Chippewa Valley Ethanol Company

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Volume 19, No. 1 May, 2012

The New Fuel: E15

E15 (15% ethanol, 85% gasoline) is a new higher octane fuel that will soon be available nationwide at retail fueling stations. E15 was approved for use in model year 2001 and newer cars, light-duty trucks, medium-duty passenger vehicles (SUVs), and all flex-fuel vehicles (FFVs) by the U.S. Environmental Protection Agency (EPA) through a second partial waiver in January 2011.This approved group of vehicles includes more than 62% of the cars, trucks and SUVs on the road today. What is more important is the fuel consumed by these vehicles constitutes more than 80% of the unleaded fuel sold.

E15 Clears Final Federal Hurdle with Fuel Survey Initiation

(April 23, 2012) Washington – After three years, the American ethanol industry has finally satisfied all federal requirements for E15 commercial sales as set by the partial E15 waiver granted by the U.S. Environmental Protection Agency (EPA). Starting today, 99 ethanol producers have funded a nationwide fuel survey as required by the partial waiver that represents the final federal hurdle to E15 availability.

Announcing the news, the Renewable Fuels Association, Growth Energy, and the American Coalition for Ethanol praised the industry for stepping up to the plate to help bring E15 to the market. Despite owning just a handful of the nation's 160,000 gas stations that will be the actual participants in the survey, ethanol producers are providing the lion's share of funding for this survey in order to bring a higher performing, lower cost fuel to the market in E15.

"Americans remain under siege by high gas prices. While rhetorical battles in Washington are waged to find a solution to lowering prices, America's ethanol producers are stepping up to bring a cleaner, cheaper, and more American-made fuel to the market. With this survey in place, E15 is now ready in the eyes of EPA for commercial sale," the groups stated.

Efforts to bring E15 to pumps across the nation will now focus on states where regulatory issues must be addressed. Some states, like Iowa, Illinois, and Kansas are prepared for E15 and sales of E15 could commence as soon as all parties are registered with EPA and are implementing the Misfueling Mitigation Plan approved by EPA.

Additional challenges, including pending litigation and anti-ethanol posturing by some in Congress, make predicting the exact timeframe for the growth of E15 sales volumes unwise.

"America's ethanol industry is committed to giving consumers greater choice at the pump by making E15 a commercial reality," said RFA, Growth Energy, and ACE. "We will work diligently with the petroleum industry, gas retailers, automakers, and consumers to ensure E15 is used properly. But we will not stand idly by and allow some of these interests to make wild and unsubstantiated claims about ethanol and E15 in order to malign ethanol and scare consumers. The fact remains that E15 is the most tested fuel ever approved by EPA and is perfectly safe and effective for those engines approved in the waiver."

The fuel survey is required annually and will be conducted by RFGSA. The survey will be collecting more than 7500 samples each year of all gasolines available nationwide and will begin on May 1, 2012.

Industry Health

The end of calendar 2011 also marked the end of the Volumetric Ethanol Excise Tax Credit (VEETC). Allowing VEETC to expire was the right thing to do but it prompted numerous questions about how the industry would survive. Indeed, net income for most in our industry during the first quarter of calendar 2012 has been extremely tight to negative. But it is premature to draw the conclusion that this is a result of VEETC sun-setting. Consider that while VEETC provided a 45 cent per gallon credit for every gallon of ethanol blended, gasoline has been between 70 and 85 cents more expensive than ethanol since the beginning of the year. The ethanol industry's current downturn is not due to the product being too expensive. Rather, we are dealing with the basic economics of supply and demand. The facts are these:

- Ethanol production capacity is 14.6 billion gallons per year (bgy),
  - Approximately 918 million gallons of are currently shutdown leaving operating capacity at 13.7 bgy.
- Demand is 13.1 bgy which equates to roughly 9.8% of the total gasoline demand.
- In addition, the Renewable Fuel Standard (RFS) *requires* that 13.2 billion gallons of ethanol be used this year with amounts increasing annually to 15 bgy in 2015.

The above data illustrates the problem but it also shows us the opportunity. Ethanol prices are at breakeven or lower values. Those low prices will continue to cause some producers to slow down or shut down eventually reducing supply. Low prices are also allowing ethanol to penetrate markets (such as export) that otherwise might not be competitive thereby increasing demand. Additionally, the RFS requirement helps pave the way for higher ethanol blends like E15.

