

Exhibit No.:	
Issues:	Compensation
Witness:	Robert V. Mustich
Exhibit Type:	Direct
Sponsoring Party:	Missouri-American Water Company
Case No.:	WR-2022-0303 SR-2022-0304
Date:	July 1, 2022

MISSOURI PUBLIC SERVICE COMMISSION

**CASE NO. WR-2022-0303
CASE NO. SR-2022-0304**

DIRECT TESTIMONY

OF

ROBERT V. MUSTICH

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

AFFIDAVIT

I, Robert V. Mustich, under penalty of perjury, and pursuant to Section 509.030, RSMo, state that I am a Managing Director for Willis Towers Watson, that the accompanying testimony has been prepared by me or under my direction and supervision; that if inquiries were made as to the facts in said testimony, I would respond as therein set forth; and that the aforesaid testimony is true and correct to the best of my knowledge and belief.

A rectangular box containing a handwritten signature in black ink that reads "Robert V. Mustich".

Robert V. Mustich

June 27, 2022
Dated

**DIRECT TESTIMONY
ROBERT V. MUSTICH
MISSOURI AMERICAN WATER COMPANY
CASE NO.: WR-2022-0303
CASE NO.: SR-2022-0304**

TABLE OF CONTENTS

1
2
3
4
5
6
7 I. INTRODUCTION..... 2
8 II. DEFINITIONS 3
9 III. PURPOSE OF TESTIMONY 4
10 IV. OVERVIEW OF TOTAL COMPENSATION PHILOSOPHY 4
11 V. SUMMARY OF WILLIS TOWERS WATSON’S TOTAL COMPENSATION
12 STUDY 5
13 VI. SUMMARY OF WILLIS TOWERS WATSON’S PERFORMANCE
14 COMPENSATION PROGRAM ASSESSMENT 10
15 VII. OVERALL FINDINGS REGARDING MISSOURI AMERICAN WATER’S
16 MARKET BASED TOTAL COMPENSATION PROGRAMS..... 12
17
18
19
20
21
22
23
24
25
26
27
28

1 **DIRECT TESTIMONY**

2 **ROBERT V. MUSTICH**

3
4 **I. INTRODUCTION**

5 **Q1. Please provide your name, position and business address.**

6 A1. My name is Robert V. Mustich. I am Managing Director and the U.S. East Region Line
7 of Business Leader, Rewards for Willis Towers Watson. Willis Towers Watson is a
8 leading global professional services company which has 45,000 associates throughout the
9 world, and offers solutions in the areas of corporate risk and broking; human capital and
10 benefits; health care exchange solutions; and investment, risk, and reinsurance. My
11 business address is 800 North Glebe Road, Arlington, VA 22203.
12

13 **Q2. Please state your educational and professional background and experience.**

14 A2. I graduated from American University with a BS/BA in Human Resources Management.
15 I have over 30 years of industry and compensation consulting services experience, have
16 been with Willis Towers Watson for over 25 years, and have assisted management and
17 Boards of Directors at numerous companies in designing and assessing total
18 compensation programs. Since joining the firm in 1997, I have consulted with numerous
19 utilities and currently serve as U.S. East Region Line of Business Leader, Rewards in
20 addition to being a senior member of our utilities industry practice. I have conducted
21 competitive assessments of total compensation for numerous public utilities throughout
22 the U.S. Prior to joining Willis Towers Watson, I was a senior compensation consultant
23 for PricewaterhouseCoopers (formally Coopers and Lybrand, LLP) performing similar
24 compensation consulting services for clients. Prior to that, I held corporate senior staff
25 compensation and benefits positions.
26
27
28

1 **Q3. Have Willis Towers Watson and you performed similar analyses in the past?**

2 A3. Yes. Willis Towers Watson and I have conducted similar competitive compensation
3 studies for Missouri American Water Company and other utility clients.
4

5 **Q4. Please explain Willis Towers Watson’s experience in providing compensation and**
6 **benefits consulting services to organizations like Missouri American Water**
7 **Company (“Missouri American Water”).**

