

ANNEX B: STRATEGY FOR THE ESSENTIAL SERVICES IN SOUTHERN IRAQ

INTRODUCTION

1. The essential services in southern Iraq suffered from a significant long-term lack of investment under the Saddam Hussein regime. Despite the coalition forces securing successfully the infrastructure, subsequent looting and organised crime have left the essential services in a fragile state. The Essential Services Line of Operation of the Coalition campaign plan is the responsibility of the CPA with Coalition Forces in support. A failure to deliver rapidly significant improvements in power, fuel and water supply will risk losing public consent in the South, create the conditions for insurgency beyond the capability of MND(SE) to overcome, and could result in operational failure for the UK and its Coalition partners.
2. Adequate provision of power, water and fuel is key to the successful reconstruction of Iraq and central to meeting the expectations of the population, who will judge the Coalition on the rate of improvement of these services. Continuous attitude surveys show that the population's consistent key concerns are water, electricity and fuel. Events in Basrah in August 2003 have shown that degradation in the essential services undermines the Coalition credibility, leading to violent demonstrations and lethal attacks on Coalition Forces. The resulting insecure environment is considered unsafe by the UN, NGOs, some international staff in the CPA and reconstruction companies.
3. The essential services companies are regional organisations, driven by national priorities established in Baghdad. The service networks cross provincial and national boundaries and, therefore, their reconstruction is planned by CPA(Baghdad) but central policy should also reflect regional priorities. The management and workers of the essential services industries and the associated State Owned Companies are largely in place and many of them are technically highly competent. However, they lack leadership and management training and confidence. An important element of the strategy is the need for CPA(S) to advise, guide and mentor to build the capacity for Iraqis to run the essential services with confidence. Initially, project management will be conducted by Coalition Force engineers reinforced with external industrial expertise.
4. The CPA(S) intent is to improve progressively the essential services in southern Iraq in the short, medium and longer term as part of the overall CPA reconstruction strategy. Whilst it is essential that all phases of the plan are co-ordinated within that strategy, the imperative of securing rapid and visible improvements to the essential services and forestalling erosion of Iraqi consent demands the urgent implementation of a short term emergency plan. It is estimated that the cost of the emergency plan is some \$127m. This will require extraordinary and rapid procurement, contractual and management arrangements, enhanced funding, and more staff in theatre.

AIM

5. The aim of this paper is to specify the requirement for the \$127m short term, emergency plan¹ for the stabilisation of the essential services in southern Iraq set in the framework of the longer term, CPA outline strategy.

¹ The CPA(S) plan has been prepared in consultation with MND(SE), the DGs of the Iraqi state-owned essential service companies, DFID, [CPA(Baghdad)] and Mott McDonald.

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COST

6. The cost of the short term, emergency plan is approximately \$127m. This is subdivided as follows:

Projects	Cost (\$m)
General (see Annex A)	1.25
Power (see Annex B)	90.55
Fuel (see Annex C)	11.90
Water (see Annex D)	23.00
Total	\$126.70m

OBJECTIVES

GENERAL OBJECTIVES

7. The objectives that apply to all essential services throughout all phases of the strategy are:
- Investment in labour-intensive programmes to produce visible results in improvements to the essential services and reduce unemployment.
 - Investment in essential equipment and spare parts that permit the existing Iraqi workforce to fulfil their remit of providing essential services.
 - Introduction of power generation capability in potentially unstable population centres and to key industrial facilities to reduce dependence on the national grid.
 - Investment in UK/foreign industrial experts to augment CPA(S) and work with Iraqi Director Generals to improve their overall operational capability. A separate team will be required to reinforce MND(SE) to execute the short term emergency plan.
8. The prioritisation of all such programmes should be developed by CPA(S) in consultation with the provincial and municipal authorities.

