

ALASKA STATE LEGISLATURE
SENATE LABOR AND COMMERCE STANDING COMMITTEE

February 16, 2012

1:33 p.m.

MEMBERS PRESENT

Senator Dennis Egan, Chair
Senator Joe Paskvan, Vice Chair
Senator Bettye Davis
Senator Cathy Giessel

MEMBERS ABSENT

Senator Linda Menard

COMMITTEE CALENDAR

SENATE BILL NO. 125

"An Act relating to certain vehicles, including trailers; and relating to motor vehicle dealer advertising, motor vehicle dealer sales of used motor vehicles, motor vehicle sales contracts, motor vehicle service contracts, and motor vehicle sales financing."

- MOVED SB 125 OUT OF COMMITTEE

SENATE BILL NO. 149

"An Act providing a tax credit for certain contributions to a qualified dog mushing corporation."

- MOVED SB 149 OUT OF COMMITTEE

SENATE BILL NO. 175

"An Act relating to the practice of naturopathy; and providing for an effective date."

- HEARD & HELD

SENATE BILL NO. 25

"An Act relating to participation by the Alaska Industrial Development and Export Authority in energy projects."

- HEARD & HELD

SENATE BILL NO. 174

"An Act requiring certain employers in the oil or gas production industries to report certain job opportunities to the Department of Labor and Workforce Development as public information and requiring that information to be posted on the Alaska Online Public Notice System; and adding to the duties of the Alaska Workforce Investment Board."

- SCHEDULED BUT NOT HEARD

PREVIOUS COMMITTEE ACTION

BILL: SB 125

SHORT TITLE: MOTOR VEHICLE TRANSACTIONS

SPONSOR(s): SENATOR(s) MEYER

04/12/11	(S)	READ THE FIRST TIME - REFERRALS
04/12/11	(S)	TRA, L&C
02/02/12	(S)	TRA AT 1:00 PM BUTROVICH 205
02/02/12	(S)	Moved SB 125 Out of Committee
02/02/12	(S)	MINUTE(TRA)
02/03/12	(S)	TRA RPT 5DP
02/03/12	(S)	DP: KOOKESH, HUGGINS, MENARD, THOMAS, EGAN
02/09/12	(S)	L&C AT 1:30 PM BELTZ 105 (TSBldg)
02/09/12	(S)	Heard & Held
02/09/12	(S)	MINUTE(L&C)
02/16/12	(S)	L&C AT 1:30 PM BELTZ 105 (TSBldg)

BILL: SB 149

SHORT TITLE: TAX CREDIT FOR DONATIONS TO DOG MUSHING

SPONSOR(s): SENATOR(s) THOMAS

01/17/12	(S)	PREFILE RELEASED 1/13/12
01/17/12	(S)	READ THE FIRST TIME - REFERRALS
01/17/12	(S)	L&C, FIN
02/09/12	(S)	L&C AT 1:30 PM BELTZ 105 (TSBldg)
02/09/12	(S)	Heard & Held
02/09/12	(S)	MINUTE(L&C)
02/16/12	(S)	L&C AT 1:30 PM BELTZ 105 (TSBldg)

BILL: SB 175

SHORT TITLE: PRACTICE OF NATUROPATHY

SPONSOR(s): SENATOR(s) MCGUIRE

01/25/12	(S)	READ THE FIRST TIME - REFERRALS
01/25/12	(S)	L&C
02/07/12	(S)	L&C AT 1:30 PM BELTZ 105 (TSBldg)

02/07/12 (S) Heard & Held
02/07/12 (S) MINUTE(L&C)
02/09/12 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)
02/09/12 (S) Heard & Held
02/09/12 (S) MINUTE(L&C)
02/16/12 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)

BILL: SB 25

SHORT TITLE: AIDEA SUSTAINABLE ENERGY PROGRAM

SPONSOR(s): SENATOR(s) MCGUIRE

01/19/11 (S) PREFILE RELEASED 1/7/11
01/19/11 (S) READ THE FIRST TIME - REFERRALS
01/19/11 (S) L&C, FIN
02/08/12 (S) SPONSOR SUBSTITUTE INTRODUCED-REFERRALS
02/08/12 (S) L&C, FIN
02/16/12 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)

WITNESS REGISTER

SENATOR MEYER

Alaska State Legislature

Juneau, AK

POSITION STATEMENT: Sponsor of SB 125.

