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FUELING THE FUTURE

## January 2016 Newsletter



Derek Peine  
General Manager

## From the General Manager

Welcome to 2016. Things in the ethanol industry have already started off with a bang.

If you remember from the last newsletter, EPA released the long awaited volume obligation numbers for the Renewable Fuels Standard (RFS) on November 30, 2015. While the numbers were better than EPA's initial proposed changes, they still fell short of the congressional requirements set forth in the Energy Independence and Security Act of 2007. As such, Americans for Clean Energy and other industry parties jointly petitioned the US Court of Appeals for the District of Columbia Circuit to hear a challenge to EPA's decisions for the volume obligations, arguing that the EPA did not have the statutory authority to make the changes that they did. In addition to Americans for Clean Energy, the group of petitioners include American Coalition for Ethanol, Biotechnology

Innovation Organization, Growth Energy, National Corn Growers Association, National Sorghum Producers, and The Renewable Fuels Association.

In addition to the EPA actions, China's Ministry of Commerce announced on January 12 that it has initiated anti-dumping and countervailing duty investigations of US DDGS exports to China. The anti-dumping case alleges that the Chinese DDGS industry has been injured by exports of DDGS from the United States sold (or "dumped") at unfairly low prices. A dumping case is an investigation of pricing and costs both in China and in the U.S. Proving dumping requires a finding that U.S. DDGS producers are selling their products in China either below cost or below the price in an appropriate comparison market (usually the home market). The China Alcoholic Drinks Industry Association is the petitioner in this case. The countervailing duty case is a case about alleged subsidies. The Chinese petitioners have claimed that several U.S. and state agricultural and ethanol policies and programs unfairly subsidize U.S. production of U.S. DDGS exports to China. China is the largest export market for US distiller grains, and while WPE does not export any of our distiller products China's actions will have an affect on domestic distiller pricing which will ripple through to pricing in our region.

On the political front, the contest on the Republican side for the 1st Congressional District in Kansas has been gaining momentum. Congressman Tim Huelskamp, the incumbent, is facing Alan LaPolice from Clyde, KS and Dr. Roger Marshall from Great Bend, KS. I encourage everyone in our Congressional District to get involved, to see how each of the candidates support the ethanol industry and Kansas agriculture, and to vote on election day. In addition, the Iowa caucuses are finally here to officially kick off the election cycle. America's Renewable Future is a bi-partisan group in Iowa that has been actively engaging all candidates and soliciting their position on the importance of ethanol and the RFS. I encourage you to visit their website at <http://americasrenewablefuture.com>. They have a lot of great info on the candidates and their platforms, particularly as it relates to our industry.

In regards to the digester, please see Note 12 to the year-end financial statements, "Subsequent Events", for an update. The arbitration hearing was held on November 13, 2015, and the panel ruled in favor of WPE. At this time, we are still working through the process with the US District Court for the District of Kansas to get confirmation of the award, which is the first step of the collection proceedings.

Lastly, please note that the annual meeting for members is scheduled to be held at 6:30pm central time at the Oakley Country Club on March 29, 2016. All members will receive a package in February containing the proxy information and a ballot for the Board of Managers election. Please fill out the ballot and return it via the self-addressed, stamped envelope. The ballot must be received no later than **March 21, 2016** for your vote to be counted. The election results will be announced at the annual meeting.

# The Bored Secretary

Producing ethyl alcohol, or ethanol for short, has been called the second oldest profession known to mankind. There are numerous historical and biblical references of it. And many historical figures are tied to the product in one way or another.

Al Capone is a great example. This Chicago mobster amassed his considerable fortune mainly from a bootlegging network he controlled during the prohibition period in the 1920's and 30's. His notoriety stemmed primarily from his penchant for eliminating his competition with bullets and dynamite. But he had other talents as well. He reinvested much of his wealth in activities designed to perpetuate his business. He was a well known philanthropist and many considered him to be a modern day Robin Hood. He also used his wealth to influence local politicians and government officials. This along with an army of lawyers kept him from being successfully prosecuted for any of his many crimes. Finally federal officials, where he had less influence, were able to send him to prison on tax evasion charges.

