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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 previously reported in the Monthly Drilling Operations Report for operations conducted in December 2015, the Bashikurd No. 3 well was plugged and abandoned following the collapse of newly installed casing from 2837 to 2949 meters from the surface. The casing collapse was caused by movement of a salt interval in the Gourdak Formation. Prior to casing and cementing, the well reached a total vertical depth of 3442 meters subsurface, penetrating the target Lower Kugitan Formation.

Although the casing collapse prevented perforation and testing, gas shows from the Lower Kugitan Formation were encountered and a full suite of logs was obtained. Log analysis showed gas present and permeability of eight to ten percent. These results indicate better prospects for commercial production than was predicted from logs and wells tests from the low permeability Kugitan reservoir in the Juma No. 2A well and from the re-analyzed core samples from the Bashikurd No. 9 well.

The re-entry and deepening of the Bashikurd No. 3 was the last operation planned under the contract. TPAO began demobilization following completion of plugging operations on 13 December. As of the date of this report, TPAO continues to remove equipment from the drill site and to attempt to clear its equipment through customs. The required tax exemption certification for clearance was received by the Ministry of Mines and Petroleum on 24 January. SGGA was not informed by MoMP when the letter was forwarded to TPAO, but, based on a conversation with a TPAO representative, SGGA believes that the letter might not have been forwarded until as late as 30 January. On 5 February, TPAO reported that 43 loads were still awaiting customs clearance. SGGA has been told that the delays, lasting since mid-January, are the result of TPAO's not being able to obtain the original documents needed for Customs. TPAO told SGGA that it expects to have completed demobilization from the field around 15 February.

Contract Closeout Preparations

On 19 December 2015, SGGA provided MoMP's project manager a letter with a comprehensive listing and explanation of the steps required by the TPAO contract and USAID grant agreement to close out the TPAO contract and for the grant funding to be disbursed. This letter was followed by a number of meetings and telephone discussions about the specific steps needing to be taken.

On 13 January, SGGA sent MoMP's project manager the draft of a letter for MoMP to send to TPAO that described the contract closeout requirements and requesting information needed from TPAO for the closeout process. This letter was sent by MoMP to TPAO on 16 January, but as of the date of this report, MoMP has not received a response to the letter and there is no indication that MoMP has pressed to get a response. A MoMP 'delegation' traveled to Sheberghan and met with TPAO during the last week of January.

Although not even an informal report of the discussions has been provided by MoMP, from other information received, these discussions seem to have centered on costs for services not needed (such as wireline and perforation) because of the cancellation of the re-entry of the Bashikurd No. 9 well and inability to perforate and test the Bashikurd No. 3 well, and the cost of unused equipment specially ordered for the project by TPAO. The discussions partially addressed some closeout requirements, but several other key issues remain to be resolved. These matters, summarized below, are largely within the ability of MoMP to resolve internally. Each of these has been discussed extensively with MoMP's project manager, most recently by an exchange of emails on the first, second, and third of February. Minister Saba, although out of the country, was provided copies of these emails and instructed the project manager to implement SGGA's recommendations.

According to the latest information available to SGGA, the principal issues remaining unresolved are:

Acceptance of corrosion resistant well casing delivered by TPAO

Some MoMP officials continue to express “concerns” that the casing did not conform to the contract. This potential claim against TPAO under the contract prevents certification of completion required for disbursement of the grant funds needed to pay TPAO mobilization invoice submitted on 27 June 2015. SGGA has repeatedly asked for specifics of these “concerns” but MoMP has not provided any. Based on the available reports of MoMP inspectors, copies of invoices, shipping documents, and photographs of the casing with the description stenciled on, SGGA questions whether any claim that the casing is non-conforming would prevail, absent expert testing.

Potential claim for Bashikurd 3 casing collapse

MoMP appointed an “expert committee” in early December to investigate the cause of the casing collapse. The committee met with TPAO on at least one occasion with SGGA present, and, at SGGA’s suggestion, TPAO has provided all of the available relevant operations data to the committee. However, the committee has never made a final report as to whether it considers TPAO negligent or otherwise responsible for the collapse. TPAO does not admit any fault.

On several occasions, SGGA has pointed out that to have any chance of successfully asserting a claim MoMP will need to retain consulting engineers and possibly outside counsel at its own cost. However, as of the date of this report, the committee apparently has not prepared a final conclusion, and the potential for a claim against TPAO remains open.

Lack of disposition of this potential claim will prevent certification of completion for the final operating invoice, which will be for the final completion of the Bashikurd 3. The drilling contract provides that this final invoice include all cost adjustments for all of the contract operations other than the demobilization fee. Thus the potential claim prevents settling up not only for the Bashikurd 3 operations, but also for unused equipment and services, delay damages, and finance charges for late payment.

Turnover of unused equipment to MoMP

Particularly because of the cancellation of Bashikurd 9 operations, there is a substantial amount of unused equipment, including corrosion resistant casing, tubing, and wellheads most of which was specially ordered by TPAO for this contract. The estimated cost, excluding transportation to Afghanistan, is approximately US\$1.23 million. Under the contract, the equipment is considered to have been purchased for MoMP and MoMP is expected to reimburse TPAO for the cost. (Equipment actually used in operations, such as installed casing, is priced into the cost of the well for which it is used.)

