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SHEBERGHAN GAS GENERATION ACTIVITY (SGGA)

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SGDP Monthly Drilling Operations Progress Report (Mod 6, Section F.5, Deliverable 13)

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Acronyms and Abbreviations

APA	Afghanistan Petroleum Authority
APPF	Afghanistan Public Protection Force
CCC	Credible Construction Company
CRA	Corrosive Resistant Alloy
DG	Director General
DM	Deputy Minister
IL	Implementation Letter
MoF	Ministry of Finance
MoMP	Ministry of Mines and Petroleum
PM	Project Manager
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: Juma Well # 2A, Spud Date April 18, 2015, Bit in the Ground, 21 Meters Achieved on Day 1



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 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, Modification 5, Section F.5.B, Deliverable 13, and Modification 6, Section F.5, Deliverable 13.

1 SGDP Gas Field Operations

1.1 Activities Performed and Milestones Achieved During the Reporting Period

- April 4, 2015 to April 8, 2015, SGGA conducted project management training for 43 employees from Oil and Gas Survey and Afghanistan Gas Enterprise including MoMP's on-site engineers in Sheberghan.
- April 6, 2015, APA's Dr. Qutbuddin responded to a letter from the Turkish Energy Minister concerning TPAO's performance. In his letter, Dr. Qutbuddin attached SGGA's log of all official correspondence between MoMP and TPAO since contract award and several of APA's letters to TPAO requesting that they perform the work required under the contract.
- April 6, 2015 MoMP executed an official contract amendment with TPAO, extending the contract time for completion period from November 9, 2014 to August 31, 2015. This part of the extension was authorized on January 8, 2015 via USAID Implementation Letter (IL) 45-13. However, MoMP also made two other contract changes within the contract amendment, which they did not have authority to make:
 - MoMP agreed to give TPAO credit for a claimed 25 days of customs delays which effectively extends the time for completion period from August 31, 2015 to September 25, 2015, and
 - To pay for any costs incurred by TPAO in drilling through salt/anhydrite zones in the Juma #2A. As noted above, MoMP did not appear to have developed the counter arguments to these claims during the negotiations, although SGGA provided, in the first instance, recommendations on how to prepare, and, on the second, specific facts making it clear that TPAO knew or should have known of the presence of these zones in the Juma #2A at either the original or new locations prior to submitting its bid for the contract. This failure to defend itself against these claims may be attributable either to the seeming inability of the MoMP project manager (PM) to organize and present information, or to MoMP's yielding to political/diplomatic pressure from the Turkish government. It is clear from correspondence from the Turkish Minister of Energy to Min. Saba that the senior levels of the Turkish Ministry, and probably of TPAO itself, have not been given accurate information by their PMs about the delays and other problems with the project.
- April 12 to April 16, 2015 SGGA conducted a drilling operation briefing program for four MoMP on-site engineers in Sheberghan.
- April 15, 2015, APA's Z. Sarwari sent a letter to TPAO's PM naming the four MoMP on-site engineers, highlighting their authority as his representatives, explaining the contractual terms and conditions authorizing MoMP to inspect TPAO's work, and asking for TPAO's cooperation in providing unhindered site access.
- April 18, 2015, SGGA met with TPAO's deputy contract manager and the drilling engineers and reviewed the contract responsibilities of the parties.
- April 18, 2015, TPAO drilling operations began at Juma well #2A. Work confirmed by the presence of SGGA, which photographed and video recorded the event.
- April 18, 2015, SGGA reviewed MoMP meeting minutes to verify if Deputy Minister (DM) Hares had been officially delegated SGDP authority from the Minister. SGGA determined that DM Hares had not been granted SGDP authority other than solving customs problems, so SGGA drafted and provided a letter template to APA's Z. Sarwari through which the Minister could

delegate SGDP authority down to DM Hares. Without it, the recent MoMP-TPAO contract amendment, which was signed by DM Hares, may not be recognized by USAID.

