

THE NAVIGATOR



WESTSHORE'S MONTHLY NORTH SEA REPORT

July 2014 Issue: 35

A Slow Summer So Far

The North Sea vessel market has been surprisingly quiet

Oil in the Falkland Islands

A look at the past & future of this emerging oil region

Is Peak Oil Dead?

The theories on the future of oil supply & demand



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Vessels in Aberdeen Harbour courtesy of DeepOcean

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Cover photo credit: Northern Commander at work from Captain Jan Henry Knutsen

Headline News



There has been a downbeat start to the summer but NPD figures are up

A Slow Summer So Far

The last month has seemed relatively low-key, activity appears to have been depressed and vessel dayrates have been subdued. However, as ever the reality of the offshore vessel market is more complex than it first appears. Recent figures from the Norwegian Petroleum Directorate (NPD) point to this being a more active year than usual. Eight exploration wells are currently being drilled and as of June 24th there have been 33 exploration wells spudded and 33 terminated.

This compares favourably when set against last year in which there were 28 exploration wells in the first six months indicating almost 18% more in 2014 than 2013. According to the NPD: "Exploration activity on the Norwegian shelf remains vigorous. Thirteen new discoveries have been made this year, the largest of these in the Norwegian Sea."

Westshore's own market data for June also shows that activity has actually been up on previous years with