8 A4. Willis Towers Watson has extensive experience serving clients in the utility industry,
9 having served over 100 utilities in the U.S. within the last year. Because we invest so
10 heavily in our utility industry capabilities, we have rich competitive industry
11 compensation and benefits information that enables us to benchmark Missouri American
12 Water against similar companies in the U.S. Given Willis Towers Watson’s breadth and
13 depth of resources, we are frequently engaged by companies to evaluate the
14 competitiveness of their compensation philosophy, compensation and benefit levels,
15 performance compensation design and pay structures, and to provide other consulting
16 services.
17

18 **II. DEFINITIONS**

19
20 **Q5. Can you please identify some of the key definitions that you will need to reference as**
21 **part of your testimony?**

22 A5. Yes.

23
24 **Q6. More specifically, please define Target Total Cash Compensation.**

25 A6. Target Total Cash Compensation represents the sum of base salary plus target annual
26 performance compensation.

27 **Q7. Please define Target Total Direct Compensation.**
28

1 A7. Target Total Direct Compensation represents the sum of base salary, plus target annual
2 performance compensation, plus long-term performance compensation.
3

4 **III. PURPOSE OF TESTIMONY**

5 **Q8. What is the purpose of your Direct Testimony?**

6 A8. The purpose of my Direct Testimony is to demonstrate that the target total direct
7 compensation provided to Missouri American Water performance compensation eligible
8 employees, when viewed against the markets for talent for employees in similar
9 positions, is below the competitive range of the market based on the company's stated
10 compensation philosophy. Willis Towers Watson specifically focused on the following
11 aspects of Missouri American Water's program:
12

- 13 • Total compensation philosophy;
- 14 • Competitive market positioning of target total direct compensation (base salary plus
15 annual performance compensation plus long-term performance compensation)
16
- 17 • Design of annual performance compensation program; and
- 18 • Design of long-term performance compensation program.
19

20 **IV. OVERVIEW OF TOTAL COMPENSATION PHILOSOPHY**

21 **Q9. Does Missouri American Water have a defined compensation philosophy?**

22 A9. Yes, American Water Works Company, Inc. ("American Water") has a defined
23 compensation philosophy which is applicable to Missouri American Water.
24

25 **Q10. How would you define the parent company's compensation philosophy?**

26 A10. American Water's compensation philosophy is to generally pay salaries that are
27 competitive with those of comparable organizations for jobs of similar responsibility. To
28

1 carry out this philosophy, American Water's objective is to target total direct
2 compensation (base, annual performance compensation, and long-term performance
3 compensation) at the median (50th percentile) of the market with greater earning
4 opportunity for exceptional performance for fully qualified individuals.
5

6 **Q11. How does this compensation philosophy compare with other utilities?**

7 A11. Willis Towers Watson examined the proxy statements for two peer groups: (1) Large
8 Utility Peer Group, 15 publicly-traded utilities comparable in size to American Water
9 (revenues range from ½ to 3 times American Water's 2021 revenues of \$3.9 billion), as
10 disclosed in the Company's March 31, 2022 proxy statement, and (2) Small Utility Peer
11 Group, 10 publicly-traded utilities comparable in size to Missouri American Water
12 (revenues range from \$42-\$791M, compared to Missouri American Water's 2021
13 revenue of \$349M). Based on our review, American Water's compensation philosophy is
14 well-aligned with utility peers, as a majority of the companies target the market median
15 (50th percentile) for some or all pay elements. Our consulting experience also suggests
16 that American Water's median (50th percentile) pay philosophy is comparable to typical
17 market practice found in general industry.
18
19

20 **V. SUMMARY OF WILLIS TOWERS WATSON'S TOTAL COMPENSATION STUDY**

21 **Q12. Did you conduct a compensation study of Missouri American Water's market based**
22 **total compensation program?**

23
24 A12. Yes, and a copy of the Study is included as **Schedule RVM-1 - Confidential** to my
25 testimony.
26

27 **Q13. Please describe how the study was conducted.**
28

1 A13. Willis Towers Watson utilized three data sources to assess Missouri American Water's
2 compensation program: As we did in assessing American Water's total compensation
3 philosophy, we assessed the design of its annual performance and long-term
4 performance compensation programs using proxy disclosures of groups of public utilities
5 referred to as the (1) Large Utility Peer Group and (2) Small Utility Peer Group, and (3)
6 competitive market positioning of Missouri American Water's target total direct
7 compensation levels was compared to Willis Towers Watson published compensation
8 surveys.
9

