# THE NAVIGATOR

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THE MONTHLY REPORT FROM WESTSHORE SHIPBROKERS AS

WESTSHORE
SHIPBROKERS AS

INSIDE THIS ISSUE:

# Is the YME field cursed?

YME is a small field approximately 160 clicks north east of Ekofisk that was first discovered in 1987 and originally developed by Statoil producing 51 million barrels of oil from 1996 to 2001. The field was abandoned during a period of low oil prices, however in 2007 the first ever redevelopment plan for an abandoned field was submitted by Talisman. The company estimated that only 40% of the total recoverable reserves were tapped during the first round, with 75 million barrels remaining. Talisman holds a 70% interest in the field with Revus Energy holding 20% and Pertra ASA the remaining 10%. Talisman contracted SBM Offshore for the lease of a platform to be constructed in Abu Dhabi.

Initially start-up was projected to begin during 2009 however the construction of the deck at the Adyard Liva shipyard was delayed by more than a year and cost double the initial contract value of USD 35 million, coming in at USD 75 million. However this was only the tip of the iceberg, with numerous irregularities discovered with the platform. The topsides for the platform were eventually delivered mid-2010 and were transported to Norway for completion by the Bergen Group. Initially a barge was contracted for the transportation, with issues arising in they eventually contracted the Mighty Servant. The operator Talisman estimated at this point that the project cost which initially was budgeted at NOK 4.7 billion was almost doubled to NOK 8 billion and was about two years delayed.

The platform was installed in the North Sea mid-2011 with further construction expected in order to prepare the facility for the start of production, however numerous delays due to poor weather conditions and an array of technical issues lead Talisman to push completion by yet another year. The cost estimates have now run to around NOK 12 billion, with 10.9 billion already invested. Although early cost estimates were projected on the low side, they have now close to tripled since the project was first planned. Earlier this year Talisman after thorough review wrote off CAD 978 million (NOK 5.655 billion) on the project. Although they have publicly stated that there is still good value in to the project, it has been thought that Talisman are continuously evaluating the project and all alternative solutions.

The platform has now been in the North Sea since summer last year, and it is still unsure whether it can be utilized. Earlier this month attention was raised once again when the platform was evacuated after cracks had been found in the structure of the platform. SBM Offshore maintain that the platform is 100% safe and has been since it was installed, however the issue is just another of the many problems faced in this project. This has been an expensive and lengthy ordeal for all parties involved however the project is still underway with the spokesperson for Talisman recently stating that they still expect SBM Offshore to deliver. They are currently working on a revised plan with SBM Offshore and will release new target startup dates shortly. Blame has been shifted, lawsuits filed, it is safe to say that the current relationship between the two parties is strained. One thing is certain there is not much room for further cost escalations and time delays. A point of interest is that Encana Corp. will certainly be paying close attention to the results of this latest issue given that the Deep Panuke currently being used on the field bearing the same name was built by SBM Offshore at the same yard.

# 03 MORE NEWS

## OFFSHORE NORWAY UPDATE

The Norwegian Petroleum Directorate (NPD) announced a summary of the new discoveries made in Offshore Norway after we reached the midway point of this year. In total there have been 19 explorations wells spudded on the NCS, versus 21 wells drilled last year. NPD have explained that the lower number of exploration wells is a direct consequence of operations taking longer time than anticipated due to them being more complicated, while new rigs have started later than planned in an already tight market. A total of seven discoveries were made so far this year, as opposed to eight last year during the same time period. Of the new discoveries this year four were in the North Sea, two in the Norwegian Sea and one in the Barents. Three of these finds were relatively large, with the find in the Skarfjell prospect by Wintershall in the Gjøa area currently estimated at 10 to 25 million standard cubic meters. The gas/condensate discovery by Statoil in the King Lear prospect south of the Ekofisk area is estimated to hold 11 to 32 million standard cubic meters, while the Havis field in the Barents is the largest find so far this year with an estimated oil find of 24 to 44 million standard cubic meters and 4 to 6 million standard cubic meters of gas.

