

**OFFICE OF THE
SECRETARY OF DEFENSE**

**DEPARTMENT OF DEFENSE BUDGET
FISCAL YEAR (FY) 2014**

May 2013



**Justification for FY 2014
Overseas Contingency Operations
Afghanistan Infrastructure Fund (AIF)**

**FISCAL YEAR 2014 OVERSEAS CONTINGENCY OPERATIONS (OCO) REQUEST
AFGHANISTAN INFRASTRUCTURE FUND
(Dollars in Thousands)**

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The estimated cost of report or study for the Department of Defense is approximately \$28,000 for the 2013 Fiscal Year. This includes \$0 in expenses and \$28,000 in DoD labor.

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I. O-1 Exhibit

Power	FY 2012 Budget	FY 2013 Request	FY 2014 Request
Kandahar Power Bridging Solution and Transition	-	-	100,000
Northeast and Southeast Power Supply Projects (NEPS and SEPS)	-	-	179,000
Power Total	-	-	279,000
Total AIF	400,000	400,000	279,000

II. Overview of Operations and Results to Date: The Afghanistan Infrastructure Fund (AIF) has been an invaluable resource in support of Operation Enduring Freedom (OEF). Initiated in FY 2011, the AIF funds infrastructure projects in Afghanistan that are a key feature of the counterinsurgency (COIN) strategy and the Civil-Military Strategic framework endorsed by the Commander, U.S. Forces-Afghanistan (USFOR-A) to lock in security gains and maintain stability by providing basic, essential infrastructure to the people of Afghanistan. The projects are jointly formulated and approved by the Secretary of State and include, but are not limited to, water, power, transportation projects, and related maintenance and sustainment costs. All proposed FY 2014 projects are jointly developed with the Embassy, Kabul and the U.S. Agency for International Development (USAID) and focus on completion and sustainability of ongoing large-scale infrastructure funded through the FY 2011-13 program.

Given the significance of these efforts to our Civilian-Military Strategic plan, and the security and economic benefits that will result, it is critical we complete initiated projects and provide Afghanistan with essential and sustainable infrastructure. The proposed FY 2014 program provides funding for power projects in key regions. The Kandahar Power Bridging Solution and Transition project will support temporary power in Kandahar by funding fuel and maintenance, as needed, for the U.S.-provided generators, as well as projects to expedite the transition from temporary to permanent power sources in Kandahar. In addition to collaborating with the U.S. Embassy, Kabul, and USAID, the USFOR-A developed the proposed FY 2014 with input from International Security Assistance Force (ISAF) Regional Commands, and civilian Regional Platforms. All of the projects support the Government of the Islamic Republic of Afghanistan's (GIRoA's) National Priority Programs.

This FY 2014 request is based on an assessment of requirements that enable a successful turnover of the projects during the next phase of our mission to provide Afghanistan with sufficient power infrastructure. Because not all FY 2012 and FY 2013 projects have been awarded, the FY 2014 budget estimate is based on limited actual cost data. The FY 2014 request focuses on completion of

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critical transmission lines and substations, and transitional sustainment and turnover efforts required to ensure infrastructure for stability.

It is important to note that initiation of AIF projects, and those complementary projects funded through the Department of State Economic Support Fund (ESF), has taken time due to the inherent complexity of executing large-scale infrastructure projects in remote and complex terrain, especially in a country at war. AIF projects are awarded as design-build construction contracts in varied and difficult geographic terrain and dynamic security environments. Obtaining an adequate pool of competitors with the capability and flexibility to perform the required work has been challenging. In addition, efforts to leverage cost-effective contracts through USAID when possible and optimizing the use of expert subcontractors in some cases lengthened the contracting process, resulting in delays due to restricted construction seasons.

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III. Power

Summary: The “Power” category includes critical efforts to repair, restore, or improve electrical production, transmission, and distribution infrastructure, and to fund limited sustainment activities and transition efforts. Power projects continue to be the primary focus for AIF throughout the country. In Fiscal Years 2011-13, power projects accounted for two-thirds of the AIF program allocation and remain the main focus, as power is necessary to promote the stability and security required as the U.S. military mission and presence transitions to an Afghan lead. The Fiscal Year 2014 request continues support for fuel and maintenance for the Kandahar diesel generation plants until completion of more permanent power sources such as the NEPS-SEPS connection, which is primarily funded by the USAID and will supply long-term electrical capacity to the Kandahar region. This effort will include supporting transition, temporary sustainment, and turnover requirements.

