

Revised Minutes of the
RENEWABLE ENERGY COUNCIL
Wednesday, April 24, 2019
1:00 p.m. (CDT)
ND Department of Commerce, Icelandic Room – Bismarck, ND

CALL TO ORDER

Members Present: Michelle Kommer, Al Christianson, David Douglas (phone), Rod Holth, Terry Goerger (phone), Mark Nisbet, Gerald Bachmeier

Others Present:

Andrea Pfennig, ND Industrial Commission
Karlene Fine, ND Industrial Commission
Sherri Frieze, ND Department of Commerce
Corey Kratcha, c2renew
Tracey Olson, Hankinson Renewable Energy
Dan Sonnek, Hankinson Renewable Energy (phone)

WELCOME AND OPENING COMMENTS

Kommer called the Renewable Energy Council (Council) meeting to order at 1:00 p.m. and welcomed members and guests.

RECOGNITION

Kommer welcomed the newest Council member, Gerald Bachmeier, who replaced Randy Schneider. Recognition was given to Schneider for the significant time, effort, and knowledge he contributed to the Council since the Council was established in 2007.

It was moved by Christianson and seconded by all Council members that the following Resolution of Appreciation be approved, and that staff present the Resolution to Randy Schneider on behalf of the Council.

**RENEWABLE ENERGY COUNCIL
Resolution of Appreciation**

- Whereas,** Randy M. Schneider was appointed by Governor John Hoeven to serve on the Renewable Energy Council in 2007; and
- Whereas,** Randy provided valuable input and was a key participant in the development of the Renewable Energy Program procedures and policies; and
- Whereas,** Randy went “above and beyond” when analyzing applications including providing accounting expertise to the Council and the Industrial Commission that was very beneficial and helpful in the decision-making process; and
- Whereas,** Randy was dedicated to the mission of the Renewable Energy Program and was a strong advocate for the renewable industry and identifying opportunities for growing the industry in North Dakota;
- Now, therefore,** the Renewable Energy Council hereby thanks Randy for his twelve years of service to the Renewable Energy Program and to the citizens of North Dakota and wishes Randy the very best in his future endeavors.

The motion carried unanimously.

APPROVAL OF MINUTES

It was moved by Nisbet and seconded by Bachmeier to approve the October 10, 2018 meeting minutes. All in favor. Motion carried unanimously.

PRESENTATION OF FINANCIAL Report

Fine presented the financial report that had been posted on the Industrial Commission website. (A copy of the financial report is available in the Renewable Energy Program files.) The uncommitted dollars available for projects as of March 31, 2019, are \$2,950,342.77.

It was moved by Holth and seconded by Bachmeier to approve the 2017-2019 Biennium Financial Report dated April 24, 2019. All in favor. Motion carried unanimously.

AMENDMENT REQUEST

c2renew

Pfennig commented that c2renew has requested an amendment to their original contract R-025-035: “Biocomposite Development for Industrial and Consumer Projects – Phase II.” In the original proposal; match rate was 60%, project duration was set at 18 months, and a production facility was to be built in Colfax, ND. Today, the project match is 50%, duration is at 3 years, and they are leasing space in Fargo, ND. Because of the significant changes from the original scope of work, it was determined that this amendment request would need Council review before any more disbursements could be made. (Documents regarding the status of the project were distributed and are available in the Renewable Energy Program files.)

Amendment: R-025-035:

“Biocomposite Development for Industrial and Consumer Projects – Phase II”

Submitted by: c2renew

Corey Kratcha, CEO, for c2renew gave an overview on the current c2renew production status and the production opportunities that have been identified. He also reviewed the request to amend the contract – timeline, percentage of match, location of facility. There was discussion on what the actual costs of proposed equipment purchases would be. He explained that the purchase of equipment within the timeframe originally proposed had been delayed as they had determined that purchasing the equipment prior to it being needed for the company’s operations and incurring those costs would not have benefited the company. He reviewed the reasons why the company had decided to rent space in Fargo rather than building a new facility in Colfax—difficulty in reaching an agreement with the builder in Colfax on lease to purchase terms and staffing challenges. Currently co-located in a facility in Fargo on Seventh Avenue with another partner company 3D Fuel.

Christianson questioned the communication process between the support staff and Kratcha. Christianson said it put staff in an uncomfortable position to approve disbursements for the project activities that were not part of the original application/contract.

Pfennig commented that an adjustment to the contract was made in the past and Kratcha is requesting that the Council consider additional changes to the contract. The role of the staff is to administer the contract within limits stated in the contract. It was stated that considerable discussion had taken place between staff and Kratcha regarding what was an eligible match and how the funds were being used in relation to the purchase of equipment.

