



NEWSLETTER
February 2009

Distillations from the President

You may have noticed that the ethanol industry is going through a time of big challenges. Profits for the industry as a whole are slim to none depending on each individual operation. Plants are slowing down or closing their doors, it is estimated that about 2 billion gallons are currently offline. Although this is no doubt tough on the owner of these plants, this is good for the industry as production needs to realign with demand. Ethanol prices need to return to a level that makes for reasonable returns. As gasoline demand continues to drop, ethanol production must do so as well. The worldwide economic upheaval also is a major influencing factor on the value of commodities including the two big components of our profit, corn and ethanol. Until stability and confidence return to the

financial markets, volatility will continue to reign.

Where does this leave WWE you may ask? To answer this question, let's return to the reason that Western Wisconsin Renewable Energy Co-op (WWREC) came in to being.

In 2001, as the original board of directors for WWREC started to put together what was to eventually become Western Wisconsin Energy LLC (WWE), we developed the following mission statement: "The mission of Western Wisconsin Renewable Energy Co-op is to provide economic benefits to western Wisconsin by enhancing the value of agricultural products in an environmentally sound manner." This statement is still the guiding principal for the WWREC's Board of Directors. It has been easy to see the mission fulfilled over the last two years when WWE has returned profits to

us. This year, with tighter operating margins it may mean that there will not be any dividend returns. Does this mean that WWREC will have failed in its mission? NO! WWE is still providing western Wisconsin producers with another market for their corn. As I write this column mid January, WWE's corn bids are very competitive. WWE is very present as a buyer of corn by narrowing the basis and thus adds value to every bushel of corn sold in western Wisconsin. WWE also employs 35+ local citizens spending \$1.9 million a year on payroll expenses and pays about \$300,000 in property taxes. We do business with numerous local service providers. The economic benefits returning to the community are significant.

The board recognizes the need to protect the equity of our investors and not endanger the overall financial health of the plant. We are continuing to crunch the numbers in order to make sure that we understand what our financial picture looks like on a weekly basis. No stone has been left unturned in



A Snowy Day at the Plant

our efforts get a clear picture.

The board is committed to WWE, not just surviving but thriving in the days to come.

Paul Harrison
President



Secretary/Treasurer's Report

What a crazy year! We have seen skyrocketing corn and soybean prices as well as input costs that seem to have no upside ceiling and then bottoms dropping out. Corn and soybean prices fall to unprofitable production levels. Inputs begin to work their way lower, but not to levels equal with the lower cash commodity prices. The oil prices have hit \$140.00 a barrel then dropped to mid thirties. Gasoline prices have been from mid three dollars a gallon down to the low two dollars a gallon and ethanol is no exception either. It has followed the price of corn very closely; when corn goes up so does ethanol, when corn goes down, so does ethanol.

Profits in corn-grind ethanol are very slim indeed. In fact, we as the Board do not discuss profit and loss anymore – we discuss cash flow. Cash is and will remain KING. We can and will remain in production as long as we are making a return on every gallon of ethanol we produce. This gallon has to pay the corn and other input cost, the employees and the mortgage. Low debt and plant efficiency are keys in allowing us to show a return. All efforts are concentrated in this area. We are still projecting a positive cash balance at year-end, without accessing our operating line of credit. This is our goal.

We are not going to shut the plant down. We are here to process your corn and to be your corn delivery location of choice. We had a healthy cash balance and a strong equity position approaching this fiscal year and as Steve Christensen indicated at our annual meeting we

were well aware that this was going to be a difficult year. We will more than likely show a negative margin from this year's operation, but if we can maintain a positive cash balance then we can consider this year a success. The Risk Management Committee, the Board of Directors and Management are all focused weekly on key financial factors of our operation. We have



Fourth Fermenter Addition

our hand on the pulse of the company, making sure it remains healthy.

Our future, the future of ethanol and the future of our general economy are all going to improve with time. We will be in position to take advantage of favorable profitable markets when they appear again if we keep operating at levels that do not erode our equity. This is our mission and this is what we will do. We are accepting as little risk as possible, waiting out the market and maneuvering in position to capitalize on the market when it comes our way. It will happen sooner or later. Always has and always will, we just need to be patient. Someone once said, "Float like a butterfly – sting like a bee." We are presently floating.

Ray Dreger



General Manager's Report

The ethanol industry has been criticized because of poor conversion rates and adverse impact to the environment. NEITHER OF THESE ARE TRUE!

In the most recent studies conducted at the University of Nebraska it shows that ethanol just gets Better and Better.

The net energy ratio (how much energy it takes to get a unit of energy) has improved to where now we get 1.5 - 1.8 units of energy for each unit of energy consumed to produce ethanol. If the manure from feedlots or dairies that were fed

distillers were used to produce methane the ratio would be over

2! This means that ethanol returned 29% to 123% more energy than it consumed.

