

Surface Transportation Board

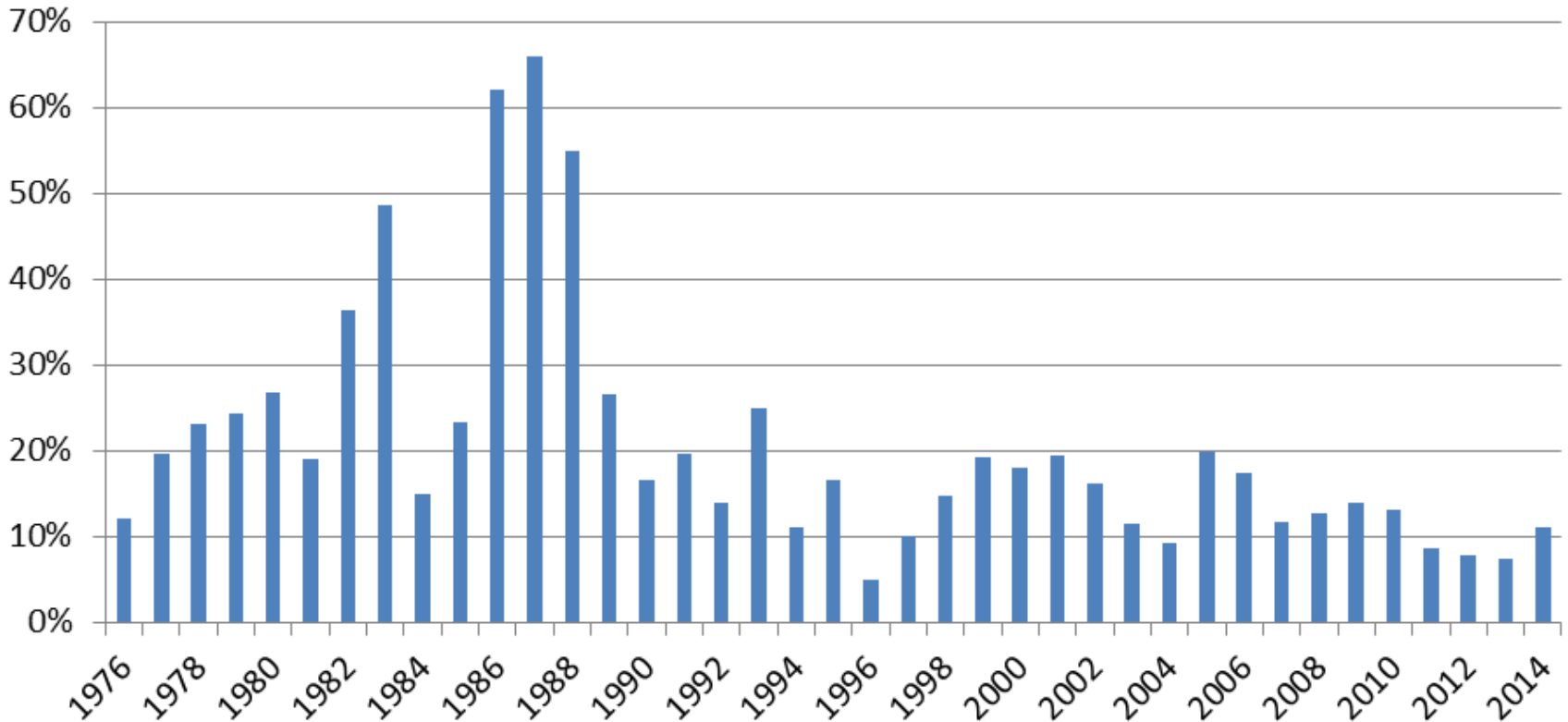
Rail Energy Transportation Advisory

Committee Meeting

Biofuels Update

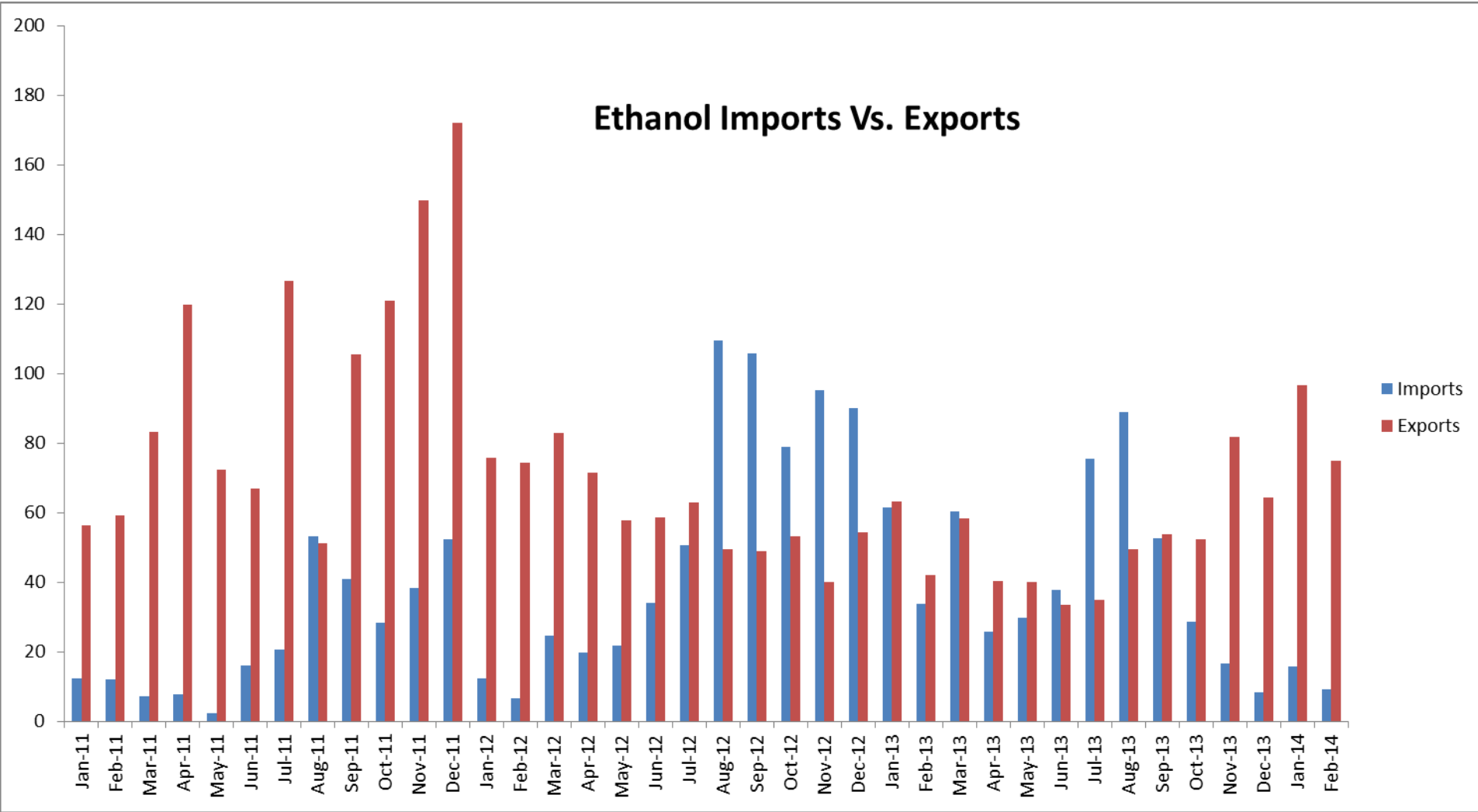
