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FUELING THE FUTURE

July 2019 Newsletter

The Quarterly Update

President Trump kept his word, and E15 can now be sold year-round. This is fantastic news for our industry as it is something that we have been working toward for several years. Further good news is that 24/7 Travel Centers in Colby has decided to offer E15, which is being marketed as Unleaded 88. I have included a picture of the pricing on the pump from the convenience store at the bottom of this page, and you can see that Unleaded 88 is priced \$0.35 cheaper than the 87-octane (E0) fuel and \$0.50 lower than the premium 91-octane fuel. I encourage everyone to support 24/7 Travel Centers by purchasing the new fuel and letting them know that we appreciate them offering a fuel that directly supports our local ag economy.

Despite the victory for E15, our industry remains under significant pressures including both financial and political. As most of you are aware, we had a much wetter spring across the country this year, which caused a lot of disruption to the planting season. Much of the corn and sorghum crop across the Midwest was planted late, and in some cases the producer was unable to get the crop planted at all. The situation is wide-spread, and it is especially challenging in the eastern corn belt. As the delay in planting and the reduction of planted acreage became a reality, corn prices pushed higher. In fact, prices increased \$1.00 per bushel across May and June, and we are also seeing higher than normal grain basis values. Fortunately for us, the crops in our area are looking pretty good so far. While I expect our grain prices to be higher than they have been this year, I feel optimistic that we will have a good supply of grain available to us.

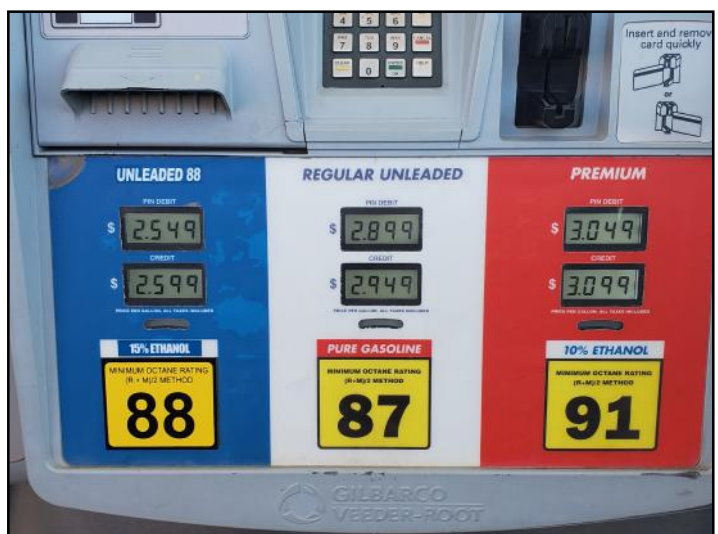
Prior to May, both corn and ethanol values remained relatively flat since last summer, and the over-supply of ethanol has kept margins at near break-even levels. However, you will see in the attached financial statements that we were able to capitalize some on the recent increase in ethanol prices to improve our margin, albeit it is likely just limited to the remainder of this crop year. As the grain market moved higher in May, it pulled ethanol values up with it. Fortunately for us, we were positioned to minimize any increase in grain values yet were able to realize the increase in ethanol values.

Looking down the road to the new crop season, it looks like it could be another tough year for our industry. I think that it is likely that high grain prices in some areas around the country could force some ethanol plants to slowdown or even shutdown. This would reduce ethanol supply and consequently domestic grain demand.

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Any slowdowns and/or shutdowns would likely affect market values, but the extent and timing of the slowdowns/shutdowns is hard to predict at this point. Regardless, I have optimism for WPE's position over the next few months. A reduction in total ethanol produced would help bring ethanol supply and demand back into balance and provide pricing support. At the same time, it looks like our region is on track to have a good corn/sorghum crop this year which should keep our regional grain prices competitive compared to those areas that are expecting a short crop. These two items should help to keep WPE in an average to an advantaged position compared to other plants across the industry. I do not expect this to translate into a strong financial performance, but I do think that we should remain very competitive to some of the other plants across the country.

