

**NEBRASKA ETHANOL BOARD
MEETING MINUTES**

**Country Inn and Suites
105 Talmadge Road
Kearney, Nebraska**

**November 16, 2007
8:30 a.m.**

MEMBERS PRESENT

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

MEMBER ABSENT

David Hallberg

GUESTS

Doug Stucky--ALTRA
Brian Wilcox—NPPD/ACE
Dick Coil—Seminole Energy
Steve Seabrook—Ethanol Products
Garry Shanks – Ethanol Products
Dwayne Braun – US Bio Energy
Craig Cook – Tenaska BioFuels
Lori Potter – Kearney Hub
Kirk McClymont – Seminole Energy
Kelly Brunkhorst – NE Corn Board
Patricia Beard – Chief Ethanol
Jerry Finan – Musket Corp

ADVISOR PRESENT

Dr. James Hendrix

STAFF PRESENT

Todd Sneller
Steve Sorum
Gerri Monahan
Billy DeFrain

Dan Frey – Seminole Entry
Mark Wagner – Central Community College
Mary Crawford – Rep. Adrian Smith Office
Lorna Brennan – Northern Natural Gas
Chuck Wilkinson – Northern Natural Gas
Brian Wight – URS Corp
Gaylord Boilsen – US Bio Ord
Ralph Scott – Trenton Agri Products
Paul Johnston – NE Farm Bureau
Mike Alberts – US BioEnergy, Central City
Piyush Srivastav – NE Air Quality
Specialties

Call Meeting to Order

A meeting of the Nebraska Ethanol Board was convened on Friday, November 16, 2007, at 8:30 a.m. The meeting was held at Country Inn & Suites, 105 Talmadge Rd, Kearney, 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. Jenkins also noted new member Steve Hanson of Elsie, who is filling the Wheat representative slot vacated by Dave Hilferty. Jenkins noted that David Hallberg would not be able to attend the meeting due to a family emergency.

Approval of Agenda

Chair Jenkins asked if there were any additions or corrections to the agenda. Sneller asked that the special presentation on an ethanol pipeline (Item K) be moved up in the meeting schedule to follow item F, to accommodate the travel schedules of those giving the presentation. Jenkins then asked for a motion to approve the agenda as amended. McColley moved “to approve the agenda as printed and to move item K to earlier in the agenda to accommodate speakers’ travel arrangement.” Brodersen seconded. The motion carried by acclamation.

Minutes

Jenkins asked if members had reviewed minutes of the previous meeting. Following a review of the minutes, 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 August 24, 2007, meeting as printed.” Thede seconded. The motion carried by acclamation.

Budget Status Report

Sorum presented a budget report for first quarter of FY 2007-2008. Sorum reported that Agency 60 had expended roughly one third of its budget over the course of one third of the fiscal year. Total expenditures in the current fiscal year totaled \$144,979.

Sorum reported that Ethanol Board revenue for FY07-08 was slightly lower than projected because of the higher costs of denaturants, which caused most ethanol producers to denature at lower levels than projected. Current total revenue is \$140,413.43.

Sorum also reported a recent development in the revenue cap imposed by the Nebraska legislature. The state legislature capped NEB revenue at \$550,000, but this cap applies only to ethanol used as denaturant. The Ethanol Board may receive additional revenue of around \$75,000-100,000 from off-road tax refunds.

Monahan presented payment reports for August, September and October. Payments for August were reported as follows: Contracts: \$0; Dues/Registrations/Subscriptions: \$384.05; Meeting and Travel: \$2,154.22; Other Expenses: \$1,623.05. Payments for September were reported as follows: Contracts: \$871.23; Dues/Registrations/Subscriptions: \$188.55; Meeting and Travel: \$1,489.06. Payments for October were reported as follows: Contracts: \$8,718.65; Dues/Registrations/Subscriptions: \$621.92; Meeting and Travel: \$1,521.46. Additional payment of \$8,718.65 was made to Dr. Spalding's ethanol remediation research at UN-L. Chair Jenkins received per diem payments for meetings with Sen. Dubas and Ag Secretary Johanns.

Brodersen moved "to accept the August, September and October payment and per diem reports as printed." Thede seconded. The motion carried (yes- Brodersen, Else, Hanson, Jenkins, McColley, Thede; no- Absent and not voting, Hallberg.).

EPIC Fund

Sorum reported \$3.5 million had been generated in the EPIC fund during the first quarter of FY 2007-2008. The balance of the EPIC fund as of October 2007 was \$9.3 million. Sorum said that in 2004 the fund was facing a potential deficit of \$118 million by 2011, but the combination of legislative action, slower plant construction times and increased revenues from the grain check-off has reduced the projected shortfall to approximately \$20 million by 2011. Ten plants receiving production credits are operating, only one qualified plant is not operating.