NPD has also released production figures for the first half of 2012. Oil production has fallen relative to the same period last year and is down by 5%, however on the whole the total is 8% higher than last year with 19% more gas and 17% more NGL and condensate. In total petroleum production for the first six months of this year have been about 118.6 million standard cubic meters broken down as follows (39.6% Oil, 10% NGL and condensate, 50.4% Gas), this being 9.1 million standard cubic meters more than in 2011. The figures show that in June 2012 the average daily production was at 1.862 million barrels of oil down 163,000 barrels per day compared to May 2012. Some of this downfall can be attributed to the strikes in the North Sea which shut down production on select fields. New production so far this year has come from four fields with the ENI operated Marulk gas field in the Norwegian Sea, the BG Norge operated gas and oil field in Gaupe in the North Sea, the DONG operated Oselvar gas field in the North Sea, and the Total operated gas field Islay on the border between the NCS and UKCS.

## OIL AND GAS 2012 ECONOMIC REPORT

Each year Oil & Gas UK produce a report providing an update on the condition in the UK market, it gives a reflection on the year that has been and their expectations going forward. So far this year we have read numerous reports pointing to solid investment figures and great attendance figures in the license auctions. However as we all know, solid investment takes time to reap rewards and with low investment figures in 2009 and 2010 production in the UK has dropped significantly. The below is a summary of the report provided including their own expectations for the future of the UK Continental Shelf.

Oil and Gas provides approximately 73% of the total energy needs in the UK and is understandably an important industry providing more than 25% of the total corporate tax revenues. The last years have seen a continual decline in production on this mature basin with the average year-on-year decline in the period 2004 to 2010 at 7.5%. However in 2011 the UK produced 656 million boe, a 19.2% reduction from the 812 million boe produced in 2010, the biggest year-on-year decline ever recorded. Reasons for the decline are explained with a number of factors such as fiscal changes in the prior years, political issues surrounding the Rhum field, the Gryphon FPSO incident, ageing infrastructure and a number of other shutdowns both planned and unplanned. Production in 2012 had expected to be better than 2011, approximately 20 million boe more, however the incident in Elgin Franklin will put a hamper to this. The report mentioned that output from the fields currently producing are expected to half within ten years without further investment, with output in 2020 obviously dependent on investment trends. Should most current investments proceed it is anticipated that output in 2020 would be approximately 1.5 to 1.75 million barrels a day, which is slightly less than the 1.8 million barrels we saw in 2011. Current investment plans have the potential to deliver around 12 billion boe in total, five billion of these from incremental or new field developments.

Overall expenditure in the UKCS was GBP 17 billion in 2011, up GBP 3 billion from 2010. The growth in capital investment was responsible for a majority of the growth reaching GBP 8.5 billion up from GBP 6 billion in 2010. The capital expenditure according to the report is expected to grow by a further GBP 3 billion in 2012. This figure does look solid however a majority of this additional capital is spent on maintenance and renewal of existing assets which will not yield extra barrels of hydrocarbons.
A major issue is the decrease in E&A wells drilled over the last years with 2011 dropping to 14 exploration and 28 appraisal wells, combined this has more than halved since 2008. In total there were 30% fewer E&A wells drilled in 2011, despite an increase from GBP 1.1 to 1.4 billion spent. This is attributed to a tighter market causing higher rates for rigs and more technically demanding wells being drilled. On a positive note the few exploration wells drilled last year brought about discoveries of 200 to 300 million boe. Exploration drilling has been expected to pick up in 2012 with 64 E&A wells forecast, although only 40 of these are firmly committed.




