



NEBRASKA ETHANOL BOARD

STATE OF NEBRASKA

DAVE HEINEMAN
GOVERNOR

TODD C. SNELLER
ADMINISTRATOR

NEBRASKA ETHANOL BOARD MEETING MINUTES

Nebraska Nature & Visitor Center
9325 South Alda Road
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
Gerri Monahan
Billy DeFrain

STAFF ABSENT

Steve Sorum

TECHNICAL ADVISOR

Dr. James Hendrix

GUESTS

Doug Anderson—BioFuel Energy
Dale Brandstetter—BioFuel Energy
Kelly Brunkhorst—Nebraska Corn Board
Dion Banks—Cambridge Environmental
Doug Burks—Southeast Community College
Tory Kort—Chief Ethanol
Duane Kristensen—Chief Ethanol
Steve Martin—Neb. Dept. of Agriculture
Bill McInturf—CFO Systems

Jay Ringenberg—Neb. Dept. of
Environmental Quality (NDEQ)
Loran Schmit—ANEPP
Ralph Scott—Trenton Agri Products
Tom Slunecka—Phibro CHEM
Piyush Srivastav—Neb. Air Quality
Specialties
Deb VanMatre—Congressman Adrian
Smith's Office

Call Meeting to Order

A meeting of the Nebraska Ethanol Board (NEB) convened on Friday, September 17 at 8:36 a.m. The meeting was held at the Nebraska Nature and Visitor Center near Wood River. 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. Hanson moved "to approve the September 17, 2010, meeting agenda as printed." Kenney seconded. The motion carried by acclamation.

Minutes

Thede asked if members had reviewed the minutes of the June 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. Frenzen moved, "to approve the June 4, 2010, meeting minutes as printed." Brodersen seconded. The motion carried by acclamation.

Budget Status Report

Sneller presented the NEB budget report, including activity through August, representing 16.7% of the fiscal year. Sneller noted last year's transfer from the NEB cash reserve to the state's general fund, and that another transfer would take place in the next month. These transfers are reflected in the NEB "core" budget. NEB is on track with its core budget, and slightly under expended in each budget category.

Sorum recently submitted the NEB budget request for the next two fiscal years. Sneller said the budget was based on the previous NEB core budget, and that budget application process was more complicated than in the past. In prior years, the NEB has tried to maintain about a year's worth of expenditures in a cash reserve, but this year the Governor is "strongly suggesting" only a three month cash reserve. The only increased budget category will be for market development funds. The budget request will go to the Legislature's Natural Resources Committee for review, then to the Appropriations Committee. NEB was required to describe the "agency vision, core values and principals, management procedures and philosophy" in the budget request. Sneller acknowledged Sorum's extensive work on the budget request. A summary of the NEB budget request was included in board meeting folders.

Monahan presented payment and per diem reports for June, July and August. For June: Contracts: \$280.00; Dues/Registrations/Subscriptions/Sponsorships: \$29,239.75; Meeting and Travel Expenses: \$5,158.76; Other: \$3,473.89; Internal Agency Expenses: \$2,632.90; Department of Agriculture Ethanol Production Incentive Credit (EPIC) admin costs: \$1,151.53.

For July: Contracts: \$30.96; Dues/Registrations/Subscriptions/Sponsorships: \$337.45; Meeting & Travel Expenses: \$1,492.77; Other Expenses: \$216.00; Internal Agency Expenses: \$2,409.44; Department of Ag EPIC June admin costs: \$1,578.99.

For August: Contracts: \$0; Dues/Registrations/Subscriptions/Sponsorships: \$92.40; Meeting & Travel Expenses: \$1,251.29; Internal Agency Expenses: \$5,949.96; Department of Ag EPIC July admin costs: \$1,322.49.

Balance of the Dr. Spalding Ethanol Spill Remediation Fund: \$0; balance of Dr. Nouredini's Carbohydrate Utilization of DDGs project thru December 30, 2010: \$15,143.00; balance of David & Associates Marketing contract thru June 30, 2012: \$41,825.89; balance of Morgan & Associates agency services contract thru June 30, 2011: \$4,999.00.

