

NAVIGATOR

WESTSHORE'S MONTHLY NORTH SEA REPORT

October 2015 Issue: 50

LAYUP LATEST

More vessels go, but market balance remains elusive

AN EXPLOSIVE ISSUE

WWII bombs are creating a headache for offshore wind farms



WESTSHORE

SHIPBROKERS AS

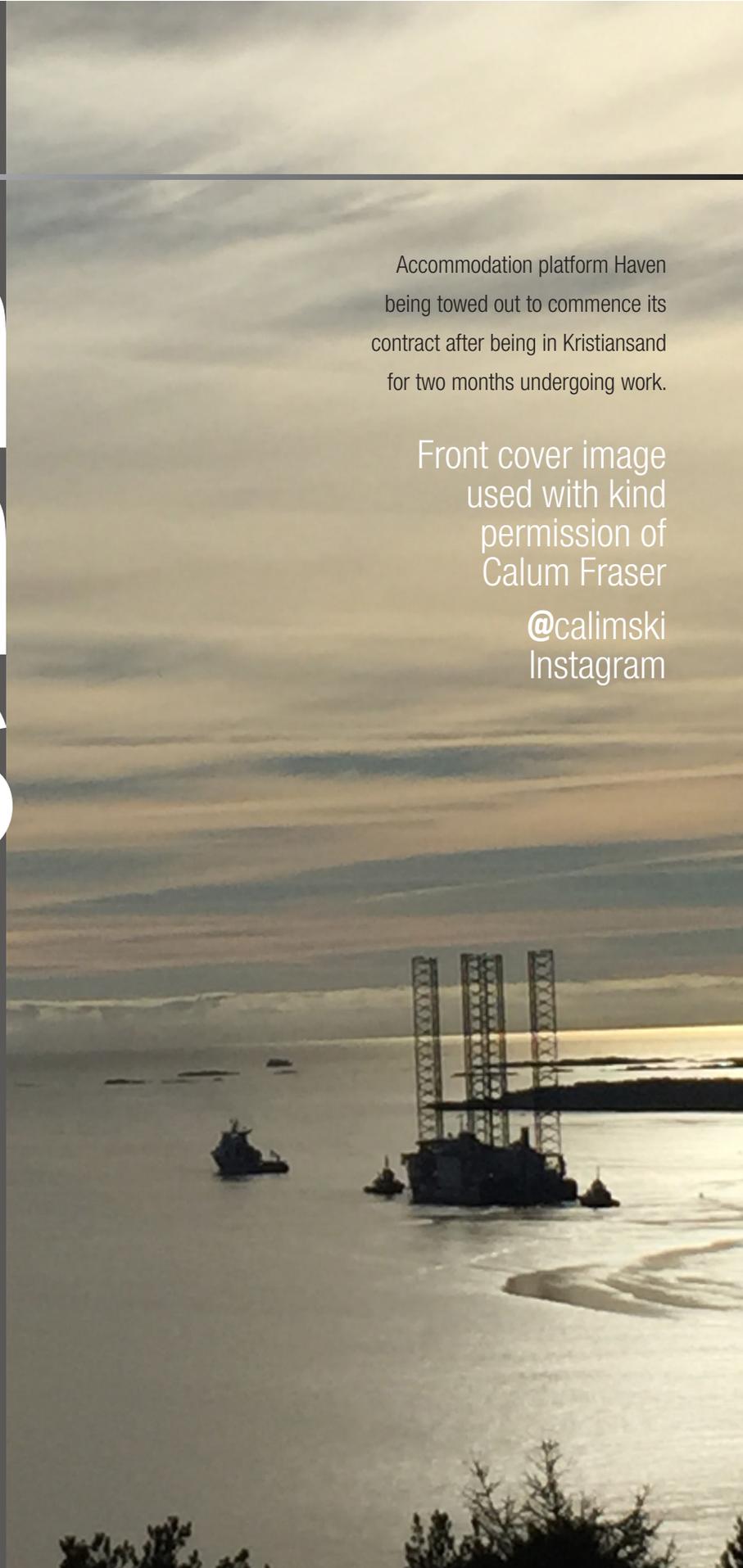
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Accommodation platform Haven being towed out to commence its contract after being in Kristiansand for two months undergoing work.

