
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

Robert W. Gore, Acting Director

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For more information or additional copies of this report, please contact:

Washington State Department of Agriculture
Jeff Canaan, Bioenergy Coordinator
PO Box 42560
Olympia, WA 98504-2560
(360) 902-1918
jcanaan@agr.wa.gov

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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 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.
- Create a new industry in Washington that benefits our farmers and rural communities.

The Energy Freedom Loan program was established in 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.

During the 2007 legislative session, the Energy Freedom program was expanded to include refueling projects, cellulosic ethanol production facilities, and other alternative energy projects, and the primary responsibility for the administration of the Energy Freedom program was transferred to the Department of Community, Trade and Economic Development (CTED), effective July 1, 2007. The legislation specified that WSDA continue to administer Energy Freedom projects for which the department had signed loan agreements and disbursed funds prior to June 30, 2007.

The Director of CTED is required to report to the Legislature and the Governor on the status of the Energy Freedom program by December 1 each year. This report is prepared by WSDA to document the November 2008 status of the Energy Freedom loans it administers.

Energy Freedom Loans Provided to Local 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 the competitive loan process.

Summary of Energy Freedom Loans Made by WSDA, June 30, 2007

Public Entity	Project Type	Loan Funds		
		Designated	Competitive	Total
Port of Warden	Oilseed Processing & Biodiesel Production	\$2,500,000	\$796,177	\$3,296,177
Odessa Public Development Authority	Oilseed Processing & Biodiesel Production	\$3,500,000	\$848,102	\$4,348,102
Spokane County Conservation District	Oilseed Processing & Biodiesel Production	\$1,779,000	\$853,871	\$2,632,871
Port of Sunnyside	Oilseed Processing	\$750,000	na	\$750,000
South Yakima Conservation District	Anaerobic Digester	\$1,973,000	na	\$1,973,000
	Total	\$10,502,000	\$2,498,150	\$13,000,150

Four of the five projects that received loans in FY 2007 remain active as of November 1, 2008. Palouse Bio, LLC, the private partner of the Spokane County Conservation District, announced in mid-2008 that it had terminated project development, citing commodity market volatility as the primary reason for not moving forward. The District returned all awarded funds in September 2008. Including accrued interest and unused moneys provided for administrative expenditures, the project returned a total of \$2,685,636 to the state's Energy Freedom Account.

Overview of Loan Agreements

The ten-year loan program offers the public entities 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 is required to report to WSDA and to its partners all financial activity and transactions.

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 allows 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.

Repayment of the low-interest loan may be deferred up to 24 months from the date of funding or until a project starts to generate revenue, whichever is sooner. By the end of 2008, all active projects will have begun repayment of their Energy Freedom loans.

Repayment Status of Energy Freedom Loans Made by WSDA, November 1, 2008

Public Entity	Total Loan Funds	Project Start	Repayment Start	Repayment Received
Port of Warden	\$3,296,177	Fall 2009	Oct. 2008	\$25,000
Odessa Public Development Authority	\$4,348,102	Fall 2008	Dec. 2008	\$0
Spokane County Conservation District	\$2,632,871	Cancelled mid-2008	All loan funds plus accrued interest & unused administrative allowance returned in Sept. 2008	\$2,685,636
Port of Sunnyside	\$750,000	Sept. 2006	June 2008	\$67,264
South Yakima Conservation District	\$1,973,000	Nov. 2006	Dec. 2007	\$200,104
	\$13,000,150			\$2,978,004

Status of Projects

The following summarizes the status of the four active bioenergy projects with Energy Freedom loans administered by WSDA, as of November 1, 2008.

Port of Warden

The Port of Warden is partnering with Home Grown Oil, LLC (successor to Washington Biodiesel, LLC) to construct an integrated oilseed crushing and biodiesel production facility. In

the near term, the project will purchase canola seed from out of state. The project is working with growers and agencies to support oilseed production in the Northwest region, and expects to purchase in-state feedstock as it becomes available.

In June 2007, Home Grown Oil, LLC (HGO) implemented 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. In addition, the crush facility will produce high-grade refined, bleached and deodorized oil. HGO has committed to provide oil for biodiesel production until its own biodiesel production facility is completed. HGO completed the SEPA approval process, and has letters of agreement with the City of Warden and the Department of Ecology on remaining permitting issues.

HGO reports that it has operating capital through March 2009 and expects to complete financing before that date. 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. Though the project has not started to generate revenue, repayment of the loan began in October 2008, 24 months from the date of funding, as required by the loan agreement.

To date, the project has created five part-time jobs.