DANA OWEN, Staff

Senate Labor and Commerce Committee

Alaska State Legislature

Juneau, AK

POSITION STATEMENT: Explained the CS to SB 125.

DR. CAROLYN BROWN, M.D.

Douglas, AK

POSITION STATEMENT: Commented on SB 175.

DR. BOB URATA, M.D.

Juneau, AK

POSITION STATEMENT: Testified against SB 175.

DR. ELIZABETH ROLL

Bethel, AK

POSITION STATEMENT: Opposed SB 175.

JENNIFER YOUNG, representing herself

Chugiak, AK

POSITION STATEMENT: Supported SB 175.

DANIEL YOUNG, N.D.
Eagle River, AK
POSITION STATEMENT: Supported SB 175.

DR. JOSEPH ROTH
Valley Medical Center
Juneau, AK
POSITION STATEMENT: Opposed SB 175 because of ambiguous wording.

DR. LAWRENCE SMITH, M.D.
Eagle River, AK
POSITION STATEMENT: Opposed SB 175.

DR. MARY FOLAND
President, Alaska State Medical Association
Past President, Alaska Academy of Family Physicians
POSITION STATEMENT: Opposed SB 175.

JIM JORDAN, Executive Director
Alaska State Medical Association
POSITION STATEMENT: Commented on SB 175.

AMY CHADWICK, N.D.
Palmer, AK
POSITION STATEMENT: Supported SB 175.

CHRISTIN COX, N.D.
Juneau, AK
POSITION STATEMENT: Supported SB 175.

SENATOR LESIL MCGUIRE
Alaska State Legislature
Juneau, AK
POSITION STATEMENT: Sponsor of SB 25.

MICHAEL PAWLOWSKI, Staff
Senator Lesil McGuire
Alaska State Legislature
Juneau, AK
POSITION STATEMENT: Explained SB 25 and the sponsor substitute for the sponsor.

JOE GRIFFITH, General Manager
Matanuska Electric Association (MEA)
President, Arctec Alaska, Inc.
Palmer, AK
POSITION STATEMENT: Supported SB 125.

BOB GRIMM, CEO
Alaska Power and Telephone (AP&T)
Port Townsend, WA
POSITION STATEMENT: Supported SB 125.

MARK DAVIS, Economic Development Officer
Alaska Industrial Development and Export Authority (AIDEA)
Juneau, AK
POSITION STATEMENT: Supported SB 25.

DUFF MITCHEL, Executive Director
Alaska Independent Power Producers Association
POSITION STATEMENT: Supported SB 25.

PETER NAOROZ, President/General Manager
Kootznoowoo, Inc.
Juneau, AK
POSITION STATEMENT: Supported SB 25.

BOB LOESHER
Alaska Technology Development Group
Alaska
POSITION STATEMENT He supported SB 25.

ACTION NARRATIVE

[1:33:44 PM](#)

CHAIR DENNIS EGAN called the Senate Labor and Commerce Standing Committee meeting to order at 1:33 p.m. Present at the call to order were Senators Giessel, Paskvan, and Chair Egan.

SB 125-MOTOR VEHICLE TRANSACTIONS

[1:35:40 PM](#)

CHAIR EGAN announced SB 125 to be up for consideration.

SENATOR MEYER, sponsor of SB 125, said a good job of reaching a balance between the auto dealers, the consumers and the Attorney General's Office had been done with this bill and he was available for questions.

SENATOR PASKVAN moved to report SB 125 from committee with individual recommendations and attached fiscal note. There were no objections and it was so ordered.

[1:36:31 PM](#)

At ease from 1:36:31 to 1:38:03 p.m.

SB 149-TAX CREDIT FOR DONATIONS TO DOG MUSHING

[1:38:03 PM](#)

CHAIR EGAN announced SB 149 to be up for consideration.

[1:38:17 PM](#)

SENATOR DAVIS joined the committee.

CHAIR EGAN, finding no further questions, asked for a motion.

SENATOR PASKVAN noted for the record he was a lawyer for the Yukon Quest for many years and sat on the Board of Directors. With that, he moved to report SB 149 from committee with individual recommendations and attached fiscal note. There were no objections and it was so ordered.

[1:39:50 PM](#)

At ease from 1:39:50 to 1:40:47 p.m.

SB 175-PRACTICE OF NATUROPATHY

[1:40:47 PM](#)

CHAIR EGAN announced SB 175 to be up for consideration.

SENATOR PASKVAN moved to bring CSSB 175(L&C), version \B, before the committee [labeled 27-LS1230\B].

