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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

APA	Afghanistan Petroleum Authority
APPF	Afghanistan Public Protection Force
EMP	Environmental Management Plan
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: Bashikurd No. 3 Drillsite



The Sheberghan Gas Development Project (SGDP) is funded by the United States Agency for International Development (USAID) under Task Order No. AID-306-TO-12-00002, as modified. The project end date is July 31, 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 agreed under SOAG Implementation Letter No. 45-01, and subsequent implementation letters. This contract currently requires TPAO to drill one new well, Juma No. 2A, and re-enter two wells, Bashikurd No. 3 and Bashikurd No. 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

Summary

After Juma 2A well was plugged and permanently abandoned as non-commercial, MoMP, on 28 September, instructed TPAO to move to Bashikurd No. 3 as provided in the contract scope of work. On October 8, TPAO began the move to Bashikurd No. 3 and completed rig up at that location sixteen days later.

The scope of work for the Bashikurd No. 3 is to re-enter and deepen the well to a depth deep enough to test the lower Kugitan Formation, at approximately 3500 meters. On October 23, TPAO started re-entry operations on Bashikurd No. 3. During the course of the re-entry collapsed casing was encountered at a depth of approximately 2989 meters. TPAO was able to mill out the obstruction and drill through the cement plug at 2950 meters to 3030 meters. At the end of the reporting period, operations were continuing at a depth of 3381 meters in the target Kugitan Formation, and some gas flows were being encountered.

Contract administration continued to lag operations, with MoMP still being unable, by the end of the reporting period, to persuade the Ministry of Finance to pay of the TPAO invoice for mobilization (\$1.4 million). The Ministry of Finance initially refused to recognize the validity of the extensions of the TPAO contract and insisted that the extensions be reviewed by the National Procurement Authority. Shortly after the end of the reporting period and the Ministry of Finance has now agreed that the contract extensions are valid and that it will process invoices presented. The slow processing has resulted in the mobilization invoice, the only one submitted to date, being some thirteen weeks past due at the end of October.

Also lingering for the month of October was a decision by the Ministry on removing the scheduled Bashikurd No. 9 well from the drilling contract scope of work. After encountering very low porosity in the Juma No. 2A, analysis of newly located core samples and review of drilling and test records was conducted by SGGA for existing wells in the field, including the No. 9. The conclusion of this review was that the No. 9 well should be removed from the work schedule because of low porosity of the core samples, and poor or inconclusive test results. USAID decided that spending the required \$2.6 million to re-enter the No. 9 would not be a reasonable risk. By letter of 4 October, USAID informed MoMP that USAID would not contribute any funds to the operations on the No. 9 well and recommended that the well be removed from the scope of work unless MoMP wished to continue with the operation at MoMP's own expense. MoMP had previously been told informally of the USAID decision, and SGGA had prepared the necessary contract change order notice to drop the well and provided it to MoMP.

Despite being informed of USAID's decision early in the month of October, MoMP apparently did take action on the issue until nearly the end of the month when the matter was referred to the deputy minister level and a review requested from the Oil and Gas Survey. The delay took place despite MoMP's being reminded several times that not notifying TPAO of the change would risk incurring a

claim for TPAO's costs for final preparation of the No. 9 wellsite and moving equipment as the No. 3 well was completed.

Shortly after the end of the reporting period, but only after a telephone conversation with USAID, has the issue been moved forward within MoMP.

In addition, MoMP reports that a request for an adjustment to MoMP's budget has been submitted to the Council of Ministers. The adjustment would revise the MoMP budget to authorize the expenditure of USAID grant funds for the TPAO drilling contract. This authorization had been left out of the MoMP appropriation for the current fiscal year, although it had been included previously.

1.2 Key Activities

Operations

- Intra-field move from Juma No. 2A to Bashikurd No. 3 completed in sixteen days
- Bashikurd No. 3 re-entry operations begun on October 23.
- Collapsed casing encountered Bashikurd No. 3, but was successfully milled out and operations continued.
- At end of reporting period, re-entry operations were continuing at a depth of 3381 meters.

Contract Administration

- In response to the determination that the Juma No. 2A was non-commercial because of low porosity of the expected producing formation, the following reports and draft documents were provided by SGGA to USAID and MoMP:
 - Operational and cost analysis for further re-entry operations
 - Draft change order ("Variation Notice") for removing Bashikurd No. 9 from the contract scope of work (See discussion above, in "Summary.")
- In anticipation of the completion of contract work within one to two months, depending on MoMP's decision on Bashikurd No. 9 operations, SGGA wrote MoMP on October 1 regarding the operational close out requirements, focusing on the requirements of the Environmental Management Plan. As of the end of the reporting period MoMP has not responded and has not informed SGGA of any plans for inspection or other enforcement of clean up requirements.
- Twice during the reporting period TPAO notified MoMP of the failure of MoMP to pay the initial invoice for mobilization.
- In support of MoMP's efforts to persuade the Ministry of Finance to pay the TPAO invoice (discussed above), SGGA provided the following to MoMP, including materials to respond to the now-abandoned Ministry of Finance requirement to obtain National Procurement Authority after the fact approval of the extension of the TPAO contract. MoMP was seemingly unable to locate copies of many of the documents in its files:
 - timeline of MoMP efforts to obtain timely performance of the contract by TPAO
 - copies of correspondence between MoMP and TPAO reflecting efforts at contract enforcement
 - copies of the numerous requests by TPAO for extensions of time, most of which were rejected by TPAO

