

Contract Delays Led to Cost Overruns for the Kabul Power Plant and Sustainability Remains a Key Challenge



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OFFICE OF THE SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN RECONSTRUCTION

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This report presents the results of our review of U.S. assistance to the Government of the Islamic Republic of Afghanistan to construct the 105 megawatt Kabul Power Plant at a total cost of more than \$300 million. This report updates and builds upon the audit report issued by the Office of the Inspector General of the U.S. Agency for International Development (USAID) in November 2009, which provided a number of recommendations designed to improve the management of the Kabul Power Plant contract. In addition to the concerns raised by the Office of the USAID Inspector General, we are concerned that the long-term sustainability of the plant could be compromised by the decision to build a dual fuel plant that is capable of running on diesel or heavy fuel oil. The use of heavy fuel oil requires a level of technical knowledge and sophistication which may prove difficult for the Afghans to achieve—with no clear economic benefit compared to running the plant exclusively on diesel fuel. In line with this concern, this report includes a recommendation to USAID to help ensure the project is maintained in a sustainable manner.

A summary of this report is on page ii. The audit was conducted by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) under the authority of Public Law 110-181, Section 1229, and the Inspector General Act of 1978, as amended. When preparing the final report, we considered joint comments from the U.S. Embassy Kabul and the USAID Mission in Afghanistan and comments provided by USAID's prime contractor for the Kabul Power Plant. These comments indicated concurrence with the findings and recommendation in this report. Copies of these comments are provided in appendices III and IV to this report.

A handwritten signature in black ink that reads "John Brummet".

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SIGAR

Special Inspector General for Afghanistan Reconstruction

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What SIGAR Reviewed

The United States, other international donors, and the Afghan government agree that improving Afghanistan’s energy infrastructure is essential for the future economic progress and the long-term viability of the elected government of Afghanistan. This report assesses assistance provided by the U.S. Agency for International Development (USAID) to Afghanistan to build a 105 megawatt power plant on the outskirts of Kabul. Building on the results of an audit of the Kabul Power Plant issued by the Office of the USAID Inspector General in November 2009, our report provides an updated assessment of (1) the basis for reported project delays and cost overruns, (2) actions taken to respond to these problems, and (3) whether the Afghan government will be able to sustain the plant’s operations. SIGAR conducted this performance audit in Kabul, Afghanistan and Washington, D.C. from August to December 2009 in accordance with generally accepted government auditing standards.

What SIGAR Found

Under the direction of USAID’s general contractor (Black & Veatch), the plant was originally scheduled for completion by March 31, 2009; however, due to project delays the plant’s current completion date has been moved to March 31, 2010 or 12 months behind schedule. The Kabul Power Plant’s total project costs have risen to approximately \$300 million—of which \$40 million has been directly linked to project delays. As discussed in the Office of the USAID Inspector General’s report, factors contributing to this delay included (1) an initial inability to obtain adequate title to land for construction, (2) USAID’s inclusion of an ambiguous statement of work resulting in poor planning and implementation, (3) Black & Veatch delays in subcontractor award and mobilization, (4) subcontractor performance problems related to generator delivery delays and an inability to find enough qualified workers to keep the project on schedule, (5) lack of on-site quality assurance, (6) delays in getting timely approvals from USAID’s contracting officer, (7) poor communication between USAID and Black & Veatch, and (8) transportation and customs clearance problems.

USAID and Black & Veatch have taken steps to address these problems and mitigate the impact of cost overruns. These steps include preparing a project execution plan in July 2009 and a related detailed work plan, hiring an independent contractor to provide USAID with on-site quality assurance reporting, developing an internal USAID assessment of lessons learned on the Kabul Power Plant and other USAID-funded infrastructure projects in Afghanistan, and instituting lower-cost engineering options where feasible. The success of these efforts is evidenced by the fact that USAID and Black & Veatch met the revised deadline of having all 18 generators on line by December 2009; efforts to complete balance-of-plant construction by March 31, 2010 appear to be on schedule; and SIGAR estimates that USAID implemented cost-saving measures have lowered overall project costs by \$5 million.

The long-term sustainability of the Kabul Power Plant depends, in part, on the ability of the Government of the Islamic Republic of Afghanistan’s (GIROA) to fund required fuel purchases and operations and maintenance (O&M) costs. Despite the initial commitment to cover these costs, the GIROA will likely require assistance to cover fuel expenses and USAID has already agreed to provide O&M support for several years after the plant’s completion in order to protect the United States’ \$300 million investment. USAID and other international donors have taken steps to assist the GIROA with long-term commercialization efforts designed to generate sufficient revenues to allow the government to cover its fuel costs and O&M expenses. If these commercialization efforts falter, the United States may face the difficult decision whether to continue funding the operation of the Kabul Power Plant or allowing it to fall into disuse. The long-term sustainability of the Kabul Power Plant is further complicated by the initial design decision to build a dual fuel plant (that is, capable of running on diesel or heavy fuel oil) as opposed to a diesel-only plant since heavy fuel oil is not commercially available in Afghanistan and requires more technical knowledge and sophistication to operate.

What SIGAR Recommends

To help ensure the long-term sustainability of the Kabul Power Plant, SIGAR recommends that the USAID Mission Director in Afghanistan produce a definitive study on the technical feasibility and advisability of using heavy fuel in the Kabul Power Plant and factor this information into plant completion decisions and any decisions regarding post-construction use of heavy fuel oil by the GIROA.

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USAID, Black & Veatch, and SIGAR staff visit to the Kabul Power Plant

Source: SIGAR

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ABBREVIATIONS

AIRP	Afghanistan Infrastructure and Rehabilitation Program
COTR	Contracting Officer's Technical Representative
GIRoA	Government of the Islamic Republic of Afghanistan
IQC	Indefinite Quantity Contract
NEPS	North East Power System
O&M	Operations and Maintenance
SIGAR	Special Inspector General for Afghanistan Reconstruction
USAID	U.S. Agency for International Development



Contract Delays Led to Cost Overruns for the Kabul Power Plant and Sustainability Remains a Key Challenge

Years of conflict severely damaged Afghanistan’s generation, transmission, and power systems—leaving the country with an aging, inefficient, and incomplete power network. The national electrification rate is 10 percent and only about a third of the households in Kabul are connected to service, which experiences frequent outages. As highlighted in the Afghanistan National Development Strategy and other key planning documents, the United States, other international donors, and the Afghan government agree that improving this key component of Afghanistan’s infrastructure, through projects such as the Kabul Power Plant, is essential for the future economic progress and the long-term viability of the elected government of Afghanistan.

