

# Exhibit No. 218

Staff – Exhibit 218  
Lindsey Smith  
Direct  
File No. ER-2024-0189

*Exhibit No.:*

*Issue(s): Incentive Compensation,  
Advertising Expense,  
Credit Card Processing Fees,  
Miscellaneous Adjustments,  
Income Eligible  
Weatherization Program,  
Meter Replacement O&M,  
Rate Case Expense,  
Critical Needs Program*

*Witness: Lindsey Smith*

*Sponsoring Party: MoPSC Staff*

*Type of Exhibit: Direct Testimony*

*Case No.: ER-2024-0189*

*Date Testimony Prepared: June 27, 2024*

**MISSOURI PUBLIC SERVICE COMMISSION**

**FINANCIAL & BUSINESS ANALYSIS DIVISION**

**AUDITING DEPARTMENT**

**DIRECT TESTIMONY**

**OF**

**LINDSEY SMITH**

**EVERGY MISSOURI WEST, INC.,**

**d/b/a Evergy Missouri West**

**CASE NO. ER-2024-0189**

*Jefferson City, Missouri*

*June 27, 2024*

**\*\* Denotes Confidential Information \*\***

**TABLE OF CONTENTS OF  
DIRECT TESTIMONY OF  
LINDSEY SMITH  
EVERGY MISSOURI WEST, INC.,  
d/b/a Evergy Missouri West  
CASE NO. ER-2024-0189**

1		
2		
3		
4		
5		
6		
7	EXECUTIVE SUMMARY .....	1
8	INCENTIVE COMPENSATION.....	2
9	ADVERTISING EXPENSE.....	5
10	CREDIT CARD PROCESSING FEES .....	8
11	MISCELLANEOUS EXPENSE .....	9
12	INCOME ELIGIBLE WEATHERIZATION PROGRAM.....	10
13	METER REPLACEMENT O&M.....	10
14	RATE CASE EXPENSE .....	11
15	CRITICAL NEEDS PROGRAM .....	13
16	CONCLUSION.....	13

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24

**DIRECT TESTIMONY**

**OF**

**LINDSEY SMITH**

**EVERGY MISSOURI WEST, INC.,**

**d/b/a Evergy Missouri West**

**CASE NO. ER-2024-0189**

Q. Please state your name and business address.

A. My name is Lindsey Smith and my business address is 615 East 13<sup>th</sup> Street, Kansas City, MO 64106.

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

A. I am employed by the Missouri Public Service Commission ("Commission") as a Utility Regulatory Auditor.

Q. Have you previously filed testimony before this Commission?

A. No, I have not but I have contributed to Staff memorandums in various cases before the Commission. Please refer to Schedule LS-d1, attached to this direct testimony, for a list of the audits on which I have assisted.

**EXECUTIVE SUMMARY**

Q. What is the purpose of your direct testimony?

A. The purpose of my direct testimony is to discuss Staff’s position in this case regarding: incentive compensation, advertising expense, credit card processing fees, miscellaneous adjustments, income eligible program, meter replacement O&M, rate case expense, and critical needs program.

Q. Through this testimony, do you provide any recommendations that should be specifically reflected in the Commission’s Report and Order in this case?

1           A.     While I will be making many recommendations for the level of annual expense  
2 and rate base levels that will ultimately impact the ordered revenue requirement in this case,  
3 the issues I address typically do not require specific ordered language.

4     **INCENTIVE COMPENSATION**

5           Q.     What is incentive compensation?

6           A.     Incentive compensation is a structured program with criteria for employees to  
7 potentially earn additional compensation if target performance criteria are met.

8           Q.     Will you briefly describe Evergy Inc.'s incentive compensation programs?

9           A.     Yes. Evergy Inc. offers the following incentive compensation programs:

- 10                   1. Value-Link Plan ("VCP") (for non-executive, non-union employees)  
11                   2. Annual Executive Incentive Plan ("AIP") (for senior management employees)  
12                   3. Power Marketing Plan  
13                   4. Wolf Creek Plan (Par Payments)

14           Each plan has their own scorecard with criteria for the participants to meet in order to  
15 receive incentive compensation.

