

WESTSHORE'S MONTHLY NORTH SEA REPORT

# NAVIGATOR

November 2015 Issue: 51

## AHTS IN 2016

A look at what's ahead for next year

## FLOATING TURBINES

Offshore wind goes deeper



**WESTSHORE**

SHIPBROKERS AS

# Contents

**3. MARKET IN  
OCTOBER**

**4. HEADLINE NEWS**

**6. VESSEL NEWS**

**8. DRILLING &  
PRODUCTION**

**10. AHTS FORECAST**

**12. WIND INDUSTRY**

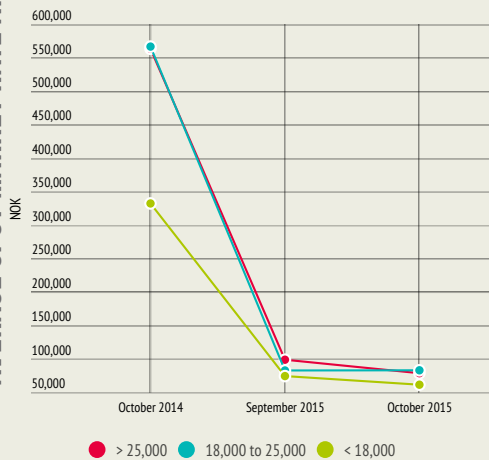
**14. THE LAST WORD**

This image: Island Vanguard tied up in Stavanger at the start of the month

Front cover image used with  
kind permission of  
Jan Helge Grindhaug  
@janhelgegrindhaug  
Instagram



## AVERAGE SPOT MARKET RATE AHTS

**62.4%**

Average AHTS utilisation in October

**76.2%**

Average PSV utilisation in October

	Sept 2014	Oct 2014	Sept 2015	Oct 2015
Number of supply spot fixtures	81	90	84	91
Number of AHTS fixtures	69	86	74	50

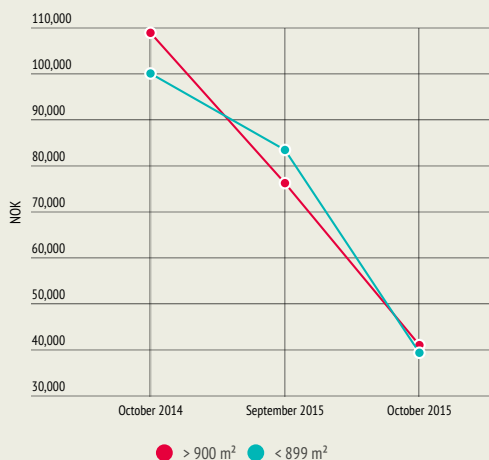
**22**

Rig moves in October (compared to 24 in October 2014)

