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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2024-0320

CASE NO. SR-2024-0321

DIRECT TESTIMONY

OF

ROBERT V. MUSTICH

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

AFFIDAVIT

I, Robert Mustich, under penalty of perjury, and pursuant to Section 509.030, RSMo, state that I am Managing Director, Work and Rewards 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.

Robert V Mustich

Robert Mustich

July 1, 2024
Dated

**DIRECT TESTIMONY
ROBERT V. MUSTICH
MISSOURI AMERICAN WATER COMPANY
CASE NO.: WR-2024-0320
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TABLE OF CONTENTS

I. INTRODUCTION 2

II. DEFINITIONS 3

III. PURPOSE AND OVERVIEW OF TESTIMONY 4

IV. OVERVIEW OF TOTAL COMPENSATION PHILOSOPHY 5

V. SUMMARY OF WILLIS TOWERS WATSON’S TOTAL COMPENSATION STUDY 6

VI. SUMMARY OF WILLIS TOWERS WATSON’S PERFORMANCE COMPENSATION
PROGRAM ASSESSMENT 11

VII. OVERALL FINDINGS REGARDING MISSOURI-AMERICAN WATER’S COMPENSATION
PROGRAMS 12

DIRECT TESTIMONY

ROBERT V. MUSTICH

I. INTRODUCTION

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

A. My name is Robert V. Mustich. I am Managing Director and the U.S. East Region Line of Business Leader, Rewards for Willis Towers Watson. Willis Towers Watson is a leading global professional services company which has 48,000 associates throughout the world, and offers solutions in the areas of corporate risk and broking; human capital and benefits; health care exchange solutions; and investment, risk, and reinsurance. My business address is 800 North Glebe Road, Arlington, VA 22203.

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

A. I graduated from American University with a BS/BA in Human Resources Management. I have over 30 years of industry and compensation consulting services experience, have been with Willis Towers Watson for over 30 years, and have assisted management and Boards of Directors at numerous companies in designing and assessing total compensation programs. Since joining the firm in 1997, I have consulted with numerous utilities and currently serve as U.S. East Region Line of Business Leader, Rewards in addition to being a senior member of our utilities industry practice. I have conducted competitive assessments of total compensation for numerous public utilities throughout the U.S. Prior to joining Willis Towers Watson, I was a senior compensation consultant for PricewaterhouseCoopers (formally Coopers and Lybrand, LLP) performing similar compensation consulting services for clients. 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 studies
3 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 Company**
6 **(“Missouri-American Water” or the “Company”).**

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 sources of information regarding
10 industry compensation and benefits that enables us to benchmark Missouri-American
11 Water against similar companies in the U.S. Given Willis Towers Watson’s breadth and
12 depth of resources, we are frequently engaged by companies to evaluate the
13 competitiveness of their compensation philosophy, compensation and benefit levels,
14 performance compensation design and pay structures, and to provide other consulting
15 services.

16 **II. DEFINITIONS**

17 **Q. Can you please identify some of the key definitions that you will need to reference as**
18 **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 annual
22 performance compensation.

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

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

3 **III. PURPOSE AND OVERVIEW OF TESTIMONY**

4 **Q. What is the purpose of your testimony?**

5 A. The purpose of my testimony is to review the Company’s stated compensation philosophy
6 to determine if it is reasonably consistent with the compensation philosophies of other
7 utility companies and of the industry generally and whether the Company’s target total
8 direct compensation is within competitive market ranges. I demonstrate that the target total
9 direct compensation provided to Missouri-American Water performance compensation
10 eligible employees, when viewed against the markets for talent for employees in similar
11 positions, is within the competitive range of the market based on the Company’s stated
12 compensation philosophy. Willis Towers Watson specifically focused on the following
13 aspects of Missouri-American Water’s program:

- 14 • Total market-based compensation philosophy;
- 15 • Competitive market positioning of target total direct compensation (base
16 salary plus annual performance compensation plus long-term performance
17 compensation)
- 18 • Design of annual performance compensation program (the Annual
19 Performance Plan (“APP”)); and
- 20 • Design of long-term performance compensation program (the Long Term
21 Performance Plan (“LTPP”).

22 **Q. Are you sponsoring any schedules in support of your direct testimony?**

1 A. Yes. My analyses and recommendations are supported by the data presented in **Schedule**
2 **RVM-1 – CONFIDENTIAL** entitled “Missouri-American Water Company – 2024
3 General Rate Case Target Total Direct Compensation Study,” which was prepared by me
4 or under my direction. **Schedule RVM-1** has been identified as Confidential pursuant to
5 Commission Rule 20 CSR 4240-2.135(2)(A).2 and .4 as it contains employee-sensitive
6 personnel information and market analysis, or other market-specific information, related
7 to services used in providing services to customers.

