WESTERN PLAINS ENERGY

FUELING THE FUTURE

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Derek Peine
General Manager

From the General Manager

WPE just completed our third fiscal quarter for the year, and as you will see on the financial statements we continue to be blessed and are having a pretty good year. Ethanol production for the fiscal year is up 2.5% higher than the same time last year while grain consumption is only up 0.7%. Ethanol values are up an average of 3.6% for the fiscal year while grain pricing is down an average of 15% for the same period as last year. This has driven our net income for the quarter to be $1.43 million higher than the same quarter last year, and net income for the fiscal year is $4.93 million higher. This last fiscal quarter of the year (July, Aug, Sept) is not likely to be quite as strong. The local grain basis has strengthened considerably, and we will see increased grain costs during the fourth quarter. However, I believe that earnings will remain positive and that we will finish the fiscal year in a strong position.

We have also been very blessed with good moisture this spring and early summer. The regional crops look good, and we are looking forward to another good harvest in our area. For the US, the corn condition has most recently been reported as 62% good to excellent, and 60% for Kansas. These are pretty good numbers, although down somewhat from last year. The latest projections put the US corn crop at 14.2 billion bushels, down 5.9% from this last year's crop. The US sorghum crop is projected to be down 34% at 318 million bushels. For Kansas, corn production is projected to be up 9% to 762 million bushels, and sorghum production is expected to be down 35% to 173 million bushels. Combined corn and sorghum production in Kansas is expected to be down just 3.3% overall.

On the political front, the increased use of higher blends of ethanol continues to be the number one priority for the industry. The implementation of E15 (15% ethanol; 85% gasoline) continues across the country as we see more and more big name gasoline retailers begin to offer the product to consumers. There are now more than 900 stations across 30+ states that offer E15. The list includes names like Cenex, Kum & Go, Casey's, QuikTrip, Murphy USA, RaceTrac, and Kwik Trip. The incentive to the consumer is actually quite simple — E15 is good for your engine, good for the environment, and good for your wallet. E15 increases the octane value of the fuel, which allows engines to have more power and to increase the miles per gallon. Ethanol can also decrease green house gases by 57% compared to gasoline. When ethanol is mixed with gasoline, it is replacing other octane sources. These other sources of octane are chemicals such as benzene, toluene, and xylene, which are all know carcinogens. So not only does ethanol decrease green house gas emissions, it is also reducing the amount of toxic chemicals that are normally present in the fuel. Finally, ethanol saves each of us money each time we fuel up. Ethanol is typically cheaper than gasoline on a wholesale level, it replaces more expensive sources of octane, and it allows refineries to produce a lower grade, lower octane gasoline that is cheaper to make. Each of these contribute to making ethanol blended fuel cheaper than non-blended gasoline. In our region, E10 gasoline is usually ~$0.30 per gallon cheaper than E0 gasoline. Where available, E15 is usually priced an additional $0.05 per gallon cheaper than E10. That is real money saved every time you fill up at the gas station. While there are only a handful of stations in Kansas that currently offer E15, the buildout of new stores offering the E15 and other higher blends is quickly growing and I look forward to the day that E15 is available at all gas stations.

The Bored Secretary

In the last newsletter, I documented the results of the E-30 Challenge sponsored by Glacial Lakes Energy in Watertown, S.D. Clearly, most automobiles will run better and cheaper on higher blends of ethanol whether or not they are certified as flex-fuel vehicles.

Since then, there has been another significant development in this area. The Environmental and Energy Study Institute released the following statement: “On June 5, the U.S. EPA received a patent for an “internal combustion engine adapted to combust alcohol blended fuels” of greater than 20 percent alcohol by volume – essentially an E30 engine – perhaps the Holy Grail of the ethanol industry.

The agency has been pursuing the patent since 2008, with the goal of creating an “internal combustion engine that operates at high efficiency with alcohol fuels [to] improve the potential for alcohol fuels to reduce petroleum consumption.” In their patent application, EPA notes that either a 30 percent blend of ethanol or methanol is the “preferred fuel” as “it shows a 10 – 12% increase in efficiency over a comparable gasoline engine.”

