SIGAR

Special Inspector General for Afghanistan Reconstruction

OFFICE OF SPECIAL PROJECTS

DOD'S COMPRESSED NATURAL GAS FILLING STATION IN AFGHANISTAN: AN ILL-CONCEIVED $43 MILLION PROJECT

This product was completed under SIGAR's Office of Special Projects, the Special Inspector General's response team created to examine emerging issues in prompt, actionable reports to federal agencies and the Congress. The work was conducted pursuant to the Special Inspector General's authorities and responsibilities under the National Defense Authorization Act for FY 2008 (Pub. L. No. 110-181).

OCTOBER 2015

SIGAR-16-2-SP

October 22, 2015

The Honorable Ashton Carter
Secretary of Defense

Dear Secretary Carter:

The attached report discusses SIGAR's review of the Task Force for Business and Stability Operations (TFBSO) Downstream Gas Utilization project.

According to a TFBSO study, the Task Force spent nearly $43 million to construct a compressed natural gas (CNG) automobile filling station in the city of Sheberghan, Afghanistan. The main purpose of the project was to demonstrate the commercial viability of CNG for automobiles in Afghanistan as part of a broader effort to take advantage of Afghanistan's domestic natural gas reserves and reduce the country's reliance on energy imports.

Although TFBSO achieved its immediate objective of building the CNG filling station, it apparently did so at an exorbitant cost to U.S. taxpayers. In comparison, SIGAR found that a CNG station in Pakistan costs no more than $500,000 to construct. Furthermore, there is no indication that TFBSO considered the feasibility of achieving the station's broader objectives or considered any of the potentially considerable obstacles to the project's success before beginning construction.

One of the most troubling aspects of this project is that the Department of Defense claims that it is unable to provide an explanation for the high cost of the project or to answer any other questions concerning its planning, implementation, or outcome. In fact, in response to my request for information, the Principal Deputy Under Secretary of Defense for Policy stated in June 2015 that the March 2015 closure of TFBSO resulted in the Office of the Secretary "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" (see Appendix I).

In written comments on a draft of this report, the Principal Under Secretary of Defense for Policy did not dispute our facts or findings, or provide any new information. Instead, his comments reiterated his earlier position that because TFBSO closed in March 2015, the Department no longer has the expertise to answer any of SIGAR's questions about this project or about any other TFBSO activities (see Appendix II).

Frankly, I find it both shocking and incredible that DOD asserts that it no longer has any knowledge about TFBSO, an $800 million program that reported directly to the Office of the Secretary of Defense and only shut down a little over six months ago. Nevertheless, I intend to continue our inquiry into TFBSO activities to shed additional light on how this program operated, what it achieved, how this enormous amount of money was spent, and whether any conduct by TFBSO staff or contractors was criminal in nature.

SIGAR conducted this review under the authority of Public Law No. 110-181, as amended, and the Inspector General Act of 1978, as amended. If you have any questions or concerns, please contact Christopher Staszak, Senior Investigative Counsel, (703) 545-5996 or christopher.staszak2.civ@mail.mil.

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

The Task Force for Business and Stability Operations (TFBSO or Task Force) was originally created by the Department of Defense (DOD) to help revive the post-invasion economy of Iraq. In 2009, TFBSO was redirected to Afghanistan, where its mission was to carry out projects to support economic development. From 2010 through 2014, Congress appropriated approximately $822 million to TFBSO for Afghanistan, of which the task force obligated approximately $766 million.

The SIGAR Audit Directorate and the SIGAR Office of Special Projects is in the process of reviewing TFBSO activities. This report is one in a series of reports SIGAR plans to issue on TFBSO activities and spending in Afghanistan.[1]

Background

According to the latest figures available from the U.S. Energy Information Administration, Afghanistan imported 100 percent of the refined petroleum products it consumed between 1980 and 2012 and consumption of petroleum products has risen dramatically since 2005.[2] However, Afghanistan has the potential to produce much more energy domestically. In 2006, the U.S. Geological Survey found that Northern Afghanistan has an estimated 15,687 billion cubic feet in undiscovered reserves of natural gas, along with deposits of oil and natural gas liquids.[3]

The TFBSO Downstream Gas Utilization Project was intended to take advantage of Afghanistan's natural gas reserves and reduce the country's reliance on expensive imported gasoline. The project consisted of the construction and operation of a CNG automobile filling station in the city of Sheberghan, near Afghanistan's natural gas fields.[4]

Figure 1 – The pumps at the CNG filling station constructed by TFBSO. Source: Central Asia Development Group

TFBSO initiated the project to demonstrate that compressed natural gas is commercially viable as an automobile fuel in Afghanistan and to promote its wider use in the country. CNG for an automobile costs approximately 50 percent less than a comparable amount of gasoline in Afghanistan and burns cleaner than gasoline, reducing the production of pollutants.

