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SHEBERGHAN GAS GENERATION ACTIVITY (SGGA)

Contract No. EPP-I-00-03-00004-00, USAID Task Order No. AID-306-TO-12-00002

SGGA Monthly Report

Period: December 1 – December 31, 2015

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Acronyms and Abbreviations

AGE	Afghan Gas Enterprise
AGS	Afghan Geological Survey
APA	Afghanistan Petroleum Authority
MoMP	Ministry of Mines and Petroleum
OGS	Oil and Gas Survey
OSHA	United States Occupational Health and Safety Administration
SGDP	Sheberghan Gas Development Project
SGGA	Sheberghan Gas Generation Activity
TPAO	Turkish National Petroleum Corporation
USAID	United States Agency for International Development

1 DRILLING CONTRACT MANAGEMENT SUPPORT

1.1 Achievements / Activities

- Following numerous discussions with USAID and MoMP on availability of appropriations enabling MoMP to apply USAID grant funds to TPAO invoices, requirements for invoicing, certification of work performed, and USAID requirement for absence of claims, submitted, SGGA declined to certify completion of the drilling contract work, availability of appropriations, form of invoices, and potential outstanding claims. Following revision of the invoices and clarifications, SGGA provided a certification of completion of work for the drilling and completion of the Juma No. 2A well and rig up at the Bashikurd No. 3 well. Certification for TPAO mobilization and completion of work on the Bashikurd No. 3 well cannot be provided due to known outstanding possible claims for, respectively, failure of TPAO to deliver the required quality of casing and failure of TPAO to properly case and cement the Bashikurd No. 3 well resulting in a casing collapse.
- Provided Zabi Sarwari, MoMP project manager, Minister Saba, and senior Ministry advisor Azizi the following for guidance in completing the TPAO drilling contract:
 - detailed letter describing steps necessary to complete the contract, including all steps necessary to conclude payment of outstanding TPAO invoices
 - detailed critical items project checklists
 - a draft request for proposals for tendering for the reserve study for the Juma-Bashikurd Field required to be funded by TPAO
 - for at least the third time, guidelines for environmental compliance inspections required by the National Environmental Protection Agency to be completed by MoMP
 - several examples of the correct invoicing requirements and explanations of both contract and USAID grant requirements related to invoicing and payment.

1.2 Meetings

- On 5 DEC, met with MoMP and TPAO staffs to discuss the causes of the collapse of new casing and tubing in Bashikurd Well #3. SGGA requested both parties to exchange full information about the casing and cementing operations, and requested the Ministry to move forward with a decision on whether to recommend claiming against TPAO for collapse.
- On 5 DEC, in brief conversation with Sarwari after TPAO meeting Sarwari that MoMP did not have appropriated funds available to pay the pending TPAO mobilization invoice.
- On 7 DEC, met with USAID OFM staff to discuss IL and work certification requirements for USAID disbursement of grant funds for payment of TPAO invoices.
- On 7 DEC, met with MoMP and Ministry of Finance regarding invoice payment process.
- On 9 DEC, met with USID and MoMP to discuss procedures for correct submission of request for grant disbursement.
- On 9 DEC, met with MoMP committee reviewing Bashikurd #3 casing collapse. SGGA requested copy of committee report after committee's review of TPAO casing and cementing (which has never been provided, and it is not known if it was ever completed), and discussed with committee the process and potential costs of pursuing a claim over the casing collapse.

1.3 Challenges

- As seen throughout the tendering and management of the TPAO drilling contract, and especially after the change of APA director general in 2013, MoMP's internal review and decision making processes are cumbersome, slow, and are unsuited to the goal of a commercially oriented petroleum and minerals management Ministry. An example from this

reporting period is the Ministry's response to the decision by USAID not to fund the re-entry of the Bashikurd No. 9 well, which decision was based on a review of all available drilling records and newly analysed well core information. The course of the decision making process was:

- Last week of September 2015 – after completion of well core analysis and geological review, USAID informs MoMP that USAID will not fund re-entry of the well.
- On 3 October, SGGA provides MoMP a recommended draft change order (in the terms of the contract, a "variation notice") to inform TPAO of the cancellation of the well.
- As best as can be determined by SGGA, in the first week of October, the responsible deputy minister at MoMP is informed by the finance department that MoMP does not have the \$6.5 million necessary to conduct the work without USAID funding.
- In the first week of October, the director general of the APA designates a committee of experts from the Oil and Gas Survey to study the cancellation issue.
- Subsequently, after a month of no apparent action, on 7 November, the deputy minister in charge appoints another committee to study the matter.
- No further action was taken until after the matter was brought to the attention of the Minister's budget advisor on 17 November.
- On 28 November, MoMP notified TPAO of the cancellation of the re-entry. By this time, TPAO had nearly completed work on the preceding well (Bashikurd No. 3) and had to substantially change its demobilization plans. At this time it is not known whether TPAO has incurred additional costs, and, if it has, whether it will pass the costs to MoMP, as would normally be expected because of the delayed notification.
- A further example of the unprepared and uninformed management of the contract can be seen in the handling of the invoice payment process, despite repeated advice and training provided by SGGA on payment processes. The result was that TPAO invoices were substantially delayed and late payment costs incurred. The failures by MoMP included:
 - MoMP discovered that its budget contained no appropriation that would enable it to use USAID grant funds to pay TPAO's invoices.
 - MoMP's failure to request an adequate amount to provide for use of the needed grant funding in an emergency supplemental request to the Ministry of Finance and the President's Office.
 - MoMP repeatedly giving erroneous invoicing instructions to TPAO.
 - MoMP submitting incorrect disbursement requests to USAID, including having the requests signed by the wrong MoMP official

1.4 Plans for Next Month

- As requested, assist MoMP to complete all steps necessary to close out the TPAO contract
- As requested, assist MoMP to complete the tender for the TPAO-funded Juma-Bashikurd reservoir study.
- Contingent on resolution of deficiencies cited in previous certifications and completion of demobilization by TPAO, provide certifications of completion to USAID in support of disbursement of SGDP grant funds for payment of TPAO invoices.

