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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

SGDP Monthly Drilling Operations Progress Report (Mod 3, Section F, Deliverable 24)

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Prepared by:

Advanced Engineering Associates International, Inc. (AEAI)/SGGA
1707 L Street, NW, Suite 1030, Washington, DC (USA) 20036
Telephone: 1-202-263-0601

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Acronyms and Abbreviations

APA	Afghanistan Petroleum Authority
CRA	Corrosive resistant alloy
IL	Implementation Letter
MoF	Ministry of Finance
MoMP	Ministry of Mines and Petroleum
SGDP	Sheberghan Gas Development Project
SGGA	Sheberghan Gas Generation Activity
TPAO	Turkish Petroleum Corporation
US\$	United States Dollar
USAID	United States Agency for International Development

Monthly Drilling Operations Progress Report

Sheberghan Gas Development Project (SGDP)

A USAID – MoMP “On-Budget” Funded Program

Figure 1: Final Well Site Work at Bashikurd Well #3



Figure 2: Pouring Concrete at Bashikurd Well #3



Figure 3: Rebar for Concrete at Bashikurd Well #3 Camp Site



Figure 4: Camp Site Ground Work at Bashikurd Well #3



The Sheberghan Gas Development Project (SGPD) is funded by the United States Agency for International Development (USAID) under Implementation Letter (IL) 45-01, dated May 29, 2012, with a projected end date of April 30, 2015. Under Phase I of SGDP, the Ministry of Mines and Petroleum (MoMP) on December 14, 2013, awarded a United States Dollar (US\$) 36,757,766 “on-budget” contract to Turkish Petroleum Corporation (TPAO). The contract will be funded jointly by USAID and MoMP. As provided in IL45-01, this contract requires TPAO to drill one new well, Juma #2A, and re-enter two wells, Bashikurd #3 and Bashikurd #9 in the Juma-Bashikurd Field in Jawzjan Province. The Sheberghan Gas Generation Activity (SGGA) is responsible for monitoring SGDP progress as USAID’s implementing partner. This report is required under USAID Task Order No. AID-306-TO-12-00002 Modification 3, Section F, Deliverable 24.

1 SGDP Gas Field Operations

1.1 Activities Performed and Milestones Achieved During the Reporting Period

As of the end of the reporting period, TPAO has consumed approximately 96 percent of its 270 day contract time for completion period and are behind the contract schedule by many months.

Drilling operations preparation progress this period:

- August 1, 2014, TPAO submitted a letter with attachments covering the following: acknowledged changing their route from Iran to Caspian Sea, sent unexecuted sample insurance documents and alluded to self-insuring any gaps, and submitted a new work schedule slipping their work schedule completion until Jun 15, 2015 (now approximately double the length of schedule required under the contract).
- August 6, 2014, Afghanistan Petroleum Authority (APA) replied to TPAO on several issues: APA pointed out the grantor requirements for US flag vessels, reminded TPAO not to mobilize prior to submitting evidence of insurance to APA, rejected TPAO's newest schedule extension to June 15, 2015, and sternly reminded TPAO of the need to renew their performance security.
- August 11, 2014, TPAO submitted a letter covering numerous issues: (1) TPAO reiterated that their trucks will arrive 4-5 weeks after their Aug 1, 2014 letter, (2) that TPAO will provide executed insurance policies and self-insurance documentation prior to mobilization, (3) that their delay is mostly because of late coordinates for locating Juma well #2A, (4) promising to provide an updated performance security to MoMP in a few days, (5) announcing that their rig is ready to mobilize from Turkey to Afghanistan and (6) that they are invoking GCC Sub clause 8.1 requesting the Engineers final notification/instruction before initiation of mobilization. TPAO also included a document specifying that the only flag vessels available to them to cross the Caspian Sea are registered in Azerbaijan.
- August 13, 2014, APA considered TPAO's letter on US flag vessel unavailability as a request for waiver, and sent a letter to USAID with TPAO's letter and requesting waiver of the US flag vessel requirement of the SOAG.
- August 14, 2014, TPAO submitted a short letter requesting permission to commence mobilization.
- August 16, 2014, TPAO submitted its first progress report in approximately a month. TPAO explained that rig/camp construction at Juma 2A is 60% complete and 20 days from completion. They indicated that they have completed insurance but are awaiting commencement approval.
- August 16, 2014, TPAO renewed their performance security through July 2015.
- August 16, 2014, Z. Sarwari and Deputy Minister Durani traveled to Sheberghan to personally inspect road work and review progress in the Juma/Bashikurd gas field. They found the work to be satisfactory.
- August 18, 2014, APA replied to TPAO on their commencement request and explained that they would grant it as soon as they received contract compliant, executed insurance documents and TPAO's self-insurance certification for any gaps in coverage.
- August 19, 2014, TPAO submitted a letter to APA requesting an eight month extension of the performance period, basing its request on: (1) a 4.5 month delay in delivery of Corrosive resistant alloy (CRA) pipe and other materials, (2) a 2.5 month delay in receiving Juma well #2A site coordinates, and (3) a one month delay for re-routing their mobilization shipments away from Iran.

