August 2015 Newsletter


Derek Peine
General Manager

From the General Manager

2015 continues to be a tough year for WPE. It seems as if we are being challenged from all directions. From the grain side, we have seen high basis values all year. While our region had a good harvest last fall, we also seen the majority of the sorghum in our region leave the area as an export. The Chinese have a lot of domestic corn reserves, but it is expensive and the end-users for their corn looked to the US sorghum crop to help offset their needs at a lower price. After harvest last fall, we saw sorghum pricing raise to $0.80-$1.00 per bushel over corn pricing. At those prices, we simply couldn't compete for those bushels. Historically, the sorghum crop in our region is 20-25% the size of the corn crop. So while we had a good crop last year, basically 20-25% of the crop disappeared to the export market.

The ethanol side hasn't been very forgiving either. Relatively cheaper gasoline pricing and oversupply in the ethanol industry continue to apply downward pressure on ethanol pricing. As an industry, we are producing in excess 15 billions gallons per year. While gas demand continues to be very strong, the domestic demand for ethanol is just above 14 billion gallons, leaving nearly a billion gallons of supply that must be exported.

We are also seeing a disadvantage in pricing for those gallons marketed to the west coast. WPE markets a sizeable proportion of our gallons into the California market. The western market typically provides a premium for us, and is one of the reasons that WPE has been so successful over the years. However, pricing relative to Chicago has not been as favorable this year, eliminating WPE's market advantage.

The good news is that it looks like the crops are progressing nicely in our region, and there are signs that China may not import as much US sorghum this year. A strong harvest this fall should take some pressure off of the grain basis. From the ethanol side, crude oil pricing has been trending lower which will continue to put downward pressure on pricing. Also, we are nearing the end of driving season, and we expect to see a decrease in demand for ethanol. Overall, we expect margins to remain tight throughout the fall and winter months.

We continue to work on resolving the issues surrounding the anaerobic digester. The arbitration hearing is scheduled for late this year and includes WPE, ICM and Himark, Operationally, we idled the facility last fall, and we have been working over the last few months on resolving some of the persistent mechanical issues and on cleaning out the system. In addition, we have been looking at various options for process; unfortunately, I don't see the facility being restarted until the arbitration disputes are resolved.

Did You Know?

A recent study by the Urban Air Initiative showed that ethanol blended gasoline reduced the usage of carcinogen chemicals in gasoline such as benzene and toluene by 45%. These toxins create harmful emissions that cause air pollution which impact public health.

The Bored Secretary

In my last report, I documented the enormous amount of money that the American Petroleum Institute spends on lobbying and public relations. Unfortunately, this amount is just the tip of the iceberg. Most individual companies associated with the oil and gas industry also spend money on lobbying and public relations. They also spend enormous sums in many other ways to try to influence public opinion and elect public officials sympathetic to their business interests. They support numerous advocacy groups who claim to be independent voices. They provide donations and grants to numerous higher education institutions and researchers. They even contribute to numerous environmental organizations. They have the means to hire the best lawyers and public relations firms. All this investment has proven to be very effective not only in obtaining favorable legislation and tax breaks, but also in eliminating or crippling any competition that might arise, such as the ethanol industry. Many of these companies and groups preach free markets and limited government, but do everything they can to subvert the free market and take advantage of every government handout.

The list of misinformation about ethanol is lengthy, and all are easily shown to be false or misleading. But once this misinformation gets started, it continues to be circulated and republished by the many groups beholding to the oil and gas industry. Probably the most effective of these myths has been the claim that food is being used to produce ethanol and that producing ethanol causes food shortages and raises the price. The fact is, food prices have historically risen along with oil prices, even before ethanol was being produced. This is due to the fact that energy costs are the largest component of food prices. Not only does it take lots of energy to grow crops and raise livestock, but it takes much more to transport, process, package, and preserve the food we all buy at the restaurant or store. As unappetizing as this may sound, the fact is, we all, in essence, eat much more oil than food.

As disheartening as it is to see the effectiveness of the oil industry PR machine, it is even more disheartening to see others in the biofuel industry echoing this myth. Virtually everyone with a new idea or different process for producing ethanol, or some other renewable fuel, claims that their process or idea doesn't use food to produce fuel. But the fact is, any biomass or the land it grows on, could have a potential human use. It might have a use as livestock feed, just like corn, or in the case of forest wastes, could be used in the housing industry. So, if any new process actually does prove feasible, and produces fuel in a volume that becomes a threat to the oil industry, it will be subject to the same type of misinformation campaign.

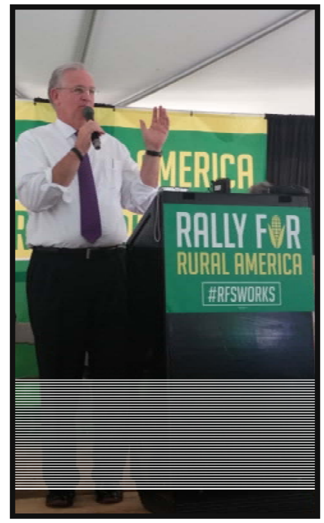
It is also disheartening to see many within rural communities buying into the myths being spread about ethanol and other biofuels. Setting the record straight will be a David vs. Goliath type battle. But it might as well start at home with our friends and neighbors.

Ben Dickman, Secretary of the Board of Managers

Rally for Rural America

The new proposed obligated volumes for the RFS were made public in early June, and the EPA is proposing to reduce corn/sorghum-based gallons. Their logic is flawed, and our industry is stepping up to show them why.

On June 25th, the EPA hosted a public hearing in Kansas City to get feedback on the proposal. America's heartland showed up in force to share their perspective on the value that ethanol brings to both agriculture and to the US citizens. WPE's own Brian Baalman testified in front of the EPA panel, sharing his perspective on how important the RFS is for agriculture and rural America.



Over the lunch hour, the ethanol industry held a rally to tell the EPA not to mess with the RFS! Hundreds of people joined the rally to express the importance that ethanol plays in rural America. Speakers for the rally included Governor Terry Branstad from Iowa and Governor Jay Nixon from Missouri.

WPE also had a group of employees attend the event. Thanks to Cody, Trent, Todd, Matthew and Aaron for attending.

Financial Results

The financial statements for the third fiscal quarter (three months ended June 30, 2015) are included in this newsletter.

EBITDA and Net Income for the quarter was down significantly from the same quarter in 2014. Fiscal year-to-date EBITDA was off 63% from FYTD-2014, and Net Income was down nearly 75%.

WPE production rates were up for the quarter (10%), brining the fiscal year-to-date volume more than 2 million gallons ahead of last year.

Ethanol sales, distiller sales, and revenue from Western Plains Trucking were all down significantly from the same quarter last year and for year-to-date. Costs of goods sold were also lower for the same time periods.

Ethanol margins are expected to remain very tight throughout the fall and winter months.

Western Plains Energy, LLC

In This Issue

Find daily grain basis bids on our website at:
www.wpellc.com.
Also, please “like” us on Facebook at
www.facebook.com/westernplainsenergy.

Fueling the Future

Western Plains Energy, LLC
3022 County Road 18
Oakley, KS 67748