POWER SUPPLIES

9. The principal objectives for the stabilisation and regeneration of the power supply are as follows:
- Power Management. The first priority is to maximise the effectiveness and stability of the grid by encouraging appropriate system management. Technical expertise will be required to reinforce CPA policy and optimise power generation, transmission and distribution.
 - Enhancement of the Transmission and Distribution System. The enhancement of the transmission and distribution system will be achieved principally through the repair and upgrade of power lines (400 and 132 kV). In the first instance, modest enhancement can be effected by the Iraqi Commission of Electricity (COE). The COE will require project management advice and physical support (vehicles, plant,

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equipment support and workshops). The COE will quickly over extend its capabilities and external contract support will be required. Repair of the transmission lines should be directed at the regional level. Priorities:

- (1) Kohr Az Zubayr to Nasseriyah 400kV (the national first priority).
- (2) Shaibah to Najibiyah 132kV line.
- (3) Shaibah to PetroChem 132kV line.
- (4) Shaibah to Toba (North Rumaliah) line.
- (5) Shaibah to Az Zubayr 132kV line.

c. Provision of Stand Alone Power. The provision of stand alone power to the principal point users will both reduce the load on the grid and provide these users with a secure supply. Stand alone power to the oil industry is being considered and implemented by Task Force Repair Iraqi Oil (TF RIO). Other requirements have been identified at Governorate level for the short term emergency plan. The first estimate of the power requirement for southern industry is at Annex E, the majority of which will be included in the medium/long term plans.

d. Maximisation of Power Generation Efficiency. Bechtel has a modest programme to enhance efficiency of the power stations, funded by USAID in accordance with a national plan, which must be empowered and extended in every way possible.

e. Repair and Refurbishment of Sub-Stations and Networks. Much of the repair and refurbishment of sub-stations (Umm Qasr and Al Qurna first) and local distribution networks is the responsibility of the Southern Electricity Company (SEC) and Governorates. An immediate start is required in the short term emergency plan and the remainder should be included in the medium/long term plans.

f. Provision of Spares, Chemicals, Consumables and Equipment Support. The provision of spares, chemicals, consumables and equipment support is the responsibility of the SEC and spans all phases of the strategy. However, immediate additional resources are required to facilitate the emergency short term plan.

FUEL SUPPLIES

10. The principal objectives for the stabilisation and regeneration of fuel supplies are as follows:

- a. Improvement of Existing Fuel Distribution and Storage Facilities. TF RIO is responsible for the restoration of the Iraqi oil infrastructure and national distribution but responsibility for local distribution lies at Regional level.
- b. Construction of New Fuel Distribution and Storage Facilities. After years of neglect and under-investment, there is a need to construct new distribution centres and storage facilities. The responsibility lies with the Southern Oil Company (SOC) and much of the work will be included in the medium/long term plans.

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- c. Improvement of Existing LPG Distribution. The shortage of LPG is potentially a major cause of unrest in the winter 2003/2004. Improvements to the existing LPG distribution and bottling centres are required as part of the emergency, short term plan.

WATER SUPPLIES

11 The principal objectives for the stabilisation and regeneration of water supplies are as follows:

- a. Maintenance of an Adequate Distribution System. The principal method of keeping the water distribution system running is through the short to medium term use of tankers, water towers and treatment systems.
- b. Maximisation of the Effectiveness of the Water Treatment Plants and Water Systems. A quick win is possible through the provision of communication systems.
- c. Refurbishment of Water Plant and Systems in Key Areas. Bechtel has an extensive programme to refurbish and enhance water treatment plants in Basrah. Other areas require urgent attention in the short term.
- d. Provision of Power and Standby Power. The provision of power to water plant stations lies in the medium/long term power programme. Emergency work is required in the short term.
- e. Repair and Replacement of Main Water Pipelines. Much of the work is labour intensive and short term emergency measures will also address unemployment.
- f. Empowerment of the Iraq Water Authorities. There is an urgent need to improve the working environment for the Water Authority employees.

