



# THE BEAN COUNTER

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**Minnesota Soybean  
Processors**

**April 2019**  
[www.mnsoy.com](http://www.mnsoy.com)

Spring has finally arrived! (Maybe) Many of our winter snowbirds have arrived back home. Everyone's mood has improved. We farmers are eternal optimists.

Our annual meeting was well attended with members, spouses, and guests. For those who could not attend the annual meeting your dividend check was mailed to you. We had election of directors from all districts. The results are: District 1: Steffen VanWesten District 2: Ron Obermoller District 3: Dale Hansen District 4: Tim Graber District 5: Chad Haselhorst District 6: Gary Dieterich District 7 Bob Kirchner. Congratulations. I am looking forward to working with you in the upcoming year. I would like to thank John Hay and Steve Hanson for their service and dedication to MnSP.

The NDSP project is moving forward. I believe we will be closing the equity drive shortly and moving forward with construction. If you are interested in investing now is the time.

I would like to thank management and employees for the successful annual meeting and for hanging in there through the tough conditions this past winter and the circumstances it brought.

Our scholarship program kept growing this year. We had 61 applicants this year. I am happy to announce that four \$1,000 scholarships have been awarded to the following students: Payton Ahrenstorff of Spirit Lake; Iowa, Maurissa Isaacs of Windom, MN; Alexandra Kirlin of Menahga, MN; and Mathias Kunerth of Brewster, MN. Congratulations to these four recipients.

Lastly our hearts and prayers go out to all those affected by the disastrous flooding that has occurred this spring and also to the livestock producers for the harsh calving season. Our thoughts are with you.

***Bruce Hill, President***

Hello again from Brewster.

Well we almost made it out of winter. The 1<sup>st</sup> Quarter of 2019 was one of the hardest winters we have had at the plant. Not only did we have prolonged sub-zero temperatures and close to record snow fall, we were curtailed on our natural gas supply. These caused the plant staff some very difficult days. First the cold and snowy weather dramatically affected our logistics operations, slowing truck movements both inbound for soybeans and outbound for meal, oil and biodiesel. On the rail side, the cold made moving and operating frozen railcars difficult slowing our normal loadout throughput. The blowing snow and frozen switches also slowed down the railroad's movement.

The curtailment on natural gas was the first time ever for MnSP and as luck would have it 2019 was one of the worst winters which increased the number of Critical Demand Days for Northern Natural Gas (our gas supplier). What this means is that they charge very high rates and will actually cut off supply if we go over our firm allotment for gas. Fortunately, we were able to increase this firm gas by 20% so we should have this issue next year. In total we were curtailed almost 75 days during the last part of December through the end of March, causing use to reduce crush rates to about 90K bushels per day.

With all that we were still able to have an excellent quarter financially and our staff and management performed very well. We were able to complete the 10-year tank inspection on Tank 500 the 8MM gallon crude oil storage tank. This cost was expensed and was the reason for the smaller net profit in March.

We are working toward financial close for NDSP and have several potential investors doing due diligence on the project. Our goal is still to close this late spring early summer. We are finalizing all the utility contracts and will be ready to complete all the financial paperwork quickly after we have the equity commitments. If you are interested in investing or just want to know more about the project, please feel free to contact either myself (507-842-6696) or Brandy Johnson (701-368-3131).

Finally, I do have some staff news. Kristine Saville our administrative assistant and investor coordinator will be leaving MnSP, her last day being April 16<sup>th</sup>. Over the last three years many of you have spoken to Kris about your transfers, conversions and general investor questions. We wish Kris well in her new endeavors. Rob Carstensen and I are always available to answer your questions.

I hope Spring gets here soon so all of you can get planted and that your planting season is a safe one;. We'll talk again in July!

***Scott Austin, General Manager***

2019 thus far has been a definite challenge. With record snow, cold temperatures, and a mix of rain, MNSP operations has been challenged more than any other period. Additional logistical challenges which are a result of the UP Unified Program have further complicated operations.

With record cold temperatures, operations was impacted by gas curtailments which brought our production rates down. We were successful in operating within the limits of the curtailments to achieve maximum rates allowable without financial penalties. Beginning April of 2019 our allotted gas usage has been re-negotiated to avoid future curtailments to allow us to run our maximum rates.

As with anyone else in Southwest Minnesota, the snow was certainly a challenge, especially in our shipping / rail areas. However, the team didn't lose focus and maintained load out operations, even improving average tonnage per rail car. In 2017 the average was approx. 102 tons per car. 2018 the average was approx. 105 tons per car. 1<sup>st</sup> quarter of 2019 we're closer to 106/107. This is a great accomplishment (under extreme conditions) regarding freight charges and overall P/L to the facility.

