

*Exhibit No.:*  
*Issue(s):* *Principal-Agent Problem  
and Cost*  
*Witness:* *Justin Tevie*  
*Sponsoring Party:* *MoPSC Staff*  
*Type of Exhibit:* *Direct Testimony*  
*Case No.:* *EO-2023-0369 and  
EO-2023-0370*  
*Date Testimony Prepared:* *July 9, 2024*

**MISSOURI PUBLIC SERVICE COMMISSION**

**INDUSTRY ANALYSIS DIVISION**

**TARIFF AND RATE DESIGN DEPARTMENT**

**REBUTTAL TESTIMONY**

**OF**

**JUSTIN TEVIE**

**EVERGY METRO, INC.  
d/b/a Evergy Missouri Metro  
CASE NO. EO-2023-0369**

**EVERGY MISSOURI WEST, INC.  
d/b/a Evergy Missouri West  
CASE NO. EO-2023-0370**

*Jefferson City, Missouri  
July 2024*

1 **REBUTTAL TESTIMONY**

2 **OF**

3 **JUSTIN TEVIE**

4 **EVERGY METRO, INC.**  
5 **d/b/a Evergy Missouri Metro**  
6 **CASE NO. EO-2023-0369**

7 **EVERGY MISSOURI WEST, INC.**  
8 **d/b/a Evergy Missouri West**  
9 **CASE NO. EO-2023-0370**

10 Q. Please state your name and business address.

11 A. Justin Tevie, 200 Madison Street, Jefferson City, MO 65102.

12 Q. Are you the same Justin Tevie that provided direct testimony in this case?

13 A. Yes.

14 Q. What is the purpose of your rebuttal testimony?

15 A. The purpose of my testimony is to briefly discuss issues relating to the  
16 principal-agent problem and costs.

17 **EXECUTIVE SUMMARY**

18 Q. Please summarize your testimony.

19 A. The principal-agent problem arises because rate payers (Principal) cannot  
20 directly observe the actions of Evergy Missouri West, Inc. d/b/a Evergy Missouri West  
21 (“EMW”) and Evergy Missouri Metro, Inc. d/b/a Evergy Missouri Metro (“EMM”) (Agent)  
22 (collectively, “Company” or “Evergy”), so the latter must be incentivized to take actions in the  
23 interest of the former. This arises because of misaligned interests between Evergy and rate  
24 payers. The forecasted costs presented by the company are not the maximum allowable. In fact,  
25 the provisions allow the company to recover up to an additional 20 percent of these costs.

**SUMMARY OF MEEIA COSTS**

Q. Please provide a summary of the forecasted costs for MEEIA 4 for Evergy Missouri Metro.

A. The summary is provided in the table below

	Evergy Metro						
<b>MEEIA Cycle 4 Portfolio</b>	2025	2026	2027	2028	2029	<b>Total</b>	<b>Maximum</b>
Program Costs	\$ 23,917,596	\$ 27,274,495	\$ 28,221,029	\$ 27,520,966	\$ -	\$ 106,934,086	\$ 128,320,903
Throughput Disincentive	\$ 1,113,272	\$ 3,898,253	\$ 7,371,367	\$ 4,179,360	\$ 6,012,771	\$ 22,575,023	\$ 27,090,028
Earnings Opportunity	\$ -	\$ 3,191,899	\$ 3,686,569	\$ 3,785,203	\$ 3,585,855	\$ 14,249,526	\$ 17,099,431
<b>Total Forecasted Costs</b>	<b>\$ 25,030,868</b>	<b>\$ 34,364,647</b>	<b>\$ 39,278,965</b>	<b>\$ 35,485,529</b>	<b>\$ 9,598,626</b>	<b>\$ 143,758,635</b>	<b>\$ 172,510,362</b>

Q. Please describe the forecasted costs for MEEIA Cycle 4.

A. Program costs include prudently incurred program expenditures, including, but not limited to, costs such as program planning, design, and administration. Throughput disincentive earnings represent money collected by the Company from ratepayers for avoided energy sales because of energy efficiency programs sponsored by MEEIA. The Earnings Opportunity amount, if any, is determined by using the company's actual performance that is verified through the Evaluation Measurement & Verification (EM&V) against the Company's planned performance targets. For program year 2025, Evergy Missouri Metro expects a total cost of \$25,030,868 to be recovered from ratepayers through the Energy Efficiency Investment Charge (EEIC) Rider and a total of \$143,758,635 for all program years.

Q. Are these totals the maximum projected costs to be expected?

A. No. The provisions set forth in Commission Rule 20 CSR 4240-20.094 (5) require the Company to file an application with the Commission for modification of demand-side programs when there is a variance of twenty percent or higher in the budget to be

Rebuttal Testimony of  
Justin Tevie

1 approved by the Commission. Based on the above provisions, the maximum projected cost that  
2 can be recovered for all program years is \$172,510,362.

