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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

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## Acronyms and Abbreviations

ADB	Asian Development Bank
AEAI	Advanced Engineering Associates International
AGE	Afghan Gas Enterprise
AGS	Afghan Geological Survey
CCC	Credible Construction Company
GOA	Government of the Islamic Republic of Afghanistan
MCM	Thousand Cubic Meters
MoMP	Ministry of Mines and Petroleum
NEPA	Afghanistan National Environmental Protection Agency
OGS	Oil and Gas Survey
OSHA	United States Occupational Health and Safety Administration
PPP	Public-Private Partnership
RFP	Request for Proposal
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

- Prepared a response for MoMP to TPAO's 27 April letter challenging MoMP's position that TPAO owes MoMP approximately \$3.6 million in delay penalties and \$1.1 million compensation for failure to complete environmental remediation required by NEPA-mandated environmental management plan unfinished environmental cleanup and uncompleted road work. The response, sent by MoMP, rejected TPAO's claims.
- Prepared a TPAO contract summary document for MoMP to update new senior leadership on the overall history of the TPAO contract and remaining contract closeout issues.
- Obtained well and field data for the Juma-Bashikurd Field from MoMP (including AGS, OGS, and Afghan Gas), then scanned all data for submission to McDaniel & Associates. Use of the data was made subject to the existing confidentiality agreement with MoMP. McDaniel will be asked to prepare quotes for preparation of the reservoir report called for in Amendment 1 to the MoMP-TPAO services contract, to be paid for by TPAO. USAID has agreed to arrange payment for the report through SGGA's petroleum engineering services contract with McDaniel because MoMP was unable to issue a tender for the petroleum engineering services for the study. At the end of the reporting period, the Implementation Letter providing for this change had not been issued.

### 1.2 Meetings

- On 2 May, SGGA staff met with Z. Sarwari of MoMP to discuss TPAO's contract claims attempting to justify performance delays.
- On 24 May, SGGA staff met with Z. Sarwari of MoMP and discussed the negotiation strategy for a meeting with TPAO the following day.
- On 25 May, SGGA staff attended MoMP-TPAO meeting regarding contract closeout to assist MoMP in negotiations.

### 1.3 Challenges

- Although TPAO and MoMP have made off and on efforts at concluding the closeout of their services contract, TPAO continues to dispute the amount, and in some instances, even the need to complete required environmental remediation requirements or to compensate MoMP for the estimated cost of the unfinished work. MoMP has made efforts, at SGGA's urging, to reduce the cost by allowing two drilling locations to be left for future possible operations without complete remediation, and by suggesting that TPAO obtain its own cost estimates for discussion. Compensation for the unfinished remediation under the contract is now the only feasible resolution because insurgents took control of the areas where the unfinished work would need to be done after TPAO demobilized its security. All of the remediation work could have been completed by TPAO prior to removing security forces.
- As a tactic to contest the roughly \$3.6 million in delay penalties that it owes, TPAO continues to claim that it is entitled to compensation for delays caused by MoMP and Customs, although it did not present force majeure claims Customs delays during the contract, and refuses to consider MoMP efforts to reach a middle ground on alleged MoMP delays.
- TPAO continues to delay in providing information and representations required by the contract in order to make the final contract payment. For example, it has failed to provide its representation that all of its subcontractors and suppliers have been paid in full. It may be the case that TPAO cannot truthfully make the representation, as there are at least rumors that some subcontractors and suppliers have not been paid.

- TPAO has threatened to refer the unresolved issues to its legal department (which might be desirable for both sides, since its project managers do not seem to understand fully the clear contract requirements).
- TPAO has also implied that it will, as done previously, seek to impose diplomatic pressure on the Afghan Government. This should be of particular concern because in the past TPAO project managements appears not to have fully informed either its senior management, its legal department, or the Turkish ambassador of the facts involved resulting in less than reasonable approaches. Moreover, MoMP appeared to be intimidated by diplomatic involvement, and with an inexperienced acting minister could now be even more so.
- Although Z. Sarwari, the project manager, has made significant progress over the past two years in his ability to understand contract issues and requirements, MoMP remains unable to reach a conclusion of the contract without SGGA direction. This is in part so because almost no Ministry assistance has been provided to Sarwari either from within APA (which now has almost no staff left) or the Ministry's legal department or senior management, none of whom have the legal/commercial background to provide meaningful assistance or support.
- With regard to the reservoir study provided for in Amendment 1 to the MoMP-TPAO contract, the lack of digitized data and 3D seismic may make meeting the specific study scope impractical and very expensive if non-digital preparation would be required to meet the scope. However, as an alternative, McDaniel will be asked to provide a quote for data evaluation and, if feasible, resources estimate for the field, as is being done with the other seven fields currently under study.
- Despite specific instructions of the Acting Minister, the director of the Oil and Gas Survey initially refused to provide all available data for the Juma-Bashikurd Field to SGGA, relenting only under further specific instruction from MoMP. This follows the pattern of non-cooperation from almost all staff levels at MoMP in connection with the collection of data for both the Juma-Bashikurd and seven field resources studies, despite the fact that the work is being done for the use of MoMP.