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AVERAGE SPOT MARKET RATE AHTS



58.9%

Average AHTS utilisation in September

80.6%

Average PSV utilisation in September

	Aug 2014	Sept 2014	Aug 2015	Sept 2015
Number of supply spot fixtures	80	81	85	84
Number of AHTS fixtures	57	69	71	74

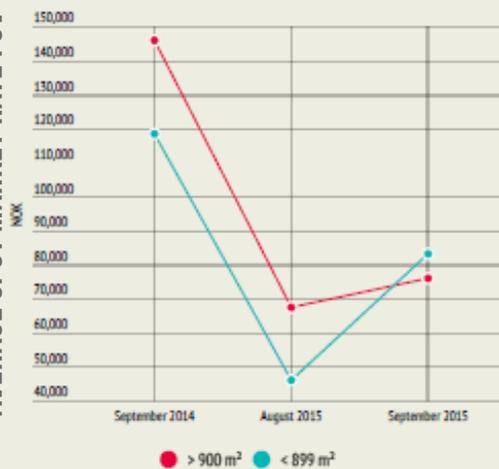
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Rig moves in September (compared to 23 in September 2014)

23

Rig moves in August (compared to 19 in August 2014)

AVERAGE SPOT MARKET RATE PSV



The AHTS vessels took another beating this month with no respite from the low rates. The highest rate achieved this month was GBP 14000 but the average rate over September was far lower, dragged down mostly as the rates spiraled towards the end of the month. Though the number of spot fixtures was up on last year's tally, the vast oversupply continues to dominate the market rate-wise.

PSVs fared similarly in September as they did in August. Utilization up at a reasonably healthy 80% and rates at the start of the month at least were upwards of GBP 7000. This tailed off as September drew to a close and it fell against a backdrop of more lay up announcements. Next month will likely see a further drop in rates and utilization unless weather becomes a game changer. But with the current level of available tonnage, bottle necks will be less likely and if they do crop up, they will last for shorter periods.

The Only Way is (Lay) Up?

There are nearing 60 North Sea vessels in lay up now (AHTS and PSV) and market balance still seems like a pipe dream. As winter looms, even fewer opportunities are likely to present themselves, logically, the number of layups is likely to grow even further.

Nearly all the North Sea owners have taken the hit and put vessels into lay up now. One of the last to fall was Viking Supply, this month announcing it would be taking three of its PSVs out of the market. Idun, Nanna and Frigg Viking. There are indeed savings to be made by grouping your layups in one location. A skeleton staff can oversee the day to day on two, three or four vessels tied up in one location and this is partly the reason some owners have chosen to group laid up vessels. The Viking trio appear to be headed for Uddevalla, a port on Sweden's west coast. Location for layups in a big consideration as costs vary significantly. We heard from one Mediterranean port that requests for quotes to layup rigs and vessels had come flooding in. This presented an opportunity for areas with quayside facilities where repairs and maintenance could be done – meaning they could up prices. Solstad has pressed ahead with its plans to lay up 10 vessels as announced in a press release. Normand Neptun headed

off to join the other Solstad vessels tied up in Husøy and more will follow shortly if Solstad is to remove the stated total from the market before end of 2015. Meanwhile tendering activity has been limited. Ongoing West African tenders were met with a barrage of offers, in one case over 100 vessel bids were submitted for one tender. Competition was predictably fierce with the victor expected to be lucky if they break even. Similar situations have been seen from other global regions where there has been (rare) tendering activity. Vessel contracts being terminated in Brazil and poor activity in other regions are compounding the situation in the North Sea. Statoil has laid up yet another rig (Songa Trym, expected to remain laid up until early 2016) and new semisubmersible Bollsta Dolphin which should have arrived this year to commence its UK sector Chevron contract is now reportedly delayed. All the signs point to a long hard winter for the offshore sector.



