

Approved: 02/22/11
Date

MINUTES OF THE SENATE AGRICULTURE COMMITTEE

The meeting was called to order by Chairman Mark Taddiken at 8:40 a.m. on February 9, 2011, in Room 159-S of the Capitol.

All members were present except:
Steve Morris - excused

Committee staff present:
Tamera Lawrence, Office of the Revisor of Statutes
Jason Thompson, Office of the Revisor of Statutes
Heather O'Hara, Kansas Legislative Research Department
Laura Younker, Kansas Legislative Research Department
Judy Seitz, Committee Assistant

Conferees appearing before the Committee:
Greg Krissek, Director of Governmental Affairs, ICM
Mike Chisam, General Manager, Kansas Ethanol and Chairman, Kansas Association of Ethanol Processors (KAEP)

Others attending:
See attached list.

Greg Krissek, Director of Governmental Affairs, ICM, presented an overview of the ethanol industry in the United States (Attachment 1). He stated that there are currently 200 ethanol production facilities in the U.S. and have grown from approximately 1% of the gasoline pool to 9 1/2% of the gasoline pool; which means 95% of all gallons of gasoline in the U.S. contain 10% ethanol. He discussed the federal renewable fuels standard (RFS2) laid out in 2007 with the goal of getting to approximately 36 billion gallons of biofuels in the gasoline pool by 2022.

Mr. Krissek noted the regulatory hurdles to overcome before E15 can be sold. The blender pump offers the consumer a blend choice for use in flexible fuel vehicles (FFVs) and will be the market access mechanism that will allow the ethanol industry to compete in this market and move away from the federal incentives. He noted that it takes 10 to 15 years to turn over the vehicle fleet in the U.S.

Mike Chisam, General Manager, Kansas Ethanol and Chairman, Kansas Association of Ethanol Processors (KAEP) reported on the ethanol industry in Kansas (Attachment 2). There are 12 operating ethanol plants and one idled plant in Kansas producing an estimated 500 million gallons of ethanol annually. He then pointed out the significant economic impact that the ethanol industry has made in Kansas. Mr. Chisam also said that ethanol is a great commodity for the country because ethanol is the only viable and available fuel that can be substituted for gasoline.

Mr. Krissek and Mr. Chisam took questions from the Committee.

The next meeting is scheduled for February 15, 2011.

The meeting adjourned at 9:15 a.m.

SENATE AGRICULTURE COMMITTEE GUEST LIST

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Senate Agriculture Committee