Table 1: TPAO's Daily Drilling Report Summary

Date Oct 15	Depth Drilled/Target (meters)	Drilling Staff	Security Staff	Daily Activity Summary
Move to Bashikurd No. 3 from Juma No.2A				
1		102	150	Waiting on MoMP's approval to move to Bashikurd No. 3
2		102	150	Waiting on MoMP's approval to move to Bashikurd No. 3
3		102	150	Waiting on MoMP's approval to move to Bashikurd No. 3
4		93	150	Waiting on MoMP's approval to move to Bashikurd No. 3
5		93	150	Preparing to move to Bashikurd No. 3
6		97	150	Waiting on security works at Bashikurd No. 3
7		109	150	Preparations prior to move to Bashikurd No. 3
8		97	150	Move to Bashikurd No. 3
9		97	150	Move to Bashikurd No. 3
10		97	150	Move to Bashikurd No. 3
11		97	150	Move to Bashikurd No. 3
12		103	150	Move to Bashikurd No. 3
13		102	150	Move to Bashikurd No. 3
14		102	150	Move to Bashikurd No. 3
Daily Operations Summary, Bashikurd No. 3				
15	0/3500	102	150	Rig up 60% completed
16	0/3500	102	150	Rig up 70% completed
17	0/3500	102	150	Rig up 80% completed
18	0/3500	102	150	Rig up 85% completed
19	0/3500	102	150	Rig up 90% completed, 143 trucks mobilized
20	0/3500	102	150	Rig up 95% completed, 143 trucks mobilized
21	0/3500	102	150	Rig up 97% completed, 143 trucks mobilized
22	0/3500	106	150	Rig up 99% completed, 143 trucks mobilized
23	117/3500	97	150	Rig up complete, spud, drill cement plug from 74m to 117m
24	495/3500	99	150	Drill cement plug from 117m to 194m, RIH from 194 to 495m
25	2505/3500	97	150	Run in Hole from 495m to 2505m
26	2550/3500	99	150	Casing Collapsed/Junk in hole at 2550m
27	2956/3500	96	150	Pull out of hole from 2956m to 160m to check the bit
28	2956/3500	97	150	Pull out of hole from 2956m to surface

Date Oct 15	Depth Drilled/Target (meters)	Drilling Staff	Security Staff	Daily Activity Summary
				to check the bit
29	2956/3500	97	150	Pull out of hole from 2248m to surface to check the pattern on impression block.
30	2991/3500	96	150	Drilled cement plug from 2964m to 2991m
31	3030/3500	96	150	Drilled cement plug from 2991m to 3030m

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. Qutbuddin 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	Mustafa Noori	Finance 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
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	October 10, 2015 Extended for completion of Juma No. 2A operations. TPAO notified delay penalties accrue from October 11, 2015
TPAO's Latest Revised but Rejected Schedule		
On September 18, 2015, TPAO provided a new schedule extending the actual projected completion date to January 15, 2016. 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 No. 9 thus far), pushing completion of the work out another four

months, to December 31, 2015. On September 18, 2015, TPAO provided a new revised schedule extending the actual projected completion date to January 15, 2016. Those TPAO schedules proposing to extend the period for completion of work beyond August 31, 2015, plus 25 contingency days were promptly rejected by MoMP.

On September 18, 2015, TPAO submitted yet another request for extension, this time to January 15, 2015. MoMP granted only part of the request, to October 10, 2015, to allow time for completion of the Juma No. 2A, as provided under Sub-clause 8.4 of PCC. However, on SGGA's recommendation, the letter granting the extension expressly provided that performance delays penalties (one-tenth of one percent of contract price per day) would accrue from October 11, 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 No. 9, April 25, 2015)

Juma 2A Time	Projected Bashikurd 3 Time	Projected Bashikurd 9 Time
Projected: 105 Days+ 30 Days Contingency Actual:	30 Days	21 Days
Present Working Depth	Present Working Depth – end of reporting period	Present Working Depth
Completed at 3,481 meters, plugged and permanently abandoned.	3381m	-

2.3 TPAO Work Schedule – “X” Marks Present Progress

Table 6: TPAO’s Schedule (Per TPAO Schedule No. 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 a n	F e b	M a r	A p r	M a y	J u n	J u l	A u g	S e p	O c t	N o v	D e c	J a n	F e b	M a r	A p r	M a y	J u n	J u l	A u g	S e p	O c t	N o v	D e c	
Well Drilling & Rehab Work																									
Preparation Rig & Equipment																									
Manufacture of 5 ½" CRA28 Casing																									
Shipment of 5 ½" CRA28 Casing									Delivered Onsite																
Road, Site, & Camp Construction													CCC Inspection Raised Rig Site Quality Concerns												
Mobilization to Juma 2A																									
TPAO Wait on Contractual Issues																									
Juma 2A – Drilling & Completion																									
Mobilization to Bashikurd 3																									
Bashikurd 3 – Drilling & Workover																						X			
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 No.	Invoice Received	Invoice Amount	Invoice Status
Inv. No. M150623001	June 27, 2015	\$1,400,000	Pending payment by 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. As of September 30, 2015, the first TPAO invoice had not been paid, and remains unpaid as of the date of this report. Delays are attributable to Ministry of Finance insistence that the extension of the drilling contract should have been approved by the Afghan Special Procurement Commission now the National Procurement Authority. The past due invoice is currently accruing late payment penalties.

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

On September 23, 2015, TPAO started the drilling operation in Bashikurd No. 3 and re-submitted a proposed revised schedule extending the actual projected completion date to January 15, 2016. This schedule was rejected by MoMP.

4.2 Progress This Period

See Section 1.1, above.