#### 1.4 Plans for Next Month

- As reported to USAID, SGGA will continue to support MoMP as requested, but there is little or no new information or advice that SGGA can provide MoMP at this time. SGGA is scheduled to complete all activities not later than 31 July, and, as a practical matter, will have only very limited ability to provide support during the month of July.
- Submit the scanned Juma-Bashikurd well and field data to McDaniel & Associates to obtain a quote for a reservoir study.

## 2 SGDP NATURAL GAS DEVELOPMENT SUPPORT

### 2.1 Achievements / Activities.

#### Gas Field Data Evaluation and Resource Estimates

- SGGA received the following reports from McDaniel & Associates Consultants Ltd. during the reporting period.
  - Khoja Gogerdak Data Evaluation Report
  - Khoja Gogerdak Resources Report
  - Yatimtaq Data Evaluation Report
  - Gerquduq, Khoja Gogerdak and Yatimtaq Combined Resources Report
  - Jangl-e-Kalan Data Evaluation Report (recommending no Resources Report for the field be prepared due to insufficient data)
  - Shakarak Data Evaluation Report
- SGGA continued to provide additional information and data in response to requests from McDaniel.

- On 29 May, SGGA provided electronic copies of the McDaniel reports to MoMP Acting Minister. Print copies were provided on 30 May.
- SGGA rapidly provided two options for presentations by Acting Minister to High Economic Council, and provided analysis from McDaniel and SGGA to USAID and MoMP on reasons for McDaniel reports estimating substantially lower gas resources available in main fields than 2005 Gustavson reserve estimates.

#### Creating Well Core Sample Libraries for OGS

- The core sample library at Sheberghan was completed by SGGA and handed over to the Oil and Gas Survey. Hundreds of core samples obtained during Soviet era drilling operations were organized, cataloged, and new storage boxes and metal shelves were built.
- The much larger core library at Mazar-e-Sherif, housing thousands of core samples, was near completion at the end of the reporting period. The organization and cataloging of the cores will enable geologists and engineers ready access to the samples, which are valuable in both exploration and development planning and decision making. The core library project was completed in one month after first authorized by USAID.

#### Gas to Power Programs Strategic Review

- During the reporting period, SGGA expended a substantial amount of the month supporting USAID's Strategic Review of the Sheberghan Gas-to-Power program and possible programs to follow the expiration of the SGDP on 31 July. At USAID instructions, SGGA prepared a number of iterations of summaries and PowerPoint presentations on the program history, work, and status, and recommendations for possible future work, and detailed presentations on the findings of the McDaniel & Associates' findings on gas resources in the seven field Sheberghan area study.
- In addition to the preparation of documents and presentations, SGGA staff made the following presentations:
  - On May 17, in person and by VTC to the USAID review committee and representatives of the Asian Development Bank, International Finance Corporation, and USAID Afghanistan senior personnel
  - On May 25, by VTC with State Department and USAID representatives in Washington
  - On May 30, to Larry Sampler, Assistant to the Administrator USAID, and to USAID Afghanistan senior personnel
- Following the Strategic Review, at instructions of USAID, SGGA mobilized Ana Moncada to conduct a preliminary feasibility study for a 20MW combined solar/gas power generation facility at Sheberghan.

#### Gas Gathering and Processing Public-Private Partnership

- Received and delivered draft Baker Botts memorandum on public-private partnership options to USAID.
- USAID approved memorandum.
- On May 24, circulated memorandum to MoMP (Sarwari), Bawar (MoF), Bull and Jones (World Bank) requesting response by May 29 in order to clear Baker Botts to prepare model transaction documents. Received and responded to comments from Bull and Jones. No comments received from MoMP or MoFin despite previous conversations and delivery of information on proposed plans. After further request to MoMP and MoFin for comments, approved Baker Botts to prepare model transaction documents.

## 2.2 Meetings

- On May 2, SGGA briefed Sarwari on fact that McDaniel contingent resource examinations were reporting gas resources to be significantly less than those shown by the 2005 Gustavson Associates reserve reports. Sarwari was invited to review the reports at SGGA offices, but he did not do so.
- On May 12, met with Ministry of Finance PPP manager Seran Bawar, World Bank PPP advisors Trevor Bull and Andrew Jones, USAID to discuss the GOA public-private partnership process.
- On May 12, met with USAID for instructions and requirements for presentation at Sheberghan Gas-to-Power Strategic Review.
- On May 14, met with Acting Min. Ghazaal Habibyar-Safi and MoMP staffer M. Zamir Attai to brief Acting Minister on reduced gas resource estimates.
- On 17 May, SGGA attended all day USAID Gas-to-Power Strategic Review, provided contingent resources presentation, and answered questions.
- On 18 May, SGGA attended half day USAID Gas-to-Power Strategic Review, made presentation on potential roadmap for further work.
- On 26 May, SGGA staff attended USAID VTC with US State Department and provided contingent resources presentation and answered questions.
- On May 30, R. Bruton, SGGA reserves task manager, met with MoMP technical personnel, including Deputy Minister Hamidi and Z. Sarwari. The announced purpose of the meeting was discuss the MoMP staff's assignment to report to the Acting Minister on the McDaniels contingent resources report, but focused instead on the differences in gas resources reported in the McDaniel's' reports and the much higher amounts reported in the 2005 Gustavson report. After the group insisted on obtaining an explanation from McDaniel, Bruton contacted McDaniel, whose vice president provided a technical explanation that was delivered to MoMP the following morning.

