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SHEBERGHAN GAS GENERATION ACTIVITY (SGGA)

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SGGA Monthly Report

Period: November 1 – November 30, 2014

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Acronyms and Abbreviations

AGE	Afghan Gas Enterprise
APA	Afghanistan Petroleum Authority
DG	Director General
MoMP	Ministry of Mines and Petroleum
OGS	Oil and Gas Survey
SGDP	Sheberghan Gas Development Project
SGGA	Sheberghan Gas Generation Activity
TFBSO	Task Force for Business and Stability Operations
TPAO	Turkish National Petroleum Corporation
USAID	United States Agency for International Development

1 DRILLING CONTRACT MANAGEMENT SUPPORT

1.1 Achievements / Activities

- November 1, 2014, Turkish National Petroleum Corporation (TPAO) submitted its progress report that summarized the activities conducted between October 23, 2014 and October 30, 2014.
- November 4, 2014, TPAO sent a letter to Afghanistan Petroleum Authority (APA) discussing the reasons for delay, clarification to the contract, actual progress made, and TPAO's work plan.
- November 8, 2014, TPAO submitted a mobilization report; November 9, 2014, Sheberghan Gas Generation Activity (SGGA) sent a detailed memo describing contract termination options and consequences to Director General (DG) Anwar Aryan.
- November 17, 2014, APA procurement committee made a recommendation to continue contract (based upon fear of losing the grant and fear of ADB not funding the power plant).
- November 18, 2014, DM Hares as acting minister responded to USAID's October 27, 2014 letter of concern about TPAO's progress, indicating that the Ministry prefers the three wells over a reservoir study. An error in the Deputy Mission Director's letter to Ministry of Mines and Petroleum (MoMP) indicated that some of the money withdrawn from the drilling grant would be used to fund a reservoir study.
- November 30, 2014, a delegation from TPAO, including met with APA in Kabul. SGGA attended in an advisory capacity. SGGA warned that the USAID was near a decision to withdraw project funding. TPAO asked what it would take to obtain the necessary time extension and SGGA asked what TPAO was proposing to offer in consideration. TPAO had clearly not considered making any such offer. TPAO departed to discuss with senior management and did not return to continue the meeting.

In support of the above mentioned activities, SGGA performed the following:

- Prepared a termination paper for APA outlining the termination options and likely consequences of terminating for convenience vs. terminating for cause.
- Assembled documentation packages containing all key correspondence between TPAO, MoMP, and USAID for documenting their termination decision.
- Translated an APA procurement committee recommendation on TPAO to the Minister from Dari to English.
- Completed analysis of DM Hares' 18 Nov 14 response to USAID's 27 Oct 14 letter on TPAO breach of contract and forwarded to J. Jordy.
- Reviewed TPAO's 25 Nov 14 letter on customs and a legal team meeting and provided comments to Z. Sarwari and J. Jordy.
- Assisted Z. Sarwari in preparing for and conducting meeting with TPAO, including recommending not granting any TPAO request for extension without coordination with USAID.
- Prepared a scope of work and RFP for inspection and valuation of Sheberghan Field roads, well site, and camp locations in anticipation of a dispute when the contract is terminated.

1.2 Meetings

- 9 Nov 14, Met with Z. Sarwari and reviewed SGGA termination summary paper containing termination options and consequences.

- 19 Nov 14, Met with Z. Sarwari and discussed the background of APA's recommendation to not terminate TPAO.
- 23 Nov 14, Met with Z. Sarwari and discussed the urgency of having a three party meeting and dealing strongly and consistently with TPAO.
- 30 Nov 14, Conducted six hours of meetings with Dr. Anwar, Aimaq, and Z. Sarwari of APA to discuss the TPAO contract and the proposed reserve study, and separate meeting with Z. Sarwari of APA, and O. Malli, D. Yaman (TPAO legal) and H. Buykgoz (TPAO project manager) to discuss TPAO's delayed contract performance and legal issues about performance start date and potential settlement.

TPAO's Failure has Seriously Disrupted SGDP Objectives.