# JULY MARKET RECAP

## JULY MARKET RECAP:

July has been a solid month with slightly fewer spot assisted rig moves than June. In July we saw a total of 23 rig moves made an increase from last year of almost 30%, and one less than the month of June. Despite the slight fall in numbers the monthly rates have increased from approximately GBP 16,800 in June to GBP 25,750 for larger AHTS. This is due to moves taking longer time during the month of July bringing average utilization over the month to 74.9%, however at close of the month the utilization was down at 64%. Statoil have been active in the month of June and following this flurry of activity have mentioned that they will have many rig move requirement in August. There are still 62 vessels in the market with a total of 17 vessels operating on terms contract while the remainder are on the spot, meaning the spot availability has increased by one since last month. The overall average rates for the North Sea were approximately GBP 23,900 up about 49% from June, but down about 14% from the same period last year. Not one Anchor Handler was fixed for supply duties during the month of July.

There has been discussion as to when the PSV market would finally take a hit given the number of vessels entering the market and it seems July was the winning answer. Over the last month the number of vessels in the PSV spot market has risen from 40 to 51 vessels. A large majority of these were not actually newbuilds, with only three being delivered during the month. The majority of these vessels came from term contracts with the total number falling from 108 to 100 over the last month. It seems that many operators have taken advantage of the poor market this month and further depressed it by dismissing options and picking up their needs from the stocked harbor shelves. Rates have taken a nose dive from the GBP 16,000 average levels reached in June to approximately GBP 10,500 in July. The first four months of this year were good to the PSV market, however the summer months have not been kind. The average of the last three months has been about GBP 12,500, while last year we saw average rates over that period of GBP 17,000. Utilization is currently hovering around the mid 70's, with the average at 81% for the month. This is due to a period of very solid utilization levels, however rates never followed suit given the continuous onslaught of tonnage.

## TERM FIXTURES

| Date | Vessel | Operator | Scope | Rate (p/d) | Region |
|---|---|---|---|---|---|
| 26.06.2012 | Olympic Princess | Chevron UK | 3 wells firm + 1 well option | GBP 17,000 | UKCS |
| 27.06.2012 | Energy Scout | Total Angola | 3 years firm | USD 27,500 | West Africa |
| 19.07.2012 | Viking Athene | Dong | 30 days + 8 x 1 week options | RNR | UKCS |
| 25.07.2012 | Toisa Independent | Maersk Oil/Interoil Angola | 2 years firm + 2 x 1 year options | RNR | West Africa |
| 02.08.2012 | Skandi Sotra | BP UK | 86 days firm + 1 mth opt + 4 weekl opt | RNR | UKCS |

## OUTSTANDING TERM REQUIREMENTS

| Date | Operator | Requirement | Scope / Period | Start | Region |
|---|---|---|---|---|---|
| 10.05.2012 | Senergy | PSV | 1 well | N.A. | UKCS |
| 04.06.2012 | ConPhil | PSV | 10 months firm + D/D 80 | 20.09.2012 | NCS |
| 21.06.2012 | Nexen | PSV | All duties D/D 14 | 01.09.2012 | UKCS |
| 26.06.2012 | MLS | Standby Vessels | 5 wells + 2 wells options | 15.08.2012 | NCS |
| 19.07.2012 | BP UK | PSV | Supply duties 1 month + options | 06.08.2012 | UKCS |
| 26.07.2012 | BP UK | PSV | Supply duties 35 days + options | 10.08.2012 | UKCS |

## AVERAGE MONTHLY STATISTICS

| Average Monthly Rates (GBP) | | | |
|---|---|---|---|
| *Vessel Type* | *July 2012* | *June 2012* | *July 2011* |
| *AHTS* | | | |
| > 18,000 | 25 911 | 16 903 | 31 623 |
| 15,000 to 18,000 | 19 324 | 14 117 | 20 957 |
| *PSV* | | | |
| > 800 m² | 11 863 | 17 889 | 19 207 |
| < 799 m² | 8 458 | 12 498 | 15 840 |

| | July 2012 | June 2012 | July 2011 | June 2011 |
|---|---|---|---|---|
| # of spot fixtures | 70 | 74 | 61 | 49 |
| # of rig moves | 23 | 24 | 18 | 13 |

| Average Utilization (%) | July 2012 | June 2012 | July 2011 | June 2011 |
|---|---|---|---|---|
| *AHTS* | 74.9 | 88.3 | 92.0 | 91.1 |
| *PSV* | 81.0 | 70.0 | 80.0 | 84.4 |

