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SHEBERGHAN GAS GENERATION ACTIVITY (SGGA)

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

SGDP Monthly Drilling Operations Progress Report

(Mod 6, Section F.5, Deliverable 13)

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Table of Contents

Monthly Drilling Operations Progress Report.....	1
1 SGDP Gas Field Operations.....	1
1.1 Activities Performed and Milestones Achieved During the Reporting Period.....	1
2 SGDP Schedule and Financial Milestones	5
2.1 Key Contract Dates and Estimated Completion.....	5
2.2 TPAO Well Status – Technical.....	5
2.3 TPAO Work Schedule – “☒” Marks Present Progress	6
2.4 SGDP Drilling Contract Value and Funding Allocation.....	6
2.5 SGDP Invoicing Status	7
3 Implementation Letter Status.....	7
3.1 USAID – Ministry of Finance (MoF) – MoMP Implementation Letter Tracker	7
4 Drilling Operations Summary.....	8
4.1 TPAO’s Contract Performance Schedule	8
4.2 Progress This Period	8
4.3 History of Juma Well #2A Siting.....	8

List of Figures

Figure 1: 5 ½" Production Casing for the Bashikurd Field Wells..... 1

List of Tables

Table 1: TPAO's Daily Drilling Report Summary..... 2

Table 2: Primary MoMP Staff Supporting SGDP 4

Table 3: Primary SGGA Staff Supporting Drilling Operations 4

Table 4: Key Contract Dates and Estimated Completion..... 5

Table 5: TPAO Well Status (Per TPAO Schedule # 9, April 25, 2015) 5

Table 6: TPAO's Schedule (Per TPAO Schedule # 9, April 25, 2015)..... 6

Table 7: SGDP Contract Amount and Funding Allocation 6

Table 8: SGDP Invoicing Status 7

Table 9: USAID – MoF – MoMP Implementation Letter Tracker..... 7

Acronyms and Abbreviations

APA	Afghanistan Petroleum Authority
APPF	Afghanistan Public Protection Force
CCC	Credible Construction Company
CRA	Corrosive Resistant Alloy
DG	Director General
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
TFBSO	Task Force for Business Stability and Operations in Afghanistan
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: 5 ½” Production Casing for the Bashikurd Field Wells



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. Pursuant to Modification 6 to Task Order No. AID-306-TO-12-00002, the current SGDP projected end date is July 31, 2016. 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

- Submitted SGGA's due diligence report to USAID assessing and certifying the work performed by TPAO in connection with TPAO's first invoice under the USAID-funded SGDP on-budget contract for “Procurement of Works for Development of Bashikurd/Juma Gas Field.”
- Reminded MoMP three more times during the month of the urgent need to complete the processing of TPAO's first invoice. Copies of the reminders were sent to USAID. As of the date of this report, the invoice was still pending payment at the Ministry of Finance, and was 38 days past due. It had been previously reported, inaccurately, by MoMP that the invoice had been processed by MoF.
- Logging isotopes and perforation charges were delivered to Mazar-e-Sherif on 14 Aug 2015. TPAO moved them to the field on 15 Aug.
- Drilling resumed on the Juma #2A on 10 Aug 2015 and reached 3481 meters subsurface on 19 Aug. The projected total depth for this well at its original location near the Juma #2 well (on the Juma sector side of the fault separating the Juma and Bashikurd sectors of the

Juma-Bashikurd Field) was approximately 3500 meters. After TPAO advised that drilling was approaching the gas/water contact, drilling was stopped at an agreed depth of approximately 3481 meters.

- TPAO conducted open hole logging of the Juma #2A well and upon conclusion of the logging and testing sent the data to Turkey for interpretation. Based on the interpretation, TPAO reported that the Kugitan formation in the Juma #2A has low porosity (around 5%) and that gas flows are “about half” of what was expected. However, the Ministry was not provided with a complete suite of logs, details of the means of determining gas volumes, or specific volumes or pressures.
- Both Ministry engineers examined the log section and the interpretation provided and requested additional information from Turkish Petroleum, most of which was not immediately provided. SGGA engineers are gathering information from other wells in the Bashikurd sector for comparison to the Juma #2A initial results and providing this information to the Ministry as it is collected from the Oil and Gas Survey and Afghan Gas.
- After review, the Ministry instructed TPAO to install 5.5 inch corrosion resistant casing, perforate, and test the Juma #2A. This instruction was delivered to TPAO on the date of this report, 6 September 2015. TPAO was further instructed to conduct a cement bond log, other standard tests, and gas flow and gas composition tests, and to deliver the results to the Ministry.