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HOW DO YOU SOLVE A PROBLEM LIKE BRAZIL?

Once the holy grail of contracts to secure. Four years plus four yearly options with an operator that pays it bills on time? Yes please cried the shareholders!

Now several companies, Norwegians, Europeans, Asians you name it are left wondering what exactly are the chances of staying on contract and crucially ON HIRE for those four years, never mind the option period.

For those unfamiliar with the current 'blocking' phenomenon, here's a brief outline. Brazilian legislation in general aspires to promote Brazilian industry first and foremost. That means rightly or wrongly, Brazilian vessels get priority. In a new Petrobras tender, if there is an available, similar vessel of Brazilian flag competing against a foreign flagged vessel then the Brazilian vessel takes the contract. Even if the foreign vessel is bidding lower, even if it is a better vessel, higher spec etc. – the Brazilian takes priority and secures the contract. Now every year vessels on contract must go through a process of recertification, this is Petrobras' responsibility to conduct this process but the vessel will usually go offhire during this time. At this point any available Brazilian tonnage could also block the foreign vessel and take the contract. This means a vessel that had merrily sailed off to Brazil to enjoy a steady four year charter, at the first year's re-cert process the rug can be pulled from under its feet. Leaving it offhire with very little chance of going back on contract.

Now with the current downturn, there are several available Brazilian flagged vessels, but very little new tendering activity from Petrobras. This has created a scenario where the Brazilian tonnage can block tens of vessels. For some owners there have been official contract terminations.

This month saw Siem Carrier fail to obtain an operating license during its recertification. This meant the vessel was offhire after a no doubt frustrating period for the owner and worse no termination fee was payable. World Wide Supply saw two of its four vessels contracted to Petrobras fail to obtain certificates and consequently had contracts terminated. World Peridot and World Opal are currently idle off the coast of Rio but could well end up stacked along their two North Sea sisters World Pearl and World Diamond. Meanwhile World Emerald and World Sapphire remain on contract with Petrobras.

So in reality a four year Petrobras contract is merely a one year contract with the chance to extend if the market has absorbed all the local tonnage and you manage to jump through the right hoops at the right time and get back on hire. The list of vessels Petrobras has on hire is a long one. With new CAPEX cuts announced this month – a further 20% will be slashed off capital expenditure; a reduction in vessel count is something we can bet on.

European owners with tonnage on to Petrobras include Olympic, Deep Sea Supply, Farstad, Havila, Sealion, Solstad, K Line and Eidesvik amongst others. The blocking phenomenon is not going to go away any time soon. Expect more vessels returning home and only adding to our North Sea woes.

POLARLED NOW IN PLACE

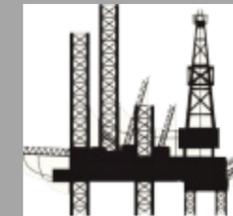
Statoil announced this month that the final section of the 482.4km pipeline from Nyhamna to Aasta Hansteen was now in place. Pipe laying commenced in March and saw several large Norwegian PSVs carry out pipe haul duties during the programme, the majority of which have now returned to market. Statoil announced that the project came in under budget – around NOK 7.5bn compared to the NOK 11.1 billion initially estimated. In addition to the 36" diameter gas pipeline, six connection points were installed. These connection points provide future opportunity for further supply to be piped through Polarled.

SONGA TRYM LAID UP

Statoil has suspended the contract of a further rig, this time semisubmersible Songa Trym. Over capacity within its drilling fleet has led to several rig contracts being terminated early leaving Statoil with 16 drilling rigs on hire in the North Sea. This figure includes the idle Scarabeo 5 and the two new semisubmersibles which are currently en route to the North Sea – Songa Endurance and Songa Equinox.

MARTIN LINGE DELAY

Topside troubles at the yard in Korea have reportedly set Total back over a year from startup of the field which was initially hoped for end-2016. The oil and condensate field lying off the coast of Bergen has encountered severe cost overruns, now in the region of NOK 3.5bn. The 16000 ton steel jacket was installed last year but further activity will remain on hold until topside fabrication at Samsung is completed.