**25**

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

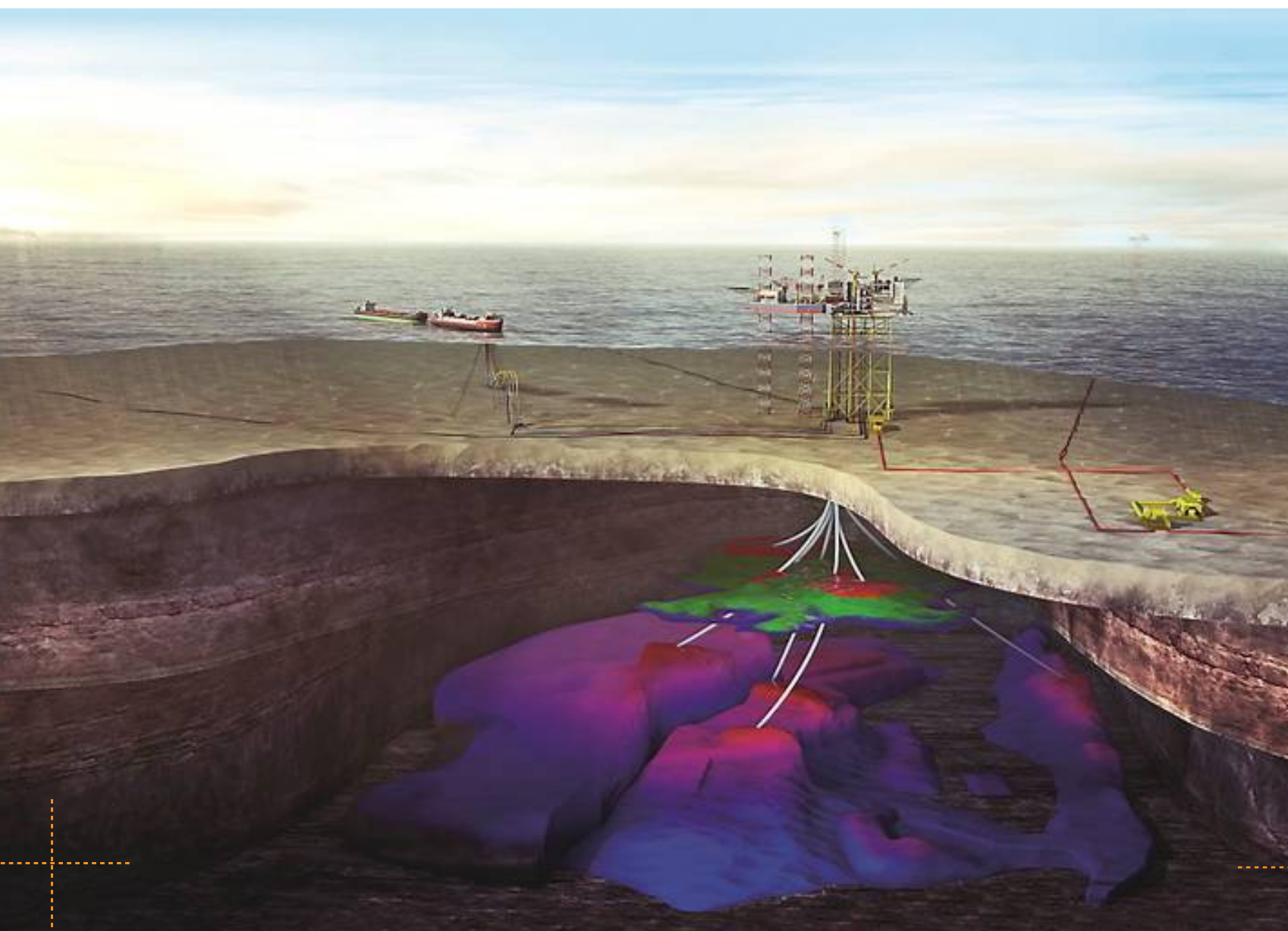
## AVERAGE SPOT MARKET RATE PSV



Activity levels took a sharp drop this month. The combined effects of rigs going into layup and operators cutting down on anything bar what's deemed absolutely essential meant that the number of AHTS spot fixtures was down to 50 for the whole month, according to our records that's the lowest it's been since May 2012. Consistently depressed day rates was the prevailing trend for rig moves throughout October. As one might expect this accelerated the flow of vessels going into layup too. For the PSVs the activity levels remained steady despite the seasonal bad weather now beginning to creep into charterer's scheduling. Rates however took a tumble from the previous month. The number of available PSVs on the spot market, on either side of the North Sea rarely became so constrained that prices were pushed upwards, instead a steady gradual decline in day rates characterized October.

# Major Fields Facing Delays

As the industry struggles to maintain activity in what has become the toughest downturn in generations, insult was added to injury this month as several large North Sea projects were postponed.



Cost cutting has become the industry watch word. Where can money be saved? Operations be streamlined? The previous philosophy of throwing money at a problem to sort it out or speed it up is well and truly out the door. Several North Sea projects unfortunately fall under this category and this month announcements were made that will see start up setback years.

As low cost oil reshapes the energy landscape, high cost areas such as ourselves in the North Sea have been hit hard. According to a report by Wood MacKenzie, some USD 200bn of spending on new projects has been shelved since the oil price decline. Globally 46 big oil and gas projects have been deferred and the majority of these are from high cost hydrocarbon – like Canada’s oil sands, Australia’s offshore LNG and the North Sea.

