

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)
The Detroit Edison Company to increase)
rates, amend its rate schedules governing the)
distribution and supply of electric energy, implement)
Power Supply Cost Recovery plans, factors and)
reconciliations in its rate schedules for jurisdictional)
sales of electricity and for miscellaneous accounting)
authority and regulatory asset recovery.)
_____)

Case No. U-13808

DIRECT TESTIMONY OF

RONALD S. KEPES

ON BEHALF OF UNITED UTILITIES, L.L.C.

UNITED UTILITIES, L.L.C.
DIRECT TESTIMONY OF RONALD S. KEPES

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

2 A. My name is Ronald S. Kepes. My business address is 26500 Northwestern Hwy., Suite
3 250, Southfield, Michigan 48076.

4 **Q. By whom are you employed and in what capacity?**

5 A. I am Managing Partner of United Utilities, L.L.C.

6 **Q. Please summarize your educational background and work experience?**

7 A. I attended Wayne State University to 1955. Over the past few decades, I have worked in
8 several industries, including manufacturing, construction and utilities. After attending
9 Wayne State University, I worked for IDA Products Co., a window and door
10 manufacturing company in Detroit. I was President of IDA Products Co. from 1965 to
11 1973. Thereafter, I was a Vice President for Feather-Lite Manufacturing Co., in
12 Michigan from 1973 to 1975. In 1975, I moved to Florida and founded World Wide
13 Sales, Inc., which sold and marketed building products. In 1985, I founded Crest
14 Industries in Florida, which went public in 1990. I retired from Crest Industries in 1992.
15 Thereafter, I was an officer with American Water and Energy Savers, Water
16 Conservation and Submeter Co., which provided water utility consulting services to users
17 of water utilities. I then worked with United Water Conservation from 1993 through
18 2002, which also provided water utility consulting services to users of such utilities. In
19 2003, I moved back to Michigan and along with others founded United Utilities, L.L.C.

20 **Q. What is the business of United Utilities, L.L.C.?**

21 A. United Utilities, L.L.C. is a Michigan Limited Liability Company established in 2003. I
22 am one of the founding partners of the company. United Utilities, L.L.C. provides
23 services to owners and property managers of multi-tenant commercial buildings and

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1 multi-family residential dwellings, analyzing utility usage and costs and advising on
2 measures and strategies owners and managers can take to reduce utility costs and to
3 achieve more cost-effective utilization of utility services. United Utilities, L.L.C. also
4 assists owners and property managers in arranging for the procurement of energy and
5 other utility supplies and services for the purpose of achieving these cost savings. United
6 Utilities, L.L.C. provides these services to numerous commercial clients property owners
7 and managers and a few owners and managers of residential multiple occupancy facilities
8 in Detroit Edison's service territory and other areas in Michigan and in other states.
9 United Utilities, L.L.C.'s ability to serve a greater number of residential multiple
10 occupancy complexes is impeded by current provisions of Detroit Edison's service
11 tariffs, which is what I will discuss in my direct testimony in this case.

12 **Q. Have you ever testified before the Michigan Public Service Commission or other**
13 **utility or regulatory commissions?**

14 A. No, I have not.

15 **Q. What is the purpose of your direct testimony?**

16 A. The purpose of my testimony is to address the current restrictions contained at Rule B-
17 4.8(2) – Expiration of Master Meters and Rider No. 4 – Resale of Service in Detroit
18 Edison's service tariff, and to recommend that the Michigan Public Service Commission
19 ("Commission") remove the restriction on master metering in Rule B-4.8(2) from the
20 tariff and to amend the language in Rider No. 4, so as to allow landlord owners and
21 property managers of such facilities and the residential customers living in them to take
22 better advantage of customer choice of electric supply to obtain lower electric service
23 costs and more cost-effective electric utility service.

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1 **Q. Are you sponsoring any exhibits?**

2 A. Yes, I am sponsoring Exhibit I-__ (RSP-1), which contains proposed revisions to Rule B-
3 4.8(2) and Rider No. 4 of Detroit Edison's service tariffs intended to remove these
4 restrictions.

5 **Q. Please explain the restrictions contained at Rule B-4.8(2) and Rider No. 4 in Detroit
6 Edison's service tariffs?**

7 A. Rule B-4.8(2) prohibits the use of master metering for duplexes, apartment buildings,
8 mobile homes and multiple occupancy dwellings receiving electrical service after August
9 1, 1979, and requires that each individual tenant in such facilities be separately metered
10 for their electric usage. Rider No. 4 prohibits resale of service option to new service or
11 expanded service for resale for residential customers as of March 31, 1979. In addition,
12 Rider No. 4 requires that for multiple occupancy buildings with at least thirty tenants,
13 individual tenants be separately metered and that the tenants be charged the same Detroit
14 Edison service rate for similar services under like conditions. Rider No. 4 also prohibits
15 a landlord of a multiple occupancy building from charging an amount for resold electric
16 service to its tenants which is different (either more or less) than what Detroit Edison
17 would charge the tenants if it served the tenants directly.