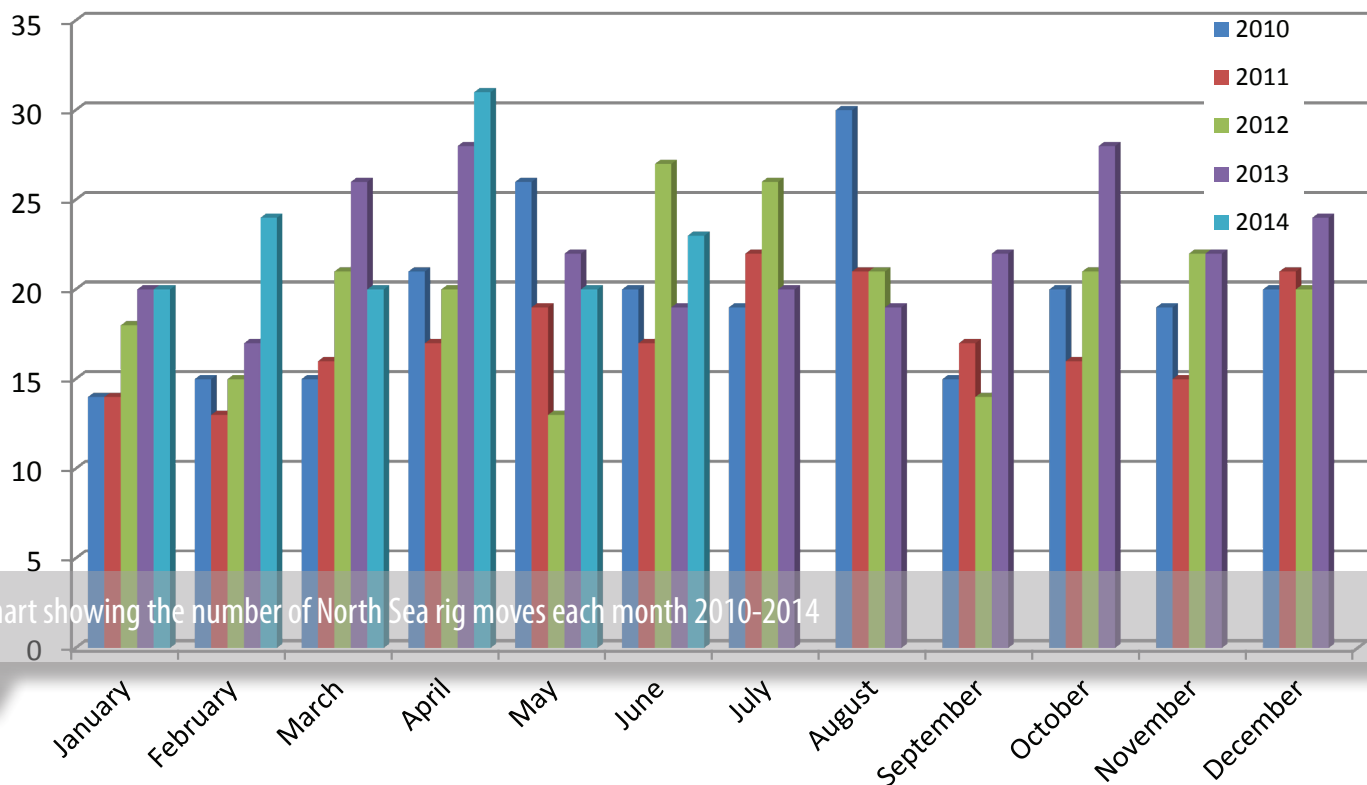


Chart showing the number of North Sea rig moves each month 2010-2014

the number of supply spot fixtures at 64 and the number of rig moves standing at 23. Both of these indicators are up when compared to the data for 2013. Full details of these figures can be found on the last page of this report.

The key lies in the utilisation of the fleet. Our figures for June reflect what has turned into a downbeat start to the summer for owners. Average AHTS utilisation for June was 66.1 per cent although at times in the month this dropped as low as 49 per cent with significant amounts of tonnage in harbour and looking for work particularly on the UK side. To put this in context the figures for the same month in 2013 showed one less AHTS fixture in June and an average AHTS utilisation at 81.0 per cent. For PSVs in June 2014 the utilisation was also down to 84.4 per cent substantially lower than the 94.6 per

cent we saw for the same month in 2013.

Whilst there may have been relatively similar levels of work the demand has come in steady streams rather than with overlapping schedules and the weather has not played as large a part as in previous years meaning

worksopes are being completed in a timely manner and vessels released sooner back to the market. There has been no surge in passenger transfer requirements that we have seen in previous years either nor so much pipehaul demand.

“The NPD believes that Norway will continue to be busy in terms of offshore drilling for the rest of 2014.”

Whatever the cause for the activity dip what is for certain is the market has more surprises in store. The NPD has a positive outlook it states: “Robust exploration activity is expected to continue for the remainder of the year with exploration wells planned in the North Sea, Norwegian Sea and Barents Sea.”

In & Out

AHTS Vessels

Vessel	Design	Manager	ENTRY	From
Boa Bison	VS 491 CD	Boa Offshore	Mid - June	Newbuild
Vessel	Design	Manager	EXIT	To
Normand Titan	UT 712 L	Solstad Shipping	Early - June	Petrobras
Tor Viking II	VS 490	Viking Supply Ships	Mid - June	Sakhalin
Skandi Iceman	Vard AH 12	DOF	Mid - June	TBA

PSVs

Vessel	Design	Manager	ENTRY	From
Viking Dynamic	VS 490	Eidesvik	Early - June	Statoil
Island Dragon	UT-717 CD	Island Offshore	End - June	Newbuild
KL Brofjord	STX 06 CD	K Line Offshore	Mid - July	BP Norway
Toisa Invincible	VS 483	Sealion Shipping	Mid - July	Team
Portosalvo	UT 755 L	Gulf Offshore	Mid - July	Peterson
Northern Supporter	UT 755	Trico Marine	End - July	BP UK
North Promise	Aker PSV 09 CD	Gulf Offshore	Mid- August	Hess Denmark
Olympic Orion	MT 6015	Olympic Shipping	End - Aug	BP UK
Vessel	Design	Manager	EXIT	To
Siem Pilot	VS 485 CD	O H Meling	Early - June	Exxon Norway
Sea Tantalus	STX PSV 05 LCD	Deep Sea Supply	Early - June	Nexen
Rem Supporter	STX PSV 06 CD	Rem Ship	Mid - June	Exxon Norway
Bourbon Sapphire	P105	Bourbon Offshore	Mid - June	Dong
Highland Guardian	MMC 887 CD	Gulf Offshore	End - June	Shell
Lundstrom Tide	STX 09 CD	Tidewater	Early July	Maersk Oil UK
Troms Capella	STX 09 CD	Troms Offshore	Early July	Maersk Oil UK

