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# WSDA

# Energy Freedom Program

## *2013 Update*

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*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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# Energy Freedom Program Update

## Overview

The Energy Freedom program was established in June 2006, in part, to stimulate the construction of facilities in Washington that generate energy from agricultural crops or waste. The Washington State Department of Agriculture (WSDA) administers the responsibilities of the Energy Freedom program for four projects that were awarded loans during the initial year of the program. These low-interest loans to public entities, totaling \$10.4 million, leveraged private financing, with matching funds required to cover at least one-half of each project's total cost.

The Energy Freedom program was expanded in 2007 and is currently administered by the Department of Commerce. This report is prepared by WSDA to document the December 2013 status of the four Energy Freedom loans it administers.

## Energy Freedom Loans Provided to Four Public Entities

WSDA currently supports and administers the state's responsibilities for loans provided for four bioenergy facilities:

- An anaerobic digester at a large Outlook dairy farm
- An oilseed crushing facility on a Sunnyside-area farm
- An oilseed processing and biodiesel production facility in Odessa
- An oilseed processing and biodiesel production facility in Warden

WSDA signed agreements with local agencies to provide low-interest loans for these facilities. Each local agency received loan money designated in the state capital budget for a specific bioenergy project, with two of the agencies awarded additional monies through a competitive process. WSDA assumed the public partner duties of one local agency after the initial loan administration phase was completed in 2008. Table 1 summarizes the loans administered by WSDA.

**Table 1. Summary of WSDA-Administered Energy Freedom Loans, 2013**

<b>Public Entity</b>	<b>Loan Amount</b>	<b>Project Type</b>	<b>Private Partner</b>
Odessa Public Development Authority	\$4,348,102	Oilseed Processing & Biodiesel Production	TransMessis Columbia Plateau, LLC
Port of Warden	\$3,296,177	Oilseed Processing & Biodiesel Production	Pacific Coast Canola, LLC
South Yakima Conservation District	\$1,973,000	Anaerobic Digester	George DeRuyter & Sons Farms
Washington State Dept. of Agriculture	\$750,000	Oilseed Processing	Natural Selection Farms
	<b>\$10,367,279</b>		

**Overview of Loan Agreements**

WSDA has contracts with public sector partners which then have contracts with private sector partners. WSDA uses a qualified depository bank as a trustee who acts on behalf of the state to disburse loan funds, collect repayments, and report financial activity to WSDA and its partners. 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 projects.

State law provides that the Director of Agriculture fix the terms and rates of the loans to minimize the costs to the public entity and to encourage the establishment of a viable bioenergy industry. The original agreements provided ten-year loans with an interest rate of one percent. The term of two agreements have since been extended.

**Amendments to Agreements in 2013**

In 2013, agreements with one project were amended and plans were made to amend the agreements with a second project.

Port of Warden: In March, the project’s two loan agreements were amended to revise the payment schedules to account for prepayments on principal made by the Port in 2012. Under the revised repayment schedules, the Port has annual payments of \$371,550 for the last four years of its loan. Previously, the annual payments were \$414,580.

Odessa Public Development Authority: As the Odessa PDA worked to secure a new tenant for its crushing/biodiesel facility, it requested, and WSDA agreed, to defer loan payments due in January and May of 2013 and to restructure its loan agreements by January 3, 2014.

**Loan Repayment**

Payments on loans were made by two of the four projects during 2013. The Odessa PDA had its January 2013 and May 2013 payments deferred while it worked to locate a new tenant to operate its biodiesel facility. Natural Selections Farms did not have a payment due in 2013.

All payments received as of December 9, 2013 are summarized in Table 2. A total of \$571,654 was received during the 12-month period.