March 6, 2014

Corn Stocks/Use

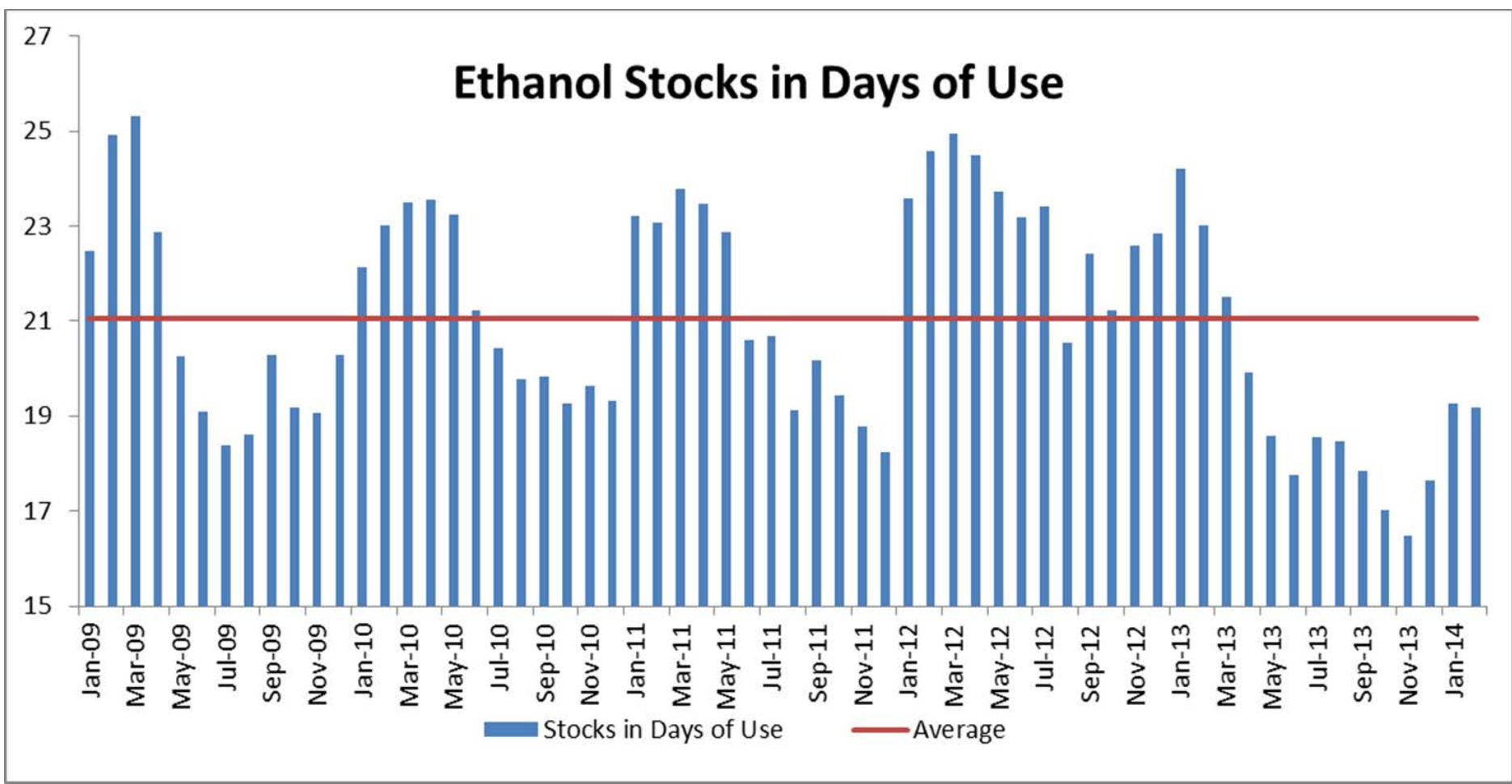


- Rebuilding phase for US grain stocks
- US export of YC project at 1.6 bill bus better and last year but off historical levels
- Premiums remain above historical norms as farmer has been hesitant to accept new, much lower cash corn prices

