



Rejuvenated J Ray Mc



Never take your eye off the ball: J Ray McDermott president and chief operating officer Bob Deason

Photo: BLAKE WRIGHT

Venerable Gulf fabricator and constructor re

MARINE fabricator and construction contractor J Ray McDermott is celebrating its 60th year in the offshore construction business this month with a party at its marine base in Morgan City, Louisiana.

Just a few short years ago, pundits could have argued that the venerable contractor would not have made it to see this landmark anniversary.

Awash in red ink, primarily due to a trio of a poorly executed turnkey spar platform construction jobs, the company realigned its management team, brought in an outsider to captain the listing ship and vowed never again to go down the road that led to the mess in the first place.

Following a period of right-sizing and asset divestment, J Ray now stands in its strongest position for years. President and chief operating officer Bob Deason likes the current state of his company, but sees no time for rest in its future.

"You should never declare success," says Deason. "You just need to set the

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Houston

bar higher and higher. "What clients want is consistent, flawless performance. That's hard to do in the contracting business. That is our goal and we've made lots of progress but we've got more to do. You should never relax and take your eye off the ball."

The company's focus on large EPCI-style projects has kept it busy in the international theatre while the traditional bread-and-butter of the US Gulf has trailed the pack.

There is no shortage of activity in the deep-water Gulf, Deason argues, but the fields are becoming more and more challenging, and delays to current projects have strung out sanction schedules for new developments.

"We think they are going to start bidding (US EPCI contracts) more towards the late part of 2008. Go through an engineering process and it's really 2009 and 2010, and that may be huge for the US Gulf," he says.

"They are drilling these very deep formations and I think the industry is really trying to understand how to produce them right. It is taking a lot longer than typically it has."

On the fabrication front, the company continues to tweak the workflow at its large Morgan City, Louisiana, yard via new investment designed to make it more efficient.

The facility is turning a profit, having just completed a large jacket for Reliance destined for offshore India and starting a new jacket project for BG Group slated for a project in Trinidad, among other jobs.

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Deep-water hulls on the horizon?: the Altamira fabrication yard currently under construction

Photo: J RAY McDERMOTT

McDermott

rediscovers vigour after the red-ink years

build Morgan City in a more efficient manner and upgrade some of the equipment," says Deason. "That yard grew up over 50 years. If you were to build a yard today you would not build it like that yard is built.

"Some money has been invested over here this year — a new rolling stack to make transport easier, a new brace cutting operation, and we've added a quadrant facility there."

Morgan City has also diversified into building power plant modules for its sister company Babcock & Wilcox, as well as some work fabricating refinery modules.

J Ray's biggest splash recently was the purchase of Nova Scotia-based vessel contractor Secunda Marine Services. The \$260 million deal brings 13 vessels into the J Ray fleet ranging from larger, construction-calibre units all the way down to anchor handlers.

One of the construction vessels, the Emerald Sea, is in Singapore undergoing upgrades. Multi-purpose support vessel Agile is due to undergo similar upgrade work in the next few months.

"We use these assets for leveraging projects," explains Deason. "We are an EPCI contractor. That's not to say we don't do a lot of installation only work, but we prefer EPCI."

"We were beginning to find ourselves constrained on the marine asset side. Marine assets are very costly these days. They are very long-delivery. We found that we could in fact buy the entire company (Secunda) probably on a more competitive and cost-effective basis than we could have bought the individual vessels."

J Ray's marine division had found itself using equipment on portions of jobs that could have been conducted by

less sophisticated equipment, according to Deason.

The Secunda assets are now an option to fill in for the contractor's larger vessels once their work is done. The additional vessels should allow J Ray to take on more work for its larger, derrick-class barges.

"There is a shortage today in the marine business," adds Deason. "Clients are scrambling for equipment. We're scrambling for equipment."

The company eyed the possibility of newbuilds, and still considers them an option if the market warrants. But the contractor is wary of the uncertain market outlook three years down the road when a newbuild would be delivered.