## 2.3 Challenges

- MoMP, including AGS, Afghan Gas, and Oil & Gas Survey, continued to be only marginally cooperative with SGGA in gathering data for the seven field review and the Juma-Bashikurd reservoir study.
- Despite having been informed well in advance of the substantially lower estimates of currently available gas in the three main producing fields, Afghan officials, including the Acting Minister, M. Qayoumi (President Ghani's energy advisor), and even Pres. Ghani himself reacted strongly and demanded immediate explanations for the differences, including demands that McDaniel engineers be available in Calgary for an early (0230) Sunday morning telephone conference with MoMP technical staff. With USAID's agreement, SGGA responded to these demands that the more productive and professional way to deal with the questions would be for MoMP technical staff to provide written questions to SGGA and McDaniel, wait to receive written responses, and, if necessary, to arrange a VTC or conference call at reasonable hours to go over any remaining questions. As of the date of this report, MoMP has not submitted any questions nor requested any further information.
- Although completed within a month, work on the core libraries was hampered by the short working hours at OGS facilities (nominally 0800 to 1400 but actually shorter) and repeated demands from OGS employees that SGGA provide virtually unlimited amounts of work on their own offices rather than the core library facilities.
- Despite having been informed of the purpose and likely recommendations regarding the structuring of a possible gas gathering and processing public-private partnership, MoMP obviously misunderstood the nature of the request for comments, apparently taking it as a

demand that the GOA adopt the recommended structure. It had been explained previously that the recommendations were purely advisory, especially since any actual transaction of this kind will not become commercially feasible for several years, if at all. Moreover, MoMP was apparently unable or unwilling to respond with any comments or questions.

## 2.4 Plans for Next Month

- Continue to work with McDaniel to complete the data evaluation and contingent resources studies, and to arrange a presentation on the results for GOA and USAID.
- Provide data on the Juma-Bashikurd field to McDaniel and obtain a quote and time estimate to complete the Juma/Bashikurd reservoir study or a feasible alternative if the reservoir study planned is either too expensive or not technically feasible.
- Complete the public-private partnership recommendations and arrange a presentation by Baker Botts on the recommended structure and alternatives.
- Respond to professionally appropriate requests from GOA/MoMP for further information on differences between the Gustavson and McDaniel gas resources results.

## 3 CAPACITY DEVELOPMENT

### 3.1 Achievements / Activities

- Sheberghan:
  - Eng. Habib's basic Well Drilling Health and Safety course for AGE and OGS personnel continues: 59 males and 19 females are attending class. The course should be completed in early June.
  - Market Leader Pre-Intermediate Business English classes for OGS and AGE personnel continues: 17 males and 4 females are attending class. The course will be completed by 25 June.
- Kabul:
  - Basic English class with SGGA staff continues: 16 males and 1 female are attending class, which is about 70% complete.

### 3.2 Meetings

- 17 May, SGGA staff met with Acting Director of Oil and Gas Survey, Eng. Nazar Mohammad to arrange an event for distribution of OSHA class completion certificates.

### 3.3 Challenges

- No significant challenges this reporting period.

### 3.4 Plans for Next Month

- Complete Market Leader Pre-Intermediate Business English class in Sheberghan for AGE and OGS personnel.
- Complete Well Drilling Safety and Health course in Sheberghan for AGE and OGS staff.
- English classes in both Kabul and Sheberghan will continue.

#### 4 MONTHLY EXPENDITURES

Accrual Report Reference: EPP-I-00-03-00004-00 Task Order: AID-306-TO-12-00002  Reporting Period May, 2016		
A. Contract Ceiling:	30,440,957	
B. Total Obligated toward ceiling	30,440,957	
C. Ceiling remaining	-	
D. Total disbursed	<u>26,043,316</u>	
E. Accruals	<u><u>1,118,621</u></u>	
F. Combined totals	<u>27,161,937</u>	89.2% of obligation
G. Pipeline balance	<u><u>3,279,020</u></u>	
Accruals:		
April Actual-Billed but not paid	\$ 337,529	
May Estimate	<u>\$ 781,092</u>	
	<u><u>1,118,621</u></u>	

### 5 PROJECT SCHEDULE

