



Chippewa Valley Ethanol Company

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CVAC 16TH ANNUAL MEETING JANUARY 31, 2009

The Chippewa Valley Agrafuels Cooperative will hold its 16th Annual Meeting of members on January 31st at the McKinney's Conference Center in Benson, Minnesota. CVAC Shareholders and Special Guests are invited to attend this meeting. Registration will begin at noon and the meeting will commence at 1:00 pm.

These are very challenging times for the ethanol industry and our entire economy. We encourage our members to attend this important meeting to interactively discuss key issues with management and board directors. We will review the highlights from FY 2008 and discuss the current state of the ethanol industry. More importantly, we will discuss CVEC's strategy for remaining viable in this growing but increasingly competitive environment.

The membership will vote to select a new or renewed director for each of our three districts. We will also hear a report from our auditor, Christianson and Associates. We look forward to seeing you there.



Corn Cob Demonstrations and Feedstock Study

CVEC completed its planned corn cob collection in October and November. No one should accuse us of conducting this study under better-than-average conditions. The 2008 harvest was two to three weeks later than average and field conditions ranged from wet to wetter. These challenges notwithstanding, Biomass Coordinator Gene Fynboh and his team of equipment vendors, logistics contractors and university researchers

collected cobs from 3,267 acres and held three successful cob harvest demonstrations. The demonstrations were well attended and received considerable media attention.

On December 11th, CVEC hosted a follow-up meeting along with equipment vendors Vermeer and Ceres Ag Consultants. This meeting was an opportunity for our collection study participants to share observations about the collection process. There were also questions to the vendors about equipment availability in 2009 and to CVEC about the company's cob plan for 2009.

The cobs are currently being stored in small piles on or near the fields where they were collected or on CVEC's small bin site near the plant. We are working with researchers at the U of M Morris to collect information on moisture and pile temperature through the storage period. CVEC hopes to begin gasifying some of these cobs this winter pending approval from Minnesota Pollution Control Agency.

We plan to present our ideas for a CVEC Corn Cob program for harvest 2009 to our members at the January 31st Annual Meeting.

“The reports of my death have been greatly exaggerated” Mark Twain

Several members of the local community have recently expressed amazement that CVEC is still able to keep operating in spite of the negative “situation” in the ethanol industry. It is true that these are hard times and it’s true that there have been some high-profile ethanol flameouts lately. There will be more in 2009. These scary headlines, however, do not accurately convey where our industry is headed.

The Renewable Fuel Standard will require the purchase of approximately 10.5 billion gallons of bio-fuels in 2009. Most of that volume will be fuel ethanol. That is by far the largest annual market our industry has ever enjoyed. Furthermore, our customers understand that they must pay enough for our product to keep most of the industry in business to fulfill this requirement. The RFS survived a serious assault in 2008. Right now, it is indeed the industry’s lifeline and defending it from future attacks will be paramount.

Plants with reasonable efficiencies, modest debt load, prudent risk management strategies and perhaps a few extra value-adding wrinkles should weather the storm of over-supply that continues to dampen down our grind margins. We believe that CVEC is in this position. We are tempted to reassure our members - please do

Bill Lee

General Manager



not confuse a relatively stable, breakeven margin environment with a truly terminal one. But then we remember that as farmers and farm country dwellers, they are all too familiar with this type of scenario.

The world is currently in an economic tailspin and it will take a while to return some sense of normalcy to finance and commerce. None of that diminishes the reasons that bio-fuels have been advancing as a major alternative energy source. The same fossil energy reserves are still sitting under the same un-friendly lands as before. And there has been no new solutions developed to mitigate the Greenhouse Gas production from extracting and refining that fossil energy. When the world recovers and gets thirsty for energy again, prices will rise and we will begin another cycle.

For Q1 2009, your companies are maintaining a modest but vital working capital position. It’s nothing to brag about but like Twain noted long ago, sometimes it’s important to correct a mistaken impression. We look forward to seeing you at the Annual Meeting on the 31st.

GASIFICATION UPDATE AND NEXTGEN PLANT

For the first quarter (Oct-Dec), CVEC operations processed 98% of budgeted biomass tonnage in the gasifier. This includes an average of 50 tons per day that we processed in December - a new milestone. In the month of December we achieved system on-stream time of over 80%. We continue to work with Frontline BioEnergy to improve the reliability of system components to further enhance capacity and efficiency.

With the recent reduction in natural gas pricing, we are running about breakeven with biomass. We have been able to avoid some amount of propane usage which is helpful. Our request to MPCA to process a range of alternative feedstocks is pending approval.

In November, the Next Generation Energy Board of the state of Minnesota awarded a total of \$2.7 million in grants to eight projects. Of this amount, CVEC was awarded \$700,000 to be used towards completing Phase Two of our gasification project. “Emerging technologies are dramatically changing the way we produce and use energy” Governor Pawlenty said. “These grants are part of our broader effort to Americanize and improve our energy sources and position Minnesota for economic growth”.

CVEC Commodities Manager - Chad Friese

In November, CVEC welcomed Chad Friese to our team. Chad comes to us with years of experience in managing grains and commodities in Minnesota. He also has ethanol industry experience from his recent tenure at Granite Falls Ethanol. Chad's primary role is to help us establish and manage a new corn procurement function for CVEC which will include procurement for the Benson Corn Pool. This new function gives CVAC members, area corn farmers and local grain marketers more direct access to contracting and marketing their corn and other commodities with our companies. We encourage our members and their friends and neighbors to contact Chad at the CVEC office to learn about contracting opportunities.



