



NEBRASKA ETHANOL BOARD

STATE OF NEBRASKA

DAVE HEINEMAN
GOVERNOR

TODD C. SNELLER
ADMINISTRATOR

NEBRASKA ETHANOL BOARD MEETING MINUTES

Country Inn & Suites
5353 North 27th
Wood River, NE
September 17, 2010
8:30 a.m.

MEMBERS PRESENT

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

STAFF PRESENT

Todd Sneller
Steve Sorum
Gerri Monahan
Billy DeFrain

TECHNICAL ADVISOR

Dr. James Hendrix

GUESTS

Ken Anderson – Brownfield Network
Terry Anderson – Midwest Producer
Kelly Brunkhorst—Nebraska Corn Board
Dave Buchholz – David & Associates
Kim Clark – Neb. Corn Board
Dave Dingman – Neb. Energy Office
Andrew Feraday – Silverstone
Norm Hall – Ryan & Associates
Burl Haigwood – CFDC
Clean Fuels Development Coalition
Terry Hejny – Neb. LEAD Program
Art Hovey – Lincoln Journal-Star
Loren Isom – Univ of Nebraska - Lincoln

Ron Kallhoff – NET – Nebraska Educational
Telecommunications
Don McCabe – Nebraska Farmer magazine
Maxine Moul – USDA Rural Development
Jay Ringenberg—NDEQ – Neb Dept of
Environmental Quality
Loran Schmit—ANEPP – Association of
Nebraska Ethanol Producers
Ralph Scott—Trenton Agri Products
Robert Weber – UN-L
Bobbie Wickham – Neb Dept of Agriculture
Brian Wilcox – NPPD / ACE – Neb Public
Power District, American Coalition
for Ethanol

Call Meeting to Order

A meeting of the Nebraska Ethanol Board (NEB) convened on Thursday, January 27 at 8:34 a.m. The meeting was held at Country Inn & 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. Thede asked guests, board and staff to introduce themselves.

Approval of Agenda

Thede asked for additions or corrections to the agenda. Sneller suggested changes to allow for guests Terry Hejny and Dave Buchholz to speak to the Board as their schedules allowed. Hanson moved "to approve the January 27, 2011 meeting agenda as printed, noting the need to accommodate presenters if necessary." McColley seconded. The motion carried by acclamation.

Minutes

Thede asked if members had reviewed the minutes of the September 17, 2010 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. McColley moved, "to approve the September 17, 2010, meeting minutes as printed." Brodersen seconded. The motion carried by acclamation.

Budget Status Report

Sorum presented the NEB budget report, including activity through December, representing 50% of the fiscal year. Sorum noted receipt of \$51,000 from the American Petroleum Institute (API) that will be passed through to UNL's Dr. Roy Spalding for ethanol spill remediation research. NEB is in on target for the current fiscal year. Sorum also mentioned agency revenues through December are running about 7% ahead of projections as a result of 240 million gallons per year (MGY) of new production capacity that has come on line since July 2010. Cash reserve balance on 12/31/2010 was \$212,000.

Sorum reported on progress for the FY12/13 biennial budget process. The NEB requested a budget of \$559,813 for each of the next two fiscal years. The Governor's recommendation to the Legislature for the same period was \$529,779. The legislature's Appropriations Committee will propose a figure that will become part of a mainline budget bill funding all state operations. Sorum predicted the Appropriations Committee recommendation is likely to be close to the Governor's. The NEB budget hearing before the Appropriations Committee is scheduled for February 16. Citing future cash flow issues, Sneller suggested the NEB should evaluate making some larger, planned expenditures near the end of the current fiscal year. An NEB budget sub-committee meeting will be convened and recommendations made to the full board.

Monahan presented payment and per diem reports for September, October, November and December of 2010. For September: Contracts: \$385; Dues/Subscriptions/Sponsorships: \$88.88; Meeting and Travel Expenses: \$1,708.68; Internal Agency Expenses: \$4,515.88; Department of Agriculture Ethanol Production Incentive Credit (EPIC) admin costs: \$0.

For October: Contracts: \$0; Dues/Subscriptions/Sponsorships: \$736.35; Meeting and Travel Expenses: \$1,362.79; Other: \$359.61; Internal Agency Expenses: \$3,586.04; Department of Agriculture Ethanol Production Incentive Credit (EPIC) admin costs: \$2,522.42.

For November: Contracts: \$220.50; Dues/Subscriptions/Sponsorships: \$642.89; Meeting and Travel Expenses: \$502.62; Other: \$51.25; Internal Agency Expenses: \$2,918.11; Department of Agriculture Ethanol Production Incentive Credit (EPIC) admin costs: \$0.