# 05 NEWBUILDING NEWS

## ANNOUNCEMENTS THIS MONTH

-Island Offshore have confirmed contracts at STX OSV Brevik for two more PSVs UT 717 CD to be delivered in January and March of 2014. The vessels have a combined cost of NOK 500. The overall length of each vessel will be 84.3 meters with a beam of 17 meters, and the deadweight will be approximately 3800 DWT.

-Kleven Maritime have confirmed a contract with Remøy Shipping for a VS 4412 PSV for a contract worth approximately NOK 400 million. The contract includes an option for another vessel.

-Atlantic Shipping's VS 465 MKII Ocean Response has been delivered and will go on contract to Statoil for 10 years plus five yearly options. The vessel is a multi-purpose standby vessel with a length of 74.3 m, will amongst other capabilities be able to carry out emergency tugs with a 120 tons bollard pull, and the stern will be equipped with the necessary equipment to handle loading tubes.

-Atlantic Offshore has ordered two new vessels, worth €50 million from Zamakona Yards in Bilbao, Spain. The orders have been placed for two FSV vessels which have been contracted with oil companies Total and Shell United Kingdom, and will operate in both Norwegian and British sectors. They will be built in the HY 820 design

-Atlantic Towing has purchased the newbuild 16,316 bhp AHTS Jaya Supreme from Jaya Holdings in Singapore. The 180-tonne bollard pull vessel with Wartsila VS 4622 design is expected to be delivered in early September. The vessel Ice Class 1A compliant, having the ability to navigate in moderate level ice conditions in northern regions. Jaya Holdings is also building a sister vessel Jaya Sovereign, which is slated to be completed in May 2013.

- GulfMark Offshore has ordered two newbuild US-flagged PSVs, to be built at BAE Systems. The company has also confirmed the order of two previously announced newbuild PSVs from Thoma-Sea. They have ordered two 286-foot (87.1-m) 5,100 dwt PSVs from BAE Systems at a total cost of around USD 96 million. These 300-Class newbuilds will have DP-2 capabilities and be fire-fighting certified. Delivery of the first of the 300-Class vessels is scheduled for the fourth quarter of 2014, with a second PSV following in the first quarter of 2015.

- Vroon Offshore Services took delivery of VOS Athos. The new addition to the VOS fleet was delivered by Fujian Southeast Shipyard in China. VOS Athos is a 59m A-class anchor handling tug supply vessel and the first of three vessels being built at the yard for Vroon with class ABS notation "Oil recovery Class 2".

## NEWBUILD DELIVERIES
### NEXT SIX MONTHS

**August 2012**
Blue Prosper (PX 121)

**September 2012**
Island Contender (UT 776 CDG)
Far Skimmer (STX PSV 08 CD)

**October 2012**
Viking Princess (VS 489 LNG)
Vestland Mira (Havyard 832 L)
STX Leader (STX PSV 09 CD)
Far Solitaire (UT 754 WP)

**November 2012**
Olympic Taurus (MT 6015)

**December 2012**
Havila Charisma (Havyard 833 L)
Rem Leader (VS 499 LNG)
Vestland Cetus (VS 485 MK III)
Vestland Insula (VS 485 MK III)

**January 2013**
No deliveries expected

**Delivered recently**
Viking Fighter (STX PSV 08CD)
Skandi Aukra (STX PSV 09)
C-Viking (UT755 LCD)

# 06 DRILLING & PRODUCTION

## Deloitte Second Quarter Review

The report released earlier this month has shown an increase in wells spudded in the second quarter compared to the same period last year and the previous quarter. In total 35 wells were spudded in the second quarter of 2012, which is a 17% increase from the same period last year and a 40% increase compared to first quarter 2012. The increase has however been on the majority seen on the UK side with activity in Norway dropping relative to the same period last year. The report states 18 exploration and appraisal wells were drilled on the UKCS, a 64% increase from the 11 wells spudded in the first quarter 2012. In Norway the figure dropped from ten to eight wells spudded. This is a further fall in activity, given that the same period last year saw 13 wells drilled. This activity drop may be a signal that projects have taken longer time to develop on NCS, as both investment figures and recent auction rounds have shown a great deal of interest from Oil companies.