Drilling & Production

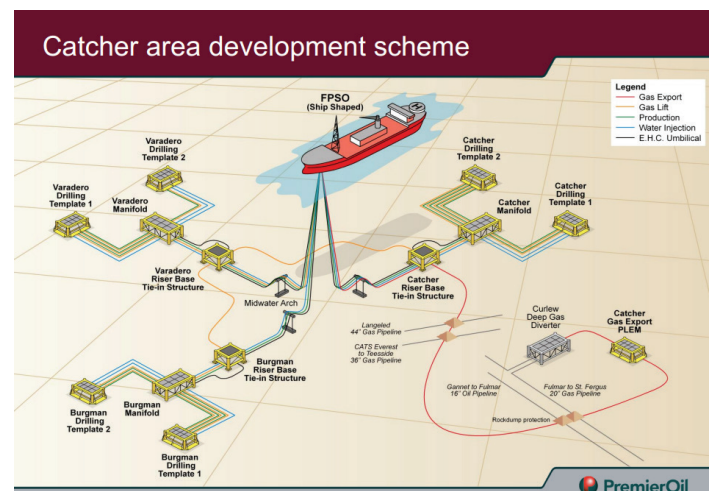
North Sea Activity

Premier Oil has received approval from the UK Department of Energy and Climate Change for its Catcher area field development plan. Under the scheme the operator expects to produce 96 million barrels of oil equivalent with a peak production rate of around 50,000 barrels of oil per day. The project will include drilling 22 subsea wells which will be tied back to a leased FPSO. The plan is now in the execution phase and Premier Oil is targeting a first oil date around the middle of 2017.

Statoil's latest topside is on its way to Norway from Korea where it was constructed. The journey for the Valemon topside was expected to take around 45 days in total. The Valemon scheme will also help breath new life into the nearby Heimdal field which will now remain in operation as the gas centre and processing and distribution hub until 2030.

Det Norske Oljeselskap has been given permission to drill an exploration well at the Heimdalshoe prospect in licence 494 near the Valhall field in the Southern North Sea. The operator will use the jack-up rig Maersk Giant to drill the prospect which is in 65 metres of water. The operation is expected to last between 60 and 125 days.

The UK Government has announced the name and location of a new regulator for the oil and gas industry. The Oil and Gas Authority will be headquartered in Aberdeen and the search is now on for a chief executive to head-up the new body.





Statoil's Valemon topside leaving Korea

Lukoil and Gazprom are understood to have struck a deal over a joint venture to explore part of the Russian Barents Sea shelf. Lukoil, which is Russia's biggest non-state owned oil producer, will have a 34 per cent stake in the enterprise.

Ireland has announced the opening of a new offshore licensing round known as the 2015 Atlantic Margin oil and gas exploration licensing round. The acreage that is being offered has been split into three regions including the Porcupine and Goban Spur basin, Donegal, Erris and Slyne basins and the Rockall basins. Access to 2D Seismic is being offered ahead of the closing date for offers in September 2015.

The jackup rig Rowan Viking is having its 170m legs extended by 10 metres to enable it to work in deeper waters. The unit will undergo the work at Damen Shiprepair Vlissingen. The project is expected to take

around 130 days and will be done ahead of the rig's planned 900-day 15 well programme with Lundin due to commence in the third quarter of this year.

The ultra-deepwater rig Deepsea Aberdeen is expected to be delivered to Odfjell Drilling in the fourth quarter of this year ahead of commencing a contract with BP in the West of Shetlands at the start of 2015.

Gazprom Neft has spudded its North Dolginskoye well in the Pechora Sea with the jack-up rig GSP Saturn. The charterer has the rig on contract for two years with a further one-year extension option to carry out exploration in the Russian sector of the Barents Sea.

Lundin Petroleum has got permission for a wildcat well in the Barents Sea later this summer. The Island Innovator will be used to drill at the Alta prospect north east of the Gohta discovery. The operation was originally expected to commence in July. ■

“Ireland has announced the opening of the 2015 Atlantic Margin oil & gas licensing round.”

Vessel News

Including Newbuilds & Subsea

BP has taken delivery of a pair of PSVs that it has on 15-year contracts to service its operations West of Shetland in the UK. The NS Elida and NS Iona are on bareboat deals and arrived in Aberdeen in late April and early June ahead of commencing the contracts at the Schiehallion and Clair fields.

Sealion Shipping is understood to have ordered a DP3 dive support and offshore construction vessel from ZPMC in China. The vessel will be equipped with a 24 man twin bell saturation diving system, moon-pool, 1,850 m2 deck and accommodation for 200.

Nordic American Offshore has announced that it has made effective contracts for the design and construction of two Platform Supply Vessels with Vard Holdings. The Vard 1 08 designed vessels will have their hulls built at Vard Braila in Romania with delivery scheduled from Vard Aukra in Norway in the second and third quarter of 2015.