For December: Contracts: \$0; Dues/Subscriptions/Sponsorships: \$492.40; Meeting and Travel Expenses: \$263.40; Other: \$96.20; Internal Agency Expenses: \$2,622.25; Department of Agriculture Ethanol Production Incentive Credit (EPIC) admin costs: \$2,476.60.

Balance of the Dr. Spalding Ethanol Spill Remediation Fund: \$51,629; balance of Dr. Nouredini's Carbohydrate Utilization of DDGs project: \$7,571.50; balance of David & Associates Marketing contract thru June 30, 2012: \$41,843.40; balance of Morgan & Associates agency services contract thru June 30, 2011: \$4,614.00.

Per Diems were paid to Brodersen, Else, Frenzen, Hanson, Kenney, McColley and Thede for the September 2010 Board meeting; to Frenzen for the Nebraska Cattlemen meeting in Lincoln; to Kenney for the USDA meetings in Kearney and Lincoln; and to Thede for the VeraSun meeting in Central City.

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

Special Presentation—Burl Haigwood, Clean Fuels Foundation

Sneller introduced Burl Haigwood, coordinator of the national Flex Fuel Vehicle (FFV) Awareness Campaign for the Clean Fuels Foundation (CFF). Haigwood provided an overview of the FFV Awareness Campaign, www.fvv-awareness.org Audio of Haigwood's presentation is online at NEB's "NEB Meetings" page at <http://www.ne-ethanol.org/events/nebmeetings.htm>.

Ethanol Marketing Programs

Buchholz updated NEB on marketing activities. He has been working with the Nebraska Lottery to create a stronger web presence and working on a FFV pump guide with Sneller and Doug Durante. Sneller noted the new blender pump pull-up display with art provided by the Clean Fuels Foundation (CFF). He and DeFrain are finishing revisions to an updated Energy Security Issue Brief and a refueling guide. Durante and CFF have also contributed to the Economic Impacts of Ethanol Production issue brief and the Health Benefits of Ethanol issue brief, which quotes C. Boyden Gray, former Council to President George H.W. Bush. NEB filed a grant application with the Nebraska Environmental Trust. Awards will be announced in February.

Sorum provided an update on ethanol marketing activity in the state. Through November of 2010, 74% of the fuel sold in Nebraska contained ethanol, the highest proportion on record since sales began in 1978.

Sneller noted that Haigwood had pointed out the number of FFVs in the national fleet, and that DeFrain was tracking state fleet FFV numbers. Nebraska FFV numbers have increased from 68,000 in 2007 to 96,600 currently.

Thede suggested that the industry focus on the message that increased ethanol use can bring troops home, as that's a message every consumer can understand. Sneller said this point was used in the Energy Security brief he and DeFrain are revising, and included a quote for General Wesley Clark saying as much. Sneller noted that one concern is to not appear to be capitalizing on U.S. troop deaths to promote ethanol.

State and Federal Legislation

Sneller summarized federal legislation and regulatory issues. The NEB office received a note from Senator Ben Nelson's staff on the recent biofuels bill which would require 90% of cars be FFVs by 2016. The bill also proposes to provide money for blender pumps. Doug Durante of CFDC has been following the E15 waiver issue and an update from him noted a Department of Energy (DOE) study which found no long term exhaust issues and no damage to the catalytic converter, from E15 use.

Brian Wilcox noted that various ethanol interest groups have been meeting and trying to come to a consensus on the bill. Sneller noted that there is rarely agreement among these groups on policy proposals.

Sorum summarized state legislation. Senator Mark Christensen has introduced LB698, which would remove mandatory ethanol labeling requirements for retailers. Loran Schmit noted that any labeling requirement should include 300 other components contained in gasoline. Brodersen said that as a retailer he doesn't feel he should be required to label ethanol and suggested voluntary labeling. Labeling requirements single out ethanol and ignore carcinogenic additives in gasoline. Some consumers perceive ethanol labels as "warning labels."