16           Q.     How do these plans pertain to Evergy Missouri West ("EMW")?

17           A.     Staff normalizes incentive compensation plans and payouts for Evergy Inc. and  
18 its affiliates and then EMW is allocated a portion of Evergy Inc.-wide incentive compensation  
19 costs for each of the plans based on its jurisdictional share of payroll allocations.

20           Q.     Do the scorecards change from year to year?

21           A.     Yes, the scorecards are outlined for a calendar year at a time. There are some  
22 criteria that remain the same from year to year on the scorecards but the weighting of each

1 criteria may change. For example, earnings per share (“EPS”) related metrics may have a 50%  
2 rating in one plan year and a 35% weighting in another plan year.

3 Q. Did you include incentive compensation amounts related to EPS in your  
4 recommended level of incentive compensation expense that is in Staff’s Accounting Schedules?

5 A. No. In my adjustment, I excluded incentive compensation amounts that were  
6 related to EPS and included the remaining incentive compensation expense based on a multi-  
7 year average. EMW also made adjustments to remove incentive compensation expense amounts  
8 related to EPS in their adjustment.

9 Q. Does EMW capitalize a portion of the EPS short-term cash incentive  
10 compensation?

11 A. Yes. In response to Staff Data Request No. 0385, EMW provided a spreadsheet  
12 with how much EPS short-term cash incentive was capitalized each month from  
13 June 2022-April 2024.

14 Q. How was the capitalized portion of EPS short-term cash incentive compensation  
15 accounted for?

16 A. The total amount capitalized for the VCP plan and the AIP plan from June 2022  
17 - December 2023 was removed from the cost of service in a plant adjustment. In the  
18 accumulated depreciation reserve adjustment, 19 months of depreciation based on the current  
19 depreciation rate was also removed from the cost of service. The June 2022 – December 2023  
20 time frame represents the EPS-based compensation capitalized since the true-up date in EMW’s  
21 prior rate case.

1 Q. Does EMW offer a stock-based incentive compensation plan in addition to the  
2 plans you listed above?

3 A. Yes.

4 Q. Did you include the stock-based incentive compensation plan amounts in Staff's  
5 Accounting Schedules?

6 A. No. Stock-based incentive compensation amounts were removed by EMW with  
7 their miscellaneous adjustments workpaper CS-11 that Staff reviewed and adopted. Staff's  
8 Accounting Schedules reflect the removal of stock-based incentive compensation plan amounts  
9 from the test year.

10 Q. Does EMW capitalize a portion of the stock-based incentive compensation?

11 A. No, but it has in the past. I reviewed EMW's capitalization for incentive  
12 compensation for the calendar years 2021, 2022, and 2023 and verified stock-based incentive  
13 compensation was not capitalized. EMW also verified no equity incentive compensation is  
14 capitalized for EMW in response to Staff Data Request No. 0326. During years 2014 through  
15 2018, EMW capitalized stock-based incentive compensation and those amounts are still  
16 reflected in the book balances of plant-in-service. Staff removed capitalized stock-based  
17 compensation at December 31, 2023 with adjustments to plant-in-service and accumulated  
18 depreciation reserve.

19 Q. What is Staff's recommendation for incentive compensation expense?

20 A. Accounting for the items addressed above, Staff included the expense portion  
21 using a four-year average of incentive compensation cash payouts made during 2021, 2022,  
22 2023, and 2024 for the AIP and VCP incentive compensation plans, a three-year average  
23 for incentive compensation cash payouts made during 2021, 2022, and 2023 for the

1 Power Marketing incentive compensation plan, and a three-year average for incentive  
2 compensation cash payouts made during 2022, 2023, and 2024 for the Wolf Creek incentive  
3 compensation plan.

4 Q. Why did you use different years for the average payouts?

5 A. For the VCP and AIP plans, the payout amounts were verified. For the Power  
6 Marketing plan, Staff will reflect the 2024 payout in its average when the information becomes  
7 available, if doing so is appropriate. For the Wolf Creek plan, the cash payout in 2021 was an  
8 outlier and would not provide a representative average.

