

2005 *Annual Report*

KCFC MEMBERS

Cincinnati/Northern Ky. International Airport
 Clean Diesel Technologies
 Commonwealth Agri-Energy, LLC
 East Kentucky Power Co-Op
 Fort Knox
 General Motors Corporation
 Griffin Industries
 Kentucky Corn Growers Association
 Kentucky Office of Energy Policy
 Kentucky Petroleum Supply
 Ky. Propane Education & Research Council
 Kentucky Soybean Board
 Kentucky Transportation Cabinet
 Lexington-Fayette Urban County Government
 Louisville International Airport
 Louisville Metro Government
 Mammoth Cave National Park
 Marathon Ashland Petroleum
 Martin Dodge
 Max Arnold & Sons, LLC
 Metropolitan Sewer District
 Midwest Terminal
 Murray State University
 National Energy Education & Development
 Program
 Schwan's Fine Foods
 Seay Oil
 Transit Authority of River City
 University of Kentucky College of Agriculture

Kentucky Clean Fuels Coalition
 Melissa Howell, Executive Director
 P.O. Box 5174
 Louisville, KY 40255-5174
 Phone/FAX: (502) 452-9152

President's Message

Serving two terms as president of the KCFC has been such an opportunity and learning experience for me. I have been able to network with Ethanol and Biodiesel industry representatives, to learn about new clean fuel technologies, to work with legislators, testify for the Governor's Energy Strategy, and so much more.

Without a doubt, the open communication between the KCFC and other agencies and organizations across Kentucky and the country, has placed this small non-profit in an honorable and distinctive position. Our members have contributed to excellence whether it is in the research field or the marketing field.

The KCFC continues to serve Kentuckians well.

— Gerry Hayden, KCFC President



Executive Director's Message

When I look back over 2005, I am elated this group made such progress in so many areas. The following statewide initiatives truly stand out in my mind:

- inclusion of renewable fuels in **Kentucky's Energy Strategy**
- **funding**, both federal and state for clean fuel projects
- **partnerships** that have connected the dots between regions of Kentucky
- **production facility expansion**
- **state fleet fuel use**
- **quality testing leadership**

The progress is truly attributable to KCFC members!

I see 2005 as the year that the KCFC grew into it's own. We experienced what one natural disaster can do to the fuel market in Kentucky as we assisted in securing Biodiesel to replace fuel shortages. We spent a great deal of time coordinating with the petroleum industry and fleets that had not considered clean fuel technologies. On January 1, 2006, the KCFC will see a new President take office and for the first time in our 12-year history, that role will be held by a petroleum retailer that also sells Ethanol and Biodiesel. That speaks volumes to me about our ability to network with the fuel industry as a whole.

Thank you to everyone who has provided assistance and support to the KCFC this year and know that I cannot wait to see what is in store in 2006!

— Melissa Howell, Kentucky Clean Fuels Coalition



2005 YEAR IN REVIEW



Commonwealth Agri-Energy General Manager Mick Henderson cuts the tape to sell the first E85 fuel at a Hopkinsville Max Fuel Express filling station.

Western Kentucky Sees First E85 Station Unveiled

Max Arnold & Sons, LLC utilized just under 2 million gallons of Ethanol this year to sell at the Max Fuel retail outlets across Western Kentucky. They opened their first E85 station in Hopkinsville on Fort Campbell Blvd October 5th and plan to open their 2nd E85 site in January 2006, also in Hopkinsville.

Max Arnold and Sons LLC to Install Biodiesel Plant

Max Arnold has also been selling a B10 Biodiesel blend at their retail outlets across Western Kentucky, utilizing over 300,000 gallons in 2005. By early Spring, they anticipate having a Biodiesel production facility in place in the Madisonville area that will produce 5 million gallons of Biodiesel annually.

Commonwealth Agri Energy Plans Ethanol Plant Expansion

Commonwealth Agri Energy in Hopkinsville processed over 8 million bushels of local corn in 2005 to produce 24 million gallons of fuel Ethanol. Beginning in January, CAE expects to have their plant expansion wrapped up and see production capacity jump to 33 million gallons per year. CAE has a marketing plan ready to expand the market for Ethanol use. EPIC - Ethanol Productions and Information Council - www.drivingethanol.org.

