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October 13, 2017

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VIA FEDERAL EXPRESS

BOARD OF PUBLIC UTILITIES

OCT 16 2017

MAIL RECEIVED

Irene Kim Asbury, Secretary
Board of Public Utilities
44 South Clinton Ave.
3rd Floor, Suite 314
PO Box 350
Trenton, NJ 08625-0350

**Re: In the Matter of the Petition of New Jersey-American Water Company, Inc. for Approval of Increased Tariff Rates and Charges for Water and Sewer Service, Change in Depreciation Rates, and Other Tariff Modifications
BPU Docket No. WR17090985
OAL Docket No. PUC 14251-2017 S**

Dear Secretary Asbury:

This firm represents New Jersey-American Water Company ("NJAWC") in the above-referenced matter.

Pursuant to N.J.A.C. 14:1-12.1 et seq., we hereby submit on behalf of NJAWC a Public Copy and a Confidential Copy of the direct testimony of Robert V. Mustich.

With this letter is an unmarked envelope addressed to:

Records Custodian
Board of Public Utilities
44 South Clinton Avenue
P.O. Box 350
Trenton, NJ 08625

Therein, is another envelope marked "Confidential" which contains the "Confidential Copies" of the Responses. This too is addressed to:

Records Custodian
Board of Public Utilities
44 South Clinton Avenue
P.O. Box 350
Trenton, NJ 08625

Also enclosed please find the Affidavit of Frank X. Simpson, Director of Rates & Regulations.

LEGAL\32814024\1

457 Haddonfield Road Suite 300 P.O. Box 5459 Cherry Hill, NJ 08002
856.910.5000 800.989.0499 856.910.5075 Fax cozen.com
Thomas McKay, III attorney responsible for New Jersey practice.

CMS
List of Copies
sent to Water-M. Moran

Irene Kim Asbury, Secretary
October 13, 2017
Page 2

The party designated to receive notices and other communications in connection with this matter is as follows:

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(856) 910-5069

Sincerely,

COZEN O'CONNOR, PC



By: Christine Soares

CS:kn

Enclosure

cc: Attached Service List (via email)

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, CHANGE IN DEPRECIATION RATES
AND OTHER TARIFF MODIFICATIONS
BPU DOCKET NO. WR17090985
OAL DOCKET NO. PUC 14251-2017 S

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IN THE MATTER OF THE PETITION OF NEW JERSEY AMERICAN WATER COMPANY, INC.
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FOR APPROVAL OF INCREASED TARIFF RATES AND CHARGES FOR WATER AND
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AND OTHER TARIFF MODIFICATIONS
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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, CHANGE IN DEPRECIATION RATES
AND OTHER TARIFF MODIFICATIONS
BPU DOCKET NO. WR17090985

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BOARD OF PUBLIC UTILITIES

STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

OCT 16 2017

IN THE MATTER OF THE PETITION OF	:	
NEW JERSEY-AMERICAN WATER	:	BPU Docket No.: WR17090985
COMPANY, INC. FOR APPROVAL OF	:	OAL Docket No.: PUC 14251-2017 S
INCREASED TARIFF RATES AND	:	
CHARGES FOR WATER AND SEWER	:	
SERVICE, CHANGE IN DEPRECIATION	:	AFFIDAVIT OF
RATES, AND OTHER TARIFF	:	FRANK X. SIMPSON
MODIFICATIONS	:	

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Frank X. Simpson, upon his oath, deposes and says:

1. I am of full age. I am the Senior Director of Rates and Regulations and am authorized to make this Affidavit on behalf of New Jersey-American Water Company, Inc. (hereinafter referred to as "NJAWC" or the "Company").

2. I offer this Affidavit in support of the Company's claim that certain terms of the direct testimony of Robert V. Mustich, and Exhibit 1 attached thereto (the "Testimony") are confidential.

3. The Company, the Staff of the Board of Public Utilities and the Department of the Public Advocate, Division of Rate Counsel (collectively referred to hereafter as the "Parties") have entered into an Agreement of Non-Disclosure of Information Claimed to be Confidential (the "Agreement").

4. Pursuant to the Agreement, the Parties have agreed not to disclose the contents of any "Confidential Information", including information the providing party may claim constitutes or contains market-sensitive, competitive, confidential, trade secret or proprietary information.

