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## BP, Verenium in ethanol pact



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### Global energy giant, biofuels startup to partner on project

**By Bruce V. Bigelow**  
UNION-TRIBUNE STAFF WRITER

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British petroleum giant BP and Verenium Corp., a biofuels company formed in last year's merger with San Diego-based Diversa, said yesterday they will collaborate to develop new methods for making ethanol fuels.

The alliance marks one of the largest partnerships to be formed between a multinational oil company and a biofuels startup.

Verenium has been developing so-called cellulosic ethanol technology that uses plant waste instead of corn to produce the biofuel. Using a different approach has enabled the company to sidestep concerns about the use of corn to make ethanol. Prices for corn have increased 58 percent over the past year.

As part of the deal, BP agreed to provide \$90 million for rights to Verenium's technology and to fund research and development until 2010 – which helped allay investor concerns over the startup's widening losses.

Verenium's stock price leaped more than 64 percent, or \$1.30, to \$3.32 a share in Nasdaq trading of almost 3.7 million shares. That was almost nine times the company's recent average trading volume.

"This is really a major event for us, because we have long had this vision of rapidly building out a portfolio of commercial facilities," said Verenium Chief Executive Carlos Riva.

Beyond the 18-month alliance announced yesterday, the two companies said they intend to establish a joint venture that will build and operate a full-scale ethanol-production facility.



Lake Charles (La.) American Press Verenium's "cellulosic" ethanol pilot plant in Jennings, La., has been designed by the alternative energy company to run on agricultural waste and wood products instead of corn.

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Verenium has been evaluating potential sites for the commercial-scale plant in Florida, Louisiana and Texas. The biofuels company based in Cambridge, Mass., has been operating a pilot plant in Jennings, La., since June that uses Verenium's technology to make ethanol.

"We believe energy crops like sugarcane, miscanthus and energy cane are the best feedstocks to deliver economic, sustainable and scaleable biofuels to the world," said Sue Ellerbusch, president of BP Biofuels North America. "This deal puts us at the front of the cellulosic biofuels game."

Ellerbusch said BP sold more than 764 million gallons of biofuels in the United States last year. The London-based energy conglomerate has been working to develop various biofuels with DuPont and others, and currently supplies about 10 percent of global demand for biofuels.

The U.S. Energy Independence and Security Act of 2007, also known as the Renewable Fuels Standard plan, mandates that the country use 15 billion gallons a year of ethanol and 1 billion gallons of biodiesel by 2015. It also calls for consumption of 16 billion gallons of cellulosic ethanol by 2022.

BP's partnership with Verenium was announced less than 14 months after the startup was formed with the merger of San Diego's Diversa, a publicly held biotech specializing in enzymes, and privately held Celunol of Cambridge, Mass.

Riva, who previously headed Celunol, kept the company's headquarters near Boston, but Verenium continues to operate a research and development center with about 180 employees in San Diego.

Diversa, which was the larger of the two companies, has never posted a profit. For the first quarter that ended March 31, Verenium said its total operating expenses had increased more than 48 percent over the same quarter last year.

"We had some concerns as their financial situation became much more dire in recent months with a higher cash burn rate," said analyst Ron Oster of Broadpoint Capital. He added: "This news today is a home run for the company on a number of levels."

For one thing, Oster said, BP's \$90 million alleviates Verenium's financial straits for the foreseeable future.

The deal also represents BP's endorsement of Verenium's technology for developing cellulosic ethanol, Oster said, "and there are numerous cellulosic ethanol companies out there."

Analyst Laurence Alexander of Jefferies & Co. predicted the BP-Verenium deal will serve as a model as major oil companies seek to expand into emerging markets for alternative fuels.

Alexander said he expects to see a number of similar investments by big oil companies in startups like Verenium. He compared such investments to the type of partnership deals struck by major drug companies with

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early-stage biotech companies.

Forging a partnership with a major energy company to accelerate the commercialization of Verenium's biofuels technology was always part of the new company's plan, Riva said.

He said Verenium's strategy was twofold. The company wanted to build, own and operate its own cellulosic ethanol production facilities in the United States with a major partner such as BP. Secondly, it sought to spread the use of its technology as broadly as possible by forming a business entity with BP to license the underlying technologies to other companies.

"This is a massive market opportunity," said Riva, who estimated the U.S. market for ethanol fuel will be \$60 billion to \$80 billion a year by 2022.

Riva said Verenium hopes to finalize plans to build its first commercial-scale ethanol plant later this year. He expects construction to begin next year, with production tentatively set to begin in 2011.

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