This report assesses assistance provided by the U.S. Agency for International Development (USAID) to the Government of the Islamic Republic of Afghanistan (GIROA) to build a 105 megawatt¹ power plant on the outskirts of Kabul which, as reported by the Office of the USAID Inspector General in its November 2009 report,² is 12 months behind schedule and \$40 million over budget.

Building on the results of the Office of the USAID Inspector General’s report, our report provides an updated assessment of (1) the basis for reported project delays and cost overruns, (2) actions taken to respond to these problems, and (3) whether the Afghan government will be able to sustain the plant’s operations upon completion. To achieve these objectives, we coordinated our efforts with the Office of the USAID Inspector General to avoid potential duplication of audit activities. We reviewed U.S. and Afghan energy sector strategies, USAID contracting policies and guidelines, and contracting documents provided by U.S. government officials and contracting officials in Washington, D.C., and Kabul, Afghanistan. We also interviewed USAID, contractor, and Afghan government officials with implementation and oversight responsibilities for the plant’s construction and future operations. Finally, we conducted an on-site inspection of the plant in September 2009 to verify and review construction progress and quality. We conducted our work in Kabul, Afghanistan, and Washington, D.C., from August to December 2009 in accordance with generally accepted government auditing standards. A discussion of our scope and methodology is included in appendix I.

¹ A megawatt equals one million watts.

² See *Audit of USAID/Afghanistan’s Power Sector Activities Under Its Afghanistan Infrastructure Rehabilitation Program*, Office of the Inspector General, USAID. (Audit Report No. 5-306-10-002-P, Manila, Philippines, November 10, 2009). This report is based on fieldwork conducted in Afghanistan through May 2009.

BACKGROUND

Beginning in 2003, the United States and other foreign donors launched an energy sector assistance program, consistent with the Afghanistan National Development Strategy, which attempted to address Afghanistan's chronic shortage of electricity through a wide variety of infrastructure, commercialization, and sustainability projects.³ As part of this assistance program, USAID agreed in May 2007 to provide the GIRoA with a 105 megawatt, diesel-powered plant in Kabul with 18 generators organized in three blocks (referred to as blocks A, B, and C) of 6 generators each—with each block capable of generating 35 megawatts of electricity. With a contract start date of July 2007, blocks A and B were originally scheduled to be operational by December 2008, with block C and the balance-of-plant operational by March 31, 2009. USAID officials noted that this represented a highly ambitious construction schedule for a plant of this type in a country like Afghanistan. Therefore, the Kabul Power Plant was considered a “fast track” project from the start.

USAID's decision to build a power plant in Kabul was based on a number of factors including:

- Concerns that a lack of power in Kabul during the winter of 2008/2009 could affect national election results in 2009.
- Additional power needs in Kabul expected for the winter of 2008/2009 due to an expected shortfall in electricity from the donor-funded North East Power System.⁴
- A desire to provide Kabul with a back-up/peaking source of energy in anticipation of rapid growth in Kabul's demand for electricity; expected shortfalls in hydroelectric power availability during the winter months;⁵ and potential shortfalls due to insurgent attacks on Afghanistan's electric infrastructure, natural disasters, or neighboring country decisions to reduce power exports.
- A desire to provide a cheaper alternative to Kabul's older, less efficient diesel power plant.

³ SIGAR recently issued an audit report evaluating the donors' energy sector assistance strategy in Afghanistan. See *Afghanistan Energy Supply Has Increased but An Updated Master Plan Is Needed and Delays and Sustainability Concerns Remain*, SIGAR-Audit-10-4 (Washington, D.C. Jan. 15, 2010).

⁴ The North East Power System (NEPS) is expected to provide Afghanistan with up to 500 megawatts of daily imported electricity from Uzbekistan, Tajikistan, and Turkmenistan. According to USAID officials, it became apparent in early 2007 that NEPS was unlikely to meet its target date for commercial operations of October 2008, putting Kabul's winter power supply at risk.

⁵ USAID officials noted that the Kabul Power Plant will be used sparingly when cheaper sources of power are available, while potentially running 24 hours a day, seven days a week when lower cost options are not available (for example, during the Winter months when water levels are low and hydro electric power is less plentiful). USAID officials noted that power sources such as hydro electric or imported electricity cost, respectively, one-fiftieth and one-fifth the expected per kilowatt hour cost of electricity versus the Kabul Power Plant. The per kilowatt hour cost of the Kabul Power Plant, in turn, is estimated to be approximately half the cost of running Kabul's older and less efficient diesel generator plant.

Contract Organization and Requirements

The contract for the Kabul Power Plant was awarded to the Louis Berger Group, Inc./Black & Veatch Joint Venture as a cost-plus-fixed-fee contract completion task order (task order 9) in July 2007. This task order is part of USAID's \$1.4 billion indefinite quantity contract (IQC) for its Afghanistan Infrastructure and Rehabilitation Program (AIRP) awarded in August 2006 to the Joint Venture.⁶ Task order 9 was divided into eight sub-tasks, as follows:

- Civil site work. Design and land preparation of the power plant, sub-station, and transmission line.
- 18 diesel generators and associated equipment.
- Balance-of-plant construction. All electro-mechanical installation and provision of associated equipment required for power plant operations.
- Connect the plant to the Kabul grid. Construct a switchyard with transmission lines from the site to the existing Kabul grid.
- Logistics services including shipping the power plant equipment from the manufacturing facilities to the Kabul site
- Security services.
- Camp construction. Fabricating, delivering, and installing office buildings, accommodation units, laundries, kitchens, recreation buildings, server buildings and storage facilities.
- Operating and maintaining the camp facilities.

Black & Veatch served as the Joint Venture's general contractor for task order 9 and awarded three primary contracts—one to Caterpillar Power Generation Systems for the manufacture of generators and related equipment at its facilities in Germany and Mexico, one to a Symbion Power/AREVA joint venture for the plant substation and connecting power lines, and one to Symbion Power for balance-of-plant construction. In a contract dispute with Black & Veatch, Symbion Power ceased work on the balance-of-plant contract effective June 2, 2009, after a two-week notice period, upon which Black & Veatch assumed Symbion Power's contract responsibilities.⁷

⁶ This IQC covers most of USAID's large-scale construction projects in Afghanistan.

