

MINUTES OF THE HOUSE ENERGY AND UTILITIES COMMITTEE

The meeting was called to order by Chairman Carl Holmes at 9:00 a.m. on March 11, 2009, in Room 783 of the Docking State Office Building.

All members were present except:

Representative Tom Sloan- excused
Representative Josh Svaty- excused

Committee staff present:

Melissa Doeblin, Office of the Revisor of Statutes
Sean Ostrow, Office of the Revisor of Statutes
Mary Torrence, Office of the Revisor of Statutes
Cindy Lash, Kansas Legislative Research Department
Rena Hansen, Committee Assistant

Conferees appearing before the Committee:

Corey Mohn, Department of Commerce
Mari Tucker, Department of Commerce
Thomas Robb, PhD, Abengoa

Others attending:

Twenty-five including the attached list.

Corey Mohn, Department of Commerce, introduced the topic for the day: Energy Incentives Update.

Mari Tucker, Department of Commerce, ([Attachment 1](#)), spoke to the committee on the Energy Incentive Update. She gave an overview of: Alternative Energy Tax Credit, Renewable Electric Co-generation Facility, Biomass-to-Energy Plant, Coal or Coke Gasification Nitrogen Fertilizer Plant, Alternative Fuels Fueling Stations, Alternative Fuels for Vehicles, Conventional Energy tax Credits-Refineries and Pipeline, Ethyl Alcohol Production Incentive, Biodiesel Fuel Production Incentive, Kansas Retail Dealers, CO₂ Capture/Sequestration, and Waste Heat Utilization. She also included a summarization, ([Attachment 2](#)) of Kansas energy incentives.

Questions were asked and comments made by Representatives: Vern Swanson, Milack Talia, Mike Burgess, and Carl Holmes.

Corey Mohn, Department of Commerce, ([Attachment 3](#)), presented a power-point to the committee summarizing the Bio-fuels Industry in Kansas. He spoke to the committee on: The Basics, The State of the State, some Challenges and some Opportunities for the bio-fuels industry. Mr. Mohn included a map, ([Attachment 4](#)), that shows where there are current and future ethanol and biodiesel plants in Kansas.

Questions were asked and comments made by Representatives: Mike Burgess, Tony Brown, Annie Kuether, and Don Myers.

Thomas Robb, PhD, Abengoa, ([Attachment 5](#)), gave a power-point presentation on the Abengoa, Bio-energy Hybrid Bio-refinery in Hugoton, Kansas. He noted Abengoa plans to start construction in Hugoton, towards the end of 2009 after an environmental impact statement is done by the Environmental Protection Agency (EPA) through the Department of Energy.

Questions were asked and comments made by Representatives: Tom Moxley, Carl Holmes, Annie Kuether, Joe Seiwert, Milack Talia, Mike Burgess, and Carl Holmes.

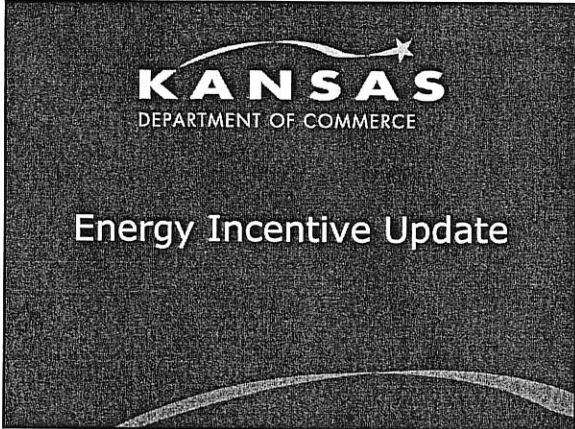
The next meeting is scheduled for March 12, 2009.

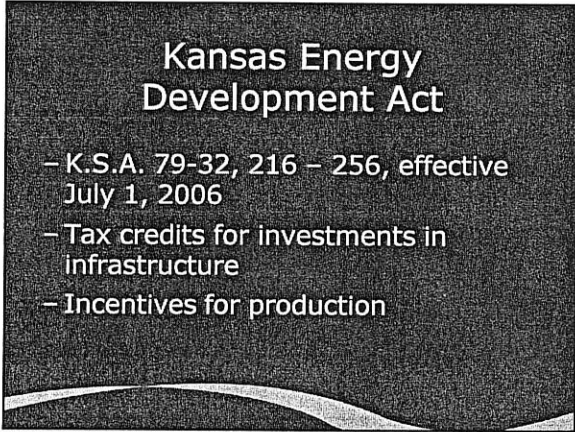
The meeting was adjourned at 10:49 a.m.

HOUSE ENERGY AND UTILITIES COMMITTEE GUEST LIST

DATE: March 11, 2009

NAME	REPRESENTING
Tom Thompson	Sierra Club
TOM ROBB	ABENGOA BIOENERGY
LARRY GILL	MIDWEST FUEL
Cindy Mongeld	KDOR
Ed Thompson	KDOR
Kon Seebur	KAP
Sue Schutte	KS. Corn + Grain Sorghum
Joe Maximann	Hein Law
Sandy Braden	Alliance for Auto Manufacturers
Jessica Bowser	KDA
TOM DAY	KCC
Dan Halbur	Kee
GINA BOWMAN	CUR Energy
Ken PETERSON	KS Petroleum Council
DAVID EYBELKEN	PMCA OF KANSAS







HOUSE ENERGY AND UTILITIES

DATE: 3/11/2009

ATTACHMENT 1-1

Conventional Energy Tax Credits

- Refineries
- Pipelines

Alternative Energy Incentives

- Ethyl Alcohol Production
- Biodiesel Fuel Producer
- Kansas Retail Dealers
- CO2 Capture/Sequestration
- Waste Heat Utilization

Storage & Blending Tax Credits

- Any equipment which is used for storing and blending petroleum-based fuel and biodiesel, ethanol or other biofuel and is installed at a fuel terminal, refinery or biofuel production plant
- Credit equal to 10 percent of the taxpayer's qualified investment for the first \$10 million invested and an amount equal to 5 percent of the amount that exceeds \$10 million
- Also entitled to a deduction from Kansas adjusted gross income of the amortizable costs of a new facility
- Equipment exempt from all property taxes levied for the 10 taxable years immediately following the installation of such equipment
- Taxable years after December 31, 2006 and before January 1, 2012

Storage & Blending Tax Credits Activity

- The application received to date did not meet requirements
- One application pending

Renewable Electric Cogeneration Facility

- Owned and operated by the owner of an industrial, commercial or agricultural process to generate electricity for use in such process to displace current or provide for future electricity use
- Credit equal to 10 percent of taxpayer's qualified investment for the first \$50 million and an amount equal to 5 percent of the amount that exceeds \$50 million
- In addition, taxpayer shall be entitled to a deduction from Kansas adjusted gross income of the amortizable costs of a new facility
- Exempt from property taxes for all taxable years commencing after December 31, 1998

Renewable Electric Cogeneration Facility Activity

- Two applications to date
- **Great Bend Feeding** project installed Nordtank 150 wind turbine
- Invested \$170,000
- Eligible tax credit \$17,000 (10 year payout)

