WESTERN PLAINS ENERGY
FUELING THE FUTURE
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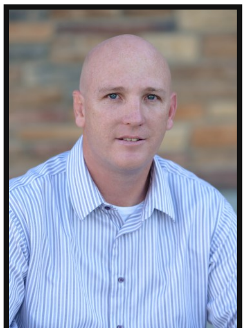
December 2017 Newsletter



Derek Peine
General Manager

From the General Manager

And just like that, December is here. We have just finished another fiscal year, and I am pleased to share that WPE had a strong financial performance. Total sales were up 3.8% while grain expenses were down by nearly 9%, driving net income to be ~70% higher than last fiscal year.   We have not included the quarterly financials in this newsletter as we are currently working on the fiscal year audit. Once the audit is complete, we will send out the full audited financials at that time.

Once again, regional producers have been blessed with a bountiful harvest, and grain piles can be found all across our region. According to the latest USDA report, Kansas is expected to set another record in corn production at 707 million bushels. Kansas sorghum production is expected to be down some at 189 million bushels, which accounts for just over one-half of the total sorghum produced in the US. On a national level, corn production is down 3.9% on less planted acreage, but the corn yield is expected to set a new record at 175.4 bushels/acre. The down side of the high production numbers is tempered grain pricing for the producer.

Similarly, US ethanol production has also been setting new records, with the most recent production rates in excess of the equivalent of 16 billion gallons per year. Gasoline demand has been good, and ethanol exports remain strong at just over 1 billion gallons per year. However, record ethanol production is simply outpacing demand, and ethanol values have fallen nearly $0.20 per gallon since early September. The bearish force has pushed margins down considerably from where we were this past fiscal year. From my perspective, I don't see much change or a lot of positive news for the foreseeable future. I think that it is likely that the ethanol market will remain saturated and under pressure through the winter months.

On the policy side, protecting the Renewable Fuel Standard (RFS) and increasing domestic demand for ethanol remain the top priorities for the industry. Each year, it seems that some members of Congress introduce legislation to repeal or reform the RFS. Earlier this year, our industry had a major achievement in getting EPA Administrator Pruitt to commit, both verbally and in writing, to not changing their proposed volume obligations within the RFS. The industry has also been working diligently to increase the domestic demand for ethanol, particularly for blend levels of E15 and higher. The implementation of E15 continues across the country as more and more of the large retailers are making the switch to offer the higher blends. For these retailers, they are able to make additional margin by offering the higher blends, and at the same time they are able to sell the fuel to the consumer for less than the regular E10 fuel. Casey's is the latest chain to offer E15, which includes three of their newest stores in Kansas.

I would also like to share the board of managers have elected to pay a distribution of $100 per share. The dividend checks will be mailed within the next couple of weeks. Please remember that some of you have elected to receive your dividends via direct deposit, in which case we will just be mailing you a paper statement.

Finally, I want to say thank you again for your continued trust and support in all of us here at WPE!

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

The Bored Secretary

In a recent article, Jim Lane, the editor of Biofuels Digest, asked the question: "Why are farmers poor?" He gave the following example: "**Back in 1917,** 100 years ago, a standard box of Kellogg's corn flakes (typically, these were around 8 oz at the time) cost 8 cents and corn was priced at $1.39 per bushel. So, the grower received, more or less, 15 percent of the value of the product. **In 2014**, an 18 oz box of Kellogg's Corn Flakes cost around $4.00 and corn was priced at $3.70 per bushel. So, the grower received, more or less, 2 percent of the value of the product."

As a life-long farmer, it seems to me that the answer to the question "Why are farmers poor?" involves much more than not being able to capture the margin between commodity prices and actual consumer food prices. Back in 1917, the dinosaur (fossil) fuel and power industries were still in their infancy. In 1917, farmers were still providing not only food energy for people, but also much of the transportation and power needs of the people through real horse power and other products produced on the farm.

I am not advocating returning to the horse and buggy days, but I am suggesting that we are in the midst of replacing the dinosaur fuel and power industries with fuel and power derived from rural areas. This has the potential of returning the economies of rural America to a level of prosperity not seen since 1917.

In basically the last 20 years, the ethanol industry in this country has replaced over 10 percent of the gasoline used for transportation in this country. Were it not for massive tax subsidies for the dinosaur fuel industry and unreasonable government regulations designed to limit ethanol use, ethanol could easily be replacing 30 percent of the gasoline at a much lower price than consumers are currently paying.

In just the last 10 years, wind power, primarily from rural areas, is now replacing about 10 percent of the electric power needs in this country at a cheaper price than the dinosaur fuel produced electric power. Like the ethanol industry, the wind industry has been helped by tax subsidies. Like the ethanol industry, which no longer receives tax subsidies, the tax subsidies for wind energy are scheduled to be phased out. Meanwhile, there is no talk about phasing out the massive tax subsidies that the dinosaur power industry has enjoyed for most of its history. Also, just like with ethanol, the dinosaur power industry is using its wealth and influence to make the adoption of wind energy as difficult as possible and protect their market share and profits.

In just the last 5 years, the cost of solar energy has now fallen to a level that makes it also cheaper than dinosaur fuel produced electricity. The adoption of solar energy is now exploding in this country. The efforts by the dinosaur power industry to limit its adoption are exploding too. The question now is "Will farmers fully embrace the potential of all forms of renewable energy, or will they continue to be poor?"

Ben Dickman, Secretary of the Board of Managers

Kansas Tax Law Changes

As a reminder, Kansas passed new tax laws this summer that will likely affect your personal income tax liability. Some of the most important changes include a repeal of the exemption for certain non-wage business income, changes to itemized deductions, and increases to state income tax rates. We included this same information in the last newsletter, but I wanted to include it in this one as well to serve as a reminder for the upcoming tax season.

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.

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%