



NEBRASKA ETHANOL BOARD

STATE OF NEBRASKA

DAVE HEINEMAN
GOVERNOR

TODD C. SNELLER
ADMINISTRATOR

NEBRASKA ETHANOL BOARD MEETING MINUTES

Double Tree Guest Suites
7270 Cedar Street, Omaha
October 23, 2008
8:30 a.m.

MEMBERS PRESENT

Tod Brodersen
Tim Else
Dave Hallberg
Jim Jenkins
Mark McColley
Michael Thede

STAFF PRESENT

Todd Sneller
Steve Sorum
Gerri Monahan
Billy DeFrain

ADVISOR PRESENT

Dr. James Hendrix

GUESTS

Lee Ackerman-Ackerman Consulting
Doug Gilliland-NECC
Dennis Grennan-HDR Engineering
George Hefley-Green Ventures
Paul Johnston-Farm Bureau
Randy Klein-NE Corn Board
Bobbi Kriz-Wickham-NE Dept. Ag
Steve Malone-NE Dept. of Ag.
Phil Lampert-NEVC
Cindy Miserez-State Budget Ofc.
Mark Rathouz-New Media Campaigns
Loran Schmit-ANEPP
Piyush Srivastav – NE Air Quality
Jamie Wewel-UP RR

Call Meeting to Order

A meeting of the Nebraska Ethanol Board (Agency) convened on Thursday, October 23 at 1 p.m. The meeting was held at Double Tree Guest Suites, Omaha, 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. Chair noted that Hanson and Hallberg were absent but would arrive soon.

Approval of Agenda

Jenkins asked for additions or corrections to the agenda. Seeing none, Thede moved “to approve the October meeting agenda as printed.” Brodersen seconded. The motion carried by acclamation.

Minutes

Jenkins asked if members had reviewed minutes of the September 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. McColley moved, “to approve the minutes of the September 12, 2008, meeting as printed.” Thede seconded. The motion carried by acclamation.

Budget Status Report

Sorum presented the budget report for the first quarter of FY 2008-2009. Agency is on target for most spending categories, with the exception of freight, where 43% of the FY budget has been expended. Operative expenses are within 21% and there is nothing unusual to report.

Revenues are running 5% ahead of last year’s due to new ethanol plants that have opened within the last two or three months. The bulk of revenues from ethanol plants is from purchased denaturant. As new plants open up that has an impact on revenue. We are in very good shape at this moment, slightly ahead of where we hope to be in terms of revenue.

Monahan presented the payment reports for September. Contracts: \$16,916.04; Dues/Registrations/Subscriptions/Education: \$848.08; Meeting and Travel: \$2,317.92; Misc: \$300.84; Internal Agency Expenses: \$2,577.97. Balance of Dr. Spalding’s ethanol research project; \$11,960.44.

For the month of September, per diems were paid to Brodersen, Else, Hanson, Jenkins, McColley and Thede for the September board meeting.

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

EPIC Fund Report

Sorum delivered the report on the EPIC fund for all activities through September 30. Fund currently runs a balance of \$16.798 million. Sorum expects fund will hit deficit late in next FY. Agency will meet with the Department of Revenue to discuss fund status as per statute.

The Sutherland plant applied for credits after the four-year eligibility period, but appealed the decision on grounds they had built new plant because of substantial changes to old plant. The State ruled it was substantially new plant so plant qualifies for four new years of EPIC credits. This moves up the projected deficit deadline eight to nine months. Legislative action may be attempted this FY, or a shortfall will trigger proration language, where producers receive prorated credits based on balance of fund.

Hallberg entered the meeting.

Ethanol Research Summary

Hendrix summarized ethanol research efforts on the state and national level. USDA is funding ethanol research on environmental issues and coproducts and cellulosic development. Department of Energy is also funding research. Oil companies are some of the biggest private contributors to ethanol research. The issue of sustainability is becoming more prominent in all areas of research.

