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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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## Acronyms and Abbreviations

AGE	Afghanistan Gas Enterprise
APA	Afghanistan Petroleum Authority
CCC	Credible Construction Company
CRA	Corrosive Resistant Alloy
DG	Director General
IL	Implementation Letter
MoF	Ministry of Finance
MoMP	Ministry of Mines and Petroleum
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

# Monthly Drilling Operations Progress Report

## Sheberghan Gas Development Project (SGDP)

A USAID – Ministry of Mines and Petroleum (MoMP) “On-Budget” Funded Program

Figure 0-1: Well Juma 2A Base Rig Structure



Figure 0-2: AGE & Oil and Gas Survey (OGS) Drilling Oversight Coaching, w/Females



Figure 0-3: Bashikurd 3, Rig Platform, Core Sample Inspection



Figure 0-4: Sheberghan Gas Field Roads Inspection in Progress



The Sheberghan Gas Development Project (SGDP) 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 USD 36,757,766 “on-budget” contract to Turkish Petroleum Corporation (TPAO). The contract is 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 and Modification 5, Section F.5.B, Deliverable 13.

# 1 SGDP Gas Field Operations

## 1.1 Activities Performed and Milestones Achieved During the Reporting Period

- March 1, 2015, SGGA sent attachments to Z. Sarwari, SGDP Project Manager, of the Afghanistan Petroleum Authority (APA). SGGA sent the attachments to assist him in rebutting Turkish National Petroleum Corporation's (TPAO's) recent assertion it still does not understand why it cannot transit materials through Iran. (Note: SGGA does not have any evidence that APA forwarded this information to TPAO subsequent to receiving it).
- March 1-6, 2015, SGGA's subcontractor, Credible Construction Company, (CCC) visited Sheberghan, and conducted inspections of the field road and wellsite work accomplished by TPAO's subcontractor, Boland Tabaghi Construction Company.
- March 3, 2015, TPAO directly subcontracted security guards whom had previously served under an indirect subcontract with Boland Tabaghi Construction Company, which performed the road improvements and wellsite work. This occurred after Afghan authorities arrested Mr. H. Amiri, a senior officer of the construction company, failed to pay the guards' salaries on time.
  - SGGA views this development as an improvement to the security conditions of the worksites because the guards presumably now have a greater assurance that they will receive payment for their services.
- March 4, 2015, N. Shinwari replaced Dr. A. Aryan as the Director General (DG) of APA.
- March 5, 2015, a report from SGGA staff in Sheberghan revealed that MoMP's onsite engineers claim to never receiving instruction on their roles and responsibilities relating to the contract did not even know that MoMP has responsibility for managing the contract rather than USAID.
- March 5, 2015, Dr. Saba, the Minister of MoMP, visited Sheberghan and the gas fields.
- March 5, 2015, CCC's site inspections appear revealed unlined mud storage pits, which is noncompliant with the contract's environmental requirements.
- March 8-15, 2015, SGGA trained 14 members of Afghanistan Gas Enterprise (AGE) and OGS staff on inspecting TPAO's work, confirming TPAO invoicing, and reporting results to APA; the training included seven females. Upon training completion, SGGA witnessed TPAO's mobilization progress.
- March 9, 2015, SGGA discovered from the Sheberghan field engineers that they have been reporting TPAO's work status to APA since approximately August 2014. Though not very detailed, their reporting contained information that would have been useful to SGGA, had APA shared it. For some unknown reason, APA withheld the field reports information from both SGGA and USAID.
- March 10, 2015, SGGA accompanied two representatives of USAID, M. Zubair, Project Development Specialist, and N. Azizpur, Health and Education Officer, to the gas fields to support USAID's review.
- March 10, 2015, SGGA provided Z. Sarwari additional suggestions and proposed language for the TPAO contract modification to extend the time for completion period and describe the terms of the TPAO-funded Juma-Bashikurd reservoir study. This support follows in accordance guidance provided on the contract modification last month.
- March 13, 2015, TPAO released a report indicating the first signs of getting close to beginning work on the Juma #2A well.
- March 14, 2015, TPAO provided SGGA with its health safety and environmental documents, forms, and policies.

