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SHEBERGHAN GAS GENERATION ACTIVITY (SGGA)

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SGDP Monthly Drilling Operations Progress Report

(Mod 3, Section F, Deliverable 24 and Mod 5, Section F.5.B, Deliverable 13)

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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
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: Security Now in Place for Operations



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 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

- November 1, 2014, 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, SGGA sent a detailed memo describing contract termination options and consequences to 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 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 grantor (banker), 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. Clearly shocked that they had never even thought of such a thing, TPAO departed to discuss with senior management and did not return on November 30th.

Table 1: Primary MoMP Staff Supporting SGDP

Job Title	Name	Contributions to SGDP
Minister of MoMP	Mohammad Akbar Barakzai	IL 45-01 Signing Authority
Director General of 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 Project Manager (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 APA in early August.

SGGA has security, administrative, and translation personnel based in Sheberghan, and capacity development programs, translators, security, procurement, and administrative support staff based in Kabul. SGGA staffs have been assigned to full time duty at MoMP offices to provide support in several areas.

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 Extended to November 9, 2014	May 21, 2015
Current SGGA Forecast of Number of Days TPAO Behind Contract Schedule		
217 Days Behind – Based Upon TPAO's Revised Schedule		

Table 3 includes the contract time for completion schedule as well as TPAO's own schedule estimates, though rejected by the APA. On 4 June 2014, TPAO submitted a second revised schedule which took its 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. It was later revised down to late May.

In SGGA's professional opinion it is unlikely that TPAO will finish the project by the end of 2015. The lack of urgency in submitting a performance security, completing the roads and campsites, submitting required insurance and subcontract approvals, etc., provide a pretty clear indication that this project is not a priority to TPAO and that they believe they can allow the schedule to drift without any adverse action taken against them by the Ministry.

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	30 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
February 7, 2015	March 21, 2015	April 30, 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 Fourth Revised Seventeen 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" Corrosive resistant alloy(CRA)28 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 January 2015, or later.

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 Engineering Tender
John Abood	September 25, 2014	US-Flag Vessel Non-Availability Determination

Table 8 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

No change since the last report, although TPAO has claimed for several months to be ready to move rig, equipment, and materials to location, via Azerbaijan, Caspian Sea, and Turkmenistan and has supposedly dispatched trucks.

4.2 Progress This Period

On November 8, 2014, TPAO submitted its mobilization report stating the following progress:

- Mobilization process has started on October 23, 2014 in Batman, Turkey. A breakdown of their promised mobilization is as follow,

- Trucks loaded: 44
- Estimated loading/day: 5-12 trucks/day
- Estimated number of trucks: 243
- Estimated date of first truck arrival at Juma 2A: November 30, 2014
 - o *SGGA Comment: SGGA believes it will take at least an extra month, if not more.*

On November 15, 2014, TPAO project manager reported the followings progress on the project site to one of AEAI engineers.

- Conductor casing has been installed in Juma 2A well. The conductor casing will be used for pouring of mud during the drilling.
- The security walls for Bashikurd camp are built and ready to use.
- A warehouse for drilling mud storage is complete at Bashikurd 3.
- The road from Camp to Andkhoy main road is complete and soon will be ready to use.
- A safety bridge is constructed near the main road to avoid damage to the field's road during floods.

4.3 TPAO's Failure Has Seriously Disrupted SGDP Objectives

These monthly drilling operations reports have for some time highlighted TPAO's continuing failure to perform, which has resulted in a proposed schedule that runs months beyond the end of the SGDP project. During this period, it's 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.