DELIVERY AND EXECUTION

12. Short Term Emergency Plan.

- a. CPA (South) intends, at least initially, that MND(SE) should provide Ch Engr MND(SE) as the Emergency Programme Project Director, acting on behalf of the CPA (South) Regional Coordinator. Delivery of the short term emergency plan requires a consultancy team to work with MND (SE). DFID are planning to agree with CPA (Baghdad) the allocation of DFID funds direct to CPA (South) and fast track procurement arrangements. They propose to include a specialist Procurement Officer in the consultancy team, together with UK-based consultancy support, perhaps supported by MWF.
- b. Project requirements will be prepared and proposed by SO1 Esstl Svcs, HQ MND(SE). Funding may be provided by CPA, DFID or any other source. Projects are to be procured by the most effective route and where possible will be completed by the appropriate Iraqi technical Directorate, perhaps including mentoring by an appropriate advisor. Alternatively, a project proposal for entering into a negotiated contract or an accelerated bidding process will be put to a CPA (South) Tender Board, who will consider the argument and either approve the proposal or direct an alternative

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course of action. Paramount in the considerations of the Tender Board will be the speed of delivery of the required effect, although this will be considered in an overall value for money context. The Tender Board will be chaired by the Regional Coordinator CPA (South), and the Board composition will include Ch Engr MND (SE), the CPA (South) Programme Manager (a DFID engineering advisor seconded) and a representative of the appropriate Iraqi technical Directorate.

c. Once a project is identified for funding, a source of supply/construction will be identified and costed by the Procurement Officer. Once approved by the Tender Board, the Programme Manager will give financial and contractual approval under delegated authority.

13. Longer Term Strategy. CPA (South) have identified that the delivery of the longer term strategy requires investment in a team of industrial specialists with technical and managerial expertise from the private sector or relevant state-owned enterprises in the three areas of power, fuel and water/sanitation. Further additional technical staff will augment CPA(S) and work with local Iraqi Director Generals to improve their overall operational capability. Urgent action is required by CPA to ensure the team can be formed up during September and October 2003 in order to plan the implementation of the medium and long term phases of the strategy.

14. Transition. Initially, speedy delivery of the Emergency Programme will require military control. Effective transition to a CPA(South) controlled programme will require regular review of the ability of the CPA (South) Utilities pillar's and Iraqi technical Directorate's capabilities. To ensure the effective and early exit of military involvement in the CPA project management process, it will also require a progressive transfer of responsibilities to the Utilities pillar.

COORDINATION

15. The delivery of the Essential Services strategy is but one part of the Coalition campaign plan. To be executed effectively, it must be co-ordinated with the other Lines of Operation. For example, the provision of security to the essential services infrastructure is an integral part of the overall requirement to stabilise and then enhance the delivery of the essential services. A properly integrated, financed security plan, including Facilities Protection Security Forces, Police and Iraqi Civil Defence Corps, must be delivered in a similar timeframe to the Essential Services strategy.

16. In order to ensure a co-ordinated approach in southern Iraq, CPA(S) will chair an Essential Services Steering Group comprising the Iraqi DGs, MND(SE), appropriate UN Agency Heads, NGOs and other relevant agencies. Subordinate working groups (eg for electricity, fuel and water) should report to the Steering Group and specific Project Boards may be required to maximise efficiency of effort. In time, chairmanship of the Steering and Working Groups will pass into Iraqi hands.

2 September 2003

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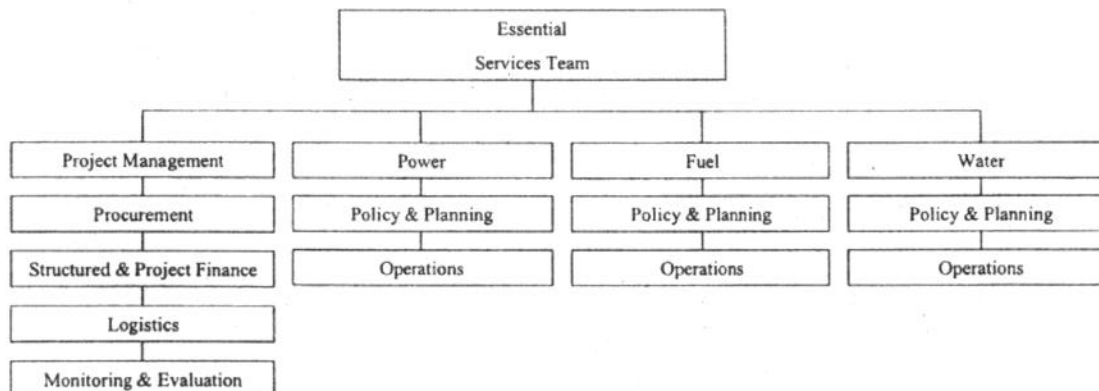
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ANNEX F