⁷ Black & Veatch and Symbion Power have filed claims with the International Chamber of Commerce regarding a range of complex issues. The chamber's arbitration process will likely take approximately 12 more months with a hearing expected in early 2011. A final decision is expected a few months after the hearing.

Photo of Kabul Power Plant as of October 21, 2009



Source: Black & Veatch

NUMEROUS FACTORS CONTRIBUTED TO PROJECT DELAYS, RESULTING IN A \$40 MILLION COST OVERRUN

The Kabul Power Plant is behind schedule and over budget due to a wide range of factors attributable to USAID, Black & Veatch, and subcontractor mismanagement. Between initial contract award in July 2007 and December 2008, USAID issued 15 contract modifications which progressively raised contract costs from approximately \$125 million for initial long-lead equipment and design to nearly \$260 million for the total plant construction, commissioning, and initial operations and maintenance.⁸ A later modification to task order 9 extended the project's final completion by 12 months to March 31, 2010, and raised total project costs by nearly \$40 million to a total of approximately \$300 million. In contrast to earlier cost increases, USAID officials noted the \$40 million in additional program costs resulted directly from the failure to meet the original project completion dates. Although these initial deadlines were missed, SIGAR noted that the first six generators in block A were fully commissioned and connected to the Kabul power grid in July 2009. In addition, according to Black & Veatch officials, blocks B and C became operational in December 2009 and all 18 generators are now available to provide up to 105 megawatts of power to the Kabul electrical grid, leaving only balance-of-plant construction to be completed.

The Office of the USAID Inspector General's report identified a number of factors that contributed to delays in the plant's construction. As shown in table 1, these factors included (1) an initial inability to obtain adequate title to land for construction, (2) USAID's inclusion of an ambiguous statement of work

⁸ See appendix II for a complete description of all task order modifications.

resulting in poor planning and implementation, (3) Black & Veatch’s delays in subcontractor award and mobilization, (4) subcontractor performance problems, (5) delays in getting timely approvals from USAID’s contracting officer, (6) lack of on-site quality assurance, (7) inconsistent communication between USAID and Black & Veatch, and (8) transportation and customs problems.

Table 1: Factors Contributing to Project Delays

Factors	Office of the USAID Inspector General’s Findings
Land Issues	The project was partly delayed by a land ownership issue which took almost a year to resolve due to USAID/Afghanistan’s failure to obtain an advance commitment from the host government.
Ambiguous Statement of Work	Under the pressure of political urgency, the mission wrote a vaguely worded statement of work. The original statement of work was not comprehensive and did not require specific deliverables with concrete delivery dates. Black & Veatch commented that, under normal circumstances, it would have submitted a comprehensive schedule, detailing the required resources along with a list of critical tasks that must be implemented on time to prevent delays in the project. However, to complete the project by the required date, the project was carried out as a series of separate tasks specified by the mission. For example, the initial award included only the purchase of equipment to be manufactured, such as the 18 generators and supporting equipment, and an initial search for potential bidders for other critical tasks, such as constructing the transmission lines to the main power grid. Modifications were made subsequently, as the project progressed, without the benefit of a mission- or contractor-developed construction schedule.
Delays in Subcontract Award and Mobilization	Numerous delays occurred in the award and mobilization of the subcontract. According to the Office of the USAID Inspector General’s report, Black & Veatch told Symbion Power its subcontract would be awarded in April 2008 and that its mobilization efforts could begin in May 2008. However, the final subcontract was not signed until early June 2008, putting the subcontractor a month behind schedule from the start. Symbion Power’s mobilization encountered delays as well. Black & Veatch was supposed to provide Symbion Power with certain work site infrastructure by the end of June 2008, including office and residential space as well as site preparation. However, when Symbion Power mobilized, it discovered that these items had not been completed. Symbion Power stated that the site preparation was not completed until approximately the end of August 2008 and that its offices were not completed until mid-September 2008.
Subcontractor Performance Problems	Caterpillar—the firm that manufactured the 18 generators—notified Black & Veatch that a quality control problem would delay delivery of the generators for blocks B and C. The delivery schedule for block B slipped by 88 days and for block C by 15 days. Symbion Power had trouble obtaining qualified local labor and was slow to respond to the Black & Veatch’s request to use more foreign labor.

Factors	Office of the USAID Inspector General's Findings
Subcontractor Performance Problems (continued)	Symbion Power finally obtained foreign labor through its subcontractor; however, the subcontractor brought in the foreign workers under tourist visas instead of work visas. As a result, when the workers were notified that they could no longer work under the tourist visas, they left the country, and Symbion Power's difficulty in finding qualified labor continued. The mission commented that, had Symbion Power notified the mission through the contractor that visas were a problem, the mission could have assisted in obtaining the required work visas.
Lack of Timely Approvals	Black & Veatch contended that approval for critical tasks required for a fast-track project like this was delayed at the mission. For example, the contractor had prepared a detailed analysis of the various transportation options available to transport the generators, which were being built by Caterpillar in Germany. This analysis involved a cost assessment as well as an assessment of security risks in transporting the generators overland through insecure areas. According to the mission, the contractor originally had received approval from USAID's Regional Acquisition Office in Bangkok but then was required to provide additional justification to the contracting officer in Kabul before the contract modification was signed for transporting the generators from Germany to Kabul. The mission agrees that all parties to the process should have been involved from the beginning in deciding how to transport the generators and that this particular approval took longer than expected. This one contract modification took two months to approve—a critical delay for a fast-track project.
Lack of On Site Quality Assurance	Quality assurance oversight of construction activities is normally conducted on site, by either independently contracted engineers or the mission's local staff. However, USAID/Afghanistan does not have this practice documented in its procedures, and in this case the mission did not have an on site presence. The mission stated that it was not sure why an on site quality assurance engineer had not been assigned to the project, but the mission agreed that one should have been assigned. Had an on site engineer been assigned to the project, the mission would have been aware of problems sooner.
Inconsistent Communication Between USAID and Black & Veatch	USAID/Afghanistan contended that it was unable to assist the contractor in moving the project forward because the contractor did not convey critical information to the mission promptly enough to be useful. Specifically, a contractor's internal report, dated December 2008 and detailing problems in delivering the completed facility on time, was not provided until mid-January. Further, delays in customs clearance as well as the inability to obtain work visas were not communicated promptly to the mission. The mission contended that, had it known of all the problems the contractor was experiencing, it could have intervened sooner to help resolve the problems.