5. The information contained in the Testimony includes confidential and trade secret materials.

6. The information contained in the Testimony is not routinely available to the general public in any manner.

7. If the Company's competitors were able to access the confidential information contained in the Testimony, it would enable the Company's competitors to understand the Company's salary and compensation rationale and allow them to unfairly compete against the Company for employees, thus giving the Company's competitors an unfair competitive advantage.

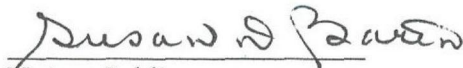
8. This would result in harm to NJAWC and to its customers.

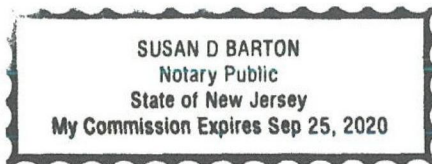
9. The Company will make the Testimony available to the Parties to this proceeding who have executed the Agreement.

10. The information contained in the Testimony shall remain confidential until such time as NJAWC agrees otherwise.

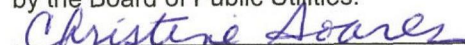

Frank X. Simpson

Sworn to and subscribed
before me this 10th day
of October, 2017


Notary Public



This Affidavit is being submitted in facsimile form. The undersigned attorney, Christine Soares, certifies that the affiant acknowledged the genuineness of the signature and that the Affidavit or a copy with an original signature affixed will be filed if requested by the Board of Public Utilities.


Christine Soares, Esquire



PUBLIC COPY

BEFORE THE
STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

BOARD OF PUBLIC UTILITIES

OCT 16 2017

MAIL RECEIVED

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,
CHANGE IN DEPRECIATION RATES AND
OTHER TARIFF MODIFICATIONS

BPU Docket No. WR1709 _____

DIRECT TESTIMONY OF

ROBERT V. MUSTICH

PUBLIC VERSION

Exhibit PT-19

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NEW JERSEY-AMERICAN WATER COMPANY, INC.

1 **I. INTRODUCTION**

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

3 A. My name is Robert V. Mustich. I am Managing Director and the U.S. East Region
4 Line of Business Leader, Rewards for Willis Towers Watson. Willis Towers Watson
5 is a leading global professional services company which has 40,000 associates
6 throughout the world, and offers solutions in the areas of corporate risk and broking;
7 human capital and benefits; health care exchange solutions; and investment, risk, and
8 reinsurance. My business address is 800 North Glebe Road, Arlington, VA 22203.

9 **2. Q. Please state your educational and professional background and experience.**

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

NEW JERSEY-AMERICAN WATER COMPANY, INC.

1 **3. 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 other utility clients.

4 **4. Q. Please explain Willis Towers Watson's experience in providing compensation
5 and benefits consulting services to organizations like New Jersey-American
6 Water Company ("NJAWC").**

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 NJAWC against
11 similar companies in the U.S. Given Willis Towers Watson's breadth and depth of
12 resources, we are frequently engaged by companies to evaluate the competitiveness of
13 their compensation philosophy, compensation and benefit levels, at-risk
14 compensation design and pay structures, and other consulting services.

15 **II. DEFINITIONS**

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

18 A. Yes.

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

20 A. Target Total Cash Compensation represents the sum of base salary plus target short-
21 term at-risk compensation.

NEW JERSEY-AMERICAN WATER COMPANY, INC.

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

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

4 **III. PURPOSE OF TESTIMONY**

5 8. Q. What is the purpose of your testimony?

6 A. The purpose of my testimony is to demonstrate that the target total direct
7 compensation provided to NJAWC's at-risk compensation eligible employees, when
8 viewed against the markets for talent for employees in similar positions, is within the
9 competitive range of the market based on the company's stated compensation
10 philosophy. Willis Towers Watson specifically focused on the following aspects of
11 NJAWC's program:

- 12 • Total compensation philosophy;
- 13 • Competitive market positioning of target total direct compensation (base salary
14 plus short-term at-risk compensation plus long-term at-risk compensation)
- 15 • Design of short-term at-risk compensation program; and
- 16 • Design of long-term at-risk compensation program.

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

18 9. Q. Does NJAWC have a defined compensation philosophy?

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

NEW JERSEY-AMERICAN WATER COMPANY, INC.

