



# NEBRASKA ETHANOL BOARD

STATE OF NEBRASKA

DAVE HEINEMAN  
GOVERNOR

TODD C. SNELLER  
ADMINISTRATOR

## NEBRASKA ETHANOL BOARD MEETING MINUTES

Hampton Inn South  
5922 Vandervoort Drive  
Lincoln, NE  
March 6, 2009  
8:30 a.m.

### MEMBERS PRESENT

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

### MEMBER ABSENT

Jim Jenkins

### GUESTS

Dwayne Braun-VeraSun Central City  
Dave Buchholz-David & Assoc.  
Jacki Fee-Cargill  
Paul Johnston-Farm Bureau  
Randy Klein-Nebraska Corn Board  
Bobbi Kriz-Wickham-NE Dept. Ag  
Bob Miller-E Energy Adams

### STAFF PRESENT

Todd Sneller  
Steve Sorum  
Gerri Monahan  
Billy DeFrain

### ADVISOR ABSENT

Dr. James Hendrix

Mark Rathouz-New Media Campaigns  
Loran Schmit-ANEPP  
Ralph Scott-Trenton Agri Products  
Rod Voight-TROP Fuels  
Jamie Wewel-UPRR  
Brian Wilcox-NPPD, ACE

### **Call Meeting to Order**

A meeting of the Nebraska Ethanol Board (Agency) convened on Friday, March 6 at 8:30 a.m. The meeting was held at Hampton Inn South, 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. Thede noted that because special presenter Ken Cassman was on a tight schedule, his presentation might be moved up on the agenda depending on time.

McColley moved “to approve the March meeting agenda as amended.” Else seconded. The motion carried by acclamation.

### **Minutes**

Thede asked if members had reviewed minutes of the January 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 minutes of the January 16, 2009 meeting as printed.” Else seconded. The motion carried by acclamation.

### **Budget Status Report**

Sorum presented the Agency budget summary for activities through the first two-thirds of the fiscal year. Expenditures are very near budgeted targets. No unusual expenditures are anticipated.

Sorum reported NEB revenues were higher than projected in November, December and January due, in large part, to a provision in the 2008 Farm Bill that limits the amount of denaturant ethanol producers may use in their product. On January 1, 2009, denaturant levels are capped at 2%, instead of the previously allowed 5%. In anticipation of this change, Nebraska producers maximized levels late in 2008 and, because of low prices in denaturant markets, apparently stocked up to avoid future price increases. Sorum expects revenues to return to more traditional levels by March, 2009.

In September, 2008, the NEB requested a \$640,000 budget for FY 09-10 based on higher revenue assumptions of around \$1 million. The appropriations committee agreed with the Governor’s recommendation of \$560,000 for the NEB budget but also included a proposed \$200 thousand transfer from NEB cash reserves to the EPIC Fund. Because of the change in the denaturant law, projected revenues will likely be closer to \$425,000. Reduced revenue projections combined with the proposed reduction in cash reserves leaves the NEB unable to fully fund a \$560,000 budget in 09-10. The appropriations committee will soon begin work on the mainline budget bill. Agency staff and members will talk with Committee members to reinforce the NEB’s request for reconsideration of the transfer to EPIC made in February testimony before the Committee.

Sneller asked board members to contact members of the Appropriations Committee they knew personally—five members of the committee are known by board members. Duane Kristensen wrote a letter in support of the Agency to the Committee on behalf of Association of Nebraska Ethanol Producers (ANEPP).

Monahan presented payment and per diem reports for January and February. For January: Contracts: \$1,3683.36; Dues/Registrations/Subscriptions/Education: \$26,553.30; Meeting and Travel: \$1,627.36; Other: \$80.83; Internal Agency Expenses: \$2,134.30.

For February: Contracts: \$6,991.25; Dues/Registrations/Subscriptions/Education: \$2,534.88; Meeting and Travel: \$3,004.15; Internal Agency Expenses: \$2,166.57.

Spalding Ethanol Research Project Balance: \$52,641.81

Per diems for the January board meeting were paid to Brodersen, Else, Hallberg, Hanson, Jenkins, McColley and Thede.

Hanson moved, “to accept the January and February payments and per diem reports as presented.” Brodersen seconded. The motion passed (yes-McColley, Thede, Brodersen, Else, Hallberg, Hanson; no-; absent and not voting: Jenkins).

