



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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To Provide Information For
Our Owners And Investors

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Inside CORNland

By
Brad Davis
CORN, LP
General Manager



As the 3rd quarter of operations for **CORN, LP** was drawing to a close on September 30th, there were indeed a number of positive developments underway that gave our spirits a significant boost heading into the 4th and final quarter of 2009.

For one thing, as reported to you in **CORN's Checkbook** elsewhere, our 3rd quarter savings were in the black and there are always many reasons to feel good about putting positive figures on the books.

For another thing, as Jim has also mentioned, our crush margins for this past quarter were also good. In fact, the 3rd quarter crush margins were the best we have seen for **CORN, LP** in over a year and a quarter, and again that broadens the smiles on faces and brightens the mood.

This improvement in the figures, and in our crush margins, have both seemed to take a long time coming back to us, and a closer inspection of these improvements reveals that most of the positive influences have occurred within just the last few weeks of the 3rd quarter.

With these positive developments forming our foundation to start the 4th quarter, therefore, I am sure you can sense the lift that has been given to the collective mood and spirit of the entire **CORN, LP Staff & Employee Team** as we set our sights on finishing the 2009 year on the highest possible note.

Whether we're able to get all the way back to finish the year with black numbers in most categories, and certainly the most important ones is doubtful, but only time will tell.

I can assure you, however, if it does indeed turn out that we ultimately fall a bit short of that objective, it will certainly not be for a lack of effort, dedication or determination to rally **CORN, LP** all the way back from the impact of the industry-wide and nation-wide economic downturn all of us and our business have dealt with these past 18-24 months.

Yet even as we begin to feel some relief and recovery from those pressures of past months, we do so with the full realization that we now operate within an entirely new and different economic environment, and that there are some dramatic changes and differences which have taken place in our markets and marketplaces which significantly alter the way in which our business will be conducted and the ways our products are purchased and merchandised as we move forward into the future.

These changes and differences stand out perhaps as sharply as anywhere when we put the way crush margins have been impacted under the microscope to compare today's environ-

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Evaluating Beneficiaries of Biofuel Producers' Tax Incentives

By Brad Davis

This past March the Department of Revenue published a report regarding the biofuel tax credit program, and I thought you might find some of the data included in that report both interesting and enlightening.

- *A 50 MGY ethanol plant employs an average of 38 workers, while a 100 MGY plant employs an average of 52 workers. Employees earn an average annual salary of approximately \$52,000.*

- *State tax credits may have induced as much as 25 percent of Iowa's ethanol production capacity.*

- *A portion of the increase in corn prices experienced in recent years (3 cents in 2005, 9 cents in 2006, and 17 cents in 2007) can be attributed to increased ethanol production capacity induced by tax credits.*

This increase in the price of corn led to an increase in farm income at the state level of \$64.9 million in 2005, \$184.5 million in 2006, and \$402.4 million in 2007, while the value of corn produced in Iowa was \$6.8 billion in 2006 and \$10.7 billion in 2007.

- *It is estimated that increased ethanol production capacity increased the average farmland prices by \$66.57 (2.3 percent) in 2005, \$136.73 (4.3 percent) in 2006, and \$253.4 (6.5 percent) in 2007.*

This translates into total agricultural land value increases of \$2.1 billion, \$4.3 billion, and \$8.0 billion over the same periods.

- *At the same time, increased corn demand has led to increased farming input costs. The average farmland rent increase due to the tax credits was \$2.37 per acre in 2005, \$7.11 per acre in 2006, and \$13.43 per acre in 2007.*

- *It is estimated that the operation of an ethanol plant in a town increases the average real household income of its residents by \$822. There does not appear to be a very strong correlation between counties that had an ethanol plant constructed between 2003 and 2006 and change in retail sales.*



CORN's Checkbook

By
Jim Glawe
CORN, LP Controller



BLACK is my favorite color! *Black* trucks and *black* cars. Hawkeye *black* and, best of all, **BLACK Bottom Lines!**

For the 3rd quarter of operations at **CORN, LP** we posted a net income of \$161,186 (a black number), compared to the 2nd quarter loss of \$2,464,305 (a red number) that I reported on in the previous issue of *The CORN Connection*.

