



The

DISPATCH

STEVE'S REMARKS Comments from our GM

Please keep in mind, any numbers I mention regarding profitability are unaudited and may change when the books are finalized. The company ended the year on a positive note and will post a positive result of approximately 3 million dollars for the fiscal year. The company experienced some challenging times with the boiler incident, a hostile EPA, SRE's, and the subsequent hits to the p/l that resulted. The old side energy center is fully commissioned and has been operating since early August. I can assure you the equipment to date is operating flawlessly. We have safety controls in place to alleviate any future incidents. I can never say, it's impossible, but with the new equipment and controls we have installed, has greatly reduced the risk. We are adding safety controls on the new side as well during this spring's shutdown which further reduces our exposure to equipment or plant upsets.

The ethanol industry has reached a point of market saturation. I yield the point, the RFS should be enforced as written but until we see a noticeable attitude change in Washington D.C., I cannot take an optimistic view regarding demand

improvement. We have seen plants shutdown or slowdown because of negative margins. This has temporarily reduced burdensome stockpiles. Without additional demand, it is evident ethanol stockpiles will remain burdensome and operating as usual will not adequately reward the investor. The company needed to find a way to diversify our revenue stream and not rely on our old standbys. i.e. ethanol, distillers' grains, and distillers corn oil. The board spent many months vetting various systems and concluded that producing a high-end corn protein is the most viable solution. Making more of it wasn't going to remedy the tight margin environment. We needed to branch out and find more high value products from the corn kernel. In summation, handle the same corn, make more high value components without losing our core demand base. I think the board has found exactly that with this system. We can produce a 50% corn protein, an export specification or better distillers' grain, and a high value corn fiber feed for our NW Iowa cattle feeding operations. This project is scheduled to begin construction in the early spring with startup in March/April 2021.

Those of you who live in proximity to the plant have noticed the civil work on the south side of the Railroad right-of-way. The company has developed a plan to build 4- 2 million bushels storage bins and a truck unloading system over time. It is designed to be high speed and will be capable of unloading 50000 bushels per hour. At this point the board has approved the land development required for the system. We do not have immediate plans to begin construction. As we increase production of our core business we will need to balance our production capacity with our grain handling storage and handling component. The time will come and the site will be ready.

Have an enjoyable Thanksgiving and Christmas Season.



Steve Roe
General Manager

Commodity Corner



Jake Wetter
Grain Merchandiser

What a year 2019 has been for the agriculture industry!?!? Every year we face challenges, but 2019 we faced multiple unique events. Early spring brought historic flooding, inclement weather, trade war with China, Asian Swine Flu & the EPA continuing to hand out refinery exemptions to the RFS like Halloween candy.

Northwest Iowa is fortunate in that we at least did get all acres planted & harvested this year. We may have not had as large of crops as the records of the past few years, but still had a very good crop given the conditions we have endured. A wet & slow harvest is better than no harvest at all.

Many are wondering how the markets are "not pricing in the problems" with this year's corn crop. Corn has been stuck between \$3.60 to \$4.00 futures since Labor Day. Pricing models would suggest that is an appropriate price range for the current estimate of a 1.9 billion bu carryout. Slightly above the \$3.30-3.80 range we have had with 2.1-2.4 billion bu carry outs the last 5 years. 2019 crop size is estimated to be 13.6 billion bu vs 14.6 in 2017. Usage is down an amazing 1 billion bu in just two years. Over 600 million bu lower exports & 300 million bu smaller demand from ethanol plants. It is very likely that any further reduction in yield or harvested acres will be matched with further reductions in usage. Leaving carry out next summer stubbornly close to 1.9 billion bushels. Without a South American weather scare, market sentiment will not change the overall narrative of adequate US & Global grain supplies. Projected gains in 2020 US crops on higher acreage & return to trend or higher 2020 yields will keep end users' hand to mouth and farmers fretting about even

lower prices next year.

