



NEBRASKA ETHANOL BOARD

STATE OF NEBRASKA

DAVE HEINEMAN
GOVERNOR

TODD C. SNELLER
ADMINISTRATOR

NEBRASKA ETHANOL BOARD MEETING MINUTES

Chase Suites
200 S 68th Place
Lincoln, NE
January 22, 2010
8:30 a.m.

MEMBERS PRESENT

Todd Brodersen
Tim Else
Galen Frenzen
Steve Hanson
Paul Kenney
Mark McColley
Mike Thede

STAFF PRESENT

Todd Sneller
Steve Sorum
Gerri Monahan
Billy DeFrain

ADVISOR ABSENT

Dr. James Hendrix

GUESTS

Dave Buchholz—David & Associates
Galen Erickson—UN-L
Curt Friesen—Nebraska Corn Board
Paul Johnston—Nebraska Farm Bureau
Ron Kallhoff—NET
Randy Klein—Nebraska Corn Board
Terry Klopfenstein—UN-L
Duane Kristensen—Chief Ethanol
Bobbi Kriz-Wickham—Neb. Dept. of Ag.
Don McCabe—Nebraska Farmer

Bob Miller—E-Energy Adams
Joe Oswald—E-Energy Adams
Loran Schmit—ANEPP
Ralph Scott—Trenton Agri Products
Dave Skomer—Nebraska Energy Office
Piyush Srivastav—Ne Air Quality Specialists
Deb VanMatre—Rep. Adrian Smith's Ofc.
Brian Wilcox—NPPD / ACE
Dayle Williamson—Sen. Ben Nelson's Office

Call Meeting to Order

A meeting of the Nebraska Ethanol Board (NEB) convened on Friday, January 22 at 8:37 a.m. The meeting was held at Chase Suites in Lincoln. Chair Thede called the meeting to order and announced notice of the meeting had been duly publicized through distribution of a press release issued at least seven days prior to the meeting to representatives of the media throughout Nebraska.

Approval of Agenda

Thede asked for additions or corrections to the agenda. He noted that since the governor had requested a freeze in administrative salaries, to strike item O: Personnel from the agenda. Thede also asked to move up item I: Marketing to accommodate Dave Buchholz's schedule. McColley moved "to approve the January 22 meeting agenda as amended." Kenney seconded. The motion carried by acclamation.

Minutes

Thede asked if members had reviewed the minutes of the November board meeting. Following a review, Thede asked if there were any additions or corrections to the minutes as presented. Hearing none, he asked for a motion to approve the minutes. Hanson moved, "to approve the minutes of the November 5, 2009 meeting as printed." Brodersen seconded. The motion carried by acclamation.

Budget Status Report

Sorum presented NEB budget report, including activity from the first half of Fiscal Year (FY) 2009-2010. NEB's initial appropriation from the Legislature of this year was \$782,434. After cuts made during the 2009 Special Session, that amount was reset at \$682,673. In addition, \$242,000 was transferred from the NEB's cash fund to the EPIC fund making it impossible for the Board to fund even the reduced level of spending authority. Of greater, long-term concern are falling revenues. This situation was created by the federal farm bill, which lowered the maximum level of denaturant for ethanol producers from 5% to 2%. As 91% of NEB revenue comes from this source, this 60% cut in potential revenue will greatly affect future operations.

Sorum noted that NEB staff had made these concerns known in testimony before the Appropriations Committee and asked the committee to reverse half of the proposed \$214,000 transfer to EPIC already completed and to cancel the \$28,000 transfer planned for the next FY. This would leave NEB with an additional \$135,000 to address long-term agency revenue concerns. NEB staff is also working with a state senator to introduce an amendment to increase the NEB's share of revenue from the off-road gas tax refunds and denaturant sales. Currently, NEB receives 1.25 cents per gallon of the refund. This amendment would propose that the 1.25 cents per gallon "ethanol checkoff" increase to 2 cents per gallon. The total tax on ethanol producers would drop by 20%, but NEB revenues would increase.

Sorum reported that NEB had created a "core" budget set at \$560,329 to help absorb the budget cuts. Assuming the next FY's appropriations set at \$523,000, NEB would end the

biennium with no cash reserves. Sorum urged caution going forward until the revenue and cash reserve issues become clearer.