CHAIR EGAN objected for purposes of public testimony.

DANA OWEN, staff to the Senate Labor and Commerce Committee, explained that the committee substitute (CS) inserts Senator Giessel's amendment from the last hearing. The intent is to bring statute in line with its original intent.

CHAIR EGAN asked where the amendment was located.

MR. OWEN replied in the second section of the bill.

SENATOR PASKVAN said his understanding is that section 2 returns the practice to what has historically been done for the last 18 years.

MR. OWEN replied the intent of the amendment was to bring into statutes the language that was originally covered in regulation.

However, Senator Giessel asked to have several words struck from her original amendment and the final version of the amendment that includes those changes.

SENATOR GIESSEL explained that the amendment, on page 2, line 1, says, a "dietetic remedy" but in regulation it says "dietetic substance". She changed "substance" to "remedy", but then all of section (c), lines 3-13, were the amendment. She removed "or other natural substance" that was in regulation because it seemed to be a source of confusion.

SENATOR PASKVAN said removing that phrase doesn't change the practice over the last 18 years.

SENATOR GIESSEL replied that was her discussion with Dr. Jasper who felt it did not change the practice.

[1:45:20 PM](#)

At ease from 1:45:20 to 1:46:11 p.m.

[1:46:11 PM](#)

DR. CAROLYN BROWN, M.D., Douglas, said she practices clinical obstetrics and gynecology, public health and preventive medicine. Naturopaths have indicated that this measure is needed because some pharmacies have recently refused to supply them with natural or herbal medicines and that they are doing so because of instructions from the Alaska Division of Corporations, Business and Professional Licensing. That struck her as a bit unusual and in the spirit of transparency and lack of any stated documentation of facts or other data that she could find, she thought it would be good to find just what the nature of the problem is.

She said Senator McGuire indicated that SB 175, would not expand the scope of practice, but rather protect the practice. She asked what needs protection in statute that is not provided in regulatory language that has an 18-year history.

DR. BROWN said of the thousands of biopharmaceuticals, many are from concentrates and extracts for which the Food and Drug Administration has authority and it would be very helpful to know which specific drugs, medicines and pharmaceuticals the naturopaths wish to have prescriptive authority for. Do they want prescriptive authority for everything in the Physician Desk Reference (PDR)? Almost everything in the PDR has at one time been a natural drug. She said there is a lack of documentation about why a change in statute or regulation is really needed.

1:53:23 PM

DR. BOB URATA, M.D., Juneau, testified against SB 175, because it would expand the scope of practice of naturopathy by giving them prescriptive authority for prescription drugs. Because it isn't specific and could be interpreted broadly, they will be able to prescribe penicillin and cephalosporin antibiotics which are derived from fungus, streptomycin and genomycin, tetracycline antibiotics and the macrolide antibiotic which come from the actinomycetes fungus. He mentioned other FDA-controlled medicines that could be prescribed by naturopathic doctors if this passes, which is not the intent of this bill.

DR. URATA said some of his patients go to naturopaths and that is fine with him, but he did have patient once on a strong chemotherapy drug for cancer. During the time when his white blood cell count was at its lowest he was getting colonics from naturopathic doctor to reduce its side effects. This is a dangerous procedure and unfortunately it caused a serious blood infection called Sepsis, requiring the patient to get hospitalized. He has done well, but ever since he asked patients not to get colonics while they are on chemotherapy. Patient safety must be the utmost concern in this bill. This means doctors of any kind must practice within the scope of their education, training and experience, and allowing naturopathic doctors to prescribe prescription drugs controlled by the FDA is a dangerous expansion of their scope of practice.

SENATOR PASKVAN said he understands that pharmacies have stopped distributing products to naturopaths in a manner they had done for the prior 18 years and asked if that was his understanding as well.

DR. URATA replied that he wasn't familiar with that.

SENATOR GIESSEL asked if he was the person prescribing the oncologic drug.

DR. URATA replied yes along with the oncologist; family practice doctors work closely with the specialist in order to provide the care patients need rather than having to move out of town away from their homes, friends and support.

SENATOR GIESSEL said access to care is the key.

DR. URATA agreed.

[1:58:19 PM](#)

DR. ELIZABETH ROLL, Bethel, said she is a family practice physician and opposed SB 175. She said naturopathic doctors should not be able to prescribe drugs that are regulated by the FDA, because they have not had the training in them. She said the intent of the bill is not to expand their scope of practice, but that is exactly what it does. It doesn't clarify what drugs they could and couldn't prescribe. She had seen several instances where bad things had occurred.

