
Energy Freedom Loan Program Update

Report to the Washington State Legislature

In support of the requirement in RCW 43.325.050

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 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. The program's low-interest loans are available to local governments, ports and other public entities and are intended to leverage additional private financing. Matching funds are required to cover at least one-half of the project's total cost.

In 2006, the Legislature appropriated \$17 million to the Washington State Department of Agriculture (WSDA) for the Energy Freedom Loan Program. \$10.25 million of the program funds were earmarked in the Capital Budget for five specific projects targeted for the development of oilseed crushing capacity. \$6.75 million was appropriated for a competitive loan program. The scope of eligible projects for the competitive loans included not only oilseed crushers but also all "processes that converted agricultural waste into energy." The authorizing legislation included numerous criteria for the competitive loan process.

In 2007, the Legislature amended the original appropriations, reducing the overall funding for the loan program from \$17 million to \$14.5 million. The funding for targeted projects increased to \$10.5 million, and included adjustments to the amount of funding for some targeted projects. The competitive loan program funding was reduced to \$4 million.

The ten-year loan program offers eligible public entities an interest rate of 1%. Repayment may be deferred up to 24 months from the date of funding or until a project starts to generate revenue, whichever is sooner.

The Director of the Department of Community, Trade and Economic Development (CTED) is required to report to the legislature and the governor on the status of the Energy Freedom program by December 1 each year. The report is to include information on the projects that have been funded, the status of these projects, and their environmental, energy savings, and job creation benefits (RCW 43.235.060). This report is prepared by WSDA in support of that reporting requirement.

Energy Freedom Loan Funds 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 in the Capital Budget. Three were awarded additional monies through the competitive loan process.

Projects Awarded Loans in Competitive Process

WSDA conducted the competitive loan process in spring of 2006 and announced the award of \$6.75 million in loans to six public entities for bioenergy projects in July 2006. Accounting for changes in the Supplemental Capital Budget and in the viability of projects, the number of active projects awarded competitive loans dropped to four with a total value of \$4 million.

One public entity, the Tulalip Tribes, informed the department in May 2007 that it no longer wished to receive the \$1,500,000 loan it had been awarded for its anaerobic digester project.

Summary of Energy Freedom Loan Program Projects

At the end of FY07, WSDA had signed contracts with five local agencies to provide \$13 million in low-interest loans.

| Public Entity | Project Type | Loan Funds | | |
|--------------------------------------|---|---------------------|--------------------|---------------------|
| | | Targeted | 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 |

Program Transfer

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

Loan Contracting and Negotiation

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. 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 note, a trust indenture, and the contract between the local jurisdiction and its private partner. 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.

Final loan documents are reviewed by the Attorney General's Office prior to signature.

The program allows for up to 3% of the total loan amount for administrative costs. WSDA elected to pass that allowance on to its public sector partners.

All contracts require the public partner to report 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.

Status of Projects

Here is the status of the five projects receiving Energy Freedom loans as of November 1, 2007.

Port of Warden

The Port of Warden is partnering with Home Grown Oil, LLC (dba Washington Biodiesel) 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 in-state oilseed production, and expects to purchase in-state feedstock as it becomes available.

Home Grown Oil, LLC (HGO) has not completed project financing. The Port of Warden has disbursed Energy Freedom loan funds for site infrastructure, but does not expect to distribute additional funds until HGO has completed its financing. HGO reports that it has operating capital through 2008 and expects to receive full financing and be under construction before summer of 2008.

In June 2007, 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 continues to work with the City of Warden, Washington State Department of Ecology and the Governor's Office of Regulatory Assistance on permitting issues.

To date, the project has created five new jobs, most of which are part-time.

Spokane County Conservation District

The Spokane County Conservation District is working with Palouse-Bio, LLC (PBLLC) to construct an oilseed crushing and biodiesel production facility. PBLLC is a consortium of agricultural cooperatives, consisting of nearly 1,200 active farmers and landowners in Spokane and Whitman counties. Once operational, the project expects to purchase locally grown oilseed as it becomes available.

Although PBLLC has infrastructure for oilseed transportation and storage in place, the oilseed crushing facility has not been constructed so no oilseed is currently processed. The project business plan relies on high-value oilseed co-products, and the company continues to conduct research on the availability, size and economics of markets for these co-products. Palouse-Bio has hired a project manager to conduct much of that research. The project does not expect to disburse Energy Freedom funds until its market development for crush co-products is complete. PBLLC believes it is prepared to quickly begin operation once it establishes markets for co-products. Start-up is tentatively slated for fall 2008.

To date, the project has created one half-time new job.

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 acquire oilseed from out of state.

In August 2007, IEO hired a biodiesel plant manager as well as a financial and administrative coordinator. Engineering contracts for retrofitting the existing facility were signed in October 2007. The oilseed crusher/expeller and biodiesel processing equipment are on site and will be installed once the facility retrofit is complete. IEO has completed permitting for its biodiesel refining operation, and continues to work with Washington State Department of Ecology and the Governor's Office of Regulatory Assistance on air quality permitting for the oilseed crush operation. Oilseed crushing and biodiesel production are expected to begin in spring of 2008.

