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With plenty of wood, Arkansas' biomass sector poised for growth

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Arkansas' burgeoning biomass industry got a big boost earlier this summer when in the space of 30 days two privately held investor groups announced multi-million dollar projects to produce commercially viable fuel from the state's vast supply of forest dregs.

On July 30, Zilkha Biomass Energy announced plans to build a proprietary black

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wood pellet manufacturing plant in Monticello that company officials said could be easily integrated into the energy grid as a clean energy alternative to coal-powered electricity.

“Power companies across the globe are looking for renewable energy alternatives and biomass wood pellets stand as one of the most practical and cost-effective solutions,” said Jack Holmes, CEO of Zilkha Biomass Energy. “This plant in Monticello will be one of Zilkha’s largest and will help us capture more of the growing biomass energy market.”

Less than a month after the Zilkha announcement, Highland Pellets LLC announced on Aug. 25 that it was building a 500,000 metric ton per year wood pellet facility in Pine Bluff, about an hour’s drive north from Monticello. In its news release, Highland boasted that its \$130 million plant will create more than 35 direct jobs and another 482 offshoot jobs that would provide an \$86 million a year financial bounce to local communities.

Grant Tennille, executive director of the Arkansas Economic Development Commission, is one of the state’s biggest cheerleaders for the biomass industry. He also said Gov. Mike Beebe has been a staunch supporter of the renewable and clean energy industry since he first sworn as the state’s 45th chief executive in 2007.

“The governor has been talking for years that our biomass resource needs to be leveraged.” Tennille said in a recent interview. “We need to find ways to sell Arkansas biomass and I think the economics right now are very strong.”

PROJECTS ATTRACT INVESTMENT DOLLARS

According to Tennille, a number of factors have come into play to make it a perfect time for the development of an Arkansas wood pellet industry. First, the Pine Bluff and Monticello projects include trustworthy investors that have the necessary capital and management experience to make the Arkansas projects a full-scale success.

“We are dealing lately with more credible people than in the past,” Tennille said. “And over time, we got a lot smarter and better in how we [recruit] and negotiate with people who come to us,” Tennille said. “And in the last six months, the math seems to be changing. They are showing up with long-term contracts for these pellets, and [current market] prices



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are giving them some margins.”

For instance, Highland is led by former Wall Street executive Tom Reilley, a former senior managing director at the New York-based Bear Stearns investment firm that failed in 2008 in the global financial crisis. Today, Reilley is a successful private investor with stakes in a number of biotech and renewable energy firms in Boston, Singapore and the United Kingdom.

The Highland team also includes several experienced executives who will lead the development of the Arkansas plant. Scott Jacobs, director of business development, and Mike Ferguson, director of engineering and operations, together operate a company called AgriRecycle, which specializes in the design and construction of wood pellet facilities.

Down the road in Monticello, Zilkha Biomass has also put together a team with a strong financial resume and a management team that has built and operated several wood pellet plants. The company operates a pilot plant in Crockett, Texas, that has production capacity of 40,000 metric tons of pellets per year.

Company spokesman Jonathan Ohueri said the company also is building another wood pellet mill in Selma, Ala., which is scheduled for commissioning later this year. That facility will have a production capacity of 275,000 metric tons of pellets per year.

“Black pellets produced at this mill are already committed to an interested customer,” he said.

In addition, Ohueri said the Monticello black pellet plant already has the necessary financial backing for the project, which will be funded through a combination of new market credits and bond financing. But what gives the project instant credibility is the fact that Zilkha Biomass is partly owned by Silicon Valley-based Vulcan Capital, the investment vehicle for Microsoft Corp. co-founder and billionaire Paul Allen.

WEEDING OUT ‘SHAKY CHARACTERS’

Still, without mentioning any names, Tennille admitted that the renewable energy business has attracted “snake oil types and shaky characters” to Arkansas in the past, including a number of biomass and “green energy” ventures that have preyed on Delta communities.

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Perhaps the most infamous biomass project in Arkansas was also a highly-touted wood pellet plant. In 2009, Hot Springs lawyer Stephen R. Walker unveiled a proposed \$180 million Phoenix Renewable wood pellet plant in Camden, which would be headquartered in the town's shuttered International Paper plant and bring more than 400 jobs to the south Arkansas community.

