Federal Reserve Bank of Chicago

Biofuels in the Midwest: Today and Tomorrow

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John Campbell
Managing Director
Ocean Park

Ethanol Industry Investments

The combination of COVID-19, volatile margins, and uncertain policy has created a catalyst for change within the fuel ethanol industry. Traditional ethanol producers are investing or announcing projects in four key areas in pursuit of growth.

- **High-Quality Alcohol.** The onset of COVID-19 resulted in an undersupplied market for high-quality alcohol blended in hand sanitizers. Large spot market premiums inspired many traditional fuel ethanol players to shift towards high-quality alcohol.
- High-Protein Coproducts. Technology optimization in ethanol production has enabled the transition towards high-value protein coproducts from DDGS and yeast.
- Low-Carbon Initiatives. Growing momentum towards projects aimed at lowering the carbon intensity score of fuel driven by financial incentives including California's LCFS and federal 45Q tax credit.
 - Combined heat and power (CHP)
 - Carbon capture and sequestration / storage (CCS)
 - Direct injection into geologic formation onsite
 - Pipeline project for permanent storage or enhanced oil recovery
- Capacity Expansion. A few producers are moving forward with low-cost, incremental production expansion projects mainly through additional fermentation capacity.





















Ethanol Industry Investments (cont'd)

High-Quality Alcohol High-Protein Coproducts Low-Carbon Initiatives Capacity Expansion

Green Plains

Apr 2020

Completes \$38M high protein system in Shenandoah, IA



Aug 2020

Announces transition to USP grade alcohol production in Keves, CA



Expands USP grade

ethanol production in

Grand Forks, ND

Green Plains

Feb 2021

Announces large-scale CCS project in Midwest



Jul 2021

Generates electricity using CHP system in Jackson, NE



Launches high protein

project at its plant in

Magic Valley, ID

Kansas ETHANOL

Feb 2020

Announces 23 MGPY capacity expansion to over 100 MGPY in Lyons, KS

Green Plains

Jul 2020

Launches USP grade alcohol project in York, NE and installs 25 MGPY of USP grade alcohol in Wood River, NE



Sep 2020

Begins installation of 20 MGPY of USP grade ethanol capacity



Jan 2021

Invests in FQT, a high protein technology company

Three Rivers ENERGY May 2021

Announces installation of high-quality alcohol system in Coshocton, OH

AEMETIS

Aug 2021 Launches CCS project in Keyes, CA

2020



Mar 2020

Begins drilling well for CCS project in Richardton, ND



Jun 2020

Expands industrial alcohol production in Clinton, IA



Jul 2020

Begins construction of USP grade industrial ethanol system in Lawler, IA



POET

Aug 2020

Announces plan to

scale production of

industrial and beverage-

grade alcohol at two

plants

Sep 2020 Invests \$18.7M for commercial grade alcohol production in Carrollton, MO



Feb 2021

2021

Expands specialty alcohol capacity by 30 MGPY to 140 MGPY in Pekin, IL



Jul 2021

Announces 30 MGPY capacity expansion to 150 MGPY in Mason City. IA



Aug 2021

Starts construction of fourth high protein system in Mount Vernon, IN



MAROUIS

Oct 2020

FLINT HILLS

Begins shipping high protein ingredient. Previously invested \$50M for high protein system in Fairmont, NE



Mar 2021

Announces large-scale CCS project in the Midwest



Jul 2021

Announces CCS project in NE

Oct 2021

Launches CCS project in Hennepin, IL

Renewable Diesel (RD) Plants

Twelve plants are operating or making rapid progress.



By 2024, these 12 plants will have 3.9 BGPY of production capacity.

Source: Company filings and press releases, OP research and analysis.

Other Potential RD Projects

Additional announced RD projects total 3.3 BGPY. The status of these projects is uncertain from public information.



(100 MGPY) Wynnewood, OK; Coffeyville, KS⁽¹⁾



(920 MGPY) Baton Rouge, LA



(600 MGPY) Clatskanie, OR



(336 MGPY) Baton Rouge, LA



(307 MGPY) Chalmette, LA



(260 MGPY) Paramount, CA



(153 MGPY) Mobile, AL





(100 MGPY) Las Vegas, NV



(100 MGPY) Douglas, WY



(90 MGPY) Newton, IL



(80 MGPY) Hastings, NE



(34 MGPY) Hull, IA



(32 MGPY) Columbia, LA

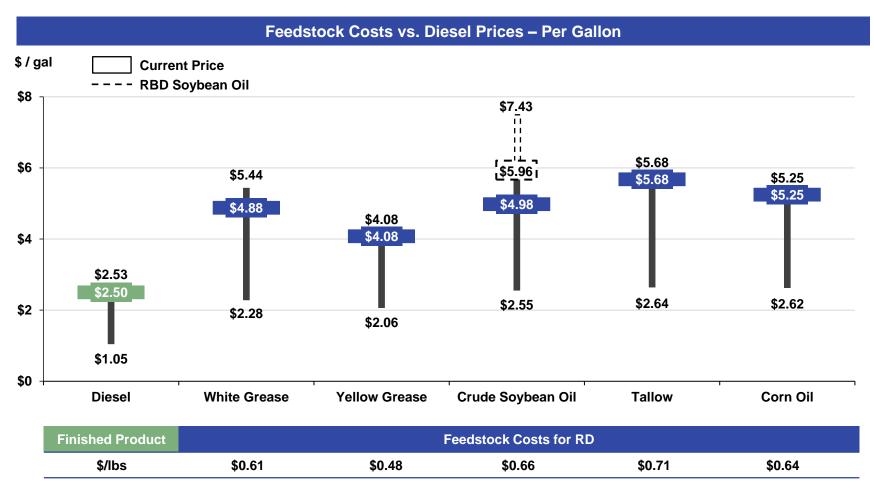
To the extent any of these projects are successfully completed, it will only amplify market forces.

