BEFORE THE
STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

IN THE MATTER OF THE PETITION OF
NEW JERSEY-AMERICAN WATER COMPANY, INC.
FOR APPROVAL OF INCREASED TARIFF RATES AND
CHARGES FOR WATER AND WASTEWATER SERVICE, AND
OTHER TARIFF MODIFICATIONS

BPU Docket No. WR1912____

Direct Testimony of

ROBERT V. MUSTICH

Exhibit P-13
BEFORE THE
STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

Direct Testimony of
ROBERT V. MUSTICH

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BEFORE THE
STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

Direct Testimony of
ROBERT V. MUSTICH

I. INTRODUCTION

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

A1. My name is Robert V. Mustich. I am Managing Director and East Region
Rewards Business Leader for Willis Towers Watson. Willis Towers Watson is a
leading global professional services company which has 45,000 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.

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

A2. I graduated from American University with a BS/BA in Human Resources
Management. I have over 25 years of industry and compensation consulting
services experience, have been with Willis Towers Watson for over 20 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 serve as 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.

Q3. Please explain Willis Towers Watson’s experience in providing compensation
and benefits consulting services to organizations such as New Jersey-
American Water Company, Inc, (“New Jersey-American Water” or “the
Company”).

A3. Willis Towers Watson has extensive experience serving clients in the utility
industry, having provided services to approximately 100 utilities in the U.S.
within the last year. Because we invest so heavily in our utility industry
capabilities, we have rich sources of information regarding industry compensation
and benefits that enables us to benchmark New Jersey-American Water against
similar companies in the U.S. Given Willis Towers Watson’s breadth and depth
of resources, we are frequently engaged by companies to evaluate the
competitiveness of their compensation philosophy, compensation and benefit
levels, performance pay design and pay structures, and other consulting services.
Willis Towers Watson and I have conducted similar competitive compensation
studies for other utility clients.

II. DEFINITIONS

Q4. Can you please identify some of the key definitions that you will need to
reference as part of your testimony?

A4. Yes.

Q5. More specifically, please define Target Total Cash Compensation.

A5. Target Total Cash Compensation represents the sum of base salary plus target
short-term performance pay.
Q6. Please define Target Total Direct Compensation.
A6. Target Total Direct Compensation represents the sum of base salary, plus target short-term performance pay, plus long-term performance pay.

III. PURPOSE OF TESTIMONY

Q7. What is the purpose of your testimony?
A7. The purpose of my testimony is to review the Company’s stated compensation philosophy to determine if it accords with the compensation offered to employees of other utility companies and of industry generally. I also reviewed whether the target total direct compensation provided to New Jersey-American Water performance pay-eligible employees, when viewed against the markets for talent for employees in similar positions, is within the competitive range of the market. Willis Towers Watson specifically focused on the following aspects of New Jersey-American Water’s program:

- Total compensation philosophy;
- Competitive market positioning of target total direct compensation (base salary plus short-term performance pay plus long-term performance pay);
- Design of short-term performance pay program (the Company’s Annual Performance Plan (“APP”), described by Company witness Thomas Shroba);
  and
- Design of long-term performance pay program (the Company’s Long Term Performance Plan (“LTPP”), also described by Mr. Shroba).

Q8. What were the results of your study?
A8. Based on a review of the robust compensation data available, I concluded that New Jersey-American Water’s compensation philosophy and performance pay plan design were in accord with utilities specifically, and industry generally and
that the levels of total direct compensation were reasonable and consistent with compensation levels, both on a regional and national level.

IV. OVERVIEW OF TOTAL COMPENSATION PHILOSOPHY

Q9. Does New Jersey-American Water have a defined compensation philosophy?

A9. Yes, American Water Works Company, Inc. (“American Water”) has a defined compensation philosophy which is applicable to New Jersey-American Water.

Q10. How would you describe the American Water’s compensation philosophy?

A10. American Water’s compensation philosophy is generally to pay salaries that are competitive with those of comparable organizations for jobs of similar responsibility. To carry out this philosophy, American Water’s objective is to target total direct compensation (base, short-term performance pay, and long-term performance pay) at the median (50th percentile) of the market, with greater earning opportunity for exceptional performance for fully qualified individuals.