Island Offshore has taken delivery of the UT717 CD PSV Island Dragon from Vard Brevik. The vessel is the fourth of the same type from the same shipyard for Island Offshore in less than a year and a further two are in the pipeline for the future.

Viking Supply Ships has entered into a contract for the Tor Viking that will see the vessel working for 11 months in the Sakhalin region. The contract also includes additional options for two times six months. The total value for the contract is understood to be around USD 34.5 million.





A photo of the Ocean Marlin from the start of the year

Reach Subsea has signed a three-year deal to charter the Edda Fonn ROV subsea vessel from Østenjølø Rederi starting from December this year. The 2003-built vessel has a helideck, moonpool, 50t crane, 700m2 deck and accommodation for 66.

SeaEnergy has entered into a joint venture ship management agreement with Go Offshore. Under the deal GO-SeaEnergy will manage GO's vessels in the UK & Europe.

The joint venture will manage the MV Surf Ranger and a second vessel, the AHTS GO Pegasus which is due to arrive in Europe from the Far East during the summer.

The Skandi Neptune has had its contract with Subsea 7 extended for a further year meaning the vessel will now be on charter until the first quarter of 2016.

The Polarcus Nadia has been mobilised to the Russian Barents Sea for a 3,000 km2 seismic survey.

Bibby Offshore has fixed the Olympic Areas multifunctional subsea support and construction vessel on a three-year deal. The charter extends the current charter that is in place which will now end late 2017.

“Maersk Oil has fixed two vessels on term contracts to support the Sedco 712 rig in the UK sector.”

Technip-DeepOcean PRS Joint Venture has been awarded a new frame agreement by Statoil covering a firm five year period. The contract replaces the one awarded to Technip by Statoil in 2005 covering subsea services.

The naming ceremony for the Normand Vision has taken place and the vessel will now commence its eight-year charter with Ocean Installer.

Maersk Oil has fixed two platform supply vessels on term contracts to support its operations with the semisubmersible rig Sedco 712 in the UK sector. The STX PSV 09 CD designed Lundstrom Tide and the Troms Capella were both expected to commence the charters from early July. ■

Inside Story



The Eirik Raude rig will travel to the region next year for six wells firm plus eight well options

Oil in the Falkland Islands

As the Eirik Raude rig is lined up for an extensive campaign off the Falkland Islands we take a look at the regions tumultuous past and fascinating future. Until April 2nd 1982, the Falkland Islands had been known for little more than being a stopover for cruise ships and a haven for a wide variety of penguins. But the discovery of oil off the Islands has opened a new exciting chapter for the region.

Following the Argentinian invasion and subsequent defeat by British forces which saw the loss of 649 South American lives and 255 British, the little known

area was propelled to the forefront of the international news agenda. Although, the dispute of ownership still rumbles on in some quarters, last year's 'free and fair' referendum on the Islands saw 92% of the population turn out and 99.8% vote in favour of remaining a British territory. This result came shortly after the discovery of the large Sealion oil field and a series of ongoing oil & gas exploration campaigns which have once again put the region back on the map.

The Leiv Eiriksson and the Ocean Guardian rigs have both performed operations in the area in recent years and now it is the turn of the Eirik Raude rig which



is set to head down to the area at the end of the first quarter of 2015 to commence operations for six wells firm plus eight well options.