Hanson asked if there were people that board members could contact. Sorum said the first step is to let the appropriations committee know that the combination of cash transfers and reduced revenue from the farm bill will greatly impact NEB operations.

Sneller noted the reaction from many sectors to the governor's initial proposal to transfer money from commodities cash funds to the General Fund. NEB is in a similar situation since 91% of NEB revenue originates from ethanol producers. NEB has explained this to Sen. Heidemann and members of the appropriations committee. Some of the money in the NEB reserve fund has been committed to other uses. Sneller also said that Sorum would be testifying before the appropriations committee on Monday, and NEB staff would prepare a letter asking for the amendment to increase NEB revenue.

Monahan presented payment and per diem reports for November and December. For November: Contracts: \$582.81; Dues/Registrations/Subscriptions: \$129.96; Meeting and Travel: \$1,221.26; Other: \$131.60; Internal Agency Expenses: \$3,284.01; Income: \$1,000 (Neb. Nature Center Sponsorships from Green Plains Renewable Energy and E-Energy Adams).

For December: Contracts: \$3,227.52; Dues/Registrations/Subscriptions/Sponsorships: \$25,917.38; Meeting and Travel: \$915.32; Internal Agency Expenses: \$2,416.31; Department of Ag EPIC October costs: \$1,334.66; Income: \$500 (Neb. Nature Center Sponsorship from Pioneer Trails Energy). Balance of the Dr. Spalding Ethanol Spill Remediation Fund: \$24,504.49, balance of Dr. Nouredдини's Carbohydrate Utilization of DDGs project: \$15,143.00

Per Diems were paid to Brodersen for the Chief 25th Anniversary celebration in Hastings, to Kenney for orientation in Lincoln, and to Frenzen, Hanson, Kenney, McColley, and Thede for the November board meeting.

Frenzen moved, "to accept the November and December payments and per diem reports as presented." Kenney seconded. The motion passed (yes-Kenney, McColley, Thede, Brodersen, Else, Frenzen, Hanson; no-;).

Sneller noted that the balance of the Spalding Ethanol Remediation fund creates a false impression of overlarge cash reserves for NEB. That money is earmarked for contract payments with UN-L.

EPIC Fund Report

Sorum provided an update on the Ethanol Production Incentive Cash Fund (EPIC). The balance of the EPIC fund as of December 31 is \$9,161,471. Sorum projected the fund would need an additional \$3.5 to 4 million to remain solvent before the program sunsets in 2012.

Thede asked where the money goes that was transferred from NEB cash reserves. Sorum replied that the money was transferred to the EPIC fund, as state statute prohibits transfer to the state's general fund. Sneller noted that a senator will be introducing a bill clarifying that transfers from check-off funds to the general fund are prohibited.

Ethanol Marketing Programs

Dave Buchholz of David & Associates provided the board with update on marketing activities. Buchholz said that in light of state budget issues, they have been looking at leveraging money by finding collaborators for projects like the Nebraska Nature Center sponsorship, and noted that NEB staff have already secured sponsorship money from some Nebraska ethanol plants for this project. The Nature Center has already received sponsorship money from irrigation companies, Nebraska Game and Parks, Centennial Plastics, and others. The Nature Center's meeting facilities are also available to sponsors Mondays through Saturdays at a no-cost basis.

Buchholz also mentioned the Nebraska Lottery's vehicle giveaway would again include a Flex Fuel Toyota Tundra and ethanol fuel gift cards. This allows ethanol advertisements to be included in statewide lottery ads at no additional charge. This would cost NEB \$2,800 for the Nebraska Lottery project. The Corn Board also is typically a co-sponsor of the project.

Hanson asked if the fuel cards go to the Tundra winner. Buchholz confirmed this. Hanson suggested that the fuel cards be given to other winners.

Sorum said that NEB had budgeted for the printing and advertising costs of this program, and that paying for this project would leave NEB with a balance of less than \$5,000 in its marketing and advertising budget for the last half of FY10. Sneller observed that this would be part of a long term, multi-year program, and that NEB had only expended around \$3,000 of its \$50,000 appropriation for the David & Associates contract.

