



NEBRASKA ETHANOL BOARD

STATE OF NEBRASKA

DAVE HEINEMAN
GOVERNOR

TODD C. SNELLER
ADMINISTRATOR

NEBRASKA ETHANOL BOARD MEETING MINUTES

Hampton Inn
1301 W Bond Circle
Lincoln, NE
March 19, 2010
8:30 a.m.

MEMBERS PRESENT

Todd Brodersen
Tim Else
Steve Hanson
Paul Kenney
Mike Thede

MEMBERS ABSENT

Galen Frenzen
Mark McColley

GUESTS

Dave Buchholz—David & Associates
Lacey Dixon—ACE
Curt Friesen—Nebraska Corn Board
Art Hovey—Lincoln Journal-Star
Paul Johnston—Nebraska Farm Bureau
Duane Kristensen—Chief Ethanol
Bobbi Kriz-Wickham—Neb. Dept. of Ag.
Ron Lamberty—ACE
Bob Miller—E-Energy Adams

STAFF PRESENT

Todd Sneller
Steve Sorum
Gerri Monahan
Billy DeFrain

ADVISOR PRESENT

Dr. James Hendrix

Joe Oswald—E-Energy Adams
John Schmit—Schmit Industries
Loran Schmit—ANEPP
Tom Slunecka—Phibro
Brian Terborg—Neb. Corn Processing
George Kyros —CTE Global
Brian Wilcox—NPPD / ACE
Dayle Williamson—Sen. Ben Nelson's Office
Yiqi Yang—UN-L

Call Meeting to Order

A meeting of the Nebraska Ethanol Board (NEB) convened on Friday, March 19 at 8:37 a.m. The meeting was held at Hampton Inn Airport 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 noted the absence of members Galen Frenzen and Mark McColley, and asked guests to introduce themselves.

Approval of Agenda

Thede asked for additions or corrections to the agenda. Hanson moved "to approve the March 19 meeting agenda as printed." Kenney seconded. The motion carried by acclamation.

Minutes

Thede asked if members had reviewed the 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. Else moved, "to approve the minutes of the January 22, 2010 meeting as printed." Brodersen seconded. The motion carried by acclamation.

Budget Status Report

Sorum presented NEB budget report, including activity for the first two-thirds of Fiscal Year (FY) 2009-2010. Personnel costs are running slightly below projections and operations costs slightly above projections, due to prior funding commitments to Spalding and Nouredini research projects. Sorum reported the state's overall budget is projected to face deficits of \$650 million to \$1 billion in FY10-11 and warned of the likelihood of additional cuts to the NEB's FY10-11 budget. The NEB budget subcommittee will meet after today's meeting to discuss future budgets and strategies to position the Agency for dealing with expected cuts and possible cash transfers from NEB accounts.

FY09-10 revenues are coming in slightly above projections but still about 10% lower than FY08-09. Ethanol plant re-openings have positively impacted NEB's revenue and producers appear to be operating near capacity. NEB has collected \$296,580.30 from the Agricultural Alcohol Tax refund; the other significant source of Agency revenue is interest on investments, which has dropped by half due to the transfer of NEB cash reserve funds during the November 2009 special session of the Nebraska legislature.

Sneller asked Sorum to comment on a call from the tax commissioner, on preparing an agency budget proposal, and on changes in NEB revenue due to ethanol denaturing. Sorum reported that the Legislature had asked for new projections on the EPIC fund in light of recently passed legislation that ends the corn and sorghum check-off three month early in 2012. NEB now projects a deficit of \$500,000 occurring in the fund in late FY 2011.

Sorum said despite the 2009 federal farm bill lowering the maximum level of denaturant for ethanol producers, revenues are stronger because all 24 Nebraska plants are in operation and most appear to be operating at or near capacity.

Paul Kenney asked about the status of the Aventine plant under construction in Aurora. Sneller said that the Aurora Co-Op has been asked to originate grain for grinding beginning in September.

Monahan presented payment and per diem reports for January and February. For January: Contracts: \$476.57; Dues/Registrations/Subscriptions: \$1,088.99; Internal Agency Expenses: \$2,283.72; Department of Agriculture EPIC admin costs: \$2,848.43.