Ethanol Imports Vs. Exports

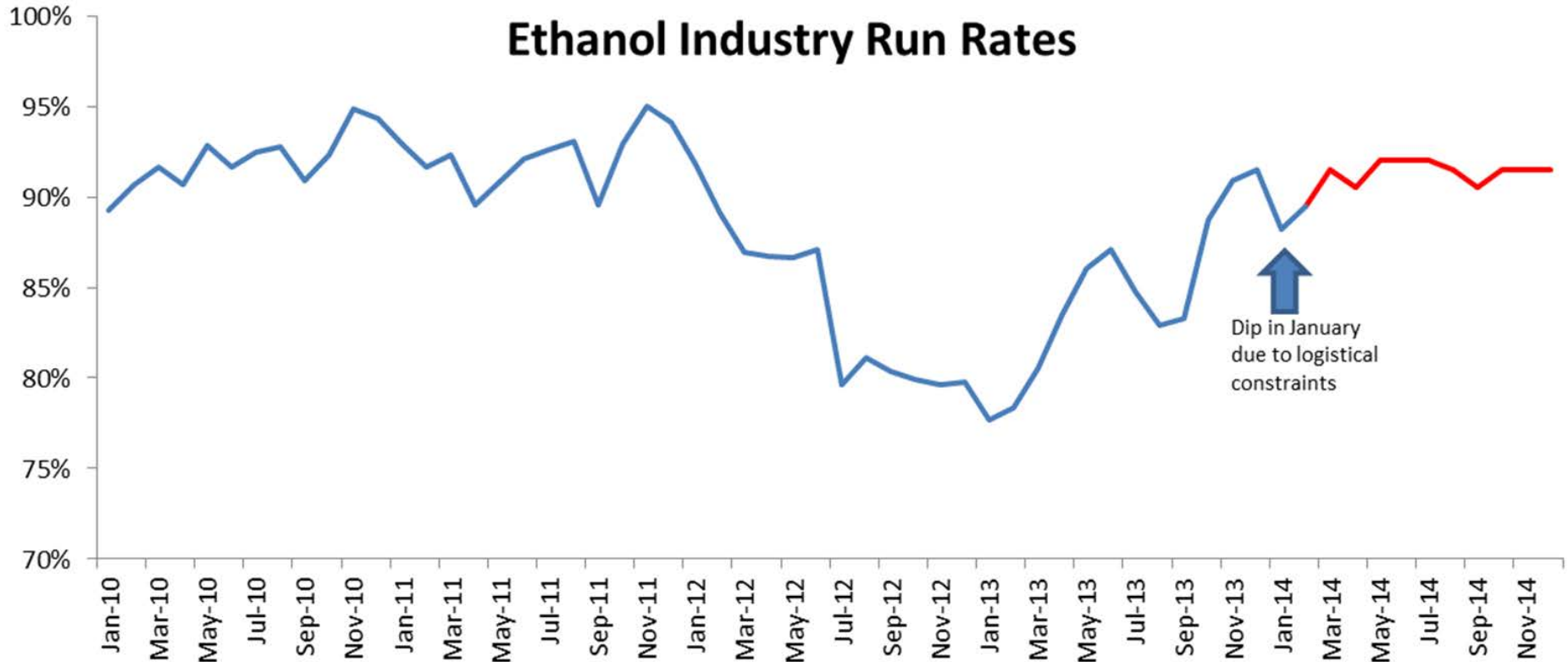


- US returns to net exporter in 13/14 crop year
- Despite recent rally, US remains most competitive origin in 2014
- “Swing Factor” for ethanol demand and marginal production