- TPAO's continuing failure to perform has resulted in a proposed schedule that runs months beyond the end of the Sheberghan Gas Development Project (SGDP) project. During this period, it has become increasingly clear that members of the MoMP-APA staff do not have the critical thinking skills, financial discernment, or will to administer complex contracts from either technical or a business/managerial perspective. This was evident in the MoMP-APA reasoning for continuing the TPAO contract.
- Even in the face of three back-to-back contractual failures by TPAO, all indications are that the Afghan government is prepared to award TPAO the Totimaidan gas block. A focus on disparate short-term actions at the expense of long-term strategic success is a recurring problem, highlighted by the failure to take into consideration the effect of awarding the Totimaidan block while paying TPAO to complete three wells on the block, especially without, reportedly, any adjustments for this in the production sharing contract.
- Despite the issues listed above, SGGA has not been able to convince MoMP that it must make a rapid termination decision, or risk TPAO accumulating additional reimbursable charges, and quite possibly mobilizing if a decision isn't made soon.

1.3 Plans for Next Month

- Continue to coordinate with USAID and MoMP on a termination decision and make available any advice they might need to render such a decision.

2 SGDP NATURAL GAS DEVELOPMENT SUPPORT

2.1 Achievements / Activities

Gas Market Feasibility Study

- Executed subcontract with Strat-Dev Advisors to complete a new gas market feasibility study, an SGGA task order requirement, deliverable 20.

Reserve Estimate Study

- Sent letter request to APA's Dr. Anwar for well data to support reservoir studies along with a proposed confidentiality agreement to protect the Ministry (English and Dari). A response was requested by 10 December. The letter included a proposed order from the Minister and a confidentiality agreement.

Gas-to-Power Symposium Planning

- Prepared event program of activities in collaboration with USAID and US Department of Commerce.

- Compiled list of potential investors and Afghan ministerial officials to target for event participation.
- Confirmed the Westin Abu Dhabi as the conference venue after completing a competitive tender process.
- Provided media engagement support to USAID's Communications Department including provision of a list of industry-related publications, press release review, and advisory on which Afghan officials to avail for comment.

2.2 Meetings

- 9 Nov 14, Met with USAID staff at their invitation and answered questions about current gas operations outside of those funded by USAID ongoing in the Sheberghan and Mazar area.
- 15 Nov 14, Met with USAID and State Dept. Officials to discuss the Gas-to-Power Symposium.
- 16 Nov 14, Met with Deputy Minister Hares to explain the Gas-to-Power Symposium to him and get his input on how to make it as successful as possible. He recommended that we organize a meeting prior to departing for all of the Afghan participants to discuss SGDP and get on the same page about remarks to be made at the conference.
 - 16 Nov 14, hosted Task Force for Business and Stability Operations (TFBSO) representatives for a final in-country meeting prior to TFBSO's demobilization; discussed status of Totimaidan, SGDP, and gas processing issues in Sheberghan.
- 22 Nov 14, Met with USAID and State Dept. staff to discuss the Gas-to-Power Symposium planning including the agenda and list of Afghan Governmental Officials. Also discussed media engagement strategy.
- 26 Nov 14, hosted a meeting between SGGA, Fichtner, UNICON and GIZ representatives to discuss a path forward on gathering gas well/field data to support each organization's needs: reservoir study, gas market study, and Afghan Gas Corporatization.
- 29 Nov 14, Met with USAID and Department of Commerce to discuss participant list, program of activities, and logistics for the Gas-to-Power Symposium.

2.3 Challenges

- Locating adequate gas field well data to support SGGA's reservoir study initiative.
- Did not receive any bids on initial Devex advertisement of SGGA RFP for gas processing and gathering reports to support three contract deliverables, deliverables 15, 17, and 18. SGGA plans to re-advertise and announce it at the Gas-to-Power Symposium.

2.4 Plans for Next Month

- Conduct a pre-conference meeting with GIRoA officials who will attend the Gas-to-Power Symposium.
- Continue advancing search for additional gas field well data to support SGGA's reservoir study initiative.
- Implement the Gas-to-Power Symposium.

