

**ALASKA STATE LEGISLATURE**  
**HOUSE RESOURCES STANDING COMMITTEE**

March 9, 2015

1:02 p.m.

**MEMBERS PRESENT**

Representative Benjamin Nageak, Co-Chair  
Representative David Talerico, Co-Chair  
Representative Mike Hawker, Vice Chair  
Representative Bob Herron  
Representative Craig Johnson  
Representative Paul Seaton  
Representative Andy Josephson  
Representative Geran Tarr

**MEMBERS ABSENT**

Representative Kurt Olson

**COMMITTEE CALENDAR**

HOUSE JOINT RESOLUTION NO. 8

Urging the federal government to empower the state to protect the state's access to affordable and reliable electrical generation.

- MOVED CSHJR 8(ENE) OUT OF COMMITTEE

HOUSE BILL NO. 105

"An Act relating to the programs and bonds of the Alaska Industrial Development and Export Authority; related to the financing authorization through the Alaska Industrial Development and Export Authority of a liquefied natural gas production plant and natural gas energy projects and distribution systems in the state; amending and repealing bond authorizations granted to the Alaska Industrial Development and Export Authority; and providing for an effective date."

- HEARD & HELD

HOUSE BILL NO. 14

"An Act banning the manufacture, sale, or offering for sale of a cosmetic that contains plastic microbeads; and providing for an effective date."

- HEARD & HELD

HOUSE BILL NO. 92

"An Act relating to the labeling of food; relating to the misbranding of food; requiring labeling of food produced with genetic engineering; and providing for an effective date."

- HEARD & HELD

**PREVIOUS COMMITTEE ACTION**

BILL: HJR 8

SHORT TITLE: FEDS ALLOW STATE TO MAKE ENERGY CHOICES

SPONSOR(s): REPRESENTATIVE(s) TALERICO

01/23/15	(H)	READ THE FIRST TIME - REFERRALS
01/23/15	(H)	ENE, RES
02/03/15	(H)	ENE AT 10:15 AM CAPITOL 17
02/03/15	(H)	Heard & Held
02/03/15	(H)	MINUTE(ENE)
02/17/15	(H)	ENE AT 10:15 AM BARNES 124
02/17/15	(H)	Moved CSHJR 8(ENE) Out of Committee
02/17/15	(H)	MINUTE(ENE)
02/19/15	(H)	ENE AT 10:15 AM CAPITOL 17
02/20/15	(H)	ENE RPT CS(ENE) NT 3DP 2NR
02/20/15	(H)	DP: TALERICO, TILTON, COLVER
02/20/15	(H)	NR: CLAMAN, WOOL
03/06/15	(H)	RES AT 1:00 PM BARNES 124
03/06/15	(H)	Scheduled but Not Heard
03/09/15	(H)	RES AT 1:00 PM BARNES 124

BILL: HB 105

SHORT TITLE: AIDEA: BONDS;PROGRAMS;LOANS;LNG PROJECT

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

02/11/15	(H)	READ THE FIRST TIME - REFERRALS
02/11/15	(H)	ENE, RES, L&C, FIN
02/17/15	(H)	ENE AT 10:15 AM BARNES 124
02/17/15	(H)	Heard & Held
02/17/15	(H)	MINUTE(ENE)
02/24/15	(H)	ENE AT 10:15 AM CAPITOL 17
02/24/15	(H)	Moved CSHB 105(ENE) Out of Committee
02/24/15	(H)	MINUTE(ENE)
02/25/15	(H)	ENE RPT CS(ENE) 7DP
02/25/15	(H)	DP: NAGEAK, WOOL, TILTON, TALERICO, CLAMAN, COLVER, VAZQUEZ
03/09/15	(H)	RES AT 1:00 PM BARNES 124

BILL: HB 14

SHORT TITLE: BAN PLASTIC MICROBEADS IN COSMETICS

SPONSOR(s): JOSEPHSON

01/21/15 (H) PREFILE RELEASED 1/9/15  
01/21/15 (H) READ THE FIRST TIME - REFERRALS  
01/21/15 (H) RES, FIN  
03/09/15 (H) RES AT 1:00 PM BARNES 124

BILL: HB 92

SHORT TITLE: LABEL GENETICALLY MODIFIED FOOD

SPONSOR(s): TARR

01/30/15 (H) READ THE FIRST TIME - REFERRALS  
01/30/15 (H) RES, FIN  
03/09/15 (H) RES AT 1:00 PM BARNES 124

**WITNESS REGISTER**

JOSHUA BANKS, Staff  
Representative David Talerico  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Introduced HJR 8 on behalf of the sponsor,  
Representative Talerico.

FRED PARADY, Acting Commissioner  
Department of Commerce, Community & Economic Development (DCCED)  
Juneau, Alaska

**POSITION STATEMENT:** Assisted with introducing HB 105 on behalf  
of the administration, sponsor.

GENE THERRIAULT, Energy Policy and Outreach Director  
Alaska Energy Authority (AEA)  
Alaska Industrial Development and Export Authority (AIDEA)  
Department of Commerce, Community & Economic Development (DCCED)  
Anchorage, Alaska

**POSITION STATEMENT:** Assisted with introducing HB 105 on behalf  
of the administration, sponsor.

TED LEONARD, Executive Director  
Alaska Industrial Development and Export Authority (AIDEA)  
Department of Commerce, Community & Economic Development (DCCED)  
Anchorage, Alaska

**POSITION STATEMENT:** Answered questions related to HB 105 on  
behalf of the administration, sponsor.

LISA HERBERT, Executive Director  
Greater Fairbanks Chamber of Commerce  
Fairbanks, Alaska

**POSITION STATEMENT:** Testified in support of HB 105.

LUKE HOPKINS, Mayor  
Fairbanks North Star Borough  
Fairbanks, Alaska

**POSITION STATEMENT:** Testified in support of HB 105.

JOMO STEWART, Energy Project Manager  
Fairbanks Economic Development Corporation  
Fairbanks, Alaska

**POSITION STATEMENT:** Testified in support of HB 105.

BOB KING  
Juneau, Alaska

**POSITION STATEMENT:** Testified in support of the proposed committee substitute for HB 14, Version W.

SEAN MOORE, Associate Director  
State Government Affairs  
Consumer Healthcare Products Association (CHPA)  
Washington, DC

**POSITION STATEMENT:** Testified in opposition to HB 14.

PAMELA MILLER, Biologist, Executive Director  
Alaska Community Action on Toxics (ACAT)  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of HB 14.

STIV WILSON, Director of Campaigns  
The Story of Stuff Project  
Berkley, California

**POSITION STATEMENT:** Testified in support of HB 14.

MICHAEL THOMPSON, Senior Vice President of Government Affairs  
Personal Care Products Council  
Washington, DC

**POSITION STATEMENT:** Testified in opposition to HB 14.

## **ACTION NARRATIVE**

[1:02:26 PM](#)

**CO-CHAIR BENJAMIN NAGEAK** called the House Resources Standing Committee meeting to order at 1:02 p.m. Representatives Seaton, Johnson, Josephson, Tarr, Herron, Talerico, and Nageak were present at the call to order. Representative Hawker arrived as the meeting was in progress.

**HJR 8-FEDS ALLOW STATE TO MAKE ENERGY CHOICES**

[1:03:50 PM](#)

CO-CHAIR NAGEAK announced that the first order of business is HOUSE JOINT RESOLUTION NO. 8, Urging the federal government to empower the state to protect the state's access to affordable and reliable electrical generation. [Before the committee was CSHJR 8(ENE).]

[1:05:27 PM](#)

JOSHUA BANKS, Staff, Representative David Talerico, Alaska State Legislature, introduced HJR on behalf of the sponsor, Representative Talerico. He said HJR 8 is in response to opposition to the Environmental Protection Agency's (EPA) Clean Power Plan rule, which is intended to reduce carbon emissions in the U.S. by 30 percent, and specifically in Alaska by 26 percent by the year 2030. This rule will apply to all fossil fuel fired plants greater than 25 megawatts, except for plants on military bases and the university. While well intentioned, the sponsor believes this plan will likely lead to higher electricity costs without meeting the EPA's carbon reduction goals. The Clean Power Plan is based on inaccurate assumptions that can have major effects on the state of Alaska. The first assumption is that the largest source of carbon emissions is from power plants. While this may be the case in some areas of the Lower 48, power plants in Alaska only account for about 25 percent of carbon emissions and the remaining 75 percent of stationary sourced carbon comes from operations on the North Slope. The sponsor believes that the Clean Power Plan puts unrealistic expectations on Alaska's power plants. The second assumption is that low cost natural gas and renewable energy is ready for use for major energy consumption. While this may be available in most of Southcentral Alaska and parts of Southeast Alaska, this would not be feasible for Interior Alaska. He said EPA's claim that Alaskans will save on energy costs will not be realized as long as natural gas is not available at affordable prices in Interior Alaska.