When Walker first announced the project, the ground-breaking ceremony included a long list of political supporters – including U.S. Sen. Mark Pryor and then U.S. Rep. Mike Ross. The business venture was so well-publicized that the Wall Street Journal mentioned the Camden project in a July 2009 story hyping the “lowly wood pellet” as one of fastest growing sources of renewable energy in the world, along with wind and sun.

But hardly a year had passed before that venture ran into trouble. In May 2010, the Arkansas Securities Department issued a “cease and desist” order against Phoenix and Walker for multiple violations of the Arkansas Securities Act.

The order halted Walker and his limited partnership from soliciting and selling securities for the Camden wood pellet plant, saying the stock in the company was not registered or exempt from registration as required by Arkansas securities law. According to the order, more than 50 people had invested about \$1.4 million in Phoenix between 2009 and 2010. During the same time period, the company had expenditures of about \$1.4 million under former CEO Sam Anderson. Those expenses included over \$250,000 in payments made directly to Walker and over \$80,000 in payments to Anderson, his companies and his family, according to a state securities filing.

But Phoenix was not the only questionable renewable energy project. Other similar projects began popping up in Arkansas and across the South shortly after the Obama administration began committing federal dollars to so-called “green energy” projects as part of the president's overall energy policy.

One of the most notorious was Destin, Fla.-based Global Green Holdings LLC, operating through its shell recycling firm called Waste Not Technologies (WNT), which approached a number of rural communities across the South and the Midwest with promises of thousands of high-paying jobs. In the space of just a few months in 2008 and 2009, at least

five rural communities in Oklahoma, Kansas, Michigan, South Carolina and Kentucky held big economic development ceremonies with WNT officials. Each community got the same identical sales pitch – that WNT would invest \$150 million to bring 1,400 high-paying jobs to these communities by building an 800,000-square-foot recycling factory.

Surprisingly, many of these communities were hooked by WNT's marketing ploy that it had a proprietary formula that could turn everyday household garbage into usable products and building materials, a process most recycling experts said was virtually impossible. A South Arkansas economic development official said WNT approached several communities in the Arkansas Delta with the same proposal, but talks never moved forward because of questions about the company's financial integrity.

But WNT was still able to convince economic development officials in Herington, Kans., and Manchester, Ky., that their grandiose proposal was legitimate. In June 2009, the Kentucky Economic Development Finance Authority approved a deal to give WNT up to \$42 million in incentives – tax money it would get to keep if it created the 1,400 jobs in Clay County community. But nothing ever happened, except WNT conning the city and a local construction company out of \$1.32 million as an advance fee to jump-start the project. Once the WNT officials got their hands on the money, they left the poor Kentucky community empty-handed and embarrassed.

In August of this year, nearly five years after the WNT scheme ended, a grand jury in Kentucky charged WNT's David Bennett, Daniel Goodwin, Sidney Tarrant and Izhar Syed with conspiracy and five counts of mail fraud. The U.S. Attorney's office in Kentucky has requested warrants to have the four arrested and brought to Kentucky, but so far the WNT officers have not been apprehended.

Both Tarrant's and Bennett's names have come up in other alleged scams in Arkansas. In November 2011, Arkansas fuel supplier Magness Oil Co. of Gassville, Ark., filed a federal suit against Tarrant and others, saying he owed the company \$500,000 in another advance fee loan deal turned sour. Similarly, Eagle Creek Construction and Development Inc. of Bentonville won a \$3.6 million default judgment against Bennett for his involvement in an advance fee scheme to provide upfront funding for a Northwest Arkansas real estate development.

Altogether, more than 20 judgments for tens of millions of dollars have been entered in local, state and federal courts across the South against Bennett and Tarrant. To date, neither man has paid one cent on any of those judgments or spent a day in jail.

Despite such bad actors, Tennille said Arkansas economic development recruiters are now a lot wiser and better equipped to check financial credentials and conduct due diligence inquiries on business prospects.

“Over time, we got a lot smarter and better,” Tennille said. “The snake oil types have gotten up and left because they believe there is a better scam out there somewhere. At the beginning of the gold rush, there were quite a few shaky characters floating out there in the world.”

EUROPEAN MARKET POISED FOR GROWTH

Now, Tennille said, Arkansas is poised to become a big player in the biomass sector as the wood pellet market takes off in Europe.

