



The

# DISPATCH

## STEVE'S REMARKS Comments from our GM

The ethanol industry has struggled to maintain a positive cash flow since October 2018 and LSCP to date is certainly not an exception. Profitability for most is minimal at best. The bright spot has been our ability to execute gallons into California the first 6 calendar months of 2019 and earn a slight improvement in value over our typical eastern shipments. The carbon intensity tonnage earned has allowed the company to post a positive cash flow or better since January. The futures markets move upward that occurred over the past few months created a temporary hedge loss which will be earned back as we move forward in calendar 2019. Through the 3rd fiscal quarter the company has a net loss of approximately 2.2 million dollars. This does not include insurance payments for lost revenue since the incident that destroyed our steam generating equipment in the original plant. We have not final settled the business interruption payables to us but would fully expect this payment to turn us profitably when compared to the 3rd quarter fiscal year loss. I want to caution

all of you, the ethanol market is oversupplied. Small Refinery exemptions granted have reduced demand mandated by the RFS. Its really a crashshoot to speculate regarding the ability of LSCP to generate revenue the last half of 2019. The bright spot for you as an investor is your tax year is calendar. Our loss to date is fiscal. If the loss in first fiscal quarter is subtracted from our fiscal loss, LSCP is positive to date in your current tax year by approximately 2.3 million dollars plus our business interruption. If we can continue this pace the company has a very good chance of a profitable 2019. I am not going to claim our net income will end close to previous years. I do think by taking into a account our location and market access, our results will be far above the industry average. Time will tell on my prediction. This means you may have a k-1 with a tax liability associated with it at tax time. I hope we all have a reason to complain about potential tax obligations in December.

The renovation project associated with

the incident in November 2018 is progressing. We will be working through equipment startup through August and be back to normal operations in September. I can assure you the plant will not be sad once the rental boiler is on its way back to Oklahoma. We are most excited that the new equipment will be more efficient and safer to operate.

The crops in NW Iowa look good for the conditions this spring. We do have corn and soybeans that are vulnerable to an early frost. I have not traveled extensively in the Midwest, but I have been across Iowa and some parts of Illinois and Missouri. I can assure you; NW Iowa takes the trophy for the most potential. Let's hope good weather continues and lets the crop mature.



**Steve Roe**  
*General Manager*

## Commodity Corner



**Jake Wetter**  
*Grain Merchandiser*

2019 will definitely be a year that everyone will remember for years to come!! Floods, delayed planting, more floods, prevented planting and throw in the US/China trade war just to add to the uncertainty. Total harvest acres & yields will be debated well after the final production report

for the year in January of 2020. The weather has been extreme from the start in January. The wet cool weather produced a very late spring to start with. Then rains began to fall in March, April & May and planting progress for corn & soybeans

was delayed well into June before much of the crop was finished planting. 2019 will most likely be a year with record prevent plant acres for both corn & soybeans. Many areas of the corn belt were simply too wet to get the crop planted by the end of June. Since mid June, weather conditions have improved all across the Corn Belt with moderating heat as crop conditions remain steady. Rain fall has been much more moderate and the crops will yield much better than one would have anticipated around the 4th of July.

Markets have reacted and cash corn has been trading \$1 to \$1.50 per bushel higher than they would if weather would have cooperated. \$4 cash corn has been rationing demand all summer. Demand has been poor from all sectors the last year. Large crops throughout the world have created a plethora of alternative supplies. Export competition is also fierce as world supply has

been huge the last few years. US corn exports are down 15% this year and that is with cheap corn prices for 9 of the last 12 months. Depending up on price, we could cut exports 10-30% next crop year. The ethanol market continues to suffer as declining production from plant closures and cutbacks have failed to prevent a continued build in stocks that are now at record levels. Ethanol grind of corn has shrunk 225 million bushels in the last two years. With record ethanol stocks & poor production margins usage is likely to be lower again this coming year.