[1:07:18 PM](#)

MR. BANKS said the fundamental reason for bringing HJR 8 before the committee is to protect Alaska's sovereignty. The Tenth Amendment of the United States Constitution clearly states that the powers not delegated to the United States by the constitution, nor prohibited by it to the states, are reserved for the states respectively or to the people. He related that in reading the constitution, he fails to find the enumerated power with the Executive Branch to regulate carbon emissions. If the constitution does not clearly say that the federal government has the ability to regulate carbon emissions, then the sponsor believes that this power resides with the state. The sponsor believes that the State of Alaska has the means to make effective decisions through the Regulatory Commission of Alaska (RCA), as well as various state agencies, that not only can deal with any problems relating to climate change, but also do so in a way that does not hurt Alaskans. He said HJR 8 urges the federal government to exempt Alaska from the Clean Power Plan and to leave decisions about regulating energy production to the State of Alaska in order to protect access to affordable and reliable electrical generation.

MR. BANKS offered to address the changes made to HJR 8 that were made by the House Special Committee on Energy if the committee desires. He said the changes made in CSHJR 8(ENE) were made based on feedback from the Alaska Power Association, Golden Valley Electric Association, and the RCA.

[1:08:57 PM](#)

REPRESENTATIVE JOSEPHSON offered his understanding that in July 2014 the [Supreme Court of the United States] cleared the way for the EPA's announcement in Section 111(d). He asked whether he is correct in this regard.

MR. BANKS replied he is not aware of that court decision, but will look into it.

REPRESENTATIVE JOSEPHSON stated the Tenth Amendment debate is something he has spent a lot of time looking at and teaching. While he hears the sponsor's argument, he said the Tenth Amendment also doesn't say that "we can have an air force, but we have an air force." He inquired whether it is the sponsor's position that if it isn't written there very specifically, that there is no breadth of power under the Commerce Clause or the Necessary and Proper Clause or any of the other clauses the founders wrote.

MR. BANKS responded that while perhaps the Interstate Commerce Clause could be applied for the Lower 48 because the electric grid goes through various state lines, Alaska is completely isolated and so he does not believe the Interstate Commerce Clause would be in effect here.

[1:10:49 PM](#)

CO-CHAIR TALERICO said he appreciates Representative Josephson's question because he thinks the representative is referring to Title 42 of the U.S. Code, Section 111(d). He said his biggest concern is that five power plants in Alaska have been tentatively put on the list for carbon reductions of 26 percent: Unit 1 in Healy; George M. Sullivan Generation Plant in Anchorage, an Anchorage Municipal Light & Power's plant; Beluga Power Plant, a Chugach Electric Association power plant; Southcentral Power Plant, a Chugach Municipal Light & Power combo-plant; and Nikiski Co-Generation Plant in Nikiski. To the best of his knowledge, those plants are very well run. Hundreds of thousands of Alaskans rely on those power plants. As those prices go up, he is concerned because many of the people in his district rely on overhead costs remaining consistent and reasonably low in order for their goods and services to be delivered. Even people not connected to the grid can be impacted by those costs.

REPRESENTATIVE JOSEPHSON inquired what the timeline is for these requirements and what costs can be anticipated if the state complies with the requirements.

CO-CHAIR TALERICO answered he is unsure there is anything in concrete as far as the actual compliance to the plan. He deferred to Mr. Banks in regard to the timeframe.

MR. BANKS offered his belief that the EPA will finalize its plan by the end of summer 2016 and from there he believes the state will have a year to create its plan. He said he is unaware of any anticipated costs for compliance.

REPRESENTATIVE JOSEPHSON surmised there surely are some costs and said he suspects they're likely in the millions.

[1:14:42 PM](#)

CO-CHAIR NAGEAK opened public testimony, then closed it after ascertaining no one wished to testify.

[1:15:32 PM](#)

CO-CHAIR NAGEAK inquired whether there is any objection to reporting CSHJR 8(ENE) from committee.

REPRESENTATIVE JOSEPHSON stated he will not object to reporting the resolution because he thinks it will be moved by the committee. However, he said, he comes from the school of thought, "Is an Alaskan first, and I guess an American second?" Alaska joined the union and has its representation. The state has a clean air problem, a carbon footprint problem, and the state must contribute to finding a solution. He said he has respect for the concern and the uniqueness of Alaska and that Alaska is obviously not the greatest contributor, but he will be marking the resolution as "do not pass."

CO-CHAIR NAGEAK again asked whether there is any objection to reporting the resolution from committee. There being no objection, he said he will entertain a motion to move the resolution.

[1:18:13 PM](#)

CO-CHAIR TALERICO moved to report CSHJR 8(ENE) out of committee with individual recommendations and the accompanying [zero] fiscal notes]. There being no objection, CSHJR 8(ENE) was reported from the House Resources Standing Committee.

The committee took an at-ease from 1:18 p.m. to 1:21 p.m.

**HB 105-AIDEA: BONDS;PROGRAMS;LOANS;LNG PROJECT**

[1:21:15 PM](#)

CO-CHAIR NAGEAK announced that the second order of business is HOUSE BILL NO. 105, "An Act relating to the programs and bonds of the Alaska Industrial Development and Export Authority; related to the financing authorization through the Alaska Industrial Development and Export Authority of a liquefied natural gas production plant and natural gas energy projects and distribution systems in the state; amending and repealing bond authorizations granted to the Alaska Industrial Development and Export Authority; and providing for an effective date." [Before the committee was CSHB 105(ENE).]

[1:21:54 PM](#)

FRED PARADY, Acting Commissioner, Department of Commerce, Community & Economic Development (DCCED), began the introduction of HB 105 by noting that Administrative Order 272 from Governor Walker directs the commissioner of the Department of Commerce, Community & Economic Development to work to collaborate at the highest levels of his administration to advance the Interior Energy Project (IEP) to reduce the cost of energy into the Fairbanks area. He said HB 105 supports that purpose in simply giving more options in how to source gas to support that project, as well as updating bond limitations and deleting outdated bond projects.

[1:22:39 PM](#)

GENE THERRIault, Energy Policy and Outreach Director, Alaska Energy Authority (AEA), Alaska Industrial Development and Export Authority (AIDEA), Department of Commerce, Community & Economic Development (DCCED), continued the introduction of HB 105 by explaining the provisions of CSHB 105(ENE), the bill version before the committee. He said Section 1 provides an update to an existing limitation on AIDEA's ability to bond for funds. If AIDEA is going to participate in bonding a project that is over \$6 million, AIDEA must receive a resolution of approval from the local government on the siting of the proposed project. That existing cap of \$6 million has been in place since 1990 and the proposal is to adjust that amount to reflect the erosion of the purchasing power due to inflation over that time period.

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MR. THERRIault explained Section 2 is an additional adjustment in AIDEA's ability to bond. The existing bond limitation of \$10 million, page 2, line 16, was established in 1990. He said [raising it to \$25 million] will cover the erosion of inflation and make an adjustment due to the cost of the type of project that AIDEA is asked to participate in. Section 3 makes two adjustments in AIDEA's ability to participate with local lenders in commercial loans. The first adjustment, page 2, line 28, caps the participation at \$25 million, the current cap being \$20 million, which was established in 2005. The second adjustment, page 2, line 30, raises the cap from \$20 million to \$25 million [for qualified energy development]. This cap was established by the sustainable energy transmission and supply development (SETS) statute that was passed a number of years ago. It is desired by AIDEA to have the dollar amounts for those two caps be equal. He noted that all of page 3 is existing statutory

language. Turning to page 4 of the bill he noted that Section 4 is a new section inserted by the House Special Committee on Energy and that in the original bill this provision was in the repealer section. The original bill repealed a number of old unused AIDEA bond authorizations, many of which have been on the books since the 1990s. The AIDEA board of directors generally won't utilize authorizations that become a certain age because the board feels it has to go back to policymakers to get the language refreshed or to get new authorization. This could be because the anticipated project for which the bond authorization was given did not go forward, the project may not have materialized, or the project may not have survived the AIDEA due diligence process. Bond counsel has advised AIDEA to periodically clean its books of those old authorizations because when bond counsel goes out to do a new rating for AIDEA those authorizations can still weigh down the institution's books even though they likely would not be utilized by the board of directors. One of the repeals in the original bill was for an old authorization that allowed for a bulk commodities inland facility to be built somewhere in Cook Inlet. That project never went forward, but legislators from the Matanuska-Susitna Valley who sit on the House Special Committee on Energy plucked that one project from the repealer section, refreshed it, and made a slight modification to it, but tied the potential project that would come forward from this refreshed authorization to facilities that would be built at Point MacKenzie.

