

What went wrong with the project?

By JOANIE STIERS

A FARMER-OWNED ethanol plant's challenges started with insufficient equity, continued amidst costly delays and provider disputes, and ended with unexpected re-engineering.

Central Illinois Energy LLC of Canton declared bankruptcy in December, shortly before completion. The last construction delay added six months that the project couldn't afford. The plant was too far behind schedule and out of money. Nearly \$117 million in hard and soft costs already had been invested into the plant, according to the Central Illinois Energy cooperative board.

Hard construction costs were on target, but paying high interest for an inoperable plant escalated soft costs. The project needed another \$18 million to finish, and tight ethanol margins prevented more financing, the board maintains.

The project started its equity drive in 2001 as a \$40 million plant that would produce 30 million gallons of ethanol. The project grew to 37 million gallons with construction costs of \$94 million, largely due to the addition of a waste coal co-generation facility. This addition intended to make the plant low-cost in the future as it allowed the plant to burn available waste coal, instead of natural gas, to produce its own steam and electricity. Other cost additions came with increased capacity, updated technology and escalated costs for supplies such as steel during pre-construction delays to secure financing.

Issues compounded

Looking back, the project started with insufficient equity, says Greg Jones, a farmer investor who later joined several of the project's boards. The board made an additional call for capital through the letters of credit. Still, the project was viewed as high risk and a New York bank loaned money at 15% interest, according to project leadership. Plans were in place to refinance, but options

Plant failure hits farmers' wallets

■ The 260 farmer investors in the plant lose their initial investment — a minimum \$5,000.

■ Investors delivered about 1.5 million bushels of corn last fall to the site, mostly under price-later contracts, notes Jeff Squibb with the Illinois Department of Agriculture. A total of 127 claimants expect to receive a minimum \$3.43 per bushel for their corn, which is 85% of the closing price at failure in accordance with the Illinois Grain Code.

■ Some extended lines of credit in lieu of or in addition to the grain commitment. They are obligated to pay that to their banks. Most offered a minimum of \$24,000.

They said it



"The people who were running the project had a lot of skin in the game. They were doing what they thought was in the best interest of the investors. Nobody had more to lose or gain than they did."

Lance Tarochione,
farmer investor

"The contractor was not able to deliver a form of technology that was to be delivered to the plant."

Dennis Streitmatter,
board member and investor



were unsuitable until the plant began operation.

The initial equity drive raised \$4 million and the letters of credit more than \$5 million. Another \$20 million came from equity partners and grants. The project received two grants from the Illinois Department of Commerce and Economic Opportunity, spokeswoman Marcelyn Love says. The first, valued at \$750,000, was for infrastructure. Central Illinois Energy received only \$2.92 million of the second \$4.5 million grant before bankruptcy.

The Illinois Attorney General's Office is reviewing the bankruptcy situation.

After construction began, the project was caught in the middle of contractor and service provider disputes that created costs and delays while interest mounted, Jones points out. For example, the rail spur to the plant became temporarily unusable when the railroad and utility companies were in a dispute. This delayed the delivery of a large piece of equipment to the site. Later, the major contractor and technology provider began a dispute over a previous job they shared, and the technology provider pulled out. The project was delayed for several months as the technological process to produce ethanol was redesigned. The board had to accept the redesign because it had no recourse, Jones says.

This unexpected, late re-engineering was the final issue that led to the failure of the plant weeks before completion, notes Dennis Streitmatter, a board member and investor. The contractor could not provide the technology the plant needed, and the project couldn't afford more time.

The cooperative board continues to work to protect investor interests, including the grain delivery commitment and its enforceability with a new owner. The board also plans to offer guidance on tax implications. Meanwhile, the plant is for sale. "The best you can hope for is someone will buy it, finish construction and start producing ethanol," Jones concludes.



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