

Exhibit No.:	
Issues:	Compensation
Witness:	Robert V. Mustich
Exhibit Type:	Rebuttal/Surrebuttal/Sur-Surrebuttal
Sponsoring Party:	Missouri-American Water Company
Case No.:	WR-2024-0320
Date:	January 24, 2025

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2024-0320

REBUTTAL/SURREBUTTAL/SUR-SURREBUTTAL 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 the Managing Director and East Region Rewards Leader 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

January 22, 2025
Dated

**REBUTTAL/SURREBUTTAL/SUR-SURREBUTTAL TESTIMONY
ROBERT V. MUSTICH
MISSOURI AMERICAN WATER COMPANY
CASE NO.: WR-2024-0320**

TABLE OF CONTENTS

I. INTRODUCTION 2
II. RESPONSE TO INTERVENORS 3

REBUTTAL/SURREBUTTAL/SUR-SURREBUTTAL TESTIMONY

ROBERT V. MUSTICH

I. INTRODUCTION

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

Q. Please state your name and business address.

A. My name is Robert Mustich. I am Managing Director and East Region Rewards Business Leader for Willis Towers Watson. My business address is 800 North Glebe Road, Arlington, VA 22203

Q. Are you the same Robert Mustich who previously submitted Direct Testimony in this proceeding?

A. Yes.

Q. On whose behalf are you submitting this testimony?

A. Missouri-American Water Company (“MAWC” or the “Company”), a wholly owned subsidiary of American Water Works Company Inc. (“AWK”).

Q. What is the purpose of your Rebuttal/Surrebuttal/Sur-Surrebuttal testimony?

A. The purpose of my testimony is to rebut the testimony of Angela Schaben, who filed testimony on behalf of the Office of the Public Counsel. I will demonstrate that her argument against 100% recovery of both the Annual Performance Plan (“APP”) and the Long-term Performance Plan (“LTPP”), is based on a misunderstanding of the role of performance compensation plans in employee total compensation. In addition, she misinterprets my Direct Testimony and the supporting Willis Towers Watson report on MAWC’s total compensation.

II. RESPONSE TO INTERVENORS

Q. What is incorrect about Ms. Schaben’s understanding of employee total compensation?

A. Referencing my Direct Testimony, she concludes in her testimony that if base salary is competitive with median market base salary, then performance compensation is not necessary for employee total compensation to be competitive. She fails to recognize that performance compensation is virtually universal and while base salary may be competitive on a standalone basis (-5% and -3% below median as shown in the tables below), without performance compensation, employee total compensations is below the competitive range in aggregate (-12% and -10%), also shown in the tables below:

Summary of MAWC’s Base Salary Only vs. Market Median (National Market Perspective)		
Base Pay	Target Total Cash Compensation	Target Total Direct Compensation
-5%	-11%	-12%

Summary of MAWC’s Base Salary Only vs. Market Median (Midwest Regional Market Perspective)		
Base Pay	Target Total Cash Compensation	Target Total Direct Compensation
-3%	-9%	-10%

Q. Besides Ms. Schaben being incorrect that MAWC’s compensation program is

1 **competitive if it only comprises base salary, what else is wrong with her testimony**
2 **regarding performance compensation?**

3 A. She additionally argues that virtually all of the metrics (financial, operational, customer,
4 DEI, etc.) in the performance compensation plans do not directly benefit customers and
5 should not be recoverable.

6 **Q. What is wrong with this argument?**

7 A. She fails to recognize the purpose of these plans are to attract and retain a performance-
8 oriented workforce that is provided tangible financial incentives in the form of variable
9 performance-based compensation, to improve productivity, efficiency and other desirable
10 goals (such as safety, environmental compliance, customer satisfaction, etc.) that
11 management deems important to conducting a successful business. These plans send
12 powerful messages to employees because their compensation is contingent on these
13 important customer-oriented goals. In the case of the LTPP metrics, the goal is to reduce
14 the costs and disruptions associated with employee turnover by providing incentives to
15 remain with the company and improve company performance. As noted in my Direct
16 Testimony, both of MAWC's performance compensation plans are quite common in
17 American business and are time-tested and successful ways to increase productivity,
18 efficiency and employee performance while reducing the costs and inefficiencies of
19 employee turnover. In addition, employees expect to participate in such plans since they
20 are widely prevalent and the absence of them would make MAWC less competitive from
21 a talent attraction perspective.

