

## Shareholder News:

**B**CP SIGN UP. The Benson Corn Pool signup enrollment was mailed to shareholders in June with a deadline sign up date of July 31<sup>st</sup>. If you did not receive your mailing and wish to join the Benson Corn Pool for 2010, please call the CVEC office.

**D**ELIVERY NOTICES START WITH THE LETTER "F" FOR 1<sup>st</sup> TRIMESTER OF 2010. Delivery notices will begin with the letter "F" for the period beginning October 1, 2009. CVEC will be calling 35% of corn deliveries for the 1<sup>st</sup> trimester. Open delivery will continue with a maximum signup of 50,000 bushels weekly.



**Limited Opportunity for acres available for Cob harvesting this fall. Contact Chad Friese, Commodities Manager for details: 320-843-1248**

CHIPPEWA VALLEY AGRAFUELS SHARES FOR SALE		
LOT #	# OF SHARES	PRICE
LOT#351	9,900 (POOL)	\$1.00
LOT#352	720 (POOL)	\$1.00
LOT#353	720 (POOL)	\$1.00
LOT#355	7,800 (POOL)	\$1.00

  

CHIPPEWA VALLEY AGRAFUELS SHARES SOLD		
SHARES	PRICE	DATE
4,400	\$1.00	January, 2009
14,400	\$1.00	January, 2009
29,100	\$1.00	February, 2009
3,050	\$1.00	February, 2009
660	\$.90	February, 2009
12,000	\$.90	March, 2009
361,400	\$.80	May, 2009
10,000	\$1.00	July, 2009
11,980	\$.90	July, 2009
35,000	\$1.00	July, 2009
5,000	\$1.00	August, 2009



**CVEC is looking to contract wheat and rye for a "Shakers" fall campaign. Anyone interested please call 320-843-1229.**



# Chippewa Valley Ethanol Company

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## INFORMATIONAL MEETING SET FOR SEPTEMBER 10, 2009

The Chippewa Valley Ethanol Co., and Benson Corn Pool has announced an information meeting at McKinney's on Southside Conference Center in Benson to update its members on several issues and the overall biofuels industry.

The meeting time is: **Thursday, September 10, 2009 at 7:00pm**

The board and management of your companies will present information on topics including:

- Projected 2009 year end operations and financial results
- Update on the gasification project and biomass feedstock development
  - Grant funding for gasification
  - Ethanol industry developments

Please mark your calendar and join us for this very important meeting.



## CVEC Participates in Janesville Plant Purchase

Through our membership in Guardian Eagle, CVEC is now one of nine ethanol plant owners of the 100 MM gpy Janesville, MN ethanol plant. On behalf of its member plants Guardian Eagle negotiated a buy-out of the facility from AgStar bank.

This facility, was designed by ICM and built by Fagen Inc. but never began full operation. It was one of the VeraSun plants that came back to AgStar following the dissolution of VeraSun. AgStar is justifiably proud that it has been able to sell this Minnesota ethanol facility to this group of pioneering ethanol plants.

Guardian Eagle are those nine RPMG member plants that jointly own stock in the Bushmills and KAAPA ethanol plants. Other Guardian Eagle member plants include: Al-Corn (Claremont, MN); Central Minnesota Ethanol Cooperative (Little Falls); Corn Plus (Winnebago, MN); Golden Grain Energy (Mason City, IA); Heartland Corn Products (Winthrop, MN); KAAPA Ethanol (Kearney, NE); Mid-Missouri Ethanol (MO) and Minnesota Energy (Buffalo Lake, MN).

While the specific terms of this purchase have not been disclosed,

our members should know that the Guardian Eagle (GE) member plants have been able to secure this property under very favorable terms in great part by leveraging the significant capital assets at GE. We have also been aided by setting the terms in a more favorable pricing environment for idle ethanol capacity than currently exists.

We intent to provide more detail to our members about the plant and the transaction in the upcoming CVEC quarterly letter and at our September Information Meeting.

It is August and CVEC is coming to the end of another fiscal year. We are also emerging from the most challenging operation period we have ever experienced. This is a good time to look back at the recent period and discuss the highlights as well as the lowlights.

**Operating Margins** - After an absolutely brutal winter and early spring, we got back in the black in May and June. CVEC also projects positive net income in July. The return of a small but tangible margin in the corn ethanol industry is a welcome development even if it comes too late for some ethanol producers. The escalation of gasoline prices coupled with the development of larger acreage and yield for the 2009 corn crop have finally broken the negative margin lock-step that had us in its grip for an uncomfortably long period. In 2009, margins have been particularly supported by strong contributions from GGS and corn oil sales. It is too early to say the ugliness is over but the indications going forward are much more positive than where we have been.

**Corn Payment** - After underpaying our members for corn deliveries in the 1<sup>st</sup> and 2<sup>nd</sup> trimesters, CVAC is currently overpaying by a significant amount in the 3<sup>rd</sup> trimester. We are projecting to end FY 2009 very close to full payment for corn deliveries. The ability of CVEC to use the marketing agreement to leverage its cash position in the short terms vs. a negative margin environment proved to be an essential survival tool. It is a capability that many of the newer plants that have struggled did not have.

**Plant Productivity** - We are on track to produce over 48 million non-denatured gallons compared to just under 46 million gallons last year. We project an ethanol yield of 2.78 non-denatured gallons per bushel compared to 2.73 gpb last year. Gas energy efficiency should improve by over 7%. On-stream-time is running about 98.5% vs. 97.2% for last year. We recently completed five years of operation without a lost-time-accident. Clearly the CVEC staff has been working extremely hard and with great effect to increase plant productivity. This improved level of performance will pay additional dividends as we enter into a more positive margin environment.