## MARTIN LINGE – TOTAL

French Total has been among the most aggressive in investment cuts. The group stated that as a reflection of the pessimistic oil price outlook investment has been cut to nearly 40% of the 2013 peak. Key projects such as Ichthys offshore Australia (LNG), Tempa Rossa offshore Italy and Martin Linge in the Norwegian sector. Having experienced a massive production growth over the past decade, Total is putting the brakes on and confirmed it would not be giving the green light to any new projects while supplier rates for rigs and equipment still had room to fall. The announcement from the Norwegian Government this month stated that costs for Martin Linge had ballooned to NOK 34.8bn, a 14% increase on estimates given in 2012. The official line on why the project is delayed however concerns the engineering planning being done by Technip, a delay to this has had a knock on effect on topside manufacturing in South Korea. Offshore installation has therefore been setback to summer 2017 with production startup now scheduled for January 2018.

## MARINER – STATOIL

Statoil’s Mariner field held great hopes for the beleaguered UK sector. But setbacks at the South Korean shipyard constructing the

topsides for the field have resulted in a year’s delay. The shipyard is still sifting through work which was awarded during a “boom period” in 2012, according to Statoil’s vice president of project development, Ingolf Soreide. For the supply vessel sector this will have an impact. As offshore construction is delayed the eventual demand for support vessels to cater for the field once it’s up and running will be put back. Kevin Hingley, chairman of KPMG hpr, said “Previously because of the huge oil price, we can put up with these delays. When the oil price is down the desire to put more money in to solve the problem isn’t as high because there’s less money available.

“There’s an attitude if we have enough money we’ll overcome the problem, but if the market doesn’t allow it the reality is irrespective.

“The industry should be more confident at identifying delays or deal with them earlier so the impact is reduced.”