As mentioned above, getting E15 approved for year-round sales was a huge accomplishment for our industry. The domestic demand for ethanol today is around 14-15 billion gallons per year, and our industry can produce more than 16 billion gallons with the balance being exported to other countries. As the market share for E15 expands, I think that we could see an additional ethanol demand of 5-7 billion gallons over the next few years. This will not all happen overnight, and it is likely that the industry will have to increase overall production capacity to meet the demand. Seeing capacity growth in the industry would be exciting. However, there are always those out there fighting to take back market share from our industry, and they are certainly not going to willingly give up additional market share for E15.

Front and center is the Renewable Fuels Standard (RFS) which was first enacted in 2005 and later amended in 2007. The RFS requires a certain volume of renewable fuel to replace or reduce the quantity of petroleum-based transportation fuel, heating oil or jet fuel. The required volumes are broken down into four categories, and the volumes of each category are statutorily increased each year from 2009 through 2022. Refiners and importers of gasoline and diesel fuel are the entities that are required to blend the set volumes into the transportation fuel, and they are termed obligated parties. Within the RFS program, the EPA has authority to grant a waiver from blending obligations to a small refinery, defined as having a maximum daily production capacity of 75,000 barrels per day, if it can demonstrate that its blending obligation would cause the refinery to suffer disproportionate economic hardship. These exemptions are often referred to as Small Refinery Exemptions (SRE's).

Under EPA Administrator Scott Pruitt, we seen a spike in the number SRE's granted to refineries. Forty-eight exemptions were granted under his tenure, and current EPA Administrator Wheeler has since granted an additional six SRE's. These exemptions were mainly for 2017 and totaled more than 2.6 billion gallons of renewable fuel, undermining the congressionally mandated volumes specified in the RFS. Recipients of these SRE's included Exxon and Chevron, which I think most of us could argue are not likely suffering from economic hardship. Further, there are thirty-eight additional applications for SRE's for 2018 that are currently awaiting a decision by the EPA.

The ethanol industry and other stakeholders have been working diligently to accomplish three things in regard to the SRE's. First and foremost, we must stop the granting of any additional SRE's, except for those SRE applications that are truly justified with "disproportionate economic hardship". Second, we must bring more transparency into the granting process for SRE's. Today, the only information that the EPA provides when an SRE is granted is the fact that one was granted. Any information known today about the volumes granted and the names of some of the companies that received the waivers has only been obtained through Freedom of Information requests. In an effort to maintain the integrity of the program, the EPA should be required to share at a minimum the name of the entity who received the waiver, the volume amount that was waived, and the justification for the waiver. Finally, we must also maintain the expectation that any volumes that have been waived will be reallocated to other parties such that the full congressionally mandated volume obligations are met. The preference would be that any SRE granted would be granted proactively prior to the start of the year which would easily allow the EPA to apply the volume that was waived to other obligated parties. While this topic is pretty deep into the RFS weeds, it is important that we find a way(s) to minimize the SRE's. It is a component of the RFS that is being exploited by big oil, and the burden is being carried on the backs of the American agriculture sector.

The Bored Secretary Report

Coming from a family with three generations of U.S. war veterans and a small rural community full of living and deceased veterans, a recent column by Orrie Swayze brought tears to my eyes. The complete column can be read at https://www.thepublicopinion.com/opinions/the-real-cost-of-wars-fought-over-oil/article_4f364ee8-aab9-11e7-9b81-53c6575b10d9.html. The following are excerpts from the column.

“Continuing oil wars are waged because the U.S. is inexcusably too dependent on imported oil and must have access to competitively priced oil exports. Like with Vietnam, our Iraq war’s hidden cost is that combat veterans’ children have a dramatically understated very high rate of suicide.