Chad Friese Commodities Manager

When I started with CVEC in late October the local cash corn market was about \$3.55 per bushel. We saw that price pretty much go down thru the month of November and finally settle all the way down to about \$2.50 per bushel around the 5th of December, 2008. Currently the local cash corn market is around \$3.55 and has been as high as \$3.80's. Most of the corn that is being delivered during this time has been contracted corn and some of those contracts have had some pretty good values associated with them after some of the exceptional opportunities that presented themselves in spring and early summer of 2008. Right now the corn market seems to be at a cross roads as to direction, do we continue to increase the value of corn to incent plantings over beans, is our carryout going to grow due to difficulties in ethanol, feed use and exports to a degree that we don't need to worry. The information keeps coming in, but the market direction remains unclear.

Thru all of this confusion in corn market direction, the average corn price is currently in the mid 3.50's. Keep in mind that Shareholders at CVAC are paid on the Trimester average plus .04. The average corn price is a very effective way to minimize price risk. For members who don't grow corn, it is middle ground and for those who are growing corn it puts some bushels on the books at stable and most likely near profitable levels in normal times. I will qualify that in saying that most input costs such as Fertilizer and seed are market based and in order to be sold, they must average into the return from your farm and show cost effectiveness or the value needs to adjust to stimulate or control demand. Demand is created by need and need by profitability.

We are in a waiting game in these markets and

that keeps us from acting. An average price contract is a tool to start reducing risk. With nothing priced we are at risk to the market, but due to the volatility of the market trying to outguess it may be a huge risk. For example a share holder has 2500 shares, CVEC would currently require 2000 bushels of corn be delivered. This Delivery is broken up over three Trimesters to further break up pricing and to create settlement or evening up of value. In effect this example is pricing just over 7 bushels of corn each day at the current local market average.

With CVEC buying corn directly from the market now, we can offer this on additional bushels from shareholders, as a great risk management tool. Additional Bushels for the average can be set up to be hauled with the shareholder delivery, or with open haul you can set your own schedule to haul corn for both, shareholder delivery and additional average contracted bushels. You can even pick the Trimester by putting additional bushels into just one or all of the trimester delivery periods. This is a great way to get solid market value without trying to guess, what is a good price for corn 3-9 months from now?

When hauling shareholder deliveries don't forget that CVEC will buy your overage into the market Average for the current trimester, or buy it at current cash value, please make sure you are letting the GPC scale operators know your intent in these instances. CVEC also has other contracts and marketing options available, including the availability of hauling on a delayed price contract. Please give me a call to discuss any and all corn pricing opportunities.

For current and deferred corn values please go to the CVEC website at cvec.com or the bids are on DTN and are shown as Benson E they are also posted in the West Central Tribune. To make suggestions, to receive bids by e-mail, or to discuss the corn market and different marketing options, please contact Chad at 320-843-1248 or cfriese@cvec.com.



Dale Tolifson
CVAC Chairman

I just wanted to wish everyone a Happy New Year. I've been thinking about last year and it's clear that a lot of things have happened. We started out with very high commodity prices, which continued to go higher through the first half of the year. The last half of the year

prices went down to less than 50% of their summer high. Although the summer was very cool and dry, we still had a very good yield in this area.

The CVEC plant is running very good and has been setting new records for production and yield this Fall. Right now, we are holding on to a stable cash position in a very tough ethanol market.

I attended the Minnesota Corn Growers Annual Meeting this past week. I heard Minnesota Secretary of Agriculture Gene for Minnesota reported that the state is still going to pay the rest of the incentive that is owed to the ethanol plants.

The gasifier has been operating very well. In December it replaced about 20% of our natural gas. CVEC will be getting a permission in January or February to start using corn cobs and some other biomass feedstocks in the gasifier.

I want to invite everyone to our 16th annual meeting at McKinney's in Benson on January 31st, at 1pm. Hope to see you there.

Shareholder News:

2ND TRIMESTER PRICE TO BE DETERMINED AT THE JANUARY BOARD MEETING.

DELIVERY NOTICES START WITH THE LETTER "E" FOR 2ND TRIMESTER. Delivery notices will begin with the letter "E" for the period beginning February 1, 2009. CVEC will be calling in 35% of corn deliveries for the 2nd trimester. Open delivery will continue in place with a maximum sign up of 50,000 bushels weekly.

K1'S WILL BE SENT TO SHAREHOLDERS THE END OF JANUARY WITH THE TAX PLANNING LETTER PREVIOUSLY SENT IN EARLY DECEMBER.

CHIPPEWA VALLEY AGRAFUELS SHARES FOR SALE

<u>LOT #</u>	<u># OF SHARES</u>	<u>PRICE</u>
LOT#323	2,000 (POOL)	\$.90
LOT#327	3,100 (POOL)	\$2.00
LOT#328	720 (POOL)	\$2.00
LOT#329	2,440	\$1.00
LOT#330	5,000	\$1.00
LOT#331	10,000	\$1.00
LOT#332	20,000	\$1.00
LOT#333	40,000	\$1.00
LOT#334	29,100 (POOL)	\$1.00
LOT#335	9,900 (POOL)	\$2.25
LOT#336	4,400 (POOL)	\$1.00

CHIPPEWA VALLEY AGRAFUELS SHARES SOLD

12,271 Shares @ \$1.00 in November, 2008
17,700 Shares @ \$1.00 in December, 2008