Cash corn basis is "pricing in the problems". Basis strength is reflecting the regional issues of prevented planting & lower yields. Areas that had the most issues (South Dakota & the Eastern Corn Belt) have seen basis running 50 - 70 cents/bu higher than normal since last June. Northwest Iowa has been close to 30 c/bu higher basis than average to due to the severe issues in South Dakota with prevent & late planting. As normal, cash basis is doing the job of getting corn from surplus areas to deficit areas.

"So, Jake, What's the market going to do?" I hear that question daily. Obviously, I don't know for sure. What I do know & believe in is locking in profitable sales. Sell at market prices that turn a profit for your operation. Successful marketing plans do not always sell on the high but will keep you in business for generations to come. Selling corn when you want to be is always better than selling when you must. Put in firm offers to sell at prices you like, rather than just taking whatever the market will give when you must sell.

A penny saved is a penny earned...



Chris Williams
Plant Manager

Margins are tight for all the ethanol industries with the limitations of the Renewable Fuel Standard and the low value of ethanol. As the industry continues to get tighter one word becomes more important, efficiency. How much ethanol can we get from a bushel of corn, how much distillers corn oil, how much feed? Little Sioux has been continually hitting high targets when it comes to yield. There has been a lot of capital thrown toward making plant improvements to hit those yields in the years prior.

Besides mechanical improvement, additional advancements to get the best yield is chemicals used to break down the corn into more usable pieces. LSCP uses

some higher tiered yeasts, enzymes, and cleaning chemicals to be able to obtain these numbers.

As the corn crop changes from the growing seasons, as the temperature changes outside, and as new chemicals are tested recipes need to be tweaked. Each new chemical may impact chemicals already being used and baselines will be reset. Sometimes vendors no longer supply a product and that forces a change, sometimes a promise for better results, sometimes a promise of less usage, and sometimes the change comes because the product will have the same effect only it is cheaper in price.

We have worked hard to reduce our chemical cost, usage and maintain similar yields. We were able to reduce our alpha enzyme cost to the cook. Along with that we reduced gluco enzyme usage and cost to the fermenter. We made reductions to cellulosic enzymes to save. It's a domino effect where every change affects something else. We trialed a few yeasts

but couldn't find the value in them. We trialed a few different enzymes to determine value with what we had. We found ways to save on water balance with some innovative design upgrades. We adjusted timing and temperature until we found that sweet spot once again. The total effects reduced the chemical cost \$0.03 per production gallon, which sounds small but is equivalent to over \$4.8 million a year.

LSCP remains one of the top performers when it comes to ethanol and corn yield and we were able to trim a few dollars in the process. This requires tight operating controls, careful observations, and planning. As the plant design changes to concentrate protein value in our feed, the plant will change, the recipe will change, and the risks will be there, but we anticipate great things for Little Sioux Corn Processors. We will keep experimenting with that moving target until we hit a bullseye and the targets reset once again.

EPA Proposal on Refinery Waivers Falls Short

After months of delay and debate, the EPA on October 15 announced a supplemental proposal to its earlier proposal for establishing the renewable volume obligations for 2020 under the Renewable Fuel Standard. However, its proposal does little to address the harm the agency's current implementation of small refinery waivers, especially over the past three years, has had on biofuel producers, farmers and consumers.

The effect of the 2016-2018 retroactive exemptions on required renewable fuel blending volumes is substantial. Cumulatively, the 85 exemptions reduced 2016-2018 RFS blending requirements by a total of just over 4 billion gallons. In 2017 alone, the exemptions effectively reduced the total RFS volume by 9.4% from the level specified in the 2017 final RVO rule. As a consequence, surplus RINs have flooded the market, ethanol prices cratered, and for the first time in two decades, year-over-

year ethanol consumption dropped.