For perspective I found a quote from Stephen Jones, vice president of market services with Purvin & Gurtz, interesting, "This is truly a global predicament we are working through... Clearly we overbuilt capacity, but nobody saw this downturn [coming]." Mr. Jones was talking about negative economics but he was not referring to ethanol. He was actually addressing the oil refining industry situation in 2010.[1]

A major difference between the two industries is that gasoline derived from oil is the de facto mandated fuel required by vehicles today. Gasoline producers (Oil Refiners) do not want to see that change. Ethanol enjoys no similar monopoly which is why maintaining the Renewable Fuel Standard is so important.

Our message, as coined by the Renewable Fuels Association, needs to be unified, ***Don't Mess with the RFS***.

[1] *The Growing Threat to Us Refiners* by Brian L. Milne, The Oilspot News by Televent DTN, April 1, 2010

Mike Jerke

General Manager

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E15 and Higher Blends

We are pleased that E15 has cleared all the hurdles required and is approved by EPA for use in all vehicles model year 2001 and newer. There remains some question about liability protection for retailers, that issue is addressed in federal legislation pending before both the House and Senate. Please call your representatives and ask them to support; in the Senate S. 2264 – The Domestic Fuels Act of 2012, in the House H.R. 4345 – The Domestic Fuels Protection Act of 2012.

E15 is the most exhaustively tested fuel approved by EPA. Testing on E15 was the equivalent of taking 12 round trips to the moon – 6 million miles.

Additionally, E85 remains an attractively priced fuel for flex fuel vehicles. Retailers have been able to purchase it for $2.30 per gallon (plus taxes) picked up at CVEC.

Capital Expenditures

As communicated previously, this year we are focusing on bringing the back-end of the plant (rail, product load-out, storage) up to match the output of the production process. CVEC was conceived as a 15 million gallon per year (mgy) facility. Last year we produced over 48.6 million gallons. Currently, we are running at a 50 mgy pace (with proper yield). If we continue to ignore the handling infrastructure that is still in the original 1996 configuration, we will indeed find ourselves in a "tail wagging the dog" scenario. Accordingly, we have:

- added a much large railcar mover to our arsenal (~$310k (leased))
- installed additional ethanol rail loading capability (~$150k),
- received board approval to move ahead with a 20 car rail track expansion (~$550k),
- solicited bids for additional 600k gallons of storage (~$734k)

The above capital expenditure list does not include a number of expenses we will incur to replace existing process equipment that has reached the end of its useful life.

As Mr. Jones alludes to in the earlier quote, we are competing in a global market. Our competitors are not confined to the Midwest or North America. We need to bear that fact in mind and position ourselves to match, if not exceed, the best operating metrics in our business.

2012 CVAC Board of Directors

District	Name	Email Address:
1	David Thompson – Treasurer	davet@cvec.com
1	Gene Fynboh	genef@cvec.com
1	Jan Lundebrek – Secretary	janl@cvec.com
2	Kent Evenson	kente@cvec.com
2	David Nagler	davidn@cvec.com
2	Dale Tolifson – Vice-Chairman	dalet@cvec.com
3	Dan Benson – Chairman	danb@cvec.com
3	Chuck DeGrote	chuckd@cvec.com
3	Roger Longhenry	rogerl@cvec.com

Employee Recognition:

Recently CVEC recognized employees that are celebrating significant milestones with our Company. They included:

- 5 Years of Service – Vince Copa, Andrew DeBoer, Jim Feldman, John Fremling, Lee Goulet, Tom Milander, Rex Nagel, & Jody Pillatzki
- 10 Years of Service – Wendy Johnson & Rich Krueger
- 15 Years of Service – Mark Plumhoff & Phil Thomson

Daniel Benson

CVAC Chairman

Hopefully everyone has received adequate rain (early May). After going through an extended dry and warm period it looks like we are back to a more normal weather pattern. With early planting and sufficient moisture we can look forward to a good corn crop.