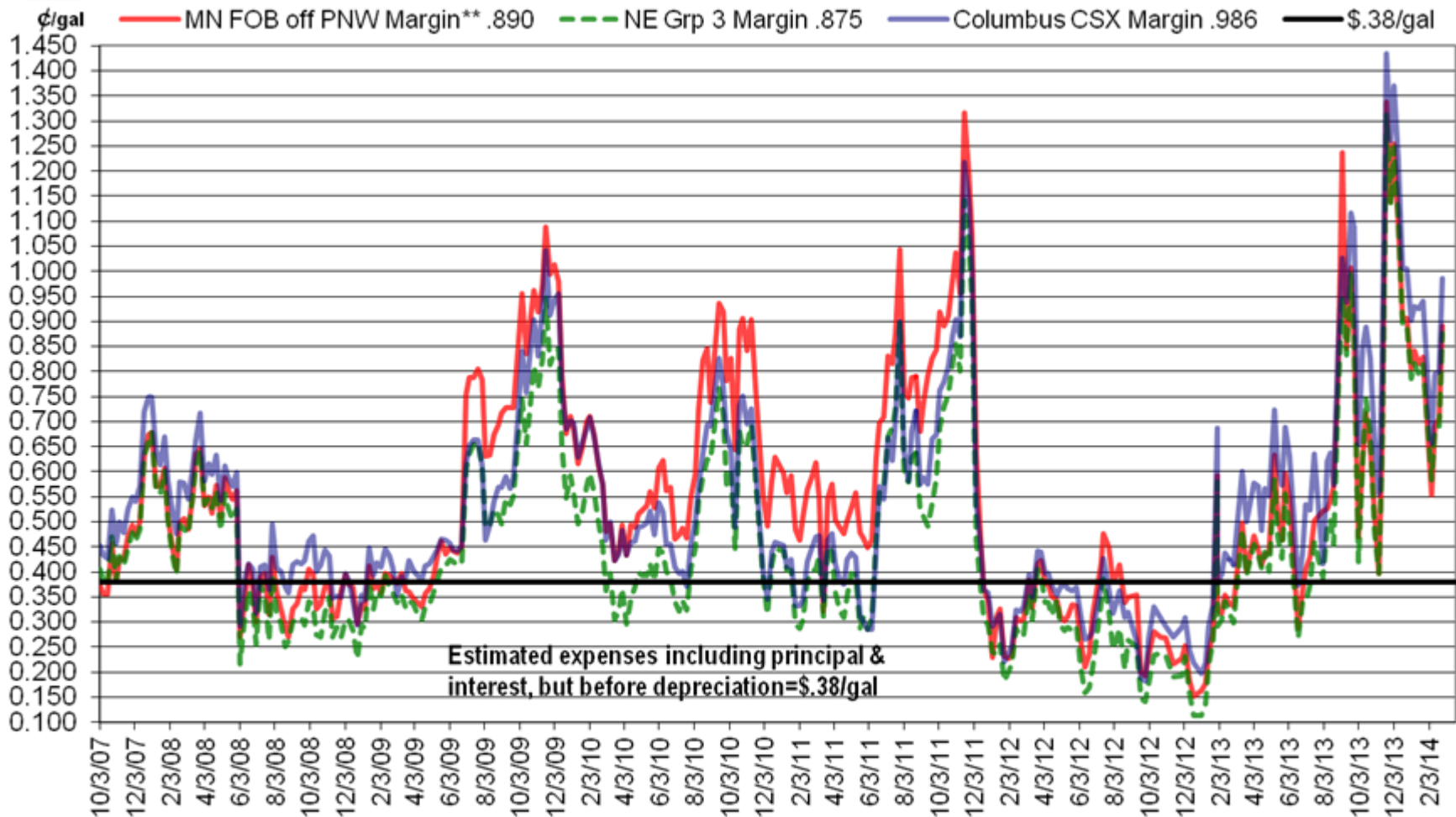


- Stocks remain unseasonably low after massive drawdown in Q4 '13
- Production and logistical bottlenecks have limited material builds thus far
- Low Q1 stocks set stage for another extremely tight summer

