

NAVIGATOR R

WESTSHORE'S MONTHLY NORTH SEA REPORT

October 2014 Issue: 38

Rigs Through to 2016

A look at next year's North Sea rig activity

Future Russia Contracts on Ice?

The impact of EU Sanctions on deals offshore Russia

Kick off at Massive Mariner

Contracts are out for Statoil's huge UK project



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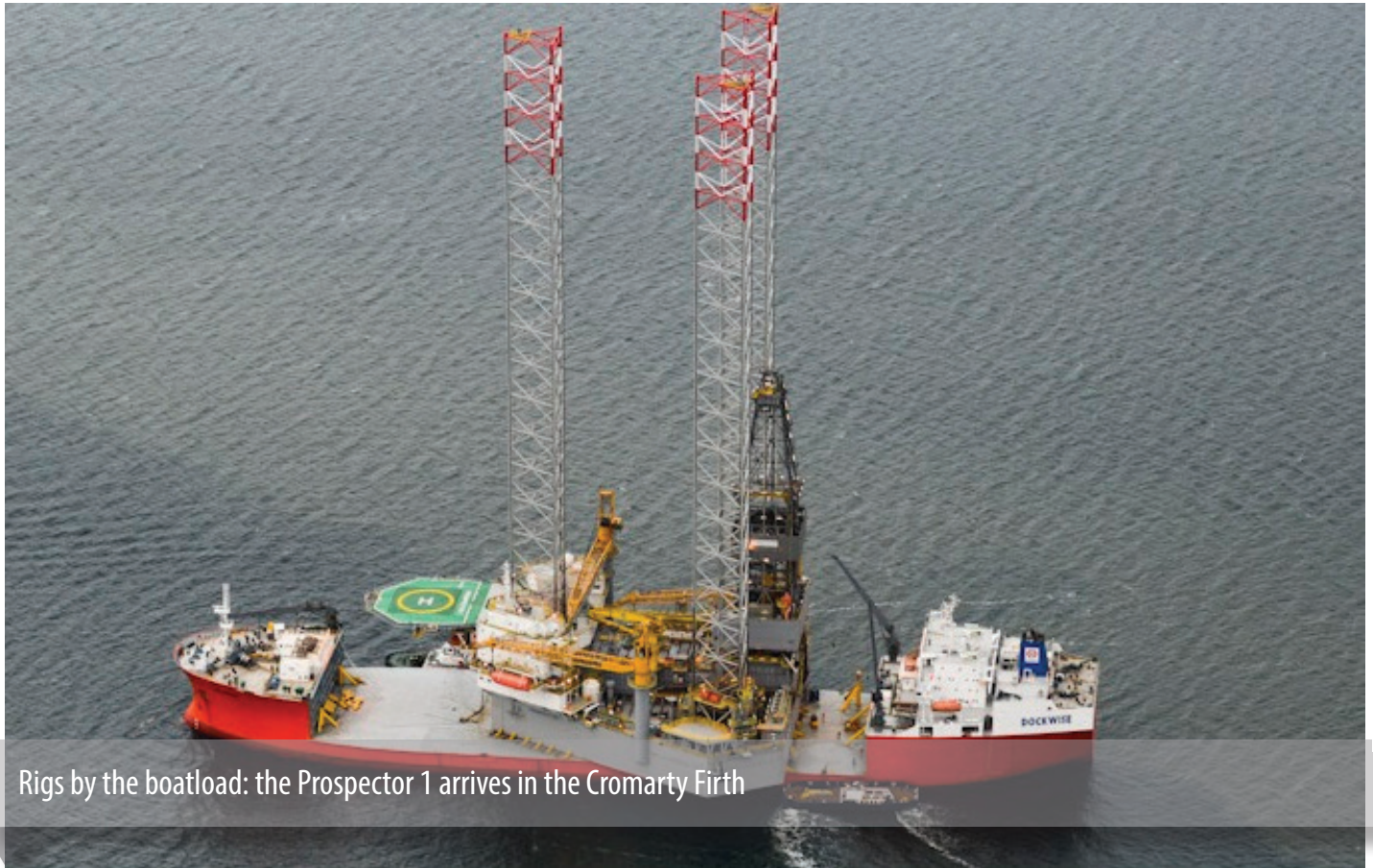
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Headline News



