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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)

Period: November 1 – November 30, 2015

Submitted: December 6, 2015

Prepared by:

Advanced Engineering Associates International, Afghanistan

House No. 4, Afghana Street, Shash Darak, District 9

Kabul – Afghanistan

Telephone: +93 (0) 796 101 933

This SGDP Monthly Drilling Operations Progress Report is made possible by support from the American People sponsored by United States Agency for International Development (USAID). The contents of this SGDP Monthly Drilling Operations Progress Report were prepared by Advanced Engineering Associates International, Inc. and are the sole responsibility of Advanced Engineering Associates International, Inc. and do not necessarily reflect the views of USAID or the United States Government.

1 Contents

Monthly Drilling Operations Progress Report.....	1
1 SGDP Gas Field Operations.....	2
1.1 Activities Performed and Milestones Achieved During the Reporting Period.....	2
Summary.....	2
1.2 Key Activities	3
Operations	3
2 SGDP Schedule and Financial Milestones	5
2.1 Key Contract Dates and Estimated Completion.....	5
2.2 TPAO Well Status – Technical.....	6
2.3 TPAO Work Schedule – “☒” Marks Present Progress	7
2.4 SGDP Drilling Contract Value and Funding Allocation.....	8
2.5 SGDP Invoicing Status	8
3 Implementation Letter Status.....	8
3.1 USAID – Ministry of Finance (MoF) – MoMP Implementation Letter Tracker	8
4 Drilling Operations Summary.....	9
4.1 TPAO’s Contract Performance Schedule	9
4.2 Progress This Period	9

List of Figures

Figure 1: Bashikurd No. 3, Re-entry Operation.....	1
Figure 2: TPAO's Proposed Revised Schedule, Rejected by MoMP	10

List of Tables

Table 1: TPAO's Daily Drilling Report Summary.....	3
Table 2: Primary MoMP Staff Supporting SGDP	4
Table 3: Primary SGGA Staff Supporting Drilling Operations	5
Table 4: Key Contract Dates and Estimated Completion.....	5
Table 5: TPAO Well Status (Per TPAO Schedule No. 10, September 18, 2015).....	6
Table 6: TPAO's Schedule (Per TPAO Schedule No. 9, April 25, 2015)	7
Table 7: SGDP Contract Amount and Funding Allocation	8
Table 8: SGDP Invoicing Status	8
Table 9: USAID – MoF – MoMP Implementation Letter Tracker.....	8

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, Re-entry Operation



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

Operations

As illustrated in the last month's drilling monthly report, after completion of the rig up at Bashikurd #3, on October 23, TPAO started the re-entry and deepening operation to test the lower Kugitan Formation, at approximately 3500 meters. During the course of the re-entry, collapsed casing was encountered at a depth of approximately 2989 meters but TPAO was able to mill out the obstruction and drill through the cement plug at 2950 meters to 3030 meters. The approximate depth for Bashikurd # well re-entry and deepening as per the contract is 3500 meters, but TPAO drilled to depth of 3442 meters where the gas flow was encountered. A full suite of well logs were obtained and it was determined that two prospective intervals should be perforated and flow tests performed.

Subsequently, new casing and tubing was installed, but on November 25, TPAO reported to MoMP that this new equipment had also been damaged at 2829 meters by movement of salt in the Gourdak Formation, preventing perforation of the prospective intervals in the Kugitan Formation. TPAO reported that the options for proceeding were to again mill out the collapsed casing and tubing and install heavy casing, "side tracking" the well to bypass the obstruction, or to permanently abandon the well. Abandonment is recommended by TPAO.

On or about December 2, MoMP responded by appointing a committee to recommend a course of action and examine the causes for the well failure, but as of the date of this report, the committee had not reached a recommendation as to what action should be taken on further operations on the well, and, at a meeting with TPAO held on December 5, announced that a recommendation could not be reached until consultation with the Minister.

Milling out and re-casing the well would result in substantial additional expense and delay; and "side tracking" (cutting through the casing and deviating the course of drilling) would require specialist services, none of the providers of which are willing to come to Afghanistan for the work; leaving the only practical solution to be abandoning the well.

Cancellation of Bashikurd Well No. 9

Nearly two months after being informed that USAID declined to participate in the funding of the re-entry of the Bashikurd Well No. 9, MoMP, on November 23, delivered a contract change order to TPAO cancelling plans to re-enter the well.

Drilling Contract Payments

TPAO has submitted invoices for mobilization, drilling and completion Juma Well No. 2A, and rig up on Bashikurd Well No. 3, for a total of \$25,728,750. By the end of the reporting period MoMP has been unable to obtain payment of even the initial \$1,400,000 mobilization invoice submitted by TPAO on June 27, 2015. On December 6 MoMP's project manager informed SGGA that MoMP's instruction to the Ministry of Finance in the preceding week, to pay the mobilization invoice was rejected by MoF because the special payment account has no money in it. This is despite there being a current year appropriation of \$7 million to MoMP for the Ministry's share of the drilling costs.