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MR. THERRIAULT said Section 5 relates to the Interior Energy Project (IEP), authorized in 2013 under Senate Bill 23. The concept under Senate Bill 23 was to help finance a source of natural gas off the North Slope, primarily by helping with the financing of a liquefied natural gas (LNG) plant that would be able to produce the product. The estimated cost of that plant came in higher than expected, however, and now with further development of natural gas resources in the Cook Inlet area the AIDEA board of directors, with the support of the governor, would like to look at possibly sourcing the natural gas from Cook Inlet. To have the flexibility to do that, the modified language proposed [in the original bill] removed the language specifying that the LNG plant had to be on the North Slope. However, Interior members of the House Special Committee on Energy were concerned that the focus on Interior Alaska would be lost and so the original bill was modified to ensure that that focus on Interior Alaska was not lost. That doesn't mean the resource produced can't be available for other areas. The

thought behind the Interior Energy Project is that while the core demand of the Fairbanks North Star Borough helps to anchor the project, the commodity can be used up and down the highway system, have possible delivery through the freshwater river system and maybe even coastal Alaska, to help with the overall economics of a project because, as with most energy projects, the higher the volume the lower the per unit price.

MR. THERRIAULT noted Section 6 is one of the repealers but is not a complete repealer. The language in question was last modified by the legislature in 1992 and was a bond authorization for the FedEx facilities at the Anchorage airport. Part of that bond authorization was utilized for the construction of that facility and the authorization dollar amount that was utilized has been repaid. So, to clean up the AIDEA books the proposal is to move the excess bond authorization. Section 7 is the complete repeal of the remaining old authorizations because those projects never advanced. Section 8 is an immediate effective date on the contents of the bill.

[1:31:09 PM](#)

REPRESENTATIVE HERRON observed that title lines 3-4 on page 1 talk about production plant, natural gas energy projects, and distribution systems. He further observed that Section 4, page 4, lines 21-22, talk about being located at Point MacKenzie and asked whether that should be reflected in the title.

MR. THERRIAULT replied he thinks it is included in the title because it deals with amending and repealing bond authorizations and that one amends an existing bond authorization.

[1:32:01 PM](#)

REPRESENTATIVE HAWKER commented he has quite a few questions and concerns about this bill. Regarding Section 4, he recalled Mr. Therriault's statement that this pre-existing bond authority was refreshed with a slight modification. He requested an explanation of what that "slight" modification did.

MR. THERRIAULT responded that the language was included by the House Special Committee on Energy, and AIDEA didn't see the language until it actually came out in the committee substitute (CS). The modification removed the language, "related loading and conveyor", as well as removed the language that specified that such a facility could be built anywhere in Cook Inlet.

Language was added so that if it were to move forward the facility or port would be located at Point MacKenzie.

REPRESENTATIVE HAWKER noted this is the authority for AIDEA to issue bonds and said he finds it interesting that AIDEA didn't know this amendment was coming in the House Special Committee on Energy.

MR. THERRIault answered that the chairman of the committee had indicated he was considering that and in a conversation with the chairman's aide it was stated that it may wait until the bill was taken up by the House Finance Committee. However, the language was included in the CS.

[1:34:03 PM](#)

REPRESENTATIVE HAWKER observed that, as modified, the language in CSHB 105(ENE) states that AIDEA may issue bonds to "finance the acquisition, design, and construction of a port facility and equipment related to the development and operation of a bulk commodity loading and shipping terminal". He asked what was envisioned by the original debt authority, what was the project going to be, and what does AIDEA envision the project to be today with the "slight" modification that was made to those words.

MR. THERRIault replied his understanding is that initially it was the possibility of loading mineral elements and that is why the word "conveyor" was included. He deferred to Mr. Ted Leonard to further address what the original concept was.

TED LEONARD, Executive Director, Alaska Industrial Development and Export Authority (AIDEA), Department of Commerce, Community & Economic Development (DCCED), responded the original project was to be a mineral bulk order or the same type of thing that could be used for other bulk commodities. He offered his belief that the House Special Committee on Energy is now looking at this as also being able to be used as an LNG export facility and that is why the committee took out the wording. He said the chair of the House Special Committee on Energy could provide more information on the intent.

REPRESENTATIVE HAWKER inquired whether he is correct in understanding that Mr. Leonard, a representative of AIDEA, is saying he is uncertain as to the intent in Section 4 and that Mr. Leonard is not certain what type of facility is contemplated

for which the legislature would be authorizing state borrowing of \$50 million should this bill pass.

MR. LEONARD confirmed Representative Hawker is correct, AIDEA has not received a complete description of this.

REPRESENTATIVE HAWKER said this is a very important point.

[1:37:22 PM](#)

REPRESENTATIVE JOSEPHSON said he knows there is discussion and interest in a separate export project from the west coast of the Cook Inlet. However, he continued, his focus on this is the Interior energy problem and therefore he will need additional follow-up. He offered his understanding that the proposed line for the Alaska LNG Project would come to or go through Point MacKenzie and commented that that would be relevant in terms of infrastructure.

CO-CHAIR NAGEAK asked whether anyone on the committee or in the audience can respond to Representative Josephson. No one responded.

[1:38:15 PM](#)

REPRESENTATIVE HERRON said he would feel more comfortable if the title of the bill reflected what the intent is. He said he still has the same concern as he has on Section 4.

MR. THERRIAULT replied that the title in CSHB 105(ENE) came back from the drafters without that change, which reflects that the drafters considered the title to be adequate as written. He said it is in the committee's jurisdiction to consider changing the title.

[1:39:10 PM](#)

REPRESENTATIVE SEATON expressed his concern that there have been a number of ideas for providing energy to the Interior and some have turned out to be non-economic because of the liquefaction. Yet, he noted, this bill is targeting strictly energy by liquefaction; a small diameter pipeline from Cook Inlet to the Fairbanks area would provide pipeline gas without the loss through liquefaction and transportation, and those costs aren't included in this. He asked whether that authority is somewhere else within AIDEA or whether there is no authority in AIDEA to do a Cook Inlet pipeline with gas of quality for burners without

the expense of a gas treatment plant, giving lower price energy to Fairbanks.

MR. THERRIAULT responded that Mr. Bob Shefchik, Project Manager for the Interior Energy Project and consultant to AIDEA, did commit to Senator Micciche that he would refresh the members on a possible pipeline that would be able to serve Interior needs. He said Mr. Shefchik also committed to work with ENSTAR Natural Gas Company because of ENSTAR's expertise in pipeline. He further noted that Mr. Shefchik will be in Juneau on [March 10-11] and would therefore be available to answer questions and meet with Representative Seaton. Mr. Therriault offered his understanding that the cost of a pipeline is coming in a little higher than what the available financing is and said Mr. Shefchik could provide those numbers to Representative Seaton.

1:41:21 PM

REPRESENTATIVE SEATON understood, then, that CSHB 105(ENE) does not include any financing authority for getting gas to the Interior through a pipeline from Cook Inlet. Rather, the bill is solely that if Cook Inlet gas is wanted, then 15 percent of the gas would have to be expended to liquefy it and then transport it as LNG; that would be the only way that AIDEA would be able to finance Interior energy under this bill.

MR. THERRIAULT answered it is still tied to LNG as a source when looking at Section 5 of CSHB 105(ENE). In the last sentence of Section 5, distribution "system" is changed to "systems" because the Regulatory Commission of Alaska (RCA) granted the Interior Gas Utility (IGU) the service territory outside the core of Fairbanks, so there are currently two distribution systems in Fairbanks. Whether the language "and affiliated infrastructure" is broad enough to consider pipeline that feeds that distribution system is a question that could be put to Legislative Legal and Research Services. So, as was the case in 2013, the focus is on an LNG mechanism for the delivery.

MR. LEONARD added that currently under the SETS financing bill, AIDEA cannot finance a pipeline from Cook Inlet to Fairbanks; that is specifically not included under what a qualified energy project is for AIDEA to finance under the SETS fund.

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REPRESENTATIVE SEATON inquired about what fund and the source.

MR. LEONARD replied it is defined under AS 44.88.900, Section 14, which states that "qualified energy development" means a project in the state that involves liquefaction, regasification, distribution, storage, or use of natural gas except a natural gas pipeline project for transporting natural gas from the North Slope or Cook Inlet to market.

