

Direct Testimony and Schedules
Timothy J. Sheesley

State of Minnesota
Before the Office of Administrative Hearings
For the Minnesota Public Utilities Commission

*In the Matter of a Petition by Excelsior Energy Inc. for Approval of a Power
Purchase Agreement Under Minn. Stat. § 216B.1694, Determination of Least
Cost Technology, and Establishment of a Clean Energy Technology Minimum
Under Minn. Stat. § 216B.1693*

OAH Docket No. 12-2500-17260-2
PUC Docket No. E6472/M-05-1993

Economic Development Impacts

September 5, 2006

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I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME.

A. My name is Timothy J. Sheesley.

Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?

A. I am the Chief Economist for Xcel Energy Services Inc.

Q. FOR WHOM ARE YOU TESTIFYING?

A. I am providing testimony on behalf of Northern States Power Company doing business as Xcel Energy ("Xcel Energy").

Q. PLEASE SUMMARIZE YOUR QUALIFICATIONS AND EXPERIENCE.

A. I received a Bachelor of Economics degree in 1987 and a Masters of Economics degree in 1989 both from the University of Colorado at Boulder, and a Masters of Business Administration degree with academic honors in Accounting and Finance from Regis University in Denver in 2005. Before joining Public Service Company of Colorado and subsequently Xcel Energy Services in 1997, I worked as an economist for the Denver Regional Council of Governments and the Federal Reserve Bank of Kansas City and as a professional researcher at the Center for Economic Analysis at the University of Colorado. My resume is provided as Exhibit ___ (TJS-1), Schedule 1.

Q. DO YOU HAVE EXPERIENCE IN PREPARING OR ANALYZING ECONOMIC DEVELOPMENT STUDIES?

A. Yes. I have extensive experience running sophisticated multi-sector econometric and financial models. I have experience running the Regional

1 Economic Models Incorporated's input-output economic model to conduct
2 various economic impact studies, including a 14-state analysis. I am also
3 generally familiar with Implan 2.0, the modeling program used by the Labovitz
4 School of Business and Economics ("Labovitz School"), the consultant
5 retained by Excelsior Energy Inc. on behalf of MEP-I LLC ("Mesaba 1 LLC")
6 in this proceeding. My graduate thesis focused on improving modeling in
7 economic development, which then led to a Journal of Regional Science
8 publication entitled, "Specification and Econometric Improvements in
9 Regional Economic Portfolio Diversification Analysis."

10
11 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

12 A. I provide an assessment of the economic impact report entitled, "The
13 Economic Impact of Constructing and Operating An Integrated Gasification
14 Combined-Cycle Power Generation Facility on the Iron Range," prepared by
15 the Labovitz School ("Economic Report") that Mesaba 1 LLC has submitted
16 in this proceeding.

17 18 II. ASSESSMENT

19
20 Q. PLEASE DESCRIBE THE ECONOMIC REPORT PROVIDED BY MESABA 1 LLC IN
21 THIS PROCEEDING.

22 A. The Economic Report is a traditional economic multiplier study that attempts
23 to quantify the direct and indirect positive benefits associated with the
24 construction and operation of a new generation facility.

25
26 Q. WHAT IS YOUR OVERALL ASSESSMENT OF THE ECONOMIC REPORT?

1 A. I believe the Economic Report fairly evaluates the positive economic impact
2 that Mesaba Unit 1 would have on northeastern Minnesota. It appears that
3 the Labovitz School used a standard model and normal modeling procedures
4 to arrive at direct and indirect positive benefits. Sensitivities could be run
5 using different multipliers, but the net effect would only be to change the level
6 of positive benefits.

7
8 However, based on my experience, to assess the full economic development
9 impacts of Mesaba 1 LLC's proposal, a study must take a broader view, assess
10 the impacts over a wider geographic area, and incorporate the effect that
11 higher electric rates would have on the overall Minnesota economy. The
12 Economic Report fails to consider the negative economic impacts that Mesaba
13 1 PPA may have on the entire State of Minnesota; thus, it does not offer a
14 complete assessment of the economic development impacts of Mesaba Unit 1,
15 and the Mesaba Unit 1 PPA.

16
17 Q. WHAT ANALYSIS WOULD NEED TO BE PERFORMED TO PROVIDE A COMPLETE
18 ASSESSMENT OF THE NET ECONOMIC DEVELOPMENT IMPACTS OF MESABA
19 UNIT 1 AND THE MESABA 1 PPA?

20 A. Based on my experience, to obtain a full view of the economic development
21 impacts of Mesaba Unit 1 and the Mesaba 1 PPA, the Economic Report
22 would need to:

- 23
24 • *Expand in scope* The Economic Report should assess the net impact on
25 Minnesotans by weighing the positive economic impacts to northeastern
26 Minnesota against the negative economic impacts to the rest of the state.
27 A study that considers only the positive impacts to a local area does not

1 fairly represent the economic development impacts of the proposal on the
2 state.

