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Citizen News

Still Cookin' at Heron Lake

In a tough era, Heron Lake BioEnergy delivers a net profit

The employment level at Heron Lake BioEnergy remains unchanged at 49 workers.

It has been 18 months since Heron Lake BioEnergy started grinding corn, probably not an ideal start time for any ethanol plant, but the plant is still alive.

In these days of ethanol plants succumbing to the economic pressures of high corn prices and low ethanol prices, that's saying something.

The 50-million-gallon plant's year-end SEC Filing shows a net income of \$8.6-million for Heron Lake BioEnergy's 2008 fiscal year.

However, the plant's leadership is not about to relax. Solid management decisions are now more important than ever.

Heron Lake BioEnergy President Bob Ferguson declined to discuss any financial specifics regarding the plant. He pointed out that since Heron Lake BioEnergy is an SEC-filed company, his hands are tied in that respect.

However, he did offer some general observations about the difficulties of managing an ethanol plant under the current market conditions.

"Considering the ethanol environment, it is challenging right now," Ferguson said.
"Margins are slim. We are constantly examining every scenario."

One of the keys to the success and even survival of any business is the customer. Ferguson says Heron Lake BioEnergy has been blessed in that regard.

"The customers have been very good to work with," Ferguson said. "We have a good supply of corn and good support."

When asked about the plant's future, Ferguson could only say, "We are monitoring everything. What we do will always be driven by numbers. We finished our year with a good, positive number."

Coal power

Meanwhile, it's no secret that Heron Lake BioEnergy garners a little extra attention from the State of Minnesota because it's the state's only coal-powered ethanol plant.

For that reason, the plant's supporters had to fight some time-consuming and expensive legal battles which brought significant delays to the plant's start-up.

Ferguson said the coal operation has worked quite well.

"This is the first real winter we have had in this region in about five to seven years," Ferguson pointed out. "We had quite a few days where it was 20-degrees-below-zero.

"Any problems we experienced were, by and large, not coal-related," Ferguson said. "The problems we ran into were mechanical failures. One thing I've learned is that when you are running an ethanol plant, there is always something that needs your attention."

Ferguson added that the plant is obviously a friend to the environment.

"If you drive around the plant and look at it, you will see the plant is clean and the presentation is very good," Ferguson said. "I think the requirements were ratcheted up here because of the fuel source (coal).

"How many places are there where they shut the doors when you go in to dump a load of corn? At what other plants do you see them sweep the streets every week? We've done a good job with dust control and control of particulates."

Corn prices

Heron Lake BioEnergy consumes an average of 18-million bushels of corn per year, so it stands to reason that high corn prices can have an impact on the bottom line.

However, Heron Lake BioEnergy's corn price concerns were not quite as significant as they were for some other Minnesota plants.

"The thing that has helped this plant is that we have good storage," Ferguson said. "We had corn in inventory when the price of corn was on its way up."

Ferguson said that while his staff tries to keep corn hedged off, it takes a good risk management group.

"Having good storage can be positive when prices are on the way up, it helps you stay below average on the market," Ferguson said. "But there's a combination effect. You can also lose ground on the way down."

"You hope to stay in the middle and protect your inventory."

The irony, of course, is that the high corn prices can have a positive short-term impact on area grain farmers, which make up much of the plant's customer base.

What America's plants really need, in Ferguson's opinion, is a boost from the government's anticipated stimulus package. It's unclear whether there will be a real impact, but Ferguson is encouraged by the Obama Administration's support for renewable energy.

"I characterize this industry as living in a time of uncharted waters," Ferguson said. "I think we saw some overexpansion and we're seeing some contraction right now.

"The present administration will probably be positive toward renewable energy, but that could be wind energy and solar power, or it could be something else. How it all breaks out, I really don't know. For the environment and the country as a whole, it's good to see that renewables are a part of the longterm plan."

The year ahead

It's difficult to predict what lies ahead for Heron Lake BioEnergy, what with the corn and ethanol markets in a constant state of flux.

However, Ferguson assured that he and his staff will put every ounce of energy and good management into the plant.

He pointed out that he has a very good staff. One thing that has changed, with the recent plant closings, is that there is a greater supply of experienced ethanol workers.

"We have people walking in here every day looking for work," Ferguson said. "That's one thing that has really changed. When we started, it was almost like there was a vacuum of good workers. The job market has really changed."

The biggest challenge, Ferguson believes, is dealing with the present economy.

"We will have to see how the renewable fuel structure looks under the new administration," Ferguson said. "We will also need to see how quickly technology changes. We'll need to stay on top of the margins, but we cannot drive it. We can't even predict it.

"It's so volatile in all the markets that you just don't know."

Ferguson said the plant will continue to explore its options, but there are no plans for big changes on the horizon.

"But there are some exciting changes out there that are environmentally conducive, both production wise and emission wise. We're watching it all and we'll just have to see what happens."

At this point, if you are in the ethanol business, that appears to be the modus operandi—watch and wait.