There have been 12 fields granted development approval by the Norwegian and UK governments, which is a 67% increase on the total number of field developments in all of 2011. In addition to the development approvals, five and two fields have come on stream in the UK and Norway in the second quarter relative to one field start up in the first quarter 2012. Another interesting point in the report shows a reversal in the type of deals made within the industry from last year, with the first two quarters of this year having a majority of asset transactions, while farm-ins were the more popular type of deal in 2011. The report denotes that the reason for this change is that companies are more willing to take higher risks and invest in full asset acquisitions as opposed to sharing risk with other companies through farm-ins.

## UPCOMING AND ONGOING

-Maersk Drilling has confirmed a contract for two years plus a one year option with Statoil for the Maersk Gallant. The ultra-harsh environment rig will work in the Norwegian North Sea and will fire up either Q2 2014 or 2015 depending on whether ConocoPhillips declare their final one year option the contract they currently have. The contract is worth USD 284 million for the firm two year period which gives an approximate daily rate of USD 389,000.

-BG has confirmed the option for the Transocean Searcher which will have them keep the semisubmersible until June 2015. The rate for the new one year option is USD 386,000 per day.

-North Atlantic Drilling has secured an extension of its current contract for the West Alpha with ExxonMobil. The contract has a firm period of two years with an expected value of USD 410 million, which works out to an approximate daily rate of USD 561,000. The extension will begin immediately following the current contract culmination in the third quarter of 2014.

-Statoil has exercised an option to extend a contract for the drilling rig Ocean Vanguard. The contract was initially set to expire in the summer of 2013 and has now been extended until the first quarter of 2015 for a total of NOK 1.2 billion.

-Odfjell has confirmed a new contract with Statoil for the Deepsea Bergen. The contract initially denoted a period of three to five years however Statoil have elected to take the longest period possible with five years and an option for an additional year. The Deepsea Bergen will therefore be drilling for Statoil until at least the summer 2017. The value of the firm contract is USD 619 million giving an approximate rate of USD 339,000 per day. The rig will be moved to Westcon yard during the fall of this year for upgrades at a cost of NOK 20 million for operations on the Skuld field.

-Dolphin Drilling/Fred Olsen Energy has agreed a three year contract with BP for the charter of the Byford Dolphin for drilling in the UKCS. The contract is an extension of the current deal and includes a three year option. The firm contract has a value of NOK 2.3 billion.

-Total has confirmed a contract for Aker Solution's well intervention vessel Skandi Aker for two years in Angola plus a one year option. The contract has a total value of USD 250 million and will fire up in the first quarter of 2013.

-News of the month sees Seadrill sign a deal potentially worth USD 4 billion for three of its drillships in the Gulf of Mexico for a grand total of 19 rig years. Although the details have not yet been confirmed it is expected that the deal has been made with Oil Major BP. The rigs involved in the deal are the two new Ultra Deepwater rigs West Auriga and the West Vela which are to be delivered from the yard next year in February and May, with a likely start up on the contract in September and December. The third rig is thought to be the West Sirius which is already working for BP in the GoM. An approximate calculation of the daily rates is USD 570,000.

