

Pearl secures US financing to help increase production at Kurdistan gas project

Pearl Petroleum, a consortium led by Dana Gas and Crescent Petroleum of the United Arab Emirates, and the US government-owned International Development Finance Corporation (DFC) have signed a USD 250 million financing agreement to support the expansion of the Khor Mor gas project in the Kurdistan Region of Iraq (KRI). All the financing for the USD 630 million expansion project has been secured, according to the developers, meaning the project is on track for 2023 completion.

Dana Gas said the 7-year DFC financing agreement will support an increase in gas production capacity by 50% to 690 MMcf/d to meet rising demand for gas-to-power and industry in Iraqi Kurdistan. DFC is the development finance arm of the US government. The remaining financing has already been secured through a regional bank facility and the Engineering, Procuring and Construction (EPC) contractor.

This is the first stage of a two-train expansion project at Khor Mor that aims to boost total production capacity to around 1 Bcf/d, with the second phase possibly completed by 2024.

As for the first phase of expansion, work resumed in April 2021 after onsite construction was halted last year due to the Covid-19 pandemic "and is currently on track for completion by April 2023," the consortium said in a statement.

Under a gas sales agreement signed in March 2019 with the Ministry of Natural Resources of the Kurdistan Regional Government, Pearl Petroleum will sell the additional quantities of gas to supply power stations with fuel, and further enhance electricity supplies.

The gas processing plant in Khor Mor connects with a 180 km pipeline and supplies gas to power stations in Chemchamal, Bazian and Erbil totalling over 2 GW of electricity capacity.

Dana Gas says the supply of gas to the power plants has resulted in "significant fuel cost savings and economic benefits" for the Kurdistan region and Iraq as a whole. Replacing diesel with gas in power generation has also helped save CO2 emissions.

Pearl Petroleum's total investment at Khor Mor to date exceeds USD2.1 billion with total cumulative production of over 341 MMboe in natural gas and liquids. In April, Dana Gas said gas production from the field was 440 MMcf/d.

To what extent gas from the second leg of the Khor Mor expansion will reach Iraq remains an open question. Iraq is keen on reducing gas import from Iran, which supplies the bulk of the country's 10 Bcm/year or so imports. Since 2018, the US has granted temporary sanction waivers to Iraq that permit it to continue to import Iranian gas and electricity.

Several factors currently work against the Kurdistan Regional Government (KRG) exporting gas to the jurisdictions under the federal authorities, Justin Dargin, a MENA energy expert at the University of Oxford told Gas Matters Today.

"One is that there is no gas transport infrastructure between Khor Mor and the rest of Iraq," he said.

"Secondly, the KRG needs the gas for domestic demand, it still uses a significant amount of diesel fuel for its power generation, and as a result, it requires gas."

Thirdly, Dargin said, the KRG and the federal authorities have had an acrimonious relationship since the 2000s. As late as last year, the KRG and Baghdad have had an ongoing dispute over oil sales and revenue sharing.

"These disputes range from the central government not recognizing the KRG's production sharing agreement with various IOCs and also blames the KRG for Iraq not adhering to its oil production quotas under OPEC+," Dargin said.

"Therefore, for gas to be exported, the KRG needs to meet its domestic demand, refurbish and extend its natural gas pipeline infrastructure, and resolve any lingering disputes with the federal government," he said. "Once those issues are resolved, it is possible that the KRG could potentially export gas to the other jurisdictions in Iraq."

Yet there are other plans to boost energy supplies in Iraq. Earlier in September, TotalEnergies announced it is set to make the biggest investment by a Western company in Iraq, with the French energy major signing four contracts worth USD 27 billion.

TotalEnergies said it will make an initial USD 10 billion investment, with the most notable projects aimed at producing associated gas for the power sector and a 1 GW solar project – both of which will help lessen Iraq's reliance on Iranian gas in the longer term. - AW



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