10 **Q14. How did you define "competitive" for the purposes of your compensation study?**

11 A14. Willis Towers Watson and typical market practice define an element of total
12 compensation as being competitive if it falls in a range that extends between 10% below
13 to 10% above the market median level of total compensation.
14

15 **Q15. Please describe how you assessed the competitiveness of Missouri American Water's**
16 **target total direct compensation levels.**

17 A15. Willis Towers Watson assessed the competitiveness of target total direct compensation
18 provided by Missouri American Water to its annual performance eligible population
19 based on a selection of Missouri American Water jobs ("benchmark jobs"). Benchmark
20 jobs are those positions that are common across comparable organizations and for which
21 compensation data are available from published surveys.
22

23 To conduct this analysis, we reviewed compensation data provided to us by Missouri
24 American Water and examined Willis Towers Watson's compensation surveys in our
25 Compensation Databank (CDB). These surveys are comprised of compensation data from
26
27
28

1 over 1,000 U.S. based companies, and Willis Towers Watson has been conducting these
2 surveys for over 30 years.

3 Missouri American Water's current compensation levels were compared to the market
4 50th percentile (market median) for two different market perspectives to determine the
5 competitiveness of pay and to validate the alignment with American Water's current
6 compensation philosophy (targeting compensation at the 50th percentile of market).
7

8 Willis Towers Watson's assessment of benchmark jobs represents approximately 67% of
9 the population of Missouri American Water employees as of December 31, 2021.

10 Specific details regarding our study, which includes a detailed description of the study
11 methodology, are included in **Schedule RVM-1 - Confidential**.
12

13 **Q16. How did you derive 50th percentile (median) market values?**

14 A16. To derive 50th percentile (median) market values, Willis Towers Watson weighted
15 energy services and general industry survey data 60% and 40% respectively to place a
16 greater weight on the energy services market data since this includes regulated entities
17 most similar to Missouri American Water for positions that are not industry specific.
18 Given that these positions can be recruited or lost to companies in any industry, the use of
19 general industry survey data ensures that non-industry specific positions are being
20 compensated competitively. Industry specific positions were compared only to energy
21 services industry data.
22

23
24 **Q17. Please describe how you determined the competitiveness of Missouri American
25 Water's target total direct compensation?**

26 A17. Two different market perspectives were examined to validate the competitiveness of
27 Missouri American Water's target total direct compensation.
28

1 A national market perspective was examined which consisted of the entire population of
2 survey participants in Willis Towers Watson’s Energy Services and General Industry
3 databases. This perspective represents a U.S. national compensation perspective and is
4 aligned with American Water’s compensation philosophy.

5
6 A Midwest regional perspective including Arkansas, Illinois, Indiana, Iowa, Kansas,
7 Kentucky, Missouri, Nebraska, Ohio, Oklahoma, Tennessee, Wisconsin, and West
8 Virginia labor markets was examined for non-executive positions, which consisted of the
9 same entire survey participant population from Willis Towers Watson’s Energy Services
10 Industry and General Industry databases but was customized to identify a Midwest-
11 specific geographic dataset. This dataset identified employees that work in the thirteen
12 states listed above for companies headquartered anywhere in the United States.

13
14 **Q18. What were the target total compensation study results from the national**
15 **perspective?**

16 A18. Using a weighted average of all positions reviewed, Missouri American Water’s target
17 total direct compensation, as reported in Exhibit 1 (below), is below the range of
18 competitive market median by being 11% below the market median. Again, Willis
19 Towers Watson and typical market practice considers market competitiveness to be a
20 result that falls within plus or minus 10% of median range.
21

22
23 **Exhibit 1**

Summary of Missouri American Water’s Target Total Direct Compensation vs. Market Median (National Market Perspective)		
Base Pay	Target Total Cash Compensation	Target Total Direct Compensation
-12%	-11%	-11%

1 **Q19. What were the target total compensation study results from the Midwest Regional**
2 **perspective?**

