WESTERN PLAINS ENERGY

FUELING THE FUTURE

3022 County Rd 18 • Oakley, Kansas 67748 • Office 785-672-8810 • Fax 785-672-4494

August 2021 Newsletter

The Quarterly Update

While it has been a challenging fiscal year, we closed the third quarter in a much better position that I was expecting back in early 2021. We have remained at a reduced production rate since January due to historically high grain basis values in our region. This strategy has worked well for us. We were able to minimize the amount of grain that we needed to purchase, and we were also able to layer in forward grain purchases as the market and basis values pushed higher. As grain pushed higher, it pulled ethanol upward with it creating a margin gap that were able to capture.

We have seen continued improvement on the ethanol demand side of things throughout the summer months. The most recent government reports peg gasoline demand around normal pre-COVID volumes. This is great news; however, we have also seen ethanol production volumes push higher as well. We will need to see some discipline from the ethanol industry to not over-supply demand as we push through the end of the summer driving season and work our way into fall.

In thinking about fuel demand, we must also remain cognizant of the recent uptick in COVID cases, mostly related to the delta variant of the virus. As you all are aware, mask mandates have recently been reinstated in a few areas, and there are discussions around other measures also being instituted. Hopefully, we can get through the next several months without any COVID health issues within our employee group and any demand destruction to the liquid fuel market.

Looking ahead, I believe that margins will get tighter as we bring the fiscal year to a close. However, I feel confident that we will finish the year with positive cash flow and positive net income. We plan to remain at a reduced production rate until the new crop begins to come in, and then we will increase back to full production. It doesn't look like the regional grain basis values will revert to historical levels, but current indications are that basis values will retreat and improve our overall competitiveness within the ethanol industry.

The quarterly unaudited financials are included with the newsletter. In comparing the third fiscal quarter of this year with the same quarter from the previous fiscal year, ethanol production and grain grind are down about 33% due to the reduced operating rate. Comparing the two quarters, we did have an increase of 2% in conversion yield (gallons of ethanol per bushel of grain). Revenue from ethanol sales was up by 53% and ethanol unit values were 118% higher. Keep in mind our production rate and fuel values were significantly affected by COVID in April and May 2020. Revenue from distiller product sales pushed higher with the higher grain values. Wet distiller values averaged $22 per ton higher and distiller oil values averaged $0.23 per pound higher. Grain expenses for the quarter were on average $2.34 per bushel higher, while ingredient expenses were 18% lower, energy costs were 4% higher, and administrative expenses were 3.6% higher.

Unfortunately, the ethanol industry has been in the news lately regarding some recent court decisions that did not go our way. The first case involved an issue that was elevated all the way to the Supreme Court, whereby the ethanol industry challenged EPA's legal ability to grant small refinery exemptions (SRE's). The Tenth Circuit Court ruled in February 2020 that the EPA had overstepped its authority in granting SRE's based on three separate reasonings. Following, Holly Frontier, a petroleum refiner challenged one of the reasonings from the ruling and the US Supreme heard arguments on it this summer. On June 25 this summer, the US Supreme sided with refinery side. While the decision didn't go our way, the other two reasonings still stand and will continue to inhibit the SRE approvals.

Just one week later on July 2, the US Court of Appeals for the DC Circuit issues a decision in American Fuel and Petrochemical Manufacturers (AFPM) v. EPA, in which oil refiners challenged EPA's 2019 rule extending the 1-psi Reid Vapor Pressure (RVP) volatility waiver to E15. This is a long-standing waiver that is granted to allow for E10 to be sold, and the EPA extended the same waiver to allow E15 to be sold year-round. Prior to the EPA's decision, E15 could only be sold as a regular fuel from September 15 through June 1. In my opinion, this decision could be more impactful to the ethanol industry than the Supreme Court decision. The industry is mobilizing with stakeholders and congressional members to find a resolution. Based on the DC Circuit ruling, the ability to sell E15 as a regular fuel outside of RFG fuel markets during the summer months could be severely affected.

And then on July 16, the DC Circuit Court announced its decision regarding a case involving renewable fuels, oil refiners, and environmental groups versus the EPA on several fronts. The renewable fuels groups argued that that statue requires EPA to ensure that annual RFS requirements are met, and that SRE's issued retroactively reduced the 2018 and 2019 Renewable Volume Obligations (RVO's) to levels below those specified by Congress in the RFS and that the those waived volumes should be reallocated. The court's decision said that EPA decision to not reallocate the 2018 waived volumes was reasonable and can be applied to the 2019 waived volumes.

While disappointed in the decisions, fighting tough legal battles is not new to our industry, and the national trade associations are working hard to find a path forward and more favorable resolutions for each of the cases.

Finally, I wanted to provide an update to everyone on our wind project. A big thank you to everyone that participated in the in-person and virtual meetings regarding our wind turbine project, which is being developed under a separate company called Western Plains Wind, LLC. The meetings were held to offer current members of WPE the opportunity to invest into WPW as an equity investor and/or as debt investor to the project. I am pleased to share that we had a great response for both components and the goals for both the equity and the debt side have been met. If you decided to participate, you should have received correspondence regarding the next steps for your commitments.

The construction on the project continues, and I expect things to move pretty quickly from here. The large components for the project are being delivered now, the large crane is onsite, and the erection of the turbine has started. In addition, the underground work is well underway, and we are planning to tie the turbine into the electrical grid at the end of August. The goal remains the same, which is to have the turbine operational in October, with full project close-out by the end of October. At this point, everything appears to be on schedule to meet these goals. I have included a couple of photos from the August 10 as they are erecting the base sections of the turbine.

Employee Highlights

3RD QUARTER WORK ANNIVERSARIES:

Josh Brown (Production Manager)
9/22/2008 – Celebrating 13 years

Cody Holzmeister (Shipping and Receiving Supervisor)
8/24/2010– Celebrating 11 years

Eric Robben (Maintenance Technician)
8/26/2013 – Celebrating 8 years

Jesus Campos (Cook Operator)
9/5/2013 – Celebrating 8 years

Stacy Smith (Laboratory Technician)
7/21/2014 – Celebrating 7 years

Maria Rubio (Janitorial Services)
9/15/2006 – Celebrating 5 years

Troy Charles (D&E Operator)
8/28/2020 – Celebrating 1 year

Nicholas Byerly (D&E Operator)
9/15/2020 – Celebrating 1 year

Ethan Batchelor (Cook Operator)
9/15/2020 – Celebrating 1 year

Valdemar Rubio (Cook Operator)
9/21/2020 – Celebrating 1 year

3RD QUARTER BIRTHDAYS:

Greg Doll – July 7
Joni Wilson – July 18
Brian Wolf – July 27
Tom Heier – August 4
Adam Janousek – August 13
Stacy Smith – August 22
Dusty Zerr – September 1
Jamie Speer – September 6
Troy Charles – September 6
Nicholas Byerly – September 10
Joe Renner – September 10