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[1] SIGAR issued its first report on TFBSO activities earlier this year. See SIGAR 15-55-AR, *Afghanistan's Mineral, Oil, and Gas Industries: Unless U.S. Agencies Act Soon to Sustain Investments Made, $488 Million in Funding is at Risk*, April 24, 2015. SIGAR will next issue a report discussing TFBSO expenditures on security and life support services.

[2] SIGAR analysis of U.S. Energy Information Administration data.

[3] Department of Interior, U.S. Geological Survey, *U.S. Geological Survey and Afghanistan Ministry of Mines and Industry Cooperative Assessment of Afghanistan's Undiscovered Oil and Gas,* 2006, p. 16. "Undiscovered reserves" are reserves identified by a U.S. Geological Survey statistical assessment of the probable amount of a given resource based upon similar geographic formations and a region's exploration history. Reserves are "proven reserves" after a well has been drilled, confirming the presence of a resource.

[4] Vestige Consulting, LLC; Acertas, LLC, *Economic Impact Assessment, Task Force for Business & Stability Operations (TFBSO) in Afghanistan*, December 29, 2014, p. 96.

According to TFBSO documents, the objectives of the project were to:

- *Build the first ever CNG complex in Afghanistan, consisting of a fully-functional fueling station with two dispensers/four hoses, one CNG trailer filling point, a car conversion center, an administrative office building, and gas compression and processing equipment;*
- *Prove that there is an interest on the part of the Afghan government in CNG, thereby reducing the risk to the investor through government support;*
- *Provide subject matter experts and legal support to the CNG office in the Ministry of Mines and Petroleum in tendering the TFBSO built CNG station;*
- *Create a market value for a CNG station;*
- *Expand the CNG industry to Mazar-e Sharif, the second-largest city in Afghanistan* (sic), *with a market of 100,000 cars;*[5]
- *Provide subject matter expert support to the CNG station to increase the size of the CNG market; and*
- *Increase the value of CNG investments in Afghanistan, reduce the risk to investment, and increase the domestic consumption of natural gas.*[6]

In August 2011, TFBSO awarded a construction contract to Central Asian Engineering, to build the station on land belonging to the Afghan Ministry of Mines and Petroleum (MOMP). The CNG station became operational in May 2012. TFBSO personnel worked with MOMP and the Ministry of Commerce and Industry to develop the tender and licensing procedures for the station. Qashqari Oil and Gas Services took over operation of the station in May 2014.

The Cost of Building the Filling Station Far Exceeded the Cost of Building CNG Filling Stations Elsewhere, and DOD is Unable to Account for these Expenditures

The contract awarded to Central Asian Engineering to construct the station was for just under $3 million.[7] Yet according to an economic impact assessment performed at the request of TFBSO:

> *The Task Force spent $42,718,739 between 2011 and 2014 to fund the construction and to supervise the initial operation of the CNG station (approximately $12.3 [million] in direct costs and $30.0 [million] in overhead costs).*[8]

The $43 million total cost of the TFBSO-funded CNG filling station far exceeds the estimated cost of CNG stations elsewhere. According to a 2010 publication of the International Energy Association, "the range of investment for a public [CNG] station serving an economically feasible amount of vehicles varies from $200,000 to $500,000. Costs in non-OECD [Organization for Economic Co-operation and Development] countries are likely to be in the lower end of this range."[9] Consistent with that finding, a 2005 CNG station feasibility study conducted by Pakistan's Small and Medium Enterprise Development Authority concluded that

[5] According to data from the Government of Afghanistan Central Statistics Office, Mazar-e-Sharif is the fourth largest city in Afghanistan.

[6] TFBSO, *Energy Program Management Report*, November 10, 2014, p. 36.

[7] Department of Defense, Contract awarded to Central Asian Engineering Construction Company, Awarded August 14, 2011; contract modification number P0008, March 12, 2012.

