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SHEBERGHAN GAS GENERATION ACTIVITY (SGGA)

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SGGA Quarterly Report (Mod 2, Section F, Paragraph B (3) and Mod 6, Section F.5)

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Acronyms and Abbreviations

ADB	Asian Development Bank
AEAI	Advanced Engineering Associates International
AGE	Afghan Gas Enterprise
AGS	Afghanistan Geological Survey
APA	Afghanistan Petroleum Authority
DM	Deputy Minister
DABS	Da Afghanistan Breshna Sherkat
IL	Implementation Letter
IPP	Independent Power Provider
MERC	Monitoring Evaluation and Reporting Committee
MoMP	Ministry of Mines and Petroleum
MOU	Memorandum of Understanding
MW	Megawatt
OGS	Oil and Gas Survey
PR	Public Relations
PRID	Public Relations and Information Directorate
SGDP	Sheberghan Gas Development Project
SGGA	Sheberghan Gas Generation Activity
TPAO	Turkish National Petroleum Corporation
USAID	United States Agency for International Development

1 MoMP Procurement Technical Assistance (Objective 2)

Progress of Major Activity	Problems Encountered	Remedial Steps Taken/Recommended
<p>Drilling Contractor Schedule / Performance.</p> <p>1) Turkish National Petroleum Corporation (TPAO), as of the date of this report, is proceeding with the drilling of the Juma #2A at a depth of 3,200 meters, with 400 meters remaining to the target depth of 3,600 meters. All equipment and materials, with the exception of some logging equipment and resupplies, have been delivered to location. TPAO remains 1 year and 15 days behind the original work schedule.</p> <p>2) On 21 June 2015, TPAO submitted a letter to MoMP suggesting that the government approve a \$3.7M contract amendment to provide for TPAO acquiring and installing a second set of intermediate casing to protect from potential salt intrusion due to a 43 meter deep salt formation.</p>	<p>1) As of the first of April, TPAO had exceeded the contract completion time by five months. The delays and MoMP's demands for compliance with the schedule had escalated into somewhat terse exchanges between the Minister of Mines and Petroleum and the Turkish Minister of Energy.</p> <p>2) SGGA sent MoMP a letter suggesting the way forward, to include checking out historic records of Soviet wells in the area. SGGA also analyzed how much funds are available and explained that USAID is unable to provide any additional funds.</p>	<p>1) After several weeks of negotiation, MoMP agreed to extend the contract performance period until, effectively, 25 September 2015. The agreement provides for extension to 31 August 2015 in exchange for TPAO's agreement to fund a reserve study of the Juma-Bashikurd Field. The engineering firm for the reserve study will be hired through Afghan government procedures. In addition, TPAO's claims that mobilization had been delayed by 25 days due to MoMP's failure to timely process customs documents were settled by granting TPAO an additional 25 day extension, in exchange for mutual waivers of claims for delay damages or further extension. MoMP also agreed to pay additional costs incurred by TPAO resulting from work in the Gourdak anhydrite/salt formation. The extension agreement was signed without prior approval from USAID. USAID had previously approved an extension to 31 August, but not specifically approved the additional terms. USAID subsequently decided not to act on a recommendation to ratify the extension agreement as signed. SGGA, on instructions from the COR, has notified MoMP that USAID will not pay any additional costs agreed to by MoMP.</p> <p>2) MoMP engineers with assistance from SGGA engineers who worked with the Soviets on previous Bashikurd wells came to a joint conclusion that the salt formation does not pose as great a risk as TPAO suggests. Following a meeting with TPAO on 27 June 2015, APA's Dr. Outbuddin has requested a committee be established to fully consider TPAO's proposal.</p>