**Table 2. Repayment Status of Energy Freedom Loans, as of December 2013**

<b>Public Entity</b>	<b>Principal to be Repaid*</b>	<b>Repayment Received in 2013</b>	<b>Total Repayment Received to date**</b>
Odessa Public Development Authority	\$4,217,659	\$0	<b>\$926,763</b>
Port of Warden	\$3,197,292	\$371,550	<b>\$2,233,788</b>
South Yakima Conservation District	\$1,913,810	\$200,104	<b>\$1,400,725</b>
Washington State Dept. of Agriculture	\$727,500	\$0	<b>\$298,498</b>
<b>Total</b>	<b>\$10,056,261</b>	<b>\$571,654</b>	<b>\$4,859,774</b>

\* Less 3% administrative costs allowance. \*\* Includes interest.

**Status of Projects**

All contracts require quarterly reporting to WSDA on project status as well as an annual report in the fall. Information reported includes, but is not limited to, the status of:

- Project activities, including production volumes;
- Use of Washington-grown oilseed or waste to produce bioenergy and co-products;
- Movement of products to in-state markets;
- Long-term economic benefits, including creation or retention of jobs, and higher income;
- Quality and suitability of any product produced for its intended use; and
- Safe and environmentally sound manner of product storage and distribution.

The following narratives are drawn from the quarterly and annual reports and summarize the current status of the bioenergy projects with Energy Freedom loans administered by WSDA.

### **Odessa Public Development Authority**

The Odessa Public Development Authority (OPDA) has an oilseed crushing and biodiesel refining facility in Odessa. The facility is in a former grain storage flat house that is next to a grain elevator and a 26-car rail siding that adjoins the Burlington Northern Santa Fe main line.

The OPDA was originally partnered with Inland Empire Oilseeds, LLC (IEO) to operate the facility. IEO refined its first biodiesel in November 2008 and crushed its first Washington-grown canola in July 2009, becoming the state's first fully integrated biodiesel company.

IEO crushed more than 25,000 tons of canola and shipped more than 3.3 million gallons of biodiesel in the 12-month period ending September 30, 2012. During the 12-month period ending September 30, 2013, little to no biodiesel was produced at the Odessa facility. IEO operated the facility intermittently during the last three months of 2012, closing the plant in December. At the beginning of October 2012, IEO employed 24 full-time staff with most employees receiving wages above the county average rate of \$26,765. All employees were laid off after an involuntary Chapter 11 bankruptcy was filed against IEO in early December. At the end of December, IEO filed for Chapter 7 bankruptcy.

Due to the bankruptcy filing, the OPDA took possession of the facility as of December 21, 2012 to maintain the integrity of the plant and began actively looking for a new tenant. The OPDA heard preliminary presentations from four interested parties in February and March. The OPDA requested formal, written proposals to lease the facility from interested parties. Three proposals were received and the Board selected Columbia Plateau Oil & Energy (CPOE) as its leading candidate. CPOE was notified of the Board's decision on April 26, 2013. The next several months were spent negotiating the terms and conditions of the lease. During this time, CPOE made changes within its organizational structure and was renamed TransMessis Columbia Plateau (TCP).

The lease was signed on November 12, 2013 and TCP immediately began work to prepare the facility for restarting oilseed crushing and biodiesel production, with 15 employees on staff by the end of the first week.

During this reporting period, at the request of the OPDA, WSDA deferred loan payments that were originally due on December 5, 2012 and May 1, 2013. The OPDA and WSDA are currently working to restructure the loan repayment plan and to make other needed amendments to the loan agreements so they align with the payment schedule and other provisions of the new lease.

### **Port of Warden**

The Port of Warden is partnered with Pacific Coast Canola, LLC, (PCC) on a large canola processing facility, which marked its first year of operations in 2013. The crush facility has a capacity of processing 1,200 tons of canola seeds per day, yielding approximately 35-40 million gallons of high-grade refined, bleached and deodorized (RBD) canola oil and approximately 250,000 tons of canola meal per year. PCC intends to add a biodiesel production facility at the site when practical. The facility is on a 52-acre site leased from the Port of Warden.

