



The CORN Connection

Central Iowa Renewable Energy's Mission Statement

To successfully add value to locally grown grains which will profit our investor owners and area grain and livestock producers while benefitting our local communities through economic growth.

The Corn Connection Is
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CORN, LP
To Provide Information For
Our Owners And Investors

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Inside CORNland

By
Brad Davis
CORN, LP
General Manager



Over the course of the past 12 months or so, a person could pick any one or group of "markets" from the long list of them that might include such choices as the Dow-Jones Industrials or NASDAQ, corn or soybeans, crop nutrients and crude oil, and of course the ethanol market, and with just a few moments of monitoring their choice or choices come to one common conclusion:

All of these and virtually all of the many other markets that exist in the world economy are volatile, uncertain, unpredictable and, over the past months, all have been subject to dramatic, unprecedented and both amazing and extreme swings in the value of that specific market and commodity.

All have likewise been on a roller coaster ride that, at times, has soared to record shattering highs, only to take a deep and very rapid plunge away from those highs.

I have been in this business of agriculture for my entire 34-year working life, and I can assure you that I have never at any time witnessed or experienced markets that have reacted to and/or responded like they have been doing during this period of extreme volatility.

And I am sure there are few, if indeed any of you, who have witnessed situations that would compare to this in terms of the volatility demonstrated, the highs reached, or the longevity at which this period has been with us.

Obviously, we have been in rare and unique times, ones in which our emotions have also experienced a wild ride as they ebb and flow with some of the wildest and most sudden shifts in market values and/or prices in history.

There has been joy at the corn market's rise on the Chicago Board of Trade to values of \$7.50 and beyond per bushel, and to the value of soybeans moving beyond \$15.00

And of course this past fall there was elation as we watched the Dow and NASDAQ steadily soar ever higher on each day's trading, boosting the value of whatever mutual, retirement or other investment funds we may have investments in.

But seemingly before we ever have a decent opportunity to

savor these emotional highs, the fortunes of the markets have shifted, the shift from the highs is in full swing and values are in full retreat, and the emotions of joy shift to ones of frustration and the feeling of helplessness we experience at forces beyond our control causing these setbacks.

The presence of the hedge funds and index funds in our markets and marketplaces looms large over these remarkable and unprecedented times.

They have literally billions of dollars at their disposal, such immense and virtually unfathomable volumes of ready cash to invest at their discretion or whim that the numbers no longer have meaning or perspective they are so huge.

And while they are in many ways limited, restricted and highly regulated in many of the conventional financial marketplaces by such entities as the Securities and Exchange Commission and other federal watchdog agencies, they are virtually unchecked, unrestricted and virtually have free reign to do as they wish in other markets and marketplaces.

As a result "*The Funds*", as this segment of market players has become famously or infamously referred to, have now entered the scene, pockets filled with cash to invest, MBA-equipped traders filled with testosterone at the power and control they are able to wield, buying and selling in those markets where they are free to do virtually any thing at any time they wish.

And in the process, they are turning those markets into their own personal version of Monopoly, pushing values up when it will benefit them and the portfolios they manage, then having a fire sell off of their holdings as they take their profits and put those markets into a tailspin.

The term "*Risk Management*" takes on an entirely new and greater meaning when operating in markets and marketplaces such as these, as we have been these past months, and as all of you are fully aware, **CORN, LP** has made *Risk Management* a top priority ever since the first day the plant opened its doors.

In fact, as you may recall from previous articles in *The CORN Connection*, we were in a *Risk Management Mode* well before that day when the first gallon of ethanol was produced, since we had been putting in positions in the market on our raw materials many, many months in advance as protection from market uncertainty and volatility.

For example, we have had good positions put in on the corn that is being used to manufacture ethanol this year for some time and, as I mentioned in discussing this point in the March,

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CORN's Checkbook

By
Jim Glawe
CORN, LP Controller



If you've already looked elsewhere on this page, you've probably noticed the loss we're showing for the quarter.

And as you look at the numbers, I am sure you see that not only are we showing a loss for the 2nd quarter, it looks to be a rather alarming loss.

We'll, I'm going to tell you: It's not that alarming.

In the previous issue of *The Corn Connection* I talked about FASB 133 and the affect it has on our financial statement as we bring our corn positions to market.

