WESTERN PLAINS ENERGY

FUELING THE FUTURE

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December 2015 Newsletter

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General Manager

From the General Manager

2015 is quickly coming to a close, and the year has been a challenge for the ethanol industry, including WPE.

The industry has been plagued this year with a persistent oversupply situation. The industry enjoyed strong margins throughout 2014, which incentivized plants to focus on increasing their production capacity through various process improvements. It also incentivized companies to restart essentially all of the previously idled plants around the country. The latest government report indicates that the industry produced an all-time high of 42.34 million gallons per day (which is equivalent to 15.45 billion gallons per year) during the week just prior to Thanksgiving. While gasoline demand remains strong, we are simply outpacing demand.

In addition to oversupply, the industry has also been facing soft energy sector pricing. Crude oil pricing peaked around $94/bbl in the summer of 2014, and it has been on a downward slide since. Today, crude pricing is hovering just above $40/bbl and retail gasoline is now below $2 per gallon. As a consumer, it is certainly nice to see cheaper gasoline pricing; however, this also means that ethanol pricing is cheaper.

In addition to the oversupply situation and the bearish pressure on ethanol, WPE also faced unfavorable grain pricing throughout much of 2015. Just after the harvest in 2014, China began purchasing all of the sorghum in the country, and at times they were paying $1/bu over the price of corn. For WPE, this meant that China was buying 20-25% of our potential feedstock, creating an elevated grain basis situation for corn in our region. Corn basis values in our area reached as high as $0.60/bu. The good news is that our region had a good crop year in 2015, bringing both an ample supply of sorghum and corn and more traditional basis values.

The industry also continued to struggle with political battles throughout the year. In 2014, the EPA announced their intent to lower the renewable volume obligations in the Renewable Fuels Standard (RFS). The 2007 RFS stipulates that increasing volumes of renewable fuel be blended into the fuel supply each year through 2022. Due to the lack of supply of cellulosic ethanol and other advanced biofuels, the EPA decided to lower the prescribed volumes for all of the fuel categories, including corn-based ethanol. The industry rallied together, and showed up in force at the EPA's public hearing on the matter which was held this summer in Kansas City. On November 30th, the EPA announced their final ruling on the numbers and for 2016 the required blended volume for corn-based ethanol was increased from their proposed volume of 14.0 billion gallons to 14.5 billion gallons.

New Numbers for the RFS

Corn-based Ethanol (billion gal/yr)

	RFS	Proposed	Revised
2014	14.40	13.25	13.61
2015	15.00	13.40	14.05
2016	15.00	14.00	14.50

All Renewable Fuels (billion gal/yr)

	RFS	Proposed	Revised
2014	18.15	15.93	16.28
2015	20.50	16.30	16.93
2016	22.25	17.40	18.11

Looking forward, I think that crush margins for the industry are going to remain very tight for the next few months. The strong US dollar and an overabundance of crude oil inventory is going to continue to pressure ethanol values. Further, it looks to me that the pressure on margins is going to have to get worse before we see the industry start to throttle back ethanol production to relieve some of the over-supply. I think that we may be in for a long winter and that we need to get into spring and the start of the driving season before we see much relief. I know this isn't a rosy picture; unfortunately, cycles of tight margins are part of being in a commodity business.

May all of you have a safe and joyous Christmas season!

The Bored Secretary

The ethanol industry is often criticized as needing subsidies or government mandates such as the Renewable Fuel Standard to exist. The industry responds to these criticisms by pointing out that the oil industry receives massive tax and other government subsidies and regulations that give them an unfair competitive advantage. The oil industry responds by claiming that they only take advantage of tax breaks and other subsidies that are available to other businesses as well. Let's take a look at a couple of examples to see where the real truth is.

First is the Depletion Allowance. Oil companies are typically allowed to deduct 15% of the gross income from oil well production due to this tax provision. True, similar deductions are allowed for other mining industries, but no similar deduction applies for the ethanol industry. This one tax break currently gives oil refiners about a $0.13 price advantage at the pump. That may not sound like much, but an additional $0.13 per gallon for WPE would mean over $6 million in additional revenues and possible distributions to our investors each year. In a business where consumers will drive some distance just to save a penny a gallon, $0.13 a gallon is a big deal in selling a motor fuel.

The oil industry argues that this tax break encourages domestic oil production and lowers fuel prices for consumers. True again, but ethanol production is domestic production as well. If one domestic energy producer gets special tax treatment, shouldn't all domestic energy producers get similar tax breaks?

