



NEBRASKA ETHANOL BOARD

STATE OF NEBRASKA

DAVE HEINEMAN
GOVERNOR

TODD C. SNELLER
ADMINISTRATOR

NEBRASKA ETHANOL BOARD MEETING MINUTES

Chase Suites
200 South 68th Street, Lincoln
September 12, 2008
8:30 a.m.

MEMBERS PRESENT

Tod Brodersen
Tim Else
Steve Hanson
Jim Jenkins
Mark McColley
Michael Thede

MEMBERS ABSENT

Dave Hallberg

GUESTS

Terry Anderson
Dave Buchholz-David & Assoc.
Joe Francis-NDEQ
Seth Harder-Husker Ag
Terry Hejny-NE LEAD Program
Grant Johanson-Advanced BioEnergy
Paul Johnston-Farm Bureau
Shelley Kaderly-NDEQ
Randy Kline-NE Corn Board
Bump Kraeger-Prime BioSolutions

ADVISOR ABSENT

Dr. James Hendrix

STAFF PRESENT

Todd Sneller
Steve Sorum
Gerri Monahan
Billy DeFrain

Greg Krissek-ICM
Bobbie Kriz-Wickham-Ne Dept. Ag
Donis Petersan-NPPD
Jay Ringenberg-NDEQ
Jeff Scharping – ICM
Loran Schmit-ANEPP
Piyush Srivastav – NE Air Quality
Specialties
Nick Stenke-NE Air Quality Specialties
Dayle Williamson-Sen. Ben Nelson's Ofc.

Call Meeting to Order

A meeting of the Nebraska Ethanol Board (Agency) convened on Friday, September 12, 2008, at 8:30 a.m. The meeting was held at Chase Suites, Lincoln, Nebraska. Chair Jenkins 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

Jenkins asked for additions or corrections to the agenda. Seeing none, McColley moved “to approve the July meeting agenda as printed.” Thede seconded. The motion carried by acclamation. Sneller noted that Hallberg had granted his vote by proxy to Chair Jenkins in writing before the meeting.

Minutes

Jenkins asked if members had reviewed minutes of the July board meeting. Following a review, Jenkins asked if there were any additions or corrections to the minutes as presented. Hearing none, he asked for a motion to approve the minutes. Thede moved, “to approve the minutes of the July 18, 2008, meeting as printed.” Else seconded. The motion carried by acclamation.

Budget Status Report

Sorum presented the budget report for the first two months of FY 2008-2009. Agency 60 has expended \$82,929, approximately 16.4% of its FY 09 appropriation. Agency retained around \$97,000 unencumbered funds from the previous FY, leaving the Agency with a \$672,809 total operating budget for FY09.

Sorum reported that he was submitting the Agency budget request for the next biennium for \$640,000. Agency revenue is tied to denaturing levels, and as producers denature at lower levels the Agency receives less revenue. The Agency will testify before the appropriations committee in April regarding the budget request.

McColley asked what denaturing number Sorum uses while projecting Agency revenue. Sorum said he uses 1.9%, the most conservative estimate. Sorum noted that about 17% of the FY had elapsed and that the Agency’s budget is in good shape.

Monahan presented the spending and payment report for the months of July and August. For the month of July: Contracts: \$385; Dues/Registrations/Subscriptions: \$2,085.28; Meeting and Travel: \$2,840.39; Internal Agency Expenses: \$9,187.96.

For the month of August: Contracts: \$786.95; Dues/Registrations/Subscriptions: \$1,545.20; Meeting and Travel: \$2,929.81; Software: \$1,240.07; Internal Agency Expenses: \$4,289.40.

Per diems: Brodersen, Else, Hallberg, Hanson, Jenkins, McColley and Thede received per diems for the July meeting.

Hanson moved, “to accept the July and August payment and per diem reports as presented.” Brodersen seconded. The motion carried (yes-McColley, Thede, Brodersen, Else, Hanson, Jenkins, no-, absent and not voting-Hallberg).