Exactly the same type of impact holds true for our ethanol positions as we bring those positions to market at the end of the month and, I must say, the timing of this process is everything.

We have positions in place that protect us from downward swings in the ethanol market. When the market goes down these derivatives are worth more, but as the market goes up they are worth less.

When the market goes down, these positions protect us from added losses. When the market goes up, we can lock in cash sales and remove our market protection.

The catch is, we have to bring in losses for positions we have through the end of the year, but won't see any value from the higher sales prices until the gallons are delivered in the 3rd and 4th quarters.

Now, when I say timing is everything, all you have to do is to look at the chart elsewhere on this page showing ethanol on the Chicago Board of Trade to see how high it is at the end of June.

Ethanol peaked around June 27th and has proceeded to fall ever since, so for the month of June we saw a loss of \$5,925,000.

However, the market then turned around and so as Brad mentioned in his *Inside CORNland* article, for July we are already showing a gain of \$6,474,000.

With this being said, sales for the 2nd quarter of 2008 were at an all time low of \$17.3 million, while our cost of goods sold was held in check at \$22.6 million.

With natural gas prices being what they are, the meaning of holding the line on our costs should not be overlooked.

We are definitely realizing the true value of our coal plant as natural gas prices range around \$11.00 to \$12.00 per MMBTU. That is more than 3 times the cost of coal!

Operating expenses were down from previous quarters to \$1.2 million, thanks largely in part to the falling interest rate and the index used on our term loan.

Other income for the quarter was \$160,000, made up mostly of a \$100,000 loan forgiven by the Iowa Department of Economic Development after predetermined conditions and timelines were met.

This brings us to a net loss of \$6.3 million for the quarter, and although some unique situations contributed to making this a disappointing quarter on paper, this situation is one that will be turned around next month as we account for changes in the ethanol market and take advantage of the drop in the corn market.

Production for the quarter was 11,944,000 gallons, which is up 138,000 gallons from first quarter, but down 2,043,000 gallons from the second quarter of last year.

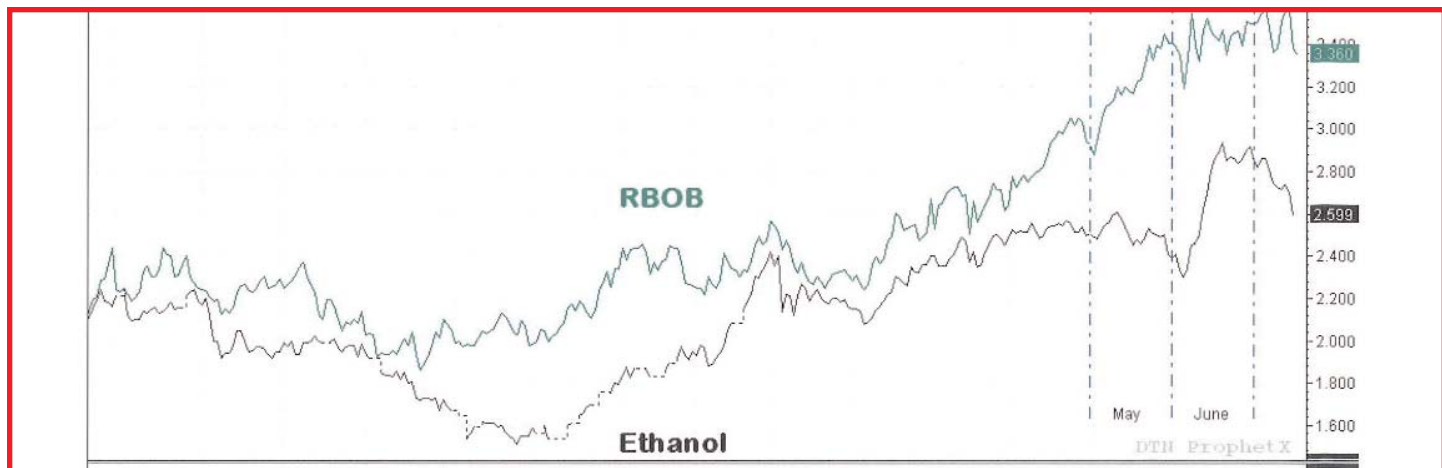
This drop from last year's production can be attributed to the wet coal we were forced to use when flooding prevented the coal we normally use from arriving, as discussed by *Andy Miller* in his *Coach's CORNer* article on the next page.

