

# NAVIGATOR

**WESTSHORE'S MONTHLY NORTH SEA REPORT**

September 2015 Issue: 49



## CULZEAN

The project that will put the North Sea back on track?

## NEW NORTH SEA RIGS

Statoil, BP & Chevron  
await delivery of new rigs



**WESTSHORE**

SHIPBROKERS AS

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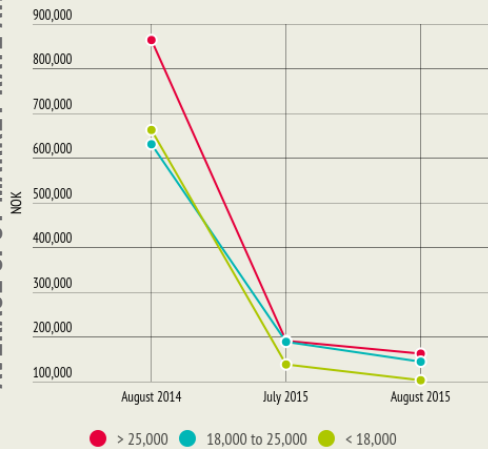
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A cross section of the Polarled pipeline which this month crossed into the Arctic Circle. The pipeline is being built to transport gas from Aasta Hansteen to the Nyhamna in Western Norway. Never before has a pipe with this diameter been laid so deep. Photo Eva Sleire



AVERAGE SPOT MARKET RATE AHTS



60.7%

Average AHTS utilisation in August



77.8%

Average PSV utilisation in August

	July 2014	August 2014	July 2015	August 2015
Number of supply spot fixtures	72	80	101	85
Number of AHTS fixtures	47	57	79	71



23

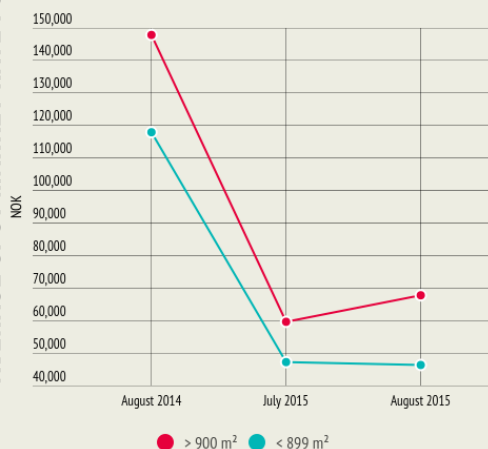
Rig moves in August (compared to 19 in August 2014)



22

Rig moves in July (compared to 16 in July 2014)

AVERAGE SPOT MARKET RATE PSV



It was the AHTS vessels that really took a beating this month, as the end of August approached 25 out of 27 vessels trading the UK spot market were out of work. In real terms that meant clearing the backlog would have needed a third of the rigs working in UK waters to come out for a rig move at once. Obviously, that wasn't going to happen. Rate-wise that meant vessels were being fixed for as low as GBP 5500 for a rig move. Competition was devastatingly fierce, there were few aces to play for owners albeit the fact that despite the number of available vessels, few had work ROVs to throw into the game.

