

Surrebuttal Testimony  
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**

October 31, 2006

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1 **I. INTRODUCTION**

2  
3 Q. PLEASE STATE YOUR NAME.

4 A. My name is Timothy J. Sheesley.

5  
6 Q. HAVE YOU PROVIDED DIRECT TESTIMONY IN THIS CASE?

7 A. Yes. I provided Direct Testimony regarding economic development impacts  
8 related to Mesaba Unit 1. Specifically, I provided an assessment of the  
9 economic impact report entitled "The Economic Impact of Constructing and  
10 Operating An Integrated Gasification Combine-Cycle Power Generation  
11 Facility on the Iron Range" ("2005 Report").<sup>1</sup>

12  
13 **II. PURPOSE**

14  
15 Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY IN THIS  
16 PROCEEDING?

17 A. I respond to the Rebuttal Testimony offered by Renee J. Saas and James K.  
18 Skurla. Also, I provide an assessment of the updated Labovitz School report  
19 dated September 2006 ("2006 Update"), which was attached to Mr. Skurla's  
20 Rebuttal Testimony as Exhibit No.\_\_\_\_(JAS-1).

21  
22 Q. DID THE REBUTTAL TESTIMONY OR THE 2006 UPDATE RESOLVE YOUR  
23 CONCERNS REGARDING MESABA 1 LLC'S ASSESSMENT OF THE ECONOMIC  
24 DEVELOPMENT IMPACTS OF MESABA UNIT 1 AND THE MESABA 1 PPA?

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<sup>1</sup> In my Direct Testimony, I referred to the 2005 Report as the "Economic Report," however, because Mesaba 1 LLC submitted an updated report with its Rebuttal Testimony, I have changed the reference here for clarity.

1 A. No. While the 2006 Update does fairly evaluate the positive economic impact  
2 that Mesaba Unit 1 would have on northeastern Minnesota, it, like the 2005  
3 Report, fails to consider the negative economic impacts that the Mesaba 1  
4 PPA may have on the entire State of Minnesota. Thus, the 2006 Update does  
5 not offer a complete assessment of the net economic development impacts of  
6 Mesaba Unit 1 and the Mesaba Unit 1 PPA.

### 8 III. ASSESSMENT

9  
10 Q. PLEASE DESCRIBE THE INFORMATION THAT IS INCLUDED IN THE 2006  
11 UPDATE.

12 A. As discussed in Mr. Skurla's Rebuttal Testimony, the 2006 Update uses  
13 Mesaba 1 LLC's updated estimates of its direct expenditures on construction  
14 and operation of Mesaba Unit 1 to model the anticipated economic effects of  
15 Mesaba Unit 1. The 2006 Update also includes an appendix listing the  
16 economic effects of Mesaba Unit 2.

17  
18 Q. DOES THE 2006 UPDATE ADDRESSES THE CONCERNS YOU PREVIOUSLY  
19 IDENTIFIED RELATED TO THE 2005 REPORT?

20 A. No. As confirmed by Ms. Sass in her Rebuttal Testimony, the 2005 Report  
21 did not analyze net economic impacts but instead discussed only the positive  
22 economic benefits that construction spending and annual operations would  
23 bring to the state. The 2006 Update uses the same method of assessment;  
24 negative economic impacts were not considered in the analysis.

25  
26 The changes in the results of the 2005 Report and the 2006 Update highlight  
27 the fact that only positive economic gains are presented. According to Mr.

1 Skurla (at page 8 of the 2005 Report and page 9 of the 2006 Update), when  
2 the cost of Mesaba Unit 1 increases from \$1.04 billion to \$1.6 billion, the  
3 resulting construction related economic activity in Minnesota increases from  
4 \$1.8 billion to \$2.2 billion. The additional costs would be paid by the people  
5 of Minnesota through higher electric rates. The negative economic impact to  
6 the ratepayer of this 54% increase in costs for the same generating unit in has  
7 not been reflected in the analysis.

