AEAI impact in May continued to be the provision of advice and support to MoM, and USAID concerning Implementation Letter No. one and MoM compliance with the 15 conditions precedent of the implementation letter.

Another major impact in May has been the ability better understand Afghan Gas and the Oil and Gas Exploration Directorate and charting their roles in sustainability of the resulting gas supply projects. Although their staff lack modern training, their empirical experience gained since their founding in 1955 is an invaluable asset required to assure reliable and sustainable operations of the assets to be completed with USAID funding. Afghan Gas and the Oil and Gas Exploration Directorate have agreed to work jointly with AEAI in all gas-related aspect of the Sheberghan Gas-to-Power Program.

7 KEY CONSTRAINTS ENCOUNTERED BY AEAI

The SGDP Implementation Letter was concluded on May 26¹ and is no longer a constraint as reported in April.

The most serious remaining constraints encountered by AEAI in the month of May continued to be:

- a) Lack of a clear understanding with USAID concerning the role and types of advice and support that AEAI can/is required to provide USAID and GIRoA Counterparts as USAID Sheberghan Gas-to-Power Program Implementing Partner/Consultant.
- b) Lack of certainty concerning the content and timing of Task Order Modification (Sections C and F of the SGGA Task Order) to bring them in line with the requirements of above mentioned Implementation letter number one.

This continues to be our most critical constraint because it contractually limits AEAI's Authority to engage in several aspects of the now fully defined scope of the Gas-to-Power Program. Until Sections C and F are revised, AEAI is unable to complete scope of work, staffing and budget, and implement the urgently required sub-contract with Senergy and other sub-contractors required for the efficient implementation of the Gas-to-Power Program. Revisions of Sections C and F are also required for AEAI to be able to complete staffing and submit SGGA deliverables.

8 KEY PENDING AND UPCOMING USAID ACTIONS

- a) As soon as possible issue a Task Order Modification (adjustments in Sections C and F of the Task Order).
- b) A joint USA ID-AEAI meeting as soon as possible with GIRoA stakeholders, mainly Minister of Mines, Minister of Energy and Water, Minister of Finance, Minister of Economy and CEO of DABS to discuss the current configuration of the Program, explain and discuss the role and responsibility of AEAI under the recently concluded SGDP Implementation Letter and schedule the signing of the updated MoC to reflect the final scope of the SGDP fL and include all relevant stakeholders as signatories of the MoC.
- c) Continue to anticipate and be prepared to respond promptly to an AEAI request to consent to the subcontracting gas well drilling and rehabilitation advisory and supervisory services, with Senergy Oil and Gas, Ltd. Senergy was included as a prospective sub-contractor in AEAI's original SGGA proposal.

9 PROPOSED AGENDA

- a) Review and Discussion of this May Report with a focus on Important Issues to Be Addressed, Key Constraints Confronted by AEAI, and Key Pending and Up-Coming Actions (Items F, H, and 1) above.
- b) Scheduling of the Joint USAID-AEAI Meeting with GIRoA Stakeholders as per Item 1.2 Above.
- c) Scheduling of the signing of Updated Memorandum of Collaboration as per Item F.I above.
- d) SWG Issues, Strategies, Membership, and next meeting.