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On the Ethanol Bandwagon, Big Names and Big Risks

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VINOD KHOSLA was a founder of [Sun Microsystems](#) and then, as a partner at Kleiner Perkins Caufield & Byers, the Silicon Valley venture capital firm, he helped a host of technology companies get off the ground. These days, Mr. Khosla, 51, is still investing in technology, but much of it has nothing to do with the world of network computing in which he made his name. He is particularly excited about new ways of producing ethanol — the plant-derived fuel that, he says, could rapidly displace gasoline. "I am convinced we can replace a majority of petroleum used for cars and light trucks with ethanol within 25 years," he said. He has already invested "tens of millions of dollars," he said, in private companies that are developing methods to produce ethanol using plant sources other than corn.

Mr. Khosla isn't the only big-name entrepreneur to embrace ethanol. Sir [Richard Branson](#), chairman of the Virgin Group, plans to invest \$300 million to \$400 million to produce and market ethanol made from corn and other sources, said Will Whitehorn, a director of the company. Virgin expects to announce soon the site of its first production facility, probably in the eastern United States, with a second one likely to follow in the West, Mr. Whitehorn said.

[Bill Gates](#) has also made a move into the ethanol market. Cascade Investment, Mr. Gates's private investment firm, has declared its intention to buy \$84 million in newly issued preferred convertible securities in [Pacific Ethanol](#), according to William Langley, its chief financial officer. The company, which is based in Fresno, Calif., and is publicly traded, says it hopes to become the leader in the production and distribution of ethanol in the Western states.

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Two mutual funds that focus on alternative energy include some ethanol companies among their holdings. The New Alternatives fund holds shares of Abengoa and Acciona Energía, two Spanish companies investing in ethanol production. Another option is the PowerShares WilderHill Clean Energy Portfolio, an exchange-traded fund that tracks a basket of 40 alternative energy companies.

Robert Wilder, who created the index on which the fund is based, said that it currently includes just two companies with significant ethanol interests: Pacific Ethanol and [MGP Ingredients](#), an ethanol producer in Atchison, Kan.

Mr. Wilder said he expects to add other companies involved with ethanol. "It's very elegant," he said. "We can take an agricultural waste product we currently pay to get rid of and convert it into fuel."