3 Q. Please provide a summary of the forecasted costs for MEEIA 4 for  
4 Evergy Missouri West.

5 A. The summary is provided in the table below

	Evergy West						
<b>MEEIA Cycle 4 Portfolio</b>	2025	2026	2027	2028	2029	<b>Total</b>	<b>Maximum</b>
Program Costs	\$ 23,756,064	\$ 26,718,270	\$ 28,100,123	\$ 27,732,468	\$ -	\$ 106,306,925	\$ 127,568,310
Throughput Disincentive	\$ 842,431	\$ 2,784,642	\$ 5,295,440	\$ 3,095,558	\$ 4,445,467	\$ 16,463,538	\$ 19,756,246
Earnings Opportunity	\$ -	\$ 3,977,475	\$ 4,513,274	\$ 4,697,781	\$ 4,548,087	\$ 17,736,617	\$ 21,283,940
<b>Total Forecasted Costs</b>	<b>\$ 24,598,495</b>	<b>\$ 33,480,387</b>	<b>\$ 37,908,837</b>	<b>\$ 35,525,807</b>	<b>\$ 8,993,554</b>	<b>\$ 140,507,080</b>	<b>\$ 168,608,496</b>

7 Q. Please describe the forecasted costs for MEEIA Cycle 4.

8 A. Program costs include prudently incurred program expenditures, including, but  
9 not limited to, costs such as program planning, design, and administration.  
10 Throughput disincentive earnings represent money collected by the Company from ratepayers  
11 for avoided energy sales because of energy efficiency programs sponsored by MEEIA.  
12 The Earnings Opportunity amount, if any, is determined by using the company's actual  
13 performance that is verified through the Evaluation Measurement & Verification (EM&V)  
14 against the Company's planned performance targets. For program year 2025,  
15 Evergy Missouri West expects a total cost of \$24,598,495 to be recovered from ratepayers  
16 through the Energy Efficiency Investment Charge (EEIC) Rider and a total of \$140,507,080 for  
17 all program years.

18 Q. Are these totals the maximum projected costs to be expected?

19 A. No. The provisions set forth in Commission Rule 20 CSR 4240-20.094 (5)  
20 require the Company to file an application with the Commission for modification of  
21 demand-side programs when there is a variance of twenty percent or higher in the budget to be

1 approved by the Commission. Based on the above provision, the maximum projected cost that  
2 can be recovered for all program years is \$168,608,496.

3 **THE PRINCIPAL-AGENT PROBLEM: EVERGY**

4 Q. Is the principal-agent problem present in the MEEIA application  
5 submitted by Evergy?

6 A. Yes. The principal-agent problem occurs when one of the parties to a contract,  
7 the Principal (rate payers), cannot directly observe the the actions or effort of the other party,  
8 the Agent (Evergy), but can only observe the outcome of the Agent's actions. One paritcular  
9 area where this principal-agent problem is manifested is in the very nature of the business that  
10 Evergy is engaged in. The traditional business of Evergy is to sell more electricity to customers  
11 for higher profits through its rates. The concept of energy efficiency does not align with its  
12 objectives. Simply put, Evergy will make more profits if customers use more electricity.  
13 Promoting energy efficiency will not be in its best interest so there is a misalignment of interests  
14 between Evergy and rate payers. Since the actions of the Agent cannot be observed the  
15 Principal cannot coerce the Agent to pursue the optimal action. The real issue at stake here is  
16 that rate payers cannot see the intent of Evergy because it is intangible and hence cannot tell if  
17 Evergy is acting in its own self interest or in the interest of rate payers

18 Another area where this problem exists is with respect to the EM&V analysis. It is  
19 cost-prohibitive to evaluate all aspects of a demand-side program; there are too many measures  
20 and too many people adopting measures to review, so EM&V will prioritize certain aspects  
21 over others. Under current MEEIA rules, Evergy develops and issues the Request for Proposal  
22 (RFP) which sets out what an evaluator will evaluate. Additionally, although the evaluator is a  
23 third party, the evaluator is selected and paid by Evergy. This is quite concerning as it brings

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Justin Tevie

1 to light the impartiality of these evaluations. Will the evaluations performed by the evaluators,  
2 in a manner prescribed by Evergy, be favorable to them? Also Evergy has an incentive to see  
3 an EM&V with high estimated savings. Evergy's Earning Opportunity is directly tied to the  
4 performance as measured by the EM&V. Additionally, future cycles use these estimates to  
5 deem measure savings in their TRMs. Since Evergy still maintains it's traditional rates to sell  
6 more electricity to customers for higher profits, Evergy has the perverse incentive to have  
7 evaluated savings be overestimated.

8 Q. Does this conclude your rebuttal testimony?

9 A. Yes it does.

**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**

In the Matter of Evergy Metro, Inc. d/b/a )  
Evergy Missouri Metro's Notice of Intent to ) Case No. EO-2023-0369  
File an Application for Authority to Establish )  
a Demand-Side Programs Investment )  
Mechanism )

In the Matter of Evergy Missouri West, Inc. )  
d/b/a Evergy Missouri West's Notice of ) Case No. EO-2023-0370  
Intent to File an Application for Authority to )  
Establish a Demand-Side Programs )  
Investment Mechanism )

**AFFIDAVIT OF JUSTIN TEVIE**

STATE OF MISSOURI )  
 ) ss.  
COUNTY OF COLE )

**COMES NOW JUSTIN TEVIE** and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Rebuttal Testimony of Justine Tevie*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

  
\_\_\_\_\_  
**JUSTIN TEVIE**

**JURAT**

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 8<sup>th</sup> day of July 2024.



  
\_\_\_\_\_  
Notary Public