Biomass-to-Energy Plant

- Expenditures in new construction or expansion of the capacity in an existing plant commencing after December 3, 2005 and before January 1, 2011
- Credit is 10 percent of the taxpayer's qualified investment on the first \$250 million invested, and 5 percent of the taxpayer's qualified investment that exceeds \$250 million
- In addition, taxpayer shall be entitled to a deduction from Kansas adjusted gross income of the amortizable costs of a new facility
- Exempt from all property taxes levied for the 10 taxable years immediately following construction or installation

Biomass-to-Energy Plant Activity

- One application in process
- Anticipated investment \$1,500,000

Coal or Coke Gasification Nitrogen Fertilizer Plant

- Expenditures in new or the expansion of an existing integrated coal or coke gasification nitrogen fertilizer plant
- Credit equal to 10 percent of the taxpayer's qualified investment for the first \$250 million invested and an amount equal to 5 percent of the amount that exceeds \$250 million
- Taxable years after December 31, 2005 and before January 1, 2011
- In addition, taxpayer shall be entitled to a deduction from Kansas adjusted gross income of the amortizable costs of a new facility
- Exempt from all property taxes levied for the 10 taxable years following the construction or installation of such property

Coal or Coke Gasification Nitrogen Fertilizer Plant Activity

- Continuing discussion on a potential project -- on hold due to extenuating circumstances and current economic conditions

Alternative Fuels Fueling Stations

- Alternative-fuel fueling station placed in service on or after January 1, 2005 and before January 1, 2009, an amount equal to 40 percent of the total amount expended but not to exceed \$150,000 for each fueling station
- Alternative-fuel fueling station placed in service on or after January 1, 2009, an amount equal to 40 percent of the total amount expended but not to exceed \$100,000 for each fueling station
- Administered by the Kansas Department of Revenue

Alternative Fuels Vehicles

- Alternative-fueled motor vehicle placed in service on or after January 1, 1996 and before January 1, 2005, an amount equal to 50 percent of the incremental cost or conversion cost for each qualified vehicle expended but not to exceed \$50,000 (credits based on vehicle weight)
 - Alternative-fueled motor vehicle placed in service on or after January 1, 2005, the credit is 40 percent of the incremental cost or conversion cost for each qualified vehicle expended but not to exceed \$40,000 (credits based on vehicle weight)
 - Credit for motor vehicles which are capable of operating on a blend of 85% ethanol and 15% gasoline allowed for taxable years after December 31, 1999; individual must furnish evidence of the purchase of 500 gallons of ethanol and gasoline blend during the period of time beginning with vehicle purchase and ending on December 31 of the next succeeding calendar year
- Administered by the Kansas Department of Revenue

Alternative Fuels Credits Activity

- 236 filers for tax years 2003 – 2007
- Total credits allowed = **\$518,067**
- 11 filers for fueling stations; credits of **\$163,248**
- 225 filers for vehicles; credits of **\$354,819**

Conventional Energy Tax Credits --Refinery

- New or expansion of an existing refinery
- Credit equal to 10 percent of the taxpayer's qualified investment for the first \$250 million invested and an amount equal to 5 percent of the amount that exceeds \$250 million
- Taxable years after December 31, 2005 and before January 1, 2011
- In addition, taxpayer entitled to a deduction from Kansas adjusted gross income of the amortizable costs of a new or expanded facility
- Applications submitted to Commerce
- Credits administered by the Secretary of Revenue

Conventional Energy Tax Credits –Refinery Activity

- Two applications approved to date
- **Frontier El Dorado Refining** project – expansion of existing facility
- Project completed in two phases
- Total investment = \$482 million
- Available tax credit = \$32.5 million
- **National Cooperative Refinery Assoc. (NCRA)** – expansion of crude rate capability
- Total investment = \$852 million
- Available tax credit = \$55.1 million

Conventional Energy Tax Credits --Pipeline

- New or expansion of an existing pipeline
- Credit equal to 10 percent of the taxpayer's qualified investment for the first \$250 million invested and an amount equal to 5 percent of the amount that exceeds \$250 million
- Taxable years after December 31, 2005 and before January 1, 2011
- In addition, taxpayer entitled to a deduction from Kansas adjusted gross income of the amortizable costs of a new or expanded facility
- Applications submitted to Commerce
- Credits administered by the Secretary of Revenue

Conventional Energy Tax Credits -Pipeline Activity

- One application approved
- **OneOK** - construction of 750 mile pipeline (257 miles in Kansas) from Opal, Wyoming to Conway, Kansas
- Transport natural gas liquids (NGL)
- Access to NGL facilities in Bushton, Hutchinson, Mitchell & Conway
- Expenditures of **\$400 million** in Kansas
- Available credits = **\$32.5 million**

Ethyl Alcohol Production Incentive

- \$0.075 for each gallon sold by the producer
- Producers who were in production prior to July 1, 2001 and who increased production capacity on or after July 1, 2001 by an amount of 5 million gallons qualify for the incentive for a maximum of 15 million gallons sold per year
- Producers who commenced production on or after July 1, 2001 and who sold at least 5 million gallons qualify for the incentive for a maximum of 15 million gallons sold per year
- \$875,000 per quarter is added to the fund for distribution. If production exceeds the fund balance, a proration of the distribution is performed
- Program sunsets July 1, 2011
- Administered by Department of Revenue

Ethyl Alcohol Production Report

- Approximately **1.6 billion** gallons produced since 1988
- **803** million gallons eligible for incentive
- Total distribution = **\$62 million**
- Currently **7** producers receiving incentive; **5** producers reached maximum payout
- 2008 data
 - 300 million gallons produced
 - 75 million eligible
 - 2008 distribution = **\$5.2 million**

Biodiesel Fuel Production Incentive

- \$0.30 for each gallon sold by the producer
- \$100,000 per quarter beginning July 1, 2008 is added to the fund for distribution. If production exceeds the fund balance, a proration of the distribution is performed.
- Program sunsets July 1, 2016
- Administered by Department of Revenue

Biodiesel Fuel Production Report

- **240,000** gallons produced since 2007
- Total distribution = **\$71,000**
- Two producers participating

Kansas Retail Dealers

- Incentives to Kansas retail dealers who sell and dispense renewable fuels or biodiesel through a motor fuel pump
- On January 1, 2009, and quarterly thereafter, \$400,000 will be directed from the general fund into the Kansas Retail Dealers Incentive Fund. On or after July 1, 2009 the unobligated balance in the fund shall not exceed \$1.5 million.
- The retail dealer's renewable fuels threshold percentage must be 10 percent for any quarter in the calendar year 2009, and increase 1 percent per year to a total of 25 percent by the end of calendar year 2024. For any determination period in which the retail dealer attains the threshold percentage, the incentive rate is 6.5 cents per gallon.
- The retail dealer's biodiesel threshold percentage must be 2 percent for any quarter in the calendar year 2009, and increase 2 percent per year to a total of 25 percent by the end of calendar year 2024. For any determination period in which the retail dealer attains the threshold percentage, the incentive rate is 3 cents per gallon.
- Sunsets on January 1, 2026
- Administered by Department of Revenue

Kansas Retail Dealers Report

- As of January 26, 2009, program had not been funded
- Governor recommended no funding for fiscal years 2009 and 2010