# 07 IN AND OUT

## PLATFORM SUPPLY VESSELS - IN

| Vessel | Design | Manager | ENTRY | From |
|---|---|---|---|---|
| **Blue Prosper** | PX 121 | Blue Ship Invest | End - Aug | Newbuild |
| **Vessel** | **Design** | **Manager** | **ENTRY** | **From** |
| **VOS Prominence** | Vujik Kenton | Vroon | Start – Aug | Senergy |
| **Normand Baltic** | Aker 06 ROV | Solstad | Start – Aug | PetroMarker |
| **Normand Arctic** | Aker 12 LNG | Solstad Shipping | Start – Aug | Statoil |
| **Rem Provider** | UT 755 LC | Rem | Start – Aug | Heerema |
| **Rem Supporter** | STX 06 CD | Rem | Start – Aug | ADTI |
| **Bourbon Front** | PX 105 | Bourbon | Mid – Aug | Allseas |
| **Normand Flipper** | UT 745 E | Solstad | Mid – Aug | Saipem |
| **Normand Carrier** | UT 745 | Solstad | Mid – Aug | Saipem |
| **Viking Athene** | VS 470 MKII | Eidesvik | Mid – Aug | Dong |
| **Ocean Surf** | UT 755 | Atlantic Offshore | Mid – Aug | Team |
| **Dina Supplier** | UT 755 LC | Myklebusthaug | End – Aug | MOUK |
| **North Vanguard** | UT 705 | Gulfmark | End – Aug | Team |
| **Normand Skipper** | VS 4420 | Solstad | Start – Sept | MLS |

## PLATFORM SUPPLY VESSELS - OUT

| Vessel | Design | Manager | EXIT | To |
|---|---|---|---|---|
| **Olympic Princess** | MT 6000 | Olympic | Mid – Aug | Chevron |
| **Viking Prince** | VS 489 | Eidesvik | Start – Aug | Lundin |

## ANCHOR HANDLERS - IN

| Vessel | Design | Manager | ENTRY | From |
|---|---|---|---|---|
| **Maersk Tracer** | VS 472 | MSS | Mid – Aug | Saipem |
| **Maersk Tackler** | VS 472 | MSS | Mid – Aug | Saipem |
| **Maersk Lifter** | VS 472 | MSS | End – Sep | Shell |

## ANCHOR HANDLERS - OUT

| Vessel | Design | Manager | EXIT | To |
|---|---|---|---|---|
| **Maersk Launcher** | A - Class | MSS | Start – Sept | Petrobras – Brazil |
| **Maersk Lancer** | L - Type | MSS | Start – Sept | Petrobras – Brazil |
| **Magne Viking** | VS 4622 CD | Viking Supply Ships | Start – Sept | Chevron Canada |

# 08 MARKET FORECAST

## DRILLING IN THE NORTH SEA

Upon Seadrill's announcement of its USD 4 billion contract for a total of 19 rig years of work for two of their newbuilds and a third unnamed vessel Trond Olav Trøim stated that they are fairly comfortable in the view that there are not enough rigs to cover the oil companies' needs in the coming three years. Seadrill's controlling shareholder John Fredriksen said global oil firms have been on an exploration spree, taking advantage of lucrative offshore finds in frontier areas like Brasil, East Africa and the Arctic, and the boom is creating a shortage of equipment. There is undoubtedly such a shortage when we continually see day rates escalating and news of lengthy contracts signed by operators in order to secure capacity. For those focusing on the North Sea, it becomes noticeable that many of these contracts are being signed for markets outside the region when there is a legion of new vessels entering the market. Hopefully this article can shed some light on exactly what we expect over the coming years based on IHS Petrodata rig data.

Over the last few years we have seen the number of working rigs in the Norwegian and UK continental shelf increase from a total of 58 to 63 in 2011. Towards the end of 2011 two jack ups (Ensco 70/Rowan Norway) entered on the UK side, while so far in 2012 another seven rigs have entered the North Sea bringing the total number of rigs in the region to 69. We expect another four rigs to be entering through the rest of the year bringing the total to 73 working rigs. The below table provides an overview of what has and is entering in 2012.

