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## **SHEBERGHAN GAS GENERATION ACTIVITY (SGGA)**

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

# **SGGA Monthly Report**

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## Acronyms and Abbreviations

AGE	Afghan Gas Enterprise
APA	Afghanistan Petroleum Authority
DABS	Da Afghanistan Breshna Sherkat
GIS	Geographic Information System
MEW	Ministry of Energy and Water
NEPA	National Environmental Protection Agency
OGS	Oil and Gas Survey
SGDP	Sheberghan Gas Development Project
SGGA	Sheberghan Gas Generation Activity
TPAO	Turkish National Petroleum Corporation
USAID	United States Agency for International Development

# 1 DRILLING CONTRACT MANAGEMENT SUPPORT

## 1.1 Achievements / Activities

- SGGA subcontractor Credible Construction Company and SGGA's N. Kohsar completed an inspection of field roads, camp, and drilling locations done by Turkish Petroleum Corporation's (TPAO's) subcontractor Boland Tabaghi Construction Company. The scope of inspections included compliance with contract requirements, quality, environmental compliance, and fair market value of work. The inspection reports were received and the results will be reported separately. SGGA forwarded the first report to USAID and the Ministry's Project Manager, Z. Sarwari.
- Provided detailed recommendations to Z. Sarwari on how to prepare for anticipated cost and delay claims from TPAO that was clearly signaled by 27 February letter from TPAO complaining of delays caused by Ministry in customs clearance and inability to transit Iran. At the end of reporting period, there is no indication from Sarwari that the information necessary to respond to TPAO has been gathered by the Ministry.
- Hosted a representative of USAID's Mazar-e-Sharif office for a field visit.
- At request of USAID, SGGA's security director prepared and submitted description of Sheberghan and gas field security procedures.

## 1.2 Meetings

- 7 Mar 15, Met with Z. Sarwari to discuss need for preparation to respond to the expected TPAO cost and delay claims, preparations of mobilization verification report. Urgency of mobilization verification repeated to Sarwari by e-mail on 14 March, including yet one more reminder that USAID will not pay for mobilization or other milestones if not credibly verified by Ministry inspections.

## 1.3 Challenges

- Learned on 2 March that the guards employed (illegally) for the TPAO operations through Boland Tabaghi Construction had not been paid for weeks, and that Hussein Amiri, the construction company owner had been arrested while attempting to leave the country with all of the money paid to him by TPAO for security service. TPAO is reported to have made the back payments to the guards and assumed responsibility for future salaries.
- Although TPAO provided as-built drawings for the road, camp, and drilling location construction, they neglected, refused, or didn't have additional information requested such as bills of quantities. This has required Credible Construction Company to estimate costs from physical inspection results. The needed documents will be requested again.
- During field inspections, SGGA learned of several problems with implementation of Ministry inspection and oversight of TPAO operations. These included:
  - Ministry inspectors had not been given any specific instructions by Z. Sarwari, including no instructions on requirements for verification of mobilization by TPAO. The latter omission was in spite of very specific recommendations provided in a letter by SGGA to the Ministry, including Sarwari.
  - The inspectors had not been briefed on even the general terms of the TPAO contract, apparently not even that the contract is between the Ministry and TPAO, rather than between SGGA and TPAO. SGGA's N. Kohsar immediately instituted trainings on the TPAO-Ministry contract as well as procurement procedures and contract management. These trainings, in addition to the Ministry inspectors, included Afghan Gas Enterprise (AGE) and Oil and Gas Survey (OGS) personnel. The trainings are continuing into April.
  - Learned that Z. Sarwari has been receiving reports, although sporadic and brief, from Ministry inspectors, but not sharing them with either SGGA or USAID.
- SGGA's Sheberghan office received the first TPAO "Daily Drilling Report" on 14 March, but neither this report nor subsequent reports were witnessed by any Ministry staff.

