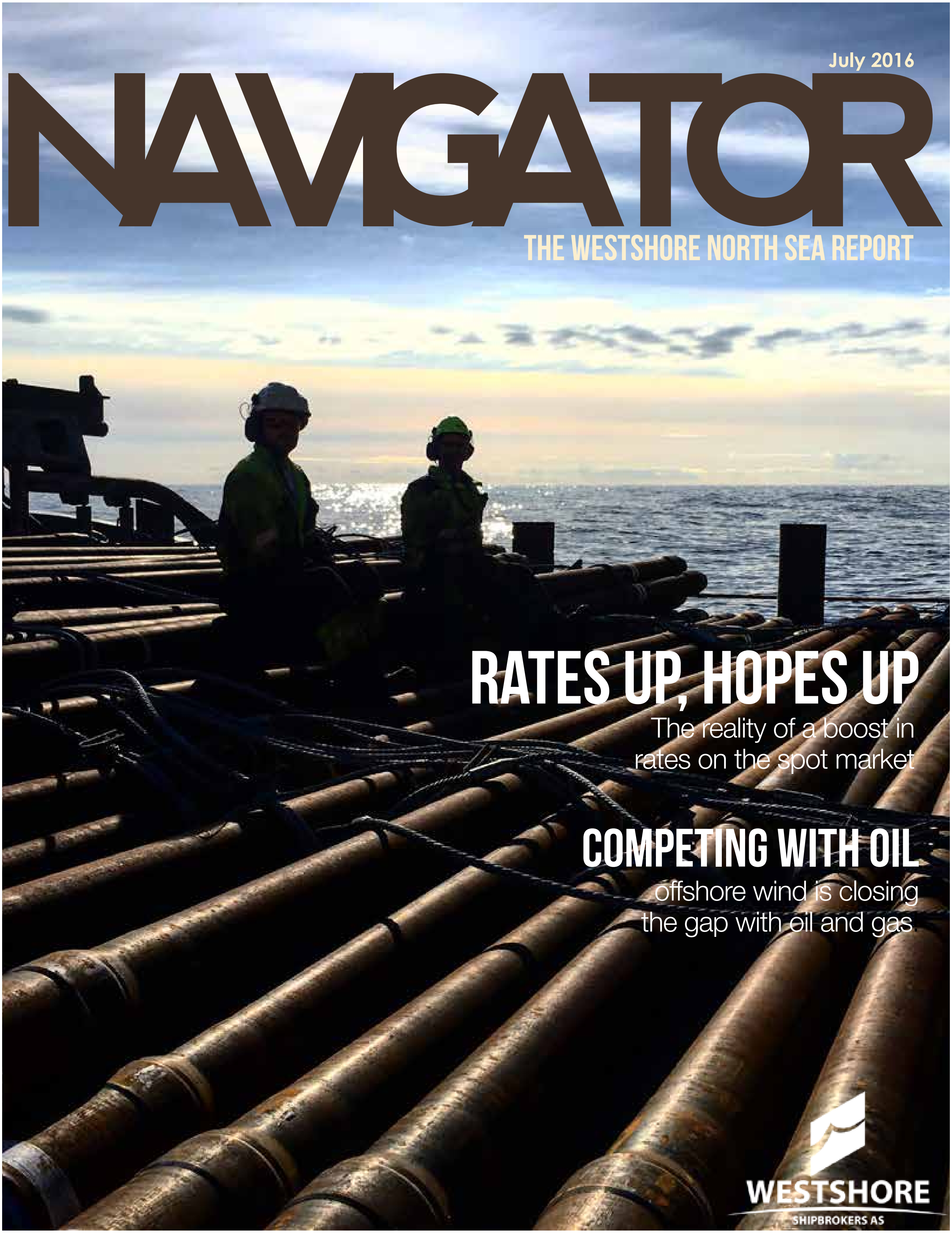


July 2016

NAVIGATOR

THE WESTSHORE NORTH SEA REPORT