### **EPIC Fund Report**

Sorum provided an update on the Ethanol Production Incentive (EPIC) fund. The fund balance as of February 28 was \$9.8 million. The governor’s budget recommendation for EPIC includes \$8.25 million transfers from the state’s General Fund in each of the next two fiscal years. The Appropriations Committee has adopted the Governor’s request. These transfers would likely provide sufficient funds to meet all future EPIC obligations.

### **NEB Research Initiative**

Sorum provided an update on the NEB research initiative. The Request for Proposal distributed in February has generated several requests for additional information. The deadline for submissions is April 1, and recommendations, if any, will be ready for NEB consideration by May 1.

Sneller asked what impact the Appropriation Committee’s proposed budget and transfers would have on the research initiative. Sorum said that expenditures for the current initiative would come out of the FY08-09 budget. Future initiatives will be evaluated in the light of future resources and appropriations.

### **Ethanol Marketing Programs**

Dave Buchholz updated the board on ethanol marketing efforts carried out by David & Associates. The Agency and the Nebraska Corn Board are partnering with the Nebraska Lottery for the “Trucks and Bucks” Promo. This is a program that will give away five flexible fuel vehicles (Toyota Tundra FFVs) as prizes.

Other David and Associates activities: Work with NEB staff to prepare materials for the 2009 Ethanol Forum. An initiative to create uniform pump labeling for ethanol products has been

adopted by all but three or four states. Buchholz recently traveled to Brazil and Argentina with corn industry people to work on the land use change issue.

Sneller asked Buchholz to comment on any observed changes as the Ethanol Promotion and Information Council (EPIC) merges into Growth Energy. Buchholz said Growth Energy will still have an Omaha office. Growth Energy recently hired former Farmers Union President Tom Buis to serve as executive manager of the new ethanol organization.

Sneller summarized the recent Underwriters' Lab (UL) decision to approve conventional gas equipment for use with E15. UL had previously approved of this use, but had been backing away from this position. After meetings with the National Ethanol Vehicle Coalition (NEVC), UL decided to reiterate its support of E15 use in conventional equipment. Growth Energy, American Coalition for Ethanol (ACE), and Vinod Khosla sent petitions to the U.S. Environmental Protection Agency (EPA) asking to approve E15 use in conventional vehicles.

Hallberg noted that the EPA has options for approving E15. The EPA could write a "substantially similar" waiver, which does not have a public comment time frame attached to it. Hallberg said he has spoken with auto manufacturers who have conducted market surveys which show E13 has already been marketed.

Sneller said that there is strong documentation in support of higher ethanol blends in conventional vehicles, but auto makers are lukewarm to endorsing higher blends and have not enthusiastically supported the petition for higher blends. Small engine makers are also opposed to higher blends. Sneller suggested comparing brands and models used in Brazil to those used in the U.S.

Sneller is also working on uniform E85 labels and has spoken to Steve Malone from Weights and Measures on this issue. NEVC will provide "seed money" for labels. The orange and black labels note minimum level of ethanol, and separate stylized "e" ethanol logo labels. Cost for labels would be around \$870. Chairman Thede has the authority to approve such an expenditure.

Randy Klein said the Corn Board is using labels that Sneller and Malone opposed, and is initiating a blender pump program using those labels. Sneller noted that he had shown Klein the documentation stating that those labels would not work; Sneller and Malone are trying to move forward with labels that are approved by the state and by manufacturers.

Hallberg said it was ironic that the ethanol industry worries whether UL will approve E15. He noted that the aftermarket parts for conventional vehicles and FFVs are identical, including the catalytic converter. Blends up to E50 can run effectively in a conventional vehicle.

### **ACE Membership Renewal**

Brian Wilcox addressed the Board. Wilcox thanked the board for the opportunity to speak. He noted that Sneller had been a worthy addition to the ACE board. ACE tries to be a consistent and stalwart organization during changing times for the industry. Wilcox requested the continued support of the Agency for ACE.

Sneller noted that the Agency had budgeted for this membership renewal, and the funds were available. McColley moved, “to approve American Coalition for Ethanol membership dues in the amount of \$1,000 for 2009.” Hallberg seconded. The motion passed (yes: McColley, Thede, Brodersen, Else, Hallberg, Hanson; no:-; absent and not voting: Jenkins).

