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8 August 2011

Mr. Alvaro A. Linero, PE
Administrator, Special Projects
Florida Department of Environmental Protection
Division of Air Resource Management
2600 Blair Stone Road, MS #5505
Tallahassee, FL 32399-2400

Subject: Air Construction Permit
Highlands Ethanol, LLC – Highlands Ethanol Facility
DEP File No. 0550061-001-AC (PSD-FL-406)

Dear Mr. Linero:

Per your request at the meeting held on 27 July 2011, this letter is intended to serve as an overall update regarding the status of the Highlands Ethanol Facility ("HEF"). The update describes the status of:

1. Final engineering design and permitting;
2. Feedstock farm construction and operation;
3. Driveway permitting and construction; and
4. Current and future jobs created by Highlands Ethanol ("HE").

HE is hereby requesting a written acknowledgement of commencement of construction, in accordance with the construction activities detailed in the attached project status update. Additionally, HE requests an extension of the Air Construction Permit's expiration date through 31 December 2014, from its current expiration date of 31 December 2012. This extension is required due to the HEF's ~24+ month construction schedule, and will ensure adequate time is allowed for the preparation of HE's application for a Title V operation permit.

If you or any member of your staff should have questions or comments regarding this letter, or with regards to the project in general, please do not hesitate to contact me using the information I have included below.

Regards,

Charles E. Grawey
VP, Highlands Ethanol
O: +1 (813) 574-0600

cc: Jeffrey Koerner – Florida Department of Environmental Protection
Russ Perry – BP Biofuels
Santiago Arcila – Highlands Ethanol
Kyle Kekeisen – Highlands Ethanol
Jeffrey Harrington – AMEC Earth & Environmental

HEF: PROJECT STATUS UPDATE

1. Final Engineering Design & Permitting

To date, HE has invested roughly $50MM in the design and permitting of the HEF. HE is currently in the process of developing the HEF's final detailed design. In addition to the PSD Air Construction Permit, HE has secured all of the major permits required for operation of the HEF, including:

- Special Use Permit ("SUP") from Highlands County, SUP 08-1;
- Environmental Resource Permit ("ERP") from South Florida Water Management District ("SFWMD"), Standard General Permit No. 28-00146-S-02;
- Industrial Wastewater Permit ("IWW") from FDEP, Permit Number FLA680532; and
- Water Use Permit ("WUP") from SFWMD, WUP No. 28-00579-W.

Further, HE has obtained a final Biological Opinion ("BO") from U.S. Fish and Wildlife Service ("USFWS") through resolution of a Section 7 consultation. The BO review covered the HEF site, as well as the adjacent ~16,500 Net Farmable Acre ("NFA") feedstock farm, leased from Lykes Bros. Inc., that HE is currently in the process of developing. Through a Section 106 consultation, HE has received approval from the Florida State Historic Preservation Office ("SHPO") for the development of the HEF site and approximately 3,000 NFA of the feedstock farm. SHPO approval for the remaining ~13,500 NFA is expected to be granted in mid-August 2011.

2. Feedstock Farm Construction & Operation

The HEF will require approximately 20,000 NFA for full-scale commercial operation. To achieve adequate agricultural yields, HE will employ the use of novel feedstocks such as energycane and other perennial energy grasses. While these perennial grasses are optimal for processing in a 2nd generation ethanol facility such as the HEF, no commercial market currently exists, due in part to their low sucrose content. To reach commercial quantities, HE must endure a "bulk-up" period wherein, through vegetative propagation, feedstock is harvested and replanted over the course of a number of years. To satisfy this iterative scale-up of feedstock, HE began constructing a ~850 NFA "seed farm" in 2Q 2010. Construction activities included, but were not limited to:

- Construction of a maintenance building and installation of construction offices;
- Digging of canals and construction of drainage systems;
- Building of roads and turn areas;
- Installation of pumps and water control systems;
- Heavy disking of the land;
- Leveling and drainage slooping;
- Construction of irrigation systems; and
- Final preparation for planting.

Following construction completion in 4Q 2010, roughly 250 NFA of the seed farm were planted. Immediately after completing construction of the seed farm, HE began to construct an adjacent, ~2,150 NFA parcel in 1Q 2011. Construction of this parcel involved similar activities as those identified as seed farm construction activities, and is expected to be completed by mid-3Q 2011. The current feedstock

propagation plan calls for the feedstock planted in 4Q 2010 to be harvested for seed and used to plant an additional ~1,000 NFA in 4Q 2011. Approximately 10,000-12,000 NFA will be constructed and planted through the remainder of 2011 and 2012, with the balance of the 20,000 NFA requirement being planted in 2013. HE's capital investment through the completion of the first 3,000 NFA, all of which was designed and constructed by Florida-based contractors, totals approximately $15MM. Appendix A contains a few sample images depicting farm construction activity.

Table 1.

HE Farm Construction and Planted Area		2010	2011	2012 (Exp.)	2013 (Exp.)
Farm Area Constructed in Period	(000 Ac)	1	2,150	10,000	7,000
Cumulative Farm Area Constructed	(000 Ac)	1	2,151	12,151	19,151
Feedstock Planted in Period	(000 Ac)	250	1,000	11,000	7,750
Cumulative Feedstock Planted	(000 Ac)	250	1,250	12,250	20,000

3. HEF Driveway Permitting & Construction

The project team, in conjunction with Highlands County officials, has determined that prior to commencement of construction of the conversion facility, it is necessary to complete construction of the HEF access driveway and related highway improvements from State Route ("SR") 70 to provide a safe and appropriately-sized entrance for construction activities. This decision was driven primarily by the project's desire to construct the HEF in a safe and efficient manner. Because the currently-existing access point to the proposed project site is best characterized as a "farm entrance" (i.e. minor farm road secured by a pasture gate), the entrance cannot safely accommodate the significant increase in daily traffic and delivery of oversized construction equipment / capital improvements that is typical of the construction of a project like the HEF.