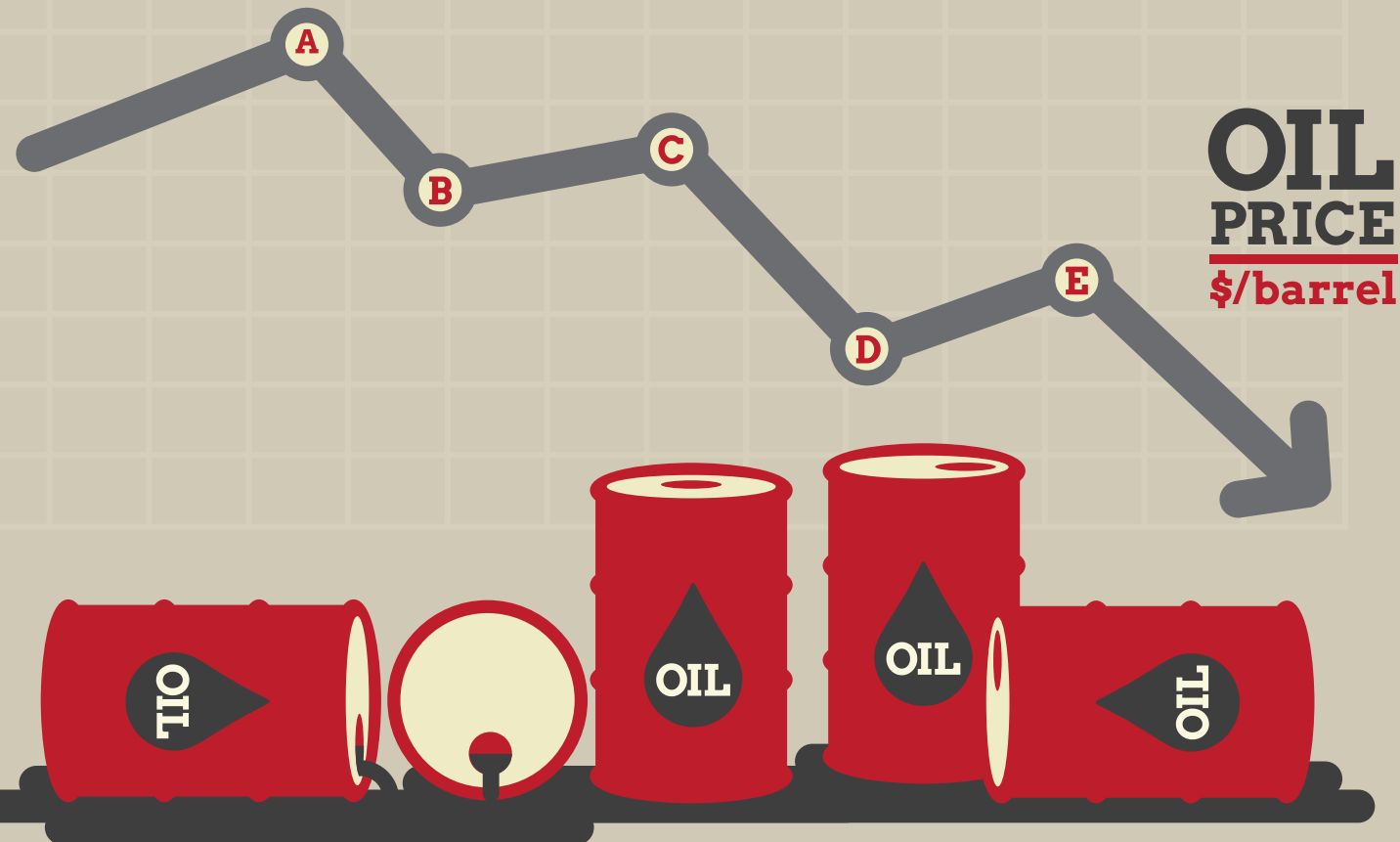
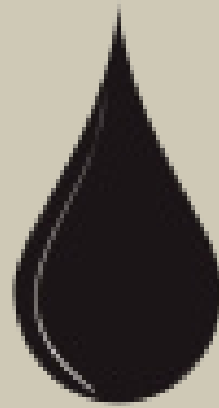
**The PSVs** fared slightly better, one must conclude this is in part due to the number of PSVs in layup (roughly four times as many as the AHTSs). A healthier availability picture on both sides of the North Sea allowed owners to fix vessels though still below break-even, not at as humiliatingly low levels they've been forced to endure this year.

**It's been a tough year** for all of us in this industry and few see many beacons of hope ahead. But historically the autumn months often see the market being pushed up due to increased activity or constraints in supply of vessels. It'll be interesting to see if the same plays out to any extent this year. Let's face it we could all be doing with it.



# OIL PRICE

The highs and the lows and our obsession with prediction

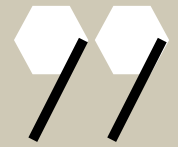


Three years ago Brent crude was trading at levels consistently over USD 100 a barrel. The relatively stable price played out until basically summer last year. Analysts, experts and those keen on repeating what everyone else was saying declared that all things considered, the hundred dollar barrel was here to stay. But the key factors that resulted in the crash in prices were there for everyone to see: shale gas, Chinese slow down, nukes in Iran, Saudis maintaining market share – yet so few put the pieces together and predicted anything other than oil staying merrily over 100 dollars.

