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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

ADB	Asian Development Bank
APA	Afghanistan Petroleum Authority
APPF	Afghanistan Public Protection Force
CCC	Credible Construction Company
CRA	Corrosive Resistant Alloy
DG	Director General
DM	Deputy Minister
FEL	Formation Evaluation Log
IL	Implementation Letter
m	Meters
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: TPAO’s Logging Container



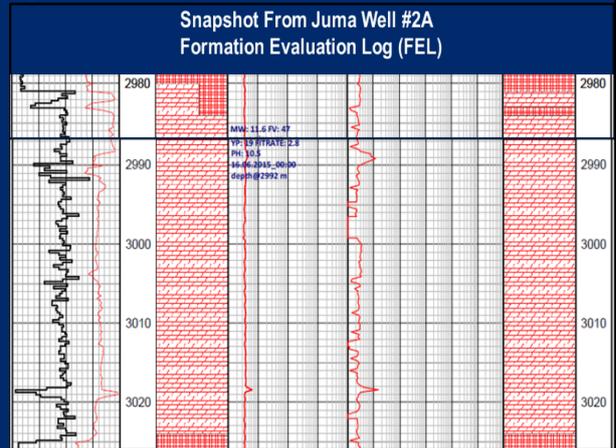
Figure 2: Koller Logging Control Panel



Figure 3: Production Tubing Ready to String



Figure 4: Juma #2A Gourdak Salt Fm. – 2981m to 3024m



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 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

- June 13, 2015, SGGA trained APA’s gas development office staff, finance officer and capacity building officer on the invoice payment process according to the SGDP implementation letter.

- June 14, 2015, SGGA met with APA's Dr. Outbuddin and discussed how best to complete the wells. Dr. Outbuddin was concerned that the expected interval between well completion and gas processing capability is too long to setup the wells for production. He would prefer to set a removable bridge plug or packer above the producing zone to secure the well from leaking or tampering. The production tubing and other materials can be safely stored in nearby MoMP warehouse facilities. More on this issue will be provided in the coming reporting periods.
- June 21, 2015, TPAO sent a letter containing an unsolicited proposal to MoMP recommending the addition of a second intermediate casing to protect against movement of the Gourdak Formation salt zone and potential salt intrusion that could damage the wellbore and casing. TPAO presented a proposed budget for this operation of \$3,785,550. In later meetings it was learned that the proposal and pricing originated from TPAO headquarters in Ankara.
- June 24, 2015, SGGA provided a letter to MoMP advising the Ministry on how to analyze TPAO's proposal from technical, financial, and submission timing perspectives. Additionally, SGGA and MoMP onsite engineers met and recommended, based on their experience with drilling and operating other wells in the area, that the double casing was not needed, since the Gourdak had been stable in all other wells.
- June 27, 2015, SGGA attended a meeting with APA and TPAO to discuss TPAO's unsolicited proposal to add a second intermediate casing to protect against salt intrusion. TPAO claimed that the 43 meter salt formation is especially large and there's a risk of a casing collapse. Initial MoMP research found that this has never been a problem in the past and the other wells in Bashikurd and other fields had not shown damage from salt flow. MoMP will further analyze the proposal and how to respond in the coming days.
- June 27, 2015, TPAO submitted their first invoice in final form, dated June 23, 2015. SGGA had already prepared the Ministry as much as possible for this milestone. This invoice is the first of six and covers the \$1,400,000 mobilization fee. SGGA reviewed the banking information for payment and compared it to past TPAO invoices paid by the Ministry for the 2013 ADB-funded drilling project and confirmed that the banks and account numbers match.
- June 29, 2015, SGGA learned that MoMP established a committee to review and make a recommendation to the Minister on TPAO's salt intrusion protection proposal. The committee met several times in Mazar and at the drilling site prior to the end of June, but no final decision was rendered before the end of the month.

Table 1: TPAO's Daily Drilling Report Summary

Date	Current Depth	Mobilization Status	Drilling Staff	Security Staff	Actions and Formations
1	2450m	23/24 unloaded, 1/24 in route	101	150	Drilling – Claystone siltstone formation
2	2450m	23/24 unloaded, 1/24 in route	101	150	Drilling paused – Repair draw works transmission chain
3	2450m	23/24 unloaded, 1/24 in route	95	150	Drilling paused – Repair draw works transmission chain
4	2469m	23/24 unloaded, 1/24 in route (Aquina port)	99	150	Drilling – sandstone and claystone formations
5	2530m	23/24 unloaded, 1/24 in route (Aquina port)	99	150	Drilling – sandstone and limestone formations
6	2643m	23/24 unloaded, 1/24 in route (Aquina port)	101	150	Drilling – claystone formation
7	2674m	23/24 unloaded, 1/24 in route (Aquina port)	101	150	Drilling – claystone formation
8	2710m	23/24 unloaded, 1/24 in route (Aquina port)	97	150	Drilling – claystone and shale formations
9	2742m	23/24 unloaded, 1/24	95	150	Drilling – claystone and shale