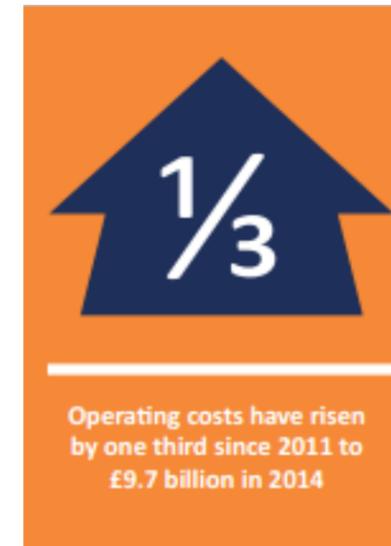
TWO WELLS FOR OMV

Semisubmersible Transocean Spitsbergen is to drill two wells in the Barents Sea pending regulatory approval. The programme is estimated to last a maximum of 117 days and commence in January 2016. The rig is currently warm stacked following Statoil suspending drilling activities with the unit earlier this year. It is reported that OMV was set to use Transocean Arctic for the programme which has on contract from middle of November this year but this unit will be used on other wells, also in the Barents Sea. Transocean Arctic is currently drilling in the Norwegian Sea for a consortium of operators.



UK THEN, NOW & NEXT

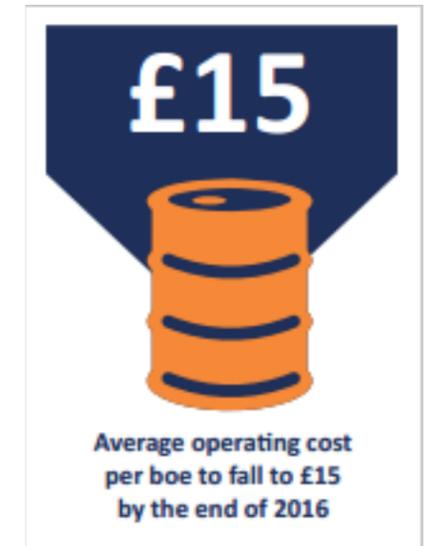
The UK's offshore industry body Oil & Gas UK released its annual report in September and began presenting its findings at the biennial Offshore Europe Conference in Aberdeen. We take a look at what it said and what it means for us going forward.



First, some good news. The UK can proudly boast that 2015 is set to yield an increase in production for the year – the first in the last 15 years. The increase in production is partly attributable to four new fields coming on stream in 2014 and a further 11 expected over the course of 2015. Notably one of the largest was the Nexen operated Golden Eagle development. This is one of the largest developments undertaken on the UK sector in years and it was brought on stream in November 2014 ahead of schedule and under budget. If Premier brings Solan on stream and Total pushes forward with Laggan Tormore, a three to four percent increase in last year's production levels is expected. What's more the estimated recoverable reserves left in the UK sector are tipped at 22 billion boe, 43 billion has already been recovered.



DRILLING DECLINE
What is less encouraging however was the decline in wells being drilled, and even worse the success rate from those wells drilled. The knock on effect of which has led to a decrease in confidence among operators to go out and drill further. In a cost conscious environment, companies are reluctant to go out and drill if they see little chance in striking oil. Exploration drilling is now at its lowest since exploration on the UKCS began back in 1964. Over the first half of 2015 just seven exploration wells were drilled in the UK sector, bearing in mind that the majority of these had been committed to before the oil price crash. UK Oil & Gas estimate 20 exploration wells will be drilled in total in 2015 although notes that opportunities for operators wishing to capitalize on low rig rates could well up this figure. As mentioned the poor discovery



rate will play an important part in operator's appetite for further exploration in the UK sector in the years to come. Commercial success has been sluggish over the past five or so years with very little to report. The falloff in production means that the UK is only replacing a small fraction of the reserves it produces and therefore diminishing the size of the sector and its ability to sustain investment.