Kratcha asked the Council to focus more on the overall picture of growing and scaling up the business and less on the budgetary side.

A request was made for the company’s business plan—what is the company’s current financial situation and potential revenue streams. Kratcha stated that they finance their operations off their balance sheet—early on the company had some outside investments in the company but they have no other funding sources for operations. He noted some of the challenges that the industry faces – managing the inventory needed to manufacture the product and the guarantees that are required by the purchaser.

Christianson questioned the staff on their comfort level in amending the contract or should a new contract be drawn.

Pfennig stated she would feel more comfortable with a new contract. The original contract proposed an equipment purchase, but now the project is taking on a new objective of growing the business. Auditors may ask why we have deviated from the Scope of Work. It would be cleaner to start with a new application, clearly stating the proposed costs. Because operating expenses are not eligible by policy, all expenses must be clearly tied to the project.

Kratcha questioned if operating expenses are allowable as match. He noted that it was his understanding that operating expenses could be used as a match but that the State's dollars could not be used for operating expenses. Pfennig answered that the policy states that operating expenses are ineligible. All expenses must be tied to the project and clearly stated for eligibility. An example was given that if a piece of equipment was being purchased, operating costs related to that equipment – design of the equipment, installation of the equipment – could be reimbursed. However, resin to be used in making the product is an operating cost that is not eligible for reimbursement or to be used as a match.

Kratcha stated that there had been considerable back and forth on what is an eligible expense and what is an allowable match. He had looked at what other state programs allow. Kratcha agreed that the original project proposed was for the purchase of certain equipment. That has evolved, and he had provided context with his disbursement requests to justify how it is related to an equipment purchase. Without that context the narrative of what we have been doing is null and void. We could have bought the equipment and met the guidelines of the contract, but we would no longer be in business. We wanted to ensure the theme and structure proposal of business would keep going. Now, we are asking to close it out as a perspective for buying equipment and making a change to the match money. The request would be that rental expenses would be allowed; we can't buy equipment without a building to put it in. We need to buy resin to run through the equipment. We need utilities to power the equipment.

Kratcha questioned what the timeline of submitting a new application would be. We are in a position where the company is growing, trying to manage budget, and are at a loss with how we want to manage the budget and manage those things. It was pointed out that rental, purchase of resin and utility costs are operating costs and although they are needed to grow the business they are ineligible for Renewable Energy Program funding.

Christianson asked what timeline would be needed for the company for a new contract. He stated that it is important to grow the company, but the Council needs to stay within the legal limits of the program.

Pfennig noted two ways to move forward for the company:

- 1) Grant extension to July 31, 2019. The remaining equipment purchases could be provided as match. If more equipment needs to be purchased, a list of the equipment with expected costs would need to be included in the Scope of Work in the contract. The Council could elect to not give any more funds to c2renew. If this were the case, the total award amount would be \$286,627.82.
- 2) Take no action. The contract will expire, and a new application will need to be submitted.

It was pointed out that the extension to July 31, 2019 would then allow c2renew an opportunity to apply for funding, if needed, during the next grant round with the clarification that has been stated today of what is allowed under the Program's policies.

In response to a question of what the plans are for the building—part of the costs that have been paid to install the equipment required changes to the building—Kratcha stated that the plan is to purchase the building.

There was significant discussion about the options and different versions of the budget. The consensus of the Council was to consider the following:

- **Extend the original project from 24 months to 38 months, ending July 31, 2019.**
- **Change the scope of work from building a facility in Colfax to leasing a facility in Fargo.**

- **Modify the budget as follows:**

Project Expense	Current Budget		Revised Budget	
	NDIC	c2renew	NDIC	c2renew
Equipment	\$300,000	\$750,000	\$322,107.40	\$252,182.29
Project Management/ Engineering Services	\$200,000	\$0	\$177,892.60	\$247,817.71
Total	\$500,000	\$750,000	\$500,000	\$500,000
Match Rate	40%	60%	50%	50%
Total Project Costs		\$1,250,000		\$1,000,000

Chairman Kommer stated that the integrity and success of the program needs to be met and the project needs to stay within the parameters of the program. She then left the meeting to attend legislative session at the Capitol. Duty of Chair was delegated to Al Christianson and granted.

