



NEBRASKA ETHANOL BOARD

STATE OF NEBRASKA

DAVE HEINEMAN
GOVERNOR

TODD C. SNELLER
ADMINISTRATOR

NEBRASKA ETHANOL BOARD MEETING MINUTES

Holiday Inn
141 South 9th Street
Lincoln, Nebraska

January 25, 2008
8:30 a.m.

MEMBERS PRESENT

Tod Brodersen
Tim Else
Dave Hallberg
Steve Hanson
Mark McColley
Michael Thede

MEMBER ABSENT

Jim Jenkins

GUESTS

Avishay Artsy—NET Radio
Bob Bettger—Dept. of Natural Resources
Dave Bucholz—David & Associates
Norm Burbach—UNL Water Resources
Jacki Fee—Cargill
Katie Hadenfeldt--GATX
Norm Hall—Ryan & Associates
Michael Henry—Terracon
Bill Hord—Omaha World-Herald
Paul Johnston—Farm Bureau
Randy Klein—NE Corn Board
Greg Krissek—ICM
Duane Kristensen—Chief Ethanol

ADVISOR PRESENT

Dr. James Hendrix

STAFF PRESENT

Todd Sneller
Steve Sorum
Gerri Monahan
Billy DeFrain
Mark Rathouz

Bobbie Kriz-Wickham – NE Dept. of Ag.
Shannon Legg—Abengoa Bioenergy
Jenny Moerer – E-Energy Adams
Neil Moseman—NE Dept. of Ag.
Bill Rutledge—Wachter Construction
Ralph Scott—Trenton Agri Products
Piyush Srivastav – NE Air Quality
Hugh Stirts--NDEQ
Mitch Stuhr—Abengoa Bioenergy
Cynthia Thomsen—WIFE
Jamie Weivel—Union Pacific
Brian Wilcox—NPPD/ACE
Dayle Williamson—Sen. Ben Nelson’s Ofc.

Call Meeting to Order

A meeting of the Nebraska Ethanol Board was convened on Friday, January 25, at 8:30 a.m. The meeting was held at Holiday Inn, Lincoln, Nebraska. Vice-chair and acting chair Brodersen 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. Brodersen noted that Jenkins would not be attending the meeting due to a scheduling conflict.

Approval of Agenda

Brodersen asked if there were any additions or corrections to the agenda. Theede moved "to approve the January meeting agenda as printed." Hallberg seconded. The motion carried by acclamation.

Minutes

Brodersen asked if members had reviewed minutes of the November meeting. Following a review of the minutes, Brodersen 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 16, 2007, meeting as printed." Hallberg seconded. The motion carried by acclamation.

Budget Status Report

Sorum presented a budget report for the first half of FY 2007-2008. Sorum reported that Agency 60 had expended 49.1 percent of its budget over the course of half of the fiscal year. Total expenditures in the current fiscal year totaled \$216,907.

Sorum noted significant balances in the Board's research division, and that the Board finds itself in a unique position. Revenues have been slower than projected, due to plant delays and overall production being lower over the last two months. Sorum said it remained to be seen whether this was a trend.

Sorum reported that an Appropriations bill last summer had limited revenues, and that expected revenues were close to \$500,000 with a \$300,000 to \$325,000 cushion of carryover from the previous year. Sorum noted "we're in pretty good shape."

Monahan presented payment reports for November and December. Payments for November were reported as follows: Contracts: \$0; Dues/Registrations/Subscriptions: \$619.79; Meeting and Travel: \$1,110.63; Other Expenses: \$5,251.16. Payments for December were reported as follows: Contracts: \$6,287.90; Dues/Registrations/Subscriptions: \$1,070.60; Meeting and Travel: \$2,736.60, Other Expenses 197.99 for a new computer monitor. Brodersen, Else, Hanson, Jenkins, McColley and Theede received Per Diem payments for travel for the November board meeting. Jenkins received additional Per Diem payments for the November legislative meeting with Sen. Dubas in Aurora, and a presentation to the Beef Council in Kearney.

Monahan also presented revenues and expenditures for Dr. Spalding's research at UN-L. Total funding received by the project as of 12-31-2008 was \$101,761.00. Total disbursements to UN-L were \$64,024.21. Current balance of the research project funds was \$37,736.79.

Hallberg moved “to accept the November and December payment and per diem reports as printed.” Thede seconded. The motion carried (yes- Hanson, McColley, Thede, Brodersen, Else, Hallberg; no-. Absent and not voting, Jenkins).

EPIC Fund

Sorum reported a \$5.64 million balance in the EPIC fund and that the fund was dangerously close to a zero balance. Sorum noted a transfer from the state general fund and additional revenue from the grain checkoff in the next six months. Sorum projected a deficit of \$1.22 million by FY2009-2010 and \$18 million shortfall by 2012, but transfers from the general fund and record grain crops will bring in revenue faster than expected. Sorum said in closing that revenue for the fund is in good shape.

