

**BEFORE THE SOUTH DAKOTA PUBLIC UTILITIES COMMISSION**

**DOCKET NO. HP14-002**

**IN THE MATTER OF THE APPLICATION OF DAKOTA ACCESS, LLC FOR AN  
ENERGY FACILITY PERMIT TO CONSTRUCT THE DAKOTA ACCESS PIPELINE**

**Direct Testimony of Dr. Michael Shelly  
On Behalf of the Staff of the South Dakota Public Utilities Commission  
July 6, 2015**

1 **Q: Please state your name and business address.**

2  
3 A: Michael Shelly, ERM, 1159 Pittsford-Victor Road, Suite 200, Pittsford, New York,  
4 14534

5  
6 **Q: Describe your educational background.**

7  
8 A: I received a Bachelor of Science Degree in Economics with Geography from  
9 Queen Mary, University of London, England in 1981. I received a Master of Arts  
10 Degree in Economics from the University of Warwick, England in 1983. I  
11 received a Ph.D. in Economics from the University of Edinburgh, Scotland in  
12 1988.

13  
14 **Q: By whom are you now employed?**

15  
16 A: Since May 2015 I have worked as a Senior Project Manager at ERM, attached to  
17 their office in Rochester, New York

18  
19 **Q: What work experience have you had that is relevant to your involvement on  
20 this project?**

21  
22 A: From 1990 to 1992 I was an Economic Analyst and dealt with energy issues at  
23 National Economic Research Associates in London, England. From 1992 to  
24 2014 I was an environmental economist at Ecology and Environment, Inc., in  
25 Lancaster, New York.

26  
27 **Q: What work experience have you had that is relevant to your role on this  
28 project?**

29  
30 A: I have worked as an environmental economist for over 22 years and have  
31 worked on economic matters relating to the energy industry for 24 years. I have  
32 conducted economic impact studies using input-output models and am familiar  
33 with the IMPLAN modeling system.

34  
35 **Q: What methodology did you employ?**

36  
37 A: I reviewed Dakota Access, LLC's revised application to the South Dakota Public  
38 Utilities Commission, Dakota Access's responses to data requests from Public  
39 Utilities Commission staff, and the study prepared by the Strategic Economics  
40 Group of West Des Moines, Iowa entitled "An Assessment of the Economic and  
41 Fiscal Impacts of the Dakota Access Pipeline in North Dakota, South Dakota,  
42 Iowa and Illinois" dated November 12, 2014. I also reviewed the permit  
43 application to the South Dakota Public Utilities Commission for the Keystone XL  
44 Pipeline, entitled "Application to the South Dakota Public Utilities Commission for  
45 a Permit for the Keystone XL Pipeline Under the Energy Conversion and

1 Transmission Facility Act”, dated March 2009, and the report entitled  
2 “Assessment of Socioeconomic Impacts Expected with the Keystone XL Pipeline  
3 Project” prepared by Dr. Michael K. Madden and dated October 2009. I also  
4 drew upon my professional experience in preparing socioeconomic sections of  
5 Environmental Impact Statements.  
6

7 **Q: Did you review sections 23.1 and 23.2 of the Revised Application and the**  
8 **Strategic Economics Group report titled “An Assessment of the Economic**  
9 **and Fiscal Impacts of the Dakota Access Pipeline in North Dakota, South**  
10 **Dakota, Iowa, and Illinois” that address the expected socioeconomic**  
11 **impacts the project may have in South Dakota?**  
12

13 A: Yes.  
14

15 **Q: In your opinion, does the socioeconomic impact analysis completed by**  
16 **Dakota Access align with similar analysis done on other projects?**  
17

18 A: The level of detail provided in Dakota Access, LLC’s application to the South  
19 Dakota Public Utilities Commission is similar to that provided in Keystone XL  
20 Pipeline’s application. However, Dakota Access, LLC’s application provides  
21 information on the results of economic impact modeling using the IMPLAN  
22 modeling system, whereas the Keystone XL Pipeline application did not.  
23

24 Both applications contain less information on existing socioeconomic conditions  
25 (e.g., existing demographics, employment, etc.) than is typically found in the  
26 socioeconomic sections of Environmental Impact Statements prepared for  
27 Federal agencies. This means, for instance, that it is not possible, using the  
28 information provided in the Dakota Access LLC application, to determine if  
29 pipeline construction activities would take place in areas where there might be  
30 insufficient temporary housing to accommodate the construction crews or where  
31 the need to accommodate the construction crews might negatively impact other  
32 users of such housing, such as tourists.  
33

34 The economic impact modeling summarized in the application and contained in  
35 “An Assessment of the Economic and Fiscal Impacts of the Dakota Access  
36 Pipeline in North Dakota, South Dakota, Iowa and Illinois” dated November 12,  
37 2014 and prepared by the Strategic Economics Group is comparable to that  
38 undertaken for Environmental Impact Statements prepared for Federal agencies.  
39

40 **Q: In your opinion, do you believe the socioeconomic impact analysis**  
41 **completed by Dakota Access is complete and accurate? If so, please**  
42 **explain.**  
43

44 A: The socioeconomic analysis in the Dakota Access, LLC’s application covers the  
45 types of impacts considered in Environmental Impact Statements and is  
46 complete in that sense. However, as I stated in my previous answer, the amount

1 of detail provided in the application is less than is typically found in the  
2 socioeconomic sections of Environmental Impact Statements prepared for  
3 Federal agencies.

