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Natural Resources Committee
March 03, 2017

[CONFIRMATION]

The Committee on Natural Resources met at 1:30 p.m. on Friday, March 3, 2017, in Room 1525 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on the gubernatorial appointment of Scott McPheeters to the Nebraska Ethanol Board. Senators present: Dan Hughes, Chairperson; Joni Albrecht; Suzanne Geist; Rick Kolowski; John McCollister; Dan Quick; and Lynne Walz. Senators absent: Bruce Bostelman, Vice Chairperson.

SENATOR HUGHES: We will begin our...call our Natural Resources gathering together. It's not a formal hearing this morning, we're just having a meeting. I will let the members of the Natural Resources Committee introduce themselves beginning with Senator Kolowski.

SENATOR KOLOWSKI: Senator Rick Kolowski, District 31, southwest Omaha.

SENATOR QUICK: Dan Quick, Grand Island, District 35.

SENATOR WALZ: Lynne Walz, District 15, which is all of Dodge County.

SENATOR HUGHES: And on my right.

SENATOR ALBRECHT: Hi, I'm Joni Albrecht from northeast Nebraska; I've got Thurston, Wayne, and Dakota Counties.

SENATOR HUGHES: And I'm Dan Hughes from Venango, Nebraska, District 44, Chairman of the Committee. And we have the great senator from Omaha just joining us. If you'd like to introduce yourself.

SENATOR MCCOLLISTER: Yeah, one-eight of Douglas County, District 20.

SENATOR HUGHES: Wrong seat. And we do have the committee counsel who informs me that, yes, this is a hearing, so my mistake, Laurie Lage. And the committee clerk is Mandy Mizerski; she will be recording and keeping track of what we say. We also have two pages with us today: Heather Bentley, from Miller, Nebraska; she is a student at UNL in ag economics; I don't have all my cheat sheets. And Lee-Ann Sims from Lincoln who is in UNL in economics as well.

LEE-ANN SIMS: Global studies.

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SENATOR HUGHES: Global studies, I was close. (Laughter) So with that we will welcome Mr. Scott McPheeters. And you are seeking a position on the Nebraska Ethanol Board. So welcome, Mr. McPheeters. [CONFIRMATION]

SCOTT McPHEETERS: Thank you. [CONFIRMATION]

SENATOR HUGHES: Just tell us a little bit about yourself, a little bit of your background and why you would want to work with Todd Sneller. [CONFIRMATION]

SCOTT McPHEETERS: (Exhibit 1) Well, I was born and raised near Gothenburg...born in Gothenburg, raised near Gothenburg on a farm and continue to...returned to the farm after graduation from UNL. And have two sons and a son-in-law now back farming with us there as well. And I became involved in the ethanol industry in about 2000; went to visit a plant, became interested. That made me on the committee. All of a sudden we were raising \$18 million and borrowing another \$30 million and making a farmer-owner ethanol plant. So we've been in a good position on the cost curve and we've been able to pass out money to our farmers and also pay more for corn than was previously. So I'm very pro ethanol. None of my corn goes to the ethanol plant because I'm 60 miles away. But all of our corn goes to Frito-Lay as food-grade corn. So that about sums it up. [CONFIRMATION]

SENATOR HUGHES: So you are part of the KAAPA Ethanol is that...? [CONFIRMATION]

SCOTT McPHEETERS: Right. Initially, I guess, the finance chair when we did all that and then have been on the board since. [CONFIRMATION]

SENATOR HUGHES: Okay. Are there questions? [CONFIRMATION]

SENATOR WALZ: Can I just ask a question out of curiosity? [CONFIRMATION]

SENATOR HUGHES: Sure, Senator Walz. [CONFIRMATION]

SENATOR WALZ: Thank you, Mr. Chairman. [CONFIRMATION]

SENATOR HUGHES: Absolutely. [CONFIRMATION]

SENATOR WALZ: So 60 miles is too far? I'm just curious, it's too far to haul...or just for my own curiosity. [CONFIRMATION]

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SCOTT McPHEETERS: Typically, and of course we built the plant in a corn-rich area, and towards...where I am to the west, corn production falls off pretty fast, so you generally draw from a closer circle. So, if it was a circle where all the corn was on west of me, some of it would migrate that way, but it's...Gothenburg is kind of right on the western end of where a lot of corn is grown. So...and there's...it would cost about 17 to 20 cents a bushel to haul that 60 miles.
[CONFIRMATION]

