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SHEBERGHAN GAS GENERATION ACTIVITY (SGGA)

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SGDP Monthly Drilling Operations Progress Report

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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: Demobilization from Bashikurd No. 3 drill site



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, 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 agreed under SOAG Implementation Letter No. 45-01 and subsequent implementation letters. The contract, as amended, required TPAO to drill one new well, Juma No. 2A, and re-enter one well, Bashikurd No. 3, in the Juma-Bashikurd Field in Jawzjan Province. AEAI, through the Sheberghan Gas Generation Activity (SGGA) is responsible for monitoring SGDP progress. 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 described in the October and November reports, TPAO completed rig up and began re-entry and deepening of the Bashikurd No. 3 well on October 23, 2015. The casing installed when the well was first drilled in 1986 was found to have collapsed at approximately 2989 meters depth below surface. TPAO was able to mill out the obstruction and drill through the original cement plug from 2950 to 3030 meters. After deepening to the Lower Kugitan, the target formation, the well was completed at a total depth of 3442. This was above the projected 3500 meter total depth, but gas flow was encountered at the shallower depth. A full suite of well logs was obtained. The Kugitan formation showed good gas prospects, with permeability of eight to ten percent. This permeability offered better prospects for commercial production than that encountered in the Juma No. 2A and predicted from core samples for the Bashikurd No. 9 wells.

Production casing was set in the Bashikurd No. 3 and a perforation, completion, and testing program established, but, while preparing to perforate, the tubing was discovered to be stuck and could not be pulled. In a few days it was determined that the new casing had collapsed at 2837 meters and to have broken at 2949 meters. The cause of the collapse and break was determined to be intrusion of salt layers in the Gourdak formation. Salt movement had not occurred in the Juma No. 2A, although a similar Gourdak salt formation is also present at that location.

Remedial options included deviating or "sidetracking" the well, but TPAO's conversations with the few oilfield service firms capable of directional drilling determined that none of them are willing to come to Afghanistan to do the work. The other option, again milling out the collapsed casing and re-casing with heavy pipe was rejected as too expensive and still uncertain of success.

TPAO delivered a report on the situation to MoMP on 27 November. In the report, TPAO recommended that the well be plugged and abandoned. Around 2 December, MoMP responded by appointing a committee to recommend a course of action and examine the causes for the casing failure. At a meeting with TPAO held on 5 December to determine a course of action, the committee announced that it had not yet prepared a recommendation, and could not do so until meeting with the Minister.

MoMP finally issued instructions to plug the well on 9 December. In the meanwhile, TPAO had been on standby and circulating. Plugging was completed around 13 December. Since that time, TPAO has been preparing for full demobilization.

Drilling Contract Payments

Prior to the end of the reporting period, TPAO submitted the following invoices for a total of \$25,728,750:

- On 27 June 2015, \$1,400,000 for mobilization
- On 10 December 2015, \$18,313,307 for drilling and completion of Juma No. 2A
- On 10 December 2015, \$6,015,443.50 for move to and rig up at Bashikurd No. 3

With a continuing series of lack of preparation, inability to follow grant requirements, and disregard of advice provided, MoMP had not yet, as far as SGGA is aware, succeeded in paying any of these invoices.

After some weeks of discussions about what order funds (GIROA or USAID) would be used to pay the drilling contract invoices, on 15 November, a letter from MoMP's project manager confirmed that MoMP intended to apply its \$7 million appropriation to the invoices. This was planned in order to avoid the need to request the appropriation from the Parliament for a sixth year.

However, when MoMP submitted payment instructions to the Ministry of Finance for payment of the \$1.4 mobilization invoice in late November, the Ministry of Finance informed MoMP that no funds had been placed in the payment account.

Then, on 7 December, MoMP's project manager, senior management, apparently for the first time, learned that Afghan Government funds had never been appropriated for the required MoMP contribution to the drilling contract planned under the SGDP. Instead, since Afghan FY1391, an appropriation had been made in varying amounts, but was described in the budget line item as being funded by USAID rather than the Afghan Government. Further review found that the \$30 million appropriate needed for MoMP to apply the USAID grant money to the drilling contract invoices had never been included in the MoMP's budget. These facts were contrary to the answers to repeated SGGA inquiries about appropriations. MoMP's project managers had repeatedly assured SGGA that all necessary appropriations for SGDP had been included in the MoMP budget.

An urgent scramble for an emergency supplemental appropriation was pushed through the Ministry of Finance process, but the amount requested was only enough to pay the Juma 2A invoice with USAID grant funds, leaving an insufficient amount for the remaining invoices.

On 10 December, MoMP submitted a request for reimbursement to USAID for a total amount of \$25,728,750.00 for mobilization, drilling of Juma 2A and rig up and move to Bashikurd No. 3. As required by its scope of work, SGGA reviewed the request and confirmed to USAID that the drilling and completion of the Juma 2A and rig up at the Bashikurd 3 had been completed according to contract requirements. SGGA was unable to certify completion of mobilization or completion of the re-entry and deepening work on the Bashikurd No. 3 because of potential claims being raised by MoMP. In addition, the request had several deficiencies, including that the request had not been signed by an MoMP official authorized to do so and that the invoices prepared by TPAO at the instruction of the MoMP project manager were not in acceptable form.

The potential claims by MoMP, which have not been finally resolved at the date of this report, were that TPAO had not delivered the required quality of CRA casing and thus that mobilization was not complete; and that TPAO's work in casing and cementing the Bashikurd 3 had not been properly done and was a cause of the casing collapse.

At USAID's request, SGGA reviewed a subsequent submission by MoMP of a more limited request for reimbursement. This subsequent request covered only the drilling and completion of the Juma 2A and rig up at Bashikurd No. 3. On 17 December, SGGA certified completion of this work and that the request and invoices were in the required form. After receiving SGGA's certification and a letter from Min. Saba outlining the Ministry's plans for prompt contract payments and closeout, USAID approved the disbursement of the invoices for this work.

