

MINUTES OF THE SENATE AGRICULTURE COMMITTEE.

The meeting was called to order by Chairperson Derek Schmidt at 8:30 a.m. on February 7, 2001 in Room 423-S of the Capitol.

All members were present except:

Committee staff present:       Raney Gilliland, Legislative Research Department  
  Jill Wolters, Revisor of Statutes  
  Betty Bomar, Secretary

Conferees appearing before the committee:

Jere White, Kansas Corn Growers Association/Kansas Grain Sorghum Producers  
Bill Pracht, East Kansas Agri Energy  
Jill Zimmerman, Extension Agent, Anderson County  
Dale Ladd, Extension Agent, McPherson County  
Jeff Torluemke, Senior Vice President, State Bank of Hoxie, Heartland Energy  
Scott Whitefoot, NESIKA Energy, Republic County

Others attending:        See attached list

Senator Huelskamp moved, seconded by Senator Taddiken that the January 31, 2001 Minutes be corrected to include a motion made by Senator Huelskamp and seconded by Senator Taddiken that a bill be introduced regarding the Competitive Livestock marketing act. A voice vote was unanimous in favor of the motion.

Jere White, Executive Director, Kansas Corn Growers Association and Kansas Grain Sorghum Producers Association testified as to the potential for ethanol production in Kansas. He stated a variety of new uses are being developed for ethanol and the co-products associated with its production. Ethanol has been gaining in popularity as a road and power-line de-icer, and a new generation of both stationary and mobile fuel cells powered by ethanol are beginning to emerge.

Mr. White stated currently there are 55 operating ethanol production facilities in the United States. Kansas presently has 4 facilities in production and there are three additional groups who are undertaking feasibility studies to determine the viability of constructing additional plants. Michael Evans, in *The Economic Impact of the Demand for Ethanol, February 1997*, calculated that the net effect of ethanol demand in 1997 would boost corn production by 42 billion bushels, increase the price of corn by \$.45 per bushel, increase tax receipts, both federal and state, and increase the balance of trade offsetting crude oil imports by exporting ethanol byproducts. The Evans report is bullish on the economic benefits of ethanol production.

Mr. White stated the greatest economic impact derived from ethanol production in the order of significance is: high capital investment and construction cost, high dollar volume sales, agricultural impact, creation of jobs with higher than average wage scale, high percentage of revenue remains in state, multiple plant opportunities, state and local taxes paid, energy consumption, and the ability to reduce Kansas and U.S. gasoline imports.

Mr. White stated that a large percentage of corn produced in Kansas is fed to cattle. An ethanol plant would be able to take the corn and sorghum, produce ethanol, and sell the dried distillers grains and solubles (DDGS) back to feedlots, thereby, impacting the price paid for corn and sorghum as feedlots would have an acceptable substitute for raw corn and sorghum. (A copy of Kansas Ethanol Plant Feasibility Study, on file in the Legislative Research Department) (Attachment 1)

Mr. White submitted additional attachments relating to tax incentives (Attachment 2) and *How Much Energy Does It Take to Make a Gallon of Ethanol?* (Attachment 3)

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Bill Pracht, Westphalia, Kansas, testified he has an operation consisting of 3000 acres of row crops and 275 head of mother cows. Since the Freedom to Farm Act, he has rotated out of wheat to 40% feed grain and 55% beans.

Mr. Pracht testified the Eastern Kansas Agri Energy (EKAE) is a group of 47 producers and agribusiness people from Anderson County and the surrounding area, who, with the assistance of the Anderson County Economic Development Committee (ACED) had a pre-feasibility study done which showed promise for an ethanol plant to be built in their area. EKAE toured two plants in Missouri. Both plants stressed the importance of State funded incentives to ensure profitability of these plants. In Missouri plants receive 20 cents per gallon for the first 12 ½ million gallons, after which they receive 5 cents per gallon for the second 12 ½ million gallons. There were no ethanol plants built in Missouri until the funding incentives were in place. (Attachment 4)

Mr. Pracht stated that Kansas has not had a good crop year since 1998. The fact that 47 people have invested \$1000 each at-risk money to finish the feasibility study and provide some start up money speaks to their desire to add value to their crop production. An ethanol plant adds about 30 jobs to the community, adds a source of livestock feed to area producers which may expand cattle and dairy operations, and adds 5 to 10 cents in feed grain prices.