Table 1: TPAO's Daily Drilling Report Summary

Date Aug 15	Current Depth	Mobilization Status	Drilling Staff	Security Staff	Actions and Formations
1	3228m	2/28 in route, 26/28 onsite or delivered	90	158	Drilling paused – Awaiting wireline logging equipment in transit by air
2	3228m	2/28 in route, 26/28 onsite or delivered	93	158	Drilling paused – Awaiting wireline logging equipment in transit by air
3	3228m	2/28 in route, 26/28 onsite or delivered	92	158	Drilling paused – Awaiting wireline logging equipment in transit by air
4	3228m	2/28 in route, 26/28 onsite or delivered	92	158	Drilling paused – Awaiting wireline logging equipment in transit by air
5	3228m	2/28 in route, 26/28 onsite or delivered	88	158	Drilling paused – Awaiting wireline logging equipment in transit by air
6	3228m	2/28 in route, 26/28 onsite or delivered	89	158	Drilling paused – Awaiting wireline logging equipment in transit by air
7	3228m	2/28 in route, 26/28 onsite or delivered	86	158	Drilling paused – Awaiting wireline logging equipment in transit by air
8	3228m	2/28 in route, 26/28 onsite or delivered	86	158	Drilling paused – Awaiting wireline logging equipment in transit by air
9	3228m	2/28 in route, 26/28 onsite or delivered	93	158	Operations preparatory to drilling
10	3234m	2/28 in route, 26/28 onsite or delivered	94	158	Drilling re-commenced
11	3258m	2/28 in route, 26/28	94	158	Drilling

Date Aug 15	Current Depth	Mobilization Status	Drilling Staff	Security Staff	Actions and Formations
		onsite or delivered			
12	3282m	2/28 in route, 26/28 onsite or delivered	105	158	Drilling
13	3310m	2/28 in route, 26/28 onsite or delivered	92	158	Drilling
14	3339m	2/28 in route, 26/28 onsite or delivered	92	158	Drilling
15	3393m	2/28 in route, 26/28 onsite or delivered	92	158	Drilling
16	3422m	2/28 in route, 26/28 onsite or delivered	93	158	Drilling
17	3450m	2/28 in route, 26/28 onsite or delivered	93	158	Drilling
18	3450m	2/28 in route, 26/28 onsite or delivered	93	158	Drilling paused for repairs
19	3481m	1/28 in route, 1/28 in Aquina BC, 26/28 onsite or delivered	99	158	Drilling
20	3481m	1/28 in route, 1/28 in Aquina BC, 26/28 onsite or delivered	99	158	Rigged up for well logging and commenced open hole well logging
21	3481m	1/28 in route, 1/28 in Aquina BC, 26/28 onsite or delivered	99	158	Open hole well logging
22	3481m	1/28 in route, 1/28 in Aquina BC, 26/28 onsite or delivered	99	158	Open hole well logging
23	3481m	1/28 in route, 1/28 in Aquina BC, 26/28 onsite or delivered	103	158	Open hole well logging
24	3481m	1/28 in route, 1/28 in Aquina BC, 26/28 onsite or delivered	103	158	Open hole well logging
25	3481m	1/28 in route, 1/28 in Aquina BC, 26/28 onsite or delivered	105	158	Waiting on approval to run 5 ½" anti-corrosion production casing
26	3481m	1/28 in route, 27/28 onsite or delivered	113	158	Waiting on approval to run 5 ½" anti-corrosion production casing
27	3481m	1/28 in route, 27/28 onsite or delivered	113	158	Waiting on approval to run 5 ½" anti-corrosion production casing
28	3481m	1/28 in route, 27/28 onsite or delivered	113	158	Waiting on approval to run 5 ½" anti-corrosion production casing
29	3481m	1/28 in route, 27/28 onsite or delivered	113	158	Waiting on approval to run 5 ½" anti-corrosion production casing
30	3481m	1/28 in route, 27/28 onsite or delivered	109	158	Waiting on approval to run 5 ½" anti-corrosion production casing
31	3481m	1/28 in route, 27/28 onsite or delivered	109	158	Waiting on approval to run 5 ½" anti-corrosion production casing

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. Outbuddin 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 Afghanistan Petroleum Authority (APA) are conducted with the SGDP Project Manager, 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 or about 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 2015.

