



TO: House Committee on Taxation
FROM: Derek Peine, CEO/General Manager, Western Plains Energy, LLC
RE: **Testimony in Opposition to HB 2401**, imposing an excise tax on ethanol production
DATE: March 18, 2015

Good afternoon Chairman KleeB and members of the Committee. My name is Derek Peine, and I am the CEO/General Manager of Western Plains Energy, an ethanol production company located in Oakley. On behalf of Western Plains Energy, I would like to thank you for allowing me the opportunity to testify in opposition to HB 2401.

Western Plains Energy was founded on the idea of providing economic stimulus to the rural Northeast region of Kansas and bringing added value to the Kansas corn and sorghum crops. Since operations began in early 2004, Western Plains Energy has done just that. We have been a leader in our industry, helping to pave the way for new innovation, and we have continually reinvested and grown our business. Today, we support our rural economy with 55 full-time, high-paying jobs with an annual payroll of greater than \$3 million and through many indirect jobs and services. Western Plains Energy also contributes to the agriculture sector by annually consuming 17 million bushels of corn and sorghum that are grown in our region, and we supply nearly 400,000 tons of nutrient-rich wet distiller grains back into the regional cattle feeding operations. We are very proud of the fact that we are living up to the expectations of our founders.

Beyond just Western Plains Energy, the Kansas ethanol industry is providing economic vitality for the state. As an industry, we consume 190 million bushels of corn and sorghum on an annual basis. A study conducted by the Kansas Legislative Research Department in 2010 indicated that grain prices in Kansas increased approximately \$0.10 per bushel due to the strong demand from ethanol plants. This means that Kansas ethanol plants are providing \$19 million per year of added value for Kansas farmers.

The ethanol production process only utilizes the starch in the grain to make ethanol. The remaining components, such as the protein and fat content, are preserved and concentrated into the high-value feed product called distiller grains. Roughly one-third of the grain that we use is returned to the animal feed industry. In Kansas, our industry produces enough distiller grains to feed more than 1 million head of cattle (based on average inclusion rates for finishing cattle).

The Kansas ethanol industry produces 540 million gallons of ethanol on an annual basis, with approximately 130 million gallons being consumed within Kansas. Ethanol's primary role in the fuel sector is to increase the octane of gasoline. Petroleum companies produce a sub-octane fuel and then blend ethanol at 10% concentration to get the 87 octane rating fuel that we all buy at the pump. While ethanol provides many health and environmental benefits over gasoline, it is typically priced below the wholesale price of gasoline thereby directly lowering the price of gas at the pump.

The ethanol industry in Kansas is playing a vital role in both the agriculture and the transportation fuel industries. Further, we understand the current budgetary constraints of the State. However, we strongly oppose HB 2401. This proposed tax will have a severe effect on the ethanol production



industry in Kansas, and as a result we further believe that HB 2401 is not likely to generate the perceived revenues for the state.

The ethanol industry is a commodity based business that is very competitive. HB 2401 would impose an excise tax of 4.33% onto the sale of every gallon of ethanol that we produce. In today's market pricing of \$1.50 per gallon, this would equate to \$0.065 per gallon in additional taxes. To offset such an increase, Western Plains Energy would have to either decrease the price of grain or increase the selling price of ethanol.

In terms of grain, an increase of \$0.065 per gallon on the ethanol side necessitates a decrease of approximately \$0.18 per bushel for the grain that we purchase from Kansas farmers. It is simply not realistic to believe that we will be able to procure any grain at such a steep discount to the marketplace.

Our other option would be to offset the imposed tax by increasing our sales price for ethanol by \$0.065 per gallon. Again, this option is simply not realistic. Western Plains Energy currently markets the large majority of our ethanol into the Denver and Los Angeles markets with a small portion being sold into the Western Kansas market. Our direct competition for these markets are located along Interstate 80 in Western Nebraska and Eastern Colorado. Often times, a single penny or one-half a penny per gallon is all that separates us from getting the sales contract compared to one of our competitors. HB 2401 would put our offering price substantially out of the market. Further, the imposed tax is more than enough to open the door and allow some of those competitors to our North to capture our Western Kansas market.

Simply said, HB 2401 would put Western Plains Energy in a very precarious situation, and I believe that we would be forced to consider closing the business. Further, this is the likely scenario with every ethanol production facility in Kansas. The end result would be no production of ethanol in Kansas, resulting in zero taxes collected.

While HB 2401 was drafted with the intent of increasing State revenues, I believe that it will in fact draw very little revenue and it will devastate an industry that is contributing greatly to the agricultural and energy sectors of our State. For this, I ask you to oppose HB 2401 and to not pass the bill out of Committee.

Thank you very much for the opportunity to share our perspective with you today, and I will stand for questions at the appropriate time.