THE NAVIGATOR

WESTSHORE'S MONTHLY NORTH SEA REPORT

February 2015 Issue: 42

There's something in the wind in Oslo

End of the line for South Stream?

The Latest on Russia's Black Sea pipeline

Putting it into production

State of play for new fields on the NCS

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Photo courtesy of Harald Ole Tomassen. Taken on recent Songa Delta rig move.

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Market in January

Island Vanguard braving the storm in Bergen. Photo courtesy of Island Offshore

The bad weather really messed with my figures this month! Although the number of rig move and AHTS fixtures was high compared to previous months, this was more as a result of the weather causing period of high activity and then almost complete stops. The backlog of work from December spilled into January but even these fixtures were beset with delays as vessels waited on weather suitable enough to carry out operations and in some cases were cancelled altogether. So despite the high activity, utilization levels for the AHTS vessels at least remained low, coming in at an average of 55% - which takes into account the periods of high activity followed by very little going on.

Rate wise the money picked up from what we had seer in December again as weather windows opened up charterers scrambled to secure suitable tonnage before the weather got bad again.

A steady month on the PSV side, rates slightly up on last month for the larger vessels with a steady stream of cargo and supply requirements coming out that resulted in nothing remarkable. Term fixtures have started rolling in which will see some vessels leave the spot market in the coming weeks, both AHTS and PSV.

		Average Monthly Rates (NOK)		
	Vessel Type	*jan.15*	*dec 14*	*jan.14*
AHTS	> 25,000	262875	106653	416343
	18,000 to 25,000	214706	67495	285776
	< 18,000	130712	64831	308927
PSV	> 900 m²	70399	61906	130134
	< 899 m²	58417	60327	111994

	jan.15	*dec 14*	*jan.14*	*dec 13*
# of spot supply fixtures	81	100	70	99
# of rig moves	66	28	20	24
# of AHTS fixtures	79	49	72	68
Average Utilization (%)				
AHTS	55,6 %	41,5 %	68,5 %	80,2 %
PSV	73,9 %	78,3 %	88,6 %	85,9 %

Job cut toll rises

Announcements from several oil companies came this month with dire news of job cuts both on and offshore. No part of the supply chain or job position is a safe bet in the current climate. As soon as E&P expenditure cuts were announced came the news of the number of jobs that would be axed.

BP announced that 300 positions would go from its Aberdeen operation, 200 onshore and 100 contractor roles. Days later, Talisman announced the same with 300 jobs going from its North Sea workforce. DeepOcean said roughly 30% of its workforce in the UK would be cut

The announcements while having really gathered pace in the last month, are far from new. Shell was early out in August last year saying 250 positions would be cut from North Sea operations in Aberdeen. Similarly ConocoPhillips said 230 jobs in Britain were to be dropped by March this year.

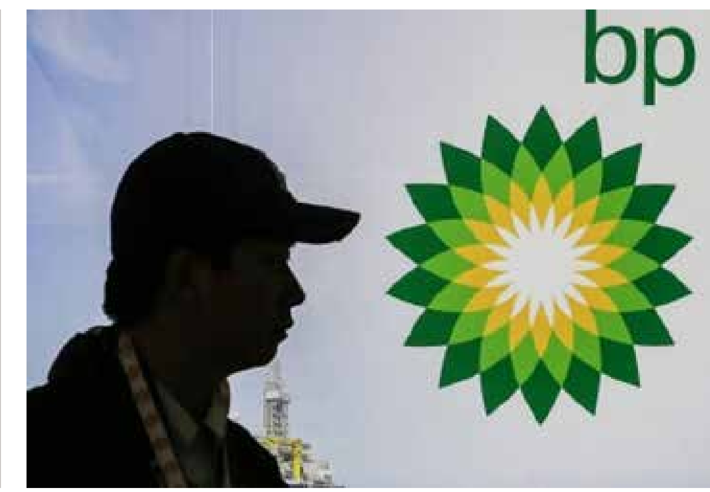
Oil services are being hit particularly hard. Schlumberger said it would be shedding 9000 jobs and Baker Hughes 7000 from global operations. Meanwhile Weatherford announced it would be eliminating the position of COO which followed news that 100 employees in Norway had been fired without any redundancy package.

