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Keyes ethanol plant to reopen in spring

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KEYES — A new operator plans to restart the ethanol plant along Highway 99, which ran for only a few months after its late-2008 opening.

AE Biofuels Inc., based in Cupertino could have the plant back in service by mid-spring, Chief Operating Officer Andy Foster said Monday.

The \$130 million plant was built amid a boom for ethanol, which is mixed with gasoline to fuel vehicles. The industry hit hard times last year, as fuel demand dropped and prices rose for corn, the main raw material for ethanol.

The Keyes plant, the only ethanol operation in Stanislaus County, has dominated the landscape but produced little fuel since it was finished next to a feed mill on the west side of the highway.

Foster said the future looks bright because of a new state rule doubling the ethanol content in fuel to 10 percent.

The plant had operated entirely on grain corn. Foster said up to 25 percent of the new operation's raw materials will be farm residues, such as wheat straw and corn stalks, from within a radius of 50 to 100 miles.

"There is plenty of stuff there in the Central Valley that is readily available," he said.

Foster declined to go into detail about who might supply the material. It will be made into fuel via a process that AE has tested at its plant in Butte, Mont.

The ethanol boom boosted demand and prices for corn, the main feed for the valley's dairy and poultry industries. They have urged development of alternatives that do not use the edible parts of plants.

"We've been lobbying for four or five years, saying that's the best source and it doesn't jeopardize the feed source for animals," said Bill Mattos, president of the California Poultry Federation in Modesto.

Foster said the alternative sources will be capped at 25 percent because doing more would require major renovations at the plant.

He said it is not designed to use wood waste from fruit and nut orchards, but that this idea could be studied at the Butte plant.

Allen Dusault, who works on biofuel issues as a program director for Sustainable Conservation, said the use of crop residue is "a step forward" but could pose difficulties. This material takes a lot of water to process and contains less energy per pound than grain corn, he said.

"We'll have to see how it works economically," said Dusault, whose San Francisco-based group has a branch office in Modesto.

The Keyes plant will produce 55 million to 60 million gallons of ethanol a year, about what it did under the original operator, Foster said.

AE will lease the plant from Cilion Inc., the Tulare County company that built it, for \$3 million a year over three years, Foster said.

AE will pay \$1.6 million toward the repairs and other work needed to restart the plant. The original construction contractor will pay \$1 million.



The Cilino ethanol plant, just north and west of Highway 99 and the Keyes overpass, will be leasing to AE Biofuels within the next few months to apparently begin production of ethanol. January 19, 2010 (BART AH YOU/bahyou@modbee.com) --

The agreement allows Cilion investors to convert their shares into AE stock.

AE has a plant in India that produces biodiesel from vegetable oils. It is planning three ethanol plants in the Midwest.

Ethanol is seen as a way to reduce reliance on oil and other fossil fuels, which are believed to be causing climate change by building up carbon dioxide in the atmosphere.

Critics have said ethanol is a poor choice because it takes a substantial amount of fossil fuel to grow and process the corn.

Industry backers point to a study showing that the Keyes plant produced 2.6 gallons of ethanol for every gallon of conventional fuel used in the process.

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