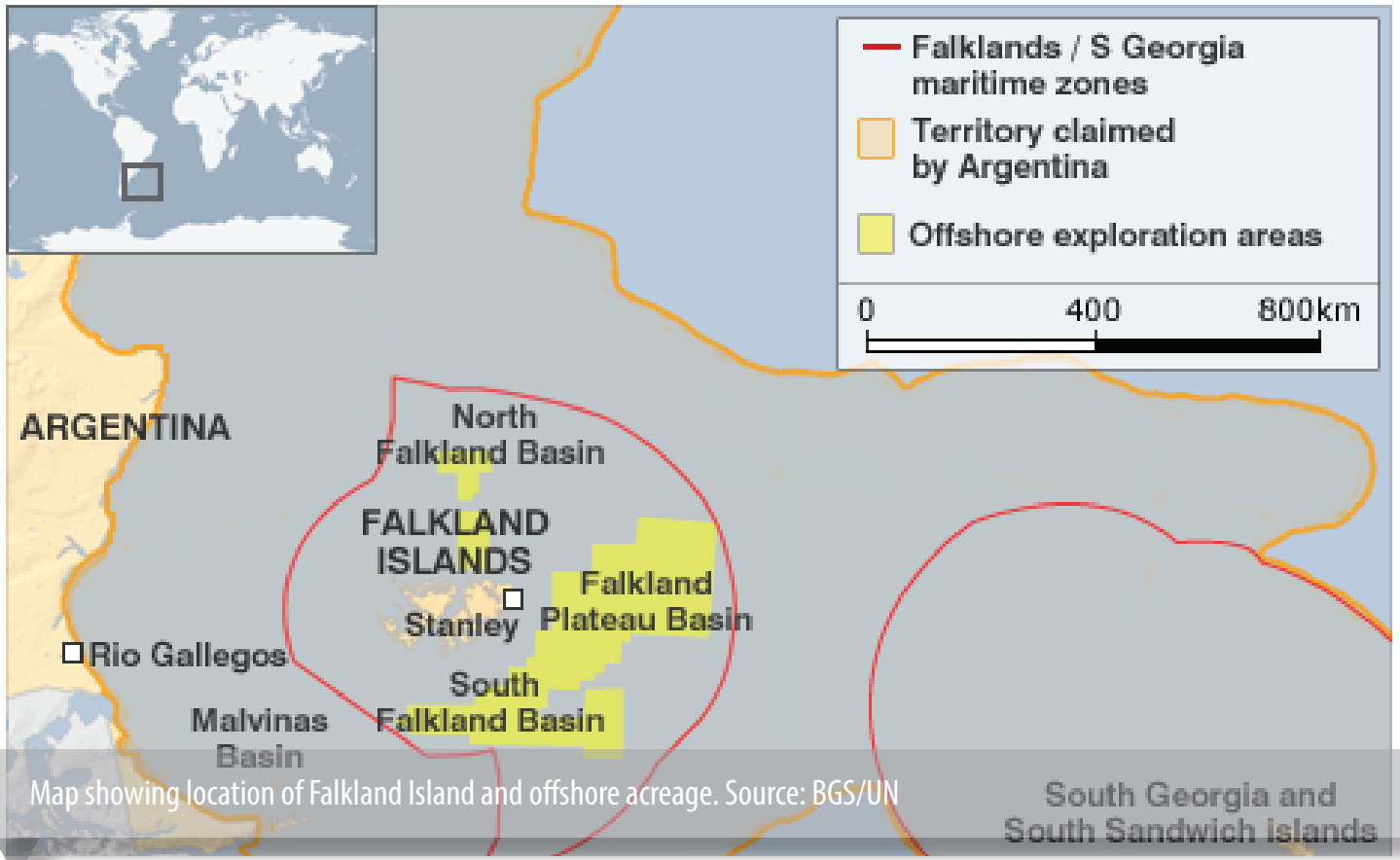
The last campaigns have seen vessels from United Offshore Services and Sealion Shipping selected to support operations. The Leiv Eirikson, was mobilised to the region under its own power, and was supported by the Toisa Sonata, Toisa Intrepid and the ERRV vessel Ocean Prince.

Key elements of infrastructure are beginning to take shape and unlike a number of other geographically remote finds, the area is supported by a well-established legal framework and health and safety regime run very much along similar lines to operations in the UK North Sea which operators, shipowners and engineers are familiar and happy with.

“The Falkland Islands could move from a purely exploration footing to development and eventually production.”

With a final investment decision due on the Sealion project around this time next year the Falkland Islands could move from a purely exploration footing to a development and eventually a production phase. The plan so far is to install a tension leg platform at the oil field fed by a number of subsea satellites that could eventually include a number of nearby discoveries in the future.

However, it has not all been plain sailing. The Argentinian authorities continue to make life difficult for the Islanders and have threatened to sue those companies drilling in the region although it is unclear on what grounds. In addition, the neighboring country brought in legislation preventing Falkland Island flagged vessels from docking at Argentinian ports although this affects mainly fishing tonnage. Whilst it is important to recognize the influence of local politics on the region it is not of interest to us to take sides although those wishing to know more can read the Falkland Islands latest appeal to the UN or



Argentina’s counter argument to the Islanders right to self-determination online.

ing campaigns.