Ethanol Industry Run Rates



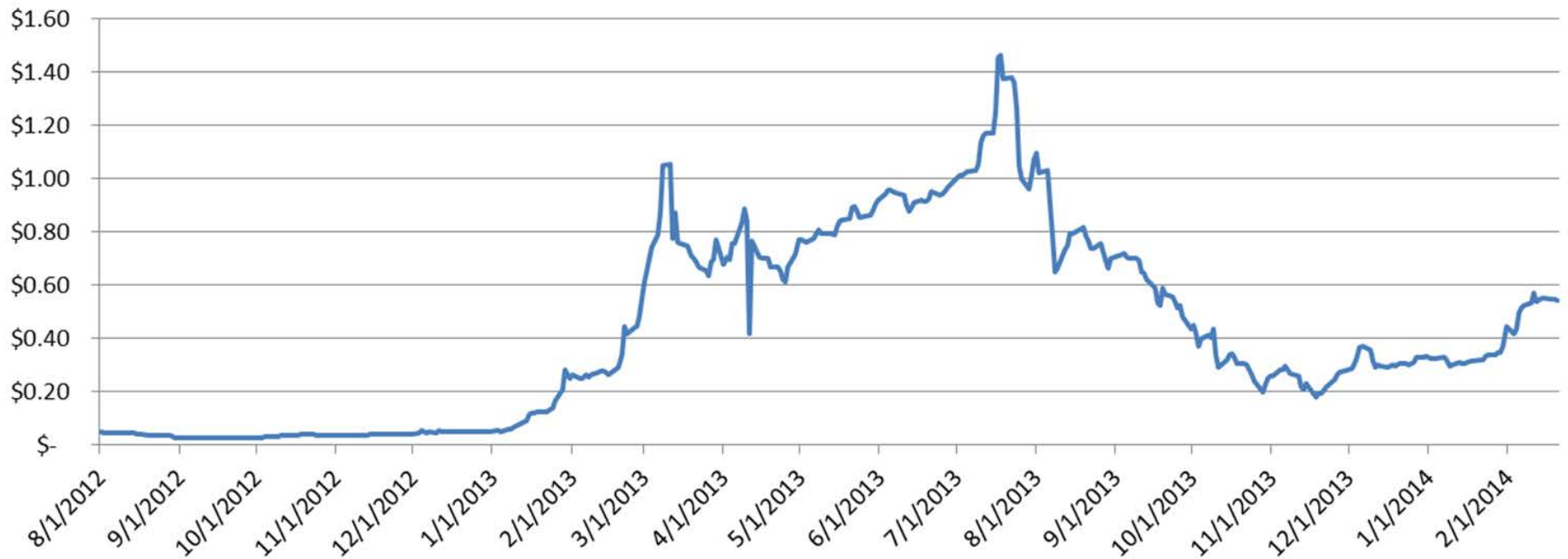
- Significant production increase in Q4 – cheap, abundant corn and strong margins
- Spot margins incentivizing maximum production rates
- Railcar shortage/poor turns + spiking natural gas prices recently stressed plants
- Deferred margins at historical highs
- Improved logistics will bring production back to Q4 levels but industry still faces capacity constraints



***Gross Margin:** Inputs: nearby corn futures/basis and nearby natural gas futures + 20 Outputs: DDGS (115% of cash corn) and ethanol nearby futures with the western corn belt @ -12 Chicago and eastern corn belt @ Chicago price. **Margin reflects plants not extracting oil.** **FOB MN off PNW or MN Ethanol Plant if markedly different.