8  
9 Q. HOW DO YOU RESPOND TO MS. SASS' STATEMENT THAT YOUR ANALYSIS  
10 LACKS QUANTITATIVE SUPPORT?

11 A. A complicated model is not necessary to demonstrate that money spent on  
12 higher electricity costs will come from Minnesota's citizens and that as a  
13 result, positive economic gain from construction and operations in the  
14 Arrowhead Region will be offset to some degree by negative economic  
15 impacts to the state as a whole. To obtain a full picture of the net economic  
16 development impacts of Mesaba Unit 1, a more complete analysis is required.

17  
18 Q. HOW DO YOU RESPOND TO MS. SASS' STATEMENT THAT IT IS "MISLEADING TO  
19 ATTRIBUTE NEGATIVE ECONOMIC IMPACTS ASSOCIATED WITH HIGHER  
20 ELECTRICITY PRICES TO THE MESABA PROJECT" BECAUSE "MESABA IS OR IS  
21 LIKELY TO BE A LEAST-COST RESOURCE FOR NSP RATEPAYERS"?

22 A. Based on the testimony of Xcel Energy witness Elizabeth M. Engelking in  
23 this proceeding, the Mesaba 1 PPA is not a least-cost resource for our system,  
24 as it is approximately \$1.5 billion more expensive than operating our system  
25 under Xcel Energy's approved Resource Plan. I disagree with Ms. Sass that  
26 this \$1.5 billion in incremental cost should be ignored, as it will have a clear  
27 economic impact on Xcel Energy's customers and the State of Minnesota.

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Q. WHAT ANALYSIS WOULD HAVE RESOLVED YOUR CONCERNS RELATED MESABA 1 LLC’S ASSESSMENT OF THE ECONOMIC DEVELOPMENT IMPACTS OF MESABA UNIT 1 AND THE MESABA 1 PPA?

A. As I discussed in my Direct Testimony, the study should have assessed the net impacts over a wide geographic area incorporating the effect that higher electric rates would have on the overall Minnesota economy. In addition, I believe the assessment should consider the costs of other ancillary services that are associated with the Mesaba Unit 1 project that are not a part of the Mesaba 1 PPA, but will be borne by citizens of the Minnesota.

Q. PLEASE DESCRIBE WHAT YOU MEAN BY COSTS OF OTHER ANCILLARY SERVICES?

A. In Direct Testimony for the Department of Commerce, Dr. Eilon Amit defines ancillary services as generally relating to “separate services that the plant requires to generate electricity.” Dr. Amit points out that the cost of transmission upgrades, estimated to be between \$100 million and \$200 million (Direct Testimony at page 33), are properly characterized as ancillary services. These costs have not been considered in the analysis of economic development impacts. Further, the infrastructure costs associated with Mesaba Unit 1, which are currently estimated at approximately \$60 million, have not been considered. In addition, because Mesaba 1 LLC claims one of the benefits of their project is its ability to eventually sequester carbon, the costs of that effort, which could be another \$1 billion, should be considered as well. Neither the 2005 Report nor the 2006 Update consider these costs in assessing the economic impact of Mesaba Unit 1, and therefore the positive results contained in the reports are overstated.

1

2 **IV. CONCLUSION**

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4 Q. PLEASE SUMMARIZE YOUR SURREBUTTAL TESTIMONY.

5 A. The information provided by Mesaba 1 LLC assesses only one part of the  
6 economic development impact of Mesaba Unit 1. Because the negative  
7 impacts that higher electricity rates would have on Minnesota's economy have  
8 not been included in the assessment, neither the 2005 Report nor the 2006  
9 Update presents a complete analysis of the net total economic impact Mesaba  
10 Unit 1 will have on Minnesota. Because Mesaba 1 LLC has not performed  
11 such a complete analysis, I cannot conclude that the proposed Mesaba Unit 1  
12 and the Mesaba 1 PPA would provide a net positive impact on economic  
13 development for Minnesota.

14

15 Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

16 A. Yes, it does.