Finally, on 21 December, after being reminded by SGGA that the TPAO performance security would expire on 31 December, MoMP wrote TPAO and requested that the security be extended. On 4 January, SGGA received a copy of TPAO's request to Habib Bank of Kabul that their standby letter of

credit be extended. This should resolve the matter, but SGGA has written MoMP to remind them of the need to obtain the original of the extended letter of credit.

Demobilization and Contract Closeout

Following the plugging of the Bashikurd No. 3, TPAO moved promptly to prepare for demobilization and had completed preparations by 22 December. As of the date of this report, TPAO is waiting on arrival of trucks to transport its rig and most equipment to Turkey and is negotiating for storage space for some items with MoMP. Negotiations are also underway to turnover to MoMP equipment and materials that TPAO does not anticipate needing for other Afghan operations. According correspondence seen by SGGA, TPAO requested authorization to demobilize through Iran, but was denied by USAID. SGGA was not asked to comment on TPAO's request and took no part in the matter.

On 21 December, SGGA delivered to MoMP's project manager, Min. Saba, and the Minister's advisor Daud Azizi a detailed letter setting out the steps recommended by SGGA to close out the TPAO contract and make all payments due in conformity with the contract and international practice. The letter specifically addresses the potential unresolved claims on delivery of non-conforming casing and on any shortcomings in TPAO's casing and cementing of the Bashikurd No. 3. The letter also addresses requirements for completion of all cleanup work to be performed by TPAO under the terms of the Environmental Management Plan required by the National Environmental Protection Agency, and adjustments of costs for such items as the surplus equipment and materials proposed to be turned over to MoMP.

SGGA also sent MoMP's project manager a draft package for tendering for professional petroleum engineering services for the reserve study of the Juma-Bashikurd Field that TPAO agreed to fund as consideration for an earlier extension of the contract performance period. SGGA has also provided recommendations to MoMP for completing inspections and reports MoMP is required to make under the Environmental Management Plan.

SGGA will continue to provide support to MoMP through the demobilization and close out of the contract.

1.2 Key Activities

Operations

- Bashikurd No. 3 was plugged and abandoned despite good gas shows and acceptable permeability because of the collapse of newly set casing.
- TPAO completed demobilization activities on 21 December, 2015. By the end of this reporting period, TPAO was waiting for trucks to arrive for loading and departure to Turkey.

Contract Administration

- Final environmental inspections and reports are in progress.
- Close out preparations are in progress.

Table 1: TPAO's Daily Drilling Report Summary

Date Nov 15	Depth Drilled/Target (meters)	Drilling Staff	Security Staff	Actions and Formations
1	3442m/3500m	108	150	Wait for MoMP's approval to abandon the well.
2	3442m/3500m	108	150	Wait on approval
3	3442m/3500m	108	150	Wait on approval
4	3442m/3500m	108	150	Wait on approval
5	3442m/3500m	108	150	Wait on approval
6	3442m/3500m	108	150	Wait on approval
7	3442m/3500m	108	150	Wait on approval
8	3442m/3500m	108	150	Wait on approval
9	3442m/3500m	108	150	Wait on approval
10	3442m/3500m	105	150	Tubing cutting operation
11	3442m/3500m	111	150	Second plug cement operation
12	3442m/3500m	111	150	Third plug cement operation
13	3442m/3500m	98	150	Tag cement plug at 92 meters – Start of demobilization
14	3442m/3500m	98	150	Disconnect TD hydraulic lines
15	3442m/3500m	93	150	Uninstall electrical cables on mud tank
16	3442m/3500m	93	150	Uninstall rotary table
17	3442m/3500m	91	150	Uninstall monkeyboard
18	3442m/3500m	102	150	Disassemble mast section
19	3442m/3500m	86	150	Rehabilitate mud pit
20	3442m/3500m	87	150	Uninstall rig and pump engines
21	3442m/3500m	87	150	Clean up substructures
22	3442m/3500m	87	150	Completed Demobilization
23	3442m/3500m	87	150	Preparation prior to transportation
24	3442m/3500m	87	150	Preparation prior to transportation
25	3442m/3500m	87	150	Wait on trucks to load the equipment and re-export to Turkey
26	3442m/3500m	87	150	Wait on trucks to load the equipment and re-export to Turkey
27	3442m/3500m	86	150	Wait on trucks to load the equipment and re-export to Turkey
28	3442m/3500m	86	150	Wait on trucks to load the equipment and re-export to Turkey
29	3442m/3500m	85	150	Wait on trucks to load the equipment and re-export to Turkey
30	3442m/3500m	108	150	Wait on trucks to load the equipment and re-export to Turkey
31	3442m/3500m	52	150	Wait on trucks to load the equipment and re-export to Turkey

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 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

2.3 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	-

2.5 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 December 10, 2015, SGGA confirmed that what was thought to be Afghan Government funding for SGDP Afghanistan's current 1394 budget, under entry: AFG/320143 for \$7,500,000, was instead designated to be funded by USAID.

2.6 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. M151210001	December 10, 2015	\$18,313,307	Pending payment by MoF
Inv. No. M151210002	December 10, 2015	\$6,015,443.50	Pending payment by MoF
TPAO - 4	TBD	\$0	TBD
TPAO - 5	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 Number	Date Issued	Subject
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 25 September, 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 25 November, 2015, TPAO informed MoMP of casing collapse and pursued MoMP's approval to abandon the well. On 9 December, 2015 MoMP instructs TPAO to abandon the well and demobilize.

4.2 Progress This Period

See Section 1.1, above.