RATES UP, HOPES UP

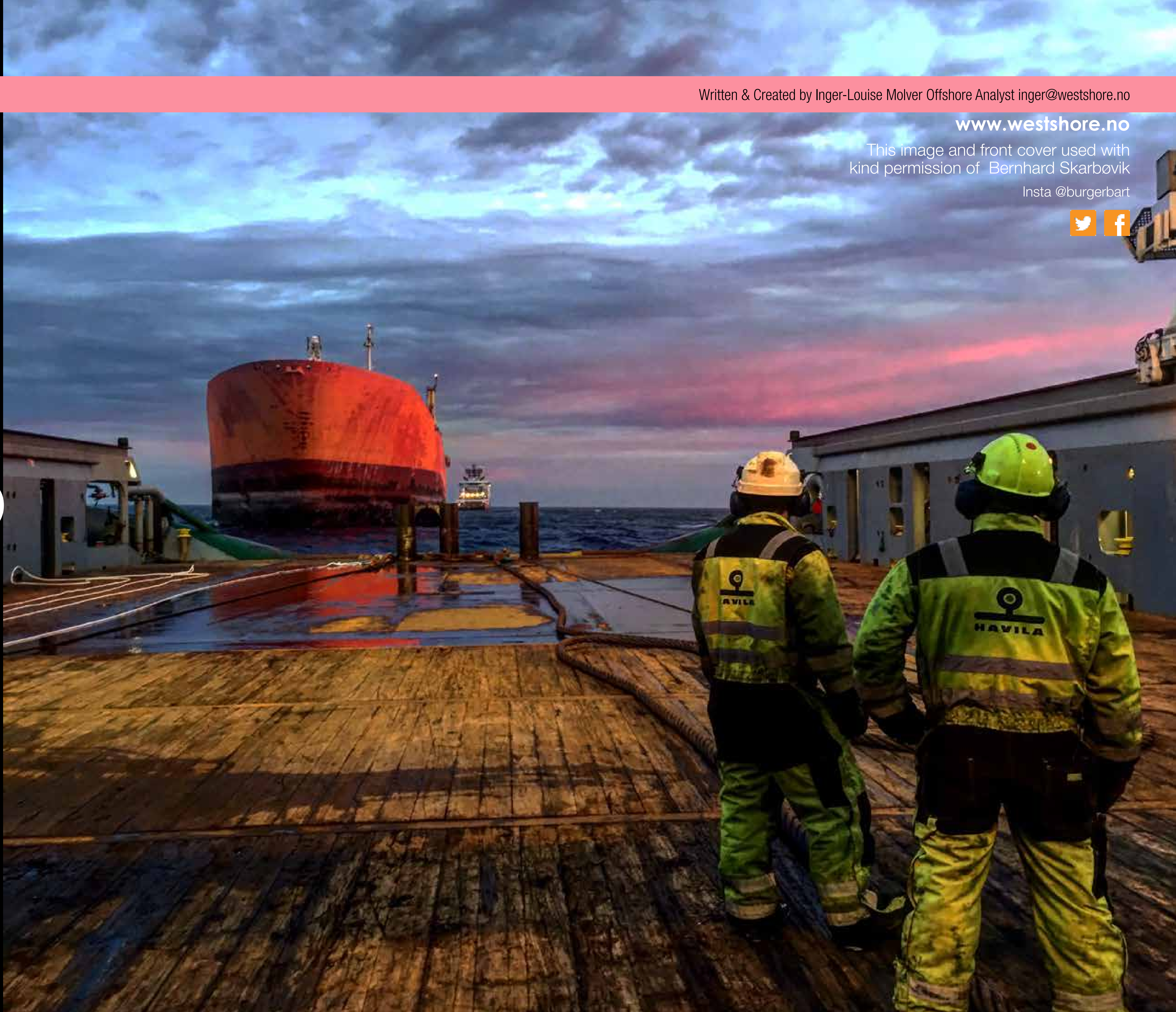
The reality of a boost in rates on the spot market