Howell Recognized for Work in Kentucky and Across Region

In January, KCFC Executive Director Melissa Howell was presented the Kentucky Soybean Association 2005 Distinguished Service Award during the annual Kentucky Commodity Conference in Bowling Green. The United States Department of Energy also recognized the efforts of Howell at the annual Clean Cities Conference held in Palm Springs, California in May. Howell was chosen Coordinator of the Year for the Southeast Region of the U.S. The Clean Cities program is a voluntary program that is administered by the KCFC.

TARC Hybrid Electric Buses Finish First Year With Savings

In their first year of service, the five hybrid electric buses the Transit Authority of River City (TARC) purchased have been a great success. The buses have averaged 22 percent better fuel economy than the standard fleet of diesel buses. In addition, the



five buses have been very reliable with over 60,000 miles of service, virtually maintenance free.

TARC plans to purchase eight more buses in 2006.



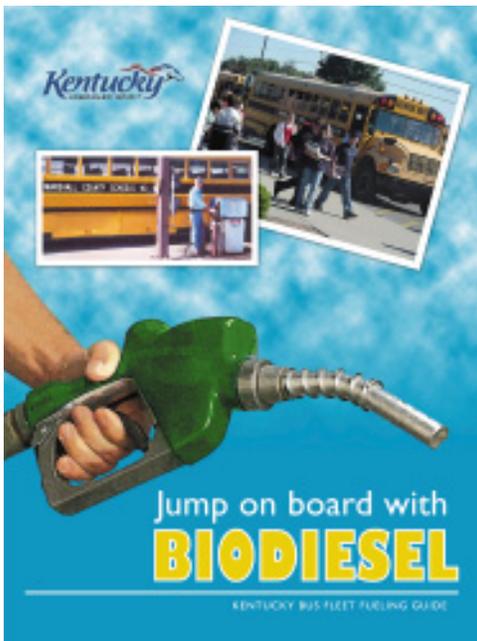
Owensboro Grain Plans State's Largest Biodiesel Plant

Owensboro Grain Company announced plans in February to build a large Biodiesel plant adjacent to their soy crushing plant in Owensboro. By mid year, plans had been clarified to detail the 50 million gallon plant. Construction for the plant is expected to begin in Spring 2006 with a 15-month construction phase. Owensboro Grain is a five-generation family owned business in Western Kentucky.

Oak Grove to Have State's First Idle Reduction Facility



The Pilot Travel Center located just off Exit 89 on Interstate I 24 in Western Kentucky will be the states first idle reduction facility for semi trucks. The site will host 74 hookups for semi trucks to utilize. This project is a joint effort between the City of Oak Grove, Clarksville Metropolitan Planning Organization and the Kentucky Transportation Cabinet. The technology is designed to enable truckers to shut off engines and utilize this electric power for their needs rather than have the engine idling continuously while they are parked. The project should be operational in late Spring 2006.



Biodiesel Information Kit Sent to School Superintendents and Transportation Directors

School superintendents and transportation directors across Kentucky were sent a Jump on Board with Biodiesel kit that was created to explain how fleet managers can begin using biodiesel in their bus fleets in three easy steps. The kit was a cooperative project of the KCFC, Kentucky Office of Energy Policy and the Kentucky Department of Education.

KCFC Issues Biodiesel Grant for Kentucky Schools

The KCFC released a Request for Proposal December 19, 2005 to Kentucky Schools for assistance in buying down Biodiesel incremental pricing. The grant, made possible through the Kentucky Office of Energy Policy, is open to all 176 school districts across the Commonwealth. Grant recipients will be announced January 30, 2006.

KCFC Testifies at Energy Committee Request

The Special Legislative Energy Sub Committee asked the KCFC to testify for a second time at their August 2005 meeting in Frankfort. KCFC Executive Director Melissa Howell was joined by John Davies of the Kentucky Office of Energy Policy, Mick Henderson from Commonwealth Agri – Energy and Rick Geise from Griffin Industries. The group gave an update on clean fuel technologies across Kentucky since the 2004 testimony.