Progress of Major Activity	Problems Encountered	Remedial Steps Taken/Recommended
<p>Performance of APA and MoMP</p> <p>1) Under the USAID grant agreement MoMP manages the TPAO contract, and is to make monthly reports to USAID. MoMP oversight is to be done through a management, evaluation, and reporting committee (MERC).</p> <p>2) Under the National Environmental Protection Agency (NEPA) permitting requirements for the drilling operations, MoMP is required to provide a monthly compliance report to NEPA.</p> <p>3) About two weeks before the end of the reporting period, MoMP received a draft invoice for mobilization (\$1.4 million) from TPAO, followed by the official invoice on 26 June 2015.</p> <p>4) Staff received an extension in early March 2015. Approximately 12 of the formerly 72 staff members remained part of the directorate. However, their bridge contracts expired again on 21 June 2015 and it appears that the conversion of those positions to civil service will take an extended period to complete.</p>	<p>1) No MoMP reports had been made until April, MoMP began preparing and sending SGDP monthly reports to USAID. However, the many MoMP staffing changes eliminated the original MERC, and no replacement has been made.</p> <p>2) As of the end of the reporting period, MoMP apparently has not provided any of the required reports to NEPA, although MoMP forwarded a report on HSE standards made by TPAO. The TPAO report was rejected by NEPA on the basis that NEPA had neither the personnel nor expertise to review the report.</p> <p>3) Given staff changes at MoMP it is not clear that MoMP can timely process TPAO invoices.</p> <p>4) The temporary bridge contracts expired late in this reporting period, so it's uncertain at this time if they will all be renewed. If not, the impact will be detrimental, because there are already very few people remaining on staff in the petroleum sector.</p>	<p>1) SGGA has attempted to assist MoMP to comply with USAID reporting requirements several times and MoMP finally accepted SGGA help once drilling began. This support has continued for the April and May reports.</p> <p>2) MoMP/APA has now hired an environmental compliance staff member, although his qualifications are unclear. This staff member is reportedly reviewing the NEPA requirements and preparing a report. SGGA has not seen any field reports from MoMP operations monitoring staff.</p> <p>3) In order to meet demands for budget execution from the Ministry of Finance, MoMP intends to pay this first invoice from its \$7 million appropriation. On 13 June 2015, SGGA provided an orientation to remaining MoMP staff associated with SGDP, covering drilling contract and USAID/GIRoA requirements for invoice processing.</p> <p>4) Z. Sarwari, MoMP's SGDP Project Manager, has his contract renewed, along with a few of the others. SGGA will monitor and report further if the event is not merely a temporary problem. Additionally, the APA may cease to exist as an organization as a result, but it's too soon to tell as of the end of this reporting period.</p>

2 Power Sector Technical Assistance (Objective 1)

Progress of Major Activity	Problems Encountered	Remedial Steps Taken/Recommended
<p>SGGA is Tracking GIRoA's 50MW IPP plans for Mazar-e Sharif.</p> <p>Actions include a new MoMP urgency to get the new Mazar-Sheberghan gas pipeline completed, amine plant commissioned, and transaction advisors.</p>	<p>GIRoA signed an MOU on 13 May 2015, finally agreeing to allow Ghazanfar to build the IPP. This 50MW IPP could be viewed as a competitor of SGDP's envisioned 200MW IPP, or perhaps an opportunity for GIRoA, to establish some processes and lay the groundwork for future IPPs. SGGA is monitoring this initiative closely, as the IPP envisioned by SGDP can take advantage of lessons learned from this.</p>	<p>SGGA believes that it was this event which led to MoMP suddenly becoming supportive of SGDP's reserve studies and gas processing plant. MoMP finally understands that SGDP work (reserve studies and gas processing) will be supportive of other Ministry investment initiatives as well. SGGA provided courtesy reviews of MoMP terms of reference for pipeline, gas processing, and transaction advisor subject matter experts, which keeps SGGA involved in tracking progress and lessons learned.</p>