For February: Contracts: \$618.45; Dues/Registrations/Subscriptions/Sponsorships: \$436.80; Meeting & Travel Expenses: \$1,872.16; Internal Agency Expenses: \$994.90; Department of Ag EPIC January admin costs: \$1,483.92. Balance of the Dr. Spalding Ethanol Spill Remediation Fund: \$22,314.41; balance of Dr. Nouredini's Carbohydrate Utilization of DDGs project: \$15,143.00; balance of David & Associates Marketing contract: \$46,004.90; balance of Morgan & Associates agency services contract: \$3,004.00.

Per Diems were paid to Brodersen, Else, Frenzen, Hanson, Kenney, McColley and Thede for the January board meeting in Lincoln.

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

EPIC Fund Report

Sorum provided an update on the Ethanol Production Incentive Cash Fund (EPIC). The balance of the EPIC fund as of March is \$10,226,312. Sorum projected a deficit in the fund by the end of the current FY. With new plants online and eligible plants producing at or near capacity, a deficit of \$5 million is expected by the sunset of the program. The legislature will likely address this shortfall in a special session or the 2011 legislative session.

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 an update on marketing activities. David & Associates is collaborating with the Nebraska Ethanol Board, Nebraska Corn Board and Nebraska Lottery on the Trucks and Bucks Nebraska lottery giveaway, which will include a Flex Fuel Vehicle and ethanol fuel cards. David & Associates also updated art for a reprint of the Nebraska ethanol plants map brochure, and provided design work for Forum

print materials. A banner, with a message from Nebraska ethanol organizations, was designed and printed by David & Associates and will be at the ethanol sponsor section of the Nebraska Nature and Visitor Center near Alda.

Sneller said he would be asking NEB staff, particularly Monahan, to create materials to be featured at the ethanol booth at the Nature Center. The Center had asked for a three-year sponsorship; the NEB authorized a one-year sponsorship with partners. Buchholz noted that as a Nature Center sponsor, NEB would have access to the center's meeting facilities.

Sneller said NEB staff is reprinting the ethanol plant brochure, which includes production capacity, corn demand and employment numbers for each plant in Nebraska. Sorum and DeFrain have been cooperating on news releases when ethanol sales hit a milestone.

Staff is also working with Nebraska Department of Roads to have the standard blue E85 road signs installed near Interstate exits with nearby E85 stations. A business-card type handout and signage directing people to the NEB website will be printed and distributed by the Nebraska Division of Travel and Tourism at 15 official state visitor centers located within I-80 rest areas. Paul Kenney asked if the FFV branding featured on FFVs could be incorporated in E85 signage. Sneller pointed out that each manufacturer uses different flex fuel branding on their FFV models. The logos will be incorporated on signage to link FFVs with E85 signs.

Sneller reported that the Nebraska Environmental Trust had awarded a \$650,000 grant to help fund a \$1.2 million compressed natural gas (CNG) refueling station in Omaha to service 62 CNG vehicles in Omaha. NEB will work with others to expand the alternative fuels initiative by filing an application for grant money to increase E85 availability. The NET rationale for funding was based on a goal of improving air quality. The greater Omaha area is on the verge of noncompliance with air quality standards, and increased E85 could help mitigate this. With over 85,000 FFVs in Nebraska, more E85 could have a positive impact on air quality.

Noureddini Research Extension

Sorum reported that Dr. Hosssein Noureddini has requested a six month, no-cost extension on his research contract. Noureddini had said he was having trouble recruiting graduate students for the project.

Dr. Hendrix said that this was a common issue with grant-funded research; by the time funds are granted, the original graduate students have moved on. Sneller asked if there was any additional language NEB should include in a letter to Noureddini about research budgeting. Hendrix suggested including a condition on funding that budget categories in the research project cannot be altered beyond 5% without approval from NEB. Dr. Yiqi Yang said that UNL has a policy in place requiring the funding agency to approve spending beyond a 10% change in any budget category.

Kenney moved, "To grant a no-cost contract extension for Dr. Noureddini's Distillers Grains Carbohydrate Utilization project (Contract 60-00-258) by six months to December 30, 2010."

Brodersen seconded. The motion passed (yes: Else, Hanson, Kenney, Thede, Brodersen; no: - ; absent and not voting: Frenzen, McColley.)