Biodiesel Fuel Quality Now Regulated By Kentucky Department of Agriculture

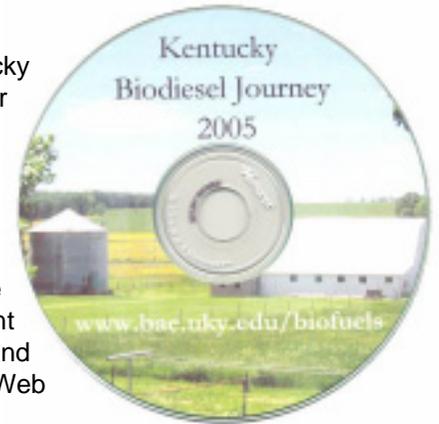
The Kentucky Department of Agriculture has begun testing Biodiesel produced in Kentucky, to insure that it meets current ASTM fuel quality standards. Under Kentucky statute KRS 363.904, Biodiesel is included as a motor fuel and can be tested as such. This testing places Kentucky in a leadership role across the nation as many states do not regulate the fuel quality of Biodiesel. If you have questions, contact the Regulations & Inspections Division at 502.573.0282

State Fleet Responds To Executive Order

When the Kentucky Energy Strategy was unveiled February 7, 2005, two executive orders accompanied the renewable fuels recommendations by Governor Ernie Fletcher. He directed the Kentucky Transportation Cabinet to begin utilizing Biodiesel in the diesel fleet and Ethanol in the gasoline fleet. The diesel fleet began use in April and consumed nearly 240,000 total gallons by the end of December! A tremendous increase! The gasoline fleet continued their use of E85 at the Frankfort Motor Pool location and increased their usage of E85 from roughly 42,000 gallons in 2004 to 49,625 in 2005. Fleet Management introduced E10 at that site in October and reports 13,292 gallons were used in the three month period.

Biofuel Tours

Two tours showcasing biofuels in Kentucky were held in May. On May 12th, the Biodiesel Tour gave participants a first-hand look at the biodiesel production process. On May 20th, participants got a first-hand look at the ethanol production process. Speakers at both events addressed the benefits of biodiesel and ethanol, the impact of current energy policy on the development of these markets as well as ideas to encourage plant development. More information on biodiesel and ethanol production is available at the Biofuels Web site: www.bae.uky.edu/biofuels/.



GM Loans Vehicle for E85 Promotion

General Motors (GM) presented the Kentucky Corn Growers Association (KyCGA) an E85 Chevrolet Avalanche during the Kentucky State Fair. The association will use the vehicle for one year to promote the fuel to the public and private fleet owners. Pictured from left to right are Kentucky Agricultural Commissioner Richie Farmer, KyCGA Director Ray Allan Mackey, and GM Representative John Freking.

A Billion Gallons of Petroleum Displaced with Alternative Fuels

Several Kentucky renewable fuel sites celebrated a milestone in the fuel industry on October 14, 2005. The U.S. Department of Energy announced the "billionth" gallon of petroleum displaced by the use of renewable fuels across the nation.



**BEYOND A BILLION
IN THE BLUEGRASS**



Senator Ridley pumps Biodiesel into a Henderson County school bus as part of the celebration noted around the country October 14, 2005. The US Department of Energy recognized the "billionth" gallon of petroleum displaced by efforts such as those in Henderson.



UK Provost Scott pumping E85 into a UK vehicle while a tractor waits for Biodiesel fuel as UK celebrated their contribution to the "Billionth" gallon displaced.



Second Annual Biodiesel Showcase Held in Frankfort

On February 8, 2005, more than 150 attended the Second Annual Kentucky Biodiesel Showcase in Frankfort.

At that time, Griffin Industries was recognized for their leadership in Biodiesel production in Kentucky and the Kentucky Soybean Board for their promotion of Biodiesel across Kentucky.

Financial Information — Show Me The Money —

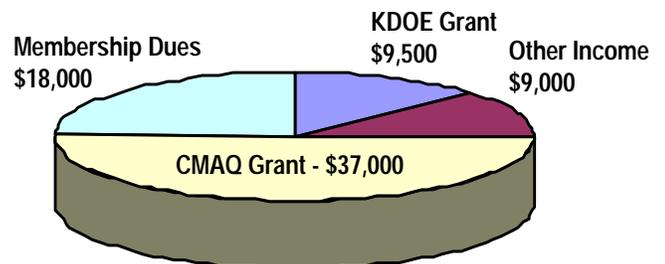
The KCFC has been fortunate in 2005 to coordinate with various entities to secure funding for clean fuel technology projects in the Bluegrass.

