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General Manager/CEO Update

Higher ethanol prices help offset increase in corn costs

With corn prices having trended high for most of the last 12 months, Dakota Ethanol and other ethanol producers have focused on efficiency to maintain a strong position. Ethanol prices have also risen during that time, which has helped us maintain positive margins and return profits to our shareholders. We are pleased to have provided two distributions so far in 2011 to members of Lake Area Corn Processors, with nearly \$3 million distributed in both May and July. For more detailed financial information, go to www.sec.gov and search for Lake Area Corn Processors, LLC. All financial filings are available there.

With harvest nearly upon us, we wish all of our farmer members a safe and successful 2011 season.

— *Scott Mundt,*
General Manager & CEO, Dakota Ethanol

Members, board drop term limits

The 12th annual meeting of Lake Area Corn Processors, LLC was held May 24, 2011, at Nicky's in Madison. Approximately 120 members were in attendance. There were four proposals presented on the 2011 ballot. Below are the election results as adopted by the Board of Managers at the July 12th, 2011 meeting.

- Todd Brown, Dale Thompson, and Brian Woldt were elected for three-year terms to the Board of Managers.
- The executive compensation policy, called "Say on Pay" was approved as voted on by the members.
- The frequency of the "Say on Pay" vote will be every three years; the next proposal will be presented the 2014 annual meeting.
- The proposal to remove the current term limits of three consecutive three-year terms was approved by members and adopted by the board. On July 12, 2011, our Board of Managers voted to amend our Third Amended and Restated Operating Agreement by removing the term limits applicable to the Board of Managers. At our 2011 Annual Member Meeting, our members provided an advisory vote in favor of removing the term limits for our managers. Prior to the amendment, our managers could serve no more than three consecutive three-year terms on the Board of Managers. Our Third Amended and Restated Operating Agreement, as amended, governs the rights and responsibilities of each membership unit.

The process for the 2012 election to the board will begin in December. If you have an interest to serve on the nomination committee or are interested in becoming a candidate for the board, please contact Alan May, LACP Membership Coordinator.

Commodity Update

High corn prices won't last forever

I am asked everyday where I think corn prices are headed. Some days one has to wonder what this market is thinking. What is it reacting to today? Most days, there are more questions than answers. The job of the markets is to react to a myriad of influences. These influences attempt to reflect perceived supply and demand. Sometimes looks are deceiving.

The laws of economics haven't been repealed. Sooner or later, this market will raise production high enough and ration enough demand that we'll see the markets retreat from today's high prices. The old adage still holds true: 'The cure for high prices is high prices, just as the cure for low prices is low prices.'

Areas of concern that could derail this bull market: high debt levels both in the United States and abroad, high unemployment in a consumer-driven economy, and our large government deficits that might not be reduced anytime soon. The chart above from Brock and Associates illustrates the state of the U.S. and other major economies. Food and energy inflation will cause this bull market to stumble, since global consumers can't afford their same lifestyle and diet. Russia and the Black Sea region will grow much more wheat at these prices, South America will grow more soybeans and North America will grow more corn.

Debt Load of Selected Nations		
Country	Debt as a % of GDP (Gross Domestic Product)	% of debt held by foreign entities
United States	99%	31%
France	97%	59%
Germany	89%	30%
Japan	204%	7%
Spain	78%	39%
Italy	133%	46%
Portugal	99%	80%
Ireland	113%	83%
Greece	137%	75%

Warm July should help make up for wet spring

With the wet spring the corn belt experienced, it was a blessing for most to catch up on the heat units in July. Numerous heat records set throughout the country for both duration of record temps and humidity.

The chart at right, found in the Pioneer "Walking Your Fields" issue from Aug. 16, illustrates how we compare to our historical. Hopefully this doesn't pull our yields down too much. Overall it looks like a decent crop on the way.