McColley moved, "to approve up to \$2,800 for Nebraska Lottery's Trucks and Bucks fuel giveaway, contingent on Nebraska Corn Board's funding of the promotion." Hanson seconded. The motion passed (yes: Else, Frenzen, Hanson, Kenney, McColley, Thede, Brodersen; no:-).

Sneller said that part of NEB's market development activity was to track new locations of E85 pumps, increase visibility of these locations, and track the number of Flex Fuel Vehicles in Nebraska. He noted that Sorum had assisted a retailer in Geneva in a direct purchase arrangement with the nearby Advanced BioEnergy plant in Fairmont. Sneller reported that DeFrain had received new FFV numbers from the Nebraska DMV, and that there are now over 85,000 registered FFVs in Nebraska, a 12% increase since 2009. The cost of notifying FFV owners by mail would be over \$30,000, so if a retailer wants to do a promotion, NEB mails owners in that retailer's immediate trade area. In 2009, NEB had proposed a one-time contest of a fuel-giveaway drawing, with the goal of creating an e-mail database of FFV owners. This database would facilitate more inexpensive promotional projects in the future, as compared to a direct mail effort.

Sneller also updated NEB on a grant proposal. DeFrain had submitted a grant proposal for ethanol promotion to the US Department of Energy (DOE). DOE announced that it was postponing the grant program, and thus no projects were approved. NEB would work with the Governors' Biofuels Coalition asking DOE to reconsider its decision and approve the grant proposal.

Sneller updated NEB on the E15 waiver before EPA. EPA replied in a letter that it would delay its decision on the waiver until it had conducted more research. The tone of the letter seemed generally positive. EPA may approve E15 for use in vehicles model year 2001 and newer. This would be important in creating more demand for ethanol. The ethanol industry is also awaiting approval from Underwriters' Labs on ethanol fuel dispensing equipment.

Kenney asked if many of the 85,000 FFVs were new models. Sneller said that many of the fleet Chevy Malibus are FFVs, and that many other fleet models and popular models are now FFVs, and that an increasing number of models are available as FFVs. Else asked if state employees are required to buy E85. Sneller replied that the pumps at the state office building parking garage offered E85. There is E85 branding on the car's fuel door, and on the pump and pump nozzle.

Else asked about ethanol blender pumps. Sneller replied that there is already a blender pump system in place. Bosselman has been aggressive with installing blender pump systems. A larger concern for retailers is liability, as retailers are hesitant to use equipment that has not been UL approved.

McColley asked what percentage of blends are available at blender pumps. Sneller said that Bosselman pumps typically offer blends between E10 and E85.

Nebraska LEAD Program Funding

Thede reminded NEB that at the August 21 meeting, the Board decided to fund half of the LEAD program's request for \$2,500, with an agreement to consider funding the other half of the request as NEB budget constraints become clear. Thede said NEB could grant the funding now, or wait till a future meeting to reconsider. Sneller suggested NEB delay a decision.

Kenney moved, "to defer Nebraska LEAD Program funding decision until the next meeting." McColley seconded. The motion carried by acclamation.

Nebraska Nature Center Funding

Sneller asked NEB for approval to transfer money received from ethanol plants for the Nebraska Nature Center sponsorship to the Nature Center. Green Plains Renewable Energy, E-Energy Adams, Trenton Agri-Products, Schmit Industries, and US Bio had all contributed to the sponsorship. Sneller asked the Board to authorize expenditure of the funds on the sponsorship project, and to approve staff time commitments on the project.

McColley moved, “to approve expenditure of \$1,500 for year-long ethanol display at the new Nebraska Nature & Visitors Center and allow in-kind staff time contributions.” Else seconded. The motion passed, (yes: Thede, Brodersen, Else, Frenzen, Hanson, Kenney, McColley; no: -).

ACE Annual Dues

Brian Wilcox addressed the meeting. Wilcox has served as president of the American Coalition for Ethanol, which has worked closely with NEB since its inception. Wilcox said ACE was fortunate to have Sneller serve as a board member and that ACE would appreciate any contribution NEB could commit.

Sneller noted that ACE is a sponsor of the 2010 Emerging Issues Forum, providing a contacts list and exposure on the ACE website and publications.

Else moved, “to approve \$1,000 expenditure for 2010 American Coalition for Ethanol membership dues.” Brodersen seconded. The motion passed (yes: Frenzen, Hanson, Kenney, McColley, Thede, Brodersen, Else; no: -).