COMPETING WITH OIL

offshore wind is closing the gap with oil and gas

WESTSHORE
SHIPBROKERS AS

Contents



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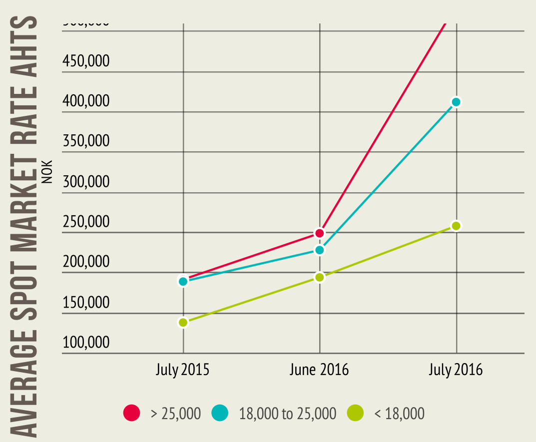


72.2%

Average AHTS utilisation in July

83.9%

Average PSV utilisation in July

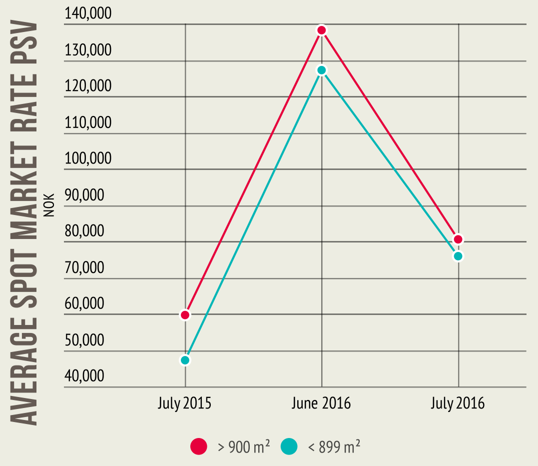
	June 2015	July 2016	June 2016	July 2016
Number of supply spot fixtures	81	101	49	70
Number of AHTS fixures	89	79	55	72

26

Rig moves in July 2016

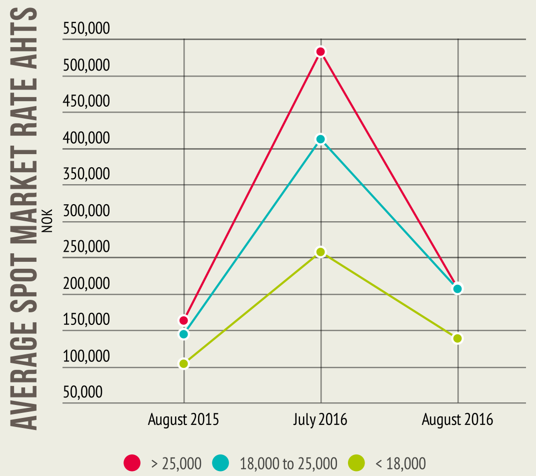
22

Rig moves in July 2015



JULY

What started as a slow month with not a single AHTS fixture before the 6th of July, soon escalated into the busiest month this year to date. The highest recorded number of rig moves in one month and the highest number of fixtures in one month and a corresponding hike in day rates too. From the outside looking in it looked like the market was finally turning, things were getting back on track. Unfortunately many of these fixtures came as a result of rigs being moved from a drilling location to port where they would be laid up. West Hercules, West Alpha, Rowan Norway, Maersk Reacher, Sedco 712, Scarabeo 8, Safe Bristolia and Rowan Gorilla VII to name some of the rigs that have gone in the last month or so. What it means is this temporary source of work will be doing longer term damage to the spot market for AHTS vessels as there are fewer rigs that will need moved to a new drilling location.
For the PSVs while in June charterers took vessels on for longer spot jobs then often extended and extended, the market was more active in July in terms of new fixtures. This can give the impression of it being a better market for owners but the reality produced lower rates on average and more idle time waiting for jobs.