8 **Q. What were the results of your study?**

9 A. Based on a review of the robust compensation data available, I concluded that Missouri
10 American Water’s compensation philosophy and performance compensation plan design
11 were in accord with utilities specifically, and industry generally, and that the levels of total
12 direct compensation were reasonable and consistent with market-based total compensation
13 levels, both on a regional and national level.

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

15 **Q. Does Missouri-American Water utilize a defined compensation philosophy?**

16 A. Yes, American Water Works Company, Inc. (“American Water”) has a defined
17 compensation philosophy, which is applicable to Missouri-American Water.

18 **Q. How would you describe American Water’s compensation philosophy?**

19 A. American Water’s market-based total compensation philosophy is to generally pay salaries
20 that are competitive with those of comparable organizations for jobs of similar
21 responsibility. To carry out this philosophy, American Water’s objective is to target total
22 direct compensation (base, annual performance compensation, and long-term performance
23 compensation) at the median (50th percentile) of the market with greater earning

1 opportunity for exceptional performance for fully qualified individuals.

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

3 A. It is consistent with other utilities (large and small), as well as with other general industry
4 employers. Willis Towers Watson examined the proxy statements for two peer groups: (1)
5 Large Utility Peer Group, 15 publicly-traded utilities comparable in size to American
6 Water (revenues range from ½ to 3 times American Water’s 2023 revenues of \$4.2 billion),
7 as disclosed in the company’s March 26, 2024 proxy statement, and (2) Small Utility Peer
8 Group, 10 publicly-traded utilities comparable in size to Missouri-American Water
9 (revenues range from \$53M-\$1.2B, compared to Missouri-American Water’s 2023
10 revenue of \$450M). Based on our review, we believe American Water’s compensation
11 philosophy is well-aligned with utility peers, as a majority of the companies target the
12 market median (50th percentile) for some or all pay elements. Our consulting experience
13 also suggests that American Water’s median (50th percentile) pay philosophy is
14 comparable to typical market practice found in general industry.

15 **V. SUMMARY OF WILLIS TOWERS WATSON’S TOTAL**
16 **COMPENSATION STUDY**

17 **Q. You mention the Target Total Direct Compensation Study, please describe how the**
18 **study was conducted.**

19 A. Willis Towers Watson utilized three data sources to assess Missouri-American Water’s
20 market-based compensation program: (1) As we did in assessing American Water’s
21 market-based total compensation philosophy, we assessed the design of its annual
22 performance and long-term performance compensation programs using proxy disclosures
23 of groups of public utilities referred to as the (1) Large Utility Peer Group, and (2) Small
24 Utility Peer Group, and (3) competitive market positioning of Missouri-American Water’s

1 target total direct compensation levels as compared to Willis Towers Watson published
2 compensation surveys.

3 **Q. How did you define “competitive” for the purposes of your compensation study?**

4 A. Willis Towers Watson and typical market practice define total compensation as being
5 “competitive” with the market if it falls in a range that extends between 10% below to 10%
6 above the market median level of total compensation.

7 **Q. Please describe how you assessed the competitiveness of Missouri-American Water’s**
8 **target total direct compensation levels.**

9 A. Willis Towers Watson assessed the competitiveness of target total direct compensation
10 provided by Missouri-American Water to its annual performance eligible population based
11 on a selection of Missouri-American Water jobs (“benchmark jobs”). Benchmark jobs are
12 those positions that are common across comparable organizations and for which
13 compensation data are available from published surveys.

14 To conduct this analysis, we reviewed compensation data provided to us by Missouri-
15 American Water and examined Willis Towers Watson’s compensation surveys in our
16 Compensation Databank (CDB). These surveys are comprised of compensation data from
17 over 1,000 U.S. based companies, and Willis Towers Watson has been conducting these
18 surveys for over 30 years.

19 Missouri-American Water’s current compensation levels were compared to the market
20 50th percentile (market median) for two different market perspectives to determine the
21 competitiveness of pay and to validate the alignment with American Water’s current
22 market-based total compensation philosophy (targeting compensation at the 50th percentile
23 of market).

1 Willis Towers Watson's assessment of benchmark jobs represents approximately 66% of
2 the population of Missouri-American Water employees as of April 15, 2024. Specific
3 details regarding our study, which includes a detailed description of the study
4 methodology, are included in **Schedule RVM-1 – CONFIDENTIAL**.