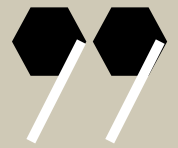
With this in mind, given that there were these huge warning signs which in retrospect make it difficult to understand how we DIDN'T see this coming, it must be difficult to assert any opinion on the fate of oil price in the future. For those of us in the oil and gas industry the price of oil is make or break, particularly so for us working in costlier regions such as the North Sea. This has

been evidenced by the swathe of project suspensions and cancellations here. Most recently Maersk Oil declared it would be shutting down its Janice platform with a loss of up to 200 jobs. Shutdown is scheduled for second quarter of 2016 and will take Maersk Oil down to having just two operational assets in the UK sector. Albeit this was countered somewhat this month with the announcement over its Culzean development, see Market Forecast.

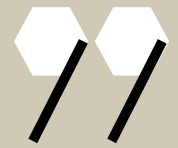
Brent Crude fell to a six year low this month as USD 43 dollars was hit and many feared for a sub 40 dollar scenario. A few months ago Rex Tillerson, ExxonMobil chief executive, said that the company was robust even if prices fell to \$40. Back then such a price fall seemed unimaginable but Exxon and all the others have had to face this reality and the reality that further drops could well happen. But then the oil price promptly rallied resulting in the biggest three day gain in over 25 years.



**IF YOU DON'T INVEST IN OIL AND GAS, YOU WILL SEE MORE THAN \$200**



OPEC Secretary General Abdulla al-Badri sees a sharp rise in oil price as a real possibility. Feb 2015



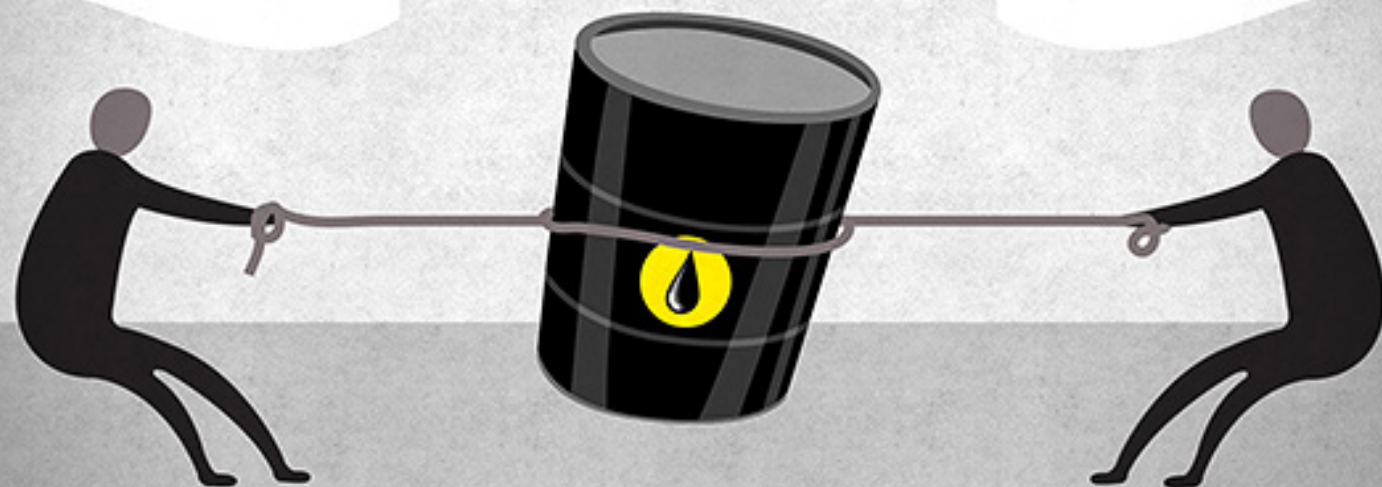
**THERE IS A POSSIBILITY THAT IF THIS PRICE WAR BECOMES UNMANAGEABLE, [WE COULD] SEE PRICES DOWN TO ABOUT \$40 A BARREL [FOR WTI],**



Jonathan Barratt, chief investment officer of Ayers Alliance Securities November 2014

06  
North American  
Shale

OPEC



SO WHERE ARE WE NOW?

ILLUSTRATION: S.ORDONEZ / CNHONEY

What indicators are there that could point us to a plausible prediction given that the penchant for forecasting the future of oil?

## SUPPLY

'US Oil glut' is a word we are hearing a lot these days. The boom in oil production has exploded in the last five years and shows little sign of slowing down. It's important to note that right now the US has a ban on exports of crude oil and a decade ago US crude producers had little interest in overturning this. Oil production has grown more in the United States over the past five years than anywhere else in the world, even as domestic oil consumption has declined. With these changes has come a widening gap among the types of oil that U.S. fields produce, the

types that U.S. refiners need, the products that U.S. consumers want, and the infrastructure in place to transport the oil. Allowing companies to export U.S. crude oil as the market dictates would help solve this mismatch.