While I will be the first to agree this is still a long way from the profits we enjoyed posting in 2006 and 2007, hopefully it reflects that the ethanol production industry has **Turned The Corner** and that **CORN, LP** is once again on the way to returning to those profit levels.

Typically we have seen ethanol prices peak during the summer, those "driving months" for vacationers and travelers all across the nation. As fall arrives, prices have typically started to drift lower, and ultimately they will tail off and hit the low point during the winter months.

Well, if there's one thing most everyone agrees upon it is that the year 2009 may be called a lot of things, but "typical" is not likely to be one of them, and that goes for how the pricing trend for ethanol has unfolded in 2009 as well.

This year we have seen ethanol prices actually climb a little higher during the spring, go into a decline throughout the summer season, and then start on a steady climb higher as fall arrived, reaching their high for the year thus far as we began the 4th quarter in October.

The cost of corn has also come up to increase our expense side, but ultimately the crush margin - that difference between what we buy corn at and sell the ethanol for - has improved.

Having ethanol prices start out the quarter at their high for the year, and seeing our crush margin improve even though corn prices have moved higher, has me feeling optimistic as we begin this second month of the 4th quarter, and moving on into our new year when 2010 arrives.

Another thing that makes me feel cautiously optimistic as we approach 2010 are the increasingly promising prospects for E15 ethanol.

The EPA has been extending the comment period regarding the granting of a waiver to blend 15% ethanol with gasoline a number of times, keeping this issue in limbo.

But on September 25th they finally allowed the comment

period to conclude, so now the EPA has until December 1st to make their ruling on this issue, and clearly the implications for the ethanol industry are significant should they rule in favor of a 15% ethanol inclusion rate.

Turning now to the 3rd quarter review, I have included the *3rd Quarter Financial Highlights* elsewhere on this page.

As you can see, total sales for the 3rd quarter were just under \$26 million, which is down approximately 11% from 2nd quarter sales, and down 40% from the sales recorded in the 3rd quarter of 2008.

These percentages are somewhat misleading, however, since our volume of gallons sold in the 3rd quarter are down only 3% from the volume sold in the 2nd quarter of this year, and they are actually 8.5% higher than the gallon volume sold in the 3rd quarter of 2008.

The large discrepancy between this year's figures and last year's figures results from the ethanol derivative.

As some of you may recall, in an article in *The CORN Connection* a year ago, I talked about the gains and losses we're required to recognize when bringing derivatives to market.

At that time I noted that in the 2nd quarter of 2008 we lost \$6.5 million then gained \$7.1 million in the 3rd quarter that followed, which was the result of bringing derivatives to market.

This made last year's 3rd quarter ethanol sales figures much higher than they are for the 3rd quarter of the current year.

Moving down the column in the quarterly highlights, you see our cost of goods sold was \$24.8 million, a decline of 16% from second quarter figures, and 26% lower than the 3rd quarter of 2008, which reflects the \$1.00 per bushel dip in the average price per bushel of corn we've experienced since a year ago.

Another contributing factor in this reduction in the cost of goods sold is a change in the cost for many of the ingredients we utilize in manufacturing ethanol, some of which have dropped by as much as 50% compared to a year ago.

Some of the many ingredients we use are anhydrous ammonia, sulfuric acid, sulfamic acid and caustic soda.

The total number of bushels ground dipped slightly (3%) from the volume of the 2nd quarter, but were up slightly (6.7%) from last year's ground bushels volume.

The level of production continues to be excellent, coming in at 14,370,643 gallons for the 3rd quarter. This puts ethanol production at **CORN, LP** up 6.1 million gallons compared to last year at this time, and at this rate we could shut the plant down for the entire month of December and still break last year's production record.

And when compared to 2006 production figures, which was the first year of production at **CORN, LP**, we have already produced more gallons of ethanol in three quarters than we did in all of 2006.

CORN, LP Operation Highlights - July 1 Through September 30, 2009 (Un-Audited)

	3rd Quarter	Year To Date
Sales	\$ 25,990,674	\$ 81,001,014
Cost Of Goods Sold	24,882,471	83,634,285
Gross Profit (Loss)	1,108,203	(2,633,271)
Operating Expenses	997,909	3,067,383
Income (Loss) From Operations	110,294	(5,700,654)
Other Income	50,892	140,633
Net Income (Loss)	161,186	(5,560,021)
Net Income (Loss) Per Unit	5	(177)
Return On Investment	0.51%	-17.75%



**Coach's
CORNER**
By
Andy Miller
CORN, LP Plant Manager

As I believe I mentioned in the previous issue of *The CORN Connection*, we had a planned shutdown at the plant starting on September 14 - 21.