3 Capacity Development (Objectives 1 & 5)

Progress of Major Activity	Problems Encountered	Remedial Steps Taken/Recommended
<p>Well Drilling Training</p> <p>Seven MoMP staff taking the SGGA drilling class are now observing TPAO operations in the Juma-Bashikurd Field. May and June observation included casing design and installation, wellbore integrity and stabilization, and examination of formation samples obtained during drilling.</p>	<p>Efforts by SGGA in 2013 to arrange observation of the ADB-funded re-entry operations were blocked by APA's director of the Project Management Office for reasons which he refused to explain.</p>	<p>The current access was insured by including in the MoMP-TPAO contract requirements that TPAO would provide access to operations for observation and training.</p>
<p>MoMP Public Relations and Communications Support</p> <p>SGGA is supporting MoMP Public Relations and Communications Department in staff development and training.</p>	<p>The new Director of Public Relations and Information requested assistance to re-organize the department and increase professionalism.</p>	<p>SGGA has assigned a staff member with significant professional journalism experience to provide support for this effort. Job descriptions for 32 staff have been updated, put in electronic format, and provided to MoMP Human Resources Department for evaluation. Coaching on preparation of press releases and assignment scheduling is ongoing.</p>
<p>MoMP Legal Library</p>		

Progress of Major Activity	Problems Encountered	Remedial Steps Taken/Recommended
<p>Assistance At the request of the MoMP legal director Sayed Hashemi, SGGA has offered support for organizing a legal library for the Ministry legal department. To date a library committee has been designated and SGGA has provided a needs questionnaire.</p>	<p>Neither the legal director nor the legal department staff appear to have concrete ideas about their legal resource needs. Moreover, the legal director does not appear to have pushed the staff to develop their own suggestions, despite agreeing that the work would be better pursued through significant staff participation. Although guidance and questionnaires were provided to guide staff participation, there was no response, supposedly due to the staff and director being "too busy." It is apparent to SGGA that the director and staff would much prefer that SGGA simply create the library for them.</p>	<p>SGGA facilitated the development of a Legal Library Team within the current MoMP Legal Department. SGGA provided the Legal Library Team with an Evaluation Worksheet that would help them identify their current resources and needs for the development of a legal library within MoMP. After determining that the Team and legal director have a low priority for the library, the project has been put on hold until the legal department has more commitment to pursuing development of a library.</p>
<p>Support for SGDP Monthly Report by MoMP Coaching Project (See above, Procurement Technical Assistance, "Performance of MoMP and APA")</p>		
<p>AGE/AGS Health and Safety Training Afghan Gas Enterprise (AGE) and the Oil and Gas Survey (OGS) have requested assistance in developing an updated health and safety program and training. SGGA has identified knowledgeable AGE and OGS staff to assess needs and solutions, and has provided guidance in developing an appropriate program and training.</p>	<p>Major challenges in implementing the support include:</p> <ul style="list-style-type: none"> • Identifying the appropriate AGE and OGS staff to work with since health and safety are not organizational priorities. • Lack of communication among MoMP, AGE, and OGS led to an almost complete lack of awareness that a Ministry health and safety policy exists. • While suitable computer based training is available, its utility is limited by the lack of computers and need to translate training materials. 	<ul style="list-style-type: none"> • Appropriate staff has now been identified. • SGGA has facilitated communication on health and safety policy within the Ministry and its components, including the Policy Directorate and APA Technical Directorate. • SGGA is continuing to research and narrow options for international standard health and safety training.
<p>Gas Chromatograph Calibration and Training Afghan Gas was given a gas chromatograph, which is needed for gas composition measurement, by TFBSO, but the instrument was not calibrated nor was training</p>	<p>Challenges have been encountered in locating qualified service and training personnel.</p>	<p>SGGA is assisting AGE staff conduct research on service possibilities. SGGA is searching for trainers, including the possibility of obtaining training from TPAO.</p>

Progress of Major Activity	Problems Encountered	Remedial Steps Taken/Recommended
for use provided. SGGA is providing assistance for both needs.		

4 Policy Support (Objectives 3 & 4)

Progress of Major Activity	Problems Encountered	Remedial Steps Taken/Recommended
Afghanistan Gas Market Master Plan SGGA has provided a copy of the recently completed gas market study to Fichtner Management Consulting AG to support demand research for Fichtner's ADB-funded gas sector master plan.	Fichtner's time for completion has been extended by five months, and they have been asked to provide additional demand analysis. They were having difficulty locating source documents on demand factors.	In addition to providing the gas market study, SGGA has offered to comment on the draft master plan. SGGA and Fichtner plan to cooperate on other gas sector policy issues as they arise.