With all the challenges that have presented themselves in the first quarter, MNSP has moved the Annual Shut Down to June. Our primary focus is to maintain a safe environment, quality product, and work with the merchandising team to meet our customer's needs. Into the 2<sup>nd</sup> quarter (and going into the 3<sup>rd</sup> quarter), there's a lot of activity happening at the facility. There's equipment arriving daily for ASD and staged throughout the plant. We have projects that will impact traffic around the meal silos and tank farm areas that will take weeks, even months to complete. There's a safety concern any time we change or impact traffic patterns. Traffic may need to slow down at times, and possibly be re-routed. These projects will be well advertised to our customers and suppliers prior to any projects starting.

The operations team is ready for the remaining challenges we're sure to face in 2019. We look forward to a safe efficient year.

***Travis Lang, Plant Manager***

2019 got off to a bumpy and rough start. There were several known challenges heading into Q1 2019 and several that we couldn't have anticipated.

We understood the uncertainty surrounding the Chinese tariffs and the on going negotiations. We had a strategy in place for dealing with the huge surplus and carryout of soybeans and how these two issues were negatively impacting commodity futures prices. The challenges that we did not anticipate were the UPRR Unified 20/20 program, Gas and power curtailments, record snowfall and flooding.

The UP Unified 2020 program is the Union Pacific's version of Precision Scheduled Railroading principles popularized by the CN and CSX railroads under the leadership of Hunter Harrison.

The new UPRR program is shifting the focus of operations from moving trains to moving single cars. The plan simply put prioritizes delivery of a customer's shipment from origin to destination as quickly as possible. It is similar to the airline industry where a plane will leave at its scheduled departure time regardless of whether all seats are filled. The plan's success is measured by achieving an operating ratio of 60% by 2020. The operating ratio measures a railroad's efficiency, and it's found by dividing total operating expenses by total revenue during a period. Thus, the lower the reading, the better. The problem with the program is that it does not consider what the customer needs or requires. The UPRR did not consider the substantial investments made by both origin and destination to ship and receive unit Trains. This investment in Unit Train capability was encouraged and incentivized by the railroads in the past. We designed our business around building and shipping Unit Trains. MnSP was highly successful with them and shipped 50 UT in 2018. The UPRR will no longer move these Unit Trains in 2019.

With that said, MnSP has and will continue to adapt and serve our customers utilizing the new UPRR programs.

In Q1 we learned that we would have our gas and power curtailed periodically throughout the quarter. This handcuffed our ability to run at our planned processing rates to take full advantage of profit margin opportunities. The severe cold temperatures and record snowfall in February followed by heavy rains causing significant flooding in March complicating this situation. The extensive flooding that covered most of Nebraska washed out railroad tracks and bridges throughout the Midwest. This resulted in logistical nightmares impacting our run rates. These issues will continue to impact business deep into 2019.



*Flooding near Arlington, Nebraska*



*Flooding along the Falls City Subdivision*



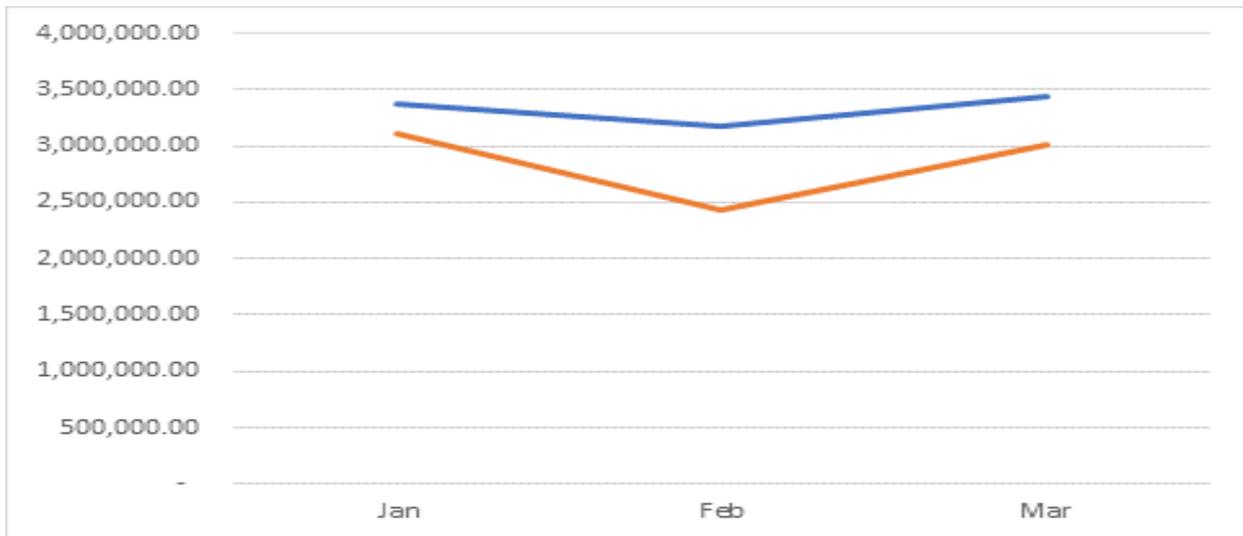
*Flooding in Falls City, Nebraska*



*Flooding in Blair, Nebraska*

In Q1 2019 MnSP processed 15 percent less than what we accomplished in the same period in 2018. This equates to 1,449,612 bushels less. We also shipped 20 percent less rail covered hoppers with soybean meal year on year. In spite of, thanks to a strong performance by the merchandising team and hard work by the operation crews, MnSP had a highly successful quarter financially under difficult circumstances.