Rigs Through to 2016

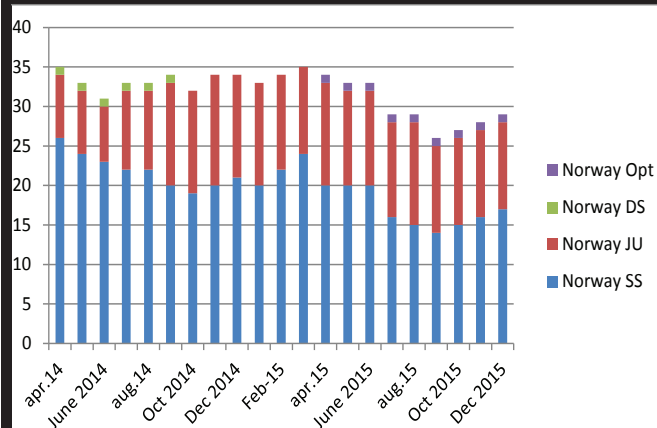
Rigs lie at the very heart of the offshore support vessel demand and supply dynamic. Therefore, an in depth look at the levels of North Sea contracting through to the beginning of 2016 should provide a strong sense of where the vessel market may shift to in the coming 12 months and more.

In previous editions of the Navigator we have reported warnings from companies such as Seadrill and Maersk Drilling forecasting the decline in utilisation of their

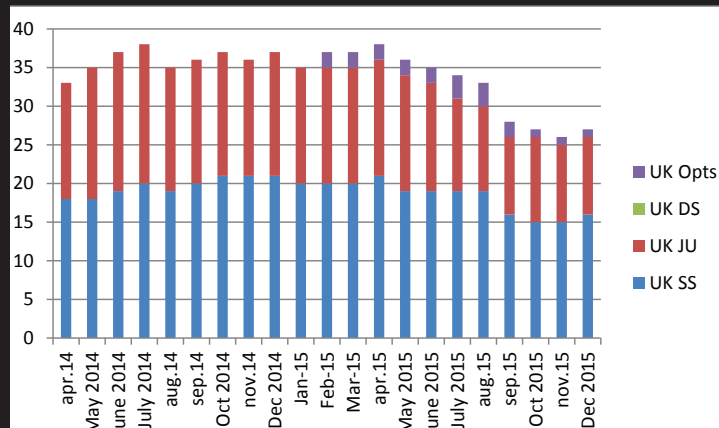
rig fleets in the coming months, which is due in part to the extensive newbuild campaigns undertaken by owners in recent times. The other factor is the eagerness for oil companies to reduce overheads and hold off from new rig contracts until dayrates begin to fall back from recent highs.

Oil companies have hit the pause button on new rig contracts in what is seen by the market as an attempt to force rig owners to reassess their dayrates in the face of an increasing supply of rigs and a threaten of a

Norway Rig Activity to Dec 2015



UK Rig Activity to Dec 2015



falling away of demand. However, for now dayrates in the few contracts that have come through in the past few months have stabilised.

Maersk Drilling Chief Executive Claus Hemmingsen has stated in a recent Reuters interview that: “Rates are not falling in Norway in part because we have not seen any fixtures to that effect but there is a pause, a little bit of a slowdown, in terms of decision-making on the oil companies’ part with new projects.” He goes on to explain: “Because first of all, you get a lot of new rigs out, and secondly, there is a very slow decision-making process from the oil companies on new projects.”

This is part of the wrangling by oil companies who are keen to seek a better deal from rig owners who have had the market all their own way in the last few years.

We have had a few rig contract extensions beginning to come through. Paragon Offshore sealed deals for the C461 with Taqa and the C462 with GDF. However, the past few weeks have seen Statoil announce the temporary suspension of another rig. The Songa Pioneer will be reactivated next year, along with the Scarabeo 5 that was put on hold. But the Ocean Vanguard will not be working for the Norwegian state oil

firm next year and Statoil has turned down options to extend the Deepsea Atlantic beyond its August 2015 contract.

You can also add into this the uncertainty over the future of the West Alpha and GSP Saturn Kara Sea and Pechora Sea campaigns due to the impact of EU sanctions against Russia. Further details on this can be found in the Inside Story section of this edition.

When we take all of this into consideration and we study the charts showing rig contracts in both the UK and Norway there are indications of a dramatic contraction in the active rig fleet during 2015. This is despite a number

of newbuilds coming to the market including Songa’s newbuilds to Statoil, the Prospector 5 and the new Maersk XL Enhanced jackups.