Iran, following recent talks over disarming its nuclear programme, will start adding an additional 400 – 600,000 barrels per day\* and by 2017 this could be up to a million. Heavy pressure on the Saudis has started to make cracks in the firm no production cuts stance. The rigid stance has caused huge losses in Saudi Arabia not to mention in the other OPEC countries. While Saudi backpedaling on market share is widely regarded as a vital part of restoring some order to oil price, it will be done grudgingly (if at all).

## DEMAND

China remains the cornerstone of global oil demand. For most of the last decade it has been the catalyst for economic growth the world over. But the Chinese economy has slowed over the last two years and is predicted to be flat this year with only marginal increases in 2016 and 2017. All things considered? The current prognosis is low prices are here to stay for at least the next two years. Enter stage left something really obvious we just didn't factor in.

\*Estimate from Center for Strategic & International Studies.

## HEADLINE NEWS

FROM BP  
STATISTICAL REVIEW



±1.6M B/D

Growth of US oil production, making it the world's largest producer

7.3M B/D

Reduction in US net oil imports since 2005

-11.6%

Decline in EU gas consumption, its largest decline on record.

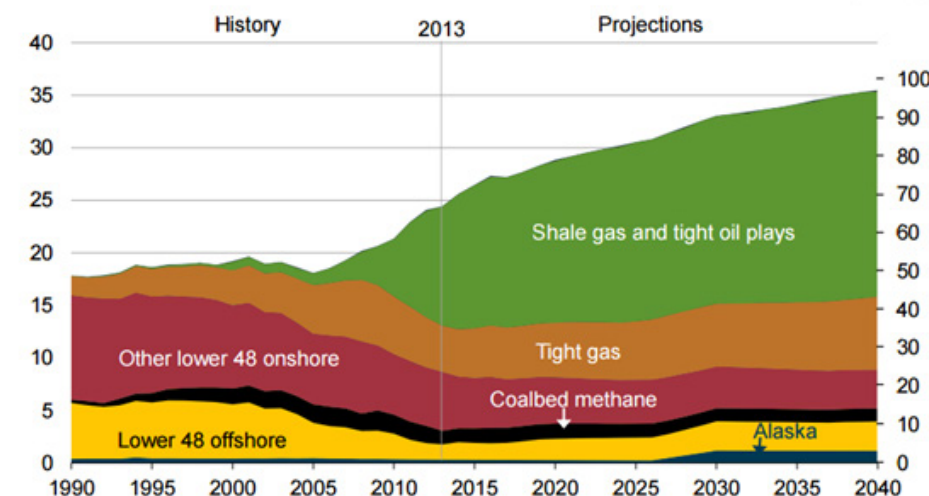
-3.4%

Decline in global gas trade.

