



## Distillations from the President

I hope that the New Year is off to a great start for you. After last year, with all of its twists and turns, it's nice to get a fresh start on life. For those of you who were unable to get to the WWREC Annual Meeting, you may be wondering where your dividend check is. Because of the economics of the ethanol industry this past year, WWE operated at a loss and did not issue a dividend. This year did confirm the wisdom of our spending some of our profits in previous years to pay down debt and make capital improvements such as adding another fermentor to the plant. We started the year with enough cash to weather the storm and ended the year with no operating debt. Not a bad ending to the year, given that a number of ethanol producers suffered major financial woes. As we begin the New Year, WWE is operating in the black and as we run financial forecasts for the rest of the year, the outlook is more positive.

We continue to look for ways to improve our revenue streams. We are installing corn oil extraction equipment as one way to achieve that goal. The project should come on line in February. Our team of plant operators also keeps searching for more performance from the plant. We have a great group of individuals working every day (and night) making WWE a successful operation.

Looking at the big picture, currently the price spread between regular gas and ethanol encourages



**2010 Board of Directors**

## NEWSLETTER

*February 2010*

discretionary blending. With more production capacity waiting in the wings, we need a pricing spread that keeps product moving. The industry also is still waiting on the EPA to make a decision about increasing the blend limit from 10% to 15%, or something in-between. The current recession has caused a reduction in gasoline consumption, meaning fewer gallons available to blend with ethanol. An increase in the blending percentage gives us a bigger market without needing gas consumption to increase.

**Paul Harrison**



## USDA Report: Farmers Shatter Corn Production Records on Fewer Acres

(January 12, 2010) Washington – The final report from the U.S. Department of Agriculture on the 2009 corn harvest is one for the record books. Despite poor planting conditions, a cool, wet growing season, and an abysmal harvest that still sees corn standing in fields, American farmers shattered records for both yield per acre and total production.

In the January Crop Production report,

USDA estimates farmers averaged 165.2 bushels of corn per acres, up from its previous estimate of 162.9 and shattering the previous record of 160.4 in 2004. Notably, average yields are more than 11 bushels per acres higher (7%) than last year's average yield. In addition, this record yield helped produce the largest corn crop ever – 13.2 billion bushels. All of this occurred despite on of the slowest and most challenging harvests on record.

“The unparalleled productivity of America’s farmers continues to amaze even the most skeptical of critics,” said Renewable Fuels Association President Bob Dinneen. “Despite unfavorable weather conditions from start to finish, farmers produced considerably more corn than the food, feed, and fuel markets are demanding. Such gains in productivity undermine any claims that U.S. biofuel production will require new lands in other nations to come into production. There can be no question that American farmers have both the capability and the can-do attitude to feed the world while simultaneously helping reduce our nation’s reliance on imported oil.”

Dinneen also pointed out that the record 2009 crop was produced on 7 million less acres that were required to produce the second-largest crop on record (13.0 billion bushels) in 2007.

## Secretary/Treasurer’s Report

A long and difficult harvest, an early cold fall and winter and snow and ice that just will not give up. Ah! Fall and winter in Western Wisconsin. But, there is “GOOD NEWS.” In fact it is “GREAT NEWS”. Our ethanol plant has completed its first quarter of operations with a PROFIT. It has been over a year since we have been able to report a profitable quarter.

It also looks as if the trend will continue and at year end (September 30th) we will be able to show a year-end profit on operations. This profitability just does not happen. It takes the efforts of all - employees, management and Board to maximize our return on our investment. Profit comes one gallon at a time and one penny at a time, slowly and surely.



Despite raising total production and yield numbers, USDA left demand for all sectors, save feed use, unchanged. The fact that feed use is increasing at the same time that surplus stocks are growing drives yet another nail in the coffin of the trite feed versus fuel argument, Dinneen said. For ethanol, USDA is estimating 4.2 billion bushels of demand for the marketing year September 1, 2009-August 31, 2010. That is enough to produce 11.7 billion gallons of ethanol based on industry ethanol yield averages.

For calendar year 2009, the U.S. is expected to produce 10.6 billion gallons of ethanol and more than 30 million metric tons of livestock feed from 3.8 billion bushels of corn.

### A Snowy Day at the Plant

As we know the price of corn has come down in recent months, ethanol has as well, but by increasing our production per day as well as maximizing our efficiency per bushel, the plant has continued to show a consistent small profit, on every gallon of ethanol produced.

Our cash flow has remained strong as well. In fact, we presently have a zero balance on our revolving line of credit and have been able to pay from cash flow the construction payment on our new oil recovery project at the plant. This oil project is complete and will now begin to generate income also. This will help strengthen our cash flow and plant profit.

The future continues to look positive as well. With any kind of luck we should end the year on a positive note. As you already know we have experienced some unplanned shut-downs and some



costly repairs as well, but even with these hick-ups we should be ok. Stay tuned!

**Ray Dreger**



## 1099-PATR and Share Basis Update

By now you have received your 2009 1099-PATRs (two per member) from the Co-op.

The amount in Box 9 represents \$0.0544 per share of an Alternative Minimum Tax Preference amount. Depending on your income tax situation, this may or may not affect your tax amount.

Two amounts are in Box 10. One is the small producer ethanol tax credit (SPETC) representing \$0.1276 per share of tax credit available to members. The other Box 10 amount represents your portion of the return of prior years' undistributed patronage income in the form of a patronage loss (tax write-off) of \$0.8109 per share.

The table below depicts changes in Co-op share bases since the inception of operations of the plant:

Year	Patronage Dividend	Cash Portion	Change in Basis
2007	\$0.8970	\$0.30	\$0.5970
2008	\$0.5553	\$0.20	\$0.3553
2009	(\$0.8109)	\$0.00	(\$0.8109)

Should you or you tax preparer have questions about any of this information, please contact me.