1 **10. 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 target total direct
5 compensation (base, short-term at-risk compensation, and long-term at-risk
6 compensation) at the median (50th percentile) of the market with greater earning
7 opportunity for exceptional performance for fully qualified individuals.

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

9 A. Willis Towers Watson examined the proxy statements for two peer groups: (1) Large
10 Utility Peer Group, 15 publicly-traded utilities comparable in size to American Water
11 (revenues range from ½ to 2.5 times American Water's 2016 revenues of \$3.3
12 billion), as disclosed in the company's March 27, 2017 proxy statement, and (2)
13 Small Utility Peer Group, 12 publicly-traded utilities comparable in size to NJAWC
14 (revenues range from \$348-\$1,461M, compared to NJAWC's 2016 revenue of
15 \$730M). Based on our review, we believe American Water's compensation
16 philosophy is well-aligned with utility peers, as a majority of both Large Utility Peer
17 Group companies (14 of 15, 93%) and Small Utility Peer Group companies (10 of 12,
18 83%) target the market median (50th percentile) for some or all pay elements. Our
19 consulting experience also suggests that American Water's median (50th percentile)
20 pay philosophy is comparable to typical market practice found in general industry.

NEW JERSEY-AMERICAN WATER COMPANY, INC.

1 V. SUMMARY OF WILLIS TOWERS WATSON'S TOTAL COMPENSATION
2 STUDY

3 12. Q. Did you conduct a compensation study of NJAWC's compensation program?

4 A. Yes, and a copy of the Study is included as Schedule RVM-1 to my testimony.

5 13. Q. Please describe how the study was conducted.

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

13 14. Q. How did you define "competitive" for the purposes of your compensation study?

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

17 15. Q. Please describe how you assessed the competitiveness of NJAWC's target total
18 direct compensation levels.

19 A. Willis Towers Watson assessed the competitiveness of target total direct
20 compensation provided by NJAWC to its short-term at-risk eligible population based
21 on a selection of NJAWC jobs ("benchmark jobs"). Benchmark jobs are those

NEW JERSEY-AMERICAN WATER COMPANY, INC.

1 positions that are common across comparable organizations and for which
2 compensation data are available from published surveys.

3 To conduct this analysis we reviewed compensation data provided to us by NJAWC
4 and examined Willis Towers Watson's compensation surveys in our Compensation
5 Databank (CDB). These surveys are comprised of compensation data from over 1,000
6 U.S. based companies, and Willis Towers Watson has been conducting these surveys
7 for over 20 years.

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

12 Willis Towers Watson's assessment of benchmark jobs represents approximately
13 70% of the population of NJAWC employees as of April 7, 2017, who are eligible for
14 at-risk compensation. Specific details regarding our study, which includes a detailed
15 description of the study methodology, are included in Schedule RVM-1.

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

17 A. To derive 50th percentile (median) market values, Willis Towers Watson weighted
18 energy services (primarily utilities) and general industry survey data 60% and 40%
19 respectively to place a greater weight on the energy services market data since this
20 includes regulated entities most similar to NJAWC for positions that are not industry
21 specific. Given that these positions can be recruited or lost to companies in any

NEW JERSEY-AMERICAN WATER COMPANY, INC.

1 industry, the use of general industry survey data ensures that non-industry specific
2 positions are being compensated competitively. Industry specific positions were
3 compared only to energy services industry data.

4 **17. Q. Please describe how you determined the competitiveness of NJAWC's target**
5 **total direct compensation?**

6 A. Two different market perspectives were examined to validate the competitiveness of
7 NJAWC's target total direct compensation.

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

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

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

19 A. Using a weighted average of all positions reviewed, NJAWC's target total direct
20 compensation, as reported in Exhibit 1 (below), is at the low end of the range of
21 competitive market median by being [BEGIN CONFIDENTIAL] [REDACTED] [END
22 CONFIDENTIAL] market median. Again, Willis Towers Watson and typical market

NEW JERSEY-AMERICAN WATER COMPANY, INC.

1 practice considers market competitiveness to be a result that falls within plus or
2 minus 10% of median range.