Hendrix said that the board needs to define issues unique to Nebraska ethanol industry, including cattle, water issues and transportation.

Sneller asked the board to reflect on its guiding principals on past research, and what part of research can be captured at the University of Nebraska.

Hendrix suggested a strategy for focusing on research. Research can be tied into sustaining economic health of the state, and to limit the scope of research to what can directly help Nebraska. Agency could call for a public Request for Proposal and create a selection panel to include figures from industry, government and academia. Hendrix said the board is not ready and should not be interested in cellulosic research. Outside funding is more likely if research is in areas that is different from research at national labs.

Sneller noted a recent meeting with USDA rural development regarding biomass research, and expressed interest in research areas like water, DDG, dry fractionation, and the impact that may have on the state's cattle industry.

Hallberg asked what research would be good for Nebraska. Right now the state use less than 10% of the ethanol it produces. The board needs to define where money is coming from, research priorities, and how to accomplish these priorities.

Sneller noted the agency's budget distinction between research and market development. And suggested Sorum and Hendrix work together to develop RFP.

Hallberg noted that 25 years ago when he met Sneller, 2 billion gallons of ethanol in Nebraska seemed unthinkable. The distribution challenge isn't as insurmountable as actually producing the fuel. The auto industry is hurting and is lobbying for a \$25 million loan guarantee. They're saying they'll make FFVs. Within five years this state could consume half of its ethanol production. The Board should consider organizing with other states and promoting the use of E30 in Midwest.

Sneller asked board to consider may of Lampert's suggestions. The Nebraska Energy Office sill be announcing its new energy plan and asking for public comments through November 21, and this could be an opportunity for board to offer suggestions. One idea would be to invite John Hanson to work on irrigation engine modifications to run on ethanol.

Hallberg said the new president will address the ethanol tax credit, which expires December 2010. The industry has saved 40 cents per gallon. Most of that money goes to oil companies, and credit should be adjusted to go to ethanol producers.

Jenkins suggested working out a compromise with the cattle industry and to urge them to shift their position on eliminating ethanol mandates and subsidies.

Sneller said that some mechanisms for encouraging blender pump development could include loan guarantees, performance-based incentives, and that Lampert would cover some of this in his presentation. Regional marketing programs and coordination with the GEC would also be important.

Marketing

Sneller noted a new FFV list showing 72,000 FFVs in Nebraska as of October. This is up from around 60,000 in April. Agency is still soliciting funding for the direct mail program to build an e-mail database of FFV drivers in Nebraska.

Brodersen said there was nominal interest in direct marketing of ethanol. Farmers need a blend lower than E85 for their equipment.

Sneller informed board of an opportunity to print promotional items like ethanol pencils. Hallberg moved, "to allow up to \$1,000 for promotional items." Brodersen seconded. The motion passed (yes: Hallberg, Jenkins, McColley, Thede, Brodersen, Else, no:-, absent and not voting: Hanson.)

BREAK

Special Presentations

Sneller introduced the first guest speaker, Phil Lampert of the National Ethanol Vehicle Coalition.

Lampert thanked the Ethanol Board for their membership in the NEVC. Lampert presented on marketing issues and government incentives for encouraging ethanol sales. Lampert said that because we know that FFV can already run on blends higher than E10 it makes sense to concentrate on the marketing of ethanol to FFVs. Nationwide penetration of 10% ethanol totals about 14.3 billion gallons of demand, which leaves only marginal room for growth at a 10% blend.

The Department of Energy is studying the effect of high level blends on conventional vehicles and emissions. Some vehicles have shown a 30 degree increase in temperature in the catalytic converter, which could damage the unit and affect emissions. The auto manufacturers will not endorse E20 because of potential emissions violations.

Lampert summarized ethanol tax incentives, tariffs and development grants. Lampert proposes changing E10 blend to E13 as the minimum ethanol blend. This would create an additional 4.3 billion gallons of demand for ethanol. A copy of Lampert's presentation is included in the minutes folder.