22 **Q. Both Ms. Schaben and Staff witness Angela Niemeier argue that financial metrics**
23 **primarily benefit shareholders and should not be recovered by the utility from**

1 **ratepayers.¹ Why is this the wrong perspective?**

2 A. Ms. Schaben argues that the Commission should deny full recovery of performance-based
3 compensation to MAWC and attempts to bolster her argument by citing an Illinois-
4 American Water rate case ruling, and as discussed by MAWC witness Jody Carlson, Ms.
5 Niemeier cites Commission decisions from over 30 years ago. The problem with these
6 narrow viewpoints is that they fail to recognize that compensation programs and
7 perspectives evolve over time and having holistic programs that align to customer,
8 employee and shareholder objectives are mutually beneficial and create sustainable, long
9 term positive performance.

10 **Q. You mentioned that Ms. Schaben references an Illinois-American Water rate case**
11 **that the Commerce Commission ruled against recovery of incentive compensation.**
12 **What is your view of Ms. Schaben using this to reinforce her case that performance**
13 **compensation should not be recovered?**

14 A. She fails to mention that other American Water affiliates: West Virginia-American Water
15 Company, Indiana-American Water Company, Pennsylvania-American Water Company,
16 and Virginia-American Water Company all recover 100% of performance pay in rates.

17 **Q. Do you have other examples where viewpoints on this topic have changed or that**
18 **performance compensation has been accepted by a regulatory authority?**

19 A. Yes. In 2015, the Public Service Commission of West Virginia acknowledged in a rate
20 case filed by West Virginia-American Water Company that “[Annual Performance Plans]
21 that tie some portion of an employee’s compensation to an employee’s actual performance
22 are prevalent in the compensation packages for larger businesses and [have] become the

¹ Schaben DT/RT, p. 4; Niemeier DT/RT, p. 20.

1 'norm' for major utility companies.” The Public Service Commission of West Virginia
2 further agreed that “the [Annual Performance Plan] is an integral part of the overall
3 compensation plan of [West Virginia-American Water Company] and that the total
4 compensation (the combination of base pay and incentive pay) to eligible employees is
5 intended to place that total compensation at or near the market rate for each particular job
6 or salary band.” In the 2015 case, the Commission also approved a portion of the
7 company’s long-term performance plan costs. In 2021, the Public Service Commission of
8 West Virginia went further in allowing 100% of the demonstrated long-term performance
9 compensation in its revenue requirements after concluding that “[i]t is not reasonable to
10 pick one expense and arbitrarily eliminate it or reduce it by 50% because it indirectly
11 benefits shareholders.” This was reaffirmed by the Public Service Commission of West
12 Virginia in 2023. This is just one example of the evolution of regulatory acceptance of this
13 compensation methodology.

14 **Q. Do you have another example of how viewpoints or regulations have changed?**

15 **A.** Yes, legislation passed in Texas in 2023 related to the consideration of compensation and
16 benefits in establishing the rates of electric utilities. Employee compensation includes base
17 salary, wages and incentive compensation. It states: “when establishing an electric utility’s
18 rates, the regulatory authority shall presume that employee compensation and benefits
19 expenses are reasonable and necessary if the expenses are consistent with market
20 compensation studies issued not earlier than three years before the initiation of the
21 proceeding to establish rates.” There are certain items, not included in the term of
22 compensation and benefits, but overall total compensation (base salary, APP and LTPP) at
23 a utility for the vast majority of its employees is fully recoverable provided it is

1 competitively reasonable and consistent with peers, as determined through recent market
2 studies. The Willis Towers Watson study of MAWC compensation sited in my Direct
3 Testimony is a recent market study.

4 **Q. Would the recommendation from Ms. Schaben to remove the performance**
5 **compensation portion of MAWC's total market-based compensation because she**
6 **feels it does not benefit customers directly and is not necessary to provide a**
7 **competitive compensation structure impact the Company's compensation structure?**

8 A. Yes. It could adversely impact it by encouraging the Company to take an all base salary
9 only approach which would require the Company to increase base salaries to be
10 competitive. It is hard to see how this would benefit customers.

11 **Q. Does this conclude your Rebuttal/Surrebuttal/Sur-Surrebuttal Testimony?**

12 A. Yes.