

INTERIM JOINT COMMITTEE ON NATURAL RESOURCES AND ENERGY

Minutes of the 5th Meeting of the 2018 Interim

October 4, 2018

Call to Order and Roll Call

The 5th meeting of the Interim Joint Committee on Natural Resources and Energy was a joint meeting with the Interim Joint Committee on Transportation held on Thursday, October 4, 2018, at 1:00 PM (CST), in Owensboro, Kentucky at the Owensboro Grain Company. Representative Jim Gooch Jr., Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Jim Gooch Jr., Co-Chair; Senators C.B. Embry Jr., Ernie Harris, Johnny Ray Turner, Robin L. Webb, and Whitney Westerfield; Representatives John Blanton, McKenzie Cantrell, Matt Castlen, Tim Couch, Myron Dossett, Jim DuPlessis, Reginald Meeks, Suzanne Miles, Robby Mills, Jim Stewart III, Jim Wayne, and Jill York.

Guests: John Wright, Executive Director, Owensboro Grain Company; Steve Henry, Webster County Judge/Executive; Adam O’Nan, Union County Judge/Executive; Melissa Polites, Director, Union County Senior Services; Greg Merle, President, Riverview Energy Corporation; Brian Wright, President/CEO, Owensboro Riverport Authority; and Rod Kuegel, Chairman of the Board, Owensboro Riverport Authority.

LRC Staff: Stefan Kasacavage, Janine Coy-Geeslin, Tanya Monsanto, and Susan Spoonamore.

Welcome to Owensboro Grain Company

John Wright provided a brief history of the Owensboro Grain Company (OGC). The first continuous solvent extraction plant was built in 1962. A second plant and a coal-fired boiler were built in 1981. Due to government regulations, the coal-fired boiler was replaced with natural gas. The boiler can be switched back to coal if needed in the future. In 1989, a plant was built to produce lecithin which is a derivative of soybean oil. A second river pier was added in 1991 for separate loading and unloading of barges.

The Edible Oils Plant was built in 1995 to produce refined, bleached, and deodorized soybean oil and an assortment of hydrogenated products. In 2007, a pipeline was installed in collaboration with the city of Owensboro, and the Biodiesel Plant was

added to the refinery. The pipeline allowed for degummed soy oil to be pumped directly from the lecithin plants to a bulk storage location, eliminating the need for barges. The hydrogenation portion of the Edible Oils Plant was closed in 2010 due to the increase in demand for more low trans-fat oils. The closure of the Edible Oils Plant left OGC with excess soybean oil. This excess will now be used to produce 53 million gallons of biodiesel a year and 36 million pounds of refined glycerin. The Refinery Glycerin Plant was added in 2014. The Owensboro Grain Company has 165 employees and is the last family-owned soybean crushing plant in Kentucky.

Kentucky Coal and Mineral County Coalition

Webster County Judge/Executive Steve Henry stated Kentucky is the third largest producer of coal in the United States. In fiscal year 2018, Kentucky severed 43.1 million tons of coal. In fiscal year 2012, the coal severance tax yielded \$298.3 million and declined to \$89.6 million in fiscal year 2018. This decline is due to additional federal government regulations that made it harder to open new coal mines and for existing power plants to burn coal, resulting in the permanent closure of coal-fired power plants.

Union County Judge/Executive Adam O’Nan stated Union County is the largest coal producer in Kentucky. There are currently several projects funded by coal severance tax dollars. One of the projects is the Waverly Volunteer Fire Station. There is also a water project to install approximately 7,000 feet of water line to regulate pressure issues and distribute cleaner water. Melissa Polites, the Union County Senior Services Director, testified about how coal severance tax dollars are being used to fund a senior citizens project serving over 250 seniors in Union County.

Judge Henry stated that in the last six years coal severance taxes have decreased from 3.2 percent of the general fund to 0.8 percent. In 2018, when the coal sheet was finalized, the counties had already begun the budget process before the General Assembly adjourned, so counties did not have the time to adjust to the changes that were made. Judge Henry said there should be a plan for 2020 that will help return the severance funding to local communities.

In response to a question from Representative DuPlessis, Judge Henry stated Webster County does not have an occupation tax, because there is not a lot of industry. An occupation tax would not be beneficial.

Direct Coal Hydrogenation

Greg Merle, President of Riverview Energy Corporation (REC), stated that REC is a developer of Direct Coal Hydrogenation (DCH) projects in the United States. REC is in the permitting stage to build a refinery in Spencer County, Indiana, that will use Veba Combi-Cracking (VCC), which is based on the hydrogenation process. The refinery will produce 22,000 barrels of diesel fuel per day. VCC is a process for direct conversion of coal to valuable liquid products that does not require combustion or gasification, making it

more efficient and cost-effective. There are three plants in the world that use VCC technology. There are two plants in China producing 20,000 barrels of diesel fuel per day and one plant in Russia producing 50,000 barrels per day.

The United States consumes close to 20 million barrels of liquid fuels per day and spends approximately \$333 billion annually importing oil. Mr. Merle stated that this money should be spent on the domestic coal industry. The projects REC promotes will increase United States energy security by displacing imported petroleum-derived gasoline and diesel fuels, which will result in economic gains for consumers and potential national security benefits.

DCH is a clean coal technology because it removes high-sulfur coal and upgrades it to a clean air choice fuel. According to the Environmental Protection Agency (EPA), the new fuel standards for diesel have reduced nitrogen oxide emissions by 2.6 million tons each year. Annual emission reductions will be equivalent to removing the pollution from more than 90 percent of vehicles.

