**14 October 2009 – LBG/B&V answers to McClatchy Newspapers National Correspondent questions**

1. Have Louis Berger/Black & Veatch's oversight over USAID Afghanistan infrastructure contracts been adequate in preventing waste, fraud and abuse? If yes, then how do the companies explain the widespread perception that the joint venture's subcontractors in the country are not getting enough oversight? (For example, the Scott Walker kickback case.) If not, why has the oversight been inadequate and what is now being done differently?

**(LBG/B&V Answer: The Louis Berger Group, Inc. (LBG) / Black & Veatch Special Projects Corp. (B&V) Joint Venture (LBG/B&V) has effectively handled oversight on project task orders from our USAID client. LBG and B&V have a deep commitment to the USAID projects that our companies support to improve the quality of life for the people of Afghanistan. We continue to work collaboratively with USAID to manage the security, terrain and other challenges that are inevitable and often unpredictable given the circumstances and war conditions in Afghanistan.**

**The Afghanistan Infrastructure Rehabilitation Program (IRP) has created more than 530 positions for Afghans. Since its inception, IRP has trained a total of 667 people in the transport field, including 104 subcontractors, 468 Afghan Government staff workers, and 179 people in the energy field, including 15 subcontractors and 136 Afghan Ministry staff. Based on the analysis of the Afghan Energy Information Center, the energy provided from the total program to date serves more than 400,000 people in Afghanistan, and has generated an estimated economic impact of $38 million.**

**The case of Scott Walker validates LBG/B&V's management capability and accountability in implementing 169 subcontracts and 568 purchase orders under the IRP program. It is LBG/BV who notified authorities in the Scott Walker case. LBG/BV immediately informed USAID and the Inspector General when we learned of the situation and we have cooperated with all federal and legal authorities throughout their investigation. The individual is no longer with LBG/B&V or either Joint Venture partner.**

2. Louis Berger was criticized for its handling of Afghanistan contracts before they jointly won the $1.4 billion contract. Among the complaints were: unfinished health clinics and schools, shoddy workmanship, major cost overruns and delays (for example, the Ring Road) What was LB/B&V's assessment of the alleged problems with the earlier contracts? If the companies acknowledge the seriousness of the problems, what did the companies do to insure that taxpayers were protected from waste or substandard projects during the joint venture?

**LBG/B&V Answer: These are inaccurate claims. USAID's contractor performance report issued at the conclusion of the Rehabilitation of Economic Facilities and Services (REFS) program issued Louis Berger Group's (LBG) work an "Excellent" rating. Furthermore, LBG is not aware of any engineering report that has ever found our work to be "shoddy workmanship" and we stand by our work.**

**Schools & Clinics**

**There were no unfinished health clinics and schools where security permitted in the REFS program referenced in your question. Thirteen projects in southwestern Afghanistan, the majority in Urzugan province, were cancelled because of the security situation and danger to LBG's local subcontractors.**

**The schools and clinics were not only a construction program, but also a major Afghan capacity-building initiative. The schools and clinics program purchased the majority of its supplies from Afghan businesses and trained and used local construction companies. LBG taught local construction companies to build earthquake-resistant structures. Any deficiency in a school or clinic that resulted from the learning process was captured through LBG's management oversight and quality assurance processes and corrected prior to delivery of that school or clinic to USAID and the Afghan Government. There was no, as your question suggests, "shoddy work" associated with this program.**

**In fact, subsequent visits by LBG personnel to these facilities have found them in good condition and in full use. When visiting one clinic, LBG personnel were told that there were five births per month. Women are now giving birth in clean, well-built clinics.**

**The Ring Road**

**The 831 kilometer (km) National Road from Kabul to Kandahar to Herat was reconstructed with a 7 meter-wide pavement and 2.5 meter shoulders on each side with over 4,000 new drainage structures. The road was a tremendous success. It was substantially completed on time and under budget.**