The construction of the HEF driveway is the first stage of the HEF site development, and represents a significant investment by HE. HEF driveway construction will include the widening of approximately 0.5 miles of State Road ("SR") 70 to accommodate an acceleration lane and turn-in/deceleration lane. The improvements are required as a result of the Florida Department of Transportation ("FDOT") approved traffic study, which sought to project traffic flow during commercial operation. As a result of the SR70 widening, the drainage ditch running along the highway will be re-routed to the North and partially replaced with detention ponds and a box culvert approximately 0.25 miles in length. The box culvert was required due to the limited amount of space available between the Florida Gas Transmission ("FGT") pipeline and proposed SR70 right of way ("ROW"). Finally, the HEF driveway construction will include the installation of the actual driveway connection.

For the construction of the drainage improvements, HE has secured a letter modification from SFWMD to the project site's existing surfacewater management permit, as well as a Nationwide Permit ("NWP") from the US Army Corps of Engineers ("ACOE"). HE is currently in discussions with the FDOT regarding the driveway connection permit required for HEF driveway construction. An application has been filed, and all FDOT Requests for Additional Information ("RAIs") have been resolved. It is expected that FDOT will issue a notice of intent to issue permit ("NOI") no later than the end of August 2011. FDOT will then issue the driveway connection permit following the finalization of the donation of the roughly 1.13 acres required to ensure adequate ROW for the proposed SR70 widening.

To maintain the integrity of the drainage network throughout the construction period, the ditch re-routing and box culvert installation ("off-ROW work") will be completed prior to the commencement of the SR70 widening and roadwork. The off-ROW work will be kicked off by early-September 2011 and be completed by 31 December 2011. Immediately thereafter, the highway widening and driveway connection ("on-ROW work") construction will commence not later than 01 Jan 2012 and be completed by 30 April 2012.

The HEF driveway project has an overall budget of approximately $3.0MM. The off-ROW work and on-ROW work account for roughly $1.25MM and $1.75MM of the total budget, respectively. HE was awarded an Economic Development Transportation Fund ("EDTF") grant by the Office of Travel Tourism and Economic Development ("OTTED"), in the amount of $1.65MM, to assist with the cost of the on-ROW work.

In every facet of the HEF project, HE has sought to employ local contractors, including in the recently-concluded contractor selection process for the off-ROW work. All of the proposals evaluated, including that from the selected applicant, were submitted by locally-focused contracting companies headquartered in Florida. The on-ROW work will be managed by the Highlands County Engineering Department ("HCED"). Following the receipt of the FDOT NOI, HCED will kick off their RFP / bid evaluation / contract award cycle, in accordance with Highlands County and Florida regulations.

Please see Appendix B for a depiction of the HEF Driveway's final engineering design.

4. Current & Future Job Creation

Once constructed, the HEF will represent the first commercial-scale, fully integrated cellulosic ethanol facility in the United States. Further, as a large-scale infrastructure project operating in the "green energy" sector, HE promises to bring to Florida a significant quantity of permanent, high-paying, "green" jobs in a target industry. Table 1 summarizes the jobs HE has created to-date, as well as planned future job creation. Note that these figures do not include the HEF construction contractor's headcount or average income.

Table 2.

HE Job Creation		Current	Construction Max	Commercial Ops
Heacount	(#)	30	170	160
Average Gross Wage	($ / Yr)	126,000	67,000	63,000
General Training Cost	($ / Yr)	2,000	1,000	1,000
Average HE Wage	($ / Yr)	128,000	68,000	64,000
FL Per Capita Pesonal Income, 2010	($ / Yr)	39,272		
HE Avg. Wage, as % of FL Per Capita	(%)	**326%**	**173%**	**163%**

Note: These figures do not include the HEF construction contractor's headcount or average income

Appendix A

Photo 1 – Corner of Field 1 during clearing

Photo 2 – Control Structure 1

Photo 3 – Field 1 ready for planting

Photo 4: - Canals & Drainage

Photo 5 – Energy Grasses in January 2011

Photo 6 – Energy Grasses March 2011 (same view as above)

Photo 7 – Fastest Growing Energy Grasses (end March 2011)

Photo 8 – Drainage Pump Station

Photo 9 – Maintenance Shed and Construction Office(s)

Photo 10 – Fully Mature Feedstock

APPENDIX B

LEGEND
CHAIN LINK FENCE
PROPERTY LINE
ASPHALT PAVEMENT
COMPACTED SHELL SURFACE
CONCRETE SURFACE
PROPOSED STORM DRAIN
EXISTING NATURAL GAS PIPELINE
BAR SCALE
0 40 80 160 240
(1 inch = 80 feet)
amec
400 EXECUTIVE CENTER DR.
GREENVILLE SC 29615
HIGHLANDS ETHANOL, LLC.
HIGHLANDS COUNTY, FL.
CIVIL
SITE PLAN
SR 70 TURNOUT
CP1-CIV-2-000-C-0005
2
PROPOSED BIO CULVERT
EXISTING NATURAL GAS PIPELINE
SR 70 TURNOUT
APPROXIMATE LIMITS OF SR70 RIGHT-OF-WAY CONSTRUCTION
PROPOSED ACCESS ROAD
TURNOUT-NORTH
TURNOUT-SOUTH
PROPOSED ACCESS ROAD
PROPOSED ACCESS ROAD
PROPERTY LINE
PROPOSED ACCESS ROAD
PROPOSED ACCESS ROAD
PROPOSED ACCESS ROAD

EAST
FGT
State Road 70
WEST