Oil companies have not had it easy there either with one of the early explorers Desire Petroleum initially claiming to have hit hydrocarbons before later having to confess to the market that it had discovered only water. Those days and in fact that company are long gone and established operators have moved in with Premier Oil taking a substantial swath of acreage and Noble Energy pushing forward with the next phase. Rockhopper Exploration, which had initial success and to a certain extent Falklands Oil and Gas Limited, which has rights to substantial acreage in the Southern Basin, will mainly be watching on as stake-holding partners in the com-

“The region seems to have been downplayed but active observers have noticed a build up of infrastructure”

Whilst the significance of the region seems to have been downplayed, active observers can not help but notice a build-up of the necessities to establish a solid foundation for a potentially blooming industry on the Islands in future years. Moves have been made to establish the required infrastructure and a new harbour, warehousing, accommodation and other facilities are planned at Port Stanley.

Putting politics aside, it is obvious that the region has an interesting future in term of offshore oil and gas and one that seems likely to utilise increasing amounts of North Sea type support vessels and rigs as the industry establishes itself there.

Market Forecast



Is Peak Oil Dead?

It has been a fascinating month for those keeping tabs on world oil reserves and the theories used to predict the future. Peak Oil, the idea that petroleum extraction will be unable to meet demand used to be the fashionable idea in the industry. According to some this theory is dead and reserves we already have will last until 2067 with new finds and developments increasing this all the time. The oil business is still relatively young, the economic models are still evolving and technology means the industry is ever changing.

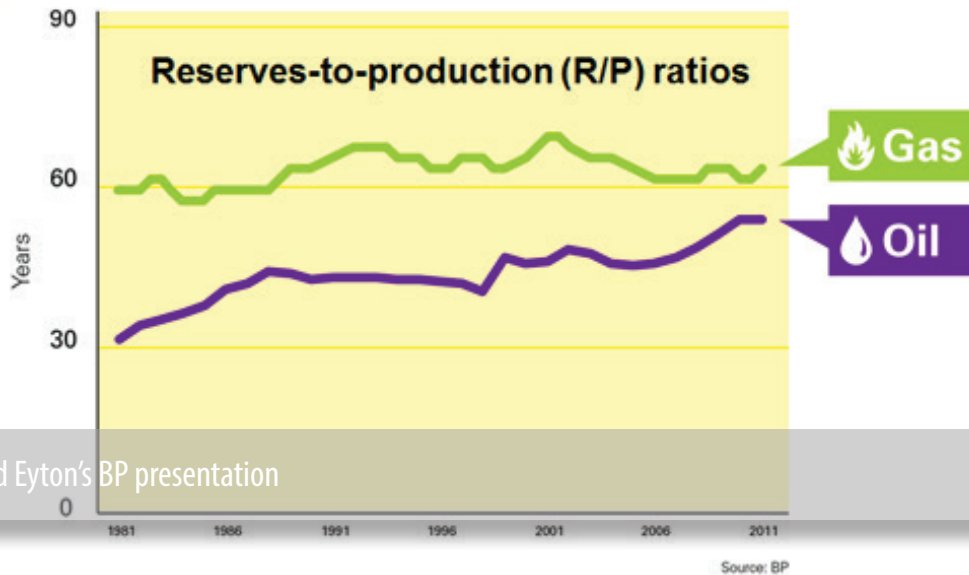
At the 21st World Petroleum Congress in Moscow BP's Head of Technology David Eyton laid out his case for stating that the Peak Oil theory has had its day.

He said: "There have been doubts about the sufficiency of oil and gas to meet demand growth – the so-called peak oil theory – but these are not supported by the facts."

BP's recently released Statistical Review for 2014, provides an overview of demand, consumption and reserves going back over 60 years. Using this source the chart on the following page illustrates the industry's track record in replacing production reserves.

According to Eyton: "It indicates that, despite growing demand and consumption of resources, the oil and gas industry has more than replaced reserves – enabled by

INDUSTRY TRACK RECORD



A slide from David Eyton's BP presentation

Moscow, Russia | 15-19 June, 2014



the evolution of technology and price signals. "For example, in 1981 it showed global oil reserves at 700bnboe. In 2012 oil reserves had increased to 1.67bnboe – more than double the reserves of three decades ago despite consumption of 0.85bnboe during that time."

But this technology is expensive and comes at a cost that must be factored into the recovery of future reserves. If or when the oil price falls away how will this affect the potential profits to be made by oil companies and will older or complex fields still prove to be so financially attractive?