SENATOR PASKVAN asked if she was aware that pharmacies stopped distributing products they were distributing for the last 18 years.

DR. ROLL replied that she hadn't heard that.

[2:01:01 PM](#)

JENNIFER YOUNG, representing herself, Chugiak, said she is a cardiac nurse and a patient of Dr. Daniel Young; she said she sees the benefits of both allopathic and naturopathic medicine. Often she thinks having both would make a patient's outcome better than using just one of them. Naturopathic doctors in this state have had rigorous training in order to serve their patients, and she asked that they be allowed to use the tools of their trade to give Alaskans health care choices. Without putting this regulation into law their choices will become severely limited.

She said she is married to Dr. Young who is a naturopath and had been helped by naturopathic medicine. What bothers her is that medical doctors don't have the training in natural substances that naturopathic physicians do and that these are very helpful and the choice of many people who need care. That choice should not be taken away because of fear and bias.

[2:03:24 PM](#)

DANIEL YOUNG, N.D., said he had practiced in Eagle River for 17 years and supported SB 175. He said it is disturbing that another profession can "just dictate" what another profession does. He has 26 years of education and attended a naturopathic medical school that is accredited by the Council of Naturopathic Medical Education that is overseen by the U.S. Department of Education. This is the same body that accredits allopathic and osteopathic medical educations. There is no doubt that naturopathic doctors are the experts in the practice of their naturopathic medicine.

MR. YOUNG said naturopaths have practiced in Alaska for 26 years and have an excellent safety record. The current statute is not a good one, but they have made due. On several occasions over the past few years they have tried to make it commensurate with their education only to be stonewalled by the opposition that disseminates misinformation based on opinion, bias, ignorance and fear. This bill does nothing more than preserve the current practice of naturopathic medicine in Alaska and allows the thousands of patients they serve to continue their right to choose their form of medicine.

Naturopaths practice from their heart a medicine that they believe in and know will work and improve the lives of their patients. Naturopathic medicine is safe and effective and affordable. They do not wish to write for antiquated natural substances such as penicillin or digitalis, quinine or some anticancer medications because quite frankly they have better things to offer.

[2:06:11 PM](#)

DR. JOSEPH ROTH, Valley Medical Center, said he is a family doctor in Juneau. He said he was against SB 175 mainly because the prescriptive substance wording is very ambiguous.

SENATOR PASKVAN asked if he was aware that pharmacies are not distributing the products they had been distributing for the last 18 years.

DR. ROTH replied that he was not aware of that, but wasn't surprised. He knows from some of the committees he sits on at the hospital that there are concerns about "creep" of what naturopaths are starting to prescribe and that their level of education isn't appropriate for, like digitalis and synthroid, a thyroid medication.

SENATOR PASKVAN asked if he knew the source of the pushback.

DR. ROTH replied that he didn't, but one of his committees had to review a complaint about a naturopath for using a substance; he didn't know if it was from a group or an individual.

DR. LAWRENCE SMITH, M.D., Eagle River, said he had served as a physician in the Army and for Alaska Native Health Care and continues to serve in private practice in his community now. He said he didn't hold any animosity toward those practicing naturopathy, but he wanted to urge them to carefully consider the wording of SB 175. The word "prescription" can mean many

things. It's generally considered an order or a request to another party to respond by fulfilling that request. It can range from a prescription for eye glasses to recommendations for an exercise or wellness program.

DR. SMITH said he believed that the prescribing of drugs and pharmaceutical preparations that require a prescription should be limited to those whose training is designed for such a practice and that allopathic training provides for the prescribing of such medications. He didn't presume to have the knowledge of naturopathic preparations to the same degree as those trained in naturopathic medicine and makes no such claims to his patients. Likewise, if individuals want to prescribe or dispense prescription medications, they should attend medical schools that confirm an M.D. or a D.O. degree.

He didn't think that "naturally derived substances" was adequately defined as many drugs that require prescriptive authority have their basis in naturally occurring substances. If the FDA or the DEA requires a prescription to be written in order for a substance to be dispensed, then this should be left in the hands of those trained in allopathic medicine. Ultimately their main concern should be for patient care. Patients make many choices about where to receive care and limitations need to exist on scope of practice and delivery of care for all levels of health care providers.

He urged them to not blur the lines of distinction past the point of safety for patients and said that limiting naturopaths to natural substances is a step in the right direction.

