

THE NAVIGATOR

WESTSHORE'S MONTHLY NORTH SEA REPORT

December 2014 Issue: 40

Russia Axes Contracts

Sanctions set to hit shipowners hard

UK 28th Licensing Round

New names enter the fray as UK confidence dips

Insight from the NOC

Norwegian operators on 2015



WESTSHORE

SHIPBROKERS AS

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Normand Ferking, Havila Mars towing the Songa Trym, photo Heine Birkeland / Solstad.

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Cover photo credit: Global Offshore Service's PSV Olympus - picture courtesy of Havyard Group

Headline News



The West Alpha during the rig's brief campaign in the Kara Sea. source Rosneft.

Russia Axes Contracts

In the past few days the Russian authorities have dealt a crushing blow not only to offshore activities in their territorial waters but also to shipowners' expectations for the North Sea next year.

The news that Viking Supply Ships, Siem Offshore and Rem Offshore have had their Kara Sea contracts cancelled came as a setback but little surprise to market observers. However, the subsequent one-sided announcement by Russian authorities that the South Stream project would also be put on ice came as quite

a shock to the markets and contractors.

This seems particularly true for the contractor Saipem who has said it intends to press on with the work. However, there is a question mark over the charters of a dozen vessels including four from Deep Sea Supply, three Solstad and Sealion Shipping vessels and two from Maersk. For the early termination of the Kara Sea contracts a number of shipowners are expecting to receive compensation which is understood to be worth up to 30%. However, this will do little to com-



pensate the companies' utilisation figures or their expectations for the seasons in 2016 and 2017.

The change in circumstances in Russia is causing a headache for shipowners who now face returning their tonnage to the North Sea market which is already experiencing issues with oversupply. At the same time the whole industry is facing a period of cost-cutting and efficiency savings which are likely to drive down activity in the forthcoming season.

This could also spell the end of Western companies involvement in the Russian market for the coming years too. Seadrill has announced that a large deal with Rosneft from earlier in the year has been delayed until the end of May 2015. It is understood the impact of ongoing sanctions against Russia are the source of the issue with the six rig contracts, worth around USD 4.25 billion, in jeopardy. It appears as though this deal could eventually go the same way as other contracts.

In fact Russia is understood to have been making preparations for going it alone in the Kara Sea for some time. According to market rumours Rosneft had threatened to fly in its own crews to finish the Pobeda well in the Kara Sea after ExxonMobil was instructed to move the rig out of Russia waters to

comply with the new sanctions.

These are rumours the Russian company denies but in the end the well was completed after the rig had been allowed extra time to safely finish operations and the discovery is now understood to contain around 750 million barrels of oil.

Russia has been holding talks over potentially chartering in a Chinese rig to take up where the Western companies left off. In addition a new Russian state-owned oil services company RBC was created in October. American news sources indicate that the intention is for this firm to replace the services offered by the likes of Schlumberger, Halliburton and Baker Hughes.

Meanwhile, the Russian maritime shipping company Sovcomflot has placed an order for an icebreaking multipurpose supply vessel. Steel cutting has already taken place at Vyborg Shipyard with delivery set for June 2016. Rosneft estimates the Kara Sea holds 87 billion boe and with oil and gas so vital to the Russian economy it seems exploration will continue with or without the assistance of Western companies who are likely to feel the impact of being frozen out of lucrative contracts going forwards.

“Russian oil and gas exploration is likely to continue with or without the assistance of Western companies.”