INITIAL APPROACH TO THE LONGER TERM

ESSENTIAL SERVICES TEAM

1. The rehabilitation of the essential services is an extremely complex task and presently neither the CPA nor the military is equipped to carry out this task. Staffing by generalists in the short-term has achieved mixed results but this now requires the commitment of appropriately qualified experts. A fully-functioning Essential Services Team (EST) is required for CPA(S) to implement the strategy. The EST must be formed up during September and October 2003 in order to plan the implementation of the medium and long term phases of the strategy. The team will consist of four components, namely Power, Fuel, Water and Project Management.
2. The EST will work with CPA(Baghdad) and Ministries to establish regional policy and longer term strategy, and prepare costed plans and budgets. The EST will draw on and co-ordinate funding from a number of sources; namely CPA(Baghdad), DFID, UN, HM Government and other international donors. Most importantly it is this team that must also co-ordinate its activities with the activities of the Iraqi Director Generals. Ownership of the plan rests with the Iraqi Ministries and not with the CPA or the military.



It is felt that these sector teams would best be composed of a number of distinct specialists rather than generalists to address the magnitude and complexity of the issues that are presently faced.

3. On a case-by-case basis these teams will recruit the services of sub-contractors, who must be responsible for the provision of their own life-support and security, as is presently the case elsewhere throughout Iraq.
4. Each of the three utilities teams requires the team leader to be a Director or very experienced Senior Manager from Industry of one of the nation's pre-eminent private sector companies or nationalised industries. Ideally such an individual is at Board level minus and is most likely a Director with extensive field experience. Such individuals must have a technical background and have had experience developing and implementing infrastructure programmes. They will be experienced in making strategic policy and giving strategic direction to a team, although in this case they will be working alongside their Iraqi Director General counterparts and their workforce is indirectly the respective Iraqi Directorate. Such is the structure of many of the essential services in the south that their scope is regional in nature and spans three provinces in

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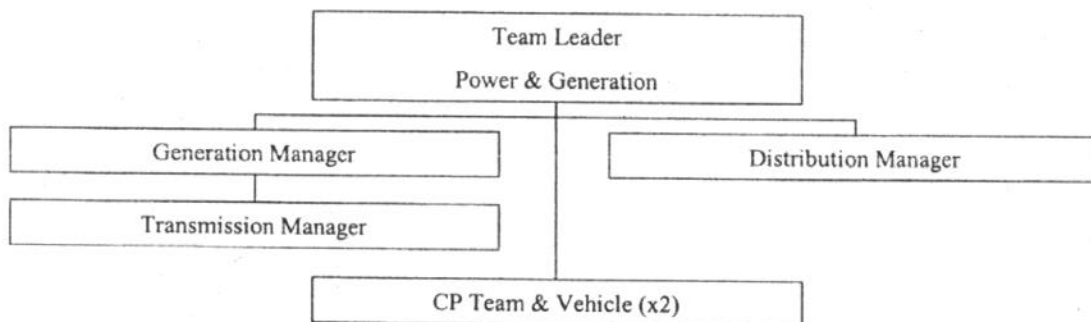
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most cases. The curious exception is Al-Muthanna which appears to operate more independently in its reporting lines to Baghdad. Spoken and written English is obviously required.