Thede asked for clarification on how ethanol labeling fits in with octane labeling on gas pumps. Sneller said that octane labeling is a federal requirement. Frenzen said that as a consumer and producer, he tries to buy ethanol and likes to see the label on the pump to know he is getting E10. Brodersen noted that 89 octane is likely E10 since adding ethanol is the cheapest way to raise the octane level. Sneller noted that most consumers are confused by the number of labels and numbers on a pump. Schmit reported there had been a lot of discussion on the labeling issue among producers. Most retailers will likely still have an E10 label on the pump even if it is not mandatory. Hanson said that he would rather use political capital to pass an ethanol use mandate in the state, instead of on removing the labeling requirement. Sneller noted that the last time a mandate was proposed there was coordinated opposition from oil interests, and that because of Nebraska's relatively small market, a mandate would not significantly increase

ethanol use. Thede noted that a greater number of blender pumps would increase ethanol use if coupled with an FFV awareness program. Sneller asked for a Board consensus to work with Schmit on coordinating with producers on the labeling bill. The Board agreed.

Sneller reported on the California Air Resource Board's (CARB) recently adopted Low Carbon Fuels Standard (LCFS). LCFS compliance for Nebraska ethanol would be difficult, if not impossible. Nebraska Attorney General Jon Bruning signed on to an amicus brief challenging the LCFS with attorneys general from other states. This subject will be covered at the April Forum. Wilcox noted that the LCFS compliance levels ratchet up over the years and a plant in compliance now may not be in the future. It will be especially difficult for coal-powered plants.

Distiller's Grains Antibiotics Report

Frenzen reported on a meeting he and Sorum attended with the Nebraska Cattlemen. The Cattlemen were concerned that traces of anti-bacterial compounds used in ethanol production could be present in distillers grains.

Sorum said a major concern expressed by the cattlemen was that the U.S. Food and Drug Administration (FDA) prohibits combinations of some antibiotics in livestock feed. NE Cattlemen wanted ethanol producers to be aware of potential conflicts and pointed out there are apparently acceptable alternatives available to the ethanol producers. Galen Erickson of UN-L will address the Cattlemen at their next quarterly meeting on this issue.

Ethanol Plants and ANEEP Update

Ralph Scott of Trenton Agri Products reported the plant was running well, though there was some difficulty during the extreme cold. The plant is running at maximum production. Schmit reported that ANEEP is doing well. The group has a legislative reception planned for March. The Attorney General and Nebraska's congressional delegation have been invited. Sneller noted that Aventine Aurora West is scheduled to begin production in the first quarter of 2011. The Central City plant is undergoing a retrofit for corn oil extraction. The Mead E3 plant has new owners and may soon reach an agreement with the feedlot owner for a partnership. They have also reached a settlement with Saunders County on property taxes in arrears.

Kenney noted that the plants under construction in Aurora and Iowa may be the last new ethanol plants. Sneller said there may be incremental increases in production capacity at existing plants.

Thede suggested skipping forward to the LEAD Funding Request to accommodate Terry Hejny's schedule.

LEAD Funding Request

Terry Hejny, Director of the Nebraska LEAD (Leadership Education/Action Development) Program, spoke to the board. LEAD sent a group to Central America and will be traveling to Washington, D.C. soon. Kenney asked which part of the program is devoted to ethanol. Hejny said LEAD has a seminar that focuses on energy issues and included a tour the plant at Trenton.

Sorum also participates in annual discussions. Groups also visit feedlots which use DDGS and recently visited an ag Co-Op in Costa Rica that uses DDGS. LEAD funding requires a little over \$300,000 per year. Hejny thanked the Board and supporters of the LEAD program.

Thede asked the board to consider the funding request. McColley asked Sorum if there was money in the budget for this request. Sorum responded the figure was included in the current budget. Thede noted that when he was in the LEAD program nine years earlier, the budget was \$260,000. Thede felt the minimal increase in budget was admirable. Sneller suggested that because of budgeting issues, now would be a good time to consider LEAD support.

Kenney moved, "to approve a \$1,250 payment for the second half of the 2010-2011 Nebraska LEAD Program sponsorship." Else seconded. The motion carried (yes: Else, Frenzen, Hanson, Kenney, McColley, Thede, Brodersen; no-;).

EPIC Fund Report

Sorum provided an update on the EPIC Fund. The fund encountered its first deficit situation in December, 2010. Four producers did not receive the full production credits. The shortfall was \$2.51 million. Due to projected strong grain check-off receipts in January and February, EPIC is expected to make up the shortfall by March, 2011. The Governor's budget proposal for the next biennium would fill any deficit situations with loans from the state's cash reserve fund and transfers from the general fund. The EPIC program sunsets in 2012 and Sorum believes passage of the Governor's recommendation by the Legislature would ensure adequate funding through the termination of credits.