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. The ownership group includes farmer cooperatives, which are working with their members to assess and support in-state feedstock production. Until local feedstock is available, the project will purchase oilseed from out of state.

IEO completed permitting for its biodiesel production facility in 2008. The biodiesel production line is fully installed and the project expects to begin biodiesel production before the end of 2008. The oilseed crushing equipment is on site and is expected to be operational by May 2009. IEO is working with the Department of Ecology and the Governor's Office of Regulatory Assistance on air quality permitting for the oilseed crush operation.

To date, the project has created seven new jobs: general manager, chief financial officer, process technical manager, purchasing/logistic manager, plant manager, and production lead and biodiesel operator. Current project payroll is approximately \$400,000 per year. The project expects to hire three additional operators in the next two months. To date, the project estimates it has injected at least \$3 million into the local economy through the employment of local contractors and the purchase of local supplies.

Loan repayment is to begin in December 2008, 24 months from the date of funding.

Port of Sunnyside

The Port of Sunnyside partnered with Natural Selection Farms on an oilseed crushing facility that is producing oil for use in biodiesel production. It is also selling meal from the crushed seeds as animal feed.

Natural Selection Farms oilseed crush project began operation in September 2006 and began loan repayment in June 2008. Oil production is variable, depending on availability of oilseed feedstock. Natural Selection Farms grows its own canola and camelina and also purchases oilseeds from producers throughout the Northwest. This season, the project is crushing Northwest-grown camelina seed. Natural Selection Farms fulfilled its 2007 oil-supply contract with Imperium Renewables and currently supplies oil to other biodiesel producers in the Northwest. Some of the camelina seed meal is sold domestically as animal feed. However, until the U.S. Food and Drug Administration approves a higher percentage of camelina in domestic feed rations, the project expects to export some of its seed meal co-product to non-domestic markets.

In May 2008, the Port of Sunnyside notified WSDA that it believed it had completed its role as the public partner in the project. WSDA has assumed any remaining public partner duties and is receiving loan payments and reports directly.

The crush facility operates 24 hours per day, seven days per week and, to date, has created seven full-time jobs. The project estimates that its crush facility employees earn 40% more than typical agricultural workers. Employees also receive specialized training related to oilseed crushing, oil purification and degumming, and oilseed meal processing, increasing their technical expertise.

South Yakima Conservation District

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

The DeRuyter anaerobic digester has been operating since November 2006 and began loan repayment in December 2007. The digester is actively producing electricity for the grid. It has an energy production capacity of 1.2 megawatts, or electricity for approximately 700 homes. The project also sells the fiber component of the digester effluent as livestock bedding and/or soil amendment. Additional effluent from the digester is used as nutrient for crop production.

To date, the project has created one new job at the dairy. Additional jobs are expected as the facility produces and markets anaerobic digester co-products. Potential co-products include fertilizers from recovered nutrients, vehicle fuels and pipeline-quality natural gas.

Washington State Department of Agriculture
Energy Freedom Loan Program Summary, November 2008

Public Partner/ Contact	Port of Warden Mike Conley (509) 349-2480	Odessa Public Development Authority Todd King/Pam Kelley (509) 982-2922	Port of Sunnyside/ WSDA Jeff Canaan (360) 902-1918	South Yakima Conservation District Laurie Crowe (509) 837-7911
Private Partner/ Contact	Home Grown Oil, LLC Daniel J. Malarkey (206) 622-7078	Inland Empire Oilseeds, LLC Fred Fleming (509) 979-1162	Natural Selection Farms Ted Durfey (509) 837-3501	George DeRuyter & Sons Farms Dan DeRuyter (509) 837-7783
Activity	Oilseed Crushing, Biodiesel Manufacturing	Oilseed Crushing, Biodiesel Manufacturing	Oilseed Crushing	Anaerobic Digester
Energy Freedom Loan Amount	\$3,296,177	\$4,348,102	\$750,000	\$1,973,000
Est. Project Cost	\$100 Million	\$10 Million	\$1.5 Million	\$5.1 Million
Location	Warden	Odessa	Sunnyside	Outlook
Projected Output	35 Million Gallons/Yr.	3-5 Million Gallons/Yr.	0.5 Million Gallons/Yr.	Power to 700 homes
Projected Employment	44 new jobs	10 new jobs	6-8 new jobs	3-5 new jobs
Project Start Date	Fall 2009	Fall 2008	Sept. 2006	Nov. 2006

For more information, contact:

Jeff Canaan, WSDA Bioenergy Coordinator, (360) 902-1918 / jcanaan@agr.wa.gov