



NEBRASKA ETHANOL BOARD

STATE OF NEBRASKA

DAVE HEINEMAN
GOVERNOR

TODD C. SNELLER
ADMINISTRATOR

NEBRASKA ETHANOL BOARD MEETING MINUTES

Chase Suites
200 S 68th Place
Lincoln, NE
November 5, 2009
8:30 a.m.

MEMBERS PRESENT

Galen Frenzen
Steve Hanson
Paul Kenney
Mark McColley
Mike Thede

MEMBERS ABSENT

Todd Brodersen
Tim Else

GUESTS

Terry Anderson—Midwest Producer
Mike Barwig—Tenaska
Steve Bleyl—Green Plains Renewable Energy
Dave Buchholz—David & Associates
Jacki Fee—Cargill
Katie Hadenfeldt—GATX
Randy Hellerich—The Scouler Company
Paul Johnston—Nebraska Farm Bureau
David King—Union Pacific Rail Road
Randy Klein—Nebraska Corn Board

STAFF PRESENT

Todd Sneller
Steve Sorum
Gerri Monahan
Billy DeFrain

ADVISOR PRESENT

Dr. James Hendrix

Natalie Mason—Tenaska
Dick Perrin—UNL Dept. Ag Economics
Amy Recker—Bio Nebraska
Ralph Scott—Trenton Agri Products
Dave Schott—Cargill
Loran Schmit—ANEPP
Piyush Srivastav—Ne Air Quality Specialists
Nick Steinke—Ne Air Quality Specialists
Deb VanMatre—Rep. Adrian Smith's Ofc.
Brian Wilcox—NPPD / ACE

An Oath of Office ceremony was conducted for new board members Galen Frenzen and Paul Kenney prior to the start of the meeting. The Oath of Office Ceremony is the first step a Board Member takes to start their new term of service for the Nebraska Ethanol Board.

Call Meeting to Order

A meeting of the Nebraska Ethanol Board (NEB) convened on Thursday, November 5 at 8:30 a.m. The meeting was held at Chase Suites 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.

Approval of Agenda

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

Minutes

Thede asked if members had reviewed minutes of the August 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. Kenney moved, “to approve the minutes of the August 21, 2009 meeting as printed.” McColley seconded. The motion carried by acclamation.

Budget Status Report

Sorum presented NEB budget report, including activity from the first third of the current Fiscal Year (FY), all activity through October 31. The NEB has a base appropriation of \$782,434. Last year, staff projected declining revenues that would make agency unable to spend at that level, and so developed a core budget of \$560,329. The agency has currently spent or committed just less than 32% of its core budget so spending is on track.

In an effort to balance the state’s budget beset with falling revenues, the Governor has called a special session of the Legislature and asked them to cut spending with no tax increases to meet the projected \$350 million shortfall. The governor’s budget recommendation for the NEB would set a base appropriation of around \$672,000, a \$110,000 reduction for this year but still above the NEB’s core budget. The proposal would also transfer \$214,000 from the agency’s reserve fund to the Ethanol Production Incentive Fund (EPIC), and an additional \$28,000 transfer in the following FY. This is in addition to the \$200,000 transfer from the agency’s reserve fund enacted by the legislature last spring. The combination of these transfers would leave a negative balance in the agency reserve fund. Sorum has spoken with analysts in the governor’s budget office and they appeared to be unaware of the previously scheduled transfer. Reducing the newly planned transfer to \$50,000 would allow the agency to operate at the proposed reduced levels. Sneller will make that request at the NEB hearing before the Appropriations Committee on November 6, 2009.

In hearings last year, staff made it clear that there would be a significant reduction in revenue due to the federal change in denaturant levels. Staff must again explain the budget impact the proposed reductions and cash transfers will have on NEB operations. Having projected shrinking revenue, the NEB has already taken steps to reduce spending and increase revenue by seeking funds from the private sector and government grants for special projects and research. Sneller also asked board members to help in informing committee members of the NEB’s budget situation.

Sneller mentioned a recent article in the Lincoln Journal Star (“Commodity board advocates up in arms”) which described the ag community’s reaction to the governor’s proposal of transferring checkoff funds to the general fund. The original intent of these funds was to promote the commodities from which they’re collected. The situation is compounded by a relatively new number of inexperienced state senators sitting on the appropriations committee. Kenney asked if staff could send board members contact info for members of the appropriations committee. Sneller said staff would send that information.