Table 3: Primary SGGA Staff Supporting Drilling Operations

Job Title	Name	Contributions to SGDP
Chief of Party	Stroud Kelley	Manage All SGGA Activities
Senior Gas Sector Advisor	Randolph Bruton	Monitor Contract Compliance
On-Budget Task Manager	Naihmatullah Kohsar	Monitor TPAO 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. 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, 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 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 2015. On December 5, 2014, TPAO submitted another revised schedule that extended their performance from May 21, 2015 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 (although the salt horizons were well known and the information readily available) 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. 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, 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.

2.2 TPAO Well Status – Technical

Table 5: 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 August 31, 2015)	Present Working Depth	Present Working Depth
3,481m (recently agreed to be the total depth of Juma #2A)	0	0

2.3 TPAO Work Schedule – “☒” Marks Present Progress

Table 6: 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	[Redacted]																																		
Preparation Rig & Equipment	☒																																		
Manufacture of 5 ½" CRA28 Casing	☒	☒	☒	☒	☒	☒	☒	☒																											
Shipment of 5 ½" CRA28 Casing								☒	Delivered Onsite																										
Road, Site, & Camp Construction			☒	☒	☒	☒	☒	☒	☒	☒																									
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

2.4 SGDP Drilling Contract Value and Funding Allocation

Table 7: 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 funding. 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 8: SGDP Invoicing Status

Invoice #	Invoice Received	Invoice Amount	Invoice Paid
Inv. # M150623001	June 27, 2015	\$1,400,000	Submitted to MoF
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

TPAO submitted their first invoice on June 27, 2015, though it was dated June 23, 2015. SGGA learned on July 27, 2015 that APA had not accomplished advance work necessary to prepare for processing the invoice promptly. A project code had not been established prior to this point by the Ministry, despite months of warning that the invoice was coming. As of August 31, 2015, the first TPAO invoice still had not been paid and remains significantly overdue despite the numerous SGGA e-mails to and conversations with APA emphasizing the need for payment of the invoice and the consequences of the failure to timely pay.

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
IL Nos. 45-11/12	February/September 2014	Draft ILs regarding monitoring of compliance with and extension of the TPAO drilling contract, which were prepared but not processed due to TPAO's performance
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	July 15, 2015	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. As noted in the table, two draft ILs were prepared (45-11 and 45-12), but never processed. Additionally, a request by APA for a determination of non-availability of U.S. flag vessels was granted by USAID by letter dated September 25, 2014.

4 Drilling Operations Summary

4.1 TPAO's Contract Performance Schedule

TPAO remains on their most recent, unapproved schedule to finish by December 31, 2015. However, at this time, it appears that they will finish the Juma well #2A at the earliest, very near the end of their present contract time for completion period, August 31, 2015, plus 25 contingency days. TPAO will need substantially more time and in the professional opinion of SGGA, is unlikely to finish all of the remaining work in 2015.

4.2 Progress This Period

TPAO made good progress this month. It drilled from a depth of 3228 meters to the final total of 3481 meters. TPAO and MoMP agreed the well should be drilled no deeper due to concern that the well was approaching the gas/water contact. As a result, drilling ceased at 3481 meters, notwithstanding the original TPAO drilling program called for a target depth of the Juma #2A well of +/- 3500 meters, an understandable decision since the original TPAO drilling program was designed for the well's original location in the Juma field. However, at the last moment, the Juma #2A's long planned well location was moved by the MoMP to a location in the Bashikurd well. The history of that decision to move the well will be discussed in the next section.

