

Exhibit No.:	
Issues:	Compensation
Witness:	Robert V. Mustich
Exhibit Type:	Direct
Sponsoring Party:	Missouri-American Water Company
Case No.:	WR-2020-0344
	SR-2020-0345
Date:	June 30, 2020

**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO. WR-2020-0344**  
**CASE NO. SR-2020-0345**

**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 US LLC; 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.



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Robert V. Mustich

June 30, 2020

Dated

**DIRECT TESTIMONY  
ROBERT V. MUSTICH  
MISSOURI-AMERICAN WATER COMPANY  
CASE NO. WR-2020-0344  
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**DIRECT TESTIMONY**

**ROBERT V. MUSTICH**

**I. INTRODUCTION**

1 **Q. Please provide your name, position and business address.**

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

8 **Q. Please state your educational and professional background and experience.**

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

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

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

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

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

16 **II. DEFINITIONS**

17 **Q. Can you please identify some of the key definitions that you will need to reference**  
18 **as part of your testimony?**

19 A. Yes.

20 **Q. More specifically, please define Target Total Cash Compensation.**

21 A. Target Total Cash Compensation represents the sum of base salary plus target short-  
22 term performance compensation.

1 **Q. Please define Target Total Direct Compensation.**

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

4 **III. PURPOSE OF TESTIMONY**

5 **Q. What is the purpose of your Direct Testimony in this proceeding?**

6 A. The purpose of my testimony is to demonstrate that the Target Total Direct  
7 Compensation provided to Missouri American Water performance compensation  
8 eligible 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 • Total compensation philosophy;
- 13 • Competitive market positioning of Target Total Direct Compensation;
- 14 • Design of short-term performance compensation program; and
- 15 • Design of long-term performance compensation program.

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

17 **Q. Does Missouri American Water have a defined compensation philosophy?**

18 A. Yes, American Water Works Company, Inc. ("American Water") has a defined  
19 compensation philosophy, which is applicable to Missouri American Water.

1 **Q. How would you define the parent company’s compensation philosophy?**

2 A. American Water’s compensation philosophy is to generally pay salaries that are  
3 competitive with those of comparable organizations for jobs of similar responsibility.  
4 To carry out this philosophy, American Water’s objective is to achieve a Target Total  
5 Direct Compensation at the median (50th percentile) of the market with greater earning  
6 opportunity for exceptional performance for fully qualified individuals.

7 **Q. How does this compensation philosophy compare with other utilities?**

8 A. Willis Towers Watson examined the proxy statements for two peer groups: (1) Large  
9 Utility Peer Group, 15 publicly-traded utilities comparable in size to American Water  
10 (revenues range from ½ to 2.5 times American Water’s 2019 revenues of \$3.6 billion),  
11 as disclosed in the company’s March 31, 2020 proxy statement, and (2) Small Utility  
12 Peer Group, 11 publicly-traded utilities comparable in size to Missouri American Water  
13 (revenues range from \$52-\$890M, compared to Missouri American Water’s 2019  
14 revenue of \$325M). Based on our review, American Water’s compensation philosophy  
15 is well-aligned with utility peers, as a majority of both Large Utility Peer Group  
16 companies (13 of 15, 87%) and Small Utility Peer Group companies (6 of 11, 55%)  
17 target the market median (50th percentile) for some or all pay elements. Our consulting  
18 experience also suggests that American Water’s median (50th percentile) pay  
19 philosophy is comparable to typical market practice found in general industry.

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

22 **Q. Did you conduct a compensation study of Missouri American Water’s**  
23 **compensation program?**

1 A. Yes, and a copy of the 2020 General Rate Case Target Total Direct Compensation  
2 Study-Missouri American Water Company (the “Study”) is included as Schedule  
3 RVM-1 - Confidential.

4 **Q. Please describe how the Study was conducted.**

5 A. Willis Towers Watson utilized three data sources to assess Missouri American Water’s  
6 compensation program. As we did in assessing American Water’s total compensation  
7 philosophy, we assessed the first two data sources, which included the design of  
8 Missouri American Water’s short-term performance and long-term performance  
9 compensation programs using proxy disclosures of groups of public utilities referred to  
10 as the Large Utility Peer Group and Small Utility Peer Group. Third, we identified the  
11 competitive market positioning of Missouri American Water’s Target Total Direct  
12 Compensation levels compared to Willis Towers Watson published compensation  
13 surveys.