The ethanol industry continues to be a target for attacks from the petroleum and corporate livestock industries. After voluntarily giving up the VEETC tax credit the ethanol industry finds Renewable Fuel Standard (RFS) under attack. The RFS provides market access for ethanol in the fuel supply. In order to gather support for the ethanol industry five board members and the General Manager traveled to Washington D.C. along with about 60 representatives from other ethanol plants from around the country to meet with members of Congress and their aides. This lobbying effort was arranged by the American Coalition for Ethanol (ACE).

At this time ethanol has reached the “blend wall” where 10% ethanol is in virtually all the gasoline sold across the country. The demand for gasoline is declining as a result of cars being produced to get better mileage cars and fewer miles being driven. The excess ethanol is currently being exported.

E-15 has finally overcome the numerous barriers and testing required before it can be sold to the American consumer. It is the most thoroughly tested automobile fuel ever. Since the difference in price per gallon between pure gasoline and ethanol is about a dollar, the consumer could save about five cents a gallon if they were able to buy E-15. For the ethanol industry to become profitable again we need for E-15 to be rapidly adopted into our fuel supply.

The plant continues to run very efficiently and we are very grateful for our excellent employees. This is very important in the current tight ethanol market. We are hopeful that ethanol demand will increase with the summer driving season and the adoption of E-15, which will improve our plants profitability.

CVAC Delivery Schedules

For 2013- - 2014

Fiscal Year 2012/2013	First to Deliver
1st Trimester	I
2nd Trimester	A
3rd Trimester	R
Fiscal Year 2013/2014	**First to Deliver**
1st Trimester	S
2nd Trimester	J
3rd Trimester	B

Shareholder News:

DELIVERY NOTICES START WITH THE LETTER “H” FOR the 3rd trimester of 2012 – CVAC will be calling in 30% of corn deliveries for the 3rd trimester. However, due to market volatility, CVAC will be calling for all shareholder corn to be delivered in the month of August. Keep in mind when delivering your corn the beginning of the week tends to be the busier days of the week for corn delivery.

OPEN DELIVERIES for 3rd trimester will also continue for the month of August only of 75,000 bushels per week. Please call the office to sign up for a week of your choice.

BCP ENROLLMENT will be held again in June and July of this year. Be looking for your enrollment letter in the mail sometime in the mid-June time frame.

THE BOARD OF DIRECTORS declared a distribution of $ .05/bushel at their board meeting on April 27th. The payment was sent to shareholders the week of 5/2.

CHIPPEWA VALLEY AGRAFUELS SHARES SOLD

SHARES	SOLD	DATE SOLD	SHARES	SOLD	DATE SOLD
18,404	$1.25	7/11	2,880	$1.25	12/11
7,254	$1.70	7/11	14,400	$2.00	12/11
9,900	$1.75	7/11	9,900	$2.45	3/12
720	$1.85	8/11	6,000	$2.60	3/12
13,698	$1.50	8/11	10,000	$2.60	4/12
14,850	$2.00	8/11	12,281	$2.50	4/12
12,000	$1.80	9/11	4,950	$2.60	5/12
24,750	$2.00	9/11	5,000	$2.50	5/12
12,168	$1.50	12/11			

Commodities Update

Chad Friese

Commodities Manager

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This Spring planting season is starting out much differently than a year ago with last year’s cold wet start. A lot of the other factors that were playing out in the market though a year ago are still very similar this Spring. Most importantly a potentially tight corn carryout or corn supply leading into harvest. Offset this with an early start to planting and a potential record corn production season and you have the makings of a very interesting and volatile summer marketing season. May 10th USDA report will give us a fresh look at the carryout to see if the above anticipated Chinese demand has made for even tighter carryout stocks, and we will also get a feel for how big the 12/13 crop could be as there is lots of talk of a 164bu national yield potential. This makes for an old crop that wants to be supported around $6.00 and a new crop price that wants to try to get to $4.50. Needless to say any demand shifts to old crop or weather scares for new crop will probably be quite dramatic affairs. Stocks

cont'd on Page 4

Commodities Update

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of old crop certainly feel tight as evidenced by cash basis and this continues to make the market nervous. The tight carryout and the volatility are a couple of the key reasons why CVEC has again made changes to delivery for the Third Trimester. Please see the Shareholder News Brief in this newsletter to get some of the details of how this is going to be handled, but I will follow-up here with why these changes were made.