Per Diems were paid to Brodersen, Else, Frenzen, Hanson, Kenney, McColley and Thede for the June Board meeting; to Frenzen for the ADM event at Columbus; and to Thede for meetings with Sen. Haar in Lincoln and meeting with Sneller in Grand Island.

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

EPIC Fund Report

Sneller provided an overview of the EPIC fund for 2010 and 2011. Sneller noted a recent meeting with Sorum, Schmit and the Nebraska Department of Revenue regarding payments from the fund to ethanol producers. Transfers to the EPIC fund totaling \$4 million have and will take place before October. Based on current projections, these transfers should prevent proration of payments. Sneller commended Schmit on his time spent on this issue. Ten ethanol plants are currently eligible for EPIC payments. Three will conclude their eligibility at the end of this year. The EPIC program sunsets in 2012. Thede asked if the transfer will keep the fund solvent through its conclusion. Sneller replied that it will likely keep the fund solvent at least through December when new projections must be prepared for the Legislature.

Ethanol Marketing Programs

Sneller summarized a number of ethanol marketing programs on behalf of Dave Buchholz of David & Associates and noted an article in the meeting folders which reports on grant money in other areas of the country going toward additional ethanol infrastructure. Most of that money is spent on the installation of new ethanol blender pumps. Sneller noted NEB involvement in the Flex Fuel Vehicle Awareness program started by the Clean Fuels Development Coalition. He had recently heard at a presentation that 65% of flexible fuel vehicle (FFV) owners don't know they can use E85, and those that do often don't know where to find E85. Sneller noted that Monahan has spent time talking to Nebraska Visitor Center staff along the interstate and distributing print materials directing drivers to the E85 locations on the NEB website. Printed materials also include the FFV badges manufacturers include on their FFVs to help drivers identify their car as an FFV. Growth Energy and the Nebraska Corn Board continue to provide

grant funds for retailers to install E85 and blender pumps. Sneller had spent time this week on the phone with an Atkinson retailer who was interested in installing an E85 pump. Potential E85 marketers often have questions about RINs, underground tanks, taxes, and other issues. Sneller also noted a grant application submitted by DeFrain to the Nebraska Environmental Trust for an ethanol Clean Cities project focusing on Omaha.

Hanson and Kenney said NEB needs to do more to get information out to retailers who are considering blender or E85 pumps. Sneller said NEB is working on this, and Kelly Brunkhorst said that funds for new pumps are still available through the Nebraska Corn Board.

Sneller also mentioned that he and DeFrain would be working on updates of the Economic Impact of Ethanol and Energy Security Issue Briefs. He noted that the Ethanol Fact Book has been updated, printed and is being distributed. Sneller asked the board to authorize the purchase of an blender pump pull-up display.

McColley moved, “to approve up to \$750 for a blender pump pop-up display for promotional purposes.” Hanson seconded. The motion carried: (yes: McColley, Thede, Brodersen, Else, Frenzen, Hanson, Kenney, no: -).

Monahan reported on her time at the Nebraska State Fair in Grand Island. She noted negative comments about ethanol from corn farmers, and felt it was important to have someone at the Ethanol Board booth at the state fair every day. Hanson agreed. Board members and plant personnel will be asked to help out next year. Thede asked if comments seemed different from when the fair was held in Lincoln. Monahan said it seemed different from Lincoln. She noted Loran Schmit’s assistance at the State Fair booth this year.

Special Presentation—Dale Brandstetter, Pioneer Trail Energy

Sneller introduced Dale Brandstetter, the plant manager of the Pioneer Trail Energy ethanol plant at Wood River. Brandstetter provided an overview of the plant in preparation for a tour which was to follow the meeting. Audio of Brandstetter’s update is online at NEB’s “NEB Meetings” page at <http://www.ne-ethanol.org/events/nebmeetings.htm>.

Guest Speaker – Tom Slunecka, Phibro Chem

Sneller introduced Tom Slunecka of Phibro Chem’s Ethanol Performance Group. Slunecka discussed Phibro’s Lactrol product used in ethanol production. Audio of Slunecka’s update is online at NEB’s “NEB Meetings” page at <http://www.ne-ethanol.org/events/nebmeetings.htm>.