5 Infrastructure Activities (Objective 2)

Progress of Major Activity	Problems Encountered	Remedial Steps Taken/Recommended
Reserve Studies to Support Investment in Gas Processing/Power 1) After a year trying to obtain cooperation from MoMP to obtain gas field data necessary to prepare reserve estimates for seven main gas fields that are candidates to supply fuel for Sheberghan area power generation, Min. Saba and Dep. Min. Hamidi have at last provided support and necessary orders to Ministry staff. 2) At the close of the reporting period, SGGA was negotiating the necessary data use and confidentiality agreement and preparing the final version of the RFP for engineering services to conduct the studies.	1) Now that top level Ministry support for the project has been obtained, the main barrier remaining was the inattention of the Ministry legal director Hashemi to completing negotiations, and his continued insistence on applying Afghan law to the confidentiality agreement enforcement clauses. Unfortunately, it is not clear what Afghan law is on the subject. 2) After long delay in obtaining legal department comments on the gas data confidentiality agreement, SGGA asked Min. Saba to intervene. A few days later, comments were obtained and meeting with the Ministry legal director was arranged on 10 June 2015 and agreement was made on all remaining points to	1) SGGA obtained signature of the reserve studies confidentiality agreement on 28 June 2015. All that remains is for the accompanying directive to be issued by the Minister for MoMP departments to provide all data to SGGA. We expect this directive the first week of July. 2) At the same time, SGGA will continue to work with the USAID contracting office to assure agreement on the terms of the engineering services subcontract. The confidentiality agreement and a letter directing APA support to SGGA data gathering efforts are prepared and at MoMP. They are expected to be signed by the Minister or Deputy

	the satisfaction of SGGA. The confidentiality agreement with the Ministry is necessary in order to reach agreement with the eventual subcontractor.	Minister the first few days of July.
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6 Deliverables Submitted This Period (Section F of Mods 2, 3, 5, and 6)

Task 1: Technical Assistance, Training, and Capacity Enhancement		
No.	Description	Date Submitted
Mod 3, Task 1, Del 6 & Mod 6 Pg. 4	Implementation Letter/SGDP Activities Performance Report (Submitted monthly for July, August, and September of this quarterly reporting period). Note, SGGA submits a monthly report that combines this requirement with the monthly report required at F.5.B.1	7 May 2015, and 3 June 2015, and on or about 7 July 2015
Task 2: Provide Procurement Support to MoMP to Implement the SGDP		
No.	Description	Date Submitted
Mod 6, Task 2, Del 13	Monthly Report on progress and Quality Assurance/Quality Control of drilling operations, data collection, contract completion of the gas wells	3 May 2015, 3 June 2015, and on or about 7 July 2015
C.6: Performance Monitoring Plan		
No	Description	Date Submitted
Mod 2 SOW C.6	Semi-Annual Performance Monitoring Plan (original historical format)	1 May 2015
Mod 2 SOW C.6	Semi-Annual Monitoring and Evaluation Plan (new format)	1 June 2015 Resubmitted on 12 June 2015 following comments from USAID

7 SGGA Quarterly Financials

Name of Contractor / Grantee:	Advanced Engineering Associates International, Inc.	
Grant / Contract Number:	EPP-I-00-03-00004-00, Order No. AID-306-TO-12-00002	
Grant / Contract Amount: \$	\$30,440,956.92	
Amount - US\$		
A - Cumulative Expenditures reported to and paid by USAID (latest SF269 report)		19,400,617.82
B- Expenditures not yet reported to USAID		
	<u>Months</u>	<u>Amount</u>
	April, 2015	\$511,850.68
	May, 2015	\$610,100.00
	June, 2015	\$786,706.00
		\$1,908,656.68
C- Total Estimated Expenditures as of 06/30/15 (A+B)		\$21,309,274.50