
Energy Freedom Loan Program Update

*A report documenting the status of the Energy Freedom loans
administered by the Department of Agriculture*

Prepared by

Washington State Department of Agriculture

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Washington State Department of Agriculture
Energy Freedom Loan Program Update

Overview

The Energy Freedom Loan program is one element of the state's *Bioenergy Initiative*. The goal of the *Bioenergy Initiative* is to:

- Establish a market for alternative fuels;
- Reduce dependence on imports of foreign oil;
- Improve the health and quality of life for Washingtonians; and
- Create a new industry in Washington that benefits our farmers and rural communities.

The Energy Freedom Loan program was established in June 2006, in part, to stimulate the construction of facilities in Washington to generate energy from farm sources or convert organic matter into fuels. In the first year, the Legislature appropriated \$17 million to the Washington State Department of Agriculture (WSDA) for the low-interest loan program. This included \$10.25 million earmarked in the Capital Budget for five public entities to move ahead on specific bioenergy projects and \$6.75 million for WSDA to make available to public entities through a competitive process. The Energy Freedom loans were to leverage additional private financing, with matching funds required to cover at least one-half of each project's total cost.

By June 30, 2007, WSDA had signed agreements with five local agencies to provide \$13 million in low-interest loans for bioenergy facilities.

Effective on July 1, 2007, the Energy Freedom program was expanded to include refueling projects, cellulosic ethanol production facilities, and other alternative energy projects, and the primary responsibility for administering the program was transferred to the Department of Commerce. The legislation transferring the program specified that WSDA continue to administer Energy Freedom projects for which it had signed loan agreements and disbursed funds prior to June 30, 2007.

The Director of Commerce is required to report to the Legislature and the Governor on the status of the Energy Freedom program by December 1 of each even-numbered year. This report is prepared by WSDA to document the December 1, 2009 status of the Energy Freedom loans it administers.

Energy Freedom Loans Provided to Public Entities

In FY 2007, WSDA signed agreements with five local agencies to provide \$13 million in low-interest loans for bioenergy facilities. Each of these local agencies received loan funds earmarked for specific bioenergy projects. Three were awarded additional monies through a competitive process.

As of December 1, 2009, four projects that received loans totalling \$10.4 million in FY 2007 remain active. Development of one project was terminated in mid-2008 and the \$2.6 million designated or awarded to the Spokane County Conservation District was returned. Additionally, the Port of Sunnyside ended its role as the public partner for an oilseed processing project after the initial loan administration phase was completed in 2008; WSDA has assumed the public partner duties on the project.

Summary of WSDA-Administered Energy Freedom Loans Active in 2009

Public Entity	Project Type	Loan Funds		
		Designated	Competitive	Total
Odessa Public Development Authority	Oilseed Processing & Biodiesel Production	\$3,500,000	\$848,102	\$4,348,102
Port of Warden	Oilseed Processing & Biodiesel Production	\$2,500,000	\$796,177	\$3,296,177
South Yakima Conservation District	Anaerobic Digester	\$1,973,000	na	\$1,973,000
Washington State Department of Agriculture	Oilseed Processing	\$750,000	na	\$750,000
	Total	\$8,723,000	\$1,644,279	\$10,367,279

Overview of Loan Agreements

The ten-year loan program provides an interest rate of one percent. In each of the Energy Freedom loans, WSDA uses a qualified depository bank as a trustee who acts on behalf of the state to disburse all loan funds and collect repayments. In addition to managing the funds, the trustee reports all financial activity and transactions to WSDA and its partners.

WSDA contracts with the public sector partner and that entity contracts with its private sector partner. Loan documents are project-specific and typically consist of a loan agreement, promissory notes, a trust indenture, a lease or use agreement between the local jurisdiction and its private partner, and assignments for security purposes. Loan procedures and documentation follow standard banking procedures and require verification of how loans will be repaid and how they will be collateralized in the event of a default.

The program allowed for up to three percent of the total loan amount for administrative costs. WSDA elected to pass this allowance on to its public sector partners for administrative expenses directly related to the project.

All contracts require the public partner to report its project status to WSDA on a quarterly basis. Information includes, but is not limited to, the status of:

- Project activities;
- Use of Washington-grown oilseed;
- Long-term economic benefits to the state, region and community;
- Creation of new jobs, job retention and higher income;
- Quality and suitability of any product produced by the project for its intended use; and
- Safe and environmentally sound manner of product storage and distribution.

As allowed by law, repayment of the low-interest loans was deferred up to 24 months from the date of funding or until a project started to generate revenue, whichever was sooner. Repayments are on an annual or semi-annual schedule that ends in 2016 or 2017. All repayments due through December 1, 2009 have been received. The repayment schedule for the Port of Warden has been restructured to accommodate delays in its project.