Drilling & Production

North Sea Activity

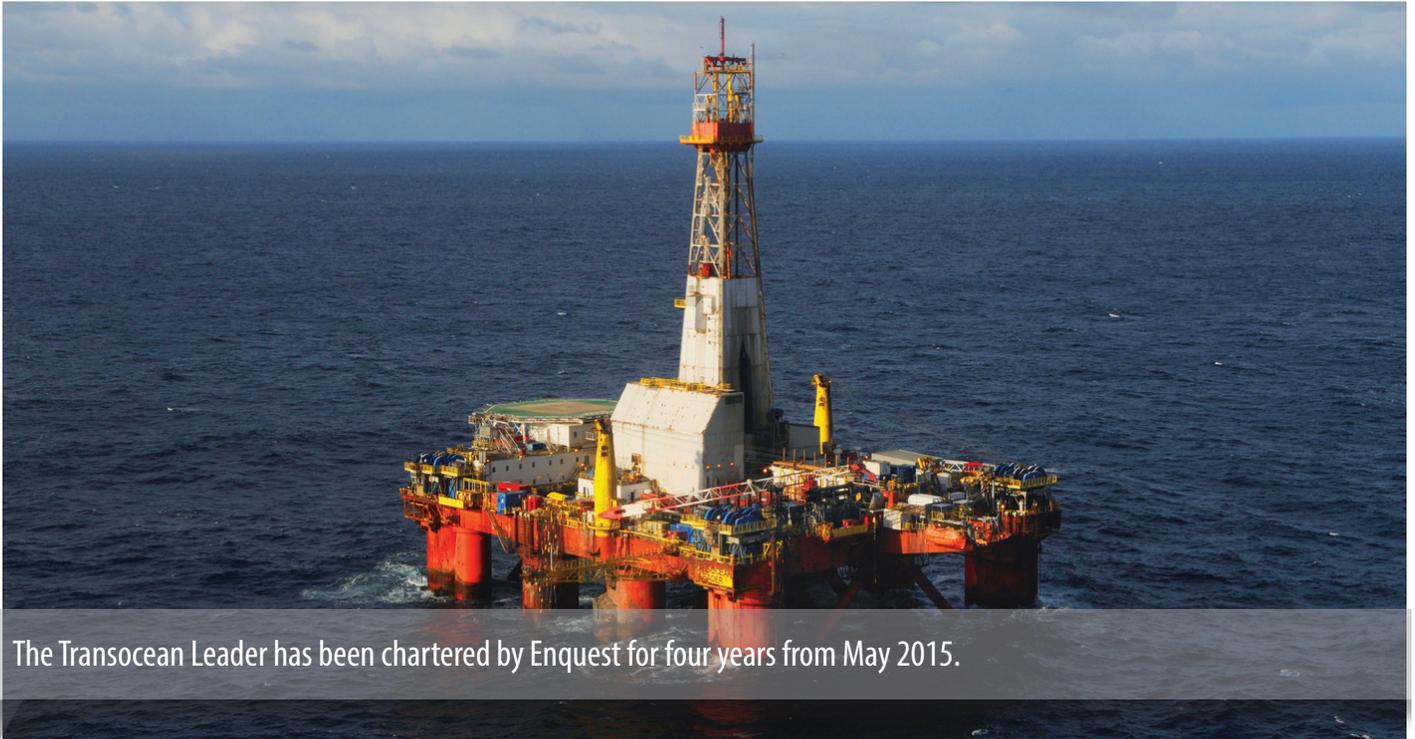
Statoil has announced that the timescale for the Snorre 2040 project has been postponed by around six months to focus on efficiency savings. The partners in the scheme have agreed to extend the early phase of the project however the final investment decision and the production start up will go ahead as originally planned in Q4 2016 and Q4 2021.

Wintershall is expected to commence drilling with the Transocean Arctic rig later this month once it takes over the rig from Lundin. The German company is due to drill a wildcat well at the Imsa prospect in the Norwegian Sea after being given the go-ahead by the Norwegian safety agency. The well is expected to take between 106 and 167 days depending on initial results.

Antrim Energy has acknowledged the intentions of Sound Oil to acquire the company. The board at the company is understood to be considering the intended offer with the aim of maximising shareholder value. Antrim Energy is a Canadian company with assets in the UK North Sea and Ireland. Sound Oil is a European business with a portfolio including gas assets in Italy.

Lundin Petroleum is expected to drill the Morkel prospect in the production licence 579 early next year using the Bredford Dolphin. The rig is expected to commence the work at the start of February with the well expected to take between 56 and 108 days if sidetracks are required. The company is expected to drill up to seven exploration wells during its 2015 campaign.





The Transocean Leader has been chartered by Enquest for four years from May 2015.

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Paragon Offshore has made a move to buy the majority of the shares of Prospector Offshore. Prospector Offshore currently has two jackups chartered to Total in the UK and a further three jackups under construction at the Shanghai Waigaoqiao Shipbuilding yard in China with their deliveries expected in December 2014, September 2015 and March 2016.