68%

Average AHTS utilisation in August

78%

Average PSV utilisation in August

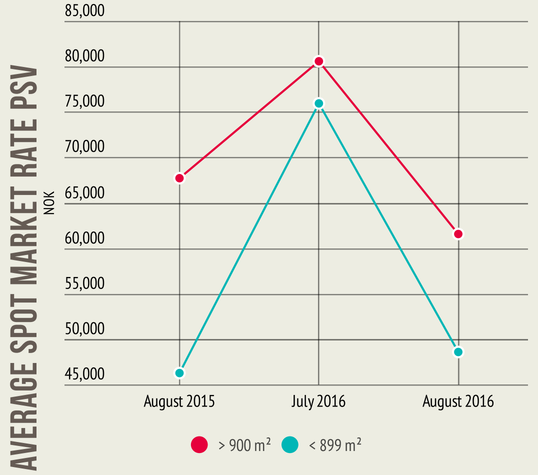
	July 2015	August 2015	July 2016	August 2016
Number of supply spot fixtures	101	85	70	81
Number of AHTS fixures	79	71	72	54

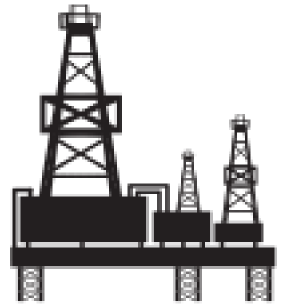
22

Rig moves in August 2016

23

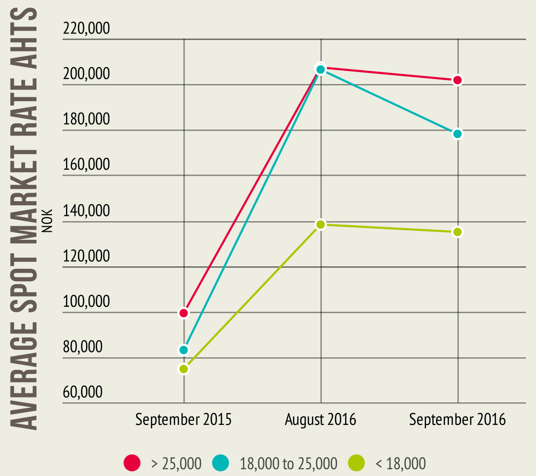
Rig moves in August 2015





AUGUST

The summer bubble experience in July promptly burst in August, the number of rig moves, the number of fixtures and the average rates took a sharp drop. The rig count continues to decline and the AHTS really felt the bite. We are a couple of months away from any weather complications that can cause a rush to the market but the summer subsea-activity produced very little to take any great quantity of tonnage out of the market. A dire month and worse to come
For the PSVs it was a busier month than July in terms of number of fixtures. But several vessels joining the spot fleet from term contracts that had come to an end meant the growing number of vessels trading the spot sent rates spiraling down.



57%

Average AHTS utilisation in September

74%

Average PSV utilisation in September

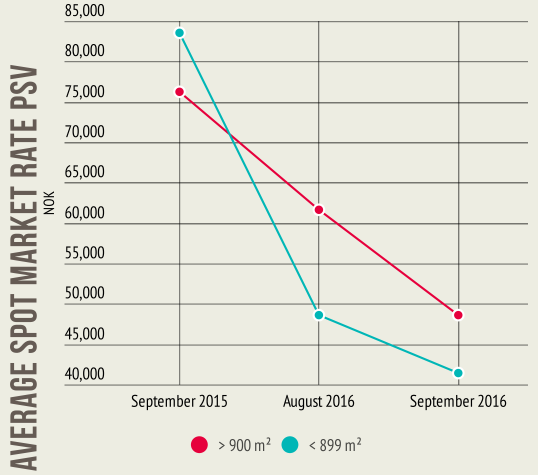
	August 2015	September 2015	August 2016	September 2016
Number of supply spot fixtures	85	84	81	62
Number of AHTS fixures	71	74	54	64