REPRESENTATIVE SEATON asked whether the interpretation is that a pipeline from the North Slope or from Cook Inlet to market means any sales.

MR. LEONARD responded yes, there would have to be a change to this section to utilize SETS funding for that type of project.

[1:45:30 PM](#)

REPRESENTATIVE HAWKER asked whether anything in Section 4 makes it clear as to whether the bulk commodity loading and shipping terminal refers to loading and shipping things overland to someplace within the state versus loading and shipping something away from the state as in exporting it via water.

MR. THERRIAULT answered he doesn't believe so.

REPRESENTATIVE HAWKER presumed the language in Section 4 that the "facility will be owned by the authority" means the port facility. He inquired whether there is any assurance that this ownership through the proposed spending authority of \$50 million will not be in competition with any kind of a port facility that is owned, operated, or invested in by the private sector.

ACTING COMMISSIONER PARADY replied he doesn't believe so. He noted that the original bill simply repealed this section with the other repealers and said the modification has created the questions that Representative Hawker is astutely asking.

[1:47:30 PM](#)

REPRESENTATIVE HAWKER argued that Section 5 is a significant restatement of the uncodified law that was passed in 2013 following a lengthy public process where the legislature made the policy decision to authorize an investment of \$275 million in moving gas from the North Slope and making it available to consumers in Fairbanks. Back then it was called gas trucking, but now it is being called the Interior Energy Plan. Of great concern at that time was the extremely high cost of consumer energy in Fairbanks and other Interior communities. Under CSHB

105(ENE) the scope of this policy call is being changed to move that appropriated money to any project desired that would bring natural gas into Interior Alaska. He asked whether an explanation can be provided as to what happened to the project that the legislature approved by its policy decision in 2013 and why AIDEA is now asking to be able to take the money that is left and spend it anywhere that AIDEA chooses to.

MR. LEONARD responded that AIDEA moved forward with that project and the costs came in at approximately \$13-\$14 per thousand cubic feet (MCF), but that didn't meet the community target goals. A review of the community found support for AIDEA to look at other alternatives to see if the community goal could be reached, which is approximately \$15/MCF at the burner tip. Based on where AIDEA was at on the trucking project with all the different segments, it was looking like gas to the burner tip was going to be over \$19/MCF.

[1:51:22 PM](#)

REPRESENTATIVE HAWKER clarified that there are two numbers for project anticipated costs of delivering gas: the estimated cost of getting gas to the city gate versus the estimated cost of gas to the burner tip. He requested the difference be explained.

MR. LEONARD explained that cost of gas at city gate means gas into a plant in Fairbanks prior to regasification and putting it into the system. The cost of gas to burner tip in a home includes [the cost to city gate] plus cost of regasification and distribution. The base estimate for cost to city gate was \$13-\$14 [per MCF] and AIDEA has not come to a final cost in that. However, based on those costs plus a distribution cost of \$5-\$6, the estimated cost at burner tip would be approximately \$19-\$20.

REPRESENTATIVE HAWKER understood that the original gas trucking project, as envisioned and authorized by the legislature in 2013, was determined unacceptable to the community due to the estimated cost of gas to the city gate at \$13-\$14/MCF. He further understood that according to testimony at a previous Legislative Budget and Audit Committee meeting the community goal was in the range of \$11.

MR. LEONARD answered the target goal mentioned by the community is \$15/MCF, but it doesn't actually state how much of that is for gas through the different segments. However, he continued, it is believed that to get anywhere near the range of \$15/MCF, gas to city gate would have to be in the range of \$10-\$11.

REPRESENTATIVE HAWKER understood that Mr. Leonard's reference to \$15/MCF was for the cost to burner tip, and the reference to approximately \$11/MCF was for the cost to city gate.

MR. LEONARD confirmed that to be correct.

1:55:16 PM

REPRESENTATIVE HAWKER stated that the over-reaching objective here is to get cost relief into Interior Alaska, specifically the community of Fairbanks. He recalled an earlier announcement that AIDEA intends to purchase Fairbanks Natural Gas (FNG). He noted that that purchase agreement includes a contract with a subsidiary of Hilcorp Energy Company (Hilcorp) to move LNG from the Cook Inlet to Fairbanks and that this contract has a 10-year committed delivery for all gas required by the current customer base of FNG at \$15 to the city gate. Yet, the desire is to start over and reconsider the North Slope gas trucking because it came in at \$13-\$14 [to city gate] while AIDEA invests another \$50 million of public funds in buying FNG with an inescapable 10-year contract at \$15 [to city gate] while the community's acceptable number is \$11 [to city gate]. He requested an explanation of this paradox and how that integrates with the desire now to continue to look for some other project that is unspecified and for which the legislature would be writing a blank check.

MR. LEONARD replied AIDEA does understand that paradox. He noted that the RCA is looking at that contract and pointed out that the contract will be there regardless of whether AIDEA purchases the company. He said AIDEA is specifically looking at this purchase to see how it can lower the cost of the total system, which is mainly the distribution system. The belief is that AIDEA can immediately cut that by 8-15 percent, which lowers that total cost to the burner tip. Also, AIDEA realizes it will have to live up to that contract as part of the purchase, but AIDEA believes it can lower the total cost of gas through the blending of costs to all of Fairbanks, and that is approximately 20 percent of the total demand that AIDEA believes is needed by Fairbanks. He said AIDEA is still looking at what is the best source of gas to Fairbanks with the lowest cost and believes it needs to look at the alternatives such as Cook Inlet before moving forward. It is not to say that it couldn't still be from the North Slope, but AIDEA has been asked to look at whether there is an alternative that could provide lower cost

gas and that is the process that AIDEA is asking to be able to move forward with.

[2:00:25 PM](#)

REPRESENTATIVE HAWKER understood AIDEA is asking for the authority to finance up to \$275 million of development, construction, installation, start-up costs, operation, and maintenance for an LNG plant and system. Previously the legislature made the policy call that it supported a system that was very clearly North Slope gas into Fairbanks. He inquired as to what is AIDEA's current project plan that is going to result in potentially all of these savings.

MR. LEONARD responded AIDEA does not yet have the complete plan. He said AIDEA is going to set up a system to look at the different alternatives and, if there is a better project coming from the south, AIDEA is asking the legislature to allow AIDEA to move forward with investing in that project instead of just the North Slope. He cannot yet tell the committee which project AIDEA would invest in, but AIDEA believes it needs the ability to look at investing in a facility that is not on the North Slope if it could provide lower cost gas to Fairbanks.

ACTING COMMISSIONER PARADY pointed out that the authority for the investment of up to \$275 million is in the original legislation. What's at question in this bill is simply the source of the gas - whether it is the North Slope or Cook Inlet. It is incumbent upon AIDEA that the end price into the Fairbanks community support the purposes of the project, which is to lower the cost of energy to those consumers but also to do so at a price that yields a conversion rate that ultimately is successful. That is why the tie to the burner tip number of \$15 and that is why the drive to consider alternatives. But those alternatives are currently limited to the North Slope, and now AIDEA is asking for the authority to consider Cook Inlet, which does not foreclose the North Slope.

[2:02:57 PM](#)

REPRESENTATIVE SEATON noted that distribution systems have consistently been the total responsibility of the local authority. He said he is concerned with the Hilcorp contract being for \$15/MCF and the statement that there will be savings on the distribution system. He inquired whether that means AIDEA is planning on absorbing a subsidy by the state of the distribution system. With a cost to city gate of \$15, the state

would have to build out the distribution system for free to have a burner tip cost of \$15.

MR. THERRIAULT answered that the original bill set in motion the process of looking at the cost of building out the distribution system and using the financing tools available to that. The SETS funding has an ability to delay principle payments and adjust the interest payments. Specific tools were granted in that original financing package to try to lower that resulting cost. There was also a capital component in the blend of financing tools, which still is available for the board to figure out where the consumer gets the most advantage from the placement of the total tools that were granted in that 2013 legislation. Additionally, the IGU project is a governmental entity, so there is not the profit return/equity component that a private sector distribution system has, which helps to lower the cost. That is one of the advantages of the Letter of Intent that was signed for AIDEA to purchase the Pentex Alaska Natural Gas Company, LLC (Pentex) parent company's assets, one of them being the existing FNG distribution system. Although the Fairbanks/North Pole area is the second largest metropolitan area, the overall demand is relatively small for the cost of the infrastructure to serve it. Ensuring that those two systems have the lowest required return on equity, integrating the two systems for the sharing of transmission lines, storage, and regasification, and linking them at multiple points so gas can flow back and forth across the boundaries of the service territory helps to lower that cost and ultimately set up the possibility for combining the two systems into one.