The jackup rig GSP Saturn is reported to have been damaged during a storm in the Pechora Sea offshore Russia. Reports suggest that the rig lost one of its lifeboats and damage was also sustained to the rig's helideck.

“The Maersk Resolute rig has been extended for another year by its current charterer Hess Denmark.”

Total has completed the acquisition of a 10% interest in Faroe Petroleum's UK Glenlivet field. The GBP 10 million deal will not take effect until a field development plan and production targets are agreed. Faroe Petroleum is also set to participate in a five-well campaign in Norway.

The Transocean Leader has been chartered by Enquest for four years from May 2015. The semisubmersible rig, which is currently working for Statoil, is expected to carry out production drilling on the Kraken field in the UK. The rig will now be working until May 2019.

The Maersk Resolute jack-up rig has been extended by its current charterer Hess Denmark. The rig will now continue working for the company once its current seven well contract concludes in April 2015. The additional four-well programme is expected to see the rig continue in the region for a further year.

Vessel News

Including Newbuilds & Subsea

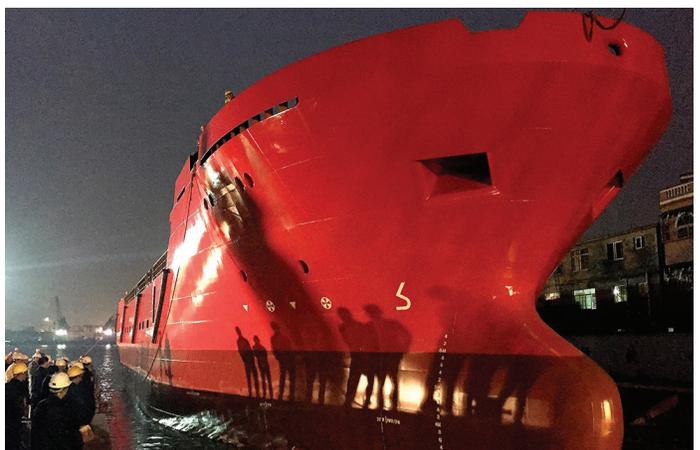
Viking Supply Ships has announced that the 2006-built SBS Typhoon has been renamed to the Sol Viking. The VS470 MKII PSV is continuing to work on the North Sea spot market.

Two new Havyard 843 Ice Breakers have been ordered for a total of over NOK 1 bn by an as yet unnamed international client. The vessels will have the DnV ice class Icebreaker Ice 10 and will be Winterized Cold (-30 °C). They will also have an LOA of 86,7m, bollard pull of 185 tonnes and cabin capacity for 53. Delivery is due in the fourth quarter of 2016.

Golden Energy has taken on the management of a pair of newbuild Ulstein PX121 PSVs. The first is set to be delivered from Ulstein Verft in February 2015 with the second vessel following in March 2015. The vessels are newbuilds 305 and 306.

The contracts for the Brage Viking, Magne Viking and the Balder Viking for the 2015 drilling season have been cancelled. Viking Supply Ships has received an early termination notice for next season and the options for the same contract which were set to cover the 2016 and 2017 which have also been cancelled. According to the contract an early termination fee is payable. Rem Offshore and Siem Offshore have also had contracts cancelled for the Siem Amethyst, Siem Topaz, Siem Pilot and the Rem Server and Rem Supporter.

The launch of the first Ulstein P128 designed PSV hull for Kuma Shipping has taken place in China. This is the first vessel of two for the company and





Two Havyard 843 Ice Breakers have been ordered by an un-named international client.

will now head off for outfitting of the superstructure. The vessel has an LOA of 71.5m, a beam of 15m and can accommodate four lengths of 12 metre-long casing pipes. It will also be DP2 and able to accommodate 24.

Fletcher Shipping has taken delivery of its latest vessel the FS Cygnus. The UT-755 LC designed PSV has already secured its first charter on the North Sea spot market and has undertaken supply duties work for Centrica.

The PX105 Bourbon Mistral has secured a one-month charter with BP Norway. The fixture of the 2006-built vessel also includes option for a further three months. The Bourbon Mistral is equipped with DP2 and a deck of 985m².

Det Norske has fixed the large PSV Sjoborg for a year firm plus additional options. The Havyard 833 de-

signed vessel commenced the charter in November and will be supporting the Ivar Aasen project in the North Sea. The Sjoborg has a 1,002m² deck area, accommodation for 24 and is equipped with DP2.