Several other companies have instigated pay freezes and cuts in contractor rates. From January 1, Aberdeen-based Wood Group said it would be reducing the rates of pay for many in its UK based operations and effecting a 10% decrease in contractor's rates. These measures while painful

for employees and contractors involved are widely seen as a better alternative to job cuts.

While the job cuts and pay freezes will have a severe impact on many, as yet it represents a small fraction of the total workforce involved in North Sea oil and gas exploration. Moreover the shifting climate will force many to restructure and streamline a workforce in a bid to increase efficiency. Director General Bente Nyland of the NPD said in the Directorate's latest report that although the cost cuts could lead to lower activity in the short term,

> “High costs and weaker oil prices could drive necessary readjustments that will strengthen the petroleum industry over the long-term”
>
> **Bente Nyland**

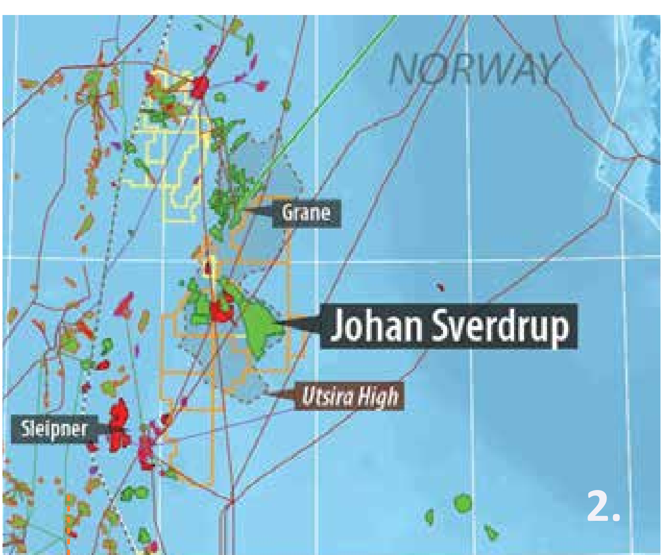


“A cost reduction now could lay the foundation for ensuring robust profitability over time. High costs and weaker oil prices could drive necessary readjustments that will strengthen the petroleum industry over the long-term”

Meanwhile in Scotland the politicians are scrambling to form one committee or another in a bid to mitigate the job losses – or at least be seen to be trying to mitigate the job losses. ‘Secret’ meetings have been held to form grand plans on how they will save the North East workforce. One thing is clear, for someone at risk of losing their job, transparency is key. Open lines of communication between management and employees and a policy of being honest with staff, while still may result in job losses, will ensure the company survives with a strong reputation as an employer. Whether you buy into the theory this is a cyclical industry or not, few doubt we will emerge from this downturn eventually. When that time comes and we are once again facing skill shortages, who will be remembered as having dealt with this the best?

Drilling & Production

1. The development plan for Johan Sverdrup
2. Johan Sverdrup in relation to nearby fields
3. Viking AHTS towing Paragon MSS1
4. Lundin secures 6 in APA 2014



Paragon MSS1, Ex Noble TVL will remain on contract with Nexen until the end of the year keeping the 1979 built semi in the UK-sector until at least mid-December. The unit is uncommitted thereafter. Meanwhile Paragon C20052, ex Noble Byron Welliver has secured work with Tulip Oil in the Dutch sector from July. The 1982 built jackup will undergo a short yard stay following completion of its current Dana Petroleum contract before commencing work for Tulip Oil.