14 **Q. How did you define “competitive” for the purposes of your Study?**

15 A. Willis Towers Watson and typical market practice define an element of total  
16 compensation as being competitive if it falls in a range that extends between 10% below  
17 to 10% above the market median level of total compensation.

18 **Q. Please describe how you assessed the competitiveness of Missouri American  
19 Water’s Target Total Direct Compensation levels.**

20  
21 A. Willis Towers Watson assessed the competitiveness of Target Total Direct  
22 Compensation provided by Missouri American Water to its short-term performance



1 eligible population based on a selection of Missouri American Water jobs (“benchmark  
2 jobs”). Benchmark jobs are those positions that are common across comparable  
3 organizations and for which compensation data is available from published surveys.

4 To conduct this analysis, we reviewed compensation data provided to us by Missouri  
5 American Water and examined Willis Towers Watson’s compensation surveys in our  
6 Compensation Databank (CDB). These surveys are comprised of compensation data  
7 from over 1,000 U.S. based companies, and Willis Towers Watson has been conducting  
8 these surveys for over 25 years.

9 Missouri American Water’s current compensation levels were compared to the market  
10 50th percentile (market median) for two different market perspectives to determine the  
11 competitiveness of pay and to validate the alignment with American Water’s current  
12 compensation philosophy (targeting compensation at the 50th percentile of market).

13 Willis Towers Watson’s assessment of benchmark jobs represents approximately 70%  
14 of the population of Missouri American Water employees as of December 31, 2020,  
15 who are eligible for performance compensation. Specific details regarding our study,  
16 which includes a detailed description of the Study methodology, are included in  
17 Schedule RVM-1 - Confidential.

18 **Q. How did you derive 50th percentile (median) market values?**

19 A. To derive 50th percentile (median) market values, Willis Towers Watson weighted  
20 energy services and general industry survey data 60% and 40% respectively to place a  
21 greater weight on the energy services market data since this includes regulated entities

1 most similar to Missouri American Water for positions that are not industry specific.  
2 Given that these positions can be recruited or lost to companies in any industry, the use  
3 of general industry survey data ensures that non-industry specific positions are being  
4 compensated competitively. Industry specific positions were compared only to energy  
5 services industry data.

6 **Q. Please describe how you determined the competitiveness of Missouri American**  
7 **Water’s Target Total Direct Compensation?**

8 A. Two different market perspectives were examined to validate the competitiveness of  
9 Missouri American Water’s Target Total Direct Compensation.

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

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

1 **Q. What were the compensation study results from the national perspective?**

2 A. Using a weighted average of all positions reviewed, Missouri American Water’s Target  
3 Total Direct Compensation, as reported in Exhibit 1 (below), is below the range of  
4 competitive market median by being 11% below the market median. Again, Willis  
5 Towers Watson and typical market practice considers market competitiveness to be a  
6 result that falls within plus or minus 10% of median range.

7 **Exhibit 1**

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

8

9 **Q. What were the compensation study results from the Midwest Regional  
10 perspective?**

11 A. Missouri American Water’s Target Total Direct Compensation is within the market  
12 median range, as reported in Exhibit 2, because it falls 7% (represents a weighted  
13 average of all positions reviewed) below the market median.

14 **Exhibit 2**

<b>Summary of Missouri American Water’s Target Total Direct Compensation vs. Market Median (Midwest Regional Market Perspective)</b>		
<b>Base Pay</b>	<b>Target Total Cash Compensation</b>	<b>Target Total Direct Compensation</b>
<b>-7%</b>	<b>-7%</b>	<b>-7%</b>

15 **Q. What would be the impact on the competitiveness of Missouri American Water’s  
16 Target Total Direct Compensation if short-term and long-term performance  
17 compensation were not part of its compensation program?**

1 A. If we compare Missouri American Water’s total compensation program excluding  
 2 performance compensation (that is, base salary alone) to market pay levels that include  
 3 performance compensation, as reported in Exhibits 3 and 4, Missouri American  
 4 Water’s Target Total Direct Compensation would not be competitive because it would  
 5 fall 17% below median from a national perspective and 14% below median from a  
 6 Midwest Regional perspective.