A mid-level ethanol blend, such as E30, would reduce petroleum consumption and increase engine efficiency. But a chicken-and-egg problem has beset the issue for years. Which will come first, higher blends, or the engines to use them? While the automotive industry has expressed interest in designing engines compatible with higher octane blends (such as an E30 blend) to enable smaller, more efficient engines, there are currently no models on the market that are specifically designed to utilize a high-octane fuel.

On the fuels side, EPA has been fighting E30 blends for several years because the agency has contended that there are no vehicles capable of utilizing the blends. The auto industry won’t design a car for a fuel that’s not on the road, and the EPA won’t certify a fuel that isn’t commercially available. While it’s unlikely that the patent will end the logjam – it is a surprising twist in the road to the next generation of engines.”

Most of the information in the EPA’s design has been widely known for many years. So, again, clearly, the problem here is the red tape and unreasonable regulations instituted by Big Oil’s friends within EPA trying to protect the fuel monopoly that Big Oil enjoys and profits from. There is no other rational reason why most current automobiles are not certified to use higher blends of ethanol and higher blends of ethanol are not available at most fuel stations. Then the auto industry, which is held hostage by Big Oil’s fuel monopoly, would have already designed and built engines similar to the EPA’s patented design.

Ben Dickman, Secretary of the Board of Managers

IMPORTANT TAX NEWS: Kansas Tax bill raises personal income tax rates, repeals business exemption, and makes other changes that may affect you

On June 6, 2017, Kansas passed legislation making significant tax law changes that are likely to affect your personal income tax liability. The most significant changes include an increase in state income tax rates, a repeal of the exemption for certain non-wage business income, and changes to itemized deductions. Read below for details.

Individual Income Tax Rates

The following tables show how individual income tax rates will change for married filing jointly filers and all other filers:

Married Filing Jointly					All Other Filers				
2016		***2017***		***2018***	***2016***		***2017***		***2018***
$0-$30,000	2.70%	$0-$30,000	2.90%	3.10%	$0-$15,000	2.70%	$0-$15,000	2.90%	3.10%
$30,000 +	4.60%	$30,000 - $60,000	4.90%	5.25%	$15,000 +	4.60%	$15,000 - $30,000	4.90%	5.25%
		$60,000 +	5.20%	5.70%			$30,000 +	5.20%	5.70%

Business Exemption Changes

Beginning in 2017, the legislation repeals the exemption for certain non-wage business income (income reported by pass-through entities and sole proprietorships). Income and loss from rental real estate, royalties, and net farm rental will also be included in Kansas taxable income. Net gain from the sale of qualified livestock must now be included in calculating income.

The Kansas deductions for domestic production activities; self-employment taxes; pension, profit-sharing, and annuity plans of self-employed individuals; and self-employed health insurance are once again allowed. Additionally, the federal net operating loss deduction claimed on the taxpayer's federal income tax return is no longer required to be added back to federal adjusted gross income in computing Kansas adjusted gross income. Changes to these adjusted gross income modifications are effective for tax years beginning in 2017.

Medical Expenses, Mortgage Interest & Property Taxes

For the 2017 tax year, medical expenses are disallowed as an itemized deduction, but the new legislation permits taxpayers to claim 50% of medical expenses currently allowed as itemized deductions under federal law for 2018 as an itemized deduction. This amount is increased to 75% of the federal allowable amount for 2019 and to 100% for 2020 and thereafter.

Itemized deductions for mortgage interest and property taxes paid are also 50% of the federal allowable amounts for 2017 and 2018, and increased to 75% for 2019 and to 100% beginning in 2020.

If You're Impacted, We Can Help

No penalties or interest against individuals will be enforced from the underpayment of taxes due to rate changes, as long as the underpayment is paid on or before April 17, 2018. Furthermore, no penalties or interest against business owners will be enforced for the underpayment of taxes due to the tax law changes (such as penalties for the underpayment of estimated taxes), as long as the underpayment is paid on or before April 17, 2018.

If these changes impact you, including the new personal income tax bracket and/or the repeal of the exemption for non-wage business income, please contact us with any questions or concerns. With advanced planning, some tax increases may be minimized.

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