



# Chippewa Valley Ethanol Company

270 20th St. NW • Benson, MN 56215 • 320-843-4813  
Website: <http://www.cvec.com> • E-Mail: [cvec@willmarnet.com](mailto:cvec@willmarnet.com)

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## STRATEGIC PLANNING UPDATE

by Mike Jerke

In the last newsletter, I wrote about the board of directors' work on strategic planning. The result of that process was the refinement of our Company Purpose Statements to the following:

**Vision:**

*To ensure the success of Chippewa Valley Agrafuels Cooperative as a multi-generational company.*

**Mission:**

*Chippewa Valley Agrafuels Cooperative is focused on generating distributions to our members by engaging in opportunities to increase the value of agriculture production.*

"Multi-generational" is a keyword used in the Vision Statement. It conveys the expectation that CVAC will exist as it has during the past 15 plus years benefiting of our member/producers. As decisions are made at the board and management level, the Purpose Statements will provide guidance to make sure we are taking the correct approach.



### 19TH ANNUAL MEETING DATE SET

The 19th annual meeting date has been set for Wednesday, January 25, 2011 at McKinney's on Southside, Benson, MN. An evening meeting time will be scheduled. Additional meeting details to follow at a later date.

### Nominations for Board of Directors for 2011

The nomination committee would like all shareholders to start sending in your recommendations for potential board candidates as soon as possible. The nominating committee will be taking recommendations until December 6, 2011. Please contact one of your nominating committee members (listed below) or Denise Bakken @ 320-843-1229 with your recommendations. Thank you for assisting us with this process developing a list of great candidates for our Board of Directors.

Directors up for election this year are:

District 1: David Thompson

District 2: Kent Evenson

District 3: Chuck DeGrote

The nomination committee consists of the following directors:

District #1:

Jan Lundebrek 320-843-2733  
Gene Fynboh 320-834-4661

District #2:

Dale Tolifson 320-843-3758  
Dave Nagler 320-567-2310

District #3:

Dan Benson 320-875-2036  
Roger Longhenry 507-296-4422

## 2011 Performance

Our fiscal year wrapped up at the end of September. While the audit is not totally complete, we can confidently state that this will be the second best year in terms of net book income (approximately \$16.0 million) that the Company has experienced. We achieved several record setting operational milestones as well.

For instance, energy efficiency on a BTU per gallon basis was 31,200. While not an impressive number compared to industry, it is a record for CVEC. Importantly, we are confident that we will make further strides in this area in the months ahead. Our goal for FY 2012 is to be below 30,000 BTU's per gallon. Additionally, electrical usage was at a record low coming in at 1.04 kilowatts per gallon of production.

Our production of ethanol achieved a new high of 48.7 million gallons (undenatured). During 2011, we worked with Minnesota Pollution Control Agency to rework our Air Quality Permit (AQP). Of the several modifications contained in the new permit was a change to the production operating limits. Previously, our permit limited the amount of alcohol we could produce within a twelve month rolling average. The new permit limits our daily *flow through our process*. This is an important change as it does not penalize us for being more efficient. If we generate more production via the same flow, we are able to garner the inherent benefits of increased output.

## **Mike Jerke**

General Manager  
mikej@cvec.com



Production and revenue (on both a gross and per pound basis) of corn oil was a record as this relatively new co-product from ethanol production finds more market acceptance.

We will have a complete analysis of 2011 in the upcoming CVEC Annual Report and at the annual meeting.

## Guardian Energy

We continue to see good results from our investment in both Guardian Energy - Janesville, MN and Guardian Energy - Lima, OH. In September we received our first distribution from Guardian - Janesville and are looking forward to another in the near future. Given the investments we have made and the opportunity they represent, I have invited the CEO of Guardian Energy, Don Gales, to give a presentation at the Annual Meeting in January. Accordingly, we have set the date for the **Annual Meeting as Wednesday January 25, 2012 in the evening at McKinney's on the Southside in Benson**. Although there will be additional reminders sent out in the future, I encourage you to mark this date on your calendar.



## **Daniel Benson** CVAC Chairman

Harvest is proceeding rapidly (October 20) to the conclusion of a growing season that has been filled with adversity. At different times the weather has been too wet, too hot, too dry and frost came too early. The result seems to be crops that range from very good to very bad, often in the same field. Overall there will be an adequate supply of corn for CVAC.

The blenders credit (VEETC) will end on Dec. 31, 2011. Also the tariff on foreign imports of ethanol and the small ethanol producers' tax credit will end at the same time. The ethanol industry is resigned to this. Because the Renewable Fuels

Standard (RFS) requires petroleum blenders to use 13.2 billion gallons of corn derived ethanol in 2012, it is thought that these actions will not have a major impact on the ethanol industry. Since the 13.2 billion gallons is roughly the production capacity of the ethanol industry, the blenders will have to pay a price for ethanol that will keep plants in operation.