February 9, 2011

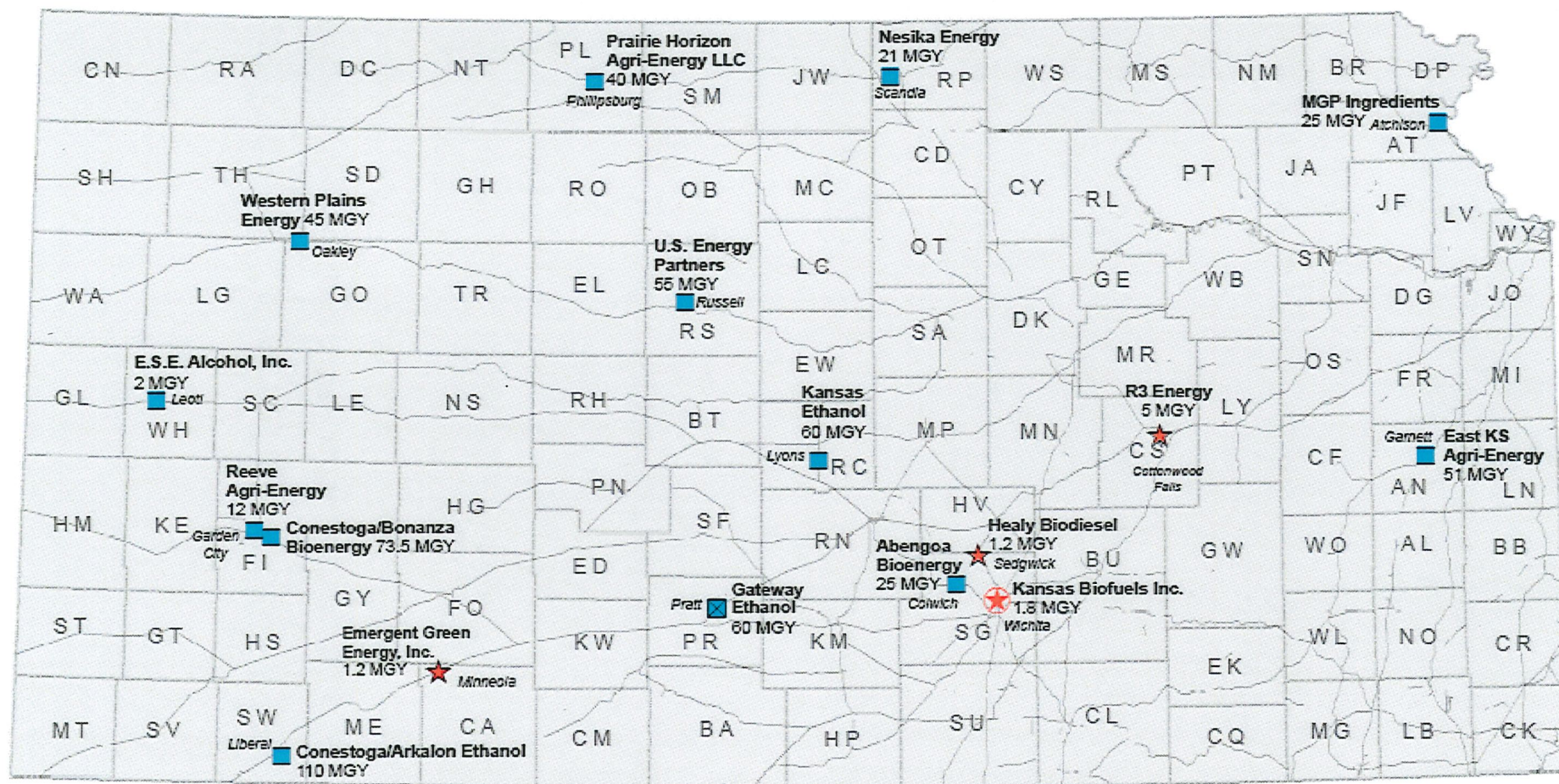
Overview of the Ethanol Industry

Greg Krissek, ICM, Director of
Governmental Affairs



Ethanol and Biodiesel Plant Activity in Kansas Existing and Idle Only January 2011

1-2



Kansas Department of Agriculture
Administrative Services, GIS
January 18, 2011



MGY = Millions of gallons per year of permitted capacity.
Capacities are courtesy of the Kansas Department of Health and Environment and the Kansas Department of Revenue.