State and Federal Legislation

Sneller asked for guidance from board members regarding NEB’s position on the issue of federal ethanol tax credits. The Volumetric Ethanol Excise Tax Credit, also known as VEETC, is a credit of \$.45 for every gallon of pure ethanol blended into gasoline. VEETC expires at the end of the year and different biofuels groups are advocating for different policy proposals. Sneller noted that the expiration of the biodiesel tax credit had negatively impacted the biodiesel industry. There seems to be little to no support in Congress for a renewal of VEETC in its current

form. Proposed alternatives include incentives for producers as opposed to blenders, funds for increased retail infrastructure, and mandatory FFV capability in all new vehicles. Sneller said NEB will be among groups asked by members of Congress for its position on legislative proposals. Sneller said that once a policy proposal becomes more specific, he may send bullet points to board members or organize a conference call to discuss the proposal and the board's position.

The proposal may include a one year extension of VEETC at a reduced amount of 20 to 35 cents per gallon, but paid directly to the producer. Additional incentive could be provided for increased environmental performance.

Duane Kristensen noted that Congress has relatively few working days left before the end of the year, and the industry is feeling a sense of urgency as it does not want to be "biodieseled." With ethanol prices currently above gas prices, the tax incentive is more important. The various biofuels groups seem to be gradually moving toward a common position.

Brodersen asked if it was a possibility that there would be no further legislation, should the various biofuels groups not reach a consensus. Sneller said that is a possibility.

Sneller also covered other legislative and regulatory issues. A lawsuit is pending against the California Air Resources Board challenging its Low Carbon Fuel Standard (LCFS). The Nebraska Corn Board and 11 other organizations, including the NEB, have signed a letter urging Attorney General Jon Burning to assist in resolving the issue. Sneller commended the work of Dr. Adam Liska and Dr. Ken Cassman of the University of Nebraska – Lincoln regarding the climate impact of oil and the military resources devoted to the defense of oil supply lines.

Tory Kort from Chief Ethanol discussed monitoring greenhouse gas (GHG) and CO₂ emissions from the Chief plant and compliance with NDEQ regulations. Currently the state must enforce air quality requirements at a minor source level. If the plant is considered a major source emitter, then enforcement is up to the U. S. Environmental Protection Agency (EPA). The Nebraska Industrial Council on the Environment is holding a meeting the following week to share proposed language on regulations. Kort is concerned about state regulations becoming more stringent than federal regulations.

Jay Ringenberg from NDEQ spoke about Nebraska's air quality compliance with federal regulations. New EPA air quality rules will take effect on January 2, 2011. New ozone standards implemented on August 23 designates an area including Douglas, Saunders, Cass and Washington counties, and two western Iowa counties, as being on the cusp of "non-attainment" status. If the areas are considered non-attainment, the states must create and implement a plan to bring the area into attainment, which may include measures such as increased biofuels use and more stringent air emissions requirements on industrial emitters. This would also require 35 new workers at NDEQ to evaluate the state's compliance with ozone standards. Prolonged non-attainment status would result in the state losing money from the federal highway trust fund (HTF).

Hanson asked if the emissions flow northwest. Ringenberg said that in hot weather, you can see volatile organic compounds (VOCs) emitted as gases from certain solids or liquids and moving through the air and settling as it cools. Non-attainment could also mean additional ozone monitors in the Grand Island area. EPA is reviewing the threshold for non-attainment status, and that review could determine the Omaha metro area's status. Sneller asked about the size of the non-attainment area around Des Moines. Ringenberg noted that non-attainment status is designated by county. McColley asked what is motivating EPA to lower the ozone standard. Ringenberg replied that EPA believes current ozone standards may not be stringent enough for public health, especially at-risk populations such as people with respiratory diseases like asthma. Omaha already has a high number of asthmatics. High ozone also negatively impacts corn crops and cottonwood trees.

Ethanol Plants and ANEEP Update

Loran Schmit provided an update on activities of the Association of Nebraska Ethanol Producers (ANEPP). Schmit commended NEB for its work and noted that ethanol plants may have to prepare for new federal ozone rules. The Attorney General's office may file a suit against the federal rule.