The well logging equipment for which TPAO had been waiting finally arrived and TPAO conducted open hole wireline logging and testing, sent the log for interpretation in Turkey and requested approval from MoMP to run 5 ½" anti-corrosion production casing. The interpretation of the log yielded the conclusion supposedly reported by TPAO to Ministry engineers that porosity in the well's Kugitan formation was low and the gas volume only about half of what was expected. The MoMP is now considering whether to run the casing, perforate the zone(s) of interest and flow test the gas, or to plug and abandon the well. SGGA warned the MoMP that it may not have enough reliable data at this point to render a decision. SGGA has provided some additional information on other Bashikurd wells, and pointed out alternative completion techniques that might maximize production despite the reported low porosity for consideration by MoMP. The MoMP will also request additional information from TPAO. If ultimately the Juma #2A well is not commercially productive, then the planned work on the Bashikurd #3 and #9 wells should be reconsidered, given their proximity to the Juma #2A.

4.3 History of Juma Well #2A Siting

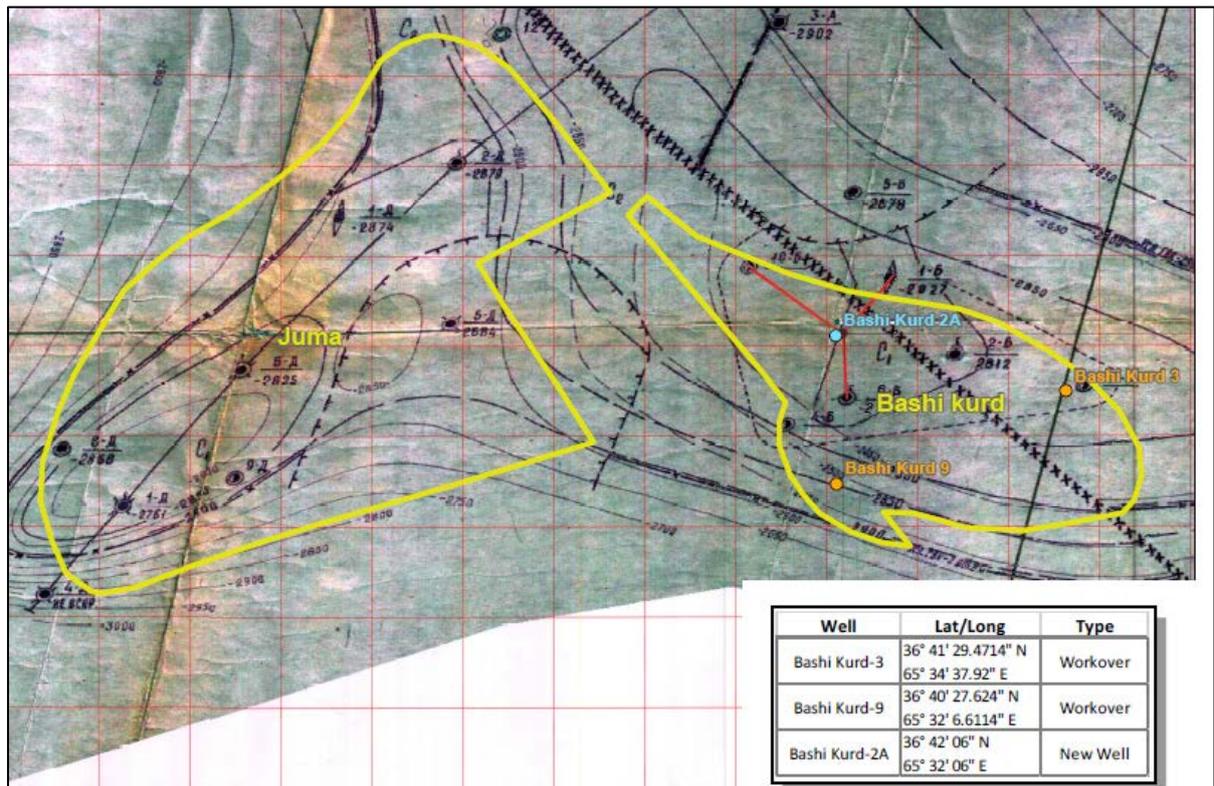
In light of the current status of the Juma #2A well, SGGA believes that it is appropriate to document the history of its selection and location of the well as a part of SGDP in this report. The initial location of SGDP wells specified in the original drilling tender came from the recommendations provided in a Gustavson report resulting from the AEAI-led Sheberghan Gas Field Development Project (SGFDP) which ended in December 2011. In the SGFDP report titled "Ranking of Potential Wells and Cost Estimates," dated 18 March 2011, Gustavson rank ordered the Juma-Bashikurd wells for future re-entry or twinning. The on-budget SGDP tender originally specified the top four candidates recommended by Gustavson. In order they were: (1) Bashikurd 9 (reentry), (2) Bashikurd 3 (reentry), (3) Bashikurd 2 (twinning), and (4) Juma 2 (twinning).