Noureddini DDGs Contract

Sorum reminded the board of the research contract with Drs. Hossein Noureddini and Curtis Weller of UN-L focusing on DDG and carbohydrates utilization. They have requested a second extension. They are developing an enzyme to break down cellulose into simple sugars. Board members have already approved the no-cost extension via e-mail. NEB has paid 75% of the total contract.

McColley moved, "to ratify Drs. Noureddini and Wellers' contract extension to June 30, 1011." Kenney seconded. The motion carried by acclamation.

Spalding Contract Extension

Sneller reported that six years ago NEB had contracted with Dr. Roy Spalding of UN-L to study ethanol spill mitigation at a spill site near a Kansas train yard. NEB continues to provide in-kind services while the American Petroleum Institute provides funding for the research. NEB acts as a pass-through agency for API funds. The contract had been previously extended to June 30, 2011 via e-mail since the September Board meeting. Sneller recommended passing the funds to Spalding immediately so the funds do not distort the Agency's budget situation.

Kenney moved, “to accept API’s funding in the amount of \$51,629 and to fund Dr. Spalding’s contract for ethanol remediation research.” Hanson seconded. The motion carried (yes: Frenzen, Hanson, Kenney, McColley, Thede, Brodersen, Else; no-;).

ACE Membership Renewal

Thede asked American Coalition for Ethanol (ACE) board member Brian Wilcox to address the Board. Wilcox said the ethanol industry is facing a challenge on the national level. ACE has worked closely with NEB since the Board’s inception. ACE has worked hard to forge an alliance with other industry groups such as Growth Energy and RFA. Wilcox thanked Sneller for his work as a member of the ACE board of directors.

McColley moved, “to approve the 2011 American Coalition for Ethanol membership dues in the amount of \$1,500.” Frenzen seconded. The motion passed (yes: Hanson, Kenney, McColley, Thede, Brodersen, Else, Frenzen; no-;).

AXXIS Subscription

Sorum reported to the Board that staff members track ethanol and gas prices at three terminals across Nebraska. NEB gets many inquiries for this data from academics, financial interests, and other state agencies. Sorum has negotiated a price reduction from \$1,800 annually to \$600. Sorum asked the Board to consider renewing the annual subscription.

Brodersen moved, “to approve an annual subscription for the AXXIS Daily Price Service Report in the amount of \$600.” Else seconded. The motion passed (yes: Kenney, McColley, Thede, Brodersen, Else, Frenzen, Hanson; no-;).

Chair’s Report

Thede noted both he and McColley had reappointment confirmation hearings at the state capitol following today’s meeting, and concluded his report.

Administrator’s Report

Sneller noted Kansas Governor Sam Brownback had accepted chairmanship of the Governors’ Biofuels Coalition (GBC). Staff is preparing for the annual Emerging Issues Forum April 7-8 in Omaha, and is confident in the quality of guest speakers.

Election of Officers

Thede asked the Board for nominations for new officers. Sneller said that the Board elects a chair, vice chair and secretary each year, and that the chair typically serves for two years.

McColley nominated this slate for 2011: Hanson for chair, Frenzen for vice chair and Kenney for secretary. Else seconded the nomination. The board elected this slate unanimously.

Hanson thanked Thede for his service as chair and presented him with a memento.

Travel Reports and Authorization

Sneller summarized upcoming travel requests and asked the Board for authorization, including travel in February to Nebraska City, Topeka, and Sioux Falls; and travel to Washington, DC in June for a Clean Fuels Foundation meeting. Most travel expenses are being covered by other groups, but total travel expenses could be around \$600.

McColley moved, “to approve Sneller’s out-of-state travel requests: Feb. 7-8 in Topeka, KS, for GBC then Sioux Falls, SD for ACE board meeting; and June 7 to Washington, D.C for CFF meeting.” Thede seconded. The motion passed (yes: McColley, Thede, Brodersen, Else, Frenzen, Hanson, Kenney; no-;).

Sneller asked board members to refer to Monahan’s note that mileage reimbursement rates have changed to 51 cents per mile.

Next Meeting Date and Time

Hanson noted that the next meeting was scheduled to coincide with the ANEEP legislative reception. Sneller said the NEB meeting was set for Thursday, March 10, after the March 9 reception in Lincoln. Hanson appreciated the quick travel time to the meeting site at the Country Inn & Suites. Kenney asked that pictures of new members be added to the agency website. DeFrain asked members to send him a picture for use on the website, or he would take pictures at the March meeting. Wilcox volunteered NPPD meeting facilities further west for an NEB meeting site.

Adjourn

Brodersen moved, “to adjourn the meeting.” Frenzen seconded. The motion carried by acclamation.

Paul Kenney, Secretary