Date	Current Depth	Mobilization Status	Drilling Staff	Security Staff	Actions and Formations
		in route (Aquina port)			formations
10	2778m	24/24 unloaded	99	150	Drilling – claystone and shale formations
11	2846m	18/18 in route	102	150	Drilling – claystone and shale formations
12	2900m	18/18 in route	102	150	Drilling – Salt Layer
13	2903m	18/18 in route	103	150	Drilling – Upper Gourdak
14	2939m	18/18 in route	101	150	Drilling – Upper Gourdak
15	2992m	23/23 in route	100	150	Drilling – Upper Gourdak – Salt
16	3045m	27/27 in route	100	148	Drilling – Upper Gourdak – Salt
17	3081m	27/27 in route	110	150	Drilling – Upper Gourdak
18	3115m	27/27 in route	110	150	Drilling – Upper Gourdak
19	3144m	27/27 in route	110	150	Drilling – Upper Gourdak
20	3166m	27/27 in route	111	153	Drilling – Limestone and Anhydride layers
21	3183m	27/27 in route	102	151	Drilling – Limestone and Anhydride layers
22	3183m	27/27 in route	101	151	Drilling – Limestone and Anhydride layers
23	3194m	27/27 in route	101	151	Drilling Operations are stopped due to maintenance of the rig
24	3194m	27/27 in route	100	151	Drilling Operation are stopped due to maintenance of the rig
25	3197m	27/27 in route	100	151	Drilling – Limestone and anhydride layers
26	3197m	27/27 in route	100	151	Drilling Operations are stopped due to maintenance of the rig
27	3197m	27/27 in route	98	151	Drilling Operations are stopped due to maintenance of the rig
28	3197m	27/27 in route	99	151	Drilling Operations are stopped due to maintenance of the rig
29	3197m	21/27 in route, 6/27 in Aquina port	99	151	Drilling Operations are stopped due to maintenance of the rig
30	3197m	21/27 in route, 6/27 in Aquina port	99	151	Drilling Operations are stopped due to maintenance of the rig

Table 2: 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 Jaihoon	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 12 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 3: 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. Zalmai Zalmai	Technical Advisor and Liaison
Well Drilling and Testing	Eng. Beig Nazar	Technical Advisor
Drilling Engineer	Eng. Habibullah Mokhlis	Technical Advisor
Geologist	Eng. Wahid Qaeym	Technical Advisor

In addition to the SGGA staff listed in Table 3, 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 4: 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 extending the actual projected completion date to December 31, 2015. This schedule was immediately rejected by MoMP.		

Table 4 includes the contract time for completion schedule as well as TPAO's own schedule estimates, though rejected by MoMP. 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

3 Implementation Letter Status

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

Table 9: 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	Direction SGDP Wells Not Cost Recoverable to Totimaidan Block
IL No. 45-15	<i>In Revision for MoF</i>	Extension of SGDP Beyond 30 April 2015

Table 9 contains a list of all IL amendments issued thus far under SGDP. IL amendments have primarily functioned to approve 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

At a current depth of approximately 3,197 meters, TPAO is near the expected producing zone of Juma well #2A. Their trucks have arrived timely and unloaded all necessary equipment and there appear to be no customs, visa, or security problems during this reporting period. However, TPAO spent the last five days of the month at 3,197 meters. Some of the time was conducting maintenance, but SGGA is concerned that TPAO has slowed operations awaiting a formal answer from MoMP on whether or not to double intermediate case the 43 meter salt formation for extra protection. The extra time for MoMP to consider the proposal thus far is the fault of TPAO for not submitting the proposal earlier. So, at this time the delays are not a problem, but SGGA will closely monitor MoMP's response, as further delays could cause a future contract dispute.

4.2 Progress This Period

The only unusual event this period was TPAO's unsolicited proposal offering to add additional protective casing against salt intrusion, for the tidy sum of \$3,785,550. The costs appeared excessive

in every cost category and ended up valued surprisingly close to the maximum delay penalties amount of \$3,675,777, which MoMP might levy against TPAO if work completion is delayed beyond September 25, 2015. At the close of June, a MoMP committee appointed to consider the proposal was evaluating it and preparing to make a recommendation to the Minister.