[8] Vestige Consulting, LLC; Acertas, LLC, *Economic Impact Assessment, Task Force for Business & Stability Operations (TFBSO) in Afghanistan*, December 29, 2014, p. 98.

[9] Michiel Nijboer, International Energy Agency, *The Contribution of Natural Gas Vehicles to Sustainable Transport,* 2010, p.22.

the total cost of building a CNG station in Pakistan would be approximately $306,000 at current exchange rates.[10] In short, at $43 million, the TFBSO filling station cost 140 times as much as a CNG station in Pakistan.

To date, DOD has been unable to provide documentation showing why the Sheberghan CNG station cost nearly $43 million. In a May 2015 letter to the Secretary of Defense, SIGAR requested information on the CNG station, including a description of the costs associated with building and operating it (see Appendix III). The Department was unable to provide any of the requested information. In response to SIGAR's inquiry, Brian P. McKeon, Principal Deputy Under Secretary of Defense for Policy, stated:

> *"[w]ith 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* [Washington Headquarters Services] *in the OSD Executive Archive."*[11]

It is both surprising and troubling that only a few months following the closure of TFBSO, DOD has not been able to find anyone who knows anything about TFBSO activities, despite the fact that TFBSO reported directly to the Office of the Secretary of Defense, operated in Afghanistan for over five years, and was only shut down in March 2015.

It Appears TFBSO Never Examined the Feasibility of its CNG Filling Station Project Prior to Committing Millions of Dollars to Construction

SIGAR was unable to find any evidence that TFBSO considered potential obstacles to the CNG filling station's success before initiating the $43 million project. SIGAR's May 2015 inquiry letter to DOD requested copies of any feasibility study conducted prior to building the CNG station, but DOD was unable to provide any such document. This is consistent with what SIGAR learned in the field: an engineer working for USAID on CNG projects in Afghanistan told SIGAR that TFBSO did not regularly conduct feasibility studies for their projects.

If TFBSO had conducted a feasibility study of the project, the Task Force might have noted that Afghanistan lacks the natural gas transmission and local distribution infrastructure necessary to support a viable market for CNG vehicles. According to the World Bank, "[t]he cost of distribution of natural gas to a large number of small consumers can be expensive. The development of such markets often depends on the proximity of gas transmission pipelines which have been financed already through major gas supply projects to the power and industrial sectors."[12] Similarly, an International Energy Agency analysis found that natural gas was not competitive with gasoline in markets that lacked "well-developed" transmission and distribution infrastructure.[13]

There is only one operational natural gas pipeline in Afghanistan, running between the Sheberghan natural gas fields and the Northern Fertilizer and Power Plant in Mazar-e-Sharif. A USAID study completed in March 2015 estimated that building a natural gas pipeline from the gas fields near Sheberghan to Kabul for electric power

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[10] Small and Medium Enterprise Development Authority, Government of Pakistan, *Pre-Feasibility Study CNG Filling Station*, May 2005, p. 7.

[11] Brian P. McKeon (Principal Deputy Under Secretary of Defense for Policy), letter to SIGAR, June 17, 2015 (see appendix I).

[12] John Homer, The World Bank, *Natural Gas in Developing Countries, Evaluating the Benefits to the Environment*, January 1993, p. 19.

[13] Michiel Nijboer, International Energy Agency, 2010, p.37.

plants would cost $940 million.[14] While the study stated that such a project might be economically viable for electric power generation, ongoing security challenges add substantial risk and cost to large infrastructure investments in Afghanistan. Moreover, Afghanistan lacks the local distribution networks necessary to deliver gas from large transmission pipelines to small consumers, such as CNG filling stations. The only operational local distribution network in Afghanistan is in Sheberghan and it would require significant refurbishment if it were to be used to safely supply natural gas throughout the city. [15]

TFBSO intended that the private operator who took over the Sheberghan station would build a second station in Mazar-e-Sharif. TFBSO documents cite "[r]eliable gas availability at the site of the potential [Mazar-e Sharif] CNG Station" as essential for expansion of CNG use by automobiles in that city. However, Mazar-e-Sharif has only a limited supply of natural gas, via the Soviet-built pipeline from Sheberghan to an industrial user in Mazar-e-Sharif. The pipeline has limited excess capacity and is apparently unsafe to operate at high pressure, despite a recent partial refurbishment funded by TFBSO.[16]

Even if Mazar-e-Sharif were to obtain a reliable supply of natural gas, there is no way to deliver it to small consumers, such as filling stations. Mazar-e-Sharif's local distribution network is currently defunct and a USAID study estimates that it would cost $50 million to rehabilitate it.[17]