Repayment Status of Energy Freedom Loans, as of Dec. 1, 2009

Public Entity	Total Loan Funds	Principal to be Repaid*	Repayment Start	Repayment Received**
Odessa Public Development Authority	\$4,348,102	\$4,217,659	Dec. 2008	\$250,000
Port of Warden	\$3,296,177	\$3,197,292	Oct. 2008	\$25,000
South Yakima Conservation District	\$1,973,000	\$1,913,810	Dec. 2007	\$600,311
Washington State Department of Agriculture	\$750,000	\$727,500	June 2008	\$144,342
Total	\$10,367,279	\$10,056,261		\$1,019,653

* Less 3% allowed administrative costs. ** Includes interest.

Status of Projects

The following summarizes the status of the four active bioenergy projects with Energy Freedom loans administered by WSDA, as of December 1, 2009.

Odessa Public Development Authority

The Odessa Public Development Authority is partnering with Inland Empire Oilseeds, LLC (IEO) on an oilseed crushing and biodiesel refining facility. IEO’s ownership group includes two farmer cooperatives, Odessa Union Warehouse and Reardan Grain Growers, as well as Reardan Seed Company, Green Star Products Inc., and Avista Development.

IEO refined its first biodiesel in November 2008 and crushed its first Washington-grown canola this summer, becoming the first biodiesel company in Washington to fully integrate all production steps into one.

IEO's crushing and refining facility is housed in a 28,000-square-foot pre-existing building next to a grain elevator and a 26-car rail siding that adjoins the Burlington Northern Santa Fe mainline. IEO recently added 60,000 gallons of storage to better manage deliveries as demand has grown.

IEO's two farmer cooperatives purchased several thousand tons of canola from Washington and Oregon growers in 2009 and are actively involved in variety field trials and promoting production.

IEO's annual production capacity is eight million gallons. It produced more than 330,000 gallons of biodiesel in the second and third quarters of 2009 after making modifications to its refining system during the first quarter. With the start of crushing at the end of the July, IEO also produced more than 130 tons of canola meal, which has been sold to dairies in the Pacific Northwest. It also produced 40,000 gallons of glycerin.

This fall, IEO was accredited by the National Biodiesel Accreditation Commission (NBAC) as a BQ-9000 producer. Its biodiesel has met or exceeded ASTM 6751 quality standards. IEO is supplying a number of Washington fuel distributors.

By the end of the third quarter, IEO had created 17 full-time jobs, along with providing work for contractors, distributors, consultants and accountants. The project additionally contributes to the local economy through its use of electricity and town utilities and purchases of tools, supplies, machinery, equipment, and raw materials. Total projected employment is 20 full-time positions.

Loan repayment began in December 2008, 24 months from the date of funding.

Port of Warden

The Port of Warden is working with Home Grown Oil, LLC (HGO) to construct an integrated oilseed crushing and biodiesel production facility. As announced in 2007, HGO is planning a two-phase construction strategy. The oilseed crush facility will be completed prior to the biodiesel production facility, rather than a simultaneous build-out as originally planned.

Progress on the project has been delayed for financial reasons. However, HGO reports that it now has identified all the debt financing and equity necessary to undertake the project and hopes to close financing by April 2010. The project's general contractor has completed re-estimating the project cost and, as expected, total project costs are lower now due to the down economy. HGO expects to begin construction activities within weeks following the close of financing and to be up and running within 18 months of construction start.

The Warden crush facility is designed with a capacity of processing 1,200 tons of canola seeds per day, yielding 35 million gallons of high-grade refined, bleached and deodorized canola oil per year. HGO is partnered with the farmer cooperative CHS to supply canola seed and to sell the canola meal. HGO has committed to provide oil for biodiesel production until its own biodiesel production facility is completed.

HGO has leased a 52-acre site from the Port of Warden. HGO completed the SEPA approval process, received its air permit, and has letters of agreement with the City of Warden and the Department of Ecology on remaining permitting issues.

The Port of Warden disbursed Energy Freedom loan funds for site infrastructure, but does not expect to distribute additional funds until HGO completes its financing. The Port of Warden made one loan payment in October 2008, 24 months from the date of funding, as required by the loan agreement. Loan repayment has been restructured to accommodate the delay in the project.

When fully operational, HGO expects to add 33 jobs to Warden's local economy. To date, the project has created five part-time jobs.

South Yakima Conservation District

South Yakima Conservation District partnered with George DeRuyter & Sons Farms on an anaerobic digester that converts methane from dairy waste into electricity. The digester uses manure from the DeRuyters' 5,300-cow dairy farm as the feedstock for energy production.