Monahan presented payment and per diem reports for August, September and October. For August: Contracts: \$4,644.26; Dues/Registrations/Subscriptions/Education: \$109.39; Meeting and Travel: \$2,700.82; Other: \$155.00; Internal Agency Expenses: \$5,783.88; Dept of Agriculture EPIC July costs: \$1,674.48. Refund: \$750.00.

For September: Contracts: \$7,250.91; Dues/Registrations/Subscriptions/Education: \$1358.48; Meeting and Travel: \$2,247.78; Other: \$404.61; Internal Agency Expenses: \$2,707.88; Department of Ag EPIC August costs: \$1,202.72.

For October: Contracts: \$316.02; Dues/Registrations/Subscriptions: \$1,078.96; Meeting and Travel: \$1,402.36; Other: \$170.80; Internal Agency Expenses: \$2,427.68; Department of Ag EPIC September costs: \$1,334.23. Balance of Spalding research fund: \$25,484.77; Disbursements to UN-L for Nouredini distillers grain research project: \$15,143.00

Per Diems were paid to Brodersen, Else, Hallberg, Hanson, Jenkins, McColley and Thede for the August 21 meeting.

Frenzen moved, “to accept the August, September and October payments and per diem reports as presented.” Kenney seconded. The motion passed (yes-Frenzen, Hanson, Kenney, McColley, Thede; no-; Absent and not voting: Brodersen, Else).

Thede asked about the Avalanche which General Motors (GM) had been leasing to the NEB; Sneller said that GM asked for it to be returned and that the NEB no longer had the truck.

EPIC Fund Report

Sorum provided an update on the Ethanol Production Incentive Cash Fund (EPIC). The balance of the EPIC fund as of October 1 is \$5,478,070. Each year, the NEB and the Department of Revenue issue a joint report to the Legislature forecasting cash flow for EPIC fund that sunsets in 2012. The report, due on December 1, 2009 projects EPIC having sufficient revenues to meet obligations for FY2009-10 and FY2010-11. Over the years, the state has transferred about \$82 million from the general fund to the EPIC fund. In the previous session, the Legislature voted to transfer \$8 million to EPIC and \$3.25 million in the following FY.

Dr. Spalding Contract Amendment

Sneller noted that the NEB solicits funds from outside sources for special projects, one of which is Dr. Roy Spalding’s research on ethanol spill remediation. The project was initially funded by the Kansas chapter of the American Petroleum Institute (API) and ICM. NEB collects the funds, reviews Spalding’s work and disburses funds to Spalding as needed. The current contract is

nearing the end of its term, and staff have asked Dr. Spalding to provide documentation that the University of Nebraska-Lincoln (UN-L) and API have completed a no-cost extension. This imposes no additional cost on NEB other than administrative time reviewing invoices and payments. Dr. Spalding is willing to present his findings to NEB.

Hanson moved, “to extend Dr. Spalding’s ethanol remediation research contract through September 2010.” Kenney seconded. The motion carried (yes: Frenzen, Hanson, Kenney, McColley, Thede; no: - ; absent and not voting: Else, Brodersen.)

Ethanol Marketing Programs

Dave Buchholz of David & Associates provided the board with update on marketing activities. Buchholz noted that the Nebraska Lottery continued promoting ethanol in its giveaways, including \$5,000 ethanol fuel cards as prizes. Chief Ethanol Fuels in Hastings, the first fuel ethanol plant in the state, will celebrate its 25th anniversary in November. Senator Ben Nelson will be a featured guest speaker at the event. David & Associates is preparing materials for a 12- or 16-page paid insert in the *Hastings Tribune*.

Buchholz also mentioned that the former Crane Meadows Nature Center at Alda is broadening its scope to include all prairie life as opposed to focusing on cranes. The new Nebraska Nature Center is seeking sponsorship from agribusiness. In exchange, the Center will provide display area for sponsors and access to its meeting facilities, and a presence on the Center’s web site. The Center is asking for a \$2,500 commitment over three years, but would accept a one year commitment.