**Michael Mattison ~ Chief Financial Officer**



## General Manager's Report

Just recently Governor Doyle introduced a 174 page global warming legislation bill. There are some serious concerns with some of the specific proposals in this bill that could negatively impact the future of the renewable fuels industry in the state.

The legislation calls for a "low carbon fuel standard." The bill currently supports contentions

that ethanol would fall under this legislation with the false assumption that ethanol is dirtier than imported oil. This is simply not the case with most studies showing ethanol to be 40% to 50% cleaner than gasoline.

The legislation also proposes "California Car Low Emission Vehicle Standards" which penalizes driver operating alternative vehicles that run on higher blends of ethanol.

As members of the Wisconsin Bio Industry Alliance we oppose these items in the Governors bill and would encourage you to become informed and talk with your legislators about the detrimental effect this bill could have on the biofuels industry.

**Steve Christensen**



## "Lifecycle Analysis of GHG Emissions Associated with Starch-Based Ethanol" December 1, 2008

**It is neither fair nor accurate to attribute all current and future land clearing to biofuels.**

- The argument in favor of including indirect land use change may have some intuitive appeal, but there are some major impediments to its inclusion in a lifecycle analysis, especially one to be conducted in the near future.
- Changes in land use have always occurred and are not new, nor are biofuels the primary driver of them. Global population growth cannot be ignored as a factor.
- Lifecycle analysis is being used to actually quantify GHG emissions, and the scientific literature shows a huge variation in estimates of carbon release from land clearing in general, on the order of 50% plus or minus – a huge margin of error.
- If some land use change is due to increased biofuels production, and the scientific literature shows a huge variation in estimates of carbon release from land clearing in general, on the order of 50% plus or minus – a huge margin of error.

## New technology is making both corn and ethanol production more efficient, more environmentally friendly.

- Assumptions about corn production are key to the LCA and must reflect the steady increases in corn yield per acre, which have doubled between 1970 and today. Also, nitrogen fertilizer use per acre peaked in 1985 and has been trending lower since.
- Energy efficiency in the ethanol production process is advancing, leading to reduced GHG emissions. Since 2001, U.S. ethanol producers have achieved a 225 drop in total energy use. Between 2004 and 2007, ethanol plants reduced BTU usage by between 14% and 21%.

## Oil is becoming less efficient and more harmful to the environment.

- With the technology coming online in corn and ethanol production, the carbon footprint is only set to improve significantly in the next ten years, whereas feedstock sources from the petroleum industry, such as oil sands, will further degrade petroleum's carbon footprint.
- High oil prices incentivize the production of crude oil from sources such as tar sands and coal which have considerably higher GHG emissions than biofuels. Depending upon the energy source used in the mining of tar sands, well-to-pump emissions can be over 300% of conventional crude oil.
- The U.S. Environmental Protection Agency is currently comparing the LCA of biofuels to that of petroleum in 2005, not a fair comparison since the carbon footprint of oil will degrade significantly post-2005 as new oil sources like tar sands are tapped.
- If the indirect GHG emissions of biofuels are counted toward the carbon footprint, so should

be the indirect emissions associated with petroleum production.

American Coalition for Ethanol. December 31, 2008.



**\*\*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

As you are aware, the January 12<sup>th</sup> USDA Production Report was very bearish towards the Chicago Board of Trade. The USDA pegged total corn production at 13.151 billion bushels compared to 12.921 billion in their December report. The report also placed the average corn yield at 165.2 which was up 2.3 bpa from their December estimate of 162.9 bpa. Traders had been expecting little change on the January report compared to prior reports and had been trading from a bullish perspective all fall due to harvest delays, quality concerns, and speculative money flow into the market. The USDA report also decreased total wheat acres seeded by 6.2 million acres which also added to the bearish tone. These acres not seeded to wheat will now potentially be planted with corn, beans, cotton, etc. Future



**Steve Rasmussen accepting The Friend of the Co-op Award**

reports will reflect what crops are actually planted on these acres. The bottom line is that the bearish corn production

report caused a significant drop of over \$0.65 in corn in a two week period. The market will now struggle to find a new trading range and it will be more difficult to achieve market prices established prior to the January report unless we see some

significant bullish news such as delayed planting this spring or dry conditions this coming summer. Corn quality concerns remain for this year's crop as we have experienced lighter test weight, higher moisture and reports of mold in some areas of the country. The higher moisture content in corn this year also resulted in higher broken corn/foreign material levels from being dried. With this in mind, this year's corn crop may be harder to store for extended periods of time due to the uncertain quality. Mold growth and damaged corn will continue to be an issue as outside temperatures start to increase this spring if storage bins are left unmonitored.

### Larry Pyle



**Corn Oil Centrifuge**

### Distillers Merchandiser's Report

The record size crop and the poor harvesting weather have brought feed prices down. This has helped profitability. Prices still are very volatile and I am asked everyday what I think prices will do. I do not know. The analysts do not know and it is anyone's guess. I do believe there will be pressure on feed prices due to the downturn in animal units, the large amount of poor test weight corn and the world markets. There have been concerns with the levels of mycotoxins and molds in this year's crop. This seems to be the most prevalent in Ohio and Indiana. We have tested our Distillers and it has been good. We will monitor this. We also will do our best to make sure you have a high quality product and price it according to the current market.

I would like to say that with my children's winter sporting events (wrestling & basketball) I have talked to quite a few people. I feel a lot of people do not understand where the meat on their table, the milk and cheese in their frig, their turkeys, chicken and pork come from. It doesn't come from the grocery store it comes from farms and the people who produce it. I would just like to say I am proud to be part of the livestock industry.

**Matt Thompson**



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