Hallberg disagreed with the catalytic converter issue. Thirty years ago, the auto manufacturers and big oil were saying E10 would damage conventionals, but now that the auto makers are looking for a federal bailout they may be forced to be more amenable to endorsing higher ethanol blends in conventional vehicles. The board should be pushing for the E20 or E30 in conventionals because it will be years before all vehicles are FFVs.

Jenkins left the meeting, granting his proxy vote to Thede. Thede assume Chair duties for the remainder of the meeting.

Hallberg said he expected significant climate legislation to be passed within the first 100 days of the new presidential administration. Sneller reported on a recent meeting with state senator Dubas on energy policy.

Ethanol Plant Status Report

Thede reported that the Wood River plant was operating and that bids on cash corn were aggressive. Cargill leased their storage facility to BioFuel Energy.

Loran Schmit of ANEEP reported that the Bridgeport and Atkinson plants are set to begin production soon. NDEQ will be subjecting plants with a capacity above 100 MGY to more scrutiny as major source emitters.

Sneller said staff has been responding to media enquiries of impending bankruptcies and that they are trying to frame issue in context of other sectors and the recession. Duane Kristensen reported that Chief is running well but new developments may run at a slower pace.

Special Presentation

Don Gilliland of Northeast Community College updated the board on the biofuels education program. He formerly taught in California and noted much opposition to ethanol among students there.

Gilliland reported that out of 12 students in the biofuels program, over half have been offered a permanent job after the complete the program. Central Community College adopted the curriculum and will offer an Associate of Science degree and a one year diploma program. Southeast Community College will soon adopt the curriculum as well, and they are looking to make class credits transferrable to the University of Nebraska.

Gilliland said that it is important to stress to students the consistency and future potential for the biofuels industry as many students have become disheartened by negative media coverage of ethanol.

McColley reported that the Steamfitters have seen an increase in new apprentices, double from the previous year.

Chair's Report

Thede reported that through his work on the US Soybean board, he's become more familiar with the issue of sustainability and that he expects a lot of pressure on this issue from consumers and government in the years to come. Sneller said the message in DC is clear and that many diverse groups are vested in biofuels. The industry must tackle issues of food supply and sustainability.

Hendrix said the board will have to focus on two aspects of sustainability: technological and political. Research from California may concentrate on the source of ethanol as it impacts sustainability. He predicted that significant cellulosic development will not take place in Nebraska. Some corn facilities may add a smaller-scale cellulosic process, but it is unlikely new, large-scale cellulosic facilities will develop in Nebraska. The European Union is also heavily pushing gasification to supplement natural gas demand because this also reduces lifecycle emissions.

Thede said there are some environmental groups who want to define sustainability as a wholly organic process. Some are currently developing an ISO standard for sustainability. Sneller noted that it will be detrimentally to the industry if people with no ag experience are developing sustainability model. The Board should try to help educate and influence this decision making process.

Hallberg said the industry must do more to level the playing field. The baseline for carbon footprint is based on sweet crude production and ignores oil shales and tar sands production, which have five times the footprint as crude.

Administrator's Report

Sneller noted that a date had been set for the 2009 Emerging Issues Forum, April 2-3 and that they are looking for sponsors. Sneller asked board for help in covering public appearances and upcoming events: Governor's Convention on Rural Development and the ACE Meeting.

Travel Report

Hallberg moved "to re-approve travel request for Sneller to attend the November ACE Board Meeting in Sioux Falls, South Dakota." McColley seconded. The motion passed (yes: McColley, Thede, Brodersen, Else, Hallberg; no:-, absent and not voting: Hanson, Jenkins.)

Next Meeting Date and Time

January 9 or 16 was tentatively set as a possible next Board meeting date. Location was not determined.

Adjourn

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

X _____
Steve Hanson, Secretary