[2:06:27 PM](#)

REPRESENTATIVE SEATON pointed out that distribution systems are based on assessments of lots and those are not subject to return on equity because the equity comes from the people who are being serviced, not from the service company - it is a zero return on equity under the current system. For example, if a private entity like ENSTAR builds out a system in a town and \$3,200 is assessed per lot which is then given to ENSTAR, there is no return on equity because ENSTAR had no equity input into that. He said he is therefore unsure whether he is hearing that state equity is going to be substituted for lot ownership equity in this system and it will be called a gift from the state for a distribution system. If that is done as the basis for this plan, he opined, it would be totally adverse to what has happened all across the state and would be a tremendous inequity of gas distribution, and he is concerned about that. He

requested that AIDEA provide a definite outline of how the money flows for a distribution system and whether it is a loan and what the interest rate is. Governments are doing that now and mostly there is no return on equity because the lot holders are assessed and the assessments pay that off over a 10-year period. He said this is a question the committee needs to have answered.

MR. THERRIAULT replied that in Representative Seaton's area the municipality assessed the lot owners and the state provided a grant of \$10 million for the transmission system to get the gas to the community, thereby helping to lower [the assessment]. When the Interior Energy Project (IEP) was discussed in 2013, it was looking at the difference of sourcing gas off of the ENSTAR system in Cook Inlet. The cost of the gas going into those pipes is much lower than the cost of the gas going into any distribution in Fairbanks because of the geographic distance from the source, which is why some extra tools were given to the IEP. They give the AIDEA board some latitude on where to apply those different financing tools to help the final delivered price to the consumer. The community's target price of \$15 is roughly twice the delivered price in much of the Cook Inlet. There are areas that have this property tax assessment and there were local improvement districts (LIDs) on the ENSTAR system in the Matanuska-Susitna area to help push the pipes out to areas where the customer density was lower. The price of the commodity that goes into the intake of that pipe is already so much lower than anything that will be able to be achieved in the Interior, he reiterated.

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REPRESENTATIVE HAWKER recalled the earlier testimony that it was deemed necessary for AIDEA to be able to look at sourcing gas, including from the Cook Inlet. He also recalled comments that the savings that would immediately be effectuated were basically because if the state goes into competition with someone the state doesn't have to make a return on its investment or provide for replacement costs like a business does. He said he is aware of at least three private sector entities that are currently investigating business plans for delivering gas from the Cook Inlet to Fairbanks and he knows that they have talked to AIDEA about this. He asked why the committee would want to approve allowing AIDEA to use the state's taxing authority to go into competition with those private sector entities.

ACTING COMMISSIONER PARADY responded that it is trying to achieve a price that results in conversion and, to date, there

is no evidence that the private sector is able to deliver at that dollar. He allowed he doesn't have complete evidence that AIDEA can either, but fundamentally it is a matter of trying to solve the pricing issue and the conversion in the Fairbanks Interior Energy Project.

REPRESENTATIVE HAWKER requested an explanation of the term "conversion factor."

ACTING COMMISSIONER PARADY answered it is getting homeowners to convert to natural gas as a source of fuel for home heating. The term conversion "rate" is better than conversion "factor." The rate of conversion - enough critical mass - must be achieved to have a market.

[2:12:42 PM](#)

REPRESENTATIVE HAWKER said he doesn't want anyone to think him unsympathetic to Fairbanks, but he is all about trying to do it right. He said he is hearing a price-driven demand: that things will not go forward until the number being insisted upon by the community is reached. If the very competent private sector folks in a very competitive environment can't get it, the only way the state is going to get it is by essentially making Fairbanks a ward of the state and putting it on a subsidy forever, and he doesn't think anyone wants that to happen. Section 5 asks the legislature to write a blank check to do whatever AIDEA decides to do without ever coming back to the legislature for sanctioning or authority. He inquired why AIDEA doesn't come up with a plan, numbers, contractors, and specifics such as source of gas and commitments to make the gas available that show AIDEA can accomplish this at the rate being requested by the community, and then ask the legislature to pay for it.

ACTING COMMISSIONER PARADY replied that the description just offered by Representative Hawker is the work that is underway by the Interior Energy Project team, which is to try to find a gas supply that works, utilize the tools that are available to AIDEA in terms of liquefaction, transportation, storage, distribution, and apply the state's leverage to those activities in a way that results in a price that will yield the conversion rate that works. He said AIDEA is not asking for a blank check, rather AIDEA is asking for the authority to take the tools previously offered to it by the legislature and consider an alternative source to supply that market. He said AIDEA is open, as it should be, to any guidance that the legislature cares to provide in that direction.

2:15:13 PM

REPRESENTATIVE JOHNSON offered his belief that when legislators approved that original \$275 million there was a trucking plan and a source of gas. There was a project in front of the legislature and that is what he is asking for before making a re-appropriation. Without a plan it is a blank check. He asked whether there is any part of the \$275 million that AIDEA needs to continue the process on the road AIDEA is going down.

ACTING COMMISSIONER PARADY recognized that this discussion will be continued and said the need is for the ability to consider an alternative source of gas because AIDEA was unable to get to a price that worked. The full project detail that the committee is looking for is under development.

REPRESENTATIVE JOHNSON said his question is whether AIDEA can do that study now without any additional money in this bill.

MR. THERRIAULT responded he thinks there are some limitations in using any of the funds previously provided from the legislature to get into any real details of a source other than the North Slope and whether AIDEA needs an authorization to do that.

REPRESENTATIVE JOHNSON stated he would like to hear that because he thinks the number the committee needs to be looking at is the number that would advance whatever AIDEA needs, not the full \$275 million. He requested that the committee hear from Mr. Leonard in this regard.

2:17:16 PM

REPRESENTATIVE HAWKER requested an explanation of the \$750,000 that was approved by the AIDEA board to do exactly what Representative Johnson is asking.

MR. THERRIAULT answered that a lot of that effort was also looking at changes to the distribution system which is covered under the existing language. Savings were looked at and what the price would be if the price could be lowered for the supply for that distribution system. He said AIDEA has held focus groups and surveyed residents as to their existing price, what AIDEA believed the target price would bring their costs down to, and what would be the rate of people that would make the expenditure to convert their home to natural gas. He said AIDEA is not counting on 100 percent conversion, but rather has built

its numbers around 75 percent, and AIDEA is hoping a price can be achieved that would get a higher conversion than that. There must be a certain volume in order to get the price.

[2:18:45 PM](#)

REPRESENTATIVE HAWKER said when he asked what was going on with the money that had been appropriated, he thinks he was told that it was really for something else and not quite what he took to be Representative Johnson's concern, which is to bring the legislature a project and present what works. He said AIDEA Resolution G15-02 authorizes \$500,000 from the SETS fund and \$200,000 from AIDEA's economic development account and that the resolution states it is for a process-driven evaluation of alternative means of supplying energy to Interior Alaska that meets the needs of the community. He concluded that AIDEA is spending \$700,000 to come up with this answer that the legislature would like to see before it makes a policy decision as to whether to invest hundreds of millions of state dollars in the project.

MR. LEONARD replied the difference is that under Resolution G15-02 original SETS monies are being used that were still available to AIDEA to look at qualified energy projects. He said AIDEA cannot invest funds under the new SETS, Senate Bill 23, of the \$125 million and \$150 million of bonds towards the projects. So, in essence, AIDEA has original SETS funds to look at the project; however, it will take approximately three months to go through the process and AIDEA would then have to wait to come back to the legislature next year to get approval to invest in a project that doesn't deal with North Slope gas. Putting a legislative session into the mix before AIDEA is able start the process of investing in a project would increase the time before new gas would be going into Fairbanks.

REPRESENTATIVE HAWKER clarified his aforementioned cite was from the memorandum to the AIDEA board members supporting Resolution G15-02. He said he is uncomfortable with writing a blank check for [\$275] million when he does not know more of the project details.

[2:22:25 PM](#)

REPRESENTATIVE SEATON requested that before the bill is next brought up the co-chair solicit from AIDEA a legal opinion as to whether the interpretation of "affiliated infrastructure" on

page 5 of the bill, lines 2-3, would expand to financing a small diameter gasline from Cook Inlet to Fairbanks.

REPRESENTATIVE HERRON requested that the title be looked at by the committee to ensure it is tight.

[2:24:05 PM](#)

REPRESENTATIVE JOSEPHSON understood that for the \$275 million AIDEA has not exercised at this point the authority given to it by the legislature to obtain those funds and develop this project.

MR. THERRIAULT replied a portion of the capital component that was also included in 2013 has been used and there have been some loans from distribution work to FNG and IGU.