“Det Norske has fixed the large PSV Sjoborg for a year firm plus options supporting Iva Aasen project.”

Hess Denmark is seeking a PSV for term work for two wells firm from the end of November. The vessel is expected to be supporting the Maersk Resolute rig which was recently extended.

Island Offshore has taken delivery of the Island Condor. The vessel is the 10th of Rolls Royce UT-776 CD design built at Vard Brevik. The Island Condor has accommodation on board for 50 and is prepared for the potential installment of a gangway system for walk to work duties. In addition the vessel is equipped with a mezzanine deck for future ROV installation and has special product tanks.

Inside Story



Andy Samuel is set to head up the new UK Oil and Gas Authority, picture courtesy BG.

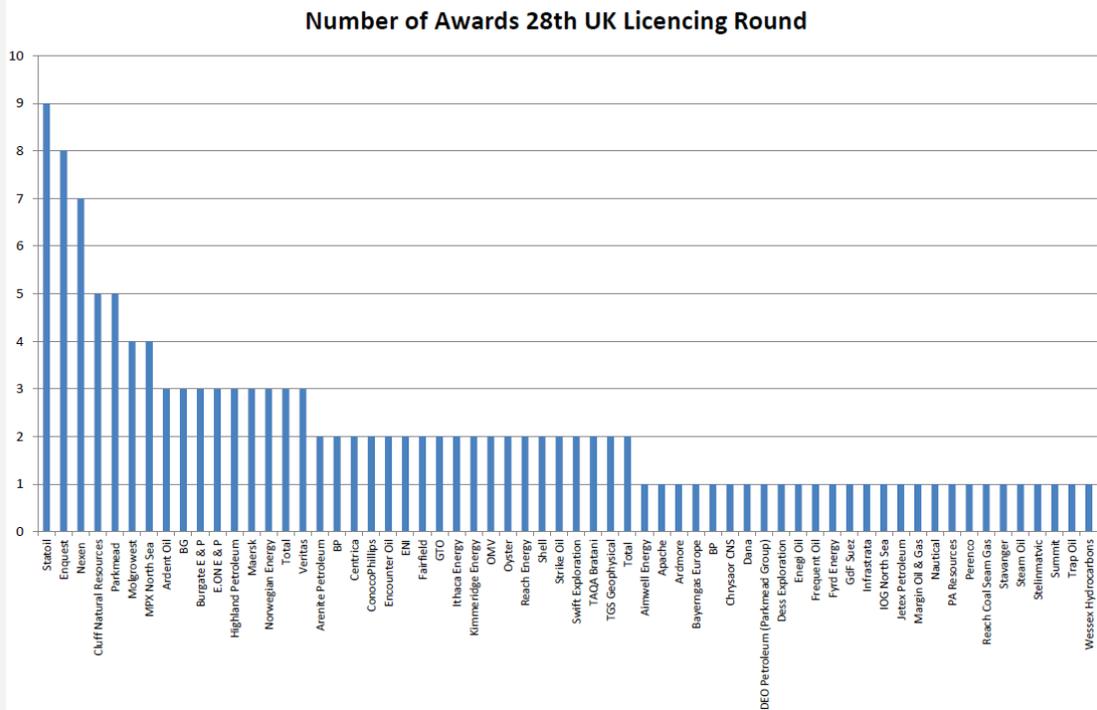
UK 28th Licensing Round

The 28th awards for UK offshore acreage have taken place in an atmosphere of falling confidence amongst North Sea operators and calls for tax cuts to spur a new wave of exploration investment.

Even the appointment of a new chief executive to the UK's newly formed Oil and Gas Authority has done little to encourage oil companies in the country. In fact the Norwegian national oil company has taken on the highest number of operatorships outstripping the combined efforts of BP, BG and Shell combined.

Whilst Statoil secured nine operated licences, Enquest was not far behind with eight and Nexen secured seven. Smaller firms Cluff Natural Resources and Parkmead got five a piece and four went to both Molgrowest and MPX North Sea. In total there were 134 licences announced covering 252 blocks.

The UK Government hopes that the formation of a new body with the aim of seeing the industry's need are met and the implementation of Sir Ian Wood's proposals for maximising recovery will give the industry a new momentum.