Even with the ethanol production reduction we have experienced in this 2nd quarter of 2008, we are still ahead of last year's ethanol production pace by 308,000 gallons, and I know the entire team at the plant is looking forward to this 3rd quarter and the opportunity to add to that total even more

CORN, LP Operation Highlights

April 1 To June 30 & January 1 To June 30, 2008 (Un-Audited)

	2nd Quarter	2008 Y.T.D.
Sales	\$ 17,333,925	\$ 40,238,890
Cost Of Goods Sold	22,597,173	44,120,559
Gross Profit (Loss)	(5,263,248)	(3,881,669)
Operating Expenses	1,213,582	2,526,886
Income (Loss) From Operations	(6,476,830)	(6,408,555)
Other Income	160,403	240,128
Net Income (Loss)	(6,316,428)	(6,168,427)
Net Income (Loss) Per Unit	\$ (202)	\$ (197)
Return On Investment	-20.16%	-19.69%





Coach's CORNER

By

Andy Miller

CORN, LP Plant Manager

Well, summer is now winding down and I am pleased to tell you the plant has been running pretty well up to this point.

At times we've averaged 160,000 gallons of alcohol per day, or close to what would be an equivalent of 60,000,000 gallons per year, which is 10,000,000 gallons above the nameplate capacity of the plant's original design.

The plant is just about max'ed out at this point until/unless we make some changes to bottlenecks in the system.

It is interesting to note that there are several of these, which attests to the design that goes behind this whole plant. In order to push production further still, we would need to ...

... *Increase the size* of the liquefaction pump, and that means a bigger motor and variable frequency drive.

... *Increase the size* of the beer well pump and motor.

... *Increase the size* of the beer-mash heat exchangers and, possibly, the mash cooler.

And finally, the boiler is running well, but we do have to monitor it closely to keep the emissions within specifications.

So, in summary, we are up against the design of the system to push the plant's production capacity too much beyond where we already have pushed it, but we are very happy getting the additional production when everything is clicking.

There were some significant challenges we encountered over the past three months, and like so many businesses and individuals that have felt the wrath of Mother Nature this spring and summer, the floods caused a lot of "difficult-to-deal-with" issues for the plant.

Transportation snags were at the core of these challenges, as the infrastructure of rail transportation in Iowa and in adjacent states sustained damage caused when rivers and streams poured out of their banks.

Many bridges were damaged, some were destroyed, numerous rail lines were washed out or rendered impassable, rail cars and locomotives found themselves stranded or having to travel extended, circuitous routes to reach their intended destinations.

As a result of the widespread and severe impact on the railroads from flooding, we ran out of empty railcars to ship both DDGS and alcohol out on, plus we also ran out of coal.

There was a train of wetter, higher sulfur, low BTU coal in Williams, Iowa, at the coal dome that was not supposed to be for us, however we were contacted by Alliant and told this was the only game in town.

We evaluated the possibilities - going down or using this coal - and opted to use the coal. The result was a nightmare.

The wet coal immediately plugged our mills and required a **TON of extra effort** by our maintenance men and operators.

The mill had to be cleaned twice a day, which involved shutting down the coal system and, hurriedly, locking it out for safety, then cleaning the top, front, and back of the mill.

Even with this diligent cleaning, there were several times the closest maintenance man, Rick Clay, and production resource, Aaron Goodell, had to rush into the plant to clear the system.

The next problem we encountered was the increased sulfur

emissions of the coal. Due to the decreased BTU's from this higher moisture and lower quality coal, we had to burn more coal. This, along with the increased sulfur content, was equivalent to a 50% increase in sulfur dioxide emissions.

So, we slowed down the plant in order to keep the emissions in spec. However, we ended up having to go so slow that we were in danger of going too slow to keep the boiler running.

We asked for a variance from our existing air permit to allow for this unforeseen circumstance and, after some very anxious hours, were allowed to operate at full capacity.

Finally, we were the only plant of the four typical users of coal at Williams (AGP, Lincolnway Energy, and Ames) who were in operation at the time, so we had plenty of this problematic coal to use! The silver lining, *if you look REALLY closely*, is that we did get a break on price.