The DeRuyter digester has been operating since November 2006. It has an energy production capacity of 1.2 megawatts per hour, enough to power about 700 homes. Under its initial three-year contract with the local utility, DeRuyters received an average of \$3,500 per month in income from power sales. Under the terms of its new contract with the utility, income will be lower as DeRuyters will receive payment only for up to 1 megawatt per hour.

Now starting its fourth year of operation, the digester operates relatively trouble-free year round. During two to three weeks of the winter, manure freezes and cannot be fed to the digester.

The digester produces a fiber co-product that is 100% bacteria-free and is being used as bedding on the farm, reducing costs. The fiber product has increased herd comfort level and DeRuyters report no mastitis. Due to the economic downturn, sales of the digested fiber as a peat moss replacement have been minimal. DeRuyters continue to refine the process and look for more consistent markets for the product. Other effluent from the digester is used as a nutrient for crop production.

No viable commercial uses have been found for the waste heat, however, during cold weather the heat is used to keep the digester operating properly. DeRuyters also use the heat off the engines to provide hot water when possible. The digester system significantly reduces odors associated

with manure storage and distribution. It also reduces pathogens in the manure by as much as 99%, improving air and water quality.

The project has created one new job at the dairy. Loan repayment began in December 2007.

Washington State Department of Agriculture

The Port of Sunnyside partnered with Natural Selection Farms (NSF) on the state's first oilseed crushing facility, which began operation in September 2006. The Washington State Department of Agriculture (WSDA) assumed the public partner duties on the project from the Port of Sunnyside in 2008, after the initial loan administration phase was completed. The facility crushes oilseeds to produce oil for use in biodiesel production. Meal from the crushed seeds is sold as animal feed.

Production at the Natural Selection Farms facility has been variable, depending on price and availability of oilseeds. Given marketplace economics, NSF decided in 2008 to contract with Great Plains Oil & Exploration Company to custom process camelina seed shipped in from Montana and Canada. This work continued until mid-2009.

During the first six months of this year, NSF processed more than 1.3 million pounds of camelina. The camelina yielded more than 130,000 gallons of oil, which was shipped to biodiesel plants in Washington and British Columbia, as well as more than 1.2 million pounds of animal feed. NSF also did custom processing of small tonnages of camelina, safflower and sunflower up until the middle of the past season, at which time it opted to make improvements to the crushing facility and to add a seed cleaning operation.

Adding a separate seed cleaning operation allows NSF to receive grain directly from the combine and clean at a rate that exceeds its crushing rate. Locating the seed cleaner in a separate building keeps the dust away from the processing equipment and provides a cleaner environment for workers. NSF also installed settling tanks, which allow gravity to separate solids from the oil, as well as another filter press in 2009.

NSF expects all facility improvements to be complete by the end of January 2010. These additions, recognized as necessary during the custom processing, will increase oil recovery, reduce seed handling costs, and enhance operating efficiencies.

Repayment of the Energy Freedom loan began in June 2008. In February 2009, WSDA certified that the project, as described in the scope of work, was complete and had been designed, constructed and implemented as required.

Washington State Department of Agriculture
Energy Freedom Loan Program Summary
 December 2009

Public Partner/Contact	Odessa Public Development Authority Steven Powell (509) 988-3046	Port of Warden Bob Whitaker (509) 349-2480	South Yakima Conservation District Laurie Crowe (509) 837-7911	Washington State Department of Agriculture Mary Beth Lang (360) 902-1812
Private Partner/Contact	Inland Empire Oilseeds, LLC Steve Starr (509) 982-2970	Home Grown Oil, LLC Kevin Raymond (206) 547-1078	George DeRuyter & Sons Farms Dan DeRuyter (509) 837-7783	Natural Selection Farms Ted Durfey (509) 837-3501
Activity	Oilseed Crushing, Biodiesel Manufacturing	Oilseed Crushing, Biodiesel Manufacturing	Anaerobic Digester	Oilseed Crushing
Energy Freedom Loan Amount	\$4,348,102	\$3,296,177	\$1,973,000	\$750,000
Project Cost	\$11 Million	\$110 Million	\$5.1 Million	\$1.75 Million
Location	Odessa	Warden	Outlook	Sunnyside
Output	Up to 8 Million Gallons/Yr.	Est. 35 Million Gallons/Yr.	1.2 megawatts per hour (power for 700 homes)	Up to 0.5 Million Gallons/Yr.
Jobs Created	17 new jobs	Projected to create 33 local jobs	1 new job	7 new jobs
Project Start Date	Refinery - Nov. 2008 Crusher - July 2009	Late 2011	Nov. 2006	Sept. 2006

For more information, contact:

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