Factors	Office of the USAID Inspector General's Findings
Transportation and Customs Delays	The project also suffered from a series of transportation delays. Specifically, there were problems with clearing items through customs at border crossings and with finding drivers willing to transport items from the Pakistani border to Kabul. Also, items such as transmission towers and raw materials were delayed at border crossings.

Source: Office of the USAID Inspector General's report.

STEPS TAKEN TO ADDRESS THE CAUSES OF PROJECT DELAYS AND REDUCE TOTAL PROJECT COSTS

SIGAR found that both USAID and Black & Veatch have taken a number of steps to help ensure that all 18 generators were installed by December 2009, prevent any further delays beyond the end of March 2010, and help reduce overall project costs. These steps were taken in response to the Office of the USAID Inspector General's report,⁹ SIGAR briefs provided to USAID and Black & Veatch managers in Kabul during the course of our audit, and USAID-initiated actions. These steps include (1) the creation of a project execution plan by Black & Veatch and related work plans, (2) USAID's hiring of an independent quality assurance firm which now has staff on site at the Kabul Power Plant, (3) an extensive internal review of all AIRP task orders to identify systemic causes for the project delays and cost overruns, (4) efforts to reduce total project costs by implementing lower-cost engineering options and seeking voluntary fee reductions from Black & Veatch.

Project Execution Plan and Work Plan Prepared

Black & Veatch submitted a project execution plan in July 2009 to USAID describing how the firm planned to manage construction efforts in the wake of Symbion Power's release from the project. This plan outlines a number of key operating concepts, identifies a series of critical risks to timely project completion, and suggests that separate mitigation plans would be developed for each identified risk. The plan describes the management strategy, concepts, and controls that will be implemented to help ensure that the project is efficiently executed and managed. Identified risks include project funding, inadequate construction and inventory records, resolution of remaining subcontracts, delays in material/equipment deliveries, labor availability and productivity, safety and security events, and client approvals.

In its response to the Office of the USAID Inspector General's report, USAID officials noted that the mission now has an overall implementation plan for the Kabul Power Plant focused on completing the plant by March 31, 2010. The agency's response notes that modification 17 to task order 9 puts the implementation plan into operation by:

- Defining very specific deliverables and delivery dates for the different components of the power plant.

⁹ A complete description of USAID actions taken to respond to the Office of the USAID Inspector General's report is included in the management comments section of that report.

- Requiring the contractor to prepare a work plan establishing the timeline for implementation, personnel requirements, proposed accomplishments toward achieving results, details of collaboration with counterparts and donors, management structure, proposed schedule, quality assurance/quality control plan and performance monitoring plan.
- Establishing dates for the submission of design and engineering drawings and documents.
- Requiring the submission of specific progress reports.

Quality Assurance and Quality Control Oversight Improved

Significant steps have been taken to improve both USAID’s quality assurance process and Black & Veatch and its sub-contractor’s quality control procedures.¹⁰ These steps include the provision of on site quality assurance oversight, increased contact between USAID and Black & Veatch staff, and increased visits by the Contracting Officer’s Technical Representative (COTR) to the project site. USAID’s senior engineer in Kabul noted that the biggest lesson he learned from his experience on the Kabul Power Plant is the importance of having on site quality assurance in addition to having a USAID COTR assigned to the project. In the wake of Symbion Power’s release from the project, USAID hired an independent contractor to provide on site oversight. According to senior USAID officials, the agency also increased the number of meetings between the COTR and Black & Veatch staff and required more on site visits by the COTR to verify that the project remains on schedule.

Black & Veatch staff noted that they have instituted additional quality control procedures since June 2009 to ensure that ongoing and future work meets all contract requirements and specifications. During the course of this audit, we reviewed and verified that these quality control procedures were in place. During our visit to the plant, SIGAR noted examples of periodic progress reports provided to USAID, the existence of sub-contractor quality control plans, and recent records of detailed quality control inspections and testing.

USAID’s Review of Contracting Shortfalls and Problems

In March 2009, USAID’s office in Kabul completed an assessment of the structure and operations of the \$1.4 billion Afghanistan Infrastructure and Rehabilitation Program (AIRP) IQC with the Joint Venture. The assessment notes an urgent need to strengthen the operations and performance of the Joint Venture, which has missed a large number of extremely important milestones on the Kabul Power Plant and on a number of other task orders under the IQC. The assessment identifies a number of planned actions.

As of January 2010, planned corrective actions and reported implementation progress included:

- **Requiring the joint venture to prepare a project management plan for the AIRP.** USAID completed and approved a project management plan for all AIRP projects.
- **Improving project communication and developing more specific statements of work.** USAID holds weekly project meetings to discuss all AIRP project progress and issues. USAID performs

¹⁰ Quality assurance consists of agency attempts to monitor the effectiveness of a contractors’ quality control procedures which should be designed to gauge that all contract terms and specifications, including quality of materials and workmanship, are adhered to.

weekly site visits to Kabul Power Plant, although some weekly site visits have been canceled due to the security office's limitations in supporting these trips.

- **Conducting independent cost estimates.** USAID establishes independent government cost estimates for each AIRP project. Both the technical office and the contracting office review and approve each request for sub-contract approval.
- **Investigating cost recovery options to address unacceptable project delays.** USAID investigated and determined that liquidated damages were not an option under task order 9. However, when negotiating the increase in budget and time, the contracting office was able to get the contractor to agree to waive their fees for this extension.
- **Requiring annual work plans.** USAID now requires an annual work plan for each AIRP task order. These work plans are reviewed by the respective COTR and comments are transmitted to the contractor. The latest workplan submission and review cycle occurred in November 2009.
- **Implementing independent quality assurance oversight.** USAID has implemented independent on site quality assurance at the Kabul Power Plant. USAID receives weekly written reports of progress against milestones, engineering, and safety issues.
- **Addressing USAID staffing limitations that limit the agency's contract oversight capabilities.** USAID is carrying out a recruitment and hiring effort to address staffing shortfalls.