2:12:15 PM

DR. MARY FOLAND, President, Alaska State Medical Association, said she is a family practitioner and works at Primary Care Associates in Anchorage. She said she is a past president of the Alaska Academy of Family Physicians; both of those have the health of Alaskans as their primary concern. She said not to interpret the lack of calls and letters from physicians and patients as disinterest in this bill that has the potential to have tremendous and irreversible impact on patient safety. It is not an issue of turf protection or competition.

DR. FOLAND said the stated goal of this bill to preserve the status quo is not as straight forward as it seems, but its language would actually expand the prescriptive privileges beyond what is currently legal and to a nebulous limit. The phrase "any natural substance" is vague and includes things that

were mentioned already. It would be helpful to have a "wish list" of what naturopaths want to prescribe and then doctors could evaluate and research each thing on that list scientifically.

She has heard of vitamin B12, Vitamin C, saline and capsaicin in certain percentages, and the general opinion of the doctors she has talked to is that those would be fine. Medications listed by the FDA as prescription drugs, which by definition require a prescription by a licensed physician, would not be okay. It has never been the intent of the State Medical Association or the Academy of Family Physicians to restrict or shut down the practices of naturopaths. They really want to clarify what substances specifically can be used within an appropriate scope of practice for future reference.

2:17:11 PM

SENATOR PASKVAN asked if she was aware that other natural substances language had been removed.

DR. FOLAND replied yes; but there is still room for clarification.

SENATOR PASKVAN asked if she was aware that pharmacists are not distributing products as they have done over the last 18 years with respect to naturopaths.

DR. FOLAND replied yes.

SENATOR PASKVAN asked what the reason is for pharmacies to stop doing that.

DR. FOLAND replied when the Division of Corporations, Business and Professional Licensing was looking into the issue, they found prescriptive practices that made them uncomfortable.

SENATOR PASKVAN asked if she was saying the source of the pharmacies ceasing to distribute products is the division.

DR. FOLAND replied that was her understanding.

SENATOR DAVIS asked her to expand on what the division did. They had the information, and what did they do when they found out? Did they tell her, or did they send letters out to stop the practice?

DR. FOLAND replied that she just heard that in the last week's testimony.

SENATOR DAVIS said they had asked the division and they denied it and asked Dr. Foland if she had inside information.

DR. FOLAND replied that she didn't have inside information. She just listened to the previous hearings on the bill.

SENATOR DAVIS said she understood that Dr. Foland was told there was reason why the division had a concern and that something was sent out. Therefore the prescriptions were not filled for naturopaths.

DR. FOLAND said the only information she has is from listening to testimony at the previous hearings.

[2:20:20 PM](#)

JIM JORDAN, Executive Director, Alaska State Medical Association, said he hadn't seen the CS to SB 175, so he didn't want to offer an opinion on it. But he did suggest defining "prescription drug" using the definition found in FDA statutes and regulations, because it would make their application more consistent between the medical community and the pharmacies.

[2:22:07 PM](#)

SENATOR GIESSEL said the reference to prescription drug occurs in things that a naturopath cannot do and the CS might assuage some of his concerns.

MR. JORDAN responded that he also believed that the FDA definitions would apply to other areas of drugs that do not need prescriptive authority.

[2:23:21 PM](#)

AMY CHADWICK, N.D., Palmer, said a naturopath's education is extensive in human anatomy, physiology, disease and the use of natural medicine and all they are asking for is to maintain the current standard of practice they have had for the last 18 years, not expand their scope of practice. She remarked that many of the examples of medications used here were antiquated and wouldn't be used anyway by a responsible physician.

[2:24:28 PM](#)

CHRISTIN COX, N.D., Juneau, said she has practiced safely in Juneau for the last 10 years under the current statute and

regulations and they are just trying to move current regulations into statute. None of the horror stories have come to pass for the last 18 years, and she did not see why anything would change from moving regulation language into statute.

MS. COX said she has served 564 patients in the City of Juneau safely without any problems. It's frustrating that in a day when people need access to safe, affordable, health care that they are fighting to preserve their already limited scope of practice. A Wall Street Journal article said that there will be a shortage of 30,000 general practitioners in the U.S. in the next couple of years. The reason there is a shortage is because general medicine doesn't pay like specialties do. Naturopathic doctors choose to be general practitioners, and they go into this field knowing they will never make the kind of money that medical doctors do, and they provide access to care that patients don't otherwise have and oftentimes can't afford.