3 A19. Missouri American Water's target total direct compensation is within the market median
4 range, as reported in Exhibit 2, because it falls 6% (represents a weighted average of all
5 positions reviewed) below the market median.
6

7
8 **Exhibit 2**

9

Summary of Missouri American Water's Target Total Direct Compensation vs. Market Median (Midwest Regional Market Perspective)		
Base Pay	Target Total Cash Compensation	Target Total Direct Compensation
-7%	-6	-6%

10
11
12
13

14 **Q20. What would be the impact on the competitiveness of Missouri American Water's**
15 **target total direct compensation if annual and long-term performance compensation**
16 **were not part of its total compensation program?**

17 A20. If we compare Missouri American Water's total compensation program excluding
18 performance compensation (that is, base salary alone) to market pay levels that include
19 performance compensation, as reported in Exhibits 3 and 4, Missouri American Water's
20 target total direct compensation would not be competitive because it would fall 17%
21 below median from a national perspective and 12% below median from a Midwest
22 Regional perspective.
23
24

25 **Exhibit 3**

26

Summary of Missouri American Water's MOAW Base Salary Only vs. Market Median (National Market Perspective)		
Base Pay	Target Total Cash	Target Total Direct

27
28

	Compensation	Compensation
-12%	-17%	-17%

Exhibit 4

Summary of Missouri American Water's MOAW Base Salary Only vs. Market Median (Midwest Regional Market Perspective)		
Base Pay	Target Total Cash Compensation	Target Total Direct Compensation
-7%	-12%	-12%

Q21. In your opinion and based on the results of the study, are Missouri American Water employees overcompensated?

A21. No. Missouri American Water employees are compensated generally below or at the low end of the range of market median for each element of compensation.

VI. SUMMARY OF WILLIS TOWERS WATSON'S PERFORMANCE

COMPENSATION PROGRAM ASSESSMENT

Q22. Did you conduct an assessment of the performance compensation element of American Water's total compensation program?

A22. I assessed the annual and long-term performance compensation components of American Water's total compensation program.

Q23. What was the purpose of your assessment?

A23. This assessment was completed to compare the design of the performance compensation component of American Water's total compensation program (that is applicable to Missouri American Water) and its various elements to market practice.

Q24. What were the findings of the assessment?

A24. Overall, our review indicates that the performance compensation element of American

1 Water's total compensation programs is comparable to and competitive with designs of
2 utility peers, based on a review of the Large Utility Peer Group and the Small Utility Peer
3 Group referenced earlier. Like American Water, every company in the Large Utility Peer
4 Group and all but one in the Small Utility Peer Group has performance compensation
5 programs which are used to help attract, motivate and retain critically skilled employees
6 needed to successfully run the business. Companies design their performance
7 compensation programs to align with their business strategies and circumstances, so there
8 tends to be a range of practices regarding how the programs are designed. The
9 performance compensation components of American Water's total compensation
10 program complement each other by assessing performance holistically using a balanced
11 scorecard approach, incorporating stock performance, financial, customer, safety,
12 environmental, and inclusion and diversity metrics. American Water's program requires
13 the achievement of 90% of target EPS to ensure the financial viability of the cash based
14 annual performance plan before any annual performance compensation payment can be
15 made to any participant. Performance compensation program "circuit breakers" such as
16 American Water's 90% of target EPS are not a performance goal intended to reward
17 financial success but rather a mechanism to ensure the company has the financial
18 resources to fund the program. American Water's funding "circuit breaker" has not been
19 triggered in over 10 years and does not incent performance like the threshold EPS target
20 in the program that is set above the financial viability "circuit breaker" and is designed to
21 recognize successful financial performance. American Water's program designs are
22 consistent with market practices for utilities. Specific details regarding our assessment are
23 included in **Schedule RVM-1 - Confidential**.