3 POWER SECTOR DEVELOPMENT AND ECONOMIC MODELING

3.1 Meetings

- 22 Nov 14, Met with Mr. Samadi to discuss DABS's participation in the Gas-to-Power Symposium.
- 22 Nov 14, Met with K. Masood to talk about MEW/DABS negotiating 2015 power purchase contract conditions with Uzbekistan for 2015 in which the imported energy price was increased from 7.6 cents/kWh to 8.5cents/kWh.

3.2 Challenges

- No significant challenges reported during this period.

3.3 Plans for Next Month

- Prepare and deliver a presentation on plans for an independent power plant, updates to the transmission line development in Jawzjan province, and the SGDP Economic Model for the Gas-to-Power Symposium.

4 CAPACITY DEVELOPMENT

4.1 Achievements / Activities

Course Implementation

- Completed the Economics Basics short-course for MoMP.
- Completed the Petroleum Project Management short-course for MoMP.
- English Language Training: Continued instructing students from MoMP in both Sheberghan and Kabul and DABS in Sheberghan.
- Petroleum Engineering: Continued instructing Afghan Gas Enterprise (AGE) and Oil and Gas Survey employees and mentoring MoMP's SGDP project engineers in Sheberghan covering the following topics:
 - Lecture on equipment used in well testing operations
 - Lectures on the functions of chemical needle valves and inhibitor check valves for the corrosion protection of tubular components
 - Review of directional drilling and horizontal wells including:
 - Benefits
 - Technical aspects of directional & vertical hole drilling
 - Associated drilling problems
 - Geological and technical reasons for deviation in drilling vertical holes
 - Continued review of well testing downhole equipment
 - Calibration of equipment and its importance
 - Review of drilling fluids and their technical properties and parameters
- Gas Processing: Continued instruction in for students from AGE and OGS in Sheberghan focusing on the TFBSO-funded Amine processing plant's components.
- Geographic Information System Training: Continued instruction for APA and Afghan Geological Survey staff.

Scheduled Course Planning

- After nearly eight months of waiting for a reply, finally received vetting approval to subcontract with Schlumberger.
 - Immediately followed-up with USAID after receiving vetting approval with a request to subcontract Schlumberger to execute an upstream geoscience and petroleum engineering, which received approval.
- Submitted a request to subcontract for a petroleum industry specialist to provide instruction in petroleum economics, finance, and project management and also a gas-to-power simulation. USAID deemed the request unnecessary due to the subcontract amount being lower than the threshold required for review.
- Submitted and was approved for a request to hire for a new English teacher and training coordinator, Ms. J. Meadows following last month's departures of P. Schramm and N. Mohammadi.

4.2 Meetings

- 8 Nov 14, Met with A. Kakar to try and establish a meeting with Dr. Anwar to discuss finalizing classes with Kardan University.
- 9 Nov 14, Met with A. Kakar again and L. Sayar in an attempt to meet with Dr. Anwar. The meeting was rejected by Dr. Anwar due to lack of coordination from APA's capacity development staff, and therefore was canceled before it could begin.
- 15 Nov 14, Meeting with N. Shinwari, Finance Director, APA to discuss a potential commencement of the Petroleum Economics Training. He explained that the finance staff has been too busy with trainings provided by the Task Force for Business and Stability Operations and prefers a postponement of SGGA's next economics training until his staff has had a chance to catch up with its workload. As a result, SGGA decided to have the petroleum training subcontractor provide project management instruction prior to economics or finance.
- 15 Nov 14, Met with members of APA's Project Management Office to confirm their availability for SGGA's Petroleum Project Management training the subsequent week.
- 15 Nov 14, Met with L. Sayer, to discuss the planned Petroleum Project Management training and confirmed his cooperation to inform APA staff about the training.
- 17 Nov 14, Conference call with F. Hodsoll to discuss the training needs for APA regarding Petroleum Project Management Training.
- 22 Nov 14, Met with F. Hodsoll and various APA staff members, including Z. Sarwari, Aimaq, R. Shinwari, Z. Jaihoon, L. Sayer, to conduct focus group interviews on the training needs of APA staff with regard to petroleum business trainings that F. Hodsoll has been subcontracted to implement for SGGA.