**The Kabul–Kandahar Highway portion of the Ring Road Phase 1 was constructed and paved in a record 208 days from start to finish and before the 31 December 2003 White House deadline. LBG finished two weeks ahead of schedule. The entire project was substantially complete in 2004, with final completion in 2005. There were no significant delays, cost increases nor construction claims.**

**The Kandahar–Herat Highway (K–H) portion traverses the main heroin poppy growing regions in southwestern Afghanistan, and the vast unpopulated areas are virtually lawless and ideal for banditry. The poor conditions of the road prior to reconstruction forced convoys of trucks to move at a tortuous 15 km per hour; the slow movement allowed for frequent attacks. Now complete, the 442-kilometer K–H is the most significant, difficult, and longest continuous concrete rubblization asphalt overlay ever constructed. Today, convoys and individual vehicles are moving at a faster pace and therefore more difficult to target. The only significant delay occurred due to a war between clans in Herat which shut down the project for two months, but substantial completion was achieved within the original project schedule and budget.**

3. How much money has LBG/B&V received to date for its joint venture in Afghanistan?

**(LBG/B&V Answer: As of September 12, 2009, LBG/B&V has billed a total of $549.4 million, including services and products from more than 730 subcontractors and**

**suppliers. This total includes more than 300 Afghan subcontractors and suppliers.**

4. USAID has listed six projects that have been completed by LBG/B&V under the joint venture. Just to be sure, these represent all of the completed projects, correct?

**(LBG/B&V Answer: Seven Task Orders have been completed and there are 23 Task Orders in total with multiple projects under each Task Order to provide road and electrical power infrastructure for Afghanistan. For example, completed task orders do not include the Tarakhil Power Plant, and the plant currently has commissioned capacity to deliver 35 megawatts of power to Kabul.)**

| Project | Budget | Subcontractor | Comments |
|---|---|---|---|
| Quick Response Task Order | $10.2 million | Various | Extended for 3 months to allow for administrative close-out procedures for the 34 sub-projects it covers. |
| Diesel Power Plant O&M | $15.7 million | AEAI **(LBG/B&V input: this should say Various rather than just AEIA)**Various | USAID expanded the scope accompanied by an extension of the completion date and an increase in cost |
| Preliminary Design of Strategic Provincial Roads, South and East Afghanistan | $4.8 million | Symbion-Group Alta | De-scoped; part of the design task was subsequently added to the award for the construction of the roads |
| South Strategy Roads (Kandahar to Bikah) | $17.5 million | SAITA | Completed on time and under budget by $0.3 M |
| Design of Ghazni-Gardez Road | $5.0 million | n/a | De-scoped to cover design only as LBG/B & V's proposal for the construction phase was deemed too expensive. **(LBG/B&V input: The "comment" regarding the Ghazni to Gardez road is incorrect. This contract was subject to a competitive bid process to ensure reasonable cost. It is the local contractors and security company's bids that USAID considers too expensive.)** |

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|---|---|---|---|
| Design of 500 kV Transmission line Aqueena to Andkhoy | $0.4 million **(LBG/B&V input: $365,000)** | n/a | Completed on time, and on schedule, **(LBG/B&V input: and under budget $91,335)** |
| **(LBG/B&V input: Design of 500/220 kV Substation in Andhkoy)** | $272,000 | n/a | Completed on time, on schedule and under budget |

5. The LBG/B&V are three years into a five-year contract, yet these projects represent less than 5 percent of the overall contract amount. Is this sufficient? How many projects should be completed by now? How would the companies characterize the progress of the joint venture? Do your companies still believe that you will complete what is required under the contract in five years? If not, why not? How many projects are pending? What are the problems that may be causing delays?

**(LBG/B&V Answer: Yes, it is sufficient. The first year of a contract of this size involves substantial start-up activities, including contractual process, mobilization, and completing the design phase of the infrastructure to be built. In the first year of the contract, LBG/B&V processed 17 Task Orders. In the second half of the first year, initial construction had begun, and by year 2 the activities had begun in earnest. To date, seven Task Orders have been completed and 16 Task Orders, with multiple projects under each Task Order, remain.**

How would the companies characterize the progress of the joint venture?

