

# ETHANOL

Marketing, Taxation & Reporting

An Industry Update  
Follow-Up to 2006

Tim Turgeon  
CHS Inc.

## Ethanol Industry 2006

- First Federal Mandate in place
- Plants making money
- Congress Talks about increasing Mandate
- Rapid Expansion – New Plants
- Times were good



## Renewable Fuels Standard

OLD		NEW
4.0 Billion	2006	
4.7 Billion	2007	
5.4 Billion	2008	9.0 Billion
6.1 Billion	2009	10.5 Billion
6.8 Billion	2010	12.0 Billion
7.4 Billion	2011	12.6 Billion
7.5 Billion	2012	13.2 Billion
	2015	15.0 Billion

## Ethanol Industry 2008

- Overexpansion of industry
- Corn Prices over \$7 bushel
- Recession/Tight Credit
- Plant owners overextended
- Bad business decisions
- Troubled Times

Pacific

By Dale Kasler

Published: Wed  
Pacific Ethanol I

### Georgia Ethanol Plant Could Face Bankruptcy

Camilla, Ga.-based First United Ethanol LLC could be seeking bankruptcy protection, the Atlanta Business Chronicle said. The company said in a recent filing with the U.S. Securities Exchange Commission that it is struggling with liquidity issues. Georgia's only corn-based ethanol plant opened last fall, and as of June 30 had

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### White Energy, Ethanol Producer, Files for Bankruptcy (Update4)

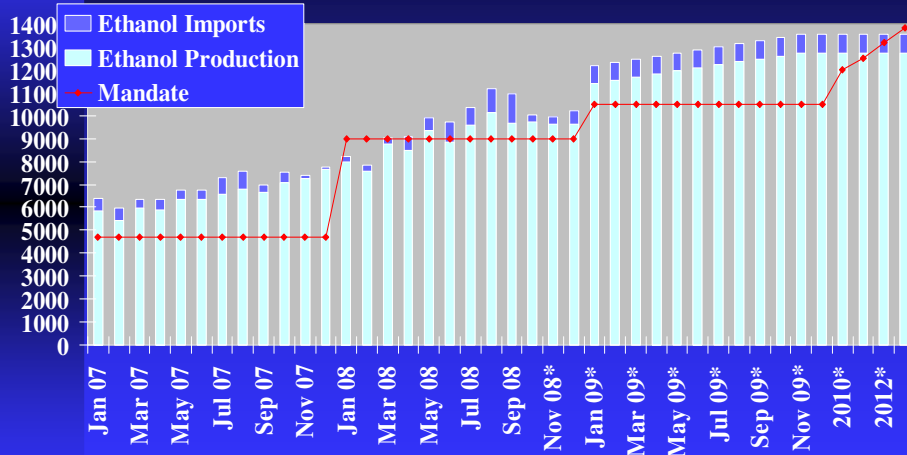
By Dawn McCarty and Michael Bathon  
May 7 (Bloomberg) --

## Bankrupt VeraSun Files Plan to Cancel Common Stock

Bankrupt VeraSun Energy Corp. last week filed a plan with the U.S. Bankruptcy Court in Delaware to liquidate and cancel all shares of its common stock, according to Reuters. According to the plan, shareholders would not be paid for their shares. VeraSun filed for bankruptcy protection last October after locking in costly contracts for corn. Valero Energy Corp. won an auction for seven of the VeraSun plants in March. (Reuters, July 31, 2009)