Wilcox thanked NEB on behalf of ACE.

The special presentation was delayed because the guest speakers had not yet arrived at the meeting.

2010 Forum Update

Sneller announced details of the Ethanol 2010: Emerging Issues Forum set for April 8-9. The goal of the forum is to present current issues using credible speakers and encourage audience participation. Audience is limited to around 140 participants. The Forum is funded by sponsorships and registration fees. The NEB has already confirmed several guest speakers, including Steffen Mueller of the University of Illinois Chicago on quantifying the ethanol production process in terms of carbon emissions. Mueller has worked with EPA and others on the lifecycle GHG emissions issues. Also confirmed is USDA Undersecretary for Rural Development Dallas Tonsager. Sneller encouraged board members to attend the Forum, and asked for Board approval for forum planning and announcements. The board agreed that supporting this event is important and timely.

Ethanol Plants and ANEEP Updates

Representatives from the ethanol plants provided updates. Ralph Scott of Trenton Agri-Products said his plant had been operating well with only one problem during the extremely cold weather. The plant was able to get a boiler online quickly, and has experienced no extended power outages.

Sneller asked him about the plant’s water usage and if the plant had seen increased efficiency in 2009. Scott said they’ve been saving water, installing a three-prop system and through other means. Scott said the plant is following the Republican River compact closely since it affects the

corn grown near the plant. Sneller also asked about natural gas prices. Scott replied that prices will depend on how cold winter is.

Duane Kristensen thanked NEB for attending Chief Ethanol's 25th anniversary celebration. Kristensen said they wanted to make the celebration an acknowledgement of the industry statewide, which has been an important part of Nebraska, and noted that the California Air Resources Board's (CARB) recent decision could affect ethanol prices.

Sneller said that CARB had adopted a low-carbon fuel standard that includes an indirect land use component. This will make it difficult for California to find enough ethanol that meets its new low carbon standards. This could cause a rapid rise in ethanol prices, which the public may blame on the ethanol industry.

Duane Kristensen agreed, and noted that CARB's policy would give an advantage to California ethanol plants, even though they ship corn from Nebraska. Randy Klein noted that this would greatly impact the Nebraska ethanol industry; by his estimates 30% of Nebraska ethanol is exported to California.

Sneller said that given the efficiencies of rail transport, and the pipeline moving ethanol from Iowa to the east coast, Nebraska is the only economical domestic source of ethanol for California markets.

Duane Kristensen said he had seen RFA, Growth Energy and ACE working together, and at the state level, ANEEP members have been working together more effectively.

Bob Miller of E-Energy Adams congratulated Chief on its 25th anniversary. The Adams plant is running smoothly, but the biggest challenge is finding capital for new projects. They've seen a short-term spike in natural gas prices due to the extreme winter weather, but overall their margins are up. Sneller asked if the Adams plant was still working on an oil extraction process. Miller replied that they are having a few issues. Feeders are concerned about the fat content of DDGS, and an extraction process at the plant would affect the oil left in the DDGS. A company called Greenshift had recently been awarded a patent on oil extraction, which might conflict with other, pre-existing processes. The plant is moving forward with a new process which creates more uniform particle size in the mash, which makes it easier for the enzymes to work.

Loran Schmit provided an update on the Association of Nebraska Ethanol Producers (ANEEP's) activities. He noted increased cooperation between ethanol plants and corn growers. The Environmental Health and Safety Committee of ANEEP has improved cooperation and communication between the plants and the state's regulatory agencies. The state is in better shape today because of the ethanol industry, which is helping support corn prices in light of a record 2009 harvest. The industry must convince national media that ethanol is still viable.

Schmit invited NEB members to the annual ANEEP legislative reception set for March 18 at Embassy Suites in Lincoln. Schmit encouraged NEB to contact state senators and encourage

them to attend. State Senator Chris Langemeier recently visited the ADM plant in Columbus, and was impressed by the size and scope of the facility. Ethanol is usually the largest investment in many counties, and the industry should continue impressing this fact on lawmakers. A representative from the Standard Ethanol plant in Madrid reported that production was running smoothly. Extreme winter weather had not impacted production very much, other than typical problems of snow and low humidity. One issue had been rail transport breakdowns in Colorado due to weather. Broken lines forced some ethanol to be rerouted to Denver via truck. Theede asked if the plant had noticed a declining quality of grain. Plant reps replied that the corn had been wetter than usual. Ralph Scott said that the starch content of their corn had been lower than previous years. Theede said he had seen three grain bins with steam rising off the top, which may indicate degradation and eventually poor quality grain in storage.

