

MICHIGAN ETHANOL NEWS

Winter 2009

The Michigan Ethanol News updates commodity organizations, fuel suppliers, educators, producers, businesses, government agencies and individuals who are interested in expanding the production and use of ethanol in Michigan.

VeraSun Energy Closes Woodbury, MI plant

December 4—VeraSun Energy Corp., a major producer and marketer of ethanol and distillers grains, closed its Woodbury, MI plant until it finds permanent financing to fund its operations. This news comes shortly after their previous October 31 announcement in which the company and 24 of its subsidiaries filed voluntary petitions for Chapter 11 bankruptcy protection. Final bankruptcy court approval was recently given for debtor-in-possession (DIP) financing totaling \$196.6 million from senior secured noteholders, including \$93.6 million of incremental financing.

In addition, approval was given for a group of lenders led by AgStar Financial Services to provide \$24.5 million for a DIP facility. An incremental amount of \$9.5 million will be used to maintain six production facilities (including the Woodbury plant) in a safe and operable condition through January 15, 2009 pending a more permanent financing arrangement. The work force at these production facilities will be retained during this period, but VeraSun does not expect the facilities to be producing ethanol.

The filing was precipitated by a series of events that led to a reduction in VeraSun's liquidity, impairing its ability to operate its business and invest in production facilities. The Company

suffered a net loss of \$476.1 million, or \$3.03 a share in the third quarter of 2008, compared to a profit of \$7.8 million, or 9 cents a share, during the same period last year. This was brought on by a dramatic spike in its corn costs, due in large part to its corn procurement and hedging arrangements.

As corn prices passed \$6 a bushel and edged toward \$8 by midsummer, VeraSun locked in future corn prices to protect against even higher anticipated costs. Instead, corn prices dropped precipitously and by September, sold for under \$4 a bushel. As a result, VeraSun was forced to continue purchasing corn at prices well above the spot market. At the same time, the price of its ethanol decreased and overall ethanol demand waned with lower gasoline prices.

The issue of how to handle these contracts has been an additional source of conflict. Since VeraSun does not expect to operate six of their production facilities (including Woodbury) through January 15, 2009, "the company informed the Court that it intends to reject contracts for delivery of corn scheduled at these facilities during this period. This action responds to a number of requests by producers to gain certainty on the status of their corn contracts and will allow them to move forward to remarket their corn."



Many farmers, however, argue that this arrangement will cause them to suffer significant financial losses and could potentially put them out of business.

The past several months have been difficult for certain ethanol producers as volatile commodity prices have reduced profit margins. Hopefully, however, one of the leading producers, VeraSun Energy Corp., can find a path to long-term stability and recover from their present situation.

For more information:
http://phx.corporate-ir.net/phoenix.zhtml?c=197813&p=irol-newsArticle_Print&ID=1232787&highlight=
<http://www.mlive.com/grpress/business/index.ssf/2008/11/>

Governor Signs Bills Advancing the Production of Renewable Fuels

December 29, 2008 — Governor Jennifer M. Granholm recently signed new legislation to promote the development of Michigan's renewable fuels industry. These eleven bills were part of a series of recommendations put forth by the Renewable Fuels Commission which was established in 2006.

Highlights among the various bills include Public Act 329 which adds five additional renewable energy renaissance zones to

the state, Public Acts 314, 332 and 334 which create tax incentives for the purchase of equipment capable of harvesting both grain and biomass, Public Acts 321 and 322 which establish a Renewable Fuels Fund to promote the production and use of alternative fuels, and Public Act 335 which provides a Michigan Business Tax credit to gas stations for the conversion of existing gasoline pumps to pumps capable of delivering ethanol and biodiesel.

"Michigan is committed to leading this nation to energy independence, and to meet that goal, we must foster renewable fuel research, production and use across our state," Granholm said. "This legislation will make Michigan even more attractive to renewable fuel producers looking to grow their businesses and create jobs."

For more information: <http://www.biobasednews.com/node/19580>

EPA to Revise RFS in 2009

In a U.S. Senate Subcommittee hearing over the summer, Robert Meyers, principal deputy assistant administrator in the EPA's Office of Air and Radiation, announced that the EPA will delay its revision of the second stage of the Renewable Fuels Standard until mid-2009. According to Meyers, the "RFS2" includes new elements that add complexity to the program which warranted additional time. The final ruling was originally set to be issued by January 1, 2009.

Established with the signing of the Energy Independence & Security Act of 2007, RFS2 created five specific changes that are required to be implemented by the EPA, including:

- A volume mandate increase to 36 billion gallons of renewable fuel by 2022. For 2009, the mandate is 11.1 billion gallons, of which 1 billion gallons must be advanced biofuels.
- The inclusion of non-road gasoline and diesel fuel volume.
- The establishment of three new renewable fuels categories: advanced biofuels, biomass-based diesel and cellulosic biofuels.
- Life cycle greenhouse gas performance threshold standards applied to each renewable fuel category.

- The change in definition of renewable fuel feedstocks, limiting crops and crop residues used to produce renewable fuel to those from lands not cleared or cultivated prior to the enactment of the Energy Independence & Security Act, actively managed, or fallow and non-forested.



Industry reaction to the delay has been mixed with the potential for a decrease in financial support for biofuel projects cited as a significant concern. In particular, it is questionable how the financial community will perceive the risk of financing more ethanol plants in the absence of a revised mandate.

EPA spokeswoman Cathy Milbourn, however, said it's not unusual for the EPA to postpone a proposal, "especially one of this magnitude." Until the EPA announces its decision, the

agency assumes the biofuels industry will continue to comply with the law as stated.

For more information: http://www.biomassmagazine.com/article.jsp?article_id=1932

Automakers Reaffirm Commitment to FFVs

December 2 – In plans submitted to Congress in their request for bridge loans, the Big 3 automakers reaffirmed their support for Flexible Fuel Vehicles (FFVs) as part of their restructuring strategy. All three plans, for example, highlight their commitment to convert 50% of their fleet to FFVs by 2012.

General Motors leads the pack with a total of 18 different FFVs being offered in the United States in 2009, three more than in 2008. GM cars and trucks account for 3 million of the 6 million FFVs on U.S. roadways and the company produced more than 1 million FFV models in North America and Brazil last year. Close behind, Chrysler is currently offering a range of 10 FFV models in the United States for 2009 and with 7 models, Ford also has an impressive lineup.

For more information: <http://e85vehicles.com/>
http://www.ethanolproducer.com/article.jsp?article_id=5010&q=&page=1

Calendar of Events

Harvesting Clean Energy Conference

January 25-27, 2009
Billings, Montana

<http://www.harvestcleanenergy.org/conference/>

3rd Annual Iowa Renewable Fuels Summit

January 27, 2009
Des Moines, Iowa

<http://www.iowarfa.org/summit-form.php>

14th Annual National Ethanol Conference: Policy & Marketing

February 23-25, 2009
San Antonio, TX

<http://www.nationalethanolconference.com/>

Canadian Renewable Energy Workshop

March 10-12, 2009
Regina, Saskatchewan

<http://www.crew2009.com/ema/DisplayPage.aspx?pageId=Location>

Michigan Agri-Energy Conference

March 30-31, 2009
Kalamazoo Radisson
Kalamazoo, MI

<http://www.agenergy.org/agenergy>

2009 Ethanol Emerging Issues Forum

April 2-3, 2009
Magnolia Hotel
Omaha, NE

<http://www.ne-ethanol.org/forum2009/>

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