We have much lower supply & also lower demand... What will prices be? Better than the last couple years, but most likely not the \$5 or \$6 prices that some analyst were predicting either. Prices will be volatile as there are still some big unknowns out there. Seasonally, March – June typically produces the high for the year. 2019 has been no exception with a June 17th high of \$4.73 on December futures. Will we see values in the fall and/or winter higher than June? Time will tell, and this year anything is possible!

# Safety first, last and always...



**Chris Williams**  
*Plant Manager*

Every year summer kicks in and construction begins causing detours, delays, and extra caution on the roadways. All this construction leads to a smoother road or a stronger bridge. Construction is in any business or industry starting from the beginning and continuing through expansions. Little Sioux Corn Processors has been remodeling quite a bit to make room for the extra gallons of ethanol we put out the door.

For the past five years Little Sioux has been in a constant state of construction finding ways to debottleneck and improve efficiencies. In 2014 we had construction to rebuild Dryer A and an RTO. Shortly following that construction, we began debottlenecking and improving efficiencies

Construction has been seen in almost every step in the process flow from the additional grain storage and a new corn dump to allow for shorter waiting for farmers delivering corn. To the hammermill design changes, and the added two additional hammermills and a whole new milling conveyor system to diversify grind size, yield benefit, and increase the amount of corn throughput through our system.

Our cook system has been improved with bet-

ter mixing, temperature control, and process flow. A hydro-heater was added to our slurry tank to get a better temperature profile and starch sheer to our corn. We have increased heat exchanger plate packs to get better flow and heat/cooling transfers where needed.

Fermentation has changed greatly in the last five years with the addition of five more fermenters to add to the amount of contact time yeast have to work on the corn sugars. We've added some cellulosic ethanol chemicals and technologies to increase diversification, which made ethanol gallons more valuable in price for LSCP.

We added a beer-flash system to knock entrained Carbon Dioxide out of beer before going to distillation, which helped with throughput through the distillation columns. We've made process changes to our rectifiers and fusel draw systems, to take some load off distillation columns. We've upgraded our 190 proof condensers to help with vacuum and flows. We've added several mole sieves to increase capacity and make LSCP more versatile in export ethanol market.

We've added additional ethanol loadout stations to improve the time it takes to load the ethanol onto railcars, increased the ethanol tank farm with two more tanks for more storage capacity.

We've added two additional centrifuges and modified the flow path of our centrifuges. We've added two additional evaporators and two reboilers to help with temperature exchanges. We've added a larger thin-stillage tank, syrup tank, modified whole stillage and cook water tanks to help with the added

capacity.

We've added greensand filters for our incoming water supply. We've added additional cells onto both of our cooling towers and added a second chiller to our fermentation cooling tower.

We've added a third corn oil separator to help with corn oil yield and throughput. With additional yield and throughput, it was decided that we needed two additional tanks to hold all this extra corn oil we are making.

Construction continued with the repair of our oldest energy center and equipment within. We've had a few detours on the timeline with this project due to weather conditions and products arriving to us on time with rail conditions but it is progressing along nicely. In August, we plan to complete these construction repairs and get a new RTO and boiler system online.

With all this construction we've had more engineering, more contractors on-site, more materials and parts arriving on-site, more training, road closures, truck detours, and more risk of things that could go wrong. Our employees have done an excellent job controlling the risk when it comes to safety by doing through hot work permits, confined space permits, lock-out tag out permits, excavation permits, contractor communication, guidance, and evaluation which has helped to reduce the risk in all of these construction projects. Construction, in any form, is the progression into the future and without it, we would be standing still.

## Sorting Out Good and Bad Ethanol Policy News

*From the Renewable Fuels Association*

When the EPA on May 31 published its final rule allowing the year-round sale of E15 fuel, the ethanol industry wanted to celebrate this major victory without reservation or hesitation—especially because President Trump was visiting one of our member ethanol plants only days later for the celebration. However, we also knew what was looming in the near future: the proposal for 2020 RFS renewable volume obligations, a decision on the court-ordered “remand” of 500 million gallons of lost demand from the 2016 RFS, and decisions on a few dozen small refinery waiver requests still pending.