CONSIDERATION OF GRANT ROUND 39 APPLICATIONS

R039-A: “New Implementation of Stack Heat Recovery Technology to Increase Efficiency and Production at Existing Ethanol Production Facility”; Submitted by Hankinson Renewable Energy LLC.;

Principal Investigator: Dodi Matti

Project Duration: 8 months

Requesting: \$500,000

Total Project Costs: \$3,242,569

Pfennig gave an overview of the project. Total project cost is \$3,242,569, contributing 85% cash match of \$2,742,569.

Project’s Objective:

- Improve the plant’s energy efficiency and increase its production of renewable energy through the installation of a Stack Heat Recovery (SHR) system.

Reviewer’s Ratings:

- Fund – 177
- Funding May Be Considered – 147 and 131
- Average Weighted Score – 152 out of 250

Achievability:

- One reviewer had concern that there were no estimates or letters of support from the proposed subcontractors.

Methodology:

- All three reviewers indicated more details were needed.

Scientific/Technical Contribution:

- All three reviewers felt this was limited; one reviewer noted that the use of heat recovery has been underutilized, another reviewer felt that this argument is weak justification.

Knowledge/Awareness:

- One reviewer felt that the proposal would have strengthened by having someone with process modeling expertise.

Project management:

- Two reviewers felt the project management plan was adequate; one reviewer stated that details were lacking on the actual system, schedules, and budget justifications.

Value of Budget:

- Two reviewers noted that the funds are well leveraged.

Overall Comments from Reviewers

- Successful implementation of this project will improve the competitiveness of the biofuel industry in ND.
- The data generated will be beneficial to the other plants.
- More details were needed on the planning and justification
- No innovative research or technology is discussed.
- A lack of information for the subcontractors and technological information on the heat integration technology was a weakness.
- If funded, dissemination of the findings on savings and reduction of water, natural gas, and CO2 to the ND biofuels industrial community will be critical.
- The limitation of the project is the lack of innovation, but the applicant does a nice job of demonstrating benefits to the ND economy.

Technical advisor recommendations:

- Funding may be considered.
- One of the largest areas of concern that the reviewers had dealt with a lack of details in the project methodology. The technology is developed and commercially available and the applicant has provided a comprehensive list of equipment to be purchased.
- HRE has been granted confidentiality regarding total usage amounts, grind margin, inputs per gallon of ethanol, and yields and expense details.
- This project could provide significant benefits to the applicant, including reduction of water usage, reduction of natural gas, and an increase in annual net income.

Tracey Olson, Chief Operating Officer, Hankinson Renewable Energy gave an overview of the project and Dan Sonnek, Principal, for Integro answered questions via phone.

- In response to a question, Olson stated there is about 30,000 pounds an hour of steam. Christianson asked why all the water will not be taken out of the stack. Olson responded that it becomes an environmental issue. However, Sonnek stated that it is due to the thermodynamic principles of the stack itself. Sonnek stated that this is different from a power plant's stack. This stack is made of stainless steel.
- Goerger asked if this was being done at any of Guardian Energy's other locations. Olson responded that this is being tested at the site in Janesville, Minnesota. It has been operating since November.
- Nisbet noted the reviewers' concerns that this is not very innovative and asked Olson to address those concerns. Along with that, Nisbet asked how much information would be trade secret and how much information would HRE be willing to share with other plants. Olson responded that the pounds of steam per hours generated could be shared. Based on that information the plants could calculate what their energy consumption would be. Reductions in percentages can be shared. Olson indicated a willingness to share numbers. Sonnek noted that the innovative process is that it has made it through the patent filing process. While it is not a new concept, the innovativeness is that it takes a waste stream and utilizes it. It offsets the most expensive component with a waste stream.
- Bachmeier asked for more information on the additional expected revenue. Olson provided additional information on the expected gas savings and additional ethanol production. It will be offsetting fixed overhead.

COMPLETION OF BALLOTS

AMENDMENT - R-025-035: "Biocomposite Development for Industrial and Consumer Projects – Phase II"

Submitted by C2renew

Principal Investigator: Corey Kratcha

Fund: 6 No: 1

Conflict of Interest: Mark Nisbet

R039-A: "New Implementation of Stack Heat Recovery Technology to Increase Efficiency and Production at Existing Ethanol Production Facility"

Fund: 6 No: 1

Conflict of Interest: Gerald Bachmeier

Contingencies:

None reported, if funded

FUTURE MEETING

Pfennig commented that she will email out a Doodle Poll, for next available meeting dates in June.

ADJOURNMENT

Meeting was unanimously adjourned at 3:15 p.m.

Michelle Kommer June 5, 2019

Michelle Kommer Date
Chair

Sherri Frieze June 5, 2019

Sherri Frieze Date
Recording Secretary