Start-up and commissioning activities for the crush facility began in December 2012, and PCC commenced production and completed its first sale and shipment of canola oil and meal during the last week of that month. The plant ramped up production in the second quarter, receiving single railcars of canola seed from last year's crop along with some truck deliveries. PCC completed commissioning of the facility in July 2013 and continued to ramp up production. The 2013 crop started to move in September and volumes by rail steadily increased through November. In October, PCC completed its second run of crushing and processing non-GMO oilseed, and the plant received Non-GMO Project verification. The first unit train of canola seed for the facility arrived November 7, 2013. The unit train, with 113 railcars, was loaded at the Cenex Harvest States (CHS) facility in Milton, North Dakota, and traveled 1,345 miles to Warden.

PCC is producing canola oil and meal and is selling oil into both the food and biodiesel markets. PCC sold canola oil for biodiesel to an out-of-state biofuels company and in-state company Imperium Renewables. Both companies produce BQ-9000 certified biodiesel. In 2013, PCC sold nearly 7 million gallons of oil into the biodiesel market, with almost 2.5 million gallons sold to the in-state biodiesel producer. No biodiesel has been returned to the local market.

Over the course of 2013, PCC actively worked with elevators, agronomy input providers, and growers to increase canola acreage in Washington. PCC hopes to use canola grown in Washington and the Pacific Northwest to supply a significant portion of its needs within a few years of commencing operations. PCC has an agreement with CHS Inc. for the procurement of canola seed as well as for the sale of canola meal and canola oil products. The agreement includes partnering to increase canola production in Washington and elsewhere in the Pacific Northwest and Montana. This effort encompasses outreach to grain elevators and their growers, support for university research-based agronomic support, new approaches to production contracts, and promotional activities through the media. In 2013, PCC co-sponsored two grower meetings and a field day, in addition to its direct contact with elevators, growers and crop consultants, and became actively involved in the Canola and Rapeseed Commission.

PCC is establishing a spring canola program in Washington and the results for 2013 were encouraging. Feedback from seed suppliers indicate that winter acreage planted in 2013 will be at least double the acreage planted in 2012.

PCC reports it has adopted technology and production processes that will enable it to produce products that will meet or exceed the most stringent specifications in effect today.

Total employment as of the end of November 2013 was 42 full-time jobs and one part-time job in Warden that all pay above average Grant County wages. Most employees live within 20 miles of the plant; all live within 60 miles. In addition, there are a total of nine full-time and one part-time PCC employees working in Seattle and Winnipeg.

The Port of Warden purchased additional acreage in 2013 and has enough acreage for any expansion of PCC. Columbia Basin Railroad is considering adding more storage track that would accommodate rail cars PCC has purchased. The Port reports that the local trucking industry was busy all year hauling canola seed, oil and meal and that the project has contributed to the local economy through its use of local businesses to purchase supplies and equipment.

### **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 almost exclusively manure from more than 5,000 mature dairy cows on the DeRuyter farm and a neighboring farm. Occasionally, it adds other allowed organic waste materials.

The DeRuyter digester has been operating since November 2006 and is, by far, the largest of the state's eight operating dairy digesters. It has an energy production capacity of 1.2 megawatts per hour, enough to power about 700 homes. The digester ran smoothly and continuously during the 12-month period ending September 30, 2013.

Income received from electricity sales dropped dramatically in 2013. In 2012, Pacific Power, the local utility, purchased the electricity produced by the digester at 6.3 cents per kilowatt hour, generating an average of \$40,000 per month in income for DeRuyter. Under new rates approved by the Utilities and Transportation Commission, the price received by the DeRuyter digester for power sales is now 3.5 cents per kilowatt hour in 2013.

The digested solids from the digester continued to be sold to Organix, a Walla Walla company that uses them primarily to produce a peat moss substitute called RePeet™. Income from fiber sales this year totaled \$102,000. The liquid effluent is stored in ponds on the farm and used to provide nutrients for crop production.