According to the U.S. Energy Information Administration, wood pellet exports from the U.S. nearly doubled last year, from 1.6 million short tons (approximately 22 trillion Btu) in 2012 to 3.2 million short tons in 2013. More than 98% of these exports were delivered to Europe, and 99% originated from ports in the southeastern and lower Mid-Atlantic regions of the country.

In the United Kingdom, the EIA said, wood pellet imports from all sources have grown from near zero in 2009 to more than 3.5 million short tons in 2013. Because of the United Kingdom’s Renewables Obligation program, the operators of several large coal-fired power plants have either retrofitted existing units to co-fire biomass wood pellets with coal or have

converted to 100% biomass.

Another principal driver in market activity is the European Commission's 2020 climate and energy package, binding legislation enacted in 2009 that implements the European Union's 20-20-20 targets. Those targets include reducing EU greenhouse gas emissions by 20% from 1990 levels, increasing the renewable portion of EU energy consumption by 20%, and to improve EU energy efficiency by 20%, the EIA said. For instance, the Drax power plant in North Yorkshire, England, the largest coal-fired power plant in the U.K., is in the process of converting half of its six generating units to run solely on wood pellets.

Highland officials have said publicly that their Arkansas plant will primarily focus on meeting the demand they are experiencing from the U.K. and other international markets that need pellet suppliers for the conversion of their coal-fired power plants to sustainable biomass-fired plants. Highland's fiber supply is fully contracted for 10 years, officials said.

Zilkha spokesman Oheuri also said the Houston-based wood pellet manufacturer has commitments from customers to purchase the company's black pellets, "and have sold test quantities in Europe and other markets."

"Our patented ... (black) pellet is the attractive option because it shares some of the same qualities as coal," he said. "The shared qualities between our product and coal reduce or remove the need for expensive plant retrofits when switching to our fuel."

Tennille also cited the fact that the growth of U.S. wood pellet exports has been concentrated in southeastern states, which has built-in advantages in terms of abundant material supply and relatively low shipping costs to Europe. "Transportation cost is the largest part of the total cost of wood pellets," he said.

And according to the Arkansas Biomass Resource Assessment, a study commissioned by the Arkansas Energy Office in 2008, the state has "an excellent biomass resource potential" with an estimated 19.8 billion kilowatts (kwh) of electricity that could be generated using renewable biomass fuels in Arkansas. "This is enough electricity to fully supply the annual needs of 1,979,000 average homes, or 150 percent of the

residential electricity use in Arkansas,” the report says.

Arkansas’ biomass resource supply figures are based on estimates for five general categories of biomass: urban, mill, forest and agricultural residues, and energy crops. Of these potential biomass supplies and the quantities cited below, most forest and agriculture residues and energy crops are not presently economic for energy use, the report says.

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However, the Highland and Zilkha Biomass projects have changed that premise. Both companies say they intend to make use of Arkansas’ ample forest residues, which include unused logging leftovers, imperfect commercial trees, dead wood and other non-commercial trees that need to be thinned from crowded, unhealthy, fire-prone forests.

According to the state’s biomass study, the estimated supply of forest residues for Arkansas is more than 1.7 million dry tons per year. And what excites Tennille is that he believes that sometime in the near future, the domestic market will turn around and wood pellet energy generation will become commercially viable in the U.S.

But that is a big dream. Today, biomass has played a relatively small role in terms of the overall U.S. energy picture, supplying 3.2 quadrillion Btu of energy out of a total of 98.5 quadrillion Btu in 2000. And the EIA projects that biomass will generate 15.3 billion kilowatt hours of electricity by 2020, or only 0.3% of the projected 5,476 billion kilowatt hours of total generation.

But the optimistic Tennille believes the new projects in south Arkansas represent a great opportunity for the state to be at the forefront of an entirely new energy growth sector, much like the financial boon that the state experience over the last decade with the development of the Fayetteville Shale.

“We know the forests in Arkansas are a tremendous renewable resource. But the question is ‘How do we make sure we are engaged in the highest value-added business? At some point in the future, there will be higher value opportunities for that resource,” he said.

“We’ve got a glut of timber in south Arkansas, and everybody in the forest and paper product industry on the planet knows where every tree

is and knows where the market is headed,” Tennille continued. “So, the wolves have been looking at Arkansas and our natural resources. If this works, they are coming to Arkansas because we got plenty of trees.”

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