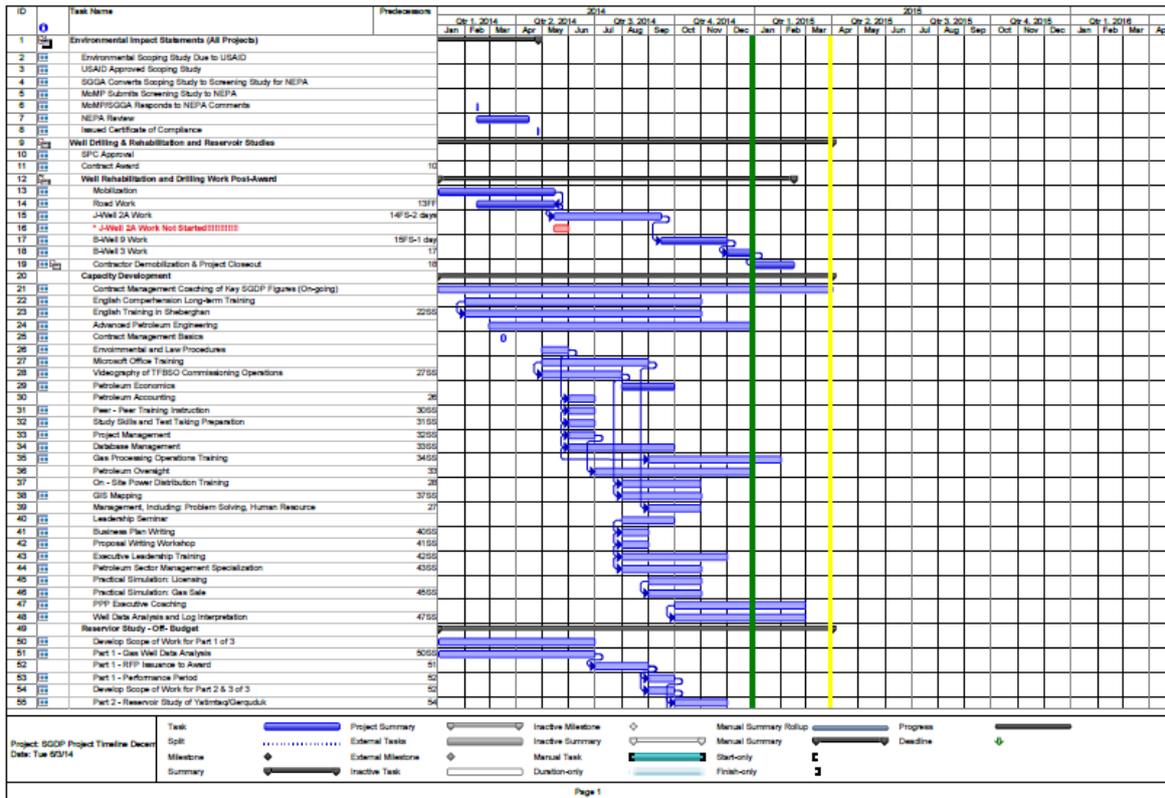
4.3 Challenges

- Despite numerous attempts to meet Dr. Anwar and multiple notices of availability whenever APA's capacity development staff could schedule a meeting, SGGA could not obtain a meeting with the DG to explain the upcoming training schedule and rationale for each planned course as he requested to reach an official training agreement. As a result and due to time constraints to implement the trainings prior to SGGA's contract completion, it went ahead and issued a sub-contract to Kardan University for the courses it found most appropriate with APA's capacity development officials without senior-level agreement.
- At the end of the reporting period SGGA learned that GIRoA did not approve continued funding for the discretionary budgets that supply salaries for the vast majority of APA staff members. As of the end of this reporting period it is unclear to SGGA which staff will remain working on hydrocarbon related matters and how the ministry will restructure to manage its petroleum development activities. Therefore, SGGA has decided to wait to finalize specific training schedules until the middle of December when it has better information about which staff members will remain and what their roles and responsibilities will be.
- Subsequent to the reporting period, SGGA's Gas Processing Instructor resigned due to the security threat. SGGA will seek a replacement in the month of December as a result.