1 **VII. OVERALL FINDINGS REGARDING MISSOURI AMERICAN WATER'S**
2 **MARKET BASED TOTAL COMPENSATION PROGRAMS**
3

4 **Q25. What are the overall conclusions of your analysis?**

5 A25. Missouri American Water's market based total compensation program is intended to pay
6 employees at or near the median market rate for each particular job or salary band. Our
7 analysis indicates that Missouri American Water's total direct compensation programs
8 are comparable to and competitive with market practices of other similarly-sized utilities
9 and of industry generally. My experience working with both utilities and general industry
10 companies and the results of the study included as **Schedule RVM-1 - Confidential**
11 indicate that Missouri American Water's market-based total compensation program is
12 reasonable and that the target total direct compensation provided to Missouri American
13 Water's employees is already at the low end of the median competitive range of the
14 market, and therefore, is also reasonable.
15

16
17 **Q26. What other conclusion can you draw from your assessment?**

18 A26. Missouri American Water provides a total direct compensation opportunity delivered
19 through market-based programs that are intended to compete in the market for talent.
20 Missouri American Water attempts to achieve this goal by delivering total compensation
21 through balanced base salary and annual and long-term performance compensation
22 programs which align employees, customers, and investors interests. If the Company
23 were to eliminate all or part of its annual and/or long-term performance compensation, it
24 would likely be forced to increase fixed pay (i.e., base salary) to above market
25 competitive levels of base salary in order to attract and retain talent. It is difficult to
26 imagine how this would benefit the Company's customers or investors. The Company's
27
28

1 compensation plans are important management tools to reinforce performance
2 expectations, which is why they are so universally present in both the utility and general
3 business sectors nationally. Denying Missouri American Water a portion of its market
4 based total employee compensation costs based on how they are delivered would
5 undermine the Company's ability to recover costs that are already at the low end of the
6 competitive market. Companies design their performance compensation programs to
7 align with their business strategies and circumstances. Water and wastewater operations
8 are capital intensive. The availability of sources of capital at reasonable costs depends on
9 the utility's financial performance, including credit and bond ratings. So, it is important
10 for Missouri American Water's employees to focus utility employees on the financial
11 health of the organization. A financially healthy utility benefits customers because it
12 enables the utility to meet its service obligations at reasonable financing costs.

15 **Q27. Are there other ways that Missouri American Water's market based total**
16 **compensation programs benefits customers?**

17 A27. Yes. Customers receive a benefit when a utility retains a talented workforce, because a
18 stable workforce avoids the costs of hiring and training new employees. Because
19 Missouri American Water's performance pay program makes Missouri American
20 Water's employees' total compensation reasonable, the Company's performance pay
21 helps ensure a stable workforce. Missouri American Water's LTPP program is
22 particularly intended to reduce attrition at the higher ranks of the organization. Senior
23 management turnover and the loss of expertise can degrade the continuity of strategy and
24 execution, which is why these types of compensation programs are well accepted in the
25 industry. Importantly, the LTPP achieves its goals of reducing leadership attrition at a
26 lower cost to customers than simply increasing leadership's base pay, because
27
28

1 performance pay under the LTTP is stock-based. Employees must remain with the
2 organization to realize the full vesting of their awards over a three-year period.

3
4 **Q28. While you have explained that a company’s customers benefit from the company**
5 **deploying performance based employee compensation as part of its total**
6 **compensation program using a balanced scorecard of stock performance, financial,**
7 **customer, safety, environmental, and inclusion and diversity metrics, is there any**
8 **evidence that investors and shareholders have this same view since you state earlier**
9 **in your testimony that customers and shareholders benefit from this holistic**
10 **performance perspective?**

11
12 A28. Yes, the business roundtable and major institutional investors, which previously were
13 mainly focused on financial performance and return to shareholders, have evolved their
14 thinking from shareholder primacy to corporate purpose to benefit all stakeholders –
15 customer, employees, suppliers, communities and shareholders. They recognize a
16 balanced approach is mutually beneficial and that performance pay programs reinforce
17 employee actions and reward behaviors that align with this purpose and create sustainable
18 positive performance. This expectation has caused companies to reassess their
19 performance pay programs to ensure that in addition to financial and shareholder metrics
20 they consider and appropriately weight Environmental, Social and Governance (“ESG”)
21 metrics that are in alignment with their corporate purpose. American Water’s
22 compensation programs are aligned with this viewpoint and expectation.

23
24 **Q29. Does this conclude your Direct Testimony?**

25
26 A29. Yes.