9 **ADVERTISING EXPENSE**

10 Q. What is Staff's approach to advertising expense?

11 A. In forming its recommendation on the allowable level of advertising expense,  
12 Staff relied on the principles the Commission set forth in the 1985 Kansas City Power & Light  
13 rate case, Case No. EO-85-185: *In Re: Kansas City Power and Light Company*, 28 MO P.S.C.  
14 (N.S.) 228 (1986), in which the Commission adopted an approach that classifies advertisements  
15 into five categories and provides separate rate treatment for each category.

16 Q. Please briefly describe the five advertisement categories.

17 A. The five categories of advertisements recognized by the Commission are:

- 18 1. General: advertising that is useful in the provision of adequate service;
- 19 2. Safety: advertising which conveys the ways to safely use electricity and to  
20 avoid accidents;
- 21 3. Promotional: advertising used to encourage or promote the use of  
22 electricity;
- 23 4. Institutional: advertising used to improve the company's public image; and
- 24 5. Political: advertising associated with political issues.



1           The Commission adopted these categories of advertisements because a utility's revenue  
2 requirement should: 1) always include the reasonable and necessary cost of general and safety  
3 advertisements; 2) never include the cost of institutional or political advertisements; and  
4 3) include the cost of promotional advertisements only to the extent that the utility can provide  
5 cost-justification for the advertisement (Report and Order in KCPL Case No. EO-85-185,  
6 28 Mo.P.S.C. (N.S.) 228, 269-271 (April 23, 1986)).

7           Q.     How did Staff develop its recommended level of advertising expense?

8           A.     In Staff data requests issued in this case, Staff asked for all costs and expenses  
9 associated with advertising for the test year period of 12 months ending June 30, 2023 along  
10 with monthly costs, a list of all advertising in all media forms (TV, social media, radio,  
11 billboard, newspaper, etc.), transcription of words for each advertisement, and classification of  
12 each advertisement (promotional, institutional, etc.). In addition to Staff data requests issued  
13 in this case, Staff asked for all vendor or consultant names, identification of the advertisements,  
14 and specific amounts, accounts, and resource codes charged for each advertisement of the  
15 YOUtility campaign. EMW provided supporting documentation for its advertising costs and  
16 some copies of the actual advertisements, but did not provide transcriptions of words for each  
17 advertisement (e.g. video ads), classifications of each advertisement, or identification of  
18 advertisements to specific amounts charged for each advertisement of the YOUtility campaign.  
19 Staff examined each advertisement and attempted to classify them into the individual categories  
20 the Commission has used in prior cases to determine the advertisements that should be either  
21 included or excluded from EMW's cost of service, but was unable to connect each individual  
22 advertisement to their specific cost. The purpose of Staff's review of EMW's advertising costs  
23 is to ensure that only advertising costs for programs necessary for the provision of safe and

1 adequate utility service are included in EMW's cost of service. For example, all direct and  
2 indirect costs associated with safety advertising are included as well as other costs necessary  
3 for EMW to communicate with its customers on utility matters (i.e., general advertising).

4 Q. Did Staff identify advertisements that are not necessary for the provision of safe  
5 and adequate utility service during its review of EMW's advertising costs?

6 A. Yes. Staff identified several advertisements that are institutional advertisements.  
7 For example, there were advertisements that promote EMW's image.

8 Q. Is charging ratepayers for the cost of the institutional advertisements addressed  
9 above consistent with the principles the Commission set forth in the 1985 Kansas City Power &  
10 Light rate case?

11 A. No. Advertisements that promote the public image are generally not included in  
12 a utility's cost of service since there is no benefit to Missouri ratepayers.

13 Q. Was Staff able to identify the costs for the advertisements addressed above?

14 A. No. Staff was not able to identify specific costs that relate to the public image  
15 advertisements. These advertisements are included in an advertising campaign known as the  
16 Everyg YOUtility campaign. The costs of the public image advertisements are not itemized in  
17 the invoices that Staff reviewed and not described in the data Staff received from EMW. Staff  
18 requested additional information regarding these costs and were still unable to identify specific  
19 costs that relate to the public image advertisements.