| Entering the North Sea 2012 | |
|---|---|
| *Entered* | *Entering* |
| Noble Hans Deul | West Hercules |
| Ensco 71 | COSL Innovator |
| GSF Galaxy I | COSL Promoter |
| Ocean Guardian | Noble Byron Welliver |
| Maersk Resolve | |
| COSL Pioneer | |
| Scarabeo 8 | |

The next few years is difficult to predict given a number of rigs with expiring contracts, however based on current confirmed contracts the number of rigs will fall to 71, however adding the contracts that will expire early 2013 and the number reaches 78 rigs. When including the four vessels that are already contracted to enter the market in 2013 the total number of working rigs reaches 82. The below table provides an overview of the expiring contracts with the mid to late expiring contracts included in the initial rig figure of 71 for 2013. There are also a number of rigs that have already been contracted to enter the North Sea in the years going forward. A table with an overview for the next three years can be found on the next page.

| Contracts Expiring | |
|---|---|
| *Early 2013* | *Mid to late 2013* |
| GSF Arctic III | GSF Galaxy I |
| Sedco 714 | GSF Galaxy II |
| Noble Hans Deul | GSF Galaxy III |
| Rowan Gorilla V | Stena Carron |
| Ocean Nomad | Bredford Dolphin |
| Ensco 101 | Stena Don |
| Ensco 71 | Transocean John Shaw |
| | Ensco 70 |
| | Ensco 92 |
| | Noble Byron Welliver |

Otherwise there are a number of other newbuilds entering the global market that could be fixed and brought to the North Sea, in addition to a few rigs that have expiring contracts. In total there are approximately 26 rigs currently being built that do not currently have contracts and will be delivered in 2013 to 2014, a large majority of these are jack ups (15), while eight are drillships and the

# 09 MARKET FORECAST


last three are semisubmersibles. In summary there is no availability in the floater market for the NCS until early 2014, while the UK does not have any availability until early 2013. The jack up market does not see availability for the Norwegian market until Q2 2014, while the UK has no availability until early 2013.

| Already Contracted from 2013 to 2015 | | |
|---|---|---|
| *2013* | *2014* | *2015* |
| Prospector JU TBN 1 | Maersk JU 492 TBN 1 | Maersk JU 492 TBN 3 |
| Island Innovator | Maersk JU 492 TBN 2 | Songa Endurance |
| Ensco 120 | West Linus | Songa Enabler |
| Leiv Eriksson | Deepsea Aberdeen | |
| | Songa Equinox | |
| | Songa Endurance | |

Statoil's campaign to build new rigs has been successful and is a clear indication that they need more capacity for their ongoing and future drilling campaigns. They still have the intention to contract two Cat J rigs during the second half of 2012 and we can expect the rates on these contracts to provide a good indication of the jack up market and its current strength. At the end of this year we can expect Statoil to have 23 rigs working for them up from 14 rigs at the beginning of 2010. A slight issue for owners is that many of the newer assets reaching the market have the ability to re position by themselves, hence the need for AHTS will be less than for other types of rigs. However any further activity is generally positive for the large number of PSVs that are entering the market. The extensive drilling programs in place with significant investments should see further rigs contracted for the North Sea provided they are availabilities and operators are willing to pay the current high rig rates. Contracting rigs in the North Sea is getting more expensive by the minute both for floaters and jack up rigs. An example is the recently fixed Maersk Gallant which will move from Conoco Phillips to Statoil in the second quarter of 2015 (there is an option extending it from Q2 2014). The current rate is USD 312,000 per day with the figure increasing to USD 389,000 when shifting to the hands of Statoil. If one looks at the rates for the first Maersk rigs contracted late last year for Total and Det Norske we saw daily rates for approximately USD 377,000 per day, when Statoil fixed the third rig in May the rate had increased to USD 397,000 per day. The costs associated with building modern jack ups is extensive and carries with it great financial risk, so the rates need to be solid. Although there are good number of rigs entering the market, there has to be more contracted fixtures to stymie the heavy delivery schedule of vessels going forward the next years and currently there are not that many suitable rigs available with competition from all regions of the world intense pushing rates for harsh weather rigs given the current lack of them. We believe that we can expect further newbuild rig contracts and the signing of existing units announced during the rest of the year.