**(LBG/B&V Answer: LBG/B&V would characterize the progress of the joint venture as good. To date, projects under the IRP have included the completion of 30 km of road, more than 200 km under full construction and another 160 km in the design phase, provision of 75 megawatts of power capacity for Kabul (Uzbek power import plus commissioned Tarakhil power capacity) and 18 megawatts of power in Kandahar on a daily basis with a largely Afghan workforce. These are significant achievements by anyone's measure particularly given the state of Afghanistan's electrical grid prior to the start of this program.**

**For example, under one of the projects, LBG/B&V determined how to use a mix of substations and power lines that had been built by various donors to transmit power to Kabul from Uzbekistan. In January 2009, only 35 days after the Afghan government asked USAID for help, 40 megawatts were made available in Kabul for needed heat and light in the winter months.)**

Do your companies still believe that you will complete what is required under the contract in five years? If not, why not?

**(LBG/B&V Answer: LBG/B&V believes all its contractual obligations can be met under the terms of the contract.**

What are the problems that may be causing delays?

**(LBG/B&V Answer: What is important for people who are looking into this program to understand is the context within which we often work. Delays occurring on IRP road projects and projects in the south such as Kajakai Dam, where LBG is the lead, are most frequently due to the security situation in Afghanistan. Since LBG has been working in Afghanistan, under both the REFS and IRP programs, 200 workers have been killed and 300 wounded (including LBG and subcontractor staff.)**

**LBG/B&V continue to make progress in Afghanistan and successfully execute projects as the security situation in these areas continues to deteriorate**

**For example, the Gardez-Khost Road, which LBG is the lead, has been under significant attack since its inception in July 2007. To date, this project has suffered 13 killed, 19 wounded and 3 missing. These types of constant attacks inevitably have a consequence on the project schedule. This project is in an active war zone; active combat operations are occurring on and around this road. However, in spite of the security impacts, LBG/B&V continues to make progress.**

**In light of the circumstances described, with Gardez-Khost as just one example, we would characterize the progress of LBG/B&V as good. The Taliban and insurgents have made significant efforts to put an end to our projects, and we continue to make progress throughout Afghanistan.**

6. Questions in bold about specific projects:

<u>Sheberghan Gas Field Investigation and Power Plant Conceptual Design Project</u>

Contract award date: USAID signed a contract with Louis Berger Group/Black & Veatch (LBG/B&V) on February 5, 2008 to assess the viability of the Sheberghan gas field to fuel a 100 MW power plant.
Value of contract: $11.9 Million
Total spent on project as of 2 June 2009: $7.1 Million
Contractor/Sub-Contractor: Louis Berger Group/Black & Veatch (Contractor). Sub-contractor ARAR Inc., a Turkish-American Company.
Reason for termination: Due to poor performance, USAID terminated the contract for convenience on 2 June 2009. Status of project: This project has been terminated. USAID/Afghanistan is reprogramming the remaining funds (about $4.8 million) to assist the Government of the Islamic Republic of Afghanistan to put in place a power purchase agreement with the private sector for a 100 MW power plant at Sheberghan using existing gas reserve data and new data expected from an ADB-funded project, expected to start in October 2009. USAID feels that this new approach is a more strategic use of their funds and will serve to attract private sector investment in Afghanistan's energy sector and to create a model for public-private partnership.

What were the "poor performance" problems? Did the subcontractor receive any of the money? If so, how much? What about Black and Veatch? Is Black and Veatch refunding the money? If so, how much? Should there have been more oversight by Black and Veatch or USAID that might have helped avert the problems? Is LB/BV still involved in the power purchase agreement? If so, how?

