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UPDATE 1-Valero invests \$50 mln in cellulosic ethanol plant

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- * Valero to purchase facility's 40 mln gallons of ethanol
- * Michigan plant will begin production in 2013
- * Additional funding from Michigan state, Dept of Energy (Adds details of investment, background)

LOS ANGELES, Jan 13 (Reuters) - U.S. oil refiner Valero Energy Corp (VLO.N) will invest up to \$50 million in a plant that will produce ethanol from wood, a major mainstream backing for the emerging technology.

The investment in venture capital-backed Mascoma Corp includes a deal for Valero to purchase the facility's 40 million gallons of cellulosic ethanol, the companies said on Thursday in a joint statement.

The \$350 million plant will be located in Kinross Charter Township, Michigan. The state of Michigan has contributed \$23.5 million to fund the project, and Mascoma is also waiting for final approval of a \$210 million loan guarantee from the U.S. Department of Energy.

The company will begin construction on the plant this year and expects it to produce ethanol in 2013.

Cellulosic ethanol, which is made from non-food crops like switchgrass and agricultural waste, is widely thought to be better for the environment than corn-based ethanol. However, producing cellulosic ethanol is more expensive than making the fuel from grains because there are more steps required to convert the materials into starch for fermenting.

Difficulties ramping up commercial-scale cellulosic ethanol facilities prompted the Environmental Protection Agency late last year to slash the amount of cellulosic that must be produced this year. It said last November that five plants would likely produce 6.6 million gallons of cellulosic in 2011, far less than the original target of 250 million gallons.

Valero, the top U.S. independent refiner, entered the market for corn ethanol in 2009 when it bought several assets of bankrupt VeraSun Energy Corp.

Investors in Lebanon, New Hampshire-based Mascoma include Khosla Ventures, Kleiner Perkins Caufield & Byers, VantagePoint Venture Partners, Flagship Ventures, Atlas Venture, General Motors Co (GM.N) and Marathon Oil Corp (MRO.N).

(Reporting by Nichola Groom; Editing by Richard Chang)

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