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SHEBERGHAN GAS GENERATION ACTIVITY (SGGA)

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Sheberghan Gas Development Project (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

1 Sheberghan Gas Development Project (SGDP) Gas Field Operations

1.1 Activities Performed and Milestones Achieved During the Reporting Period

- February 2, 2015, Turkish Petroleum Corporation (TPAO), in its email to Z. Sarwari, announced that they had worked hard to shorten their schedule from September 15, 2015 back to August 31, 2015, again.
- February 3, 2015, TPAO submitted a progress report indicating the following activities happened in the field:
 - 76 trucks out of 243 have arrived at the Sheberghan project site.
 - As of February 3, 2015, 40 trucks were on the way to Sheberghan and will soon arrive to Aquina border.
- February 7, 2015, TPAO sent an e-mail to Afghanistan Petroleum Authority (APA) primarily describing the reserve study arrangement; however, they also notified APA that they had just discovered salt zones in the Juma-Bashikurd field and that the tender documents did not warn them. However, as detailed below, the tender documents did warn bidders, via Appendix 1, data on Bashikurd well #15.
- February 8, 2015, during a meeting with APA's Z. Sarwari and subsequent e-mail, Sheberghan Gas Generation Activity (SGGA) learned that one of the Ministry of Mines and Petroleum's (MoMP) Sheberghan engineers from Afghan Gas Enterprise has changed and that they do not have transportation to and from the gas field (because TPAO is presently out of country and were previously providing them transportation). SGGA believes it best that SGGA provide the transportation rather than TPAO in order to maintain impartiality. The new engineer is Ayoub Naivand. Apparently Engineer Sadiq remained.
- February 9, 2015, SGGA-Kabul received an e-mail dated February 5, 2015 in which TPAO requested additional Juma-Bashikurd well data from SGGA-Sheberghan staff, "because we do not have sufficient information about the field." SGGA finds this astonishing in both that TPAO apparently bid without sufficient information, and then waited over a year after winning the contract to begin looking for sufficient information.
- February 9, 2015, SGGA provided proposed language to APA to answer TPAO's concerns about APA's proposed contract extension; primarily TPAO's request for one additional month (until August 31, 2015) and their desire to choose the firm to conduct the Juma-Bashikurd reservoir study. SGGA suggested that APA retain the final decision authority on the reservoir study firm to ensure that a legitimate and recognized international firm is selected.
- February 11, 2015, SGGA provided proposed language to APA to answer TPAO's ludicrous assertion that they had just discovered that there are salt horizons in the Juma-Bashikurd field. This information was provided to all bidders prior to bidding as a part of Appendix 1 to the tender and should come as no surprise and definitely not be an excuse for further time delays or an unforeseeable physical conditions price adjustment.
- February 11, 2015, SGGA offered to provide a fourth session of invoice payment process training for APA employees to educate and prepare them, as TPAO may soon send the first invoice to MoMP. SGGA believes that some preparatory actions have not been taken by APA,

or might have expired due to the long TPAO schedule delays. As of the end of this period, APA has not accepted SGGA's offer of a fourth round of invoice payment training.