The original SGDP tender released on 3 December 2012 included all four wells, exactly as recommended by Gustavson. Following the failed bids received on 2 March 2013 and subsequent bid evaluations and in light of the high pricing range of those bids, it was necessary to drop one of the twinning wells in an effort to lower bids by at least \$20M to come within the budget of SGDP. On 10 April 2013, USAID approved SGGA to quickly retender for three wells and exclusion of one of the new twinned wells, which did not require an amendment to the SGDP implementation letter. The analysis for which well to drop was fairly simple. The Juma-Bashikurd field has two dynamics which made the decision obvious. There is a fault running through the Bashikurd field cutting about a third of it away from the rest of Juma-Bashikurd. Additionally, most of the previously estimated reserves lie in the Juma portion of the field which is on the same side of the fault as two-thirds of Bashikurd. SGGA determined that it would be best to keep at least one well on either side of the Bashikurd fault and one in Juma in order to provide the best opportunity for conclusive gas reserves, which is the overall objective of SGDP Phase I, per the SGDP implementation letter, 45-01. Therefore, in consultation with USAID and MoMP, SGGA dropped the Bashikurd twinning of well #2 since Bashikurd 3 was already selected on that short side of the fault where the original Bashikurd #2 well was located. Neither USAID nor MoMP had any concerns with dropping the twinning of Bashikurd #2 and it wasn't even questioned.

On 16 April 2013, SGGA supported MoMP releasing a new updated tender through ARDS which included three wells: (1) Bashikurd 9 (reentry long side of the Bashikurd fault), (2) Bashikurd 3 (reentry short side of the Bashikurd fault), and (3) Juma 2A (twinning of a well in the Juma field). Eventually, the tender was successful. TPAO was selected as the drilling contractor by the Ministry composed of a committee which included the APA's Technical Director, Amirzada Khosti, and a contract was awarded on 14 December 2013.

In early April 2014, MoMP conducted a site visit to Sheberghan without any coordination with SGGA which was typical of that timeframe, and decided to change the location of the Juma #2A well. The first rumors of a change in Juma #2A's well location came from our counterparts in TFBSO who showed SGGA a map containing a Bashikurd #2A well right up against the fault line (see figure below) which was used to support their Totimaidan tendering initiative. An urgent inquiry with the SGDP Project Manager, Zabih Sarwari, revealed that the APA Technical Director, Amirzada Khosti, had unilaterally decided to move the well deep into Bashikurd to maximize gas production potential.

Figure 2 - Location of SGDP Wells Provided by TFBSO



On 15 April 2014 SGGA sent a list of questions to APA regarding the movement of the well but never received meaningful responses to any of them. At the time SGGA's concerns were primarily from the perspective of a unilateral MoMP contract change order and the opening it gave TPAO to claim an equitable adjustment and more drilling schedule time at a later date or in contract claims. During this era, internal APA politics had diminished the authority of the SGDP Project Manager who was not a Director-level position at that time and elevated the authority of APA's Technical Director. In the end, the movement of the well, though it required TPAO to modify their subcontract with the roads and wellsite contract, required less road work and moved the well into a safer portion of the field from a security perspective, further from a village where insurgent activity had been observed previously. SGGA had no choice but to accept the move, as Director General Jalil Jumriany remained as the head of APA and supported his Technical Director. In a letter dated 6 May 2014, DG Jalil Jumriany provided TPAO the coordinates of the well at its current location. Fortunately, the move kept the well on the longer side of the fault and SGGA prevailed in arguing not to change the name of the well from Juma #2A to Bashikurd #2A to prevent historical and contract confusion. Still, the well was moved perilously close to the fault and far from the Juma side of the field which limited the potential success and quality of future Juma-Bashikurd reserve studies. As of the date of this report, the decision authorities for the move, both Technical Director Amirzada Khosti and Director General Jalil Jumriany, are no longer employed by the APA.

