Surface Transportation Board

Rail Energy Transportation Advisory Committee Meeting

Biofuels Update

March 6, 2014
• 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
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
• 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
• 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
• 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