My close friend Jack’s son committed suicide 10 or so years ago. Jack is a Vietnam combat veteran that still shows clear evidence of the thousand-yard stare common place for those who survived in remote areas, close up kill or be-killed realities. A historically recognized thousand-yard stare I became too familiar with at Danang, or a hub for air (including very low level napalm, etc., deliveries) and ground killing operations.

Dr. Rachel McNair’s congressionally funded research of those Vietnam veterans diagnosed to have PTSD (a debilitating anxiety disorder) found that being shot at, wounded, or watching a friend die, etc., are secondary trauma compared to killing or thought to have killed a human being. VA psychiatrist Dr. Andrew Pomerantz said, “Only the already-insane are not mentally challenged by killing another human being.”

My then-17-year-old son Pat and Jack Junior were friends and companions. Several hours after J.J. had passed, I talked to Jack at the hospital: Though obviously shaken, he immediately asked “How is Pat?” also code for asking, “is it us?” On my very first Google search, I was shocked to find that an exhaustive Australian Vietnam veteran morbidity study, which also shocked researchers, found overall their male children were three times more likely to commit suicide and twice as likely to die in an accident: Remarkably understated.

Those numbers are far too conservative for trigger-pullers like Jack surviving in remote-area kill or be-killed realities: The overall suicide rate does not consider up to 80 percent of Vietnam veterans were not trigger-pullers doing especially the close-up killing: Thus their behaviors would not affect their children’s suicide rate any more than typical Walmart employees would affect their children’s suicide rate. Jack’s humble response to all of this: “I wish somebody had told me.”

Our combat veterans’ children will continue to be collateral damage as long as war is deemed necessary to assure U.S. access to needed oil imports. Remarkably, these past 10 plus years, many, many thousands of so-called rogue bandits have freely driven many, many millions of miles on cheaper E30/half E85 proving there is no codified law against it. Plus they consistently report more power, cleaner engines and the same mileage. Yet even corn and ethanol organizations today have the same proven wrong, no growth, thoughtless and panicky proclaimed policy: “But it’s illegal!!” Tragically, policy that assures wars to control oil supplies will continue.”

Ben Dickman, Board Secretary

Financial Review

The unaudited financials for the third fiscal quarter ended June 30, 2019 are included in this newsletter. For the first 9 months of the fiscal year, we had an increase in ethanol production of 3.12% over the same period from the previous fiscal year, and total grain used increased by 3.00%, resulting in an ethanol conversion yield increase of 0.12%.

Total revenue for the 9 months of the fiscal year was up by 3.73% compared the same time period for previous year. Ethanol revenue increased 2.56%, and distiller revenue was up 14.01%. The average value for ethanol shipped for the first 9 months of the fiscal year was equivalent to the same period for the previous year. The majority of our ethanol gallons have been shipped into California and Colorado so far this fiscal year, and the average value for wet distiller grains shipped increased by 9.15% from the previous year to this year.

Total expenses toward the cost of goods sold were up 1.58% so far for this fiscal year compared to the same period last year. Grain expense, enzyme expense, and natural gas expense were the leading areas that led to the increase. Grain costs were down roughly \$0.015 per bushel but total bushels used was up 3.0% resulting in higher overall grain expense. Enzyme expenses were up 14.2%. Natural gas usage was up 1.9%, and natural gas unit costs were up \$0.30 per mmBTU. Administrative expenses were down 4.8%.

EBITDA for the first 9 months of the year was up 40.4% from the same period from the previous fiscal year. This improvement was largely driven by the results from the 3rd fiscal quarter. As mentioned earlier in the newsletter, WPE was well positioned when the grain prices ramped up \$1.00 per bushel between mid-May and mid-June. As the grain prices pushed upward, it helped to push ethanol values higher. Fortunately for WPE, we were able to participate in the increasing ethanol values yet minimize any impact in increasing grain expenses. For the 3rd quarter ending June 30, EBITDA values were up 203% compared to the same time period in the previous fiscal year.

Net income for the 3rd quarter was 324% higher than the same period the last fiscal year, and it was 41.6% higher for the first 9 months of the fiscal year.