Sneller said that such a sponsorship could be a good educational opportunity for the ethanol industry to promote a positive environmental message. As sponsors, NEB would have access to the meeting facilities. Sneller suggested that NEB take a leadership role in soliciting funds from the industry for sponsorship, and that NEB organize the display content for the Center. After seeing how pending NEB budget issues work out, the board could then decide whether to commit money for a sponsorship at the next board meeting.

McColley moved, “to approve the Nebraska Ethanol Board staff to coordinate information and funding with the Nebraska ethanol plants for educational exhibit hall displays at the Nebraska Nature Center.” Kenney seconded. The motion carried by acclamation.

Sneller summarized recent grant activity. The board had previously authorized staff to seek grant funds from the U.S. Department of Energy (USDOE) grant program for biofuels infrastructure development. NEB filed a proposal as co-applicants with the Clean Fuels Foundation (CFF). An abstract of the plan was included in meeting folders.

Sneller expects a decision from the Environmental Protection Agency (EPA) on a waiver which would allow blends of 15% ethanol to be used in conventional (e.g. non-flexible fuel vehicles ‘FFV’) vehicles by the end of the year, but that EPA has a history of not meeting such timeframes. EPA may allow an interim blend of 12% ethanol. Currently, NEB provides pump labels reading “Enriched with 10% Ethanol” at no cost to Nebraska gas retailers. NEB may have to reprint labels with a different percentage, pending EPA’s decision.

Special Presentations

Sneller introduced Dr. Richard Perrin, professor of agricultural economics at UN-L, as the first guest speaker. Dr. Perrin spoke on the economic factors affecting ethanol and its related industries, and how changes in policy may affect those industries. A copy of Perrin's presentation is on the Agency's "NEB Meetings" page at <http://www.ne-ethanol.org/events/nebmeetings.htm>.

Sneller introduced Mike Barwig of Tenaska Biofuels as the next guest speaker. Barwig spoke on ethanol marketing issues and fluctuations in the market.

State and Federal Legislation

The meeting skipped ahead to agenda item J: State and Federal Legislation.

Sneller noted a number of regulatory issues. The Nebraska Department of Environmental Quality (NDEQ) has been meeting with the Association of Nebraska Ethanol Producers (ANEEP) and health and safety coordinators. Greater regulations and a higher cost of compliance seem likely. 2010 will be a key year for federal legislation. Many states are adopting low carbon fuel standards (LCFS), and may enter into interstate agreements, which could balkanize fuel regulations. This may require action from congress or EPA.

At the state level, Governor Heineman has convened a special session to deal with Nebraska's projected budget deficit. The session could last between 10 days and three to four weeks. A challenge for the NEB is communicating effectively with new legislators.

Loran Schmit of ANEEP delivered an update on the group's activities. Schmit attended a meeting with agricultural groups that are funded by checkoff funds, which have become a vital part of the ag sector. The funds are gathered from the farmers and used to promote farm commodities and enhance the farmers' income. Virtually all of the ag groups oppose a transfer of checkoff funds to the state's general fund. A lot of the checkoff funds are used to pay for contract work, so a loss of checkoff funds could have a negative ripple effect.

Other ethanol producers have joined ANEEP, including the plants at Wood River and Bridgeport. Sneller and Schmit have discussed regulatory issues with NDEQ to address the concerns of some ANEEP members. Otherwise the industry seems to be doing well.

Schmit said that newer legislators may not understand the impact some proposals could have on the industry, such as a tax on ethanol in order to build up roads funding. Senator Deb Fischer said there have been 28 suggestions on how to raise more funds for roads. Schmit had testified against a bill that would have taxed ethanol for roads funds during last year's legislative session.

Ethanol Plant Reports

Sneller introduced Steve Bleyl, executive vice president of Green Plains Renewable Energy (GPRE). GPRE had recently acquired the ethanol plants at Ord and Central City.

Bleyl said GPRE, headquartered in Omaha, acquired the Great Lakes co-op and now owns blending terminals. GPRE owns six ethanol plants and a combined production capacity of 480

million gallons, making it the third or fourth largest ethanol marketing business in the U.S. The company also has carbon sequestration, bioreactor and algae-based fuels projects.