3 **Exhibit 1**

Summary of New Jersey American Water's Target Total Direct Compensation vs. Market Median (National Market Perspective)		
Base Pay	Target Total Cash Compensation	Target Total Direct Compensation
[BEGIN CONFIDENTIAL] ■	■	■ [END CONFIDENTIAL]

4 **19. Q. What were the compensation study results from the Mid-Atlantic Regional**
5 **perspective?**

6 A. NJAWC's target total direct compensation is within the market median range, as
7 reported in Exhibit 2, because it is [BEGIN CONFIDENTIAL] ■ [END
8 CONFIDENTIAL] (represents a weighted average of all positions reviewed) below
9 the market median.

10 **Exhibit 2**

Summary of New Jersey American Water's Target Total Direct Compensation vs. Market Median (Mid-Atlantic Regional Market Perspective)		
Base Pay	Target Total Cash Compensation	Target Total Direct Compensation
[BEGIN CONFIDENTIAL] ■	■	■ [END CONFIDENTIAL]

11
12 **20. Q. What would be the impact on the competitiveness of NJAWC's target total**
13 **direct compensation if short-term and long-term at risk compensation were not**
14 **part of its compensation program?**

NEW JERSEY-AMERICAN WATER COMPANY, INC.

1 A. If we compare NJAWC's total compensation program excluding at-risk compensation
 2 (that is, base salary alone) to market pay levels that include at-risk compensation, as
 3 reported in Exhibits 3 and 4, NJAWC's target total direct compensation would not be
 4 competitive because it would [BEGIN CONFIDENTIAL] [REDACTED] [END
 5 CONFIDENTIAL] median from a national perspective and [BEGIN
 6 CONFIDENTIAL] [REDACTED] [END CONFIDENTIAL] median from a Mid-
 7 Atlantic Regional perspective.

8 Exhibit 3

Summary of New Jersey American Water's NJAW Base Salary Only vs. Market Median (National Market Perspective)		
Base Pay	Target Total Cash Compensation	Target Total Direct Compensation
[BEGIN CONFIDENTIAL] [REDACTED]	[REDACTED]	[REDACTED] [END CONFIDENTIAL]

9

10 Exhibit 4

Summary of New Jersey American Water's NJAW Base Salary Only vs. Market Median (Mid-Atlantic Regional Market Perspective)		
Base Pay	Target Total Cash Compensation	Target Total Direct Compensation
[BEGIN CONFIDENTIAL] [REDACTED]	[REDACTED]	[REDACTED] [END CONFIDENTIAL]

11

12 21. Q. In your opinion and based on the results of the study, are NJAWC employees
 13 overcompensated?

14 A. No. NJAWC employees are generally within the range of market median when at risk
 15 compensation is included in the compensation program.

NEW JERSEY-AMERICAN WATER COMPANY, INC.

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

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

5 A. Yes.

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

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

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

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

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

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1 corporate funding pool. American Water's program requires the [BEGIN
2 CONFIDENTIAL] [REDACTED]
3 [REDACTED] [END CONFIDENTIAL] to ensure the financial viability of the
4 plan before any short-term variable compensation payment can be made to any
5 participant.

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

9 **25. Q. How does NJAWC's balanced scorecard approach to short-term at-risk pay**
10 **benefit customers?**

11 A. The approach that NJAWC uses reflects a balanced approach between financial
12 [BEGIN CONFIDENTIAL] [REDACTED] [END CONFIDENTIAL] and operational
13 metrics [BEGIN CONFIDENTIAL] [REDACTED] [END CONFIDENTIAL]. While
14 operational metrics may appear to reflect a more direct benefit to customers, the
15 financial measures used in the short-term and long-term at-risk compensation
16 programs send a message to employees that responsible financial stewardship is also
17 important to the Company and its stakeholders, including customers. Strong financial
18 performance enables the Company to invest in resources – both physical and people –
19 that ensure the efficient operation of the Company, which benefits customers.

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1 **VII. SUMMARY OF WILLIS TOWERS WATSON'S LONG-TERM AT-RISK**
2 **PROGRAM ASSESSMENT**

3 **26. Q. Did you conduct an assessment of American Water's long-term at-risk**
4 **program?**

5 A. Yes.

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

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

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

11 A. Overall our review indicates that American Water's long-term at-risk program is
12 comparable to and competitive with designs of utility peers, based on a review of the
13 Large Utility Peer Group and the Small Utility Peer Group referenced earlier. Like
14 American Water, every company in the Large Utility Peer Group and the Small
15 Utility Peer Group has a long-term at-risk compensation program which is used to
16 help attract, motivate and retain key senior level employees needed to successfully
17 run the business. Companies design their long-term at-risk compensation programs to
18 align with their business strategies and circumstances, so there tends to be a range of
19 practices regarding how the programs are designed. American Water's long-term at-
20 risk compensation program design is within the range of market practice for utilities.
21 Specific details regarding our assessment are included in Schedule RVM-1.