The location movement of the Juma #2A was carried out over the objections of SGGA as indicated in communications with the APA project manager (for example, see Attachment 1) stating among other things:

Drilling of a new well in the Bashikurd sector of the field is unacceptable for two reasons. First, drilling and testing a new well in the Bashikurd sector is entirely contrary to one of the main purposes of the project – testing BOTH sectors of the field so that reserve studies can be developed on which potential investors for the gas processing and power plants can make investment decisions. In summary, at least one well should be on the Juma side of the fault dividing the two sectors.

Finally, the existing reserve estimates indicate that the Juma sector reserves are much larger than those in the Bashikurd sector.

In addition, there has never been a suggestion that any of these three wells would be the only production wells in the Juma-Bashikurd Field. To repeat, these are confirmation (appraisal) wells, and additional production wells would need to be drilled. Finally, development of the field is expected to be carried out by whatever firm is awarded the production sharing contract for the Totimaidan Block.

ATTACHMENT 1 TO AUGUST 2015 MONTHLY DRILLING PROGRESS REPORT

From: Stroud Kelley
To: [Stich, John \(JStich@state.gov\)](mailto:JStich@state.gov)
Cc: jjordy@usaid.gov; Register, Wayne
Subject: FW:
Date: Wednesday, April 16, 2014 15:32:50
Attachments: [sk APA to TPAO on Insurance.docx](#)

John,

This is the issue that I mentioned to you this morning. What is most aggravating about this is that Eng. Khosti (the head of the technical department at APA) was, we are told, involved in monthly meetings during the planning period for the Juma-Bashikurd Field operations and apparently never raised any objections to drilling a replacement well for the Juma #2 until just now. I don't know how long that went on, but the Gustavson well twinning report is dated 11 March 2011. We assume that this was handed to the Ministry staff at some point.

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From: Stroud Kelley
Sent: 16 April, 2014 15:11
To: 'Zabihullah Sarwari'
Cc: z.jaihoon@hotmail.com; Mr Khosti; Register, Wayne
Subject: RE:

Zabih,

Thank you for the report. A few comments below in red.

Stroud

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From: Zabihullah Sarwari [<mailto:zabihullahsarwari@googlemail.com>]
Sent: 16 April, 2014 00:08
To: Stroud Kelley; Register, Wayne; Mr Khosti
Cc: z.jaihoon@hotmail.com
Subject:

Dear all,

Yesterday after 3 hours meeting with TPAO in Mazar e Sharif and going through the recommendations which already submitted to them and received the response, i found that the schedule which they

submitted is the only option which they want to finish project with, but the time which they have submitted for CRA28 is delaying them and its again the same reason.

At least TPAO is consistent in no making an effort to comply with the contract that they signed. We have discussed this at length and in the recommended response to Sisman. 'Nuf said.

I advised them to submit the reports with the time duration and explanation and percentage of work scope.

This is something you should insist upon. And it's reporting on all phases of the work, not just what they're doing on the ground.

Another issue which we talk about was the insurance and they respond that it's almost done and the company is changed to a Turkish Insurance company.

Wherever it comes from, they need to send you copies of the policies immediately (in English). We'll then need to check to make certain that the policies actually conform to what is required in the contract.

When did they receive the insurance? They're only four months late in doing this. And, now I wasted at least two hours yesterday writing a fine, pointed default notice, which is attached for future reference.

Today the 15th of April, first i went to North Hydrocarbon Directorate (NHD) in Sheberghan and discussed the well coordinates with the Eng's having the experience of drilling the Juma and Bashikurd wells and specifying the Geological and Lithological structures.

First of all I think it's necessary to know why Mr. Khosti chose the new well far far away from Juma # 2?