Jill A. Zimmerman, Anderson County Extension Agent, testified the agriculture industry is changing at a rapid pace and it is important to know what producers need and want in order to help them remain competitive in the agriculture industry. Ms. Zimmerman served on the ACED Committee and as chairperson of the agriculture sub-committee, investigated opportunities to provide added value to agriculture in Anderson County. In this process, a template provided by the two grain commissions and the Department of Commerce and Housing was utilized for a pre-feasibility study before hiring Bryan and Bryan, Inc., of Cotopaxi, Co who completed a more in-depth analysis. Through this process, it became apparent that there is a true need for a source of reliable, non-biased information and guidance regarding ethanol production. Other states have such a support base to draw upon. K-State Research and Extension is working to develop such a knowledge base which can be utilized by those interested in pursuing ethanol production in their own communities. (Attachment 5)

The magnitude of the Anderson County project has the potential to have a huge impact on agriculture in the state of Kansas. Ms. Zimmerman is of the opinion that the expansion of ethanol production in the state of Kansas will have a positive impact for Kansas, for agriculture and for rural communities for many years to come.

David Ladd, Extension Agent, McPherson-Rice County area, stated the blend of a large grain sorghum production area adjacent to a relatively large feedlot area encouraged a group of farmers, feeders, and agribusinessmen to explore the feasibility of an ethanol plant in the McPherson-Rice county area. The six county area surrounding the Lyons or McPherson site annually processes about 32 million bushels of grain sorghum which is largely exported out of the area. Additionally, the presence of between 100-150,000 head of feedlot cattle creates an attractive target for utilization of the by-product of ethanol production. (Attachment 6)

The McPherson Chamber of Commerce agriculture committee, several area cooperatives, and a group of central Kansas feedlots have been working together intensively for five months studying the economic feasibility of converting grain sorghum into a renewable fuel while, at the same time, providing a high quality concentrate product to cattle feeders. Preliminary studies show that an ethanol production facility in central Kansas has the potential for being profitable, due largely to two competitive advantages: 1) a nearby source of abundant grain sorghum which is priced discount to corn, and 2) nearby feedlots which could utilize the by-product on a "wet" basis to avoid expensive natural gas drying costs. Other advantages for the area include shorter freight routes to certain metro markets, the possibility of establishing a "co-generation" relationship with nearby industry, and adequate commercial grain storage already in place.

Mr. Ladd stated the economic impact of an ethanol plant will reach not only grain farmers and feedlots, but local communities where skilled jobs will be created and services and utilities purchased.

Jeff Torluemke, Senior Vice President, State Bank of Hoxie, stated he represents a small, but enthusiastic group in northwest Kansas looking at the feasibility of an ethanol plant in their area. He

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stated it was premature for him to be testifying as he was still on the learning curve and could provide few answers. The group has contracted with a company from South Dakota to conduct a feasibility study, and they have been working with other resource personnel within the state.

Mr. Torluemke introduced Brian Bowman, who is also working on the project and who is a farmer who farms about 10,000 acres, feeds about 10,000 cattle and whose feed yard is presently leased out to Heartland Cattle Company, McCook, Neb. Mr. Bowman stated he had recently met with Heartland and their nutritionist, who is a brother of the Governor of the State of Nebraska, and is quite informed as to ethanol by-products. An ethanol plant being close to a feed yard provides the feed lot a consistent product for their cattle. Presently, our property is too far from the ethanol plants in Nebraska. There are feed lots in the Hoxie area who are interested in utilizing the by-product, which is a consistent product and is necessary to alleviate the swings experienced in the cattle industry.

Mr. Bowman stated the preliminary feasibility study numbers are good, ethanol production would be good for Kansas. Kansas is behind. We have money available from people in Nebraska, we have people out of Nebraska willing to buy our products, we need some support from Kansas. It would be a boost to our economy. Ethanol provides a clean and safe product. It does not contaminate air, food or water.

Scott Whitefoot, NESIKA Energy LLC, Scandia, stated ethanol production is beneficial to rural Kansas. He toured an ethanol plant in Claremont, Minnesota, and has spent time with Lee Reeves in Garden City. Currently NEISKA owns and operates 6.5 million bushels of licensed grain space in northcentral Kansas and has a 20 - 25 thousand head of cattle feed operation. They have had a pre-feasibility study done by a firm in Claremont, Minnesota; have contracted with a firm in Johnson County to do a site specific feasibility study, business plan and marketing plan. Presently, they are investigating financing sources. Mr. Whitefoot believes that in establishing an ethanol plant in their area of the state the entire area would benefit economically.

Kansas Ethanol Producers distributed a book entitled *2000 Fuel Ethanol Fact Book*, (A copy is on file in the office of the Legislative Research Department)

The meeting adjourned at 9:30 a.m.

The next meeting is scheduled for February 13, 2001.