- February 14, 2015, TPAO was a no-show for a scheduled meeting with APA in Kabul. They had previously announced that they would return on February 11, 2015, but did not.
- February 16, 2015, TPAO sent a letter to APA indicating the recent activities with their mobilization. As of February 16, 2015, 76 trucks have already arrived and unloaded at either the Juma 2A well site or campsite and another 63 trucks departed TPAO's Batman site in Turkey. 15 of the 63 trucks had already arrived at the Aquina border crossing for customs clearance, 7 are near clearance. TPAO's vice president, technical, and legal team planned to fly to Kabul on February 27, 2015 to attend a meeting with APA.
- February 22, 2015, TPAO project manager Husain Boygoz and Mr. Mehmet Arsalan TPAO's drilling engineer met with the APA's Gas Development Office and discussed the terms and provisions of the contract modification to extend the contract's time for completion period. At this point, the Ministry and TPAO were mostly negotiating over the terms of the TPAO-provided reservoir study of Juma-Bashikurd.
- February 23, 2015, at the request of Z. Sarwari of APA, SGGA provided suggestion points for completing the negotiations with TPAO over the terms of the Juma-Bashikurd reservoir study.
- February 27, 2015, APA's Z. Sarwari issued a notice to TPAO that staff from SGGA and Credible Construction Company will visit various Juma-Bashikurd sites in the next few days.
- February 27, 2015, TPAO sent a letter to APA continuing to complain about not being able to mobilize through Iran. Astonishingly, TPAO asserted that they were never informed why they can't mobilize through Iran, even though the issue was dealt with extensively and in numerous communications, including one letter directly from SGGA and a very detailed letter from APA on July 6, 2014. TPAO's letter provided the following updates:
 - 77 additional trucks have departed TPAO's Batman site in Turkey and 28 of them had arrived at the Aquina border crossing.
 - TPAO is experiencing delays at the border and also asserted that APA is not doing enough to help them get through the border faster.
 - TPAO also warned that they now may not be able to complete the drilling work by the agreed upon extension period of August 31, 2015, setting the stage for yet another request for more time in the future.
 - Clearly this letter and a previous letter are also building up a case for TPAO to pursue a claim for additional money due to delays in mobilization and customs clearance.
- February 28, 2015, due to APA inability to use the notes provided by SGGA on February 22, 2015 to draft a coherent contract modification between APA and TPAO concerning the time for completion extension and reservoir studies, SGGA rewrote the amendment for APA.
- February 28, 2015, a work inspection team composed of staff from SGGA and AEAI subcontractor, Credible Construction Company, arrived in Mazar-e-Sharif in preparations for conducting inspection and valuation of the field roads and well sites.

Table 1: Primary MoMP Staff Supporting SGDP

Job Title	Name	Contributions to SGDP
Minister of MoMP	Acting Minister Sadat	Implementation Letter (IL) 45-01 Signing Authority
Director General of APA	Dr. Mohammed Anwar Aryan	Employment Status Unknown
SGDP Project Manager	Zabihullah Sarwari	Employment Status Unknown
Senior Assistant to SGDP Project Manager	Zabiullah Jaihoon	Employment Status Unknown
Admin Assistant to SGDP Project Manager	Jawad Zariah	Employment Status Unknown
Admin Assistant to SGDP Project Manager	Allah Mohammad	Employment Status Unknown
Admin Assistant to SGDP Project Manager	Naseer Ahmad Tohfa	Employment Status Unknown
Field Representative	Eng. Sadiq	Monitor Contractor Operations/Report to Project Manager (PM)
Field Representative	Eng. Ayoub Naivand	Monitor Contractor Operations/Report to PM

Most SGGA interfaces with APA are conducted with the SGDP Project Manager, Z. Sarwari, who was appointed to his current position on October 2, 2013. Dr. Anwar Aryan was appointed to his position as interim head of the APA in early August 2014, and in February 2015, N. Shinwari replaced Dr. Aryan. The bulk of APA was defunded on December 21, 2014 and approximately 72 former APA staff members are no longer receiving salaries, though some, including Sarwari, continue to come to work and remain at their desks. It is not clear that they have been appointed to act on behalf of the government despite the elimination of their budgeted positions.