SENATOR WALZ: Okay. All right. Thank you. [CONFIRMATION]

SENATOR HUGHES: Okay, additional questions? And we've been joined by Senator Geist.
[CONFIRMATION]

SENATOR GEIST: Yes, I'm sorry. [CONFIRMATION]

SENATOR HUGHES: Welcome. Senator McCollister. [CONFIRMATION]

SENATOR McCOLLISTER: Yes, thank you, Chairman Hughes. What does the Ethanol Board do? What are the duties of the Ethanol Board? [CONFIRMATION]

SCOTT McPHEETERS: Well, initially, it was to develop the ethanol industry in Nebraska. And we drew on some of their resources clear back in 2000 when we started to raise funds for ours. And since there's a fairly developed ethanol refining industry in United States as well, but Nebraska specifically. At this point, I view it more as what I want to help with is to educate consumers because I think there's a lot of people who...just good facts are not out there and they're afraid to put it in their cars in some cases because they've seen advertisements where it will ruin their car. So promotion and still development, but not necessarily in a refinery, but development of the market is with ethanol. [CONFIRMATION]

SENATOR McCOLLISTER: You set no prices or no... [CONFIRMATION]

SCOTT McPHEETERS: Right. No prices at all, it's just mostly educational and some resources to help if you wanted to explore a certain bolt-on attachment for your plant to make a different type of feed or something like that. There's some technical expertise there, but it's a lot...just promotion and development, not necessarily pricing. [CONFIRMATION]

SENATOR McCOLLISTER: It's my understanding, and correct me if I'm wrong, that that industry has become very efficient over the last 10, or 15, or 20 years and that by-products now

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occupy a prime concern because that's probably the profitable part of the business. Is that a correct assumption? [CONFIRMATION]

SCOTT McPHEETERS: From every bushel of corn, which weights 56 pounds, you get a third ethanol; a third distillers grains, which is high-powered, high-protein cattle feed that they love; and a third, carbon dioxide, which is normally cleaned up and vented into the air and returns to the next year's crop (inaudible), so it's a cycle. But as far as efficiency, it takes about...you can get about 2.8 gallons per bushel. And so probably 20 years ago, I imagine it was 2.5, so it has improved substantially. [CONFIRMATION]

SENATOR McCOLLISTER: And corn prices are, you know, your input, and so as corn prices go up, your margins go down. Is that a correct assumption? [CONFIRMATION]

SCOTT McPHEETERS: Not necessarily. It's all about the cost to take a bushel and refine it. And so if you have...if you're on the right side of the cost curve, as I mentioned earlier, that if we can do a more efficient job converting, we can sell our ethanol at the same price as someone else and have a better margin. So while it's true that ethanol and corn prices are related, and oil prices are in there somewhere, it's not a direct relationship and there's always lags, but really to answer your question most specifically, all the things that come from the kernel make up our profit margin. We now spin oil, by spin it's a centrifuge, and so we sell oil and we also sell distillers grains, and some plants do compress their CO2 and use it for refrigerant. But the feed has become major because the cattle feeding industry needs to have close proximity. You have almost as much in a load of feed in freight as the feed is worth. [CONFIRMATION]

SENATOR McCOLLISTER: Wow. [CONFIRMATION]

SCOTT McPHEETERS: It's 65 percent water. And so the cattle feeding industry has moved to Nebraska, so we're now first in cattle feeding and there's a reason. [CONFIRMATION]

SENATOR McCOLLISTER: And Nebraska is number two in ethanol production?
[CONFIRMATION]

SCOTT McPHEETERS: Right. [CONFIRMATION]

SENATOR McCOLLISTER: Behind Iowa? [CONFIRMATION]

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SCOTT McPHEETERS: Right. Let's see, and those things jockey around some. I know Minnesota is right up there. I can't tell you the answer to that question. I think it's Iowa first and Nebraska second. [CONFIRMATION]

SENATOR McCOLLISTER: Where does your ethanol go? [CONFIRMATION]