18 **Q. What are you recommending to the Commission as to Rule B-4.8(2) of Detroit
19 Edison's tariff?**

20 A. I recommend that the Commission repeal the entire language in Rule B-4.8(2)

21 **Q. What are the reasons for repealing Rule B-4.8(2) from Detroit Edison's service
22 tariff?**

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1 A. There are several reasons for eliminating this provision in the tariff. First and foremost,
2 the requirement at Rule B-4.8(2) inhibits residential customers from being able to take
3 advantage of customer choice for electric supply service as permitted under Public Act
4 141 of 2000 (“Act 141”). Act 141 permits residential customers to choose to receive
5 their supply of electricity from energy suppliers other than Detroit Edison. By restricting
6 apartment building complexes, duplexes and other multiple occupancy dwellings from
7 installing master meters, from which a landlord or property manager could receive
8 electric service on behalf of its constituent tenants, Rule B-4.8(2) limits the opportunity
9 for that landlord or property manager to aggregate electric supply on behalf of its tenants,
10 as well as limit its ability to market the opportunity for lower electricity costs or bundled
11 electric service to potential residential tenants as an inducement for leasing. The
12 restriction also hinders the ability of residential customers to utilize their landlord or
13 property manager to functionally act as an aggregator, one who can aggregate load in
14 order to purchase electric supply in bulk so as to receive more favorable pricing, and to
15 have those cost savings translated to individual tenants, whether through reduced rent or
16 reduced electric rates through resold services by the landlord or property manager. In
17 this regard, Rider No. 4’s restriction, that resale rates to tenants in multiple occupancy
18 buildings not deviate (either more or less) from what Detroit Edison would charge if such
19 service was provided directly by it, further inhibits residential customers ability to take
20 advantage of alternative electric supply and cost savings which may result from it.

21 **Q. Please explain.**

22 A. A landlord or property manager of a multiple occupancy building is effectively prohibited
23 by Rider No. 4 from charging its tenants rates for electric service that differ from what

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1 Detroit Edison would charge another similarly classed residential customers. A landlord
2 or property manager, who might be able to obtain supply at prices and conditions at lower
3 commercial or bulk rates, could not pass through to its residential tenants any savings
4 derived from that more price advantageous purchase.

5 **Q. Please discuss the other reasons for repealing Rule B-4.8(2)?**

6 A. To the extent that the master metering requirement of Rule B-4.8(2), as well as the
7 prohibition of resale charge differentiation for residential customers in Rider No. 4,
8 hinders residential customers from participating in customer choice, effectively forcing
9 such customer load to remain with Detroit Edison, repealing the master metering
10 provision and removing the charge differentiation requirement in Rider No. 4 would
11 allow Detroit Edison to potentially shed itself of the obligation of serving a greater
12 amount of its existing or additional residential load. Detroit Edison has made public
13 statements that a problem with the existing electric restructuring, customer choice law is
14 that alternative suppliers are able to target or “cherry pick” more desirable industrial and
15 commercial load while leaving Detroit Edison to serve the “less desirable” or more
16 expensive residential load. I don’t have an opinion as to the validity of Detroit Edison’s
17 statement one way or the other. However, to the extent that residential load may not be
18 being served by alternative energy suppliers in part because of artificial restrictions, such
19 as the prohibition against master metering or charge differentiation, which hinder a
20 landlord’s or property manager’s ability to aggregate and service residential customer
21 load or provides a disincentive or barrier for residential customers to choose alternative
22 suppliers, then repeal or removal of these artificial restrictions would facilitate more
23 residential customer load being served by alternative energy suppliers. This would thus

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1 allow Detroit Edison to potentially shed some of this load, addressing this purported
2 concern of Detroit Edison.

3 Also, allowing master metering in apartment complexes, duplexes and other
4 multiple occupancy buildings would also lessen the administrative burden on Detroit
5 Edison to read the individual meters of individual residential units (and thus other things
6 being equal, reduce the administrative costs associated with it reading meters). Detroit
7 Edison would need to read one meter, the master meter. It would be the landlord or
8 property manager's obligation to monitor individual use by tenants, since the landlord or
9 property manager would be responsible for and would assume the risk of the
10 management of the load of its constituent tenants, whether such individual units are
11 separately metered or not.