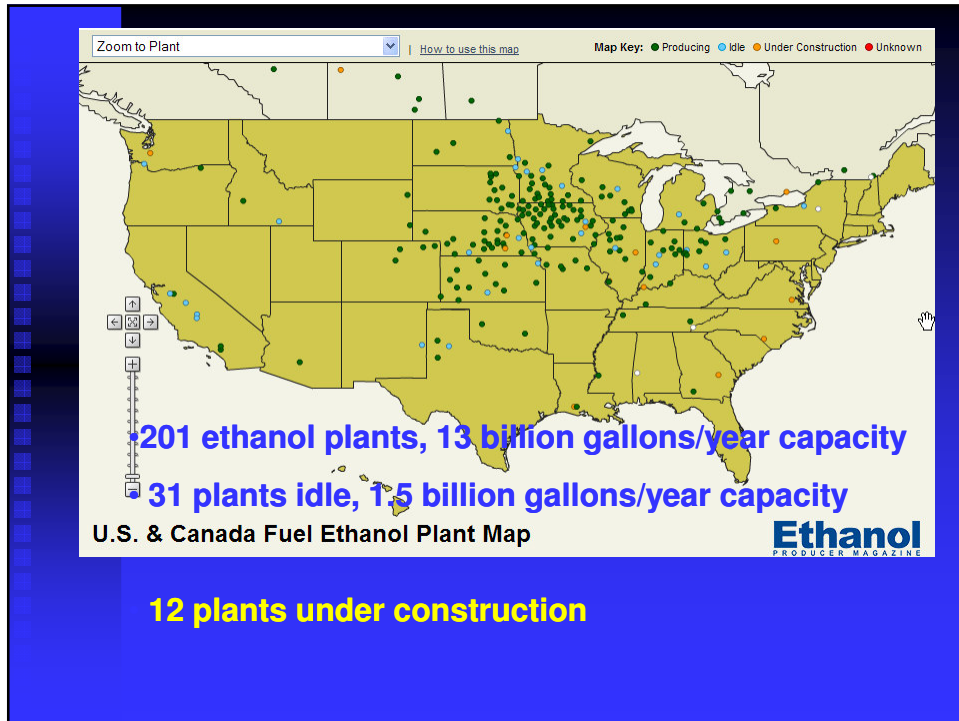
## Ethanol Supply vs. Mandate



## Ethanol Industry 2009

2009

- Stabilizing Industry
- Corn Prices down
- Crop size up
- Bankrupt Plants back on line
- Boom or Bust Ahead???



## Ethanol Manufacturing

- Manufactures fuel grade ethanol
  - ◆ Advancements add 20% to capacity
- Adds denaturant
  - ◆ Usually natural gasoline
  - ◆ 2% not 5%
- Markets to petroleum industry
  - ◆ Directly or through Marketer
- Enhanced Manifest Generation Capabilities
- Unit train capabilities

## Unit Train Plant



## Ethanol Marketing

- Manufacturer sells direct to Suppliers
- Manufacturer hires a Marketer
  - ◆ 6 Billion Gallons through Marketers
- Ethanol moved by rail or truck
  - ◆ Mainly to IRS approved terminals
  - ◆ FOB origin or destination

## Ethanol Marketing

- Trans-load Facilities
  - ◆ Rail cars in
  - ◆ Truck loads out
  - ◆ Small storage capacities
- Regional Distribution Centers
  - ◆ Manly Teriminal LLC, near Clear Lake IA
  - ◆ BBT LLC - Birmingham AL

E85 = 85% ethanol 15% gas

?