- April 19, 2015, TPAO's Daily Drilling Report stated: drilled 26" hole from 21m to 49m. Forecast to drill from 49m to 60m and then install 20" casing down to 50m.
- April 20, 2015, TPAO's Daily Drilling Report stated: drilled 26" hole from 49m to 60m. Forecast to install casing.
- April 21, 2015, TPAO's Daily Drilling Report stated: maintained hole depth at 60m while conducting washing and reaming. Forecast to continue washing and reaming and installing of casing.
- April 21, 2015, APA's Z. Sarwari sent a letter to TPAO requesting that they extend their performance security from July 15, 2015 to September 25, 2015 and provide a revised work plan/schedule in order to match both with the recent contract amendment executed between MoMP and TPAO.
- April 22, 2015, APA's Z. Sarwari asked SGGA for contract references and advice on importing perforation charges and radioactive isotopes. Apparently, the issue received high level visibility very quickly. SGGA provided the previous MoMP procedures along with contractual references.
- April 22, 2015, TPAO's Daily Drilling Report stated no notable new drilling progress.
- April 22, 2015, APA's Z. Sarwari wrote an e-mail to TPAO requesting additional information on their intent to import perforation charges and radioactive isotopes.
- April 23, 2015, SGGA's Sheberghan staff reported TPAO's success installing the first casing, 20", down to 60m.
- April 23, 2015, TPAO's Daily Drilling Report stated no notable new drilling progress.
- April 24, 2015, TPAO's Daily Drilling Report stated no notable new drilling progress.
- April 25, 2015, APA's Z. Sarwari asked SGGA for a contract clause reference, which the Minister's advisor suggested adding to the contract extension after the fact, or perhaps in a cover letter of the contract extension. SGGA provided the reference as requested.
- April 25, 2015, SGGA was notified by APA's Z. Sarwari that DM Hares had been replaced as MoMP's DM of finance and administration and is no longer employed by MoMP.
- April 25, 2015, TPAO provided a new drilling schedule, #9 to date, which extended the drilling work and demobilization all the way through December 31, 2015. It contained a shockingly long three month pause during mobilization based upon TPAO's contention that it was waiting on resolution of contractual issues, plus an additional month of contract contingency.
- April 25, 2015, TPAO provided a letter to APA's Z. Sarwari providing additional information on the importation of perforation charges and radioactive isotopes, as requested on April 22, 2015.
- April 25, 2015, TPAO's Daily Drilling Report stated no notable new drilling progress.
- April 26, 2015, Acting Minister of MoMP, Eng. Abdul Qodoos Hameedi, signed the contract amendment extending the time for completion period (which had previously expired on November 9, 2014) to August 31, 2015, plus an additional 25 days of contingency, bringing it effectively to September 25, 2015. It was sent to TPAO along with a cover letter warning that delay penalties will be exercised if TPAO does not meet this new schedule. The major terms and conditions of the extension include:
 - Agreement that TPAO will pay for a reservoir study of the Juma-Bashikurd field. The Afghan Government will outline of what will be included in the final study, select the bidders and follow Afghanistan's procurement system for tendering the reservoir study. Specifics of the bid evaluation, notice to award, and award are included in great detail.