In response to sustained weak or negative margins, ethanol plants have been forced to idle or shut down permanently. Since the spring of 2018—when the public began to recognize EPA's massive expansion of the SRE program—at least 19 ethanol plants with combined production capacity of about 1.1 billion gallons have temporarily idled production or permanently closed. That costs jobs at those facilities and across industries providing goods and services to the industry, impacts the supply and cost of animal feed, reduces the supply of low-cost biodiesel feedstock, and reduces the supply of low-cost, clean, biogenic carbon dioxide.

Unfortunately, the EPA's proposed supplemental rule deviates from past practice by proposing to base its estimates of the gasoline and diesel that would be exempted in 2020 on the historical recommendations for

exempted volumes it received from the Department of Energy, rather than the actual exemptions it granted. The problem with this proposal is that EPA has seldom followed DOE's recommendations in deciding SRE petitions. For the 2016-2018 compliance years, DOE on average recommended that 7.3 billion gallons of gasoline and diesel be exempted from RFS obligations, but EPA actually exempted an average of 12.8 billion gallons – 75 percent more.

We do not oppose the granting of small refinery waivers to any company that can demonstrate it is being harmed by the RFS. We do believe this is a high bar, however, particularly as RIN prices have fallen precipitously and EPA itself has concluded the cost of RIN compliance is recovered in the market. Indeed, we believe it highly unlikely any company is being negatively impacted by the RFS today. This doubt is fueled by the high level of secrecy in which the waiver process is conducted. Not even the names of the refineries seeking or granted

exemptions are released, but rather are treated as confidential business information. If the EPA had included in the supplemental proposal any mechanism to ensure that it follows DOE recommendations, the proposal might be viewed as a serious attempt to address the SRE issue. But it did not. In short, the supplemental proposal fails to provide the necessary assurances that the statutorily required volume of 15 billion gallons of conventional renewable fuel will actually be enforced in full in 2020 and beyond.

The EPA will be accepting public comments on the supplemental proposal only until November 29, so we only have a few weeks to weigh in and make our voice heard. If you would like to submit a comment telling EPA why you support a strong renewable volume obligation for 2020 and will no longer tolerate refinery waivers being issued without a clear plan to reallocate lost gallons, contact Jackie Pohlman, RFA's Manager for Member Relations, for further help, at jpohlman@ethanolrfa.org.

FINANCIAL STATEMENT *Review*

By Gary Grotjohn



Gary Grotjohn
Controller

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

	Quarter Ended September 30, 2019 (Unaudited)	Quarter Ended September 30, 2018 (Unaudited)	Twelve Months Ended September 30, 2019 (Unaudited)	Twelve Months Ended September 30, 2018 (Audited)
Revenues	\$70,214,082	\$68,599,097	\$248,838,681	\$267,416,645
Cost of Goods Sold	\$63,706,208	\$62,146,618	\$241,247,823	\$246,605,592
Gross Margin	\$6,507,874	\$6,452,479	\$7,590,858	\$20,811,053
Operating Expenses	\$1,474,222	\$1,245,309	\$5,045,876	\$5,070,448
Income from Operations	\$5,033,652	\$5,207,170	\$2,544,982	\$15,740,605
Other Income (Expenses)	\$180,063	\$152,948	\$534,289	\$355,452
Net Income	\$5,213,715	\$5,360,118	\$3,079,271	\$16,096,057

Quarterly revenues and expenses are similar to last year, however for different reasons. Ethanol gallons produced increased 2% over last year, with less than 1% increase in corn ground. Ethanol prices increase by 8% offset by a 2% reduction in co-product revenues. Corn prices increased 17% offset by a 22% reduction in natural gas prices. 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 between 4 and 5 million dollars. We are working with our insurance company to finalize the claim with our hope to accrue this income prior to finalizing our Fiscal 2019 income statements.