### **Ethanol Economics 101**

Sneller presented the basics of ethanol economics. For producers, management of inputs and outputs is critical. One of the biggest challenges in the market today is access to capital. Long-distance marketing, but locally made decisions can be more beneficial and flexible. Many plants are unable to internalize functions, and fees create a significant outflow of revenue. Sneller displayed a chart showing at which prices for corn and ethanol a producer could be profitable. With additional demand created by the Renewable Fuels Standard (RFS), it is unknown whether new capacity will be in the form of new facilities or expansion projects at existing plants. Sneller said that access to capital and government incentives will be among the major growth regulators of the industry.

### **Ethanol Plant Status Reports, ANEEP Update**

Sneller asked for updates from producers. Jacki Fee said that things were going well at the Cargill plant in Blair. Bob Miller said that E-Energy Adams was trying to implement many of the strategies Sneller covered in his economics presentation. Dwayne Braun of VeraSun Central City said VeraSun assets would be auctioned in 10 days. Braun noted that several years ago some in the industry thought that consolidation would be a positive thing, but he has seen what happens if a company grows too fast and doesn’t manage debt. Braun said he is optimistic about the future of the industry and appreciated the support of the Board.

Loran Schmit said that he’s had discussions about the lack of banks coming to the table to take advantage of U.S. Department of Agriculture (USDA) loan guarantees. Many realize that the ag sector in Nebraska can be hurt if the ethanol industry is not healthy. Ninety-nine percent of the industry’s troubles were the inflated corn prices of 2008.

Sneller noted the positive editorial in the Omaha World-Herald that ran recently, and staff is working to get same kind of editorial from the Lincoln Journal-Star. Sorum has drafted an editorial for Thede to sign, and DeFrain will distribute to media. It is important to remind readers that the industry is overall a positive story for Nebraska.

Ralph Scott of Trenton Agri-Products said his plant was running well and undergoing a process control modification.

### **State and Federal Legislation**

Hallberg provided an update on federal legislation. Hallberg was in DC the previous week for the Governors’ Biofuels Coalition (GBC) meeting. Governors Hoeven and Culver spoke with President Obama, and Hallberg also had meetings at the White House. The administration is committed to significantly changing U.S. energy sources, and will seek to limit fossil fuel tax credits and shift incentives to renewable energy sources and advanced biofuels, but will continue to support domestic corn ethanol, which provides 600,000 barrels per day to the US fuel supply. The industry will have to overcome the impending blend wall and capitalization challenges. Potential indirect land use definitions will be a major challenge for the industry as the petroleum

industry ramps up to damage ethanol credibility. In the December 2007 energy bill, Congress inserted indirect land use change effects in its GHG emissions standards calculations but the legislation does not require consideration of *international* indirect land use change.

Sneller said that while Ken Cassman was not available to speak at the Ethanol 2009: Emerging Issues Forum in Omaha, the Agency felt it was critical to have him present at the meeting considering his recently published study and its implications on greenhouse gas (GHG) modeling. A new rule proposed by the California Air Resources Board (CARB) would show that ethanol is no better than gasoline due to indirect land-use change (ILUC). Fourteen other states, primarily the Northeast States for Coordinated Air Use (NESCAUM) may implement this standard if adopted in California. CARB's report is 347 pages, and it's important that the biofuels sector respond to the proposal.

Hallberg said that a group of scientists from Sandia, Argonne, MIT, and UC sent a letter to California Governor Schwarzenegger criticizing the CARB proposal. Portraying the CARB proposal as bad science will be key in the industry's appeal to President Obama. Hallberg noted that historically, CARB has been wrong on many issues, including reformulated gas, RFS and ozone issues.

Sneller said he was concerned about the timing of the CARB proposal in light of recent industry efforts to call for higher ethanol blends in conventional vehicles, and that the industry has a lot of work to do in educating the media on these issues.

Sneller also noted that Sorum and Monahan continue to monitor state-level ethanol related bills.