The first contracts have been awarded for the giant Johan Sverdrup field. Aker Solutions secured the five year EPMA contract from Statoil which covers phase 1 of the development. Statoil plans to start pumping oil from 2019 at Johan Sverdrup, a field which is estimated to hold 1.8 to 2.9 billion boe. The first phase of the development will comprise four installations and jackets - an accommodation platform, a drilling platform, a riser platform and a processing platform. Kværner Vardal was recently awarded the contract for construction of the riser platform jacket and is scheduled for delivery in the summer of 2017.

The Norwegian Ministry of Petroleum and Energy has awarded 54 licenses in predefined areas in the North, Norwegian and Barents Sea. As expected Statoil topped the list with eight licenses as operator and Lundin six, Total and Tullow Oil were next with five each. In total 23 companies were offered operatorship, among the list of less familiar faces on the NCS was Ithaca Petroleum Norge, Centrica Norge, Repsol Norge and EnQuest Norge – companies well established in the UK-sector now turning attentions with increasing focus to the Norwegian sector. Most concessions have yet to acquire and/or analyse seismic data but three of the awards committed operators Lundin, Statoil and Total to drill exploration wells before mid-2017.

It was also announced 57 blocks are being offered as part of the 23rd licensing round with intention to award the licenses by the first half of 2016. Thirty-four blocks are in the southeastern Barents Sea, which encompasses the formerly disputed area toward Russia; 20 blocks are in other parts of the Barents Sea; and 3 blocks are in the Norwegian Sea. “By initiating petroleum activity in the southeastern Barents Sea, we reach yet another milestone for Norwegian petroleum activities,” commented Tord Lien, Norway’s minister of petroleum and energy. “For the first time since 1994, we will explore an entirely new area on the [NCS].” This licensing round includes time restrictions for exploration drilling to safeguard the consideration for important environmental assets along the actual-observed ice edge, where ice is located at any given time.

The fortunes of the shipyards

For the yards the falling oil price has resulted in mixed fortunes, for the Norwegians at least. On the one hand it has resulted in there being little appetite for ordering new vessels. Speculative newbuild ordering from owners has all but dried up. However the weak Norwegian kroner has meant that suddenly for foreign owners, building in Norway is suddenly very attractive. The export industry has become particularly attractive in this area. We have seen this recently with foreign companies selecting Norwegian yards with established expertise to build non-standard vessels. In October last year an announcement was made for a vessel to be built for De Beers at Kleven for underwater mineral exploration. Russian owner Femco is building three ice-class AHTS vessel at Havyard, one will be delivered this quarter with the other two following next year.

We know that financing is proving to be difficult for many owners so the option of seller's credit is being offered by some yards. Here the yard will offer to contribute a certain percentage of the equity of the vessel being built until such agreed time as the equity can be supplied by the shipowner. On the whole it will be larger companies that are able to sufficiently arrange finances and place orders at yards.

Lay-offs at certain shipyards, namely Hyundai in Korea and this is a reflection of the weak offshore market. It is reasonable to assume yards will be eager to fill order books by being as competitive as possible on price and looking to other industries to fill slots.