CO₂ Capture/Sequestration

- Deduction from Kansas adjusted gross income with respect to the amortization of the amortizable costs of carbon dioxide capture, sequestration or utilization machinery and equipment (based upon a period of 10 years); Deduction of 55% of the amortizable costs of such machinery and equipment for the first taxable year in which such machinery and equipment are in operation and 5% of the amortizable costs of such machinery and equipment for each of the next nine taxable years
- Election to claim the deduction shall be made by filing a statement of such election with the secretary of revenue
- Provisions apply to all taxable years commencing after December 31, 2007
- Administered by the Kansas Department of Revenue

Waste Heat Utilization

- Exempt from property taxes for 10 taxable years
- Deduction from Kansas adjusted gross income with respect to the amortization of the amortizable costs of a waste heat utilization system (based upon a period of 10 years); Deduction of 55% of the amortizable costs of such system for the first taxable year in which such system is in operation and 5% of the amortizable costs of such system for each of the next nine taxable years
- Election of the taxpayer to claim the deduction shall be made by filing a statement of such election with the secretary of revenue
- Provisions of this section shall apply to all taxable years commencing after December 31, 2006
- Administered by the Kansas Department of Revenue



For further information, contact:

Mari Tucker
Rural Development Division

(785) 296-6080
mtucker@kansasccommerce.com

KANSAS Energy Incentives

Incentives:

Ethyl Alcohol Production Incentive

- \$0.075 for each gallon sold by the producer.
- Producers who were in production prior to July 1, 2001 and who increased production capacity on or after July 1, 2001 by an amount of 5 million gallons qualify for the incentive for a maximum of 15 million gallons sold per year.
- Producers who commenced production on or after July 1, 2001 and who sold at least 5 million gallons qualify for the incentive for a maximum of 15 million gallons sold per year.
- \$875,000 per quarter is added to the fund for distribution. If production exceeds the fund balance, a proration of the distribution is performed.
- Program sunsets July 1, 2011.
- Reference Kansas Statutes 79-34,160-164
Edie Martin, (785) 296-5327, edie_martin@kdor.state.ks.us

Biodiesel Fuel Producer Incentive

- \$0.30 for each gallon sold by the producer.
- \$100,000 per quarter beginning July 1, 2008 is added to the fund for distribution. If production exceeds the fund balance, a proration of the distribution is performed.
- Program sunsets July 1, 2016.
- Reference Kansas Statutes 79-34, 155-159
Edie Martin, (785) 296-5327, edie_martin@kdor.state.ks.us

Enterprise Zone Incentives

- Investment tax credit of \$1,000 for each qualified business facility investment starting at \$51,000 or more.
- Jobs tax credit of \$1,500-\$2,500 with a minimum of two jobs created.
- Exemption from state and local sales tax on all tangible personal property or services purchased for the construction, enlarging or remodeling of a business. The sale and installation of machinery and equipment purchased for the installation at the business shall also be exempt from sales tax.
- Credits can be carried forward until used.
Darla Price, (785) 296-1868, dprice@kansascommerce.com

CDBG – Economic Development Loans

- The maximum amount of funding is \$35,000 per created job up to \$750,000.
- At least 51 percent of the jobs must meet HUD's low-and-moderate income (LMI) test for the county in which the project is located.
- The local unit of government must apply for infrastructure funding on behalf of a private for-profit biofuel entity. Funds may be used for water, sewer, road or a rail spur.
- This program requires that half the funds be paid back over a 10-year period at a 2 percent rate. This payment stream is accomplished through a special assessment placed on the property.
Terry Marlin, (785) 296-4703, tmartin@kansascommerce.com

Kansas Retail Dealers Incentive Fund

- Kansas Retail Dealers Incentive Fund was created for the payment of incentives to Kansas retail dealers who sell and dispense renewable fuels or biodiesel through a motor fuel pump.
- On January 1, 2009, and quarterly thereafter, \$400,000 will be directed from the general fund into the Kansas Retail Dealers Incentive Fund. On or after July 1, 2009 the unobligated balance in the fund shall not exceed \$1.5 million.
- The retail dealer's renewable fuels threshold percentage must be 10 percent for any quarter in the calendar year 2009, and increase 1 percent per year to a total of 25 percent by the end of calendar year 2024. For any determination period in which the retail dealer attains the threshold percentage, the incentive rate is 6.5 cents per gallon.
- The retail dealer's biodiesel threshold percentage must be 2 percent for any quarter in the calendar year 2009, and increase 2 percent per year to a total of 25 percent by the end of calendar year 2024. For any determination period in which the retail dealer attains the threshold percentage, the incentive rate is 3 cents per gallon.
- The provisions of the Kansas Retail Dealers Incentive Fund shall expire on January 1, 2026.
- Reference Kansas Statutes 79-34,170-176
Kathleen Smith, (785) 296-3070, kathleen_smith@kdor.state.ks.us

Agriculture Value Added Loan

- Loans for feasibility studies, business plans or equity drives are typically funded at the 50 percent level.
- Loans for feasibility studies are forgivable if the project does not move forward. Equity drive loans are typically paid back within 120 days of successful conclusion of the equity drive.
- Other loans are interest-free for two years and 1 percent over prime for the balance of the loan.
Mari Tucker, (785) 296-6080, mtucker@kansascommerce.com

Workforce Training Funds

- The Kansas Industrial Training program is designed to help new and expanding companies offset the costs of training workers for new jobs.
- Training funds can be used to reimburse negotiated costs for pre-employment, on-the-job and/or classroom training.
- The average reimbursement level for Kansas Industrial Training is \$300-\$500 per position.
Cary Catchpole, (785)296-8097, ccatchpole@kansascommerce.com

HOUSE ENERGY AND UTILITIES

DATE: 3/11/2009

ATTACHMENT 2-1

KANSAS Energy Incentives

Incentives (cont.):

Waste Heat Utilization System

- Waste heat utilization system means facilities and equipment for the recovery of waste heat generated in the process of generating electricity and the use of such heat to generate additional electricity or to produce fuels from renewable energy resources or technologies.
- Waste heat utilization system shall be exempt from all property taxes levied under the laws of the state of Kansas for 10 taxable years immediately following the taxable year in which construction or installation is complete.
- Reference Kansas Statute 79-231
- In addition to the property tax credit, a taxpayer shall be entitled to a deduction from Kansas adjusted gross income of the amortizable costs of a new facility. Such deduction shall be equal to 55 percent of the amortizable costs of the facility for the first taxable year, and 5 percent for the next nine taxable years. The provisions of this section shall apply to all taxable years commencing after December 31, 2006; administered by the Secretary of Revenue.
- Reference Kansas Statute 79-32,250
- Waste heat utilization systems at electric generation facilities shall be exempt from property taxes for the 10 taxable years following completion of construction or installation.
- Reference Kansas Statute 79-231
Kathleen Smith, (785) 296-3070, kathleen_smith@kdor.state.ks.us
- Waste heat utilization systems at electric generation facilities—The Kansas Development Finance Authority is authorized to issue revenue bonds in amounts sufficient to finance the construction of such a facility.
- Reference Kansas Statute 74-8949d
Rebecca Floyd, (785) 357-4445 Ext. 303, rfloyd@kdofa.org