One question I have been asked in the past has been why shut down when the plant is operating well.

The answer is simple. We have been operating since the last shutdown in April continuously with only 10 hours of down time. (Those being due to a lightning strike and an electrical issue.) This is only because the equipment was maintained and had been checked out and placed back in “new” condition on the last shutdown.

Our on-line preventive maintenance program, predictive maintenance program, and operator and mechanic vigilance cannot replace the time spent shutting down and looking at the equipment and restoring it to “like-new” condition.

That’s why we need to have a shutdown twice a year to look at it with a plan in place, people on staff, and parts at the ready. Otherwise, in Darrell’s words, the (unplanned) shutdown’s plan you instead of you planning the shutdown.

Our process for shutdown starts a couple of months before the shutdown date.

First, we brainstorm a list of items that need to be addressed. We certainly have recurring items that must be performed every shutdown. We also have items that we accumulate between the two shutdowns. We have items that arise upon inspection of the equipment once it is shutdown and opened up.

The second step of our shutdown process is the ordering and receipt of spare parts and services. Mechanics and management gather part numbers, take measurements, and develop tactics on how the equipment is going to be shutdown, flushed, opened, and repaired.

The parts are ordered through vendors and, often times, made by our maintenance crew. We will stage the parts in the field when possible to increase the efficiency of the shutdown. For parts that are ordered, a follow-up on delivery dates is typical to ensure there are no unplanned shortcomings.

If a delivery date slides past the shutdown, Darrell Pedersen, our Maintenance Manager, typically dives into his Rolodex and finds the part within the network of contacts he has in the industry whether it be another parts supplier or another ethanol plant.

Service vendors (millwrights, water blasters, vacuum truck operators, welders, etc.) are notified and, often times, walked through the plant to show what jobs will be in their scope. Procedures are reviewed with vendors, timelines are discussed, and **CORN, LP** orientation is scheduled for each member of the contractors’ workforce.

Operations Manager Judd Foth, Energy Center Manager Dave Lensing, Production Resource Aaron Goodell, and Process Manager Jenny Etheredge all work together exhaustively in the time leading up to the shutdown, during the shutdown, and finally, after the shutdown to bring the plant back up to speed.

The 12 - 14 hour days writing permits, preparing equipment, ensuring everyone is working in the same direction, and tough decisions involved combine to wear out the group by the time the plant is back up and running.

The last step is doing the work. We rely very heavily on our own workforce. Our operators get very heavily involved in the shutdown activities. This saves us a lot of cost and really gives me more confidence in the quality of the work. The operators are a known quantity and can be trusted to the jobs correctly. Some operators are “drafted” by the maintenance group to work alongside the mechanics.

This provides some additional support to our maintenance department and gives the operators a view into the “black boxes” they operate daily.

The cornerstone of our shutdowns is the maintenance group. Our maintenance group has a wide variety of experience and is extremely good at what they do. We typically utilize our mechanics to perform the critical inspections and more important tasks.

This shutdown is very important in that it is our last shutdown before the winter where a breakdown could cause a very costly freeze up. Also, there are 7 months before the spring shutdown (in April) is scheduled.

Overall the shutdown went extremely well. However, we did encounter one big surprise. As is typical, the combustor was the source.

Upon inspection, we found two of the concrete (refractory) walls in the transition area (hallway) between the combustor and the boiler had become detached from the metal skin., some of the refractory had separated 1 -2” from the insulation board.

As you’ll recall from previous articles, the refractory is the concrete-like substance placed next to the metal shell of the combustor and boiler to protect the metal from the 1,800 degree temperatures reached in the boiler.

With the history of surprises this combustor and boiler has provided in the past 5 years, we had a refractory repair company on standby with material and manpower ready to make the necessary repairs. Like watching concrete dry, the job was frustrating, slow, dirty, dangerous work.

There have been a few injuries in other plants when taking out the large, heavy refractory pieces. The work was completed successfully and did slightly impact our re-start by one day.