Today's information is what CVEC has to make a decision on about Third Trimester and to get the info out so that Shareholders have time to make any necessary changes for Third Trimester deliveries. The way the corn market is structuring itself suggests that cash corn should move in June and July to maximize value. This obviously is a problem for your company as it needs corn in August and September as well as June and July. The solution is to take the shareholder deliveries into August and try to buy cash corn for June and July. The way things are structured, the cash average for the trimester is unaffected by when the corn arrives, so in this way CVEC will have guaranteed physical corn later into summer and can give the market some additional time to work thru this old crop new crop spread. This year's earlier planting should help to alleviate the potentially tight inventory of US corn as new corn supplies arrive out of the field earlier than normal. The Third Trimester Price is an average value of June thru Sept cash values regardless of time of delivery. It is also important to note that CVEC's Cash values do not dictate these prices, but the accumulated values of 18 different grain facilities within our market area, so the prices truly represent the cash markets available over the timeframe.

Because of the foresight when the share delivery formula was put together over a decade ago, storage and interest are paid to the shareholder until the actual delivery of the corn so nothing is lost on the market value of share corn. With this knowledge, there is the added benefit of not putting our shareholders into potentially long delivery lines in the months of June and July. This decision was torturously analyzed, and set by the market outlook which still strongly suggests that this is the best approach going into late summer. Please call with any questions in regards to third trimester delivery but please realize that it will be handled as any other delivery period except for the condensed delivery timeframe.

In closing, I would like to invite all CVAC members to view our CVEC website at cvec.com, for grain pricing and other important information. I would also invite you to call me and discuss the corn market, especially in regards to forward marketing and cash marketing of non-share committed bushels that you may have. CVEC has many different contract types and posts several deferred month values that can be contracted on these un-committed bushels. The volatility of this market doesn't appear to be going away, and with historically high cash corn values it makes sense to have a plan in place that takes advantage of these prices.

CVEC
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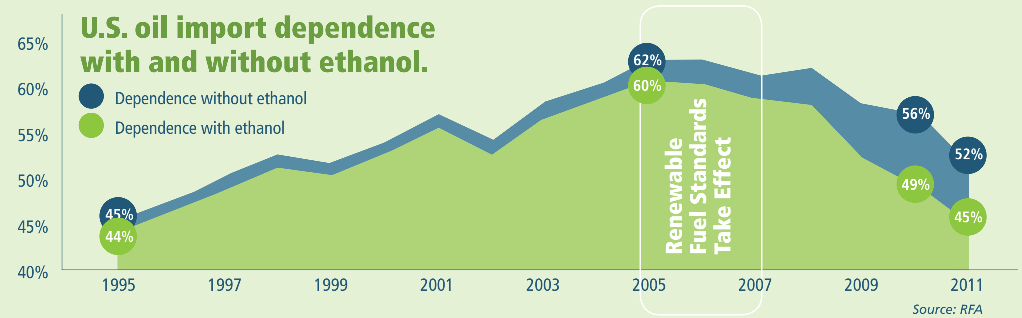
Don't Mess with the RFS.

The Renewable Fuels Standard is an American Success Story

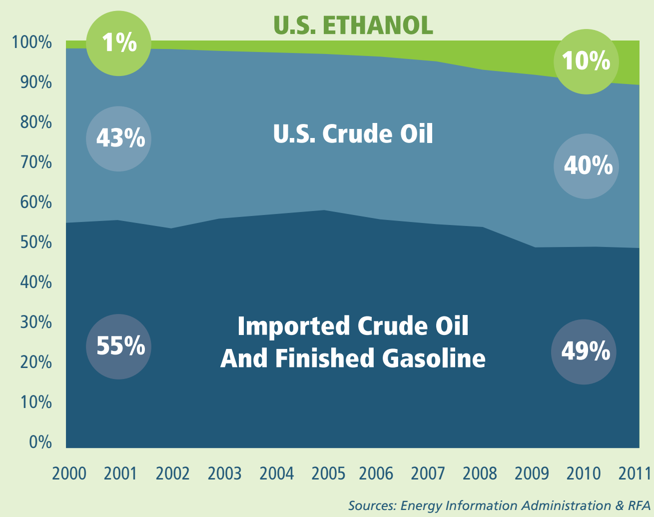
It has…
- Reduced America's dependence on foreign oil
- Stimulated investment in domestic renewable energy
- Helped consumers by lowering the price of gas