Machinery and Equipment Sales Tax and Property Tax Exemptions

- The sale of machinery and equipment, including repair and replacement parts and accessories, used in Kansas as an essential part of an integrated production operation by a manufacturing or processing facility is exempt from sales tax effective July 1, 2000.
- A manufacturer or purchaser must submit the Integrated Production Machinery and Equipment Exemption Certificate (Form ST-201) to claim exemption from sales tax.
- A property tax exemption exists for all commercial and industrial machinery and equipment that is acquired or leased, or transported into the state after June 30, 2006.
- For the abatement of property tax on real property, the owner must file a request for abatement on forms provided by the county appraiser. The appraiser then recommends the granting or denial of the exemption.
- Reference Kansas Statutes 79-223, 79-3606
Ed Serrano, (785) 368-7293, eserrano@kansascommerce.com

Carbon Dioxide Capture/Sequestration Tax Deduction

- A taxpayer shall be entitled to a deduction from Kansas adjusted gross income with respect to the amortization of the amortizable costs of carbon dioxide capture, sequestration or utilization machinery and equipment based upon a period of 10 years. Such amortization deduction shall be an amount equal to 55% of the amortizable costs of such machinery and equipment for the first taxable year in which such machinery and equipment are in operation and 5% of the amortizable costs of such machinery and equipment for each of the next nine taxable years.
- The election of the taxpayer to claim the deduction allowed by subsection (a) shall be made by filing a statement of such election with the secretary of revenue in the manner and form and within the time prescribed by rules and regulations adopted by the secretary.
- The provisions of this section shall apply to all taxable years commencing after December 31, 2007.
- This fund is administered by the Kansas Department of Revenue.
- Reference Kansas Statute 79-32,256

Kathleen Smith, (785) 296-3070, kathleen_smith@kdor.state.ks.us

Tax Credits:

Alternative-Fuel Fueling Station Tax Credit

- Expenditures for qualified alternative-fuel fueling stations shall be allowed a credit against the income tax imposed against the owner of such facility.
- For any qualified alternative-fuel fueling station placed in service on or after January 1, 2005 and before January 1, 2009, an amount equal to 40 percent of the total amount expended but not to exceed \$160,000 for each fueling station.
- For any qualified alternative-fuel fueling station placed in service on or after January 1, 2009, an amount equal to 40 percent of the total amount expended but not to exceed \$100,000 for each fueling station.
- This fund is administered by the Kansas Department of Revenue.
- Reference Kansas Statute 79-32,201

Kathleen Smith, (785) 296-3070, kathleen_smith@kdor.state.ks.us

KANSAS Energy Incentives

Tax Credits (cont.):

Alternative-Fueled Motor Vehicle Tax Credit

- Expenditures for qualified alternative-fueled motor vehicles shall be allowed a credit against the income tax imposed against the owner of such vehicle.
- For any qualified alternative-fueled motor vehicle placed in service on or after January 1, 1996 and before January 1, 2005, an amount equal to 50 percent of the incremental cost or conversion cost for each qualified vehicle expended but not to exceed \$50,000 (credits based on vehicle weight).
- For any qualified alternative-fueled motor vehicle placed in service on or after January 1, 2005, the credit is 40 percent of the incremental cost or conversion cost for each qualified vehicle expended but not to exceed \$40,000 (credits based on vehicle weight).
- The credit for motor vehicles which are capable of operating on a blend of 85% ethanol and 15% gasoline shall be allowed for taxable years commencing after December 31, 1999, only if the individual claiming the credit furnishes evidence of the purchase of 500 gallons of ethanol and gasoline blend during the period of time beginning with vehicle purchase and ending on December 31 of the next succeeding calendar year.
- This fund is administered by the Kansas Department of Revenue.
- Reference Kansas Statute 79-32,201
Kathleen Smith, (785) 296-3070, kathleen_smith@kdor.state.ks.us

Biomass-to-Energy Plant Tax Credit

- An income tax credit for expenditures in new construction or expansion of the capacity in an existing plant commencing after December 3, 2005 and before January 1, 2011.
- The credit is 10 percent of the taxpayer's qualified investment on the first \$250 million invested, and 5 percent of the taxpayer's qualified investment that exceeds \$250 million.
- Credit shall be taken in 10 equal annual installments.
- Before making a qualified investment, a taxpayer shall apply to the Secretary of Commerce to enter into an agreement for a tax credit.
- In addition to the income tax credit, a taxpayer shall be entitled to a deduction from Kansas adjusted gross income of the amortizable costs of a new facility. Such deduction shall be equal to 55 percent of the amortizable costs of the facility for the first taxable year, and 5 percent for the next nine taxable years. The provisions of this section apply to all taxable years commencing after December 31, 2006; administered by the Secretary of Revenue.
- Reference Kansas Statutes 79-32, 233-237
- Biomass-to-Energy plant property shall be exempt from all property taxes levied for the 10 taxable years immediately following construction or installation.
Reference Kansas Statute 79-229
Mari Tucker, (785) 296-6080, mtucker@kansascommerce.com

Biomass-to-Energy Plant Tax Credit (cont.)

- For the purpose of financing the construction of a Biomass-to-Energy plant, the Kansas Development Finance Authority is authorized to issue revenue bonds in amounts sufficient to pay the costs of construction or expansion.
- Reference Kansas Statute 74-8949b
Rebecca Floyd, (785) 357-4445 Ext. 303, rfloyd@kdfa.org

Storage and Blending Equipment Tax Credit

- Storage and blending equipment means any equipment which is used for storing and blending petroleum-based fuel and biodiesel, ethanol or other biofuel and is installed at a fuel terminal, refinery or biofuel production plant. This does not include equipment used only for denaturing ethyl alcohol.
- Income tax credit equal to 10 percent of the taxpayer's qualified investment for the first \$10 million invested and an amount equal to 5 percent of the amount that exceeds \$10 million. Program is for taxable years commencing after December 31, 2006 and before January 1, 2012.
- Credit shall be taken in 10 equal annual installments.
- Before making a qualified investment, a taxpayer shall apply to the Secretary of Commerce to enter into an agreement for a tax credit.
- In addition to the income tax credit, a taxpayer shall be entitled to a deduction from Kansas adjusted gross income of the amortizable costs of a new facility. Such deduction shall be equal to 55 percent of the amortizable costs of the facility for the first taxable year, and 5 percent for the next nine taxable years. The provisions of this section shall apply to all taxable years commencing after December 31, 2006; administered by the Secretary of Revenue.
- Reference Kansas Statutes 79-32,251-255
- Storage and blending equipment shall be exempt from all property taxes levied for the 10 taxable years immediately following the installation of such equipment.
- Reference Kansas Statute 79-232
Mari Tucker, (785) 296-6080, mtucker@kansascommerce.com