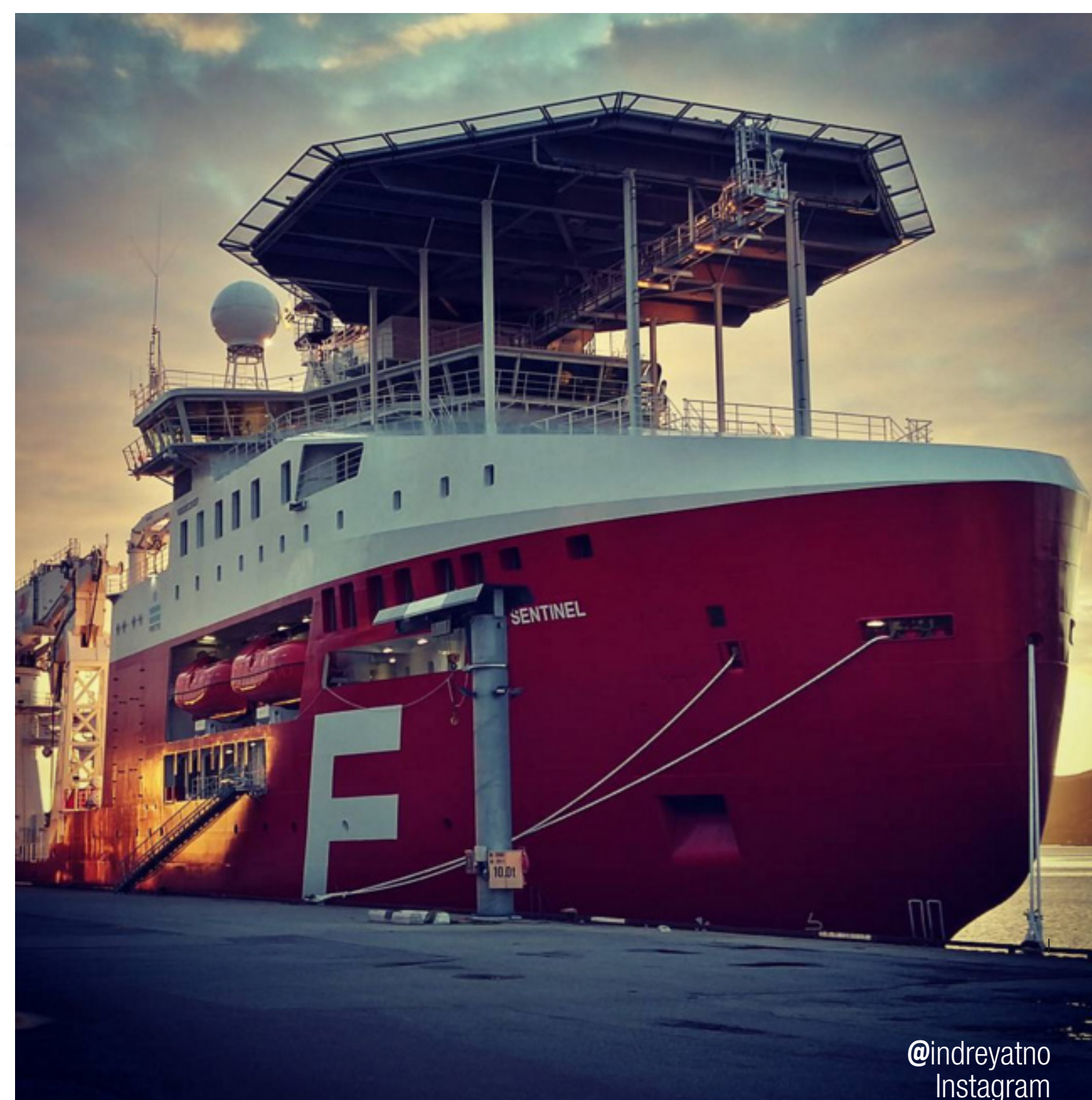
## AASTA HANSTEEN - STATOIL

The Aasta Hansteen field which was recently connected up to the Polarled pipeline will now be set back by a year as Statoil announced costs for the field had risen by 9%. Production is now scheduled to begin in second half of 2018 as opposed to 2017 as was originally planned. Statoil announced it was evaluating the schedule for West Hercules as a result of the delays to Aasta Hansteen.

## ROSEBANK – CHEVRON

The Rosebank field is located West of Shetland, the FPSO is currently under construction at HHI in South Korea but the development drilling was set to be carried out by a new semisubmersible from Fred Olsen Energy – Bollsta Dolphin. One of a handful of new rigs set to hit the North Sea in the coming year the new rig would have boosted vessel requirements for rig moves amongst other things. Troubles between the yard and Fred Olsen had been ongoing for some months but this month it was announced that the contracts between yard and owner and owner and operator – Chevron have been terminated. It is uncertain how Chevron will fill drilling requirement at Rosebank.





@indreyatno  
Instagram

## SENTINEL SECURES WORK

Farstad's Vard 3 07 Far Sentinel has been sitting idle in Ålesund for the majority of its short life since delivering from the yard this year. But this month Farstad was able to announce a three year firm deal had been secured for the vessel over in the Mexico Gulf, commencing in December. The subsea market has been under similar strain to that of the PSV and AHTS markets so securing a three year deal in such a challenging

environment is reason to celebrate indeed. The vessel will commence operations for Subtec SA de CV, end user believed to be Pemex, in December this year. The deal means both subsea vessels delivered to Farstad in 2015 have secured work, leaving the next and only other newbuild to deliver for the owner, a Vard 3 17 design expected next year still in search of firm contract.



## WIND MARKET EASES YARD STRAIN

The shipbuilding industry has been hit severely this past 18 months with orders for offshore vessels all but drying up completely. Norwegian shipyard Fosen narrowly avoided filing for bankruptcy in October as it was awarded a contract with Hurtigruten, the Norwegian cruise operator, for refurbishment of five ferries. The deal saved 72 jobs and the work will be completed within 2016. The yard had previously lost an order for an IMR vessel worth NOK 700m for Boa which was due in 2017 but Boa cancelled the order leaving the yard hurtling towards ruin. The wind industry had thrown up a couple of new contracts this month that keeps the order books going for another few years. Vestland Cygnus is to be converted to an SOV at Norwegian shipbuilder Fjellstrand. The work, which is set to begin immediately, will be completed by June 2016 and includes fitting of accommodation facilities for 134 persons and a 100t offshore crane. The vessel

has been fixed for operations at Statoil's Dudgeon field off the Norfolk coast from the start of 2017 giving her a six-month window between completion of upgrades at the yard and commencement of operations at Dudgeon. Østensjø placed an order for an SOV this month at Spanish yard Astilleros Gondan, its long favoured yard and builder of several of its vessels. The order for the vessel comes on the back of an already secured term deal with DONG Energy for wind farm support work at the Race Bank offshore wind farm. The newbuild is a DP2 Service Operation Vessel with high station keeping capacities. It will have 60 single cabins with accommodations for up to 40 wind turbine technicians and 20 crew members. The vessel will feature a motion compensated gangway system with an adjustable pedestal to ensure safe operations and optimal uptime. The 81.10 m long vessel, with a beam of 17.0 m, will work out of Grimsby operation base.



