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**BEFORE THE**
**WISCONSIN PUBLIC SERVICE COMMISSION**

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Wisconsin Electric Power Company's Request for Approval of an Experimental Economic Development Rider — Docket No. 6630-TE-101

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# QUAD/GRAPHICS' COMMENTS IN RESPONSE TO STAFF MEMORANDUM

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Quad/Graphics appreciates that the Wisconsin Public Service Commission is taking the time to consider this request by Wisconsin Electric Power Company (WEPCO) for an Economic Development Rider (EDR). Please accept these comments in response to Commission Staff's memorandum, dated September 23, 2015.

If approved, the Proposed EDR will deliver significant benefits to ratepayers, namely the retention of high quality family supporting manufacturing jobs and the creation of 500 more such jobs in southeast Wisconsin. The proposed EDR is an important pricing option for Wisconsin manufacturers such as Quad/Graphics due to the fact that we have a national network of plants that spans across 28 states and we compete against other printers in jurisdictions with lower energy rates. The reality is that because printing is an energy intensive industry we have few alternatives and therefore do consider electricity pricing when deciding which facilities to grow production; and which facilities to slow production. The risk associated with being exposed to market-based energy costs, even for incremental load, is not one that we take lightly. However, with the competitive marketplace that we operate in, it is a risk that is necessary, and the proposed EDR will be helpful tool in allowing Quad/Graphics to compete and grow Wisconsin's economy through job creation.

Additionally, in light of the fact that customers on this proposed EDR will be increasing their demand for energy they will be picking up a larger share of the embedded costs that otherwise would need to be spread across the entire rate base. The end result is a more competitive Wisconsin as well as job creation and benefits for all WEPCO's customers, including residential and small businesses. It was not too many years ago that another of Wisconsin's utilities lost several very large manufacturers and had dramatically reduced energy sales. As a consequence, the utility had to raise rates on all of its remaining customers— an increase of about $90 million annually. All ratepayers benefit from strong businesses and the sales that they bring to Wisconsin utilities, the loss of which can be very painful.

As stated earlier, the printing industry is extremely energy intensive, which results in energy rates across the country being particularly important for the company's operating costs. This in turn impacts our planning and locations for necessary investments in our overall network. Over the past 5 years Quad/Graphics has grown from 11 plants across six states to our current footprint of over 75 facilities across 28 states (this includes the addition of 7 new facilities in Wisconsin). Quad/Graphics is leading the effort to "right-size" the industry in order to best service the needs of the marketplace. This consolidation effort along with new wins in the marketplace have fueled the company's growth. It is this growth that now provides Quad with a significant amount of flexibility as to where we invest and grow our company. While there are many external printing competitors; it is the internal competition amongst the family of Quad/Graphics plants that at times is more important. Each year, our plants compete for the capital investments that will ensure that they stay on the forefront of technology and ensures that we enjoy the most efficient and cost-effective platform in the industry. As the investment comes to a plant additional print work follows and as plant volumes increase we will need to hire additional employees to meet our customers' needs.

Across our network the biggest competition for internal resources is between our plants in Wisconsin, West Virginia, Oklahoma and Georgia. These locations all have similar platforms and are the locations that have the Quad "Mega-plants" that each deploy over 1.5-2 million square feet of production space. One of the leading factors that the company considers is the incremental costs of placing work in Wisconsin vs. any of our other locations within our national footprint (but in particular these three other states). As our leadership considers where to place work the costs of the energy needed to turn on a printing press in each location is carefully considered. Today, the energy rates that Quad pays in Wisconsin do not provide the appropriate market signals as compared to these other locations. However, under this proposed EDR those market signals would appropriately incentivize Quad to invest in our Wisconsin plants and spur increased job creation. This proposed EDR will result in the following:

- The retention of over 7,000 jobs in the State of Wisconsin
- $100 million of new capital investments over 5-years; which will add to our already extensive base of manufacturing equipment in Wisconsin
- The creation of 500 new jobs in the State of Wisconsin
- Increased investment in our workforce skills to the tune of $3 million/year

However, as it stands today, the current energy rates within our network of plants puts our Wisconsin plants at a distinct disadvantage in the effort to secure these new investments. This will result in the economic development opportunity being lost to our other locations across the country. This proposed EDR will help to ensure that our Wisconsin plants are the most efficient and cost-effective in our network.