KANSAS Energy Incentives

Renewable Electric Cogeneration Facility Tax Credit

- Renewable electric cogeneration facility is a facility owned and operated by the owner of an industrial, commercial or agricultural process to generate electricity for use in such process to displace current or provide for future electricity use.
- Income tax credit equal to 10 percent of taxpayer's qualified investment for the first \$50 million and an amount equal to 5 percent of the amount that exceeds \$50 million. Program is for taxable years commencing after December 31, 2006 and before January 1, 2012.
- Credit shall be taken in 10 equal annual installments.
- Before making a qualified investment, a taxpayer shall apply to the Secretary of Commerce to enter into an agreement for a tax credit.
- In addition to the income tax credit, a taxpayer shall be entitled to a deduction from Kansas adjusted gross income of the amortizable costs of a new facility. Such deduction shall be equal to 55 percent of the amortizable costs of the facility for the first taxable year, and 5 percent for the next nine taxable years. The provisions of this section shall apply to all taxable years commencing after December 31, 2006; administered by the Secretary of Revenue.
- Reference Kansas Statutes 79-32,245-249
- A renewable electric cogeneration facility shall be exempt from property taxes for all taxable years commencing after December 31, 1998.
- Reference Kansas Statute 79-201, Section 11
Mari Tucker, (785) 296-6080, mtucker@kansascommerce.com
- Renewable electric cogeneration facility—The Kansas Development Finance Authority is authorized to issue revenue bonds in amounts sufficient to finance the construction costs of such facility.
- Reference Kansas Statute 74-8949c
Rebecca Floyd, (785) 357-4445 Ext. 303, rfloyd@kdfa.org

Coal Gasification Power Plant Tax Credit

- For the placement of a new integrated coal gasification power plant into service or the expansion of an existing integrated coal gasification power plant.
- Income tax credit equal to 10 percent of the taxpayer's qualified investment for the first \$250 million invested and an amount equal to 5 percent of the amount that exceeds \$250 million. Program is for taxable years commencing after December 31, 2005 and before January 1, 2011.
- Credit shall be taken in 10 equal annual installments.
- Before making a qualified investment, a taxpayer shall apply to the Kansas Corporation Commission to enter into an agreement for a tax credit.
- Reference Kansas Statutes 79-32,238-241
- Integrated coal gasification power plant property shall be exempt from all property taxes levied for the 12 taxable years immediately following construction or installation of such property.
- Reference Kansas Statute 79-225
Larry Holloway, (785) 271-3222, l.holloway@kcc.ks.gov

Coal Gasification Power Plant Tax Credit (cont)

- Coal gasification power plants—The Kansas Development Finance Authority is authorized to issue revenue bonds in amounts sufficient to finance the construction of such a facility.
- Reference Kansas Statute 74-8947
Rebecca Floyd, (785) 357-4445 Ext. 303, rfloyd@kdfa.org

Coal or Coke Gasification Nitrogen Fertilizer Plant

- For the placement into service of a new or the expansion of an existing integrated coal or coke gasification nitrogen fertilizer plant.
- Income tax credit equal to 10 percent of the taxpayer's qualified investment for the first \$250 million invested and an amount equal to 5 percent of the amount that exceeds \$250 million. Program is for taxable years commencing after December 31, 2005 and before January 1, 2011.
- Credit shall be taken in 10 equal annual installments.
- Before making a qualified investment, a taxpayer shall apply to the Secretary of Commerce to enter into an agreement for a tax credit.
- In addition to the income tax credit, a taxpayer shall be entitled to a deduction from Kansas adjusted gross income of the amortizable costs of a new or expanded facility. Such deduction shall be equal to 55 percent of the amortizable costs of the facility for the first taxable year, and 5 percent for the next nine taxable years. The provisions of this section shall apply to all taxable years commencing after December 31, 2005; administered by the Secretary of Revenue.
- Reference Kansas Statutes 79-32,228-232
- A coal or coke gasification nitrogen fertilizer plant shall be exempt from all property taxes levied for the 10 taxable years following the construction or installation of such property.
- Reference Kansas Statute 79-228
Mari Tucker, (785) 296-6080, mtucker@kansascommerce.com

- Coal or coke gasification nitrogen fertilizer plants—The Kansas Development Finance Authority is authorized to issue revenue bonds in amounts sufficient to finance the construction, purchase and installation of such a system at an electric generation facility.
- Reference Kansas Statute 74-8949a
Rebecca Floyd, (785) 357-4445 Ext. 303, rfloyd@kdfa.org

KANSAS Energy Incentives

Refinery Tax Credit

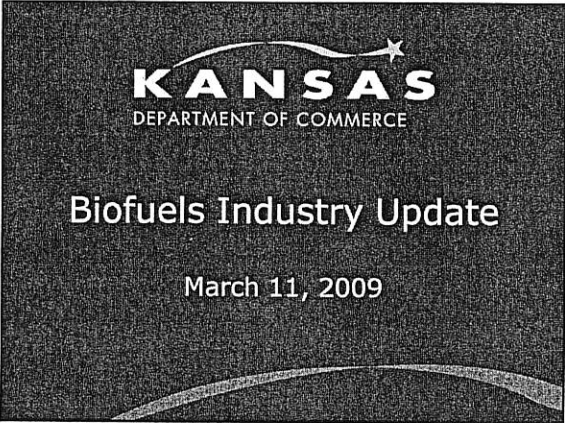
- For the placement into service of a new or the expansion of a refinery.
- Income tax credit equal to 10 percent of the taxpayer's qualified investment for the first \$250 million invested and an amount equal to 5 percent of the amount that exceeds \$250 million. Program is for taxable years commencing after December 31, 2005 and before January 1, 2011.
- Credit shall be taken in 10 equal annual installments.
- Before making a qualified investment, a taxpayer shall apply to the Secretary of Commerce to enter into an agreement for a tax credit.
- In addition to the income tax credit, a taxpayer shall be entitled to a deduction from Kansas adjusted gross income of the amortizable costs of a new or expanded facility. Such deduction shall be equal to 55 percent of the amortizable costs of the facility for the first taxable year, and 5 percent for the next nine taxable years. The provisions of this section shall apply to all taxable years commencing after December 31, 2005; administered by the Secretary of Revenue.
- Reference Kansas Statutes 79-32,217-222
Mari Tucker, (785) 296-6080, mtucker@kansascommerce.com

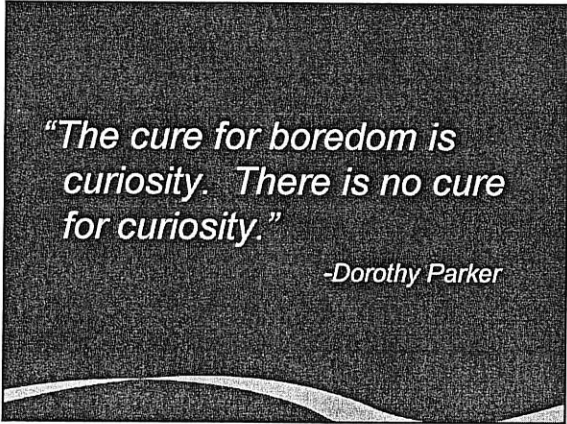
Crude Oil or Natural Gas Pipeline Tax Credit

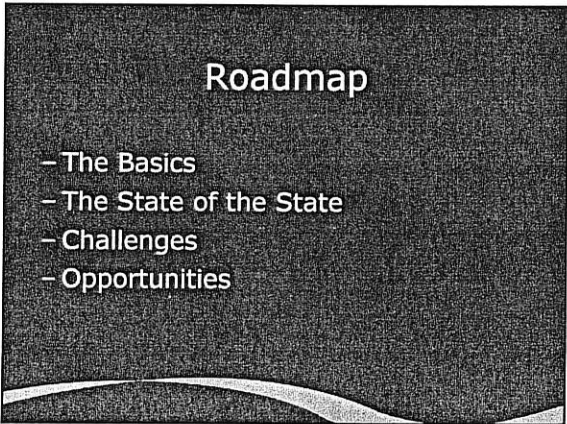
- For the placement into service of a new or the expansion of a pipeline.
- Income tax credit equal to 10 percent of the taxpayer's qualified investment for the first \$250 million invested and an amount equal to 5 percent of the amount that exceeds \$250 million. Program is for taxable years commencing after December 31, 2005 and before January 1, 2011.
- Credit shall be taken in 10 equal annual installments.
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- Reference Kansas Statutes 79-32,223-227
Mari Tucker, (785) 296-6080, mtucker@kansascommerce.com