20 Q. What is Staff's recommendation regarding advertising expense for EMW?

21 A. For this direct filing, Staff was unable to identify the cost of the public image  
22 advertising. Staff submitted a YOUtility-specific data request from EMW and was still unable  
23 to identify direct costs of each advertisement. Therefore, Staff excluded the expenses recorded

1 under the vendor responsible for the YOUtility campaign during the test year period 12 months  
2 ending June 30, 2023 from the cost of service. To the extent Staff requests more data and  
3 determines that these costs should be included in EMW's cost of service, Staff will make an  
4 adjustment in the true-up.

5 Q. Does Staff have another recommendation regarding advertising expense?

6 A. Yes. Since specific costs could not be identified, Staff is requesting the  
7 Commission to order EMW to change their accounting procedures for advertising to establish  
8 an auditable paper trail. The Commission has set standards for advertising and EMW's books  
9 do not allow for a proper audit of advertising expense. Since the costs of advertising are not  
10 itemized in EMW's invoices Staff reviewed, it is not possible for Staff to properly identify costs  
11 in order to make an adjustment. When the costs are recorded in EMW's books, it is not possible  
12 for Staff to know which advertisement EMW is referring to. For example, provided to Staff in  
13 Staff Data Request No. 0406 is a spreadsheet pertaining to the Evergy YOUtility campaign and  
14 the line description for each voucher is "Paid Media." Going forward, the Commission should  
15 order Evergy and Staff to establish a transparent approach to advertising expense that bridges  
16 the information gap between the booked advertising expense in the general ledger and the  
17 invoices/advertisements Evergy provides to support the cost.

18 **CREDIT CARD PROCESSING FEES**

19 Q. Please provide a brief background regarding credit card processing fees.

20 A. In February 2007, Evergy Missouri Metro implemented a Credit/Debit Card  
21 payment program designed to offer utility ratepayers a simplified, quick, convenient way to pay  
22 their bills and to manage their accounts electronically. EMW implemented a similar program  
23 in September 2009. EMW implemented the program through two service agreements. The first

1 agreement is with Paymentech, LLC (“Paymentech”), a subsidiary of JPMorgan Chase Bank,  
2 N.A., and is for credit and debit card payments. The second agreement is with Speedpay, Inc.  
3 (“Speedpay”), a subsidiary of E Commerce Group Products, Inc. (a subsidiary of The Western  
4 Union Company), and is for ATM and debit card payment made over the telephone.  
5 Paymentech and Speedpay act as third-party facilitators for the processing of payments to  
6 EMW. In 2019, ACI purchased the Speedpay platform from Western Union. Payment options  
7 available to customers through the program include the Interactive Voice Response System,  
8 and/or registering on Evergy’s website. Payment through the website offers either one-time  
9 payments or what EMW defines as “recurring card payment option.” The cost for providing  
10 this service is absorbed by EMW and is later built into rates; therefore, customers who use this  
11 payment option are not charged any direct transaction fees.

12 Q. How did Staff develop its recommendation for credit card processing fees?

13 A. Staff analyzed three years of credit card fee data provided in Staff Data Request  
14 No. 0290 and found that fees are remaining steady.

15 Q. What is Staff’s recommended treatment for credit card processing fees?

16 A. For this filing, Staff has included the credit card processing fees at the test year  
17 level.

18 **MISCELLANEOUS EXPENSE**

19 Q. What miscellaneous adjustments do you address?

20 A. Staff recommends adjustments to address these items:

- 21 1. Remove equity compensation from the test year
- 22 2. Remove non-recoverable items from the test year (bonuses, non-regulatory  
23 lease expense, officer expense reports)
- 24 3. Remove deferrals from the test year (PISA, COVID, Montrose, Sibley)

1           These adjustments were included in EMW’s direct filing as adjustment CS-11. Staff  
2 witness Antonija Nieto addresses EMW’s severance costs. Staff recommends removing  
3 inflation bonuses paid during the test year. Staff reviewed the remaining CS-11 adjustments  
4 and agrees they are appropriate.