**Policy** - The two big issues are EPA approval of higher ethanol blends and battling bogus science relating to the carbon intensity of biofuels production. EPA is still evaluating the ethanol industry's request to authorize E-15 blends while also considering a sim-

**Bill Lee**  
General Manager



pler, interim step of E-12. We are definitely going to need movement on one of these steps within the next year or so. Carbon intensity? The good news is that House Ag Chair and our Congressman, Collin Peterson and others seem to have effectively forestalled federal EPA's attempt to impose a highly questionable International Land Use Change (ILUC) assessment that would unfairly penalized corn ethanol. The bad news - this tactic did nothing to help bridge the gap between environmental and agricultural perspectives on this still relevant issue. Translation - it may be some time before ethanol producers will be able to quantify the economic return on an investment in a biomass gasifier.

**General Manager Selection Process** - The board has engaged Talent Inc. to assist in the identification and selection of a General Manager to replace Bill Lee. Talent, Inc. is a highly experienced executive search firm with considerable experience in recruiting senior executives in the biofuels industry. The board has targeted October as a time frame to bring the new GM on board.

**Looking Forward** - We hope to close this year out with a string of small margin months. That will bring our annual net income to a relatively small loss. And we expect to make full payment (or very close) for corn for the year. In the context of the year we just went through, that will be a highly successful year. We are now less than five months away from the start of the 2010 RFS II volume requirement which will be in the 12 billion gallon range. Excess capacity is starting to be worked back in to the market and this huge RFS volume opens up even more room for production capacity.

The board and management thank all our members for their support during these tough times. We look forward to see all of you at McKinney's Conference Center at 7:00 pm on September 10<sup>th</sup> for the annual Information Meeting.

## Gasification Update

CVEC has been operating the gasifier system now for 17 months. Right now, we are operating the system in a periodic campaign mode because of air quality permit limitations and the challenge of sourcing lower cost feedstock than current natural gas. Over the course of this period, the CVEC/Frontline team have made many improvements to the system components as well as the controls programming. The result is a **more robust unit operation** as well as an improved commercial gasifier design.

In June, CVEC gasified a wood + biodiesel glycerin blend as well as a wood + corn cob blend for the first time. Working with Minnesota Pollution Controls Agency, we were able to **use state funds to characterize the air emissions** for the process using each fuel blend. Over the next few months we plan to test 100% corn cobs as well as a wood plus low-grade cardboard blend in the system. Our target - find a fuel mixture that we can afford to run when natural gas is in the \$4.00 per MMBTU range.

As we continue working our way through the piles of 2008 corn cobs, planning for cob harvest 2009 is pro-

gressing. Interest by local farmers and custom harvesters in cob harvest this year is being strengthened by the new Biomass Crop Assistance Program (BCAP). This FSA-administered program will **pay farmers a dollar per dollar match up to \$45 per ton** for two years for biomass delivered to a "qualifying biomass facility". CVEC is such a facility. The collection system of choice this season appears to be the Vermeer Cob Wagon which is available this year in limited quantities by lease through MachineryLink.

CVEC is also working on two additional federal programs to leverage value from our gasifier investment. First, the Advanced Biofuels Payment program is designed to compensate facilities that convert biomass into liquid or gaseous fuels. This could translate into around **\$1.00 per MMBTU direct payment for gas produced** last year and this coming year depending upon how competitive the applications become. The federal **Re-Powering Grant is a 50% cost share grant for capital investment** in converting an ethanol plant to biomass energy. The maximum award is \$10 million. We intend to

apply for this grant to help fund the next phases of our gasifier project.

While interest in gasification from ethanol producers has decreased in the past year, the interest from other companies has more than offset it. Frontline has **received approval for the engineering of a gasifier system** from a major industrial processing company located in the Eastern US. We are also working with several group interested in generating electrical power from municipal solid waste (MSW).

We are also actively exploring the use of Frontline's gasification technology to **partially or completely re-power coal-fired electrical utility systems**. Frontline is actively engaged with several major utility companies at the moment on this opportunity. Where our systems seem to fit best is in re-powering old, smaller coal generation facilities that would be poor candidates to upgrade with new emissions control system if they remained as coal-fired unit.

We will share more details of Frontline's near-term opportunities with members at the Information Meeting.



**Dale Tolifson**  
CVAC Chairman

The Plant is running very well. The yield is 2.79 in June. With the price of corn and natural gas both lower in price and ethanol at a higher price CVEC is making some money. CVEC is on track to produce over 48,000,000 gallons in FY09. The gasifier has been running very well and CVEC is gasifying a combination of wood and corn cobs.

I recently attended "CornGress" in Washington DC and some of the issues they talked about that affect CVEC were, EPA higher blends, waiver (going to a 15% ethanol blend) and California low carbon

fuel standard, and CAP and trade. It was a very interesting meeting plus we met with all the representatives from Minnesota.

I also attended a meeting with the U.S. Grain Council. They talked about trade all around the world and that the increase of sales of DDGS over the past year was about a 40% increase. They talked about there being 1.4 billion people living on less than \$1.00 per day. Only 12% of the land in the world is for growing crops. Farmers use 70% of the fresh water in the world. It was an interesting meeting and these are just a few things I want to pass along.