As things stand the active North Sea drilling rig fleet is set to reduce from 69 at the moment to 54 by the end of 2015. However in the end, we expect a substantial number of new contracts will come through between now and the second quarter of 2015. We anticipate that we will see roughly the same number of rigs working next year as have been this year but rig dayrate expectations will have to decline before oil companies are inclined to sign these contracts. ■

“We expect there will be a substantial number of new rig contracts come through between now and Q2 2015.”

In & Out PSVs

Vessel	Design	Manager	ENTRY	From
Viking Fighter	STX PSV 08 CD	Eidesvik	End-Sept	Statoil
Malaviya Seven	UT-745	Greatship	End-Sept	ADTI
Freyja Viking	VS 470 MK II	Viking Supply Ships	End-Sept	Nexen
Energy Insula	VS 485 MK III	Golden Energy	End-Sept	ConocoPhillips
Sjørborg	Havyard 833	P/F Supply Ships	Early-Oct	Statoil
Blue Guardian	PX 121	Remøy Shipping	Mid-Oct	Statoil
Rem Star	UT-755LC	Rem Ship	Mid-Oct	Peterson
Eldborg	Havyard 832 CD	P/F Supply Ships	Mid-Oct	Statoil Mozambique
Rem Commander	VS 485 CD	Rem Offshore	End-Oct	MLS
Blue Thunder	PX 121	Remøy Shipping	End-Oct	Statoil
Bourbon Rainbow	PX105	Bourbon Offshore	End – Oct	Gazprom
North Promise	Aker PSV09 CD	Gulf Offshore	End-Oct	Hess Denmark
Sayan Princess	Havyard 832 CD	Høyland Offshore	Early – Nov	Gazprom
Brage Trader	STX PRV09 CD	Simon Møkster	Early-Nov	Marathon
Rem Supporter	STX PSV06 CD	Rem Ship	Mid-Nov	ExxonMobil
Volstad Supplier	ST 216 L	Gulfmark Norge	Mid – Nov	Centrica Norway
Demarest Tide	STX PSV09 CD	Tidewater	Mid-Nov	Team Marine
Viking Dynamic	VS 490	Eidesvik	End – Nov	Asco
Bourbon Front	PX105	Bourbon Offshore	End – Nov	Dong
Troms Castor	VS 485 CD	Troms Offshore	End – Nov	MLS
Havila Crusader	VS 485 CD	Havila Shipping	End-Nov	Gazprom
Vessel	Design	Manager	EXIT	To
Blue Prosper	PX121	Remøy Shipping	Mid-Sept	Apache
Blue Fighter	PX121	Remøy Shipping	Mid – Sept	Apache
Far Server	Havyard 832 CD	Farstad	Mid-Sept	ADTI
Olympic Princess	MT 6000	Olympic Shipping	End-Sept	Chevron UK

AHTS Vessels

Vessel	Design	Manager	ENTRY	From
Maersk Lifter	Maersk L-Type	Maersk	Mid – Oct	Canyon
Strilborg	UT 722	Simon Møkster	End – Oct	Gazprom
Stril Commander	Havyard 842	Simon Møkster	End – Oct	Gazprom
Vessel	Design	Manager	EXIT	To
Maersk Tackler	Maersk T-Type	Maersk Supply	Mid-Sept	Canada
Normand Draupne	UT718	Solstad Offshore	End-Sept	Sold

Drilling & Production

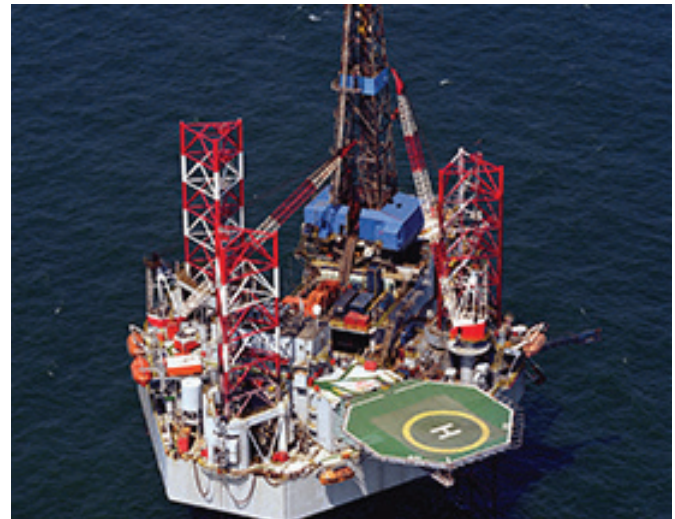
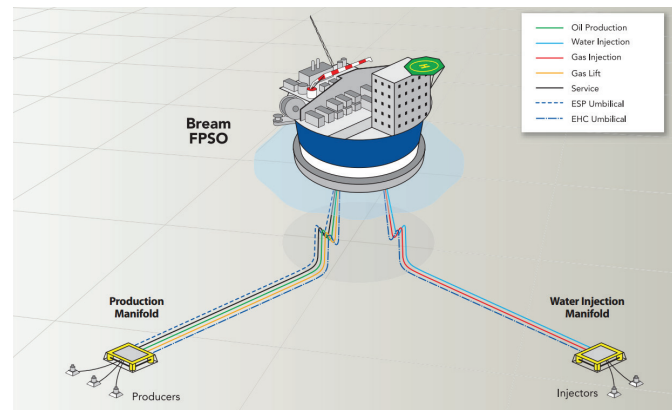
North Sea Activity