5. Although the individuals and their composite teams will operate within CPA(S) and its management structure, it is accepted that these individuals are also ambassadors for their own enterprises and may wish to facilitate opportunities for their parent organisations. This will be difficult to manage but is an acceptable compromise to buy-in the expertise as soon as possible. Such contractual negotiations must be undertaken in an open and transparent fashion and are not entirely closed to competition.

6. Each team will require a dedicated number of vehicles complete with close protection teams (CPT). These vehicles and CPTs are essential to conduct day to day business.

7. Power Sector Team. The Power Sector Team requires managers in distinct specialist fields. Therefore, the minimum team composition is:



a. A specialist in power generation is required, ideally a power plant manager with expertise in oil and coal facilities. Additional support from a turbine specialist would be a bonus. This does not negate the need for a plant manager.

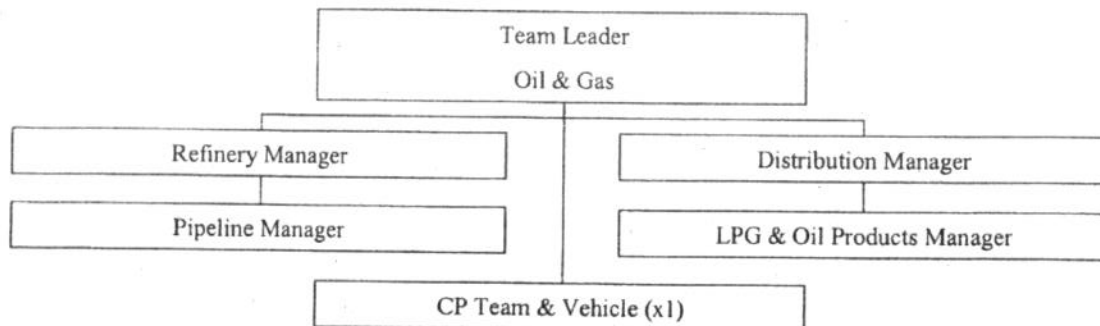
b. Transmission requires a manager from the private sector with specialist experience from the likes of Powergen, National Power or even the National Grid.

c. Distribution would benefit significantly from the expertise of a specialist in cables and pylons. Such an expert could readily come from one of the electricity companies that does not sub-contract this business, (e.g. SWELEC) or alternatively from one of the sub-contracting companies themselves (e.g. Balfour Beatty).

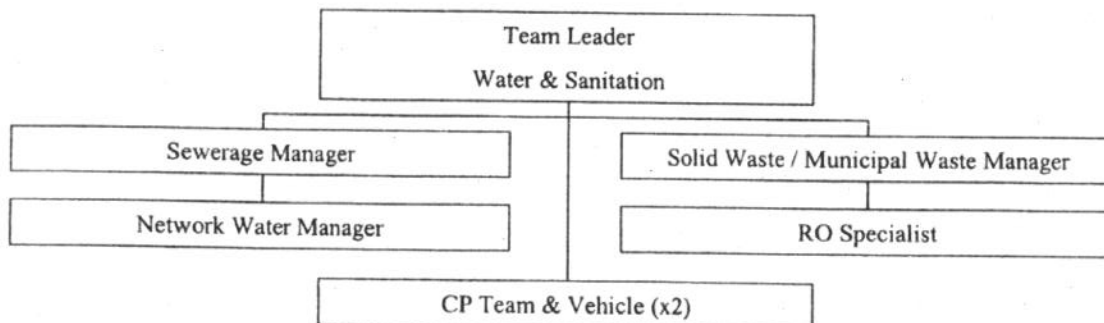
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8. Fuel Sector Team. The Fuel Sector Team requires managers in distinct specialists fields. Therefore, the minimum team composition is:



- Internal fuel distribution urgently requires a distribution manager, preferably from one of the large petrochemical companies.
 - Two separate experts are required with technical experience in oil drilling and refining (the latter is possibly more desirable) and also expertise in oil pipelines.
 - An oil & petroleum products specialist is desirable but not essential to engage in the rehabilitation of the various refineries and industrial processes.
9. Water Sector Team. The Water Sector Team requires managers in distinct specialist fields. Therefore, the minimum team composition is:



- The sewerage specialist could come from a local authority and must have a technical background and be able to write and operate specifications and designs.
- The solid waste specialist could come from either the public or private sector (e.g. Onix or Shanks & McEwan).
- The RO specialist will inevitably come from the private sector as a specialist or as a consultant. These specialists may also be found in the oil industry and this could be a useful linkage.