Cost Control Efforts

USAID and Black & Veatch reduced total program costs by \$5 million as a result of certain cost-saving measures and a voluntary fee reduction by Black & Veatch. In the absence of these efforts, project overrun costs would have exceeded the current total of \$40 million. Specific actions include:

- USAID and Black & Veatch staff conducted a value engineering session at the Kabul Power Plant in July 2009 in order to identify appropriate ways to reduce project costs through lower-cost construction options. Several cost-saving ideas were identified and incorporated in modification 17. USAID and Black & Veatch officials estimated these savings totaled \$3.4 million.
- USAID requested that Black & Veatch reduce its fixed fee on a voluntary basis for work already completed and eliminate its fixed fee and management fees (that is, general and administrative expenses) for future work under modification 17. Black & Veatch agreed to eliminate its fixed fee with regard to future work, saving the government an estimated \$1.6 million, but did not accept the other proposed reductions.
- USAID considered other cost recovery options such as asking Black & Veatch to pay for the extra fuel costs USAID had to cover as a result of relying on Kabul's older, less efficient diesel power plant past the Kabul Power Plant's target completion date,¹¹ but declined to pursue this option further given the cost-plus-fixed-fee nature of task order 9, which does not allow for liquidated damages.

¹¹ USAID estimated that the failure to complete the Kabul Power Plant's first two blocks by December 2008 cost USAID, which provided fuel support to Kabul's other diesel powered plant during the winter of 2008/2009, approximately \$100,000 a day in extra fuel costs for a 90 day period from December 2008 to March 2009.

SIGNIFICANT RISKS TO SUSTAINABILITY EXIST

According to USAID officials in Washington, project sustainability is a top priority for the agency worldwide and in particular Afghanistan. These officials noted that the United States and the GIRoA could be left with “stranded assets” if project implementation and follow-up are not handled correctly. They noted that, unlike Iraq, Afghanistan has a weak economy, a limited ability to generate government revenues, an unskilled workforce, a problematic security environment, and an almost complete lack of existing infrastructure. Despite early commitments by the GIRoA, it is now evident that the Afghan government may not be able to pay for fuel costs for several years and USAID has already indicated its willingness to cover the plant’s operations and maintenance (O&M) expenses for several more years based on a planned request for proposals to be issued in early 2010. In addition to these revenue concerns, SIGAR noted that the decision to build a dual use fuel plant capable of running on either diesel or heavy fuel oil has significant sustainability implications. In the absence of any definitive studies, it is not clear whether the Afghan government will ever have the required infrastructure or technical capability to utilize heavy fuel oil, which requires special equipment and handling procedures in order to avoid potentially irreparable damage to the plant’s generators.

GIRoA Commitments to Sustainability

The U.S. Government sought the participation of the GIRoA in deciding to proceed with the Kabul Power Plant. On April 2, 2007, the Cabinet of the GIRoA approved the procurement of the plant and committed to provide the following:

- Provide \$20 million toward the capital cost of the power plant, with the balance funded by USAID.
- Pay for the fuel required to operate the plant.
- Implement and pay for the plant’s O&M expenses beginning one year after the plant’s completion.
- Commercialize the operations of Afghanistan’s electricity utilities sector in order to produce sufficient revenues to cover fuel costs and O&M expenses.

Section 611 (e) of the Foreign Assistance Act of 1961 provides that whenever certain types of funds are proposed to be used for a capital assistance project exceeding \$1 million, the USAID Mission Director must certify that the country has the capability to effectively maintain and utilize the project. In June 2008, USAID’s Mission Director for Afghanistan certified that the USAID Office of Infrastructure, Engineering and Energy in Kabul had concluded that the GIRoA would be able to meet these commitments.

One key basis for this certification was the expectation that the GIRoA would commercialize its utility sector which, for the Kabul area alone, is projected to suffer an operating loss of \$250 million in 2010. USAID and the GIRoA are seeking to turn the Kabul electric utility into a profitable entity, capable of funding the Kabul Power Plant’s operating expenses. USAID has awarded two contracts to U.S. firms to promote this specific objective and more broadly to increase the profitability of the utility sector across Afghanistan.

GIRoA Commitments Only Partially Met

The GIRoA did provide 148 acres for the Kabul Power Plant site and transferred \$20 million to USAID, however, efforts to commercialize the GIRoA's electric utility operations remain to be fully implemented—a process USAID officials said could take at least another five years. However, USAID officials noted that commercialization efforts were significantly advanced on September 30, 2009, when a memorandum of understanding was signed between the Ministry of Energy and Water and a new privatized national utility created to operate outside the Ministry on a commercial basis.¹²

USAID Support for Fuel Costs

While USAID has not yet provided any direct fuel support for the Kabul Power Plant, USAID did provide fuel support for the North West Kabul Power Plant during the winter of 2008/2009 and the potential exists that funds left over from this earlier request may be used to pay for future fuel needs at the Kabul Power Plant.

In response to a request from the Afghan Minister of the Economy, USAID held back \$28 million in funds originally set aside for USAID's contribution to the Afghan Reconstruction Trust Fund managed by the World Bank. A total of \$15.6 million in fuel support was provided to the North West Kabul Power Plant during the winter of 2008/2009, leaving a balance of \$12.4 million for additional fuel purchases or possible return to the Trust Fund. In May 2009, USAID informed the GIRoA that it is responsible for providing the operating costs, including fuel, for the Kabul Power Plant. Despite this communication, the GIRoA has verbally requested fuel support for the Kabul Power Plant and other diesel-fired power plants in the south of Afghanistan. The GIRoA has also formally requested that the \$12.4 million in funds be set aside for fuel support. USAID has not yet responded to this latest request.

Actual fuel costs and the potential level of support which may be requested by the GIRoA will depend on the level of demand for Kabul Power Plant electricity. As noted in the Office of the USAID Inspector General's report, these costs could be substantial due, in part, to the configuration of the Kabul transmission system.¹³ The current segregation of Kabul into two distinct power transmission sectors prevents the use of lower-cost alternative sources of electricity, such as imported power, in the sector served by the Kabul Power Plant.