- The KCFC was awarded \$20,000 from the U.S. Department of Energy for operations.
- The Kentucky Soybean Board awarded \$50,000 as a match for a federal grant for the introducing of Biodiesel at the terminal level in Louisville.
- The National Clean Cities Incorporated organization awarded \$36,000 in a matching grant for the introduction of Biodiesel at the terminal level in Louisville.
- The Kentucky Transportation Cabinet coordinated the federal (CMAQ) award of \$320,000 for introduction of Biodiesel at the terminal level in Louisville and Covington

New Kentucky Energy Group Lands Federal Dollars

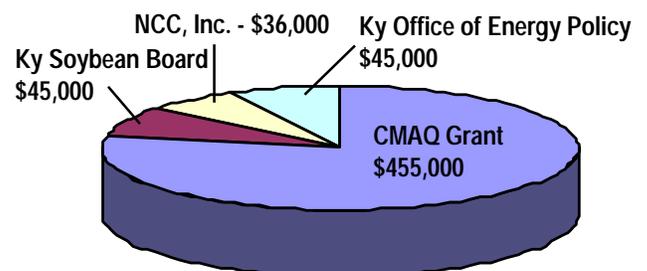
The **Kentucky Rural Energy Consortium** was formed in 2005 to urge public/private partnerships with national laboratories and Kentucky's public universities. KREC seeks to advance comprehensive research on biomass and bioenergy of importance to Kentucky's agriculture, rural communities, and related industries. A direct appropriation from Washington enabled KREC to issue an RFP in September for energy research projects. Awards will be announced in early 2006.

Operational Income



Total Operational Income: \$73,500

Project Grants



Total Project Grants: \$581,000

Kentucky's First Biodiesel Tax Credit Passes

The Spring 2005 Session of the General Assembly passed Kentucky's first Biodiesel tax credit. The general language is below and the Finance Cabinet will host a public hearing early in 2006 to finalize promulgation of the credit. For more information contact Kristen Webb at 502.564.4240

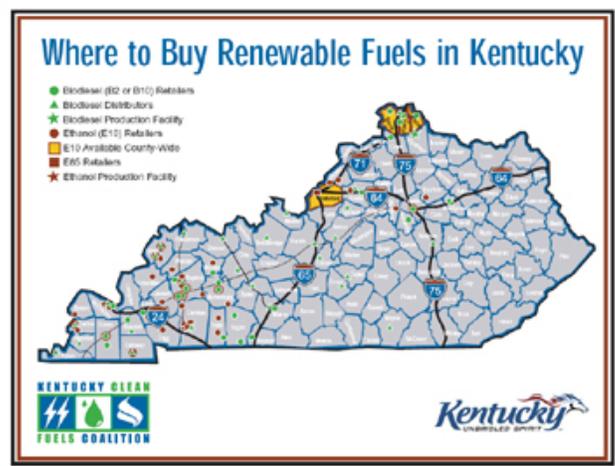
- (1) *A biodiesel producer or a blender of blended biodiesel shall be entitled to a nonrefundable tax credit against the taxes imposed by KRS 141.020 and 141.040 in an amount certified by the cabinet under subsection (4) of this section. The credit rate shall be one dollar (\$1) per biodiesel and blended biodiesel gallons unless the total amount of approved credit for all biodiesel producers and blenders exceeds the annual biodiesel tax credit cap. If the total amount of approved credit for all biodiesel producers and blenders exceeds the annual biodiesel tax credit cap, the cabinet shall determine the amount of credit each biodiesel producer and blender receives by multiplying the annual biodiesel tax credit cap by a fraction, the numerator of which is the amount of approved credit for the biodiesel producer and blender and the denominator of which is the total approved credit for all biodiesel producers and blenders.*
- (2) *Re-blending of blended biodiesel shall not qualify for the credit provided under this section.*
- (3) *The credit shall not be carried forward to a return for any other period.*
- (4) *Each biodiesel producer and blender eligible for the credit provided under subsection (1) of this section shall file a biodiesel tax credit claim for biodiesel gallons produced or blended in this state on forms prescribed by the cabinet by the fifteenth day of the first month following the close of the preceding calendar year. The cabinet shall determine the amount of the approved credit based on the amount of biodiesel produced or blended in this state during the preceding calendar year and issue a credit certificate to the biodiesel producer or blender by the fifteenth day of the fourth month following the close of the calendar year.*
- (5) *In the case of a biodiesel producer or blender that has a fiscal year end for purposes of computing the tax imposed by KRS 141.040, the amount of approved credit shall be claimed on the return filed for the first fiscal year ending after the close of the preceding calendar year.*



In partnership with the KCFC, the **Kentucky NEED Project** continues to be active in promoting the use of biodiesel in school buses and ethanol in automobiles.

