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South Dakota

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July 23, 2021



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

RE: GW21-002- In the matter of Farmers Cooperative Elevator, Avon, South Dakota

Ms. Van Gerpen:

In order to provide a further explanation of the July 21 Staff Letter regarding update, Staff is asking the circuit court to seek receivership of just the elevator and grain inventory of Farmer Cooperative Elevator Avon (FCE). The benefit to a receivership, as opposed to a bankruptcy, is that a receivership can be as narrowly or broadly tailored as necessary. Narrowly tailoring it to the grain elevator and grain inventory is necessary at this point, as the other businesses may be viable on their own. In addition, it will allow payables, receivables, and expenses to be more accurately tied to the appropriate business while allowing Staff to focus on the grain aspects and debt related to that portion of the business.

Staff performed a detailed inspection on July 6, 2021 and determined that if all assets of FCE were to be liquidated all creditors, scale ticket holders, and patrons could be made whole. On July 13, Cody Chambliss spoke with FCE board of directors and manager over the phone. This conversation clearly spelled out FCE's options moving forward. Option 1 is to lease the facility and obtain another lender to restructure their debt. Option 2 is to liquidate the elevator portion and find a potential buyer for the elevator facility. Option 3 is selling and liquidating all FCE's assets. The board chose to work with option 1 first. The board made a motion to allow Cody to speak with lenders and provide the potential lenders with FCE's financial position and options to proceed while the board explored lease options.

On July 14, 2021, FCE manager called and talked with Cody explaining that some checks that FCE had written for payment of grain and payments to other creditors hadn't cleared the bank, and the total amount of those checks was approximately [BEGIN CONFIDENTIAL] [REDACTED] [END CONFIDENTIAL]. Because the checks had already been written by FCE, the amounts had also not previously been displayed as payables. Also added to the calculations was a balance of a loan [BEGIN CONFIDENTIAL] [REDACTED] [END CONFIDENTIAL] (Lender) for grain marketing services from 2019 and 2020 when they stepped up to help FCE reorganize grain debt via VCS contracts. Lender helped by providing an 80% loan up front for the grain that was on VCS contracts and then marketed the grain for FCE.

Staff had worked with FCE and Lender at the time in 2019, however, the amount of that loan didn't show up on any balance sheets or documents that were provided to inspectors during the July 6 inspection, so Staff was

unaware the loan had not been repaid. Half of that loan amount was paid with cash in hand out of their account, and the remainder is due August 31, 2021.

Due to the outstanding checks and the amount of the loan, staff feels FCE's financial position is substantially worse than the financial information provided to the commission at the July 9 AD HOC commission meeting. Their current ratio and liquid assets were negatively impacted near the sum of an additional [BEGIN CONFIDENTIAL] [REDACTED] [END CONFIDENTIAL] With such a large amount from the uncleared checks, the outlook of FCE's financial condition is much less optimistic, coupled with increased information regarding potential value of selling or leasing the facility.

Staff also received a call from an estate executive wanting to collect past patronage owed to close out the estate. Staff does not know the extent of past patronage due to patrons nor does staff feel they have the expertise to handle the liquidation of the entire FCE Co-op, which includes businesses not related to the grain industry. The matter of taking receivership of the entire cooperative was tenable when it appeared that all debts could be paid without liquidating the non-elevator businesses and assets. It may very well be the case that once the debts are attributed to the appropriate portions of the business, the non-elevator businesses will remain viable, however, any debts of those businesses are not attributable to portions regulated by the PUC and are more appropriately dealt with elsewhere should there be a liquidation.

Due to the uncertainties of FCE's entire financial position staff filed for receivership with the circuit court to be receiver of the elevator portion and grain assets of FCE. Staff opened a civil docket in order to file documents from the receivership case and has a hearing scheduled with the Circuit Ct July 26 regarding its petition for receivership.

Staff is continually working with FCE and potential lender to provide the best outcome for creditors, producers, patrons and the community. Staff has been in contact with other banks in hopes of finding a larger bank to take on FCE. However, that has not been successful to date.

While this is a fluid situation, at this point, should the court grant the receivership, Staff's intention is generally as follows [BEGIN CONFIDENTIAL]

[REDACTED]

[END CONFIDENTIAL]

Sincerely,

A handwritten signature in blue ink, appearing to read "Cody Chambliss". The signature is fluid and cursive, with the first name "Cody" and last name "Chambliss" clearly distinguishable.

Cody Chambliss
Grain Warehouse Program Manager