CAPITAL INVESTMENT
2014 saw the level of capital investment peak at GBP 14.8 billion, the highest on record for the fourth consecutive year. This is forecast to drop significantly this year down to around GBP 10-11 billion. Thereafter it's expected to drop GBP 2-4 billion per year as large projects reach completion and companies scale down CAPEX commitments.

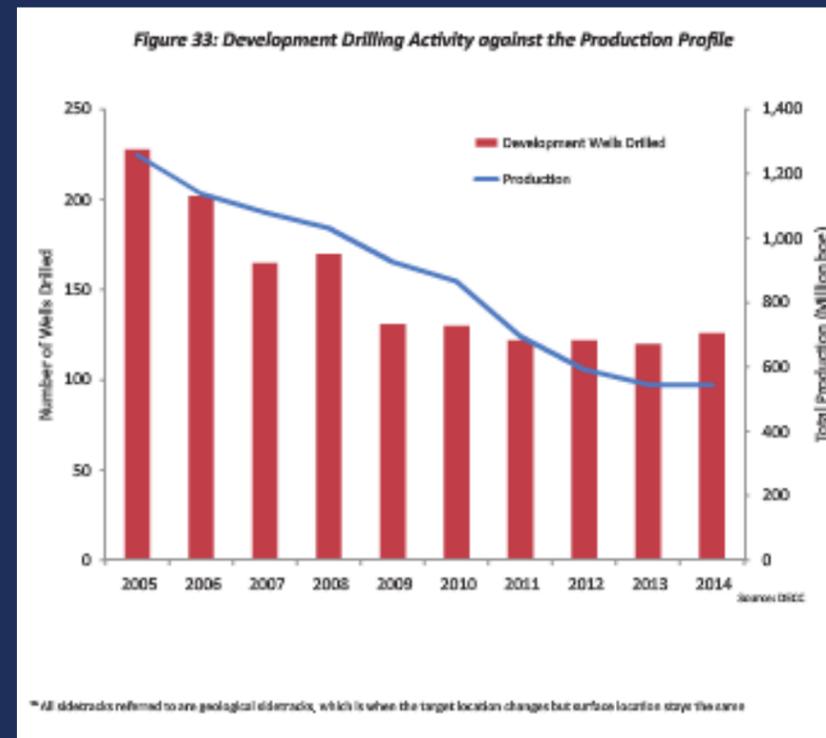
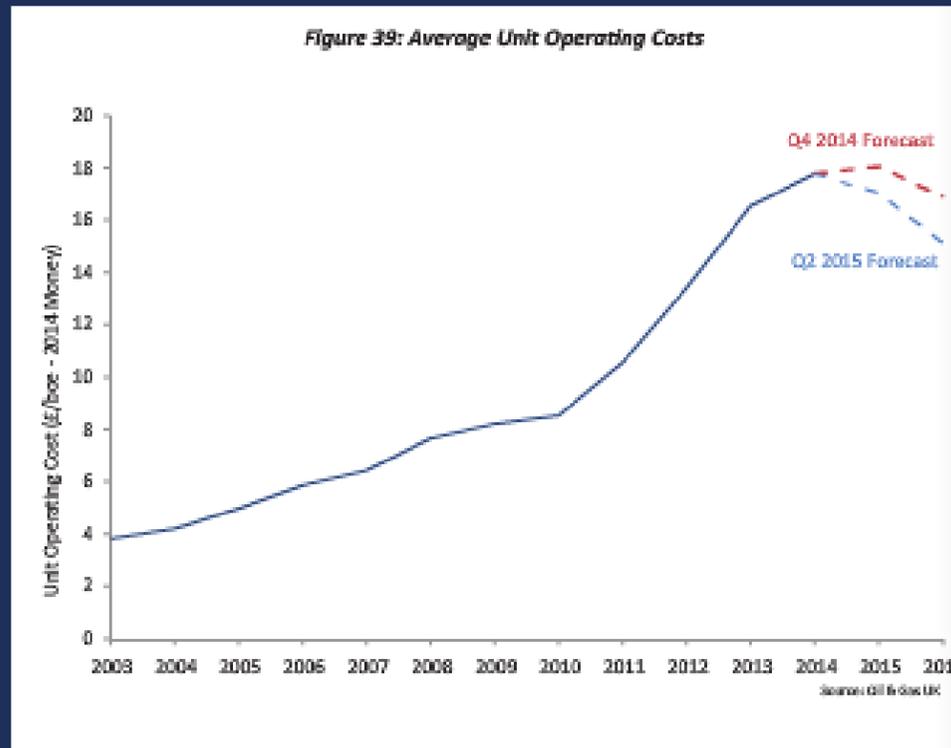
ESCALATING COSTS