High Performance Incentive Program (HPIP)

- HPIP provides an investment tax credit to companies that pay above-average wages and have a strong commitment to skills development for their workers.
- Employer must invest 2 percent of payroll in training or participate in one of Commerce's workforce training programs.
- A capital investment tax credit equal to 10 percent of eligible investment that exceeds \$50,000.
- A project description must be submitted prior to any commitment of investment.
- Credits can be carried forward 10 years.
- A company can elect to take the High Performance Investment Credits or the Enterprise Zone Investment Tax Credits, but not both.
Ed Bryan, (785) 296-7174, ebryan@kansascommerce.com







Agriculture Marketing
Division Mission:
"To enhance the value of agriculture products through marketing and new uses, providing greater returns to Kansas producers, processors, and rural communities."

The Basics
"Everything should be made as simple as possible, but not one bit simpler."
- Albert Einstein

General Parameters

- Main inputs:
 - Ethanol = corn and sorghum
 - Biodiesel = soybeans, animal fats
- Between 3 and 4 gallons of water per gallon of ethanol produced
- Around 2.7 gallons of ethanol produced per bushel of grain
- E-10 and E-85 are standard blends
 - Biodiesel a wider range (B2 – B100)

Location, Location, Location

- Access to grain shed
 - Impact on historical basis
 - Import
 - Kansas Advantage? – Livestock
- Access to Rail
 - Where is the market?
 - Unit Train Size Necessary?
 - Class One? 6 or 7 left? CSX, NS, UP, BNSF, CN, KCS, CP
- Access to Livestock for byproducts
 - Ability to feed DWG a big advantage

Resource Requirements

- Between 3 and 4 gallons of water per gallon of ethanol produced
- Under Kansas Water Law, must be allocated from existing resources at a % of original use.
- Rice County Ethanol purchased irrigation rights for their plant at 68% of former allocation

State of the State

"Everything is in a state of flux, including the status quo."

- Robert Byrne

Grain Bushels Consumed

Abengoa Bioenergy, Colwich	-	9.3 MBY
Conestoga/Arkalon, Liberal	-	40.7 MBY
Conestoga/Bonanza, Garden City	-	27.2 MBY
East KS Agri-Energy, Garnett	-	18.9 MBY
E.S.E. Alcohol Inc., Leoti	-	0.7 MBY
Kansas Ethanol, Lyons	-	22.2 MBY
Nesika Energy, Scandia	-	7.8 MBY
Prairie Horizon, Phillipsburg	-	14.8 MBY
Reeve Agri-Energy, Garden City	-	4.4 MBY
U.S. Energy Partners, Russell	-	20.4 MBY
Western Plains Energy, Oakley	-	16.7 MBY

TOTAL EXISTING CONSUMPTION 183.1 MBY

Biofuels Consumption vs. Kansas Production

- Corn for Grain, 2008
 - 3,630,000 Harvested acres
 - 134 bushels/acre
 - ~486 MBY Produced
- Sorghum for Grain, 2008
 - 2,750,000 Harvested acres
 - 78 bushels/acre
 - ~214 MBY Produced
- Total for Grain = ~700 MBY
- Around 25% of local production if at full capacity

Source - National Agricultural Statistics Service, USDA

Kansas Alternative Energy Working Group

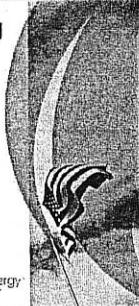
- **Corey Mohn & Mari Tucker, Kansas Commerce**
 - Value Added Center, Community Development Block Grants, tax credits, facilitation
- **Liz Brosius & Ray Hammarlund, KCC Energy Programs Division**
 - Coordination and legislative issues
- **Jessica Bowser, Kansas Department of Agriculture (KDA)**
 - Overall agricultural impact
- **Ken Kopp, KDA - Division of Water Resources (DWR)**
 - Water resource allocation
- **Terry Tavener, Kansas Department of Health and Environment (KDHE)**
 - Air, water, environmental remediation, livestock waste
- **Eddie Martin, Kansas Department of Revenue (KDOR)**
 - Licensing, bonding, motor fuels tax, tax credits

Kansas Alternative Energy Working Group (continued)

- **Kyle Schneeweis, Kansas Department of Transportation (KDOT)**
- Overall transportation impact
- **Steve Wassom, Kansas Securities Commission**
- KS and out-of-state securities registration
- **Steve Zink, Kansas Department of Labor**
- Kansas Boiler Safety Program, boiler inspections
- **Kansas State Fire Marshall**
- Above ground storage tanks
- **Diane Coe, Kansas Water Office**
- Overall water impact and water policy

State of the Industry: Challenging

- 221 Plants - 14.2 billion gallons per year
 - 171 operating - 10.3 billion gallons per year
 - 31 closed - 2.1 billion
 - 19 Under Construction - 1.8 billion
- "Victim of our own success"
 - More ethanol = more available gasoline
- Unprecedented Market Volatility
- Banks Tightening Credit
- PR Challenges
 - Food vs. Fuel
 - Corn vs. Cellulose
 - Low prices and complacency - Maybe we don't need ethanol



U.S. Ethanol Plants by State: Top 5

IA	(36)	2.56 BGY
NE	(24)	1.49 BGY
MN	(20)	1.05 BGY
SD	(15)	979 MGY
KS	(11)	494 MGY

Total U.S. Capacity = 10.3 BGY
 Idled Capacity = 2.1 BGY
 Capacity Under Construction = 1.8 BGY

Source: American Coalition for Ethanol; Renewable Fuels Association - March 2009

U.S. Biodiesel Plants by State

TX	25	IN	5
IA	13	MI	4
GA	9	MS	4
NC	9	SC	4
MO	8	VA	4
OH	8	WA	4
CA	7	6 States	3
PA	7	KS	2
IL	6	10 States	2
TN	6	9 States	1
AL	5		

Total U.S. Capacity = 175 plants, 2.61 BGY
 *Actual production closer to 700 MGY

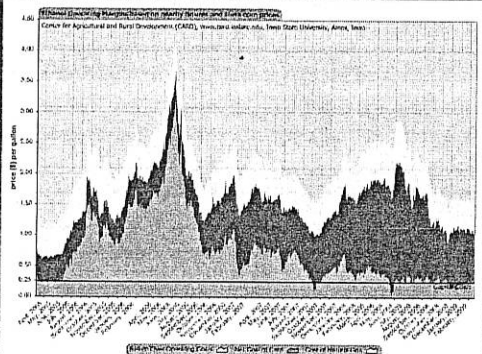
Source: National Biodiesel Board - September 2011

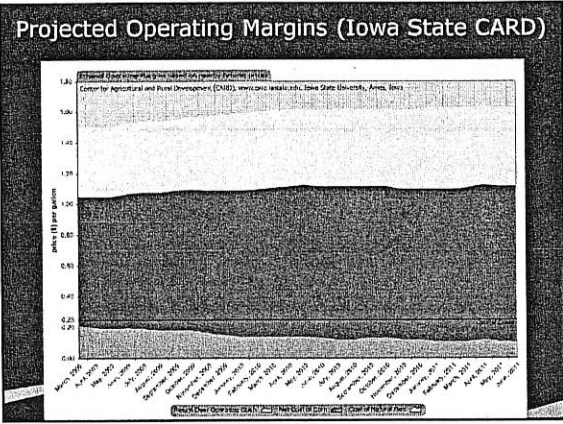
Challenges

"The greatest challenge to any thinker is stating the problem in a way that will allow a solution."

