July 2016 Newsletter


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From the General Manager

We have just finished our third quarter of the fiscal year, and I am pleased to report that we are outpacing expectations. Ethanol values slowly gained strength throughout the quarter, improving $0.18 per gallon. Grain prices gained momentum through most of the quarter, gaining $0.75 per bushel from April 1st until mid-June, when corn prices took a steep decline on predictions of cooler and wetter weather to come. Overall, pricing ended the quarter only $0.04 per bushel greater than where it started. More details are provided in the Financials section of the newsletter.

But more important than just the margins at WPE is the momentum that the industry is gaining. For years, the oil industry has been lobbying Congress to repeal the RFS, and it seems as if each year Senators Toomey and Feinstein try to find a way to push such a bill through. Further, the industry seems to have had a constant fight against the so-called blend wall...a fictional limitation based on blending ethanol at a maximum of 10% in the gasoline pool. The EPA even justified the blend wall as a barrier for higher ethanol blends in their 2015 proposed rule for volume obligations towards the Renewable Fuels Standard.

The good news is that the ethanol industry is finally starting to win these battles thanks to the efforts of many in the industry. The industry has pooled together money and resources into a program called Prime the Pump, which is intended to help offset the costs of installing E15 and higher blends at large, progressive retailer sites throughout the country. That program was followed in 2015 with Secretary of Agriculture Tom Vilsack providing a matching grant fund to further support the Prime the Pump program. In total, the industry and the USDA have committed $160M+ towards infrastructure buildout, and those new stations are finally coming online. In those stations that I have visited or have heard about, E15 has now become the primary fuel that is being sold. It is typically priced $0.05/gal cheaper than the 87 octane regular unleaded (i.e. E10), and the lower pricing is what drives consumers. It is expected that within the next several months, there will be 2,000+ stations offering E15 across the US, and the lower pricing is likely to drive competition for others to install E15 at neighboring sites. Further, it was announced just last week that the first company will now start offering E15 as a blended fuel out of the fuel terminals.

All of these efforts, and more, are collectively changing the landscape. In this year's proposed volume obligation rule, the EPA has admitted that there is not blend wall and that we have finally surpassed an overall usage of ethanol above 10% in the fuel supply. In addition, rumor has it that the oil companies are now abandoning their goal to repeal the RFS, and rather are now focusing on just trying to cap the usage of ethanol at just under 10%. All proof that working together, focusing on where you can make an impact, relentless perseverance, and doing the right thing will prevail in the end!

The Bored Secretary

Petroleum based fuels for spark ignited internal combustion engines have always had serious drawbacks. These fuels are naturally low in octane, which means the engines have to be designed with very low compression ratios to eliminate premature detonation, or "knocking." When engines are designed with low compression ratios, they become very inefficient and give off lots of smoke. Otherwise, some octane additive has to be mixed with the fuel.

In 1921, General Motors engineers discovered tetraethyl lead, a compound which would raise the octane level of gasoline. Some still refer to premium gas as "ethyl." Despite concerns from the beginning about lead poisoning from this additive, the oil industry continued poisoning children and others until the 1970's when Congress finally passed the Clean Air Act and lead started to be phased out. While leaded gas has been outlawed for over 20 years, some retailers still refer to their gasoline as "unleaded."

The oil industry replaced lead with another compound called Methyl Tertiary Butyl Ester or MTBE. This compound also had some serious health concerns and polluted many water supplies. Finally, liability concerns prompted the oil industry to discontinue its use in the US in 2006, although production and use in the rest of the world continues.

MTBE has now been replaced with a combination of oil refinery products referred to as BTEX, or a mixture of Benzene, Toluene, Ethyl-Benzene, and Xylene. Again, despite serious health concerns, especially on children, this mixture of toxic chemicals has comprised as much as 50% of premium grades of gasoline and average 25% to 28% of lower grades of gasoline.