According to the report operating costs have risen by a third since 2011 to GBP 9.7billion. However the fall in oil price and focus on increasing efficiency is expected to reap rewards. By the end of 2016 the cost of operating existing assets is due to be trimmed by 22%. Unit operating costs at end of 2014 were averaged at GBP 17.80 and this is expected to drop by GBP2-3 by end of 2016. The rise in operating costs over the past decade is particularly poignant when viewed against the drop in production efficiency. Between 2004 to 2012 production efficiency fell from 80% to 60%, essentially we were spending more to do less. In the endless pursuit of our 'state of the art' and 'bespoke' 'high end' industry we lost focus. The order of the day should have been standardization, waste reduction and of course maximizing efficiency.

Measures that have been implemented over the past year are starting to echo this sentiment. Oil & Gas UK launched the Efficiency Task Force (ETF) earlier this year to look at ways the industry can evolve to the current climate and go forward and thrive even in a USD 40 oil price. Led by AMEC Foster Wheeler Group President John Pearson the ETF presented itself at Offshore Europe stating we "should not waste the opportunity of this downturn". Meanwhile as I walked the stands of Offshore Europe talking to companies desperately seeking business there were few examples of innovation or action being taken to improve efficiency. While there were a handful of shining examples of how forward thinking companies were lighting the way for a more flexible industry, most were blindly hoping for some miraculous oil price increase and intended on doing little else but weathering the storm until such time.

-22%

The cost of operating existing assets is to be trimmed by 22 per cent by the end of 2016