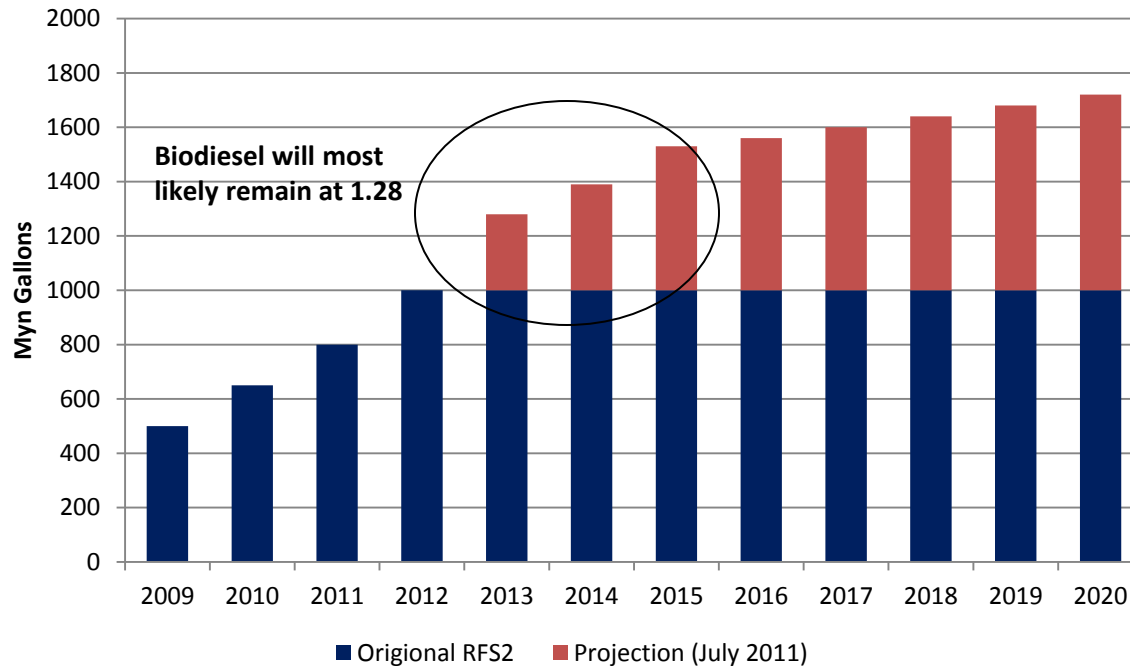
- Margins well correlated with net exports under blend wall scenario
- Severe disparity between rail shippers and truck plants
- Deferred margins are best in history of ethanol

D6 Rin Price



- RIN prices tanked late summer '13 amid RFS reduction rumors
- Prices bottomed out below \$0.20 shortly after EPA proposed significant reductions
- Recent hints from EPA of a possible reduction reversal have built a risk premium back in RIN prices
- Back over \$0.50
- 2014 final ruling and 2015 guidance will be ultimate driver of future blend rates

US Biodiesel Demand



- EPA is targeting 1.28 B gallons of biodiesel for 2014
- Industry is producing at a rate of 1.3 B gallons today
- Senator Grassely working to establish Producer Credits for BD
- Heating oil blends, NYH, being supplied by imports mostly

Biofuels Rail Transportation

- **Ethanol**
- Rail service has deteriorated in both the West and the East
- Maintenance projects caused service interruptions which have carried into winter
- Railroad velocity has slowly deteriorated over the past 4 to 6 months on all roads
- Tank car availability is extremely tight due to reduced velocity
- Unit train shipments have been afforded better turns than manifest moves
- Rail rates continue to increase as service levels have deteriorated and producer logistics issues increased
- **DDG**
- DDG covered hopper fleet is experiencing same issues as tank cars
- DDG's being force out by truck and or to secondary markets that provide best turns
- **Weather**
- Yes, weather has been a challenge

Other Issues

- **Tank Cars**
- Potential new regulations on tank car design and possible retro-fits of current cars
- Ethanol Industry is a supporter of a safer car design that is within reason
- Ethanol being painted with same brush that is being used for crude oil
- Ethanol producers have been shipping product in legacy cars for 30+ years
- If the Ethanol Industries legacy cars are eligible to be retro-fitted with newer safety appliances then the lessee pays increased rents to cover any mandated safety improvements
- If legacy cars are mandated into extinction then ethanol producers will face an all new challenge and cost to production
- Ethanol Producers are being ask to pay for a “Safer Car” with all the benefits going elsewhere