## Shale resources remain the dominant source of U.S. natural gas production growth

U.S. dry natural gas production  
trillion cubic feet

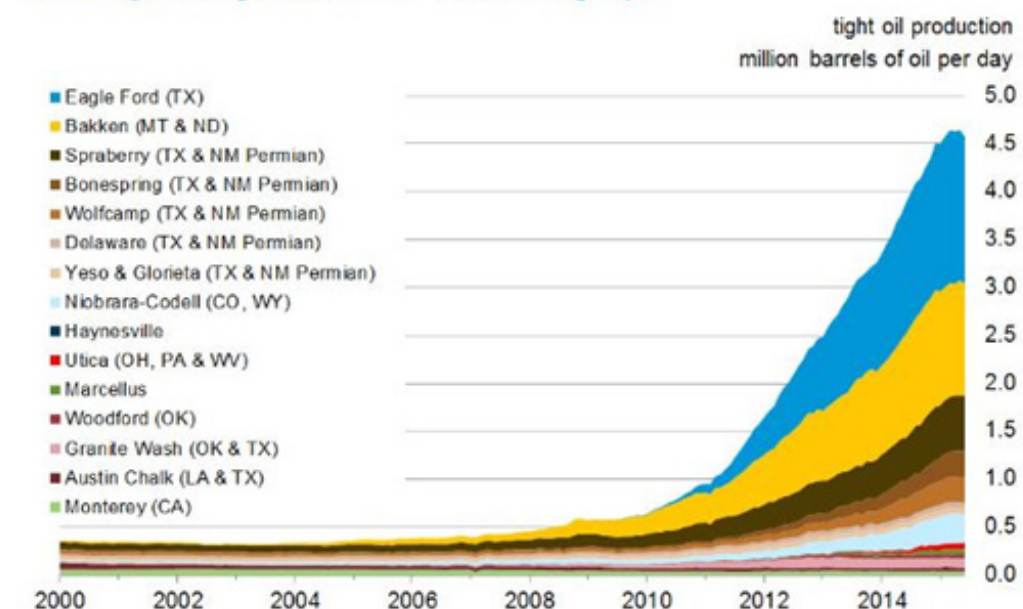
billion cubic feet per day



Source: EIA, Annual Energy Outlook 2015 Reference case

eia Annual Energy Outlook 2015, April 14, 2015

## U.S. tight oil production – selected plays







## FLETCHER FOLDS

The first signs of a definite casualty among offshore vessel owners emerged this month as it was announced that Fletcher Shipping had been forced into administration. Bearing in mind that the banks seizing operational control of an offshore vessel is without a doubt the last worst case scenario, vessel management not usually being among the skill set of your average banker. On the other side of the coin the offshore vessel, and indeed rig owning companies, are one of the most capital (and debt) intensive areas of the offshore sector. This means cash flow problems, which can mean defaulting on loan repayments which means the threat of going into administration is very real. The reluctance from banks to be lumbered with control of a complex ship means finding financial solutions, such as was done with Fletcher Shipping, the preferred option. Fletcher was repackaged via a loan from Grovepoint Capital meaning operations would continue as normal, save for FS Pisces which has been put into layup.


VESSEL	PORT
BLUE KING	ULSTEINVIK
BOURBON CLEAR	ABIDJAN
BOURBON MISTRAL	BERGEN
BOURBON OPALE	FREEPORT
BOURBON OPALE	FREEPORT
BOURBON PEARL	SYROS
BOURBON PEARL	SYROS
DINA ALLIANCE	BERGEN
EIDE TRAVELER	BERGEN
FAR SAGARIS	ALESUND
FAR SERVER	ALESUND
FD INDOMITABLE	SUNDERLAND
FD UNBEATABLE	SUNDERLAND
FS PISCES	SUNDERLAND
GRIMSHADER	HAUGESUND
ISLAND DAWN	BERGEN
ISLAND DUCHESS	LISBOA
ISLAND DUKE	LISBOA
ISLAND EXPRESS	ÅLESUND
MAERSK ADVANCER	FREDERIKSHAVN
MAERSK ASSISTER	FREDERIKSHAVN
MAERSK SHIPPER	INVERGORDON
MAERSK TACKLER	SOUDHA
NORMAND CORONA	HUSOYE
NORMAND SKARVEN	HUSOYE
NORMAND SKIPPER	HAUGESUND

NORMAND VESTER	HUSOYE
NORTHERN WAVE	HAUGESUND
NSO CHAMPION	LIEPAJA
NSO FORTUNE	LEIRVIK
OCEAN SCOUT	HAUGESUND
OCEAN SURF	HAUGESUND
OLYMPIC PROGRESS	FOSNAVÅG
REM PROVIDER	FOSNAVÅG
REM STAR	FOSNAVÅG
SEA ANGLER	WALVIS BAY
SEA FALCON	MANDAL
SEA SPRINGER	FARSUND
SEA TROUT	MANDAL
SIEM AQUAMARINE	ESBJERG
SIEM DIAMOND	ARENDAL
STRIL MYSTER	STAVANGER
STRILBORG	STAVANGER
TOISA CONQUEROR	ABERDEEN
TOISA ENVOY	SUNDERLAND
TOISA VOYAGER	SUNDERLAND
TROMS HERA	LEITH
TROMS MIRA	LEITH
UP AGATE	BLYTH
UP JASPER	BLYTH
VIKING FIGHTER	STAVANGER
VIKING NEREUS	HAUGESUND
WORLD PEARL	ÅLESUND