USAID Support for O&M Expenses Needed for Several Years

According to USAID's sustainability certification, the principal strategy for facility-level O&M is the use of outside professional contractors that have the skills and familiarity with the day-to-day and periodic O&M requirements of a large power generation station. During the first year, O&M will be provided as part of the installation contract financed by USAID. Beginning with the second year of operations, however, the GIRoA committed to outsourcing and financing the O&M function. However, USAID has

¹² Originally scheduled for July 2009, the transition was temporarily blocked by the Minister of Energy and Water citing several labor and inventory concerns which needed to be addressed. According to USAID officials, U.S. and other donor officials prevailed upon the Minister to reconsider his position, leading to the signing of the memorandum of understanding.

¹³ Kabul is divided into two sectors: one receives electricity from hydroelectric plants as well as diesel plants, and the other receives electricity from imported sources.

now concluded that the GIRoA will not be able to pay for O&M expenses for several years. USAID officials noted that they are planning to issue a request for proposal in the near future for a multi-year, follow-on O&M contract for the Kabul Power Plant. This O&M support contract will begin after the O&M portion of modification 17 expires in April 2010.

While USAID plans to contract for the bulk of O&M support over the next several years, USAID and Black & Veatch are seeking to develop the capabilities of the Afghans to maintain and operate the Kabul Power Plant using their own personnel and resources. These efforts take the form of (1) training and documentation requirements included in task order 9,¹⁴ (2) the funding of a technical training institute in Kabul which includes courses specifically designed to support the training of staff for the Kabul Power Plant, and (3) ministry-level capability development, including training on establishing and maintaining a dedicated budget for O&M expenses for all government-run facilities.

Sustainability Risks Associated with Dual Fuel Use

The decision by the GIRoA and the United States to build a dual fuel plant (that is, a plant capable of operating on diesel or heavy fuel oil) has long-term implications for project costs and plant sustainability if GIRoA staff or contractors do not properly manage and implement the more complex processes and procedures required to operate such a plant.¹⁵ As noted by senior Black & Veatch officials, the improper use of heavy fuel oil could lead to the complete failure of the generators.

According to Black & Veatch staff, a senior GIRoA official advocated the option of a dual fuel plant since heavy fuel oil is considerably cheaper than diesel fuel and would increase the chances that the GIRoA could operate the plant with its own resources. Black & Veatch staff noted, however, that the full costs of using heavy fuel oil include additional infrastructure investments,¹⁶ handling costs, and O&M expenses associated with the greater wear and tear placed on the generators. According to Black & Veatch's senior manager in country, a definitive assessment of the use of heavy fuel oil remains to be prepared.

USAID and Black & Veatch staff considered the option of a diesel fuel only plant at their July 2009 value engineering meeting. Potential savings include the removal of fuel holding tanks 2 and 3, which are being built explicitly for the purpose of storing heavy fuel oil. Black & Veatch staff estimate that up to \$4 million could be saved if the plant was converted to a diesel-only plant. USAID staff declined to pursue this option due to the political sensitivities surrounding this issue and prior commitments with the GIRoA.

Finally, Black & Veatch officials noted that the GIRoA has agreed to limit the Kabul Power Plant's first two years of operation to diesel fuel only in order to ensure smooth plant operations at start-up. It is unclear whether two years will provide GIRoA staff with sufficient time to develop or contract for the

¹⁴ A limited number of Ministry of Energy and Water staff are being trained and utilized on the project. Black & Veatch officials noted that additional staff and training would be provided as the plant gets closer to full operational status.

¹⁵ Heavy fuel oil solidifies at lower temperatures if not heated and is considered a lower grade oil requiring the use of multiple additives and processing steps.

¹⁶ Heavy fuel oil is not available in Afghanistan (as is the case with diesel fuel) and would require the creation of a heavy fuel oil import and distribution network just for the Kabul Power Plant.

technical expertise need to operate a plant on heavy fuel oil and construct the fuel distribution network needed to make this a viable option.

CONCLUSIONS

Current risks for the Kabul Power Plant focus on its long-term sustainability, which will be affected by the GIROA's ability to generate sufficient revenue to pay for fuel and O&M expenses. USAID has taken steps to assist the GIROA with its ongoing commercialization efforts. Nonetheless, USAID officials believe this process will take at least five years to complete and plans exist to cover the plant's O&M costs for several years after turnover to the GIROA. Whether the Kabul electric utility will have sufficient revenues in five years to assume these costs is open to debate. If the plant is not turned over to Afghan authorities within this time frame, USAID may face the difficult decision of whether to continue funding the plant's operations or terminating U.S. involvement with the project and placing the plant's future operation at risk. SIGAR further found that long-term sustainability is complicated by the decision by the GIROA and USAID to construct a dual fuel instead of a diesel-only plant, providing the Afghans with a technically sophisticated fueling option they may not have the capacity to sustain.

RECOMMENDATION

To help ensure the timely completion and sustainability of the Kabul Power Plant, SIGAR recommends that the USAID Mission Director in Afghanistan:

- Produce a definitive study on the technical feasibility and advisability of using heavy fuel in the Kabul Power Plant and factor this information into plant completion decisions and any decisions regarding post-completion use of heavy fuel oil by the GIROA.

COMMENTS

The U.S. Embassy Kabul and the USAID Mission in Afghanistan provided joint written comments on a draft of this report. Black & Veatch provided written comments as well. These comments are provided in appendix III and IV, respectively. In their response, the U.S. Embassy Kabul and USAID Mission in Afghanistan indicated concurrence with the report's findings and recommendation. They indicated that a definitive study of the option to run the Kabul Power Plant on heavy fuel oil will be completed before the end of March 2010. Black & Veatch's comments addressed some factual issues and areas where it believed additional clarification might help avert possible misunderstandings related to the project.

The U.S. Embassy Kabul and USAID Mission in Afghanistan, Black & Veatch, and Symbion Power also provided technical comments which SIGAR incorporated into this report, as appropriate.

APPENDIX I: SCOPE AND METHODOLOGY

This report discusses SIGAR's review of the USAID-funded Kabul Power Plant project, which is scheduled for completion by March 31, 2010. This report updates and builds upon the audit report issued by the Office of the USAID Inspector General in November 2009, which provided a number of recommendations designed to improve the management of the Kabul Power Plant contract. Given the value of this project, the critical role it plays in advancing U.S. strategic interests in Afghanistan, and the number of outstanding issues surrounding the plant's completion and operations, we concluded that a follow-on assessment conducted by SIGAR staff was warranted.

