



■ Gary Hyde



■ Ralph Gates

AN INSIDER'S LOOK AT 2006

A Year-End Conversation with SEC Energy Products & Services' Gary Hyde and Ralph Gates

By Brent Haight

SEC Energy Products & Services is a Houston, Texas, U.S.A.-based gas compressor packaging company offering packages from 30 to 8000 hp (22 to 5965 kW). Founded in 2003, SEC has experienced three years of consecutive growth. In 2006 the company added a 43,000 sq.ft. (3995 m²) expansion, adding 12 bays to its existing production capacity, and produced \$130 million worth of business.

COMPRESSORTech sat down with Gary Hyde and Ralph Gates at SEC to discuss the gas compression industry in 2006, as well as get their opinions on what lies ahead.

How would you summarize the overall performance of your company in 2006? How does this year compare to previous years in terms of new business, expanded contracts, etc.?

Gary: 2006 will be another record year for SEC Energy Products & Services. We more than doubled our business in 2006. We went from \$49 million to \$130 million worth of business in 2006. We currently have on

backlog \$258 million to be built in 2007. We believe we have some upside potential to that, but we'll produce a minimum of \$258 million dollars worth of equipment. SEC packaged \$800,000 in 2003; just under \$14 million in 2004; \$49 million in 2005; and \$130 million in 2006. We expect that trend of growth to continue in 2007.

We've definitely gained some marketshare in the packager market. SEC feels like we are making a good penetration in the market because of the quality products and our technical service that we are able to provide. And that will continue to fuel our growth.

To what do you attribute the growth and success SEC experienced in 2006?

Gary: Market changes and capacity improvement were big influences on our performance last year. The quality of our equipment is being recognized in the industry. People are now seeking us out from seeing our products in the field.

Ralph: Due to the high price of natural gas, companies are doing

more drilling. Demands are greater than supply across the board for the industry. Domestically, the drilling rig count is between 1800 and 1900, which fuels the demand for all products needed to move gas to market.

How would you summarize the overall health and direction of the overall compression machinery industry during 2006?

Gary: I think the overall health of the industry is strong. SEC and even our competitors are booked up through 2007. The biggest challenge of the industry is managing our customers' expectations. I think that as an industry, we are not going to be able to fulfill our customers' requirements in 2007. Shops are at capacity and if customers have additional requirements, there may not be a potential for them to get compression.

Ralph: Component availability is a concern. Large engines deliveries are over a year and some engine manufactures are on allocation. Compressors are between 45 to 48 weeks. If one of our customers has additional needs in

2007 beyond what they've already ordered, procuring components for them will be difficult. As an industry there may be some providers that might have some inventory lying around their shop, but for us, almost everything we've ordered has been sold.

Gary: If you go back and look, there has been about a half-a-million square feet taken off the compression packaging market within the last couple of years. This is due to companies shutting down, mergers and acquisitions. Within the last year or so, we're seeing square footage coming back. SEC moved into its new 43,000 sq.ft. [3995 m²] addition in October. Toromont has added about 40,000 sq.ft. [3716 m²]. J-W added almost 50,000 sq.ft. [4645 m²]. But even if you look at what has been added, it doesn't replace what was taken out.

There has been a huge increase in demand for packaged compressors. The reduction in plant capacities within the packager market has had some effect. Couple that with the component shortages that will continue into 2007

and there's the potential that the industry as a whole will be unable to meet all the needs that will be required.

Discuss noteworthy events related to your company that took place in 2006.

Gary: The addition of our building was a big event for us in 2006 (see story below) as well as the expansion of our technical services group. Three of the twenty-six mechanics we hired are 3600-certified mechanics, which gives us the capability to commission our own Caterpillar 3600 series.

One of our goals at SEC is to give back to the industry. The expansion of our facility not only helps SEC as a company, but it helps the gas compressor market. I mentioned that we've had square footage taken off the packaging market over the last few years, now we are adding some back. We are able to satisfy more customer demand.

SEC also offers training programs. Our commitment this year was to have at least one school every quarter.

Going into 2007 we would like to increase that to maybe two per quarter.

The training program is for our customers and in-house employees. The training we've had so far covered Caterpillar 3516 engines. SEC had mechanics come in for a four-day school and went through wiring diagrams, trouble-shooting the engine and going out on a test run in the shop so that they could apply what they learned in the classroom. Going forward, we want to integrate schools on Ariel compressors, control systems and everything we use on the compressor package. We are committed to offering a training program both for our employees and our customers. We think that's another way of giving back to the industry.

What were the biggest challenges your company faced in 2006?

What about challenges to the industry as a whole?

Gary: Component availability along with the long lead times. That has been a challenge not only for SEC, but

SEC ENERGY PRODUCTS & SERVICES COMPLETES NEW ASSEMBLY BUILDING EXPANSION, WHICH ADDS 43,000 SQ.FT. TO EXISTING FACILITY

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In October, SEC Energy Products & Services moved into its new 43,000 sq.ft. (3995 m²) assembly building at its Houston, Texas, U.S.A., facility. The shop expansion added twelve bays to SEC's current production capacity, and according to Gary Hyde at SEC, it was necessary to accommodate the growth of the company.

"In 2007 we'll package 393,000 horsepower [293,060 kW] of large units and 60,000 horsepower [44,742 kW] of small units," said Hyde. "Right now, we've got a total of 453,600 horsepower [338,250 kW] of compression committed on the books for 2007. We are doubling our capacity next year."

According to Hyde, the building is a box column and box girder design.