The study also found that corn ethanol emits 48% to 59% fewer Green House gases than gasoline. Ethanol is cleaner and better for the environment.

A new finding from the study is the potential for ethanol to one day replace oil. 10 to 19 gallons of ethanol are produced for every gallon of petroleum used in the ENTIRE corn to ethanol production cycle.

How are we doing this at Western Wisconsin? We have installed state of the art process control systems in the plant. This system monitors and make adjustments to the process based on a complex set of variables and computer aided decision making. It has already paid off by reducing our natural gas usage.

We have also completed the addition of a 4th fermentation tank to extend fermentation time to extract more ethanol out of the same bushels of corn and increase production. We measure this by the amount of sugar that is left in fermentation (unused by the yeast to make ethanol). This last week we were under 1% sugars down from what was 2% sugars prior to the additional fermentation tank. Just one tenth of a gallon from the same amount of bushels can mean an additional 1.8 million gallons per year. Now we are dealing with small improvements that can yield BIG results.

Steve Christensen



Annual Meeting

On December 2, 2008; Western Wisconsin Renewable Energy Coop held its Annual Meeting at The Off Broadway Banquet Center. 127 members attended along with guests. After eating a great meal, the meeting was called to order by President Paul Harrison at 1:00 p.m. Secretary Ray Dreger read the Proof of Meeting Announcement and verified the presence of a quorum. President Harrison made a presentation on "Excitement, Efficiencies and Expectations." President Harrison covered the recent volatility in the commodity markets and their affect on WWE LLC's bottom line. He also gave an update on the increase in efficiencies brought about by new technologies which have been added to plant operations. In closing, he stressed that the upcoming year would be challenging for the ethanol industry. CFO Mike Mattison presented the financial statements of the Coop. Secretary/Treasurer Dreger announced a \$.10 per share dividend. General Manager Steve

Christensen gave the group several interesting facts about ethanol and followed up with summary of the strategic plan of debt reduction, shareholder return and capital improvements. He finished with a



Paul Diemert awarded Friend of the Co-op, pictured with President Paul Harrison

warning not to expect the same return on our investment as we have seen the last couple of years. Marti Nieland, Christenson & Associates, explained what information will be on the 1099-PATR form this year.

Election results were announced with Dick Bauer, Luther Grohn and Larry Knutson being elected as directors. Outgoing Director Steve Bensed was presented with a plaque recognizing his role as a founding director of WWREC. Paul Diemert, general manager for Menomonie Cenex was honored with a plaque as a Friend of the Co-op.



****IMPORTANT**** Please note that in order for your freight allowance, volume incentive, and corn pool fees to be allocated correctly; the name under which your corn is delivered and distillers are purchased needs to be in the same name as your stock certificate. Any questions please contact Tammy at the office 715/643-2602.



Corn Procurement Manager's Report

Over the past few months the grain markets have been able to distance themselves from the stock and energy markets. Looking at the fundamentals of the grain markets we have to ask ourselves the question,

“Can we sustain current price levels of grain with the current economic conditions?”

All aspects of the livestock industry: dairy, beef, poultry, and pork are continuing to see decreased production. Cattle on feed reports show that the numbers are 93% of a year ago and some estimates are showing cattle inventory numbers are the lowest since 1952. As margins remain in the red Tyson reported that they had a 1st quarter loss of \$112 million.

The ethanol industry is also having its issues with an estimated 15% of production not running due to a number of plants filing for bankruptcy. The 2nd largest producer, VeraSun, filed for bankruptcy back in November and is being forced to auction off seven of its ethanol plants in March.

These struggles aren't only in the US economy but throughout the world as export numbers have decreased for US grains and are thus creating larger supplies domestically.

Other questions you may be asking yourselves are: “What about the availability and price of fertilizers?” “When or if we will see a battle for acreage this spring?” “What about the current issues in the Argentina, weather pattern and how it will effect production?” These are all issues that will be worked out with time but are dependant on the overlaying fundamentals of the grain market which is supply and demand.

Gunnar Tomsen



Distillers Merchandiser's Report

This has been the 3rd coldest January on record. I am sure it has been a difficult one for all of you: getting things started, feeding, milking and all related chores. It has been miserable, the coldest report I have heard in the local area is -47F near Osseo. That is cold! Prices have been uncommon compared to most years by being high in the summer and softening in the early winter. We are seeing some strength lately mainly due to the price of soybeans. The reason for that is the drought in South America, which shows it truly is a world economy.

We are having a Distillers Appreciation Meeting on February 17th from 11 AM to 1 PM and you should be getting an invitation in the mail. If you have any questions you can call Barb Obinger at 612-486-3801 or myself 866-763-1752. We will have Bob Kaiser, UW Madison Extension, there to go over the latest feeding strategies and a person from North Star Risk Management to go over their thoughts on the markets. I hope you can attend. The markets are truly volatile and I hope we all make it through it.

Matt Thompson



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