Another tax break available to the oil industry is the Foreign Tax Credit. Again, it is true that this is available to all companies. But few companies in this country produce ethanol in foreign countries to import into this country. Additionally, many foreign countries classify some or all of the royalties they receive from the oil companies as taxes. This gives oil companies additional tax benefits not available to other companies and again, not available to the domestic ethanol industry.

This one tax break gives the oil industry a similar competitive advantage as does the Depletion Allowance, so it doesn't make any difference whether our fuel comes from domestic oil or foreign oil, the competitive advantage is about the same. There are numerous smaller tax advantages available to the oil industry not available to the ethanol industry, and they all add up to even more than $0.13 a gallon.

It is now much cheaper to convert solar energy into ethanol through starch fermentation, than it is to extract and refine stored solar energy in the form of crude oil. This is the real reason the oil industry, and others, are spreading so much misinformation about the ethanol industry. If a real level playing field existed, ethanol producers would not need the RFS.

Ben Dickman, Secretary of the Board of Managers

Important Information

WPE's fiscal year ended September 30. All members will receive a letter detailing the 2015 tax estimate with this newsletter.

We have not included financial statements with this newsletter, as we are currently finalizing the FY-2015 financial audit. We expect to have audited financial statements out to everyone by the end of December.

The annual WPE shareholder meeting will be held in March. While we do not have a date or venue set, please keep it in mind. Also, if you have interest in running for a Board of Managers position, please contact Derek or Curt at the office (785.672.8810) or a member of the Nominating Committee (Scott Foote, Gary Johnson, Dick Sterrett) no later than February 1st to express your interest.

Anaerobic Digester

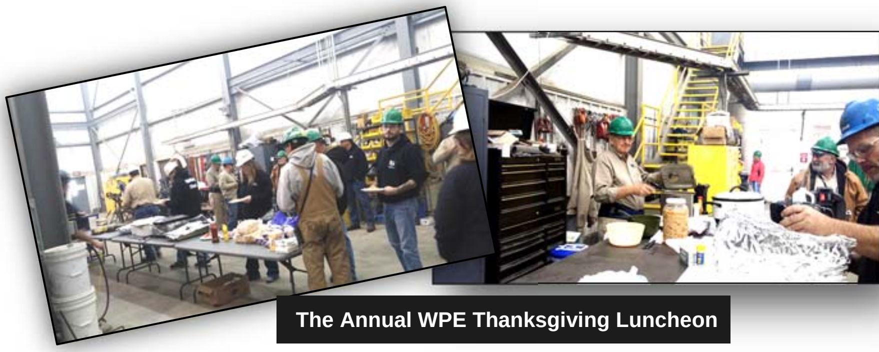
The anaerobic digester has continued to be a large focus area for us, and we have finally reached some resolution. Before I get to that, let me share the overall time line. The original project idea was conceived in late 2009, with a feasibility study and pilot study of the technology completed in 2010 and 2011. Construction began in late 2011, and commissioning of the plant began at the end of 2012. Not long into the startup process, it became obvious that there were significant process related issues. WPE continued to operate the facility and to try and resolve the numerous issues until September 2014 when the facility was idled.

In February 2014, WPE filed an arbitration demand against ICM (the general contractor) in Kansas seeking a determination that no further amounts were owed ICM. In March 2014, Himark (the technology provider) filed a Complaint against WPE in the US District Court for the District of Kansas alleging WPE owed Himark an additional $2.5M and up to another $24M for alleged patent infringement. The District Court stayed the action and ordered Himark and WPE into arbitration in Canada. In February 2015, WPE was successful in getting Himark to voluntarily join the arbitration proceedings that were previously commenced between WPE and ICM.

Just prior to the arbitration hearing, WPE was able to reach settlement terms with ICM. The terms of the settlement are confidential, but a summary will be provided to all members in the audited financial statements. The arbitration hearing between WPE and Himark proceeded as scheduled, and on November 13, 2015 the arbitration panel ruled in favor of WPE, awarding WPE $19,233,321 in damages plus $369,681 in legal and arbitration fees. WPE has since filed an application for confirmation of the arbitration award with the US District Court for the District of Kansas as part of commencing collection proceedings against Himark.

With the arbitration now behind us, WPE is beginning to evaluate what options may be available with the digester assets. While this process is likely to take some time, our goal is to make every effort to realize the best value for the members.

Happy Holidays!



The Annual WPE Thanksgiving Luncheon

Fueling the Future

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