Sevan Marine has been awarded the FEED contract for Premier Oil's Bream field. The project, which is located in the Norwegian Central North Sea will utilise a Sevan type cylindrical FPSO. There is also likely to be a 17km subsea tie-back of the nearby Mackerel field. Potentially further resources could also be added following an exploration well on the adjacent Herring prospect.

Rig owner Paragon Offshore has been awarded a number of extensions. The company has secured more work for the C461 (formerly Noble Lynda Bossler) with Taqa the contract is now due to conclude in November next year. GDF Suez has also extended the C462 (ex Noble Piet van Ede) from January 2015 until December of the same year.

Statoil has temporarily suspended its contract with the COSL Pioneer and will put the rig in lay-up during the fourth quarter of 2014. The news comes on the back of a similar announcement covering the Scarabeo 5 and the early conclusion of the oil company's contract of the Ocean Vanguard. According to Statoil this latest development is due to overcapacity in the rig portfolio although the company still intends to drill 20-25 exploration wells on the Norwegian shelf in 2014.

The West Alpha rig is understood to have stopped drilling activities in the Kara Sea and will be heading back to Norwegian waters where it will undertake further drilling work for ExxonMobil Norway. The company is believed to be in the process of safely closing out the well over the coming days





The COSL Pioneer has been temporarily suspended.

Prospector Offshore Drilling's rig Prospector 1 has commenced its delayed contract with Total in the UK North Sea. Meanwhile, the Prospector 5 rig has arrived in Invergordon and is undergoing acceptance testing before it is due to commence its three-year charter with Total.

North Energy has said that gas was found in a sandstone reservoir in the Pingvin exploration well in the Barents Sea. The company is a partner with the operator being Statoil. Further data on the well is expected to be acquired before more details are released.

Electromagnetic Geoservices ASA has reported that it has signed a data licensing agreement worth USD 3.5 million for the sale of data in the Barents Sea. According to EMGS their multi-client data library in the Barents Sea now covers 42,000 km², in addition to approximately 10,000 km² in the Norwegian Sea and 1,400 km² in the North Sea.

“The Prospector 1 rig has commenced its delayed contract with Total & the Prospector 5 is in Invergordon.”

Statoil has been given the go ahead to drill a pair of wells at the Krafla discovery in the North North Sea. The Transocean Leader will be utilised to drill a side-track at the main discovery and an exploration well at the Krafla North prospect with the work expected to commence in mid-October.

A total of 47 companies have applied for offshore acreage in Norway's latest awards for predefined areas (APA) licensing round. In addition to well known and established companies a number of smaller outfits have also put themselves forward. Awards are expected to be announced in the second half of January 2015.

RWE Dea has revealed better than expected flow rates at its latest development well on the Breagh gas field in the UK North Sea. Following the results from the well, which was drilled by the Ensco 70 rig, the production profile for the project will be revised.

Vessel News

Including Newbuilds & Subsea

Viking Supply Ships has announced that the 2006-built SBS Tempest has been renamed to the Nanna Viking. The VS470 MKII PSV, which has recently undergone a DP2 upgrade, is now continuing to work on the North Sea spot market.

Solstad Offshore has entered into an agreement for the sale of the 1985-built Normand Draupne. The UT-718 designed vessel, has 18,000 BHP and a bollard pull of 171t. The vessel is due to be delivered to new owners during December this year. According to Solstad the sale will have a positive cash effect of approximately NOK 50 million with a booked gain of approximately NOK 27 million.