SCOTT McPHEETERS: Ours primarily...from the plant in Minden, it all goes to the LA Basin. So 100 percent of ours goes to California. And one reason for that is that we have a better carbon intensity score because instead of drying the distillers grains, we actually ship the distillers grains wet because we have a lot of cattle on feed within a close proximity to the plant. [CONFIRMATION]

SENATOR McCOLLISTER: But the ethanol goes to the west coast? [CONFIRMATION]

SCOTT McPHEETERS: Right. [CONFIRMATION]

SENATOR McCOLLISTER: Okay. Thanks for the information. That's been very informative for me. [CONFIRMATION]

SENATOR HUGHES: Additional questions? Senator Kolowski. [CONFIRMATION]

SENATOR KOLOWSKI: Thank you, Mr. Chairman. Scott, on the...you mentioned 2.8 gallons per bushel of corn. I didn't catch the cattle feed. What size of bulk do you get? [CONFIRMATION]

SCOTT McPHEETERS: One-third. [CONFIRMATION]

SENATOR KOLOWSKI: Out of that same bushel. [CONFIRMATION]

SCOTT McPHEETERS: Right. [CONFIRMATION]

SENATOR KOLOWSKI: One-third? [CONFIRMATION]

SCOTT McPHEETERS: So 2.8 gallons weighs approximately a third of 56 pounds which is what...18. [CONFIRMATION]

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SENATOR KOLOWSKI: Okay. [CONFIRMATION]

SCOTT McPHEETERS: Eighteen pounds of cattle feed and 18 pounds of ethanol.
[CONFIRMATION]

SENATOR KOLOWSKI: Eighteen pounds. Great. Thanks. [CONFIRMATION]

SCOTT McPHEETERS: And 18 pounds of carbon dioxide. [CONFIRMATION]

SENATOR KOLOWSKI: Excellent. Thank you. [CONFIRMATION]

SENATOR HUGHES: Any additional questions? I just have one. There are several dedicated positions on the Ethanol Board, you know, wheat, corn, general farming; which position are you filling? [CONFIRMATION]

SCOTT McPHEETERS: This one is industry. And I could fill industry or corn, but this is the one that's open now and I guess my association with the industry as a board member and the industry of ethanol is where I kind of thought I might fit in. [CONFIRMATION]

SENATOR HUGHES: Okay. Thank you. Any additional questions? Seeing none, thank you for your testimony. And I would guess we'll maybe go into exec shortly after this is over. I do have...since I...thank you, Mr. McPheeters. I did kind of take Todd Sneller's name in vain at the start. I would...and this is Todd Sneller, I was on the Ethanol Board so I know Todd very well. But would you just give us a very short explanation of how the Ethanol Board is funded and how that came to be through the legislative process. It's kind of an unintended consequence.
[CONFIRMATION]

TODD SNELLER: Do you want to waive closing? [CONFIRMATION]

SENATOR HUGHES: Sure, (inaudible), one and done, that's all he is. Since we're all here and we don't have anything else, just to educate the committee a little bit about ethanol.
[CONFIRMATION]

TODD SNELLER: Sure, sure. Thank you. My name is Todd Sneller; I serve as administrator of the Nebraska Ethanol Board. The board was created by the Nebraska Legislature in 1971 and the goal at the time was to work with communities and the private sector to establish ethanol processing facilities. In 1971, the concept of ethanol was simply a concept, no such thing existed

