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South Dakota

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July 21, 2017

Patricia Van Gerpen, Executive Director
South Dakota Public Utilities Commission
500 East Capitol Ave.
Pierre, SD 57501

RE: GW17-001

Ms. Van Gerpen:

In order to keep the Commission and others informed, Staff provides this update. Staff continues to investigate this matter and thus, new information has come to our attention that we believe should be filed in the docket.

As previously noted, we received the renewal application and FY15 reviewed financial statements from H & I Grain of Hetland, Inc. on June 2, 2016. The financial statements met the statutory requirements and criteria for licensing a class-A grain buyer. At the time, we noted a substantial related party receivable on H & I Grain's balance sheet. I contacted the certified public accountant who prepared the financial statements to verify that the related party receivable was collectable. I received a letter from that auditor on June 8, 2016, verifying the collectability of the receivable and detailing the method of collection. The letter indicated that the receivable had been reduced substantially. H & I Grain's FY15 reviewed financial statements along with a copy of the letter will be filed in the docket and will be confidential, as required by SDCL 49-45-14.

When H & I Grain met the statutory requirements, the grain buyer license was issued on June 9, 2016. The updated financial information provided by H & I Grain under penalty of perjury on the application did not indicate any significant deterioration of the financial condition of the company. Therefore, Staff was unaware of the purported July 7 through July 12, 2016, trading losses that have come to light.

SDCL 49-45-25 requires a licensed grain buyer to notify the commission if it falls out of compliance with the financial licensing criteria. Through the course of our examinations of the company's financial books and records, and interviews of H & I Grain's staff and accountants, we have discovered additional information that shows H & I Grain not only failed to notify the commission, but took deliberate steps to conceal the fact that they were out of compliance with the financial licensing requirements.

On October 27, 2017, Grain Inspector Justin Blais and I traveled to Hetland to investigate a report of spoiled grain. Through the course of the investigation we interviewed H & I Grain officials Tami Steffensen, Duane Steffensen and JoAnn Steffensen. We were given assurances that the grain was not a total loss. It had been blended off and marketed. We were also told that it did not cause a financial hardship, that H & I Grain remained solvent and would have no issues meeting its financial obligations to customers. These interviews

took place approximately six weeks after the CHS Hedging lawsuit was filed against Duane and JoAnn Steffensen.

When asked by Staff, Tami Steffensen denied having monthly balance sheets prepared for H & I Grain. She stated that the company no longer prepared monthly financial statements. We have since learned that H & I Grain did have such financial statements prepared, at the very least, for May and June of 2016. Therefore, Staff believes deliberate steps were taken to conceal the financial condition of H & I Grain and to hinder the inspection process. It is the understanding of Staff that these balance sheets showed H & I Grain to be out of compliance with the statutory licensing criteria. The May 2016 balance sheet was sent to Tami Steffensen on June 21, 2016, well ahead of Staff's inspection on July 26, 2016. The June 2016 balance sheet was delivered to Tami Steffensen on July 28, 2016, before Staff's follow-up inspection on August 2, 2016.

We noted that when Staff inspected H & Grain, we found customer accounts marked as settled in the company's bookkeeping system. Through the course of our post suspension investigation, we discovered that accounts would be marked settled, the checks would be issued on the system, but the checks were not mailed to the producer. Instead, they would be placed in a file and held at the H & I Grain office. This created the illusion that many of the accounts payable were current, when in reality; they were well past the 30-day payment deadline required by SDCL 49-45-10.

This letter is intended to provide clarity of what Staff has learned about the H & I Grain situation and resulting docket. As Staff uncovers more information about this matter, we will update the docket accordingly.

Sincerely,



Jim Mehhaff, Grain Warehouse Division Director