## SONGA TRYM CANCELLED

**S**onga Offshore has received notice of cancellation regarding its contract with Statoil for semisubmersible Songa Trym once current well, Tarvos, is completed around November 12th. The unit would have been otherwise on contract until March 2016. Current plans will see the unit cold stacked on completion of current well. This will take the tally of rigs in layup from the Norwegian sector to nine, across the whole North Sea it's up to 33, one drillship, 13 jackups and 19 semisubmersibles. There are a further 15 units which we have identified that have contract expiring before the end of the first quarter in 2016 that will be at risk of adding to the lay up tally for drilling rigs in the North Sea. Upstream reported this month that there was word Statoil would stack one of the Cat D rigs targeted for the Troll field, i.e. Songa Equinox or Endurance – but no firm report has been issued on this.

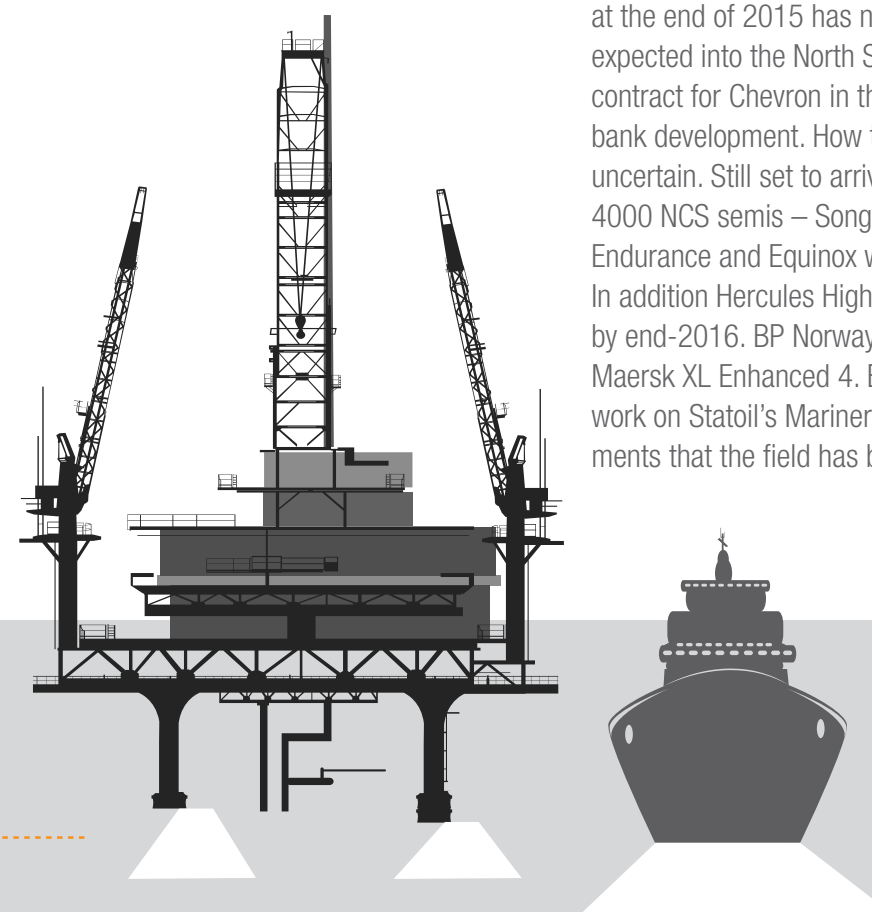
## APACHE STRIKES GOLD

One of the worst features that have plagued the UK sector over the past five years is the low rate of discovery. The odd discovery here and there has been largely uncommercial and this declining success rate has fed into the unwillingness for operators to go out and drill, why spend money when the biggest prizes have already been claimed? This declining success rate and its knock-on effect of declining number of exploration wells being drilled is something the UK government were eager to turn around. So this month when Apache announced it had made a 70million boe discovery in the Beryl and Forties area of the UK sector, it came as a major morale boost for the country. Meanwhile work with the government's GBP 20 million budget allocation for seismic activity in the UKCS has kicked off. WesternGeco completed a 2D seismic survey of over 20000km of seismic lines in October. Data collected is now being analysed and will be freely available towards the end of the first quarter 2016.



