UNITED WISCONSIN GRAIN PRODUCERS LLC

August 2011 Volume 8, Issue 3

INSIDE THIS ISSUE

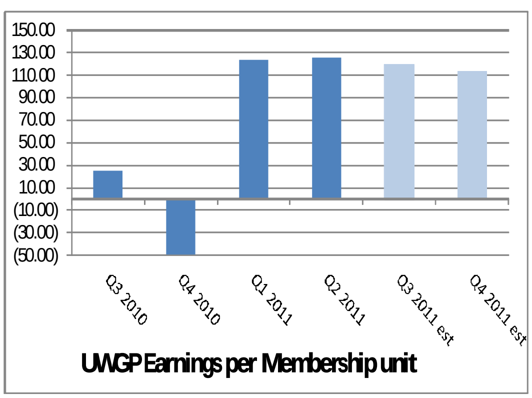
Board News/Robert Miller - President

Greetings to all of our members as we move into late summer, and hopefully some additional rain for the crops and moderating temperatures. The Board is very pleased with the second consecutive quarter of very good financial results and the outlook for the balance of the year. Management and staff are producing much better than industry average results through the first six months of 2011. Because of the availability of cash from operations exceeding our expectations, the Board has approved a second $100 distribution for 2011. This second distribution brings the per unit distribution to $200 for 2011 and the total distributions to $1,986.

As you are probably aware the Board suspended trading of the companies units several weeks ago. We are prepared to end this suspension in mid-August. We are sending out a notice to all unit holders advising them of the lifting of the trading suspension.

Jeff Robertson - CEO

We ended our second quarter of 2011 on June 30 and we had another solid quarter, with net earnings of $126 per unit, not including unrealized hedging activities. We had projected these earnings to come in at $85, but our margins proved to be considerably better than we believed would be the case. This quarter follows the first quarter result of $124 per unit. Looking ahead for the third quarter we are projecting net earnings of $118, up just slightly from $105 projected three months ago. We are adding an estimate for the fourth quarter of $113 per unit. We believe that these estimates have low volatility because a fairly large portion of the corn and ethanol volumes have been priced.



Ethanol prices have kept up with high corn prices because demand has been better than expected. Gasoline sales have exceeded industry estimates, and blending has been very profitable for the wholesalers. As a result ethanol blended into conventional unleaded has increased this year. We are seeing about a 5% increase in ethanol use in the domestic market compared to last year. Our industry did a lot of exporting to Brazil in the first four months of the year, and this is always a demand booster. Brazil ran short of ethanol earlier this year, and is once again requiring imports to keep up with their growing fuel sales. We believe that Brazil may need to import ethanol for two years before the new production capacity they are planning and building comes on line. Brazil mandates 25% ethanol be included in its retail gasoline motor fuel.

Another good development is the Environmental Protection Agency (EPA) allowing the blending of up to 15% ethanol for 2001 and newer motor vehicles. As long as blending is profitable, this new higher blend limit will allow for more demand. Of course it will take time for the new blender pumps to become commonplace at the retail stations but we will begin to see that soon.

Not all of the news is good. The ethanol tax credit survived the debt ceiling debate and was not cut in the subsequent bill. But it is set to expire December 31, 2011. It is likely that it will not be renewed, and that the import tariff protecting our market will go along with it into the history books. See Dan Wegner's report for more on this issue.

Barb Bontrager - CFO

The following charts summarize our results for the past quarter and year-to-date. We continue to be able to secure favorable margins in spite of higher corn prices. You will notice the unrealized gain from our hedge positions continue to cause volatility in our bottom line. I have bolded the third to the bottom line which provides a better picture of our "results of operations" even though Generally Accepted Accounting Principals (GAAP) require that we account for the unrealized activity in our financial statements. Our 2011 year-to-date result of $7 million prior to the unrealized hedging gain equates to $0.25 per gallon of ethanol sold and a 20% return on investment (annualized). The majority of our hedge position consists of ethanol sales contracts. As we continue to offer forward fixed price purchase contracts to our corn producers upon request, we need to have a means to sell the ethanol we will make from the corn. Since the oil companies buying ethanol are not interested in doing forward fixed price sales contracts, we use the futures ethanol contracts to establish a margin. It is especially critical that we keep these products matched with corn prices being higher than historical averages.