- At request of Z. Sarwari, reviewed and commented on draft versions offered by TPAO of amendment to extend performance period.
- TPAO, in attempting to reach an agreement with the Ministry to extend the completion date of the drilling contract to 31 August 2016, has insisted on terms in the proposed extension agreement that would entitle TPAO to additional compensation and additional performance time, as outlined below. SGGA has strongly advised against accepting such terms. However, since the last communication on these issues, on 24 March, the Ministry has not provided any further information as to whether any agreement has been reached or even about the status of the negotiations. Specifics on the negotiations are:
  - On 10 March, sent comments and consolidated draft of proposals by TPAO and Ministry to Sarwari.
  - On 15 March, sent a second draft revision to Sarwari after telephone discussions.
  - On 23 March, discussed with Sarwari by telephone new TPAO offer on extension.
  - On 24 March, SGGA sent detailed comments to Sarwari on TPAO offer. Key issues are:
    - TPAO demand for compensation and additional time for delays in customs and demand for compensation and additional time for drilling and casing through salt horizon in wells. SGGA strongly recommended that these demands be rejected because (1) lack of any information that Ministry action or inaction caused the customs delays (although information requested previously from Z. Sarwari and (2) clear evidence that TPAO was, or clearly should have been, aware of presence of salt zones in any well in the field prior to submitting its bid although it claims that it was unaware of the salt zones. As far as SGGA is aware, the Ministry conducted no research or analysis with which to analyze or refute the claims related to the salt zones.
    - Finally, SGGA advised Z. Sarwari by e-mail, after confirming with J. Jordy, that USAID is not able to provide any additional funding for the TPAO contract, and that, if these terms were agreed by the Ministry, that the Ministry would have to pay the costs without USAID support.
- On 28 March, N. Kohsar received a report from the Ministry's engineers in Sheberghan that the TPAO project manager had refused to give them any information because TPAO (1) had not been officially informed by Z. Sarwari of the engineers' status with the Ministry, and (2) TPAO had no obligation under the contract to provide access to the work locations or any information. SGGA immediately informed Sarwari of this report by letter, a copy of which was sent to USAID.
- On 29 March, SGGA provided Sarwari with a draft contract notice that spelled out both the Ministry's rights of access and information, and clearly designating the engineers. Ayoub and Sediq as the Ministry's field inspectors. On 31 March Sarwari and the Ministry's engineers met with TPAO's project managers and reportedly resolved the matter. SGGA's N. Kohsar mediated the meeting.

#### 1.4 Plans for Next Month

- Continue to provide support to the Ministry for the oversight of the TPAO contract, including preparation of mobilization verification reports and establishing Ministry processes for required reports to USAID and the National Environmental Protection Agency (NEPA).
- Review Credible Construction Company's reports and make recommendations to the Ministry and USAID for further action, if required.

## 2 SGDP NATURAL GAS DEVELOPMENT SUPPORT

### 2.1 Achievements / Activities

- Updated Gas Market Feasibility Study and Gas Processing Capacity Requirements delivered to USAID on 8 Mar 15.
- Submitted project description and status to Ministry's donor coordination office as requested.
- On 24 March, with USAID approval, sent a copy of the Updated Gas Market Feasibility Report to the Ministry's policy section.

### 2.2 Meetings

- 7 Mar 15, Chief of Party attended meeting of Ministry's new Gas Sector Development Committee. Topics of discussion included current project status and options for commercialization of AGE.
- 8 Mar 15, Met with USAID (A. Dix, J. Jordy, J. Stich of Kabul mission, E. Kunen and B. Opuku of USAID HQ Environmental Office regarding the Sheberghan Gas Development Project (SGDP) environmental reporting and enforcement activities completed and required for further operations; provided copy of NEPA filing for drilling and re-entry operations
- 11 Mar 15, Met with D. Lindley, of Exim Group, to discuss private sector development and possible refinery siting at the proposed Gerquduq Hub.
- 17 Mar 15, Met with Minister of Mines Saba, USAID (J. Cardenas, R. Scott, J. Jordy) to discuss current SGDP/SGGA project status, need to obtain access to gas data and to obtain Ministry verification for TPAO mobilization and other milestone payments. Requested by Minister to prepare opinion letter on legality of inclusion of Juma-Bashikurd Field in Totimaidan tender and on options for dealing with Juma-Bashikurd. SGGA Delivered the opinion letter to Minister Saba on 25 March and sent a copy to USAID.

### 2.3 Challenges

- Although the outcome of the pending award of the Totimaidan exploration and production sharing contract is uncertain at this time, either the cancellation of the award or the reconfiguration of the Juma-Bashikurd portion of the award could result in a need to further evaluate the role of Juma-Bashikurd in the particulars of some of the SGDP programs.
- SGGA learned that planning for AGE has reportedly been removed from the scope of work of World Bank contractor Unicon.

### 2.4 Plans for Next Month

- With extension of the SGGA project in place, resume implementation on the seven field data evaluation and reserve estimate and gas gathering and processing public-private partnership structuring.

## 3 POWER SECTOR DEVELOPMENT AND ECONOMIC MODELING

### 3.1 Achievements

- Executive Gas-to Power Negotiation Simulation successfully completed, as more fully described below under Capacity Development.
- At the request of USAID, advised the Power Transmission Expansion and Connectivity Project about the Salang Pass Substation's technical specifications.
- At the request of the Combined Security Transition Command – Afghanistan, and USAID, provided updates to the economic model that SGGA prepared for the inter-organizational initiative to bring Afghan military facilities onto the national electric grid. Changes were required based on a change in strategy to

seek funding from the North Atlantic Treaty Organization for the initiative rather than funding from the US Department of Defense.

### 3.2 Meetings

- 9 Mar 15, Teleconference with M. Alami, CCO of Da Afghanistan Breshna Sherkat (DABS) to discuss the Executive Gas-to-Power Negotiation Simulation. Alami replied that SGGA can fully expect DABS's participation.
- 10 Mar 15, Met with Z. Gul, and Dr. Arif, to discuss and the negotiation simulation; each individual stated she or he could attend.
- 18 Mar 15, Met with A. Noorzad, Senior Program Engineer, USAID, to discuss the Salang Pass Substation's technical specifications. Subsequently briefed J. Jordy on the meeting.
- 25 Mar 15, Met with D. Wilson and J. Kaufman among others to discuss the altering the financial assumptions within the plan to convert Afghan military facilities to grid-provided electrification. Briefed J. Jordy subsequent to this meeting as well.
- 28 Mar 15, Met with representatives from Tetra Tech, DABS, and USAID to discuss the technical issues affecting the transmission losses at the Salang Pass Substation.
- 28 Mar 15, Met with D. Wilson and J. Kaufman to discuss changes made to the economic model for converting Afghan military assets to the power grid.

