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Ethanol plants draw investment in Toledo area

No longer a pie-in-the-sky technology, ethanol-blended gasoline has attracted plenty of investors, resulting in hundreds of millions of dollars in spending to produce the alternative fuel.

The national interest in ethanol, spurred in part by proponents who say it will reduce the country's dependence on foreign oil used to make gasoline, is evident in northwest Ohio and southeast Michigan.

Three ethanol-making plants are expected to be operating in a year within 90 minutes' drive from Toledo, and two more are being planned. Each one costs \$80 million or more.

"Economics are driving ethanol not just here, but all across the country," said Greg Kruger, president and co-founder of Greater Ohio Ethanol LLC, which is building a plant near Lima, Ohio.

"The reality is, if the solid return [on investment] wasn't there, you couldn't raise money."

Jeff Ehlert, chairman of Great Lakes Ethanol LLC, which is building an \$80 million plant near Blissfield, Mich., said raising capital is always hard, but with ethanol, investors typically stand to get "a double-digit percentage" return on the investment.

Said a spokesman for the Renewable Fuels Association industry group in Washington: "Put it this way: Bill Gates just recently invested \$84 million in a plant in California. I don't think he invests if the market isn't there."

Ethanol, a gasoline additive made primarily from corn, has always been touted as a cleaner-burning fuel that will help reduce dependence on foreign oil.

The reduced dependence, though, isn't great because ethanol doesn't have the same energy output as gasoline.

Thus, vehicles don't get as many miles per gallon from a gas-ethanol blend as from pure gasoline.

"You would use less [foreign oil]," said Fred Mayes, chief of the renewable energy team at the U.S. Energy Information Administration. "But you wouldn't use less than you'd think, because it isn't a gallon-for-gallon replacement."

But economic benefits of ethanol for plant operators and investors have become more certain the last few years, generating a rush to build plants, said Matt Hartwig of the Renewable Fuels trade group.

In 2005, the United States had 95 ethanol plants that produced 3.7 billion gallons. Nine plants are expanding and 29 are under construction.

About 150 new ones have been announced, Mr. Hartwig said.

A federal energy bill passed last year required the production of 4 billion gallons of renewable fuel in 2006, increasing to 7.5 billion gallons by 2012.

"The lion's share of that renewable fuel will be ethanol," Mr. Hartwig said.

Under an incentive program, refiners get a 51-cent subsidy for each gallon of ethanol-blended gasoline they produce.

That helps make ethanol-enhanced gasoline production economically viable, Mr. Hartwig said.

BP Inc., for example, has become the No. 1 user of ethanol in the United States.

Providing another customer source for farmers who grow corn, ethanol plants are supported by many in the agricultural community.

Investors in Greater Ohio Ethanol have raised \$80 million for its Lima plant, which is to produce 57 million gallons and to be operating by fall.

The company has said it wants six more plants in the state and is considering sites in Wood and Seneca counties.

In Lenawee County, Great Lakes Ethanol is building a plant to be opened by fall in Riga Township to make 50 million gallons annually.

Near Albion, The Andersons Inc., of Maumee, is involved in an \$86 million plant with a capacity of 55 million gallons to be ready by next fall.

The company has said it will build an ethanol plant in Indiana and is considering a third plant.

The plants typically have a solid revenue stream because most expect commitments from customers to be made before the factory begins operating.

Gasoline consumption in the nation in 2006 will be about 143 billion gallons, of which about 4.1 billion gallons, or 3 percent, will be ethanol, according to the U.S. Energy Information Administration.

Eventually, ethanol could amount to 10 percent of all gas consumed, but it's more likely to be about 6 percent, said the agency's biofuels economist, Tony Radich.

Many gas pumps use some ethanol mix, up to 10 percent. Some pumps, including at least one in the Toledo area, offer 85 percent ethanol, called E85.

But only certain vehicles can use it. (For a complete list, check the Web site www.E85Fuel.com).

However, E85 gas is cheaper but gets fewer miles per gallon than traditional gasoline.

Ethanol also provides an environmentally safer alternative to another gasoline additive, MTBE or methyl tertiary butyl ether, Mr. Radich said.

The latter can be a problem if it leaks into ground water, and California and New York have banned its use.

- Jon Chavez