Thus, our show of gratitude for finally getting year-round E15 came with a warning. The E15 announcement was great news, indeed; however, a failure to reallocate small refinery exemptions

or properly address the court remand in the 2020 RVO proposal would far outweigh the good news. And further, with 38 more waiver requests pending, the ethanol industry is looking at the possibility of even more demand destruction. When President Trump visited Southwest Iowa Renewable Energy on June 11, he heard this warning loud and clear. Shortly after his visit to SIRE, it was reported that the President had instructed EPA and USDA to sort out a way forward on small refinery exemptions that doesn't further undermine demand.

But with the July 5 release of EPA's proposed RVOs for 2020—conveniently tucked into the middle of a long holiday weekend to soften media coverage—the ethanol industry saw the future, and it was a little bleak. By neglecting to prospectively reallocate small refinery exemptions and blatantly



ignoring the court order to restore improperly waived gallons, EPA completely betrayed President Trump's commitment to uphold the integrity of the Renewable Fuel Standard.

Something is afoot, we believe, and our suspicions were confirmed when the Department of Energy, on July 19, confirmed that the EPA ignored DOE recommendations regarding whether small refiners should receive exemptions from their RFS blending obligations. In a letter to Sen. Chuck Grassley, Energy Secretary Rick Perry wrote that EPA granted an exemption to a refinery when DOE analysis found no exemption was warranted. Further,

Perry pointed out that EPA has never granted a partial exemption—opting instead to grant full exemptions—despite many instances where DOE analysis indicated only a partial exemption should be considered.

The demand destruction shenanigans at EPA must end. Rest assured, RFA will continue to press EPA, the White House, lawmakers, and other decisionmakers to put a stop to the onslaught of small refinery waivers and ensure the RFS is implemented and enforced as intended by Congress. Through media efforts, court actions, and other tactics, RFA continually endeavors to get the RFS back on track and repair the damage done to our industry.



# FINANCIAL STATEMENT Review

By Gary Grotjohn



**Gary Grotjohn**  
Controller

## LSCP, LLC Statement of Operations For Periods Ended June 30, 2019 and 2018

	Quarter Ended June 30, 2019 (Unaudited)	Quarter Ended June 30, 2018 (Unaudited)	Nine Months Ended June 30, 2019 (Unaudited)	Nine Months Ended June 30, 2018 (Unaudited)
Revenues	\$67,238,000	\$68,351,000	\$178,624,000	\$198,818,000
Cost of Goods Sold	\$66,901,000	\$58,087,000	\$177,538,000	\$184,446,000
Gross Margin	\$337,000	\$10,264,000	\$1,086,000	\$14,372,000
Operating Expenses	\$1,136,000	\$1,297,000	\$3,575,000	\$3,839,000
Income from Operations	(\$799,000)	\$8,967,000	(\$2,489,000)	\$10,533,000
Other Income (Expenses)	\$68,000	\$56,000	\$287,000	\$202,000
Net Income	(\$731,000)	\$9,023,000	(\$2,202,000)	\$10,735,000

Quarterly Revenues decreased from last year. Lower ethanol and co-product sales volumes due to the boiler explosion, along with lower sales prices, contributed to this reduction. Quarterly Cost of Goods Sold were lower than last year. These decreases resulted from decreased production due to the boiler explosion, and higher corn costs. Fiscal YTD Gross Margins were lower than last year due to lower production levels, lower sales prices, and higher corn prices paid. LSCP purchases business interruption insurance that helps replace revenues when events like the boiler explosion occur. While we have not recorded any expected income in our YTD Statement of Operations, we believe that the insurance reimbursement will be approximately \$5.1 million through March.

## LSCP, LLC Balance Sheet For Periods Ended June 30, 2019 and 2018

	As of June 30, 2019 (Unaudited)	As of Fiscal Year Ended June 30, 2018 (Unaudited)
Total Current Assets	\$37,432,956	\$33,949,356
Net Property and Equipment	\$91,117,040	\$92,149,864
Other Assets	\$3,937,836	\$4,330,648
<b>Total Assets</b>	<b>\$132,487,832</b>	<b>\$130,429,868</b>
Total Current Liabilities	\$15,447,790	\$14,637,129
Owner's Equity	\$117,040,042	\$115,792,739
<b>Total Liabilities and Equity</b>	<b>\$132,487,832</b>	<b>\$130,429,868</b>

The increase in Total Current Assets and Total Current Liabilities is partially a result of an insurance payment advance. Increase in Owner's Equity is a result of yearly earnings less distributions to owners.

