

# EPIC Report

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*Prepared by:*

**The Nebraska Department of Revenue  
Motor Fuels Division**

**and**

**The Nebraska Ethanol Board**

**December 2005**

# STATE OF NEBRASKA

DEPARTMENT OF REVENUE  
Mary J. Egr Edson  
Tax Commissioner

December 1, 2005



Dave Heineman  
Governor

MOTOR FUELS DIVISION  
Janet A. Lake  
Administrator

Mr. Patrick J. O'Donnell  
Clerk of the Legislature  
Nebraska State Capitol Building  
Room 2018  
Lincoln, NE 68509

Dear Mr. O'Donnell:

This report has been prepared by the Nebraska Department of Revenue and the Nebraska Ethanol Board in compliance with the provisions of NEB. REV. STAT. § 66-1345(6), which states:

*(6) On or before December 1, 2003, and each December 1 thereafter, the Department of Revenue and the Nebraska Ethanol Board shall jointly submit a report to the Legislature which shall project the anticipated revenue and expenditures from the Ethanol Production Incentive Cash Fund through the termination of the ethanol production incentive programs pursuant to section 66-1344. The initial report shall include a projection of the amount of ethanol production for which the Department of Revenue has entered agreements to provide ethanol production credits pursuant to section 66-1344.01 and any additional ethanol production which the Department of Revenue and the Nebraska Ethanol Board reasonably anticipate may qualify for credits pursuant to section 66-1344.*

The report is presented in four sections: Agreements, Analysis, Funding, and Conclusion. The Agreement section lists the eleven facilities that have qualified for credits. It identifies their physical location and plant size. The Analysis section is based upon the combined data experiences of the Department of Revenue and Nebraska Ethanol Board. The Funding section identifies the various sources of funds for the fiscal years covered in this report. Finally, the Conclusion section discusses our best estimates of costs and how these costs relate to the time periods available to earn and use credits under NEB. REV. STAT. § 66-1344.

December 1, 2005

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If you have any questions regarding this report, please contact either Janet Lake, Administrator, Nebraska Department of Revenue Motor Fuels Division, at 471-5678 or Steve Sorum, Project Manager, Nebraska Ethanol Board, at 471-2941.

Sincerely,



Mary Jane Egr Edson  
State Tax Commissioner  
Nebraska Department of Revenue

Sincerely,



Todd Sneller  
Administrator  
Nebraska Ethanol Board

cc: Senator Kermit Brashear, Speaker  
Senator Pat Engel, Chair, Executive Committee  
Senator Robert Kremer  
Senator David Landis  
Senator Don Pederson  
Senator Tom Baker  
Governor's Office  
Legislative Fiscal Analyst

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## Agreements

As required by NEB. REV. STAT. § 66-1344.01, the Department of Revenue entered into agreements with twenty-nine entities to provide ethanol credits pursuant to NEB. REV. STAT. § 66-1344. Of those twenty-nine entities, the following eleven met all the eligibility requirements by June 30, 2004.

<u>Name</u>	<u>Plant Location</u>	<u>Plant Size (Gallons)</u>
*Cornhusker Energy Lexington LLC	Lexington	40 million
*Elkhorn Valley Ethanol LLC	Norfolk	40 million
*Horizon Renewable Energy LLC	Cambridge	20 million
Husker Ag Processing LLC	Plainview	20 million
KAAPA LLC	Axtell	30 million
Midwest Renewable Energy LLC	Sutherland	14 million
**Nordic Biofuels of Ravenna LLC	Ravenna	84 million
Platte Valley Fuel Ethanol LLC	Central City	40 million
*S.W. Energy LLC	McCook	30 million
Trenton Agri Products LLC	Trenton	30 million
*Wheatland Industries LLC	Madrid	40 million

\* Denotes projects whose initial plant size is stated as 100,000 gallons. Final plant size projected to increase to listed amount.

\*\* Denotes project whose initial plant size is stated as 150,000 gallons. Final plant size projected to increase to listed amount.

## Analysis

To the best of our knowledge, there will be no further activity under NEB. REV. STAT. § 66-1344(1)(LB605). That program was for ethanol production through December 31, 2003. We are not aware of any pending claims under that program.

Last year's passage of LB90 increased funding sources with the exception of PRF transfers and off-road refunds. LB90 was intended to fund the five plants which were operational at the time of its passage; however, we now anticipate a sixth plant will become operational.

Of the eleven plants that qualified on or before June 30, 2004, five are operational. They are:

Husker AG Processing LLC  
KAAPA LLC  
Midwest Renewable Energy LLC  
Platte Valley Ethanol LLC  
Trenton Agri Products LLC

An additional plant, Cornhusker Energy Lexington LLC, is anticipated to become operational no later than January 1, 2006.