To date, the project has created two new jobs.

Port of Sunnyside

The Port of Sunnyside is working with Natural Selection Farms on an oilseed crushing facility to produce oil that will be used in biodiesel production. In addition to growing its own canola, the project purchases Washington-grown canola from Washington feed mills. Natural Selection Farms sells oil for biodiesel production and canola meal co-product as feed to local dairy operations.

Natural Selection Farms oilseed crushing began operation in September 2006. Oil production is variable, depending on availability of oilseed feedstock. In February 2007, Natural Selections and Imperium Renewables announced a partnership to produce up to one million gallons of biodiesel from Washington-grown canola. Natural Selections made its first delivery of 6,000 gallons of canola oil to Imperium Renewables' Seattle facility in January 2007. The project may expand its activity by crushing Washington-grown soybeans.

To date, the project has created seven new jobs.

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 feedstock for energy production. The project is exploring ways to boost methane production through co-digesting food processing waste, thereby converting a waste stream into an energy resource.

The DeRuyter anaerobic digester has been operating since November 2006. The digester has an energy production capacity of 1.2 megawatts, or electricity for approximately 700 homes. The project also sells Enviro-Moss, peat moss replacement made from digester co-product. Additional effluent from the digester is used as nutrient for crop production.

To date, the project has created one new job.

Washington State Department of Agriculture
Energy Freedom Loan Program Summary

| Public Entity | Port of Warden | Spokane County Conservation District | Odessa Public Development Authority | Port of Sunnyside | South Yakima Conservation District |
|-----------------------------------|--|---|--|---|---|
| Activity | Oilseed Crushing, Biodiesel Manufacturing, Glycerin Refining | Oilseed Crushing, Biodiesel Manufacturing | Oilseed Crushing, Biodiesel Manufacturing | Oilseed Crushing, Biodiesel Manufacturing | Anaerobic Digester |
| Private Partner | Home Grown Oil, LLC (dba Washington Biodiesel) | Palouse Bio, LLC | Inland Empire Oilseeds, LLC | Natural Selection Farms | George DeRuyter & Sons Farms |
| Energy Freedom Loan Amount | \$3,296,177 | \$2,632,871 | \$4,348,102 | \$750,000 | \$1,973,000 |
| Est. Project Cost | \$90 Million | \$9 Million | \$10 Million | \$1 Million | \$5.1 Million |
| Location | Warden | Spokane | Odessa | Sunnyside | Outlook |
| Projected Output | 35 Million Gallons/Yr. | 5 Million Gallons/Yr. | 3-5 Million Gallons/Yr. | 0.5 Million Gallons/Yr. | Power to 700 homes |
| Projected Employment | 44 new jobs | 25 new jobs | 8 new jobs | 6-8 new jobs | 3-5 new jobs |
| Project Start Date | Fall 2008 | Fall 2008 | Spring 2008 | Sept. 2006 | Nov. 2006 |

For more information, contact:

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Washington State Department of Agriculture
Energy Freedom Loan Program
 Project Contact Information

| Public Entity | Private Partner |
|---|--|
| Port of Warden Contact: Mike Conley, Manager PO Box 841 Warden, WA 98857 (509) 349-2480 | <i>Home Grown Oil, LLC (dba Washington Biodiesel)</i> <i>Daniel J. Malarkey</i> <i>3401 Fremont Avenue North, Suite 242</i> <i>Seattle, WA 98103</i> <i>(206) 622-7078</i> |
| Spokane County Conservation District Contact: Rich Baden, Executive Director 210 North Havana Street Spokane, WA 99202 (509) 535-7274 x14 | <i>Palouse Bio, LLC</i> <i>Mike Conklin</i> <i>210 North Havana St.</i> <i>Spokane, WA 99202</i> <i>(509) 523-3511</i> |
| Odessa Public Development Authority Contact: Todd King/Pam Kelly PO Box 763 21 E. 1 st Ave. Odessa, WA 98159 (509) 982-2922 | <i>Inland Empire Oilseeds, LLC</i> <i>Fred Fleming</i> <i>106 W Railroad Ave.</i> <i>Odessa, WA 99159</i> <i>(509) 979-1162</i> |
| Port of Sunnyside Contact: Amber A. Hansen, Manager PO Box 329 Sunnyside, WA 98944 (509) 839-7678 | <i>Natural Selection Farms</i> <i>Ted Durfey</i> <i>PO Box 419</i> <i>Sunnyside, WA 98944</i> <i>(509) 837-3501</i> |
| South Yakima Conservation District Contact: Laurie Crowe 1116 A Yakima Valley Hwy Sunnyside, WA 98944 (509) 837-7911 | <i>George DeRuyter & Sons Farms</i> <i>Dan DeRuyter</i> <i>5121 Dekker Rd.</i> <i>Outlook, WA 98938</i> <i>(509) 837-7783</i> |