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## Huge ethanol plant planned

**Bruce Johnstone, The StarPhoenix**  
Published: Wednesday, June 07, 2006

A 150-million litre ethanol plant costing between \$115 million and \$130 million has been sited for Belle Plaine -- close to the proposed location of the ill-fated Broe project, the Leader-Post has learned.

But unlike the Broe project, which collapsed due to lack of financing in 2004, proponents of the new plant, privately held Terra Grain Fuels Inc., have virtually all of their financing in place.

"You can never say 100 per cent, but it's the next thing to that," said Gary Drummond, chairman of Terra Grain Fuels and a former Regina lawyer, in an exclusive interview Tuesday with the Leader-Post.

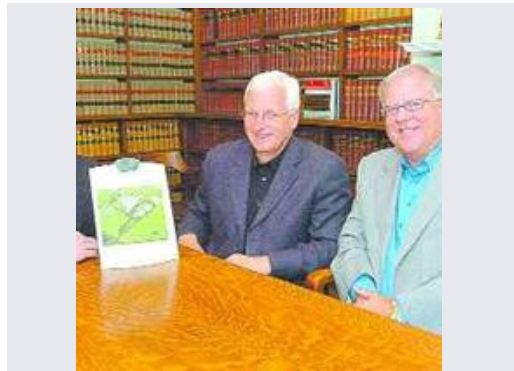
In the 1990s, Drummond was president and CEO of Direct Energy, a Calgary-based natural gas direct seller. Direct Energy, which sold natural gas to 1.4 million customers in Canada, was acquired by Centrica, a U.K. gas utility, for about \$900 million in 2000.

Drummond, whose family owns farmland south of Regina, said he began thinking about getting into the ethanol business in February.

"There were two or three of us out there and we got talking about the price of wheat ... and the price of crude oil. Then we got talking that the pricing dynamics must be very favourable for ethanol.

"From that point on, we got on to a pretty fast track," Drummond said.

He contacted his former executive vice-president at Direct Energy, Tim LaFrance, to do due diligence on a proposed ethanol plant. "I felt we had to assess the business opportunity in the



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(Left to right) Tim LaFrance, president of Terra Grain Fuels, Harvey Granatier, Conexus CEO, and Terra chairman Gary Drummond show an artist's conception of

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North American context of (ethanol) being an energy commodity," Drummond said.

LaFrance, who is now president of Terra Grain Fuels, discovered that the North American market for ethanol had changed in the last few years -- from small plants owned by producer-owned co-ops to large plants built and operated by big multinationals, like ADM and Cargill.

"The biggest change I saw is that ethanol is trading more as a commodity than it ever had before. So it started to look like an emerging marketplace to us," said LaFrance.

With ethanol replacing MTBE (methyl tertiary-butyl ether) as an octane enhancer in gasoline in the U.S. and with the federal government's commitment to five-per-cent renewable fuels content in gasoline and diesel in Canada by 2010, the time was right to build an ethanol plant in Saskatchewan, Drummond said.

"Tim and I divided the responsibility (for the project). I took on the easy part, raising all the money," Drummond said with a chuckle. "I've been concentrating on the capital structure, dealing with what our business model would look like. Tim has been involved in assessing the business, as such."

Terra Grain Fuels is looking to raise 30 to 40 per cent of the total capital cost in equity, which is all but in place. Drummond and his partners -- "family, friends and business associates" -- will put up the lion's share of the equity.

The remaining 60 to 70 per cent of the financing will be provided by a syndicate of lenders, led by Regina-based Conexus Credit Union, the province's largest credit union.

Harvey Granatier, CEO of Conexus, said while Conexus and its partners are in the final stages of the due diligence process, he didn't see any obstacles to financing the project.

"From Conexus's point of view, we feel very pleased and confident that we will be able to meet the requirements and the timelines to finance this project."

Construction is expected to begin in July or August 2006, with production slated to start in the fourth quarter of 2007. During construction, the project will create 150 construction jobs and 40 permanent, full-time jobs when in production.

The plant will be located on a 40-acre site in the RM of Pense, near the Mosaic Potash Belle Plaine solution potash mine, Saskferco fertilizer plant and Canada Salt plant.

Delta-T Corp. of Williamsburg, Va. is doing the technology design and equipment procurement, while EllisDon Corp. of Toronto and VCM Contractors & Engineers of Saskatoon are joint venturing on the engineering, procurement and construction contract.

The plant will consume 15 million bushels (or 410,000 tonnes) of wheat per year, which represents about three per cent of total production, but one-third of production in a 100-km area around the plant.

"It really will provide significant additional demand for wheat in the province," Drummond said.

"It's a cash contract, so we're looking forward to that."

With Saskatchewan's ethanol production capacity (including plants under construction) at 164 million litres, the Terra Grain Fuels plant will nearly double that when it comes on stream next year.

But neither Drummond nor LaFrance are concerned that Saskatchewan's annual consumption of ethanol at an average 10-per-cent ethanol blend is only 130 or 140 million litres per year.

"A year and half from now, we'll definitely be producing more than the mandated amount for Saskatchewan," LaFrance said, adding that Saskatchewan ethanol will be moving to export markets in Canada and the U.S.

Public meetings will be held in Moose Jaw and Pense next Tuesday, as part of the environmental review process required by Saskatchewan Environment. Terra Grain Fuels contends the ethanol plant is not a "development" under the Environmental Assessment Act and does not require a detailed and intensive environmental impact assessment.

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the plant they want to develop near Belle Plaine to produce ethanol.  
Photograph by : Roy Antal, Leader-Post

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