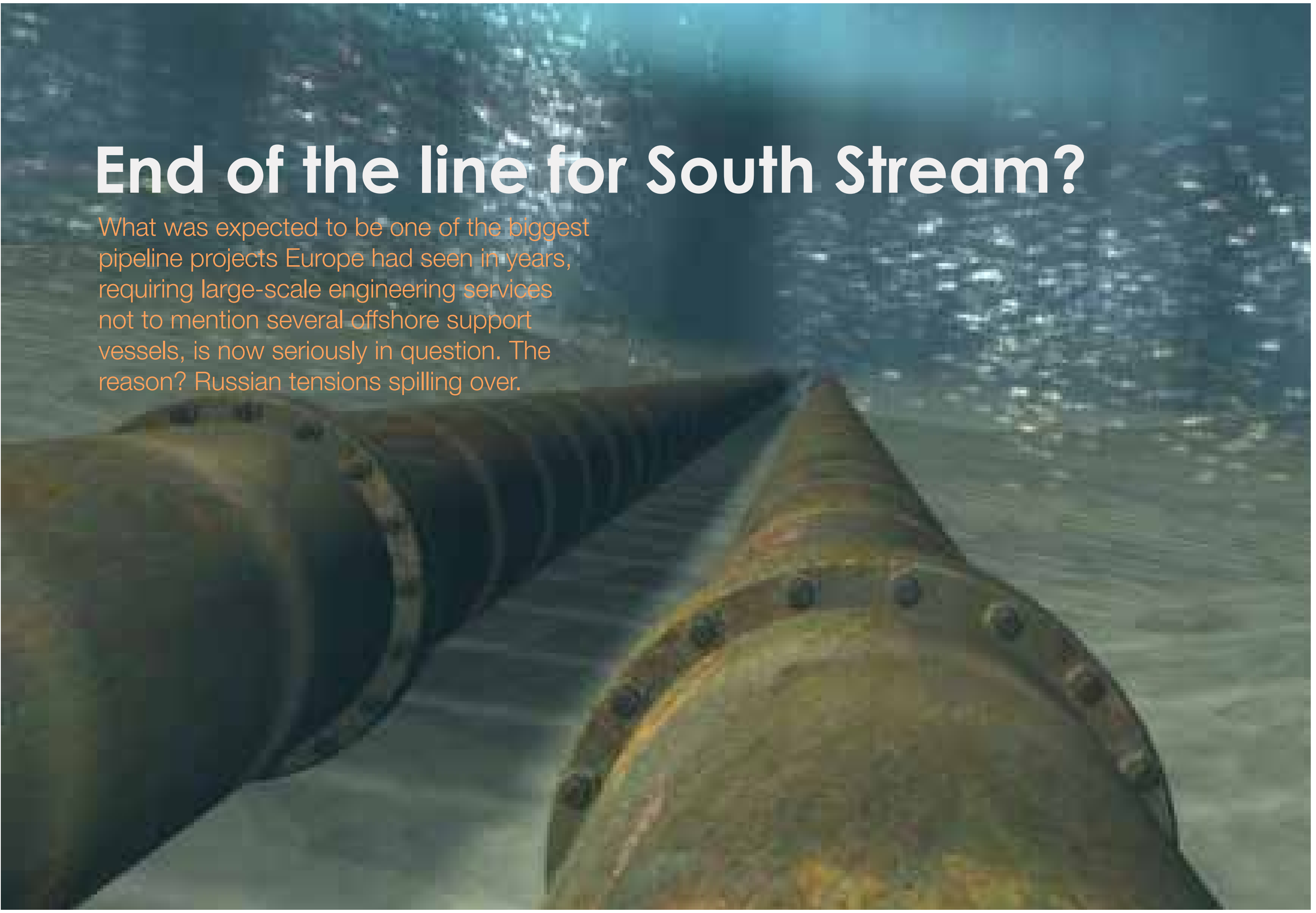
1. Deep Sea Supply PSV
2. Olympic Zeus
3. Nordic American Offshore PSV

Other news

As the spot market remains a weak area for owners to rely on income, news of term charters being secured for PSVs in particular is starting to trickle in. Most recently Deep Sea Supply announced work had been secured in Australian waters for Sea Tortuga and Sea Triumph which will see the pair depart the North Sea spot market for commencement of the charter in late March. A handful of subsea announcements too which backs the theory that for some owners, having vessels operating in this segment of the market is a saving grace for an offshore support vessel owner. Rem Offshore said Rem Forza has secured a three year deal with DeepOcean and Olympic announced Olympic Zeus would be heading down for work in West Africa for minimum 90 days from early February. Olympic Triton found work with a Pemex affiliate in the Gulf of Mexico for a year plus options.

It's still early in the year to develop a clear picture of how many vessels will secure term work and lighten the load on the straining spot market. Compared to previous years, the number of term charter announcements has been few; however there are still several tenders out for work in North Sea, West Africa and Australia which will likely be announced in the near future.

