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### Seattle Biodiesel set to expand

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**By JOHN COOK**

SEATTLE POST-INTELLIGENCER REPORTER

Martin Tobias drives to work each day in a 2005 Volkswagen Beetle -- one that's entirely powered by soybean oil.

The chief executive of Seattle Biodiesel hopes thousands of others will soon follow his lead.

To help achieve that goal, Tobias recently attracted \$7.5 million in venture capital financing from Nth Power, Technology Partners and Microsoft co-founder Paul Allen's Vulcan Capital.

The round, which brings total financing in the 2-year-old company to \$9.5 million, is among the largest for a U.S. producer of biodiesel fuels, Tobias said.

"We obviously want to be a national company," he said. "And we think we have a better, faster, cheaper way to make biodiesel that we can replicate all over the country and internationally."

The recent financing will be used for expansion, with plans to open a new biodiesel refinery and canola-crushing oil facility this summer. Tobias declined to comment on the new plant's location or size, though he said it would be significantly larger than the company's 5 million-gallon Seattle facility.

"Demand is so high that we still have not been able to meet it with our current facility," Tobias said. Seattle Biodiesel signed a deal last month to provide up to 1 million gallons of biodiesel to the Port of Seattle and SSA Marine. Other customers include Associated Petroleum, Pettit Oil and Seaport Petroleum.

The company's new crushing facility will be in Eastern Washington, where Seattle Biodiesel hopes to transform canola, a variety of the rapeseed plant, into oil.

Currently, Seattle Biodiesel imports soybean oil from the Midwest, a costly endeavor that Nth Power managing director Nancy Floyd said can add as much as 50 cents to the cost of a barrel of biodiesel. "It is hugely expensive," Floyd said.

By shifting to locally produced canola oil, Tobias hopes to get a better handle on costs and help Washington farmers discover a new cash crop. He added that canola oil provides a higher grade of fuel than what is derived from soybeans.

"The corporate goal is to make biodiesel cheaper than petroleum diesel," said Tobias, who ran his VW Beetle on Washington canola oil

last summer. "We need to invest a lot in process technology and scale in order to do that."

The idea of setting up smaller production facilities near key markets on the coasts made sense to Floyd, whose San Francisco firm invests in alternative energy companies. There are large biodiesel producers in the Midwest, including West Central Soy, a farmers cooperative that opened a biodiesel manufacturing facility in Ralston, Iowa, in 1996.

But Floyd said their distance from key markets -- eco-friendly places such as Seattle and San Francisco -- puts them at a disadvantage.

"We have seen a lot of deals in biodiesel and in ethanol, and what attracted us to this deal was their strategy of building low (cost) refineries in places where the customers are," she said. "And then moving upstream to develop low-cost local feedstock."

The biodiesel market is booming, with state and federal programs offering incentives to producers. Tuesday, the state's Technology, Energy and Communications Committee will hold public hearings on seven bills to promote renewable fuel, including biodiesel. House Bill 2666, introduced last week, proposes that all diesel motor fuels in the state must contain at least 2 percent biodiesel if certain criteria are met. The bill also would require that a "predominant portion" of the biodiesel be derived from crops grown in the state.

That could be a huge boost for companies such as Seattle Biodiesel, the largest producer in the Pacific Northwest, said Patrick Mazza, research director at the non-profit Seattle environmental group Climate Solutions.

"The standard is 2 percent, going up to 5 percent later," Mazza said. "That guaranteed market is really going to help Seattle Biodiesel, and it is going to create incentives to produce biodiesel in the state."

Biodiesel legislation has been adopted in other states, including Illinois and Minnesota. And a federal biodiesel excise tax, which went into effect a year ago and was recently extended to 2008, has boosted demand throughout the country.

The involvement of celebrities in the biodiesel crusade -- including country singer Willie Nelson, who is marketing a biodiesel fuel called BioWillie -- also is driving interest.

Mazza believes that Seattle Biodiesel, while relatively unknown and small at just 19 employees, can make some waves in the industry.

"Being a small company itself is not an overwhelming challenge -- about everyone in the field is pretty small," he said. "There is no Exxon of biodiesel yet."

Seventy-five million gallons of biodiesel fuel were produced in the United States last year, triple the amount in 2004, said Jenna Higgins, a spokeswoman for the National Biodiesel Board. There are 46 biodiesel plants in this country, with 55 more in the planning stages.

"There is a flurry of interest out there in biodiesel right now," Higgins said. "And there is a lot of investment going on all over the country in biodiesel plants."

Still, the 75 million gallons of biodiesel represents a drop in the bucket when compared with the 67 billion gallons of diesel fuel consumed annually in the United States.

But Tobias, a 41-year-old venture capitalist who previously founded Seattle digital media company Loudeye, sees opportunity in those numbers.

"Biodiesel is a one-for-one replacement for diesel, so the theoretical market for biodiesel is the market for diesel," Tobias said.

"The great thing about biodiesel is that you can start small and just mix it in a little bit to get some of the environmental benefits and to reduce some of your petroleum usage. Then you can increase the mixture, and the diesel engines don't know any different."

Obviously, the transformation won't happen overnight. But Tobias said there is a lot of momentum right now in the industry, especially as states such as Washington look at ways to mandate biodiesel production. He hasn't quite reached his goal of driving the price of biodiesel below competing petroleum products. According to the alternative fuels index, a gallon of biodiesel was selling for \$2.09 -- 31 cents higher than diesel.

"That's the whole challenge that Seattle Biodiesel is funded to solve," Tobias said. "And with the right amount of investment, you can do it."

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