4  
5 With regard to qualitative accuracy, in his report entitled “Assessment of  
6 Socioeconomic Impacts Expected with the Keystone XL Pipeline Project”, Dr.  
7 Michael K. Madden examined the socioeconomic impacts arising from an oil  
8 pipeline permitted in South Dakota in 2009. The types and nature (i.e., positive  
9 or negative) of the actual impacts of this pipeline were expected to be similar to  
10 those anticipated for the Dakota Access LLC pipeline.

11  
12 With regard to quantitative accuracy, since the application presents anticipated  
13 impacts it will not be possible until after the pipeline is constructed to determine  
14 whether the scale of the anticipated impacts accords with actual outcomes.

15  
16 **Q: Do you generally agree that the socioeconomic analysis completed by**  
17 **Dakota Access is reflective of the impacts to occur as a result of the**  
18 **project?**

19  
20 A: I generally agree that the socioeconomic analysis completed by Dakota Access,  
21 LLC covers the types of socioeconomic impacts likely to occur as a result of the  
22 project

23  
24 **Q: In your opinion, are there any flaws in the socioeconomic analysis? If so,**  
25 **please explain each flaw in detail.**

26  
27 A: There are no apparent major flaws in the socioeconomic analysis. However, with  
28 regard to the economic impact analysis, there is an inconsistency between the  
29 information provided in the application and the results presented in “An  
30 Assessment of the Economic and Fiscal Impacts of the Dakota Access Pipeline  
31 in North Dakota, South Dakota, Iowa and Illinois” prepared by the Strategic  
32 Economics Group with regard to the number of permanent employees during the  
33 pipeline’s operational phase. In the application the number of permanent  
34 employees is given as 12, generating \$2 million in (annual) labor income (p.39);  
35 whereas in “An Assessment of the Economic and Fiscal Impacts of the Dakota  
36 Access Pipeline in North Dakota, South Dakota, Iowa and Illinois” it is stated that  
37 “Once the pipeline has been built, the yearly operations and maintenance  
38 spending will add 31 permanent jobs, \$1.9 Million in labor income...” (p. 5).

39  
40 For the sake of consistency, either the economic impact modeling for the  
41 operational period should be revised to reflect the lower number of permanent  
42 employees reported in the application and the labor income estimate  
43 recalculated; or the number of permanent employees stated in the application  
44 should be altered to match the number given in “An Assessment of the Economic  
45 and Fiscal Impacts of the Dakota Access Pipeline in North Dakota, South  
46 Dakota, Iowa and Illinois”.

1 **Q: Did you perform an independent analysis on the expected socioeconomic**  
2 **impacts on South Dakota as a result of the Dakota Access Pipeline? If so,**  
3 **please explain the analysis you completed and any differences between**  
4 **your results and the results of Dakota Access’s analysis. If not, please**  
5 **explain why you believe Dakota Access’s analysis is complete and**  
6 **accurate.**

7  
8 A: No, I did not. With regard to the economic impact analysis, I did not see any  
9 major flaws in the application of the IMPLAN modeling system and,  
10 consequently, I do not believe it necessary to undertake an alternative analysis  
11 on that basis.

12  
13 **Q: In your opinion, do you believe that the Dakota Access pipeline will not**  
14 **pose a threat of serious injury to the social and economic condition of**  
15 **inhabitants or expected inhabitants in the siting area? Please explain.**

16  
17 A: In my opinion, the Dakota Access pipeline will not pose a threat of serious injury  
18 to the social and economic condition of inhabitants or expected inhabitants in the  
19 siting area. During the construction period, there will be impacts to local  
20 communities resulting from the need to house construction workers. However,  
21 there will also be positive economic benefits to the local communities resulting  
22 from project expenditures in local areas, the employment of local workers and the  
23 payment of sales and use tax, gross receipts tax and tourism tax. During the  
24 operational period, there will be minor impacts to local communities due to the  
25 need to accommodate operational employees and their families. However, there  
26 will also be minor additional expenditures and tax contributions from the  
27 operation and maintenance of the pipelines and from the additional households.  
28 During the operational period, the project will generate substantial annual  
29 property tax payments (estimated in the work I reviewed at between \$12 and \$14  
30 million per year). None of these impacts represents a threat of serious injury to  
31 the social and economic condition of inhabitants or expected inhabitants in the  
32 siting area.

33  
34 **Q: Does this conclude your testimony?**

35  
36 A: Yes.