5           **INCOME ELIGIBLE WEATHERIZATION PROGRAM**

6           Q.     Please provide a brief background of the Income Eligible Weatherization  
7 Program (“IEW”).

8           A.     Since the *Stipulation and Agreement* in Case No. ER-2022-0130 was approved,  
9 the annual budget for the IEW program was set at \$500,000 for EMW.

10          Q.     How did Staff evaluate the IEW program costs?

11          A.     Staff compared the total funding EMW has collected from customers  
12 through rates for IEW through December 31, 2023, and compared the total funding to the  
13 actual IEW costs over the same period. As of December 31, 2023, the unspent funds in the  
14 IEW program amounted to \*\* [REDACTED] \*\* for EMW. Staff included the IEW program  
15 liability as of December 31, 2023, as a deduction to EMW’s rate base. Additionally, an  
16 adjustment was made to reflect the amortization of any unspent funds as of December 31, 2023,  
17 over a four-year period. Staff also adjusted EMW’s test year expense to match the agreed level  
18 of IEW program funding.

19           **METER REPLACEMENT O&M**

20          Q.     Briefly explain this adjustment.

21          A.     This adjustment annualizes the meter reading costs from Landis & Gyr for  
22 EMW’s Advanced Metering Infrastructure meters compared to the test year amounts. The most  
23 current rate was used in the calculation by EMW, and Staff has adopted this calculation.

1 **RATE CASE EXPENSE**

2 Q. What is rate case expense?

3 A. Rate case expense is the sum of the costs a utility incurs in preparing and filing  
4 a rate case.

5 Q. What are some examples of the costs a utility incurs in preparing and filing a  
6 rate case?

7 A. Utilities might incur costs related to outside legal counsel, consultants,  
8 mailing expenses for rate case notifications to customers, and depreciation study expenses to  
9 name a few.

10 Q. What is Staff's recommendation for recovery of rate case expense?

11 A. Staff recommends full recovery of rate case expenses incurred to comply with  
12 statutory requirements but a 50/50 split of remaining discretionary rate case expense between  
13 ratepayers and shareholders.

14 Q. What are the statutory requirements a utility must meet?

15 A. Utilities are required to complete a depreciation study and line loss study every  
16 five years, although most utilities complete these more frequently. These studies were not  
17 required, or purchased by EMW, in this current rate case.

18 Q. Why does Staff recommend a 50/50 sharing of the remaining discretionary rate  
19 case expenses?

20 A. Staff recommends this sharing of expenses is appropriate in this proceeding for  
21 the following reasons:

1           1) Rate case expense sharing creates an incentive on the utility's part to  
2           control rate case expenses and not spend excessively since 50% of the costs  
3           incurred would be borne by shareholders;

4           2) Generally, both ratepayers and shareholders benefit from the rate case  
5           process. The process ensures ratepayers are receiving safe and adequate  
6           service at a just and reasonable rate and the process ensures shareholders  
7           receive an opportunity to receive an adequate return on investment;

8           3) It is reasonable for shareholders to contribute to at least some of the  
9           expenses since ratepayers pay for all regulatory and legal internal payroll  
10          costs regardless of the sharing mechanism; and

11          4) It is probable that some recommendations advocated by utilities in the  
12          rate case process will ultimately be found by the Commission to not be in  
13          the public interest so the costs spent to pursue those recommendations  
14          should not be recovered from ratepayers.

15          Q.     How did you determine the amount of discretionary rate case expense?

16          A.     I used a three-rate case expense average of full costs incurred by EMW in the  
17          most recent rate cases, Case Nos. ER-2022-0130, ER-2018-0146, and ER-2016-0156. I will  
18          review rate case expense again in the true-up phase of this case.