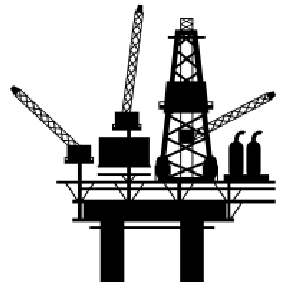
24

Rig moves in September 2016

25

Rig moves in September 2015





SEPTEMBER

Another handful of rigs came off contract in September, again boosting activity by way of vessels being required to move the rigs to port for stacking. The fleet of vessels unfortunately swelled further with more tonnage coming off term charters or coming in from other regions. The net result was despite the activity being up on the previous month, rate stayed around the same levels.
The PSVs started off September reasonably buoyant, spot utilization went from around 90% then steadily went down and down. There was no real change in the number of vessels trading the spot market but there were fewer fixtures. By the end of the month the average cargo run was struggling to stay above GBP 3000.

Rates are up! We're all saved!

Easy tiger, if ever there was a changing market place it's the North Sea spot market. What apples one day can be yesterday's news before even the same day is out. Offshore and shore based staff alike are eager to hear news of the market bouncing back, so when rates take a jump – it's easy to loose perspective.

WITH COMMENTARY FROM THE WESTSHORE BROKER TEAM

Here's what I wrote in the Westshore daily on Tuesday 5th July regarding the AHTS market...

"Should you need a vessel out of Norway today you can take your pick, and likely for a bargain too. Bluewater out for a two week job but there is little else expected in the near term. Bear in mind the last time I said that Statoil took nine anchor handlers in one fell swoop."

And then the very next day no fewer than five rig moves came out looking for tonnage (Ross – Borgland Dolphin & Maersk Interceptor, AGR Norway – TO Arctic, Premier – ocean Valiant, Esso Norge – West Alpha). It was one of the busiest days we've had in ages. So what happened?

In contrast to the last time when a high volume of vessels were fixed in one go (June 3rd – Statoil took 9 vessels) this time the spike in activity came from everyone BUT Statoil, and the effect on rates was dramatically different. While last time Statoil was carefully able to secure all the tonnage it needed at a relatively low rate, this time a snowball effect where one operator came out, followed by another, followed by increasing panic by others to secure tonnage before it was 'too late'. The result? Rates crept up and up. While Statoil fixed all nine in June at rates around NOK 100000, this time rates crept up to NOK 700000. Although notably Premier Oil ended up paying a premium for the three vessels it secured for Ocean Valiant – Rem Gambler, Olympic Zeus, KL Saltfjord all at GBP 62500. Despite the fact some of these rig moves have commencement into the following week, pressure to secure tonnage pressed operators to come to the market. In in doing so the premium steadily rose.

Although in general activity is still low in the North Sea. The number of rigs out drilling is still woeful compared to a couple of years ago. But what happened that day highlights just how different the outcome can be when you have several operators competing for tonnage as opposed to just one with the lion's share.

The Norwegian spot market is dominated by whatever Statoil is doing, however many rigs and vessels it needs at any given time. We got a glimpse of what the market would look like if the North Sea was more fragmented.

Despite my poor effort to predict the market on Tuesday (see above Westshore Daily post), I will stick my neck on the line nevertheless and say despite the flurry of activity, this will not be the new norm. Statoil will continue to dominate and heavily influence the direction which the spot market takes. And so long as that remains the case there's a limit to how volatile the market could be, and that means fewer opportunities to hit the high notes like we just experienced.