# THE INSIDE STORY


## FROM FARM-INS TO ASSET ACQUISITIONS

**As mentioned in the Deloitte report summary the preferred deal structure this year has been actual asset acquisitions as opposed to farm-ins which were quite popular last year. This demonstrates a push towards a greater willingness to take risk solely as opposed to sharing it with other players. However it is important to note that a good deal of the larger transactions this year have been made by Chinese companies securing producing assets. Two of the most recent deals seen in the market have been made by China Petrochemical Corporation (Sinopec) and China National Offshore Oil Corporation (CNOOC) and are good examples of just that, however the strategic significance of each deal is quite different.**

Sinopec have acquired a 49% equity interest in all of Talisman's UK North Sea businesses for USD 1.5 billion. Although Talisman will continue to operate all the assets, Sinopec will appoint select personnel into key positions within the organization. Talisman has been in the North Sea since 1994 and hold operated and non-operated interests in 46 fields, while they operate 11 offshore installations and an onshore terminal. The deal allows for Talisman to reduce their working interest and capital expenditure in the UK by half, allowing them to fund in areas they believe to be growth regions, currently their three main operating areas are North America, the North Sea and Southeast Asia. The deal is certainly positive for offshore players in the UK, as what may have been a concern on the level of investment made in the region we can now be confident that that with Sinopec on board collectively they will invest more in the UK than they would have on their own. Talisman Energy has been touting their intent to divest for approximately USD 2.5 billion this year and with this transaction they have almost reached that goal.

The next deal isn't focused on the North Sea however its importance to the market is big as it will be the largest Chinese acquisition made at USD 15.1 billion, more than double the Sinopec investment for Repsol's Brazilian unit. Important to note that the CNOOC deal is not confirmed yet as it must be approved by Canadian regulators. The deal will see CNOOC increasing their oil and gas production by 25% with Nexen's current production of more than 200,000 barrels of oil equivalent and about one billion barrels of proven reserve. Nexen hold high quality oil sands in Canada, deepwater projects in the US GoM, Nigeria and in the North Sea. North Sea may not exactly be the focal point of this transaction, but with Nexen already struggling due to low gas prices, their investment in the North Sea was threatened. The company has been in need of an infusion of capital. So far CNOOC have stated that they are committed to Nexen's assets in the UK, including current investment plans for maintenance and development of all producing, development and exploration assets.

The Nexen acquisition shows a major interest in Canadian assets, an area with the third largest oil reserves according to BPs 2012 Statistical review of world energy. This is clearly a region they are interested in being part of having already acquired OPTI Canada last year. We can expect more interest in the Canadian regions going forward with the potential in the area enormous. These two deals in particular are very positive for offshore owners in the North Sea with investment in the mature regions always an uncertain factor. An empirical study performed by Oil & Gas UK states that a transferred asset is likely to have its productive life extended by around six years compared to a similar asset that has remained with the same operator. On another note investment figures have been solid lately, showing increased numbers across the board and significant interest in license rounds, an alternative source of capital such as China is welcomed. Look out for further deals backed by Chinese funding to help maintain and even boost offshore spending.

# THE LAST WORD

REPORT WRITTEN BY

Offshore Analyst
Jon Inge Buli


I would like to thank Øyvind Håland for providing all the pictures of the rigs in the month's edition, great pictures and we would appreciate any others out there willing to share their personal photos of the elements within the offshore industry.

Once again congratulations to Lars Möller, the Offshore Vessel Project Manager at Nordcapital Shipping for winning the Euro 2012 competition. Here in front of a model of the E.R. Luisa, the UT 786 CD designed AHTS.

Dear Readers,

Westshore Shippbrokers could really use you help in finding good topics to cover in the monthly editions of the Navigator. Please send us your suggestions to jon@westshore.no and we will include your ideas in our upcoming magazines. We appreciate your readership!