- August 23, 2014, APA sent a preliminary letter to USAID requesting a no-objection letter in accordance with Implementation Letter 45-01 for granting 90 days of contract extensions to TPAO.
- August 23, 2014, APA sent a letter to TPAO explaining that they are considering granting a short extension, providing TPAO submits evidence of insurance, as required under the contract.
- August 29, 2014, SGGA visited the HBL bank in Kabul and confirmed the validity of TPAO's updated performance security.
- August 30, a letter was forwarded from APA to the Minister of MoMP to sign as a follow-up letter to USAID requesting a no-objection letter in accordance with Implementation Letter 45-01 for granting 90 days of contract extensions to TPAO.

Table 1: Primary MoMP Staff Supporting SGDP

Job Title	Name	Contributions to SGDP
Minister of MoMP	Mohammad Akbar Barekzai	IL 45-01 Signing Authority
Director General of Afghanistan Petroleum Authority (APA)	Dr. Mohammed Anwar Aryan	Primary SGDP Decision Maker
SGDP Project Manager	Zabihullah Sarwari	Daily Interface
Senior Assistant to SGDP Project Manager	Zabiullah Jaihoon	Daily Interface
Admin Assistant to SGDP Project Manager	Jawad Zariah	Daily Interface
Finance Assistant to SGDP Project Manager	Farid Karimi	Daily Interface
Admin Assistant to SGDP Project Manager	Allah Mohammad	Daily Interface
Admin Assistant to SGDP Project Manager	Naseer Ahmad Tohfa	Daily Interface
Technical Director	Eng. Amirzada Khosti	Head of APA Technical Authority
Field Representative	Eng. Sadiq	Monitor Contractor Operations/Report to PM
Field Representative	Eng. Abdullah Safi	Monitor Contractor Operations/Report to PM

Most SGGA interfaces with APA are conducted with the SGDP Project Manager, Mr. Sarwari, who was appointed into his current position on October 2, 2013. Dr. Anwar Aryan was appointed to his position as interim head of the Afghanistan Petroleum Authority in early August, but due to physical limitations from recent back surgery, is only able to exercise his role on a part-time basis as of the date of this report.

SGGA has security, administrative, and translation personnel based in Sheberghan, and capacity development programs, translators, security, procurement, and administrative support staff based in Kabul. Eight SGGA staff have been assigned to full time duty at MoMP offices to provide support in several areas, including translations, business skills training, financial tracking of SGDP funds, and computer-aided design.

2 SGDP Schedule and Financial Milestones

2.1 Key Contract Dates and Estimated Completion

Table 2: Key Contract Dates and Estimated Completion

Contract Award	Contract Performance Period Ends	TPAO Projected Completion
December 14, 2013	September 10, 2014	June 15, 2015
Current SGGA Forecast of Number of Days TPAO Behind Contract Schedule		
217 Days Behind – Based Upon TPAO’s Revised Schedule		
Percent of <u>Contract Schedule</u> Elapsed As of July 30, 2014	Percent of <u>TPAO’s Revised Schedule</u> Elapsed As of July 30, 2014	
260 Days of 270 = 96% Elapsed	260 Days of 548 = 47% Elapsed	

Table 3 includes the contract time for completion schedule as well as TPAO’s own schedule estimates, though rejected by the APA. On June 4, 2014, TPAO submitted a second revised schedule which took their performance period out to approximately 487 days, to mid-April 2015. On August 1, 2014, TPAO submitted a third revised schedule which took their performance (time to complete contract) out to approximately 548 days, to mid-June 2015.