	Qtr Ended 6/30/11	Qtr Ended 6/30/10	Variance	% Variance
Gallons of Ethanol Produced	13,764,665	14,178,660	(413,995)	-2.9%
Bushel of Corn Ground	4,783,874	4,945,062	(161,188)	-3.3%
Yield - Gallons denatured ethanol/bu of corn processed	2.877	2.867	0.010	0.4%
Average Ethanol Price per gallon (net back to plant)	$2.60	$1.53	$1.07	69.9%
Average Corn Price per bushel	$6.13	$3.78	$2.35	62.2%
Total Revenues with realized hedging	$ 40,112,674	$ 27,269,594	$ 12,843,080	47.1%
Gross Margin before unrealized hedging activities	$ 4,457,048	$ 2,310,541	$ 2,146,507	
Net Income before unrealized hedging activities	**$ 3,580,818**	**$ 1,603,848**	**$ 1,976,970**	
Unrealized gain (loss) from hedging activities	$ 8,489,773	$ (172,099)	$ 8,661,872	
Net gain after all hedging activities	$ 12,070,591	$ 1,431,749	$ 10,638,842	

	Six Months Ended 6/30/11	Six Months Ended 6/30/10	Variance	% Variance
Gallons of Ethanol Produced	28,406,797	28,193,061	213,736	0.8%
Bushel of Corn Ground	9,914,918	9,843,924	70,994	0.7%
Yield - Gallons denatured ethanol/bu of corn processed	2.865	2.864	0.001	0.0%
Average Ethanol Price per gallon (net back to plant)	$2.48	$1.62	$0.86	53.1%
Average Corn Price per bushel	$5.69	$3.85	$1.84	47.8%
Total Revenues with realized hedging	$ 78,341,284	$ 54,288,108	$ 24,053,176	44.3%
Gross Margin before unrealized hedging activities	$ 8,716,759	$ 2,170,362	$ 6,546,397	
Net Income before unrealized hedging activities	**$ 7,095,099**	**$ 537,187**	**$ 6,557,912**	
Unrealized gain from hedging activities	$ 7,221,612	$ 7,392,302	$ (170,690)	
Net gain after all hedging activities	$ 14,316,711	$ 7,929,489	$ 6,387,222	

Marc Berger - Safety Manager

L-R: Eric Kuntz, Bret Westra, Karen Plath

In July we had our employees recertified in first aid/CPR. The training is open to all employees and required for management and shift leads so a trained responder is at the plant at all times. Pearl Macheel from Randolph EMS was the trainer for the course. We learned first aid basics such as splints, choking, allergic reactions, shock, and how to treat deep lacerations. We also learned how to perform CPR and how to use an Automated External Defibrillator (AED). An AED is used when a person goes into cardiac arrest. Their heart may start beating at an abnormal sporadic rhythm, the AED will sense this and shock the heart, which will actually stop it from beating so the pace making cells in the heart can have a chance to regain a normal heart rhythm. We learned how responders use CPR and the AED together to save lives. When a person is discovered passed out the responder should perform CPR for two minutes, then you put the pads from the AED on the victim and turn on the AED. The AED is voice prompted and will tell the responder to continue CPR or if a shock is advised. If a shock is advised, the AED will tell the responder to apply the shock and then rescan the patient again to see if another shock is necessary or if the responder should start CPR. I was amazed at how much energy a person uses up while performing CPR. Two minutes of continuous CPR seems like a lifetime! Statistics show that if a cardiac arrest patient does not receive defibrillation after ten minutes, chances are very unlikely for a full recovery. Time is very crucial when dealing with a cardiac arrest victim. We currently have one AED that is located on the control room wall at our facility which can easily get to any location in the plant within a couple of minutes.

UWGP AED

Jenny Ebert - Quality Assurance/Environmental Manager
"EPA Greenhouse Gas Reporting"

Similar to other laws and regulations, the judicial branch of government helps establish some interpretations to the requirements set forth in the law or regulation. April 2, 2007 the U.S. Supreme Court's decision in *Massachusetts v. EPA, 549 U.S. 497 (2007)*, found that Greenhouse Gases (GHG) are air pollutants and subject to the Clean Air Act. Following the decision, on December 9, 2009 EPA announced their findings. The EPA's announcement identified six GHG that in combination endanger public health and welfare and therefore must be regulated under the Clean Air Act. These six GHG, now referred to as CO_2 equivalent gases, include carbon dioxide, methane, nitrous oxide, hydro-fluorocarbons, perfluorocarbons, and sulfur hexafluoride. As a result of the finding EPA wrote and published a tailoring rule and new federal code describing how CO_2 equivalent emissions would be defined, reported, and calculated. The EPA has been working on an online reporting system that was made public at the start of 2011. Additional time testing the online reporting system was needed so the original reporting date earlier this year was pushed to the end of September. The EPA has a specific federal code Subpart J for Ethanol Production, however they have not published regulations specific to Ethanol Production at this time. Regardless of the fact that the EPA does not have regulations directly written to Ethanol Production, UWGP currently must comply with two other federal code subparts of the EPA's GHG program. Our boiler, dryers, and RTO are considered stationary fuel combustion sources which are defined and regulated in Subpart C of Federal Code 40 CFR 98 and our methanator is considered an industrial wastewater treatment source which is defined and regulated in Subpart II. Subpart J was published in 2009 so we began collecting data for our stationary fuel combustion sources in 2010 and will be submitting our first report in September. Subpart II was published in 2010 so we began collecting data for our industrial wastewater treatment system this year and will be submitting our first report for Subpart II in 2012.