As part of this plan Andy Samuel, currently Managing Director of BG Group’s Exploration and Production in Europe, has been appointed as the chief executive of the newly formed Oil and Gas Authority (OGA) which will begin its work in April 2015.

The UK Government has now called on the industry for their views on implementing the rest of Sir Ian Wood’s plan to boost the UK recovery of oil and gas. UK Energy and Climate

Change Secretary Ed Davey said: “It is vital for Government to work closely with industry to maintain Britain’s energy security and Andy is superbly placed to steer the OGA to maximise the economic recovery of our oil and gas resources. We’re also asking industry for their views to make sure we implement the Wood Review recommendations in the most efficient and practical way.”

However, there is discontent amongst key UK

players over the government’s current handling of the industry with tax being the source of one of the main issues. According to the 21st Oil & Gas Survey commissioned by Aberdeen & Grampian Chamber of Commerce 62% of all firms felt that “revision to the fiscal regime to ensure it encourages exploration and extraction” should be the government’s top priority.

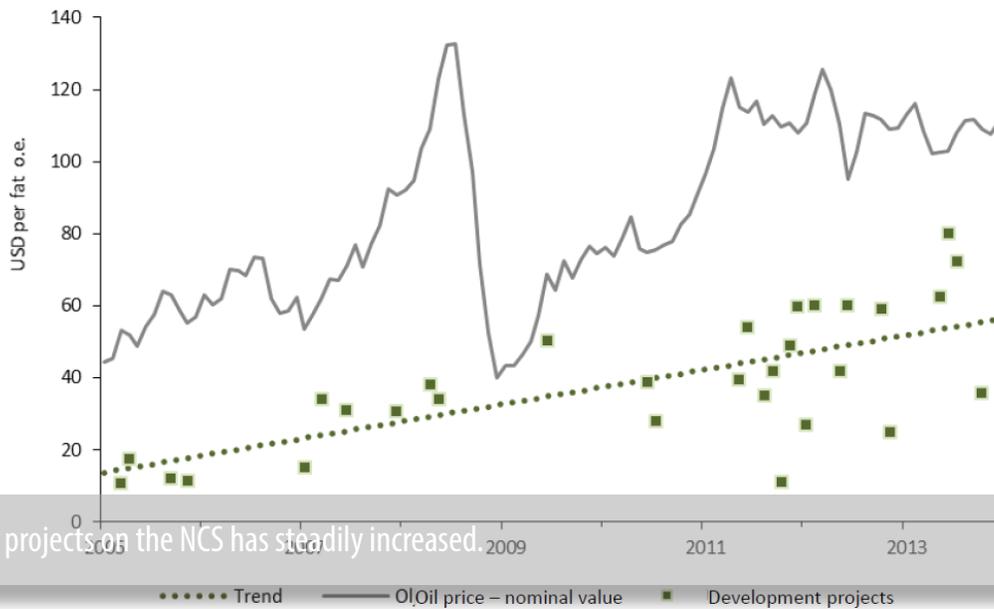
More than 700 North Sea companies were interviewed and the findings also revealed that confidence in the UK North Sea has fallen to a six-year low with 43% of firms less confident about 2015 than this year and only 17% having more confidence in the next 12 months.

The UK market is facing a transition with smaller companies set to be at the forefront of exploration going forwards. The challenge will be to have the right institutions and tax set up to support this change going forwards.

“The UK market is facing a transition with smaller companies set to be at the forefront of exploration.”

Market Forecast

Break-even price before tax



Insight from the NOC

Dark clouds of falling oil prices, high costs and the urgent need for efficiency drives have threatened to create a perfect storm for driving down activity in 2015.

However, when some of the biggest names in the industry gathered in Stavanger for the Norwegian Operators Conference, short-term market negativity was put in a wider context of confidence in the long-term prospects of the Norwegian Continental Shelf (NCS).