SGGA has security, administrative, and translation personnel based in Sheberghan, and capacity development program members, translators, security, procurement, and administrative support staff based in Kabul. SGGA staff has also 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	September 15, 2015
Current SGGA Forecast of Number of Days TPAO Behind Contract Schedule		
369 Days Behind – Based Upon TPAO's Latest 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. On December 5, 2014, TPAO submitted another revised schedule that extended their performance from May 21, 2014 to August 7, 2015. On January 14, 2015, TPAO submitted another revised schedule that extended their performance from August 7, 2015 to September 15, 2015. On February 9, 2015, TPAO sent an e-mail which suggested that they might be able to complete by August 31, 2015, however, they followed that up by announcing their surprise discovery of salt horizons in the Juma-Bashikurd field that seemed to delay the date changes. TPAO also laid the ground work for requesting an increase in schedule in a February 27, 2015 letter complaining of customs delays. Accordingly, SGGA has left their estimated completion date at September 15, 2015 for purposes of this report.

In SGGA's undivided 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 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. Additionally, they are attempting to lay the framework for further extension requests as evidenced by their recent correspondence.

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
June 7, 2015	July 21, 2015	August 31, 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 Nineteen Month Work Schedule

TPAO Schedule, August 2014	2014												2015								
	Quarter 1			Quarter 2			Quarter 3			Quarter 4			Quarter 1			Quarter2			Q3		
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Well Drilling & Rehab Work																					
Preparation Rig & Equipment																					
Manufacture of 5 ½" Corrosive Resistant Alloy (CRA)28 Casing																					
Shipment of 5 ½" CRA28 Casing									Delivery not confirmed												
Road, Site, & Camp Construction											Subject to inspection										
Mobilization to Juma 2A														☒							
Juma 2A – Drilling & Completion														☒							
Mobilization to Bashikurd 3																					
Bashikurd 3 – Drilling & Work over																					
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 the United States Agency for International Development (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 left 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
TPAO - 2	TBD	\$0	TBD
TPAO - 3	TBD	\$0	TBD
TPAO - 4	TBD	\$0	TBD
TPAO - 5	TBD	\$0	TBD
TPAO - 6	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 be received in March or April 2015. However, as of the end of this reporting period, SGGA does not believe that TPAO will be sufficiently mobilized to properly invoice until probably late April 2015, given their current progress.

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
IL No. 45-13	January 8, 2015	USAID Drilling Contract Extension No Objection Letter
IL No. 45-14	February 4, 2015	Directed SGDP Wells Not Cost Recoverable to Toti Bloc

Table 8 on the previous page, 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. Two draft ILs were prepared (45-11 and 45-12), but never processed, which explains the numbering gap.

4 Drilling Operations Summary

4.1 TPAO's Contract Performance Schedule

TPAO continues to alter their schedule, sliding it twice during this month, once shortened by two weeks but later retracted. On February 22, 2015, TPAO visited APA in Kabul and finally began serious negotiations for a contract modification to extend their time for completion period to August 31, 2015 in return for a reservoir study of Juma-Bashikurd.

TPAO has attempted to lay the ground work for further time for completion extensions. On February 7, 2015 TPAO's wrote an e-mail to Z. Sarwari of APA notifying him that TPAO had made a salt zone discovery which was not warned of in the tendering documents. SGGA provided APA with information to disprove TPAO's claim, as the information was in the tendering documents. On February 27, 2015, TPAO laid more framework for requesting additional time beyond August 31, 2015 via a letter complaining about how long it's taking them to clear customs, and again bringing up APA's refusal to allow them to cross Iran.

Following continued lack of progress on the contract modification and APA inability to draft a coherent document using SGGA advice, on February 28, 2015, SGGA re-wrote the contract modification document for APA. As of the end of this month, the Ministry and TPAO have still not executed the contract modification, which is necessary to extend the time for completion period to August 31, 2015 and lock-in the terms of TPAO's offer to contract for a Juma-Bashikurd reservoir study (in return for the time for drilling completion extension).

4.2 Progress This Period

The number of trucks arriving into Afghanistan increased, but it is still far from all that are needed to complete mobilization. They appeared to accomplish a good bit of mobilization in January, but that progress slowed down in February. In fact, it appears that TPAO was not even onsite for about half of February and have approximately 100 additional trucks yet to mobilize, beyond those that have already departed Turkey.