The current high price of corn and tight supplies will continue to fuel the corporate livestock industry's fight to reduce the RFS. A bill originating in the House seeks to lower the RFS as the corn carryover supply decreases. This bill will be strongly opposed by the ethanol industry because any reduction in the RFS would be very harmful to the industry.

One positive aspect about all the negative news about ethanol is that it seems to be preventing expansion in the industry. As a result ethanol supply throughout the year has been close to demand, allowing CVEC to maintain positive margins.



## Commodities Update

Harvest is all but wrapped up, and although not as good a year for bushel production locally as we have had in the last couple of years, pricing has been strong. The strong values of corn may remain for awhile as we are looking at some very tight corn stocks, at least until the next corn harvest rolls around. Indications are that planting of corn will remain strong for the 2012-2013 crop year, and if we have a more normal crop season we could see corn stocks strengthen dramatically 1 year from now. In the meantime we will see a market that continues to price corn with the thought that if it gets to cheap and we use too much, there may not be enough to go around.

November 9th is the next USDA report and we will probably get some answers at that time as to what exactly was produced in regards to corn this growing season, but there will still be plenty of unanswered questions as well. We continue to talk about market volatility and I think this will continue to continue even though for the last couple weeks the corn market has been relatively flat. Production questions, feed usage, ethanol usage, foreign markets, future weather all conspire against stable markets. With that being said, don't be afraid to have values offered into the market for forward sales. The market is currently at some very good values historically and although we are nearly a dollar below the summer highs the promise of more bushel coming is always present.

As a market, if the same amount of corn is planted next year as this year and we have a more normal season, the market will be using trend yields that are around 15 bushels better nationally than we have this year. That's around 1.3 billion more production potential on the next crop, so you could add that on to whatever this year's carry out finally becomes. With nothing else considered, 1.3 billion bushel alone moves markets dramatically. Start

looking ahead and if there is value in the forward markets that makes sense to your operation don't be afraid to take off some risk.

The ethanol industry itself is also moving into some uncharted areas as the blenders credit probably ends with the 2011 calendar. It is difficult to think that this will not have some effect to softening demand for ethanol for at least some period of time. When we got everything finalized 2010-2011 year at CVEC was a very good year even with all the volatility, but all the way thru we were looking forward and thinking it was going to be a challenge. It was and 2011-2012 looks to be just as challenging on a going forward basis, as the volatile markets make it difficult to focus on anything beyond the next few months. Whenever possible please make your voice heard in support of continued Ethanol growth. Support builds stability and stability will help this industry have better definition of more long term outlooks.

In closing, I would like to invite all CVAC members to view our CVEC website at [cvec.com](http://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.



**Chad Friese**

Commodities Manager

320-843-1248  
[cfriese@cvec.com](mailto:cfriese@cvec.com)

## New Employees:

Hello.. My name is Chad Koziol, I am happy to be back in the tri-state area after living the past 4 1/2 years in Memphis, TN working for Unico Service Co with Cargill, Inc. there.

I have been married to my wife Heather for the past 10 years and we have three children, Brock, 11, Caden 8 and Molli 5.

I was raised in Wahpeton ND and graduated from Wahpeton High School in 1993 and NDSCS in Wahpeton in 1996 with a degree in Electrical Technology. After college I worked for Summerville Electrical in Wahpeton from 1996 to 2001 and Unico Service Co at the Cargill plant in Wahpeton from 2001 to 2006 before being transferred to Memphis in 2007. With our family getting older we decided we wanted to move back to the tri state area and raise our family. I applied and accepted the position here. After much searching we found a house to rent in Starbuck MN and are getting settled. We love the area and I look forward to the hunting and fishing seasons around here.



My name is Neal Erickson and I am one of the loadout operators here at CVEC. I grew up on a dairy farm west of Starbuck and went to school in Minnewaska Area Schools.



I attended college at Ridgewater College in Willmar for Auto Mechanics Technology. Before coming to CVEC, I worked on a dairy farm south of Starbuck. In my spare time, I help my Dad on the farm although he doesn't milk cows anymore, we have some beef cows that keep us busy. I also work on one of my old Ford pickups.

## Shareholder News:

**1<sup>ST</sup> TRIMESTER PRICE ANNOUNCED.** The price for the first trimester of FY2012 will be \$5.00 per bushel plus freight and equalization. The time equalization and freight value will be approximately \$.12/bushel for an average price of \$5.12/bushel.

**D**ELIVERY NOTICES START WITH THE LETTER "Z" FOR 1<sup>ST</sup> TRIMESTER. Delivery notices will begin with the letter "Z" for the period beginning October 1, 2011. CVEC will be calling in 35% of corn deliveries for the 1st trimester. Open delivery will continue in place with a maximum signup of 50,000 bushels weekly. Any shareholders who own 50,000 bushels or more will continue to have two weeks in which to deliver your corn.

**3<sup>RD</sup> TRIMESTER PRICE ADJUSTMENT FOR FY2011** was \$.45/bushel. The payment was sent out October 5, 2011. If you have not received your payment, please contact the CVEC office.