Of the eleven plants that qualified, six were small plants frequently referred to as pilot projects. Five of the six were 100,000 gallon plants and the other was a 150,000 gallon plant. All of these are required to be permanent and will become part of any future plant built at those locations. Most told us these pilot projects will become Research and Development units when the larger plant is built. All of these plants shut down operations after meeting the eligibility requirements.

One of the 100,000 gallon plants, Cornhusker Energy Lexington LLC, is in the process of incorporating its pilot plant into its production facility.

Funding

Funding is derived from several different sources. They include: the general fund; transfers from the Petroleum Release Remedial Action Cash Fund; an excise tax on the sale of corn and grain sorghum; retention of a portion of tax refunded on motor fuels, a tax on natural gasoline used as a denaturant, and interest as it becomes available while the EPIC Fund maintains a positive balance. The following table identifies the amounts and sources of these funds for fiscal years 2001-2002 through 2011-2012.

**Source of Funding  
Ethanol Production Incentive Cash Fund**

(All amounts are in millions of dollars)

											<u>Funding Source</u>
					<u>Fiscal Year</u>						
<u>01-02</u>	<u>02-03</u>	<u>03-04</u>	<u>04-05</u>	<u>05-06</u>	<u>06-07</u>	<u>07-08</u>	<u>08-09</u>	<u>09-10</u>	<u>10-11</u>	<u>11-12</u>	
1.5	0.0	1.5	1.5	1.5	1.5	5.5*	2.5	2.5	2.5	2.5	\$ 66-1345.04 General Fund
				2.5	2.5						\$ 66-1345.04 General Fund
			1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	\$ 66-1519 PRF
			6.9	7.9	8.75	8.75	8.75	8.75	0.85		\$ 66-1345.01 Grain Check-off
			0.19	0.38	0.38	0.38	0.38	0.19			\$ 66-726(2) Off-Road Refunds & \$ 66-489(2) Denaturant Tax
<u>1.5</u>	<u>0.0</u>	<u>1.5</u>	<u>10.09</u>	<u>13.78</u>	<u>14.63</u>	<u>16.13</u>	<u>13.13</u>	<u>12.94</u>	<u>4.85</u>	<u>4.0</u>	Totals

\* Includes additional 1.5 to back-fund fiscal year 02-03.

## Conclusion

### Scenario A

This scenario assumes credits being earned and claimed by six facilities. We project that two facilities will complete their entitlement period during fiscal year 2010/2011 and one will complete its entitlement period during fiscal year 2007/2008. We anticipate the remaining three facilities will continue earning and claiming credits through fiscal year 2011/2012.

We estimate that the EPIC Fund will no longer be able to meet its projected obligations during fiscal year 2006-2007. At the conclusion of the entitlement periods available to qualified claimants on June 30, 2012, we estimate unpaid credits of approximately \$17 million will remain.

### Scenario B

This scenario assumes credits being earned and claimed by eleven facilities. We project that two facilities will complete their entitlement period during fiscal year 2010/2011, one will complete its entitlement period during fiscal year 2007/2008, and three facilities will continue earning and claiming credits through fiscal year 2011/2012. We anticipate that two facilities will begin their entitlement periods during fiscal year 2006/2007 while three additional facilities will begin their entitlement periods during fiscal year 2007/2008. These five facilities will continue earning and claiming credits through fiscal year 2011/2012.

We estimate that the EPIC Fund will no longer be able to meet its projected obligations during fiscal year 2006-2007. At the conclusion of the entitlement periods available to qualified claimants on June 30, 2012, we estimate unpaid credits of approximately \$93 million will remain.

## Projected EPIC Fund Balance Scenario A

EPIC Fund - Estimated Expenditures FY	05/06	06/07	07/08	08/09	09/10	10/11	11/12 Totals
LB 605							
Plant 1	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,112,500)	(16,175,000)
Plant 2	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(16,875,000)
Plant 3	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,462,500)
Plant 4	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)
Plant 5	(2,520,000)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)
Plant 6	(2,812,500)	(2,812,500)	(2,812,500)				
Plant 7							0
Plant 8							0
Plant 9							0
Plant 10							0
Plant 11							0
<b>Totals</b>	<b>(16,582,500)</b>	<b>(16,875,000)</b>	<b>(16,875,000)</b>	<b>(14,062,500)</b>	<b>(14,062,500)</b>	<b>(13,362,500)</b>	<b>(8,087,500)</b>