**(LBG/B&V Answer: LBG/B&V, for which B&V is the lead, dispute this characterization. The U.S. Government elected to terminate this project for its own convenience, a standard federal contract provision, not for cause. LBG/B&V believes its performance was effective and it worked to deliver on the project under difficult circumstances. These circumstances included overcoming a number of obstacles for the benefit of the project and USAID prior to termination.**

- **One example is the fact that local authorities ordered the project's security firm out of the area, and it took almost two months to restore security and restart work.**
- **In a second example, LBG/B&V and its contractor addressed continually changing customs requirements at the border which delayed importation of necessary equipment for a period of three months.**

**Because of LBG/B&V's vast experience in developing economies around the world we anticipated some delays along these lines but because of the unprecedented situation on the ground, these issues were larger than anyone expected.**

**Aspects of project-related funding are currently being evaluated by USAID pursuant to the termination clause.**

**With respect to the Purchased Power Agreement (PPA) you refer to, there was an additional scope added to develop the basis for an IPP development which was to follow the proving up of gas reserves. The PPA portion of this would be required to attract private investment. This additional scope was not implemented as the gas reserves were never proven given the termination of the Task Order for convenience.)**

Kajaki Dam Project
Contract award date: November 2007
Value of contract: $ 50 Million
Total spent on project to date: $48 Mission as of July 2009
Contractor/Sub-Contractor: Louis Berger Group/Black & Veatch (Contractor). Chinese Machine-Building International (CMIC) (sub-contractor) Status of project: LBG/B&V subcontracted with a Chinese firm, China Machine-Building International Corporation (CMIC), to refurbish turbine unit #3 (16.5 MW) and to install turbine unit #2 (18.5 MW) at the Kajaki hydropower dam. In November 2008, CMIC left the project site citing security concerns. CMIC left the site before refurbishing turbine #3 or installing turbine #2. CMIC was paid $10.9 million for the new turbine and equipment they provided and the work to date. LBG/B&V has taken over the repair of turbine #3, which will be completed in October 2009. LBG refurbished turbine #1 under a different contract, and turbine #1 presently generates 16.5 MW of power. The hope is Kajaki hydropower dam will soon be able to generate a total of 33 MW of power (turbines #1 and #3). USAID is developing a strategy to install turbine #2. Once turbine #2 is on-line, power output will increase by 18.5 MW, generating a total output of 51.5 MW of electricity. After completing turbine #2 (the third generating unit), USAID's long-term plan is to further develop the Kajaki hydro power plant by increasing the generation capacity by 100 MW of power supply through additional reservoir storage and by building a second power house.

Is the dam now generating 33 MW of power?

**(LBG/B&V Answer: The dam, for which LBG is the lead, is capable of generating 33 megawatts (MW) of power. The power lines, which are not the responsibility of LBG, currently are not capable of carrying 33 MW of power.**

When will it be able to generate 51.5 MW of power?

**(LBG/B&V Answer: Kajakai will generate 51.5 MW when unit 2 is installed and a new power line is constructed. Delivery will be dependent on the security environment in Helmand & Kandahar provinces.**

What were the original deadlines?

**(LBG/B&V Answer: The original schedule was for Unit 1 to be completed by September 2005, and it was completed on time. Unit 3 was scheduled to be completed by May 2009 and came to full power in October 2009. As of October 12, 2009, LBG has never received a "restart" date for Unit 2.**

**The security environment and current situation surrounding the Kajakai Dam have changed drastically since LBG was contracted by USAID and the project was initiated in 2004. In 2004 and 2005, LBG was able to execute work on Unit 1, moving to and from the dam freely by road to deliver equipment and personnel. However, in 2006, the conditions under which work took place changed drastically and personnel were subjected to battle zone situations, with the LBG work area coming under rocket, mortar and small arms fire. As a result of these war-like conditions, the Kajakai Dam project experienced schedule delays.**

**In the late spring of 2006, Kajakai came under siege and access to the dam was cut off by the Taliban. This turn of events forced LBG's technical staff to evacuate on June 2, 2006, leaving our security staff to protect the dam from being overtaken by the Taliban. These conditions effectively delayed the project until the fall of 2007 when the British Military lifted the siege and LBG technical staff returned to Kajakai Dam in October 2007. Unit 3 rehabilitation commenced in March 2008.**