### 3.3 Challenges

- No significant challenges reported during this period.

### 3.4 Plans for Next Week

- Continue to provide technical support as requested to DABS and the Ministry of Energy and Water (MEW) and contribute to capacity development as requested.

## 4 CAPACITY DEVELOPMENT

### 4.1 Achievements / Activities

#### Course Planning

- Conducted planning and logistics organization for the Executive Gas-to-Power Simulation that will take place next week. Coordinated extensively meeting with senior officials from the Ministry, DABS, MEW, Ministry of Commerce and Industry, and Ministry of Finance.
- SGGA has re-assessed its Geographic Information System (GIS) training program. Based on the lack of critical need for general AGS staff to expand knowledge of GIS programming beyond the basic familiarity with GIS and its use, SGGA will evaluate final performance and shift focus to staff specifically devoted to GIS roles to increase their functional capabilities in a more appropriate alignment with the Ministry's mapping needs.
- Due to the tangential need requirement of training staff at AGE's technically-oriented engineering staff, the lack of reliable and suitable classroom space at AGS, and the fact that SGGA has already accomplished a substantial amount of training in English for AGS-based employees, SGGA decided to cancel all AGS-based English classes until further notice. If granted an extension, SGGA will re-evaluate the need to train AGS-based staff in English language on a case-by-case basis in accordance with the Ministry's capacity development priorities.
  - This cancellation will not affect English training for the Ministry's executive staff, or English trainings occurring in Sheberghan.

#### Course Implementation

- Contract Management: SGGA's Deputy Procurement Manager provided a specialized course for the Ministry's Sheberghan-based staff regarding key contract terms and what information they need to report to the Ministry to comply with the TPAO drilling contract and Implementation Letter 45-01.
- English Language: Continued instruction throughout the Ministry in Kabul and Sheberghan and for DABS in Sheberghan.

- Petroleum Engineering: Continued theoretical trainings in drilling engineering for AGS and OGS personnel in Sheberghan.

## 4.2 Meetings

- 7 Mar 15, Met with DM Hares and S. Shahrani, the Ministry's Chief of Staff, to discuss the Executive Gas-to-Power Negotiation Simulation, including which participants should be included.
- 8 Mar 15, Met with Z. Sarwari and N. Shinwari from the Afghanistan Petroleum Authority (APA) to discuss the Executive Gas-to-Power Negotiation Simulation. Mr. Shinwari recommended additional participants, which SGGA followed up with subsequently as noted below.
- 9 Mar 15, Met with Dr. Gabar, Director of the Ministry's Policy and Planning office and N. Amirzai, the Ministry's Director of Policy, to discuss the Executive Gas-to-Power Negotiation Simulation.
- 10 Mar 15, Met with S. Shahrani, and D. Azizi, Special Advisor to Minister Saba to discuss their participation in and planning for the Executive Gas-to-Power Negotiation Simulation.
- 10 Mar 15, Met with a representative from the Office of Deputy Minister Mastoor, Ministry of Finance, to discuss participating in the Executive Gas-to-Power Negotiation Simulation. The office stated that in the absence of N. Mohammad, the head of its Department of Infrastructure Development, it will send a senior manager from the department to participate in the simulation.
- 10 Mar 15, Teleconference with J. Jordy, to inform him and his USAID colleagues about the Executive Gas-to-Power Negotiation Simulation. Followed the phone call with an email including the event details and senior-level participants from each ministry and DABS.
- 11 Mar 15, Teleconference with A. Basheer, Coordination Manager at AGS. Discussed lack of classroom availability other than one large basement classroom which lacks heat where students have been reluctant or unwilling to train. As a result of this conversation, and in addition to the reasons mentioned above, SGGA decided to cancel all AGS classes.
- 23 Mar 15, Met with Z. Sarwari to discuss capacity development priorities for the APA's Gas Development Office.
- 25 Mar 15, Met with Engineer A. Raheem, Planning Director, AGE, who discussed AGE's upcoming plans and challenges, reiterating requests for capacity building support for pipeline engineering and gas processing for AGE's amine plant.
- 28 Mar 15, Met with Z. Sarwari to catch up on weekly activities. Sarwari noted the appointment of Dr. Q. Qaeyem as the new director general of APA.

## 4.3 Challenges

- No significant challenges reported during this period.

## 4.4 Plans for Next Month

- Continue existing class implementation and administrative filing of capacity building documentation.
- Provide capacity enhancement activities for AGE and OGS staff in Sheberghan in subject areas related to contract management and procurement.

## 5 PROJECT SCHEDULE