"It is always on the table," says Deason. "It is always under consideration. No question we'll be looking at newbuilds very carefully. We feel very good about the Secunda purchase because we think we got what we needed quickly and on a cost-effective basis. As our business demands, we will continue to look at newbuilds or purchases."

Over the next five years, the company expects to add fabrication capacity internationally, add to its marine fleet — with a particular interest in expanding its role in the subsea market — and possibly double its engineering capacity. While diversification is important, McDermott intends to remain committed to its offshore roots.

"The offshore business is critical to us," explains Deason. "If there is any speculation at any time that we are not going to be a serious player offshore it is just not founded. McDermott was pretty much number one 60 years ago and we're still trudging along."

"Rumours of our death have been greatly exaggerated."

Whole new ball game south of the border...

ONE OF J Ray McDermott's more ambitious projects in the Gulf of Mexico is not located on the US side but rather south of the border in the form of its new fabrication complex at Altamira, writes Blake Wright.

The contractor signed a 30-year partial concession agreement with the port authority of Altamira, north of the Mexican town of Tampico, in late 2006.

It has been clearing land and building up essential elements of the yard with a goal to begin taking business during the fourth quarter.

"As of today, phase-one construction of our Altamira fabrication facility is approximately 70% complete," says Jack McCormack, senior vice president, global services and engineering.

"We expect to be ready to receive business in November this year. The skidways and bulkhead will be completed around 1 October."

The Altamira skidways, each 100 metres in length, will have a load-out capability of 10,000 tonnes, and the reinforced bulkhead will be 300 metres long.

The current water depth at quayside is about nine metres. The port authority is expected to complete further channel dredging in early 2008, which will increase that by another five metres.

Phase two of the build-out will add rolling mills, assembly buildings, skidway extensions and a 14,000-tonne heavy lifting device to support integration work.

An additional skidway with

J Ray has found plenty of elbow room at Altamira fabrication yard

around 20,000 tonnes of bearing capacity is also in the company's future plans.

J Ray is targeting project work for Mexican state oil company Pemex to bring into the yard, with longer-term goals of performing work for export.

"We will be the only fabricator in Mexico that can provide full EPCI capability," says J Ray boss Bob Deason.

"We have the Altamira yard and a fleet of vessels based in the Gulf of Mexico that can accommodate any deep-water floating solution project engineering, construction and installation."

"From Altamira we have direct access to the Gulf of Mexico. Unlike our competitors with existing yards, we are not constrained by overhead bridge restrictions, space constraints or shallow water, which ultimately put us in a leading position when it comes to large floating solutions."

The company expects the yard to support a professional staff of about 65, comprising a full complement of local Mexican project managers, engineers, human resources, accounting personnel and other operational support staff.

Ultimately the workload will determine the number of craftsmen employed on projects at the yard.

"They have got quite a bit of

work there," adds Deason. "They, like all of us, are going towards bigger projects — bigger jackets, bigger decks, higher technology, deeper water."

"We don't think the present competition down there has that skill base that we bring to the party."

Altamira has previously been touted as a possible location for deep-water hull construction on the Gulf coast, something the region continues to lack.

Talk of a possible addition to the Altamira facility to handle hull work has circulated through the industry and it is a business that holds keen interest for J Ray.

"We certainly have the space at the new facility, and there is plenty of room to execute deep-water floating hull assemblies in Altamira," says McCormack.

"We actually have the capability of ultimately extending the bulkhead length to 1000 metres in our lease arrangement."

Speculation has also run rampant about what the new facility means for the contractor's venerable Morgan City facility. Sources believe that the new Mexican facility could spell doom for the US yard but J Ray does not see that as the case.

"We have a long-term interest in Morgan City," confirms Deason. "We will be spending more in order to become more efficient in Morgan City. That's got to happen."

"Hopefully there will be some synergies that come out of Altamira that can make Morgan City more competitive as well."

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