- Agreement to extend the contract time for completion period to August 31, 2015.
- Agreement that TPAO is entitled to an additional 25 stand-by days for customs delays of trucks crossing the Aquina border.
- Paragraph 1.8 is not clear, but seems to mutually waive any and all claims for damages, additional payments, and extension of time for completion beyond August 31, 2016. This language is unclear and likely problematic for the future.
- Controversial agreement that TPAO may be entitled to be reimbursed by MoMP for all extra costs and expenses, notably for any casing string requirement not included in Appendix 1.
- Late add by MoMP, actually after the agreement, that after completion of the contract extension's time for completion period, MoMP will exercise PCC clause 8.7 for delay damages at the contractual rate of 1/10 percent per day.
- Notice that the date of execution of the amendment will be when the last party signs, which means TPAO, at some point later than April 26, 2015.
- Though signed by Acting Minister Hameedi, the contract amendment extension document does not include his name or title anywhere on it, just a nebulous signature. His name and title are included, however, on a cover letter which summarizes the past year and also warns of delay damages if the new schedule is not followed.
- April 26, 2015, TPAO's Daily Drilling Report stated: began drilling 17.5" wide beyond 60m, have accomplished approximately 123m with the next goal being 213m.
- April 27, 2015, TPAO's Daily Drilling Report stated: attained 123m with next goal being 254m.
- April 28, 2015, TPAO's Daily Drilling Report stated: attained 254m and paused for casing work. Three trucks previously at Aquina border have arrived on-site, only 23 more left in route.
- April 30, 2015, TPAO's Daily Drilling Report stated: TPAO remained paused while installing 13.3/8" intermediate casing.
- April 30, 2015, TPAO's Daily Drilling Report stated: 23 trucks are in route or at the Aquina border, awaiting entry into Afghanistan. All other projected trucks have arrived at the camp and well sites.

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. Outbodin 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 PM
Field Representative	Eng. Ayuob Naiwand	Monitor Contractor Operations/Reports to PM
Field Representative	Eng. Amir Mohammad Selab	Monitor Drilling Operation/Reports to PM
Field Representative	Eng. Rozi Khan Sadid	Monitor Drilling Operation/Reports to PM

Most SGGA interfaces with APA are conducted with the SGDP PM, 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 Director General (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.

Table 2: Primary SGGA Staff Supporting Drilling Operations

Job Title	Name	Contributions to SGDP
Chief of Party	Stroud Kelley	Manage All SGGA Activities
Procurement Advisor	Wayne Register	Monitor Contract Compliance
Deputy Procurement-Operations	Naihmatullah Kohsar	Monitor Contract Operations
Sheberghan Site Manager	Peet Snyman	Coordinate Sheberghan Operations Logistics and Travel
Senior Engineer	Eng. Zalmi Zalmi	Technical Advisor and Liaison
Well Drilling and Testing	Eng. Big Nazar	Technical Advisor
Drilling Engineer	Eng. Habibullah Mokhlis	Technical Advisor
Geologist	Wahid Qaeym	Technical Advisor

In addition to the SGGA staff listed in Table 2, SGGA has security, administrative, and translation personnel based in Sheberghan, and capacity development programs, translators, security, procurement, and administrative support staff based in Kabul.

2 SGDP Schedule and Financial Milestones

2.1 Key Contract Dates and Estimated Completion

Table 3: Key Contract Dates and Estimated Completion

Contract Award	Original Contract Time for Completion Period	Contract Mod 1 Time for Completion Period
December 14, 2013	September 10, 2014 Note: Extended Twice for 30 Days, Until November 9, 2014	September 25, 2015 Extended to August 31, 2015 Plus 25 Days of Contingency
TPAO's Latest Revised but Rejected Schedule		
On April 25, 2015, TPAO Provided a New Schedule Which Pushed Completion of the Drilling Work Far Beyond the Agreed Upon Contract Amendment of September 25, 2015, All the Way to December 31, 2015. This Schedule Was Immediately Rejected by APA's Z. Sarwari.		
Current Number of Days TPAO Behind Original Contract Schedule		
380 Days Behind – Based Upon MoMP-TPAO Contract Amendment Time Extension # 1		
477 Days Behind – Based Upon TPAO's Latest Revised (But Rejected) 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 surprise discovery of salt horizons in the Juma-Bashikurd field that seemed to delay the date changes. Following extension negotiations, on April 6, 2015, MoMP and TPAO reached agreement to extend the time for completion period to August 31, 2015, plus 25 days of contingency supposedly due to customs delays. This agreement was solidified in a document signed by the Acting Minister on April 26, 2015. In effect, the new official contract time for completion period is now, September 25, 2015. However, before the contract time extension amendment was inked, on April 25, 2015, TPAO submitted another revised schedule (schedule #9 thus far), pushing completion of the work out another four months, all the way to December 31, 2015.