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1 **VIII. OVERALL FINDINGS REGARDING NJAWC'S COMPENSATION**
2 **PROGRAMS**

3 **29. Q. What are the overall findings and conclusions of your analysis of the**
4 **compensation of NJAWC?**

5 A. Overall, our analysis indicates that NJAWC's total direct compensation programs are
6 comparable to and competitive with market practices of other similarly-sized utilities
7 and are therefore reasonable. NJAWC, like the companies it competes with for talent,
8 has to provide a competitive total direct compensation opportunity delivered via
9 programs that benefit employees, customers and shareholders. NJAWC attempts to
10 achieve this goal with its balanced and competitive base salary and short-term and
11 long-term at-risk compensation programs. My experience working with both utilities
12 and general industry companies, and the results of the study included as Schedule
13 RVM-1, indicate the programs at NJAWC are within a broad range of market norms
14 and are not excessive in design or level of compensation.

15 **30. Q. Why is at-risk compensation appropriate for a utility?**

16 A. First, as our competitive assessment shows, the inclusion of at-risk plans, both short-
17 term and long-term focused plans, is an essential part of a market competitive pay
18 mix. As noted earlier in my testimony, all of the companies in the Large and Small
19 Utility Peer Groups have short-term and long-term at-risk compensation plans in
20 place. In order to attract, retain and motivate the talent needed to successfully run the
21 company, NJAWC needs to provide a market competitive compensation program,
22 which includes both short-term and long-term at-risk compensation plans.

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1 **31. Q. Describe the benefits of NJAWC's current compensation program in**
2 **comparison to a base salary/wage-only approach.**

3 A. A key benefit of NJAWC's use of short-term and long-term at-risk compensation
4 plans is that they align with competitive market practice and thereby enable NJAWC
5 to compete in the market for talent. A shift to an all base salary program for NJAWC
6 could have unintended consequences. If all or part of the short-term and/or long-term
7 at-risk compensation at NJAWC were eliminated, the Company would likely be
8 forced to increase fixed pay (i.e., base salary) to above market competitive levels in
9 order to attract and retain talent. This would be counter to the pay-for-performance
10 approach NJAWC currently employs, which is to put short-term and long-term
11 compensation "at risk." At-risk compensation plans allow NJAWC to differentiate
12 pay based on performance and allocate compensation to the highest performing and
13 most deserving employees.

14 **32. Q. If NJAWC added target short-term at risk compensation to base salary, would**
15 **NJAWC's total direct compensation remain competitively reasonable?**

16 A. Yes, it would remain in a competitively reasonable range.

17 **33. Q. How did you arrive at this conclusion?**

18 A. As shown in exhibits 2 and 3, the absence of short-term at-risk compensation would
19 place NJAWC below competitive levels from a total compensation perspective. By
20 adding it to base salary instead of eliminating it, the total program aligns with market
21 median from a perspective of competitive pay levels.

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1 **34. Q. If companies do away with short-term at-risk but want to stay competitive,**
2 **would they add short-term at-risk compensation to base salary?**

3 A. In my experience, companies would typically add 70% to 100% of the target short-
4 term at-risk compensation to base salary depending on performance, payout history
5 and the competitiveness and the risk profile of the program.

6 **35. Q. Would you recommend that a company do this?**

7 A. No, I would not.

8 **36. Q. Why would you recommend against it?**

9 A. While the level of compensation would be competitively reasonable, the program
10 design would not be aligned with market and would be counter to the pay for
11 performance objectives of the compensation program. This would reduce the reward
12 potential for employees who distinguish themselves from a performance perspective
13 in support of the company's mission and objectives. As discussed earlier in my
14 testimony, every company reviewed from a program design perspective has short-
15 term at risk compensation.

16 **37. Q. Does this conclude your testimony?**

17 A. Yes.

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New Jersey American Water Company**

September 11, 2017