DeRuyter hopes to add a newly developed process to remove nitrogen and phosphorus from the digested manure in 2014. The ability to recover and market these nutrients as bio-fertilizers would potentially generate additional income and reduce nutrient loading, a concern in the area. DeRuyter also is working with Promus Energy to convert from electricity production to renewable natural gas production, in an effort to improve the financial feasibility of the digester.

No viable commercial use has been found for the waste heat, however, during cold weather all 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 percent.

The project created one new job at the dairy.

### **Washington State Department of Agriculture**

Natural Selection Farms (NSF) began operation of the state's first oilseed crushing facility 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 is designed to crush oilseeds to produce oil for use in biodiesel production. Meal from the crushed seeds is sold as high protein animal feed. The facility has a crushing capacity of 24 tons per day.

Activity at the Natural Selection Farms facility continues to be intermittent due to market economics, which limit the interest of area growers in oilseed production as well as the ability to secure seed for processing. NSF received almost 850,000 pounds of oilseeds during the 12-month period ending September 30, 2013. Soybeans and soybean screenings made up almost 90 percent of the product received, with mustard and camelina making up the balance. All materials crushed were sourced from out of state. Crushing soybean screenings proved to be extremely wearing on the equipment as the screenings did not contain enough oil to lubricate the press. As a result, NSF carried out a major overhaul of the plant.

All of the soybean meal was shipped to in-state markets. Canola, mustard and camelina meal were shipped to both in-state and out-of-state markets with some of the meal from oilseeds crushed in the previous year.

When fully operating, the crushing facility provides employment for up to seven positions. During the period, hours worked attributed to the crushing facility totaled 1,522.

NSF continues to explore opportunities to bring profitability to the facility. No payment was received from NSF during this period as WSDA had previously agreed to defer the annual lease payment due in 2013 until 2018.

NSF continues to work to encourage oilseed production and crushing for biofuels in Washington.

Washington State Department of Agriculture  
**Energy Freedom Program Summary**  
 December 2013

<b>Public Partner/Contact</b>	<b>Odessa Public Development Authority</b> <i>Stacey Rasmussen</i> (509) 982-7850	<b>Port of Warden</b> <i>Pat Millard</i> (509) 349-2480	<b>South Yakima Conservation District</b> <i>Laurie Crowe</i> (509) 829-9025	<b>Washington State Department of Agriculture</b> <i>Mary Beth Lang</i> (360) 902-1812
<b>Private Partner/Contact</b>	<b>TransMessis Columbia Plateau, LLC</b> <i>Damon Pistulka</i> (509) 982-2600	<b>Pacific Coast Canola, LLC</b> <i>Matt Upmeyer</i> (206) 547-1078	<b>George DeRuyter &amp; Sons Farms</b> <i>Dan DeRuyter</i> (509) 837-7783	<b>Natural Selection Farms</b> <i>Ted Durfey</i> (509) 837-3501
<b>Activity</b>	Oilseed Crushing, Biodiesel Manufacturing	Oilseed Crushing, Biodiesel Manufacturing	Anaerobic Digester	Oilseed Crushing
<b>Energy Freedom Loan Amount</b>	\$4,348,102	\$3,296,177	\$1,973,000	\$750,000
<b>Project Cost</b>	\$9.4 Million*	\$120 Million	\$4.5 Million*	\$1.75 Million*
<b>Location</b>	Odessa	Warden	Outlook	Sunnyside
<b>Output</b>	Up to 8 million gallons biodiesel /year	Est. 35-40 million gallons canola oil /year	Up to 1.2 megawatts per hour (power for ~700 homes)	Up to 0.5 million gallons oil /year
<b>Jobs Created</b>	Up to 29 new jobs	43 new jobs	1 new job	Up to 7 new jobs (when operating)
<b>Facility Operations Initial Start</b>	Refinery - Nov. 2008 Crusher - July 2009	Crusher - Dec. 2012	Nov. 2006	Sept. 2006

\* per completion certificate

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