

President's Message

Jake Dustin

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I'd like to address a few issues that I understand may be making some of you a little uncomfortable. The first has to do with the impacts on gas production of the monensin-based additives (like Rumensin®) that are being fed to both beef and dairy cattle – including at both dairies on which we operate. The second is what cold weather does to our operations, and the third has to do with our recent shift in fiber sales strategy.

As I've said in a previous message, monensin definitely does have a negative impact on gas production on ALL digesters, not just ours. We recently spoke with the manufacturers of that product as we had heard a rumor ourselves that an FDA ban on its use may be in the offing. That rumor is NOT true. The product is here to stay. But because it is in such wide use (and growing) throughout the entire dairy industry now, and because there are so many digester systems either already installed or going in, the manufacturer recognizes a real need to be part of the solution. They have commissioned a well-known University to try to come up with an "antidote" that can be fed into digesters to reduce or reverse the impact of the monensin once it leaves the cow. No telling how long that may take or if they will be successful, but at least we know that we are not totally alone in trying to solve the problem. Meanwhile, we just have to keep improving efficiencies everywhere else we can to counterbalance the impact. The good news is that we may have opportunity to sell our gas to certain industrial propane users at a much more favorable rate, which will help with that counterbalance.

Regarding cold weather, I think there is a misconception that snow is the problem – that it gets into our feed system and upsets the bacteria or process somehow. That is not the case at all. Snow is a nuisance to be sure – for the same reason it is a nuisance in your driveway or on your sidewalk – but it is not the problem. The true culprit is the cold.

For the past 2 months we have been running about 10° lower than the historical averages for this time of year. We have experienced a lot of frozen pipes and such in places we did not expect, but have been able to thaw those fairly quickly and provide proper heat tracing and protection to prevent reoccurrence. Those events have been frustrating, but temporary. The *real* impact of the cold has been the freezing of the manure to the concrete feed aprons and in the barn collection troughs, making it extremely difficult – and on some of the colder days, impossible – to collect and feed into the digester. When you can't collect and feed, then gas volume drops off because the bugs don't have as much to eat. When we hit that situation, we automatically go into a recirculation mode where we recycle the hot effluent off the tops of the tanks back through the system both to help retain heat and to give the bugs a second chance to pick through what they may have missed on the first pass. It's not an ideal situation, but it keeps the colony viable. Some have suggested a massive effort to heat the manure collection areas. That is neither practical or rational given the huge cost that would be involved (6000+ cows take up a LOT of concrete when the feed wagon rolls down the alley), and the fact that in a NORMAL year, this problem only exists for a week or two during the coldest part of the winter. This year is an anomaly.

As to our fiber, most of you are aware by now that we are "going it alone" as far as branding and marketing our fiber. That decision came after a LOT of soul-searching and financial modeling by the Board and Management. In the end, we applied a very simple formula:

$$\textit{Profit} = \text{Sales Price} - \text{Cost to Produce}$$

We looked long and hard at the production and operational costs of the two processes we have used to produce similar, but slightly different, fiber products. These include actual labor and equipment hours, costs of supplies, fuel burn, utility costs, maintenance issues, etc. We then factored in the impact of revenue splitting if a 3rd party were involved. We also looked at the prices we could obtain for each of the products both currently and with a pragmatic eye to the future. We then plugged the numbers back into the formula above and determined that the greatest return to the shareholder was to follow the path we are now on.

While we regret the loss of an otherwise positive relationship with our potential fiber partner, it is ultimately my responsibility to ensure that we maximize the profit potential of *all three* of our revenue streams. This was purely a business decision, but it was nevertheless a very painful one because of the close personal relationship developed over the past couple of years as we jointly struggled to find a way to make the pie big enough to share.

This is very much a part of the “counterbalancing” effort I mentioned above in the monensin discussion.

Meanwhile, I think we are beginning to win the cold weather battle, thanks to the hardest working team with which I’ve ever been privileged to work – and the fact that the thermometers are starting to bump up against the 32° mark (0° for the metric fans). If any of you can do anything to warm things up a little faster out here, we’d welcome it – just don’t stop the moisture from coming because we really need it!