Finally, it appears that the cost of converting a gasoline-powered car to run on CNG may be prohibitive for the average Afghan. TFBSO's contractor, CADG, states that conversion to CNG costs $700 per car; other sources estimate that it costs up to $800.[18] According to the World Bank, the average annual income in Afghanistan is $690. This may explain why the U.S. government paid for the conversion of over 120 Afghan vehicles to CNG so that they could use the filling station: ordinary Afghans simply couldn't afford to do it.[19] Not surprisingly, SIGAR found no evidence that any other vehicles were converted to CNG.

In sum, it is not clear why TFBSO believed the CNG filling station project should be undertaken. In the absence of national or even regional natural gas transmission and local distribution infrastructure to support a network of CNG stations, there is no incentive for motorists to convert their vehicles to CNG. In fact, an economic impact assessment performed at the request of TFBSO found that the CNG filling station project produced no discernable macroeconomic gains and a discounted net loss of $31 million.[20]

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[14] Advanced Engineering Associates International, Inc., *Sheberghan Gas Generation Activity (SGGA) Gas Feasibility Study UPDATE*, March 2015, p. 18. Advanced Engineering Associates International Inc. completed this study nearly three years after the initiation of the TFBSO CNG station and hence did not inform TFBSO's planning for the project.

[15] Advanced Engineering Associates, Inc., March 2015, p. 67.

[16] Lowering the pressure of a pipeline lowers its transmission capacity. In response to a separate SIGAR alert letter, the TFBSO Director admitted that the refurbished pipeline could operate only at "minimal" pressure. See Letter from Joseph Catalino (Acting Director, TFBSO to SIGAR, December 3, 2014. TFBSO planned for a second pipeline to be built from Sheberghan to Mazar-e-Sharif by the government-owned Afghan Gas Enterprise (AGE). A USAID official with direct involvement in natural gas projects in northern Afghanistan and with AGE stated told SIGAR that there was "no hope" that AGE would be able to complete the project on its own. As of March 2015, no construction had begun and AGE had no plans to install the TFBSO-procured pipe.

[17] Advanced Engineering Associates International, Inc., *Sheberghan Gas Generation Activity (SGGA) Gas Feasibility Study UPDATE*, March 2015, p. 67.

[18] See CADG website, http://www.cadg.com/index.php/cng-2 (accessed Aug. 2015). This estimate may be a little on the low side. The Wall Street Journal reported that the cost to convert a car to CNG in Afghanistan is "up to $800." See *Afghans Pin Energy Hopes on Local Gas,* Wall St. Journal (Nov. 27, 2012).

[19] According to CADG, "over 120 vehicles" have been converted to CNG "paid for by the U.S. government." See CADG website video, http://www.cadg.com/index.php/cng-2 (accessed Aug. 2015). DOD did not respond to SIGAR's inquiry regarding the total number of vehicles that had been converted to CNG.

[20] See Vestige Consulting, LLC; Acertas, LLC, *Economic Impact Assessment, Task Force for Business & Stability Operations (TFBSO) in Afghanistan*, December 29, 2014, p. 98.

TFBSO Report to Congress

TFBSO's January 2015 report to Congress stated that Qashqari Oil and Gas Services, the firm that purportedly was licensed to operate the Sheberghan CNG filling station, "indicated that it will start construction of a sister station in Mazar-e-Sharif."[21] However, SIGAR was unable to find support for this statement in TFBSO documents. As described above, DOD has stated that it is unable to answer questions related to this project. Afghan government documents obtained by SIGAR indicate that the business license of Qashqari Oil and Gas Services expired in November 2014—only six months after Qashqari purportedly began operating the filling station—and has not been renewed.

Conclusion

TFBSO spent nearly $43 million to build a CNG filling station that would have cost no more than $500,000 in neighboring Pakistan. Even considering security costs associated with construction and operation in Afghanistan, this level of expenditure appears gratuitous and extreme. There are several troubling aspects of this project, including overhead costs of $30 million (70 percent of total project expenditures), the apparent lack of a feasibility study prior to project initiation, and the prohibitive costs associated with converting cars to CNG.