The expansion measures approximately 111 ft. by 354 ft. (33.8 m by 108 m). There is no requirement for supports between the 50 ft. (15.2 m) spans. The assembly building features two 40 ton/15 ton assist cranes, two 10 ton cranes and two 15 ton cranes in the main assembly shop. SEC also added two 10 ton cranes in its engine overhaul area.

"We moved the large assembly units (500 to 8000 hp [372 to 5965 kW]) from our existing shop into our new assembly bays," said Hyde. "In our old shop, we'd schedule units on the floor for four weeks. With the new facility we are down to a three-week schedule and we think there is room to improve that down to two weeks

for the Caterpillar 3516 Ariel JGT-4 packages. Before, we packaged nine or 10, 500 to 4735 hp [373 to 3531 kW] units per month. In the new space we have twelve bays, so we believe we can do about 16 large units per month and 40, 95 to 215 horsepower [70 to 160 kW] units."

SEC turned its existing four-bay facility into a fabrication center. According to Hyde, one of the bays is strictly dedicated to building skids. The second bay is devoted to building ASME vessels. The third bay is for pipe fabrication. The fourth bay is for assembly of the smaller units.

"With the new facility, we are handling the same size units, but in our older facility we would get units that were stacked in," said Hyde. "If the middle unit finished first, we couldn't move it out until the one on either side finished and was moved out of the way. With the expansion, that's no longer the case. The new assembly building provides immediate access to the unit. When a unit is complete, it is moved out the door and the next unit takes its place."

Hyde continued, "SEC runs our facility like a manufacturing shop. Time is money. The shop is a machine tool. If we can pull through more major components in the manufacturing process of packaging, we are more successful. It is all about efficiencies." ■

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■ SEC added a 43,000 sq.ft. (3995 m²) assembly building in 2006. The shop expansion added twelve bays to SEC's current production capacity.

the industry as a whole. We've seen the manufacturers of the products that we rely on reach out and expand their capabilities, but with the current market conditions, even with their expansions, they aren't able to pull their delivery times back down to a more reasonable delivery requirement.

In your view, what was the most surprising development in the gas compression machinery industry in 2006?

Gary: Some manufacturers have gone to allocation, which has made customers consider other alternatives. Because of high demands, customers are forced to look at whatever is available — Caterpillar, Waukesha, Cummins or Jenbacher. There are a lot of alternatives that people are beginning to look more closely at. Even in the compressor frame end. We're seeing customers shift from their preferred compressor manufacturer to another manufacturer because of delivery times.

We currently have ten orders for the 8000 hp [5966 kW] 16CM34 and four orders for the 12-cylinder engine which is 6000 hp [4474 kW]. Since the 3616s aren't available due to allocations, it made customers look at these other engines as an alternative. We see that trend continuing through 2008.

Ralph: Due to the lack of availability in the large engine horsepower ranges, customers are changing to electric motor drives.

Are customers' needs and expectations changing in any way?

Gary: The need for flexible packages is always increasing. Our approach to that is to offer standardized package designs, which makes us a little more flexible to meet our customers' expectations. Especially for rental fleets. It makes the packages more adaptable. Customers can move them around easier if they need to. And they can reapply them.

That's certainly helped us in our growth; being able to have units that are designed with a lot of flexibility in them.

Ralph: Standard packaging allows us to be more efficient and capitalize on economies of scale. We can have things done ahead of time to speed the assembly process. We run our facility like a manufacturing shop. Time is money. The shop is a machine tool. If we can put through additional compressor packages during the month, we are more successful.

How have global developments/events affected your business?

Ralph: The Chinese have a great demand for engines. They are getting more industrialized with a greater demand for gas products. The world demand, in general, for oil and gas, is affecting the pricing.

Gary: The reason there is allocation on the manufacturer's side is because the world demand for engines has created a shortage. It's simple supply and demand. There is currently more demand than there is supply. It has created a reason for manufacturers to go to allocation, which has created a worldwide impact.

Look ahead to 2007.

What are your goals for the year? What industry trends and/or challenges do you expect to experience next year?

Gary: 2007 looks very bright for SEC Energy Products & Services. We are sitting here with \$258 million in backlog that will be built in 2007. That represents 453,000 horsepower [337,802 kW] worth of compression. That is going to be both an opportunity and a challenge for us next year.

We believe that in 2007 we are going to continue to see more and more requirements of the large CM series engines. I think with the higher gas prices we are going to see replacement horsepower from the old integrals that were put in 30 years ago being replaced. We are going to see a big demand for the smaller products as well.

In January 2008, the EPA is coming out with a new regulation requiring engines to be equipped with emission controls. That is a big change that we are going to see because it is not state driven, but federally driven. Everyone is going to have to comply with it. They won't have to retrofit old units, but anything purchased after January 2008 has to have it on there.

Ralph: Customers are ordering now for 2008 delivery. I see 2008 as really strong because the large pipeline players are expanding pipeline systems.

How would you summarize your view on the short-term market prospects for our industry? Long term?

Gary: Short term is fantastic. We've got a backlog going into 2007 that is on track to be another record year for SEC. I think that the oil and gas industry is riding high right now as far as profits. There is a lot of cash available. We'll see real strong pricing through 2008.

As an industry, we've got a lot to do to fill customer needs both short term and long term. We've gone through years of consolidating companies and people. We've driven people out of the oil and gas industry and now we're trying to get them back. We are trying to get students into our industry. The challenge is going to be to draw young people into the oil and gas industry as a whole.

Our job as a gas compression industry is to provide the equipment needed to move the gas to market. The biggest concern for the gas industry that I see today is, we are struggling to meet our customers' expectations for equipment. ■