## BOLLSTA DOLPHIN

New semisubmersible Bollsta Dolphin which was initially due for delivery at the end of 2015 has now been officially cancelled. Of the few new rigs expected into the North Sea, Bollsta Dolphin was due to start a five year contract for Chevron in the UK sector where it would work on its new Rosebank development. How the drilling work will be carried out at the field is uncertain. Still set to arrive next year is the last two in Songa series of GVA 4000 NCS semis – Songa Encourage and Songa Enabler, following on from Endurance and Equinox which made their North Sea debuts earlier this year. In addition Hercules Highlander will arrive for Maersk Oil's Culzean field by end-2016. BP Norway will take delivery of a new rig – as yet named Maersk XL Enhanced 4. But the future of the new Noble Lloyd Noble, set to work on Statoil's Mariner field, is as yet unclear given the latest announcements that the field has been set back by a year.





**T**he simple answer is that if we continue on the path we're headed on at the moment, with nothing unexpected cropping up – next year or at least the first half of next year will be just as depressed if not more so. What facts are behind this bleak conclusion? While the PSV segment caters for platforms fixed and floating, producing and exploring plus a whole host of other offshore structures in between, the anchor handlers need drilling rigs. They need rigs that are drilling and then need to be moved to the next well. They need them to be pre-laid and they need them to be towed out and they need them moored at the next location. And they need enough of them on contract and out drilling, not stacked or in the yard.

And therein lies the problem. Following Statoil's decision to terminate the contract with Songa Trym there are now nine rigs laid up on the Norwegian sector. Statoil ordered four 'Cat-D' rigs from Songa Offshore, two of which have delivered (Equinox and Endurance) and two arrive early next year (Encourage and Enabler), market rumors say that Statoil is looking to fulfill its drilling needs with just three of the four units – one of them will be stacked. Songa Offshore has thus far refuted claims that one will not be used. In addition to the currently stacked rigs there are a worrying number of units that are set to finish existing contracts before the end of the first quarter in 2016. In Norway alone if options go undeclared another four could be laid up, the figure much higher over the whole North Sea. A recent calculation from Bloomberg, looking at Statoil statements, said that four years of drilling time had been wiped off Statoil's plans from scrapping rig contracts.

**Efficiency drives** have been keenly felt in the drilling segment. Statoil announced this month it would be reducing drilling time by 30% by 'making rigs more efficient'. A spokesman for Statoil stated that it was drilling around the same number of wells as it was two years ago, just using less time to do it.

**This leaves** the AHTS facing a two-pronged attack, on the one hand companies are scaling back exploration activities – focusing instead on production initiatives which will see quicker return and the exploration drilling that is happening is being done with fewer rigs. This month we saw a real drop in the number of AHTS fixtures on the spot market – From September to October the number of fixtures fell by a third. This precipitated what seemed like a rush of layup announcements. The individual owners can feel the daily pain of an idle vessel, the clock ticks and another day without income rolls by. There's no immediate end in sight and the competition for the few jobs that come up result in fixture rates so pitifully low they do nothing buffer against the lure of layup. Requirements for vessels are often calculations on which scenario will the owner loose least on? take the poorly paid job or lay up the vessel?

Though everyone is open about the fact accepting work below breakeven is not a sustainable practice, few if any have taken bold steps to buck the trend. For if they do it will certainly mean their fleet will go without work.

Flying in the face of the redundancies, the pay cuts, the cancellations and the general bad news is more than one industry veteran. Those that have lived through the downturn in the 80s – when layoffs reached devastating proportions, saw the market climb again. Vessels slowly but surely came back into operation as market balance resumed. It's difficult to see a return to a buoyant vessel market at the moment, but it's happened before ...