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

6 A. To derive 50th percentile (median) market values, Willis Towers Watson benchmarked
7 non-industry specific positions (e.g., accounting, human resources, legal) against both
8 energy services (primarily utilities) and general industry survey data, which were weighted
9 at 60% and 40% respectively. This places a greater weight on the energy services market
10 data since this includes regulated entities most similar to Missouri-American Water. This
11 ensures that non-industry specific positions are being compensated competitively given
12 that these positions can be recruited or lost to companies in any industry. For positions
13 requiring industry experience and not found outside the utilities industry, only energy
14 services industry data were used since these positions are generally not present in the non-
15 industry based surveys.

16 **Q. Please describe how you determined the competitiveness of Missouri-American**
17 **Water's target total direct compensation?**

18 A. Two different market perspectives were examined to validate the competitiveness of
19 Missouri-American Water's target total direct compensation.

20 A national market perspective was examined which consisted of the entire population of
21 survey participants in Willis Towers Watson's Energy Services and General Industry
22 databases. This perspective represents a U.S. national compensation perspective and is
23 aligned with American Water's compensation philosophy.

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

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

9 A. Using a weighted average of all positions reviewed, Missouri-American Water’s target
 10 total direct compensation, as reported in Table 1 (below), is within the competitive market
 11 median range by being 4% below market median. Again, Willis Towers Watson and typical
 12 market practice considers market competitiveness to be a result that falls within plus or
 13 minus 10% of median range.

14 **Table 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
-5%	-4%	-4%

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

17 A. Missouri-American Water’s target total direct compensation is within the market median
 18 range, as reported in Table 2, because it falls 2% (represents a weighted average of all
 19 positions reviewed) below the market median.

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Table 2

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
-3%	-2%	-2%

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

6 **A.** If we compare Missouri-American Water's total compensation program excluding
 7 performance compensation (that is, base salary alone) to market pay levels that include
 8 performance compensation, as reported in Tables 3 and 4, Missouri-American Water's
 9 target total direct compensation would not be fully competitive because it would fall 12%
 10 below median from a national perspective and 10% below median from a Midwest
 11 Regional perspective. The shortfall would even be greater for positions where
 12 performance-based compensation comprises a larger portion of total direct compensation.
 13 Therefore, performance compensation is required to ensure compensation remains at
 14 reasonable, competitive levels.

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Table 3

Summary of Missouri-American Water's MOAW Base Salary Only vs. Market Median (National Market Perspective)		
Base Pay	Target Total Cash Compensation	Target Total Direct Compensation
-5%	-11%	-12%

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Table 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
-3%	-9%	-10%

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

A. No. Missouri-American Water employees are within the range of market median for each element of compensation.

**VI. SUMMARY OF WILLIS TOWERS WATSON'S PERFORMANCE
COMPENSATION PROGRAM ASSESSMENT**

Q. Did you conduct an assessment of American Water's performance compensation programs?

A. Yes, I assessed American Water's annual and long-term performance compensation programs.

Q. What was the purpose of your assessment?

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

Q. What were the findings of the assessment?

A. Overall, our review indicates that American Water's and, therefore, the Company's performance compensation programs are comparable to and competitive with designs of utility peers, based on a review of the Large Utility Peer Group and the Small Utility Peer

1 Group referenced earlier. Like American Water, every company in the Peer Groups has
2 performance compensation programs that are used to help attract, motivate and retain
3 critically skilled employees needed to successfully run the business. Companies design
4 their performance compensation programs to align with their business strategies and
5 circumstances, so there tends to be a range of practices regarding how the programs are
6 designed. American Water's performance compensation programs complement each other
7 by assessing performance holistically using a balanced scorecard approach, incorporating
8 stock performance, financial, customer, safety, environmental, and people metrics.
9 American Water's program designs are consistent with market practices for utilities.
10 Specific details regarding our assessment are included in Schedule RVM-1 –
11 CONFIDENTIAL.

12 **Q. Why is performance compensation appropriate for a utility?**

13 A. As our competitive assessment shows, the inclusion of performance pay plans, both annual
14 and long-term focused plans, is an essential part of a market competitive pay mix. As noted
15 earlier in my testimony, all of the companies in the Large and Small Utility Peer Groups
16 have short-term and/or long-term performance pay plans in place. In order to attract, retain
17 and motivate the talent needed to successfully run the company, Missouri-American Water
18 needs to provide a market-competitive total compensation program, which includes both
19 short-term and long-term performance compensation plans.