Special Presentations

Sneller introduced guest speakers Terry Klopfenstein and Galen Erickson of the University of Nebraska-Lincoln. They spoke on developments in distillers' grains production and feeding techniques. A copy of the presentation and audio is at NEB's "NEB Meetings" page at <http://www.ne-ethanol.org/events/nebmeetings.htm>.

State and Federal Legislation

Sneller noted a legislative update from Doug Durante of Clean Fuels Development Coalition included in meeting folders. The update stresses the importance of reaching a consensus among producers on how to deal with the expiration of the federal ethanol tax credit, if it should be extended and the form it could take. Sneller also mentioned EPA's delay of a ruling on the E15 waiver. Congress may legislate an energy, tax and climate bill, and that Durante would provide updates on federal activities at the Forum in April.

Sneller also noted that a summary of state bills was included in board meeting folders, and that NEB staff tracks bills and will update the board accordingly. Sneller had a meeting with state senator Bob Krist on renewable fuels. Krist has an extensive background in gasification processes, including alcohol production. A contact sheet for state senators was included in board meeting folders.

Chair's Report

Theede said that this year's corn harvest has been difficult due to harsh weather conditions and lots of rain and snow throughout the fall and winter.

Election of Officers

Sneller said that the function of NEB officers is to take a more active role with input and in directing NEB activities. In the past, slates of officers have been nominated, and individuals have also been nominated for leadership roles. Mike Theede is current chair, Steve Hanson vice-chair, and Tim Else secretary.

McColley moved, "to nominate the current slate of officers: chair, vice chair and secretary, for a second term." Brodersen seconded. The motion carried by acclamation.

Administrator's Report

Sneller reported on negative media pieces from the east coast on biofuels and agriculture. Sneller has directed DeFrain to issue positive news releases monthly, or more frequently. This week, staff issued a news release highlighting the industry's contribution to employment, including generous pay and health care coverage. The release cited an industry survey which found that 83 percent of ethanol plant employees make over \$40,000 per year, and over 99 percent have health insurance provided by their employer. The industry is healthier than a year ago, as most of the idled plants have been reacquired and are now or will soon be resuming production. Sneller stressed the importance of changing the attitude of urban senators that ethanol and ag sectors didn't affect their districts, but that allied industries and companies such as Northern Natural Gas and First National Bank of Omaha and Union Pacific Rail Road benefit greatly from the ethanol industry in Nebraska. Sneller noted an upcoming Governors' Biofuels Coalition meeting in Washington, DC in February, and a sustainability meeting in DC the following week. Sneller was able to get hotel and airfare reimbursement for this travel.

Sneller said he and DeFrain would be working with CFDC on updating the Ethanol Fact Book, the flagship publication. The last edition was printed in 2007, and they plan to update statistics and sources. David & Associates would again produce the printed production. The Fact Book would be distributed to state and federal government officials.

Sneller reported talks with Howard Buffet, a former board member. Buffet's foundation is involved in ag and food production issues, especially the impact of corn stover removal on soil moisture and nutrient content. Sneller would be meeting in Imperial with Buffet and Chase county farmers and ranchers to discuss a three-year study on stover removal. Funding for the project originated from the National Renewable Energy Lab.

Travel Reports and Authorization

There were no new travel requests requiring board authorization.

Next Meeting Date and Time

Sneller said he would like to hold one more meeting before the legislative session ends, and urged board members to attend the Emerging Issues Forum in April. Sneller suggested March 19 as the next meeting date, so members could attend the ANEEP legislative reception on March 18 in Lincoln as well.

Adjourn

Brodersen moved, "to adjourn the meeting." Frenzen seconded. The vote carried by acclamation.

Handwritten signature of Tim Else in cursive script, followed by the title "Sec." in a smaller, similar script.

Tim Else, Secretary