We last published the list of vessels in lay up back in June this year. Since then the list has increased by around 20%. Some have found alternatives to layup, such as Farstad selling Far Superior, finding work for Far Spica, GC Reiber selling Polar Prince and Solstad selling Normand Jarl. Solstad this month confirmed that they were actively seeking to lay up a further ten vessels however. Other


owners that have added vessels to this list are World Wide Supply and Deep Sea Supply. World Wide Supply has one confirmed and is expected to repeat this with another North Sea spot vessel. Though by far and away the majority of vessels in layup are PSVs, the dire situation affecting AHTS has reached critical levels for AHTS trading the UK market. As the end of August approached utilization was down to 15% for UK based spot vessels. If this

doesn't force the hand of AHTS owners into scaling back the number of vessels they have trading the spot I don't know what will. Several owners have at time of writing no vessels in layup, some having been fortunate enough to have secured term work for the majority of its fleet to mitigate against the stresses of some vessels remaining on the spot. Others have taken the stance that riding out the storm is preferable.



# LAY UP SITUATION

A Westshore update on North Sea layups and the market impact





Songa  
Endurance  
with two of  
her sister  
rigs in the  
background

## Songa Endurance Delivers

**S**onga Offshore has taken delivery of its latest semisubmersible from the yard in Korea. The rig is expected to stop in Singapore before making its way to Norwegian waters for commencement of an eight year charter with Statoil. This is the second so-called 'Cat D' rig to deliver to Songa with a Statoil contract in place. Songa Equinox delivered from the same yard in June but due to some additional work that emerged during sea trials the rig has yet to reach Norway. Drilling operations for both fields will initially centre around the Troll field and are currently expected to start in Q4 2015.



### RIGS EN ROUTE

Though the number of rigs going off contract and straight in to lay up is a depressing statistic, there are some new delivering in the coming years which are set to go straight into employment. We take a look at the list.



### BOLLSTA DOLPHIN (SEMISUBMERSIBLE)

Currently under construction at Hyundai in South Korea  
Expected to deliver and make its way to UK waters by **November 2015**  
Will then commence a five year contract with Chevron in the UK at the Rosebank field, north west of Shetland.

### SONGA ENCOURAGE & SONGA ENABLER (SEMISUBMERSIBLE)

Currently under construction at Daewoo in South Korea  
Expected to deliver and make its way to Norwegian waters by **January 2016** and **March 2016**  
Will then commence an eight year contract with Statoil for work in the Barents Sea (Johan Castberg)

### MAERSK XL ENHANCED 4 (JACKUP)

Currently under construction at Hyundai in South Korea  
Expected to deliver and make its way to UK waters by **August 2016**  
Will then commence a five year contract with BP Norway on the Valhall field.

### HERCULES HIGHLANDER (JACKUP)

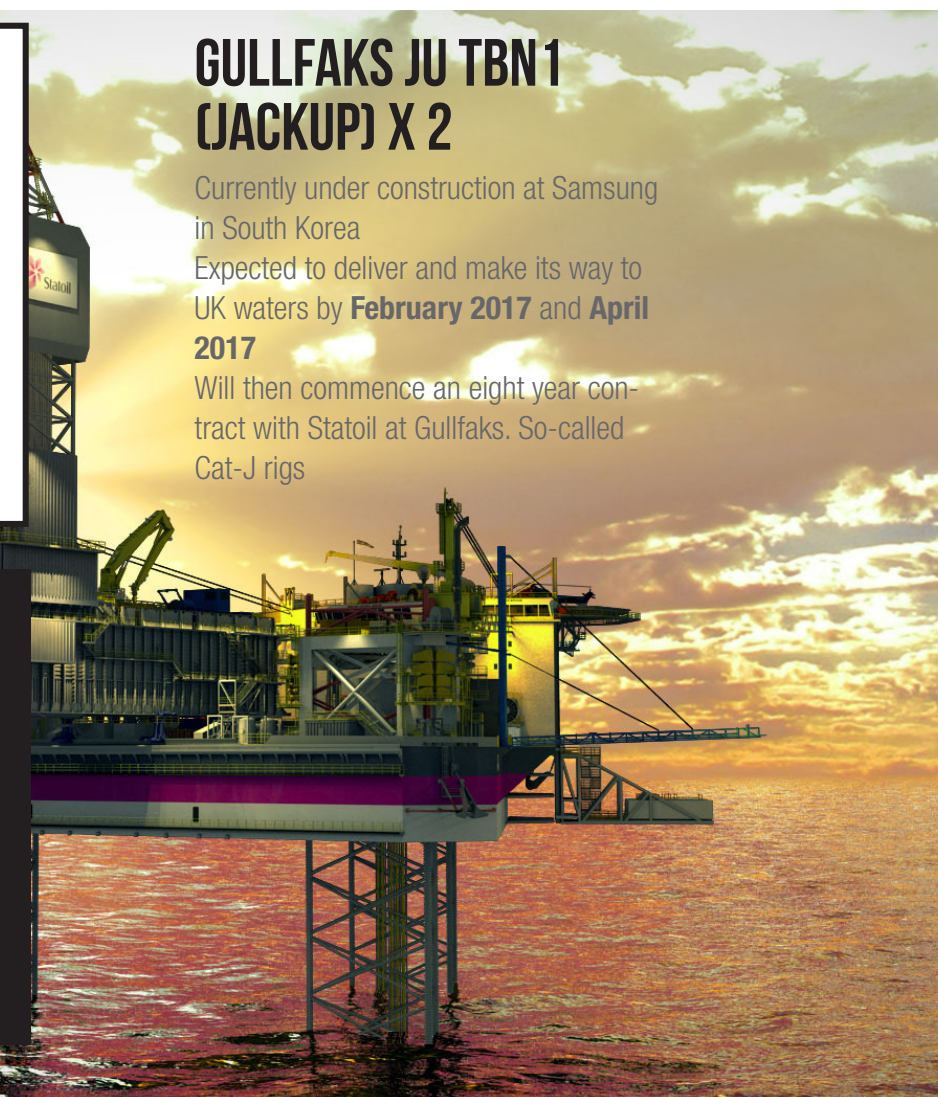
Currently under construction at Jurong in Singapore  
Expected to deliver and make its way to UK waters by **June 2016**  
Will then commence a five year contract with Maersk Oil in the UK at the Culzean field, more details in Market Forecast.