- March 15, 2015, SGGA jointly prepared a mobilization update with MoMP's two designated project engineers. The report identified the following progress:
  1. TPAO has moved 36 containers from Mazar to the project site in the last four days to use for office, bathroom, and labor work spaces
  2. TPAO has 51 trucks at the Aquina border awaiting customs clearance
  3. TPAO has an additional 30 trucks in the process of moving towards Afghanistan
  4. TPAO has 21 trucks loaded at its Batman site in Turkey which it will soon dispatch to Afghanistan.
- March 18, 2015, SGGA wrote an email to APA's Z. Sarwari requesting an update on critical project issues in order to provide an update to USAID. The critical issues include:
  1. The status of the languishing contract modification to extend the time for completion period, which has been delayed for months now
  2. The status of TPAO customs clearance since it was pointed out in a TPAO progress report as a problem
  - The email also updated Z. Sarwari on completion of SGGA's inspection training in Sheberghan and provided an additional offer of assistance in documenting contract progress details and reporting to USAID. APA remains non-compliant with the SGDP Implementation Letter (IL) in providing required report to USAID on project status.
- March 24, 2015, SGGA provided APA's Z. Sarwari rationale to discount some of TPAO's recent assertions. SGGA explained via email that USAID had no additional funds available so any increase in contract value must come from MoMP. Additionally, SGGA advised that TPAO's allegation that additional design work was necessary for Juma well #2A was groundless because the salt horizons were clearly described in Appendix 1 of the tender. Finally, SGGA advised that any TPAO contentions for customs delays were also unsupported because they have not complied with contract requirements to provide at least 72 hours of notice and supporting documentation prior to border arrival.
- March 27, 2015, SGGA sent a letter to APA outlining disturbing information learned from Eng. Ayoub, AGE's Head Inspector. Apparently, TPAO told Eng. Ayoub that he was not authorized to inspect its work because he did not have authority under the contract. Accordingly, SGGA pointed out to Z. Sarwari the contract's particular contract conditions clause authorizing inspection so that APA can provide that to TPAO.
- March 28, 2015, APA notified SGGA that Dr. Q. Qaeym had taken over as the DG of APA; becoming the third DG this month.
- March 30, 2015, TPAO reported to SGGA staff in Sheberghan that 26 more trucks have arrived at Juma 2A. 20 of the trucks are unloaded and the remaining will be unloaded over the next few days.
- March 31, 2015, A three party meeting occurred between SGGA, MoMP (Z. Sarwari and the project engineers of MoMP) and TPAO (H. Boyguz, Project Manager) to discuss several issues at the project site, including but not limited to:
  - TPAO's lack of cooperation with MoMP representatives and what the consequences would be in the event of continued non-responsiveness. Mr. Boyguz promised to fully cooperate moving forward and treat MoMP's engineers with respect.
  - TPAO provided the following mobilization updates:
    - a. It put up the rig and is currently installing the rig parts.
    - b. It plans to start the drilling operations in five days. (Note: SGGA instructed Boyguz to notify MoMP 24 hours before commencing any drilling activity)

- c. It unloaded the newly arrived 26 trucks at the Juma 2A site.
- d. 19 trucks are on the way from Turkey to Afghanistan.
- e. 10 trucks are loaded with contingency materials in Turkey.
- f. 49 trucks are in Aquina border. 19 of out of the 49 trucks in Aquina border are scheduled to arrive by 1 April.
- g. A total number of 102 trucks have been unloaded either at Juma 2A or at the Old Military Camp in two stages. 76 trucks in the first stage and 26 trucks in the second stage.