Unfortunately, SIGAR's review of this project was hindered by DOD's lack of cooperation. In its June 17, 2015, response to SIGAR's letter requesting information, DOD contended that no one remains at the Department who can answer substantive questions about the CNG project, or, apparently, about any other TFBSO activities. This implies that TFBSO operated independent of any internal DOD management and oversight. Yet TFBSO was created by the Deputy Secretary of Defense and throughout its existence reported directly to the Office of the Secretary. Moreover, it was dissolved only a little over six months ago. In fact, for the last seven months of its existence, TFBSO reported to the Principal Deputy Under Secretary for Policy, who now says that no one in the Office of the Secretary knows anything about it.

Under the circumstances, DOD's position that it has no knowledge about this $800 million program is startling and unconvincing. It is also a major concern because TFBSO was DOD's principal vehicle for stimulating private sector investment in Afghanistan to build a stable and growing economy. An understanding of the successes and failures of TFBSO activities will be critical for Congress and the Administration when considering economic development activities during future contingency operations.

While DOD cooperation would certainly have provided additional, valuable information about TFBSO's CNG project, we were able to obtain sufficient evidence from other sources, including TFBSO contractors under subpoena, to issue this report.

Agency Comments

We provided a draft of this report to DOD for review and comment. Principal Deputy Under Secretary of Defense Brian P. McKeon provided written comments, which are reproduced in Appendix II.

DOD did not dispute any of the facts or findings contained in our draft report, or provide any new information.[22] Instead, DOD reiterated its earlier position that the March 2015 closure of TFBSO resulted in the Office of the Secretary "no longer possessing the personnel expertise to address these questions or to assess properly the

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[21] Task Force for Business and Stability Operations, *Department of Defense Task Force for Business and Stability Operations Fiscal Year 2014 Activities Report*, January 2015, p. 8.

[22] DOD also chose not to provide any comments to another SIGAR report that analyzed TFBSO activities. See SIGAR 5-55-AR, *Afghanistan's Mineral, Oil, and Gas Industries: Unless U.S. Agencies Act Soon to Sustain Investments Made, $488 Million in Funding is at Risk*, April 24, 2015.

TFBSO information and documentation retained by WHS in the OSD Executive Archive." However, DOD stated that it is "fully prepared" to provide SIGAR with access to documents and officials related to our review of TFBSO activities, but asserted that, "SIGAR has not availed itself of these offers of assistance."[23]

DOD's assertion that "SIGAR has not availed itself of these offers of assistance" is false. Following receipt of DOD's June 17, 2015 letter, SIGAR immediately arranged a meeting with DOD to speak with knowledgeable personnel and obtain access to TFBSO files. In a meeting with SIGAR senior staff on June 30, 2015, DOD officials restated that there was no one left at DOD who could respond to our questions related to the CNG filling station, or TFBSO activities more broadly, but that they would make an effort to identify officials that might have knowledge about TFBSO work. However, following that meeting, DOD did not identify any officials with knowledge of TFBSO activities. In its October 9, 2015 letter to SIGAR, DOD again offered vague promises that it would identify personnel knowledgeable about TFBSO, but did not offer any names. As recently as October 13, 2015, SIGAR contacted DOD to speak to these unnamed employees, but DOD again failed to identify anyone.

At the June 30, 2015, meeting described above, DOD officials also told SIGAR that the Department was prepared to arrange for "appropriate access" to TFBSO information "related to" SIGAR's review, but then explained that "appropriate access" meant review of a collection of TFBSO documents that DOD would allow SIGAR staff to search on a DOD laptop at a DOD facility. Any documents selected by SIGAR would then be reviewed by DOD personnel using Freedom of Information Act standards to determine whether the documents were releasable. SIGAR staff informed DOD that these conditions were unacceptable. Both SIGAR's authorizing statute and Section 6 of the Inspector General Act require DOD to provide all information requested by an inspector general; DOD has no statutory authority to condition release of information to SIGAR.[24]

Despite these efforts to restrict SIGAR access to TFBSO files, SIGAR staff visited the Washington Headquarters Services archives where TFBSO's files are purportedly kept. In the course of several visits over a period of weeks, the head of the archives provided only promises of future access, but ultimately never produced any documents for SIGAR to review. SIGAR's experience indicates that DOD's repeated promises of access to TFBSO files are more pretense than promise.