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- d. The network water manager would ideally come from one of the network water companies, that is either public or private (e.g. Scottish Water, Severn Trent, Wessex Water etc.).

EXECUTION CONCEPT

10. Delivery of the strategy will require, in the short term, extraordinary contractual and financial arrangements. CPA(S) requires the delegated authority to take action at the provincial level in co-operation with its local Iraqi counterparts. MND(SE), its agent for the emergency short term plan, requires similar authority. This approach incurs the risk that procurement may not be optimised but it is considered that, without this degree of financial freedom, the delivery of rapid and visible improvements to stabilise the essential services and forestall further erosion of Iraqi consensus to the Coalition presence will not be achieved. Clear guidelines must be produced between CPA(Baghdad) and CPA(S) to ensure that there is no confusion.
11. In order to deliver rapid improvements to the essential services, a transparent environment is required in which competition for tendering of contracts is open to Iraqi and international companies alike. However, the overriding requirement for immediate, demonstrative improvements will preclude such competition in the execution of the short term emergency plan.
12. UK and other international private sector companies must accept that contracts which enable them to invest in key infrastructure redevelopment projects in southern Iraq must involve a mandate to train and transfer skills to the Iraqi enterprises. This is an essential part of the Coalition principle of enabling the Iraqi people.
13. Without the backing of governments and/or CPA, inward investment will falter because companies will be concerned about security of finance and validity of contracts. Physical security is a relatively minor risk compared to the underlying legal framework that must surround any inward investment, but contractors will be expected to provide for their own physical security within the secure environment provided by Coalition Forces.
14. Execution of the strategy will require financial engineering schemes, rather than simple initial purchase of plant and equipment, which can significantly increase the effect of the funds allocated and also allows for a number of longer term objectives to be met. DFID will have experience in such programmes and CPA(S) is confident that they could readily suggest a number of solutions to enhance any financial investment.
15. Financial engineering schemes such as Build, Operate and Transfer (BOT), Power Purchase Agreements (PPA), Rental Agreements, and Sale & Leaseback structures would introduce generation capacity immediately for the short term, from local Middle Eastern and multinational companies without the requirement for further lengthy surveys and extensive studies. Such contracts must be inclusive of training, insurance, security, warranty and maintenance. A number of private enterprises have already approached CPA(S) with such proposals, although the bulk of them have been PPA Agreements rather than BOT proposals. These and other private sector led solutions should be urgently considered for approval.
- a. BOT. The attraction of a BOT programme is that it ensures that specialist engineers install the technology correctly, and there is unlikely to be an issue of

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compatibility. Equipment must be installed, tested and fully operational before it is handed over. As part of the contract, operating staff are trained and not all funding is up front, with the final payment made at the time of transfer.

b. PPA. The attraction of PPA is that, in the unstable security environment, there is no underlying risk to the Iraqi entity or CPA(S) for the security or ownership of the contracted equipment. Moreover, in the event of breakdown, the PPA will have warranty conditions and/or maintenance cover for the repair or replacement of equipment. From a financial point of view there is much less initial capital outlay than outright purchase and less up front risk, although the eventual amount paid will be greater in the long run since finance in a developing country is generally expensive.

c. Power for Fuel. The ability to trade power for fuel is a useful tool to achieve a net increase in power. A number of private sector companies have approached CPA(S) to discuss proposals and this would seem an ideal way to operate in the current economic environment where hard currency and validity of contracts and bank guarantees are an issue.

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