Nebraska Research Consortium Proposal

Kelly Brunkhorst of the Nebraska Corn Board presented a research proposal to the Ethanol Board. The Corn Board had formed a research consortium to study areas of water and energy in the agriculture sector. The group will be headed by Dr. Ken Cassman from the University of Nebraska-Lincoln. Brunkhorst said the consortium requires a \$300,000 annual operations budget and that a \$75,000 donation is necessary to secure a spot on the consortium's advisory committee, which will steer the direction of research. Brunkhorst reported that the consortium already had \$225,000 of funding committed by other groups. Current contributing members include the Nebraska Center for Energy Sciences Research, the UNL Agricultural Research Division, and the Nebraska Corn Board.

Chair Jenkins noted that the Ethanol Board has budget limitations but that the board is excellent at networking and soliciting donations from other parties, and that the board could provide in-kind contributions.

Sorum noted that a \$75,000 commitment to the proposal is 115% of the Ethanol Board's research budget and 60% of the Board's operating expenses.

Sneller said that the Ethanol Board would like to work more with Brunkhorst. Sneller noted that the Ethanol Board had recently raised \$102,000 for a water research project, had helped raise \$249,000 by securing a grant for the Soybean Board, without spending agency money. He suggested that the board could devote staff time and other in-kind services to support the proposal outlined by Brunkhorst. Sneller recommended to the board that the board provide in-kind contributions, and perhaps cash donations, on a per-project basis. Sneller also asked that the Ethanol Board look at research proposals and still help guide the research proposal without having to pay dues since the Board's budgetary limitations does not allow financial participation at the advisory board level.

Chair Jenkins proposed that a more specific discussion of funding for the consortium be placed on the agenda for the next Ethanol Board meeting. Brunkhorst responded that by that time the Corn Board should have a more concrete idea of their needs as more funding proposals come in.

Hendrix said he is a firm believer in research consortia but also believes that the ethanol industry will face technical problems in oncoming years. Ethanol producers will want to spend money on engineering and technology related to the mitigation of green house gases emissions. A new federal administration will likely raise environmental standards which will tighten emission levels.

Special Presentation

Sneller provided a brief Power Point presentation summarizing the current state of ethanol plants in Nebraska. At meeting date, there were 21 plants in production with a combined capacity of 1.273 billion gallons per year. Five additional plants are under construction and six others undergoing expansion projects. Sneller noted that within 12 to 14 months, Nebraska's production capacity would increase to nearly 2.3 billion gallons per year. Complete saturation of ethanol in the Nebraska market would require only 100 million gallons of ethanol annually, meaning the remaining ethanol must be exported to other states.

Dick Coil, Kirk McClymont and Dan Frey of Seminole Energy and Jerry Finan of Musket Corp provide the special presentation, on the feasibility of an ethanol pipeline in Nebraska.

Frey began the presentation by describing Seminole's business as a midstream marketer of natural gas. Seminole had recently announced a natural gas pipeline project. The 180 mile pipeline would serve central Nebraska and be fully operational by October 2009. Frey noted the project has received strong support from the ethanol industry because of the industrial supply of natural gas required by an ethanol plant. Frey noted that an ethanol pipeline could have a tremendous economic advantage if it had terminals that were serviceable by both Burlington Northern and Union Pacific.

Finan, of Musket Corp, presented next. Musket handles fuel distribution for the Love's chain of 140 truck stops and 65 convenience stores. Musket has plans for six ethanol terminals and is experienced in rail distribution. Finan noted that the per gallon cost of ethanol transport by unit train was around 10 cents, 15 cents for a manifest train. Kirk McClymont added that rail transport required a 6 or 7 year commitment at \$1000 per car, with a two to three month turnover for each round trip to the west coast. Frey noted that a 175 mile ethanol pipeline could support 1 billion gallons per year of exports.

Sneller asked for a clarification of the limitations and capacity of such a pipeline and Frey responded that an upgrade in pipeline capacity after its initial completion would cost nearly as much as the pipeline itself.

Chair Jenkins noted the progress of the ethanol industry and that the 2.5 billion gallon annual production capacity placed an unprecedented demand on infrastructure.

Ethanol Marketing Programs

Dave Buchholz of David and Associates provided a memo updating his marketing work under contract for the Ethanol Board. Buchholz has worked on the ad campaign in cooperation with the Nebraska Corn Board. David and Associates have also completed the second printing of the 2007 Ethanol Fact Book and are updating the Economic Development issue brief. The Storm Hockey team in Kearney will also soon be conducting an ethanol promotional program in February.

Sneller noted that NPPD and Poet had contributed money for reprints of the Ethanol Fact Book. EPIC is looking for a new executive and will be refocusing its aim. Sneller asked for coordinated and focused efforts among ACE, RFA, EPIC and the Ethanol Board. Sneller also reminded attendees that GM still had "Live Green, Go Yellow" promotional FFV Impalas for sale, and noted that he had recently seen E-85 \$1.06 less than gas.

Sorum reported that Nebraska's fuel market is 0.5% of the total US market. E10 market penetration in Nebraska, however, is among the highest in the nation. The spread between E10

and gasoline in Nebraska is currently running between 6 and 11 cents per gallon with E10 being lower. Sorum reported that Nebraskans will spend \$3 billion on gas annually and that E10 saves Nebraskans \$50 million a year.