- Bertrand Russell

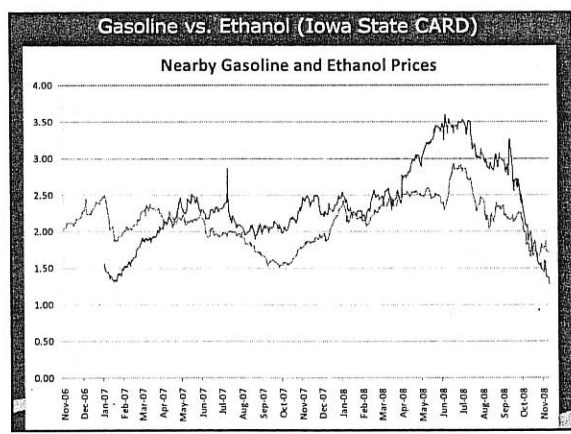
Historic Operating Margins (Iowa State CARD)





Assumptions

- Ethanol price = \$1.51/gallon
- Corn price = \$3.23/bushel
- Natural gas price = \$3.95/mmBtu
- As of 3/6/09, Iowa State CARD



Idling Capacity

- 12.4 BGY of capacity
- 2.0 BGY+ currently idled (UDSA – 2/09)
 - Number could be higher
- VeraSun bankruptcy
 - High corn prices, lack of financing
 - Bankruptcy settled by March/April?
- How quickly will RFS drive demand?

Opportunities

"Problems are only opportunities in work clothes."

- Henry J. Kaiser



Blender Pumps

- Consumer choice at the pump (FFVs)
- Dispenser blends the ethanol
- Kansas Program launched in August

Goal: Install a minimum of 100 blender pumps in the state within one year.



Kansas Blender Pump program

- Thanks to contributions of the Kansas Corn Commission
- The Kansas Corn Commission administers the state's corn checkoff to benefit corn producers.
 - This project benefits ethanol producers, growers, fuel retailers and consumers by expanding the availability of ethanol across Kansas.
- Kansas blender pump program was launched on August 18, 2008

Existing Blender Pump Stations

- Topeka: Conoco
- Coffeyville: Jump Start
- Hutchinson: Hutchinson Coop Cenex
- Garden City: U Pump It
- Lawrence: Zarco 66
- Ottawa: Zarco 66
- Dodge City: Dodge City Coop
- Colwich: TJ's Convenience Store
- Blue Rapids: Home oil

E-10 to E-15...or E-20?

"...a commonsense solution to our economic, energy and environmental challenges"
 - Wesley Clark, Growth Energy

- Growth Energy looks to increase limit
 - ICM, Poet, etc.
- UL decision that 15% works for pumps
- Raises the "Blend Wall"
- Manufacturers on the fence
- Secretary Vilsack: We could see E-20

Policy Creates Opportunity

- Farm Bill
 - Several issues can be included here: rural development, forest products, land-grant universities, feedstock production, biorefinery development, etc.
- Energy Bills
 - Expanded Renewable Fuel Standard, infrastructure, research, and tax credits, etc.
- Climate Bills
 - Carbon tax, cap and trade, low carbon fuel etc.

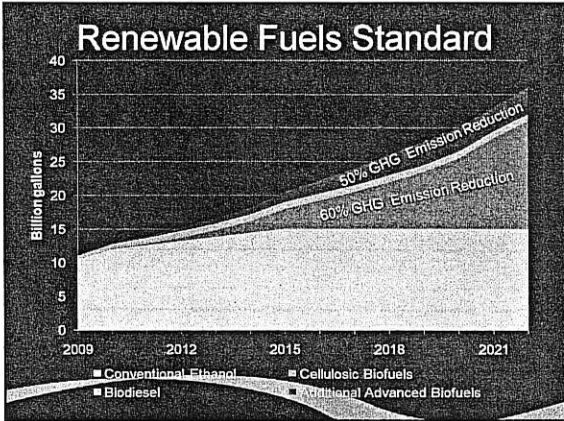
Source: Environmental and Energy Study Institute (EESI)

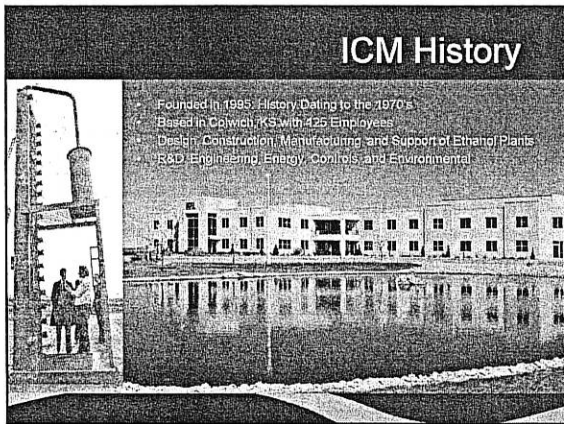
The Sorghum Option

- Corn and Sorghum virtually interchangeable
 - Hedge for Kansas
 - Play the markets – use the cheaper option
- New potential with Federal RFS
 - Federal RFS of 36 BGY by 2022
 - Considered "Advanced Biofuel" with CO2 reduction

Turning Bad News Good

- Bad news: Ag commodities tank
- Good news: Lower input costs => softening of the economic blow to plants
- Bad news: Shakeout => loss of capacity
- Good news: Loss of capacity => encouragement for new investment to meet RFS
- Bad news: Tightening of credit markets
- Good news: Projects developed with a keen focus on sustainable cash flow
- Bad news: Low gas prices => difficult competition
- Good news: What goes down must go up!





- ### ICM, Inc.
- Partnership with Lifeline Foods, St. Joseph, MO
 - Pilot plant and research and development lab for cellulosic ethanol
 - Working agreements with cellulosic companies to design their plants
 - Harvey County - biomass gasification
 - Kansas Bioscience Authority partner

Abengoa Bioenergy Hybrid of KS

- U.S. Department of Energy Grant Award - Clean Fuels Initiative
- \$76 million on \$300+ million project
- Commercial facility to develop a commercial facility to produce ethanol from lignocellulosic biomass
- Location in Hugoton, Kansas
- 110 MGY capacity when complete
 - 14 MGY cellulosic
 - 96 MGY starch

Where Do We Go From Here?