Finally, in his October 9, 2015, comments, Principal Deputy Under Secretary McKeon states that, Department officials "offered to provide SIGAR access to TFBSO records with appropriate safeguards; such safeguards are necessary due to SIGAR's actions that revealed Personally Identifiable Information [PII] in *an unrelated incident*"[emphasis added]. SIGAR believes this vague accusation is a red herring intended to divert attention from DOD's continued refusal to answer any questions related to TFBSO activities.[25] For example, in response to SIGAR audits and investigations of other matters, DOD has continued to provide unrestricted information and unfettered access requested by SIGAR auditors and investigators. However, when it comes to TFBSO activities, DOD appears determined to restrict or hinder SIGAR access, based on what Principal Deputy Under Secretary McKeon admits in his own letter is "unrelated" to TFBSO.

Nevertheless, we intend to continue our review of TFBSO activities and specific TFBSO projects, and we intend to fully exercise our statutory authorities to shed light on this $800 million program. We will also continue to reach out to DOD in hopes of identifying someone at the Department who is able to discuss the activities and expenditures of TFBSO and provide us with the information we request.

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[23] Brian P. McKeon (Principal Deputy Under Secretary of Defense for Policy), letter to SIGAR, Oct. 9, 2015 (see appendix II).

[24] See Section 6 of the Inspector General Act of 1978, as amended; Section 1229(h)(5) of the National Defense Authorization Act for FY 2008.

[25] DOD may be referring to SIGAR's release of a limited amount of unclassified CERP data to Pro Publica, a non-profit news organization, in response to a legitimate FOIA request. However, that information was provided to SIGAR by DOD without any special markings indicating that it contained PII. Nevertheless, SIGAR made extensive redactions to the material prior to its release. DOD has never identified exactly what information contained in the released material it considers to be PII or the legal basis for any such designation.

APPENDIX I: DEPARTMENT OF DEFENSE RESPONSE TO INQUIRY

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

POLICY

JUN 17 2015

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

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 (703) 614-1429 to schedule a meeting.

Sincerely,

Brian P. McKeon

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

OCT 9 2015

Dear Mr. Sopko:

I am responding on behalf of the Department of Defense to the opportunity to review the draft Special Inspector General for Afghanistan Reconstruction (SIGAR) report, "DOD's Compressed Natural Gas Filling Station in Afghanistan: An Ill-Conceived $43 Million Project," pursuant to an email from Jack Mitchell, Director, Special Projects, dated September 24, 2015. The Department appreciates the opportunity to provide comments on SIGAR's review of the Task Force for Stability and Business Operations (TFBSO) Downstream Gas Utilization project.

Pursuant to section 1534 of the National Defense Authorization Act for Fiscal Year 2014, TFBSO concluded operations in Afghanistan on December 31, 2014, as part of broader Afghanistan draw-down plans. As you and I discussed by phone on December 9, 2014, the Department of Defense is not in a position to retain TFBSO staff following the Task Force's disestablishment, due to a lack of statutory authority and funding for such activities. On March 31, 2015, TFBSO completed an orderly administrative shutdown period and turned over all property and facilities to the Washington Headquarters Services.

During the course of your review of TFBSO's Downstream Gas Utilization project, you requested specific and detailed information regarding a wide range of matters concerning TFBSO. SIGAR first sent this request to the Secretary on May 18, 2015, nearly two months after TFBSO was shut down. On June 17, 2015, I responded to your request indicating the Department could not respond to these detailed questions because the Office of the Secretary of Defense does not possess the personnel expertise following TFBSO's closure. I also indicated that we are fully prepared to provide SIGAR access to information relevant to its review of the TFBSO, as records have been consolidated in electronic form and retained by Washington Headquarters Services.

On June 30, 2015, Department officials met with representatives of SIGAR to discuss SIGAR's requests, and again offered to provide SIGAR access to TFBSO records with appropriate security safeguards; such safeguards are necessary due to SIGAR's actions that revealed Personally Identifiable Information in an unrelated incident. In addition, at this meeting, Department officials offered to assist in trying to locate individuals who might provide further background and detail regarding this matter. I understand that SIGAR has not availed itself of these offers of assistance.

I reiterate that we stand ready to facilitate SIGAR's access to TFBSO records and to assist your office in locating former TFBSO employees, including former TFBSO employees now working in the Department, who may be able to provide background on this project.

Sincerely,

Brian P. McKeon

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

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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 Christopher Staszak, Senior Investigative Counsel, (703) 545-5996 or christopher.staszak2.civ@mail.mil. 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

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The mission of the Special Inspector General for Afghanistan Reconstruction (SIGAR) 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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