Through the prepared staff memo, dated September 23, 2015, the Public Service Commission is asking for comments on a number of questions. Most notably, how this docket differs from docket #6680-UR-115, otherwise known as the Mercury Abatement Service Rider (MASR). We would submit that there are number of important differences between this proposed EDR and the MASR.

1) As it was noted in the final order regarding the MASR the company in question was not assuming additional market risk. The exact opposite will occur under this proposed EDR. Due to the fact that any power use over the established baseline is subject to the influence of the energy market the Proposed EDR ensures that the customer will be taking on a larger market risk than they are currently.

2) As part of the MASR the expectation was that energy usage was going to have a net decrease. This resulted in a larger share of fixed costs of the utility to be spread out amongst the overall rate-base. Again, the exact opposite circumstances will result from this proposed EDR. The fact is Quad/Graphics will be investing in and expanding our national manufacturing platform. This proposed EDR will help to ensure that the expansion occurs in Wisconsin. This expansion will result in an increased energy demand which will result in Quad/Graphics assuming an even greater share of the utility's "fixed" costs to the benefit of every other ratepayer.

3) The MASR was designed around environmental benefits while having little, if any, impact on growing Wisconsin's job base and economy. This proposed EDR will certainly protect jobs in Wisconsin but it will also provide the necessary incentives to create 500 additional jobs right here in Southeastern Wisconsin.

4) This proposed EDR builds off the framework of the current RTMP tariff, which has already been approved and supported by the Wisconsin Public Service Commission. The RTMP is a benefit to ratepayers as it encourages increased energy sales for the utility in a way that will help to reduce the overall impact on all ratepayers. There are inherent rate benefits as industrial customers – such as Quad/Graphics – grow their operations. Considering the sunk costs of construction and distribution is a zero-sum situation the more the industrial customers grow the less sunk cost there is for all other ratepayers are forced to pay.

For all these reasons, this proposed EDR is significantly different than the MASR. Quad/Graphics would also submit that this proposed EDR is substantially similar to the WPL EDR that the Commission approved in 2010.

- Similar to the WPL EDR, this proposed EDR will expand and stabilize energy load, which provides economic benefits for existing customers – especially considering that WEPCO has a significant amount of excess capacity and this proposed EDR will ensure that additional energy demand by EDR participants will allow the utility to decrease all other customer's share of the fixed costs.

- It should also be noted that the WPL EDR was based on retention of load while this proposed EDR will lead to load growth which will provide even greater benefits to all other customers (as described in the bullet above).

- This proposed EDR contains a similar provision as the WPL EDR requiring that any participant receive additional incentives from the State of Wisconsin. This is done to offer an independent verification that the customer(s) will provide a lasting economic value to the local community and the State of Wisconsin.

- Lastly, like the WPL EDR, the price customers pay for energy under the Proposed EDR will cover more than the marginal costs the customer imposes on the utility, particularly for that portion of the customer's usage that is below the baseline and is tariffed at the CP1 rate.

The PSC staff memo raises the question of how to handle baseline setting for the regular RTMP rider and suggests that it ought to be recalculated using the most recent 12-month period. We would submit that this particular proceeding is not the appropriate venue for making a change to the regular RTMP rider. As the Commission is well aware, historically the terms of the RTMP rider, including the applicable baselines, have been set through the normal rate cases and therefore we would urge the Commission to allow the normal process to work which will ensure the greatest amount of transparency and public input possible on what will be an important decision by the Commission.

Thank you for your attention to this matter and for your willingness to consider innovative ideas designed to ensure that Wisconsin continues to be a viable option for economic growth and job creation.

Dated: October 1, 2015

Patrick Henderson

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