- 3
- 4 • *Compare the impacts of alternative large energy resources.* Instead of
5 looking at a single project, the Economic Report should compare the
6 impacts of Mesaba 1 LLC's proposal to alternative large energy resource
7 projects. Large-scale construction of any type of plant (for example, a
8 super-critical pulverized coal plant) would provide positive economic
9 impacts to the local area. The question the Economic Report should have
10 addressed is whether and how Mesaba 1 LLC's proposal would provide
11 more economic development benefits than another facility; one that meets
12 Xcel Energy's needs.

- 13
- 14 • *Consider the offsetting negative economic impacts of higher electricity prices.*
15 Obtaining capacity and energy under the Mesaba 1 PPA would require
16 Xcel Energy's customers to pay higher electricity prices. As a result,
17 industrial, commercial, residential, and other utility customers would spend
18 more on electricity and less on everything else. Higher rates would, by
19 themselves, result in less spending for other products and services and
20 fewer jobs throughout the state. The Economic Report should have
21 estimated and considered these negative impacts and provided a net
22 impact, thus providing a more accurate assessment of the economic
23 development benefits or costs of the proposal.

- 24
- 25 • *Consider the economic impact of the \$2 billion capital investment on the*
26 *overall economy.* Taking \$2 billion from all utility customers to build a new
27 generation facility would certainly create jobs in the area of the plant, but it

1 could also result in job losses in other regions. This result could easily net
2 to no total spending or job growth benefit.

3
4 In general, a more complete study of the economic development impacts of
5 Mesaba Unit 1 and the Mesaba 1 PPA would consider not just the benefits of
6 the project, but also the state-wide impacts of the higher electricity rates and
7 required capital investment to arrive at an overall net economic development
8 benefit or cost to the state as a whole. This net benefit (or cost) should then
9 be compared to other potential means of supplying electricity to ensure that
10 the net benefits or costs of Mesaba Unit 1 and the Mesaba 1 PPA are clearly
11 identified for the Commission's and the Administrative Law Judges'
12 consideration.

13
14 Q. HAS SUCH A STUDY BEEN COMPLETED?

15 A. No. The Economic Report, at p. 18, acknowledges that the Labovitz School
16 was asked to supply only an economic impact analysis and that any "policy
17 recommendations should be based on the 'big picture' of total impact. A
18 cost-benefit analysis would be needed to assess the environmental, social and
19 governmental impacts."

20
21 **III. CONCLUSION**

22
23 Q. PLEASE SUMMARIZE YOUR CONCLUSIONS REGARDING THE ECONOMIC
24 DEVELOPMENT IMPACT OF MESABA UNIT 1 AND THE MESABA 1 PPA.

25 A. The information provided by Mesaba 1 LLC assesses only one part of the
26 economic development impact – that is, the local benefits of Mesaba Unit 1.
27 To obtain a full picture of the economic development impacts of the

1 proposal, a more complete analysis is required. Such an analysis would
2 consider not only the local benefits of the proposal, but also the negative
3 impacts that higher electricity rates would have on Minnesota's economy. In
4 addition, the Economic Report should have compared the net impacts of
5 Mesaba 1 LLC's proposal with those of alternative means of supplying needed
6 electricity. Because such a study has not been performed, I cannot conclude
7 that the proposed Mesaba Unit 1 and the Mesaba 1 PPA would provide a net
8 positive impact on economic development for Minnesota.

9
10 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

11 A. Yes, it does.

Statement of Qualifications

Timothy J. Sheesley

I received a Bachelor of Economics degree in 1987 and a Masters of Economics degree in 1989 both from the University of Colorado at Boulder, a Banking Certificate from the American Banking Association in 1992, and a Masters of Business Administration degree with academic honors in Accounting and Finance from Regis University in Denver in 2005. Before joining Public Service Company of Colorado in 1997, I worked as an economist for the Denver Regional Council of Governments and the Federal Reserve Bank of Kansas City and as a professional researcher at the Center for Economic Analysis at the University of Colorado.

I have numerous publications in energy, regional and agricultural economics and have been quoted by the Wall Street Journal, Bloomberg News Service, Business Week Magazine, Christian Science Monitor, Denver Post, Rocky Mountain News, Denver Business Journal and several other newspapers, radio and television media.

I have extensive experience running sophisticated multi-sector econometric and financial models. I have produced numerous Federal Open Market Committee briefings and taught upper division "Money and Banking" at William Jewell College in Liberty, Missouri, and "Microeconomics" at the University of Colorado at Boulder.

I have a governor's appointment to the Colorado Revenue Estimating Advisory Committee. I serve on the Western Blue Chip Economic Forecast Panel, the University of Colorado Business Outlook Forum Steering Committee, the Denver Regional Council of Governments Economics Advisory Task Force, and am a member of the Economic Club of Colorado.

I have also served as an economic advisor to the Colorado Transportation Commission Strategic Transportation Project, the Smart Growth Leadership Group, Metro Denver Network, the Pueblo Economic Development Economic Committee, and am a former participant in 50 for Colorado.