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in terms of a motor fuel. And so the goal at the time was to do a series of research projects to prove out that this stuff could work. And the board did what today stands as one of the most internationally significant programs that 2.2 million mile on-road test of ethanol fuels in Nebraska. It went from about 1973 to about 1976. That became the basis then for an application to the Environmental Protection Agency in 1978 to allow the introduction into commerce of an ethanol blend of 10 percent by volume with unleaded gasoline. That was known as gasohol at the time. And so we started then doing a series of different retail tests to see if people would actually use the product if it was available. So it was both a combination of business development and recruitment efforts, scientific proving, and research development. You asked about the distillers feed. That product now, for example, is made into a whole host of domestically and internationally used products that range from aquaculture markets to pork and swine and beef. And so it's become a real industry of providing a diverse slate of these products from the ethanol platform today that didn't exist at the time the first plants were built. Scott McPheeters mentioned oil spin off. Just to be clear, that's corn oil spin off that comes from the centrifugation process. So that corn oil can now go into bio-diesels. So bio-diesel is not exclusively just soybean oil, it can be a variety of different natural oils like corn oil being added into that. We've got a variety of different technologies that are emerging from these platforms so you can take out a specialized sugar, extract that rather than converting it into ethanol and make nylon toothbrush bristles. So there's a whole host of different things that can be used from that ethanol platform. And so our recruitment effort today is working with the 25 campuses. These are 25 plant sites that have very...very sound infrastructure in terms of energy supplies, transportation supplies, communications, trained work force, ability to aggregate raw materials and ship raw materials. So these sophisticated campuses now are the target of our recruitment efforts in cooperation with Department of Economic Development and bio-Nebraska to make sure that companies that are coming in and looking for a place in which they might exploit some new emerging technology could be literally co-located with these plants. Many of the plants have designed their facilities so they have extra ground here. And so it's a terrific opportunity to continue that effort in the vein of working with the private sector and working with communities to try to do more, create more value. The board then is basically staffed by four full-time employees. We have three right now, but we're about to start up with the fourth employee, but we're a very small staff. The funding comes from an assessment on what is called a denaturant, where the ethanol can't go out as a potable or drinkable alcohol. It's got to be, in fact, poisoned. And so if you're going to go into the fuels market, you want to denature it with a component that would be compatible with gasoline, so natural gasoline or some of these really low cost, really octane gasolines are put in there at about 2 percent by volume to denature the ethanol. When that purchase is made of a denaturant, there's a tax assessment on that. And that tax assessment then is paid by the ethanol plants to the Department of Revenue. And that generates about \$550,000 to \$600,000 a year in cash for the Ethanol Board. So that is the sole funding source. It is strictly an assessment on ethanol producing companies in Nebraska and used specifically to support the activities that we hope will make that sector more sustainable over time. And the board is made up of seven members,

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and I am an at-will employee that serves at their pleasure and that constitutes three commodity representatives--corn, wheat, and milo; and a couple of general business representatives--one labor representative and one representative of the petroleum industry of Nebraska.

[CONFIRMATION]

SENATOR HUGHES: Okay. Thanks, Todd, that was very good. Questions? Yes, absolutely.

[CONFIRMATION]

SENATOR KOLOWSKI: Thank you, Mr. Chairman. Thank you, sir, I appreciate that very much. Do you have adequate supplies of water at each of your campuses, as you call it?

[CONFIRMATION]

TODD SNELLER: In keeping with the question Senator McCollister asked, one of the real big issues, obviously, in Nebraska, in particular, is how efficient can you be with that water? And there's a cost to having that water. So one of the things that happens when that water is processed, it goes back in the form...back into the environment in the form of water. In that case, it's cleaned up, reused, cleaned up, and then oftentimes discharged in a quality that allows it to go into inhabitable waterways or into waterways of the state. And then that's...that the quality of that is ensured and inspected by the Nebraska Department of Environmental Quality. In addition, some of that water goes out in the form as a wet...Scott had mentioned the wet distillers feeds. So it goes back out and cattle consumes this moisture along with the feed, so again, it's assimilated and naturally finds its way back into the ground in the form of discharge from the animal. Some of it goes up in steam, so it just goes up in the atmosphere and then, again, the recycling is where the efficiencies really come about to make sure that we're getting down to very, very little water use per gallon. So the consumptive use is very small. The UCC in processing is larger than that, but the consumptive use diminishes all the time and keeping with the goals of making these plants more efficient. [CONFIRMATION]

SENATOR KOLOWSKI: Thank you. Twenty-five campuses or sites in the state of Nebraska?

[CONFIRMATION]

TODD SNELLER: Yeah, correct, yeah. [CONFIRMATION]

SENATOR KOLOWSKI: Thank you, sir. [CONFIRMATION]

SENATOR HUGHES: Any other questions? This was kind of an impromptu education. Seeing none, thank you. [CONFIRMATION]

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TODD SNELLER: Thanks. I appreciate your time today. [CONFIRMATION]

SENATOR HUGHES: Yep. Do I have a motion to go into exec. [CONFIRMATION]