**An additional factor mitigating the schedule was the lack of safe access on the main route to the project site – the Kandahar to Kajakai Road. Beginning May 2006, it was effectively closed to safe traffic. In January 2007, when we again attempted a movement to the dam by road, three members of our security forces were tragically killed during a Taliban ambush. Since then, we have been forced to support all operations solely by air transport of equipment and personnel.**

**The Kajakai Dam project has encountered a number of unforeseen events in the course of its execution. A chronology of the project will perhaps best provide the context within which we have been operating.**
**1. Subcontractor CMIC was contracted to manufacture and install Unit 2, with notice to proceed in July 2005.**
**2. Work on Unit 1 was completed on September 17, 2005**
**3. Last safe LBG ground movement to the Kajakai site in May 2006.**

**4. The Taliban cut off access to the dam and surrounded the dam. LBG technical staff evacuated on June 2, 2006.**
**5. LBG security suffered 3 killed when attempting to move to the project site on February 7, 2007. From this point forward, the security situation has allowed for air movement only.**
**6. LBG technical staff returned to the project site in October 2007.**
**7. Unit 2 was delivered by a British Military convoy of 3,000 troops, one of the largest British ground movements since WWII, from August 29 to September 2, 2008.**
**8. CMIC, a state-owned Chinese company, was ordered to evacuate by the Chinese Government in October 2008 due to security risks to Chinese contractors in Afghanistan.**
**9. LBG/B&V begins self-performing the work on Unit 3 upon the departure of CMIC in November 2008. Unit 3 rehabilitation will be completed in October 2009, commissioning is currently ongoing.**

Wasn't the original plan to build power lines to the city of Kandahar?

**(LBG/B&V Answer: Yes)**

Either way, isn't that the only way to bring it up to its full potential?

**(LBG/B&V Answer: The power lines are necessary to deliver the power from Unit 2.)**

Will there be cost overruns considering $48 of the $50 million already has been spent? If so, by how much?

**(LBG/B&V Answer: This project, for which LBG is the lead, was contracted and work began under one set of circumstances. Early in the second year of the contract, battle zone conditions erupted around work sites and roads were effectively closed off. The augmented security requirements and reliance on aviation support that were never envisioned at the project start have cost implications. Nonetheless, LBG continues to work collaboratively with USAID to manage the security, terrain and other challenges that are inevitable and often unpredictable given the circumstances and war conditions in Afghanistan.**

**LBG/B&V have a deep commitment to the USAID projects that our companies support to improve the quality of life for the people of Afghanistan, despite the numerous challenges and obstacles that the war has presented.**

According to these figures, LB/BV has received about $38 million for this project. Is that correct?

**(LBG/B&V Answer: As the prime contractor, LBG/B&V invoices USAID for all project costs, which are estimated to be less than $48 million upon project completion. LBG/B&V then pays our employees, including 530 Afghans, subcontractors and other providers accordingly. Significant costs are allocated to our subcontractors – Afghan, regional and international. For Kajakai, in addition to construction, logistics and life support subcontractors, more than half of the**

**project costs have been paid to provide aviation support and security most of which was unanticipated at project start due increased security requirements.**

Tarakhil Power Plant, Kabul

Contract award date: 7/31/2007
Value of contract: Obligated amount $257,845,618
Total spent on project to date: Total amount spent up to end of July 2009 (based on the last invoice) is $234,752,839. As per LBG/B&V monthly forecast, the amount to be spent in August 2009 is $3,669,549. So, the total amount spent by the end of August is $238,422,388

Contractor/Sub-Contractor: Louis Berger Group/Black & Veatch (Contractor). Status of project: President Karzai and Ambassador Eikenberry inaugurated Block A (six generators producing 35MW of power) on August 5, 2009. The remaining two blocks (each 35 MW) will come on-line by the end December 2009 and the balance of the plant will be completed by April 2010. The initial $62,145,848 subcontract was discontinued by LBG/BV. LBG/BV has continued to implement the project themselves and through other sub-contracts.

Why was the initial subcontract discontinued? Who's the subcontractor now? Outside experts say the original deadline in retrospect was unreasonable. Do you agree?