However, the transfer of equipment has been held up by some MoMP personnel continuing unspecified “concerns” about taking over and paying for the equipment. The matter is apparent being referred to another “committee” including MoMP legal department members for review. As far as is known by SGGA, no one in the MoMP has any experience whatsoever with drilling or service contracts, which may mean that any opinion may be unreliable.

TPAO declines to keep the surplus equipment, although it is keeping some non-custom equipment and materials for “future operations.” Some arrangement has been made for TPAO to store these materials at MoMP facilities and significant amounts of materials moved to those facilities. SGGA has repeatedly advised MoMP’s project manager that MoMP needs a written warehouse agreement on responsibilities and liabilities for loss or damage but no such agreement seems to have been prepared.

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 (unpaid)
- On 10 December 2015, \$18,313,307 for drilling and completion of Juma No. 2A (grant disbursement made for payment, but proof of payment not provided to SGGA)
- On 10 December 2015, \$6,015,443.50 for move to and rig up at Bashikurd No. 3 (grant disbursement made for payment, but proof of payment not provided to SGGA)

The following invoices are expected to be submitted by TPAO for payment in February:

- Completion of Bashikurd No. 3, including all cost adjustments. Amount TBD.
- Demobilization fee, \$1 million.

Difficulties in obtaining approval of grant disbursements and confirming the availability of MoMP appropriated funds for amounts over the \$30 million grant limit was reported in the Monthly Drilling Operations Progress Report for December 2015. The availability of funds to MoMP under the current Afghan fiscal year (FY 1395) is unknown.

Demobilization and Contract Closeout

Following the plugging of the Bashikurd No. 3, TPAO moved promptly to prepare for demobilization. Based on daily operations reports from TPAO and SGGA Sheberghan staff, TPAO was very near to completing moving off the last location by the date of this report, and expects to finish by 15 February. Once move off and cleanup is completed, the contract operations can be considered completed.

As of the date of this report, however, TPAO reported to SGGA staff that 52 of their trucks were still waiting for customs clearance at the Aquina customs station at the Turkmenistan border. Fourteen or more of these trucks have been waiting for clearance since around 15 January. TPAO has told SGGA personnel that the cause of the delay is a wait on the delivery of original exemption documents. It is not clear what documents are required, and whether the documentation includes the original of the Ministry of Finance exemption letter delivered to MoMP on 24 January.

TPAO-Funded Juma-Bashikurd Reservoir Study

In exchange for an extension of the contract performance period, TPAO has agreed to fund a reservoir study of the Juma-Bashikurd Field. The tender and contracting for the study are required to be conducted under Afghan law. MoMP is responsible for preparing the tender in consultation with TPAO.

On 19 December 2015, SGGA delivered a complete package of tender documents to the MoMP project manager for review and submission to the National Procurement Authority. Since that time, SGGA requested information on progress, but has received no information about the status of the tender preparation except that the MoMP project manager had "talked to" someone at the Procurement Authority and to "someone" the MoMP procurement and legal departments. Given the almost total lack of involvement or interest of either of those departments in the development of the TPAO contract tender and their lack of experience in international tendering for services, it is not clear when or to what advantage their involvement will bring to moving the reservoir study tender forward.

SGGA has pointed out the risk that TPAO, may either delay, or even refuse to fund the study if there is a substantial delay in tendering and concluding a contract for the work.

1.2 Key Activities

Operations

- TPAO demobilization from the field was nearing completion at the end of the reporting period.
- By the end of the reporting period, TPAO had transferred 25 trucks to Aquina customs station and was waiting for documentation for tax exemption and customs clearance.

Contract Closeout

- Throughout the reporting period SGGA has offered support to the MoMP's project manager through several letters, emails, and phone calls laying out the exact steps required for closing out the contract in a manner consistent with the contract, the USAID grant agreement, National Environmental Protection Agency requirements, and international petroleum industry practices. Despite this guidance, and even despite specific instructions of the Minister to the MoMP project manager to carry out the SGGA recommendations, progress towards completing the tasks has been extremely slow, to the extent that any progress has been made at all. On February 1, 2016, SGGA again sent the project manager another detailed set of closeout requirements and specific recommendations for action, and the Minister directed the project manager to follow those recommendations. Although promising to provide a detailed progress report to SGGA by February 5, as of February 8, SGGA has received no updates at all from Mr. Sarwari, the project manager.

Table 1: 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 2: 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 2, 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 3: 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 3 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 4: 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	-

2.4 SGDP Drilling Contract Value and Funding Allocation

Table 6: 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.

2.5 SGDP Invoicing Status

Table 7: 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 8: 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 8 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

TPAO estimates final demobilization from the field to be complete by 15 February. As of the end of the reporting period, 25 trucks are waiting on Aquina port for tax exemption procedure.

4.2 Progress This Period

See Section 1.1, above.