Saipem has secured a number of vessels to support the Gazprom-led South Stream project. A series of contracts commencing in November will see the PSVs Sea Spark, Sea Stinger, Sea Spider and Sea Lynx AHTS occupied. In addition, the Normand Corona, Normand Carrier and Normand Flipper have been employed. On top of this fleet, two Maersk T-type AHTS vessels will be working and the Toisa Invincible and Toisa Independent. The majority of the contracts are due to commence in November this year with most lasting around 300 days.

Deep Sea Supply has announced a pair of Australian bareboat contracts for its vessels. The Sea Surfer and Sea Swan have been fixed by an as yet unnamed client for 270 days firm plus 6 x 1 month option. The total value of the firm part of the contracts is about USD 11M. Commencement of the bareboat charters is early October 2014.





The Eldborg is heading back to the North Sea after completing work for Statoil Tanzania.

Viking Supply Ships has sold the 1985-built PSV SBS Cirrus. The vessel was delivered to new owners in the middle of September. According to the company the transaction will enable them to focus on modern tonnage. The sale of the vessel will have a positive impact of around NOK 0.8 million on the third quarter results.

The Havyard 832CD designed PSV Eldborg is heading back to the North Sea having finished a contract for Statoil Tanzania. The vessel, which is managed by Skansi Offshore, is due to arrive in Bergen around the middle of October where she will join the North Sea spot market.

The Polarsyssel has been Christened during a naming ceremony that took place in late September. The Havyard 832L WE designed PSV will now go straight on assignment for the Governor of Svalbard for whom it shall work for six months of every year for the forthcoming six years.

The launch of the FS Cygnus has taken place at Simek shipyard. The vessel, which is a DP2 UT-755 LC design for Fletcher Shipping is expected to be delivered in mid to late November this year.

“The PSV Eldborg is heading back to the North Sea for mid October having finished a contract for Statoil Tanzania.”

The UT-745 designed PSV North Stream has begun a one-month firm contract with ConcoPhillips Norway. This latest deal follows the conclusion of a recent term charter with Nexen.

Nexen has also finished its charter of the PSV Freyja Viking which had been on contract since May this year. The vessel has now joined the North Sea spot market.

Talisman Sinopec is on the market seeking a PSV for a one-well firm (around 90 days). The charterer had originally hoped to secure a vessel during September however it is now understood the new commencement could be the around the middle of October. ■

Inside Story



Viking Supply Ships has four AHTS vessels working in Russia.

Future Russia Contracts on Ice?

The dramatic decline in European Union (EU), United States and Russian relations is beginning to impact the offshore support vessel market as the industry holds its breath in the wake of increasingly severe sanctions.

In recent times offshore Russia has become an important growth area for the business with owners of ice-class tonnage experiencing a surge in demand for their vessels from the region. However, shipowners, rig companies and oil firms have been left wary of what the future holds in the coming drilling seasons as the

West threatens to freeze out the former Soviet nation.

During the summer period this season, a significant number of high-specification vessels were drawn away from the Norwegian and UK markets to take up campaigns in the Russian sectors including the Kara Sea and Pechora Sea. These contracts were due to last not only this year but also in to multiple forthcoming seasons too with options for further years extending after that.

Naturally this market is not just important to those with a vested interest in offshore Russia but also those



Gazprom's Prirazlomnoye field could also be impacted by sanctions.

seeking to understand the impact of vessel supply and demand in the North Sea in the coming years. Norway has recently shown it is prepared to stand shoulder to shoulder with the US and EU in its firm stance on sanctions against Russia over Ukraine.

The Norwegian Foreign Minister Børge Brende has said: “Despite huge international pressure, Russia has not shown any willingness to change its illegal actions in Ukraine. Norway will therefore introduce similar tightening of measures as introduced by the EU on September 12.”

There has been tension in recent relations, just last week Norwegian diplomat Dag Ivar Brekke was told to leave Russia and with Norwegian Jens Stoltenberg due to take over as Nato Secretary General later this month the situation may take another twist. His predecessor Anders Fogh Rasmussen has recently said: “Russia’s behaviour is my deepest disap-

“Norway has shown it is prepared to stand shoulder to shoulder with the US and EU.”

pointment of the past five years. My very first speech as Nato Secretary General, in September 2009, focused on seeking a strategic partnership with Russia. I saw this as a historic opportunity which my generation could not miss.” During the interview with the

UK’s Independent newspaper he went on to say: “Despite our efforts since the collapse of communism, Russia clearly views Nato not as a partner, but as an adversary. Unless Russia changes course, there can be no business as usual,

and I expect that engagement with Moscow will remain a considerable challenge for the foreseeable future.”

