
The Fate of the 250 Million Cubic Feet Expansion Project of Khor Mor Gas Production

04-09-2024

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Summary : This \$800 million project, which is over three-quarters complete, is now abandoned or expected to be completed by the end of this year. This analysis explores whether the increase in gas production, which has significant demand both inside and outside the Kurdistan Region, represents an opportunity or a challenge for the region's future.

Overview

On August 19, 2024, Dana Gas announced [\[i\]](#) through [the Abu Dhabi Securities Exchange \(ADX\)](#) that it had terminated its operating contract with the Canadian company Enerflex for completing [the Khor Mor KM250](#) gas project. However, it remains uncertain who will take over the project or when will it be completed?

The project, which aims to increase gas production in the Khor Mor and Chemchemal fields, was initiated by Dana Gas and its partners in 2019 following a 20-year gas sales agreement with the Kurdistan Regional Government. [\[ii\]](#) However, progress has been hampered by the COVID-19 pandemic and continuous drone attacks. The latest attack, in April 2024, caused significant damage and led to the deaths of several workers, prompting Enerflex's withdrawal. [\[iii\]](#)

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KM250 Project and the Stories of Exterran and Enerflex

The KM250 project, estimated at \$806 million, is located [in the Khor Mor gas field](#). The United States provided a \$250 million loan when the project was launched in December 2020 by the American company Exterran, and Exterran was later acquired by Enerflex in 2022, which then resumed the project. [\[iv\]](#) Also, it is worth noting that Initially, Biltek and Havatek were subcontractors working with Exterran.

Currently, the project is over three-quarters complete. If the remaining work is finished, production will increase by another 250 million cubic feet of gas per day from the Khor Mor and Chemchemal gas fields. This would be significant, although the original expansion plan aimed to increase gas production by 500 million cubic feet per day, targeting a total of 1 billion cubic feet per day for the Kurdistan Region.

Reports indicate that work on the project has continued under Dana Gas and its partners but at a slower pace than when Enerflex and its contractors had over 1,500 workers on site. [Enerflex](#) claims that 85% of the project is complete, but other sources report the figure to be just above 75%. While construction, equipment installation, and material purchases for the gas production process are complete, there is still detailed work left, such as connecting cables, wiring, and other electrical tasks, which are time-consuming but not extensive.

In its first quarter 2024 report, [\[v\]](#) Enerflex noted a decline in revenue due to delays and increased costs associated with the KM250 project, a modularized cryogenic natural gas processing facility in Kurdistan known as EH Cryo. The company anticipates an increase in the estimated cost to complete the project, leading to a loss of \$41 million.

There is speculation that the [Turkish company Havatek](#), previously one of the subcontractors, may take over to finish the project. Havatek has experience building power plants in [Erbil](#), [Sulaimani](#), and [Duhok](#), and for over a year, it has been involved in a new payment mechanism for gas supplied by Dana Gas to these stations.

Is Increased Gas Production in the Kurdistan Region an Opportunity or a Challenge?

Completing the KM250 project, which would add 250 million cubic feet of gas per day, would account for one-sixth of [Iraq's total gas production projects involving international companies like TotalEnergies, Baker Hughes, and China's CNPC,](#)

as well as local companies. These projects are anticipated to become operational over the next four years.

This progress comes despite ongoing challenges related to gas flaring and environmental pollution from gas produced alongside oil, which still accounts for 35% of Iraq's total gas production. Iraq wastes 1.19 billion cubic feet of gas daily, making it the second-largest contributor to gas flaring in the world.

For more than two decades, Iraq has faced challenges in developing its gas production capabilities, despite signing numerous contracts with major international companies. The country continues to import gas while wasting its own resources. If this trend continues and armed groups keep disrupting projects, the core issues of constructing gas-fired power plants without first securing adequate gas resources will become increasingly apparent.

The Kurdistan Region, however, has entered a new phase in gas production and the use of associated gas. [Capterio](#), an institution focused on reducing carbon dioxide emissions, highlights the example of gas production in the Hasira field in Garmian. A U.S. report on "Reducing Associated Gas Burning in Arab Countries" [\[vi\]](#) notes that the Kurdistan Region has banned associated gas burning through production-sharing agreements.

According to [the US Energy Information Administration \(2024\) EIA](#), in terms of gas, the Kurdistan Region accounts for the largest share of total gas production in Iraq, which now reaches one-fourth of the total associated gas produced in Iraq. In addition, if this project is completed and the level of production reaches the level planned by the company, half of the total gas produced in Iraq will come from the Kurdistan Region within a certain period. All this while Iraq continues to burn associated gas and so far, has not been able to attract foreign investment to invest in this sector with a profit of more than 32% for companies as we saw in the five plus and sixth rounds of oil and gas contracts, and the decision of the Iraqi oil minister to visit the United States to attract US investment for 10 gas fields in the future.

Conclusion

The KM250 project was initially scheduled for completion in April 2023 but was postponed to [April 2024](#), then further delayed to the second half of this year, and now pushed to the end of 2024. Past delays were primarily due to militia attacks, but current questions focus on who in Iraq opposes the completion and expansion of gas production in the Kurdistan Region and Iraq overall. Given that the U.S. provided a \$250 million loan to Dana Gas, it is unlikely that the project will remain unfinished. Additionally, the allocation of gas and oil production projects in central and southern Iraq to Crescent Petroleum raises questions about its impact on the KM250 project's completion and future expansion.

Other factors to consider include the [approaching renewal of the gas contract between Iran and Turkey](#) and whether Dana Gas will continue at its current slow pace or bring in additional partners to expedite the work. [Enerflex](#) points out that despite evaluating all options, the project site remains unsafe, a concern echoed by security experts. The challenge remains to address these security fears and create a safe environment for companies to complete the project. The coming months will reveal the path forward.

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