The lack of urgency in submitting a performance security, completing the roads and campsites, submitting required insurance and subcontract approvals, and constantly revising completion schedules which are outside of agreed upon time lines provides 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 4: TPAO Well Status (Per TPAO Schedule # 9, April 25, 2015)

Projected Juma 2A Time	Projected Bashikurd 3 Time	Projected Bashikurd 9 Time
105 Days + 30 Days Contingency	30 Days	21 Days
Present Working Depth (as of April 30, 2015)	Present Working Depth	Present Working Depth
254m	0	0

2.3 TPAO Work Schedule – “☒” Marks Present Progress

Table 5: TPAO’s Schedule (Per TPAO Schedule # 9, April 25, 2015)

TPAO Schedule, April 25, 2015	2014												2015											
	Quarter 1			Quarter 2			Quarter 3			Quarter 4			Quarter 1			Quarter 2			Quarter 3			Quarter 4		
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D
Well Drilling & Rehab Work	☒																							
Preparation Rig & Equipment	☒																							
Manufacture of 5 ½" CRA28 Casing	☒	☒	☒	☒	☒	☒	☒	☒																
Shipment of 5 ½" CRA28 Casing												Delivery not confirmed.												
Road, Site, & Camp Construction			☒	☒	☒	☒	☒	☒	☒	☒		CCC Inspection Raised Rig Site Quality Concerns												
Mobilization to Juma 2A										☒	☒		☒											
TPAO Wait on Contractual Issues													☒	☒	☒									
Juma 2A – Drilling & Completion																☒	☒	☒	☒	☒	☒			
Mobilization to Bashikurd 3																								
Bashikurd 3 – Drilling & Workover																								
Mobilization to Bashikurd 9																								
Bashikurd 9 – Re-Entry Well																								
Contractor Demobilization																								

Red – Completion Unverified Green – Work Verified Blue – Future Work Forecast Yellow – Contingency

2.4 SGDP Drilling Contract Value and Funding Allocation

Table 6: 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. On April 18, 2015, SGGA confirmed that SGDP remains a funding line item in Afghanistan's current 1394 budget, under entry: AFG/320143 for \$7,500,000.

2.5 SGDP Invoicing Status

Table 7: 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 May 2015.

3 Implementation Letter Status

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

Table 8: 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 Toti Bloc
IL No. 45-15	<i>TBD</i>	Extension of SGDP Beyond 30 April 2015
IL No. 45-16	<i>TBD</i>	Legalize and Clarify Terms of MoMP's April 26, 2015 Contract Extension With TPAO

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

During this period MoMP granted TPAO a contract time for completion period extension that is longer than the original contract performance period. The initial agreement was reached on April 6, 2015 and MoMP's Acting Minister signed the agreement on April 26, 2015. The additional 320 days granted by MoMP has granted TPAO an extension until August 31, 2015 plus 25 days of contingency to compensate for late customs processing, which really extends the date until September 25, 2015. The additional 25 days were not authorized by USAID in its January 8, 2015 no objection letter to the contract extension. TPAO immediately showed that the extension was not negotiated in good faith however, when they submitted a new drilling schedule extending project completion all the way through December 2015, an astonishing four additional months beyond the negotiated extension from two weeks prior. APA's Z. Sarwari promptly rejected the new schedule. It's fairly obvious that TPAO cannot complete all three wells before the end of the extension period. TPAO's pattern of unrestrained schedule slippage will likely push completion of the work deep into 2016.

4.2 Progress This Period

On April 18, 2015, TPAO finally began drilling at Juma well #2A. During the month of April, TPAO reported drilling 254 meters deep. TPAO is nearly fully mobilized now as the majority of their trucks have traveled to Afghanistan. The CRA production tubing is believed to be in TPAO's third stage of mobilization (23 trucks); 16 trucks are listed as in route and 7 trucks just arrived at the Aquina border. As of April 30, 2015, the CRA production tubing's arrival at the well site is a requirement for paying the mobilization fee. The quality and consistency of TPAO's reporting has improved significantly this month.