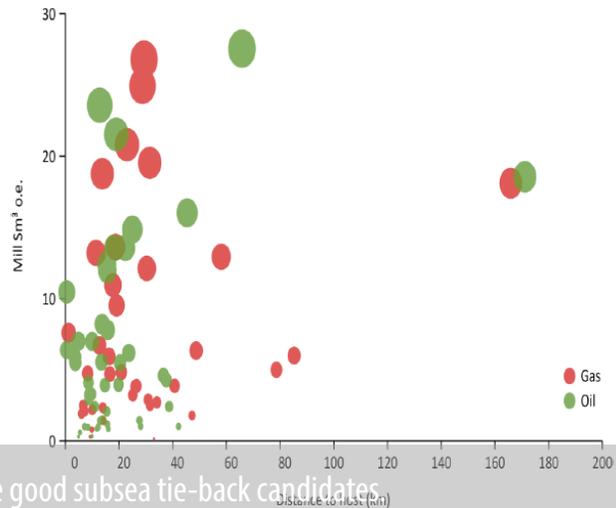
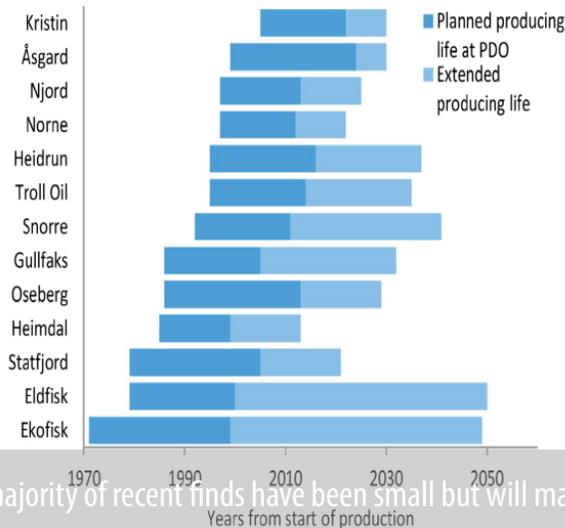
In fact, according to the Norwegian Petroleum Directorate (NPD) this has been a record year for the NCS

with a new high in the number of fields in production. Three new fields came into production in 2014 and there are a further 12 fields under development.

As some of the big names in the industry including BP, Shell and ConocoPhillips now appear to be focusing on production ahead of exploration newer names such as Lundin and Wintershall have taken up the mantle as the most pioneering in the region.

Many discoveries that are being made now are small but they are important. Of the 88 most recent discoveries if we remove Johan Sverdrup and Castberg then

Fields live longer – enable development of smaller discoveries near existing infrastructure



The majority of recent finds have been small but will make good subsea tie-back candidates

the average size of the other 86 is five million barrels. However 80% of these are 40km or less away from the nearest production facility which means they are likely to be economical as subsea tiebacks. The projects with the lowest breakeven tend to use existing infrastructure and there is now much more focus on these hubs.

The NPD is keen to see as many of these brought into production as possible even if the margins are not as big as some oil companies might like. NPD Managing Director Bente Nyland said: “We do not like to hear that resources are not being developed because they are ‘not profitable enough’. After all the authorities do not want companies on the Shelf who are only interested in skimming the fat from the milk.”

The general feeling is that although there is a lower oil price the industry can still prosper at current levels. There may be a brief period of stagnation while cost

cutting takes place but this is healthy and needed particularly when you consider that the cost of drilling a well has increased three-fold in the past ten years.

In the current environment profitability at the oil companies did not increase as the oil price rose higher in the past few years. Instead capex and tax went up and so profits and cash flow were squeezed.

The breakeven of NCS projects has risen steadily and some believe it is important to use this current oil price crises to get the change that is necessary for the industry in the future. Although, as RWE Dea Director Hugo Sandal brilliantly illustrated, accurate oil price predictions are always elusive. What is certain is that projects with USD 80 to 85 breakeven are not sustainable.

The priority of oil companies is now moving on from production growth, reserve replacement and large investment programs. 2015 is expected to be dominated

“Breakeven for NCS projects has risen steadily and the current oil price crisis could drive necessary change.”

Oil Price Predictions



"It is easy to make predictions, however it is very hard to get it right." - Hugo Sandal, RWE Dea.

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by the desire to reduce costs, and focus on capital discipline and the optimisation of the existing portfolios.

The industry is keen to ensure that in the drive for greater efficiency companies do not 'throw out the baby with the bathwater' and end up damaging their future prospects by cutting too much.