#### **Special Presentation: Dr. Ken Cassman, University of Nebraska-Lincoln**

Sneller introduced guest speaker Dr. Ken Cassman. Cassman as part of the team of researchers developing the Biofuel Energy Systems Simulator (BESS) model to estimate the lifecycle emissions produced by the production and use of ethanol and its feedstocks and co-products. Cassman said that all phases of the production cycle must be considered in a life cycle assessment (LCA). The Energy Independence and Security Act of 2007 requires that corn ethanol reduce emissions by 20%, cellulosic ethanol by 60%, and advanced biofuels by 50%. The EPA has proposed a series of models, including ASPEN, DAYCENT, FASOM, and GREET. The EPA will finalize its modeling by 2009, and then subject that model to a public comment period. Some older or missing data necessary for accurate LCA include fossil inputs for corn after 2001, regional variability in crop production, and co-product usage. Most LCAs currently show a reduction in GHG emissions with corn ethanol. The BESS model shows a 50% reduction in GHG with corn ethanol compared to gasoline, a greater reduction than is shown in any previous model.

The most sensitive inputs affecting the lifecycle emissions of ethanol include crop yield and nitrogen fertilizer efficiency; thermal energy inputs of the biorefinery; feedstock-to-ethanol conversion yields; and biorefinery electricity use.

BESS model simulations conclude that it is inaccurate to estimate the aggregate lifecycle emissions of the corn ethanol industry because there is so much variability in inputs on a facility-by-facility basis.

Cassman said that indirect land use change is difficult to estimate using current models, and if indirect effects will be associated with biofuels, they must also be associated with fossil fuels. The way to make corn ethanol sustainable is to prevent an unacceptable rise in crop commodity prices; achieve a large net reduction in GHG emissions when accounting for indirect and direct effects, and protect soil and water quality. This can be done through ecological intensification of corn ethanol systems.

The full recorded audio of Cassman's presentation is available on the Agency home page ([www.ne-ethanol.org](http://www.ne-ethanol.org)) on the "NEB Meetings" page in the "Events" section.

## **BREAK**

### **Chair's Report**

Theede delivered his report. While at the Governor's Ag Conference in Kearney, the Governor noted that the state of Nebraska is doing much better than many other states in the face of the recession, due mostly to the strength of the agricultural sector. Theede said the industry must do a better job of making this story known.

Hanson commented that Sorum had prepared info for him and Theede and that the conference went well. Theede agreed.

### **Administrator's Report**

Sneller delivered his administrator's report. Half of the seats are filled for the Ethanol 2009: Emerging Issues Forum on April 2-3 in Omaha. Agency is inviting a number of nationally recognized speakers including Wally Tyner from Purdue, who had conducted extensive work for USDA on incentives for ethanol production. The USDA will also be a sponsor of event.

Monahan and Sneller attended a GBC meeting in Washington, DC the previous week. Larry Pearce, Hallberg and Sneller attended meetings with members of the Obama administration, and were able to convey a positive message for ethanol.

Sneller said he has been asked to meet with the U.S. Department of Energy (DOE) and review provisions of an upcoming program, including proposals to promote higher ethanol blends along the I-80 corridor. An early stimulus bill version included an \$8 million commitment to buy FFVs for the city of Omaha.

Sneller encouraged board members to attend the April 2-3 Forum. Hallberg will serve as moderator on a panel at the Forum.

### **Travel Report**

Sneller commented on his meeting with Lifeline, a venture including ICM. The project involves installing direct fractionation equipment in a pre-commercial environment, enabling a processor to produce a variety of products while using less corn. Sneller has meetings with other state officials to help promote the technology. The Agency could facilitate development of this technology with block grants if producers show interest.

Sneller noted he would be traveling the following Monday with Katzen, Inc, Keith Cole of General Motors and Doug Durante of Clean Fuels Development Coalition to speak on a renewable fuels panel at a power generation conference in Las Vegas. The conference is picking up some of the travel expenses. The meeting with the DOE has already been approved by the Board, though there is no set date at this time.

**Next Meeting Date and Time**

The next meeting date was set for Friday, June 5. The location was not yet determined.

Sneller noted he had an advisory meeting with the Northeast Community College biofuels technology program meeting this afternoon. The program is effective at noting changes in industry and adapting curriculum accordingly.

**Adjourn**

Brodersen moved, “to adjourn the meeting.” Hallberg seconded. The vote carried by acclamation.



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Tim Else, Secretary