



July 1, 2009

Newsletter Highlights: Financial reports; Off Coast and Delivery Premiums; Fuel Surcharges; Pools; Trucking and Contracts; Lot Reports; Read it all.....

Financial – NWGG profit for the fiscal year ending April 30th 2009 was \$6.485 million. Two of the reasons for the larger profit were Tri-Cities Grain allocating NWGG an additional \$1.545 million in profit over last year and NWGG's marketing margin increasing by \$1.8 million because of the opportunities to sell the deferred market. Another source of increased earnings was the patronage paid by CHS for business done with the company. This year NWGG received a patronage dividend of \$1.149 million compared to \$169,000 last year from CHS. Patronage from CHS is paid 35% in cash and the balance is revolved in 10 to 20 years based on the profits of CHS. These additional sources of income allowed NWGG to have their best year ever.

Patronage – NWGG will be allocating \$4.77 million in patronage to the members. Of this amount \$1.2 million will be allocated as a nonqualified notice of allocation. The company will pay the tax on the nonqualified amount and the member will not have to pay the tax until the money is paid out to the member. Because NWGG only received 35% cash from the CHS patronage and the time for receiving the balance is unknown, the board chose to use a nonqualified notice to keep the working capital in the company. A notice of each members nonqualified patronage amount will be mailed out at a later date. The qualified part of the allocation will be \$3.57 million of which 60% will be paid in cash (\$2.142 million). The total qualified allocation by departments is: handling and storage will receive back 45% of the amount charged, marketing \$.15 per bushel on wheat sold, and \$1.00 on seed bushels purchased. Checks will be mailed by July 15.

Low Protein Premium Payment – The 2008 Pacific Northwest white wheat crop was higher protein than normal. Because of the higher protein, foreign countries had to pay a premium for guaranteed maximum of 8.5, 9.5, and 10.5% protein shipments. At harvest NWGG began separating soft white wheat below 10% protein at all of our facilities including the river houses. Normally, NWGG would not pay premiums at the river houses because of the lack of bin space at the river. NWGG sold low protein barges during the year and made \$1.47 million on protein premiums. NWGG will pay out \$937,000 based on a scale of \$.05 for 9.6-9.99%, \$.10 for 9.4-9.5% plus \$.10 each .2% below 9.4%. If you delivered 7.7% protein on a specific lot, you would receive a check for \$.90/bu. The balance of the money (\$533,000) will be allocated to all of the members that sold wheat during the year. The reason for splitting up the money is because NWGG used some of the higher proteins to blend for 10.5% barges. We wanted to be fair to all of our members. This is probably a once in a lifetime happening. Letters were mailed the 18th of June to members receiving a protein premium. Checks for the protein premium will be mailed by July 15.

Donations – The board of directors approved donating \$100,000 of our profits derived from non-member income to local Walla Walla Valley charities and also to colleges that help work with the farming community in Walla Walla. The nonmember income is earned from unloading rail cars and trucks from grain companies in Whitman County and Southern Idaho. Since NWGG pays tax on all nonmember income, the donation will reduce the income tax by

\$34,000, for a net cost of \$66,000. This will reduce nonmember income but will not affect the member patronage so the donation will only reduce retained earnings.

To date, the board has allocated \$15,000 to WSU's Wheat Breeding Program, \$15,000 to OSU's Wheat Breeding Program, and \$10,100 to Walla Walla Community College for an online program for CDL licenses. A committee will allocate the balance of \$59,900 to Walla Walla Valley charities with a priority of helping needy people in the Walla Walla Valley.

Off-Coast and Delivery Premiums - Tidewater Barge Lines increased barge freight rates 3% (Wallula to Portland \$.20/bu x 3% = \$.006/bu.) this spring. NWGG has decided to absorb the higher cost and will leave our off coast rate the same on wheat at \$.49/bu. delivered Walla Walla. We will still pay a \$.03/bu. delivery premium at Waitsburg and a \$.06/bu. delivery premium at Spofford and Prescott. The delivery premium at Sheffler will be \$.17/bu and at Port Wallula and Port Kelley the premium is \$.19/bu. The barley off coast rate will remain at \$19/ton. A delivery premium will be paid at Prescott of \$3.00/ton and at Wallula/Port Kelley a premium of \$4.00/ton. We will not offer a delivery premium for barley at Sheffler. At this time, we do not know if the barley will be sold to the coast or to a feed lot and we do not want to tie up bin space at Sheffler with Barley.

