

BEFORE THE
PUBLIC UTILITIES COMMISSION
STATE OF SOUTH DAKOTA

KEYSTONE XL PROJECT
DOCKET HP09-001

PREFILED TESTIMONY OF MICHAEL K. MADDEN
ON BEHALF OF THE COMMISSION STAFF
SEPTEMBER 2009

BEFORE THE PUBLIC UTILITIES COMMISSION STATE OF SOUTH DAKOTA

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Q: Please state your name and business address.

A: Michael K. Madden, 63 Langdon Road, Buffalo, Wyoming 82834.

Q: Describe your educational background.

A: I received my Bachelor of Science Degree in 1965 from South Dakota State University with a major in Economics and a minor in Mathematics. I received my Doctorate with a major in Economics and minor in Statistics from Iowa State University in 1970.

Q: What is your employment history?

A: I served as Assistant Professor of Economics at the University of Wyoming from 1968 to 1972, Associate Professor of Economics at South Dakota State University from 1972 to 1975 and Associate Professor, Professor and Assistant Dean at the University of South Dakota from 1975 to 1999. From 1999 until 2003, I served as Dean of Graduate Studies at National American University in Rapid City. During all of this time, I also devoted significant time to private consulting activities.

Q: By whom are you now employed?

A: Since retiring from the academic field, I am now self-employed as a business and economic consultant. During the last three years, I have served as a Wyoming State Representative of Johnson and Sheridan Counties.

Q: What work experience have you had that is relevant to your research on this project?

A: I have conducted economic impact and feasibility studies for nearly three decades in South Dakota. Industries in which I have performed these analyses include electric power, mining, agriculture, health, banking and tourism.

Q. On whose behalf was this testimony prepared?

A. This testimony was prepared on behalf of the Staff of the South Dakota Public Utilities Commission (Staff).

Q: What is the purpose of your testimony?

A: My purpose in providing this testimony is to report my findings regarding various socioeconomic impacts that can be expected in connection with the construction and operation of the proposed Keystone XL hydrocarbon pipeline. The study I am preparing in providing a basis for this testimony will be entitled "Assessment of Socioeconomic Impacts Associated with Keystone XL."

Q: Which socioeconomic areas are you studying?

A: The retail sectors that are similar to those impacted by the travel industry, such as eating and drinking establishments, lodging and general retail trade. Other business sectors that are examined include health, agriculture and housing. Social services, such as emergency ambulance services, police and fire protection and transportation are also being examined.

Q: What methodology are you employing?

A: A primary basis of the analysis involves an examination of changes in socioeconomic factors that has occurred and is presently occurring during the construction cycle of the first Keystone Pipeline in eastern South Dakota. In economic sectors for which data is available, I am examining changes in business volume from secondary sources. This information is being supplemented by field interviews with representatives of key community business organizations and providers of social services. Since the same company is involved with both projects at nearly the same span of time, it is expected that reliable results for Keystone XL will be obtained. In addition, much useful information will be synthesized from the Wyoming Industrial Siting Council and the Wyoming Pipeline Authority. Both of these organizations have had detailed experience with dozens of pipeline projects in the state of Wyoming.

Q: Is the study complete?

A: No, the study could not be finalized until the specific communities which were impacted most from the first Keystone pipeline could be determined and until the bulk of these community impacts had transpired. I will, therefore, substantiate the findings relayed below prior to the hearing through the submission of the aforementioned report. However, some preliminary findings have emerged.

Q: Summarize the findings that have been determined to this point.

A: The source and direction of impacts within the industries studied are summarized below.

Industry	Source of Economic Impacts	Direction of Impact	Net Impact
Leisure Travel	Revenue	Positive	Positive
	Labor Costs	None Significant	
	Displacement of Traditional Users	Somewhat Negative	
Health	Revenue	Positive	Positive
	Labor Costs	None Significant	
	Displacement of Traditional Users	None	
Law Enforcement	Volume	Somewhat Positive	Moderate Negative
	Labor Costs	None	
Emergency Services	Volume	None	None Significant
	Labor Costs	None	
Fire Services	Volume	None	None Significant
	Labor Costs	None	
Agriculture	Revenue	None	None Significant
	Labor Costs	None Significant	
Retail	Revenue	Positive	Positive

	Labor Costs	Negative	
	Displacement of Traditional Users	None	
Housing	Revenue	Positive	Positive
	Displacement/Rent Increases	Minor	

Most sectors are impacted by changes in gross revenues. Agriculture does not appear to have been impacted, but adjoining landowners may have benefited slightly by access fees.

Labor expense for farmers has not noticeably increased due to increased competition from pipeline businesses. Labor costs are not expected to rise in the Keystone XL project because of increased unit labor competition of the moderate amount of local labor demanded and because of the short-term character of the positions that will be available. On balance, most sectors are projected to experience an economic benefit because increases in revenues will exceed increased labor expenses.

Displacement of traditional leisure travelers in Western South Dakota by construction workers demanding the same goods and services is likely to be limited to the summer season. Any potential impacts are likely to be mitigated because of the intent on the part of the company to utilize temporary worker camps in two or three communities in close proximity to the project. Murdo, the community with potentially the largest tourism impact, will have specifically been addressed by the company by providing workers for the area a temporary worker camp near Winner. Any impacts to that community will occur in 2011 and is therefore expected to be minor.

Moderately increased revenue is expected to be the primary economic impact accruing to the health industry in connection with the project.

The retail sector is projected to experience moderate growth in revenue. Retail businesses providing goods that are directly bought by construction workers will experience the largest growth. Other businesses will see revenues grow through indirect spending. Providers of fuel and other supplies directly required by the project itself will experience increased revenues, with moderate increases in labor requirements. An increased demand for labor created by the construction of the pipeline will induce higher local wages. Generally, sectors providing goods and services directly to the project will experience the highest growth in demand for labor, but will probably not significantly increase wage rates due to the short-term nature of the growth in business volume.

Because of its unique nature, the need for housing has the potential to generate negative community impacts in towns such as Buffalo, Belle Fourche, Philip, Murdo and Winner. Any substantial increase in temporary housing demand may produce increased competition seen by local tenants as competition from temporary construction workers, earning higher than average wages, takes place. This, in turn, may produce undesirable economic consequences in the long run if displaced tenants choose to leave the area permanently.

The project plan however, provides a mitigation of these impacts by the operation of large construction camps in the vicinity of Union Center and Winner. It is important that these worker camps be a part of the company commitment to help ease the load on local housing stocks.

Q: How else can the possible negative remaining impact on the housing market be mitigated?

A: If adequate sized worker camps providing board and room to temporary workers are provided, there is probably nothing else that needs to be done. Any remaining capacity

shortcomings to the worker camps can be supplemented by:

- Bus transportation could be provided for workers from larger and more distant communities such as Rapid City, Pierre or Chamberlain to the job site. This policy would mitigate the otherwise added cost of transportation to and from work for those living in more distant communities.
- Agreements could be negotiated with area motels guaranteeing a minimum quantity and price of lodging rooms throughout the region. These agreements could be negotiated with consideration given to geographic dispersion and to available capacity throughout annual cycles.

Q: Aside from your study to substantiate your conclusions, does this conclude your testimony?

A: Yes