NEED's transportation materials provide students with information that will help them understand the economic, environmental and societal impacts of using conventional and alternative transportation fuels. These materials also provide background information and activities in which upper elementary/intermediate students consider the advantages and disadvantages of the fuel used in the vehicles they may some day drive. Kentucky NEED encourages students to investigate the use of biodiesel in their school districts and to explore opportunities where they might encourage use of biodiesel by their school districts. Teachers are encouraged to use the study of biodiesel and ethanol as part of their science units, especially in chemistry classes. The study of ethanol and biodiesel also provides a real life connection to the Department of Education's core content in science and chemistry.

KCFC Produces and Distributes Renewable Fuels Map



Available online to print at kentuckycleanfuels.org, this frequently updated map directs motorists where they can purchase biodiesel and ethanol blended fuels in Kentucky.

KentuckyCleanFuels.org



The Kentucky Clean Fuels Coalition Web site provides clean fuel information, news and resources with the click of a mouse. Each fuel section features a general description, success stories, available vehicles, refueling information, technical assistance, financial incentives, educational resources and links for additional information. The site also includes a calendar to keep members informed of KCFC meetings and events.

Mark the Date!

Kentucky Renewable Fuel Summit

State Senators and Representatives, renewable fuel industry leaders, transportation representatives and energy leaders will join the KCFC in Frankfort on January 23, 2006 for the state's first Renewable Fuel Summit. This event is specifically designed to determine the interest and opposition to a Renewable Fuel Standard for Kentucky. Only Minnesota currently has a renewable fuel standard in place for Ethanol and Biodiesel. The summit will be held at the Frankfort Civic Center from 10 a.m. until 12 p.m. EST. Please RSVP to KCFC@aol.com or by calling 502.452.9152.



2006 MEMBERSHIP INFORMATION

Membership Classification

<input type="checkbox"/>	25 or less employees	\$250
<input type="checkbox"/>	26 – 50 employees	\$500
<input type="checkbox"/>	51-200 employees	\$1000
<input type="checkbox"/>	201-500 employees	\$1500
<input type="checkbox"/>	Over 500 employees	\$2000
<input type="checkbox"/>	Non Profits	\$800
<input type="checkbox"/>	Municipalities/Govt.	\$800
<input type="checkbox"/>	Universities/Colleges	\$500
<input type="checkbox"/>	Ky School Districts	\$150
<input type="checkbox"/>	Individuals/Professionals	\$100

Make checks payable to: Kentucky Clean Fuels Coalition

Remit to: Dina Hans
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2100 Gardiner Lane
Louisville, KY 40205

The KCFC is a 501c3 non - profit organization Federal Tax ID #61-1269804

KENTUCKY CLEAN



FUELS COALITION

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Karen Reagor, National Energy Education Development
Geoffrey Hobin, Transit Authority of River City (TARC)
Darrell Ishmael, East Kentucky Power Cooperative
Todd Barlow, Kentucky Corn Growers Association
John Davies, Kentucky Division of Energy
Dr. Ted Thiede, Murray State University
Debbie Ellis, Kentucky Soybean Board
Dr. Nancy Cox, University of Kentucky
Phillip Russo, Max Arnold & Sons LLC
Hart Moore, Griffin Industries, Inc.
Joe Yates, Fort Knox

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Vice President – Craig Blanton, Kentucky Transportation Cabinet
Secretary – James Hunt, Metropolitan Sewer District
Treasurer – Vic Peek, LG&E (retired)

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Todd Barlow, Kentucky Corn Growers Association
Mick Henderson, Commonwealth Agri Energy
Karen Scott, Louisville International Airport
John Davies, Kentucky Office of Energy Policy
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Visit us on the web at
www.kentuckycleanfuels.org