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

	As of September 30, 2019 (Unaudited)	As of Fiscal Year Ended September 30, 2018 (Audited)
Total Current Assets	\$40,215,930	\$36,414,73
Net Property and Equipment	\$95,004,486	\$93,913,105
Other Assets	\$3,884,544	\$4,436,331
Total Assets	\$139,104,960	\$134,764,175
Total Current Liabilities	\$16,783,900	\$13,597,801
Owner's Equity	\$122,321,060	\$121,166,374
Total Liabilities and Equity	\$139,104,960	\$134,764,175

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 September 30, 2019 and 2018

	Quarter Ended September 30, 2019 (Unaudited)	Quarter Ended September 30, 2018 (Unaudited)
Outstanding Ownership Units	271,065	271,065
Original Cost of Units (\$1000/15)	\$66.67	\$66.67
Period Earnings	\$5,213,715	\$5,360,118
Per Unit	19.23	19.77
% of Original Unit Cost	29%	30%
Ethanol Gallons Produced-Denatured	41,940,083	38,288,429
Per Unit (Annualized)	618.89	565.01

Most Recent Unit Sales

Class A: August 2019 - 50 Units @ \$525
Class B: April 2019 - 56 Units @ \$523
Class C: April 2018 - 120 Units @ \$650

Air Pollution Experts Say Current Standards Must Be Strengthened to Protect Public Health

Dismissed by Trump Administration,
Scientists Speak Out Anyway

Published Oct 22, 2019

Washington (October 22, 2019)—Last year, the Environmental Protection Agency (EPA) dismissed its panel of experts on particulate matter, depriving the agency of critical advice for setting standards around one of the most common and harmful air pollutants. The dismissed scientists came together anyway this month to review the science and offer their expertise—and what they found should compel the EPA to tighten rules to protect public health.

Today, the Independent Particulate Matter Review Panel issued its consensus letter on the science and policy of particulate matter. The twenty scientists, the leading experts in their fields, have reviewed the latest science and determined that today's standards, including those for PM_{2.5}—particles smaller than 2.5 micrometers, which can enter the lungs and bloodstream and contribute to serious health problems—are too lenient and must be strengthened. This conclusion is based on a broad range of new evidence from epidemiological and other health studies that have occurred since the last particulate matter review in 2012.

The scientists' letter will be delivered to EPA Administrator Andrew Wheeler and presented today at the EPA's seven-member Clean Air Scientific Advisory Committee (CASAC) meeting. The letter is the result of a meeting of the panel convened earlier this month hosted by the Union of Concerned Scientists (UCS).

"The EPA is legally obligated to set air-pollution standards to protect public health and welfare," said Dr. Gretchen Goldman, the research director for the Center for Science and Democracy at UCS. "Despite its dismissal by the Trump administration, the Independent Particulate Matter Review Panel has finished its job of providing expert science advice. Administrator Wheeler should do his and follow the science."

The panel's recommendation holds additional weight because CASAC, by its own admission, is not fully equipped to weigh in.

"Given that CASAC noted in written comments that it lacked expertise in key disciplines, it was heartening to see a much larger group, with substantial experience and a wider range of scientific perspectives, conduct an informed review," said John Bachmann, the former associate director for science/policy in EPA's Air Office, who provided policy support to the independent panel and helped lead past reviews at EPA. "This panel is experienced in conducting research in the most critical areas related to assessing the health and welfare effects of PM. They weighed evidence, discussed alternative views, and came to a consensus consistent with the great majority of air pollution researchers."

On October 24th and 25th, CASAC is set to issue its own recommendation to the EPA. If this panel, led by Trump appointee Tony Cox, doesn't advise a stronger standard, they'll be ignoring not just the independent panel's analysis, but the review by the EPA's own staff scientists.

"Based on full consideration of the overall body of scientific evidence, we unequivocally found that the current standards for fine particulate matter do not protect public health and must be revised," said Dr. H. Christopher Frey, the former chair of CASAC who led the independent panel. "There is no way for EPA to spin this otherwise. What's extraordinary here is not the hard work of the panel, which is what we committed to do in 2015. It's that the EPA administrator tried to deprive the agency and the public of our science-based recommendations. Our panel shows how the process can and should work."



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