

"All the News
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EARLY EDITION

New York: Sunday, humid, risk of a storm, high 88. Sunday night, muggy, low 70. Monday, humid. Weather map is on Page 51.

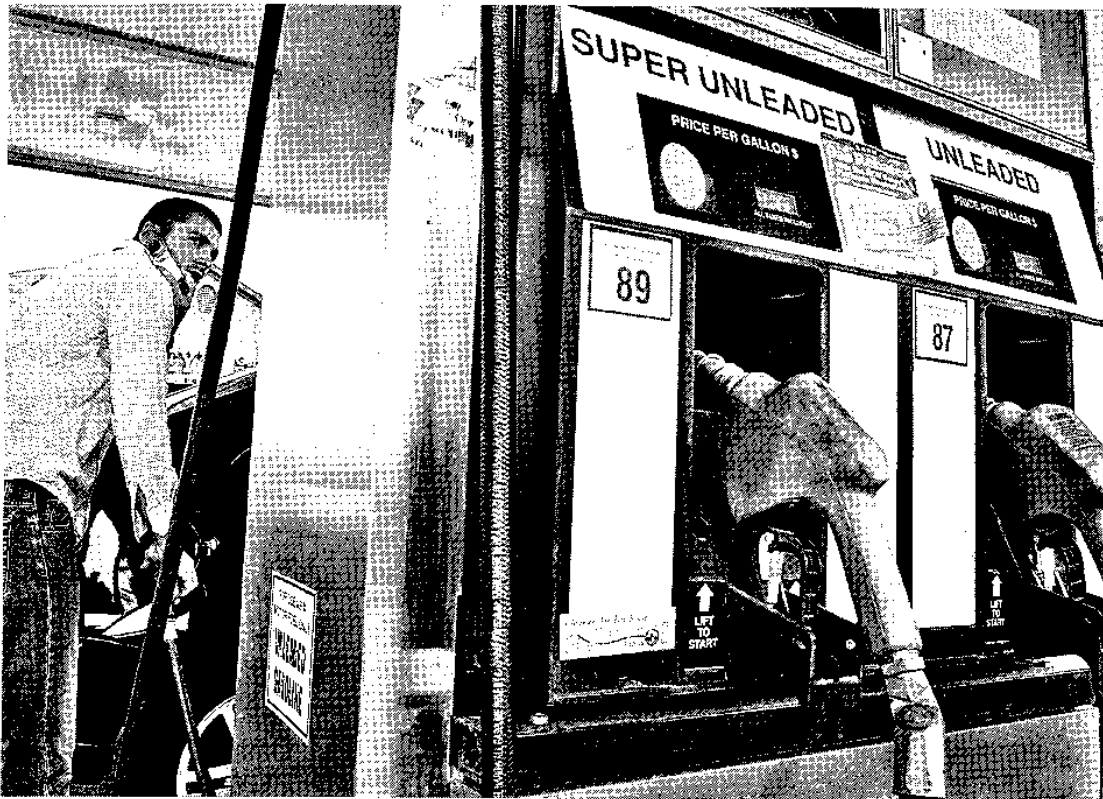
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\$4.50 beyond the greater New York metropolitan area.

\$3.50



Photographs by Mark Kegans for The New York Times

Justin Schlicher refueled on Friday with an ethanol-gas blend at Casey's General Store in Urbandale, Iowa.

Ethanol's Stock as a Fuel Source Is Rising

By MATTHEW L. WALD

WASHINGTON, June 10 — Oil is now so expensive that when it is blended with ethanol, a gasoline additive, to make high-octane fuel, the price of the blend is now often lower than that of regular gasoline.

As a result, some service stations, particularly those in the corn belt states that produce ethanol, are selling gasoline with ethanol for 7 cents to 10 cents less per gallon than regular gas.

Some analysts said the trend demonstrated ethanol's potential as a fuel source, though others said it was simply a matter of supply and demand and timing.