EPIC Fund

Sorum presented the Ethanol Production Incentive (EPIC) fund report. Fund balance as of August 1 was \$22.9 million. Revenue from corn and sorghum came within \$1,000 of projections. The fund is on target to meet obligations in 2010-2011. Ethanol production has been lower than projected and so fund expenditures have been about 10% lower than projected. Sorum believes EPIC funding will be an issue in the 2010 legislative session as it will likely require a transfer from the general fund to remain solvent. The fund is seeing large draw downs in two months but this will balance out over the course of the year.

Ethanol Marketing Programs

Buchholz summarized marketing activities by David & Associates. The firm has recently completed an updated reprint of the ethanol plants in Nebraska map and the "Food and Fuel" issue brief. They are preparing for a new white paper by Jenkins called "From Ranch to Restaurant."

The company is also working with EPIC on the ethanol rebranding effort and expects the new labels to be in every state by the end of the year. Sneller asked if they were getting pushback from any states, markets or retailers on the pump label rebranding effort. Buchholz noted that there was resistance in a few states as states have differing requirements for pump labeling, but that have had good support so far.

Sneller reported that the Agency would begin work on a new white paper on environmental improvements in the ethanol production process. The white paper will include information from an upcoming EPA review of the combined heat and power (CHP) process, and advances in water conservation. The "Energy Balance" issue brief will also be updated, and the *Ethanol Across America* campaign has received money from the USDA for an ethanol promotional radio program.

Sorum summarized ethanol sales trends. Through the month of June, 79% of all motor fuel sold in Nebraska contained ethanol. Sorum also noted that the Nebraska Attorney General was prosecuting consumer fraud cases against some retailers for selling up to 30% ethanol blends while labeling and pricing the blends as E10. Prosecutions began when State regulators were contacted by rival retailers.

Sneller reported that he was meeting with the Fire Marshal to discuss safety regulations. Sneller noted Kansas' aggressive blender pump program, ACE's guidance program, and the need to balance environmental and consumer protections in the proliferation of blender pumps.

Hanson remarked that the enforcement of fines against retailers is a disincentive to blender pumps. Currently, retailers can be fined if a consumer fills their non-FFV with an ethanol blend higher than 10% because this affects the car's emissions and violates environmental standards.

E85 Program Update

Sneller summarized Agency work on aiding new E85 pumps in opening. The Agency is soliciting donations from ethanol producers to implement a direct mail campaign to build an e-

mail list of FFV owners, and noted that VeraSun and Abengoa have been proactive in market development.

Jenkins asked about the prospect of direct marketing of ethanol. Sneller noted that the Ravenna Co-Op has an arrangement with the nearby ethanol plant. Brodersen said that most distributors won't do direct farm delivery because the storage and handling is not at a large enough scale to be worth it.

Krissek noted that only one or two ethanol plants blend motor fuels on site. The biggest obstacle for this is the additional storage capacity needed to store denaturant. One way to proliferate blender pumps would be to encourage retail-site blending. This would enable retailers to capture the VEETC blending tax credit and provide a lower price to the consumer. Krissek said 25 retailers have installed their own on-site blending facilities.

Ethanol Summits

Sneller updated the board on a number of upcoming regulatory summits. A DEQ summit is planned for September 25 in Grand Island. The summit will be preceded by an ANEEP meeting in Grand Island on September 24.

Sneller also updated board on upcoming policy forum. Staff is organizing media and policy forum scheduled for October 24 in Omaha as per Chair Jenkins' request for such a forum at the July 18 board meeting. The next board meeting is scheduled for the afternoon of October 23, also in Omaha. Staff is working to attract attention and participation from local media and journalism schools. Schmit and McColley are also helping garner attention from producers, labor interests and government officials.

Sneller asked board for authorization to begin planning 2009 Ethanol: *Emerging Issues* Forum in Omaha. Hanson moved, "to authorize the NEB staff to begin planning the 2009 Emerging Issues Forum." Brodersen seconded. The motion carried (yes-Thede, Brodersen, Else, Hanson, Jenkins, McColley, no- absent and not voting-Hallberg).