Fuel Surcharges – Currently NWGG charges a barge fuel surcharge on all grain settlements and an additional rail/truck fuel surcharge on all non-river elevators. As fuel prices increased or decreased in the past, the higher or lower freight cost was passed on to the producer. **NWGG has hedged our fuel use this year and has decided to cap all barge and rail/truck fuel surcharges at 15%.** In the event that fuel increases above this level, NWGG will only charge 15% to the grower. If fuel prices decrease, the grower will get the benefit of a lower fuel surcharge. **NWGG will not cap Along Side of the Field trucking fuel surcharges.** There are several reasons for this decision including but not limited to: our fuel storage agreement is not large enough to hedge this fuel need; we would have to bill the farmer at one rate and pay the trucks at a different rate increasing labor needs; and we do not have a retail fuel outlet to provide hedged fuel to outside trucking companies.

2009 Harvest Pool – NWGG will offer an after-harvest soft white wheat pool. There will not be a pool for DNS, HRW or Barley. The pool will be the same as the last couple of years except for the guaranteed price. Our price guarantee is based on the FSA loan rate of \$3.17/bu. You will have the option to choose between a 4 and 8 month pool. The wheat will be marketed monthly in order to obtain an average price for the duration of the pool. The pool sign-up deadline will be August 31, 2009. You will not sign up until after harvest and your wheat as been delivered.

There will not be a sign up form. If you wish to sign up, just call or come into the office after your wheat has been delivered. NWGG will offer a spring time average price pool for old crop wheat. In December, we will mail out the pool information. If you still have unsold wheat and want to put it in an average price pool from January 1, 2010 through April 15, 2010 you will be able to sign up in December.

Harvest trucking – For Along Side of Field and Farm Storage trucking, the rates, minimum guarantee and fuel surcharge table should be the same as in 2008. If you're thinking about requesting trucks, you must first read and sign a risk acknowledgement. It is important that you understand the risks of using this option.

Trucking contracts – All commercial trucking companies who are dispatched and/or billed by NWGG, whether hauling ASOF, FS, or from our elevators, will need to sign a contract and meet certain criteria before hauling any grain. If you've made arrangements with a commercial trucker on your own, and ask us to do the billing, they must sign a contract and meet certain criteria as well. You must provide this to us before we can process any billing for you. All producers who use their own trucks, and ask NWGG to bill their landlords, must sign a contract as well, stating you have the appropriate credentials to operate, that your landlord understands your terms, and that in the event of any dispute, the producer is responsible for paying the trucking and then reaching a settlement with the landlord.

PW / PK logistics – We have 3.6 million bushels of storage space that must be filled at Port Kelley, 3 miles downriver from Wallula. As always, we will run transfers to PK along with any grain coming up river from Oregon. However, we must still send grower grain there as well. We'll work with each grower and be as fair as possible, but you will likely have to deliver a portion of your crop to PK. We appreciate your understanding and patience as we fill PK.

Crop received at elevators – The same elevators will be open this year as in 2008, please refer to the enclosed table for delivery information. If you have a field with a problem, like mixed grain, or high dockage, call the office prior to delivery. We can make arrangements to handle it separately and try to lessen your discounts.

Protein program – As you know by now, the majority of buyers spec protein on any wheat purchased. It's more important than ever to know what protein we have, and where it is. Dark Northern Spring and Hard Red Winter wheat are still the most important to separate. In addition to red wheat, we will continue to separate Soft White wheat to the extent possible. We will not require delivery to specific elevators in advance, instead, we will track and separate protein system wide as best as possible. If there is a premium later in the year, at that time, we will evaluate where we were able to separate by protein and determine the best way to make a payment to the growers. Binning by protein will cause some short waits as the pit must run dry, if this creates a problem because your trucks aren't getting back to the field in time, call us and we'll do our best to minimize the problem. Containers are available for your truck drivers to take samples in the field to help expedite protein checks.

Weight Certificates – This year, we will assign each truck its own I. D. number. When your truck pulls on the scale at the elevator, this number will be entered before it is weighed in and out. It will print with each load on your weight certificate. This is a procedure we have used successfully at Prescott and Spofford for the past few years and it has helped reduce the chance for errors.

Moisture policy – As always, bring a sample in before you begin to harvest for a moisture test, if you don't and it's too wet, we may not be able to accept it, or it may be subject to discounts if we do. Maximum allowable moisture remains 12.5% for all wheat and barley; 12% for dry peas.

Lot Reports – You will now have the ability to print individual lot reports off your own computer through our web page. Just click on the lot report icon off the lots menu. If you have any problems, just call the office.