A few Norwegian owners took delivery of new tonnage this month. Stril Barents, Møkster's new LNG PSV delivered and went straight on to a 10 year charter with Eni supporting operations at the Goliat field. Troms Offshore expects delivery of Troms Mira this month when it arrives in the North Sea ready to join the spot market. Nordic American Offshore will see its fleet swell by a further two this month with the arrival of Blue Storm and Blue Viking, both Ulstein PX121 PSVs which will join the spot market on delivery. Nordic American just announced that two of its spot market PSVs have secured four month contracts in the North Sea commencing February/March this year but have not confirmed which ones will be used.



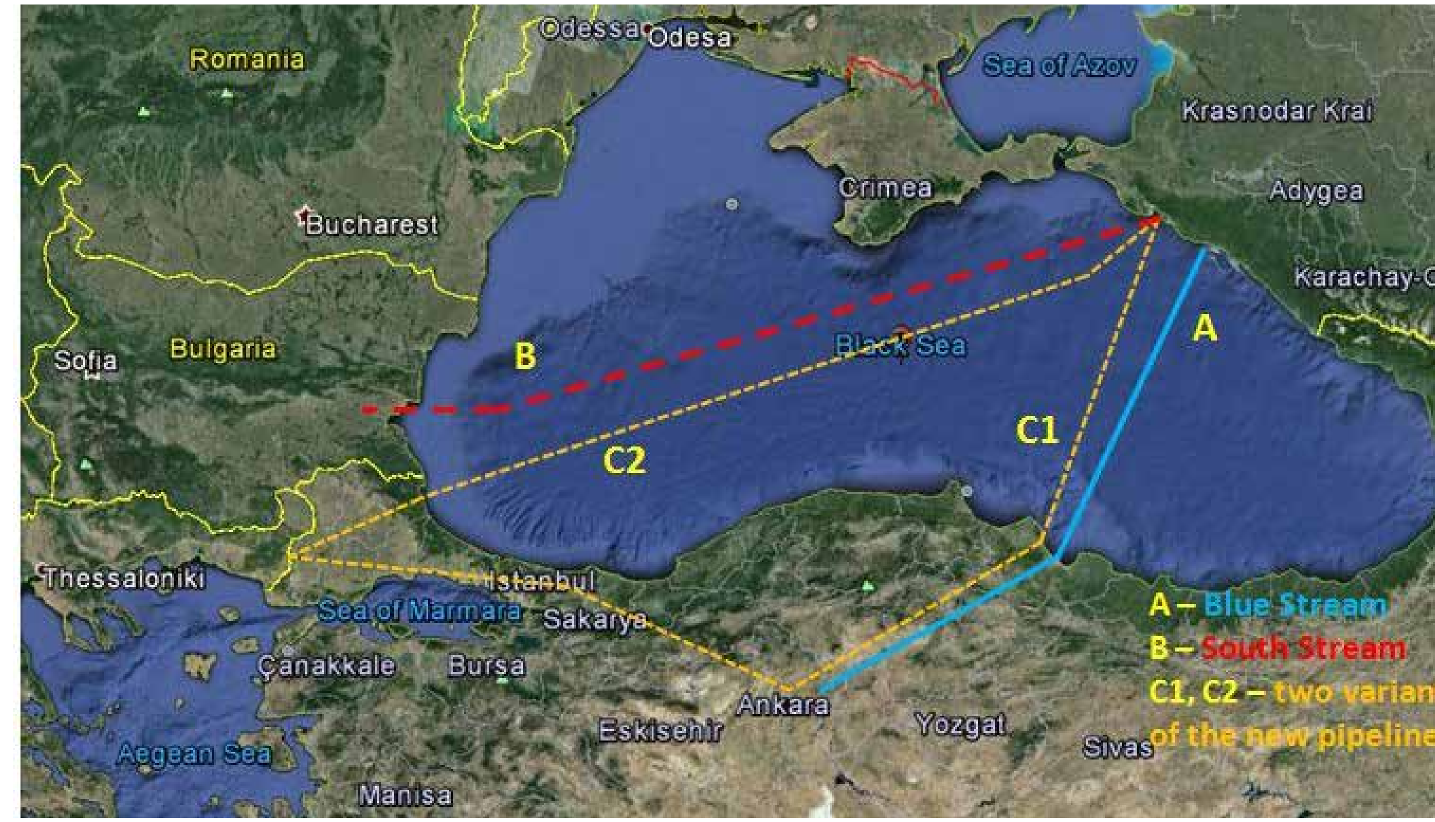
End of the line for South Stream?