Ethanol Fact Book Funding Request

Sneller stressed the Ethanol Board tries to facilitate funding of the ethanol fact book. POET had contributed money for fact book printing costs. The \$5,000 check was written to the Board but the ultimate recipient would be the Clean Fuels Foundation, who prints the fact book. Sneller asked that the board have the funds transferred to the CFF. Brodersen moved “to accept the \$5,000 received from Broin (Poet) for the Ethanol Fact Book and pass funds to the Clean Fuels Foundation for reprint of the publication.” Hanson seconded. The motion carried (yes- Else, Hanson, Jenkins, McColley, Thede, Brodersen; no-. Absent and not voting, Hallberg.).

State and Federal Legislation

Sneller reported that it was unlikely the Renewable Fuels Standard would see a separate vote in Congress. This is disconcerting because a higher RFS would be a major catalyst for increased growth in the ethanol industry.

On the state level, Sneller said the board would try to sort out the legislative agenda for the 2008 Unicameral, and that any ethanol legislation may have to be amended to an existing bill. Sneller reported on the recommendation of state senator Burling’s tax panel. The panel is recommending a three cent per gallon excise tax on all ethanol exported out of Nebraska. Sneller said the board should remain vigilant, because sometimes proposals like these can gain momentum.

Jenkins summarized the meeting with State Sen. Dubas and others in Aurora from earlier in November. Jenkins noted that it was encouraging to see a senator looking at the energy issue, and that many in state government do not understand that ethanol is becoming a \$5 billion industry in Nebraska. Jenkins said his main focus as chair was to concentrate on the public policy side of the arena, and that the board may have to deal with state senators running off in totally counter-productive directions.

Ethanol Plant Status Report

Sneller recapped the figures from his power point before the special presentation. Sneller also asked that plants coordinate with DEQ to make sure they are permitted for their maximum production capacity, as some plants may have a higher installed production capacity than they are currently permitted for.

Doug Stucky of ALTRA reported that the Carleton plant is expected to complete construction in third quarter of 2008. Brian Wilcox reported that the Wahoo plant had begun ground work.

Dwayne Braun reported that the two US Bio plants were up and running. Ralph Scott of Trenton AgriProducts reported the Trenton plant was running well. Patricia Beard of Chief reported their Hastings plant was running well and the plant set a production record in October. McColley noted that the Washington Group construction firm had been hiring union workers for construction of the Wahoo plant. Thede reported that the Wood River plant may begin crushing corn in January. McColley noted that Steamfitters Local 464 members were working at Aurora.

Sneller noted a meeting of the ethanol advisory group on November 30. A new certificate degree for biofuels processing was adopted by the community college system in the state.

Chairman's Report

Chair Jenkins reported that he had recently begun using DDG cubes in his cattle feeding operation. Jenkins said that he uses the thumb-sized cubes in concert with alfalfa or cornstalks as feed and is improving his cost-of-gain by 45 to 50 cents a head. Jenkins said he pays around 13 cents per pound for the cubes, and they are cheaper than range cubes but offer more nutritional content. Kelly Brunkhorst noted that the Corn Board has a list of nine manufacturers of DDG cubes, including Aurora Co-Op, Ainsworth Co-Op, and an operation in Norfolk. Dwayne Braun noted they are working on a more consistent supply of DDG cubes.

Administrator's Report

Sneller reported on the upcoming Ethanol: Emerging Issues Forum, scheduled for March 13-14 in Omaha. The event will be organized by board staff in cooperation with CFDC. Sneller expects a good turnout again this year, limited to about 125 attendees. Sneller also proposed organizing an E-85 workshop in the near future. Sneller reported a good turnout out at the recent safety seminar in Norfolk, and that many safety and compliance issues were covered.

Trip/Meeting Reports and Travel Authorization

Sneller recapped board and staff travel since the August 2007 board meeting. Sneller also noted that board members were encouraged to accept invitations for speaking engagements and events as the limited number of staff cannot always accept invitations.

For upcoming travel requests, Sneller noted a GEC panel in Tampa on December 13, and a water policy gathering in Colorado which Sorum would be attending. Sneller noted that most expenses will be paid by hosting organizations.

McColley moved, "to approve travel requests for Sneller to participate on GEC Biofuels panel in Tampa, Florida, in December, and for Sorum to participate in four state water conference in Fort Collins, Colorado, in January." Brodersen seconded. The motion carried (yes- Hanson, Jenkins, McColley, Thede, Brodersen, Else; no-. Absent and not voting, Hallberg.).

Next Meeting Date and Time

Sneller noted that the state legislature would not convene until January 9 and that January 25 would be the end of the bill introduction period. January 25 was chosen as the next meeting date, with the location to be determined.

Mike Alberts, a former board member and currently involved with US Bio, noted the role the ethanol industry had played in rural economic development, especially in the case of the facilities at Aurora. Sneller noted that soon 26 communities across Nebraska would be host to such economic activity. Chair Jenkins expressed his disappointment that media do not write more about the flaws in petroleum and how they contrast with the benefits of ethanol. Jenkins thanked staff for another relevant meeting.

Adjourn

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

X

Mike Thede, Secretary