

# With the Grain

With the biofuel buzz gaining new ground across the state, one Obion company hopes to set Tennessee's standard for success.

**This spring, when Iowa Sen. Chuck Grassley strode onto the floor of Congress with evidence of the Grocery Manufacturers Association's (GMA) aggressive campaign to sink the blooming American biofuel business, many in the industry hoped it would deflate the food-versus-fuel debate.**



Photo courtesy of ESY of Ethanol Processing, LLC

For almost a year, there had been growing debate over whether ethanol production was directly responsible for the rising cost of food. To Grassley, this was not happenstance. "This anti-ethanol campaign is not a coincidence," Grassley told the Senate. "It turns out that a \$300,000, six-month retainer of a beltway public relations firm is behind the smear campaign, hired by the Grocery Manufacturers Association."

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Hoping to drum up enough outcry to cut back the ethanol subsidies and import restrictions in the 2007 Energy Bill, the GMA hired the Glover Park Group, a Washington lobbying firm, to turn the public tide. According to documents Grassley provided, the firm circulated out-of-date data and unfounded claims to paint the biofuels industry as an extravagance at odds with the country's economy.

"Reducing the amount of ethanol in our nation's fuel mix will have little if any impact on food prices and will actually increase prices at the pump for all Americans," Grassley said. "It's time we clear the air, look at the facts, and recognize once again that everything about our domestic renewable fuels industry is good, good, good."

Though the efficacy of the anti-ethanol campaign is subject to debate, the industry has undoubtedly experienced a significant slowdown in the past year and a half. Many ethanol projects saw financial backers pull out and new supporters were proving few and far between. Groups such as

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Knoxville-based Heartland Ethanol and South Dakota-based VeraSun Energy Corp. cancelled plans for large-scale plants across the Midwest.

The biofuels industry has slowly begun to regain its footing, and in the process, Tennessee has emerged as a leading state in ethanol production. Thanks to a combination of state government support and private enterprises, the state is poised to turn its agrarian base into a major 21st Century asset.

“Because we do have such an opportunity to produce great quantities of biomass and crops that can be used for the feedstock for ethanol production, that gives us a good opportunity to both produce and consume,” says Kelly Tiller, a UT-Knoxville agricultural economist.

One example of the state’s emerging ethanol business is Ethanol Grain Processors (EGP). Set to open in the fall of 2008, EGP’s 100-million-gallon-per-year dry-mill plant will bring the cutting edge of the ethanol industry to Obion County, nestled in the northwestern corner of the state. The project’s history is not only indicative of the current market possibilities of biofuels, but also shows the wear and tear the industry has faced recently.

**Ethanol production at EGP’s 230-acre plant was scheduled to begin in October. The plant is now up and running, though the plant will produce 100 million gallons each year and employ 50 full-time workers.**

Rural with an agrarian-base struggling since the beginning of the 21st century, Obion and its leaders have for some time looked for an economic opportunity to stabilize the area.

“Farmers were only getting about 20% profit on what they grew, the rest going to other people down the chain,” says Jim Byford, dean of UT-Martin’s College of Agriculture and Applied Sciences and an early investor in the EGP project. “So we had several meetings trying to help the bottom line of the farmers so they could make more money and survive.”

By 2004, Byford led an effort to raise money locally for an ethanol plant. “We initially were structured as a 50-million gallon-a-year coal fire plant, and the project cost would have been about \$120 million,” says James Patterson, who joined the project in early 2005 as a financial advisor and today is EGP’s CEO. “That would put our equity target at about \$36 million or \$37 million, and we figured we could raise that in state.”

EGP contracted renowned plant builder Ron Fagan (responsible for 66% of the nation’s ethanol plants) to handle the design in accord with ICM Inc. But industry troubles lay ahead. Before construction began, ICM announced it

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no longer guarantee that a coal-fire process could produce 50 million gallons on a commercial scale.

EGP decided to restructure its design to a gas-fire plant that would produce 100 million gallons a year—a decision that proved more expensive.

“Our overall project cost increased from \$120 million to \$170 million, and our equity target increased from \$36 million to \$80 million,” Patterson says. “We didn’t think we could raise that kind of money in Tennessee only.”

Setting out for outside investors, EGP found a partner in Delaware-based VBV LLC, a joint venture between Richard Branson’s Virgin Group Holdings Limited and Ireland-based Bioverda Limited. (Virgin has since stepped out of the project.) Funding was completed by the end of 2006, when the construction on the 230-acre plant began. Ethanol production is scheduled to begin in October.

plant is also equipped with an \$8 million rail loop that will open it to corn from anywhere in the country.)

But even as EGP closes in on its start date, the biofuels business is still feeling the effects of the ethanol backlash. “The building of new corn ethanol plants has almost stopped,” Byford says, admitting the industry today is limited. The country can only safely produce around 15 billion gallons of ethanol a year, and the United States burns on average 143 billion gallons of gas; therefore domestic ethanol can only take about a 10% dent out of domestic consumption. But, Byford stresses, setting up corn-ethanol production is key to opening the doors for later cellulose production—a more complicated chemical process not yet commercially viable, but which could possibly produce 85% of the country’s fuel consumption. **tn**

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