After all there is a long and prosperous future for the industry on the NCS which both in terms of reserves and timescale is calculated to be only halfway through its lifespan.

The Johan Sverdrup field is expected to be producing for 50 years and improving reserve recovery methods have increased the life of some fields by up to 60 years. One example of this is Ekofisk where through the use of water injection and other techniques the expected recovery has now been raised up from an initial 17% to around the 52% level.

"Statoil is still planning around 20-30 wells next year with drilling at similar levels to the past few years."

Statoil is planning around 20-30 wells next year with drilling at similar levels to the previous few years whilst continuing to implement its STEP efficiency programme and standardisation particularly in its subsea developments. Lundin is also planning 10 to

15 appraisal and exploration wells in 2015. We are also expected to see keen competition in the 23rd licencing round and the results of the latest APA awards which may be announced before the end of the year.

Despite the short-term down dip the long-term prospects look strong. Exploration on the NCS is set to continue for at least the next 50 years and the export of petroleum expertise is Norway's biggest export after the oil and gas itself.

As Centrica Regional Manager Dag Omre philosophically concluded: "It is important to note that above the dark clouds, the sky is always blue." ■

The Last Word



Kristiansand is getting ready for Christmas with the turning on of the festive lights.

Westshore Shipbrokers would like to take this opportunity to thank you all for your business and support throughout 2014 and wish all of our readers a very Merry Christmas. We look forward to a successful 2015.

The festive season was kicked off in style with a Christmas meal and party hosted at the Kristiansand headquarters. Clients and colleagues were able to mingle and discuss the year's event over drinks before heading down to one of the city's top restaurants to enjoy a series of traditional festive dishes that included reindeer tongue and local seafood. An enjoyable night was had by all.

“Westshore Shipbrokers is pleased to announce new team member trainee shipbroker Alexander Albert.”

Westshore Shipbrokers is pleased to announce we have a new team member. Alexander Albert, 24, has joined our office in Kristiansand as a trainee shipbroker.

Alexander has a BSc in Finance from BI Norwegian Business School and a Masters of Global Business from S P Jain School of Global Management.

He has spent the last year studying in Dubai, Sydney and Singapore. Alexander will join our spot team. He is currently focusing on the guard, tug market, general operational tasks, and will in the future be involved in the PSV/AHTS segments as well. ■

Market in November



Three Solstad vessels and the Havila Jupiter took part in the Knarr FPSO tow and hook-up.

November has been a fascinating month in the North Sea as we have seen the transition from a very active market into the traditional winter slowdown. AHTS vessels which had been hitting dayrate peaks of around GBP 45,000 earlier in the month were down as low as GBP 8,000 as utilisation fell away to the mid 30% level and below as we got close to December.

We are starting to see the effect of a number of rigs heading into yard either for a period of layup or for maintenance work. At the same time tonnage is returning from abroad including a number of vessels that had been working for Gazprom and the Far Sagaris which had previously been in Brazil.

PSVs have been struggling with over-supply almost all month with dayrates rarely able to get much above single figures and falling away at points to the GBP 6,000 and 7,000 level. The end of the year does not look promising at the moment but a 2015 could bring some hope as we begin to see more charterers entering the market with term tenders.

Last year at around this time, the market took an unexpected swing upwards as the weather caused havoc to the timescales of the limited amount of work that was ongoing. This saw a number of vessels effectively taken out of the market for weeks at a time and caused availability to tighten in what has traditionally been a quieter period. Whilst, we cannot predict the ever-changing influence of the weather it is unlikely to come the rescue of downbeat shipowners in quite the same manner this year. ■

		Average Monthly Rates (NOK)		
Vessel Type		nov.14	okt.14	nov.13
AHTS	> 25,000	320,434	564,320	352,817
	18,000 to 25,000	296,535	567,607	239,888
	< 18,000	304,800	333,112	145,411
PSV	> 900 m ²	105,723	108,973	120,221
	< 899 m ²	89,606	100,159	79,161

	nov.14	okt.14	nov.13	okt.13
# of spot supply fixtures	81	90	76	82
# of rig moves	18	24	22	28
# of AHTS fixtures	53	86	64	79
Average Utilization (%)				
AHTS	71.0 %	75.9 %	69.6 %	69.1 %
PSV	83.1 %	81.9 %	83.0 %	85.1 %