Piyush Srivastav commented that all Nebraska ethanol plants could potentially be newly designated as major source emitters. This would create additional expenses, inspections, fees and scrutiny of the plants.

Paul Kenney reported that the grain storage building at the KAAPA ethanol plant was nearing completion. The plant also recently hosted a barbecue for area farmers. Ralph Scott reported that the Trenton Agri Products plant is running well and is planning its annual fall maintenance the following week. Duane Kristensen reported the Chief plant in Hastings is running as usual, and noted a 13.5 cent increase in corn prices that morning. Spec corn prices have jumped in the past month and a half. Ethanol prices have been staying higher, which makes it easier for producers to absorb the higher corn prices. If corn prices continue to rise, there may be a resurgence of the food vs. fuel debate. Kristensen said USDA Secretary Tom Vilsack had reported that there will be an announcement on the E15 waiver soon.

Sneller noted that DeFrain had been working on the FFV owner database and maintaining the NEB website lists of operating plants and E85 locations. DeFrain summarized his use of the FFV owner database for mass mailings. The database is mostly used to send announcements to FFV owners when a new E85 pump opens in their area. DeFrain also summarized the NEB grant application to the Nebraska Environmental Trust for a project to collect e-mail addresses for Omaha FFV drivers and create an E85 finder application for mobile devices.

Chair's Report

There has been hearing lots of news about VeraSun bankruptcy letters. Lawyers representing the company's creditors have sent letters to producers who had sold the company corn shortly before its bankruptcy, demanding to be returned payment. There have been meetings in

Central City and Ord and in other states on the issue. There is much confusion from corn farmers on the issue. The letter was printed to look like mass mail or junk mail, and many farmers may have unknowingly thrown it away.

Sneller observed that this may have been the law firm's intent so that by not replying, farmers would lose legal standing on the issue. Thede said he does not see a consistent pattern on who is receiving the letters. Initially it seemed limited to farmers who sold corn to VeraSun in the 90 days before its bankruptcy.

Administrator's Report

Sneller noted the upcoming regulatory summit on environmental, health and safety issues in Grand Island on October 7. NEB staff members have created an online registration form for the event, and are seeking sponsors. The Nebraska Trucking Association, Operation Lifesaver and ANEEP have agreed to sponsor. Sneller also asked the board to authorize NEB staff to begin planning the 2011 Ethanol Emerging Issues Forum.

Kenney moved, "To allow NEB staff the authority to initiate planning for the 2011 Ethanol Forum." McColley seconded. The motion carried by acclamation.

Travel Reports and Authorization

Sneller summarized upcoming travel requests and asked for Board authorization. He also reported on the dramatic increase in plant production capacity over the years.

Hanson moved, "to approve Sneller's out-of-state travel request to attend the ACE Board meeting in Sioux Fall, SD in November." Frenzen seconded. The motion passed (yes: Brodersen, Else, Frenzen, Hanson, Kenney, McColley, Thede; no: -).

Next Meeting Date and Time

Sneller said there may be too many scheduling conflicts for a November or December meeting, and asked the board to consider January, after the Nebraska legislative session begins. NEB is required to have at least one meeting per year by statute.

Kenney suggested the board do some strategic planning and set goals, look at the charter and evaluate priorities, and work to become more proactive. Sneller said that the board must do this in a public setting because of Open Meeting Act requirements. Kenney also said he would like to see more involvement from ethanol plants and to get their opinions of NEB and its accomplishments. Sneller noted that all plants are invited to NEB meetings, and that many plant representatives complain about not being able to devote the time to attend. He expressed concern with some attitudes Monahan had encountered at the State Fair, and said NEB could also consider meetings on days other than Friday.

Thede commented that while in Nebraska, 70% of fuels are ethanol blends, other states have surpassed this. Sneller said that some other states have tax law that favors greater usage of ethanol.

Sneller said in a recent discussion with Bosselman, the company has devoted more efforts to increasing the number of E85 and blender pumps. Bosselman has hired employees from Protec to work on this. Brodersen noted that it will be more difficult to increase ethanol demand if the price stays above gasoline.

Adjourn

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

A handwritten signature in cursive script that reads "Tim Else Sec." The signature is written in dark ink on a white background.

Tim Else, Secretary