Bleyl said that GPRE sees higher mileage standards as one of the biggest hurdles for the future of the ethanol industry. The industry will have to be able to market blends higher than 10% ethanol in conventional vehicles.

Frenzen asked if the company is working on human food-grade uses of Dried Distillers' Grains (DDG). Bleyl said he did not know of any work on that inside GPRE.

Randy Klein asked about the company's work with algae, and Bleyl said that GPRE has plans to process it into ethanol products. Paul Kenney asked if there were plans to process oil from algae sources. Bleyl responded that there may be attempts to do that downstream. Most of the water used in the process can be reclaimed. Currently, GPRE is focusing on yield economics.

Piyush Srivastav asked if GPRE has been able to retain the original staff of the VeraSun plants the company has acquired. Bleyl replied that they have been able to keep the original staff, and have upgraded the facilities. Facility staff is excited to be working again, and both plants are running over nameplate capacity. He predicted seeing more oil companies becoming involved in ethanol production.

Ralph Scott at Trenton Agri Products said the plant has been running above nameplate capacity.

Sneller noted that Duane Kristensen of Chief Ethanol Fuels extended an invitation to all board members to attend the plant's 25th anniversary celebration on November 23, which would include an address from Senator Ben Nelson, lunch and tour of the facility.

Chair's Report

Chair Mike Thede delivered his report. He noted a challenging year and fall harvest for farmers. Some ethanol plants have had difficulty finding corn as harvest has been slow due to a rainy autumn. Thede estimated he would finish his own harvest within seven weeks. Farmers may be storing grain while it is still too wet, and this could negatively affect the quality of stored grain. Much of his grain has been around 22% moisture, while under normal harvest conditions the grain is closer to 16%. He noticed during recent travel through Iowa that most fields have still not been harvested.

Administrator's Report

Sneller delivered his report. He asked DeFrain to talk about computer upgrades.

DeFrain said that with a new version of Windows released, the NEB should consider a computer upgrade. He recommended buying additional memory for the current computers, as well as copies of the new version of Windows 7. He also recommended a new laptop purchase for use during Sneller's business travel and for more intensive technical uses such as recording audio. DeFrain also mentioned a long-term website project of upgrading the NEB website to a newer, dynamic server. The server hosting costs would be about \$30 per month, leased through the state's Department of Administrative Services. Sneller asked DeFrain to prepare a proposal for review and consideration at the next meeting.

Sneller mentioned upcoming travel to St. Louis for a Monsanto meeting and a trip to Washington, DC. He noted that due to budget issues he continues to carefully consider travel, and generally asks other parties to help with travel expenses when he attends meetings.

Sneller said that Brian Wilcox of NPPD is currently serving as interim chair of the American Coalition for Ethanol (ACE). Wilcox will likely be elected vice chair at the annual ACE meeting in Sioux Falls on November 12. Sneller also noted that the date for the 5th annual Ethanol Emerging Issues Forum had been set for April 8-9 in Omaha,

Katie Hadenfelt of GATX noted that the company is offering boxcar and tank car training for the industry. GATX has received positive responses to the training and will offer more. GATX will offer additional training before and after the regular training days for people who want more detailed training.

Travel Report

Sneller summarized upcoming travel requests, including a sustainability roundtable in January and a Governors' Biofuels Coalition (GBC) meeting in February, both in Washington, D.C. Most of the travel expenses for both trips would be reimbursed by parties other than the NEB.

McColley moved, "To approve travel for the Sustainability Roundtable in January in Washington D.C. for Sneller and the Governors' Biofuels Coalition meeting February 22-23 in Washington, D.C, for Sneller and Monahan." Hanson seconded. The motion carried (yes: Frenzen, Hanson, Kenney, McColley, Thede, no: - ; absent and not voting: Brodersen, Else.)

Next Meeting Date and Time

Chair Thede asked for a date for the next board meeting. Sneller suggested late January after the Legislature's introductory period for new bills ends. The next meeting was tentatively scheduled for January 22 in Lincoln.

David King of Union Pacific Railroad offered the conference room at the UP building in Omaha as a future meeting location. The meeting location for January was not yet determined.

Adjourn

Hanson moved, "to adjourn the meeting." McColley seconded. The vote carried by acclamation.

Tim Else, Secretary