CHAIR EGAN closed public testimony saying he would hold this bill until Tuesday.

SENATOR PASKVAN said he was willing to pass it today, but if they wait until Tuesday, his focus would be on getting some answers from the Division of Corporations. He said:

I'll make it even a little more focused. In other words, my perception is that the pharmacies have ceased distributing products to naturopaths as they have done for the last 18 years. If the division hasn't done anything to correct what appears to be a wrong, then the question is how long do they do nothing before they become an active participant in that wrong. That's the first question, and then the second question is how long can the division do nothing before their plausible deniability erodes to nothing. I want to have answers to those questions.

CHAIR EGAN said he wanted Mr. Habegar and Ms. Chambers back on Tuesday to answer questions that have been brought up twice.

[SB 175 was held in committee.]

SB 25-AIDEA SUSTAINABLE ENERGY PROGRAM

[2:29:44 PM](#)

CHAIR EGAN announced SB 25 to be up for consideration [SSSB 25, labeled 27-LS0290\D was before the committee].

SENATOR MCGUIRE, sponsor of SB 25, said they initially envisioned this as being part of their Senate's energy package that it passed; it's a missing link.

She said they created the wildly successful weatherization and home energy rebate program that focuses on individual Alaskans and their residences; the feedback has been wonderful from Alaskans who have become educated about energy conservation. They have also created a renewable energy grant fund that started helping particularly smaller communities transition to cleaner sustainable energy that is non-diesel and hopefully will help them survive into the next 100 or 200 years. They also passed an energy omnibus bill that created an emerging energy technology fund and a suite of programs that are now really starting to take effect.

When they went over the energy package, she came at it from a few angles: direct grants as in the emerging energy technology fund, direct partnerships as in the weatherization program, and a loan component with commercial loans in other areas. But SB 25 is really the missing piece in order to get more energy infrastructure and projects going in the state.

SENATOR MCGUIRE said they had also rejuvenated the Cook Inlet with new tax incentives and started work on an in-state gas pipeline and the Susitna dam. But Alaskans know the energy challenges are still as dire as ever and this year the average price of oil is the highest it has been since 1860. While the state enjoys its surpluses, Alaskans continue to be strangled by these energy costs.

She said she introduced SB 25 because she believes they have an opportunity to put some of the state's savings to work in Alaska by making capital available for energy projects. Today utilities and developers borrow money from out of state when they can get the credit to build projects and they must pay interest to investors which everyone ultimately pays in their rates. Then they leave Alaska. SB 25 is not just about getting more energy projects in Alaska, but it's also about getting Alaskans to invest in Alaska. Currently those loan interest payments are paid to out of state corporations, but why not leave them here at home inside AIDEA which pays back dividends to the state that go into the general fund?

SENATOR MCGUIRE said the state invests its surpluses and savings in stocks, bonds, real estate and infrastructure outside of the

state in the Permanent Fund. Alaska is a big facilitator of a lot of energy projects throughout the U.S. and the world, but not right here in our own state. She noted that Territorial Governor Ernest Gruening recognized this fundamental problem with Alaska's economy when he said, "Too much is going out and not enough is staying here in Alaska."

She said she introduced SB 25, Alaska's Sustainable Strategy for Energy Transmission and Supply (ASSETS), to try to chip away at this colonial model Alaska is still stuck in 52 years after statehood. She said to her AIDEA has been the most successful of all the state's investment programs. It has returned almost the entire principle of \$390 million. Last year alone it returned almost \$28 million. So she decided to put this energy program to work under that rubric as opposed to AEA or some other agency, because it has a credit worthy sustainable model.

2:35:04 PM

MICHAEL PAWLOWSKI, staff to Senator McGuire, said he would hit the highlights of his power point presentation on SB 25 that was also available in members' packets. He said the reports they gave the committee are largely energy reports that identify a lot of projects, but this bill does not endorse any particular project. It is about how to finance all and any projects and to let the best ones move forward.

He said the basic challenge is that a lot of money will have to be spent in the next 10 years on energy in the state of Alaska. The pathway document was prepared in 2010 and identified almost \$2 billion in capital spending in the next 10 years. The Greater Railbelt Integrated Resource Plan (GRETC) identified between \$13.6 and \$21 billion in spending over the term of that document. The recently released Southeast Integrated Resource Plan identified up to \$1.4 billion in relative near term spending that has to happen. The point of these reports is to point out that a lot of investment will need to be made in energy infrastructure, and the question before the legislature is whether, given declining oil production, the available revenue is enough to help these projects go forward.