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

A11. It is consistent both with utilities and with other employers. Willis Towers Watson examined the proxy statements for two peer groups: (1) Large Utility Peer Group, which consists of 14 publicly-traded utilities comparable in size to American Water (revenues range from ½ to 2.5 times American Water’s 2018 revenues of $3.4 billion), and (2) Small Utility Peer Group, which consists of 12 publicly-traded utilities comparable in size to New Jersey-American Water (revenues range from $398-$1,499M, compared to New Jersey-American Water’s 2018 revenue of $723M). Based on our review, we believe American Water’s compensation philosophy is well-aligned with utility peers, as a majority of both Large Utility Peer Group companies (12 of 14, 86%) and Small Utility Peer Group companies (10 of 12, 83%) target the market median (50th percentile) for
some or all pay elements. Our consulting experience also suggests that American
Water’s median (50th percentile) pay philosophy is comparable to typical market
practice found in general industry.

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

Q12. Did you conduct a compensation study of New Jersey-American Water’s
compensation program?

A12. Yes, and a copy of the confidential study is included as Schedule RVM-1 to my
testimony.

Q13. Please describe how the study was conducted.

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

Q14. How did you define “competitive” for the purposes of your compensation
study?

A14. Willis Towers Watson and typical market practice define total compensation as
being competitive if it falls in a range that extends between 10% below to 10%
above the market median level of total compensation.
Q15. **Please describe how you assessed the competitiveness of New Jersey-American Water’s target total direct compensation levels.**

A15. Willis Towers Watson assessed the competitiveness of target total direct compensation provided by New Jersey-American Water to its short-term performance pay eligible population based on a selection of New Jersey-American Water jobs ("benchmark jobs"). Benchmark jobs are those positions that are common across comparable organizations and for which compensation data are available from published surveys.

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

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

Willis Towers Watson’s assessment of benchmark jobs represents approximately 62% of the population of New Jersey-American Water employees as of October 8, 2019, who are eligible for performance pay. Specific details regarding our study, which includes a detailed description of the study methodology, are included in **Schedule RVM-1**.
Q16. **How did you derive 50th percentile (median) market values?**

A16. To derive 50th percentile (median) market values, Willis Towers Watson benchmarked non-industry specific positions (e.g., accounting, human resources, legal) against both energy services (primarily utilities) and general industry survey data, weighted 60% and 40% respectively. This places a greater weight on the energy services market data since this includes regulated entities most similar to New Jersey-American Water. This ensures that non-industry specific positions are being compensated competitively given that these positions can be recruited or lost to companies in any industry. For positions requiring industry experience, only energy services industry data were used since these positions are generally not found outside of the utility industry.

Q17. **Please describe how you determined the competitiveness of New Jersey-American Water’s target total direct compensation?**

A17. Two different market perspectives were examined to validate the competitiveness of New Jersey-American Water’s target total direct compensation.

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

A Mid-Atlantic regional perspective including Delaware, New Jersey, New York, and Pennsylvania labor markets was also examined, which consisted of the same entire survey participant population from Willis Towers Watson’s Energy Services Industry and General Industry databases but was customized to identify a Mid-Atlantic-specific geographic dataset. This dataset identified employees that
work in the four states listed above for companies headquartered anywhere in the United States.

Q18. **What were the compensation study results from the national perspective?**

A18. Willis Towers Watson and typical market practice considers market competitiveness to be a result that falls within plus or minus 10% of median range. Using a weighted average of all positions reviewed, New Jersey-American Water’s target total direct compensation is within the range of competitive market median on a national basis by being 3% above market median.

Q19. **What were the compensation study results from the Mid-Atlantic Regional perspective?**

A19. From a Mid-Atlantic Regional Perspective, New Jersey-American Water’s target total direct compensation is within the market median range because it is 1% below market median.

Q20. **In your opinion and based on the results of the study, are New Jersey-American Water employees appropriately and competitively compensated?**

A20. Yes. When performance pay is included in the compensation program, New Jersey-American Water employees are generally within the range of market median. Removing performance pay, however, would drop New Jersey-American Water below median on average and outside the median range for positions that the competitive market indicates that performance pay is a meaningful portion of total direct compensation.
VI. SUMMARY OF WILLIS TOWERS WATSON’S SHORT-TERM PERFORMANCE PAY PROGRAM ASSESSMENT

Q21. Did you conduct an assessment of American Water’s short-term performance pay program?

A21. Yes.

Q22. What was the purpose of your assessment?

A22. This assessment was completed to compare the design of American Water’s short-term performance pay program (that is applicable to New Jersey-American Water) and its various elements to market practice.

Q23. What were the findings of the assessment?

A23. Overall our review indicates that American Water’s short-term performance pay program is comparable to and competitive with designs of utility peers, based on a review of the Large Utility Peer Group and the Small Utility Peer Group that I referenced earlier. Like American Water, every company reviewed has a short-term performance pay program that it uses to help attract, motivate and retain critically skilled employees needed to successfully run the business. Companies design their short-term performance pay programs to align with their business strategies and circumstances, so there tends to be a range of practices regarding how the programs are designed.