Ethanol Marketing Programs

Dave Buccholz delivered an update to the board on marketing activities. Buccholz noted the publication of an updated Issue Brief on the economic impact of ethanol production. A statewide ad campaign featuring major spokespeople ran in the Lincoln Journal-Star and the Omaha World Herald and was picked up by local corn growers associations. Ethanol branding continues with the labeling initiative with EPIC. By the end of 2007, 25 states participated in the branding program and now there are 28 states. EPIC is working on E20, E30 and E40 labels.

Sneller noted a number of institutional barriers hamper the development of higher ethanol blends, but a “popular uprising” will soon lead to the proliferation of such blends as gas prices continue to rise. Sneller also noted that board and staff were invited to attend Ethanol Awareness Night at a Kearney Storm hockey game February 8.

Nebraska LEAD program

Brodersen reported that the LEAD program had requested \$2,500 of funding and that the board voted in the August meeting to grant the program \$1,250 of funding and to consider an additional grant at a later meeting.

Sneller noted that the initial grant was limited due to budgetary reasons. LEAD has since seen a change in leadership and Sneller asked for comments from the Board.

Thede said he believed the transition to new leadership at LEAD had gone well. He felt they were doing a good job and that the program was one of the best he’s done from an educational standpoint. Else noted that Terry Hejny was good for the job and because the program’s costs have gone up and that the board is in a position to contribute more, he would like the board to make another contribution.

Thede moved “to fund an additional \$1k250 to the Nebraska LEAD program for FY 2007-2008.” The motion carried (yes- Hanson, McColley, Thede, Brodersen, Else, Hallberg; no-. Absent and not voting, Jenkins).

State and Federal Legislation

Hallberg provided a legislative update. Hallberg noted that oil won’t stop attempts to derail or revise the 2007 federal energy bill and to expect technical revisions to the bill later this year. Hallberg predicted an increased emphasis on low carbon fuels and had spoken with Greg Krissek

of ICM about the efforts of environmental and oil interests drafting principles of low carbon fuels. Hallberg said that higher ethanol blends are critical to ethanol's continued viability. The cellulosic community achieved a victory in the energy bill but that victory cannot be fully realized without a change enabled in tax code, and that such a change is unlikely to occur until the next president takes office. The federal excise tax started 30 years ago, and with a tax credit in place and with new technology, policy will be the driving force of the cellulosic industry.

Sneller summarized the Renewable Fuels Standard portion of the federal energy bill: 36 billion gallons total by 2022; 15 billion of corn ethanol, the other 21 billion gallons being "advanced fuels" including 1 billion gallons biomass diesel and 16 billion gallons of cellulosic ethanol.

Hallberg noted that grain feedstocks cannot qualify as "advanced fuels" even if from a non-corn sources, and that he does not believe cellulose production could achieve the scale set by the RFS.

Thede asked about ethanol production from sugar. Sneller responded that there are sugar ethanol production facilities in Texas and Louisiana, and that sugar ethanol does not fall under the corn ethanol production cap. Hallberg noted that the RFS would technically allow Brazilian ethanol imports, and that is not good public policy for the US ethanol industry.

Sneller said that with current usage, the best case scenario only creates 14 to 15 billion gallons of ethanol demand, and that higher blends are needed to find a market for greater volumes of ethanol. Hallberg said that he feared the industry may be two or three years too late, and that corn producers must unite with cellulosic producers, help proliferate the technology for blender pumps, and foster the development of blends like E40. Sneller said that some of these equipment issues should be solved within months, and that blender pumps are 18 months away from commercial use.

Sorum provided an update on state legislative initiatives in the Nebraska Unicameral. There are three bills proposing an excise tax on ethanol production, all paid by the producer.

LB-881, introduced by Sen. Stuthman, would put a 3 cent excise tax on ethanol and generate \$68 million which would go to the highway trust fund.

LB-922, introduced by Sen. Dubas, would create incentives for cellulosic ethanol development in Nebraska, funded by a tax industrial use of natural gas, oil, and railways; and create a Cellulosic Biomass board to oversee the administration and distribution of those incentives.

LB-946, introduced by Sen. Burling, would create a 2 cent excise tax on ethanol and generate \$42 million for the EPIC fund through 2012. After 2012, revenue would go to the Water Resources fund.

LB-1040, introduced by Sen. Louden, would create a 1 cent excise tax on ethanol, with the projected \$25 million of revenue going to the Water Resources fund; and cancel the EPIC grain checkoff.

LB-1053, introduced by Sen. Erdman, would create a biodiesel production incentive, and does not have a funding mechanism.