12 **Q. By asking for repeal of Rule B-4.8(2) so as to allow master metering, are you calling**
13 **for the elimination of individual metering?**

14 A. No. What I'm recommending is that master metering not be wholly replaced by the
15 requirement that all individual tenants be individually metered. It is my understanding
16 that the genesis of Rule B-4.8(2), eliminating master metering and requiring that all
17 individual tenants in multiple occupancy dwellings be individually metered, was for the
18 purpose of encouraging energy conservation by households. In its July 31, 1978 Opinion
19 and Order in Detroit Edison's electric rate case No. U-5331, issued at the height of the
20 nation's energy crisis, the Commission found that the master metering option should be
21 eliminated for newly constructed multiple dwellings and that all newly-constructed
22 duplexes, apartment buildings and other multiple dwellings completed and receiving
23 electric service after July 1, 1979 should have individual metering. The Commission

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1 found that it was in the public interest to have individually-metered units so that
2 households could be responsible for their own energy consumption so as to encourage
3 conservation, as well as to prevent individual household customers from unfairly passing
4 the cost of their excessive energy use onto the landlord in the short run or other tenants of
5 the building in the long run.

6 Those concerns, while laudable at the time and reasonable in the context of a fully
7 regulated retail electric market, are not so applicable today where customers are able to
8 choose electric suppliers. A landlord or property manager, acting as an aggregator or
9 reseller of its individual tenants, can now contract for electric supply and select from an
10 array of service options from alternative providers in order to serve and satisfy its
11 customer load. Of course, that landlord or property manager assumes through contract
12 the risks of balancing that load, and can address that risk through the lease agreements
13 with its tenants. Indeed, a landlord or property manager should be able to provide
14 through its resale or lease arrangements with its tenants mechanisms or pricing incentives
15 which could encourage conservation and more effective energy usage. A landlord or
16 property manager should be given the option of assuming these risks, either through the
17 sole use of a master meter or through its use of individual meters for individual tenants.

18 **Q. Would Detroit Edison be required to provide individual meters in those situations?**

19 A. No. The individual landlord or property manager, to the extent that it decides to
20 aggregate on behalf of its tenants or resells to its tenants, can either supply and install its
21 own individual meters or buy or lease the individual meters from Detroit Edison or
22 another vendor.

23 **Q. Please summarize your testimony and recommendations?**

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1 A. I recommend that the Commission repeal Rule B-4.8(2) of Detroit Edison's service tariffs
2 so as to allow landlords or property managers of apartment complexes, duplexes or other
3 multiple occupancy dwellings the option to either master meter or individually meter
4 their buildings and facilities. I also recommend that the Rider No. 4 in Detroit Edison's
5 service tariffs be amended to permit a landlord or property manager of a multiple
6 occupancy dwelling, acting as a reseller of electric service to its tenants, to charge its
7 tenants electric service rates which may vary from that which Detroit Edison would
8 charge if served directly by it. I believe that these changes would foster greater
9 participation in customer choice by residential customers and provide them with more of
10 the benefits of competition and choice, including reduced electricity costs, currently
11 enjoyed by other customer classes. Also, I believe that removing these restrictions will
12 further the larger public policy purposes of Act 141, namely encouraging more
13 competition in electric supply, including for residential customer load, reducing the costs
14 of electricity for citizens in the state, and fostering more efficient energy use and
15 conservation through better, more market oriented pricing.

16 **Q. Does this conclude your direct testimony?**

17 A. Yes, it does.

THE DETROIT EDISON COMPANY
M.P.S.C. No. 9
(To reformat page)

Fourth Revised Sheet No. B4-10
Cancels Third Revised Sheet No. B4-10

RULES AND REGULATIONS-Continued

B-4.8 CONVERSION FROM MASTER METERING TO DIRECT SERVICE METERING:

(1) Apartment Buildings and Other Multiple Dwellings:

Where the owners of an apartment building or multiple dwelling choose to convert from a master metering installation to an individual tenant direct service utility metering installation, the Company, at its cost, shall provide the equipment and installation ordinarily provided for a newly constructed direct metered multi-dwelling. Where the owners of an apartment building or multiple dwelling choose to provide resale of service to their respective individual tenants through a master meter or pursuant to Standard Contract Rider No. 4, the owners of such facilities may install their own individual tenant meters at their own cost or lease such meters from the Company or from a vendor other than the Company.

~~(2) Expiration of Master Meters:~~

~~All newly constructed duplexes, apartment buildings, mobile homes and multiple occupancy dwellings receiving electrical service on and after August 1, 1979 shall have individual tenant metering.~~

M/63

Issued: May 23, 2000 _____
By: L.G. Garberding _____
Executive Vice President
and Chief Financial Officer _____
2000 Second Avenue
Detroit, Michigan 48226

Effective for service rendered on
and after _____ January 22, 1994 under
authority of order of the Michigan
Public Service Commission dated
_____ January 21, 1994 in Case U-13808-U-10102.