REPRESENTATIVE JOSEPHSON understood the money AIDEA is talking about is the grant of about \$50 million that was part of the 2013 legislation.

MR. THERRIAULT responded that the grant was \$57.5 million.

REPRESENTATIVE JOSEPHSON understood the reason for this bill is because the North Slope plan was uneconomical and AIDEA wants to make an adjustment to something that might be more economical.

MR. THERRIAULT answered correct.

REPRESENTATIVE JOSEPHSON further understood the bill is repealing a number of other authorizations as a cleanup to make AIDEA's bonding portfolio look more attractive.

MR. THERRIAULT replied correct.

[2:25:26 PM](#)

CO-CHAIR NAGEAK opened public testimony.

[2:25:56 PM](#)

LISA HERBERT, Executive Director, Greater Fairbanks Chamber of Commerce, testified in support of HB 105. She said the chamber believes Interior Alaska remains the place to do business, but the chamber's mission is made more difficult every year that goes by without action towards achieving low cost energy. She informed the committee that just moments ago the chamber's board

of directors wrapped up a meeting with AIDEA representatives Dana Pruhs and Bob Shefchik and voted unanimously to support HB 105 and SB 50. The chamber's understanding is that this legislation provides the necessary flexibility to AIDEA to advance a natural gas energy project to address the high cost of energy in Interior and rural Alaska. It is another tool in AIDEA's toolbox to meet the stated goal of bringing affordable natural gas to the greatest number of Interior residents and businesses as quickly as possible. Reducing the high cost of energy remains the chamber's number one critical priority for chamber members as well as economic development organizations and local governments in the Interior. The chamber remains committed to engaging with the legislature, AIDEA, and all the community stakeholders as affordable energy for the Interior is pursued.

[2:27:43 PM](#)

LUKE HOPKINS, Mayor, Fairbanks North Star Borough, said he sat in meetings a couple of years ago with former Governor Parnell and there was the idea that this plan up north would be the one that would solve the energy needs of Interior Alaska, specifically within the Fairbanks North Star Borough. [The borough] had already set up a municipal utility to cover the area outside of the existing service area. He said that plan for a North Slope project wasn't anything that was firmed up at that point. It took months and months to even get to the point of what is the right plan to bring forward. He requested that his community with its air quality issues and cost of energy, and the second largest metropolitan area in the state, be able to get some flexibility through HB [105] to be able to proceed with looking and penciling out. The people in AIDEA will pencil it out and then that will become the public process that the legislature has heard when it was said what is happening up north. He urged the committee to move the bill because a solution is needed for his community and the bill is needed to move forward and continue looking at other aspects.

[2:30:38 PM](#)

JOMO STEWART, Energy Project Manager, Fairbanks Economic Development Corporation, offered his organization's support for HB 105. He recalled that when this process was started several years ago the community goal was to have affordable energy to as many people as possible as quickly as possible, that being defined for natural gas as \$15 per million British thermal units (MMBtu) to 80 percent of community structures within three to

five years. The reason for choosing \$15/MMBtu was because the cost of energy at the time was \$30/MMBtu, which is equivalent to \$30 per thousand cubic feet (MCF). It was thought that to truly have a favorable impact upon the community economy, natural gas would need to be cheap enough to compete with wood because the community also has an air quality problem. When that process was started the community also had a broader goal regarding the Interior Energy Project. When the community began to move forward with how to design a system it was shooting for replicable models, recognizing that out of over 200 communities across the state, only a handful actually had affordable energy on a consistent basis, Anchorage being one of them and being a community that was directly tied to the Cook Inlet gas fields through the ENSTAR system. However, he continued, for the vast majority of other communities energy does not serve to underpin diversified and growing economies, but instead drains, cripples, and crushes those economies. One of those sources of replicability was when the Interior Gas Utility (IGU) was created, a municipal utility that could drive out those pipes to those lower and medium density areas to ensure that as many people as possible in the community would be able to tap in and have the benefit of affordability. The other thing that was done was to try to come up with a funding model that would be more sustainable and replicable than, say, the \$10 million direct grant to get pipes to Homer, the \$25 million to get a transmission line to the Fire Island wind farm, and the tax credits that go into Cook Inlet development. He pointed out that in 2014 the subsidy for Cook Inlet development was \$305 million, and \$311 million in 2015, and \$282 million in 2016, and by 2018 the subsidy will be a total of \$1.6 billion to keep gas affordable and available to the Cook Inlet region. For the Interior, the right thing to do seemed to be a low-grant model with loans where the repayment structure would make more funds available to bring the benefits of natural gas through creating distribution systems in other communities. The belief is that it still is the right thing to do. He urged the committee to look favorably upon HB 105 and to move it out of committee as rapidly as possible.

[2:33:58 PM](#)

CO-CHAIR NAGEAK closed public testimony and held over HB 105.

The committee took an at-ease from 2:34 p.m. to 2:41 p.m.

**HB 14-BAN PLASTIC MICROBEADS IN COSMETICS**

[2:41:10 PM](#)

CO-CHAIR TALERICO announced that the third order of business is HOUSE BILL NO. 14, "An Act banning the manufacture, sale, or offering for sale of a cosmetic that contains plastic microbeads; and providing for an effective date."

[2:41:17 PM](#)

REPRESENTATIVE HAWKER moved to adopt the proposed committee substitute (CS), labeled 29-LS0098\W, Nauman, 3/6/15, as the working document.

REPRESENTATIVE SEATON objected for purposes of explanation of the changes.

REPRESENTATIVE JOSEPHSON, sponsor, explained that the change is just one word. The proposed CS deletes the word "biodegradable" from Section 3, page 3, line 3, of the original bill. The reason for this deletion goes to the essence of the bill itself. He said he believes that there is very little that is actually biodegradable and that by leaving that term in the bill, the industry finds alternatives for microbeads that result in continual problem for the fisheries, for birds, and for other marine life.

REPRESENTATIVE SEATON removed his objection. There being no further objection, Version W was before the committee.

[2:43:15 PM](#)

REPRESENTATIVE JOSEPHSON said he had never heard of microbeads until the August 2014 meeting of the Council of State Governments where it was discussed by the Suggested State Legislation Committee. The term came before that committee in regard to efforts to rid the cosmetics industry of what some see as a scourge. He explained that, if passed, HB 14 would prohibit the use or sale of microbeads in Alaska. It would modify Title 17.20, Alaska's Food, Drug and Cosmetic Act, with just a handful of words.

REPRESENTATIVE JOSEPHSON defined microbeads as being plastic, synthetic microspheres that are widely used in the cosmetics, skin care, and the personal care industries, measuring less than five millimeters. They are principally made of polyethylene and polypropylene, as well as two other less common compounds. They are used by the cosmetics industry in toothpaste, facial creams

and cleansers, as well as shaving creams, shower gels and exfoliating products. Prior to about 10 years ago, they were not as commonly used and yet, he quipped, his recollection is that people back then had clean skin and healthy teeth. He said that in his view microbeads are not a requirement in the hygiene and cosmetics trades. They were adopted by the industry because they are cheap to produce and give a gritty and abrasive quality to cleansers, washes, and pastes. To provide a sense of the scope of the problem, he noted that the Neutrogena product called "Deep Clean" contains 350,000 microbeads in a single tube. The small sizes of microbeads enable them to get past the filtering systems of waste water treatment facilities and they end up in rivers, lakes, and oceans.

REPRESENTATIVE JOSEPHSON discussed some science to provide a better sense of what microbeads are. He said he has read hour upon hour of literature on the subject of microbeads. For all practical purposes he has never found an industry claim that microbeads are not getting into rivers, lakes, and oceans, or a claim that microbeads are not being consumed by marine life and birds. From marine life, there is every reason to believe that, in turn, humans are consuming microbeads or toxins connected to microbeads. This happens when fish and other marine life consume microbeads that have absorbed persistent organic pollutants (POPS), including polychlorinated biphenyls (PCBs) and dichlorodiphenyltrichloroethane (DDT). These are also called persistent bioaccumulative toxins (PBTs). Primarily this occurs because people are consuming fish and other marine life. Pesticides and toxins are hydrophobic, so they glom onto microbeads and find a home with them in waterways and oceans. It is believed that they move along the food chain as a consequence. Mistaking them for eggs or other food, they are readily consumed by fish. Fish also feel full when they are not really full and some are unable to excrete plastic, causing internal damage. Study after study supports this fact.