EPIC Fund - Estimated Revenues FY	05/06	06/07	07/08	08/09	09/10	10/11	11/12 Totals
Checkoff	7,901,250	8,750,000	8,750,000	8,750,000	8,750,000	848,750	43,750,000
General Funds	4,000,000	4,000,000	5,500,000	2,500,000	2,500,000	2,500,000	23,500,000
PRF	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	10,500,000
Off-Road Refund	375,000	375,000	375,000	375,000	187,000		1,687,000
<b>Totals</b>	<b>13,776,250</b>	<b>14,625,000</b>	<b>16,125,000</b>	<b>13,125,000</b>	<b>12,937,000</b>	<b>4,848,750</b>	<b>79,437,000</b>

EPIC Fund - Estimated Cash Flow FY	05/06	06/07	07/08	08/09	09/10	10/11	11/12 Totals
Projected EPIC Beginning Balance	3,702,647	950,085	(1,266,662)	(2,016,662)	(2,954,162)	(4,079,662)	(12,593,412)
EPIC Fund - Revenues	13,776,250	14,625,000	16,125,000	13,125,000	12,937,000	4,848,750	79,437,000
EPIC Fund - Expenditures	(16,582,500)	(16,875,000)	(16,875,000)	(14,062,500)	(14,062,500)	(13,362,500)	(8,087,500)
Interest on Invested Funds	53,688	33,253	0	0	0	0	86,941
<b>Totals</b>	<b>950,085</b>	<b>(1,266,662)</b>	<b>(2,016,662)</b>	<b>(2,954,162)</b>	<b>(4,079,662)</b>	<b>(12,593,412)</b>	<b>(16,680,912)</b>

Interest Rate on Invested Funds of 2.9%

## Projected EPIC Fund Balance Scenario B

### EPIC Fund - Estimated Expenditures

FY	05/06	06/07	07/08	08/09	09/10	10/11	11/12	Totals
LB 605								
Plant 1	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,112,500)		(16,175,000)
Plant 2	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)		(16,875,000)
Plant 3	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,462,500)	(19,337,500)
Plant 4	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(19,687,500)
Plant 5	(2,520,000)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(19,395,000)
Plant 6	(2,812,500)	(2,812,500)	(2,812,500)					(8,437,500)
Plant 7		(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(16,875,000)
Plant 8		(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(16,875,000)
Plant 9			(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(14,062,500)
Plant 10			(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(14,062,500)
Plant 11			(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(14,062,500)
<b>Totals</b>	<b>(16,582,500)</b>	<b>(22,500,000)</b>	<b>(30,937,500)</b>	<b>(28,125,000)</b>	<b>(28,125,000)</b>	<b>(27,425,000)</b>	<b>(22,150,000)</b>	<b>(175,845,000)</b>

### EPIC Fund - Estimated Revenues

FY	05/06	06/07	07/08	08/09	09/10	10/11	11/12	Totals
Checkoff	7,901,250	8,750,000	8,750,000	8,750,000	8,750,000	848,750		43,750,000
General Funds	4,000,000	4,000,000	5,500,000	2,500,000	2,500,000	2,500,000	2,500,000	23,500,000
PRF	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	10,500,000
Off-Road Refund	375,000	375,000	375,000	375,000	187,000			1,687,000
<b>Totals</b>	<b>13,776,250</b>	<b>14,625,000</b>	<b>16,125,000</b>	<b>13,125,000</b>	<b>12,937,000</b>	<b>4,848,750</b>	<b>4,000,000</b>	<b>79,437,000</b>

### EPIC Fund - Estimated Cash Flow

FY	05/06	06/07	07/08	08/09	09/10	10/11	11/12	Totals
Projected EPIC Beginning Balance	3,702,647	950,085	(6,891,662)	(21,704,162)	(36,704,162)	(51,892,162)	(74,468,412)	
EPIC Fund - Revenues	13,776,250	14,625,000	16,125,000	13,125,000	12,937,000	4,848,750	4,000,000	79,437,000
EPIC Fund - Expenditures	(16,582,500)	(22,500,000)	(30,937,500)	(28,125,000)	(28,125,000)	(27,425,000)	(22,150,000)	(175,845,000)
Interest on Invested Funds	53,688	33,253	0	0	0	0	0	86,941
<b>Totals</b>	<b>950,085</b>	<b>(6,891,662)</b>	<b>(21,704,162)</b>	<b>(36,704,162)</b>	<b>(51,892,162)</b>	<b>(74,468,412)</b>	<b>(92,618,412)</b>	

Interest Rate on Invested Funds of 2.9%