Figure 1-1 Three Party Meeting at Juma 2A 31 March 2015

**Table 1: Primary MoMP Staff Supporting SGDP**

Job Title	Name	Contributions to SGDP
Minister of MoMP	Dr. Daud Shas Saba	IL 45-01 Signing Authority
Director General of APA	Dr. Outbodine Qaeym	Senior Oversight
SGDP Project Manager	Zabihullah Sarwari	Project Management, Communications
Sr. Assistant to SGDP Project Manager	Zabiullah Jalhoon	Administrative Assistance
Admin Assistant to SGDP Project Manager	Allah Mohammad	Administrative Assistance
Field Representative	Eng. Sadiq Halimi	Monitor Contractor Operations/Reports to Project Manager (PM)
Field Representative	Eng. Ayuob Naiwand	Monitor Contractor Operations/Reports to PM

Most SGGA interfaces with APA are conducted with the SGDP Project Manager, Mr. 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 departed in early February 2015. The bulk of APA was de-funded on December 21, 2014, leaving approximately 72 staff members without contracts. Several staff members continued to come to the office and perform official duties despite their contract expirations. In early March, approximately 25 of the APA staff members received new contracts. N. Shinwari became the acting DG of APA on approximately March 4, 2015. However, for unknown reasons, he resigned after only four weeks in the position and Dr. Q. Qaeym took over leadership of APA near the end of March.

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	<b>September 15, 2015</b>
<b>Current SGGA Forecast of Number of Days TPAO Behind Contract Schedule</b>		
<b>369 Days Behind – Based Upon TPAO's Latest Revised Schedule</b>		

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 surprise discovery of salt horizons in the Juma-Bashikurd field that seemed to bely the date changes. Accordingly, SGGA has left the date at September 15, 2015.

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 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 MoMP.

## 2.2 TPAO Well Status – Technical

Table 3: TPAO Well Status

<b>Projected Juma 2A Time</b>	<b>Projected Bashikurd 3 Time</b>	<b>Projected Bashikurd 9 Time</b>
105 Days	30 Days	21 Days
<b>Present Working Depth</b>	<b>Present Working Depth</b>	<b>Present Working Depth</b>
0	0	0
<b>Projected Date of Completion</b>	<b>Projected Date of Completion</b>	<b>Projected Date of Completion</b>
June 7, 2015	July 21, 2015	August 31, 2015
<b>Projected Test Results Available</b>	<b>Projected Test Results Available</b>	<b>Projected Test Results Available</b>
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 & 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
\$ 36,757,766.00	\$ 30,000,000.00	\$ 7,000,000.00
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 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 April 2015. However, SGGA does not believe that TPAO will be sufficiently mobilized to properly invoice until probably May 2015.

## 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 Number	Date Issued	Subject
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	Direction SGDP Wells Not Cost Recoverable to Totimaidan Tender

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. Two draft ILs were prepared (45-11 and 45-12), but never approved, which explains the numbering gap.

## 4 Drilling Operations Summary

### 4.1 TPAO's Contract Performance Schedule

Though back on site working this month following a very slow February, it now appears nearly impossible for TPAO to complete the work that they haven't even started yet, by August 31, 2015. Only five months remain to complete all three wells and as depicted in Table 5 of this report, TPAO's own schedules have forecast four months just to complete the Juma #2A well. Additionally, APA and TPAO have still not completed the USAID-authorized contract time for completion extension to August 31, 2015 via a former contract modification, despite having authorization to do so since USAID IL 45-13 dated January 8, 2015. The present time for completion period expired on November 9, 2014, nearly five months ago.

### 4.2 Progress This Period

Additional trucks have arrived at the Juma-Bashikurd gas fields but mobilization is not yet complete. Afghan authorities arrested an owner of Boland Tabaghi Construction Company not paying their security guards. This action constituted progress as TPAO immediately subcontracted the guards, which improved the security situation for site visits (which had deteriorated for months).