## AHTS Market in 2016

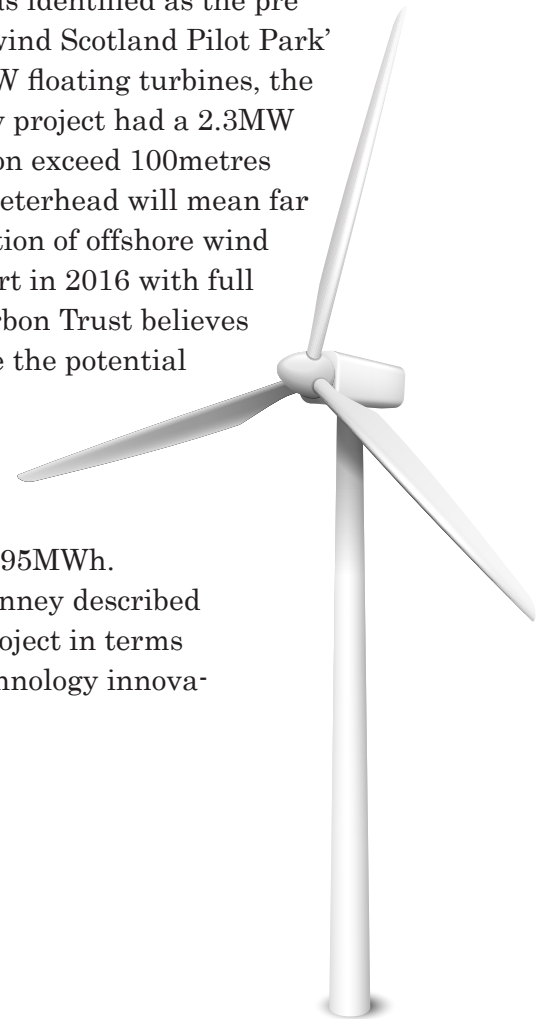
What's around the corner for the AHTS vessels next year? Is there light at the end of the tunnel or is a prolonged depression realistic?



## THE FLOATING FUTURE OF OFFSHORE WIND

Statoil gears up for Hywind Scotland Park, five floating turbines that could re-write the rule book on where offshore wind farms will be placed in the future.

**B**ack in 2009 when money for crazy ideas was available, Statoil's team of innovative engineers launched a pilot project off the island of Karmøy on the West coast of Norway. They wanted to test how harsh weather would affect the structure, revenue ambitions did not feature. If the project was successful it could open the gate to offshore wind farms being located in far deeper water. The project consisted of one floating turbine, 65 metres high and had a 100 metre draft between sea bed and the bottom of the turbine. To date, in addition to the wealth of data collected on how the structure fares in such a climate, the turbine has generated 32.5 GWh of power\*. The next stage was to commercialise the concept so that the technology could be utilized in the wider energy market at a cost that was competitive with traditional offshore wind turbines i.e. those planted onto the seabed. For Statoil the next stage was a larger pilot park dedicated to further investigating the possibility of floating turbines. An area 30km off the coast of Peterhead in the North-east of Scotland was identified as the preferred site for what is to be 'Hywind Scotland Pilot Park'. The park will consist of five 6MW floating turbines, the first turbine used in the Karmøy project had a 2.3MW capacity. The waters in the region exceed 100metres meaning that success offshore Peterhead will mean far greater possibilities for the location of offshore wind parks. Construction is set to start in 2016 with full commissioning in 2017. The Carbon Trust believes that floating wind concepts have the potential to reduce generating costs to below £100/MWh in commercial deployments, with the leading concepts such as Hywind producing even lower costs of £85-£95MWh. Deputy First Minister John Swinney described Hywind as a "hugely exciting project in terms of electricity generation and technology innovation".







## BB POWER CHRISTENING

This month Westshore broker Jørgen Welde Knudsen had the pleasure of attending the christening of new anchor handling tug BB Power. The vessel has already completed a number of jobs prior to the christening date and is now trading the spot market in the North Sea between project work. The DP2 vessel boasts 130 tonne bollard pull.