To identify the basis for project delays and cost overruns, we reviewed the Office of the USAID Inspector General's November 2009 report and reviewed documentation from and conducted interviews with USAID energy sector officials at the U.S. Embassy in Kabul as well as Black & Veatch staff in Washington, D.C. and Kabul, and Symbion Power staff in Washington, D.C.

To assess the actions taken to address problems identified by the Office of the USAID Inspector General and SIGAR, we reviewed documentation provided by USAID, Black & Veatch, and Symbion Power; interviewed agency and contractor officials; and conducted an on site visit to the Kabul Power Plant from September 1-3, 2009.

To evaluate the long-term sustainability of the Kabul Power plant, we reviewed documentation provided by USAID, Black & Veatch, and Symbion Power; interviewed agency and contractor officials in both Washington, D.C., and Kabul; and met with a senior GIRA energy official to discuss the Afghan government's plans for the Kabul Power Plant.

This report is part of a series of SIGAR audits of major infrastructure contracts funded by the United States in Afghanistan. We conducted work from August to December 2009 in Kabul, Afghanistan, and Washington, D.C., in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. The audit was conducted by SIGAR under the authority of Public Law 110-181, Section 1229, and the Inspector General Act of 1978, as amended.

APPENDIX II: TASK ORDER 9 CONTRACT MODIFICATIONS

Modification Number	Date Approved	Total Estimated Cost (in millions)	Nature/Purpose of Modification
Letter Contract	5/24/2007	\$3.8	Authorize negotiations and provide payment for securing manufacturing slots with Caterpillar Power Generation Systems for long lead equipment.
1	6/16/2007	3.8	Correct certain accounting and appropriation information.
2	7/14/2007	29.3	Increase the non-refundable payment for holding manufacturing slots and add the following services in the statement of work: negotiation and award of equipment procurement, review and analysis of design package, and initiation of tenders for balance-of-plant construction and other components.
3/Original Task Order	7/31/2007	125.8	Replace the Letter Contract and provide additional funding and contractual authority for Louis Berger Group, Inc./Black & Veatch Joint Venture to place orders and perform work necessary to assure the delivery of 105 megawatts of additional generating capacity.
4	12/23/2007	126.4	Add perimeter/security wall.
5	4/24/2008	126.4	Adjust records to reflect the GIROA's financial contribution to the project.
6	5/8/2008	134.4	Add site civil works design and construction.
7	5/9/2008	137.9	Add camp facilities.
8	5/15/2008	162.0	Add logistic support including shipping the generators from point of manufacture to Kabul.
9	5/15/2008	177.8	Add 110 kilovolts sub-station/intertie to connect the power plant to the existing 110 kilovolts transmission lines.

Modification Number	Date Approved	Total Estimated Cost (in millions)	Nature/Purpose of Modification
10	6/9/2008	205.8	Add balance-of-plant construction costs and extend completion date to 8/31/09.
11	8/3/2008	251.5	Add camp services, facility maintenance, and security services, and increase balance-of-plant and other direct costs.
12	9/30/2008	257.9	Provide for additional staffing requirements.
13	10/16/2008	257.9	Provide incremental funding.
14	12/7/2008	259.0	Add supervision and management of fuel delivery.
15	12/17/2008	259.0	Provide incremental funding.
16	8/31/2009	259.0	Extend the completion date to October 31, 2009.
17	10/20/2009	301.6	Revise the statement-of-work, increase sub-contract costs, add operations and maintenance expenses for 6 months, extend the completion date to May 31, 2010, and provide incremental funding.
18	12/8/2009	\$301.6	Provide incremental funding.

Source: USAID Mission in Afghanistan.

APPENDIX III: COMMENTS FROM U.S. EMBASSY KABUL AND USAID MISSION TO AFGHANISTAN

The U.S. Embassy Kabul and USAID Mission to Afghanistan provided joint comments. However, each entity signed the comments separately. We are including both sets of identical comments below to show that each agency signed the comments.



Embassy of the United States of America
Kabul, Afghanistan

UNCLASSIFIED
MEMORANDUM

January 12, 2010

TO: John Brummet, Assistant Inspector General for Audits
Special Inspector General for Afghanistan Reconstruction

FROM: Ambassador E. Anthony Wayne, *E. Anthony Wayne*
Coordinating Director for Development and Economic Affairs
Rebecca Black, Acting USAID Mission Director

SUBJECT: SIGAR Audit-10-6 Contractor Performance and Oversight (Kabul Power Plant)

The United States Embassy in Afghanistan welcomes the draft report by the Special Investigator General for Afghanistan Reconstruction (SIGAR) on its audit of the Kabul Power Plant project. We appreciate the opportunity to comment on its findings and recommendation. In addition to the U.S. Embassy's response to the draft audit report's recommendation, technical comments are attached. The technical comments may be removed from the Embassy's official reply if the comments are addressed in the final report.

The Embassy concurs with the report's findings regarding the delays in completion of the 105 megawatt (MW) Kabul Power Plant. The report presents a thorough summary of root causes for the delay and points the way to improved performance on the part of USAID and other actors in future projects.

The report also presents the actions taken by USAID and the prime contractor to correct these delays and put the project back on track. The effectiveness of these measures is evidenced by the commissioning of all three blocks of generators on December 8, 2009, 12 days prior to the December 20 deadline set out in the contract.

USAID recognizes that sustainability is a key concern for the Kabul Power Plant. As noted in the report, USAID's new activity to provide operations and maintenance and train Afghan utility staff is an important intervention to create the management capacity and trained workforce that will operate the plant over the long term.

In addition to management and workforce capacity, the Afghan government must have funding available to maintain, operate, and purchase fuel for the plant. In this regard, the Embassy will continue to support efforts to commercialize Afghanistan's energy sector. Greater transparency, more efficient business practices, and improved customer service represent the key to the sector's success and will drive economic and social development. The Embassy applauds the Afghan government's commitment to the new corporatized electric utility, Da Afghanistan Breshna Sherkat (DABS), and will continue to expand efforts to support DABS. These

efforts will result in reduced electricity losses, greater revenue flow, increased productivity, and improved access to energy services.

As part of the focus on sustainability, a close examination of the feasibility of using heavy fuel in the Kabul Power Plant is an important step that USAID will undertake as soon as possible to factor into plant completion decisions.