## LSCP, LLC Owner's Data For Periods Ended June 30, 2019 and 2018

	Quarter Ended June 30, 2019 (Unaudited)	Quarter Ended June 30, 2018 (Unaudited)
Outstanding Ownership Units	271,065	271,065
Original Cost of Units (\$1000/15)	\$66.67	\$66.67
Period Earnings	(\$731,000)	\$9,023,000
Per Unit	(2.70)	33.29
% of Original Unit Cost	-4%	50%
Ethanol Gallons Produced-Denatured	38,713,277	39,548,260
Per Unit (Annualized)	571.28	583.60

### Most Recent Unit Sales

Class A: May 2018 - 50 Units @ \$676  
Class B: April 2019 - 56 Units @ \$523  
Class C: April 2018 - 120 Units @ \$650

# Harmful Gasoline Emissions Threat to Public Health

By Doug Durante

July 16, 2019

Air quality is one of those things that is all too easy to take for granted. After all, if you can't see the toxins in the air you breathe, they may as well not exist.

But what if there is research illustrating that some of these toxins — specifically ultrafine toxic particulates that often come from additives in gasoline — are not only a known danger to our public health, but that there is a solution to this problem that has been intentionally ignored by influential leaders in the public and private sector for decades?

The reality is this: Recent reports show worsening air quality in the U.S. can be attributed to hundreds of millions of gasoline vehicles on American roadways emitting significantly more harmful emissions than being reported. Emissions from unnecessarily high aromatic levels in gasoline have been linked to pre-term births, cancer, IQ loss, neurological disorders, and a multitude of respiratory diseases. In fact, a report by the Massachusetts Institute of Technology estimated 50,000 premature deaths are caused each year from transportation fuels, and gasoline—which powers more than 250 million cars in the U.S.—is proving to be the most significant contributing factor.

Here is what is most alarming: While there are dozens of reputable and peer-reviewed studies confirming that ultrafine toxic particulates are one of the most serious public health threats in urban areas, this is likely just the tip of the iceberg in terms of what we know. That's why Farmers Union Enterprises recently released the Gasolinegate Report and specifically asked Congress for an investigation into why the Environmental Protection Agency is ignoring toxics in gasoline while delaying real-world fuel and emission testing. Having just completed our Fact Book on Mobile Source Air Toxics: What's in Our Gasoline is Killing Us, we know the problem is getting worse, not better.

The Gasolinegate Report illustrates how that is possible as it chronicles the impact of three decades of flawed testing and emission calculations. It also aims to help Congress determine why the EPA has refused to update a critical cost benefit analysis to reduce toxics for the past 13 years and continues to side step a clear path to reducing toxics in gasoline to the "greatest extent possible" as required by the Clean Air Act Amendments of 1990. This data could be critical to congressional oversight as the EPA is in the process of finalizing several new rules that will impact gasoline quality, vehicle efficiency, toxic emissions, greenhouse gases and the development of alternative fuels for decades.

It's also why FUE launched the Safe Gasoline Public Education and Consumer Awareness Campaign, which aims to educate consumers on this highly important, yet complex issue.

Again, a solution exists. We believe a simple and technologically achievable increase in the octane standard will allow conventional cars to increase mileage by as much as 5 percent and reduce greenhouse gases by 7 percent. The result would be cleaner, safer fuel at a lower cost than all cars, but more importantly all Americans, can benefit from.

The time is now. Let's stop taking the air we breathe for granted.

*Doug Durante is the executive director and Washington representative of the Clean Fuels Development Coalition, a nonprofit and membership organization that supports programs and policies that expand the market for ethanol and other biofuels.*



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*New additional corn oil tanks*



*New RTO*



*Cook water heater*



*Old energy building repaired*



*Repairs in progress*