7 **Exhibit 3**

<b>Summary of Missouri American Water’s MOAW Base Salary Only vs. Market Median (National Market Perspective)</b>		
<b>Base Pay</b>	<b>Target Total Cash Compensation</b>	<b>Target Total Direct Compensation</b>
<b>-11%</b>	<b>-16%</b>	<b>-17%</b>

8

9 **Exhibit 4**

<b>Summary of Missouri American Water’s MOAW Base Salary Only vs. Market Median (Midwest Regional Market Perspective)</b>		
<b>Base Pay</b>	<b>Target Total Cash Compensation</b>	<b>Target Total Direct Compensation</b>
<b>-7%</b>	<b>-13%</b>	<b>-14%</b>

10

11 **Q. In your opinion and based on the results of the Study, are Missouri American**  
 12 **Water employees overcompensated?**

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

1 **VI. SUMMARY OF WILLIS TOWERS WATSON'S SHORT-TERM**  
2 **PERFORMANCE COMPENSATION PROGRAM ASSESSMENT**

3 **Q. Did you conduct an assessment of American Water's short-term performance**  
4 **compensation program?**

5 A. Yes.

6 **Q. What was the purpose of your assessment?**

7 A. This assessment was completed to compare the design of American Water's short-term  
8 performance compensation program (that is applicable to Missouri American Water)  
9 and its various elements to market practice.

10 **Q. What were the findings of the assessment?**

11 A. Overall, our review indicates that American Water's short-term performance  
12 compensation program is comparable to and competitive with designs of utility peers,  
13 based on a review of the Large Utility Peer Group and the Small Utility Peer Group  
14 that I referenced earlier. Like American Water, practically every company reviewed  
15 has a short-term performance compensation program that it uses to help attract,  
16 motivate and retain critically skilled employees needed to successfully run the business.  
17 Companies design their short-term performance compensation programs to align with  
18 their business strategies and circumstances, so there tends to be a range of practices  
19 regarding how the programs are designed.

20 American Water's short-term performance compensation program assesses  
21 performance using a balanced scorecard approach, incorporating financial, safety,  
22 customer satisfaction, environmental, and operational efficiency metrics to determine

1 a corporate funding pool. American Water’s program requires the achievement of at  
2 least 90% of target earnings per share performance (EPS) to ensure the financial  
3 viability of the plan before any short-term performance compensation payment can be  
4 made to any participant.

5 American Water’s short-term performance compensation program design is within the  
6 range of market practice for utilities. Specific details regarding our assessment are  
7 included in Schedule RVM-1 – Confidential.

8 **VII. SUMMARY OF WILLIS TOWERS WATSON’S LONG-TERM**  
9 **PERFORMANCE COMPENSATION PROGRAM ASSESSMENT**

10 **Q. Did you conduct an assessment of American Water’s long-term performance**  
11 **compensation program?**

12 A. Yes.

13 **Q. What was the purpose of your assessment?**

14 A. This assessment was completed to compare the design of American Water’s long-term  
15 performance compensation program (that is applicable to Missouri American Water)  
16 and its various elements to market practice.

17 **Q. What were the findings of your assessment?**

18 A. Overall, our review indicates that American Water’s long-term performance  
19 compensation program is comparable to and competitive with designs of utility peers,  
20 based on a review of the Large Utility Peer Group and the Small Utility Peer Group  
21 referenced earlier. Like American Water, every company in the Large Utility Peer

1 Group and every company but one in the Small Utility Peer Group has a long-term  
2 performance compensation program which is used to help attract, motivate and retain  
3 key senior level employees needed to successfully run the business. Companies design  
4 their long-term performance compensation programs to align with their business  
5 strategies and circumstances, so there tends to be a range of practices regarding how  
6 the programs are designed. American Water’s long-term performance compensation  
7 program design is within the range of market practice for utilities. Specific details  
8 regarding our assessment are included in Schedule RVM-1 – Confidential.

9 **VIII. OVERALL FINDINGS REGARDING MISSOURI AMERICAN WATER’S**  
10 **COMPENSATION PROGRAMS**

11 **Q. What are the overall findings and conclusions of your analysis of the**  
12 **compensation of Missouri American Water?**

13 A. Overall, our analysis indicates that Missouri American Water’s total direct  
14 compensation programs are comparable to and competitive with market practices of  
15 other similarly-sized utilities and are therefore reasonable. Missouri American Water,  
16 like the companies it competes with for talent, has to provide a competitive total direct  
17 compensation opportunity delivered via programs that benefit employees, customers  
18 and shareholders. Missouri American Water attempts to achieve this goal with its  
19 balanced and competitive base salary and short-term and long-term performance  
20 compensation programs. My experience working with both utilities and general  
21 industry companies, and the results of the Study included as Schedule RVM-1 –  
22 Confidential, indicate the programs at Missouri American Water are within a broad  
23 range of market norms and are not excessive in design or level of compensation.

1 Q. Does this conclude your Direct Testimony at this time?

2 A. Yes, it does.