State and Federal Legislation

Sneller reported that congress seems intent on further energy legislation before the presidential election. Sneller testified before the Ag Committee in a hearing concerning LR350. Sorum reported that two bills proposing a state ethanol excise tax on ethanol are likely to resurface in the 2009 session of the Nebraska legislature.

Schmit noted that he had witnessed an increased interest in ethanol issues at fundraisers. Livestock producers have spoken to legislators and have given up on a grain export tax.

Break

Special Presentation

Sneller introduced the special guest speaker, Jeff Scharping of ICM. Scharping presented on the Total Kernel Optimization (TKO) process, which is an add-on production process they offer to build for ethanol plants. The process enables producers to derive more ethanol and co-products from less corn. ICM aims to make the "food vs. fuel" debate irrelevant while reducing inputs and

increasing profitability for producers. TKO is a dry fractionation process that breaks a corn kernel into its components and separates these components for different processes and products. Cellulose from the germ can be used as a feedstock for cellulosic ethanol; bran can be used as syngas to displace up to 40% of a facility's natural gas demand. Increased profitability can help shield producers from high corn prices, because ethanol prices typically follow gasoline prices. ICM estimates their TKO process can add an additional 15 cents in revenue per gallon of ethanol produced.

The process add-on is ideal for retrofitting a 100 mgy capacity plant. ICM estimates costs of the add on starting at \$15 million for a 55 mgy drymill plant, with a 12 month build time and full recoup of costs within two years.

Ethanol Plant Status Report

Seth Harder of Husker Ag reported that their plant is running well. They are adding a back-end process and have submitted papers to NPPD for development of a Combined Heat and Power project.

Thede reported that the St. Paul project had secured funding for further development.

Sneller reported that the Wahoo ethanol project was being dismantled, and that bankers and developers are actively seeking investors to revitalize the project at Carleton. Sorum is compiling a list of potential ethanol plant sites. The Columbus expansion project has been delayed until the fourth quarter of 2009.

Hanson reported that the Bridgeport plant plans to open soon.

Chairman's Report

Jenkins delivered his chairman's report. Jenkins asked board to review the list of ongoing ethanol research in Nebraska. Almost every major issue for the industry has gone through the Board and staff. Jenkins noted that service achieved with only four staff members. There is nowhere to go in this state with wind development issues and the state needs a body like the Ethanol Board to encourage the development of other alternative energies.

Jenkins recounted his experience testifying before the Senate Ag committee. He spoke with many cattle and pork producers and noted tremendous bitterness against the ethanol industry. Feeders are advocating a return to a free market, but the US needs to address the \$700 billion going overseas via oil imports. The notion that the US has built anything without a subsidized infrastructure is absurd, Jenkins concluded. Ag Department director Greg Ibach has taken criticism from the cattlemen. Jenkins noted that we need to move the state forward in energy policy and that we cannot let the cattlemen own the debate.

Administrator's Report

Sneller gave his administrator's report. Board advisor Hendrix will review the research list and proposals before he makes recommendations for new research to conduct. Sneller noted a meeting later that afternoon with the ethanol job training committee.

Terry Hejny of the Nebraska LEAD program introduced himself and thanked the Board for their continued support of the program. The program will start a new class in the fall and Hejny gave

Sneller the annual report of the program. Sneller also noted a recent memo from the RFA highlighting corn and ag statistics.

Trip/Meeting Reports and Travel Authorization

Sneller recapped board and staff travel since the July 2008 board meeting. Sneller asked for authorization for upcoming work-related travel. Sneller noted that when he is asked to attend a meeting or conference he commits only if travel or lodging expenses will be reimbursed.

McColley moved, “to approve travel requests for Sneller to attend the ACE board meeting in Sioux Falls, South Dakota.” Brodersen seconded. The motion carried (yes-Brodersen, Else, Hanson, Jenkins, McColley, Thede; no- absent and not voting-Hallberg).

Next Meeting Date and Time

October 23 at 1 p.m. in Omaha was set as the next Board meeting date and location.

Adjourn

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

X _____
Steve Hanson, Secretary