5500 Center Drive  
Inver Grove Heights, MN  
55077

JUNE

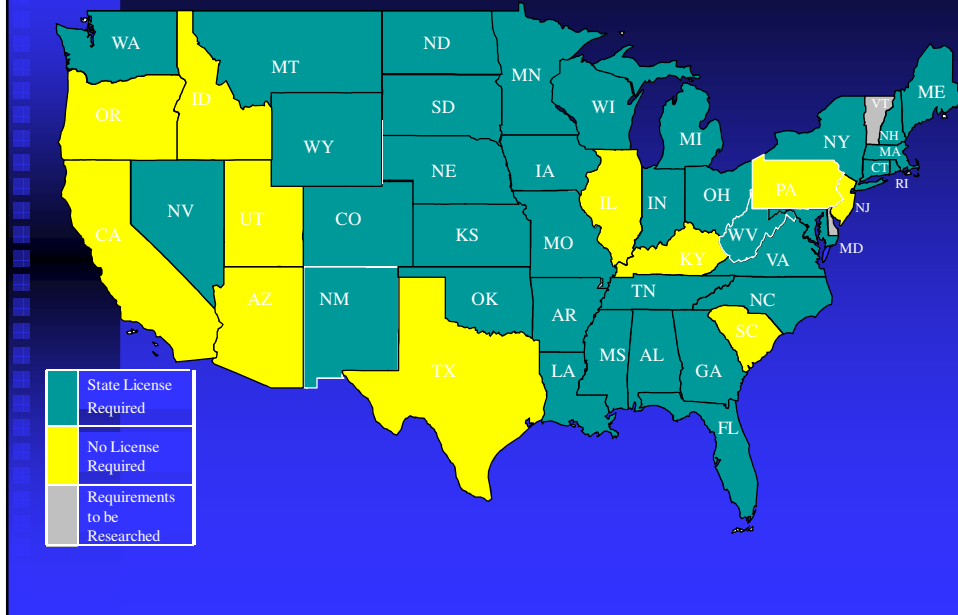
JULY

State	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Arkansas	E-75	E-75	E-80	E-85	E-85	E-85	E-85	E-85	E-80	E-80	E-75	E-75
Illinois	E-75	E-75	E-75	E-85	E-80	E-85	E-85	E-85	E-80	E-75	E-75	E-75
Iowa	E-75	E-75	E-75	E-80	E-80	E-85	E-85	E-85	E-80	E-75	E-75	E-75
Kansas	E-75	E-75	E-75	E-80	E-80	E-85	E-85	E-85	E-80	E-75	E-75	E-75
Minnesota	E-75	E-75	E-75	E-75	E-80	E-85	E-85	E-80	E-80	E-75	E-75	E-75
Missouri	E-75	E-75	E-75	E-80	E-85	E-85	E-85	E-85	E-80	E-75	E-75	E-75
Nebraska	E-75	E-75	E-75	E-80	E-80	E-85	E-85	E-80	E-80	E-75	E-75	E-75
North Dakota	E-75	E-75	E-75	E-75	E-80	E-85	E-85	E-80	E-80	E-75	E-75	E-75
Oklahoma	E-75	E-75	E-75	E-80	E-85	E-85	E-85	E-85	E-80	E-80	E-75	E-75
South Dakota	E-75	E-75	E-75	E-80	E-80	E-85	E-85	E-80	E-80	E-75	E-75	E-75
Wisconsin	E-75	E-75	E-75	E-80	E-80	E-85	E-85	E-80	E-80	E-75	E-75	E-75

## State Taxation of Ethanol

- Licensing requirements
  - ◆ Most states require some type of licensing for ethanol marketing

## State Fuel License Requirement – *Ethanol*



## State Tax Potential

2006

- 4.0 Billion gallons @ .25 per gallon

\$1,000,000,000.00

2010

- 12 Billion gallons @ .25 per gallon

\$3,000,000,000.00

- \$60,000,000 per state

## Reporting and Tracking

- A Must for States
  - ◆ States need Uniformity
- Gas tax laws don't work for ethanol
  - ◆ Tax at the Rack States
- Tax free transfers to IRS terminals
- Marketer Considerations
- Coming soon - IRS ExStars Reporting?

## States Reporting that Works

- IA
  - ◆ Tax at Rack State
    - ◆ Allows tax free transfer to IRS terminal
      - Terminal ID must be on Manifest
    - ◆ Manley Storage Rules
    - ◆ Needs Marketer Consideration
- Minnesota
  - ◆ Allows tax free transfer to IRS terminal
  - ◆ Taxable if Delivered to Non-Terminal
- IL
  - ◆ No reporting

## States that don't Work

- Michigan
  - ◆ Expanded Gas Tax Law to Ethanol
  - ◆ Some Deliveries to Terminals Taxed
  - ◆ Destination State Collection Issues
- South Dakota
  - ◆ Taxes Terminal Deliveries with Exceptions
  - ◆ Recover taxes based on Sales from Terminal
- All States that Tax **all** Imports
  - ◆ Terminal Receipts should be tax free

## Industry Discussion Issues

- Rail Car Manifest Dates
- Unit Trains
- Taxable Terminal Storage
- Terminal receipt verification?
- Trans-load Reporting

## State Discussion Issues

- Protection of Tax Revenue

## Questions?

Tim Turgeon  
(651) 355-5107  
[tim.turgeon@chsinc.com](mailto:tim.turgeon@chsinc.com)