The measures put in place by the Norwegian government are understood to include all services from Norwegian companies necessary for Russian Off-shore Arctic exploration. Which is very similar to the EU sanctions wording: “Services necessary for deep water oil exploration and production, arctic oil



Viking Supply Ships has been supporting Roseft/ExxonMobil's successful Kara Sea Well.

exploration or production and shale oil projects in Russia may no more be supplied, for instance drilling, well testing or logging services.” The sanctions are also likely to impact Statoil’s standing agreement with Rosneft on joint exploration of the Northern Barents Sea and Sea of Okhotsk. It has even been suggested that Gazprom will need to look elsewhere for spare parts for its Prirazlomnoye platform that would have previously come from Western firms.

The Kara Sea campaign with the West Alpha looks as though it could have been one of the first victims of the sanctions. The rig concluded its work early and has headed to Norway to undertake work there for ExxonMobil. However, this was not before Roseft announced the first oil/gas condensate field in the Kara Sea. The results of the Universitetskaya-1 well in the Arctic revealed an estimated resource base of 338 bcm of gas and more than 100 mln tonnes of oil.

In a statement Rosneft made a point in referencing the role of Western companies, it said: “This is our united victory, it was achieved thanks to our friends and partners from ExxonMobil, Nord Atlantic Drilling, Schlumberger, Halliburton, Weatherford, Baker, Trendsetter, FMC. We would like to name this field Pobeda.” It is worth noting that Pobeda is the Russian word for Victory.

Viking Supply Ships is one of the companies set to suffer if sanctions put a stop to the cooperation

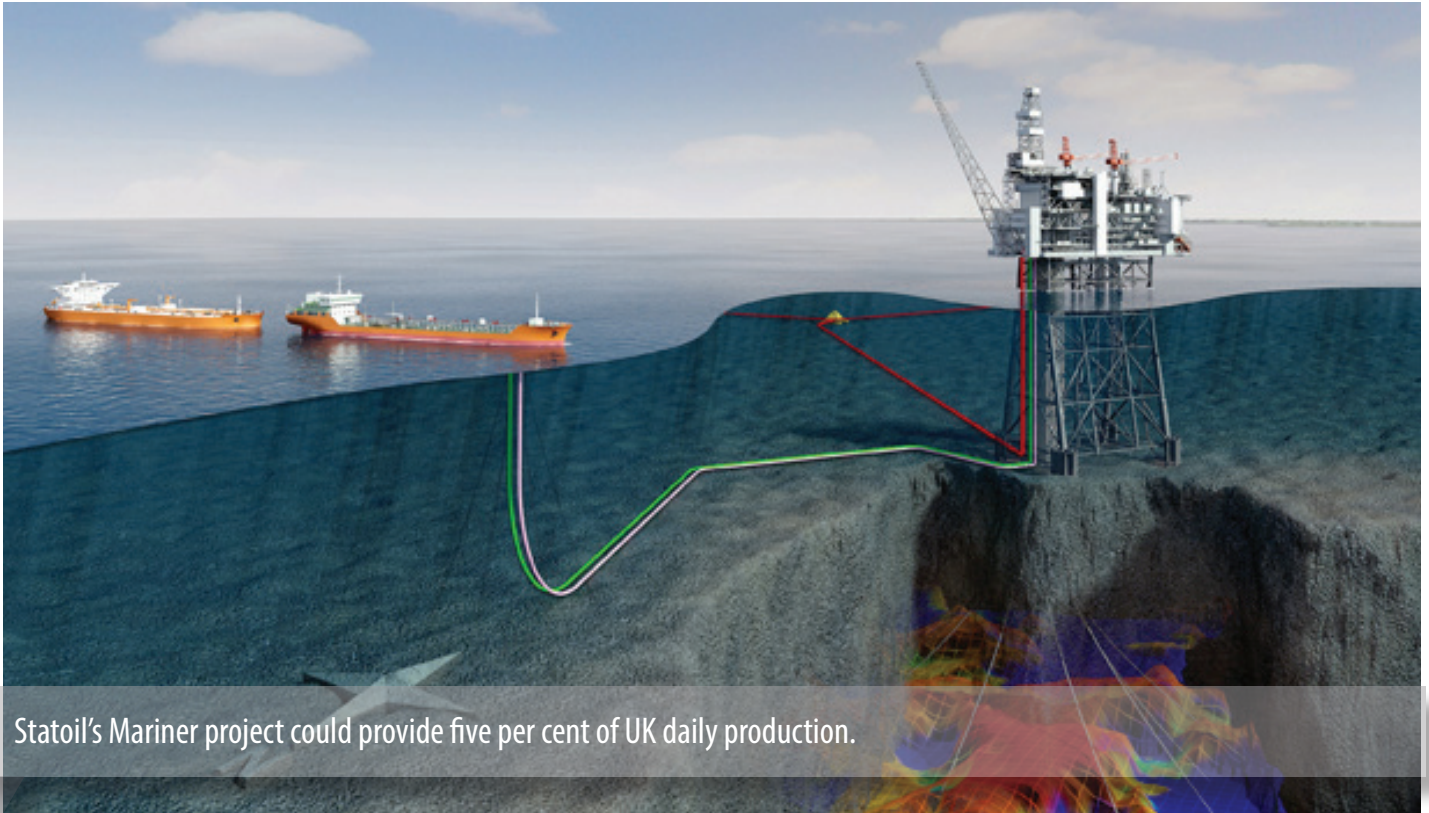
required to continue these successes. Four of Viking Supply Ships’ AHTS-vessels, of which three have ice class 1A and one is an icebreaker, are currently operating offshore Russia in the Kara Sea. The contract covers the drilling seasons in 2014 and 2015, with options for the drilling seasons of 2016 and 2017.