American Water’s short-term performance pay program assesses performance using a balanced scorecard approach, incorporating financial, safety, customer satisfaction, environmental, and operational efficiency metrics to determine a corporate funding pool. American Water’s program requires the achievement of at least 90% of target earnings per share performance (EPS) to ensure the financial
viability of the plan before any short-term performance payment can be made to any participant.

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

Q24. How does New Jersey-American Water’s balanced scorecard approach to short-term performance pay benefit customers?

A24. The approach that New Jersey-American Water uses reflects a balanced approach between financial (50%) and operational metrics (50%). While operational metrics may appear to reflect a more direct benefit to customers, the financial measures used in the short-term and long-term performance pay programs send a message to employees that responsible financial stewardship is also important to the Company and its stakeholders, including customers. Strong financial performance enables the Company to invest in resources – both physical and people – that ensure the efficient operation of the Company, which benefits customers.

VII. SUMMARY OF WILLIS TOWERS WATSON’S LONG-TERM PERFORMANCE PAY PROGRAM ASSESSMENT

Q25. Did you conduct an assessment of American Water’s long-term performance pay program?

A25. Yes.

Q26. What was the purpose of your assessment?
A26. This assessment was completed to compare the design of American Water’s long-term performance pay program (that is applicable to New Jersey-American Water) and its various elements to market practice.

Q27. What were the findings of your assessment?
A27. Overall our review indicates that American Water’s long-term performance pay program is comparable to and competitive with designs of utility peers, based on a review of the Large Utility Peer Group and the Small Utility Peer Group referenced earlier. Like American Water, every company in the Large Utility Peer Group and the Small Utility Peer Group has a long-term performance pay program which is used to help attract, motivate and retain key senior level employees needed to successfully run the business. Companies design their long-term performance pay programs to align with their business strategies and circumstances, so there tends to be a range of practices regarding how the programs are designed. American Water’s long-term performance pay program design is within the range of market practice for utilities and its three year vesting period aids in retaining experienced and qualified employees since it is designed to have the compensation it provides forfeited if the employee leaves before the plan vests the potential pay. Specific details regarding our assessment are included in Schedule RVM-1.

VIII. OVERALL FINDINGS REGARDING NEW JERSEY AMERICAN WATER’S COMPENSATION PROGRAMS

Q28. What are the overall findings and conclusions of your analysis of the compensation of New Jersey American Water?
A28. Overall, our analysis indicates that New Jersey-American Water’s total direct compensation programs are comparable to and competitive with market practices of other similarly-sized utilities and are therefore reasonable. New Jersey-
American Water, like the companies it competes with for talent, has to provide a competitive total direct compensation opportunity delivered via programs that benefit employees, customers and investors. New Jersey-American Water attempts to achieve this goal with its balanced and competitive base salary and short-term and long-term performance pay programs. My experience working with both utilities and general industry companies, and the results of the study included as Schedule RVM-1, indicate the programs at New Jersey-American Water are within a broad range of market norms and design and produce an appropriate and competitive level of compensation.

Q29. **Why is performance pay appropriate for a utility?**

A29. First, as our competitive assessment shows, the inclusion of performance pay plans, both short-term and long-term focused plans, is an essential part of a market competitive pay mix. As noted earlier in my testimony, all of the companies in the Large and Small Utility Peer Groups have short-term and long-term performance pay plans in place. In order to attract, retain and motivate the talent needed to successfully run the company, New Jersey-American Water needs to provide a market competitive compensation program, which includes both short-term and long-term performance pay compensation plans. Equally important, performance pay plans allow New Jersey-American Water to differentiate pay based on performance and allocate compensation to the highest performing and most deserving employees.

Q30. **Describe the benefits of New Jersey-American Water’s current compensation program in comparison to a base salary/wage-only approach.**

A30. A key benefit of New Jersey-American Water’s use of short-term and long-term performance pay plans is that they align with competitive market practice and thereby enable New Jersey-American Water to compete in the market for talent.
A shift to an all base salary program for New Jersey-American Water could have unintended consequences. If all or part of the short-term and/or long-term performance pay at New Jersey-American Water were eliminated, the Company would likely be forced to increase fixed pay (i.e., base salary) to above market competitive levels base salary in order to attract and retain talent. This would be counter to the pay-for-performance approach New Jersey-American Water currently employs, which is to put short-term and long-term performance pay “at risk” meaning pay and market competitiveness is reduced when performance is below expectations and performance pay is not paid.

Q31. **Does this conclude your testimony?**

A31. Yes.
2019 General Rate Case Target Total Direct Compensation Study

New Jersey American Water Company

November 15, 2019