2 SGDP NATURAL GAS DEVELOPMENT SUPPORT

2.1 Achievements / Activities

- Following issuance in November 2015 of Request for Proposals (RFP) to four shortlisted petroleum engineering firms for data evaluation and possible reserve estimates on seven Sheberghan area gas fields, three of the four firms submitted proposals. The fourth firm, although interested, declined to participate in the tender based on advice of its legal department. The concern was compliance with the Federal Acquisition Requirements, since the firm has no other US Government contracts.
- The RFP responses were reviewed by an SGGA committee. On 16 December requests for clarifications were sent and revised proposals were submitted by all three firms by the 23 December deadline.
- General questions by the bidders were responded to in a general anonymized response to all.
- At the end of the reporting period, the revised responses were again being reviewed.

2.2 Meetings

- On 7 DEC, met with USAID regarding status and schedule for data evaluation and reserve study vis-à-vis USAID plans for USAID planned 15 May presentation on Afghan natural gas prospects.

2.3 Challenges

- Except for one firm declining to participate because of concerns over meeting the sheer volume of US contracting requirements, no significant challenges were encountered during the reporting period.

2.4 Plans for Next Month

- Complete evaluation of the revised proposals and make a preliminary award decision.
- As necessary, negotiate final subcontract terms with the preferred bidder.
- Submit a request for consent to subcontract to USAID.
- Formally award and sign the subcontract, provide full data packages to the subcontractor, and commence data evaluation.

3 CAPACITY DEVELOPMENT

3.1 Achievements / Activities

- Sheberghan
 - United States Occupational Safety & Health Administration (OSHA) 192 Hour Oil & Gas Safety & Health Manager distance learning training for Oil and Gas Survey (OGS) and Afghan Gas Enterprise (AGE) personnel is approximately 72 percent complete.
 - Coaching for developing a sustainable safety and health program within OGS and AGE is ongoing.
 - Market Leader Elementary Business English classes with OGS and AGE personnel in Sheberghan are 75 percent complete.
 - Completed the basic well drilling course with OGS and AGE. Sixty two personnel (11 women, 51 men) completed the course, taught by SGGA senior CCN engineers.
- Kabul
 - Completed English to Dari translation of the OSHA distance learning training materials for OGS and AGE in Sheberghan.

- Market Leader Elementary Business English class with MoMP Public Relations & Communications Department was cancelled due to the departmental director's unwillingness to adopt sustainable capacity development practices.

2.1 Meetings

- None.

2.2 Challenges

- There were no significant challenges in this reporting period.

2.3 Plans for Next Month

- Continue the OSHA distance learning course for safety and health management for AGE and OGS personnel.
- Market Leader Business course will continue in Sheberghan with AGE and OGS personnel.
- Continue coaching for safety and health programs within AGE and OGS.

4 MONTHLY EXPENDITURES

Accrual Report Reference: EPP-I-00-03-00004-00 Task Order: AID-306-TO-12-00002 Reporting Period December, 2015		
A. Contract Ceiling:	30,440,957	
B. Total Obligated toward ceiling	30,440,957	
C. Ceiling remaining	-	
D. Total disbursed	24,178,440	
E. Accruals	840,036	
F. Combined totals	<u>25,018,476</u>	82.2% of obligation
G. Pipeline balance	<u>5,422,480</u>	
Accruals:		
November estimate	\$ 418,714	
December estimate	<u>421,322</u>	
	<u>840,036</u>	

5 PROJECT SCHEDULE

ID	Task Name	1st Half									1st Half									Qtr 1			
		Qtr 2, 2015			Qtr 3, 2015			Qtr 4, 2015			Qtr 1, 2016			Qtr 2, 2016			Qtr 3, 2016				Qtr 4, 2016		
		Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep		Oct	Nov	Dec
1	Task 1: Oversight of TPAO Drilling Contract	[Progress bar from Apr to Dec]																					
2	Juma - 2A & Bashikurd #3 Drilling, Re-entry, Deepening, Completion, Well Test and Demobilization	[Progress bar from Apr to Dec, 65% complete]																					
3	Task 2: Data Evaluation and Reserve Estimate	[Progress bar from Apr to May]																					
4	Data Evaluation and Reserve Estimate	[Progress bar from Apr to May, 22% complete]																					
5	Task 3: Structure for Public-Private Partnership for Gas Gathering and Processing										[Progress bar from Oct to May]												
6	Public-Private Partnership for Gas Gathering and Processing										[Progress bar from Oct to May, 0% complete]												
7	Task 4: Energy Park Conceptual Plan										[Progress bar from Oct to Feb]												
8	Complete Conceptual Plan										[Progress bar from Oct to Feb, 0% complete]												
9	Task 5: Training and Capacity Enhancement	[Progress bar from Apr to Jun]									[Progress bar from Oct to May]												
10	Capacity Building Programs	[Progress bar from Apr to Sep, 65% complete]									[Progress bar from Oct to May]												
11	Final Capacity Development Evaluation Report										[Progress bar from Feb to Jun, 0% complete]												
12	Task 6: Final Deliverable										[Progress bar from May to Jun]												
13	SGGA Final Project Report										[Progress bar from Jun to Jul, 0% complete]												