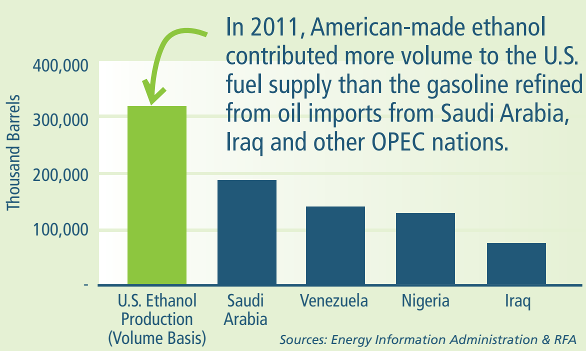


On a cumulative basis, ethanol has accounted for 8 out of every 10 new barrels of liquid fuel produced from U.S. sources since 2005.

Where does our gasoline come from?

Today U.S.-produced ethanol makes up 10% of our gasoline supply, significantly reducing the need for imported oil.





61% of American consumers polled favor a Renewable Fuel Standard in order to reduce foreign oil dependence and greenhouse gas emissions.

Source: American Viewpoint, National Survey, March 27-29, 2012

RENEWABLE FUELS ASSOCIATION

www.EthanolRFA.org

Advanced Ethanol Legislative Agenda

Accelerating the Next Generation of Ethanol

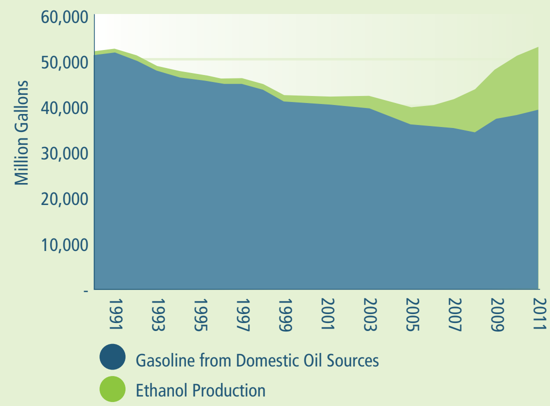
The RFS calls for production and use of 21 billion gallons of advanced biofuels by 2022. Bio-Economic Research Associates forecasts that the Advanced Biofuels RFS target will create 800,000 jobs by 2022.

Key to Success is Extension of:

Producer Tax Credit (PTC): Current law allows producers of cellulosic biofuels to take a tax credit that reduces investment risk and helps early movers excel in the marketplace while economies of scare are realized in the early years of commercial deployment.

Accelerated Depreciation Allowance: Current law allows producers of cellulosic biofuel to take a 50 percent depreciation in the first year thereby helping offset initial capital costs. Accelerated depreciation has been offered for decades to the oil and gas industry to encourage investment and innovation.

Domestic Ethanol Production Compared to Gasoline Production from Domestic Oil Sources



65%

of consumers polled favor incentives to help fund the expansion of cellulosic ethanol produced from wood, grasses and other non-edible parts of plants.

Source: American Viewpoint, National Survey, March 27-29, 2012

RFS Fuels Jobs and Economy:

90,200 direct jobs

311,400 indirect jobs

$42.4 billion contribution to GDP

$29.9 billion in household income

- **209 Operating Ethanol Plants in 29 States**
- **13.9 Billion Gallons Ethanol Produced**
- **140.0 Million Gallons under Construction**

Fueling Consumer Choice in the Auto Marketplace

The ethanol industry supports the Open Fuel Standard. Just as we believe consumers should have a choice at the pump, we believe that choice starts with their automobile.

75%

of consumers polled favor requiring automobile manufacturers to build cars that will run on fuel sources other than oil, such as electricity, natural gas, and biofuels.

Source: American Viewpoint, National Survey, March 27-29, 2012

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www.EthanolRFA.org

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www.AdvancedEthanol.org