**Soybeans Processed Q1- 2018 vs Q1 - 2019**



## **Public Policy Pains**

For the past decade, demand and usage of renewable fuels has been driven almost exclusively by public policy that began in the early 2000's. For biodiesel, Minnesota led the way by passing legislation in 2002 that began the requirement to include biodiesel in the state's diesel consumption. That new Minnesota public policy was greeted by over a decade of furious opposition and battles from groups ranging from petroleum retailers to oil refiners.

Passage in 2007 of the tremendously complicated federal Renewable Fuel Standard (RFS) has fostered national political battles from many of the same groups on a nearly daily basis either in the courts, bureaucracies, Congress, administration, or environmental groups and often by all at once.

The next battle is shaping up over the proposed rulemaking to allow year around sales of E-15. The EPA has combined the proposed E-15 rule with another proposed rule called RIN Reform. The proposed rule makes for a tidy bed-time reading of 175 pages of highly complex, convoluted logic. While the E-15/ RIN Reform proposed rule is not directed at biodiesel, there may be unintended consequences that impact biodiesel and the National Biodiesel Board (NBB) is currently analyzing the proposal.

Other upcoming issues that face the biodiesel industry are the Reset Rulemaking, Small Refinery Exemptions (SRE), 2020/2021 RVOs, and trade. In each instance, NBB is focused in maintaining or increasing the RVO for biodiesel.

The Reset Rule (a provision contained in the 2007 RFS law) was tripped when EPA again reduced the cellulosic ethanol RVO. This means, by law, EPA will propose new RVOs for 2021 – 2022 along with setting biodiesel volumes for 2021 and future years.

Small Refinery Exemptions are another complex issue. The RFS law has a section that allows an exemption to small refineries from complying with RVOs but allowing those exemptions reduces the overall National requirement for renewable fuel blending. This issue is in Federal court with a decision expected this summer.

On trade, the Government of Argentina (GOA) has requested a "changed circumstances" review from U.S. Commerce. This issue won't be resolved for several months.

The expiration of the \$1 federal biodiesel blending credit has been the source of frustration. Despite several opportunities beginning prior to the government shutdown, the House (where the legislation must originate) has failed to move language to re-authorize the expired \$1 blending credit.

*Ron Marr, Director of Regulatory and Government Affairs*

We have just finished the first quarter of 2019 and are showing profits of \$5.68 million for the year. It was a tough quarter operationally, however our staff did a tremendous job dealing with all the adversity that presented itself in the 1<sup>st</sup> quarter. Financially we performed better than anticipated. Margins on the crush side of the business were very positive in the 1<sup>st</sup> quarter. We are looking at the 2<sup>nd</sup> and 3<sup>rd</sup> quarters and fully expect the B20 Minnesota mandate to help stabilize the margins on the biodiesel side. We paid a cash distribution of \$.4765 per share to the members at the beginning of March 2019 which was \$10.1 million. In total we have paid back in cash \$56 million or \$2.65 per share to you the members of MNSP. If you have questions or concerns feel free to contact me anytime.

*Rob Carstensen, Accounting Manager*





Minnesota Soybean Processors

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Change Service Requested

*Bruce Hill,  
Board  
President*

## **MnSP BOARD OF DIRECTORS**

<b><u>DISTRICT 1</u></b>	<b><u>DISTRICT 2</u></b>	<b><u>DISTRICT 3</u></b>	<b><u>DISTRICT 4</u></b>	<b><u>DISTRICT 5</u></b>	<b><u>DISTRICT 6</u></b>	<b><u>DISTRICT 7</u></b>
Bruce Hill Worthington, MN 507-842-5402	John Hay Heron Lake, MN 507-793-2861	Richard Trebesch Sleepy Eye, MN 507-794-6149	Tim Graber Hurley, SD 605-925-4689	Steven Hansen Clear Lake, SD 605-874-2313	Ed Smith West Concord, MN 507-527-2569	Bob Kirchner Brewster, MN 507-842-5592
Steffen Van Westen Reading, MN 507-478-4552	Darol Schmitz Brewster, MN 507-842-5413	Dale Hansen Morgan, MN 507-430-3367	Rick Moser Larchwood, IA 712-477-2881	Edward Verhelst Huron, SD 605-352-5564	Gary Dieterich Rudd, IA 641-832-7355	Michael Zins Fulda, MN 507-425-2632