MR. PAWLOWSKI said this became a larger issue because last year this body included language in the capital budget that explicitly expressed legislative intent that the state's capital investment in energy generation projects not exceed 50 percent of the total investment required to fully complete those projects. That means 50 percent of the project will have to be

borrowed and financing has been identified as one of the greatest challenges facing the energy system in the state.

There is a huge gap between what is needed and what can be financed, the point being that with the small population and with a limited rate base, the capital expenditures will exceed the Railbelt's debt capacity. Financing is an important part of the revenue stream in any energy project. For instance, the debt service on a 100 percent debt financed Southeast hydro-project is 78.1 percent of the revenues. All the rates the consumers pay go to paying debt service and that money leaves the state. ASSETS says this is a big problem and the legislature has said tackle it and provide an upper limit on grants and go forward.

MR. PAWLOWSKI said the governor and the legislature tried to deal with this a few times but were unsuccessful in a couple of bills. SB 143 tried to get the Railbelt together and offer some financing, but failed to pass in 2009/2010. The governor then brought in SB 42 last year that had increased financing authorities for AEA, but those were taken out in the Senate Resources Committee and the bill ultimately passed the legislature but was limited to a Susitna dam power project. SB 25 was introduced at the same time SB 42 was but was deferred until SB 42 worked its way through the legislature.

Now that the financing gap still exists, he said a sponsor substitute for SB 25 was introduced and brought forward. The back three sections are probably the most important - 10, 11 and 12 - but the earlier sections are a lot of conforming language.

First, Mr. Pawlowski said, SB 25 creates the Sustainable Energy Transmission and Supply Development Program and Fund (SETS) within the Alaska Industrial Development and Export Authority (AIDEA) (Sections 10 and 11). The bill proposes that the SETS fund be capitalized with \$250 million (in section 2). This becomes the core capital that becomes the money that AIDEA can borrow against or lend out to energy projects. Then the larger portion of the bill in section 3 is conforming language adding the word "energy" into AIDEA's enabling statutes about their mission to clarify that the legislature is asking AIDEA to take an active role in energy as an economic development tool.

Section 6 makes changes to the loan participation program and this section is intended to make sure that sections 10 and 11 don't unfairly compete with the private sector. AIDEA currently offers a program where commercial lending institutions work with the private sector but AIDEA comes behind them to participate in

the loans. The purpose of broadening "transmission" to "an energy project" is to make sure if someone did want to work with a commercial lending institution to develop a project that it's not unfairly being competed with by the SETS program.

[2:41:00 PM](#)

MR. PAWLOWSKI said another important point within that section is the inclusion of AIDEA's ability to participate in a loan participation program to finance energy efficiency improvements. Typically, AIDEA can buy up to 90 percent of a loan and section 6 proposes up to 100 percent for an energy efficiency project. That is to try and get out of the problem the legislature has poked at for three years: primarily that we have weatherization for homes, the energy efficiency revolving loan fund for public facilities, but we have very little for the commercial sector. So if a local business wants to make their business more energy efficient they could work with their local banks and AIDEA could step in to help the banks reduce the risk of that loan.

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Finally renewable energy projects were added to the existing incentive interest rate program that AIDEA has for its programs that apply only to economic or rural development projects in section 9.

MR. PAWLOWSKI said important powers were added in section 10, on page 8, lines 3-28. Unlike AIDEA's existing program, the separate fund has the power to finance projects, ensure project obligation, guarantee loans or bonds or establish reserves, but also to defer principal payments or capitalize interest on project financing to finance projects of a term up to 30 or 50 years for hydroelectric or transmission. AIDEA can currently do 50 years on transmission, but hydro projects are long term projects with long term payouts, and the longer you can stretch the term out the better rates the customers ultimately will pay.

Senator McGuire wanted to be sure there was an appropriate legislative role in the decisions to finance projects, so limitations were placed on the power of AIDEA to engage in these projects. If AIDEA wants to finance more than one-third of the capital cost of an energy project or guarantee a loan that exceeds \$20 million that would have to come back to for legislative approval. The \$20 million is a number that exists in current AIDEA programs; the one-third number is really because 50 percent would be 50 percent grant/50 percent loans and the point was to insure that there was some other financing involved

in the decision process. So another third party group is doing some due diligence here.