— Paul Gereats,

Commodity Manager, Dakota Ethanol

Accumulated Growing Degree Units

GDU Calculator

<http://www.pioneer.com/home/site/us/agronomy/>

LOCATION MN/SD	2011 GDUs Accumulated from May 1 to Aug 10	2010 May 1 to Aug 10	30 Year Avg	+/- 30 Year Avg
Britton, SD	1699	1696	1750	-51
Watertown, SD	1676	1648	1584	+95
Morris, MN	1680	1636	1703	-23
Milbank, SD	1748	1763	1740	+8
Montevideo, MN	1837	1818	1770	+67
Pipestone, MN	1831	1768	1736	+95
Canby, MN	1788	1745	1710	+78
Brookings, SD	1752	1658	1635	+117
Sioux Falls, SD	1862	1810	1815	+47

Chart courtesy of Pioneer

Ethanol in the news across the nation

June votes send mixed message from Senate on ethanol

In June, the U.S. Senate voted to repeal the 45-cent-per-gallon Volumetric Ethanol Excise Tax Credit (VEETC) and the 54-cent ethanol import tariff, but in a vote the same week refused to prohibit federal funding for ethanol infrastructure needs. The Renewable Fuels Association says the VEETC repeal will likely have very little real impact, however, because the bill to which it is attached is unlikely to reach a final approval by the House and president.

“We are disappointed in the shortsightedness of this vote, particularly as this same body voted less than one month ago to preserve billions of dollars in taxpayer hand-outs to the oil industry,” the RFA said in a statement. “As the underlying bill to which this amendment is attached is unlikely to make it to the president’s desk, this vote was a freebie with no real consequences.”

Senators did not, however, approve an amendment that would bar federal funds from being used to help develop infrastructure for blender pumps that aid in the usage of higher blends of ethanol, such as the E15 recently approved for use by the EPA.

“This vote signifies that an anti-ethanol wave in Congress isn’t swelling, but rather that all this attention on ethanol was little more than political posturing,” the RFA stated, noting that the House of Representatives passed a bill including a provision to ban the USDA from funding biofuels infrastructure, but said the bill will likely not pass the Senate. “It remains our hope that lawmakers on both sides of the Capitol will now take up a serious conversation about American energy policy,” the group stated. “Any discussion must include domestically produced renewable fuels like ethanol.”

Many corn and renewable fuels organizations are backing plans from Senators John Thune (R-SD) and Amy Klobuchar (D-MN) that would change ethanol tax credits to utilize a variable VEETC, reducing overall costs for the incentive program.

RFA submits comments to EPA on proposed 2012 RFS

In early August, the Renewable Fuels Association (RFA) provided comments to the Environmental Protection Agency (EPA) on its Renewable Fuel Standard (RFS) proposed rulemaking for 2012. In 16 pages of comments, the RFA addressed both the proposed levels of renewable fuel use for 2012 as offered by EPA as well as reissued calls for EPA to address fundamental problems it created when crafting the RFS.

“Ensuring the integrity the RFS is strengthened and the intent with which Congress created it is honored is absolutely critical to the growth and evolution of domestic ethanol production,” said RFA President and CEO Bob Dinneen. “EPA officials have done yeomen’s work to get this groundbreaking program up and running, but work still remains. The RFA is committed to working with EPA to make sure the RFS, and the implementation of E15 to help refiners meet the RFS requirements, are successful.”

Three key areas of focus in the RFA comments included the cellulosic biofuel requirements of the 2012 RFS, the “small refiner” de facto waiver issued by EPA, and the continued inclusion of indirect land use change penalties against corn-based ethanol despite reams of scientific data proving EPA’s data and modeling are out-of-date, to say the very least. A summary of these key areas is as follows:

1. “EPA should finalize the 2012 cellulosic biofuel standard at the high end of the proposed range and should reject any suggestion that future annual cellulosic biofuel standards be based on past production levels.”
2. “Because the proposed ‘small refiner exemption’ actions are inconsistent with the statutory requirements and the RVO requirements, EPA should take appropriate steps to ensure that the total RVO is maintained for both 2011 and 2012.”
3. “RFA strongly encourages EPA to re-evaluate and refine the indirect land use change (ILUC) analysis that was conducted for the RFS2 Final Rule, taking into account newly available studies, modeling results and data.”

RFA’s comments also addressed a number of technical changes proposed by EPA as well as market-expanding issues such as the Renewable Identity Number (RIN) carry-over precisions from year to year.