We have submitted an application for increasing our permit from the 100 tons/year to the new 250 tons/year, and in doing that we have run into more red tape, as the application had to be reviewed with the regional EPA, the federal EPA in Washington, D.C., and the Department of Justice.

It seems that a few plants in Denver, Colorado, also wanted to increase their permitted emissions limits, with each plant's request being dealt with separately.

As we all know, the bureaucracy moves at a snail's pace whenever issues like these arise, and since it was decided to try to obtain an all-encompassing ruling, the process will likely take even more time.

We are waiting, although admittedly not patiently. And since we are still waiting on this request, our variance request to run at a rate of 62,000,000 gallons/year was denied by the state IDNR, as they apparently don't feel like crossing swords with the feds.

All in all, however, we are running well and can run full bore until the 2nd of January. At that time, we will hopefully be given the new permit limit and can push the plant envelope even further.

The Coal Sizing Mill Was A Very Busy Place In The 2nd Quarter, As It Required Frequent Cleaning Due To The Plant Needing To Burn A Lower Quality Of Coal When Our Normal Coal Supply Could Not Be Delivered Due To The Impact Of Floods On Normal Rail Transportation. (See The Coach's CORNER Article For Details).





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2008 issue, we also have had a good position on a significant volume of the corn that the plant will be using for 2009 ethanol production.

Obviously, none of us could have ever foreseen the huge increases in the price of corn we would experience during the early stages of 2008 when one record high after another was being shattered on a weekly and sometimes daily and even hourly basis, and clearly the runaway market put immense pressure on those positions.

Naturally, we have similar Risk Management positions in place in the market for the ethanol that CORN, LP produces, and it follows that with the value of corn surging to such an amazing record high, the values on ethanol would feel the impact, that market would tumble and there would therefore be similar pressure on those positions as well.

You can get a feeling for the outcome as you review the information that CORN, LP Controller Jim Glawe has included in his CORN's Checkbook article this month, and in the 2nd Quarter Financial Highlights that he has also provided.

What makes these figures even more remarkable is that operations were In The Black, as of the end of May, five months into this current fiscal year, thus all of the Red Ink that shows up in the 6 month totals has come about from operating in the wild and woolly marketplace we had in June.

That made June a record month in many respects and, unfortunately, some of them we would rather not have been "privileged" to be a part of.

I am writing this article for the 2nd quarter issue of The CORN Connection on July 25th where we attempt to narrow our focus and update you on some of the things that have been happening through just the first six months.

And since we are in fact now less than one-third of the way into the 3rd quarter, and thus have a long way to go before it ends, I can't help but to share with you a glimpse into The Great Turnaround we have already experienced as these volatile markets have again shifted, enabling CORN, LP to establish a new record of earnings by putting more than \$6 million worth of income on the books in just the first 25 days of July.

That is yet further evidence as to just how volatile the times are, and how volatile the markets we operate in and with are,

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and clearly when we are dealing with the sums we are dealing in these days, these are definitely not times or markets for the meek, or timid, for the weak of heart or weak of will.

At the same time, however, as nerve-racking, emotionally-charged and nail-biting as these markets have been, as one of the members of the CORN, LP Board of Directors said to me: "What a tremendous amount of experience these markets must have provided to CORN, LP's Production and Management Teams, and to the Board, by going through them."

I am sure that along with the rest of us on those CORN, LP Teams, and along with the Board of Directors as well, many of you are amazed with so much of what has been taking place all around us in our markets, marketplaces, our businesses and in our individual, personal lives in what have truly been unique, remarkable and record-breaking times.

Therefore, as we move forward into the 3rd quarter and thus the second half of CORN, LP's 2008 year, let me share with you the following:

- * CORN, LP continues to have good margins and good positions.
- * The energy market is supporting ethanol prices, and our hedges will kick in if the energy market retreats.
- * The plant is operating very well.
- * Compared to plants of similar size and capacity, the energy differential between those operating with natural gas and those operating as CORN, LP does with coal/steam generated power equates to a \$13,000,000 advantage.

That operational advantage translates into a 25 cent per gallon advantage on ethanol price/value that CORN, LP enjoys in the marketplace.

The 3rd quarter is underway, and the Entire Team is looking forward to it with excitement and enthusiasm.



CORN, LP

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