When the internal combustion engine was invented in the 1800's, an entirely new use was found for ethyl alcohol. It was an ideal fuel. Henry Ford became a lifelong proponent of fuel alcohol and even designed his first automobiles to run on either gasoline or alcohol. But even Ford's considerable wealth and fame was no match for the emerging oil industry controlled primarily by John Rockefeller.

Like Capone, Rockefeller built his dynasty by eliminating his competition. Instead of using bullets and dynamite, Rockefeller used his wealth. Either competitors would agree to sell out to him or he would force them into bankruptcy. Also like Capone, Rockefeller reinvested much of his wealth in philanthropic activities and buying influence in politics and government. He was able to convince most of the public, just like Capone, that he was an honorable and decent person. As a result, attempts to reign in his monopoly were feeble at best. Like Ford, Rockefeller supported the prohibition movement. But Rockefeller's support was more than moral. Like Capone again, he had a business interest as well. Outlawing the production and sale of alcohol also eliminated another competitor.

So, the battle between the oil industry and the fuel ethanol industry has been going on for over a hundred years. This is well documented in the book *The Forbidden Fuel: A History of Power Alcohol*. The arguments currently being used to discourage the use of alcohol as fuel have been around for most of this time. The efforts by the oil industry to eliminate competition and control supply continue unabated. The ability of the oil industry to buy influence is at record levels. Their influence has expanded greatly from not just politics and government, but also includes academics, research and even environmentalism.

What will the future of fuel alcohol be? The oil industry already owns a substantial portion of the nation's ethanol production. Will this trend continue and eventually result in the ethanol industry being swallowed up, just like other competitors in the past? Or will the long term market fundamentals which now favor ethanol over oil, finally prevail?

**Ben Dickman, Secretary of the Board of Managers**

## Important Information

The annual member meeting is scheduled for March 29, 2016 @ 6:30pm at the Oakley Country Club. All members are invited to attend.

All members will receive a package in February containing the proxy information and a ballot for the Board of Managers election.

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 3rd to express your interest.

All ballots for the Board of Managers positions must be received no later than **March 21 2016**.

### RSVP for Annual Meeting

Please RSVP to Debbie  
dnelson@wpellc.com  
785.672.8810

**RSVP Deadline: March 21st**

## Financial Results

The financial statements for the first fiscal quarter (three months ended December 31, 2015) are included in this newsletter as well as the audited financials for the fiscal year ended September 30, 2015.

The industry has been under pressure throughout 2015. Crude oil pricing has fallen from \$90/bbl in October 2014 down to recent lows under \$30/bbl. Further, the ethanol industry has been in an over-supply situation. While gasoline demand remained strong throughout 2015, strong margins in 2014 incentivized plants to increase capacity, and we are simply outpacing demand. In fact, the industry production rate in mid-December 2015 was reported at 1,008,000 bbls/day (15.45B gals/yr), while domestic consumption for ethanol has only been running around 900,000 bbls/day.

WPE production rates were up slightly for the quarter (1.7%). However, revenue was down by 18.4% and cost of sales was down by 8.6% from the same quarterly period of FY2015. Overall net income was down by 57.2% from Q1 of FY2015.

Ethanol margins are expected to remain very tight throughout the remainder of the winter months. Low crude oil pricing is driving down the price of gasoline at the pump, and low gasoline pricing and oversupply of ethanol in the marketplace will continue to put bearish pressure on pricing.

Despite bearish pressure in the energy sector, the grain markets have remained fairly steady over the past few months. The price of CBOT corn has ranged from a high of around \$4.00/bu down to nearly \$3.50/bu, with an average of \$3.70/bu.

We expect that our corn oil extraction project will come online in early February. This is a project that nearly every other ethanol plant in the country has already completed, and it is expected to increase net incomes by \$0.02-\$0.05/gallon of ethanol sold which will be very important in the expected tight margins ahead.