What was expected to be one of the biggest pipeline projects Europe had seen in years, requiring large-scale engineering services not to mention several offshore support vessels, is now seriously in question. The reason? Russian tensions spilling over.

The South Stream pipeline was due to be built from the Russian Federation, through the Black Sea into Bulgaria where it would then transport Russian natural gas to Europe through Serbia, Hungary, Slovenia and Ukraine amongst other Eastern European nations. In December last year the announcement from President Putin came that as a result of Western sanctions, the project was cancelled. Shortly afterwards it was revealed that Gazprom had purchased all other shares in the South Stream project. This meant Eni SPA's 20%, Wintershall's 15% and EDF Energy's 15% shares were reduced to nil. Saipem said it has received notification to "suspend all maritime activities" leaving several offshore owners with vessels in the Black Sea in an uncertain position.

Deep Sea Supply has three vessels sitting in port in Burgas; Sea Spark, Sea Springer and Sea Spider. The Sea Lynx which had a shorter firm period which had expired has been sent out of the region and is now trading the spot market out of Aberdeen. Solstad has three PSVs there namely Normand Corona, Normand Carrier and Normand Flipper, all lying alongside in Bulgarian ports. Sealion also has three PSVs in a similar situation – Toisa Independent, Toisa Invincible and Toisa Wave. Maersk had two AHTS vessels, the Maersk Tracer remains in the region while Maersk Transporter has mobilized to Singapore to trade there.

All of the vessels that remain in the region contracted to Saipem are effectively sitting idle in port awaiting instruction. The question is will Gazprom reach a



decision regarding the pipeline before their firm periods expire.

The ill-sentiment directed towards Europe from Russia is being voiced loud and clear. Russia currently fulfills 30% of Europe's gas needs but many European nations are keen to reduce this energy burden. Moreover the South Stream pipeline was due to be laid through Ukraine, the object of massive contention. But the upshot of the sanctions and criticism over the handling of the project is Russia will find alternative customers for its gas, and at the top of the list comes Turkey. The new 'Turkey Stream' which some analysts say make more economic and political sense, will see the Russian gas piped through to Europe's second largest customer of natural gas. Recent actions from the Russians would back the theory that they are preparing for something. By quickly buying up all remaining shares in the project yet keeping Italian engineering giant Saipem on the payroll – along with most of the vessels, it does not appear that plans to export the gas through the Black Sea are scrapped.

Obviously completely changing the plans for a massive gas export pipeline takes time and huge investment. But the Russians seem unwavering in their resolve to scrap the original South Stream plan and press ahead with a Turkish alternative. They have gone so far as to warn European customers they need to begin putting infrastructure in place to receive gas into Europe via Turkey if they wish to remain being a customer.

But therein lies the rub, as one Polish minister was recently quoted as saying, if you regularly had your pizza delivered from one company and they suddenly said, sorry we're going to deliver this somewhere else, you're just going to have to arrange to get the pizza to your house yourself, you'd pretty quickly start getting your pizza from someone else. Could this spur on the end of reliance on Russian gas?

The new fields on the NCS

Falling oil price, budget cuts, less activity, should be a quiet couple of years in the North Sea right? Well not quite…

The Norwegian Petroleum Directorate received only one plan for development in 2014, 13 were originally anticipated. But a record number of fields were under development at the end of last year, nine in the North Sea, one in the Norwegian Sea and one in the Barents Sea and this represents a massive amount of investment. We take a look at these developments and the work ongoing there.