The CEO of Viking Supply Ships Christian W. Berg has said: “The present EU and US sanctions are not expected to impact Viking Supply Ships’ operations and financials in 2014. It is too early to say whether sanctions will impact the drilling seasons 2015 and onwards.”

The picture remains unclear and there appears to be a number of exemptions. Lukoil is set to take part in a Barents Sea wildcat well early next year and Dolphin Geophysical has been allowed by Norwegian authorities to go ahead with a seismic survey in Russia’s Kara Sea. As we go to press Russian Foreign minister Sergei Lavrov is now calling for a Reset 2.0 in relations between Russia and the West.

Whether the future of offshore Russia contains further victories for collaboration between East and West is a question as yet unanswered. However, as Europe also begins to feel the chill from the current frosty relationship the whole industry is hoping for a thaw before the commencement of the next Arctic season in May 2015.

Market Forecast



Kick Off at Massive Mariner

Statoil's Mariner project in the UK represents one of the largest developments ever in the North Sea. At its peak the GBP 4.6 billion scheme will produce 55,000 barrels of oil a day, equivalent to around five per cent of the UK daily production.



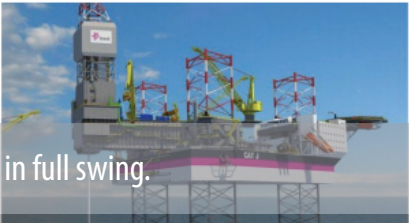
The last few days have seen the beginning of the vessel tendering phase with Statoil seeking an ERRV/Standby vessel for five years from the third or fourth quarter of 2016. This is only really the beginning for a project that could end up employing a significant amount of tonnage over the 30-years of its planned lifetime.

The heavy oil project has quite a history after being originally discovered in 1982 and it has only been through the recent introduction of innovative technology that the field has become practically and economically viable.

Mariner is located on the East Shetland area of the North Sea approximately 150km East of the Shetland Isles. Statoil is the operator of the field with 65.11% equity. Other partners include JX Nippon (28.89%) and Dyas Mariner (6%).

The development concept for the field includes a production, drilling and quarters (PDQ) platform that will be based on a steel jacket along with a floating storage

The field development concept – details

PRODUCTION, DRILLING AND LIVING QUARTERS (PDQ)	FSU – FLOATING STORAGE UNIT	JACK-UP RIG
<ul style="list-style-type: none"> • Integrated PDQ steel jacket • Oil, gas and produced water separation • Drilling module with one Intervention & Completion Unit (ICU) • Process design: 80 000 bbl/d of total oil including diluent and 320 000 bbl/d of total liquid • Living Quarters design for 160 POB 	<ul style="list-style-type: none"> • A traditional ship-shape solution • Crude oil storage and offloading • Diluent import, storage and transfer to platform • Situated 2.5 km from the platform • Storage capacity of 850,000 barrels 	<p>Jack-up rig assisting drilling during the first 4-5 years of operations</p>
		

It has taken since 1982 to finalise the development plan but now the scheme is in full swing.

unit (FSU). There will be drilling carried out from the PDQ drilling rig and a jackup rig will also perform further drilling operations in the initial four to five years of the project.

Already there have been a number of awards, Front end engineering and design (FEED) of the PDQ's topsides is being carried out by Aker Solutions. Aker Solutions was also awarded a contract to provide field maintenance and modification services.