The really sad part of this century long saga, is that ethanol was known from the beginning as a solution to the octane problem with petroleum based gasoline. The excuse in the last century was always that ethanol was more expensive. That excuse is now no longer valid. Stations that offer "no ethanol" fuel are usually priced 20 to 30 cents per gallon higher. The same is true with most midrange (89 octane) and premium gas (91 to 93 octane) prices.

Were it not for organized obstruction tactics, and a well funded smear campaign against ethanol by the oil industry, these higher grades of gasoline could easily be produced with less toxic and cleaner burning ethanol at much cheaper prices. Most consumers are aware of ethanol and its supposed shortcomings thanks to the propaganda spread by the oil industry. Very few have ever heard of BTEX and the documented health concerns associated with it. Hopefully, it will not take 50 years, as it did with lead, for the public to become aware.

Ben Dickman, Secretary of the Board of Managers

Anaerobic Digester

There is not a lot of new information to report in regards to the digester. The arbitration proceedings concluded a few months back with the arbitrators ruling in our favor. Since that time, we have been focused on finishing up some technical legal matters with the federal court before we can begin the collection process. I expect us to get the legal matters behind us within the near future, and then we will move on to going after Himark, the process technology provider, to collect the amount awarded.

Financials (for 3rd Quarter Ended June 30, 2016)

WPE's financial performance has been strong thus far this fiscal year, outpacing expectations and significantly outpacing last fiscal year.

For the third quarter, production was down slightly at 2.6% less than the same time last year. Overall sales revenue was also down just slightly at 0.5% below last year. While sales revenue for ethanol, distiller grains, and Western Plains Trucking were all lower, revenue from the new distiller oil extraction project contributed $466K to the quarter. Overall costs of good sold were down 11.6% for the same quarter last year, including grain costs being down 13.8%. Significantly lower grain costs with only slightly lower revenue provided a 170% increase in EBIDTA and an overall net income that was $3 million higher than the same quarter last fiscal year.

For the fiscal year, WPE ethanol production is up 2.6% over the same period last year. Total revenues are down 6.2%, while total costs of good sold is down 9.2%. EBIDTA for the fiscal-year-to-date is up 21.8%, and net income is up 105%.

Overall, ethanol values have trended somewhat similar as last fiscal year. In general, pricing hit the low in January/February and then built through the first part of the summer, and I would expect them to remain relatively flat through the second half of summer and begin to tapper off through the winter.

Grain pricing has been the biggest difference for this fiscal year. Specifically, basis values have been more favorable in our procurement region this year over last year. The fall harvest of 2014 (i.e. crop year 2015) was a good crop in our region; however, China came in that year and bought up all of the sorghum in the country. At times, they were paying $1 basis over corn for the sorghum. Removing sorghum out of the supply chain naturally pushed up our basis values for last fiscal year. The fall harvest of 2015 (i.e. crop year 2016) was another strong crop. On a national level, the corn crop was slightly smaller than the previous year, but the sorghum crop was 38% larger. Both crops produced higher volumes in our procurement area. The greater supply has pushed our local basis values back down to more historical levels, and as a result the crush margins are significantly better this year than last fiscal year.

I look for continued good margins for the rest of the fiscal year, and I expect to finish the fiscal year significantly better than last year. However, I am cautiously optimistic about margins as we head into the new fiscal year. The corn and sorghum crops look really good at this point. There is obviously a lot that can happen between now and harvest, but things look to be on track. Gasoline pricing at the pump remains relatively low compared with last year, and this is helping to drive strong gas demand, averaging 1-2% higher than last year...and strong gasoline demand provides strong ethanol demand. On the flip side, one note of caution for the next few months is that ethanol production has been very strong over the last several months. In fact, as an industry we have been setting weekly production records, and we have a tendency to outpace demand with our production resulting in pressured pricing. We will need to be careful to balance production rates with demand as we move into the lower gasoline demand months in the winter.

Again, we have had a strong year so far. Net income for the fiscal year-to-date exceeds last year's numbers, and I expect that we should finish the fiscal year significantly higher than last year.