We were more than very surprised to see this information four months into the contract and two or more years after the preceding AID project first presented the proposal to drill a "twin" well to the Juma #2. Requests were made for all well data as early as 2011. We today are not, of course, certain what information was produced or what conversations were had with AEAI or with Gustavson, but the final well ranking report put twinning Juma #2 in the four recommended wells. As discussed further below, when one well had to be dropped from the drilling tender, it was decided, in full consultation with the Ministry/APA to keep the Juma #2.

Beyond the technical considerations, there are program decisions. First, changing the scope of work of the TPAO contract will require USAID's consent, which with this late change, they may or may not give. We can be certain, however, that AID is going to require a complete, detailed written justification that explains both the changed technical recommendations and a reasonable explanation of why it has taken some three years for objections to the #2A location to be made.

Further, any additional costs will have to be covered by the Ministry. I have spoken with AID this morning, and they again were firm that they have no further funds to contribute to the drilling program.

The reasons are:

1st: The Juma #2A is in a place where had the best production of gas at that time, but the nearest well drilled to this well was failed and the production from Juma #1A was only water, which is only approx 2Km far from Juma 2A. From geological aspect it shows that the water contact is very near around the Juma #2A and it's a big risk to drill a twin well beside the Juma 2A.

2nd: From Petroleum Engineering aspect each Mine or reservoir of Gas must be extracted in an extraction regime that the Petroleum engineering methods explain, to avoid the damages of reservoirs and extract the major amount of gas from it. So drilling the twin Juma #2 will affect the reservoir as well.

3rd: No body is taking the risk of drilling a well in a place where they are in fear of water production.

I understand very well the desirability of drilling higher on the structure to avoid water. We do not see in what geological information we have that the proposed #2A would present a risk of being too close to the gas/water contact. From a quick look at the structure/well map (top of the Kogitan) that the replacement well could be moved east and up the structure to catch what is positioned as the -2850 meter contour and away from the estimated water/gas contact.

NHD Engineers replied the same risks and insured the point where Mr. Khosti indicated for a new well. Besides this they suggest to drill the new well in Bashikurd instead of Juma. Because the only one well for production is not technical and it damages the gas reservoir.

Drilling a new well in the Bashikurd sector of the field is unacceptable for two reasons. First, drilling and testing a new well in the Bashikurd sector is entirely contrary to one of the main purposes of the project – testing BOTH sectors of the field so that reserve studies can be developed on which potential investors for the gas processing and power plants can make investment decisions. In summary, at least one well should be on the Juma side of the fault dividing the two sectors.

Finally, the existing reserve estimates indicate that the Juma sector reserves are much larger than those in the Bashikurd sector.

In addition, there has never been a suggestion that any of these three wells would be the only production wells in the Juma-Bashikurd Field. To repeat, these are confirmation (appraisal) wells, and additional production wells would need to be drilled. Finally, development of the field is expected to be carried out by whatever firm is awarded the production sharing contract for the Totimaidan Block.

After all, Mr. Eng Habib (AEAI) and one other Eng accompanied us (I, Eng Ashraf from APA technical Directorate and TPAO team) to the field and took the coordinates of Juma well # 6 and 9 and the new well between wells number 6 and 7 and 9 and 8, where is indicated by Mr. Khosti.

TPAO asked for the well # 6, 7, 9 of Juma's information to understand the field lithology and pressure for well design and its one of their concerns if the info does not comply with the Juma #2A information. As the NHD colleagues said, the field is the same and there will not be any changes.

We will need considerably more detailed information to justify any contract change. We assume that Gustavson took all of this information into account in making their original recommendations in 2011. In fact, the Juma #7 is ranked immediately behind the Juma #2 as a top candidate. We will send you this 2011 report.

Second, the new well is very far and affects the security and road construction schedule.

Road construction costs should be minimal, and, if the well were moved to the east, possibly none. (But this is one reason that we need a copy of the road construction subcontract.) The security costs could not conceivably be too much, as the protection force is quite large already.

As the TPAO project manager said, after official indication of new well coordinates he will talk share the issue with their authorities and probably the revised schedule will also change.

This sounds like a weak justification for a schedule that is already far longer than is reasonable.

Moving a location a few kilometers should not add any appreciable time to the schedule, especially when TPAO hasn't even gotten its rig ready to move.

Your comments and questions are most appreciated. I hope i have not missed anything.
Kind regards,

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