McColley asked that the Board consider endorsing LB-500, introduced by Sen. White. LB-500 would allow laborers training for apprenticeships in skilled trades to attend compressed training classes and be eligible for unemployment benefits during that training period. McColley noted that increased ethanol development demands more skilled labor, and this bill would help insure that labor can meet this increasing demand.

Sneller reported that he and Sorum have been asked to testify on behalf of the Board in front of the Revenue committee. Sneller said the Board must oppose any excise tax on ethanol because it would slow growth and discourage further development in the industry. Sneller noted that LB-500 would be beneficial to the industry by helping to accelerate training. Sneller also noted that state policy frequently mirrors federal policy, and that the Board must support the concept of bills like LB-922 which encourage cellulosic production incentives.

McColley stated that he did not believe a new board was necessary in order to administer cellulosic production incentives and that such duties should fall to the Nebraska Ethanol Board. Thede agreed that a new board was unnecessary, and that the Board should resolve to officially support LB-500. Else asked if the Board's staff would have time to promote cellulosic incentives. Sneller replied that staff has the time to promote, but not implement, cellulosic incentives, and that additional staff and resources would be needed to do so.

Hallberg moved "to allow Nebraska Ethanol Board staff to oppose the three ethanol excise tax bills (LB-881, LB-946 and LB-1040), to support LB-500, and to support LB-922 so long as it gives additional funding, authority and staff to the Nebraska Ethanol Board." McColley seconded. The motion carried by acclamation.

Ethanol Plant Status Report

Sneller reported that E-Energy Adams was hosting a public opening event next weekend. Albion was planning an open house on February 7. He and Thede spoke with Don Miller of Aventine Aurora West and construction was continuing as planned. Jacki Fee of Cargill reported that the Blair would soon complete a 110 MGY capacity expansion by April 15. Duayne Braun of US Bio said their plants in Ord and Central City were running smoothly. Bob Bettger said the Fairmont plant began production in October and they are planning an open house for April, and that they appreciate the efforts of the Board and staff. Duane Kristensen said the AGP expansion was coming along well. Sorum reported the Siouxland plant in Jackson was using supplemental gas from a nearby landfill. Allen Sievertsen from the Norfolk plant reported things are going well. Mitch Stuhr reported that Yorks' pilot cellulosic plant was up and running. Ralph Scott reported that the Trenton plant was running along.

Hallberg summarized the history of the E3 plant in Mead, which had recently filed for bankruptcy. Hallberg's company, Prime BioSolutions, patented the closed-loop technology in 2002. Hallberg recused himself from duties as the Nebraska Ethanol Board director to mitigate any claims of a conflict of interest. PRIME and E3 had a dispute over ownership, and PRIME is no longer involved in Mead plant. Hallberg said the plant also has a 30,000 head cattle feedlot and a gas separator/digester facility, which eliminated any need for natural gas for ethanol production at the plant. Hallberg said lax management allowed one boiler to explode, and the other to never work properly, and the ethanol plant never achieved its maximum production

capacity. The facility has failed for Chapter 11 bankruptcy. PRIME now has the resources to buy back the facility, and Hallberg believes he can make it commercially viable.

Sneller provided an update on other plants from media accounts. Atkinson was 90 percent complete. Bridgeport is underdevelopment. Cambridge expects construction to be completed within 90 days. Progress at Carleton is slow. Wood River is 90 days behind schedule and expands to open in late spring. David City has begun drilling for a well. Renewable Ag Energy has canceled their projects in Gothenberg. There is a renewed interest in the Loomis project. Wahoo has begun preliminary construction and received tax increment financing.

BREAK

Special Presentation

Mark Burbach, a geoscientist from the University of Nebraska-Lincoln, gave a presentation on ground water levels in Nebraska. Burbach reported that most of the ground water in Nebraska originates from the High Plains Aquifer. Precipitation recharges ground water levels by only 1 to 26 percent per year, and that ground water levels in Nebraska have mostly returned to levels seen prior to development of wells and irrigation in the state. In Nebraska there has been little net change in ground water levels. Burbach estimates that the state will run out of ground water circa 2098 only if there are no changes in water policy, consumption patterns and climate. Greater fluctuation in ground water levels are seen as you move farther east, due to greater precipitation. Burbach concluded that all heavily irrigated regions in the state have at least a 100 year water lifetime.

Greg Krissek of ICM presented on water use in ethanol production in context to other production processes. Krissek noted ICM's work in making water use more efficient in the ethanol production process. Non-contact water used for cooling is being recycled and microbes are used to scrub cooking water and then harvested for methane. The Nebraska ethanol industry uses less than 0.5 percent of the state's water, but water usage may increase with the advent of cellulosic ethanol production.