Ethanol Plants

- Existing: 12 plants, 519.5 MGY
- Idle: 1 plant, 60 MGY

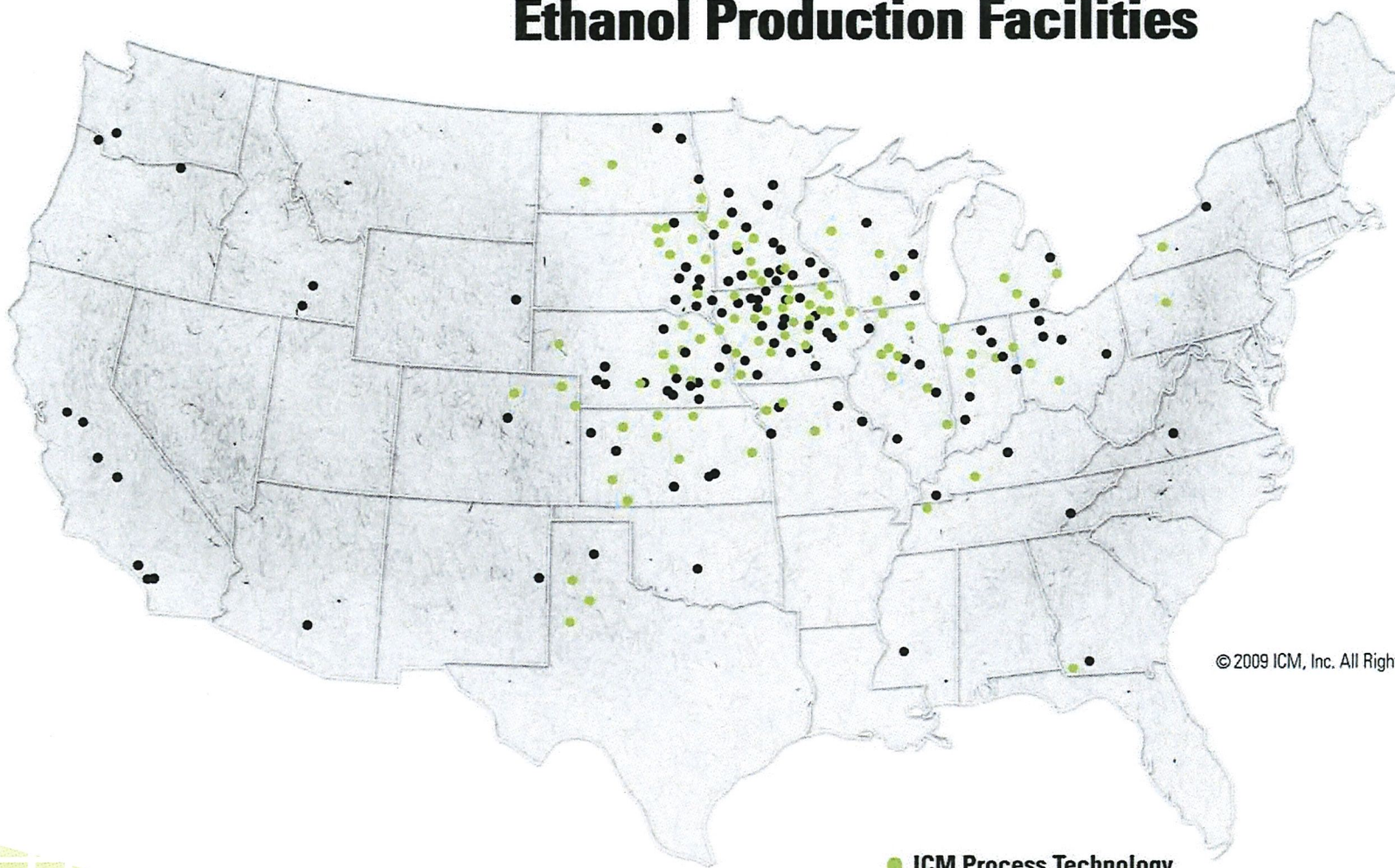
Biodiesel Plants

- Existing: 3 plants, 7.4 MGY
- Idle: 1 plant, 1.8 MGY



United States

Ethanol Production Facilities



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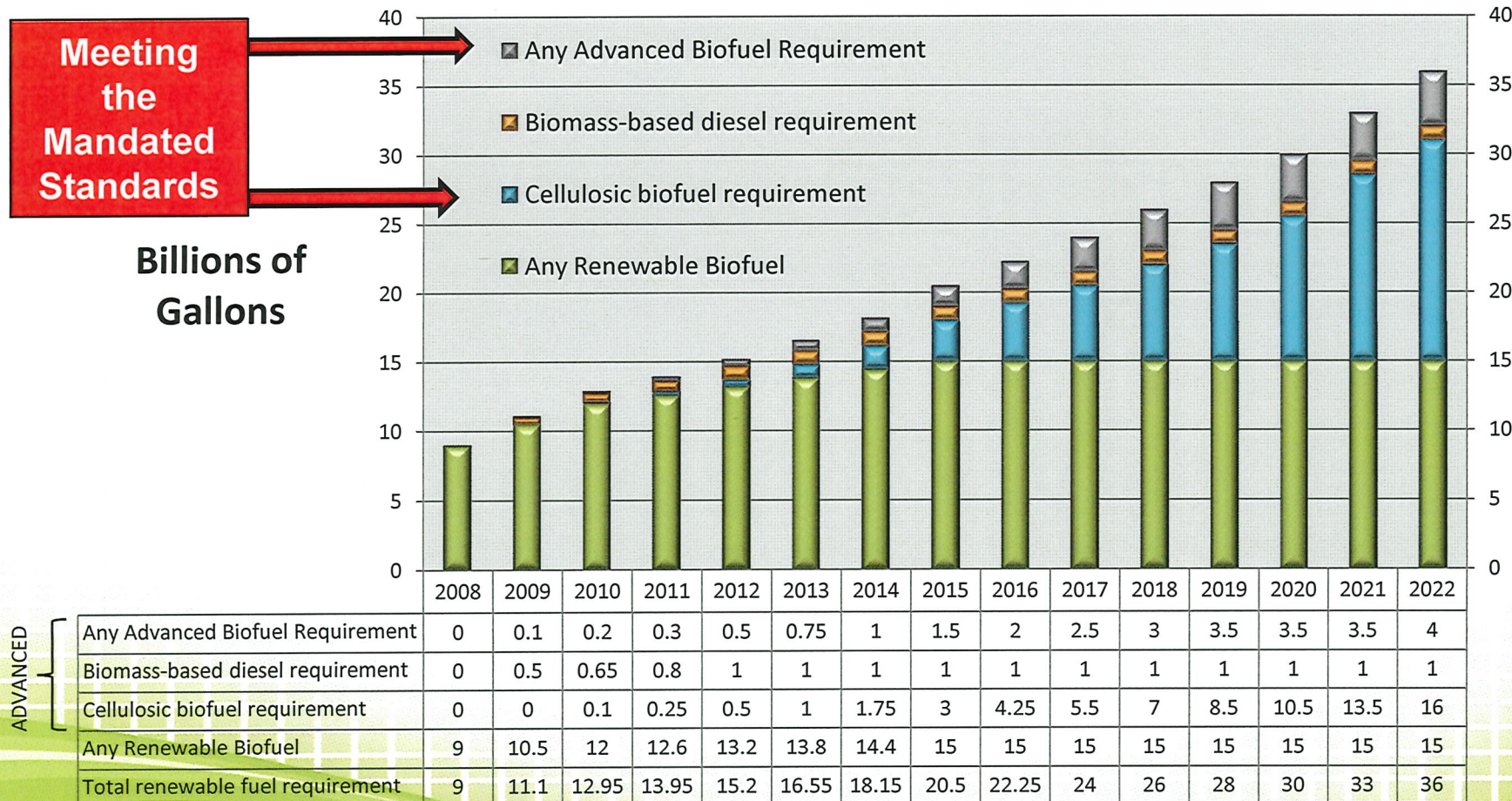
● ICM Process Technology
● Other Technology

ICM

e ethanol

Federal Renewable Fuels Standard (RFS 2)

RFS2: Four Annual Standards



ADVANCED

Any Advanced Biofuel Requirement	0	0.1	0.2	0.3	0.5	0.75	1	1.5	2	2.5	3	3.5	3.5	3.5	4
Biomass-based diesel requirement	0	0.5	0.65	0.8	1	1	1	1	1	1	1	1	1	1	1
Cellulosic biofuel requirement	0	0	0.1	0.25	0.5	1	1.75	3	4.25	5.5	7	8.5	10.5	13.5	16
Any Renewable Biofuel	9	10.5	12	12.6	13.2	13.8	14.4	15	15	15	15	15	15	15	15
Total renewable fuel requirement	9	11.1	12.95	13.95	15.2	16.55	18.15	20.5	22.25	24	26	28	30	33	36