19          Q.     Does Staff amortize rate case expense?

20          A.     Typically, this cost is not amortized for ratemaking purposes, and the utility's  
21          recovery of this expense in rates is not tracked against its actual rate case expense for  
22          consideration of over or under recovery. Staff generally divides rate case expense over the  
23          period of time it estimates will pass before the utility's next rate case and includes an annual  
24          amount in the utility's revenue requirement. This is referred to as a normalization.

1 Q. What is Staff's recommendation for the inclusion of rate case expense in EMW's  
2 cost of service?

3 A. In the current case, Staff recommends a three-year normalization of rate case  
4 expenses after Staff's recommended 50% sharing. Staff has also included normalized  
5 depreciation study and line loss study expenses with no sharing.

6 **CRITICAL NEEDS PROGRAM**

7 Q. What is the Critical Needs Program?

8 A. The Critical Needs Program is a program intended to assist residential customers  
9 who are fixed income and have high energy usage (medical machines, etc.).<sup>1</sup>

10 Q. How is this program funded?

11 A. The funding for the program is split 50/50 with the customers and the  
12 shareholders of EMW for a minimum of three years at total of \$600,000 per year (or \$300,000  
13 per utility).

14 Q. Briefly explain this adjustment.

15 A. Staff's adjustment includes the customer's portion of the funding in the cost of  
16 service to match EMW's portion of the program funding.

17 **CONCLUSION**

18 Q. Does this conclude your Direct testimony?

19 A. Yes it does.

---

<sup>1</sup> Per Stipulation and Agreement (Public & Confidential) Case No. ER-2022-0130.



**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**

In the Matter of Evergy Missouri West, Inc. )  
d/b/a Evergy Missouri West's Request for )  
Authority to Implement A General Rate )  
Increase for Electric Service )

Case No. ER-2024-0189

**AFFIDAVIT OF LINDSEY SMITH**

STATE OF MISSOURI )  
COUNTY OF Jackson )

ss.

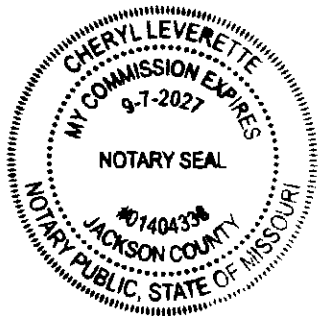
COMES NOW LINDSEY SMITH and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Direct Testimony of Lindsey Smith*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

Lindsey Smith  
LINDSEY SMITH

**JURAT**

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Jackson, State of Missouri, at my office in Kansas City, on this 18th day of June 2024.



Cheryl Leverette  
Notary Public

# **Lindsey Smith**

## **Educational and Employment Background and Credentials**

I am currently employed as a Utility Regulatory Auditor for the Missouri Public Service Commission (“Commission”). I earned a Bachelor of Business Administration in Finance and a Bachelor of Business Administration in Economics from The University of Central Missouri in May 2023. I have been employed by the Commission since June 2023.

As a Utility Regulatory Auditor, I perform rate audits and prepare miscellaneous filings for consideration by the Commission. In addition, I review all exhibits and testimony on assigned issues, develop accounting adjustments and issue positions which are supported by workpapers and written testimony. For cases that do not require prepared testimony, I prepare Staff Recommendation Memorandums.

Cases in which I have participated and the scope of my contributions are listed below:

<b>Case/Tracking Number</b>	<b>Company Name- Type of Case; Issues</b>
ER-2024-0189	<b>Evergy Missouri West</b> Advertising Expense, Credit Card Fees, CS-11-Misc. Adjustments, Incentive Compensation, Income Eligible Program (Costs Only), Meter Replacement O&M, Outside Services, Rate Case Expense (Including Sharing), Critical Needs Program (Cost Recovery Only)
GO-2024-0214	<b>Spire, Inc.</b> Infrastructure System Replacement Surcharge
SA-2024-0129	<b>Confluence Rivers</b> Certificate of Convenience and Necessity
GO-2023-0432	<b>Spire, Inc.</b> Infrastructure System Replacement Surcharge
WA-2023-0450 SA-2023-0451	<b>Confluence Rivers</b> Certificate of Convenience and Necessity