Project execution is expected to accelerate now that initial power projects have been awarded and are being implemented. The budget estimates to complete the last phases of planned NEPS and SEPS infrastructure are based on available cost data from the NEPS and SEPS transmission lines and substations awarded under the FY 2011 and FY 2012 program. In addition, it is estimated that modest temporary sustainment and transition efforts will be required with FY 2014 funds to facilitate effective turnover of completed plants, lines and substations.

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A. Kandahar Power Bridging Solution and Transition

Budget Activity 1, Power	FY12 Budget	FY13 Request	FY14 Request
Kandahar Power Bridging Solution and Transition			100,000

Project Description/Justification: This project will provide diesel fuel for generators, as well as operation and maintenance for the two 10 MW power plants placed into operation in Kandahar by USACE in FY 2011; one at the Shorandum Industrial Park (SIP) on the east side of Kandahar City, the other at the Bag-e-Pol site on the west side. The project also provides fuel for the USAID 6.6 MW plant at Shorandum Industrial Park. The central area of the city relies on the existing Breshna Kot power plant and the Kajaki Hydro power plant. Fuel is required to allow the USG plants to operate and supply power to the Western and South East section of the city at all times until the permanent connection is made along the NEPS-SEPS system (anticipated in CY 2016). The Kandahar Power Bridging and Transition project will also provide infrastructure to facilitate Da Afghanistan Breshna Sherkat (DABS, Afghanistan’s power utility company) ability to provide more efficient power and distribution in ways that break or reduce the reliance on the current diesel fuel supplements.

Since 2003, GIRoA’s capacity to provide basic electrical power supply has expanded in many regions of the country, but its ability to provide production and transmission of power in the southern provinces does not meet current demand. The Kandahar Power Bridging and Transition project supports temporary power sources and expedites transition to sustainable power generation. The immediate impact of this project is that DABS will be able to provide reliable and continuous power to the local population spurring economic development, industrial output, improved quality of life, and stability. Employment is increasing through factory and small business development as a result of reliable power. It is expected that this effort will boost economic productivity, increase Gross Domestic Product and have a continued positive counterinsurgency effect. This effort will also support sustainment and transition efforts to fill gaps in the transmission and distribution system, as well as ensure that DABS has the proper tools to sustain the Afghan grid over the long-term.

Impact if not provided: The Kandahar Bridging Solution is essential to continue the positive impact upon Kandahar Province and prepare for a sustainable power system. Without this project, the immediate impact would not only be a loss of electric service to at least 400,000 people, it would reduce DABS’ cash flow and delay or prevent financial solvency of the company. Revenues collected from subsidized generation will allow DABS to build cash reserves that will eventually help them achieve financial stability.

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B. NEPS and SEPS

Budget Activity 1, Power	FY12 Budget	FY13 Request	FY14 Request
NEPS and SEPS	0	0	179,000

Project Description/Justification: This project will improve the reliability and robustness of the NEPS/SEPS system, including transmission lines and distribution feeders. This project will help ensure realization of the benefits from the investment the U.S., GIRoA, and donor nations have made. For the NEPS/SEPS infrastructure supported by DoD and USAID, AIF provides transmission lines and substations and USAID funds the connections to private entities off the substations and the NEPS-SEPS connector. Transmission line projects account for a major portion of the proposed DoD investment. The effectiveness and reliability of the distribution system will be improved by the addition of modern substations and distribution networks. This funding will also provide a means to support sustainment and transition as well as ensure DABS has the proper tools to sustain the Afghan grid over the long-term.

Impact if not provided: The benefits of access to electricity will continue to be unevenly distributed between the urban and rural areas as well as unevenly proportioned between Kabul and the other major cities resulting in destabilization and a lack of confidence in GIRoA's ability to provide basic services. The recent management, operations and commercial improvements achieved by DABS will be slowed. The rate of improvement in reducing commercial and technical losses will decline or possibly reverse if the electric system does not continue to grow and expand.

A decline in the availability of electricity and the reliability of electric power would negatively affect economic development in Kandahar City attained over the past few years and would result in a perception that GIRoA cannot provide for the basic needs of the Afghan population. The long term effect would be destabilization in the southern provinces allowing the insurgency to regain influence.