Biomass Diesel in 2013 and on will be at least 1 BG

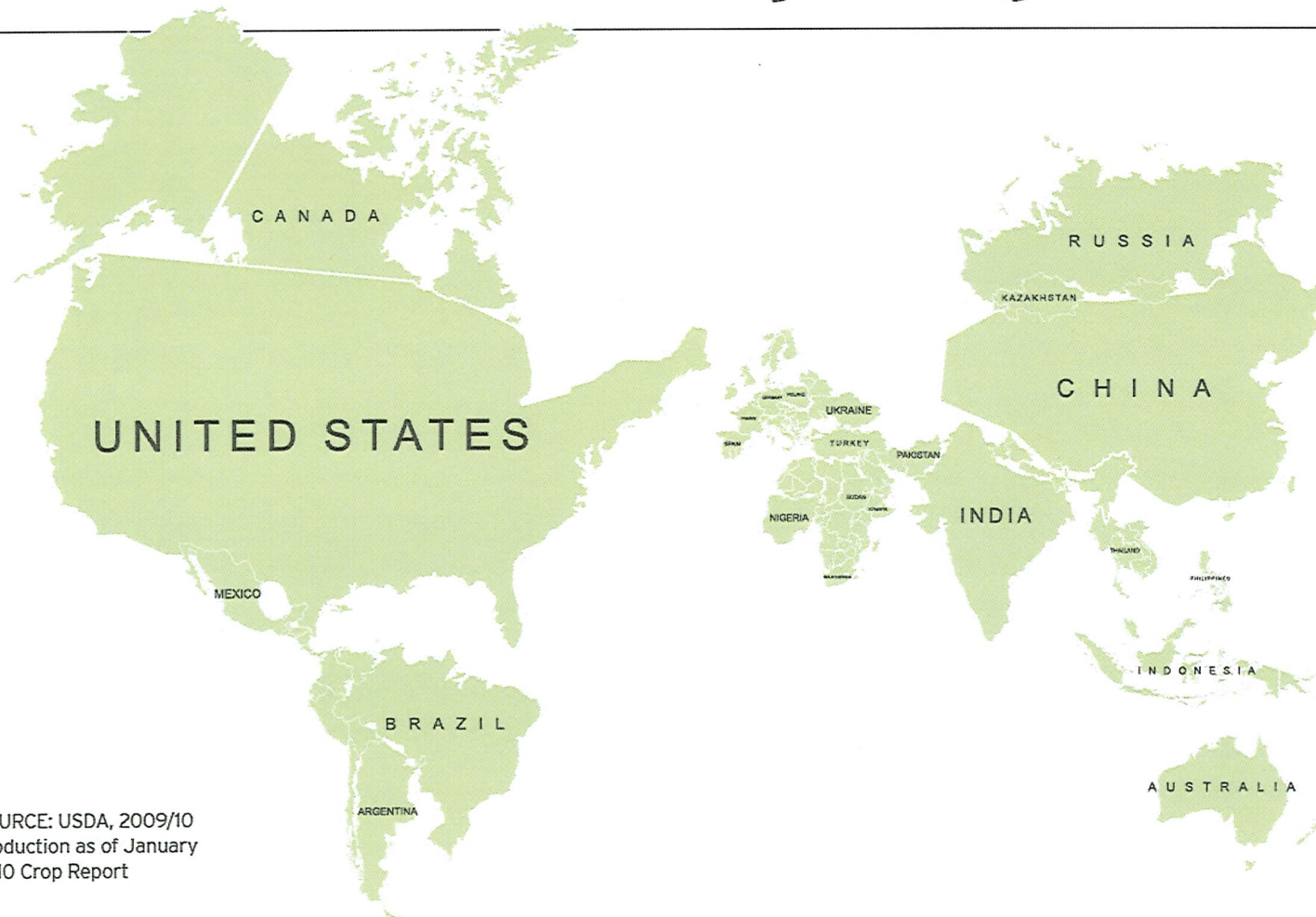


The World According to Oil



SOURCE: BP Statistical Review Year End
2004 & Energy Information Administration

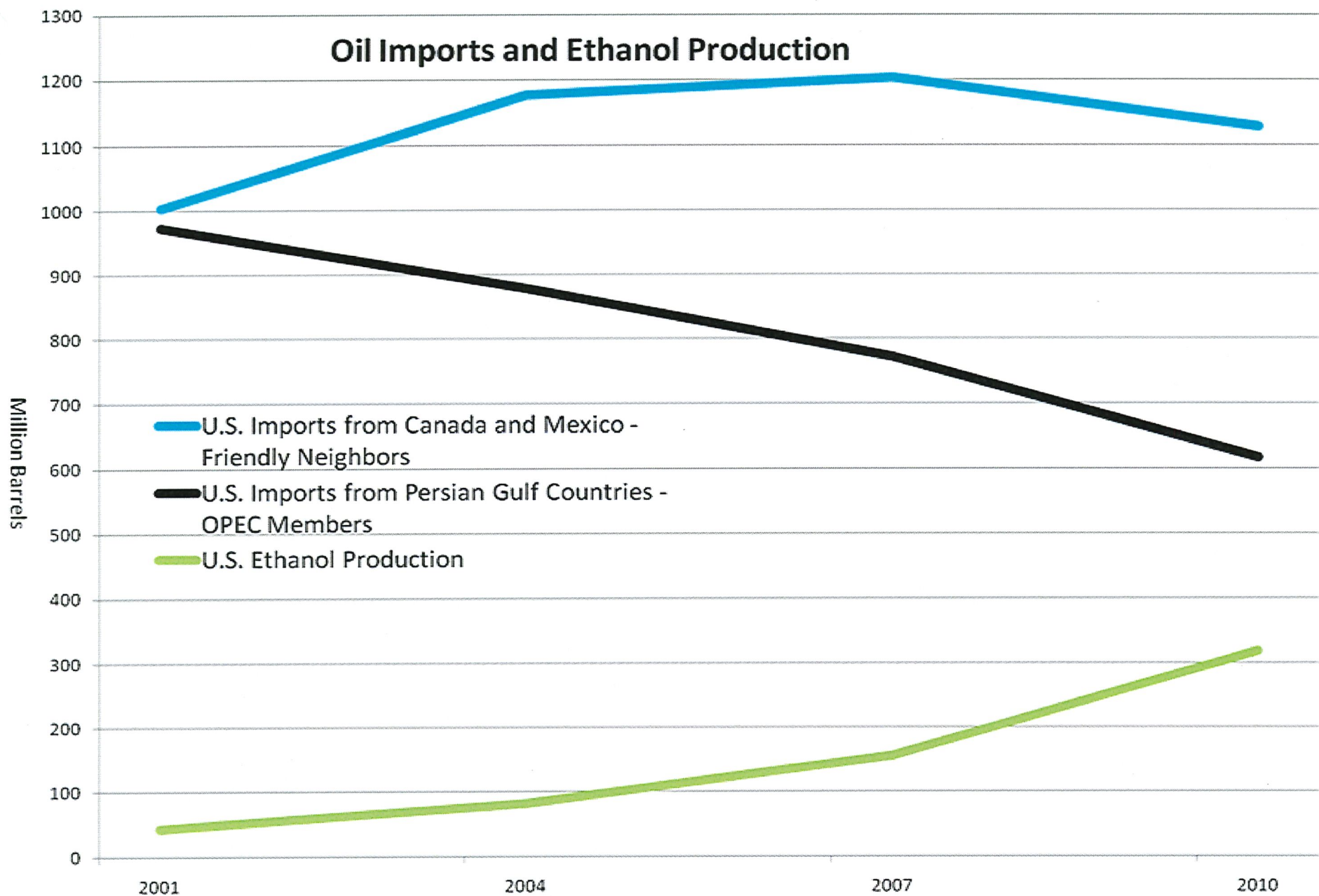
The World According to Agriculture



SOURCE: USDA, 2009/10
Production as of January
2010 Crop Report

6-1

Oil Imports and Ethanol Production



Federal Issues - E15 Waiver Update

- USEPA waiver for 2001 and newer vehicles
- Total # of vehicles on road today = 239 million
 - › 2007 through 2011 vehicles = 43 million (**18% of total**)
 - › 2001 through 2006 = 86.3 million vehicles (**36% of total**)

2001 through 2011 = 129.3 million

54% of all vehicles on the road

E15 – Next Steps

- Regulatory hurdles before E15 can be sold, including:
 - › ‘health effects’ testing – first draft submitted to USEPA
 - › fuel registration – after health effects report completed
 - › labeling requirements – proposed rule comment period is now closed
 - › state regulations – legislative sessions starting now
 - › RVP volatility 1.0 pound waiver is an issue
- Acceptance of E15 will depend on market forces – if retailers can make more \$\$ on E15 they will adopt it.

Federal Legislation Update

- Ethanol tax credit (VEETC) currently \$.45 per gallon
 - › VEETC renewal one year – short term
 - › Revise to producer credit, reduce amount per gallon, and revise/rescind import tariff
 - › Increase numbers of FFV's in US fleet to 100%
 - › Redirect VEETC savings to retail infrastructure for blender pump dispensers – need for 200,000 nationwide
 - Note - Recent guidance from US DOE to State and Local Grantees allowing Recovery Act funds use for blender pumps

Other Policy Issues

- Low carbon fuel standards
 - › Federal legislation
 - › State/Regional legislation and programs
 - California AB 32
 - NESCAUM (Northeast states)
 - Midwest Governors Association
- US EPA Proposed Greenhouse Gas Regulations
 - › Tailoring Rule
 - › Sustainability Call for Information
 - › Various Proposals Impacting Ag Production