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MR. PAWLOWSKI reiterated that the reason the bill was put into AIDEA was that unlike typical revolving loan funds, in theory, the bill should actually generate revenues for the state as AIDEA's earnings increase. That would return money to the treasury that the legislature could decide to fund other programs with. Since it has been capitalized, AIDEA has paid \$324,500,000 in dividends and in 2011 it was almost \$20 million.

MR. PAWLOWSKI explained how SETS would work within AIDEA. First the legislature would capitalize the SETS fund; AIDEA would use the SETS fund to facilitate the financing of energy projects; those projects through the rates would repay the loans or the investments from AIDEA; AIDEA would then have the ability to also reach out to the capital markets to backfill the fund by using the loans as an asset. It's really setting up an investment vehicle that can perpetuate itself and grow, so that 20 or 30 years from now the funding will exist to build the infrastructure to replace the infrastructure built with this fund.

He said it's important to note that SB 25 is not the answer to Alaska's energy challenges. There will always be a role for the legislature simply because of the small population, but it does provide a tool that is missing from all the work the legislature has done.

SENATOR DAVIS moved to the adopt CS, version D [SSSB 25, 27-LS0290\D].

CHAIR EGAN objected for discussion.

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JOE GRIFFITH, General Manager, Matanuska Electric Association (MEA) and President of Arctec Alaska, Inc., Palmer, said they supported SB 25. He said Mr. Pawlowski was right on point and this is a step that will contribute to a more sustainable energy future for the state. He said the energy industry is the world's biggest industry and the most capital intensive. In spite of a lot of heroic efforts by a small number of people that run this industry in the state, they do achieve high levels of reliability, but the system is old and needs a lot of "tender loving care." It never was completed properly because of the lack of capital. It is only through astute balancing of the

costs of doing business that they are able to keep working as well as they do. Electrical energy is the grease for the economy, and SB 25 would help the state leverage several billion dollars. The numbers are staggering, and utilities working together do not have the fiscal strength to do what is necessary.

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BOB GRIMM, CEO, Alaska Power and Telephone (AP&T), Port Townsend, WA, said SB 25 is a good tool to assist getting the stranded energy resources of Alaska to market and put them to work for Alaskans. He asked that consideration be given to the projects in the rural areas and wanted the amount to capitalize the fund increased from what is being proposed. Further he advised the sponsor to investigate the program to ensure the AIDEA can cooperate with other federal loan guarantee programs like the BIA to reduce the state's risk.

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MARK DAVIS, Economic Development Officer, AIDEA, supported SB 25 but said the administration has no position on it. It's much better than the earlier draft, because it creates a new financing program. That is important to ADIEA, because the new program would separate these potential loans from the current revolving loan fund and preserve its current financial ratings. A technical issue is that the interest rate on a loan is not set and there is no explicit authority to make a loan; neither is there explicit authority to issue a bond and there is no reference to revenue bonds. So a little more work needs to be done to make it better.

SENATOR GIESSEL asked if he will be offering those amendments or working with the sponsor.

MR. DAVIS replied that he has been authorized to make technical assistance, but the administration has no position on this measure.

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DUFF MITCHEL, Executive Director, Alaska Independent Power Producers Association, supported SB 25. He added that this allows private entrepreneurs to create jobs and a lot of them would occur where the energy is created, which would be in a rural area.

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PETER NAOROZ, President/General Manager, Kootznoowoo, Inc., supported SB 25. However, he said he wanted to see the initial capitalization number higher. But for now \$250 million can go a long way. The point is to leverage state assets not only to do good work but to bring private capital into the state, because it can't fund everything it needs itself. He said Kootznoowoo is the village corporation for Angoon and the recipient of the state's largesse, and they really appreciate that, but big projects in their area need to get done. Those are the ones that will finally make the state mature. SB 25 will allow for Kootznoowoo to invest in the state, as well as mining interests in projects that aren't feasible right now and timber.

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BOB LOESHER, Alaska Technology Development Group, said he has been involved in infrastructure development in Southeastern Alaska for many years. He supported SB 25. He served on the AIDEA board for six years and is familiar with the protocols and even-handedness of investment decisions AIDEA makes. Adding this fund would stimulate investment in energy and other economic development that will create jobs. Adding this to ADIEA would also strength its portfolio and make investment from the Alaska participation greater; it is the best instrument to facilitate this kind of investment.

CHAIR EGAN said that completed public testimony. [SB 25 was held in committee.]

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There being nothing further to come before the committee, Chair Egan adjourned the Senate Labor and Commerce Standing Committee meeting at 2:57:05 p.m.