20 **VII. OVERALL FINDINGS REGARDING MISSOURI-AMERICAN**
21 **WATER'S COMPENSATION PROGRAMS**

22 **Q. What are the overall conclusions of your analysis?**

23 A. Overall, our analysis indicates that Missouri-American Water's total direct compensation
24 programs are comparable to, and competitive with, market practices of other similarly-

1 sized utilities and are therefore reasonable. Missouri-American Water, like the companies
2 it competes with for talent, has to provide a competitive total direct compensation
3 opportunity delivered via programs that benefit employees, customers and investors.
4 Missouri-American Water attempts to achieve this goal with its balanced and competitive
5 base salary and annual and long-term performance compensation programs. My experience
6 working with both utilities and general industry companies and the results of the study
7 included as Schedule RVM-1 – CONFIDENTIAL indicate that Missouri-American
8 Water’s market-based compensation programs are reasonable and that the target total direct
9 compensation provided to Missouri-American Water’s employees is in the median
10 competitive range of the market, and therefore, is also reasonable.

11 **Q. What other conclusion can you draw from your assessment?**

12 A. Missouri-American Water provides a total direct compensation opportunity delivered
13 through market-based programs that are intended to compete in the market for talent.
14 Missouri-American Water attempts to achieve this goal by delivering total compensation
15 through balanced base salary and annual and long-term performance compensation
16 programs which align employees, customers, and investors interests. Denying Missouri-
17 American Water a portion of its employee compensation costs based on how it is delivered
18 would undermine the Company’s ability to recover costs that are within the competitive
19 market range. If the Company were to eliminate all or part of its annual and/or long-term
20 performance compensation, it would likely be forced to increase fixed pay (i.e., base salary)
21 to above market competitive levels of base salary in order to attract and retain talent. It is
22 difficult to imagine how this would benefit the Company’s customers, employees or
23 investors. The Company’s compensation plans are important management tools to

1 reinforce performance expectations, which is why they are so universally present in both
2 the utility and general business sectors nationally.

3 Companies design their performance compensation programs to align with their business
4 strategies and circumstances and focus and communicate what is important to employees.
5 The Company's customers also benefit from the Company deploying performance-based
6 employee compensation programs using a balanced scorecard of metrics. Strong financial
7 performance, for example, enables the Company to invest resources in both physical assets
8 and people that helps ensure the efficient operation of the Company, which ultimately
9 benefits customers. Further, water and wastewater operations are capital intensive. The
10 availability of sources of capital at reasonable costs depends on the utility's financial
11 performance, including credit and bond ratings. So, it is important for Missouri-American
12 Water's employees to contribute to the financial health of the organization. A financially
13 healthy utility benefits customers because it enables the utility to meet its service
14 obligations at reasonable financing costs.

15 **Q. Are there other ways that Missouri-American Water's compensation programs**
16 **benefits customers?**

17 A. 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 Missouri-
19 American Water's performance pay program makes Missouri-American Water's
20 employees' total compensation reasonable, the Company's performance pay helps ensure
21 a stable workforce. Missouri-American Water's LTPP program is particularly intended to
22 reduce attrition at the higher ranks of the organization. Senior management turnover and
23 the loss of expertise can degrade the continuity of strategy and execution, which is why

1 these types of compensation programs are well accepted in the industry. Importantly, the
2 LTTP achieves its goals of reducing leadership attrition at a lower cost to customers than
3 simply increasing leadership's base pay. Employees must remain with the organization to
4 realize the full vesting of their LTTP awards over a three-year period.

5 **Q. Does Missouri-American Water's current compensation program have any benefits**
6 **as compared to a base salary/wage-only approach?**

7 A. Yes. A key benefit of Missouri-American Water's use of performance compensation plans
8 is that they align with competitive market practice and thereby enable Missouri-American
9 Water to compete in the market for talent. A shift to an all base salary program for
10 Missouri-American Water could have unintended consequences. If all or part of the annual
11 and/or long-term performance compensation at Missouri-American Water were
12 eliminated, the Company would likely be forced to increase fixed pay (i.e., base salary) to
13 above market competitive levels of base salary in order to provide total compensation at
14 the market level to attract and retain talent. This would be counter to the pay-for-
15 performance approach Missouri-American Water currently employs, which is to put annual
16 and long-term performance compensation "at risk," meaning pay and market
17 competitiveness are reduced when performance is below expectations and performance pay
18 is not paid. Again, these plans are viewed as important management tools to reinforce
19 performance expectations, which is why they are so universally present in both the utility
20 and general business sectors.

21 **Q. Does this conclude your testimony?**

22 A. Yes.

Schedule RVM-1 has been marked CONFIDENTIAL in its entirety in accordance with Commission Rules 20 CSR 4240-2.135(2)(A).2 and 20 CSR 4240-2.135(2)(A).4.