Source: Company filings and press releases, OP research and analysis.

(1) Potential capacity has not been disclosed.

RD Economics – Feedstock Costs

RD (and BD) feedstocks are expensive – costing twice as much as diesel.

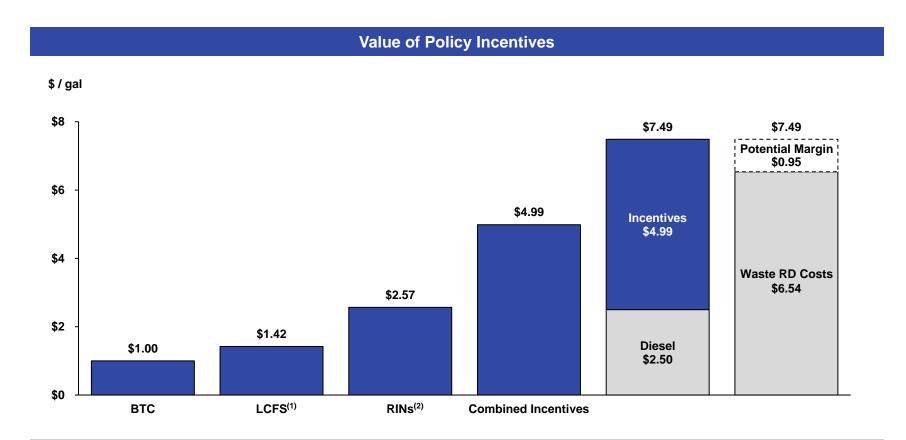


Source: The Jacobsen, Nasdaq, EIA, OP research and analysis.

Note: Current prices shown are as of Oct 27, 2021. Based on conversion of 8.5 lbs/gal for YG, 7.5 lbs/gal for SBO, 8.0 lbs/gal for WG/Tallow and 8.2 lbs/gal for Corn Oil.

RD Economics – Policy Incentives Bridge the Gap

Cumulative policy incentives provide the economics for RD and BD production.



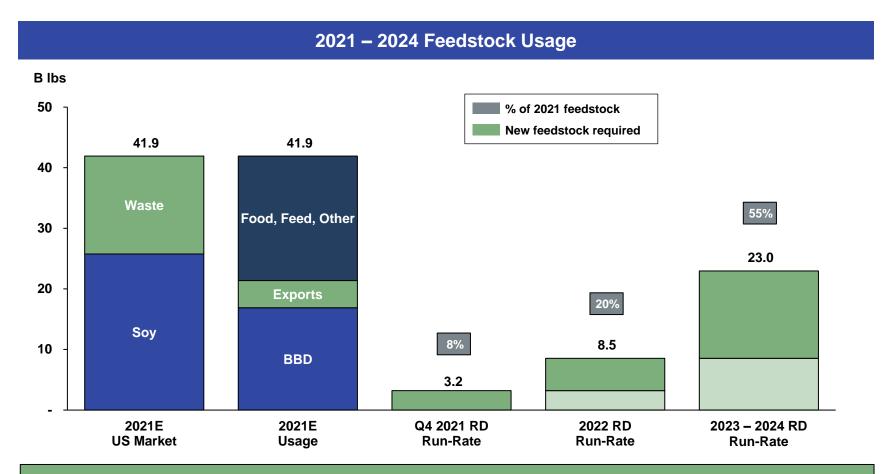
How long will the market pay this premium?

Source: The Jacobsen, CARB and OP research and analysis. Prices as of Oct 27, 2021.

- (1) Based on credit price of \$167/MT and average CI Score of 26.3. RD conversion CI scores range from 20 to 32.
- (2) Based on D4 RINs value of \$2.57/gal for RD (\$1.51 x 1.7 factor.)

Feedstocks – New RD Demand

Fuels are projected use 40% of feedstocks in 2021. By 2024, they would consume 95%.



If <u>all</u> US feedstock were used for RD/BD, it would only produce 5.4B gallons of fuel.

Source: Render Magazine, USDA, EIA, National Agricultural Statistics Service (NASS), OP research and analysis.

Wrap-Up

- It is all about feedstock for nature-based climate solutions.
- Additional corn starch is available, but the vehicle market is currently stuck at around 10% blend – alternative jet fuel, biochemicals and exports are future markets.
- Soy and waste feedstocks are effectively gone for renewable diesel.
- The next investment frontier is biomass to liquid (not alcohols).