[2:46:57 PM](#)

REPRESENTATIVE JOSEPHSON related that the industry, almost to the company, concedes it has a problem and that it wishes to fix that problem. The important thing to ask is what the fix is and who pays for the fix. First, there is no evidence, and the industry doesn't really suggest in the literature that there is, that microbeads can biodegrade. Industry says that word should be excised from the production line, industry says get rid of microbeads. The industry basically admits that microbeads, at least as currently designed, cannot biodegrade. Similarly, the

industry, while it is striving to find a substitute for microbeads, seems to believe that it can still produce a plastic of some sort that will biodegrade. The more likely reality may be that no such substance exists. The industry might suggest that polylactic acids (PLAs) and also polyhydroxyalkanoates (PHAs) will break down in the environment and can be substituted for microbeads. However, these plastics only breakdown in industrial composting facilities at temperatures of 120 degrees Fahrenheit. Even if something could biodegrade, many of what is being recommended would remain in the environment for at least six months, and perhaps three years. It would persist in the aquatic environment and remain bioavailable to wildlife who mistake it for food during that period of time.

REPRESENTATIVE JOSEPHSON pointed out that there are cosmetics and toiletries companies that use plastics substitutes right now, just as the large industrial cosmetics makers used to do. Those substitutes include things like rice, apricot seeds, walnut shells, powdered pecan shells, and even bamboo. Other identified alternatives include sea salt, oatmeal, pumice, and ground almonds. Companies that use safe materials include Lush Cosmetics, Acure Organics, Burt's Bees, St. Ives, Alba Botanica, and Bulldog. It is possible that these substitutes will result in greater cost, although he allowed he hasn't read that and he cannot say what exactly that cost would be. However, he said, that extra cost should be weighed against the cost to fisheries and human health.

[2:49:21 PM](#)

REPRESENTATIVE JOSEPHSON discussed the bill, stating he thinks Version W is generous toward the industry in one major way: it has an effective date of January 2018, which is as late as any that will be found in the state legislatures. Some have a graduated scale, but it begins before 2018. Literally dozens of state legislatures are introducing bills right now to stop the release of microbeads into waters, streams, and oceans. It has become a worldwide movement of sorts. Just last month the Indiana House, where there are 29 Democrats and 71 Republicans, voted 97-0 to ban microbeads, although that bill allows some substitutes and Version W is a little tougher in that respect. Version W is less generous to the industry in that it requires a real ban, not what he would call a ban that doesn't move the needle. He said he thinks that any time a discussion is invited about biodegradability, it invites discussion of substitutes for microbeads that may be equally harmful. He said he has letters in his file from Johnson & Johnson, L'Oreal, Crest, Avon,

Colgate, Palmolive, The Body Shop, and others, conceding that something must be done about the microbeads.

REPRESENTATIVE JOSEPHSON allowed that the fiscal note may give pause to committee members. He said Ms. Busse [of the Department of Environmental Conservation (DEC)] might suggest that the permits for 2,200 distributors would be \$100-\$200 apiece. Theoretically that could create some parody and help alleviate the cost associated with enforcement, which presumably wouldn't begin until 2018. He added that the committee may be hearing from witnesses who will testify about gyres, and how microbeads move into the North Pacific and into the Arctic through circulation around the ocean.

[2:51:57 PM](#)

REPRESENTATIVE HAWKER inquired why, if this is such a pervasive national issue, the U.S. Food and Drug Administration (FDA) or the U.S. Environmental Protection Agency (EPA) have not stepped in and taken action. He said those agencies could make this problem go away with the stroke of a pen.

REPRESENTATIVE JOSEPHSON offered his belief that the FDA wouldn't have jurisdiction and said he doesn't know whether the EPA would. According to what he has read, the FDA has actually approved microbeads. He related that he has seen photographs, which he does not believe were doctored, of microbeads lodged in human gums even though the [American Dental Association] says that that can't be. He said the products are safe when humans first apply the plastics to their faces or brush their teeth with them, but the concern is the food chain and marine health.

[2:53:45 PM](#)

REPRESENTATIVE SEATON drew attention to the letters from the American Chemistry Council and the Personal Care Products Council, noting they appear to be supportive of this legislation but want amendments that would align it with the existing law in Illinois. He asked whether HB 14 is aligned with Illinois.

REPRESENTATIVE JOSEPHSON replied that the bill is only aligned in the sense that both bills are striving for better human and environmental health. He said the Illinois bill is an industry bill and the industry is comfortable with that language. Essentially the Illinois bill uses an allowance for an exemption for a replacement kind of microbead and this goes to the question about the change made in the CS. The change that

Illinois adopted is not, in his opinion, nearly as protective as what he is suggesting. He is suggesting going back to the laboratory and using sea salt or oatmeal or apricot shells like what was done when he was growing up. The Illinois bill is a compromise bill that uses different kinds of synthetic plastics. The Great Lakes is one of the worst places for this phenomenon and Illinois is on Lake Michigan. Will the Illinois bill see some improvement? It might. He deferred to witnesses on line to answer the question further.

REPRESENTATIVE SEATON understood microbeads are "synthetic plastic microbeads" not "microbeads". Thus, he concluded, the almond shells, pecan shells, and such are ground and fit within the use category that would be allowed and none of those things would be prohibited under the term "microbeads".

REPRESENTATIVE JOSEPHSON responded correct.

[2:56:50 PM](#)

CO-CHAIR TALERICO opened public testimony.

[2:57:10 PM](#)

BOB KING stated his support for Version W of HB 14 to ban microbeads from cosmetics. For the sake of brevity, he said he associates himself with the comments made by Representative Josephson. He said he has worked on a variety of ocean issues and a variety of different areas for the past 10 years, including that of marine debris, specifically plastics, in the marine environment. The potential impact to marine mammals, to fisheries, and the like is a very big problem. Just trying to remove these plastics from the oceans is extremely difficult. Therefore, the best solution is a simple effective one such as this bill, which would ban them from getting into the ecosystem to begin with. He said he agrees with Representative Hawker in regard to potential national legislation because it is an issue that begs a national fix. In one of his previous jobs he worked along those lines on draft legislation, but the states are taking the lead here and a number of states have already passed legislation similar to HB 14 that would move this forward. Industry has recognized that this is a problem and is responding as well. It is appropriate for Alaska to join in this, given Alaska's leadership on ocean issues. He urged the committee to move the bill.

[2:59:48 PM](#)

SEAN MOORE, Associate Director, State Government Affairs, Consumer Healthcare Products Association (CHPA), noted his trade association represents manufacturers and marketers of over-the-counter medicines and dietary supplements. He said CHPA supports the concept raised in HB 14, but opposes the bill as drafted and would like to see it amended to match similar law that was adopted last year in Illinois. The CHPA in-state [lobbyist], Mr. Eldon Mulder, has provided proposed amendments on the association's behalf. He disagreed with the sponsor's characterization of the Illinois bill as being an industry bill, saying it was a compromise bill negotiated with environmental groups in Illinois. He related that at the August 2014 Council of State Governments meeting, the Suggested State Legislation Committee adopted the Illinois law as the suggested state legislation. He added that CHPA's member companies do understand that plastic pollution in the environment is a serious concern. Many manufacturers began practicably phasing out the use of synthetic plastic microbeads prior to the introduction of any legislation. There has been plenty of legislation aimed at microbeads. Already in 2015, two dozen states have considered legislation on this issue and more is still to come. It can be difficult for companies marketing products on a national level to deal with a patchwork of differing state laws. For this reason, CHPA supports state bills modeled after the Illinois law to provide one uniform solution to this issue. By mirroring the existing Illinois law, Alaska can mandate microbeads be phased out of personal care products and over-the-counter medicines while ensuring reasonable effective dates and uniform definitions for key terms. This would closely align with proposals that have been approved by the Indiana House of Representatives, the Colorado House of Representatives, and both houses of the New Jersey legislature, all of which passed bills that mirror the Illinois law. To this end, CHPA proposes to amend HB 14 with definitions to the terms plastic and synthetic plastic microbeads that are identical to the Illinois law, as well as propose to incorporate the implementation of timeframes from Illinois beginning with the ban on manufacturing personal care products with microbeads after January 1, 2018, and over-the-counter drugs on January 1, 2019. Sales bans for each product category would take effect one year later in 2019 and 2020, respectively. This timeframe is important because it provides manufacturers the time necessary to identify viable alternatives to plastic microbeads. Mr. Moore urged the committee to amend the bill so that it mirrors the existing Illinois law and to subsequently support this common sense approach.