Noble Corporation has been awarded the drilling contract and Odfjell Drilling will provide drilling services for the project. The drilling is scheduled to begin in November 2016 and the start of production is due in 2017. The rig, which will be named the Noble Lloyd Noble, is a Category J design able to operate in water depths from 70m to 150m down to 10,000m.

In terms of larger vessels the FSU is being built by Samsung Heavy Industries in South Korea and Saipem has been selected for the heavy lift operations on the

project.

Subsea 7 has been awarded the engineering, procurement, installation and construction contract for 38.6km of rigid flow lines and flexible riser systems and associated infrastructure and equipment.

“The sheer scale of the Mariner field means it will have an impact on the Offshore market for years to come.”

As we get closer to the arrival of the rig and as the construction phase of the project progresses we can anticipate further tenders. Naturally, there is likely to be the requirement for a PSV to support the Noble Lloyd

Noble. However, there may also be the need for support vessels during the subsea construction elements and heavy lift segments of the operation. AHTS vessels will also be required in around a two years' time for the initial rig move on to location and subsequent rig moves after that during the drilling phase.

The sheer scale of this projects means that the Mariner field will have an impact on the offshore market for many years to come.

The Last Word



The Bendt R. Rasmussen - picture from Redningselskapet.

Viking Supply Ships has marked the company's 40th anniversary by financing a new search and rescue vessel in Kristiansand, Norway. The vessel has been named Bendt R. Rasmussen after the firm's founder. His widow, Bärbel R. Rasmussen was given the honour of being godmother and Christened the vessel.

A spokesman for Viking Supply Ships said: "With this sponsorship we look forward to continuing a long and proud cooperation with Redningselskapet and we are pleased that we can contribute to the efforts Redningselskapet take on making the Norwegian coast line safe for all seafarers."

"Viking Supply Ships is pleased to contribute to the efforts in making the Norwegian coast safer for all."

The Deep Offshore Technology conference is set to take place in Aberdeen. The event which runs from Tuesday 14th of October to Thursday 16th October, covers the latest in subsea well intervention and the trends in the deepwater market.

As well as overviews of the North Sea outlook including opportunities and challenges, there will be discussions on the practical measures to reduce costs on deepwater projects.

A range of companies from McDermott, Saipem and Wood Group through to DNV, Technip and Fugro will be attending.



Market in September



The Stril Commander is set to return to the North Sea soon.

September has been an interesting month with the weather causing havoc for oil companies attempting to manage their rig moves. Utilisation for AHTS vessels hit an average of 83.5% with the market in Norway selling out a number of times. Across the North Sea we recorded a total of 23 rig moves over the past month which represents a substantial amount of activity. The highest dayrate recorded was NOK 1,400,000 and a number of times the AHTS market was breaking the one million NOK mark.

The percentage of active PSVs varied between 80% to the low 90% as we saw a busy chartering period for the vessels. Despite the high numbers of fixtures, the substantial number of vessels on the UK side kept dayrates in check and kept the average utilisation around 5% lower than in the same period during the past five years. Dayrates for PSVs continued in a

similar vein to last month with not much movement across the different vessel sizes. Average rates across the entire fleet were NOK 131,314

As the month comes to a close the market is in paralysis due to the worsening conditions offshore. The last day of September and the first day of October saw barely any action and a number of rig moves cancelled due to the weather. AHTS spot utilisation plummeted to 55% on the back of this as vessels returned to port.

As October gets into full swing we can anticipate more of the same with the changeable climate offshore causing requirements to bunch up as charterers all seek to carry out work during the same weather windows. Naturally this is likely to cause a series of lulls and spikes in the demand and we can expect dayrates to fall and surge throughout the month potentially hitting similar peaks to the past few months.

		Average Monthly Rates (NOK)		
Vessel Type		sep.14	aug.14	sep.13
AHTS	> 25,000	784,517	864,141	585,301
	18,000 to 25,000	649,216	631,029	440,461
	< 18,000	547,061	660,979	381,060
PSV	> 900 m ²	146,261	147,841	226,468
	< 899 m ²	118,744	117,917	197,264

	sep.14	aug.14	sep.13	aug.13
# of spot supply fixtures	81	80	52	58
# of rig moves	23	19	22	19
# of AHTS fixtures	69	57	54	61
Average Utilization (%)				
AHTS	83.5 %	81.6 %	80.2 %	70.5 %
PSV	86.9 %	83.8 %	95.5 %	92.5 %