The pricing phenomenon is limited to regions where the gasoline additive is produced, because the cost to ship ethanol — which must be sent by highway or rail tanker instead of through petroleum pipelines, where it has the potential to be contaminated — is high.

At a chain called Casey's General Stores, which operates more than 1,300 convenience stores in nine Midwestern states, "gasohol," a blend that is 90 percent gasoline and 10 percent ethanol, is offered where ethanol is available. In many of those cases, it is "the cheapest price on the sign" by several cents, said Sam J. Billmeyer, Casey's vice president for operations. Usually, the higher-octane gas costs more than the regular gas.

Most Casey's stores sell regular, or 87 octane, fuel and midgrade, or 89 octane, gasoline that is blended with ethanol, which has an octane of about 113.

In the past year, Mr. Billmeyer said, the prices for regular and midgrade fuel with ethanol have stayed about the same. But in recent weeks the fuel with ethanol has become much cheaper. (Pricing, he said, depends on local competition.)

The benefit to the consumer is smaller than the lower price would suggest, however, because a gallon of ethanol has only about two-thirds as much energy as a gallon of gasoline, and mileage for ordinary cars is based on energy, not octane.

The reasons for the price reversal are not completely clear, but one obvious element is that the price of oil has risen to about \$50 a barrel,



Ethanol-gasoline fuel, rated as super unleaded at Casey's, has been selling for less than regular gas.

A high-priced gasoline additive is now something of a bargain next to oil.

whereas the price of ethanol has fallen.

Ethanol pricing is somewhat complicated; it depends in part on the price of corn, from which it is made. Greg Krissek, director of marketing and government affairs for United Bio Energy of Wichita, Kan., said the price was falling because of improvements in production efficiency at ethanol plants.

"If you go back 10 years," Mr. Krissek said, "you might be down to 2.3 gallons per bushel. Five years ago, it was 2.5 gallons per bushel. Now it's 2.8 gallons."

Mr. Krissek's company provides marketing and management services to ethanol plants. He said that historically, midgrade gas with ethanol was 5 cents to 10 cents more expensive than regular gasoline.

Dan W. Reicher, the president of New Energy Capital, a company that invests in renewable energy, said: "It demonstrates that ethanol has

now become a competitive source of transportation fuel with gasoline. That's a major turning point."

Mr. Reicher, a former assistant secretary of energy, added: "It demonstrates the real-world potential of ethanol to both reduce gasoline prices and cut our oil dependence. I think we still have a ways to go to make ethanol a major competitor to gasoline, but this is serious progress."

He said that research was continuing on ways to make ethanol from parts of the corn plant other than the starch, which would further increase yield.

Edward H. Murphy, a director at the American Petroleum Institute, the trade association for oil companies, said an oversupply of ethanol had caused the drop in price. The ethanol producers, Mr. Murphy said, built plants in anticipation of a national law that would require the use of ethanol, but that law has not materialized. (A "renewable fuels standard" is under consideration in Congress, however.)

"It's classic oversupply," Mr. Murphy said. "For the last couple of weeks the spot price of ethanol has been below the spot price of gasoline, so if you are in a position to blend gasoline with ethanol, it's advantageous to do that right now."

Cars, minivans and sport utility vehicles can burn a mixture of up to 10 percent ethanol without special equipment; for percentages higher than that, special materials are needed to prevent the ethanol from damaging gaskets and seals.

At fueling stations, the tanks may need to be cleaned before ethanol is used. Gasoline can be pumped from tanks that are contaminated with small amounts of water, but ethanol cannot, because it combines with the water.

Companies that blend ethanol with gasoline also benefit from tax breaks: 51 cents a gallon for ethanol (or 5.1 cents for a gasohol mixture) at the federal level. In Iowa, the companies get an additional 1.5 cents per gallon of gasohol.

But lately, the price difference at the pump has been larger than the sum of the tax credits in places like Des Moines, meaning that ethanol would pull down the price of the fuel even if there were no tax subsidy.