2.2 TPAO Well Status – Technical

Table 3: TPAO Well Status Based on TPAO’s Latest “Revised” Schedule

Projected Juma 2A Time	Projected Bashikurd 3 Time	Projected Bashikurd 9 Time
105 Days	45 Days	21 Days
Present Working Depth	Present Working Depth	Present Working Depth
0	0	0
Projected Date of Completion	Projected Date of Completion	Projected Date of Completion
January 31, 2015	April 7, 2015	May 21, 2015
Projected Test Results Available	Projected Test Results Available	Projected Test Results Available
Well Completion Plus 30 Days	Well Completion Plus 30 Days	Well Completion Plus 30 Days

2.3 TPAO Work Schedule – “☒” Marks Present Progress

Table 4: TPAO’s Unapproved Third Revised Eighteen Month Work Schedule

TPAO Schedule, August 2014	2014												2015					
	Quarter 1			Quarter 2			Quarter 3			Quarter 4			Quarter 1			Q2		
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Well Drilling & Rehab Work																		
Preparation Rig & Equipment																		
Manufacture of 5 ½" CRA28 Casing								☒										
Shipment of 5 ½" CRA28 Casing																		
Road, Site, & Camp Construction								☒										
Mobilization to Juma 2A																		
Juma 2A – Drilling & Completion																		
Mobilization to Bashikurd 3																		
Bashikurd 3 – Drilling & Workover																		
Mobilization to Bashikurd 9																		
Bashikurd 9 – Re-Entry Well																		
Contractor Demobilization																		

2.4 SGDP Drilling Contract Value and Funding Allocation

Table 5: SGDP Contract Amount and Funding Allocation

Drilling Contract Value	USAID Funding Share	MoMP Funding Share
\$ 36,757,766	\$ 30,000,000	\$ 7,000,000
Remaining MoMP Funding Share		\$ 242,234

IL 45-01 is the source of the funding distribution between USAID and MoMP. USAID agreed to provide \$30,000,000 in funding and MoMP agreed to an additional \$7,000,000 in contingency funding. Nearly all contingency funding was required to award the original contract. This leaves only about \$242,234 of the original project contingency funding available in the event that contract modifications are required for any reason.

2.5 SGDP Invoicing Status

Table 6: SGDP Invoicing Status

Invoice	Invoice Received	Invoice Amount	Invoice Paid
TPAO - 1	TBD	\$0	TBD

No invoices have been received thus far. Based upon TPAO's revised performance schedule, it is now believed that the first of six authorized invoices will probably not be received until approximately late September 2014 due to a third revised schedule from TPAO.

3 Implementation Letter Status

3.1 USAID – Ministry of Finance (MoF) – MoMP Implementation Letter Tracker

Table 7: USAID – MoF – MoMP Implementation Letter Tracker

IL Number	Date Issued	Subject
IL No. 45-01	May 29, 2012	Initial IL Beginning SGDP and Conditions Precedent
IL No. 45-02	January 17, 2013	IL Series Renumbered to Begin at 45-01
IL No. 45-03	January 2, 2013	SGDP Payment Process and Instructions
IL No. 45-04	January 17, 2013	MoMP's Submitted Conditions Precedent Accepted
IL No. 45-05	January 17, 2013	USAID Approval of MoMP Drilling Tender Issuance
IL No. 45-06	March 7, 2013	USAID Approval of MoMP Drilling Tender Amendments
IL No. 45-07	November 2, 2013	USAID Approval of MoMP Human Resources Manual
IL No. 45-08	June 15, 2013	USAID Approval of MoMP Drilling Tender Re-Issue
IL No. 45-09	July 28, 2013	USAID Drilling Contract Award No Objection Letter
IL No. 45-10	October 5, 2013	USAID Approval of MoMP Petroleum Eng Tender

Table 16 above, contains a list of all IL amendments issued thus far under SGDP. IL amendments have primarily functioned to approved conditions precedent and drilling tender/contract actions.

4 Drilling Operations Summary

4.1 TPAO's Contract Performance Schedule

Not much has changed since the last reporting period. TPAO continues to follow its unapproved extended schedules, the latest now approximately 18 months long, or nine months beyond the contractual requirement of nine months (schedule now doubled the contract requirement). TPAO requested a nine month time for completion period extension. APA appears willing to grant three months of extension time in one month increments, though the contract modification process will not be complete until early next month.

4.2 Progress This Period

TPAO renewal of their performance security was a major concern, now resolved. Work progress appears again to have been limited to additional road work and camp site preparations at Bashikurd Well #3, despite the performance completion date occurring on September 10, only ten days after the date of this report.