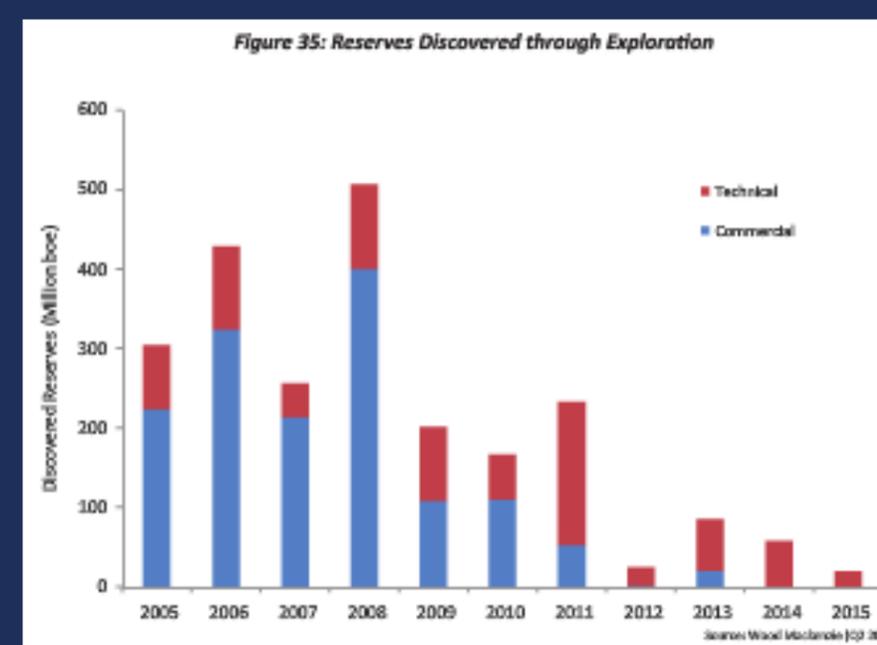


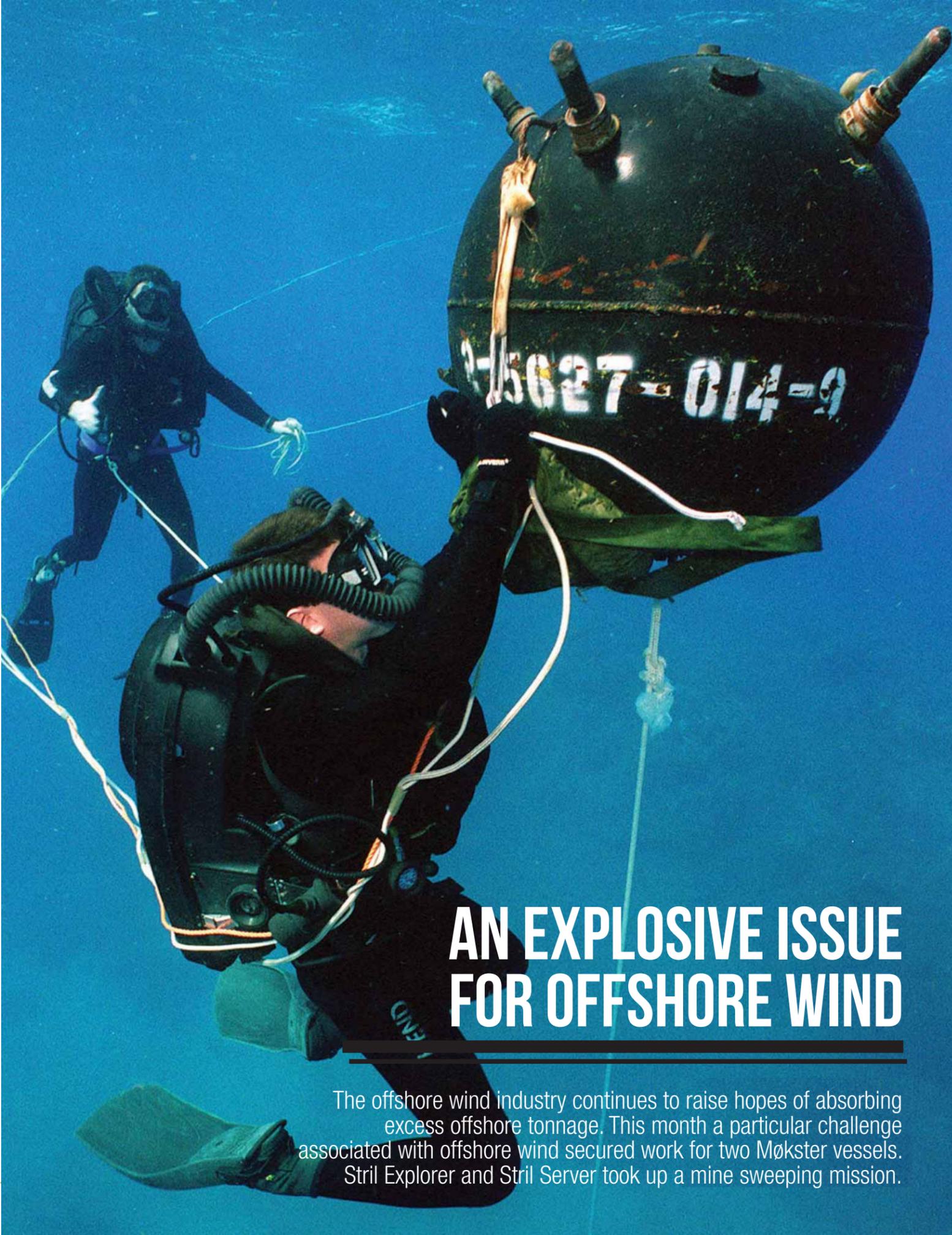
Capital investment again hit a record at £14.8 billion in 2014 - but is expected to fall by £2-4 billion in each of the next three years

First production increase in 15 years expected in 2015

2015

THE UK IS ONLY REPLACING A SMALL FRACTION OF THE RESERVES IT PRODUCES AND THEREFORE DIMINISHING THE SIZE OF THE SECTOR AND ITS ABILITY TO SUSTAIN INVESTMENT.