### GULLFAKS JU TBN 1 (JACKUP) X 2

Currently under construction at Samsung in South Korea  
Expected to deliver and make its way to UK waters by **February 2017** and **April 2017**  
Will then commence an eight year contract with Statoil at Gullfaks. So-called Cat-J rigs

### NOBLE LLOYD NOBLE (JACKUP)

Currently under construction at Jurong in Singapore  
Expected to deliver and make its way to UK waters by **August 2016**  
Will then commence a four year contract with Statoil on the Mariner field





# Green light for UK's biggest in the last decade

Culzean, one of the mega-projects that's putting 2017 down as the year we get back on track.

**A**s brokers we are often asked when we see the market improving, and it's all too easy to trundle out the "end of 2016 – into 2017" line with little hard evidence to back it up.

The mere passage of time is not going to turn things round, so with that in mind we take a look at the projects set to give North Sea activity a much needed boost.

Culzean hit the headlines this month as it received the go-ahead from the UK energy authorities. It's a HPHT development which inevitably comes with increased cost and technical challenges. Maersk Oil and partners are looking at a GBP 3bn investment to get the project to production, which is currently estimated to start in 2019 and will produce for at least 13 years. The UK Government implemented an HPHT Cluster Allowance as part of the 2015 budget, these changes in part contributed to the Culzean project becoming

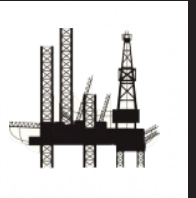
economically viable.

While the official green light is only just in, tendering activity for the project has been ongoing for some time. The development solution decided on by Maersk Oil and partners JX Nippon and Britoil comprises a complex of bridge linked platforms. A central processing facility will be linked to a 12 slot well head platform and an accommodation platform. Heerema yards in Hartlepool and in the Netherlands have commenced fabrication of the wellhead platform and construction is estimated to be completed by March 2016. One of the latest winners of work from the project is Subsea 7, which was this month awarded the SURF (subsea, umbilical, risers and flowlines) contract. Work will commence in 2017 and utilize a number of the Subsea 7 vessels not least the mega-ship Seven Borealis which will carry out pipelay and heavy lift work. For Subsea 7, the Culzean award added

to the SURF contract award by Wintershall for the Maria field takes the company's backlog to a far healthier place. The forward book for Subsea 7 as it stands today is roughly as it was in the second quarter of 2014, an impressive feat given the current slowdown in offshore projects. The Subsea 7 contract announced was quickly followed up with Sembcorp securing the work for the topsides, construction to take place at its yards in Singapore.