Sneller asked about Nebraska's water quality. Burbach noted that overall, Nebraska has quality water, with higher saline content in some wells and higher nitrate content in others. Krissek noted that water quality is important to producers because better quality water is cheaper to use as it requires less treatment.

E85 Grant Outreach Award

Sneller informed the Board that Agency 60 had received a grant for workshops encouraging the direct marketing of ethanol from producer to community. NEVC and CFDC are providing matching funds for the grant. Sneller said he is looking at late spring for scheduling for the workshops, which will be offered multiple times in different locations. Sneller asked the board for authorization to spend funds when received, and for authorization to sign grant contract on behalf of the Board.

Hanson asked that a workshop be held further out west, and Sneller said it depends on demand and the number of Flex Fuel Vehicle Owners in the area. He estimated at least 1,200 FFV

owners would be required to make a pump viable. Probably three workshops would be organized, most likely along I-80 because of a higher commercial viability.

Else asked how far the \$55,000 grant would go. Sneller replied that work will be subcontracted to NEVC and CFDC who will also provide matching funds and in-kind contributions. Theede asked that staff supply board with updates on grant expenditures. Sneller said that information would appear in Monahan's future payment reports.

Theede moved "to allow E85 grant match up to \$55,000, after funds are received with allowable expenditures for workshops costs; allow Sneller authorization to sign contracts and expend funds in compliance with the grant." Hallberg seconded. The motion carried (yes- Hanson, McColley, Theede, Brodersen, Else, Hallberg; no-. Absent and not voting, Jenkins).

Chairman's Report

Vice-chair Brodersen reported on the changes in the ethanol industry he has seen since becoming a board member. Ethanol had gone from an illegitimate child, to the favorite son, and now back around. Brodersen said he definitely saw more ethanol development in the state and country's future.

Personnel Committee

Brodersen noted that "each year the personnel committee, which presently includes myself, Mike Theede and Jim Jenkins, reviews the Administrator's performance as required by the state personnel policy. The committee then reports to the board. Following our review, we conclude that Todd Sneller has again performed at or above our expectations and the results of the work completed and the tasks accomplished is evident across Nebraska. We commend the work of Todd and his staff in 2007 and look forward to continued high performance in 2008."

Brodersen asked for a motion to approve this personnel report. McColley moved "To accept personnel committee's report on Sneller's annual evaluation." Hallberg seconded. The motion carried by acclamation.

Administrator's Report

Sneller reported developments in planning the 2008 Ethanol Emerging Issues Forum set for March 13-14. Save the Date post cards had been mailed, and Sneller and Sorum were finalizing the program, speakers and moderators. Sneller noted the numerous sponsors, and that he wished to keep this year's forum smaller and more interactive. Sneller reported that registration forms should be mailed within two weeks and will be posted on the Ethanol Board website.

Sneller read the following update from Kelly Brunkhorst of the Nebraska Corn Board regarding the Nebraska Research Consortia on Water and Energy: "We have or are going to meet with the Nebraska Soybean Board, Nebraska Farm Bureau, Nebraska Bankers Association, Nebraska Attorney General's office and are trying to facilitate a meeting with the major pivot manufacturers in the state. To date we have no further commitments."

Sneller noted that he may be invited to chair the board of the CFDC and asked for authorization from the Ethanol Board to do so if elected. Hallberg said that Todd's work with the CFDC was critically important. Brodersen voiced his approval and there were no objections from the Board.

Sneller also noted progress on the OSHA partnership. Eleven ethanol plants have signed on to the program. Sneller reminded board members that officer elections for the Board would be held at the next meeting.

Trip/Meeting Reports and Travel Authorization

Sneller recapped board and staff travel since the November 2007 board meeting. Sneller also noted that he was deploying DeFrain to speaking engagements such as a Rotary Club lunch in Holdrege.

For upcoming travel requests, Sneller noted an NEVC meeting in St. Louis (Sneller); the National Ethanol Conference in Orlando (Sorum); the Ethanol Emerging Issues Forum in Omaha (Staff and Board); OPIS Ethanol Conference in D.C. (Sneller); Ethanol 2008 Conference in Sydney, Australia (Sneller); and a GEC meeting in Chicago (Sneller and Monahan). Sneller noted that airfare and board for the Sydney trip would be paid by the organizing group.

McColley moved, “to approve travel requests.” Hallberg seconded. The motion carried (yes- Hanson, McColley, Thede, Brodersen, Else, Hallberg; no-. Absent and not voting, Jenkins).

Next Meeting Date and Time

Sneller suggested February 29 for the next board meeting, to be held in Lincoln.

Adjourn

McColley moved, “to adjourn the meeting.” Else seconded. The vote carried by acclamation.

X

Mike Thede, Secretary