AN EXPLOSIVE ISSUE FOR OFFSHORE WIND

The offshore wind industry continues to raise hopes of absorbing excess offshore tonnage. This month a particular challenge associated with offshore wind secured work for two Møkster vessels. Stril Explorer and Stril Server took up a mine sweeping mission.

The challenges associated with unexploded devices that litter the seabed particularly off the German and UK coast is something that is being thrust into the limelight as the interest in offshore wind farms pick up pace. During World War II British planes not uncommonly dumped explosives in the sea on their way back home in order to save fuel. On top of that the practice of dumping ammunition in coastal waters has been going on since World War I – and only recently ended. One expert described the waters surrounding the UK as resembling ‘an explosive soup’. Current estimates put the figure of 1.6 million tons off the coast of Germany and a further 1.3 million tons elsewhere in the North Sea. Moreover many sea mines were laid as a defense barrier. Between 30 to 70% of these were never recovered. This is an issue that has the capacity to really blow up.

Understandably the disposal of the devices is carried out by specialist teams. Dutch firm Boskalis Hirdes has dealt with such a work scope off the German coast in recent times and confirms that the level of munitions dump has far exceeded estimates. “We expected around 50 targets on a route length of more or less 45 kilometers, and now we found more than 2,000,” said technical director Jan Kölbel.

Amplifying the problem is the issue that currently little to no regulation exists regarding what

should be done with these offshore dumps. While transportation away from the site is preferable with regards to marine life and environment (exploding in situ can burst eardrums of some marine wildlife from up to four kilometers away), this is often simply not possible. As explosive devices age, stability decreases. This leaves little option but to explode on site.



ONE EXPERT DESCRIBED THE WATERS SURROUNDING THE UK AS RESEMBLING ‘AN EXPLOSIVE SOUP’



The extent of the problem has resulted in significant delays for several offshore wind farms in the German sector. A couple of years ago Germany’s giant Riffgat field ran into costly problems as grid operator Tennet was unable to run the connecting cable to land due to the discovery of unexploded devices on the seafloor. The 70 year old explosives only came to light following a survey carried out after construction of the turbines began. This was on top of the 2.7 metric tons of ammunition that was already cleared for the area where the turbines are installed. Only a handful of

companies are qualified to remove the explosives and at the time they were in high demand. More recently DONG applied for a license to explode any discovered devices off the UK coast for work to begin at the Burbo Bank extension. The 32 turbine park will play host to the world’s first 8MW turbine. In 2014 RWE Innogy discovered unexploded devices at Gwynt y Mor, three devices were initially discovered but the list goes on. Wind parks offshore UK and Germany are set to have fallouts from war disposals for some time to come. And it’s not just the wind industry that’s facing obstacles. Back in 2011 a routine inspection of BP’s Forties pipeline – at the time supplying 40% of Britain’s total crude output, found an unexploded German mine lying right beside the pipeline. Discovered around 25km off the coast of Peterhead, the Ministry of Defence immediately mobilized a team to dispose of the mine. The pipeline then closed for five days while disposal work was carried out. **This issue** is becoming increasingly understood to be a key factor in determining cost and time scales for offshore wind farms. Vessel involvement for offshore wind parks will mean far more than just installation and maintenance as was initially thought. The work carried out by the Møkster pair will be something we hear far more of in the future.



HAVEN IN KRISTIANSAND

Kristiansand recently played host to Master Marine's premier accommodation platform, Haven. The rig was in port for two months while some inspection and maintenance work took place, before it was towed out to commence its charter for Maersk Oil in the Danish sector.