The frenetic pace that contracts have been announced over the past couple of weeks will now result in getting down to some serious work ahead of offshore operations kicking off in 2017. The field is the largest discovery on the UK Continental Shelf over the last decade and provides a much needed boost to confidence in the area not to mention declining production levels.

*NB! Don't be caught out! Culzean is pronounced KOO-LAIN*



Rig – Hercules Highlander currently under construction at Jurong expected to have delivered and be on location by end-July 2016

Year of discovery

**2008**

**5%**

Percentage of UK gas demand to be fulfilled by Culzean



**A CLEAR SIGNAL THAT THE NORTH SEA IS OPEN FOR BUSINESS**



George Osborne, UK Prime Minister



# OFFSHORE PIONEERS

**T**he current downturn is unfortunately not a new phenomenon. This month we talked to industry veteran Jan Ove Babinski, a semi-retired captain who has sailed through the good times and weathered the bad over the past 40 years.

Captain Babinski has sailed with Viking Supply Ships as it has existed in its various forms throughout the years, from the Kara Sea in the north to Papua New Guinea in the east and many more places in between. He has seen how the industry has evolved, how safety standards have improved, how technology has advanced, how operations became easier while capabilities greater. "I remember working on the Bouri field offshore Libya back when Gaddafi was still in control. That must have been late 90s. Knowing what we know now about Libya and Gaddafi, back then operation went well, we got the job done with relatively few problems." Jan Ove's most recent trips have been in colder climes, namely the Kara Sea, Greenland and other Arctic areas where Viking Supply Ships has really come into its own utilizing its in-house ice management competence. Several years ago pack ice just outside Stockholm harbor resulted in over 100 vessels becoming trapped in the ice, not least two large passenger

ferries transporting hundreds of people to Finland. Strong winds had resulted in the ice closing in on the vessels so rapidly it had begun to climb up the hulls of the vessels, something that can damage the integrity of the ships. Captain Babinski was involved in ice breaking operations that resulted in the passenger ferries being freed from the ice. Ice berg towage is another job he's undertaken in recent times. For many arctic areas drilling operations are only possible for brief windows in the year when temperatures fall within acceptable ranges. While the rigs drill, the anchor handlers ensure any ice that could potentially cause damage to the rig is towed safely out of harm's way. And over the years the local wildlife has been very curious about what the Vikings on the stripy boat have been doing exactly...



INSIDE STORY

1. CAPTAIN BABINSKI AT WORK  
2, 4 & 5 PHOTOS OF VIKING FLEET  
FROM 1980S  
2. ARCTIC OPERATIONS ATTRACT  
POLAR INTEREST





# HORNSEA OFFSHORE WIND ZONE

**TWICE THE SIZE OF GREATER LONDON, DONG TAKES FULL OWNERSHIP OF HORNSEA.**

The UK Offshore wind scene has gone through a considerable growth over the past decade but the forecast for the decade to come is on a whole other level. Belief in the sector was this month exemplified by DONG, the Danish energy giant, acquiring the Hornsea offshore wind development zone in addition to already having the project rights for the second and third phases of the project. The project in its entirety will become one of the world's biggest offshore wind installations covering an area more than twice the size of greater London (4735 km<sup>2</sup>). It's so big that once fully operational it has the potential to meet 4% of the UK's energy demand. With the UK Government aiming to generate 30% of its energy requirement through renewable sources, Hornsea could provide 12% of that.

The first phase of the project will contain a maximum of 240 wind turbines with an individual capacity of 5-8MW. Again as we have seen in other projects in Europe this fits with the trend of further from shore, greater generation capacity per individual turbine and bigger in scale. The Hornsea project has been years in the planning, and will be well into the next decade before the field is fully commissioned. Onshore construction is set to start next year but offshore construction not set to start before 2018. Water depth range across the area is predominantly 30 – 40 meters but goes as deep as 70 meters in some parts. Siemens has been earmarked by DONG as preferred supplier for the turbines, to be built at new production facilities in Hull, Northern England.







## PULLING OUT ALL THE STOPS

Westshore broker Jørgen Welde Knudsen took a trip over to Flekkefjord while the bollard pull test was being carried out on Magne. A couple of weeks previously the same test was carried out on sister vessel Loke Viking. Testing a vessels continuous bollard pull is now a mandatory test to be carried out every five years. Loke pulled an impressive 257.1 tonnes continuously while Magne achieved 251 tonnes. It takes the Viking duo to the higher end of the league table in terms of vessel bollard pull among the Aberdeen-based spot fleet.