Axxis Price Reporting Renewal

Sorum reported that NEB staff has tracked rack prices of ethanol and gasoline since 1980. NEB currently subscribes to the Axxis price reporting service, which provides daily rack prices from terminals in Omaha, Doniphan and North Platte. Staff shares this subscription service information on a per request basis with developers, researchers, financial analysts and students. Sneller noted that this is one of the most extensive price databases. Sorum said he had negotiated with Axxis, resulting in a discounted price of \$600.

Else moved, “to approve the March 2010 through February 2011 annual subscription to Axxis Daily Price Service in the amount of \$600.” Kenney seconded. The motion passed (yes - Hanson, Kenney, Thede, Brodersen, Else; no: - ; absent and not voting: Frenzen, McColley).

Special Presentations

Sneller introduced the first guest speaker, Dr. Yiqi Yang, a professor of Textiles, Clothing and Design, and Biological Engineering, at the University of Nebraska-Lincoln. Dr. Yang spoke on the medical applications of nano fibers made of zein proteins extracted from corn ethanol distillers’ grains.

Sneller then introduced Ron Lamberty of the American Coalition for Ethanol (ACE). Lamberty spoke about ACE’s “BYO: Blend Your Own” program to promote ethanol blender pumps.

A copy of both presentations and audio is at NEB’s “NEB Meetings” page at <http://www.ne-ethanol.org/events/nebmeetings.htm>.

Sneller talked about the E85 direct marketing workshops NEB had organized in 2008 and noted some of the difficulties in encouraging greater E85 retail sales. Another issue is that consumer buying habits are driven largely by price, and many distributors and retailers do not price E85 competitively, when compared to gasoline. NEB staff encourages awareness of new E85 pumps by alerting area media and sending mass mailings to FFV owners in the service area.

Else asked why E85 is priced lower at some retailers. Sneller said that some retailers must agree to sell only products from their branded supplier, which frequently does not price E85 competitively. However, Patriot Fuels in Sutherland has a direct marketing arrangement with the nearby ethanol plant, and has been able to sell E85 at \$1 less than regular unleaded. Unfortunately, many retailers and gas distributors do not pass on the low selling price or benefit of the VEETC credit to the consumer. Brodersen noted that one retailer in Hastings prices E85 30 cents lower than regular despite margins of nearly a dollar a gallon on ethanol. Some retailers don’t sell E85 because they have outdated pump equipment, and installing new E85 capable equipment can be costly.

Theede said that because of the mileage efficiency loss of E85, consumers won't buy it unless it's priced at least 20% lower than gasoline.

2010 Forum Update

Sneller provided an update on planning for the Ethanol 2010: Emerging Issues Forum. He noted that about 85% of seats have been filled, and expects another sellout year. Dallas Tonsager, Undersecretary for Rural Development of the USDA, will be a keynote speaker. Other speakers include Paul Argyropoulos of the U.S. Environmental Protection Agency (EPA) and Cindy Bryant of Novozymes. NEB staff is promoting the Forum among area ethanol producers. Sneller asked board members to let Monahan know if they wish to attend the Forum.

Ethanol Plants and ANEEP Updates

Theede thanked Schmit for his work on the ethanol legislative reception on March 18. Schmit noted the Association of Nebraska Ethanol Producers (ANEEP) had a new member: the newly reopened Nebraska Corn Processing ethanol plant at Cambridge. ICM has also joined as an associate member, and Schmit is lobbying the plants at Wood River and Lexington to join. Currently 20 Nebraska plants are ANEEP members. Schmit expects the legislature's transportation committee to introduce a bill to fund the highway trust fund, which may include an excise tax on ethanol.

Sorum commented that LB689 may impact the EPIC fund, ending the corn and sorghum checkoff funds to EPIC three months early. Schmit said that the tax commissioner interpreted that language differently than Senator Langemeier.

Brian Terborg of Nebraska Corn Processing in Cambridge provided an update on the reopening of the Cambridge plant. Zeeland Farm Services closed on the plant purchase in January and began grinding corn on March 2. The plant has been running relatively well, at nameplate capacity, employing 32 workers. Zeeland Farm Services (ZFS) is based in west Michigan and is a 60 year old company with roots in trading grain and feed, truck transportation and grain processing. ZFS is a majority parent of Nebraska Corn Processing, which is the subsidiary that owns and operates the Cambridge plant.