Other Trends and Technologies

Collection, Storage, and Transportation

Regional vs. Mega-Facilities

Future Market Considerations

- The E-85 Chicken and Egg
- Availability of Equity
- Political Environment



For further information, contact:

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Rural Development Division

(785) 296-3034
cmohn@kansascommerce.com



Abengoa Bioenergy
Hybrid Biorefinery, Hugoton KS



Sustainable
Growth



Kansas Energy and Utilities Committee

March 11, 2008

Thomas W. Robb, PhD

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Abengoa Overview

Abengoa is a technology company that applies innovative solutions for sustainable development in infrastructure, environmental and energy sectors. It is present in over 70 countries where it operates through its five Business Units: Solar, Bioenergy, Environmental Services, Information Technology, and Industrial Engineering and Construction.

Industrial Engineering & Construction

With engineering... we build and operate conventional and renewable energy power plants, power transmission systems, and industrial infrastructures



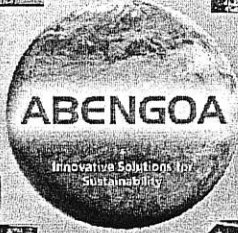
Environmental Services

With waste... we produce new materials through recycling, and we treat and desalinate water



Bioenergy

With biomass... we produce ecological biofuels and animal feed



Solar

With the sun... we produce thermoelectric and photovoltaic electric energy



Information Technology



Focus Abengoa



With social and cultural policies... we contribute to economic progress and the conservation of the environment in communities where Abengoa is present

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HOUSE ENERGY AND UTILITIES

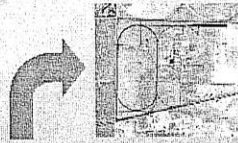
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ATTACHMENT 5-1



Assets for R&D Strategy Development

...and Leading the 2nd Generation



Commercial Hybrid Biomass Plant Hugoton (KS, US)

- ▶ Capacity : 100 MGPY (13 MGPY biomass, 87 MGPY starch)
- ▶ Raw material : Corn starch and stover
- ▶ Technology : Enzymatic Hydrolysis (glucose & xylose)
- ▶ Objective : Production at a gasoline competitive cost
- ▶ Start-up Operations : 2011 estimated

Biomass Demonstration Plant in BCL (Salamanca, Spain)

- ▶ Capacity : 1.3 MGPY
- ▶ Raw material : Wheat and Barley Straw
- ▶ Technology : Enzymatic Hydrolysis (glucose)
- ▶ Objective : Demonstrate biomass-to-ethanol process technology at commercial scale
- ▶ Start-up Operations : 2008



Biomass Pilot Plant in York (NE, US)

- ▶ Capacity : 0.02 MGPY
- ▶ Raw material : Corn stover
- ▶ Technology : Enzymatic Hydrolysis (glucose & xylose)
- ▶ Objective : Competitive process with grain ethanol
- ▶ Start-up Oper. : 2007

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ABHK Overview

Abengoa Bioenergy Hybrid of Kansas

- ▶ First commercial facility of Abengoa Bioenergy's Cellulosic Ethanol technology
- ▶ A \$500 million plus project, supported by a \$76 million grant from the Department of Energy plus an equity commitment from Abengoa Bioenergy
- ▶ Project start of construction, 2nd Half of 2009, operation by 2011
- ▶ Project Engineering and Development ongoing since 2007, over \$20 million spent to date with a staff in excess of 150 individuals (direct and contract)
- ▶ Key first project in the successful growth of Abengoa's Cellulosic Ethanol Business and the Nation's Cellulosic Ethanol Industry

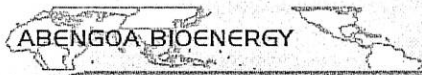
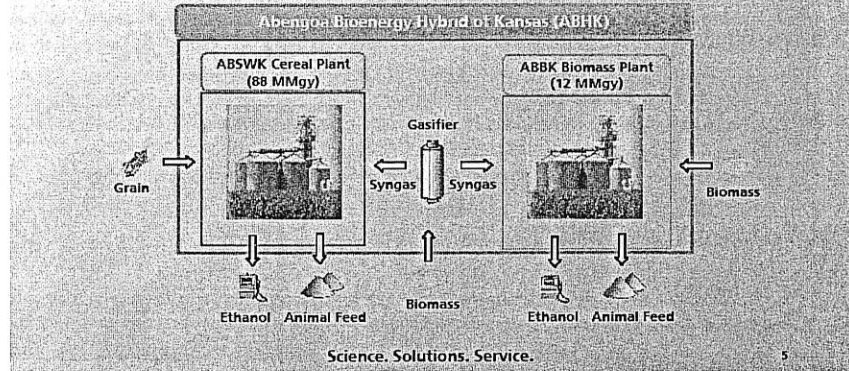
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ABHK Inputs and Outputs

ABBK Biomass Plant 154,000 dry tons of biomass 245,000 dry tons of biomass		12 MMgy Cellulosic Ethanol Synthesis Gas to replace Natural Gas
ABSWK Cereal Plant 12 million bushels of grain		88 MMgy Ethanol



ABHK Project Development Progress

Business Development

- Options for land rights secured through 2010
- Options for water rights secured through 2010, 7231 acre feet (ag use), converts to 4,300 acre feet (industrial use), vs. projected use of 2,300 acre feet
- Various surveys completed, including Land Survey, Geotech, Threatened and Endangered Species, and Wetlands
- The Air Permit application has been submitted to KDHE, issuance expected early 2009
- Rezoning and Special Use process started

Biomass Procurement

- The biomass procurement operation model is developed and being confirmed
- Pricing concepts have been identified
- Contract execution with biomass Suppliers is scheduled for completion early 2009

Process Engineering

- The pilot plant located in York, NE is fully operational proving the technologies to be deployed at Hugoton and is providing vital process data to help us ensure our technology solutions are optimized
- Process engineering group, in close consultation with DOE specialists and Abengoa Bioenergy R&D, are fully developing the necessary process engineering designs

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ABHK Project Development Progress

Engineering

Detailed construction plan and specification preparation commenced May 2008. Issue for construction plans and specifications are scheduled for issuance early 2009. Large-scale architectural and engineering firms Zachry Engineering (Omaha, NE) and Automation Alliance Group (St. Louis, MO) have numerous full-time dedicated professional engineers and designers assigned to assist Abengoa Bioenergy with design development.

Construction

Construction is a 1,000,000 man-hour craft labor effort, peaking with 500 construction workers at the site installing over 30 miles of stainless steel and carbon steel piping, 4,000 tons of structural steel, 30,000 cubic yards of concrete, 40,000 track feet of rail system and over \$150 million of process equipment. Construction is proposed to commence in early 2010, 24-month duration.

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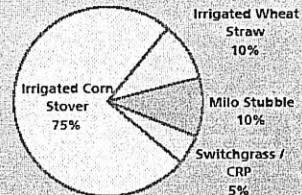


ABHK Biomass Input Today

Estimated 200,000 - 250,000 acres of land

1400 "as is" tons of biomass per day

490,000 "as is" tons of biomass per year



Irrigated Wheat Straw



Milo Stubble



Switchgrass



Irrigated Corn Stover



CRP Grassland

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ABHK Biomass Input Tomorrow

Up To 100% Switchgrass

Reasons

- Little to no fertilizer required
- Lower input costs
- Can be grown on poor soils
- Tolerant of flooding and drought
- Large potential from CRP and underutilized acres

Challenges

- Establishment cost for producer
- No immediate revenue for producer
- Availability
- Harvest and Collection methods



CRP Grassland

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