Barents Sea – Goliat project (ENI Norge)

The Goliat project is the first oil discovery to be developed in the Barents Sea. A ground breaking development in the harsh conditions of the Barents Sea is set to come on stream in 2015 using a cylindrical hulled FPSO. In the future it's thought that nearby gas and oil discoveries will be tied back to the Goliat platform, Tornerose and Nucula are two such discoveries which have been earmarked for this. However the project has been beset with problems, now two years late and massively over budget the Goliat platform is currently undergoing seatrials in South Korea before mobilizing to Hammerfest for eventual installation in Q1 2015. The cost overruns has cast a shadow over the profitability of the field. The Norwegian state will pick up 90% of the cost of the development but Rystad Energy were recently quoted as saying the field would need an oil price of USD 95 to break even. While ENI has refused to comment on this, it puts future Barents Sea developments into question.

The Norwegian Sea – Aasta Hansteen (Statoil)

Located 320km west of Bodø, the mainly gas field will be developed using a SPAR platform, the first such development on the Norwegian Continental Shelf. The much publicized Polarled pipeline will connect the Aasta Hansteen platform to Nyhamna gas plant onshore. Production is set for late 2017. It was initially hoped that nearby Kristin platform would be tied in via an additional pipeline but cost overruns and volume uncertainties have resulted in this plan being scrapped.

The North Sea
Edvard Greig, Ivar Aasen & Hanz (Lundin & Det Norske)

Lundin's Edvard Greig will be developed using a steel jacket on the seabed with full process facility. A dedicated pipeline will be laid from the platform to the Grane oil pipeline for export to shore. Gas will be exported via pipeline to St Fergus. Production start up is expected late 2015.
Nearby Ivar Aasen platform will be developed in a joint project with the Hanz and West Cable discoveries with Det Norske as operator. The Ivar Aasen will have a manned platform installed during 2016 and the Hanz discovery will be tied in via a subsea installation afterwards. Electricity and lifting gas will be supplied by the Edvard Greig platform with processing of oil and gas also done there.

Next month we take a look at the other fields currently under development on the Norwegian Continental Shelf, and those that have been put on hold as a result of the oil price uncertainty.

There's something in the wind for Westshore in Oslo

The offshore wind industry has gone from strength to strength over the last decade. It's a force that shows little sign of stopping and the demand for offshore vessels to support operations in the wind industry is becoming a regular feature of the offshore market.

Roger Holden, Manager Offshore Wind Projects

For this reason we are pleased to introduce you to industry veteran Roger Holden who will head up our wind industry brokerage service from the new Oslo office. Roger joins us after having worked for Fred Olsen Wind Carriers, which he was involved in establishing, and brings eight years of wind industry experience and over 30 years offshore shipping experience. Roger worked as chartering manager for Fred Olsen Wind Carrier and was involved in several of the major offshore wind farms including Sandbank and Sherringham Shoal.

In addition to this Jon Inge Buli will now be located in our new Oslo office on a full time basis while continuing to support clients in the Arctic and US. Roger and Jon Inge will also provide additional support to those in the Oslo region.

The Wind Industry

Currently the two largest markets for offshore wind are Germany and UK. Both these nations have seen a huge focus on offshore wind development in recent years. In the UK several large projects are set for development in the near future namely Dogger Bank and East Anglia but several others are planned. 2014 marked the first year that renewable energy became the primary source of electricity in Germany. As with the UK the list of projects scheduled for construction offshore Germany is extensive. Essentially however the industry is still in its infancy, it's been a learning curve as much as what was seen in the 60s and 70s North Sea oil and gas development.

But an increased political focus coupled with some expensive mistakes has seen a new era being heralded in. Investment is seen as key, this is an industry that will only increase in focus in the coming years. We will see a greater demand for offshore vessels needed to assist construction and later maintenance in this sector. At Westshore we believe that adding experience and expertise of offshore wind is a vital component to providing a complete broking service for the offshore sector.