Bob Miller of E-Energy Adams reported that their plant is running well. They have recently installed a new CO2 scrubber and have been working with Nebraska Department of Environmental Quality (NDEQ). E-Energy has been told by NDEQ that any change in their production process in terms of yield or cost would require advanced approval from NDEQ's air division, including air emission impact estimations. Miller said the plant would like to create a "buffer zone" in their process so they are sure not to exceed 10 tons of emissions.

Duane Kristensen of the Chief Industries plant in Hastings reported that the previous day's ANEEP meeting in Adams had a guest from NDEQ. The industry is encountering some confusion from regulators. The industry is functionally capped at about 10% of the motor fuel market due to the cap of 10% ethanol blends in non-FFVs.

Sneller said the onus of enforcement is on the retailer to not allow drivers to purchase E85 for use in a non-FFV. There have been two known cases of enforcement by EPA.

Sneller said McColley had asked him to mention that Steamfitters were actively working to let contractors know of their interest in performing some of the work to be done at the Aventine Aurora West plant.

State and Federal Legislation

Sneller noted the discussion with NDEQ in the recent ANEEP meeting. Sorum, Sneller and NEB budget subcommittee will meet after the NEB meeting to discuss agency budget issues. Sneller expects a ruling on the E15 waiver in August, and has received calls from chemical engineers on compliance documentation issues. Sneller noted an EPA representative who works with the RFS will be a guest speaker at the April Ethanol Forum.

Chair's Report

Thede commented on a map showing the E10 market share. Thede said it's striking that Nebraska and Iowa have lagged in ethanol consumption when they are the largest producing states. NEB needs to encourage more ethanol use in state.

Sneller said that NEB staff, in the past, has worked with Buchholz on ethanol pump programs, involving FFA chapters and youth groups to encourage new drivers to buy ethanol blended fuels. Brodersen commented that the easiest way to do that would be with cheaper ethanol prices. Hanson suggested providing startup money for new ethanol pumps with agreements requiring them to sell E85 below regular gasoline prices.

Kenney asked why ethanol consumption had jumped in some states. Sneller replied that Minnesota had passed a state law requiring 10% ethanol in all gas. Iowa provides a tax incentive to the fuel marketer. Sneller recommended repealing the state law which requires labeling of gasoline that contains ethanol and proposes voluntary labeling.

Administrator's Report

Sneller commented on the BIO Nebraska Initiative introduced by Senator Annette Dubas. What started out as an ag-based initiative includes biosciences, pharmaceuticals, and other industries. NEB is a member of the association. Nebraska has spent \$300 million on ethanol incentives, which generated over \$5 billion in capital investment and related economic activity.

Sneller also mentioned participating in a web cast at the UNL extension office on the state of the biofuels industry. He will be attending a meeting with USDA Rural Development in Kearney on March 29, participate on a UNL Law College panel, and meet with Maxine Moul and Cargill representatives to plan the tour with USDA Undersecretary Dallas Tonsager. NEB has sent reminders to ethanol producers to apply for USDA funds. One producer was awarded \$1.3 million in USDA grant funds encouraging alternative feedstock uses, in this case grain sorghum.

Travel Reports and Authorization

Sneller said he is soliciting other groups to cover NEB travel expenses when asked to travel in some cases.

Kenney moved, "To approve three travel requests for out-of-state travel: BIO International Conference in Chicago May 3-6 (Sneller); Fuel Ethanol Workshop and Expo June 14-17 in St. Louis (Sneller and Sorum); and EPAC Annual Meeting June 26-27 in Missoula, MT (Sneller)." Hanson seconded. The motion passed (yes: Hanson, Kenney, Thede, Brodersen, Else; no: - ; absent and not voting: McColley, Frenzen.)

The Governors' Biofuels Coalition has agreed to cover part of the travel expenses for the BIO International Conference.

Next Meeting Date and Time

Board and staff decided to set the next meeting for June 4, possibly at the Union Pacific building in Omaha.

Adjourn

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

Handwritten signature of Tim Else in cursive script, followed by the initials "Sec." to the right.

Tim Else, Secretary