On a positive note, a new piece of equipment was installed to eliminate the carryover issue experienced by the plant since start-up. If you remember from other past articles, carryover is where water is sent down the steam pipes along with the steam that is produced. Much like boiling over a pot of water on a stove, our plant was boiling over the steam drum.

The water that travels through the steam pipes erodes the piping which, obviously, decreases the life of the piping systems. The water carries chemicals which are added to reduce corrosion, oxygen content, and adjust pH.

When this water and chemicals exits the steam drum, they must be replenished. This is a costly problem. Also, the water enters tanks diluting solids in tanks and, in most systems, overwhelms condensate return pipe systems.

In layman’s terms, the steam is used to heat the process and the steam is condensed. This “condensate” is then returned via pumps to the boiler to re-use the water and the heat still present in the condensate making the plant more efficient.

Happily, our carryover problem of the past five years is gone. We went from having 100 gallons per minute of water travelling down the steam pipes to 0 gallons per minute.

So, after a grueling week of shutdown work, the plant is back up in operation, running at a better than 62,000,000 gallon per year rate with dry steam.

We have already scheduled the next two shutdowns and begun the lists of things we need to do to keep the unplanned shutdowns to a minimum. Now, if I could only get this kind of organization in the markets and the weather...



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ment to the previous one.

As we know, before the economic collapse virtually all of the news for the ethanol industry and ethanol production was positive, as it was for virtually all businesses.

A certain amount of growth was almost automatic, everyone was enjoying steadily advancing prices for corn and soybeans, trucks and automobiles, houses and virtually everything else, and obviously CORN, LP was able to enjoy positive crush margins.

During those times the standard business practice of purchasing ethanol in the petroleum industry was to lock in the crush whenever opportunities in the farther out months presented themselves, and in some cases those opportunities were being perceived as much as 12 to 18 months out into the future.

Of course when the economic downturn struck, the petroleum industry took a significant hit on the ethanol values that had been locked in for future months as those values, like so many others, collapsed.

You can say what you want about the petroleum industry and its practices, and no doubt just about everything that could be said has been said, and by many people.

However there are few people who would accuse the petroleum industry of being so clueless they would ever again take the risk of being left holding a "bag" of higher priced ethanol because they had locked in high priced ethanol many months out in advance.

That's the "Where-When-Why" we have had the dramatic changes and differences that have taken place in the marketplace we operate in today.

Here's the "How" those changes and differences have been implemented: Rather than operate as before, locking in futures prices for ethanol months in advance, the petroleum industry now buys ethanol using indexes, averages and the spot market.

As a result, when crush margins improve to a certain point to make them more attractive from the production point of view, they tend to become less attractive from the point of view of the petroleum industry we're selling to, thus we are no longer able to contract the kind of long term crush margins that we were once able to.

And yes, occasionally there may be a "Hot Deal" opportunity

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develop to sell at a better margin than the standard levels we're now dealing with in this new marketplace, but under closer inspection the number and potential costs of the sacrifices one must make that accompany those opportunities can make them impractical at best.

In a broader sense, therefore, the marketplace for the ethanol industry changed, as have so many other markets and marketplaces in response to the impact the economic downturn has had on all industries, businesses and individuals.

Everyone, from corporate giants to businesses on Main Street, from the auto and housing industries to farming and ethanol production businesses and right down to virtually every individual has adapted to these changes, and we're all doing many things differently than before.

Change is sometimes difficult, though not always, but it is inevitable, and as we continue to adapt to this new marketplace and the ways in which CORN, LP will both purchase its inputs and merchandise its production, we have the good fortune to have a plant that is operating at a remarkable level of efficiency and productivity, an outstanding Staff & Employee Team that is doing a tremendous job, and a strong showing for the 3rd quarter of operations from which we will make a solid push to complete the year in the most positive light possible.

CORN, LP Production Highlights

July 1 Through September 30, 2009

	3rd Quarter	Year To Date
Ethanol Production	14,370,643 Gallons	43,426,842 Gallons
DDGS Production	41,108 Tons	122,013 Tons
Wet Cake Sales	125 Tons	2,599 Tons
Corn Purchases	5,062,061 Bushels	15,431,587 Bushels



CORN, LP

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