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## Betting On Ethanol

Farmers, Other Investors Buying Units In Company Planning Columbia County Plant

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**JASON STEIN BUSINESS REPORTER {CORRECTION} About 14,000 Sunday papers contained an incorrect version of Page C1 in the Business section. In those papers, a story from the July 13 Business section ran under the headline "Betting on ethanol."**

(correction published 7-21-03) Ethanol plants in Wisconsin have provoked strong reactions from residents concerned about how a proposed facility might affect the local environment. But the promoters of one new plant are giving locals something else to think about: Do they want to invest in it?

On Wednesday, United Wisconsin Grain Producers will hold the last of more than 50 presentations to investors in South Central Wisconsin.

The group is trying to raise \$25 million to \$27.5 million to help finance a \$57.4 million dollar ethanol plant that would be built in the town of Randolph and produce 40 million gallons of the corn-derived fuel additive a year.

As of Thursday, company spokesman Bill Herrmann said United Wisconsin had taken in investments of more than \$19.25 million, the minimum needed to begin using investors' money to help finance the project.

Farmers and other small-time investors have taken money from retirement accounts and even borrowed money to buy membership units in United Wisconsin, said Herrmann and lender Roger Nelson of the Madison office of Badgerland Farm Credit Services. Badgerland Farm Credit Services, a government-sponsored financial institution, has provided loans to some farmers interested in the deal.

Herrmann said United Wisconsin is giving area residents a chance to help boost demand and prices for corn, create 32 local jobs and profit from expected growth in the ethanol industry.

But a Madison investment manager said he would urge investors to think twice before placing their money in an unproven company whose leadership has no direct experience in the industry. Among the concerns: the higher risk that accompanies a start-up company and the difficulties investors may face in selling their membership units.

"The whole principle of buying a private company that's not profitable and very illiquid...is not necessarily a good idea for the general public. Almost never have I found these private limited partnership things work out well for the investor," said John C. Thompson, a portfolio manager at Thompson Plumb & Associates.

After a presentation by United Wisconsin leaders Thursday in a Princeton cafe, some investors said they thought differently.

Winfred Braemer of Hustisford said he had already bought into the ethanol plant project and had brought another man to the meeting so he could do the same.

Paul Knack, a maintenance man and former dairy farmer in Hustisford, said he would "definitely" take money out of a money market account to buy units in United Wisconsin, which are sold at a \$10,000 minimum.

"I think it's got a lot of possibility," Knack said. "It can grow."

Around a dozen investors came to listen to Herrmann and other company directors, who told their audience that they expected to begin construction on their plant this September and aim to start operating in late 2004. The company has signed a letter of intent with Fagen of Granite Falls, Minn., to build a facility similar to the Badger State Ethanol plant the construction and design firm built in Monroe.

So far, United Wisconsin presenters noted, the plant they want to build has avoided the type of community or regulatory opposition that has delayed the start-up of some of the state's five other existing or proposed plants.

State and local leaders agreed. David Hughes, town of Randolph chairman, said his board had approved a resolution supporting the plant, which needs no permits from his community to be built.

Don C. Faith, air management engineer at the state Department of Natural Resources, said his office had drafted a preliminary air quality permit for the plant and received only three concerned comments on it from the public.

"In the case of an ethanol plant, it really isn't a lot of comment," said Faith, who said a final decision on the permit might come as soon as August.

As they gave their talk to potential investors in Princeton, Herrmann and other presenters also focused on the expected growth of the ethanol industry, which produced 2.1 billion gallons in 2002.

Bob Lange, a member of United Wisconsin's board, said that states like California had cleared ethanol's path into new markets by banning its major competitor as a fuel additive, methyl tertiary-butyl ether, because MTBE can contaminate ground water. Both ethanol and MTBE are mixed with gasoline to reduce certain engine emissions.

"When MTBE is eliminated, we will use over 8 billion gallons of ethanol," read Lange's projection, which would mean demand for ethanol would more than double by 2008.

In an interview after the presentation, however, Lange said it would "be incorrect" to assume that the bans would automatically lead to that level of ethanol use.

The presentation also cited the ethanol industry's healthy returns, including a June 2002 report by SJH & Co. of Danvers, Mass., that found that ethanol plants had offered investors an average return of 13.3 percent over the previous 10 years. Herrmann said he expected his company to make a profit by 2005.

Earnings projections prepared by a United Wisconsin consultant and furnished by Badgerland Farm Credit Services show that the company's expectations are based on factors such as the continued presence of two federal subsidies to the ethanol industry, a corn price of \$2.25 per bushel and a producer's net price for ethanol of \$1.15 per gallon.

Corn prices for the area averaged around \$2.25 per bushel over the last decade, Herrmann said. Joel Gratz, a partner in Christianson & Associates of Willmar, Minn., the accounting and consulting firm that prepared the estimates, said the ethanol net price is currently \$1.12 a gallon, down from \$1.50 two years ago.

Investor Paul Knack said he hoped United Wisconsin would be a good investment, but that he also supported producing ethanol to decrease American dependence on foreign oil.

"It's 50 percent you believe you're going make money on it and 50 percent you believe you're doing something good," he said.

Investment manager John C. Thompson said investors who want to support the ethanol industry would be safer investing in a producer that is already profitable, such as Archer Daniels Midland Co.

"If you like the industry, why wouldn't you do that?" he said.

Bill Herrmann said that, in return for the greater risks, his company offered investors a greater chance to see their membership units increase in value. United Wisconsin didn't encourage individuals to borrow the money they invest or take it from retirement accounts, he said.

"Many people have said, 'We've got money in our IRA, is it possible to (invest) that?' And we tell them how to do that...That's strictly their decision," Herrmann said.

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