Eyton is an evangelist for the role of technology in the whole global energy picture in terms of sourcing, transporting and transforming the market. He said: "Technology has to enable access to new resources, and realise greater recovery from existing resources. It has to improve the efficiency with which we convert energy captured at source into useful heat light and motion – which today sits at a mere 12%. And lastly, it has a

critical role to play in the transition to a more sustainable energy landscape."

When asked in a Forbes interview in 2012 if we have hit peak oil Shell CEO at the time Peter Voser said: "We've certainly hit the cheap-oil peak. It's going to get more expensive. All energy is going to get more expensive."

"Technology has to enable access to new resources and greater recovery from existing resources."

"We estimate that energy demand worldwide will double by 2050. Ninety percent of the new demand will come from non-OECD countries—and half of that from China. The numbers

I've given you assume gains in –energy efficiency. If we don't have those gains, then energy demand will triple by 2050. Remember that energy demand rises fastest in countries that are coming out of poverty, with people buying their first cars and refrigerators. We must assume that the next 20 to 25 years will be a very intensive energy phase."

Whatever your view on the Peak Oil discussion what is for sure is that the debate is certainly not over. ■

The Last Word



Westshore Arctic's Darrell Cole with Rune Østbø of Gulf Offshore

Icebergs & Norway vs England

Westshore Arctic had the pleasure of showing Rune Østbø, Chartering Manager of Gulf Offshore Norway AS, around St John's during the NOIA Conference,

an event profiling the Newfoundland and Labrador oil and gas industry. The photo taken here at Cape Spear is in the most eastern part of North America with remnants of the heavy ice season in the background.

The iceberg in the background to the right in the picture was for a long-time thought to be floating straight into St John's harbour, however in the end it narrowly missed but is a reminder of the hazards of the region.

“The Norwegian side will no doubt fancy their chances of securing bragging rights this time around.”

Following the England football team's unconvincing performance at the World Cup this summer, the highlight of the side's season may come later this year when they face Norway in a friendly at Wembley on

Wednesday September 3rd. The match, which has been arranged as a warm-up for Euro 2016 qualifiers, will give the Scandinavian-side the opportunity to get revenge for a one-nil defeat in Oslo in 2012. It was Ashley Young who scored the only

goal of the game the last time the two teams clashed. However, with England's recent run of poor form the Norwegian side will no doubt fancy their chances of securing bragging rights this time around. ■

The Market in June



The Maersk Intrepid set to commence work in Norway. Photo: Westcon Group

As we say goodbye June we can take a look back at what has turned into a low key month. At the start of the year this middle section of the year was anticipated to see a tight market as vessels left the spot market to take up term work both in the North Sea and overseas. We witnessed the departure of significant chunks of tonnage as the Kara Sea and Pechora Sea projects and a number of others kicked off. However, this was not enough to excite the market which remained relatively depressed throughout the past four weeks or so.

Although the amount available vessels dropped away the level of demand was not sustained and the sparse number of rig moves came in dribs and drabs without enough momentum to cause the AHTS market to heat up and dayrates to rise. PSVs were a similar story

and the UK market particularly was heavily impacted by the sheer volume of vessels in port. On the rare occasions that the number of prompt vessels dropped below double figures we saw glimmers of hope for owners with occasional flickers in dayrates stepping up to the mid teen levels GBP and sometimes beyond. Norway too was prone to overtonnage with four vessels awaiting work a common sight.

As we moved into July we saw some movement again with rig move requirements coming thick and fast and availability drying up. However, this period was short lived and we are now looking at around 18 AHTS vessels sitting prompt in the UK waters awaiting work. These vessels were also accompanied by a further four in Norway and all owners are once again hoping for more requirements to come out after a sparse few days in terms of demand.

		Average Monthly Rates (NOK)		
Vessel Type		jun.14	mai.14	jun.13
AHTS	> 25,000	258847	228987	583338
	18,000 to 25,000	172401	202671	535010
	< 18,000	151480	125817	305331
PSV	> 900 m ²	102090	164417	187082
	< 899 m ²	111435	110952	179768

	jun.14	mai.14	jun.13	mai.13
# of spot supply fixtures	64	75	58	76
# of rig moves	23	20	19	22
# of AHTS fixtures	64	65	63	64
Average Utilization (%)				
AHTS	66.1	67.3	81.0	71.4
PSV	84.4	85.9	94.6	89.7