STATOIL RIG UPDATE

This month Statoil suspended the contract for Bideford Dolphin, this was viewed by the market as further signs of over capacity within its rig fleet. The Fred Olsen owned semi is expected to resume operations in October this year but the firm contract will expire at the end of January 2017. Otherwise Songa Enabler, the last in the series of four ‘Cat-D’ rigs for Statoil, is currently making its way to Norway having left the yard in South Korea. This last semi will head to the Barents Sea to drill the Snøhvit prospect.
Otherwise end of the firm period for Songa Dee and Delta is fast approaching, end of September and end of October respectively. The fate of the Songa Delta was under question mid-June as word broke of the rig going into temporary standy-by mode after its current Slemmestad well. This has yet to be confirmed however.

IMAGE OF SONGA DELTA BY
THOMAS EBELTOFT
insta - @thomas_ebeltoft

Strike threat averted

A second mass-walk out was narrowly averted among offshore workers at the start of July as staff working on the Norwegian continental shelf poised to strike. The strike would have affected up to 700 oil workers and could have slashed western Europe oil and gas output by 6%. The 11th hour talks managed to secure a deal the workers “were happy with for this year” according to union representatives. Pay, holiday allowance and offshore compensation were all under discussion. Whether the matter is closed however, is up for debate. The deal was struck with the smaller of two offshore trade unions, currently operating with around 660 members. The larger ‘Industri Energi’ union, with around 6500 members has blasted the deal made as being illegal. Working conditions on offshore installations following the downturn in the oil industry still has some way to go before everyone is satisfied it would seem.

COMPETING WITH OIL

Offshore wind is getting closer to closing the cost gap and finally being on a level playing field with offshore oil and gas.

WRITTEN BY INGER-LOUISE MOLVÆR, SENIOR OFFSHORE ANALYST


1.

2.


3.

One of the biggest sticking points when it comes to offshore wind installations is the heavy reliance on governmental subsidies in order for these parks to be economically viable. The push towards cleaner, greener energy has kept these subsidies on the table but the long term future of offshore wind is on the understanding that the industry cuts costs and will eventually stand on its own two feet.

Industry giants RWE, Eon, Vattenfall and Statoil joined forces in a pledge to drive costs down to 80 Euro per megawatt hour, and they aim to achieve this by 2025. Bloomberg New Energy Finance research group estimate the current cost level to be about 160 Euro per megawatt hour although fields in different locations vary. It is estimated that Vattenfall's Horns Rev 3 field offshore Denmark could come in at as low as 103 Euro per megawatt hour. Better still, Denmark's DONG Energy announced that new fields offshore Denmark which it was awarded a concession to build this month, will come in at 72.70 Euro excluding transmission costs.

Part of the cost savings have come as a result of savings made from the glut of offshore installation tonnage now available at cheaper rates for the offshore wind industry. Additionally the relatively low cost of steel for turbine manufacture have contributed to the cost savings.

Although offshore wind might not be at the stage where government subsidies are a thing of the past, the advancement in technology coupled with the increased efficiencies are taking giant leaps towards this eventual goal. Targets set by industry players to become more competitive are being reached and then some. What this means is the already exponential trend towards bigger and more powerful offshore wind fields will likely continue. As the fields become more and more financially viable, more will be built, larger in size and potentially further from shore.

1. Lillgrund WInd Farm
Offshore Sweden
48 turbines 2.3MW capacity each
Owned & Operated by Vattenfall

2. Drawing heavily on technology from offshore oil and gas, floating turbines are being designed using technologies in widespread use in oil and gas.

3. Image from America's first offshore wind farm - Block Island. The project will consist of five turbines and is expected to be fully commissioned this year.

Wishing you a great summer

from Westshore Shipbrokers

The annual slow down approaches here in Norway. For Norwegians the advent of July means holiday mode descends quicker than fog over Aberdeen harbour. It's a time to forget the cold dark winter and work on the all-important tan. Summer means barbeque creativity, one cannot survive on hot dogs alone after all, but can anyone really be bothered grilling anything else? And although there are plenty people here complaining at the sight of a cloud, for a girl from Peterhead, the southern Norwegian weather is positively tropical. So this is a quick note to say thanks for your ongoing readership, enjoy the summer wherever you may be spending it. Next issue is out mid-September.