**(LBG/B&V Answer: The referenced subcontract, for which B&V is the lead, was for certain design, procurement and the construction of the Tarakhil Power Plant project. As a result of the subcontractor's failure to adhere to its contractual obligations and its repudiation of its contractual responsibilities, LBG/B&V terminated the subcontract on June 2, 2009. LBG/B&V then began self-performing the completion of the subcontractor's scope of work on the power plant. The original target dates were a "best case" schedule. LBG/B&V has successfully delivered additional generating capacity for Kabul from this plant and continues to work toward delivering further capacity and completion of the project.)**

As I understand it, the original contract was for $100 million. Is that correct? There are now estimates that it will cost between $300 and $500 million. What is your estimate?

**(LBG/B&V Answer: Your figures are not accurate. The original estimated cost of the total plant was between $210 million and $290 million for the engineering design, procurement and construction of the 105 megawatt power plant near Kabul. The current estimate for the plant completion is approximately $305 million which also includes operation and maintenance support for three months following the commissioning of 105 megawatts.)**

Why did B&V buy 18 German manufactured Caterpillar generators? How much did it cost to fly them in? Why weren't they manufactured in the US or closer to Afghanistan?

**(LBG/B&V Answer: The chief concern was to work with a manufacturer that provided the best value and best product according to bid evaluation criteria. All the initial Tarakhil Power Plant project contracts were awarded based on publicly solicited and competitive bids, and were subsequently reviewed and approved by USAID, including the selection of Caterpillar Power Generation Systems, the**

**diesel generator set supplier. Caterpillar, the world's largest manufacturer of construction equipment, builds excellent generators and submitted the best value bid. The manufacturing location was the subcontractor's choice in its bid and LBG/B&V did not receive proposals specifying manufacture in the United States or at a location closer to Afghanistan**

**The engines were shipped by sea from Bremen, Germany to Sharjah, UAE and flown from there to Kabul given the logistics and challenges of moving 85 ton pieces of equipment over insecure land routes.)**

Weren't the original deadlines for Block A and B, Dec. 2 and 27, 2008? And the original deadline for its completion April 20, 2009? Have the other new subcontracts been awarded? If so, what are the new deadlines and amounts for the remaining work? Who has responsibility for the problems to date?

**(LBG/B&V Answer: The initial estimated target dates were not met despite LBG/B&V's best efforts. Since June 2009, LBG/B&V has been self-performing the work of the subcontractor that was terminated. On August 5, 2009, Afghan and U.S. officials energized an initial 35 megawatts (MW) of electricity at the Tarakhil Power Plant. These 35 MW represent the first one-third of the plant's total capacity of 105 MW, which is targeted to be available by the end of this year. This initial 35 MW from the plant has the capacity to provide electricity to approximately 200,000 people in Kabul, with the 105 MW plant's total capacity able to deliver power to more than 500,000 people. The plant's availability will enable the national utility to meet an additional 24 percent of the demand for electric energy expected in Kabul which would not be served without the Tarkahil Power Plant.**

**This effort followed the successful transmission of 40 MW of imported power from Uzbekistan to Kabul, beginning in January 2009, using existing facilities that had never been activated. The transmission project was accomplished through LBG/B&V working with other contractors and Afghan agencies in just 35 days from the time USAID received a request for energy support from the Afghan government.)**

There are estimates that it'll cost between $30 million to $90 million a year in diesel fuel to power this plant. Is that accurate? If not, what's your estimate?

**(LBG/B&V Answer: As requested by USAID, LBG/B&V provided an estimate to USAID. We can advise that costs will vary depending on fuel cost, fuel type used (diesel vs. heavy fuel oil), and the portion of the time the plant is run and at what load. The plant is likely to be run at higher loads during the winter months when hydro power is exhausted and power demands are higher due to heating needs but operate in standby mode during other times of the year when hydro power is more available. The plant also helps to provide leverage for Afghanistan in its negotiations of power purchase agreements with other countries in that it provides a source of power that these countries know will be available to Afghanistan if negotiations are not successful.)**