



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

May 18, 2015

The Honorable Ashton Carter
Secretary of Defense

Dear Secretary Carter:

SIGAR is currently reviewing several aspects of Task Force for Business and Stability Operations (TFBSO) activities supporting extractive industries in Afghanistan.¹ As part of our review we would like to request information concerning the \$43 million Downstream Gas Utilization project implemented by TFBSO. According to a report prepared for TFBSO by Vestige Consulting, LLC, the Downstream Gas Utilization project resulted in the construction of a single compressed natural gas (CNG) station at a cost of nearly \$43 million. The information we are requesting will assist my office in its review of this project.

According to TFBSO documents, the objective of the Downstream Gas Utilization project was to provide “commercial proof of concept necessary to establish and grow the Afghan CNG sector for transport, industrial, and energy security solutions.” Another objective of the project was “to expand [the] CNG industry to the second largest city in Afghanistan, Mazar-e-Sharif and [the city’s] 100,000 registered cars.” On its face, this project does not seem feasible for several reasons.

The limited ability to transport CNG to Mazar-e-Sharif limits the practicality of expanding the CNG industry in that city. According to TFBSO personnel interviewed by SIGAR, there is currently only one natural gas pipeline providing gas to Mazar-e-Sharif and it is only safe to operate at “minimal” pressure. According to TFBSO and other U.S. government personnel, construction on a planned new pipeline has not started and approximately \$6.5 million worth of new pipe is apparently sitting in storage in Afghanistan. The project may never be completed unless the state-owned Afghan Gas Enterprise (AGE) pays up to \$16 million for its completion. In light of these challenges to natural gas transport, it is unclear what led TFBSO to conclude that the Downstream Gas Utilization project would result in an expansion of the CNG market in Mazar-e-Sharif.

Additionally, the process for converting automobiles in Afghanistan to CNG appears to be cost prohibitive for all but the wealthiest of Afghans. According to the World Bank, the annual per capita Gross National Income for Afghanistan is \$690.² However, according to the Wall Street Journal, it costs up to \$800 to convert an automobile to CNG in Afghanistan.³ Given this significant cost to the average Afghan, it is unclear what led TFBSO to believe that the Downstream Gas Utilization project could expand the CNG market in Afghanistan in a lasting way.

¹ SIGAR 15-55-AR/Afghanistan’s Extractive Industries

² World Bank. World Development Indicators. Accessed April 24, 2015. <http://data.worldbank.org/country/afghanistan>

³ Hodge, Nathan. “Afghans Pin Energy Hopes on Local Gas.” Wall Street Journal, November 27, 2012

While I understand that TFBSO's \$43 million Downstream Gas Utilization project resulted in the successful construction and licensing of a single CNG station, I am concerned that it accomplished little else. To assist our review of this matter, please provide answers to the following questions:

1. Was a feasibility study conducted prior to the implementation of this project? If so, please provide a copy of the study.
2. How many CNG stations are operating in Afghanistan? How many CNG stations are operating in Mazar-e-Sharif? How many of these stations are privately funded?
3. The TFBSO Economic Impact Assessment states that the costs for the Downstream Gas Utilization Project include \$12.3 million in direct costs and \$30 million in overhead costs. What were the overhead costs for this project and what were the direct costs?
4. Why was the CNG station built in the relatively remote city of Sheberghan? If Mazar-e-Sharif and its "100,000 registered cars" is a better market, why not build the station there, especially if the task force was investing tens of millions of dollars in pipelines to supply natural gas to that city?
5. How many conversions of automobiles to CNG did TFBSO directly or indirectly fund? How many Afghan-owned cars have been converted to CNG at the TFBSO-funded conversion center?
6. What is the TFBSO estimate of the cost of converting the average Afghan car to CNG?
7. How much CNG has been sold at the TFBSO-funded CNG station?
8. How much revenue has the CNG station provided to the Afghan government thus far?
9. Who currently owns and operates the CNG station?
10. Does any U.S. government entity provide ongoing oversight of this CNG station or provide financial assistance to it?
11. What is the status of the planned second pipeline to Mazar-e-Sharif? If the second natural gas pipeline is never built, how will the market for CNG in Afghanistan expand?

Please provide your response no later than June 1, 2015. Should you have any questions or concerns, please contact [REDACTED]

[REDACTED] I appreciate your assistance in this matter.

Sincerely,



John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

cc:
Brian P. Mckeon
Principal Deputy Under Secretary of Defense (Policy)
Office of the Secretary of Defense



PRINCIPAL DEPUTY UNDER SECRETARY
OF DEFENSE
2100 DEFENSE PENTAGON
WASHINGTON, DC 20301-2100

POLICY

The Honorable John F. Sopko
Special Inspector General
for Afghanistan Reconstruction
2350 Crystal Drive
Arlington, Virginia 22202-3940

JUN 17 2015

Dear Mr. Sopko:

I am replying on behalf of Secretary Carter to your letter of May 18, 2015, concerning the Downstream Gas Utilization project in Afghanistan implemented by the Task Force for Business and Stability Operations (TFBSO).

On December 31, 2014, the TFBSO concluded operations in Afghanistan in accordance with section 1534 of the National Defense Authorization Act for Fiscal Year 2014. The TFBSO completed an administrative sunset period on March 31, 2015, and turned over all property and facilities to Washington Headquarters Services (WHS).

With respect to the detailed questions that you have posed regarding the Downstream Gas Utilization project, the closure of the TFBSO in March 2015 and departure of all of its employees have resulted in the Office of the Secretary of Defense (OSD) no longer possessing the personnel expertise to address these questions or to assess properly the TFBSO information and documentation retained by WHS in the OSD Executive Archive.

We are fully prepared to arrange for appropriate access to TFBSO information relevant to your review. I suggest that our two staffs meet to work out the modalities of the SIGAR's access to the information requested. Please have your staff contact Steven Schleien, Acting Chief Operating Officer, on my staff at [REDACTED] to schedule a meeting.

Sincerely,

A handwritten signature in black ink that reads "Brian P. McKeon".

Brian P. McKeon