The Path Forward



With Blender Pumps



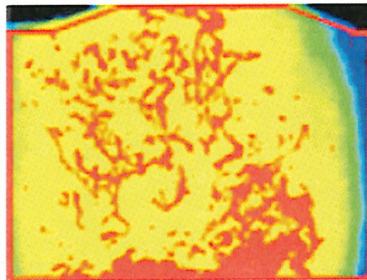
With FFVs

Particulate Emissions

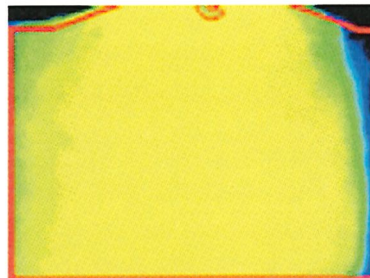
**Is gasoline technology
moving in the right
direction when it comes
to Particulate Emissions?**



Gas



E-85



**Aromatics are the largest source of fine
particulate matter that carcinogens can
attach themselves to**

Ethanol Fuel Blend Study – ICM, AVL, et al

Primary testing goal is the evaluation of ethanol on a performance value. Combines the cooling effect with the octane value to define actual emissions as **aromatics** are replaced with ethanol.

- **Consumer Intent fuels (2X4 fuel blends)**

- Testing will be at 2500 rpm
- 85 octane with max. of 15 percent aromatics
- 93 octane with min. of 30 percent aromatics
- Test schedule at E0, E10, E30 & E50





1-15

Thank you!

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Kansas ETHANOL

Good morning Chairman Taddiken and members of the Senate Agriculture Committee. I am Mike Chisam and I am the General Manager of Kansas Ethanol and also serve as the chairman of the Kansas Association of Ethanol Processors (KAEP), which represents the ethanol industry in Kansas.

Greg Krissek has done a great job of giving you the national picture of ethanol. Now it is my pleasure to talk to you about the ethanol industry in Kansas. There are 12 operating ethanol plants and one idled plant in Kansas. All of the operating plants produce fuel-grade ethanol except the Atchison plant, which produces food-grade ethanol. These plants produce an estimated 500 million gallons of ethanol annually. The State's one idled plant in Pratt is anticipated to start back up sometime later this year and will add another 60 million gallons a year.

The ethanol plants provide a significant economic boost to their rural communities. According to a Kansas Legislative Research Department report issued just last year, the ethanol industry has had a significant economic impact in Kansas as illustrated by the following points:

- \$616 million was spent on construction of 9 plants
- \$2 million was paid in property taxes in 2009
- \$53 million was paid to trucking firms
- 328 employees were directly employed by the plants at an average salary of \$49,000
- For every job created at the plant, 6.72 indirect jobs were created, resulting in an estimated 4,186 jobs in Kansas created by the ethanol plants
- 14.5 million bushels of grain are used, on average, by each plant each year

At my particular plant in Lyons, we employ 36 people and another 70+ people are indirectly employed because we use their services on a full time basis. We have an annual payroll of approximately \$2 million; however, our contribution to the local economy does not stop there. We also utilize local trucking firms and other service providers as much as possible, plus we purchase our grain from local producers and elevators (\$75 million spent on grain in FY 2010). We are proud of our community partnership with the City of Lyons and Rice County and support educational, sporting, and cultural events.

We have also become a significant partner with the area cattle feeding operations. Most of the plants in Kansas are selling their distillers grains to cattle feedlots because it is a great source of protein for the animals and it can even reduce the amount of water that needs to be provided to

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those animals when utilizing the wet distillers grain in the feed rations. In Kansas, the ethanol and cattle feeding industries have forged a close, symbiotic relationship and the financial success of each is certainly tied together.

Beyond the local economic reasons, ethanol is a great commodity for the country because ethanol is the only viable and available fuel that can be substituted for gasoline. Unlike oil, ethanol is renewable, will never run out, and is better for the environment than gasoline. We believe that ethanol will continue to be a sustainable and effective energy solution for the world. America's dependence on foreign oil has caused the ongoing, unprecedented transfer of wealth to countries that do not likely have America's best interest in mind. In addition, oil prices continue to rise as world consumption increases – translating into more expensive fuel and food for citizens of our nation and state.

Ethanol has provided a number of positive benefits to the economy and the environment and I appreciate the opportunity to share some of these with you this morning. I would be happy to answer any questions you might have about my presentation or the ethanol industry at the appropriate time.