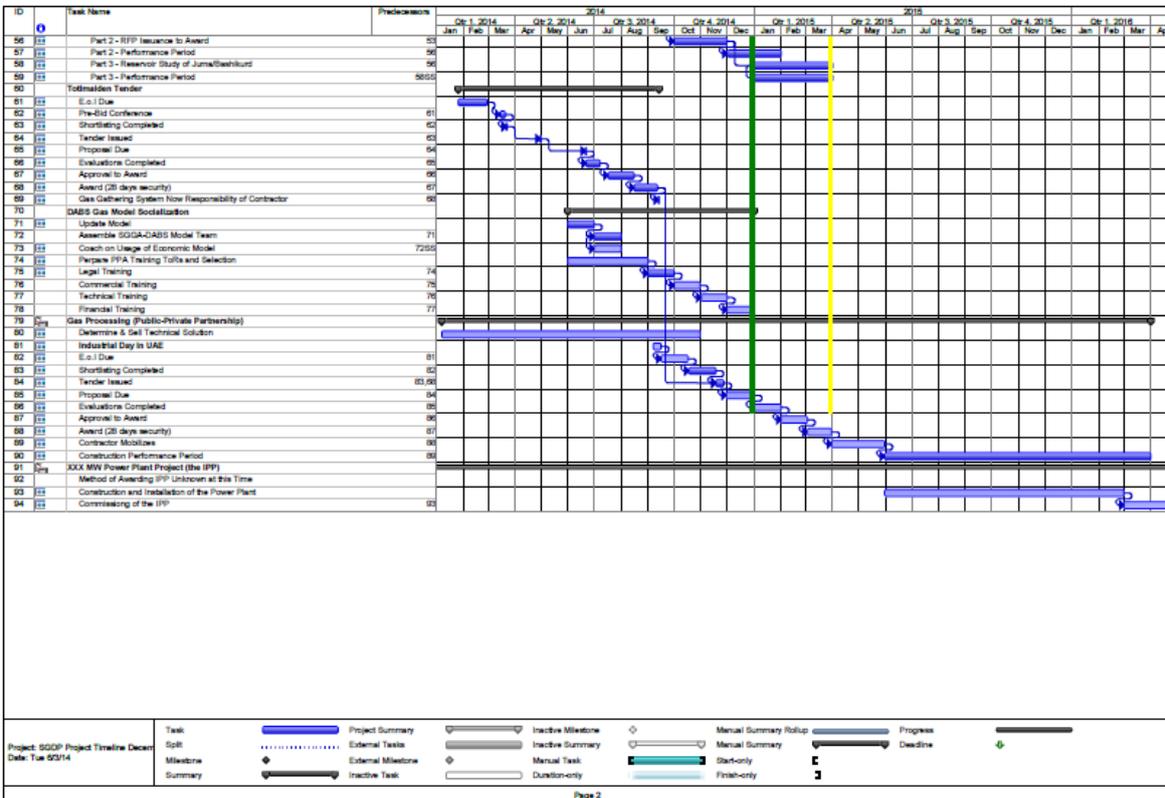
4.4 Plans for Next Month

- Schedule courses and award contract to Kardan University once staff assignments in MoMP's petroleum operations become clear and trainees can be properly identified.
- Continue all on-going training programs, including: English, GIS, and Petroleum Engineering
- If trainees become available, commence Petroleum Economics and Finance trainings.
- Finalize a schedule with Schlumberger Overseas S.A. for the provision of Upstream Geoscience training and commence activities to identify appropriate trainees.

5 PROJECT SCHEDULE



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