In 2015, the EPA released draft regulations designed to reduce carbon dioxide emissions, and if implemented it would make opening a coal-fired power plant impossible. The DCH facility will not be a generator of electricity and would not be subject to power generation requirements. There is also no legislation in effect, or being contemplated, that would subject the DCH facility to a carbon tax.

Update on Kentucky's Riverport Authorities

Brian Wright, President/CEO, Owensboro Riverport Authority updated the Committee on Kentucky's Riverports as well as the Owensboro Riverport. The Owensboro Riverport was chartered in 1966 by the City of Owensboro and was operational in 1976. The mission of the Owensboro Riverport Authority is to establish the Owensboro Riverport as the premier inland port in the Ohio River Valley by providing a dynamic, efficient, customer oriented, and market focused intermodal facility that contributes to commerce and economic growth for Owensboro and the region.

A chart was provided that displayed all of the active and developing public riverports in Kentucky. The impact of the riverports extends beyond the 7 counties with operating riverports. Counties within 100 miles of the riverports benefit. Mr. Wright compared cargo capacity, units, and length equivalencies of barges and semis. One barge is the equivalent to 58 large semis and one 15 barge tow is the equivalent to 870 large semis. Barges are fuel efficient. One gallon of fuel can move one ton of cargo 59 miles by semi, 202 miles by train, and 514 miles by barge.

The Owensboro Riverport is a 340 acre working terminal that includes 100 acre rail loop that has 90 railcars and 2.5 miles of port owned rail. The Riverport has 500,000 square feet of warehousing, a new cargo dock, a 110-ton friction crane, a spud barge, a 40-ton

crane, and lift truck fleet. It is a designated delivery site for the London Metal Exchange and the Chicago Metal Exchange. The Owensboro Riverport is a U.S. Department of Homeland Security port and part of the U.S. Foreign Trade Zones Board.

Approximately 1.2 million tons of goods were transloaded at the Owensboro Riverport in FY 2018. Aluminum, fertilizer, grain, and sodium bicarbonate are all transloaded products that have seen substantial growth since 2013. A comparison over the last 6 years of tonnages shows that 51.73 percent of loads have gone by barge, 19.91 percent by rail, and 28.35 percent by truck. According to market share diversification, 21 percent of the market share is warehousing and distribution, 13 percent is bulk and grain, 22 percent is metals, 19 percent are leases, and tolling is 25 percent.

The Owensboro Riverport Authority has seen substantial growth from a revenue standpoint since 2013 and has grown over 128 percent since that time. The Riverport finished FY 2018 at approximately \$14.9 million in revenue generated from the services provided from transloading goods.

Since its inception in 1966, the capital investment at the Owensboro Riverport Authority has exceeded \$100 million. Approximately 10 percent of that amount were startup contributions from the Economic Development Authority and the city, 2 percent came from the Kentucky Riverport Improvement Grant and Department of Homeland Security, 28 percent came from private sector contributions, 60 percent came from riverport contributions.

The economic impact of the Owensboro Riverport Authority has been very substantial. It is estimated that in FY 2018 the economic impact was \$16.1 million of total output, \$8.6 million of labor income, and support for 197 jobs annually throughout the region. The average economic impact between 2013 and 2018 has been \$13.8 million of total output, \$7.0 million of labor income, and support for 161 jobs annually throughout the region.

Mr. Wright stated that the Owensboro Riverport Authority, with support from grant contributions and private sector funding, has invested more than \$46.1 million in construction projects at the Riverport between 2013 and 2018. The impacts associated with these initial injections into the local economy are estimated to have contributed \$67.7 million in total economic impact, including total employment of 590 people and \$20.3 million in total wages during construction. The industry impact has included in 2016, an estimated \$10.7 billion in output, 57,898 jobs, and \$2.6 billion in labor income within Daviess County. In addition, out of an estimated \$23.3 billion in output, 114,589 jobs, and \$5.3 billion in labor income within the Green River Area Development District, \$3.5 billion in output, 8,020 jobs, and \$385.7 million in income was supported by commodity-driven industries.

Mr. Wright stated that, given the projected growth over the next 25 years, the USDOT has estimated 10 billion additional tons will move domestically throughout the United States. Centered in the Midwest, Kentucky's multimodal transportation network is critical to the long-term balance of road, rail, river, and air transportation. The Owensboro Riverport Authority Master Plan defined in 2016, calls for over \$40 million in capital and infrastructure improvements through 2026 to support this long-term balance. The Kentucky Association of Riverports along with the Kentucky Infrastructure Coalition supports increased sources of funding to meet the long-term multimodal transportation demands in Kentucky.

Rod Kuegel, Chairman of the Board, Owensboro Riverport Authority, discussed capital investments and leverage of investments. Each investment is important, including private sector contributions. There is an eight county area that the Riverport touches and approximately 7 percent of those jobs within those counties are due to the Riverport. It is a challenge to get a barge in the river; in places there are ten to 15 barge units tied up. There are problems with older dams and their service ability as well as a problem moving river traffic. In 25 years, 29 billion tons will move on the rivers in the United States and stated some improvements to a few dams are necessary to be able to support those kind of numbers. It will take state and federal funding to make the necessary improvements.

In response to a question asked by Chairman Harris, Mr. Wright stated that not all of the mentioned 340 acres have been built out, and that there is a significant amount of land that still is available for use and development. In response to a second question asked by Chairman Harris, Mr. Wright stated all of the grain that is exported out of the Owensboro Riverport is exported internationally. Chairman Harris inquired about the number of employees employed by the Owensboro Riverport itself. Mr. Wright stated the Riverport has 44 employees.

The next meeting will be November 1, 2018. Documents distributed during the meeting are available in the LRC Library and at www.lrc.ky.gov.

There being no further business, the meeting was adjourned.