

**Internet Visionaries Bet On Eco-Fuels: Ethanol and Biodiesel**

Investment in alternative fuels has received an influx of cash from the dot-com generation. Reasons include high petroleum prices, bipartisan government support providing a raft of subsidies and incentives, growing trends in socially responsible investing, and consumers voting with their pocketbooks for more sustainable consumption.

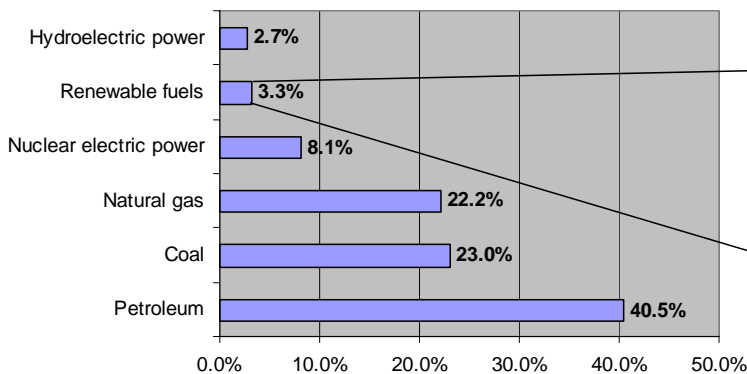
Billionaire Vinod Khosla, a Sun Microsystems founder, is financing a campaign to add clean energy to the ballot this November in California. If he is successful, taxes on in-state oil production will increase by \$380 million per year to fund clean energy. His stated goal is to reduce state oil use by one-quarter within the decade.

Bill Gates has acquired a 25% stake in Pacific Ethanol, operating on the west coast. With Gates' \$84 million investment, Pacific Ethanol will complete construction of its first planned ethanol production plant in Madera County, CA. Operations are expected to begin during the fourth quarter of 2006. Pacific Ethanol has four other plants planned for construction prior to the end of 2008 with a combined annual capacity of 200 million gallons.

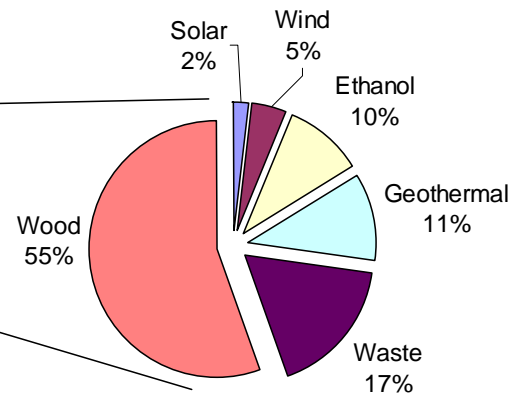
John Doerr, a venture capitalist and early investor in both Google and Amazon, is raising \$100 million for green technology, claiming "greentech could be the largest economic opportunity of the 21st century." Steve Case, founder of AOL, has invested hundreds of millions in sustainable lifestyles and green technology as a way to "make a difference." As the spot price of ethanol has doubled over the past 12 months, Wall Street has seen a run-up in the stocks of our nation's few established ethanol makers. Producing nearly a quarter of the domestic supply, ADM, whose share prices have increased 50% so far this year, is at the top of this heap.

Private investment is certainly being propped up by government support for alternate fuels. Minnesota was the first to enact a biodiesel mandate requiring all diesel sold in the state to contain at least 2% biodiesel (B2). "Liquid solar energy from the Midwest in replacing oil from the Mid-East" states Joe Jobe, CEO of the National Biodiesel Board. California has a B2 biodiesel renewable fuel standard (RFS) proceeding through the legislative process. Oregon has developed a bill to set a statewide renewable fuel standard. On March 30, the governor of Washington State, Christine Gregoire, signed into law a bill requiring all diesel and gasoline sold in the state contain minimum percentages of biodiesel and ethanol. And on April 24th, Iowa Congressman and gubernatorial hopeful, Republican Jim Nussle, introduced an energy bill that would mandate an increase in renewable fuels for all gasoline nationwide and provide for a permanent tax credit for the installation of 85% ethanol (E85) tankage. A farm bill is also being pursued which would mandate the use of renewable fuels to 25% of U.S. energy consumption by 2025 from 3%.

**2005 U. S. Energy Consumption**



**Breakdown of Renewable Fuels**



Nationwide, over 500 major fleets including municipal fleets, school and public buses, and trucking firms are now commercially using biodiesel blends. Retail filling stations making it available to the public are rapidly increasing in number, being further promoted by the recently launched “farm fresh” and branded B20 fuel, BioWillie. ULSD legislation going into effect June 1st of this year will only further support interest in biodiesel fuel that contains negligible quantities of sulfur.

Tax incentives and subsidies abound for eco fuels. Among others, there is a biodiesel excise tax credit of \$1 per gallon for soy-based fuel, a biodiesel production tax credit, renewable energy income tax incentive for utilities, loan guarantees, research funding, a 30% tax credit for installation of B20 retail pumps, and property tax exemptions for ethanol and biodiesel facilities. In 2005, 36 state houses considered approximately 170 pieces of biodiesel-related legislation. By mandate, U.S. refiners are projected to use 7.5 billion gallons of ethanol annually by 2012, nearly double the 4 billion gallon rate of today. The market has been projected to hold long-term potential of 15 billion gallons annually. There are currently 33 new ethanol plants under construction and nine plants are being expanded.

Senior Saudi oil officials have stated that a significant increase in consumption of biofuel will cause them to drop the price of oil. Consequently, supporters of eco-fuels are already lobbying politicians to tax crude further if the price falls below \$40/bbl. Regardless of how this factor plays out, there is tremendous momentum for us to see a great deal of continued investment and increasing supply in biodiesel and ethanol in the coming years.