On November 30, MoMP submitted a request for reimbursement to USAID for USAID's share of the drilling costs. After review, SGGA confirmed that the work for which invoices were submitted has been

completed, but that the request for reimbursement had a several deficiencies. SGGA recommended that the request be rejected by USAID and returned to MoMP for corrections and clarifications.

1.2 Key Activities

Operations

- TPAO reached at the agreed target depth of 3442 meters in the Bashikurd No. 3, ran casing, and tubing, but the casing and tubing suffered collapse from pressure from a shifting salt formation.
- MoMP instructed TPAO to cancel plans for the re-entry of Bashikurd Well No. 9
- SGGA developed and provided a project closeout checklist to MoMP.

Table 1: TPAO's Daily Drilling Report Summary

Date Nov 15	Depth Drilled/Target (meters)	Drilling Staff	Security Staff	Actions and Formations
1	3351m/3500m	97	150	Drilled hole from 3351m to 3363m
2	3383m/3500m	97	150	Drilled hole from 3383m to 3389m
3	3404m/3500m	97	150	Drilled hole from 3383m to 3404m
4	3432m/3500m	124	150	Drilled hole from 3432m to 3435m
5	3442m/3500m	112	150	Drilled hole from 3432m to 3442m
6	3442m/3500m	105	150	Open hole logging run # 1,2, 3
7	3442m/3500m	107	150	Pull out of hole f/2955m t/2293m
8	3442m/3500m	110	150	Run in hole f/1489m t/2935m
9	3442m/3500m	111	150	Pull out of hole f/3442m t/58m
10	3442m/3500m	111	150	Pull out of hole f/3442m to Surface
11	3442m/3500m	108	150	5 ½ production casing run
12	3442m/3500m	108	150	5 ½ production casing run
13	3442m/3500m	108	150	5 ½ production casing run, 1 st Stage Cementing
14	3442m/3500m	108	150	5 ½ production casing run, 2 nd Stage Cementing
15	3442m/3500m	108	150	Empty and clean mud tank
16	3442m/3500m	108	150	Waiting on MoMP's approval to pinpoint the Kugitan interval for perforation
17	3442m/3500m	108	150	Run in hole 2-7/8" working string by singles
18	3442m/3500m	108	150	Run in hole 2-7/8" working string by singles
19	3442m/3500m	108	150	Run in hole 2-7/8" working string by singles
20	3442m/3500m	108	150	Continued Pull out of the hole
21	3442m/3500m	108	150	Pull out of the hole f/ 2839m t/ surface
22	3442m/3500m	108	150	Place and connect X-MAS tree – Choke Manifold
23	3442m/3500m	108	150	Test choke manifold and swabbed
24	3442m/3500m	108	150	Continued test choke manifold and swabbed
25	3442m/3500m	108	150	Monitor and record shut-in wellhead

Date Nov 15	Depth Drilled/Target (meters)	Drilling Staff	Security Staff	Actions and Formations
				pressure. Obstruction in casing reported.
26	3442m/3500m	108	150	Fill the well with brine & attempt to P/U string. No success
27	3442m/3500m	108	150	Continued circle with brine, wait on approval
28	3442m/3500m	108	150	Continued circle with lime mud, attempt to P/U string up to 63 tons, no success
29	3442m/3500m	108	150	Wait on approval
30	3442m/3500m	108	150	Wait on approval

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 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 lengthy 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. 10, September 18, 2015)

Juma 2A	Bashikurd 3	Bashikurd 9
Projected: 105 Days+ 30 Days Contingency Actual: 188 Days	Projected: 30 Days Actual: 37 Days	Projected: 21 Days Cancelled
Present Working Depth	Present Working Depth – end of reporting period	Present Working Depth
Completed at 3,481 meters, plugged and permanently abandoned.	Completed at 3442m, New casing and tubing collapsed	-

2.3 TPAO Work Schedule – “☒” 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	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D
a	e	a	r	a	u	u	u	e	c	o	v	a	e	a	r	a	u	u	u	e	c	o	v	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																								
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
Inv. No. M151110001	November 10, 2015	\$12,955,541	Pending payment by MoF
Inv. No. M151110002	November 10, 2015	\$5,357,766	Pending payment by MoF
Inv. No. M151111001	November 11, 2015	\$6,015,443.50	Pending payment by MoF
TPAO - 5	TBD	\$0	TBD
TPAO - 6	TBD	\$0	TBD

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	Draft ILs regarding monitoring of compliance with and

IL Number	Date Issued	Subject
	2014	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

After the commencement of the re-entry and deepening operation in Bashikurd #3, On November 25, 2015, TPAO informed MoMP of casing collapse and seeks MoMP's approval to abandon the well. If MoMP instructs TPAO to abandon the well, the completion time for the drilling contract may change. Currently, TPAO operates based on its 10th revised schedule that proposed the drilling contract completion time to January 15, 2016.

4.2 Progress This Period

See Section 1.1, above.