Informational references from LM-AWMA November 2009 Newsletter Vol. 48, No. 5 and EPA.gov website.

Terry Olson - Corn Procurement & Feed Sales

It's Fair Time! Once again we are at that time of the year where we recognize the accomplishments of our future agricultural leaders by celebrating their achievements through the county fairs. It is a pleasure for me to attend the livestock sales and see the work put in and the enthusiasm from our young people. I wish to give thanks to all of the people who work hard to make the fairs a reality and offer congratulations to the youth who participate in these events.

L-R: Terry Olson, Haley Pribbenow

UWGP has a tradition and a desire to support our youth at the county fairs. We enjoy the time we spend at the auctions and appreciate the thanks that we receive by participating. I would encourage people to stop by and visit with us as we attend these livestock sales. I like to be able to put a face with the voice I talk to on the phone. We are committed to supporting our youth in their achievements.

On the corn marketing side of things the structure of the market is neutral. The short term trend has turned sideways and the spreads continue to indicate a neutral commercial outlook. With the high price and high volatility corn is vulnerable to long liquidation. Noncommercial (speculative) traders held a net long position of about 330,000 contracts as of July 26th. Obviously, if they sell at the same time we will see a correction.

With the verdict still out on the size of the crop this year, the market can't decide what to do. We have seen corn on a roller coaster ride of being up one day and down the same amount the next day. Volatility will continue until we harvest the crop and get a better handle on the size. If you have not done any marketing and are having trouble sleeping at night, prices are attractive at these levels. Let us know if we can be of help and good luck on your corn marketing.

L-R: Kelsee Fargo (Barneveld), Dan Wegner

L-R: Zachary Bubolz, Kayla Becker—Summer Help at UWGP

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L-R: Dan Wegner, Rebecca Priske (Poynette) - Lodi Ag Fair

Dan Wegner - Commodities Manager
Ethanol Industry Without "Subsidies"

As the U.S. government attempts to get our fiscal house in order, it has become clear that ethanol subsidies (actually tax credits), are likely going to be repealed or left to expire at the end of this year. Recently, Sens. Dianne Feinstein (D-Calif.), Amy Klobuchar (D-Minn.) and John Thune (R-S.D.) unveiled an ethanol tax reform compromise that would repeal the 45¢/gal ethanol blender credit and the 54¢/gal ethanol import tariff on July 31, ahead of their current expiration at the end of this year. It does appear that there is support for this sort of bill on both sides of the isle; unfortunately ethanol seems to be one of few things that Republicans and Democrats agree on. At the end of the day this legislation did not make it into the "Debt Ceiling" Bill. Why? Because reducing tax breaks for big oil was talked about in conjunction with ethanol. Big oil lobbyists put a stop to that talk and the ethanol tax credit lives on for now. Most likely the ethanol tax credits and tariff will simply expire. Big oil will not have to worry about losing other long standing subsidies and benefits because there will be no bill or debate the tax credit will simply go away. This has raised the question; "What will happen to the ethanol industry without the blender's tax credit or the import tariff?" Fortunately, as it stands today the RFS2 (Renewable Fuel Standard) should remain in force, keeping ethanol sought after by the petroleum blenders. In 2012, the current RFS2 calls for 13.2 billion gallons of ethanol to be blended into the gasoline supply. Barring the EPA issuing any "Waivers" that would allow certain blenders or areas to not blend ethanol, or adverse blending economics such that ethanol was cost prohibitive to incorporate into the gas supply, demand for ethanol should be at least 13.2 billion gallons (bg). There is however a chance that blenders could opt to surrender unused "RINS", which are previously acquired blending credits, in lieu of actual physical blending of ethanol. This would reduce the demand for ethanol and have an adverse effect on our production margins. The loss of the import tariff will open the door to Brazilian ethanol. Already 70 production facilities in Brazil have registered with the EPA to issue RINS to U.S. importers which will count against the RFS2 mandate.

The loss of the import tariff could undermine the RFS2 mandate. Because ethanol from Brazil is deemed to be advanced biofuel, every gallon imported counts as 2½ gallons against the importers mandated ethanol use in the U.S.

It is hard to predict what will happen to the industry, however it will boil down to economics which will determine who runs and how much ethanol is produced. Ultimately this could cause some plants to slow down or shutdown, but the slowdown would be based on plant by plant economics. Whereas there is satisfaction in survival, it should not be confused with thriving.

Predictability is not going to be a word often heard in our industry any time soon.