### CHIPPEWA VALLEY AGRAFUELS SHARES FOR SALE

There are no shares for sale at this time.

### CHIPPEWA VALLEY AGRAFUELS SHARES SOLD

SHARES SOLD	DATE SOLD	SHARES SOLD	DATE SOLD		
45,000	\$1.60	12/10	9,900	\$1.50	3/11
5,000	\$1.25	1/11	18,404	\$1.25	5/11
5,334	\$1.10	1/11	5,225	\$1.65	5/11
8,000	\$1.65	1/11	4,550	\$1.70	5/11
4,320	\$1.50	1/11	18,404	\$1.25	7/11
20,000	\$2.00	2/11	7,254	\$1.70	7/11
5,400	\$1.50	2/11	9,900	\$1.75	7/11
2,600	\$1.55	2/11	720	\$1.85	7/11
5,400	\$1.50	3/11	13,698	\$1.50	8/11
10,800	\$1.00	3/11	14,850	\$2.00	8/11
6,540	\$1.50	3/11	12,000	\$1.80	8/11
16,500	\$1.40	3/11	24,750	\$2.00	9/11

*Happy Thanksgiving*

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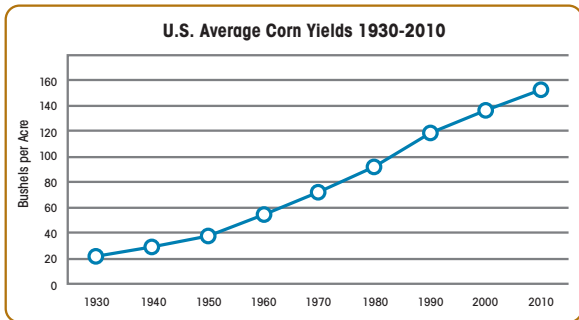


# the facts on



## Ethanol production is expanding, but so is the total supply of corn. Larger U.S. corn crops mean a larger "pie" for everyone to have a slice.

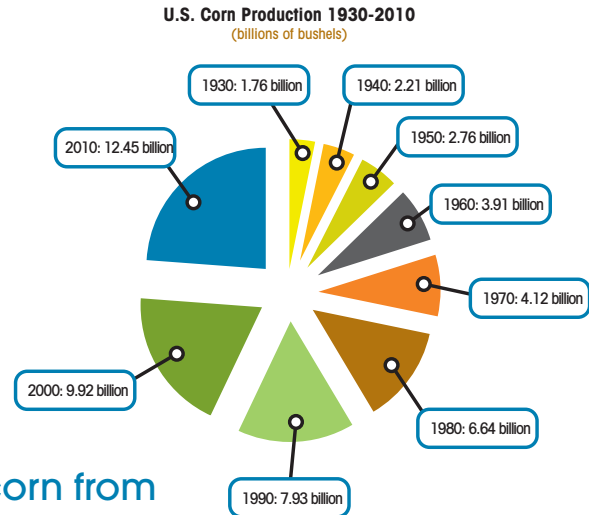
**fact:** Thanks to new technologies, U.S. corn yields are consistently increasing.



(Source: U.S. Department of Agriculture, National Agricultural Statistics Service)

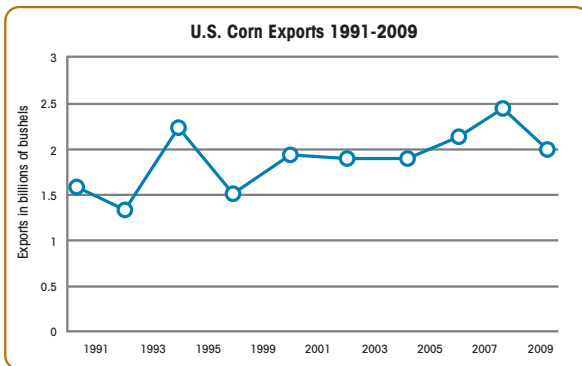
**fact:** The overall size of the U.S. corn crop is increasing, creating a larger overall "pie."

(Source: U.S. Department of Agriculture, National Agricultural Statistics Service)



## Before criticizing ethanol for preventing corn from entering the world market, consider this:

U.S. corn exports have stayed consistent during the period of ethanol expansion.



**fact:** Ethanol is not reducing the amount of corn available for other uses — including food.

Ethanol production tripled from 2002 to 2009. During the same period, corn production met increased ethanol demand AND produced an additional 21% more corn available for other needs.

(Source: National Corn Growers Association)

**fact:** One-third of the corn that enters an ethanol plant is returned to the feed market as distillers grain.

U.S. ethanol plants are expected to produce 33 million metric tons of distillers grain in 2011.

The volume of distillers grain produced by the U.S. ethanol industry is equivalent to the world's 4th largest corn producing country.

Reporting by the U.S. Department of Agriculture shows gross corn usage, not net — not accounting for this 1/3 of the corn that is returned to the feed supply. This leads to a misconception that the U.S. ethanol industry uses more corn than it actually does.