3:03:05 PM

PAMELA MILLER, Biologist and Executive Director, Alaska Community Action on Toxics (ACAT), supported HB 14 and specifically Version W, saying it is an important measure to protect Alaska fisheries that depend on clean and healthy marine and freshwater environments. She pointed out that her statewide organization is comprised of scientists, public health professionals, and community advocates who conduct research and provide educational programs, technical assistance, and training. She continued as follows:

As noted in Representative Josephson's sponsor statement, hundreds of personal care products on the market here in the U.S., including toothpastes and scrubs, contain these tiny plastic microbeads that pass from household waste streams through wastewater systems and into rivers, lakes, and ultimately the marine environment. These tiny plastic particles are now ubiquitous and increasing rapidly in the ocean. They are extremely persistent in the cold marine environment. Marine organisms, including zooplankton, shellfish, and fish cannot distinguish these plastic microbeads from the food they need. Therefore, the plastic particles are taken into the bodies of these animals where they accumulate, may prevent them from getting the nutrients required for their survival, and can lead to physical internal damage from abrasion and blockage, as well as toxicological harm. Recent scientific investigations have demonstrated the disturbing prevalence of plastic microbeads in the marine environment, including the North Pacific, Beaufort, and Chukchi seas. A recent study showed that concentrations of microplastics in the Arctic at least two orders of magnitude greater than those reported from contaminated waters of the Atlantic Ocean north of Scotland and North Pacific subtropical gyre. The researchers conclude that Arctic sea ice represents a major global sink for microplastic particles, and that these particles are released into the marine environment as sea ice melts. We are especially concerned that plastic microbeads absorb and concentrate highly toxic and persistent chemicals, including legacy chemicals that have been banned for many years such as PCBs and DDT, but as well currently used chemicals such as polybrominated diphenyl ethers

(PBDEs) which are toxic flame retardants, nonylphenols which are used in detergents, and bisphenol-A which is used in plastics. These accumulate at much higher levels than in surrounding waters. Due to their large surface area to volume ratio, these microplastics can become heavily contaminated and can concentrate up to six orders of magnitude greater than ambient seawater with persistent bioaccumulative chemicals. The microplastics that are ingested by marine organisms therefore pose a hazard to human health because they could be a significant route of exposure to endocrine-disrupting and carcinogenic, or cancer causing, chemicals. This is an especially important concern here in Alaska obviously where we depend on the health and safety of our commercial and subsistence fisheries. I urge you to please enact HB 14 to protect our fisheries from the insidious harm associated with plastic microbeads.

MS. MILLER, responding to Representative Seaton, agreed to provide the committee with a written copy of her testimony.

[3:07:18 PM](#)

STIV WILSON, Director of Campaigns, The Story of Stuff Project, noted he began this campaign several years ago and it was originally a market facing campaign petitioning some of the big producers like Proctor & Gamble, Johnson & Johnson, The Body Shop, and L'Oreal. Through a variety of tactics his project was able to get these companies to agree publically to phase plastic microbeads out. However, they did not say when they would do it or with what. After further investigation and seeing about 200 different products in the United States, his project decided that a legislative approach was going to be the best course of action. Legislation was introduced last session in New York and California and independently legislation was introduced in Illinois. As the bills in New York and California were worked through and some of industry's definitions of biodegradability were considered, his project acknowledged that large loopholes were being left for so-called biodegradable plastics that would not biodegrade in the environment, as well as for other non-thermal formed plastics such as the type of polyester plastic used in a cigarette filters. So, amendments were made to ensure that this loophole would be closed. This was not something that the environmental groups that worked on the bill in Illinois understood as a loophole and when his project pointed that out the bill had already passed. So, if those environmental groups

were to be asked now, they would support stronger legislation like the legislation that Alaska is considering right now. On a geological timescale, he explained, everything is biodegradable technically. His project wants to ensure that this is done in a timely manner. Even if innovators do come forward with a type of plastic that will degrade in the marine environment, there is no third party certification that is applicable to this. There was an American Society for Testing and Materials (ASTM) standard in effect for marine degradability, but that has since been withdrawn. His project is therefore looking for some qualification of what biodegradable is going to mean and that it be included and, if included, then some sort of third party oversight to ensure that these substitutes are safe. He affirmed the comments made in the previous testimonies regarding the issues with regard to persistent organic pollutant uptake and bioavailability to marine organisms.

[3:10:56 PM](#)

MICHAEL THOMPSON, Senior Vice President of Government Affairs, Personal Care Products Council, stated he and Karen Ross were the industry representatives that really worked on Illinois, New York, California, and others. He said the committee has heard both facts and fiction today. He related that the council's members decided to get ahead of this issue and have taken a lead, but there seems to be a backfilling of folks creating disagreement. The concept that this is an industry bill is about the furthest thing from the truth if anything is known about the state of Illinois or other states. That bill was well negotiated over a period of three months with about 15-20 stakeholders, including the Illinois attorney general, Illinois Environmental Protection Agency, and others. Defining exactly what was being banned and ensuring that that was done was what was wanted, and to stay away from much bigger global issues such as biodegradability, composting plastics, and so forth. A specific bill was wanted that banned specific ingredients in the products. This bill passed unanimously in Illinois and in other states, but it did not pass in California or New York as was earlier alleged and the council looks forward to continuing to work on it. His organization was in Anchorage last summer when the Council of State Governments took this up and suggested a model legislation. The reason why his organization was able to do this is because there is science, there is no evidence on either side that supports the allegations, but industry is doing the right thing. The concept brought up by the sponsor that industry is going to use an ingredient biodegradable at 120 degrees is not appropriate because it needs to be biodegradable

in the product. This legislation just simply levels the playing field for both domestic and international companies and what the council is looking for is national consistency.

3:13:43 PM

REPRESENTATIVE HERRON requested Mr. Thompson to provide a follow-up letter outlining the fiction that was heard today.

MR. THOMPSON agreed to do so.

3:14:02 PM

REPRESENTATIVE JOHNSON inquired whether offering for sale is the equivalent of advertising.

MR. THOMPSON replied the concept of offering for sale was language put in by the regulators in Illinois who did not want the added burden of having to conduct shelf surveys. The regulators told the council that they probably could figure out exactly who would violate the statute, the type of store, the type of product, and where it was coming from, and that they would rather find a pallet load than finding one bottle. So, it was the regulators' recommendation to have it offered for sale and it is offered for sale to a retailer.

REPRESENTATIVE JOHNSON stated that, in his opinion, advertising toothpaste is offering to sell it.

MR. THOMPSON responded yes, it would also ban that.

REPRESENTATIVE JOHNSON posed a scenario in which a national commercial for Crest, which has microbeads in it, is aired on a local television station. He asked who is responsible given the television station has the license and is offering to sell the toothpaste even though it is coming from a national advertiser.

MR. THOMPSON answered he cannot speak for that company, but said he understands that company has announced it is phasing it out.

REPRESENTATIVE JOHNSON requested Mr. Thompson to ignore that specific company and answer for any company.

MR. THOMPSON said he will consult with the council's attorneys about advertising and get back to the committee with an answer.

REPRESENTATIVE JOHNSON remarked he doesn't want to put a local television or radio station or newspaper in violation of this even though someone else has placed the ad and the station or newspaper are not responsible for the product in any fashion. Therefore, he said, he would like to receive a legal opinion.

[3:16:27 PM](#)

CO-CHAIR TALERICO closed public testimony after ascertaining no one else wished to testify.

[3:16:42 PM](#)

REPRESENTATIVE SEATON pointed out that page 1, lines 1-2, state contains "plastic microbeads", but the definition is for "synthetic plastic microbeads". He said he is drawing attention to this to ensure that all the same thing is being talked about.

[3:17:09 PM](#)

CO-CHAIR TALERICO held over HB 14.

**HB 92-LABEL GENETICALLY MODIFIED FOOD**

[3:17:33 PM](#)

CO-CHAIR TALERICO announced that the final order of business is HOUSE BILL NO. 92, "An Act relating to the labeling of food; relating to the misbranding of food; requiring labeling of food produced with genetic engineering; and providing for an effective date."

REPRESENTATIVE TARR, sponsor, related that over the weekend she received 105 emails of support for the bill from Bethel, Anchorage, Ketchikan, Palmer, Fairbanks, Homer, Kasilof, Sitka, Hoonah, Juneau, Talkeetna, Wasilla, Nome, False Pass, Douglas, Wrangell, Soldotna, Kodiak, Haines, Anchor Point, Sterling, and Pelican. She provided a brief introduction of HB 92, stating that it requires the labeling of genetically modified foods sold in Alaska. It is located in the same section of statute as HB 14 and is considered a branding issue. She said that at the next hearing for HB 92 she will go through the reasons why people have concerns about these products, why they are asking for labeling, what is happening in other states and at the federal level, and how this could be accomplished in Alaska.

CO-CHAIR TALERICO held over HB 92.

3:19:34 PM

**ADJOURNMENT**

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 3:20 p.m.