THE DETROIT EDISON COMPANY
M.P.S.C. No. 9

Second Revised Sheet No. R4
Cancels First Revised Sheet No. R4

**STANDARD CONTRACT RIDER NO. 4
RESALE OF SERVICE**

APPLICABLE TO:

General Service Rate	Schedule Designation D3
Large General Service Rate	Schedule Designation D4
Primary Supply Rate	Schedule Designation D6
Retail Access Service Tariff	Schedule Designation EC2

Electricity supplied to a customer is for his exclusive use on the premises to which it is delivered by the Company. Customers desiring to resell electric service to their tenants must secure authority from the Company which will be evidenced by a rider attached to the contract for service. ~~Resale option is closed to new service or expanded service for resale for residential service as of March 31, 1979.~~

MULTIPLE OCCUPANCY BUILDINGS:

The owner or operator of an office building, apartment building, etc., with ~~at least thirty tenants (or less at the option of the Company where extensions of the Company service to the individual tenants is impractical) whose combined requirements regularly exceed 20,000 kilowatthours per month,~~ may purchase electric energy from the Company or an Alternative Electric Supplier for resale to the tenants of the building ~~on condition that service to each tenant shall be separately metered, and that the tenants shall be charged for such service the current rate of the Company for similar service under like conditions.~~

~~No landlord may charge his tenants more nor less for resold electric service than the tenants would be charged by the Company if served directly. If this requirement is violated, the Company may refuse service to the building. The renting of premises with the cost of electric service included in the rental is held not to be a resale of service. The Company does not furnish nor maintain meters for the resale of energy by landlords to tenants.~~

MOBILE HOME PARKS:

In some cases it is not practical for the Company to furnish service directly to individual mobile homes in mobile home parks. Because of this, the park operators may purchase electric energy from the Company or an Alternative Electric Supplier for resale to tenants, ~~provided that service to each tenant buying energy shall be separately metered and billed at the Company's Residential Service Rate.~~

The Operator shall provide the distribution system in the park and meters acceptable to the Company suitably protected from the weather. The Operator may purchase meters from the Company when available, or from a vendor other than the Company.

~~If an Operation resells energy without complying with the above provisions, the Company may refuse service to him.~~

CONTRACT TERM:

The customer may take service at any applicable filed rate listed above but he will be required to sign a rider modifying the contract form prescribed for one of the applicable filed rates.

(Continued on next sheet)
M/140

Issued: August 15, 1985 _____
By: E.L. Grove, Jr. _____
Vice Chairman of the Board _____
2000 Second Avenue
Detroit, Michigan 48226

Effective for service rendered on
and after _____ July 16, 1985, under
authority of order of the Michigan
Public Service Commission dated
_____ July 16, 1985 in Case U-13808U-7660.

THE DETROIT EDISON COMPANY
M.P.S.C. No. 9

Second Revised Sheet No. R4a
Cancels First Revised Sheet No. R4a

**STANDARD CONTRACT RIDER NO. 4
RESALE OF SERVICE—Continued**

The service contract shall provide that each ultimate user's billing shall be audited once every nine (9) to fifteen (15) months. At the option of the reselling customer, the audit will be conducted either by the Company or by an independent auditing firm, approved by the Company. The reselling customer will be assessed a reasonable fee for an audit conducted by the Company. Where the audit is conducted by an independent auditing firm, a certified copy of the results of such audit shall be immediately submitted to the Company in a form approved by the Company.

The service contract shall also provide that the reselling customer will be responsible for the testing of the ultimate user's meters at least once every three (3) years, and that the accuracy of such meters be maintained within the limits as prescribed in Michigan Public Service Commission Order No. U-6400. Meters shall be tested only by outside testing services or laboratories approved by the Company and a certified copy of all testing results shall be immediately submitted to the Company.

A record of each meter, including testing results, shall be kept by the reselling customer during his use of the meter and for an additional period of one year thereafter. When requested, the reselling customer shall submit certified copies of said test results to the Company.

The reselling customer shall supply each of his ultimate users with an electrical system adequate to meet the needs of the ultimate user with respect to the nature of service, voltage level, and other conditions of service. The customer who resells his power at Residential Rates shall receive a 15% discount on the resale portion of his bills, provided the reselling customer complies with the terms of Standard Contract Rider No. 4. Such discount shall cover the periods for which the customer provides positive evidence of compliance.

If the reselling customer fails to meet his obligations under this rule, the Company shall immediately notify the Consumer Services Division and Business Service Division of the Michigan Public Service Commission. If, after review with the reselling customer, the problem is not resolved, the Company will discontinue electric service until such time as the problem is resolved. The Company shall not incur any liability as the result of this discontinuance of electric service.

M/141

Issued: August 15, 1985 _____
By: E.L. Grove, Jr. _____
Vice Chairman of the Board _____
2000 Second Avenue
Detroit, Michigan 48226

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