SIGAR Report Recommendations and U.S. Embassy Response

Recommendation: To help ensure the timely completion and sustainability of the Kabul Power Plant, SIGAR recommends that the USAID Mission Director: Produce a definitive study on the technical feasibility and advisability of using heavy fuel in the Kabul Power Plant and factor this information into plant completion decisions and any decisions regarding post completion use of heavy fuel by the GIRA.

Embassy response: The Embassy concurs with this recommendation. We will conduct a definitive study on the technical feasibility and advisability of using heavy fuel at the Plant as soon as possible, but before the end of March 2010. As noted by the SIGAR report, the Afghan government had significant input into the choice of designing a dual-use plant. With changes to the Afghan administration, there is an opportunity to reexamine that choice in the light of the study's technical input, several months of plant operations, and ongoing efforts to commercialize the sector and improve revenue flows.

Attachment:

1. Technical Comments
2. Draft Audit 10-06



Embassy of the United States of America
Kabul, Afghanistan

UNCLASSIFIED

January 7, 2010

INFORMATION MEMORANDUM

TO: John Brummet, Assistant Inspector General for Audits
Special Inspector General for Afghanistan Reconstruction

FROM: Ambassador E. Anthony Wayne, Coordinating Director for Development and
Economic Affairs
Rebecca Black, Acting USAID Mission Director *R. Black*

SUBJECT: SIGAR Audit-10-6 Contractor Performance and Oversight (Kabul Power Plant)

The United States Embassy in Afghanistan welcomes the draft report by the Special Investigator General for Afghanistan Reconstruction (SIGAR) on its audit of the Kabul Power Plant project. We appreciate the opportunity to comment on its findings and recommendation. In addition to the U.S. Embassy's response to the draft audit report's recommendation, technical comments are attached. The technical comments may be removed from the Embassy's official reply if the comments are addressed in the final report.

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SIGAR Report Recommendations and U.S. Embassy Response

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Attachment:

Annex - Technical Comments

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APPENDIX IV: COMMENTS FROM BLACK & VEATCH



A joint venture of The Louis Berger Group, Inc. and Black & Veatch Special Projects Corp.
Afghanistan Infrastructure Rehabilitation Program

January 8, 2010

Mr. Michael ten Kate and Mr. John Brummet
Office of the Special Inspector General for Afghanistan Reconstruction
2221 S. Clark Street, Suite 802
Arlington, VA 22202

Dear Mr. ten Kate and Mr. Brummet:

We greatly appreciate the opportunity to comment on the SIGAR's draft report on the Kabul Power Plant. This letter includes comments of the Louis Berger Group/Black & Veatch Special Projects Corp. Joint Venture (LBG/B&V) and Black & Veatch (B&V) as the joint venture partner responsible for the Kabul Power Plant project. Our comments address some factual issues and some areas where clarifications might avert possible misunderstandings related to the project.

Page 3: Regarding the termination of the Balance of Plant (BOP) subcontractor, under its contract with LBG/B&V, the subcontractor did not have a contractual right to terminate its subcontract, just as LBG/B&V has no right to terminate its contract or any task order with USAID. The subcontractor indicated that it was abandoning the work and LBG/B&V issued a notice of termination to the subcontractor under the applicable provisions of the subcontract.

Page 4: It could be misunderstood from the comments on page 4 that the original total contracted cost for the project was to be \$125 million and it grew to \$260 million. This was never the case. The project was funded incrementally in order to get work underway. The July 2007 \$125 million award was for manufactured equipment and ancillary costs, as noted in the report Table 1 on page 4.

Summary and Table 1: Both the summary and report Table 1 mention a delay in award of the balance of plant (BOP) contract and mobilization. LBG/B&V filed its request to approve the BOP contract with USAID on April 28 requesting approval by May 15. USAID approval was received on June 9. Despite the approval being issued about 20 days later than requested, the BOP subcontractor nevertheless agreed to the original milestone dates when it executed the contract on June 14, 2008. As Footnote 6 of the SIGAR Report indicates, B&V and the BOP subcontractor are involved in an ICC arbitration proceeding regarding various claims and counterclaims. As B&V's evaluation of delays to the Project is ongoing, it is premature to respond any further. Until its evaluation is complete, B&V reserves its rights to respond to any particular delay allegation. B&V does not agree with the allegations that the BOP subcontractor provided to USAID regarding delay to award and mobilization, which appear in the referenced USAID Inspector General Report.

Page 5-6 (Table) and Page 7: The report indicates a lack of USAID on-site quality assurance staffing, which could be misunderstood to question the quality of the plant itself. B&V has made every effort to deliver a high quality plant that will serve Afghanistan for many years if properly operated and maintained. No allegation has been made that the quality of the plant itself is in question.

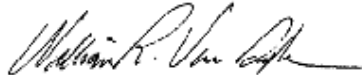
Page 8: The report indicates that B&V agreed to reduce its fixed fee on a voluntary basis for future work under modification 17. Although B&V agreed to reduce its fixed fee as part of negotiations for this modification, B&V seeks recovery of its fee along with other damages and the extra costs of completion of the Project from the BOP subcontractor in the ICC arbitration.

Mr. Michael ten Kate and Mr. John Brummet
Page 2

January 8, 2010

We appreciate acknowledgements in the report regarding improvements made on the project. B&V and LBG/B&V remain fully committed to completing and turnover a high quality plant that will serve Afghanistan for years to come and to continue working productively with USAID. Thank you again for the opportunity to comment.

Sincerely yours,



William R. Van Dyke
President, B&V Federal Services Division
Secretary, LBG/B&V Joint Venture

(This report was conducted under the project code SIGAR-09-006-I)

SIGAR's Mission

The mission of the Special Inspector General for Afghanistan Reconstruction is to enhance oversight of programs for the reconstruction of Afghanistan by conducting independent and objective audits, inspections, and investigations on the use of taxpayer dollars and related funds. SIGAR works to provide accurate and balanced information, evaluations, analysis, and recommendations to help the U.S. Congress, U.S. agencies, and other decision-makers to make informed oversight, policy, and funding decisions to:

- improve effectiveness of the overall reconstruction strategy and its component programs;
- improve management and accountability over funds administered by U.S. and Afghan agencies and their contractors;
- improve contracting and contract management processes;
- prevent fraud, waste, and abuse; and
- advance U.S. interests in reconstructing Afghanistan.

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